Allan Gray Namibia Balanced Strategy

B Class 30 April 2022

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

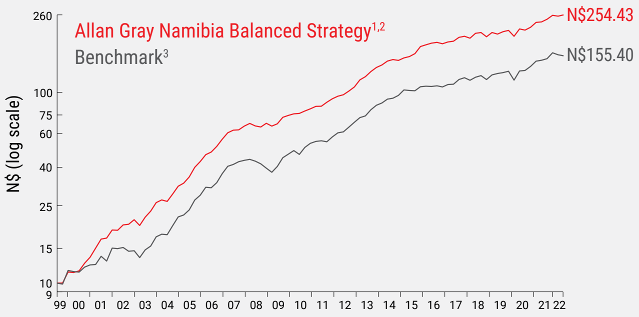
Fund information on 30 April 2022

Fund size	N$3 606m
Price	N$2 118.32
Number of share holdings	40
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. Performance as calculated by Allan Gray as at 30 April 2022.
4. Maximum percentage decline over any period calculated from monthly returns. 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 all 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)	2444.3	1454.0
Annualised:		
Since inception (12 August 1999)	15.3	12.9
Latest 10 years	10.3	9.6
Latest 5 years	6.4	6.8
Latest 3 years	6.7	6.9
Latest 2 years	9.6	10.7
Latest 1 year	8.8	5.0
Year-to-date (not annualised)	0.5	-3.6
Risk measures (since inception)		
Maximum drawdown[4]	-8.5	-20.2
Percentage positive months[5]	72.4	62.1
Annualised monthly volatility[6]	8.3	10.3
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 2021	31 Dec 2021
Cents per unit	**2301.8991**	**2938.2279**

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 2022 (CMA and Foreign)
(updated quarterly)

Holdings	% of portfolio
British American Tobacco	4.7
Glencore	4.1
Naspers[8]	3.5
Namibia Breweries	3.1
FirstRand Namibia	3.0
Stimulus	2.5
Sasol	1.8
Nedbank	1.4
Mobile Telecommunications	1.4
Remgro	1.3
Total (%)	**26.6**

8. Includes holding in stub certificates or Prosus N.V., if applicable.

9. 5.9% invested in companies incorporated outside Namibia but listed on the NSX. Including the dual-listed commodity-linked ETFs, total exposure to dual-listed instruments is 9.7%.

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

Asset allocation on 30 April 2022

Asset Class	Total	Namibia[9]	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	59.2	16.7	20.6	1.3	20.7
Hedged equity	6.3	0.0	0.0	0.0	6.3
Property	1.9	1.4	0.0	0.0	0.5
Commodity-linked	5.0	3.7	0.0	0.0	1.2
Bonds	19.5	16.4	0.1	1.0	2.1
Money market and bank deposits	8.1	6.8	0.0	0.1	1.1
Total (%)	**100.0**	**45.0**	**20.6**	**2.4**	**32.0**

Total expense ratio (TER) and transaction costs

TER and transaction costs breakdown for the 1 and 3-year period ending 31 March 2022	1yr %	3yr %
Total expense ratio	**0.76**	**0.82**
Fee for benchmark performance	1.03	1.07
Performance fees	-0.31	-0.30
Other costs excluding transaction costs	0.04	0.05
Transaction costs	**0.07**	**0.07**
Total investment charge	**0.83**	**0.89**

Fund manager quarterly commentary as at 31 March 2022

The Fund delivered a negative return over the quarter but outperformed its benchmark which fared worse. Notably, the foreign portion of the Fund returned negative 5.3%, compared with a 60/40 benchmark return of negative 13.5%.

We have previously spoken about our significant underweight in US equities and our preference for depressed European, UK and emerging market equities in the offshore component. We have also had no exposure to developed world, long-dated sovereign bonds for some time, believing investors were taking on return-free risk by buying at generationally low interest rates. From early 2018 until the end of 2021, this positioning caused significant underperformance in the offshore component of our Fund, as US equities continued to outperform and yields on long-dated government bonds continued to compress, inflating bond prices.

However, with high commodity prices, inflation consistently above 5% in the US since June 2021 (7.9% as at the end of February 2022) and an overheating US economy, these trends have begun to reverse in 2022. Earlier this month, the Federal Reserve approved its first interest rate increase in more than three years and signalled its intention to keep hiking rates throughout 2022 and possibly into 2023. Year to date, the yield on 10-year government bonds in the US has increased from 1.5% to 2.3%, causing those same bonds to generate a negative return of 7.2% in US dollars. Higher interest rates have also meant higher discount rates, with a number of highly priced companies falling significantly and the S&P 500 down 4.6% in US dollars, year to date.

At this stage, we do not know whether global inflation will prove to be transitory or more persistent in nature. We do know that developed market government debt is at record levels and that the real yield on long-dated government bonds continues to be negative in many countries. We also know that the average earnings multiple one is paying for US equities remains high relative to history. As a result, we are of the view that we are at the early stages of this trend reversal and continue to see substantial upside in our offshore investments relative to overall global asset prices.

In contrast to global bond markets, the 10-year government bond in Namibia is providing real returns, with a yield close to 12% (real rate above 7%). The risks in Namibia are well known, but one is arguably being compensated for these higher risks at today's prices.

Many Namibian shares are trading at attractive valuations, particularly after the NSX Local Index lagged the Capped SWIX by an annualised 18% since the start of 2020. We also continue to see significant value in our preferred JSE-listed equities.

One such example is Glencore. Glencore produces and sells over 120 million tonnes of coal each year. Coal is arguably the dirtiest of fossil fuels, and we need to make a global effort to materially reduce our reliance on it over the next 30 to 40 years if we are to achieve our ambition of keeping climate change to a minimum. Glencore is not blind to this reality and has committed to responsibly winding down their mines over time and reinvesting the proceeds in more sustainable and greener metals. However, as it currently stands, many countries – emerging markets in particular – are reliant on coal for their primary energy needs. South Africa is no exception, with approximately 85% of its electricity continuing to be generated from coal.

Over the past few years, there has been huge pressure on companies to close and reduce investment into fossil fuel operations, coal in particular. In theory, this should drive a positive outcome from a climate change perspective.

Unfortunately, as a global society, we have been poor in terms of the speed and scale at which we have made greener alternatives a viable reality. As consumers are reluctant to reduce their overall energy needs, demand has remained sticky. With demand remaining elevated and supply under pressure, the coal price has rallied materially over the past 18 months. This has been exacerbated in the short term by COVID-19 supply disruptions and the events unfolding in Ukraine, with the related sanctions on Russian oil and gas.

It is important to note that a high coal price is favourable for Glencore's income statement in the short term, but it is also useful in the war against carbon emissions. That is because high prices reduce consumer demand and increase the incentive to produce and bring alternatives to market. There is a reasonable chance that the high prices we are seeing in fossil fuels today will ultimately accelerate their replacement by greener alternatives.

As a result, when valuing Glencore, we do not bake today's high coal prices into our valuation, and we place the coal business on a below-average multiple. However, what we believe the market fails to appreciate is just how important Glencore is to the energy transition. Glencore is one of the world's largest producers of zinc, cobalt, nickel and copper. The world will need to more than double its annual consumption of these four commodities as we scale up investments in electric vehicles, large-scale commercial batteries, wind and solar farms, and greater redundancy in electrical grids. At spot, the Glencore share price is discounting not only materially lower coal prices, but materially lower prices for these other commodities too. We like that risk-reward trade-off.

Commentary contributed by Rory Kutisker-Jacobson and Birte Schneider

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Management Company

Allan Gray Namibia Unit Trust Management Company is an approved management company in terms of the Unit Trusts Control Act 54 of 1981 as amended, and is incorporated and registered under the laws of Namibia and supervised by the Namibia Financial Institutions Supervisory Authority (NAMFISA). The trustee and custodian is Standard Bank Namibia.

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 future performance. Where annualised performance is mentioned, this refers to the average return per year over the period.

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.

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 as amended 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, Share Transactions Totally Electronic (STRATE) and investor protection levies where applicable) are shown separately. Transaction costs are necessary costs in administering the Fund and impact 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 financial product, 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 unit trust 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).

FTSE/JSE All Share Index and FTSE/JSE Capped Shareholder Weighted All Share Index

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MSCI Index

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