HARMONY FUNDS
Multi Manager, Multi Asset Class Solutions

momentum

Harmony Portfolios
Quarterly Report

31 December 2015

Q4

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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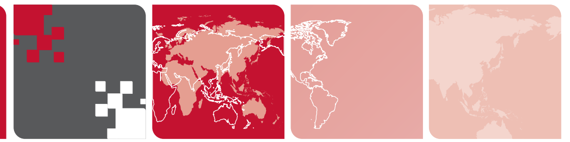
1. Portfolio Objectives and Overview

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

Equity markets rebounded in the fourth quarter of 2015, with global developed market equities gaining 6.2% in local currency terms. Most of the gains came in October, followed by modest gains in November and falls in December. Japan was the strongest performer, up 9.8% in yen terms, while the US and continental European markets gained roughly 6%. The UK market lagged somewhat with a 3.5% return, due in part to the large market exposure to the underperforming energy and mining sectors. Global emerging market equities only gained 1.5% in local currency terms; gains from the Asia region were offset by declines from the Latin America and EMEA regions. Fixed income assets mostly declined, although the global government bond index only fell 0.1%. However, continued US dollar strength versus other majors, including the euro, yen and sterling, led to lower returns for most asset classes when expressed in USD terms.

As a whole 2015 proved to be a tough year for investors. The market environment became increasingly volatile, uncertain and difficult, driven by significant economic and political headwinds. Indeed, there were few hiding places, with all major asset classes producing either negative or barely positive returns, and only one major equity market - Japan - showing a meaningful return in US dollar terms of approximately 10%. Elsewhere, returns ranged from mediocre to extremely weak, with most commodity and emerging equity markets in the latter category.

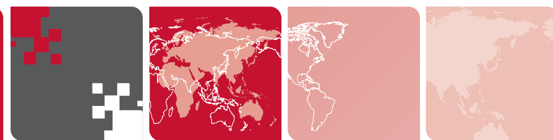
This market backdrop led to divergent performance outcomes for the Harmony funds in 2015, driven by differences across asset allocation and manager selection, as well as the different reporting currencies. In general the funds performed well over the first half of the year and over the final three months, but returns for the full calendar year were impaired by a challenging third quarter. All the funds delivered positive returns for the fourth quarter, rewarding us for maintaining our positions through the period of heightened volatility in the previous three months; although we had reduced risk slightly following the strong start to the year, it would have been hard to avoid the sharp declines that ensued across most asset classes. This was especially the case in those funds that report in US dollar terms, given the greenback's continued rise against virtually all other currencies. Nonetheless, the high level of diversification we maintain in all of the funds – across asset classes, investment styles, managers and currencies – meant that they suffered lower drawdowns than equity markets in the third quarter.

The Europe Diversified Fund posted the largest gain, reflecting the strong performance of local equity markets as well as outperformance from out selected equity managers; the fund added 4.2% in euro terms over the period. The Sterling funds gained 2.3% and 3.3% for the Balanced and Growth profiles, respectively. This was broadly in line with the return of the UK equity market. The Asian Balanced and Asian Growth funds gained 2.0% and 3.0% in US dollar terms, respectfully, benefiting from a 5.2% return for the Asia Pacific ex Japan regional equity index. The Australian Dollar Growth fund returned 1.9% in AUD terms. The local equity market performed well, up 6.6% for the quarter, but this contribution was offset by the diversification into other Asian and local markets which underperformed in AUD terms. This was largely a function of currency moves, due to the Australian Dollar being one of the few currencies to strengthen versus the US dollar over the quarter. The US Dollar Balanced and Growth funds gained 1.8% and 2.9% respectively, lagging the strong return of the local equity market.

The relative contribution from our manager selection and asset allocation decisions varied across the funds, but the former was generally more impactful than the latter. Asset allocation decisions that contributed positively to performance across all the funds included holdings in Japanese equities and convertible bonds, while US high yield and some emerging market equity holdings detracted. Meanwhile, equity manager selection made a meaningful positive contribution in the Sterling and European funds. The funds all benefited from being well diversified by style, as growth and quality orientated stocks significantly outperformed value stocks. This explained the outperformance of 4% or more for some of the holdings, including Lindsell Train in the UK, Sands in the Asia funds and Crux in Europe. There were no significant changes to asset class or manager allocations over the quarter. However, we continued to rebalance the portfolios as necessary over the period, to maintain our positioning after large market moves.

We would have hoped for better results from the two US dollar funds. Many of the above factors, positive and negative, impacted performance of these funds but – as was the case for much of 2015 – the combination of US dollar strength and underperformance from our US equity managers dragged returns down. It is our value-orientated managers that have struggled most, mainly due to the narrowing stock market in the US: a handful of large and highly valued new-economy stocks have driven most of the index gains. Fund returns were also held back by our strategic diversification into assets and currencies outside of the US, which mostly underperformed the local equity market in US dollar terms, but which should improve the risk-reward profile of the funds over the long run. We remain confident in our current manager selection and asset allocation, and continue to believe that it's prudent to increase diversification by incorporating global investments outside of the base currency. Indeed, the factors that held back performance of these funds relative to the US equity market are cyclical in nature and in due course will reverse to become a tailwind.

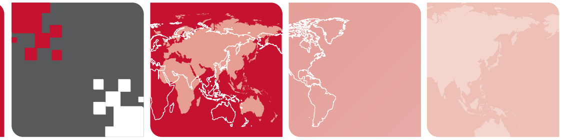
Many of the woes that developed during the year have spilled over into markets in 2016, with one of the weakest starts to the year on record. However, some perspective needs to be retained at a time of a rising chorus of worry. The global economy has softened, but is still growing, and the US, UK, Europe and Japan should all continue to grow modestly throughout this year. Although the US Federal Reserve (Fed) has made its first upward move in this rate cycle, further increases are likely to be very gradual, while the European Central Bank (ECB) and Bank of Japan (BoJ) are



certain to maintain their ultra-loose policies for at least the next 12 months. The fall in the oil price, which to date has had a material negative impact on the global economy, should begin to show through in higher consumer incomes and spending. Employment growth has been strong in the US and UK and is improving in Europe and Japan; yet wage rises remain subdued and inflation is unlikely to become a concern for central banks in the year ahead.

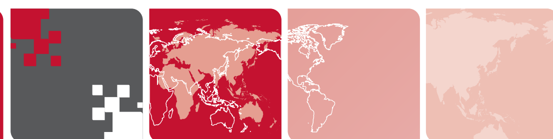
If anything the volatility and nervousness across markets could well result in policy being kept looser for longer. We remain in an environment where returns are likely to be subdued. However, against a background of low yet steady growth in the developed world, further weakness in markets (caused possibly by the malaise in the emerging and commodity producing world), would be a good opportunity to add to equity positions where valuations are now at increasingly attractive levels.

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



3. Recent Portfolio Activity and Positioning

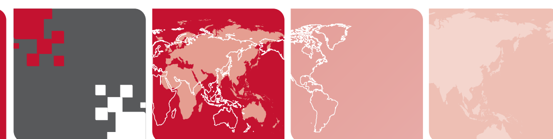
There were no changes to the Harmony portfolios throughout the quarter:



4. Target Portfolios

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

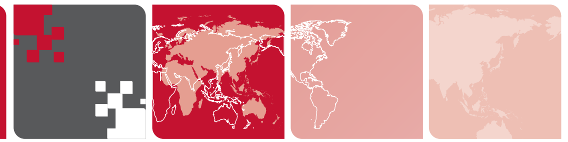
These target weights are correct as at the time this report is published and are indicative of the managers' medium term outlook for markets, which is driven principally by their assessment of relative valuation opportunities. The property exposure includes exposure to listed infrastructure.



5. Fund and Peer Group Performance

Fund returns (local currency)	Performance to 31 December 2015					
	3 months	6 months	2015	2014	2013	3 Years (annualised)
Asian Balanced (US dollars)	2.0%	-6.5%	-4.3%	0.7%	2.5%	-0.4%
Peer group median	0.8%	-5.8%	-9.1%	-4.5%	7.4%	-2.3%
Asian Growth (US dollars)	3.0%	-7.5%	-4.5%	2.3%	6.2%	1.2%
Peer group median	1.2%	-6.1%	-8.3%	-3.7%	7.4%	-1.7%
Global equities	5.0%	-4.9%	-2.4%	4.2%	22.8%	7.7%
MSCI AC Asia Pacific ex Japan	5.2%	-12.3%	-9.4%	2.8%	3.4%	-1.2%
AUD Growth	1.9%	-2.5%	2.3%	6.0%	17.1%	8.3%
Peer group median	0.6%	1.5%	3.8%	5.7%	17.3%	8.8%
Global equities	1.5%	0.7%	10.4%	14.5%	43.2%	21.9%
ASX All Ordinaries	6.6%	0.5%	3.8%	5.0%	19.7%	9.3%
Europe Diversified	4.2%	-3.3%	5.8%	6.0%	7.8%	6.5%
Peer group median	2.7%	-1.4%	2.4%	5.2%	4.8%	4.1%
Global equities	7.9%	-2.5%	8.8%	18.6%	17.5%	14.9%
MSCI Europe ex UK	6.1%	-2.6%	10.7%	6.4%	22.1%	12.9%
GBP Balanced	2.3%	-1.7%	0.2%	3.2%	10.6%	4.6%
Peer group median	3.2%	0.1%	-0.4%	3.1%	9.9%	4.1%
GBP Growth	3.3%	-1.9%	0.0%	4.1%	16.9%	6.8%
Peer group median	3.3%	0.0%	-0.4%	3.0%	10.3%	4.2%
Global equities	7.9%	1.5%	3.3%	10.6%	20.5%	11.3%
MSCI UK	3.5%	-3.3%	-2.2%	0.5%	18.5%	5.2%
USD Balanced	1.8%	-5.6%	-4.6%	2.0%	10.6%	2.5%
Peer group median	1.3%	-3.5%	-4.4%	0.7%	11.2%	2.3%
USD Growth	2.9%	-6.5%	-6.2%	4.1%	17.6%	4.7%
Peer group median	1.6%	-3.8%	-4.6%	0.9%	13.3%	3.0%
Global equities	5.0%	-4.9%	-2.4%	4.2%	22.8%	7.7%
S&P 500	6.9%	-0.2%	0.8%	13.7%	32.4%	14.4%

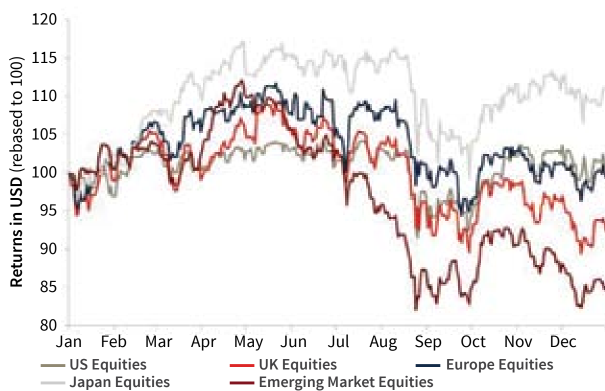
Source: Bloomberg, March 2015. Past performance is not indicative of future returns.



6. Market Commentary

In what has become an increasingly volatile, uncertain and difficult market environment, with significant economic and political headwinds, 2015 proved to be a very tough year for investors. Without question we have entered the most challenging stage of the cycle since early 2009, when the global financial crisis was at its peak. Indeed, there were few hiding places for investors, with all major asset classes producing either negative or barely positive returns and only one major equity market – Japan – showing a meaningful return in USD terms of 11%. Japanese equities rose by 9.0% in dollar terms in the final quarter. Elsewhere returns from markets were mediocre at best, with commodities and emerging equity markets seeing significant falls.

Figure 1: Equity market returns

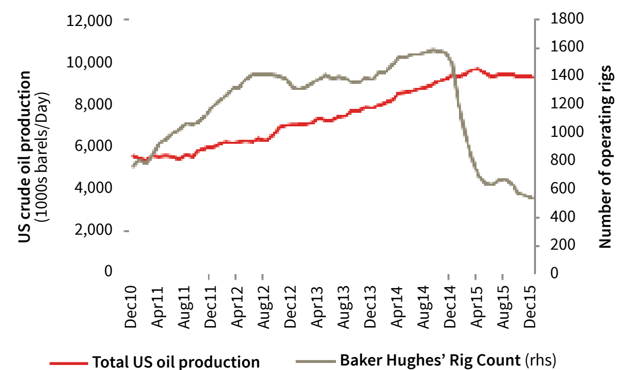


While the European Central Bank (ECB) over delivered with its Quantitative Easing (QE) and the Bank of Japan maintained its massive asset purchase programme, all eyes as the year progressed were on the US Federal Reserve (Fed). In December it embarked on its first rate increase in almost a decade, but still left rates at exceptionally low levels. Markets took the increase in their stride, and the real focus of investors is how quickly the Fed will move to normalise policy. A great deal rests on this and there is no question that policy moves will remain a driving force for markets in 2016.

Arguably, however, it was not the US but China that, for the first time in history, had the greatest impact on financial markets through the year. The bursting of China's stock market bubble mid-year, bungled attempts on the part of policy makers to support the market, and then a surprise devaluation of the Chinese yuan in August, all combined to focus investor attention on the sharp slowdown in growth. Moreover, policy makers seem ill-equipped to react to the resultant problems. With China accounting for close to 40% of the the growth in the world economy over the past decade, and as it consumes close to half of the world's key commodities, the realisation that all is not well in the Chinese economy sent shock waves through global markets.

The extent of the oil price fall was exacerbated by OPEC's (or rather Saudi Arabia's) decision to keep pumping at high levels of capacity, in a bid to undermine the increasing production of non-OPEC countries, and in particular US shale oil. The dramatic increase in US shale production over the past five years by some 4-5 million barrels per day has put pressure on other producers and weakened OPEC's previously dominant position. There is little doubt that the fall has gone much further and faster than anyone anticipated, and with US production having dropped only modestly and global stock piles at exceptionally high levels, the prospect is for a continuation of low oil prices for some time ahead.

Figure 2: US oil production rises as rig count falls



With the global economy struggling for growth, the developed world wrestling with structural problems (and the unwinding of a credit boom), commodity producers facing an existential crisis, and geo-political risks in the Middle East on the rise, safe haven investments might have been expected to perform well. In the event global government bonds underperformed equities and produced a negative return of -1.2% over the quarter, although US dollar strength accounted for some of this. The problem is that yields are already at exceptionally low levels, and with the prospect of higher rates in the US, there is little room for further falls in rates along the yield curve. Gold, the other traditional safe haven asset, entered the fifth year of its bear market and dropped a further 4.8% in 2015.

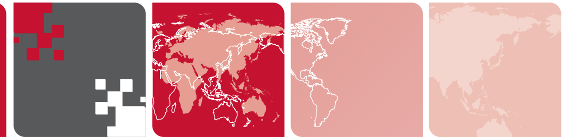
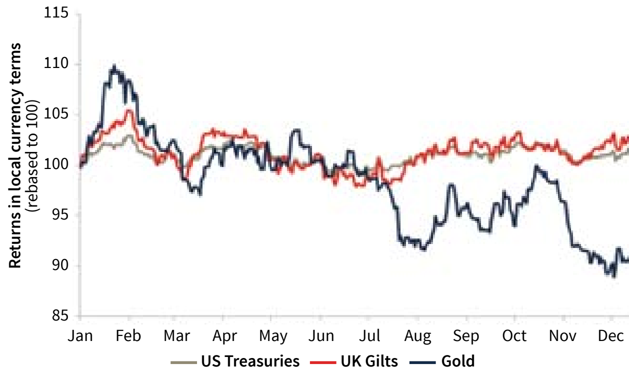


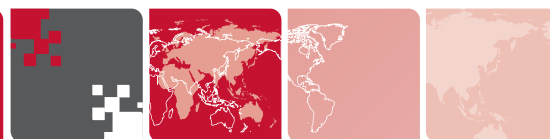
Figure 3: Safe-haven assets



Finally, credit and in particular high yield bonds suffered a difficult year, with negative returns and widening credit spreads amidst rising concerns about debt levels and defaults among commodity producers and especially energy companies. These sectors of the fixed income market have produced very good returns since the global financial crisis, but the surge in issuance during the good years, the tougher conditions across much of the corporate world, and the prospect of rising US rates, have all dented confidence.

Many of the woes that developed during the year have spilled over into markets in the New Year. However, some perspective needs to be retained at a time of a rising chorus of worry. The global economy has softened but is still growing, and the US, UK, Europe and Japan should continue to grow modestly through 2016. Furthermore, volatility and nervousness across markets could well result in policy being kept looser for longer. We remain in an environment where returns are likely to be subdued, and against a background of low yet steady growth in the developed world, valuations are now at increasingly attractive levels

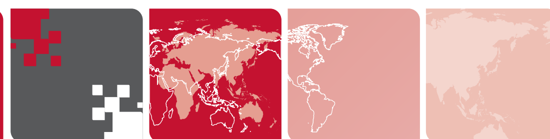
Source: Bloomberg, December 2015. Returns in US dollars unless otherwise stated.



7. Market Performance

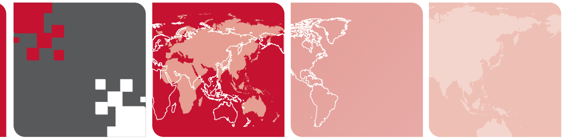
Asset Class/Region	Index	To 31 December 2015		
		Currency	Quarter	12 Months
Developed markets equities				
United States	S&P 500 NR	**USD**	6.9%	0.7%
United Kingdom	MSCI UK NR	**GBP**	3.5%	-2.2%
Continental Europe	MSCI Europe ex UK NR	**EUR**	6.1%	10.7%
Japan	Topix TR	**JPY**	9.8%	12.1%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	**USD**	5.2%	-9.4%
Global	MSCI World NR	**USD**	5.5%	-0.9%
Emerging Market Equities				
Emerging Europe	MSCI EM Europe NR	**USD**	-5.2%	-14.7%
Emerging Asia	MSCI EM Asia NR	**USD**	3.5%	-9.8%
Emerging Latin America	MSCI EM Latin America NR	**USD**	-2.7%	-31.0%
BRICs	MSCI BRIC NR	**USD**	1.3%	-13.5%
Global emerging markets	MSCI EM (Emerging Markets) NR	**USD**	0.7%	-14.9%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	**USD**	-0.9%	0.9%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	**USD**	-0.6%	-1.7%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	**USD**	-0.6%	-0.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	**USD**	-2.1%	-4.4%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	**GBP**	-1.3%	1.2%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	**GBP**	0.5%	0.7%
Euro Government Bonds	Citigroup EMU GBI TR	**EUR**	0.5%	1.7%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	**EUR**	1.3%	-0.6%
Euro High Yield	Barclays European HY 3% Issuer Constraint Total Return Index Value	**EUR**	1.4%	1.0%
Japanese Government	JP Morgan Japan Government Bond Index TR	**JPY**	1.2%	1.3%
Australian Government	JP Morgan Australia GBI TR	**AUD**	-0.5%	2.5%
Global Government Bonds	JP Morgan Global GBI	**USD**	-1.2%	-2.6%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	**USD**	-1.1%	-3.2%
Global Convertible Bonds	UBS Global Focus Convertible Bond	**USD**	2.0%	-0.2%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	**USD**	1.8%	1.8%

Source: Bloomberg, December 2014.



Asset Class/Region	Index	Currency	Quarter	12 Months
		To 31 December 2015		
Property				
US Property	Securities MSCI US REIT NR	**USD**	6.7%	1.3%
Australian Property	Securities S&P/ASX 200 A-REIT Index TR	**AUD**	4.3%	8.9%
Asia Property Securities	S&P Asia Property 40 Index NR	**USD**	3.3%	1.5%
Global Property Securities	S&P Global Property USD TR	**USD**	4.8%	0.1%
Currencies				
Euro		**USD**	-2.9%	-10.3%
UK Pound Sterling		**USD**	-2.6%	-5.4%
Japanese Yen		**USD**	-0.3%	-0.5%
Australian Dollar		**USD**	3.8%	-10.8%
South African Rand		**USD**	-10.5%	-25.2%
Commodities & Alternatives				
Commodities	RICI TR	**USD**	-11.2%	-26.1%
Agricultural Commodities	RICI Agriculture TR	**USD**	-1.8%	-14.6%
Oil	ICE Crude Oil CR	**USD**	-22.9%	-35.0%
Gold	Gold Spot	**USD**	-4.8%	-10.4%
Hedge funds	HFRX Global Hedge Fund	**USD**	-0.5%	-3.5%

Source: Bloomberg, December 2014.



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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.

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 62 Queen Street, London, EC4R 1EB.

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