Allan Gray Namibia Stable Fund

30 September 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

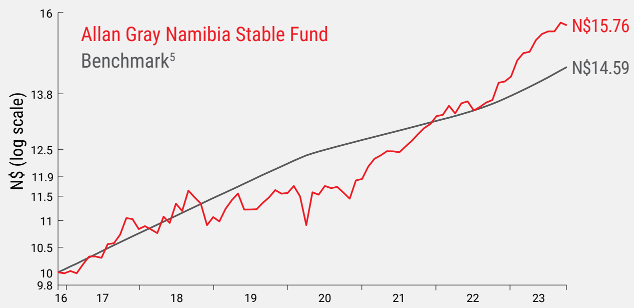
Minimum lump sum per investor account	N$20 000
Additional lump sum	N$500
Minimum debit order	N$500

Fund information on 30 September 2023

Fund size	N$282.5m
Price	N$1 279.67
Number of share holdings	47
Class	A

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)	57.6	45.9
Annualised:		
Since inception (5 December 2016)	6.9	5.7
Latest 5 years	6.5	5.3
Latest 3 years	10.8	4.9
Latest 2 years	10.6	5.5
Latest 1 year	14.8	7.0
Year-to-date (not annualised)	9.9	5.4
Risk measures (since inception)		
Maximum drawdown[1]	-6.9	n/a
Percentage positive months[2]	68.3	100.0
Annualised monthly volatility[3]	5.9	0.4
Highest annual return[4]	15.9	7.0
Lowest annual return[4]	-4.5	3.6

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 30 September 2023. 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 30 September 2023.

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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 2022	31 Mar 2023	30 Jun 2023	30 Sep 2023
Cents per unit	977.7829	2419.3624	1127.9455	1358.3588

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 September 2023 (CMA and Foreign) (updated quarterly)

Holdings	% of portfolio
British American Tobacco	2.3
AB InBev	1.8
FirstRand Namibia	1.5
Glencore	1.4
Standard Bank Group	1.3
Nedbank	1.3
Woolworths	1.0
Sasol	0.9
Namibia Breweries	0.8
Sappi	0.8
Total (%)	**13.0**

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

Issuer	% of portfolio
Republic of Namibia	31.1
First National Bank Namibia	5.4
Standard Bank Namibia	5.1
Standard Bank Group	3.7
Morgan Stanley	1.8
United States Treasury	1.7
J.P. Morgan (London)	1.6
Total (%)	**50.4**

Asset allocation on 30 September 2023

Asset Class	Total	Namibia[7]	South Africa	Africa ex-SA and Namibia	Foreign ex-Africa
Net equity	23.5	6.6	8.7	0.5	7.7
Hedged equity	14.4	0.0	6.0	0.0	8.4
Property	1.3	0.9	0.3	0.0	0.2
Commodity-linked	2.5	1.8	0.0	0.0	0.6
Bonds	42.0	28.9	5.8	1.2	6.1
Money market and bank deposits	16.4	14.1	0.6	0.1	1.7
Total (%)	**100.0**	**52.2**	**21.3**	**1.8**	**24.7**

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

7. 3.5% invested in companies incorporated outside Namibia but listed on the NSX. Including dual-listed commodity-linked ETFs, total exposure to dual-listed instruments is 5.4%.

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 September 2023

Year to date, our primary-listed Namibian equities returned 42%, bonds returned 11% and money market instruments returned 6%. In contrast, returns from most South African assets have been muted throughout 2023. South African shares (as measured by the FTSE/JSE Capped Shareholder Weighted All Share Index) returned 0%, bonds returned 1% and cash returned 6%. Over the same period, the Fund delivered a return of 10%, ahead of CPI inflation of 4%. Performance was helped by its local fixed income positioning, equity selection in Namibia and South Africa and the foreign allocation, which benefited from a weaker Namibian dollar.

Long-term Namibian government bonds offer yields in excess of 13%, which appear attractive at face value. Locally, inflation has fallen below 5%, so these bonds offer a real (i.e. after inflation) yield of 8%. Although this is not at the levels we saw during the COVID-19 pandemic, it is still among the highest it has been in the last two decades. It is likely that the Bank of Namibia has reached the peak of the current interest rate hiking cycle or is close to reaching it. If inflation remains subdued, there is a good chance that interest rates will be cut next year, which would be good news for bondholders. We do believe longer-dated Namibian government bonds offer decent value and have increased their weighting in the Fund in recent years. But despite these bullish arguments, we remain cognisant of the associated risks when deciding on optimal position size. These include our economic and fiscal risks and opportunities, but to some extent South African yields also influence our bond pricing. The South African government continues to run a large fiscal deficit, which the savings pool has a limited ability to fund. As long as foreign investors remain apprehensive of South African bonds, there is a risk that South African bond yields increase even more, i.e. a decline in prices.

It is useful to reiterate the Fund's objectives, namely, to generate returns ahead of bank deposits and inflation, while maintaining a high degree of capital stability and minimising the risk of loss over any two-year period. Long-term Namibian bonds may offer high yields but come with certain risks and can be fairly volatile. Meanwhile, local cash is a good alternative, offering attractive yields in excess of 8% at much lower risk. Cash also has valuable optionality, as it can be used to take advantage of future opportunities that may arise. A similar argument can be made for inflation-linked bonds: It makes sense to sacrifice some yield for the insurance against potential high-inflation scenarios. South African and Namibian shares also offer risk diversification and are attractive alternatives, given the low valuations of shares. Shares also protect investors against the risk of inflation, as companies can typically pass higher prices on to their customers to some degree. The higher volatility of shares does of course need to be considered. At present, the Fund has a 24% weight in net equities.

The Fund has a foreign exposure of 25% – below the 35% foreign capacity limit. One reason for not utilising the full foreign capacity is that Namibian and South African opportunities are more attractive at present. It is also worth remembering that a significant portion of "South African" shares are in fact businesses with earnings outside of South Africa, so the underlying foreign exposure is higher than it appears. We also need to be mindful of additional volatility as a result of increasing the foreign exposure, given the Fund's objective of offering investment stability and capital preservation in Namibian dollar terms. Currently, the majority of the Fund's offshore allocation is invested in low-risk instruments such as cash or cash-like securities and hedged equities.

Our approach remains focused on bottom-up company research to find superior investment opportunities. This includes identifying investments which offer the highest expected returns but also weighs up the associated risks and the diversification benefits of uncorrelated returns. All these factors are considered in putting together the portfolio.

Commentary contributed by Tim Acker 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).

FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE Mid Cap Index

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MSCI Index

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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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