momentum

Quarterly Investment

Report

Columbus Retirement Fund

(Pension and Provident Sections)

Momentum Life Stages Passive Portfolio Range

31 March 2012

Economic and market commentary

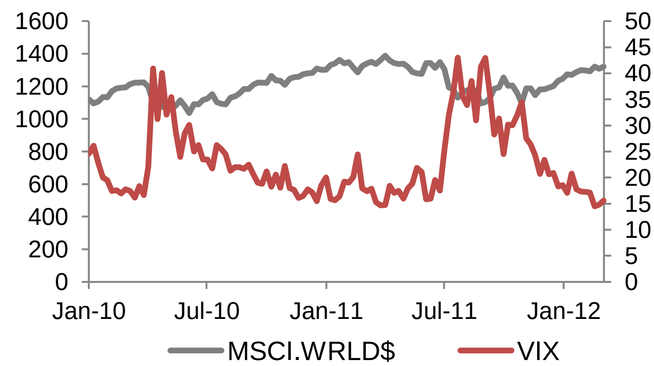
Global markets

Market volatility subsided and global equities continued to rally throughout March. The extreme risk scenario of a break up in the euro and a disorderly Greek default receded while the European Central Bank's (ECB) long-term refinancing operation (LTRO) increased liquidity, helping to reduce the tension in the periphery sovereign debt markets. While volatility has declined, markets are still very unstable and prone to overreaction to news. At the moment, the bull market is supported by a mixture of favourable data releases in the US, while largely ignoring the economic decline and stagnation in the rest of the developed markets. The markets are trading on two major themes: liquidity injection in Europe through the LTRO and monetary reflation in major emerging markets such as China and India, on the one hand, and the positive data coming out of the US, on the other hand. The extent of the positive reaction to the ECB's LTRO was underestimated and many investors were caught by surprise.

Investors are monitoring the situation in the US very closely and the rapid fall in unemployment during the past six months from 9.1% to 8.3% and the tentative signs of a recovery in the housing markets are very encouraging. The main beneficiaries of the risk rally have been emerging market equities, currencies and gold that tend to benefit from a decline in risk aversion underpinned by a stronger US economy. The risk on trade was firmly in place for most of this year, but, in March, it seemed to be faltering. Market reaction to the Fed president Ben Bernanke's comments on the need for local demand to rise further to sustain the rapid fall in unemployment was mixed. The Fed believes monetary policy should continue to support growth and job creation and the US unemployment problem is as a result of lack of demand rather than a structural problem caused by a lack of skills or the misallocation of human resources. Given the nature of unemployment (demand driven), the Fed recognises the role monetary policy can play in boosting demand.

The markets interpreted this statement to mean that the Fed would keep interest rates flat for an extended period while not ruling out another round of quantitative easing. As volatility declined and equity markets climbed higher (see the chart below), worries over the Eurozone crisis are receding and investors are taking a rather sanguine view of the Eurozone situation. On the other hand, a slower US recovery or the prospect of the recovery running out of steam, as implied in the Fed statement, was viewed negatively, adding to market volatility.

MSCI returns and market volatility



Contrary to the IMF and most market estimates, the OECD forecast the Eurozone economy to expand by 0.2% as opposed to a contraction of 0.5% projected by the IMF. The Eurozone is not out of the woods yet and, with election in Greece due in the second quarter of this year, there is a risk that the new Greek government will fail to push through with the reforms.

The northern EU countries are sceptical of Greece's ability to continue with painful reforms, but the IMF has warned that the reforms are necessary for Greece to continue receiving any further bailout funds. If Greece reneges on its commitment, the news would be very negative for the markets and it could be the catalyst for the end of the rally. For the time being, while volatile, the markets continue to stage mini rallies and the trend is decidedly positive. During the month, the Dow Jones and the S&P indices were up 2% and 3% respectively. In other developed markets, the FTSE detracted 1.7%, while the Nikkei and MSCI developed markets were up 4% and 0.6%. EM equity markets have recouped about half of 2011's losses, attracting inflows into the bond and equity markets. Investment surveys indicate that investors are still relatively underweight emerging markets and thus positioning is positive for emerging market equities. However, in March, the MSCI Emerging Markets Index gave back some of the recent outperformance, detracting 3.2%.

Stagflation is the central banks' policy dilemma.

In the developed markets specifically, inflation is rearing its ugly head and with growth stagnating, central bankers are faced with a classic policy dilemma: stagflations – a high inflationary and low growth environment. The EU in particular is trapped in a cycle of low growth, high unemployment and high inflation. The deflationary scenario is failing to material and instead the EU is in a stagflationary slump with production contracting while inflation is elevated. With the depressed state of local demand and a contraction in industrial production and manufacturing, inflation appears to be a supply-side phenomenon reflecting the effect of higher commodity prices. At around 2%, inflation is hovering above the ECB's target and in the short term, the inflation intolerant ECB is reluctant to decrease rates further. While the LTRO has helped to calm the sovereign debt markets, it has done little to stimulate the economy. Direct quantitative easing and interest rates decreases are required to stimulate demand and counteract the effect of austerity measures and fiscal consolidation. Tight monetary policy in an environment of spending decreases and fiscal deficit reductions is unsuitable and, sooner or later, the ECB will have to loosen monetary policy further to resuscitate the ailing EU economy.

Momentum Manager of Managers (Pty) Ltd (MoM) has argued in previous publications that easy monetary policy should complement tight fiscal policy. MoM reiterates this view and argues that the euozone crisis is far from over and with the restoration of calm in the debt market, growth concerns will come to the fore. In the US, inflationary pressures are stemming from the demand and supply sides. Oil prices for the biggest consumer in the world and a weaker dollar pose the biggest risk to US inflation. It is important to monitor the situation in the Middle East, particularly in Syria, where there are rumours that conditions are ripe for a civil war. On the demand side, while US consumers are increasing savings and spending cautiously, an acceleration in credit growth and a recovery in the housing market can potentially spark a demand-induced inflation spiral. The excess cash on corporate and bank balance sheets is setting the scene for another inflationary bubble.

The recent uptick in PPI is concerning. CPI was unchanged, while core inflation surprised on the down side and appears to be reasonably well anchored. The recovery is gaining traction but, at the moment, growth concerns are still outweighing inflation worries and the Fed is unlikely to reverse easy monetary policy soon. The Fed's recent statements, all but guaranteeing easy monetary policy until 2014, are positive for risky assets but dollar negative. The Fed will have to strike a fine balance between stimulating the economy through monetary policy while discouraging dollar weakness, inflation and high yields. Emerging markets are battling similar inflationary pressures, while growth is reasonably positive. In the BRICS, Brazil and South Africa have experienced the biggest negative growth shock, while China, India and Russia were less affected. Except for India and South Africa, inflation seems to be easing, giving these central banks room to ease monetary policy. Overall, developing Europe, North-Africa and the Middle East are the most exposed to Europe and are thus expected to mirror the EU cycle, while Latin America and Asian have a reasonable buffer.

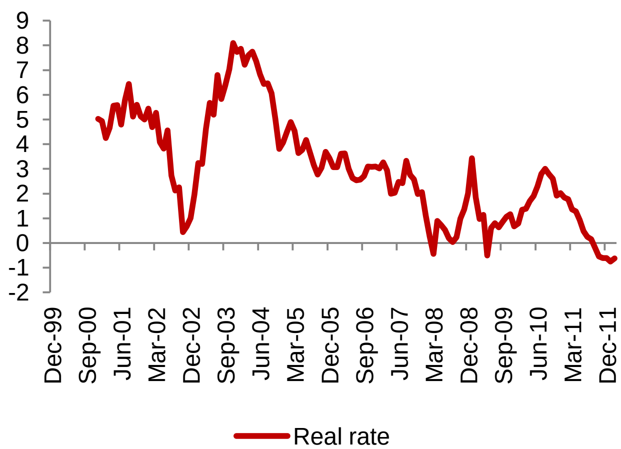
South Africa: Interest rates are on hold but potential inflationary credit growth is the thorn on the SARB's side.

The latest MPC interest rate decision confirms MoM's view that after 6.5% decline in the repo rate, interest rates have reached the floor. The company does not expect any further decreases in the repo rate and believes the next interest rate move will be upwards. MoM's argument rests on the following points:

The economic recovery is gaining traction with the improving global outlook – the SARB has upgraded its 2012 growth forecasts from 2.7% to 3%, while most market analysts are leaning towards 2.7%. GDP growth for 2013 and 2014 is expected to average 4%.
Credit growth is reaccelerating with the unsecured form of credit (credit cards, personal loans and student loans) being the fastest-growing components. The MPC statement revealed that the SARB does not expect this rapid growth in credit to be inflationary. However, a need to investigate the drivers of this credit growth and ongoing monitoring of the potential effect on inflation were mentioned.
Retail sales growth has been reasonably strong and, while the MPC believes inflation is still mainly of a cost-push nature, MoM believes the heightened spending largely driven by credit growth is inflationary and should keep inflation elevated and sticky.
The real rate (the nominal rate 5.5% minus inflation at 6.1%) is negative. A negative real rate reflects extremely easy monetary policy and is one of the

reasons why credit growth is rising quickly. This means that as inflation increases the cost of borrowing in real terms is actually declining. As can be seen from the chart below, the real rate has been declining since 2003 and, in the second quarter of 2011, the real rate reached unprecedented low levels. With inflation expected to average 6.1% in 2012 and rates expected to remain on hold, this implies exceptionally loose monetary policy for the rest of this year, which should be growth supportive.

Real interest rate



There are talks of an interest rate increase towards the end of this year, but as long as the situation in the Eurozone remains fragile, it's hard to argue for a steep increase in interest rates. Notwithstanding, an interest rate increase of about 1% would actually normalise monetary policy. The SARB governor, Gill Marcus, was quoted as saying inflationary pressures are becoming generalised and there are tentative signs that demand pressures are rising. Strong credit growth, negative real rates and robust spending certainly give the SARB enough reasons to increase interest rates and, while its tone was not hawkish, MoM expects the SARB to become more hawkish in coming months as it attempts to manage inflation expectations.

Local markets underperformed global markets as the risk trade weakened towards the end of March. The FTSE/JSE All-Share Total Return Index detracted 1.4%, largely due to a 9% decline in the FTSE/JSE Resources. Strikes, power shortages and safety considerations continue to weigh on the industry. The FTSE/JSE Industrials and Financials returned 0.8% and 1.9% respectively. Exchange rate volatility has declined with the rand trading between R7.45 and R7.78. The rand has strengthened significantly since the beginning of this year and MoM expects further strength on resumption of financial flows into emerging markets like South Africa.

Market indices return summary

	One month	Three months	One year	Three years	Five years
Consumer Price Index			6.12%	5.16%	6.94%
Rand/dollar movement	2.94%	-4.81%	13.59%	-6.93%	1.21%
Rand/euro movement	2.55%	-2.46%	6.51%	-6.82%	1.13%
FTSE/JSE All-Share Index (ALSI)	-1.41%	6.00%	7.53%	21.29%	7.22%
FTSE/JSE Shareholder Weighted Index (SWIX)	0.02%	7.49%	11.62%	22.64%	8.01%
FTSE/JSE Financials Index	2.13%	12.77%	20.19%	24.79%	5.08%
FTSE/JSE Industrials Index	2.60%	10.48%	20.99%	30.25%	13.10%
FTSE/JSE Resources Index	-8.53%	-3.27%	-11.97%	10.61%	2.02%
FTSE/JSE SA Listed Property Index (SAPY)	2.10%	8.03%	20.27%	20.83%	12.69%
BEASSA All Bond Index (ALBI)	0.12%	2.36%	13.17%	10.15%	8.75%
Short-term Fixed Interest Composite Index (SteFI)	0.45%	1.38%	5.66%	6.78%	8.39%

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

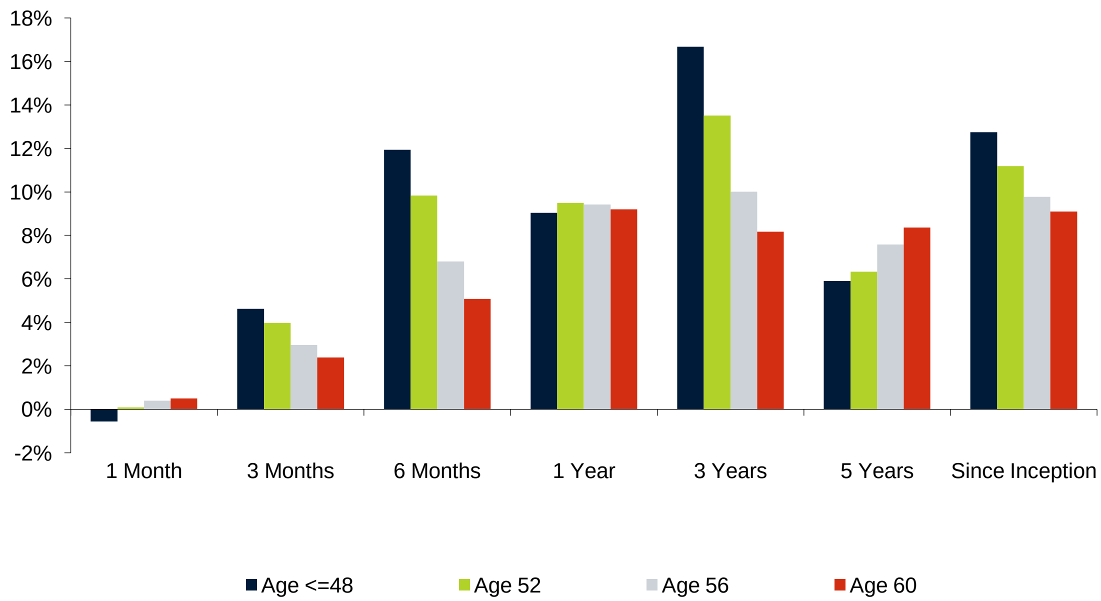
Age	1 month	3 months	6 months	1 year	3 years [1]	5 years [1]	Since Inception [1]
48 and below	-0.56%	4.62%	11.94%	9.03%	16.67%	5.90%	12.74%
49	-0.39%	4.45%	11.41%	9.15%	15.88%	6.00%	12.35%
50	-0.23%	4.29%	10.88%	9.26%	15.09%	6.11%	11.97%
51	-0.07%	4.13%	10.36%	9.38%	14.30%	6.22%	11.58%
52	0.09%	3.97%	9.83%	9.49%	13.51%	6.33%	11.19%
53	0.25%	3.81%	9.30%	9.61%	12.72%	6.44%	10.80%
54	0.30%	3.53%	8.46%	9.53%	11.81%	6.82%	10.46%
55	0.35%	3.24%	7.61%	9.44%	10.90%	7.20%	10.12%
56	0.40%	2.96%	6.79%	9.42%	10.01%	7.58%	9.77%
57	0.45%	2.68%	5.95%	9.34%	9.09%	7.96%	9.43%
58	0.42%	2.47%	5.37%	9.17%	8.56%	8.29%	9.28%
59	0.50%	2.39%	5.08%	9.19%	8.16%	8.35%	9.09%
60	0.50%	2.39%	5.08%	9.19%	8.16%	8.35%	9.09%

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]	-2.06%	5.30%	14.14%	6.68%	20.89%	7.37%	17.56%
GOVI	0.11%	2.29%	5.86%	13.02%	9.99%	8.73%	8.66%
MSCI[4]	4.21%	5.94%	14.05%	13.74%	11.95%	0.31%	7.56%
MOM CAP+ [3]	0.73%	2.69%	5.24%	7.73%	7.16%	7.91%	9.49%
MM	0.53%	1.77%	3.53%	7.12%	7.93%	9.47%	9.06%

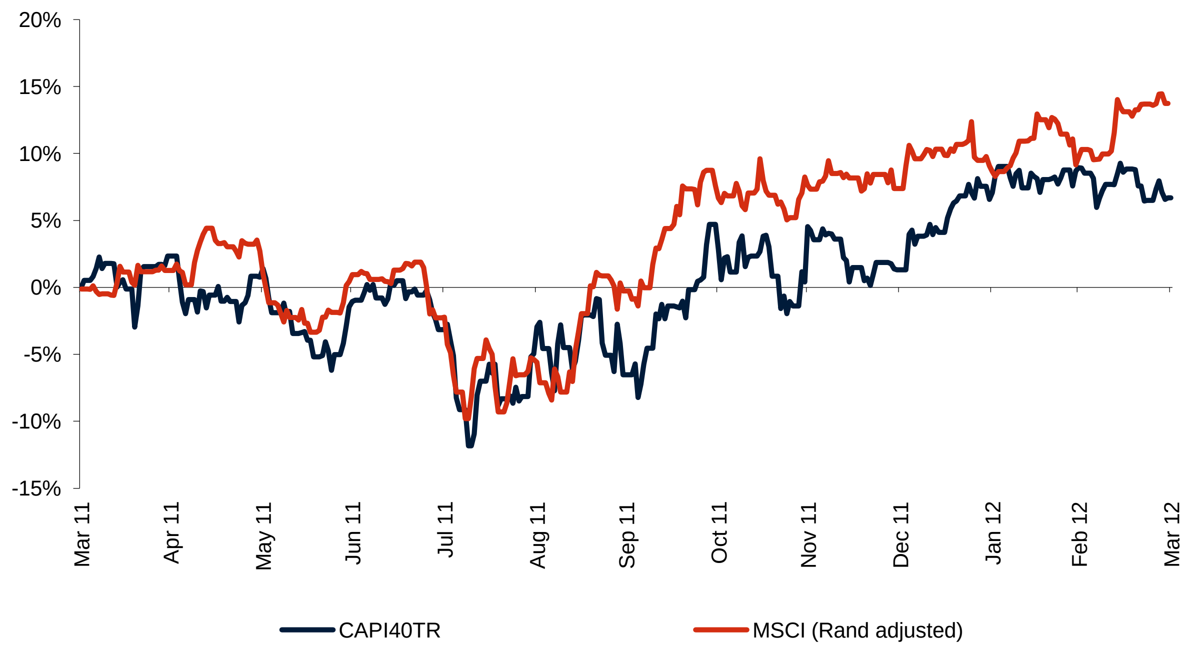
2 The CAPI40 portfolio was replaced by the CAPI40TR portfolio on 1 June 2009. The returns in this table reflects the CAPI40TR index returns

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

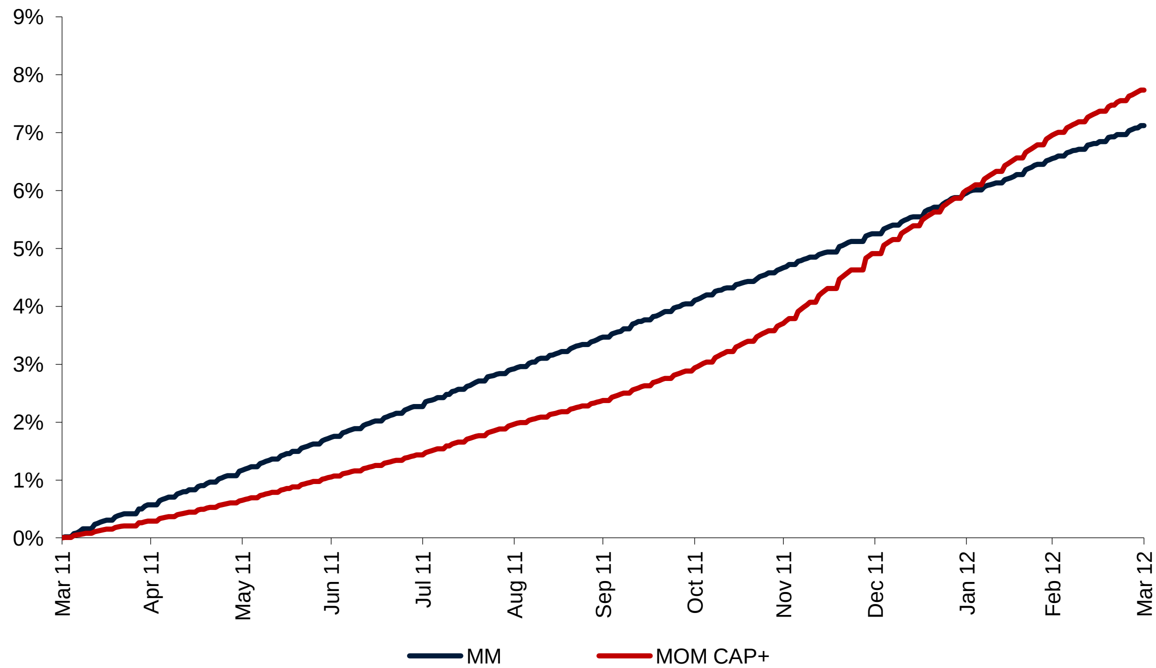
Momentum Passive Life Stage Portfolios

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 March 2012:

Portfolio	Pension Fund	Provident Fund
CAPI40TR	99,680,513.12	63,866,756.19
GOVI	45,728,810.64	36,379,951.61
MSCI	28,500,447.09	19,549,467.70
MM	13,186,070.86	11,738,406.81
MOM CAP +	20,304,418.16	24,714,614.16
TOTAL	**207,400,259.87**	**156,249,196.47**

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