momentum

smooth growth fund

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3rd Quarter 2012

www.momentum.co.za/EBcorporate

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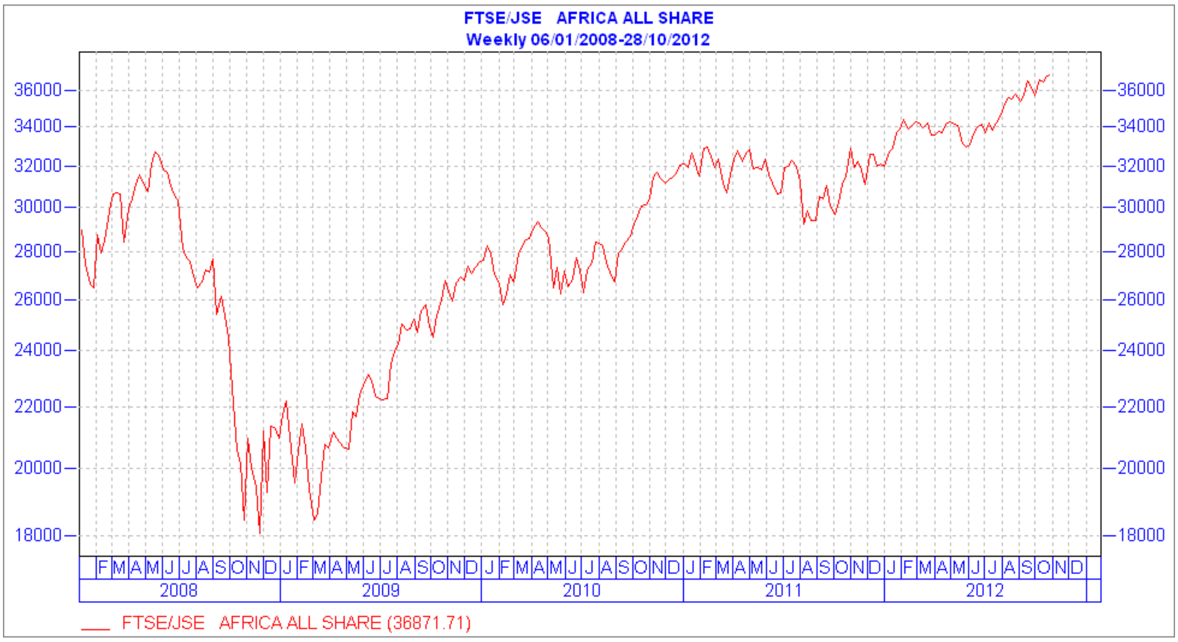
1. Introduction

All asset classes delivered positive returns over the quarter, with equities being the best performing major asset class returning 7.26% (FTSE/JSE All Share Index) over the quarter. The industrial sector was the best performing sector with a return of 10.48%. The financial and resources sectors lagged the overall return with returns of 6.52% and 2.92% respectively. Bonds had another good quarter with a return of 5.00% (ALBI). Foreign equities also had a good quarter with the MSCI World Index gaining by 6.84% in US Dollar terms. Global bonds returned 2.54% in US Dollar terms. The Rand strengthened slightly (0.24%) against the US Dollar over the period. The positive returns of all asset classes were primarily driven by the announcement by the US Federal Reserve that it would extend its quantitative easing program.



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 30 September 2012

Short Term Performance

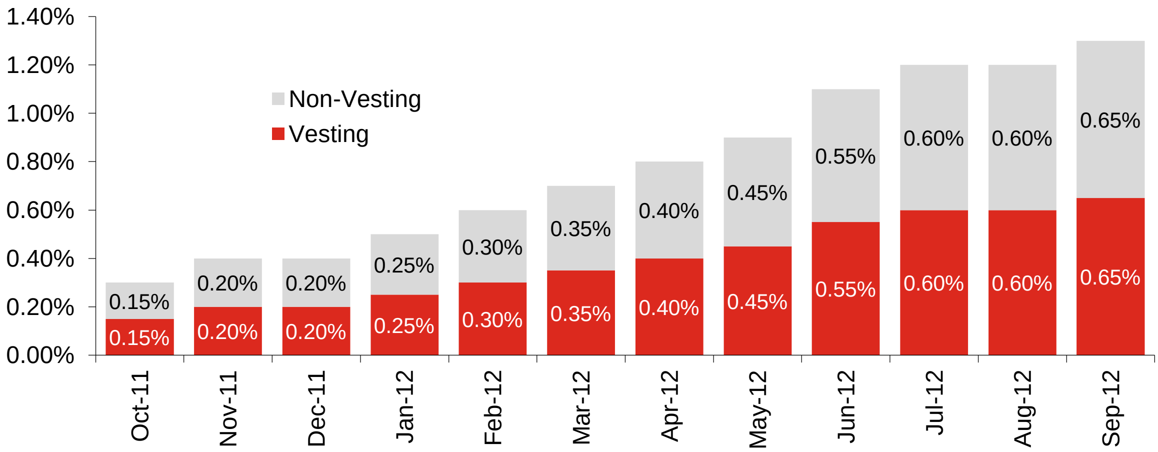
The bonuses on both the Smooth Growth Fund Global and Smooth Growth Fund Local increased to 1.30% per month over the quarter. The increase in bonuses was made possible by the increase in the funding levels of the portfolios over the quarter. The monthly bonuses of both the Smooth Growth Fund Global and 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.

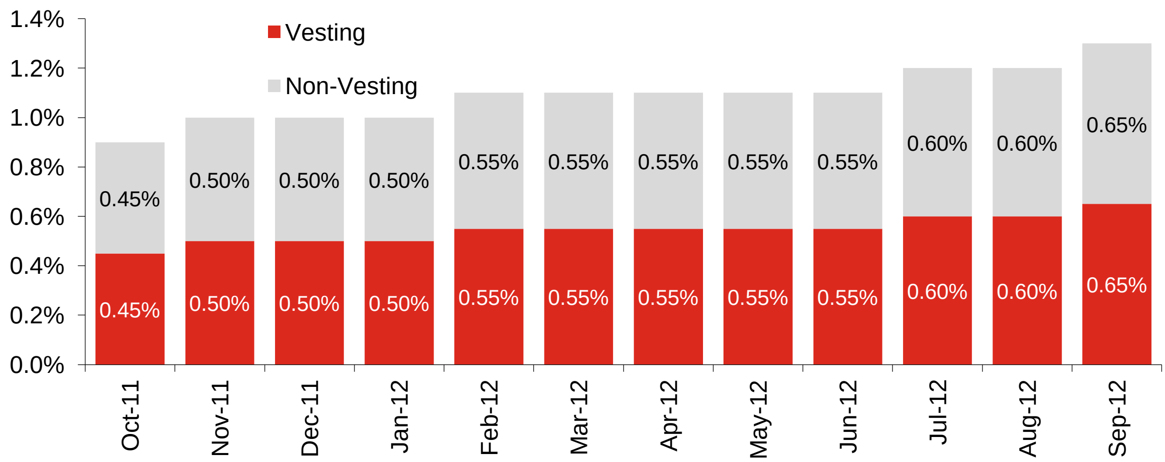
Portfolio	Vesting bonus	Non-vesting bonus	Total bonus
Smooth Growth Fund Global	4.80%	5.01%	9.81%
Smooth Growth Fund Local	6.75%	7.17%	13.92%

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

Smooth Growth Fund Global



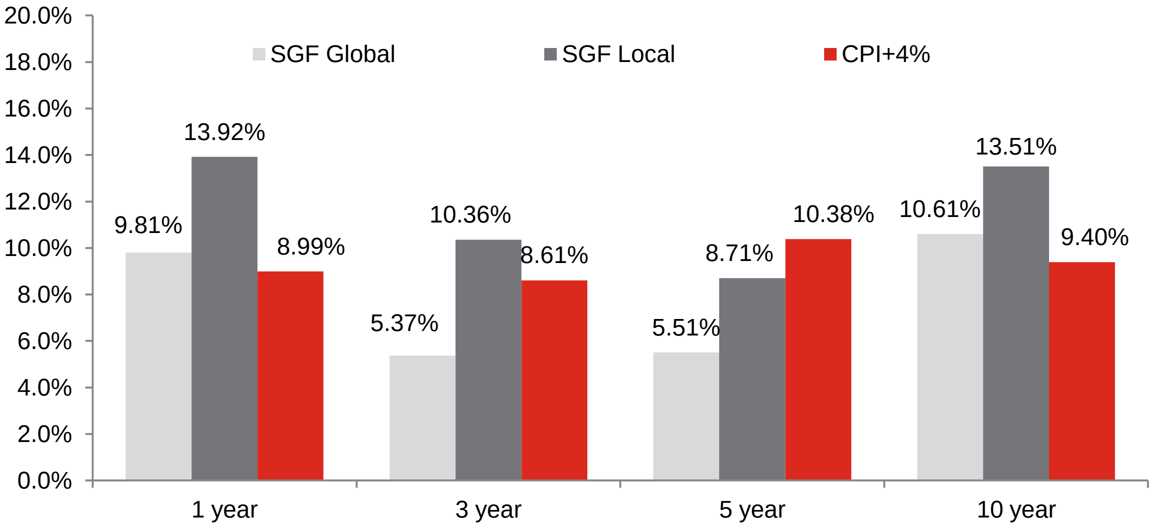
Smooth Growth Fund Local



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 September 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 September 2012. The returns of the SGF Global exceeded the objective over the 1 and 10 year periods. The 3 and 5 year returns of the SGF Global are still being negatively affected by the negative returns experienced by some of the underlying assets of the portfolio over 2008 and the early part of 2009.

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 September 2012.

	SGF Global	**Median market-linked manager**
Annualised return	5.51%	8.48%
Std deviation of monthly returns	0.41%	3.08%
% negative monthly returns	0.00%	38.33%
Max drawdown	0.00%	-21.44%

The SGF Global delivered a return of 2.97% p.a. behind the average market-linked portfolio. Due to the process of smoothing of returns, the more recent strong returns on the underlying assets of the SGF have not yet been passed through to investors. Once this is allowed for, the returns of the SGF Global are much closer to that of the average market-linked portfolio. The SGF Global's returns have a much lower level of volatility than the average market-linked fund. 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 and experienced a maximum drawdown of 21.44%.

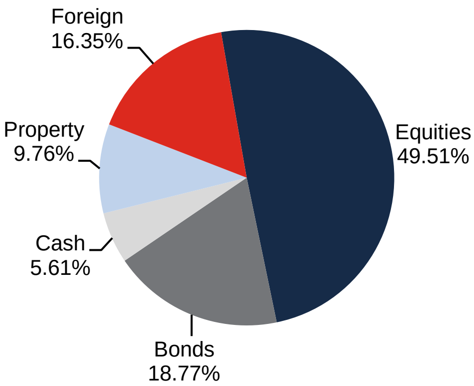
2.2 Bonus Outlook

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

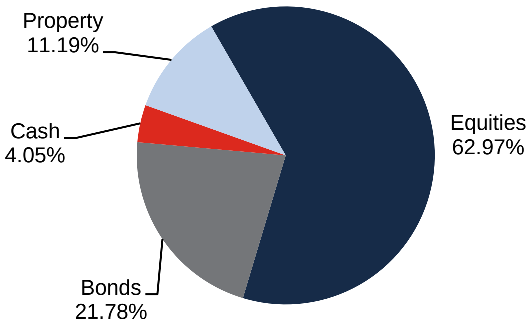
3. Asset allocation

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

SGF Global



SGF Local



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

Top 10 Equity Holdings	% of Equity Portfolio	
	SGF Global	**SGF Local**
Naspers	5.85%	5.99%
MTN	5.81%	5.90%
Billiton	5.70%	5.81%
Sasol	5.08%	5.19%
Standard Bank	4.76%	4.86%
Anglo American	4.46%	4.55%
Bidvest	4.12%	4.20%
SABMiller	3.86%	3.94%
ABSA Limited	3.56%	3.64%
Impala	3.24%	3.31%
Sub-Total	**46.44%**	**47.39%**
Balance of Equities	**53.56%**	**52.61%**
Total	**100.00%**	**100.00%**

4. Product update

4.1 Regulation 28

Subsection 8(b)(iii) of Regulation 28 allows pension funds to exclude non-linked policies that provide guarantees or partial guarantees that meet certain requirements from its investments when assessing compliance with Regulation 28. The requirement that these policies must meet have now been published by the Registrar of Long-term Insurance in Directive 157.A.i. The Momentum Multi-manager Smooth Growth Fund Global and Local meet the requirements to be considered partially guaranteed. We are therefore now able to issue the certificates referred to in subsection 8(b)(iii) of Regulation 28. The net result is that pension funds investing in the Momentum Multi-manager Smooth Growth Fund Global and Local are effectively now in the same position as they were under the old Regulation 28 in terms of compliance with Regulation 28.

5. Review of investment markets

by Momentum Asset Management

ECONOMIC OVERVIEW

The global economy remains torn between highly stimulatory monetary policy and political calls for fiscal austerity. The ebb and flow of this contest has caused the risk-on, risk-off pattern evident in markets for the past few years and we think that this pattern will continue as the underlying causes persist.

The second major impact of these policy stances is the global search for yield. This has driven both our real and nominal bond yields to all-time lows, and yet the foreign portfolio flows into these markets continue unabated. This trend remains firmly in place and is set to continue as developed market interest rates need to be kept artificially low for years to come. The search for yield also supports our listed property stocks and equities with good dividend prospects.

The global economy continues to slow, with no turnaround expected this year, dragging down SA's 2013 growth prospects. Domestic inflation should moderate slightly into next year, with growing risk that the SARB might cut interest rates again in an effort to offset the effects of the global slowdown. The rand is at fair value at the current level, but the growing current account deficit makes it increasingly vulnerable to a reversal in risk appetite and portfolio flows.

PORTFOLIO STRATEGY AND PERFORMANCE

The houseview is slightly underweight equities, both globally and domestically. Globally, we favour high-yield corporate bonds to sovereign bonds. Domestically, we are overweight listed property and ILBs, and underweight cash.

For the quarter ended 30 September 2012, equities outperformed bonds by 2.3 percentage points, posting a rand total return of 7.3% (1.0% in Q2) vs. a total return of 5.0% (5.2% in Q2) for bonds. Northam, RMIH, Woolworths, Mondi, Mondi Plc, AVI, Naspers, Hyprop, Old Mutual and Libhold were the top-performing shares within the Top 100. SA equities (14.8%) continue to outperform SA bonds (13.1%) on a year to date basis.

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