

Quarterly Investment Report

Columbus Retirement Fund (Pension and Provident Sections)

Momentum Life Stages Passive Portfolio Range

30 September 2012



Economic and market commentary

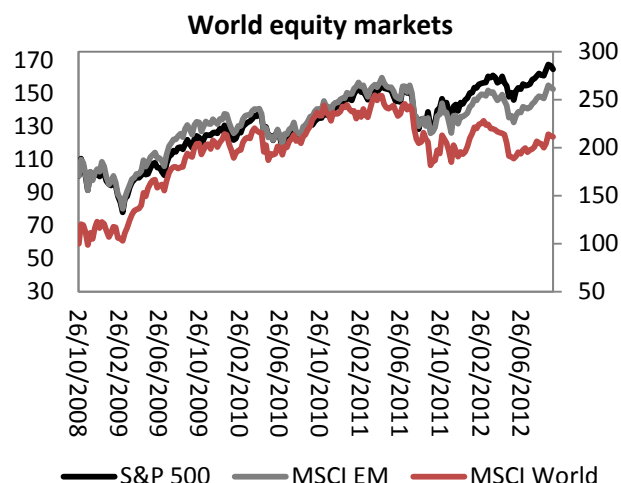
Global markets

Global markets began the third quarter on a strong footing, supported by the European Central Bank's (ECB) president Mario Draghi's comment that the ECB will do everything possible to save the euro. The confidence boost was, however, short lived and overall market returns were volatile. Although the immediate risk of a breakup of the monetary union subsided, the lack of growth and fiscal policy concerns continued to weigh markets down. Amidst the uncertainty and concerns over the US fiscal cliff, global markets sustained their biggest post-crisis gains during the month, as the Fed announced plans for quantitative easing three (QE3) and the ECB delivered the long-awaited bond purchasing programme code named outright monetary transactions (OMT). While eurozone governments are yet to finalise the details of a fully integrated monetary and fiscal union, the announcement of OMT helped to settle conditions in the sovereign debt markets. OMT is yet to be implemented and actually amounts to a conditional bailout, accompanied by specific austerity measures. However, the news was extremely positive for markets and this contributed to the sharp contraction in Spanish sovereign debt spreads, which have fallen to below 4% from an average of about 7% in the last few months. While the details still need to be fleshed out and no particular country has applied for a bailout under OMT, this has improved investor confidence.

The S&P 500 has recovered most of its losses sustained during the 2008 crisis. QE3 in particular gave risky investments a big lift, as the excess liquidity hit emerging markets (EM) like South Africa and some of the BRICS countries (Brazil, Russia, India, China and South Africa). For the year to date, South Africa has recorded record inflows into its bond market, totalling R76 billion. In contrast, there were net outflows from equities of R1.4 billion in August, while in September, outflows of R1.1 billion have been recorded. South Africa remains a beneficiary of excess global liquidity and in the short to medium term, Manager of Managers expects this to provide a strong, albeit temporary, underpin to local markets.

Largely buoyed by rising investor confidence, globally and locally, the Johannesburg Stock Exchange tested new highs during the month. The Barclays' Global Investor Confidence Survey

showed an increase in the number of investors willing to assume risk. The results of the global survey are complemented with the Momentum Investor Confidence Index (Momentum ICI), which showed local investor confidence near historical peaks during the month.



Markets performed well for the quarter, ending the third quarter at or near all-time highs. Looking at the returns from October 2008, the previous cyclical bottom, the S&P 500 was 65% higher than the bottom of the market in 2008. The MSCI EM rose 52% from the trough in October 2008, while the MSCI developed markets (DM) outperformed the S&P 500 and the MSCI EM, increasing by 113% for the same period. On an annualised percentage basis, the S&P 500, the MSCI DM and MSCI EM returned 16%, 28% and 13% respectively for the period.

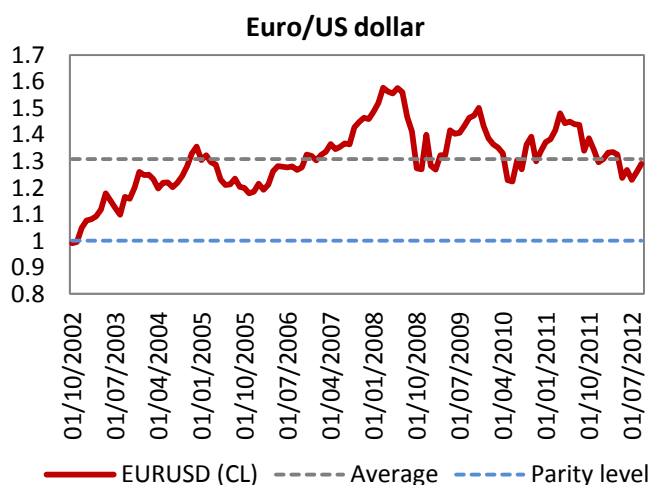
In what is undoubtedly one of the strongest months of this year, the S&P 500 returned 2.4% for the month. Mainly reflecting the depressed outlook in those markets, the FTSE and the Nikkei returned 0.9% and 0.3% respectively. The MSCI EM outperformed major global benchmarks, returning 5.8%, while the MSCI DM returned 2.5%.

Outright monetary transactions (OMT)

OMT is the ECB's big plan to save the euro, but it lacks fire power and might actually only exist in name without ever being implemented. Some economists and analysts argued that the Fed's QE would have been more effective than OMT, as OMT's conditionality amounts to targeted austerity.

OMT should not be confused with QE. QE is an expansionary monetary policy that involves the central bank directly purchasing bonds and other debt securities from banks. This directly injects liquidity into the system. With the excess liquidity, banks are expected to expand lending on the back of the increase in their reserves. This stimulates the economy, as credit expansion and money supply increase lead to a rise in consumer expenditure. QE, as it has been implemented in the US, is unconditional – the central bank buys all eligible securities and injects liquidity in the system. As the price of bonds and other debt investments increase, the interest rates or yields on these investments decline. Thus, QE achieves its second objective of lowering interest rates.

OMT is a different policy altogether. Eligible countries will have to apply for assistance under OMT, as they do not qualify automatically. If approval for assistance under this programme is granted, there are specific conditions each country has to meet. OMT is conditional on meeting certain deficits and budget targets. These conditions are similar to the fiscal austerity measures required under the initial bailouts of Greece, Portugal and Ireland. The expansionary monetary policy is cancelled out by contractionary fiscal policy and the economy is not stimulated. So, periphery countries are left battling high debt repayments, contractionary fiscal policy, a strong euro and deflationary pressures. In previous publications and presentations, Manager of Managers has argued that at the range of \$1.30 to \$1.20, the euro is too strong. A euro below \$1.20 and, at best, at parity with the dollar, is what is needed to stimulate the Eurozone economy. The chart below shows the euro/US dollar history compared with the long-term average and parity levels.



The currency last traded at parity in 2002 and has averaged \$1.30 for the period. The level of the currency is likely to become more and more important, as pressure increases on the periphery to implement austerity measures. The ECB needs a policy that will weaken the euro and stimulate the economy while still monitoring fiscal risks. QE seems to fit the bill – the question is whether the ECB will recognise this before it's too late.

South Africa

The South African economy has been hit by a spate of strikes and labour unrest, which began at Lonmin Marikana mine, but has since spread to Anglo Platinum, Anglo Gold and Goldfields. Anglo Gold estimates that 35,000 workers around its SA operations are on strike. A worrying trend is the recent above-inflation wage settlements in the public sector and now in the mining sector in the wake of the crisis at Lonmin. The wage settlement of between 11% and 22% at Lonmin has set a dangerous precedent, which has incited similar demands from other companies and sectors. The South African Transport Workers and Allied Unions (Satawu) has also been on strike for months demanding wage increases of up to 12%. These high wage settlements are likely to come at the expense of jobs, as seen at Lonmin, where it was reported that management has cancelled a R65 million contract with Murray and Roberts, which will affect 1,200 contracted workers. The output losses due to the strikes and production interruptions are expected to have a severe negative effect on GDP in the third quarter of 2012. The contraction in the mining sector could exceed the 19% contraction recorded in the first quarter of 2012.

The South African Reserve Bank Monetary Policy Committee (MPC) kept interest rates on hold, citing risks to the inflation outlook from food and energy prices and a depreciation in the US dollar/rand exchange rate. The MPC stated that inflation is likely to have bottomed at 4.9% in July. Inflation is expected to average 5.3% in the third quarter of 2012, 5.2% in 2013 and to remain flat throughout the rest of the forecast period. Interest rate markets sold off on the news but soon settled back near previous levels. The bond market continues to benefit from foreign inflows, while the currency holds up reasonably well despite the large current account deficits.

Negative sentiment and rating downgrades notwithstanding the FTSE/JSE All-Share total return Index returned 1.6% for the month. The

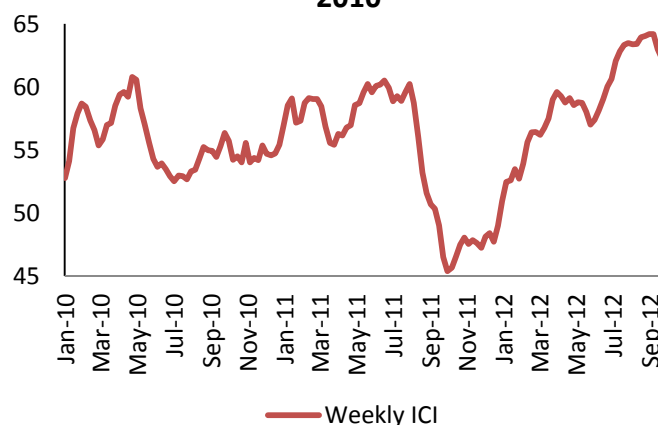
FTSE/JSE Resource sector rebounded strongly from depressed levels at the height of the mining violence and strike activity to gain 4.8% for the month. The FTSE/JSE Financials and Industrials Indices detracted from positive returns, both recording negative 0.5%. Bonds gained 0.9% for the month, while the rand gained 1% against the dollar.

Momentum Investor Confidence Index (Momentum ICI)

Investor confidence continued to decline, falling to 62 from 64 at the end of August. Investor confidence above 50 is still reasonably robust. The decline in investor confidence can be mainly attributed to the moderation in monthly net foreign portfolio flows during the past month. Total net portfolio inflows averaged R10.4 billion per month from February to July 2012. However, there has been a marked slowdown of inflows to R3.3 billion in August and R3.7 billion in September. Year-to-date foreign inflows of R76 billion into the bond market are significantly higher than the R25 billion recorded in 2011. Going forward, it will be difficult for local markets to sustain this trend and, a further

moderation in investor confidence is possible. Should Eurozone countries find a resolution to the crisis, improvement in other risk indicators could counter this.

Weekly Momentum ICI from January 2010



Market indices return summary

	One month	Three months	One year	Three years	Five years
Consumer Price Index			4.99%	4.61%	6.38%
Rand/dollar movement	-2.12%	0.92%	2.99%	2.87%	3.68%
Rand/euro movement	-0.08%	2.31%	-1.61%	-1.42%	1.59%
FTSE/JSE All-Share Index (ALSI)	1.64%	7.26%	24.43%	16.01%	6.64%
FTSE/JSE Shareholder Weighted Index (SWIX)	1.20%	7.26%	26.96%	17.21%	8.42%
FTSE/JSE Financials Index	0.25%	6.52%	36.53%	18.76%	8.09%
FTSE/JSE Industrials Index	-0.12%	10.48%	36.70%	23.62%	14.17%
FTSE/JSE Resources Index	5.68%	2.92%	2.98%	5.56%	-1.98%
FTSE/JSE SA Listed Property Index (SAPY)	-3.27%	10.98%	37.17%	24.78%	15.16%
BEASSA All Bond Index (ALBI)	0.93%	5.00%	17.04%	12.66%	10.57%
Short-term Fixed Interest Composite Index (SteFI)	0.40%	1.35%	5.61%	6.24%	8.02%

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	CAP40TR - 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	CAP40 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

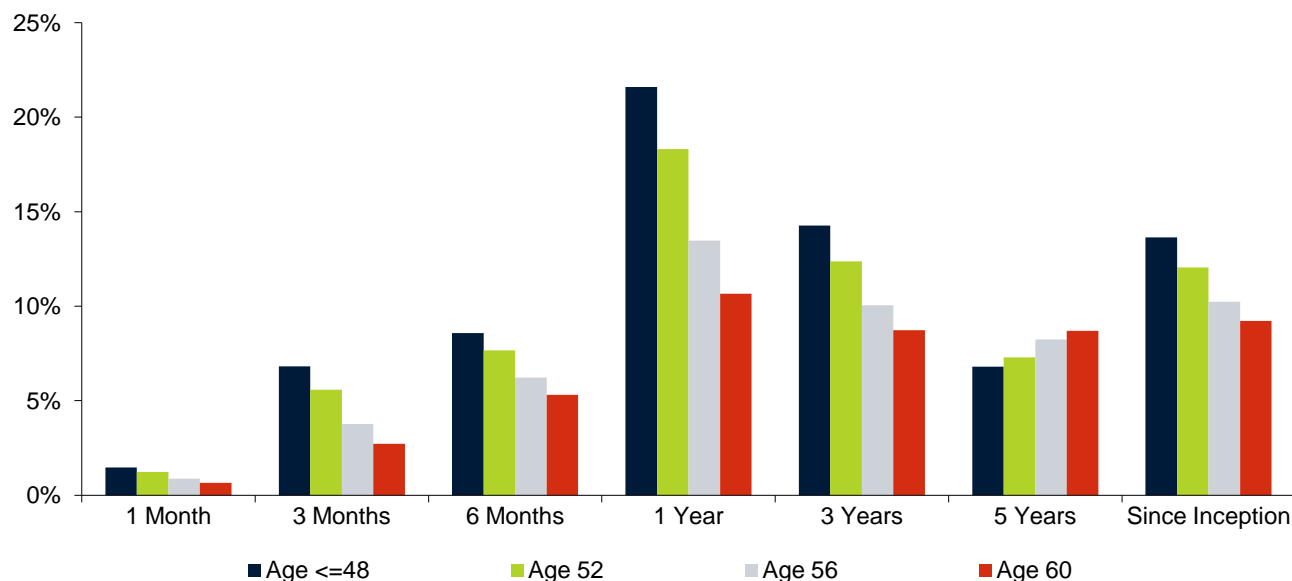
Age	1 month	3 months	6 months	1 year	3 years ¹	5 years ¹	Since Inception ¹
48 and below	1.47%	6.82%	8.58%	21.60%	14.27%	6.80%	13.65%
49	1.41%	6.51%	8.35%	20.78%	13.80%	6.94%	13.26%
50	1.35%	6.20%	8.12%	19.96%	13.33%	7.08%	12.87%
51	1.29%	5.89%	7.89%	19.13%	12.85%	7.19%	12.46%
52	1.23%	5.58%	7.66%	18.31%	12.37%	7.30%	12.04%
53	1.17%	5.28%	7.43%	17.48%	11.88%	7.39%	11.61%
54	1.07%	4.76%	7.01%	16.11%	11.26%	7.69%	11.17%
55	0.97%	4.25%	6.58%	14.74%	10.64%	7.97%	10.71%
56	0.87%	3.78%	6.22%	13.47%	10.06%	8.25%	10.24%
57	0.77%	3.27%	5.80%	12.11%	9.42%	8.49%	9.74%
58	0.70%	2.90%	5.45%	11.13%	9.01%	8.69%	9.48%
59	0.66%	2.73%	5.30%	10.66%	8.73%	8.69%	9.23%
60	0.66%	2.73%	5.30%	10.66%	8.73%	8.69%	9.23%

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	1.65%	7.50%	8.12%	23.41%	15.81%	7.00%	17.51%
GOVI	0.91%	4.84%	10.20%	16.66%	12.44%	10.49%	9.48%
MSCI ⁴	1.85%	8.49%	9.79%	25.21%	11.11%	1.55%	8.39%
MOM CAP+ ³	0.59%	1.91%	3.20%	8.61%	6.97%	7.24%	9.28%
MM	0.48%	1.60%	3.34%	6.99%	7.49%	9.16%	8.91%

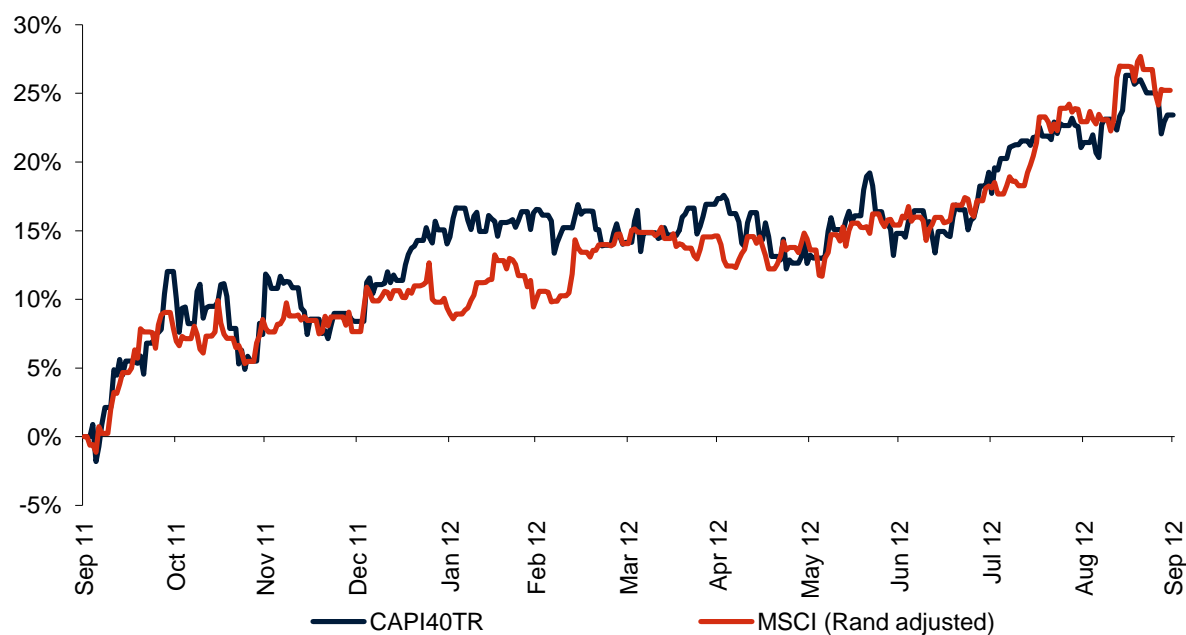
² The CAPI40 portfolio was replaced by the CAPI40TR portfolio on 1 June 2009. The returns in this table reflects the CAPI40TR index returns

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

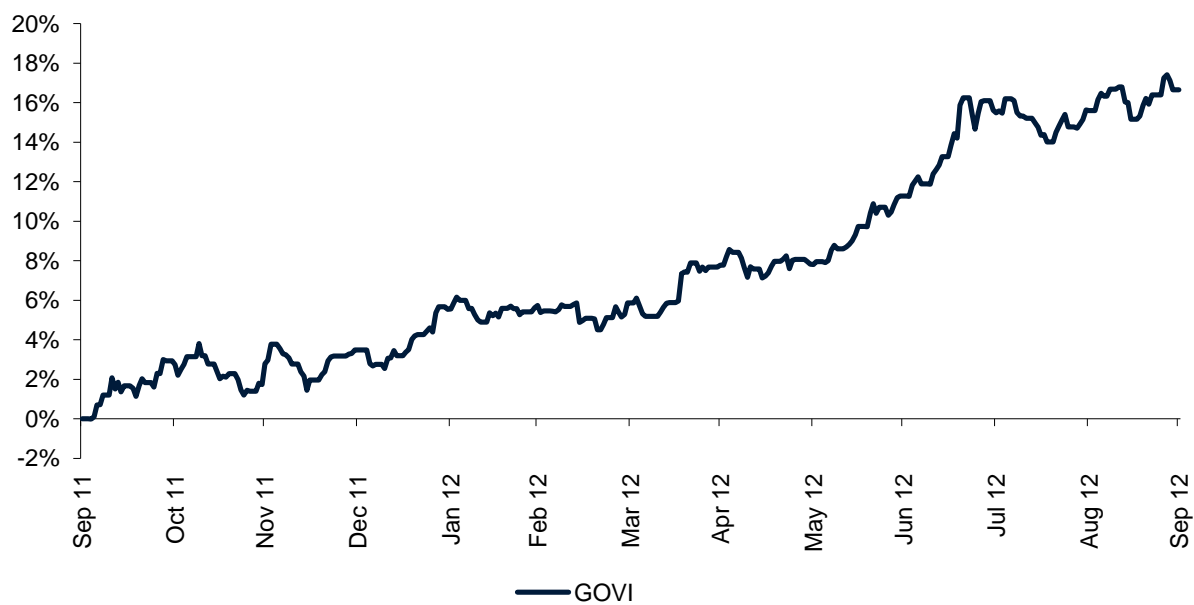
⁴ Rand adjusted

Momentum Passive Life Stage Portfolios

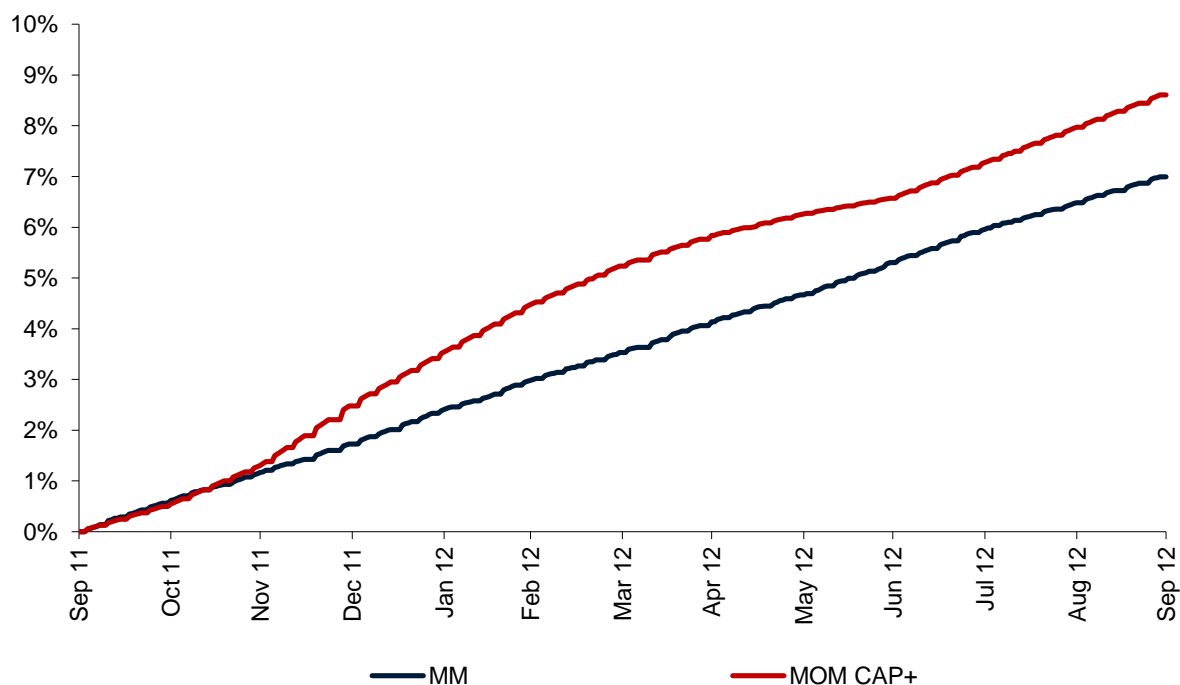
1 year cumulative returns: Equity



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 September 2012:

Portfolio	Pension Fund	Provident Fund
CAP140TR	106,753,642.02	67,668,894.74
GOVI	51,275,230.87	40,893,971.29
MSCI	30,948,179.58	20,980,819.31
MM	14,362,202.17	12,923,605.60
MOM CAP +	23,112,787.60	27,697,571.59
TOTAL	226,452,042.24	170,164,862.53



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