ALLAN GRAY NAMIBIA BALANCED STRATEGY | B CLASS

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

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.*

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.

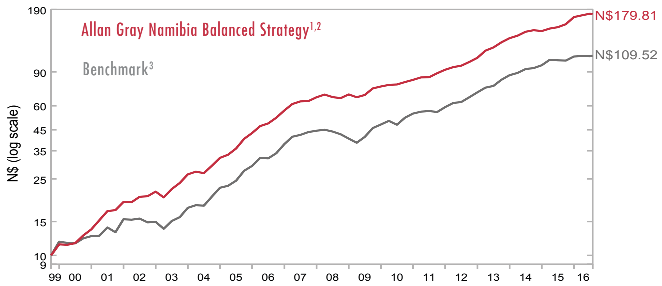
*Management fees charged for the management of unit trust portfolios do not attract VAT.

Fund information on 31 July 2016

Fund size	N$3 914m
Price for Class B	N$1 720.11
Number of share holdings	36

Performance (N$) net of fees and expenses

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



% Returns	Strategy[1,2]	Benchmark[3]
Cumulative:		
Since inception	1701.6	983.1
Annualised:		
Since inception	18.6	15.1
Latest 10 years	14.0	13.1
Latest 5 years	16.3	14.4
Latest 3 years	13.6	11.9
Latest 2 years	11.0	8.2
Latest 1 year	15.0	4.2
Year-to-date (not annualised)	3.8	1.2
Risk measures (since inception)		
Maximum drawdown[4]	-7.2	-20.2

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. From inception to 30 September 2014 the benchmark was the average Alexander Forbes Namibia Manager Watch Survey. Performance as calculated by Allan Gray as at 31 July 2016.
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).

Total expense ratio (TER) and Transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of actual expenses incurred by a fund over a 3-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 2 for further information). Transaction costs are disclosed separately.

TER and Transaction costs breakdown for the 3-year period ending 30 June 2016[5]	%
Total expense ratio	**1.55**
Fee for benchmark performance	1.13
Performance fees	0.37
Other costs excluding transaction costs	0.05
Transaction costs	**0.10**
Total investment charge	**1.65**

5. Since the Fund Class is not yet 3 years old, the calculation is done since inception (annualised).

Fund manager quarterly commentary as at 30 June 2016

'Ultra-low interest rates pull consumption forward in time and push failure backward in time. They flatter the judgement of the aggressive lender and ease the burdens of encumbered borrowers. The benefits of today's monetary experiments are mainly in the past, the costs of those benefits are yet to come.' Grant's Interest Rate Observer, December 2015

After a long bull market in any asset class, it is entirely natural for investors to focus on returns and forget about the risks taken to generate them. Events in South African markets towards the end of 2015 and into the current year are a stark reminder of the dangers of falling into this psychological trap.

When managing our clients' hard-earned savings, our foremost focus is always on absolute risk – the risk of a permanent loss of capital – even if this introduces risk into our performance relative to our peers. We believe that it is possible to maximise long-term returns by managing risk while thinking long term about bottom-up fundamentals and being contrarian when appropriate.

We can think of a number of long-term risks facing the Fund currently, including:

- The lowest interest rates in 5 000 years (according to Bank of America Merrill Lynch estimates)
- Extremely elevated debt levels which are well outside the expected range for a time with no major wars
- Ageing populations globally
- Accelerated technological disruption
- Excessive leverage in China
- Social unrest driven by the divergent fortunes of asset owners and ordinary workers

We are investing during perhaps the greatest monetary experiment in history with very little precedent to use as reference for possible outcomes.

We suspect that in distorting interest rates, the most important aspect of prices in markets, there is likely to have been large misallocations of capital. As such, we remain cautious on assets that have benefited from unsustainable demand borrowed from the future, including government bonds, Chinese infrastructure, luxury goods and leveraged acquisitions (whether of other companies or share buybacks).

The Fund's holdings of short-duration cash, hedges and high-quality multinational equities have provided liquidity to take advantage of dislocations, including oversold South African equities, at various stages over the past year.

Of course, the best protection against these risks is to buy cheap assets. Assets bought at low valuations by long-term investors can better withstand bad news. As highlighted in previous commentaries, we are finding value in many financial shares, select depressed cyclical companies, certain high-quality businesses and depressed emerging market shares. In addition, approximately 6.4% of the Fund is invested in precious metal exchange-traded funds (ETFs) and the miners of those metals.

We believe the Fund's diversified holding of undervalued assets should stand it in good stead in these uncertain times.

Commentary contributed by Birte Schneider and Duncan Artus

Top 10 share holdings as at 30 June 2016 (SA and Namibia) (updated quarterly)

Holdings	% of portfolio
FNB Namibia	6.0
British American Tobacco[6]	4.5
Sasol	3.9
Naspers	2.6
Stimulus	2.6
Old Mutual Namibia	2.3
Standard Bank Namibia	2.3
Namibia Breweries	2.1
SABMiller	1.7
Oryx Properties	1.7
Total (%)	**29.7**

6. As at 30 June 2016, the investment portfolio includes a 4.5% 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 has extended the grace period for investors to rebalance their portfolios until 31 October 2018.

Asset allocation as at 31 July 2016

Asset class	Total	Namibia[7]	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	57.0	19.7	21.3	1.2	14.8
Hedged equity	12.3	0.0	1.7	0.0	10.7
Property	3.7	2.5	0.0	0.0	1.1
Commodity - linked	5.3	2.9	2.2	0.0	0.3
Bonds	11.8	8.9	0.6	0.6	1.8
Money market and cash	9.8	7.5	0.1	0.1	2.0
Total (%)	**100.0**	**41.6**	**25.8**	**1.9**	**30.7**

7. 6.7% 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 2015	30 Jun 2016
Cents per unit	**1687.6643**	**1452.1321**

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. Where annualised performance is mentioned, this refers to the average return per year over the period.

Total expense ratio (TER) and Transaction costs

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past three years. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged) and other expenses like audit and trustee fees. Transaction costs (including brokerage, Securities Transfer Tax [STT], Share Transactions Totally Electronic [STRATE] and investor protection levies where applicable) are shown separately. Transaction costs are a necessary cost in administering the Fund and impacts Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted again from published returns. As collective investment scheme expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and Transaction costs is shown as the Total investment charge.