

VIEWPOINT

Newsflash

A new month and the 64th issue of Viewpoint from PPI.

This document will be made available on our website
www.ppi-advisory.com

Table of Contents

1. January 2012 Review	1 – 5
2. Focus : Passive investments take off as RDR begins to bite – but investors still need to do their homework	6 – 10
3. Important Notice	12

Momentum Global Investment Management Limited (Company Registration No. 3733094) and has its registered office at 20 Gracechurch Street, London, EC3V 0BG. Momentum Global Investment Management Limited is authorised and regulated by the Financial Services Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.

Global equities advanced at the start of the New Year, having begun their climb during the third week of December. Since then the global aggregate has risen by an average of 0.3% a day, with the ratio of positive trading days to negative ones standing at 2.4 times, according to data from Morgan Stanley Capital International (MSCI). Global equities added 5.0% in January in US dollar terms. Emerging markets returned more than twice as much, rising by 11.3% from December's level, led by emerging Europe and the BRIC quartet of Brazil, Russia, India and China.

Markets paused during the second week of January, as Standard and Poor's (S&P) announced its decision to downgrade nine Eurozone countries. The agency reduced its rating of long term French government debt by one notch to AA+, negative outlook, to leave Germany as the only remaining member of the euro area to have the much vaunted triple-A rating. From a global perspective the group of countries rated triple-A stable by S&P has shrunk to 11; namely Australia, Canada, Denmark, Germany, Hong Kong, Lichtenstein, Norway, Singapore, Sweden, Switzerland and the UK.

Expectations for policy easing by Chinese officials have risen, following a number of softer data reports from the People's Republic. For example, Chinese annual export growth fell to 13.4% in December, down from 13.8% the previous month.

Whilst in line with consensus expectations, December's figure nonetheless represents the second weakest level since November 2009. Imports grew by 11.8% versus 18.0% expected, and down from 22.1% in November. The weakness in Chinese trade data added to hopes for some form of monetary easing in the near term, prompting gains for Asian equities during the month. The People's Bank of China has allowed the country's five biggest banks to increase lending by up to 5% year-on-year in the first quarter, whilst announcing its intention to push back the implementation of stricter capital requirements. Real GDP grew ahead of forecasts in the fourth quarter, up by 8.9% year-on-year versus consensus expectations for growth of 8.7%.

Electioneering is in full swing in the US, with Republican candidates campaigning the length and breadth of the country. Mitt Romney has come out on top in three out of the four primaries held so far, winning the Florida primary on the last day of the month in convincing style from closest rival Newt Gingrich. Meanwhile, the Federal Open Market Committee (FOMC) took the remarkable step of announcing that rates would remain low until late 2014, despite differences in members' outlook for the economy. As part of efforts to increase the transparency of FOMC communications, the Fed unveiled a 'soft' inflation target of 2.0%.

Germany's economy is expected to have contracted by 0.25% in the fourth quarter, according to the country's Federal Statistics Office. However, surveys of business sentiment compiled by Germany's ZEW and the Ifo Institute, showed a revival in confidence in Europe's largest economy. Data from purchasing managers in the Eurozone exceeded expectations in January, with the regional manufacturing and service sector indices both exceeding forecasts. Germany's PMI manufacturing and services data provided a notable point of strength, with the manufacturing sector expanding for the first time since September 2011. Data from France was mixed, however, with the services industry in the euro's second largest economy surpassing expectations whilst manufacturing marginally disappointed.

Italian and Spanish government bond yields fell during the month, alleviating some of the funding pressure facing their new governments. Spain successfully issued three and six month bills with an average yield of 1.3% and 1.8% on 24 January, down from 1.7% and 2.4% respectively in December. Demand for Spanish three month paper exceeded the amount sold by 4.3 times, compared with 2.9 times last time around. This is despite data from Eurostat, the European Union's statistics office, showing that nearly a third of the euro region's unemployed now reside in Spain. The country's new conservative government is set to unveil sweeping reforms of its labour laws, which are blamed for the country's economic malaise. Portuguese yields, however, spiked sharply in the second half of the month. Moves may be driven partly by technical factors, with a degree of forced selling likely to have taken place after the country fell out of the Citigroup European Bond index as a result of Standard & Poor's (S&P) downgrade of its rating to BB. Nonetheless, the country's fundamentals are poor and show signs of further deterioration.

No agreement has been reached as yet on the extent of public versus private sector involvement in Greece's debt restructuring. Private bondholders are reported to be willing to accept maximum losses in the region of 65-70%, an offer that has been rejected by finance ministers. There is mounting pressure on institutions in the 'official sector' such as the European Central Bank (ECB) to bear some of the losses on Greek debt. The latest analysis from the International Monetary Fund (IMF) concluded that Greece's EUR 130 billion bailout plan, drawn up in October, will only bring the country's debt-to-GDP ratio down to approximately 130% by 2020, as opposed to the figure of 120% previously forecast. European Commissioner Olli Rehn conceded that more would need to be done in order to set Greece on a sustainable path to managing its national debt, having confidently asserted that private sector involvement (PSI) in Greece would be in line with the 50% haircut agreed at October's summit. Reports suggest that hedge funds may be creating an obstacle to PSI talks in Greece. Funds are reported to have built up positions that stand to benefit in either the event of a hard-restructuring

– triggering credit default swap contracts – or by managers successfully ‘holding-out’ whilst other investors enter into a voluntary exchange of existing bonds for new ones.

In company news, data compiled by Bloomberg shows that companies have largely exceeded expectations at the midway point of reporting season. Despite 67% of companies exceeding their expected earnings, this is the lowest level of upside surprises since the final quarter of 2008. Apple roundly trumped analysts’ expectations with its latest results, announcing quarterly earnings per share and revenue of USD 13.87 and USD 46.3 billion, compared with consensus forecasts of USD 10.14 and USD 39 billion respectively. Apple’s cash reserves of USD 97.6 billion are sufficient to buy any of the companies in the S&P 500, barring the seven other largest names by market capitalisation.

Government bonds finished the month up by 1.3% in US dollar terms, with US treasuries, UK gilts and Japanese government bonds posting modest gains in local currency terms, whilst in the Eurozone sovereign debt added 1.7% in EUR terms. Bank of England figures published at the start of January showed non-bank investors, including pension funds and life insurers, shunning Gilts. This group cut their holdings of UK government bonds by GBP 23.1 billion in November, after disposing of GBP 16.7 billion in October.

Credit markets showed further signs of easing conditions, with senior unsecured debt from Rabobank, Nordea and ABN Amro being issued in January, albeit priced at an attractive premium. Automakers continue to issue significant amounts of bonds, following a strong year in 2011 for the sector. BMW, Daimler, Ford and Renault sold USD 6.8 billion of bonds at the start of January, as the industry renewed efforts to win back the confidence of the bond markets. Corporate

debt outperformed governments during the month, against a backdrop of improved sentiment amongst investors, with high yield bonds in turn outperforming investment grade corporates. Indeed global convertible equities outperformed global equity markets.

Property securities advanced ahead of the global aggregate equity index for the second month in a row during January, with the FTSE EPRA/NAREIT Developed index rising by 7.8% on a total return basis. In currencies, the US dollar depreciated versus a broad basket of major currencies during January, with the Australian dollar and South African rand appreciating by in excess of 3.0%. Central bankers opted to leave short term interest rates unchanged last month, with the ECB pausing following two successive monthly cuts, leaving benchmark borrowing rates at 1.0%. Swiss National Bank (SNB) Chairman Philipp Hildebrand resigned during the second week of the month, in the wake of a scandal over foreign exchange deals entered into by his wife. Kashya Hildebrand benefitted from selling Swiss dollars into USD, one month before the SNB introduced a cap on the value of the Swiss franc which prompted the CHF/USD currency pair to fall significantly. Husband and wife both deny any intentional wrongdoing.

Commodities added 3.4% last month with oil rising by 3.2%. The European Union announced a ban on oil imports from Iran on 23 January. Iranian officials have threatened to block the Strait of Hormuz, a key shipping lane providing passage for almost one-fifth of total global trade in oil, in retaliation. Any attempt by Iran to close the Strait could be successfully countered within a month, according to a report from the Center for Strategic and Budgetary Assessments in Washington. Gold rose by 13.9% during January, having fallen by a similar amount the previous month.

Asset Class Performances

Asset Class/Region	Index	To 31 January 2012		
		Currency	Month	Year to date
Developed Markets Equities				
United States	S&P 500 NR	USD	4.4	4.4
United Kingdom	FTSE All Share TR	GBP	2.7	2.7
Continental Europe	MSCI Europe ex UK NR	EUR	4.5	4.5
Japan	Topix TR	JPY	3.7	3.7
Asia Pacific (ex Japan)	MSCI AC Asia Pacific (ex Japan) TR	USD	9.7	9.7
Global	MSCI World NR	USD	5.0	5.0
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	USD	15.2	15.2
Emerging Asia	MSCI EM Asia NR	USD	10.6	10.6
Emerging Latin America	MSCI EM Latin America NR	USD	12.6	12.6
BRICs	MSCI BRIC NR	USD	14.2	14.2
Global Emerging Market	MSCI EM (Emerging Markets) NR	USD	11.3	11.3
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	0.4	0.4
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	2.3	2.3
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	2.2	2.2
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	3.0	3.0
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	0.2	0.2
UK Corporate (Investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	1.9	1.9
Euro Government Bonds	Citigroup EMU GBI TR	EUR	1.7	1.7
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	2.9	2.9
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	6.6	6.6
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	0.1	0.1
Australian Government	JP Morgan Australia GBI TR	AUD	0.0	0.0
Global Government Bonds	JP Morgan Global GBI	USD	1.3	1.3
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	1.5	1.5
Global Convertible Bonds	UBS Global Convertible Bond	USD	5.7	5.7
Emerging Market Bonds	JP Morgan EMBI +	USD	1.5	1.5

Asset Class/Region	Index	To 31 January 2012		
		Currency	Month	Year to date
Property				
US Property Securities	MSCI US REIT TR	USD	6.4	6.4
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	5.4	5.4
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	3.7	3.7
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	11.1	11.1
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	5.6	5.6
Global Property Securities	FTSE EPRA/NAREIT Developed CR	USD	7.8	7.8
Currencies				
Euro		USD	0.8	0.8
UK Pound Sterling		USD	1.5	1.5
Japanese Yen		USD	0.9	0.9
Australian Dollar		USD	3.7	3.7
South African Rand		USD	3.5	3.5
Commodities				
Commodities	RICI TR	USD	3.4	3.4
Agricultural Commodities	RICI Agriculture TR	USD	1.3	1.3
Oil	ICE Crude Oil CR	USD	3.2	3.2
Gold	Gold index	USD	13.9	13.9
Interest Rates			Current rate	Change at meeting
United States	25 January 2012	USD	0.25%	-
United Kingdom	12 January 2012	GBP	0.50%	-
Eurozone	12 January 2012	EUR	1.00%	-0.25%
Japan	24 January 2012	JPY	0.10%	-
Australia	6 December 2011	AUD	4.75%	-0.50%
South Africa	19 January 2012	ZAR	5.50%	-

Focus: Passive investments take off as RDR begins to bite – but investors still need to do their homework

Introduction

With the growing interest in passive solutions and the burgeoning growth of assets in ETFs, we are often asked our thoughts on the suitability of these products and their appropriateness within multi-asset portfolios.

Indeed in a recent a survey, conducted on our behalf by Scorpio early in 2011 across forty wealth advisors, we saw that over 50% of the respondents had added a passive solution to their client portfolios. We see the same trend amongst our own clients and their investment requirements.

Sadly much of the information available to investors on this important topic is partial. When both active and passive fund managers state their views on this debate, they can hardly be blamed for a bias towards their own style of management. However, both sides tend to use arguments that do not necessarily stand up to close scrutiny.

Given this situation we have put together this guide to help investors assemble a better picture of the issues behind this debate. While every investor's situation is different this article summarises our general thoughts on the topic.

Defining active and passive

Active: definition

Active management (also called active investing) refers to investment strategies where the manager makes specific investments with the goal of outperforming an investment benchmark index.

Passive: definition

Passive management (also called passive investing) refers to investment strategies that do not aspire to create a return in excess of a benchmark index. Instead the focus is on replicating the benchmark's performance at a lower cost.

Key principles in the active vs. passive debate

In this section we highlight some key principles to consider when deciding on the construction of an investment portfolio and whether to use passive or active investments.

- Appropriate asset allocation is still required with both active and passive solutions.

Whether asset allocation decisions are done implicitly through the choice of benchmarks or explicitly through active asset class positioning, such decisions will often dominate performance.

As such investors, even in passive solutions, need to think carefully about constructing an appropriate asset allocation strategy. This also needs to reflect the state of the markets (valuation and economics) as well as the investor's requirements.

- In order to find asset classes that can yield sustainable outperformance for active management, investors should consider the efficiency of any particular asset class.
- Efficiency is the speed at which information is reflected in prices and the ability to consistently gain from thorough and detailed research.
- Active management tends to be more likely to deliver outperformance in less efficient asset classes such as the small cap equity space. By contrast sustainable outperformance is more difficult to achieve in more efficient asset classes such as government bonds.
- Passive solutions work better in mainstream asset classes. In more niche areas passive solutions can be expensive or come with hidden drawbacks.

For example in mainstream asset classes such as government bonds the index can be replicated easily without structural issues. Passive investing is more problematic in areas like credit or commodities. In these areas investors need to do extensive due diligence before selecting a passive solution.

- Passive solutions vary widely, and investors should not be led into thinking they are all the same. On issues such as fees, tax, liquidity and risk, passive offers differ enormously.

Putting the active vs. passive decision into context

Whether to go active or passive is just one decision when managing a portfolio. This decision is an output of a much larger decision tree, and for us is very context dependent.

In the construction and management of our multi asset portfolios, we focus much of our attention on deciding which asset classes we want to be invested in. Do we see value in equities, credit, emerging markets or bonds?

This is the first stage of our decision tree. The next stage is to consider if there are particular areas within each asset class towards which it is worth tilting our portfolios.

For example, within equities, do we prefer small cap or large cap, value or growth? With credit, do we prefer high quality credit vs. distressed credit? If there are tilts like these worth taking, going passive is not impossible, but certainly trickier and sometimes more expensive. It really depends on the tilt – regional for example is straightforward, value vs. momentum, high quality vs. distressed are difficult. We need to consider if there are any benefits to using a suite of active managers to implement these tilts.

Essentially the active versus passive debate for us is partly an implementation question. We aim to find the most efficient way to get the exposure that we want. At times the most efficient way might be to use passive strategies, while in others the best route may be active management.

Getting the asset allocation mix right

The decision tree outlined earlier in this document starts with asset allocation. To state the obvious, going passive still requires investors to get this right.

A passive solution may not save you from market crashes. Whether you are in an active equity fund or a passive equity fund, if markets fall by 20% you are likely to suffer material and painful losses.

Investors can not use passive solutions to decide how much equity exposure they want. Ultimately, a decision needs to be made. This decision needs to take into account both the investor's requirements but also to reflect the state of the markets at that time. In addition to the economic outlook, we would strongly argue for making this decision based on the valuations and margin of safety that each asset class offers. Varying the asset allocation according to a valuation based assessment of the return opportunities and the level of risks is of great value and importance.

However, if investors do not like this valuation approach, even simple rules of thumb can help. For example, a basic rule is to undertake simple, regular rebalancing of a portfolio to take money out as markets rally, and put money in when markets fall. Investment discipline, both at market peaks and troughs, is needed to make this tactic work.

Either way, getting a process in place where investors are able to enter in the market when fear is abundant and sell when exuberance is commonplace remains critical to do anything other than float with the tide.

Cost and benefits

Passive investing is often considered based on a low cost argument. It is therefore very important to look at active and passive investing in terms of costs and benefits.

Headline fees

Cost wise, by and large passive is cheaper than active management. However, beware, as this is not always the case. In our experience, for mainstream equities and bonds,

passive is cheaper. In the credit markets, such as high yield and loans, passive can often prove to be the more expensive option.

	Active (bps)	Passive (bps)
Developed Equities	40 – 100	10 – 40
Emerging Equities	50 – 150	25 – 65
Government Bonds	20 – 40	10 – 30
High Yield Credit	40 – 75	45
Loans	40 – 100	83

Source: Momentum Global Investment Management, November 2011

Other costs

Beyond the headline fees, there are other costs to consider in deciding between active and passive investments:

- **Vulnerability to index arbitrage:** hedge funds arbitraging the rebalancing and membership of an index like the FTSE is at the cost of the performance of passive strategies. By nature, a strict tracker is forced to buy stocks after they have appreciated and sell others after they have fallen.
- **Roll costs:** in certain commodity markets like oil and gas, futures strategies are forced to roll their holdings month to month to avoid taking delivery of the physical good. In a similar way to index arbitrage of equity indices, this can present a headwind for passive strategies.
- **Trading costs and bid offer spreads:** trading fees and bid offer spreads vary both for passive and active funds. This is an opaque area and does not always favour passive strategies.

Benefits

On the other side of the debate there are certain advantages that differ between active and passive solutions:

Benefits of passive management

- **Ease of execution:** a quick and simple solution.
- **Relative certainty of performance:** usually get the index performance less fees and other costs.

Benefits of active

- **Possibility of outperformance:** more likely in some areas than others such as style specific (e.g. value or momentum) or the more inefficient areas of the market (e.g. small cap).

In summary, passive solutions tend to be best for temporary / tactical holdings in very mainstream / efficient markets such as large highly liquid equity markets, government bond markets and gold. With longer holding periods or other markets, it pays to undertake further research to ascertain whether active management is appropriate and can offer better opportunities.

Can active managers outperform?

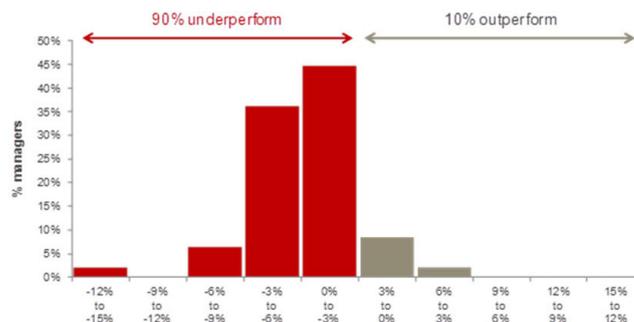
From our point of view, it only makes sense to use active management where the odds of outperformance are in your favour. There is little point in spending time researching managers and allocating risk budgets to areas where the chance of outperformance is slim.

Our research has highlighted that active management can yield benefits in less efficient markets. Efficiency is the speed at which information is reflected in prices and the ability to consistently gain from thorough and detailed research. Efficiency is a key determinant as to whether active management is likely to deliver results.

Active management is tough in efficient markets

Example: Distribution of alpha for US government bond funds, 1993-2011

Chart I

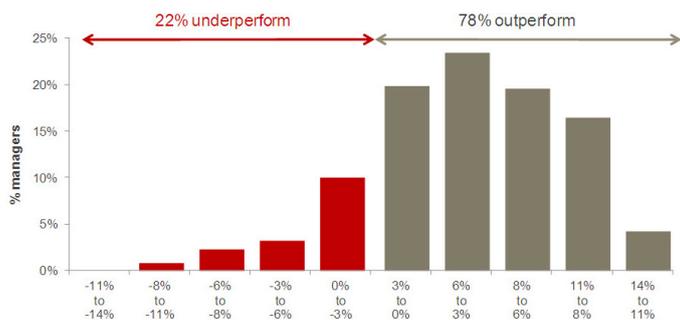


Source: Bloomberg, December 2011

Active management is more likely to succeed in less efficient markets

Example: Distribution of alpha for US Small cap equity funds, 1993-2011

Chart II



Source: Bloomberg, December 2011

By contrast to the bond market (chart I), the chart above (chart II) suggests that in less efficient markets active management is far more worthwhile. The US small cap equity space has thousands of companies with relatively few investors scrutinising them. In this area, if we are only as good as the average investor at selecting funds the odds are in our favour at picking one who will outperform. This is an area worth spending time trying to find good managers.

Clearly, outperformance is not guaranteed. Even in the data sample illustrated above, nearly one in four funds underperform. So our response to this is not to pick one fund, but to assemble our fund selections into a portfolio of managers in this area, giving us the best chance of reliably outperforming.

**Not all passive solutions are made equal:
A final point on passive investing:**

There are a multitude of passive options and strategies. Trackers, ETFs and futures are the most common. It is important for investors to properly understand each solution to evaluate if they are worthwhile.

Considerations for passive investing:

Fees: the various different passive solutions differ in the fees they typically charge. This does somewhat depend on how much you are investing and your negotiating skills. For the retail investor, equity ETFs can be an expensive solution in comparison to other options such as tracker funds. But comparing cost needs to be done on a like for like basis i.e. for ETFs and passive funds remember to take into account bid offer spreads as well as the annual management cost and TER.

Tax implications: a very complicated area. To take one example - does your ETF suffer withholdings tax? What is the impact? For a fixed interest asset class, this can be a substantial part of the overall return.

Liquidity: how liquid is the structure? Do you need and does the passive solution offer greater than daily liquidity. Passive funds general trade daily, but futures and ETFs trade continuously while markets are open.

Concentration risk: another important consideration – particularly in the credit space. In order to maintain daily liquidity (and potentially sizable inflows and outflows), the ETF will tend to hold the most liquid of instruments. The first US high yield ETFs only held 20 securities. That opens you up to far more ‘stock specific’ risk.

Security: a key point for commodity ETF’s such as gold. Does the ETF physically actually own the underlying asset? Or does it just have an IOU from a bank (a so called synthetic ETF) which is worthless if the bank goes bust?

Conclusion

Whether investors go active or passive they still need to take a number of key investment decisions and these decisions are hugely important.

In terms of the potential for outperformance, contrary to popular belief, it is possible to find asset classes where active management has proven to provide a sustainable advantage to investors. Yet investors are far more likely to benefit from these rewards if they focus their efforts on areas which are less efficient and where managers stand a better chance of outperformance.

In the right circumstances passive solutions can be a very useful tool. They offer a low cost and easy alternative for many investment decisions. However, too many investors are lulled into a false sense of security. While for the most mainstream markets investors can sometimes get away with this approach if passive investing is to be a core part of a portfolio investors need to fully understand what they are buying.

[Click here for:](#)

PPi

Disclaimer:

Simply click on the link of the company that you are interested in. By clicking on any external links provided on this website, you will leave the PPI site and be re-directed to an external organisation's website.

As PPI is not responsible for any content or activities associated with any external website accessed by hypertext links appearing on this website, and as such content has been independently developed by third parties and is outside of our control and subject to change without notice, PPI hereby disclaims any representations, warranties, or guarantees made on external websites.

Further, PPI does not guarantee the correctness or suitability of such information or of any other linked information presented, referenced, or implied. Any hyperlink from this website leading to another website should not be interpreted as an endorsement by PPI of that website, its organisation, or of its products or services.

PPI does not accept responsibility for any loss, harm, or damage, however caused, for information by third party organisations with links appearing on this website. Clicking on any of the following external links constitutes a signature of your consent to the above disclaimer. If you disagree with all, or part of this disclaimer, use of the external links provided below is strictly prohibited.

Important Notes

Momentum Global Investment Management is the trading name for Momentum Global Investment Management Limited. This document does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient, and is only intended for use by original recipients and addressees. The original recipient is solely responsible for any actions in further distributing this document, and should be satisfied in doing so that there is no breach of local legislation or regulation. The information is intended solely for use by our clients or prospective clients, and should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should inform themselves and if need be take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this material is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated herein. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum Global Investment Management does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

We caution that the value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally

indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Our investment mandates in alternative strategies and hedge funds permit us to invest in unregulated funds that may be highly volatile. Although alternative strategies funds will seek to follow a wide diversification policy, these funds may be subject to sudden and/or large falls in value. The illiquid nature of the underlying funds is such that alternative strategies funds deal infrequently and require longer notice periods for redemptions. These Investments are therefore not readily realisable. If an alternative strategies fund fails to perform, it may not be possible to realise the investment without further loss in value. These unregulated funds may engage in the short selling of securities or may use a greater degree of gearing than is permitted for regulated funds (including the ability to borrow for a leverage strategy). A relatively small price movement may result in a disproportionately large movement in the investment value. The purpose of gearing is to achieve higher returns associated with larger investment exposures, but has concomitant exposure to loss if positive performance is not achieved. Reliable information about the value of an investment in an alternative strategies fund may not be available (other than at the fund's infrequent valuation points).

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management Limited (Company Registration No. 3733094) and has its registered office at 20 Gracechurch Street, London, EC3V 0BG.

Momentum Global Investment Management Limited is authorised and regulated by the Financial Services Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.