multi-manager
smooth growth fund

2nd Quarter 2013

www.momentum.co.za/EBcorporate

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1. Introduction

With the exception of money market and foreign equity, all asset classes delivered negative returns over the quarter. The All Share, All Bond and Listed Property indices returned -0.2%, -2.3% and -0.4% respectively. The STeFI Composite returned 1.3% and the MSCI World Index returned 0.8% in US dollars and 9.1% in Rand (due to the Rand depreciating 8% against the US Dollar over the quarter). For the one year ending 30 June local equity, listed property and foreign equity delivered returns of 21.0%, 24.0% and 44.8% respectively. The Rand depreciated 21.4%, 17.4% and 24.3% against the US dollar, the British Pound and the Euro respectively. Local bonds delivered 6.3%, managing to provide a return above the one year CPI of 5.5%. The STeFI Composite, returned 5.3%, delivering negative real returns for the year to 30 June.

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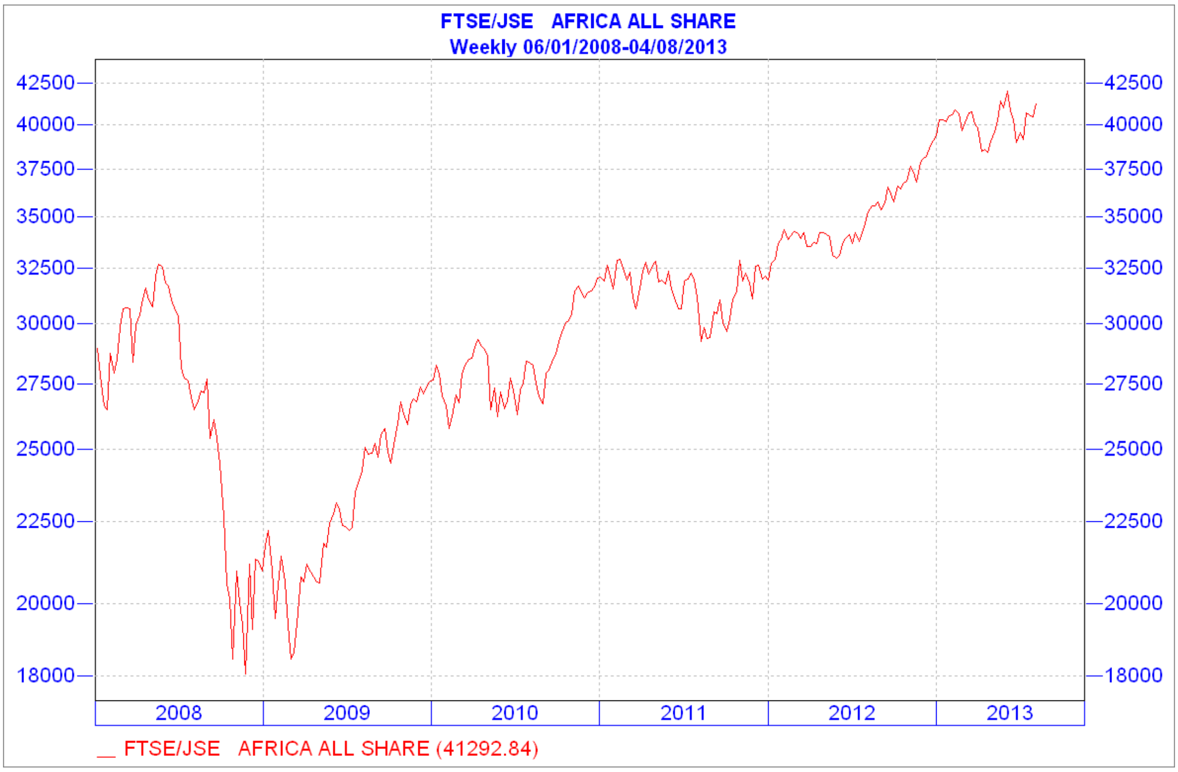


Source: Inet

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

2. Performance

2.1 Bonuses to 30 June 2013

Short Term Performance

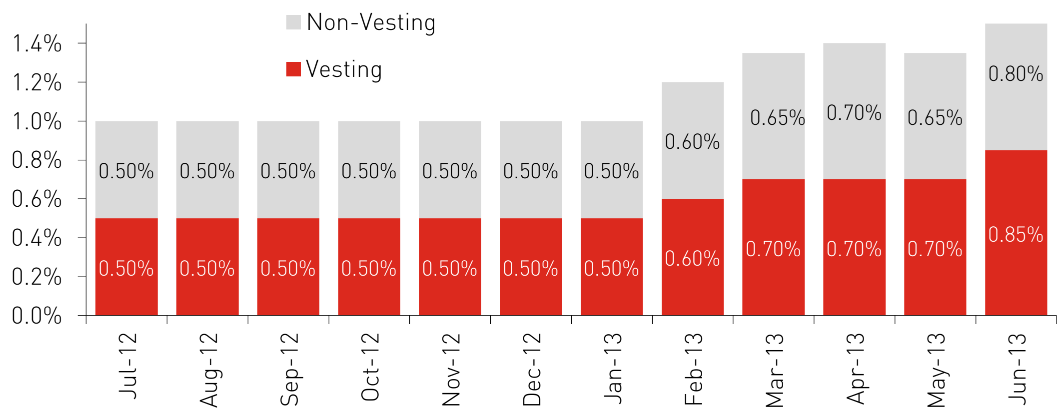
The bonuses on the Multi-Manager Smooth Growth Fund Global varied between 1.35% and 1.65% and the Multi-Manager Smooth Growth Fund Local bonuses varied between 1.20% and 1.50% over the quarter. Monthly bonuses continued to be well ahead of inflation and money market returns over the quarter.

The table below shows the total bonuses net of capital charges for the past year on the Multi-Manager Smooth Growth Funds.

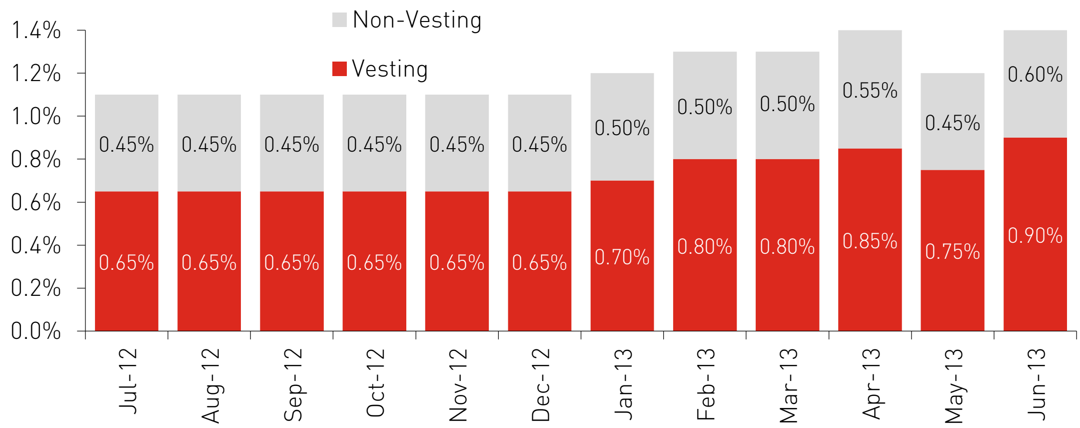
Portfolio	Vesting bonus	Non-vesting bonus	Total bonus
Multi-Manager Smooth Growth Fund Global	7.28%	7.59%	14.87%
Multi-Manager Smooth Growth Fund Local	9.05%	6.45%	15.50%

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

Multi-Manager Smooth Growth Fund Global



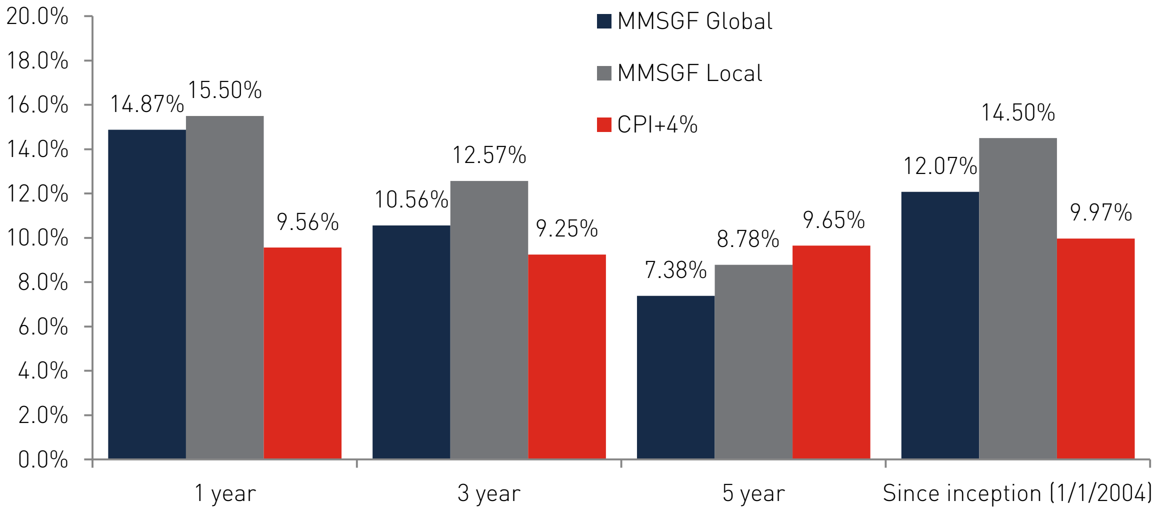
Multi-Manager Smooth Growth Fund Local



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 total bonuses net of capital charges declared in respect of the MMSGF Global and Local over the one-, three- and five-year and since inception to 30 June 2013 compared with inflation + 4% p.a. Bonuses over one year for MMSGF Global and Local are well ahead of inflation + 4% p.a. The bonuses over three years for MMSGF Global and Local are also ahead of inflation + 4% p.a. The five-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 6% 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.



2.2 Bonus Outlook

The funding levels of both the Multi-Manager Smooth Growth Fund Global and Local fell due to bonus declarations above underlying asset returns over the quarter. Funding levels are well above 100% as at 30 June 2013. The high funding levels enabled us to maintain the bonuses at levels well above inflation + 4% p.a. over the quarter. Where appropriate, we will increase bonuses in response to higher funding levels. 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

The disinvestment from Brandes was completed over the quarter. The allocation to Brandes changed from 1.67% to 0% during the quarter.

The allocation to Marathon has been further reduced slightly. We are in the process of reviewing the remaining allocation to Marathon. The allocation to Marathon changed from 3.33% to 3.0% during the quarter

The reduction in allocation to Brandes and Marathon were equally distributed to Orbis and Veritas (1% each). The overall allocation to Global Equities did not change.

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 (6%)	Marathon (3%)	Veritas (6%)

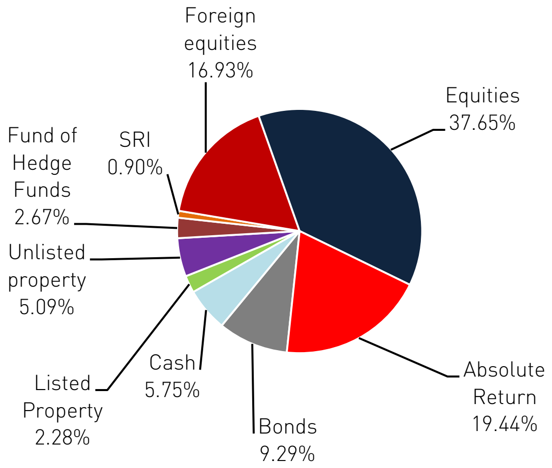
MMSGF Local

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%)		

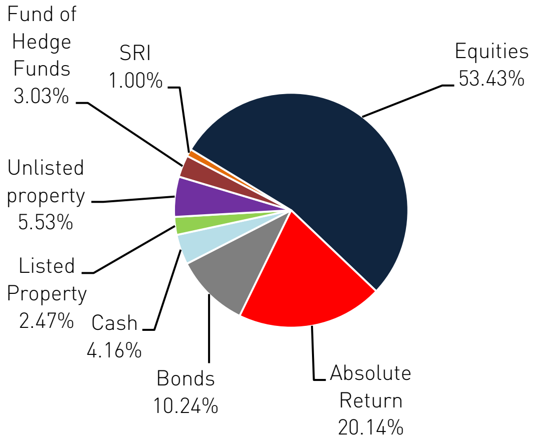
3.2 Actual Asset Allocation & Top 10 Equity Holdings

The asset allocations of the portfolios as at 30 June 2013 are shown below.

MMSGF Global



MMSGF Local



The table below contains the top 10 equity holdings as at 30 June 2013.

Top 10 Equity Holdings	% of Equity Portfolio
Sasol	9.84%
British American Tobacco	9.16%
SABMiller	6.17%
Naspers	5.61%
MTN	4.96%
Billiton	4.01%
Old Mutual	3.58%
Anglo American	3.54%
Remgro	3.24%
Standard Bank	3.15%
Sub-Total	**53.27%**
Balance of Equities	**46.73%**
Total	**100.00%**

4. Review of investment markets

by Allan Gray

The FTSE/JSE All Share Index (ALSI) returned -0.2% in rand terms for the second quarter of 2013, following a weak first quarter. The negative return was mainly driven by Resources and Financials, which returned -11.8% and -1.6% respectively, while Industrials added to performance with a return of 6.9%.

Over the quarter, the rand weakened against the US dollar by 7.9% resulting in a US dollar return for the ALSI of -7.5%. For the year to date, whilst the ALSI is up 2.3% in rand terms, it has returned -12.5% in US dollars terms. This represents a substantial underperformance relative to the FTSE World Index which returned 10% in US dollars for the year.

Global markets appear to have responded adversely to two new economic developments. Firstly, the chairman of the US Federal Reserve has indicated that there will be a slowing of quantitative easing going forward. Secondly, there has been continuing economic and financial turbulence in the developing economies, particularly China. Economic growth in the emerging markets has slowed considerably, triggering a further fall in commodity prices.

Investors have responded to these events by aggressively selling emerging market bonds. The yield on the South African 10-year benchmark bond has increased from 6.1% in May to over 8% currently with the rand weakening against all major currencies.

South Africa's five largest industrial shares (SABMiller, Richemont, MTN, Naspers and British American Tobacco) make up just under one-third of the ALSI. These five shares have substantial operations outside of South Africa and earn a large portion of their earnings from abroad. Their large weighting in the index and the fact that they have been massive winners over the last decade conceals the dismal returns from a number of companies which are significantly more dependent on their South African operations. There has been considerable selling pressure on mining stocks and industrial companies with a more local focus.

This may be a leading indicator of the many challenges which lie ahead for the South African economy. We are concerned about the imbalances and vulnerabilities in the South African economy especially considering that many South Africans are living beyond their means. However, our efforts are not focused on making economic forecasts. When we allocate capital amongst a portfolio of JSE listed shares, we simply look for those companies offering the best long term value. Some of the underperforming domestic companies seem to offer value and we have selectively been increasing our clients' exposure to them, but we remain mindful that the quality of their businesses is generally inferior to that of the large multinationals, such as British American Tobacco and SABMiller.

Although it has depreciated significantly this year, the rand remains vulnerable in the longer term to weaker commodity prices, the reversal of foreign investment inflows and the social risk stemming from the disconcertingly high unemployment rate among South Africa's many young people. The export response to the weaker rand has so far been lacklustre.

While the price-to-earnings (P/E) multiple on the local market is reasonably high, our bigger concern is the high level of corporate profits relative to their history. We understand that profits are cyclical and whilst very successful companies may resist mean reversion for a long time, it is harder for an index representative of all businesses to continue to grow their profits indefinitely. Should corporate profits mean revert, we to believe there could be downside risk to equities.

5. Contact details

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