momentum

Quarterly Investment
Report

Columbus Retirement Fund
(Pension and Provident Sections)

Momentum Life Stages Passive Portfolio Range

31 December 2013

Economic and market commentary

Global markets

The US

The great US tapering debate has dominated the second half of 2013. The first announcement by the US Federal Reserve (the Fed) of the possibility of tapering in late May 2013 was met with some shake ups globally, particularly seen in rising bond yields, especially in the emerging markets. The VIX (Chicago Board Options Exchange (CBOE) Market Volatility Index) also experienced a small spike. Tapering did, however, not actually begin in 2013 and the intention was merely bandied about. Nevertheless, at the December Federal Open Market Committee meeting, the Fed announced a reduction in the pace of its asset purchases, saying the pace of purchases would decline to US$75 billion per month, beginning in January from the current US$85 billion pace.

Future reductions were to come in “measured steps” as long as the outlook evolves in line with the outlook of the committee. It is likely that there will be similar-sized reductions at every upcoming meeting, which would mean asset purchases could last to the end of 2014. The committee has forecast the unemployment rate to decline to 6.5% by the end of 2014 – one of the drivers that influenced the decision to begin tapering.

The Dow Jones experienced a good month, climbing 3.0% in December, although commodities were weaker – gold ended the month down 3.8%, while platinum experienced a slightly strong month, eking out a positive return of 0.7%.

Europe

Even though the European economy has experienced the end of the recession during the region’s spring of 2013, growth has been weak, failing to gain momentum, while inflation has also continued to remain low. Risks to the region remain those emanating from global growth and the strength of the euro, as well as several possible local risks in 2014, including talks on the continuation of the Greek programme (debt relief) and the possible extension of the Portuguese programme in April/May, as well as political risks, with the upcoming European election in May 2014. Late in December, the European Union lost its top credit rating from Standard & Poor’s (S&P), which decreased its long-term rating from AAA to AA+. S&P cited deteriorating creditworthiness of the bloc’s 28-member nations.

Nevertheless, European shares advanced after Christmas, as markets reopened, after US jobless claims dropped more than was forecast, which helped to extend the positive sentiment experienced.

Asia

China

Growth in China’s factories slowed slightly in December, as export orders and output weakened. Local and overseas demand was weaker than expected. Locally, tight liquidity is weighing on factory output and orders.

China’s economic growth is likely to come in at 7.6% for 2013 based on a cabinet report – just above government’s target of 7.5% and slightly behind last year’s 7.7%. While this forecast is largely in line with analysts’ predictions, it nevertheless puts China’s growth near the weakest pace since the Asian 1997/1998 financial crisis. Downward pressure on economic growth include uncertainties in the global economic recovery, the failure by the international market to produce strong demand, coupled with local pressures of higher labour and environmental costs for enterprises. Nevertheless, amid concerns over high levels of debt in the economy at a time when growth is slowing and the central government is predicting a third consecutive year of slowdown, interest rates in China’s money markets stabilised in late December.

The growth target of 7.5% will likely be used in 2014 again, and a cabinet report has also emphasised that China will further enhance interest-rate flexibility and coordination on using various policies, including for fiscal, monetary, industrial, land use and environmental ones.

Japan

Japan’s economy continues to recover government data released late December showed that consumer prices excluding food rose 1.2% in November compared with the same month last year – the largest gain since November 2008.

Meanwhile, the industrial output increased for the third straight month, rising by 0.1%, and the unemployment rate remained at 4%. The Bank of Japan's monetary policy of depreciating the yen and increasing the money supply, together with Prime Minister Shinzo Abe's economic strategy such as spending on public works projects have largely helped to right the world's third-largest economy to its feet.

The Nikkei, while not quite producing the same return as in November, nevertheless was up in December and managed to return 4.0%.

South Africa

Possibly the most significant event that took place in December for South Africa was the passing away of the country's icon, former president Nelson Rolihlahla Mandela on 5 December at the age of 95. There was largely no reaction on the markets to the news of the icon's passing, with the share market and rand remaining largely steady. Looking ahead, 'South Africans have no choice but to bridge the chasm of mistrust that has developed between government, labour and business, if Nelson Mandela's legacy of inclusive economic transformation is to continue' – according to minister in the presidency for the national planning commission, Trevor Manuel.

Overall, SA's economic growth has turned out to be a disappointment for the year. While the Ministry of Treasury had high hopes for the economy for 2013 and had factored in growth of 2.7%, as the year draws to a close, it seems more likely that the economy is poised to register its weakest growth since the 2009 recession. Figures of 2% and 1.9% growth expectations for the year have been bandied about by the Treasury and the Reserve Bank respectively.

In keeping with the theme of disappointments already cash-strapped consumers were given another bitter pill to swallow with the announcement in late December of another increase in the petrol price – this latest increase will see motorists paying the highest for 95-octane petrol in the past 12 months. The struggling consumer has also not passed too much the way of retailers – while the figures on Christmas spending are still pending, analysts predict it was a bleak season for retailers.

A highlight of the economy has, however, been the returns from the local equity market, which hit several new record highs. Meanwhile, the FTSE/JSE All-Share Index and the BEASSA All Bond Index ended the last month of the year on a positive note, returning 3.0% and 1.1% in December. Nevertheless, equities and bonds experienced net outflows for the month, as foreigners pulled more money out of the country, resulting in the last quarter experiencing net outflows across both these asset classes.

The rand weakened in December, ending the year at R10.35 to the US dollar.

The Momentum Investor Confidence Index

Through December, the Momentum Investor Confidence Index (Momentum ICI) eased by 0.5 points, registering 54.38 as its preliminary reading for the month. A material decline in the VIX volatility component of 3.1 points to 67.1 and the net foreign asset purchases component of 2.9 points was noted. The ALSI value-adjusted volume component also lost 1.4 points, to end at 79.1 points. These losses were somewhat offset by gains of 3.9 points in the USD-ZAR bid/ask spread component, which is at 36.7 points.

Investors were focussed on the Fed's monetary policy meeting this month, with the majority of data releases suggesting that a stimulus reduction would be possible. A cosmetic reduction in stimulus occurred and the outlook for less asset purchases by the Fed going forward has the potential to dampen investor confidence into 2014.

For the year, the Momentum ICI slowly trended lower, falling by 2.0 points, up to the December preliminary reading and close to more than one year lows. The index ranged between 60.74 and recent lows of 54.21. Through 2013, investor confidence was dealt a blow by lower local growth than what some had expected and worsening external financing exposure as seen in persistently widening government budget and current account deficits. International investors became more wary of the development, as uncertainties about US monetary policy, which has this month culminated in a slowing in stimulus measures, weighed on the easy money outlook.

Daily Momentum Investor Confidence Index for the year to 19 December 2013

Source: I-Net Bridge

Market indices return summary

	One month	Three months	One year	Three years	Five years
Consumer Price Index			5.35%	5.69%	5.08%
Rand/dollar movement	3.10%	4.13%	23.51%	16.43%	2.84%
Rand/euro movement	4.38%	6.04%	29.14%	17.60%	2.38%
FTSE/JSE All-Share Index (ALSI)	2.98%	5.53%	21.43%	16.42%	19.93%
FTSE/JSE Shareholder Weighted Index (SWIX)	3.50%	6.05%	20.71%	17.56%	20.60%
FTSE/JSE Financials Index	2.44%	6.91%	19.10%	20.87%	21.39%
FTSE/JSE Industrials Index	3.80%	6.70%	34.96%	27.52%	28.09%
FTSE/JSE Resources Index	1.66%	2.14%	1.38%	-0.77%	8.23%
FTSE/JSE SA Listed Property Index (SAPY)	1.00%	0.99%	8.39%	17.07%	18.86%
BEASSA All Bond Index (ALBI)	1.10%	0.13%	0.64%	8.30%	7.65%
Short-term Fixed Interest Composite Index (SteFI)	0.44%	1.30%	5.18%	5.48%	6.49%

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

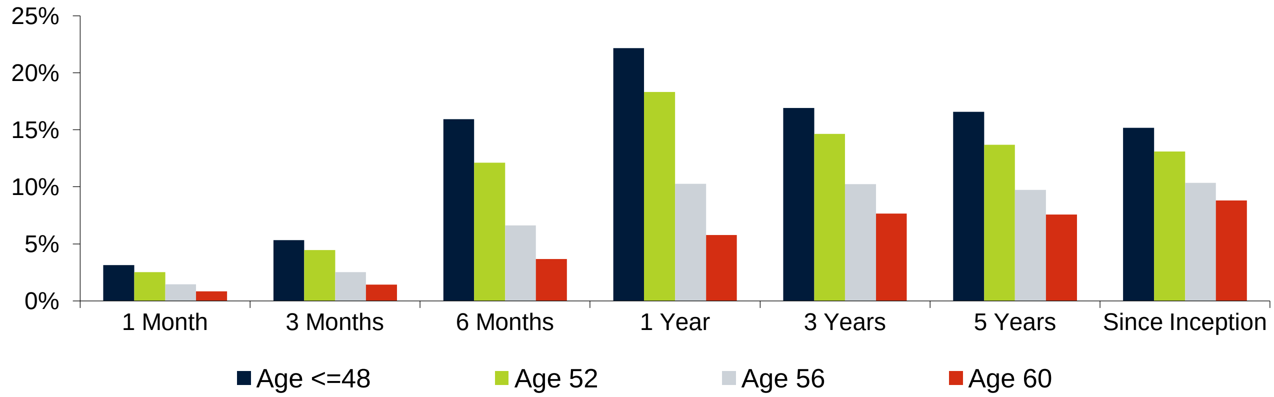
Age	1 month	3 months	6 months	1 year	3 years [1]	5 years [1]	Since Inception [1]
48 and below	3.13%	5.33%	15.92%	22.17%	16.92%	16.59%	15.17%
49	2.98%	5.11%	14.96%	21.21%	16.36%	15.87%	14.67%
50	2.83%	4.89%	14.01%	20.24%	15.79%	15.14%	14.15%
51	2.68%	4.67%	13.06%	19.27%	15.22%	14.41%	13.63%
52	2.53%	4.45%	12.12%	18.30%	14.65%	13.67%	13.09%
53	2.38%	4.23%	11.19%	17.33%	14.07%	12.93%	12.55%
54	2.07%	3.67%	9.65%	14.97%	12.78%	11.87%	11.83%
55	1.76%	3.10%	8.13%	12.63%	11.50%	10.81%	11.09%
56	1.46%	2.53%	6.61%	10.27%	10.24%	9.74%	10.34%
57	1.15%	1.97%	5.13%	7.98%	8.96%	8.66%	9.57%
58	0.91%	1.52%	4.11%	6.24%	7.97%	7.95%	9.10%
59	0.83%	1.42%	3.66%	5.78%	7.67%	7.57%	8.79%
60	0.83%	1.42%	3.66%	5.78%	7.67%	7.57%	8.79%

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]	3.37%	5.46%	19.97%	23.06%	17.08%	19.98%	18.99%
GOVI	1.09%	0.17%	2.09%	0.48%	8.17%	7.54%	8.44%
MSCI[4]	5.78%	13.26%	23.81%	57.21%	30.50%	17.54%	13.50%
MOM CAP+ [3]	0.82%	2.17%	4.82%	8.73%	7.65%	7.35%	9.16%
MM	0.49%	1.42%	3.04%	6.32%	6.70%	7.64%	8.52%

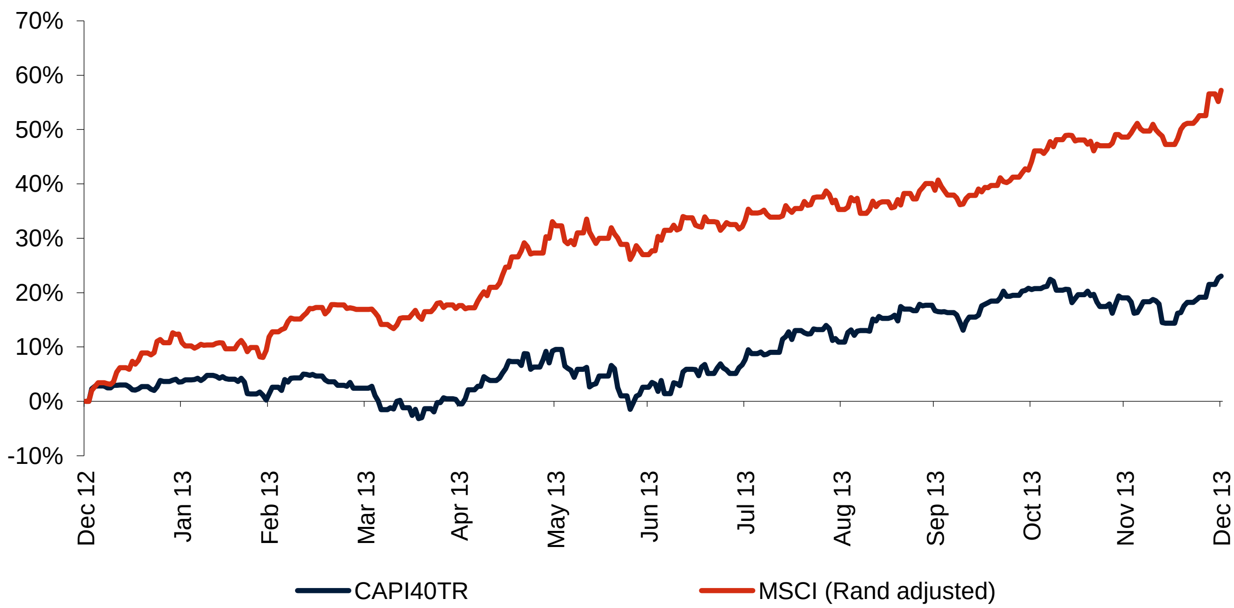
2 The CAPI40 portfolio was replaced by the CAPI40TR portfolio on 1 June 2009. The returns in this table reflects the CAPI40TR index returns

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

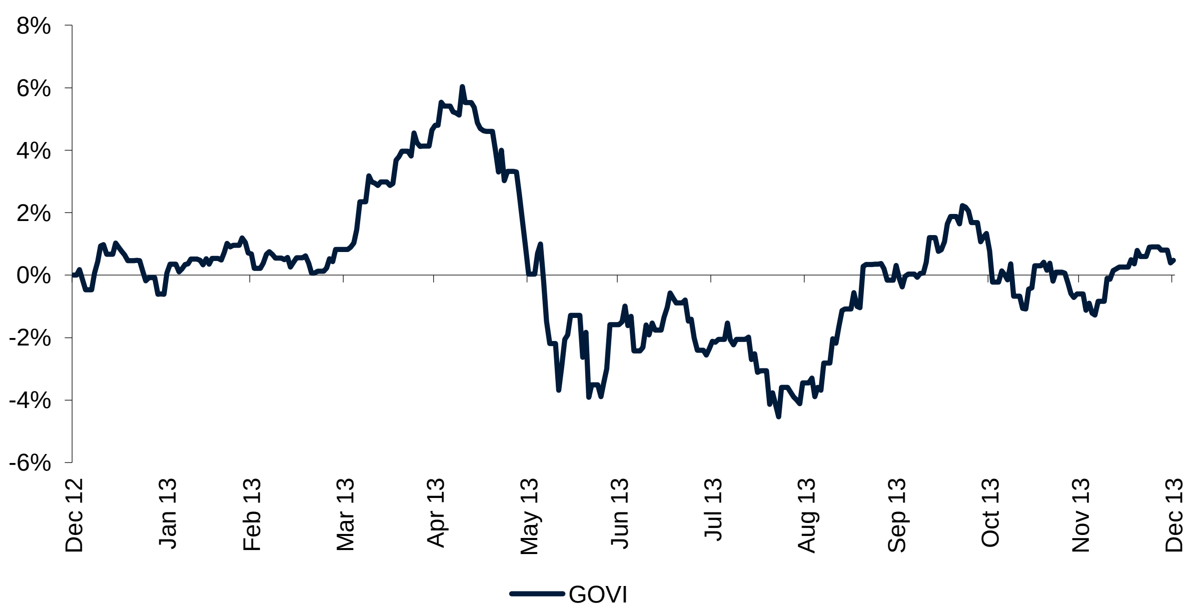
4 Rand adjusted

Momentum Passive Life Stage Portfolios

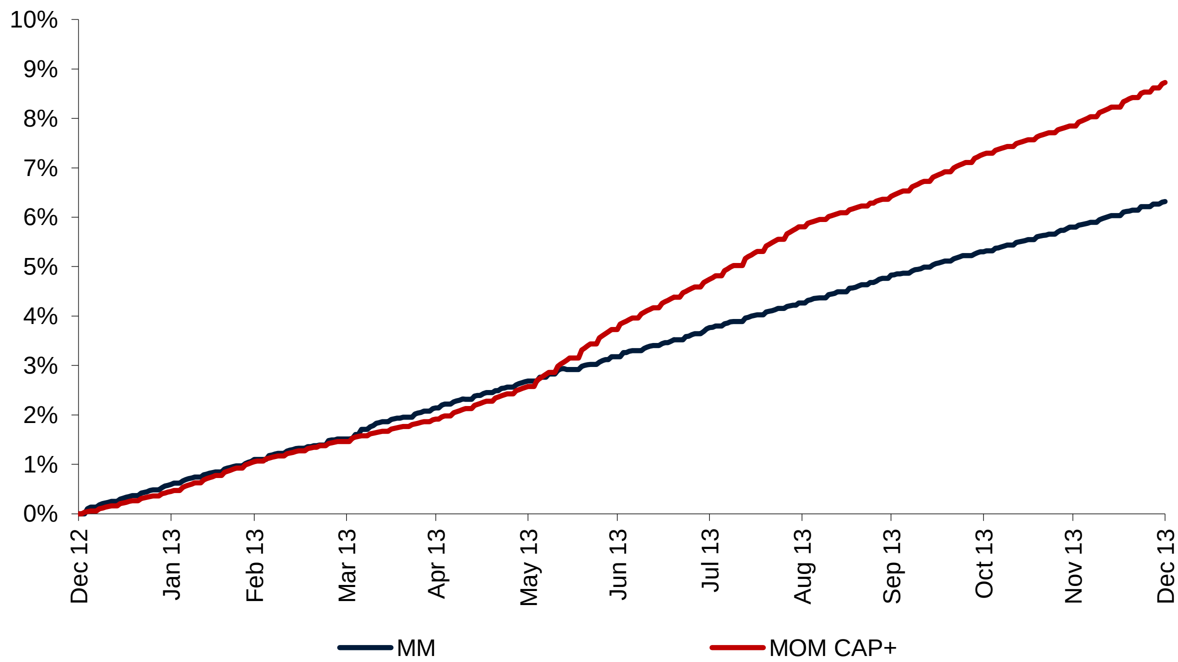
1 year cumulative returns: Equity



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 2013:

Portfolio	Pension Fund	Provident Fund
CAPI40TR	137,091,385.21	84,252,568.80
GOVI	58,908,303.55	44,441,156.52
MSCI	40,161,627.95	26,264,637.87
MM	18,377,014.67	15,532,250.96
MOM CAP +	30,728,263.24	33,146,172.16
TOTAL	**285,266,594.62**	**203,636,786.31**

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