

# smooth growth fund

2<sup>nd</sup> Quarter 2012

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

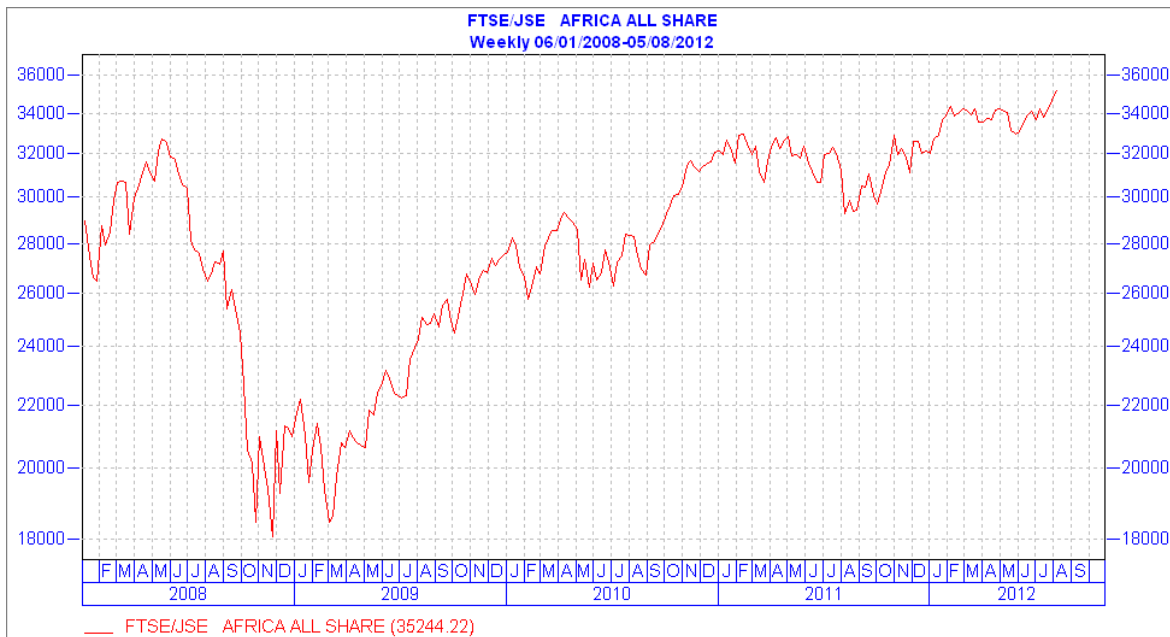


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## 1. Introduction

All local asset classes delivered positive returns over the quarter, with bonds being the best performing major asset class returning 5.2% (ALBI) over the quarter. Equities returned 1.0% (FTSE/JSE All Share Index) over the quarter. The industrial and financial sectors were again the contributors to this return with returns of 2.6% and 4.6% respectively. The resources sector again detracted from the overall return with a return of -3.6% over the quarter. Foreign equities had a poor quarter with the MSCI World Index declining by 4.9% in US Dollar terms. This loss was however offset by the Rand depreciating by 6.6% against the US Dollar over the period, resulting a return of 1.4% in Rand terms. Global bonds returned 0.6% in US Dollar terms and 7.2% in Rand terms. Economic conditions deteriorated over the quarter. Europe continues to struggle with its sovereign debt problems, with Spain now also becoming increasingly likely to require a bailout.



Source: Inet

For a detailed commentary on the financial markets we have included an investment market review by Momentum Asset Management in section 4 of this document.

## 2. Performance

### 2.1 Bonuses to 30 June 2012

#### Short Term Performance

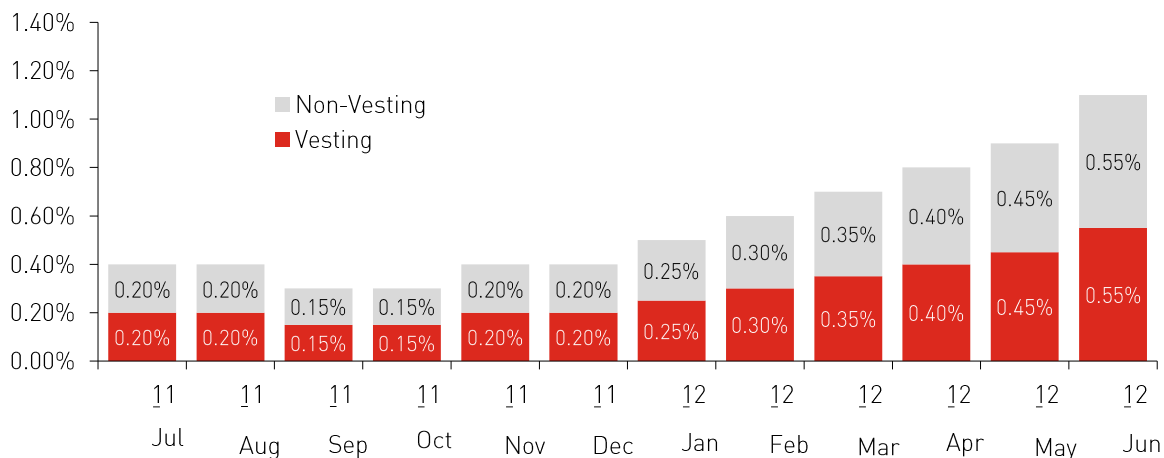
The bonuses on the Smooth Growth Fund Global increased to 1.10% per month over the quarter. The bonuses on the Smooth Growth Fund Local remained unchanged at 1.10% per month over the quarter. The increase in bonuses of the Smooth Growth Fund Global was made possible by the strong performance of the underlying assets over the quarter. The monthly bonuses of both the Smooth Growth Fund Global and Local are comfortably ahead of the objective of inflation + 4% pa.

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

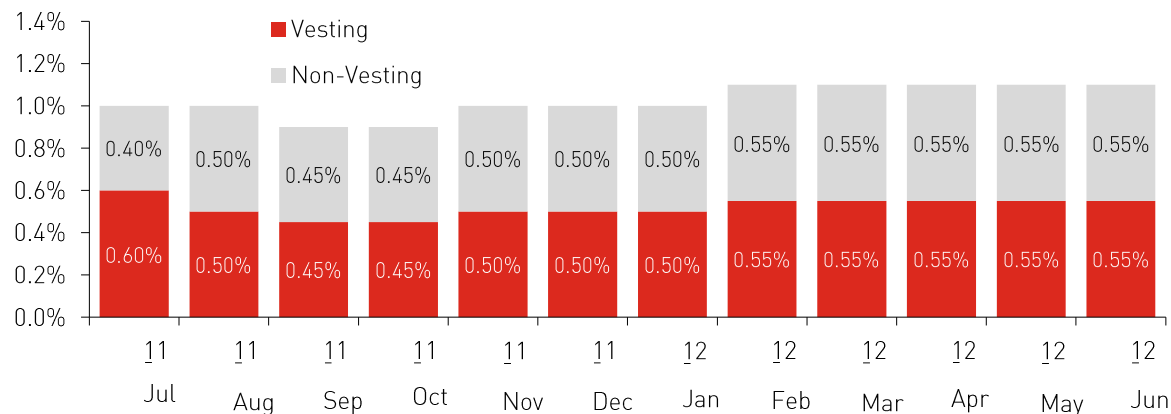
Portfolio	Vesting bonus	Non-vesting bonus	Total bonus
Smooth Growth Fund Global	3.45%	3.56%	7.01%
Smooth Growth Fund Local	6.43%	6.59%	13.02%

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

#### Smooth Growth Fund Global



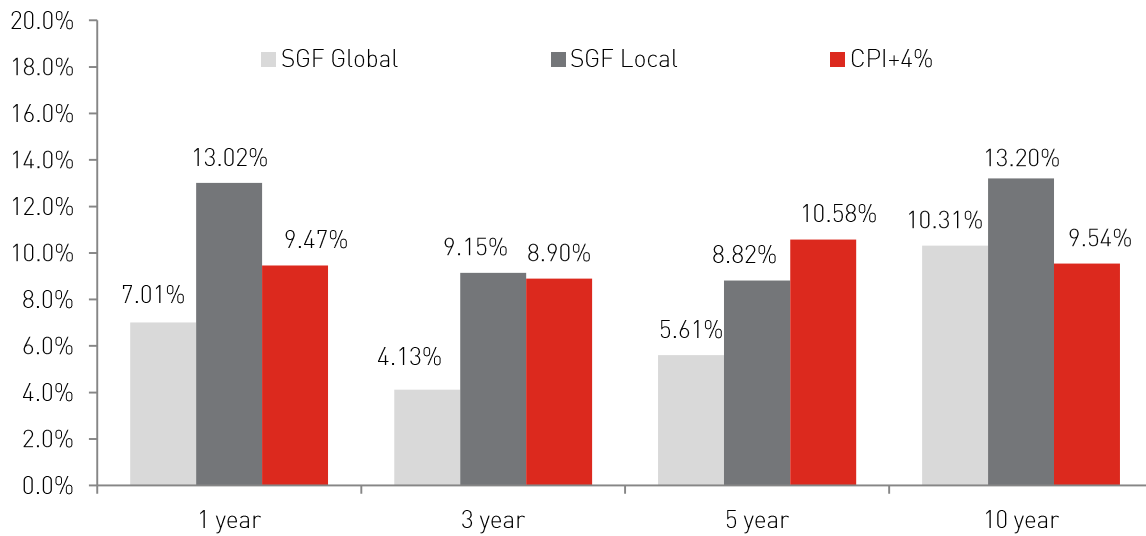
#### Smooth Growth Fund Local



## 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 30 June 2012 compared to CPI + 4% p.a. The returns of SGF Local exceeded this objective over all time period except the 5 year period to 30 June 2012. Although the returns of SGF Global fell short the objective over the 1, 3 and 5 year periods, the extent of the shortfall has reduced over the past quarter. The returns of the SGF Global exceeded the objective over the 10 year period.

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 30 June 2012.

	SGF Global	Median market-linked manager
Annualised return	5.61%	7.76%
Std deviation of monthly returns	0.43%	3.06%
% negative monthly returns	0.00%	38.33%
Max drawdown	0.00%	-21.44%

The following observations can be made:

- The SGF Global delivered a return of 2.15% pa behind the average market-linked portfolio.
- This return was however achieved with a much lower level of volatility as measured by the standard deviation of monthly returns.
- 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.
- 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 Non-vesting to vesting transfers

The following non-vesting to vesting account transfers were done on 30 June 2012:

Portfolio	% of non-vesting account transferred *
Smooth Growth Fund Global	5.00%
Smooth Growth Fund Local	5.00%

\* Percentage of 1 January 2012 non-vesting account balance.

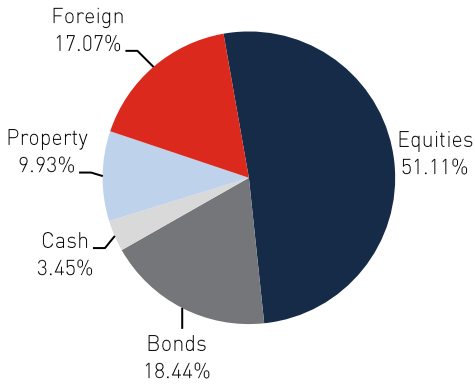
## 2.3 Bonus Outlook

The funding levels of both the Smooth Growth Fund Global and Local increased over the last quarter and are well above 100% as at 30 June 2012. The higher funding levels enabled us to increase the bonuses of the Smooth Growth Fund Global over the quarter and maintain the bonuses of the Smooth Growth Fund Local at a level well above the long term objective. 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.

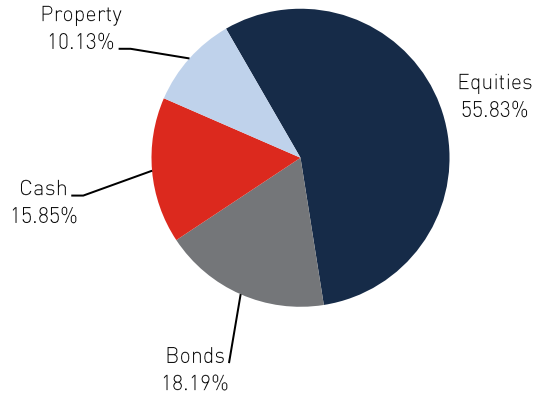
### 3. Asset allocation

The asset allocations of the portfolios as at 30 June 2012 are shown below.

#### SGF Global



#### SGF Local



The table below contains the top 10 equity holdings as at 30 June 2012.

Top 10 Equity Holdings	% of Equity Portfolio	
	SGF Global	SGF Local
MTN	5.92%	6.18%
Standard Bank	5.64%	5.91%
Sasol	5.54%	5.80%
Billiton	5.30%	5.55%
Naspers	4.30%	4.52%
Bidvest	4.11%	4.31%
Anglo American	4.06%	4.25%
ABSA Limited	3.62%	3.80%
SABMiller	3.51%	3.67%
First Rand	3.45%	3.61%
<b>Sub-Total</b>	45.45%	47.60%
Balance of Equities	<b>54.55%</b>	<b>52.40%</b>
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

## 4. Review of investment markets

by Momentum Asset Management

### ECONOMIC OVERVIEW

We have still not been forced to change our basic economic outlook governing our portfolio structure. We have been very fortunate in not taking an overly negative view of the global situation. Our view has proved to be correct in that Europe has not dissolved, the USA has not gone back into a double-dip recession and China has maintained a reasonable growth rate.

The USA's economy is still growing, even if at a well below average rate. While not good by any stretch of the imagination, the worst seems to be over. The real reason for the global financial crisis was excessive debt. It will take at least a decade to bring these debt levels down to sustainable levels.

European politicians, led by Germany, once again at the very last moment, intervened to 'rescue' Spanish banks this time. Europe is fortunate in that Germany has both the monetary and political will to do whatever is necessary to sort this out.

Developed markets long-bond yields have fallen to levels we have never before seen, reflecting this situation. This is a seriously overvalued asset class.

The domestic economic outlook is still reasonable for 2012. Inflation should moderate and interest rates will remain low for at least another year. The rand is at fair value/ undervalued at the current level.

### STRATEGY GOVERNING PORTFOLIO 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, being slightly underweight equity. Within equity, we have a specific emphasis on a local business recovery and the global commodity up cycle.

Our global exposure is at the maximum allowable, with a full allocation to equity and a materially underweight Government bond exposure.



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