

**momentum**  
corporate

## Smooth Bonus Report

Second Quarter 2020

“With us the safest  
distance between  
two points is also the  
smoothest”





# Looking back over the past quarter

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## Dear valued investors

During the second quarter of 2020, both the South African and global equity markets recovered most of the losses experienced in March 2020 due to the effects of the COVID-19 pandemic let alone the oil price shocks.

Looking ahead there is still much uncertainty in the investment markets. There are a few sectors in the economies that have been decimated and others that have been adversely affected to different degrees. The global shut down of economies around the world has started to be eased with many starting to open up economic activity under strict conditions. The next half of 2020 will prove to be a key indicator as to the path that the global growth is likely to follow.

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

## Momentum Corporate smooth bonus portfolios

Following on from the recovery in the markets, the corporate smooth bonus portfolios have generally strengthened to a funding level in the 90% to 95% range.

Many of our smooth bonus portfolios benefited from capital injections made by Momentum in March and April 2020 to protect vesting funding levels as markets were falling. At that time it appeared that the markets were likely to fall further and various management actions were implemented to further protect policyholders' interests.

At the beginning of June 2020 we launched the Universal smooth bonus range and have presented as such to our various clients. Many of our clients have and are now in the process of taking out new policies to benefit from the stronger funding levels for future contributions.

In these uncertain times, smooth bonus is meeting our investors' needs in providing smoothed returns and removing the volatility that would otherwise be experienced in market-linked investment portfolios. Most importantly, the smooth bonus portfolio provide our investors with a smoother investment journey towards retirement.

If you wish to invest your retirement fund's lump sums and/ or contributions into one of the new 'Universal' portfolios, please contact your Momentum servicing representative or myself, and we will provide further details. As we all work together to overcome the COVID-19 pandemic and deal with these challenging times, we hope that you are keeping safe.

Warm regards

*Steed  
Duncan-Smith*

Client Relationship Manager  
Momentum Corporate







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# Introducing the Universal Smooth Bonus Range

by Pavit Ramnarain and Ankia Pietersen

## Introduction

On 1 June 2020, Momentum Corporate launched the Universal Smooth Bonus Range as an alternative to launching new bonus series for select smooth bonus portfolios. The portfolios in the Universal Smooth Bonus Range are based on the existing smooth bonus portfolios which were closed to new inflows following the drop in funding level as a result of the March 2020 market crash. Changes were made to the product design to ensure that the Universal Smooth Bonus Range continue to meet the needs of our clients and their members.

The table below shows the portfolios comprising the Universal Smooth Bonus Range with the existing portfolio on which it is based shown alongside.

Universal Smooth Bonus Portfolio	Existing portfolio on which it is based
Universal Multi-Manager Smooth Growth Fund (Universal MMSGF)	Multi-Manager Smooth Growth Fund Global (MMSGF Global)
Universal Smooth Growth Fund (Universal SGF)	Smooth Growth Fund Global (SGF Global)
Universal Smooth-Edge Fund (Universal Smooth-Edge)	Momentum Smooth-Edge Fund (Smooth-Edge)

## Differences between the Universal Smooth Bonus Range and the existing range

The Universal Smooth Bonus Range represents a simplification in the design of the existing range relating to how funding levels are tracked. The existing portfolios track a portfolio funding level and a separate funding level for each client. The Universal Smooth Bonus Range only tracks a portfolio funding level. Individual clients will therefore no longer have their own funding level in the Universal Smooth Bonus Range but will instead be subject to the funding level of the portfolio. Market value adjustments under the Universal Smooth Bonus Range will be based on the portfolio funding level as there will no longer be individual client funding levels. Market value adjustments will therefore apply on non-insured benefit payments when a Universal Smooth Bonus portfolio is underfunded.

In addition to the above, the Universal Smooth Bonus Range has different product closure rules and uses a bonus smoothing philosophy better suited to its design. These controls are in place to manage cross-subsidies and anti-selection.

Apart from the differences highlighted above, the remaining key features of the Universal Smooth Bonus Range are the same as the existing portfolios on which they are based. These key features include the guarantee on benefit payments, the investment management approach, the strategic asset allocation, the investment manager line-up, the performance objective and the standard fees and charges.

Given the difference in the way funding levels are tracked for the Universal Smooth Bonus Range and the existing portfolios, there is no intention of merging these portfolios in the future.

## Implications for the existing portfolios and its clients and members

Following the launch of the Universal Smooth Bonus Range, Momentum Corporate permanently closed MMSGF Global, SGF Global and Smooth-Edge to new investments, effective 30 April 2020. The only inflows permitted into the closed portfolios are recurring contributions from existing clients, which are made on behalf of existing members. Neither new clients nor existing clients may invest in the portfolio on behalf of new members. Existing clients may request that future recurring contributions be directed into one of the Universal Smooth Bonus portfolios.

## Universal Smooth Bonus Range snapshot at 30 June 2020

A snapshot of the Universal Smooth Bonus Range is presented overleaf. All three portfolios were launched in June 2020 with a 100% funding level.

The Universal Smooth Bonus Range was launched as an alternative investment option for our clients given the effect of the March 2020 market crash on our portfolio funding levels. The Universal Smooth Bonus Range is a simplification of our existing design to enhance transparency and understanding. We trust that these portfolios will continue to meet the needs of our clients and their members.

*Davit Ramnarain*

**Product Development  
Team Leader**  
Structured Solutions



The fund fact sheets for the Universal Smooth Bonus Range are available on our website. If you wish to invest in one of the new Universal Smooth Bonus Portfolios or would like additional information, please email us: [emailus@momentum.co.za](mailto:emailus@momentum.co.za).

*Ankia Pieteresen*

**Product Specialist**  
Structured Solutions

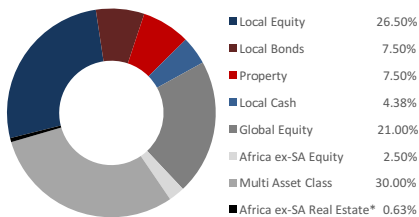


## Universal Smooth Bonus Range snapshot at 30 June 2020

The strategic asset allocation and back-testing bonuses at 30 June 2020 are shown below for the respective Universal Smooth Bonus portfolios. The back-testing bonuses are net of the underlying asset charges but gross of the policy fee / investment management fee. The CPI figures were based on the latest available figures (31 March 2020) at the time of back-testing.

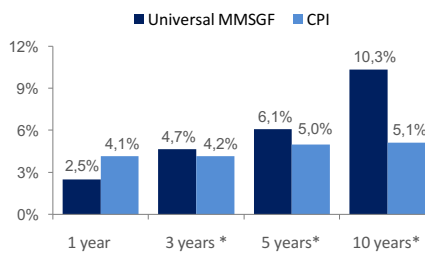
### Universal MMSGF

#### Strategic Asset Allocation



\*Expected to increase gradually to 2.5%

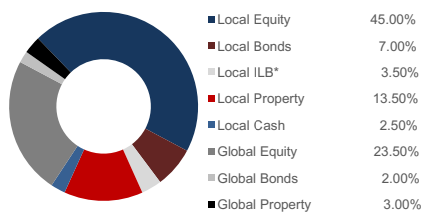
#### Back-tested Bonuses



\*Annualised

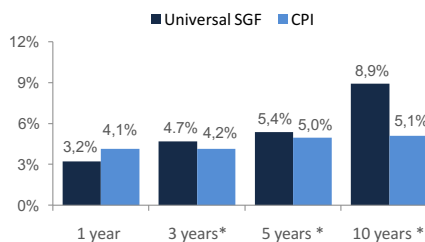
### Universal SGF

#### Strategic Asset Allocation



\*Inflation-linked bonds

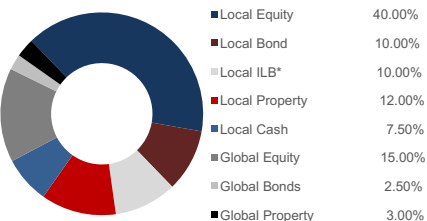
#### Back-tested Bonuses



\*Annualised

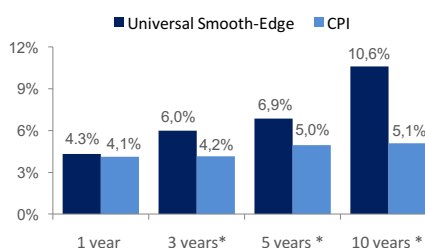
### Universal Smooth-Edge

#### Strategic Asset Allocation



\*Inflation-linked bonds

#### Back-tested Bonuses



\*Annualised

## Highlights

### Markets

- The mood in global financial markets sweetened in the past quarter in reaction to a rapid and sizeable intervention by policymakers to counter the negative effects of the COVID-19 pandemic on health and economic outcomes.
- The MSCI All Country World Index shot up 19.2% in the second quarter of the year, buoyed by equally strong returns from developed markets (DMs) and emerging markets (EMs).
- The local equity market staged a firm recovery of 23.2% in the second quarter. The FTSE/JSE Resources Index rocketed 41.2% in the three months ending June 2020, followed by a 16.6% rise in the FTSE/JSE Industrials Index, while the FTSE/JSE Financials Index trailed at 12.9%.
- The JSE Assa All Bond Index climbed 9.9% in the quarter, while the JSE Assa Government Inflation-linked Bond Index traded 17.7% firmer for the same period. Meanwhile, the FTSE/JSE SA Listed Property Index recouped 20.4% since the end of March 2020.
- History has warned about a quick rebound in earnings. The current optimistic consensus could be in for a negative surprise given the disconnect between share prices and expected company profits against a backdrop of prevailing uncertainties. The bond market and the rand have nevertheless maintained a risk off profile during this period given concerns on the outlook for the economy.
- Although United States (US) equity market valuations appear expensive relative to their own history, they are still far more attractive than bond valuations. We remain cautious of South African (SA) equities as they are likely to take their lead from global equities during a risk-off drawdown period, but we are positive beyond that.
- We favour SA nominal bonds relative to inflation-linked bonds in the near term given the expected slowdown in inflation, but break-evens are likely to expand with an anticipated rise in inflation in 2021.
- The relative rating of SA listed property to nominal bonds is still at historical extremes, suggesting a lot of bad news is already being discounted. We remain cautious in the interim if there is a further leg down in risky assets, but we see the return profile as asymmetric to the upside beyond that.

# Momentum Investments market commentary for the quarter ending 30 June 2020

by **Sanisha Packirisamy and Herman van Papendorp**

### Economics

- As the world thaws from the containment measures which froze economic activity, economic surprises have started to turn up in a number of economies. However, positive data surprises are not yet a global trend and sharp increases in the number of daily new cases in some countries have halted an easing in restrictions, causing positive data surprises to roll over in some geographies.
- Although a sizeable fiscal response was triggered in DMs and EMs, EMs had fewer resources to deploy in this crisis. As such, a number of economies may operate below their potential beyond 2021 and the divergence between richer and poorer nations is likely to grow.
- Monetary policy measures are likely to steady financial markets and spur inflation on asset prices, but the effects on investment, growth and consumer price inflation are likely to be diluted.
- The COVID-19 pandemic has aggravated SA's already severe socio-economic and political challenges. With the effectiveness of government's stimulus package being stymied by administrative challenges, the economy is still likely to contract by a sizeable 8.1% this year. We only see the economy recovering by 2% in 2021.
- In the case of SA, we anticipate a further drop in headline inflation to around the 2% mark on pressured incomes causing a drop in demand. Inflation is likely to average 3% in 2020 before rising to 3.6% in 2021, in our view.
- We see room for up to 50 basis points worth of easing in the repo rate in 2020 in light of dismal growth and well contained inflation.



## Risky assets hopeful for a fast recovery, but history warns otherwise

The mood in global financial markets sweetened in the past quarter in reaction to a rapid and sizeable intervention by central banks and governments around the world to counter the negative effects of the COVID-19 pandemic on health and economic outcomes. Nevertheless, the big question looming is whether financial markets (equities in particular) have moved too far and too fast, particularly against a backdrop of elevated global policy uncertainty, economic data that continues to surprise to the downside in a number of geographies and a resurgence in COVID-19 cases in key economies.

The CBOE Volatility Index (Vix), or fear gauge, retraced 23 points in the second quarter of the year to 30 points as stimulus measures announced by policymakers soothed unsteady markets. The MSCI All Country World Index shot up 19.2% in the second quarter of the year, buoyed by equally strong returns from DMs and EMs. The MSCI DM Index clawed back 19.4% in the second quarter of the year after losing a fifth of its value in the first quarter. The S&P 500 Index gained 20.5% in the three months ending June 2020, which was the largest quarterly gain experienced since the final quarter of 1998. The Nikkei 225 Index followed suit, rising 18% with the Eurostoxx 50 Index hot on its heels, printing a 17.8% return for the second quarter of the year. The MSCI EM Index enjoyed a similar rebound, gaining 18.1% in the second quarter, with notable gains across the Emerging Asia (17.8%), Latin America (19.1%) and Europe, Middle East and Africa (18.9%) composites.

Meanwhile, global fixed income markets ignored the optimism priced in by equity markets, with DM government bond yields largely trading sideways for the quarter. The US 10-year government bond yield ended June 2020 only marginally higher than its all-time low, at 0.7%, while the German 10-year government bond yield traded in negative territory for the duration of the quarter.

As investor fears subsided in the second quarter of 2020, the JP Morgan EM Bond Index (Embi) spread narrowed by around 165 points. India, Thailand and Russia were among the countries to experience the largest improvement in credit default swap (CDS) spreads since the end of March 2020.

The local equity market followed global markets lower in the first quarter of 2020, but staged a firmer recovery of 23.2% in the second quarter. The FTSE/JSE Resources Index rocketed 41.2% in the three months ending June 2020, outperforming the Bloomberg Commodity Index gain of only 5.1% for the same period. The international price of gold and platinum lifted 11.9% and 13.5%, respectively, in the corresponding period, while Brent crude oil prices recovered 37.4%.

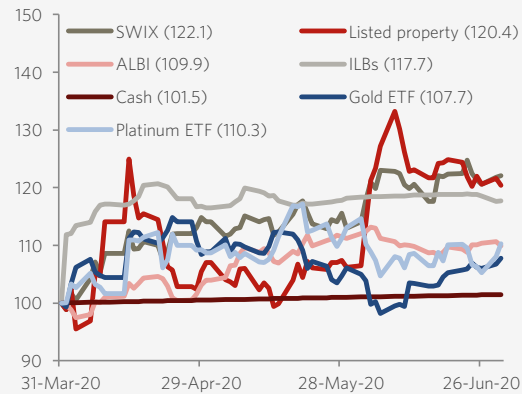
The FTSE/JSE Industrials Index rose 16.6% in the quarter, while the FTSE/JSE Financials Index trailed at 12.9%.

In SA's fixed income markets, the 10-year government bond yield rallied 155 basis points despite the significant ramp up in projected debt outlined in treasury's June 2020 Supplementary Budget

Review. The JSE Assa All Bond Index climbed 9.9% in the quarter, while the JSE Assa Government Inflation-linked Bond Index traded 17.7% firmer for the same period.

Meanwhile, the FTSE/JSE SA Listed Property Index recouped 20.4% since the end of March 2020 (see chart 1).

**Chart 1: Returns from local asset classes (%)**



Source: Iress, Momentum Investments, data up to 30 June 2020

Despite intra-quarter volatility, the rand only weakened by 2.9% against the US dollar, 1.1% against the euro and 2.9% against the pound in the second quarter of the year. SA's five-year CDS spread shifted 143 points above levels seen at the end of 2019, but retraced from the intra-quarter high of 497 points in early April 2020.

History has warned about a quick rebound in earnings. The current optimistic consensus could be in for a negative surprise given the disconnect between share prices and expected company profits against a backdrop of prevailing uncertainties and risks. In our view, company profits are likely to be constrained by lingering pandemic risk aversion, higher business costs to operate in a hygienic and safe environment, fewer share buybacks, increased share issuance and potentially higher corporate taxes. The notable rebound in equities since 23 March 2020 was likely driven by a positive reaction to the slew of monetary and fiscal policy actions flung at the crisis, while short covering likely accentuated the speed and magnitude of the rebound. Nevertheless, more than 60% of the stimulus undertaken by the US Federal Reserve has been negated by banks' hoarding, which has limited the positive effect of the stimulus on the real economy through lending to households and corporates.

The robust equity market performance observed since its low point has been at odds with typical recession behaviour. The bond market and the rand have nevertheless maintained a risk off profile through this period given concerns on the outlook for the economy. Although US equity market valuations appear expensive relative to their own history, they are still far more attractive than bond valuations with relative valuations going back to extremes last observed during the Second World War. Moreover, risky assets typically outperform at the low point in a cycle and when inflation is running below trend.

The SA equity market performed in line with global markets during the sell-off, but staged a firmer rebound following the initial bottom in markets. The SA equity market looks about 1 standard deviations expensive against the average since 1999 if a 15% fall in earnings is assumed for the next year. We remain cautious of SA equities as they are likely to take their lead from global equities lead during a risk-off drawdown period, but we are positive beyond that.

We continue to favour SA bonds. SA real bond yields look very attractive relative to those in DMs and EMs, but part of the high real yield differential is due to SA's fiscal risk premium. Relative to historical averages, SA real bond yields and yield spreads are at multiple-sigma attractive levels. We favour nominal bonds relative to inflation-linked bonds in the near term given the expected slowdown in inflation, but break-evens are likely to expand with an anticipated rise in inflation in 2021. Due to aggressive interest rate cuts by the SA Reserve Bank (Sarb) since the start of the year, prospective SA real cash yields have fallen to around historical averages.

Within SA listed property, we assume a 20% decline in property values within a three-year timeframe, relative to what share prices, at the time of writing, were discounting (a 28% decline in property values). The relative rating of listed property to nominal bonds is still at historical extremes, suggesting a lot of bad news is already being discounted. In line with our near-term views on risky assets, we remain cautious in the interim if there is a further leg down, but we see the return profile as asymmetric to the upside beyond that.

## Unfreezing the global economy

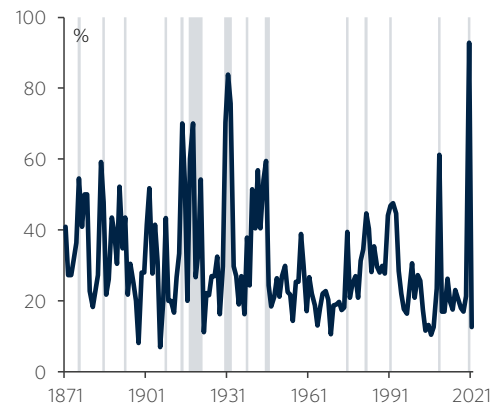
The outbreak of the COVID-19 pandemic and subsequent actions by governments around the world to restrict the movement of people has paralysed large parts of the global economy. According to the United Nations, more than 90% of the world economy came under some form of lockdown by the middle of April 2020. However, only 17.7% of the global economy was still under lockdown for a period longer than eight weeks as growing concerns over livelihoods rivalled efforts to protect lives.

Risk aversion in financial markets rose substantially at the outset of the COVID-19 outbreak, but has eased recently in spite of global policy uncertainty touching new highs. As the world thaws from the containment measures which froze economic activity, economic surprises have started to turn up in a number of economies, however positive data surprises are not a global trend as yet and sharp increases in the number of daily new cases in some countries have halted an easing in restrictions, causing positive data surprises to roll over in some geographies.

Difficulties in reopening economies, which have faced a resurgence in infection rates, have translated into ongoing challenges for economic forecasting. The World Bank notes the speed and magnitude of growth forecast downgrades since April 2020 have been unprecedented, even when compared to the 2008 Global Financial Crisis (GFC).

While this is not the deepest recession in history (the recessions associated with the First World War, the Great Depression and the Second World War were larger in magnitude relative to the expected contraction for 2020), it is anticipated to be the broadest. The COVID-19 pandemic is expected to plunge a majority of the world's countries into a recession this year with per capita output contracting in 93% of 183 countries (see chart 2).

**Chart 2: 93% of economies expected to experience a contraction in per capita output in 2020**



Source: World Bank, Momentum Investments

The World Bank notes that biological and natural disasters, wars and financial crises tend to have lingering scarring effects on the economies affected. This is the result of a sluggish recovery in fixed investment spending in light of heightened uncertainty and a significant hit to labour and total factor productivity. Capital and workers from impaired sectors will have to move towards expanding ones, but a number of failed firms and sustained higher unemployment could be met along the way.

Globalisation was in trouble even before the COVID-19 pandemic hit, particularly as the trade war between the US and China escalated. An overreliance on concentrated global supply chains was illuminated in the COVID-19 crisis and as such a more fractured global trade backdrop is likely to emerge. This will narrow market opportunities and lower the rate of technology transfer and total factor productivity which buoyed growth in EMs since the turn of the century. As such, we believe the COVID-19 setback in EM will exacerbate the already stalling income convergence with DMs.

Consequently, a number of economies may operate below their potential beyond 2021 and the divergence between richer and poorer nations is likely to grow. Although a sizeable fiscal response was triggered in DMs and EMs, EMs (particularly low-income countries which faced debt distress even before the COVID-19 pandemic) had fewer resources to deploy in this crisis. Central banks have also responded swiftly to COVID-19 by cutting interest rates. Like many advanced economies, some EMs possess little room to cut interest rates further.





Although EMs have deployed macro-prudential policy tools in the past during the GFC and again during the 2013 Taper Tantrum, buying corporate and government bonds was a first for most. Central banks have further eased regulatory restrictions to help play a more supportive role during the pandemic.

Nevertheless, as was the case in the GFC, monetary policy measures are likely to steady financial markets and spur inflation on asset prices, but the effects on investment, growth and consumer price inflation are likely to be diluted. During the GFC, the United Nations noted that global liquidity per capita increased by 116% in real terms between 2007 and 2018, while global gross domestic product (GDP) per capita only picked up by 15% in the same period. Per capita investment rose by a mere 5% and foreign direct investment on a per capita basis sank 66% in the corresponding period. Less than 40% of the stimulus unleashed by the US Federal Reserve during the COVID-19 crisis has ended up in the real economy through lending to households and businesses, while the remainder has been held back as reserves.

Instead of the rise in quantitative easing creating a surge in the inflation rate of goods and services, the negative output gap is expected to exert disinflationary forces on the global economy in the coming quarters. COVID-19 anxieties have temporarily displaced a number of investor concerns which featured prominently at the start of the year. In the latest Bank of America Merrill Lynch June 2020 Fund Manager Survey, nearly half of the respondents feared a second wave of COVID-19 as the main downside risk, while only a tenth saw the outcome of the 2020 US presidential election as the most important threat.

Trade tensions may ratchet up in the coming months leading to the elections as President Donald Trump and Democratic nominee Joe Biden tussle over who will take a tougher stance on China. In recent months, the US and China have hit out against each other over a wider range of issues, from exports and technology to the origin of the global COVID-19 pandemic and the autonomy of Hong Kong. The Peterson Institute for International Economics suggests that a sustained trade war between the US and China will result in a US\$301 billion loss in global income by 2030, but Asia-Pacific trade deals would add US\$383 billion during the same period.

In the United Kingdom (UK), COVID-19 fears have overcome Brexit fears. HSBC noted that 80% of UK firms surveyed considered COVID-19 as one of their top three sources of business uncertainty in June 2020, while only 35% ranked Brexit uncertainty as one of their top three concerns, in comparison to 60% at the start of 2019. In our view, a partial trade deal or an extension would spell continued uncertainty for the UK, dampening investment and growth.

## A fiscal reckoning looms in SA

The COVID-19 pandemic aggravates SA's already severe socio-economic and political challenges. Even before the outbreak, SA faced a sluggish growth trajectory, an extended fiscal deficit, depressing unemployment levels and elevated socio-economic inequality.

SA's first confirmed case of COVID-19 was registered on 5 March 2020, but government acted swiftly to impose one of the strictest lockdowns globally on 26 March 2020. Initially the decision to impose a State of Disaster on 15 March 2020 and stringent containment measures were broadly supported given SA's healthcare challenges and demographic profile. The Organisation for Economic Cooperation and Development (OECD) notes that more than a third of SA's population suffers from hypertension, about 4.5 million people have diabetes and more than 70% of females (and 40% of males) are classified as overweight or obese. Studies suggest these factors accentuate morbidity risks with COVID-19. Moreover, a significant inequality in accessing healthcare exists in SA. The OECD claims even though the private sector accounts for half the country's spending on health, it only covers 17% of the total population.

Support for government's stringent approach was soon criticised as production cutbacks and a slump in demand followed. Although the Ask Afrika survey indicated a drop in President Cyril Ramaphosa's popularity from 75% in the fourth week of the national lockdown to 69% in the ninth week, trust in the president's ability to lead the country remains high.

Like many countries around the world, the lockdown has had devastating consequences for business activity. Initial business surveys by Statistics SA showed that 85% of firms reported turnover below normal levels in early April (level five restrictions), while more than 45% reported a pause in trading activity (temporary closure). Tourism, construction, real estate, transport and manufacturing were among the hardest hit sectors, but as the economy shifted to level three restrictions, Absa estimated that up to 90% of the manufacturing sector was back up and running and this was confirmed in the recovery in the Purchasing Managers' Index for June 2020.

Although government responded swiftly by implementing a stimulus plan amounting to 10% of GDP to support households and businesses, it has had its limitations. According to the Department of Employment and Labour, only R23 billion of the R40 billion Unemployment Insurance Fund relief payments were disbursed to 3.7 million workers by the middle of June 2020. The department's biggest fear at this stage is the number of jobs that are likely to be shed and the strain that will follow on the fund in the future. Similarly, the Department of Small Business Development had disbursed only half its R2 billion budget in the same period and commercial banks have only lent out R10 billion of the loan guarantee scheme. BusinessTech reported that although 3.2 million applicants had been approved for the additional social security benefits, the SA Social Security Agency had only paid 1.2 million by the middle of June 2020.

Moreover the Ask Afrika survey shed light on consumer vulnerability during the early stages of the lockdown. A third of respondents noted they would consider downscaling insurance and medical aids, 43% were considering retrenching their gardeners and domestic help due to financial pressures (having a knock on effect on unemployment) and half of respondents were borrowing money from family, friends or loan sharks.

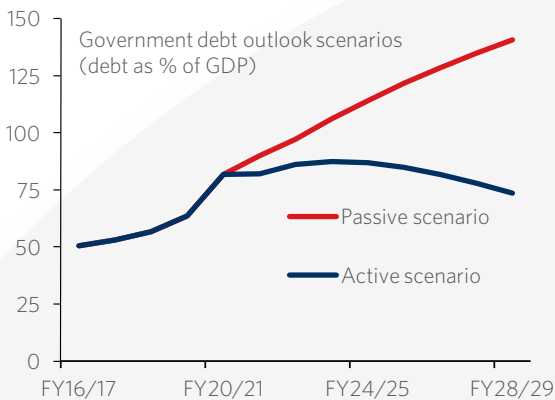
Of those respondents experiencing food insecurity, only one fifth had received a food parcel from government.

With the effectiveness of government's stimulus package being stymied by administrative challenges, the economy is still likely to contract by a sizeable 8.1% this year. Expected business closures, particularly small and medium enterprises in the informal economy, and lingering unemployment will weigh on the economic recovery in our view and as such we only see the economy growing at 2% in 2021.

In the June 2020 Supplementary Budget Review, treasury showed SA's public finances to be dangerously overstretched. For every R1 collected in revenue in fiscal year (FY) 2020/21, government is expected to spend 21 cents on debt-service costs. Debt-service costs are close to double the share being spent on capital assets and similar in size to what government spends on health services.

In its budget, government considered two main scenarios. In the active approach, government proposes major reforms and fiscal consolidation to help rapidly stabilise debt in FY23/24, while in the passive approach SA stays on its current trajectory and debt spirals out of control (see chart 3).

**Chart 3: SA's mounting debt**



Source: Treasury, Momentum Investments

Monetary policy has played its role in the COVID-19 crisis. By June 2020, the SA Reserve Bank (Sarb) had lowered interest rates by 275 basis points since the start of the year in comparison to the median EM central bank move of 100 basis points. The Sarb also made liquidity available to banks through a range of facilities and provided regulatory relief to the financial sector to encourage the flow of credit to businesses and households. It also purchased government bonds in secondary market to the order of 0.6% of GDP to improve the functioning of fixed income markets.

In a speech to the Wits School of Governance on 18 June 2020, the Sarb governor reiterated symmetric price stability mandates are used by modern central banks and as a result central banks aim to avoid too high or too low inflation. In the case of SA, we anticipate a further drop in headline inflation to around the 2% mark on pressured household incomes causing a drop in demand. Inflation is likely to average 3% in 2020 before rising to 3.6% in 2021, in our view.

With the exception of administered prices, drivers of inflation are largely pointing to the downside. Although further interest rate cuts are likely to have a limited effect on demand, further monetary policy easing could help indebted consumers and provide a marginal boost to depressed confidence levels.

We see room for up to 50 basis points worth of easing in the repo rate in light of dismal growth and well contained inflation.



*Sanisha Packirisamy*  
**Economist**  
 Momentum Investments



*Herman van Papendorp*  
**Head: Macro Research and Asset Allocation**

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

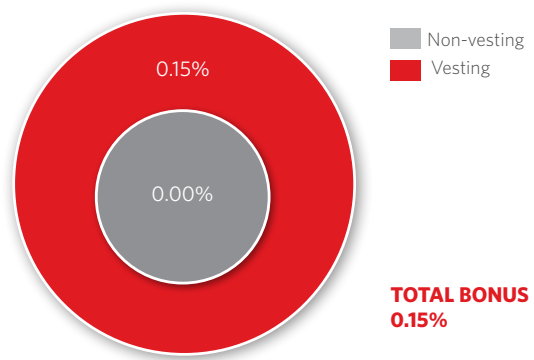


## Fund Snap Shot

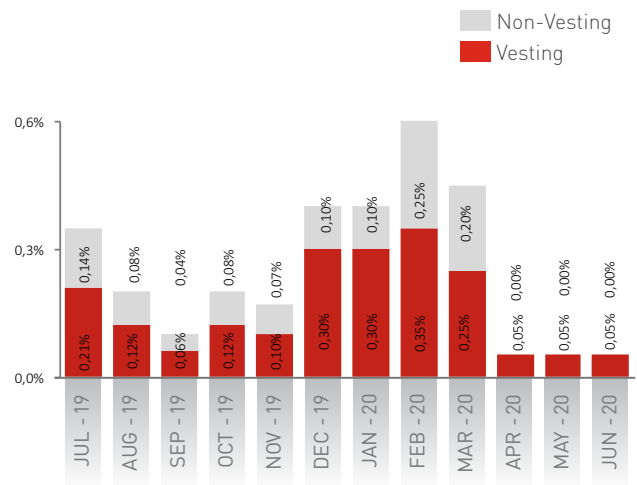
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	90% - 95%	R11.4bn	0,90%	1,95%

### Performance

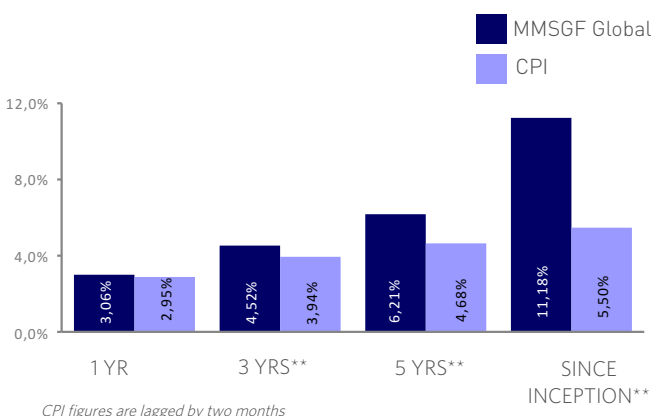
The total bonus\* for the past quarter on the **Multi-Manager Smooth Growth Fund Global** is shown below.



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



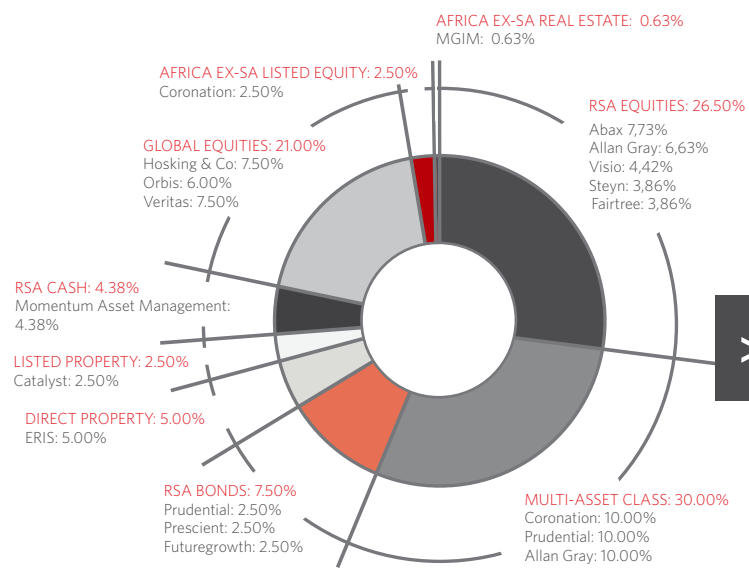
The chart below shows the long term bonus\* performance of the **Multi-Manager Smooth Growth Fund Global** against CPI



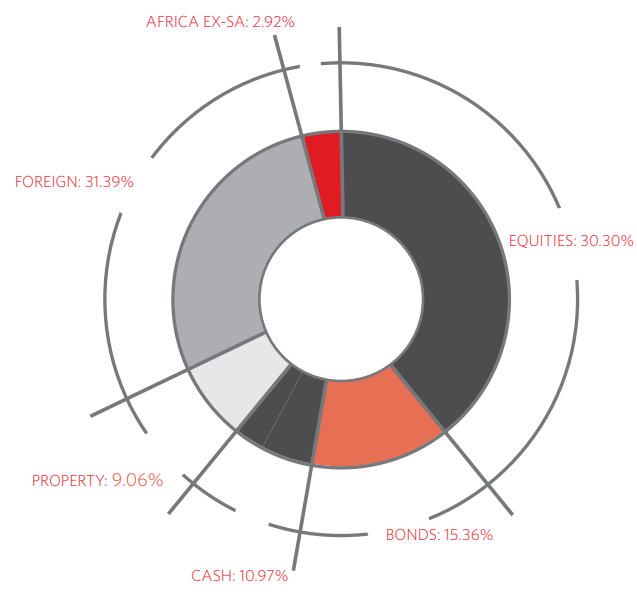
\* Bonuses are net of underlying asset charges but are gross of the policy fee  
\*\* Annualised

### 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.





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

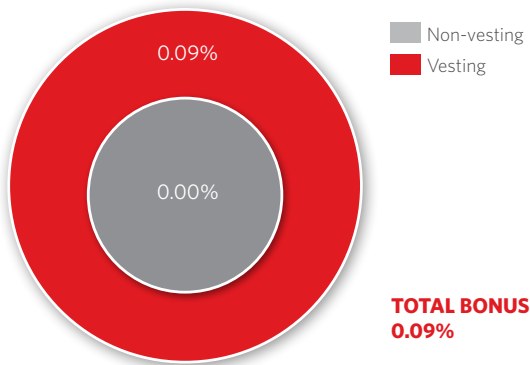


## Fund Snapshot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	85% -90%	R159m	1,22%	-1,6%

## Performance

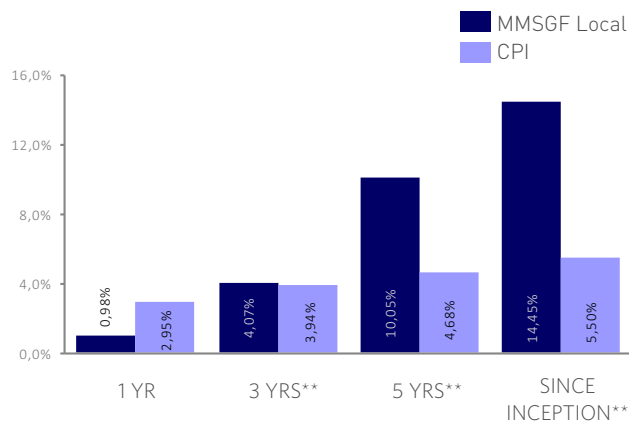
The total bonus\* for the past quarter on the **Multi-Manager Smooth Growth Fund Local** is shown below.



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

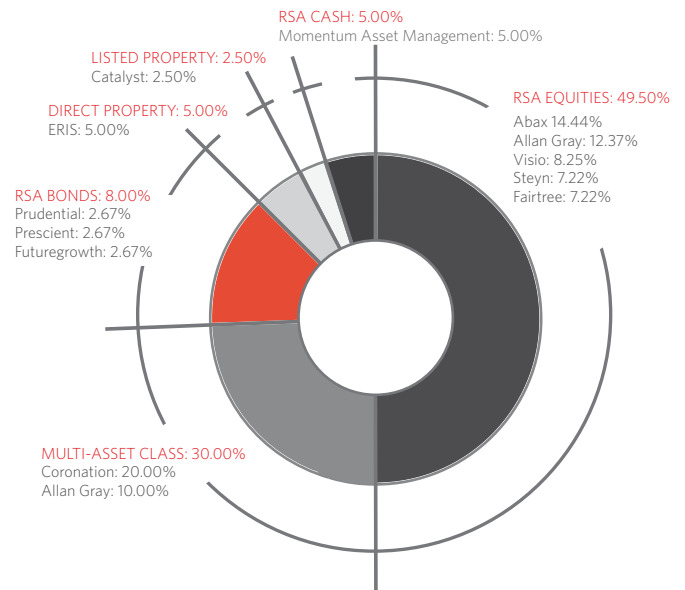


The chart below shows the long term bonus\* performance of the **Multi-Manager Smooth Growth Fund Local** against CPI

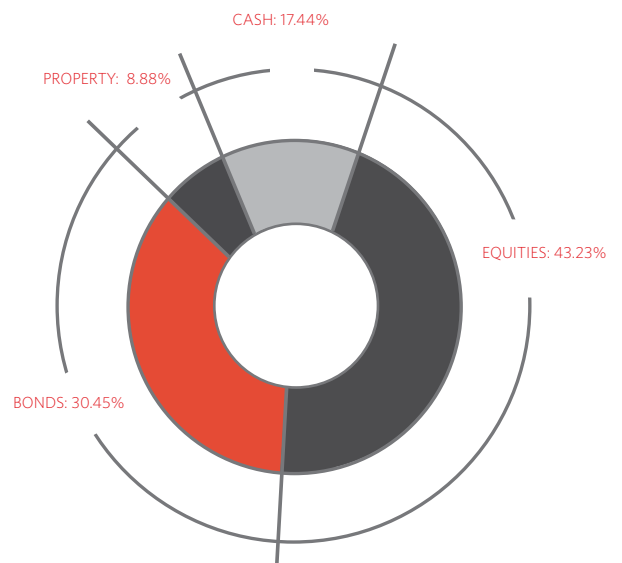


## Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



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

\*\* Annualised

# Partially Vesting Smooth Bonus Range Smooth Growth Fund Global

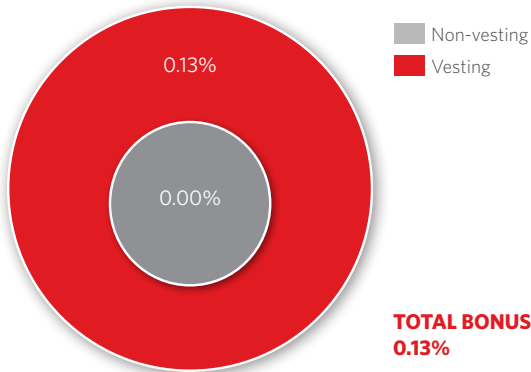


## Fund Snap Shot

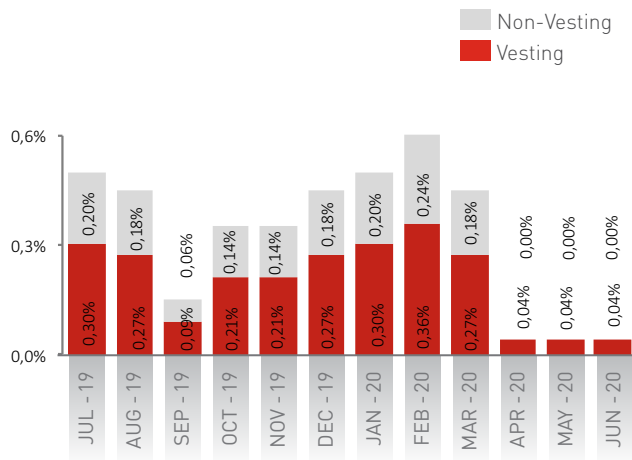
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	90% - 95%	R2bn	0,83%	1,98%

### Performance

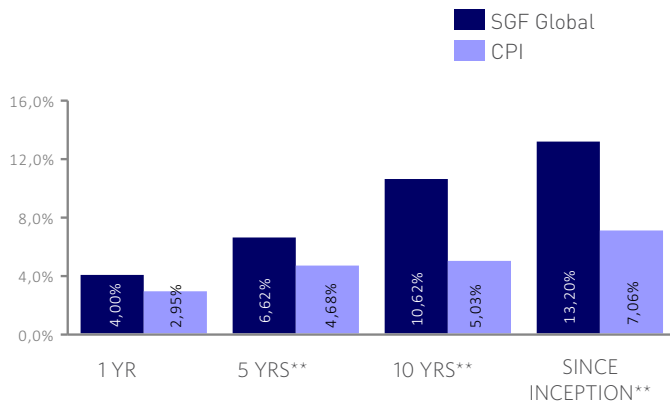
The total bonus\* for the past quarter on the Smooth Growth Fund Global is shown below.



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.

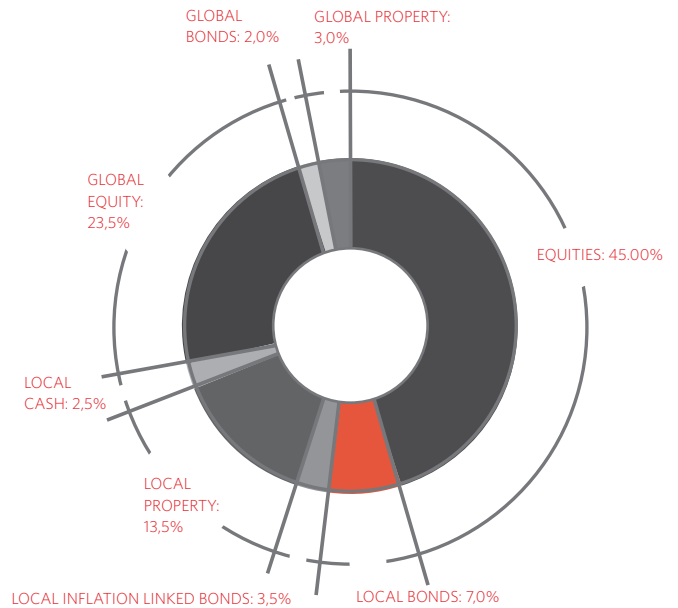


CPI figures are lagged by two months

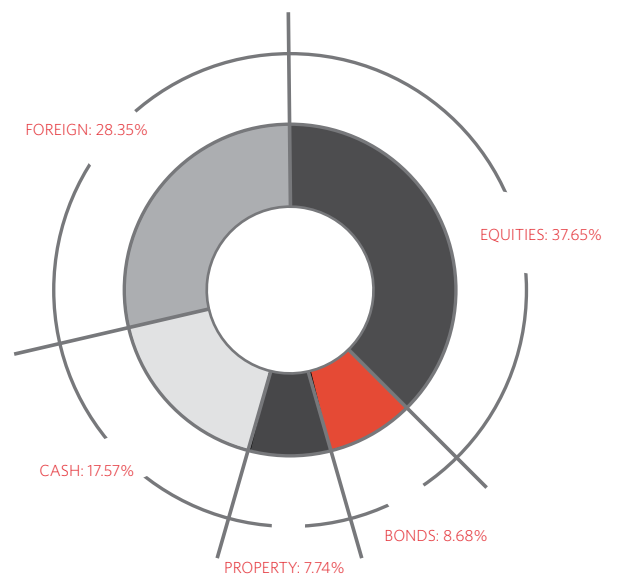
\* Bonuses are net of underlying asset charges but are gross of the Investment Management Fee  
 \*\* Annualised

### Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



# Partially Vesting Smooth Bonus Range Smooth-Edge Fund



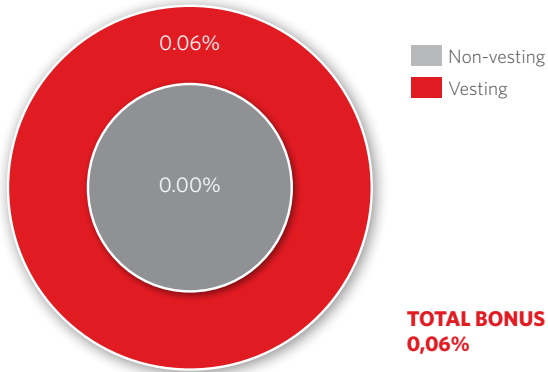
## Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Feb 2019	95% - 100%	R91m	0,91% <sup>1</sup>	5,25% <sup>1</sup>

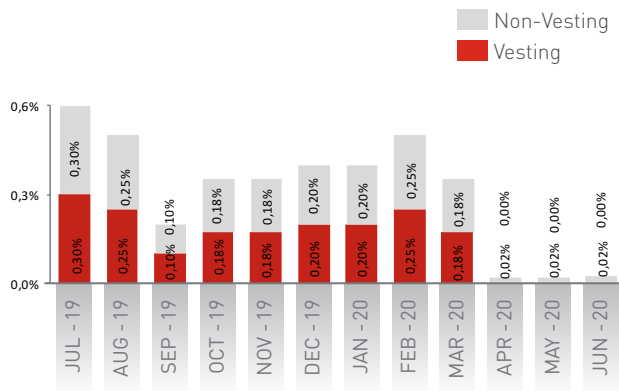
<sup>1</sup>Based on back-tested bonuses and returns

### Performance

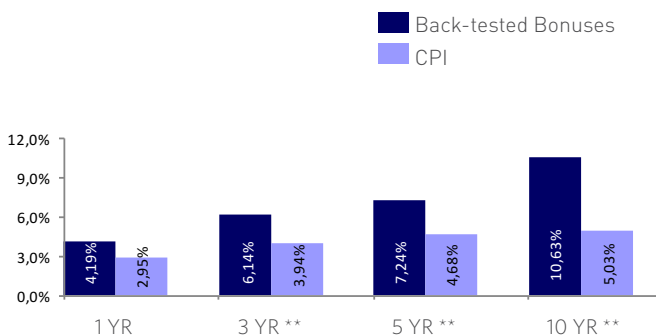
The total bonus for the past quarter on the **Momentum Smooth-Edge Fund** is shown below.



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

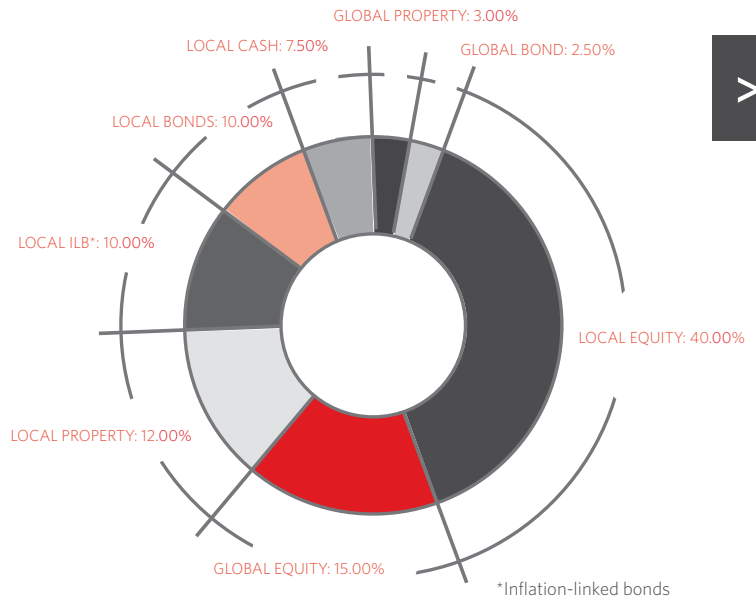
\*\* Annualised

### Asset Allocation

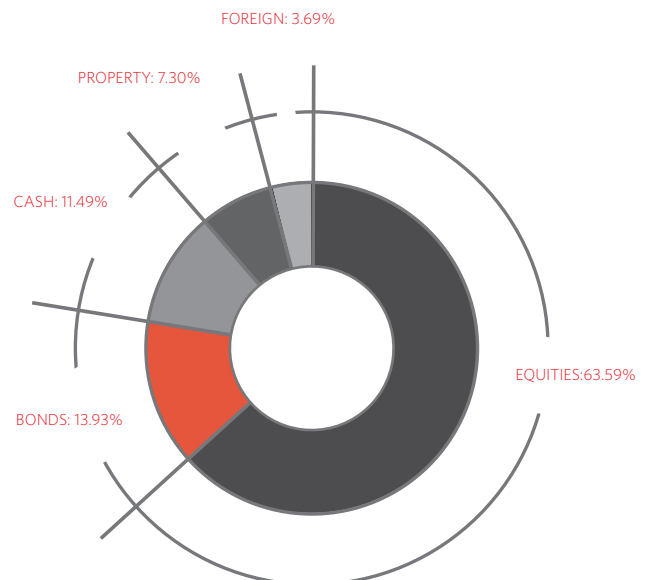
The Momentum Smooth-Edge Fund is a new generation smooth bonus solution offering a low-cost, 100% capital guarantee on benefit payments, along with Momentum Corporate's proven smoothing capabilities. In addition to the 100% capital guarantee, on average 50% of bonuses will also be guaranteed on benefit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



The effective asset allocation of the portfolio is shown alongside.





# Fully Vesting Smooth Bonus Range Multi-Manager Secure Growth Fund

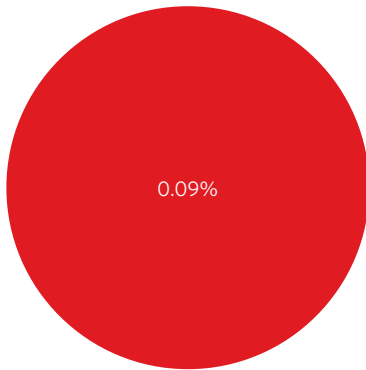


## Fund Snap Shot

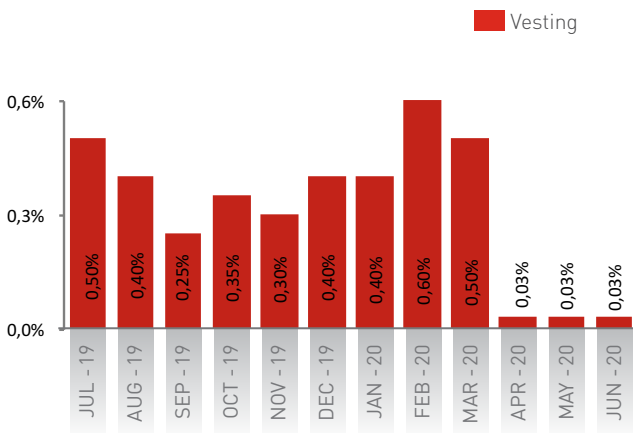
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	95% - 100%	R100m	0,70%	2,08%

## Performance

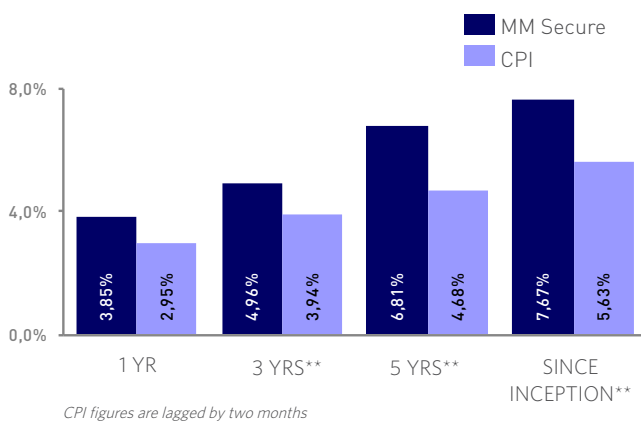
The total bonus\* for the past quarter on the **Multi-Manager Secure Growth Fund** is shown below.



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

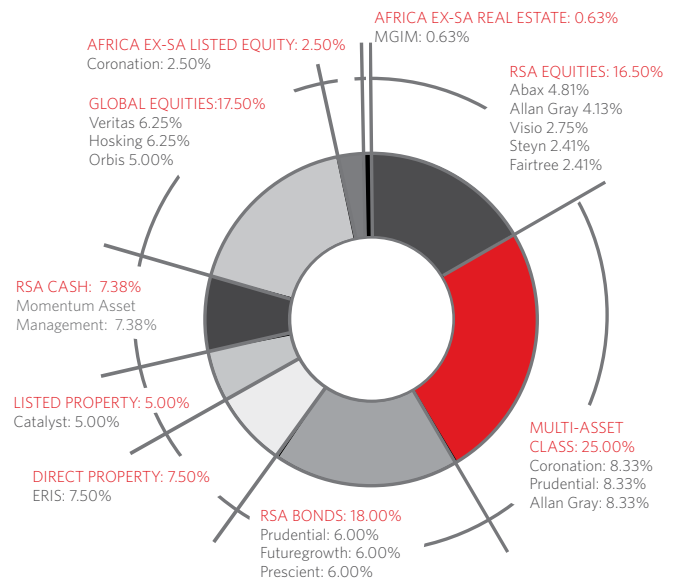


The chart below shows the long term bonus\* performance of the **Multi -Manager Secure Growth Fund** against CPI

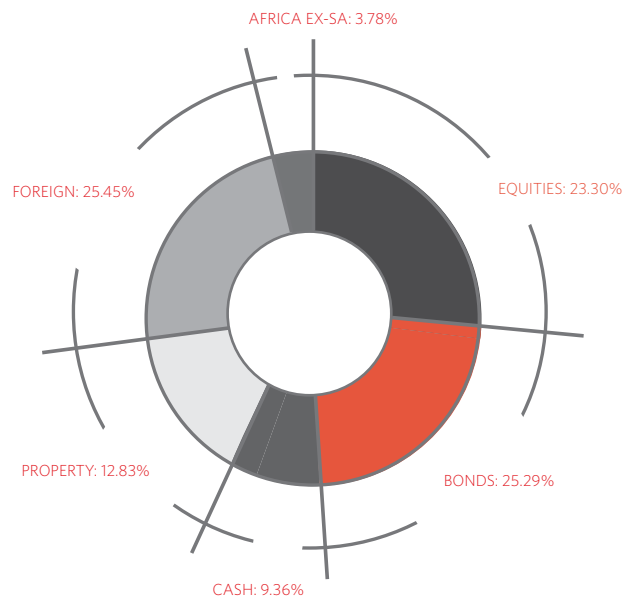


## Asset Allocation

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.



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

# Fully Vesting Smooth Bonus Range Smart Guarantee + 3 Fund

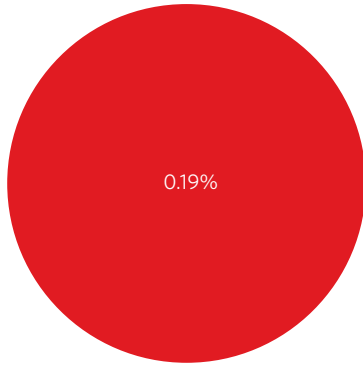


## Fund Snap Shot

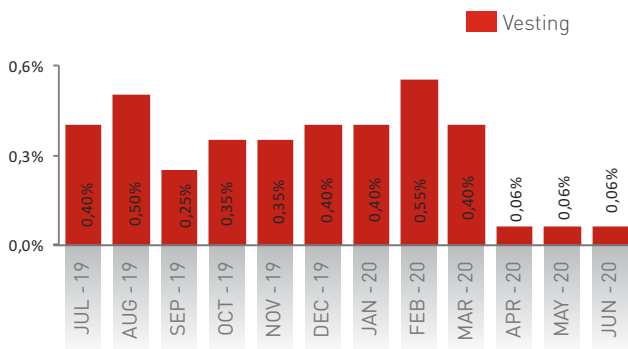
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	90% - 95%	R436m	0,90%	1,87%

## Performance

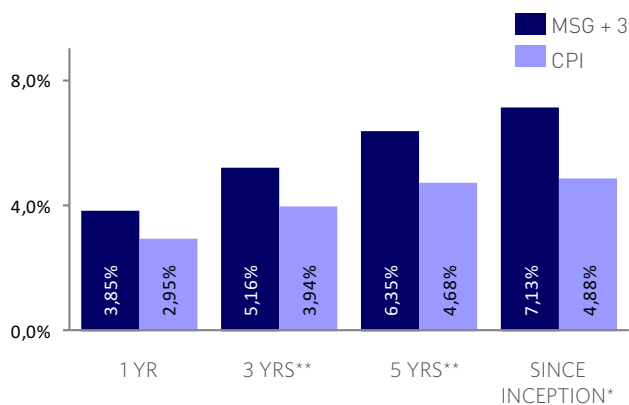
The total bonus\* for the past quarter on the **Smart Guarantee + 3 Fund** is shown below.



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.

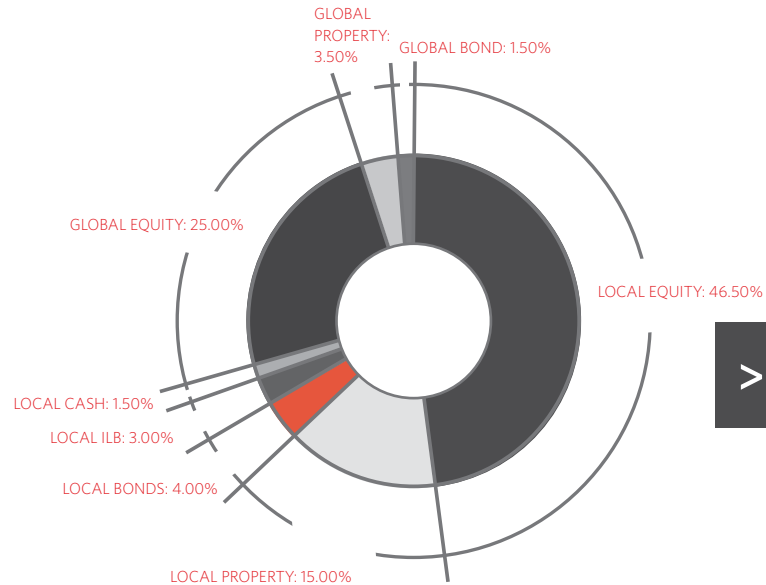


*CPI figures are lagged by two months*

\* 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.

## MSG +3: 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. We previously provided estimates of the bonuses to be declared assuming zero returns over the next 34 months (since there is a two month lag). The bonus generating portfolio however suffered negative returns during the first quarter of 2020 as a result of the Covid-19 pandemic, which led to a drastic fall in the funding level. The bonus generating portfolio and funding level must therefore recover from current levels before bonuses above the minimum level can be declared.

# Smooth Bonus Portfolios Key Features

		Fund Return Objective	Manager	Mandate Type	Guarantee on Benefit Payments <sup>1</sup>	Market Value Adjustment on Voluntary Exits <sup>2</sup>	Capital Charge	Policy Fee or Investment Management Fee <sup>*</sup>	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 <sup>3</sup>	January 2004
	Universal Multi-Manager Smooth Growth Fund								June 2020
	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 <sup>3</sup>	January 2004
	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 <sup>3*</sup>	January 1989
	Universal Smooth Growth Fund								June 2020
	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 <sup>3*</sup>	February 2019
Universal Smooth-Edge Fund	June 2020								
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 <sup>3</sup>	November 2007
	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 <sup>3*</sup>	October 2013

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

KEY:

- Benefit payments generally refer to resignation, retirement, death and disability. Specific benefit payments and terms and conditions are specified in client policy contracts.
- Market value adjustments may be applied on member switches out, terminations and other non-benefit payments if a client is underfunded.
- 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.





## Contact Details

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