Smooth Bonus Report

Second Quarter 2018

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

momentum

>

Looking back over the past quarter

Dear valued investors

After experiencing 'goldilocks' conditions earlier in the year (where high growth and low inflation provided prosperous market conditions), there has been some divergence in returns. Still, returns from the global market remained strong, with local markets delivering lower returns. Much of the excess return in the global market, when converted back to rands, was offset by a corresponding 16% depreciation of the rand to the US dollar. Even the local listed property index, which has been a consistent performer, had negative returns for the period.

The election of the new African National Congress (ANC) leadership caused a positive knee-jerk response in investor, business and consumer sentiment, but confidence levels have since re-adjusted to less euphoric levels. President Cyril Ramaphosa has increased efforts to convince investors of his unwavering commitment to reverse poor growth, reduce political uncertainty and address rampant corruption and state capture in the ANC and the state. With that, he hopes to win much-needed foreign investment in South Africa to assist in stimulating the economy and job creation.

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

Momentum's Smooth Bonus Funds

During the last quarter, we implemented the changes we communicated in our last quarterly report. In our multi-manager smooth bonus portfolio range, it was the increase of the offshore investment allowance from 25% to 30% and the introduction of new local equity investment managers, Steyn Capital and Fairtree Capital, to the local equity asset class. The changes are reflected later in our portfolio summaries (page 4 to 5) and our monthly factsheets.

In the Momentum Multi-Manager portfolios Eris manages the direct property portfolio. This consisted of the ex-Metropolitan property portfolio; we have combined the ex-Metropolitan with the ex-Momentum into one portfolio called the MMI Direct Property Fund. There are many benefits to merging the portfolios together such as increased size, greater diversification and less volatile cash flows. Overall the combined portfolio results in marginally lower fees that will be reflected in the net priced fees.

Returns from the asset classes have generally been lower than in previous quarters, with local equities recovering just before the end of the quarter. The portfolios with global exposure had strong returns that were supported by the depreciation of the rand. We are expecting the economy to grow moderately during the coming quarter, while medium-to-longer-term growth will need to come from structural reforms.

The majority of our smooth bonus portfolios are fully funded, meaning they are in a strong position to distribute returns if the markets are positive in the third quarter.

Warm regards

Steeed Duncan-Smith

Client Relationship Manager
Momentum Corporate

Contents

Regulation 28: Reasoning, implementation and evaluation of the increased offshore limits

by Marianne Wallace

Introduction

Regulation 28 of the Pension Funds Act aims to:

- Limit the allocation of retirement savings to certain asset classes, which are seen as high risk
- Reduce the risk of members' retirement savings being invested in portfolios that are inadequately diversified
- Govern the maximum exposure retirement funds may have to various asset classes

It is important to note that Regulation 28 requires compliance with the limits for investing in the various asset classes. It is not, however, prescriptive in terms of the investment strategy.

The announcement

Malusi Gigaba, the former minister of finance, announced the amendments made to Regulation 28 of the Pension Funds Act during his Budget Review in February 2018.

One of the changes announced was the increased maximum exposure to offshore investments, including a special allocation to African investments, in retirement funds (this includes pension funds, provident funds and retirement annuities). The offshore limit of 25% was increased to 30%, which may include a combination of offshore equities, listed property, bonds and cash investments. The maximum exposure towards investments in Africa, outside of South Africa, was increased from 5% to 10%.

Consequently, portfolios managed for institutional investors may now allocate up to 40% of their investments outside South Africa.

Market reaction

The changes to Regulation 28 have been mostly welcomed by local investment managers. The main reason for this is Regulation 28 has been criticised for imposing constraints pertaining to asset allocations that compel investors to be over-exposed to South African-specific risks.

The changes intend to make it less challenging for South Africans to diversify their investment exposure and to invest in the rest of Africa.

The South African environment faces many challenges, for example political instability and a potential further downgrade to the credit rating. Thus, an investment strategy that embraces the distribution of investments across borders and asset classes may be a reasonable approach to consider.

Successful diversification can provide effective downside protection, thereby protecting an individual's retirement provisions.

Considerations

It is important to bear in mind that even though the limits have changed, it is not necessary for all portfolios' offshore exposure to be increased immediately.

The globalisation of local equities has increased the exposure to offshore markets through many of the local listed equities. This is one factor that should be understood and taken into account before deciding to increase the offshore allocation.

Other principles to consider include investment objectives; matching of assets and liabilities, risk management and due diligence.

Advisers, investors and/or investment managers should focus on required outcomes rather than attempting to predict the short-term rand volatility.

Justification: Increasing offshore exposure

The reasons for increasing the allowable allocation to offshore investments are:

- Improved diversification: The greater flexibility will enable retirement funds to improve diversification within their investment portfolios.
- Reducing concerns over increased concentration in local indices: (For example Naspers has the highest weighting in the FTSE/JSE All Share Index at about 18%) The change assists risk management and protects against extreme outcomes in South Africa.
- Providing access to a wider opportunity set: The South African market comprises a small fraction of the opportunity set of investments available globally.
- Expectation of a weaker rand in the short to medium term: Provides more protection against extreme rand depreciation and allows investment themes and trends that are not directly available in South Africa.

Implementation: Momentum's smooth bonus products

Even though Momentum's smooth bonus products are exempt from the Regulation 28 limits, due to the guarantees provided, they still adhere to these limits.

For portfolios with a long-term investment horizon, Momentum's methodology of constructing portfolios within the company's outcome-based investing philosophy, suggests a global allocation of between 30% and 40%, as this results in more efficient outcomes.

Increasing the offshore allocation is dependent on the risk budget. However, it does allow for additional freedom to create more efficient and robust solutions for clients.

For the Momentum Multi-Manager Smooth Growth Fund (MMSGF) Global, the allocation to global investments was increased in March/April 2018 in line with the 5% increase announced by:

- Increasing the global equity allocation (funded from the local equity allocation) by 3.5%
- Increasing the global allocation allowance by 1.5% within the multi-asset-class mandates

The allocation to Africa ex-South Africa investments was not increased. This is, however, expected to be increased to 5% in the next few years.

Conclusion

Global exposure offers great diversification and provides exposure to shares and instruments that cannot be accessed locally. However, the decision to increase the global allocation should not be taken hastily.

The amendment to Regulation 28 provides investment managers and investors with greater flexibility in terms of their global exposure. This greater flexibility, however, comes with greater responsibility.

Marianne Wallace

Product Specialist
Structured Solutions

Quarterly market and economic review to end June 2018

by Sanisha Packirisamy and Herman van Papendorp

Highlights

- United States: Monetary policy gap with the Eurozone continues to widen, as higher inflation, a lower unemployment rate and solid growth prompts a more hawkish stance from the Federal Reserve.
- Eurozone: The European Central Bank sent a more dovish signal at its June 2018 interest rate-setting meeting, as rising trade protectionism and domestic political risks escalate.
- United Kingdom: A lack of progress on Brexit negotiations with the European Union has disappointed the British electorate.
- China: Authorities' increased efforts toward deleveraging are having a negative effect on credit growth and infrastructure investment, but other sectors are holding up well and supporting growth.
- South Africa: Growth in economic activity plunged in the first quarter, but is expected to recover in the remainder of the year.

Global economic developments

United States (US)

Robust macro conditions elicited a more hawkish stance from the US Federal Reserve (Fed)

In its June 2018 monetary policy statement, the Federal Open Market Committee (FOMC) noted economic activity had been rising at a "solid" rate. Previously, in its May 2018 meeting, growth in economic activity had merely been viewed as "moderate". In line with this change in the growth assessment, the Bloomberg consensus 2018 gross domestic product (GDP) growth forecast increased from 2.3% in November 2017 to 2.9% in June 2018. During the same period, the Bloomberg consensus growth estimate for 2019 increased from 2% to 2.4%.

Despite the US unemployment rate falling further to 3.8% in May 2018 (its lowest level since April 2000), jobs growth remained firm in the month, with employers adding 223 000 jobs. The FOMC downwardly adjusted its 2018 unemployment forecast in June 2018 from 3.8% to 3.6% and lowered its 2019 and 2020 forecasts from 3.6% to 3.5% (see table 1).

Similarly, higher inflation prompted a more hawkish response from the Fed. Inflation based on the personal consumption expenditure (PCE) deflator rose from 1.4% in June 2017 to 2.0% in April 2018. Headline inflation picked up more sharply during this period from 1.6% to 2.8%. The FOMC's PCE inflation projections shifted up from 1.9% in 2018 to 2.1% and from 2.0% to 2.1% in 2019. The FOMC indicated it expected the economy to grow at pace, warranting "gradual" interest rate increases.

Table 1: Shift in FOMC economic projections

PROJECTION		2018	2019	2020
PCE	March	1.9	2.0	2.1
	June	2.1	2.1	2.1
Unemployment	March	3.8	3.6	3.6
	June	3.6	3.5	3.5
GDP	March	2.7	2.4	2.0
	June	2.8	2.4	2.0

Source: Fed, Momentum Investments

After taking solid growth, a further reduction in the unemployment rate and rising inflation into account, the FOMC voted to raise interest rates by 25 basis points (to between 1.75% and 2%) in June 2018, which was its seventh interest rate hike since late 2015. The June 2018 dot plot (reflecting the FOMC members' interest rate expectations) suggested a more hawkish undertone. The dot plot shifted to a median of four (from three previously) interest rate hikes in 2018, but remained unchanged at three for 2019.

Moreover, a more hawkish response was reiterated by Fed Chair Jerome Powell's announcement that he would hold press conferences after every interest rate-setting meeting from January 2019, instead of quarterly, which could allow for a quicker response to interest rates, if conditions permit.

Eurozone

The European Central Bank (ECB) sent a more dovish signal at its June 2018 interest rate-setting meeting

The June 2018 Eurosystem staff macroeconomic projections for the euro area indicated the soft start to the year surprised negatively, but the economic expansion was set to continue at a pace above potential. Poor weather conditions, labour strikes and a seasonal flu outbreak had dampened growth in the first quarter, but healthy consumer and business confidence levels are expected to buttress economic activity into the remainder of the year.

The staff projections indicated a slowdown in GDP growth estimates from 2.1% in 2018 to 1.7% in 2020, as growth tailwinds are expected to fade (see table 2). The effect of past stimulatory monetary policy measures should begin to tail off over the projected horizon. Similarly, consumption growth should slow, as savings ratios normalise and employment growth tapers off in response to binding labour supply shortages in select euro area countries.

Table 2: Shift in Eurosystem staff economic projections

PROJECTION		2018	2019	2020
CPI	March	1.4	1.4	1.7
	June	1.7	1.7	1.7
Unemployment	March	8.3	7.7	7.2
	June	8.4	7.8	7.3
GDP	March	2.4	1.9	1.7
	June	2.1	1.9	1.7

Source: ECB, Momentum Investments

Compared with the staff projections in March 2018, the June 2018 inflation forecasts were raised by 0.3% to 1.7% in 2018 and 2019, largely on the back of an upward revision to international oil price assumptions and a depreciation in the euro.

The ECB announced an extension to its bond-buying programme from September 2018 to the end of the year. The pace of bond buying will decrease from €30 billion to €15 billion per month in the final quarter of 2018.

The ECB's guidance on interest rates had also shifted to a more dovish stance. The ECB guided that interest rates would remain steady at least into the third quarter of 2019. Although the ECB's inflation forecasts have shifted higher, they remain below the ECB's inflation target of 2%, even in the outer year of the projections. It is likely that interest rates will remain subdued until the ECB has confidence in a sustainably higher inflation outlook.

United Kingdom (UK)

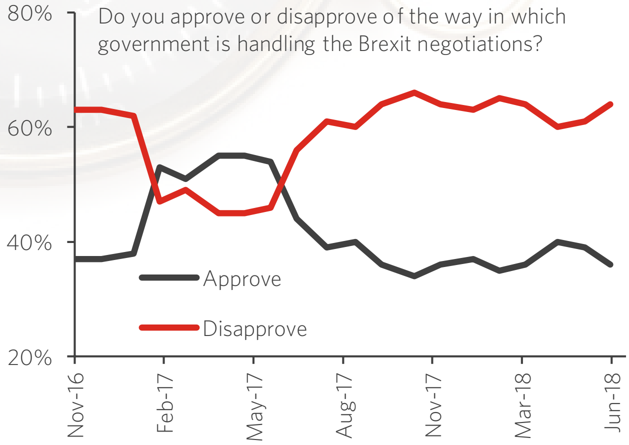
A lack of progress on Brexit negotiations has disappointed the electorate

After David Cameron renegotiated the UK's terms of membership, the country spent four months debating whether or not it should exit the European Union (EU) in 2016.

Two years on and many voters have become disappointed with government's lack of process on Brexit negotiations.

In a June 2018 survey conducted by the National Centre of Social Research, 62% of British respondents said they disagreed with government's handling of the Brexit negotiations, while only 38% approved (see chart 1). Similarly YouGov polls in the last four months highlighted that only 22% (on average) believe government is handling the process well (63% disagree and the remainder do not know).

Chart 1: High disapproval ratings



Source: National Centre for Social Research, Momentum Investments

British voters remain more or less evenly split in their views about whether or not the UK should remain within the EU.

In the same survey, 45% of the respondents suggested they would vote to remain a member of the EU if a second referendum was held, while 40% suggested they would vote to leave the EU. The remaining 15% indicated they would not vote or did not know which way they would vote.

Prime Minister Theresa May's cabinet continues to be divided on its views on the Northern Ireland border. The UK has rejected EU plans to award Northern Ireland with a special status to keep it in the customs union and single market, and instead wants the final negotiated deal to apply to the whole of the UK and not be conditional on a time limit.

Ireland has taken the position that it would not accept a land border with the UK, but it would conservatively make preparations at ports and airports for the possibility of a no-deal Brexit outcome. The cabinet is further divided on the UK's custom arrangements after the end of the transition period agreed upon with the EU (December 2020).

The next few months leading up to the EU summit on 18 October 2018 will be important to finalise a deal on the UK's March 2019 departure deadline. The chief negotiator for the EU stated negotiations needed to be finalised before the end of October 2018 to give the 27 EU members time to sign off on the deal. The ministers in the UK parliament will also be given a chance to vote on the final deal.

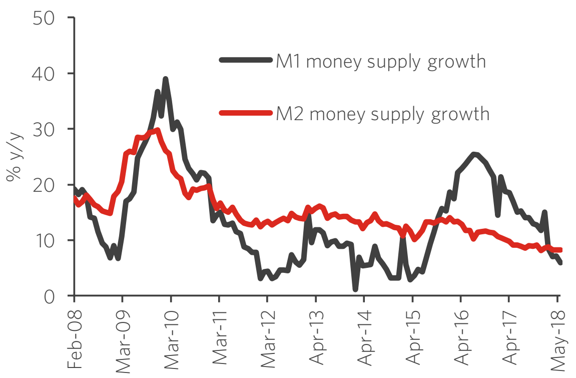
China

Increased efforts towards deleveraging are having a negative effect on credit growth and infrastructure investment

Growth in total social financing (or credit) slowed from 10.5% in year-on-year (% y/y) terms in April 2018 to 10.3% y/y in May 2018. Macquarie indicated the breakdown of liquidity supply to the real economy during January to May 2018, relative to the same period a year ago, grew in the loans and corporate bond financing categories, but slowed for off-balance sheet lending (negative 0.6% y/y, from 2.3% previously). Although the renminbi value of new bank loans was higher for the first five months of 2018 relative to 2017, this was more than offset by the renminbi value of the decrease in off-balance-sheet lending.

Macquarie noted that if growth in M1 (narrow) money supply outstrips growth in M2 (broad) money supply, liquidity conditions are likely to tighten in the corporate sector. The gap between the growth in M1 and M2 money supply has been negative for four months and has widened to 2.3% in the May 2018 print (see chart 2). Macquarie warns if policy stays on the current path, more corporate defaults are likely to be seen.

Chart 2: Chinese money supply growth



Source: Momentum Investments, Momentum Investments

Declining credit growth poses strong headwinds to property and infrastructure, and has likely prompted a sharp downswing in the Citigroup Economic Surprise Index for June 2018. Growth in overall fixed asset investment slowed to 6.1% y/y in May from 7.0% in April 2018, largely driven by a dip in infrastructure spend, as credit to local government financing vehicles was cut.

Nevertheless, growth in real estate investment remained above 10% y/y in May 2018, largely owing to an increase in land, rather than construction, costs. Manufacturing and services sentiment remained firmly in positive territory in May 2018, while consumer confidence reached a new high.

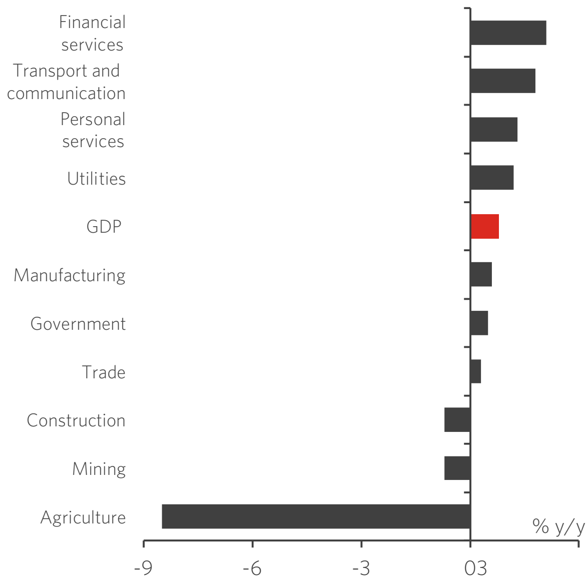
Moreover, solid export growth continues to support overall economic activity. Exports grew at 13% y/y for the second month in a row in May 2019, but higher tariffs and a softening in global growth momentum could lead to lower export growth in the second half of 2018.

Local economic developments

Growth in economic activity plunged in the first quarter of the year, but is expected to recover

According to Statistics South Africa (Stats SA), growth in real economic activity contracted by 2.2% in the first quarter of the year in seasonally adjusted annualised terms, following a solid 3.1% rate in the final quarter of 2017. In y/y terms, growth still managed to register in positive territory at 0.8%. The lowest growth rates were recorded for the agriculture (negative 8.5%) and mining (negative 0.7%) sectors, while the financial services (2.1%) and transport (1.8%) sectors grew the fastest (see chart 3).

Chart 3: First-quarter growth breakdown



Source: Global Insight, StatsSA, Momentum Investments

The demand-side breakdown of GDP growth suggested growth in household consumption remained firm in y/y terms at 3.1%. Growth in fixed investment was muted at 0.4%, while growth in exports was flat relative to a year ago.

Growth is expected to pick up in the remainder of the year. Momentum Investments expects growth in real economic activity to recover from 1.3% in 2017 to 1.7% in 2018, 2.1% in 2019 and 2.4% in 2020. Household consumption should remain solid in light of positive real wages, wealth effects and a moderate recovery in employment.

Fixed investment is expected to stage a more significant recovery in 2019 and 2020, following the national elections, which is expected to bring about more policy certainty, as it has been the major driver behind the postponement in fixed investment projects, locally.

Growth in exports should continue to expand into 2019, in line with healthy global growth, but a potential downswing in global economic activity in 2020 (prompted by a reversal in the positive fiscal impulse, which is a contributor to growth) could see growth in exports taper off in 2020.

Financial market performance

Global markets

Global equity markets rose 2.5% during the first half of the month, before falling 2.9% in the second half of the month on negative news headlines hinting at increased trade conflict between the US and China, based on reports that the US Treasury department was imposing limits on Chinese technology investments.

Developed markets fared better than emerging markets (EMs) during June 2018. The MSCI Developed Market Index ended the month flat, but equity markets in the US and Japan ended in positive territory by the end of the month. Most of the gains made on the S&P 500 Index in the first half of the month were wiped out by President Donald Trump's threats of more protectionism against major trading partners.

The S&P 500 Index ended June 2018 only marginally in the black at 0.6%.

The Nikkei 225 struggled in the second half of the month, as the yen's strengthening against the dollar (on the back of renewed global trade war concerns stemming from a consideration of fresh tariffs on China) hurt key exporters. The index finished the month 0.6% higher.

European bourses were slightly unsettled towards month end, as the EU summit got underway. The Eurostoxx 50 Index fell 3.7% from its mid-month peak, but ended the month 0.2% higher than a month ago. European equity markets were additionally hit by political uncertainty in Italy and an immigration dispute between the two political coalition partners in Germany.

It was a brutal month for EM equities. The MSCI EM Index plunged 4.2% in June 2018, in line with escalating trade tensions, a 3.5% slump in the Bloomberg Commodity

Price Index and a surge in the US dollar. The MSCI EM Index was dragged lower by a 4.7% fall in the MSCI Asia Index, which declined on lingering trade concerns. Losses were followed by a 2.3% drop in the MSCI EMEA (Europe, Middle East and Africa) Index, while the MSCI Latin America Index ended the month 3.1% in the red.

Local markets

SA equities participated in the EM sell off, but recovered by the end of the month. The FTSE/JSE All Share Index gained 2.8% in June 2018 (see chart 4), despite an underperformance in financial shares.

The FTSE/JSE Financials Index tumbled 2.9% in June 2018, stemming from a sell-off in the local currency, which drove losses in the banks. In contrast, the FTSE/JSE Resources and Industrials indices ended the month 6.0% and 4.2% firmer, respectively, buoyed by currency weakness.

Sanisha Packirisamy

Economist
Momentum Investments

Herman van Papendorp

Head: Macro Research and Asset Allocation
Momentum Investments

Partially Vesting Smooth Bonus Range

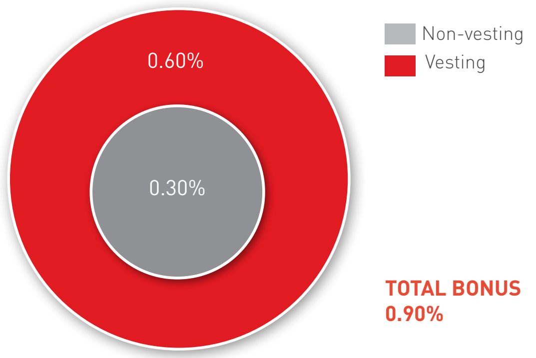
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

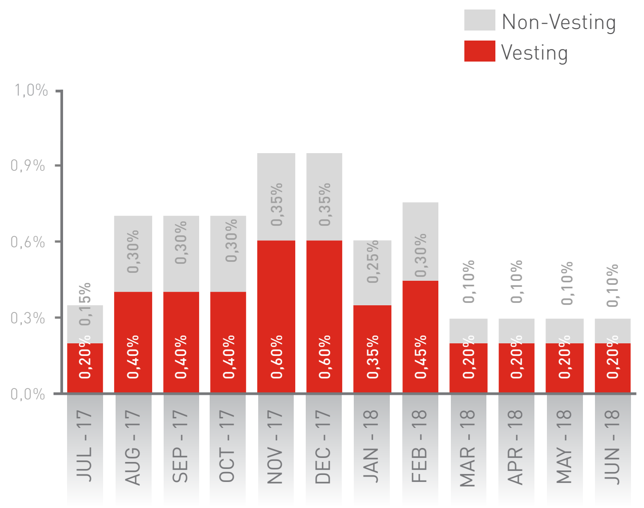
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	100% - 105%	R12.7bn	0,93%	6,41%

Performance

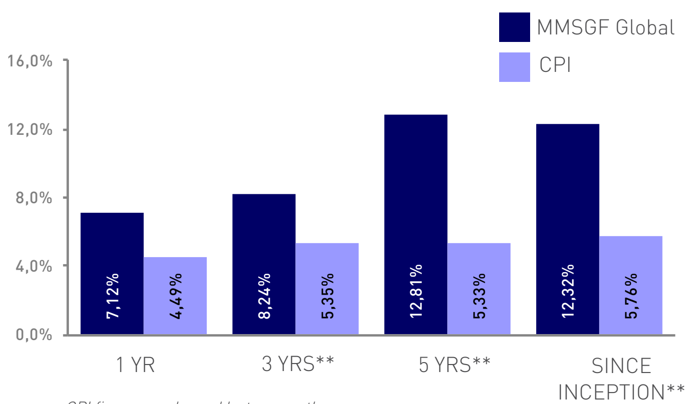
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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

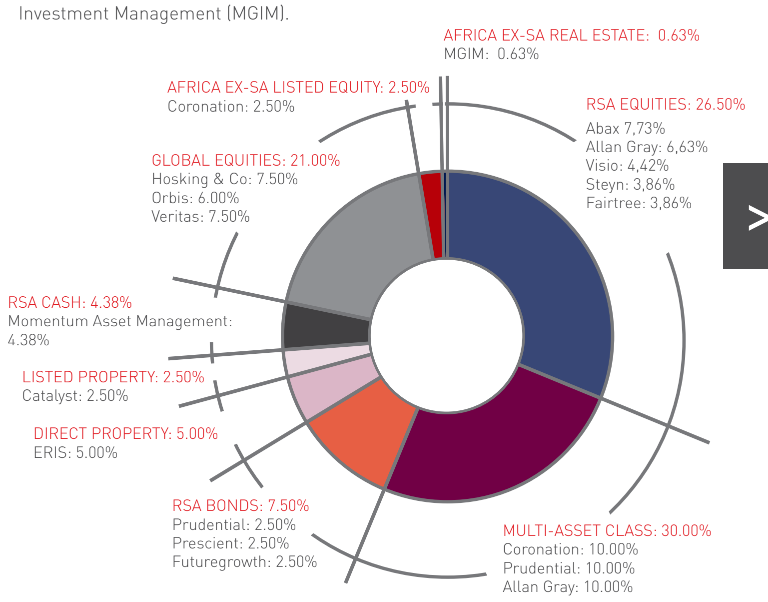
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

Asset Allocation

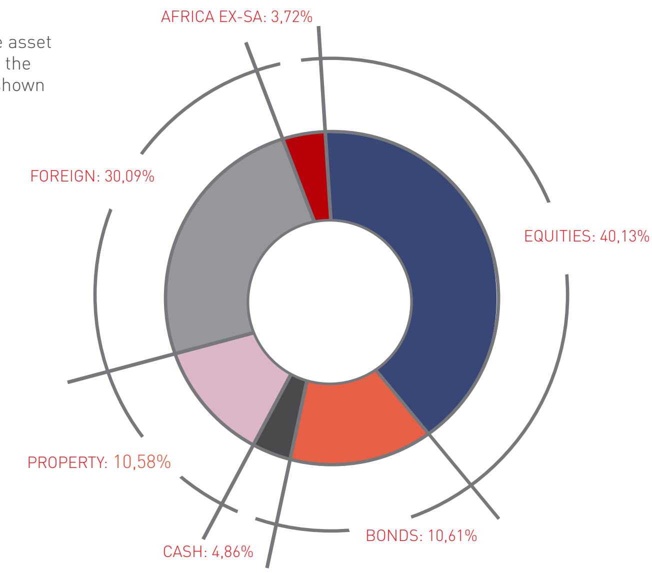
In line with changes in Regulation 28 of the Pension Fund's Act announced in February increasing the global investment allowance from 25% to 30%, the Global Equities allocation was increased from 18.75% to 21%, the RSA Equities allocation reduced from 31.25% to 26.5% and the RSA Bonds allocation reduced from 10% to 7.5%. The Multi-Asset Class allocation includes a third manager, Allan Gray, taking the total Multi-Asset Class allocation to 30%.

Steyn and Fairtree were appointed as RSA Equity managers and Foord was removed.

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

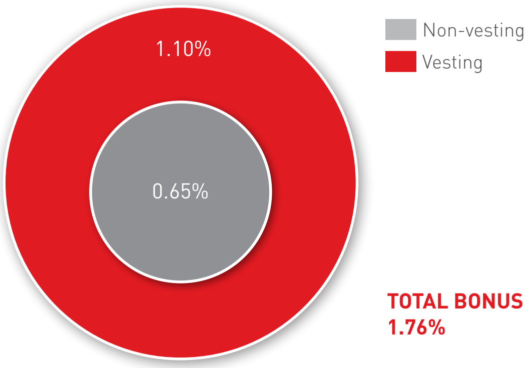
Multi-Manager Smooth Growth Fund Local

Fund Snap Shot

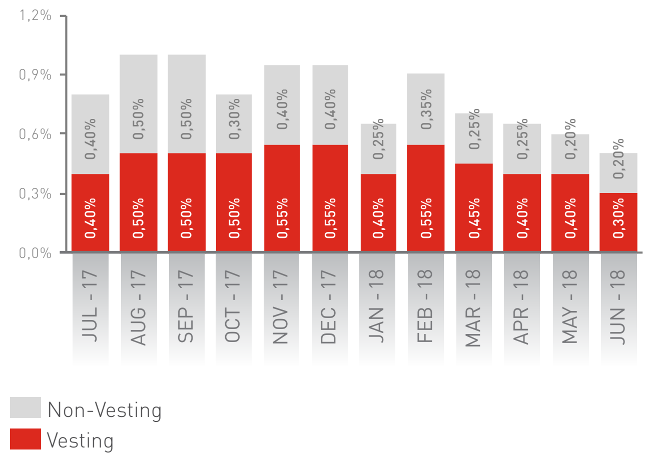
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	97.5% - 102.5%	R243.6m	1,90%	4,23%

Performance

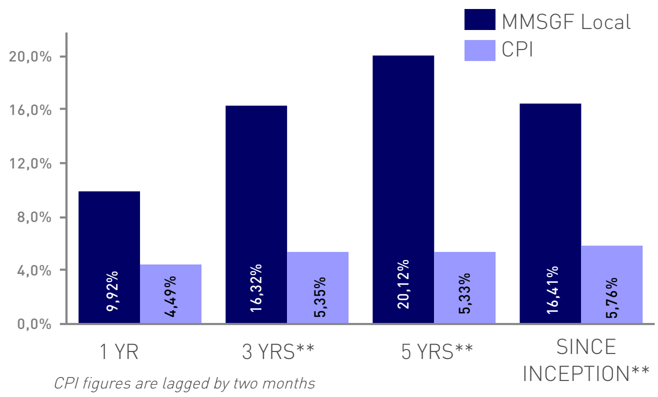
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Local is shown below.



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

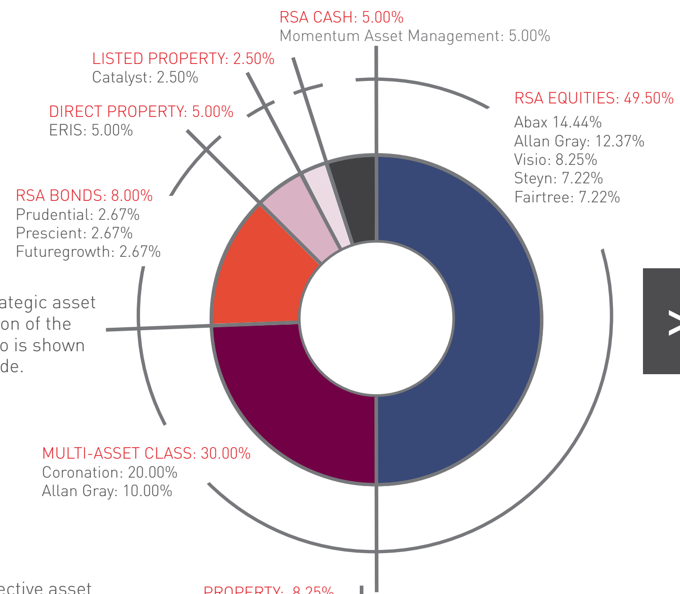
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

Asset Allocation

The RSA Equities allocation reduced from 54.50% to 49.5% and the RSA Bonds allocation reduced from 13% to 8% to allow for an increased Multi-Asset Class allocation at 30% (from 20%) and with the inclusion of Allan Gray as a Multi-Asset Class manager.

Steyn and Fairtree were appointed as RSA Equity managers and Foord was removed.

The strategic asset allocation of the portfolio is shown alongside.



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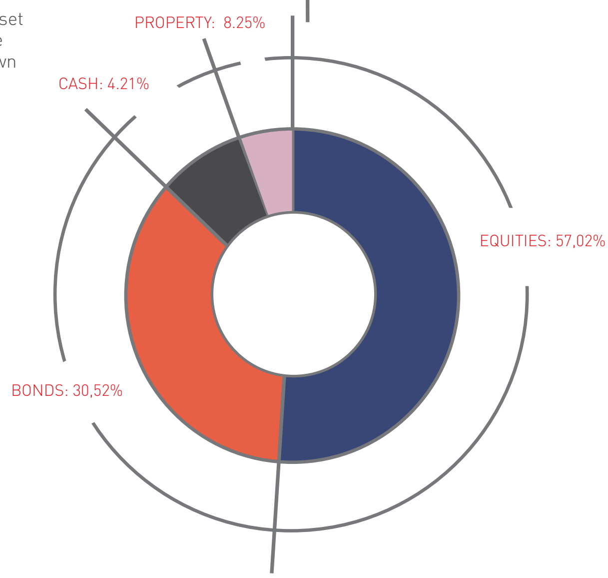


From as early as 150 B.C navigators could find their latitude, but ships were lost in shipwrecks because it was impossible to determine longitude. Thanks to **the 17th century sextant**, the navigator could measure the angle between the moon and a celestial body, calculating the exact time at which this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

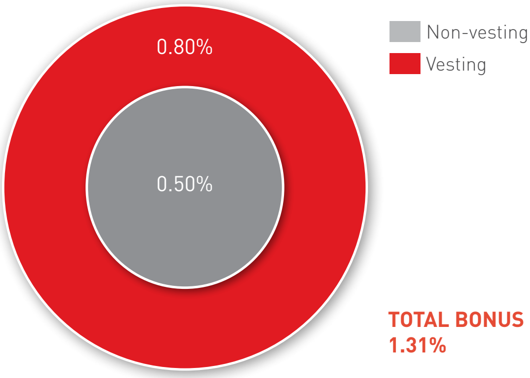
Partially Vesting Smooth Bonus Range
Smooth Growth Fund Global

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	100% - 105%	R2.3bn	0,94%	5,56%

Performance

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



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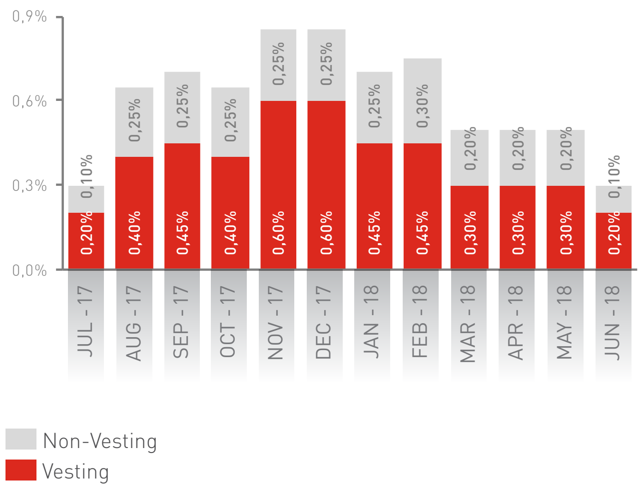
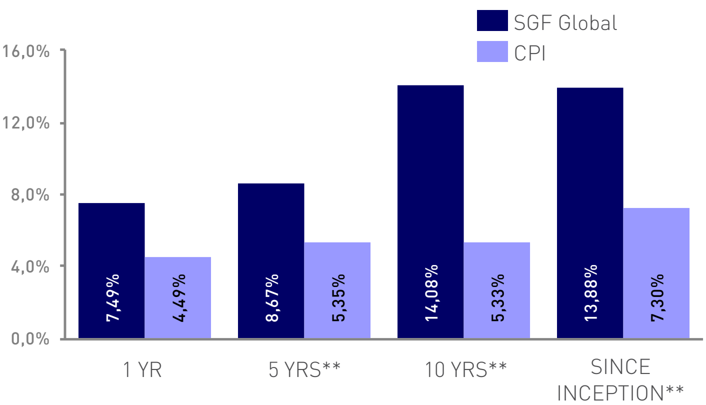


The chart below shows the long term bonus* performance of the Smooth Growth Fund Global against CPI.



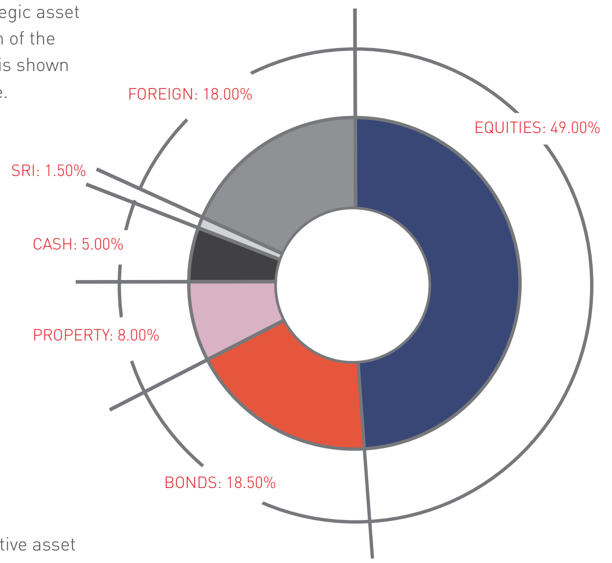
CPI figures are lagged by two months

* Bonuses are net of underlying asset charges but are gross of the Investment Management Fee

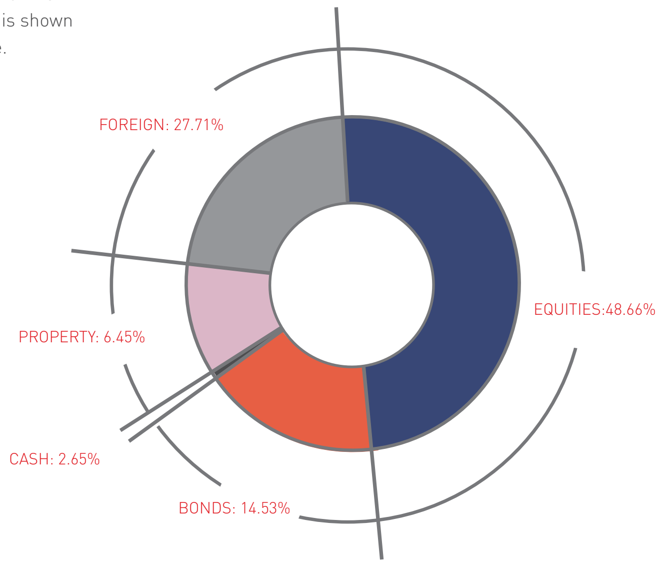
** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



The engine order telegraph is used by the pilot on the bridge to instruct the engine room below to power the vessel at the right speed. By moving the handle to a different position on the dial, a bell would ring in the engine room and move their pointer to the same position - a fast and very handy way of powering the vessel away from trouble.

In a world where Trustees, Professional Financial Advisors and employees are looking for greater certainty, Momentum's continuous capital guarantee on benefit payments and smooth inflation-beating returns will result in plain sailing.

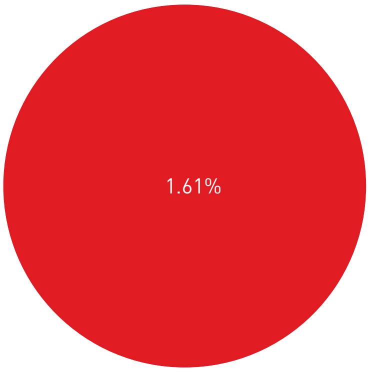
Fully Vesting Smooth Bonus Range
Multi-Manager Secure Growth Fund

Fund Snap Shot

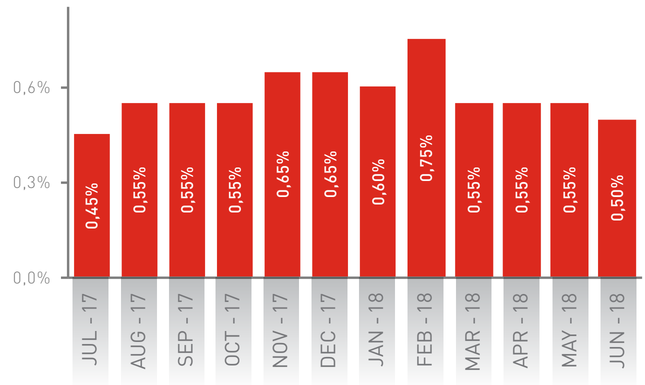
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	105% - 110%	R48.1m	0,57%	5.91%

Performance

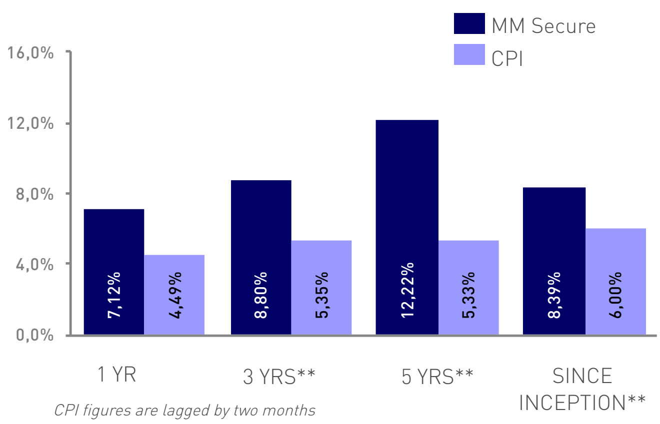
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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

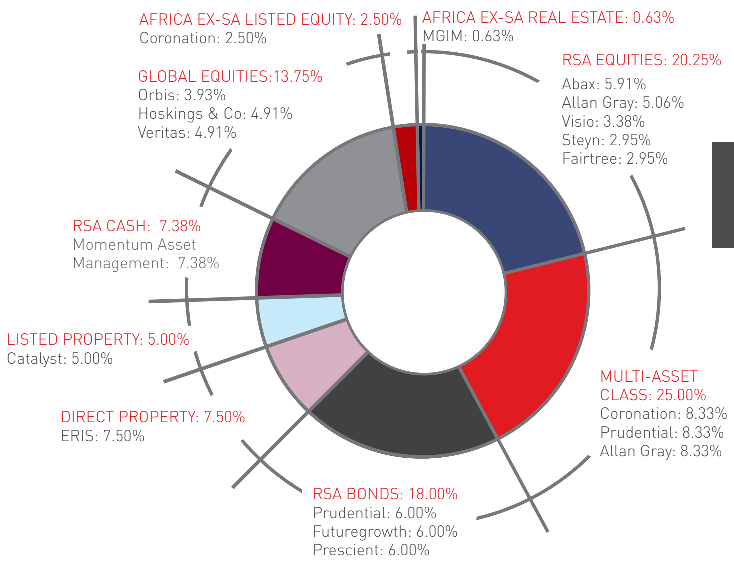
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

Asset Allocation

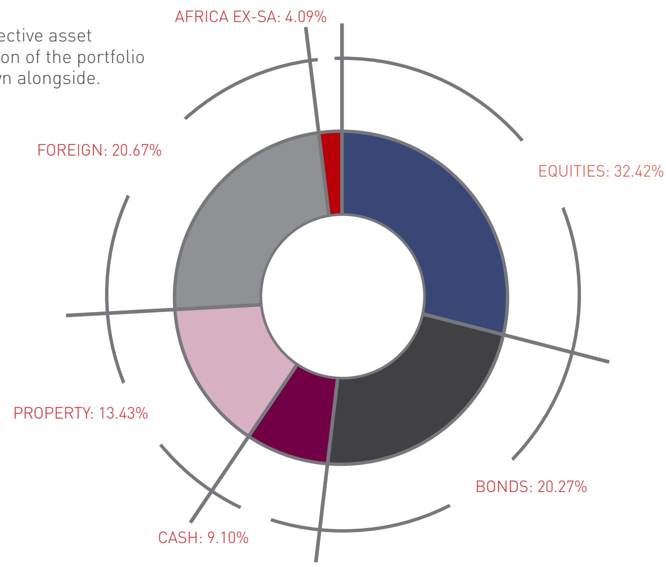
The Multi-Asset Class allocation was increased from 20% to 25%, the RSA Equities allocation reduced from 21.5% to 20.25%, the Global Equities allocation reduced from 15% to 13.75% and the RSA Bonds Allocation reduced from 20.5% to 18%. The Multi-Asset Class allocation includes a third manager, Allan Gray, taking the total Multi-Asset Class allocation to 25%.

Steyn and Fairtree were appointed as RSA Equity managers and Foord was removed.

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.



Multi Manager Secure Growth Fund Bonus Series 2013 will in future be merged with Multi-Manager Secure Growth Funs once the funds' funding levels are aligned.

Fully Vesting Smooth Bonus Range

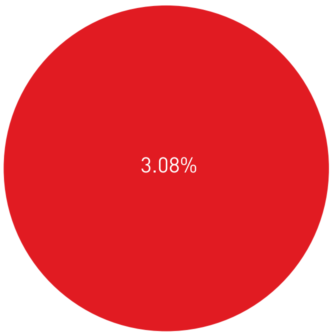
Multi Manager Secure Growth Fund Bonus Series 2013

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2013	105% - 110%	R59.8m	1,45%	5,95%

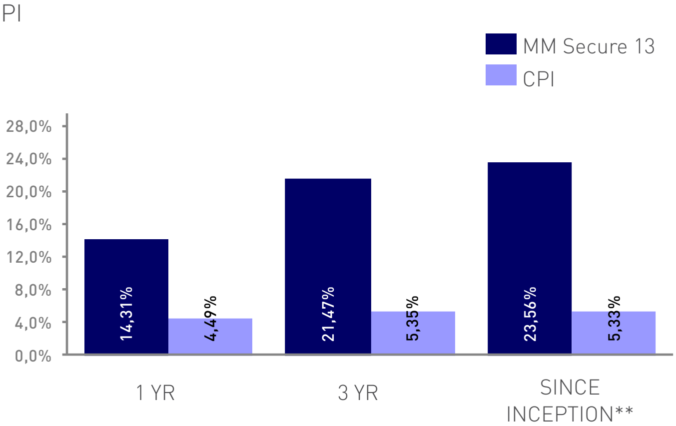
Performance

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 Multi-Asset Class allocation was increased from 20% to 25%, the RSA Equities allocation reduced from 21.5% to 20.25%, the Global Equities allocation reduced from 15% to 13.75% and the RSA Bonds Allocation reduced from 20.5% to 18%. The Multi-Asset Class allocation includes a third manager, Allan Gray, taking the total Multi-Asset Class allocation to 25%.

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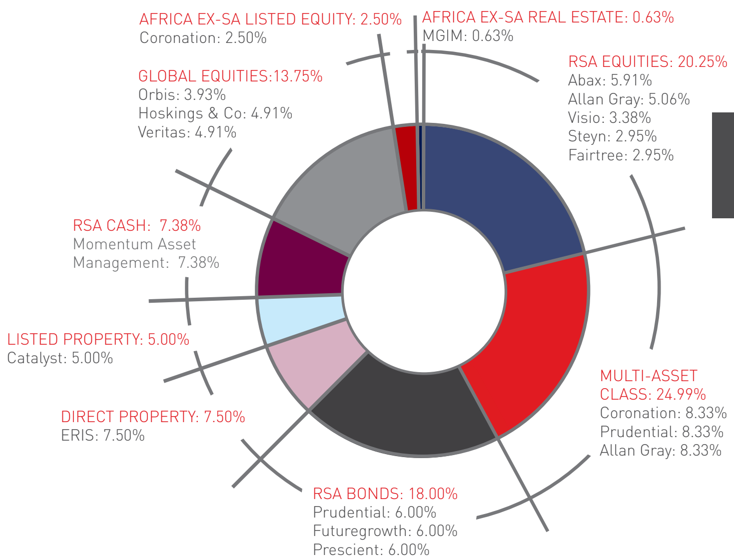
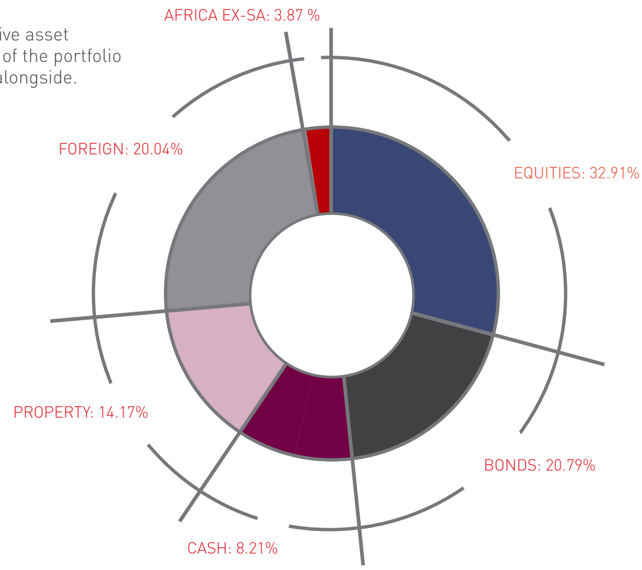


The effective asset allocation of the portfolio is shown alongside.



Multi Manager Secure Growth Fund Bonus Series 2013 will in future be merged with Multi-Manager Secure Growth Funs once the funds' funding levels are aligned.

Fully Vesting Smooth Bonus Range

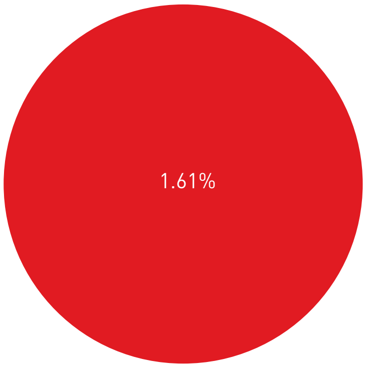
Smart Guarantee + 3 Fund

Fund Snap Shot

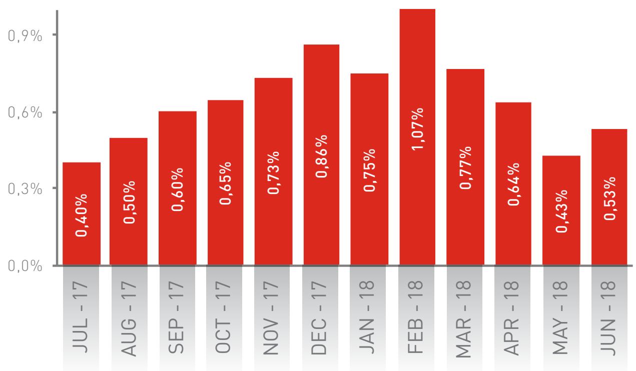
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	95% - 100%	R300.8m	0.59%	6,05%

Performance

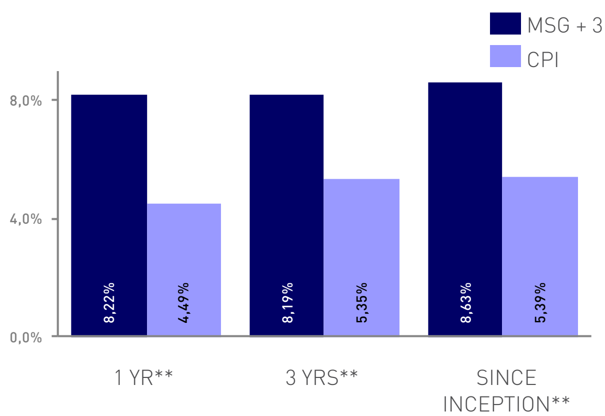
The total bonus* for the past quarter on the Smart Guarantee + 3 Fund is shown below.



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.



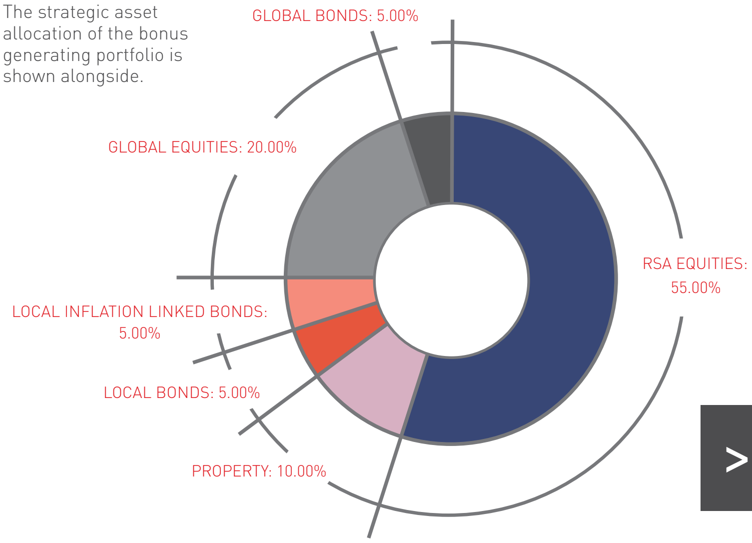
CPI figures are lagged by two months

* 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 2 month lag), around **5.70%** 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

Vesting	Fund	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 Investments	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

*Investment management fee includes underlying local manager fees, excludes net priced asset fees and performance fees where applicable.

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 may be applied on member switches out terminations and other non-benefit payments 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 be deducted from the underlying assets.

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