Smooth Bonus Report

Third Quarter 2018

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

momentum

Looking back over the past quarter

Dear valued investors

During the quarter, there has been an escalation in international trade tensions, a gradual erosion of democratic standards in Europe, rising world debt levels, tighter global financial conditions and geopolitically driven oil price shocks that dampened optimism around global economic prospects. The timing, degree and effect of previous fiscal and monetary interventions by the major central banks and varying progress in fiscal and monetary exit strategies have further given rise to a desynchronisation in global growth.

In the first two quarters of 2018, South Africa had consecutive negative gross domestic product (GDP) growth and, as such, has slipped into a technical recession. In the third quarter, the returns on many global and local equity indices were negative. A much-needed stimulus package of R43 billion was announced in September 2018 by Cyril Ramaphosa. Ramaphosa is rolling the dice one more time in an attempt to revitalise the downtrodden economy. The rand remains weak, but did initially react positively to the stimulus package. If these initiatives gain traction in a timeous fashion, it could result in higher levels of sentiment to positively affect the growth outlook.

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

Smooth bonus portfolios

There were not any notable changes during the quarter to Momentum's smooth bonus portfolio range. However, the team has been working hard and there are some exciting developments that will be announced in the fourth quarter, which will complement the smooth bonus range. The new developments will go a long way to address various needs that have been expressed in the market.

Returns from equities have been poor for the period, which has put a strain on portfolio returns. Looking forward, Momentum is expecting the economy to grow moderately in the coming quarter and for South Africa to exit the technical recession, while medium- to longer-term growth will need to come from structural reforms.

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

Warm regards

Steeed Duncan-Smith

Client Relationship Manager
Momentum Corporate

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SA Technical Recession- Smooth Investing

by Siboniso Mncube

Introduction

South Africa has experienced negative real growth for the first two consecutive quarters of 2018, leading to a technical recession. This is largely on the back of the country's constant political instability, driven by alleged corruption scandals and resulting in declining investor confidence in South Africa. Other macroeconomic indicators outside politics, i.e. overall household income decline, a decline in the labour force and industry output/ production also contributed to the country's unfortunate economic outlook. The key gross domestic product (GDP) constituents contributing to negative growth comprise the agricultural, transport, trade and industry sectors.

Understanding a technical recession

A country enters into a technical recession when there is a decline in GDP for two consecutive quarters. GDP is the measure of the market value of all the final goods and services produced in a country for a specified period, often quoted annually or quarterly. It is a measurement of economic activity and stability of a country, also used as a basis for comparison internationally.

During times of expansion, GDP rises and, in times of contraction, GDP declines. As indicated in the graph below, the South African economy shrunk by 2.6% in the quarter ended 31 March 2018, which was the largest decline since 2009, followed by another decline of 0.7% in the following quarter ended 30 June 2018. This resulted in South Africa entering into a technical recession.

The more final products produced in a country, the more people companies can employ and the more workers can be paid. The increase in wages will enable consumers to increase expenditure, thus resulting in a rising demand for services. Companies are able to finance expansion, more jobs are created and, therefore, this then raises consumer and business confidence, which results in positive GDP growth, hence economic growth.

On the contrary, a decline in GDP will see the economy decline into a recession. During such times, production decreases, wages decrease, retrenchments increase and companies limit their investments and spending.

Who loses the most?

The consumer takes on the biggest knock during times of economic contraction. During a recession, buying power of a country decreases in relation to other countries. The rand immediately fell by 2.4% on the news of the technical recession. The fall in currency is reflected in the increased cost of imported goods, a typical example being the ongoing fuel price hikes. These increases are borne by consumers either by price inflation on consumables or by increases in taxes

Other economic indicators that saw South Africa slide into a recession

The agricultural sector, which is by far the biggest contributor in SA, was the hardest hit, with a decline of 29% in the second quarter of 2018, contributing negative 0.8% of GDP. This was on the back of a drop in production and the effect of drought. Another non-economic factor affecting this sector was fears about land redistribution, which is the fear of farmers losing land due to new proposed legislation. There is also difficulty to manage farm workers due to commitment by the state to safeguard human right.

The transport and trade industries were the other largely affected sectors, as shown by negative 4.9% and negative 1.9% declines respectively.

Investing in a recession

The basis of investment is to manage any unexpected market volatility regardless of a recession or boom and to diversify investments across different asset classes and investment strategies. Recessions provide a lucrative environment for investors with good judgement to take advantage of. Not shifting from initial methods of investing also has long-term benefits.

Diminishing buying power during recession puts pressure on prices and decreases demand for local equities and property, making the fixed-income asset classes such as cash and bonds more attractive.

Understanding smooth bonus portfolios and their benefits

Smoothed portfolios offer investment returns through regular bonus declarations. The bonuses declared take into account the portfolios' underlying investment returns as well as non-investment experience. They tend to boost returns in periods of recession by setting aside a portion of returns during periods of strong market returns to compensate for periods of relative weak returns.

In a smoothed portfolio, a member's book value is dependent on declared bonus rates, member cash flows and fees. Under a smooth bonus policy, stipulated insured benefits, such as death, disability, or retirement, are paid in full (without any adjustments). For all other non-insured payment types, a market-value adjustment may become applicable to protect the interests of scheme members in a smooth bonus portfolio.

Conclusion

Smoothed bonus portfolios are viable options for investors looking to safeguard their investments, especially during times of economic contraction. Bonuses declared in the Momentum corporate smooth bonus portfolio range can never be negative. Therefore, those investing in such smooth bonus portfolios can be certain they will not incur losses on capital invested regardless of market volatility.

Siboniso Mncube

Actuarial Operations Specialist

Structured Solutions

Momentum Investments market commentary for the quarter ending 30 September 2018

by Sanisha Packirisamy and Herman van Papendorp

Highlights

- United States: America's debt hole is deepening and interest payments are becoming costly.
- Eurozone: French President Emmanuel Macron is seeking to boost his flagging popularity under onerous fiscal constraints.
- United Kingdom: Households in Britain have been facing tough financial conditions, as higher rates of inflation have eroded real wage gains.
- Emerging markets: Escalating tensions in global trade are casting the spotlight on a handful of countries bearing external vulnerabilities.
- South Africa: An acceleration in structural reforms is imperative to resolve the country's stark inequality problem.

Global economic developments

United States (US)

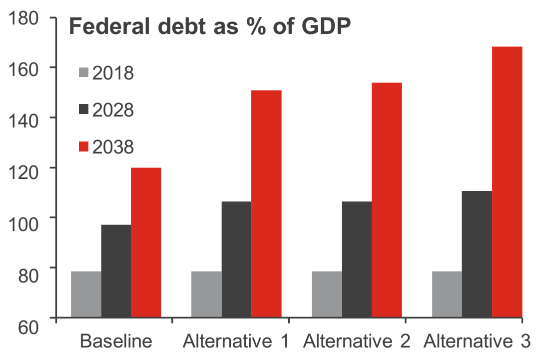
The economy and voters will benefit from deficit spending in the short term, but interest payments are becoming costly

According to the Organisation for Economic Co-operation and Development, only five countries (Japan, Greece, Italy, Portugal and Belgium) have general government debt ratios, which exceed that of the US.

A study undertaken by the US Congressional Budget Office (CBO) in August 2018 extrapolated four scenarios for fiscal policy in the long run. Under the baseline projection, current laws are anticipated to remain unchanged. The recently enacted tax changes would expire in 2026 and cause revenues to rise faster than gross domestic product (GDP). Growth in spending is expected to continue outpacing growth in revenues and, as a result, the federal budget deficit is expected to expand from 3.9% of GDP in 2018 to 7.1% by 2038 (or from 2.4% to 2.9% of GDP, when excluding the cost of servicing the debt). Consequently, federal debt, as a share of GDP, would rise to 118% from 78% during the same period (see chart 1).

The CBO researched an alternative scenario (Alternative 1), in which there is an extension of the Tax Cuts and Jobs Act. Spending for Medicare (a national health insurance programme in the US) and social security are anticipated to increase as output and income grow. The federal budget deficit is forecasted to grow to 10.5% by 2038 in this scenario, which would take federal debt as a share of GDP to 148% in the same period.

Chart 1: America's deepening debt hole



Source: CBO, Momentum Investments

The second and third alternative scenarios run by the CBO assumed tax policy changes were enacted to keep revenues as a share of GDP flat after 2028 and 2018, respectively. The federal fiscal deficit would rise to 11.3% and 12.9%, respectively, by 2038, in the Alternative 2 and Alternative 3 scenarios, leading to a rise in the federal debt ratio to 151% and 165% of GDP, respectively, in the corresponding period.

The CBO warned high and rising debt would have serious negative consequences, including reducing national saving and income in the long term, putting pressure on the rest of the budget (high interest costs would crowd out other forms of more useful expenditure) and limiting lawmakers' ability to respond to unforeseen events.

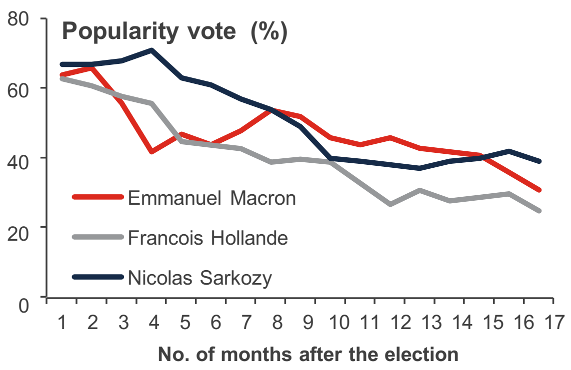
Eurozone

French President Emmanuel Macron seeks to boost his flagging popularity

After establishing his people-powered movement 'En Marche!' (on the move) in April 2016, Macron went on to win the 2017 election with 66.1% of the vote.

The vote, nevertheless, spread a mixed message, with voter turnout registering at the lowest since the 1969 election and millions spoiling their ballots, being unable to support either candidate.

Chart 1: America's deepening debt hole



Source: CBO, Momentum Investments

Macron's voter base has showed signs of cracking in recent months, with a number of polls demonstrating a fall in the president's popularity. According to the poll by research group Ifop, only 29% of the survey respondents expressed satisfaction with Macron in September 2018,

from 45% a year ago. Although Macron is more popular than his socialist predecessor, Francois Hollande, at the same point in his presidency (September 2013), he is less popular than the country's former conservative leader, Nicolas Sarkozy, in September 2008 (see chart 2).

Lower-than-expected growth in France (the Bloomberg estimate for consensus growth for 2018 has fallen from 2.1% in March 2018 to 1.7% in September 2018), a scandal involving his top security aide and political missteps have caused the French to cast doubt on Macron's election promise.

In 2018, France's budget deficit was brought under the permitted European Union (EU) ceiling of 3% of GDP for the first time since 2007. Items, including changes to how payroll taxes are applied, are expected to push the deficit from 2.6% of GDP in 2018 to 2.8% in 2019. Household tax bills are expected to be cut by €6 billion, while business taxes are expected to be slashed by €20 billion. These cuts represent the largest in more than a decade. To fund these tax cuts, fuel and tobacco taxes are expected to increase, pensions and welfare benefits are to be capped and public sector jobs will likely be shed.

In an effort to seek political support outside of his traditional urban power base and dismiss criticism that he is protecting the interests of the rich, Macron outlined an €8 billion initiative to tackle poverty. Against the environment of his falling presidential popularity and the need to foster political credibility with the EU, Macron faces a challenge to adhere to spending targets, while aiming to reduce unemployment (tracking at 9.1%) and prop up growth.

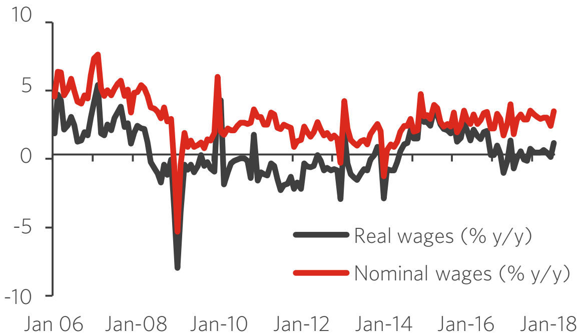
United Kingdom (UK)

Renewed squeeze in households' living standards

Households in Britain have been facing tough financial conditions, as higher rates of inflation have eroded real

wage gains. Real pay growth averaged a paltry 0.2% for the year to date, relative to the same period a year ago, despite a tighter labour market (see chart 3). The headline rate of unemployment dropped encouragingly from a peak of 8.4% at the end of 2011 to 4.1% in the second quarter of 2018. However, growth in nominal wages has been eroded by elevated inflation, which has risen in response to high petrol prices and sterling weakness (as the change of a no-deal Brexit lingers).

Chart 3: Stagnant real wage growth in the UK



Source: ONS, Momentum Investments, data up to July 2018

The UK Consumer Confidence Indicator has remained in negative territory since the second quarter of 2016, following a referendum, in which a majority of British voters supported leaving the EU.

The Bank of England's (BoE) August 2018 increase in the rate at which it lends to commercial banks from 0.5% to 0.75% will increase the cost of servicing existing debt for British households, increasing the strain on households already under pressure from nearly flat growth in real disposable incomes.

In Momentum Investments' opinion, a further escalation in international trade tensions, soft growth in real household spending, due to stagnant real wages and dull growth in private fixed investment, as a consequence of ongoing economic and political uncertainty related to the eventual outcome of the ongoing Brexit negotiations, should leave growth in the UK below 1.5% on average between 2018 and 2019.

Although the firm anticipates a further interest rate hike in the middle of 2019, the likelihood of additional interest rate increases will hinge on the manner in which the UK economy exits the EU. The August 2018 BoE Inflation Report indicated a slow, but steady, rise in interest rates to 1.5% by 2021.

Emerging markets (EMs)

Escalating trade tensions are casting the spotlight on countries bearing external vulnerabilities

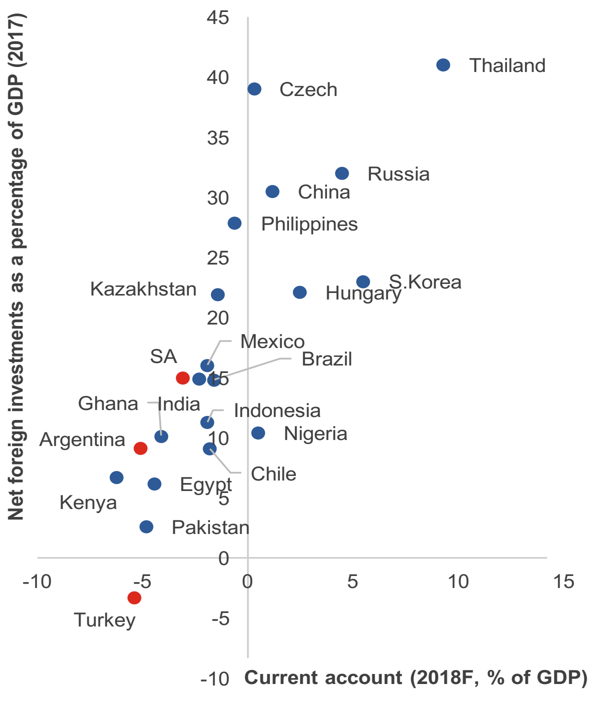
EMs are facing rising headwinds. Firstly, the Bloomberg consensus estimates a dip in developed market growth from 2.4% in 2018 to 2.1% in 2019 and 1.8% in 2020.

Secondly, global liquidity additions by the major central banks are shrinking and expected to turn negative in 2019. Thirdly, international oil prices have averaged US$73/bbl for the year to date, relative to a lower average of US$54/bbl in 2017, exerting upward pressure on inflation in EMs. Finally, escalating trade tensions have caused a slowdown in global trade activity and are generating negative sentiment towards the EM composite.

Negative trade developments have disproportionately hit net commodity exporters. According to Citigroup, the purchasing managers' index (PMI) for EM exporters of commodities drifted below the 50 level, denoting a contraction in manufacturing activity, while the PMI for EM exporters of manufactured goods remained above the neutral level at 51 points in August 2018.

The CPB World Trade Monitor showed year-on-year growth in world trade volumes fell to 4.1% on average for the first seven months of 2018, compared to 4.4% for the same period a year ago. Although growth in world trade volumes recovered from 3.6% in June to 4.3% in July 2018, the exports sub-index of the JPMorgan Global Manufacturing PMI suggested growth in global exports were nearing stagnation, with eight out of the 30 nations experiencing a fall in new export orders in August 2018.

Chart 4: Turkey's poor macro fundamentals



Source: World Bank, Bloomberg, Momentum Investments, F = forecast

The recent fallout in Argentina and Turkey has in part been driven by weak macro fundamentals. Turkey has lost credibility for its inflation targeting, runs a wider current account deficit and has a lower level of net foreign investments as a share of GDP relative to South Africa (SA) (see chart 4). In addition, Turkey's US dollar and

euro-denominated (public and private) debt levels as a share of GDP are much higher than that of SA. Deutsche Bank calculated total foreign-currency-denominated debt reached nearly 70% of GDP in Turkey in 2018 compared to only 30% of GDP in SA.

Local economic developments

An acceleration in structural reforms is imperative to resolve the country's stark inequality problem

President Cyril Ramaphosa announced a R43 billion stimulus package, which is intended to revitalise the downtrodden economy. The rand's immediate positive reaction to the stimulus package suggested the news will lift sentiment. If these initiatives gain traction in a timeous fashion, these higher levels of sentiment could be sustained and could begin to positively affect the growth outlook of SA.

Among the initiatives announced, the president confirmed government will be targeting small and medium enterprises. In the February 2018 national budget, Treasury stated the CEO Initiative had made commitments of R1.4 billion in this regard. The Youth Employment Services (YES) Initiative was also set up in conjunction with the private sector to provide quality work experiences for vulnerable youth. Although the president announced it would target the mining sector and commodities to boost longer-term growth, the revised Mining Charter still has requirements that make SA an incrementally less attractive mining destination compared to other mining jurisdictions. The Department of Mineral Resources has eased some of the provisions in the final version of the Charter. However, it has left the requirement for a black economic empowerment (BEE) ownership target of 30% (from 26%) and an effective 10% free carry interest on new mining rights. The plan to scrap the Minerals and Petroleum Resources Development Amendment Bill is likely to be strongly endorsed by the industry and could lift the constraint on new exploration and production in the oil and gas sector.

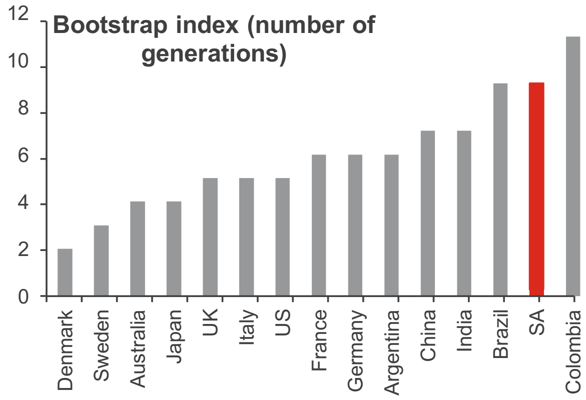
According to the Global Pricing Comparator Study by the Ports Regulator of SA, improvements to the tariff structure in the years preceding the implementation of the Tariff Strategy were noted. However, cargo owners still faced a 182% premium to the global sample average in 2016/17. Users of container ports faced a 117% excess tariff above the global sample average in the same period. Government's announcement of a review of the administrative costs for power, ports and rail tariffs should be positive for exporters and lower the costs of doing business.

An update on government's infrastructure plans will likely be announced at the Investment Summit on 26 October 2018, which is likely to focus on how to unblock investments that are trapped, as a result of high levels of policy and regulatory uncertainty. To date, US$10 billion has been pledged by the United Arab Emirates and Saudi Arabia, while US$15 billion has been pledged by China. Government is likely to focus the infrastructure drive in the tourism, agriculture, exports and beneficiation sectors. Fixed investment as a share of GDP has fallen from around 23% in 2008 to below 20% in the second quarter of 2018. In Momentum Investments' view, higher levels of fixed investment would be positive for sustained higher levels of trend growth in the country.

Government has additionally appointed an advisory panel of ten highly skilled people on land reform. Uncertainty around land reform has raised concerns among investors and has had a negative effect on the agricultural sector and downstream industries. Providing clarity on the land reform process, assuring food security and committing to financial stability (in relation to the potential effect on agricultural debt), are likely to allay investor fears.

In Momentum Investments' view, an acceleration in structural reforms is imperative to resolve the country's stark inequality problem. According to Eurasia's Bootstrap Index, it would take nine generations for South Africans born into low-income families (the poorest 10% of society) to approach the mean income in SA (see chart 5). The International Monetary Fund (IMF) has suggested a number of reforms to reignite strong and inclusive growth in SA.

Chart 5: Glaring inequality is a major challenge in SA



Source: Eurasia, Momentum Investments

One of the structural reforms in the trade and tourism industry, mentioned by the IMF, highlighted the ease in

visa regulations. The recent announcement by the president pointed to positive amendments that will be made to regulations governing the travel of minors to the country and the requirements for highly skilled foreigners are expected to be visited. In Momentum Investments' opinion, these measures should boost tourism and business travel as well as alleviate the skills constraint the country faces. Government has also addressed the IMF's suggested reforms around releasing broadband spectrum. This could spill over into benefits for extending internet access to rural areas, lowering data costs, improving the ease of doing business and spurring ventures in wireless technology and solutions of the 'Internet of Things' across a number of economic sectors.

Nonetheless, Momentum Investments expects fiscal constraints to limit the extent of the success of the new initiatives. Government is set to announce the medium-term budget on 24 October, in which an element of fiscal slippage, due to an undershoot of revenue, is likely to emerge. The president announced the need for a reprioritisation of the budget to limit the effect on overall levels of government debt relative to GDP, which ratings agencies have suggested needs to stabilise within the next five years.

Financial market performance

Global markets

Global equity markets recouped some of their earlier losses. The MSCI All World Index gained 0.4% in September 2018, as optimism on the US economic outlook outweighed lingering US-Sino trade war worries. Gains were driven by an uptick in developed equity markets, while emerging equity markets suffered a further fall in the month.

The MSCI Developed Market Index rose by 0.6% in September 2018, led higher by robust gains in the

Japanese market. The Nikkei 225 Index soared 6.2% in the month on a weaker yen (a weaker yen tends to inflate profits after they are repatriated and makes Japanese exporters more competitive). Prime Minister Shinzo Abe won a third term as leader of the governing Liberal Democratic Party in September 2018, which will enable him to stay in office for another three years. Although Abe's comfortable victory in the election of the party leadership was viewed as positive for structural reform in the economy, the outcome was widely anticipated, limiting its effect on the Japanese equity market. Late in the month, investors turned their focus to Japan-US ministerial trade talks, which left the Nikkei 225 ending the month on a high note.

Gains in the US and European markets lagged. The S&P 500 Index ended the month only 0.6% higher, partly helped by a buoyant consumer confidence print, which matched the historic high registered in 2000. Energy and bank stocks buttressed the return from the US equity market in September 2018.

However, technology and consumer discretionary stocks and share buybacks have largely underpinned gains in the US equity market for the year to date. According to the Financial Times and JPMorgan, around US$330 billion in cash has been repatriated by US firms in the first half of 2018, following the announcement of tax reforms. This amounts to an estimated 15% of the total held offshore. JPMorgan expects a further US$190 billion to be repatriated in the second half of the year. The S&P 500 closed a touch lower after the Federal Open Market Committee (FOMC) meeting late in the month. As widely expected, the Federal Reserve (Fed) raised its target for the federal funds rate by 25 basis points to between 2.0%

and 2.25%. A further interest rate hike is anticipated for the year in December 2018 and the median FOMC participant continued to forecast a further three interest rate hikes in 2019. The Fed's long-term forecast of the long-term interest rate was revised up marginally to 3.0%.

The Eurostoxx 50 Index ended the month 0.3% in the green on reports of a compromise on the Italian budget. Earlier in the month, the index suffered a minor setback on a poor German IFO sentiment print, which signalled a sharp pullback in manufacturing activity.

US ten-year government bond yields lifted 20 basis points in September 2018 and the German ten-year government bond sold off by 14 points in the same period.

The MSCI EM Index lost ground in September 2018, slipping 0.5%, driven weaker by a fall in Asian markets. The MSCI Asia Index lost 1.7% in the corresponding period in the ongoing 'tit-for-tat' trade wars with the US. The index was at its weakest for September 2018 in the middle of the month, when China approached the World Trade Organisation to request permission to impose sanctions of US$7 billion a year on the US economy in retaliation for non-compliance with a ruling in a dispute over US dumping duties.

The MSCI Latin America Index marched ahead by 4.7% in the month, despite an earlier sell off in Brazilian investments, triggered by weak support for the market-preferred presidential candidate in the run up to the Brazilian elections. Centre-right candidate, Geraldo Alckmin, of the Brazilian Social Democratic Party garnered a meagre 8% of the vote in a survey, while support grew for the far-right candidate, Jair Bolsonaro, of the Social Liberal Party. At 28% of the vote surveyed, Bolsonaro remained the frontrunner in the latest poll.

After Turkey surprised markets with strong policy action, corporate default swap (CDS) spreads across the EM composite experienced some respite in September 2018.

The JPMorgan EM Bond Index global spread dipped 10 points overall. The largest pullback was observed in the five-year CDS spread in Turkey (35 points lower), followed by Argentina (decreased by 24 points) and Chile (down 21 points).

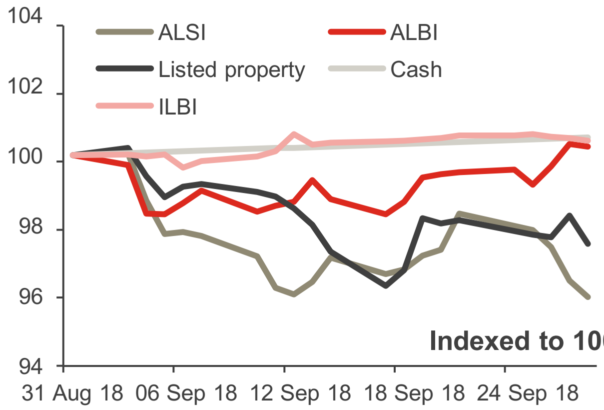
In the international currency markets, pressure continued to build towards the Argentine peso (11% depreciation against the US dollar), Indian rupee (2.1% weaker) and Philippine peso (1% weaker), while the Turkish Lira rallied by 8% in the same period.

Local markets

SA equities underperformed global markets in

September 2018, with a firmer rand detracting from returns. The FTSE/JSE All-Share Index ended the month 4.2% in the red, dragged lower by industrial and financial shares, while resource shares posted a healthy gain in the same period.

Chart 5: Returns on local asset classes (%)



Source: IRESS, Momentum Investments, data up to 28 September 2018

The FTSE/JSE Resources Index edged 1% higher in September 2018, in line with gains in the Bloomberg Commodity Price Index (up 1.9%). Dollar gold prices were relatively flat in the month (negative 0.9%), while dollar platinum prices rose encouraging by 3.6%.

The FTSE/JSE Industrials Index plunged 7.7% in September 2018, as a firmer rand hurt returns in dual-listed industrial shares. The FTSE/JSE Mid-cap Index fell 3.7% in the month, closely followed by a 1.7% decline in the FTSE/JSE Small-cap Index. Losses were also experienced among financial shares. The FTSE/JSE Financials Index decreased by 2.0% in the corresponding period.

Listed property shares shed 2.6% in September 2018, while the ten-year local government bond yield sold off by 29 basis points mid-month, but finished September 2018 only 4 basis points higher (following a 39-point sell-off in August 2018).

The JSE ASSA All Bond Index moved largely sideways (0.2%) in September 2018, while the JSE ASSA Government Inflation-linked Bond Index (ILBI) ended the month slightly higher (0.4%). SA cash posted a 0.5% gain.

The SA rand was the third-best-performing currency against the US dollar for the month, after the Turkish Lira and Chilean peso. The rand strengthened by 3.8% against the US dollar and the euro in September 2018. The rand appreciated by 3.1% against the British pound in the same period. In line with some reprieve in the currency, SA's five-year CDS spread retraced by 27 points in the month. However, it remained around 46 points wider than at the start of the year.

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Momentum Investments

Partially Vesting Smooth Bonus Range

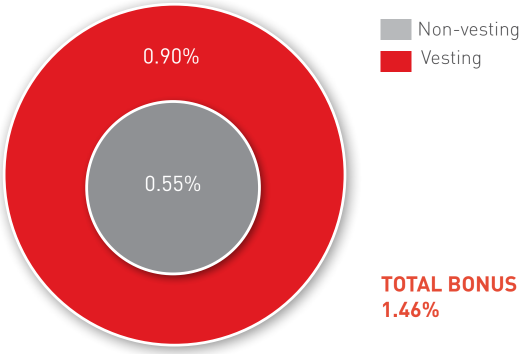
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

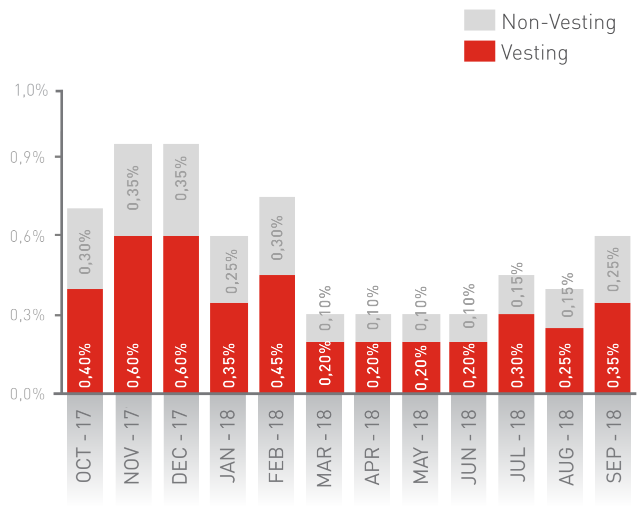
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	97.5% - 102.5%	R12.7bn	0,76%	6,41%

Performance

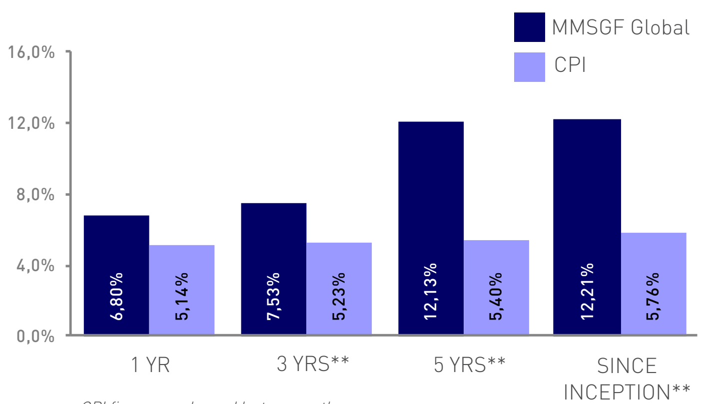
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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



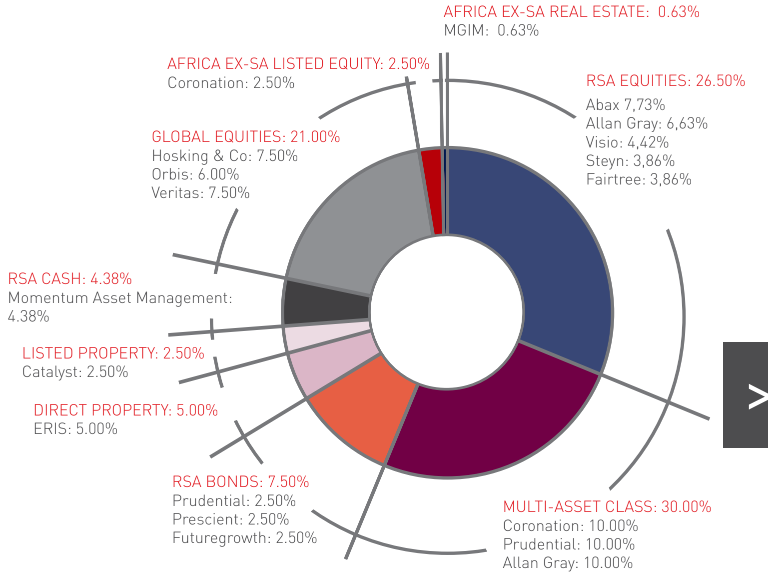
The chart below shows the long term bonus* performance of the Multi-Manager Smooth Growth Fund Global against CPI



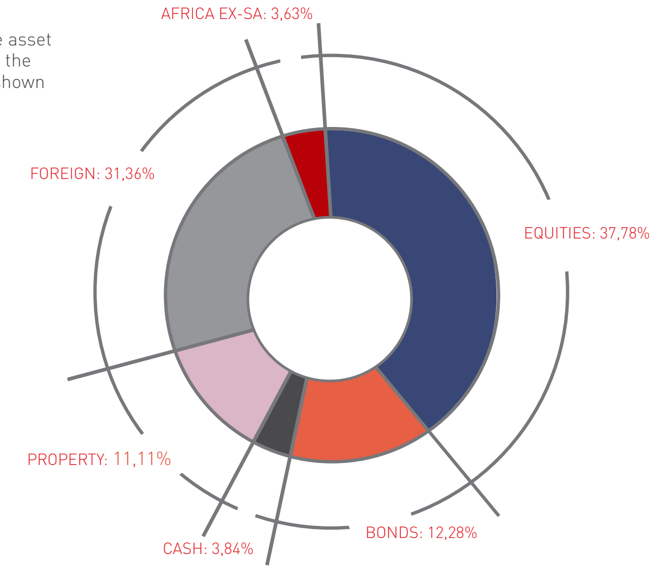
CPI figures are lagged by two months

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 portfolios with independent governance provide just that.

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

Partially Vesting Smooth Bonus Range

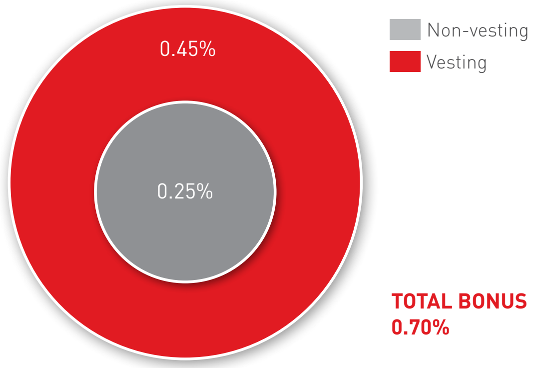
Multi-Manager Smooth Growth Fund Local

Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	95% - 100%	R246.4m	1,81%	4,23%

Performance

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



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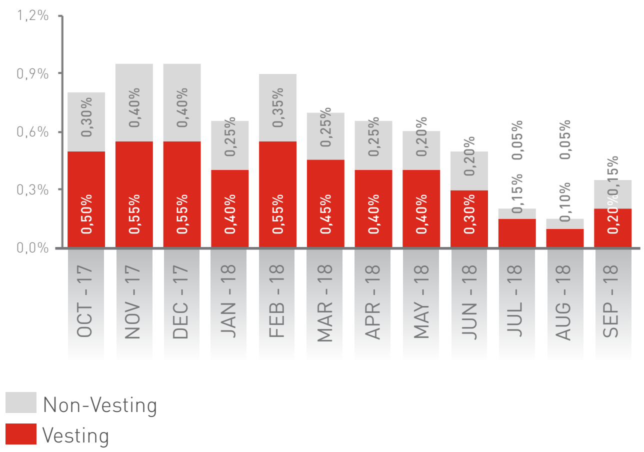
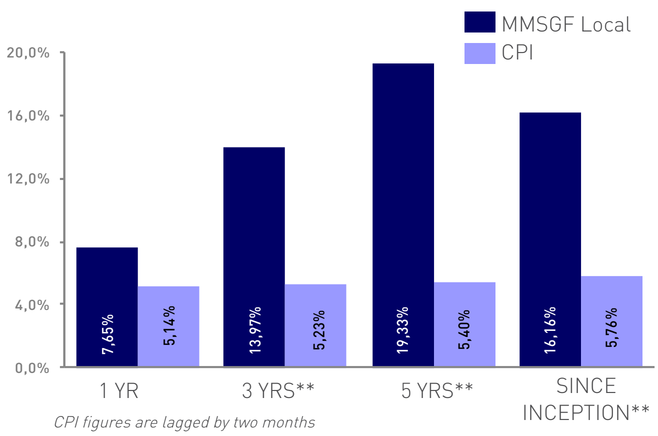


The chart below shows the long term bonus* performance of the Multi-Manager Smooth Growth Fund Local against CPI



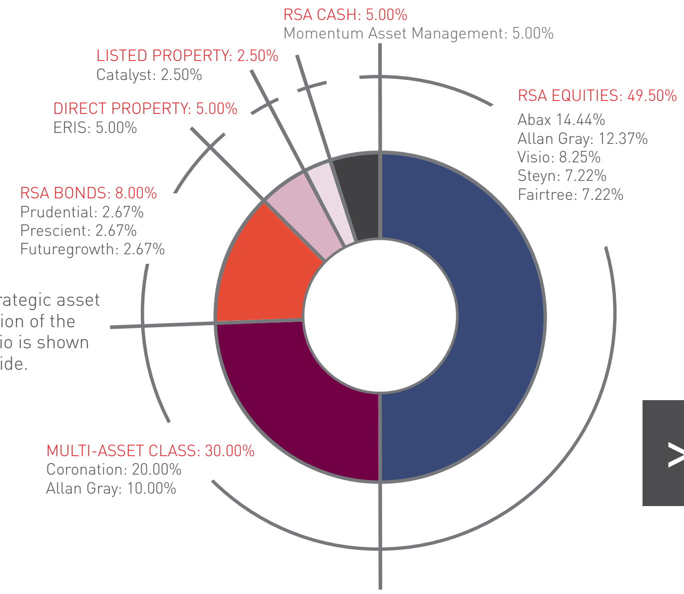
CPI figures are lagged by two months

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

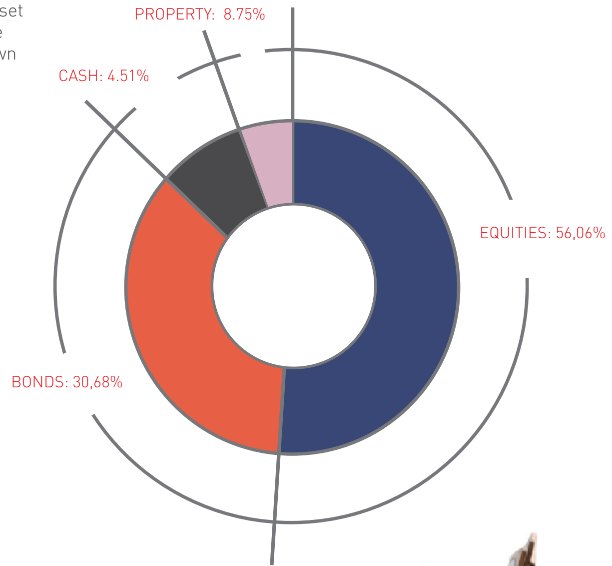
** Annualised

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.

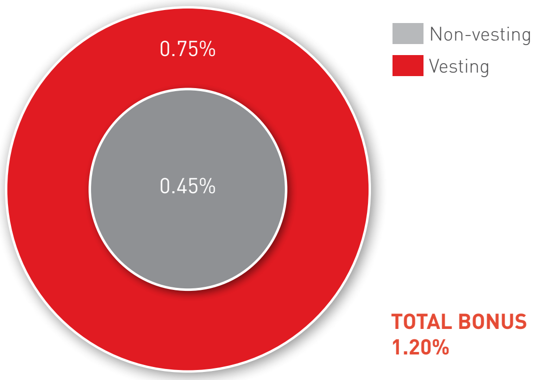
Partially Vesting Smooth Bonus Range
Smooth Growth Fund Global

Fund Snap Shot

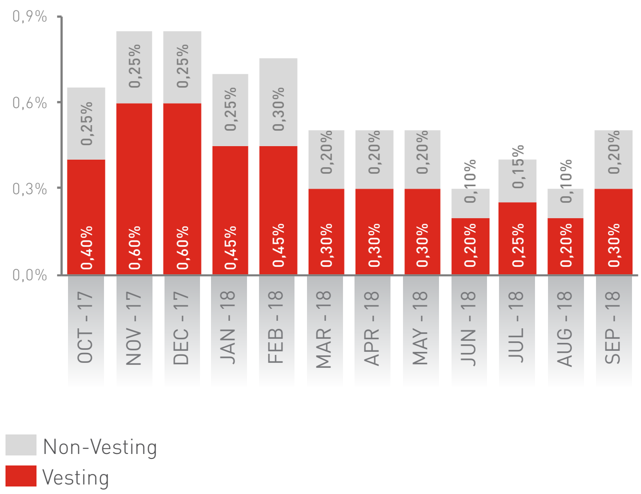
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	97.5% - 102.5%	R2.3bn	0,81%	5,56%

Performance

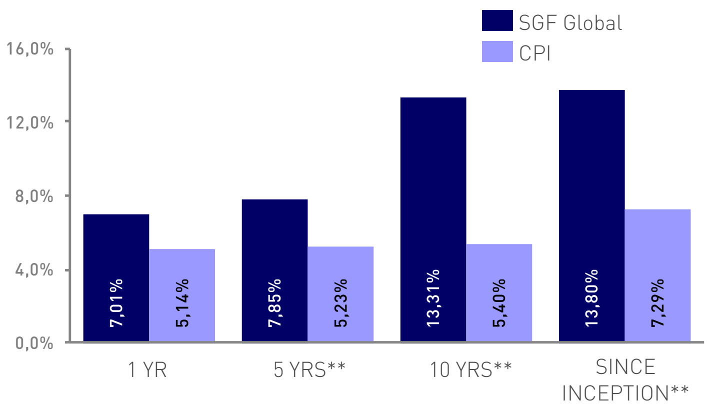
The total bonus* for the past quarter on the Smooth Growth Fund Global is shown below.



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



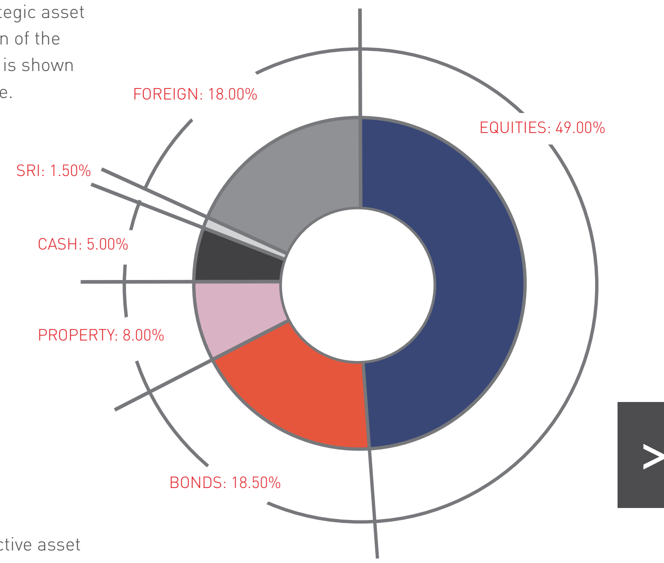
The chart below shows the long term bonus* performance of the Smooth Growth Fund Global against CPI.



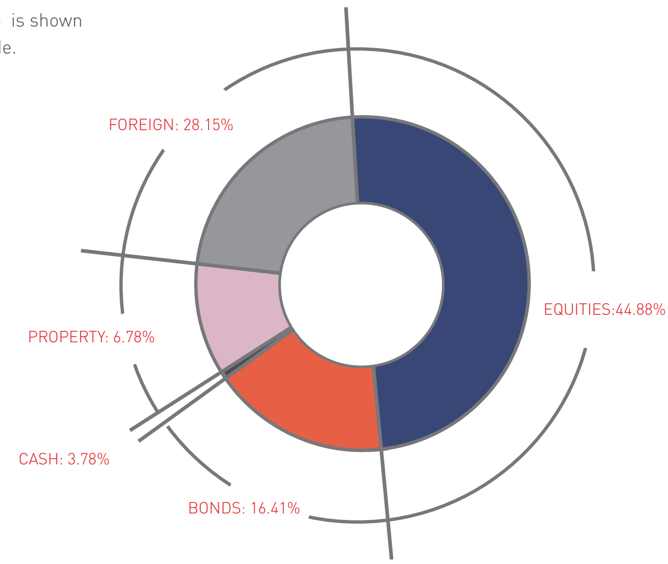
CPI figures are lagged by two months

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.

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

** Annualised

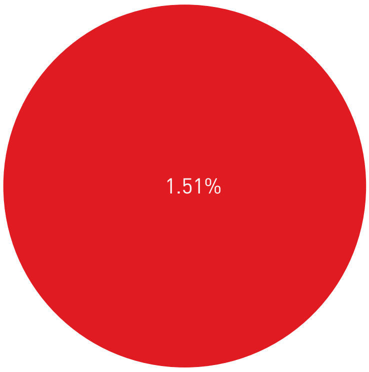
Fully Vesting Smooth Bonus Range
Multi-Manager Secure Growth Fund

Fund Snap Shot

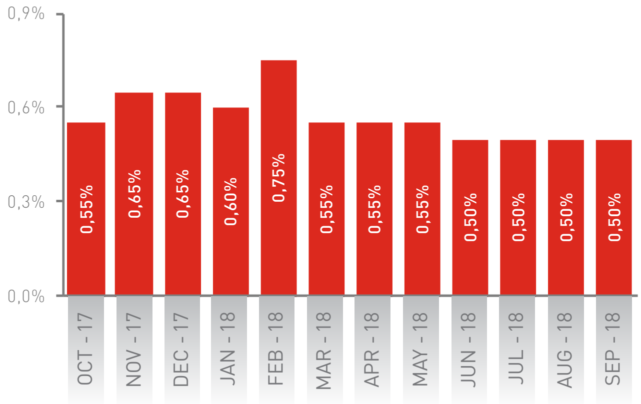
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	102.5% - 107.5%	R47.5m	0,47%	5.91%

Performance

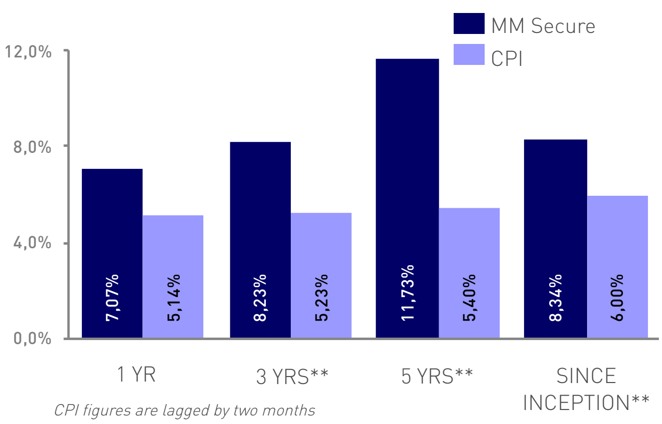
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



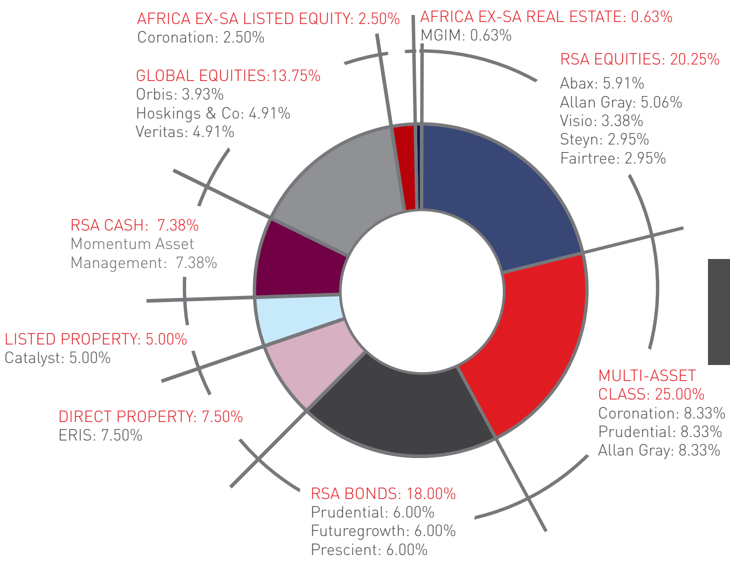
The chart below shows the long term bonus* performance of the Multi -Manager Secure Growth Fund against CPI



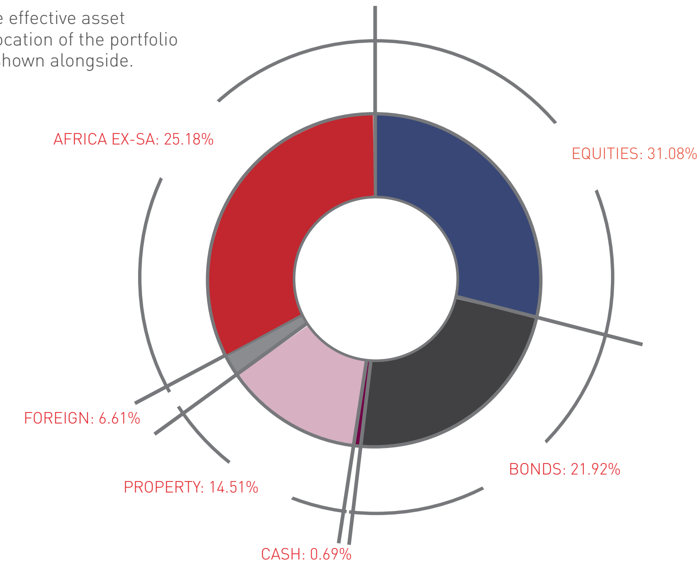
CPI figures are lagged by two months

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.



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

Fully Vesting Smooth Bonus Range

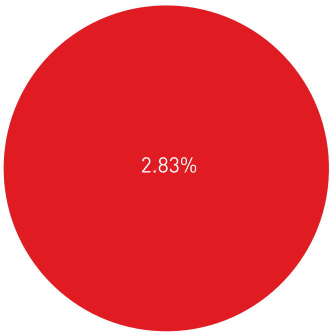
Multi Manager Secure Growth Fund Bonus Series 2013

Fund Snap Shot

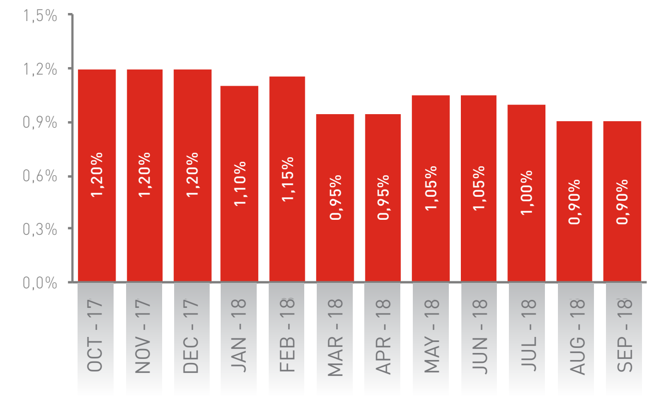
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2013	102.5% - 107.5%	R60.9m	1,54%	5,95%

Performance

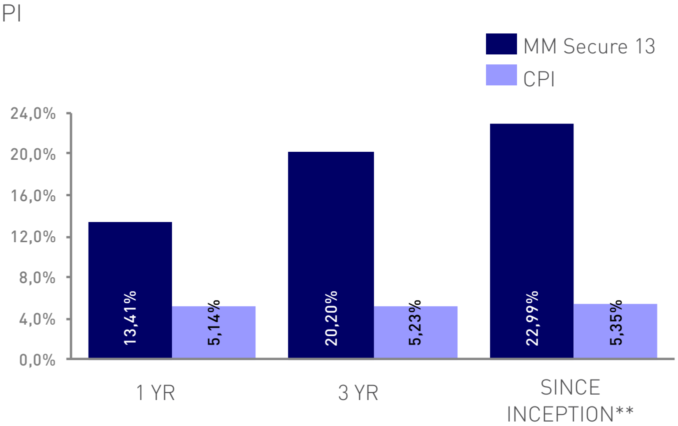
The total bonus* for the past quarter on the Multi Manager Secure Growth Fund Series 2013 is shown below.



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



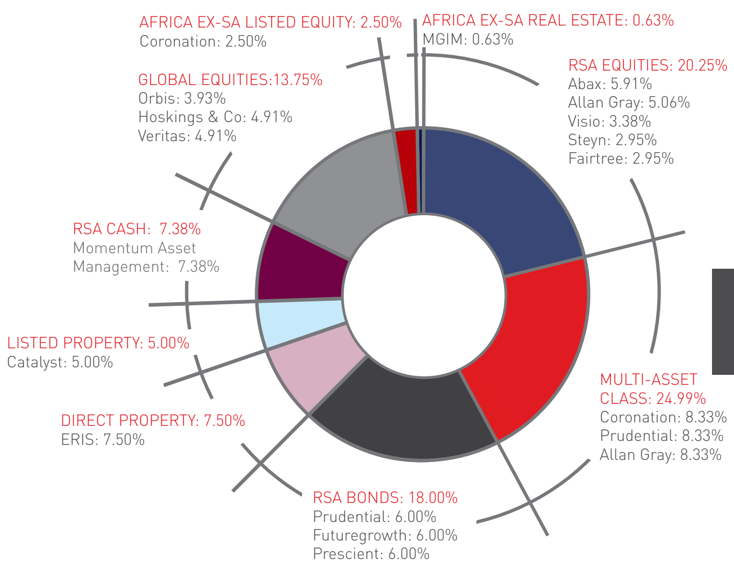
CPI figures are lagged by two months

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

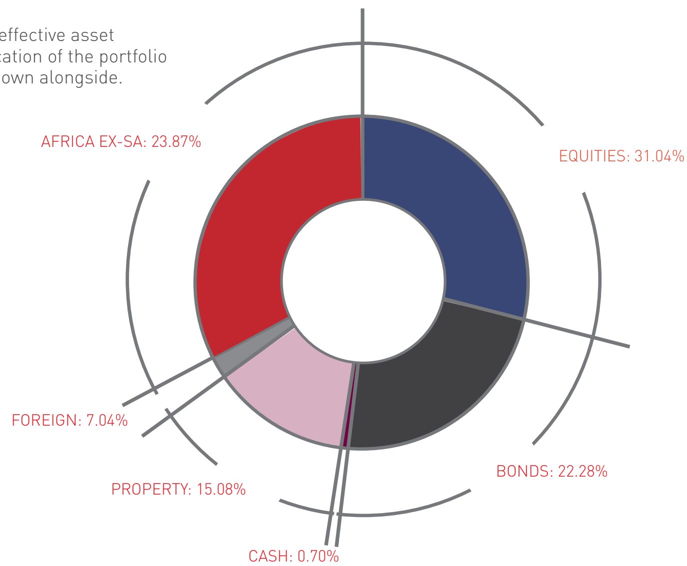
** Annualised

Asset Allocation

The 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 be merged with the Multi Manager Secure Growth Fund by 31 December 2018.

Fully Vesting Smooth Bonus Range

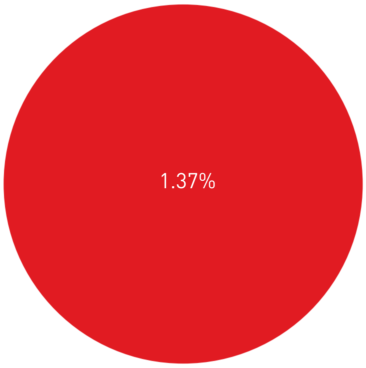
Smart Guarantee + 3 Fund

Fund Snap Shot

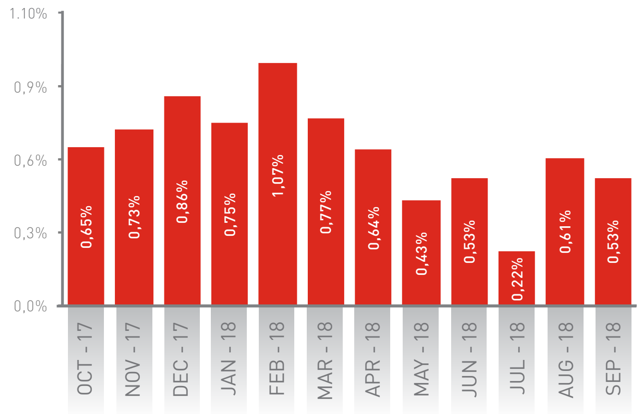
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	95% - 100%	R324.3m	0.62%	7,31%

Performance

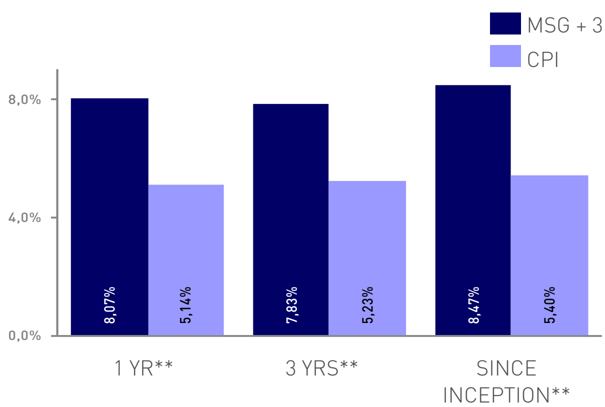
The total bonus* for the past quarter on the Smart Guarantee + 3 Fund is shown below.



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.



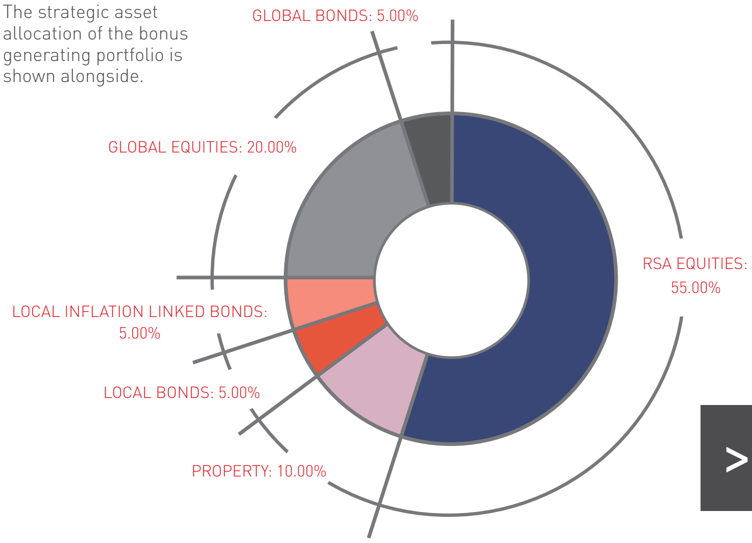
CPI figures are lagged by two months

* 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 **6.30%** 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 Portfolios
Key Features

Vesting	Portfolio	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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