Allan Gray Namibia Balanced Strategy

B Class 31 March 2020

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

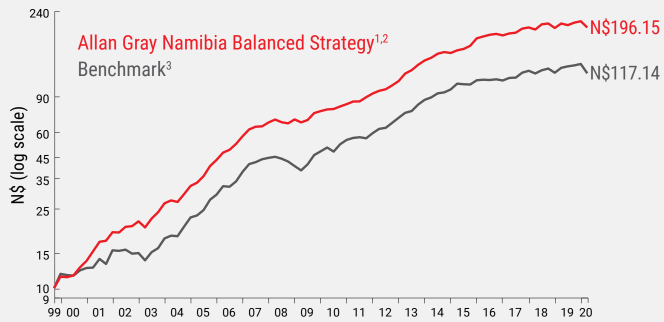
Fund information on 31 March 2020

Fund size	N$3 714m
Price	N$1 728.31
Number of share holdings	35
Class	B

1. 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.
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 March 2020 is an estimate. Performance as calculated by Allan Gray as at 31 March 2020.
4. Maximum percentage decline over any period. The maximum drawdown occurred from 31 January 2020 to 31 March 2020 and maximum benchmark drawdown occurred from 31 May 2008 to 28 February 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
5. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
6. 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.
7. 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)	1865.2	1058.6
Annualised:		
Since inception (12 August 1999)	15.6	12.6
Latest 10 years	9.8	8.9
Latest 5 years	5.4	2.4
Latest 3 years	2.3	1.8
Latest 2 years	1.2	0.1
Latest 1 year	-4.4	-6.1
Year-to-date (not annualised)	-6.9	-10.2
Risk measures (since inception)		
Maximum drawdown[4]	-8.5	-20.2
Percentage positive months[5]	72.1	61.1
Annualised monthly volatility[6]	8.4	10.5
Highest annual return[7]	47.4	45.6
Lowest annual return[7]	-5.2	-19.2

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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 March 2020 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Naspers[8]	7.1
British American Tobacco	5.6
FirstRand Namibia	3.7
Namibia Breweries	2.7
Stimulus	2.3
Oryx Properties	2.3
NetEase	2.2
AbbVie	1.7
Glencore	1.5
Taiwan Semiconductor Mfg.	1.4
Total (%)	**30.4**

8. Including stub certificates and Prosus NV.

Asset allocation on 31 March 2020

Asset Class	Total	Namibia[9]	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	57.0	13.6	16.8	1.3	25.3
Hedged equity	4.2	0.0	0.0	0.0	4.2
Property	2.7	2.6	0.0	0.0	0.1
Commodity-linked	6.2	4.2	0.7	0.0	1.3
Bonds	17.7	14.9	0.0	0.8	2.0
Money market and cash	12.1	9.9	0.0	0.6	1.7
Total (%)	**100.0**	**45.2**	**17.5**	**2.7**	**34.6**

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. 3.2% 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 31 March 2020

The Balanced Fund's 6.9% price decline over the quarter was disappointing; we strive for consistent real returns. The past quarter was an extremely unusual one, with global asset prices collapsing as economic turmoil resulting from COVID-19 swept across the world. March's price movements have dragged down not just the short-term returns for South African assets, but also long-term returns. The five-year return for the FTSE/JSE All Share Index (ALSI) is now negative 0.1%; bonds have done better but the 5.2% annual return of the JSE All Bond Index is equal to the South African inflation rate over five years. Local Namibian instruments fared better. The NSX Local Index is down 7.3% for the quarter, but still returned 10.8% p.a. over the past five years. Namibian bonds are down 5.7% for the quarter and returned 8% over five years. Over a five-year period, the Fund is still beating Namibian inflation of 4.8%.

These returns could lead people to draw very different conclusions. The first reaction could be to give up on equity investments and conclude that the best returns are to be had in money market funds. Alternatively, the conclusion may be that this is a great time to make equity and bond investments as the next five years are unlikely to be like the past. Historically, investors who have arrived at the second conclusion have come out on top.

The most important driver of asset price returns is the price you pay. You are paying a great deal less today for South African equities and Namibian bonds than at any time in the past decade. These low prices should result in excellent returns over the next five years. In March 2015, the Namibian 10-year bond yielded 8.8%, compared to today's 12%. Although Namibia's fiscal situation has deteriorated, and the current crisis means the government budget will be in a deep deficit in the near term, this is more than reflected in bond prices. Buying a government bond with a 12% yield offers a far greater margin of safety and return potential than buying one at 8.8%. The yield on these medium-duration bonds also compares favourably to the 6.6% available in money market assets. We have been increasing the duration of the bond exposure as yields have sold off.

The Fund's 33% Southern African share exposure is lower than December's 36%. However, we actually bought about 2% of the Fund in equities over the quarter. The underperformance of equities relative to other assets caused the share exposure to fall. We think there is excellent value to be had, especially in South African shares. Despite negative returns from our Namibian primarily listed shares, they all outperformed the ALSI. The ALSI dividend yield is 4.9% and peaked at 5.6% earlier in March; this compares to the previous 25-year yield high of 5.4% in March 2009, which marked the equity low point during the global financial crisis (GFC). If Naspers – which (with Prosus) accounts for 23% of the ALSI and yields only 0.29% – is stripped out of the calculation, the market yields 6.3%. Historically, buying equities at these valuations resulted in excellent returns. Many companies will reduce or scrap their dividend pay-outs over the next year as the global recession bites, but the dividend yield is a strong indication of value.

The largest detractors from our performance over the past quarter were Sasol, Standard Bank Group and Glencore. We wrote about Sasol in a recent article on our website (see "Coronavirus: Taking stock of the state of the markets"); here we will focus on Glencore and the banks.

Glencore has been a consistent detractor. Most recently, the share has fallen from R46 in February to R27 today; when measured in dollars, this decline is even sharper: US$3.00 to US$1.50. Demand for, and thus the prices of, many industrial commodities collapsed as the COVID-19 crisis gripped the world. For sure this shock has affected Glencore's near-term prospects, with the copper price down 20% year to date and zinc down 18%. These prices may fall further as the situation develops. However, our estimates of long-term metal and coal prices, and therefore Glencore's normal cash flows, are unchanged. We think Glencore should generate USc33 of cash flow per share through the cycle. On our forecasts, Glencore should reward investors with 25%+ dollar returns per year over a four-year investment horizon.

Banking shares have understandably borne the brunt of the recent sell-off. Banks are leveraged to the economic cycle and a severe downturn will impact them harshly: This is our base case. Nedbank is one of the banks we have been buying. It trades on three times historic earnings and 0.4 times book value. During the GFC, Nedbank traded down to 0.9 times book value. The share is clearly priced for significant distress. Do we expect this recession will be worse than the GFC? Yes, substantially. However, we think the large South African banks will survive. Nedbank's 10-year average price-to-book value is 1.5. If Nedbank just returns to book value, and that value is unchanged, the share will appreciate 150%. Namibian banking shares are not as cheap as their South African counterparts, but also trade on attractive valuations. Our banking sector is also well-capitalised and should be able to survive the economic downturn.

South African assets have sharply underperformed global assets, despite global equities being very weak. We have taken this opportunity to repatriate funds from offshore to invest in Southern African assets. Additionally, we think the Namibian dollar at N$18/US$ is undervalued. While we have sold some offshore assets to rebalance the portfolio, the Orbis team is very excited about the assets we own offshore and expect strong returns from these investments.

The patience of even long-term investors is being tested by the poor equity and bond returns. The incredible uncertainty and negative sentiment around the global economic outlook generally, and the South African and Namibian economy in particular, does not help. At times like these, retreating to the seeming-stability of cash is very tempting. Unfortunately, the comfort of cash does not protect wealth over long periods of time. When it is hardest to stick with your portfolio of assets, doing just that is most important for long-term growth.

Commentary contributed by Andrew Lapping and Birte Schneider

Important information for investors

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).

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**