Global Matters | Monthly

Market Update

March 2022

Contents

Global Market Review & Outlook

The benign conditions enjoyed by financial markets in the 18 months since the depths of the pandemic were well and truly shattered in the first quarter of 2022, driven by two powerful shocks, both largely unexpected and each with huge consequences globally: Russia's invasion of Ukraine and the Fed's very sharp hawkish shift in policy. The immediate consequences of the war produced surges in energy prices and further disruptions to key commodity markets and supply chains, adding to the damage inflicted by the pandemic. But away from commodities, there were few markets that could withstand the heightened risk of a significant slowdown in global growth and much higher interest rates than anticipated only a few months earlier.

Over the quarter, global developed market equities fell by 5.2%, emerging markets by 7.0%, and global government bonds by 6.2%, which offered no safe haven status other than for a few days as war initially broke out - a reflection of the extremely low yields and high valuations of bonds prevailing prior to the invasion and the damage inflicted by high and persistent inflation. Commodities and related markets provided the only positive returns, with broad commodity indices up by 27%, driven by oil, 39%, and agricultural commodities 18%. Within the latter, the wheat price rose 30%, with fears of a global shortage due to the importance of Russia and Ukraine, which combined, supply 30% of global wheat exports. Despite rising interest rates, precious metals proved their worth as safe havens and portfolio diversifiers, with the gold price up 6.0% in the quarter.

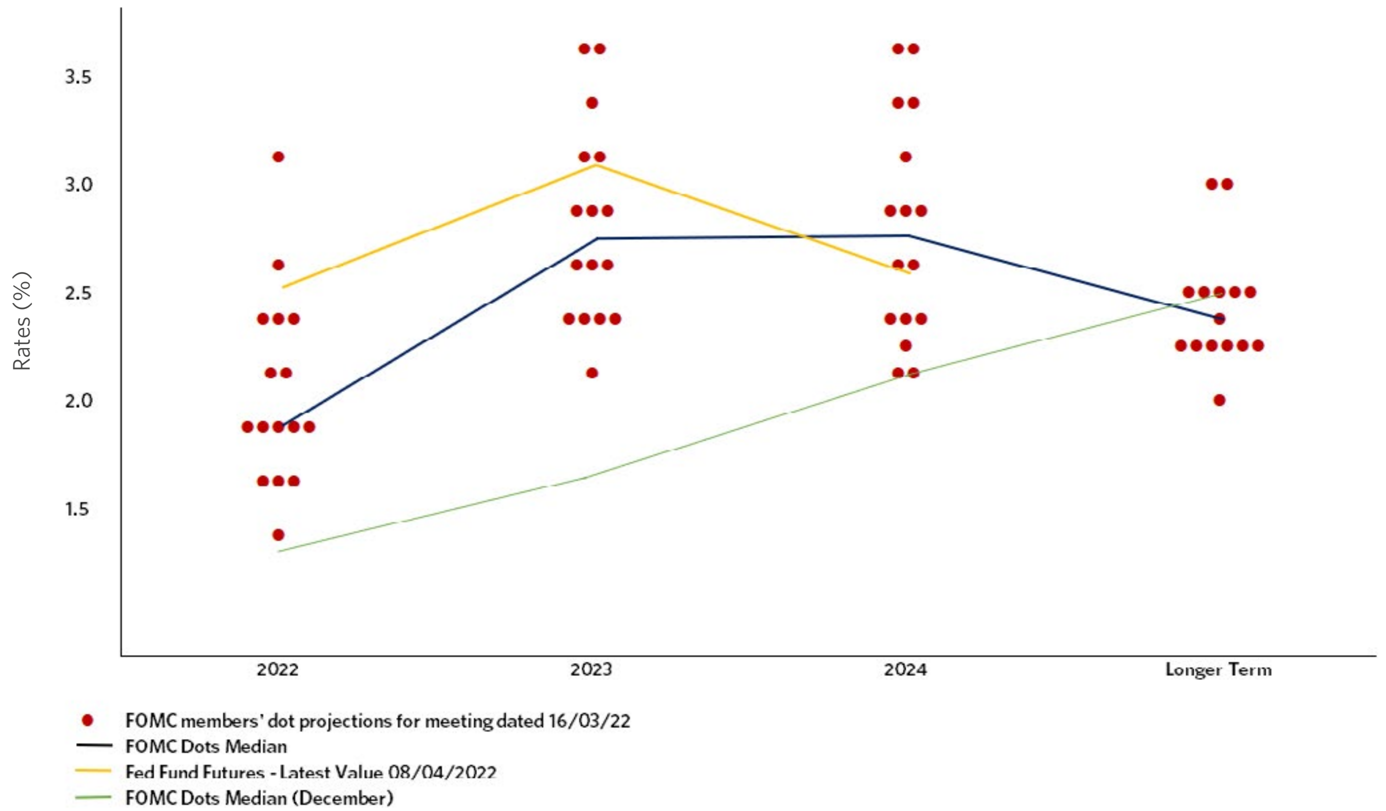
Plainly, the invasion of Ukraine has not gone to Putin's plan. The strength of Ukraine's resistance has exceeded all expectations and the scale and unity of the response from the West has surprised Russia (and has undoubtedly been noted in Beijing). The worst fears of an incursion into NATO territory have diminished, as have the use of nuclear and chemical weapons, although these cannot be ruled out completely given the difficulties experienced by Russia's conventional forces. But those difficulties are clearly troubling Putin, leading to an implicit recognition that he cannot quickly conquer and subsequently control a country of over 40 million people, most of whom are fiercely independent and prepared to make huge sacrifices to preserve that independence. In circumstances which remain exceptionally uncertain, it is beginning to appear that Russia is now concentrating on eastern Ukraine, parts of which are more pro-Russian than the rest of the country, and also happen to be particularly resource rich and would provide a land bridge between Russia and Russian controlled Crimea.

Under those circumstances the war is likely to be drawn out, attritional and bloody, but increasingly localised. The biggest impact on the West will be transmitted through sustained rises in commodity prices, particularly oil and gas, and food prices through reduced supplies of grains from Russia and Ukraine. Security of supply risks will remain high, and the resolve of Europe to diversify supplies away from Russia is likely to harden and hasten in view of the Russian depravity increasingly in evidence across Ukraine. Sanctions imposed by the West will tighten and Russia will be increasingly isolated, but the real damage will be inflicted only when Europe ends its dependency on Russian oil and gas and stops the huge flow of dollars that has financed Putin's war machine. The greater the pressure builds on Europe to accelerate that process, the greater the risk of energy shortages and increasingly serious economic consequences. It is no surprise then, that European stock markets led the falls in Q1, down 8.0% in euro terms, and the euro fell by 2.7% against a generally strong US dollar.

It is the indirect consequences of the war that are increasingly driving financial markets and likely to do so in the months ahead. After a short spike down at the time of the invasion, equity markets are back at levels prevailing before the war, while bond yields are well above levels before then. The focus has shifted to the inflationary implications of the war, the surge in commodity prices, damage to supply chains, risk of shortages, and the extent to which central banks will tighten policy to restrain the ensuing, more persistent, inflation. This might well be the more enduring issue for investors as the year progresses.

In that context, the increasingly hawkish policy shift by central banks in Q1, led by the Fed, is likely to be the key determinant of the sustainability of the economic cycle and the equity bull market. The persistence and size of the inflationary surge over the past year, further fuelled by the war, and the strength of the economy and the labour market, have convinced the Fed to accelerate its tightening dramatically. The first 25bps rise in interest rates in this cycle, announced in March, was widely discounted, but less so the shift in its policy plans, with the median expectation of the Fed's Federal Open Market committee (FOMC) members for Fed Funds by year end moving up to 1.9%, a full one percentage point higher than three months earlier. The Committee's forecasts for Fed Funds by the end of 2023 were also raised substantially, to 2.8% from 1.6% in December, but the terminal or longer-term rate forecast was lowered slightly to 2.4% from 2.5%. On top of the dramatically accelerated rate rises, the Fed also signalled an earlier start to quantitative tightening (QT), possibly as soon as May, when liquidity will begin to be withdrawn from markets as the Fed sells down its huge bond assets.

Fed accelerates tightening dramatically – Dot Plot



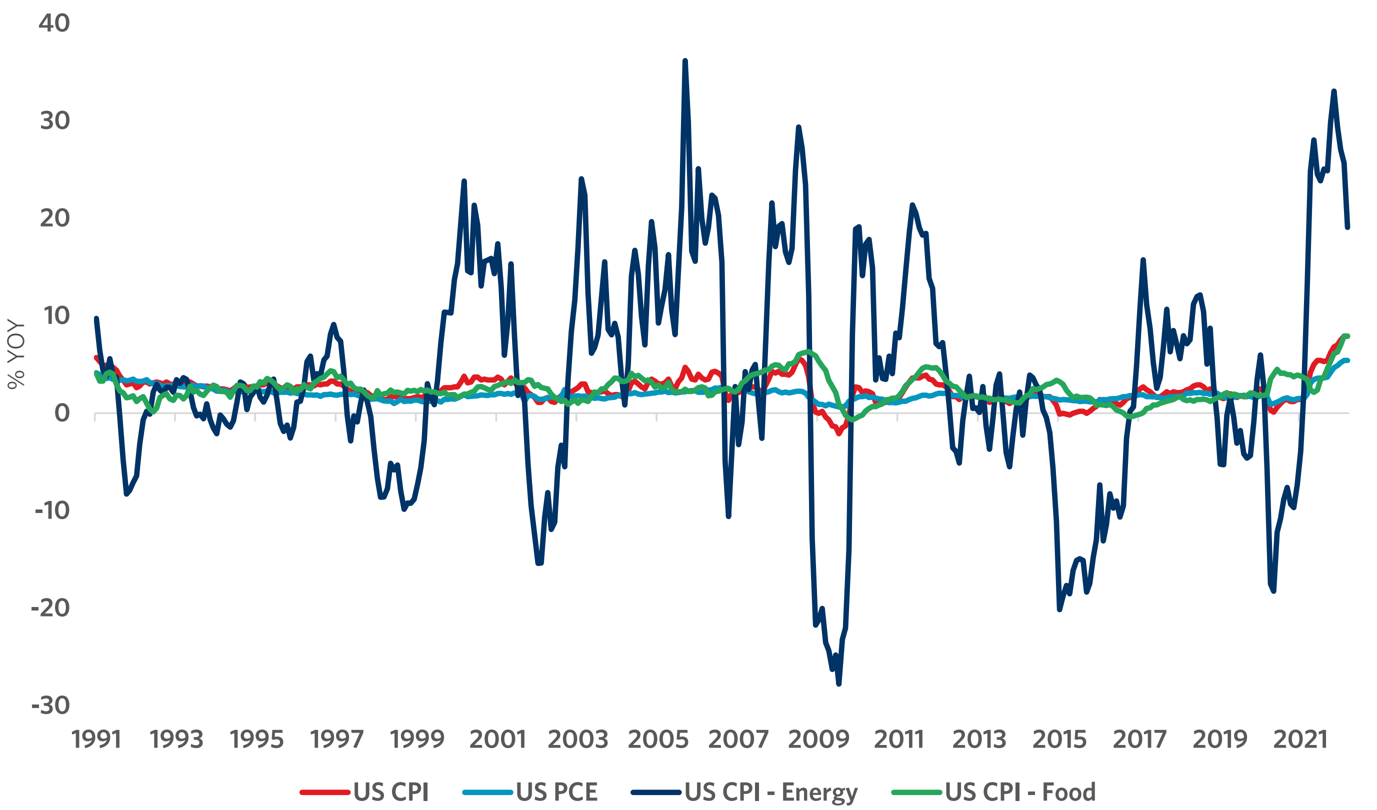
Sources: Momentum Global Investment Management, Bloomberg Finance L.P.

"The invasion of Ukraine has not gone to Putin's plan. The strength of Ukraine's resistance has exceeded all expectations and the scale and unity of the response from the West has surprised Russia"

The message from the Fed is clear: the process of policy normalisation will be front-loaded, with the over-riding objective to bring inflation under control, outweighing the impact of the war on growth. On current plans the Fed will take its policy rate into restrictive territory, above the expected long-term normal rate, within the next year, and will add to the tightening by withdrawing liquidity much more rapidly than the QT of 2017-18, making this the fastest tightening of policy since 1994, which also proved to be a torrid time for bond markets. The Fed has the unenviable task of engineering a soft landing, coming from behind the curve on inflation to reining it in without tipping the economy into recession, a policy feat rarely achieved.

The economy undoubtedly starts from a strong position, with a post-pandemic growth surge, a very robust jobs market, unemployment at historic lows, household wealth and corporate balance sheets in good shape and the financial sector particularly strong. Policy normalisation is overdue. But a substantial slowdown in growth is inevitable as the release of pent-up demand from the pandemic fades, rapidly rising energy and food prices eat into disposable incomes, hurting consumer confidence and discretionary spending, real wages decline as a result of high levels of inflation, and higher interest rates impact on the housing market. In March, the Fed revised down its growth forecasts substantially, to 2.8% for 2022 compared with its three months earlier projection of 4.0%, but some indicators are beginning to point to a recession in 2023. The widely watched yield curve, which shows the difference between shorter dated and longer dated bond yields, inverted during March, reflecting a greater preference for holding cash and near-cash instruments rather than taking the risk of investing longer term. Recession and/or stagflation have emerged as a material threat to markets in the year ahead.

Energy and food drive US inflation higher



Sources: Momentum Global Investment Management, Bloomberg Finance L.P.

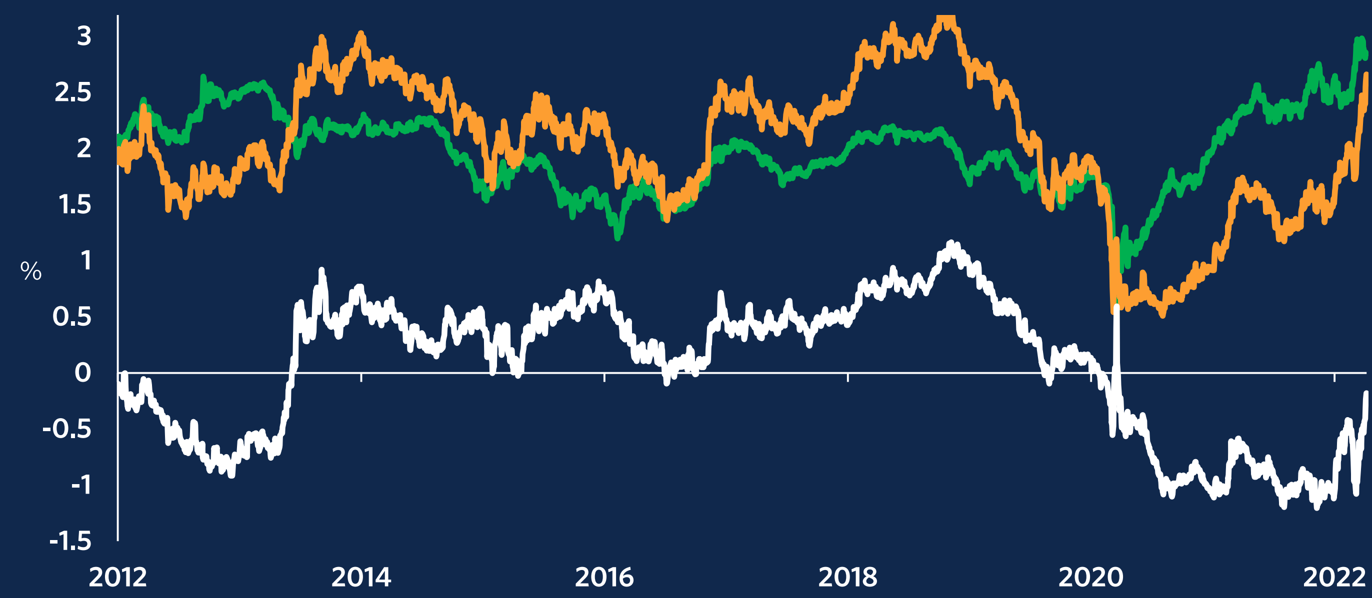
The hawkish shift by the Fed was accompanied by similar moves by the European Central Bank (ECB) and Bank of England (BoE), which face the same problems as the US; their mandates to control inflation being severely tested by substantial and increasingly persistent price rises, along with robust economies and tight labour markets. The ECB has accelerated its tapering of asset purchases and signalled the first rate rise before year end, while the BoE raised rates twice in Q1, taking base rates to 0.75%, and started the process of cutting its bond holdings.

In contrast, Asia is not suffering the same inflationary problems as the US and Europe. In Asia's two largest economies, China and Japan, CPI was below 1% in the year to February and their central banks are easing policy. In the face of an economic slowdown and continuing Covid-19 lockdowns, the Peoples Bank of China (PBoC) has shifted from policy tightening towards stimulus, with cuts in its lending rate, now at 3.7%, and injections of liquidity, while the Bank of Japan (BoJ) is maintaining interest rates of -0.1% and has reaffirmed its commitment to yield curve control by purchasing JGBs without limit to keep 10 year yields around zero per cent. The widening interest rate differential between the US and Japan has been a factor pushing the yen down by over 5.0% in Q1, to its weakest level against the USD since 2015.

The policy moves by the PBoC were part of a package of measures introduced in China in Q1 which were very significant in aggregate and signal a shift in attention by the authorities towards supporting growth and the stability of capital markets. Signals that the worst of the deleveraging process in the property development industry is over and the abrupt tightening of regulations in big tech and a swathe of other industries has achieved its aims, along with support for increased lending, point to a more favourable environment for financial markets in China after a tumultuous 18 months. The falls in equity markets there have opened up some attractive opportunities for investors.

The over-riding driver for markets in the coming months, however, will be the policy moves by the Fed and the extent to which these continue to be reflected in a re-pricing of bond markets, especially in the US but with inevitable spill-over to global markets. The moves in yields have already been dramatic, resulting in the worst performance of bond markets in Q1 for decades. But the starting point for yields was historically extremely low, both in nominal and real terms. At current inflation levels real yields have been deeply in negative territory and unattractive, with the real yield on 10-year US Treasuries around -1.0% since mid-2020, but during Q1 the real yield rose to -0.5% as bond markets sold off and is likely to move higher in coming months as policy normalisation progresses. Although bond yields have moved up substantially, they are still relatively low historically and could well rise further in coming months, with consequences for valuations of other asset classes.

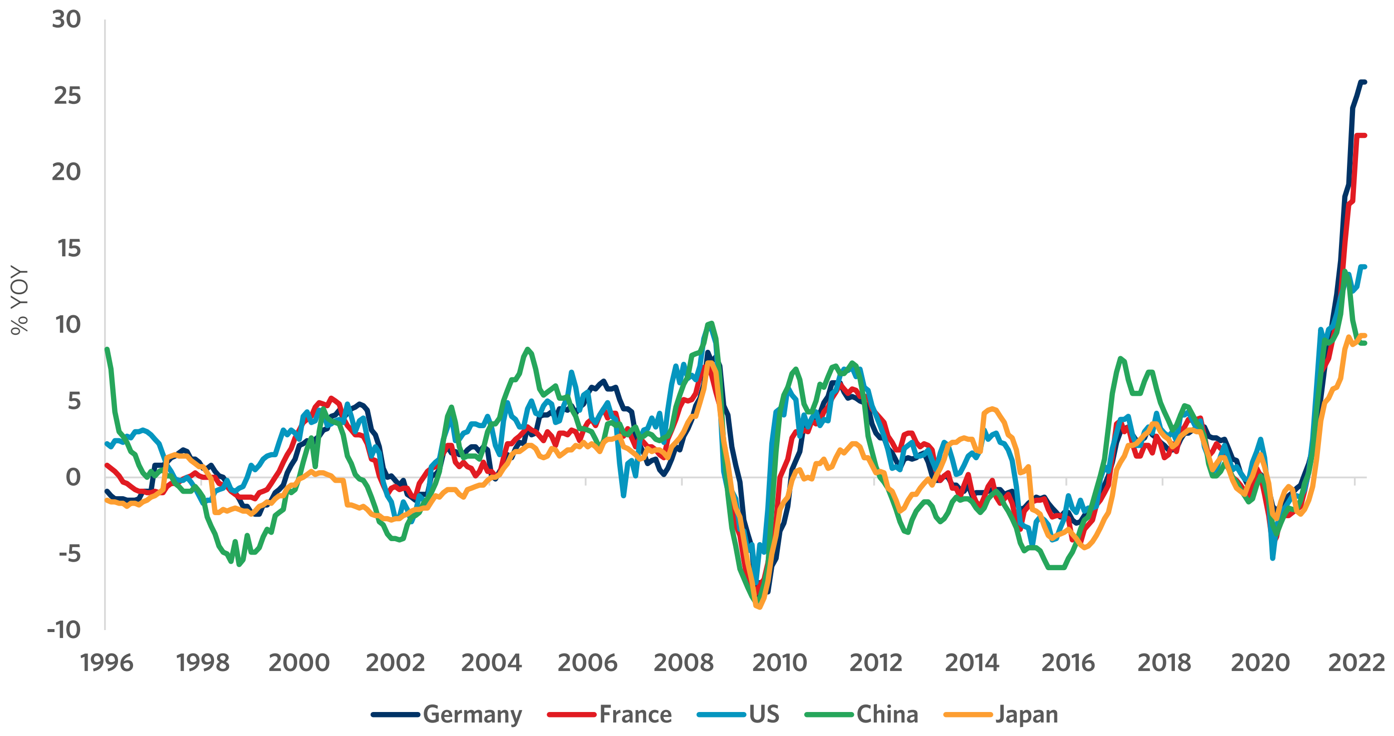
US bond yields re-price as Fed turns hawkish



Sources: Momentum Global Investment Management, Bloomberg Finance L.P.

The surge in inflation, now at the highest levels since the 1970s, has pushed input prices sharply higher and is leading to an inevitable margin squeeze in many companies, which also face the prospect of slowing consumer spending ahead. Together with the tightening of monetary policy and rise in bond yields this presents a much more challenging environment for markets than for some time and is compounded by the unquantifiable risks of war in Europe. But markets are rapidly discounting some of these risks, with expectations for Fed Funds by year end now over 2.0% and ahead of the Fed's forecasts, while bond yields in the US are approaching their highest levels of the past decade, albeit still low in real terms. The next few months are likely to be volatile and uncertain in markets, but as we move through the second half of the year inflation is likely to have peaked, the Fed's tightening well underway and the risks from war diminished. Equity markets have already corrected, in some cases materially, from peak levels and are offering some valuation opportunities on a longer-term perspective. With careful diversification, we believe it is important to ride out the short-term volatility and stay invested for those longer-term opportunities now emerging.

Producer Prices Soar



Sources: Momentum Global Investment Management, Bloomberg Finance L.P.

Sources used throughout Global Matters Monthly: Federal Reserve, Bank of England, Bank of Japan, People's Bank of China and Bloomberg Finance L.P.

"The next few months are likely to be volatile and uncertain in markets, but as we move through the second half of the year inflation is likely to have peaked"

Market Performance - *Global (local returns) as at 31 March 2022*

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Developed Markets Equities						
United States	S&P 500 NR	USD	3.7%	-4.7%	-4.7%	15.2%
United Kingdom	MSCI UK NR	GBP	2.1%	4.9%	4.9%	19.3%
Continental Europe	MSCI Europe ex UK NR	EUR	0.8%	-8.0%	-8.0%	6.3%
Japan	Topix TR	JPY	4.3%	-1.2%[e]	-1.2%[e]	2.0%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	-0.6%	-5.7%	-5.7%	-10.8%
Global	MSCI World NR	USD	2.7%	-5.2%	-5.2%	10.1%
Emerging Markets Equities						
Emerging Europe	MSCI EM Europe NR	USD	-49.9%	-71.0%	-71.0%	-67.2%
Emerging Asia	MSCI EM Asia NR	USD	-3.1%	-8.7%	-8.7%	-15.2%
Emerging Latin America	MSCI EM Latin America NR	USD	13.1%	27.3%	27.3%	23.5%
China	MSCI EM China NR	USD	-5.8%	-13.3%	-13.3%	-23.0%
BRICs	MSCI BRIC NR	USD	-8.0%	-14.2%	-14.2%	-32.5%
Global emerging markets	MSCI Emerging Markets NR	USD	-2.3%	-7.0%	-7.0%	-11.4%
Bonds						
US Treasuries	JP Morgan United States Government Bond TR	USD	-2.9%	-5.2%	-5.2%	-3.2%
US Treasuries (inflation protected)	BBgBarc US Government Inflation Linked TR	USD	-1.9%	-3.3%	-3.3%	4.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-2.5%	-7.7%	-7.7%	-4.2%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-1.1%	-4.8%	-4.8%	-0.7%
UK Gilts	JP Morgan UK Government Bond TR	GBP	-2.1%	-7.4%	-7.4%	-5.3%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.2%	-6.2%	-6.2%	-5.1%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-2.4%	-5.3%	-5.3%	-6.4%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-1.2%	-5.0%	-5.0%	-5.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.2%	-4.2%	-4.2%	-2.5%
Japanese Government	JP Morgan Japan Government Bond TR	JPY	-0.3%	-1.6%	-1.6%	-1.4%
Australian Government	JP Morgan Australia GBI TR	AUD	-4.1%	-6.5%	-6.5%	-5.7%
Global Government Bonds	JP Morgan Global GBI	USD	-3.5%	-6.2%	-6.2%	-7.1%
Global Bonds	ICE BofAML Global Broad Market	USD	-3.2%	-6.6%	-6.6%	-7.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	USD	-0.2%	-6.5%	-6.5%	-6.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	USD	-1.7%	-16.2%	-16.2%	-13.8%

Asset Class / Region	Index	Ccy	1 month	3 months	YTD	12 months
Property						
US Property Securities	MSCI US REIT NR	USD	6.3%	-4.3%	-4.3%	25.0%
Australian Property Securities	S&P/ASX 200 A-REIT Index TR	AUD	1.1%	-7.7%	-7.7%	13.5%
Asia Property Securities	S&P Asia Property 40 Index NR	USD	0.1%	0.0%	0.0%	-10.2%
Global Property Securities	S&P Global Property USD TR	USD	4.1%	-3.4%	-3.4%	12.4%
Currencies						
Euro		USD	-1.4%	-2.7%	-2.7%	-5.7%
UK Pound Sterling		USD	-2.1%	-2.9%	-2.9%	-4.7%
Japanese Yen		USD	-5.5%	-5.4%	-5.4%	-9.0%
Australian Dollar		USD	3.0%	3.0%	3.0%	-1.5%
South African Rand		USD	5.2%	9.2%	9.2%	1.1%
Commodities & Alternatives						
Commodities	RICI TR	USD	8.3%	26.9%	26.9%	61.2%
Agricultural Commodities	RICI Agriculture TR	USD	6.2%	17.5%	17.5%	47.2%
Oil	Brent Crude Oil	USD	6.9%	38.7%	38.7%	69.8%
Gold	Gold Spot	USD	1.5%	5.9%	5.9%	13.5%
Hedge funds	HFRX Global Hedge Fund	USD	0.6%[e]	-1.2%[e]	-1.2%[e]	1.1%[e]
Interest Rates				**Current Rate**		
United States				0.50%		
United Kingdom				0.75%		
Eurozone				0.00%		
Japan				-0.10%		
Australia				0.10%		
South Africa				4.25%		

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns. e=estimate

Market Performance - *UK (all returns GBP) as at 31 March 2022*

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Equities						
UK - All Cap	MSCI UK NR	GBP	2.1%	4.9%	4.9%	19.3%
UK - Large Cap	MSCI UK Large Cap NR	GBP	3.1%	9.4%	9.4%	23.7%
UK - Mid Cap	MSCI UK Mid Cap NR	GBP	-2.8%	-12.1%	-12.1%	-0.7%
UK - Small Cap	MSCI Small Cap NR	GBP	-0.8%	-11.8%	-11.8%	-4.8%
United States	S&P 500 NR	USD	5.7%	-1.8%	-1.8%	21.0%
Continental Europe	MSCI Europe ex UK NR	EUR	1.6%	-7.8%	-7.8%	5.3%
Japan	Topix TR	JPY	0.7%	-3.9%[e]	-3.9%[e]	-2.5%
Asia Pacific (ex Japan)	MSCI AC Asia Pacific ex Japan NR	USD	1.3%	-2.8%	-2.8%	-6.4%
Global developed markets	MSCI World NR	USD	4.7%	-2.3%	-2.3%	15.7%
Global emerging markets	MSCI Emerging Markets NR	USD	-0.4%	-4.2%	-4.2%	-6.9%
Bonds						
Gilts - All	ICE BofAML UK Gilt TR	GBP	-2.2%	-7.5%	-7.5%	-5.3%
Gilts - Under 5 years	ICE BofAML UK Gilt TR 0-5 years	GBP	-0.7%	-1.4%	-1.4%	-2.3%
Gilts - 5 to 15 years	ICE BofAML UK Gilt TR 5-15 years	GBP	-1.7%	-4.8%	-4.8%	-4.7%
Gilts - Over 15 years	ICE BofAML UK Gilt TR 15+ years	GBP	-3.3%	-12.3%	-12.3%	-7.2%
Index Linked Gilts - All	ICE BofAML UK Gilt Inflation-Linked TR	GBP	-2.7%	-5.7%	-5.7%	4.6%
Index Linked Gilts - 5 to 15 years	ICE BofAML UK Gilt Inflation-Linked TR 5-15 years	GBP	-1.7%	-0.9%	-0.9%	5.9%
Index Linked Gilts - Over 15 years	ICE BofAML UK Gilt Inflation-Linked TR 15+ years	GBP	-3.5%	-8.5%	-8.5%	3.9%
UK Corporate (investment grade)	ICE BofAML Sterling Non-Gilt TR	GBP	-1.2%	-6.2%	-6.2%	-5.1%
US Treasuries	JP Morgan US Government Bond TR	USD	-1.1%	-2.5%	-2.5%	1.4%
US Corporate (investment grade)	BBgBarc US Corporate Investment Grade TR	USD	-0.7%	-5.0%	-5.0%	0.4%
US High Yield	BBgBarc US High Yield 2% Issuer Cap TR	USD	-1.1%	-4.8%	-4.8%	-0.7%
Euro Government Bonds	ICE BofAML Euro Government TR	EUR	-2.4%	-5.3%	-5.3%	-6.4%
Euro Corporate (investment grade)	BBgBarc Euro Aggregate Corporate TR	EUR	-1.2%	-5.0%	-5.0%	-5.2%
Euro High Yield	BBgBarc European High Yield 3% Constrained TR	EUR	0.2%	-4.2%	-4.2%	-2.5%
Global Government Bonds	JP Morgan Global GBI	GBP	-1.6%	-3.4%	-3.4%	-2.4%
Global Bonds	ICE BofAML Global Broad Market	GBP	-3.2%	-6.6%	-6.6%	-7.0%
Global Convertible Bonds	ICE BofAML Global Convertibles	GBP	-0.2%	-6.5%	-6.5%	-6.1%
Emerging Market Bonds	JP Morgan EMBI+ (Hard currency)	GBP	0.2%	-13.7%	-13.7%	-9.4%

Asset Class / Region	Index	Local Ccy	1 month	3 months	YTD	12 months
Property						
Global Property Securities	S&P Global Property TR	GBP	6.1%	-0.5%	-0.5%	18.1%
Currencies						
Euro		GBP	0.8%	0.1%	0.1%	-1.0%
US Dollar		GBP	2.1%	2.9%	2.9%	4.9%
Japanese Yen		GBP	-3.5%	-2.6%	-2.6%	-4.6%
Commodities & Alternatives						
Commodities	RICI TR	GBP	10.3%	30.7%	30.7%	69.3%
Agricultural Commodities	RICI Agriculture TR	GBP	8.2%	21.0%	21.0%	54.6%
Oil	Brent Crude Oil	GBP	8.9%	42.9%	42.9%	78.4%
Gold	Gold Spot	GBP	3.4%	9.1%	9.1%	19.2%
Interest Rates				**Current Rate**		
United Kingdom				0.75%		

Source: Bloomberg Finance L.P. , Momentum Global Investment Management. Past performance is not indicative of future returns. e=estimate

Asset Allocation Views

Main Asset Classes	Change	Negative		Neutral	Positive	
Equities	-	○	○	●	○	○
Fixed Income	-	○	●	○	○	○
Alternatives	-	○	○	○	●	○
Cash	-	○	○	○	●	○

Our Overall View

We continue to favour equities over fixed income in recognition of their leverage to post covid growth. Despite the recent sharp repricing, most fixed income remains expensive in real terms today but pockets of value remain. Alternatives are attractive for their diversifying qualities as much as the return potential, while cash offers increasing return and optionality in the event of market weakness.

EQUITIES	Change	Negative		Neutral	Positive	
Developed Equities	-	○	○	●	○	○
UK Equities	-	○	○	○	●	○
European Equities	-	○	○	●	○	○
US Equities	-	○	●	○	○	○
Japanese Equities	-	○	○	○	●	○
Emerging Market Equities	-	○	○	●	○	○

Equities offer the potential for decent returns as the global economy continues to recover. Financial conditions remain loose in aggregate and central bank support, excess savings and residual pent-up consumer demand should support equities. The UK continues to trade at a discount and is well positioned sectorally to benefit from the economic recovery. We also favour Japan on valuation grounds and for the accompanying Yen exposure. European equities have cheapened but rising fundamental risks caution against increasing today.

FIXED INCOME	Change	Negative		Neutral	Positive	
Government	-	●	○	○	○	○
Index-Linked	-	○	●	○	○	○
Investment Grade Corporate	-	○	●	○	○	○
High Yield Corporate	-	○	○	●	○	○
Emerging Market Debt	-	○	○	●	○	○
Convertible Bonds	-	○	○	●	○	○

Bonds remain expensive today despite sovereign yields having moved meaningfully higher over the quarter, retreating only for a few weeks post Russia's invasion of Ukraine before reasserting the rising trend. Inflation linked bonds have marginally better prospects, but their anticipatory inflation protection has been mostly used up. We remain fundamentally constructive on corporate credit but valuation headwinds meaner higher yielding, short duration bonds are preferred. Convertibles play an important role in multi-asset portfolios and look fair value today.

REAL ASSETS / ALTERNATIVES	Change	Negative		Neutral	Positive	
Commodities	▼	○	○	●	○	○
Property	-	○	○	●	○	○
Infrastructure	-	○	○	○	●	○
Liquid Alternatives	▲	○	○	○	●	○
Private Equity	-	○	○	○	●	○

Real assets look attractive on both fundamental and valuation grounds, with a bias to infrastructure assets which ultimately should benefit from government policy initiatives. Investors are paid well to wait, and the diversifying qualities, also offered by the more esoteric liquid alternatives allocation, is attractive today in a world of expensive bonds. The backdrop of supply chain disruption and buoyant consumer demand is likely to support commodity prices in the near term.

CURRENCIES *vs. USD*	Change	Negative		Neutral	Positive	
GBP	▲	○	○	○	●	○
EUR	-	○	○	●	○	○
JPY	-	○	○	○	●	○
Gold	-	○	○	○	●	○

Sterling and Yen are mildly favoured following their recent sharp repricing lower, and the latter's (usually) diversifying qualities retain some added portfolio attractiveness. The Euro may continue to struggle in the face of higher relative rate expectations. Gold has inflation protection qualities vs. the fiat currencies, plus haven qualities that are attractive today.

The Asset Allocation views are as of March 2022 and are updated quarterly unless otherwise stated.

"We continue to favour equities over fixed income in recognition of their leverage to a to post Covid growth"

For more information, please contact:

Distribution Services

E: distributionservices@momentum.co.uk
T: +44 (0)207 618 1806

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