Smooth Bonus Report

Fourth Quarter 2017

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

momentum

>

Contents

Looking back over the past quarter

Dear valued investors

The global economy has continued to have synchronised growth in the fourth quarter of 2017. The South African market has seen another quarter of strong growth.

Even with all the challenges in the global economy, it has continued to show strong resilience. During 2017, there have been 'Goldilocks' conditions that are a combination of improving global growth, low inflation and accommodative monetary policies, which led to robust returns from risky investments, while volatility remained close to all-time lows.

At the African National Conference (ANC), the election of Cyril Ramaphosa as the ANC's new president was well received by the market. To sustain positive sentiment, it will depend on how the new leadership of the ANC addresses governance, financial woes in state-owned enterprises and hand over of power. At the same time, corporate South Africa suffered a blow with an accounting scandal that erupted at Steinhoff International and resulted in a nose dive of the share price.

Herman van Papendorp and Sanisha Packirisamy from Momentum Investments provide further market and economic commentary on page 6.

Smooth bonus portfolios

With another quarter of strong returns from growth asset classes (equities and property), healthy funding levels and a positive outlook for the coming year, the returns on the Momentum Investments portfolios are likely to increase.

A question many have asked is how the collapse of the Steinhoff International share price has affected their investments. The exposures to shares in Momentum Investments' various smooth bonus portfolios are well diversified and, hence, the exposure to Steinhoff International was relatively small; although the drop in share price did have a small effect on overall returns. In the coming quarter, Steinhoff will need to provide its financial results for 2017 and highlight the accounting irregularities to the market. Once the news is released to the market, it will drive the direction of the share price and allow ratings agencies to rate the company on the facts.

Momentum Investments expects the global economy to display resilience in 2018, continue with its broad-based synchronised recovery and tumultuous politics to remain as a downside risk.

We wish you all a prosperous 2018!

Warm regards

Steeed Duncan-Smith

Client Relationship Manager

Momentum Corporate

Assessment of Global Pension Systems

by : Jennifer Boom

Introduction

Most pension systems around the world face challenges preparing for their retirees. Macro trends, such as low economic growth environments, increasing life expectancies, low saving rates and low levels of financial literacy make it difficult for governments to ensure the financial stability of pension systems, while guaranteeing sufficient income for those who have retired.

In the fourth quarter of 2017, the global consulting company, Mercer, released its ninth yearly Melbourne Mercer Global Pension Index (MMGPI), ranking the best and worst pension systems in the world.

What is MMGPI?

The MMGPI measures 30 pension systems covering 60% of the world's population. It ranks them by three sub-indices namely adequacy, sustainability and integrity.

The overall scores are based on a 40% weighting for the adequacy sub-index, 35% for the sustainability sub-index and 25% for the integrity sub-index. The adequacy sub-index represents the benefits provided to pensioners in conjunction with important benefit design features.

The sustainability sub-index focuses on the future. It measures various indicators that will influence the current system and whether it will be able to provide benefits into the future. The integrity sub-index measures indicators that influence the overall governance and operations of the system, which affect the level of confidence the citizens of each country have in their system.

The objective of the analysis is to benchmark each country's pension system, highlight the flaws in each system and suggest possible areas of reform for each country to generate better outcomes for their present and future retirees.

South Africa's ranking

South Africa ranked 24th out of 30 countries that were part of the study, receiving a D grade for its pension system. According to the MMGPI, this ranking signifies "a system that has some desirable features, but also has major weaknesses and/or omissions that need to be addressed". South Africa received an overall score of 48.9, falling in the lowest quartile of the countries investigated.

The highest score was given to Denmark with 78.9 and the lowest was given to Argentina with a score of 38.8.

Key results revealed that:

- South Africa scored the lowest value of all countries in the adequacy sub-index. There are, thus, adequacy issues that need to be dealt with, specifically around low pension coverage and lack of preservation of retirement benefits.
- South Africa did, however, score highly in the integrity sub-index, having a score higher than that of developed countries, such as Germany and the United States. This signifies a well-regulated retirement system.

Global pension system challenges: Low saving rates and lack of easy access to pension plans

Individual savings rates in most countries are very low, presenting considerable challenges for these countries. In the past, defined-benefit structures would have provided a guaranteed pension income to workers. Instead, many employees look at their defined-contribution pension fund balances, with no guaranteed income, and realise the retirement income might be much lower than expected.

In addition, many employees around the world still lack easy access to retirement plans and savings products. In some cases, there are plans available but the money workers receive upon retirement is too low. A case study done by the World Economic Forum revealed that more than 50% of workers globally are in unorganised sectors and are at a disadvantage, since most lack awareness of the basics on how interest is compounded over time, how inflation affects savings and the benefits of holding a broad selection of asset classes to diversify risk. In this way, many people are unable to manage their own pension savings.

The World Bank has revealed that only around 6% of South Africans retire comfortably.

The consequence of this is a huge burden on the state welfare system. Social pension assistance is projected to increase from R129 billion to R165 billion by 2018/19.

Conclusion and recommendations

A successful retirement system requires adequate individual savings. Individuals now carry the burden to manage their own retirement savings to ensure they have sufficient money to sustain them throughout their retirement years. High-quality financial-literacy efforts need to be made by governments and financial institutions, targeting the most vulnerable groups. Affordable world-class retirement solutions should be made available to low-income earners, especially those in unorganised sectors. In this way, the country's pension coverage will be increased and South Africa will be a step closer to having a more adequate pension system.

The MMGPI made a few recommendations on how South Africa could improve its pension system index. These include but are not limited to:

- Introducing a minimum level of mandatory contributions into retirement saving funds
- Increasing the coverage of employees in occupational pension schemes, thereby increasing the level of contributions and investments
- Increasing the level of preservation of benefits, when members withdraw from occupational funds

Jennifer Boom
Actuarial Operations Specialist
Structured Solutions

Quarterly market and economic review to end December 2017

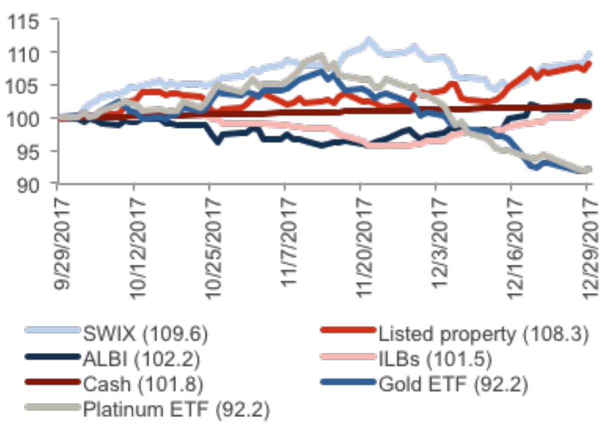
by Sanisha Packirisamy and
Herman van Papendorp

Positive South African (SA) political momentum supporting local asset classes

A strong rand rally triggered by the election of Cyril Ramaphosa as the new African National Congress (ANC) president in mid-December 2017 eroded the rand returns produced by global asset classes and commodity exchange-traded funds (ETFs) during the final quarter of 2017, leaving them in negative territory for the period. The combination of a synchronised global recovery, the approval of a tax stimulus package for the United States (US) economy and the continuation of the gradual normalisation of US monetary policy supported strong outperformance of global equities over global bonds in the quarter. Within global equities, emerging market (EM) equity returns outpaced those of developed markets (DM), due to their higher beta to the synchronised global growth recovery, a slightly weaker US dollar and somewhat higher commodity prices.

Among the outperforming local asset classes, the positive sentiment garnered by the ANC leadership change supported listed property and local shares, while the favourable global equity backdrop also contributed to the strong overall SA equity market outperformance for the final quarter of 2017 (see chart 1). While SA bonds also rallied strongly in December on the positive political developments, the damage done to the asset class by the disappointing October mini-budget kept its quarterly returns under wraps.

Chart 1: SA asset class returns in Q4 2017 (indexed)



Source: INET BFA, Momentum Investments

In Momentum Investments' view, a broad-based synchronised global economic growth recovery is likely to persist for most of 2018. Meanwhile, demand-pull inflation is likely to drift up slightly during the year, necessitating some interest rate tightening around the world, but keeping an overall easy policy framework in place, with aggregate central bank balance sheets expected to continue increasing for most of 2018.

This envisaged environment should have positive implications for global revenue and profit momentum (while limiting the downside for equity market ratings) in the year, hence supporting the outlook for global equities, but does not provide a favourable fundamental backdrop for global fixed-income investments. In addition, relative valuations continue to favour global equities over bonds.

High-beta equity markets in Europe, Japan and EMs should benefit most from the positive profit affect of the most synchronised global growth recovery since 2010 and more supportive monetary policy conditions, while any US dollar strength could provide external sector support for Europe and Japan, but could be problematic for EMs with high levels of external debt.

The election of Ramaphosa as leader of the ANC in December 2017 and president of the country in February 2018 has rekindled hope for sufficient political change and policy reform to propel the SA economy to a higher growth plane over time. The locally-driven part of the SA equity market is likely to benefit, as local and global investor flows erode the political risk premium attached to the local equity market (although the rand-hedge component of the market could come under pressure from rand strength). This market-friendly outcome, together with a recommitment to fiscal consolidation, has been beneficial to the SA bond market. This asset class is likely to continue outperforming, particularly if the global hunt for more attractive returns continues to support EM debt.

The combination of some improvement in the local growth performance and the possibility for lower bond yields should provide a supportive backdrop for local listed property. In contrast, further declines in local interest rates would increase the reinvestment risk for SA cash and make the asset class less attractive as an investment destination.

Global economy to display resiliency in 2018, but tumultuous politics remain a downside risk

One of the biggest surprise factors for investors in 2017 was the strength and resilience of the global economy. Investors ended 2016 on a gloomy note, expecting the world economy to expand at only 3.1% in 2017. However, by December 2017, expectations for the full year had improved to 3.6%, largely owing to a more robust growth outcome in DMs.

2017 was characterised by a perfect 'Goldilocks' combination of improving global growth, low inflation and accommodative monetary policies, which led to robust returns from risky investments, while volatility remained close to all-time lows.

The stage looks set for a continued, broad-based expansion in the world economy in 2018. Falling unemployment, diminishing output gaps, reduced deleveraging pressures, more supportive fiscal policies and well-behaved inflation are expected to boost many DMs, despite a gradual removal of the monetary stimulus punchbowl, while improving fundamentals and firmer global trade should further contribute to a stabilisation in EMs.

Despite a maturing business cycle in the US, Bloomberg estimates the risk of an imminent recession at only 15%. A further improvement in wealth conditions, favourable growth in real wages and encouraging jobs growth remain supportive of consumption spend, while high capacity utilisation rates should drive up capital expenditure. Goldman Sachs estimates the changes to US fiscal policy (including changes to the tax legislation) to boost growth by 0.4% in 2018 and 2019. Momentum Investments expects real growth in the US to improve to around 2.5% in 2018 from a projected 2.3% in 2017.

A solid expansion is expected in the Eurozone (from an estimated 1.8% in 2017 to around 2.2% in 2018), supported by similar factors boosting conditions in 2017. Lead economic indicators in the Eurozone point to an ongoing recovery, even in those economies, which had to be rescued during the Eurozone debt crisis.

Although Brexit uncertainty lingers and rising inflation continues to squeeze household incomes, the strength of the global economy will likely limit growth weakness in the United Kingdom (UK) to just above 1% in 2018 from a projected 1.5% in 2017.

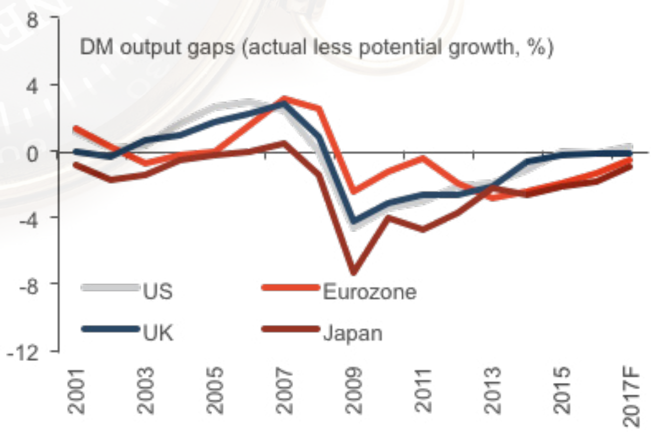
Japan's growth performance could slow somewhat from an estimated 1.7% in 2017 to around 1.5% in 2018 should the government decide against renewing its fiscal stimulus. However, resilient private demand, continued exports and infrastructure projects ahead of the 2020 Olympic Games should prevent a sharp slowdown.

Meanwhile, a recovery in EMs is likely to be sustained by a further improvement in fundamentals, a smooth normalisation in DM monetary policy and a 20% increase in the Bloomberg Commodity Price index since January 2016. Nonetheless, countries experiencing political unrest, including the Middle East, parts of Latin America and Sub-Saharan Africa, will continue to lag the global growth performance.

Growth in China is expected to slow in coming years, as policymakers work to prevent financial vulnerabilities from turning into systemic financial risks. Momentum Investments projects growth at around 6% on average in the medium term, with a reasonable likelihood that government will employ macroeconomic stabilisation tools if growth threatens to trend below this level. Ongoing efforts to address structural reforms and cultivate innovation are likely to produce healthy growth returns in the medium to long term.

Global growth has performed better than expected, contributing to closing output gaps (see chart 2), but low inflation prints continue to confound DM policymakers. It is likely it will be a few years until inflation exceeds the 2% target across DM central banks, allowing policymakers to take away the punchbowl slowly without disrupting the party.

Chart 2: Improved growth has led to a narrowing in DM output gaps



Source: Bloomberg, Momentum Investments

Import price weakness, positive shocks to aggregate supply and the effect of lower commodity prices, which all drove inflation lower previously, are nonetheless diminishing. The Global Purchasing Managers' Index readings shows input and selling prices are lifting, and, although the increase in wage growth has been sluggish, impressive employment growth, in the US in particular, suggests wages should further underpin higher inflation.

Pricewaterhouse Coopers dubs this period as the "beginning of the end of easy policy". The US Federal Reserve (Fed), although guided by a new chair, is likely to continue along its path of monetary policy normalisation. Up to three 25-basis-point increases in the Fed funds rate and a further shrinking of the balance sheet are expected to materialise during 2018.

In response to solid growth, the European Central Bank (ECB) is halving its asset purchases to €30 billion a month in 2018, but, given low inflation and the likelihood that price pressures will remain low for most of 2018, the ECB will likely only tighten interest rates in 2019.

Stubbornly low inflation points to lower interest rates for longer in Japan. However, there is a chance the Bank of Japan (BoJ) may choose to reconsider its ten-year target under its yield curve control policy, in reaction to firmer growth.

Contrary to inflation dynamics within the remainder of the DM composite, inflation pressures have increased considerably in the UK, owing to Brexit-induced sterling weakness. Despite a soft growth outlook, the Bank of England (BoE) may be forced to hike interest rates at least once in 2018 to combat rising inflation, which has eaten into consumers' purchasing power.

Similarly, financial conditions are tightening in China. Policymakers have clamped down on shadow financing and credit growth has fallen to its lowest rate in almost a decade. Monetary policy is expected to remain stable in 2018, although Chinese authorities could step in, should growth tumble below 6%.

While Momentum Investments' base case suggests good news is set to continue on the global economics front, politics could create some turbulence, derailing the momentum behind the economic recovery.

Though globalisation, free markets and free trade have persisted for decades, rising populist sentiment increasingly threatens this status quo. With a number of anti-globalists coming into political office in recent times, talks of increasing trade barriers and deporting migrants have increased, threatening the growth outlook for the global economy.

Rising protectionism could raise inflation more sharply through more onerous tariff arrangements, while geopolitical instability could dash consumer and business sentiment, weighing negatively on growth. The standoff between US President Donald Trump and North Korean leader Kim Jong Un could result in further conflict, while power struggles may flare up again in the Middle East.

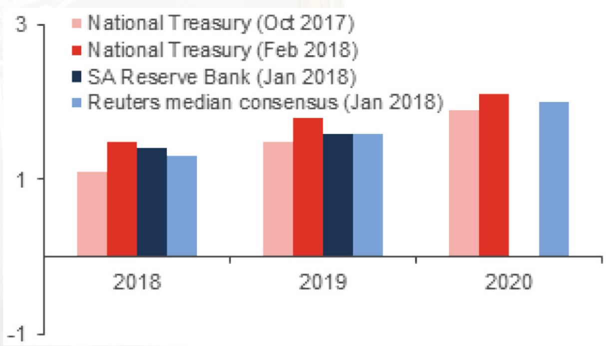
Moreover, the unpredictability of the direction in government's trade policies increases the downside risk to trade growth, which has resumed in recent months. In the US, Trump clearly favours a more protectionist future. He abrogated the Trans-Pacific Partnership (TPP) agreement in early 2017 and is forcing a renegotiation of the North American Free Trade Agreement (NAFTA), in what he believes is an effort to save US manufacturing jobs. In Europe, the UK still requires a reasonable Brexit deal with the European Union (EU) to preserve trade relations.

Rating agencies are more likely than not to leave SA's sovereign ratings unchanged

In Momentum Investments' opinion, a healthier fiscal outcome relative to Treasury's October 2017 estimates and some headway on credible structural reforms in SA should be sufficient to avoid a sovereign rating downgrade into junk territory by Moody's. Since the favourable outcome of the ANC National Conference in December 2017, a number of positive changes have transpired, including an attempt to begin to restore good corporate governance at key state-owned enterprises (SoEs), an ongoing investigation into state capture and upward revisions to growth forecasts.

The recent resignation by the former president has raised hopes for a Cabinet reshuffle, which could see the removal of underperforming ministers (including mineral resources, public enterprises, energy and social development).

Chart 3: Real GDP forecasts adjusted higher (% y/y)



Source: National Treasury, SARB, Reuters, Momentum Investments

President Cyril Ramaphosa has admitted increased clarity around the mining charter and land reform is necessary and has quashed unaffordable nuclear considerations.

While acknowledging free post-school higher education as critical for accessing economic opportunities, Ramaphosa pointed out that free tertiary education will be phased in "to ensure sustainability of government finances".

A sharper fiscal correction through deeper expenditure cuts is likely to be viewed as a prudent approach to fiscal policy by the rating agencies, while a narrowing in the fiscal deficit and a stabilisation in government's debt ratios in the medium term should further support the decision for no change in sovereign ratings.

In Momentum Investments' view, the inquiry into state capture is a move closer to curbing corruption in the country. A restoration of trust in SA's Chapter nine institutions, through a credible leadership at the National Prosecuting Authority and SARS, would further instil public trust in key institutions.

A downgrade in SA's local currency rating to junk status by Moody's would trigger SA's exclusion from the Citi World Government Bond Index (WGBI), which could prompt significant capital outflows from the SA government bond market. Estimates of potential outflows range anywhere between R85 billion and R130 billion. Citi notes that, while SA bond buying by foreign investors in the run up to the 2012 index inclusion might have been staggered, the rush for the exit door could be crowded. Furthermore, re-entry into the index will be difficult to achieve. The Citi WGBI requires a minimum credit quality of A- by S&P and A3 by Moody's for the country's local currency rating (four notches above junk status).

However, given the above arguments, Momentum Investments is of the view that SA's sovereign rating is likely to be unchanged by Moody's in its review on 23 March 2018. Standard & Poor's is expected to review SA on 25 May 2018, while Fitch Ratings has not released its review dates for SA. Although SA has the ability to hold free and fair elections, an assault on democracy has come through a violation of public trust in the form of rampant state capture and a deterioration in some of SA's key democratic institutions, including the finance ministry, the state prosecutor, the public protector and the country's tax authorities.

The extent of the anticipated growth recovery in 2018 and the outlook for SA's sovereign ratings will depend on whether or not officials will adopt and enact policies to enhance the country's creditworthiness and restore confidence. Even if fiscal consolidation efforts are announced in the February 2018 national budget, significant fiscal challenges remain. A higher growth path is additionally required to curb SA's debt-to-gross-domestic-product profile in the medium term and to make inroads into high levels of unemployment and poverty. This suggests the country could remain in sub-investment grade for some time.

Resilient global growth and a modest recovery in commodity prices, underpinned by firm Chinese growth activity, should help real growth in SA reach close to 1.5% from below 1% in 2017 through a lift in exports, whereas the domestic demand trajectory will rely on the extent of the recovery in sentiment. A more convincing pick up in business confidence could provide an upside risk to investment growth, although this is more likely after the 2019 national elections, when policy uncertainty should recede somewhat.

Recent currency strength, in reaction to the ANC election results, should keep inflation comfortably within the target band in upcoming months. Although the SA Reserve Bank already reduced its repurchase rate from a recent 7% peak to 6.75% in July 2017, falling inflation potentially leaves room for additional modest monetary policy easing in 2018. Momentum Investments only sees space for up to 50 basis points worth in interest rate decreases (two cuts of 25 basis points each, at the most), given the medium-term outlook for inflation and political uncertainty, as the 2019 national elections draw near.

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Interest rates maintained at 6.75%, but macro trends suggest room to ease in upcoming months

by Sanisha Packirisamy and Herman van Papendorp

Highlights

- The South African Reserve Bank Monetary Policy Committee views the potential for additional sovereign rating downgrades and volatility in international oil prices as the main risks to setting monetary policy
- Risks to an improved growth outlook are seen to be more or less balanced
- Stronger exchange rate assumptions and a lower electricity tariff increase were behind a downward revision to headline and core inflation forecasts
- Longer-term inflation expectations, surveyed in the fourth quarter of 2017, remain encouragingly within the 3% to 6% target band
- One member favoured an interest rate cut
- Favourable inflation trajectory leaves room for modest monetary policy easing in upcoming months

Downgrade potential and volatile oil prices are viewed as the main risks to setting monetary policy

In light of lingering sovereign rating downgrade risks and a recent sharp uptick in international oil prices, the South African Reserve Bank (SARB) prudently decided to leave local interest rates unchanged at 6.75% at its January 2018 Monetary Policy Committee (MPC) meeting. The decision was in line with the broader consensus, as well as Momentum Investments' expectation. From the 20 economists surveyed in the Reuters Econometer poll, 18 projected interest rates would remain unchanged, while two forecasted a cut in interest rates of 25 basis points.

Although the SARB admitted to an improvement in the inflation outlook since its November 2017 interest rate-setting meeting, it continued to view upside risks to its forecast (although to a lesser degree given stronger exchange rate assumptions and a lower-than-expected electricity tariff increase).

The MPC's growth forecasts reflect a mild expansion off a low base, while its risk assessment improved somewhat. In its November 2017 meeting, the MPC noted it "assesses the risks to the revised growth forecast to be slightly on the downside", whereas this time around risks to the growth forecast were seen to be "more or less balanced".

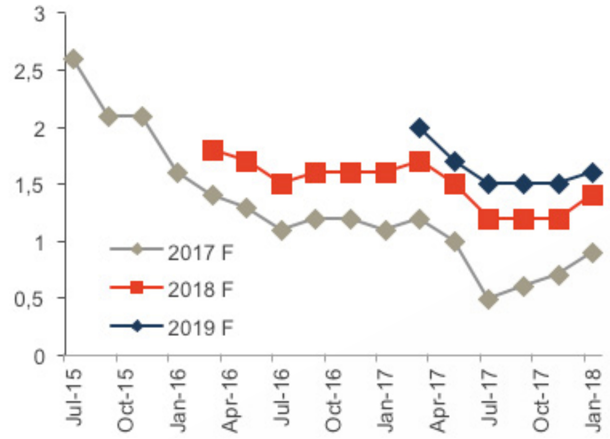
Growth risks (on an improved outlook) are more or less balanced

The SARB's real gross domestic product (GDP) growth forecast for 2017 rose to 0.9% in January 2018, from a 0.5% trough in July 2017 and a 0.7% expectation in November 2017. Projections for 2018 and 2019 have also shifted higher to 1.4% in 2018 from 1.2%, previously, and from 1.5% in 2019 to an upwardly-revised 1.6% (see chart 1). Momentum Investments expects a similar growth outcome in 2018, with marginal upside risks to the outer year (2019), potentially stemming from a faster acceleration in gross fixed capital formation, in reaction to greater certainty following the 2019 national elections. The December 2017 Reuters Econometer poll results are broadly in line with these forecasts, projecting 1.2% for 2018 and 1.6% for 2019.

The SARB similarly remarked that recent political developments, resulting in a sustained boost to consumer and business confidence, could urge growth higher in the medium term. In its question and answer (Q&A) session, the SARB pointed out the positive response by international, as well as local, investors to the African National Congress (ANC) national conference election outcome.

While the SARB noted a "slightly narrower" output gap in its November 2017 assessment, it observed a "closing" output gap "reduces the degree of downside pressure on inflation" in its January 2018 statement. The SARB estimated the output gap should narrow from 1.1% in 2017 to 0.8% in 2019 (previously 0.9%).

Chart 1: SARB's real growth forecasts (% y/y)



Source: SARB, Momentum Investments

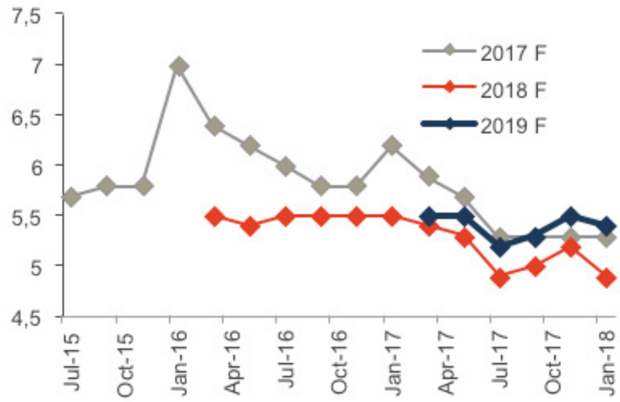
Revised rand assumptions and a lower electricity tariff increase are behind lower inflation forecasts

The MPC adjusted its 2018 and 2019 headline inflation forecasts lower from 5.2% to 4.9% for 2018 and from 5.5% to 5.4% for 2019 (see chart 2). This compares to predictions of 5.2% for 2018 and 5.4% in 2019 in the Reuters Econometer Poll for December 2017, which were surveyed before the recent favourable movements in the local currency, following the ruling party's national conference. Momentum Investments sees marginal downside risk to the SARB's 2018 forecasts and a potentially higher outcome for 2019.

In its Q&A session, the MPC proposed stable commodity prices and a weak dollar, as well as a favourable response to local political developments, as the key drivers of recent rand strength.

The final electricity tariff granted by the National Energy Regulator of SA further aided a downward revision to the SARB's inflation forecasts. The SARB had initially pencilled in an 8% increase (Momentum Investments had assumed a 10% increase), whereas the final tariff adjustment resulted in a lower 5.2% increase.

Chart 2: SARB's headline inflation forecasts (% y/y)



Source: SARB, Momentum Investments

The inclusion of a sugar tax partly counts these positive effects on inflation. The SARB assumes the sugar tax will increase headline inflation by 0.1% (a 0.6% increase to overall food inflation) in 2018. The SARB's food inflation forecast increased from 4.5% in 2018 to 5.2% and from 5.9% to 6.0% in 2019.

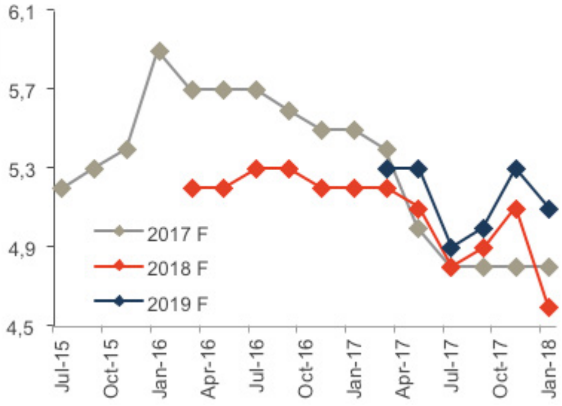
Lower-than-expected rainfall in key areas has dimmed the outlook for the agricultural sector's 2017/2018 output. Dry conditions in the Free State and North West, which collectively account for nearly 70% of the 2017/2018 planned maize-planting area and more than 85% of the sunflower seed expected production (according to the Agricultural Business Chamber), have led to delays in crop planting this summer. Consequently, farmers have only planted up to three quarters of the maize area they had originally planned to harvest and a quarter of the intended sunflower seed crop. While the 2017/2018 planting season is a concern for the agricultural sector, high stock levels from the previous season should prevent a sharp rise in overall food inflation in the medium term.

The Absa Agri Trends report for November 2017 noted grazing conditions were likely to improve in the summer months, which could enable farmers to rebuild stock levels, keeping meat prices high in the short term. Firmer seasonal demand for red meat further supports higher meat prices in the near term, although consumer demand for more expensive red meat products was noted as being under pressure. The report also indicated upward pressure on poultry prices. Internationally, tight supplies on the back of bird flu outbreaks pushed poultry prices higher in recent months. Meanwhile, locally, downward substitution by consumers into cheaper protein products could have additionally had an effect on higher prices. Nonetheless, Momentum Investments expects a tapering off in meat inflation in upcoming months as supplies begin to normalise.

The SARB reacted to the higher levels of international oil prices by marginally adjusting its 2018 and 2019 average forecasts higher to US$62/bbl.

The MPC's revised currency assumptions have additionally led to a notable downward revision of its core inflation forecasts from 5.1% in 2018 to 4.6% and from 5.3% in 2019 to 5.1% (see chart 3).

Chart 3: SARB's core inflation forecasts (%)



Source: SARB, Momentum Investments

Although the SARB referred to wage inflation as a an additional upside threat to inflation, it should be noted trade unions revised their inflation forecasts 0.6% lower in 2018 (to 5.5%) and 0.2% lower to 5.8% in 2019 in the Inflation Expectations survey conducted by the Bureau of Economic Research in the final quarter of 2017.

Longer-term inflation expectations remain encouragingly within the target band

The BER Inflation Expectations survey showed the average inflation expectation for 2018 dipping from 5.8% to 5.7%, while forecasts for 2019 remained unchanged

at 5.9%. On a more granular level, businesses revised their forecasts higher, while trade unions had shifted their inflation expectations lower.

Encouragingly, five-year ahead inflation expectations remained comfortably within the target band at 5.6% in the fourth quarter of 2017.

One member favoured an interest rate cut

The SARB admitted, in its discussions, one MPC member favoured an interest rate cut of 25 basis points, relative to the November 2017 meeting, where all members favoured no move in interest rates ahead of the African National Congress's national conference in December 2017 (see table 1).

Earlier in the week, the SARB announced a new adviser to the governors had been appointed to become the seventh member of the MPC (effective from 19 February 2018). Going forward, this appointment will alleviate pressure on a split committee outcome.

Table 1: Committee members' views in recent meetings

No. of committee members	Favoured no move	Favoured 25 basis point hike	Favoured 50 basis point hike	Favoured a 25 basis point cut
28 January 2016	1	2	3	-
17 March 2016	3	3	-	-
19 May 2016	5	1	-	-
21 July 2016	6	-	-	-
22 September 2016	6	-	-	-
24 November 2016	6	-	-	-
24 January 2017	6	-	-	-
30 March 2017	5	-	-	1
25 May 2017	5	-	-	1
20 July 2017	2	-	-	4
21 September 2017	3	-	-	3
23 November 2017	6	-	-	-
18 January 2018	5	-	-	1

Source: SARB, Momentum Investments

Favourable inflation trajectory leaves room for modest monetary policy easing

In Momentum Investments' view, the local unit remains vulnerable to negative swings in global and local sentiment. A sharper-than-expected slowdown in China or a faster pace in developed market monetary policy tightening could trigger emerging market-wide currency weakness, whereas a perception of a shift to the left in SA policy, to appease a disgruntled electorate, could see the rand weakening in isolation.

Taking this and the expectation of a resilient global economy into account, the company expects some depreciation in the currency during 2018 and 2019. Even after factoring in a mildly depreciating currency trajectory from current levels, inflation should still remain comfortably within the target band in upcoming months. Although the SARB maintained interest rates at 6.75% at the January 2018 meeting, citing the potential for a sovereign ratings downgrade and higher international oil prices as risks, falling inflation potentially leaves room for further modest monetary policy easing in 2018.

Momentum Investments only sees space for up to 50 basis points worth in interest rate decreases (two cuts of 25 basis points each, at the most), given the medium-term outlook for inflation and political uncertainty, as the 2019 national elections draw near.

Partially Vesting Smooth Bonus Range

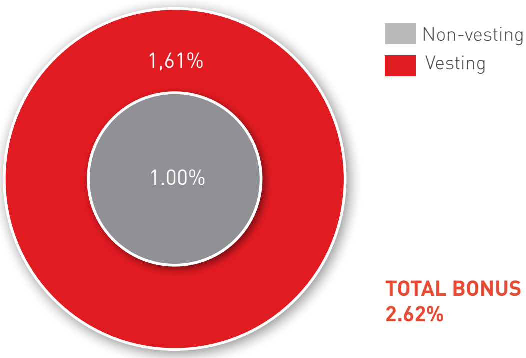
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

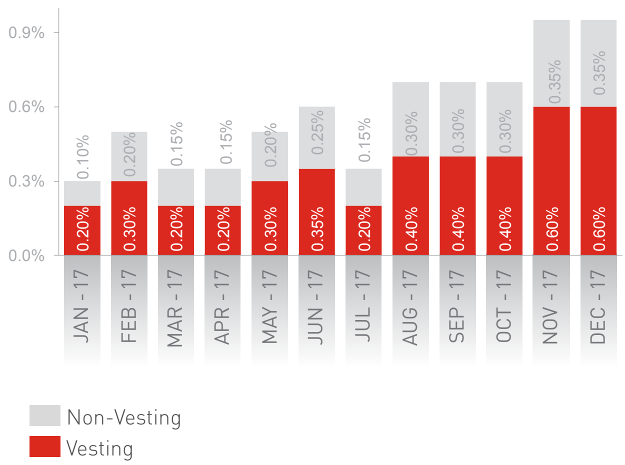
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	100% - 105%	R12.5bn	1,21%	7,89%

Performance

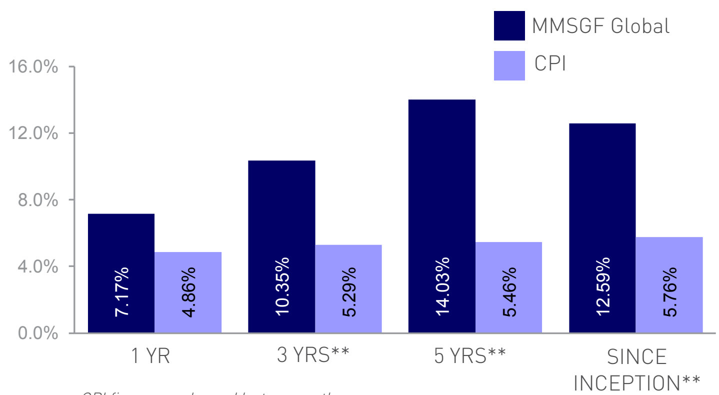
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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



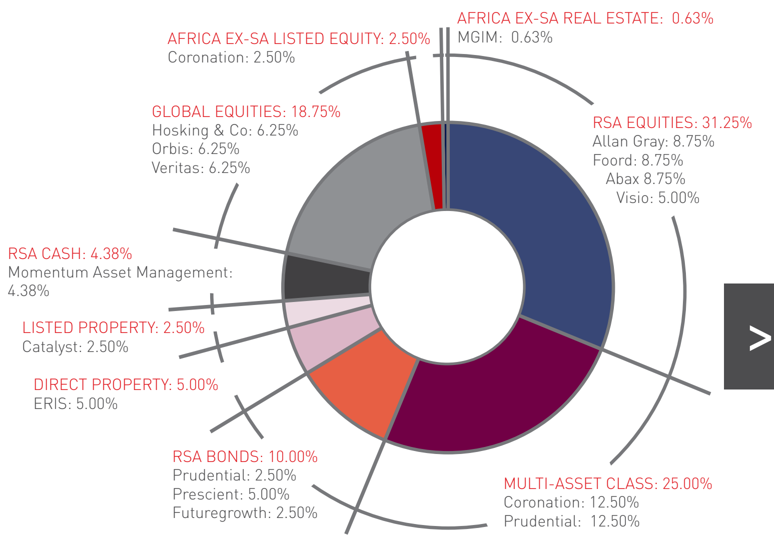
CPI figures are lagged by two months

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

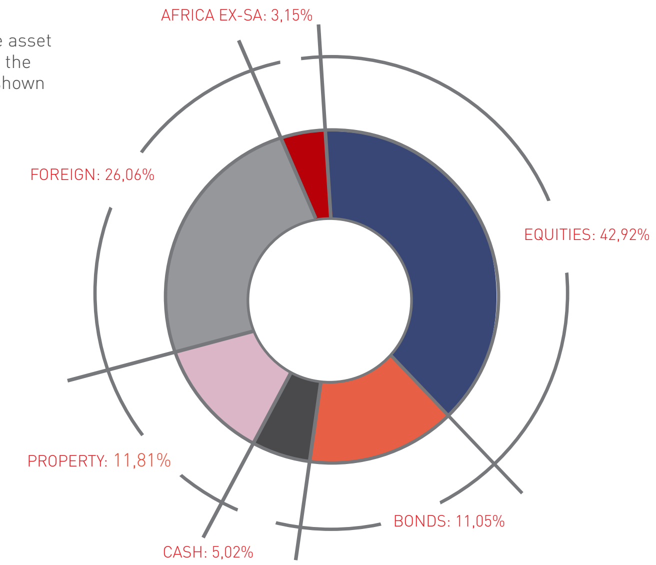
** Annualised

Asset Allocation

The 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.

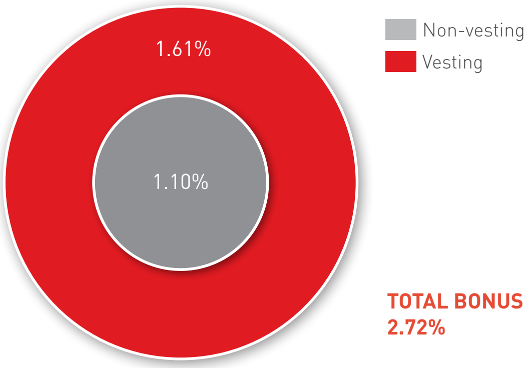
Partially Vesting Smooth Bonus Range
Multi-Manager Smooth Growth Fund Local

Fund Snap Shot

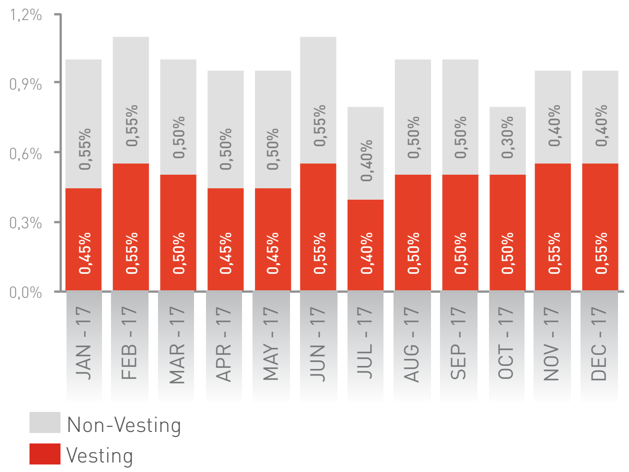
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	100% - 105%	R246.5m	2,03%	6,41%

Performance

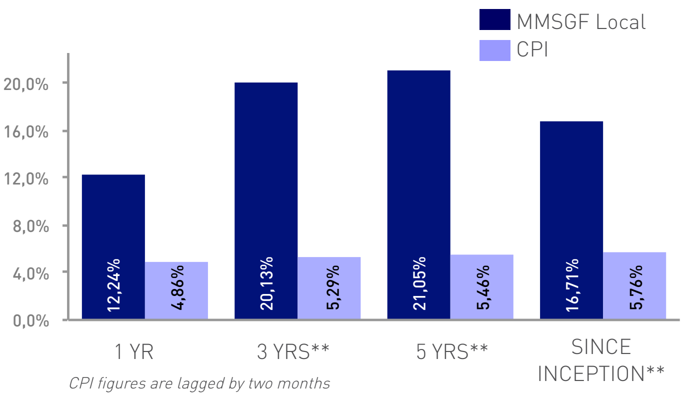
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Local is shown below.



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

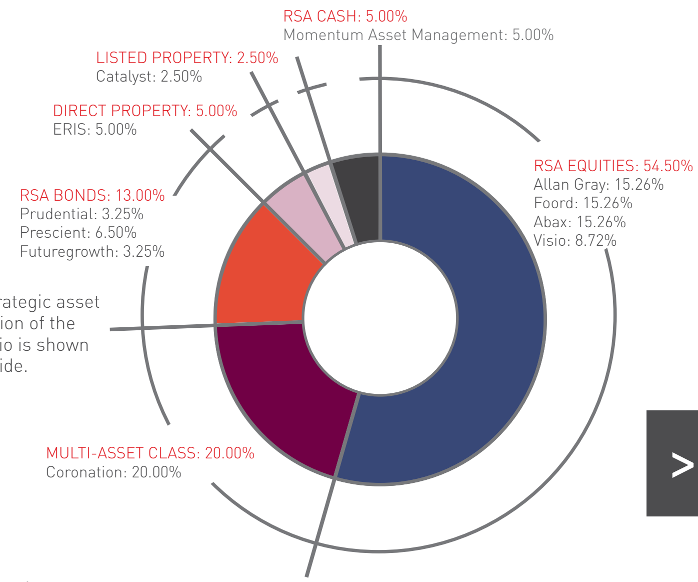


CPI figures are lagged by two months

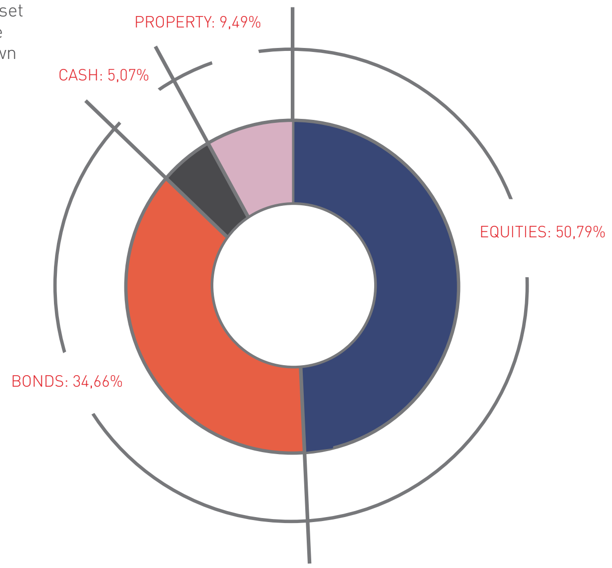
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.

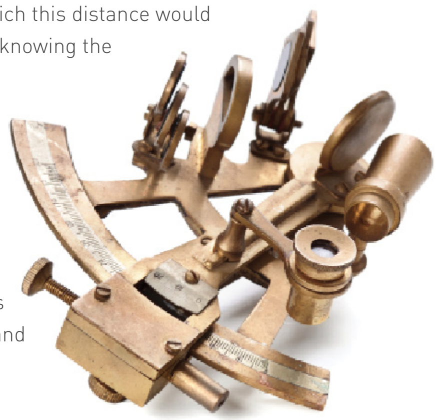


The effective asset allocation of the portfolio is shown alongside.



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.



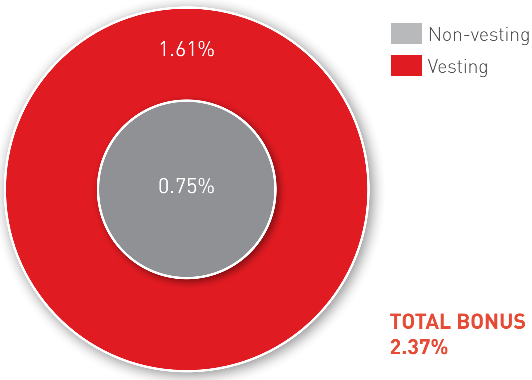
Partially Vesting Smooth Bonus Range
Smooth Growth Fund Global

Fund Snap Shot

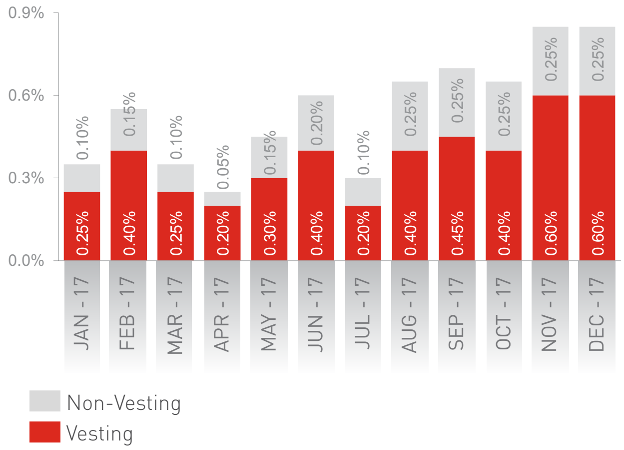
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	100% -105%	R 2.4bn	1.37%	6,96%

Performance

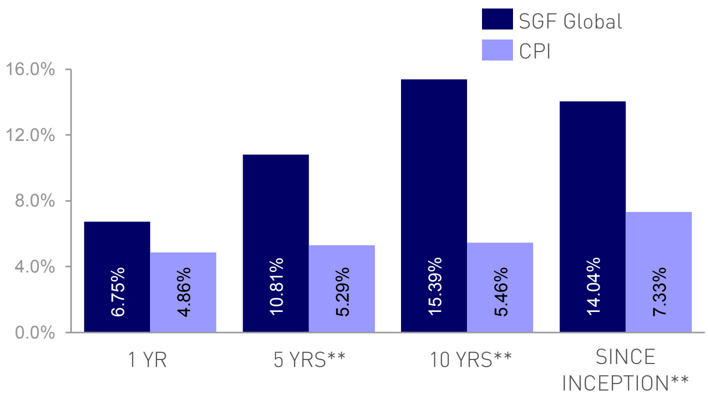
The total bonus* for the past quarter on the Smooth Growth Fund Global is shown below.



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.

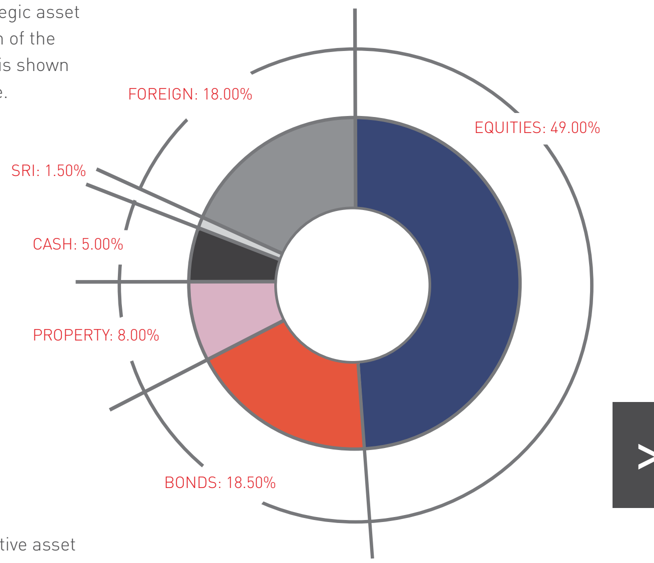


CPI figures are lagged by two months

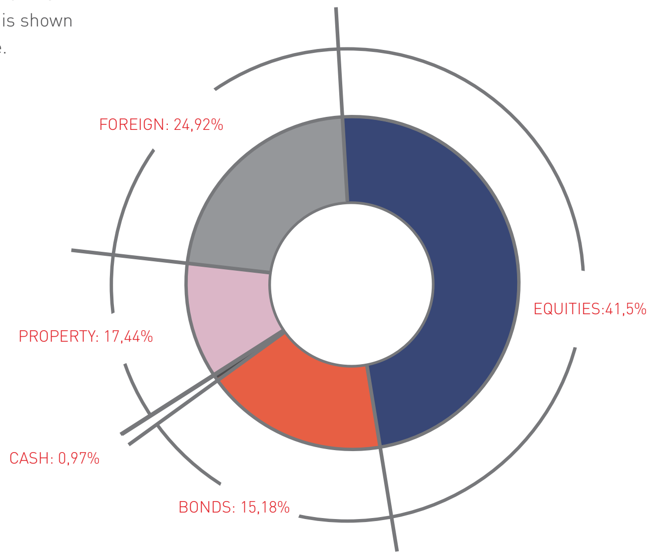
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

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.

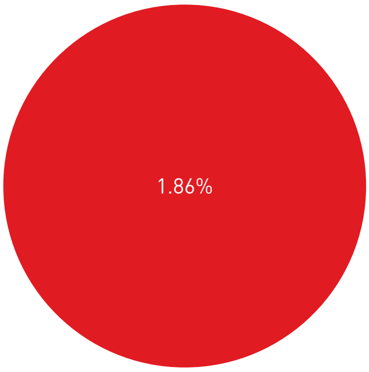
Fully Vesting Smooth Bonus Range
Multi-Manager Secure Growth Fund

Fund Snap Shot

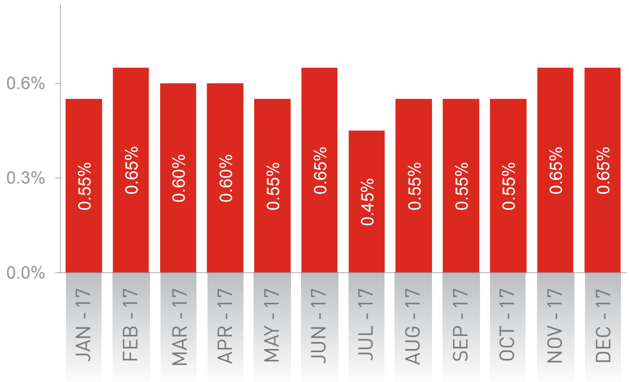
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	105% - 110%	R46.8m	0,95%	7,33%

Performance

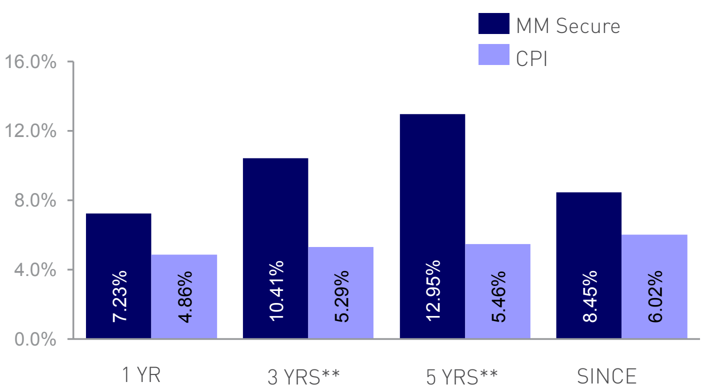
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



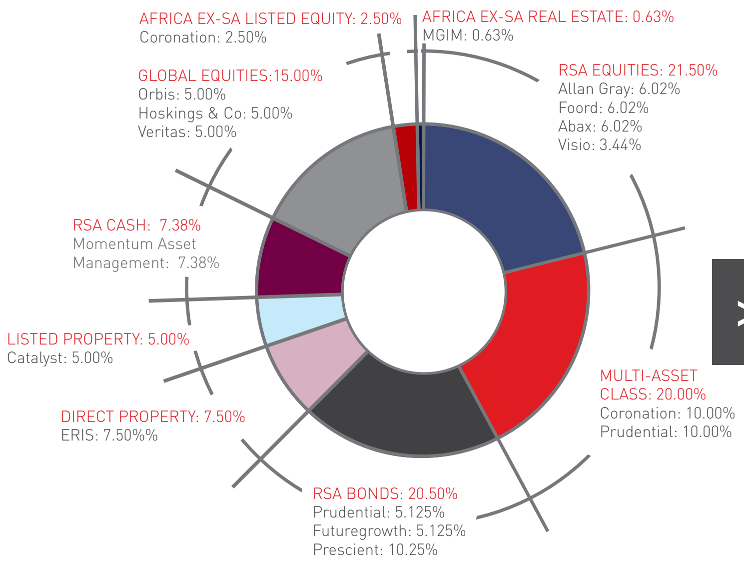
CPI figures are lagged by two months

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

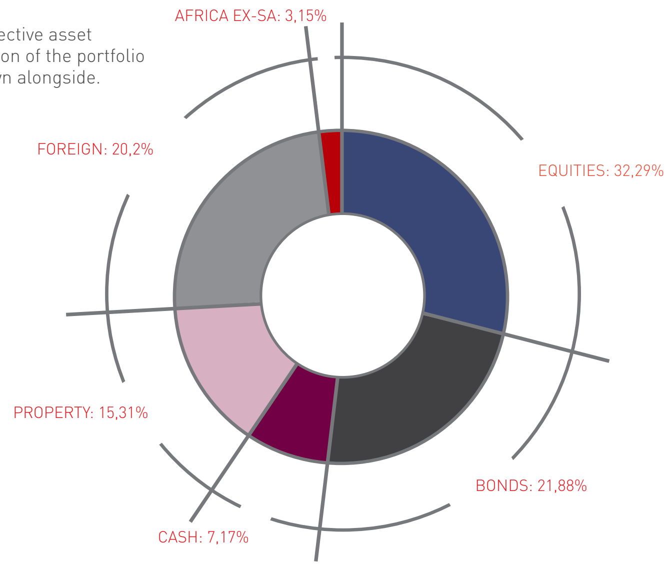
** Annualised

Asset Allocation

The 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

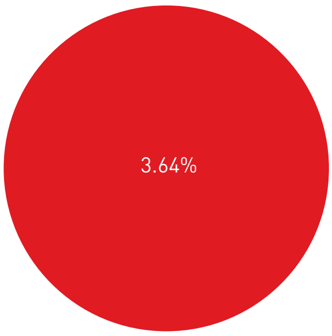
Multi Manager Secure Growth Fund Bonus Series 2013

Fund Snap Shot

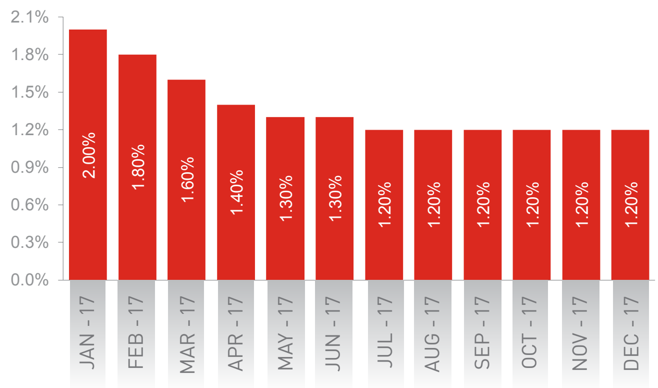
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2013	110% - 115%	R71.5m	1,15%	7,39%

Performance

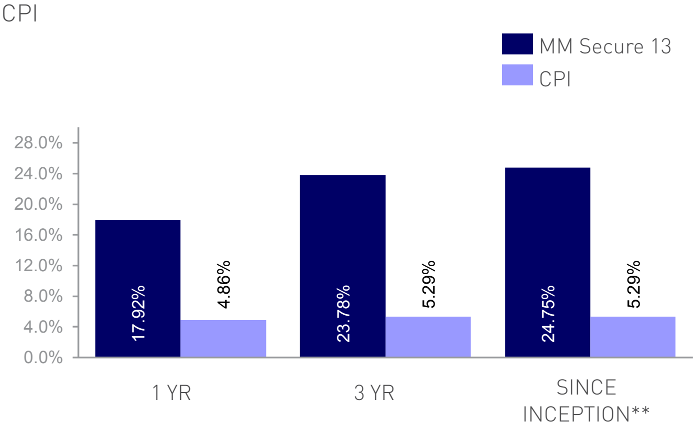
The total bonus* for the past quarter on the Multi Manager Secure Growth Fund Series 2013 is shown below.



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

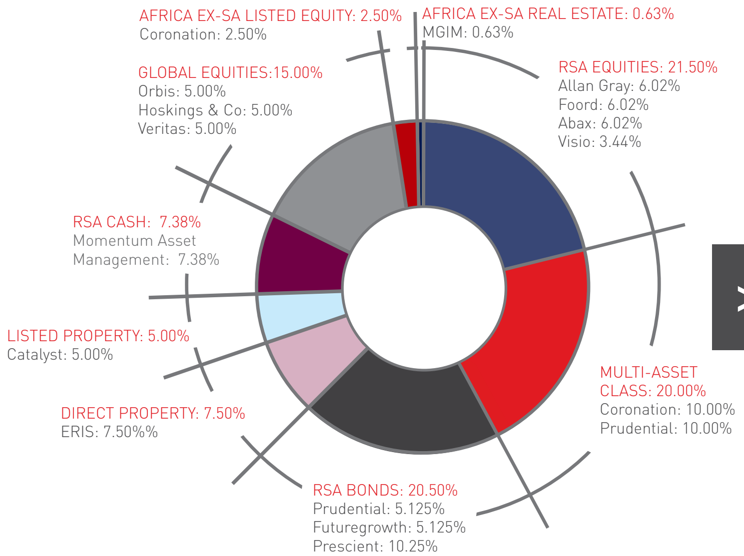


CPI figures are lagged by two months

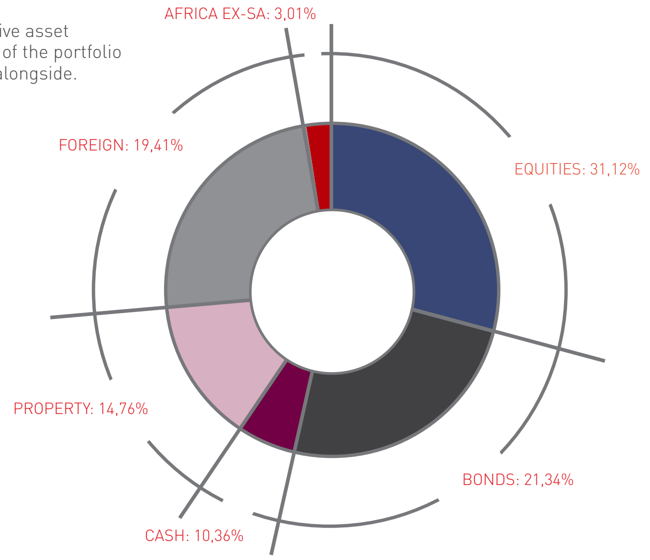
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

Asset Allocation

The 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.

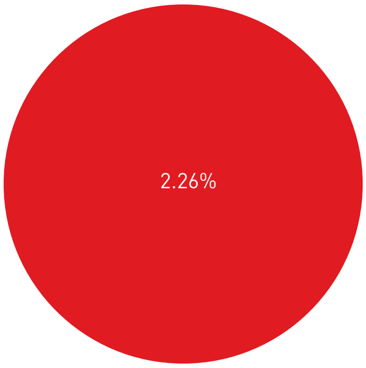
Fully Vesting Smooth Bonus Range
Smart Guarantee + 3 Fund

Fund Snap Shot

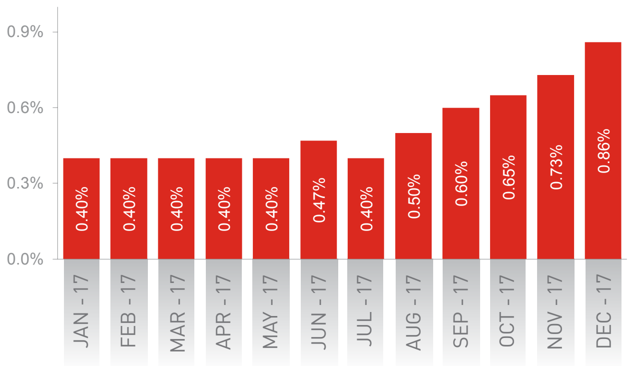
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	100% - 105%	R271.5m	0.56%	8,96%

Performance

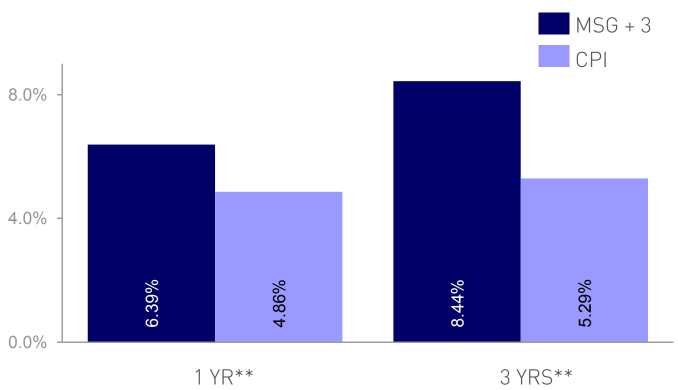
The total bonus* for the past quarter on the Smart Guarantee + 3 Fund is shown below.



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



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



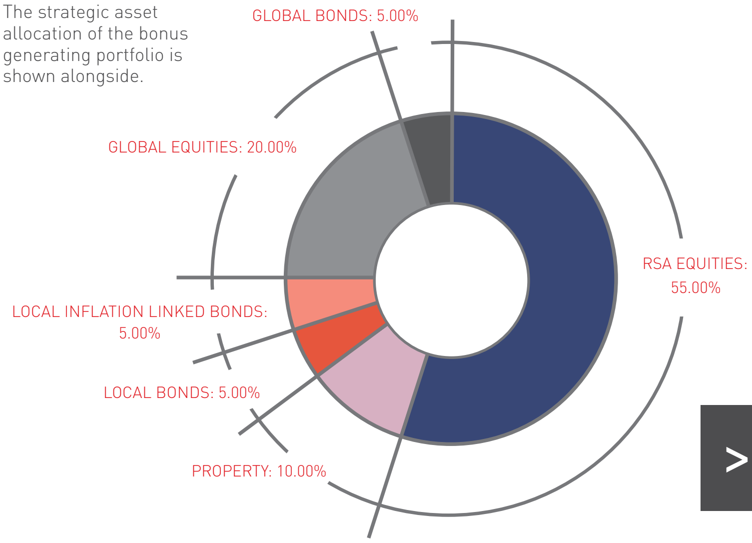
CPI figures are lagged by two months

* 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.

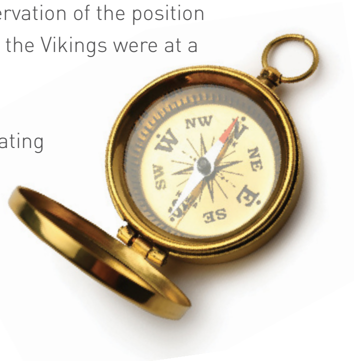
As a result, for disinvestments other than guaranteed benefit payments the underlying assets value is sensitive to both asset values and interest rates and the effective asset allocation will reflect both the bonus generating portfolio and the dynamic protection overlay.

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 11.40% 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.



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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 Momentum Investments	Moderate Balanced	100% of net capital invested and total bonus declared (net of the Policy fee)	Yes	0.50% pa	0.75% 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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