

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 2019

Fund size	N\$194.4m
Price	N\$1 035.91
Number of share holdings	51
Class	A

Performance (N\$) net of fees and expenses

% Returns	Strategy	Benchmark ¹
Cumulative:		
Since inception (5 December 2016)	9.8	15.3
Annualised:		
Since inception (5 December 2016)	4.4	6.8
Latest 2 years	4.7	6.8
Latest 1 year	0.9	6.7
Year-to-date (not annualised)	-0.8	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.	31 Mar 2018	30 Jun 2018	30 Sep 2018	31 Dec 2018
Cents per unit	724.9877	684.6277	890.1763	828.7543

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 2018 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Naspers	2.7
Glencore	2.4
Sasol	1.7
British American Tobacco	1.5
FNB Namibia	1.5
Remgro	1.3
Nedbank Namibia	1.2
Namibia Breweries	1.2
Oryx Properties	1.1
Standard Bank Namibia	1.1
Total (%)	15.8

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

Issuer	% of portfolio
Republic of Namibia	12.9
First National Namibia	11.1
Standard Bank Namibia	7.0
Bank Windhoek	3.3
Total (%)	34.2

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

Asset allocation on 31 January 2019

Asset Class	Total	Namibia ³	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	39.8	7.8	16.8	0.7	14.5
Hedged equity	11.7	0.0	0.0	0.0	11.7
Property	4.7	1.5	2.7	0.0	0.5
Commodity-linked	2.1	1.0	0.1	0.0	1.0
Bonds	19.1	14.0	0.9	0.6	3.6
Money market and cash	22.6	20.9	0.0	0.3	1.3
Total (%)	100.0	45.3	20.5	1.6	32.6

3. 4.5% invested in companies incorporated outside Namibia but listed on the NSX.

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

2018 was a difficult year for the Fund with returns that were well below inflation. This contrasts with our goal of inflation beating returns. The only assets in the Fund that beat inflation over the past year were South African and local bonds and cash, the Africa ex-SA assets and commodities. The 39% invested in these assets was insufficient to offset the below inflation returns from the remainder. 29% was invested in South African and local equities and property. Fortunately the shares in the Fund outperformed the All Share Index (ALSI), falling only 3% compared to a - 9% return for the ALSI. The local indices fared slightly better with the NSX Local Index up 7% in 2018 and the NSX Overall Index up 4%. The 32% invested in Orbis Funds also detracted, returning only 1%.

We invest the Fund in cash and a collection of other assets that we think will generate real returns over time. Cash provides very stable returns but unfortunately its purchasing power is often eroded by inflation. Assets that guard against inflation come at the cost of far greater volatility. The 44% invested in equity and property means that when these assets perform poorly the Fund will do likewise. However, over time we think money invested in equities should contribute to returns rather than detract.

Rather than investing across a broad selection of equities we select specific companies that we think will generate superior returns over a multi-year investment horizon. A long investment horizon allows time for the fundamentals to overcome the noise and for business cycles to normalise. We are very aware that the future is extremely uncertain, with this in mind we construct a portfolio that we think will endure in various scenarios rather than excel in one. Each company we invest in is bought based on our view of sustainable earnings and a fair price for those earnings. In the short term the market usually disagrees with our assessment of value and sometimes we are wrong in our assessment of normal earnings. In the cases where we misjudged the normal earnings power of a company it is important to reassess the fundamental value.

Some of the Fund's largest holdings – Naspers, Glencore and British American Tobacco – fell in price over the past year. The important question is whether the price declines were based on the underlying fundamental value falling as the earning power declined or possibly something more short term in nature. For Naspers and Glencore our view of the underlying value is basically unchanged, as you would expect over just 12 months. In the case of British American Tobacco, the Fund's biggest detractor, our expectations in terms of earnings and cash flow is a little lower than 12 months ago, but the risks facing the share have no doubt increased. The regulatory headwinds and level of competition from new entrants into the nicotine industry are definitely greater. Add to this the increased debt from the recent Reynolds acquisition. This uncertainty and risk mean the company will attract, and deserves, a lower multiple on normal earnings. However, to our minds, the 43% fall in the share price more than accounts for the increased risk and the share is more attractively priced than a year ago relative to the underlying value, hence we still own the share and have recently added to the position.

We strive to find assets – whether fixed interest, equity or property – that will give our investors inflation beating returns. There will be times when the asset mix underperforms inflation, but we think the portfolio should generate real returns over the long term as the cash flows and fundamental value of our holdings come through.

As we reported last quarter, amendments to pension fund regulation were promulgated during the year, which require a higher investment in Namibian assets.

Commentary contributed by Andrew Lapping and Birte Schneider

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