Northstar MET Managed Fund

NORTHSTAR ASSET MANAGEMENT

January 2015

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 485 921 092
NAV	2.06
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.

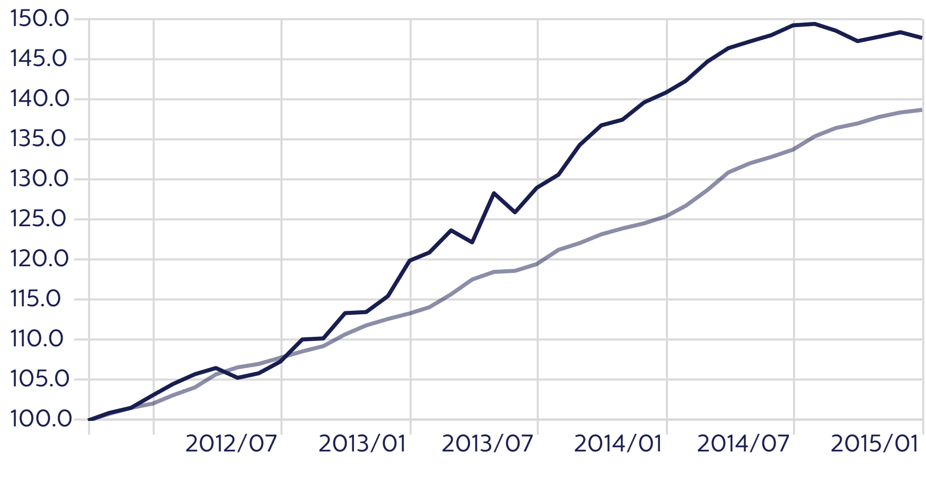
Total Expense Ratio (Historic)

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.

Investment Growth Since Manager Inception

Time Period: 2011/11/01 to 2015/01/31



	YTD	1 Year	2 Years	Manager Inception (ann)
Northstar MET Managed A	-0.5	4.8	11.0	12.7
CPI +5%	0.2	10.6	10.6	10.6

Risk Statistics Since Manager Inception

Time Period: 2012/02/01 to 2015/01/31

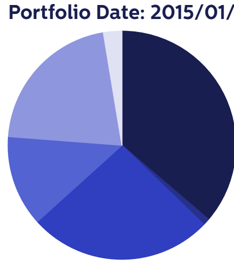
	Fund	ASISA Sector
Std Dev	4.9	5.3
Sharpe Ratio	1.5	1.6
Up Period Percent	83.3	77.8
Max Drawdown	-1.9	-3.5

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: 2015/01/31



	%
Domestic Equity	36.2
Domestic Property	1.0
Domestic Bonds	26.1
Domestic Cash	12.9
Foreign Equity	21.2
Foreign Cash	2.6
Total	100.0

Top 10 Equities

Standard Bank	4.3%
British Am. Tobacco	4.0%
MTN Group	3.9%
Sun International	3.1%
Sasol	3.0%
Chase Manhatten Group	3.0%
Illovo	2.5%
Anglo American PLC	2.5%
Remgro	2.5%
Microsoft	2.4%
TOTAL	31.2%

Performance Fee and Total Expense Ratio (Current)

The current daily Performance Fee on the portfolio as at 31 January 2015 is 0.0004%, annualised equates to a Performance Fee of 0.152%. This implies a prospective Total Expense Ratios of 1.69% and 1.57% 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%

Source: Morningstar Direct

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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

Management Company:
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
An authorised financial services provider, FSB No. 601
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

Studying money manager giants over time reveals a consistency of traits. In this commentary, we discuss a few of these with reference to the JSE.

The first of these traits is that they apply probabilities to bets by focusing their analysis on understanding what pay-off profile exists within a specific opportunity, a task which involves two assessments. The first is potential size of gains should things work out as expected, as opposed to the expected size of losses if they do not. The second is the degree to which they believe that the odds are in their favour. All of these outcomes are dictated by price versus value – the great managers have tended to bet big on assets when prices are depressed relative to their assessment of value, as this approach increases the odds of success.

At its most rudimentary level, applying this logic to our market offers a rather discouraging outcome. If we consider the 12-month forward P/E's of the top 50 companies on the JSE, only two companies trade at P/E discounts to their long-term average P/E's. These two companies, which would be shunned by most investors, are Amplats and Anglogold Ashanti. Unfortunately, these premiums are not insignificant, with the majority of stocks at P/E premium levels of 50% and more - we see exactly the same picture emerge on dividend yields. Granted, earnings do not seem to be a disaster going forward on our market, but betting on an uncertain future moves the odds against those that seek low risk, high pay-off profiles.

The second trait is that these managers purchase cheap assets that will, one day, prove to be precious. At Northstar, we run multiple screens to find quality assets that are selling on the cheap and, in so doing, we hope to find something precious that is unrecognized by the market. When applying a screen that identifies the best and worst performing companies on our market for multiple periods up to a year, what becomes apparent, albeit obvious to many, is that commodities dominate the underperforming list and retailers, medical and financial stocks dominate the list of performers.

Of the 14 worst performing large cap stocks on our market, with 1-year returns ranging from -14% to -61%, 12 were resource shares with Barloworld and PPC being the only two non-commodity cyclical companies. Ratings (P/E's) for the poor performers are predominantly single digit to low teens, however, we must stress that P/E's on resources should be taken with a pinch of salt. Only two cyclical companies make it onto the best performing 30 large cap list for the year - these being Sappi at number 22 with a 46% return and Mondi at 27, which has returned 20%. The top ten best performing companies over a year have P/E's ranging from 19 to 32.

Taking this into consideration, we believe that the best businesses on the JSE where quality is present, trade at significant premiums to their historical valuations. Some of this is justified due to the low interest rate environment and solid levels of profitability, but it is difficult to warrant the extent to which pricing is elevated. In the current environment, it is not easy to find cheap assets to hold that one day will be precious and, in fact, it could better be argued that this is an environment in which quality assets will devalue, given time.

In his book, 'The Dhandho Investor', Mohnish Pabrai argues that smart investing involves taking 'big and infrequent bets'. We totally agree with him and one merely has to look at Buffett's bet on Washington Post, estimated to have been 25% of the cash of Berkshire Hathaway in 1973, to validate this approach! This is the third characteristic which is ever-present when the best investor minds see a gap – they wait patiently until an opportunity arises to go big.

A difficulty when adopting such an approach in the retail or savings market is that investors tend to have a limited understanding of the difference between price and value and do not allow managers time for big bets to pay off. Many retail and institutional investors fail to understand that return profiles are not linear, yet they expect managers to deliver consistent and smooth returns.

Taking big and infrequent bets does not talk to smooth returns - it also requires a manager to adopt a steely approach of waiting until the markets misprice assets. Applying such an approach in SA markets right now is tantamount to heresy yet, based on valuations, managers should quite frankly, be underweight and cautious of domestic equities. However, with prices rocketing higher, investors believe that high levels of participation are warranted and managers are expected to involve themselves in the action. "Mr. Market" is presently all about PRICE with little focus on VALUATIONS. Money managers that consider 'valuations' as forming the epicenter of their investment process are voices in a wilderness.

We at Northstar apply the same principles which have worked for us for 20 years - we calculate probabilities, we seek unwanted investments that one day will be precious and we wait patiently for the inevitable to occur, which will provide us with an opportunity to bet big in undervalued, quality assets.

Disclaimer