



# NORTHSTAR

ASSET MANAGEMENT

## Northstar MET Managed Fund - June 2014

### Portfolio Information

<b>Portfolio value:</b>	<b>R442.9 million</b>	2011 distribution:	3.50 cpu
Original buying price:	95.00 cents	2012 distribution:	3.76 cpu
Minimum Investment:	R10 000 lump sum or R500 monthly debit order	2013 distribution:	2.32 cpu
Manager's upfront charge (max):	0.00% (incl. VAT)	Benchmark:	CPI + 5% over a 2 year rolling period
FSP upfront comm (max):	3.42% (incl. VAT)	Risk:	Moderate
Annual management fee:	1.54% (incl. VAT)	Fund Classification:	SA Multi Asset High Equity
Formation date:	01 / 03 / 1998	Valuation time:	15h00
Date of income declaration:	30 June / 31 Dec	Transaction time:	14h00
Date of income payment:	2nd working day of July/Jan		

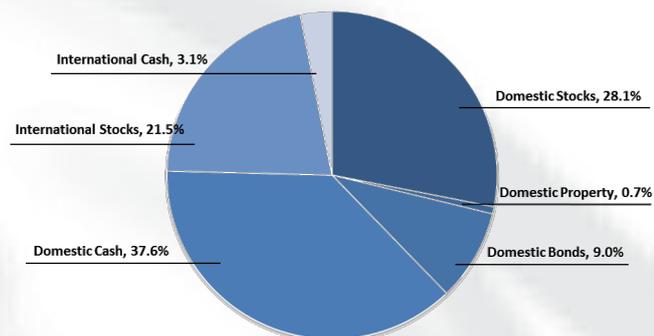
### Performance Fee:

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 (TER):	A Class:	A1 Class:
	Annual Management Fee (incl.VAT)	Annual Management Fee (incl.VAT)
	Performance Fees	Performance Fees
	Other costs	Other costs
	<b>Total TER</b>	<b>Total TER</b>
	1.54%	1.54%
	1.37%	1.66%
	0.04%	-0.03%
	<b>2.95%</b>	<b>3.17%</b>

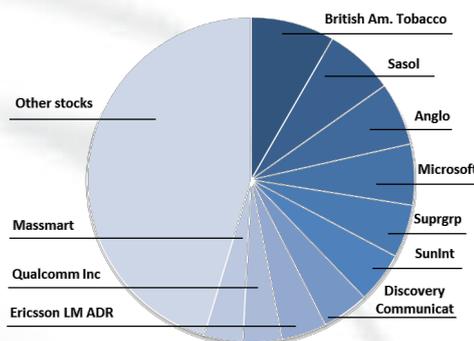
Please note: the TER has been calculated using data from 1 April 2013 - 31 March 2014. The TER is disclosed as a percentage of the average Net Asset Value of the portfolio that were incurred as charges, levies and fees related to the management of the portfolio. The TER is adjusted for significant subsequent 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.

Asset Class	Domestic	International	Total
Stocks	28.1%	21.5%	49.6%
Property	0.7%	0.0%	0.7%
Bonds	9.0%	0.0%	9.0%
Cash	37.6%	3.1%	40.7%
<b>Total</b>	<b>75.4%</b>	<b>24.6%</b>	<b>100%</b>



### Top 10 Equity Holdings

British Am. Tobacco	SunInt
Sasol	Discovery Communicat
Anglo	Ericsson LM ADR
Microsoft	Qualcomm Inc
Supgrp	Massmart



### Annualised Performance

as at 30 June 2014\*

\* the Management team changed on 1 November 2011.

	1 year	2 years	3 years
Fund	17.52	18.23	13.70
Benchmark	11.95	11.39	11.24

#### 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: FNB  
 Please fax deposit to: (012) 675 3889  
 or email to: ci.clientservice@momentum.co.za

**met**  
collective investments

## Northstar MET Managed Fund - June 2014

### Investment Strategy

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.

### Investment Objectives

The primary objective of the Northstar MET Managed Fund is to offer investors moderate to high long-term total returns.

### Fund Managers Commentary

Being the mid-point of the year, we see this as a good opportunity for self-assessment. In this fund fact sheet, we delve into what has worked and what has not since we began managing the Northstar MET Managed Fund in November 2011, placing particular focus on the past year.

#### Performance assessment - November 2011 to date:

The Northstar MET Managed Fund is a very old unit trust (collective investment) which was previously managed by various asset managers who worked for Metropolitan's asset management team - at this point in time, the fund was known as the Metropolitan Absolute Provider Fund. In November 2011, we became involved and the fund was rebranded as the Northstar MET Managed Fund. Consequently, we can only assess performance from the date that relates to our involvement.

Making money in markets can broadly emanate from two areas, namely 1.) The beta or general market movement and 2.) Alpha - the idiosyncratic factors that depend on manager skill and the ability to identify outperforming areas. Beta, in theory, is the easy way to make money, whereas generating alpha is more difficult as this requires hard work and skilled research teams and is, consequently, very expensive.

There is more than enough empirical evidence to support the theory that active beta management or market timing is a flawed strategy. It is impossible to demonstrate consistent performance accretion in implementing this approach over short periods of time and, consequently, we do not market time. However, allocating capital to the best valued assets is an inherent responsibility of good managers - unfortunately, success therein is only measurable over an extended time frame. Although we have a very long and successful history of asset allocation and stock selection over our careers on various funds, in the Northstar MET Managed Fund, we are restricted to the period since we became involved in 2011.

#### Skill - alpha generation:

*Inception to date:*

The JSE All Share Index has returned 70.42% since 1 November 2011 and the average general equity fund has returned 58.1%. If we gross-up our domestic equity weight to 100% - that is, we assume that we were managing a general equity fund - the Northstar MET Managed Fund's domestic equity component has returned 80.76% since our inception date. This should not surprise our investors, as our core focus at Northstar is alpha generation and we apply time and money to this end! In addition, our 'hit rate' on stocks was 82% - we invested in a total of 60 companies since inception (38 domestic counters and 22 foreign stocks) - 49 of which made us money!

*Past six months:*

A similar analysis for the past six months reveals that our domestic equity 'grossed-up' return is 17.23% versus the market at 11.87% which is an outstanding level of outperformance. Our hit rate in 2014 was also very high at 75%. We held 40 companies over the period (23 domestic stocks and 17 foreign stocks) - 30 of which made us money!

*Quarter one versus quarter two:*

When we break-down the 1st quarter of 2014 versus the 2nd quarter of the year, our returns in the 2nd quarter are much more muted. The ALSI returned 7.25% in quarter two, which is in line with the grossed-up equity return on our Northstar fund. There is nothing abnormal about this - managers do not outperform each quarter and returns normally originate in explosive bursts, which talks to the importance of long investment horizons that are required when investing.

#### Asset allocation:

In general, the decisions we have made on the fund since November 2011 have been good. Initially, our avoidance of property and bonds proved to be spot-on, particularly in 2012 and 2013. Our subsequent purchase of bonds in 2014 has been very rewarding. From a

sector perspective, initially (when we began managing the fund in 2011), we were exposed predominantly to industrial counters. However, in 2013 we bought more financials and resources (contrary to consensus) which proved to be the correct decision.

What has not worked in 2014 so far, has been our underweight domestic equity call. This fund is delivering incredibly high levels of alpha, but we have forgone beta, allowing others a 'free ride'. We certainly feel discomfort in this regard but reiterate our view that we allocate capital over long periods of time and only to assets where value is higher than the prevailing price. Our frustration in 2014 is that we have been unable to populate our portfolio with enough SA companies where the price of the business is at a deep enough discount to the prevailing intrinsic value. Inevitably, this will normalize in time, at which point we will restore appropriate equity levels in the fund!

#### **Conclusion:**

In conclusion, the Northstar MET Managed Fund is delivering high levels of 'bang for buck' - the fund is generating very high returns considering the low equity balance or low levels of risk being taken. Having said this, we must acknowledge that, had we increased equity exposure in conjunction with our strong stock selection, returns could have been significantly higher.

#### **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 0.35%
Northstar Asset Management:	Up to 1.00%
Distributor/LISP:	Up to 0.25%

**Total Management Fee: 1.35%**

Performance fees: Accrue to the Investment Manager

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**Custodian: Standard Executors & Trustees: Tel (021) 441-4100 MET Collective Investments (RF) (Pty) Ltd, Parc du Cap Mispel Road, Bellville, Call Centre Tel: 0860 111 899, Fax (012) 675-3889, Email: ci.clientservice@momentum.co.za, PO Box 925, Bellville 7535, Registration No 1991/03741/06**

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