momentum
corporate

Smooth Bonus Report

First Quarter 2019

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

Looking back over the past quarter

Dear valued investors

Asset class returns over the last five years have not been typical, with local bonds being the best performing asset class, slightly ahead cash. Whilst the performance of bonds and cash is in line with historical returns, local equities and listed property returns have not fared so well, with returns for both being less than that generated by cash. In contrast returns over the last 5 years from global equities have been in line with expectations.

Many investors have rightly pointed out that fixed interest was the asset class that delivered. However, in the longer term, we do expect real returns from the growth asset classes, and the results from the traditional risk premia model to be more in line with historical trends.

In the first quarter of 2019, the local share market (FTSE/JSE All-Share Index) rose by around 7%, while the Morgan Stanley Capital International (MSCI) Developed Market Index rose by 11% and the MSCI Emerging Market Index by 9.5%. This strong performance from equities was welcomed by investors, helping to offset the poor 2018 Q4 results.

In global and local markets, there are still many challenges, making predictions difficult. In particular on the local front, we are influenced by sentiment, much of which depends on the outcome of the elections, ailing state-owned enterprises, handling of corruption and whether or not Moody's investor services keep South Africa's sovereign debt at investment grade. Globally there is much of the same, with Brexit still not resolved and continued trade tensions and protectionism.

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

Smooth bonus portfolios

Officially, we opened our Momentum Smooth-Edge Fund to new business on 1 February 2019. The smooth bonus portfolio has a total expense ratio of less than 1%, while providing a 100% guarantee on insured benefit payments. There has been a great deal of interest in the portfolio and we expect to reach our first R100 million in investments in the next month or two. The portfolio is now incorporated in the quarterly report and you can find further detail under page 15.

In the case of our Momentum Multi-Manager Secure Growth Fund, the investment committee increased the global equity exposure by 3.75%, funding this from local equity. Refer to page 16 for further details on the portfolio.

The Financial Sector Conduct Authority (FSCA) issued draft regulation stipulating 'conditions for smooth bonus policies to form part of default investment portfolios'. We await the final conduct standard from the FSCA in this regard and will adjust our portfolios accordingly once we have all the details.

The majority of our smooth bonus portfolios declared low bonuses over the first quarter, largely driven by poor funding levels. However by the end of the first quarter we saw a recovery of these funding positions. If markets rise over the second quarter, we will be in a better position to declare higher bonuses

Warm regards

Steed Duncan-Smith

Client Relationship Manager
Momentum Corporate

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Retirement funds default regulations

by Sharlen Govender

Introduction

The default regulation related amendments to the Pension Funds Act of 1956 came into effect on 1 September 2017. All applicable retirement funds were expected to be fully compliant by the 1 March 2019 deadline. Default options are automatic choices made on behalf of members, who are unable or unwilling to make their own decisions. The amendments require retirement funds to have default investment portfolios, default preservation strategies and default annuity strategies. The new default regulations attempt to increase transparency for members and aim to ultimately deliver greater value for the members that opt for the default strategies.

Problem

South Africans are well known for their high propensity to spend and reliance on credit. According to First National Bank, it only takes five days or less for more than half of South Africa's middle-income earners to spend their entire monthly salary. Furthermore, the middle-income earners spend about 25% of their take-home pay to cover the interest payments on their debt.

Although South Africans are well inclined to spend, the same cannot be said about our inclination to save. According to a study by MyTreasury in mid-2018, South Africa placed last when compared to some of the major G20 countries in terms of household savings rates. The June 2018 Momentum/Unisa Consumer Financial Vulnerability Index, which aims to measure the degree to which consumers feel financially insecure or unable to cope financially, also showed South Africans felt very exposed. This depicts the poor state of financial wellness within South African households.

A combination of high spending and low saving levels has expectedly led to the majority of South Africans lacking the necessary money to retire comfortably. According to the Old Mutual Savings and Investment Monitor from July 2018, about 40% of metro-working South Africans have no formal provision for retirement. Furthermore, in 2014, National Treasury had estimated that only 6% of South Africans were able to retire comfortably and maintain their current standard of living after retirement.

Given the low levels of savings in South Africa, it is vital that members have an appropriate investment strategy during their accumulation phase that puts them on the path to achieve their intended retirement outcomes. It is also vital that members preserve whatever savings they may have when changing employment, as a lack of preservation is one of the contributing factors to many South Africans not being able to retire comfortably.

Since the majority of South Africans do not have sufficient retirement savings to retire comfortably, their choices at retirement are key to optimising their financial position after retirement.

The default regulations were introduced to address some of the issues raised above, with the ultimate objective to better enable members to retire comfortably. They require the following:

- Default investment portfolio (Regulation 37)
- Default preservation and portability (Regulation 38)
- Default annuity strategy (Regulation 39)

These are discussed in greater detail below.

Regulation 37: Default Investment Portfolio

Before the introduction of the default regulation amendments, the Pension Funds Act did not prescribe any specific requirements for the provision of default investment portfolios by retirement funds. Due to this, individuals who were automatically enrolled into retirement funds, often due to employment, may have been invested in portfolios not best suited to them.

The introduction of Regulation 37 has made it compulsory for all applicable retirement funds to have a default investment portfolio that is easy to understand and suitable for all members, who could potentially be enrolled into it. A portfolio's asset allocation, risk, investment style, charging structure as well as overall return objective are some of the key characteristics, which need to be considered when selecting a default investment portfolio. Additionally, a default investment portfolio may not have loyalty bonuses.

In addition to the above requirements, there should be adequate disclosure on the various aspects of the portfolio to ensure members are able to gain a fair understanding of how the portfolio works.

The investment strategy of a default investment portfolio must be reviewed regularly to ensure regulatory compliance. This review must include past portfolio returns and the proportion of members who have elected to remain within the default portfolio during the period.

The charging structure of the portfolio must also be compared to other options in the market to maintain competitiveness.

Smooth bonus portfolios may be used as default investment portfolios, subject to certain eligibility conditions. A draft conduct standard was issued by the FSCA in November 2018, which contained the criteria that needed to be satisfied for smooth bonus portfolios to be used as a default investment portfolio. The draft conduct standard, however, has not yet been finalised. In the interim, smooth bonus portfolios can be used as default investment portfolios. Once the conduct standard has been finalised, default smooth bonus portfolios will then be required to comply with the criteria.

Regulation 38: Default Preservation and Portability

Members who no longer contribute to their pension or provident funds are considered paid-up members, until the retirement fund is instructed to pay out their respective benefit.

Regulation 38 of the Pension Funds Act requires that if a member is part of a retirement fund due to their employment, they must be allowed to become a paid-up member when changing employers. Effectively, members should be allowed to preserve their accumulated retirement savings. Furthermore, members should also be allowed to transfer their retirement savings to another retirement fund when changing employment, allowing them to achieve the required portability of their retirement savings.

The regulation also states that:

- No once-off fee may be charged to become a paid-up member
- No deductions should be made from the paid-up member's retirement savings for risk benefits
- A defined benefit must be converted to a defined contribution before being preserved.
- Benefit counselling must be available to all members before any withdrawal or transfer is made

Regulation 39: Annuity Strategy

The majority of retirement funds concentrate on pre-retirement savings. Once members reach retirement, it is their responsibility to purchase an annuity to provide for their post-retirement years. The abundance of options available can be overwhelming to the majority of individuals within the country, who are not financially savvy.

The new default regulations require that retirement funds have an annuity strategy at retirement appropriate for the members to which it would apply. The annuity strategy can be either a life or living annuity or a combination of both. Furthermore, it can either be an in-fund or out-of-fund annuity. The main factors a fund must consider when developing an appropriate annuity strategy include:

- The profile of the members that will be enrolled into it
- The investment and inflation risks
- The level of income payable to members and to their beneficiaries in the event of death

To ensure potential retirees make well-informed decisions with regards to their post-retirement benefits, trustees must ensure members have access to retirement benefit counselling no later than three months before retirement.

Charges associated with the annuity strategy must be reasonable and the effect of these charges must be clearly communicated to the member. In the case of a living annuity, the asset class composition, the returns and any change to a member's income must be communicated regularly and in a simple manner.

The annuity strategy must be reviewed at least once a year to maintain its appropriateness for members and compliance with the legislative requirements.

As mentioned above, living annuities may be used as part of a retirement fund's default annuity strategy. As is the case with the use of smooth bonus as a default investment portfolio, the use of living annuities in a default annuity strategy is permitted subject to certain criteria being met. A draft conduct standard on living annuities was issued by the FSCA in November 2018. The conduct standard for living annuities has not yet been finalised.

Conclusion

A combination of high spending, low levels of savings and low preservation levels have contributed to the unfortunate reality that many South Africans are not in a position to retire comfortably. Although there is no easy solution to change this reality, the introduction of the default regulations is certainly a much-needed step in the right direction.

Sharlen Govender

Product Specialist

Structured Solutions

Momentum Investments market commentary for the quarter ending 31 March 2019

by Sanisha Packirisamy and Herman van Papendorp

Highlights

- United States (US): Policymakers have raised the bar for additional interest rate hikes and may tolerate higher inflation prints to support growth.
- Eurozone: The persistence of geopolitical risks, the looming threat of more aggressive protectionist measures and vulnerabilities arising in select emerging markets (EMs) prompted monetary authorities to revert to a more stimulatory stance, despite their earlier decision to end the bond-buying programme three months ago.
- United Kingdom (UK): A chaotic political stalemate continues to weigh on private fixed investment, which is capping growth prospects.
- China: Growth is expected to slow, but a number of measures implemented by authorities should prevent growth from slipping below the lower end of the official 6.0% to 6.5% growth target for 2019.
- South Africa (SA): SA Reserve Bank (SARB) leaves interest rates unchanged at 6.75% amid lower growth forecasts and cuts to its projections of underlying inflation.

Global economic developments

United States (US)

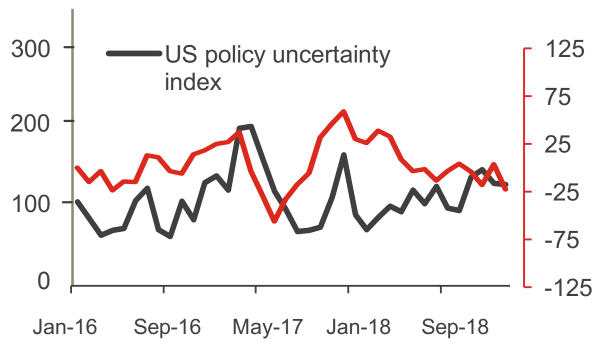
Policymakers have raised the bar for additional interest rate hikes

Interest rates were left unchanged at a range of between 2.25% and 2.5% at the Federal Reserve Bank's (Fed) interest-rate-setting meeting in March 2019. Interest rates were last raised in December 2018 by 25 basis points, with the decision to hike based on firm fundamental data, including a strong rate of economic activity, a further strengthening in the labour market and unchanged longer-dated inflation expectations.

In January 2019, the Fed highlighted its intention to be patient before raising interest rates again.

Despite growth in the fourth quarter of 2018 surprising to the upside at a quarterly annualised rate of 2.6%, relative to consensus expectations for a rise of 2.2%, economic surprise data dipped suddenly in February and remained close to 18-month lows in March 2019. During this period, policy uncertainty picked up further (see chart 1).

Chart 1: Negative economic surprises and elevated uncertainty in the US



Source: Bloomberg, Momentum Investments, data up to February 2019

The fourth quarter print showed strong growth in household spend (the largest contributor to growth) of 2.8%. Consumer confidence remained firm at 97.8 points in March 2019 and printed above its long-term average of 86.2 points. Labour-market dynamics remain supportive of consumer spend with growth in average hourly earnings tracking above 3%, while the three-month average gain in payrolls stood at 186 000 in February 2019, notwithstanding the plunge to 20 000 in the latest data point. Although household net wealth, as a ratio of disposable income growth, dipped to 660% in the final quarter of 2018, the ratio remains close to all-time highs.

Moreover, business survey indices, including the weighted ISM Index and the Markit composite Purchasing Managers Index (PMI) rebounded in February to 59 and 55 points, respectively, considerably above the neutral 50 mark.

Growth in construction and exports, on the other hand, have showed signs of slowing, amidst elevated corporate debt concerns and lingering trade disputes, respectively.

Gross domestic product (GDP) data in the past 30 years showed a difference of 0.8% between average first-quarter growth prints and the remaining three quarters of the year. An inadequate seasonal adjustment of first quarter data, together with the effects of the prolonged government shutdown, point to a weaker print in the first quarter, but survey data indicates growth could rebound in the second quarter. First-quarter growth according to the Atlanta Fed GDPNow forecast is estimated at 1.2%, while the New York Fed estimate sits at 1.3%. The St Louis Fed forecast remains higher at 2.2%.

A further moderation in energy inflation has led to headline inflation reaching 1.5%, but core inflation (which excludes food and energy) continued to linger above 2% in February 2019. Medical inflation is another culprit behind lower inflation recently, given the rise in lower-cost generic drugs coming to market, following the expiry of patents, leading to the lowest medical care commodities inflation since the 1970s. Core goods inflation remains close to zero, while core services inflation registered at 2.6% in February 2019.

Despite firm fundamental data, Fed Chair Jerome Powell noted the European and Chinese economies had slowed substantially and stated "just as strong global growth was a tailwind, weaker global growth can be a headwind to our economy". This suggests the Fed may tolerate higher inflation prints in its efforts to support growth. In addition, the Fed dot plot (measuring median Fed member expectations) has removed the two projected hikes in 2019, but still projects one final hike in the cycle in 2020.

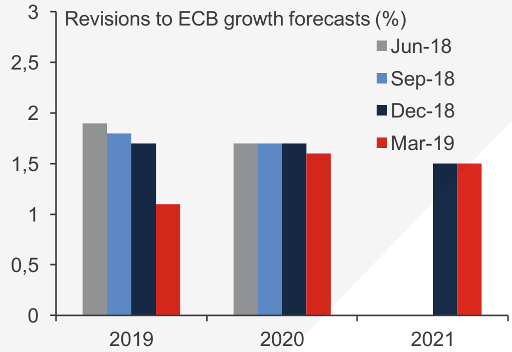
Eurozone

Fresh round of monetary stimulus announced in light of policymakers' gloomy prognosis for the economy

The growth rebound in the Eurozone fizzled out late in 2018. However, the latest weak bout of data is suggestive of the economic slump set to persist for a while longer.

In its March 2019 economic bulletin, the European Central Bank (ECB) noted that, despite an easing in idiosyncratic local factors, which were previously dampening growth, geopolitical risk factors remained at large. Moreover, the threat of more aggressive protectionist policies and vulnerabilities in select EMs pose a threat to export growth in the Eurozone.

Chart 2: Eurozone growth forecasts revised lower



Source: ECB, Momentum Investments

In its assessment of the economy, the ECB downwardly revised its estimate for growth in 2019 to 1.1% from 1.8% in June 2018 and from 1.7% in December 2018, while the growth forecast for 2020 remained relatively unchanged (see chart 2).

In March 2019, the ECB announced its intention to leave the key ECB interest rate unchanged for the remainder of 2019 and admitted rates could stay unchanged for longer in pursuit of its price stability objective (to ensure sustained convergence of inflation to levels that are below, but close to, 2% in the medium term). In its latest assessment, the ECB forecasts headline inflation to reach 1.6% in 2021 from an estimated 1.2% in 2019 on the back of high levels of capacity utilisation and tightening labour markets.

At its March 2019 interest-rate-setting meeting, the ECB further announced it would continue to reinvest the principal payments, from maturing securities purchased under the asset purchase programme, in full, for an extended period of time (past the date when the ECB begins to raise interest rates) for accommodative monetary accommodation to persist.

Despite policymakers' earlier decision to end the bond-buying programme three months ago, the ECB has decided to launch new quarterly targeted longer-term refinancing operations (TLTRO-3), in addition to the aforementioned measures, which will start in September 2019 and end in March 2021. TLTRO-3 will enable credit conditions to remain favourable through a number of built-in incentives.

Although policymakers admitted monetary policy was unable to resolve issues related to Brexit or protectionism, they noted the ECB's more accommodative stance should increase economic resilience.

UK

A chaotic political stalemate is weighing on business investment

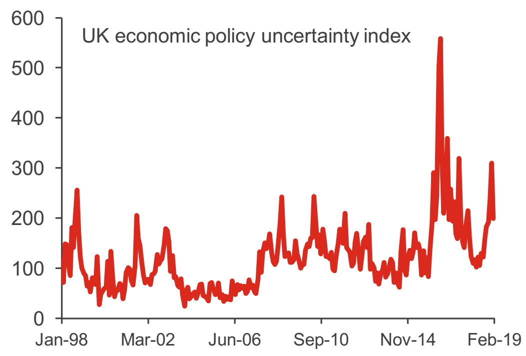
The UK's vote to leave the European Union (EU) has already cost the economy with many businesses moving offices, staff, assets and legal entities from the UK to the EU. Growth in fixed investment has fallen in the UK on the back of elevated policy uncertainty (see chart 3).

Prime Minister Theresa May's third vote on her plan was unsuccessful by a smaller margin of 58 votes (previously 149 in the second vote and 230 in the first vote) on 29 March 2019, but she is considering attempting a fourth vote. The Speaker of the House of Commons, however, ruled this could not be a rerun of the previous deal and changes to the deal would have to be made.

The EU has set a date for 12 April 2019, by which Britain must either leave the bloc without a deal or revoke Article 50 to trigger the exit mechanism.

On 1 April 2019, members of the UK Parliament (MPs) will hold a second round of indicative votes to test support levels for other options. In the previous round of indicative votes all eight deals (including options for a customs union, a second referendum, a no-deal Brexit and single market membership) were rejected. From the eight proposals, two had the most support. These included a customs union with the EU and a second referendum on any deal.

Chart 3: Policy uncertainty remains high in the UK Source: Economic Policy Uncertainty,



Source: Economic Policy Uncertainty, Momentum Investments

If MPs continue to not back the deal or continue to oppose the no deal option, a further extension would likely be required from the European Council and the UK would be required to participate in the EU Parliamentary elections in late May 2019, given that a complete renegotiation of the deal with the EU could take some time.

If the EU refuses to renegotiate a deal, a number of options exist. Firstly, another referendum could be held, where the public would vote to remain or leave. This referendum could either be legally non-binding and advisory (as was the case with the 2016 referendum) or binding, where the result would automatically take effect.

If MPs reject the referendum option, two thirds of MPs would need to approve a general election to get out of the deadlock. A third option is to hold a vote of no confidence, but if the current government wins, it will continue to press on with its plans. If government loses the vote, a new prime minister will be appointed if a clear alternative government exists. If not, a general election will be held to appoint a new government.

Although the government remains committed to Brexit, a fourth option of no Brexit exists. The European Court of Justice previously ruled that the UK could unilaterally revoke Article 50 to cancel Brexit, implying the other 27 EU countries would not have to vote on this decision.

Finally, May could decide to resign (either in the event of an acceptance of a customs union or an extended delay), which could lead to either a change in the prime minister or a change in government.

China

Growth expected to slow, but government officials have implemented policies to defend the growth target

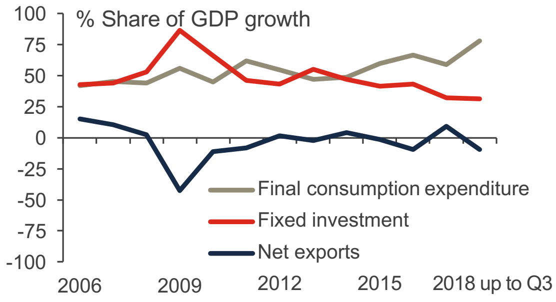
China's premier, Li Keqiang, downwardly revised China's growth target from 6.5% in 2018 to between 6.0% and 6.5%. Real growth in GDP registered at 6.4% in the final quarter of 2018 and is set to slow further on the back of softening exports and poor data in the property sector.

Softening global growth has dented export growth, which slowed to negative 5% on average between January and February 2019 (to account for the Chinese New Year distortion) from 10% on average in 2018. With Korean exports falling by a similar amount, it is likely that the weakness has been prompted by the trade war waging between the US and China. China's exports to the US dropped 15% on average for the first two months of the year, relative to a year ago. However, imports from the US (mostly soybeans, oil, gas and automotives) fell by a larger 35% in the same period.

Growth in fixed investment slowed to an average of 6.1% relative to a year ago for the first two months of the year. In February, growth in real estate investment exceeded 10%, while growth in infrastructure investment slowed to below 5%. Robust growth in property investment is unlikely to persist, given the slowdown in new starts and land sales.

Fortunately, the composition of growth is shifting in China. Consumption and services are expected to drive the economic expansion, while investment and export growth is expected to become a smaller share. According to JP Morgan, household consumption contributed towards 75% of growth in the fourth quarter of 2018, with the rest coming from investment. Growth in retail sales remained steady at an average of 8.2% relative to a year ago for the first two months of the year. Encouragingly, China's consumer confidence index remains at an all-time high of 123 index points (relative to its longer-term average from 1996 of 109) due to robust growth in real disposable income and the expectation of promised tax cuts.

Chart 4: Consumers are becoming a more integral part of GDP growth in China



Source: CEIC, Momentum Investments

Momentum Investments expects policy to remain expansionary to defend the lower bound of the growth target of 6%, but large-scale stimulus is not yet seen as necessary. China's reserve requirement ratio has been cut by 350 basis points in the past year to 13.5%, but further cuts could materialise. Similarly, the one-year lending rate could be reduced from the current 4.35%.

The Chinese government has already enabled local governments to issue US$200 billion in bonds to support infrastructure construction. Targets have been given to banks for one third of new corporate loans from large commercial banks to go to the private sector (two thirds for the smaller banks). China is working on improving loan access for small and medium-sized enterprises and improving access to government procurement. Moreover, moves in the exchange rate and tax rebates have been put in place to support exporters. To buffer consumer demand, government still has the option to relax mortgage-eligibility criteria or implement additional tax cuts on automotives. Government could also still intervene to prevent large-scale layoffs in the industrial sector.

Local economic developments

Interest rates steady at 6.75% as SARB lowers growth and underlying inflation forecasts

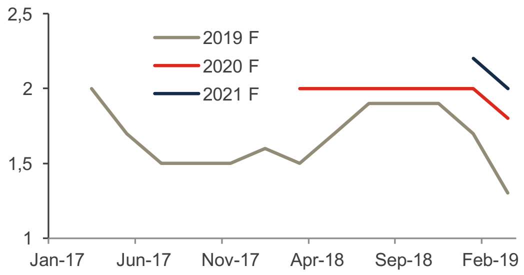
The SARB Monetary Policy Committee (MPC) left interest rates unchanged at 6.75% at its second interest-rate-setting meeting for the year. The decision to keep interest rates unchanged was in line with the views of 24 surveyed analysts, who participated in the Reuters consensus poll in March 2019.

The balance of sentiment remained in line with that expressed at the previous meeting in January 2019, where all five MPC members had made arguments for interest rates to remain on hold.

The SARB lowered its growth forecasts, but weak consumer and business confidence and the threat of protracted constraints on energy supply keep risks to the SARB's growth outlook tilted to the downside. The MPC's growth forecasts for gross domestic product (GDP) were cut to 1.3% for 2019 from 1.7% previously (see chart 5) and from 2.0% to 1.8% for 2020.

The SARB kept its 2019 forecast for headline inflation at 4.8% and its 2020 projection at 5.3%. The SARB cautioned against upside inflation risks stemming from administered price increases (namely water and electricity tariffs), rising food prices, particularly in the outer years, and higher international oil prices. While previously the SARB saw inflation risks to the upside, on balance, it revised this view to "more or less evenly balanced" given the downside risks posed by lower global inflation and easy monetary policy in advanced economies.

Chart 5: Downward revision in SARB's real GDP growth forecasts (% y/y)



Source: SARB, Momentum Investments, data up to March 2019

First-quarter data for inflation expectations (surveyed by the Bureau of Economic Research (BER) showed a slight downward shift in the average five-year ahead inflation expectation from 5.3% to 5.1%, which is the lowest level on record starting in 2011.

In Momentum Investments' view, interest rates are likely close to a peak and the positive trajectory in inflation expectations likely lowers the pressure on the SARB to maintain a tightening bias. Should the recent downward trend in inflation expectations persist, further interest rate hikes would likely be unnecessary, particularly considering the weaker growth outlook. However, in the firm's view, it is likely too early to consider lowering interest rates, given that the SARB would feel more comfortable with inflation expectations closer to the midpoint of the target to allow for more room to manoeuvre in the event of external shocks.

Financial market performance

Global markets

Despite soft gains of 1.3% in March 2019, global equity markets performed well for the first quarter of the year as a whole, rallying by 12.2%. Markets largely shrugged off lingering trade disputes and geopolitical risk factors in the first two months of the year. However, mounting fears over faltering global growth dampened returns in March 2019. Likewise, the CBOE Volatility Index (VIX) edged one point lower during March 2019, although declined by a more significant twelve points since December 2018.

Developed equity and emerging equity markets performed equally as well in the month, but gains were larger for developed equity markets using quarterly data. The MSCI Developed Market (DM) Index increased by 12.5% during the first quarter of the year (and 1.3% in March 2019), boosted by US and European markets. The S&P500 Index increased by 13.6% in the first quarter of the year, but monthly gains tapered to 1.9% in March 2019. The US equity market reacted to the news that the median policy rate forecast by Fed members had shifted from two hikes to zero for 2019 as well as to the announcement that the Fed would slow the monthly reduction of its Treasury holdings from US$30 billion to US$15 billion in May (which is expected to end altogether by September 2019).

The Eurostoxx 50 Index climbed 12.3% in the first quarter of 2019, despite only increasing by 1.9% in March 2019. Despite relatively firm Ifo business climate data, broader-based global growth concerns weighed on European shares in the month. Growth concerns were brought on by the narrowing of the gap between the US 10-year and two-year notes. Similarly, the yield spread between the 10-year and three-month Treasuries turned negative in March 2019 for the first time since 2007.

Meanwhile, the Nikkei 225 Index lagged the DM composite and traded sideways in March 2019, on disappointing data. Returns also lagged on a year to date basis at 6.9%.

DM government bond yields were pushed lower in March 2019 as investors piled in on heightened global growth fears. The German 10-year government bond yield re-entered negative territory for the first time since October 2016, while the US 10-year government bond yield rallied 31 points in the month.

Emerging equity markets outperformed in the month, with the MSCI EM Index increasing by 0.8% in March 2019 and 9.9% for the quarter as a whole. During the month, Asian shares drove returns higher, while shares in the Latin American and Europe, Middle East and African (EMEA) indices retreated. The MSCI Asian Index was the outperformer on a quarterly basis, registering an increase of 11.1%. The index climbed 1.8% in March, partly on news during the middle of the month that the deadline on trade negotiations between the US and China would be shifted to April. Chinese shares were boosted early in the second half of the month on hopes that policy decisions would be taken to bolster local consumption. However, gains flattened out towards the end of the month on comments tweeted by US President Donald Trump that tariffs on Chinese goods could be in place for a "substantial period".

The MSCI Latin America Index shed 2.5% in March 2019, followed by a 1.4% drop in the MSCI EMEA Index. The MSCI Latin America Index plunged late in the month on the arrest of former president Michel Temer for his role in the Petrobras organised crime ring within government.

Sentiment towards EMs, in general, shifted marginally more negative in March 2019, with the JP Morgan EM Bond Index (EMBI) spread widening three points in the month. Spreads for Turkey (40 basis points), Argentina (16 basis points) and Brazil (14 basis points) deteriorated the most in the month, while the largest improvement was observed in China and India (a nine-basis point retracement in each).

In contrast to the slight widening in the EMBI spread, the JPMorgan EM Currency Index strengthened by 1.1% in the same period, most likely on more dovish rhetoric

by key global central banks. Notable losses were made in the Argentine peso (7.0%), Turkish lira (3.8%), and Chilean peso (3.7%), while the Russian ruble (2.9%) and Indian rupee (2.6%) strengthened.

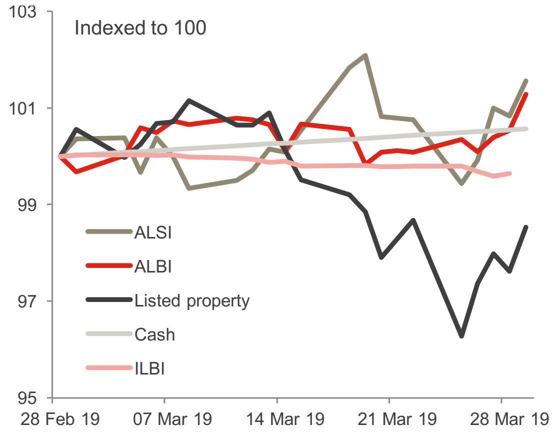
Local markets

The SA equity market underperformed global markets in the first quarter of the year. The FTSE/JSE All-Share Index strengthened 8.0% in comparison to global equity markets which lifted by 12.2% in the same period. On a sector basis, resources soared 17.8%, followed by a 7.4% increase in industrial shares, while financial shares lagged at negative 0.4% in the quarter.

During March 2019, the FTSE/JSE All-Share Index shifted slightly higher by 1.6% (see chart 6), driven up by a 4.7% jump in the FTSE/JSE Resources Index, followed by a 2.9% increase in the FTSE/JSE Industrials Index. Meanwhile, the FTSE/JSE Financials Index suffered a 4% fall in the same period.

Gains in the FTSE/JSE Resources Index were driven by an increase in commodity prices. The Bloomberg Commodity Price Index inched 0.2% lower in the month. SA platinum group metal (PGM) miners initially benefited from surge in palladium prices. Meanwhile, platinum prices dipped 2.5% in the month. Gold prices edged down 1.6% in March 2019 on dovish rhetoric out of the major central banks and oil prices ended the month 3.6% higher on tighter supply due to supply cuts from the Organisation of the Petroleum Exporting Countries (Opec) and the imposition of US sanctions on oil-producing countries, Venezuela and Iran.

Chart 6: Returns from local asset classes (%)



Source: IRESS, Momentum Investments

The SA 10-year government bond yield rallied seven basis points in the month. The JSE ASSA All Bond Index moved 0.4% higher in the month, while the JSE ASSA Government Inflation-linked Bond Index (ILBI) tracked largely sideways (negative 0.4%). SA cash posted a 0.6% gain in the same period.

The SA rand weakened by 2.8% against the US dollar, 1.5% against the euro and 1.2% against the sterling in the month. SA's five-year corporate default swap (CDS) spread widened by 27 points in the run up to the anticipated ratings announcement by Moody's rating agency as electricity supply concerns weighed on the local currency.

Moody's, however, chose to not issue an updated assessment of the country's sovereign rating. The next scheduled review date is in November 2019, but Moody's may publish a rating assessment before then. Moody's can change the rating or outlook before November 2019, but this would only likely come about if there is a significant deterioration in the country's growth or fiscal projections.

Sanisha Packirisamy
Economist
Momentum Investments

Herman van Papendorp
Head: Macro Research and Asset Allocation
Momentum Investments

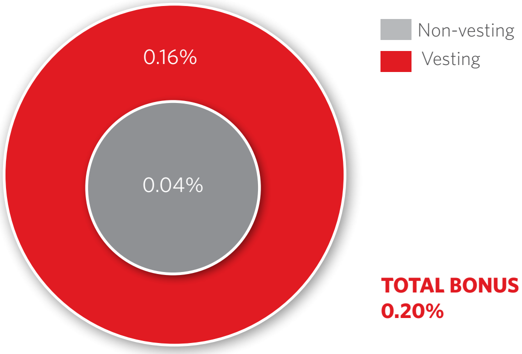
Partially Vesting Smooth Bonus Range
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

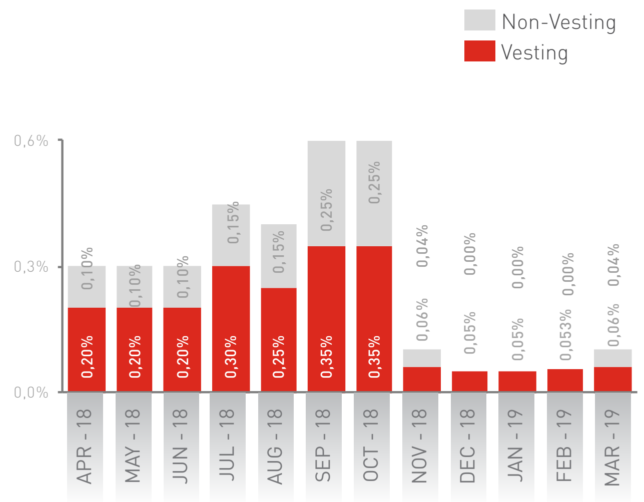
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	97.5% - 102.5%	R12.6bn	0,89%	4,77%

Performance

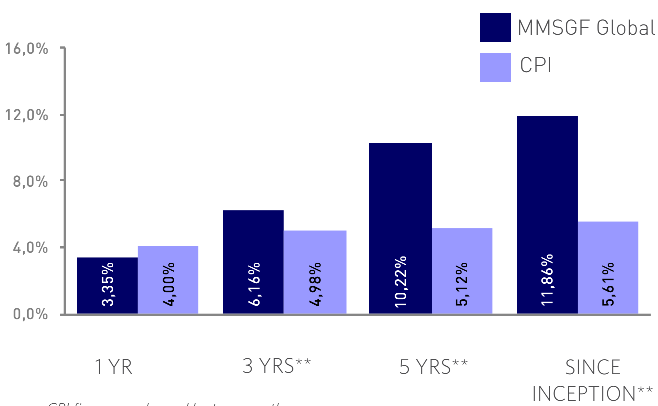
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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

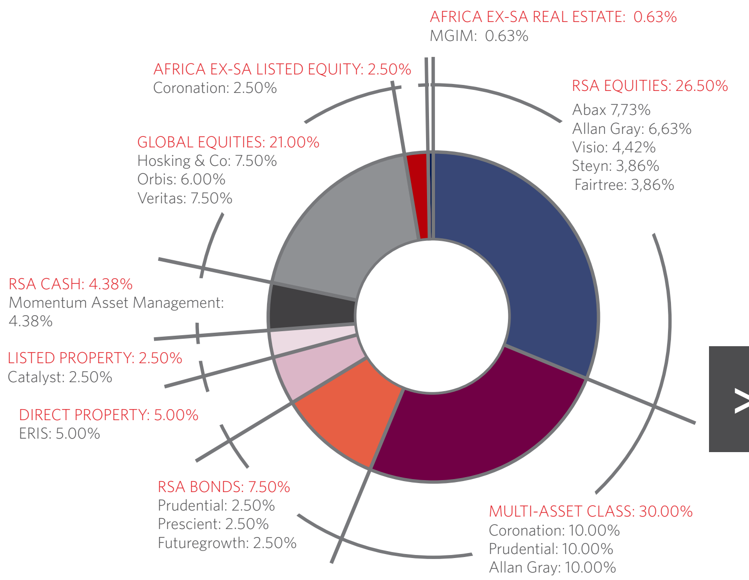


CPI figures are lagged by two months

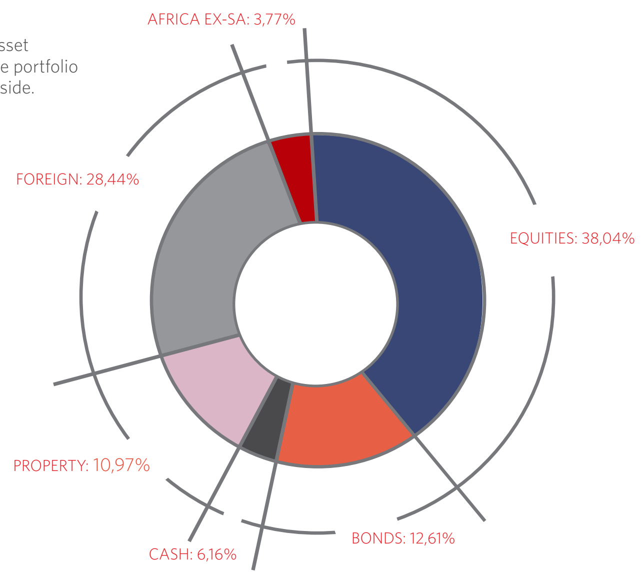
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

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 strategic asset allocation of the portfolio is shown below.



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.

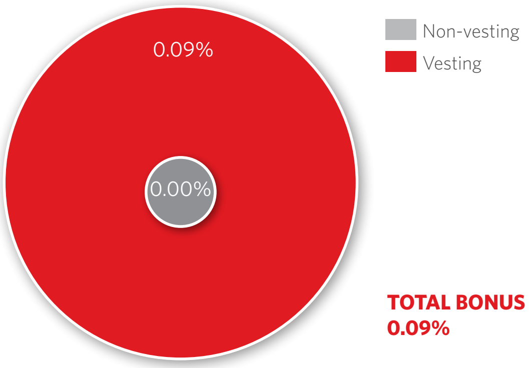
Partially Vesting Smooth Bonus Range
Multi-Manager Smooth Growth Fund Local

Fund Snap Shot

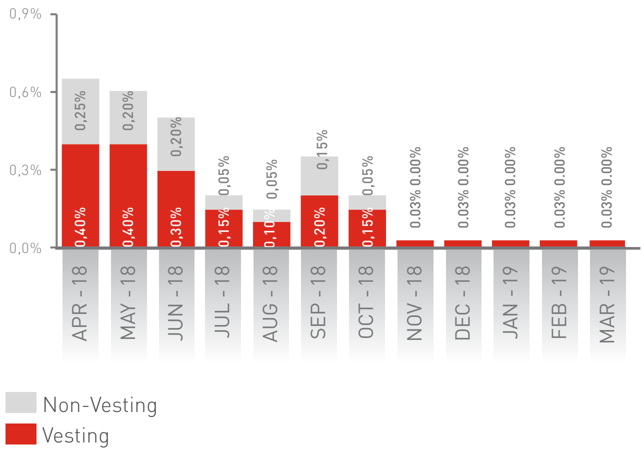
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	95% - 100%	R209m	1,54%	3,15%

Performance

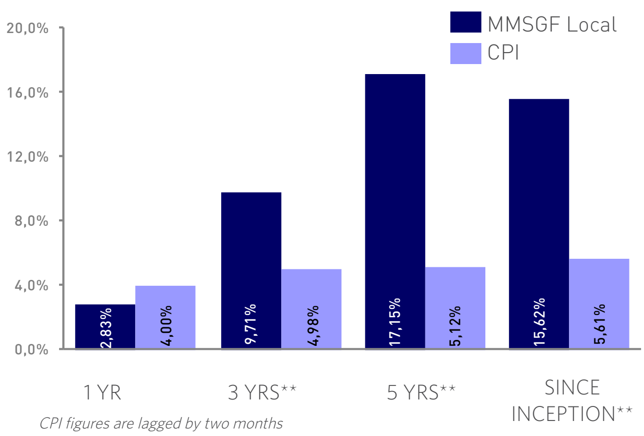
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Local is shown below.



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

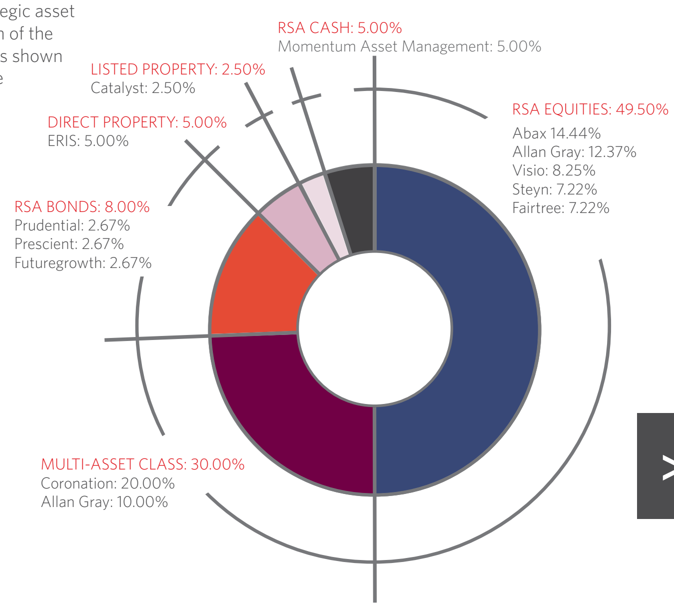


CPI figures are lagged by two months

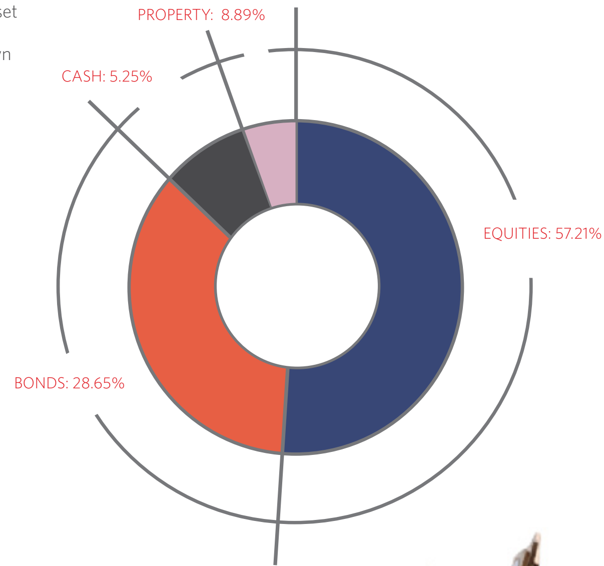
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

Asset Allocation

The strategic asset allocation of the portfoliois 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.

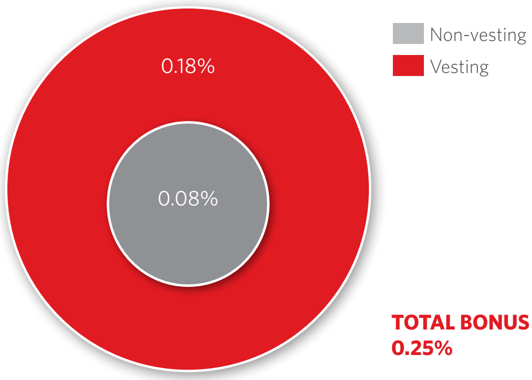
Partially Vesting Smooth Bonus Range
Smooth Growth Fund Global

Fund Snap Shot

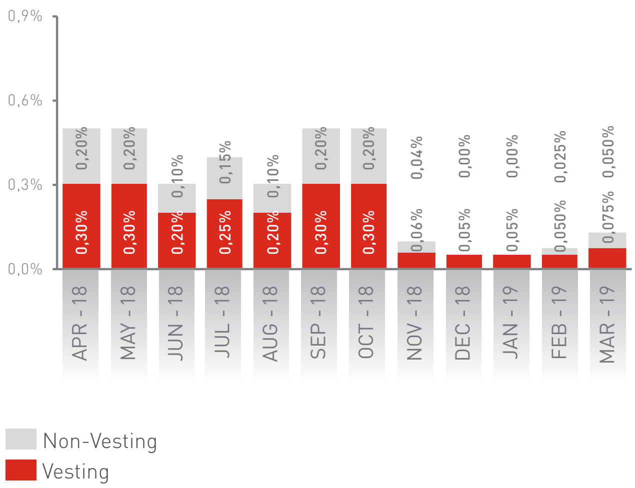
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	97.5% - 102.5%	R2.1bn	0,89%	4,41%

Performance

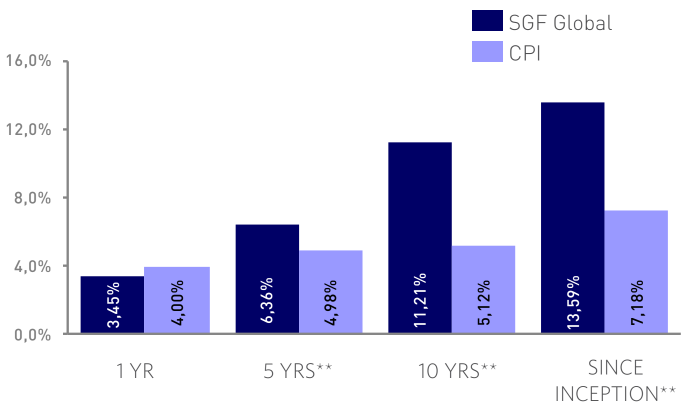
The total bonus* for the past quarter on the Smooth Growth Fund Global is shown below.



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



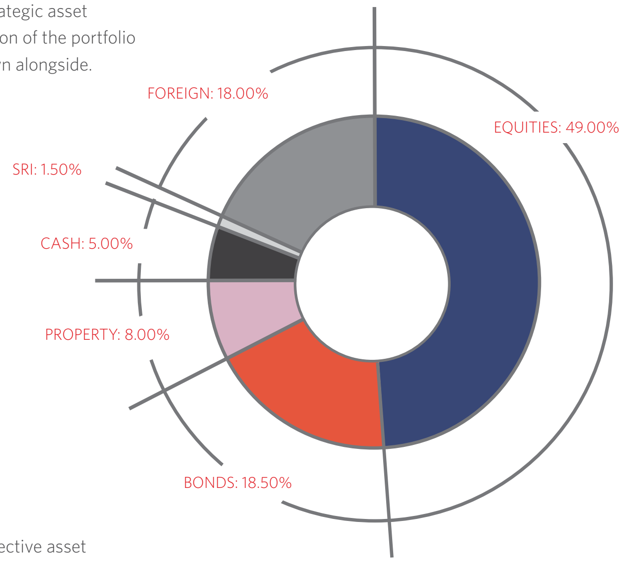
The chart below shows the long term bonus* performance of the Smooth Growth Fund Global against CPI.



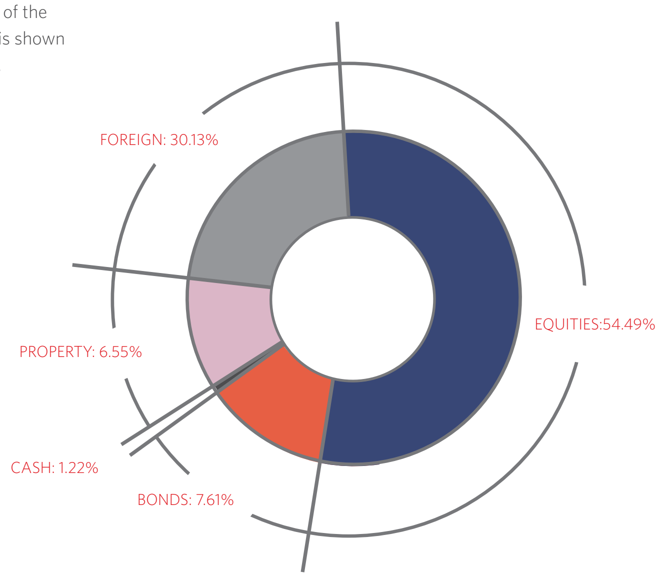
CPI figures are lagged by two months

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

Partially Vesting Smooth Bonus Range
Smooth-Edge Fund

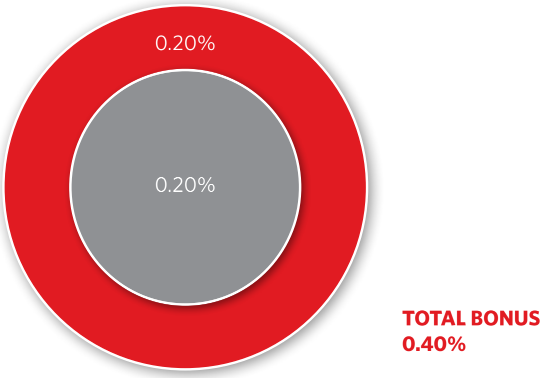
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Feb 2019	100% - 105%	R24m	1.02% *	5.61% *

*Based on back-tested bonuses and returns

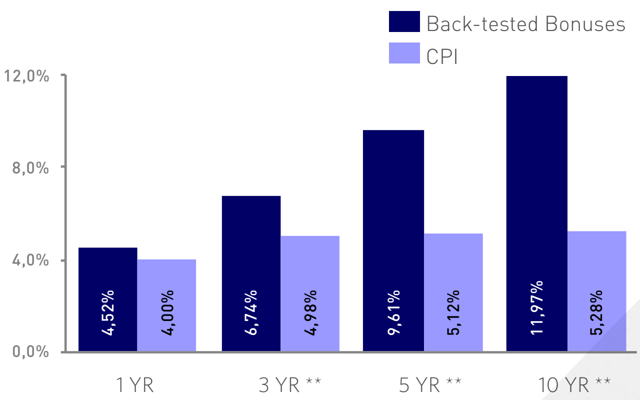
Performance

The total bonus* for the past quarter on the Momentum Smooth-Edge Fund is shown below.



The chart below shows the actual monthly bonuses* for the past 2 months.

The chart below shows the long term back-tested bonuses* performance of the Smooth-Edge Fund against CPI



CPI figures are lagged by two months

* The bonuses and back-tested bonuses are net of the investment management fee

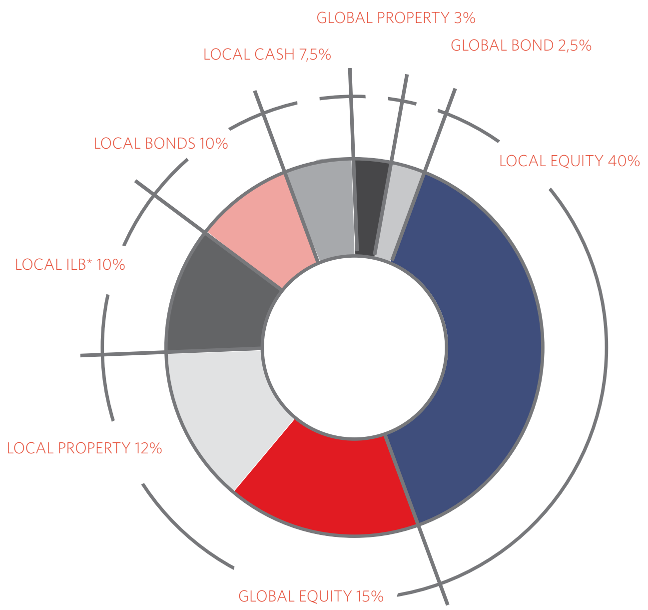
** Annualised

Asset Allocation

The Momentum Smooth-Edge Fund is a new generation smooth bonus solution offering a low-cost, 100% capital guarantee on benefit payments, along with Momentum Corporate's proven smoothing capabilities. In addition to the 100% capital guarantee, on average 50% of bonuses will also be guaranteed on benefit payments.

Not only does this solution offer members inflation-beating investment return prospects and protection from market volatility, but the significantly lower capital charge means more money goes directly to the members' retirement savings to bolster their retirement outcomes.

The strategic asset allocation is shown alongside.



*Inflation-linked bonds

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.

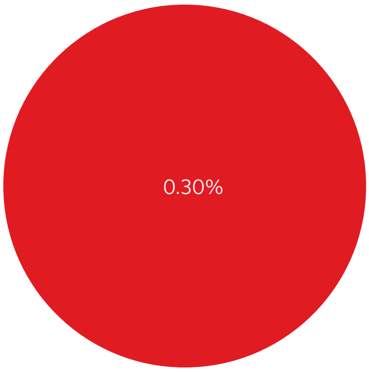
Fully Vesting Smooth Bonus Range
Multi-Manager Secure Growth Fund

Fund Snap Shot

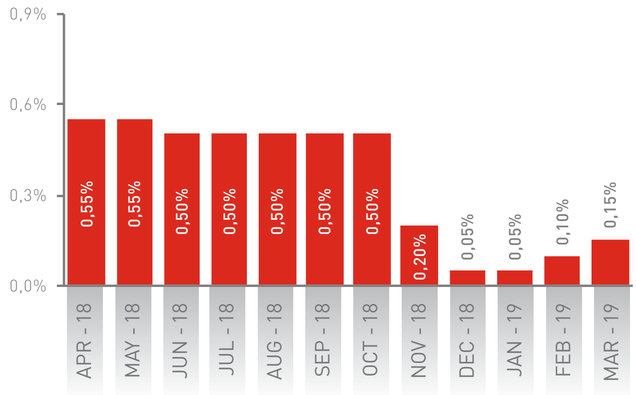
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	102.5% - 107.5%	R107m	0,72%	4.59%

Performance

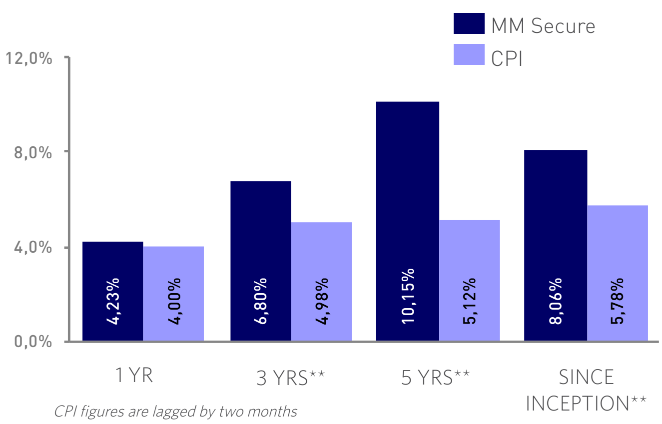
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



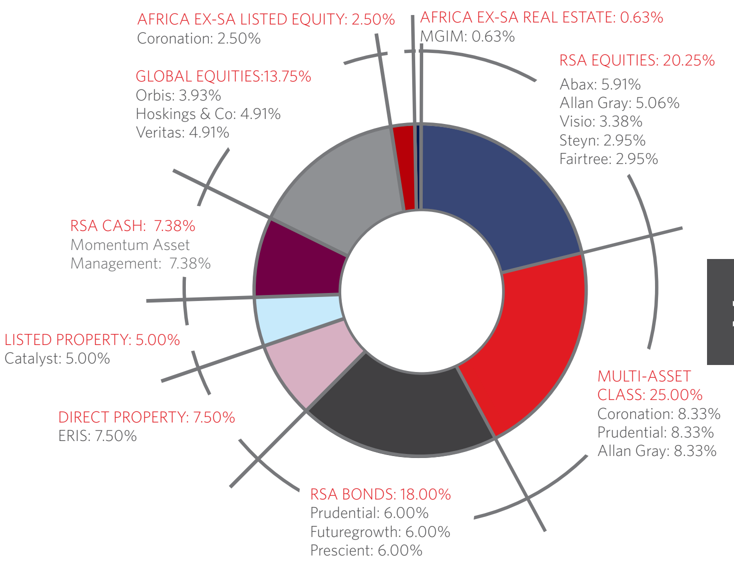
CPI figures are lagged by two months

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

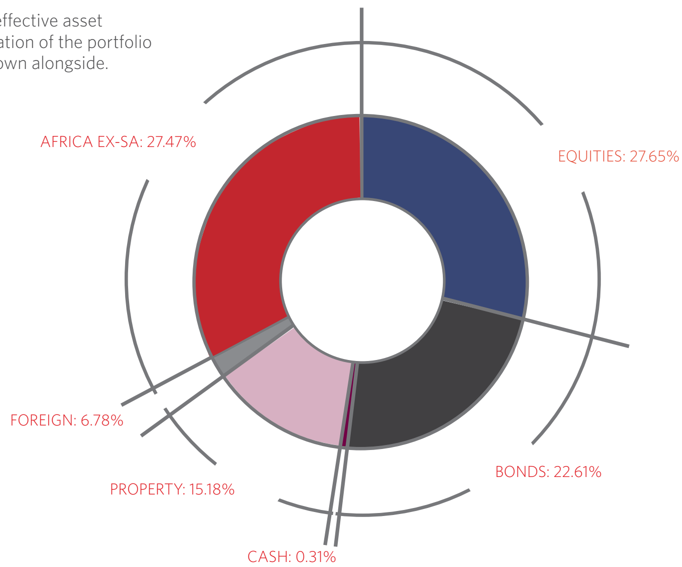
** Annualised

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 strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



We recognizing 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.

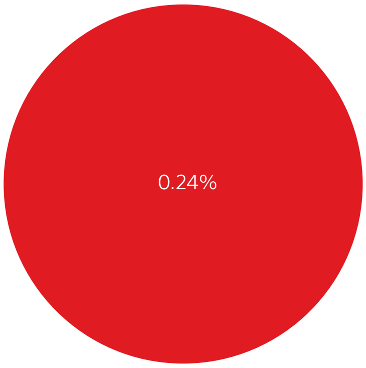
Fully Vesting Smooth Bonus Range
Smart Guarantee + 3 Fund

Fund Snap Shot

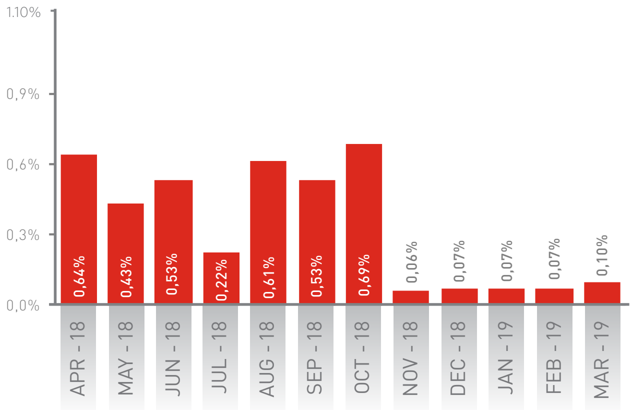
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	97.5% - 102.5%	R373m	0.87%	4,52%

Performance

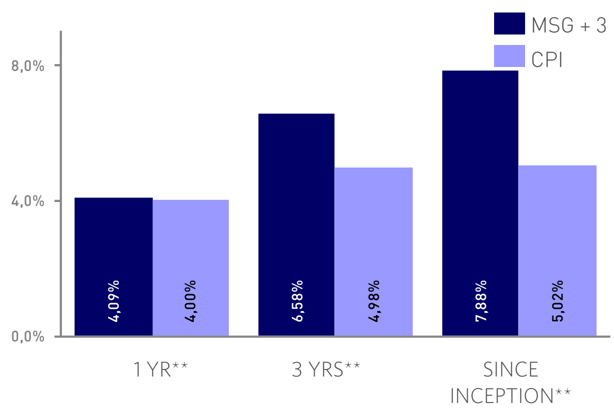
The total bonus* for the past quarter on the Smart Guarantee + 3 Fund is shown below.



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.



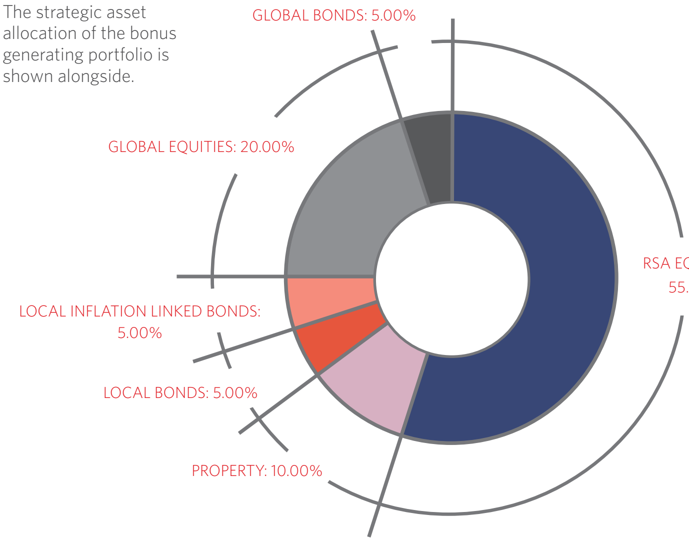
CPI figures are lagged by two months

*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 4.75% 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	Fund	Fund Return Objective	Manager	Mandate Type	Guarantee on Benefit Payments[1]	Market Value Adjustment on Voluntary Exits[2]	Capital Charge	Policy Fee or Investment Management 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	0.90% 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	0.90% 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 investment management fee and underlying asset charges over a rolling 6 year period	Momentum Investments	Moderate Balanced	100% of capital invested and vested bonus declared (net of the investment management fee)	Yes	0.90% pa	0.45% of the first R10m, 0.35% of the next R40m, 0.25% of the excess above R50m[3]*	January 1989
Partially Vesting	Smooth-Edge Fund	CPI + 4% pa, net of the investment management fee and underlying asset charges over a rolling 5 year period	Momentum Investments	Moderate Balanced	100% of net capital invested and vested bonus declared (net of the investment management fee)	Yes	0.60% pa	0.25% pa[3]*	February 2019
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	1.40% pa	0.35% of the first R50m, 0.25% of the excess above R50m[3]	November 2007
Fully Vesting	Smart Guarantee +3 Fund	CPI + 3% pa, net of the investment management 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 investment management 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.

Contact Details

Email: emailus@momentum.co.za
Website: www.momentum.co.za