

ALLAN GRAY NAMIBIA BALANCED STRATEGY | BCLASS

12 August 1999 to 31 January 2014: Allan Gray Namibia Investment Trust | From 1 February 2014: Allan Gray Namibia Balanced Fund

Fund manager: Duncan Artus **Strategy inception date:** 12 August 1999 **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

Minimum initial investment amount

Minimum initial investment amount	N\$5 000 000
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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.*

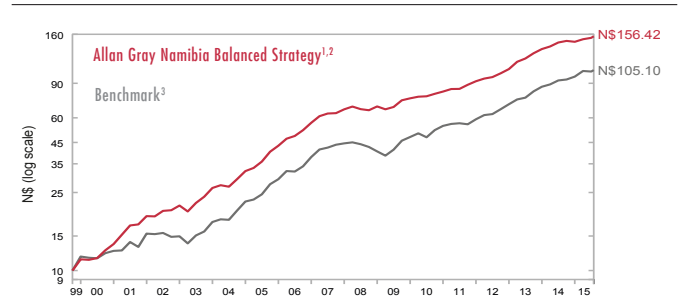
Minimum fee: 0.50% p.a.*

Fund information on 31 July 2015

Fund size	N\$3 134m
Price for Class B	N\$1 524.09
Number of share holdings	38

Performance (N\$) net of fees and expenses

Value of N\$10 invested at inception with all distributions reinvested



% Returns	Strategy ^{1,2}	Benchmark ³
Unannualised:		
Since inception	1 467.1	939.4
Annualised:		
Since inception	18.9	15.8
Latest 10 years	15.4	15.0
Latest 5 years	14.8	15.9
Latest 3 years	16.8	17.9
Latest 2 years	13.0	16.0
Latest 1 year	7.2	12.3
Year-to-date (unannualised)	6.7	7.9
Risk measures (since inception)		
Maximum drawdown ⁴	-7.2	-20.2

- 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.
- 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.
- 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. From inception to 30 September 2014 the benchmark was the average Alexander Forbes Namibia Manager Watch Survey. The return for July 2015 is an estimate. Performance as calculated by Allan Gray as at 31 July 2015.
- 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.

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

Fund manager quarterly commentary as at 30 June 2015

The Fund's lower-than-average net exposure to equities reflects our continued concern over equity valuations both in South Africa and offshore. About a quarter of the Fund is invested in South African net and hedged equities and another 7% in dual-listed equities.

South African equities have outperformed cash on average by 8.4% on an annual basis since 1900. Interestingly, the difference in any given calendar year has only been within 2% above or below the 8.4% average on six occasions. Therefore, investors are very unlikely to receive the average excess return in any given year. If we focus on the last 10 years the average excess return accruing to equities above cash rises to 12% or 43% above the long-term average. This highlights the powerful effect that starting valuations, rather than economic growth, have on future returns.

One measure of value we can use for the overall market is its price-to-earnings (PE) ratio. We expect high excess returns to show up in high valuations and indeed this is the case: the FTSE/JSE All Share Index is trading around 18x its last reported 12-months earnings – an almost 50% premium to its 55-year average of 12x.

Whilst the PE ratio is normally thought of as a fundamental indicator of value, we can also look at it as a sentiment indicator. When investors are positively disposed towards equities they are willing to pay higher prices for the future; the opposite is true when they are uncertain or even fearful. The JSE's PE ratio has fluctuated between a low of 4x and a peak of 25x since 1960, with the market typically bottoming near 8x and peaking near 17x. Of course, the market could potentially return to its late 1960s valuation of 25x – but most of the data suggests it is currently overvalued. One thing we do know for certain is that the market is not depressed. Twelve years ago the South African market was trading on 9x low earnings, which explains the great decade that followed – despite being interrupted by the great financial crisis in 2008.

The Fund therefore continues to hold a greater-than-average allocation to relatively short duration fixed income and hedged equities. While central banks continue to punish prudent investors who retreat to cash by keeping interest rates low or close to zero, we like the option that cash provides to buy assets at lower prices when or if sentiment turns.

We continue to search for assets that are trading below fair value and which increase diversification in a world where we see little obvious value. The Fund continues to have a maximum exposure to offshore assets, which can be invested across a broad range of industries and geographies, and a position in commodity-linked instruments, such as the platinum and palladium listed debentures.

Another example would be the Zambezi Platinum Preference shares, which have funded Northam Platinum's recent BEE deal. The preference shares accrue a dividend of prime +3.5% over a 10-year period, substantially secured by Northam ordinary shares. We believe they offer an attractive return at lower-than-average risk.

During the quarter there have been no material changes to the composition of the Fund, but we have continued to increase the position in the platinum and palladium listed debentures.

Commentary contributed by Duncan Artus and Birte Schneider

Top 10 share holdings as at 30 June 2015 (updated quarterly)

Holdings	% of portfolio
FNB Namibia	6.0
British American Tobacco ⁵	5.7
Sasol	5.0
SABMiller	3.5
Standard Bank Namibia	3.2
Stimulus	3.1
Old Mutual Namibia	2.0
Namibia Breweries	2.0
Vukile Property Namibia	1.8
Remgro	1.5
Total (%)	33.7

5. As at 30 June 2015, the investment portfolio includes a 5.7% 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 (BoN) 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 as at 31 July 2015

Asset class	Total	Namibia ⁶	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net Equity	58.9	21.4	20.6	0.4	16.5
Hedged Equity	18.9	0.0	4.2	0.0	14.6
Property	3.3	2.4	0.0	0.0	0.8
Commodity - linked	4.7	2.6	2.1	0.0	0.0
Bonds	9.9	9.3	0.0	0.6	0.0
Money Market and Cash	4.3	1.3	0.3	0.1	2.6
Total (%)	100.0	37.1	27.2	1.2	34.5

6. 8.0% 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.	31 Dec 2014	30 Jun 2015
Cents per unit	576.3711	1848.1663

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

Notes for consideration

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.