

**m**omentum

smooth growth fund

# smooth growth fund

1<sup>st</sup> Quarter 2012

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

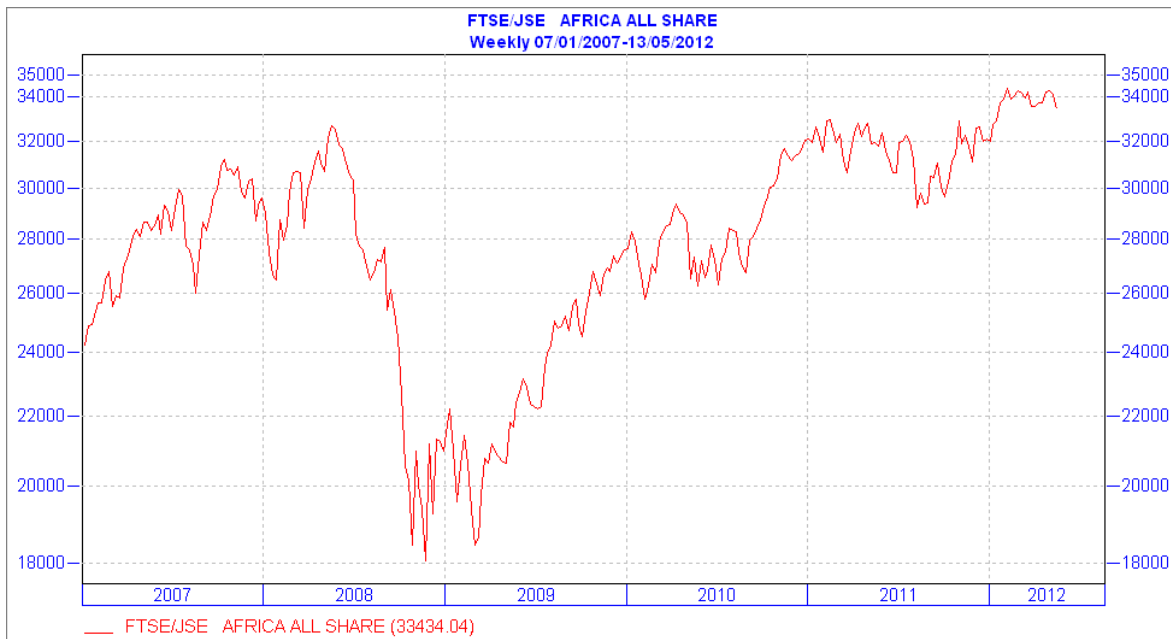


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## 1. Introduction

All local asset classes delivered positive returns over the quarter, with equities being the best performing major asset class returning 6.0% (FTSE/JSE All-share index) over the quarter. The industrial and financial sectors were the contributors to this return with returns of 10.5% and 12.8% respectively. The resources sector detracted from the overall return with a return of -3.3% over the quarter. Foreign equities had an excellent quarter with the MSCI World Index gaining 11.7% in US Dollar terms. Part of this gain was however offset by the Rand appreciating by 4.9% against the US Dollar over the period. Global bonds had a poor quarter returning 0.9% in US Dollar terms and -4.1% in Rand terms. Economic fundamentals have improved in the United States, but Europe continues to struggle with sovereign debt problems. The equity market has been buoyed mainly by positive investor sentiment. This sentiment is however vulnerable to unexpected bad news flows.



Source: Inet

For a detailed commentary on the financial markets we have included an investment market review by Momentum Asset Management in section 5 of this document.

## 2. Performance

### 2.1 Bonuses to 31 March 2012

#### Short Term Performance

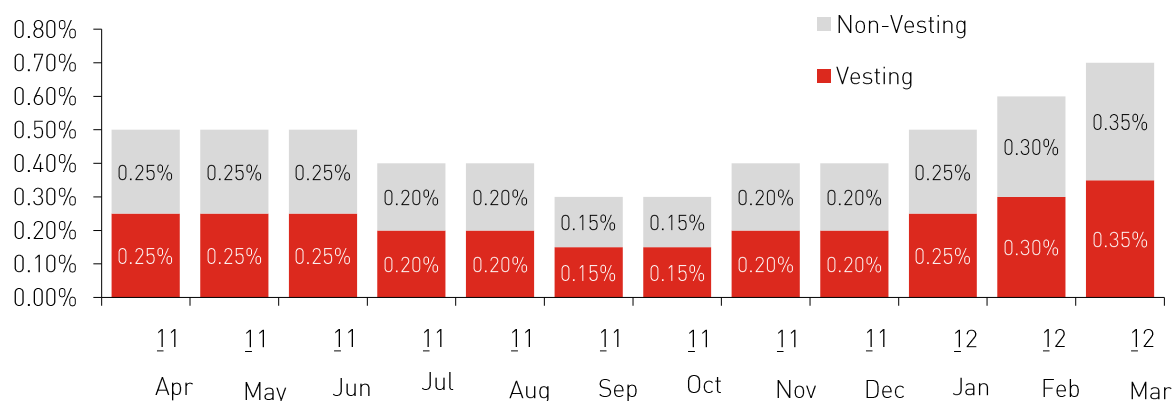
The bonuses on the Smooth Growth Fund Global and Local increased over the quarter to 0.70% and 1.10% per month respectively. The increase in bonuses was made possible by the strong recovery of equity markets in particular over the quarter. The monthly bonuses of both the Smooth Growth Fund Global and Local are comfortably ahead of inflation and money market returns.

The table below shows the total gross bonuses for the past year on the Smooth Growth Funds.

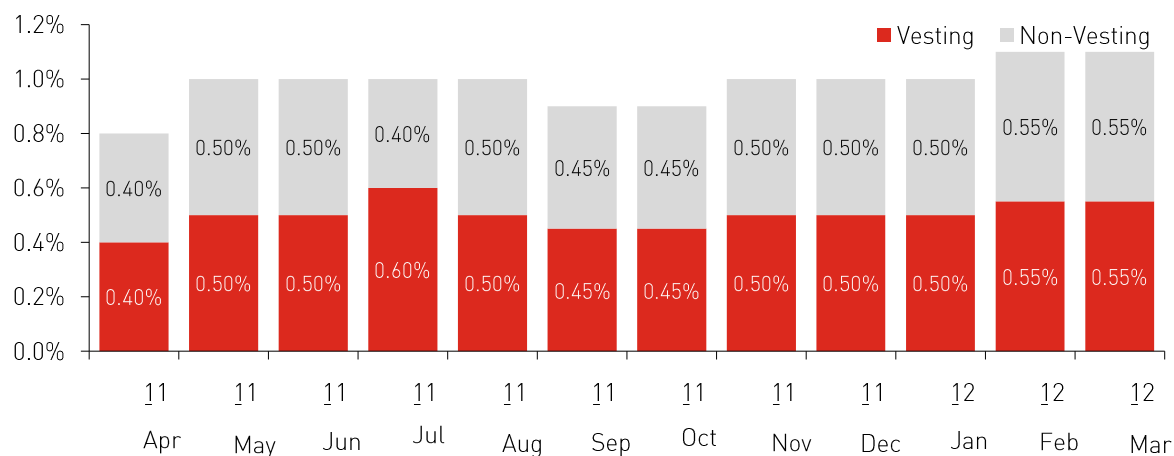
Portfolio	Vesting bonus	Non-vesting bonus	Total bonus
Smooth Growth Fund Global	2.78%	2.86%	5.64%
Smooth Growth Fund Local	6.17%	6.29%	12.46%

The charts below show the monthly bonuses for the past 12 months.

#### Smooth Growth Fund Global



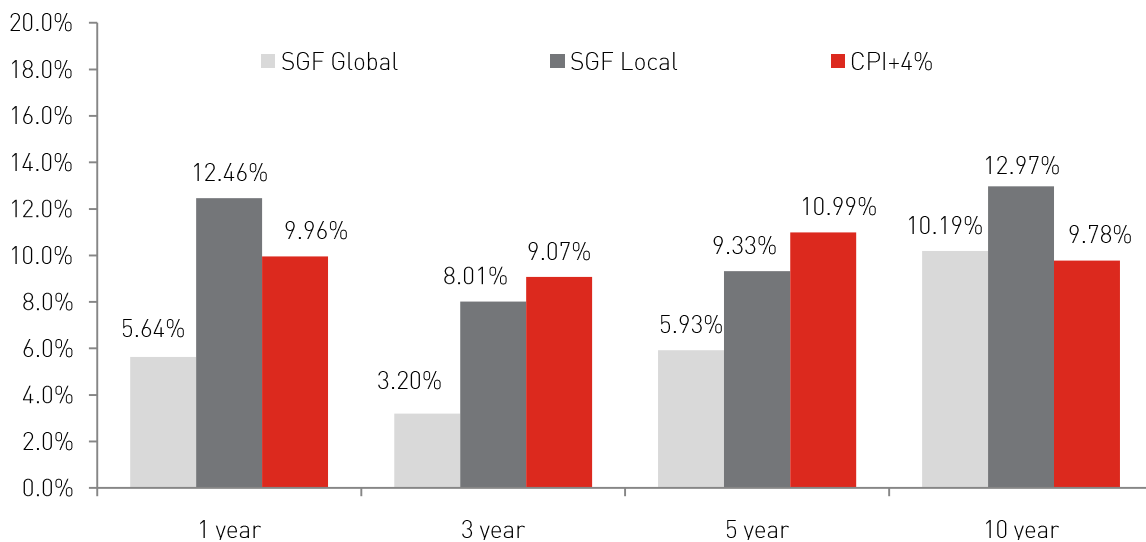
#### Smooth Growth Fund Local



## Long Term Performance

The objective of the Smooth Growth Fund (SGF) portfolios is to deliver bonuses of inflation + 4% p.a. over the long term (defined as five years and longer). The chart below shows the gross bonuses declared in respect of the SGF Global and SGF Local over the 1, 3, 5 and 10 year periods to 31 March 2012 compared to CPI + 4% p.a. The 1 year bonus of the SGF Local exceeded the inflation + 4% p.a. objective. Bonuses over the 3 year period are still negatively affected by the negative returns experienced by some of the underlying assets of the portfolios over 2008 and the early part of 2009. The 5 year bonuses are also now being negatively affected by the negative returns experienced by some of the underlying assets of the portfolios over 2008 and the early part of 2009. Performance over 10 years is above the return objective of inflation + 4% p.a.

The SGF Local performed better than the SGF Global over all time periods, reflecting the better returns achieved on South African investments compared to global investments.



The table below contains a comparison of the performance of the SGF Global and the median market-linked portfolio (Alexander Forbes Asset Consultants Manager Watch Survey: Global Best Investment View) over the 5 years to 31 March 2012.

	SGF Global	Median market-linked manager
Annualised return	5.93%	8.07%
Std deviation of monthly returns	0.47%	3.09%
% negative monthly returns	0.00%	38.33%
Max drawdown	0.00%	-21.44%

The following observations can be made:

- o The SGF Global delivered a return of 2.14% pa behind the average market-linked portfolio.
- o This return was however achieved with a much lower level of volatility as measured by the standard deviation of monthly returns.
- o The SGF Global also had no negative monthly returns over this period, compared to the average portfolio which had negative monthly returns in more than 1/3rd of the months over the period.
- o The SGF Global preserved capital over the period by not experiencing any negative returns over the period. The average market-linked portfolio by contrast experienced a maximum drawdown of 21.44% over this period.

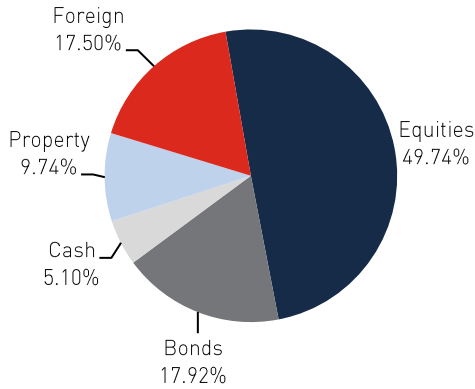
## 2.2 Bonus Outlook

The funding levels of both the Smooth Growth Fund Global and Local increased over the last quarter and are well above 100% as at 31 March 2012. The higher funding levels enabled us to increase bonuses over the quarter. Although we will continue with our approach of declaring long-term sustainable bonuses rather than trying to maximise short term bonuses, the portfolios are well positioned to deliver bonuses in excess of underlying asset returns over the medium term.

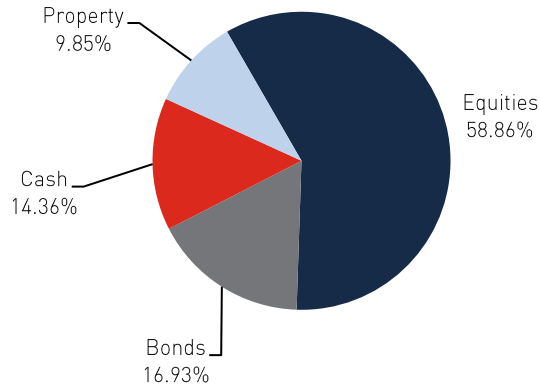
### 3. Asset allocation

The asset allocations of the portfolios as at 31 March 2012 are shown below.

**SGF Global**



**SGF Local**



The table below contains the top 10 equity holdings as at 31 March 2012.

Top 10 Equity Holdings	% of Equity Portfolio	
	SGF Global	SGF Local
Sasol	5.86%	6.16%
Standard Bank	5.57%	5.87%
MTN	5.25%	5.50%
Billiton	5.11%	5.37%
Naspers	4.18%	4.42%
Bidvest	4.11%	4.33%
ABSA	3.86%	4.07%
Anglo American	3.85%	4.04%
Old Mutual	3.64%	3.83%
SABMiller	3.25%	3.42%
<b>Sub-Total</b>	44.68%	47.01%
Balance of Equities	<b>55.32%</b>	<b>52.99%</b>
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

## 4. Product updates

### 4.1 Product name changes

The product names have been changed from Metropolitan Smooth Growth Fund Global and Local to Momentum Smooth Growth Fund Global and Local. This change to the product names brings the product branding in line with the branding of the business. It is important to note that the products are still underwritten by Metropolitan Life Ltd.

### 4.2 Revised Principles and Practice of Financial Management

SGF Global and Local are managed in accordance with the Principles and Practices of Financial Management (PPFM) applicable to Momentum Employee Benefits' smooth bonus products underwritten by Metropolitan Life Ltd. The PPFM sets out the principles and practices that Momentum follow in exercising the discretion required in the management of these investment products. It has become necessary to revise the PPFM to incorporate certain changes to the principles described in the PPFM. In addition to this change, we have also taken the opportunity to update the PPFM to incorporate a number of other changes. The revised PPFM will become effective on 1 August 2012. The revised PPFM can be obtained from the Momentum Employee Benefits website ([www.momentum.co.za/EBcorporate](http://www.momentum.co.za/EBcorporate)).



## 5. Review of investment markets

by Momentum Asset Management

The basic economic outlook that governs our portfolio structure has not altered for quite some time. We have been rewarded by not taking an overly negative view of the global situation. While we are cognisant of the material issues at play in the global environment, our view has simply been that things are bad, not disastrous.

The USA's economy is progressing quite well considering all the issues at stake. While the situation is not good by any stretch of the imagination, the worst seems to be over. We are all well aware of the fiscal situation in Europe, but Germany, fortunately, has both the monetary power and political will to do whatever is necessary to sort the situation out.

Developed market long bond yields have fallen to very low levels and we feel that this is a seriously overvalued asset class.

The domestic economic outlook is still positive for 2012. In fact, it is improving as the year progresses.

The rand is at fair value at this juncture.

### **Structure**

We are structured for a sustainable local and global recovery, even if only at moderate levels. The fund is not structured for a double-dip recession.

Major equity markets represent fair value at present and we are not aggressively positioned. Within equity, we have a specific emphasis on a local business recovery and the global commodity up cycle. Global equity is probably better value than local equity.

Inflation-linked bonds have a well-above benchmark allocation.

### **Portfolio overview**

Given the very strong returns from the equity market, we have marginally reduced exposure.

### **Portfolio positioning**

The fund has an underweight position in industrial shares and an overweight position in financial shares (especially banks). We maintain a full global asset allocation.

## 6. Contact details

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