

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

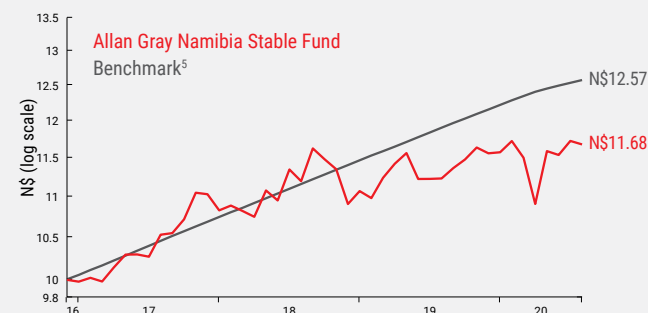
Fund information on 31 July 2020

Fund size	N\$200.7m
Price	N\$1 043.69
Number of share holdings	60
Class	A

- Maximum percentage decline over any period. The maximum drawdown occurred from 31 January 2020 to 31 March 2020. 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 30 June 2018 and the benchmark's occurred during the 12 months ended 31 December 2017. The Fund's lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark's occurred during the 12 months ended 31 July 2020. 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 as calculated by Allan Gray as at 31 July 2020.

Performance (N\$) net of fees and expenses

Value of N\$10 invested at inception with all distributions reinvested



Performance (N\$) net of fees and expenses

% Returns	Strategy	Benchmark ⁵
Cumulative:		
Since inception (5 December 2016)	16.8	25.7
Annualised:		
Since inception (5 December 2016)	4.3	6.5
Latest 3 years	3.5	6.3
Latest 2 years	2.1	6.1
Latest 1 year	4.0	5.6
Year-to-date (not annualised)	0.9	2.9
Risk measures (since inception)		
Maximum drawdown ¹	-6.9	n/a
Percentage positive months ²	56.8	100.0
Annualised monthly volatility ³	7.1	0.2
Highest annual return ⁴	10.5	6.9
Lowest annual return ⁴	-4.5	5.6

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.	30 Sep 2019	31 Dec 2019	31 Mar 2020	30 Jun 2020
Cents per unit	1150.0828	788.5910	752.5069	1300.7963

Annual management fee

Allan Gray charges a fee based on the net asset value of the Fund excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark. If the Fund's return over two years is equal to or less than 0%, Allan Gray will not charge a fee.

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 2020 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
Naspers ⁶	4.1
British American Tobacco	3.5
FirstRand Namibia	2.4
Glencore	1.8
Oryx Properties	1.7
NetEase	1.5
Taiwan Semiconductor Mfg.	1.5
SPDR Gold Trust	1.5
AbbVie	1.4
Namibia Breweries	1.3
Total (%)	20.8

6. Including stub certificates and Prosus NV.

Top credit exposures on 30 June 2020 (updated quarterly)⁷

Issuer	% of portfolio
Republic of Namibia	22.8
Standard Bank Namibia	4.9
First National Namibia	3.9
Nedbank Namibia	2.7
Republic of South Africa	2.2
Total (%)	36.6

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

Asset allocation on 31 July 2020

Asset Class	Total	Namibia ⁸	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	32.6	6.8	9.0	0.6	16.2
Hedged equity	14.2	0.0	5.3	0.0	8.9
Property	3.5	1.8	1.6	0.0	0.0
Commodity-linked	4.2	2.6	0.0	0.0	1.6
Bonds	30.6	24.5	0.2	1.8	4.2
Money market and cash	14.9	11.3	0.5	1.2	1.9
Total (%)	100.0	47.1	16.6	3.6	32.7

8. 2.9% 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 2020	1yr %	3yr %
Total expense ratio	0.75	1.21
Fee for benchmark performance	1.10	1.12
Performance fees	-0.51	-0.06
Other costs excluding transaction costs	0.16	0.15
Transaction costs	0.08	0.16
Total investment charge	0.83	1.37

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

The Stable Fund benefited from the surprisingly fast asset price recovery of the past three months. Namibian bonds returned 12% for the quarter ended June and are up 5% year to date. This is quite a change from late March, when the bond market was down 11% year to date. Global equities bounced off their March lows, driven by particularly strong returns from US technology and growth shares. The outlook for the South African economy is bleak and this is reflected in the poor performance of domestic South African equities. Namibian equities reached a four-year low at the end of June after holding up well during the global sell-off. They returned -14% year to date, underperforming the FTSE/JSE All Share Index (ALSI).

The -3% return of the ALSI year to date is a story of two very different halves. Four shares (Naspers, BHP, Anglo American and Richemont), which make up half of the ALSI, have done particularly well, returning 19% as a group. The remainder of the Index is made up of mostly South African businesses. These 147 shares have done terribly, returning -20%. There is no doubt South Africa faces a very uncertain future but, despite this uncertainty, we think there is exceptional value in selected South African equities. The South African-focused businesses in the portfolio account for 44% of our regional share exposure or 9% of the Fund – not a huge position given the conservative nature of Stable, but a position that could add real value if these shares revert to our estimates of fair value. Namibian-focused businesses account for another 6% of the Fund.

Around 35% of the Fund is invested in Namibian interest-bearing assets. Developed market interest rates are basically zero – locally things could not be

more different. Namibian three-month interest rates are 4%, while the 15-year government bond yields 12%. Never has the difference between short- and long-term interest rates been so great. Short-term rates reflect the 2.1% inflation rate and current economic situation. Long bonds reflect the huge uncertainty that surrounds Namibia's fiscal future. The budget deficit is totally unsustainable. National Treasury expects a deficit of 12.5% in the 2021 financial year. This forecast includes record-high Southern African Customs Union income, which is unlikely to be sustained in future years. The long bond's yield is very attractive, particularly compared to interest on cash, but the risks of a Namibian fiscal crisis are high. Therefore, we need to balance risk and reward and approach these assets with caution. In the category we have a large exposure to inflation-linked bonds. The current return of inflation plus 6% is far less than the 12% available on the long bond, but to our mind, the risks are also far lower, as investors are protected in a scenario where inflation runs out of control.

The 33% of the Fund invested offshore is a very important part of Stable's asset allocation mix. Our partner, Orbis, is very excited about the potential returns from its holdings. Similar to SA, a small group of growth shares has driven international markets to what seem like very high valuations. But below the surface, there are many very depressed prices. Orbis has used its bottom-up research capabilities to identify a group of strong businesses trading at very depressed valuations. Historically, buying companies at these valuations has yielded handsome returns.

Commentary contributed by Andrew Lapping and Birte Schneider

Fund manager quarterly commentary as at 30 June 2020

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