momentum

Smooth Bonus Report

First Quarter 2016

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

Dear valued investors

A rocky start to the year

The first quarter of 2016 brought renewed concerns about the overall strength of the global economy amid lower expected growth rates in most major regions compared to the previous year.

Robust efforts have been made to stimulate growth and counter muted inflation outlooks with central banks resorting to extreme monetary policy measures and some banks even cutting rates into negative territory.

The US dollar (USD) weakened somewhat during the quarter as a result of a more subdued growth outlook. Further hikes in interest rates by the Federal Reserve Bank (Fed) cannot be ruled out as recent positive jobs growth data points to more optimistic growth prospects.

Closer to our shores, the rand recovered by 4.8% against the USD over the quarter despite the slightly pessimistic view of the local economy, helped by the weakened USD.

Inflation soared from the start of the year, with annual CPI at a worrying 7% at the end of February. High inflation, coupled with low growth expectations (resulting in stagflation), have signaled that a challenging economic environment is likely during the course of 2016. The South African Reserve Bank (SARB) is expected to hike interest rates by an additional 50 basis points by the end of the year which will cause further strain to already struggling households.

Despite this, the JSE SWIX ended the quarter 5.9% higher, buoyed by gains in resource stocks. Among the local asset classes, the best performance was listed property at 10.1%, whilst the worst performers were cash and inflation-linked bonds at 1.7% and 2.2% respectively.

The possibility of a downgrade to junk status by the end of the year by one of the major ratings agencies is still looming, bringing with it reduced investment possibilities and likely to cause significant capital outflows.

Herman van Papendorp and Sanisha Packirisamy from Momentum Investments provide an inflation update on page 4, as well as further market and economic commentary on page 8.

On 16 March 2016, the MMI Unisa Consumer Financial Vulnerability Index (CFVI) was launched to a packed room of clients, stakeholders, staff and media in Johannesburg. The CFVI provides us with a powerful window into the psyche of consumers and how vulnerable they are feeling in relation to their income, expenditure, savings and debt servicing. Shelley van der Westhuizen discusses it on page 6.

Smoothing the way forward

Despite the significant volatility currently plaguing the global and local markets, our smooth bonus portfolios continued to perform strongly. The majority of our portfolios exceeded their benchmarks over the longer term, with the exception of one of our portfolios which slightly underperformed compared to its benchmark. The strong performances of our portfolios allude to the resilience of our funding levels, which are currently at healthy levels.

Often in times of uncertainty, investors seek a safe haven for their investments. This is where the crucial role of smooth bonus portfolios comes to the forefront.

Warm regards

Kathija Cassim

Investments Product Specialist: Corporate Clients
MMI Corporate and Public Sector

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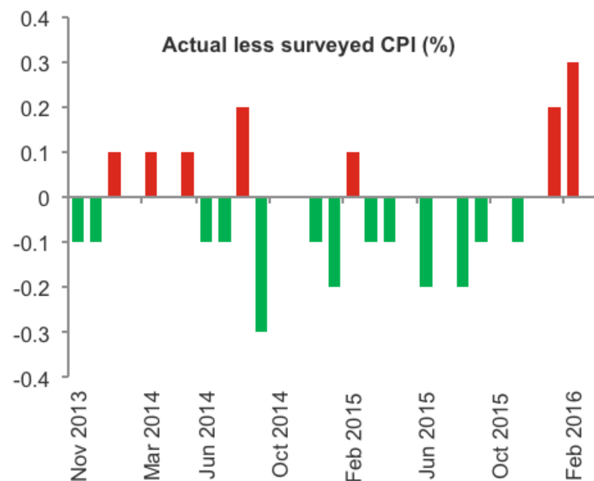
Headline consumer price inflation hits 7%

by Herman van Papendorp and Sanisha Packirisamy

Headline inflation increases to its highest level since May 2009

Stats SA reported an increase in headline consumer price inflation (CPI) from an already above-target 6.2% year-on-year (y/y) print in January 2016 to a more worrisome 7% y/y print in February 2016. After having surprised to the downside (or meeting expectations) for the most part of 2014 and 2015, the trend in positive inflation surprises reversed in early 2016 with CPI surprising to the upside for the past two months. In February, headline inflation printed higher than anticipated at 0.3% above the consensus forecast for a 6.7% y/y increase (see chart 1).

Chart 1: Headline CPI surges ahead of market expectations



Source: Stats SA, Bloomberg, Momentum Investments

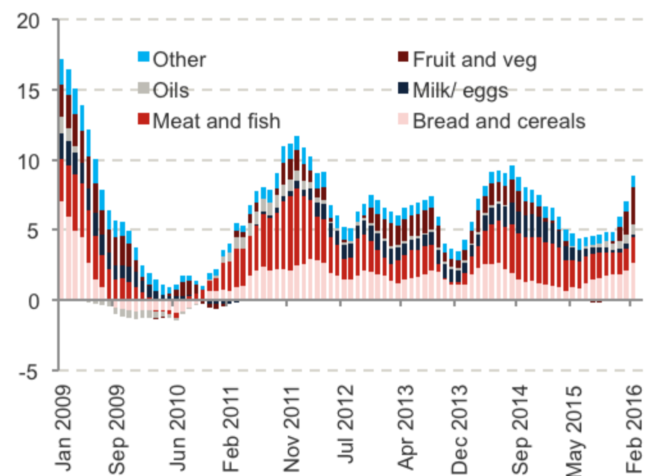
February is usually a relatively low survey month, with only c.12% of the basket surveyed in addition to the normal monthly surveys. Relative to our own forecasts, the price increases related to food (notwithstanding our expectation of higher food costs given the impact of the drought), non-alcoholic beverages, furniture, appliances and hotels surprised to the upside.

Drought impact pushes food inflation higher

After months of surprising to the downside, higher food price pressures are finally materialising in the consumer inflation basket. Food prices surged by a higher than projected 2.2% month-on-month (m/m) in February, leaving the year-on-year rate at 9.1%, exceeding the upper end of the 3% to 6% inflation target band for a third consecutive month.

The impact of the drought has started to filter through into unprocessed food prices. Unprocessed food price inflation reached 10.4% y/y in February, while processed food inflation registered at a lower (but still above target) print of 7.1% y/y. The sharp increase in food prices mostly stemmed from higher bread/cereal (10.6% y/y), vegetable (21.6% y/y), fruit (13.2% y/y) and oils/fats prices (17.8% y/y), as can be seen below (chart 2). Though meat price increases remained contained below 6%, higher feed costs and herd-rebuilding (following increased slaughtering during the drought) are likely to lead to higher meat inflation down the line, keeping food inflation elevated this year.

Chart 2: Contribution to food inflation (% y/y)



Source: Stats SA, Global Insight, Momentum Investments

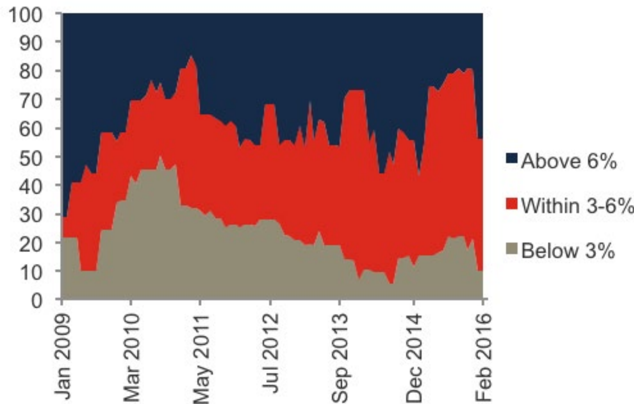
Sizeable fuel price increase on the horizon

The February inflation print captured a marginal 6c/l hike in petrol prices, but this is likely to reverse by 69c/l in March. The current 43c/l under-recovery (largely owing to the uptick in international oil prices) and a 30c/l fuel tax increase led to an 88c/l increase in the petrol price in April. In year-on-year terms, private transport inflation, mostly petrol costs, is likely to move significantly lower given the high base created in April last year.

Signs of rising broad-based price pressures

Less than half of the inflation basket has experienced price increases within the 3% to 6% inflation target band. Chart 3 shows that prices of nearly 45% of items in the consumer inflation basket are rising at a faster pace than 6% y/y.

Chart 3: Proportion of CPI basket trading below, within and above

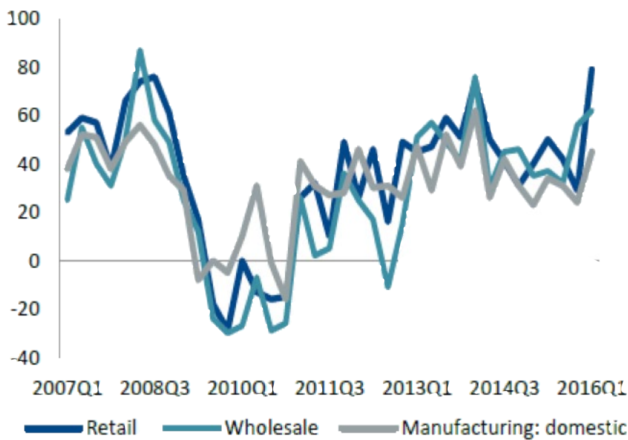


Source: Global Insight, Momentum Investments

Core inflation inching higher

Core inflation (headline CPI excluding food, non-alcoholic beverages, energy and petrol) increased to 5.7% y/y in February from 5.6% y/y in January. Higher food prices have pushed goods inflation to 7.9% y/y in February, while services inflation remains marginally outside the target range at 6.1% y/y. According to the Bureau of Economic Research (BER), underlying survey detail in the manufacturing, retail and wholesale sectors are pointing to a sharp deterioration in the level of average selling prices, indicative of a wider effect of rising prices across the consumer basket (see chart 4).

Chart 4: Net percentage expecting an increase in selling prices



Source: BER

Build up in inflation pressures point to further interest rate hikes

Despite elevated global food stocks, keeping international food prices around 10% lower than a year ago, the unfavourable domestic weather conditions as well as a weaker currency have driven domestic food prices nearly 20% higher over the corresponding period. A steeper ramp up in food inflation and increasing evidence of broader-based price pressures, owing to a steep depreciation in the currency on a trade-weighted basis, are suggestive of a likely prolonged breach in the headline measure of inflation. While the South African Reserve Bank (SARB) sees inflation exceeding the upper 6% target for the remainder of this year and most of 2017, we expect the breach to persist for a period of five quarters.

Furthermore, the currency weakness and wage cost pressures have led to stubbornly high (and rising) inflation expectations by the price setters of the economy, namely businesses and trade unions. The latest BER Inflation Expectations Survey noted the overall measure surveying five-year inflation expectations remaining at 6.1% with the expectation of analysts edging higher to 5.7% from 5.5%. Expectations by businesses and trade unions improved by 0.1% to 6.4% and 6.1%, respectively, but nonetheless remained above the target range. In recent speeches, the SARB noted that they will remain focused on the evolution of inflation expectations and will pay close attention to any indications of second-round effects of the exogenous shocks to inflation. The further upward trend in core inflation in recent CPI prints, and the result of escalating selling price pressures being noted in the BER sector surveys, could suggest the possible emergence of such second-round inflation pressures.

In addition to a rising inflation trajectory (brought forward by a higher than expected increase in price pressures in February) and the threat of second-round inflation pressures, a still-elevated current account deficit raises concerns over funding given our reliance on volatile portfolio flows, which have recorded in negative territory since Nenegate in December 2015. The need for positive real interest rates adds to the likelihood of additional interest rate rises of 50 basis points over the course of the next twelve months.

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SA economy's 'Achilles heel' - debt vulnerability heightened in 2015

By Shelley van der Westhuizen

The latest MMI Unisa Consumer Financial Vulnerability Index (CFVI) recently revealed that South African consumers are on the brink of the equivalent of junk bond status in terms of their financial vulnerability.

The CFVI is a robust quarterly indicator of consumers' perceptions about their financial positions (which impacts GDP) that tracks vulnerability status in terms of income, expenditure, savings and debt servicing. The index is the product of collaboration between MMI Holdings' (MMI) Corporate and Public Sector, the division within MMI that services large and medium sized businesses, and Unisa.

The latest CFVI shows that by the end of 2015, local consumers in general remained alarmingly close to the Very Exposed classification.

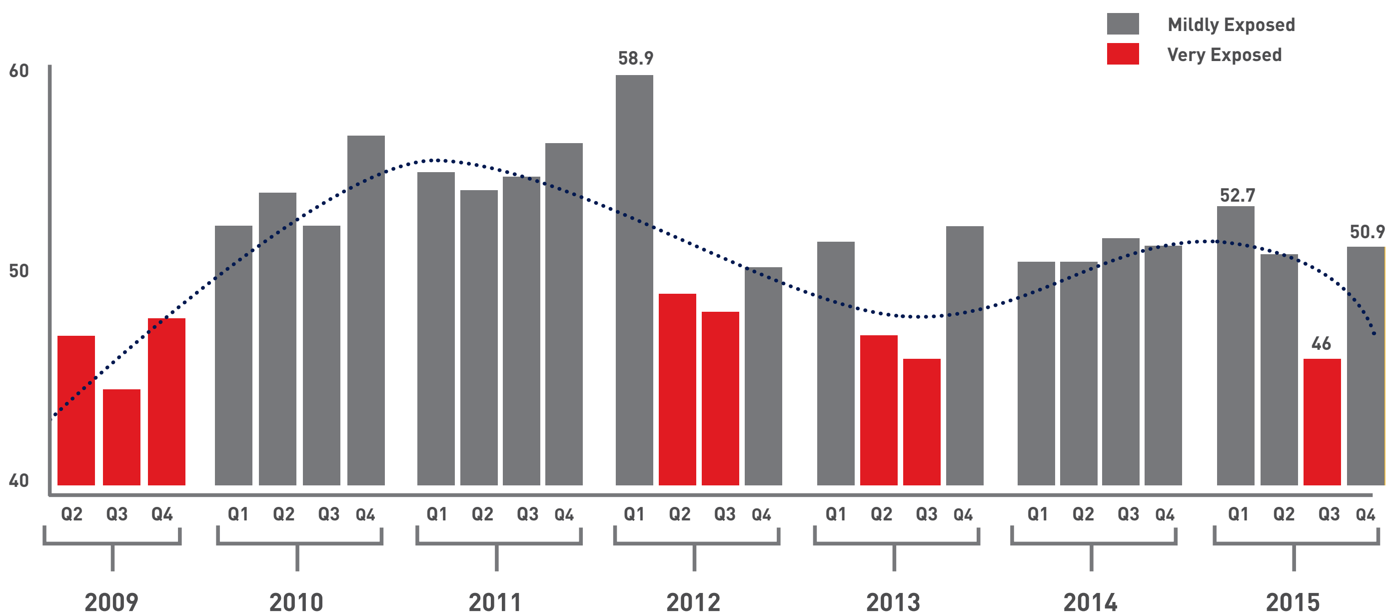
The figure is relatively steady year-on-year but down from a "less vulnerable" high of 58.9 recorded in 2012.

The purpose of our business is to increase business financial wellness by helping our clients to grow their income statements, protect their balance sheets and enhance their sustainability throughout the business life cycle.

As part of this, we have a responsibility to conduct and present research that enables us to enter into meaningful and relevant conversations around what is driving company growth, employee productivity and corporate longevity with our clients. Enter the Consumer Financial Vulnerability Index; the first in a series of indices in our Business Financial Wellness Guide which aim to enhance a business' financial wellness through engaging on, and solving together for, the impact of a number of variables.

The real concern from the 2015 CFVI lies in the debt servicing numbers which have remained in the Very Exposed band for two years and are now at their lowest level since the introduction of the CFVI in 2009.

SA CONSUMERS' FINANCIAL VULNERABILITY LEVELS SINCE 2009



Jacolize Meiring, Senior Researcher at the Department of Taxation at Unisa says that the interest rate hikes during 2015 have obviously contributed to this feeling. She also says that this is our 'Achilles heel' because the debt trap damages financial wellness and vulnerability levels in every area. Discretionary saving levels are low or non-existent and income is diverted to this debt trap by attempting to service arrear debt instead of balancing the household budget.

Our analysts believe that the likelihood of the overall CFVI index slipping into the Very Exposed category during most of the quarters of 2016 is very high given the gloomy growth and unemployment environment, and the inflationary pressures on consumer spending.

The good news is that unlike macro-economic variables largely outside of the consumers' control, for debt servicing the situation can be improved through effective planning and sound management. The Q4 2015 CFVI showed respondents listing 'bad planning' as the primary cause of their financial vulnerability.

This offers a huge opportunity for employers; debt-stressed employees are inevitably less effective which has a significant impact on the profitability of a business. It is largely encouraging, however, that these stressors can be relieved to the great benefit of both the individual and the business through the structured provision of guidance and holistic management within the workplace.

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Head of Business Financial Wellness and Client Experience

MMI Corporate and Public Sector

Momentum Investments market commentary for the quarter ending December 2015

by Herman van Papendorp and
Sanisha Packirisamy

Concerns over the health of the global economy have deepened.

Most major regions are now expected to expand at a slower pace this year relative to the growth rates observed in 2015.

Recognition of the external risks to the United States (US) economy caused a more dovish rhetoric from the US Federal Reserve (Fed), triggering a slide in the US dollar (USD), while the European Central Bank (ECB) and Bank of Japan (BoJ) eased monetary policy further in the first quarter of 2016 (1Q16) amid serial disappointment on growth and inflation prospects.

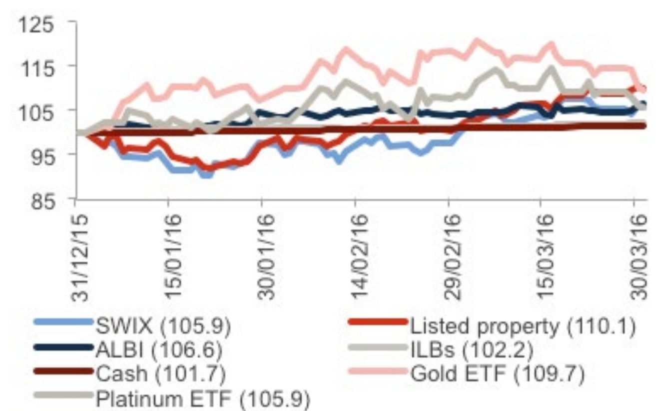
Receding fears of a so-called "hard landing" in China and a recovery in commodity prices spurred "risk-on" sentiment, contributing to a sharp rebound in beleaguered emerging markets (EM). The MSCI EM Index ended the first quarter of the year 5.4% higher, outperforming the MSCI Developed Markets Index which tracked broadly sideways (-0.1%) over the corresponding period. The MSCI EM Latin America (LatAm) Index was the clear outperformer during 1Q16, surging ahead by nearly 20%, while the MSCI EM Europe Middle East and Africa (EMEA) Index posted a healthy gain of 12.1% over the same time period. JPMorgan data shows that despite EM equities experiencing significant inflows, to the order of USD7.3 billion in March, partly reversing the negative trend in cumulative flows for the quarter, South African (SA) equities still suffered outflows of R24.9 billion (USD1.6 billion) in 1Q16.

Nevertheless, the FTSE/JSE SWIX managed to end the quarter 5.9% firmer (see chart 1), led by higher gains in resource stocks (18.1%). The FTSE/JSE Financials Index benefited from Rand strength despite a deteriorating macro picture (+6.2%), while the FTSE/JSE Industrials Index lost ground (-0.4%) over the same time period.

A steady rise in precious metal prices during the quarter drove gains in the platinum and gold exchange traded funds (ETFs), notwithstanding a firmer domestic currency. The Rand staged a 4.8% recovery against the USD in 1Q16, despite a depressed domestic sentiment and lingering policy uncertainty, as a weaker USD and easing concerns around China led to a broad-based global rally in commodity-related currencies.

Amongst the local asset classes, listed property outperformed, gaining 10.1% in the first quarter of the year. This was linked to a 65 basis points rally in ten-year domestic bond yields during 1Q16, which helped the latter to record a 6.6% return. Inflation-linked bonds (ILBs) and SA cash were the worst performers during 1Q16.

Chart 1: SA asset class performance in 1Q16 (indexed)



Source: INET BFA, Momentum Investments

Our view that the recent recovery of the Rand would prove to be unsustainable in the coming quarters, in the absence of a meaningful rally in commodity prices, should provide currency support for foreign asset class returns during the remainder of 2016.

Our global preference remains for equities over fixed-income assets, while recent profit upgrades have improved the valuation underpin for the local share market. In contrast, the dear valuation of SA listed property is likely to constrain the return potential from this asset class. Meanwhile, the rising domestic rate cycle continues to support local cash returns. Alongside the Rand, domestic bonds could come under some pressure in the ensuing months as ratings agencies ponder the country's credit status, as political uncertainty prevails and as the municipal elections in August approach.

Global central banks taking a cautious approach

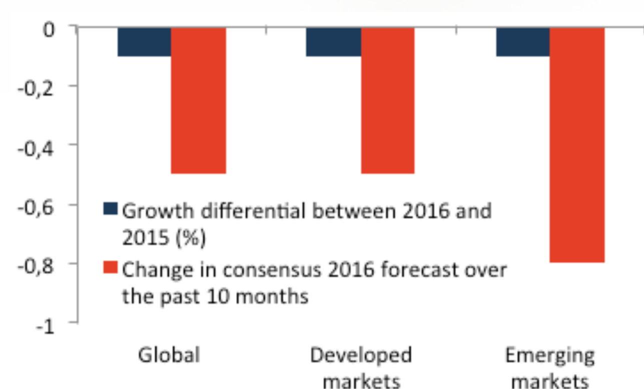
Despite major central banks ramping up their balance sheets to unprecedented levels and running ultra-accommodative monetary policy rates in their respective economies, worldwide growth remains relatively sluggish while lacklustre

inflation persists in many key regions. Though central banks in the US, United Kingdom (UK), Eurozone and Japan have seen their balance sheets soar to 151% of Gross Domestic Product (GDP) in the fourth quarter of 2015 up from 49% in the fourth quarter of 2007 (as calculated by Goldman Sachs), policy efforts to spur on activity in struggling economies have been subject to diminishing marginal returns. More recently, the BoJ and the ECB have joined Denmark, Switzerland and Sweden by expanding their focus from traditional policy easing measures, to adopting a more unorthodox approach by cutting interest rates into negative territory in an effort to prevent the economy slipping into a recession and sliding back into deflation.

The aim of negative interest rate policies (NIRP) is to penalise banks that hoard cash instead of extending loans to companies and households, thereby countering a subdued inflation outlook. The perplexity is that rates below zero may not reduce borrowing rates in the real economy and may instead crimp banks' profitability and encourage undue risk-taking in search of profits. The Bank of International Settlements (BIS) warned that it would be difficult to predict how individuals or financial institutions would behave if rates were to fall further below zero, or remain in negative territory for an extended period.

The latest Bloomberg consensus estimated for March 2016 place real GDP growth prospects at only 3.0% this year from 3.5% in May 2015. While the slowdown in emerging countries was anticipated, economic surprises in this region have still been to the downside. Moreover, developed market (DM) growth prospects have also somewhat dimmed (see chart 2) on the back of disappointing activity.

Chart 2: Shallower global growth recovery expected (%)



Source: Bloomberg, Momentum Investments

In the US, softer growth momentum has raised a more cautious approach to near-term monetary policy, but a more promising outlook on inflation suggests that two more interest rate hikes (of 25 basis points each) by the Fed this year cannot be ruled out.

In addition to firm jobs growth, healthy savings, positive real wages (thanks to lower oil prices) and robust US household net wealth metrics should support further growth in household consumption, which increased close to 3% in real terms in the final quarter of 2015. Though a further tightening in the US labour market has been less successful in stirring up higher wage inflation, at the same pace that has historically been the case, nominal earnings growth is slowly increasing. Survey indications of higher wage expectations by consumers and higher wages to be awarded by employers, will likely drive inflation measures higher over the course of the year, while the disinflationary impact of lower oil prices and a weaker USD abate.

Though the short-term growth and inflation impact of the upcoming US elections in November 2016 is likely to be limited, market volatility could spike in the months leading up to the presidential race.

In the UK, political mayhem could unfold as the UK's relationship with the European Union (EU) comes into the spotlight. The debate over a possible UK exit from the EU has been in the spotlight with immigration laws and employment opportunities ranking high on the agenda for the "leave" camp, while the likely negative economic repercussions of a so-called "Brexit" continue to concern the "stay" camp.

In the event of a Brexit (which is not our base case), we would expect a reasonably big strain on investment, a sharp increase in financial market volatility and a likely increase in political tensions. Household consumption should weaken on higher inflation and negative employment effects. A reduction in capital inflows and slow labour force growth would reduce potential growth in the long run, while the region would have less favourable trading relations with the EU.

With exit negotiations likely to be drawn out under a Brexit scenario, an actual exit could be extended to early 2019 resulting in protracted economic uncertainty. The reaction function of the Bank of England (BoE) is also expected to be different under a Brexit scenario. Although policy could stay on hold initially, a weaker currency and higher inflation would prompt a faster pace of rate hikes than under a scenario where the UK remains part of the EU.

Meanwhile, growth fears and paltry inflation prints are likely to keep monetary policy in easing mode at the ECB and BoJ. The ECB injected yet another dose of stimulus into their still-fragile economy earlier this year, while the BoJ struggled to boost inflation expectations and growth prospects, even after cutting interest rates to below zero.

Dispersion across emerging nations persists

EM risk appetite has improved markedly following the Fed's communication that fewer rate hikes and a more protracted interest rate cycle was likely to take place given growth and financial market stability concerns. Nevertheless, growth fundamentals remain weak. The degree of commodity

reliance and the sensitivity to raising US rates, as well as to USD movements, continues to drive a divergence in economic outcomes across EM.

Stagflationary pressures (high inflation accompanied by low growth) are expected to persist in the commodity-exporting bloc as currency weakness keeps inflation elevated, while countries within Emerging Asia and Eastern Europe are likely to further ease policy rates on low inflation pressures, thanks to subdued oil prices. Net commodity exporters are also facing increasing budgetary constraints leading to lower credit worthiness scores, particularly those with a low growth trajectory (and no implementation of a growth plan), an increased vulnerability to commodity prices and low policy predictability.

To a large extent, underperformance of EM can be attributed to China's plan to eliminate overcapacity in its traditional growth sectors as it transitions to a more services-related economy, while re-focusing exports on higher-value add products. The Chinese authority's 13th five-year growth plan aims to shrink China's bloated steel and coal industries, reduce government's role in business and better enable operating conditions for setting up new firms. We expect steady growth in the household and services sectors of the economy, while heavy industry zones are likely to remain depressed with a limited spill over to the rest of the economy. We expect targeted stimulus to continue to maintain growth rates in line with the country's five-year plan. This is expected to include further fiscal stimulus, lower interest rates to encourage households to borrow more and lower reserve requirement ratios to buoy the property market.

SA politics undermining structural reform momentum

China's phenomenal growth rate, averaging 10.8% between 2000 and 2007, funded excessive consumption in SA over the same time period against a favourable backdrop of rising global growth, improving investor risk appetite and abundant cheap capital originating from stimulus packages in key DMs which poured into emerging countries.

However, the commodity cycle has turned on the back of China's growth transition. The Bloomberg commodity price index slid by 55% from its second quarter peak in 2011, leading to a 10.3% decline in SA's terms-of-trade (a measure of SA's export prices relative to import prices).

GDP per capita (in USDs) followed the upward direction of SA's terms-of-trade during the commodity boom up to 2011 and has since tapered off (see chart 3), hinting at a non-trivial relationship between average living standards and natural resource rents in SA. With commodity prices likely to remain subdued well into 2017 on the back of an oversupply in global stocks and modest demand, the outlook for consumption spending in SA remains muted for at least the next two years.

Chart 3: Average living standards have declined since 2011

Source: IMF, Momentum Investments, data up to 2015

SA's failure to capitalise on the proceeds of the commodity boom has led to growth predominantly in the non-tradeable goods sectors of the economy which has further exacerbated the unemployment crisis given a slowdown in labour-intensive growth sectors. As a result, SA's export of tradable goods has become relatively uncompetitive in terms of cost. As global risk appetite has waned, EM currencies have come under pressure, but a high cost base and a number of structural rigidities have prevented SA's exporting firms from responding fully to the exchange rate depreciation, further hindering growth prospects.

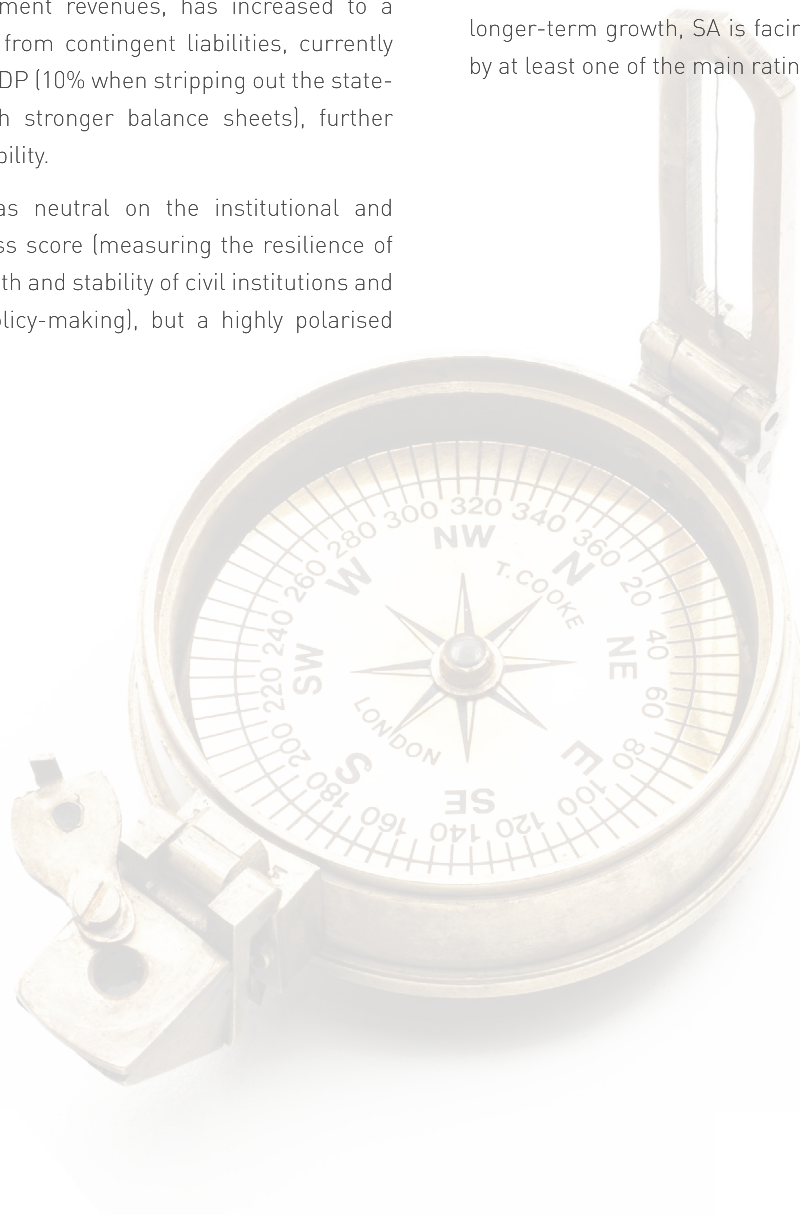
The South African Reserve Bank (SARB) is likely to react to the slowing growth and a rising inflation trajectory by hiking interest rates by a further two rounds of 25 basis points each, taking the repo rate to 7.5% over the next twelve months. This is in an effort to contain inflation expectations which remain clustered around the ceiling of the inflation target band, even on a five-year forward-looking basis. In terms of the real interest rate, the SARB has noted that monetary policy remains accommodative and, as such, we are looking for real rates to recover close to an average of 1% over the next two years. In the absence of substantial foreign direct investment into SA, SA's still sizeable current account deficit will continue to rely heavily on higher real interest rates to attract foreign portfolio flows in a potential "risk-off" environment where commodity prices are likely to remain under pressure, limiting gains on SA's terms-of-trade.

Against the backdrop of a low growth trajectory (with little progress on the country's economic development plan), low policy predictability and continued vulnerability to commodity prices, SA remains at risk of losing its investment grade rating by the end of the year. Standard and Poor's (S&P) rating agency currently has SA's foreign debt rating on the lowest investment rung and placed SA on a negative outlook in December 2015.

Of the metrics that SA is scored against, we are most at risk of losing ground on the economic assessment score. S&P downgraded the economic assessment metric from "neutral" to "weak" between June and December 2015. A low growth environment will likely restrict SA's ability to raise taxes or cut expenditure, limiting the ability of fiscal authorities to respond to economic shocks.

According to SBG Securities, even though S&P rates SA's debt burden as "neutral", the size of our government interest bill, relative to government revenues, has increased to a worrisome 13%. Risks from contingent liabilities, currently accounting for 14% of GDP (10% when stripping out the state-owned enterprises with stronger balance sheets), further reduces SA's fiscal flexibility.

S&P still scores SA as neutral on the institutional and governance effectiveness score (measuring the resilience of the economy, the strength and stability of civil institutions and the effectiveness of policy-making), but a highly polarised political landscape makes future policy responses difficult to predict and jeopardises the momentum of structural reform in the country. Areas such as labour market reforms (including the prevention of prolonged and violent strikes and implementing a secret strike ballot to prevent worker intimidation), black economic empowerment and mining policies need to be addressed urgently to promote structural growth in the economy for SA in order to earn its spot amongst its investment-grade rated peers. Without sufficient momentum on the structural reform agenda to benefit longer-term growth, SA is facing the prospect of junk status by at least one of the main rating agencies (S&P) by year end.



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Partially Vesting Smooth Bonus Range

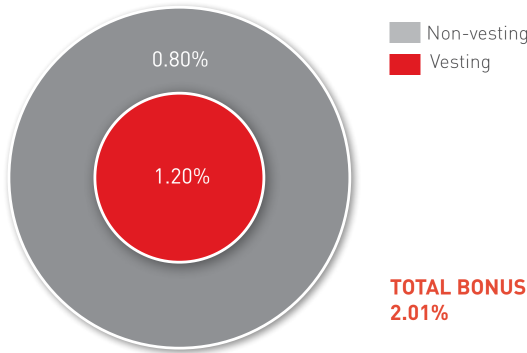
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

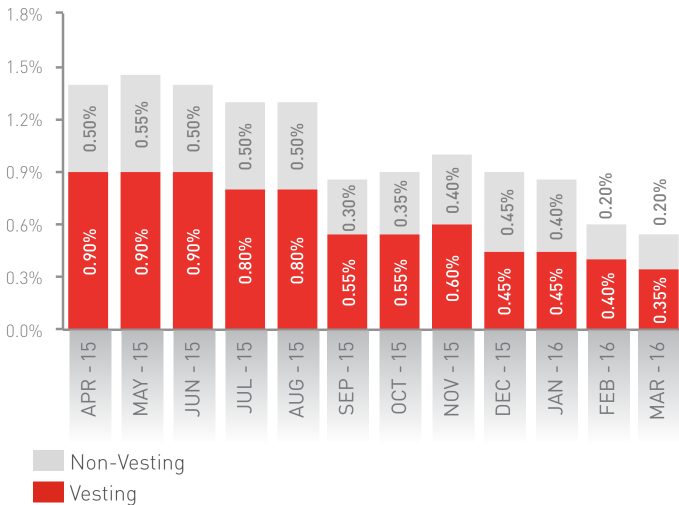
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	100% - 105%	R12.2bn	1.10%	13.68%

Performance

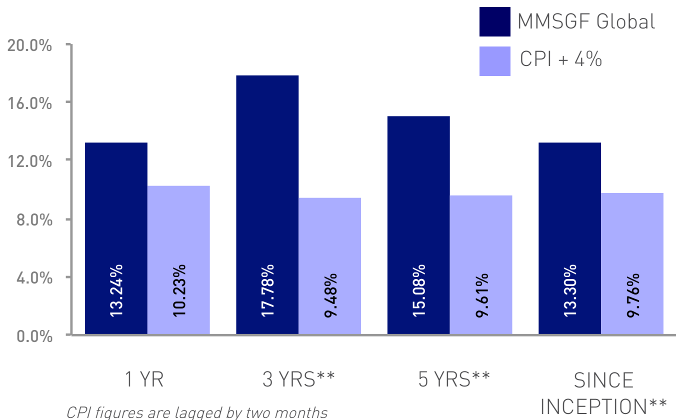
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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



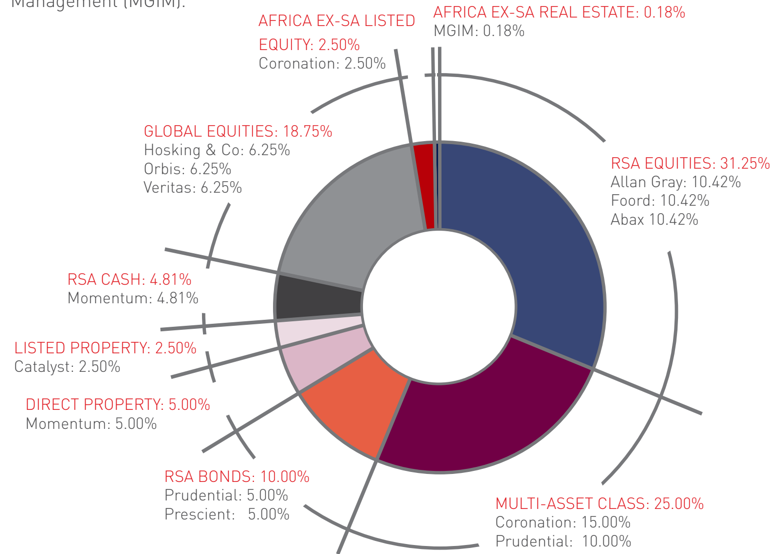
The chart below shows the long term bonus* performance of the Multi-Manager Smooth Growth Fund Global against CPI + 4%



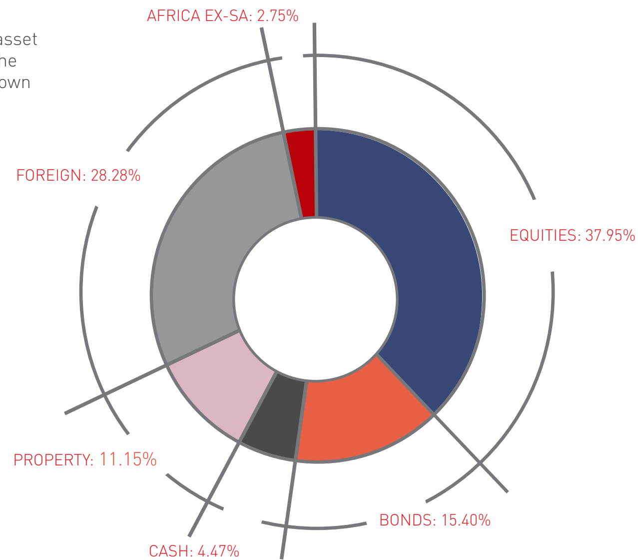
CPI figures are lagged by two months

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.
The Africa ex-SA Real Estate allocation is expected to increase gradually over the next 5 years to a total of 2.50%, in line with drawdown notices from Momentum Global Investment Management (MGIM).



The effective asset allocation of the portfolio is shown alongside.



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.

* Bonuses are net of all charges except for the fixed investment management fee
** Annualised

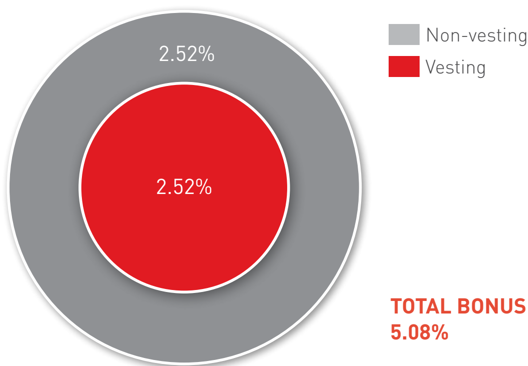
Partially Vesting Smooth Bonus Range
Multi-Manager Smooth Growth Fund Local

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%	R 223m	1.38%	10.81%

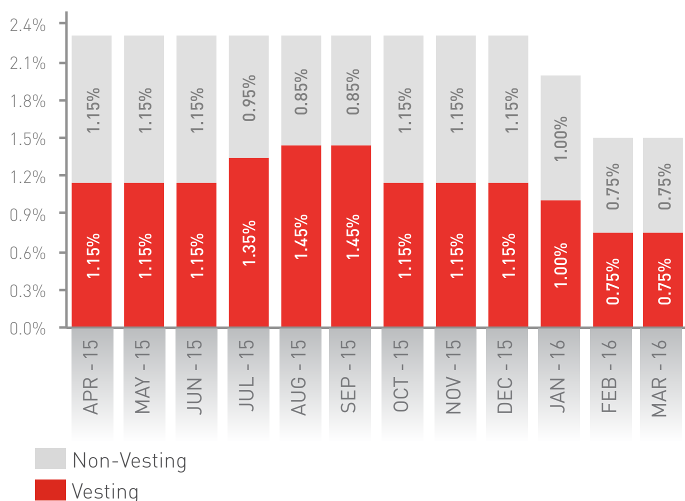
Performance

The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Local is shown below.

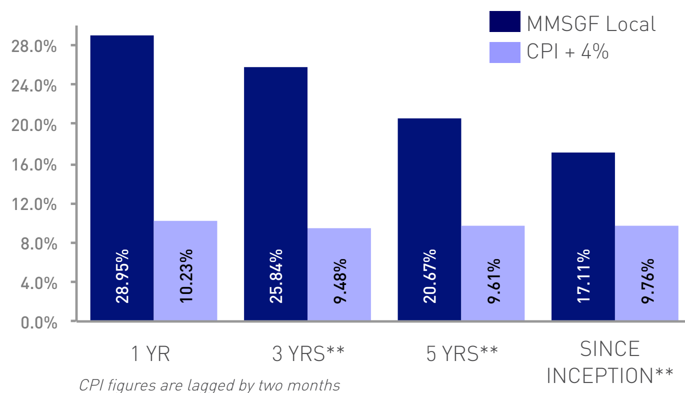


TOTAL BONUS 5.08%

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



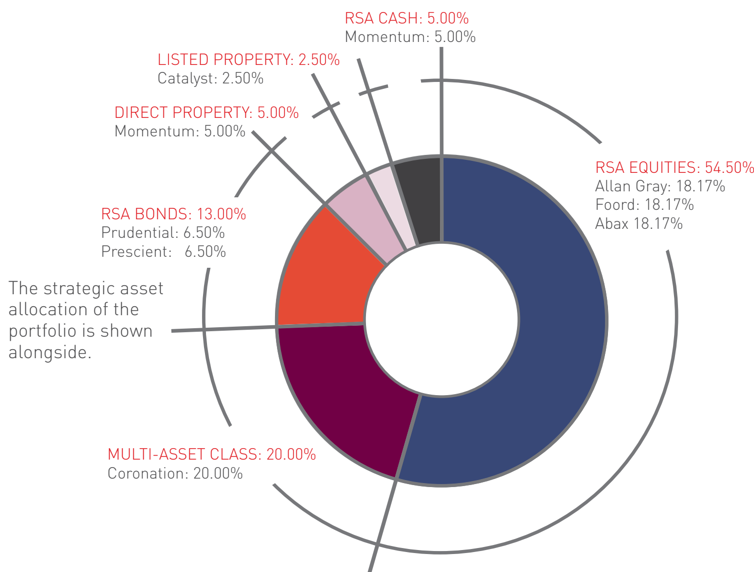
The chart below shows the long term bonus* performance of the Multi-Manager Smooth Growth Fund Local against CPI + 4%

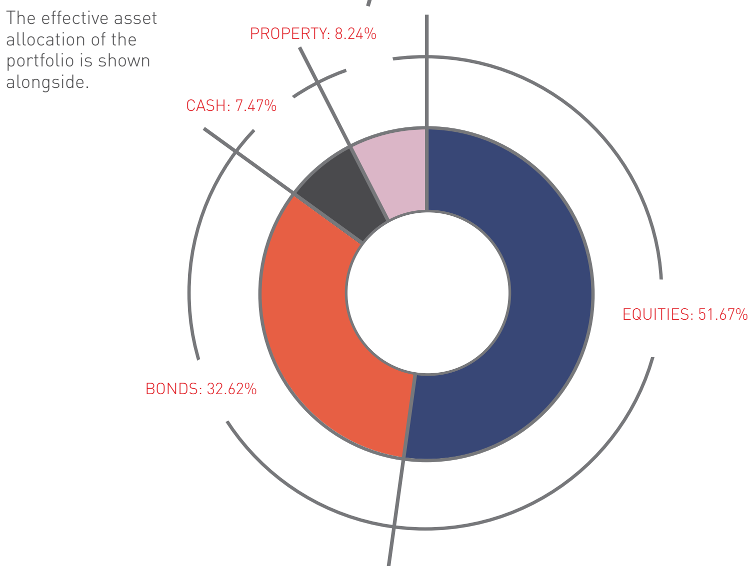


CPI figures are lagged by two months

* Bonuses are net of all charges except for the fixed investment management fee
** Annualised

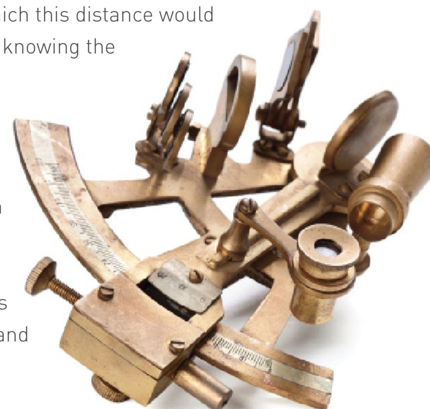
Asset Allocation





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

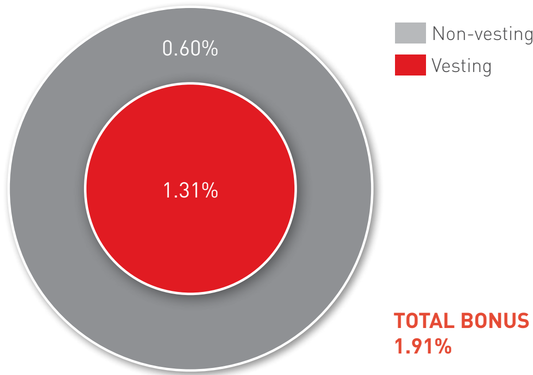
Smooth Growth Fund Global

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	102.5% - 107.5%	R 2.8bn	1.39%	11.41%

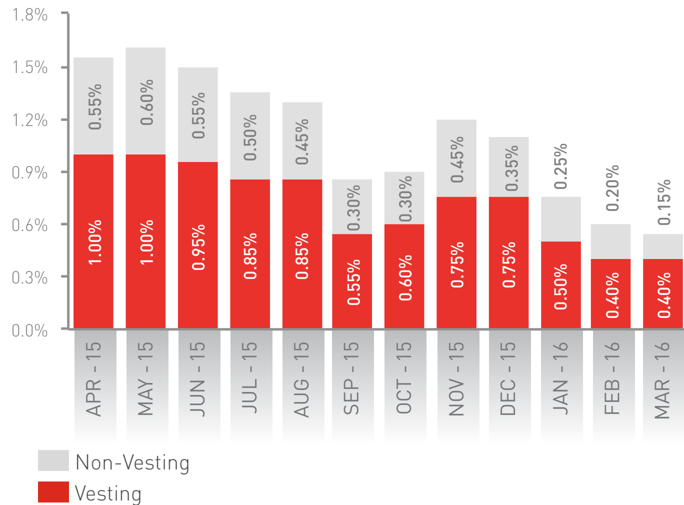
Performance

The total bonus* for the past quarter on the Smooth Growth Fund Global is shown below.

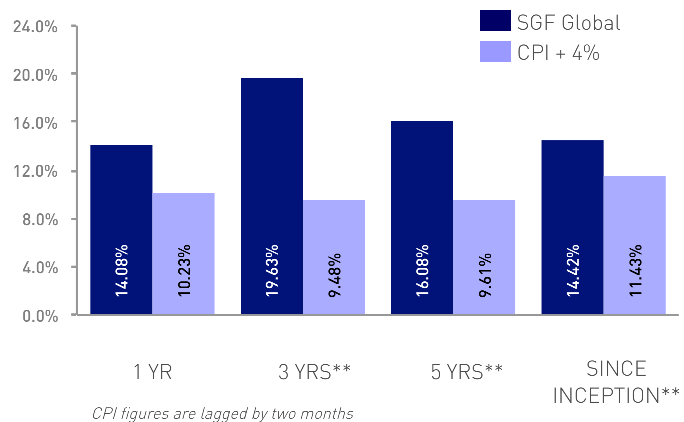


TOTAL BONUS 1.91%

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



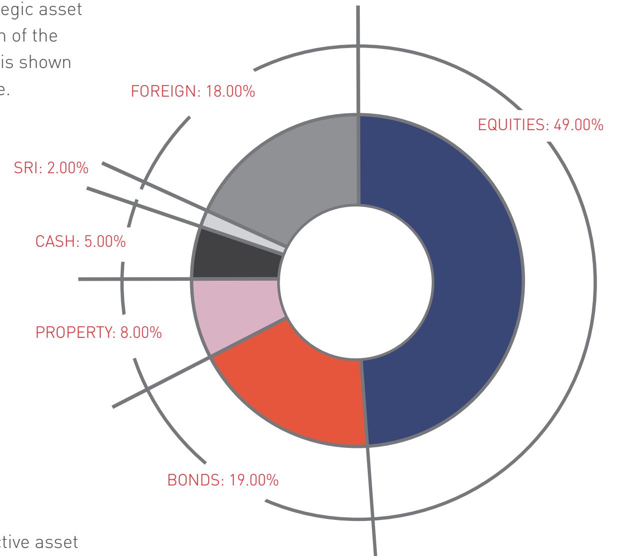
The chart below shows the long term bonus* performance of the Smooth Growth Fund Global against CPI.



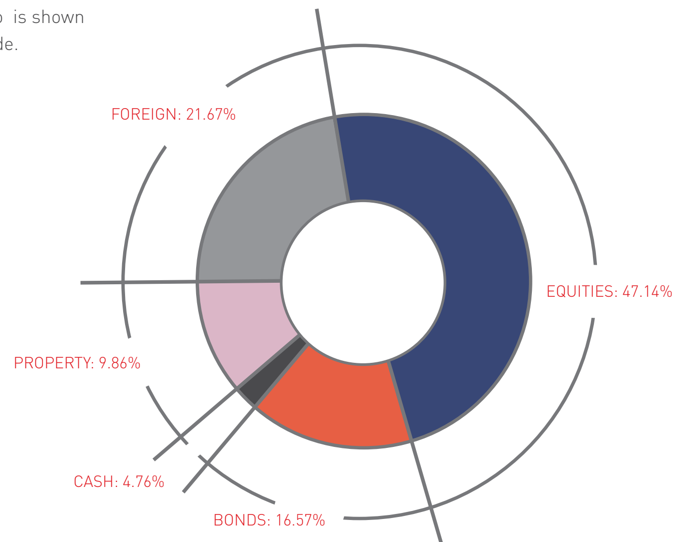
CPI figures are lagged by two months

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



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.

* Bonuses are net of all charges except for the fixed investment management fee
** Annualised

Fully Vesting Smooth Bonus Range

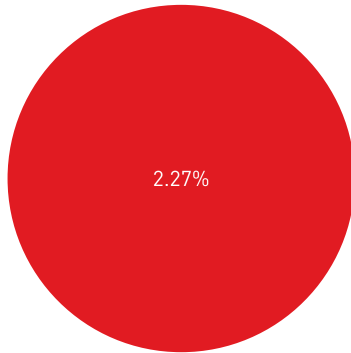
Multi-Manager Secure Growth Fund

Fund Snap Shot

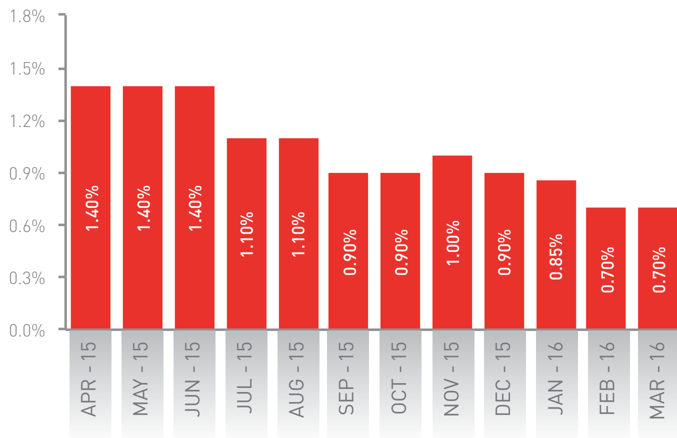
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	107.5% - 112.5%	R 51m	0.83%	11.62%

Performance

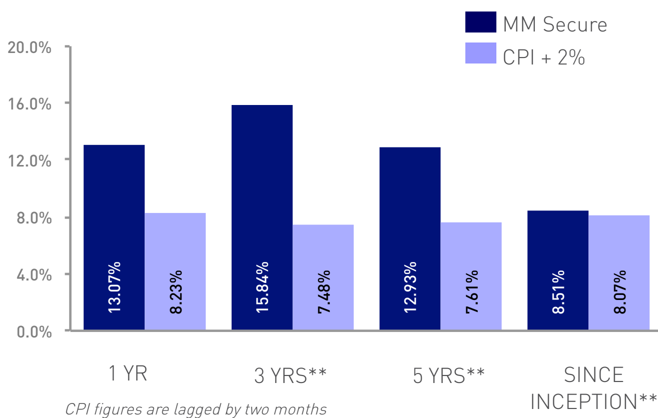
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



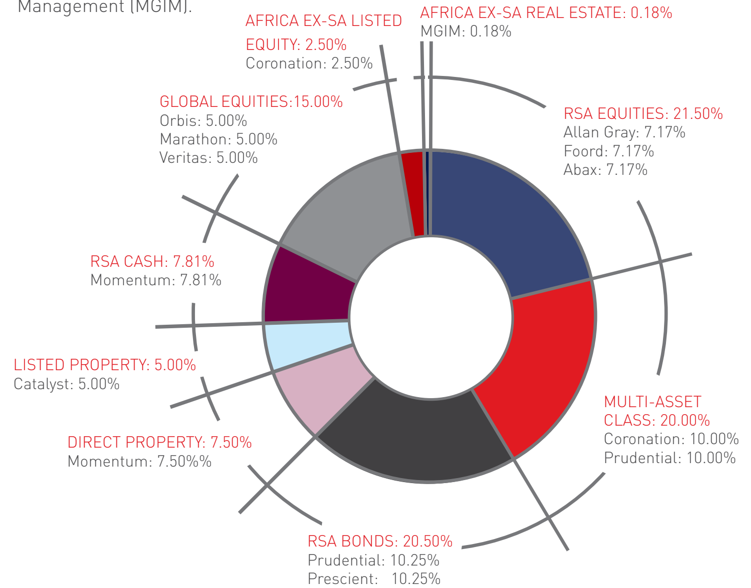
The chart below shows the long term bonus* performance of the Multi -Manager Secure Growth Fund against CPI + 2%



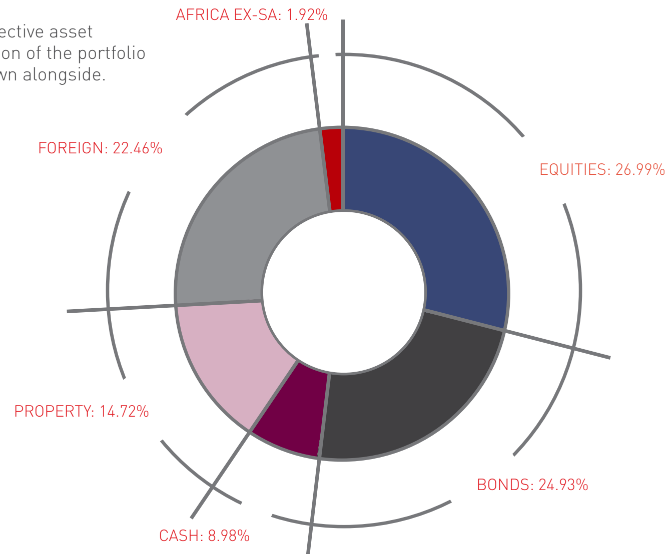
* Bonuses are net of all charges except for the fixed investment management fee
** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.
The Africa ex-SA Real Estate allocation is expected to increase gradually over the next 5 years to a total of 2.50%, in line with drawdown notices from Momentum Global Investment Management (MGIM).



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

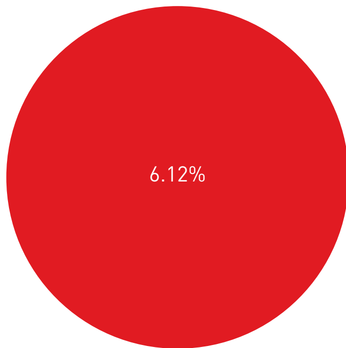
Multi Manager Secure Growth Fund Bonus Series 2013

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE
Jun 2013	> 120%	R 75m

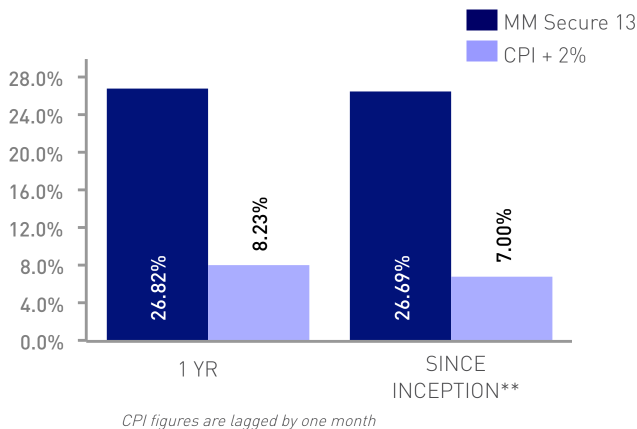
Performance

The total bonus* 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 CPI + 2%

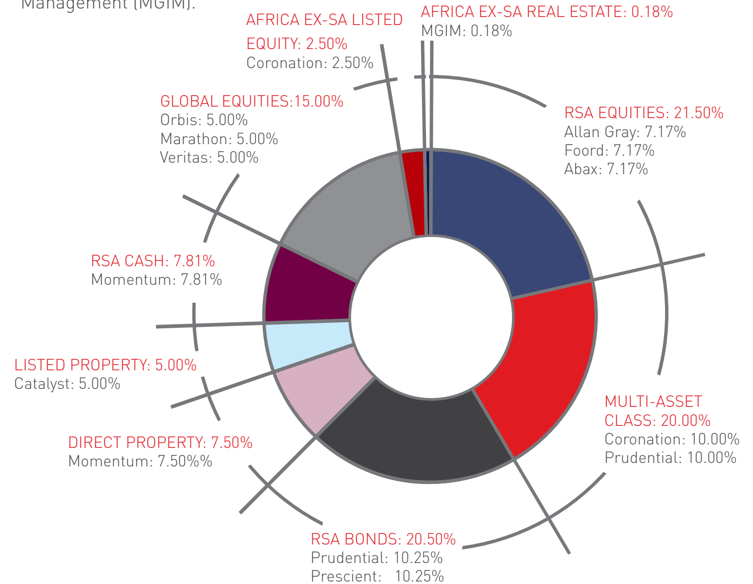


CPI figures are lagged by one month

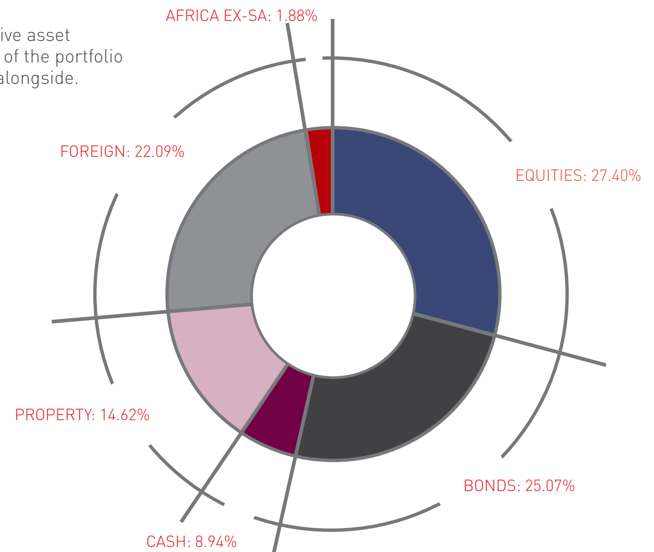
* Bonuses are net of all charges except for the fixed investment management fee
** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.
The Africa ex-SA Real Estate allocation is expected to increase gradually over the next 5 years to a total of 2.50%, in line with drawdown notices from Momentum Global Investment Management (MGIM).



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

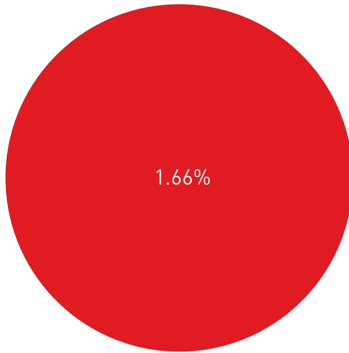
Capital Plus Fund

Fund Snap Shot

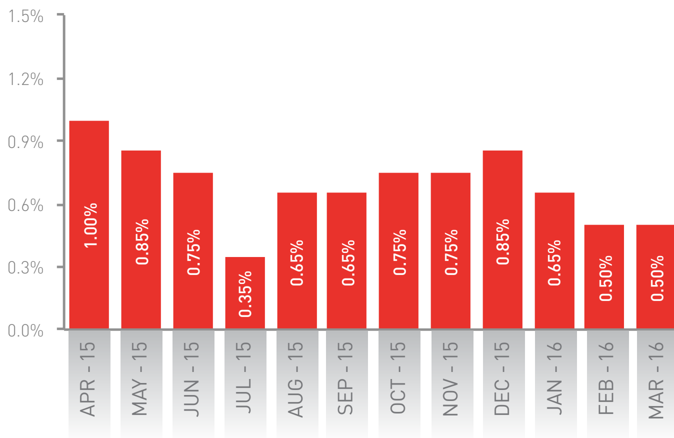
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Mar 2005	100% - 105%	R 314m	0.76%	8.66%

Performance

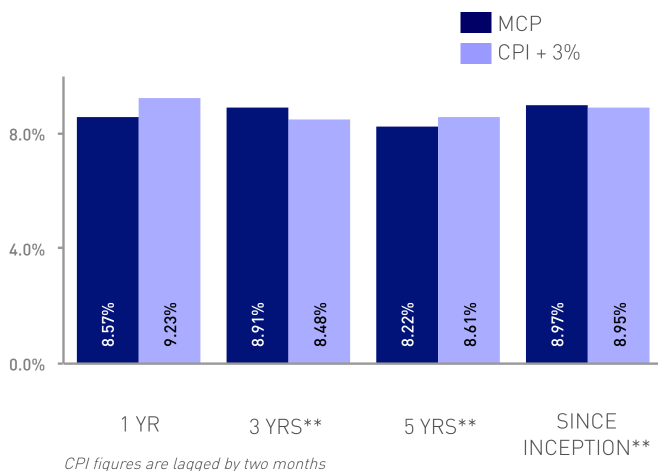
The total bonus* for the past quarter on the Capital Plus Fund is shown below.



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 CPI + 3%

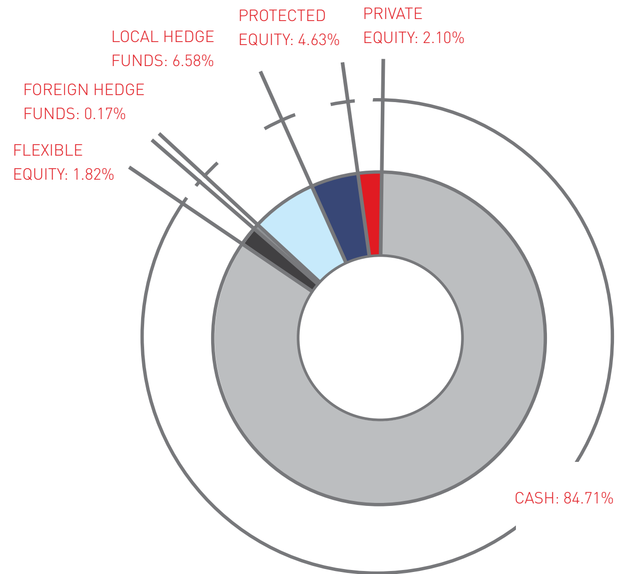


CPI figures are lagged by two months

* Bonuses are net of all charges
** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is under review. The current effective asset allocation, while the strategic asset allocation is under review, is as follows:



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

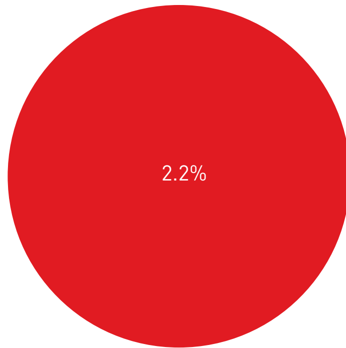
Fund Snap Shot

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	105% - 110%[1]	R 151m	1.10%[2]	12.43%

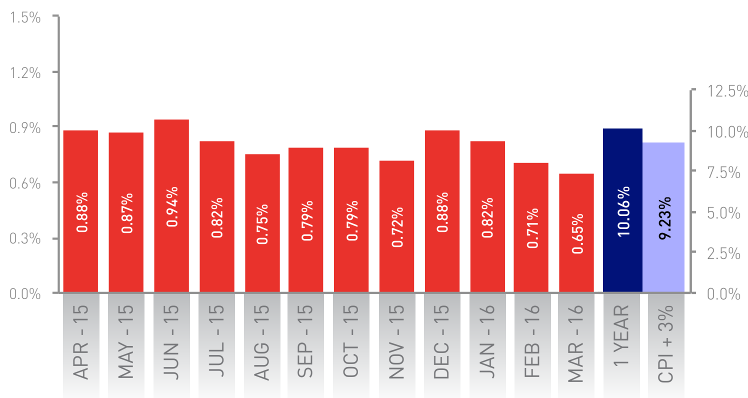
[1] See 'Bonuses to be declared' paragraph below
[2] Figures are based on back-tested (not actual) bonuses.

Performance

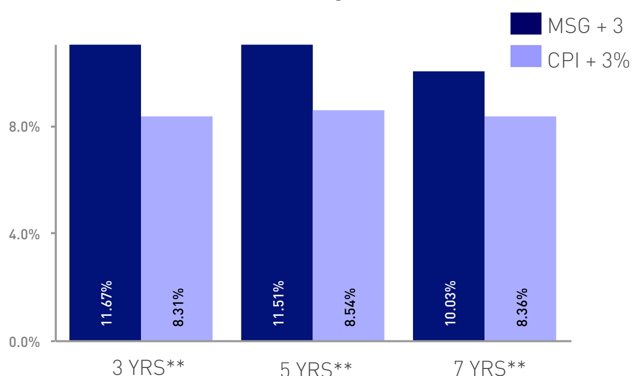
The total bonus* for the past quarter on the Smart Guarantee + 3 Fund is shown below.



The chart below shows the actual monthly bonuses* for the past 12 months, together with the actual one year performance* against the benchmark of CPI +3%.



The chart below shows the long term back-tested performance* of the Smart Guarantee +3 Fund against CPI + 3%.

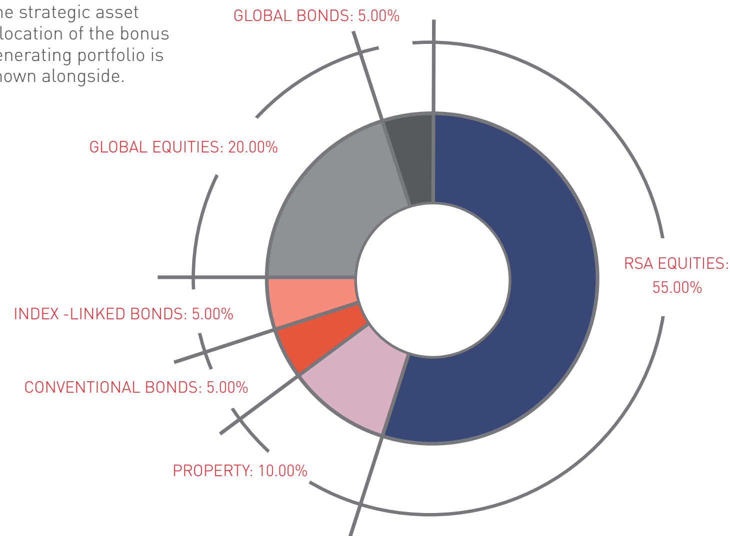


CPI figures are lagged by two months
Performance figures are as at 29 February 2016

* Bonuses are net of all charges except for the fixed investment management fee
** Annualised

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 9.35% of bonuses will still be declared. For a traditional smooth bonus product, this equates to a funding level between 105% - 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

Vesting	Fund	Fund Return Objective	Manager	Mandate Type	Guarantee on Benefit Payments[1]	Market Value Adjustment on Voluntary Exits[2]	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[3]	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[3]	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 R40m, 0.25% of the excess above R50m[3]	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[3]	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[3]	June 2013
Fully Vesting	Capital Plus Fund	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[4]		March 2005
Fully Vesting	Smart Guarantee +3 Fund	CPI + 3% pa, net of fees over a 7 year time horizon	Multi-Manager Liability Driven Investment by Structured Solutions	Moderate Balanced	100% of capital invested and total bonus declared	Yes	0.50% pa	0.90% pa[3]	October 2013

1. Benefit payments generally refer to resignation, retirement, death, disability and retrenchment. Specific benefit payments and terms and conditions are specified in client policy contracts.
2. Market value adjustments are applied if a client is underfunded
3. Depending on the underlying mandates that are negotiated with asset managers, net unit priced fees are and performance fees may deducted from the underlying assets
4. 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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Website: www.momentum.co.za

NEW DIRECTIONS IN GROWTH AND SECURITY

for your financial wellness

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