

**momentum**

# smooth growth fund

1<sup>st</sup> Quarter 2013

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

smooth growth fund

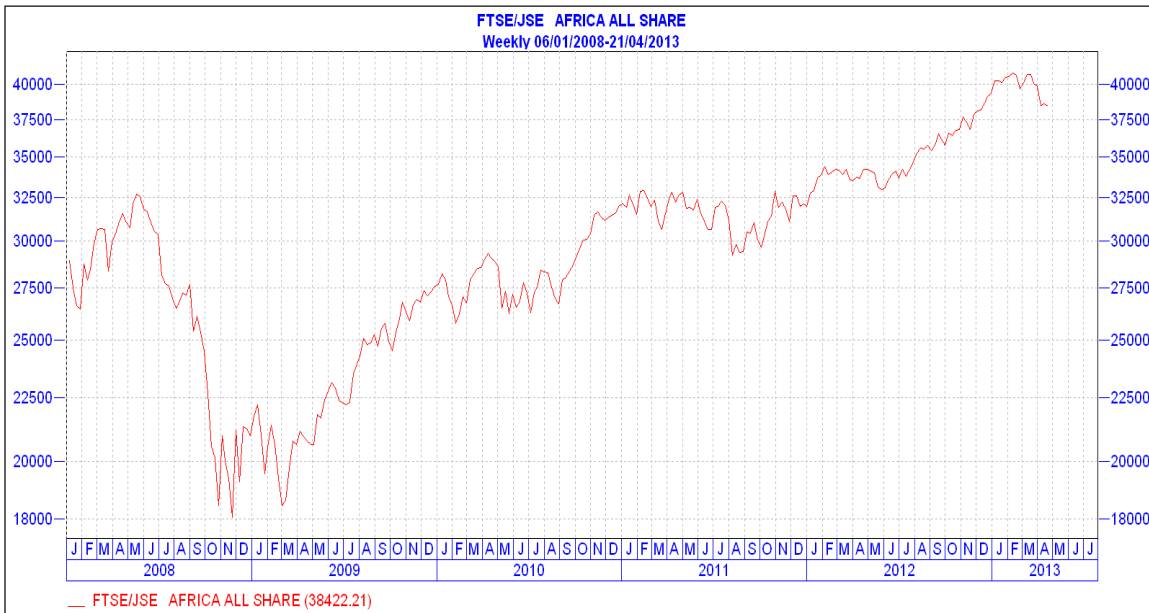


## Table of contents

	Page No.
<b>1. Introduction</b>	<b>2</b>
<b>2. Performance</b>	<b>3</b>
2.1 Bonuses to 31 March 2013	
2.2 Bonus outlook	
<b>3. Asset Allocation</b>	<b>5</b>
<b>4. Review of Investment Markets</b>	<b>6</b>
<b>5. Contact details</b>	<b>7</b>

# 1. Introduction

All asset classes delivered positive returns (in Rand) over the quarter, with local equities returning a more muted 2.5% return (FTSE/JSE All Share Index) compared to last quarter's double digit return. The industrial and financial sectors were the contributors to this quarter's return with returns of 6.2% each. The resources sector detracted from the overall return with a return of -6.0% over the quarter. Over the year to March 2013 equities delivered an excellent return of 22.5% (FTSE/JSE All Share Index). Bonds delivered a return of 1.0% over the quarter, bringing the return for the year to 14.4%. Foreign equities also had a positive quarter with the MSCI World Index gaining 7.9% in US Dollar terms. The Rand weakened by 9.0% against the US Dollar over the quarter. CPI rose to 5.9% in February, just under the upper end of the target range.



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 March 2013

#### Short Term Performance

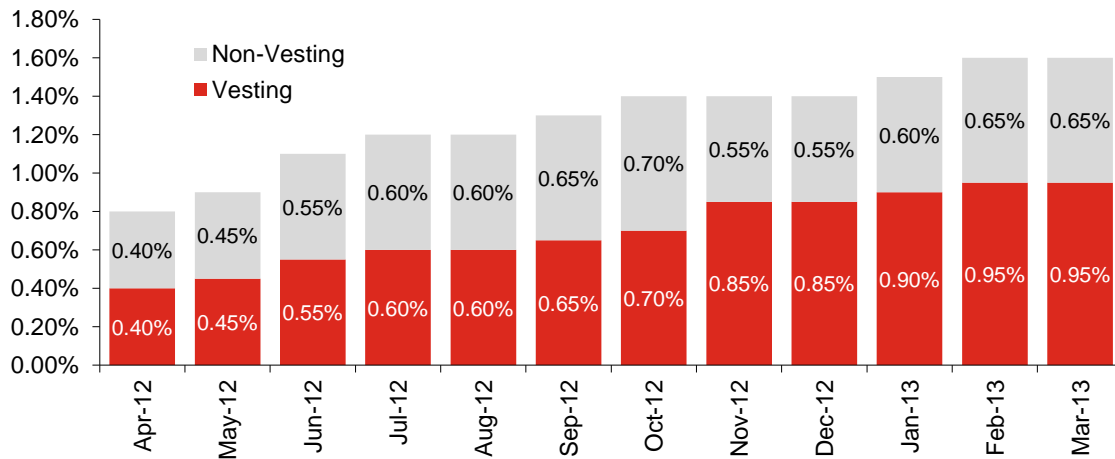
The bonuses on the Smooth Growth Fund Global increased from 1.50% to 1.60% over the quarter. While the bonuses on the Smooth Growth Fund Local varied between 1.20% and 1.40% per month over the quarter. The monthly bonuses of products are comfortably ahead of the objective of inflation + 4% pa.

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

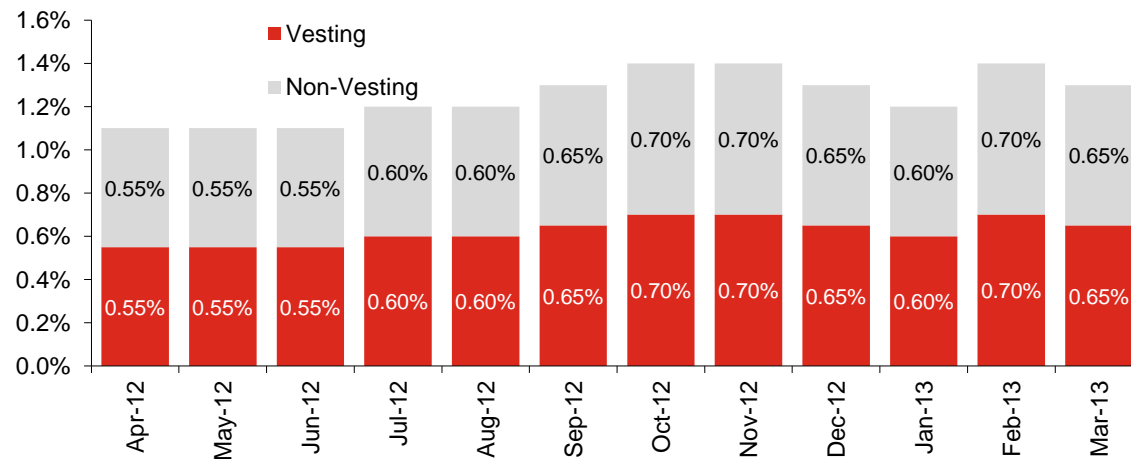
Portfolio	Vesting bonus	Non-vesting bonus	Total bonus
Smooth Growth Fund Global	8.78%	7.75%	16.53%
Smooth Growth Fund Local	7.76%	8.31%	16.07%

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

#### Smooth Growth Fund Global



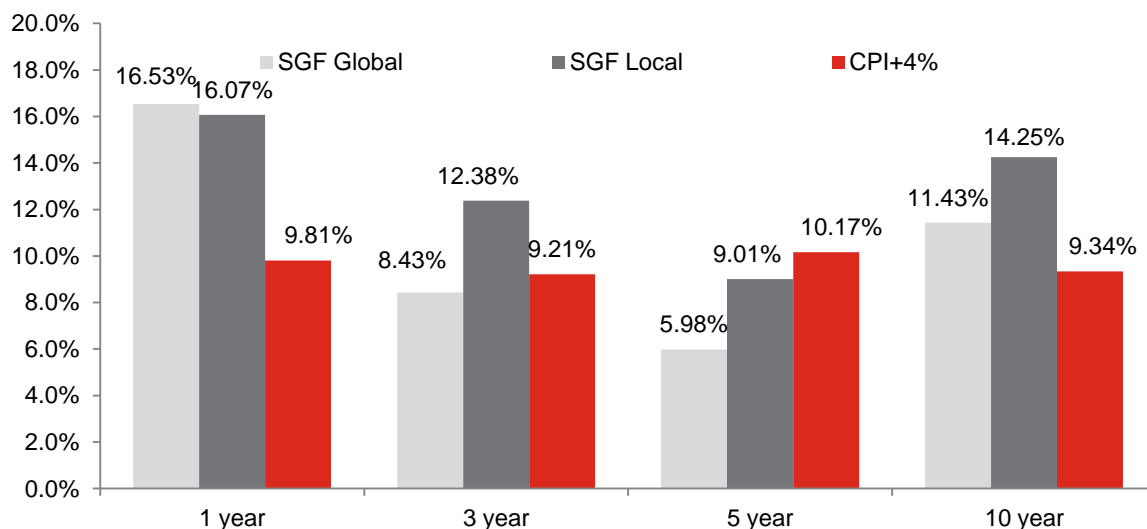
#### Smooth Growth Fund Local



## 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 one, three, five and ten year periods to 31 March 2013 compared to inflation + 4% p.a. The returns of SGF Local exceeded this objective over all time periods except for the 5 year comparison. 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 except over the 1 year to 31 March 2013, reflecting the better returns achieved on South African investments compared to global investments over those periods.



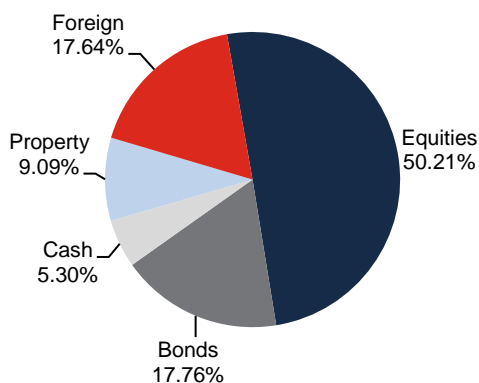
## 2.2 Bonus Outlook

The funding levels of both the Smooth Growth Fund Global and Local remained high over the last quarter due to positive returns on the underlying assets over the quarter. Funding levels are well above 100% as at 31 March 2013. 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.

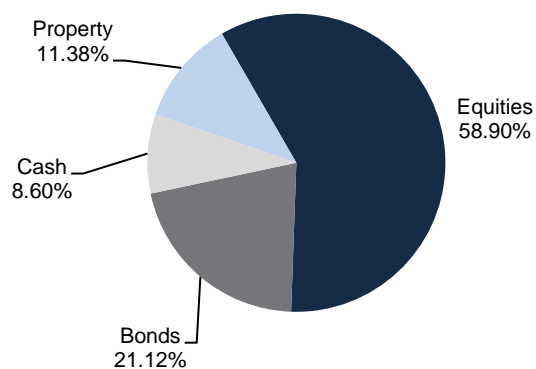
### 3. Asset allocation

The asset allocations of the portfolios as at 31 March 2013 are shown below.

#### SGF Global



#### SGF Local



The table below contains the top 10 equity holdings as at 31 March 2013.

Top 10 Equity Holdings	% of Equity Portfolio	Top 10 Equity Holdings	% of Equity Portfolio
	SGF Global		SGF Local
Standard Bank	6.70%	Standard Bank	6.75%
Firststrand	5.42%	Firststrand	5.45%
Billiton	5.25%	Billiton	5.29%
Sasol	5.09%	Sasol	5.13%
SABMiller	4.81%	Naspers	4.85%
Naspers	4.80%	SABMiller	4.84%
British American Tobacco	4.76%	British American Tobacco	4.79%
Anglo American	4.57%	Anglo American	4.60%
Bidvest	4.48%	Bidvest	4.51%
MTN	4.11%	MTN	4.14%
<b>Sub-Total</b>	<b>49.99%</b>	<b>Sub-Total</b>	<b>50.35%</b>
Balance of Equities	<b>50.01%</b>	Balance of Equities	<b>49.65%</b>
<b>Total</b>	<b>100.00%</b>	<b>Total</b>	<b>100.00%</b>

## 4. Review of investment markets

by Momentum Asset Management

Developed market growth is expected to face an extended period of economic readjustment as a result of elevated rates of unemployment, excessive fiscal imbalances and spare industrial productive capacity. More recently, the flare-up in Cyprus served as a reminder that the Eurozone crisis remains largely unresolved.

Though global growth continues to be underpinned by the US and China, we maintain our view of a moderation in Chinese growth over the longer term given infrastructure mal-investment and the nature of the market-enhancing institutional reforms necessary to reduce macroeconomic imbalances. We expect a further moderation in domestic demand this year, leaving the annual GDP growth projection for 2013 at 2.6%, despite a relatively benign interest rate environment.

SA equity and bond returns tracked largely sideways over the last quarter in rand terms, while listed property surged ahead. Given the rand's c.9.0% sell-off against the US dollar, performance across the SA asset classes - bar listed property - dipped over the quarter.

### **EQUITY MARKET PERFORMANCE**

Over the quarter, the FTSE/JSE All Share (ALSI) posted a rand total return of 2.5% and a US\$ total return of -5.9% on the back of the weaker rand. The All Bond Index returned 1% for the quarter against cash at 1.2%.

### **PORTFOLIO STRATEGY**

Despite positive and inflation-beating returns for the year from risky assets, it is becoming increasingly challenging to find value across most asset classes. We therefore continue to maintain a defensive stance of being marginally underweight equities and cash, overweight bonds and inflation-linked bonds, whilst maintaining a full allocation to offshore assets. For the equity portion of the portfolio, we have implemented protective strategies through derivatives that become beneficial should there be a major equity market pullback.

## 5. Contact details

### **Existing clients:**

Steed Duncan-Smith

Investment Services

Telephone: 021 940 5020

E-mail: [steed.duncan-smith@momentum.co.za](mailto:steed.duncan-smith@momentum.co.za)

### **Prospective clients:**

Tajudin Parkar

Investment Services

Telephone: 021 940 4622

E-mail: [tajudin.parkar@momentum.co.za](mailto:tajudin.parkar@momentum.co.za)

### **Disclaimer:**

This publication is for information purposes only. It is not to be seen as an offer to purchase any product and not be construed as financial, tax, legal, investment or other advice nor guidance in any form whatsoever. MMI Holdings Limited, its subsidiaries, including MMI Group Limited and Metropolitan Life Limited, shall not be liable for any loss, damage (whether direct or consequential) or expense of any nature which may be suffered as result of or which may be attributable, directly or indirectly, to the use or reliance upon this publication.

MMI Group Limited and Metropolitan Life Limited are authorised financial services providers.  
MMI Holdings Limited Co. Reg. no. 2000/031756/06