

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 investment amounts

Minimum lump sum per investor account	N\$20 000
Additional lump sum	N\$500
Minimum debit order	N\$500

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.

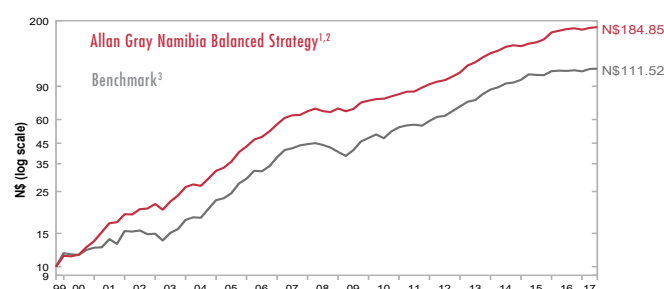
*Management fees charged for the management of unit trust portfolios do not attract VAT.

Fund information on 30 June 2017

Fund size	N\$4 220m
Price for Class B	N\$1 750.75
Number of share holdings	33

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	1752.1	1002.9
Annualised:		
Since inception	17.8	14.4
Latest 10 years	11.3	10.2
Latest 5 years	13.8	12.2
Latest 3 years	8.3	6.2
Latest 2 years	9.7	3.8
Latest 1 year	2.4	2.8
Year-to-date (not annualised)	3.1	3.3
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. The return for June 2017 is an estimate. Performance as calculated by Allan Gray as at 30 June 2017.

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 31 March 2017 ⁵	%
Total expense ratio	1.66
Fee for benchmark performance	1.14
Performance fees	0.47
Other costs excluding transaction costs	0.05
Transaction costs	0.10
Total investment charge	1.76

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 2017

Investor sentiment towards emerging markets remains weak. This has left emerging markets at a valuation discount to developed markets. The MSCI Emerging Market Index trades at over 30% discount to the MSCI World Index – an index dominated by the US and other developed markets – on a price to earnings (PE) basis. Our offshore partner Orbis is taking advantage of this valuation disparity: 20% of the Allan Gray Namibia Balanced Fund's foreign equities are listed in emerging markets.

A comparable trend is unfolding in South Africa, where businesses exposed to the vagaries of South African economic and political trends are trading some way off their highs or remain suppressed. This includes banks, healthcare (Netcare, Life Healthcare) and industrial companies (Nampak, KAP). Businesses exposed to Africa have fallen similarly out of favour.

South African banks provide an interesting case study on the merits of investing during periods of poor prevailing sentiment. Our clients recently had the opportunity to invest a substantial sum of money in Barclays Group Africa (BGA) when Barclays PLC – the UK-domiciled parent company – decided to sell a large chunk of its shareholding in BGA. At the time of our investment, BGA's dividend yield (7.8%) was marginally higher than its PE ratio (7.5x). This has only happened three times since 1987 and all these occasions were characterised by massive investor uncertainty: 1988 (South African state of emergency; political and economic isolation), 1994 (first democratic general election) and 2008 (the Global Financial Crisis). Importantly, on all three occasions, investors would have been well served to own the stock over the subsequent three years despite the uncertainty at the time.

Some of our biggest purchases over the quarter fall into this bucket of 'unloved' stocks: Netcare, Life Healthcare and BGA. We have also added to existing positions in Implats and Sasol – both of which are deeply unpopular mining stocks. We sold some of the more popular stocks like British American Tobacco and Naspers to fund these purchases.

The net equity exposure of the Fund is up marginally on a quarter ago, which is indicative of the increased attractiveness of certain shares versus cash, bonds or commodities. While a higher equity exposure could introduce some more volatility (which should not unsettle a long-term investor), it is to some extent offset by a very conservative positioning in the fixed interest component of the portfolio.

Locally, the Namibian Financial Institutions Supervisory Authority (NAMFISA) has sent through consultative documents on proposed amendments to retirement fund regulation (Reg 28). The regulator's aim is to increase the minimum local asset requirement from the current 35% to 45% by October 2018. Consultations are ongoing.

Commentary contributed by Birte Schneider & Simon Raubenheimer

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.

Top 10 share holdings as at 30 June 2017 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
FNB Namibia	5.7
British American Tobacco ⁶	4.3
Sasol	4.2
Naspers	4.2
Namibia Breweries	3.0
Stimulus	2.6
Old Mutual Namibia	2.6
Standard Bank Namibia	2.4
Remgro	2.1
Oryx Properties	1.7
Total (%)	32.8

6. As at 30 June 2017, the investment portfolio includes a 4.3% 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 June 2017

Asset class	Total	Namibia ⁷	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	60.4	19.8	23.0	1.5	16.1
Hedged equity	11.7	0.0	0.0	0.0	11.7
Property	3.7	2.6	0.0	0.0	1.1
Commodity - linked	5.2	3.0	1.7	0.0	0.5
Bonds	12.2	9.0	0.7	0.5	2.0
Money market and cash	6.8	4.9	0.0	0.3	1.6
Total (%)	100.0	39.3	25.4	2.3	33.0

7. 7.1% 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 2016	30 Jun 2017
Cents per unit	1727.9446	1623.2607

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

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.