

## 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 January 2018

Fund size	N\$147.9m
Price	N\$1 057.46
Number of share holdings	50
Class	A

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

% Returns	Strategy	Benchmark <sup>1</sup>
<b>Cumulative:</b>		
Since inception (5 December 2016)	8.9	8.0
<b>Annualised:</b>		
Since inception (5 December 2016)	7.6	6.9
Latest 1 year	8.6	6.9
Year-to-date (not annualised)	0.6	0.6

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>30 Jun 2017</b>	<b>30 Sep 2017</b>	<b>31 Dec 2017</b>
<b>Cents per unit</b>	<b>1449.1609</b>	<b>866.7015</b>	<b>567.9509</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 31 December 2017 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Sasol	3.6
Old Mutual Namibia	1.8
Naspers	1.7
Standard Bank Namibia	1.4
Remgro	1.3
FNB Namibia	1.2
Life Healthcare	1.2
Oryx Properties	1.2
Woolworths	1.1
Nedbank Namibia	1.1
<b>Total (%)</b>	<b>15.6</b>

### Top credit exposures on 31 December 2017 (updated quarterly)<sup>2</sup>

Issuer	% of portfolio
Standard Bank Namibia	14.4
First National Namibia	9.0
Republic of Namibia	4.9
Nedbank Namibia	3.1
Bank Windhoek	2.9
Citibank	1.6
FirstRand Bank	1.0
<b>Total (%)</b>	<b>37.0</b>

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

### Asset allocation on 31 January 2018

Asset Class	Total	Namibia <sup>3</sup>	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	37.4	8.5	15.4	0.9	12.6
Hedged equity	16.8	-	0.7	0.0	16.1
Property	3.3	1.5	0.9	-	0.8
Commodity-linked	2.7	1.8	0.4	-	0.5
Bonds	9.7	5.7	2.0	0.6	1.4
Money market and cash	30.1	27.5	0.1	0.5	2.0
<b>Total (%)</b>	<b>100.0</b>	<b>45.1</b>	<b>19.6</b>	<b>2.0</b>	<b>33.4</b>

3. 5.8% invested in companies incorporated outside Namibia but listed on the NSX.

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

Scott Adams, the Dilbert cartoonist, writes that: "When it comes to any big or complicated question, humility is the only sensible point of view."

Humility is an important part of Allan Gray's philosophy, particularly in the Stable Fund with its dual objectives of generating attractive real returns while minimising the risk of capital loss. Over the longer term, these objectives increase the probability that we can maximise wealth for our clients, but over the short term they may conflict with each other.

The binary nature of the recent ANC presidential race in South Africa made it likely that either domestic or foreign portfolios would outperform depending on the outcome. Investors who were willing to invest with a bias towards a predicted outcome were rewarded with above-average returns if proven correct. We do not believe we can predict outcomes reliably, particularly when they relate to politics. Instead, we position the Stable Fund to protect our clients' capital in different scenarios. We do so by investing in low duration fixed income instruments and equities that are undervalued over a longer-term horizon.

These include above average quality global companies such as Naspers, Sasol and British American Tobacco, as well as South African specific companies pricing in low expectations – such as the banks and retailers. This approach limited the risk of capital loss but meant we forego the opportunity of material outperformance if the Fund had been positioned towards a positive political outcome. We are nonetheless relieved by Cyril Ramaphosa's victory, and fortunate that the Fund was still able to generate reasonable returns over the last year.

A further aspect of humility is willingness to accept one's limitations. Doing so helps us avoid investments in which we have a poor understanding of intrinsic value, such as Steinhoff. Given the Fund's risk mandate, our failure to make sense of the company's accounting meant that the Fund was not invested in Steinhoff ordinary shares. The Fund does however have limited exposure to Steinhoff preference shares. These are senior to the ordinary shares and should avoid permanent capital loss in many scenarios. We are monitoring the risks following recent announcements.

The Fund increased exposure to South Africa sensitive shares over much of the last year as deteriorating expectations meant that prices fell below intrinsic value. Many of these shares have performed well since Cyril Ramaphosa's victory, and the Fund has reduced exposure to those which we believe are now fully valued.

Locally, the new year heralded in a decrease in the allowable percentage that dual listed shares on the Namibian Stock Exchange can count towards a Pension Fund's Namibian exposure. The limit decreased from 15% to 10% from 1 January 2018. In addition, Namfisa issued a Circular that the local asset requirement will increase from 35% to 45%. However, this has not been promulgated as yet. We continue to monitor these developments and position the Fund to be compliant with regulation at all times.

Commentary contributed by Mark Dunley-Owen and Duncan Artus

**Fund manager quarterly  
commentary as at  
31 December 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**.