momentum
corporate

Smooth Bonus Report

Third Quarter 2019

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

>

Looking back over the past quarter

Dear valued investors

Developed global markets (MSCI Developed) performed well compared to emerging markets (MSCI Emerging) that have experienced flat returns for the year ended September 2019. The market returns experienced in the third quarter were down with the local South African share market (FTSE/JSE All-Share Index), returning negative 4.57%.

In the United States, the formal impeachment process against Donald Trump started and created uncertainty in the global equity markets. The Brexit cloud remained with the British courts ruling that Boris Johnson illegally suspended parliament. In Hong Kong, there was a continuation in political upheaval, even after the withdrawal of the contentious extradition bill. The drone attack on the Saudi Aramco oil facilities caused a spike in oil prices. However, much of the oil capability was restored.

There was a great deal of uncertainty in the global and local markets. In South Africa, the ratings agency Moody's kept South Africa's rating at investment grade but reduced its outlook to negative. In the 2019 medium-term budget policy statement, Finance Minister, Tito Mboweni, highlighted the reforms needed to arrest the spiralling debt South Africa was falling into. However, many pundits felt there was a lack of political will to implement the much-needed reforms.

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

Smooth bonus portfolios

In the last quarter, even with the poor returns in the markets, most the smooth bonus funding levels were near or above 100% funded. The poor returns in the local equity asset class, particularly, did not help and bonuses on our portfolios remained low. With funding levels near or above 100% funded, if the markets run, we will be in a position to pass some of those returns on through bonuses. The last five years of poor returns in growth asset classes has made it challenging for many of our portfolios to meet their real return objectives.

As clients, you have entrusted your investment with us. Our investment process is sound and it is about staying the course through these choppy waters. Asset classes have long-term return expectations, with growth asset classes (equities and property) that have proven to outperform and defensive asset classes (cash and bonds) providing the lower returns. At the moment, defensive asset classes are outperforming growth asset classes, but history has shown that this return profile is unlikely to persist.

Warm regards

Steed Duncan-Smith

Client Relationship Manager
Momentum Corporate

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The effects of retrenchment

by Raymond Botha

Raymond Botha

Product Specialist
Structured Solutions

Introduction

This is a story of someone who has had an impact on me. He worked for a car manufacturing plant in Pretoria until he was retrenched. The insight he gained since and conveyed to me had me in awe. At his workplace, they usually worked in groups of 8 or 9, assembling cars. As a result of the industrial revolution, the machine replaced 6 or 7 workers. A bit of time had passed since he was retrenched when he drove past his previous plant. He saw numerous cars parked in the parking area. This was highly unusual as this never happened when he had worked there. Cars were manufactured and sold.

He realised that cars were not being sold as a result of the state of the economy. Cars were left piling instead of being bought, due to lay-offs that affected him and so many others. Perhaps, both new and second hand markets were affected.

Ordinarily, people upgrade and buy new cars after selling or trading in the old one. The lay-offs may have drastically reduced the number of buyers in the second-hand market, which immediately affected the new car sales. The innovations with introducing the machine may have increased productivity, but this was now for a dwindling buyer market. This was evidence that unemployment affects us all as a society and as a country.

The aftermath of unemployment is well documented and the after-effects can be far-reaching and devastating to all affected by it. Families have a tough time coping. Quarrels can lead to broken families. Previously healthy individuals show the physiology of older and sickly people due to depression, low self-esteem, anxiety and heightened stress levels. In some instances, suicide and homicide cases are reported. Needless to say, large scale poverty manifests in other social issues such as crime and disdain. Education and qualifications do not necessarily guarantee employment and better health in a high unemployment environment. The youth become disillusioned and feel helpless.

Unheralded effects of unemployment are seen in the reduced tax collection by the government and less spending by consumers. Less consumer consumption does not necessarily lead to increased savings. What results is a somewhat mired economic state.

The problem of unemployment is becoming dire. We understand it may be the constitutional obligation of the government, but citizens and companies need to identify opportunities that can help to solve the problem.

It is also crucial to recognise the need to have appropriate protection in place for events such as retrenchments to lessen the devastating effects it can have on those directly or indirectly affected by it.

During these difficult times, the value of a smooth growth bonus portfolio can be seen. The guarantees provide members with the value of their premiums invested (net of any payments made) plus accumulated bonuses (net of policy fees) at date of a retrenchment.

Retrenchments force us to reevaluate our financial situation. Some choices have to be made whether to transfer your retirement fund investment to a preservation fund vehicle, a retirement annuity fund, or take cash.

The retirement annuity option is fixed; you cannot access the funds until age 55. Taking the cash option may be a good idea, especially if you don't know when you will receive your next income. But it is important to remember that the cash withdrawal will be taxed according to your tax bracket.

Transferring your savings to a preservation fund is the best way to save your money until retirement. The transfer is tax-free and offers flexibility for withdrawals. This may be helpful if you are struggling to secure new employment. Below is a quick guide to preservation funds.

Employer participation	This is no longer a requirement. An employee can transfer their benefit to a preservation fund of their choice.
Benefits that can be transferred to a preservation fund	Resignation, retrenchment, dismissal, winding up, divorce and unclaimed benefits and divorce benefits.
Transfers between preservation funds	A member may transfer their benefit from one preservation fund to another. Section 14(1) of the Pension Funds Act (PFA) will not apply and the transfer will be tax-neutral.
Transfer from an occupational fund to a preservation fund	A member may transfer their benefit from a provident fund to a provident preservation fund or a pension preservation fund. A benefit from a pension fund may only be transferred to a pension preservation fund. These transfers are tax-neutral.
Translocation of benefits	A member may take a portion of their benefit from the occupational fund in cash and transfer the balance to a preservation fund. A section 37D deduction from a pension/provident fund benefit will not affect a member's right to take a portion of his benefit in cash and transfer the balance to a preservation fund.
Once-off withdrawal	A member will have one further once-off withdrawal from a preservation fund.
Benefits paid or transferred into a preservation fund	A benefit from a pension fund or pension preservation fund may not be split between more than one pension preservation fund.
Benefits paid or transferred from a pension preservation fund	A benefit from a pension preservation fund may only be paid or transferred to: • one pension fund • one pension preservation fund • one retirement annuity fund • a combination of one pension preservation and one retirement annuity fund • a combination of one pension fund and one pension preservation fund or • a combination of one pension fund and one retirement annuity fund. A portion of the benefit can be retained in the pension preservation fund.
Benefits paid or transferred from a provident fund or provident preservation fund	A member may split their benefit from a provident fund or a provident preservation fund into any number of combinations of permitted funds.
Transfer from a preservation fund to a retirement annuity fund	This transfer will be tax-neutral, but is currently regarded as the member's once-off withdrawal from the preservation fund. The Taxation Laws Amendment Bill of 2012 once promulgated will correct this position and such transfers will not be regarded as the member's once-off withdrawal from the preservation fund.
Retirement from a preservation fund	A member: • may retire at any time after reaching the age of 55 if provided for in the fund's rules • is no longer required to retire from the preservation fund if he/she retires from employment and • may retire from the preservation fund even if he/she is still employed.

Momentum Investments market commentary for the quarter ending 30 September 2019

by Sanisha Packirisamy and Herman van Papendorp

Highlights

- **United States (US):** The Federal Reserve (Fed) cut interest rates by 25 basis points, to a range between 1.75% and 2%, amid rising disagreement among the Federal Open Market Committee (FOMC) members.
- **Euro area:** In his parting shot, European Central Bank (ECB) President, Mario Draghi, pledged to buy bonds and sustain ultra-accommodative policy rates "for as long as necessary".
- **Japan:** The Bank of Japan (BoJ) sat tight in September, holding interest rates at negative 0.1% and left its target for 10-year bond yields at around 0%. It signalled it may consider more stimulus if needed in October.
- **China:** Lenders are building defences as the trade war with the US continues, but a better mechanism would be increased reform at state entities, including privatisation and improved governance, to improve efficiencies.
- **South Africa (SA):** Seeing retirement saving as a low priority expense and not as an essential investment will worsen SA's retirement crisis. Even fewer people are prepared for retirement than previously assumed.

Global economic developments

US

Fed cuts interest rates by 25 basis points amid rising disagreement among the FOMC members

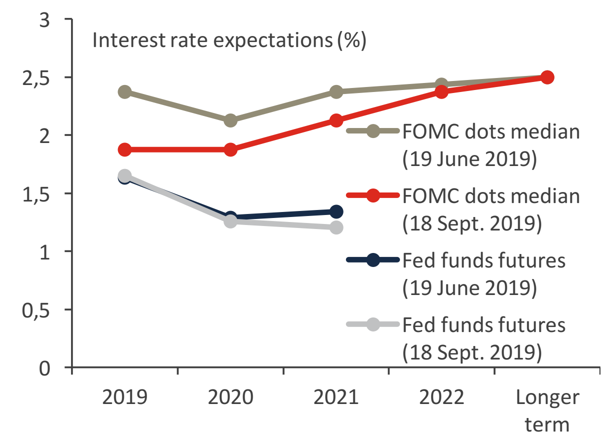
Sticking to a more hawkish line, the Fed once again attracted criticism from another tweet by US President Donald Trump saying, "Jay Powell and the Federal Reserve Fail Again. No "guts," no sense, no vision! A terrible communicator!"

The Fed predominantly left the language from the July interest-rate-setting meeting unchanged in its latest September 2019 communication and cut interest rates by 25 basis points to a range between 1.75% and 2% It noted that household spending had risen at a "strong pace", but fixed investment and exports had weakened.

In line with elevated uncertainty around the downside threats to global economic activity, Fed Chair, Jerome Powell, explained the disparate perspectives on the FOMC by acknowledging the path ahead was becoming less clear. There were three dissents to the decision. Esther George (Kansas City Fed) and Eric Rosengren (Boston Fed) voted to keep interest rates unchanged, while the president of the St. Louis Fed, Jim Bullard, preferred a steeper cut of 50 basis points.

The Fed dot plot (a chart with dots reflecting what each Fed official thinks would be an appropriate target range for the fed funds rate at the end of each calendar year) now indicates the median forecast of the Fed officials will remain at the same level until the end of 2020 (see chart 1). Longer-term interest rate expectations remained unchanged at 2.5%, matching unchanged expectations on longer-term growth of 1.9%, unemployment of 4.2% and inflation of 2%.

Chart 1: Disparate view on interest rates between the Fed and the futures market



Source: Bloomberg, Momentum Investments

According to the Financial Times, in response to the overnight lending rate spiking to a high of 10%, the FOMC authorised a drop in the interest rate that the Fed pays on excess reserves, from 1.85% to 1.8%. The Fed is also now expected to offer reverse repurchases at an offering rate of 1.7%, instead of 1.75%. This move has likely disappointed markets who were expecting a more explicit repurchase facility or an increase in asset purchases to boost the level of bank reserves in the system. The door has, however, not closed on the latter, with Powell indicating (in the press conference) the Fed would be discussing its response to the volatility in overnight lending at its next meeting.

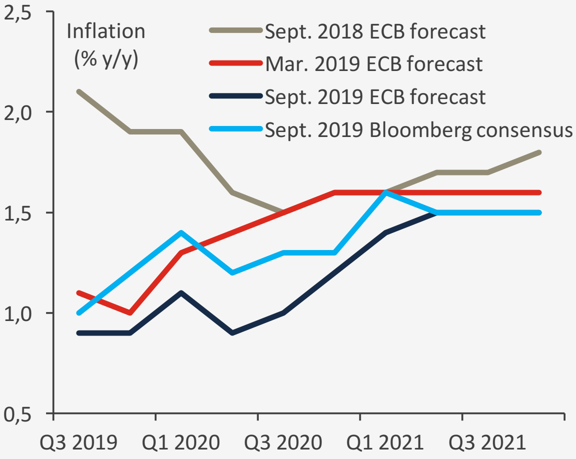
Euro area

ECB President Mario Draghi pledges to buy bonds "for as long as necessary"

The decisions arising from the ECB's September 2019 monetary policy meeting turned out to be a mixed bag for investors. The market was disappointed by the size of the cut in the deposit rate of 10 basis points, which came in below expectations for a cut of 20 basis points. Similarly, the pace of asset purchases, at €20 billion per month, undershot the majority of investors' expectations. In contrast, the market was surprised by the announcement of open-ended quantitative easing, in favour of calendar-based guidance.

Faced with lacklustre growth and tepid inflation (see chart 2), Draghi announced interest rates would remain at ultra-accommodative levels until inflation recovered to its target of below, but close to, 2%. Draghi added that the ECB would restart its quantitative easing in November 2019 and admitted the Governing Council will run the asset purchase programme for as long as is necessary.

Chart 2: Tepid inflation trajectory in the Euro area



Source: Bloomberg, Momentum Investments

This start date coincides with the changing of the guard at the helm of the ECB. The former managing director of the International Monetary Fund (IMF), Christine Lagarde, is set to be appointed as president of the ECB from 1 November 2019. She is likely to face opposition from a sizeable portion of the Governing Council for further asset purchases as this may threaten to breach the ECB's self-imposed limits of shares of country debt. She has nevertheless hinted at launching a review of the ECB's tools and its policy framework to assess the benefits against the associated costs.

According to Capital Economics, around 75% of the assets purchased will be public sector securities, with the remainder coming from private-sector securities. The ECB also used additional measures to encourage bank lending. The maturity of the loans under the third targeted long-term refinancing operations (TLTROs) was increased from two to three years and the minimum interest rate was cut marginally. Moreover, tiered interest rates were also introduced (whereby a portion of bank deposits would be exempted from the charge), but this only partly solves the problem of the annual cost associated with negative rates. According to Reuters, the exemption is likely to result in an annual saving of only €3.1 billion for the banking system. Bank profitability is likely to be hurt further by an assumed flattening of the curve in response to the ECB's open-ended guidance

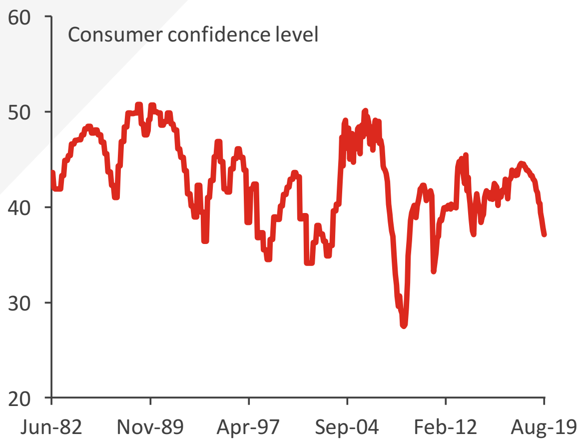
Japan

The BoJ kept policy steady but signalled a chance of easing in October 2019

The BoJ maintained its policy stance in September 2019, even after the US Fed cut interest rates by 25 basis points. In line with the Bloomberg consensus, the BoJ also left its level of asset purchases unchanged.

While the BoJ did not commit to taking further action in October 2019, it remarked it would review growth and inflation. Growth in economic activity for the second quarter of 2019 was revised lower to 1.3% in annualised terms from an initial estimate of 1.8%. A re-escalation of trade disputes between the US and China manifested in a contraction in spending by Japanese manufacturers. In addition, capital spending came in below expectations and net exports, which were dented in line with the slowdown in global growth, detracted from economic activity.

Chart 3: Japanese consumer confidence on the decline since the end of 2017



Source: Bloomberg, Momentum Investments

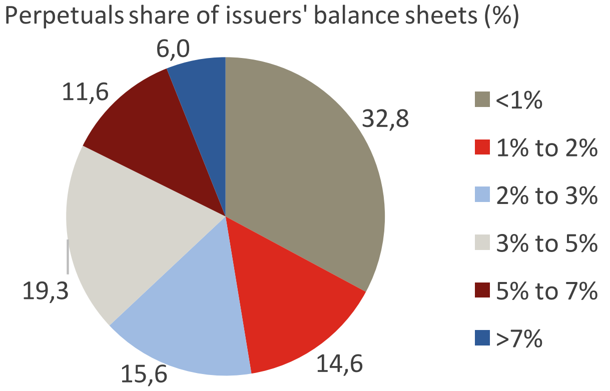
Though domestic consumption spend remained firm in the quarter, growth could fade in response to a hike in Japan's sales tax from 8% to 10%. The consumption tax was last raised in April 2014 from 5% to 8%. Japanese consumer confidence fell from 45.5 points to 37.5 points in the six months preceding the previous hike in consumption taxes (see chart 3). Consumer sentiment has slid since the end of 2017. A further hike in the consumption tax is likely to take this number even lower in the near term, putting further pressure on growth outcomes and necessitating additional policy easing.

China

Chinese lenders are building defences as the trade war with the US continues

Chinese banks have clambered to shore up capital in recent months to meet capital adequacy ratios and have turned to the issuance of perpetual bonds. The Bank of China became the first issuer of perpetual bonds (bonds with no fixed maturity date) in January 2019. Since then, more banks have issued perpetual bonds to replenish capital (see chart 4).

Chart 4: Perpetuals account for at least 5% of total assets for 18% of issuers



Source: Washington Post, Momentum Investments

According to the Wall Street Journal, these securities typically rank below senior debt in the repayment structure and their interest payments can occasionally be stopped or postponed.

According to Caixan, the capital shortage is most urgent for the big four state-owned banks given the requirement of the Financial Stability Board to meet a minimum loss-absorbing capacity requirement by 2025. As of May 2019, Moody's estimated that these four banks needed US$423.4 billion more capital than they had at that stage.

Beijing has ordered its state entities to cut their debt-to-asset ratios by 2% from 2017 levels. The ratio recorded at 64.4% at the beginning of 2019, down from 65.7% at the end of 2017, likely owing to its perpetual bonds not being treated as regular bonds.

While perpetuals have allowed state entities to inch closer to their target, these enterprises are paying more to borrow (to compensate holders for the extra risk assumed as perpetuals pay higher returns than standard bonds), worsening their financial position.

A better solution would entail state entities adopting bolder reforms, such as privatisation and improved governance, to improve efficiencies.

Local economic developments

SA's retirement crisis is set to worsen with even fewer people prepared for retirement than previously assumed

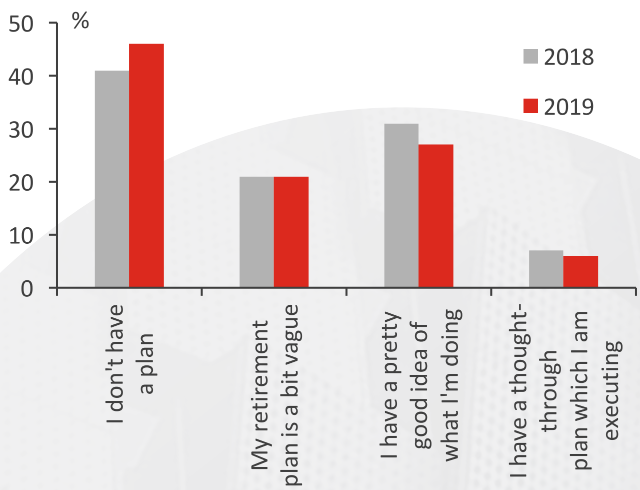
The annual 10X Investments Brand Atlas survey of the SA population (sampling economically-active citizens earning a monthly income in excess of R7 600) showed that 67% of respondents either did not have a retirement plan or only had a vague plan in 2019.

This ratio is up from 62% in 2018. Only 6% acknowledged they have a thought-through plan which they are executing, down from 7% in 2018 (see chart 5). This broadly corresponds to National Treasury's figure of 6% of individuals who were on track for a "decent" retirement.

While the report reassures that 56% of respondents understand they need to be saving for retirement for most (if not all) of their working lives, more than a third of South Africans believe that a "comfortable" retirement can be achieved through saving for less than 24 years. Of the survey respondents, only 26% strongly agreed with the statement that they would have enough money to live on after they retire. Of the respondents who said they had some sort of retirement plan, a whopping 72% felt concerned or were unsure that they would have enough to live on after they retired and assumed that they would have to keep earning money after they retired.

Astonishingly, the reality of not potentially having enough to retire on does not match respondents' expectations of maintaining the same standard of living they had during their working lives. 69% of respondents either strongly agreed or agreed in part that they would expect the same standard of living they enjoyed before they retired. This emphasises the need for further education about what is needed to ensure adequate retirement savings.

Chart 5: How do you feel about your current retirement plan?



Source: 10X Investments, Momentum Investments

The data also shows significant gender disparities. Women in SA typically earn 23% less than their male counterparts but are expected to live longer than men on average. The survey results showed that 9% more women than men did not have a retirement plan and 6% more women indicated they were "doing badly financially", suggestive of South African women being in a more precarious financial position than men. The survey data highlights that 42% of women do not save or invest, with only 35% saving via cash savings. Only 13% invested in options which had the potential of beating inflation and growing their wealth.

Racial differences also exist in the survey data. While 39% of white respondents were positive about their financial standing, this ratio was lower at 22% for black respondents. The report highlights the "triple jeopardy" that many historically-disadvantaged citizens and poorer communities face, where the younger generation have to support themselves, elderly parents and younger family members, leaving little funds over for retirement savings.

The survey results predominantly attribute the reason for no retirement plan to not having enough money to save (55%), not seeing retirement as a priority at the moment (35%) and not planning to retire (13%).

These responses also differed by age group. For those between 25 and 34 years of age, 65% did not have enough money to save and 26% did not see it as a priority. This compared with 73% and 19%, respectively, when looking at the age group of 35 to 49 years and 69% and 11%, respectively, when investigating the responses of those older than 50 years.

Financial market performance

Fresh uncertainty was injected into global equity markets in September 2019 when the US Democratic House speaker, Nancy Pelosi, formally initiated impeachment proceedings against President Trump. This followed a continuation in political upheaval in Hong Kong (even after the announcement of a formal withdrawal of the extradition bill), a thickening of the Brexit cloud (following the courts' ruling that Prime Minister Boris Johnson acted illegally by suspending Parliament), renewed political uncertainty in Italy (when former Prime Minister Matteo Renzi undermined the ruling coalition by announcing his departure from the centre-left Democratic Party to form a new party) and a drone attack on the Saudi Aramco oil facilities.

Despite these events compounding heightened anxiety over President Trump's comments criticising China's alleged unfair trade practices, global equity markets still managed to eke out gains of 1.9% for the month. The MSCI All-World Index, however, remained broadly flat (dipped 0.2%) for the quarter ended September 2019.

Although the share of investors, surveyed in the Bank of America Merrill Lynch Fund Manager Survey for September 2019, expecting a recession over the next 12 months spiked to its highest level since August 2009 at 38%, the CBOE volatility index (Vix) edged up only two points in the quarter and dipped two points in September 2019.

Emerging market (EM) equities were the biggest losers in the third quarter of 2019, while the MSCI Developed Market (DM) Index inched higher. Nevertheless, during September 2019, the MSCI DM Index underperformed EM shares. The MSCI DM Index rose 1.9% in the month (0.3% for the quarter) driven sharply higher by Japanese shares. The Nikkei 225 Index surged ahead by 5.8% in September, helping the quarter-end 3.1% in the black. Japanese headline inflation dropped to 0.3% year-on-year (y/y) in August, raising expectations for further easing from the BoJ before the end of the year. Even though the BoJ stayed pat in September, it signalled its readiness to expand stimulus, which raised optimism for further monetary policy easing in the coming months.

Notwithstanding the resumption of the ECB's quantitative easing programme, the Eurostoxx 50 initially lagged the performance of the MSCI DM Index, but gained at the end of the month, ending September 2019 4.3% up (3.1% higher for the quarter). The rising prospect of new elections in Italy following the resignation of Prime Minister Giuseppe Conte in August 2019 and the formation of Renzi's new centrist party, Italia Viva, in September 2019 has arguably destabilised an already fractious government. Together with heightened political uncertainty, weak economic data initially weighed on gains in the Eurostoxx 50 Index. The purchasing managers' index for Germany fell to its worst level in more than a decade.

Though German data disappointed, the value of global negative-yielding bonds shrank by around US$3 trillion during September 2019 suggesting investor fears of a recession (previously pushing nervous investors into safe-haven assets) may have been overdone. The yield on the German 10-year government bond rose 13 basis points to end the quarter at negative 0.6%. The US 10-year government bond yield similarly sold off by 18 basis points during the month and ended 33 basis points lower than the start of the quarter.

The S&P 500 Index started on the back foot after the release of soggy manufacturing data, which showed the sector had contracted for the first time in three years. The S&P 500 Index recovered nearly 3% higher in the first half of the month before slipping again into month-end. Markets remained flat in the middle of the month following a cut in the US benchmark interest rate of 25 basis points, as underwhelmed investors continued to price in further interest rates cuts relative to an unchanged stance denoted by the Fed median dot plot. The index ended September 2019 marginally higher at 1.4% and exhibited similar gains for the quarter. The call for an impeachment inquiry into President Trump by US lawmakers dented markets late in the month. President Trump allegedly sought assistance (and withheld aid money) from Ukraine President, Volodymyr Zelensky, to smear former vice president, Joe Biden, who is a front-runner for the 2020 democratic presidential elections.

EM equities dropped 4.2% in the quarter ended September 2019, in accordance with a two-point rise in the Vix and a 1.8% fall in the Bloomberg Commodity Price Index. EM equities recovered in the last month of the quarter and headed 2.0% higher, corresponding to a 1.2% lift in commodity prices. The dollar price of gold fell 3.0% in September 2019. During the month, the price surged to its highest level since April 2013 on geopolitical angst and dovish monetary policy. The fall in the dollar price of platinum outstripped the monthly drop in the gold price at 5.2%. The international price of oil ended the month only 0.6% higher despite disruptions to 5% of the globe's oil supply earlier in the month, which caused the largest intra-month increase in Brent oil prices in percentage terms since 1988. According to media reports, Saudi succeeded in restoring half of its lost production by the middle of the month with the aim of re-establishing full output by the end of the month.

Asian stocks were the worst performers in the month (up 1.7%) and quarter (down 3.7%) on a relative basis. High-level trade talks between the US and China on 19 and 20 September 2019 were viewed as "productive" and "constructive" by China's Ministry of Commerce. A 50-basis point cut in the ratio of reserves, that Chinese commercial lenders are required to maintain, further boosted markets. The Financial Times estimates the 50-basis point cut in the reserve requirement ratio will enhance banks' ability to lend to the broader Chinese economy by around US$126 billion. Moreover, extensive cuts in the corporate tax rate in India boosted Indian shares in the month, further underpinning the performance of the MSCI Asia Index during the middle of the month, before softer gains set in before month-end.

The MSCI Europe, Middle East and the Africa (EMEA) Index finished the month 2.0% higher, but this was not enough to prevent a 4.2% fall for the quarter as a whole. The Central Bank of Russia cut its key lending rate by 25 basis points to 7% in September 2019, buoying Russian shares. The intra-month surge in oil prices further lifted the Russian equity market.

Even after rising 3.4% in September 2019, the MSCI Latin America Index still finished the quarter 4.9% in the red. Brazilian shares ended the month higher on a positive revision of 2019 growth estimates by the Brazilian government and an affirmation of its commitment to fiscal discipline. Brazil also cut its benchmark interest rate, the Selic, for the second time in two months to a record low of 5.5%, further supporting Brazilian shares. Meanwhile, inflation in Mexico dipped below the central bank's target of 3% for the first time in three years validating a cut in interest rates by the Central Bank of Mexico to 7.75%, which sent Mexican markets higher.

Sentiment moved in favour of EM bonds in September 2019. The JP Morgan EM Bond Index (EMBI) spread shed two points in the month and five points in the last quarter. The largest monthly rise in credit default swap spreads were in Peru (up 12.5%), Bulgaria (up 7.3%) and China (up 7.2%), while spreads narrowed for Turkey (down 16%) and Russia (down 14%).

Similarly, the JPMorgan EM Currency Index strengthened by 0.7% in the month. Marginal losses were recorded for the Hungarian forint (1.9%), Romanian leu (1.2%) and Colombian peso (1.0%), while the Argentine peso and Turkish lira made substantial gains against the dollar in the same period (3.3% and 3.2%, respectively).

Local markets

Returns in the local equity market were in strong contrast for the first and second halves of the month. The FTSE/JSE All-Share Index climbed 5.3% in the first 16 days of the month, riding the global wave of optimism, before plunging in the second half on elevated sensitivity to trade war rhetoric involving the US and China as well as poor business sentiment figures released locally. The index ended September 2019 a mere 0.2% higher but underperformed for the quarter at negative 4.6%. The FTSE/JSE All-Share Index also had the spinoff, Prosus, of its index heavyweight, Naspers, list in the middle of the month, which also drove local markets lower.

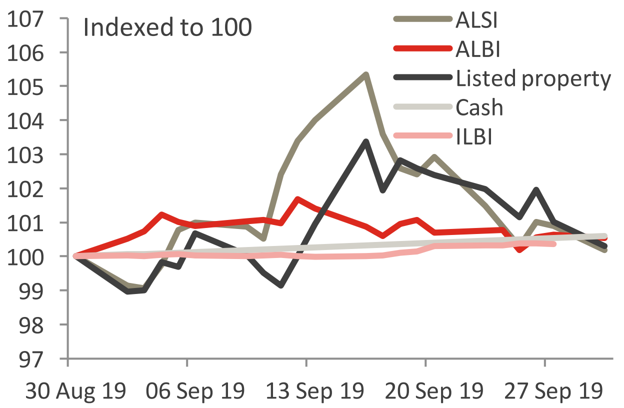
Financial shares led the performance in the overall market for the month. The FTSE/JSE Financials Index reversed its losses made in the previous month and ended September 2019 3.5% higher. A firmer rand at the start of the month, due to stronger demand for EM currencies and a better-than-expected local growth print for the second quarter of the year, supported financial shares. Bank shares soared to an intra-month high of 13.8% before disappointing in the second half of the month. The FTSE/JSE Financials Index was the worst performer for the third quarter of the year, ending 6.8% in the red.

Resource shares followed suit, finished the quarter 6.4% weaker. Losses for the month were limited to 1.1% with a rise in the international price of gold and platinum helping the performance of the index during the month.

The FTSE/JSE Industrials Index slid 0.7% lower in September 2019 and ended the quarter 2.5% lower. Retail shares picked up in the first half of the month but softened in the second half on a steady interest rate decision by the SA Reserve Bank (Sarb) and a slowdown in retail sales growth from 2.4% y/y in June to 2% y/y in July 2019.

The SA 10-year government bond yield sold off 9 basis points by the end of the month to 8.9%. The JSE ASSA All Bond Index stabilised (up 0.5%) in the month and gained 0.8% in the quarter, while the JSE ASSA Government Inflation-linked Bond Index (ILBI) edged 0.4% higher in the month and inched up 0.1% during the quarter. The FTSE/JSE SA Listed Property Index dove 4.4% in the quarter but ended September 2019 slightly firmer (up 0.3%).

Chart 6: Returns from local asset classes (%)



Source: Iress, Momentum Investments, data up to 30 September 2019

The SA rand strengthened by 0.3% against the US dollar and 1.2% against the euro in spite of mounting concerns over the conflict between the US and China (triggered by accusations by President Trump that China was using massive market barriers and was guilty of currency manipulation and intellectual property theft) as well as a confirmation by the Sarb that the local economy had entered month 70 of the current economic downturn.

Despite a politically turbulent month in Britain (which included the failure of the prime minister to call a general election, the blocking of a no-deal Brexit by British MPs and the announcement that the prime minister's brother would stand down at the next election), the rand still weakened by 0.8% against the sterling in September 2019. SA's five-year credit default swap spread widened by 14 points (7%) in the month but remains 29 points lower than at the beginning of 2019.

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Partially Vesting Smooth Bonus Range

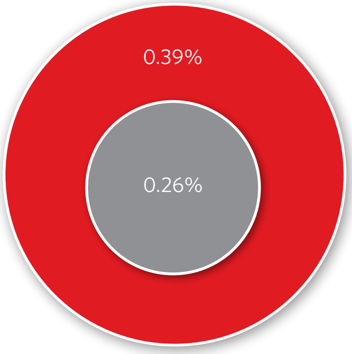
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

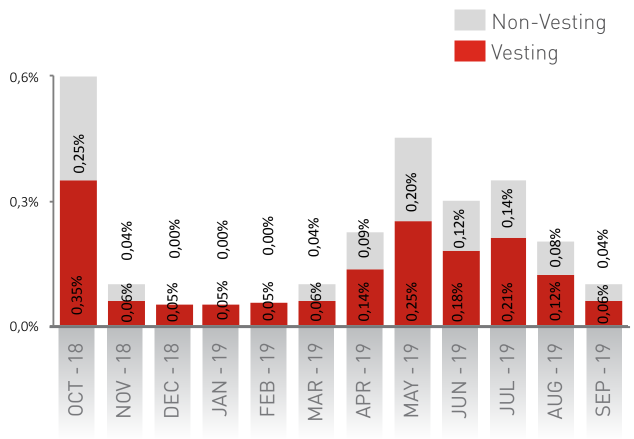
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	97.5% - 102.5%	R12.4bn	0,83%	4,25%

Performance

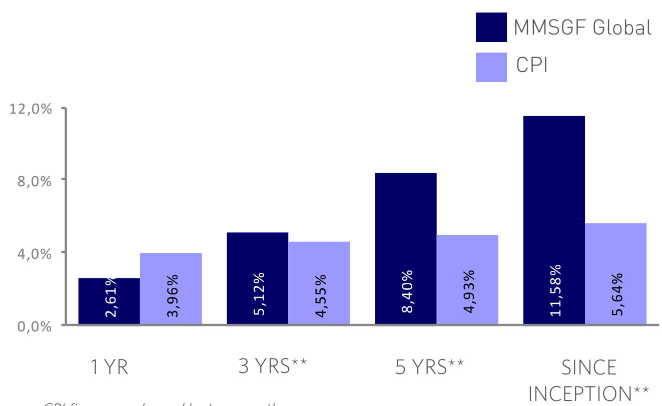
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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



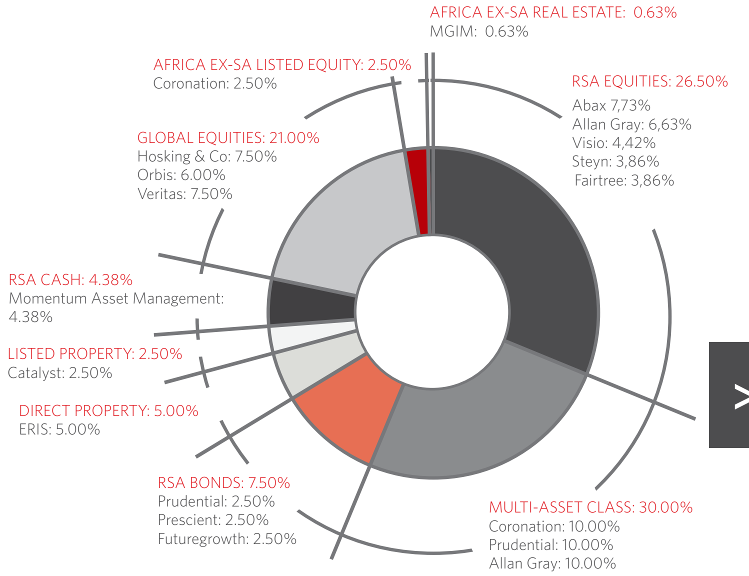
The chart below shows the long term bonus* performance of the Multi-Manager Smooth Growth Fund Global against CPI



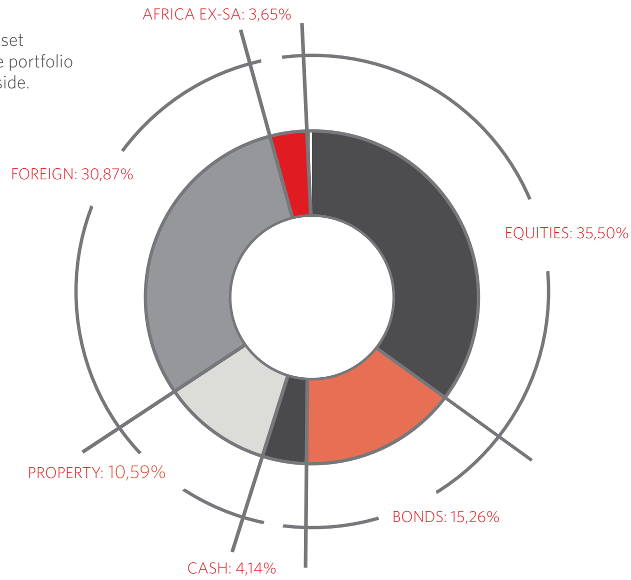
CPI figures are lagged by two months

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 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.

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

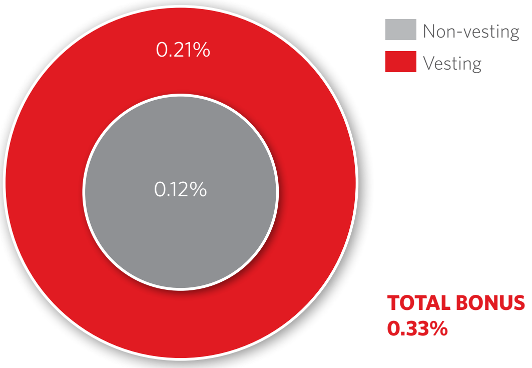
Partially Vesting Smooth Bonus Range
Multi-Manager Smooth Growth Fund Local

Fund Snap Shot

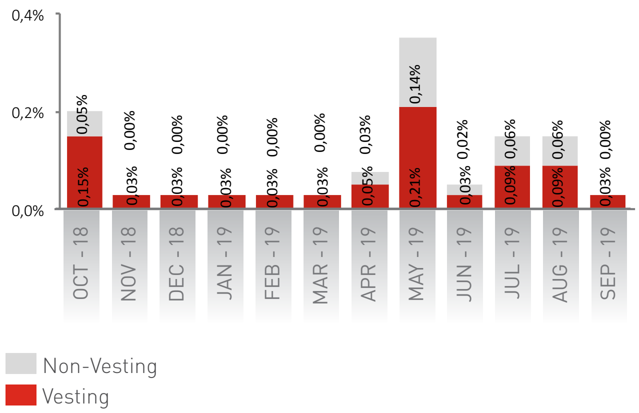
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	95% - 100%	R181m	1,49%	1,51%

Performance

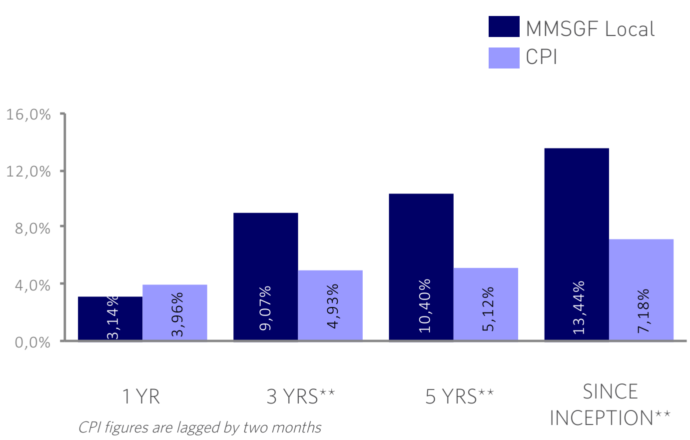
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Local is shown below.



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



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

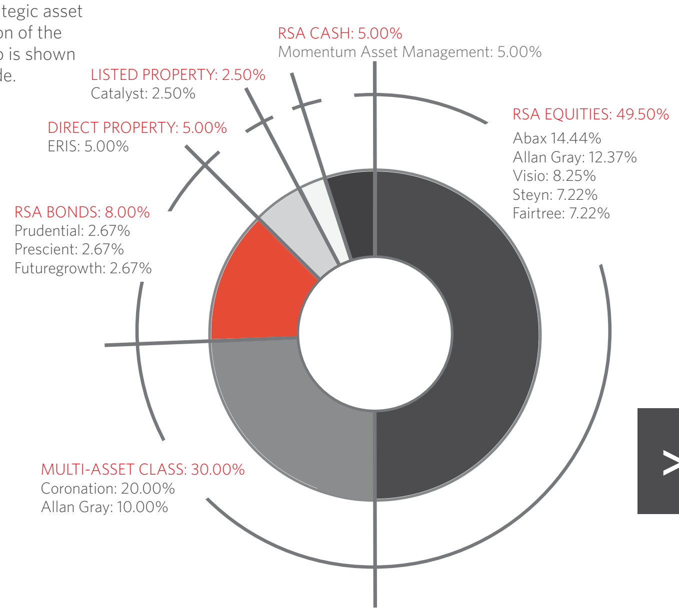


CPI figures are lagged by two months

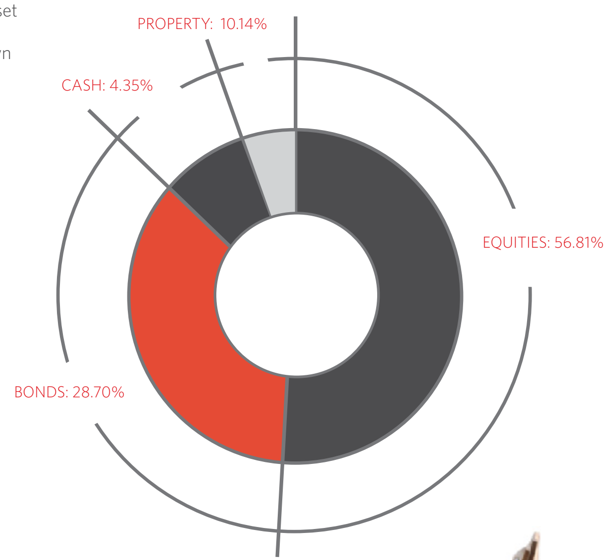
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

Asset Allocation

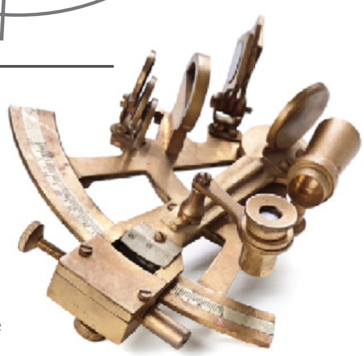
The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



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



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

Partially Vesting Smooth Bonus Range

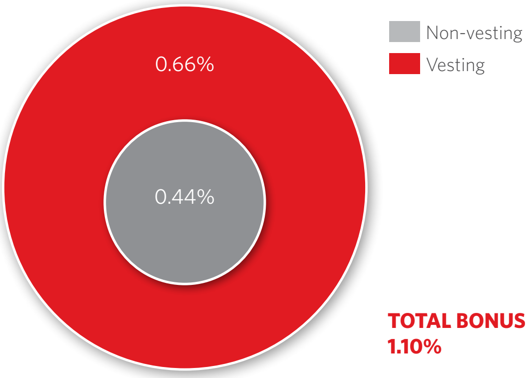
Smooth Growth Fund Global

Fund Snap Shot

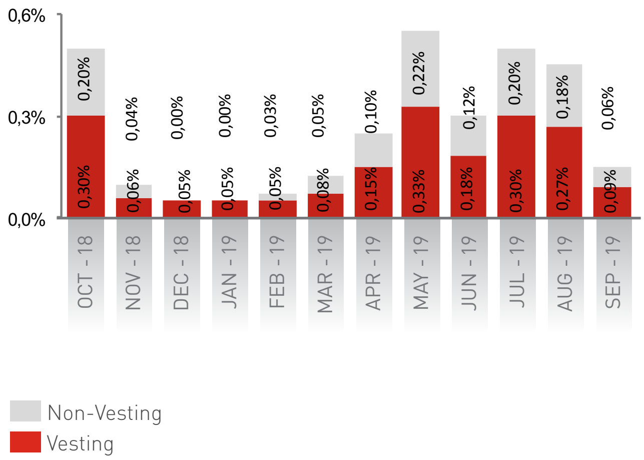
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	97.5% - 102.5%	R2.1bn	0,76%	4,57%

Performance

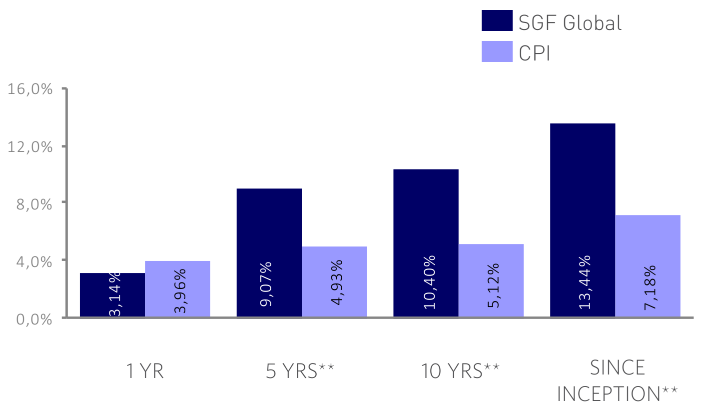
The total bonus* for the past quarter on the Smooth Growth Fund Global is shown below.



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



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



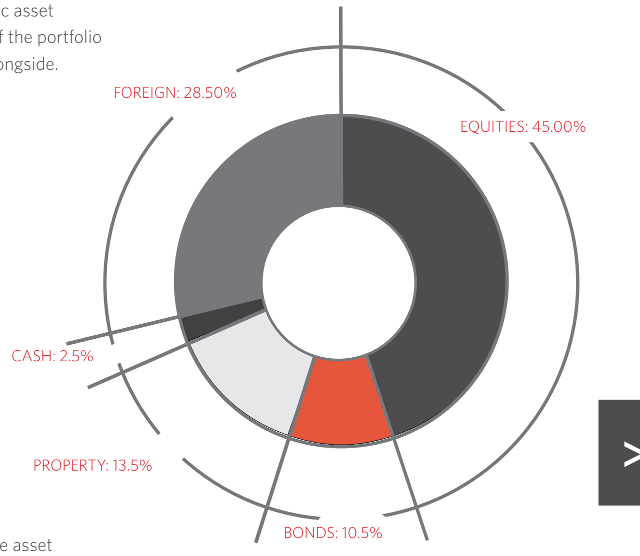
CPI figures are lagged by two months

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

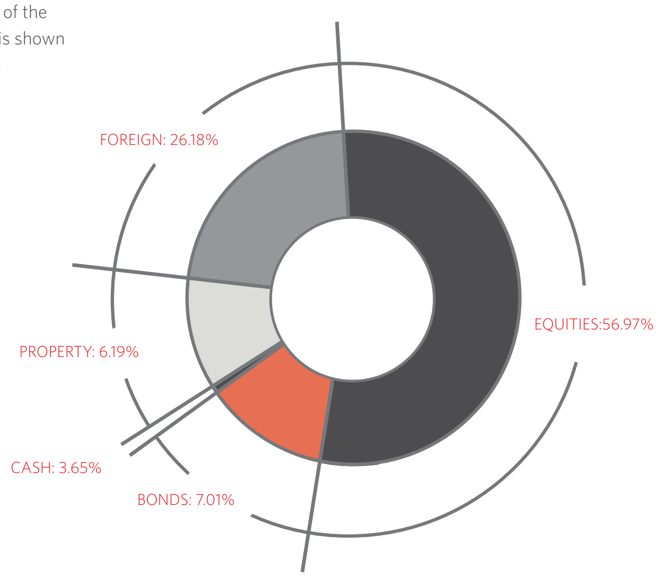
** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



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

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

Smooth-Edge Fund

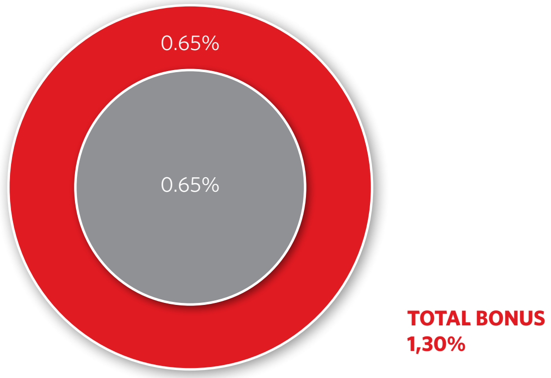
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Feb 2019	97.5% - 102.5%	R35m	0.73% *	5.75% *

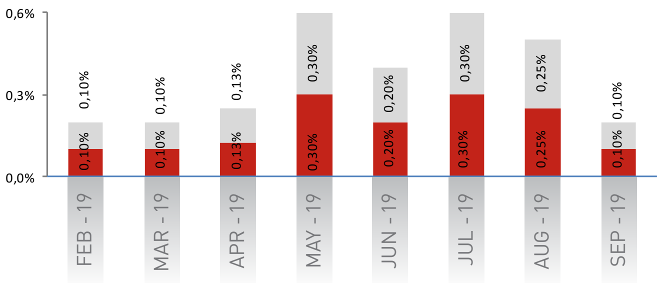
*Based on back-tested bonuses and returns

Performance

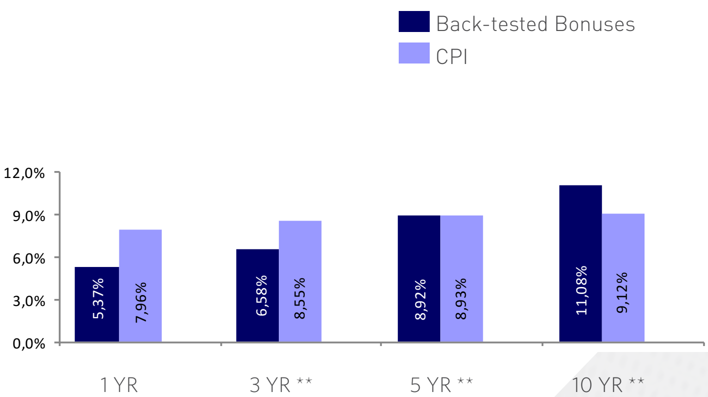
The total bonus* for the past quarter on the Momentum Smooth-Edge Fund is shown below.



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 gross of the investment management fee

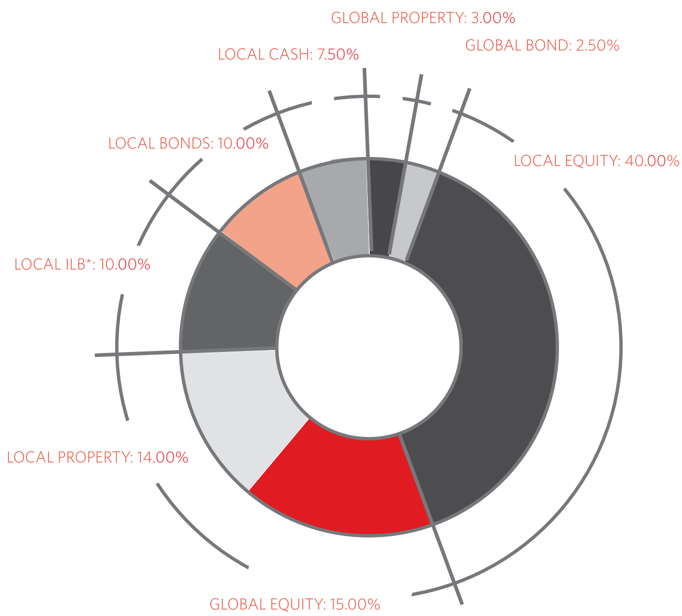
** Annualised

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.

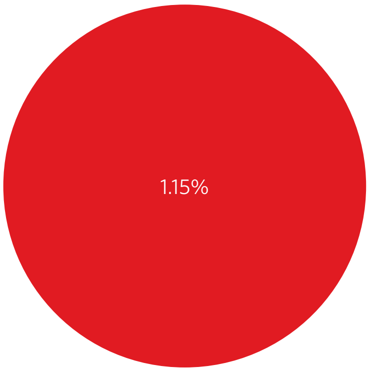
Fully Vesting Smooth Bonus Range
Multi-Manager Secure Growth Fund

Fund Snap Shot

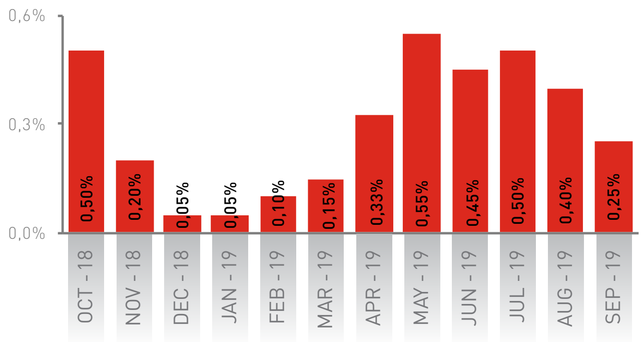
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	100% - 105%	107.6m	0,63%	4,04%

Performance

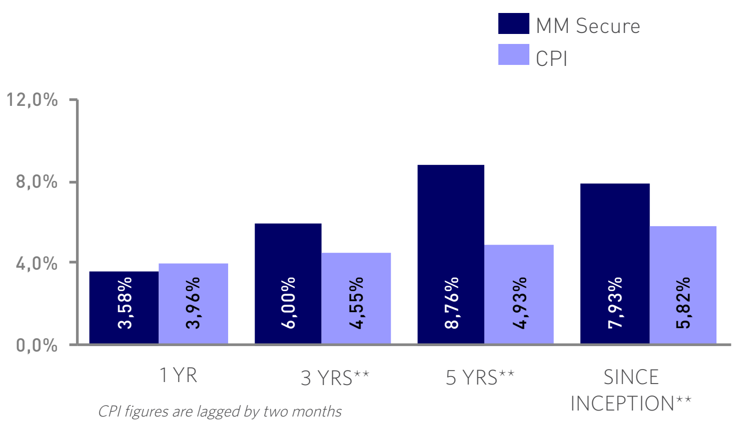
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



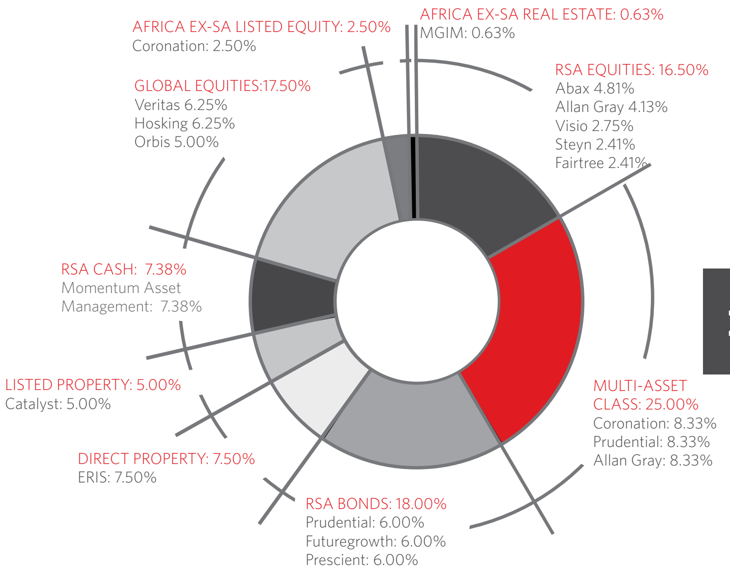
CPI figures are lagged by two months

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

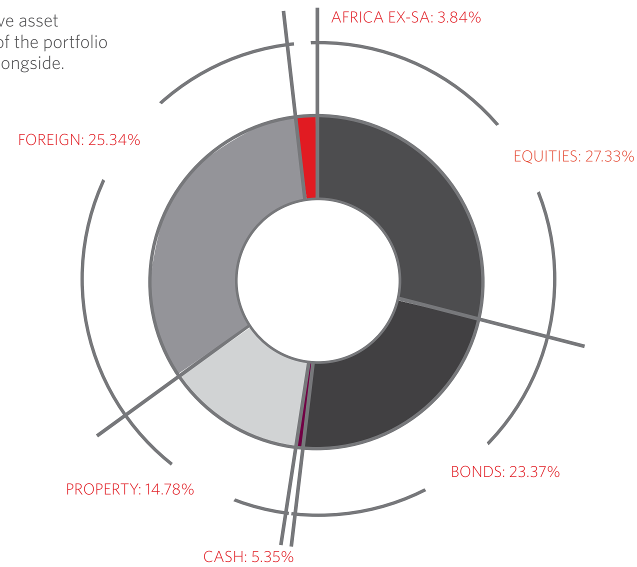
** Annualised

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

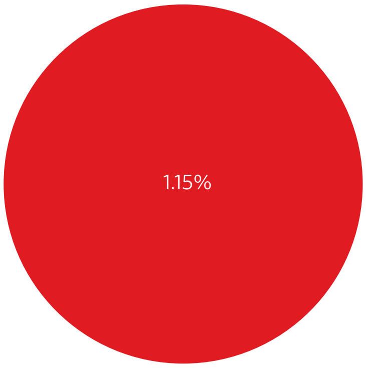
Smart Guarantee + 3 Fund

Fund Snap Shot

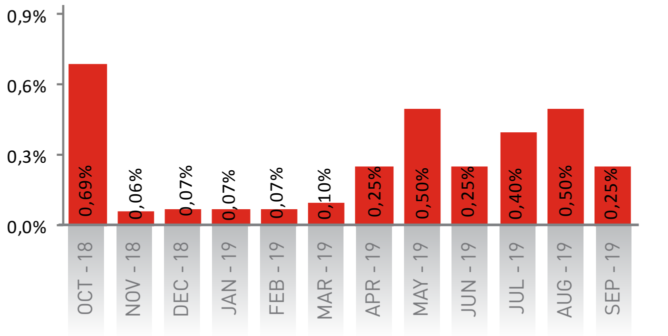
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	97.5% - 102.5%	R381m	0.84%	4,60%

Performance

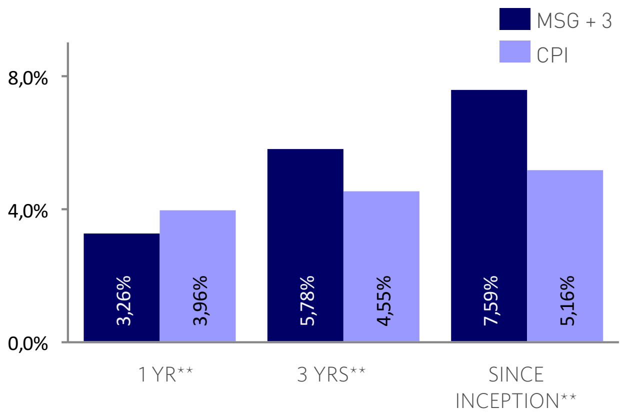
The total bonus* for the past quarter on the Smart Guarantee + 3 Fund is shown below.



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

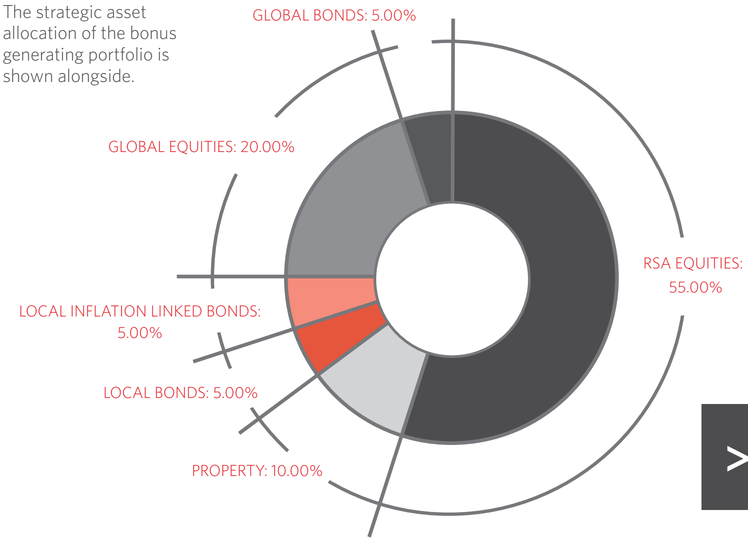
1 year performance is at 30 September 2016

* 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 4.0% 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

	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 Conservative 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, but excludes net priced asset fees and performance fees where applicable.

KEY:

1. Benefit payments generally refer to resignation, retirement, death and disability. 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 and performance fees may be deducted from the underlying assets.

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