

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 May 2018

Fund size	N\$153.9m
Price	N\$1 056.38
Number of share holdings	59
Class	A

Performance (N\$) net of fees and expenses

% Returns	Strategy	Benchmark ¹
Cumulative:		
Since inception (5 December 2016)	9.5	10.3
Annualised:		
Since inception (5 December 2016)	6.3	6.8
Latest 1 year	6.4	6.8
Year-to-date (not annualised)	1.1	2.7

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.	30 Jun 2017	30 Sep 2017	31 Dec 2017	31 Mar 2018
Cents per unit	1449.1609	866.7015	567.9509	724.9877

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 March 2018 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Sasol	3.2
Naspers	2.0
Old Mutual Namibia	1.6
British American Tobacco	1.5
Investec	1.5
FNB Namibia	1.2
Oryx Properties	1.1
Namibia Breweries	1.0
Nedbank Group - Namibia	0.9
Life Healthcare	0.9
Total (%)	15.1

Top credit exposures on 31 March 2018 (updated quarterly)²

Issuer	% of portfolio
Standard Bank Namibia	10.8
First National Namibia	10.5
Republic of Namibia	6.8
Nedbank Namibia	3.1
Bank Windhoek	2.5
Total (%)	33.8

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

Asset allocation on 31 May 2018

Asset Class	Total	Namibia ³	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	38.3	8.8	17.9	0.9	10.7
Hedged equity	15.9	0.0	0.3	0.0	15.6
Property	4.5	1.6	2.0	0.0	0.9
Commodity-linked	2.0	1.3	0.1	0.0	0.6
Bonds	12.4	8.0	1.1	0.6	2.7
Money market and cash	26.9	23.8	0.0	0.5	2.5
Total (%)	100.0	43.5	21.4	2.0	33.0

3. 5.2% invested in companies incorporated outside Namibia but listed on the NSX.

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

The numerous moving parts that underlie the Fund's performance offset one another in the first quarter to leave the price slightly lower. The most significant detractors were the international investments. World markets fell 1% and the Namibian dollar strengthened by 4% over the period. The FTSE/JSE All Share Index (ALSI) declined 6%, whilst the NSX Local Index advanced 6.3%. The Fund's equity investments outperformed the ALSI, but underperformed the NSX Local Index. Offsetting these detractors were the fixed interest investments: South African bonds rallied 70 basis points over the period with a similar increase in Namibian bonds. However, given the Fund's low duration, the largest contributor was the running yield on the fixed interest assets.

We are constantly searching for assets that will give our investors good, risk-adjusted real returns. We sold some South African equities in late 2017 and early 2018 as many of the South Africa orientated holdings reached and exceeded our estimate of their fair value. Happily another opportunity is beginning to present itself: international shares are selling off and the Namibian dollar is strong – a good time to invest in more locally listed international businesses.

The rand (and due to the peg also the Namibian dollar) is trading at about fair value to the US dollar if one adjusts the historic rand dollar exchange rate for both American and South African inflation. Looking at this data alone would indicate a neutral stance on the rand. We are a little more cautious than neutral for a few reasons. Despite very weak domestic demand, anaemic investment expenditure and favourable terms of trade at present, South Africa still has a current account deficit of 2.5% of GDP. The recent history of the rand (since 2002) is

somewhat distorted by the Chinese commodity boom, which greatly assisted our exports. We have used the opportunity of the firmer rand to increase the Fund's international investments.

It may seem odd that just as things seem to be improving politically for South Africa we have taken a cautious stance on South African assets. There is no doubt that the changes happening at Eskom and the broader clamp down on corruption and incompetence are extremely positive for South Africa. However, successful investing is not about buying stocks or bonds when the economics and politics are going well or improving. Investing is about considering what is priced into assets and the probabilities of reality either exceeding or disappointing these expectations. Currently there is a great deal of hope priced into South African equity, currency and fixed interest assets. Similarly, those Namibian assets that price off their South African counterparts rallied. We fear the underlying structural issues in South Africa will be harder to overcome than many expect and economic growth may disappoint. The same is true for Namibia. Reigning in government debt remains a challenge due to the high public wage burden, Namibia's dependence on revenue that is not under the country's control and slower economic growth. The latest official economic growth data still indicates a recession: -1% in Q4 and -0.8% for 2017.

The time to buy assets is when people are overly pessimistic about the future rather than excessively positive. We are alert to any opportunities that may arise.

Commentary contributed by Andrew Lapping and Birte Schneider

**Fund manager quarterly
commentary as at
31 March 2018**

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 or call **061 221 103**.