

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.*

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.

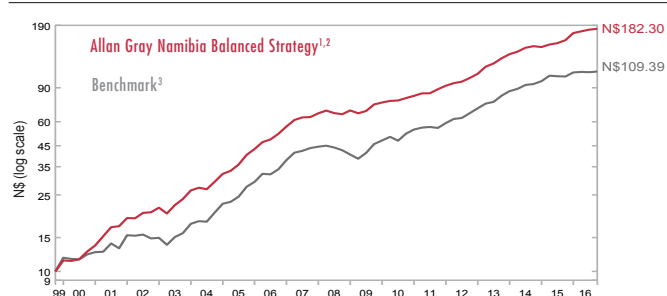
*Management fees charged for the management of unit trust portfolios do not attract VAT.

Fund information on 30 September 2016

Fund size	N\$4 113m
Price for Class B	N\$1 744.00
Number of share holdings	35

Performance (NS) 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	1 726.5	981.9
Annualised:		
Since inception	18.5	15.0
Latest 10 years	13.4	12.4
Latest 5 years	15.5	14.5
Latest 3 years	12.5	10.1
Latest 2 years	10.9	7.8
Latest 1 year	14.6	6.1
Year-to-date (not annualised)	5.2	1.1
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. Performance as calculated by Allan Gray as at 30 September 2016.
- 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 September 2016

What is a 'high-quality' company? Perceptions and reality

In recent months, a number of 'high-quality' stocks have disappointed. We use inverted commas because it is surprising how often perceptions of quality are mistaken. A high-quality stock can disappoint in two ways:

1. Very high expectations are priced in: If the company fails to meet expectations – it might still do very well, just not as well as people expected – the stock de-rates.
2. The company turns out to be an average company, or a lemon: It was flattered by some industry tailwind or by high levels of gearing.

Luxury goods company Richemont has declined by 31% from its peak in rand terms and by 42% in US dollars. It used to be described as a high-quality company, but it seems investors are wavering. We think the jury is still out on the quality of the business. Richemont has certainly benefited from a very large tailwind in the form of Chinese spending on luxury goods, the company requires large amounts of working capital to operate, and there is implicit gearing in the leases. Despite the fall in its share price, Richemont trades at 24 times consensus forward earnings.

A look at British American Tobacco

In contrast, we believe that the Fund's second largest holding, British American Tobacco, deserves to be called a high-quality company because it passes the following tests: It has 1) a high conversion of profits to free cash flow, after all capital expenditure, 2) a high return on equity, 3) stable and high profit margins, 4) moderate gearing and 5) management with a track record of good capital allocation.

The next time someone labels a company 'high-quality', ask yourself whether they don't just mean 'share that has gone up a lot'.

During the quarter we bought commodity exchange-traded funds, Naspers, Sasol and Old Mutual. We sold SABMiller, as well as miners African Rainbow, Gold Fields and Harmony. We positioned our portfolios for the sale of SABMiller, for example in the Balanced Fund we upped our equity exposure in anticipation of the cash receipts. As always, we will be on the lookout for opportunities provided by the market due to the index change and high volumes on any given day.

Commentary contributed by Birte Schneider and Jacques Plaut

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

Holdings	% of portfolio
FNB Namibia	5.6
British American Tobacco ⁶	4.2
Sasol	3.8
Naspers	3.0
Old Mutual Namibia	2.6
Stimulus	2.5
Namibia Breweries	2.4
Standard Bank Namibia	2.4
Oryx Properties	1.7
Bidvest Namibia	1.5
Total (%)	29.7

6. As at 30 September 2016, the investment portfolio includes a 4.2% 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 30 September 2016

Asset class	Total	Namibia ⁷	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	55.3	19.2	19.6	1.2	15.3
Hedged equity	12.8	0.0	1.6	0.0	11.2
Property	3.6	2.6	0.0	0.0	1.1
Commodity - linked	5.8	3.3	2.0	0.0	0.5
Bonds	12.2	8.5	1.2	0.5	2.0
Money market and cash	10.3	8.0	0.1	0.2	2.0
Total (%)	100.0	41.6	24.5	1.9	32.0

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.