momentum

Smooth Bonus Report

Second Quarter 2017

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

Contents

Dear valued investors

Seeking certainty in uncertainty – cycles are here to stay

"May you live in interesting times" is an English expression, which purports to be derived from a traditional Chinese proverb, or even a curse, according to some sources. However, there is no evidence of such an expression emanating from China and it's accepted that the saying is apocryphal, as there is neither a source nor any accredited author. In English, we tend to use it ironically, as a blessing or message of hope for what is to follow. So, let's accept this saying at its ironical best and acknowledge that these indeed are fascinating times in which we are living, that better days will follow and one day we will all look back through wiser eyes at this cycle of discontent. Let's rather learn from it because, yes, it is a cycle, the world is not about to end and we need to emerge with our savings plans intact.

Politics, Economies and Markets

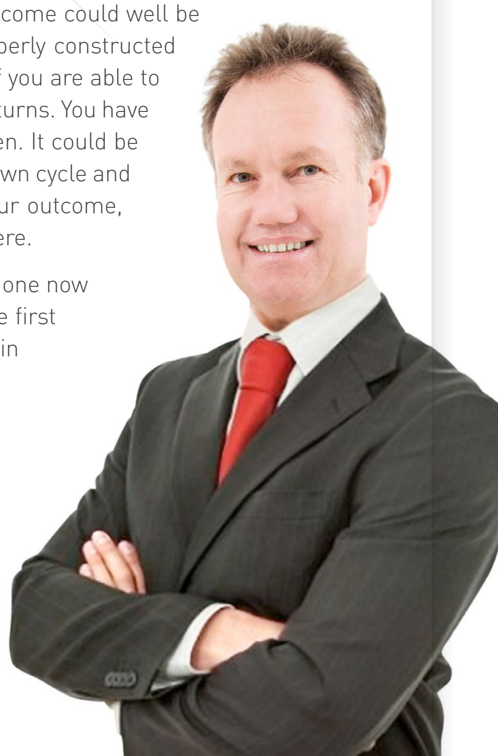
It is easy to understand the prevailing negativity, as less-than-positive news flow abounds on every cell phone, tablet or device, which we choose to interact with on such an incessant basis these days. Whether you reside in the UK, USA or South Africa, political policy uncertainty prevails. The UK, some 14 months since very surprisingly deciding to leave the EU, still cannot tell you exactly what this means, neither for it nor for Europe. The US, about six months after the again surprise (for most that is) election victory of the brash and brawn, Donald Trump, is now less convinced about his "America First" policies, as he struggles to get them through a Congress, which his Republican Party controls. These are significant trading partners of South Africa's and a wound to their economies is a wound to ours. The United Arab Emirates is turning on its fellow Qatar, North Korea continues to rattle its nuclear sabre, the US is at odds with the Iran again and Moscow continues to arm wrestle with anyone who President Putin regards as a worthwhile opponent. If that is all not enough, back at home, in a wintery South Africa, we appear in a state of political policy flux, economic policy flux and overall a general state of crisis, as many would have us believe.

But let's remember that politics is not economics, which is not investment markets either. Of course they are interrelated but they are not one and the same. Misconceived political policy decisions can have enormous economic ramifications but investment markets can and do survive these. Returns will fluctuate. When all is in alignment, returns are good, they exceed inflation. When they are not, returns can be poor, or even very poor. When the world appropriately bemoaned the financial crisis of 2008, markets did not listen. They climbed and climbed and climbed some more. But we all knew this could not last forever, it is now that we are living this rather than simply mouthing it. It is tough and difficult to endure but these too shall pass. A good dose of certainty and restored confidence is necessary. Someone will deliver it. Who and when this will be delivered, we don't know. But that is what makes for interesting times.

What do I do?

Do I review my investment strategy? Yes, that is always a good idea. But **review** does not mean **act!** All too often, during these testing times, we feel compelled to act, to do something or to make something happen. This is often not a good idea, as it reflects and action born out of a usually negative prevailing emotion, not reality. Start by reviewing your outcome, the goal you set for your investment at the outset. Should this continue to reflect your objective and you have selected a well-diversified and wisely constructed portfolio, the ideal outcome could well be to affirm your original decision. Therefore, **don't act!** This may not be easy but a properly constructed portfolio takes these cycles into account. It is important that you can convince yourself you are able to limit losses now and, just as important, you are correctly positioned for when this cycle turns. You have to take maximum advantage of the turnaround. It will turn but we cannot pinpoint when. It could be very sudden, so to try and time it perfectly is virtually impossible. Therefore, ride this down cycle and prepare for the journey back up. Always invest with a particular outcome in mind, your outcome, your goal, and be prepared to stay the course. Accept the cycles, they will always be there.

To quote the immortal words of Bob Dylan (The Times They Are a Changin'): "The slow one now will be the fast. As the present now will be the past. The order is rapidly fadin'. And the first one now will be the last for the times they are a changin'." May we continue to live in interesting times…



Warm regards

Kevin Milne

Investment Product Specialist

Is this the beginning of a meaningful interest rate cutting cycle?

by Pavit Ramnarain

What goes up must eventually come down, or so the saying goes. For the first time in five years, the South African Reserve Bank (SARB) cut interest rates on 20 July 2017, surprising many, as this occurred sooner than expected. Could this be the beginning of a meaningful interest rate cutting cycle and, if so, how deep will it go? To assess this, the reasons why the SARB cut interest rates need to first be considered, followed by previous interest rate cutting cycles that have been experienced.

Why did the SARB cut interest rates?

The 0.25% reduction was favoured by four members of the Monetary Policy Committee (MPC), with the remaining two voting in favour of keeping interest rates unchanged. The following reasons were cited for the reduction:

- An improvement in the outlook for headline inflation. The revised inflation outlook is now as follows:
  - 5.3% for 2017 (down from 5.7%)
  - 4.9% for 2018 (down from 5.3%)
  - 5.2% for 2019 (down from 5.5%)

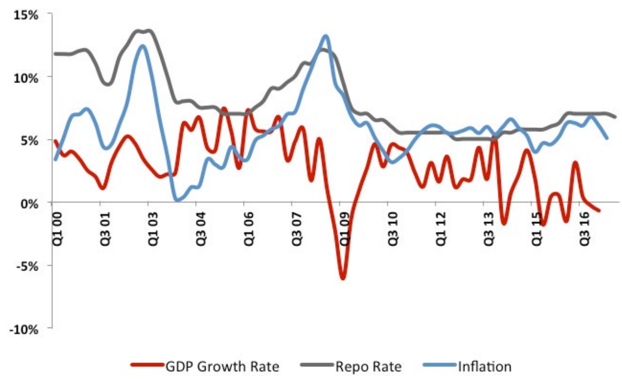
The lower expectation for headline inflation was due to a lower starting point, revised assumptions for the real effective exchange rate, lower expectations of the international oil prices and domestic electricity prices as well as a wider output gap[1].

- A reduction in the domestic growth outlook. This was revised following the unexpected contraction in gross domestic product (GDP) during the first quarter of 2017 and the resulting recession being experienced. The revised growth expectations are as follows:
  - 0.5% for 2017 (down from 1.0%)
  - 1.2% for 2018 (down from 1.5%)
  - 1.5% for 2019 (down from 1.7%)

Previous interest rate cutting cycles

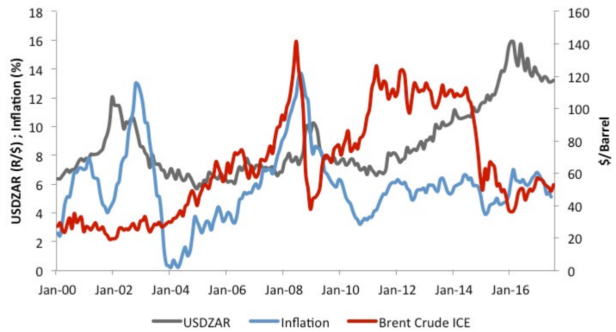
Before the July 2017 MPC meeting, the last interest rate cut was a 0.50% reduction that occurred midway through 2012. This was the last in a series of interest rate cuts, which began at the end of 2008 and saw the repo rate fall 7% during that period (see Chart 1). At the time, this resulted in the lowest the prime lending rate had been since the mid-1970s. The second half of 2008 saw the intensification of the global financial crisis, with South Africa officially entering a recession in early 2009. Headline inflation had peaked at 13.7% in August 2008, spurred on by surging oil prices, higher food prices and a depreciating rand (see Chart 2). This peak, however, was followed by a sharp fall in headline inflation, as oil prices began to fall rapidly and the rand began its recovery. The combination of a fall in inflation (which would have led to a fall in inflation expectations since the latter is based on past inflation experience) and sluggish economic growth, resulted in the beginning of South Africa's last interest rate cutting cycle.

Chart 1: Previous cutting cycles



Source: INET BFA

Chart 2: Drivers of inflation



Source: INET BFA

The above cycle, however, was not the first deep interest rate cutting cycle South Africa had experienced since the turn of the millennium. The period between June 2003 and April 2005 had seen interest rates cut by a total of 6.5%. Chart 1 shows this cutting cycle also began shortly after inflation began falling (again following a period of rising inflation) and against the backdrop of decreasing economic growth. Although the SARB implemented inflation targeting in 2002, headline inflation had spiked due to the depreciating rand. Here again, a contributing factor to the subsequent rapid fall in inflation was the recovery and continued strength of the rand. The global economy was faced with a myriad of challenges during the early 2000s: economies were still reeling in the effects of the dot-com crisis, the aftermath of the September 2001 terrorist attacks as well as the various corporate scandals that were uncovered during that time.

There was another interest rate cutting cycle experienced in 2001. However, this was relatively shallow; with the repo rate being decreased by only 2.5%. Here again, the cutting cycle began during a period of falling inflation and economic growth.

The two most recent interest rate cutting cycles were quite deep. However, they had followed a series of rather steep interest rate hikes. The first deep-cutting cycle during the early 2000s had followed a total interest rate hike of 4%, which occurred during a nine-month period. The period between the last hike and first cut was eight months. The second deep-cutting cycle, which occurred during the financial crisis, had followed a total increase in the repo rate of 5%, which occurred during a two-year period. The period between the last hike and the first cut was five months.

The recent cut of 0.25%, however, has followed a mere 2% increase in the repo rate, which occurred during a two-year period. Furthermore, the repo rate was unchanged for just more than a year before being reduced. If previous cutting cycles are anything to go by, there seems to be only limited scope for further reductions.

The current situation

Interest rates have been cut amid lower inflation expectations and a muted domestic growth outlook. The SARB acknowledges that while the interest rate cut will not bring about the growth required, it will provide relief to South African households. If inflation stays low, further interest rate cuts are certainly possible. The MPC, however, did caution that if the inflation outlook worsened, it would not hesitate to reverse its decision and increase interest rates.

Of particular importance is that the MPC's inflation outlook for 2019 was also revised down, showing it expects inflation to be lower in the short to medium term. Although the Bureau of Economic Research's inflation expectations survey showed the inflation expectation for the next five years has actually increased from 5.7% to 5.9% from the first quarter to the second, the SARB pointed out that lower inflation during the next two years can lower future expectations of inflation.

Momentum Investments believes further interest rate cuts are possible, especially if inflation stays low and within the target band. However, this interest rate cutting cycle is expected to be comparatively shallow to previous ones.

Pavit Ramnarain

Product Specialist Leader
Momentum Investments

Quarterly market and economic review

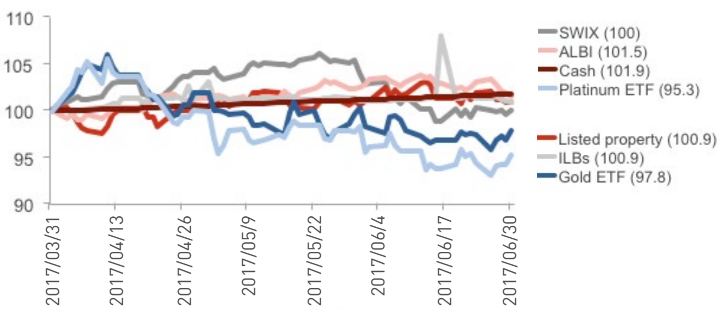
by Sanisha Packirisamy and Herman van Papendorp

Broadening global recovery buoyed equities in Q2 2017

Increasing signs that the global growth recovery was broadening beyond the United States (US) into the Eurozone and Japan provided fundamental earnings support to the global equity asset class during the second quarter of 2017. A more synchronised global growth return, in tandem with a weakening US dollar trend (the latter driven by US inflation continuing to underperform expectations and early indications by the European Central Bank (ECB) and the Bank of England (BoE) that both were starting to contemplate the advent of monetary tightening policies), supported the strong outperformance by emerging market (EM) equities for the quarter. While fading US economic momentum buoyed global bonds during the first part of the quarter, the tightening noises made by the ECB and BoE caused a European-induced global bond sell-off towards quarter-end.

A weaker US dollar put pressure on commodity prices during the quarter, while simultaneously supporting the rand. This lethal combination made the platinum and gold exchange-traded funds (ETFs) the weakest performers among the South African (SA) asset classes for the quarter (see chart 1). Despite negative ratings action and ongoing political uncertainty, local bonds remained remarkably stable during the quarter, receiving support from the global carry trade and an acceleration in the domestic inflation downtrend. Local cash provided the highest local returns for the second quarter of 2017. In contrast, a strong rand hurt the return from globally based listed property shares, as well as the foreign earnings bases of SA equities. The latter was also hurt by a weak commodity price environment, an unfavourable Mining Charter announcement by government, as well as recessionary conditions in the local economy and rock-bottom confidence levels.

Chart 1: SA asset class returns in Q2 2017 (indexed)



Source: INET BFA, Momentum Investments

Momentum Investments expects global equities to provide better returns than global bonds, as long as synchronised global economic and profit growth trends, still-stimulatory policy settings and favourable relative valuations remain in place.

Earnings trends and valuations should now favour non-US regions. A decent yield pick-up is available for European equities over fixed income, while fundamental support remains in place for Japanese shares. Meanwhile, a widening positive growth differential between EM and developed markets is likely to underpin EM equity outperformance.

SA nominal bonds are likely to benefit alongside EM bond markets in the current global hunt-for-yield environment. This asset class generally performs well from around the current low levels of business confidence and in the run-up to interest rate cuts.

An anticipated rapid decline in local inflation should further strengthen the case for SA nominal bonds into 2018, but would be fundamentally negative for inflation-linked bonds.

Local cash should continue to deliver decent risk-adjusted returns in a low-return environment, but re-investment rate risk is set to increase in response to a likely peak in the local interest rate cycle.

SA equity valuations have improved meaningfully due to a flat market in the past three years and an expected profit rebound on the back of higher commodity prices and a synchronised global recovery, but a turnaround in confidence is necessary to unlock strong SA equity returns. The latter hinges on political change and/or improved policy certainty. The marked improvement in listed property's relative valuation against nominal bonds (now close to its five-year average) points to strong property returns from the current rating.

Low global inflation: The elephant in the room

Higher economic growth is stretching across developed and EM economies in a synchronised fashion for the first time since 2010. However, the recovery is not without risks. The International Monetary Fund (IMF) warns about threats to the growth trajectory posed by a possible shift towards inward-looking policy platforms, rising protectionism and increased geopolitical tensions. It has been a year since the European Union (EU) referendum in the United Kingdom (UK) triggered a rise in awareness over anti-globalisation sentiment, but political developments still dominate the outlook. The June 2017 Barclays Global Macro Survey shows that investors still consider geopolitics to be the biggest risk facing markets in the next year, despite European election risks being largely behind us.

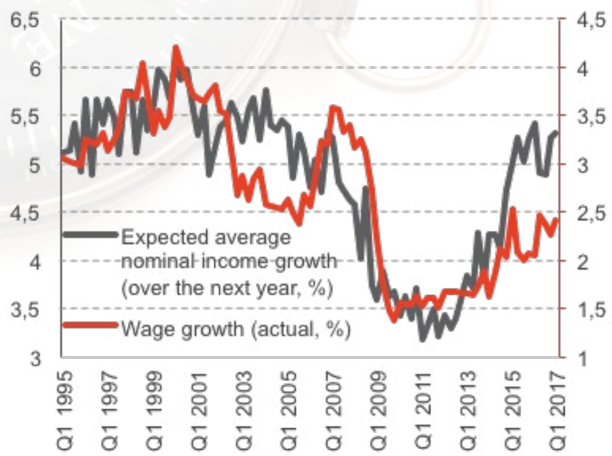
Even though recent developments (including the defeat of Geert Wilders' right-wing party in the March 2017 Dutch election poll, a split in nationalist support in Finland and Emmanuel Macron's victory over Marine Le Pen's far-right political party in France) suggest the protectionist wave may be receding, it is unlikely the forces driving the populist surge in Britain and the US have been exhausted. In its June 2017 Global Economic Outlook, the Organisation for Economic Co-operation and Development points out that better policies are needed to make globalisation work for all. If the economic, social and security issues that boosted populism are not dealt with effectively, political fragmentation may return to Europe.

With political headwinds in Europe appearing to be less vicious than initially feared, the ECB suggests that a newfound support for European cohesion, starting with a friendlier Franco-German relationship, could release pent-up demand and investment in the region, extending the Eurozone's surprise economic recovery that saw all member states experiencing an expansion in early 2017.

Notwithstanding the ECB's improved view of the Eurozone's growth prospects, unemployment and growth output gaps (actual relative to trend) are expected to remain negative for the remainder of this year and next. Persistent slack should continue holding back inflation pressures. Eurozone inflation dynamics have suffered from the after-effects of price shocks in global commodity prices, falling import prices, continuing slack and increased wage flexibility. Moreover, wage formation has become progressively backward looking in key economies (including Italy), increasing the weight of low past inflation. This has led to wage growth in the Eurozone lagging the upward trend in G10 economies (the eleven-largest industrialised nations) for the last three years. The ECB's recent comments that "a very substantial degree of monetary policy accommodation is needed for underlying inflationary pressures to build up" points to an ongoing cautious monetary policy stance. As such, a sustained Eurozone interest rate hiking cycle is still premature in Momentum Investments' view.

In contrast, the headline rate of unemployment has fallen more convincingly in the US, declining from around 10% for December 2009 to 4.3% for June 2017. Typically, a tight labour market leads to upward pressure on wages and inflation, as embodied in the Philips curve. This time around, the transmission mechanism from a tighter labour market into higher inflation has been much weaker, with average US wage growth across a number of measures only increasing from 1.5% to only 2.5% for the corresponding period (see chart 2).

Chart 2: Modest uptick in US wage growth



Source: Deutsche Bank, Momentum Investments

The IMF blames this on financial shocks, which lead to slow recoveries and persistently low inflation. It claims that globalisation has increased the role of international factors and decreased the role of domestic factors in industrial economies. The World Economic Forum speculates that lower wage growth may be the consequence of a decrease in labour market mobility, which has affected both genders, all age groups and various skills levels, equally. During the past two decades, workers have transitioned less frequently across firms and sectors, leading to lower wage growth overall.

This phenomenon could be the result of technological advancement lessening the ease of skills transfer and displacing workers towards lower-wage jobs from automated sectors, while more onerous regulations have raised the costs of job hiring and job switching.

An ageing and more educated workforce also implies a lower inclination to move jobs and, hence, a potentially lower natural rate of unemployment. In addition, low labour productivity is capping wage-growth upside.

The Economist proposes that changes to America's unemployment scheme in 2013 (reducing the period for which citizens could draw unemployment benefits) lowered the reservation wage, which is the rate needed to entice people into the labour market. Following this, a large number of jobs were created in lower-wage sectors.

However, Deutsche Bank shows that jobs growth accelerated in higher-skilled areas (and likely higher-wage areas) in the recent expansion. Moreover, a diverse range of labour market indicators (part-time employment, long-term unemployment and the number of discouraged work-seekers) reveal a more widespread recovery in the US labour market, helping to dispel the notion that the natural rate of unemployment may be lower than the current rate.

In Momentum Investments' opinion, the US Federal Reserve (Fed) appears to be nearing its growth and unemployment goals and conditions (including those in the labour market) look set for inflation to move higher. This should allow the Fed to raise interest rates by up to 100 basis points between now and the end of 2018.

The UK has similarly encountered subdued wage growth in the face of falling unemployment. Low productivity, immigration, a squeeze on public wages and gains in low-skilled jobs have likely led to this outcome. Despite low wages, UK core inflation has climbed distinctly above target due to sterling weakness. Nevertheless, the BoE is expected to leave policy settings unchanged well into 2018, given dampened cyclical growth prospects, following a disastrous election outcome, which left Theresa May's Conservative party in the position of a minority government.

Stagnant Japanese wage growth has puzzled in light of unemployment reaching new lows. HSBC explains that a structural rise in casual worker appointments and the concept of "lifetime employment" (where wages closely track slowing potential growth) may solve the labour market conundrum. With incomes barely rising, in spite of a tight jobs market, highly accommodative monetary policy is expected to persist even though a firm cyclical growth expansion remains intact.

Inflation has also softened in EM, reaching an eight-year low recently. This has allowed net commodity exporters in particular to ease monetary policy further to support growth.

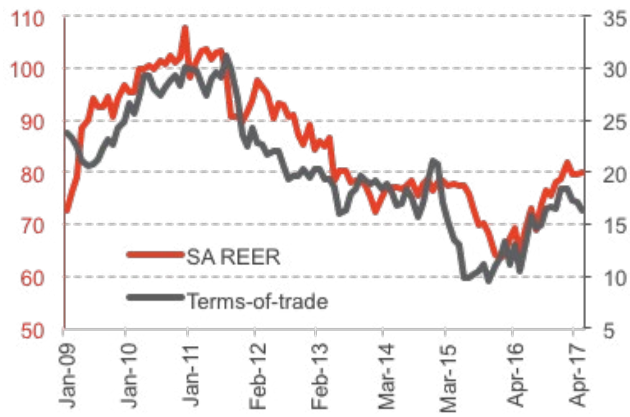
Although forecasts have been pared back by around 0.3% relative to a year ago, growth in the region is expected to improve to around 4.5% this year, marginally higher than growth levels recorded in 2016. Though EMs remain exposed to the potential for tighter global liquidity conditions and weaker global growth negatively affecting trade, investor sentiment has remained positive in light of improving macro fundamentals and slowing momentum in sovereign rating downgrades, related to idiosyncratic political and policy risks.

SA on a political knife edge

The rand has surprisingly weathered the domestic political and economic storm. It remains the best-performing currency for a twelve-month rolling basis compared to a basket of EM currencies. A favourable trend in SA's terms-of-trade (export prices relative to import prices) and the continued global hunt for yield have bid the currency firmer, despite deteriorating macro fundamentals (see chart 3).

While commodity price forecasts should provide support for the currency in the medium term, political willingness to avert an economic slippery slope will likely play a key role in determining the direction of the rand.

Chart 3: Favourable terms-of-trade have benefited the rand



Source: JP Morgan, Citi, Bloomberg, Momentum Investments, REER = real effective exchange rate

A crisis of confidence plagues the economic outlook for SA. While the current cycle is not the worst business confidence cycle in the history of economic downturns in SA, it is highly unusual to experience such a sharp dip in confidence this late into an economic cycle. Consumers across the income-earning spectrum are equally concerned about the SA economic outlook, holding a similar view to that held in the late 1980s to early 1990s, before democracy.

A poorly performing economy will place further downward pressure on revenue collection, while a downgrade to junk status on SA's foreign currency rating has meant higher borrowing costs for government. This increases the burden on taxes to escalate further and implies less available money for social infrastructure. Ultimately this lowers SA's potential growth, raising the risks of social unrest, as the economy struggles to keep up with the rate of population growth. The rating agencies have warned that a marked increase in the country's debt ratio (including further financial demands by SA's state-owned entities), diminishing independence of SA's institutions, unpredictable policy or delays in economic reform to generate higher levels of growth could trigger further downgrades.

This leaves the currency vulnerable to a bout of foreign portfolio outflows and, as such, the rand still poses the greatest upside threat to the inflation outlook. Nevertheless, lower food inflation and some currency tailwinds from previous appreciation should lead to a near-term disinflationary trend into the first quarter of 2018. With inflation set to head lower, SA real interest rates stack up favourably against other EMs, giving the SA Reserve Bank (SARB), in Momentum Investments' view, a limited opportunity to cut interest rates by around 50 basis points. However, with the rand likely to remain volatile heading into the African National Congress National Elective Conference in December 2017, the SARB is likely to defer cutting interest rates into early 2018.

Sanisha Packirisamy

Economist
Momentum Investments

Herman van Papendorp

Head: Macro Research and Asset Allocation
Momentum Investments

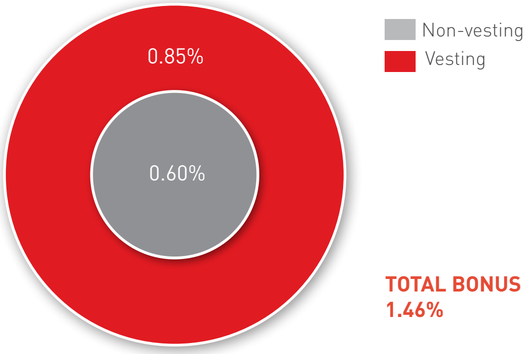
Partially Vesting Smooth Bonus Range
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

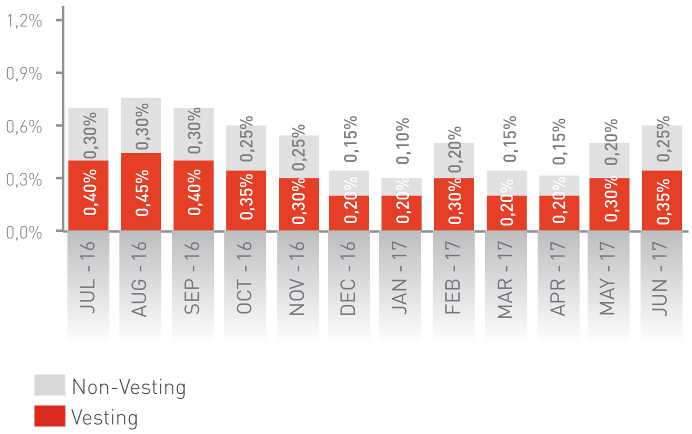
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	95% - 100%	R12.2bn	1,49%	6,85%

Performance

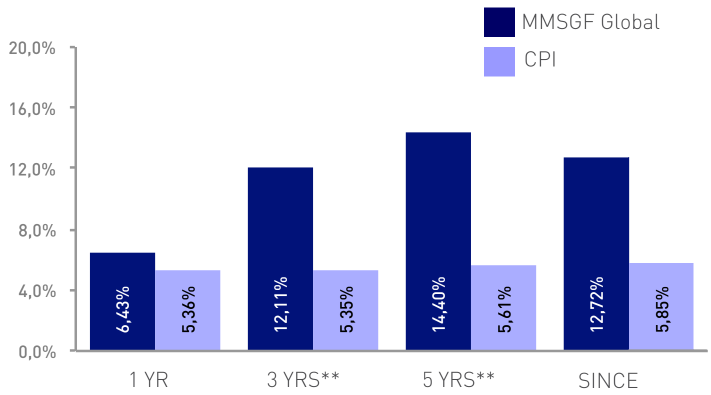
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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



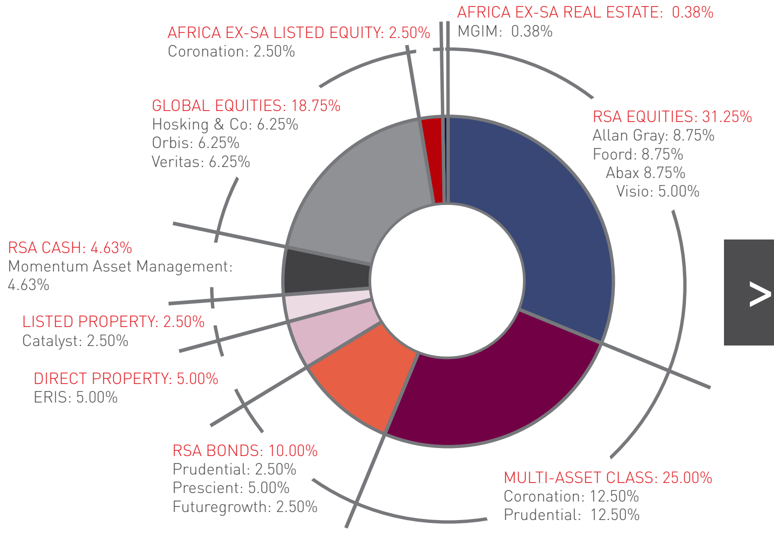
CPI figures are lagged by two months

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

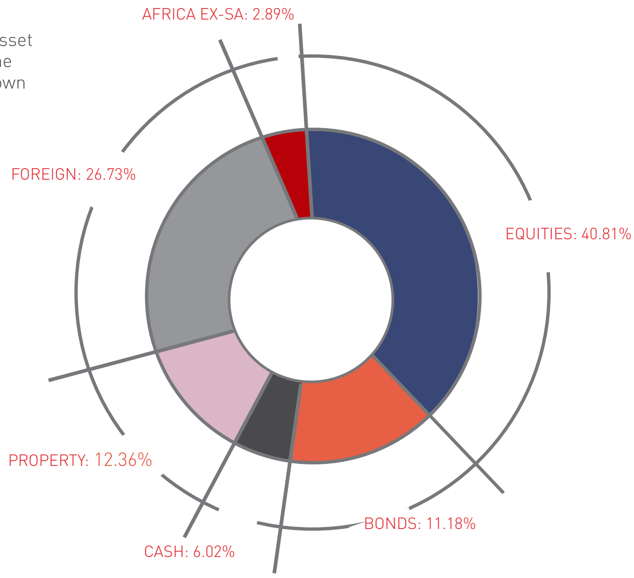
Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.

The 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

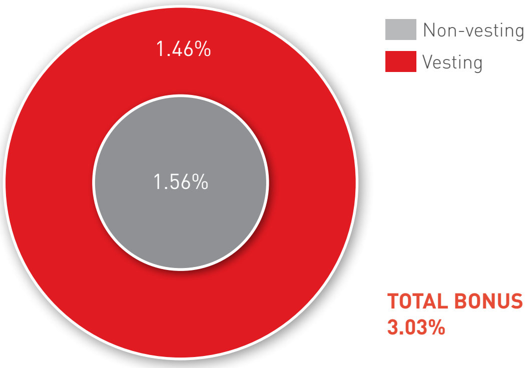
Multi-Manager Smooth Growth Fund Local

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	100% - 105%	R250.6m	1,94%	4,74%

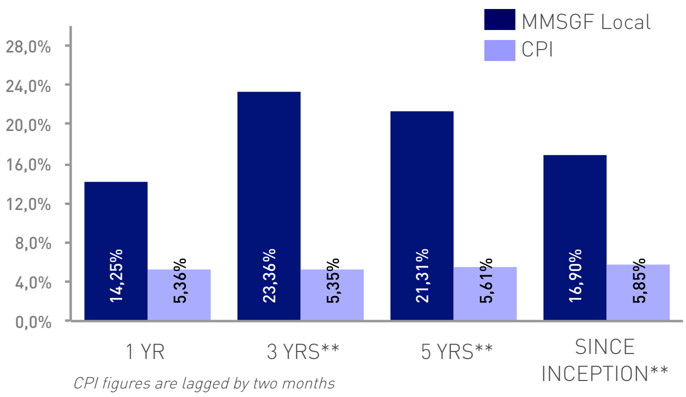
Performance

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



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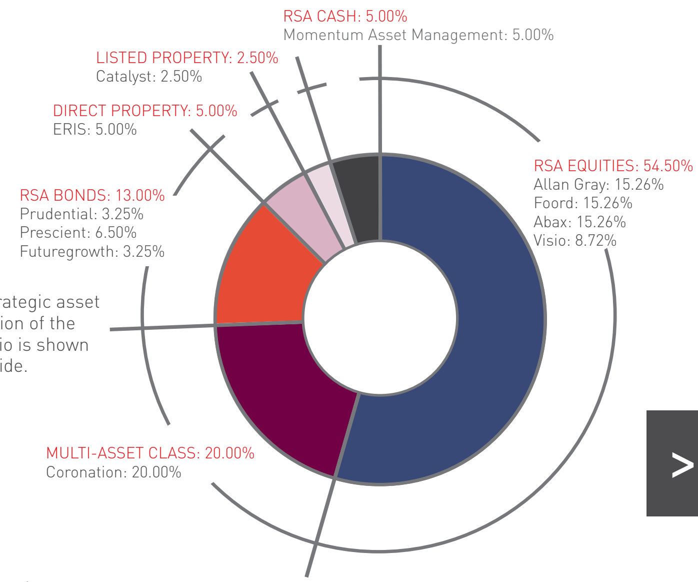
Asset Allocation



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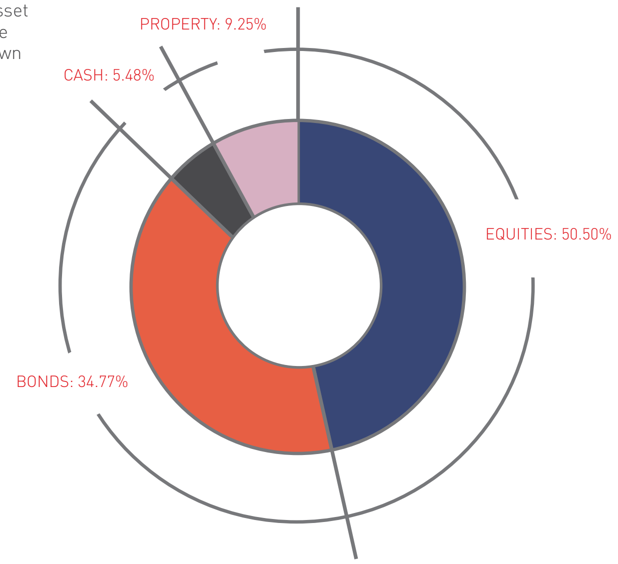

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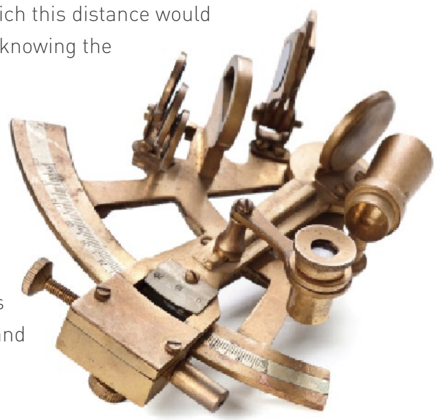
From as early as 150 B.C navigators could find their latitude, but ships were lost in shipwrecks because it was impossible to determine longitude. Thanks to **the 17th century sextant**, the navigator could measure the angle between the moon and a celestial body, calculating the exact time at which this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

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



Partially Vesting Smooth Bonus Range

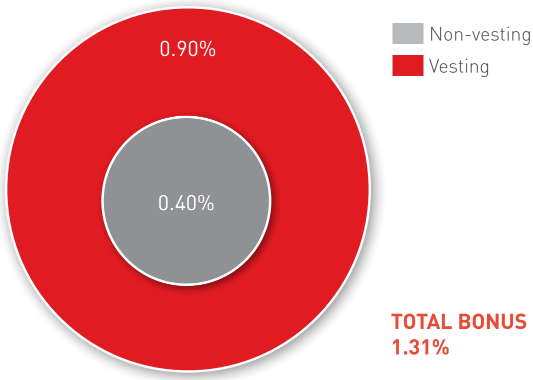
Smooth Growth Fund Global

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	95% - 100%	R 2.5bn	1,8%	5,16%

Performance

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



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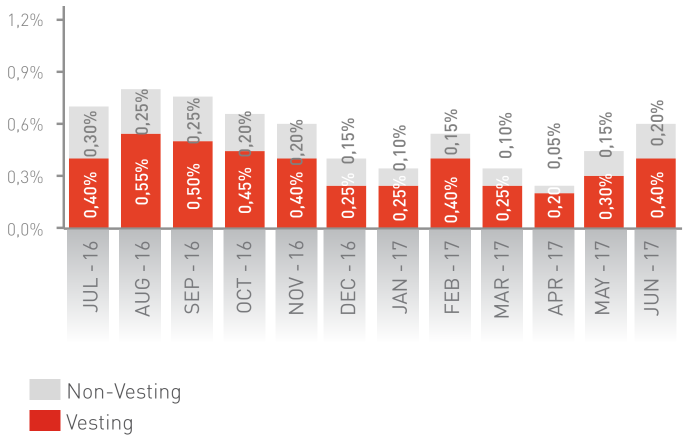

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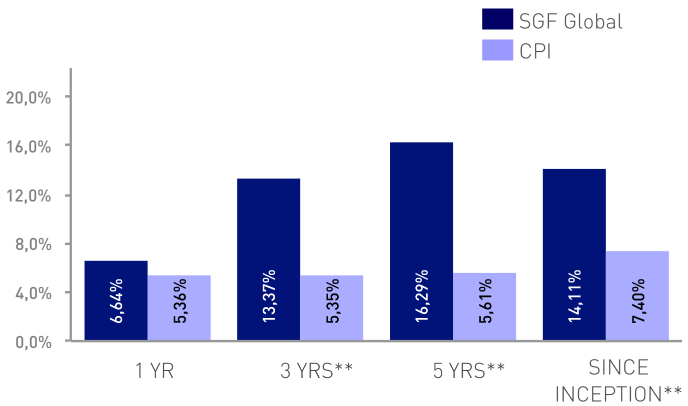

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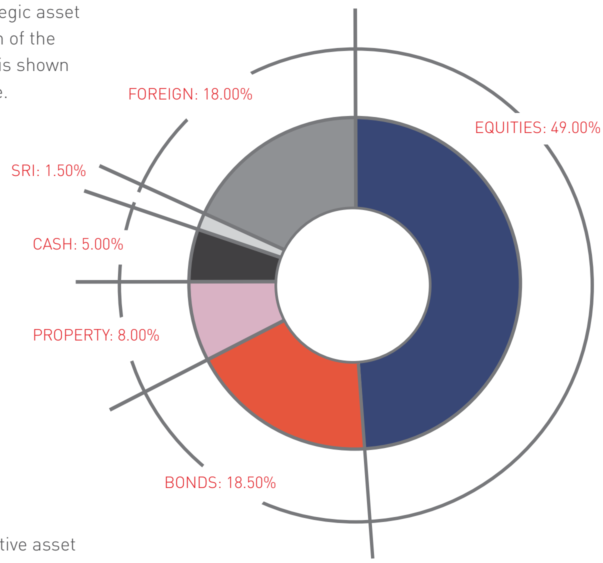
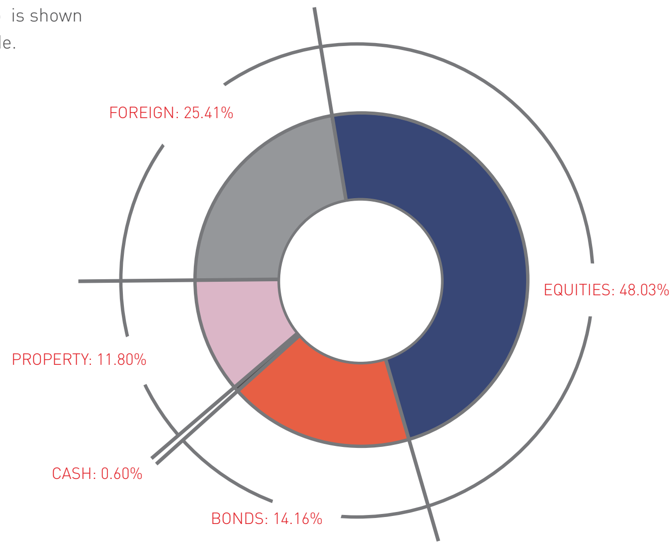
Asset Allocation

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.

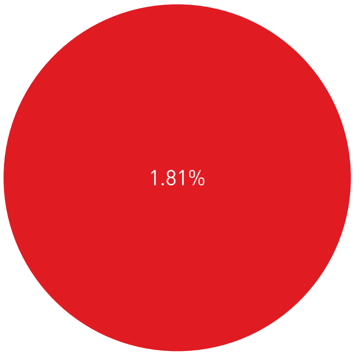
Fully Vesting Smooth Bonus Range
Multi-Manager Secure Growth Fund

Fund Snap Shot

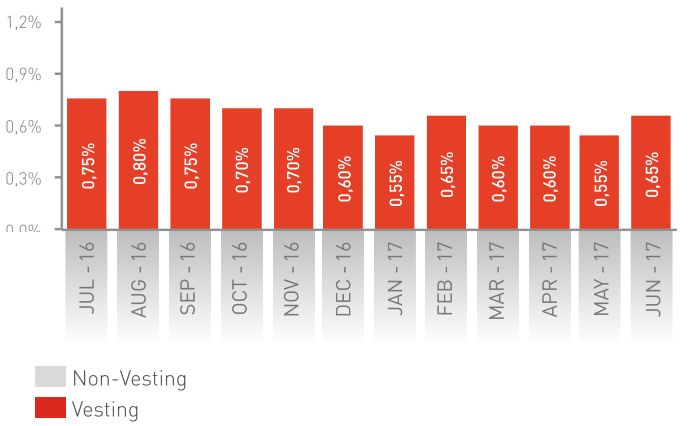
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	105% - 110%	R48.3m	1,14%	6,54%

Performance

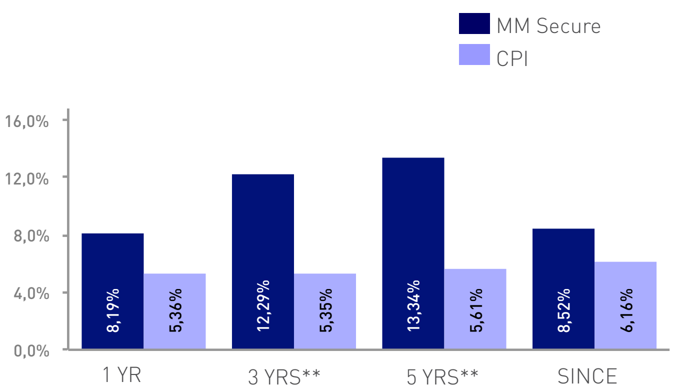
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



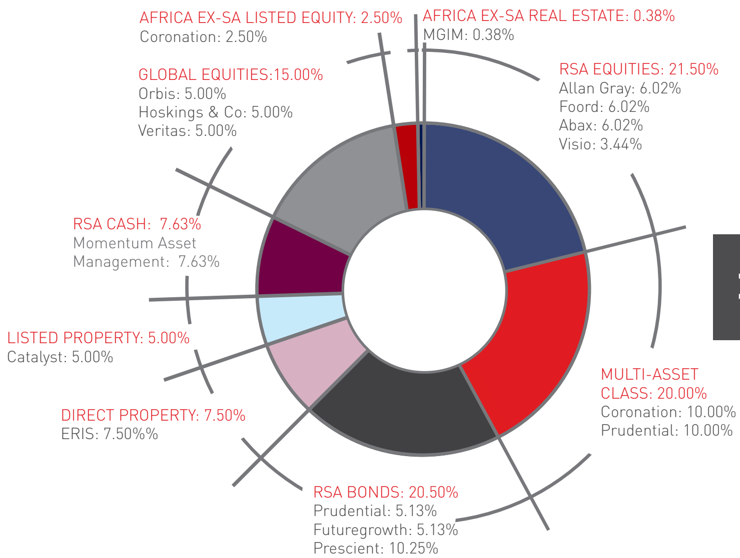
CPI figures are lagged by two months

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

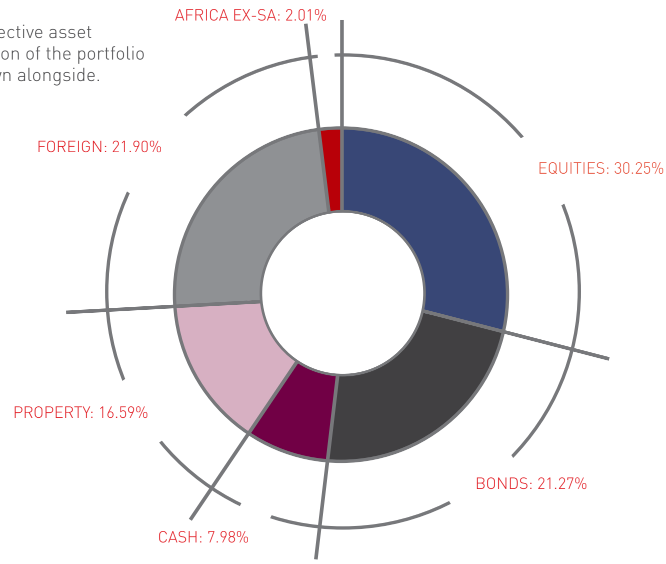
Asset Allocation

The strategic asset allocation of the portfolio 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.



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

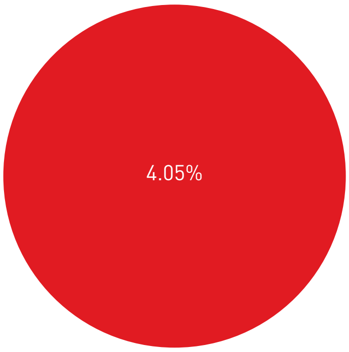
Multi Manager Secure Growth Fund Bonus Series 2013

Fund Snap Shot

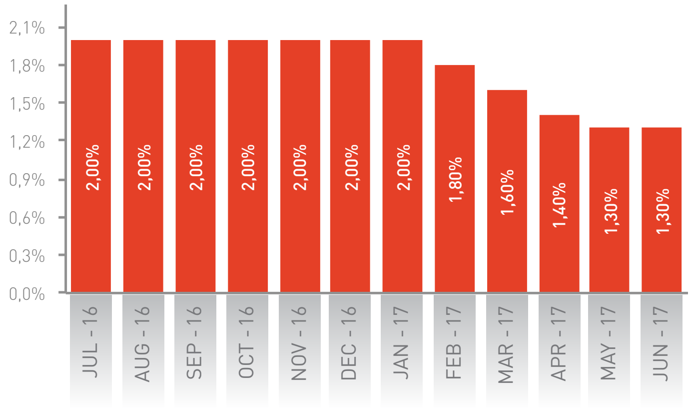
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2013	110% - 115%	R66.7m	6,64%

Performance

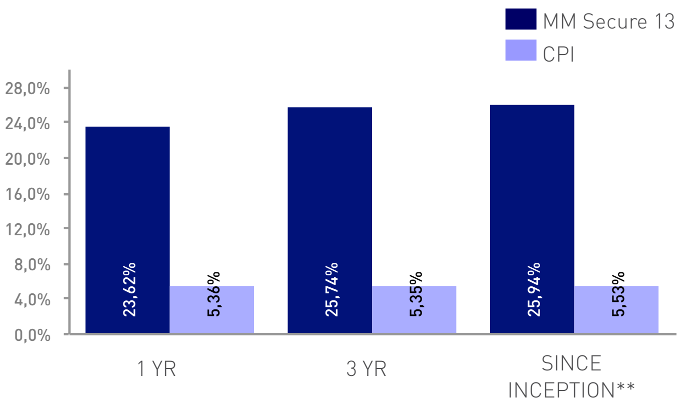
The total bonus* for the past quarter on the Multi Manager Secure Growth Fund Series 2013 is shown below.



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

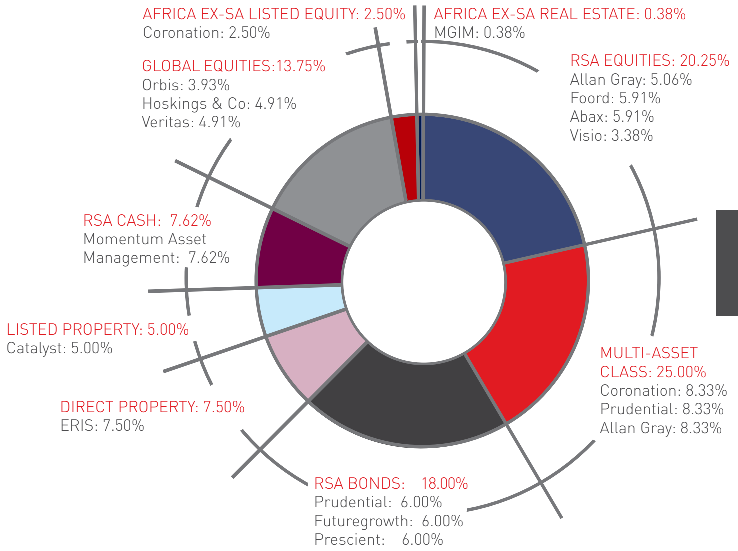
* Bonuses are net of underlying asset charges but are gross of the policy fee

** Annualised

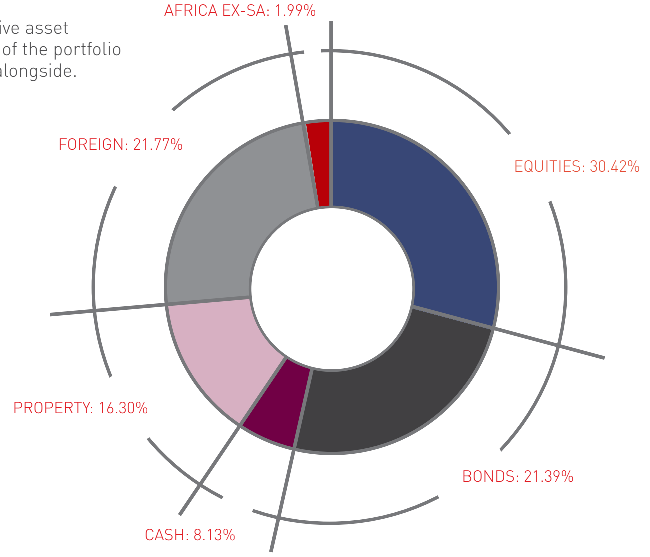
Asset Allocation

The strategic asset allocation of the portfolio 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.



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.

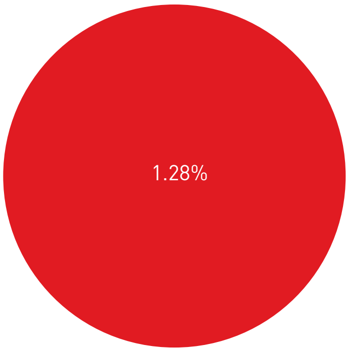
Fully Vesting Smooth Bonus Range
Smart Guarantee + 3 Fund

Fund Snap Shot

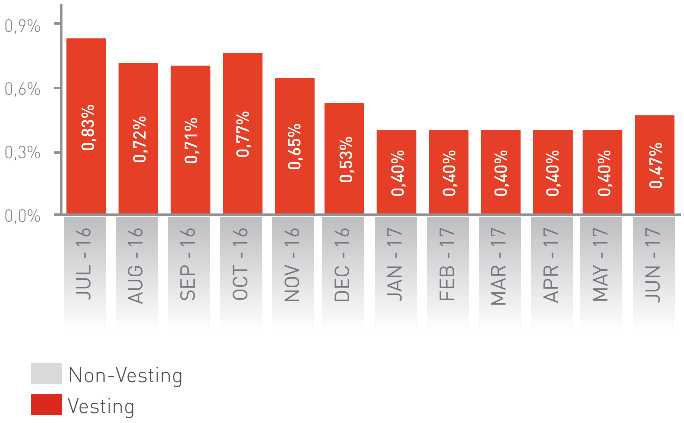
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	95% - 100%	R221.4m	0.52%	6,29%

Performance

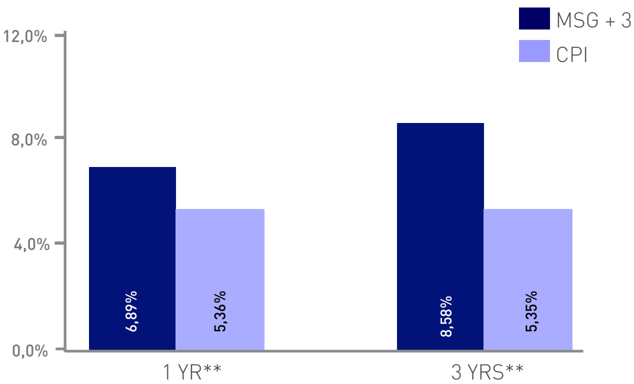
The total bonus* for the past quarter on the Smart Guarantee + 3 Fund is shown below.



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.



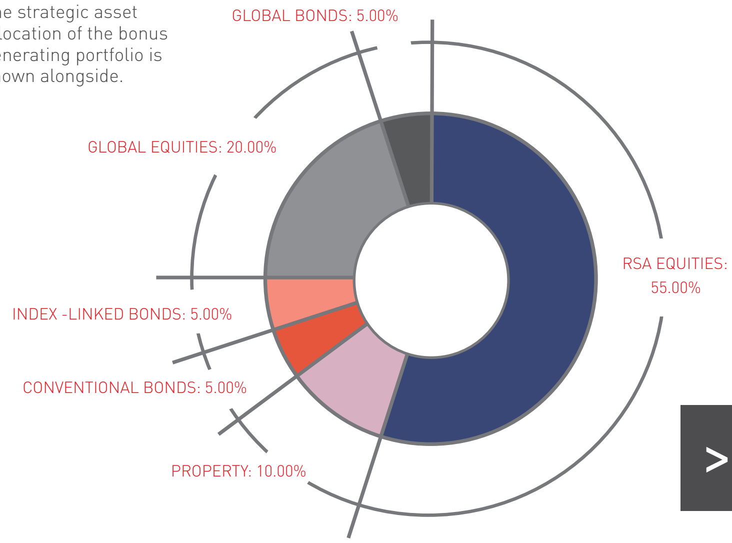
CPI figures are lagged by two months

* 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.

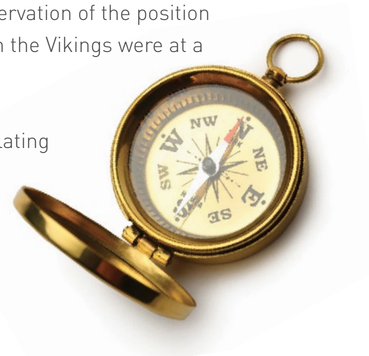
As a result, for disinvestments other than guaranteed benefit payments the underlying assets value is sensitive to both asset values and interest rates and the effective asset allocation will reflect both the bonus generating portfolio and the dynamic protection overlay.

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 4.90% 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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