



NORTHSTAR

ASSET MANAGEMENT

Northstar Met Managed Fund - May 2014

Portfolio Information

Portfolio value:	R420.5 million	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		

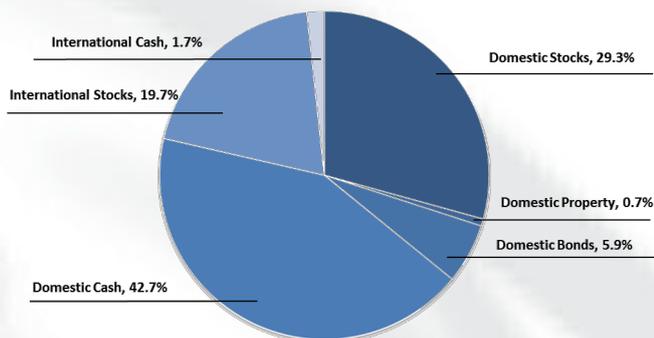
Performance Fee:

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)	1.54%	Annual Management Fee (incl.VAT)	1.54%
Performance Fees	1.37%	Performance Fees	1.66%
Other costs	0.04%	Other costs	-0.03%
Total TER	2.95%	Total TER	3.17%

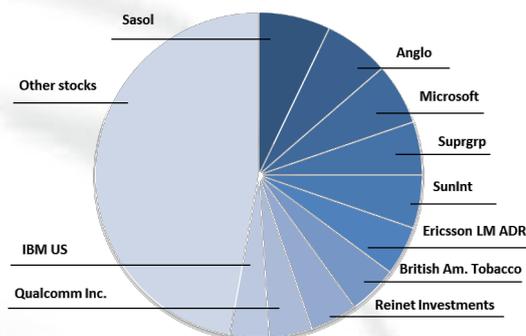
Please note: the TER has been calculated using data from 1 April 2013 - 31 March 2014. The TER is disclosed as a percentage of the average Net Asset Value of the portfolio that were incurred as charges, levies and fees related to the management of the portfolio. The TER is adjusted for significant subsequent 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	29.3%	19.7%	49.0%
Property	0.7%	0.0%	0.7%
Bonds	5.9%	0.0%	5.9%
Cash	42.7%	1.7%	44.4%
Total	78.6%	21.4%	100%



Top 10 Equity Holdings

Sasol	Ericsson LM ADR
Anglo	British Am. Tobacco
Microsoft	Reinet Investments
Suprgrp	Qualcomm Inc
SunInt	IBM US



Annualised Performance

as at 31 May 2014*

* the Management team changed on 1 November 2011.

	1 year	2 years	3 years
Fund	14.74%	18.23%	12.87%
Benchmark	11.42%	11.29%	11.34%

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 - May 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

We have completed our quarterly asset allocation review and, although our process is predominantly detailed bottom-up work (individual instrument analysis), our top-down analysis certainly assists us with risk analysis. This month's fund fact sheet briefly covers our current asset allocation views.

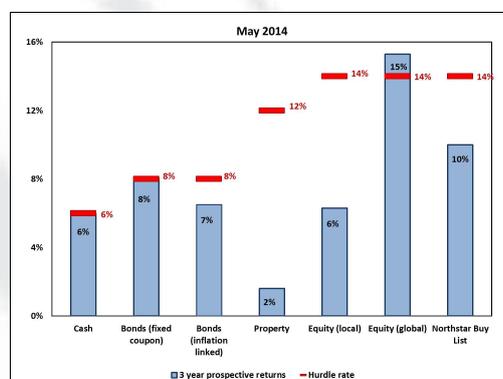
Before we go into detail, it is important to reassess how we undertake our asset allocation. Northstar's goal is to determine whether the current price for each asset class correctly discounts consensus inflation and interest rate expectations. We do not attempt to predict inflation nor policy rates, we merely input consensus and then assess asset return scenarios. On this note, Bloomberg consensus on the repo rate is that it will rise by 150bps over the next 18 months. Inflation is expected to average 5.8%, however, as the market knows, the upper end of the band is under constant threat at present.

In light of this, we believe that fixed coupon bonds (particularly those that are longer duration) offer value - yields of 9% are 3% above the upper end of the inflation band. Historically, when nominal bonds offer 3% real yields, this has proven an excellent point of entry. It is also worth highlighting the steepness of the yield curve - the domestic yield curve currently has almost unprecedented steepness, with short rates at 5.5% and long rates above 9%. Some normalization is inevitable - the short end must move higher, the long end must move down or a combination of these two shifts unfolds. Our modeling highlights that value is found at the long end of the curve and we are comfortable slowly building a position at these levels. We believe fixed coupon bonds will deliver annualized returns of about 8.1% over the next three years, which is above our benchmark of 8% for these instruments.

We cannot say the same for inflation-linked bonds. Most of the curve looks overvalued - inflation linkers at the long end provide 2% real returns, which in our view, does not adequately compensate investors for duration risk. Some value has crept into the curve in the five-year duration space, where real returns above 1% are on offer. On a three-year annualized basis, we see inflation linkers offering returns of 6.5% annualized, which is below our 8% return benchmark.

Each and every property company is modelled domestically. Our work revolves around yield differentials between the varying property stocks and SA bonds and we incorporate consensus distribution growth. We believe that the current yield discount at which property trades relative to bonds does not account for slower distribution growth, relative to the historical 'norms' that these companies enjoyed over the past decade. Property is a high risk, high return asset class and investors should demand a return not dissimilar to equities - a hurdle rate return of inflation plus 6% over time justifies the risk of being invested in property. Our modeling indicates that the three-year annualized returns emanating from this asset class at present is 1.6% against a return hurdle of inflation plus 6% or 12% nominal. In our opinion, investors are not going to be compensated for the risk they are incurring in property.

After we normalize margins, construct sustainable growth rates and combine this with realistic ratings and fair dividends yields, the return profile for the domestic equity universe looks bleak. In fact, our prospective returns screening tool highlights that only 13% of SA listed stocks will provide returns above inflation plus 8% - traditionally the annualized returns that have been on offer, owning SA equities. This top-down view is not inconsistent with our bottom-up analysis, in which we are struggling to find companies that trade at a discount to intrinsic value. We see three-year annualized returns from the JSE All Share Index at about 6.3%, which is much lower than a fair hurdle rate of 14% (inflation plus 8%). The Northstar domestic buy list generates a return profile closer to 10% annualized, yet still lower than the required 14%. Consequently, we are underweight domestic equities. Fortunately, we continue to find value offshore, albeit significantly less so than six years ago, when offshore equities were out of favour. Our prospective returns abroad are 15% annualized over the next three years, beating the benchmark of 14%. The adjacent graphic summarizes our current views.



Our portfolios reflect these views - we are buying longer duration bonds, are underweight inflation-linkers, property and domestic equities and are overweight offshore stocks.

FAIS Conflict of Interest Disclosure

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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

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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