

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 30 September 2018

Fund size	N\$200.1m
Price	N\$1 100.48
Number of share holdings	59
Class	A

Performance (N\$) net of fees and expenses

% Returns	Strategy	Benchmark ¹
Cumulative:		
Since inception (5 December 2016)	14.8	12.8
Annualised:		
Since inception (5 December 2016)	7.9	6.8
Latest 1 year	7.1	6.7
Year-to-date (not annualised)	6.0	5.0

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.	31 Dec 2017	31 Mar 2018	30 Jun 2018	30 Sep 2018
Cents per unit	567.9509	724.9877	684.6277	890.1763

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 September 2018 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Naspers	2.7
Sasol	2.4
Glencore	2.1
British American Tobacco	1.6
Old Mutual Namibia	1.5
FNB Namibia	1.5
Investec	1.3
Remgro	1.2
Namibia Breweries	1.2
Woolworths	0.9
Total (%)	16.5

Top credit exposures on 30 September 2018 (updated quarterly)²

Issuer	% of portfolio
First National Namibia	11.3
Republic of Namibia	9.7
Standard Bank Namibia	9.3
Bank Windhoek	2.2
Nedbank Namibia	1.6
Citibank	1.3
Standard Bank Namibia	1.0
Total (%)	36.4

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

Asset allocation on 30 September 2018

Asset Class	Total	Namibia ³	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	38.5	8.0	17.2	0.8	12.6
Hedged equity	12.1	0.0	0.3	-	11.8
Property	4.0	1.2	2.2	-	0.6
Commodity-linked	1.9	1.0	0.1	-	0.8
Bonds	17.0	12.1	0.8	0.6	3.5
Money market and cash	26.6	23.7	0.0	0.4	2.5
Total (%)	100.0	45.9	20.6	1.7	31.7

3. 4.9% invested in companies incorporated outside Namibia but listed on the NSX.

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

Over recent time periods, the Allan Gray Namibia Stable Fund has delivered returns in line with its dual objectives of capital stability and outperforming bank deposits. On a relative basis, it has outperformed higher-risk asset classes such as bonds and equities. This relative outperformance is unusual given the lower-risk nature of the Fund, and we do not expect it to hold true over long time periods.

The portfolio of shares within the Fund has outperformed the FTSE/JSE All Share Index, largely due to the shares that the Fund has avoided. The Fund had little or no exposure to shares which have experienced material price declines such as Steinhoff, MTN, Aspen and Resilient.

Avoiding such shares has partly been due to luck. Mistakes are inevitable in investing and there are sure to be future commentaries where we apologise to clients for disappointing investments.

However, avoiding such shares is also partly due to our investment process based on bottom-up, fundamental research. A common characteristic of many companies that the Fund has not invested in is a lack of cashflow. Some of these companies have overly complex financial accounting that makes it difficult to determine the true cashflow, while others trade at prices that we believe are not justified by their cashflow. Instead, the Fund favours investing in companies that are priced at reasonable multiples of sustainable cashflow. This ranges from

companies with stable cashflow generation, such as British American Tobacco, to fast-growing companies that are able to reinvest their cashflow at high returns such as Chinese technology company Tencent, the main contributor to Naspers' valuation. Our focus on cashflow does not guarantee success, but it significantly improves the odds of the Fund meeting its objectives.

The Fund added to its position in companies such as Glencore, Naspers, Remgro and MTN, following what we view as an excessive price reaction to negative news, and bought selected property shares.

The Fund's foreign allocation was reduced following rand weakness, mostly via a smaller holding in Orbis' Optimal Funds.

Locally, regulation is having a significant impact on how we are able to deploy our client's capital. The long-awaited promulgation of the new asset class restrictions for non-discretionary assets occurred in early September, in particular the requirement to have a local asset allocation of 40% by 31 August 2018 and 45% by March 2019. Over the past 24 months, we adopted a prudent approach to this impending requirement and as a result our portfolios were well positioned to comply upon release of the legislative requirements.

Commentary contributed by Birte Schneider and Mark Dunley-Owen

**Fund manager quarterly
commentary as at
30 September 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**.