

momentum
corporate



Smooth Bonus Report

Third Quarter 2021

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





Looking back over the past quarter

Dear valued investors

There has been a lopsided recovery in global economic growth favouring richer nations. At the surface it appears as though global growth is once again booming. The World Bank predicts a global growth of 5,6% for 2021, following on from the worst pandemic-stricken period in over 100 years.

While growth in the local economy staged a firmer than expected 7.5% rebound in the first half of the year, Momentum Investments expect growth to soften in the second half. The outbreak of civil unrest in the countries economic hubs in July 2021 disproportionately hit small business owners and the poorest individuals in society. Added to this, lingering electricity supply constraints and a lagging vaccination rollout will further weigh on growth. The South African Reserve Bank (SARB) raised its assumption on full year growth for 2021 to 5.3% from 4.2% estimated at the July 2021 Monetary Policy Committee (MPC) meeting.

Global equity markets dipped marginally during the quarter, with global equities (MSCI All Country World Index) 1.1% lower. Developed Markets (DMs) performed notably better than Emerging Markets (EMs) as EMs continued to face lower rates of vaccination and less available monetary and fiscal space to support a more robust economic recovery.

The local South African equities (FTSE/JSE All-Share Index) ended the quarter slightly in the red, dragged lower by a poor performance in industrials and resources shares (4,3% and 3,6%, respectively). The international price of gold and platinum dropped by 1.1% and 11% respectively, while Brent crude oil prices rose 3,5%, on the back of the mounting energy crisis in Europe. The FTSE/JSE Financial Index



performed the strongest in the quarter and added 12%.

Following the global risk-off mood the rand weakened 5,6% against the US Dollar and 3.1% against the Euro in the quarter. And at the September 2021 SARB MPC meeting it was decided to keep interest rates unchanged at 3.5%, providing much needed relief.

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

With the strong funding levels at the start of the quarter, our clients have seen rising monthly bonus rates declared. Even though returns in the local equity asset class were slightly negative over the quarter, the funding levels of our portfolios remain strong and are in a good position to deliver future bonus rates in excess of the minimum whilst protecting the investment against any downside.

If you wish to invest your retirement fund's lump sums or contributions into one of the new 'universal' portfolios launched in June 2020, please contact me or your Momentum servicing representative, and we will provide further details. Our smooth bonus portfolios provide a range of solutions that cater for different needs and risk appetites.

As we all work together to overcome the COVID-19 pandemic and deal with these challenging times, we hope that you are keeping safe.

Warm regards

Steed
Duncan-Smith

Client Relationship Manager
Momentum Corporate





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FSCA Conduct Standard 5 of 2020 (RF):



Introduction

Conduct Standard 5 of 2020 (RF) (hereinafter referred to as the Conduct Standard), published on 9 October 2020 by the Financial Sector Conduct Authority (FSCA), prescribes the conditions that a smooth bonus portfolio must comply with to be included as a default investment portfolio of a retirement fund. Retirement funds utilising or considering utilising smooth bonus portfolios as default investment portfolios must ensure that the smooth bonus portfolio complies with the Conduct Standard from 9 July 2021 onwards.

Purpose of the Conduct Standard

The purpose of the Conduct Standard is to assist in promoting transparency and reducing the insurer's discretion concerning the declaration of bonus rates and the management of smooth bonus portfolios. The Conduct Standard further aims to protect retirement fund members whose contributions are automatically allocated into a smooth bonus portfolio, if they have not selected another portfolio, by ensuring that they have sufficient information to understand and appreciate how the smooth bonus portfolio operates.

Summary of the Conduct Standard

The requirements for a smooth bonus portfolio to be eligible for inclusion as a default investment portfolio are summarised below:

1. A formulaic approach must be established to calculate and determine bonus rates and must be disclosed to all stakeholders. The Conduct Standard further prescribes, among other things, the period over which the excess funding level above a specified target funding level may be spread and the amount, per annum, by which the declared bonus rate may deviate from the calculated bonus rate of such a formula;
2. The insurer must disclose and document any management actions that may be taken to reduce the risk in the smooth bonus portfolio;
3. The charge in respect of the guarantee must be commensurate with the risk and must be disclosed separately from the other costs relating to the smooth bonus portfolio;
4. The circumstances in which a market value adjustment may be applied must be specified;
5. Disinvestment penalties may not be levied by the insurer;
6. The asset allocation must remain within the strategic asset allocation limits disclosed by the insurer and must comply with the asset spreading limits in Regulation 28 of the Pension Funds Act No.24 of 1956; and
7. The insurer must ensure that the fund and its members are treated fairly and that any communication it provides to the fund regarding the smooth bonus portfolio and its performance is accurate, relevant and easy to understand.

Ankia Pietersen

Product Specialist
Structured Solutions

Our compliance

To ensure compliance with the Conduct Standard, we released a 'Smooth Bonus Disclosure' document covering the disclosure of our smoothing formulae, management actions, and strategic asset allocation limits. The document can be found on our website. The fees and charges applicable to our smooth bonus portfolios may be found in the fund fact sheets and quarterly report. All our smooth bonus portfolios comply with the Conduct Standard and are therefore eligible for inclusion as a default investment portfolio of a retirement fund. The table below shows our compliance with the criteria as set out in the Conduct Standard.

OSub-Section	Criteria	Compliance
2.(4)(a)	A formulaic approach must be established to calculate and determine bonus declarations, both vested and non-vested.	Refer to the Disclosure Document.
2.(4)(b)	The formula for bonus declarations may allow for a deviation of not more than 2% per annum from the calculated target bonus to include allowance for expectations with respect to future market movements.	Any deviation from the calculated bonus rate will be in line with the requirements of the Conduct Standard.
2.(4)(c)(i)	The formulaic approach must include triggers or factors that may result in the possible removal of non-vested bonuses and the method of removal.	Refer to the Disclosure Document.
2.(4)(c)(ii)	The formulaic approach must provide for factors or triggers that dictate the provision of shareholder capital to maintain the financial soundness of the policy.	Refer to the Disclosure Document.
2.(4)(c)(iii)	The formulaic approach must clarify the extent to which shareholder capital is viewed as a loan which will be repaid to shareholders with future investment returns versus a cash injection that will not be repaid from future investment returns.	Refer to the Disclosure Document.
2.(4)(c)(iv)	The formulaic approach must specify the minimum and maximum levels of the bonus smoothing reserve and the remedial actions which will be taken should these limits be breached.	Refer to the Disclosure Document.
2.(4)(c)(v)	The formulaic approach must limit the smoothing period by spreading any excess BSR over a period not exceeding 24 months.	Refer to the Disclosure Document.
2.(4)(c)(vi)	The formulaic approach must have a long-term funding level target not exceeding 105%.	Refer to the Disclosure Document.
2.(4)(c)(vii)	The formulaic approach must be disclosed to all stakeholders.	Refer to the Disclosure Document.
2.(4)(d)	This sub-section sets out the requirements regarding temporary deviations from the provisions of sub-section 2. (4)(c)(v).	We will notify the FSCA prior to any deviation from the provisions of sub-section 2. (4)(c)(v). Policyholders will also be notified of such a deviation.
2.(4)(e)	Any management actions that may be taken by the insurer to reduce the risk in the smoothed bonus policy must be properly disclosed and documented.	Refer to the Disclosure Document.
2.(4)(f)	The charge in respect of any guarantee provided in terms of the policy must be commensurate with the risk and there must be separate disclosures of guarantee charges and the other costs relating to the smoothed bonus policy.	Refer to the quarterly smooth bonus report as well as the fund fact sheet of the relevant smooth bonus portfolio.
2.(4)(g)	The smoothed bonus policy may only allow an insurer to apply a market-value adjustment (MVA) in pre-determined circumstances as stipulated in the policy, provided that payment of any individual benefit under a policy triggered by non-voluntary events such as death, retrenchment or retirement are not subject to any adjustment.	The Policy Contract sets out the pre-determined circumstances under which an MVA will apply.
2.(4)(h)	This sub-section sets out the requirements for an MVA to be applied on retrenchment.	The Policy Contract sets out the pre-determined circumstances under which an MVA will apply. We will notify the FSCA when an MVA is being considered on particular retrenchments.
2.(4)(i)	The smoothed bonus policy may not allow for any disinvestment penalties to be levied by the insurer.	We do not levy any disinvestment penalties in our smooth bonus portfolios. It is important to note that an MVA is not a disinvestment penalty, but a mechanism that is required to protect the interests of the remaining policyholders in the smooth bonus portfolio.
2.(5)	This sub-section sets out the requirements regarding the asset allocation of the smooth bonus policy.	Refer to the quarterly smooth bonus report, fund fact sheets, Principles and Practices of Financial Management and the Disclosure Document for details about the strategic asset allocations and the investment philosophy of the respective portfolios. All our smooth bonus portfolios are compliant with Regulation 28.
2.(6)	This sub-section sets out the requirements regarding material changes to the strategic asset allocation of the smooth bonus policy.	We will notify all relevant stakeholders, including the FSCA, if material changes to the strategic asset allocation are being considered to protect solvency, and if the change is likely to result in lower long-term expected returns.
3	Additional requirements relating to the fair treatment of funds and its members.	The fair treatment of retirement funds and its members is integral to us. We will ensure that the requirements of the Conduct Standard and Rule 1 of the Policyholder Protection Rules continue to be adhered to.

Momentum Investments market commentary for the quarter ended September 2021

by Sanisha Packirisamy and
Herman van Papendorp

Highlights

Markets

- Unless a double-dip recession becomes a reality in the United States (US), a reset in bond yields to higher levels seems likely.
- Although further earnings upside should provide some underpin for global equities, the anticipated declining profit momentum and prospective US quantitative easing (QE) tapering could lead to more choppiness in market returns going forward. Historically, larger market corrections ensued at the end of central bank balance sheet expansions (predicted by Bank of America to happen by the second quarter of 2021 for the G4 (the world's leading four developed countries) aggregate) and once quantitative tightening starts. In relative terms, global equities remain cheaply priced against global bonds.
- Strong earnings upgrades for financial years 2021 to 2023 (FY21-23) have been the norm for South African (SA) equities this year. This has forced valuations down into very attractive territory, significantly enhancing the potential return upside for SA equities going forward.
- The main drawback for investment in the SA nominal bond market remains the high level of real yields available. In the inflation-linked bonds (ILB) space, smaller monthly inflation accruals should provide less fundamental support for the asset class until the second quarter of 2022.
- Despite weak property sector fundamentals, the expected limited further property value declines from here point to significant return upside for the asset class in coming years, despite the many uncertainties in the sector.
- The prospective zero real return available to investors from local cash remains unappealing, in our view.

Economics

- Regional economic fortunes are likely to remain highly divergent despite a strong rebound pencilled in for the globe as a whole in 2021 from a decimated base in 2020.
- Less available fiscal and monetary policy space as well as new and more severe virus strains in lower vaccinated countries will likely keep the relative pace of economic recovery in emerging markets (EMs) on the back foot.
- Despite a rapid narrowing of output gaps in many developed markets (DMs), we are not anticipating a persistent inflationary episode to follow given that demand is unlikely to remain above supply, above productivity-related wage increases are unlikely to persist and longer-term inflation expectations remain reasonably well anchored.
- Clear communication from key central banks is pivotal in minimising the risk of panic and preventing the extreme reaction in bond markets that occurred during the previous episode of reversing QE in 2013. Nevertheless, EM external positions look far healthier this time around.
- While growth in the local economy staged a firmer-than-expected 7.5% rebound in the first half of the year, we expect growth to soften from here given ongoing supply constraints, a lagging vaccination rollout plan, elevated unemployment and an adverse effect of the July riots on business confidence.
- Although the commodity price windfall has boosted revenues for this fiscal year, medium term risks remain high in the context of shorter-term wage agreements and a push for pro-poor spending.
- We expect inflation to average close to the midpoint of the 3% to 6% inflation target range for the next three years in the absence of any currency, food or oil price shocks.
- We view no immediate pressure on the SA Reserve Bank (SARB) to raise interest rates and therefore see the risks to the first interest rate hike as being tilted towards the first quarter of 2022. We expect a gradual normalisation in interest rates to follow.

Global equities slide on a less favourable growth-inflation backdrop

Global equities ended the third quarter of 2021 slightly in the red on heightened inflation fears raising expectations for a quicker lift-off in interest rates. At the US Federal Reserve's (Fed) annual Jackson Hole Symposium, Fed Chair Jerome Powell tried to dispel fears by striking a cautious tone in his statement and alluded to the dangers of derailing progress at a sensitive time if too aggressive a stance was adopted on the tapering of assets.

Despite new COVID-19 variants and inflation worries rattling investors during the quarter, still accommodative monetary and fiscal policies in key advanced nations supported sentiment. The CBOE Volatility Index (Vix), or fear gauge, was relatively stable throughout the third quarter, reaching an intra-quarter higher of 25.7 points on heightened anxieties over the collapse of Chinese property developer Evergrande. Nevertheless, the Vix ended the quarter only seven points higher.

Global equity markets dipped marginally during the third quarter of the year, with the Global All Country World Index ending 1.1% lower. DMs performed notably better than their EM counterparts as EMs continued to face lower rates of vaccination and less available monetary and fiscal policy space to support a more robust economic recovery.

The MSCI DM index flatlined in the same period, supported by a 3% gain in the Japanese Nikkei 225 Index, which was spurred by optimism for new

economic policies. This was followed by a 0.6% rise in the S&P 500 Index, while the Eurostoxx 50 Index shed 0.1% in the quarter.

The trend was largely lower throughout the quarter for the MSCI EM Index despite the Bloomberg Commodity Price Index gaining 6.6% for the corresponding period. Only the MSCI Europe, Middle East and Africa Index gained during the third quarter at 4.2%, while the MSCI Latin America Index plunged 13.3% and the MSCI Asia Index lost 9.6% during the same period, with losses compounded by further cuts to Chinese growth estimates.

Government bond yields stayed low, reflecting aggressive buying by central banks. The US 10-year government bond yield shifted only two basis points higher in the third quarter, while the German 10-year government bond yield remained in negative territory for the quarter and inched one basis point higher by the end of the quarter.

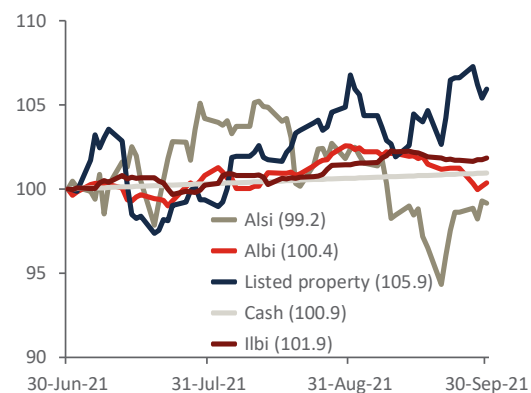
In line with investor fears over growth in EMs, the JP Morgan EM Bond Index (Embi) spread widened by around 13 points in the quarter. South American nations including Argentina, Chile, Colombia and Peru were among the countries to experience the largest deterioration in credit default swap (CDS) spreads since the end of June 2021, along with China, as debt woes for China's Evergrande rocked markets.

The local equity market ended the quarter slightly in the red (negative 0.8%) dragged lower by a poor performance in industrials and resources shares (down 4.3% and 3.6%, respectively, in the quarter). The international price of gold and platinum dropped by 1.1% and 11%, respectively, in the corresponding period, while Brent crude oil prices rose 3.5%, on the back of the mounting energy crisis in Europe. The FTSE/JSE Financials Index performed the strongest in the quarter and added 12%.

In SA's fixed income markets, the 10-year government bond yield sold off 39 basis points. The JSE Assa All Bond Index rose 0.4% in the quarter, while the JSE Assa Government Inflation-linked Bond Index traded 1.9% firmer for the same period. Meanwhile, the FTSE/JSE SA Listed Property Index climbed 5.9% since the end of June 2021 (see chart 1).

Following the global risk-off mood, the rand weakened by 5.6% against the US dollar in the third quarter of 2021. However, the rand weakened by a lesser 3.1% against the euro in the same period. SA's five-year CDS spread shifted 25 points higher in the quarter but remained significantly below the high of 497 points in early April 2020.

Chart 1: Returns from local asset classes (%)

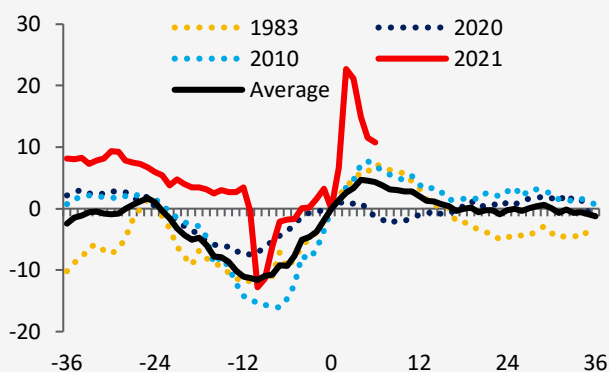


Source: Iress, Momentum Investments

SA equities and bonds favoured, but steering clear of global fixed income and local cash

Unsurprisingly, the disruptive nature of the COVID-19 pandemic to everyday life has caused the global business cycle to behave atypically this time from previous bust/boom periods (see chart 2). The closing of large parts of the global economy in 2020, followed by the staccato reopening of the economy into 2021, has produced an exaggerated rebound in economic and financial variables this year from the abnormally low base created last year.

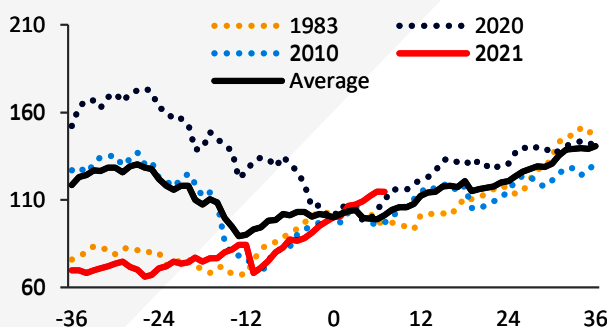
Chart 2: Global industrial production growth has strongly outperformed history



Source: Bank of America

However, after the very strong rebounds in economic growth, inflation, commodity prices and equity markets from the doldrum lows of 2020, some reversal in the momentum of these variables should now be expected as the previous positive base effects wane or even reverse, while at the same time the global economy is probably due for a typical mid-cycle slowdown. Purely from a historical precedent perspective, some pullback in global equity markets would not be unexpected at this point in the cycle, as have been experienced in previous bust/boom periods (see chart 3).

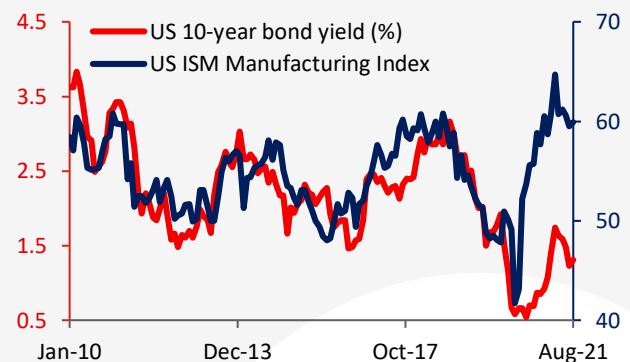
Chart 3: S&P 500 due for a breather after its strong performance?



Source: Bank of America

The low level of global bond yields seems to be out of kilter with economic realities, particularly since the first quarter of 2021. During this time, bond yields declined at a time when inflation indicators rose, while economic activity indicators concomitantly pointed to a mere slowdown in the US economy, rather than the contraction seemingly discounted by the bond market (see chart 4). Unless a double-dip recession becomes a reality in the US, a reset in bond yields to higher levels seems likely.

Chart 4: Bond yields reflect expectations for a contracting, not slowing, US economy

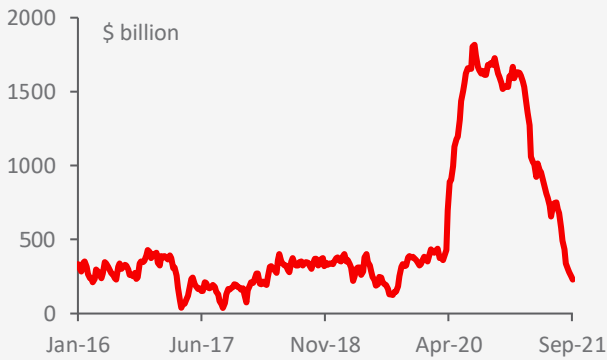


Source: Iress, Momentum Investments

A plausible explanation for the falling trend in US bond yields since the first quarter of this year comes from the prevailing idiosyncratic supply/demand fundamentals in the US bond market during this time. While the Fed continued to buy a monthly amount of US\$80 billion of US treasury instruments during this period as part of its QE programme, the US treasury simultaneously issued very little bonds in the period, choosing to rather run down its cash balances at the Fed (the Treasury General Account, or TGA) to finance spending on the back of worries about reaching the US debt ceiling later this year (see chart 5).

This left a dearth of net US treasury supply for private investors in the second and third quarters of 2021, likely forcing yields down. However, after the resultant USD 1 trillion decline in the TGA account since the first quarter of 2021, there is no further scope to use this funding strategy in the coming months. Future treasury issuance will hence have to more closely reflect the US deficit financing needs, as well as some rebuilding of the TGA balance. Furthermore, the signalled tapering of the Fed QE buying of bonds would remove some captive bond demand from the system. As such, the supply/demand dynamics in the US bond market is likely to shift from positive to negative in the coming quarters.

Chart 5: TGA account points to net bond supply becoming more bond market negative going forward



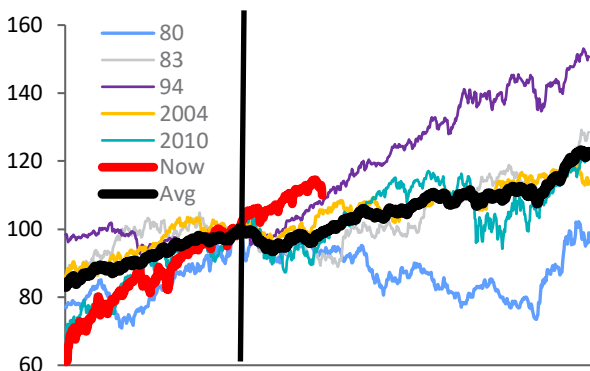
Source: Federal Reserve Bank of St Louis

US real yields are likely to face similar negative supply/demand issues to nominal bonds going forward, while facing the additional negative fundamental hurdle of peaking US inflation, which should constrain private demand for the asset class. Rising real rates would not only have a negative bearing on US equity valuations and hence prospective equity returns, but also on the gold price and thus gold as a non-interest-bearing asset class.

The prevalent rolling over of PMI indicators across the world indicates that a broad-based slowing of global economic momentum is in the offing. Citi research shows that equities typically falter when PMIs roll over but recover soon afterwards unless there is a double-dip recession (see chart 6). The consequence is that a return to the historical average profile of post PMI roll-over equity performance would imply an immediate 10% drop in the S&P 500 or the market going nowhere for some time.

Although further earnings upside should provide some underpin for global equities, the anticipated declining (economic and) profit momentum and prospective US QE tapering could lead to more choppiness in market returns going forward.

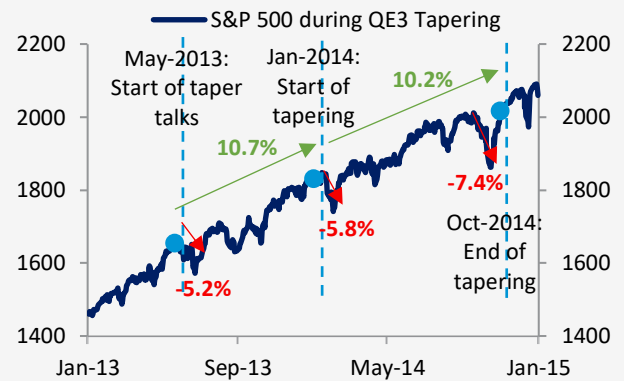
Chart 6: Equities typically falter when PMIs roll over, but soon recover unless there is a double-dip recession



Source: Citi

A roadmap from the 2013-14 tapering episode shows that although there were numerous instances of single-digit drawdowns during both the tapering talk and actual tapering phases back then, the US equity market still provided decent returns for the period as a whole (see chart 7). This would seem to validate following a 'buy the dip' strategy during the current tapering process to avoid missing out on equity upside. Historically, larger market corrections ensued at the end of central bank balance sheet expansions (predicted by Bank of America to happen by the second quarter of 2021 for the G4 aggregate), and once quantitative tightening starts.

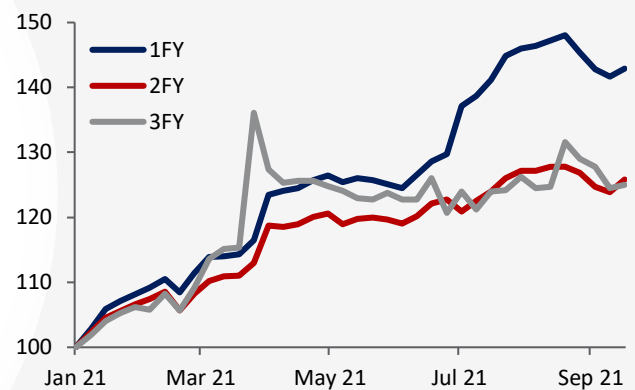
Chart 7: 'Buy the dip' during the tapering process



Source: Iress, Momentum Investments

As challenging valuations should constrain the magnitude of US equity upside from here, it again supports the notion of 'buying the dip' to enhance equity return upside rather than chase prevailing market levels. Although absolute equity valuations look expensive, bond valuations are even higher due to the generational low yields offered. In relative terms, global equities thus remain cheaply priced versus global bonds.

Chart 8: SA profit upgrades the norm this year



Source: Investec Securities

In lockstep with the expected global backdrop outlined above, the SA equity market should benefit from a general risk-on environment remaining in place, but could be at risk from sporadic sell offs related to a roll over in global economic momentum, the US tapering process and rising global bond yields. Fortunately, strong earnings upgrades for FY21-23 have been the norm for SA equities this year (see chart 8).

Chart 9: Earnings upgrades have pushed SA equity valuations to decade lows



Source: Iress, Momentum Investments

This has forced valuations down into very attractive territory, significantly enhancing the potential return upside for SA equities going forward. While the SA equity market traded in line with EM equities on a forward P/E basis in the past 25 years, it now trades at a large 30% discount to EM. Even assuming well-below consensus earnings growth of 15% in the next year, the SA equity market's forward P/E is now 1½ standard deviations below its average since 1999 (see chart 9).

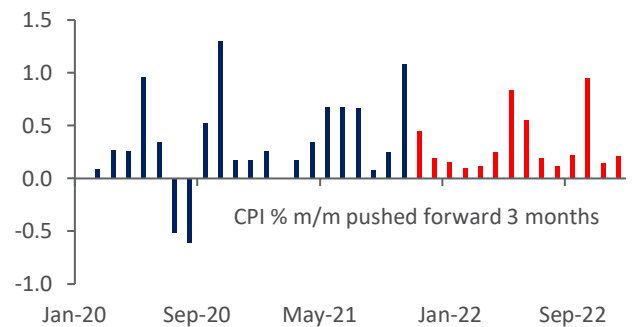
The main drawcard for investment in the SA nominal bond market remains the high level of real yields available, which more than compensates for any actual or perceived fiscal and country risk premia, in our view. Not only are SA real yields still much higher than their own history, but they are very attractive against the EM peer group and even more so against the poor (predominantly negative) real yields offered in DM. This has recently enthused

renewed global appetite for EM and SA bonds, with flows into local currency EM bond exchange trade funds (ETFs) picking up and foreign allocations at the weekly nominal SA government bond auctions rising. In the ILB space, there is limited scope for further break-even widening as local inflation peaks, with expected smaller monthly inflation accruals providing less fundamental support for the asset class until the second quarter of 2022 (see chart 10).

Due to aggressive SARB interest rate cuts in 2020 in response to COVID-19, prospective SA real cash yields have fallen close to around zero, which is almost one and a half standard deviations below its historical average. This makes the real return available to investors from local cash unappealing.

Sector fundamentals in the listed property sector remain weak, with rising vacancies (particularly in Office and Retail), falling escalations, negative rental reversions and sharp rises in operating costs the order of the day. However, listed property values have already declined by 9%, discounting a large chunk of the poor fundamentals; we think total declines will be 10%-15% peak-to-trough. The expected limited further property value declines from here point to significant return upside for the asset class in coming years, despite the many uncertainties in the sector.

Chart 10: Monthly inflation accruals less supportive for ILBs until the second quarter of 2022



Source: Iress, Momentum Investments

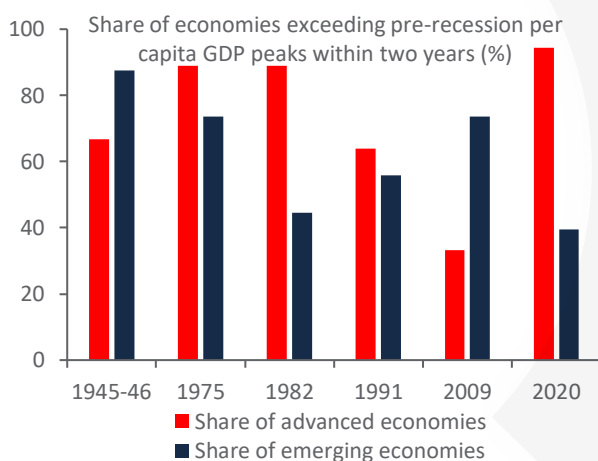
Lopsided recovery favouring richer nations

At the surface it appears as though global growth is once again booming. The World Bank predicts a return to global growth of 5.6% for 2021, following on from the worst pandemic-stricken period in over 100 years. Not only would this mark the strongest growth rate in economic activity since 1973, it would also be placed as the strongest paced post-recession recovery in 80 years. Nevertheless, this strong rebound is unlikely to be felt evenly across the globe and in our view, economic fortunes are likely to remain highly divergent across countries.

Less available fiscal and monetary policy space as well as new and more severe virus strains in lower vaccinated countries will likely keep the relative pace of economic recovery in EMs on the back foot. Unlike during the global financial crisis, when advanced economies shouldered the hit, this time around gross domestic product (GDP) per capita for nearly 95% of DMs are expected to reach their pre-crisis peaks in less than two years. In contrast, fewer than 40% of EMs are expected to achieve the same feat in the absence of a 2008-style Chinese stimulus package (see chart 11). As such, excess growth in EMs, above that of developed nations, is set to fall to its weakest level since the turn of the century.

Swift and sizeable monetary and fiscal policy actions have paved the road for a sharper rebound in economic activity in many major advanced economies. Generous economic support packages as well as a relaxation in measures to control the spread of the virus have given way to a surge in pent-up demand. This has helped to boost growth outcomes in these economies.

Chart 11: Advanced economies making a quicker comeback this time around



Source: World Bank Global Economic Prospects (July 2021), Momentum Investments

Highly unequal vaccine coverage, globally, has further driven a wedge between expected growth outcomes in richer nations and poorer economies. In its World Economic Situation and Prospects document for July 2021, the United Nations reported on the two-track pandemic that has left 73 vaccine doses being administered for every 100 adults in developed countries and 43 doses in upper-middle income countries, but only 12 doses in lower-middle income countries and three doses for every 100 adults in the least developed nations.

With advanced economies recovering to their pre-recession levels more rapidly, the amount of spare capacity in these economies is likely to reduce at a faster pace. But despite the gap between actual and potential growth narrowing at a quicker rate in advanced economies, the Bank for International Settlements (BIS) argues that the three factors generally associated with persistent inflationary episodes are unlikely to materialise this time around. Firstly, as the fall in elevated savings rates slow and as supply bottlenecks unwind, demand is unlikely to remain sustainably above supply. Secondly, wage increases in excess of productivity are unlikely to persist. The Conference Board has argued for a resurgence in productivity globally following the pandemic as firms are forced to do more with less. The Conference Board shows this is likely to be particularly true for the US, where signs of labour market shortages have surfaced. Thirdly, longer term inflation expectations remain reasonably well anchored. Using a study of inflation expectations in 14 advanced economies, since 1970, the BIS shows that by anchoring inflation expectations, a 1% narrowing of the output gap only led to a 0.3% increase in inflation outcomes, when expectations were well anchored, as opposed to an 0.8% increase when expectations were backward looking.

In addition to the arguments framed by the BIS, structural drivers continue to place downward pressure on inflation. This includes forces of automation which enable lower costs as well as rising inequality which drives up relative incomes at the higher end of the income earning spectrum. Given that the wealthy save more than spend, aggregate demand comes under pressure. Increased excess savings are channelled into asset prices, which drive asset price inflation higher, but this does not necessarily propel inflation in the real economy.

With the focus of key developed market central banks shifting from a fixed target level of inflation to average inflation targeting, it is likely, in our view, that above-target inflation could be tolerated for more protracted periods of time, leaving monetary policy accommodative for longer than under the previous monetary policy framework.

The US Fed and the European Central Bank have stated their intentions to reduce bond purchases in an effort to start unwinding ultra-loose monetary policy accommodation. Clear communication from key central banks is pivotal in minimising the risk of panic and preventing the extreme reaction in bond markets that occurred during the previous episode of reversing quantitative easing in 2013.

Unlike the 'taper tantrum' that rattled global markets in 2013 and resulted in capital flight from vulnerable EMs, this time around, key differences are notable. Current account deficits for the so-called 'fragile five' countries (Brazil, India, Indonesia, Turkey and SA) are significantly narrower on average, real exchange rates appear more reasonably valued across EMs, most EMs have fewer external financing needs as a share of foreign reserves, the flow of external funds into the EM composite in recent years has been considerably lower than in the years leading up to the 2013 taper tantrum and many EMs have already begun to tighten monetary policy themselves.

SA's rebound to fizzle out as tailwinds fade

As health outcomes improved in parts of the globe, lockdown restrictions eased allowing consumers to unleash pent up demand which was supported by generous stimulus checks and unemployment benefits. This, together with bottlenecks in global supply chains, led to a robust rally in commodity prices. A surge in prices of coal, gold and platinum group metals drove a post-democratic record-high current account surplus in SA in the second quarter of 2021, which, in our view, helps to offset some of the external vulnerability risks associated with capital outflows in the event of a premature or more aggressive withdrawal of global liquidity. Nevertheless, the bulk of this improvement has been driven in value terms, whereas export volumes in the second quarter of 2021 remained 12% below levels observed in the first quarter of 2019, a reflection of prevailing infrastructure bottlenecks.

While growth in the local economy staged a firmer-than-expected 7.5% rebound in the first half of the year, we expect growth to soften in the second half of the year. The outbreak of civil unrest in the country's main economic hubs in July 2021 disproportionately hit small business owners and the poorest individuals of society. According to a survey done by Redflank, nearly 7% of small businesses are not expected to reopen their doors, highlighting the adverse effect of the rioting on business confidence. Lingering electricity supply constraints and a lagging vaccination rollout will

further weigh on growth. Although medical experts are predicting a fourth wave of COVID-19 infections, higher natural rates of infection and more vaccinated individuals may temper the severity of the wave and could dampen the severity of consequent lockdown restrictions on economic activity. We expect the economy to rebound by close to 5% in 2021, predominantly supported by the consumer and exports, from a revised 6.4% contraction in 2020.

In our opinion, growth in economic activity is, however, likely to fizzle out to 2% in 2022 and 1.8% in 2023 on longer term structural impediments to growth. Admittedly, strides have been made in ramping up delivery on structural reform. These include lifting the cap on the limit for self-generation power, signalling the intention to partly privatise the national carrier, paving the way for private operators to establish commercial container handling operations as well as taking action against those accountable for rampant corruption.

Nevertheless, the pace of structural reform implementation continues to disappoint and has led to a decade long downward trend in citizens' trust in SA's public institutions as surveyed by Afrobarometer. Afrobarometer notes the widespread rioting and looting, which undermined government authority and legitimacy, may have further entrenched this trend.

The threat of unrest motivated by socioeconomic factors can be directly linked to longer term damage to a country's growth outcomes. In a working paper, "The macroeconomic impact of social unrest", the International Monetary Fund (IMF) highlighted that demonstrations triggered by a combination of both socio-economic and political factors have had the biggest impact on growth historically and GDP can remain 1% below its pre-shock level, as long as one and a half years later.

In light of the disproportionate hit from the pandemic, the IMF emphasises that boosting employment and protecting those who have been left behind in the aftermath of the COVID-19 pandemic must remain governmental priorities.

Employment data from Statistics SA confirms this sentiment by showing that the majority of job losses between the first quarter of 2020 and the first quarter of 2021 have been concentrated in lower-skilled areas of the SA economy. While a number of jobs have been added in this area since the trough, little growth has been observed in the semi-skilled area of the economy.

While the pandemic has disproportionately upended the economic fortunes of the less educated, lower-skilled and female groupings, in SA's case, the conversation around inclusive growth has to be held in the context of sustainably financing budget pressures. The World Bank has shown that the country's fiscal position has deteriorated markedly over the past decade and more so than its peers. The composition of spending which was largely allocated to public sector compensation and interest payments in lieu of capital spending also played a role in the reduced effectiveness of government spending on growth outcomes. Although buoyant commodity prices have led to an upside surprise in government revenue relative to National Treasury's February 2021 projections, demands on the fiscus have grown. Part of the revenue overrun will now have to cover the additional costs associated with the finalised public sector wage bill agreement as well as to fund additional fiscal support measures which were announced in response to the July unrest and further lockdown restrictions which hindered economic activity. Both of these developments have the potential to raise risks further out than the immediate fiscal year. Firstly, government will inevitably face ongoing discussions for a basic income grant in the absence of significant job creation. And secondly, the public sector wage bill settlement is a single year agreement and in the absence of finalised wage discussions by the end of March 2022, the negotiated cash bonus will continue into the next fiscal year, raising medium term fiscal risks.

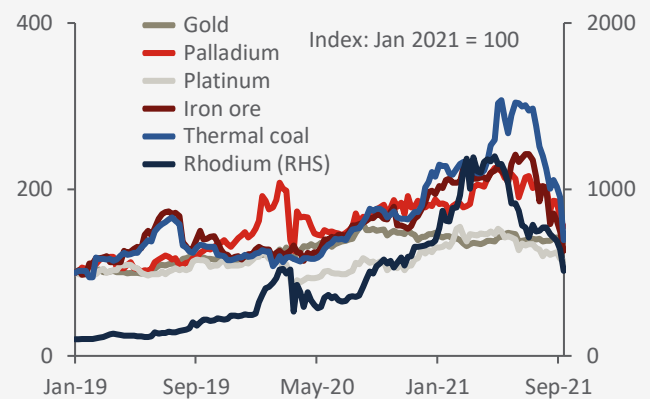
The SARB has also played a necessary role in supporting economic growth during the COVID-19 pandemic by keeping interest rates accommodative and by providing regulatory relief to the banking system. Inflationary pressures have remained largely dormant despite global supply chain disruptions exerting upward pressure on select raw material inputs. Unlike in EM, where the average

contribution of services to the consumer inflation basket is 35%, services inflation accounts for around half of the SA basket. In SA, services inflation has remained contained at an average of below 3.5% for the past 12 months and has provided an anchor for headline inflation. This is partly due to excess housing supply putting downward pressure on rentals, but lower inflation has been observed in a number of other service categories, including education and restaurants.

Underlying inflationary pressures have further remained well behaved in light of subdued demand. In line with moderating services inflation, average five-year ahead inflation expectations have moderated to close to the target band.

The rand has outperformed a broad EM basket of currencies and commodity currencies since the start of the year. We do, however, see scope for mild currency depreciation in the coming quarters as the US dollar strengthens moderately, as commodity prices soften (see chart 12) and as domestic growth and fiscal concerns weigh heavily on the medium-term outlook. Nonetheless, the pass through from the currency into the inflation basket in recent years has moderated considerably on the back of weaker demand. This, together with credible policy frameworks and sound governance by the SARB, has aided the reduction in volatility of inflation.

Chart 12: Commodity prices rolling over



Source: Bloomberg, Momentum Investments

In the Financial Stability Review for October 2020, the IMF described SA as having exhibited the lowest volatility in inflation over the past ten years from a range of EMs. While this trend may support the SARB's recent announcement for their preference of a lower inflation target (possibly closer to 3% to 4%), administered prices (including water and electricity tariffs) have had an upward bias on inflation and are arguably much less affected by the monetary policy transmission mechanism as other items in the consumer basket. Administered price inflation has averaged 6.5% since the start of 2009, whereas headline inflation excluding administered prices has averaged at a lower 4.9% during the same period.

We expect inflation to average close to the midpoint of the 3% to 6% inflation target range for the next three years in the absence of any currency, food or oil price shocks.

Our inflation forecasts reflect the relatively benign view that the SARB holds on inflation for the forecasted horizon. We expect inflation to average close to the midpoint of the 3% to 6% inflation target range for the next three years in the absence of any currency, food or oil price shocks. In our view, energy, administered prices and wages remain upside threats to the medium-term outlook, but we expect moderate food prices (aided by improving global grain production, health domestic stock levels and an expectation of above-average rainfall), and a slow recovery in rental prices (driven by low demand for urban property rental due to work-from-home trends during the pandemic and an increase in first time buyers lured by low interest rates) to lead to a more benign outcome on inflation. Although the output gap is expected to close sooner than initially envisaged, owing to stronger growth in the first half of the year, well-anchored inflation expectations are likely to prevent any surge in demand-pull inflationary pressures.

With contained inflation prospects and real interest rates which are higher (less negative) on a global comparison, given a surge in inflation in many jurisdictions, we view no immediate pressure on the SARB to raise interest rates and therefore see the risks to the first interest rate hike as being tilted towards the first quarter of 2022. We expect a gradual normalisation in interest rates to follow, with another two interest rate hikes of 25 basis points each in 2022 and up to an additional three hikes of 25 basis points each in 2023



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



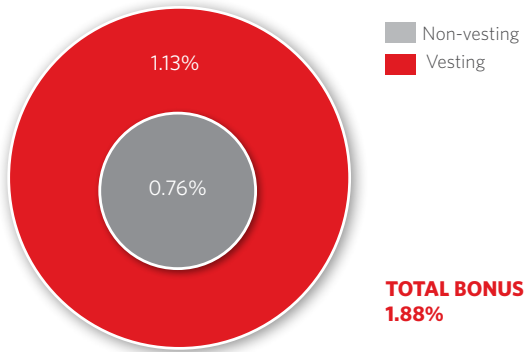
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2020	100% - 105%	0.99% ¹	5.46% ¹

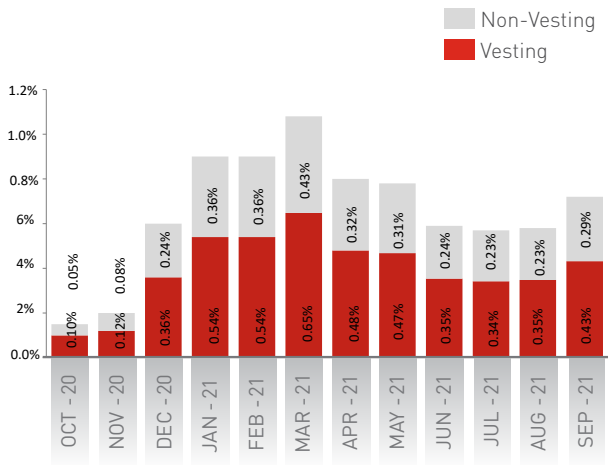
¹Based on back-tested bonuses and returns

Performance

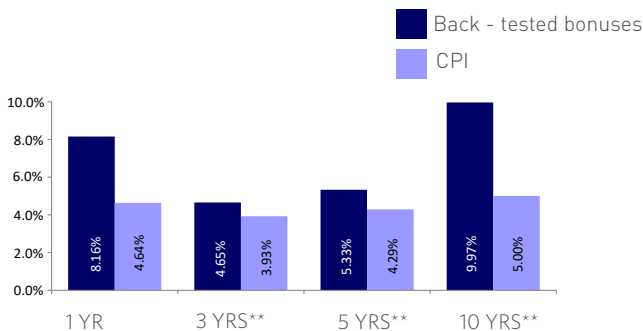
The total bonus* for the past quarter on the **Universal Multi-Manager Smooth Growth Fund** is shown below.



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

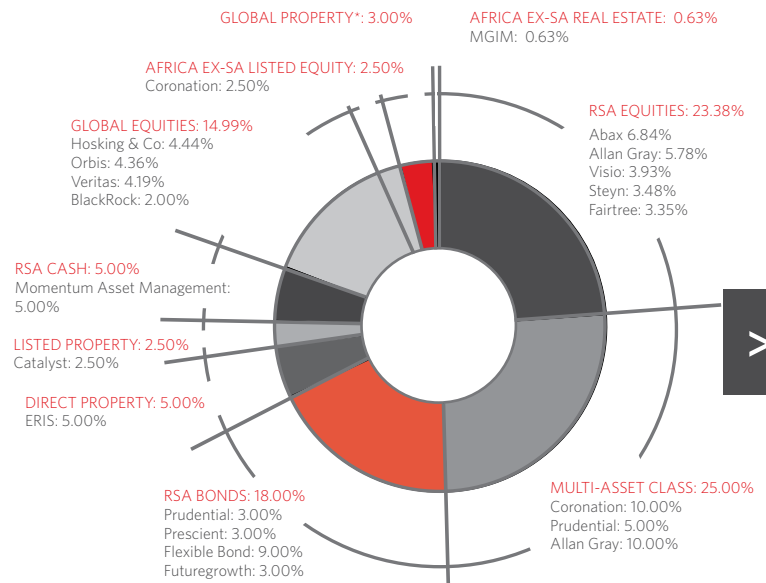


CPI figures are lagged by two months

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

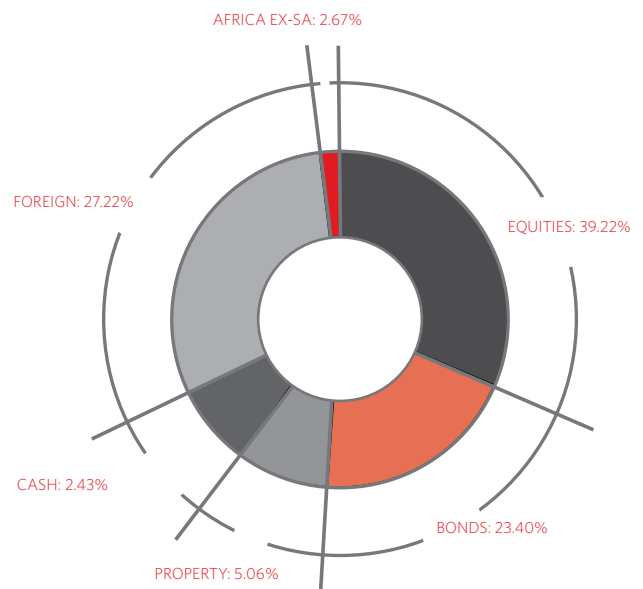
Asset Allocation

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



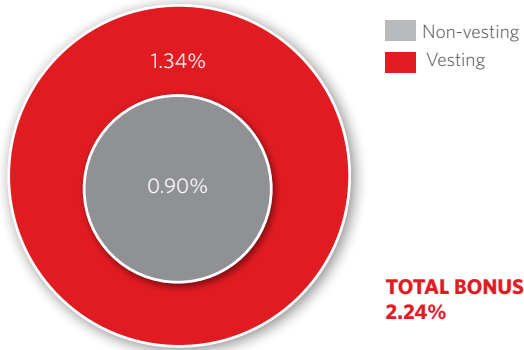
Fund Snapshot

INCEPTION DATE	FUNDING LEVEL RANGE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2020	100% - 105%	0.98% ¹	4.72% ¹

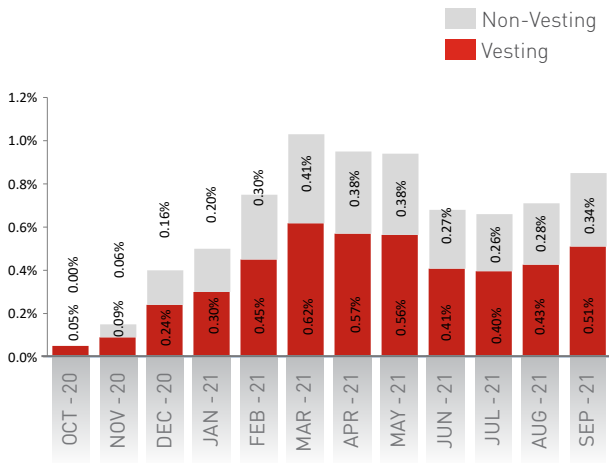
¹Based on back-tested bonuses and returns

Performance

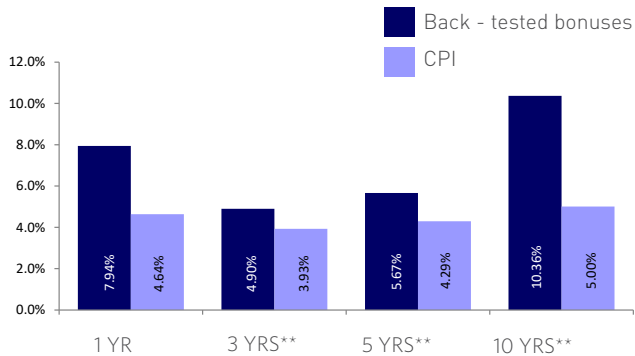
The total bonus* for the past quarter on the **Universal Smooth Growth Fund** is shown below.



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



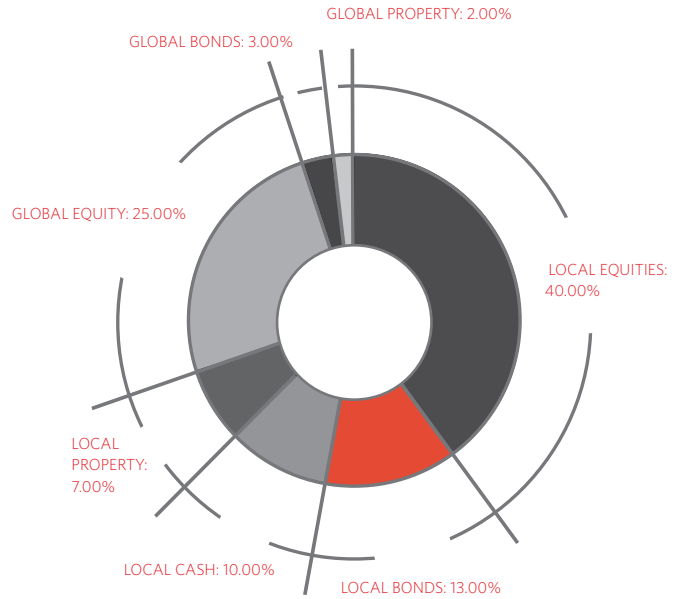
CPI figures are lagged by two months

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

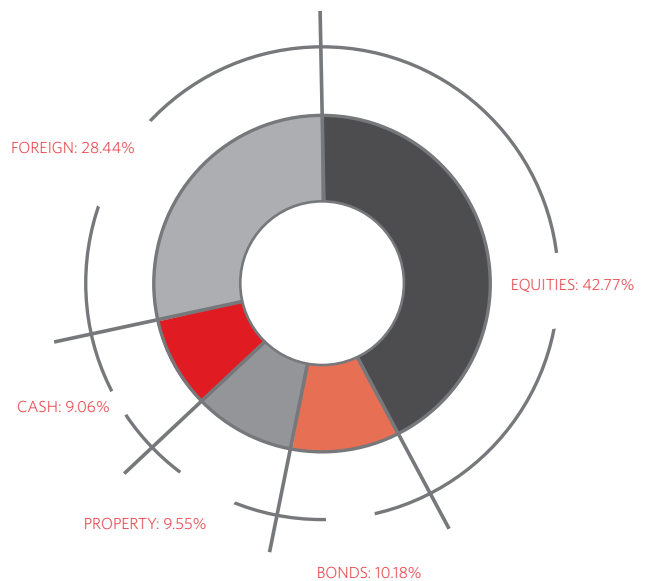
** Annualised

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



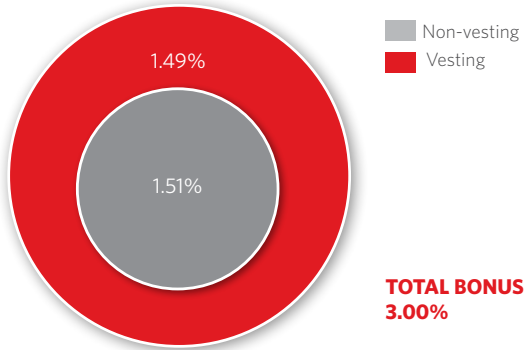
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jun 2020	102.5% - 107.5%	1.30% ¹	6.95% ¹

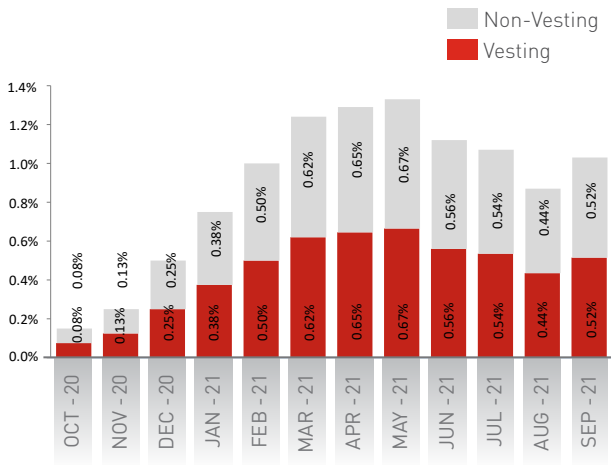
¹Based on back-tested bonuses and returns

Performance

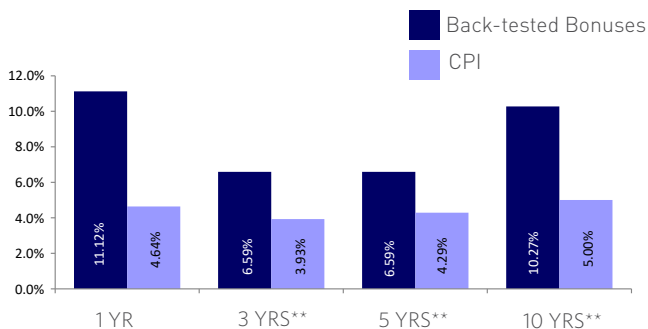
The total bonus* for the past quarter on the **Universal Smooth-Edge Fund** is shown below.



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

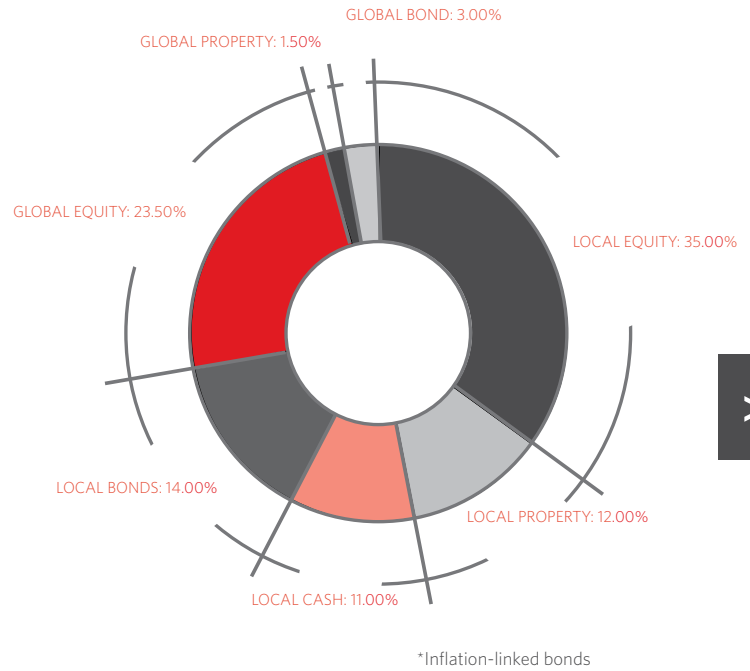


CPI figures are lagged by two months

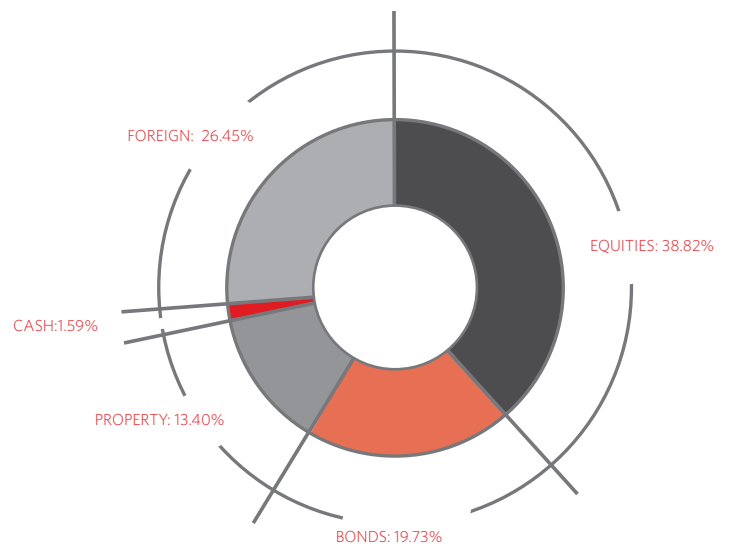
* Bonuses are net of underlying asset charges but are gross of the investment management fee
 ** Annualised

Asset Allocation

The strategic asset allocation of the portfolio is shown below.



The effective asset allocation of the portfolio is shown alongside.



Partially Vesting Smooth Bonus Range

Multi-Manager Smooth Growth Fund Global

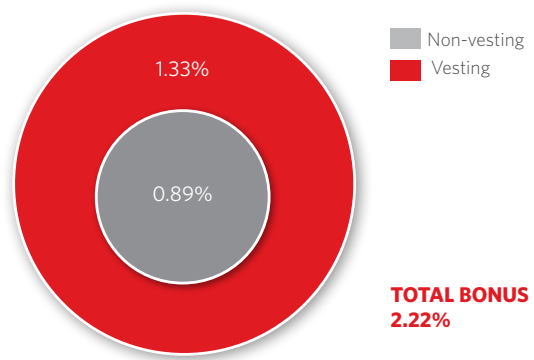


Fund Snap Shot

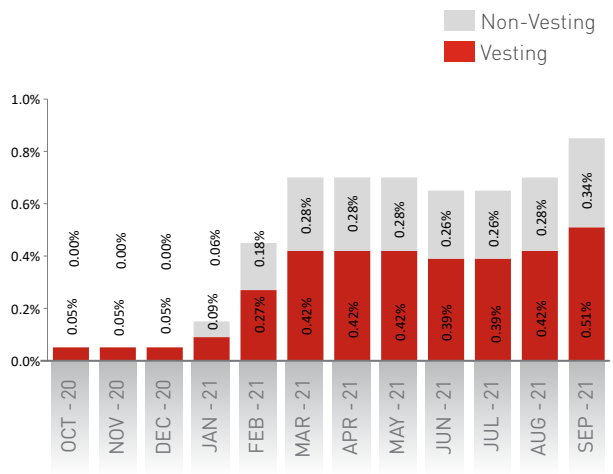
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	102.5% - 107.5%	R10.3bn	0.90%	5.26%

Performance

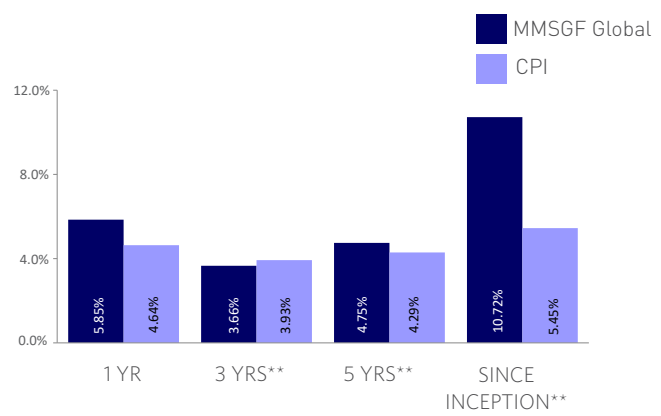
The total bonus* for the past quarter on the Multi-Manager Smooth Growth Fund Global is shown below.



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

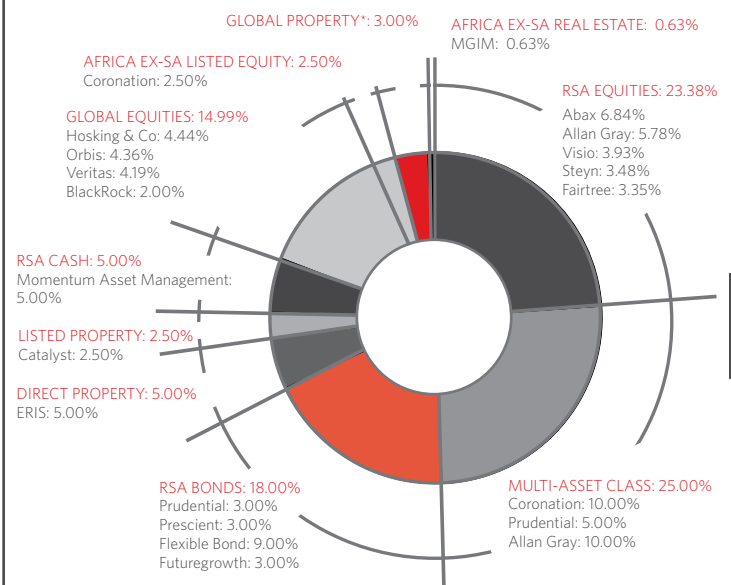


The chart below shows the long term bonus* performance of the Multi-Manager Smooth Growth Fund Global against CPI



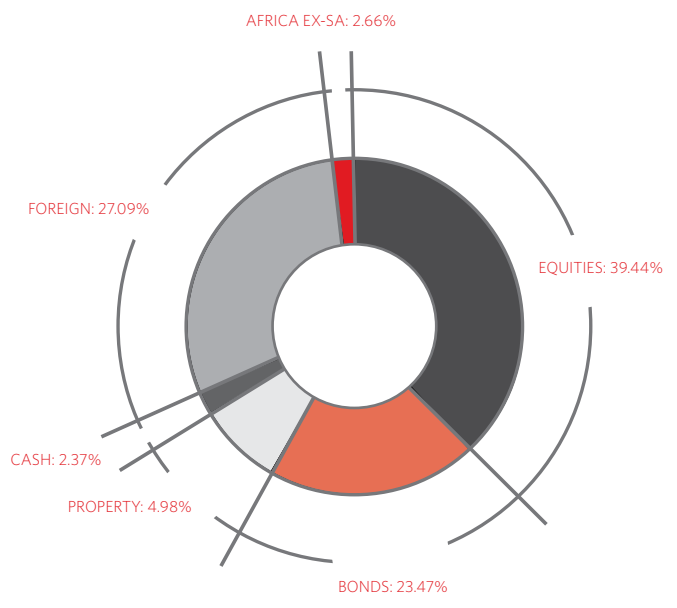
Asset Allocation

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.



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

Partially Vesting Smooth Bonus Range

Smooth Growth Fund Global

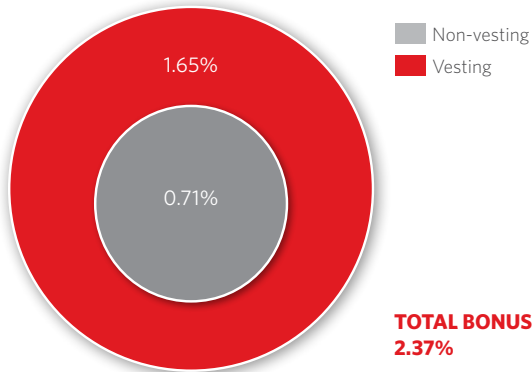


Fund Snap Shot

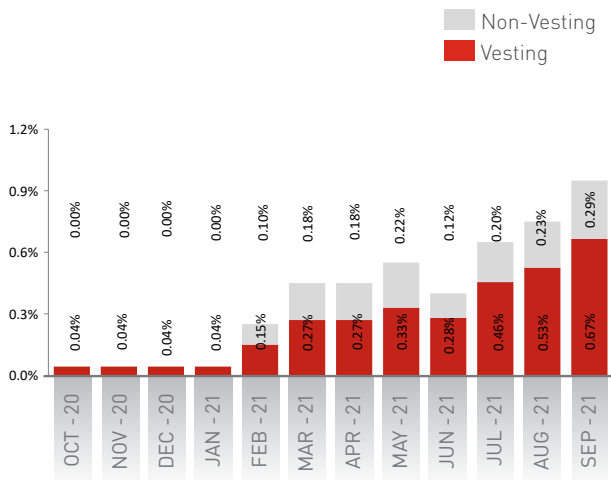
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 1989	102.5% - 107.5%	R1.7bn	0.86%	4.26%

Performance

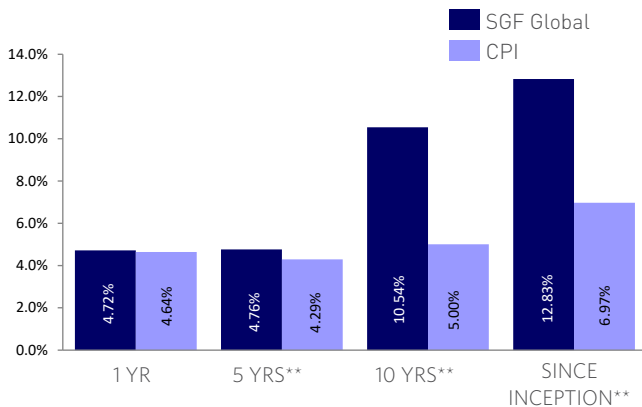
The total bonus* for the past quarter on the Smooth Growth Fund Global is shown below.



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

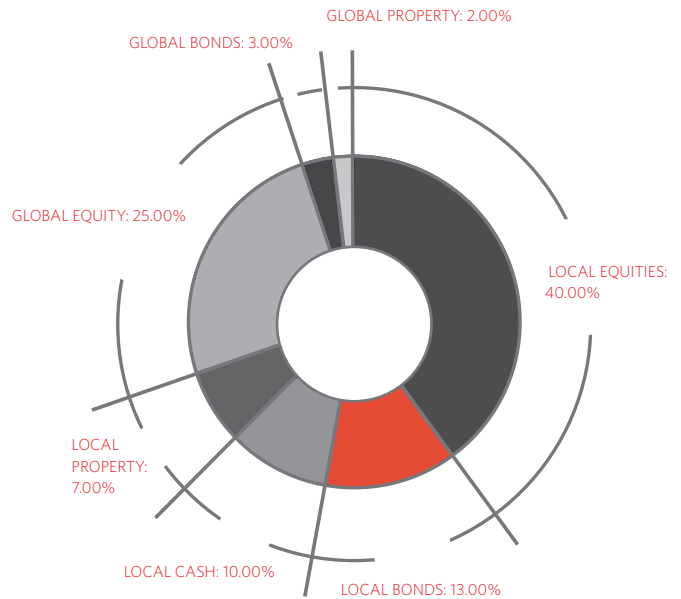


The chart below shows the long term bonus* performance of the Smooth Growth Fund Global against CPI.

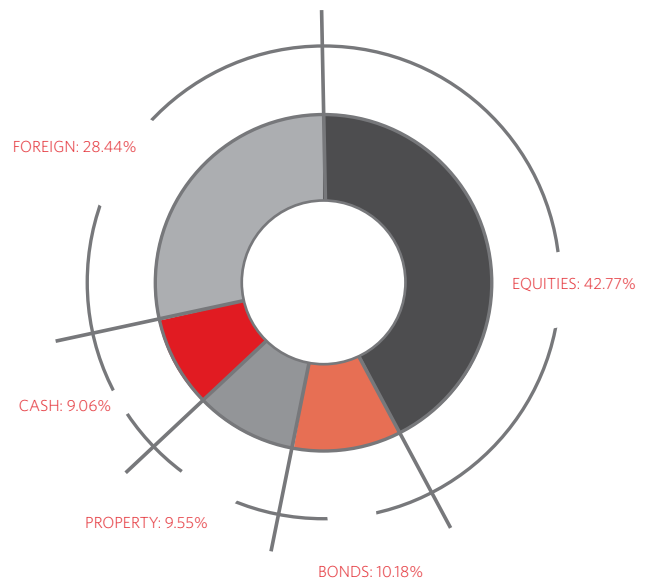


Asset Allocation

The strategic asset allocation of the portfolio is shown alongside.



The effective asset allocation of the portfolio is shown alongside.



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

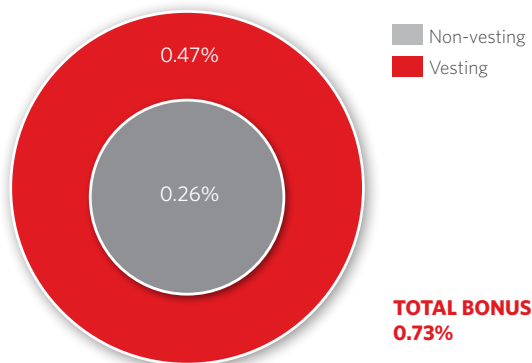


Fund Snap Shot

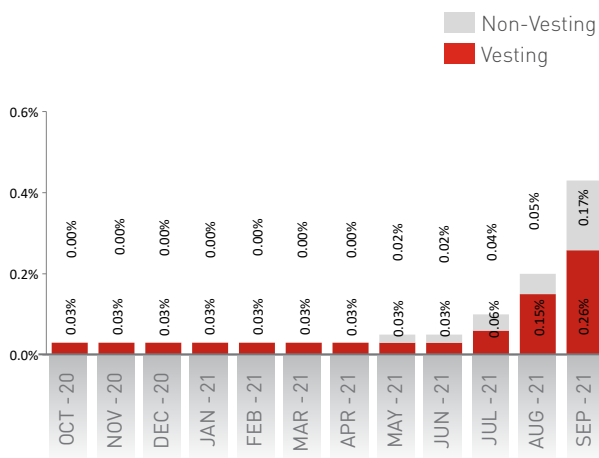
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Jan 2004	97.5% - 102.5%	R139.4m	0.34%	2.96%

Performance

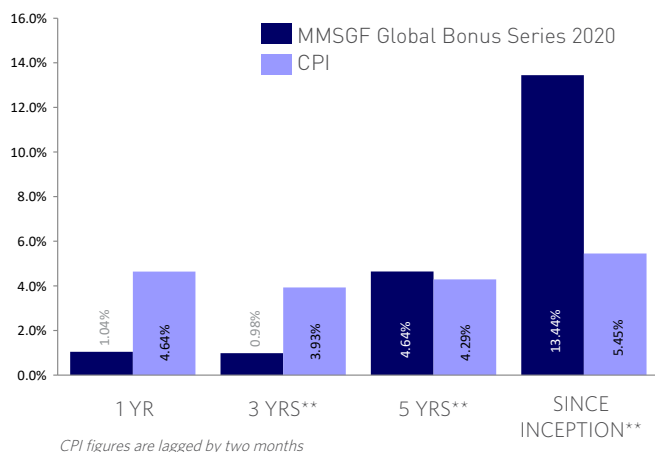
The total bonus* for the past quarter on the MMSGF Global Bonus Series 2020 is shown below.



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

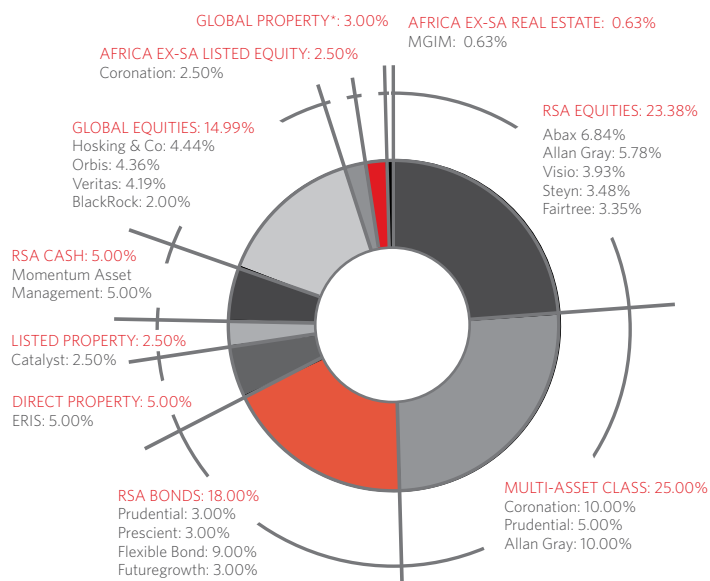


* Bonuses are net of underlying asset charges but are gross of the policy fee
** Annualised

Asset Allocation

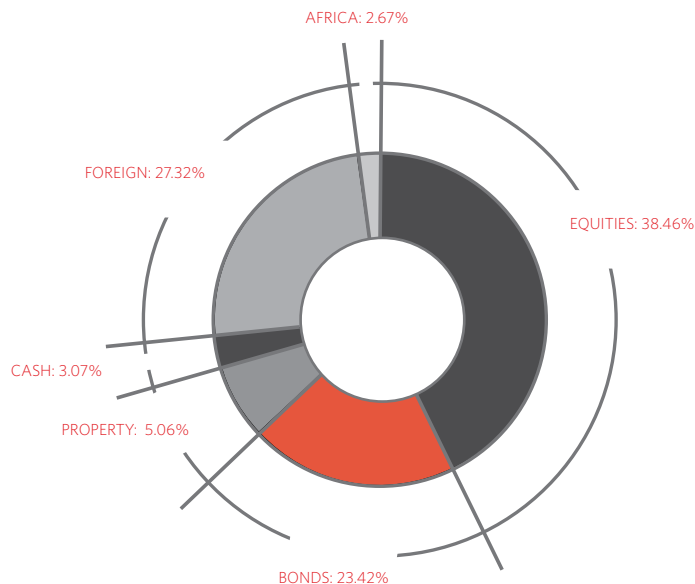
The strategic asset allocation of the portfolio is shown alongside.

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



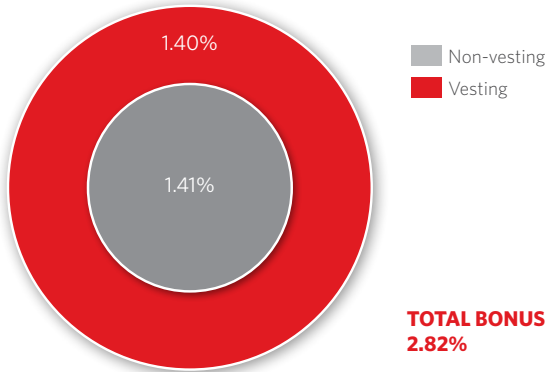
Fund Snap Shot

INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Feb 2019	102.5% - 107.5%	R99.4m	1.22% ¹	6.95% ¹

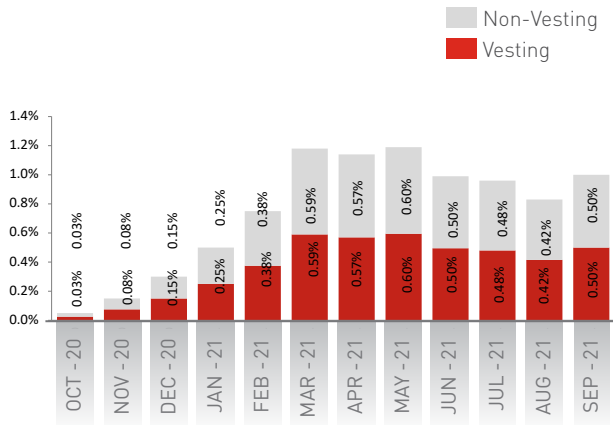
¹Based on back-tested bonuses and returns

Performance

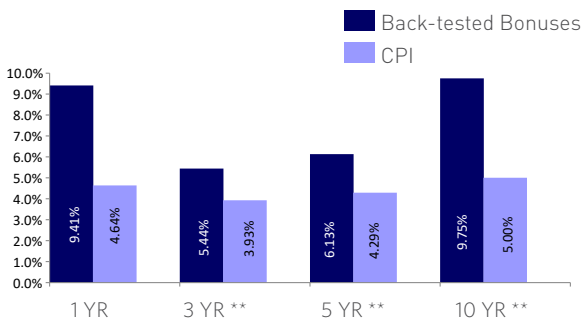
The total bonus for the past quarter on the **Momentum Smooth-Edge Fund** is shown below.



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



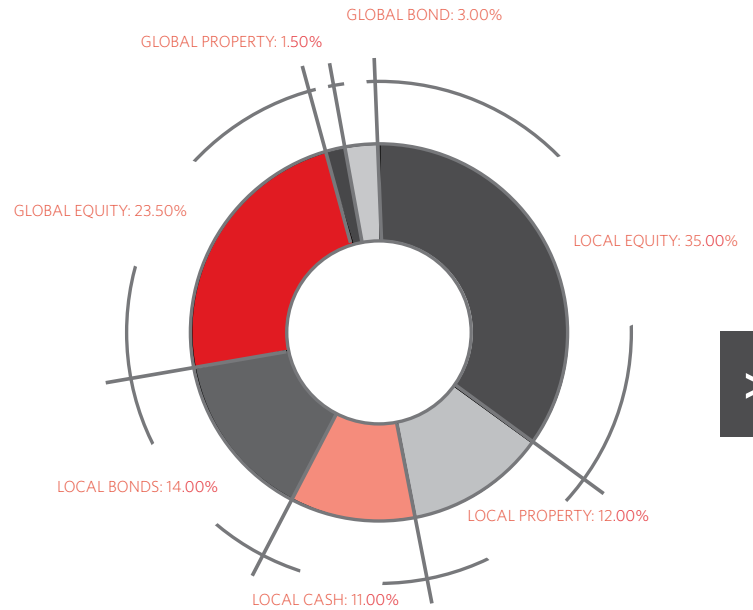
CPI figures are lagged by two months

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

** Annualised

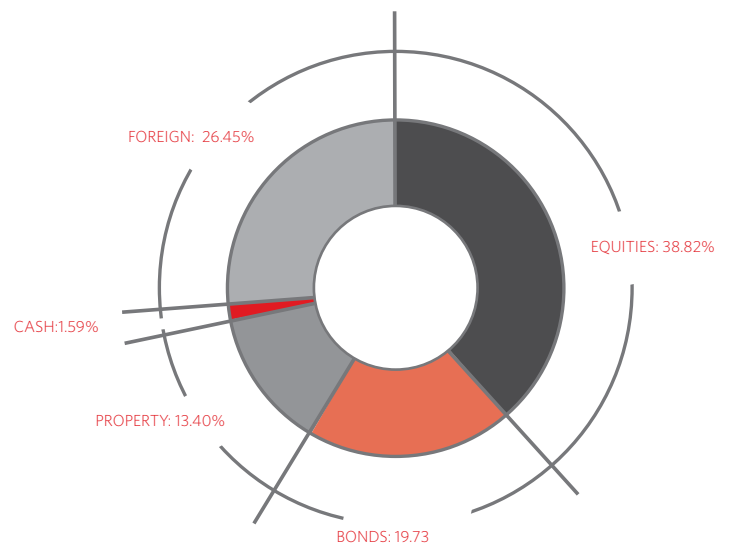
Asset Allocation

The strategic asset allocation is shown alongside.



*Inflation-linked bonds

The effective asset allocation of the portfolio is shown alongside.



Fully Vesting Smooth Bonus Range Universal Smart Guarantee+3 Fund

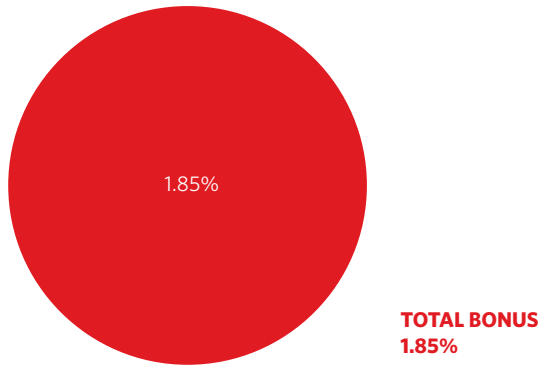


Fund Snap Shot

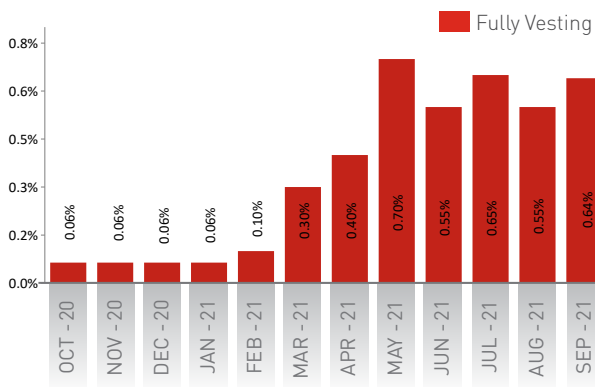
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
Oct 2013	97.5% - 102.5%	R433.4m	0.77%	5.78%

Performance

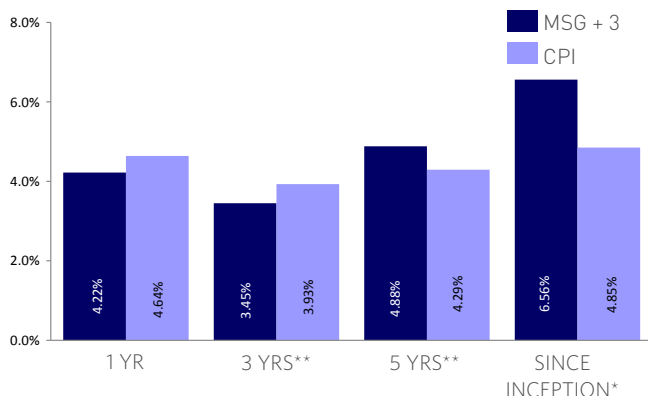
The total bonus* for the past quarter on the **Universal Smart Guarantee +3 Fund** is shown below.



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.

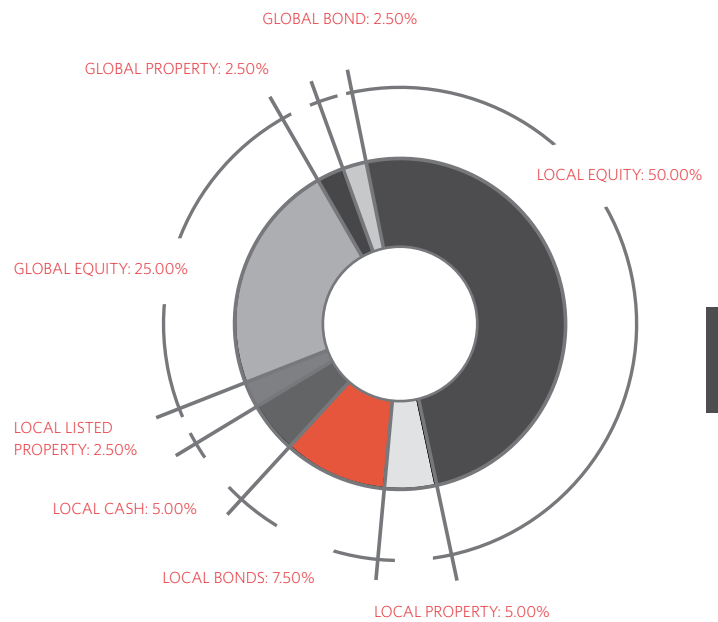


CPI figures are lagged by two months

* 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 **12.26%** of bonuses will still be declared.

Fully Vesting Smooth Bonus Range

Universal Smart Guarantee +3 Bonus Series 2020

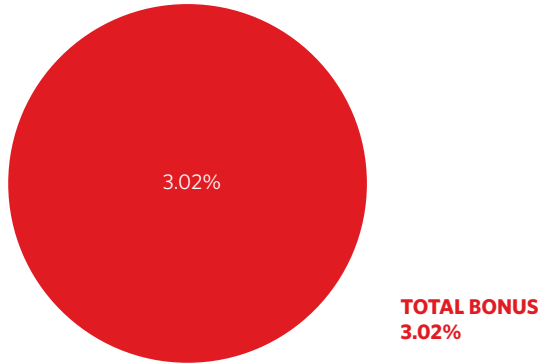


Fund Snapshot

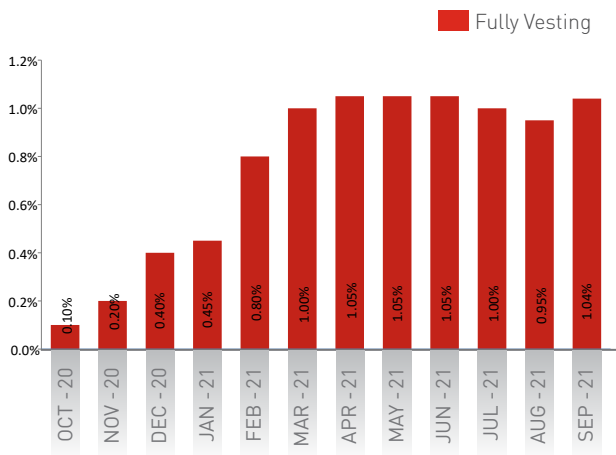
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN OF BONUS GENERATING PORTFOLIO
August 2020	100% - 105%	R75m	-	5.14%

Performance

The total bonus* for the past quarter on the **Universal Smart Guarantee +3 Bonus Series 2020** is shown below.



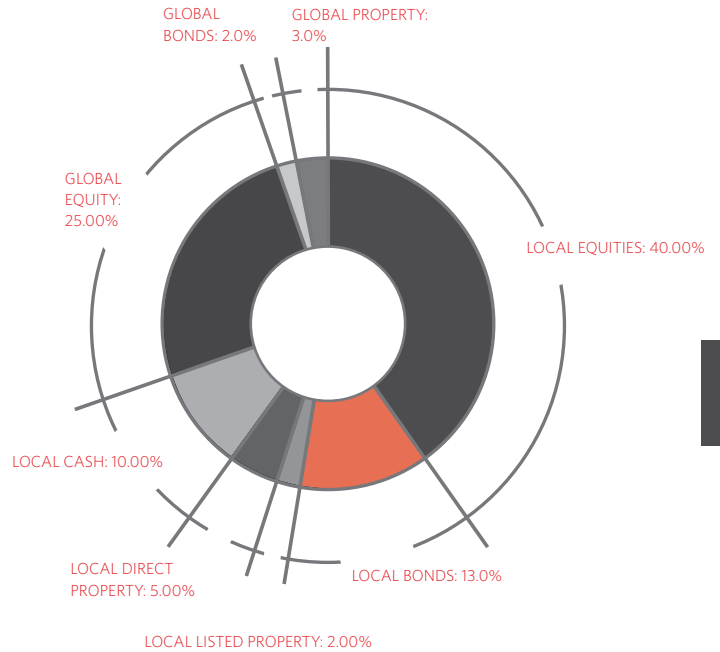
The chart below shows the actual monthly bonuses* for the past 11 months.



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

Asset Allocation

The strategic asset allocation of the bonus generating portfolio is shown alongside.



The Smart Guarantee +3 Bonus Series 2020 uses the Momentum Enhanced Growth portfolio as the bonus generating portfolio.

For bonus declarations, 90% 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.

Fully Vesting Smooth Bonus Range

Multi-Manager Secure Growth Fund

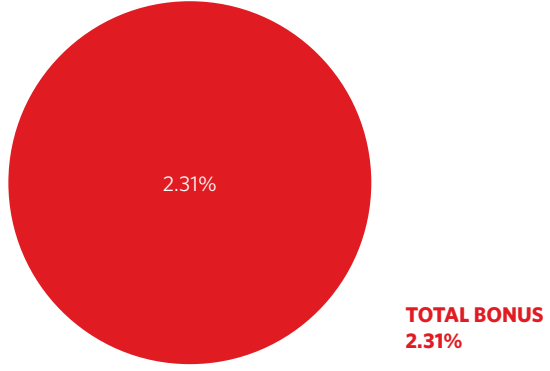


Fund Snapshot

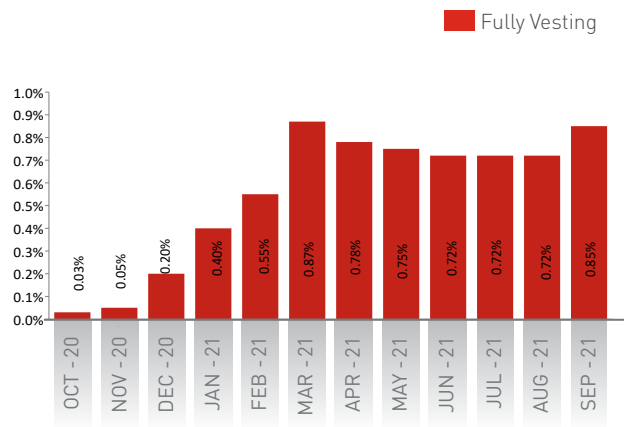
INCEPTION DATE	FUNDING LEVEL RANGE	FUND SIZE	ANNUALISED 3-YEAR VOLATILITY OF BONUSES	ANNUALISED 3-YEAR UNDERLYING ASSET RETURN
Nov 2007	107.5% - 112.5%	R92m	0.94%	5.30%

Performance

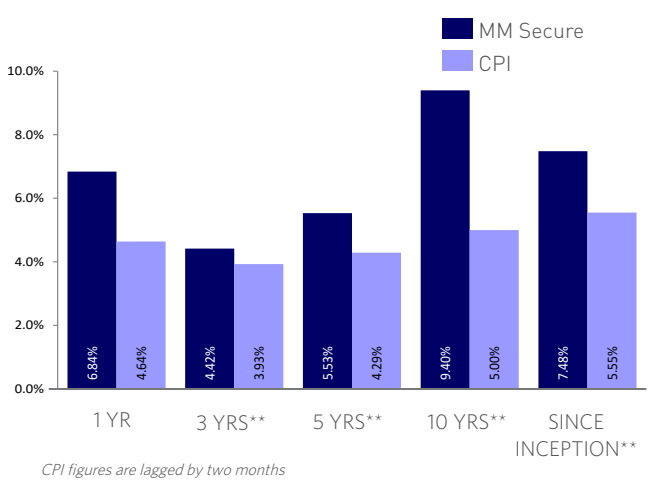
The total bonus* for the past quarter on the Multi-Manager Secure Growth Fund is shown below.



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



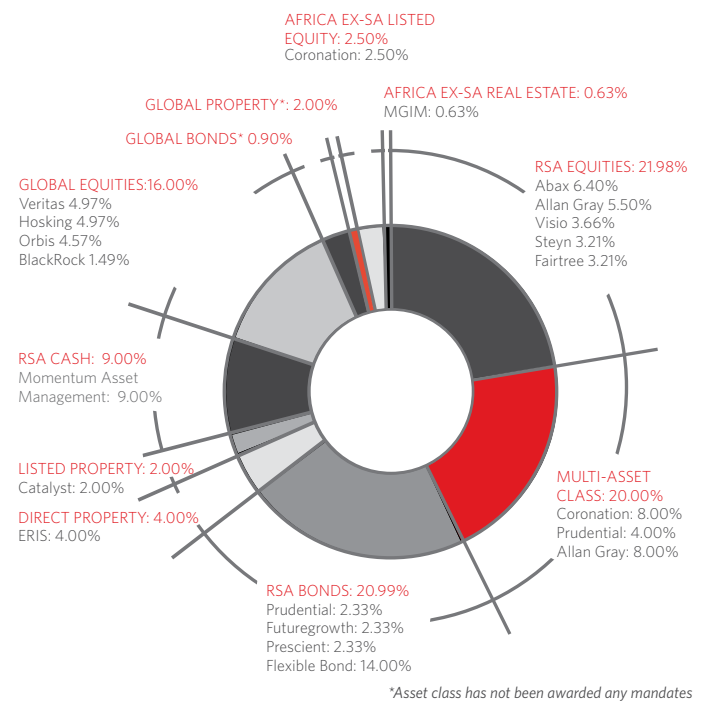
The chart below shows the long term bonus* performance of the Multi-Manager Secure Growth Fund against CPI



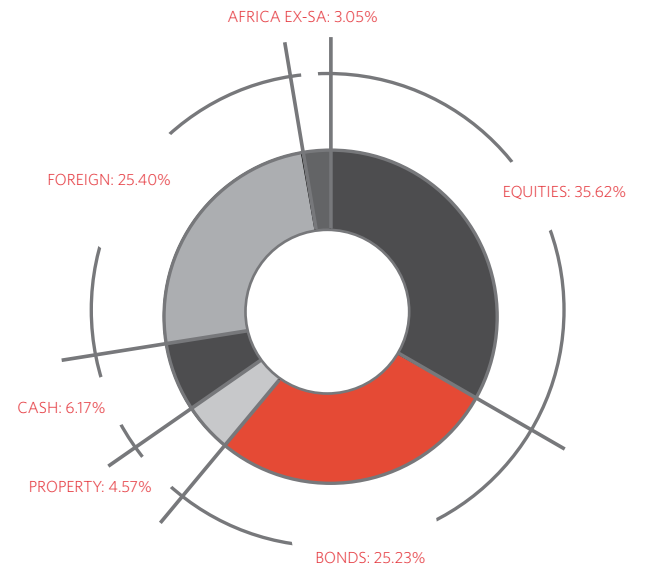
Asset Allocation

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.



The effective asset allocation of the portfolio is shown alongside.



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



Smooth Bonus Portfolios Key Features

		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
	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 ³ **	October 2013
	Universal Smart Guarantee +3 Fund Bonus Series 2020	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 **	August 2020

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

KEY:

- Benefit payments generally refer to resignation, retirement, death and disability. Specific benefit payments and terms and conditions are specified in client policy contracts.
- Market value adjustments may be applied on member switches out, terminations and other non-benefit payments if a client is underfunded.
- Depending on the underlying mandates that are negotiated with asset managers, net unit priced fees and performance fees may be deducted from the underlying assets.



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