



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

# Smoothed Bonus Report

First Quarter 2023

**momentum**  
corporate





# Looking back over the past quarter

Dear valued investors

Financial tumult erupted late in the first quarter of the year when the collapse of Silicon Valley Bank (SVB) in the United States (US) reverberated through markets and led to additional US banks failing and needing to be rescued by the US Federal Reserve (Fed). An abrupt loss in confidence in Credit Suisse ensued as concerns over the health of the banking system spread from the US to Europe. The plethora of scandals and control failures was, however, more pivotal for Credit Suisse. Later, UBS agreed to buy debt-ridden Credit Suisse for £3.25 billion. The European Central Bank (ECB) president, Christine Lagarde, commented that the euro area banking system was resilient due to strong capital, liquidity positions and reforms following the Global Financial Crisis.

In global markets, quarterly gains were evident across the board with the MSCI All Country World Index up 7.3% for the quarter. Developed equities took the lead over emerging market (EM) equities in the first quarter of the year. The MSCI World Index (developed markets) rose 7.7% in the first quarter, bolstered by gains in European bourses. Meanwhile, gains in the MSCI Emerging Markets Index lagged at 4% for the quarter.

The South African (SA) rand has been the second worst performing currency (down 4.67%) against the US dollar for the quarter. The country has been hit with a spate of bad news since the start of the year, including the greylisting decision by the Financial Action Task Force, a bigger-than-expected contraction in growth in the fourth quarter of 2022 (with a larger than anticipated dip in financial services activity), a higher frequency and intensity of loadshedding, the resignation of the chief executive officer of energy utility Eskom and a lowering of the outlook on SA's sovereign rating by Standard and Poor's Global Ratings (S&P) from stable to negative.

The fortunate reality for investors in the SA equity market is that the local economy is only a secondary driver for the overall local stock market, where SA equities are trading at huge valuation discounts to the rest of the world. In local markets, the FTSE/JSE All-Share Index (ALSI) was up 5.17%

at the end of the quarter. The rise was driven mainly by Industrials up 13.61% and dragged down by Resources (-4.71%) and Financials (-0.27%).

Herman van Papendorp and Sanisha Packirisamy from the macro research team at Momentum Investments give further market and economic commentary on page 8.

## Momentum Corporate smoothed bonus portfolios

Relative to nine months ended 31 December 2022, we have seen a good recovery in the markets (local and global) over the quarter. This has in general been seen in higher bonus rates from our smoothed bonus portfolios. Almost all our portfolios are fully funded, meaning that if the second quarter returns are as good, bonus rates will continue to be healthy.

Markets are generally expected to have a degree of volatility and we have seen a material increase in volatility over the last few years which is expected to persist. This is where our smoothed bonus portfolios come into their own as they result in a steady bonus rate pattern with far less fluctuations than investors would otherwise experience. With the Momentum Corporate smoothed bonus range, capital guarantees provide further comfort.

We recently launched the Universal Fifty Smooth Return (UFSRF). The UFSRF is a smoothed bonus portfolio targeting a return of CPI +4.5% after fees, where the focus is more on the smoothing of returns than the investment guarantees. This provides the investor with a cost-effective, smoother investment journey and complements our smoothed bonus offering.

We look forward to smoothing out these stormy seas as we take your members on the journey to financial success.

Warm regards



## Steed Duncan-Smith

Client Relationship Manager  
Momentum Corporate





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## Reforming Retirement Planning in South Africa:

# The Two-Pot System



### Introduction

Taking into consideration the economic and political challenges that South Africa is facing, the National Treasury has made efforts to create a conducive environment for retirement savings. Although the country's working population faces difficulties in saving for retirement due to various economic factors and personal circumstances, the proposed implementation of the two-pot system presents a distinct opportunity to improve the preservation of retirement funds. By enabling limited access to funds when needed, a larger part of the population may be expected to accumulate necessary savings towards their retirement. Investing in a smoothed bonus portfolio can provide greater stability and relatively steady returns over time, helping to mitigate the risk of market fluctuations even under the proposed two-pot system. This can be compared with a market-linked portfolio which may have lower fees hence the potential for higher returns but is likely to experience greater market volatility.

### **Siyabonga Mokwena**

Actuarial Specialist  
Structured Solutions

### **What is the two-pot system?**

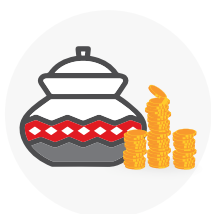
The draft revenue laws amendment bill proposes replacing the current retirement system with a two-pot system. This system will establish two separate accounts or 'pots' for members of retirement funds ('investors'). One account, the 'savings pot' will allow limited withdrawals for non-retirement purposes, while the other account, the 'retirement pot', will remain preserved until retirement. Additionally, there will be an extra 'vested pot' that accommodates contributions and growth accumulated before the implementation. Investors who resign from their jobs can withdraw all funds from the vested pot as a lump sum payment. These pots will have different tax treatments and aim to remove loopholes that undermine preservation.



**Savings pot:** Up to one-third of total retirement contributions will be allocated to this pot with the remainder flowing into the retirement pot. Withdrawals from the savings pot are taxable and can only be made once every rolling 12 months, with a minimum withdrawal of R2 000. Upon resignation, the savings pot can stay in its current investment option or be transferred. The savings pot aims to provide funds when needed and can serve as a safety net for unforeseen expenses or emergencies. All withdrawals from the savings pot are included in taxable income and will attract the appropriate marginal tax rate.



**Retirement pot:** At least two-thirds of contributions to a retirement fund will be allocated to this pot and cannot be accessed before the age of 55. The full balance in the retirement pot must be used to purchase an annuity at retirement, provided that it exceeds R167 500, otherwise a lump sum withdrawal is permitted. Transfers into and between retirement pots will not be taxed. Transfers out of the retirement pot are not allowed, but transfers can be made from other pots into the retirement pot.



**Vested pot:** This will include the retirement fund value before implementation, plus its growth going forward. No further contributions will be made to this pot after implementation. Funds can be fully withdrawn on pre-retirement resignation and will be taxed through the applicable pre-retirement lump sum table. However, balances in retirement annuities that are part of the vested pot cannot be accessed until age 55.

It is important to emphasise that the draft revenue laws amendment bill, which introduces the two-pot retirement system, is not yet final and it is still subject to revisions and could undergo significant changes before implementation. The information presented in this article has been based on the information provided as part of the draft bill.

## Why the need for change?

The proposed change from the current system to the two-pot system is aimed at addressing the situation where many investors are cash-strapped and resort to withdrawing their retirement savings prematurely instead of preserving them when they resign from their jobs. If under further pressure, some resort to resigning from their jobs to access their retirement savings. This undermines the long-term goal of building savings for retirement.

Most South African households do not save enough for their short- to medium-term needs or retirement. According to the National Treasury, on average, households in South Africa save just over 2% of gross domestic product per annum, mostly in the form of contractual savings for retirement funds. Unfortunately, investors tend to not preserve their savings and frequently access them when resigning from their jobs, leaving them vulnerable while working and during retirement. Individuals who use their retirement savings during their productive years often end up relying on old age social grants from the government upon retirement and may even become a burden financially on their children or relatives.

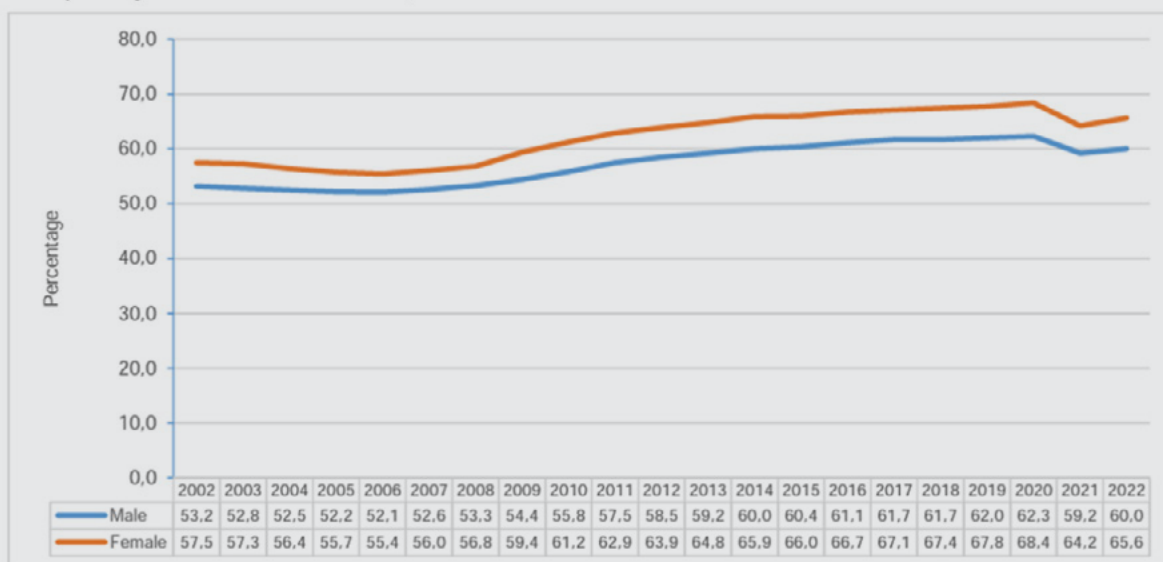
Moreover, knowledge of investment, discretionary savings and retirement savings is generally poor in South Africa and individuals do not save for rainy days or retirement. They do not sufficiently insure their lives for the benefit of their dependents or insure properties in case of loss. Financial education is vital for all South Africans to reduce financial stress and increase income in retirement. The earlier working households start to save and are empowered to make informed financial decisions, the better the financial outcome throughout their life cycles is expected to be.

Momentum Metropolitan Life Limited, in collaboration with the University of South Africa, developed a financial wellness index that has been tracking the finances of South African households for more than a decade. In its early years the index revealed that only 2.7% of household income was spent on savings and South Africans incurred debt to finance consumables rather than assets. While there may have been improvements in recent years, it is still concerning that a majority of the population is still not saving adequately.



The proposed implementation of the two-pot system presents a proactive approach to address this situation by making it compulsory to preserve savings, providing a long-term sustainable solution rather than leaving it up to citizens to decide for themselves. This is particularly important given that some people only prioritise saving for retirement in their 40s and find themselves having to continue working past retirement age because they do not have enough saved up to support their lifestyles. By extending coverage to a wider population and improving the preservation of retirement funds, the two-pot system could help address the poor saving habits of South Africans and ensure a more secure financial future for all.

**Life expectancy at birth of males and females, 2002–2022**



Source: Mid-year Population Estimates, 2022 series.

The above figure from a Statistics South Africa (Stats SA) report shows that between 2002 and 2022, there has been a rise in estimated life expectancy. We can expect this trend to continue over the coming years. As indicated by Stats SA in their report, population ageing and increasing life expectancy are inevitable due to greater public health, better healthcare, and more recently, the use of medical and technology breakthroughs.

As South Africa's population continues to age, it becomes increasingly important to address the issue of retirement savings. As the proportion of older persons in the population increases, it is essential to keep in mind that many of these individuals will need to rely on retirement savings to support themselves in their later years.

## Potential challenges

The implementation of the two-pot system for retirement savings may present several challenges, including:

- the complexity of the system, which could require additional administrative resources and staff training resulting in higher costs for administrators that may be passed on to investors;
- the vested pot, allowing investors to withdraw all their funds upon resignation, may also lead to reduced preservation of retirement savings; and finally
- there may be communication and education challenges as investors may not fully understand the new system, their options under it, or the importance of preserving their retirement savings for the long term.





## Is a smoothed bonus portfolio valuable under the two-pot system?

Investing in a smoothed bonus portfolio can provide investors with advantages under the two-pot system. For instance, the strategy of a smoothed bonus portfolio for the savings pot can ensure that investors can access funds when they need them, while also allowing for financial growth. Similarly, the strategy of a smoothed bonus portfolio for the retirement pot can ensure that investors are protected from market downturns just prior to events such as death or disability, while also allowing for long-term financial growth.

A smoothed bonus portfolio can provide a guarantee on the money invested in a portfolio and the returns passed on to investors in the form of bonuses declared by the insurer. That is, a smoothed bonus portfolio range can offer several different levels of guarantees (from 100% to partial guarantees to smoothing only). The different options will provide attractive solutions to different investors depending on their risk appetite.

Investors who put their money in smoothed bonus portfolios are usually conservative investors, who expect to be shielded from negative returns, especially in times of market stress. This is achieved by a smoothing process, which aims to even out the returns over time, rather than exposing investors to the full volatility of the underlying investments. Market fluctuations are smoothed out over time and provide protection during market downturns, by helping to limit potential losses. One of the benefits of this approach is that it can provide a sense of security and predictability for investors. Because the returns are smoothed out over time, investors can have a better idea of what to expect from their investments, which can help them to plan for the future with more confidence.

Investors who invest in a market-linked type solution will not experience any protection when there are market downturns. Even though they can experience high returns when markets are bullish, investors will need to consider if they are able to stomach the negative returns experienced when there are market downturns. With smoothed bonus portfolios, the downside protection that

is offered is advantageous to investors, especially for those who are not comfortable with the volatility that a market-linked type solution will offer.

When it comes to the savings, retirement and vested pots under the two-pot system, there are some additional considerations to keep in mind. For example, in the savings pot, investors may still be interested in the potential for higher returns, since they may be looking to save for shorter-term goals. In this case, a market-linked portfolio could be more appropriate since it can offer the potential for higher returns, but the higher volatility must be considered carefully. In times of market stress a smoothed bonus portfolio offers investors the benefit of a guaranteed return of monies invested and protection against market volatility in the savings pot as it can manage the risk of quickly depleting investor accounts when their withdrawals are processed during market downturns.

However, it is important to consider that these smoothed bonus portfolio guarantees come at a cost and there is a potential for market value adjustments if investors choose to withdraw their funds when funding levels are below 100%, in which case the outcomes would be similar to investing in a market linked portfolio. *(A funding level is the ratio of the value of the underlying investments to the value of net capital invested and net declared bonuses.)*

In the retirement and vested pots, investors who are close to retirement may be more interested in the guarantees provided by a smoothed bonus portfolio. This is because closer to retirement it becomes important to prioritise capital preservation and a more predictable investment experience. On the other hand, because the retirement pot is intended to be held for longer periods of time, direct exposure to market volatility provided by a market-linked portfolio can give young investors who are far from retirement the opportunity to capitalise more on the upside of the markets when invested in a market-linked portfolio. Investors far from retirement have the luxury of time to be able to weather short-term market fluctuations, and benefit from the potential of high returns while paying lower fees in a market-linked portfolio. However, this needs to be balanced against a reduction in investor accounts prior to retirement, especially when unexpected events such as dismissal from employment occur.

## Conclusion

The proposed change by the two-pot system is aimed to provide investors access to funds whilst removing some loopholes that have undermined preservation. This should help build savings for retirement and reduce the reliance on excessive borrowing through the retirement pot and savings pot, which can enhance short to medium-term savings.

It is essential to provide financial education and encourage households to save for retirement and rainy days to reduce financial stress and improve financial outcomes throughout their life. Smoothed bonus portfolios can be appropriate investment vehicles under the proposed two-pot system as they can aid in achieving investor objectives which may include growth and protecting funds from market fluctuations.



# Momentum Investments market commentary for the quarter ended **March 2023**

by Sanisha Packirisamy and  
Herman van Papendorp

## Highlights

### Markets

- An important determining factor for the behaviour of global asset classes in the next year is whether the United States (US) economy will be able to avoid a recession or not. If the recession again follows yield curve inversion this time, history would dictate that US equities have not bottomed yet, as US equities have always in the past troughed during a recession, but never before.
- Our current preference for US fixed income over developed market (DM) equities is based on the former's favourable relative valuations and income provision, but also the defensive hedging properties provided by fixed income during potential future equity drawdowns in case of recession, negative profit surprises or general risk-off periods.
- Although global property fundamentals remain solid and the asset class looks cheap against equities, its expensiveness against fixed-income assets erodes its relative attractiveness.
- South African (SA) equities still trade at huge valuation discounts to the rest of the world and its history. Although the SA equity market will likely also suffer during any global equity drawdowns in risk-off periods, it could perform relatively better in subsequent recoveries due to its positive valuation underpin.
- SA real bond yields are attractive against their history, as well as relative to those in global markets, with part of the high real yield differential due to a fiscal and country risk premium. We expect falling inflation in the coming year to become less supportive of inflation-linked bonds (ILBs). The prospective SA real cash yield has been rising from a low level in line with policy rate increases and recently falling inflation and is now slightly above its historical average.
- The potential for SA listed property return upside from undervalued levels needs to be weighed against remaining negative fundamental factors, such as vacancy rates that remain above pre-COVID levels, escalations that are trending down and reversions that remain negative.
- There is always a strategic rationale for gold as a portfolio risk diversifier, because it is expected to hold its value through turbulent times and has limited correlation with other asset classes. Historically, the rand gold price has been a strong relative asset class performer for a SA investor.



## Economics

- Despite the upside risks of a warmer European winter and a quicker reopening of the Chinese economy materialising and negating the most adverse downside risks to the global economic trajectory, additional monetary policy tightening, a deterioration in financial conditions and declining confidence continue to weigh on the outlook.
- Even with a further downtrend expected in inflation in the coming months, disinflation will still take time and it may be a while before inflation returns to target in the vast majority of economies.
- Tight labour markets resulting in robust wage growth have created spillover effects from the initial round of inflation. However, contracting money supply in the US, slowing activity due to substantial monetary tightening over the past year and easing supply chain disruptions should eventually also lead to lower core inflation, albeit with a lag.
- As the current economic cycle matures, typical late-cycle characteristics have emerged. Fears of systemic risk arose late in the first quarter of this year when Silicon Valley Bank (SVB), which specialised in early-stage venture capital clients, collapsed. Although authorities stepped in to combat the risks of contagion, market jitters over financial stability risks lingered as banking stress spread from the US to Europe.
- SA faces a tough situation with loadshedding, anaemic growth, unemployment, poverty and widespread corruption. Insufficient electricity will likely keep growth below 0.5% this year and dampen trend growth to below 2%. Moreover, higher costs for alternative forms of energy pose a threat to the inflation outlook. An increased cost base for corporates will likely also weigh negatively on expected revenue collection in the next fiscal year.
- The SA Reserve Bank (SARB) is in a difficult position. Upside risks to the inflation outlook remain, given local pressures on food inflation and a rise in global financial stability risks weighing on the currency, while the economy's growth pulse remains faint.
- Interest rate increases from here will likely be less effective in dousing inflation (which is still predominantly cost push in nature) and more damaging for growth.

## Banking chaos roiled financial markets late in the quarter

Financial tumult erupted late in the first quarter of the year when the collapse of SVB reverberated through markets and revealed additional hidden banking stresses. These stresses included an abrupt loss in confidence in Credit Suisse as concerns over the health of the banking system spread from the US to Europe.

Wall Street's fear gauge (the CBOE Volatility Index or VIX) temporarily broke out above 30 points on 13 March 2023, amid market fallout from the collapse of SVB, Silvergate and Signature. However, the VIX pulled back to close the quarter three points lower on the back of a slight recovery in the banking sector and less hawkish sentiment from the US Federal Reserve (Fed). On the contrary, the Merrill Lynch Option Volatility Estimate (MOVE), which captures a yield curve-weighted index of the normalised implied volatility on one-month Treasury options, soared to a post-global financial crisis (GFC) record of 199 points in the middle of March 2023, retracing only slightly by the end of the quarter.

In reaction to banking sector stress, the Bitcoin price breached US\$28 000 for the first time since June 2022. The highly publicised failure of these institutions strengthened the appeal for the decentralised structure of cryptocurrencies.

Despite an anticipated rebound in demand from China, global financial stability stresses led to renewed downside risks to the global

growth trajectory, leading commodity prices lower. The Bloomberg Commodity Price Index sank 5.4% in the first quarter despite the dollar price of gold lifting to its highest level in a year (8% higher since the start of the year), previously reflecting Russia's invasion of Ukraine. This time, the gold price benefited from investors seeking safe-haven assets during turmoil in the banking sector. The dollar price of platinum and palladium nevertheless plummeted 7.4% and 18.3%, respectively, year to date. The dollar price of crude oil shifted 7.1% lower over this period, reflecting the possibility of a slowdown in global demand.

It was a quarter of two halves for global equities. The MSCI All Country World Index shot up 9.5% in the first few weeks of the year, peaking in early February. However, global equities retraced some of these gains in the remainder of the quarter, ending March 7.3% higher than at the start of the year (see chart 1).

Although quarterly gains were evident across the board, developed equities took the lead over emerging market (EM) equities in the first quarter of the year. The MSCI DM Index rose 7.7% in the first quarter, bolstered by gains in European bourses. Meanwhile, gains in the MSCI EM Index lagged at 4% for the quarter.

Within the DM composite, US equities were hit the hardest amid the banking sector fallout. Despite an intramonth dip, the S&P 500

Index managed to end the quarter 7.5% in the black as efforts to reduce the risk of contagion in the financial system placated investors. However, losses in the S&P 500 Banks Index extended to 12.3% by the end of the quarter.

The Eurostoxx 50 Index dipped during the quarter as the banking sector was weighed down by the Credit Suisse fallout and a steep fall in Deutsche Bank shares. Nevertheless, comments from European Central Bank (ECB) President Christine Lagarde, that the euro area banking system was resilient due to strong capital, liquidity positions and reforms following the GFC, took the edge off market fears late in the quarter, leaving the Eurostoxx 50 Index 14.3% higher at the end of the quarter. Lagarde also noted that the ECB toolkit could provide liquidity if needed.

Over in Japan, the Nikkei 225 Index finished the quarter 8.5% up, recovering late in the quarter on easing financial concerns.

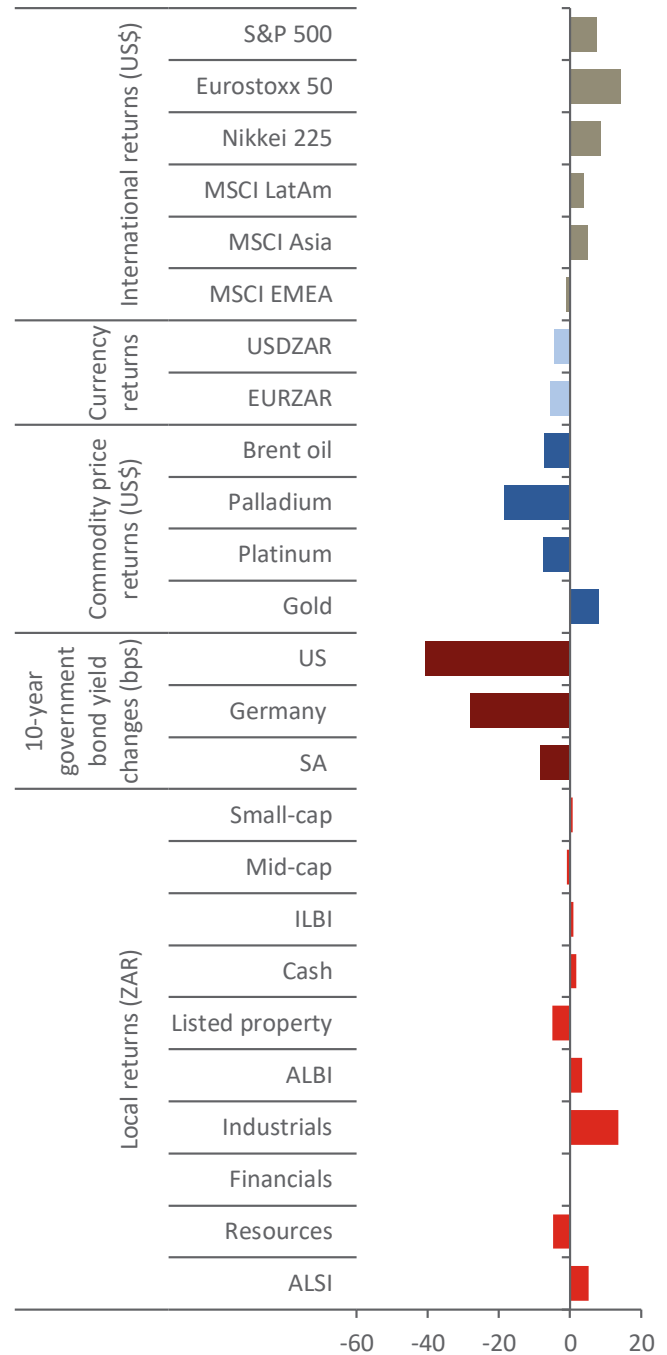
The MSCI EM Index inched 4% higher in the quarter, with gains in Asian stocks pulled lower by a poor performance in equity markets in Europe, Middle East and Africa (EMEA).

The MSCI Asia Index closed 4.8% higher at the end of the first quarter, with stocks recovering late in March 2023, in line with easing financial strains. The MSCI EMEA Index nonetheless acted as a drag on the MSCI EM Index, falling 1.1% in the quarter. Meanwhile, equity markets in Latin America rose 3.9% in the quarter, gaining in the final days of the quarter.

Bonds assumed their traditional role of acting as a shock absorber when equities underperform. As bank shares came under pressure, investors sought out the perceived safety of bonds, driving yields lower in March. CNBC reported the largest three-day dip in the two-year Treasury yield, since the October 1987 stock market crash, following SVB's failure.

The yield on the US 10-year government bond fell back 41 basis points to 3.5% in the first quarter of the year, followed by a 28-basis point retracement in the German 10-year government bond yield to 2.3% by the end of March 2023.

Chart 1: Quarterly asset class returns (%)



Source: Iress, Momentum Investments

Alongside rising risk aversion, the JP Morgan EM Bond Index (EMBI) spread rose 25 points and ended the quarter at 400 points. Argentina and SA experienced the largest quarterly widening in credit default swap (CDS) spreads of 13 points and 9 points, respectively, in the first quarter of the year, while spreads narrowed the most for Thailand (25 points) and Romania (23 points) in the same period.

The local equity market lagged its global counterparts and edged up 5.2% in the quarter. Gains were driven by the FTSE/JSE Industrials Index which jumped 13.6% higher. The FTSE/JSE Financials Index lost 0.3% in the same period, while returns on the FTSE/JSE Resources Index came under pressure from weaker commodity prices and disappointed at negative 4.7%.

The FTSE/JSE Mid-cap index ended the quarter 0.9% lower while small-cap equities experienced gains of 0.8%.

In SA's fixed income markets, the 10-year government bond yield

rallied 21 basis points. The JSE Assa All Bond Index returned 3.4% for the quarter, while the JSE Assa Government ILB Index eked out a 1% increase. The FTSE/JSE SA Listed Property Index experienced a difficult second half of the quarter and tumbled 5.1% relative to the start of the year.

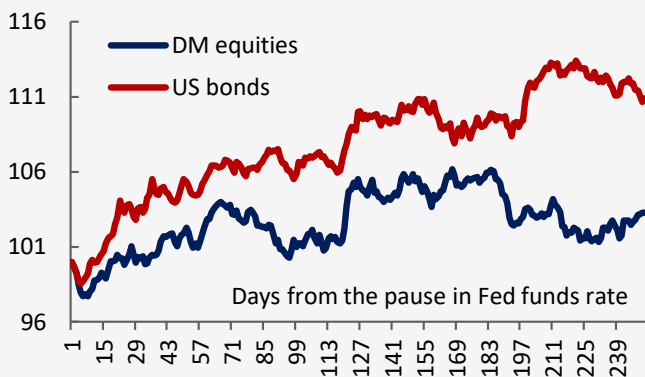
EM currencies strengthened in general against the dollar in the first quarter of 2023. The Mexican peso outperformed by 11.3%, followed by a 10.9% appreciation in the Hungarian forint. Meanwhile, the SA rand and the South Korean won posted the weakest returns of the EM peer group at around negative 2.4% and 2%, respectively, against the US dollar in the corresponding period. The rand depreciated by 5.5% against the euro and 6.1% against the British pound. The pound strengthened against the US dollar over the quarter. A resolution to the Northern Ireland protocol dispute and a dovish hike by the US Fed aided this movement in the currency.

SA's ten-year CDS spread widened by 12 points and ended the year's first quarter at 369 points.

## US fixed income appealing versus DM equities on relative valuations and defensiveness

In response to an anticipated continuation of the downward trend in US inflation throughout 2023, it looks likely that we should see an end to the US policy rate hiking cycle in the coming months. Research from Morgan Stanley shows that US bonds historically outperformed DM equities subsequent to policy rate peaks whenever the US yield curve was inverted, as is currently the case (see chart 2).

**Chart 2: US bonds outperform DM equities post US rate peaks when yield curve is inverted**



Source: Morgan Stanley

DM equities only outperformed US bonds after rate peaks in the past when there were no worries about downside risks to economic growth (i.e. when the yield curve was not inverted as it is now).

An important determining factor for the behaviour of global asset classes in the next year is whether the US economy will be able to avoid a recession or not. In this regard, the inversion since October 2022 of the three-month/10-year section of the US yield curve has historically been an infallible recession indicator, on average leading the start of a US recession by 10 months, with the shortest lead being five months and the longest 16 months, according to Credit Suisse research. If history is any guide, one would thus expect a US recession to commence anytime between March 2023 and February 2024, with the typical start around August 2023. If the recession again follows yield curve inversion this time, history would dictate that US equities have not bottomed yet, as US equities have always troughed during a recession, but never before (see table 1 from Bank of America). Only if the recession for the first time ever does not follow yield curve inversion this time, would there be limited risk for further equity downside in coming quarters.

**Table 1: US equities never bottom before a recession starts**

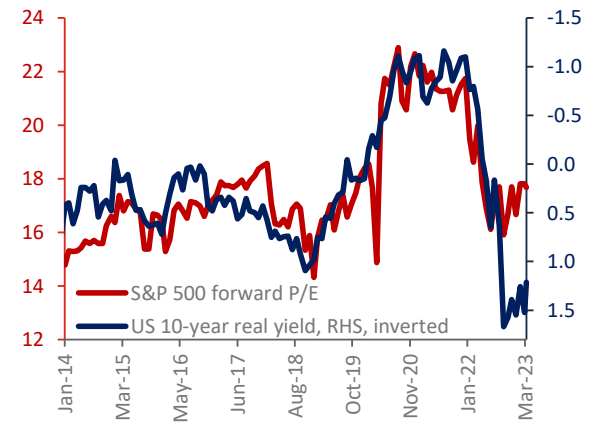
| S&P 500        |             | Days before (-) / after (+) start of recession |                |
|----------------|-------------|--|----------------|
| Peak date      | Trough date | S&P 500 peak                                   | S&P 500 trough |
| 5 Jan 1953     | 14 Sep 1953 | -207   | 45             |
| 2 Aug 1956     | 22 Oct 1957 | -394   | 52             |
| 3 Aug 1959     | 25 Oct 1960 | -271   | 178            |
| 29 Nov 1968    | 26 May 1970 | -397   | 146            |
| 11 Jan 1973    | 3 Oct 1974  | -323   | 307            |
| 13 Feb 1980    | 27 Mar 1980 | 13   | 56             |
| 28 Nov 1980    | 12 Aug 1982 | -245   | 377            |
| 16 Jul 1990    | 11 Oct 1990 | -15  | 72             |
| 24 Mar 2000    | 9 Oct 2002  | -372   | 557            |
| 9 Oct 2007     | 9 Mar 2009  | -83  | 434            |
| 27 Dec 2019    | 23 Mar 2020 | -64  | 23             |
| <b>Median</b>  |             | <b>-214</b>                                    | <b>204</b>     |
| <b>Average</b> |             | <b>-245</b>                                    | <b>146</b>     |

Source: Bank of America

Should a US recession ensue in the next year, an eventual US equity trough during the recession and a subsequent sustainable equity rally will be very much reliant on the market's anticipation of future Fed interest rate cuts at the time. However, for the Fed to contemplate a pivot towards rate cuts, it would have to be comfortable with the direction and level of US inflation at that point. While goods inflation currently seems to be on a sustainable downward path, services inflation has been more sticky due to high wage growth. As such, it seems unlikely that the Fed will consider lowering interest rates before conditions in the US labour market loosens enough to force wage growth, and by implication services inflation, lower.

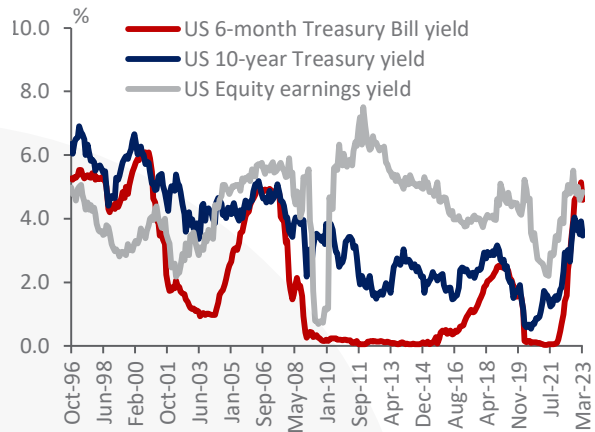
It looks like a disconnect between US equities and bonds on the Fed policy path has developed since the peak in US inflation in June 2022. Whereas US real bond yields have risen since then in anticipation of Fed policy remaining restrictive for some time, equities seem to have discounted a much easier monetary policy stance, with no equity valuation derating seen over the period (see chart 3). This is in stark contrast to the general strong inverse directional relationship between US real bond yields and equity ratings over time. Should US interest rates turn out less sanguine than the US equity market currently expects, equity ratings will likely adjust downwards, with detrimental consequences for equity returns.

**Chart 3: US equities and bonds seem to disagree about the future US policy rate path**



Source: Morgan Stanley

**Chart 4: US cash and bonds have become income-providing alternatives to equities**



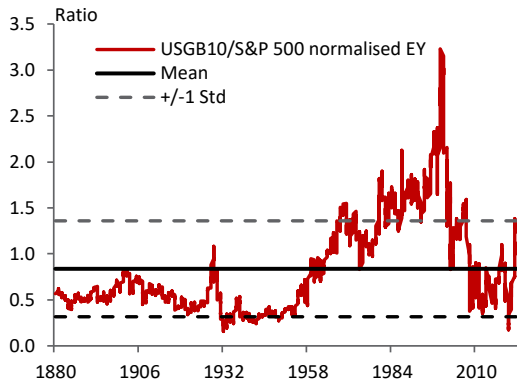
Source: Iress, Momentum Investments

Furthermore, there looks to be downside risk to US profit expectations. Although the consensus expects US profits to rebound later in 2023, the negative combined top-line impact of falling inflation and lower sales volume growth in a slowing economy, together with the detrimental impact of higher costs (particularly wages) on margins, should have an overall negative bearing on corporate profits. In addition, whereas the Fed normally cuts rates at this late stage in the cycle, this time the Fed is hiking into a likely earnings recession, potentially compounding the earnings downside.

Sharp global policy rate rises in 2022 have caused the largest increase in US cash rates in 40 years. As a result, US fixed-income assets (cash and bonds) have again become viable income-providing alternatives to equities (see chart 4). The last time this was the case, was in 2007 before the onset of the GFC.

Apart from a short stint in 2018 when US bond yields shot up in reaction to the previous rate hiking cycle, US equities have consistently been cheaply valued relative to bonds since the GFC. However, the aggressive Fed rate hiking cycle since 2022 has made the relative valuation of US equities to bonds the most expensive since 2007 (see chart 5).

**Chart 5: Relative US equity/bond valuations favour bonds**



Source: Iress, Momentum Investments

Our current preference for US fixed income over DM equities is based on the favourable relative valuations and income provision discussed above, but also the defensive hedging properties provided by fixed income during potential future equity

drawdowns in case of a recession, negative profit surprises or general risk-off periods.

The strong operating performance by the US property sector in recent years has continued, with funds from operations (FFO) up by 11% year-on-year in the fourth quarter of 2022 and up by more than 9% annualised since 2019. US occupancy rates remain high outside the Office subsector. US real estate investment trust (REIT) balance sheets have strengthened since the GFC, with lower leverage and a longer maturity profile. Furthermore, REIT sensitivity to interest rates has declined since the GFC with more fixed-rate debt at lower interest rates.

Global property looks cheap against global equities, with an above-average yield spread. However, the global property yield is currently expensive versus fixed-income assets (nominal and real US yields, as well as global investment-grade bonds), with yield spreads below their historical averages, hence eroding the relative attractiveness of the asset class. However, global property does provide diversification benefits to a multi-asset portfolio.

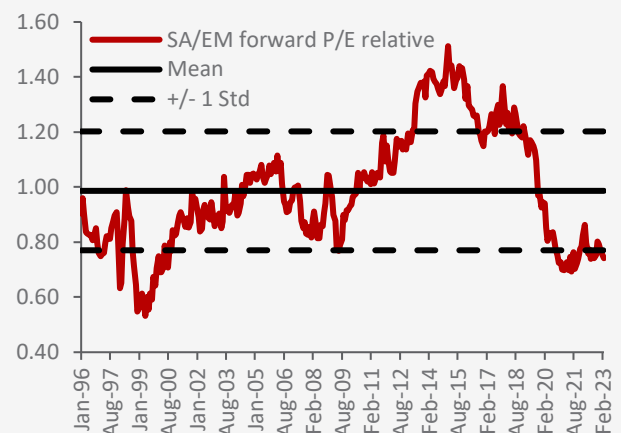
For SA investors, we prefer SA asset classes over global assets in the next year. Firstly, our expectation for some rand appreciation as global risk appetite improves later this year, would erode the local currency returns from global assets. Furthermore, SA assets are supported by more attractive valuations than global assets and already discount bad news.

## SA equity market has positive valuation underpin for future returns

SA equities continue to be attractively valued relative to global equities, as well as against its history. This should provide some support in case of potential global equity drawdowns, but more so during subsequent risk-on recoveries when global risk appetite increases. SA equity valuations remain cheap against EM (and even more so against DM), with SA a superior dividend payer within EM and at a large forward P/E discount to EM (see chart 6).

In the period between the 1998 EM crisis and the 2000 dot-com collapse, SA equities traded at a larger forward P/E discount than the current one standard deviation discount.

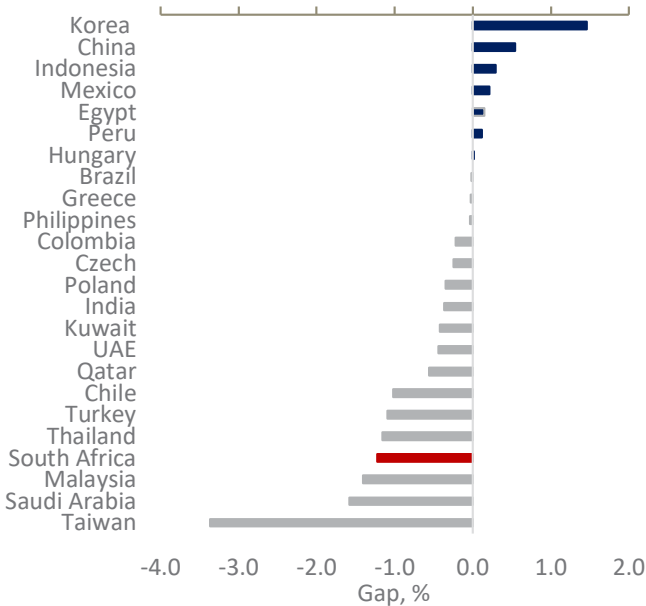
**Chart 6: SA forward P/E relative to EM**



Source: SBG Securities

Furthermore, SA is the fourth most underowned market within global EM (GEM) equity funds (see chart 7) and as such should have meaningful rerating potential from current cheap valuations when global risk appetite improves.

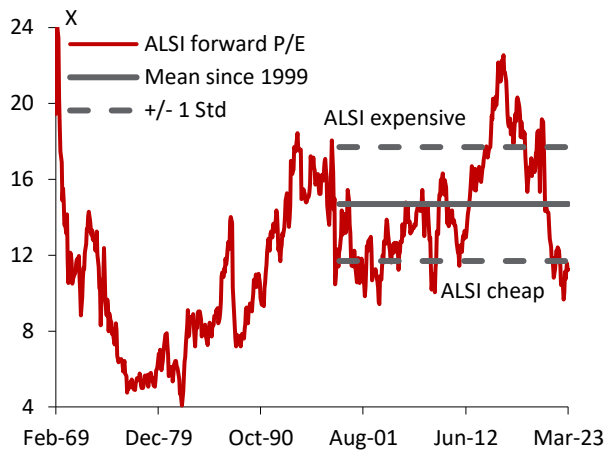
**Chart 7: GEM funds' % allocations to EM countries versus benchmark**



Source: SBG Securities

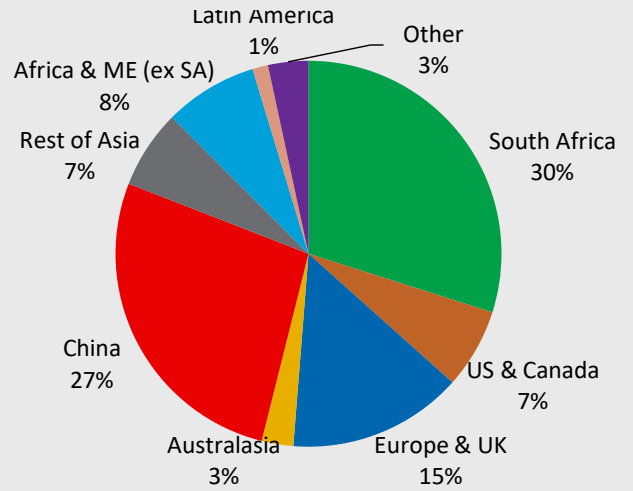
Even assuming a conservative 5% earnings growth in the next year, the SA equity market is now more than one standard deviation cheap on a forward P/E basis against the average since 1999 (see chart 8). In our view, a lot of bad news is currently priced into SA equities, enhancing the future return potential from current levels.

**Chart 8: ALSI forward P/E**



Source: Iress, Momentum Investments

**Chart 9: SA equity market ≠ SA economy**



Source: RMB Morgan Stanley

The SA economy will indeed remain trapped in a low-growth quagmire until the country's electricity and logistical deficiencies are first rectified and structural policy reforms are additionally successfully implemented to drive the country's growth potential to a higher plain. However, the fortunate reality for investors in the SA equity market is that the local economy is only a secondary driver for the overall local stock market. Indeed, analysis done by RMB Morgan Stanley shows that only around 30% of the aggregated operating performance of the companies in the JSE Top 40 index originates from SA (see chart 9).



# SA bonds remain attractive in real terms and against global bonds

Although DM government bond yields have risen meaningfully and inflation rates have come down from peak levels, DM real yields remain in significantly negative territory due to still-elevated inflation readings. Although there are rampant inflation outliers like Turkey within EM, in general, inflation rates in the emerging world have lagged those in DM. As such, EM real bond yields based on current inflation rates remain positive in most EM countries, with SA's real yields among the highest (see table 2).

**Table 2: Real ex-post 10-year government bond yields**

| DM           |        |
|--------------|--------|
| US           | -2.5%  |
| Japan        | -3.9%  |
| Europe       | -6.0%  |
| UK           | -6.3%  |
| EM           |        |
| Brazil       | 7.5%   |
| South Africa | 3.9%   |
| Mexico       | 1.5%   |
| Russia       | -0.8%  |
| Türkiye      | -47.7% |

Source: Iress, Momentum Investments

Not only are SA real bond yields currently attractive versus DM and EM yields, but SA's real yield premiums against DM are also high against historical averages. Furthermore, SA's prospective real yield is almost one standard deviation higher than its historical average. In our view, SA's high real bond yields already discount high fiscal and country risk premiums.

In the ILB space, we expect some breakeven tightening in line with falling inflation in the coming year (see chart 10). Although large monthly accruals are expected in the second quarter of 2023, low accruals are likely for the remainder of the year, which should become less supportive for ILBs. The prospective SA real cash yield has been rising from a low level in line with policy rate increases and recently falling inflation and is now slightly above its historical average (see chart 11).

**Chart 10: Breakeven tightening expected in line with falling inflation in the coming year.**



Source: IRESS, Momentum Investments

**Chart 11: Prospective SA real cash yield**



Source: Iress, Momentum Investments

**Chart 12: SA asset class valuations**



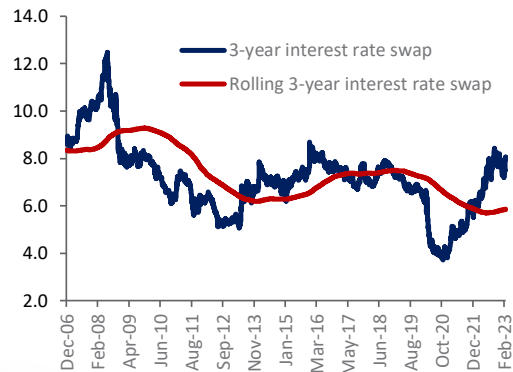
Source: Iress, Momentum Investments

Relative to SA equities and cash, SA nominal bonds have consistently been the cheapest asset class since 2013 (see chart 12). Aggressive COVID-related SARB interest rate cuts have made cash the most expensive asset class since 2020, while sharp profit upgrades in 2021 have pushed SA equity valuations sharply down.

## Remaining negative listed property fundamentals weighing against return upside

Although SA listed property companies have experienced significant diesel cost pressures related to loadshedding, REITs are recovering most of these costs from tenants. However, property companies face rising debt costs as their fixed-rate funding bases reset to higher interest rate levels (see chart 13). Although vacancy rates may have peaked, these remain above pre-COVID levels. Escalations are still trending down in Office and Industrial but could be troughing in Retail. Unfortunately, reversions remain negative, particularly in Office. From a portfolio construction perspective, the potential for meaningful listed property return upside from attractive valuation levels must be weighed against some remaining negative fundamental factors.

**Chart 13: Rising debt costs in the offing for listed property companies**

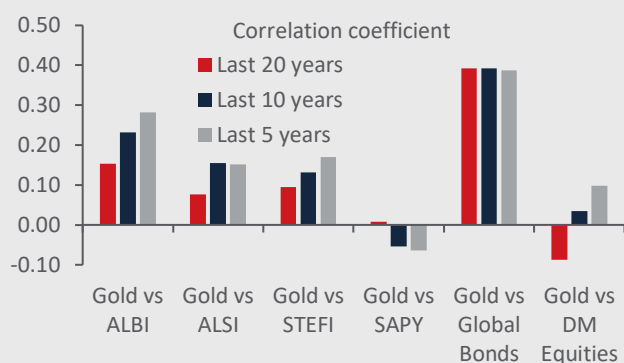


Source: Iress, Momentum Investments

## Strategic rationale for gold as a portfolio diversifier

There is always a strategic rationale for gold as a portfolio risk diversifier, because it is expected to hold its value through turbulent times and has limited correlation with other asset classes (see chart 14). For a SA investor, the rand gold price has been a strong relative asset class performer historically, as perennial rand weakness has provided huge support over many years.

**Chart 14: Gold has limited correlation with other asset classes**



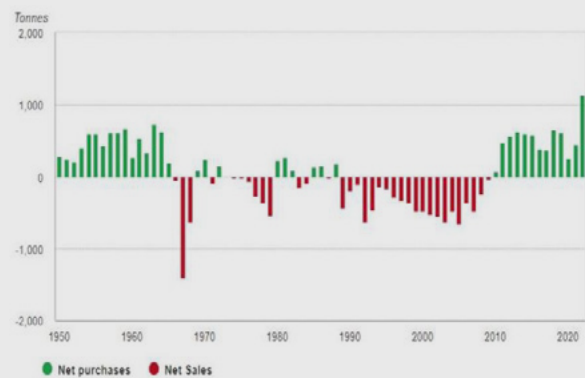
Source: Iress, Bloomberg, Momentum Investments

US real rates have been the dominant driver for the gold price in the last two decades, as the fundamental driver for gold is the opportunity cost of holding a non-interest-bearing asset. However, the gold price has diverged meaningfully from its US TIPS fundamental driver in the second half of 2022.

This is likely due to the highest-ever gold buying from global central banks in 2022 (see chart 15), probably for geopolitical and diversification reasons. Central banks have an affinity for

gold reserves as it is deemed a safe haven in risk-off periods and does not rely on any issuer or government, unlike currencies and bonds. Gold also enables central banks to diversify their reserves away from assets like US Treasuries and the dollar, particularly for countries wary of future confiscation of their international US dollar reserves should the US decide to impose Russia-like sanctions on them. Banks including those of Türkiye, China, Egypt and Qatar said they bought gold last year. But around two-thirds of the gold bought by central banks last year was not reported publicly, according to the World Gold Council.

**Chart 15: Central bank gold buying highest ever in 2022**



Source: Refinitiv, World Gold Council

With geopolitical strife likely to remain high in coming years as deglobalisation continues and a multipolar world order establishes itself (between the West and China), gold is likely to maintain its strategic attractiveness in investment portfolios as a hedge against political volatility and uncertainty.

## Colliding shocks prevent a fresh start in 2023

As the current economic cycle matures, typical late-cycle characteristics have become more evident. Fears of systemic risk arose late in the first quarter of this year when SVB collapsed. Although authorities stepped in to combat the risks of contagion, market jitters over financial stability risks lingered.

It will be difficult for global growth to emerge strongly this year against a backdrop of overlapping crises, referred to by analysts as the 'great reset'. In January, the World Bank released projections for a slowdown in global growth to 1.7% for 2023. This would leave growth at its weakest pace in nearly three decades, overshadowed only by the GFC in 2009 and the pandemic in 2020. In June last year, the globe was

expected to grow at 3% in 2023, but more aggressive monetary policy tightening, a deterioration in financial conditions and declining confidence have led to growth downgrades by the World Bank in nearly all of the advanced economies they cover and about two thirds of

all economies in the emerging world. A lasting impact of these economic shocks has consequently led the World Bank to downgrade growth forecasts for half of the economies, globally, for next year.

The sharpest rise in central bank rates in decades and no pending resolution to Russia's war in Ukraine, are likely to continue dampening growth prospects this year. While at 4.75% to 5%, interest rates in the US are at the highest rate since 2007, surprisingly strong jobs figures underscore the need for continued restrictive policy.

Market-implied policy rates have whipsawed on elevated inflation and global financial stability risks. At the time of writing, these rates indicated the peak in US interest rates has already been reached at 5%. Across the Atlantic, a number of ECB officials have intimated that markets may have been too optimistic about inflation trends, signalling more hikes to come. Interest rates in the Eurozone have been hiked by 350 basis points so far, leaving policy rates at their highest level observed since late 2008. Markets are pricing in the end of the hiking cycle in the Eurozone in the third quarter of this year and are signalling a possible peak in interest rates of 3.5%.

Central banks have tried to signal that they have more work cut out for them to truly vanquish inflation and they have upfront stated an intention to bring inflation back down to pre-pandemic levels. With the collapse of SVB tightening credit conditions even more, financial markets are betting that interest rate cuts will arrive sooner than central bank officials are signalling.

The risk-off bid for the US dollar has reversed and we have seen a steep 12.5% depreciation in the US dollar since its peak of below parity in late September last year. Moreover, stocks and bonds

have recovered year-to-date, even with the collapse in banking stocks, after being torpedoed during 2022.

A rapid and synchronised pace of monetary policy tightening by key central banks across the globe has pulled liquidity out of markets in a reasonably short time, leaving economies in a more vulnerable position. Signs are becoming increasingly apparent that the aggressive pace of monetary policy tightening has started to cool demand and lessen inflation. However, the International Monetary Fund (IMF) notes that the full impact of this tightening is unlikely to be realised in its entirety before 2024. This alludes to weaker growth prospects ahead.

Central banks are finding themselves at a critical juncture. Economic prospects have weakened considerably due to tighter policy and financial stability risks have reared their head. However, inflation is not quite yet under control. Global inflation averaged nearly 9% last year but is set to decline this year. The IMF notes that global inflation likely peaked in the third quarter of 2022, with food and fuel price inflation coming off. Weakening demand and easing commodity prices have driven disinflation (which is positive but declining inflation) across a number of economies. The World Bank shows that whereas nearly 90% of economies were experiencing accelerating inflation in June last year, by November, only 30% of economies were in that position.

Despite the continued downtrend expected in inflation in the coming months, disinflation will still take time and it may be a while before inflation returns to target. The IMF warns that headline inflation will still be above pre-pandemic levels in 82% of economies in 2024 and core inflation will exceed pre-pandemic levels in 86% of countries in 2024.

Inflation has risen across a broad range of goods and services. While headline inflation is moving decidedly lower, core or underlying inflation has not yet peaked in most economies given second-round effects from earlier shocks. Tight labour markets resulting in robust wage growth has, in addition, created spillover effects from the initial round of inflation. Nevertheless, contracting money supply in the US, slowing activity due to substantial monetary tightening over the past year and easing supply chain disruptions should eventually also lead to lower core inflation, albeit with a lag.

Although shorter-dated inflation expectations reacted to higher commodity prices, longer-dated expectations have been far more stable. Inflation expectations are important for central bank decision-making and their communication strategies to the broader public, since they directly influence consumption decisions and wage demands, which then, in turn, underpin price-setting at a business level. The gap between shorter-dated and longer-dated inflation expectations reveals that households have

given less weight to current inflation when forming their long-term expectations. This should give central banks more comfort that households and financial markets have not lost faith in central banks' ability to influence inflation despite the breach in inflation targets currently. This is a key shift in thinking since the '70s stagflationary episode, when central bank credibility came under threat.

The IMF notes that positive surprises and greater economic resilience in a number of countries have led to a less negative outlook than previously. Since October, its growth outlook has brightened, However, they continue to note that even though the most adverse threats have likely abated, the balance of risks remains firmly tilted

to the downside. As such, the risk of a recession in key economies remains high, with a number of key indicators flagging a rising risk of recession. The leading indicator for the US, consumer sentiment, residential investment (in real terms), the services Purchasing Managers' Index, mortgage lending standards and the equity market have all touched levels consistent with those experienced during a downturn in the economy. Moreover, a more deeply inverted yield curve questions confidence in the economy's ability to withstand additional interest rate hikes.

## The big reset feels like a return to the period before the Great Moderation

Before the Great Moderation, which began around 1980, macro cycles were shorter and sharper, the range of economic forecasts and outcomes was wider and uncertainty and volatility were more elevated. This rings similar to outcomes we have experienced in the last few years, where we have had as many crises in as many or fewer years.

Since 1980, there has been a greater opening of the global economy leading to the free flow of people, goods and services, ideas and capital. This period ushered in nearly three decades of relative macroeconomic stability and reduced market volatility. However, many of these pillars supporting the Great Moderation have buckled, giving way higher instability and more volatile macroeconomic outcomes.

Trade liberalisation in the 1980s led to China opening up to capitalism and we also experienced the emergence of the so-called Asian tigers. Nevertheless, the lingering pandemic and the ongoing war in Europe have made the world experience a slowdown in the pace of globalisation, or what the IMF refers to as 'slowbalisation', which is reshaping how we conduct business and trade. Regional trading blocs and friendshoring have emerged as alternatives to actively access global markets while escaping the fragile supply chains that became evident during the pandemic.

The first pillar previously supporting a more stable regime between 1980 and 2016 has been disrupted by the emergence of more power nation states, an increasing push for local solutions as well as more border controls and protectionism.

Chatham House notes that unlike the '90s, the scales have tipped towards greater suspicion of globalised approaches making it more difficult to collaborate on an international scale when dealing with global challenges such as poverty, health outcomes and climate change.

The collapse in the second of these pillars is related to a world with less abundant liquidity. The need to quell inflationary pressures caused central banks to pivot their view on monetary policy to a more restrictive stance and as such balance sheets have also been reined in.

**Chart 16: Structurally lower Chinese growth**



Source: Bloomberg, Momentum Investments, data up to Q4 2022

The third pillar previously rested on high single-digit growth rates out of China. However, going forward it is reasonable to expect much slower trend growth in the Asian giant given policy efforts to drive the economy away from export and manufacturing dependence to more consumer and services-driven output.

The fourth pillar of a more stable environment has been interrupted by the global spread of political polarisation. A painful increase in poverty and inequality has urged electorates to challenge the political status quo. The Carnegie Endowment for International Peace claims that political polarisation is tearing at the seams of democracies worldwide. It attributes more divisive societies to the rise in social media, more aggressive opposition leaders, a sharp increase in patronage and corruption as well as growth in middle income classes, highlighting those who have been left behind. These stark political divides are likely the source of the recent rise in political violence, which further stymies economic and social development.

This shift in the political discourse has placed institutions essential to democracy, under significant threat. The Brookings Institution claims that the rule of law and democracy are crucial to capital markets.

A free market, it claims, balanced by a democratically elected, transparent and capable government, together with a strong civil society, yields stable economic growth rates and greater gains in social welfare.

With democracy under siege, autocratic alliances are promoted. This could result in a shift in global power to a more fragmented multipolar model. While competition stands out as a potential advantage of moving from a bipolar to a multipolar world order, this shift could threaten global security, causing new government alliances to be reached.

The buckling of the fifth pillar involves a potential end to the so-called peace dividend that resulted when the Berlin Wall collapsed in 1989. Thereafter, growth flourished as spending on defence was reallocated to other economic and social priorities. What followed was a period of above-average economic growth and lower inflation. In recent times, however, a series of mutually-reinforcing political shocks have hit the global economy in a short space of time. More recently, Russia's aggression against Ukraine and the West more broadly have led countries like the US to shift their focus towards rebuilding defence capabilities. As such, we believe this will result in a higher level of geopolitical risk going forward.

The Economist Intelligence Unit warns that the war in Ukraine could extend to a downside risk scenario if conflict arises between Russia and bordering NATO member states. In a worst-case scenario, potentially involving nuclear warfare, major cities in the US could also be impacted. Although the probability of this scenario is relatively low, it would have an outsized negative impact on the world economy. Other areas of the globe are also subject to geopolitical conflict. The unpredictability of the North Korean regime remains concerning while Iran engaging in nuclear development enrichment raises the risks of a military confrontation between itself and the US.

Strained relations between China and Taiwan pose another geopolitical danger to the globe. Conflict between the two could lead to the US convincing other democracies to place inhibiting trade restrictions on trade, technology and finance in China. A further deterioration in ties between the West and China could cause further decoupling pressures and induce supply chain disruptions. Global semiconductor supply chains, where the US's efforts have recently been focused, have significant choke points in their supply chain that threaten to make microchips a bigger geopolitical issue. Even though the US still holds a significant technological edge over China, Democrats and Republicans in the US both broadly agree that Chinese advances in digital technology threaten America's national security.

In this new-old regime of higher volatility and more macroeconomic instability, the globe remains vulnerable to shocks and as such the IMF has urged policymakers to rebuild fiscal, monetary and financial buffers to restore a higher level of economic resilience. This is particularly true for EMs markets which have endured the spillover effects of rapid monetary policy tightening in DMs, which triggered capital outflows and currency depreciations.

With global financing conditions having tightened sharply, debt sustainability risks have increased for frontier markets, in particular. Debt levels have spiralled higher and pushed up debt-servicing costs. This has further reduced fiscal space and raised sovereign credit risks.

Developing economies that experience more frequent climate-related disasters are also expected to remain on the backfoot. The World Bank shows that climate risks are rising and weigh heavily on small vulnerable states which have to safeguard agriculture and make infrastructure more resilient. In our view, rising geopolitical fragmentation threatens achieving climate change goals given the level of global cooperation required to accelerate the clean energy transition.

## SA's economic outlook darkens

A slowing global economy provides further headwinds in our own local environment. SA faces a tough situation with loadshedding, anaemic growth, unemployment, poverty and widespread corruption. In addressing loadshedding, government recently announced interventions to alleviate the short-term crunch in energy supply. A new position in the Presidency focusing on the country's electricity crisis response could fast-track the implementation of government's Energy Action Plan, through more decisive action. Meanwhile, procuring emergency power can lessen the intensity of loadshedding and the negative effects on growth in the near term. Nevertheless, insufficient energy supply remains the number one downside risk to growth. This will likely keep growth below 0.5% this year and dampen trend growth to below 2% in the medium term.

Loadshedding has increased the cost of operation for businesses. While retailers are likely to absorb these costs to protect volume growth in a weak consumer environment, higher-than-budgeted for energy costs on a more sustained basis could result in a higher passthrough to the end consumer, posing upside risks to our view of just below 6% on headline inflation for this year and below 5% for next year.

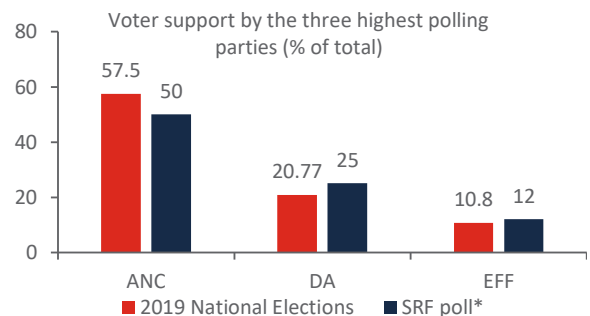
The SARB faces a tough set of conditions with upside risks to the inflation outlook remaining given a rise in global financial stability risks weighing on the currency and local pressures on food inflation balanced with a weak economic backdrop. We expect the SARB to remain cognisant of the growth sacrifice ratio, seeing additional rate increases from here as less effective in dousing inflation (which is still predominantly cost push in nature) and more damaging for growth. As such, rate hikes from here are less likely in our view unless inflation shows further signs of not returning to the

midpoint of the target on a more sustainable basis by the fourth quarter of next year. Moreover, a higher cost base for corporates will weigh negatively on expected revenue collections in the next fiscal year. Risks to fiscal consolidation are also coming from the expenditure side. Financial demands from other state entities, a more permanent form of the social relief of distress grant and risks to a higher-than-expected wage bill (to reflect cost-of-living

increases) all add to expenditure pressures in the medium term.

Allegations and incidences of state capture, corruption and the mismanagement of public funds have tarnished the attractiveness of SA as an investment destination. Public trust in state institutions is unlikely to change unless the fight against corruption gathers momentum, those guilty of wrong-doing are apprehended and there are tangible indications of an improvement in the performance of crime-combatting agencies.

**Chart 17: Increasing likelihood of a governing coalition at national level**



macro research and asset allocation | Financial market outlook for 2022 | December 2021

Source: Social Research Foundation, Independent Electoral Commission, SBG Securities

Given continued electricity woes, elevated criminal activity, a backdrop of slowing global growth and noise around the Phala Phala issue, levels of support are expected to drop for the African National Congress in the upcoming 2024 national elections.

There is an increasing likelihood of a coalition government having to form in SA at a national level. According to surveys by the Social Research Foundation, support for the ruling party has likely fallen to below 50% on a country-wide level. This has the potential to further slow progress on developing a more comprehensive social compact with all economic players to reinvigorate a socio-economic recovery.



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Momentum Investments



# Partially Vesting Smoothed Bonus Range

## Universal Multi-Manager Smooth Growth Fund



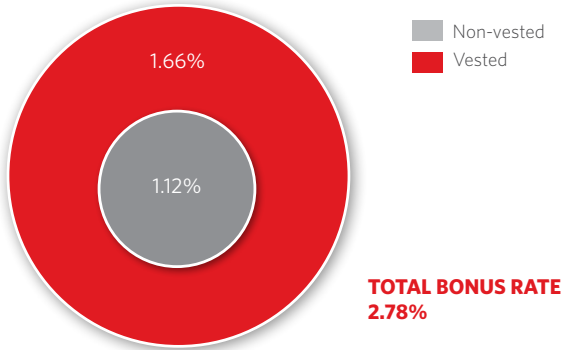
### Fund Snap Shot

| INCEPTION DATE | FUNDING LEVEL RANGE | FUND SIZE | ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES | ANNUALISED 3-YEAR UNDERLYING ASSET RETURN |
|----------------|---------------------|-----------|---|---|
| Jun 2020       | 100% - 105%         | R510.5m   | 1.03%                                       | 15.21%                                    |

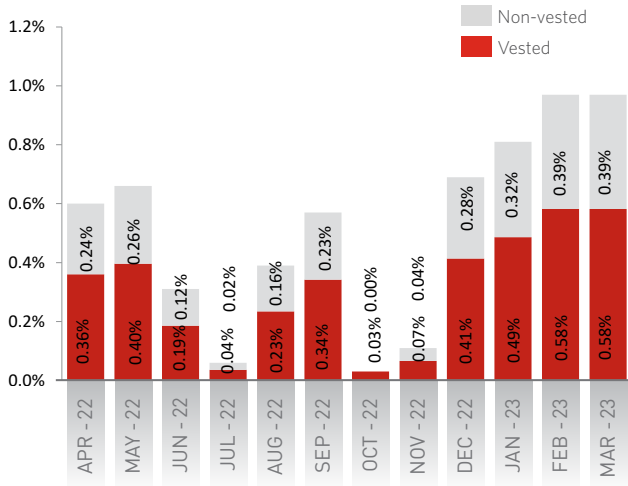
<sup>1</sup>Based on back-tested bonus rates and returns

### Performance

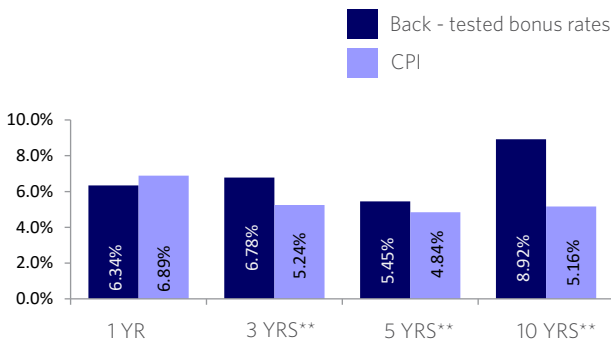
The total bonus rate\* for the past quarter on the **Universal Multi-Manager Smooth Growth Fund** is shown below.



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



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

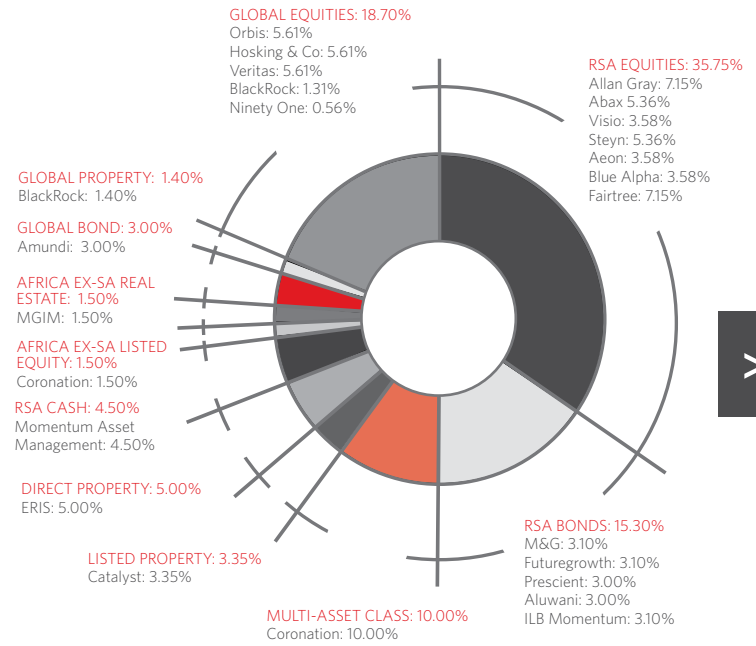


CPI figures are lagged by two months

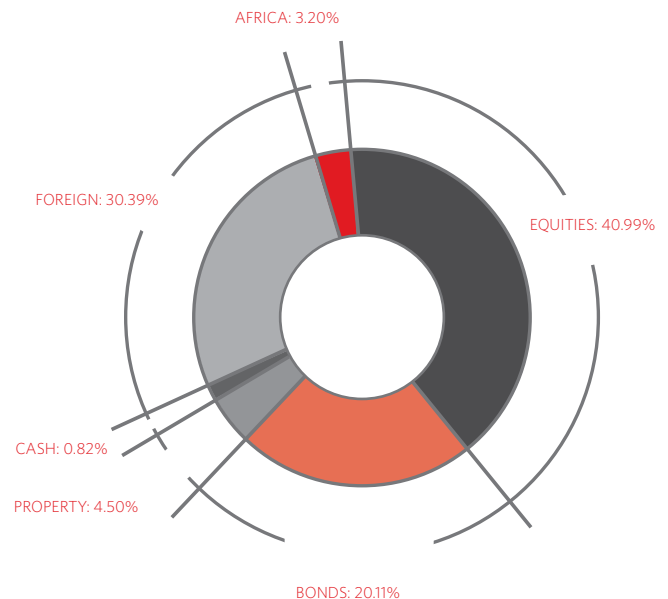
\* Bonus rates are net of underlying asset charges but are gross of the policy fee  
 \*\* Annualised

### 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 Smoothed Bonus Range

## Universal Smooth Growth Fund



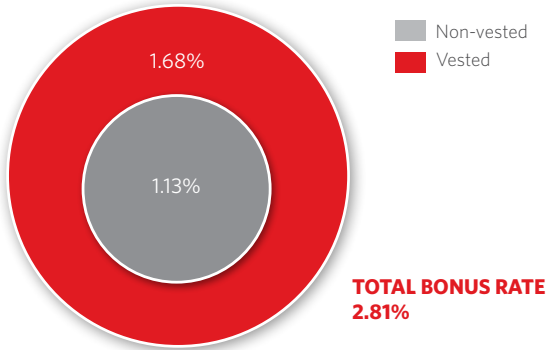
### Fund Snap Shot

| INCEPTION DATE | FUNDING LEVEL RANGE | FUND SIZE | ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES | ANNUALISED 3-YEAR UNDERLYING ASSET RETURN |
|----------------|---------------------|-----------|---|---|
| Jun 2020       | 100% - 105%         | R373.9m   | 1.09% <sup>1</sup>                          | 14.26% <sup>1</sup>                       |

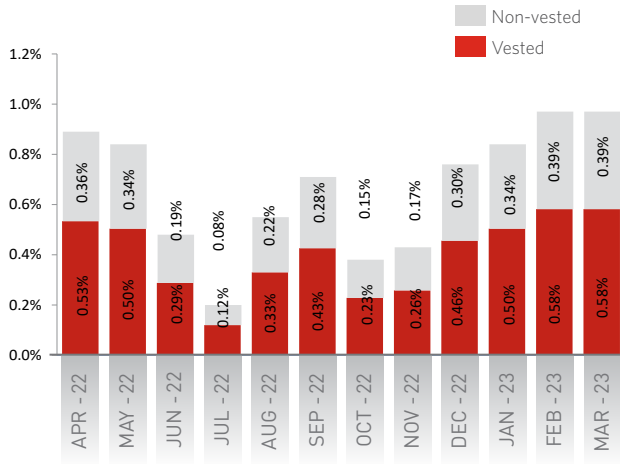
<sup>1</sup>Based on back-tested bonus rates and returns

### Performance

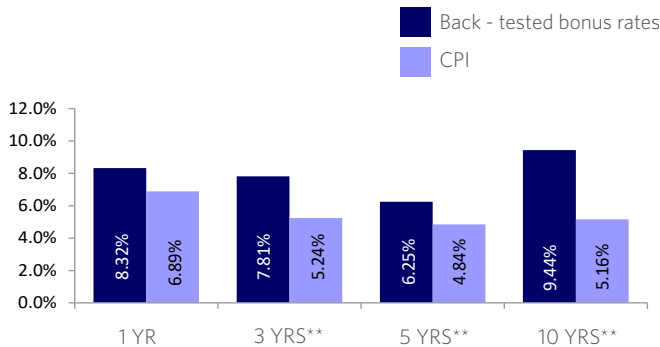
The total bonus rate\* for the past quarter on the **Universal Smooth Growth Fund** is shown below.



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



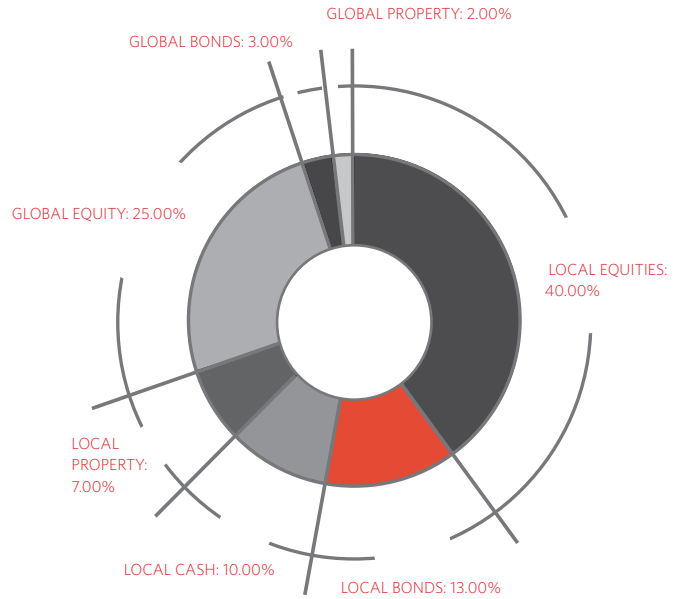
The chart below shows the long term bonus\* performance of the **Universal Smooth Growth Fund** against CPI



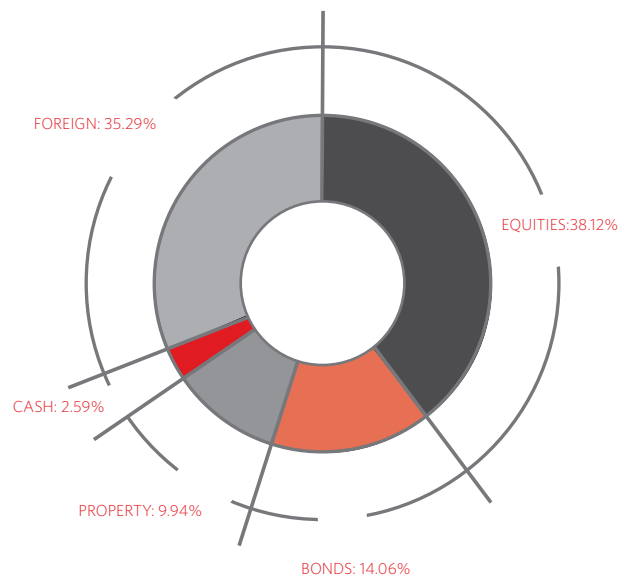
CPI figures are lagged by two months

### Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



\* Bonus rates are net of underlying asset charges but are gross of the investment management fee  
 \*\* Annualised

# Partially Vesting Smoothed Bonus Range

## Multi-Manager Smooth Growth Fund Global

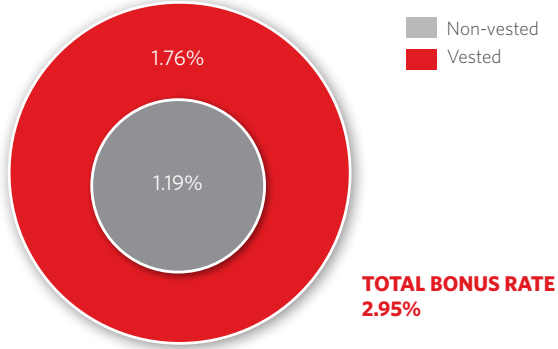


### Fund Snap Shot

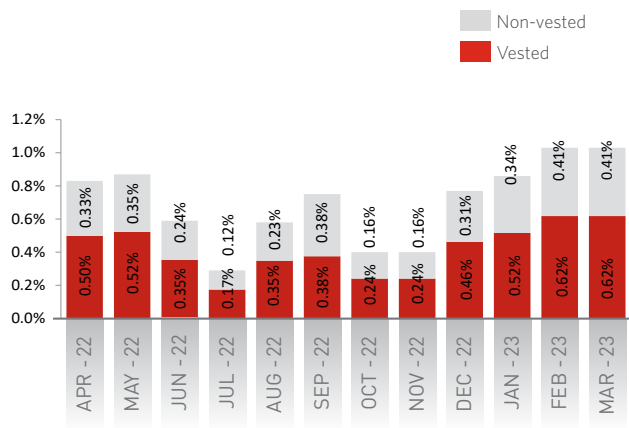
| INCEPTION DATE | FUNDING LEVEL RANGE | FUND SIZE | ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES | ANNUALISED 3-YEAR UNDERLYING ASSET RETURN |
|----------------|---------------------|-----------|---|---|
| Jan 2004       | 100% - 105%         | R7.7bn    | 1.20%                                       | 14.78%                                    |

### Performance

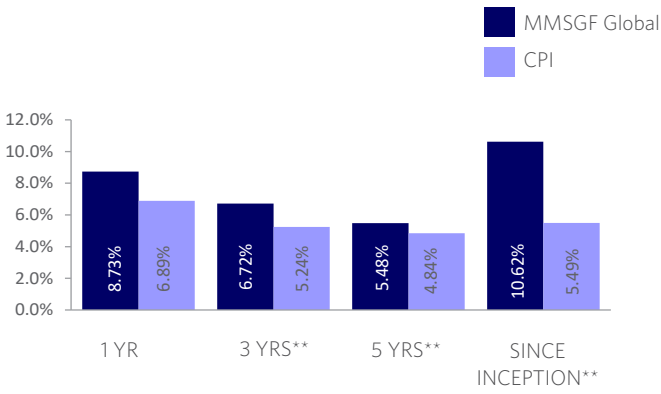
The total bonus rate\* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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



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

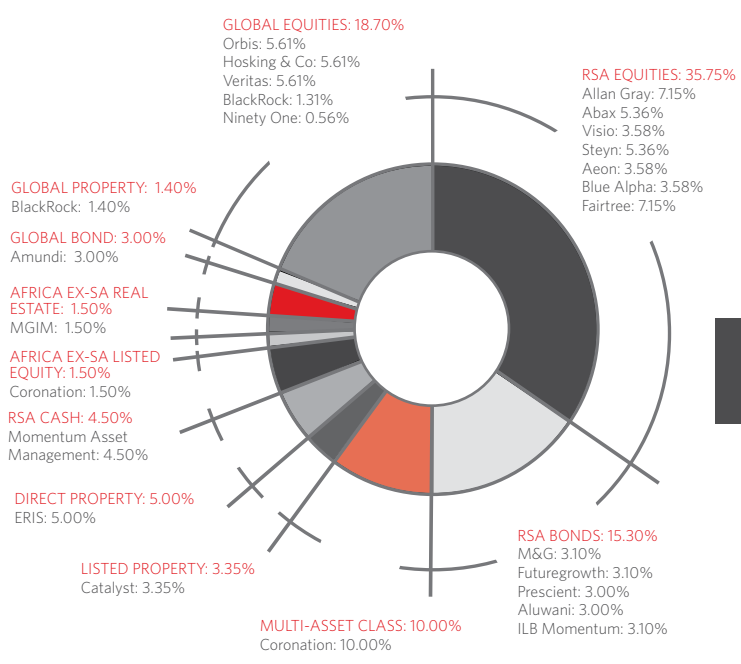


CPI figures are lagged by two months

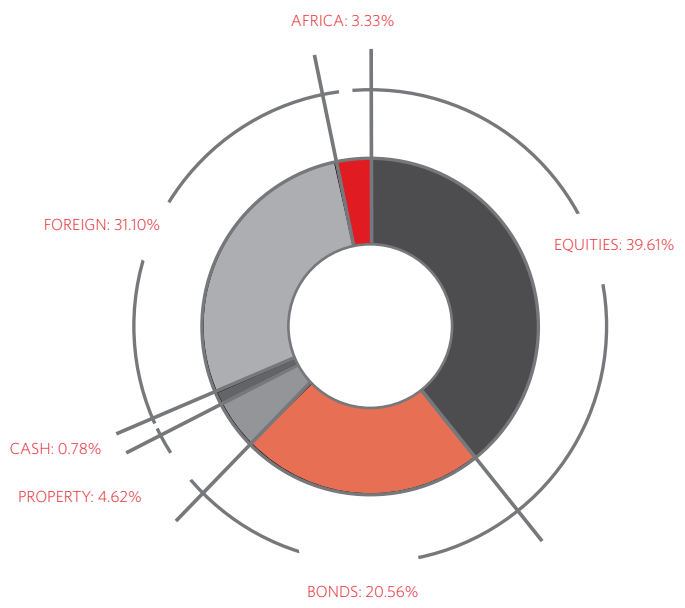
\* Bonus rates are net of underlying asset charges but are gross of the policy fee  
 \*\* Annualised

### 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 Smoothed Bonus Range

## Smooth Growth Fund Global

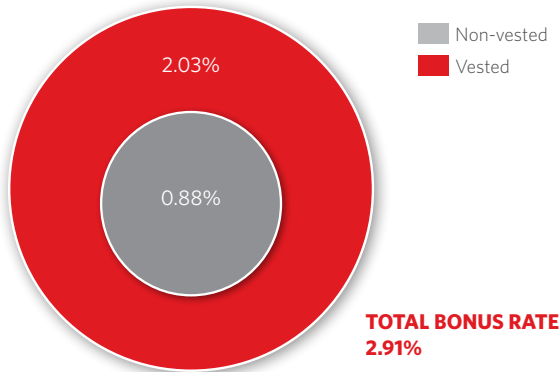


### Fund Snap Shot

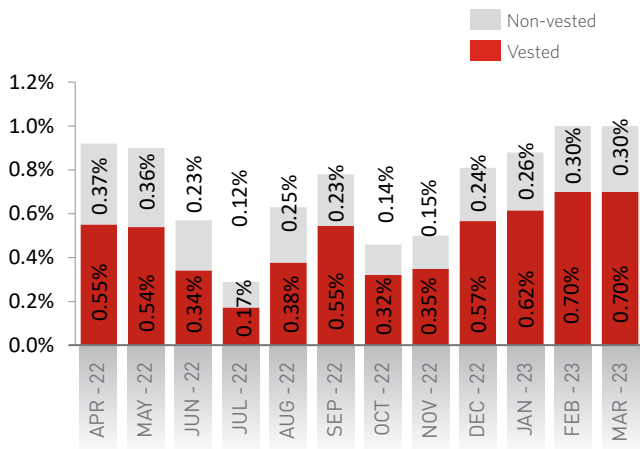
| INCEPTION DATE | FUNDING LEVEL RANGE | FUND SIZE | ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES | ANNUALISED 3-YEAR UNDERLYING ASSET RETURN |
|----------------|---------------------|-----------|---|---|
| Jan 1989       | 100% - 105%         | R1.7bn    | 1.28%                                       | 14.18%                                    |

### Performance

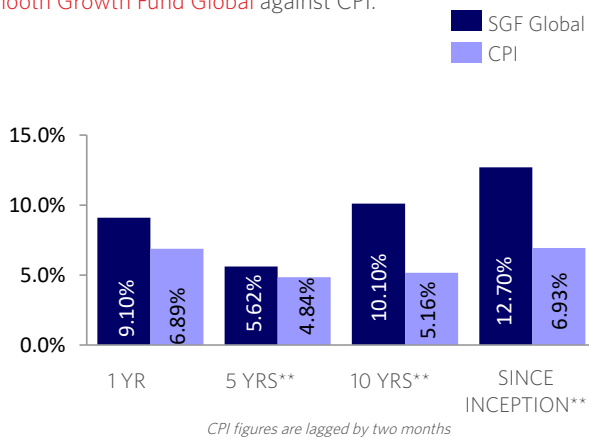
The total bonus rate\* for the past quarter on the Smooth Growth Fund Global is shown below.



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

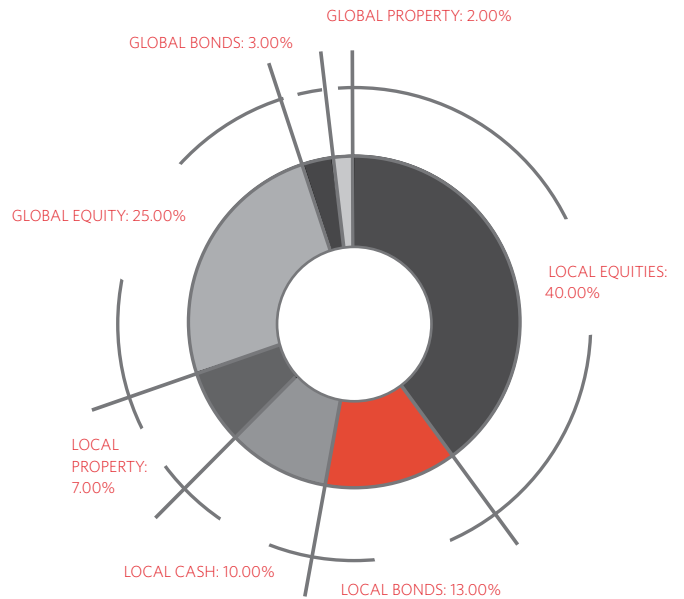


The chart below shows the long term bonus\* performance of the Smooth Growth Fund Global against CPI.

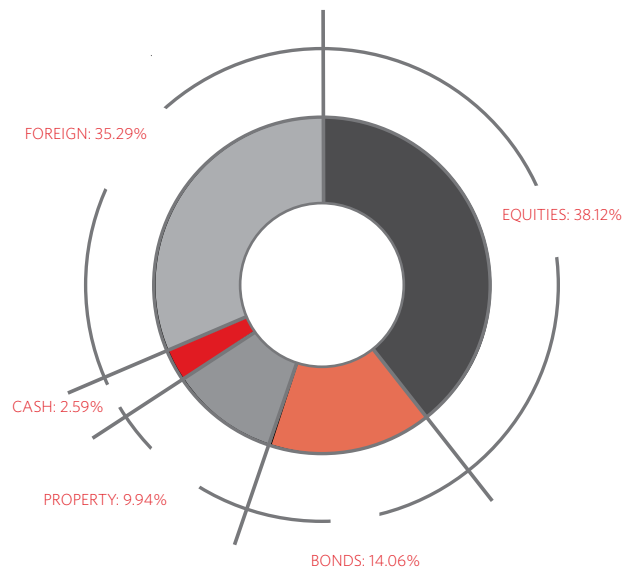


### Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



\* Bonus Rates are net of underlying asset charges but are gross of the Investment Management Fee

\*\* Annualised

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

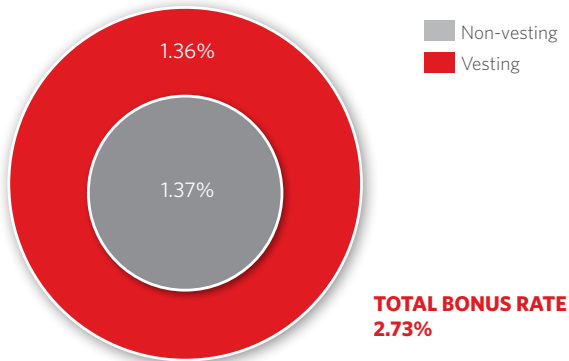


## Fund Snap Shot

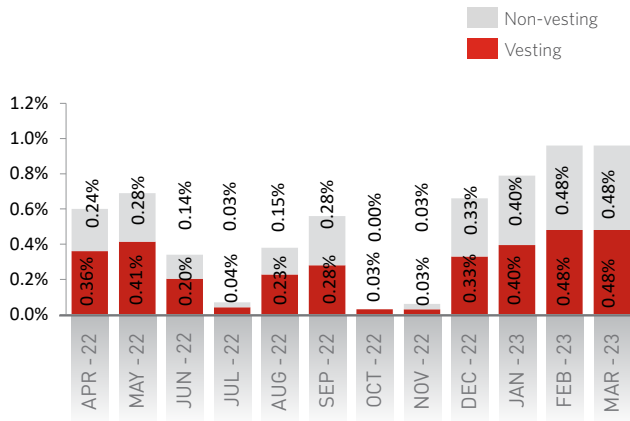
| INCEPTION DATE | FUNDING LEVEL RANGE | FUND SIZE | ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES | ANNUALISED 3-YEAR UNDERLYING ASSET RETURN |
|----------------|---------------------|-----------|---|---|
| Jan 2004       | 100% - 105%         | R144m     | 1.10%                                       | 15.06%                                    |

## Performance

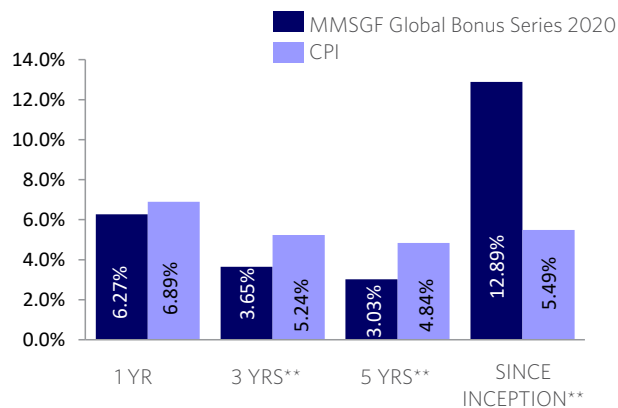
The total bonus rate\* for the past quarter on the **MMSGF Global Bonus Series 2020** is shown below.



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



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



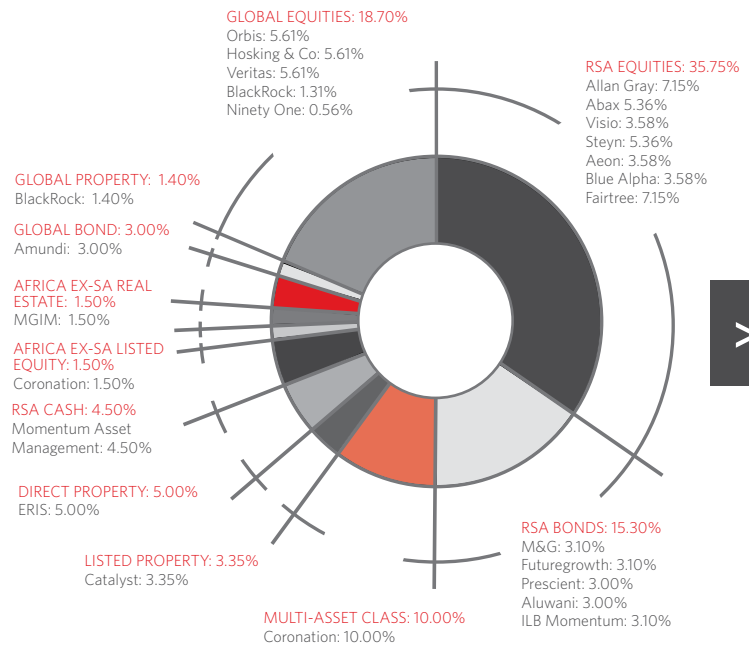
*CPI figures are lagged by two months*

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

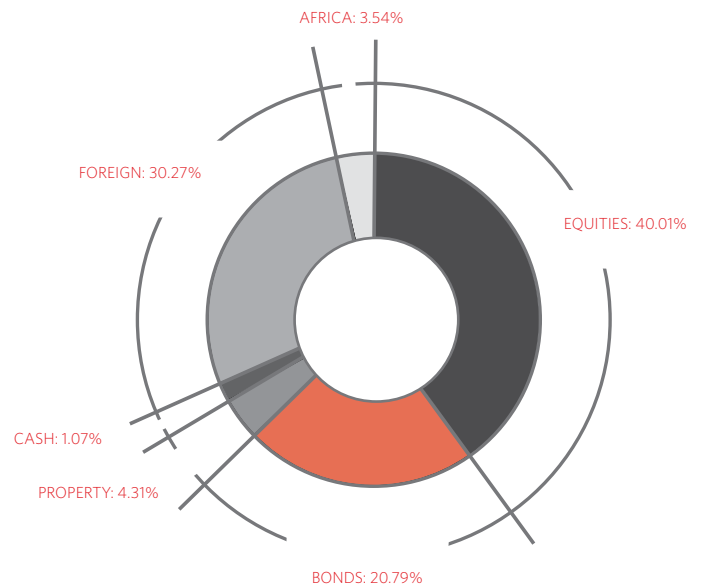
## Asset Allocation

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).



The effective asset allocation of the portfolio is shown alongside.



# Partially Vesting Smoothed Bonus Range

## Smooth-Edge Fund



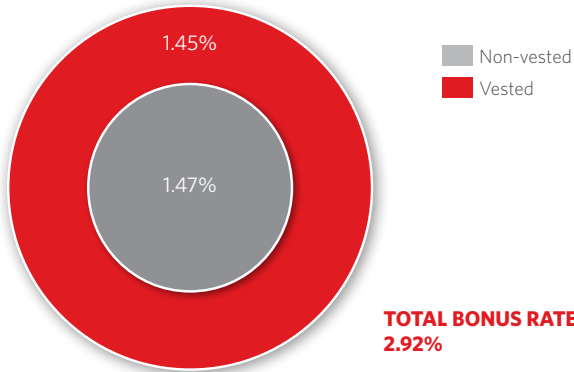
### Fund Snap Shot

| INCEPTION DATE | FUNDING LEVEL RANGE | FUND SIZE | ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES | ANNUALISED 3-YEAR UNDERLYING ASSET RETURN |
|----------------|---------------------|-----------|---|---|
| Feb 2019       | 97.5% - 102.5%      | R573.4m   | 1.33% <sup>1</sup>                          | 14.28% <sup>1</sup>                       |

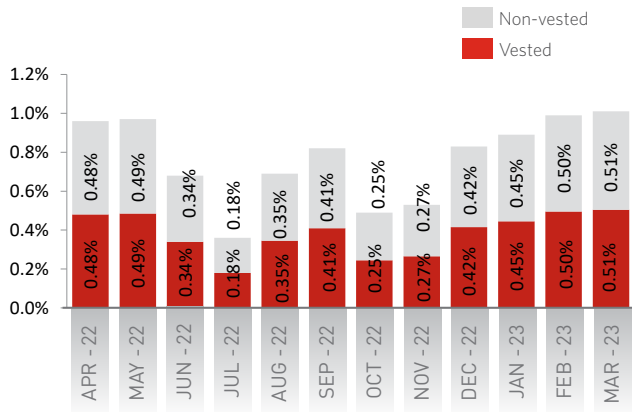
<sup>1</sup>Based on back-tested bonus rates and returns

### Performance

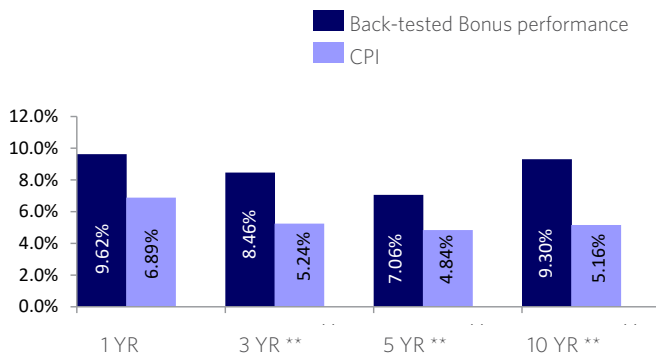
The total bonus rate for the past quarter on the **Momentum Smooth-Edge Fund** is shown below.



The chart below shows the actual monthly bonus rates\* for the past 12 months.



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

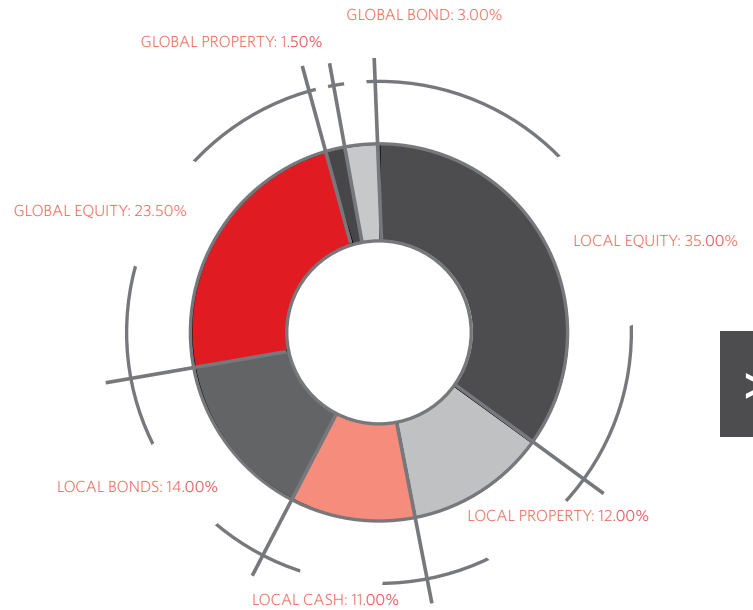


CPI figures are lagged by two months

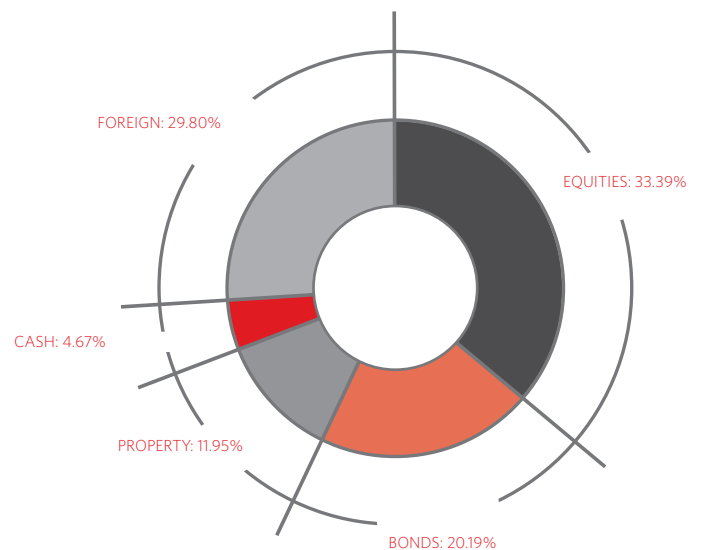
\* The bonus rates and back-tested bonus rates are gross of the investment management fee  
 \*\* Annualised

### Asset Allocation

The strategic asset allocation is shown alongside.



The effective asset allocation of the portfolio is shown alongside.





# Fully Vesting Smoothed Bonus Range

## Universal Smart Guarantee+3 Fund

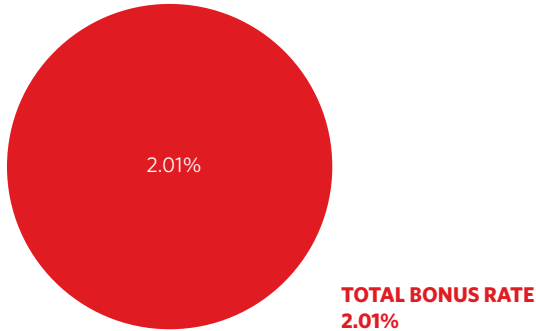


### Fund Snapshot

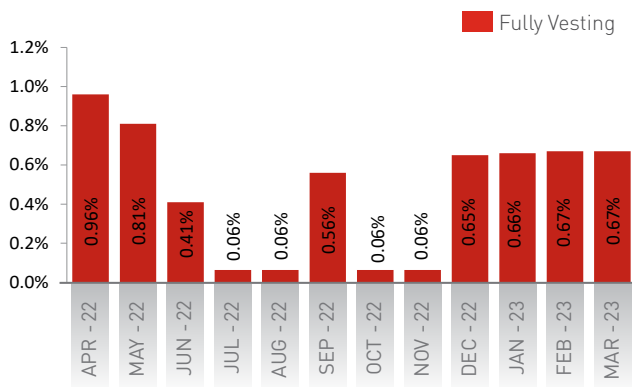
| INCEPTION DATE | FUNDING LEVEL RANGE | FUND SIZE | ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES | ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO |
|----------------|---------------------|-----------|---|---|
| Oct 2013       | 97.5% - 102.5%      | R505.4m   | 1.29%                                       | 14.28%  |

### Performance

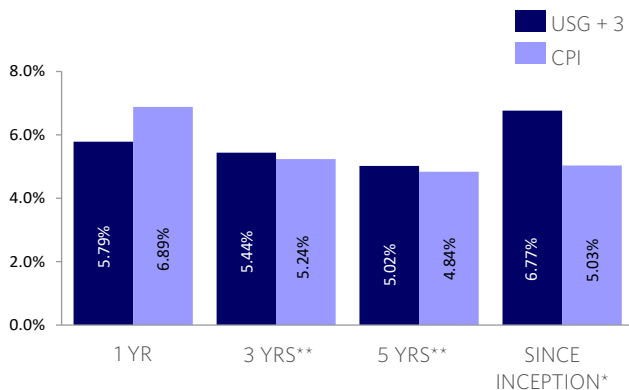
The total bonus rate\* for the past quarter on the **Universal Smart Guarantee +3 Fund** is shown below.



The chart below shows the actual monthly bonus rates\* for the past 12 months.



The chart below shows the long term bonus\* performance of the **Universal Smart Guarantee +3 Fund** against CPI.

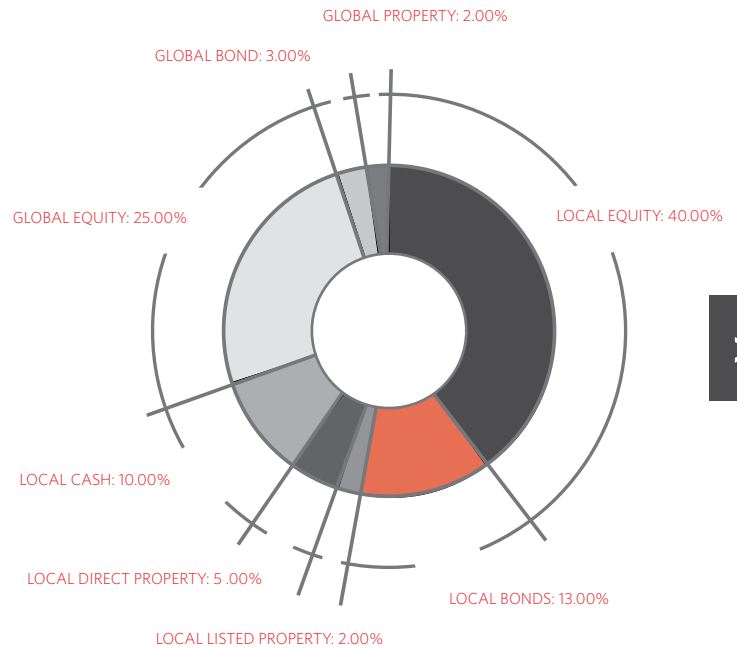


CPI figures are lagged by two months

\* Bonus rates 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 (Momentum Dynamic Hedging Reference Portfolio) is shown alongside.



For bonus declarations, 90% of the underlying asset returns of the bonus generating portfolio are smoothed over a three-year period as per the smoothing formula.

The liability driven investment strategy employed includes a dynamic protection overlay to secure the guarantee. As a result, the value of the underlying asset portfolio is sensitive to changes in asset values (and interest rates) and the effective asset allocation will reflect both the bonus generating portfolio and the dynamic protection overlay.

### USG +3: Bonus rates 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 **9.27%** of bonuses will still be declared.

# Fully Vesting Smoothed Bonus Range

## Multi-Manager Secure Growth Fund

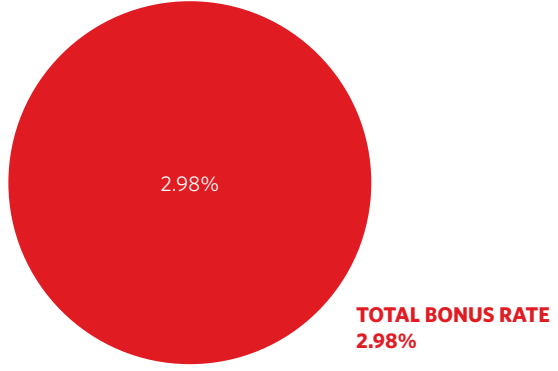


### Fund Snap Shot

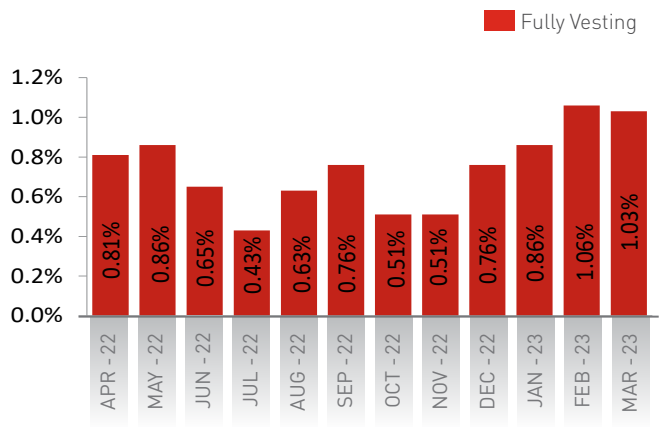
| INCEPTION DATE | FUNDING LEVEL RANGE | FUND SIZE | ANNUALISED 3-YEAR VOLATILITY OF BONUS RATES | ANNUALISED 3-YEAR UNDERLYING ASSET RETURN |
|----------------|---------------------|-----------|---|---|
| Nov 2007       | 105% - 110%         | R78.5m    | 1.19%                                       | 13.96%                                    |

### Performance

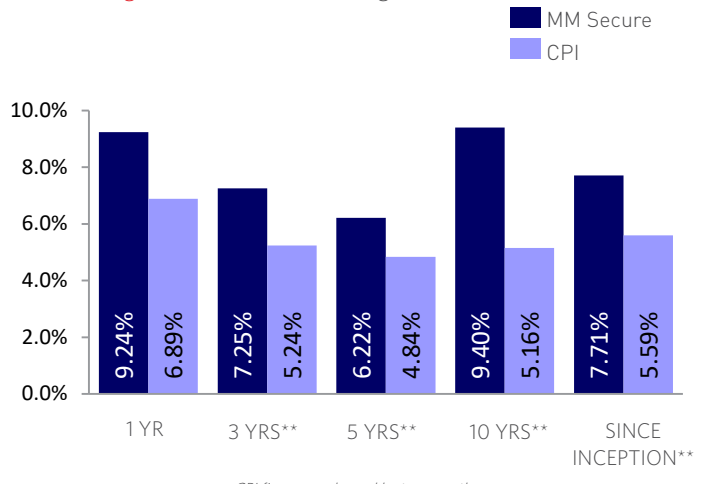
The total bonus rate\* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



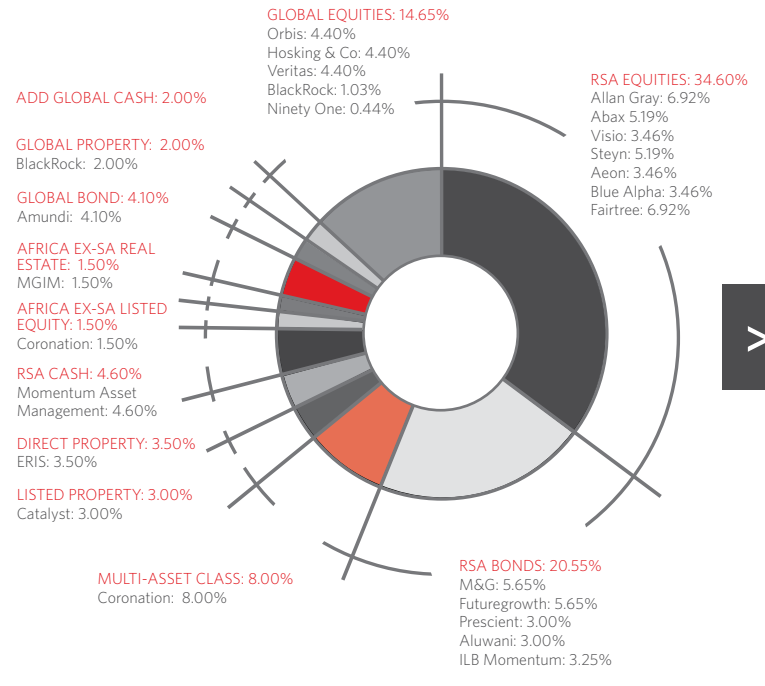
The chart below shows the long term bonus\* performance of the Multi-Manager Secure Growth Fund against CPI



### Asset Allocation

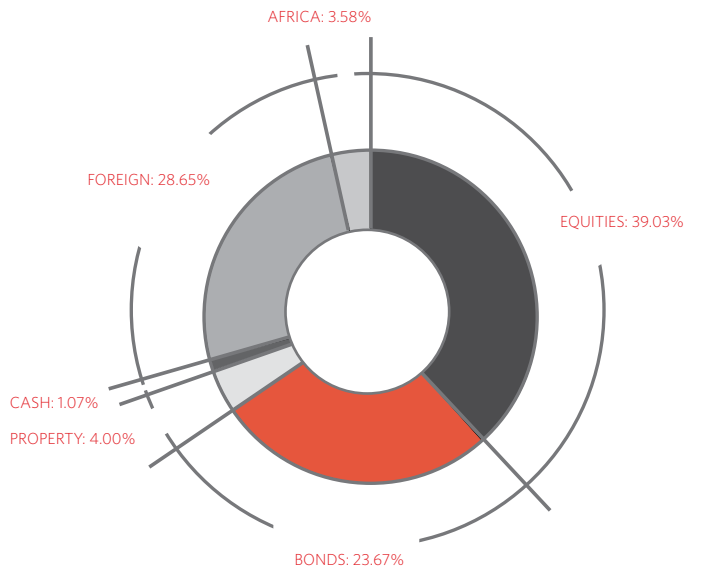
On 1 December 2020, changes were made to the strategic asset allocations.

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.



\*No asset manager has been appointed.

The effective asset allocation of the portfolio is shown alongside.



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



# Smoothed Bonus Portfolios Key Features

|                   |   | Fund Return Objective   | Manager   | Mandate Type                        | Guarantee on Policy Benefits <sup>1</sup>   | Market Value Adjustment on Voluntary Exits <sup>2</sup>                                       | 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 <sup>3</sup>                           | 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 net 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  | 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 <sup>3</sup> ** |
| 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 <sup>3</sup>                           | November 2007            |
|                   | Universal 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 <sup>3</sup> **   | October 2013             |

\*Policy fee includes the cost of investment administration.

\*\*Investment management fee includes policy fee and certain fees related to the management of the assets (not included in underlying asset charges).

1. Policy benefits include but are not limited to death, disability, resignation or retirement. The full list policy benefits is outlined as well as other terms and conditions specified in the client policy contracts.
2. Market value adjustments may be applied on member switches out, terminations and other non-policy benefits if a client is underfunded.
3. Underlying asset charges include capital charge and net priced asset fees and performance fees (where applicable).



## Contact details

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**Website:** [www.momentum.co.za](http://www.momentum.co.za)

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