momentum

Quarterly Investment

Report

Columbus Retirement Fund

(Pension and Provident Sections)

Momentum Life Stages Passive Portfolio Range

31 December 2012

Economic and market commentary

Global markets: markets end 2012 on a high

Worries over the eurozone debt crisis retreated somewhat in December, while the anticipated US fiscal cliff expected to kick in on 1 January 2013 dominated the headlines amid quiet trading and thin volumes on global stock markets. Volatility increased with US volatility rising 13%, as the debate over the fiscal cliff and the extension of the US debt ceiling intensified. US equities muddled along during December, although they were largely flat. Stocks on Wall Street ended Monday, 31 December – the last trading session of 2012 – on a high note ahead of a vote in the US Senate on Tuesday approving a bipartisan budget deal negotiated with the White House to avert the fiscal cliff.

The House of Representatives passed legislation lifting taxes on the wealthiest Americans. This will raise the rate on income for those groups to 39.6% from 35%. The rich will also be hit by a permanent increase in taxes on capital gains and dividends from roughly 15% to 20%, but only for individuals making more than $400,000 and couples earning more than $450,000. An increased tax rate on estates worth more than $5m, from 35% to 40% also forms part of the deal.

The deal also includes an end of a 2% decrease in payroll taxes for workers' first $113,700 of income, which will raise the tax rate to 6.2%. While the other tax increases have been carefully targeted at the rich, the payroll tax will affect the middle class, dampening consumer demand and worsening the economic outlook during a time when the economy is only muddling along.

The 1 January start of automatic federal government spending decreases totalling $1.2tn over nearly a decade has been delayed by two months. Crucially, negotiators also failed to increase the debt limit, which was reached on 31 December 2012. Thus, the US faces the possibility of defaulting on its obligations, as government has reached its legal borrowing limit of $16.4tn. Despite all the bad news and uncertainty, US markets managed to eke out a positive return in December, with the S&P rising 0.7% while the Dow rose 0.6%. For the year, those markets were up 13.4% and 7.3% respectively. While the deal mainly focused on tax decreases while delaying a decision on spending decreases, the new deal appears to be lifting the mood on Wall Street with equity markets starting the year on a strong footing.

The benchmark Nikkei 225 closed on Friday, 28 December at 10,395 – its highest level since March 2011 – bringing total gains for the year to 23%. Much of this return (10%) was for December, as optimism over the new premier and anticipated expansionary policies lifted markets. Investors anticipate that the Liberal Democratic Party's platform will weaken the yen, driving the exporter-heavy stock market higher. Most investors have long held the view that Japanese equities are cheap although lacking a catalyst for outperformance. The weakening of the yen is viewed as the main catalyst for the outperformance of Japanese equities.

In Europe, lingering eurozone worries and US fiscal cliff concerns drove the FTSE UK market index below the crucial 5,900 point level. However, the FTSE UK increased 0.9% for the month and 8.3% for the year. Largely buoyed by year-end optimism and the abundance of global liquidity, the MSCI emerging market and MSCI developed market had a good run in December, increasing by 4.8% and 1.7%, while for the year, the markets rose 15% and 13% respectively. Despite the intensification of the eurozone debt crisis, 2012 was a good year for equities, which recouped some of the 2010 and 2011 losses. The Paris CAC and the German DAX were some of the star performers, rising 2.4% and 2.6% for December and 15% and 29% for the year

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South Africa: Mangaung and SA policy direction

The ANC's top six have been named and Jacob Zuma retained his position as the president of the ANC. The other top five positions are held by Cyril Ramaphosa, Baleka Mbete, Gwede Mantashe, Jessie Duarte and Zweli Mkhize. Given the ANC's dominance, Jacob Zuma is likely to resume his position as the country's president in 2014. The forces for change that had rallied around Galema Motlanthe have been effectively nuetralised.

In terms of policy direction, more of the same is expected, although there will be some cabinet reshuffling. The official economic policy adopted by the ANC is the National Development Plan (NDP). The NDP views two challenges as being key, namely chronic unemployment and poor education. Growth will be achieved by focusing on skills development and improving the quality of education, building infrastructure and the capacity of the economy. The commitment to the NDP was re-emphasised in policy discussions during the conference. Overall, business as usual is expected, although the election of businessman Ramaphosa as deputy president will add an interesting dynamic. Market reaction to the NEC election was moderately positive, indicating that investors valued the stability and continuity implied by the re-election of Zuma.

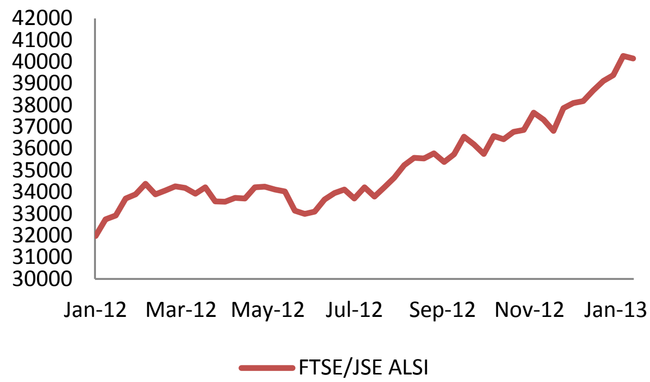
South Africa: Markets shrugged off poor growth and depressed investor confidence

Gross domestic product (GDP) in the third quarter of 2012 increased by a meagre 1.2% compared with 3.2% previously. The softer growth was largely due to the negative growth of 12.7% registered in the mining and quarrying industry on account of the strikes and production stoppages in August and September 2012. With most of the strikes having been resolved by October 2012, mining production is expected to have normalised somewhat in the fourth quarter of 2012, helping to boost GDP in the fourth quarter. Overall, an annual GDP growth of 2.6% is expected for 2012.

Interestingly, despite the strikes, production disruption and policy uncertainty in the run up to the ANC conference, local markets performed well in December and in 2012 in particular. The FTSE/JSE All Share Index (ALSI) gained 3.15% on a total-return basis for December 2012. The BEASSA All Bond Index gained 2.30% and the inflation-linked bond index gained 3.02%, while cash returned 0.43%. The rand gained 6% against the US dollar and 4.5% against the euro.

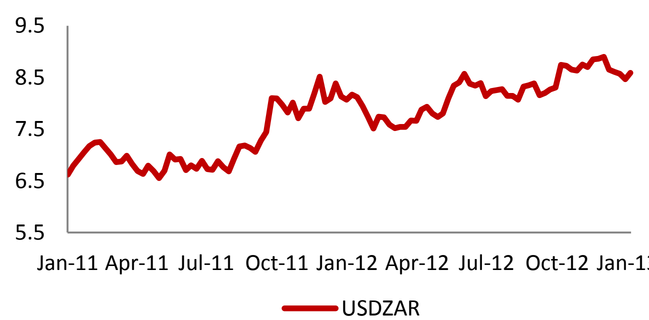
The rally in the local markets accelerated in the fourth quarter of 2012 as the Banks of England and Japan joined the Fed in loosening monetary policy further. Yield-seeking investors appeared agnostic to SA woes as they piled into local markets, driving them to an all-time high of 40,000. Local markets received an additional boost from loose SA Reserve Bank monetary policy (negative real rates) and accelerating rand credit and money growth. Rand weakness in the second and third quarters of 2012 and the moderate business cycle upswing in SA added further impetus. Furthermore, local markets essentially survived a baptism in fire as investor confidence fell to two-year lows (see the Momentum Investor Confidence Index report at the end of this document).

FTSE/JSE All-Share Index



The rand strengthened during December (see chart below) despite the policy uncertainty and decline in investor confidence. Rand volatility was at an all-time high in December as the bid-ask spread index on US dollar/rand sub-index of the Momentum Investor Confidence Index declined by more than 25%.

US dollar/rand exchange rate



Depressing investor confidence and rand volatility notwithstanding, the local markets were among the star performers with the MSCI SA tracking the ALSI and rising 10% for the year. The ALSI total return rose 27% for 2013, recording even stronger gains in US dollar terms, as the rand strengthened by 6% against the dollar. Among the three constituent indices of the ALSI, FTSE/JSE Industrials and FTSE/JSE Financials rose 2.2% and 5% for the month and 37% and 32% respectively for the year.

Momentum Investor Confidence Index (Momentum ICI)

Policy uncertainty at the height of the ANC leadership conference, growth concerns as well as a weakening external position were sources of heightened market volatility during December, driving investor confidence to lows last seen in March 2012. However, despite the fall in investor confidence, local markets continued to post positive gains in December. On conclusion of the policy conference, the markets and the rand posted a strong relief rally, as investors indicated their preference for the stability and continuity implied by the re-election of Zuma. Leading the decline in the Momentum ICI, was the bid-ask spread index, which declined by 25% for December. The global volatility index (inverted) declined by 3.3%, indicating a sharp rise in volatility for the month.

The SA 10-year bond minus repo rate spread index declined by 2.27%, indicating a reduced appeal for SA bonds. Much of this decline captures the bond rally of 2.30% in December. Net foreign purchases of local investments declined marginally in December, with the index detracting by 0.27%. Factors that contributed positively to investor confidence in December include the ALSI trading volume index and SA credit default swap spreads, which continued to improve, indicating reduced tension in local sovereign debt markets.

Market indices return summary

	One month	Three months	One year	Three years	Five years
Consumer Price Index			5.60%	5.09%	6.33%
Rand/dollar movement	-4.45%	2.83%	5.29%	4.85%	4.36%
Rand/euro movement	-3.15%	5.37%	6.76%	1.93%	2.26%
FTSE/JSE All-Share Index (ALSI)	3.15%	10.34%	26.68%	15.63%	9.41%
FTSE/JSE Shareholder Weighted Index (SWIX)	4.33%	10.06%	29.09%	17.61%	10.61%
FTSE/JSE Financials Index	5.35%	9.91%	38.08%	20.00%	10.31%
FTSE/JSE Industrials Index	2.37%	12.38%	40.74%	25.09%	16.48%
FTSE/JSE Resources Index	2.98%	7.34%	3.05%	2.66%	0.98%
FTSE/JSE SA Listed Property Index (SAPY)	0.36%	2.75%	35.88%	24.26%	15.89%
BEASSA All Bond Index (ALBI)	2.30%	2.59%	15.99%	13.21%	10.94 %
Short-term Fixed Interest Composite Index (SteFI)	0.43%	1.32%	5.55%	6.06%	7.78%

Momentum Passive Life Stage Portfolios

Portfolio description

The Life stage Investment Portfolio follows a passive investment strategy that tracks certain published indices and provides gross investment returns in line with these indices. Due to the passive nature of the investments, a very low investment management fee is payable on the portfolio. This saving in investment management fees can potentially add a significant amount to members' benefits over a long period of time. The performance of the Life stage Investment Portfolio, is underwritten by Momentum who will guarantee that members receive the returns underlying the index. This portfolio therefore offers zero tracking error. Please note that Momentum does not offer capital guarantees and the performance of the portfolio is expected to be volatile.

Investment strategy

A young member should be less concerned about the volatility of investment markets as the investment horizon of retirement savings is a long term one i.e. in excess of ten years. The largest portion of the savings of a young member should thus be in growth assets such as equities (shares) listed on the Johannesburg Securities Exchange. As a member gets closer to retirement a more conservative investment strategy should be followed to protect his/her accumulated retirement savings. An older member needs an investment strategy that will provide him/her with capital protection and to ensure that investments provide a return of at the least inflation. Thus, as a member approaches retirement, his/her accumulated retirement savings should be switched gradually from equities to more conservative asset classes.

Investment portfolio information

Inception Date	9 May 2005
Fees	CAPI40TR - 0.25% MSCI – 0.50% GOVI – 0.10% MM – 0.20% MOM CAP+ - 0.50%
Risk Profile	Low Risk up to High Risk
Regulation 28 of the Pension Funds Act	Non-linked insurance policy

Asset allocation

The proportion of each index is dependent on the term to normal retirement age for each member of the fund. The allocation at each term to normal retirement is given below.

Age	CAPI40 TR	GOVI	MSCI	MM	MOM CAP+
48 and below	60%	20%	15%	5%	0%
49	54%	21%	15%	5%	5%
50	48%	22%	15%	5%	10%
51	42%	23%	15%	5%	15%
52	36%	24%	15%	5%	20%
53	30%	25%	15%	5%	25%
54	24%	26%	12%	8%	30%
55	18%	27%	9%	11%	35%
56	12%	29%	6%	13%	40%
57	6%	30%	3%	16%	45%
58	3%	30%	0%	19%	48%
59	0%	30%	0%	20%	50%
60	0%	30%	0%	20%	50%

Momentum Passive Life Stage Portfolios

Definitions

CAPI40TR is the Capped Top 40 Total Return index published by the JSE. The index's constituents are the top forty companies in the FTSE/JSE All Share index ranked by full market capitalisation. The weight of the constituents in the index is limited to 10%.

The **GOVI** index contains the top ten Republic of South Africa government issued bonds within the ALBI (All Bond Index) and is published by the JSE Ltd.

MSCI refers to the MSCI World Index which is a market capitalisation weighted index that is designed to measure the equity market of developed markets and hence provides exposure to offshore equities. This is a Euro based total return index with net dividends (dividends are reinvested after the deduction of withholding taxes) and it is converted to Rands.

MM relates to the returns on a RMB Money Market fund.

MOM CAP+ fund aims to preserve the purchasing power of assets over time. The fund's main goals are to provide a daily capital guarantee and targeting long-term real returns.

Investment returns

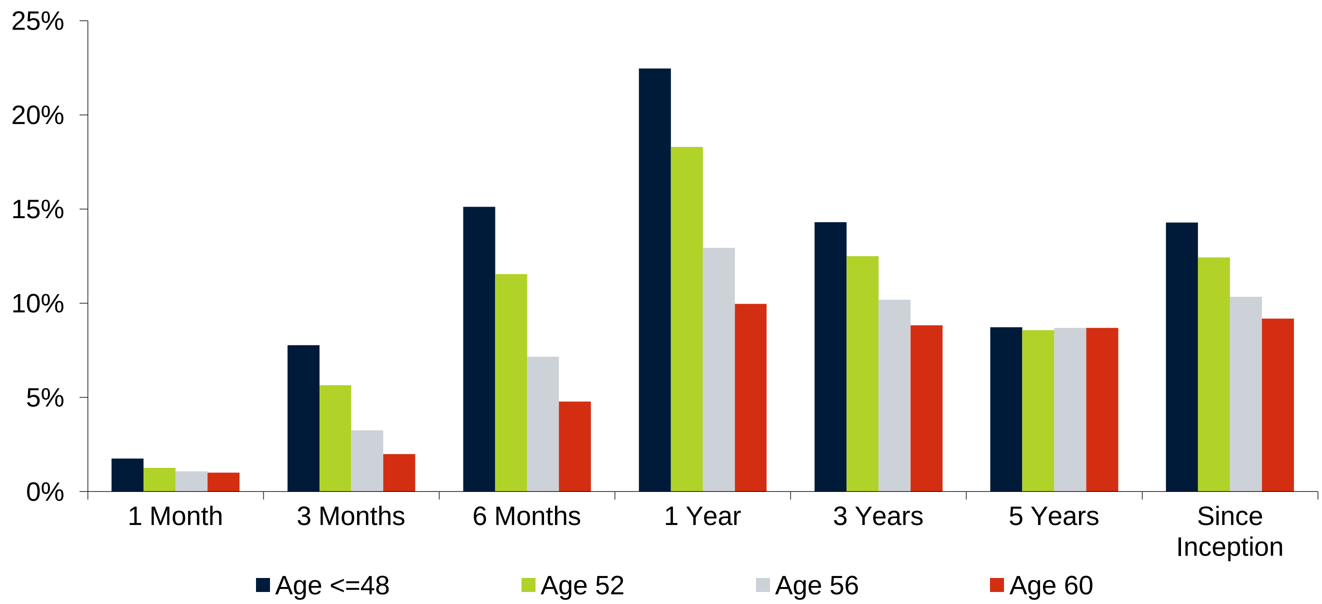
Age	1 month	3 months	6 months	1 year	3 years [1]	5 years [1]	Since Inception [1]
48 and below	1.75%	7.78%	15.13%	22.47%	14.31%	8.72%	14.28%
49	1.63%	7.25%	14.23%	21.42%	13.87%	8.71%	13.84%
50	1.50%	6.71%	13.33%	20.38%	13.42%	8.68%	13.38%
51	1.38%	6.18%	12.44%	19.34%	12.96%	8.63%	12.91%
52	1.26%	5.65%	11.56%	18.31%	12.51%	8.57%	12.43%
53	1.14%	5.13%	10.68%	17.28%	12.04%	8.50%	11.94%
54	1.11%	4.50%	9.48%	15.79%	11.41%	8.58%	11.42%
55	1.08%	3.87%	8.29%	14.32%	10.78%	8.64%	10.89%
56	1.08%	3.26%	7.16%	12.95%	10.20%	8.70%	10.35%
57	1.05%	2.63%	5.99%	11.50%	9.55%	8.71%	9.78%
58	1.08%	2.27%	5.23%	10.52%	9.11%	8.77%	9.48%
59	1.01%	2.00%	4.78%	9.98%	8.84%	8.69%	9.19%
60	1.01%	2.00%	4.78%	9.98%	8.84%	8.69%	9.19%

1. Annualised returns

Momentum Passive Life Stage Portfolios

Investment returns

The graph below illustrates the historical returns in respect of the components; more than 10 years from normal retirement age, 8 years from normal retirement age, 4 years from normal retirement age and less than one year from normal retirement age.



Building blocks investment returns

Index	1 month	3 months	6 months	1 year	3 years [1]	5 years [1]	Since Inception [1]
CAPI40TR[2]	2.81%	10.80%	19.10%	26.14%	15.47%	9.61%	18.47%
GOVI	2.25%	2.60%	7.57%	15.66%	13.00%	10.83%	9.52%
MSCI[4]	-2.73%	4.81%	13.71%	21.91%	12.04%	3.24%	8.77%
MOM CAP+ [3]	0.47%	1.82%	3.77%	7.91%	6.94%	7.22%	9.22%
MM	0.48%	1.52%	3.15%	6.78%	7.30%	8.91%	8.82%

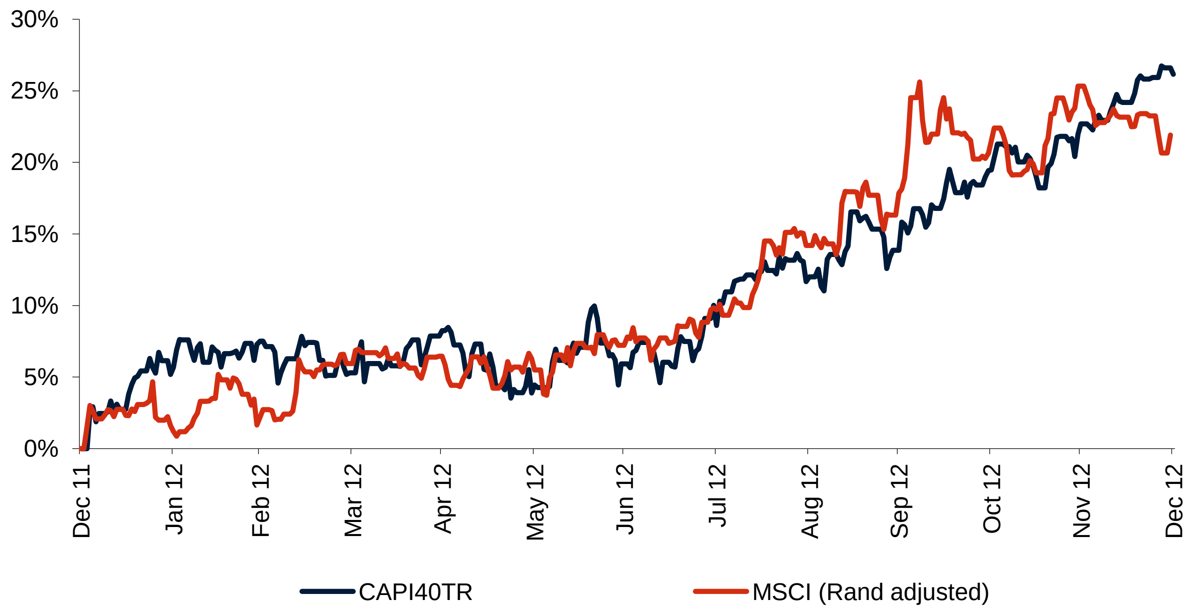
2 The CAPI40 portfolio was replaced by the CAPI40TR portfolio on 1 June 2009. The returns in this table reflects the CAPI40TR index returns

3 The RMB Capital Plus portfolio was replaced by the Momentum Capital Plus portfolio on 1 June 2009. The returns in this table reflects the Momentum Capital Plus returns

4 Rand adjusted

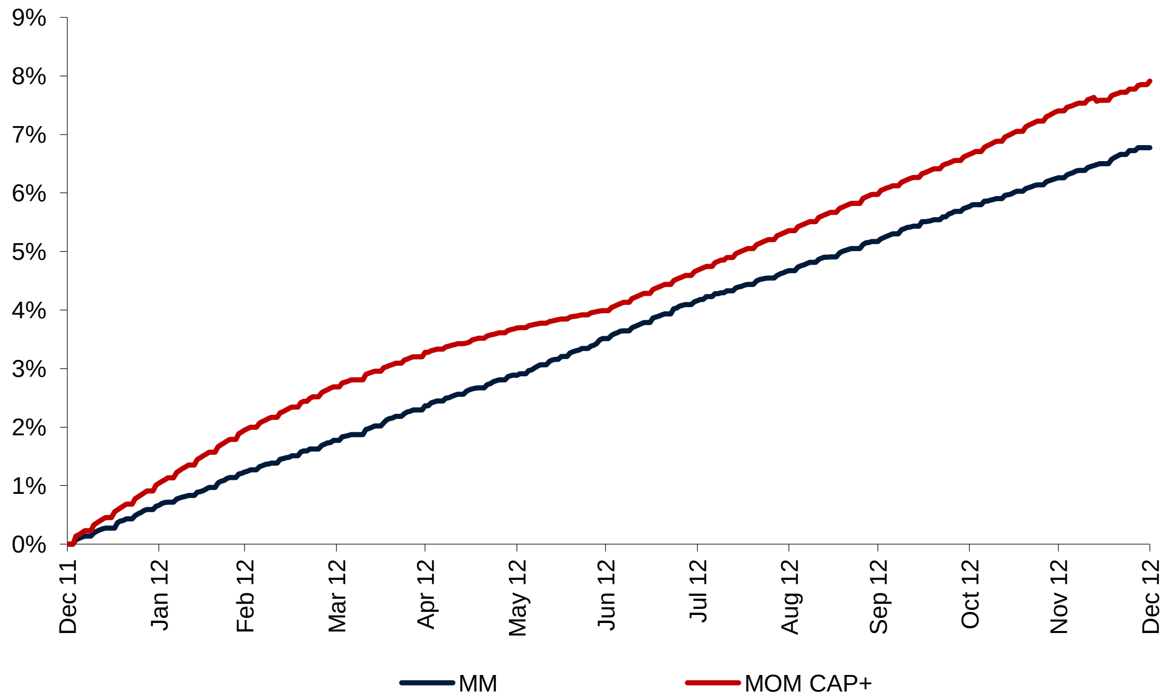
Momentum Passive Life Stage Portfolios

1 year cumulative returns: Equity



1 year cumulative returns: Bonds

1 year cumulative returns: RMB Money Market and Momentum Capital Plus



Asset values

The table below summarises the holdings in each portfolio as at 31 December 2012:

Portfolio	Pension Fund	Provident Fund
CAPI40TR	119,377,635.46	76,157,513.35
GOVI	54,031,903.94	43,609,583.97
MSCI	32,656,200.30	22,222,007.00
MM	15,415,819.56	14,125,341.08
MOM CAP +	25,771,435.43	30,830,198.92
TOTAL	**247,252,994.69**	**186,944,644.32**

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