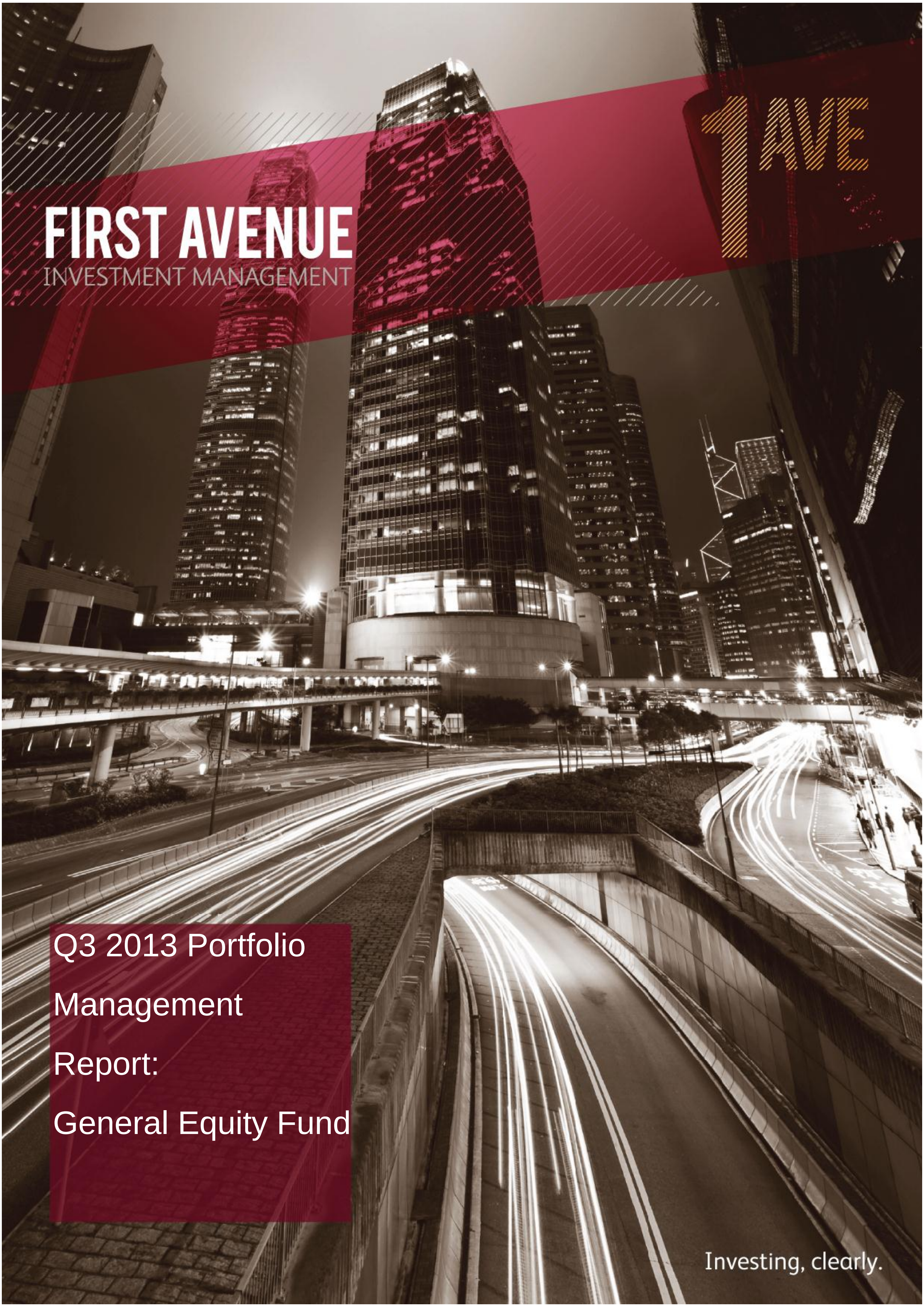
FIRST AVENUE
INVESTMENT MANAGEMENT



Q3 2013 Portfolio Management Report: General Equity Fund

Investing, clearly.

Business Update

There are no business issues to report on.

Investing Clearly

First Avenue is a valuation-driven equity manager. The objective of our investment style is to grow our clients' wealth through the consistent application of our investment philosophy and process over long periods of time. We list below the simultaneous conditions necessary for this outcome to materialize.

1. *We forgo opportunity to outperform the market during periods of over-valuation (momentum) due to either trend exuberance or risk acquisition:*

These are periods when: (i) most securities on the market do not reflect sufficient margins of safety, and (ii) the psychological and emotional make-up of investors who dominate market activity is one of valuing one's gains more than one's losses. We refer to our results during this period as our pain trade.

2. *Our clients stay with us for extended periods of time:*

By foregoing momentum related returns, investors in our funds appreciate our ability to: (i) avoid significant capital losses when the stock market corrects from over-valuation (momentum), and (ii) continue to grow from a higher base than a market-corrected level. This phenomenon is referred to as compounding. Through this phenomenon, we aim to double our clients' investments with us every 5.5 years.

Investment Outcome

Our results for the quarter were negatively impacted by new found investor appetite for risky or cyclical assets in anticipation of economic recovery in the developed world (primarily in Europe), coupled with a continuation of easy monetary conditions (particularly in the US).

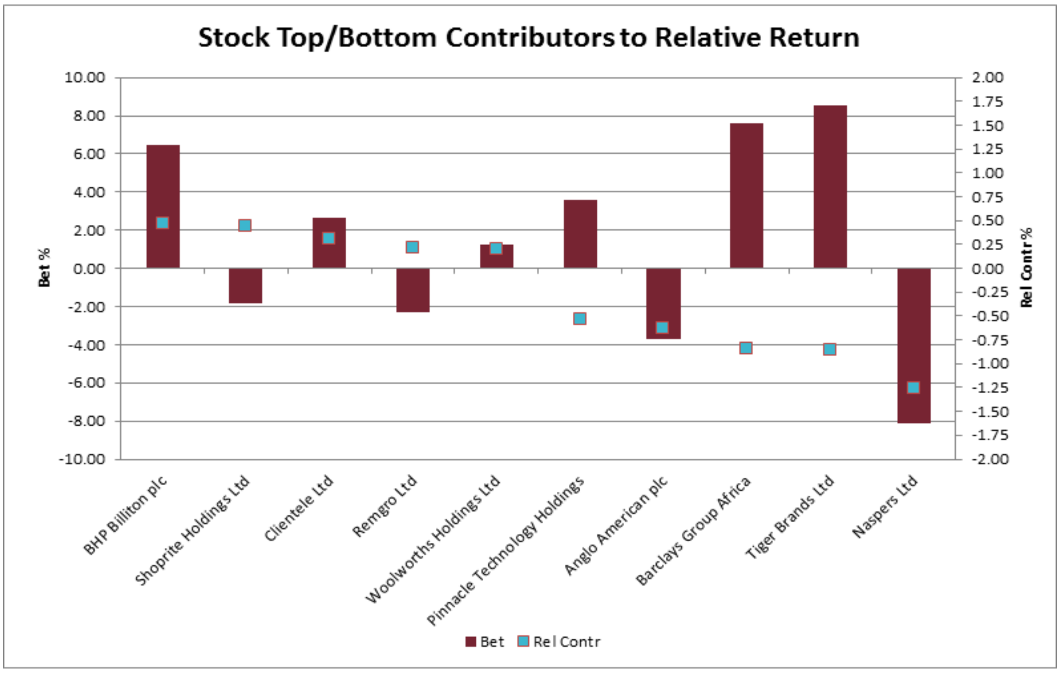
Figure 1: Investment Outcome

Risk/Return period	General Equity Composite	SWIX	Relative
Performance since Inception*	63.9%	58.4%	5.5%
2012	31.2%	29.1%	2.1%
2013 YTD	13.6%	13.8%	-0.2%
Q3 2013	6.6%	11.2%	-4.6%
Annualised Performance since Inception*	20.4%	18.8%	1.5%
Annualised Volatility since Inception*	12.4%	14.4%	-13.7%
Annualised Risk Adjusted Return since Inception*	164.3%	131.2%	33.1%

** Inception Feb 2011*

Suffice it to say, it is remarkable that in a year that risk assets are staging a pronounced come back, we are more than on track to generate our annual hurdle rate of 12.5% that allows us to double our clients' wealth in 5.5 years. Wealth creation is about not losing money, not going backwards, but rather compounding at a steady rate (cost of capital at the least) over long periods of time.

Figure 2: Top 5 and Bottom 5 Contributors to Relative Return



The moral of figure 2 is that very few quality stocks worked in the quarter. For instance, while not holding Naspers, a clear quality company was an oversight that cost us immensely, holding it would still not have compensated adequately for the rally in low quality risk assets such as Anglo (which we of course don't hold). Historically, where other quality stocks we hold in our portfolio (see figure 3) made up for this oversight in Naspers (e.g. Tiger Brands, Pinnacle), they didn't in this quarter. This time, any high quality stock that worked was an exception and not the rule. Literally, 4 out of about 72 high quality stocks made the top 15 stocks that overwhelmed the benchmark (see names in bold in figure 4).

Figure 3: Portfolio Positioning (Top 10 Bets) for the Quarter Ending Sept 30

Sector	Portfolio Weight	SWIX	Relative
Tiger Brands Ltd	9.2%	1.1%	8.0%
Barclays Group Africa	8.2%	1.1%	7.1%
BHP Billiton plc	10.1%	3.4%	6.7%
City Lodge Hotels Ltd	5.1%	0.1%	5.0%
Sanlam Ltd	6.6%	2.2%	4.4%
Clover Industries Ltd	4.2%	0.1%	4.1%
Sasol Ltd	10.3%	6.4%	3.9%
Metrofile Holdings Limited	3.6%	0.0%	3.5%
Pinnacle Technology Holdings	3.4%	0.1%	3.3%
Kagiso Media Ltd	3.1%	0.0%	3.0%

Hitherto, investors had sought to protect themselves from a high degree of economic uncertainty by investing in companies that generate economic returns and cash flows with a high degree of certainty. This is in fact very rational behavior. If there's anything you want the most in a period of great uncertainty, it would be certainty. While we do not think the inverse is true, that is, the one thing certainty makes you crave is uncertainty; it is nonetheless a reality in the minds of some investors.

The idea is to appreciate the element of human judgment that gives rise to this reality. We think it is attributable to investors valuing their gains more than their losses. Such investors are part of the ecosystem of the marketplace, and ensure its diversity. Diversity of market participants is one of the critical characteristics of a well-functioning stock market. For interest sake, the other two are independence of action (no collusion) and liquidity. You will notice that a major difference between the type of companies we invest in, and the type that outperformed in this quarter (those in figure 3 save Aspen, Naspers, EOH, and Mondi), is that while the latter require the impetus of economic growth (cyclical recovery and high, stable growth thereafter) to do well, the former are endowed with structural strengths that allow them high economic profits with much less sensitivity to economic growth.

Figure 4: Best Performing Stocks in the Quarter Ended September 30, 2013

Top 15 Fastest Growing Companies Over Last 3 Months

Stock	Price Return	Competitive Advantage	Market Cap (R Bn)	PE Ratio	Return on Equity	SWIX Weight
Sibanye Gold Limited	95.1%	None	10.0	3.8	7.1%	0.16%
Anglo American Plat Ltd	60.6%	None	118.7	-136.3	2.2%	0.61%
Telkom Sa Soc Ltd	43.7%	None	12.4	28.2	-63.1%	0.18%
Impala Platinum Hlgs Ltd	43.6%	None	79.1	37.9	2.0%	1.46%
Steinhoff Int Hldgs Ltd	40.8%	None	63.5	8.8	11.9%	1.31%
Aquarius Platinum Ltd	39.8%	None	4.0	-1.6	-97.3%	0.03%
Mondi Plc	**37.9%**	**Cost efficiency**	**62.6**	**18.9**	**13.5%**	**0.47%**
Mondi Ltd	**36.8%**	**Cost efficiency**	**20.1**	**18.8**	**13.5%**	**0.63%**
Assore Ltd	36.1%	None	57.9	12.1	24.2%	0.30%
Eqstra Holdings Ltd	35.5%	None	3.4	7.7	11.9%	0.06%
Aspen Pharmacare Hldgs	**35.2%**	**Intangible Assets**	**122.0**	**34.1**	**15.4%**	**1.62%**
Naspers Ltd -N-	**34.3%**	**Network Effect**	**389.5**	**54.4**	**12.1%**	**8.36%**
Lonmin Plc	33.6%	None	30.0	35.5	5.0%	0.39%
Northam Platinum Ltd	33.0%	None	16.0	30.9	4.9%	0.27%
EOH Holdings Ltd	**29.0%**	**Disciplined Oligopoly**	**7.6**	**20.6**	**20.4%%**	**0.16%**

Note: Last 3 months ending 26 Sep 2013; Only stocks with R1bn+ market cap shown and days to fill position <90 days shown
Source: McGregor BFA, First Avenue Analysis

As an interesting aside, intrinsically valuable companies grow (i) at a faster rate (than cyclical companies who go backward or under) in economic climates characterized by slow and highly uncertain growth, and (ii) slower (than cyclical companies) in periods of both economic recovery and very high certainty about future economic growth.

The two types of companies attract two different types of investors who both refer to themselves as value investors – after all, few proclaim not to be. In providing you with a critique of the two types of companies, rest assured that we have applied the iron rule of criticism – unless we can state the arguments for what we're against better than the people who support it, we are not entitled to our criticism. This prescription materially reduces the psychological misjudgment of self-serving bias and also avoids condescension. So let's start with the argument for investing in risk assets:

Investors who purchase stocks that require a lifting in the pall of high economic uncertainty, typically deep value investors, point out that the market has over-penalized companies that find themselves challenged by a tough economy. They do not deny that these companies contain a significant amount of risk that at times extends to bankruptcy. More valuable to these investors, however, is how such companies come roaring back in a manner not too dissimilar than the response of dried vegetation to the first rains. This is what's meant by valuing one's (potential) gains more than one's (potential) losses. Of course, the first rains, like the recovery have to be followed by further rains (economic gains) to sustain growth in these companies.

Now for the criticism - the operation above implies that an investor is able to tell if the economy will turn up before a cyclically challenged company runs out of air (cash). You're actually familiar with this risk. Think back to how many companies both in South Africa and around the world have raised capital since the crisis of 2008 to avoid running out of money to operate soundly (put bluntly, bankruptcy). For instance, between Dec 2007 and June 2011, developed world banks (USA and Europe) raised 33% of their market capitalization in new issuances (split 34% of market cap in the US and 45% of market cap in Western Europe). You don't even want to think of what kind of world we could be living in today had investors, let alone governments, balked at funding them. Here's another great example from a graveyard industry.

During the period 2000 and 2012, the top ten gold companies in world trebled their shares in issue, despite a four-fold rise in the gold price, in order to compensate for burning (losing) a cumulative negative US$11bn in free cash flow. To finish off this point, in 2010 the cash on Aveng's balance sheet equaled 58.3% of the company's market cap. Today, it is 40.7% of market cap. The raw numbers make you better appreciate the danger involved. In 2010, the cash balance was R7.8bn and now, it is R4.6bn. Since 2009, Aveng's revenues have gone up 17%, but free cash flows declined 7%. Don't get us started on the industry with nine lives, Platinum Group Metals, where Lonmin and Amplats have raised capital a total of 5 times between them in the last 8 years! In essence, capital raisings are a plea by companies to be released from a trap much like the mouse that pledged not to pursue the cheese anymore if it was let out of the trap. If you're wondering how an opportunity at rolling the chamber of a loaded six shooter ends, well, sometimes with a huge pay day (outsized returns) and at other times…

Let's just say Bill Miller's stellar career at Legg Mason came to an ignominious end on account of misconstruing risk for value while David Dreman's business was decimated from US$22bn under management in 2007 to US$5.5bn the very next year.

The deep value mantra, "we buy, and sell early" assumes practitioners either (i) avoid bankruptcies or capital raisings in their stock picks or (ii) run portfolios with so many stocks in them that stocks that work out compensate for those where capital is permanently impaired. The latter, overwhelming with quantity and not quality, is in fact the hallmark of deep value investing. When you review the tale of the tape of cyclical companies that survive the brunt of the cycle, you observe a characteristic critical to successfully investing in them, and that is, timing. As good as they called the cyclical lows in valuation; deep value investors simply have to remember to sell early (before the cyclical highs in valuation) or else. Embedded in harnessing timing into a skill is the presumption of prescience in macro forecasting. Yet most investors tend to roll over with the market, and engage in desperate selling in order to avoid returning to cyclical lows.

Figure 5 depicts why. Smit and du Plessis of the University of Stellenbosch found that the local stock market leads an economic upturn by 13.1 months, with a margin of error of 7.1 months, and leads an economic downturn by 12.2 months, give or take 4.6 months. In 1991, Jeremy Siegel also concluded that the stock market is a leading indicator of the business cycle. Yet the magnitude of the margins of error in both Siegel and Smit *et* du Plessis' research prove the inconsistency of the stock market as a leading indicator of the business cycle. In other words, timing your sales, 8months to 12months before the economy falls, falls in the ambit of speculating and not investing. The use of the word "cycle" in social sciences betrays the scientific definition of "regular and repeatable events" and that's what makes timing (to sell early) so, so difficult.

The probability of success in (i) picking stocks that avoid bankruptcy through capital raisings, and then (ii) timing when you sell them is so low as to produce a lumpy profile of returns not consistent with wealth creation.

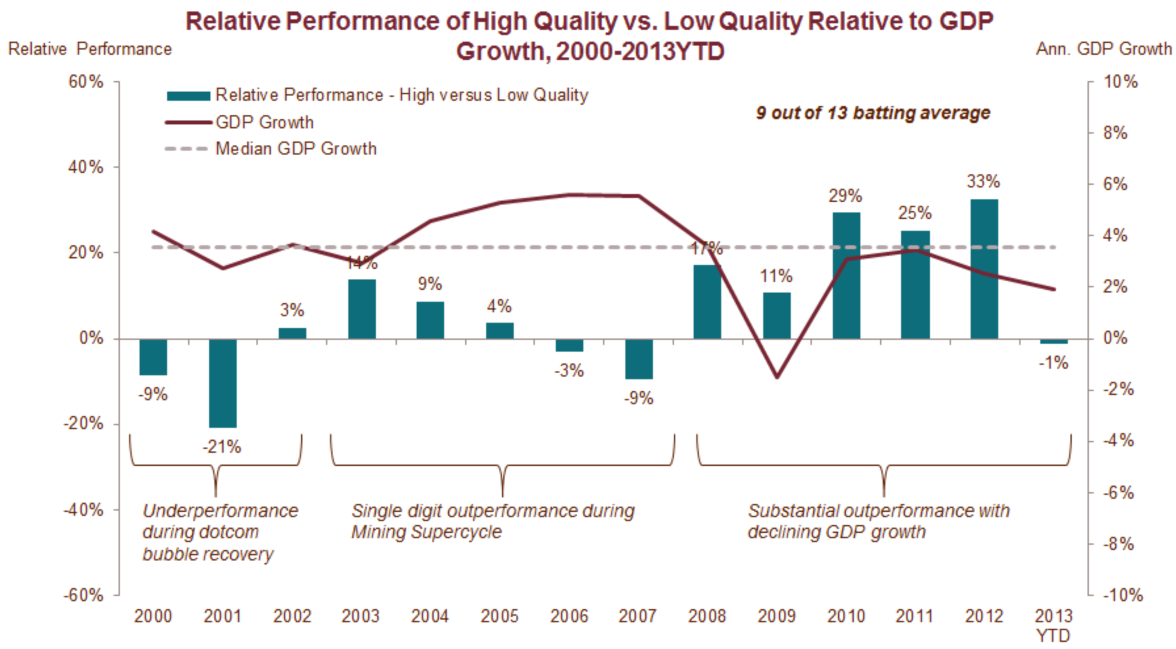
Figure 5: Months Between a Turning Point in the All Share Value Index and the Business Cycle Turning Point for (Various Daily Percentage Decline) Filters

	6%	8%	10%
Peaks			
April 1965	10	10	n.a.
May 1967	n.a.	n.a.	n.a.
December 1970	18	18	18
August 1974	13	12	11
August 1981	17	8	8
June 1984	9	8	8
February 1989	16	16	16
Average	**13,8**	**12,0**	**12,2**
Standard deviation	**3,8**	**4,2**	**4,6**
Troughs			
August 1961	11	11	11
December 1965	7	7	7
December 1967	6	6	1
August 1972	18	17	16
December 1977	23	19	19
March 1983	18	18	18
March 1986	20	20	20
Average	**14,7**	**14,0**	**13,1**
Standard deviation	**6,7**	**5,9**	**7,1**

Source: E. v.d. M. Smit and C.E. du Plessis, "Market Timing and Share Returns in South Africa" University of Stellenbosch

The best way to examine the efficacy of investing in companies that succeed despite the economy, and those that require virulent economic growth to succeed, is to overlay GDP growth on their respective returns. By way of preparation, you may be wondering what intrinsic value investing really is. In short, invert the definition of the word “cyclical”, and you arrive at the term “structural”. It is investing in companies endowed with characteristics that buffer them against both competitive and cyclical forces for a considerable amount of time. That is, companies which allow you to think about the reasons for their success in ten-year trails versus one year clips. Investors reward these companies according to magnitude of incremental shareholder value creation and various rates of growth in free cash flow.

Figure 6: High Quality and Low Quality versus GDP: Annual (2000 – Sept ’13)

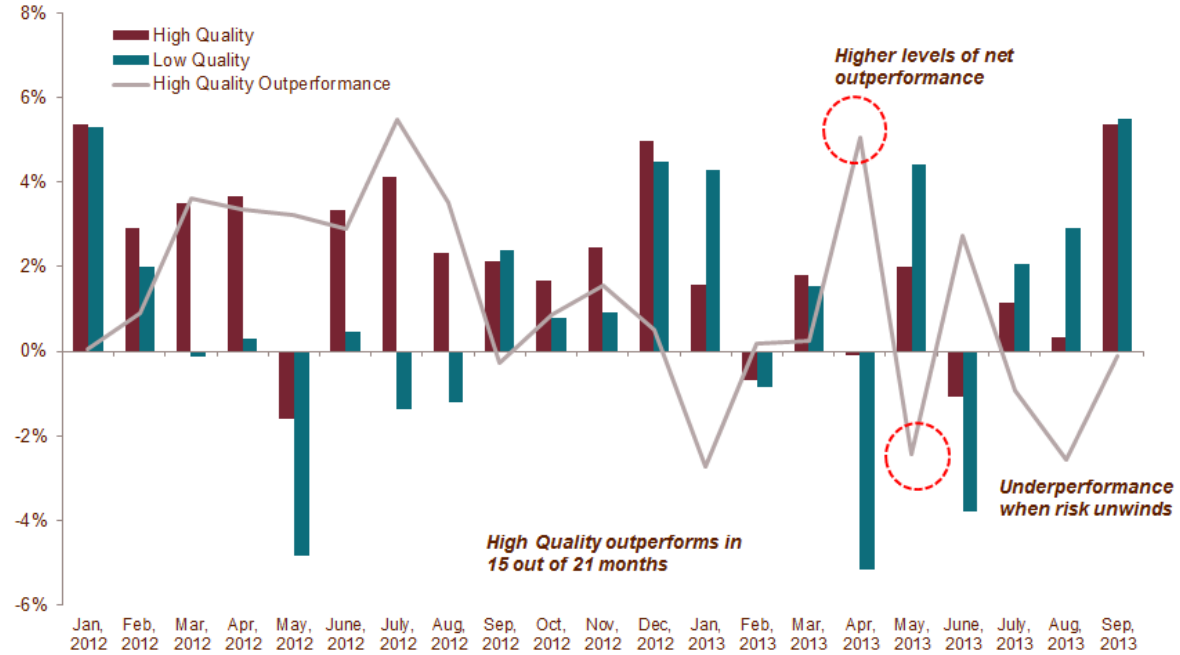


Note: High Quality and Low Quality measured as Top 2 and Bottom 2 Quartiles of JSE Stock universe where market cap. > R1bn. 2013 based on IMF forecasts. 2013 YTD as at 16 Oct, 2013
Source: World Bank, IMF, Factset, StasSA, First Avenue analysis

A number of stylized facts jump out at us from the above empirical analysis in figure 6:

- Average GDP is 3.7% between 2000 and Q2 2013
- High quality companies outperform low quality companies in 9 out of 13 years (70% batting average)
- Double digit relative outperformance corresponds with periods of below average GDP (2008 - 2012)
- Single digit relative outperformance corresponds with periods of above average GDP (2002 - 2005)
- Relative underperformance in period of virulent economic growth, credit proliferation, unbridled consumption (2006, 2007)

Figure 7: High Quality versus Low Quality - Monthly (Jan 2012 – Sept 30, 2013)

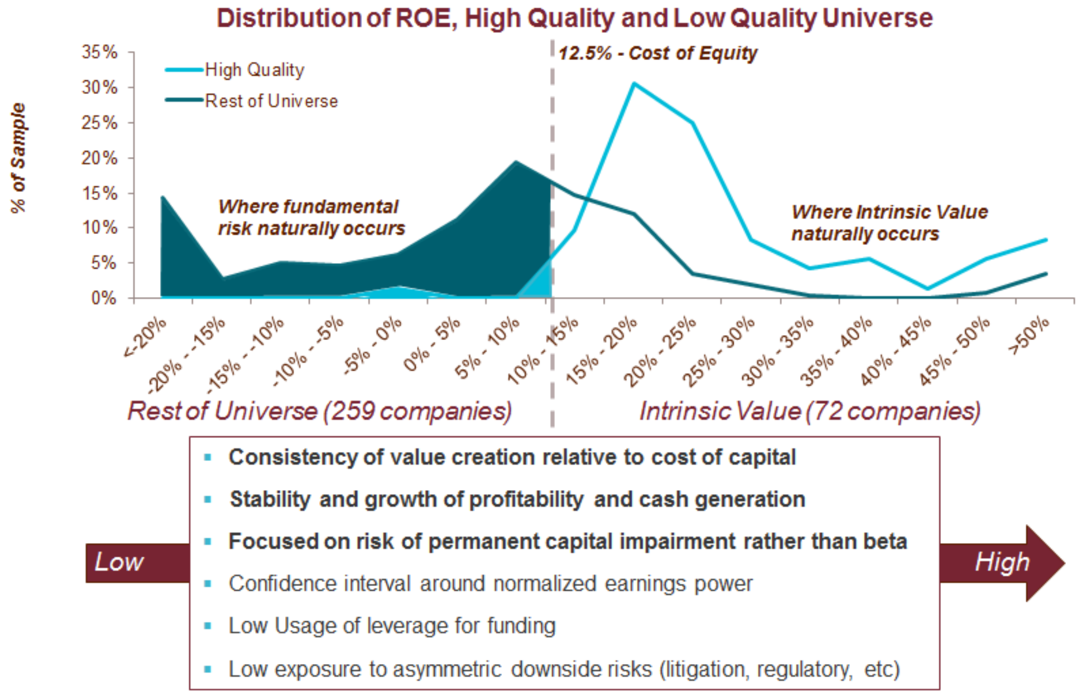


Source: Factset, First Avenue analysis

Examining this phenomenon with deeper granularity, i.e. monthly, from the most recent year of relative outperformance by high quality (2012), it is clear that risky, cyclical, low quality companies are recovering at quite a clip -- more so in June and July. This not only coincides with the recent economic recovery of Europe, but twins it with that of the US. While consensus estimates for GDP in the next 2 years are below the average of the last 13yrs (3.7%) depicted in figure 6, we do know that the stock market is a leading indicator of economic upturns and downturns as figure 5 shows. By the way, we also know that economists are notorious for their poor forecasting abilities. So either GDP comes roaring back to prolific growth rates aided by credit proliferation, consumption, capital investment (all the while without inflation and tapering) in order to catch up with currently high market valuations, or the market comes off. In his now famous quip “The stock market has predicted nine out of the last five recessions”, the first American Nobel Prize winning economist Paul Samuelson mocked the veracity of the stock market as a leading indicator of the business cycle.

To us, it doesn’t seem like a good idea to mistake risk for value.

Figure 8: Risk-Value Continuum



Source: Factset, First Avenue Analysis

If investing is engaging in high probability activities of seeking high risk adjusted returns, then by definition "value" is not a continuum that begins at zero and ends at 100. There is a point below which stocks contain more risk than value and a point past which contain more value than risk (see Figure 8). Indeed the opposite of value isn't growth, but risk. At First Avenue, we prefer to look at the "valuable" side of the gauge and identify patterns of psychological, analytical, or temperamental irrationality - - where investors mistake value for risk - - rather than buy risk in an effort to reach for returns brought about by an economic recovery. Numerically speaking, there are only about 72 companies of the former (high risk adjusted returning) and over 259 of the latter (low risk adjusted returning). Consequently, our posture is to:

- Overwhelm (succeed) with quality (concentrated portfolios) and not quantity (extensive holdings). Our fund consistently boasts one of the best active share ratings in the market – 68%.
- Guard against losses in our pursuit of compounding returns (value our losses more than our gains) well into the future
- Endure long periods of inaction in which we wait for temporary patterns of irrationality to appear in high quality companies rather than reach for risk to bolster returns.
- Outlast our impulses to "do something". We boast one of the lowest portfolio turnover rates in the market.

Figure 9a: Lower Risk…

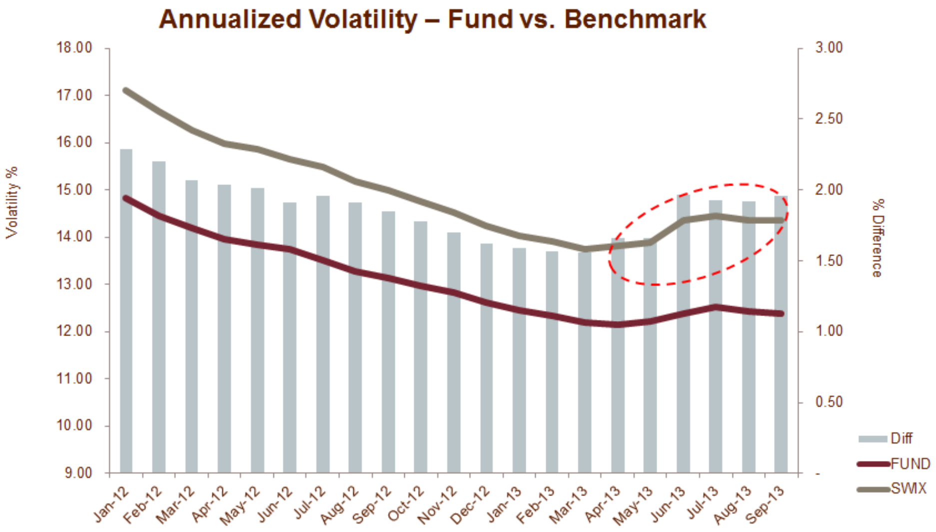
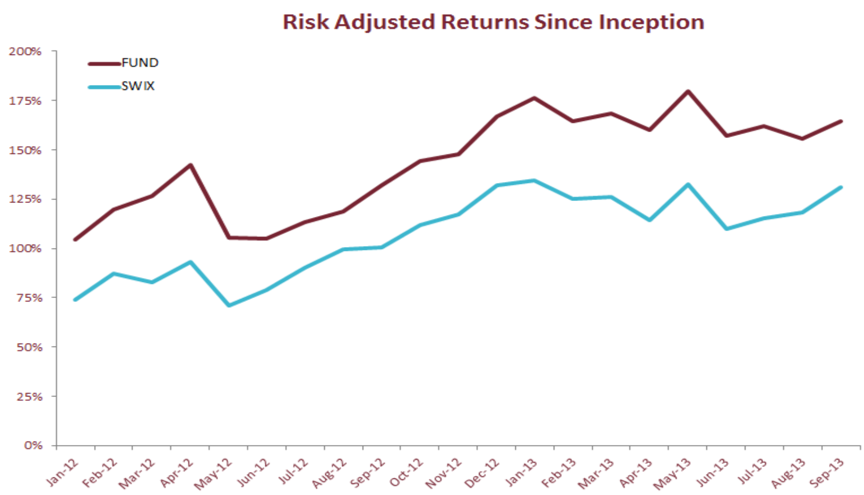


Figure 9a is evidence of the structural difference in risk taken between our fund and the market (SWIX). Note also how investor appetite for risk jumped in June and July so as to set a new "skyline" for the annualized number. More importantly, the volatility in our fund remained muted.

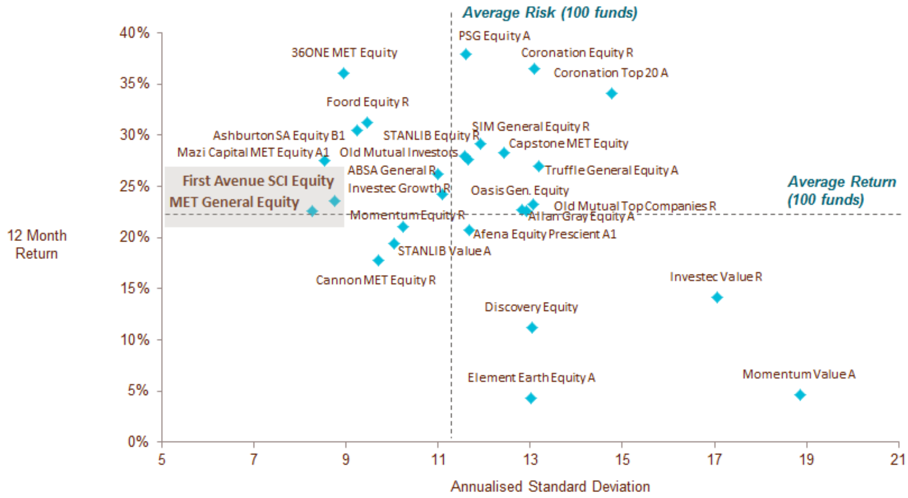
Figure 9b: Equals Higher Return



Our track record since inception bears out our ability to assume far less risk than the market (figure 9a) while outperforming the market (figure 9b). This is an arbitrage of one of the core tenets of the Efficient Market Hypothesis (EMH) which pronounces a linear relationship between risk and return. We're sure you've heard the phrase "high risk equals high return". How can it be so when what you want to achieve could be jeopardized by your appetite for risk just 8 months to 12 months later?

Figure 10: Peer Comparison

Figure 10 provides a comparative analysis of our funds versus other equity funds in the market. The comparative period is for the 12 months ending September.



Source: BNP Paribaz Cadiz, First Avenue analysis

Our funds, First Avenue SCI Equity Fund and MET General Equity Fund exhibit some of the lowest risk profiles available in the market and outperform the market. We boast very respectable risk adjusted returns which should stand us in good stead should the market roll over on valuation or any number of adverse macro events.

Portfolio Risks

The junk rally we warned against has materialized. As such, leadership has changed from intrinsic value to risk. We will continue to consider cash as an alternative to high quality counters rather than take on additional risk just to keep up with a market than requires prescient economic forecasting. Accordingly, we have concentrated our holdings into companies in which we have the greatest conviction of quality and valuation. Should risk appetite persist, which may very well be the case for the next short period, we will continue to underperform both the broad index and peers. On a more positive note, the longer that happens the greater our prospects of not impairing client capital when the market finally rolls over. We would rather lose a client than lose his money.

Outlook

We remain convinced of the shape and prospects of our portfolio for the next 5 years. We continue to expect risk assets to outperform high quality assets as news of an improved global economy flows. Of course, we also would like to warn about the impact of adverse economic events such as tapering, inflation, etc. on the stock market. So, central to our posture is vigilance toward quality and valuations.

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