QUARTERLY

momentum
Securities

International Portfolio

September 2017

Investment objective

This is a high conviction international portfolio focused on maximising risk adjusted returns to the investors over the medium to long term by investing in global listed equities. The returns of this portfolio are based on the ability of world equity markets indices to deliver returns in excess of inflation and the ability of the portfolio manager and our research team to identify and take positions in undervalued securities

Investment profile

- Investors who have a longer investment term and want the highest possible risk-adjusted return on their invested capital
- Value-based investors with high risk tolerance
- Investors who understand that there are investment cycles that cause share prices to fluctuate

Risk profile

- [ ] Low
- [ ] Low-Medium
- [ ] Medium
- [ ] Medium-High
- [x] High

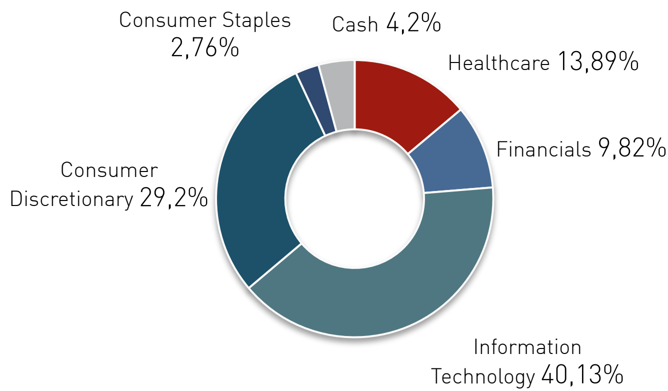
Portfolio information

Inception date	1 June 2015
Investment manager	Momentum Securities
Stockbroker/custodian	Momentum Securities
Management fee	Max 0.5% (annual)
Minimum lump sum	$80,000.00
Redemption periods	5 business days
Benchmark	MSCI world ETF

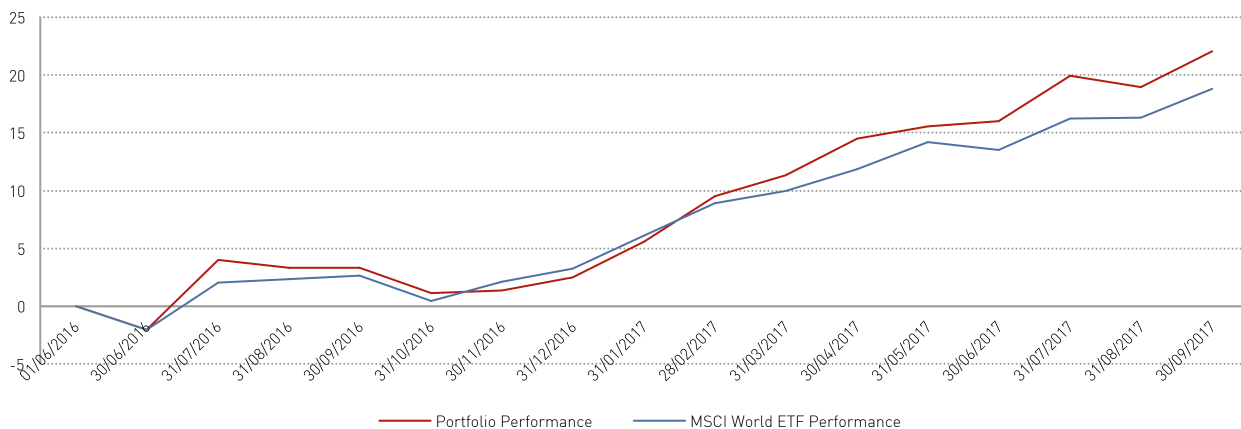
Top holdings

Microsoft	MSFT	6,93%
Facebook	FB	5,89%
Amazon	AMZN	5,44%
Alphabet	GOOGL	5,35%
Home Depot	HD	5,08%

Sector allocation

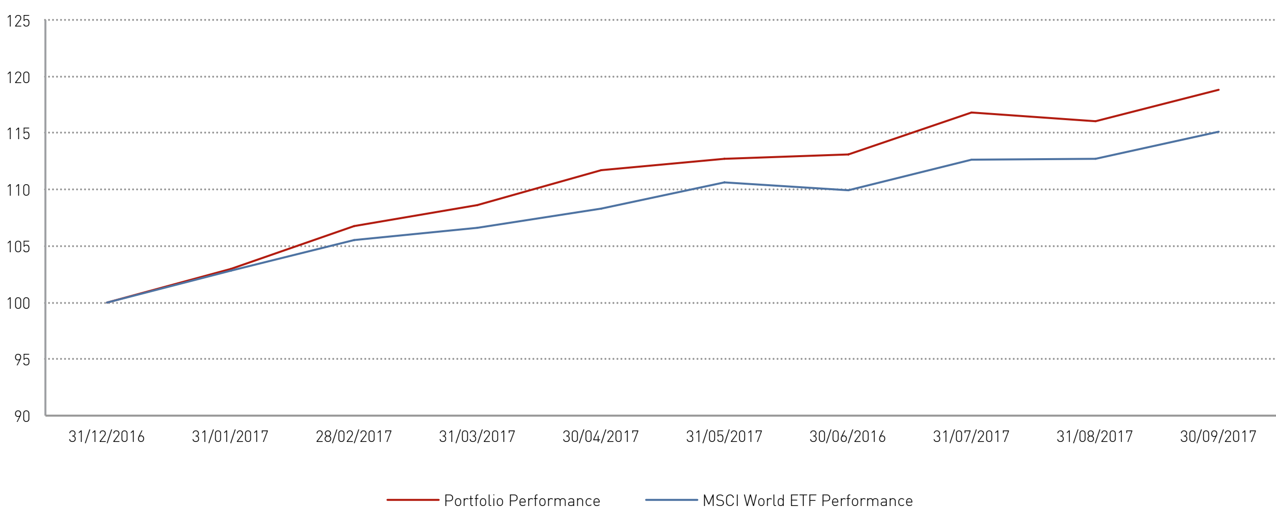


Performance Since Inception



* Please note: Historical performance figures have been adjusted for a fee as per our fee schedule.

YTD Performance



Disclaimer: Shares are generally medium- to long-term investments. The value of shares may go down as well as up and past performance is not necessarily a guide to the future. Opinions expressed in this document are those held as at the date appearing in this material only. Momentum Securities shall not be liable or responsible for any use of this document or to any other person or entity for any inaccuracy of information contained in this document or any errors or omissions in its content, regardless of the cause of such inaccuracy, error or omission. This document should not be seen as an offer to purchase any specific product and should not be construed as advice or guidance in any form whatsoever.

Momentum Securities a subsidiary of MMI Group Limited, an authorised financial services and credit provider Reg. No.1974/000041/07
Momentum Securities is a member of the JSE Ltd (FSP 29547) (NRCP 2518)

Economic Overview

The global economy is in better shape than it has been in years. International Monetary Fund (IMF) chief economist, Maurice Obstfeld recently acknowledged that "recent data point to the broadest synchronised upswing the world economy has experienced in the last decade".

Admittedly, United States (US) fiscal policy looks less likely to provide a meaningful boost to the economy and the eventual impact of Brexit on the United Kingdom is still far from clear. However, 2017 growth projections for the Eurozone and Japan have both been raised on a better-than-expected performance so far this year. Higher global trade activity has trumped fears of protectionism and has supported growth in emerging markets (EMs). Resilient growth in China defied earlier worries of a sharper slowdown as authorities shifted away from a credit-fuelled economic strategy. Solid growth activity, here, has also helped to sustain the economies of commodity exporters.

Optimal growth and inflation conditions have created a 'Goldilocks' environment in the US economy. Growth is currently running at a rate that is hot enough to spur business and consumer optimism, but cool enough to keep the US Federal Reserve (Fed) from strongly applying the monetary brakes. US inflation is rising at a moderate pace and looks likely to take much longer than historically to become a meaningful threat to the central bank. Although the current upswing underway in the US is already quite mature (this being the third-longest upturn in post-war history), it does not imply the cycle cannot be longer still. With little danger of the economy overheating at this stage (growth in the current upswing has averaged a tepid rate of 2.2%, which looks considerably weaker when compared to the 4.7% average growth rate recorded in previous economic upswings, the US is likely less susceptible to pronounced boom-bust activity this time around.

Although tame US inflation limits the likelihood of a faster-than-expected rise in interest rates, which could lead to US dollar strength and disturb the recovery in EMs, a more hawkish Fed still poses a threat to the upswing in EMs. EMs also remain at risk from adverse US trade policy changes and geopolitical risk factors which could trigger a 'risk-off' episode.

Robust underlying economic conditions have seen EM countries extending their 2016 recovery. Reduced currency volatility led to a stabilisation in inflation and has allowed EM central banks to ease policy further to support growth. A firm positive growth impulse in developed markets has further fuelled growth through higher trade activity. Going forward, EM growth will need to increase its reliance on domestic demand, by implementing structural reforms to drive sentiment among a burgeoning consumer population.

Coinciding with a decline in global commodity prices, real SA GDP growth slowed to an average of 1.6% (from 3.1% historically) between 2012 and 2016. While a rebound in commodity prices should foster higher export growth, low business and consumer confidence, associated with rising uncertainty regarding the direction of economic policies, will likely cap the performance in domestic demand.

The IMF warns SA's vulnerabilities have become more pronounced in recent years and is set to increase further unless growth accelerates. The scope for monetary and fiscal policy to bail out poor growth in the economy remains limited. With insufficient reforms (namely legislative uncertainty in land and mining, a lack of competition in product markets and low value-add tradable content), SA is unlikely to make a dent in longstanding unemployment and rising inequality. Even if a market-friendly outcome materialises at the African National Congress elective conference in December 2017, the pace of economic reform may only pick up appreciably after the national elections in 2019, which suggests SA could remain stuck in a low-growth environment in the medium term.

In Momentum Investments' opinion, there is a more-than-even chance of the rating agencies acting on SA's weak growth, worsening fiscal outlook and sizeable contingent liabilities in SA's SOEs by June 2018.

Although the rand has remained resilient in the face of sovereign ratings and political risks, it remains vulnerable to an adverse change in EM risk sentiment. Reigniting investor confidence and improving governance will play a crucial role in attracting a more stable source of foreign direct investment. For now, SA remains vulnerable to more fickle portfolio flows to cover its current account deficit and as such the need to maintain a healthy real interest rate differential with developed markets still exists.

Despite the likelihood of food disinflation and recent currency appreciation dragging inflation lower in the next two quarters, the SA Reserve Bank likely only has a limited window of opportunity in which to ease interest rates further. Momentum Investments expects up to two further interest rate cuts of 25 basis points each before the end of the first quarter of 2018.

Market overview

Ongoing confirmation that the global economy currently enjoys the first period of synchronous global recovery since 2010, with Europe and Japan having joined the United States (US) in expansion mode, supported strong performances from growth assets during the third quarter of 2017. Global equities benefited from the resultant strong earnings momentum, with emerging markets (EM) the outperforming equity region for the quarter, also buoyed by US dollar weakness, supportive commodity prices and stabilising inflation. In the same vein, South African (SA) equities gave strong returns during the quarter, with the resources sector of the market benefiting from higher metal prices, a weaker rand and the suspended implementation of the Mining Charter, while the rate-sensitive sectors enjoyed the advent of a domestic rate-cutting cycle made possible by rapidly falling inflation.

Disclaimer: Shares are generally medium- to long-term investments. The value of shares may go down as well as up and past performance is not necessarily a guide to the future. Opinions expressed in this document are those held as at the date appearing in this material only. Momentum Securities shall not be liable or responsible for any use of this document or to any other person or entity for any inaccuracy of information contained in this document or any errors or omissions in its content, regardless of the cause of such inaccuracy, error or omission. This document should not be seen as an offer to purchase any specific product and should not be construed as advice or guidance in any form whatsoever.

Momentum Securities a subsidiary of MMI Group Limited, an authorised financial services and credit provider Reg. No.1974/000041/07
Momentum Securities is a member of the JSE Ltd (FSP 29547) (NRCP 2518)

SA bond returns received support from the global hunt for yield and a rapidly falling domestic inflation trajectory during the third quarter of 2017. In contrast, indications by both the US and European central banks that they are on the verge of starting to shrink their balance sheets as part of a broader process of monetary policy normalisation put pressure on developed market bonds in the quarter. Lower SA bond yields, solid Eastern-European growth and rand weakness underpinned SA listed property performance, but falling inflation eroded SA inflation-linked bond (ILB) returns.

The gold exchange-traded fund (ETF) benefited from both a stronger gold price (in response to a weaker US dollar and the metal's safe-haven characteristics during the escalation of US-North Korea tensions) and a weaker rand during the quarter. But worries about the future of diesel engine technology against the backdrop of global emission scandals put pressure on the platinum price during the quarter.

Portfolio performance and movements

During the 3rd quarter the international portfolio returned 5.2%, outperforming our MSCI World benchmark by 0.5%. This was largely due to the performance of Abbvie, a recovery in our positions in Home Depot and Lowes as well as continued strong share price gains in Samsung. The portfolio is up 19.0% year to date and 18.1% over the past 12 months. Outperforming our benchmark by 4.0% and 3.3% respectively. During the period we took profits on Boeing and switched into Blackrock.

Disclaimer: Shares are generally medium- to long-term investments. The value of shares may go down as well as up and past performance is not necessarily a guide to the future. Opinions expressed in this document are those held as at the date appearing in this material only. Momentum Securities shall not be liable or responsible for any use of this document or to any other person or entity for any inaccuracy of information contained in this document or any errors or omissions in its content, regardless of the cause of such inaccuracy, error or omission. This document should not be seen as an offer to purchase any specific product and should not be construed as advice or guidance in any form whatsoever.

Momentum Securities a subsidiary of MMI Group Limited, an authorised financial services and credit provider Reg. No.1974/000041/07
Momentum Securities is a member of the JSE Ltd (FSP 29547) (NRCP 2518)