momentum

Brenthurst global balanced fund report

quarter ended 30 June 2012

Q2

global investment management

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1. Fund and index performance

Fund returns (USD)	Performance to 29 June 2012	
	3 months	6 months
Brenthurst Global Balanced	-3.6%	3.6%
Composite benchmark[1]	-2.5%	3.5%

Index returns (USD)	Performance to 29 June 2012	
	3 months	6 months
MSCI AC World NR USD	-5.6%	5.6%
Citigroup WorldBIG TR USD	0.4%	1.3%
LIBOR USD 7 Days	0.1%	0.1%

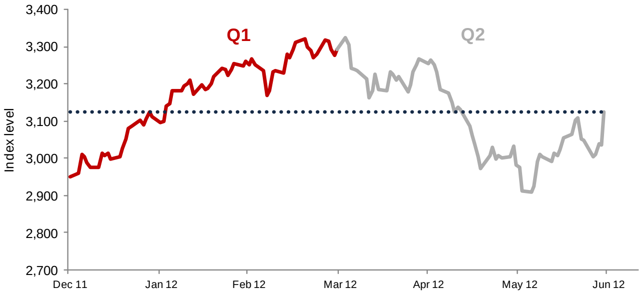
[1]50% MSCI AC World index, 40% Citigroup World BIG and 10% LIBOR USD 7 Days.

Source: Lipper Hindsight, June 2012. Past performance is not indicative of future returns.

2. Market commentary

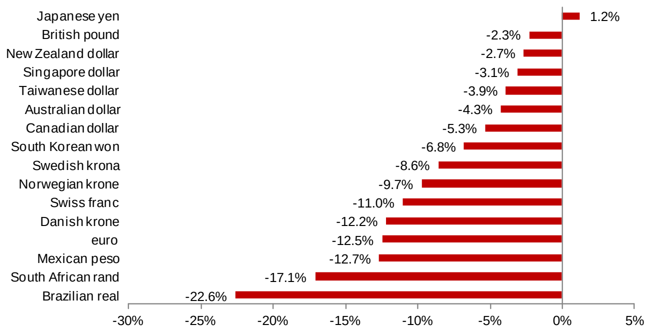
The second quarter was almost a mirror image of the first, as markets first paused in April before taking a significant step down in May. Were it not for June's eventual rally, global equities would have ended the period below their level at the start of the year. Markets peaked on the second day of the quarter, having steadily ticked upwards to that point since December at an annualised rate of over 60%. By the 1st of June, some 40 trading sessions later, the reversal had eroded all these gains and more, before markets recovered a degree of poise to pull themselves up in line with their level at the end of January.

Figure 1: Performance of MSCI World net return in 2012 (US dollars terms)



Global markets finished the quarter down by 5.1% in US dollar terms, with Japanese equities having declined by almost 10%. May accounted for the majority of these losses, after fears resurfaced over the debt problems in the Eurozone and the outlook for growth in the key economies of the US and China. Whilst most equity markets have lost ground over 12 months, the US has instead added 4.8%, with the dollar outperforming amongst the basket of major currencies.

Figure 2: Performance of major currencies versus the US dollar (12 months to the end of June 2012)

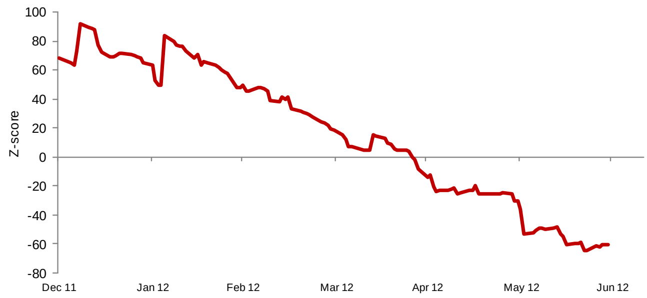


Within fixed income, core developed market government bonds were the recipients of investor flows, as US 10 year yields headed back below 2% to end the period marginally above their 2012 lows of 1.51%. Whilst credit benefitted from falling global interest rates, investors demanded a greater premium to lend money outside of the official sector, with the result that corporate bonds and high yield lagged the returns on government paper over the period.

Despite falls of over 5% by global equities last quarter, property securities moved higher, with all global regions enjoying gains. Australian listed property climbed by 8.6%, after investors piled into the sector in anticipation of a cut in interest rates from the central bank. The Royal Bank of Australia cut its benchmark lending rate by 50 basis points to 3.75% at the start of May, surprising most economists who had plumped for a cut of 25 basis points. Commodities fell by 9.8% over the period as oil tumbled by 25.2%, its biggest quarterly loss since December 2008. Gold fell by 3.8% and notably failed to protect capital during May's selloff

Investor confidence faltered post the first quarter, as a stream of data disappointments emerged from the key economies of the US and China, a fact illustrated by the steady decline in Citigroup's US surprise index over the period.

Figure 3: Path of Citigroup US economic surprise index



With the good news seemingly priced in, investors instead refocused their attention on the debt problems in the Eurozone. Markets weathered a change of government in France, two elections in Greece (in which calls for the abandonment of austerity

Source: Lipper Hindsight / Bloomberg, June 2012.

measures raised the real risk of a disorderly exit from the euro) and the growing realisation that Spain would need to join neighbours Portugal in seeking a bailout. Europe's leaders have consistently underwhelmed the markets by offering a temporary solution when more significant remedial action has been needed. With European leaders meeting at the end of June for the 19th summit since the Eurozone debt crisis erupted, investors held out little hope of any substantive progress towards the type of structural reforms required to engineer a sustainable long term solution to the region's problems. In the event, Germany offered a surprise, by agreeing to some modest growth initiatives and much more importantly to direct bailouts of Eurozone banks from European funds in return for more centralised supervision of the sector. Agreement was also reached that loans to indebted Eurozone countries from central coffers would not be senior to existing debt, thereby maintaining the status of all bond holders.

The result was an immediate rally in equity markets as sentiment improved dramatically amid hopes that Europe was gradually moving towards greater integration and an enhanced fiscal union. The MSCI World index rose by 3% in a single day, its biggest move of the year, and many European markets rose by over 5%. These moves remind investors of the potential upside risks posed by government intervention. The last selloff in markets during November 2011 similarly ended with a policy-led rally, after the European Central Bank introduced its first Long Term Refinancing Operation.

Commodity markets did not participate fully in June's recovery as investors remained concerned that the apparent slowdown in global growth, especially in the Chinese economy which has been the biggest buyer of commodities in recent years, would spell an end to the commodities super cycle. Despite a recovery at the end of the month the oil price was still down by 11.5% in June, taking its cumulative fall to over 30% since the peak earlier this year, while industrial commodities were flat.

The markets are now at an interesting juncture. On the one hand the Eurozone crisis has eased a little, and there are steps underway towards closer Eurozone integration in monetary and fiscal matters. Whilst we are still clearly a long way off a full fiscal union and issuance of Eurozone backed bonds, at least some of these issues are now on the agenda. There is a long way to go before the debt crisis in Europe is resolved but the euro endures and there has been no disorderly exit or default. Monetary policy remains extremely loose, with the European Central Bank cutting rates by 0.25% post the end of the quarter, whilst the Bank of England has embarked on another round of quantitative easing and the Federal Reserve has extended Operation Twist and will provide more support as and when needed. The fall in commodity prices, especially oil, will see inflation falling and will provide a welcome bonus to consumers.

Yet on the other hand economies have slowed and there is little to suggest that they will bounce back to higher growth levels in the near future. China is slowing structurally, and moving to a less commodity intensive economy, large parts of Europe are in recession and will remain so as fiscal austerity bites and the US faces its own fiscal consolidation post November's Presidential election. Companies remain cautious in this environment and recent earnings announcements have reflected much slower growth, whilst the debt overhang globally will keep risks high and spending subdued for many years to come.

These competing forces are likely to result in continuing volatility in markets in the months ahead, with periods of decent growth punctuated by periodic setbacks. Underpinning equity markets, however, are pockets of value. The 12 month trailing dividend yield on the S&P 500 index rose above the US 10 year yield for only the second time since the 1950s during May, whilst in Japan equities continue to trade at a discount to their book value. Numerous examples exist of quality, cash generative businesses around the world, whose equity can be bought with a higher yield than their debt. Historically, starting valuations have been a powerful determinant of future equity returns, and, whilst wary of the macroeconomic environment, today's stock market levels warrant a closer inspection by investors.

Source: Lipper Hindsight / Bloomberg, June 2012.

3. Market summary

Asset class/region	Index	Currency	Quarter	12 months
		To 29 June 2012		
Developed markets equities				
United States	S&P 500 NR	USD	-2.9%	4.8%
United Kingdom	FTSE All Share TR	GBP	-2.6%	-3.1%
Continental Europe	MSCI Europe ex UK NR	EUR	-4.9%	-11.0%
Japan	Topix TR	JPY	-9.7%	-7.1%
Asia Pacific (ex Japan)	MSCI Pacific ex Japan TR	USD	-4.9%	-9.8%
Global	MSCI World NR	USD	-5.1%	-5.0%
Emerging markets equities				
Emerging Europe	MSCI EM Europe NR	USD	-10.7%	-24.6%
Emerging Asia	MSCI EM Asia NR	USD	-7.3%	-14.6%
Emerging Latin America	MSCI EM Latin America NR	USD	-13.2%	-18.4%
BRICs	MSCI BRIC NR	USD	-11.8%	-22.3%
Global emerging markets	MSCI EM (Emerging Markets) NR	USD	-8.9%	-16.0%
Bonds				
US Treasuries	JP Morgan United States Government Bond Index TR	USD	3.0%	9.3%
US Treasuries (inflation protected)	Barclays Capital U.S. Government Inflation Linked TR	USD	3.4%	12.2%
US Corporate (investment grade)	Barclays Capital U.S. Corporate Investment Grade TR	USD	2.5%	9.7%
US High Yield	Barclays Capital U.S. High Yield 2% Issuer Cap TR	USD	1.8%	7.2%
UK Gilts	JP Morgan United Kingdom Government Bond Index TR	GBP	3.9%	17.0%
UK Corporate (investment grade)	BofA Merrill Lynch Sterling Non Gilts TR	GBP	2.1%	9.3%
Euro Government Bonds	Citigroup EMU GBI TR	EUR	0.2%	7.2%
Euro Corporate (investment grade)	Barclays Capital Euro Aggregate Corporate TR	EUR	0.0%	5.7%
Euro High Yield	BofA Merrill Lynch Euro High Yield Constrained TR	EUR	-0.9%	3.8%
Japanese Government	JP Morgan Japan Government Bond Index TR	JPY	1.1%	3.0%
Australian Government	JP Morgan Australia GBI TR	AUD	5.8%	15.4%
Global Government Bonds	JP Morgan Global GBI	USD	1.3%	3.6%
Global Bonds	Citigroup World Broad Investment Grade (WBIG) TR	USD	0.4%	2.5%
Global Convertible Bonds	UBS Global Convertible Bond	USD	-3.4%	-6.8%
Emerging Market Bonds	JP Morgan EMBI+	USD	2.8%	11.2%

Source: Lipper Hindsight, June 2012

		To 29 June 2012		
Asset class/region	Index	Currency	Quarter	12 months
Property				
US Property Securities	MSCI US REIT NR	USD	3.5%	11.9%
UK Property Securities	FTSE EPRA/NAREIT United Kingdom TR	GBP	3.3%	-9.6%
Europe ex UK Property Securities	FTSE EPRA/NAREIT Developed Europe ex UK TR	EUR	1.1%	-8.8%
Australian Property Securities	FTSE EPRA/NAREIT Australia TR	AUD	8.6%	11.1%
Asia Property Securities	FTSE EPRA/NAREIT Developed Asia TR	USD	1.5%	-1.7%
Global Property Securities	FTSE EPRA/NAREIT Developed TR	USD	2.1%	2.4%
Currencies				
Euro		USD	-4.7%	-12.5%
UK Pound Sterling		USD	-1.8%	-2.3%
Japanese Yen		USD	3.1%	1.2%
Australian Dollar		USD	-1.1%	-4.3%
South African Rand		USD	-6.2%	-17.1%
Commodities & Alternatives				
Commodities	RICI TR	USD	-9.8%	-12.7%
Agricultural Commodities	RICI Agriculture TR	USD	-2.1%	-9.6%
Oil	ICE Crude Oil CR	USD	-25.2%	-16.5%
Gold	Gold Index	USD	-3.8%	6.2%
Hedge funds	HFRX Global Hedge Fund	USD	-1.9%	-5.8%
Funds of hedge funds	Dow Jones Credit Suisse Hedge Fund USD	USD	-1.4% [e]	-1.6% [e]

[e] Estimate

Source: Lipper Hindsight, June 2012

4. Portfolio commentary

Brenthurst Global Balanced fund

The Brenthurst Global Balanced fund is designed to provide investors with a balance between the stability of bond returns and the potential for significant participation in equity market strength. This fund will use asset allocation on a tactical basis to take advantage of valuation opportunities in the markets.

At the start of the second quarter, the fund's small overweight to global equities was reduced to neutral/ slightly underweight. This move was driven by the manager's assessment of valuations, which had become less attractive following strong gains at the start of the year. Towards the end of the quarter we accumulated global equities to end with a slight overweight position once more. Within the fixed income portion of the fund we remain overweight investment grade, high yield and convertible debt, whilst maintaining an allocation to a strategic bond mandate. Over the quarter, the asset allocation policy did not aid absolute returns as equities sold off by 5.6% in US dollar terms, although some relative performance was earned from the timely decision to remove the fund's overweight allocation as noted above.

The fund remains underweight to government paper on a long term view, as we do not see compelling valuations available in this area of the fixed income markets. Indeed, barring significant global shocks the upside from sovereign debt is anticipated to be muted, making the risk-return trade-off unattractive in anything but a significant 'double dip' scenario. In the event of a more moderate outcome, including gentle global GDP growth in coming years, we expect government securities to underperform. The main risk to this view in the short term are periods such as last quarter, as spikes in investor anxiety are likely to cause the fund's investment grade corporate holdings to underperform government paper.

From a manager selection perspective, the Morgan Stanley Global Brands fund outperformed by 1.2% during the second quarter, bringing year to date returns to 7.4% compared to 5.9% for global equities. The bulk of this outperformance has been driven by the fund's overweight allocation to the consumer staples sector, followed by stock selection within the IT sector. The fund's tobacco holdings in particular have performed strongly, but the managers believe they remain attractively valued given that cash flow growth has kept pace with the rise in their share prices. In terms of recent portfolio changes, aside from Visa which was reduced recently on valuation grounds, most decisions have been driven by changes in the team's perception of companies' quality. Recent buys include SAP and Kraft, but turnover for the strategy remains low at around 20% per annum. In contrast to the Morgan Stanley fund, the Momentum IF Global Equity fund underperformed its benchmark last quarter. Year to date the fund has returned 5.3% compared to the MSCI World index's return of 5.9%. In aggregate, the fund's deep value component has performed well recently, with both managers outperforming the index last month, whilst the quality-value blend was also broadly in line with the benchmark. The fund's aggressive growth component has struggled, however, as all three managers underperformed the benchmark. This was driven by an overweight allocation to the IT sector in the case of the global manager, and by stock selection within the consumer discretionary and IT sectors for the US small cap managers.

The Brenthurst Global Balanced fund ended the quarter with a return of -3.6% in US dollar terms, net of all fees. The benchmark produced a return of -2.5% over the quarter. Over a rolling sixmonth period the fund's performance is in line with the composite benchmark.

Summary

There has been a lot of market volatility during the quarter but not much has changed from a macroeconomic point of view. As has been the case during the previous two yeats concerns over Europe's government finances, an economic slowdown in China and a possible faltering US economy are but three of the risks to global economic growth. The managers that we employ in the Brenthurst Global Balanced fund are acutely aware of these challenges and we believe that they have the philosophies, people and processes to turn these into opportunities for investors.

Data source: Lipper Hindsight, Bloomberg, Returns in US dollars unless otherwise stated. June 2012. Past performance is not indicative of future returns.

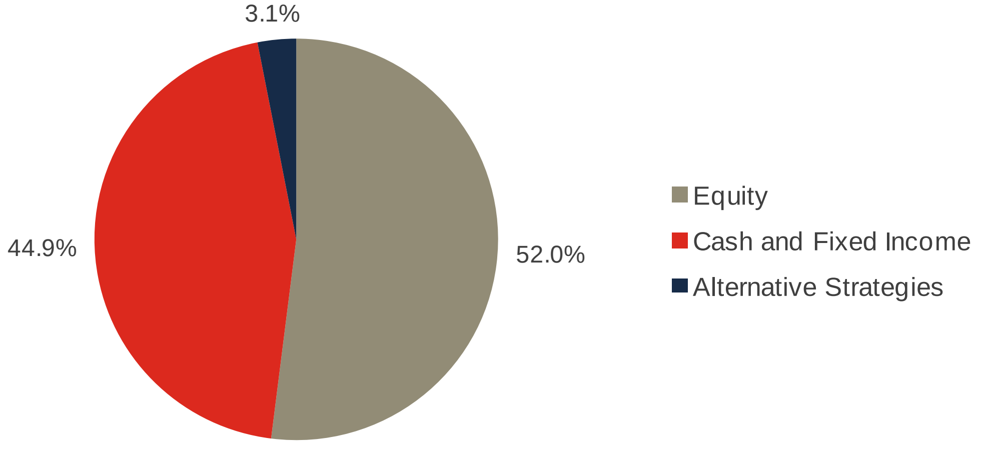
5. Top ten holdings

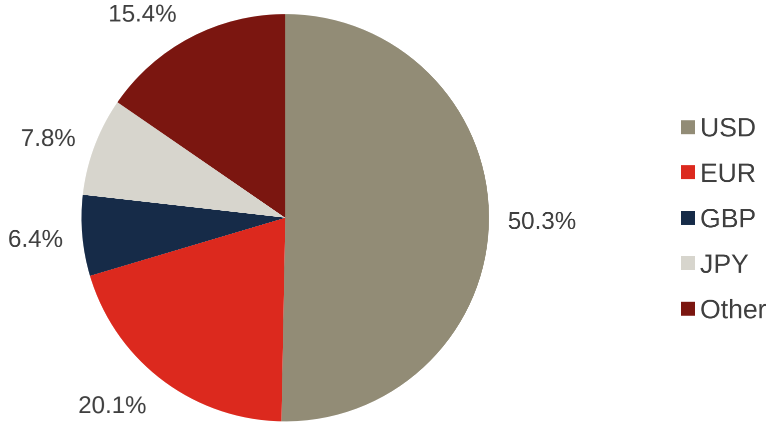
Brenthurst Global Balanced June 2012		
Security	**Asset class**	**Weight**
Cash	Cash	9.2%
Momentum IF Global Fixed Income	Fixed Income	8.5%
Pzena International	Equity	7.5%
Old Mutual Dublin Global Bond Fund I Acc USD	Fixed Income	7.4%
RWC Global Convertibles Fund	Fixed Income	7.1%
Artisan	Equity	6.7%
Morgan Stanley Global Brands Fund	Equity	5.9%
Jennison	Equity	5.2%
BlackRock Euro Corporate Bond Index Fund	Fixed Income	4.6%
Momentum IF Global Emerging Markets Fund	Equity	4.6%
Total		**66.7%**

Source: Momentum Global Investment Management, June 2012

6. Fund exposures

Brenthurst Global Balanced





June 2012

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