

multi-manager
smooth growth fund

2nd Quarter 2012

www.momentum.co.za/EBcorporate

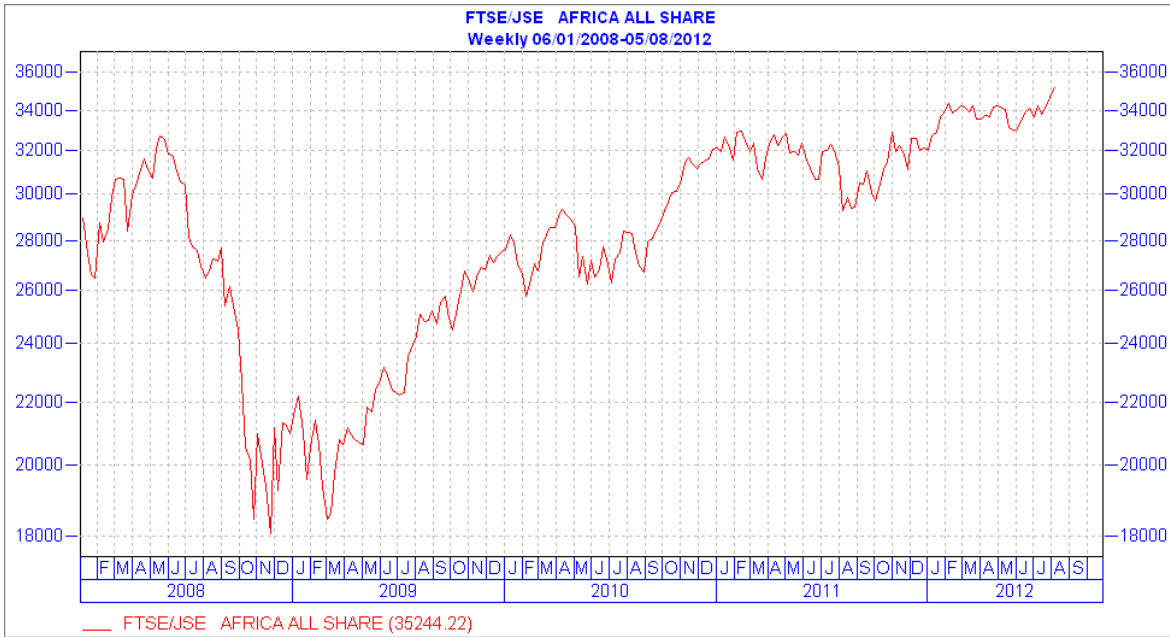


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1. Introduction

All local asset classes delivered positive returns over the quarter, with bonds being the best performing major asset class returning 5.2% (ALBI) over the quarter. Equities returned 1.0% (FTSE/JSE All Share Index) over the quarter. The industrial and financial sectors were again the contributors to this return with returns of 2.6% and 4.6% respectively. The resources sector again detracted from the overall return with a return of -3.6% over the quarter. Foreign equities had a poor quarter with the MSCI World Index declining by 4.9% in US Dollar terms. This loss was however offset by the Rand depreciating by 6.6% against the US Dollar over the period, resulting a return of 1.4% in Rand terms. Global bonds returned 0.6% in US Dollar terms and 7.2% in Rand terms. Economic conditions deteriorated over the quarter. Europe continues to struggle with its sovereign debt problems, with Spain now also becoming increasingly likely to require a bailout.



Source: Inet

For a detailed commentary on the financial markets we have included an investment market review by Foord Asset Management in section 4 of this document.

2. Performance

2.1 Bonuses to 30 June 2012

Short Term Performance

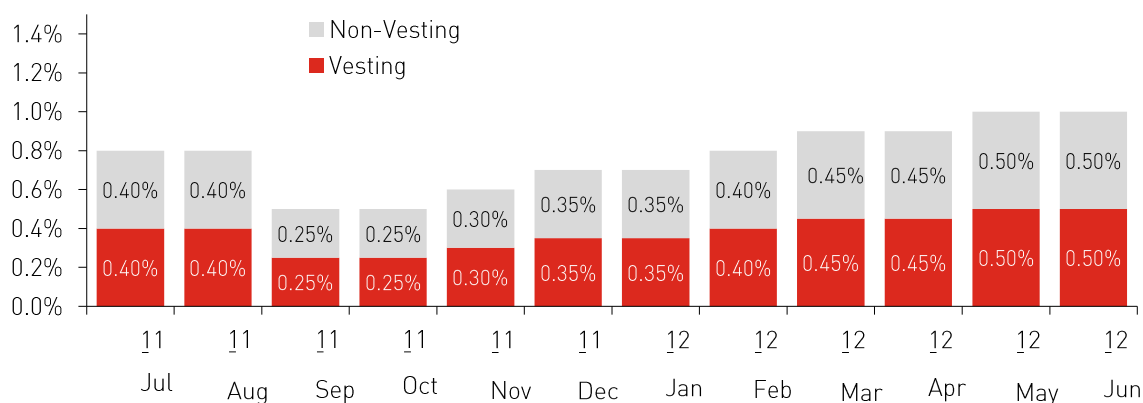
The bonuses on the Multi-manager Smooth Growth Fund Global increased over the quarter to 1.00% and the bonuses of the Multi-manager Smooth Growth Fund Local were maintained at 1.10% per month. Monthly bonuses continued to be well ahead of inflation and money market returns over the quarter.

The table below shows the total gross bonuses for the past year on the Multi-manager Smooth Growth Funds.

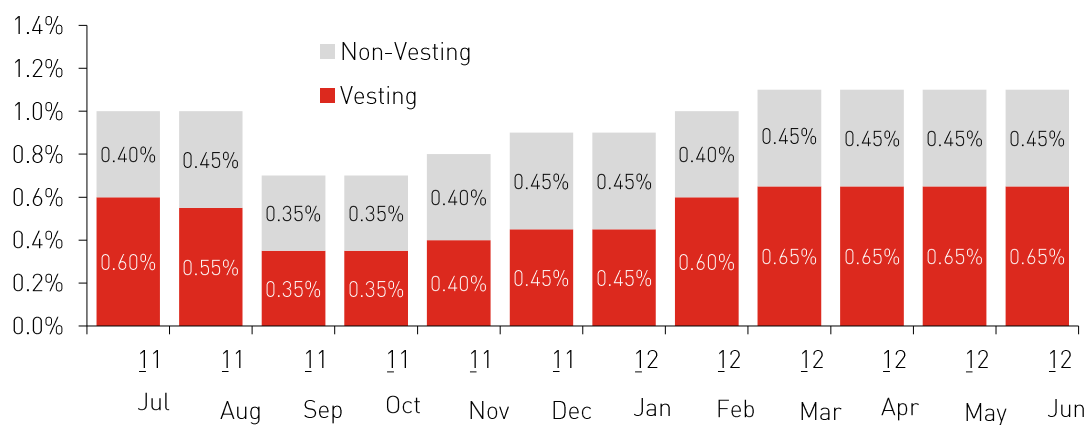
Portfolio	Vesting bonus	Non-vesting bonus	Total bonus
Multi-manager Smooth Growth Fund Global	4.70%	4.90%	9.60%
Multi-manager Smooth Growth Fund Local	6.54%	5.47%	12.01%

The charts below show the monthly bonuses for the past 12 months.

Multi-manager Smooth Growth Fund Global



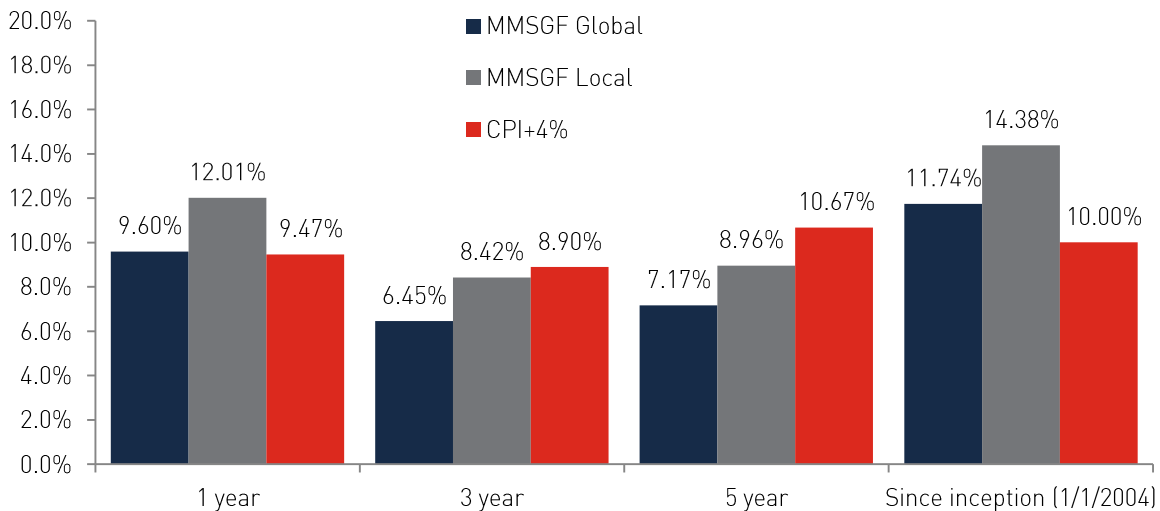
Multi-manager Smooth Growth Fund Local



Long Term Performance

The objective of the Multi-manager Smooth Growth Fund (MMSGF) portfolios is to deliver bonuses (net of fees) of inflation + 4% p.a. over the long term (defined as five years and longer). The chart below shows the gross bonuses declared in respect of the MMSGF Global and MMSGF Local over the one-, three- and five-year and since inception periods to 30 June 2012 compared with CPI + 4% p.a. Bonuses over one year are now ahead of inflation + 4% for both the MMSGF Global and MMSGF Local. The extent of the shortfall compared to inflation + 4% pa over 3 years has decreased further over the last quarter. The 5-year bonuses are still being negatively affected by the negative returns experienced by some of the underlying assets of the portfolios over 2008 and the early part of 2009. Since inception performance is, however, still well above the return objective of the portfolios with real returns in excess of 5% p.a.

The MMSGF Local performed better than the MMSGF Global over all time periods, reflecting the better returns achieved on South African investments compared to global investments over the last few years.



The table below contains a comparison of the performance of the MMSGF Global and the median market-linked portfolio (Alexander Forbes Asset Consultants Manager Watch Survey: Global Best Investment View) over the 5 years to 30 June 2012.

	MMSGF Global	Median market-linked manager
Annualised return	7.17%	7.76%
Std deviation of monthly returns	0.40%	3.06%
% negative monthly returns	0.00%	38.33%
Max drawdown	0.00%	-21.44%

The MMSGF Global delivered a return of 0.59% p.a. behind the average market-linked portfolio. This return was however achieved with a much lower level of volatility than the average market-linked fund. The MMSGF Global also had no negative monthly returns over this period, compared to the average portfolio which had negative monthly returns in more than 1/3rd of the months over the period and experienced a maximum drawdown of 21.44%. The MMSGF Global delivered superior risk-adjusted returns over the 5 years to 30 June 2012.

2.2 Non-vesting to vesting transfers

The following non-vesting to vesting account transfers were done on 30 June 2012:

Portfolio	% of non-vesting account transferred *
Multi-manager Smooth Growth Fund Global	2.50%
Multi-manager Smooth Growth Fund Local	5.00%

* Percentage of 1 January 2012 non-vesting account balance.

2.3 Bonus Outlook

The funding levels of both the Multi-manager Smooth Growth Fund Global and Local decreased over the last quarter due to bonuses exceeding returns on the underlying assets over the quarter. Funding levels are however still well above 100% as at 30 June 2012. The high funding levels enabled us to increase the bonuses of the MMSGF Global and maintain the bonuses of the MMSGF Local despite the volatility experienced in the market over the last quarter. We will continue with our approach of declaring long-term sustainable bonuses rather than trying to maximise short term bonuses. Given the current funding levels, the portfolios are well positioned to deliver bonuses in excess of underlying asset returns over the medium term.

3. Asset allocation

3.1 Strategic Asset and Manager Allocation

There have been no changes to the strategic asset and manager allocations over last quarter.

The tables below set out the current strategic asset and manager allocation.

MMSGF Global

Asset Class	Manager			
RSA Equities	Allan Gray (12.33%)	Foord (12.33%)	Abax (12.33%)	
RSA Bonds	Prudential (5%)		Prescient (5%)	
Absolute Return	Coronation (20%)			
Listed Property	Catalyst (2.5%)			
RSA Cash (5%) Direct property (5%) SRI (2.5%)	Momentum (12.5%)			
Fund of Hedge Funds	Brait (3%)			
Global Equities	Orbis (5%)	Marathon (5%)	Brandes (3.33%)	Veritas (1.67%)

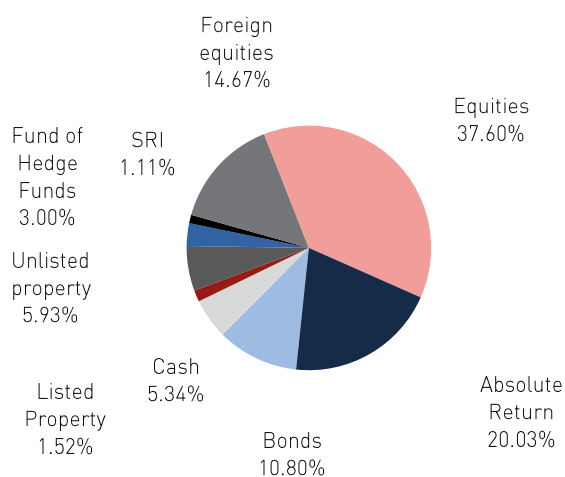
MMSGF Local

Asset Class	Manager			
RSA Equities	Allan Gray (17.33%)	Foord (17.33%)	Abax (17.33%)	
Absolute Return	Coronation (20%)			
Listed Property	Catalyst (2.5%)			
RSA Bonds	Prudential (5%)		Prescient (5%)	
RSA Cash (5%) Direct Property (5%) SRI (2.5%)	Momentum (12.5%)			
Fund of Hedge Funds	Brait (3%)			

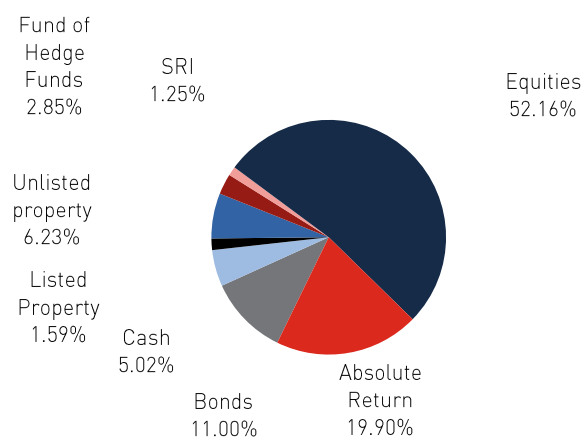
3.2 Actual Asset Allocation & Top 10 Equity Holdings

The asset allocations of the portfolios as at 30 June 2012 are shown below.

MMSGF Global



MMSGF Local



The table below contains the top 10 equity holdings as at 30 June 2012.

Top 10 Equity Holdings	% of Equity Portfolio	
	MMSGF Global	MMSGF Local
Sasol	6.42%	6.42%
Billiton	5.79%	5.79%
British American Tobacco	5.79%	5.79%
SABMiller	5.14%	5.14%
Anglo American	5.02%	5.02%
MTN	3.72%	3.72%
Standard Bank	3.65%	3.65%
Remgro	3.24%	3.24%
Anglogold	2.42%	2.42%
Compagnie Finan Richemont	2.41%	2.41%
Sub-Total	43.60%	43.60%
Balance of Equities	56.40%	56.40%
Total	100.00%	100.00%

4. Review of investment markets

by Foord Asset Management

MARKET BACKGROUND AND OUTLOOK

International Market Background

- Economic conditions deteriorated, erasing much of the positive momentum evidenced in Q1 – contracting European demand, softer demand for Chinese exports and a slowdown in employment creation, consumer spending and private investment in the USA
- US employment creation stalled following robust growth in Q1 – driven by seasonal lay-offs and a cautious outlook from businesses leading into the November US presidential cycle
- Equity markets contracted sharply in response to the weaker data – despite a month-end rally on hopes of broader fiscal consolidation following an EU summit that promised increased bank supervision
- Developed market bourses fared somewhat better than those of emerging markets, with the US market an outperformer again – cyclical and pro-growth companies suffered in particular, while Eurocentric companies were severely punished in response to the unresolved euro crisis
- Bond yields mostly declined on continued safe-haven demand – but the funding costs of nations affected by the Euro crisis have risen rapidly (with some relief at month end in response to more positive EU summit outcomes)
- Precious and industrial metals prices (barring gold) weakened significantly and Brent crude came off 25% – but soft commodity prices (corn and wheat in particular) rose significantly in June given a worsening crop outlook in the USA and Russia
- The US dollar strengthened – as investors reallocated capital to treasuries away from both emerging markets and European assets
- China commenced relaxing monetary conditions following weaker than expected growth – reducing both short-term interest rates as well as the reserve requirement, reducing the amount of capital banks have to put aside from depositors

South Africa Market Background

- Economic growth continues to disappoint, especially the mining sector following protracted strikes in the platinum sectors – but manufacturing, government spend and household consumption remained relatively buoyant and fixed investment continues to recover
- The FTSE/JSE All Share Index ended the quarter 1% higher – but tracked emerging market bourses lower when measured in US dollars, declining 4.9%
- Commodity companies, in particular platinum miners and Sasol, lagged the overall market – on declining mining output and the sharp decline in commodity prices
- SA industrial companies outperformed the broader market, but with significant divergence within the sub-sectors – consumer shares continue to perform well, with fixed-line telecoms, overseas retailers and construction companies underperforming
- Within financials, the defensive life insurers and high-yielding listed property counters outperformed the market on foreign demand – while SA's banks showed resilience in avoiding the woes that have inflicted their European counterparts
- Inflation dipped below the 6% upper limit of SARB's inflation band – as a result of the domestic fuel price reduction and slowing food inflation
- Bond yields continued to trend lower on the improving inflation outlook – but also on foreign tracker fund demand following approval for SA's inclusion in the Citigroup World Government Bond Index
- The rand depreciated during the quarter – as increased risk aversion and lower commodity prices weighed on the currency

International Market Outlook

- The outlook for the US economy remains uncertain but its fundamentals have weakened – growth in investment, employment and spending is slowing
- Policy uncertainty is creating overhang in the global economy – the future of the European Union, the US presidential election in November and transition of the leadership in China are clouding the near-term outlook for investors
- Rhetoric surrounding economic growth initiatives and proposals for a new European banking supervision framework are positive for markets and especially European sovereign debt costs – bank supervision by the ECB is seen as a step in the right direction for much needed fiscal consolidation in Europe

- Shares remain an attractive medium- to long-term proposition based on forward valuations – but the short-term outlook for corporate earnings is deteriorating in line with weaker economic fundamentals
- US and German government bond yields are likely to remain at low levels for some time to come – a weakening economic outlook, continued European uncertainty and additional market support from central banks should provide a ceiling for yields
- The decline in commodity prices has improved the global inflation outlook – with lower gasoline prices offsetting the effect on disposal income of slow wage growth
- The US dollar is expected to strengthen further on continued safe-haven demand – supported by the economic benefits of a lower oil price and cheap natural gas

South African Market Outlook

- SA economic growth should lag its potential as the low global demand environment prolongs mining industry contraction, offset partially by slower growth in government and private consumption – but fixed capital formation will continue expanding as key power-related projects approach completion
- The domestic equity market is attractively priced on a longer-term view – although its near-term prospects are less certain given the deteriorating earnings outlook for commodity companies and lower risk appetite of global investors
- Inflation should slow further as lower oil prices filter through to the consumer – key risks to this scenario include the recent surge in soft commodity prices and a further sharp depreciation of the rand
- Domestic bond yields continue to find favour with foreign investors – inflows into the bond market will probably accelerate as the October date for South Africa's inclusion in the Citigroup World Government Bond Index draws near
- Low domestic interest rates to endure for an extended period – owing to the moderating inflation outlook and deteriorating domestic growth
- The rand is likely to be range-bound given the global economic uncertainty – sentiment-driven risk aversion trades will be offset by inflows into SA's higher yielding markets

STRATEGY

- Reduce weighting to the resource sector despite the attractive valuations of diversified commodity companies – caution should prevail given the deteriorating global economic fundamentals
- Maintain allocation to capital goods / construction companies – although margins are expected to remain under pressure, valuations are starting to reflect this expectation
- The exposure to domestic industrial and IT companies is maintained – products sales and services should remain resilient, while a weaker currency should also contribute to improved earnings
- Increase the allocation to overseas companies – market stress has provided a reasonable entry point into high quality business
- The weighting to the domestic consumer / services sector (where valuations have reached extreme levels) is reduced owing to the dual headwinds of lower real wage growth and a depreciating rand – but the sector remains an important counterbalance to the negative impact on the commodity and overseas company component of the portfolio, should the rand strengthen
- The weighting to Telecommunications is decreased – due to increased industry competition and potential reputational risk outweighing the defensive characteristics of the sector
- The exposure to financial shares is increased – due to defensive characteristics and protection it provides should interest rates move up more than expected
- The cash component is increased given heightened volatility and uncertainty

5. Contact details

Existing clients:

Steed Duncan-Smith

Investment Services

Telephone: 021 940 5020

E-mail: steed.duncan-smith@momentum.co.za

Prospective clients:

Tajudin Parkar

Investment Services

Telephone: 021 940 4622

E-mail: tajudin.parkar@momentum.co.za

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