Allan Gray Namibia Balanced Strategy

B Class 31 August 2019

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 the investment limits governing retirement funds. 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

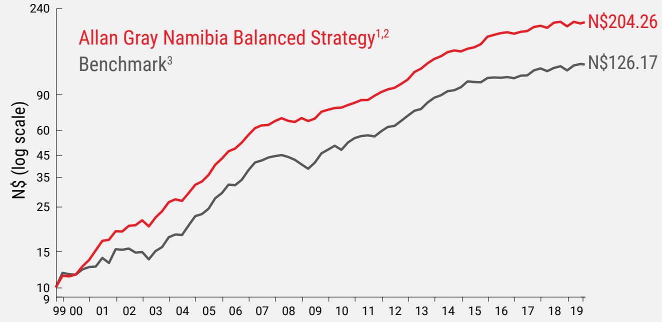
Fund information on 31 August 2019

Fund size	N$4 032m
Price	N$1 828.95
Number of share holdings	30
Class	B

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 August 2019 is an estimate. Performance as calculated by Allan Gray as at 31 August 2019.
4. Maximum percentage decline over any period. The maximum drawdown occurred from August 2018 to November 2018 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).

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 (12 August 1999)	1946.5	1147.9
Annualised:		
Since inception (12 August 1999)	16.3	13.5
Latest 10 years	10.8	10.7
Latest 5 years	6.9	6.1
Latest 3 years	3.3	4.2
Latest 2 years	3.6	4.1
Latest 1 year	-2.2	-0.3
Year-to-date (not annualised)	4.7	7.0
Risk measures (since inception)		
Maximum drawdown[4]	-7.8	-20.2

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 2018	30 Jun 2019
Cents per unit	**2503.2373**	**2500.9520**

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.

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 one and three-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 4 for further information). Transaction costs are disclosed separately.

Top 10 share holdings as at 30 June 2019 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Naspers	4.6
FirstRand Namibia	3.2
Namibia Breweries	3.0
British American Tobacco[5]	2.6
Sasol	2.3
Oryx Properties	2.3
Stimulus	2.1
Standard Bank Namibia	2.1
Remgro	1.9
Investec Namibia	1.4
Total (%)	**25.5**

5. As at 30 June 2019, the investment portfolio includes a 2.6% exposure to British American Tobacco (BAT) shares, the majority of which were received as part of a corporate unbundling in 2008. Bank of Namibia (BoN) has renewed the extension to grant BAT shares South African asset status until 30 October 2020.

Asset allocation on 31 August 2019

Asset Class	Total	Namibia[6]	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	57.3	13.6	17.3	1.2	25.2
Hedged equity	3.9	0.0	0.0	0.0	3.9
Property	3.4	3.2	0.0	0.0	0.2
Commodity-linked	5.4	3.6	0.6	0.0	1.1
Bonds	16.1	12.2	0.0	0.8	3.1
Money market and cash	14.0	12.9	0.0	0.5	0.6
Total (%)	**100.0**	**45.5**	**17.9**	**2.4**	**34.1**

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1 and 3-year period ending 30 June 2019	1yr %	3yr %
Total expense ratio	**1.21**	**1.44**
Fee for benchmark performance	1.16	1.14
Performance fees	0.01	0.26
Other costs excluding transaction costs	0.04	0.04
Transaction costs	**0.06**	**0.07**
Total investment charge	**1.27**	**1.51**

6. 5.3% invested in companies incorporated outside Namibia but listed on the NSX.

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

Fund manager quarterly commentary as at 30 June 2019

The Allan Gray Namibia Balanced Fund had a challenging quarter. The foreign portion of the Fund detracted from performance. On the Southern African equity front, the major detractors have been our overweight positions in FNB Namibia, British American Tobacco and Sasol.

Sasol is currently trading on eight times earnings. The long-term average is 10.5 times. A simple multiple re-rating from eight to 10.5 would give a return of 31%. Then in 2022, if all goes to plan, earnings should grow by 45% when a large project in the US (the Lake Charles Chemicals Project or LCCP) is fully up and running. This is not the whole story. Investors in Sasol have to carefully consider all of the following:

- Much depends on the oil price, which is difficult to forecast. On the supply side, US production has grown rapidly over the past few years, and the US is now the world's largest producer. Demand growth has historically been very consistent but, in the long term, the impact of electric cars will be negative for oil.
- Sasol is a very large emitter of carbon dioxide and sulphur dioxide.
- The company has incurred a huge amount of debt in order to build their ethane cracker in the US. The balance sheet is currently stretched.
- Capital allocation has been poor historically. One barrel of oil currently trades for about R1 000. For the same price, you can buy 2.9 Sasol shares. This ratio was similar 20 years ago: in 1999, you could buy 2.9 Sasol shares for the price of one barrel of oil. One would have expected Sasol to become more valuable relative to oil, given the billions of rands that have been spent on expansion projects in the past 20 years.
- Management has lost a lot of credibility in recent years. Shareholders were short-changed in the company's recent BEE deal. Costs have been disappointingly high. The ethane cracker has had multiple cost overruns.

These points seem (and are) alarming, but in fact, almost every company has a similar list. It is our job to worry about these things, to incorporate them into our valuations and, where we can, to encourage companies to pollute less and act in shareholders' best interests. We do not sell shares on bad news or buy them on good news. Rather, we buy when we think we are getting a bargain for our clients. Sometimes, negative sentiment can create a good buying opportunity.

It is interesting to compare the valuation of Sasol with that of Anglo American Platinum (Amplats), which we don't own. Everything has gone right for Amplats in recent years, and sentiment is extremely positive towards the company. Both companies have a similar market cap: around R220bn. Over the past 10 years, Amplats has made cumulative profits of R6.2bn. Sasol has made R210bn. One should see the issues at Sasol in the context of this very attractive valuation.

Commentary contributed by Jacques Plaut and Birte Schneider

Management Company

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 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.

Redemptions

Allan Gray Namibia Unit Trust Management Company will repurchase any number of units offered to it on the basis of prices calculated in accordance with the requirements of the Unit Trusts Control Act 54 of 1981 and on the terms and conditions set forth in the trust deed.

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 one and three-year periods. 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.

Important information for investors

Need more information?
You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.com.na** or call **061 221 103**.