

momentum

smooth growth fund

4th Quarter 2012

www.momentum.co.za/EBcorporate

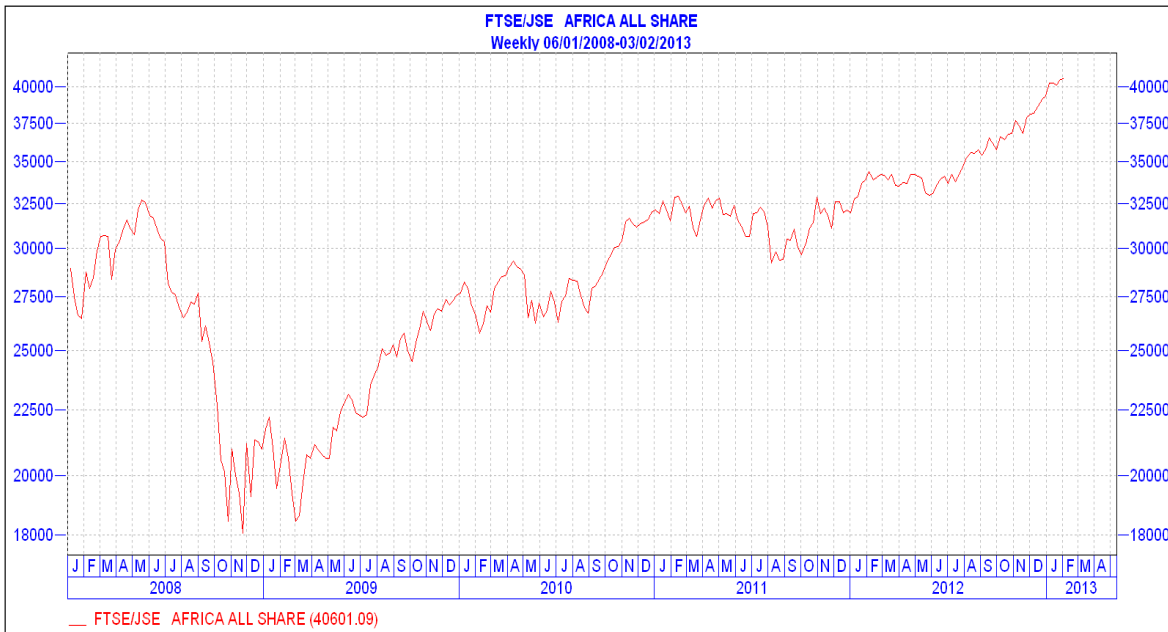


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1. Introduction

All asset classes delivered positive returns (in Rand terms) over the quarter, with equities being the best performing major asset class returning 10.3% (FTSE/JSE All Share Index) over the quarter. The industrial sector was the best performing sector with a return of 12.4%. The financial and resources sectors lagged the overall return with returns of 9.9% and 7.3% respectively. Over the year to December 2012 equities delivered an excellent return of 26.7% (FTSE/JSE All Share Index). Bonds delivered a return of 2.6% over the quarter, bringing the return for the year to 16.0%. Foreign equities also had a positive quarter with the MSCI World Index gaining by 2.6% in US Dollar terms. Global bonds declined by 0.5% in US Dollar terms. The Rand weakened by 2.8% against the US Dollar over the quarter. The positive returns of risky assets in particular can be largely attributed to improvement in investor sentiment.



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 31 December 2012

Short Term Performance

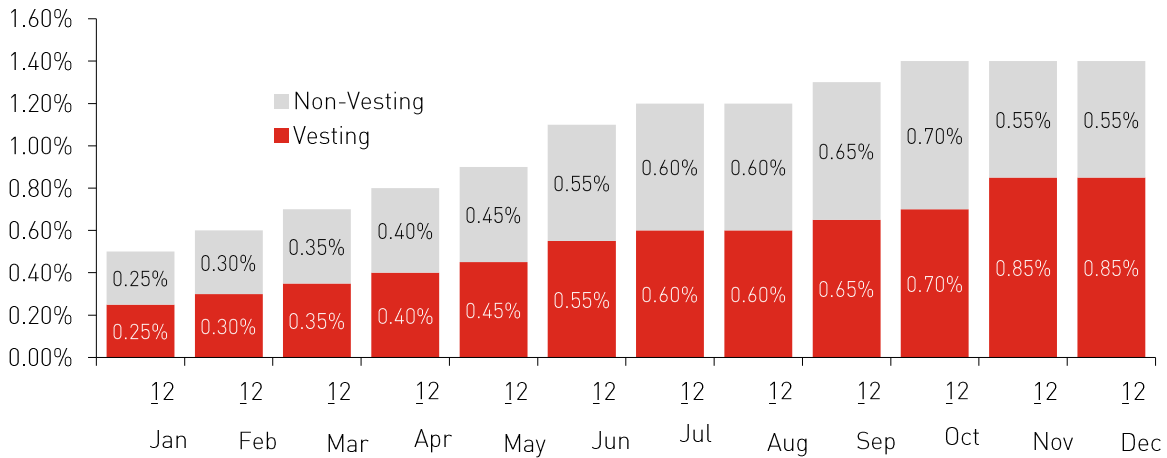
The bonuses on the Smooth Growth Fund Global increased to 1.40% per month over the quarter. The bonuses on the Smooth Growth Fund Local varied between 1.30% and 1.40% per month over the quarter. The monthly bonuses of both the Smooth Growth Fund Global and Local are comfortably ahead of the objective of inflation + 4% pa.

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

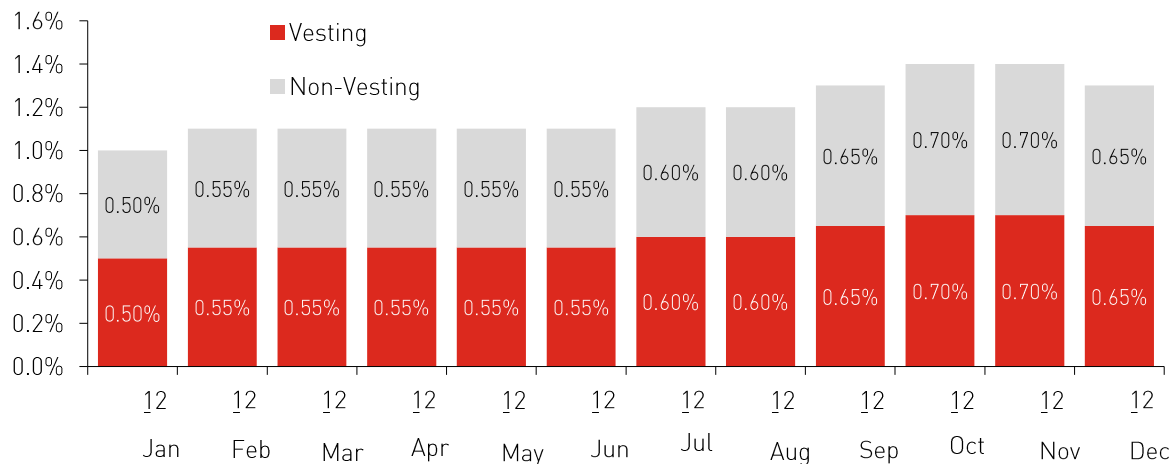
Portfolio	Vesting bonus	Non-vesting bonus	Total bonus
Smooth Growth Fund Global	6.75%	6.49%	13.24%
Smooth Growth Fund Local	7.39%	7.88%	15.27%

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

Smooth Growth Fund Global



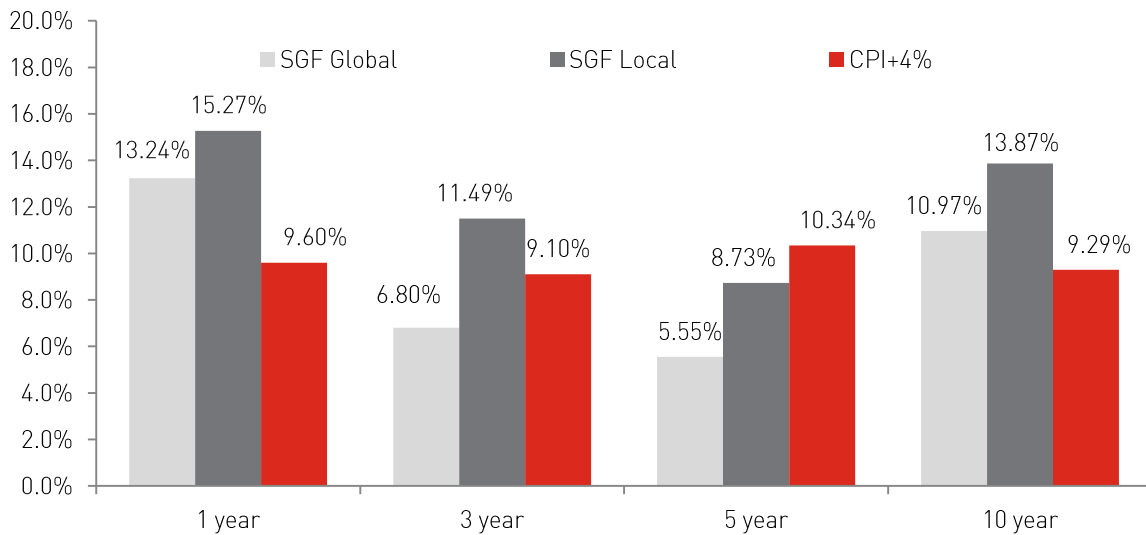
Smooth Growth Fund Local



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 December 2012 compared to CPI + 4% p.a. The returns of SGF Local exceeded this objective over all time periods except the 5 year period to 31 December 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, but the gap compared to inflation + 4% pa is beginning to close.

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.



2.2 Non-vesting to vesting transfers

The following non-vesting to vesting account transfers were done on 31 December 2012:

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

* Percentage of 1 July 2012 non-vesting account balance.

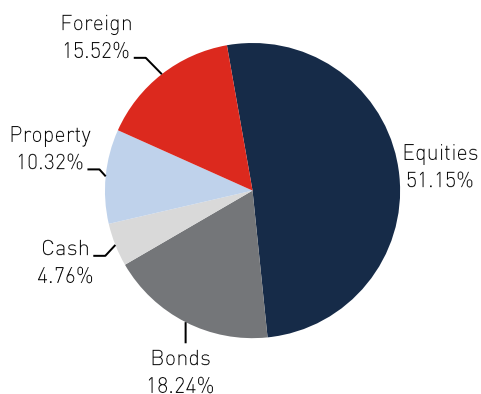
2.3 Bonus Outlook

The funding levels of both the Smooth Growth Fund Global and Local increased over the last quarter due to strong returns on the underlying assets over the quarter, and in particular over the month of December. Funding levels are well above 100% as at 31 December 2012. The high funding levels enabled us to maintain the bonuses at levels well above inflation + 4% pa over the quarter. We will continue with our approach of declaring long-term sustainable bonuses rather than trying to maximise short term bonuses. Given the current funding levels, the portfolios are well positioned to deliver bonuses in excess of underlying asset returns over the medium term.

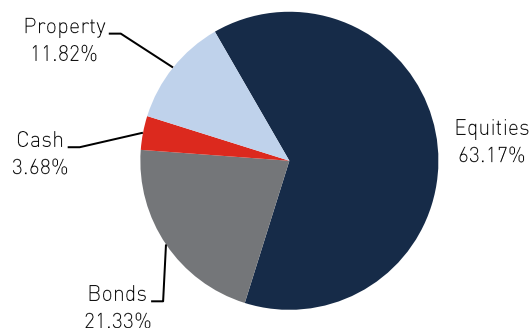
3. Asset allocation

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

SGF Global



SGF Local



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

Top 10 Equity Holdings	% of Equity Portfolio	
	SGF Global	SGF Local
Billiton	6.05%	6.10%
MTN	5.99%	6.04%
Naspers	5.16%	5.22%
Sasol	4.63%	4.67%
Standard Bank	4.62%	4.66%
Anglo American	4.43%	4.46%
Bidvest	4.03%	4.06%
ABSA	3.96%	3.99%
SABMiller	3.89%	3.92%
British American Tobacco	3.86%	3.89%
Sub-Total	46.62%	47.01%
Balance of Equities	53.38%	52.99%
Total	100.00%	100.00%

4. Review of investment markets

by Momentum Asset Management

The past quarter saw positive economic data from the two countries that are capable of propping up global economic growth: the US and China. However, outside of those two countries, growth has slowed quite meaningfully. As a result, global monetary conditions eased over the quarter, driving the prices of most risk assets higher.

The global search for yield that we previously highlighted was most definitely in play, driving our real and nominal bond yields lower. This trend is likely to remain in place for now supported by artificially low interest rates in developed markets. The search for yield also supports our listed property stocks and equities with good dividend prospects. This view remains unchanged from three months ago.

The domestic outlook for 2013 looks stagflationary with slower growth and higher inflation (which looks set to breach the upper end of the 6% target band in the second half of the year), putting policymakers in a difficult position. The rand remains at slightly weaker than fair value, but looks to be less jittery post Mangaung. That said, the large current account deficit continues to make us vulnerable to a reversal in risk appetite and portfolio flows.

MARKET PERFORMANCE

The All Share Index maintained its momentum and returned 10.3% after the previous quarter's 7.3%. The SA Listed Property Index grew by another 2.8% after the previous quarter's 11.0%. The continued decline in local yields lifted the All Bond Index by 2.6% and caused the Government Inflation-Linked Bond Index to return 5.5% after the previous quarter's 8.5%. Cash, as measured by the STeFI Composite Index, returned 1.3%.

STRATEGY GOVERNING PORTFOLIO STRUCTURE

The houseview is slightly underweight SA and developed world equities, in favour of emerging market equities. Globally, we favour high-yield corporate bonds to sovereign bonds. Domestically, we are overweight nominal and inflation-linked bonds, have moved closer to a neutral weighting on listed properties and are underweight cash.

5. Contact details

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