momentum

Smooth Bonus Report

Second Quarter 2016

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

Dear valued investors

Looking back over the past quarter

The second quarter of 2016 ended with turmoil in the financial markets brought about by a shock decision from British voters to exit the European Union (EU).

Prior to the much anticipated "Brexit" vote, performance in global equity markets was in positive territory and global bond yields were largely flat. The 23 June vote saw a sell-off in global equities and a significant decline in global bond yields.

South Africa's growth outlook is expected to remain sluggish in the short to medium term. This is compounded by the crippling drought that has plagued the country from late 2015. The onset of better weather conditions is expected to improve the domestic outlook.

The main ratings agencies have commented on the resilience of SA's institutions to weather tough economic conditions. They have also highlighted the need to stimulate growth and maintain political (and labour market) stability.

In terms of local markets, the JSE SWIX ended the quarter 1.3% higher. Gold EFTs were the highest performers over the quarter at 6.1%, whilst cash and listed property were the worst performers at 1.8% and -0.4% respectively.

Herman van Papendorp and Sanisha Packirisamy from Momentum Investments provide further market and economic commentary on page 8.

We have successfully managed our Multi-Manager smooth bonus range from January 2004. From inception these portfolios have performed exceptionally. We recently undertook an exercise to review our policy terms and conditions and have revised our policies with effect from 1 July 2016. Steed Duncan-Smith discusses these policy changes in further detail on page 6.

Weathering any storms ahead

Although global and local markets experienced relatively flat performance overall, our smooth bonus portfolio range continued to provide a growth outcome for members, while protecting downside risk. Most of our portfolio solutions exceeded their performance benchmarks over all periods.

The portfolio range provides some shelter from the stormy weather. It provides exposure to growth assets, but with protection, at a time where continued volatility and uncertainty in the economy is expected.

Warm regards

Warren Matthysen

Technical Marketing and Support
MMI Corporate and Public Sector

Contents

The Brexit reality: Britain votes to leave the European Union

by Herman van Papendorp and Sanisha Packirisamy

The final referendum tally

Voter turnout in Britain's referendum on European Union (EU) membership was high at 72.2% (33.6 million ballot papers). This was lower than the c.82% turnout for the Scottish independence referendum held in 2014, but higher than the c.66% voter turnout at Britain's general elections in 2015 and the 64.6% turnout at the 1975 referendum on British membership of the then European Economic Community. Although Scotland, Northern Ireland and London voted in aggregate to stay within the EU, these votes were insufficient to offset a significant "leave" vote from Wales and pockets of England, resulting in the "leave" vote obtaining 51.9% of the final tallied votes.

The Brexit process

Today's result does not imply that Britain is out of the EU immediately (see chart 1 below). The UK will likely remain inside the EU for at least two years (and possibly even longer) as the UK irons out its future trading relationship with the remainder of the EU and the rest of the world. But the outcome of the vote gives the British government the ability to invoke Article 50 of the Treaty of Lisbon which is the necessary legislation to begin the exit process from the EU. A negotiation period will likely follow. In Britain's attempt to dissolve a 43-year partnership, over 80 000 pages of EU agreements will have to be renegotiated which could take between four and five years to finalise.

Financial market reaction

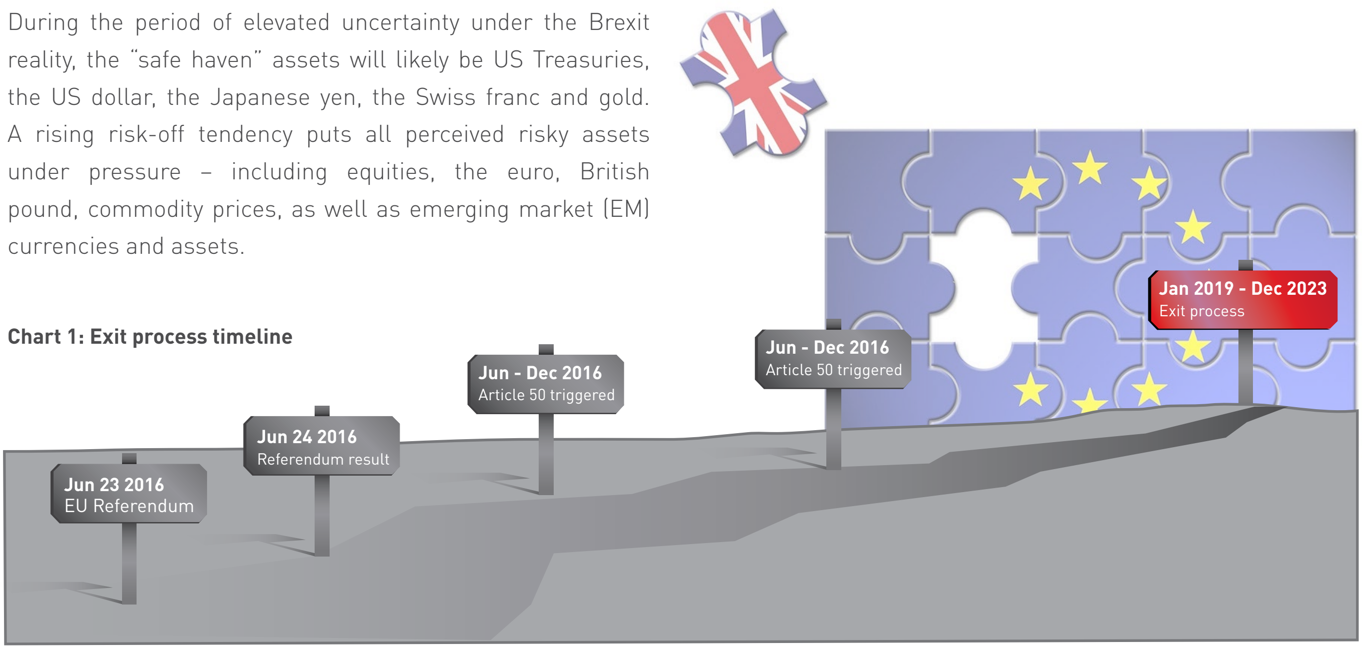
The market's initial response to the shock outcome has been decidedly negative, with the pound dropping to a thirty-year low against the US dollar. Equity markets also experienced massive risk-off moves, with the Nikkei down c8% and S&P futures indicating that the US market will open around 5% lower. Gold benefited from the risk-off sentiment, gaining around 6%, while emerging equity markets were negatively hit, losing between 3% and 6%.

During the period of elevated uncertainty under the Brexit reality, the "safe haven" assets will likely be US Treasuries, the US dollar, the Japanese yen, the Swiss franc and gold. A rising risk-off tendency puts all perceived risky assets under pressure – including equities, the euro, British pound, commodity prices, as well as emerging market (EM) currencies and assets.

UK and broader global economic impact

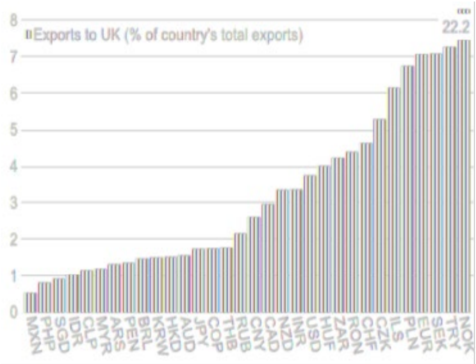
Political and economic uncertainty is likely to linger for some time, leading to a weaker GBP. As a result, UK businesses are likely to hold off investment and hiring, hence curbing growth (see chart 2). UK consumers are likely to feel the pinch as hiring intentions suffer and as inflation ratchets higher.

Chart 1: Exit process timeline



Source: RMBMS

Chart 2: Rise in uncertainty has dampened consumer confidence and business investment



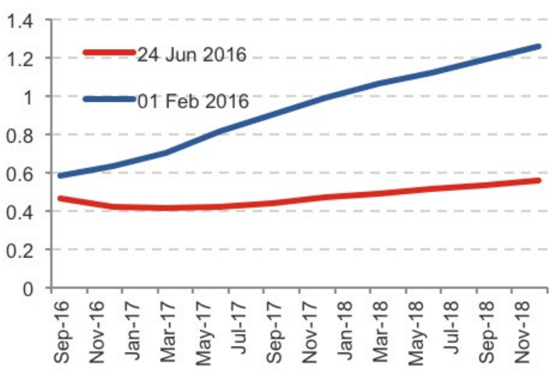
Source: Bloomberg, Momentum Investments

The Organisation for Economic Co-operation and Development (OECD) estimates that under Brexit UK GDP will be 3% below the level it would have been had the UK stayed in the European Union. It notes that every country in the EU would suffer a 1% growth decline. The OECD further estimates that financial shocks, as well as weaker European demand, could lower the level of GDP in the BRICS (Brazil, Russia, India, China, South Africa) nations and other non-OECD economies by more than 0.5% by 2018 as Brexit stirs global uncertainty among investors, businesses and consumers. This will result in negative consequences for global growth and the flow of global capital around the world.

UK trend growth is also likely to be negatively impacted as supply-side challenges (including a reduction in the size of the labour force through a possible lowering of net migration inflows) impact longer-term growth. The OECD suggests that UK GDP could be over 5% lower by 2030 than otherwise if the exit had not occurred.

Central banks are likely to lean towards a more accommodative monetary policy stance in light of renewed market volatility and financial market instability. The US Federal Reserve is likely to delay the implementation of interest rate hikes even further in response to potentially softer growth, while the European Central Bank (ECB) and Bank of Japan (BoJ) could react initially via forward guidance. This is likely to be followed by further rounds of fiscal spending and monetary stimulus. Likewise, we expect the Bank of England (BoE) to exercise an easing bias in response to a weak growth outcome (see chart 3).

Chart 3: Futures pricing of interest rate hikes in the UK (%)

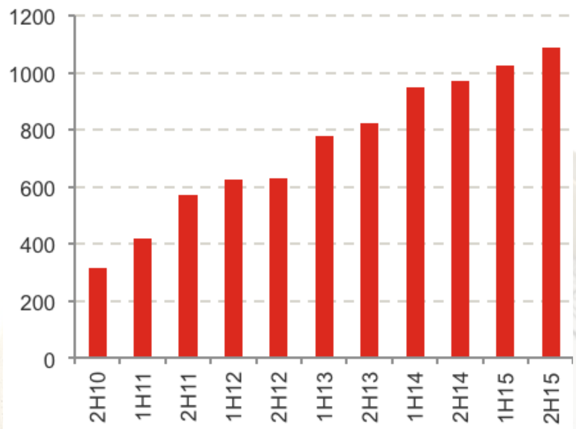


Source: Bloomberg, Momentum Investments

Anti-establishment sentiment gaining global momentum

The UK result is a further indication that a global "anti-establishment" attitude is gaining momentum. This is pointing to rising global protectionism sentiment (see chart 4), which results in a "beggar thy neighbour" attitude from voters and is a threat to globalisation and hence global trade flows.

Chart 4: Cumulative count of trade restrictions imposed by G20 (since 2010)



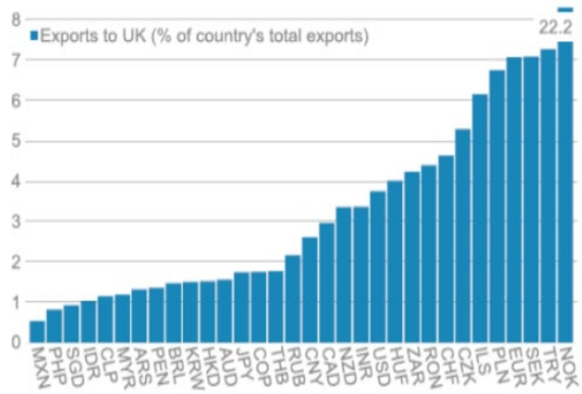
Source: Global Trade Alert, HSBC, Momentum Investments

Europe's leaders have already expressed concern over the rise of populist anti-EU parties in their respective countries. With Spanish elections (June 2016), an Italian constitutional referendum (October 2016) and French (April-May 2017) and German elections (August-October 2017) on the horizon, European political risk remains high. Moreover, the Office for National Statistics concluded that there are around three million citizens of other European Union countries living in the UK, which amounts to c.5% of the country's total population. This raises concerns that EU citizens may be forced out of the UK unless an agreement is concluded between Britain and the remaining member states stating otherwise.

Impact on SA economy

Although exports to the UK only constitute c.4% of SA's total exports (see chart 5), the EU is SA's largest trading partner (24% of the country's total exports in 2015). The Brexit result will create uncertainty around the future of SA's trade agreements with the UK and EU and likely put SA's export growth and extended current account deficit at risk. Domestic sentiment is also likely to be negatively affected by the Brexit and could do further damage to the country's already-fragile growth outlook.

Chart 5: Export exposure to the UK



Source: RMBMS

With mounting pressure on the domestic currency, the SA Reserve Bank's stagflationary policy dilemma is likely to intensify. The Monetary Policy Committee may be forced to raise rates in spite of a weaker SA growth outlook should currency weakness persist. With SA's headline inflation print likely to remain outside of the target band in upcoming quarters and with inflation expectations remaining stubbornly high, any currency shocks could push inflation out of the target band for a more extended period of time.

Impact on SA financial markets

The rand as a liquid currency in a dissipating global risk appetite framework is likely to feel the selling pressure – particularly as SA's large twin deficits are always exposed when global trade or capital flows are under threat.

While SA bonds and equities are both likely to feel the Brexit pain, at least the local equity market will be protected somewhat by the offsetting impact of rand weakness on the dual-listed shares, as well as on the companies with large offshore earnings bases.

Impact on Momentum Investments' portfolios

The primary focus of outcome-based investing is to ensure all Momentum Investments' portfolios deliver on their intended outcomes with the highest probability of success, not losing sight of a strong risk-management focus embedded in portfolio construction and portfolio management. The entire range of Momentum Investments' outcome-based portfolios is constructed with very specific goals in mind, expressed in terms of an investment outcome or objective, an associated term, as well as a predetermined risk budget or risk tolerance. The investment team's portfolio construction process is focused on delivering on the above-mentioned objectives and remains grounded in the belief that a diversification benefit exists in the selection of differentiated asset classes, investment strategies or risk premia and that the implementation, by means of traditional or non-traditional mandates, will increase the likelihood of the company's clients meeting their investment goals or objectives.

Momentum Investments' portfolios are constructed and positioned to deliver on the robustness that clients have come to expect from an outcome-based investment philosophy and process over appropriate investment horizons. In the current economic and financial climate, the company's portfolios have a well-balanced risk profile that is expected to provide the necessary market-linked exposure to benefit from further market gains, but also provide the necessary shock absorbers to help guard against unexpected negative market developments, such as the one experienced today. Examples of such dynamic structures and strategies include asset allocation flexibility, which, coupled with the investment team's in-house-developed beta management programme, is constructed to quantify excess market returns and aims to identify risks from an asset class perspective.

In light of the above, Momentum Investments maintains a marginal underweight exposure to local growth asset classes, which include local equity and property. However, the company believes that maintaining a diversified strategy exposure in these asset classes will continue to benefit its portfolios despite unexpected market events and associated volatility. This is captured by way of a collection of risk premia identified to deliver alpha over the medium to long term. Momentum Investments has also identified various investment opportunities in the global equity market and has allowed its portfolios to participate in recent currency weakness. Where mandate allows, flexible fixed-income mandates are used where the investment strategies have favoured shorter-dated instruments that are less susceptible to changes in bond yields.

Herman van Papendorp

Head: Macro Research and Asset Allocation
Momentum Investments

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Economist
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Changes affecting the Momentum multi-manager smooth bonus range of investment portfolios

By Steed Duncan-Smith

Our multi-manager range of smooth bonus portfolios has been a success ever since we launched the first one in South Africa in January 2004 - the Momentum Multi-Manager Smooth Bonus Fund.

12 years on, our range of portfolios has proven itself with each delivering returns well in excess of its respective benchmark. Further to this, the portfolios have weathered both bull and bear markets that include the market crash in September 2008, the biggest the world has seen since the 1930s.

The returns delivered are as a result of the oversight and active decisions made by our Investment Committee together with independent research. We have made adjustments to the portfolio to ensure that we are best positioned to deliver on our benchmarks and meet capital guarantees. The market is not constant but continues to evolve and we need to be ever aware of the economic factors, regulatory changes and evolution in asset management. We also need to assess our manager selection to ensure that they are best suited to deliver on portfolio objectives.

New policy terms effective 1 July 2016

Over the last year we have undertaken a comprehensive review of our policy terms with our clients and sent new policy contracts that are effective from 1 July 2016.

Based on our review we have made various changes to simplify certain policy terms and conditions. We believe that these changes clarify the operation of the policies and make them easier to understand. It is not our intention to change the fundamentals in terms of how the policies operate, but rather, to make improvements.

The changes affect:

- Momentum Multi-Manager Smooth Growth Fund Global
- Momentum Multi-Manager Smooth Growth Fund Local
- Momentum Multi-Manager Secure Growth Fund
- Momentum Multi-Manager Secure Growth Fund (bonus series 2013)

The new policy provides enhanced terms and further protection for clients. Although the quantum of fees will remain the same, the way in which we deduct fees will change. All asset management and performance fees will now be deducted directly from the underlying assets. Previously, a portion of these fees, (the fixed charges payable to asset managers on domestic assets), were paid from the policy fee. We are reducing the policy fee by 0.25% p.a. in lieu of the fees that will now be deducted from the underlying assets.

The enhanced terms strengthen our portfolio offering whilst providing greater flexibility and protection. We continually seek to improve our portfolio offering to our clients and trust that the new terms illustrate our dedication.

We thank all our clients for their support and look forward to continue to meet both their return expectations and capital protection needs.

Steed Duncan-Smith

Client Relationship Manager
MMI Corporate and Public Sector

Momentum Investments market commentary for the quarter ending June 2016

by Herman van Papendorp and Sanisha Packirisamy

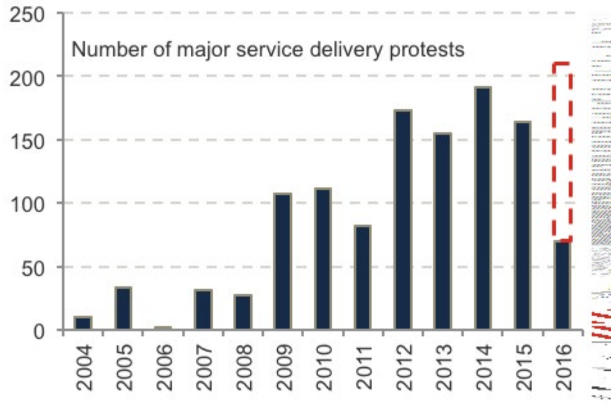
Brexit triggers renewed financial market instability

British voters' decision to leave the European Union (EU) (Brexit) towards the end of the second quarter of 2016 (2Q16) is evidence that anti-establishment attitudes are gaining momentum globally. This has resulted in increased political and economic uncertainty among investors, businesses and consumers.

The reality that dampened sentiment will likely have negative consequences for global growth (as companies postpone investment and hiring) and the flow of global capital around the world, has directly impacted the performance of global asset classes since Brexit. Up to 23 June, global equity markets were satisfactorily up, with global bond yields relatively unchanged. However, in the last week of the quarter, the risk-off sentiment induced by Brexit caused a sell-off in global equities and supported a meaningful decline in global bond yields. For 2Q16 as a whole, perceived safe-haven assets were the clear outperformers, particularly gold and fixed income, while more risky assets like global and local equities were mostly flat over the quarter.

With global policymakers likely to lean towards more monetary and fiscal accommodation in response to the renewed financial market instability and global growth risks, there should be ongoing support for financial assets going forward. Some expected weakness in the rand over the next year, in response to sovereign rating downgrade risk, should add to the returns on global assets for SA investors. Our preference for global equities over bonds are premised on the high probability that equities will produce both superior capital and income returns against the backdrop of very attractive relative valuations. While a flat local equity market over the past two years has increased its absolute return prospects, its risk-adjusted returns are still estimated to be below that of domestic cash, which remains an attractive asset class in a low-return environment in the interim.

Chart 1: SA asset class performance in 2Q16 (indexed)



Source: INET BFA, Momentum Investments

While there should be global carry trade support for the local bond market, prospective risk-adjusted cash returns also appear preferable to bonds. Our view that the inflation risk premium currently discounted by inflation-linked bonds is too high makes us favour vanilla bonds over linkers in our portfolios and listed property remains an expensive asset class at current levels.

Global anti-establishment rebellion awakens

The tepid global economic recovery over the last eight years has been very unbalanced as authorities' attempts to shore up growth and led to a rise in the cost of living and a fall in living standards for all but the world's wealthiest groups. Instead of central banks making more funds available via the commercial banking sector, to enable individuals and businesses to boost economic activity, quantitative easing (large-scale asset purchases) has mainly benefited those who own assets through the creation of asset price inflation.

Credit Suisse's 2015 Global Wealth Report shows that the rise in financial asset prices has led to the world's top percentile of wealth holders owning half of the world's wealth and the richest decile 87.7%.

Central bank balance sheets have already peaked as a share of GDP in the United States (US) and United Kingdom (UK), at 26% in the fourth quarter of 2014 and 25% in fourth quarter of 2012 respectively, whereas the European Central Bank (32% of GDP) and Bank of Japan (85% of GDP) are increasingly trying unconventional and untested variations of monetary easing to reinvigorate growth. Quantitative easing and record-low interest rates have fuelled financial inequality, providing an environment in which support for populist political leanings has emerged more strongly. Rising public dissatisfaction with the present state of affairs and the responses of incumbent governments to the status quo have led to a loss in faith in mainstream parties and a rise in popularity of more extremist political views.

As anxiety over immigration, globalisation and technological advances (leading to a displacement of labour) has grown, anti-establishment sentiment has drawn increasing support across the Western world. This has ranged from support for Donald Trump in the US to voters increasingly embracing France's right-wing National Front, Germany's far-right AfD (Alternative for Germany), Italy's Eurosceptic party (Lega Nord) and anti-austerity left-wing alliances in Greece (Syriza) and Spain (Podemos). More recently, the UK's victorious "leave" vote left financial markets stunned and has stirred fears of a domino effect rippling through Europe.

With more than a million migrants and refugees crossing into Europe in 2015, further division has been sowed over how to manage the influx of displaced people. The European Central Bank (ECB) cautioned in their May 2016 Financial Stability Review that "increasing support for political forces which are seen to be less reform-oriented may potentially lead to the delay of much-needed fiscal and structural reforms". A delay, or insufficient progress on reforms, particularly in the context of sluggish growth, will likely weaken the outlook for sovereign debt sustainability. As such, the ECB warned that "renewed pressure on more vulnerable sovereigns (could) potentially contribute to contagion and re-fragmentation in the euro area".

Though financial panic following Britain's vote to leave the EU has not reached the levels experienced during the collapse of financial services firm Lehman Brothers in 2008 or the Greek debt restructuring in 2012, new risks surrounding the global economic outlook have emerged. Rising sovereignty and nationalism sentiment are displacing economics as a key driver of voter attitudes. Less than a quarter of respondents surveyed in the European Commission Eurobarometer are optimistic on growth prospects in the Netherlands if the country were to exit the EU. Yet, Capital Economics notes that opinion polls suggest that if an election were held now Eurosceptic parties in the Netherlands would capture around 57% of the vote.

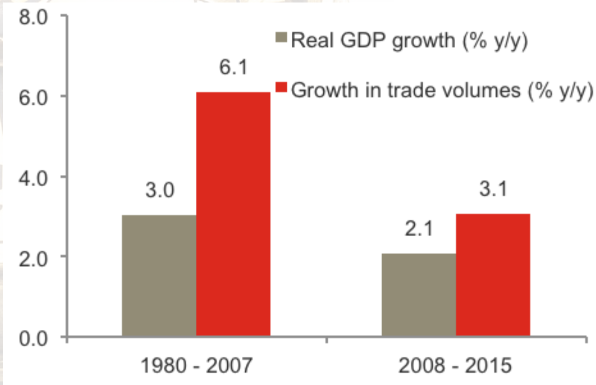
Globalisation trend loses momentum

The number of protectionist measures and trade restrictions across G20 countries (a group including some of the world's largest economies) touched a new high against the backdrop of increasing scepticism towards free markets and free trade. The Bank of Canada attributes the post-crisis slowdown in global trade to diminished incentives to expand trade, a change in the composition of global demand and increased protectionism.

Between 1980 and 2007, on average, world trade volumes increased at twice the rate of real global GDP growth. However, as politics continues to tilt towards less openness in favour of a retreat from globalisation, the ease with which capital and labour move from one jurisdiction to another will likely be compromised. Lower policy predictability might lead to a further deterioration in the business environment, capping long-term growth prospects.

Growth in global GDP has slowed from an average of 3% between 1980 and 2007 to 2.1% in the last eight years (see chart 2). The International Monetary Fund (IMF) has previously shown that potential growth in advanced economies has been negatively impacted by an ageing demographic, low investment spend and a slowdown in total productivity.

Chart 2: Sluggish global trade activity



Source: IMF, Momentum Investments

In addition to lower labour force growth and infrastructure bottlenecks, the IMF postulates that less favourable external financing conditions and softer commodity price growth will curb trend growth prospects in the emerging world. Reviving global economic activity will be a difficult task while world trade growth is struggling to gain traction. As such, we expect only a gradual acceleration in global growth toward a mediocre growth path, with downside risks stemming from increased financial market volatility, limited policy space and geopolitical risk factors.

Risks posed by ultra-accommodative global monetary policy

Despite anaemic growth keeping near-term inflation low, the Bank of International Settlements (BIS) has cautioned against the risk of mounting macro-economic dislocations resulting from "overly accommodative aggregate monetary conditions for the global economy". They explained that although authorities have little incentive to tighten policies as long as inflation remains low and stable, monetary policy regimes focusing on near-term inflation control could provide less resistance to the build-up of financial imbalances.

The BIS goes on to say that the recent financial boom had been fuelled by excessive risk taking as asset values surged and incentives to take on risk grew. Ample liquidity and aggressive risk taking has resulted in outsized financial cycles, stretching government balance sheets and papering over the cracks in the real economy.

The BIS study shows that financial cycles can last far longer (16 to 20 years) than a traditional business cycle (up to 8 years) and can lead to deeper and more permanent output losses, generating weaker growth recoveries. The institution recommends that alongside establishing a number of macro-prudential policy buffers, authorities should limit the degree and length of monetary policy accommodation to prevent the unwanted build-up of imbalances. Fiscal space also needs to be created to support the repair of private sector balance sheets without triggering a sovereign crisis given the typical overestimation of potential growth in the latter half of a protracted financial cycle and the impact that slow growth has on contingent liabilities.

In addition to leaning against the build-up of financial imbalances and creating policy room to manoeuvre in the next economic downturn, a stabilisation in US growth (buoyed by consumption and services spend) and a gradual strengthening in inflation point to the need for further interest rate hikes. We expect the US Federal Reserve to maintain a cautious stance on the pace and extent of rate tightening in response to rising external risks. Renewed market instability as a result of Brexit argues for further monetary and fiscal accommodation in the Eurozone and Japan, where growth and inflation outcomes remain more downbeat. Given that each successive round of monetary policy easing by the ECB and the Bank of Japan has resulted in diminishing returns to their respective economies, in our view a faster implementation of structural reforms would be of greater benefit.

Diverse EM outcomes

A low interest rate environment in advanced economies has encouraged robust growth in US dollar-denominated debt in emerging markets (EMs), and commodity prices have plummeted and capital outflows were recorded during the past two years. Aside from capital flows, diverse growth outcomes across EMs have also been driven by relative sensitivities to a muted commodity price environment, the pace of structural reform momentum, the level of foreign debt and the availability of policy buffers.

A negative terms-of-trade (export prices relative to import prices) shock has driven a sharp slowdown in domestic demand in net commodity-exporting EMs, while commodity-importing EMs have been far more resilient. Weaker growth in the former has led to larger external imbalances, an extension of government budget deficits and elevated debt burdens. This resulted in an increasing number of net commodity-exporting nations in a poorer credit standing and with limited policy buffers to protect growth.

Although the initial shock of the Brexit vote has triggered a flight to safety, we expect conditions to settle in EMs. Growth in retail sales and exports in the weaker-performing regions appear to be bottoming out, while expectations of improved weather conditions and a stabilisation in commodity prices are expected to support a mild recovery in 2017.

Low growth remains a threat to SA's credit worthiness

As with many other commodity producers with large external imbalances, the SA economy remains vulnerable. Between a slowing Chinese economy, soft commodity prices and the US Fed's well-telegraphed intent to gradually normalise monetary policy, South Africa's growth outlook is set to remain fragile in the medium term.

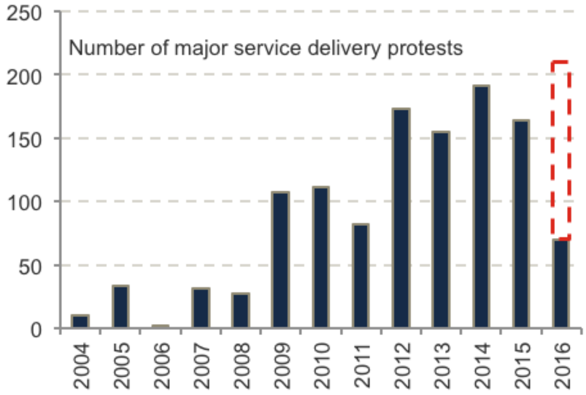
The severity of the drought in late 2015 compounded South Africa's (largely structural) growth challenges. The expectation of better weather conditions, as the El Nino weather phase transitions to a La Nina cycle (characterised by higher rainfall), and a stabilisation in commodity prices, should help growth recovery on a cyclical basis, while follow-through on the engagement between business and labour remains crucial in rebuilding South Africa's structural growth potential.

Though the key rating agencies have commended South Africa on the strength of its institutions in a tough economic climate and have acknowledged government's commitment to the expenditure ceiling and the stabilisation of South Africa's debt ratio, fiscal risks have risen against the backdrop of low growth. Between Standard and Poor's (S&P), Moody's and Fitch, four key areas of concern were highlighted in their most recent sovereign rating reviews.

Firstly, they emphasize the need to reinvigorate growth through securing a healthier investment climate and enhancing relative competitiveness. Alleviating infrastructural bottlenecks, including a reliable source of energy supply, remain vital in improving investor confidence, while key upcoming political events and shaky labour relations still pose risks. South Africa needs to establish legislative/regulatory clarity in main areas where the outlook has become murky, particularly finalising reforms in the labour and mining sector.

Secondly, the rating agencies note that South Africa's fiscal and debt consolidation timelines are jeopardised by an inflated public sector wage bill. With the average return on equity for South Africa's state-owned enterprises having declined by 3% in the financial year 2014/2015, higher funding demands pose a further threat to stabilising government's debt levels over the medium term.

Chart 3: Rising social tensions



Source: Municipal IQ, Momentum Investments

Another concern noted by the rating agencies is inequality and rising social tensions. Although Stats SA's 2016 Community Survey boasts a further rollout of basic services and a steady decline in poverty since 1994, data collected by Municipal IQ shows a rise in dissatisfaction. If one extrapolates the number of service delivery protests observed in the first four months of this year, 2016 could register the highest number of protests on record (see chart 3). Any threat to weakening support for the current ruling party could increase the urgency to ramp up expenditure. Against a subdued growth backdrop, achieving higher levels of expenditure will be challenging and could threaten government's commitment to its self-imposed expenditure ceiling.

Lastly, the rating agencies have highlighted South Africa's institutional credibility. Although the rating agencies praised the independence of South Africa's key institutions (particularly the response of the Public Protector and the Judiciary more recently), they warned that political tensions have risen since Nenegate in December 2015.

The credit default swap (CDS) market (a measure of the country's overall) continues to price South Africa at a notch below investment grade. This is in line with our view that a low growth environment will ultimately lead to rising fiscal vulnerabilities, making it likely that South Africa will lose its investment grade status over the next year. With the risk of a looming rating downgrade and commodity prices remaining soft in the near term, the currency is likely to trade with a weakening bias over the next year.

Previous unfavourable movements in the currency and food inflation are expected to propel higher headline inflation over the course of the next two quarters, before staging a recovery in 2017 as improved weather conditions drive food inflation lower. While lacklustre growth and the expectation of a decelerating inflation trajectory suggest a narrowing window for further interest rate increases, South Africa's sizeable twin deficits and stubbornly-high inflation expectations point to the likelihood of a further rate rise before the end of this year.

Herman van Papendorp

Head: Macro Research and Asset Allocation

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Sanisha Packirisamy

Economist

Momentum Investments

Partially Vesting Smooth Bonus Range

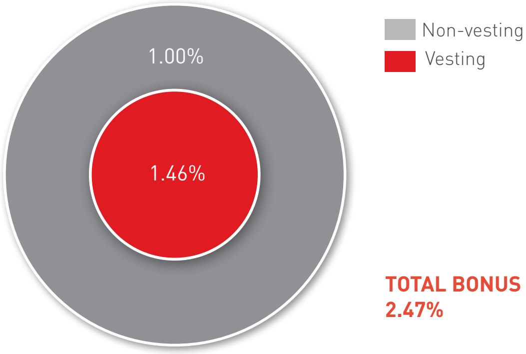
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

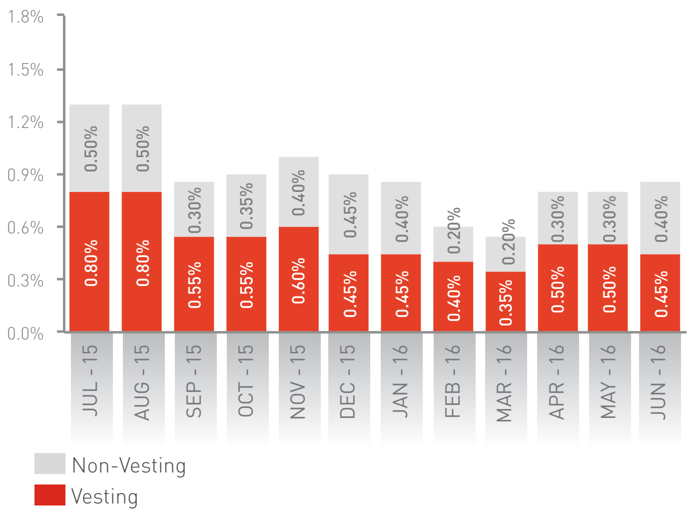
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	100% - 105%	R12.2bn	1.21%	17.03%

Performance

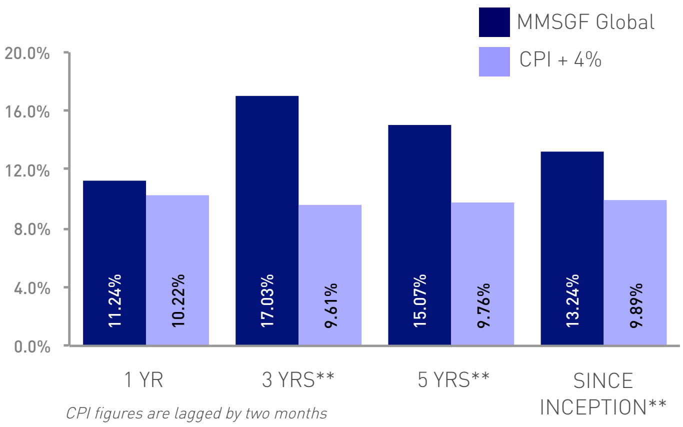
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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



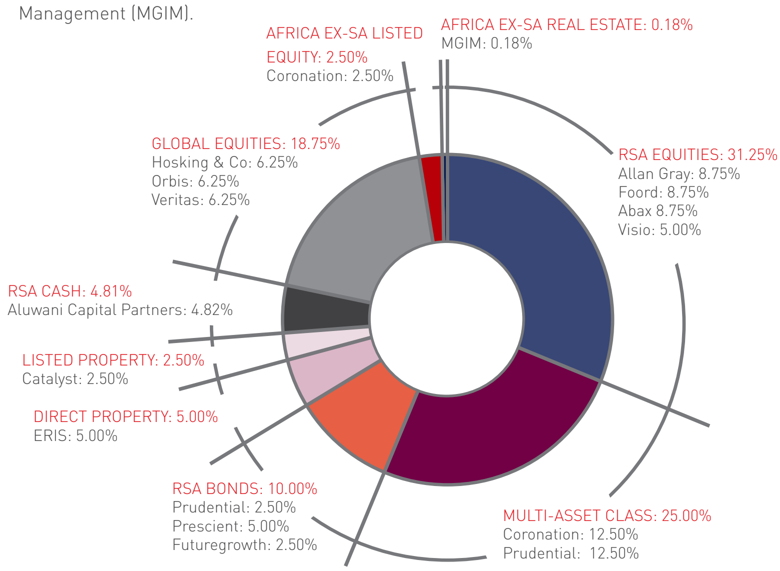
The chart below shows the long term bonus* performance of the Multi-Manager Smooth Growth Fund Global against CPI + 4%



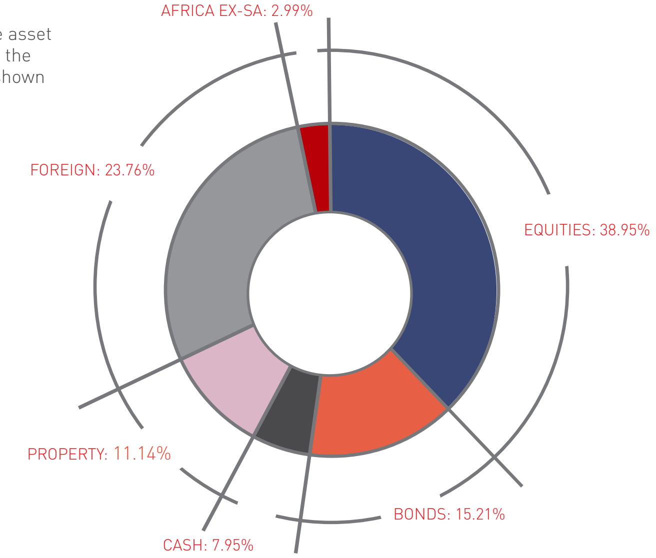
* Bonuses are net of all charges except for the fixed investment management fee
** Annualised

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.



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

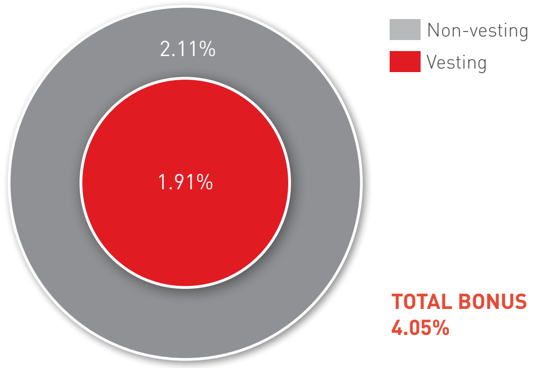
Multi-Manager Smooth Growth Fund Local

Fund Snap Shot

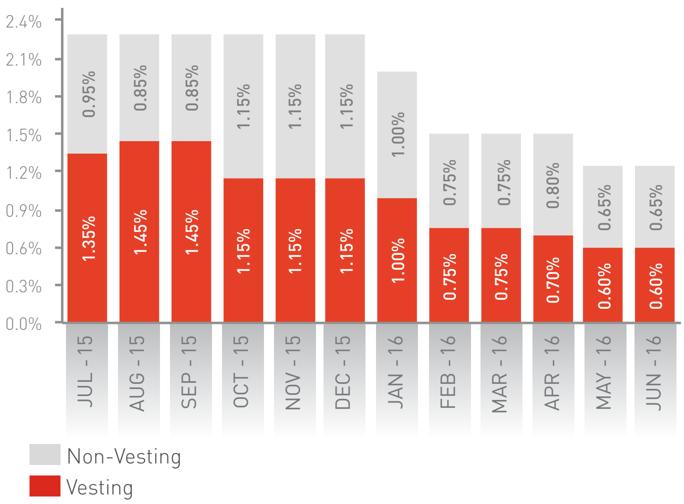
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	115% - 120%	R 193m	1.39%	25.80%

Performance

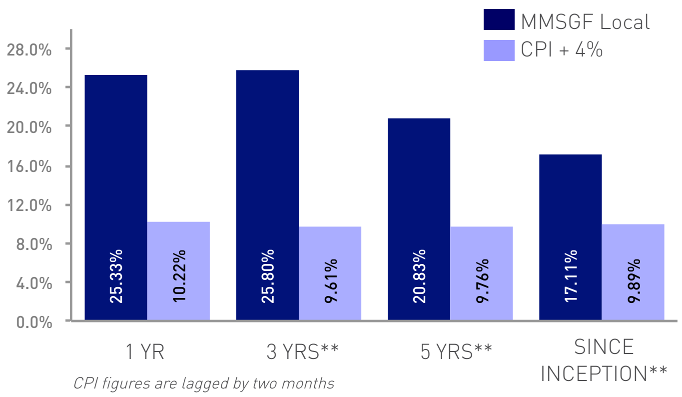
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Local is shown below.



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



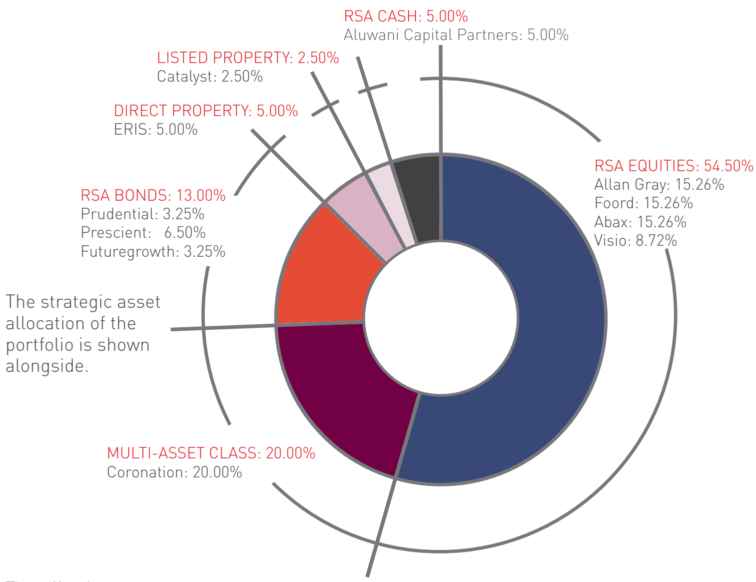
The chart below shows the long term bonus* performance of the Multi-Manager Smooth Growth Fund Local against CPI + 4%

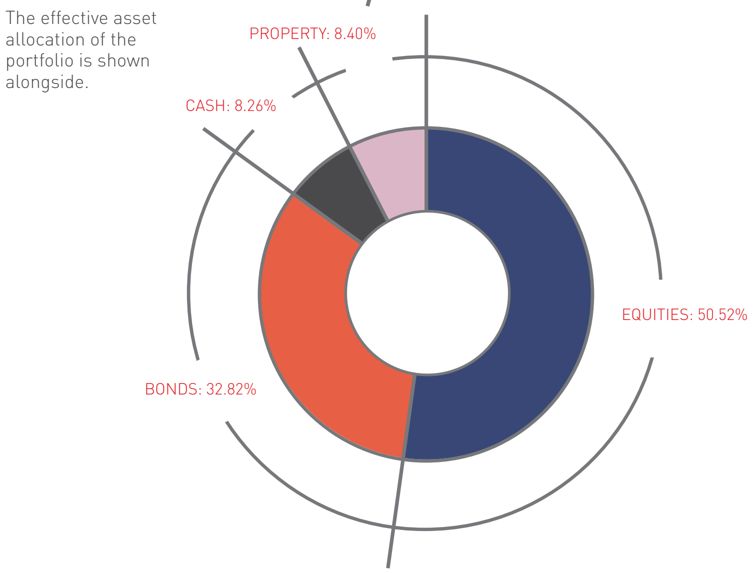


CPI figures are lagged by two months

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

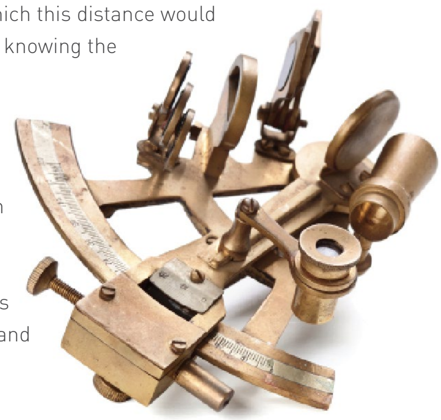
Asset Allocation





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

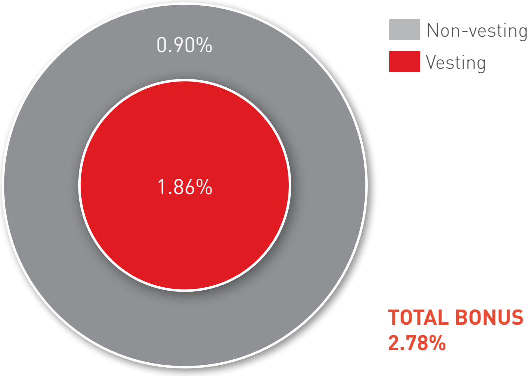
Smooth Growth Fund Global

Fund Snap Shot

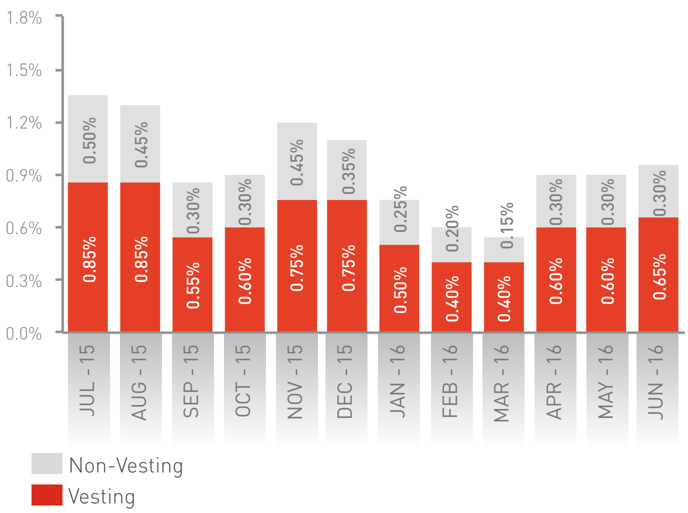
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	102.5% - 107.5%	R 2.6bn	1.49%	19.00%

Performance

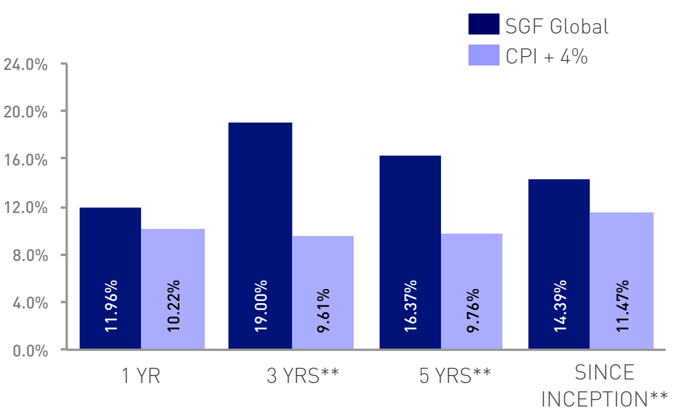
The total bonus* for the past quarter on the Smooth Growth Fund Global is shown below.



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



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

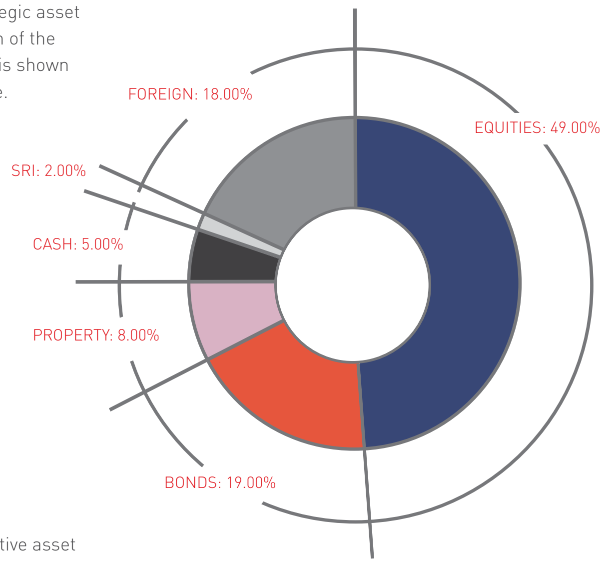


CPI figures are lagged by two months

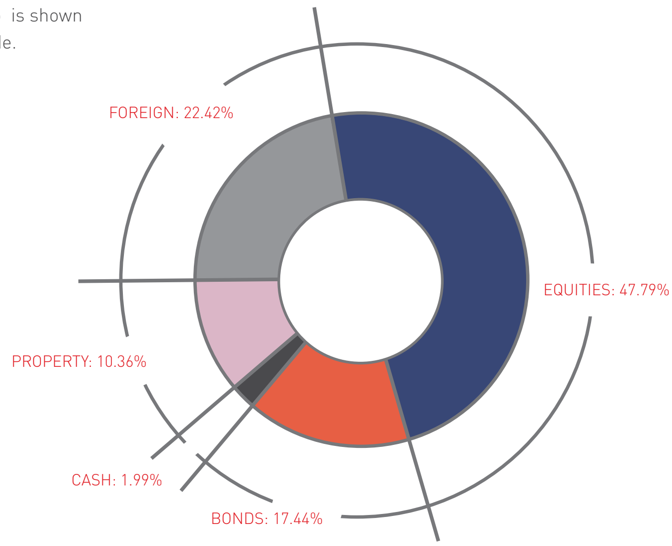
* Bonuses are net of all charges except for the fixed investment management fee
** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The 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.

Fully Vesting Smooth Bonus Range

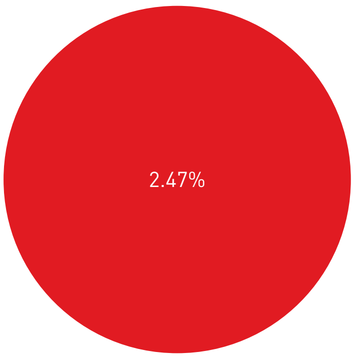
Multi-Manager Secure Growth Fund

Fund Snap Shot

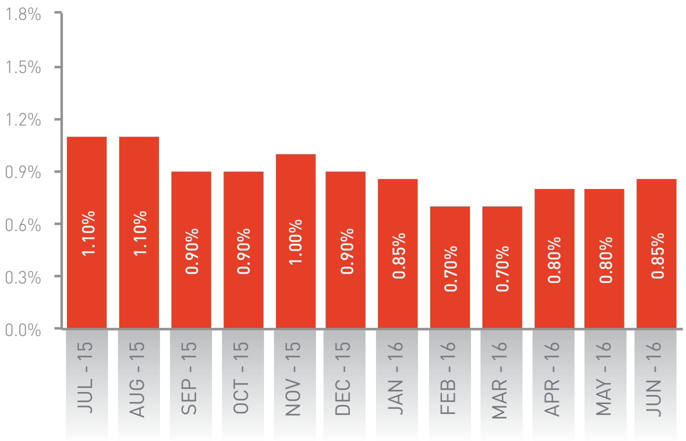
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	107.5% - 112.5%	R 47m	0.92%	15.37%

Performance

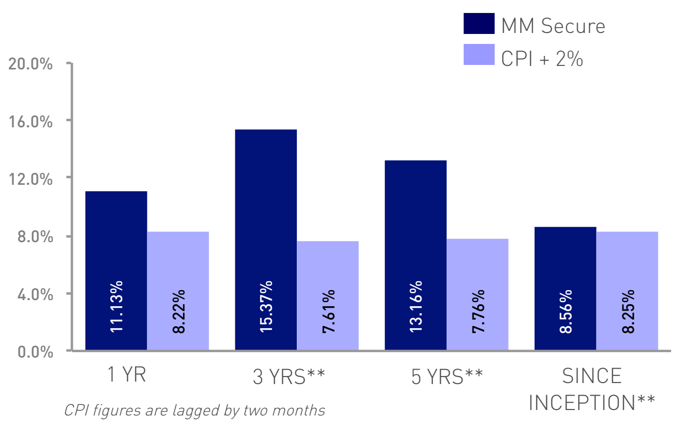
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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%

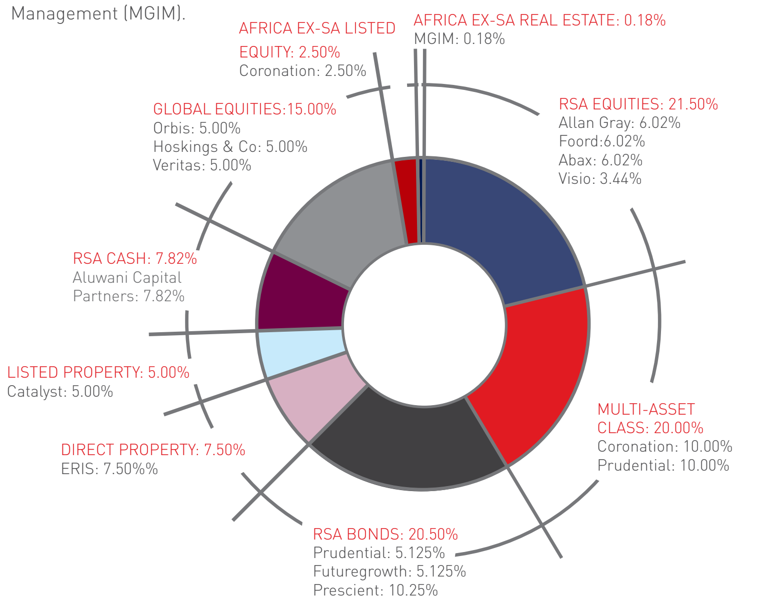


CPI figures are lagged by two months

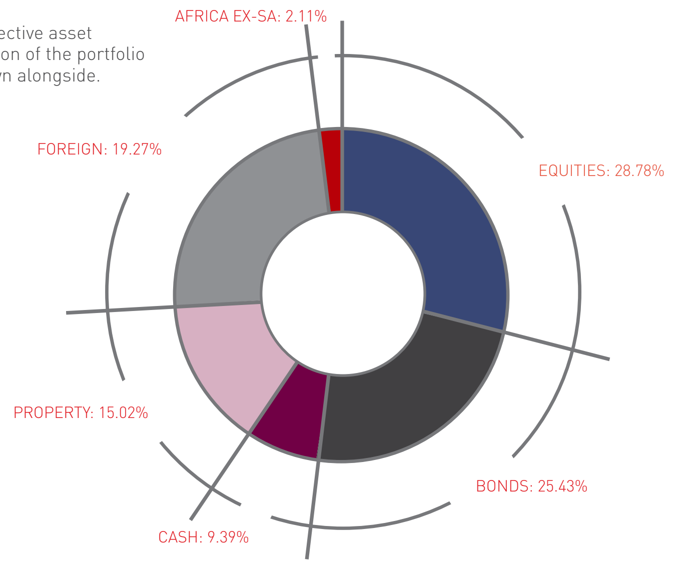
* Bonuses are net of all charges except for the fixed investment management fee
** Annualised

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

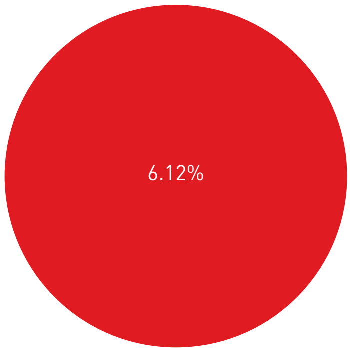
Multi Manager Secure Growth Fund Bonus Series 2013

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE
Jun 2013	> 120%	R 58m

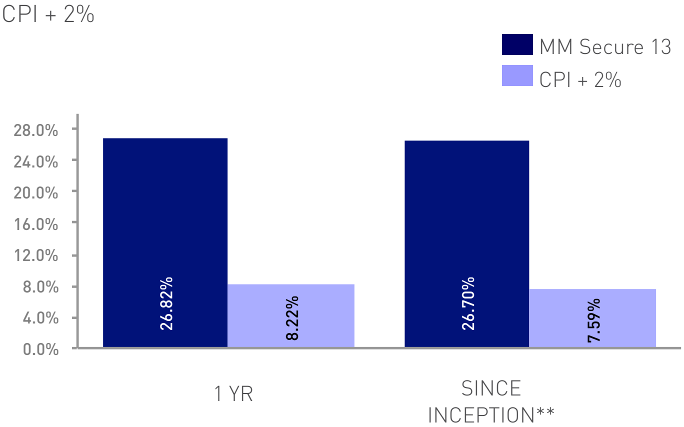
Performance

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

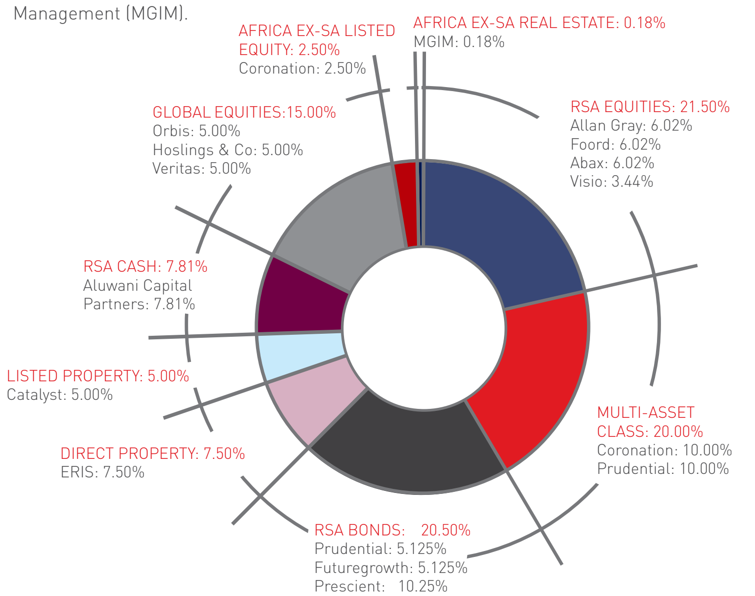
* Bonuses are net of all charges except for the fixed investment management fee

** Annualised

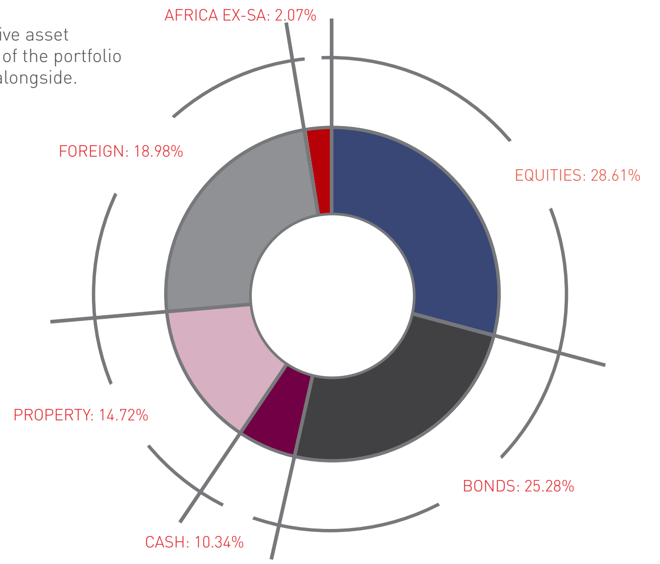
Asset Allocation

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.

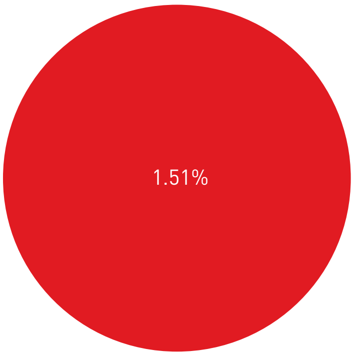
Fully Vesting Smooth Bonus Range
Capital Plus Fund

Fund Snap Shot

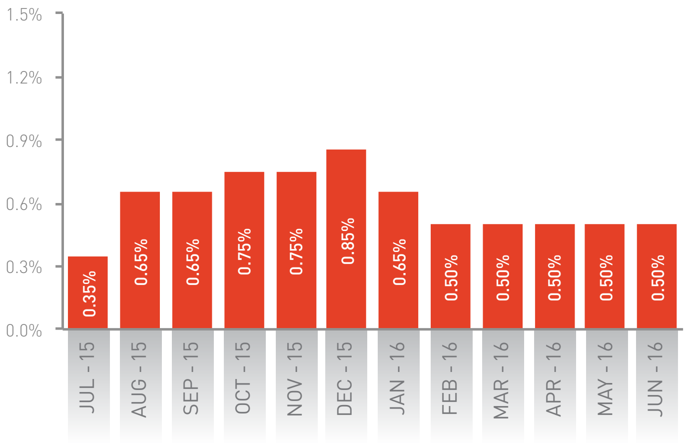
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Mar 2005	100% - 105%	R 314m	0.70%	8.64%

Performance

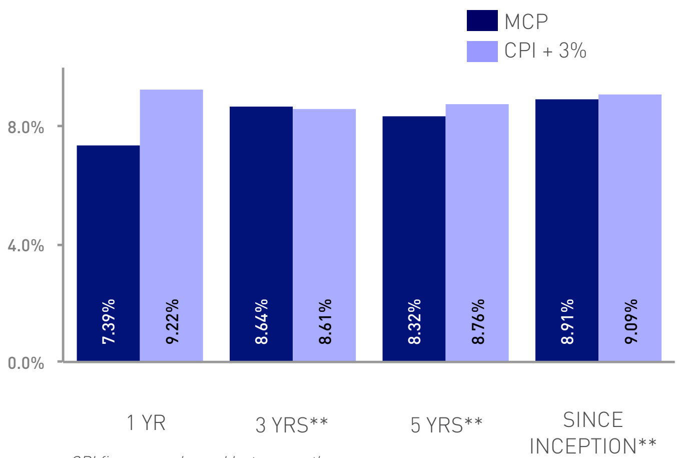
The total bonus* for the past quarter on the Capital Plus Fund is shown below.



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



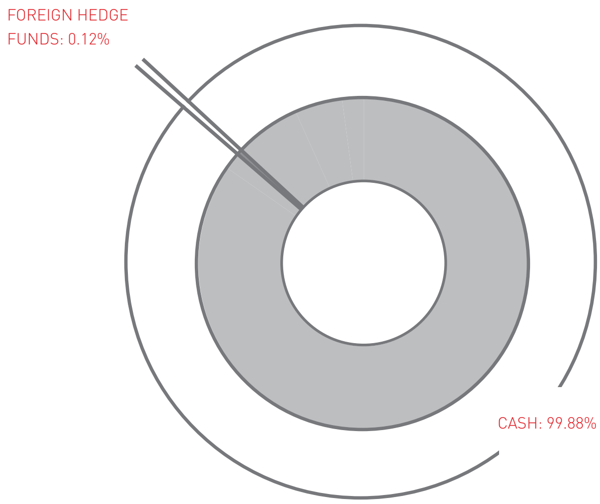
The chart below shows the long term bonus* performance of the Capital Plus Fund against CPI + 3%



CPI figures are lagged by two months

* Bonuses are net of all charges
** Annualised

Asset Allocation



Over the quarter the underlying assets where being dis-invested for product closure. The current asset allocation reflects this with assets being held in cash.

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

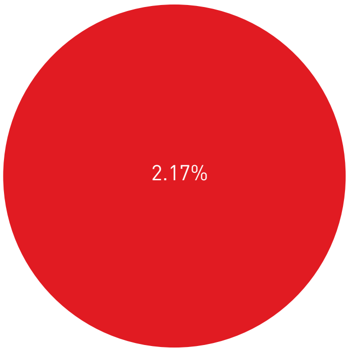
Fund Snap Shot

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	97.5% - 102.5%	R 166m	1.06%[1]	11.75%

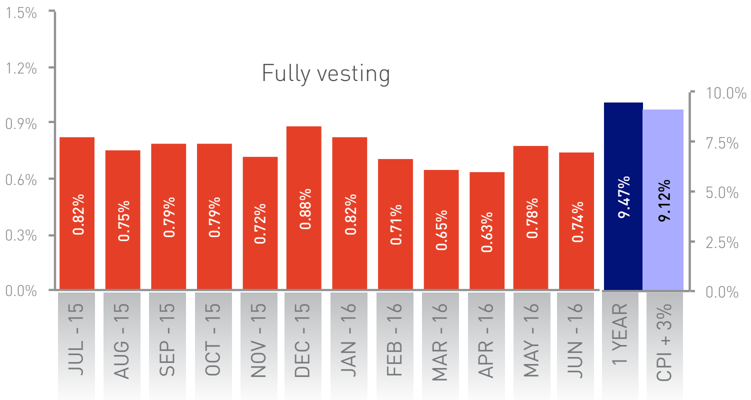
[1] Figures are based on back-tested (not actual) bonuses.

Performance

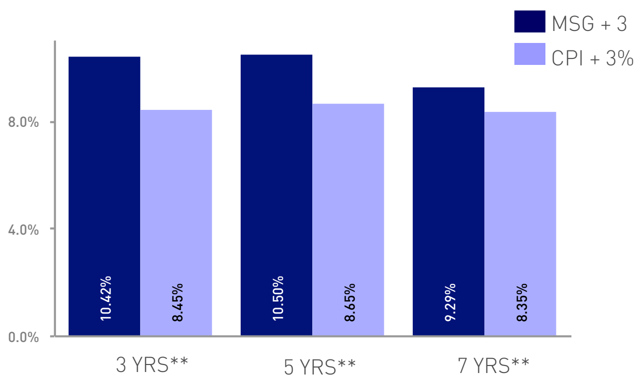
The total bonus* for the past quarter on the Smart Guarantee + 3 Fund is shown below.



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%.

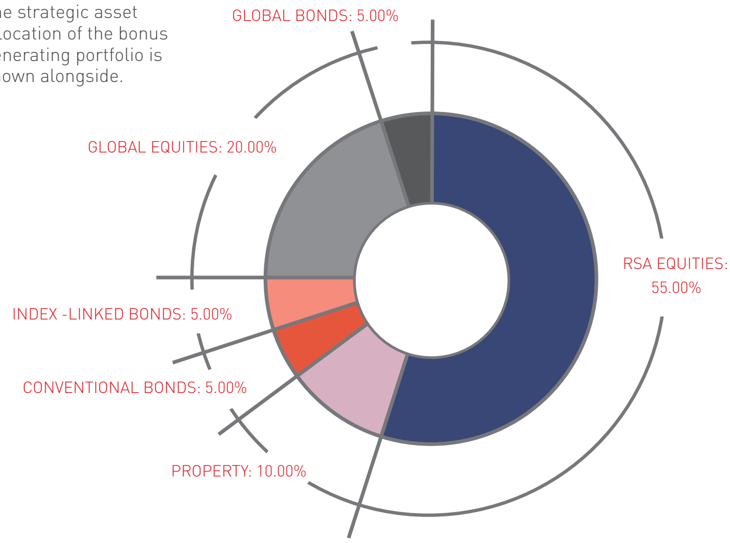


CPI figures are lagged by two months
Performance figures are as at 31 May 2016

* 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.

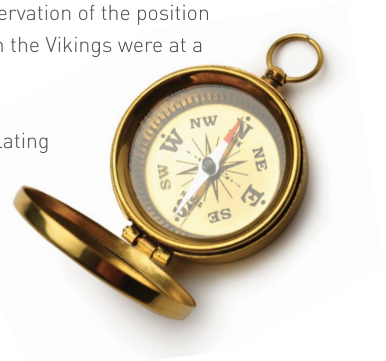
As a result, for disinvestments other than guaranteed benefit payments the underlying assets value is sensitive to both asset values and interest rates and the effective asset allocation will reflect both the bonus generating portfolio and the dynamic protection overlay.

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 34 months (there is a two month lag), around 9.25% of bonuses will still be declared.

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[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

Contact Details

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Website: www.momentum.co.za

NEW DIRECTIONS IN GROWTH AND SECURITY

for your financial wellness