

Outcome-based Investing



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(Chief Investment Officer)



Steinhoff International: Your investment with us is safe

Dear clients, consultants and partners,

You may be aware that the business and financial news around Steinhoff International have been dominated by discussions, press releases and articles about the resignation of the chief executive officer, Markus Jooste, and the announcement of an independent investigation into accounting irregularities. The market has reacted very negatively to this and the share price has initially decreased by about 60% followed by another 42% decline.

Momentum Investments discussed the unfolding of the events and the investment team is considering the exposure the company has to Steinhoff equity as well as Steinhoff debt across all its portfolios.

The investment team has engaged with external investment managers and will continue to stay close to their views as more information unfolds. Even though most of the index-tracking portfolios have no choice than to hold the investment, it is pleasing to know the majority of the active equity investment managers have had some question marks regarding the financials and accounts of the company and, therefore, held very little to zero

exposure to Steinhoff equity. Some active equity investment managers have, however, had overweight

positions relative to their respective benchmarks based on valuation assessments.

At the same time, there are also some of the company's investment managers in the portfolios that shorted Steinhoff in the hedge fund space, given the role their particular strategy plays in the portfolio. Even though an investor will suffer from a price decline, as a result of a long position of a share, hedge fund managers have the ability to short or sell a share and, therefore, benefit from a price decline. This highlights the benefit of using other asset classes that can take advantage of the opportunity set better than just the long-only portfolios can.

At this stage of the investigation, the exposure appears to be limited on a total portfolio level across the board. The exposures listed below include portfolio exposures to listed equity instruments, Steinhoff International (JSE code: SNH), Steinhoff Africa Retail (JSE code: SRR) as well as fixed interest instruments issued by Steinhoff in the bond market on 5 December.

your goal is our benchmark

Portfolio name	Exposure at 5 December 2017
Enhanced 3	0.77%
Enhanced 4	0.97%
Enhanced 5	1.18%
Enhanced 6	1.46%
Enhanced 7	1.68%
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Classic 3	0.63%
Classic 4	0.79%
Classic 5	1.05%
Classic 6	1.27%
Classic 7	1.50%
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Flexible 3	1.01%
Flexible 4	1.28%
Flexible 5	1.78%
Flexible 6	1.97%
Flexible 7	2.23%
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Target 3	0.41%
Target 4	0.50%
Target 5	0.73%
Target 6	0.78%
Target 7	0.94%

There is an increasing exposure to Steinhoff investments in the higher factor portfolios due to a higher exposure to the equity building block in the growth asset class exposures. Flexible has a slightly higher exposure to Steinhoff due to the balanced investment managers having a higher exposure to the equity asset class altogether and slightly higher exposure to Steinhoff within their equity component.

Although these are very serious allegations, given Momentum Investments' outcome-based approach, the company does not believe a knee-jerk change is warranted and will continue to engage with the underlying investment managers that have exposure. All portfolios continue to be well diversified across asset classes, strategies and investment managers and this helps cushion and risk manage these events to a large extent.

Momentum Investments continues to manage its portfolios in the best interests of its clients, and believes

this incident provides further confirmation of the company's well-formulated and managed outcome-based investing philosophy. The portfolios are monitored using various risk management tools to ensure no undue market sensitivity and exposures are evident in any portfolio on an ongoing basis. This ensures these types of events do not cause excessive losses or downside fluctuations to the capital of any portfolio. It is quite important to note that these events will from time to time occur and therefore risk management is important. More often than not, a market decline of 5%, over any given period, would have a much larger effect on a portfolio than a single share decreasing by 80%.

We will continue to monitor the unfolding of events and want to assure our clients of our ongoing attention to risk management. Should you wish to engage further on this issue or any other matter, we welcome your contact, so please do not hesitate to get in touch with us.

