

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 40% 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 or a balanced fund.

Fund objective and benchmark

The Fund aims to provide a high degree of capital stability and to minimise the risk of loss over any two-year period, while producing long-term returns that are superior to bank deposits. The Fund's benchmark is the daily interest rate, as supplied by Standard Bank Namibia Limited, plus 2%.

How we aim to achieve the Fund's objective

A major portion of the Fund is typically invested in money market instruments. We seek to deploy the Fund's cash by investing in shares when they can be bought at a significant 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 allocate a low weight to shares or partially hedge the Fund's stock market exposure in consideration of the Fund's capital preservation objectives. The Fund may also invest in bonds, property and commodities. The Fund's bond and money market investments are actively managed.

Suitable for those investors who

- Are risk-averse and require a high degree of capital stability
- Seek both above-inflation returns over the long term, and capital preservation over any two-year period
- Require some income but also some capital growth
- Wish to invest in a unit trust that complies with retirement fund investment limits

Fund information on 30 April 2017

Fund size	N\$38.2m
Price for Class A	N\$1 027.95
Number of share holdings	42

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 portfolio's cumulative return from the date of inception of the portfolio to the day relevant for the calculation or by comparing the Fund's total performance over the shorter period of either the last two years or since inception to that of the benchmark. Once the Fund has been in existence for two years, Allan Gray will not charge a fee should the Fund's cumulative return over the last two years be equal to or less than 0%.

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 manager quarterly commentary as at 31 March 2017

South Africa has a history of political uncertainty. The 15 months since the removal of Nlanhla Nene as finance minister in December 2015 have been a stark reminder of this, culminating in the cabinet reshuffle announced at the end of the recent quarter. We disagree with recent decisions and are concerned about the negative impact they will have on South Africa's future.

Similarly, the last year has brought a lot of concerns in Namibia to the fore, including policy uncertainty, questions about the government's budget and funding position and potential changes to local asset requirements for non-discretionary savings.

Our investment philosophy is to build diversified portfolios of undervalued investments from the bottom up, so as to maximise the probability of real returns while limiting the risk of permanent capital loss. This philosophy has protected our clients' wealth through similar periods of uncertainty and we believe will do so again.

High uncertainty increases the need for an ongoing assessment of relative risks and returns, which influences the asset allocation in the Fund. An example is the low hedged equity exposure of 2.5% in the Fund. This highlights our view that there are currently fewer valuation disparities in the South African market. Fifteen months ago we would have had a higher hedged equity position. The mining and financial sectors were particularly attractive relative to large-cap industrials such as Richemont, MTN and Steinhoff that we felt were overvalued. This gave us confidence that our stock picks would outperform the market by a sufficient margin to provide attractive returns from the hedge. Similar disparities are less obvious today.

However, we are still finding attractive investment opportunities. These include British American Tobacco (BAT), Naspers and Remgro:

- BAT's reasonable valuation, excellent economics and long-term track record of real cash flow growth makes it a core holding in the Fund.
- We have invested many hours analysing the long-term value of Chinese internet company Tencent, which accounts for most of Naspers' value. Risks certainly exist but we are increasingly confident of Tencent's cash flow potential as it monetises its user base. Naspers' management is also focused on unlocking value from their other investments. If successful, we believe Naspers investors gain exposure to Tencent's potential at an attractive valuation.
- Two-thirds of Remgro's current value comes from its holdings in Mediclinic, FirstRand/RMB Holdings (RMH) and Rand Merchant Investment Holdings (RMI). We believe these companies have above-average management with track records of building shareholder value. They all have challenges: Mediclinic is facing regulatory pressure, FirstRand is exposed to a weak SA consumer, and RMI's life insurance businesses (Discovery and MMI) are struggling to generate cash. However, we believe these risks are priced in, particularly with the further discount one gets from investing via Remgro.

The Fund's position in bonds and cash is 38.7% of the Fund, of which the majority is in short duration money market instruments. These offer yields in excess of inflation at low risk, making them appropriate for the Stable Fund in the current environment.

The foreign portion of the Fund is close to the maximum of 35%. The performance of the Fund's foreign holdings, managed by Orbis, has been good in dollars but offset by a stronger Namibian dollar.

Commentary contributed by Birte Schneider & Mark Dunley-Owen

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.

Top 10 share holdings as at 31 March 2017 (SA and Namibia) (updated quarterly)

Holdings	% of portfolio
Sasol	3.4
British American Tobacco	2.9
FNB Namibia	2.1
Old Mutual Namibia	2.0
Standard Bank Namibia	1.7
Remgro	1.6
Naspers	1.6
Namibia Breweries	1.4
Oryx Properties	1.0
Steinhoff	1.0
Total (%)	18.7

Top credit exposures on 31 March 2017 (updated quarterly)

Issuer	% of portfolio
First National Namibia	8.3
Standard Bank Namibia	6.8
Nedbank Namibia	5.6
Bank Windhoek	3.4
FirstRand Bank	2.1
Standard Bank	1.3
Republic of Namibia	1.3
Investec Bank	1.2
Nedbank	1.1
Total (%)	31.2

Asset allocation as at 30 April 2017

Asset class	Total	Namibia ¹	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	37.9	10.7	13.9	0.4	12.9
Hedged equity	15.6	0.0	2.5	0.0	13.2
Property	2.8	1.0	0.6	0.0	1.2
Commodity - linked	4.9	3.6	0.8	0.0	0.5
Bonds	12.3	3.0	6.3	1.0	2.0
Money market and cash	26.4	23.6	0.3	0.4	2.1
Total (%)	100.0	41.8	24.5	1.8	31.9

1. 6.2% 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 quarterly.	31 Dec 2016
Cents per unit	122.3317

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.

Calculations

Calculations are based on actual data where possible and best estimates where actual data is not available.

Total expense ratio (TER) and Transaction costs

The TER and Transaction Costs cannot be determined accurately because of the short lifespan of the Fund.