Momentum AM Core Equity Fund

Unitised Funds | Pooled Portfolio Range

31 August 2017

momentum asset management

Core Strategies

Equity

Product profile

The Momentum AM Core Equity Fund is a fully discretionary portfolio that seeks to outperform the equity market. The portfolio is actively managed, has a high risk profile and investments are limited to domestic equities only. This portfolio is ideal for clients seeking to customise their investment strategies through the use of specialist investment portfolios. This portfolio is also available as a segregated mandate.

Investment strategy

The portfolio typically contains between 44-55 stocks.

Key Features:

- Decisions to include or exclude a stock will be driven by earnings growth, dividend yield and a stock's intrinsic value.
- Active sector rotation is implemented in line with our bottom-up and top-down views.
- The portfolio will aim to have a minimum of 95% exposure to equities at all times.

Performance objective

The portfolio seeks to outperform the Momentum AM Capped SWIX over a rolling three year period.

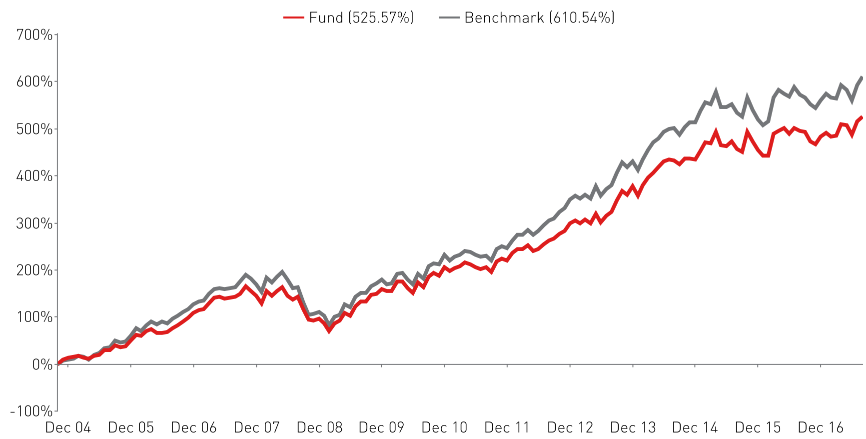
Fund details

Inception	1 November 2004
Minimum investment size	No minimum investment
Termination	30 days written notice
Market value	R 15.08 billion

Benchmark
CAPI to 30 June 2010, thereafter Momentum AM Capped SWIX

Fund Managers
Norman MacKechnie
BSc (Eng), MSc (Eng), DIC, MBA, CFA

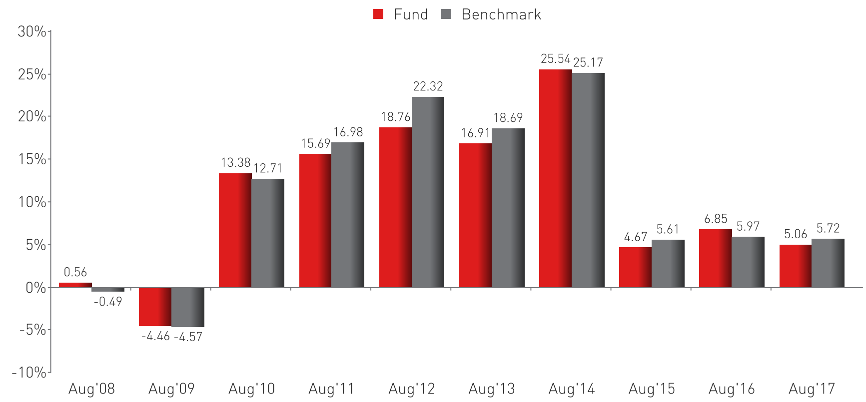
Cumulative performance since inception



Performance – returns (%)

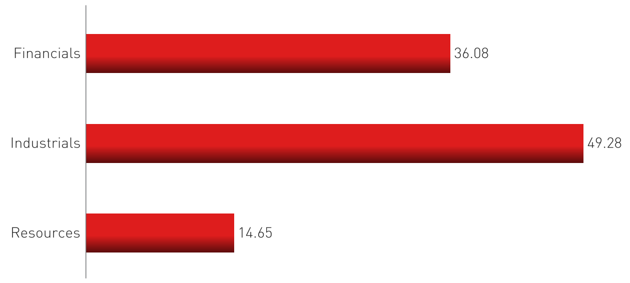
	Fund	Benchmark
Quarter	2.99	4.13
1 year	5.07	5.72
3 years	5.53	5.76
5 years	11.52	11.93
Inception	15.31	16.50

Performance – annual returns (%)



Performance shown is gross and includes all income reinvested, for periods over 1 year the returns are annualised. Source: Momentum Asset Management.

Portfolio composition: effective sector exposure



Top ten shares

	% of Equity	% of Portfolio
BRITISH AMERICAN TOBACCO PLC	7.18	6.85
NASPERS LIMITED	7.11	6.78
STANDARD BANK GROUP LIMITED	5.64	5.38
SASOL LIMITED	5.31	5.07
STEINHOFF INTERNATIONAL H NV	5.11	4.87
FIRSTRAND LIMITED	5.03	4.80
REMGRO LIMITED	4.87	4.64
BARCLAYS AFRICA GROUP LIMITED	4.10	3.91
Old Mutual Plc	3.99	3.81
ASPEN PHARMACARE HLDS LIMITED	2.93	2.80

Quarterly commentary as at 30 June 2017

Economic Overview

Increasing signs that the global growth recovery was broadening beyond the US into the Eurozone and Japan provided fundamental earnings support to the global equity asset class during the second quarter of 2017. A more synchronised global growth performance, in tandem with a weakening US dollar trend (the latter driven by US inflation continuing to underperform expectations and early indications by the European Central Bank (ECB) and the Bank of England (BoE) that both were starting to contemplate the advent of monetary tightening policies), supported strong outperformance by emerging market (EM) equities during the quarter. While fading US economic momentum buoyed global bonds during the first part of the quarter, the tightening noises made by the ECB and BoE caused a European-induced global bond sell-off towards quarter end.

A weaker US dollar put pressure on commodity prices during the quarter while simultaneously supporting the rand. This lethal combination made the platinum and gold exchange-traded funds (ETFs) the weakest performers among the SA asset classes during the quarter. Despite negative ratings action and ongoing political uncertainty, local bonds remained remarkably stable during the quarter, receiving support from the global carry trade and an acceleration in the domestic inflation downtrend. Domestic cash provided the highest domestic returns during the second quarter of 2017. In contrast, a strong rand hurt the performances of globally-based listed property counters, as well as the foreign earnings bases of South African equities. The latter was also hurt by a weak commodity price environment, an unfavourable Mining Charter announcement by government, as well as recessionary conditions in the local economy and rock-bottom confidence levels.

Momentum Investments expects global equities to provide better returns than global bonds as long as synchronised global economic and profit growth trends, still-stimulatory policy settings and favourable relative valuations remain in place. Earnings trends and valuations should now favour non-United States (US) regions. A decent yield pick-up is available for European equities over fixed income, while fundamental support remains in place for Japanese stocks. Meanwhile, a widening positive growth differential between emerging market (EM) and developed markets is likely to underpin EM equity outperformance.

South African (SA) nominal bonds are likely to benefit alongside EM bond markets in the current global hunt-for-yield environment. This asset class generally performs well from around the current low levels of business confidence and in the run-up to interest rate cuts. An anticipated rapid decline in domestic inflation should further strengthen the case for SA nominal bonds into 2018, but would be fundamentally negative for inflation-linked bonds. Domestic cash should continue to deliver decent risk-adjusted returns in a low-return environment, but re-investment rate risk is set to increase in response to a likely peak in the local interest rate cycle.

SA equity valuations have improved meaningfully due to a flat market over the past three years and an expected profit rebound on the back of higher commodity prices and a synchronized global recovery, but a turnaround in confidence is necessary to unlock strong SA equity performance. The latter hinges on political change and/or improved policy certainty. The marked improvement in listed property's relative valuation against nominal bonds (now close to its five-year average) points to strong property returns from the current rating.

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