

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 the investment limits governing retirement funds. 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 2019

Fund size	N\$242.1m
Price	N\$1 055.54
Number of share holdings	50
Class	A

Performance (N\$) net of fees and expenses

% Returns	Strategy	Benchmark ¹
Cumulative:		
Since inception (5 December 2016)	13.6	19.6
Annualised:		
Since inception (5 December 2016)	4.8	6.8
Latest 2 years	3.8	6.7
Latest 1 year	-2.2	6.7
Year-to-date (not annualised)	2.7	4.4

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 Sep 2018	31 Dec 2018	31 Mar 2019	30 Jun 2019
Cents per unit	890.1763	828.7543	798.7685	857.1943

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.

Total expense ratio (TER) and Transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of actual expenses incurred by a fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

Top 10 share holdings as at 30 June 2019 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Glencore	2.3
Naspers	1.8
British American Tobacco	1.8
Sasol	1.5
FirstRand Namibia	1.3
Namibia Breweries	1.3
Oryx Properties	1.2
Standard Bank Namibia	1.2
Investec	1.1
Fortress Income Fund	0.9
Total (%)	14.4

Top credit exposures on 30 June 2019 (updated quarterly)²

Issuer	% of portfolio
Republic of Namibia	14.9
First National Namibia	11.0
Standard Bank Namibia	9.6
Bank Windhoek	3.6
Total (%)	39.1

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

Asset allocation on 31 August 2019

Asset Class	Total	Namibia ³	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	33.1	5.7	13.4	0.5	13.5
Hedged equity	12.9	0.0	1.2	0.0	11.7
Property	4.6	1.9	2.4	0.0	0.2
Commodity-linked	2.5	1.3	0.0	0.0	1.2
Bonds	18.5	14.5	0.1	0.6	3.3
Money market and cash	28.4	26.8	0.1	0.4	1.1
Total (%)	100.0	50.3	17.2	1.5	31.0

3. 3.3% invested in companies incorporated outside Namibia but listed on the NSX.

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1 and 3-year period ending 30 June 2019	1yr %	3yr % ⁴
Total expense ratio	1.26	1.50
Fee for benchmark performance	1.13	1.13
Performance fees	0.02	0.13
Other costs excluding transaction costs	0.11	0.24
Transaction costs	0.12	0.25
Total investment charge	1.38	1.75

4. If the class of the Fund does not have a long enough history to accurately calculate this figure, it is estimated using an annualised value from the available history.

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

Sam Hinkie, a long-time advocate of using analytics to improve the performance of American sports teams, was recently asked what he believed was the best source of asymmetric outcomes. His answer was, patience, or the ability to prioritise the long term over the short term.

Patience is a central part of Allan Gray's investment philosophy. We invest in companies that maximise long-term shareholder value and are run by management with a similar philosophy. We buy these companies when negative short-term issues push market prices below fundamental value. The patience to focus on the long term is a key source of outperformance for ourselves, as investment managers, our clients, as investors, and management, as company leaders.

An unfortunate consequence of patience is that we may be wrong in the short term. This happened recently, with the prices of many of the Fund's holdings falling over the last year. In some cases, we had made mistakes and have adjusted our view. In other cases, we believe the value of the businesses remains materially higher than market price, and that patient investors are being offered increasingly attractive long-term rewards. We have held or added to these positions.

Glencore is a relevant example. Many mining companies are experiencing positive tailwinds, with BHP Billiton, Anglo American and the gold and platinum miners among the best-performing local shares over the last year. In contrast, Glencore's share price has fallen by 25%. The Fund is overweight Glencore and underweight the other miners, the combination of which has been a significant detractor to short-term performance.

There is a lot to like about Glencore. Management are long-term shareholders in the business and act accordingly. A large portion of its profits comes from a marketing business that earns a high return on capital and converts most of this into cash flow. Glencore focuses on commodities that are less exposed to the Chinese credit boom, suggesting its earnings are more sustainable than those of similar companies. It operates in geographies that many view as too hard, which should allow it to earn above-average returns.

Glencore's strategy prioritises long-term value but comes with risks – some of which are dominating current headlines. The most concerning of these are regulatory investigations into Glencore's business practices in Africa, and the company's reliance on coal, an environmentally sensitive commodity. The recent prominence of these risks caused us to interrogate our investment assumptions and consider alternative perspectives that may identify possible mistakes. We concluded that Glencore's long-term value remains significantly higher than the share price. We expect management actions and cash flow generated by the business to close the gap between price and value, but this takes time. While it is painful to wait, opportunities such as these maximise returns for patient investors.

Over the quarter, the Fund added to existing positions on price weakness, including Sasol, Sappi and KAP. The Fund sold Naspers and exited its position in Bidvest Namibia, which delisted from the Namibian Stock Exchange. Exposure to undervalued equities remains high, which we believe offer our clients the best probability of meeting their long-term goals.

Commentary contributed by Mark Dunley-Owen and Birte Schneider

Fund manager quarterly commentary as at 30 June 2019

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.