met
collective investments

# MET Managed Fund

**March 2012**

The management team of this fund changed on 01 August 2011.

## Fund Managers

PSG Asset Management

Neels van Schaik
B.Com (Econ) (Stel); CFA

Adrian Clayton
B.Soc Sc. (UCT);
PDM (UCT);
MBL (UNISA)

## Asset Allocation

| | Current | Benchmark |
|---|---|---|
| Domestic Stocks | 32% | 55% |
| International Stocks | 16% | 14% |
| Total Stock Exposure | 51% | 69% |
| Preference Shares | 0% | 0% |
| Property | 0% | 0% |
| Domestic Bonds | 6% | 10% |
| Domestic Cash | 38% | 10% |
| International Cash & Other | 6% | 11% |
| Total Fixed Income Exposure | 49% | 31% |

## Top Holdings

| | |
|---|---|
| Tesco PLC | 5.1% |
| Supergroup | 4.8% |
| Kagiso Media Limited | 4.1% |
| Anglo American | 4.0% |
| Steinhoff International Holdings | 4.0% |
| Sasol | 3.5% |
| Microsoft | 3.1% |
| MTN Group | 2.7% |
| Eqstra | 1.9% |
| JPMorgan | 1.9% |

## Portfolio Information

| | |
|---|---|
| Portfolio value: | R100.6million |
| Original buying price: | 95.00 cents |
| Minimum Investment: | R5 000 lump sum or R500 monthly debit order |
| Manager's upfront charge (max): | 0.00% (incl. VAT) |
| FSP upfront comm (max): | 0.00% (incl. VAT) |
| Annual service fee: | 1.54% (incl. VAT) |
| Formation date: | 13/02/1998 |
| Date of income declaration: | 31 Dec/30 June |
| Date of income payment: | 7 Jan/7 July |
| 2010 distribution: | 4.98 cpu |
| 2011 distribution: | 3.50 cpu |
| Benchmark: | CPI + 5% over a 2 year rolling period |
| Risk: | Moderate |
| Fund Classification: | Domestic Prudential Variable Equity |
| Valuation and Transaction time: | 15h00 |

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 and high water mark is carried forward for set-off against future positive out performances. Fee example: 0% performance fee if portfolio performs in line with its benchmark.

## Annualised Performance

as at 31 March 2012

| | Fund | Benchmark |
|---|---|---|
| 1 year | 4.39% | 10.43% |
| 3 years | 8.08% | 10.35% |
| 5 years | 4.79% | 12.00% |

## Total Expense Ratio: 1.76%

Please note: the TER has been calculated using data from 1 January 2011 until 31 December 2011. The TER is disclosed as % of the average Net Asset Value of the portfolio that were incurred as charges, levies and fees related to the management of the portfolio and underlying portfolios. 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 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.

## Investment Objective

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

Deposits can be made at any ABSA Bank

| | |
|---|---|
| Account Number: | 360 000 931 |
| Bank Code: | 31 21 09 |
| Bank: | ABSA |
| Please fax deposit to: | (021) 940 4856 |

Custodian: Standard Executors & Trustees: Tel (021) 401-2286. MET Collective Investments Limited Parc du Cap Mispel Road Bellville, PO Box 925 Bellville 7535 Tel (021) 940-5981

Fax (021) 940-5885 Call Centre, Tel: 0860 100 279 Registration No 1991/03741/06.

# MET Managed Fund

March 2012

## Fund Managers Commentary

One of the benefits of being a smaller fund manager is the ability to invest in companies that are off the radar screen for larger investment houses as the liquidity in some of these smaller companies does not allow for meaningful ownership positions.

We see significant benefits in owning sizable positions in smaller companies, if the risk of permanent capital loss is low enough. Investors often forget that the large companies available on the JSE today were relatively small companies years ago and given their competitive advantages and management talent, they have delivered strong profit growth, either organically or through acquisitions. Some have developed into global businesses, now delivering capital returns to shareholders all around the world.

Within our monthly commentaries, we thought it would be useful for our unit holders to receive information on certain of our stock positions – in so doing, to get a better understanding of where their capital is invested. A smaller company that we own a sizable position of is Kagiso Media. It adheres to all our investment criteria and we expect sound returns over our expected holding period, which we intend to be many years.

The majority of Kagiso's current earnings power is concentrated in its broadcasting assets, which contribute more than two thirds of group revenue and almost ninety percent of operating profits. This is derived from Kagiso Media's ownership of East Coast Radio (Natal) and Jakaranda 94.2 (Pretoria). The geographic reach and consumer demographics of these radio stations make them both sought after advertising mediums for corporate advertisers and combined they attract a meaningful portion of the radio add spend in South Africa.

Radio remains an important advertising medium in an emerging country like South Africa, although these moats or competitive advantages are never permanent. The one factor that we believe makes the high margin nature of Kagiso Media sustainable over the next few years is that there are no longer analogue frequencies in South Africa available – hence the incumbents in the industry are fairly well protected from new competition. Management believes that digital radio only poses some threat ten to fifteen years from now.

The broadcasting business is relatively capital light and therefore does not require significant reinvestment of retained profits to fund future growth. The business therefore generates copious amounts of cash and we are very comfortable with the sustainability of the dividend. We are currently receiving more than a 5% dividend yield on the initial purchase price.

Radio broadcasting is a very mature industry and changes in radio advertising revenues should more or less move in line with changes to Nominal GDP. We believe this the main reason why management has been investing in other parts of the business with specific emphasis on information and content, hence the recent acquisition of Juta as replacement for LexisNexis. The risk of course is that these divisions have weaker competitive advantages than the core assets of Kagiso Media and could potentially dilute group margins and the return on capital in the long run. We will be monitoring this. Broadcasting remains however the central DNA of this business and management sees attractive growth opportunities in the African broadcasting landscape, most probably through acquisitions.

In the long run the capital return from most stocks on average should be more or less in line with nominal GDP growth, plus the dividend yield. That of course assumes that stocks are bought at fair value. If not, returns measured over years, should be diluted by a de-rating in the value of the businesses, offsetting at least some of the capital returns.

We have no great insights into how Kagiso Media's stock price will perform over the next few months or years and it is not impossible that investor's receive negative capital returns over the short-term, in the event of a broad market sell-off. We are however not in the business of predicting stock prices and short-term price fluctuations do not bother us. Most importantly, we are comfortable that our purchase price for Kagiso Media does not reflect the full earnings power of the business and the total capital return from the stock should comfortably achieve our return-hurdles.

In short, we believe the total return to shareholders measured over the next few years should match the growth in profits plus the dividend yield, which is expected to be between 12% and 17%, not unattractive compared to a generally overvalued market.

Custodian: Standard Executors & Trustees: Tel (021) 401-2286. MET Collective Investments Limited Parc du Cap Mispel Road Bellville, PO Box 925 Bellville 7535 Tel (021) 940-5981

Fax (021) 940-5885 Call Centre, Tel: 0860 100 279 Registration No 1991/03741/06.