momentum

investments

RSA Portfolios Investment Report

for the fourth quarter of 2014

GOVSERV SA

Contents

Market returns and commentary

SA equity markets

Index Name	One month	Three months	Six months	Nine months	One year	Two years ann	Three years ann
FTSE/JSE All Share (ALSI)	-0.19%	1.36%	-0.80%	6.32%	10.88%	16.04%	19.48%
FTSE/JSE All Share (SWIX)	0.28%	3.75%	3.24%	10.16%	15.42%	18.04%	21.61%
FTSE/JSE Resources (RESI)	-4.66%	-19.31%	-25.07%	-22.89%	-14.74%	-7.03%	-3.78%
FTSE/JSE Financials (FINI)	0.82%	10.84%	11.29%	20.02%	27.28%	23.12%	27.92%
FTSE/JSE Industrials (INDI)	0.99%	6.97%	6.22%	15.84%	16.77%	25.53%	30.41%
FTSE/JSE Top 40	-0.49%	0.01%	-2.86%	4.31%	9.17%	15.77%	19.13%
FTSE/JSE Mid Caps	1.15%	8.82%	10.84%	17.53%	19.62%	16.26%	20.51%
FTSE/JSE Small Caps	1.80%	6.56%	8.65%	15.31%	20.57%	23.41%	25.23%
FTSE/JSE Gold Mining	7.56%	-9.35%	-20.57%	-20.43%	13.45%	-28.23%	-25.11%

The FTSE/JSE All-Share Index (ALSI) returned 1.4% in rand terms for the fourth quarter of 2014, a slight improvement on the previous quarter's negative return of -2.1%. For the full year ALSI delivered 10.9%, with the FTSE/JSE Shareholder-Weighted Index (SWIX), Momentum Investment Consulting's preferred benchmark, delivering 15.4%. Financials and Industrials were positive contributors, returning 10.8% and 7.0% respectively for the quarter. These were offset by a poor performing Resources sector, down 19.3% for the fourth quarter.

Within resources, the coal and general miners were down 19% each over the quarter to December 2014, while precious metal miners (gold and platinum) delivered -9.4% and -9.2% respectively. Sentiment towards resource stocks was poor in 2014 due to low commodity prices and a slowing Chinese economy. Major platinum producing companies were affected by the five-month platinum strike action during the early parts of 2014, contributing to them being the worst performing stocks on the stock exchange. The oil & gas sector was down 13.1% this year, with Sasol declining 28% over the last quarter on the back of the oil excess supply and OPEC's decision to maintain its production quota.

Within industrials, fixed line telecommunications was the best-performing sector again this quarter, gaining 28.1%, followed by media (+21.6%) and food and drug retailers (20.3%). Industrial metals (-14.8%) and construction & materials (-13.2%) were amongst the worst-performing industries.

Within the financial sector, banks +15.8%, was the best performing industry, while life insurers delivered 7.0%.

FTSE/JSE Mid Cap shares (+8.8%) and FTSE/JSE Small Cap shares (+6.6%) performed well for the quarter, while the return from the FTSE/JSE Top 40 index was flat. For the one-year period, FTSE/JSE Mid-Caps and Small Caps were ahead by 20%, with the FTSE/JSE Top 40 lagging with 9.2% for the one-year period to December 2014.

Fixed interest and property

Index Name	One month	Three months	Six months	Nine months	One year	Two years ann	Three years ann
STEFI Composite Index	0.52%	1.55%	3.07%	4.53%	5.90%	5.54%	5.54%
All Bond Index	-1.55%	4.25%	6.56%	9.17%	10.15%	5.28%	8.74%
ALBI 1 - 3 yr	-0.48%	2.45%	3.63%	5.47%	6.23%	5.31%	6.31%
ALBI 3 - 7 yr	-1.36%	3.26%	5.34%	8.44%	7.90%	4.63%	7.55%
ALBI 7 - 12 yr	-1.99%	4.07%	5.98%	9.09%	8.30%	3.96%	8.56%
ALBI 12 + yr	-1.71%	5.35%	8.00%	10.25%	12.91%	5.90%	10.03%
SA Govt Inf-Link Bond Index	-0.13%	2.24%	3.28%	9.32%	11.15%	5.84%	10.17%
Inflation	0.00%	0.18%	1.65%	3.63%	5.80%	5.56%	5.57%
SA Listed Property	1.11%	11.08%	19.10%	24.39%	26.64%	17.16%	23.10%
SA Capped Property	1.28%	10.23%	17.52%	24.68%	26.73%	20.07%	24.93%

2014 proved to be quite a challenging year for fixed income managers. At the beginning of the year, the SA bond market experienced one of the worst sell offs in recent history. The rand depreciated by 6.5% in January, as the market tried to make sense of the implications of US tapering. The rand weakness coupled with SA's twin deficit dilemma forced the Monetary Policy Committee (MPC) to increase interest rates by 0.75% during the year.

Local economic fundamentals worsened during the year, which led to gross domestic product growth expectations being revised downwards. This placed the MPC in quite a dilemma, as it could no longer increase the repo rate. During the latter half of the year, the dramatic collapse in commodity prices (specifically oil) provided the MPC with enough reason to keep interest rates on hold. The lower inflation outlook together with renewed interest in emerging market bonds pushed bond yields lower. The SA bond market eventually posted a respectable 10.2% return for the calendar year. This return was about 4% higher than money market returns and marginally lower than inflation-linked bond returns. Listed property, however, was the star-performing asset class during 2014, with a return of 26.6%.

Looking ahead, the outlook of bonds and fixed property is quite dependent on the Fed's rate decision. Our bond market may well be supported by the ECB quantitative easing measures and the benign inflation outlook over the short term. However the risks (twin deficits, poor growth outlook and possible credit rating downgrades) to bond yields remain in place.

Global markets and currencies

Index Name	One month	Three months	Six months	Nine months	One year	Two years ann	Three years ann
Dollar / Rand	3.64%	1.42%	7.27%	8.17%	9.43%	14.97%	10.46%
Euro / Rand	0.84%	-2.75%	-4.94%	-4.70%	-4.33%	10.37%	8.44%
Euro / Dollar	-2.83%	-4.21%	-11.64%	-12.17%	-11.96%	-4.26%	-2.26%
JP Morgan Govt Bond Index	-0.09%	1.72%	2.25%	3.68%	5.50%	0.96%	1.36%
MSCI Emerging Markets (USD)	-4.82%	-4.88%	-8.99%	-3.86%	-4.63%	-4.80%	1.43%
MSCI Africa ex SA (USD)	-3.44%	-15.29%	-10.54%	-4.20%	-9.04%	2.08%	12.49%
MSCI World (USD)	-1.53%	1.02%	-1.26%	0.75%	0.86%	11.98%	16.36%
S&P 500 (USD)	-0.42%	4.39%	5.03%	9.96%	11.39%	20.15%	17.86%
NASDAQ (USD)	-1.16%	5.40%	7.44%	12.79%	13.40%	25.24%	22.05%
FTSE 100 (USD)	-2.33%	-0.86%	-2.64%	-0.49%	-2.71%	5.51%	5.62%
France CAC 40 (USD)	-2.67%	-3.25%	-3.39%	-2.70%	-0.54%	8.33%	10.58%
German Dax (USD)	-1.35%	4.14%	-0.18%	2.70%	3.09%	14.31%	19.09%
Japan Nikkei 225 (USD)	-0.05%	7.90%	15.09%	17.69%	7.12%	29.57%	27.32%

The last quarter of 2014 highlighted the extent of uncertainty amongst investors with regards to a number of important issues. Europe and the ECB took centre stage as fears of deflation and threats of entering a recession left the ECB no choice but to signal to the market their intention of providing some quantitative easing measures to re-ignite a faltering economy. This led to fresh 2014 lows in bond yields in the developed world. The ECB comments also resulted in the Euro losing ground to the Dollar. Other noteworthy highlights from the last quarter included OPEC's decision to maintain its current production output which placed even further pressure on the oil and other commodity prices. Amidst all of this, the US economy and the stock market continued to surprise on the upside and the Fed still refuses to commit to a date as to when rates will be increased. African markets struggled on the back of the Ebola concerns as well as the material decline in the oil price.

Portfolios

RSA Cautious Portfolio

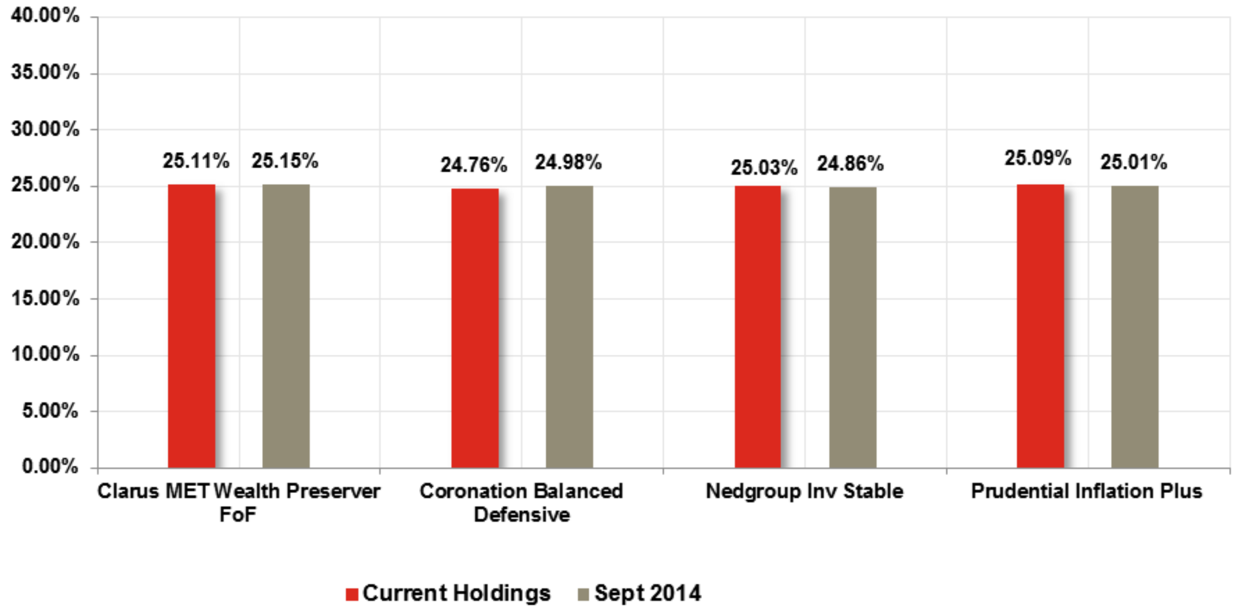
Returns

Portfolio	Three months	Six months	One year	Two years	Three years
RSA Cautious Portfolio	2.9%	4.4%	9.4%	11.3%	12.6%
(ASISA) South African MA Low Equity	2.3%	3.3%	8.2%	10.2%	11.1%

On a back tested basis:

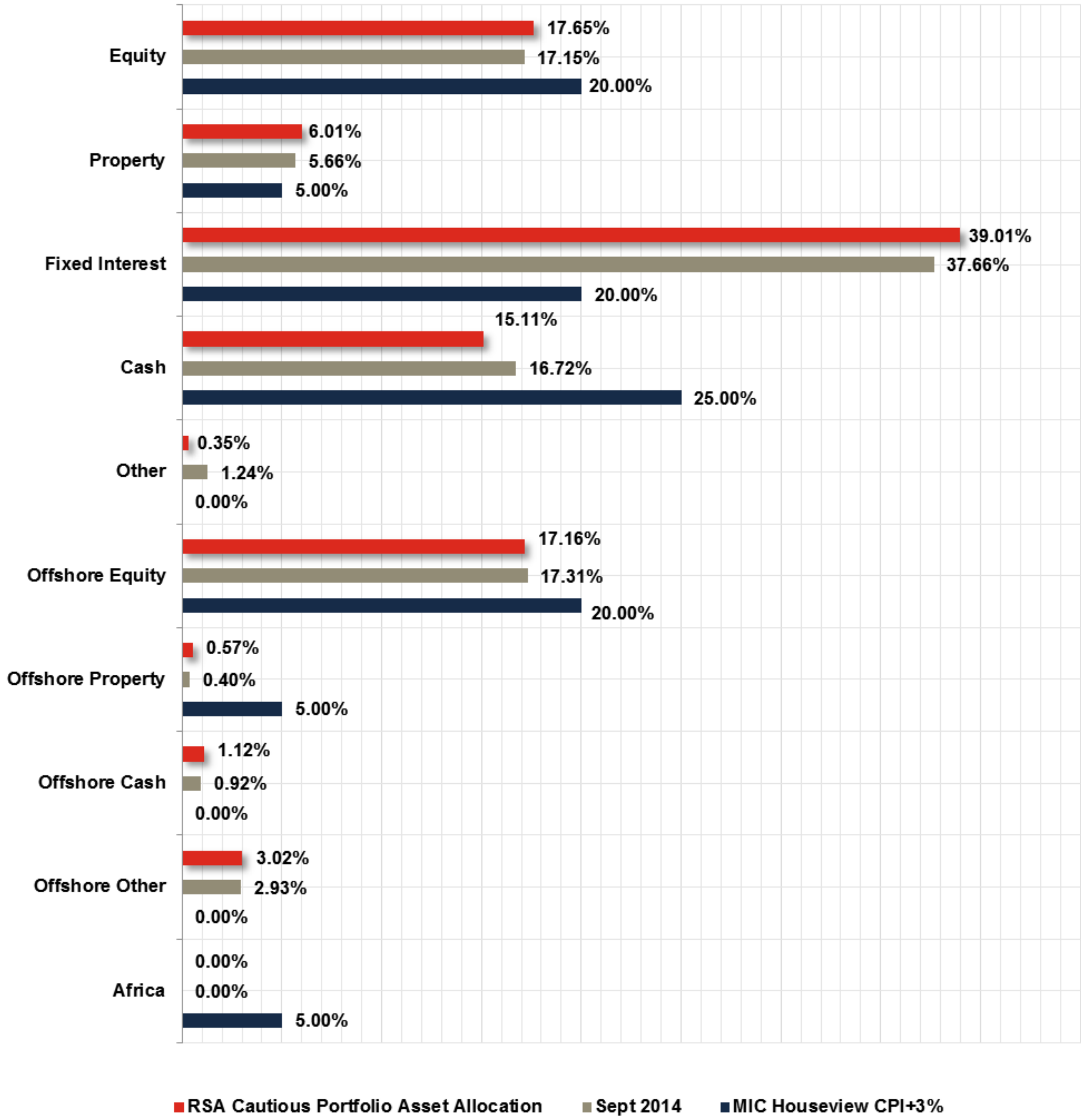
- The **RSA Cautious Portfolio** outperformed the peer group by 0.6% over the quarter.
- The Portfolio is 1.5% p.a. ahead the peer group over the 3 year period ending 31 December 2014.

Manager Allocation

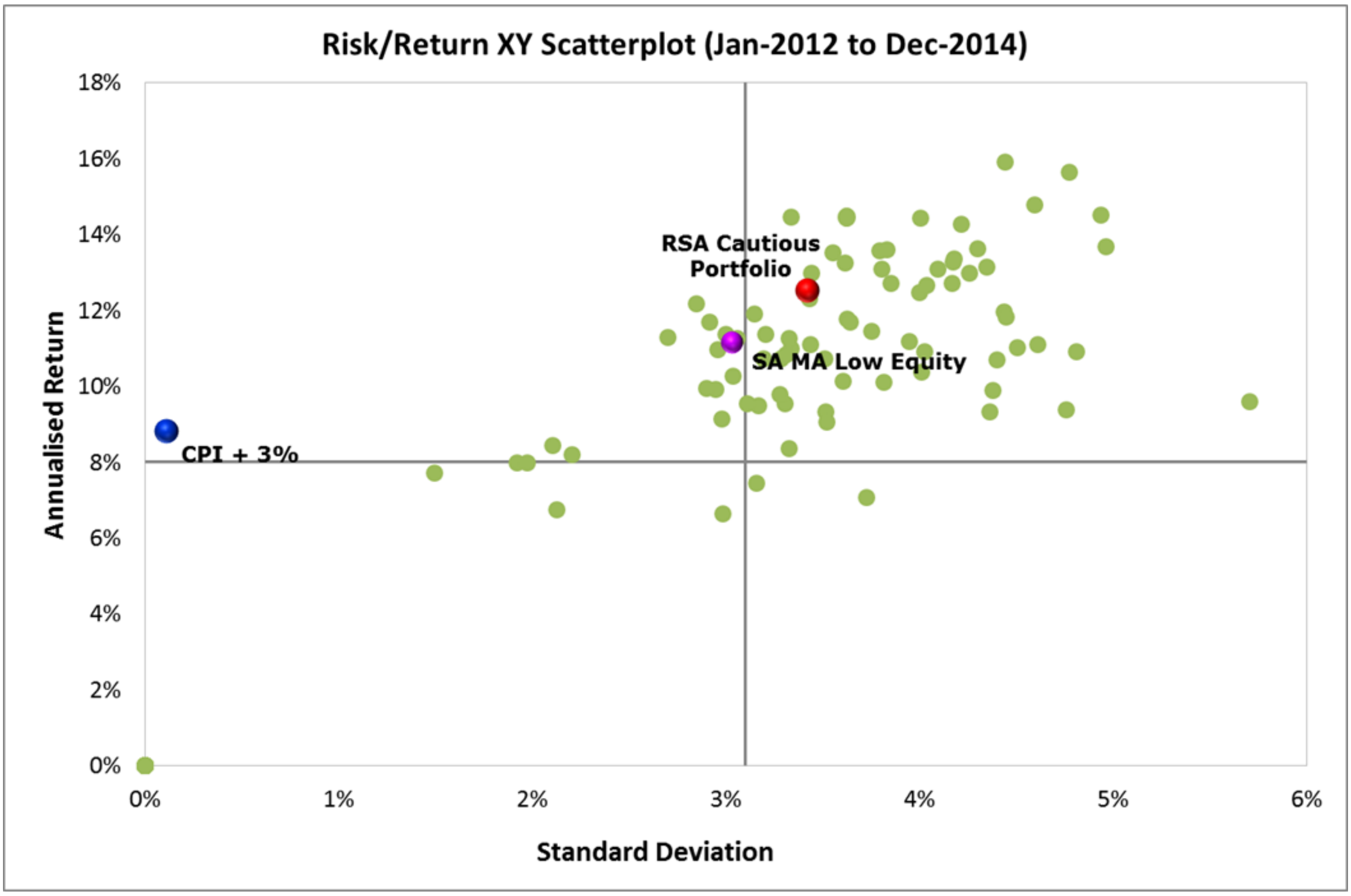


- There were no changes to the manager allocation during the quarter.

Asset Allocation



	Sept 2014	Current
Total Local Equity	17.15%	17.65%
Total Offshore Equity	17.31%	17.16%
Total Offshore Assets	21.56%	21.87%
Total Africa	0.00%	0.00%
Total Equity	34.46%	34.81%



- On a back-tested basis, the RSA Cautious Portfolio delivered an annualised return above that of peer group average over the past three years. The return of the portfolio was achieved at marginally higher levels of risk to that of the sector average as measured by the standard deviation of returns.

RSA Balanced Portfolio

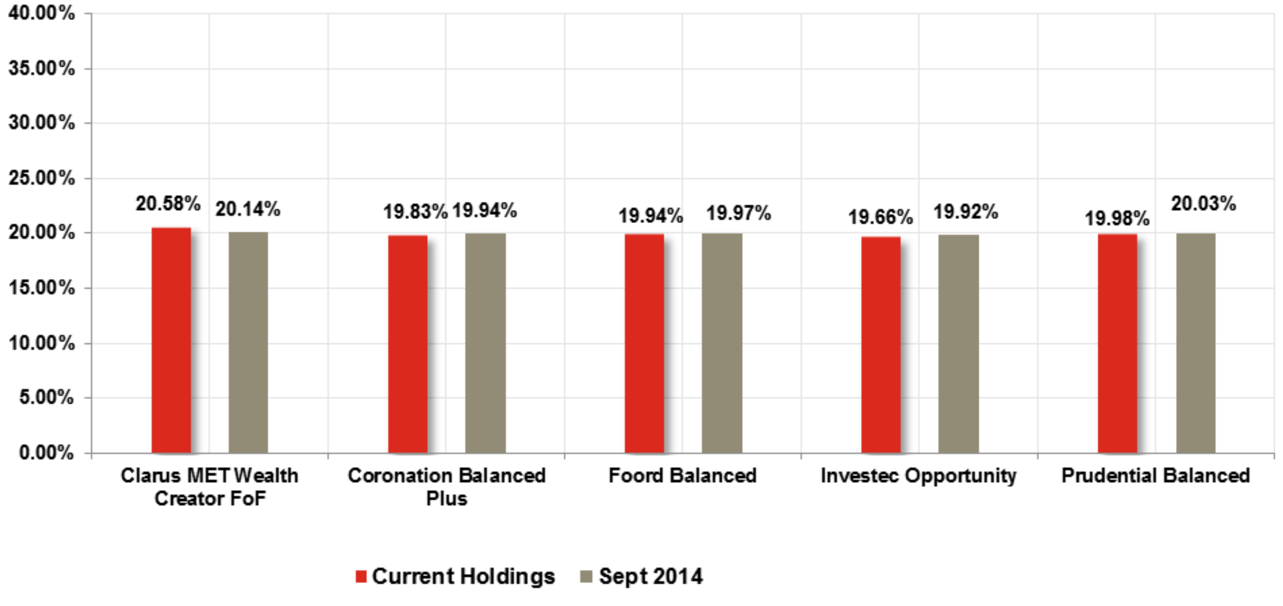
Returns

Portfolio	Three months	Six months	One year	Two years	Three years
RSA Balanced Portfolio	3.4%	4.1%	11.0%	14.8%	16.4%
(ASISA) South African MA High Equity	2.5%	2.7%	9.5%	13.7%	14.5%

On a back tested basis:

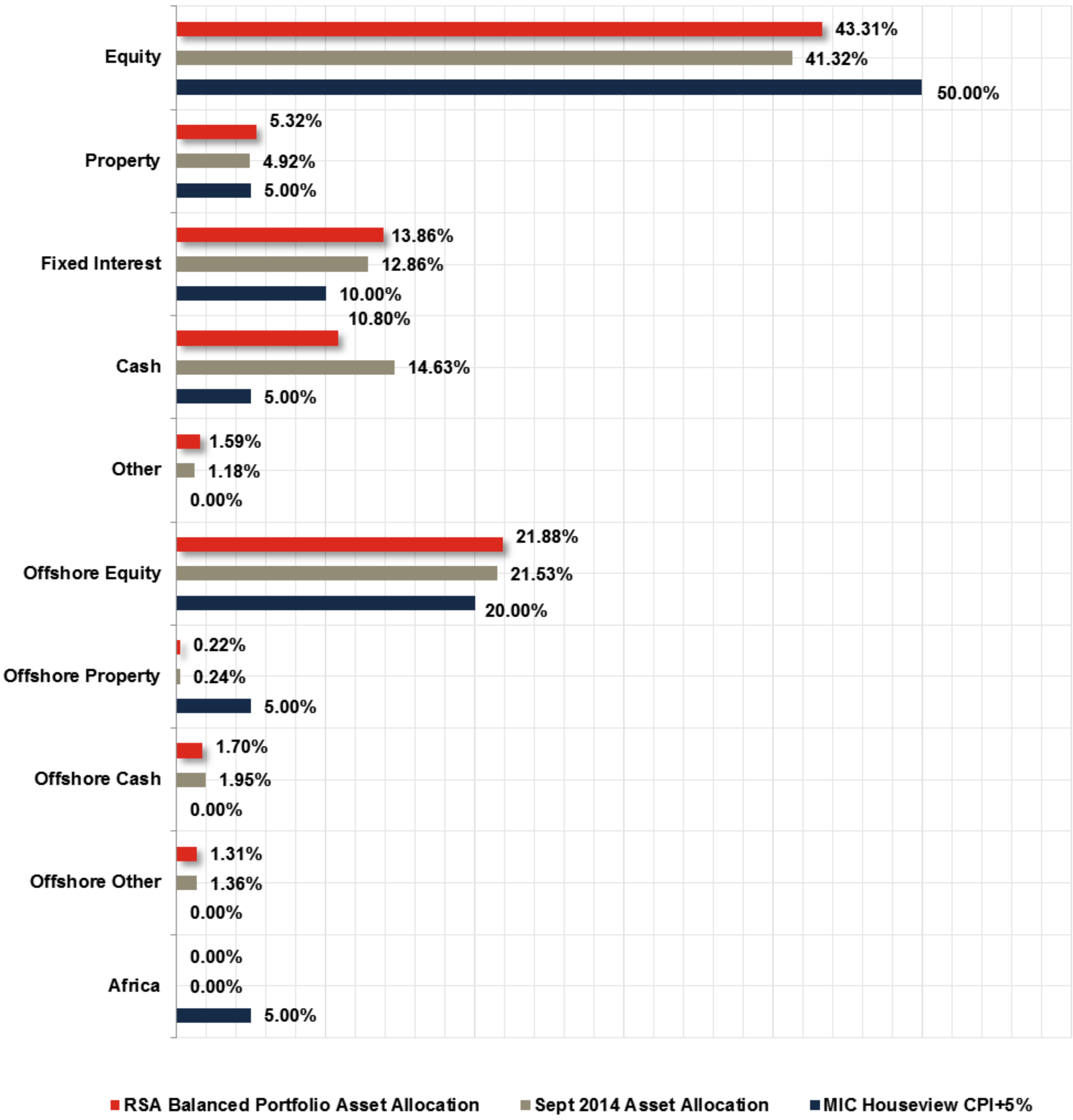
- The **RSA Balanced Portfolio** delivered a return of 3.4% over the quarter, outperforming the SA MA High Equity peer group by 0.9%.
- The Portfolio is 1.9% p.a. ahead of its peer group over the 36 month period ending 31 December 2014.

Manager Allocation



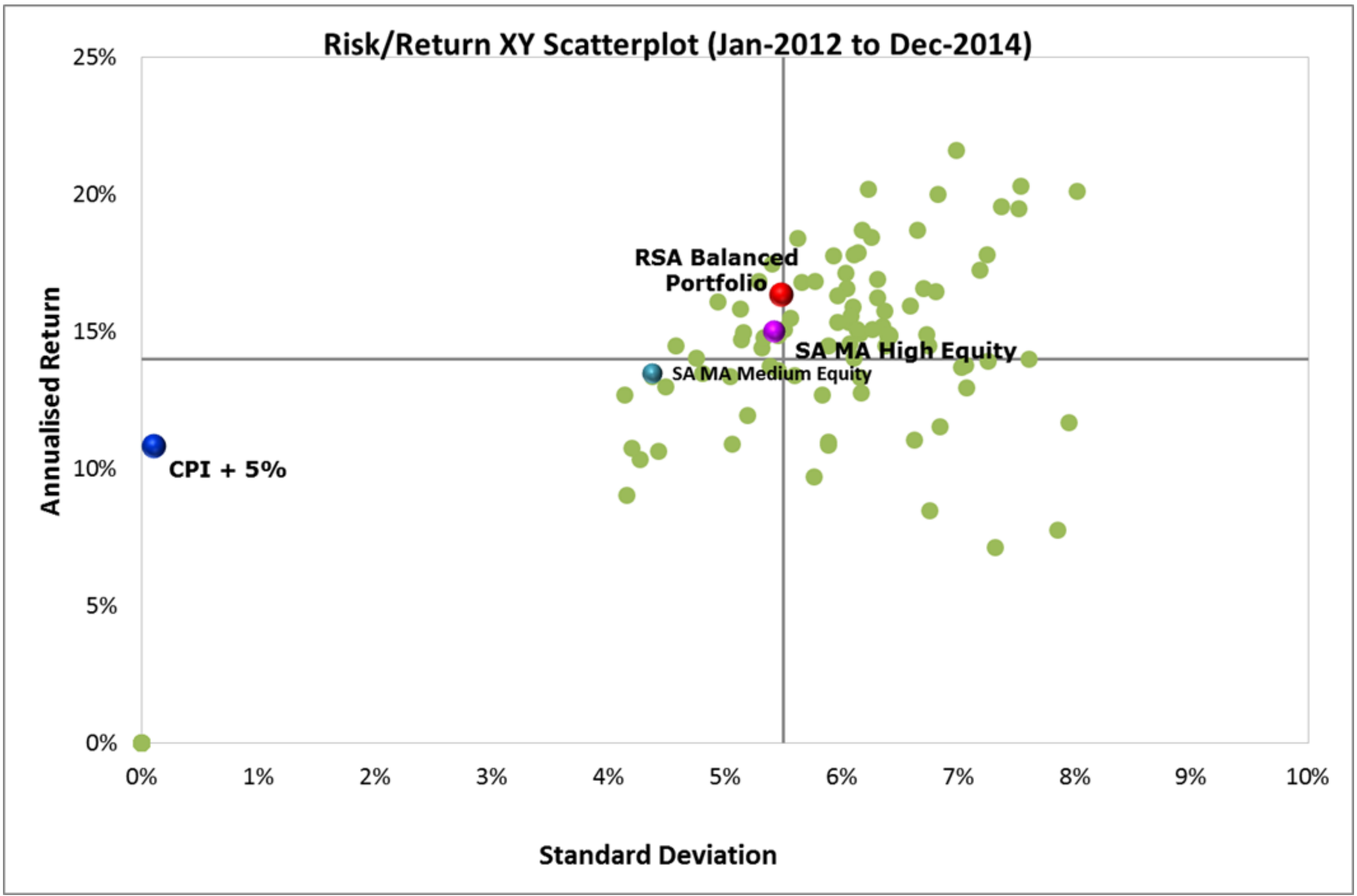
- There were no changes to the manager allocation during the quarter.

Asset Allocation



	Sept 2014	Current
Total Local Equity	41.32%	43.31%
Total Offshore Equity	21.53%	21.88%
Total Offshore Assets	25.09%	25.11%
Total Africa	0.00%	0.00%
Total Equity	62.86%	65.19%

Risk Return – 3 years



- On a back-tested basis, the RSA Balanced portfolio delivered an annualised return above that of the peer group over the past three years. The return of the portfolio was achieved at similar level of risk to that of the peer group average.

RSA Equity Portfolio

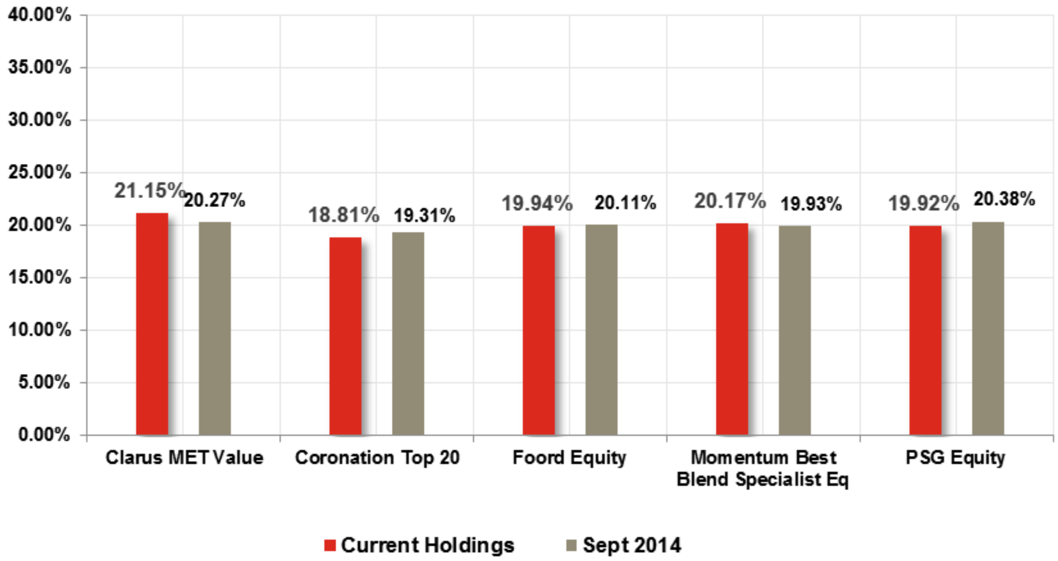
Returns

Portfolio	Three months	Six months	One year	Two years	Three years
RSA Equity Portfolio	4.9%	3.9%	12.1%	16.1%	18.8%
FTSE / JSE All Share Index	1.4%	-0.8%	10.9%	16.0%	19.5%
(ASISA) South African EQ General	1.8%	0.4%	10.3%	14.7%	16.5%

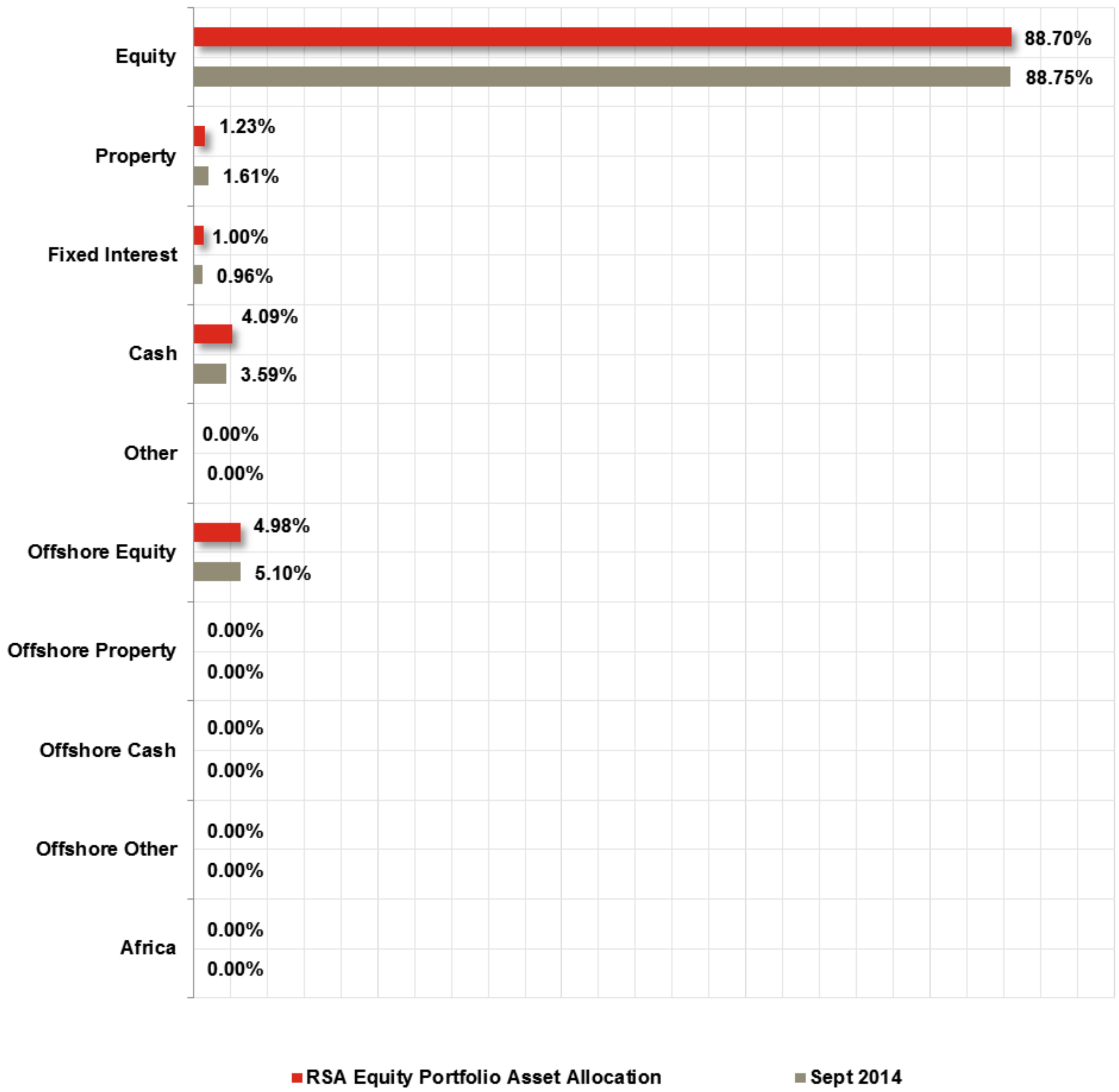
On a back tested basis:

- The **RSA Equity Portfolio** delivered a return of 4.9% over the quarter, outperforming the General Equity peer group by 3.1%.
- The Portfolio is 2.3% p.a. ahead of the peer group and 0.7% behind the All Share Index over the 36 month period.

Manager Allocation

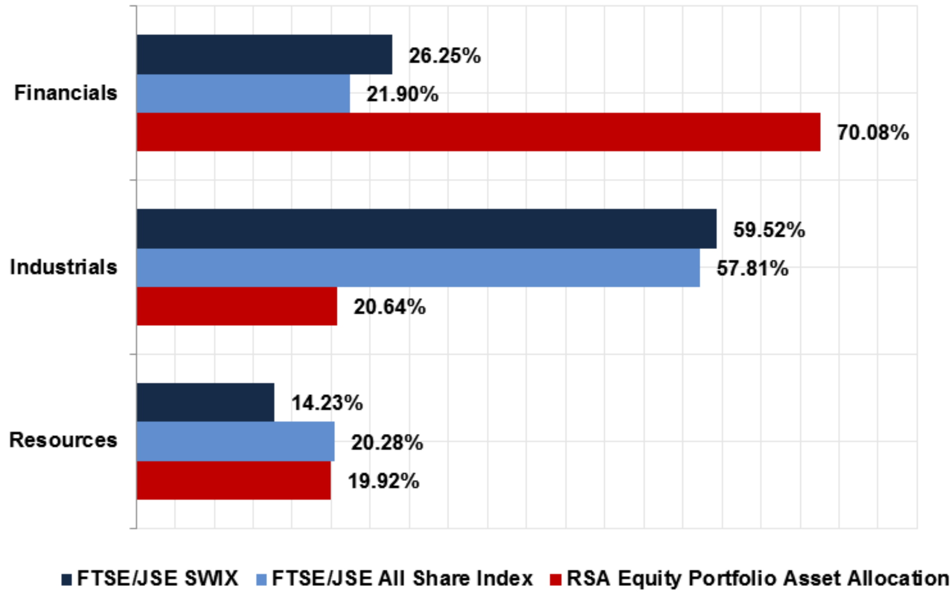


- There were no changes made during the quarter.

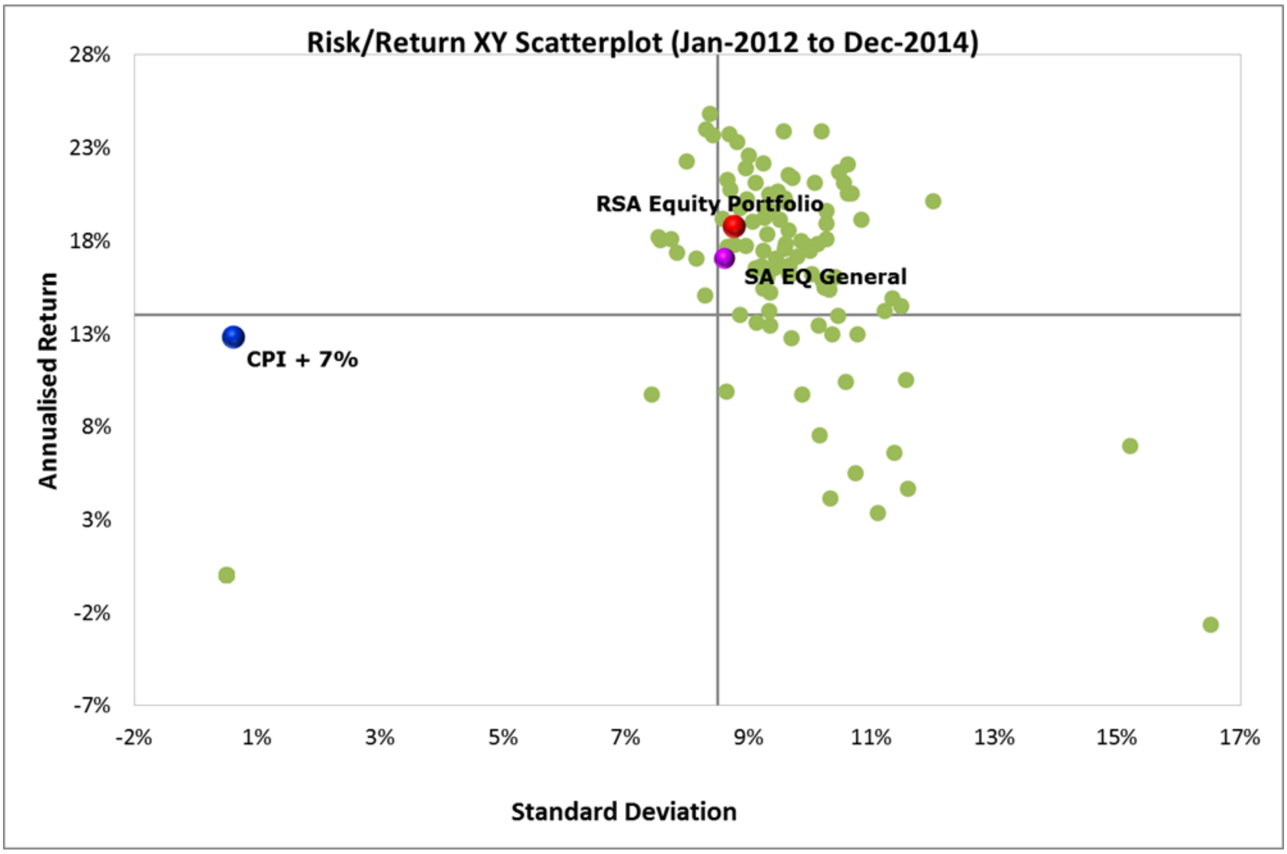


	Sept 2014	Current
Total Local Equity	88.75%	88.70%
Total Offshore Equity	5.10%	4.98%
Total Offshore Assets	5.10%	4.98%
Total Africa	0.00%	0.00%
Total Equity	93.84%	93.68%

Sector Allocation



Risk Return



- On a back tested basis, the RSA Equity Portfolio delivered an annualised return higher than the peer group over the 3 year period.

Manager performance

Low Equity and Flexible Fixed Interest Managers

Performance table 31/12/2014	Q4 2014	Oct-14	Nov-14	Dec-14	1-year	3-years
Coronation Balanced Defensive Fund	2.2%	0.7%	1.1%	0.4%	8.8%	13.6%
Nedgroup Investments Stable Fund	2.7%	0.1%	1.3%	1.2%	8.9%	13.2%
Prudential Inflation Plus Fund	3.2%	1.2%	1.1%	0.8%	11.8%	15.6%
Clarus MET Wealth Preserver FoF	3.0%	0.9%	1.1%	0.9%	7.8%	9.6%
(ASISA) South African MA Low Equity	2.3%	1.1%	1.0%	0.7%	8.2%	11.1%

- The **Coronation Balanced Defensive** Fund. The fund was relatively well positioned for events that transpired during the year and in general the asset allocation decisions added value. The manager increased its position in government bonds at attractive yields and added to the property exposure. The manager hedged back a small portion of the offshore assets into rands, which has cost the Fund performance given the weakening of the rand towards the end of the year. In general, the Fund's local equity selection was good. The biggest individual contributors to performance for the year were Naspers and Intu Properties. Cyclical shares detracted, notably Exxaro and Impala. The fund returned 8.8% for the year and largely stayed on the fairway. Over three and five years, the fund has returned 13.6% p.a. and 12.6% p.a. respectively; comfortably ahead of the cash + 3% benchmark. In addition, the fund has not had a negative return over any 12-month period and remains one of the top-performing funds in its category. The manager still considers overall valuation levels in the local equity market to be elevated. The Fund remains cautiously positioned, with growth asset exposure well below the maximum 40% limit and low exposure to local equities. The Fund remains committed to its dual mandate of preserving capital over 12-month periods and achieving medium-term returns in excess of cash + 3%. The manager continues to caution that future returns will most likely be lower than those achieved in the past..

- The **Nedgroup Investments Stable Fund**'s asset allocation remains conservatively positioned with a large allocation to domestic cash. The portfolio maintains the full position in foreign assets with a bias towards high quality companies which should outperform in the low return environment. The portfolio aims to offer investors total returns that are in excess of inflation over the medium-term and is suitable for conservative investors requiring a high level of capital protection, with the potential for some capital growth. This is important to note in current market conditions where equity market valuations seem stretched, especially in the Resource sector. Given the conservative positioning of the fund, the fund has still managed to deliver an absolute return of close to 9% over the past year.

  The **Prudential Inflation Plus Fund**. The FTSE/JSE All Share (ALSI) declined 0.2% on a total return basis in December 2014. The All Bond Index declined 1.6% and the Inflation-linked Bond Index declined 0.1%. The SA Listed Property Index returned 1.1% for the month. Cash returned 0.5%. In December 2014 the Rand weakened 3.6% against the US Dollar and 1.4% against the Euro. The MSCI World Index declined 1.6% on a total return basis in US Dollar terms. The Fund realised a total return of 0.8% for the month. The key contributors to performance this month came from the Fund's position in foreign equity and foreign fixed income. This brings the one year performance of the Fund to 11.8% (after fees). The Fund has delivered a return of 14.2% per annum since inception (after fees) while CPI inflation has increased by 5.7% per annum.

Balanced Managers

Performance table 31/12/2014	Q4 2014	Oct-14	Nov-14	Dec-14	1-year	3-years
Coronation Balanced Plus Fund	2.5%	0.3%	1.3%	0.8%	10.9%	18.7%
Foord Balanced Fund	2.9%	0.5%	1.3%	1.0%	10.1%	17.9%
Investec Opportunity Fund	1.7%	-0.2%	1.5%	0.4%	9.0%	14.4%
Prudential Balanced Fund	2.8%	0.7%	1.0%	1.1%	11.7%	18.7%
Clarus MET Wealth Creator FoF A	5.9%	1.5%	2.7%	1.6%	13.5%	15.8%
(ASISA) South African MA High Equity	2.5%	1.5%	1.2%	0.7%	9.5%	14.5%

- The **Coronation Balanced Fund**. The fund has outperformed its benchmark by 0.8% p.a. over a rolling 5-year period (15.6% versus 14.8% p.a.) and by 2.1% p.a. (16.6% versus 14.5% p.a.) since inception. The fund is one of the top performing funds in its sector over all meaningful periods.

  The Fund maintains a healthy exposure to resources in its equity and balanced funds. The manager's preferred holdings remain Anglo American, Mondi, Sasol and Exxaro. The manager continues to favour platinum over gold producers and his preference remains the low-cost platinum producers Impala Platinum and Northam. In addition, the Fund also has a healthy weighting in platinum and palladium exchange-traded funds.

  Domestic equities, in general, remain fairly valued. The manager continues to favour the quality, global stocks that happen to be domiciled in South Africa, such as MTN, British American Tobacco, Richemont, Steinhoff and Naspers. Although these shares have performed extremely well relative to the broader market, they remain attractive based on the manager's assessment of their intrinsic value and particularly attractive relative to pure domestic businesses.

  The greatest contributors to quarterly performance were the Fund's overweight position in Pioneer Foods, as well as its underweight positions in BHP Billiton and Sasol. The Fund's overweight positions in Anglo American, Exxaro and Impala Platinum detracted from performance. In terms of asset allocation, the global balanced funds remain at the maximum offshore limit of 25%. Given the global macroeconomic uncertainties, the manager believes that interest rates are likely to remain lower for longer. In such an environment, equities remain the preferred asset class for producing inflation-beating returns.

  The manager continues to favour global over domestic equities. The valuation of global equities remains attractive with some of the world's best companies trading on reasonable price earnings (PE) multiples, with fortress-like balance sheets and all the while growing their earnings and dividends at a steady rate.

  The bond market returned 4.2% for the quarter, outperforming cash (1.5%). Inflation-linked bonds underperformed nominal bonds with a return of 2.2% for the quarter. The manager believes the real returns from cash and bonds are likely to be relatively poor over the long term, both from a local and global perspective. As a result, the Fund has no exposure to global government bonds. However, given the improved outlook for inflation, the Fund has reduced its underweight in local government bonds. The Fund continues to hold a significant position in inflation-linked bonds and also maintain a good exposure to local corporate bonds.

  Listed property returned 11.1% for the quarter. The returns from this asset class over the last decade have been exceptional as yields declined in line with falling interest rates and property re-rated relative to nominal bonds. The Fund remains exposed to some of the higher-quality property stocks which the manager believes will offer better returns than bonds and cash over the long term.

  The Fund has reduced cash holdings across balanced portfolios to fund the increased equity exposure and purchasing of local government bonds. Although the manager believes the longer-term real returns for cash will be poor, he views it as an underrated source of tail risk protection that provides the Fund with the flexibility to respond in a market correction.

- The **Foord Balanced Fund** delivered 2.93% over the quarter and 10.08% over the 12 months outperforming the peer group average and their benchmark. A strong US dollar and economy ensured the US market ended the year as the best developed equity market – while emerging markets underperformed. The FTSE/JSE All Share Index was little changed in December, but delivered 10.9% for the year – ahead of domestic cash (6.0%) and bonds (10.1%), but lagging listed property (26.6%). Developed market bond yields continued to decline amidst deflationary fears and further central bank stimulus – SA yields (+41 basis points) ended the month sharply higher as foreign investors dumped SA government bonds. The fall in commodity prices gathered momentum, oil falling 23.4% in December alone – industrial commodities bar Zinc fell sharply during the month, while the gold price (-0.9%) declined again. The rand weakened, notably against Sterling (-3.9%) and the US dollar (-3.6%) and emerging market and commodity currencies declined on expectations that the US may raise interest rates unexpectedly soon. SA share market prospects are not promising due to lower earnings expectations for resource companies, while bond and cash returns may deliver only marginally positive real returns – foreign equity markets remain better positioned, however. The fund's asset allocation remains conservatively positioned – stock selection is concentrated in quality companies which should outperform in the low return environment.

- The **Investec Opportunity Fund**. Portfolio manager: Clyde Rossouw.
  The portfolio returned 2.26% for the quarter relative to its peers of 2.33%. Stock selection is orientated towards a quality approach. Equity exposure totalled to approximately 62% at the end of the quarter. The fund had exposure to Consumer Goods sector of 22.1% and Financial sector of 8.7%

- The **Prudential Balanced Fund**. The Fund realised a total return of 11.7% for the year ending December 2014. The key contributors to performance over this period came from the Fund's position in foreign and SA equity. The fund currently has about 62% in Equity (41% local and 21% global) with an additional 4% in listed property. Other than equity, the largest holding is 20% exposure to cash. The fund is very light on bond exposure, with 9% exposure to nominal bonds and a modest 4% exposure to global bonds. The fund has reduced its exposure to ILB's over time and currently has less than 1% exposure to this asset class.

Equity Managers

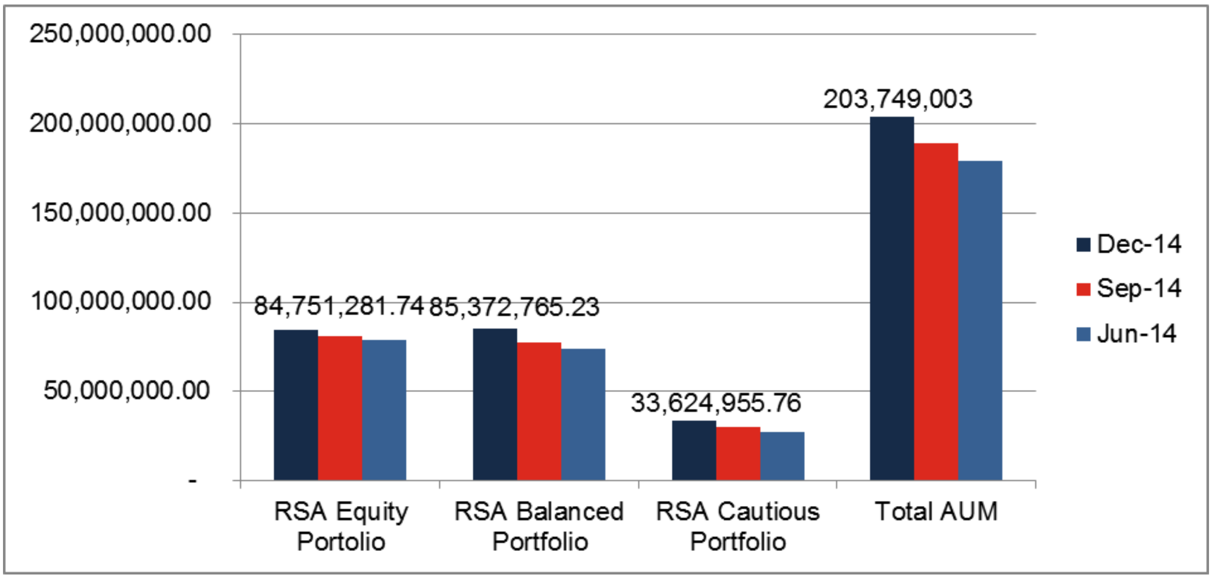
Performance table 31/12/2014	Q4 2014	Oct-14	Nov-14	Dec-14	1-year	3-years
Foord Equity	3.8%	2.4%	1.7%	-0.3%	14.5%	23.9%
Coronation Top 20 Fund	1.3%	0.6%	2.3%	-1.6%	6.8%	20.1%
Momentum Best Blend Specialist Equity Fund	6.0%	3.3%	2.5%	0.1%	16.8%	23.7%
Clarus MET Value Fund	10.0%	4.4%	4.1%	1.3%	20.0%	17.7%
PSG Equity	2.6%	0.8%	1.5%	0.3%	14.3%	23.3%
(ASISA) South African EQ General	1.8%	2.1%	1.5%	-0.1%	10.3%	16.5%
(ASISA) South African EQ Large Cap	0.4%	1.8%	1.5%	-0.9%	7.9%	17.6%

- The **Foord Equity Fund.** Portfolio Managers: Nick Balkin, Brian Davey, Carolyn Levin and Dane Schrauwen
  The portfolio returned 3.81% for the quarter relative to its peer group of 1.82%.The fund continues to hold a large allocation to the healthcare sector which returned 35.9% for 2014 and 3.2% for December 2014 respectively. Although the portfolio is concentrated, it is well diversified across different economic drivers and sectors balancing the potentially "lower for longer" oil price and its short-term consumption stimulus against the longer-term prospects for continued deterioration of the South African economy. Emerging market and commodity currencies declined on expectations that the US may raise interest rates sooner than expected.

- The **Coronation Top 20 Fund** returned 1.29% for the quarter, bringing its return for the 12-month period to 6.78%. The fund return for the quarter and year was behind the peer group average. The South African equity market had a robust year. Low global interest rates and South Africa's relatively stable political regime (in an emerging market context) led to the fund's benchmark, the JSE All Share Top 40 Index, delivering a 9.2% return over the last year. Their long-term track record, however, remains solid with the fund outperforming the benchmark over 3, 5 and 10 years. Commodity prices came under considerable pressure due to the slowdown of economic growth in China, US dollar strength and continued supply increases in certain commodities. Shares in the sector now look very cheap on a relative basis, but there is much near-term uncertainty and the path to normality could be very rough. Given this scenario, their resource exposure in the fund is to stocks where they see attractive valuations and where the underlying commodity fundamentals look fairly balanced in the longer term. Their preferred resource holdings continue to be Anglo American and Mondi. They have added to their Impala position. They continue to have significant exposure in the fund to global diversified industrials such as Naspers, British American Tobacco and MTN. These shares have benefited from the rand weakness and have contributed positively to the fund's performance. They have taken some profits on these shares at higher levels, but they continue to be core holdings in the fund. SA domestic businesses face a challenging outlook in the coming year, with low GDP growth, a muted consumer outlook and disruptions from load shedding. Their exposure is limited to selected defensive shares (Tiger Brands) and some interest rate sensitive shares (Imperial and Foschini). They are not finding much value in retail shares in general. On the financials side, they expect the banks to show muted advances growth, but earnings growth will be cushioned by generous provisions that have been built up. Banks have re-rated strongly over the last year, but both their holdings in Nedbank and Standard Bank continue to trade on reasonable valuations and dividend yields.

- The **Momentum Best Blend Specialist Equity Fund** has done well since the construction of this three-manager blend, with excellent long-term returns relative to the benchmark and peers. The fund delivered 6.0% during the fourth quarter and 16.8% for the year to December 2014, outperforming the market index as well as the peer group over both periods. The portfolio is a multi-strategy fund, investing in 3 managers, namely Aylett, Blue Alpha and Visio Capital. These boutique managers have a bottom-up approach backed by fundamentally focused research. While all managers have contributed to the long-term delivery of this fund, the Blue Alpha allocation has been the main contributor to performance over the last year, with their significant overweight position to Telkom, one of the best performing shares in 2014, contributing most to their active return. The portfolio maintains the underweight Resources relative to the market for more than 2 years now, which has aided performance again over the most recent quarter. The portfolio is still overweight Financials, with significant positions to both Life Assurers and Banks. The overweight position to the industrial and financial sectors was maintained during this quarter. The cash allocation was 8.2% as at 31 December 2014. Shares with the highest holding in the fund include FirstRand, Naspers, MTN and Telkom.

Assets Under Management



MIC Houseview Asset Allocation vs. Peers

CPI + 3%

Peers AA Comparison	Total Equity	Local Equity	Local Property	Fixed Interest	Local Cash	Local Other	Total Offshore	Offshore Equity	Offshore Property	Offshore Cash	Offshore Other	Africa
		Domestic						Offshore				
ABSA Absolute	26.2%	22.8%	10.9%	48.9%	1.9%	0.0%	15.5%	3.4%	0.0%	12.1%	0.0%	0.0%
Allan Gray Stable	48.2%	25.8%	2.5%	11.8%	28.9%	4.4%	25.8%	21.6%	0.3%	3.3%	0.6%	0.8%
Coronation Balanced Defensive	28.4%	14.1%	5.7%	38.1%	18.5%	1.4%	22.2%	14.3%	1.6%	2.6%	3.7%	0.0%
Investec Cautious Managed	39.4%	18.0%	0.0%	28.8%	28.8%	0.0%	24.4%	21.4%	0.0%	2.1%	0.9%	0.0%
Discovery Cautious Balanced	38.6%	23.9%	2.4%	11.7%	46.6%	0.0%	15.5%	14.7%	0.0%	0.8%	0.0%	0.0%
Nedgroup Inv Stable	41.8%	17.3%	3.0%	15.7%	37.8%	0.0%	26.3%	24.5%	0.7%	1.1%	0.0%	0.0%
Old Mutual Real Income	12.7%	9.8%	8.4%	39.6%	29.2%	2.5%	10.5%	2.9%	3.1%	0.0%	4.5%	0.0%
Prudential Inflation Plus	36.7%	20.5%	9.6%	40.2%	4.3%	0.0%	25.4%	16.2%	0.0%	0.8%	8.4%	0.0%
MIC Houseview CPI+3%	45.0%	20.0%	5.0%	20.0%	25.0%	0.0%	25.0%	20.0%	5.0%	0.0%	0.0%	5.0%
Average Low Equity	**34.0%**	**19.0%**	**5.3%**	**29.3%**	**24.5%**	**1.0%**	**20.7%**	**14.9%**	**0.7%**	**2.8%**	**2.3%**	**0.1%**

When compared to above peer group average asset allocation, the MIC House View CPI + 3% Asset Allocation is over/underweight the following asset classes:

- 11% overweight equities (local + global + Africa).
- 1 % overweight local equities
- 5.1% overweight global equities
- 4.9% overweight Africa equities
- 4.3% overweight global real estate

Our explicit allocations to emerging equity markets and to Africa Equity are unique positions within the sector.

CPI + 5%

Peers AA Comparison	Total Equity	Local Equity	Local Property	Fixed Interest	Local Cash	Local Other	Total Offshore	Offshore Equity	Offshore Property	Offshore Cash	Offshore Other	Africa
		Domestic						Offshore				
ABSA Balanced	53.9%	49.8%	0.0%	26.1%	6.6%	1.1%	16.4%	4.2%	0.0%	12.3%	0.0%	0.0%
Allan Gray Balanced	56.5%	43.7%	1.3%	11.2%	10.9%	6.6%	25.0%	11.5%	0.4%	2.1%	11.0%	1.3%
Coronation Balanced Plus	60.7%	35.6%	11.8%	15.2%	5.1%	5.0%	27.3%	25.1%	1.1%	0.5%	0.6%	0.0%
Foord Balanced	66.3%	44.7%	3.0%	11.8%	11.7%	3.0%	25.8%	21.6%	0.0%	3.8%	0.4%	0.0%
Investec Opportunity	61.5%	38.8%	0.0%	15.1%	17.4%	0.0%	28.7%	22.7%	0.0%	4.3%	1.7%	0.0%
Nedgroup Inv Opportunity	37.2%	31.0%	6.4%	34.9%	16.9%	0.0%	10.8%	6.2%	0.2%	4.4%	0.0%	0.0%
Prudential Balanced	62.0%	41.0%	3.9%	10.0%	20.2%	0.0%	24.9%	21.0%	0.0%	0.0%	3.9%	0.0%
Rezco Prudential	53.8%	34.6%	8.8%	1.1%	30.7%	0.0%	24.8%	19.2%	0.0%	5.6%	0.0%	0.0%
MIC Houseview CPI+5%	75.0%	50.0%	5.0%	10.0%	5.0%	0.0%	25.0%	20.0%	5.0%	0.0%	0.0%	5.0%
Average Variable Equity	**56.5%**	**39.9%**	**4.4%**	**15.7%**	**14.9%**	**2.0%**	**23.0%**	**16.4%**	**0.2%**	**4.1%**	**2.2%**	**0.2%**

When compared to the above peer group average asset allocation, the MIC House View CPI + 5% Asset Allocation is currently overweight the following asset classes:

- 14.5% overweight equities (local + global + Africa)
- 0.6% overweight local property
- 4.8% overweight global real estate
- 4.8% overweight Africa equities

Our explicit 5% allocation to emerging equity markets and 5% allocation to Africa Equity are unique positions within the sector.

CPI + 7%

Peers AA Comparison	Total Equity	Local Equity	Local Property	Fixed Interest	Local Cash	Local Other	Total Offshore	Offshore Equity	Offshore Property	Offshore Cash	Offshore Other	Africa
		Domestic						Offshore				
36ONE Flexible Opportunity	93.1%	68.6%	0.0%	0.0%	6.9%	0.0%	24.5%	24.5%	0.0%	0.0%	0.0%	0.0%
BlueAlpha All Seasons	98.0%	87.0%	0.0%	0.0%	2.0%	0.0%	11.0%	11.0%	0.0%	0.0%	0.0%	0.0%
Coronation Market Plus	59.4%	36.1%	13.7%	15.9%	-1.1%	6.0%	29.4%	23.3%	2.0%	1.4%	2.7%	0.0%
PSG Flexible	70.0%	46.0%	0.0%	0.0%	30.0%	0.0%	24.0%	24.0%	0.0%	0.0%	0.0%	0.0%
RECM Flexible Equity	86.1%	86.1%	0.8%	0.0%	11.0%	2.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rezco Value Trend	63.8%	41.4%	9.6%	2.0%	23.9%	0.0%	23.1%	22.4%	0.0%	0.7%	0.0%	0.0%
Visio Actinio	84.1%	78.6%	0.0%	0.0%	11.2%	0.0%	10.2%	5.5%	0.0%	0.0%	4.7%	0.0%
MIC Houseview CPI+7%	85.0%	60.0%	10.0%	0.0%	0.0%	0.0%	25.0%	20.0%	5.0%	0.0%	0.0%	5.0%
Average Flexible	**79.2%**	**63.4%**	**3.4%**	**2.6%**	**12.0%**	**1.2%**	**17.5%**	**15.8%**	**0.3%**	**0.3%**	**1.1%**	**0.0%**

When compared to the flexible peer group average asset allocation, the MIC House View CPI + 7% Asset Allocation is currently overweight the following asset classes:

- 5.8% overweight Total Equity
- 6.6% overweight local property
- 4.7% overweight global real estate
- 5% overweight Africa equities

Our explicit 5% allocation to Africa Equity is a unique position within the sector.

Asset Class	Q3 – 2014	Q4 – 2014	Comments
SA Cash	**U/W to Neutral**	**U/W to Neutral**	• Money market rates are pricing a slim chance of further interest rate hikes in 2015 • The current uncertainty in global and local equity markets has made the risk adjusted returns of cash attractive relative to growth assets. Thus we have shifted our portfolios closer to their long term strategic asset allocation by increasing the fixed interest exposure
SA Bonds			
Government	**U/W to Neutral**	**U/W to Neutral**	• We have taken an active decision to outsource the management of all fixed income sub-asset-classes to our flexible fixed income managers. • Bond yields have been well supported by both local and foreign purchases over the last quarter as well as by the latest rally in developed sovereign bonds. • The lower inflation expectation has also contributed to the recent rally in bond yields. • Inflation linked bonds are currently expensive relative to bonds. However if inflation breaches 5.8% and remains at elevated levels for a long period, inflation linked bonds will probably deliver a fair return to investors. • Bond yields remain vulnerable should global bond yields rise. • The fragile financial state of State Owned Enterprises is also a major risk to bond yields
Corporate	**U/W to Neutral**	**U/W to Neutral**	
Inflation Linked	**U/W to Neutral**	**U/W to Neutral**	
SA Property	**Neutral**	**Neutral**	• Listed property continues to outperform relative to other domestic asset classes. • Despite property being expensive in absolute terms, the sector is likely to benefit given that interest rates are unlikely to increase this year. • We will continue to monitor the property exposure closely and will look at locking in profits in a responsible manner
SA Equity	**Neutral**	**Neutral**	• We retain our view that, despite being expensive, relative to other local asset classes, equities are offering the better prospects of wealth creation, at least over the next 3 years. • Resource counters will probably be under pressure in the short term as the market factors in lower commodity prices. However there is little doubt that this sector offers value over the long term relative to some really expensive Findi stocks. • The ECB package could provide further support to risky assets

Offshore	Q3-2014	Q4 – 2014	
Currency / Forex	**Neutral**	**Neutral**	• On a purchasing-power-parity basis, the rand is now undervalued and our models suggest that fair value should be around R9.50 to the US Dollar. • However given the negative sentiment towards South Africa and other emerging markets coupled with US Fed tapering, we do not expect the Rand to stage a recovery in the near term.
Developed Market Government Bonds	**U/W**	**U/W**	• Recent monetary action has pushed developed market bonds to new three year lows • The strong dollar and general economic concerns have also driven bond yields lower. • We retain our view that global bonds are expensive
Global Credit	**U/W**	**U/W**	• In the current market environment, the equity risk premium when evaluated relative to both investment grade credit and high yield credit is extremely elevated and consistent with historical highs. This suggests that global equities are offering better value. • This being largely due to substantial compression in credit spreads, which has brought down corporate bond yields also to historical lows. • In the current market environment, we take the view that risk is appropriately rewarded through real asset classes, in particular global real estate and global equities, hence our underweight allocation to this asset class.
Global Real Estate	**O/W**	**O/W**	• At average yields of at least 4% in USD$ terms together with expected rental growth rates of at least 5% over the next 12 months, this remains a compelling yield story across all of our portfolios. • Valuations remain broadly within cheap to fair valuation territory, presenting meaningful scope for capital growth over the medium term. • We retain our overweight exposure to this asset class.
Global Developed Market Equities	**O/W**	**O/W**	• US equity markets (on index level) are now in expensive territory after the stellar performance over the last two years. However equities could be supported as the growth outlook in this region improves • The relative valuation differential between US and European equity has narrowed quite considerably over the last year given the strong performance of most European bourses. We have reduced our overweight position over the last quarter but still retain our bullish view on this region. • We have also reduced our global equity exposure over the last quarter as the Rand weakened to R11.70 to the US dollar.
Global Emerging Market Equities	**Neutral to O/W**	**Neutral to O/W**	• On various valuation metrics such as dividend yield, price-to-earnings-ratio and price-to-book ratios, there appears to be a broader and more attractively valued set of opportunities within emerging equity markets ex. South Africa. • There seems to be renewed interest amongst investors as the search for yield theme provided further support given the latest rounds of monetary stimulus packages in Europe as well as from the expectation that US rates will remain lower for longer • Additionally, the structural reforms currently being implemented within the Chinese economy as well as in most African economies make both China equities as well as Africa equities compelling long term investment propositions, given their attractive starting valuations.

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