# Allan Gray Namibia Stable Fund

**31 August 2023**

**Fund managers:** Duncan Artus, Birte Schneider **Class inception date:** 5 December 2016

## 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 |

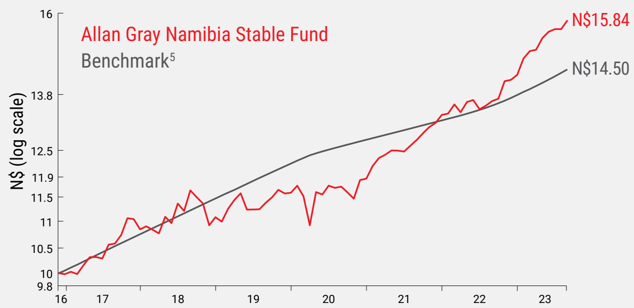
## Fund information on 31 August 2023

| | |
|---|---|
| Fund size | N$278.9m |
| Price | N$1 285.99 |
| Number of share holdings | 47 |
| Class | A |

1. Maximum percentage decline over any period calculated from monthly returns. 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).
2. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
3. 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.
4. 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 31 August 2023 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 August 2021. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.
5. The daily interest rate, as supplied by Standard Bank Namibia Limited, plus 2%. Performance as calculated by Allan Gray as at 31 August 2023.

## Performance (N$) net of all fees and expenses

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




| % Returns | Fund | Benchmark[5] |
|---|---|---|
| **Cumulative:** | | |
| Since inception (5 December 2016) | 58.4 | 45.0 |
| **Annualised:** | | |
| Since inception (5 December 2016) | 7.1 | 5.7 |
| Latest 5 years | 6.4 | 5.3 |
| Latest 3 years | 10.6 | 4.8 |
| Latest 2 years | 11.5 | 5.4 |
| Latest 1 year | 15.9 | 6.8 |
| Year-to-date (not annualised) | 10.4 | 4.8 |
| **Risk measures (since inception)** | | |
| Maximum drawdown[1] | -6.9 | n/a |
| Percentage positive months[2] | 69.1 | 100.0 |
| Annualised monthly volatility[3] | 5.9 | 0.4 |
| Highest annual return[4] | 15.9 | 6.9 |
| Lowest annual return[4] | -4.5 | 3.6 |

## 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 2022 | 31 Dec 2022 | 31 Mar 2023 | 30 Jun 2023 |
|---|---|---|---|---|
| **Cents per unit** | 1066.3424 | 977.7829 | 2419.3624 | 1127.9455 |

## 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 2023 (CMA and Foreign) (updated quarterly)

| Holdings | % of portfolio |
|---|---|
| British American Tobacco | 2.4 |
| FirstRand Namibia | 2.3 |
| Glencore | 1.6 |
| AB InBev | 1.5 |
| Woolworths | 1.4 |
| Standard Bank Group | 1.3 |
| Nedbank | 1.3 |
| AngloGold Ashanti | 1.1 |
| Namibia Breweries | 1.0 |
| Remgro | 0.9 |
| **Total (%)** | **14.8** |

## Top credit exposures on 30 June 2023 (updated quarterly)[6]

| Issuer | % of portfolio |
|---|---|
| Republic of Namibia | 27.2 |
| Standard Bank Namibia | 5.5 |
| Standard Bank Group | 4.8 |
| First National Bank Namibia | 4.3 |
| The Bank of New York Mellon | 2.6 |
| Northam Platinum | 1.2 |
| FirstRand Bank | 1.1 |
| **Total (%)** | **46.7** |

## Asset allocation on 31 August 2023

| Asset Class | Total | Namibia[7] | South Africa | Africa ex-SA and Namibia | Foreign ex-Africa |
|---|---|---|---|---|---|
| Net equity | 24.4 | 6.9 | 9.8 | 0.5 | 7.3 |
| Hedged equity | 12.7 | 0.0 | 5.2 | 0.0 | 7.5 |
| Property | 1.2 | 0.8 | 0.3 | 0.0 | 0.1 |
| Commodity-linked | 2.6 | 1.9 | 0.0 | 0.0 | 0.6 |
| Bonds | 31.5 | 19.5 | 5.9 | 1.3 | 4.8 |
| Money market and bank deposits | 27.6 | 22.2 | 0.5 | 0.1 | 4.8 |
| **Total (%)** | **100.0** | **51.4** | **21.6** | **1.9** | **25.1** |

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

7. 3.8% invested in companies incorporated outside Namibia but listed on the NSX. Including dual-listed commodity-linked ETFs, total exposure to dual-listed instruments is 5.7%.

## Total expense ratio (TER) and transaction costs

| TER and transaction costs breakdown for the 1 and 3-year period ending 30 June 2023 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **1.77** | **1.38** |
| Fee for benchmark performance | 1.03 | 1.03 |
| Performance fees | 0.62 | 0.22 |
| Other costs excluding transaction costs | 0.12 | 0.13 |
| **Transaction costs** | **0.05** | **0.07** |
| **Total investment charge** | **1.82** | **1.45** |

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

## Fund manager quarterly commentary as at 30 June 2023

The themes we have discussed in previous commentaries continued to dominate the news flow in the second quarter of 2023. While globally, headline inflation data looks to have peaked, the core components of the basket, such as services and wages, are proving stickier than previously anticipated. Market expectations of interest rate cuts, now anticipated for later this year, run contrary to recent central bank actions and the prevailing hawkish rhetoric. Real interest rates (i.e. inflation-adjusted) in developed markets outside of the United States remain in negative territory. If inflation is to abate closer to target levels sustainably, more restrictive rates may be required and/or a slowing economy that reduces aggregate demand – which would be a challenging scenario for risk assets. The recent strong performance of global equities, however, and particularly the long-duration technology stocks, suggests that markets are pricing in a low probability of this scenario materialising.

The pace of the reopening of the Chinese economy after last year's lockdowns continues to underwhelm, with previously implemented large-scale stimulus measures conspicuous by their absence. The stability of the housing market remains a concern and introducing further stimulus into an already over-leveraged sector may exacerbate the underlying issues. A change in focus from strong economic growth to one of greater self-reliance owing to wider geopolitical shifts is also relevant. Many commodity prices, important for South Africa and Namibia's fortunes, are softer year to date in response to the weaker-than-expected Chinese demand, together with broader global growth concerns.

As if the backdrop was not challenging enough, own goals on the part of the South African government continue to depress sentiment and South African asset class returns, despite the low starting valuations.

High levels of loadshedding, ongoing logistical constraints and worsening service delivery, as well as the disclosure of possible arms sales to Russia – contrary to its "non-aligned" status and what that might lead to – have meant a repricing of South African sovereign risk. While they partially recovered, South African government bond yields sold off to near COVID-19 crisis levels and the rand and Namibian dollar have depreciated 10.7% against the US dollar year to date. This has knock-on consequences for monetary policy given concerns around the attractiveness of the rand and the ability to continue to attract foreign capital, in addition to the pass-through inflation effects from a weaker currency.

To some extent, the impact is also felt in Namibia. However, positive sentiment arising from the green shoots we are seeing in the economy, and in particular positive news flow from the potential oil find, has been beneficial for Namibian asset prices. The FTSE NSX Local Index is up 37% year to date. The IJG All Bond Index is up over 8% for the period, despite pressure on South African bond yields due to the credit spread between the countries narrowing significantly.

The Fund has returned 8.7% year to date, ahead of the benchmark. Namibian equities and foreign assets have been the main contributors, providing a valuable diversification benefit given the weaker performance of South African asset classes. The net equity weight of 24.9% (relative to the allowed maximum of 40%) together with a healthy allocation to hedged equities reflects the more cautious stance given the uncertain environment.

Commentary contributed by Sean Munsie and Birte Schneider

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### Management Company

Allan Gray Namibia Unit Trust Management Company is an approved management company in terms of the Unit Trusts Control Act 54 of 1981 as amended, and is incorporated and registered under the laws of Namibia and supervised by the Namibia Financial Institutions Supervisory Authority (NAMFISA). The trustee and custodian is Standard Bank Namibia.

### 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 future performance. Where annualised performance is mentioned, this refers to the average return per year over the period.

### 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.

### Redemptions

Allan Gray Namibia Unit Trust Management Company will repurchase any number of units offered to it on the basis of prices calculated in accordance with the requirements of the Unit Trusts Control Act 54 of 1981 as amended and on the terms and conditions set forth in the trust deed.

### Total expense ratio (TER) and transaction costs

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past one- and three-year periods. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged) and other expenses like audit and trustee fees. Transaction costs (including brokerage, securities transfer tax, Share Transactions Totally Electronic (STRATE) and investor protection levies where applicable) are shown separately. Transaction costs are necessary costs in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time, including market returns, the type of financial product, the investment decisions of the investment manager, and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and transaction costs should not be deducted again from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and transaction costs is shown as the total investment charge (TIC).

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### Compliance with Regulation 13

The Fund is managed to comply with Regulation 13 of the Pension Funds Act 24 of 1956. Exposures in excess of the limits prescribed in Regulation 13 shall be dealt with in accordance with Regulations. Notwithstanding the aforesaid, the Fund does not hold Unlisted Investments in accordance with Regulation 13(5) and the Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act.

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