momentum
corporate

Smooth Bonus Report

Fourth Quarter 2019

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

Looking back over the past quarter

Dear valued investors

In the local South African equity market, the FTSE/JSE All-Share Index (ALSI) had a strong fourth quarter with a return of 4.61% that was ahead of the MSCI World Index (All Countries), returning 0.64%. However the MSCI All Country World Index had superior returns over the last year, delivering 25.08% compared to the ALSI which achieved 12.05%.

The most risky asset classes entered the year on a poor footing but an about-turn in global monetary policy supported returns in 2019. This, together with the United States (US) and China easing trade disputes and a majority win by the Conservatives in the United Kingdom (UK), to suggest a clearer path towards Brexit, added to positive sentiment.

In South Africa, the local equity market trailed global equities due to weak domestic equity conditions. The clear winners were resources while financials barely eked out a gain. The low pace of economic reforms added to the lower performance.

Looking forward, global governments are likely to continue with supportive monetary and fiscal measures to soften the net effect on economic activity and prevent a hard landing.

In South Africa, the slow implementation of reforms will continue to stifle growth in 2020. Depressed growth and well-behaved inflation suggest some space for monetary policy easing.

Herman van Papendorp and Sanisha Packirisamy from the macro research team give further market and economic commentary on page 6.

Smooth bonus portfolios

In the fourth quarter, local equities delivered strong returns that have fed into funding levels and bonuses on many smooth bonus portfolios. The investment process in our smooth bonus portfolios remains sound and it is critical to remember to stay the course through the ups and downs of the market to reap the rewards.

In 2020, let's hope that many of the global and local pressing issues are resolved to simulate growth and market performance.

Warm regards

Steed Duncan-Smith

Client Relationship Manager
Momentum Corporate

Contents

There's no need for concern if your default retirement fund investment includes a smooth bonus portfolio

by Kylie Tarboton

Introduction

A smooth bonus portfolio offers a level of capital guarantee and provides investors with regular investment returns through bonus declarations. The higher the capital guarantee, the higher the associated costs. The bonus declarations are based on the returns achieved on the portfolio's underlying investments, but a smoothing mechanism is applied which withholds some returns in periods of market growth and then distributes them through an increased bonus declaration, during times of weak performance.

Smooth bonus portfolios can be intimidating to a retirement fund member with little financial understanding. These portfolios are often perceived as complex due to the guarantees they offer and the associated smoothing mechanism. In the past, the "black-box" nature of the portfolios may have been criticised, mainly due to the discretionary decision-making by portfolio managers on underlying investments and bonus declarations. An investor could feel like they are putting their money in the hands of a life assurance company with hopes of being treated fairly.

Retirement funds and their investors

Retirement funds largely invest in smooth bonus portfolios. The members of retirement funds are usually passive investors. This means that when it comes to their investment, they are not personally making the decisions. Their money is usually invested according to the retirement funds default investment strategy, chosen by the fund trustees. When a lesser-known investment type, like smooth bonus portfolios, form part of the default investment strategy, it may cause uneasiness among South African retirement fund members.

Default investment portfolios: Compliance

For a smooth bonus portfolio to be included in a retirement fund's default investment strategy, it must be compliant with the requirements of Regulation 37 of the Pension Funds Act. To clarify what Regulation 37 means for smooth bonus portfolios, the Financial Service Conduct Authority (FSCA) published a draft conduct standard for smooth bonus portfolios, called 'Conditions for Default Smooth Bonus Policies'. After the final conduct standard is published, the FSCA will require full implementation in conjunction with the default regulations when it comes to investing in a smooth bonus portfolio as a default investment in a retirement fund.

Through the implementation of the default regulation and the smooth bonus eligibility conditions, the FSCA wants retirement fund trustees to do their due diligence when selecting the funds' default investment strategy and ensure that the strategy meets the specified criteria, which includes appropriateness for its members.

In essence, once ratified, the default regulation will ensure:

- More transparency from a smooth bonus portfolio management perspective
- A more explicit bonus formula for smooth bonus portfolios
- A common standard for the management of smooth bonus portfolios, with less decisions to be made at the discretion of insurers and
- Disclosure of the smooth bonus portfolios' fee structures.

The section on Treating Customers Fairly (TCF) in the conduct standard will ensure that a retirement fund provides its members with appropriate communication about the portfolio and its performance. The information provided must be accurate, relevant and easy to understand.

Treating Customers Fairly: The framework

The underpinning theme in the General Code of Conduct for Financial Service Providers (FSPs) and representatives is treating customers fairly. Treating Customers Fairly is an outcomes-based consumer protection framework. It ensures that financial institutions (including retirement funds and their service providers) carry out their business, demonstrating that they have implemented and achieved the six TCF outcomes. The aim of the framework is to embed the fair treatment of customers within the culture of all FSPs.

Treating Customers Fairly: The six TCF outcomes

The six TCF outcomes that a smooth bonus policy should be compliant with, if it is to be included in the retirement fund's default investment strategy, are listed below:

1. **Good governance and culture**

   A retirement fund must be confident that the insurer of the smooth bonus portfolio is managed and administered in such a way that fair treatment of the fund and its members is central to the culture of the insurer.

2. **Portfolio Suitability**

   A smooth bonus portfolio and its services must be designed to meet the needs and risk profiles of the retirement fund and its members. The smooth bonus portfolio should be targeted according to the retirement fund.

3. **Appropriate and clear information**

   The retirement fund must be given clear and appropriate information before joining, on joining and after the time of entering into the policy. The fund must provide clear information to its members while their monies are invested in the smooth bonus portfolio.

4. **Suitable advice**

   When the retirement fund receives advice, the advice must be suitable and take into account the circumstances of the fund. The retirement fund must be able to provide clear and understandable information to its members. The information provided must be sufficient for a suitably qualified independent advisor to give appropriate advice.

5. **Appropriate portfolios and services**

   A retirement fund must be provided with a smooth bonus portfolio and benefits which perform in line with what the insurers have led them to expect. The associated service of these portfolios should be both of an acceptable standard and meet reasonable expectations of what the insurer had led the fund to expect.

6. **Claims, changes and complaints**

   A retirement fund and its members should not face unreasonable post-sales barriers when trying to submit a claim, change a portfolio, switch providers or make a complaint.

If one or more of the TCF outcomes are not met, it is a breach of obligation by the FSP. The FSCA, as regulator, will then take formal action which may include hefty fines and/or suspension or withdrawal of regulatory licenses.

Justification for the inclusion of a smooth bonus portfolio in a default investment strategy

Besides the confidence regulation provides, smooth bonus portfolios have appealing features that can help reduce the inherent stress associated with investment markets. The smoothing feature of the investment returns protects the member from the roller coaster ride of investment markets. Smooth bonus portfolios also provide capital protection. Depending on the level of capital guarantee provided, the retirement fund member is fully or partially protected from potentially losing their capital. This feature is valuable to passive investors who do not participate in the investment decisions of the fund.

In addition to offering downside risk protection, smooth bonus portfolios are also exposed to upside potential. Over the medium-to-long term, smooth bonus portfolios have historically beaten inflation due to the exposure to growth assets.

Conclusion

Due to regulatory requirements and the implementation of frameworks such as TCF, investors are steadily gaining confidence in smooth bonus portfolios and default investment strategies. The nature of smooth bonus portfolios makes them well suited to either be included in an investors' default retirement fund investment strategy or as an investment in their portfolio as they approach retirement. Given the recent market volatility and the uncertainty associated with long term investments, a retirement fund member will have peace of mind investing in a smooth bonus.

Kylie Tarboton
Product Specialist
Structured Solutions

Highlights

- **United States (US):** The US economy will likely show characteristics of slower growth and muted inflation pressures in 2020, compelling the central bank to maintain an accommodative monetary policy stance.
- **Eurozone:** Limp global trade activity will likely impede growth prospects in 2020. Weak demand will act as an additional drag on inflation, which is not expected to reach the target of close to, but below, 2% any time soon.
- **United Kingdom (UK):** The sterling-induced inflation overshoot has largely reversed, but lingering Brexit uncertainty related to future trading relationships will continue to weigh on firms' investment intentions.
- **Emerging markets (EMs):** The ebb and flow of trade war risk is likely to partly counter the continued search for yield in a globally accommodative monetary policy setting.
- **South Africa (SA):** The slow implementation of economic reform will stifle growth prospects in 2020. Depressed growth and well-behaved inflation suggest some space for additional monetary policy easing at the margin.

Momentum Investments market commentary for the quarter ending 31 December 2019

by Sanisha Packirisamy and Herman van Papendorp

Global economic developments

US

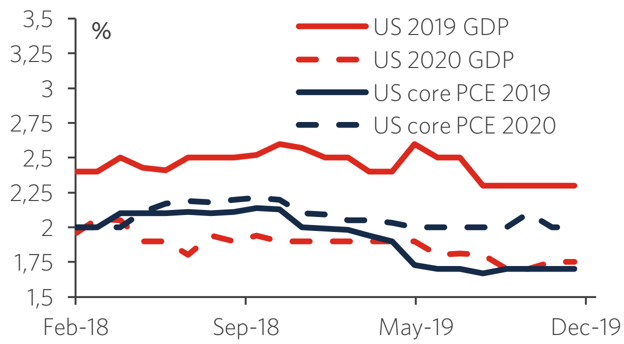
The US economy will likely show characteristics of slower growth and muted inflation pressures in 2020.

Economic activity in the US started 2019 off on a high note, with signs of a slowdown emerging in the fourth quarter of the year. The 2019 Bloomberg consensus growth estimate for the US was pitched at 2.5% at the beginning of the year but softened a tad to 2.3% by the end of the year (see chart 1).

The Federal Reserve (Fed) of Atlanta's real growth projection for the fourth quarter of 2019 (based on its gross domestic product now (GDPNow) estimate which uses available data for the measured quarter) picked up in early December 2019 to 2.0%.

The Blue Chip (large, established firms) consensus pitched a more pessimistic view on fourth-quarter growth of 1.5%.

Chart 1: US growth to drop below trend in 2020, while inflation likely to bumble along at muted levels



Source: Bloomberg, Momentum Investments

Growth estimates for 2020 point to further weakness in growth with the Bloomberg consensus forecasting a moderation in the growth in the gross domestic product (GDP) to 1.8%. Activity and sentiment in the manufacturing sector have remained lethargic. Still, gloomy manufacturers may be reflecting a short-lived strike in the motor vehicle industry. The ongoing trade war between the US and China has painted a poor outlook for US exports, although a stabilisation in the US dollar could temper weakness in US exports.

Glum sentiment observed in the Conference Board's Chief Executive Officer (CEO) confidence index points to a protracted stagnation in business investment in the US. However, residential investment has picked up and stabilisation in oil prices could support mining investment in the coming quarters.

Although the momentum behind retail sales has tapered off, consumer fundamentals remain strong. Firm employment growth, above-average consumer confidence and solid wage growth (average hourly earnings increased at 3.1% in nominal terms in November 2019) continue to support consumer spending.

Decent growth in demand has not translated into significantly higher rates of inflation. The Bloomberg consensus is looking for a marginal shift higher in inflation measured by the core private consumption expenditure deflator from 1.7% in 2019 to 2% in 2020.

We still see a chance for one more interest rate cut of 25 basis points. More aggressive cuts, coupled with unconventional monetary policy tools, would, however, be necessary for the risk scenario, where growth falls by a more significant margin than anticipated.

Eurozone

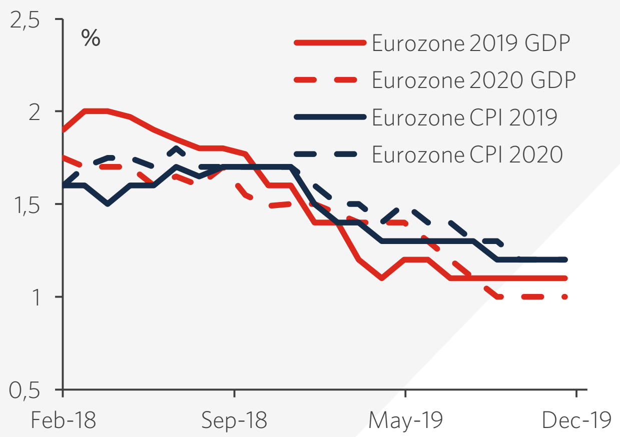
Sluggish growth in 2020 unable to meaningfully lift inflation.

Growth data for the Eurozone for the third quarter of 2019 was underpinned mainly by domestic demand, while inventories and net trade detracted from overall growth in GDP. Although the consumer played a supportive role in the third quarter of 2019, the momentum behind retail sales growth waned in the fourth quarter, particularly in the bigger markets such as Germany. Consumer sentiment in the Eurozone is admittedly comfortably above the longer-term average reading of negative 10 points. Still, the index has dropped consistently from a recent peak of negative three points at the start of 2019 to negative seven points in November 2019. Wage growth has climbed swiftly in the past year to 2.7% for the third quarter of 2019. However, survey indications point to firms struggling to maintain this level of wage increase going forward.

Growth in industrial production in the Eurozone's largest economy, Germany, has languished in negative territory for much of 2019. The German Ifo Business Climate Index has shifted up from its earlier lows but continues to paint a bleak picture for German manufacturing in 2020. Moreover, slow growth in global activity has weighed on Eurozone export growth. According to Capital Economics, exports destined for the UK and China continued to contract, while exports to the US have started to slow. With growth set to dim in the US and China (the two largest export markets for the Eurozone), export growth is likely to struggle in 2020.

As such, the Bloomberg consensus maintains a soggy growth forecast of 1% for the Eurozone in 2020, down from an earlier estimate of 1.5% at the start of 2019 (see chart 2).

Chart 2: Soft growth and absent inflation pressures in 2020



Source: Bloomberg, Momentum Investments

Absent demand-pull inflation pressure has suppressed inflation outcomes. The Bloomberg consensus expects headline inflation in the Eurozone to track sideways in 2020 from 1.2% in 2019. Tepid growth and persistently low inflation hint at the need for easier monetary and fiscal conditions, but with lower interest rates posing a threat to European banks' profitability, the pressure is rising for European governments to exercise less fiscal frugality.

UK

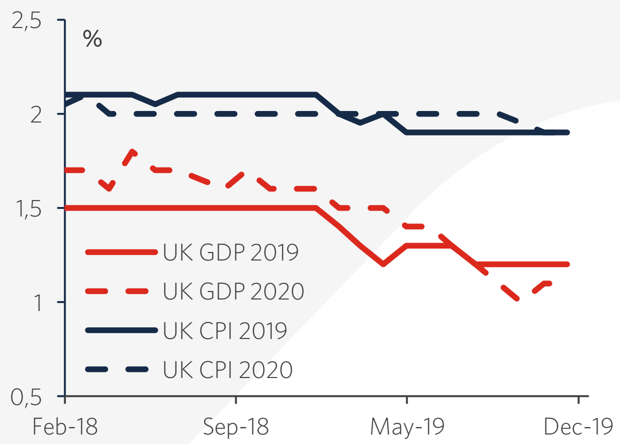
Inflation overshoot has largely reversed, but Brexit uncertainty will continue to set back investment.

A mild expansion in growth in the UK in the third quarter of 2019 was driven by private consumption. In contrast, fixed investment slumped on Brexit uncertainty and inventories were pared back.

The Bloomberg consensus forecasts growth in 2020 to be a touch softer than in 2019 at 1.1% (see chart 3).

A majority Conservative government should lessen uncertainty (relative to a scenario where a minority Conservative or Labour government took the helm) and could lead to a swift exit from the European Union (EU).

Chart 3: Future trade agreement uncertainty to remain a drag on growth in the UK in 2020



Source: Bloomberg, Momentum Investments

The Conservatives are campaigning for the withdrawal agreement that Prime Minister, Boris Johnson, has positioned to be passed by Parliament before the new deadline of 31 January 2020. This agreement, according to Investec, leaves Northern Ireland with a hybrid customs system and a Canada-style free trade agreement for the UK, implying there will still be challenges to trading freely with the UK.

Although a reduction in political uncertainty could be good for business sentiment, confidence may be tarnished by the lack of detail around a future UK-EU free trade agreement, keeping a lid on growth prospects. In addition, limited plans for increasing public investment restricts the fiscal thrust from government to the economy.

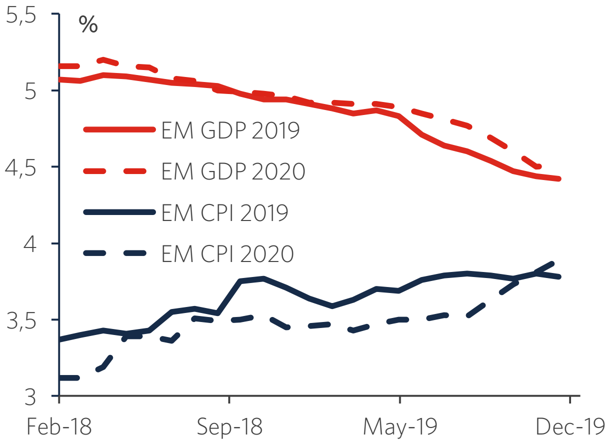
Should protracted uncertainty over the Brexit path beget significantly lower growth than anticipated by the Bank of England (it forecasts growth to lift from 1% in the fourth quarter of 2019 to 1.6% in the fourth quarter of 2020), it may be forced to step in with additional easing measures. However, room for major easing remains limited, shifting the burden on fiscal policy to achieve some of the heavy lifting for higher growth.

EMs

Ebb and flow of trade war risk likely to partly counter the search for yield in a globally accommodative policy setting.

A relatively optimistic Bloomberg consensus forecast pegged EM growth at 5.1% for 2019 at the start of 2018 (see chart 4). As an intensification of the trade war and softer growth in developed markets (DMs) took their toll on global trade volumes, the consensus for full-year growth in 2019 slipped to 4.4% by December 2019.

Chart 4: Protectionism and weaker DM growth to weigh on EM growth prospects in 2020



Source: Bloomberg, Momentum Investments

We remain cautious on growth in EMs for 2020. The direction of global demand remains in the balance due to persistent uncertainty from the trade conflict between the US and China. Growth in EM ex-China should stage a marginal recovery, dotted with improvements in economies that experienced a weak growth showing in 2019. These countries include Brazil, Mexico, Turkey, Russia and India. Growth in China in 2020, on the other hand, is expected to slow moderately as the trade rift between the US and China lingers. Supportive monetary and fiscal measures should nevertheless soften the negative effect on economic activity and prevent a hard landing in growth.

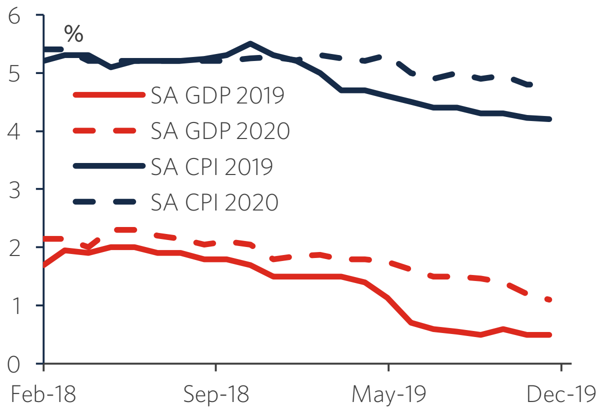
Inflation in the EM composite should drift marginally higher in 2020, mainly due to rising food prices in China. Modestly higher growth and subdued inflation pressure could lead to further monetary accommodation in EMs, but the extent of interest rate cuts is likely to moderate in 2020 relative to 2019 as the nominal gap between interest rates in DMs and EMs is closing towards multi-decade lows.

Local economic developments

Slow pace of economic reform in a depressed growth environment will stifle growth prospects in 2020.

Growth in SA's leading indicator, which provides foresight into where growth in the economy is headed, contracted for the past year, confirming downbeat consumer and business sentiment and heralding a tepid growth outlook for 2020. The Bloomberg consensus estimate for growth in SA in 2020 has nearly halved since the start of 2018 to 1.1% (see chart 5).

Chart 5: Slow reform to stifle SA growth in 2020, while inflation to remain well behaved



Source: IMF, Momentum Investments

The local economy slipped into its 73rd month of the economic downswing in December 2019 with little to suggest a growth surge is on the horizon. We believe growth in SA is likely to struggle to reach 1% in 2020 on reform efforts, which are too slow to swiftly reinvigorate sentiment, accelerate consumer purchases of bigger-ticket items or encourage the outlay of big capital investment projects just yet.

Meanwhile, inflation has been relatively well behaved. Core or underlying inflation has averaged 4.3% for the past two years in comparison to its long-term history of 5% since 2009, while services inflation has averaged 5% for the past two years relative to 5.8% for the full history since 2009. This suggests downside surprises in inflation were broader than just food. After excluding the effect of administered prices (water and electricity tariffs, public transport, school fees and petrol), inflation averaged 3.9% for the past two years, further signalling subdued inflation pressures in areas of the basket where monetary policy has more of an influence.

Muted inflation appears to be broad-based with a weighted average of 77% of the items in the consumer inflation basket registering inflation lower than 6% in the past two years, in comparison to 61% for the longer-term history.

In our view, there is likely an opportunity to cut interest rates by 25 basis points in the first half of 2020, but this will require more meaningful downgrades to the SA Reserve Bank's (Sarb) growth and inflation forecasts.

In its November 2019 economic assumptions, the Sarb forecasted growth of 1.4% for 2020 (above our forecast of below 1%) and expected inflation of 5.1% relative to our forecast of 4.6% in 2020 from an anticipated 4.2% in 2019.

Financial market performance

Global markets

The majority of risky asset classes entered the year on poor footing following an extensive sell-off at the end of 2018. However, a complete about-turn in the global monetary policy stance has supported robust returns in global equity markets in 2019. Market returns were further supported late in the year on an easing in trade disputes between the US and China and a majority win by the Conservative Party in the UK, suggesting a clearer path towards Brexit. These positive political developments contributed to a reduction in the CBOE Volatility Index (Vix) from 25 index points at the end of 2018 to nearly 14 index points by the end of 2019, which is below the longer-term average since 1990 of around 19 points.

Global equity markets had their best year since 2009when markets soared 34.6%. The MSCI All Country World Index ended the year 26.6% higher after collapsing 9.4% in 2018. A more accommodative monetary policy stance adopted by the major DM central banks fuelled DM equity markets in 2019, sending them higher relative to EM bourses. Returns in the MSCI DM Index more than made up for an 8.7% dip in 2018 and powered ahead at 27.7% in 2019. This left 2019 as the best performing year since 2009 when the MSCI DM Index climbed nearly 30%. Easier monetary policy and above-trend growth aided robust returns in US equity markets. The US equity market was the star performer in the DM composite, with the S&P 500 Index rushing ahead by 31.5% in 2019, which was the highest return since the index printed 32.4% in 2013. US markets lifted late in the year on de-escalation in the trade war between the US and China.

European bourses performed equally as well in 2019. The Eurostoxx 50 Index gained 29.3%. Nevertheless, average annual returns in the Eurostoxx 50 Index have underperformed that of the S&P 500 Index since the global financial crisis (GFC) at 7% relative to 13.7% for the latter. The Japanese Nikkei 225 Index lagged the DM composite at 20.7% for the year after declining by 10.3% in 2018. The return on the index for 2019 represented the fifth-highest annual return since the GFC. Returns were buoyed late in the year on a positive number in the Chinese manufacturing sentiment index indicative of an easing in trade tensions.

DM government bond yields rallied further in 2019 The US 10-year government bond yield declined nearly 77 basis points to 1.9% in 2019, while the German 10-year government bond yield rallied a further 43 basis points (following a 19-basis point rally in 2018) to negative 0.2% at the end of 2019. The German 10-year government bond yield reached a new low of negative 0.7% in 2019 during the month of August The MSCI EM Index unwound the 14.6% fall it experienced in 2018 but underperformed its DM equity counterpart at 18.4% for 2019. The 18.4% increase in the MSCI EM Index represented the fourth-highest annual return since the GFC. Annual returns in the index have averaged 11.8% since 2009.

Asian and Latin American equity markets led the EM equity market composite higher in 2019. The MSCI Asia Index increased by 19.2%, offsetting a 14.6% fall in 2018. The index ended 2019 on a strong note given an alleviation in trade friction between the US and China. Despite social unrest breaking out in several countries in South America, the MSCI Latin America Index ended the year 17.5% higher, after slipping 6.6% in 2018. Lower interest rates in Brazil (the Brazilian benchmark Selic dropped from 6.5% at the start of 2019 to 4.5% by the end of the year) boosted returns on the Brazilian Bovespa despite record outflows since the GFC. Foreigners have been wary of stalling reform efforts since the introduction of pension reforms earlier in the year.

Despite falling the most in 2018 (down 16%) relative to composite equity markets for Asia and Latin America, returns in the MSCI Europe, Middle East and the Africa (EMEA) Index had a shallower rebound in 2019 at 15.5% for 2019. Strengthening fundamentals in the Russian economy, including a rebuild in foreign exchange reserves, a healthy budget surplus and less noise about additional sanctions supported healthy returns in the Russian Moex in 2019.

Risk appetite towards EMs improved in 2019. The JPMorgan EM Bond Index (Embi) spread recovered 157 points in 2019 after deteriorating 123 points in 2018. The biggest deterioration in sovereign credit quality was observed in Argentina, where the credit default swap (CDS) spread blew up 312% in 2019. The largest improvements were seen in Malaysia (down 68%), Russia (64% lower) and the Philippines (down 61%).

The JPMorgan EM Currency Index had a smaller reaction and only appreciated by 0.9% in 2019.

The steepest depreciation against the US dollar was in the Argentine peso (37.1%), followed by the Turkish lira (11.1%). At the same time, the most significant currency appreciations were in the Russian rouble (12.5%) and Thai baht 8.6%).

Firmer commodity prices in 2019 also provided an impetus for growth in EMs. The Bloomberg Commodity Price Index rose 7.7% in 2019, previously down 11.3% in 2018.

Local markets

The local equity market trailed global equity markets in 2019 partly due to weak domestic economic conditions. The FTSE/JSE All-Share Index gained 12% in 2019 after losing 8.5% in 2018. Annual gains in the SA equity market have averaged 13.2% each year since the GFC. Resource shares were the clear winner for 2019, while financial shares barely eked out a gain for the year.

The FTSE/JSE Resources Index shot 28.5% higher in 2019, posting its fourth consecutive annual increase in returns. Average annual gains in the index registered above 8% for the period since the GFC. Gold and platinum prices were up 18.3% and 21.5% for the year following contractions of 1.6% and 14.3% in 2018, respectively.

Although consumer demand for jewellery was knocked by weaker confidence in India and China, gold had a strong year supported by central bank purchases in Turkey, Russia and China. Palladium rocketed 54% higher during the year further lifting a number of mining stocks.

Financial shares had a dismal year linked to the poor performance of the domestic economy, with the FTSE/JSE Financials Index only up 0.6% for 2019 after sinking 8.8% in 2018. Nonetheless, average annual returns in the index since the GFC have exceeded that of the resources index at 14.4%.

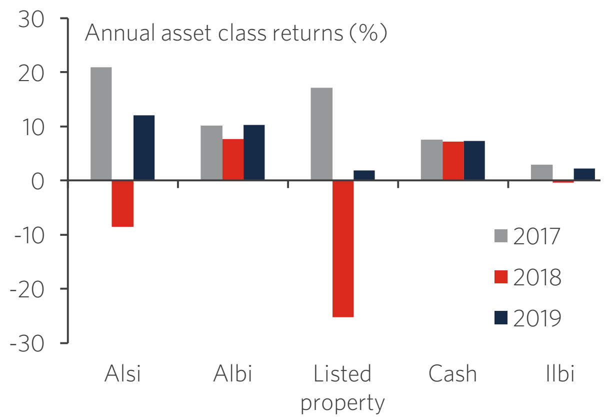
Pedestrian returns of 8.9% were recorded in the FTSE/JSE Industrials Index for 2019, following a plunge in the index of 17.5% in 2018. The general retail sector fell around 20% in 2019 on continued consumer pressure, while construction stocks underperformed on poor building activity, a drying up of contracts and thin margins.

The divergence in the performance of the FTSE/JSE Small-cap Index and the Mid-cap Index grew in 2019.

Small-cap shares ended 2019 4.1% down after crashing 14.6% in 2018, while mid-cap shares rose 15.6% in 2019 after declining by 9.7% in 2018.

The SA 10-year government bond yield rallied 26 basis points in 2019 after selling off 40 basis points in the year before. The JSE Assa All Bond Index (Albi) managed a 10.3% gain for 2019, following a 7.7% rise in 2018, while the JSE Assa Government Inflation-linked Bond Index (Ilbi) edged up only 2.3% higher in 2019 following a 0.4% dip the year before. Meanwhile, the FTSE/JSE SA Listed Property Index managed to end the year in the black at 1.9% after plummeting 25.3% in 2018 (see chart 6).

Chart 6: Returns from local asset classes (%)



Source: Iress, Momentum Investments

A rise in global trade optimism left the rand firmer in December 2019. The rand strengthened by 2.5% against the US dollar in 2019 after depreciating by 13.8% in 2018. The rand was 4.9% firmer against the euro at the end of 2019 after depreciating by 9.7% against the euro in 2018, while the rand extended losses against the pound in 2019 by a further 1.3% following 8.6% the year before.

SA's five-year CDS spread narrowed by 27% during 2019 despite a rising risk of further sovereign rating downgrades to reflect a worsening in trend growth and a deterioration in government finances.

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Partially Vesting Smooth Bonus Range

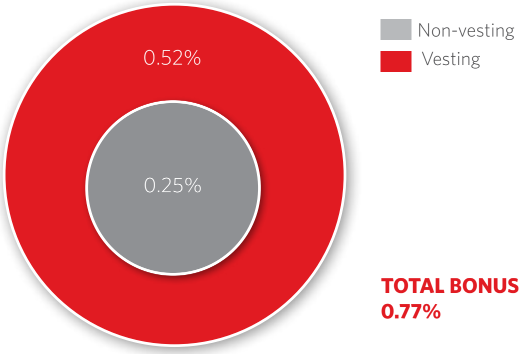
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

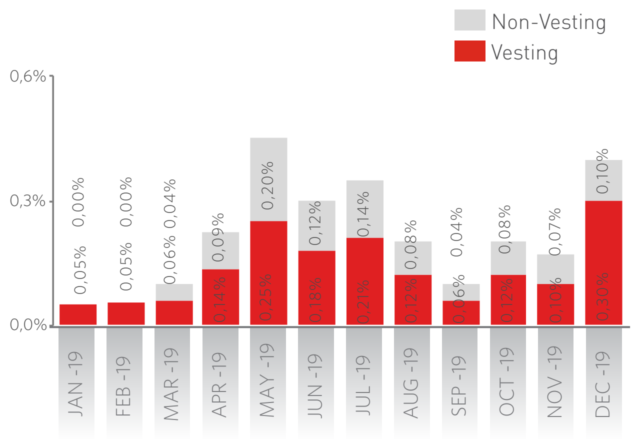
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	97.5% - 102.5%	R12.2bn	0,84%	5,63%

Performance

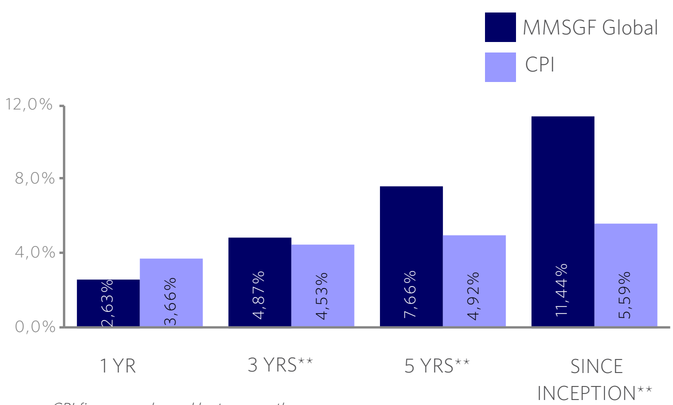
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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

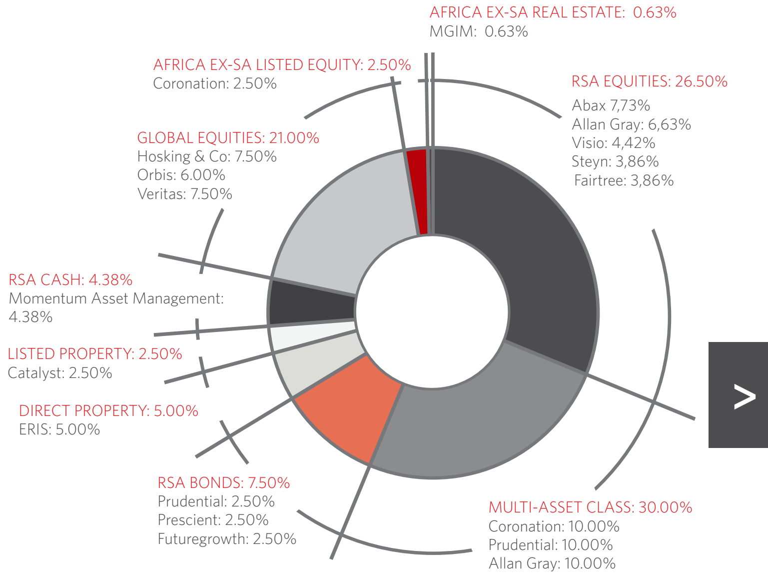


CPI figures are lagged by two months

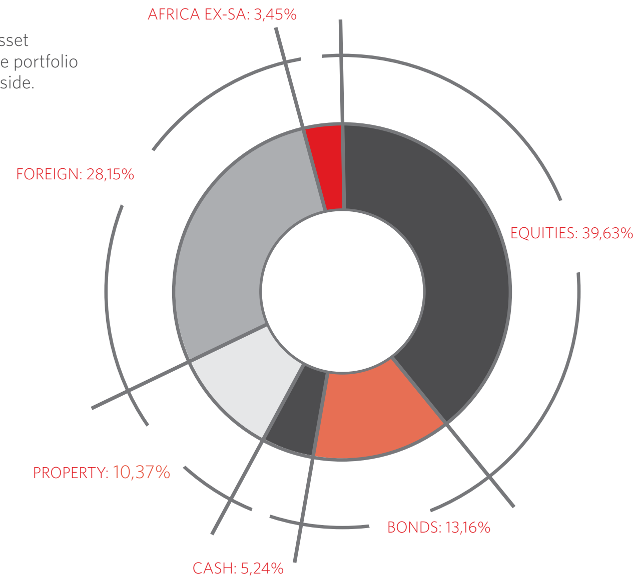
* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

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 in class multi-manager smooth bonus portfolios with independent governance provide just that.

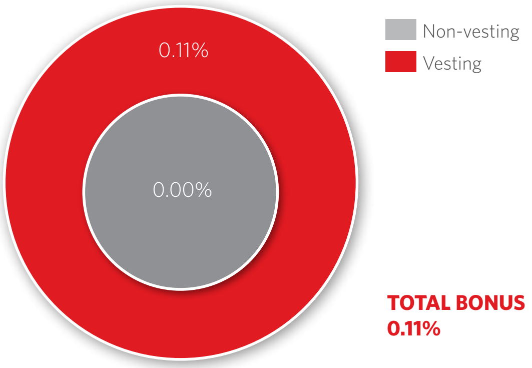
Multi-Manager Smooth Growth Fund Local

Fund Snap Shot

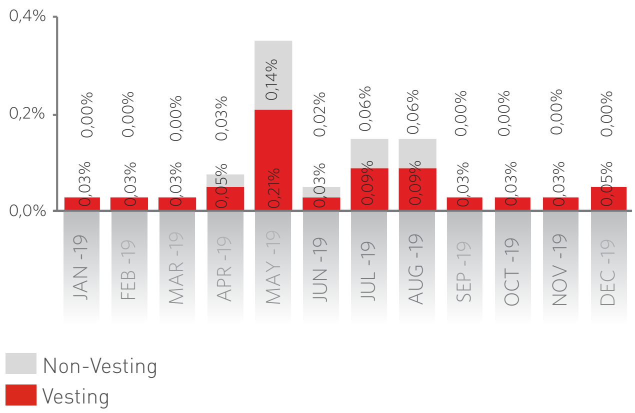
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	97.5% - 102.5%	R171m	1,42%	3,61%

Performance

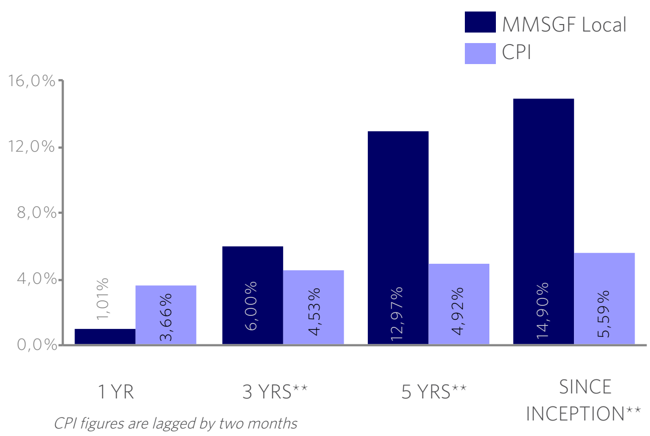
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Local is shown below.



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



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



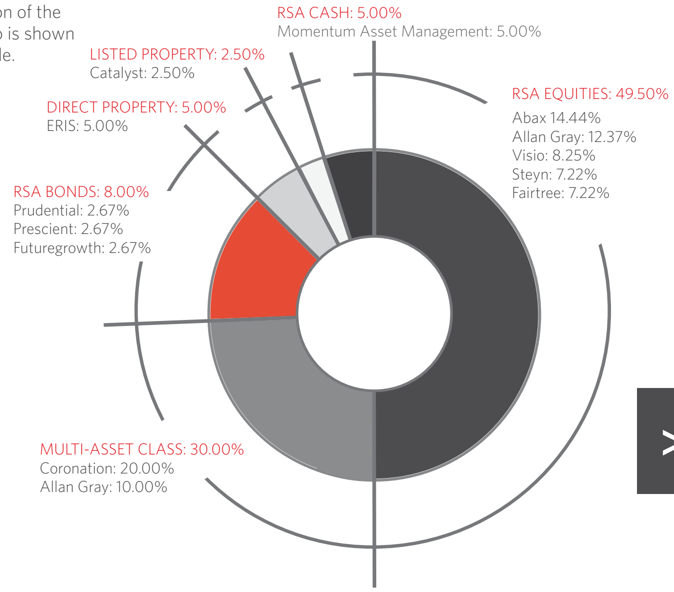
CPI figures are lagged by two months

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

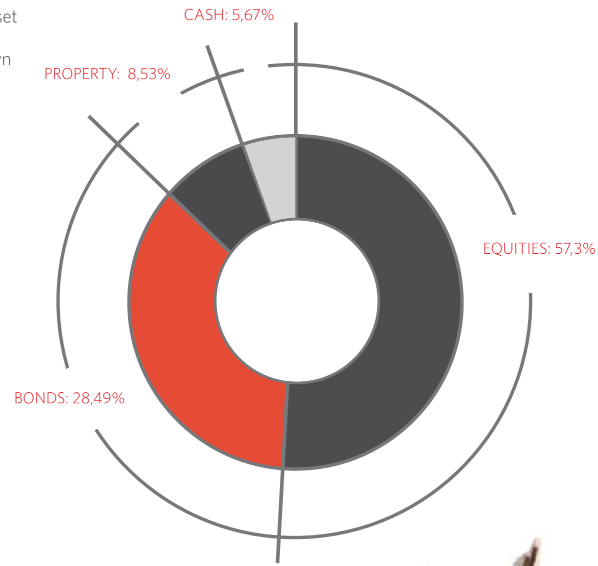
** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



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

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

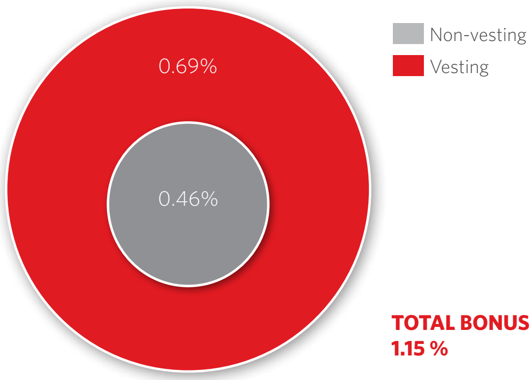
Partially Vesting Smooth Bonus Range
Smooth Growth Fund Global

Fund Snap Shot

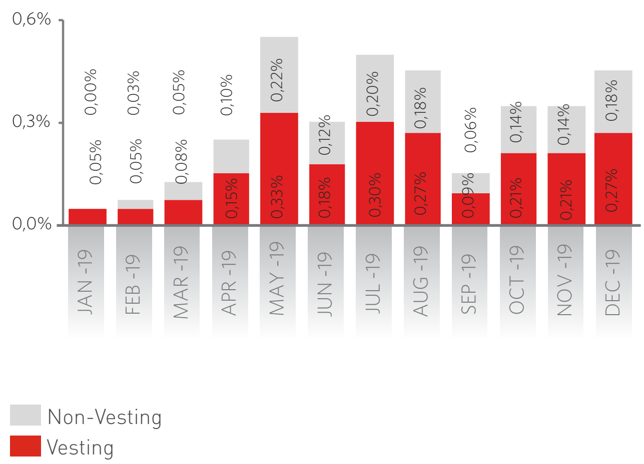
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	100% - 105%	R2.1bn	0,75%	5,71%

Performance

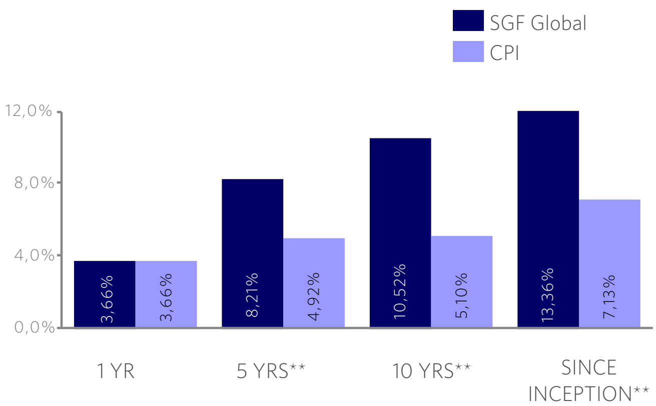
The total bonus* for the past quarter on the Smooth Growth Fund Global is shown below.



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.



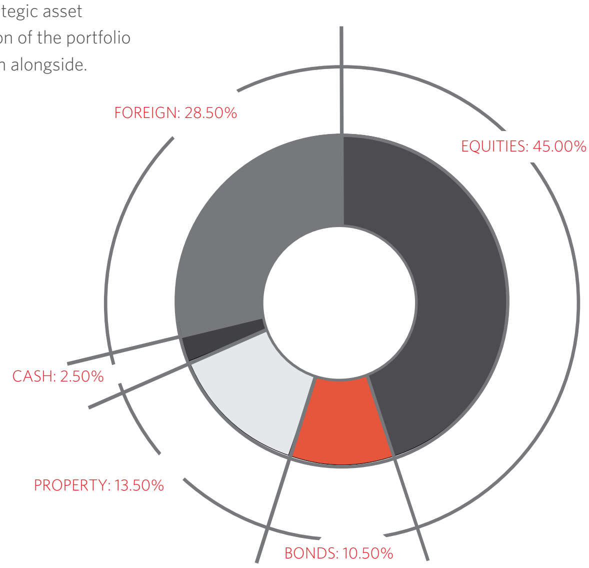
CPI figures are lagged by two months

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

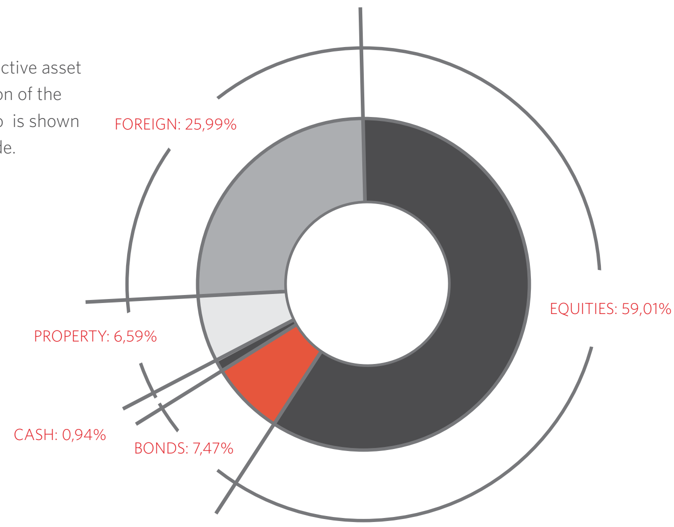
** Annualised

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

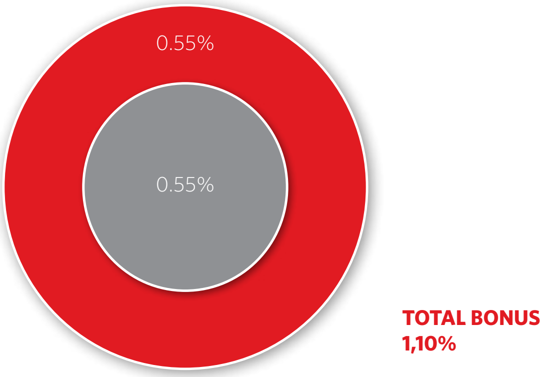
Fund Snap Shot

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%	R75m	0.72% [1]	7.19% [1]

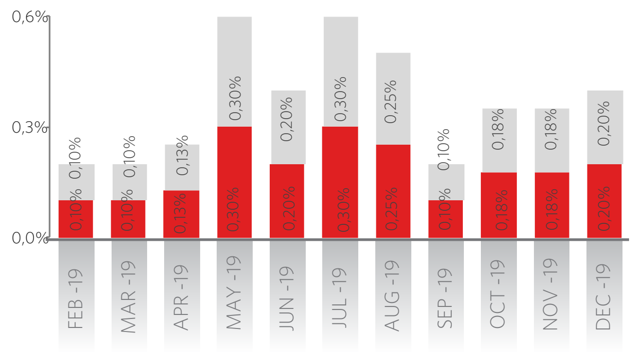
[1]Based on back-tested bonuses and returns

Performance

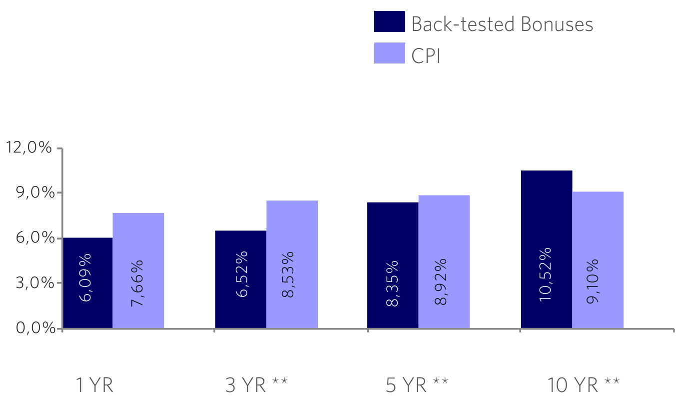
The total bonus* for the past quarter on the Momentum Smooth-Edge Fund is shown below.



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

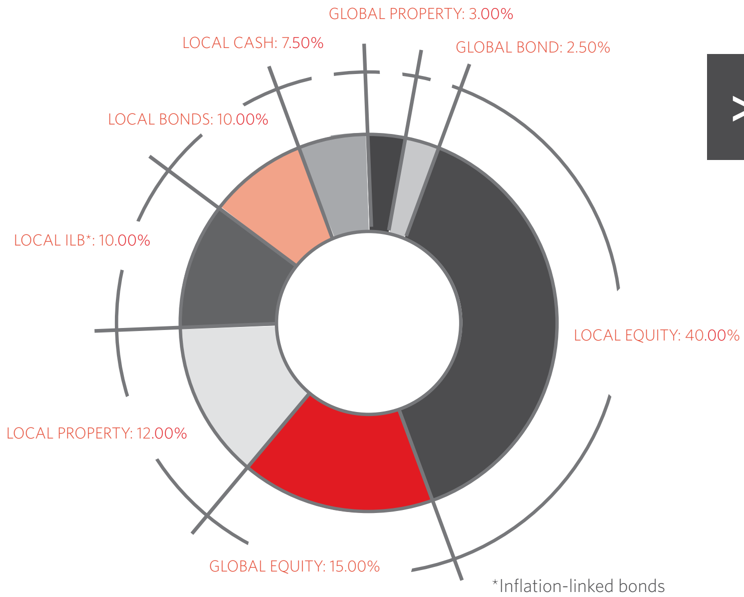
** Annualised

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.

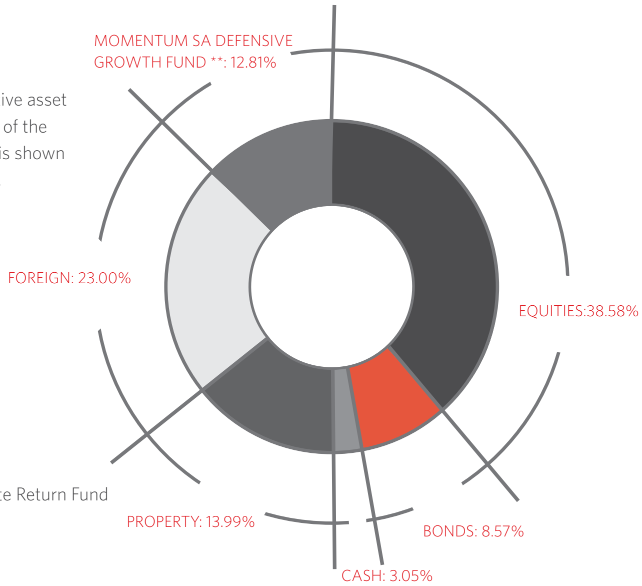
Not only does this solution offer members inflation-beating investment return prospects and protection from market volatility, but the significantly lower capital charge means more money goes directly to the members' retirement savings to bolster their retirement outcomes.

The strategic asset allocation is shown alongside.



*Inflation-linked bonds

The effective asset allocation of the portfolio is shown alongside.



** Absolute Return Fund

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

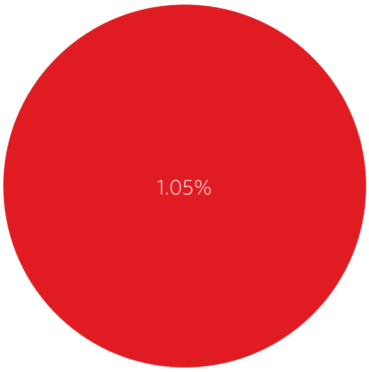
Multi-Manager Secure Growth Fund

Fund Snap Shot

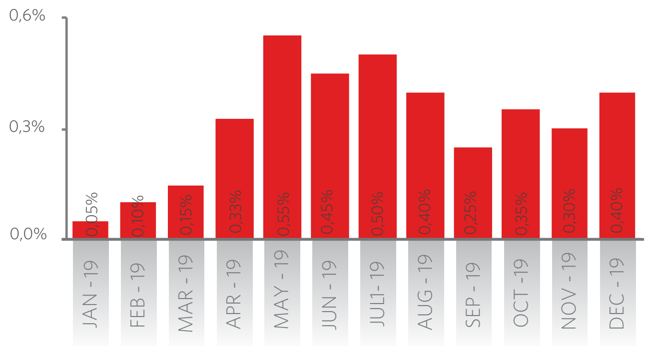
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	102.5% - 107.5%	98m	0,62%	5,13%

Performance

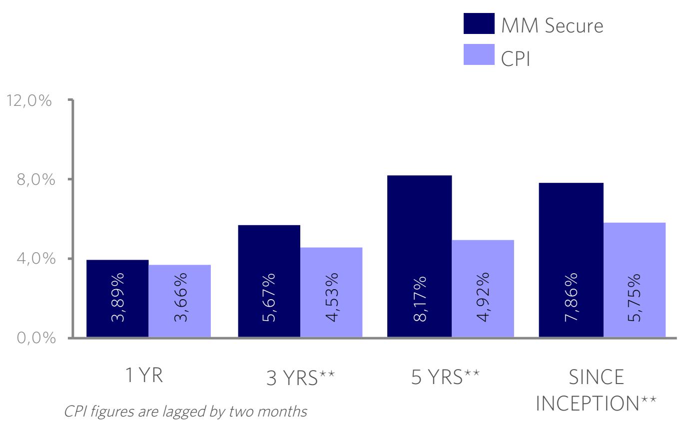
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



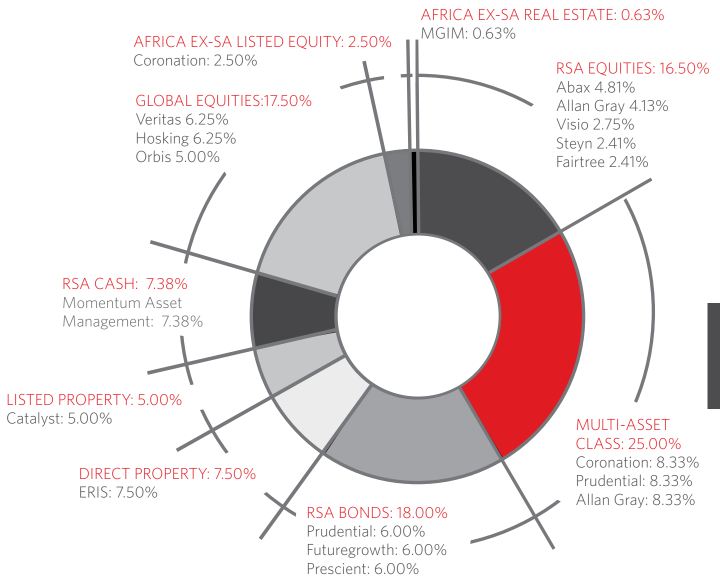
CPI figures are lagged by two months

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

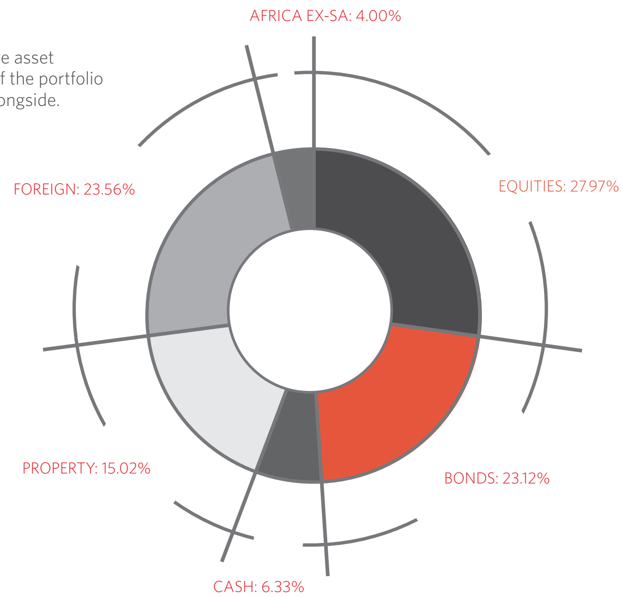
** Annualised

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

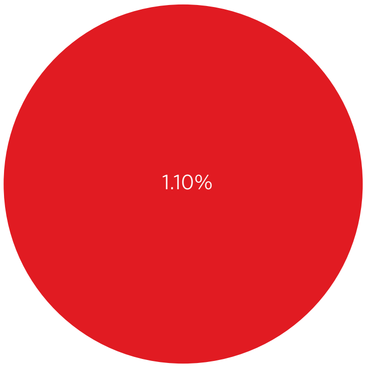
Smart Guarantee + 3 Fund

Fund Snap Shot

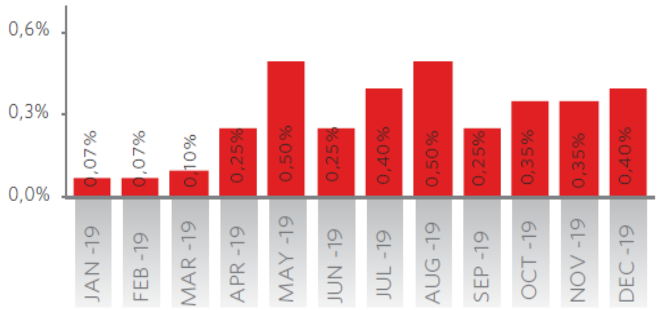
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	97.5% - 102.5%	R403m	0,82%	6,12%

Performance

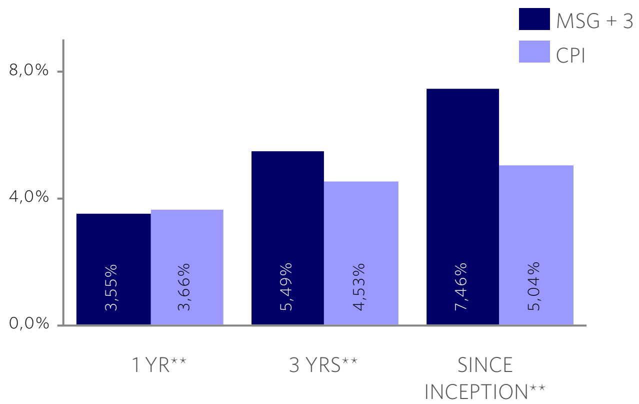
The total bonus* for the past quarter on the Smart Guarantee + 3 Fund is shown below.



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.



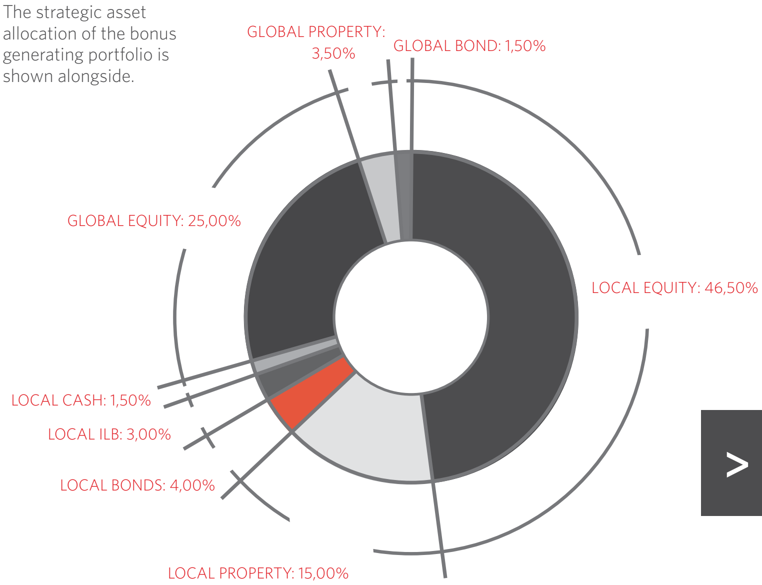
CPI figures are lagged by two months

* 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 Insurer Liability Driven Investment strategy includes a dynamic protection overlay to secure the guarantee.

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

Bonuses to be declared

Given that the monthly bonuses are based on the weighted average of the previous 36 months' returns of the bonus generating portfolio, it is possible to calculate the future bonuses that will be declared under various future investment return assumptions. Assuming zero returns over the following 34 months (there is a 2 month lag), around **5.60%** 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	Insurer Liability Driven Investment	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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