momentum

Harmony Portfolios

Quarterly Report

30 September 2016

Q3

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

HARMONY FUNDS
Multi Manager, Multi Asset Class Solutions

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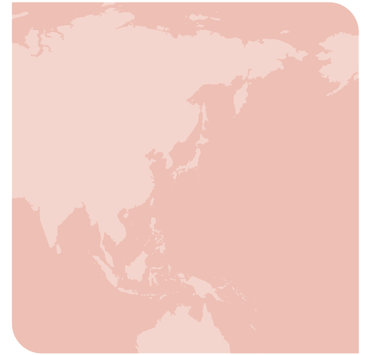

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Q3 Quarterly Report

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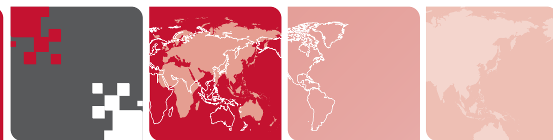
1. Portfolio Objectives and Overview

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, Euro Balanced, 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

All of the Harmony funds delivered strong returns in the third quarter, with gains of between 3 to 6% net of fees in their respective base currencies. The Sterling funds were among the best performers, with the Balanced and Growth profiles gaining 5.1% and 6.3% respectively. The Asian funds were also among the leading performers, gaining 4.5% and 6.1% for the Balanced and Growth profiles respectively. The US Dollar Balanced and US Dollar Growth funds gained 3.6% and 4.6%, while the European and AUD funds gained 3.3% and 3.0% respectively.

Equity and credit markets performed well in the third quarter, extending their already decent year to date gains. In local currency terms global developed market equities returned 4.9%, led by Japan (7.1%) and the UK (7.0%) while continental European equities (4.8%) also outperformed. US equities underperformed with a return of 3.7%. Global emerging market equities returned 7.6% in local currency terms. Within credit, high yield bonds gained 5.6% in the US and 3.3% in Europe, outperforming higher rated investment grade bonds across both regions. Government bonds in the US and Japan were among the few areas that delivered losses over the quarter, although the global government bond index was only marginally down in local currency terms as those losses were partially offset by gains from European and UK government bonds. Commodity markets, including both oil and gold, also saw modest declines over the quarter.

Given the backdrop of equity market strength across global developed and emerging markets, equity positions were the main contributors to performance across all of the funds over the quarter. These gains were augmented by positive contributions from manager selection across all of the funds, most notably in the US Dollar funds where this made up over a quarter of the fund's returns. All but one of our US equity managers outperformed the local market, led by Lyrical and Granahan who returned 8.1% and 18.3% respectively.

Equity allocations across the funds are now at the low end of the range of the last couple of years, but nonetheless we still have half to two-thirds invested in equity markets (depending on the risk profile) - reflecting our view that this is where the best returns will come from over the medium term. Our allocations were higher across the board earlier in the year, after we used the market sell-off in January and early February as an opportunity to add to our equity and credit holdings. Since then we have gradually taken profits as markets have rebounded from those lows, including reducing equity allocations across the funds by around 3-4% during the last quarter, moving the proceeds into short maturity corporate bonds and cash.

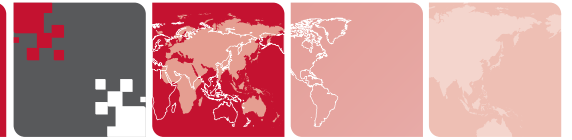
The funds also benefited substantially from their positioning within fixed income, where the main contributors included high yield, convertible and hard currency emerging market bonds. These holdings generally gained 3-4% over the period, well ahead of most government bond markets. The standout performer was UK Investment Grade Credit within the Sterling funds which rose an impressive 6.0%.

Meanwhile the US dollar and Sterling both weakened versus most other major and emerging market currencies, the resulting effect boosted returns for the international holdings in the Sterling and US dollar based funds.

Considering asset allocation and manager selection changes, some were initiated at the end of the previous quarter and so were discussed in the previous quarterly fund commentary. This includes the reduction in equity allocations and the switch from Pictet to Fullerton as our Asian local currency debt manager within the two Asian funds.

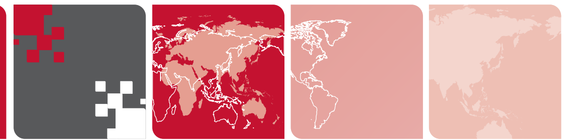
There was one additional change made later in the quarter within the equity portion of the US Dollar portfolios, where we sold the Harris US Concentrated holding and reallocated the proceeds to existing holdings in Artisan Global Value and Wells US All Cap Growth. This served to both reduce our US Equity allocations slightly, in favour of markets outside the US where we see relatively more attractive valuations, and also to improve the style balance within the funds, by increasing exposure to growth stocks and reducing the bias towards value stocks. Also, a recent review meeting with the portfolio manager of the Harris strategy highlighted some concerns which lowered our conviction in the strategy; we still believe they are an excellent manager that will deliver strong performance over time, but we have more conviction in our other equity managers.

The Harmony funds have been well positioned for the recent strong run in markets, which has led to good returns year to date. Both of the Sterling funds have gained over 12.0% net of fees, the Asian and US Dollar funds are all up by between 6-8% and the AUD Growth fund is up by 4.5%. The Europe Diversified fund has been the laggard, up by only 1.0% as a result of European equity markets being down almost 4.0% this year.



Looking ahead we have modest return expectations and are positioned more defensively than earlier in the year, with a view to taking advantage of any buying opportunities that market volatility might present. The current cycle has further to run but the strong rise in markets this year has taken valuations to levels which are vulnerable to a setback, with several near and medium term risks on the horizon that could potentially trigger this. We believe the global economy will continue to grow modestly supported by loose monetary policy for a long time to come, but some caution is warranted in the near term. Within equities we remain well diversified by sector, style, geography and managers, while the remainder of the holdings are spread across specific fixed income and alternative asset classes. We continue to avoid areas within fixed income markets where valuations look very high, particularly developed market government bonds, instead favouring higher yielding credit as well as emerging market and convertible bonds. As valuations move higher in these areas, increasing potential downside risks, we plan to increase allocations to more defensive and less correlated strategies including liquid alternatives

Source: Bloomberg / Morningstar. Returns in US dollars unless otherwise stated, September 2016. Past performance is not indicative of future returns.

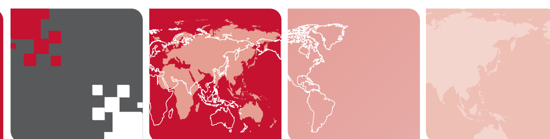


3. Recent Portfolio Activity and Positioning

The table below shows the portfolio activity throughout the quarter.

Date	Holding initiated/ Increased	Holding sold/ Decreased	Harmony funds
February	**Blackrock Global Real Estate** / First State Global Listed Infrastructure	Cash / **Muzinich Emerging Markets Corporate Bond**	All
February	Crux European Special Situations / Polar Japan / Schroder Recovery	Cash / **Muzinich Emerging Markets Corporate Bond**	All
February	**Blackrock USD / GBP IG Corporate Bond**	Cash	All
February	**Crux European Special Situations**	Cash	Asian
February	Pictet Asia Local Currency Bond	**Muzinich Emerging Markets Corporate Bond**	Asian
March	**Jennison Global Opportunities**	Wells US All Cap Growth	US Dollar
March	**Cadence Strategic Asia**	Prusik Asian Income	Asian
April	Cash / Muzinich Enhanced Yield	Global Developed / Emerging Market Equity	All
April	Cash / AXA IM US Short Duration High Yield	AXA IM US High Yield	All
May	**Goldman Sachs Long Short Risk Premia**	Cash	All
July	Cash / Muzinich Enhanced Yield	Global Developed / Emerging Market Equity / Listed Infrastructure	All
July	**Fullerton Asian Local Currency Bond**	**Pictet Asian Local Currency Debt**	Asian
September	Artisan Global Value / Wells US All Cap Growth	**Harris US Concentrated Equity**	US Dollar
September	Cash	RWC Asia Convertible Bond	All

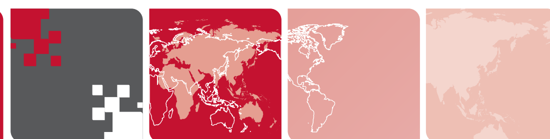
Asset Allocation
Manager Selection



4. Target Portfolios

	Balanced	Diversified	Growth
Equities	42.0%	54.5%	67.0%
Fixed Income	42.0%	31.5%	15.5%
Property/Infrastructure	10.0%	10.0%	10.0%
Cash	6.0%	4.0%	7.5%
Total	**100.0%**	**100.0%**	**100.0%**

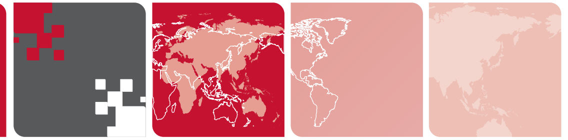
These target weights are correct as at the time this report is published and are indicative of the managers' medium term outlook for markets, which is driven principally by their assessment of relative valuation opportunities. The property exposure includes exposure to listed infrastructure.



5. Fund and Peer Group Performance

Fund returns (local currency)	Performance to 30 September 2016					
	3 months	6 months	2015	2014	2013	3 Years (annualised)
Asian Balanced (US dollars)	4.5%	4.9%	-4.3%	0.7%	2.5%	1.4%
Peer group median	3.5%	2.0%	-9.1%	-4.5%	7.4%	-2.2%
Asian Growth (US dollars)	6.1%	6.4%	-4.5%	2.3%	6.2%	2.4%
Peer group median	3.9%	2.6%	-8.3%	-3.7%	7.4%	-1.5%
Global equities	5.3%	6.3%	-2.4%	4.2%	22.8%	5.2%
MSCI AC Asia Pacific ex Japan	9.7%	10.2%	-9.4%	2.8%	3.4%	2.3%
AUD Growth	3.0%	6.7%	2.3%	6.0%	17.1%	5.7%
Peer group median	0.8%	3.5%	3.8%	5.7%	17.3%	5.5%
Global equities	2.6%	7.2%	10.4%	14.5%	43.2%	13.0%
ASX All Ordinaries	5.3%	9.5%	3.8%	5.0%	19.7%	6.4%
Europe Diversified	3.3%	3.6%	5.8%	6.0%	7.8%	4.8%
Peer group median	2.0%	1.9%	2.4%	5.2%	4.8%	3.2%
Global equities	4.1%	7.8%	8.8%	18.6%	17.5%	11.9%
MSCI Europe ex UK	4.8%	3.7%	10.7%	6.4%	22.1%	6.4%
GBP Balanced	5.1%	9.2%	0.2%	3.2%	10.6%	6.0%
Peer group median	6.1%	9.7%	-0.4%	3.1%	9.9%	5.4%
GBP Growth	6.3%	10.8%	0.0%	4.1%	16.9%	7.4%
Peer group median	6.3%	9.7%	-0.4%	3.0%	10.3%	5.3%
Global equities	8.4%	17.7%	3.3%	10.6%	20.5%	13.2%
MSCI UK	7.0%	14.2%	-2.2%	0.5%	18.5%	5.7%
USD Balanced	3.6%	4.6%	-4.6%	2.0%	10.6%	2.0%
Peer group median	2.9%	3.5%	-4.4%	0.7%	11.2%	1.8%
USD Growth	4.6%	5.3%	-6.2%	4.1%	17.6%	2.6%
Peer group median	3.2%	3.8%	-4.6%	0.9%	13.3%	2.0%
Global equities	5.3%	6.3%	-2.4%	4.2%	22.8%	5.2%
S&P 500	3.7%	6.1%	0.8%	13.7%	32.4%	10.5%

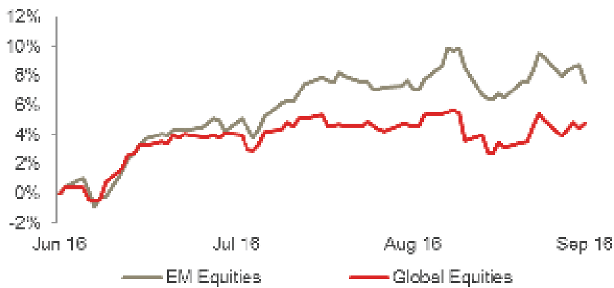
Source: Bloomberg, September 2016. Past performance is not indicative of future returns.



6. Market Commentary

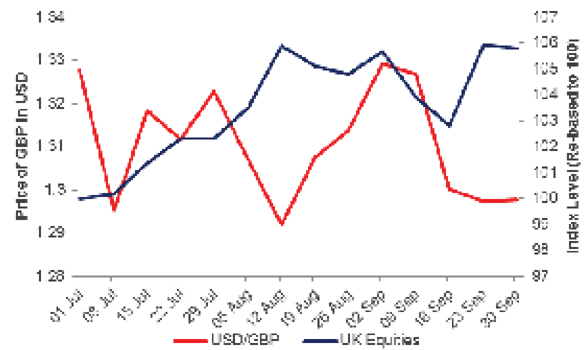
The majority of financial asset holders enjoyed a broadly market friendly third quarter. Over the period the MSCI World Index gained 4.9% in local terms and is now up 10.5% over twelve months. Central Bank actions were pivotal over the period as all maintained or extended their already extensively loose monetary policy regimes. As usual the US Federal Reserve (Fed) attracted most attention; economic data out of the US was broadly positive over the quarter but mixed enough to hold back the Fed from increasing rates. This helped continue the trend of falling global bond yields, with USD 11.7 trillion of issued global debt yielding negative returns as of the end of the quarter. Such an environment increased the relative appeal of riskier assets with traditionally higher yields, leading to strong, broad gains in equities. Emerging markets outperformed as a region across equity and fixed income with the MSCI Emerging Markets index gaining 7.6% and EM bonds returning 3.7%.

Figure 1: EM's strong quarter

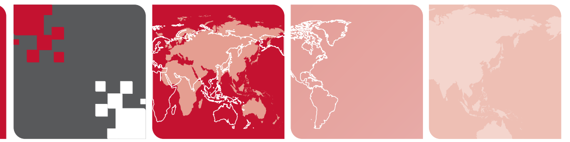


Over the quarter, the UK's reaction to the Brexit vote in June remained a central theme in markets. Fortunately the vote quickly proved not to be the globally systemic shock that many had predicted: the relatively smooth transition of Theresa May into the role of Prime Minister, as well as the Bank of England cutting interest rates to 25 basis points and extending their asset purchase program, helped to support markets. As the quarter progressed the economic data painted a picture of resilience as the UK composite Purchasing Manager's Index, a barometer of general economic activity, posted a record increase from a low point in July to August, rising 12.8% to 53.6 (above 50 representing an expansion). Meanwhile, following its sharp fall in reaction to the Brexit vote, sterling broadly maintained its value until September, when Theresa May's announcement that Article 50 will be invoked by the end of March 2017, together with signals that the government will prioritise immigration restrictions over access to the single market, as well as cautious comments from the Chancellor of Exchequer on the economy's short-term prospects, triggered a renewed slide in sterling to a thirty-one year low against the US dollar

Figure 2: UK equities benefit from weaker Sterling

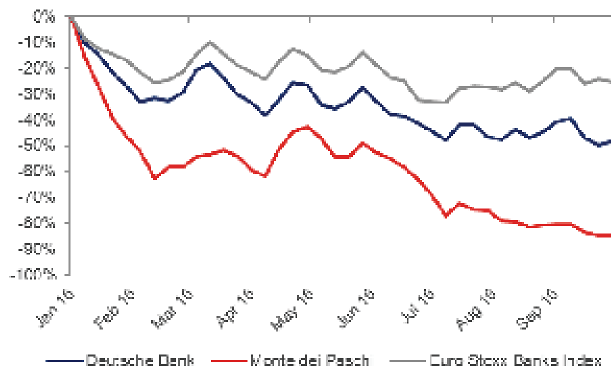


Japan, as the economy at the forefront of the quantitative easing experiment, was watched carefully over the period. Yields rose as the Bank of Japan (BoJ) failed to lower rates even further in their July meeting, whilst economic growth and inflation, the target beneficiaries of QE, continued on their flat path. A fiscal stimulus package worth JPY 4.6 trillion was announced by newly re-elected PM Shinzo Abe in pursuit of stimulating growth, whilst BoJ governor Haruhiko Kuroda issued a statement that he would not hesitate to boost monetary stimulus if needed and that there was ample space for additional easing measures. The measures had the desired effect on Japanese equities, which gained 7.1% for the quarter, but not on the currency, as the yen continued its upward trend with a quarterly appreciation of 1.8% versus the US dollar. In its last meeting, the BoJ announced it will now aim to shape the yield curve and target a specific yield on ten-year JGBs, initially set at zero. This, although undoubtedly a significant shift in policy, highlights the growing concern among central banks, financial institutions and investors that monetary policy is losing its effectiveness.



European equity and credit markets maintained the upward trend, as the Stoxx 600 and European corporate bonds gained 4.4% and 1.8% respectively. However performance was held back somewhat by the shares of selection of large undeforming banks, most notably Deutsche Bank and Monte dei Paschi, which came under severe pressure on concerns that they will need a large capital raise. The problems for banks in the Eurozone are several: weak profitability as a result of negative rates; large non-performing loans; regulatory problems and massive fines from pre-crisis legacy problems. Further capital raising and equity dilution appears inevitable, and the fact that EU banks remain weak eight years after the crisis is clearly unhealthy for the economy and a constraint on growth.

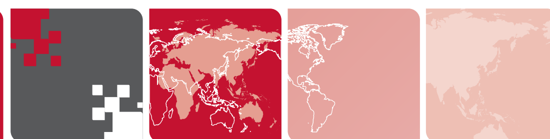
Figure 3: European banks continue to struggle



Commodities experienced a less positive quarter, with the asset class as a whole retreating 1.5%. Brent crude oil traded with high volatility throughout the period. Rumours ahead of an informal OPEC meeting in September which culminated in a preliminary agreement to freeze production, as well as unpredictable US oil stockpile data, were to blame for most of the volatility. Despite this, oil broadly traded within a 20 dollar band around USD 40-60 per barrel over the quarter, and ended 1.2% down for the period at USD 49.06 per barrel. Gold meanwhile, after its excellent run over the first two quarters gaining 22.5%, suffered somewhat with the rally in risk assets, falling 0.5% for the three months.

The strong performance of financial assets over the quarter has taken valuations to high levels across most asset classes, and to extreme levels of over-valuation in safe haven government bonds. Ultra-expansionary monetary policy has been a driving force for returns as investors seek yield in a low return environment. Looking forward, The Fed looks set to raise rates in December as economic data improves and inflation begins to pick up, although the US Presidential election introduces uncertainty before any potential hike, with the risk of causing short term market disruption. Meanwhile perpetually loose monetary policy is increasingly being called into question as it puts financial institutions under increasing strain and creates potential asset bubbles. The current cycle has further to run but the rise in markets in the past eight months has taken valuations to levels which are less immune to a setback. Investors should remain invested as we believe the global economy will continue to grow modestly without triggering a sharp increase in inflation while central banks will provide accommodative policy for a long time to come, but short term caution is warranted.

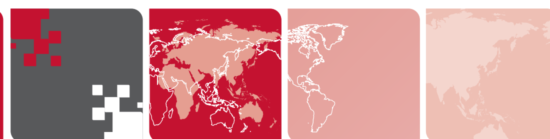
Source: Bloomberg, September 2016. Returns in US dollars unless otherwise stated.



7. Market Performance

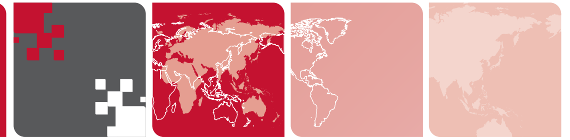
Asset Class/Region	Index	Currency	Quarter	12 Months
		To 30 September 2016		
Developed markets equities				
United States	S&P 500 NR	**USD**	3.7%	14.7%
United Kingdom	MSCI UK NR	**GBP**	7.0%	18.4%
Continental Europe	MSCI Europe ex UK NR	**EUR**	4.8%	2.2%
Japan	Topix TR	**JPY**	7.1%	-4.2%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	9.7%	18.1%
Global	MSCI World NR	**USD**	4.9%	11.4%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	4.4%	8.8%
Emerging Asia	MSCI EM Asia NR	**USD**	10.5%	16.9%
Emerging Latin America	MSCI EM Latin America NR	**USD**	5.4%	28.6%
BRICs	MSCI BRIC NR	**USD**	11.5%	18.1%
Global Emerging Markets	MSCI EM (Emerging Markets) NR	**USD**	9.0%	16.8%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.3%	4.5%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	1.1%	7.0%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	1.4%	8.6%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	5.6%	12.7%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	2.3%	13.2%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	6.0%	14.3%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.7%	6.9%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	1.8%	7.4%
Euro High Yield	Barclays European HY 3%, Issuer Constraint Total Return Index Value	**EUR**	3.3%	8.5%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	-2.1%	6.7%
Australian Government	JP Morgan Australia GBI TR	**AUD**	0.9%	6.4%
Global Government Bonds	JP Morgan Global GBI	**USD**	0.2%	9.5%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	0.8%	8.0%
Global Convertible Bonds	UBS Global Focus Convertible Bond	**USD**	3.8%	5.2%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	3.1%	17.8%

Source: Bloomberg, September 2016. Past performance is not indicative of future returns.



		To 30 September 2016		
Asset Class/Region	**Index**	**Currency**	**Quarter**	**12 Months**
Property				
US Property Securities	MSCI US REIT NR	**USD**	6.5%	22.4%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	**AUD**	7.7%	18.8%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	2.2%	-5.1%
Global Property Securities	S&P Global Property USD TR	**USD**	3.6%	9.8%
Currencies				
Euro		**USD**	-2.4%	-0.4%
UK Pound Sterling		**USD**	-7.3%	-15.3%
Japanese Yen		**USD**	9.1%	18.7%
Australian Dollar		**USD**	-2.7%	-3.3%
South African Rand		**USD**	0.3%	-17.4%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	11.9%	-17.3%
Agricultural Commodities	RICI Agriculture TR	**USD**	5.4%	-9.4%
Oil	ICE Crude Oil CR	**USD**	25.5%	-21.9%
Gold	Gold Spot	**USD**	7.3%	12.8%
Hedge funds	HFRX Global Hedge Fund	**USD**	-2.0%	-7.4%

Source: Bloomberg, September 2016. Past performance is not indicative of future returns.



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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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