

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

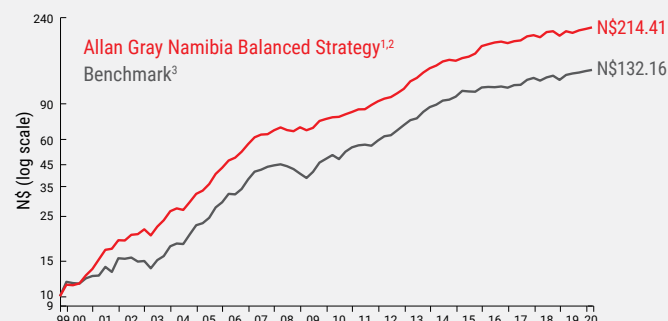
Fund information on 31 January 2020

Fund size	N\$4 109m
Price	N\$1 889.32
Number of share holdings	31
Class	B

- On 1 February 2014 all the assets and unitholder 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 January 2020 is an estimate. Performance as calculated by Allan Gray as at 31 January 2020.
- 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).
- The percentage of calendar months in which the Fund produced a positive monthly return since inception.
- The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
- These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 May 2001 and the benchmark's occurred during the 12 months ended 30 April 2006. The Fund's lowest annual return occurred during the 12 months ended 30 April 2009 and the benchmark's occurred during the 12 months ended 28 February 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

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)	2048.2	1207.1
Annualised:		
Since inception (12 August 1999)	16.2	13.4
Latest 10 years	11.0	10.8
Latest 5 years	7.7	5.8
Latest 3 years	5.8	6.5
Latest 2 years	4.3	4.5
Latest 1 year	10.6	10.9
Year-to-date (not annualised)	1.8	1.3
Risk measures (since inception)		
Maximum drawdown ⁴	-7.8	-20.2
Percentage positive months ⁵	72.7	61.6
Annualised monthly volatility ⁶	8.2	10.2
Highest annual return ⁷	47.4	45.6
Lowest annual return ⁷	-5.2	-19.2

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.	30 Jun 2019	31 Dec 2019
Cents per unit	2500.9520	2999.9438

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 31 December 2019 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Naspers ⁸	5.4
British American Tobacco	4.6
FirstRand Namibia	3.4
Namibia Breweries	3.0
Oryx Properties	2.3
Stimulus	2.1
Sasol	2.0
Remgro	2.0
Glencore	1.8
NetEase	1.8
Total (%)	28.3

8. Including stub certificates and Prosus NV.

Asset allocation on 31 January 2020

Asset Class	Total	Namibia ⁹	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	58.8	14.3	17.3	1.4	25.9
Hedged equity	4.0	0.0	0.0	0.0	4.0
Property	3.1	3.0	0.0	0.0	0.1
Commodity-linked	5.4	3.7	0.6	0.0	1.1
Bonds	16.0	12.9	0.0	0.8	2.4
Money market and cash	12.6	11.4	0.0	0.5	0.8
Total (%)	100.0	45.3	17.9	2.6	34.2

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1 and 3-year period ending 31 December 2019	1yr %	3yr %
Total expense ratio	1.02	1.34
Fee for benchmark performance	1.16	1.15
Performance fees	-0.19	0.14
Other costs excluding transaction costs	0.05	0.05
Transaction costs	0.05	0.07
Total investment charge	1.07	1.41

9. 5.1% invested in companies incorporated outside Namibia but listed on the NSX.

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

The Namibian Balanced Fund returned 8% for 2019, helped by positive returns from most asset classes. Foreign assets returned 10.6%, Namibian and South African shares 4.9%, domestic fixed income 7.9%, African bonds 10% and commodities 29%. Only African equities posted a negative return for the year. These positive returns were largely driven by strong markets. Our stock selection detracted both regionally and globally. We remain excited about the shares we hold unlocking value and generating alpha in the long term.

A braai over the weekend inevitably reminds us of the significant challenges Namibia and South Africa face – there is lots of negative news to talk about. In South Africa, an unemployment rate of 29%, combined with youth unemployment of 58%, means that most citizens are still not being included in the economy and cannot help the government to raise further tax revenue to address high and increasing debt levels (61% of GDP, currently). Government bailout of Eskom alone will add R50bn to debt (1% of GDP) in 2020. Even an optimist would struggle to see a financial way out for the public monopoly as a result of poorly maintained infrastructure and new stations that may never operate economically as a result of significant design flaws. Locally, our economy faces similar challenges: an unemployment rate of 33%, debt to GDP of 49% and regular bailout requests from state-owned enterprises. GDP growth continues to look anaemic with negative growth in the past four quarters. The weak performance of the economy resulted in a further downgrade by Moody's.

The good news for investors is that prices of various local and regional assets compensate investors for these risks. Some Namibian equities are trading at attractive valuations, especially FirstRand Namibia. Namibian government bonds carry risks, but the 10-year bond, at 9.8%, is yielding 5% more than the average consumer inflation rate over the past five years. The South African stock market is also unusually cheap relative to inflation, with a dividend yield of 3.6%, only 1.3% below inflation. The average of the dividend yield on stocks and yield on 10-year bonds is 1.4% higher than South African inflation. This has only been true 3% of the time since 1974. What is also comforting is that subsequent

five-year returns of stocks and bonds averaged 14% a year ahead of inflation when they were this cheap or cheaper, since pessimism on earnings growth does not always materialise and investors typically enjoy a re-rating on top of the above average yield when assets are this cheap.

Having said this, given the risks, one would be wise to look for opportunities that protect capital in a bad outcome for the countries. Money market instruments carry low risk of default and capital loss in a scenario where inflation increases. These make up 13.2% of the Fund and yield 7.1%, currently. Bonds make up 15.4% of the Fund, yield 8.6% on average and at 2.8 are of relatively short duration.

Cheaply priced regional shares that don't depend on South Africa or Namibia – including top 10 shares like Naspers, British American Tobacco and Glencore – are another option that we are fortunate to have. The average dividend yield of these three shares is 4.5% and there is a strong case to be made that this basket of companies will grow faster than these economies in most scenarios through a combination of secular growth (Naspers), organic price growth of strong brands (British American Tobacco) and strong commodity fundamentals combined with share buybacks at low prices (Glencore).

Owning shares that trade at a meaningful discount to fair value helps to protect against a bad outcome as companies can pass on inflation to consumers. Top 10 shares like FirstRand Namibia and Standard Bank Group trade at an average dividend yield of 6% and at a discount to our estimate of intrinsic value. In a scenario where the Namibian and South African economies start growing again, these shares would offer further upside. Finally, a diversified portfolio of global shares and fixed income securities selected by our offshore partner, Orbis, provides protection in a scenario where the Namibian dollar weakens materially.

Commentary contributed by Ruan Stander and Birte Schneider

Fund manager quarterly commentary as at 31 December 2019

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 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 (TIC).

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