

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 December 2019

Fund size	N\$238.1m
Price	N\$1 063.29
Number of share holdings	55
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)	15.7	22.1
Annualised:		
Since inception (5 December 2016)	4.9	6.7
Latest 3 years	5.1	6.7
Latest 2 years	3.4	6.6
Latest 1 year	4.5	6.6
Year-to-date (not annualised)	4.5	6.6
Risk measures (since inception)		
Maximum drawdown ¹	-6.2	n/a
Percentage positive months ²	59.5	100.0
Annualised monthly volatility ³	5.9	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 Mar 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019
Cents per unit	798.7685	857.1943	1150.0828	788.5910

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 31 December 2019 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
British American Tobacco	3.4
Naspers ⁶	3.2
Glencore	2.2
FirstRand Namibia	2.1
Oryx Properties	1.7
Taiwan Semiconductor Mfg.	1.5
AbbVie	1.4
Namibia Breweries	1.2
Sasol	1.2
NetEase	1.2
Total (%)	19.1

6. Including stub certificates and Prosus NV.

Top credit exposures on 31 December 2019 (updated quarterly)⁷

Issuer	% of portfolio
Republic of Namibia	12.9
Standard Bank Namibia	10.5
First National Namibia	8.0
Nedbank Namibia	2.2
Total (%)	33.6

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

Asset allocation on 31 December 2019

Asset Class	Total	Namibia⁸	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	37.3	7.4	13.8	0.5	15.6
Hedged equity	13.3	0.0	1.8	0.0	11.5
Property	4.6	2.0	2.6	0.0	0.0
Commodity-linked	3.0	1.9	0.0	0.0	1.2
Bonds	19.2	14.9	0.1	1.5	2.7
Money market and cash	22.4	20.1	0.2	0.9	1.3
Total (%)	100.0	46.2	18.5	2.9	32.3

8. 3.6% 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 September 2019	1yr %	3yr %⁹
Total expense ratio	1.06	1.44
Fee for benchmark performance	1.13	1.13
Performance fees	-0.19	0.08
Other costs excluding transaction costs	0.12	0.23
Transaction costs	0.10	0.24
Total investment charge	1.16	1.68

9. 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.

Over the past year, the Fund returned 4.5% versus inflation that averaged 3.8%. While preserving capital and beating inflation, the performance relative to bank deposits has been disappointing. As much as periods of underperformance are a feature of our approach to investing, we recognise that they can be uncomfortable for our clients. The key detractor over the past year was stock selection both locally and offshore. South African and Namibian holdings returned 1.7% and offshore assets 3.1%. The NSX Local Index returned 3% over the period and the JSE 12%. In South Africa, larger shares continued to outperform smaller shares. The 40 largest JSE-listed companies gave an average return of 11%. The average return for companies numbered 81 – 120 (in terms of size), was -10%.

South African equity returns of 10.9% p.a. over the past 10 years held up better than we may have expected given higher asset prices in 2009, but the South African landscape has deteriorated markedly since 2010. Outstanding government debt has quadrupled in absolute terms, numerous state-owned enterprises (SOEs) are on the brink of collapse and unemployment is endemic – not surprising then that the last 10 years are colloquially referred to as a “lost decade”. The long-term repercussions of these and other ailments on social stability, economic growth and future investment returns are deeply concerning.

Locally, our economy faces similar challenges: an unemployment rate of 33%, debt to GDP of 49% and regular bailout requests from SOEs. GDP growth continues to look anaemic with negative growth in the past four quarters. The weak performance of the economy resulted in a further downgrade by Moody’s.

However, South African and Namibian asset valuations are, on average, more reasonable since the market’s expectations are muted, leaving us more excited about the return potential for our portfolio of shares. A challenging economic outlook does not necessarily hinder the ability to achieve decent returns but treading with caution is advised.

The Fund continues to hold a wide range of real assets, including a substantial holding in inflation protected bonds (“linkers”). Buying these government issued “linkers” today offers a return greater than 5.7% above inflation over their respective lifetimes. A 5.7% real return compounded over the next decade, means that an investor will have increased their purchasing power by more than 70%. The high level of certainty of achieving this inflation-beating return is attractive.

Money market instruments carry low risk of default and capital loss in a scenario where inflation increases. These make up 20% of the Fund and yield 7.2%, currently. Namibian fixed rate government bonds carry risks, but the 10-year bond, at 9.8%, is 5% higher than the average consumer inflation rate over the past five years. We continue to be cautious and retain a short duration.

The future is always uncertain, however, we remain optimistic about the Fund’s prospects.

Commentary contributed by Leonard Krüger and Birte Schneider

**Fund manager quarterly
commentary as at
31 December 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