

Momentum Positive Return Fund

Capital preservation with cautious equity exposure





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Introduction

The Momentum Positive Return Fund is a Collective Investment Scheme (a Unit Trust) which solves for the best of both worlds. If you intend to make consistent positive growth when the financial markets are doing well, and you do not want to be fully exposed to the market if it goes down, this fund may be ideal for you.

What are the fund's objectives?

The fund has two distinct objectives. Firstly, to preserve your investment capital. Capital preservation is a key investment principle. Preserving capital ensures that you do not lose the benefits of compounding. For example if markets drop 50%, an investment would need to grow by 100% to bounce back to its original value. Capital preservation is therefore an extremely important investment principle. This fund aims to preserve capital by having no negative returns over a rolling 12-month period.

Secondly, for your investment to achieve "real returns" i.e. returns that beat inflation, you need equity-type exposure. In an uncertain and highly volatile economic

environment, cash alone is not able to provide returns that keep up with inflation. To achieve real returns you typically need to take on higher risk than cash. This fund adds protected equity exposure so that you have exposure to equities but with protection built in should equities perform poorly. This prevents your investment from being fully exposed to equity volatility.

The combination of capital preservation and cautious equity exposure can help you achieve your investment goals.

Why invest in the Momentum Positive Return Fund?

Having worked hard to accumulate savings, the last thing you want to do is put your capital at risk. Now you have the opportunity to grow your investment steadily in rising markets through protected equity exposure. The Momentum Positive Return Fund provides an opportunity to invest in a fund that will preserve your investment capital and give you growth when markets rise.

In essence, you would invest in this fund to:

- Preserve your capital.
- Grow your capital in real terms in the medium and long term.
- Seek returns which are less correlated to the general equity market.
- Diversify your overall portfolio through the protected equity characteristics of the fund.

The fund's strategy

The aim of the fund is to achieve consistent positive returns over the short term by investing in a mix of interest bearing and equity-type assets. At the same time, the fund seeks to preserve capital against the possibility that the equity-type assets might reduce in value. Over the long term, the fund aims to achieve consistent real returns that exceed inflation.



25% Cash | 75% Protective Equity

Using the fund in portfolio construction

The Momentum Positive Return Fund has a conservative approach to investing for growth and in growth assets and aims to protect invested capital by producing no negative returns over a rolling 12-month term. This means that the fund produces stable, steady returns and also does not have to significantly outperform in order to recoup losses that may be experienced by other funds exposed to growth assets.

The fund could be considered as part of a “core and explore” approach to portfolio construction and could form a large part of an investor’s portfolio – with exposure varying depending on the risk / return

objectives of each investor. Between 40% to 60% of an investor’s portfolio could be allocated to the fund, for example, with the remainder of the portfolio allocated to specific equity funds, flexible or even specialized funds. This approach could even include offshore exposure in the portfolio construction phase.

The fund is ideal for investor’s looking for stable, protected growth within an investment portfolio – especially during times when markets display volatility and instability, and yields on conservative, safe investments like money market funds are very low – near or at the bottom of the interest rate cycle.

What makes this fund different and compelling?

In the financial investment environment, you will find many funds with “active long only” mandates. The asset manager of such a fund may have a very aggressive approach to buying equities. If the equity market falls, the value of the fund goes down by the same amount. With the Momentum Positive Return Fund, we take a conservative view on equities by buying protected equity exposure. The result is a fund that is exposed to equities but that has capital preservation built in.

Who manages the fund?

This fund is managed by Rand Merchant Bank (RMB). RMB are experts in matching liabilities to assets when structuring investments. RMB applies their years of investment knowledge and trading experience to buy assets that preserve capital within the fund. As an investment bank, they are the trading source for these types of assets. Momentum Wealth is going to the source of the trading for their insight and expertise, which can be applied to this fund.

What is unique about this fund?

The fund aims to achieve consistent absolute (positive) returns over the short term by investing in a mix of interest bearing and equity type assets, and at the same time buying protection against the possibility that the equity type assets might reduce in value. This means that the fund has a very small likelihood of declining in value over any 12-month rolling period. What this means is that the effects of compounding negative return periods are largely negated.

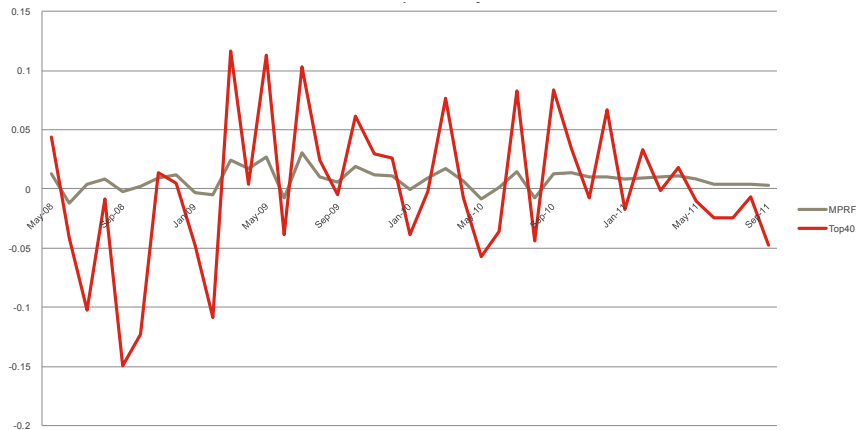


The two graphs on the right illustrate the effect that guarding against negative returns has on one's portfolio.

In the first graph the red line represents the actual month-on-month returns of the FTSE/JSE Africa Top 40 Index over the past three years. The grey line illustrates the simulated back-tested returns of the Momentum Positive Return Fund over the same period. The Momentum Positive Return Fund fluctuates much less than the Top 40 Index, which demonstrates the protected equity holdings in the fund.

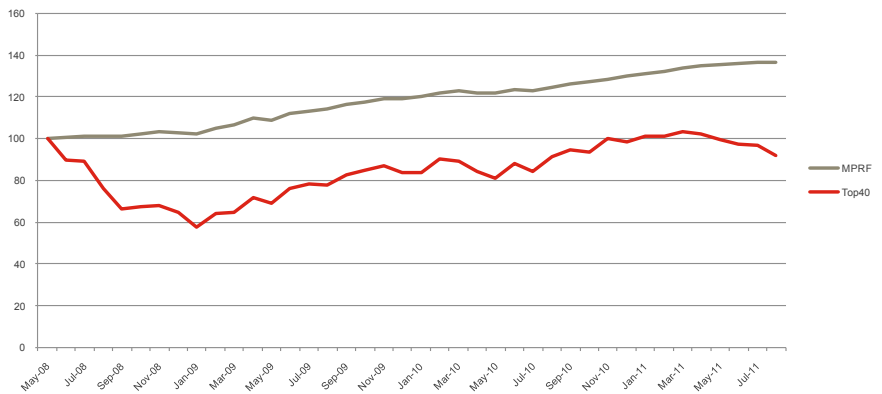
The next graph shows that by reducing the negative periods that the fund experiences (using a protected equity strategy), the small absolute positive returns are compounded and grown consistently. Over very volatile periods with largely sideways movements in market indices, compounding the absolute positive returns leads to significant outperformance of the fund versus the market index.

MPRF vs Top40 Monthly Returns



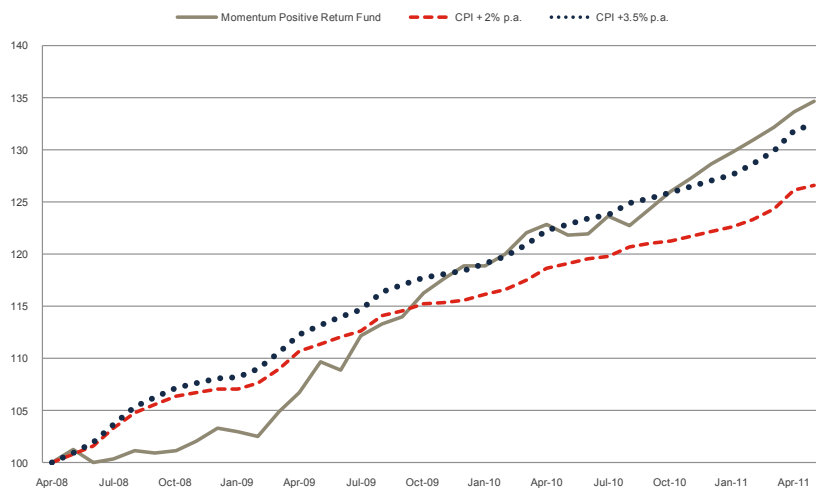
Source: Market data from INET, simulated portfolio returns from RMB

MPRF vs Top40 Index Total Returns



Source: Market data from INET, simulated portfolio returns from RMB

Back-tested returns over 36-months from 01 April 2008 to 30 April 2011



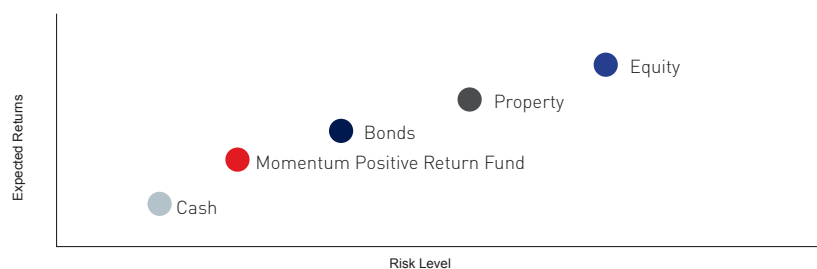
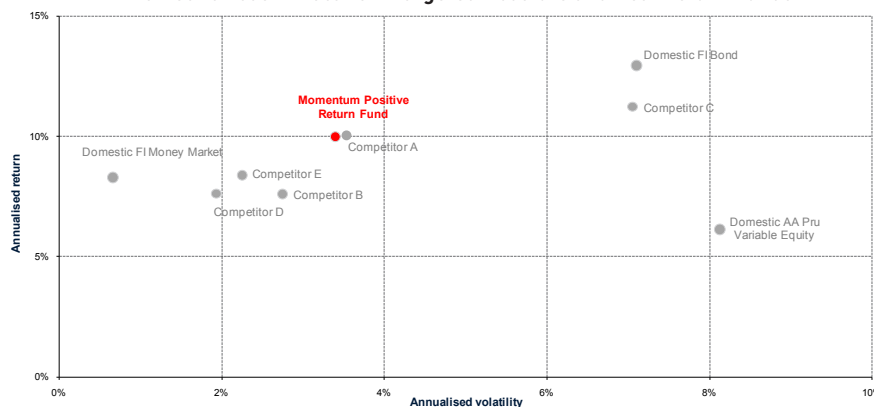
Back-tested returns from 30 April 2008 to 31 April 2011	1 Year	2 Years (Annualised)	3 Years (Annualised)
Momentum Positive Return Fund	10.46%	11.24%	10.43%
CPI +2% p.a.	5.95%	6.33%	7.60%
CPI +3.5% p.a.	7.40%	7.85%	9.15%

Back-testing methodology

Substantial back testing of the fund's methodology has been done, using a pure mathematical and mechanistic approach. The fund's benchmark is CPI +2% p.a. over a rolling 12-month basis, and CPI +3.5% over a rolling 36-month period. Over this period, the back-tested data shows that the fund outperformed its longer term benchmark (over the 36-month period), as well as its shorter-term benchmark.

Looking at the risk versus return profile of the fund against other similar funds within the Targeted Absolute Real Return category as well as other popular CIS categories, the Momentum Positive Return Fund is positioned optimally to achieve its target return objectives.

Domestic Asset Allocation: Targeted Absolute and Real Return Funds



The fund provides a clear advantage over money market type funds, and better risk adjusted returns than bond-type funds.

Plotting the above risk return profile on an efficient frontier, the fund would plot just above cash and below bonds.

The back-tested data for the Momentum Positive Return Fund was derived by utilising the actual trading strategies of the fund over actual market data for the back-tested period. The back-tested performance of the fund is no indication of how the fund will perform in future.

Source: Market data from INET, simulated portfolio returns from RMB



Considerations for investing

Summarised below are key considerations to assist you in making a decision of whether to invest in the Momentum Positive Return Fund. These considerations, and the suitability of the Momentum Positive Return Fund, must be discussed with your accredited financial adviser before deciding to invest.

Yes, I am interested in this investment because:

- I am looking for capital preservation.
- I am looking for an investment with cautious equity exposure.
- I do not require access to my money during the first year of investment.
- I require an investment which is relatively uncorrelated to the general equity market.
- I am looking for an investment with steady positive growth and protection in a falling market.

No, this investment may not suit me because:

- I prefer having no capital preservation and full participation in the equity market.
- I require access to my investment during the first year of investment.

How to invest

Step 1

Investing in the Momentum Positive Return Fund is simple. Before investing, you should read this brochure, the relevant product brochures and the Standard Terms and Conditions carefully to ensure that the benefits and the associated risks of this investment are understood. If you are unsure of anything, or in any doubt about the suitability of the investment for your individual circumstances we recommend that you consult your accredited financial adviser.

Step 2

You decide how much you would like to invest, subject to the product minimum of R50 000. If you have an existing Momentum Wealth product, the investment minimum of R500 for a fund applies.

Step 3

When you are ready to proceed with an investment, you should complete and sign the applicable Wealth Application Form. The signed forms must be submitted to Momentum through an accredited financial adviser.

Fees and charges

The following section outlines the fees and charges associated with an investment in the Momentum Positive Return Fund.

Fees applicable to the investment (exclusive of VAT)

Fund Fees : Initial Fee	0.00%
Fund Fees : Ongoing	1.25% per annum
Fund Fees : Performance Fee	10% of the returns in excess of CPI on a rolling 12-month basis.

Your questions answered

- **How does the fund provide capital preservation?**

In order to provide maximum capital preservation, the fund trades instruments that provide growth while limiting potential losses. Various trading strategies are used including derivative trading strategies to buy protection against equities. The fund buys covered call spreads using ALSI futures to provide protection and investing in cash to earn interest that covers the expenses related to these trading strategies.

- **What is the difference between a fund that targets a real return (like inflation) and a fund that targets cash returns?**

Funds that target inflation as a return objective aim to provide real capital growth i.e. they aim to keep your buying power constant over time and grow your capital in real terms. A fund that targets a cash-like return, doesn't invest in assets like equities or inflation linked bonds, which are needed to provide a real return i.e. a return that beats inflation. A fund that targets cash returns invests in short-term instruments that offer a yield that is in excess of what you would typically expect in a money market fund. A fund that targets inflation will have capital appreciation while a fund that targets a cash return will receive interest income that gets paid to investors or reinvested.

- **What risk will I take on to get more than cash?**

In order to deliver a better than cash return, the fund buys equity holdings. However, in order to provide protection for investors in the event of large downward market swings, the fund also buys protection or protected equity positions. The protected equity positions provide consistent, steady growth in the fund over time.

- **What happens when markets are doing nothing?**

Because of the strategies followed within the fund, if markets remain flat the fund will typically earn some type of return - whether it's a straight cash return from the portion of the fund invested in cash, or a return that is generated from locking in trading profits from protected equity strategies.

- **What happens when markets are falling?**

The fund's aim is to achieve consistent incremental positive returns over a short term (rolling 12-month period). The fund uses a protected equity trading approach which aims to protect against large downward market swings. As a result, when markets are falling, the fund can be expected to perform like a typical absolute positive return fund and make small positive growth over the short to medium term.

- **What happens when markets are doing well?**

The fund aims for steady, consistent growth on a real return basis. If there are sudden market movements, such as a very large market increase, the fund wouldn't typically be exposed to the full market increase due to its protected equity positions. Rather, the fund aims to make consistent growth by being exposed to some equity and by ensuring there is a level of protection against large downward market movements.

- **What would happen if I remain in cash and do not invest in this fund?**

Your capital may lose its real purchasing power, and your level of financial independence may deteriorate.

- **How can my investment be tracked?**

At the end of each calendar quarter a fact sheet is prepared, which provides an update on the progress of your investment. Alternatively, should you wish to get the latest market value on the Momentum Positive Return fund contact your accredited financial adviser or call the Momentum Wealth Service Centre on 0860 546 533. You may also register online at www.momentum.co.za for quick and easy access regarding your investment.

This brochure explains the essential features applicable to the Momentum Positive Return fund. It is not a standalone document and should be read in conjunction with the relevant product brochures and the Standard Terms and Conditions.



Disclaimer

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Past performance is not necessarily indicative of future performance. An investor whose reference currency differs from that in which the fund is denominated may be subject to exchange rate movements, which may cause fluctuations in the value of their investments. In addition, investments involving exposure to a currency other than that in which the fund is denominated may also cause values to fluctuate.

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Momentum Wealth is an authorised financial services provider (FSP 657)

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