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

Smooth Bonus Report

First Quarter 2022

>

momentum
corporate

Looking back over the past quarter

Dear valued investors

In the first three months of 2022, we have seen that many countries are coming to terms with the reality of rather living with COVID-19 by maintaining certain health protocols instead of fighting the virus by restricting economic activity.

We also witnessed that the start of the interest rate hiking cycle by the US Federal Reserve, the inversion of the US yield curve (historically signalling recessionary conditions), a further acceleration in global inflation and Russia's invasion of Ukraine all had a role in downplaying the performance of risk assets during the first quarter of 2022. During this period, the price of Brent crude oil shot up 38.7% due to sanctions against Russian oil supply as well as further attacks on Saudi Arabian oil storage facilities by Iranian-backed Houthi rebels in Yemen.

Global equities (MSCI All Country Index) were 5.4% lower in the first quarter, dragged down by a poor performance in both developed and emerging markets. The local equities (FTSE/JSE All Share Index) bucked global trends and posted a return of 3.8% for the first quarter of the year. Strong gains in Resources (up 19%) and Financials (up 20%) sectors supported gains in local equities. The rise in Resources was on the back of a 19.1% jump in the international price of palladium, a 5.9% rise in the price of gold due to its safe-haven status and a 1.8% increase in platinum prices.

In Momentum Investments' view, geopolitical events like the Russian-Ukrainian conflict are likely to only be secondary factors to the more primary fundamental driver for financial markets this year, namely the major global policy transition from the massive monetary and fiscal stimulus of 2020 and 2021 to eventual policy tightening this year.

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

Retirement funds invested in balanced mandates are now benefiting from Regulation 28 as local equities provide for the largest potential growth component. With local equities delivering such stellar returns compared to global ones, South African investors can start pulling back some of the returns lost to global investors in the run-up to 2020. These strong returns were seen in our Momentum smooth bonus portfolios resulting in continued strong funding levels. Our portfolios remain well positioned to deliver these excess returns over the coming year if the markets continue to rise.

If you would like to hear more about one of the 'Universal' portfolios launched in June 2020 or any other of our smooth bonus portfolios, please contact me or your Momentum servicing representative. Our smooth bonus portfolios provide a range of solutions that cater for different needs and risk appetites.

We look forward to partnering with you to meet your expectations.

Warm regards

Steed Duncan-Smith

Client Relationship Manager
Momentum Corporate

Contents

The impact of the Russian – Ukraine Conflict:

Introduction

The war between Russia and Ukraine continues to affect the global economy, including emerging markets. The sanctions that the United States (US) and the European Union (EU) have imposed on Russia have resulted in rising commodity prices such as those of Brent crude oil and gas.

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The resulting increase in inflation and interest rates continues to impact investments in both domestic and offshore investment exposure. It is thus critical for investors to keep a close eye on their investment portfolios. Ordinary citizens are among the most affected by the fallout between Russia and Ukraine.

Global economic implications of the Russia-Ukraine conflict

Russia is one of the biggest contributors to the global gross domestic product (GDP) and the third biggest producer of gas and oil. The sanctions imposed on Russia may hurt the country, but globalisation means that the rest of the world will also feel the effects.

Among other factors, the sanctions imposed by the US, the EU and other countries will affect the global economy through commodity prices and supply chain disruptions. It will also affect the Russian economy and as a result the well-being of its people. Moreover, the war will have an impact on inflation and growth on a global scale.

The higher commodity prices will adversely affect the world economy. This is on the back of concerns about the supply of major products by Russia such as oil, gas, base metals and grains. The destruction of physical infrastructure and sanctions imposed on Russia will also add to the global economic downturn. Russia is a major producer of several base metals, including aluminium, titanium, palladium and nickel. The current conflict will likely continue to contribute to commodity price hikes for these metals. The rise in price levels of these basic materials will subsequently impact the production in the industrial sector, particularly the global automobile sector. Russia and Ukraine combined are responsible for more than a quarter of the world's wheat production and trade. Disruption to trade routes and production puts upward pressure on wheat grain prices.

Financial sanctions drive supply chain disruptions. Russian companies do not have financial channels to trade as a result of sanctions. The disruption of routes of trade (sea, land and air) is another factor that will affect the supply chain resulting in reduced supply of products and hence an increase in prices overall.

As the world starts to re-open after months of lockdowns due to COVID-19, central banks globally have initiated means to curb inflation through monetary tightening. They now find themselves in a cumbersome position where the conflict between Russia and Ukraine has fuelled global inflation through higher commodity prices. The rise in inflation is expected to offset the positive impact of higher commodity prices for producers.

Growth in Russia and Ukraine is expected to decline due to their net exports, decrease in supply and hence higher prices. The decline in growth from the key global growth engines will result in global growth shrinking as well.

How ordinary citizens are affected by the Russia-Ukraine conflict

Ordinary civilians will experience the effect of the sanctions imposed on Russia through social disruption, material deprivation and derailed health care facilities due to limited availability of medicines and equipment.

The higher energy and commodity prices will affect ordinary consumers across the globe through petrol hikes, increased food and other consumable product prices. Central banks across the world have already started to increase the repo rate to try and recover from the impacts of COVID-19. The Russian-Ukraine conflict will likely then exacerbate the lending rate by the banks and lenders. The burden of rising interest rates will be felt by citizens who have loans (either personal, mortgage or car loans). The prolonged sanctions will hurt ordinary citizens the most, leaving a few elites relatively unscathed.

What is the impact on investments due to the Russian-Ukraine conflict

The Russia-Ukraine conflict has once again disrupted global economic activity following the COVID-19 standstill resulting in broad implications on the investment management industry for companies or investors that have either direct or indirect investment links to Russia and Ukraine.

The conflict will result in short-term volatility on capital markets. Investors with investments in companies in Russian or Ukraine will likely endure negative impacts in the short to medium term. The volatility is expected to stabilise in the long run. Limiting direct exposure to investment in Russia and Ukraine can aid investors manage short-term risks. This level of diversification and management can put some investors at ease and help to explore other long-term potential investments.

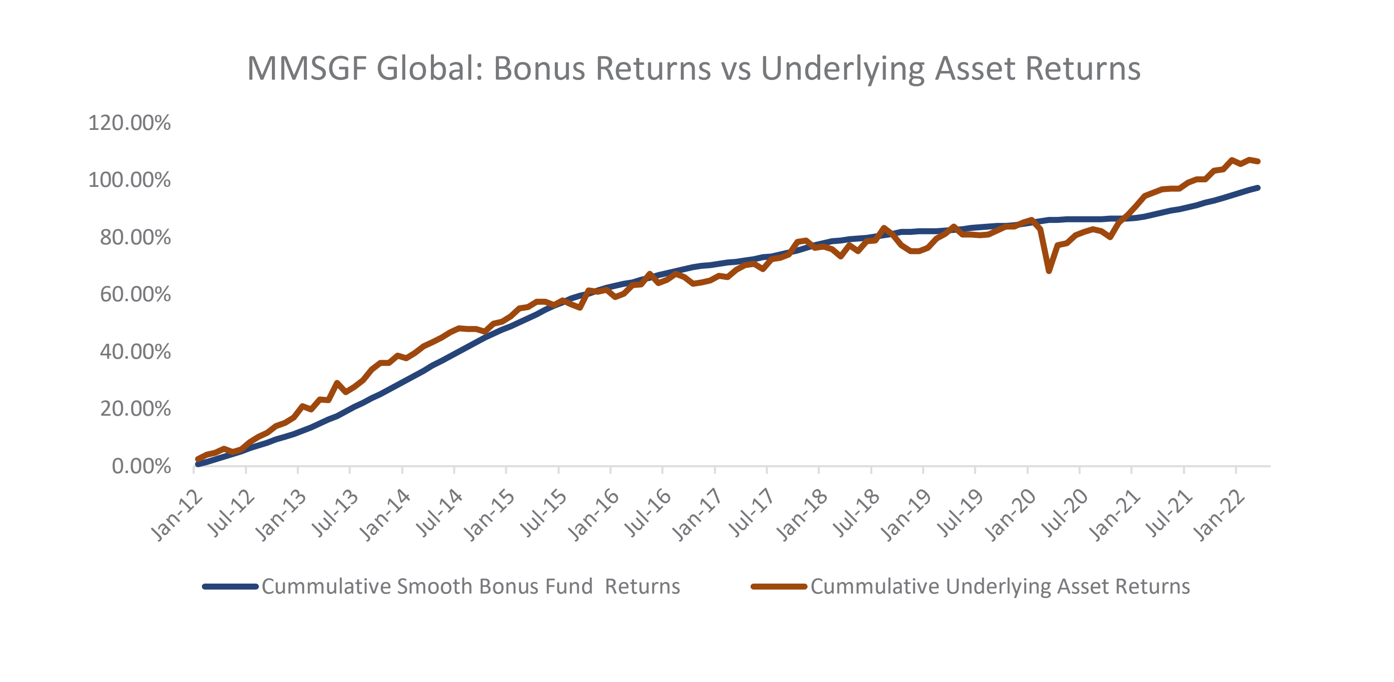
The value of being invested in a smoothed bonus portfolio

The recent economic environment has proven to be extremely volatile, which is adding to the complexities investors face in making investment decisions. Investors looking to shelter their investments against market volatility should consider investing in smooth bonus portfolios which provide stable returns and guarantees on their investments.

A smooth bonus portfolio protects investors from short-term market volatility through a smoothing process. They allow investors the potential to earn inflation-beating returns through exposure to growth assets while being protected from capital loss by the guarantee. Investors investing in a 100% capital protected smooth bonus portfolio receive a guaranteed return of their capital invested plus bonuses added at the date of a benefit payment (resignation, retirement, death or disability). The guarantee also applies to retrenchments, subject to some overall limit on retrenchment payments.

The objective of a smooth product can be to target a return of CPI + x% (where x is a target percentage of a particular fund) net of policy fee and underlying asset charges over the long run. The fund achieves its objective through a long-term strategic asset allocation and blend of investment styles within each asset class that is designed to optimise the risk-return profile of the fund relative to its objective.

For a smoothed bonus portfolio, a portion of the underlying returns is held back during market expansions (strong positive performance) and used to boost investment returns during periods of market contraction. Therefore, by investing in a smooth bonus portfolio an investor can expect a more stable return profile.



The above is a 10-year comparison between underlying asset returns and the smooth bonus returns for Momentum Multi-Manager Smooth Growth Fund Global. The global shut down that started from March 2020, saw equity markets reach all-time lows as seen in the graph above. Investors with investments in smooth bonus funds, however, were sheltered from volatility in the markets due to COVID-19 pandemic. From the start of 2021, the equity markets began to bounce back. This is evident from the graph as the smooth bonus fund starts to gradually increase. As can be seen on the graph, underlying returns towards the end of February 2022 are declining. This is on the back of the Russia-Ukraine conflict, amongst other factors.

The duration and long-term impact of the Russia-Ukraine conflict is unknown. Long-term investors seeking to plan with confidence for retirement and members looking for downside protection for unexpected events such as death or disability should consider investing in smooth bonus funds.

Momentum Investments market commentary for the quarter ended **March 2022**

by Sanisha Packirisamy and Herman van Papendorp

Highlights

Markets

- Our basic premise is that as long as Russia-Ukraine remains a regional conflict that does not escalate into a broader global destabilising event, it should fade as a meaningful driving force for financial markets beyond the short term.
- In our view, the more primary fundamental driver for financial markets this year is the global policy pivot from stimulus to tightening that should culminate in a less conducive backdrop for asset class returns and could lead to periodic drawdowns in riskier asset classes this year.
- History shows that South African (SA) equities could typically stutter a bit around the first United States (US) Federal Reserve (Fed) interest rate hike, but that one-year returns after the first hike are normally strong. Valuations remain cheap against historical averages.
- The high real yields available from SA nominal bonds remain a key underpin for the asset class. Monthly inflation accruals should be supportive for inflation-linked bonds (ILBs) in the first half of 2022 until local inflation peaks. Although the prospective SA real cash yield has been rising from a low level in line with recent policy rate hikes, it is still around 0.8 standard deviations below the historical average.
- Negative SA listed property sector fundamentals are leading to lower rental growth expectations.

Economics

- In this new phase of the pandemic, global central banks and fiscal authorities are switching gears from rescuing the economy at any cost to normalising policy as they attempt to stem the rise in inflation expectations.
- Inflation is running hot on persistent critical supply shortages and geopolitical pressures underpinning a surge in international oil prices. Higher energy inflation could squeeze real incomes further, with the Eurozone and United Kingdom (UK) experiencing a harder hit than the US as they rely on Russian oil and gas supply.
- Stubbornly high price increases have further accelerated the pivot towards a quicker and sharper unwinding of ultra-accommodative monetary policy conditions. However, nuanced labour market dynamics and underlying inflation point to a divergence in monetary policy responses globally.
- SA experienced a notable rebound in economic activity from previous stimulus measures, but it is going to be much harder to sustain growth from here given reduced global demand, structural unemployment and energy shortages.
- A faster-than-anticipated recovery from the pandemic and a positive surprise on SA's near-term fiscal and debt metrics should stave off any negative ratings action this year.
- Rising global inflation, increasingly hawkish rhetoric from global central banks and upside risks to local food and fuel costs should deliver a front-loading of the interest rate hiking cycle to curb second-round inflation pressures.

First quarter market returns rattled by geopolitical risks and accelerating inflation

The start of the interest rate hiking cycle by the US Fed, the inversion of the US yield curve, a further acceleration in global inflation and Russia's invasion of Ukraine all had a role in downplaying the performance of risk assets during the first quarter of 2022. Despite the rise in geopolitical conflict, the CBOE Volatility Index, or fear gauge, rose to only 36 points mid-quarter and retraced to 21 points by the end of March 2022.

Equities and fixed income assets suffered the worst quarter since the start of 2020 when risk aversion spiked on virus concerns. Global equities sank 5.4% in the first quarter of the year, dragged down by a poor performance in both developed markets (DMs) and emerging market (EMs). The MSCI DM Index shed 5.2% in the quarter, with European equities experiencing larger losses. The Eurostoxx 50 Index plunged 8.9% (see chart 1), led weaker by retail and auto stocks, while utilities and insurance counters outperformed in the quarter. European equities remained weak into the end of the quarter as talks between Russia and Ukraine failed to show any signs of a positive breakthrough and as concerns escalated around the potential shutting off of gas deliveries from Russia to Europe. Moreover, inflation in the Eurozone reached fresh highs of 7.5% for March 2022, raising speculation over a faster normalisation in interest rates.

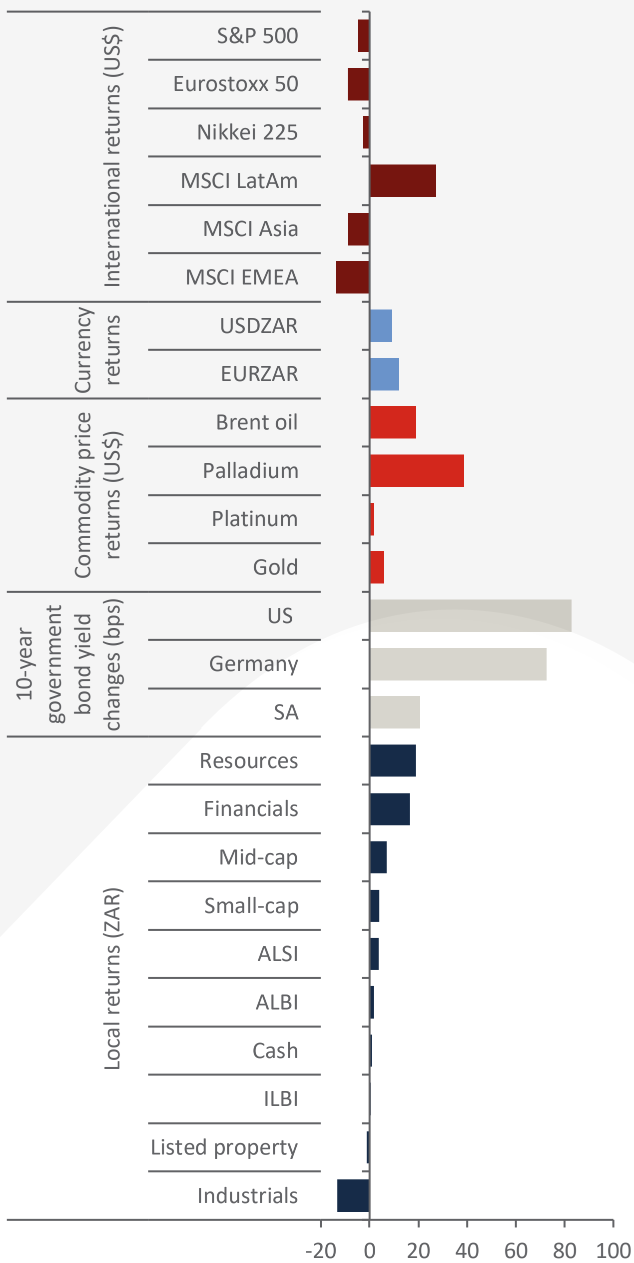
Losses in the S&P 500 Index were less severe at 4.6% for the quarter. Concerns over weaker growth following the inversion of the US yield curve, surging inflation and a more hawkish approach to monetary policy were the primary drivers behind the weak performance in the US equity market.

Japanese equities were down the least in the DM composite by 2.5% for the first quarter of the year. Economic data, including the Tankan Survey, pointed to weaker business conditions in Japan.

Equity market performance diverged wildly across the EM composite in the first quarter of the year. The MSCI Latin America (LatAm) Index rocketed 27.3% in line with higher commodity prices. Sanctions against

commodity-heavy Russia stoked a rally in the prices of oil and raw materials, leaving the Bloomberg Commodity Price Index 25.5% higher in the same period.

Chart 1: Quarterly asset class returns (%)



Source: Iress, Momentum Investments

Meanwhile, the MSCI Europe, Middle East and Africa Index (EMEA) dived 13.7% on fallout from the Russian-Ukrainian conflict. The MSCI Asia Index slipped 9.7% in the corresponding period.

The Financial Times reported the worst quarter for US treasuries on record. The yield on the US 10-year government bond rose 83 basis points in the first quarter of the year on fears of lower growth resulting from further hikes in interest rates to combat rising inflation. The yield on the two-year bond climbed above that of the 10-year government bond leading to an inversion of the yield curve, which has typically and historically signalled recessionary conditions. The German 10-year government bond yield also increased over this period by 73 basis points to 0.6%.

Despite intensifying geopolitical pressures, the JP Morgan EM Bond Index (EMBI) spread experienced a general downward trend during the quarter and ended March 2022 at 347 points. Russia (2 031 points), Romania (115 points) and Hungary (114 points) were among the countries to experience the largest deterioration in credit default swap (CDS) spreads since the end of 2021, while Colombia (six points) and Chile (two points) experienced the largest improvements in spreads.

The local equity market bucked global trends and posted a return of 3.8% for the first quarter of the year, which was its strongest first quarter in 16 years according to News24. Gains in the FTSE/JSE All Share Index were supported by strong gains in resource and financial shares. The FTSE/JSE Resources Index climbed 19% on the back of a 19.1% jump in the international price of palladium, a 5.9% rise in the price of gold due to its safe-haven qualities and a 1.8% increase in platinum prices. During this period, the price of Brent crude oil shot up 38.7% due to sanctions against Russian oil supply as well as further attacks on Saudi Arabian oil storage facilities by Iranian-backed Houthi rebels in Yemen.

The FTSE/JSE Financials Index increased 16.7% in the first quarter of the year on a firmer currency and the outlook for a further rise in interest rates, while the FTSE/JSE Industrials Index plummeted 13.1%.

The FTSE/JSE Mid-cap and Small-cap indices performed reasonably well over the same period, increasing by 6.9% and 4% respectively.

In SA's fixed income markets, the 10-year government bond yield sold off 21 basis points. The JSE Assa All Bond Index rose 1.9% in the quarter. News24 reported that SA's local currency bonds were the second-best performing in EMs for the first quarter of the year in dollar terms, boasting returns of 13% compared to an average drop of 2.4% among its peers. The JSE Assa Government Inflation-linked Bond Index (ILBI) traded only 0.3% firmer for the same period, while the FTSE/JSE SA Listed Property Index lost 1.3%.

The SA rand has proven resilient in the face of the Russian-Ukrainian war, rising global inflation, renewed supply chain bottlenecks and a more hawkish Fed. The rand was the second-best performing currency from its EM peer group in the first quarter of the year and gained 9.2% against the US dollar and 12.2% against the euro. Only the Brazilian real performed better than the rand in the first quarter of the year. The Taiwanese dollar (depreciation of 3.3% against the US dollar), Polish zloty (3.1% weaker) and Turkish lira (2.4% weaker) were among the worst performing currencies against the US dollar in the quarter.

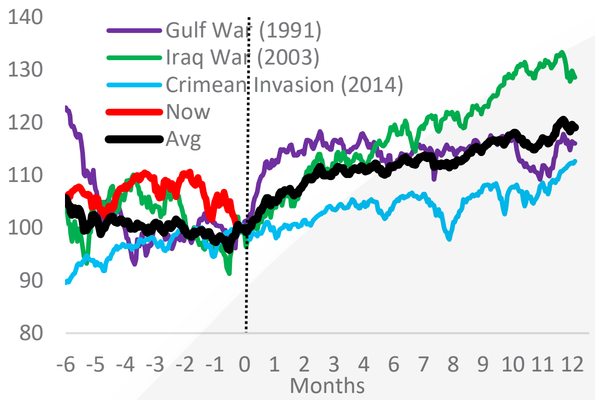
SA's five-year CDS spread rose 22 points at its weakest point in the quarter relative to the end of 2021 but was unchanged by the end of the first quarter at 293 points.

Global policy pivot the primary financial market driver this year and not Russia-Ukraine

In our view, geopolitical events like the Russian-Ukrainian conflict are likely to only be secondary factors to the more primary fundamental driver for financial markets this year, namely the major global policy transition from the massive monetary and fiscal stimulus of 2020 and 2021 to eventual policy tightening in 2022. How financial markets react to this policy pivot should be much more crucial for the relative performance of the different asset classes than what happens in Ukraine. At most, the situation in Ukraine reinforces our view that the global policy pivot in 2022 should culminate in a less conducive backdrop for asset class returns and could lead to periodic drawdowns in riskier asset classes this year.

If we use the Russian annexation of Crimea in 2014, the American invasion of Iraq in 2003 and the 1990 Gulf War as our signposts, chart 2 shows that the effect of Russia's invasion of Ukraine on financial markets is likely to be marginal and temporary. While the global equity market has historically been weak in the run-up to these previous conflicts, the market recovered soon afterwards. However, the Russian-Ukrainian conflict will naturally be associated with higher levels of market volatility as long as there is uncertainty about how events will ultimately unfold.

Chart 2: Global equity returns around previous geopolitical conflicts



Source: Citi

Our basic premise is that as long as the Russian-Ukrainian war remains a regional conflict that does not escalate into a broader global destabilising event, it should fade as a meaningful driving force for financial markets beyond the short term. In the interim, risk-off sentiment will likely prevail at times of tension escalation, with risky asset classes like equities experiencing some short and shallow drawdowns, and safe-haven asset classes like the US dollar, gold and global bonds rallying during these periods of conflict escalation.

The US central bank's policy pivot started last year already with its process of quantitative easing tapering. This has so far implied a 2% effective policy tightening since November 2021. As policy tightening evolves further this year with rate hikes and eventually quantitative tightening, it could prove challenging for asset returns. Morgan Stanley anticipates that the combined G4 (US, UK, euro area and Japan) central bank balance sheets are likely to peak in May 2022 and will then probably decline by US$2.2 trillion over the subsequent 12 months. As this decline is around 4.5 times more than the previous largest 12-month decline in 2018 (US$0.5 trillion), the impact on markets is hard to forecast as balance sheet reduction of this scale has never happened before.

Historical precedent around the start of Fed hiking cycles and recent asset class behaviour would indicate volatile and slightly positive one-year equity returns from here, but with rising bond yields leading to capital losses. We also think an expectation for higher bond yields this year beyond the periodic Russia/Ukraine safe-haven rallies would be a better reflection of the realities of higher inflation and the central bank policy pivot. For US and global equities, yield curve inversion will have to be monitored closely as an indicator for a higher risk of recession and the probability of an equity bear market. Relative valuations remain in favour of global equities over global bonds, although the absolute expensiveness of both asset classes is likely to constrain the magnitude of returns that should be expected from here.

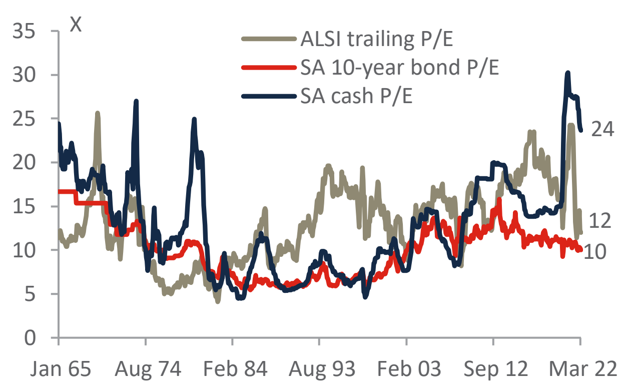
The yield on global property remains attractive versus other asset classes and has been meaningfully higher than the yields of global equities and bonds since the global financial crisis. The global property yield currently has an embedded margin of safety: Even if the US real bond yield rises by 50 basis points from here, the positive property yield spread would only fall to its historical average. Global property has historically provided good inflation protection to portfolios and even strongly outperformed equities during inflation spike periods.

History shows that SA equities could typically stutter a bit around the first Fed rate hike, but that one-year returns after the first hike is normally strong. SA earnings have been very volatile between 2020 and 2022, with big pandemic base effects at play in recent years and more recently, the Russian-Ukrainian effect. Due to the impact of both events on commodity prices, they have been and will be hugely influential in driving resource company earnings trends in particular. Assuming 10% earnings growth in the next year, the SA equity market is now one-and-a-quarter standard deviations cheap against the average since 1999 and still trades at a huge valuation discount to EM equities despite a recent commodity-driven outperformance from SA.

The high real yields available from SA nominal bonds remain a main underpin for the asset class. While EM real bond yields are attractive relative to developed markets, SA's higher real yields stand out within its EM per group, particularly on a risk-adjusted basis. Current SA real bond yields and yield spreads are also very attractive against historical averages. Relative valuations favour SA nominal bonds and equities over cash, with bonds consistently the cheapest asset class since 2013 and cash the most expensive asset class since 2020 (see chart 3).

Monthly inflation accruals should be supportive for inflation-linked bonds in the first half of 2022, with some scope for further break-even widening until local inflation peaks. Although the prospective SA real cash yield has been rising from a low level in line with recent policy rate hikes, it is still around 0.8 standard deviations below the historical average.

Chart 3: SA asset class valuations



Source: Iress, Momentum Investments

SA listed property sector fundamentals remain negative, with rising vacancies, falling escalations, negative rental reversions and sharp rises in operating costs leading to lower rental growth expectations. During the Russian-Ukrainian conflict, gold is again illustrating its strategic safe-haven worth as a portfolio risk diversifier in a risk-off environment.

Adding fuel to the global inflation fire

Many countries are assuming the reality of having to live with the COVID-19 virus through maintaining certain health protocols instead of actively fighting the spread of the virus through restricting economic activity.

As such, in this new phase of the pandemic, global central banks and fiscal authorities are switching gears from rescuing the economy at any cost to beginning to normalise policy in the current economic recovery as they attempt to stem the rise in inflation expectations. The unprecedented cutting of interest rates and the expansion of balance sheets certainly averted a deeper and more prolonged economic downswing. This led to a stellar year of growth, with the International Monetary Fund (IMF) forecasting an expansion in global growth of almost 6% last year.

Nevertheless, the pace of the global recovery is set to decelerate. Relative to the March 2021 peak in global growth forecasts for this year, consensus estimates for growth have migrated lower in both DMs and EMs.

That said, the consensus still expects growth in the major regions to exceed their longer-term potential despite the downside risks of less policy support, geopolitical conflict arising from the Russian invasion of Ukraine, additional more deadly variants of COVID-19 and a de-anchoring in inflation expectations.

High-frequency data on global economic activity has surprised market forecasts since the end of last year. However, rising energy costs are expected to erode consumer purchasing power and overall growth prospects for several countries in Europe, which are highly reliant on Russian. oil and gas. As such, larger downward revisions to growth remain a risk the longer the war drags on and the tighter sanctions become.

One of the main drivers behind the initial cuts to global growth forecasts for 2022 over the past year was the imposition of renewed lockdown measures at the outset of the surge in the Omicron variant in early November 2021. While the average DM increased measures, the average EM tightened restrictions by less and many countries pushed to relax rules given Omicron's perceived milder level of infections. Moreover, post the pandemic, EMs have had far less monetary and fiscal ammunition available to combat the effects of a slowing economy, which has likely persuaded authorities to keep a lighter level of restrictions in place.

Although DMs have taken a higher level of precaution with their lockdown measures, the level of stringency was still far lower than in previous waves of the COVID-19 pandemic. This is partly owing to a higher level of vaccinations in the developed world, but also a shift in health regulations, including vaccination mandates which allow for normal economic activity to resume, even in previously pandemic-stricken sectors, such as entertainment and hospitality.

For that reason, the latest tightening in lockdown restrictions has not affected mobility indicators as severely as in previous waves. This has resulted in a milder downward adjustment to growth estimates.

The IMF has shown that major epidemics in the last two decades have been followed by periods of increasing inequality. Moreover, the degree of fiscal consolidation plays a significant role in determining the extent of the rise in inequality. Given the size and duration of policy support measures in DMs as well as a higher level of vaccination, output in these nations is anticipated to reach pre-pandemic levels a lot sooner.

Amid this multi-speed recovery, EMs are likely to lag, particularly low-income developing economies which are likely to struggle for years with the after-effects of the pandemic. While initially low inflation gave EM central banks room to cut domestic interest rates substantially and engage in unconventional policy, rising inflation risks have forced many to pivot towards an unwinding of ultra-accommodative policy, even before DMs experienced a lift-off in interest rates.

On the fiscal front, economic relief measures added to the stockpile of government debt with the average EM government experiencing a 10% rise in government debt levels since 2018. As such, with less fiscal room to support an ongoing recovery, output in EMs in aggregate is expected to reach pre-pandemic levels over a much longer timeframe. Output in the EM composite (except for China, which initially weathered the pandemic relatively well) will still be more than 5% lower than pre-pandemic levels by the end of next year.

The rate of vaccination continues to drive a wedge between the performance of higher income-earning economies and that of poorer nations. Even though the globe is closing in on having administered nearly 11.3 billion vaccine doses, vaccination coverage remains highly unequal. Around 80% of those living in high-income economies have received at least one vaccine dose. This is in striking contrast to low-income developing economies, where only 14 people in every 100 have received one vaccine dose. If the current pace of vaccination persists, an insufficient percentage of the population in low-income economies will be inoculated by the end of next year keeping the risks of virus mutation elevated. Possible new variants of the virus could leave even highly vaccinated countries at risk, and this could trigger renewed lockdowns.

The IMF suggests that if manufactured vaccines had been equally distributed, the amount would have been sufficient to cover all health workers and the elderly globally. Nevertheless, vaccine inequity has left a huge gap between the number of vaccines secured in developing economies and the number that western pharmaceutical companies have actually delivered. This level of vaccine inequality contributes to the risk of dangerous mutations in the COVID-19 virus that could raise vaccine ineffectiveness. This remains one of the major downside risks to global growth prospects, in our view.

Another key concern to the trajectory of the globe is stronger and longer-lasting inflation pressures. Inflation is running hot on persistent critical supply shortages and geopolitical pressures underpinning a surge in international oil prices. Commodity prices are the key global transmission channel in Russia's assault on Ukraine. Higher energy inflation could squeeze real incomes further, with the Eurozone and UK experiencing a harder hit than the US given their reliance on Russian oil and gas supply.

Although the US has imposed sanctions on the Russian oil market, the European Union and Asia have not followed suit. A longer-lasting war coupled with more protracted and wider-ranging sanctions on Russia could lead to an economic contraction in some European nations this year. However, the Institute of International Finance (IIF) notes that global energy intensity has softened over the past few decades, lowering the risk of a broader global recession.

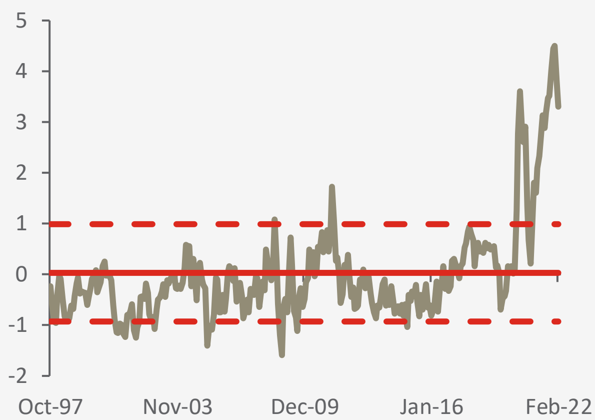
The IIF notes that European sanctions on Russian oil would trigger higher oil prices above US$130/bbl relative to their baseline forecast of closer to US$100/bbl. But it views the likelihood of European sanctions on Russian gas being relatively low at this stage given the negative repercussions of reduced gas supply and higher gas prices for countries in Europe.

Our baseline scenario assumes there are no permanent reductions to oil or grain supply and as such prices moderate in 2023. Russian oil supply is expected to recover in the medium term in the baseline scenario taking oil prices down even further. A more protracted conflict highlighting the fault lines between the developed west and the developing east could nevertheless result in more structural changes in key commodity markets. In this downside risk scenario, inflation would be revised significantly higher and growth would be harder hit.

Outside of rising oil and gas prices, other areas of the inflation basket have seen some reprieve. Despite goods inflation running at 5%, services inflation for the average Organisation of Economic Co-operation and Development (OECD) country tracked at a far lower 2%. As the global economy recovers from the COVID-19 crisis and consumer appetite for services recovers to pre-pandemic levels, demand should rotate from goods into service categories allowing for goods inflation to return to more normal levels.

The Global Supply Chain Pressure Index developed by the New York Fed reached a new all-time high in November last year, but the data for the past three months to February 2022 shows a marked turnaround. One of the components of the index, the Baltic Dry Index, fell 77% between October and January 2022 suggesting a significant drop in shipping rates. However, the index climbed to 40% of its previous peak by the end of March 2022, suggesting renewed pressures.

Chart 4: New York Fed Global Supply Chain Index



Source: Bloomberg, Momentum Investments

Inflation typically becomes more worrisome when workers in the jobs market respond to rising prices with demands for even greater wage increases, creating a wage-price spiral. So far, this has not yet occurred in key markets. Accelerated investment in technology has boosted productivity which can provide some offset to a rise in wages. In addition, longer-dated inflation expectations have remained reasonably well-anchored in much of the developed world.

Monetary policy authorities in DMs are becoming concerned that cheap money has prevailed for too long. Stubbornly high price increases have further accelerated the pivot towards a quicker and sharper unwinding of ultra-accommodative monetary policy conditions. Nevertheless, with labour market dynamics and underlying inflation differing across the DM composite, monetary policy responses are likely to diverge. In our opinion, a faster recovery in the economy and jobs market in the US and UK calls for more urgent action this year, while a lingering unemployment gap and benign underlying inflation in Japan allow for a later lift off in interest rates. Although this year's inflation prospects have worsened considerably for the Eurozone, the potential negative spill-over from higher oil prices into lower disposable income could temper interest rate decisions by the European Central Bank.

Exported commodity prices offsetting a more negative outcome for SA

With global authorities shifting gears from a 'whatever-it-takes' approach to normalisation, SA is following suit. SA experienced a notable rebound in economic activity off the back of previous stimulus measures, but it is going to be much harder to sustain growth from here.

Although faster-than-expected global growth, sustained commodity prices, a faster bounce back in pandemic-stricken sectors or a faster timeline on reform could result in an upward revision to growth, downside risks outweigh. Sustained high global inflation, spill-over from a beleaguered Chinese property sector, less accommodative policy locally, persistent energy supply constraints and overarching structurally high unemployment continue to pose significant downside risks to local growth.

Although tax revenue shortfalls were a recurrent theme in SA even before the pandemic, we were more recently gifted with a commodity price boon that lifted company taxes. This created room for an expansion of stimulus measures and an overrun in the government wage bill. Nevertheless, the windfall gains from commodity prices are unlikely to last forever and a sudden correction in commodity prices could threaten the funding for any permanent expenditure outlays. Therefore, while favourable commodity prices have brightened the near-term outlook, we maintain a more cautious stance in the medium to longer term. Three major risks in particular cloud the outlook for government's fiscal consolidation efforts. These include restraint on the civil servant wage bill, having to meet rising social demands to address crippling inequality and further assistance to ailing state-owned enterprises.

A faster-than-anticipated recovery from the pandemic and positive surprises on SA's near-term fiscal and debt metrics should stave off any negative ratings action this year and affirms the recent outlook change from

negative to stable by Moody's rating agency. However, we remain concerned about the outlook for the sovereign rating further out. Years of tepid growth have translated into weak progress in improving living standards for South Africans. With trend growth hamstrung by infrastructure bottlenecks, unnecessary red tape and policy uncertainty, the IMF shows that SA is likely to underperform the bottom quartile of countries globally in the next few years.

The Fund for Peace shows that the Fragile States Index improved for SA in the last three readings, but there has been an overall negative trend in the last decade. From the underlying data, it is apparent that security, the state of the SA economy and public services are contributing to fragility. SA has seen the largest deterioration in the security score in the past decade, implying greater distrust in domestic security, more organised crime and a higher risk of violent uprisings. In a similar vein, the index measuring the state of the economy has deteriorated significantly in the past decade, shifting the country to the worst position from its selected peer group. In our view, these challenges are unlikely to be met with an overnight fix and will continue to burden the sovereign rating in the medium to longer term.

Sanctions on Russia's commodity markets have benefited select exported commodity prices in SA. Moreover, the equity market has experienced significant portfolio inflows on the back of Russia's exclusion from the MSCI EM Index and poor monetary policy decision making in Turkey. These factors have driven a stronger performance in the rand against the dollar in spite of the global rise in geopolitical tensions.

The bias to the rand remains weaker in the medium to long term given SA's relative expected underperformance against its peers in an economic and fiscal setting. Nevertheless, the pass through from the currency into the consumer basket remains relatively muted. So much so that SA experienced a somewhat atypical response in this latest surge in global inflation. While headline inflation in DMs and EMs spiked to levels significantly higher than their longer-term averages, the recent moves in local inflation have not deviated significantly from historic trends.

The persistent gap between headline and underlying measures of inflation suggests that pressure on international food and oil prices are mainly affecting local inflation at the headline level for now. Nevertheless, the SA Reserve Bank (SARB) warns of second-round inflation pressures and upwardly revised their projections on core inflation (headline inflation excluding fuel and food costs) by an average of 0.5% for the next two years. Moreover, the latest inflation expectations survey from the Bureau for Economic Research showed that five-year average inflation expectations in five years' time had shifted higher to 4.9% in the first quarter of 2022.

Given rising global inflation, increasingly hawkish rhetoric from global central banks, upside risks to local food and fuel costs and the potential for inflation pressures to sprout in other areas of the inflation basket through second-round inflation effects, we expect a front-loading of the interest rate hiking cycle with up to at least another three interest rate hikes of 25 basis points projected for 2022 to end the year at 5%, roughly in line with the SARB's Quarterly Projection Model (QPM).

We expect another four interest rate hikes of 25 basis points in 2023 to end the cycle at 5.75%. The SARB's QPM continues to present a higher terminal interest rate of around 6.70% by the end of 2024, given a higher expectation on the neutral rate of interest. In our view, a higher outcome on terminal interest rates or larger interest rate increments will likely be a function of inflation expectations and second-round inflation effects.

Sanisha Packirisamy

Economist
Momentum Investments

Herman van Papendorp

Head: Macro Research and Asset Allocation
Momentum Investments

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

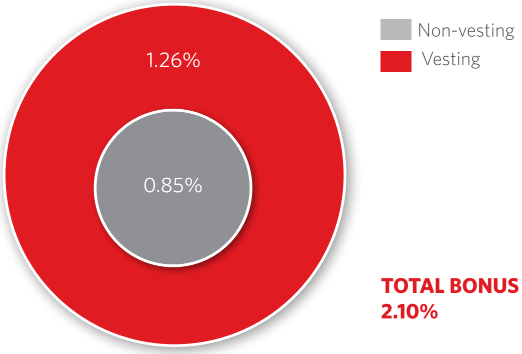
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2020	100% - 105%	R260.8m	0.96% [1]	8.63% [1]

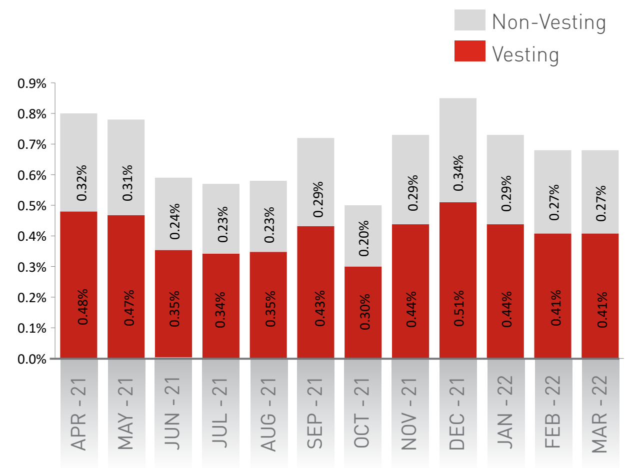
[1]Based on back-tested bonuses and returns

Performance

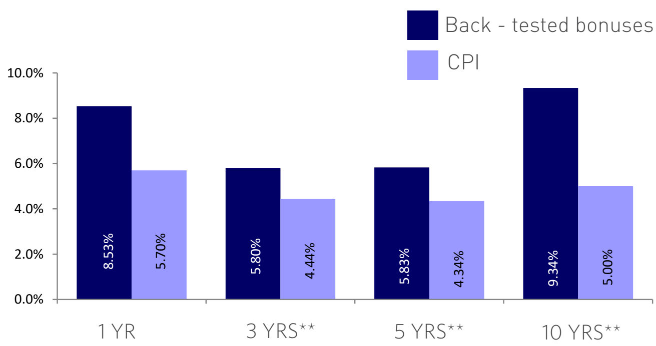
The total bonus* for the past quarter on the Universal Multi-Manager Smooth Growth Fund is shown below.



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



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

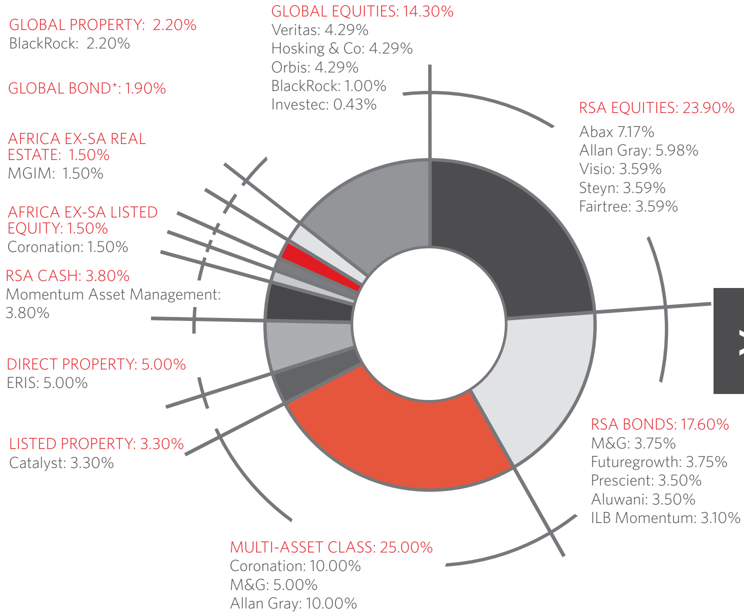


CPI figures are lagged by two months

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

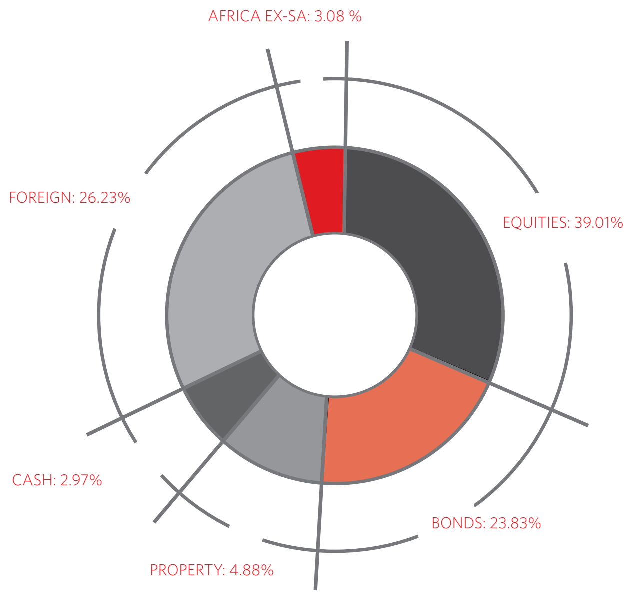
Asset Allocation

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 below.



**Asset class has not been awarded any mandates*

The effective asset allocation of the portfolio is shown alongside.



Partially Vesting Smooth Bonus Range

Universal Smooth Growth Fund

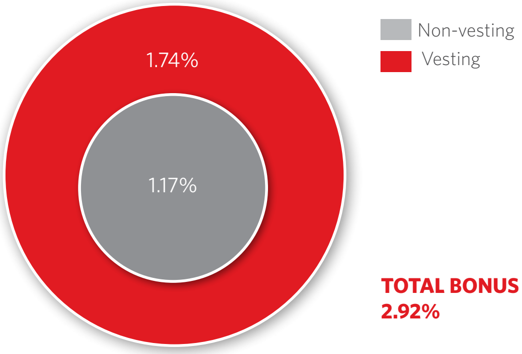
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2020	102.5% - 107.5%	R321m	1.10% [1]	7.78% [1]

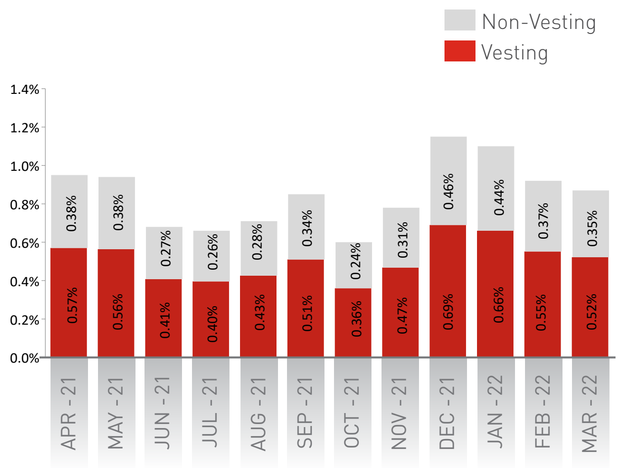
[1]Based on back-tested bonuses and returns

Performance

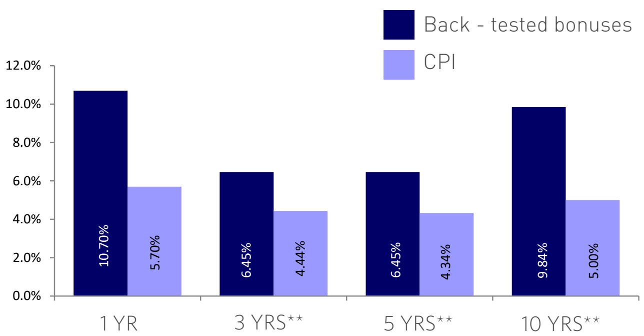
The total bonus* for the past quarter on the Universal Smooth Growth Fund is shown below.



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



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

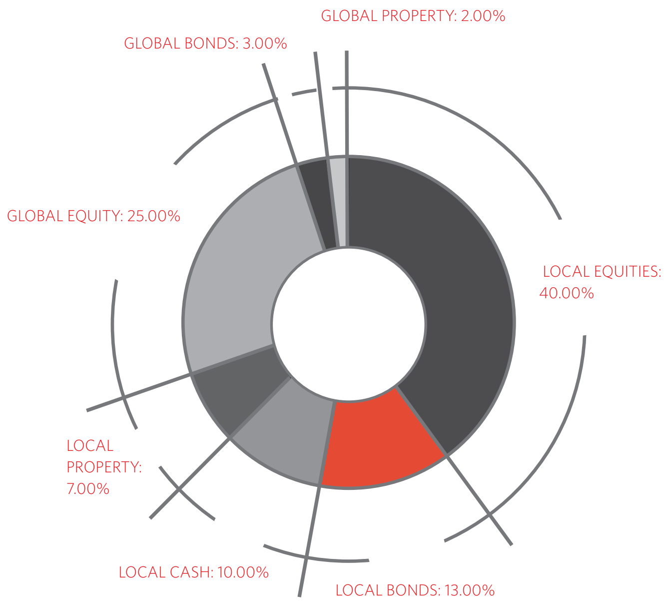


CPI figures are lagged by two months

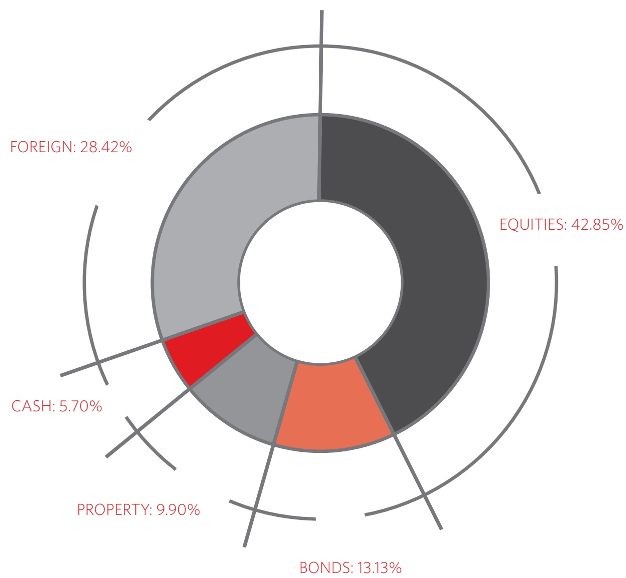
* Bonuses are net of underlying asset charges but are gross of the investment management fee
** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



Partially Vesting Smooth Bonus Range
Universal Smooth-Edge Fund

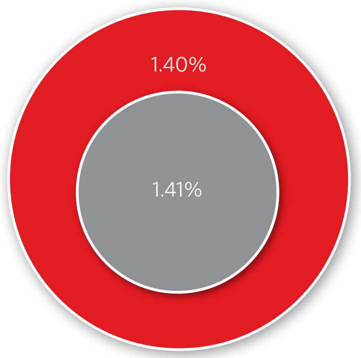
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2020	105% - 110%	R118.6m	1.28% [1]	9.72% [1]

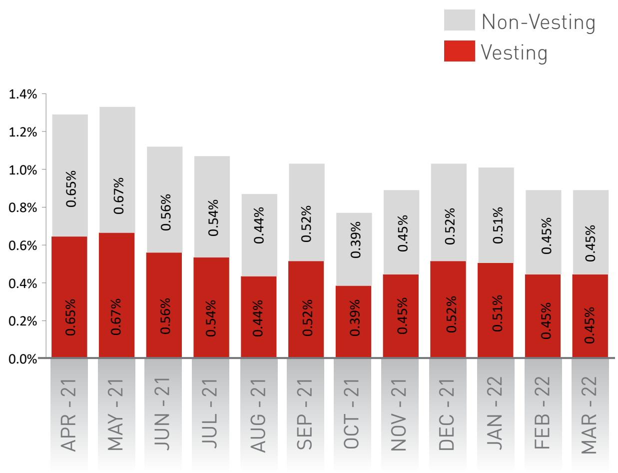
[1]Based on back-tested bonuses and returns

Performance

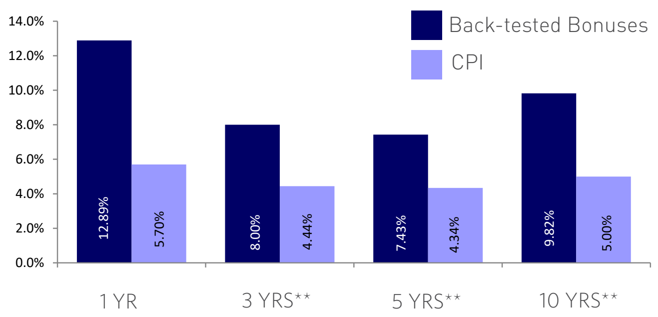
The total bonus* for the past quarter on the Universal Smooth-Edge Fund is shown below.



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



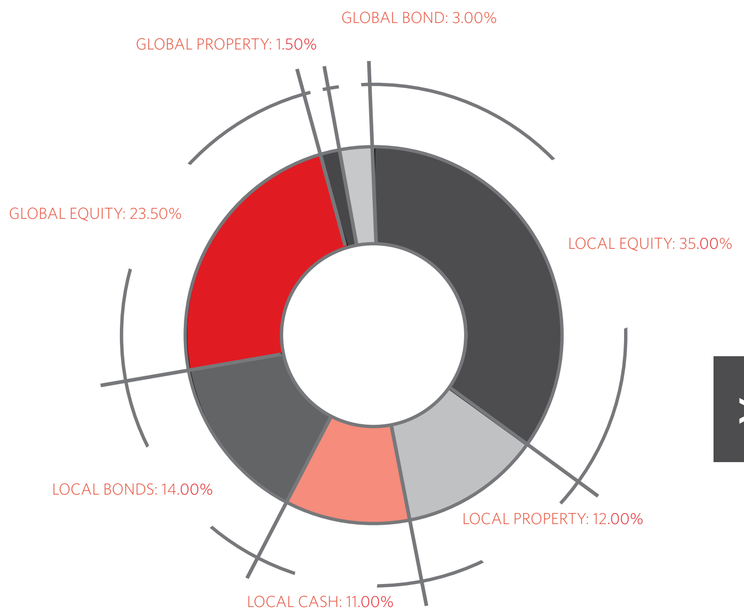
The chart below shows the long term bonus* performance of the Momentum Universal Smooth-Edge Fund against CPI



CPI figures are lagged by two months

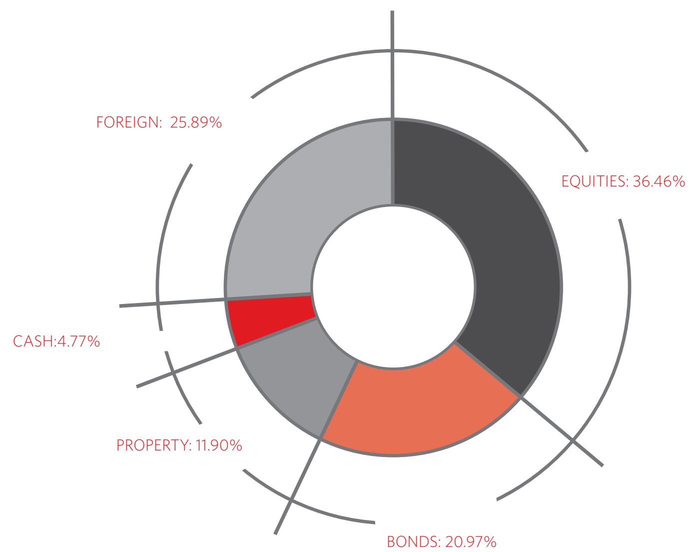
Asset Allocation

The strategic asset allocation of the portfolio is shown below.



*Inflation-linked bonds

The effective asset allocation of the portfolio is shown alongside.



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

Partially Vesting Smooth Bonus Range

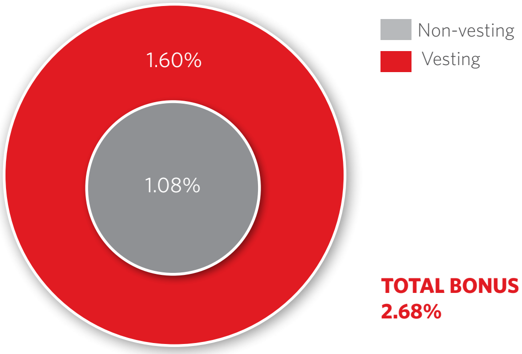
Multi-Manager Smooth Growth Fund Global

Fund Snap Shot

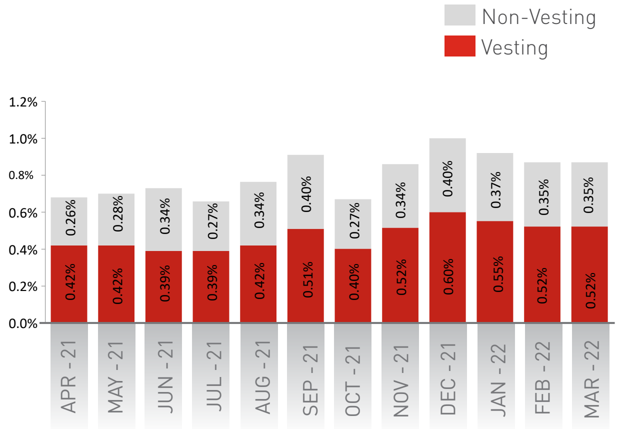
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	102.5% - 107.5%	R10.3bn	1.10%	7.03%

Performance

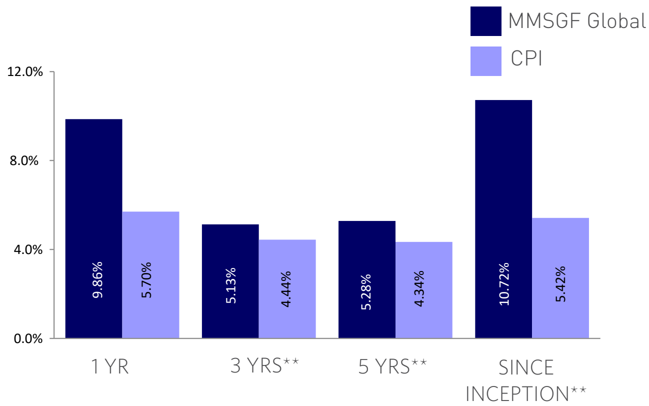
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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



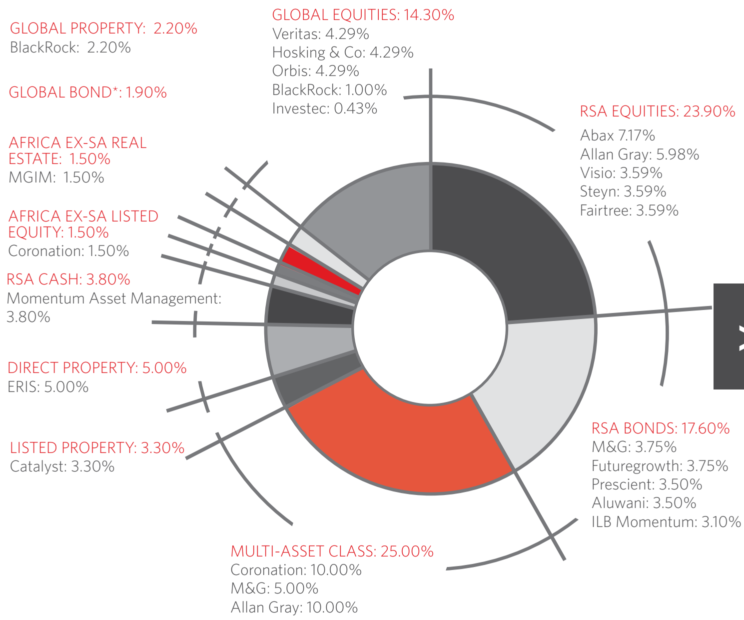
CPI figures are lagged by two months

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

** Annualised

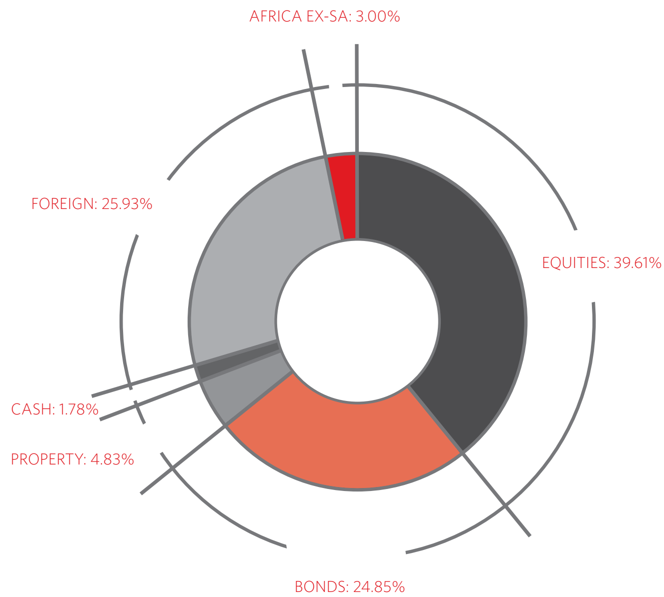
Asset Allocation

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.



**Asset class has not been awarded any mandates*

The effective asset allocation of the portfolio is shown alongside.



Partially Vesting Smooth Bonus Range

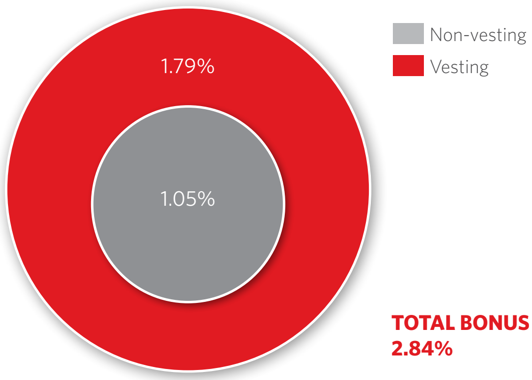
Smooth Growth Fund Global

Fund Snap Shot

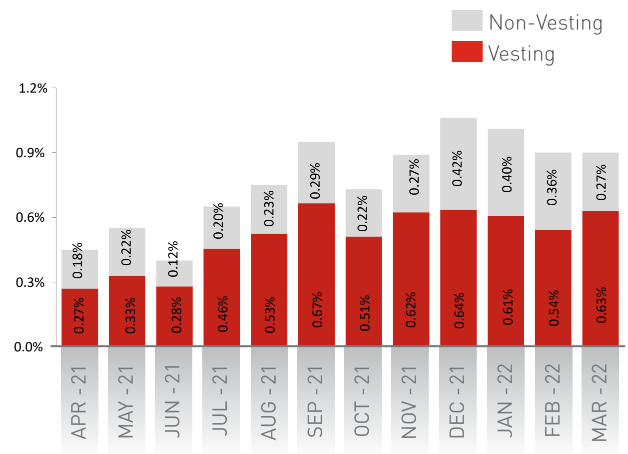
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	105% - 110%	R1.7bn	1.12%	6.20%

Performance

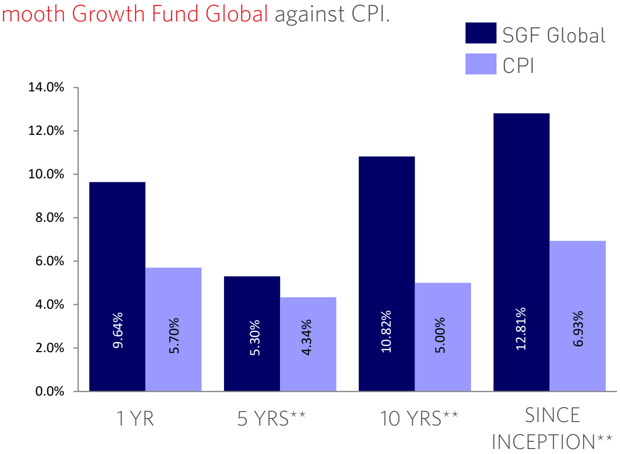
The total bonus* for the past quarter on the Smooth Growth Fund Global is shown below.



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.



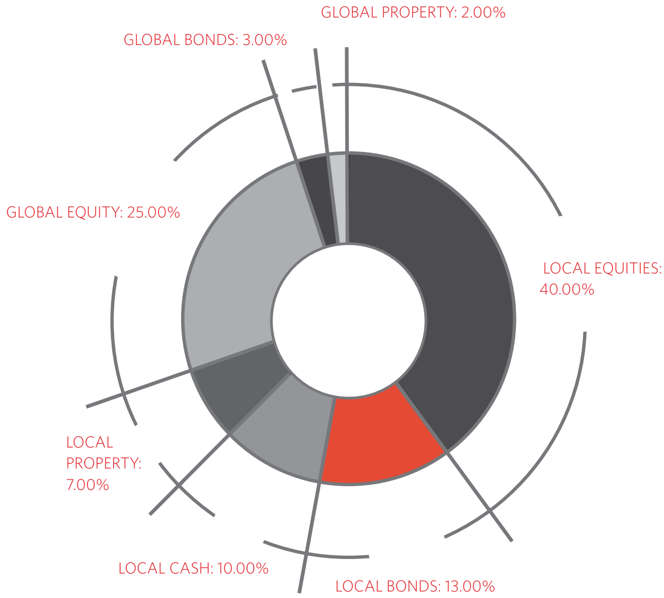
CPI figures are lagged by two months

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

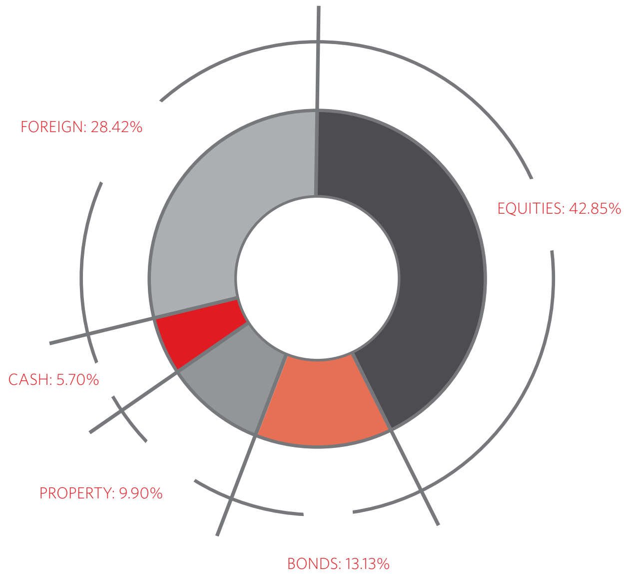
**Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



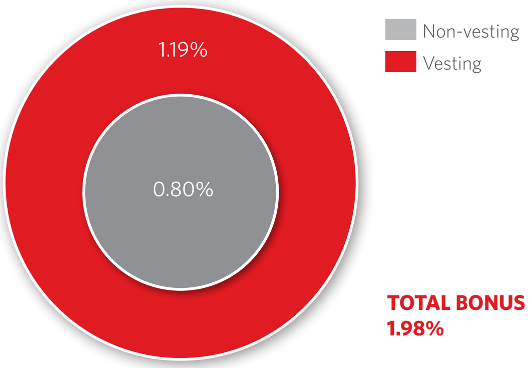
Partially Vesting Smooth Bonus Range
Multi-Manager Smooth Growth Fund
Global Bonus Series 2020 *(previously MMSGF Local)*

Fund Snap Shot

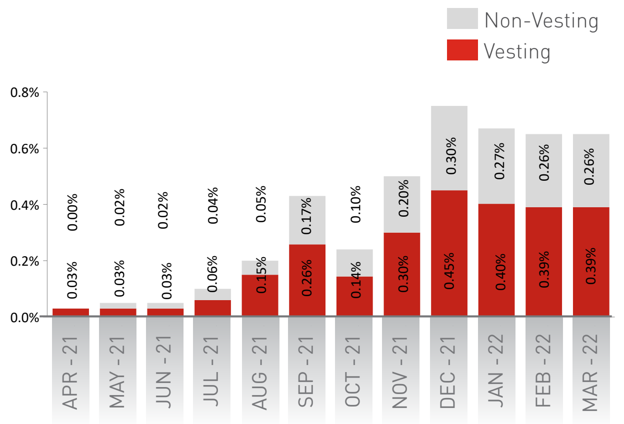
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	100% - 105%	R128.8m	0.76%	4.27%

Performance

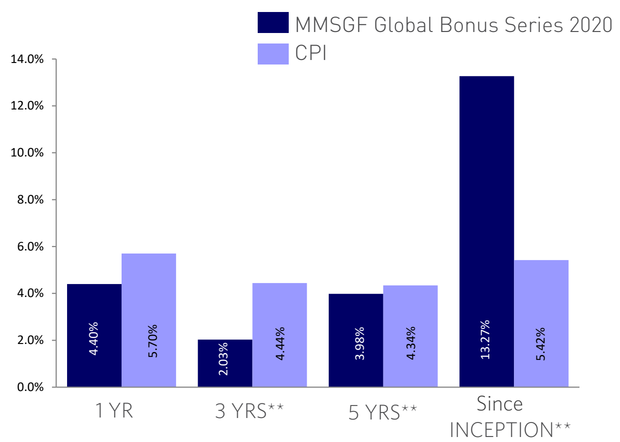
The total bonus* for the past quarter on the MMSGF Global Bonus Series 2020 is shown below.



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



The chart below shows the long term bonus* performance of the MMSGF Global Bonus Series 2020 against CPI



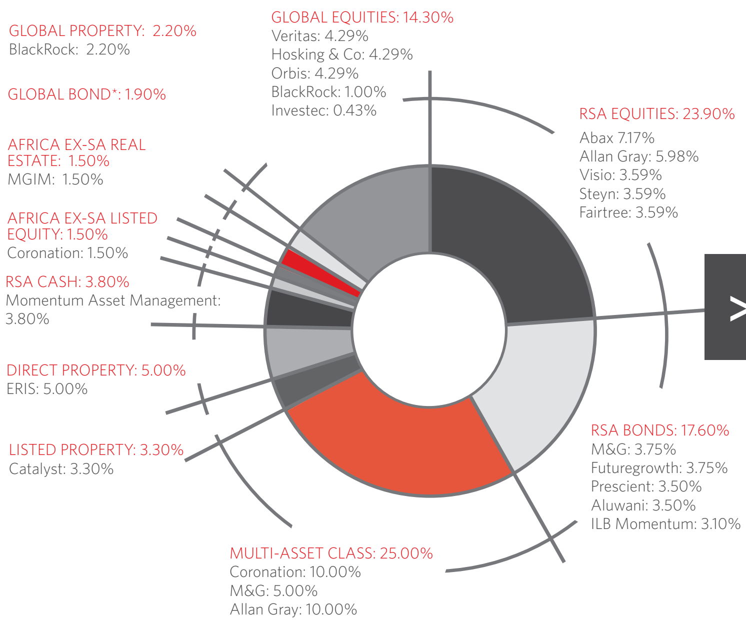
CPI figures are lagged by two months

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

Asset Allocation

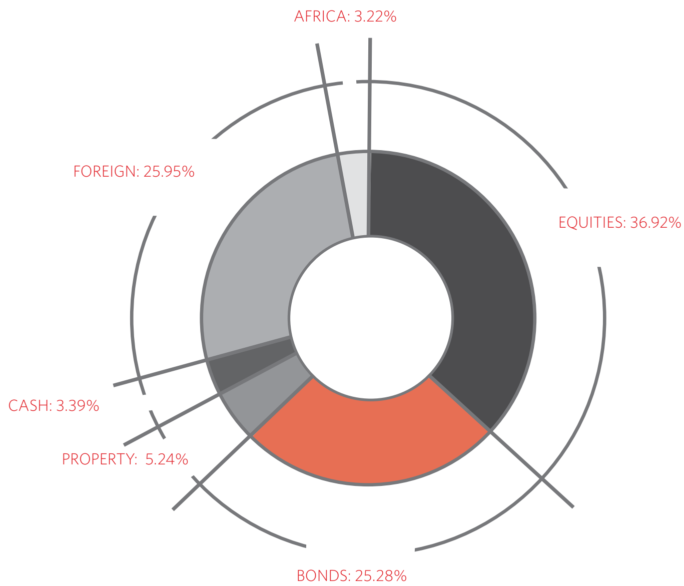
The strategic asset allocation of the portfolio is shown alongside.

The Africa ex-SA Real Estate allocation is expected to increase gradually over the next 5 years to a total of 2.5% in line with drawdown notices from Momentum Global Investment Management (MGIM).



**Asset class has not been awarded any mandates*

The effective asset allocation of the portfolio is shown alongside.



Partially Vesting Smooth Bonus Range
Smooth-Edge Fund

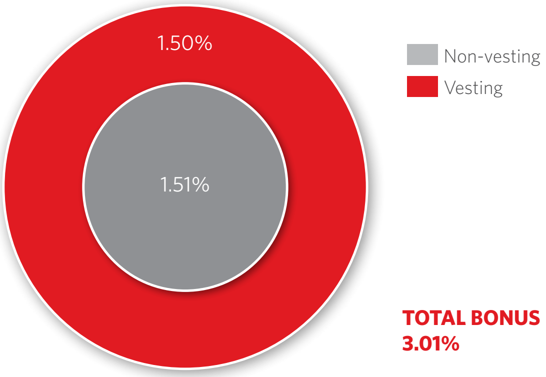
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Feb 2019	105% - 110%	R102.7m	1.32% [1]	9.72% [1]

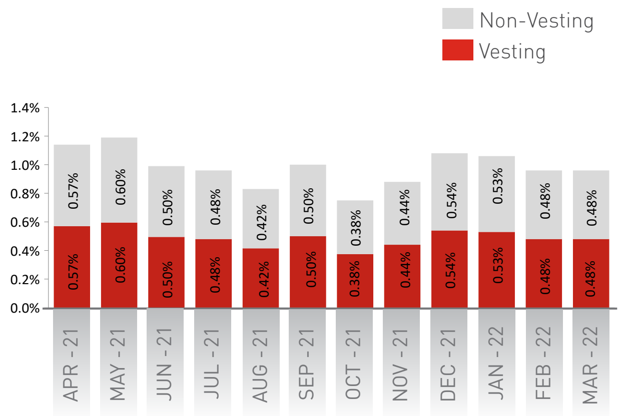
[1]Based on back-tested bonuses and returns

Performance

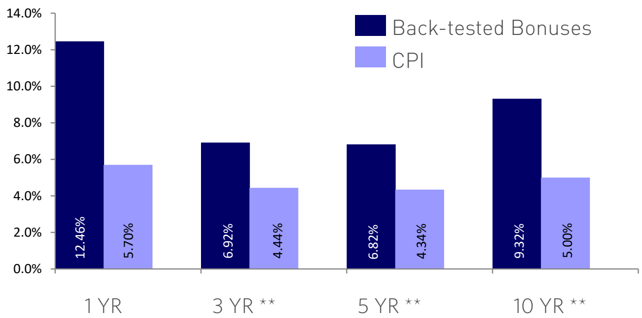
The total bonus for the past quarter on the Momentum Smooth-Edge Fund is shown below.



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

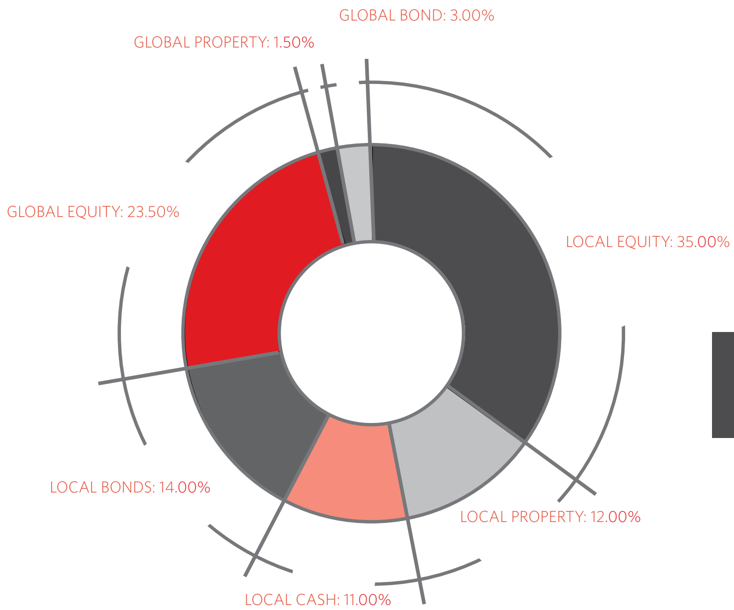


CPI figures are lagged by two months

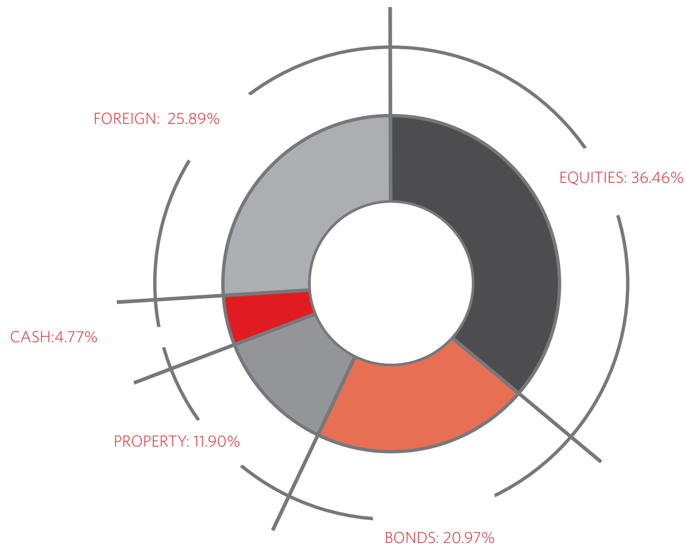
* The bonuses and back-tested bonuses are gross of the investment management fee
** Annualised

Asset Allocation

The strategic asset allocation is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



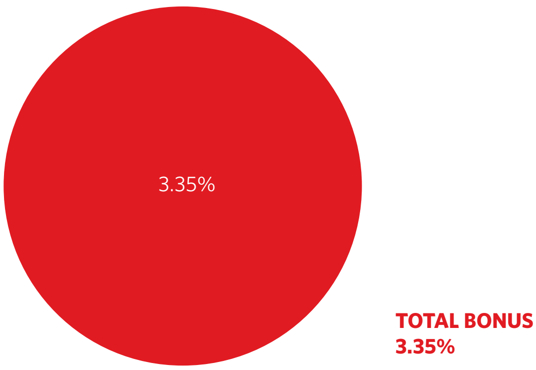
Fully Vesting Smooth Bonus Range
Universal Smart Guarantee+3 Fund

Fund Snap Shot

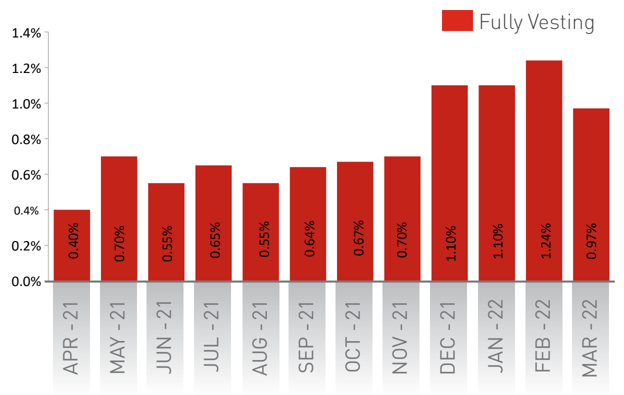
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	97.5% - 102.5%	R548.4m	1.14%	7.09%

Performance

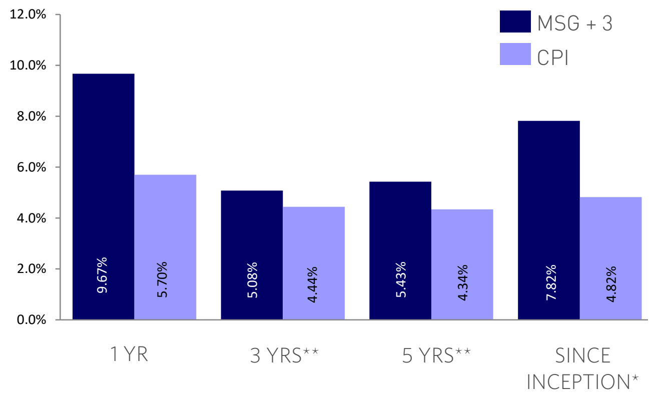
The total bonus* for the past quarter on the Universal Smart Guarantee +3 Fund is shown below.



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.



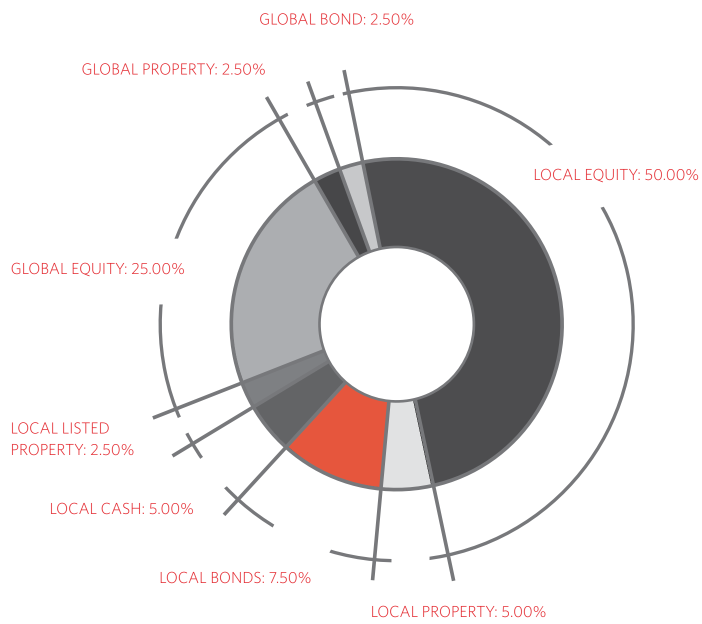
CPI figures are lagged by two months

* 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. Assuming zero returns over the following 34 months (there is a 2 month lag), around **14.80%** of bonuses will still be declared.

Fully Vesting Smooth Bonus Range

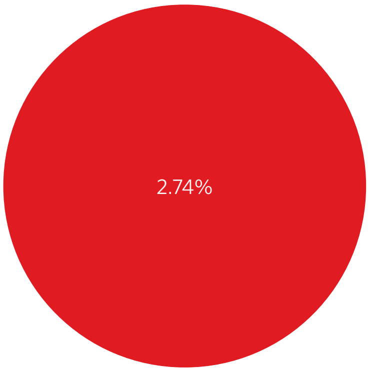
Multi-Manager Secure Growth Fund

Fund Snap Shot

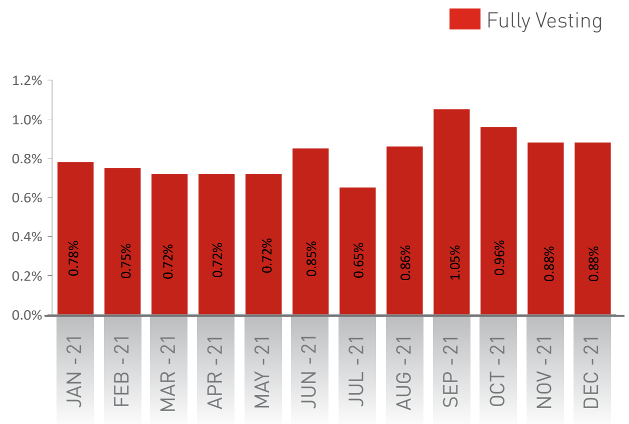
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	107.5% - 112.5%	R89.7m	1.09%	6.94%

Performance

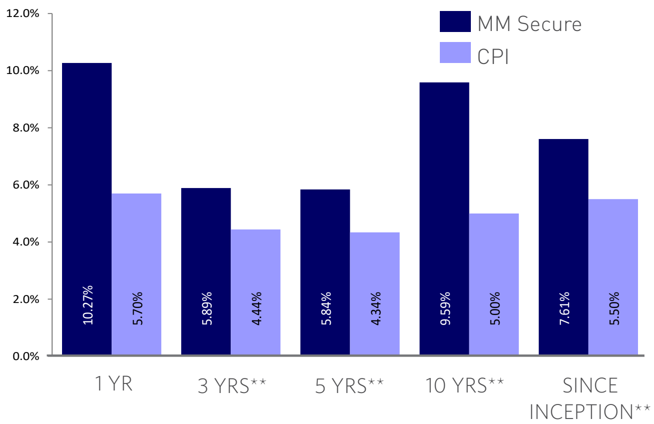
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



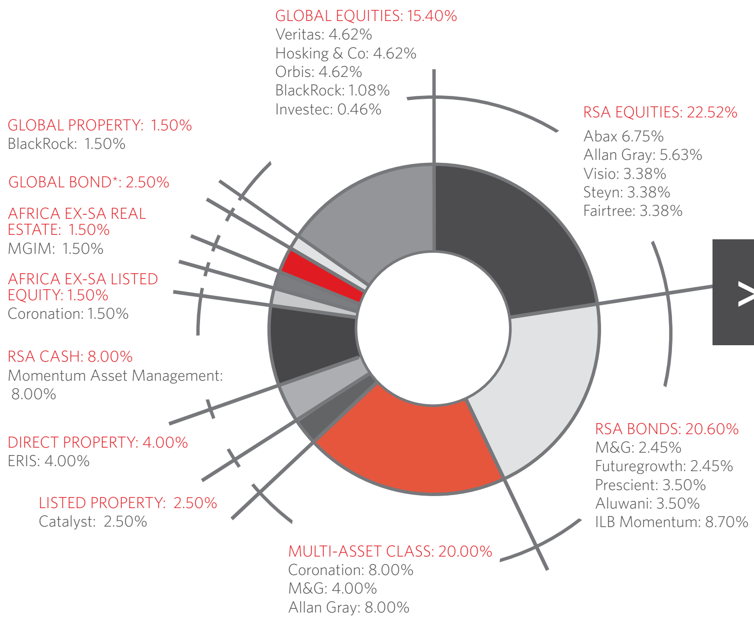
CPI figures are lagged by two months

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

** Annualised

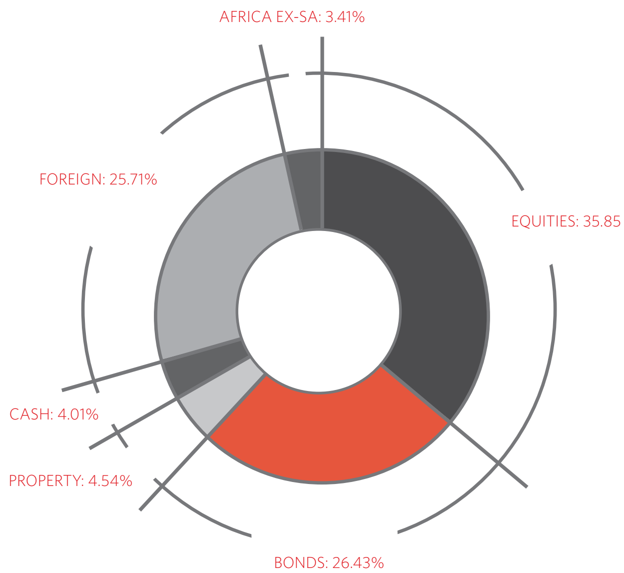
Asset Allocation

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.



**Asset class has not been awarded any mandates*

The effective asset allocation of the portfolio is shown alongside.



Smooth Bonus Portfolios Key Features

	Fund	Fund Return Objective	Manager	Mandate Type	Guarantee on Benefit Payments[1]	Market Value Adjustment on Voluntary Exits[2]	Capital Charge	Policy Fee or Investment Management Fee*	Inception Date
Partially Vesting	Multi-Manager Smooth Growth Fund Global	CPI + 4% pa, net of the policy fee and underlying asset charges over the long term	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
	Universal Multi-Manager Smooth Growth Fund								June 2020
	Multi-Manager Smooth Growth Fund Global Bonus Series 2020								January 2004
	Smooth Growth Fund Global	CPI + 4% pa, net of the investment management fee and underlying asset charges over the long term	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
	Universal Smooth Growth Fund								June 2020
	Smooth-Edge Fund	CPI + 4% pa, net of the investment management fee and underlying asset charges over the long term	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
	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 the long term	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
	Smart Guarantee+3 Fund	CPI + 3% pa, net of the investment management fee and underlying asset charges over the long term	Insurer Liability Driven Investment	Insurer Liability Driven Investment	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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