momentum

Smooth Bonus Report

First Quarter 2017

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

Dear valued investors

We certainly live in very interesting times

Although we always try to convince our clients that it is impossible to predict the future (especially in the short term) with a high degree of certainty, we never would have thought that South Africa's economic landscape could change as much as it did, in less than two weeks.

By now, it is old news that President Jacob Zuma called Pravin Gordhan, the Minister of Finance, back from an overseas trip at the end of March, where he was promoting South Africa and trying to install investor confidence. The President reshuffled the cabinet shortly thereafter and made several material changes including firing Gordhan and his deputy.

This resulted in a swift reaction from two of the world's largest rating agencies (S&P and Fitch) that downgraded South Africa's foreign currency rating to non-investment grade or junk status.

This just once again shows the importance of having long-term investment goals and a well-thought-through investment strategy that will deliver in the long term through the different market cycles. Although investment strategies should be reviewed on an ongoing basis, changes should only be made if your risk profile changes.

Portfolios that are selected in an attempt to achieve long-term objectives should be well constructed and well diversified in an attempt to increase the probability of them achieving their objectives.

History has taught us that, contrary to common belief, these so-called 'black swan' events, which we occasionally disregard, often have a relatively high probability of actually materialising and they have the habit of causing a huge amount of uncertainty. This is one of the biggest challenges for long-term investors who are often unable to make unemotional investment decisions.

Selecting the most appropriate portfolio is not only about looking at historical returns and choosing the cheapest option but to rather appreciate and understand the art of portfolio construction that will lead to long-term value creation. We should appreciate the intellectual property that is encapsulated within portfolio construction.

The ultimate objective of any investor should be to select a portfolio or a combination of risk-profiled portfolios that will provide an acceptable risk and return profile in the long term and that will not 'blow-out' and disappoint in extreme market conditions.

The fact that South Africa has been downgraded to junk status will have consequences in the long term. The rand is likely to be volatile and a weak currency could result in higher inflation and higher interest rates. This will most likely put an already struggling consumer under more financial pressure, which could negatively affect economic growth. With declining economic growth, there is a risk of South Africa experiencing a technical recession (this is two consecutive quarters of negative growth).

The downgrade will increase government's interest expense, as bond holders will demand a higher rate of interest to compensate them for the increase in risk and there will be less money for other government projects. Some locally listed shares will also be affected, as they are downgraded.

The best advice from successful investors is that we should not panic and that we should stay invested. Warren Buffet once made the comment that: "The stock market is a no-called-strike game. You don't have to swing at everything – you can wait for your pitch. The problem when you're a money manager is that your fans keep yelling, "Swing, you bum!" He also often mentions that "the results are not going to depend on the activity, but rather on being right".

The ageing population globally puts us under immense pressure in an attempt to adequately save for retirement. This requires that we target returns that are well above inflation in a global and local environment, where stability is a tall order and is often replaced with uncertainty.

We have to ensure we maintain real (above inflation) purchasing power. Ronal Reagan said that "Inflation is as violent as a mugger, as frightening as an armed robber and as deadly as a hitman".

With inflation at 7% a year, which is not impossible given the current challenging economic environment in South Africa, the purchasing power of your money, in real terms, will half almost every 10 years if it does not grow.

In conclusion, where nothing is certain, everything is possible.

Warm regards

Frank Richards

Head: FundsAtWork Investment, Client Services

Contents

Beginning with the end in mind: outcome-based investing

by Miguel Tizzone

What does successful investing entail?

There are many answers to this. In essence though, it can be distilled to three fundamental ideas.

Investing takes effort: A thorough, disciplined, consistent and focused approach to investing.

Investing takes courage: The courage to stomach the ups and downs of the market, patience and determination to realise a future where your financial needs are met.

However, effort and courage, in the famous words of John F. Kennedy, are useless without direction. What is needed is an overarching philosophy providing the direction for our efforts; a vision, a goal. To this end, MMI embraces outcome-based investing where your goal is our benchmark.

What is the point of investing?

We set aside money to meet future liabilities. These liabilities differ in many ways, for example, their size, timing, currency and variability over time. Liabilities can range from as short as a holiday in a few weeks' time to those as long as retirement, which take careful planning and preparation to meet.

Investments are frequently benchmarked against arbitrary indices or peer returns, with no awareness given to the required result – the meeting of clients' liabilities or needs.

The standard against which returns should be compared ought to revolve around clients and their needs. This is a founding principle of outcome-based investing. How well your investments perform relative to the ALSI means nothing if you are not able to retire comfortably or are unable to pay for your child's education. What we need to do is to begin investing with the end in mind. We need to ensure the direction our efforts are focused towards is appropriate. We need a philosophy that places our financial needs at the centre of the entire investment process and ensures an attractive risk-adjusted return that provides a more consistent investment experience over time.

What is outcome-based investing?

Outcome-based investing is based on the philosophy that formulates an investment strategy or plan based on the required goals of the investor. It implies that returns should be measured by the success of investments in meeting an investor's financial goals.

To realise this philosophy, our investment strategy rests on three pillars: ensuring the best investments are chosen, that these are chosen to maximise the probability of meeting clients' financial goals and that the risk of not meeting the requisite outcomes is limited throughout this process.

Best investments

Outcome-based investing produces better real financial results for investors than traditional investing alone and, therefore, in the pursuit of the best investments, being guided by outcome-based investing will on average yield better results. We formulate an investment strategy based on a multi-asset, multi-strategy and multi-mandate basis.

The focus is first on the appropriate asset allocation. Diversification across various kinds of asset classes allows investments to earn more consistent, higher returns. We analyse markets and strategies to comprehend how best to create a well-diversified solution with the optimal asset allocation. We then identify the most beneficial investment strategies to use (including factors such as investment style, regional exposures, currency, economic environment, etc. Investing along various strategies allows the investments to earn returns from the right approach to the market. Investment mandate design and selection (whether active or passive) is the final step in our comprehensive outcome-based investment process.

Maximising the probability of investors achieving their unique investment goals

To meet financial goals, one not only has to get the underlying decisions right but has to have the discipline to hold onto that strategy through the vagaries of financial markets.

[1]Dan Nevins, 2004, The Journal of Wealth Management, Volume 6, Number

Investors, when not fully aware of their financial goals, can end up selecting an inappropriate asset allocation that does not best match their goals but may, for instance, have been driven towards a general hope of 'making money'. Investors can lose money by trying to time market movements. Moving in and out of the market in response to various market movements is driven by natural cognitive biases, which can create poor returns in investments over the long term.

Outcome-based investing carefully considers the cognitive biases that may prevent an investor from meeting their financial goals, particular the fact that an investor who is invested with their ultimate goal in mind need not worry about the short-term fluctuations and noise of the market because they know they are secured in a robust, long-term strategy that has been skilfully crafted to meet their unique goals.

A key final component to maximising the probability of meeting goals is to continually monitor the investments, not just in terms of returns and strategy but whether or not these investments are allowing clients to meet their financial goals. This is especially necessary to facilitate any structural changes in the strategy, for example, changes necessary when new economic regimes are in effect and when legislative changes affect the outcome of the prevailing investment strategy.

Minimising the risk of not meeting goals

The most important way in which risk is managed and minimised in outcome-based investing is by appropriately defining risk – the failure to meet specific financial goals of clients.

The risk of not meeting financial goals is further minimised by maximising diversification (as outlined earlier), smart use of traditional and alternative asset classes and a disciplined, focused view of investing that remains aware of the bigger picture at all times.

How does outcome-based investing change investing?

Outcome-based investing recognises that traditional investing is fraught with issues that affect the returns of investments – especially in the long term. Typical insights gained through taking on an outcomes-based approach are tabulated below.

Problem	Traditional investing	Outcome-based investing
Unclear goals	Investors strive to outperform the market and generate outperformance by trying to find mispriced investments. They hope in the long-term to outperform the market, which of course as arithmetic dictates, only 50% can.	Investors have a clear goal, clear methodology to get there and a clear management strategy along the way. With the right strategy and appropriate implementation they have a much higher chance of meeting their goals.
Definition of risk	Investors define risk according to an arbitrary benchmark using metrics like value at risk or standard deviation. This does not take into account the investor's unique financial goals and whether or not the strategy is any closer to meeting them.	Arbitrary benchmarks, metrics and indices are replaced with a simple formulation of risk like the chance of not meeting your financial goals. This clearer definition of risk leads to better risk management.
Overconfidence	Investors' confidence in their judgement is often greater than the accuracy of their judgement. This results in investors reacting to noise in the market and making judgements they ought not to make because they are overconfident in their ability to read the market.	Overconfidence is replaced by an impeded vision of where an investor is headed, and the overt strategy for achieving the desired outcomes.
Crowd psychology	Investors follow the actions of others in the belief that those investors are applying the correct judgement in their decisions.	Crowd psychology is replaced by a robust investment position where investors know that despite short-term trends and flavours-of-the-month, they are well poised to meet their financial goals in the long run. They know that to be a conductor at times, you have to turn your back on the crowd.

Conclusion

Now more than ever, investors need certainty, clear goals and a clear path to realising them. Outcome-based investing accords with MMI's client-centric philosophy: that investors' needs provide the core of the investments strategy. This paves the way for successful investing.

Miguel Tizzone

Investments Product Specialist
Product Solutions
Momentum Investments

Momentum Investments market commentary for the quarter ending 31 March 2017

by Sanisha Packirisamy and Herman van Papendorp

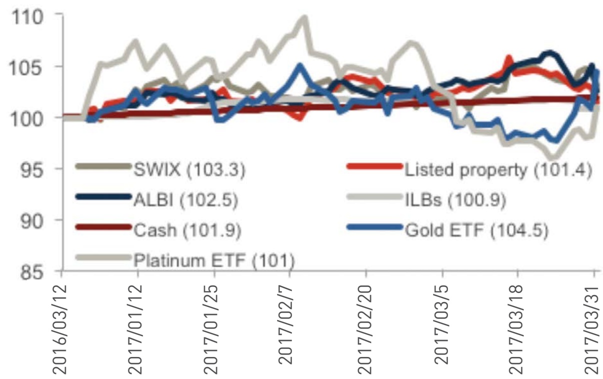
Ongoing reflationary boost to risky investments in 1Q17

The combination of an ongoing global economic recovery and rising inflation has continued to support the revenue bases of global corporates during the first quarter of 2017, while preventing global bond yields from declining. It is thus unsurprising that global bond returns have lagged during this period, while global equities have been the outperforming asset class, with a particularly strong showing from emerging market (EM) equities that outperformed developed market equities and South African (SA) equities in the first quarter. United States (US) dollar weakness during the quarter supported EM equities and the gold price and was driven by lower expectations of the magnitude of US Federal Reserve (Fed) tightening in the coming year, as well as a lower perceived probability that the European Central Bank (ECB) would be tapering its quantitative easing programme from late this year. The blend of US dollar weakness and stable global real rates underpinned a rally in the dollar gold price during the quarter and made the gold exchange-traded fund (ETF) the star performer among the SA asset classes (see chart 1).

A weaker US dollar and stable global bond yields supported the rand and SA bonds for most of the first quarter of 2017, before political machinations around the fear and eventual reality of an SA cabinet reshuffle that included the axing of the well-regarded Finance and Deputy Finance Ministers unsettled the rand and the local bond market in the last week of the quarter (subsequently exacerbated by sovereign ratings downgrades in early April).

Momentum Investments expects a firmer US dollar associated with global reflation, a rising US interest rate cycle and favourable relative valuations to cause global equities to outperform global bonds. On a regional basis, we see strong earnings and valuation support for Eurozone and Japanese equities, while US margins appear to be at risk from a tightening labour market. A widening growth differential between emerging and developed markets should be positive for relative EM returns, but higher US interest rates, a strong US dollar and trade protectionism pose risks.

Chart 1: SA asset class returns in 1Q17 (indexed)



Source: INET BFA, Momentum Investments

SA nominal bonds should be fundamentally supported by a strong anticipated domestic disinflationary trend, while attractive valuations are underlined by historically-high real rates, as well as an historically-elevated risk spread premium to US bonds. In contrast, inflation-linked bonds (ILBs) still seem to be discounting a too-high inflation premium, while a dwindling inflation carry in coming months should be a fundamental headwind. Domestic cash is expected to deliver decent risk-adjusted returns in a low-return environment, but re-investment risk is set to increase later this year in response to a likely peak in the local interest rate cycle.

SA equity valuations have improved meaningfully after a flat market in the past two-and-a-half years and amidst a significant expected profit rebound from a low base, driven by higher commodity prices and some domestic growth recovery.

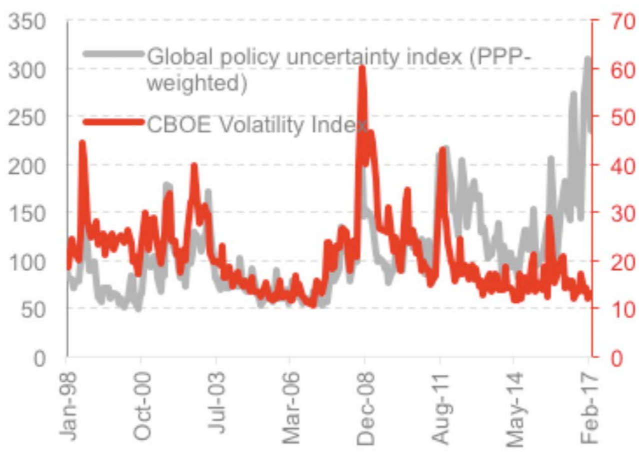
Listed property's relative valuation against nominal bonds has improved meaningfully since 2015 and is now close to its five-year average, pointing to potentially strong property returns from its current rating.

Geopolitics reshaping the world economy

Major underlying shifts have occurred in the geopolitical landscape, marking the current period the most politically volatile environment in post-war history. Arguably these trends started emerging in the Middle East in a series of anti-government protests in early 2011, but the rise in populism accelerated in 2016, with the Britons voting for the United Kingdom (UK) to exit the European Union (EU), Italians rejecting reforms with the 'no' vote on the referendum and the emergence of Donald Trump as the next president of the US. Europe's political order is likely to be a source of investor anxiety this year and next. The outcome of Brexit negotiations are far from certain, while pivotal elections are lined up for France (April and May 2017), Germany (September 2017) and Italy (by February 2018 at the latest). Moreover, much remains uncertain about President Trump's policy intentions and implications. For instance, the cost of increasingly protectionist policies could spark retaliation and further damage growth in world trade.

Surprisingly, against this backdrop of considerable political uncertainty, equity investors seemingly have a pretty sanguine view of risks (see chart 2). The US volatility index (a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices) remains marginally off the lows experienced in mid-2014. A perceived robust economy could potentially explain this discrepancy. Global data surprises, which are tracking close to six-year highs, are likely acting as a near-term driver of investor complacency.

Chart 2: Investor complacency



Source: Economic Policy Uncertainty, Bloomberg, Momentum Investments

However, this may be as good as it gets. Trump made a variety of lofty promises during his election campaign, but it remains to be seen whether he will be able to follow through on all his plans. Optimism over tax cuts and deregulation are currently outweighing concerns regarding trade and immigration and have spurred on confidence in US firms and middle-income households, in particular. But are expectations running too far ahead of the economic reality?

Firstly, Trump's $1 trillion plan to rebuild America's roads, bridges, airports and other vital infrastructure relies heavily on private investment. However, private investors are likely to only back investments on which they will realise a strong return. Consequently, state and local governments will have to provide funding for the missing links in critical development areas, but public finances remain on shaky ground. Secondly, Trump's ambitious proposal to cut the non-defence share of the discretionary budget (including education, housing and parks) by 10% per year (to provide an additional 0.3% to the defence budget) is unlikely to be supported by Democrats and a number of Republicans. As such, it remains to be seen whether tax reform including slashing corporate taxes can in fact be funded. Currently, there is no consensus on the tax reform bill and some house members are opposed to the border tax plan.

Thirdly, Trump's pro-growth agenda may be overshadowed by a focus on protectionism, led by the newly created National Trade Council. Increasing tariffs on goods arriving from key trading partners (including China and Mexico) could make purchases of consumer goods more expensive for the average American household. Together with the proposed personal tax cuts, that favour higher-income earners, inequality in the US could increase further. Punitive tariffs on China could also trigger retaliatory efforts by one of the world's major superpowers, sending shockwaves through the global economy. Lastly, the repatriation of overseas cash by US multinationals (estimated to be around USD2.5 trillion) is likely to find its way into share buybacks or dividends, rather than manifesting in increased activity in capital spend or hiring in the real economy.

That said, the underlying economy had started to recover even prior to the US presidential election in November 2016. As such, any positive momentum on tax cuts, deregulation or increased infrastructure spend (the latter more likely a 2018 story), would provide further tailwinds to an expected c.2.3% recovery in real US economic activity in 2017 from 1.6% in 2016. An improvement in real growth prospects in the short term, together with evidence of broader-based inflationary pressures, suggest that the US Fed will unlikely need to raise rates by more than the so-called 'dot plot' (the interest rate projections of the Federal Open Market Committee members) advocates in the next two years.

Staying with politics, a stable, but lacklustre, growth performance in Europe could be undermined should anti-euro populist candidates gain significant ground.

Elections across Europe have the scope to shock markets once again, but unlike a Grexit-style (Greece exiting the European Union) risk, negative outcomes from events this time around could reverberate through the global economy on a much larger scale.

Aside from the crowded political calendar, troubles also surround Europe's banking sector, where non-performing loans in Southern Europe remain elevated.

Despite Momentum Investments' tepid growth expectation in the Eurozone this year, there should be some support from previous euro depreciation, which should bolster export volumes, while a reduction in spare capacity hints at a further uptick in fixed investment. Unprecedented monetary policy easing and less austere fiscal policy have supported the consumer in the past, but sticky unemployment and a drop-off in real wage growth (thanks to higher inflation) flag concerns over the sustainability of household consumption spend going forward. Although higher inflation readings in the past few months may add pressure on the ECB to start tapering quantitative easing (QE) policies earlier, Momentum Investments thinks it is too early for the ECB to declare a victory on the inflation front. Core inflation (headline inflation excluding food and fuel) has barely budged in the past three years, trading in a narrow band marginally below 1%. Moreover, tightening policy too early could have negative ramifications for the fiscal figures given that a significant share of the improvement in the budget deficit since 2013 has come from the interest portion.

Although British consumers initially brushed off the Brexit vote, cracks in the outlook for consumer spend are beginning to emerge. Retail sales growth plummeted to 1.5% in January 2017, while consumer confidence is waning under the pressure of weak employment prospects and a slide in real wage growth. Jitters around uncertain terms of the exit from the EU poses a challenge for new business investment spend, which already tumbled into negative territory in the first quarter of 2016. Though export orders are benefiting from a weaker sterling, the UK faces huge uncertainties in the future concerning its terms of trade with key trading partners. While still tracking at 5% in year-on-year terms, government receipts may also begin to falter thanks to slowing growth, exerting pressure on already-high government debt levels, currently at around 90% of GDP.

Meanwhile, easy monetary policy, government fiscal stimulus and an uptick in growth elsewhere has buoyed economic growth prospects in Japan. A tight labour market pushing wages higher and a recovery in private loan growth are supporting domestic demand, while a weaker yen has translated into higher export volumes. However, despite an improved growth setting, the Bank of Japan is unlikely to withdraw monetary stimulus while inflation remains stuck near 0%.

Momentum Investments expects policymakers to tolerate a modest slowdown in China. Should growth dip significantly below their five-year growth target of 6.5%, policymakers are likely to react by propping up growth through increased infrastructure spend. While Chinese authorities have the firepower to kick the debt can down the road, bilateral relations with the US pose a major downside risk to growth. So far, President Trump has proved to be an unpredictable trading partner. According to HSBC, should the US implement a 45% tariff on all inward-bound Chinese products, China's exports to the US could halve, shaving off more than 1.5% from annual growth.

Trump's anti-trade rhetoric could strike a destabilising blow across EM more generally. EM also faces the risk of tighter global financial conditions should the US Fed raise rates at a faster-than-expected pace.

Nevertheless, EM is in a healthier condition relative to the Taper Tantrum of 2013, when investors stressed about the potential for the US Fed to wind back its stimulus programme. This time around, economic activity is on healthier footing, current account deficits have narrowed, thanks to a rise in commodity prices, currencies are in a firmer position, higher real policy rates provide better buffers and valuations have improved. Momentum Investments' is particularly optimistic on EMs, which rely more heavily on domestic demand rather than external trade. Those with improving macro fundamentals and an appetite for reform are expected to outperform.

Political developments eclipse SA's economic outlook

After more than two decades of democracy in SA, many remain economically disempowered. Little has changed in the structure of the economy and patterns of wealth accumulation remain in the hands of very few. In attempting to tackle these inequalities, government continues to lay the ground work to accelerate the pace of economic transformation.

While some view President Jacob Zuma's 'radical economic transformation' mantra as an attempt to control public resources and accelerate patronage gains, others are of the opinion that the spirited drive behind this narrative is in response to the electoral pressure that the African National Congress (ANC) is facing from the Economic Freedom Fighters (EFF) in particular. By embarking on this strategy, they hope to divert attention away from rising internal party factionalism and government failures.

With the rising prospect of the ANC potentially losing its dominance by the 2019 national elections, it is likely that this theme could carry through beyond the current government leadership.

Following a series of political setbacks, it is likely that Zuma implemented the third cabinet reshuffle in his eight-year tenure in late March 2017 from a weakened position, as calls for his immediate resignation have intensified. The latest sweeping changes have arguably freed access to state resources, which were previously carefully guarded by former Finance Minister Pravin Gordhan and Deputy Finance Minister Mcebisi Jonas.

Although Gordhan agreed with the need for radical economic transformation, he redefined what pro-poor distribution means in the February 2017 budget speech, emphasising that "sound public finances, the health of our financial institutions, investment-grade credit ratings and competitive public procurement processes are valued elements in the sustainability and integrity of our transformation path". He stressed that "without transformation, growth will reinforce inequality; without growth, transformation will be distorted by patronage".

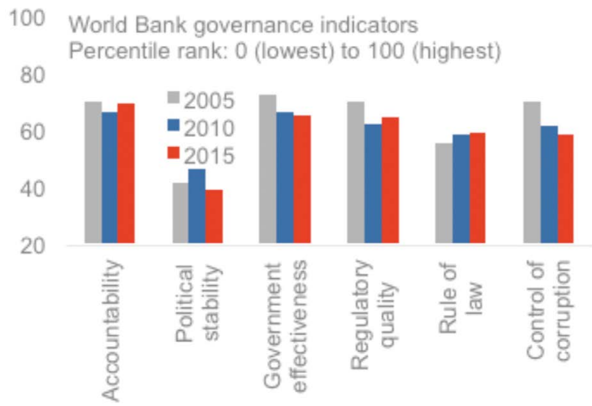
By securing some of his strongest loyalists in the Energy and Treasury portfolios in particular, Zuma has compromised SA's institutional credibility and put SA's sovereign ratings at risk. Uncertainty around policy continuity triggered a foreign currency rating downgrade to junk status by Standard and Poor's Global Ratings (S&P) on 3 April 2017. Moody's is scheduled to release its review on 7 April 2017. It is more likely than not that it will shift SA's foreign and local currency ratings one notch lower (but remaining in investment grade). While Fitch has not specified a review date, it is expected that it will lower SA's foreign and local currency rating to sub-investment grade in due course.

According to the World Bank's governance indicators, SA has slipped down the 'political stability', 'government effectiveness' and 'control of corruption' rankings between 2010 and 2015 (see chart 3). Recent political developments have arguably accelerated this decline.

Moreover, the ratings agencies have voiced their concern over the precipitous increase in contingent liabilities, most notably those by public electricity utility Eskom. The recent change in the Energy portfolio could signal a push for the nuclear deal, raising concerns over further fiscal support for SA's state-owned enterprises. Without any meaningful retort from the factions aligning themselves against the President, the odds will tilt towards further negative ratings action. Should this materialise, the rand could suffer an additional blow.

A likely weaker rand path under this scenario would limit the expected relief in inflation if sustained at these or more depreciated levels, partly offsetting the expected drop in food inflation owing to higher agricultural output following severe drought conditions in 2016. Reduced downside for inflation suggests weaker prospects for lower interest rates.

Chart 3: SA's governance rankings have been slipping



Source: World Bank, Momentum Investments

In its latest March 2017 Monetary Policy Committee meeting, the SA Reserve Bank noted that the high degree of exchange rate uncertainty leaves the risk to its inflation outlook to be moderately to the upside, while increased political uncertainty could negatively affect its latest growth assessment. Given that 79% of respondents surveyed in the Bureau of Economic Research's manufacturing survey highlighted the political climate as a key constraint to investment, the recent political tumult is likely to dampen private fixed investment intentions, posing downside risks to Momentum Investments' view of real economic growth of around 1% this year.

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Investment implications of ratings downgrades

by Sanisha Packirisamy and Herman van Papendorp

Sticking calmly to long-term investment plans within an outcomes-based framework enhances Financial Wellness

The likely broad investment implications of the S&P and Fitch downgrades to SA's sovereign ratings depend on the subsequent response of the broader African National Congress (ANC) leadership to the ratings actions.

If there are positive political and economic policy responses forthcoming from within the ANC, favourable political developments and policy adjustments could eventually result in a return to investment territory within a couple of years. As such, a 'wake-up-call' scenario is likely to be accompanied by a period of rand strength, once perceived-favourable political and policy responses are effected, with local asset classes expected to outperform global asset classes (including commodity exchange-traded funds) in such an outcome, ceteris paribus. More specifically, local government bonds and listed property should perform particularly well, with locally focused equities outpacing global-driven shares.

In contrast, should there be a denialist response from within the ANC and government to the recent ratings downgrades, accompanied by ongoing factionalism, patronage and fiscal slippage, there is likely to be a trend of continual ratings downgrades in coming years (the 'slippery-slope' scenario). Such a scenario would likely entail ongoing rand weakness, with global asset classes outperforming local asset classes, while local cash and equities (particularly those shares with large global revenue bases) should outperform local fixed-income investments.

While human nature favours strong reactive behaviour to system shocks, radical changes to investment portfolios in response to developments that have uncertain long-term implications are likely to destroy wealth. History has shown that despite the regular occurrence of shocks in financial markets, the optimal wealth-maximising strategy for investors over time has been to calmly stick to well-constructed financial plans and stay invested throughout short-term volatility. In Momentum Investments' view, the diametrically different implications for financial investments, depending on the response from the ANC leadership to South Africa's ratings downgrade to junk, can best be managed when investors have well-diversified portfolios with exposure to a wide range of asset classes that will each behave differently depending on the outcome. Hence, collectively minimising the volatility of the portfolio during uncertain times and making the investment experience less stressful. In this regard, the outcome-based investment philosophy adopted by Momentum Investments provides a framework and process that inherently have diversification embedded as a central principle in the approach to portfolio construction. As a result of this diversification, different asset classes and investments will either benefit or have an adverse experience depending on how markets react and which scenario transpires. The outcome-based investment philosophy therefore represents a prudent approach to provide a robust investment experience through the current economic and political uncertainty. Furthermore, as custodians of Momentum Investments' clients' savings, the company continually looks for potential attractive risk/reward opportunities in asset classes that might be forthcoming from any investment price weakness to enhance the long-term return potential of portfolios, hence, enhancing the long-term financial wellness of its clients.

Sanisha Packirisamy

Economist
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Partially Vesting Smooth Bonus Range

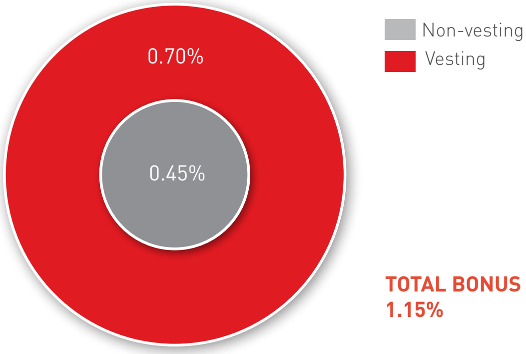
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

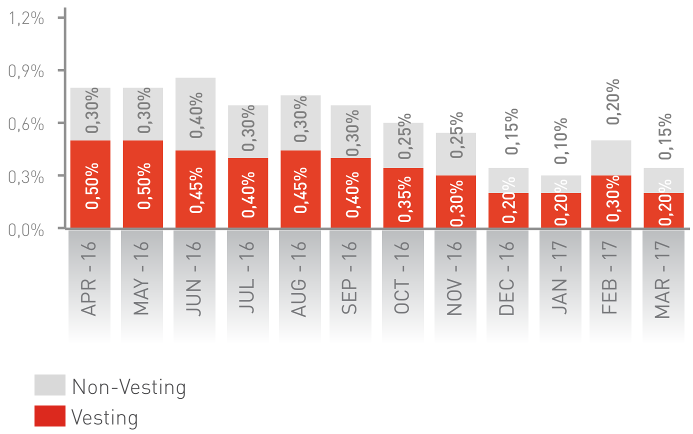
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	100.0% - 105.0%	R12.2bn	1,55%	8,63%

Performance

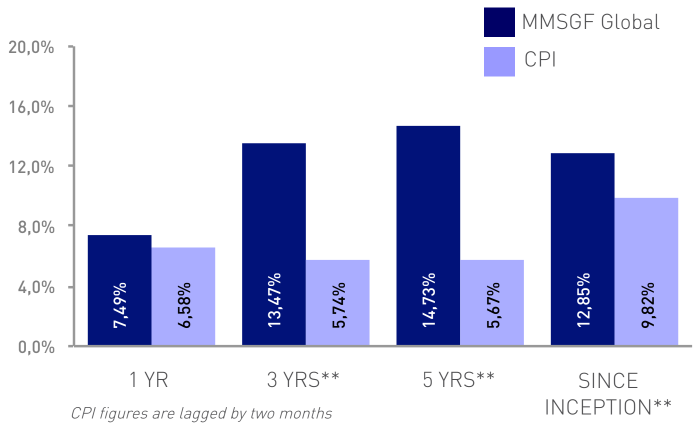
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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



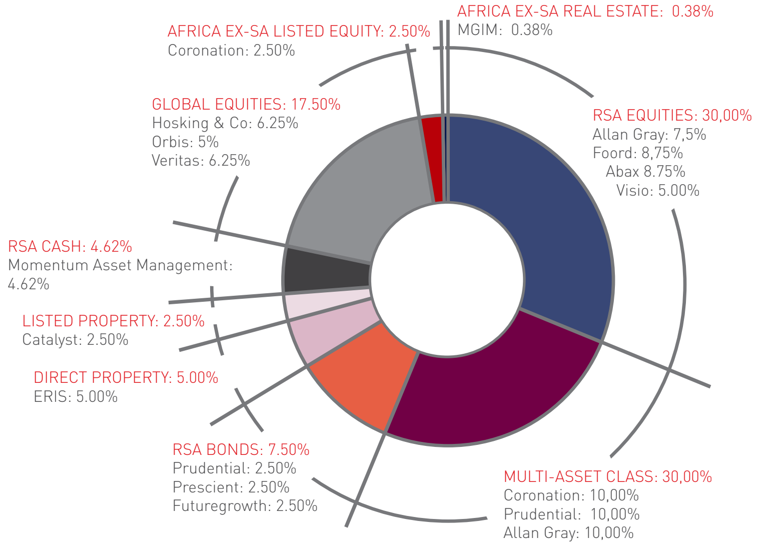
* Bonuses are net of underlying asset charges but are gross of the policy fee

** Annualised

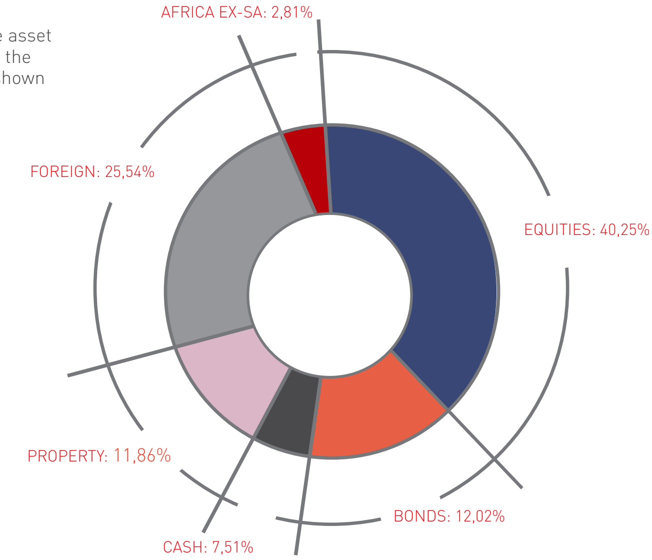
Asset Allocation

The strategic asset allocation of the portfolio was changed on 31 March 2017. The allocations to RSA Equities, RSA Bonds and Global Equities were decreased to fund a 5% increase in the Multi-Asset Class. Allan Gray was appointed as a new manager within this class and the allocation to each manager was equalised. The allocation to RSA Cash was decreased to fund the small increase in Africa ex-SA Real Estate.

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.



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

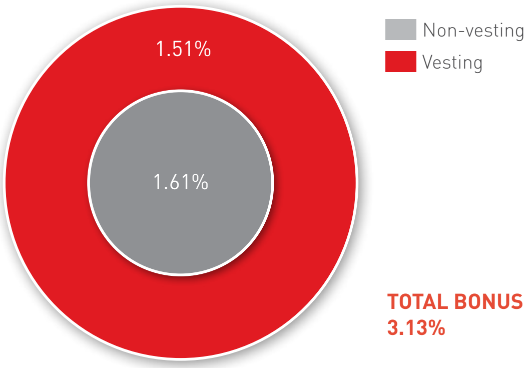
Multi-Manager Smooth Growth Fund Local

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	105% - 110%	R256.0m	1,77%	6,77%

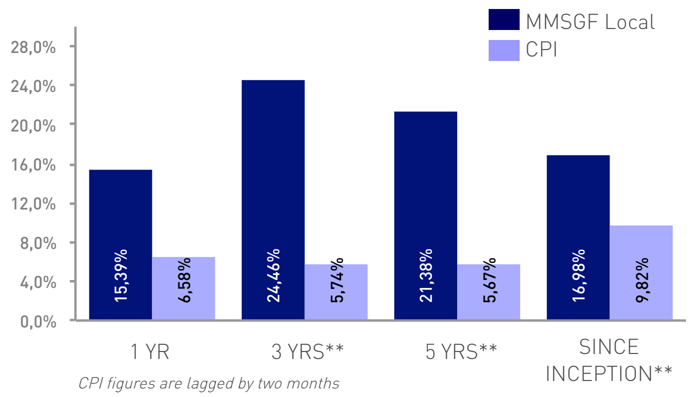
Performance

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.

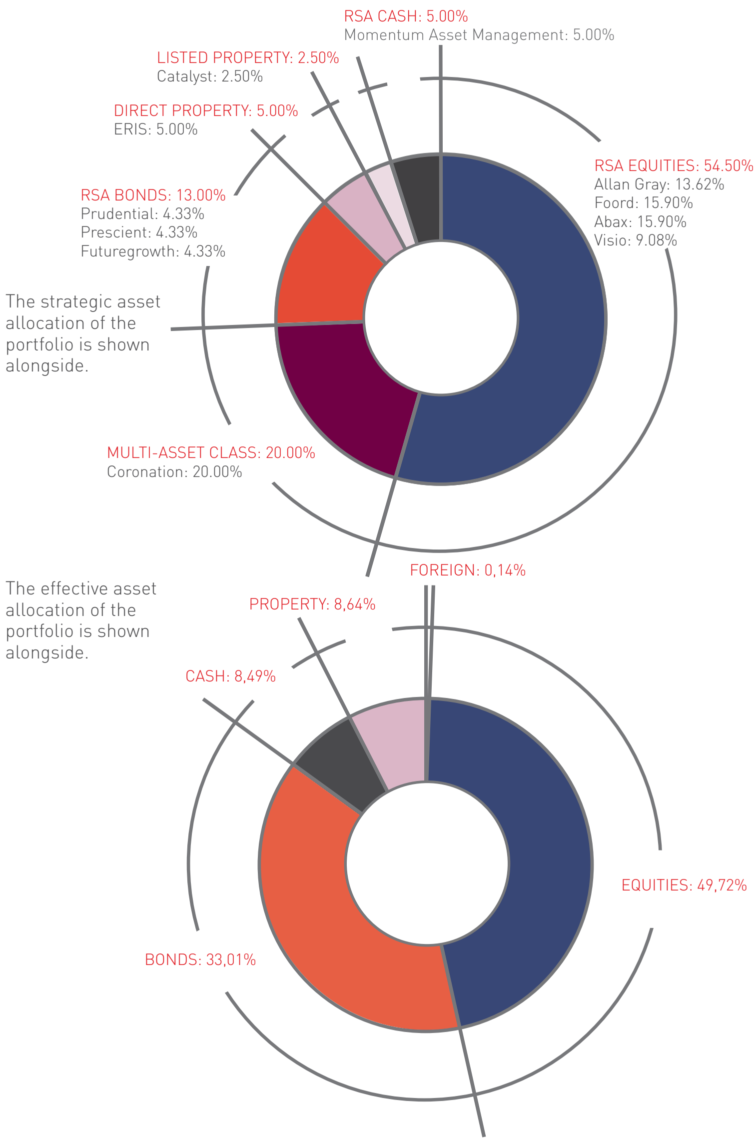
The chart below shows the long term bonus* performance of the Multi-Manager Smooth Growth Fund Local against CPI



CPI figures are lagged by two months

* Bonuses are net of underlying asset charges but are gross of the policy 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

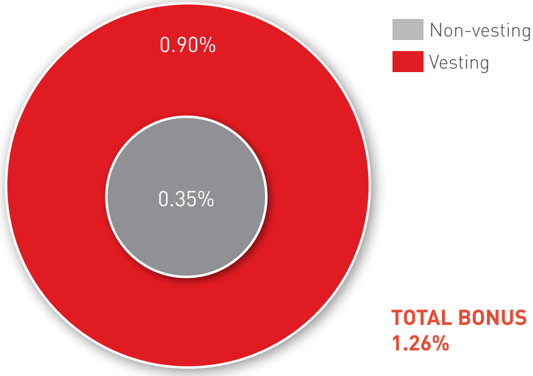
Smooth Growth Fund Global

Fund Snap Shot

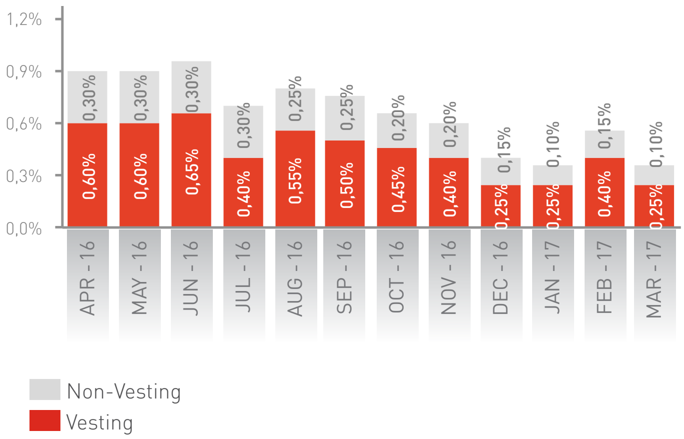
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	100% - 105%	R 2.5bn	1,91%	6,58%

Performance

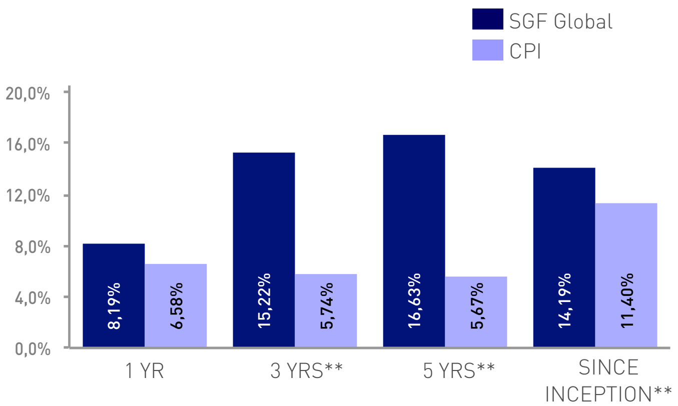
The total bonus* for the past quarter on the Smooth Growth Fund Global is shown below.



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.

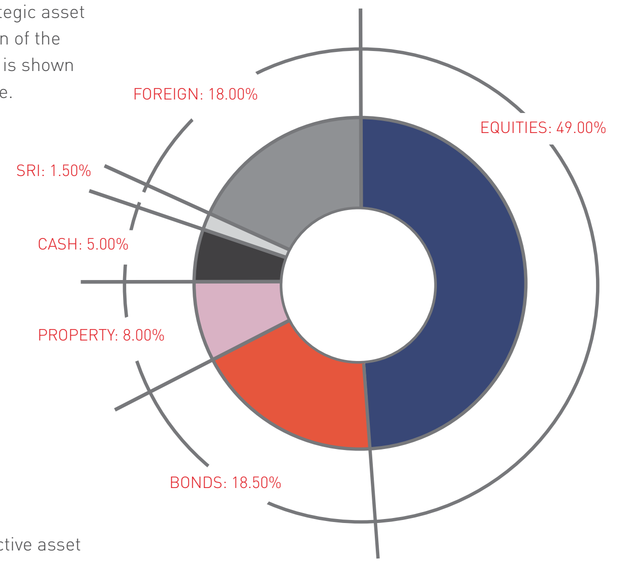


CPI figures are lagged by two months

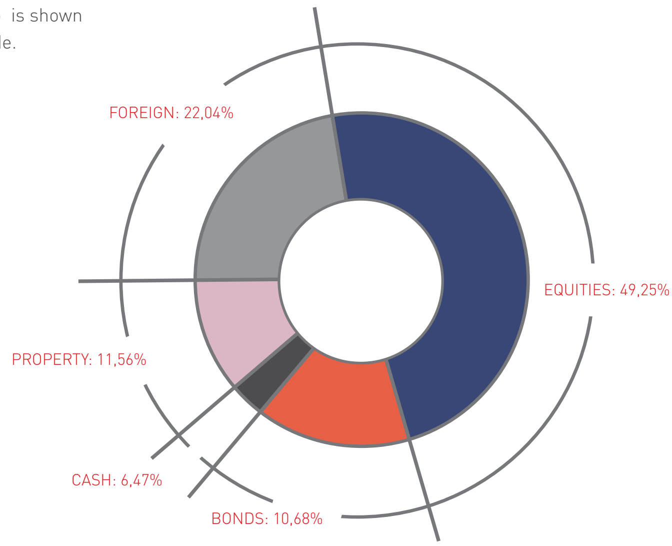
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

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.

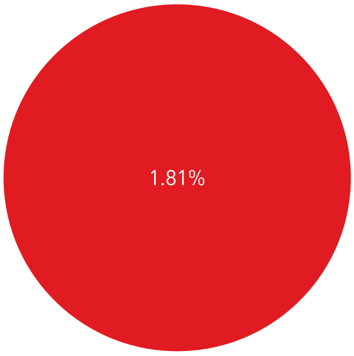
Fully Vesting Smooth Bonus Range
Multi-Manager Secure Growth Fund

Fund Snap Shot

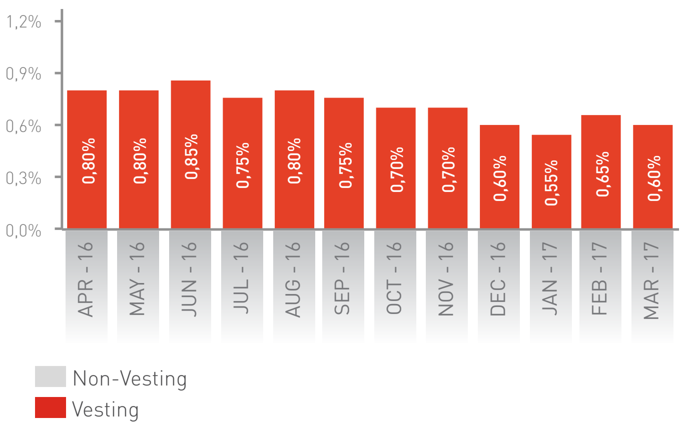
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	105% - 110%	R48.1m	1,15%	8,08%

Performance

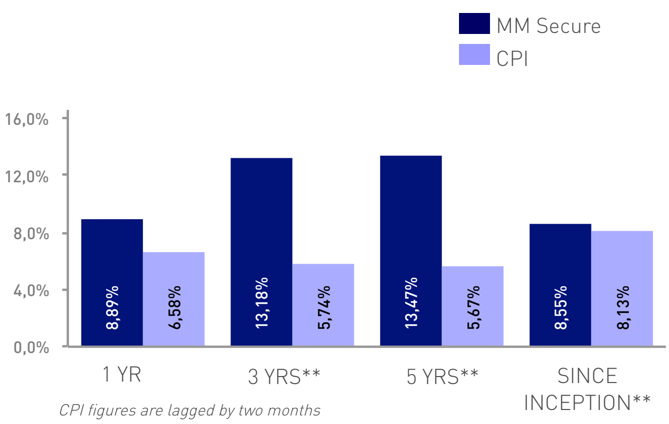
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



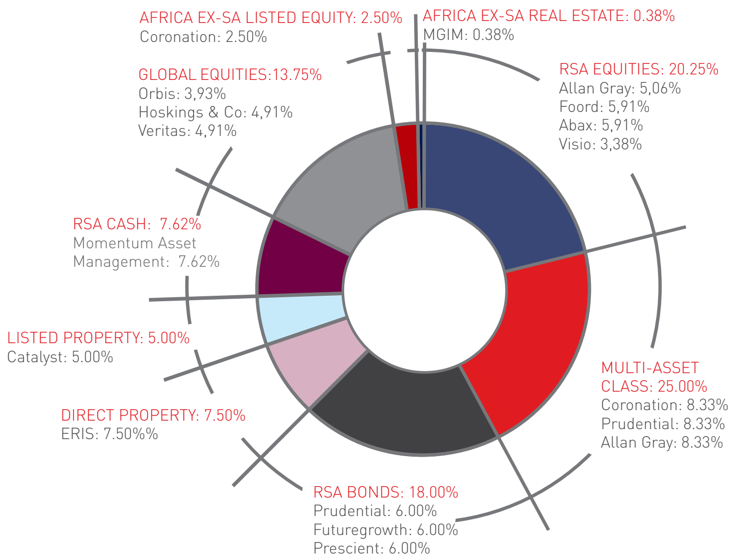
CPI figures are lagged by two months

* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

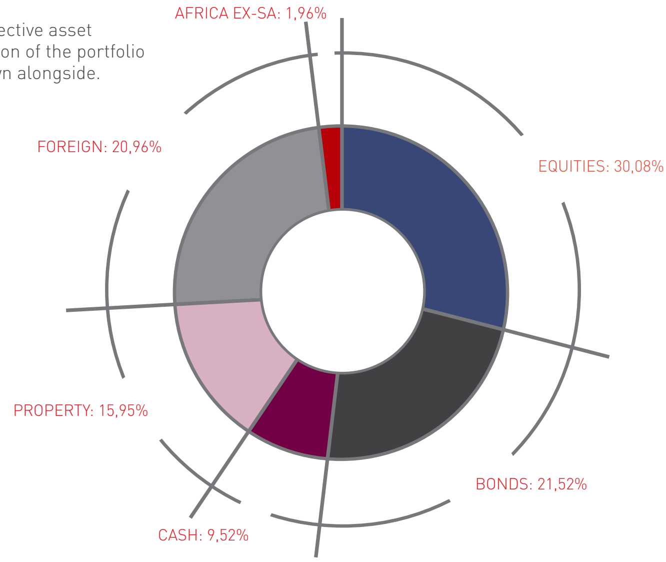
Asset Allocation

The strategic asset allocation of the portfolio was changed on 31 March 2017. The allocations to RSA Equities, RSA Bonds and Global Equities were decreased to fund a 5% increase in the Multi-Asset Class. Allan Gray was appointed as a new manager within this class and the allocation to each manager was equalised. The allocation to RSA Cash was decreased to fund the small increase in Africa ex-SA Real Estate.

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.



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

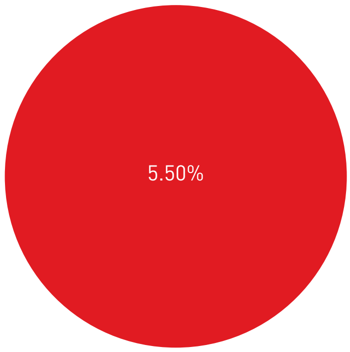
Multi Manager Secure Growth Fund Bonus Series 2013

Fund Snap Shot

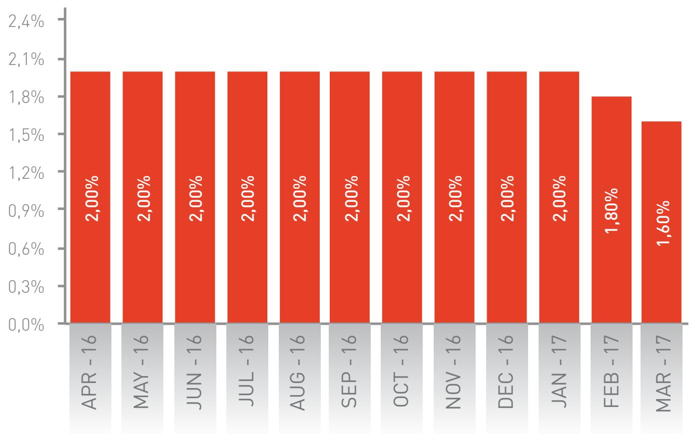
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2013	115-120%	R64.9m	8,12%

Performance

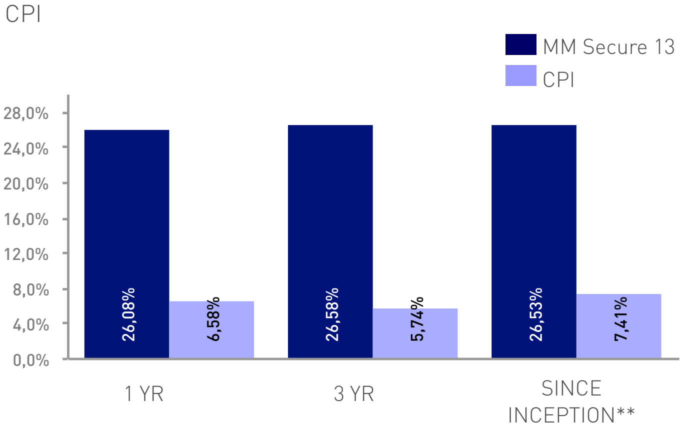
The total bonus* for the past quarter on the Multi Manager Secure Growth Fund Series 2013 is shown below.



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



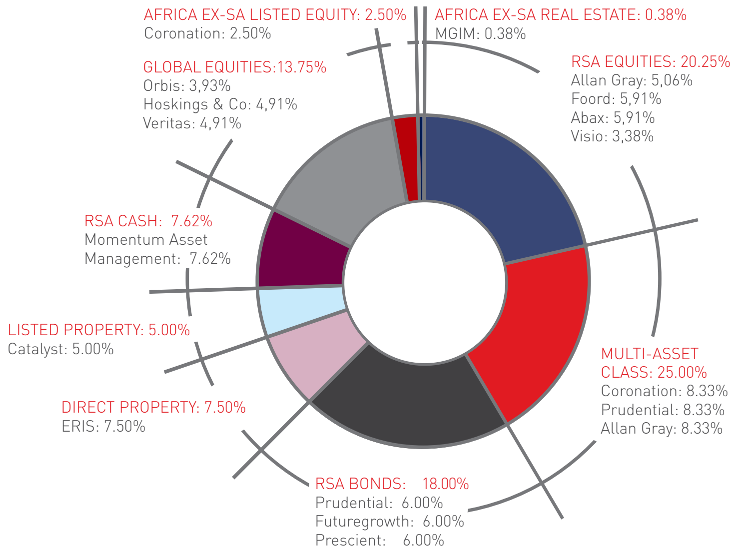
CPI figures are lagged by two months

* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

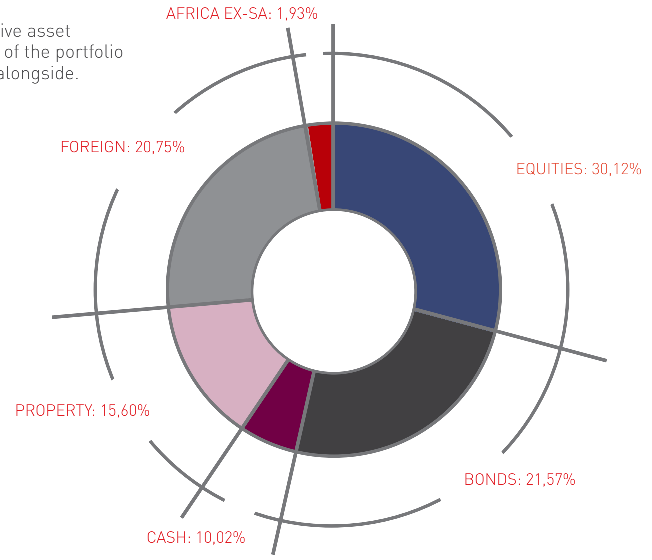
Asset Allocation

The strategic asset allocation of the portfolio was changed on 31 March 2017. The allocations to RSA Equities, RSA Bonds and Global Equities were decreased to fund a 5% increase in the Multi-Asset Class. Allan Gray was appointed as a new manager within this class and the allocation to each manager was equalised. The allocation to RSA Cash was decreased to fund the small increase in Africa ex-SA Real Estate.

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.



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

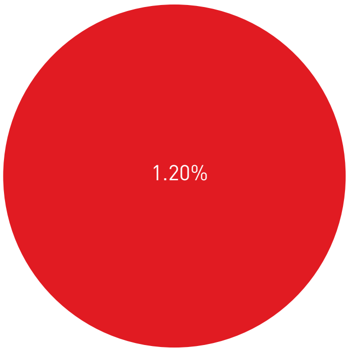
Smart Guarantee + 3 Fund

Fund Snap Shot

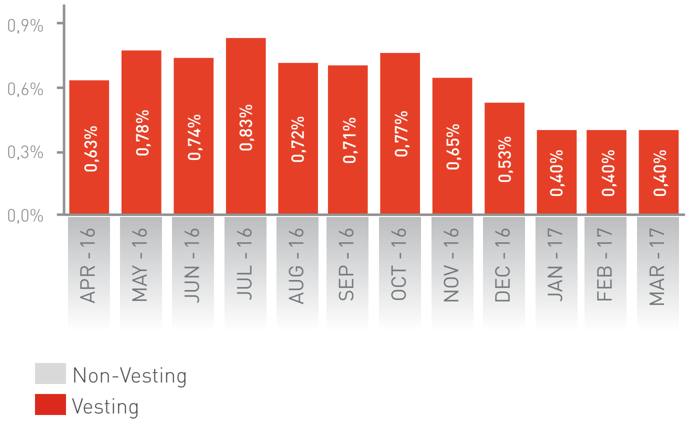
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	95% - 100%	R206.0m	0.44%	7,99%

Performance

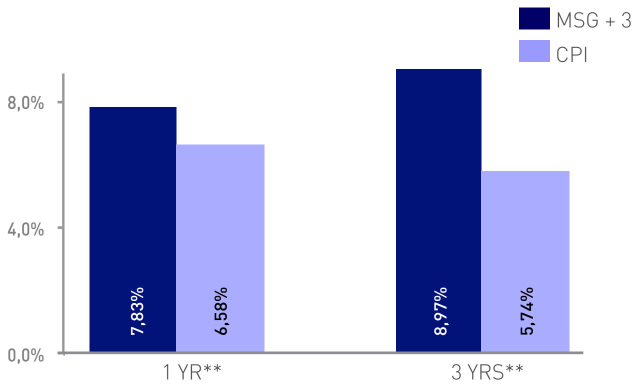
The total bonus* for the past quarter on the Smart Guarantee + 3 Fund is shown below.



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.



The chart below shows the long term bonus* performance of the Smart Guarantee +3 Fund against CPI.



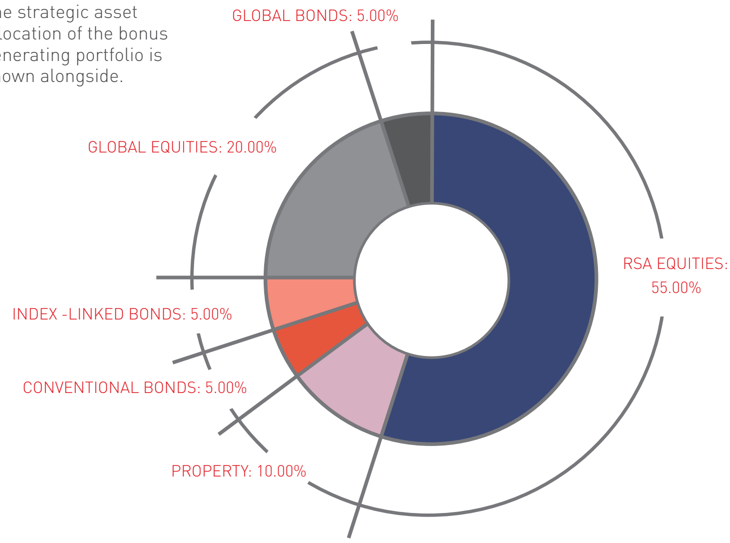
CPI figures are lagged by two months

* Bonuses are net of underlying asset charges but are gross of the 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, 85% 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.

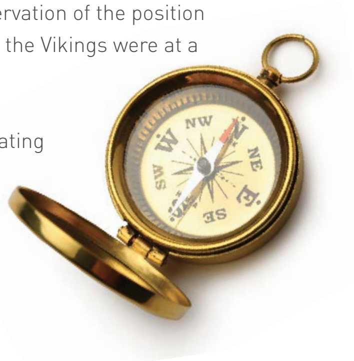
As a result, for disinvestments other than guaranteed benefit payments the underlying assets value is sensitive to both asset values and interest rates and the effective asset allocation will reflect both the bonus generating portfolio and the dynamic protection overlay.

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 4.20% 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]	Capital Charge	Policy Fee	Inception Date
Partially Vesting	Multi-Manager Smooth Growth Fund Global	CPI + 4% pa, net of the policy fee and underlying asset charges over a 5 year time horizon	Multi-Manager	Moderate Balanced	100% of net capital invested and vested bonus declared (net of the Policy fee)	Yes	1.00% pa	0.35% of the first R50m, 0.25% of the excess above R50m[3]	January 2004
Partially Vesting	Multi-Manager Smooth Growth Fund Local	CPI + 4% pa, net of the policy fee and underlying asset charges over a 5 year time horizon	Multi-Manager	Moderate Balanced	100% of net capital invested and vested bonus declared (net of the Policy fee)	Yes	1.00% pa	0.35% of the first R50m, 0.25% of the excess above R50m[3]	January 2004
Partially Vesting	Smooth Growth Fund Global	CPI + 4% pa, net of the policy fee and underlying asset 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 the policy fee and underlying asset charges over a 5 year time horizon	Multi-Manager	Moderate Conservative Balanced	100% of net capital invested and total bonus declared (net of the Policy fee)	Yes	1.50% pa	0.35% of the first R50m, 0.25% of the excess above R50m[3]	November 2007
Fully Vesting	Multi-Manager Secure Growth Fund Bonus Series 2013	CPI + 2% pa, net of the policy fee and underlying asset charges over a 5 year time horizon	Multi-Manager	Moderate Conservative Balanced	100% of net capital invested and total bonus declared (net of the Policy fee)	Yes	1.50% pa	0.35% of the first R50m, 0.25% of the excess above R50m[3]	June 2013
Fully Vesting	Smart Guarantee +3 Fund	CPI + 3% pa, net of the policy fee and underlying asset charges over a 7 year time horizon	Liability Driven Investment by Structured Solutions	Moderate Balanced	100% of net capital invested and total bonus declared (net of the Policy fee)	Yes	0.50% pa	0.90% pa[3]	October 2013

KEY:
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 on member switches out and terminations 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.

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NEW DIRECTIONS IN GROWTH AND SECURITY

for your financial wellness