HARMONY FUNDS
Multi Manager, Multi Asset Class Solutions

momentum

Harmony Portfolios

Quarterly Report

30 June 2015

Q2

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at 62 Queen Street, London, EC4R 1EB.

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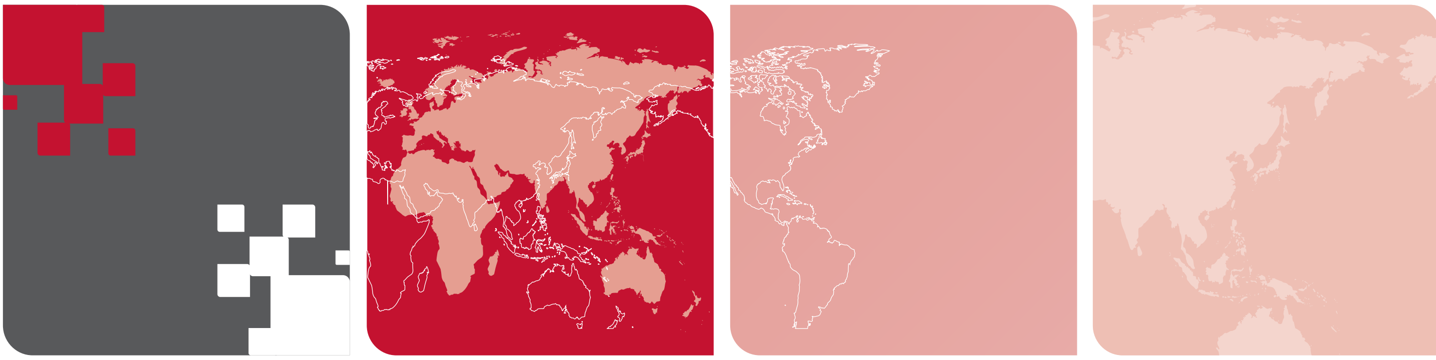

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1. Portfolio objectives and overview

The eight Harmony Portfolios are offered via single priced Funds, providing a cutting edge solution for investors with efficient management, improved client administration and enhanced liquidity. The eight profiles are US Dollar Balanced, US Dollar Growth, Europe Diversified, Sterling Balanced, Sterling Growth, Asian Balanced, Asian Growth and Australian Dollar Growth. With eight bespoke Funds to choose from, the individual needs of each client can be provided for via a combination of one or more of these core solutions, together with selected satellite funds at a client level.

Each Harmony Fund offers a well-diversified solution, with exposure to seven key asset classes: cash, investment grade fixed income (bonds), alternative fixed income (emerging market debt and high yield bonds), equities (shares), alternatives (funds of hedge funds), commodities and property. The portfolios are diversified by asset class, currency, regional equity exposure, manager and style in order to provide sustainable returns and reduced volatility. Many of the managers are inaccessible to the retail market and all are appointed at a highly competitive fee level.

The portfolios are managed by a team of experienced investment professionals at Momentum Global Investment Management, authorised and regulated by the Financial Conduct Authority in the UK and is an authorised Financial Services Provider in South Africa in terms of the Financial Advisory and Intermediary Services Act 2002 (FAIS). Investors can be confident that their portfolios are being managed within a strictly regulated environment by a well qualified and experienced team with significant resources spent on manager research across the globe. Momentum Global Investment Management is wholly owned by MMI Holdings in South Africa.

The Harmony Investment Committee is in regular contact with the team in London and this ensures that the construction of the Harmony Funds is a two way process. Any comments from clients and advisers can therefore be fed through to the portfolios if deemed appropriate.

2. Portfolio commentary

The Harmony Fund range is designed to provide investors with a balance between the stability of bond returns and the potential for significant participation in equity market strength. The Funds have either a "Balanced", "Diversified" or "Growth" profile, with each offering progressively greater exposure to the equity market. On a through-the-cycle basis, they will have the majority of their assets invested in a "home" region with the balance invested in global assets. The particular weighting to each region will depend on relative valuation opportunities. These Funds will also use asset allocation on a tactical basis to take advantage of short term valuation opportunities.

Global markets saw reasonably large swings during the second quarter, but many equity and bond indices ended the period close to where they started. Equities continued to rise in value during April and May, while bonds fell, but the second half of June brought a sharp rise in volatility and a reversal of these trends. Against this backdrop most of the Harmony Funds performed well in April and May, extending what had already been a strong start to the year, but then posted declines in June. The overall result was a reasonably wide range of returns across the various Funds over the quarter, with several posting declines. Nonetheless performance for all the Funds compares favourably to most peers with comparable currency and risk profiles, as well as to representative combinations of equity and bond index returns for each region.

The Asian Balanced and Asian Growth Funds performed best during the second quarter, gaining 0.7% and 0.9% respectively, while the US Dollar Funds both posted small gains. The Europe Diversified Fund fell 0.9%, while the Australian Dollar and Sterling Funds fell around 2-3% in local currency terms. Despite being a difficult quarter for some of the Funds, they all remain in positive territory year to date, net of all fees. Most have delivered low single digit returns in their base currencies, while the AUD and EUR Funds have delivered larger gains of 4.9% and 9.8% respectively.

Key market drivers over the quarter included a modest gain for global equities, sharply rising yields on developed market government bonds and a pause in the recent trend towards dollar strength.

Considering equities first, the Japanese market outperformed with a 5.8% gain, while US and Asian markets also rose slightly. Having gained 7.7% in April alone, broader emerging markets only just ended the period in positive territory with a 0.7% gain in USD terms, after falls in May and June. Meanwhile the UK market fell 2.8%, driven by weak performance from several of the large cap mining and pharmaceutical businesses that dominate the index. The Europe ex UK and Australian markets proved laggards with falls of 4.4% and 6.5% respectively. However, Europe remains among the better performing markets year to date with a 13.7% rise, only bettered among major markets by Japan's 17.0% rise. Overall global equities posted a marginal gain of just 0.3% in US dollar terms for the quarter.

Government bond yields rose for most countries. The moves were reasonably large, 40 basis points or so on 10 year bonds in the US and UK and higher elsewhere, resulting in losses for holders. This resulted in meaningful declines for bond indices, of as much as 5.4% in the case of European sovereign bonds. We continue to have little to no exposure to developed market government bonds across the Harmony Funds, but these moves did have implications for other interest rate sensitive investments, such as the listed real estate and infrastructure sectors which underperformed broader equity markets as a result. The areas of fixed income markets that we do have exposure to weathered this period of rising rates well, with US high yield and global convertible bonds both roughly flat for the period.

On currencies, the US dollar weakened almost 3% over the quarter, measured against a basket of major trading partners, which boosted the return for global indices when measured in USD terms. This comes after a period of pronounced dollar strength though, with the greenback still around 20% stronger over twelve months.

Both our asset allocation and manager selection decisions contributed meaningfully to performance of all of the Funds during the quarter. Across most of the Funds, key factors driving the contribution from asset allocation included our overweight towards equities, high yield and convertible bonds. Of particular benefit were our Asian convertible bond holdings, represented across all the Funds. We also benefited from having little to no exposure to government and investment grade bonds as well as our reduced allocation towards listed real estate; decisions that all helped to preserve capital. The composition of our equity holdings also contributed to performance - for example being overweight Japan and Emerging Markets. Manager selection was a smaller contributor to returns over the quarter, but still had a positive effect across all the Funds, driven mostly by our equity holdings.

We were reasonably active during the quarter, implementing various small changes to both asset allocation and manager selection across the Funds. There were two main asset allocation changes:

Towards the end of April we reduced our Emerging Market equity and Asia convertible bond holdings following very strong returns that month. Valuations in these areas still look attractive, so they remain well represented in the Funds, but we felt it was prudent to marginally reduce the risk contribution from these areas in favour of slightly higher cash levels.

Then, towards the end of the quarter, we sold our holdings in Polar Japan Equity across most of the Funds, following gains of around 30% over the last year, representing significant outperformance versus the flat USD return from global equities over that period. We maintained the same overall equity allocation by adding to the Crux European Special Situations fund; run by a manager that we have invested with for many years in the European Harmony fund. This decision follows a period of underperformance for European equities, driven by the ongoing Greek debt crisis, which we believe presented an attractive buying opportunity.

We also made three small changes to our manager selection during the quarter. We believe these additions improve the performance potential of the funds, whilst also improving style balance and diversification.

In the Harmony Europe Diversified fund we invested in the TwentyFour Dynamic Bond fund; an unconstrained strategy investing across the entire European Fixed Income spectrum with a focus on the team's areas of expertise which includes credit and financials.

In the Harmony Asia Funds we switched our emerging market equity allocation from our previous incumbent manager Dimensional to a new fund managed by Sands. We continue to hold Dimensional in the other Harmony funds, but made this switch within the Asian funds in recognition that Sands' growth investment style is highly complementary to the more value orientated exposure that our other Asia-focused managers provide.

We also added a small holding in a new global convertible bond strategy managed by Westwood across all the Funds. This follows on from a detailed research review we conducted into the sector, reviewing and meeting more than ten managers. Due to relatively small assets in the Westwood strategy the managers are able to be more selective than many of their peers, holding around 40-60 names with a tilt towards small caps and growth names. This new strategy sits alongside our existing holdings in two convertible bond strategies managed by RWC which – for the time being – continue to represent the bulk of our exposure to the asset class.

Despite these small changes the overall positioning of the Funds remains similar; we hold meaningful allocations to a diverse range of high quality equity strategies, across various regions and sectors, balanced with listed real estate and infrastructure holdings as well as fixed income holdings across credit, convertible and emerging market bonds. We remain of the view that global equity markets offer reasonable value over the medium to long term whereas government bonds do not, and this view is reflected in the asset allocation of the funds.

Source: Bloomberg / Morningstar. Returns in US dollars unless otherwise stated, June 2015. Past performance is not indicative of future returns.

3. Recent portfolio activity and positioning

During the fourth quarter the following changes were made to the funds:

Increased allocation	Decreased allocation
Apr'15: **Cash**	Apr'15: **Emerging Market Equity**
Apr'15: **European Credit**[1]	Apr'15: **Asia Convertible Bonds**
Jun'15: **Europe ex UK equity**	Jun'15: **Japan equity**

Manager changes during the quarter:

Holding initiated	Holding sold
Apr'15: **TwentyFour Dynamic Bond**[1]	
Apr'15: **Westwood Strategic Convertibles**	
May' 15: **Sands Emerging Markets**[2]	May'15: **Dimensional Emerging Markets**[2]
Jun'15: **Crux European Special Situations**[3]	Jun'15: **Polar Japan equity**[4]

[1] Harmony Europe Diversified only
[2] Harmony Asia Balanced and Harmony Asia Growth only
[3] Harmony USD, GBP and AUD Funds only
[4] All funds except Harmony Asia Balanced and Harmony Asia Growth

4. Target portfolios

	Balanced	Diversified	Growth
Equities	45.0%	55.5%	70.0%
Fixed Income	38.0%	31.5%	17.0%
Property/Infrastructure	8.0%	8.0%	8.0%
Cash	9.0%	5.0%	5.0%
Total	**100.0%**	**100.0%**	**100.0%**

These target weights are correct as at the time this report is published and are indicative of the managers' medium term outlook for markets, which is driven principally by their assessment of relative valuation opportunities. The property exposure includes exposure to listed infrastructure.

5. Fund and peer group performance

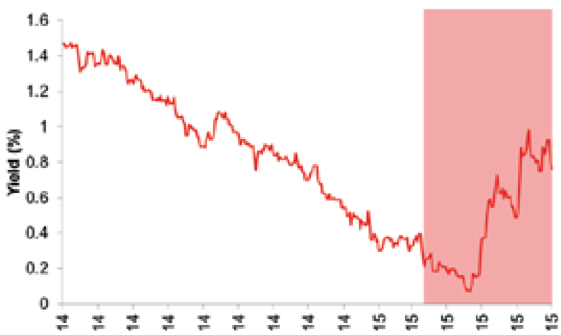
Fund returns (local currency)	Performance to 30 June 2015 3 months	6 months	2014	2013	3 Years (annualised)
Asian Balanced (US dollars)	0.7%	2.3%	0.7%	2.5%	4.2%
Peer group median	-0.9%	-3.5%	-4.5%	7.4%	2.7%
Asian Growth (US dollars)	0.9%	3.2%	2.3%	6.2%	7.1%
Peer group median	-0.7%	-2.3%	-3.7%	7.4%	3.5%
Global equities	0.4%	2.7%	4.2%	22.8%	13.0%
MSCI AC Asia Pacific ex Japan	-1.0%	3.4%	2.8%	3.4%	8.5%
AUD Growth	-2.1%	4.9%	6.0%	17.1%	12.0%
Peer group median	-2.1%	2.3%	5.7%	17.3%	10.9%
Global equities	-0.1%	9.6%	14.5%	43.2%	25.1%
ASX All Ordinaries	-6.3%	3.3%	5.0%	19.7%	14.5%
Europe Diversified	-0.9%	9.8%	6.0%	7.8%	10.2%
Peer group median	-2.6%	3.8%	5.2%	4.8%	6.3%
Global equities	-3.3%	11.5%	18.6%	17.5%	18.0%
MSCI Europe ex UK	-4.4%	13.7%	6.4%	22.1%	19.2%
GBP Balanced	-2.3%	1.9%	3.2%	10.6%	6.6%
Peer group median	-3.2%	-0.5%	3.1%	9.9%	6.2%
GBP Growth	-2.9%	1.9%	4.1%	16.9%	9.8%
Peer group median	-3.2%	-0.4%	3.0%	10.3%	6.3%
Global equities	-5.3%	1.8%	10.6%	20.5%	12.9%
MSCI UK	-2.8%	1.1%	0.5%	18.5%	9.0%
USD Balanced	0.4%	1.0%	2.0%	10.6%	6.0%
Peer group median	-0.3%	-1.0%	0.7%	11.2%	5.8%
USD Growth	0.1%	0.3%	4.1%	17.6%	9.0%
Peer group median	-0.2%	-0.8%	0.9%	13.3%	6.7%
Global equities	0.4%	2.7%	4.2%	22.8%	13.0%
S&P 500	0.3%	1.2%	13.7%	32.4%	17.3%

Source: Bloomberg, June 2015. Past performance is not indicative of future returns.

6. Market commentary

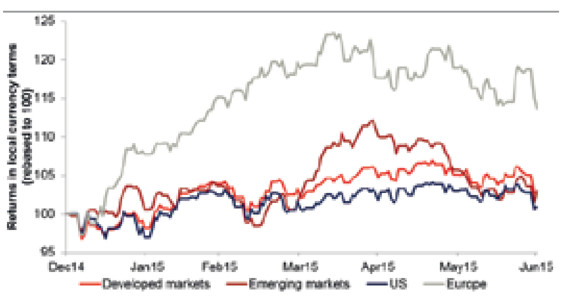
The second quarter started with a sharp reversal in the trend of falling government bond yields, especially in Europe where yields had fallen to all-time lows. From mid-April, when German government 10-year yields reached a low of 0.07%, yields increased almost tenfold to 0.55% in early May. These moves were arguably a reaction to consensus trades that had been in place for a long time, including bets on US dollar strength and a disinflationary Europe. With inflation returning to Europe, and the dollar paring its gains as the US economy slowed, yields spiked. In other asset classes, market volatility increased towards the end of the quarter as fears over a 'Grexit' from the Eurozone rose, along with steep declines in Chinese equities and uncertainty around the first rise in US interest rates.

Figure 1: German 10-year government bond yields



We view the latest pullback in markets as a healthy correction rather than something more sinister. The supportive monetary environment will ensure continuing high levels of liquidity in global markets, and while there are clear risks, none of these appear to us to be potentially damaging enough to result in a renewed global bear market.

Figure 2: Global equity market correction



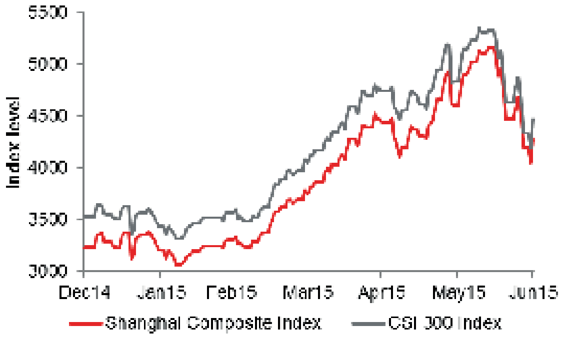
Greece continued to grab the headlines during the quarter, with the governing Syriza party eventually calling a referendum on the latest terms being offered by the country's creditors. Greek voters returned a 'No' vote, strengthening Syriza's position domestically but also prompting Greece's European partners to harden their stance. At the time of writing, it looks increasingly likely that a deal will be reached between the two sides, with Greece assenting to many of the terms prescribed by its creditors.

Away from Greece, Europe's economy appears to be improving, with first quarter GDP growth of 0.4% quarter-on-quarter (1.6% annualised), and with the periphery at long last showing signs of recovery. Spain grew by 0.9% quarter-on-quarter, the strongest economy in the euro area in Q1 and well ahead of Germany's growth rate of 0.3%.

Central bank watching has been of keen interest to investors in the past several years, and this pattern continued in the first quarter, with the US Federal Reserve (Fed) intent on starting the process of normalising interest rates. Earlier expectations of a June rise have been pushed back due to the weak performance of the economy in Q1, and the noises from the Fed have tended to err on the dovish side. The central bank has emphasised the data dependency of the decision, the impact of a strong dollar and risks to global growth outside the US, notably from Greece and the slowdown in China.

Market moves in China have been extraordinary, with very sharp rises (gains of over 100% over the past nine months) being followed by a sharp correction towards the end of the quarter. Since the market peak in mid-June, shares listed on the Shanghai Composite index have fallen by circa 17% to the end of the quarter, prompting fresh intervention by China's authorities. Having been driven higher by an extraordinary surge in retail buying, much of it on margin and leveraged, some kind of sell-off was arguably to be expected.

Figure 3: Chinese equity returns



Finally, in the UK, the outright Conservative party win in the UK general election confounded all the pollsters. The outlook for the UK and sterling is now encouraging, with a business friendly, reform-minded, free enterprise government in power with a clear mandate. Although the prospect of a referendum on the UK's continuing membership of the EU is likely to cause some nervousness as the poll approaches, the strong likelihood is that the Prime Minister will be able to secure sufficient EU-reforms to persuade the electorate to maintain the status quo.

Source: Bloomberg, June 2015. Returns in US dollars unless otherwise stated.

7. Market Summary

		To 30 June 2015		
Asset Class/Region	**Index**	**Currency**	**Quarter**	**12 Months**
Developed markets equities				
United States	S&P 500 NR	**USD**	0.1%	6.8%
United Kingdom	MSCI UK NR	**GBP**	-2.8%	-0.2%
Continental Europe	MSCI Europe ex UK NR	**EUR**	-4.4%	13.8%
Japan	Topix TR	**JPY**	5.8%	31.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	-1.0%	-0.7%
Global	MSCI World NR	**USD**	0.3%	1.4%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	4.3%	-25.9%
Emerging Asia	MSCI EM Asia NR	**USD**	-0.2%	3.1%
Emerging Latin America	MSCI EM Latin America NR	**USD**	3.5%	-23.4%
BRICs	MSCI BRIC NR	**USD**	4.6%	0.5%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	0.7%	-5.1%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-1.9%	2.6%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-1.3%	-1.7%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-3.2%	0.8%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	0.0%	-0.4%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-3.6%	9.3%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	-3.9%	6.5%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	-5.4%	4.4%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	-2.9%	1.8%
Euro High Yield	Barclays European HY 3% Issuer Constraint Total Return Index Value	**EUR**	-1.7%	1.7%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-0.2%	2.3%
Australian Government	JP Morgan Australia GBI TR	**AUD**	-2.9%	6.3%
Global Government Bonds	JP Morgan Global GBI	**USD**	-1.7%	-7.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-1.2%	-7.0%
Global Convertible Bonds	UBS Global Focus Convertible Bond	**USD**	1.0%	-4.7%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	-0.9%	-2.1%

Source: Bloomberg, December 2014.

Asset Class/Region	Index	Currency	To 30 June 2015 Quarter	12 Months
Property				
US Property Securities	MSCI US REIT NR	**USD**	-10.7%	2.7%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	-3.9%	15.5%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	4.5%	7.6%
Global Property Securities	S&P Global Property USD TR	**USD**	-5.0%	1.3%
Currencies				
Euro		**USD**	3.9%	-18.6%
UK Pound Sterling		**USD**	6.0%	-8.1%
Japanese Yen		**USD**	-1.7%	-17.5%
Australian Dollar		**USD**	1.3%	-18.3%
South African Rand		**USD**	-0.3%	-12.6%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	6.8%	-27.0%
Agricultural Commodities	RICI Agriculture TR	**USD**	7.7%	-10.8%
Oil	ICE Crude Oil CR	**USD**	15.4%	-43.4%
Gold	Gold Spot	**USD**	-1.0%	-11.7%
Hedge funds	HFRX Global Hedge Fund	**USD**	-0.8%	-1.1%
Hedge funds	Dow Jones Credit Suisse Hedge Fund USD	**USD**	-0.5%	3.3%

* *Estimate*

Source: Bloomberg, December 2014.

Important Notes

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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).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London, EC4R 1EB.

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