momentum

Smooth Bonus Report

Third Quarter 2014

Dear valued investors

Many heads are better than one

Since the last quarterly report, MMI has made significant progress with its new client-centric business model. Emerging from this is the 'Savings and Investments Centre of Excellence' – a single, company-wide investment knowledge hub that will deliver on all the investment and savings needs of all MMI's customers.

By pooling all our investment expertise in one entity, savings and investment solutions are crafted for customers by considering their liabilities or needs, defining a goal, risk tolerance and appropriate time frame and then diversifying across multiple asset classes, investment strategies and vehicles to match and deliver on the objectives that have been set.

A new era in investment ethos

This is outcomes-based investing at work – investing for outcomes linked to the wellbeing of our investors, which focus on the longer-term goal and shorter-term value at risk and ensure clients remain in the market instead of trying to time the market. This investment ethos is in line with the MMI Group's vision of enhancing the lifetime financial wellness of people, their communities and their businesses – that is, being the preferred lifetime financial wellness partner, with a reputation for innovation and trustworthiness.

The article on page 5 by Patrick Mathidi on 'applying a scenario based approach to a longer term investment outlook' sets out one of the techniques we have in our arsenal to aid our clients. Warren Matthysen's article on 'pre-to post retirement investment strategies' on page 7 is another example of our outcomes-based investment philosophy at work.

Third quarter of 2014 - what goes up must come down sooner or later

The local equity market (as measured by the FTSE / JSE All Share Index) rose in the first two quarters of 2014 and continued to reach new highs in July before proceeding to retreat until the end of the last quarter; ultimately producing a negative return of 3.16% for the quarter.

The global equity markets (as measured by MSCI All Country World Index) did not fare any better producing a negative USD return of 2.77% for the quarter. The appreciation of the USD relative to the Rand by 6.38% helped alleviate the situation in Rand terms. To provide some context, Abax Investments provides a market commentary for the quarter on page 10.

Irrespective of the lacklustre performance of the underlying assets in the last quarter, on each of our smooth bonus products, the high funding levels enabled us to declare competitive bonuses over the same period which continued to exceed that of the respective inflation benchmarks.

A longer term view

The underlying asset performance on our smooth bonus products continues to outperform the respective inflation targets over the one, three and five year(s) ended 30 September 2014. Strong local and global equity markets (coupled with the rand depreciation) have given rise to the considerable outperformance. This performance has contributed to the current healthy funding levels – giving us a cushion to absorb market fluctuations and continue declaring competitive bonuses.

Many happy returns

Ronald Mazuru
Investment Products

Contents

Imagine you're a ship approaching a rocky coast in a raging storm.

It can happen. The essential question to answer is where are we?

The answer has a different urgency when your and your crew's survival depends on it

It's the navigator's job to provide it.

So what do navigators need to get to their exact destinations, safely, accurately and successfully?

CERTAINTY

With us the safest distance between two points is also the smoothest

To know where the dangers lie, the Navigator must establish exactly where you are.

Without this knowledge you cannot plot the route to your destination. In darkness and in light.

Nothing would be possible without the stars.

The best Navigators have the best maps, technology, tools, technique and stars.

Here are a few of ours.

Effective asset management:
Applying a scenario-based approach to a longer-term investment outlook

By Patrick Mathidi

An investment process focused on risk budgeting involves closely managing asset class, sector, individual instrument and theme risks in the context of an overall investment portfolio. Sufficient diversification of the various independent alpha drivers helps manage the risk of a material drawdown and permanent destruction of capital. As a result, this portfolio management philosophy, which places risk at the core, may not make for a top performer at all costs. However, over a full market cycle, reduced downside risk through adequate diversification and a focus on adding value incrementally and consistently should result in favourable, risk-adjusted returns over time.

An ability to generate competitive, risk-adjusted returns on a consistent basis through a full market cycle can be achieved through active investment management based on asset class and equity selection being integrated with modern portfolio construction processes aimed at allocating risk to investment ideas where there is most conviction. Key to this approach is the belief that intrinsic valuation (both at asset class and individual stock level) is the only sustainable basis for long-term investment success and an intimate understanding on the part of the portfolio manager of the risk embedded in the portfolio (with the assistance of modern risk budgeting and portfolio construction tools) helps focus the mind and stimulate further debate on the various major contributors of risk. It is therefore crucial that there be true alignment between the quality and conviction levels of the research outputs, an appropriate allocation of the risk budget by the portfolio manager to those high conviction ideas and an efficient and consistent representation of those ideas in client portfolios.

Scenario-based approach to investments

Investment professionals, like most other professions, should never claim absolute and accurate knowledge about the future. Key to our investment philosophy is the belief that the future is always uncertain and, as a result, we do not have a singular view of the world. Instead, we prefer to consider various scenarios to try and 'crystalise' where we could be wrong (on the down and upside) given our central thesis. We prefer a comfortable margin of safety cushioning our investment views, coupled with an awareness of the downside risks and what those could mean to our portfolios if our view turns out to be incorrect. We therefore apply robust and realistic scenario permutations to both asset allocation and stock selection decisions.

Our investment analysts are industry specialists and are incentivised like portfolio managers to ensure that they take more accountability for their investment recommendations (as reflected in the portfolios). Key to their ability to provide sound guidance is a focus on understanding the industry dynamics of, and changes in, competitive forces in the industries they assess, which helps to better understand the drivers behind company return on equity (ROE). This means that analysts spend less time building unwieldy earnings forecast models and more time thinking about what is driving value in the company and what the investment case of the stock should be.

A sound investment decision framework should include three aspects: the valuation of the company, quality of the company and consideration of the business cycle and investment themes that might impact the company.

This three-tier approach to investment decision making has certain advantages. Firstly, valuations based on a sustainable ROE are more consistent through time than valuations based on an earnings estimate. Secondly, the breakdown of ROE into components can help an analyst understand the key drivers behind the company and the impact that those drivers can have on the valuation (and investment returns).

Understanding the impact of financial leverage on ROE is also important as efficient use of leverage can significantly enhance shareholder returns in certain cases. Traditional accounting frameworks tend to 'confuse' operating and financing items in the same place on the income statement and balance sheet and these should be separated.

Companies that sustainably generate an ROE higher than their cost of equity create value for their shareholders and should trade at a premium, while companies that earn an ROE below the cost of capital destroy value and should trade at a discount.

Determining a stock's risk/reward outlook

The future is uncertain and how a base case investment thesis on a company will play out can never be predicted with absolute certainty. It is therefore important to investigate how a base case could be wrong as the answers to this question lead to both upside and downside scenarios to the base case and these can result in a more informed risk/reward view of the stock. Discussing the different scenarios and the likelihood of them occurring also assists in better visualising the risk/reward trade-off. A single 'point' estimate of a share's return cannot fully reveal an analyst's complete understanding of the company's investment case.

A well-defined and researched portfolio construction process, which entrenches risk budgetting and a team approach without collective decision making (i.e. individual accountability and measurement), is the core component of a sound investment strategy. This investment management methodology ensures self-discipline and a consistent approach to alpha generation and downside risk management.

Patrick Mathidi
Head of Core Strategies
Momentum Asset Management

Pre-to post retirement investment strategies

Cultivating certainty in a defined contribution world

By Warren Matthysen

Over recent decades the employer-sponsored retirement fund landscape has changed from defined benefit to defined contribution plans. Under defined benefit plans, the benefits that a member receives at retirement are known in advance (usually based on service and salary).

Under defined contribution plans, the ultimate benefit that a member will receive is largely uncertain and will be determined by:
1. The contribution rate on behalf of members. The higher the contribution rate towards retirement savings, the more money that will accumulate to purchase a pension.
2. The investment returns earned. The higher the investment returns, the more your contributions/ assets grow to be able to secure your retirement benefit.
3. The cost of the benefit that you want to provide for. The higher the cost of the benefit you want to receive at retirement, the lower the benefit that can be provided for a given amount of money.

While these are all important factors in determining the income retired members will receive, retirement funds have tended to focus their governance energy on:

• The cost of running a retirement fund. The lower the costs, the more money that is available from contributions to be physically invested towards retirement.
• Maximizing investment returns (and in some instances preserving capital). To maximize benefit accumulation and potentially protect the capital value.

Shifting focus to a comprehensive pre-to post retirement strategy

More recently the retirement fund industry, largely driven by Treasury's retirement reform proposals, has started to focus on the following questions:

• What is the appropriate post retirement target that members of a retirement fund should be aiming for – the destination of the retirement fund savings?
• What are the Trustees of retirement funds doing for their members when they reach retirement – what post-retirement options are being facilitated that will benefit fund members?
• How do Trustees manage the transition from pre-to post retirement – how does process and investment strategy take into account the retirement target of the members?

These are very interesting questions, and the industry is wrestling with the implications for retirement funds.

In its simplest form, the main aim of a retirement fund is to provide an income benefit to members once they have retired. Under a defined benefit plan, that income level was known, even though the related benefits – increases and survivor benefits – were dictated by the fund policy. So while there may have been variation in these components between different funds, members in the same fund were not provided with many options.

With more choice comes more responsibility

In the defined contribution space, the options at retirement within a single fund are extremely varied. There is no longer a known benefit that members are funding for. Instead, members are required to use the savings they have built up (largely independently from a funding target) to choose from a number of different benefits they can 'buy' at retirement.

Some retirees are fortunate enough – through the right combination of contribution rate, investment return and their choice of post retirement option – to have enough income to get by. However, unless they explicitly fund for a particular income benefit, this would seem to arise more from luck than good design.

Unfortunately, the majority of retirees probably feel that the income benefit at retirement (provided by their employer sponsored fund) is not as high as what they require. This then leads to compensating behavior:

- Selecting an annuity investment that provides them with the highest starting income possible and/or
- Relying on 'good' investment returns in retirement to make up for the income benefit shortfall.

Choosing the right annuity to avoid eroding savings

A popular post-retirement option that would meet both of these criteria is a living annuity. A living annuity sounds like a good idea at retirement because:

- It provides retirees with flexibility around draw down rate (or income level). You can choose to take between 2.5% and 17.5% of the remaining capital per year as income.
- It provides retirees with flexibility of where to invest the remaining capital. You can remain invested in growth assets to increase your future income.
- It provides retirees with an asset if they survive and a benefit for surviving beneficiaries if they pass away. Any capital remaining at the date of death is available to distribute to nominated beneficiaries.

With these features, it should be no surprise that living annuities are so popular - there is all this flexibility and control. Plus you can maximize your income at retirement, when you need it.

The major criticism of living annuities is that they do not guarantee a minimum income for life. Your income level has the ability to drop – usually if your initial income levels are too high or your investment returns are poor. So they do not necessarily provide a sustainable income level for you later in life, when you also need it.

For retirees who select a living annuity, the value of a benefit that becomes payable to surviving beneficiaries has limited use if they don't have enough income, i.e., they can't access the full asset they have available to provide an income.

A guaranteed life annuity is an investment, usually provided by insurance companies, that guarantees to pay an income to a pensioner for life. Mayur Lodhia and Johan Swanepoel presented a paper at the 2012 Convention of the Actuarial Society of South Africa, highlighting why a guaranteed life annuity provides a better option for maximizing the income benefit than a living annuity for retirees trying to secure an income for life. The reasons can be summarized as:

- You don't have to select a survivor benefit for the guaranteed life annuity. This means that all of the assets are allocated towards providing an income. By default a living annuity will always have an implied survivor benefit that allocates capital away from the pensioner's income.
- A guaranteed life annuity provides pensioners with a 'secret source' of investment return, known as the mortality credit. For a group of pensioners in a guaranteed life annuity, there is an expectation that a small percentage pass away each year. The assets of these pensioners can be viewed as an additional investment return that gets allocated to surviving pensioners in the group.

So in addition to providing a minimum income level for life, guaranteed annuities provide value for money to pensioners who are looking to maximize the lifetime income benefit relative to a living annuity.

There are of course criticisms aimed at guaranteed life annuities:

- When investing in an annuity, pensioners feel a lot more strongly about the loss they may experience in terms of their remaining capital value if they pass away early, than on the benefit they will receive later in life through the longevity protection. It is this capital value that represents the mortality credit shared amongst surviving pensioners.
- Because guaranteed life annuities provide an income for life, the initial income may be lower than the maximum initial benefit a pensioner can draw from a living annuity. This may make them appear 'expensive' in terms of initial income.
- Guaranteed life annuities provide less choice/flexibility to pensioners, and less control. There is flexibility to choose benefits at the investment date, but these are then locked in for the life of the policy.

However, in terms of providing a minimum income for life, there's no denying the benefits that a guaranteed life annuity provides relative to a living annuity. Where living annuities would seem to provide more value is for pensioners who:

• Have more than sufficient assets to provide the desired minimum income level. Such a pensioner can draw down a lower initial income from the living annuity.
• Feel there is no risk of outliving their retirement capital even if they draw down the maximum 17.5% pa, i.e., pensioners who feel they have a short life expectancy and therefore want to maximize the initial pension (with no need for the longevity protection a guaranteed life annuity provides).

If a pensioner selects a guaranteed life annuity for the guaranteed income level, they should also consider the inflation protection provided by future increases. A guaranteed life annuity provides 3 main types of increases:

1. Fixed escalating. This is a fixed percentage (minimum of 0% pa) by which the pension increases each year.
2. Inflation guaranteed. The pension is guaranteed to increase in line with a fixed percentage of CPI inflation, e.g., 50% or 100%.
3. With profits increases. Increases are granted depending on how investment markets perform, e.g., investment earnings above 3% pa are distributed to pensioners as an increase.

The option that maximizes the initial income is a 0% pa fixed escalating annuity. But this annuity provides no protection against future inflation.

The option that usually minimizes initial income is the 100% CPI guaranteed annuity. This annuity is often used as the benchmark, because the current and future income levels are protected against CPI inflation.

A with profit annuity provides increases that depend on investment returns, but they are not guaranteed relative to CPI inflation. However, for increases that are approximately in line with CPI inflation over the long term, a with profit annuity will provide an initial income level at around 120% of the CPI guaranteed annuity. So pensioners benefit from a higher income and increases may keep track with inflation.

When one considers that for guaranteed life annuities, a pensioner can choose a lump sum survivor benefit or a contingent pension for a spouse and children, we can see that members reaching retirement have a number of investment options to choose from. Is it living annuity or guaranteed life annuity? If it's a guaranteed life annuity, is it CPI guaranteed or with profits?

As funds move to provide default options to retiring members (in line with the Treasury proposals) these are exactly the questions that Trustees are going to struggle with. Once Trustees have answered this question about the post retirement option it has significant implications for the way assets should be invested pre-retirement.

If you have a benefit target:
• you can construct an investment strategy that increases the chance of meeting that target,
• you can provide the link between the pre-retirement investment and the post retirement benefit for retirees (hopefully a guaranteed income benefit).

So the changes we see in the employer-sponsored retirement fund landscape are prompting a greater emphasis on determining a sustainable post retirement strategy. As a first step it is leading defined contribution funds to think carefully about the post retirement needs of members and providing appropriate annuities as part of a post retirement strategy to meet these needs. As a second step it will almost certainly lead to changes in the way that funds think about pre-retirement investing, to accommodate the change in the way we think about the post-retirement targets.

Warren Matthysen
Marketing Actuary
Employee Benefits: Investments

Abax Investments market commentary for the quarter ending September 2014

The past quarter saw the SA All Share Index decline just over 5% from all time high levels reached at the end of July (down only 3% for the quarter though).

The main culprits for this decline were the basic material stocks on account of declining commodity prices, continued strong supply growth and little demand growth, specifically from China. In addition, Richemont came under pressure after reporting weak sales trends, specifically from Hong Kong – a key market.

The biggest story of the quarter was the collapse of African Bank, placed under curatorship by the Reserve Bank on the 10th of August. Not only did it impact on funds holding the share (the writer's fund did not), but a number of money market funds had to resort to some creative reporting when they were caught with diminished value and frozen Abil debt instruments (money market funds always have a unit price of 1 with a varying yield, so there is no obvious mechanism to price for a haircut on an underlying investment).

Too slack lending criteria coupled with too optimistic provisioning standards made for a dangerous cocktail. We don't believe the full effect of this collapse has worked through the economy yet. Unsecured lending per se is not the culprit, the way it was done caused the problem. It appears that, in spite of regulatory oversight, unsavoury lending practices (especially in terms of affordability checks) were not uncommon. A knee jerk overtightening of lending criteria or regulation could perversely cause much damage; credit creates liquidity and without a formal market, it could drive consumers to the unregulated "loan shark" market which is arguably worse.

On the positive side, MTN's share price soared after announcing a deal to sell most of their cellular towers in Nigeria into a joint venture company for about 2 billion USD. The market reaction was probably overdone as at least half of the cash will be retained in the JV company and then there will be some tax impact on the remainder, even before trying to repatriate the remaining cash out of Nigeria (they restrict companies from repatriating any cash beyond operating profit). Aspen also rose after reporting good progress on their recent mega acquisitions; continuing on their path to become one of the leading global generic pharmaceutical companies.

The SA economy continued its lacklustre performance, employment growth remains elusive, our balance of payments is not improving and infrastructure bottlenecks dampen the prospects of a short term, strong recovery. That being said, South Africa has a world class financial system and sound financial and governance reporting. We're at the foot of Africa which represents much opportunity for decades to come. As a reminder, in just the past 5 years we've had the following share price performances from South African companies; Coronation 1480%, EOH 929%, Metair 690%, Mr Price 645%, Naspers 533%, Aspen 499% and Woolworths 474%. These companies represent fund management, IT, industrial, clothing retail, pharmaceutics and food and clothing retail industries. In spite of gloom, there remains much opportunity.

On the international front, economic indicators are mixed; whereas the US shows some signs of economic growth, Europe and the East's economic indicators are less convincing. Political tensions in the Ukraine and Middle East are not helping either. Interest rates remain at unprecedented low levels around the world, so bonds and cash investments appear unattractive. This leaves equities as the default option, in spite of relatively high valuation multiples.

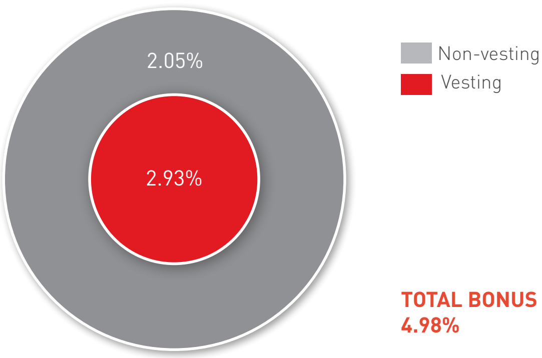
Partially Vesting Smooth Bonus Range | Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

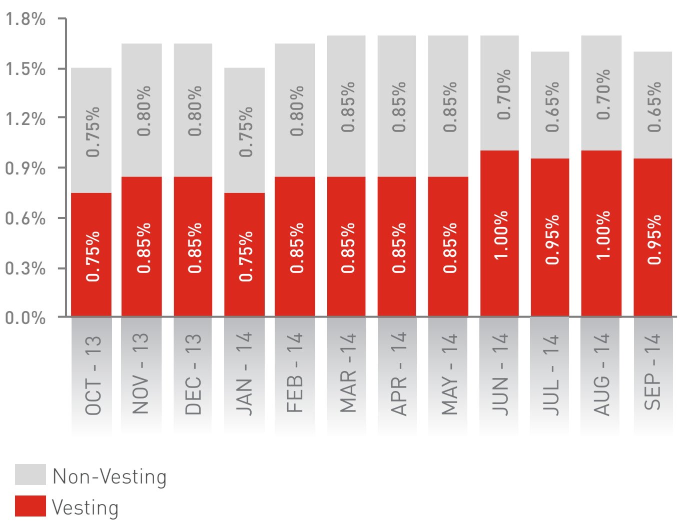
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	110% - 115%	R11 bn	1.29%	18.93%

Performance

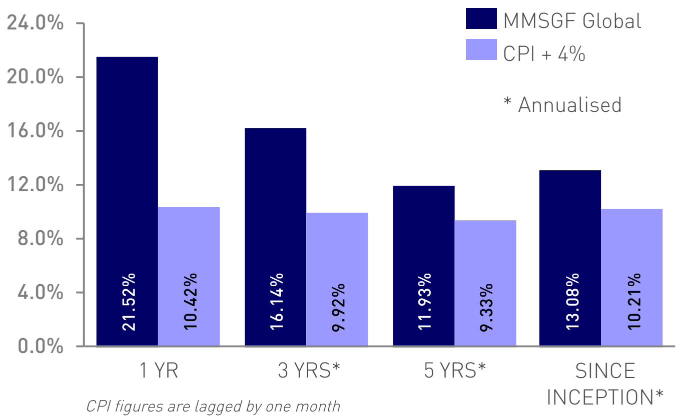
The total bonus net of all charges except the fixed investment management fee for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



The chart below shows the monthly bonuses for the past 12 months.



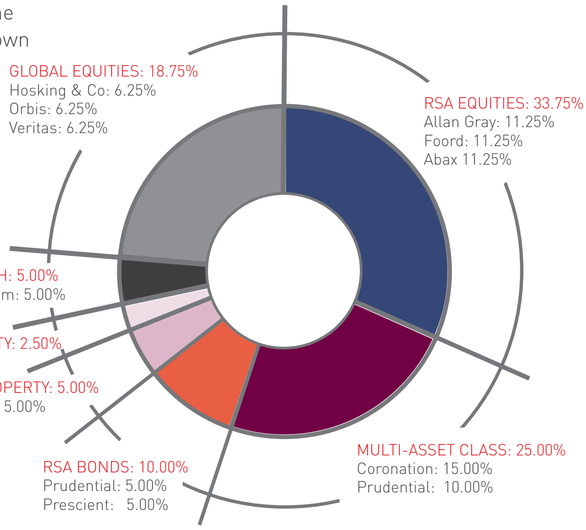
The chart below shows the long term bonus performance of the Multi-Manager Smooth Growth Fund Global against its objective.



CPI figures are lagged by one month

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



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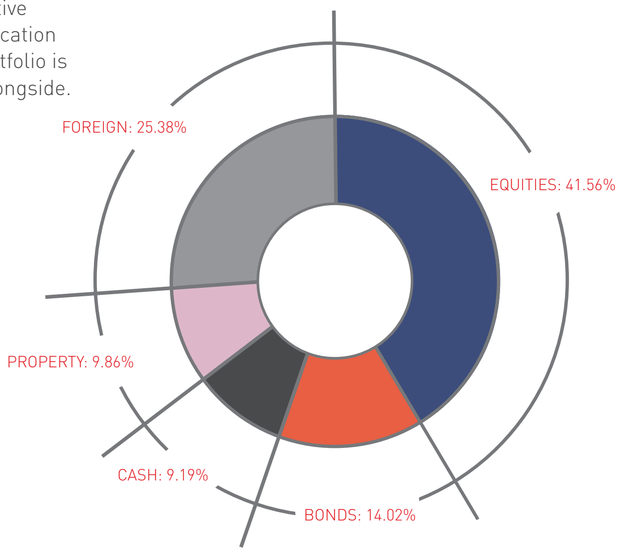


From the fifteenth century, **mariners' astrolabes** were used to determine the latitude of a ship at sea. Designed for use on boats in rough water and heavy winds, the astrolabe could locate and predict the positions of the sun, moon, stars and planets, determining local time given local latitude and vice-versa. Less than one hundred are known to have survived from antiquity.

In the new world, Trustees, Professional Financial Advisors and members need clear directions to stay on track within the turbulent retirement fund environment. Our best-of-breed multi-manager smooth bonus products with independent governance provide just that.

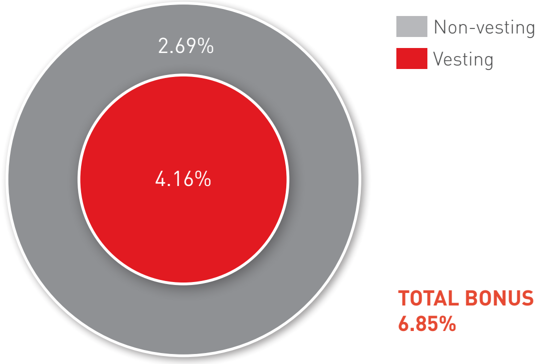
Partially Vesting Smooth Bonus Range |
Multi-Manager Smooth Growth Fund Local

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	> 120%	R208 m	1.40%	17.01%

Performance

The total bonus net of all charges except the fixed investment management fee for the past quarter on the Multi-Manager Smooth Growth Fund Local is shown below.



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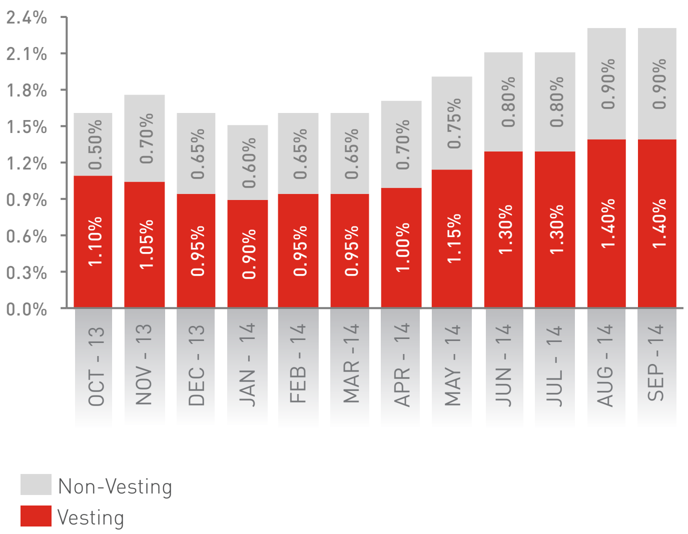
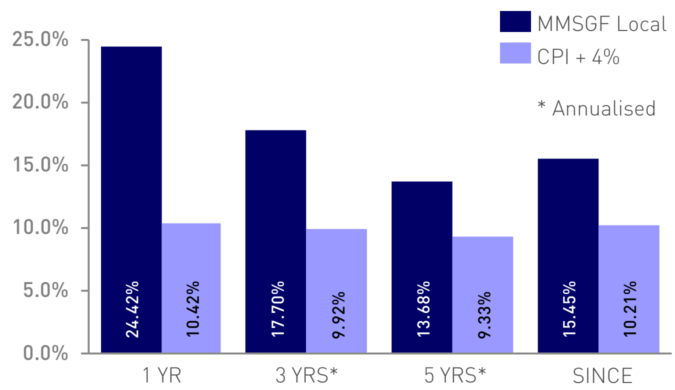


The chart below shows the long term bonus performance of the Multi-Manager Smooth Growth Fund Local against its objective.



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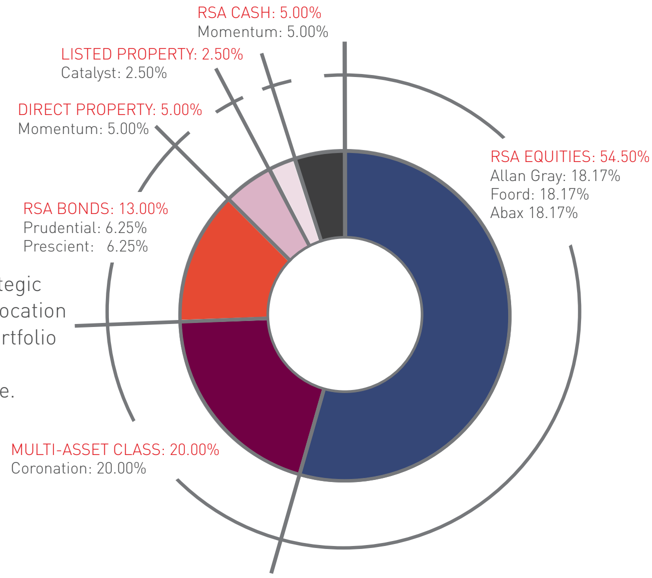

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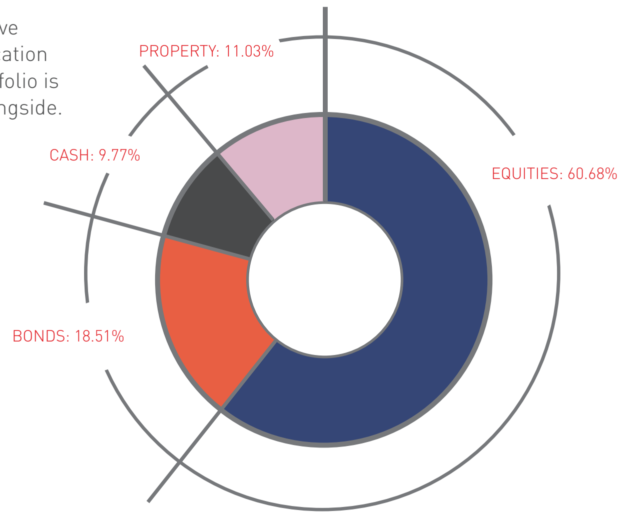

From as early as 150 B.C navigators could find their latitude, but ships were lost in shipwrecks because it was impossible to determine longitude. Thanks to **the 17th century sextant**, the navigator could measure the angle between the moon and a celestial body, calculating the exact time at which this distance would occur. Knowing the time meant knowing the longitude.

In the new world, Trustees, Professional Financial Advisors and members need certainty on their journey to financial wellness. Expert guidance from the thought leaders means knowing where you're heading and how to get there.

Partially Vesting Smooth Bonus Range | Smooth Growth Fund Global

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	115% - 120%	R3.0 bn	1.77%	15.98%

Performance

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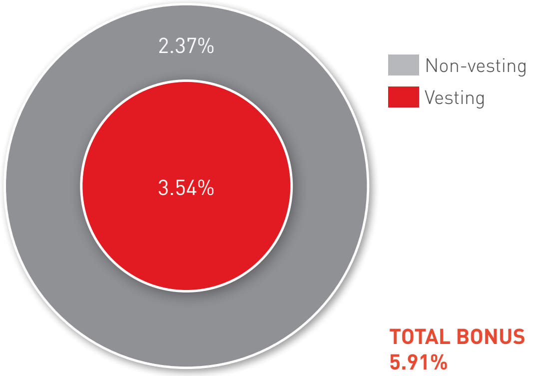

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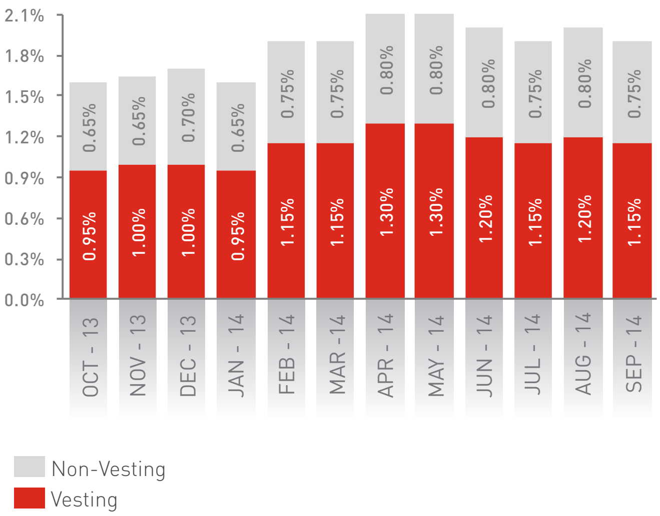

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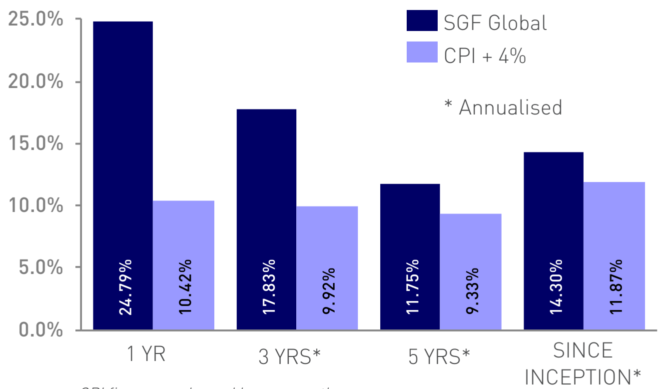

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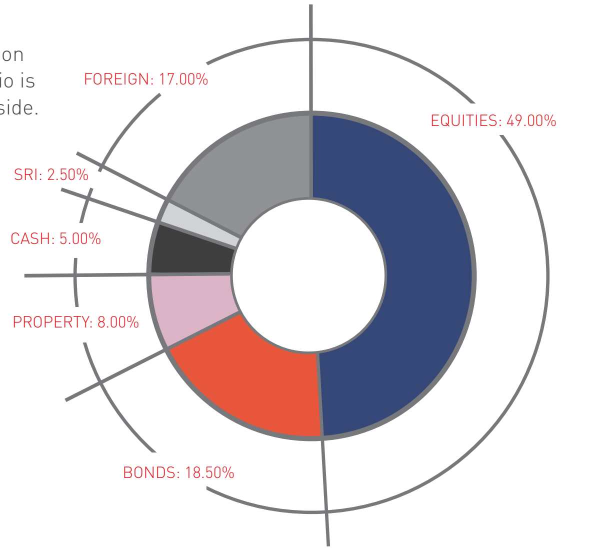

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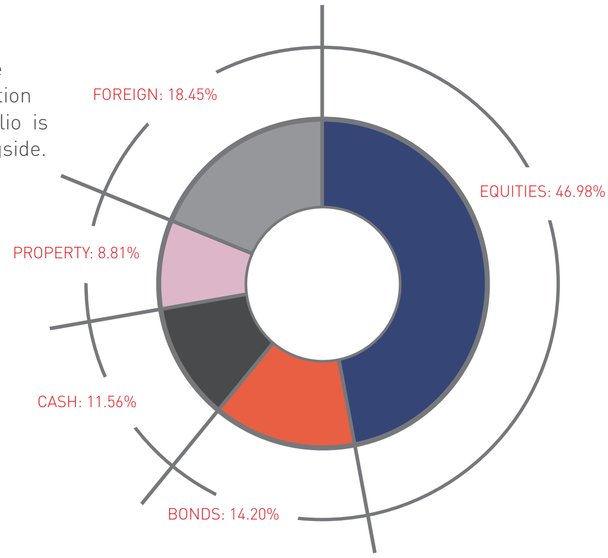

The engine order telegraph is used by the pilot on the bridge to instruct the engine room below to power the vessel at the right speed. By moving the handle to a different position on the dial, a bell would ring in the engine room and move their pointer to the same position - a fast and very handy way of powering the vessel away from trouble.

In a world where Trustees, Professional Financial Advisors and employees are looking for greater certainty, Momentum's continuous capital guarantee on benefit payments and smooth inflation-beating returns will result in plain sailing.

Fully Vesting Smooth Bonus Range |
Multi-Manager Secure Growth Fund

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
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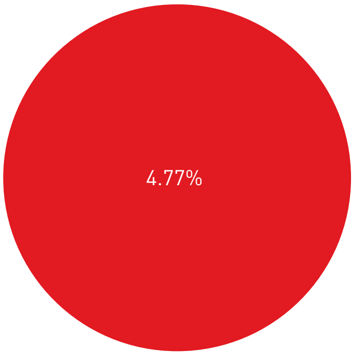

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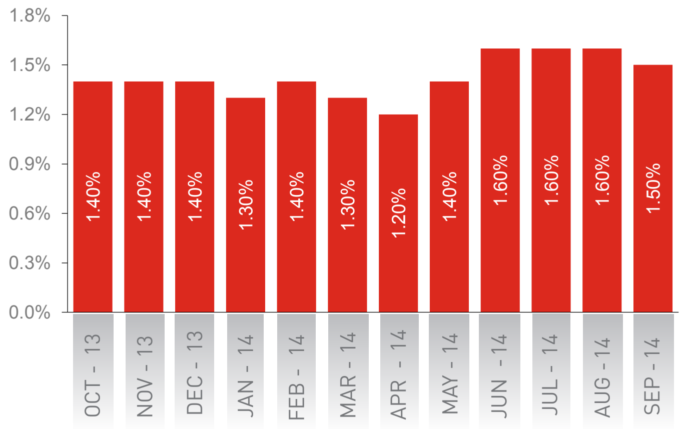

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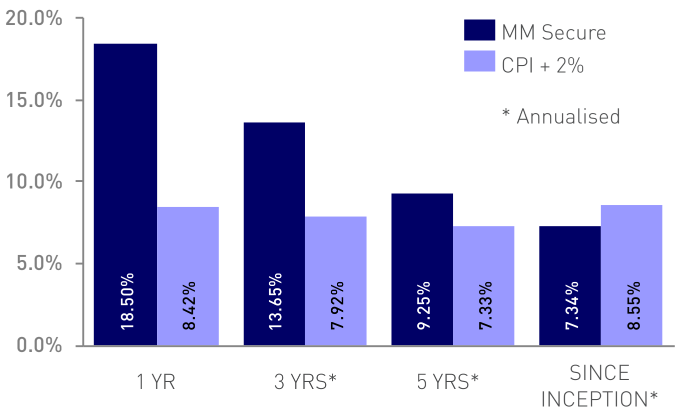

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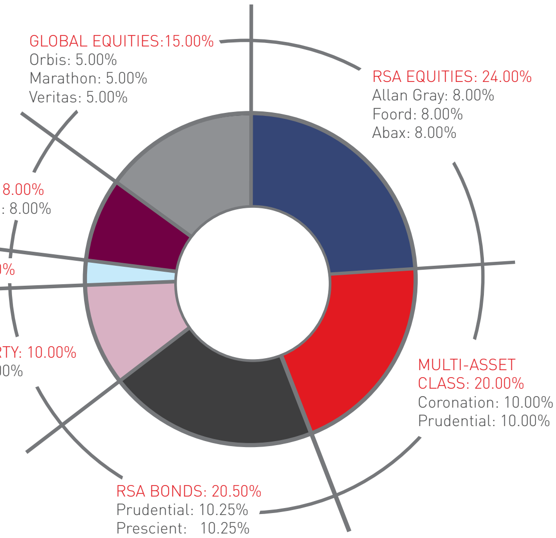
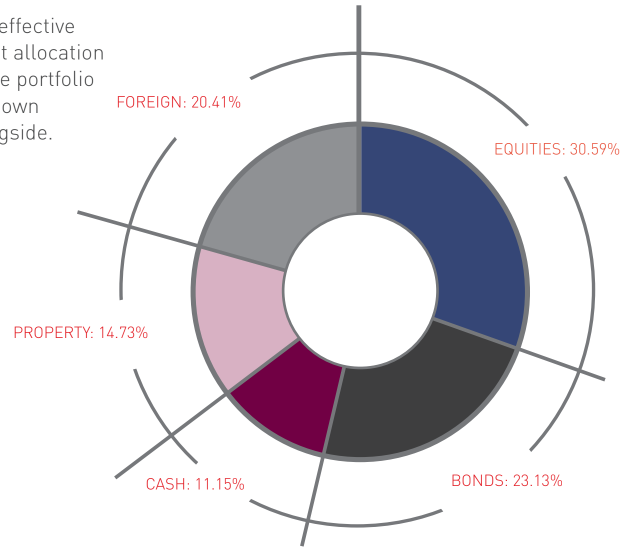


The effective asset allocation of the portfolio is shown alongside.



The first known **practical telescope** was invented in the Netherlands at the beginning of the 17th century. A telescope aids in the observation of remote objects by collecting electromagnetic radiation (including visible light), using glass lenses to increase the apparent size and brightness of distant objects.

Clarity is a key need of Trustees, Professional Financial Advisors and employees. Our transparent approach to bonus declarations and capital guarantees provide peace of mind on the journey to financial wellness.

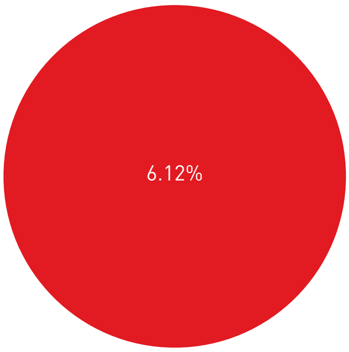
Fully Vesting Smooth Bonus Range |
Multi Manager Secure Growth Fund Bonus Series 2013

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE
Jun 2013	> 120%	R 86m

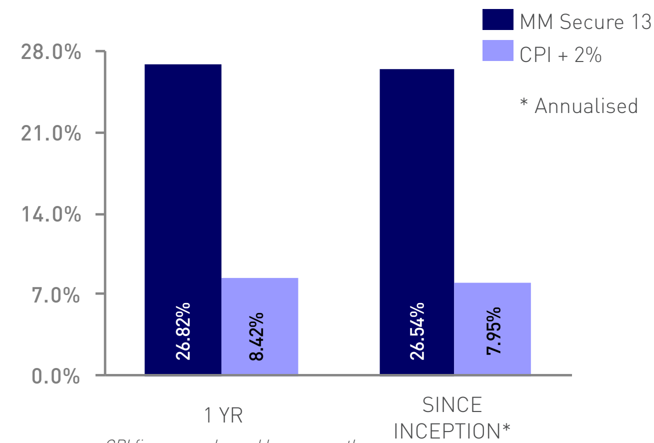
Performance

The total bonus net of all charges except the fixed investment management fee for the past quarter on the Multi Manager Secure Growth Fund Series 2013 is shown below.



The chart below shows the monthly bonuses for the past 12 months.

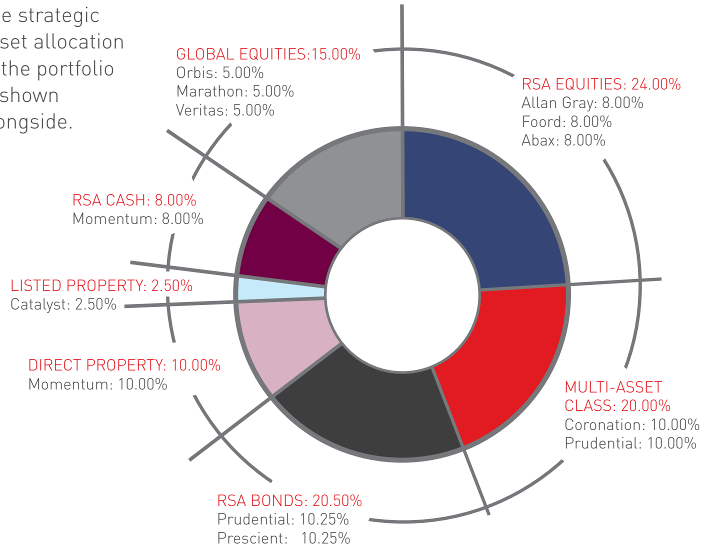
The chart below shows the long term bonus performance of the Multi -Manager Secure Growth Fund Bonus Series 2013 against its objective.



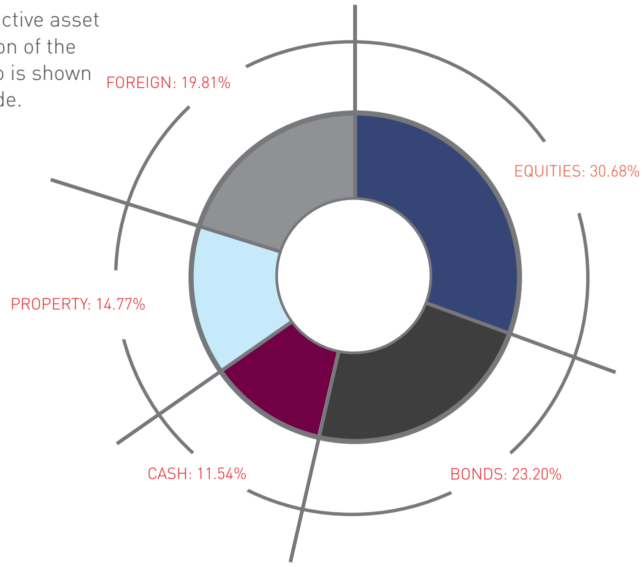
CPI figures are lagged by one month

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



Following the invention of the telescope in the 17th century, the advantages of mounting two of them side by side for binocular vision became obvious. Developed by Italian optician, Ignazio Porro in 1854 and made popular by the Carl Zeiss Company in the 1890s, **Binoculars** give users a three-dimensional image, presented to each of the viewer's eyes from slightly different viewpoints. This merged view provides a greater impression of depth.

We recognise that in the new world, nothing less than 100% certainty will do. As a result, our rigorous portfolio construction inspires investor confidence in the prospective investment performance of the Fund.

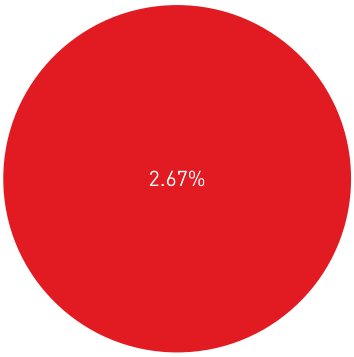
Fully Vesting Smooth Bonus Range | Capital Plus Fund

Fund Snap Shot

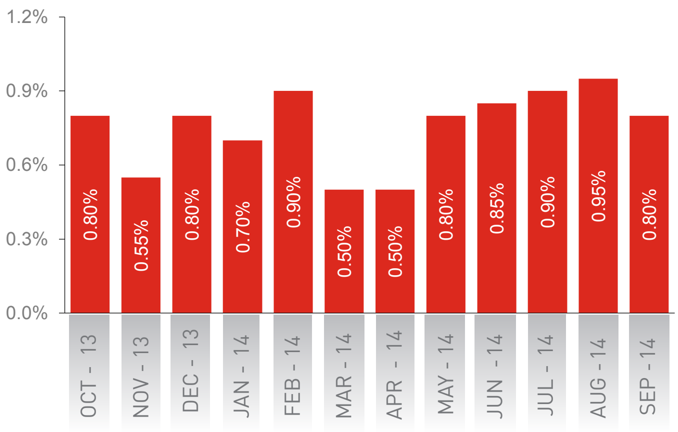
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Mar 2005	100% - 105%	R 606m	0.77%	9.00%

Performance

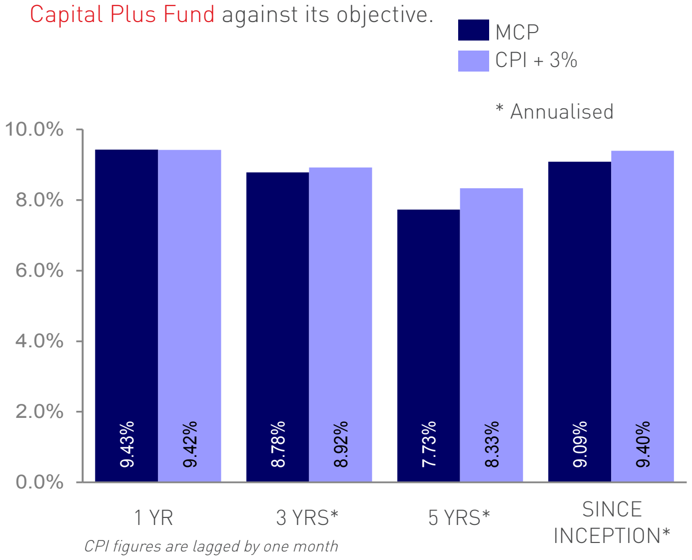
The total bonus net of all charges except the fixed investment management fee for the past quarter on the Capital Plus Fund is shown below.



The chart below shows the monthly bonuses for the past 12 months.



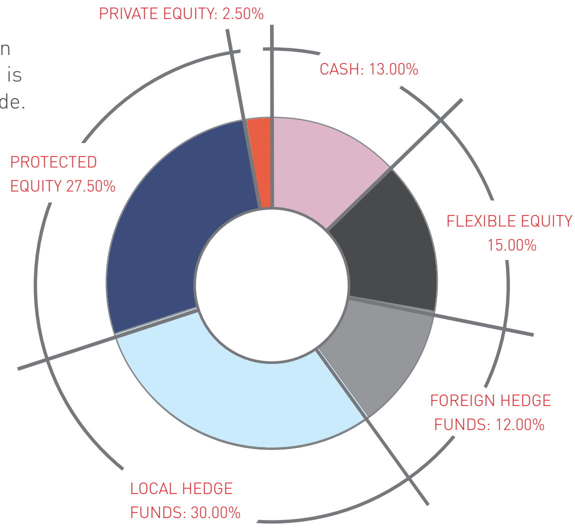
The chart below shows the long term bonus performance of the Capital Plus Fund against its objective.



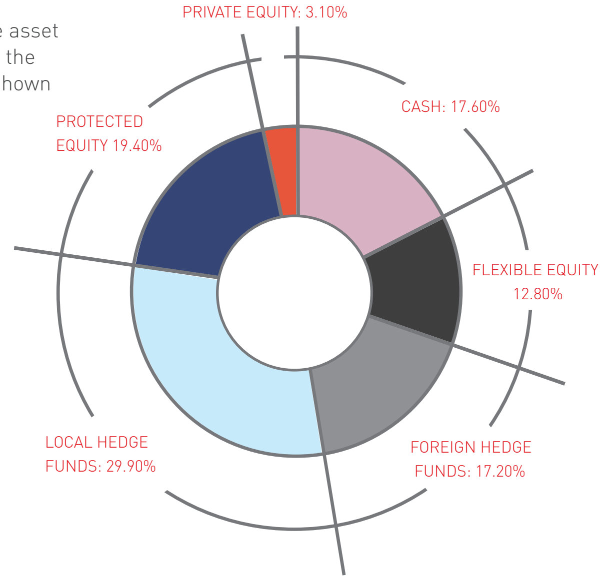
CPI figures are lagged by one month

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



Thank Greek astronomy for establishing the sphericity of the earth in the 3rd century BC. Flat maps use a map projection that inevitably introduces an amount of distortion.
A terrestrial globe is the only representation of the earth that does not distort the shape or size of large features.
The oldest surviving one was created by Martin Behaim in Nuremberg in 1492.

When it comes to leading the industry, it helps to have an accurate 360 degree view. Which is why our innovative, value-for-money products are redefining the landscape of financial wellness, for Trustees, Professional Financial Advisors and members.

Fully Vesting Smooth Bonus Range | Smart Guarantee + 3

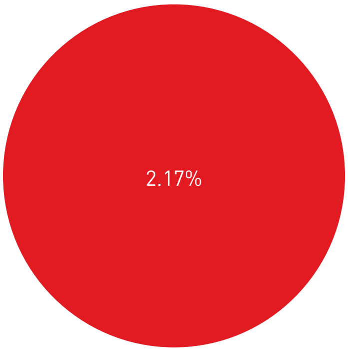
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	97.5% - 102.5%*	R 90m	1.11%**	21.55%

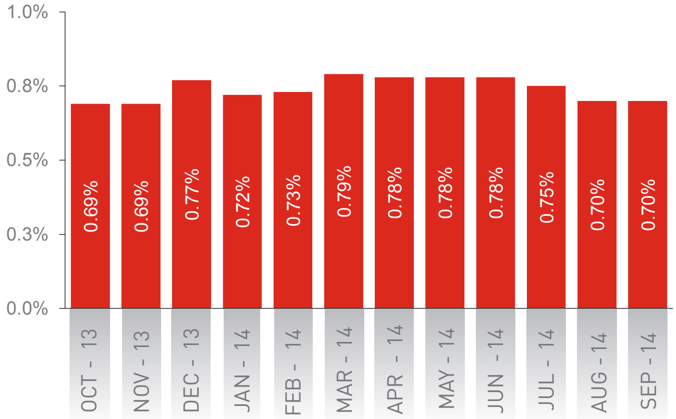
* See 'Bonuses to be declared' note below
** Figures are based on back-tested (not actual) bonuses.

Performance

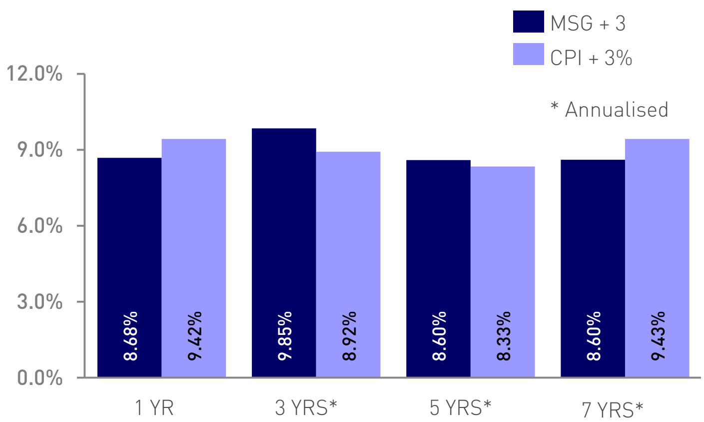
The total bonus net of all charges except the fixed investment management fee for the past quarter on the Smart Guarantee + 3 is shown below.



The chart below shows the actual monthly bonuses for the past 12 months.



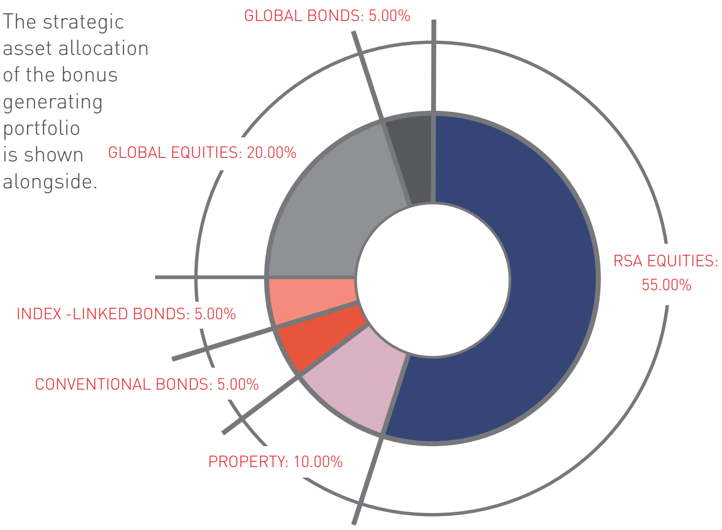
The chart below shows the long term back-tested performance of the Smart Guarantee + 3 against its objective.



CPI figures are lagged by one month

Asset Allocation

The strategic asset allocation of the bonus generating portfolio is shown alongside.



For more information on the bonus generating portfolio, Momentum MoM Enhanced Factor 7, please refer to our website: https://www.momentum.co.za/for/business/products/funds-at-work/fund-fact-sheets

For bonus declarations, 80% of the underlying assets returns of the bonus generating portfolio are smoothed over a three-year period as per the smoothing formula. The liability driven investment strategy includes a dynamic protection overlay to secure the guarantee.

As a result, for disinvestments other than guaranteed benefit payments the underlying assets value is sensitive to both asset values and interest rates and the effective asset allocation will reflect both the bonus generating portfolio and the dynamic protection overlay.

Bonuses to be declared

Given that the monthly bonuses are based on the weighted average of the previous 36 months' returns of the bonus generating portfolio, it is possible to calculate the future bonuses that will be declared under various future investment return assumptions. Assuming zero returns over the following 36 months, around 10% of bonuses will still be declared. For a traditional smooth bonus product, this equates to a funding level of around 110%.

Prior to the introduction of **the compass**, position, destination, and direction at sea were primarily determined by the sighting of landmarks, supplemented with the observation of the position of celestial bodies. On cloudy days, even the Vikings were at a loss for which way to go.

Because the compass is used for calculating heading, it provides a much improved navigational capability. And on our compass, security is the number one moral imperative.

Smooth Bonus Products Key Features

		Fund Return Objective	Manager	Mandate Type	Guarantee on Benefit Payments	Market Value Adjustment Terms & Conditions	Risk Charge	Investment Management Fee	Inception Date
Partially Vesting	Multi-Manager Smooth Growth Fund Global	CPI + 4% pa, net of charges over a 5 year time horizon	Multi-Manager	Moderate Balanced	100% of capital invested and vested bonus declared	Yes	1.00% pa	0.60% of the first R50m, 0.50% of the excess above R50m *	January 2004
Partially Vesting	Multi-Manager Smooth Growth Fund Local	CPI + 4% pa, net of charges over a 5 year time horizon	Multi-Manager	Moderate Balanced	100% of capital invested and vested bonus declared	Yes	1.00% pa	0.55% of the first R50m, 0.45% of the excess above R50m *	January 2004
Partially Vesting	Smooth Growth Fund Global	CPI + 4% pa, net of charges over the long to medium term	Momentum Asset Managers	Moderate Balanced	100% of capital invested and vested bonus declared	Yes	1.00% pa	0.45% of the first R10m, 0.35% of the next R40mil, 0.25% of the excess above R50m *	January 1989
Fully Vesting	Multi-Manager Secure Growth Fund	CPI + 2% pa, net of charges over a 5 year time horizon	Multi-Manager	Moderate Conservative Balanced	100% of capital invested and total bonus declared	Yes	1.50% pa	0.60% of the first R50m, 0.50% of the excess above R50m *	November 2007
Fully Vesting	Multi-Manager Secure Growth Fund Bonus Series 2013	CPI + 2% pa, net of charges over a 5 year time horizon	Multi-Manager	Moderate Conservative Balanced	100% of capital invested and total bonus declared	Yes	1.50% pa	0.60% of the first R50m, 0.50% of the excess above R50m *	June 2013
Fully Vesting	Capital Plus	CPI + 3% pa, net of fees over a rolling 3 year period	Rand Merchant Bank	Structured Alternative	100% of capital invested and total bonus declared	No	0.50% pa **		March 2005
Fully Vesting	Smart Guarantee +3	CPI + 3% pa, net of fees over a 7 year time horizon	Momentum Manager of Managers	Liability Driven Investment	100% of capital invested and total bonus declared	Yes	1.25%		October 2013

*Depending on the underlying mandates that are negotiated with asset managers, performance fees and net unit priced fees may be deducted from the underlying assets
**A performance fee of 25% of the outperformance above CPI + 2% p.a. + VAT is deducted from the underlying assets. The performance fee is capped at a maximum of 3% p.a. + VAT

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