

VIEWPOINT

Newsflash

A new month and the 134th issue of Viewpoint from Imperium Capital.

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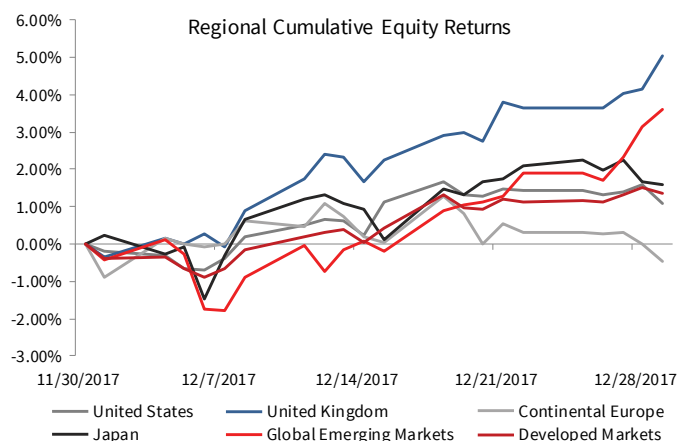
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Market Commentary

In December, markets continued to climb upwards, capping off a year of strong returns across asset classes. Risk assets benefitted from accelerating global economic growth and strong corporate earnings. Commodities, followed by equities posted the largest returns during the month.

Global equities advanced 1.4% during the month, with emerging markets outperforming developed markets, posting a 3.6% return versus a 1.4% return for developed markets. 2017 was the best year for emerging markets relative to developed markets since 2009, returning 37.3% versus 22.4% for developed markets. US equities rose 1.1%, taking returns in 2017 to 21.1%. 2017 was the first year in history US equity markets posted positive returns for every month during the year. Within developed markets, the UK was one of the strongest performers posting a 5.0% return, while continental Europe underperformed returning 0.2% and declining 0.6% in Euro terms. In emerging markets, emerging Europe outperformed returning 5.3%.

Figure 1: Major equity market local currency returns

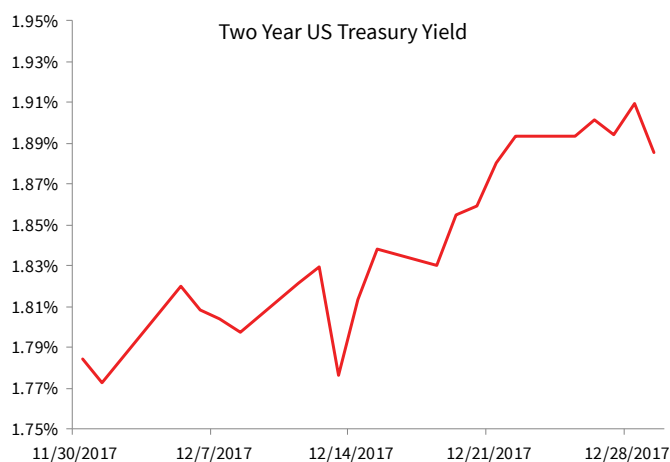


Source: Bloomberg, Momentum GIM

VIEWPOINT

In fixed income, global government bonds advanced 0.2%, taking returns to 1.0% for the quarter. Pressure continued on US government bonds, with investors anticipating increased borrowing following the implementation of tax reforms. The Treasury yield curve flattened further with two year Treasury yields rising 10.1 basis points in the month to 1.89%. UK bonds posted strong returns following a breakthrough Brexit withdrawal agreement, with UK investment grade corporate bonds rising 1.4% in US Dollar terms, while Gilts rose 1.6%.

Figure 2: Two-year Treasury yields rise in December



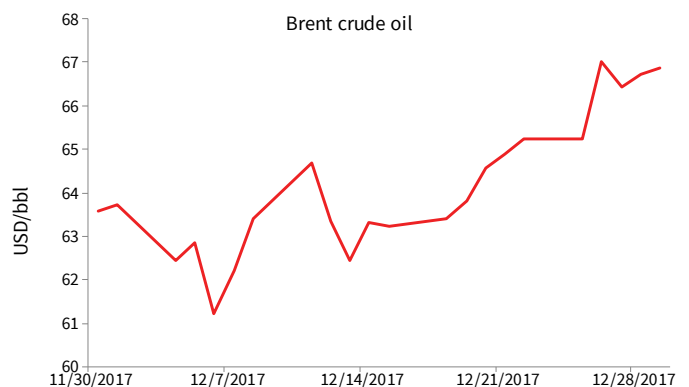
Source: Bloomberg, Momentum GIM

On a trade weighted basis the US Dollar fell 1.0% while Sterling fell 0.8%. The Euro rose 0.8% versus the US Dollar, taking returns for the fourth quarter to 1.6%. The most notable mover was the South African rand which rose 10.7% following a boost in sentiment after South African deputy president Cyril Ramaphosa was elected president of the African National Conference.

Commodities posted strong returns during the month, rising 3.1%. Brent crude oil was a major mover, rising 5.2% to USD 66.9/bbl, taking fourth quarter returns to 16.2%. Brent crude climbed following the closure of the North Sea Forties pipeline after the discovery of a crack.

US equities hit all-time highs during the month, boosted by the passing of Republican tax reforms in the House and the Senate. Economic data remained strong, with the unemployment rate holding at a seventeen year low rate of 4.1% and Q3 GDP growth at 3.2%, a near three-year high. In Europe equities underperformed, advancing 0.2% partly due to the Euro rising 0.7% versus the US Dollar. The economy remains strong in Europe, with the Eurozone composite PMI reaching an 82 month high of 58.1 in December.

Figure 3: Brent crude rallies during the month, pushing towards USD 70/bbl



Source: Bloomberg, Momentum GIM

UK equities outperformed during the month, rising 5.0%. This follows a more positive sentiment after a Brexit withdrawal agreement was reached, enabling negotiations to continue to the next phase. Equities were additionally boosted by the rise in commodity prices and the passing of US tax reforms. Headline consumer price inflation rose to 3.1% in November, up from 3.0%.

The Federal Reserve was the only major central bank to change its monetary policy, increasing the Fed funds target range by 25 basis points to 1.25-1.50%, a move that was widely anticipated.

Political events continued to have a mixed impact on asset class returns; of particular focus were US tax reforms, which eventually passed the House and the Senate at the end of the month, providing a boost to equities. In the UK, Brexit negotiations achieved a major breakthrough after the first phase of negotiations, discussing withdrawal terms, led to an agreement. The second phase of negotiations discusses transitional arrangements for the UK's withdrawal.

While politics and international relations pose challenges to markets, the broad global environment remains highly favourable for risk assets. Although we do not expect a repeat of the strong returns in 2017, we believe that equity markets will make further progress this year. While valuations in many cases are stretched, the underlying fundamentals are strong and the monetary policy tightening ahead is likely to be extremely gradual, and will remain loose by historical standards for the short to medium term. However, there are risks ahead, and from these levels longer term returns are likely to be relatively modest. However, this cycle is particularly long and we do not see evidence of overheating and a premature downturn. Opportunities for returns outweigh the risks and it will be important to stay invested, while the inevitable return of periodic bouts of weakness in equity markets will present buying opportunities.

Market Performance - Global (Local returns)

| Asset Class/Region | Index | To 29 December 2017 | | |
|-------------------------------------|--|---------------------|---------|--------------|
| | | Currency | 1 Month | Year to date |
| Developed markets equities | | | | |
| United States | S&P 500 NR | USD | 1.1% | 21.1% |
| United Kingdom | MSCI UK NR | GBP | 5.0% | 11.7% |
| Continental Europe | MSCI Europe ex UK NR | EUR | -0.5% | 11.4% |
| Japan | Topix TR | JPY | 1.6% | 22.2% |
| Asia Pacific (ex Japan) | MSCI AC Asia Pacific ex Japan NR | USD | 3.1% | 37.0% |
| Global | MSCI World NR | USD | 1.4% | 22.4% |
| Emerging Market Equities | | | | |
| Emerging Europe | MSCI EM Europe NR | USD | 5.3% | 20.5% |
| Emerging Asia | MSCI EM Asia NR | USD | 2.8% | 42.8% |
| Emerging Latin America | MSCI EM Latin America NR | USD | 4.4% | 23.7% |
| BRICs | MSCI BRIC NR | USD | 2.9% | 41.7% |
| Global emerging markets | MSCI EM (Emerging Markets) NR | USD | 3.6% | 37.3% |
| Bonds | | | | |
| US Treasuries | JP Morgan United States Government Bond Index TR | USD | 0.4% | 2.5% |
| US Treasuries (inflation protected) | Barclays Capital U.S. Government Inflation Linked TR | USD | 1.0% | 3.3% |
| US Corporate (investment grade) | Barclays Capital U.S. Corporate Investment Grade TR | USD | 0.9% | 6.4% |
| US High Yield | Barclays Capital U.S. High Yield 2% Issuer Cap TR | USD | 0.3% | 7.5% |
| UK Gilts | JP Morgan United Kingdom Government Bond Index TR | GBP | 1.5% | 1.9% |
| UK Corporate (investment grade) | BofA Merrill Lynch Sterling Non Gilts TR | GBP | 1.4% | 4.3% |
| Euro Government Bonds | Citigroup EMU GBI TR | EUR | -0.8% | 0.2% |
| Euro Corporate (investment grade) | Barclays Capital Euro Aggregate Corporate TR | EUR | -0.3% | 2.4% |
| Euro High Yield | BofA Merrill Lynch Euro High Yield Constrained TR | EUR | 0.0% | 6.9% |
| Japanese Government | JP Morgan Japan Government Bond Index TR | JPY | 0.1% | 0.2% |
| Australian Government | JP Morgan Australia GBI TR | AUD | -0.8% | 3.6% |
| Global Government Bonds | JP Morgan Global GBI | USD | 0.2% | 6.8% |
| Global Bonds | Citigroup World Broad Investment Grade (WBIG) TR | USD | 0.3% | 7.4% |
| Global Convertible Bonds | UBS Global Focus Convertible Bond | USD | -0.8% | 9.7% |
| Emerging Market Bonds | JP Morgan EMBI+ (Hard currency) | USD | 0.6% | 8.3% |

Market Performance - Global (Local returns)

| Asset Class/Region | Index | To 29 December 2017 | | |
|---------------------------------------|-------------------------------|---------------------|---------|--------------|
| | | Currency | 1 Month | Year to date |
| Property | | | | |
| US Property Securities | MSCI US REIT NR | USD | -0.4% | 3.7% |
| Australian Property Securities | S&P/ASX 200 A-REIT Index TR | AUD | -1.3% | 0.7% |
| Asia Property Securities | S&P Asia Property 40 Index NR | USD | 2.2% | 27.6% |
| Global Property Securities | S&P Global Property USD TR | USD | 1.8% | 16.1% |
| Currencies | | | | |
| Euro | | USD | 0.8% | 14.1% |
| UK Pound Sterling | | USD | 0.0% | 9.4% |
| Japanese Yen | | USD | -0.1% | 3.8% |
| Australian Dollar | | USD | 3.2% | 8.5% |
| South African Rand | | USD | 10.7% | 10.6% |
| Commodities & Alternatives | | | | |
| Commodities | RICI TR | USD | 3.1% | 4.9% |
| Agricultural Commodities | RICI Agriculture TR | USD | -0.6% | -4.2% |
| Oil | Brent Crude Oil | USD | 5.2% | 17.7% |
| Gold | Gold Spot | USD | 2.2% | 13.1% |
| Hedge funds | HFRX Global Hedge Fund | USD | 0.7%* | 6%* |
| Interest rates | | | | |
| United States | | | 1.50% | |
| United Kingdom | | | 0.50% | |
| Eurozone | | | 0.00% | |
| Japan | | | 0.10% | |
| Australia | | | 1.50% | |
| South Africa | | | 6.75% | |

Market Performance - UK (All returns in GBP)

| Asset Class/Region | Index | To 29 December 2017 | | |
|------------------------------------|--|---------------------|---------|--------------|
| | | Currency | 1 Month | Year to date |
| Developed markets equities | | | | |
| UK - All Cap | MSCI UK NR | GBP | 5.0% | 11.7% |
| UK - Large Cap | MSCI UK Large Cap NR | GBP | 5.3% | 11.4% |
| UK - Mid Cap | MSCI UK Mid Cap NR | GBP | 3.8% | 9.1% |
| UK - Small Cap | MSCI Small Cap NR | GBP | 4.4% | 21.0% |
| United States | S&P500NR | USD | 1.0% | 10.5% |
| Continental Europe | MSCI Europe ex UK NR | EUR | 0.5% | 15.9% |
| Japan | Topix TR | JPY | 1.4% | 15.6% |
| Asia Pacific (ex Japan) | MSCIACAsia Pacificex Japan NR | USD | 3.0% | 25.0% |
| Global developed markets | MSCI World NR | GBP | 1.2% | 11.7% |
| Global emerging markets | MSCI EM (Emerging Markets) NR | GBP | 3.5% | 25.3% |
| Bonds | | | | |
| Gilts - All | BofA Merrill Lynch Gilts TR | GBP | 1.5% | 1.9% |
| Gilts - Under 5 years | BofA Merrill Lynch Gilts TR under 5 years | GBP | 0.2% | -0.2% |
| Gilts - 5 to 15 years | BofA Merrill Lynch Gilts TR 5 to 15 years | GBP | 1.1% | 1.8% |
| Gilts - Over 15 years | BofA Merrill Lynch Gilts TR over 15 years | GBP | 2.5% | 3.5% |
| Index Linked Gilts - All | BofA Merrill Lynch Inflation-Linked Gilts TR | GBP | 2.0% | 2.3% |
| Index Linked Gilts - 5 to 15 years | BofA Merrill Lynch Inflation-Linked Gilts TR 5 to 15 years | GBP | 1.1% | 1.4% |
| Index Linked Gilts - Over 15 years | BofA Merrill Lynch Inflation-Linked Gilts TR over 15 years | GBP | 2.6% | 2.9% |
| UK Corporate (investment grade) | BofA Merrill Lynch Sterling Non Gilts TR | GBP | 1.4% | 4.3% |
| US Treasuries | JP Morgan United States Government Bond Index TR | USD | 0.2% | -6.4% |
| US Corporate (investment grade) | Barclays Capital U.S. Corporate Investment Grade TR | USD | 0.8% | -2.9% |
| US High Yield | Barclays Capital U.S. High Yield 2% Issuer Cap TR | USD | 0.2% | -1.9% |
| Euro Government Bonds | Citigroup EMU GBI TR | EUR | 0.1% | 4.2% |
| Euro Corporate (investment grade) | Barclays Capital Euro Aggregate Corporate TR | EUR | 0.7% | 6.6% |
| Euro High Yield | BofA Merrill Lynch Euro High Yield Constrained TR | EUR | 1.0% | 11.2% |
| Global Government Bonds | JP Morgan Global GBI | GBP | 0.0% | -2.5% |
| Global Bonds | Citigroup World Broad Investment Grade (WBIG) TR | GBP | 0.2% | -1.9% |
| Global Convertible Bonds | UBS Global Focus Convertible Bond | GBP | -0.9% | 0.1% |
| Emerging Market Bonds | JP Morgan EMBI+ (Hard currency) | GBP | 0.5% | -1.2% |

Market Performance - UK (All returns in GBP)

| Asset Class/Region | Index | To 29 December 2017 | | |
|---------------------------------------|----------------------------|---------------------|---------|--------------|
| | | Currency | 1 Month | Year to date |
| Property | | | | |
| UK Direct Property | UK IPD All Property TR | GBP | 0.0% | 9.7%* |
| Global Property Securities | S&P Global Property USD TR | GBP | 1.7% | 6.0% |
| Currencies | | | | |
| Euro | | GBP | 0.9% | 4.0% |
| US Dollar | | GBP | 0.1% | -8.6% |
| Japanese Yen | | GBP | 0.0% | -5.1% |
| Commodities & Alternatives | | | | |
| Commodities | RICI TR | GBP | 3.0% | -4.3% |
| Agricultural Commodities | RICI Agriculture TR | GBP | -0.7% | -12.5% |
| Oil | Brent Crude Oil | GBP | 5.1% | 7.4% |
| Gold | Gold Spot | GBP | 2.1% | 3.2% |
| Interest rates | | | | |
| United Kingdom | | | 0.50% | |
| United States | | | 1.50% | |
| Eurozone | | | 0.00% | |
| Japan | | | 0.10% | |

Asset Allocation Dashboard



| Asset class | View |
|---|---|
| Equities | |
| Developed equities |  |
| UK equities (relative to developed) |  |
| European equities (relative to developed) |  |
| US equities (relative to developed) |  |
| Japan equities (relative to developed) |  |
| Emerging market equities |  |
| Fixed Income | |
| Government |  |
| Index-linked (relative to government) |  |
| Investment grade (relative to government) |  |
| High yield |  |
| Emerging market debt |  |
| Convertible bonds |  |
| Alternatives | |
| Commodities |  |
| Property (UK) |  |
| Infrastructure |  |
| Liquid Alternatives |  |
| Currencies | |
| GBP |  |
| Euro |  |
| Yen |  |

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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).

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