

## 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

## 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 2017

Fund size	N\$82.4m
Price	N\$1 038.71
Number of share holdings	47
Class	A

## Performance (N\$) net of fees and expenses

% Returns	Strategy	Benchmark <sup>1</sup>
<b>Not annualised:</b>		
Since inception (5 December 2016)	5.5	5.1
Year-to-date	5.7	4.6

1. The daily interest rate, as supplied by Standard Bank Namibia Limited, plus 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 quarterly.	<b>31 Dec 2016</b>	<b>30 Jun 2017</b>
<b>Cents per unit</b>	<b>122.3317</b>	<b>1449.1609</b>

### 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.

### Top 10 share holdings as at 30 June 2017 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Sasol	3.2
FNB Namibia	1.9
British American Tobacco <sup>2</sup>	1.8
Standard Bank Namibia	1.7
Remgro	1.7
Old Mutual Namibia	1.7
Naspers	1.6
Namibia Breweries	1.3
AbbVie	0.9
Nedbank	0.9
<b>Total (%)</b>	<b>16.8</b>

2. We are awaiting Bank of Namibia's (BoN) final decision on this instrument's (South African or foreign) status. In the meantime, the BoN has extended the grace period for investors to rebalance their portfolios until 31 October 2018.

### Top credit exposures on 30 June 2017 (updated quarterly)<sup>3</sup>

Issuer	% of portfolio
First National Namibia	8.5
Standard Bank Namibia	7.3
Nedbank Namibia	5.2
Bank Windhoek	3.7
FirstRand Bank	1.9
Republic of Namibia	1.7
Investec Bank	1.0
Nedbank	1.0
<b>Total (%)</b>	<b>30.2</b>

3. All credit exposure 1% or more of portfolio.

### Asset allocation on 31 August 2017

Asset Class	Total	Namibia <sup>4</sup>	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	38.6	8.4	16.6	0.2	13.5
Hedged equity	15.2	0.0	1.2	0.0	14.0
Property	3.0	1.1	0.8	0.0	1.2
Commodity-linked	3.9	2.9	0.5	0.0	0.5
Bonds	14.1	7.8	3.6	1.0	1.7
Money market and cash	25.1	22.4	0.2	0.6	2.0
<b>Total (%)</b>	<b>100.0</b>	<b>42.6</b>	<b>22.8</b>	<b>1.8</b>	<b>32.8</b>

4. 5.9% invested in companies incorporated outside Namibia but listed on the NSX.

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

It may seem odd that the Fund's equity exposure is high, despite economic and political risks in Namibia and South Africa. The Namibian government is struggling with funding challenges and in South Africa, senior politicians are increasingly calling for unorthodox economic policy that does not work and puts savings at risk. Equity is considered a 'risk asset' as equity prices move around more than say short-dated deposits. But the real risks for all savers is the permanent loss of capital that comes from buying overvalued assets, or the loss of purchasing power through inflation. The best way to protect against these two evils is by buying undervalued real assets.

The FTSE/JSE All Share Index (ALSI) price is slightly down over the past three years, despite Naspers, the largest share in the index, doubling over that period. Excluding Naspers, the JSE has returned -3.06% over the past three years. This means we have the opportunity to acquire assets for less than people were willing to pay three years ago despite annual inflation averaging 5.4% over the period. Granted, many shares were grossly overvalued three years ago and are now only beginning to approach fair value after substantial price declines.

Fortunately, our bottom-up research indicates that there are an increasing number of equities that should give investors a solid real return from here. Buying these businesses, that are trading below fair value, protects investors from a permanent capital loss, while the substantial dividend yields and growth potential wards off the inflation risk. A business with a 5% dividend yield that grows the dividend in line with inflation of say 6% results in a

return of 11%, outside of any change in rating. This compares to the return on a 12-month deposit of 8.6%. As equity prices have fallen, we have been able to identify an increasing number of equities that we think should give investors returns exceeding 5% real. We have replaced cash with these equity investments.

Foreign investors have bought R38bn of South African bonds over the past 6 months as emerging market bonds are very much in favour. Movements in South Africa usually affect the Namibian yield curve. The Fund has minimal exposure to fixed-rate bonds, as we think these assets pose a risk of permanent capital loss. Instead, we prefer floating-rate notes and money market instruments, which pose a far lower risk of capital loss.

The strengthening rand over the past 18 months has detracted from the Fund's returns. The rand may have run its course and we have used the opportunity of the Namibian dollar moving below N\$13/US\$ to top up offshore exposure.

Locally, the Namibian Financial Institutions Supervisory Authority (NAMFISA) has sent through consultative documents on proposed amendments to retirement fund regulation (Reg 28). The regulator's aim is to increase the minimum local asset requirement from the current 35% to 45% by October 2018. Consultations are ongoing.

Commentary contributed by Birte Schneider & Andrew Lapping

**Fund manager quarterly  
commentary as at  
30 June 2017**

### 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.

### 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.

### 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](http://www.allangray.com.na) or call **061 221 103**.