met
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MET Managed Fund

September 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)

Portfolio Information

Portfolio value:	R149.6million
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:	01/03/1998
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 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: 1.81%

Please note: the TER has been calculated using data from 1 July 2011 until 30 June 2012. 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 Objective

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

Asset Allocation

	Current	Benchmark
Domestic Stocks	38%	55%
International Stocks	22%	14%
Total Stock Exposure	60%	69%
Preference Shares	0%	0%
Property	2%	0%
Domestic Bonds	4%	10%
Domestic Cash	33%	10%
International Cash & Other	2%	11%
Total Fixed Income Exposure	41%	31%

Top Holdings

Sasol	5.2%
Anglo American	5.2%
Tesco PLC	5.0%
Supergroup	4.6%
Steinhoff International	4.3%
Angloplats	3.5%
Kagiso Media	3.4%
Microsoft	2.9%
Reunert	2.4%
ING Groep	2.2%

Annualised Performance

as at 30 September 2012

	Fund	Benchmark
1 year	13.11%	10.82%
3 years	7.82%	10.03%
5 years	4.08%	11.87%

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.

Deposits can be made at any First National Bank

Account Holder:	Met Collective Investments Ltd-METCI Client Deposit Trust
Account Number:	623 614 33784
Bank Code:	253 145
Bank:	FNB
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.

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Fund Managers Commentary

This is our ninth commentary of the year and so far, 2012 has proven to be a year that has far exceeded our return expectations across various asset classes and sectors. It has also been a year defined by strong momentum within specific market segments to the detriment of others.

We were tempted to head this piece something like this: '' if your portfolio produced outstanding returns in 2012, then be worried, be very worried'', but that is a conceited perspective and out of character with our style. It does however give insights into how concerned we are about areas of the SA stock market that we deem overvalued. That said, momentum markets are not uncommon and market participants exist that capitalize on these trends. We however, are not one of those asset managers and choose to vigorously only invest in assets where the current share prices understate the value of the assets owned by companies.

Year to date, the three stand-out performance sectors on our market were health care (38.6%) consumer services (34.2%) and listed property – with the various sub-components of property producing mid 30% returns. The largest laggards were basic material (-3.1%) and oil and gas (-1.9%).

We have a wide range of assets held within our fund, but this year, we have actively been acquiring the very companies that constitute the laggard sectors whilst we have been exiting companies that have been star performers, those that have risen above their intrinsic values. These overvalued companies live in the out-performing sectors of the JSE this year!

To understand our logic, let's look at when retailers were last priced at their current P/E multiples. This dates back to between 1998 and 2001. 14 years ago, as our retail proxy, Shoprite was rated on a P/E of approximately 30 – it went higher than that (45), but very briefly. Currently, Shoprite is rated on a multiple of 26. Between 1998 and 2003, Shoprite's P/E de-rated from its lofty P/E of 45 to less than 10 times – it reached its lowest multiple of a 9.8 times in 2003. I guess the obvious point we making is that most businesses go through cycles of being enthusiastically valued by the market and then hopelessly undervalued. Retailers are no different. Shoprite's rating was not the only collapsing point from 1998, the share price halved over a 6 year period, from its high in 1998.

Against this, a company like Sasol, clearly not the current flavour of the month, presently trades on a lowly rating of 9x, a level last seen in 2008; that was the epicentre of a market crash. Before that, Sasol traded on a similar rating to the present in 2003. Sure, P/E ratings are too simplistic for resource rich counters and cyclicality in earnings distorts these simplistic type measures, but even on a dividend yield basis, Sasol at 4.7% (with a progressive policy) is 18% higher than its mean dividend level, which dates back to 1981. This looks compelling value to us!

These examples force us to return to the ethos of our investing policy, buy assets where the price does not reflect the true underlying value of the business. Conversely, avoid assets where the price overstates the true value. In a nutshell, we do not want to lose money for our investors – the first building block of our investment policy with respect to any money we manage.

We believe that the momentum areas of the JSE will in time, de-rate as they have done in the past and when this occurs, these will be the unwanted areas that will attract our intention. For now however, we will be avoiding the sexy sectors and instead navigating this fund through waters where few want to travel, but where we see rich fishing grounds for the patient.

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