

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 30 September 2019

Fund size	N\$260.0m
Price	N\$1 066.00
Number of share holdings	54
Class	A

- Maximum percentage decline over any period. The maximum drawdown occurred from August 2018 to November 2018. Drawdown is calculated on the total return of the Fund (i.e. including income).
- The percentage of calendar months in which the Fund produced a positive monthly return since inception.
- The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
- These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended June 2018 and the benchmark's occurred during the 12 months ended December 2017. The Fund's lowest annual return occurred during the 12 months ended August 2019 and the benchmark's occurred during the 12 months ended March 2019. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.
- The daily interest rate, as supplied by Standard Bank Namibia Limited, plus 2%.

Performance (N\$) net of fees and expenses

% Returns	Strategy	Benchmark ⁵
Cumulative:		
Since inception (5 December 2016)	14.8	20.2
Annualised:		
Since inception (5 December 2016)	5.0	6.8
Latest 2 years	3.5	6.7
Latest 1 year	0.0	6.6
Year-to-date (not annualised)	3.7	4.9
Risk measures (since inception)		
Maximum drawdown ¹	-6.2	n/a
Percentage positive months ²	58.8	100.0
Annualised monthly volatility ³	6.1	0.1
Highest annual return ⁴	10.5	6.9
Lowest annual return ⁴	-2.2	6.6

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 2018	31 Mar 2019	30 Jun 2019	30 Sep 2019
Cents per unit	828.7543	798.7685	857.1943	1150.0828

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 September 2019 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Glencore	2.1
British American Tobacco	2.0
FirstRand Namibia	1.9
Oryx Properties	1.6
Naspers	1.5
Sasol	1.2
Namibia Breweries	1.1
Standard Bank Namibia	1.0
Investec	1.0
Woolworths	0.8
Total (%)	14.1

Top credit exposures on 30 September 2019 (updated quarterly)⁶

Issuer	% of portfolio
Standard Bank Namibia	16.6
Republic of Namibia	11.8
First National Namibia	7.9
Nedbank Namibia	2.0
Bank Windhoek	1.5
Total (%)	39.8

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

Asset allocation on 30 September 2019

Asset Class	Total	Namibia ⁷	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	33.4	6.6	12.8	0.5	13.5
Hedged equity	12.0	0.0	1.1	0.0	10.9
Property	4.4	1.8	2.5	0.0	0.1
Commodity-linked	2.8	1.7	0.0	0.0	1.1
Bonds	18.5	13.8	0.1	1.4	3.1
Money market and cash	28.9	26.5	0.1	0.9	1.3
Total (%)	100.0	50.4	16.7	2.9	30.0

7. 3.5% 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 % ⁸
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

8. 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.

The Stable Fund's performance over the past year has clearly been disappointing. We aim to generate returns for our clients that exceed inflation by at least 3%, while minimising price volatility. Since inception, the returns only exceeded inflation by 0.5% per year as a result of poor stock selection by both Allan Gray and our offshore partner, Orbis.

Both Orbis and Allan Gray manage risk by investing in what we believe are undervalued assets, and by positioning our portfolios for a range of potential outcomes. Over time, this strategy results in lower drawdowns and better absolute returns. Our starting point is 100% Namibian cash and we only buy equity, property or Orbis funds if our expected return from these assets exceeds the expected return from cash. Over the recent past, many shares which were trading at a discount to our fair value estimate have fallen further in price. All else being equal, the discount to fair value, and therefore the expected return from these equities, should have increased. An example is mining company, Glencore, which we discussed in the June factsheet commentary. We bought the share at an average price of R51 over the past year; the price is now R46. Our expected return from here is clearly higher than when we started buying, as our estimate of normal earnings and fair value is unchanged. In the case of Glencore, we expected the share to outperform cash from a starting point of R51; we now expect the share to outperform cash by an even larger margin from a starting point of R46.

The future is extremely uncertain, so we cannot plan for only a single scenario. Three years ago, the inflation rate was 6.9% and short-term interest rates were 8.1%. One scenario would have been flat interest rates, steadily falling inflation, a stable Namibian dollar and a flat equity market. In this scenario, the asset class of choice would have been Namibian money market assets. As it has happened, this is the scenario that played out, but there are many other scenarios that could just as easily have occurred.

So just because a scenario that favoured a certain asset class transpired over the past three years, does not necessarily mean this will be the case for the next three years. Namibian real interest rates are currently very high, which favours local fixed interest assets. We have 40% of the Fund invested in local fixed interest assets, but there are other scenarios that could see substantial rand weakness, which favours international investments. Accordingly, we have 33% of the Fund invested internationally. We think the 38% of the Fund we have invested in equities and property will outperform cash in the majority of scenarios, as we only invest in shares where we think there is a very comfortable margin of safety between the expected equity return and the cash return. This is the same methodology we applied 12 months ago, however, as you can see from the table below, the equities in the Fund returned negative 7% over the past year, compared to the cash return of 7.1%. The same applies to the foreign portion of the Fund, which returned negative 4% over the past year.

Table 1: Allan Gray Namibia Stable Fund return drivers, 12 months to 30 September 2019

	Weight	Return	Contribution
CMA equity and property	28%	-7%	-2%
Offshore	34%	-4%	-2%
Local fixed interest	35%	9%	3%
Africa ex-SA	2%	4%	0%
Commodities	1%	29%	0%
Total	100%		0%

Commentary contributed by Andrew Lapping and Birte Schneider

Fund manager quarterly commentary as at 30 September 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.