Northstar MET Managed Fund

NORTHSTAR
ASSET MANAGEMENT

December 2014

Investment Objectives and Strategy

The primary objective of the Northstar MET Managed Fund is to offer investors moderate to high long-term total returns. The portfolio will be managed in compliance with prudential investment guidelines for retirement funds in South Africa. In order to achieve its objective, the investments normally to be included in the portfolio may comprise a combination of assets in liquid form, money market instruments, bonds, debentures, corporate debt, equity securities, property securities, preference shares, convertible equities, derivatives, non-equity securities and any other securities which are considered to be consistent with the portfolio's primary objective and the Act or the Registrar may allow from time to time, all to be acquired at fair market value. The portfolio may from time to time invest in financial instruments, in accordance with the provisions of the Act, and the Regulations thereto, as amended from time to time, in order to achieve the portfolio's investment objective. The manager may also include unlisted forward currency, interest rate and exchange rate swap transactions for efficient portfolio management purposes. The portfolio will maintain an equity exposure (incl. international) up to 75% of the portfolio's net asset value.

Fund Statistics

Inception Date	1998/03/01
Manager Inception	2011/11/01
Fund Size	R 486 541 327
NAV	2.02
Ticker	METP
Benchmark	CPI +5%
ASISA Sector	SA MA High Equity
Risk & Investment Term	Moderate, 3yrs - 5yrs
Portfolio Manager	Northstar Investment Team
Annual Management Fee	1.54% (incl. VAT)
Manager's Upfront Charge (max)	0% (incl. VAT)
FSP Upfront Comm (max)	3.42% (incl. VAT)
Total Expense Ratio (TER)	3.58
Date of Income Declaration	30 Jun / 31 Dec
Minimum Lumpsum Investment	R10 000
Minimum Monthly Investment	R500
Valuation Time	15h00
Transaction Time	14h00

Performance Fee (Historic)

20% (sharing rate) of out performance above the portfolio benchmark (hurdle rate), over a 2 year rolling period, capped at 2% p.a. The fees are accrued on a daily basis and paid out on a monthly basis. Any shortfall to the hurdle rate is carried forward for set-off against future positive out performances. Fee example: 0% performance fee if portfolio performs in line with its benchmark.

Total Expense Ratio (Historic)

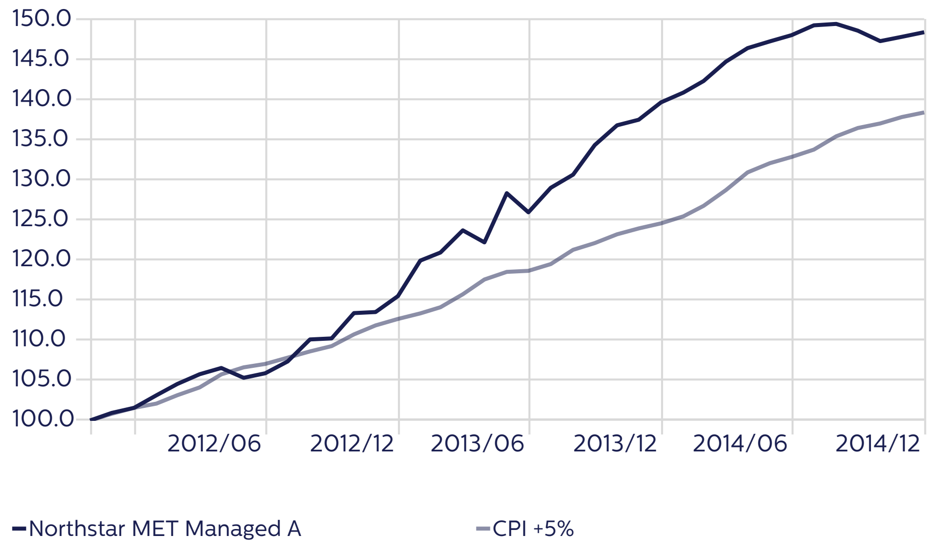
A Class:		A1 Class:	
Ann. Man. Fee	1.54%	Ann. Man. Fee	1.42%
Performance Fee	1.99%	Performance Fee	1.78%
Other Costs	0.05%	Other Costs	0.02%
TOTAL TER	3.58%	TOTAL TER	3.22%

Please note: the TER has been calculated using data from 1 October 2013 to 30 September 2014. The TER is disclosed as a percentage of the average Net Asset Value of the portfolio that were incurred as charges, levies and fees related to the management of the portfolio. The TER is adjusted for significant subsequent portfolio restructurings and/or fee changes. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER can not be regarded as an indication of future TER's.

Source: Morningstar Direct

Investment Growth Since Manager Inception

Time Period: 2011/11/01 to 2014/12/31



	YTD	1 Year	2 Years (ann)	Manager Inception (ann)
Northstar MET Managed A	6.3	6.3	13.3	13.3
CPI +5%	11.1	11.1	10.8	10.8

Risk Statistics Since Manager Inception

Time Period: 2012/01/01 to 2014/12/31

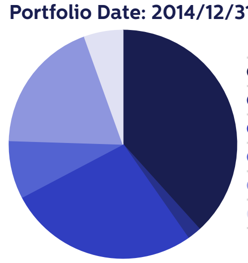
	Fund	ASISA Sector
Std Dev	4.8	5.3
Sharpe Ratio	1.6	1.7
Up Period Percent	86.1	77.8
Max Drawdown	-1.9	-3.5

Income Distribution

2012/01/03	1.21 cpu	-
2012/07/02	1.93 cpu	1.03 cpu
2013/01/03	1.75 cpu	1.83 cpu
2013/07/01	1.65 cpu	1.71 cpu
2014/01/02	0.67 cpu	0.73 cpu
2014/07/01	0.09 cpu	0.08 cpu

Asset Allocation

Portfolio Date: 2014/12/31



	%
Domestic Equity	38.3
Domestic Property	2.0
Domestic Bonds	27.0
Domestic Cash	8.2
Foreign Equity	19.0
Foreign Cash	5.5
Total	100.0

Top 10 Equities

Standard Bank	5.0%
Sun International	4.0%
British Am. Tobacco	3.9%
MTN Group	3.8%
Sasol	3.8%
Anglo American PLC	2.7%
Illovo	2.5%
Remgro	2.3%
Chase Manhatten Group	2.3%
Ericsson LM ADR	2.2%
TOTAL	**31.2%**

Performance Fee and Total Expense Ratio (Current)

The current daily Performance Fee on the portfolio as at 31 December 2014 is 0.00225%, hence a 1 year Performance Fee of 0.82%. This implies prospective Total Expense Ratios of 2.41% and 2.26% for the A and A1 classes respectively. These prospective Performance Fees and Total Expense Ratios are NOT guaranteed, they only give an indication of what the fees could be on the portfolio based on current information.

Regulation 28 Compliance & Intended Maximum Limits

Compliant	Equity	Property	Equity & Property	Foreign	Africa	Cash	Debt
YES	75%	15%	90%	25%	5%	50%	50%

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Investment Philosophy

'Long-term exposure to quality assets where value exceeds price' - Northstar Asset Management's investment philosophy drives our investment process which involves undertaking rigorous domestic and offshore screening of assets on the basis of value and quality criteria together with prospective returns. From this screening process we identify the best opportunities for detailed fundamental analysis focusing on business model sustainability, industry dynamics and value versus price. A selected list of investable instruments make it onto our select 'buy list' and then into our portfolios as a consequence of this intense research process. Ultimately, our goal is long-term ownership of quality assets that are trading below what we have calculated to be their true worth.

FAIS Conflict of Interest Disclosure

Please note that in most cases where the FSP is a related party to Northstar Asset Management Pty (Ltd) and/or MET Collective Investments (RF) (Pty) Ltd, the Northstar Asset Management Pty (Ltd) and/or distributor earns additional fees apart from the FSP's client advisory fees. It is the FSP's responsibility to disclose additional fees to you as the client. Such fees are paid out of the portfolio's service charge and range anything between (excl VAT):

CIS Manager: Up to 0.15%
Northstar Asset Management: Up to 1.00%
Distributor/LISP: Up to 0.25%
Total Management Fee: 1.35%

Contact Details

Custodian:
Standard Executors & Trustees: Tel 021 441-4100

Administrator:
MET Collective Investments, 268 West Avenue, Centurion, 0157; PO Box 7400, Centurion, 0046
Call Centre Tel: 0860 111 899, Fax (012) 675-3889
Email: ci.clientservice@momentum.co.za
Registration No: 1991/03741/06

Fund Manager:
Northstar Asset Management
Tel: 021 810-8400
Email: admin@northstar.co.za
Address: Suite 1A, Ground Floor, Madison Place, Alphen Office Park, Constantia Road, Constantia, 7806

Deposit Details

Deposits can be made at any First National Bank:
Account Holder: Met Collective Investments Ltd - METCI Client Deposit Trust
Account Number: 623 614 33784
Branch Code: 253 145
Bank: First National Bank
Please fax deposit slip to: (012) 675 3889
or email to: ci.clientservice@momentum.co.za

met
collective investments
A member of MMI Holdings

Source: Morningstar Direct

Monthly Commentary

Having managed balanced funds for 15 years, 2014 rates as one of our less impressive years with regards to managing a Reg. 28 fund, but was a very good year at Northstar for our equity and fixed income mandates. Our 2014 Reg. 28 performance was preceded by a strong showing in 2013 with our fund returning 21%, beating the sector average by 3% and being ranked in the top 31% of funds for the year. The questions that should be asked are: Firstly, why would your equity and fixed income portfolios do so well while your balanced fund had a slower year? Secondly, was anything done differently in 2013 in the balanced fund as opposed to 2014?

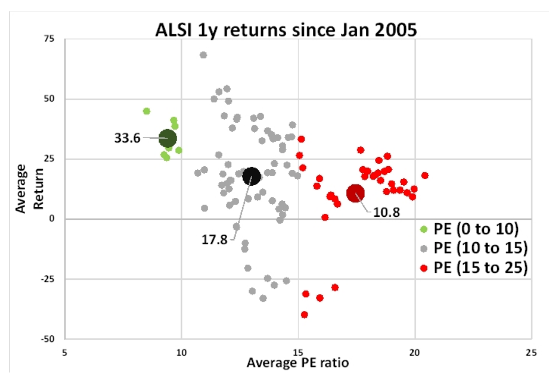
Managing a Reg. 28 fund requires two skill sets, both of which we do possess – namely, asset allocation expertise and stock selection. At Northstar, we measure results microscopically so as to assess and understand where we enjoyed success and where we did not. In this commentary, we discuss our performance in 2014 with regards to stock selection and asset allocation respectively. With regards to the Northstar Met Managed Fund, the best method to assess whether our stock selection worked is to gross up the equity weighting and performance to 100% as if we were managing an equity fund. Performing this exercise shows that our domestic stocks, grossed up to 100%, did 13.4% in 2014. This can be compared to the All Share Index, which returned 10.9% and the Average General Equity Fund, which returned 10.3%.

This demonstrates that our focus on research continues to pay off in the fund and we still beat the market, although not at levels previously achieved. Although the fund enjoyed broad-based sound stock selection and our hit rate was high, local performance detractors in our portfolio in the final quarter were Sasol and Anglo American. We held a pragmatic portfolio, with a good mix of industrial, financial and selected resource counters. Although financials and industrials are more predictable and better businesses, resource stocks had been such perennial underperformers and on valuations looked reasonable, hence our view that real risk existed in having zero exposure to this area of the market. Good reasoning did not permeate market sentiment though and resource shares lost money in 2014!

2014 was less impressive on our offshore stock picks, particularly relative to 2013, where we had an excellent year. We began shifting our offshore holdings into some of the less expensive counters in 2014, although we continued to hold high-quality blue chips too. This shift into better valued companies has initially produced a poor pay-back profile as the market has remained obsessed with highly rated and overvalued names, most notably the pharma stocks. Our offshore stocks delivered returns of 8.41% against the average of the Global Large Cap Manager Funds of 10.77% in 2014. It is worth mentioning that owning Carlsberg (which has 20% of its EBIT from Russia) and BP (which was exposed to the oil price) were the real detractors. We also owned Ericsson which has been an excellent call and performed very well in Swedish krona, but with the Swedish krona closely linked to the Danish krona (oil influence), the translation into dollars and even rands has negated all returns. We must confess to viewing these short-term factors as noise - the fact is that these are powerful companies doing well operationally and this will, in time, be reflected in their share prices. Our analysis clearly demonstrates that, although our performance in 2014 was lower than normal on this fund, this was unrelated to stock selection – in fact, we added value in this area.

Our asset allocation decision in 2014 on the other hand, was our bug bear. Our positive view on bonds, which was a contrarian view at the time, proved perfect. However, we were negative on equities and property and this proved wrong! Our fund had low property and equity exposure this past year and this positioning did not work. In our analysis, we try to normalize the inputs into asset class values that become distorted in super cycles – our goal is to calculate what an asset is worth under normal circumstances. This type of work prevents capital implosions as it ensures that investors in a normal world are not exposed to overvalued assets. It is also necessary to take into account that 2014 was no normal year, as markets obsessed about macroeconomic factors and applied little time to valuations. We suspect that the market's lack of interest in valuation-driven outcomes is the main reason that many of the most highly rated global managers had a difficult year.

2015 has started in a similar fashion to 2014 - equities are under severe pressure and it is not improbable that we were simply a year too early with our view that asset prices are, in general, very high. We are struggling to fill our portfolio with companies that are trading at realistic values, although we said the same last year. 2015 also sees the BOJ and ECB in full-throttle mode and, consequently, equities could once again defy gravity and move higher. We must however, reiterate our observations, even on a microeconomic basis - when we evaluate each company in isolation, we conclude that quality companies are expensive and pricing has diverged from fair levels. We conclude with an interesting graph on valuations and the dangers of buying markets on high ratings. It simply shows the 1-year prospective or future returns that are forthcoming from the market when it is bought on varying P/E levels.



Disclaimer

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