Northstar MET Managed Fund

October 2014

NORTHSTAR ASSET MANAGEMENT

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 474 450 122
NAV	2.01
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

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.

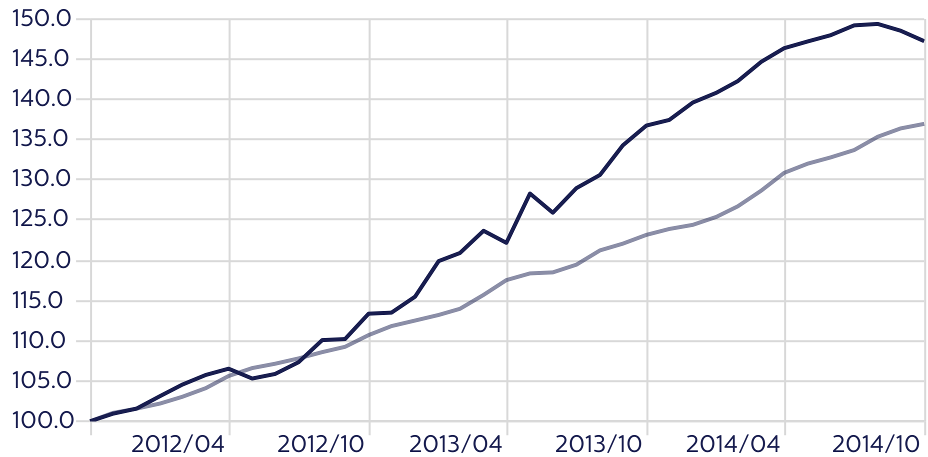
Total Expense Ratio (TER)

A Class:		A1 Class:	
Ann. Man. Fee	1.54%	Ann. Man. Fee	1.35%
Performance Fee	1.99%	Performance Fee	1.78%
Other Costs	0.05%	Other Costs	0.09%
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 2014/10/31



—Northstar MET Managed A —CPI +5%

	YTD	1 Year	2 Years	Manager Inception
Northstar MET Managed A	5.5	7.7	14.0	13.8
CPI +5%	10.1	11.2	11.2	11.1

Risk Statistics Since Manager Inception

Time Period: 2011/11/01 to 2014/10/31

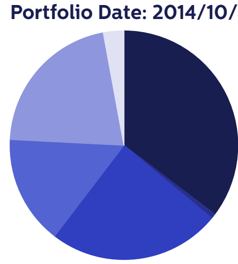
	Fund	ASISA Sector
Std Dev	4.8	5.4
Sharpe Ratio	1.7	1.5
Up Period Percent	86.1	77.8
Max Drawdown	-1.9	-3.5

Income Distribution

Date	Class A	Class A1
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: 2014/10/31



	%
Domestic Equity	35.3
Domestic Property	0.7
Domestic Bonds	24.4
Domestic Cash	15.4
Foreign Equity	21.3
Foreign Cash	2.9
Total	100.0

Top 10 Equities

Standard Bank	4.8%
Sun International	3.9%
British Am. Tobacco	3.9%
Sasol	3.8%
Microsoft	3.4%
Anglo American PLC	3.1%
Ericsson LM ADR	2.2%
AECI	2.1%
Supergroup	2.1%
Discovery Comm.	1.9%
TOTAL	**31.2%**

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

NORTHSTAR
ASSET MANAGEMENT

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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 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 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
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Monthly Commentary

At face value, holding a large cash exposure is performance destroying, it creates cash drag in a rising equity environment.

Another way of looking at this is from the perspective of what assets are really worth and whether cash provides the ultimate form of optionality in a world where asset prices must converge to fair levels. Applying generous PE, Dividend Yield and Growth assumptions to the JSE at current levels will at best demonstrate that the market is fairly priced, more realistic assumptions gives a picture of an expensive asset environment. This is unfortunately the case for most markets at the moment.

But the JSE is not homogenous - it is mostly polarized into two worlds. There is a growing pool of cyclical stocks with poor levels of current profitability that, superficially, look outrageously cheap. At the other end of the spectrum are companies with clear and growing short-term earnings visibility but which are valued by the market at stratospheric levels. We view both these polarized environments are inherently risky. In between these worlds one finds a minority of companies which are fairly valued and where profitability is steady. It is in this 'Middle World' that we have found a place of solace.

Returning to the optionality of cash, we believe that it is easy to fall into the trap of underestimating the power of cash in a world of predominantly overvalued assets. Cash offers an ability to buy assets in the future at prices lower than what is available today. The gains are two fold – the clear benefit of not losing money on the way down and the obvious joys of owning rising priced assets on the way up.

With our focus on valuations and the true worth of assets versus their market prices, the following is revealing in terms of current market dynamics. The stocks that we own in our portfolio, trade at an average 13% discount to our view of what their intrinsic value is. Over the last 6 months, these stocks have returned 3.3%. Against this, the stocks on our Watch list (companies which we have undertaken research on and which we would like to own, but are trading at an average 8% above their intrinsic values as calculated by our research team) have shown a capital return of 14.3% over the last 6 months. We believe this illuminates the current risk mood in markets – there is little interest in any company based on long-term valuation metrics, companies without immediate earnings visibility are being punished. 'Growth companies' on the other hand, see their share prices rising stratospherically.

To extend this argument, we have spent some time looking at prospective returns which emanate from stocks based on their current Price to Books and Price to Earnings ratios. On the current P/B of 2.2 times for Sasol, prospective 5 year returns are usually in the mid-teens. Following the same exercise for Standard Bank, which is on a P/B of 1.7x shows that future returns are generally high mid-teens and have historically not been negative. Wilson Bayly Holmes is on a P/B of less than 2, this indicates double digit prospective returns. All these companies reside in what we define as the 'Middle World' – they are not sexy, but offer reasonable return metrics with a lower probability of large capital losses.

At the other extreme are retailers and hospital stocks. Mr. Price has never been this expensive. It trades on a P/E multiple exceeding 30 times; its normal historical P/E band is between 8 and 18 times. At the current P/E rating of 22, Mediclinic has historically not produced future returns above single digit levels. For these companies and many more, the market has high expectations for future levels of profitability. There is no room for disappointment.

We cannot commit our clients' capital to assets that do not meet our fair valuation metrics. The market will have a life of its own in the short-term, but given time, realism will be the winner and fair values will once again offer opportunities for patient money. We believe the 'worth' of cash and its optionality value is significantly higher than investors currently have factored in.

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

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A member of MMI Holdings

Source: Morningstar Direct

Disclaimer