

# Allan Gray Namibia Balanced Strategy

12 August 1999 to 31 January 2014: Allan Gray Namibia Investment Trust

From 1 February 2014: Allan Gray Namibia Balanced Fund

# ALLAN GRAY

## B Class

Fund manager:	Duncan Artus
Strategy inception date:	12 August 1999
Minimum investment amount:	N\$5 million
Class inception date:	1 October 2014

### Fund description

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy assets outside the common monetary area (CMA) up to a maximum of 35% of the Fund (with an additional 5% for Africa ex-CMA). The Fund typically invests the bulk of its foreign ex-Africa allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 75% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with Regulation 28 of the Namibian Pension Funds Act. Returns are likely to be less volatile than those of an equity-only fund.

### Fund objective and benchmark

The Fund aims to earn a higher total rate of return than that of the average Namibian retirement fund investment manager over the long term. The benchmark is the return of a daily weighted average index of Namibian multi asset class funds that comply with the limits governing Namibian retirement funds.

### How we aim to achieve the Fund's objective

We seek to buy shares at a discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares we may increase the Fund's weighting to alternative assets such as bonds, property, commodities and cash, or we may partially hedge the Fund's stock market exposure. By varying the Fund's exposure to these different asset classes over time, we seek to enhance the Fund's long-term returns and to manage its risk. The Fund's bond and money market investments are actively managed.

### Suitable for those investors who

- Seek steady long-term capital growth
- Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund
- Wish to invest in a unit trust that complies with retirement fund investment limits
- Typically have an investment horizon of more than three years

### Annual management fee

Allan Gray charges a fee on the portion of the fund they manage, excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark.

Fee for performance equal to the Fund's benchmark: 1.00% p.a.\*

For each percentage of two-year performance above or below the benchmark we add or deduct 0.1%, subject to the following limits:

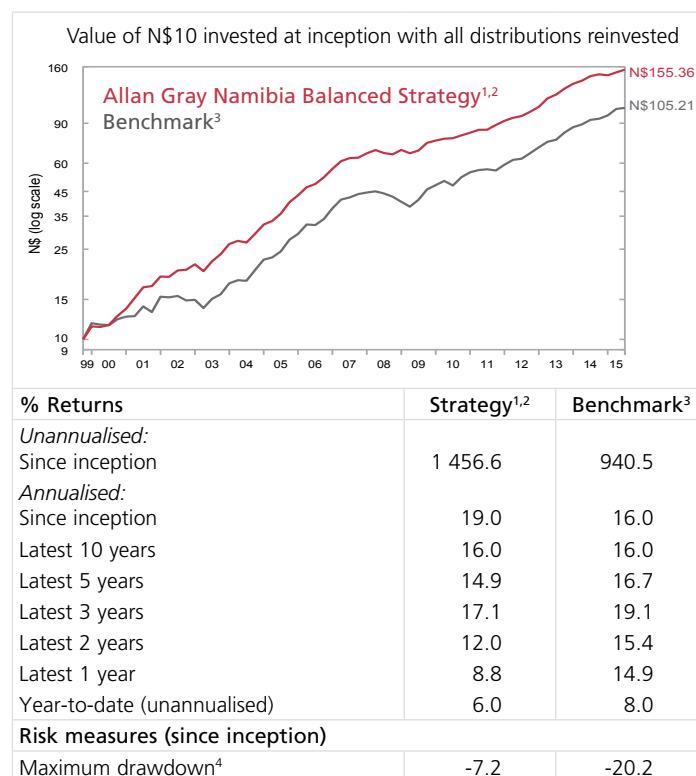
Maximum fee:	1.50% p.a.*
Minimum fee:	0.50% p.a.*

\* Management fees charged for the management of Unit Trust Portfolios do not attract VAT.

### Fund information on 31 May 2015

Size of the Fund:	N\$3 166m
Price for Class B:	N\$1 532.59
Number of share holdings:	38

### Performance (N\$) net of fees and expenses



1. On 1 February 2014 all the assets and unit holder liabilities of the Allan Gray Namibia Investment Trust were transferred to the Allan Gray Namibia Balanced Fund. The investment philosophy, strategy, fund objective, mandate, restrictions and fund managers remain unchanged.
2. Prior to the inception of this class of the Fund (1 October 2014) the performance and risk measures are calculated using the A class performance of the Fund.
3. The current benchmark is the return of a daily weighted average index of Namibian multi asset class funds that comply with the limits governing Namibian retirement funds which is provided by Morningstar. Since inception to 30 September 2014 the benchmark was the average Alexander Forbes Namibia Manager Watch Survey. The return for May 2015 is an estimate. Performance as calculated by Allan Gray as at 31 May 2015.
4. Maximum percentage decline over any period. The maximum drawdown occurred from May 2008 to February 2009 and maximum benchmark drawdown occurred from May 2008 to February 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark.

A portion of the Fund may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark.

## Fund manager commentary as at 31 March 2015

We are at a very interesting time in the South African equity market. The difference in price performance between the resource sector and financials and industrials is reaching extremes last seen in 1998, when the resource sector presented a great buying opportunity. The resource sector is down 26% over the past year and 17% over the past three years, while the Financial and Industrial Index has rallied 22% and 92% over the two periods.

Allan Gray clients had a significant portion of equities invested in resources in 1998 compared to the current 15% of shares for the Fund, if Sasol is included. We are finding value in selected resource companies and are net buyers in the sector, but we do not yet see the value we saw in 1998. Why is this? Unfortunately, the relative underperformance of the resource sector is not only because of the vagaries of the stock market; resource companies have destroyed huge amounts of value through poor capital allocation over the past 10 years. This compares to many South African industrial companies, which have invested capital wisely and compounded their intrinsic value.

In the late nineties commodity prices had been in a 20-year bear market and investors saw little hope. At the time, resource companies were trading on low price-to-earnings multiples on low earnings, presenting an exceptional opportunity. Today there is still hope priced into many resource share prices and industrial commodity prices have only recently declined to what we consider normal after a period of extraordinarily high prices. From the oil price we know that prices can fall to well below our normal estimates in the short term, during which time investor sentiment can become distressed.

We prefer companies that have a proven track record of cash generation and capital allocation in the resource space, which is why we like Sasol. We are cautious about businesses with high iron ore exposure, as even though iron ore prices are now what we consider normal (the company share prices are still discounting prices that we think are above normal), they could become very depressed in the short term as Chinese demand slows and a wall of new supply hits the market over the next two years.

Sentiment towards the resource sector is deteriorating. We are monitoring the sector very closely and will increase our exposure if the opportunity to buy undervalued businesses presents itself.

*Commentary by Andrew Lapping and Birte Schneider*

## Top 10 share holdings on 31 March (updated quarterly)

Holding	% of portfolio
British American Tobacco <sup>5</sup>	5.4
FNB Namibia	5.0
Standard Bank Namibia	4.6
Sasol	4.6
SABMiller	3.5
Stimulus	3.1
Old Mutual Namibia	2.1
Namibia Breweries	1.9
Vukile Property Namibia	1.9
Remgro	1.6
<b>Total</b>	<b>33.8</b>

5. As at 31 March 2015, the investment portfolio includes a 5.4% exposure to British American Tobacco shares, the majority of which were received as part of a corporate unbundling in 2008. We are awaiting Bank of Namibia's final decision on this instrument's (South African or foreign) status. In the meantime, the BoN have extended the grace period for investors to rebalance their portfolios to fall in line with the applicable investment limits until 30 June 2016.

## Asset allocation on 31 May 2015

Asset class	Total	Namibia <sup>6</sup>	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net Equity	57.6	21.3	19.1	0.4	16.8
Hedged Equity	18.7	0.0	4.2	0.0	14.5
Property	3.9	3.0	0.0	0.0	0.9
Commodity - Linked	4.0	1.8	2.2	0.0	0.0
Bonds	9.8	9.2	0.0	0.6	0.0
Money Market and Cash	5.9	2.8	0.3	0.2	2.6
<b>Total (%)</b>	<b>100.0</b>	<b>38.2</b>	<b>25.9</b>	<b>1.2</b>	<b>34.8</b>

6. 9.8% invested in companies incorporated outside Namibia but listed on the NSX.

## Income distributions for the last 12 months

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually.	<b>31 Dec 2014</b>
Cents per unit	576.3711

Note: There may be slight discrepancies in the totals due to rounding.

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### Disclaimer

Allan Gray Namibia Unit Trust Management Company is an approved Management Company in terms of the Unit Trusts Control Act, 1981 amended. Incorporated and registered under the laws of Namibia and is supervised by Namibia Financial Institutions Supervisory Authority. The trustee and custodian is Standard Bank Namibia.

### Unit price

Unit trust prices are calculated daily in arrears on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any permissible deductions from the portfolio divided by the number of units in issue.

### Performance

Unit trusts are generally medium to long term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future.