

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.

The Momentum Money Market Fund, Momentum Enhanced Yield Fund and the Momentum Real Growth Property Fund did not have any Steinhoff-related exposure.

your goal is our benchmark

Portfolio name	Asset class exposure	Exposure at 5 December 2017
Momentum Diversified Income Fund	Fixed interest	0.14%
Momentum SA Defensive Growth Fund	Multi-asset class exposure	0.89%
Momentum Defensive Growth Fund	Multi-asset class exposure	0.71%
Momentum Enhanced Cautious Growth Fund of Funds	Multi-asset class exposure	0.53%
Momentum Enhanced Stable Growth Fund of Funds	Multi-asset class exposure	0.66%
Momentum Enhanced Diversified Growth Fund of Funds	Multi-asset class exposure	0.81%
Momentum Enhanced Growth Fund of Funds	Multi-asset class exposure	0.77%
Momentum Enhanced Growth Plus Fund of Funds	Multi-asset class exposure	0.80%
Momentum Target Cautious Growth Fund of Funds	Multi-asset class exposure	0.32%
Momentum Target Stable Growth Fund of Funds	Multi-asset class exposure	0.49%
Momentum Target Diversified Growth Fund of Funds	Multi-asset class exposure	0.56%
Momentum Target Growth Fund of Funds	Multi-asset class exposure	0.52%
Momentum Target Growth Plus Fund of Funds	Multi-asset class exposure	0.57%
Momentum Real Growth Core Equity Fund	Equity	0.89%
Momentum Real Growth Equity Fund	Equity	2.34%

The Momentum Real Growth Equity Fund had the largest exposure to the equity instruments listed above.

The weighting of 2.3% is slightly overweight the benchmark allocation for the FTSE/JSE Shareholder Weighted Index (SWIX) of 1.9% and FTSE/JSE Capped Shareholder Weighted Index (SWIX) of 2.2%

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.

CIS disclosures

Collective investment schemes in securities are generally medium- to long-term investments. The value of participatory interests or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Momentum Collective Investments (RF) (Pty) Ltd (the manager) does not provide any guarantee, either with respect to the capital or the return of a portfolio. For certain portfolios the manager has the right to close these portfolios to new investors to manage them more efficiently, in accordance with their mandates. Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending. The collective investment scheme may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Different classes of participatory interests apply to these portfolios and are subject to different fees and charges. A schedule of fees, charges and maximum commissions is available on request from the manager, or is available on the website (www.momentum.co.za/collectiveinvestments). Forward pricing is used. The portfolio valuation time is 08h00 for fund of funds, and 15h00 for all other portfolios. The transaction cut-off time for non-fund of funds is 14h00 on the pricing date, and for fund of funds it is 14h00 on the business day prior to the pricing date. The complaints policy and procedure and the conflicts of interest management policy are available on Momentum Collective Investment's (RF) (Pty) Ltd website at (www.momentum.co.za/collectiveinvestments).

The Total Expense Ratio (TER) is the percentage of the net asset value of the class of the Financial Product incurred as expenses relating to the administration of the Financial Product. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. A current TER may not necessarily be an accurate indication of future TER's. The disclosed TER is shown as an annual percentage based on data for the financial year-end to 30 June 2016. Cost ratios are calculated using historical actual and/or estimated data and are provided solely as an indication/guide as to the annual expenses/costs that could be incurred. These ratios do not represent any current/actual charges or fees.

Foreign securities within portfolios may have additional material risks, depending on the specific risks affecting that country, such as: potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks; and potential limitations on the availability of market information. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. Investors are reminded that an investment in a currency other than their own may expose them to a foreign exchange risk. The terms and conditions, a schedule of fees, charges and maximum commissions, performance fee frequently asked questions as well as the minimum disclosure document (MDD) and quarterly investor report (QIR) for each portfolio are available on Momentum Collective Investments' website at www.momentum.co.za/collectiveinvestments. Associates of the manager maybe invested within certain portfolios and the details thereof are available from the manager.

Money market portfolios

A money market portfolio is not a bank deposit account. The price of a Momentum Money Market Fund participatory interest is targeted at a constant value. For money market portfolios the total return to the investor is made up of interest received and any gain or loss made on any particular instrument, and in most cases the return will merely have the effect of increasing or decreasing the daily yield, but in the case of abnormal losses, it can have the effect of reducing the capital value of the portfolio. For money market portfolios excessive withdrawals from the portfolio may place the portfolio under liquidity pressures, and in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. The Momentum Money Market Fund yield illustrated in our minimum disclosure documents and quoted daily in the press is the 7-day rolling effective yield.

Fund of funds

A fund of funds is a portfolio that invests in portfolios of collective investment schemes that levy their own charges, which could result in a higher fee structure for the fund of funds.

Bond/income funds

Bond and income yields quoted in the press are historical yields based on distributions and income accruals calculated monthly while those quoted in the Weekly Income Fund Yield Summary are current running yields calculated weekly. Some of the portfolios pertaining to this form are managed by Momentum Asset Management (Pty) Ltd (registration number 1987/004655/07, FSP number 623) and some are managed by Momentum Outcome-based Solutions (Pty) Ltd (registration number 2004/023064/07, FSP number 19840).

The above investment managers are authorised financial services provider under the Financial Advisory and Intermediary Services Act (No. 37 of 2002), to act in the capacity as investment manager. This information is not advice, as defined in the Financial Advisory and Intermediary Services Act (No. 37 of 2002). Please be advised that there may be representatives acting under supervision.

Scheme

Momentum Collective Investments Scheme

Custodian/Trustee

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