momentum

Quarterly Investment Report

Columbus Retirement Fund

(Pension and Provident Sections)

Momentum Life Stages Passive Portfolio Range

30 June 2012

Economic and market commentary

Global markets: a strong quarter end

During the month, the markets had a lot to digest as Greece went to the polls for the second round of elections and the centre-right New Democracy Party won by a small majority, only marginally defeating the radical Syriza party. The Troika (European Central Bank (ECB), European Union (EU), and International Monetary Fund (IMF)) welcomed the news, albeit with a hint of cynicism. From the point of view of the Troika, none of the Greek parties are credible, as their recent rhetoric indicates a preference for a loosening of the bailout conditions. Mr Samara, the leader of the New Democracy Party, raises a certain level of suspicion among eurozone leaders as he is regarded as one of the people responsible for the system of patronage and corruption that eventually brought the country to its knees. However, the markets responded positively to the news of the Greek election with the euro gaining some ground. Nevertheless, the rally was short lived as problems in Spain raised the level of risk aversion once again.

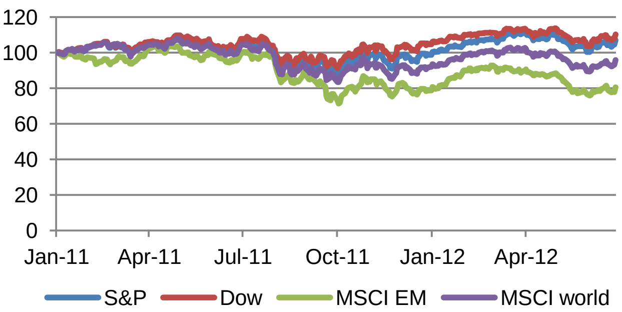
The Spanish government and financial markets came close to collapse as one of Spain's biggest banks, Bankia, faced bankruptcy. Spain is facing similar payment problems that plagued Portugal and Greece at the start of the sovereign debt crisis in those countries and thus is not in a position to bail out its banks. This forced the Spanish government to appeal to the Troika for a bailout. As with previous bailouts involving Greece, Ireland and Portugal, the precise pre-conditions of the bailout were a source of contention. At a summit of eurozone leaders where the bailout of Spain was supposed to be discussed, Spain and Italy attempted to block progress until softer bailout conditions were agreed to. The euro group has tentatively agreed to make €100 billion available to Spain for the bailout of its banks. However, the proposed bailout could not save the Spanish government or banks from a rating downgrade by Moody's. In response to the downgrade of the Spanish sovereign rating and partly as a recognition that government is essentially bankrupt and is not in a position to support its banks, Moody's also downgraded 28 Spanish banks by between one to four notches. While the proposed bailout of the banking sector will give the banking sector a boost and ease money market constraints (and possibly quell rumours of a flight of deposits from Spanish banks), Spain will continue to experience continued pressure from borrowing rates that have soared to 6.7%.

Debates over the Spanish bailout added to the uncertainty and investor fears that contagion will spread to other countries. It is now clear that eurozone leaders cannot contain the crisis which has now spread to Spain and Italy. Italy's situation is more complicated as it is the world's third-largest bond market, but for now there appears to be an appreciation of the risks involved in a disorderly default involving Italian government bonds. Such a scenario would almost certainly affect all major countries in the eurozone and lead to a collapse of the euro.

Some of the issues that were discussed at the most recent summit are the establishment of a joint banking supervisory body to monitor all eurozone banks. The bailout of Spanish banks and subsequent banks will be considered within this framework that is essentially aimed at restructuring and recapitalising banks, as well as better monitoring of banking risks.

As US economic data disappointed and the eurozone crisis continued to escalate, the US Federal Reserve Bank (Fed) responded with another round of quantitative easing (QE). QE3, code-named "operation twist", which involves purchasing longer-term maturity bonds in an attempt to cap borrowing rates. In a recent statement, the Fed said it will do whatever is possible to promote the slow recovery and encourage the improvement in the labour market. While in the past QE has been largely concentrated in the short-term treasury markets, the Fed is showing a willingness to extend bond purchases to mortgage-backed investments and bonds. This will not be the last action from the Fed and further stimulus is expected should the situation deteriorate. As can be seen in the chart below, in the absence of short-term stimulus that pushed markets higher towards the end of the month, the markets have been volatile and mostly moved sideways since the first quarter of 2011's lows. Short-term stimulus like QE seems to have a short-term effect on markets, which staged a temporary bounce towards month end.

World markets

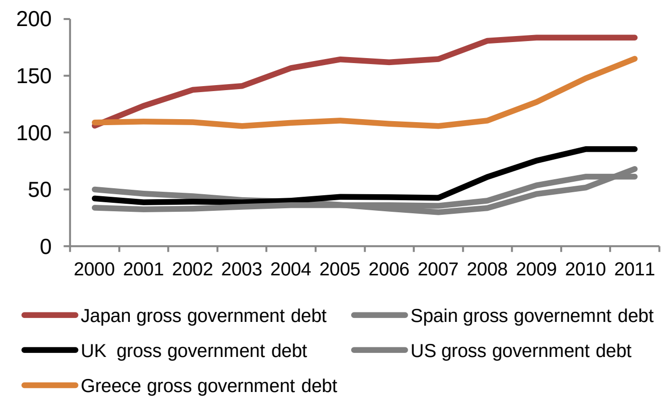


Overall, the markets ended the month on a high on account of the “good” news discussed above. The Dow and the S&P Index were both up 4.0%, while the FTSE and the NIKKEI outperformed slightly and returned 4.5% and 5.4% respectively.

Eurozone: Interaction between sovereigns and banks

The future of the (Portugal, Italy, Ireland, Greece and Spain (PIIGS) within the eurozone was again brought to the fore as the PIIGS contemplated bailouts with tough conditions, or alternatively a default and exit from the euro. Whatever path these countries choose to follow, it is clear that economic growth is paramount to the adjustment process and the debt reduction process. However, with the ECB’s relatively tight monetary policy and the stubbornly strong currency, these countries have few options available in terms of stimulating growth. A lack of control over monetary policy (as a consequence of the monetary union) exacerbates the situation. Austerity measures will likely lead to instability and social unrest, which will ultimately lead to a social crisis that might bring about regime change and a violation of bailout conditions. Given the tough austerity measure, default and exit from the euro is the only way these countries can grow themselves out of this situation. The prescribed adjustment programmes imposed on the PIIGS by the Troika are in stark contrast to some of the recent examples of countries like Sweden and Iceland that experienced a similar crisis in the 1990s. In both these cases, the adjustment process involved private and public sector deleveraging, some default and currency depreciation followed by high inflation. In this case, control over monetary policy and the exchange rate allowed the countries to boost nominal GDP growth through export growth which in turn reduced gross debt-to-GDP ratios. Higher inflation also eroded the debt burden over time. It’s important to note that the adjustment process was also largely a function of an expanding global economy at the time. It would be more difficult for small open countries caught up in this debt crisis to boost exports in the current environment of stagnant growth. In the case of the PIIGS, the Troika seems to favour the Irish example of strict fiscal policy, budget and spending cuts and tight monetary policy, which leaves a question mark on how they see the adjustment process playing out. In the previous communiqué, Momentum Manager of Managers argued that the Troika’s approach will most likely worsen rather than improve the situation, because, as the US has shown, a loose monetary policy is needed to complement the fiscal austerity. A tight monetary policy will lead to a credit crunch similar to the one witnessed in the last quarter of 2011.

Gross government debt to GDP



The interaction between weak sovereigns and strong banks, and weak banks and strong sovereigns, on the other hand, is very important. According to George Soros, the policies prescribed to date were inappropriate, because they failed to appreciate these dynamics. Thus, the eurozone crisis is as much a sovereign as it is a banking crisis. This is certainly true in the PIIGS, where national banks have a high exposure to intra-European sovereign debt, some of which has defaulted. In this case, the sovereign defaults have spread to the banks, forcing banks to either recapitalise or reduce their assets (deleverage). In the solvent creditor EU countries, banking sector weakness, due to exposure to peripheral sovereign bonds, presents a significant risk to the sovereign and thus should be monitored closely. In all these cases and, since the financial crisis in 2008, consumers, banks and governments are forced to go through a process of deleveraging. In the major developed regions – North America, UK and EU, the US seems to have made the most significant progress, while the UK and the EU still have a long way to go. In all cases, household consumers and the private sector have led the deleveraging cycle while government is lagging behind (see the chart below for an example of slow progress on debt reduction by the government).The effects of deleveraging were most striking in the US which experienced a credit crunch in 2008/2009. If this trend is extrapolated to the UK and the EU, significant reduction in credit growth and consumer spending can be expected, which does not bode well for the already depressed economies.

South Africa: Inflation surprises on the down side

The most recent SARB quarterly bulletin showed that growth in unsecured credit in the first quarter was 8% quarter on quarter, or nearly 40% at an annualised rate. Durable goods spending (furniture, appliances, cars, electronic gadgets and jewellery) continued to outpace (8.9% quarter on quarter annualised) semi-durables (2.9%), non-durables (3.5%) and services (1.6%) spending the first quarter of 2012. With the slowdown in mortgage rate loans, growth in unsecured lending is the main source of growth in consumer credit. This growth, combined with historically low interest rates, has given retail sales a significant boost in the past few months. Retail sales growth rebounded strongly to 7.2% in February following two disappointing months. While the data is volatile, the trend is still positive, underpinned by the loose monetary and credit conditions.

May CPI surprised on the downside falling 0.4% month on month and increasing by 5.7% year on year. Food and petrol price deflation accounted for the majority of the decline in inflation. It appears that Inflation is declining faster than market expectations and even the SARB's forecast appears to be behind the curb. Manager of Managers expects significant downward revision in market and SARB inflation forecasts as they digest the effect of global deflationary factors. In particular, food and petrol prices are benefiting from the effect of declining commodity prices. Manager of Managers' outlook for commodity prices is slightly negative based on the tentative signs of a tepid US recovery and a slowdown in Chinese growth. With inflation having fallen towards the previous year-end target, as forecast by the South African Reserve Bank (SARB), inflation might well settle in the middle of the target by December 2012. Lower inflation and flat interest rates for the next 18 months (Manager of Managers' base case scenario) should give South African consumers a boost and, at the moment, the company is reluctant to call the end of the cyclical consumer boom. At the same time, Manager of Managers is not exceptionally bullish on SA retail sales and acknowledges that household expenditure may come under pressure, especially if renewed risk aversion leads to a sharp depreciation in the rand and increases in imported inflation.

The market reacted positively to declining inflation and, with the recent inclusion of South Africa in the Citi Group World Government Bond Index, local bonds were attractive. Since the announcement of the possible inclusion of SA in the index, there have been significant inflows into the local bond markets. Declining inflation figures also bodes well for the bond market.

Since the last meeting of the monetary policy meeting where the SARB indicated a willingness to adjust interest rates in either direction, the yield curve has steepened, indicating the expectation of a rate decrease. However, the SARB is concerned about the heightened credit growth and, in the absence of a severe down turn in global growth, it is unlikely to act. While inflation has fallen, it is still on the high end of the target band and a rate decrease could compromise the inflation outlook. Inflation comfortably below 4% in a scenario of a downturn in global growth could be the catalyst for an interest rate decrease.

Local markets underperformed global markets as investors have turned bearish on risky investments. The FTSE/JSE All-Share Total Returns Index returned 2.0%, largely due to the fairly strong positive contribution of FTSE/JSE Financials, up 2.5%. FTSE/JSE Industrial managed to keep up with the overall market and returned 2.1% while FTSE/JSE Resources continued to underperform, only increasing by 1.3%. The rand regained some ground and strengthened by 4.5% and 2.0% against the dollar and the euro respectively.

Market indices return summary

	One month	Three months	One year	Three years	Five years
Consumer Price Index			5.66%	4.94%	6.70%
Rand/dollar movement	-4.55%	6.59%	20.66%	1.87%	2.99%
Rand/euro movement	-2.02%	1.53%	5.59%	-1.45%	1.72%
FTSE/JSE All-Share Index (ALSI)	1.85%	0.98%	9.24%	18.36%	6.53%
FTSE/JSE Shareholder Weighted Index (SWIX)	2.22%	1.73%	13.31%	19.58%	7.82%
FTSE/JSE Financials Index	2.97%	4.59%	24.14%	21.88%	6.40%
FTSE/JSE Industrials Index	1.92%	2.60%	19.70%	25.76%	12.64%
FTSE/JSE Resources Index	1.02%	-3.56%	-9.94%	8.29%	-0.05%
FTSE/JSE SA Listed Property Index (SAPY)	6.91%	10.31%	26.32%	25.22%	14.85%
BEASSA All Bond Index (ALBI)	3.34%	5.19%	14.59%	11.92%	10.22%
Short-term Fixed Interest Composite Index (SteFI)	0.44%	1.39%	5.67%	6.46%	8.23%

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

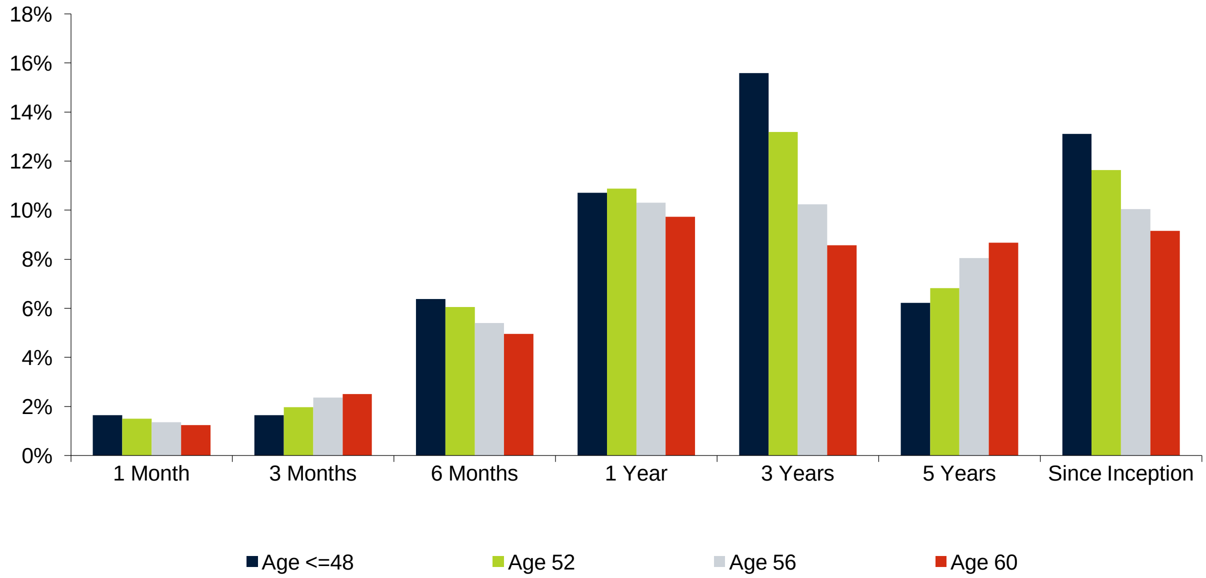
Age	1 month	3 months	6 months	1 year	3 years [1]	5 years [1]	Since Inception [1]
48 and below	1.65%	1.65%	6.38%	10.70%	15.59%	6.22%	13.11%
49	1.61%	1.73%	6.30%	10.76%	15.00%	6.39%	12.76%
50	1.57%	1.81%	6.22%	10.80%	14.40%	6.55%	12.40%
51	1.54%	1.89%	6.14%	10.84%	13.80%	6.69%	12.03%
52	1.50%	1.97%	6.05%	10.88%	13.19%	6.82%	11.64%
53	1.46%	2.05%	5.97%	10.90%	12.58%	6.94%	11.24%
54	1.42%	2.14%	5.77%	10.69%	11.79%	7.33%	10.86%
55	1.37%	2.23%	5.57%	10.46%	11.00%	7.69%	10.46%
56	1.35%	2.36%	5.40%	10.30%	10.24%	8.05%	10.05%
57	1.31%	2.45%	5.20%	10.06%	9.43%	8.37%	9.61%
58	1.26%	2.49%	5.02%	9.78%	8.91%	8.65%	9.39%
59	1.23%	2.51%	4.96%	9.73%	8.57%	8.67%	9.15%
60	1.23%	2.51%	4.96%	9.73%	8.57%	8.67%	9.15%

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.



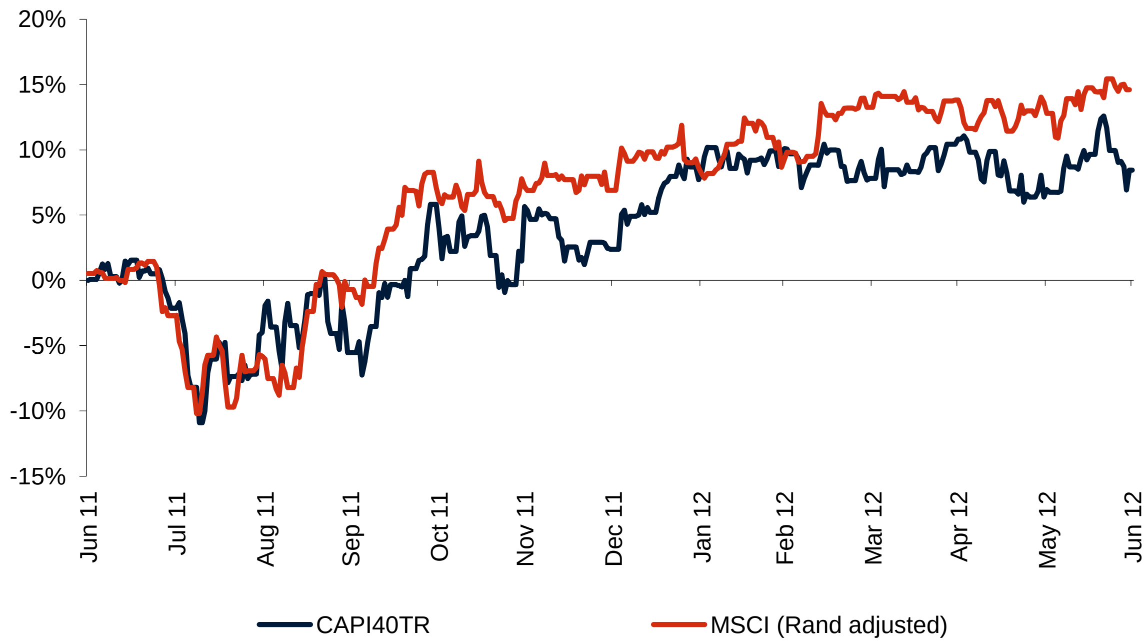
Building blocks investment returns

Index	1 month	3 months	6 months	1 year	3 years [1]	5 years [1]	Since Inception [1]
CAPI40TR[2]	1.40%	0.58%	5.91%	8.44%	17.78%	6.77%	16.99%
GOVI	3.22%	5.12%	7.53%	14.47%	11.73%	10.16%	9.11%
MSCI[4]	0.88%	1.20%	7.21%	14.61%	12.85%	-0.10%	7.47%
MOM CAP+ [3]	0.29%	1.27%	3.99%	7.96%	7.00%	7.38%	9.33%
MM	0.61%	1.71%	3.51%	7.09%	7.67%	9.34%	8.99%

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

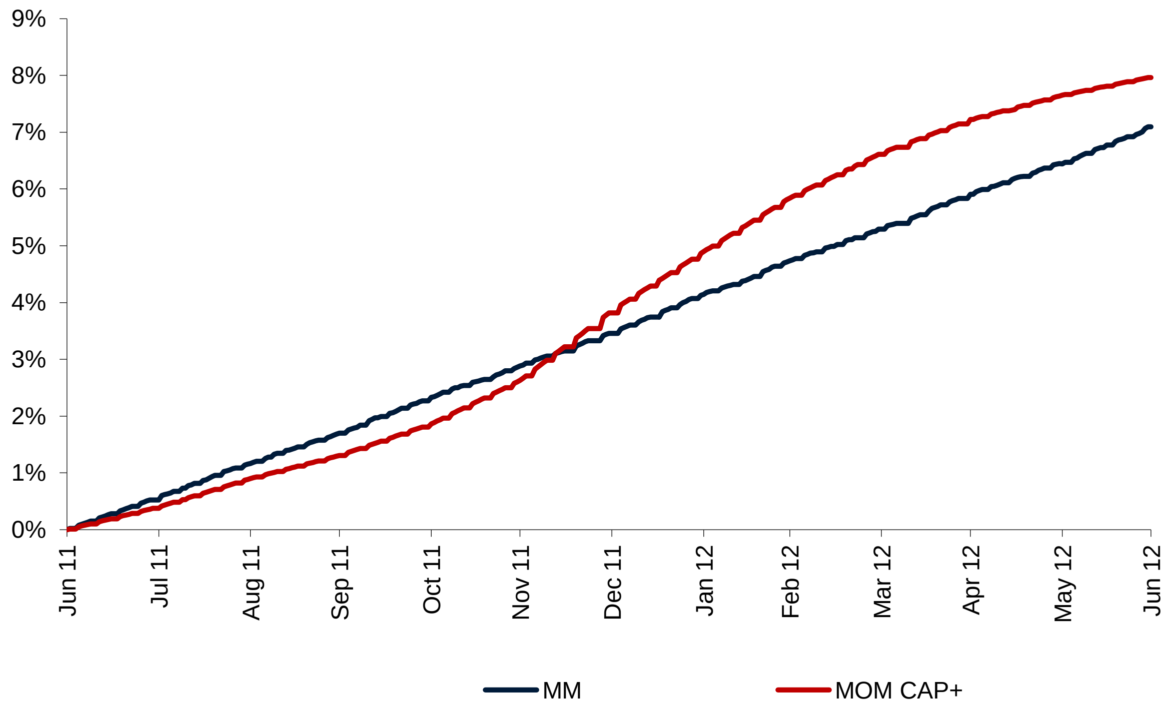
Momentum Passive Life Stage Portfolios

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 30 June 2012:

Portfolio	Pension Fund	Provident Fund
CAPI40TR	100,532,431.34	63,974,914.31
GOVI	48,720,935.55	38,735,752.29
MSCI	28,907,076.81	19,649,492.79
MM	13,754,831.15	12,324,412.40
MOM CAP +	21,504,607.27	26,000,286.36
TOTAL	**213,419,882.12**	**160,684,858.15**

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