FUND
FACT SHEET

29 Feb 2024

Sanlam Namibia Balanced Fund

Fund Objective

The fund invests in a wide spectrum of investments in the equity, bond, money and property markets in order to maximise total returns over the long term.
The fund is suited for pension funds, smaller companies and employers wishing to make pension provision for employees, as well as individuals requiring capital growth via a balanced portfolio. This is a moderate risk balanced fund and which complies with holding a minimum of 35% Namibian based Assets.

Fund Strategy

The trust invests in a wide spectrum of investments in the equity, bond, money and property markets in order to maximise total return over the long term. The trust`s investments are composed in such a way that it is accessible for pension fund investments i.e. follows prudential guidelines. Up to 20% of the value of the unit portfolio in other unit portfolios. The trust can also invest in foreign markets.

Why choose this fund?

*The fund manager alters exposure to the various asset classes in line with the investment view.
*By investing in a single fund which diversifies across all the major asset classes, investors “outsource” the difficult decision of how much and when to invest in bonds, equities, property and how much cash to have any given point, to the fund manager.
*The fund is less volatile than a general equity fund.
*The asset allocation is appropriate for an investor with a moderate risk profile.
*The fund aims to provide reliable, consistent above average returns in the medium to long term.
*The fund complies with holding a minimum of 35% Namibian Assets.

Fund Information

Classification	Namibian Asset Allocation Funds
Risk profile	Moderate
Benchmark	Average Namibia Managed Funds
Portfolio launch date	01 July 2000
Minimum investment	Lump Sum N$ 2 000 | Monthly N$ 500
Portfolio size	N$282.7 million
Last two distributions	31 Dec 23: 8.24 cents per unit 30 Jun 23: 22.73 cents per unit
Income decl. dates	30 Jun | 31 Dec
Income price dates	1st working day of the month
Valuation time of fund	15:00
Trading closing Time	13:00

Fees

	Retail Class (%)
Annual Wholesale Fee	0.75
Annual Service Fee	1.50

This fund is also available via certain LISPS (Linked Investment Service Providers), which levy their own fees. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down.

Top 10 Holdings

Securities	% of Portfolio
Satrix World Equity Tracker Fund I	12.02
Anglos	4.41
Naspers -N-	3.82
Sanlam Spi Gl Hq G Usd Acc	3.23
FirstRand / RMBH	2.51
Sanlam Global Emerging Markets Fund C1 USD	2.30
Sanlam Real Assets SI USD	2.20
NBS	2.12
British American Tobacco	2.01
GC27 Namibia 8.00% 150127	1.90

Top 10 Holdings as at 31 Dec 2023

Performance (Annualised)

Retail Class	Fund (%)	Benchmark (%)
1 year	6.40	9.29
3 year	7.79	9.04
5 year	7.91	8.07
10 year	6.87	7.30

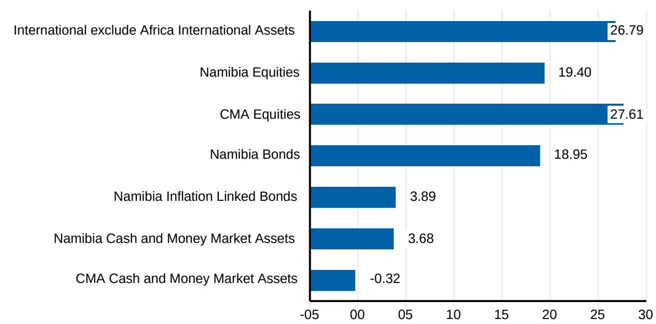
Annualized return is the weighted average compound growth rate over the period measured.

Performance (Cumulative)

Retail Class	Fund (%)	Benchmark (%)
1 year	6.40	9.29
3 year	25.25	29.65
5 year	46.31	47.41
10 year	94.28	102.30

Cumulative return is aggregate return of the portfolio for a specified period.

Asset Allocation



Investments

Portfolio Manager(s) Quarterly Comment - 31 Dec 2023

The first quarter of 2024 has kicked off and market strategists have mostly predicted market movements to be impacted by the US Federal Reserve Bank taking a more dovish approach as inflation cools – leading to a supportive macroeconomic environment for asset prices. At the same time, contrarian strategists predict that a global recession is imminent and expected returns from assets should be lower in 2024. It is important to note that market participants often have conflicting views and that predicting the future is no easy task. More importantly, strategists are prone to committing a variety of behavioral errors and biases. Success in financial markets is dependent on one's ability to be on the correct side of probability by recognizing errors in forecasting and understanding when your asset allocation requires a tactical change due to the investable universe undergoing structural and cyclical changes. Consider the following experiment. Suppose that you plan to toss a coin that is worn out on one side (increasing the probability to 55% for heads and 45% for tails) one hundred times. Before each toss, you have an opportunity to bet on whether the coin will land on heads or tails. You're awarded for every correct prediction, and you receive nothing for every incorrect prediction. So, what procedure would you use to arrive at your prediction? The rational participant should predict 55 heads scenarios and 45 tails scenarios. However, the correct way to play would be to predict heads every single time.

This surprised most participants, because their instincts are to make their predictions representative of the process they are trying to predict. However, the key to optimal forecasting is much less variable than the process being predicted. The key to optimal forecasting is to minimize the likelihood of mismatching; yet a variable forecast does just the opposite. Analysts are prone to making excessively volatile predictions. For example, the August 31, 1998, issue of "Barron's" quotes Richard Russel stating that, "past history suggests that most bear markets wipe out at least half of the preceding bull market." You may wonder what is wrong with the statement. The point is that markets behave a lot like coin tosses. They produce interesting patterns, but past patterns provide very little guidance about how to predict the patterns of the future. At Sanlam Investments we do not strive to predict the future. Instead, we focus on maximizing investor value regardless of macroeconomic changes. We have implemented a pragmatic value investing style across all our portfolios. This allows us to successfully hedge against behavioral biases by focusing on intrinsic value and the probability that asset prices will in fact trend towards our intrinsic values.

The last year was eventful and has set the scene for a plethora of opportunities in 2024. The last quarter of 2023 saw US shares rallying as information technology, real estate and consumer discretionary stocks were buoyed by lower interest rate expectations. The S&P 500 index just fell short of its record high that was set in 2022. Macroeconomic data continues to support possible rate cuts through 2024. In November, US inflation printed 3.1%. Furthermore, US core inflation came in below expectations. Emerging market equities underperformed developed markets due to rising bond yields and new conflict in the Middle East. China continued to be a major drag on the Emerging Market index. Poland, Mexico, Egypt, and Peru posted strong performances. Taiwan saw strong returns from technology related stocks as exports remained robust. South Africa saw some relief from easing electricity blackouts. The JSE (+12% in early November) saw increased risk seeking early in the quarter but gave back gains as fears around the nature of a coalition government after the 2024 national elections sent jitters into the market.

The global fixed interest market has become more attractive over the last year. The final quarter of 2023 printed the best return for fixed income markets in over 20 years. The main driver of returns was the fact that the global monetary policy stance for 2023 can be summed up as "higher for longer". The US Federal Reserve adopted a more dovish tone as they kept rates unchanged over the quarter. The market expects up to three cuts this quarter. Other central banks appear more cognizant of inflation, but also held rates steady. The European Central Bank (ECB) made progress in its plan to unwind some of its Pandemic Emergency Purchase Program support. The Namibian market caught a strong bid as the economy turned around on the back of heightened foreign direct investment and a stronger projected national fiscal position due to the possibility of economically viable oil discoveries. Namibian fixed income instruments were highly demanded as liquidity remained close to record levels. The best performances were from the longer end of the Namibian yield curve as the nominal bond maturing in 2050 returned 40.2% and the 2045 maturity printing a return of 36.4%.

The last two years have been riddled with volatility. In 2022 markets sold off sharply as the market anticipated higher interest rates and a global recession. Conversely, the economy shrugged off higher interest rates in 2023 as the global economy remained resilient. The market is currently expecting interest rate cuts going into 2024 – this suggests that the US may have avoided a recession, meaning that US stocks may experience more tailwinds going into the new year. Furthermore, emerging market equities are relatively more attractive on a valuation basis. A weaker US Dollar is expected as interest rates come down, meaning emerging markets should be buoyed in US Dollar terms. Investor sentiment towards China is difficult to predict as the country is wrestling to meet growth targets. Namibian assets are expected to trade at a premium to South African counterparts. Our house remains tactical, pragmatic, and nimble as we continue to strive to deliver maximized risk-adjusted returns over the next year.

Our positioning

Our active asset class positions, relative to the benchmark, are based on our assessment of the current valuations of the asset classes with reference to our long-run fair value assumptions.

Our valuation approach is anchored in a set of required real returns per asset class. These required returns reflect the risk associated with each asset class and are partly based on realised real returns for these asset classes since 1900.

Long-run inflation expectations are fundamental to asset valuations. As inflation rises, investors require a higher nominal return from their investments, and assets should reprice accordingly. Our asset allocation positions reflect our concern that inflation could be higher

than the developed market central banks' 2% target and the South African Reserve Bank (SARB)’s 3-6% target range for a protracted period.
We have entered a period of deglobalisation because of rising geopolitical tensions, and as a result, production costs are increasing. Also, we are amid a secular investment boom in defence spending, climate change and infrastructure investments, all of which increase the demand for commodities. At the same time, populations are ageing, giving rise to labour shortages.

Local equities

We maintained an overweight position in NAM and SA equities.
The current forward price-to-earnings (PE) ratio of the FTSE/JSE Capped Shareholder Weighted All Share Index (Capped Swix) is around 10.7, while the forecast dividend yield is 4.6%. Relative to history, our market is attractively priced.
Historically, the five-year subsequent real returns delivered by the SA equity market have, on average, been high when investing at the current valuation levels. Furthermore, according to the SIM equity analysts, the aggregate of the individual company valuations shows that the local equity market is about 20% undervalued.
The South African equity market also remains undervalued relative to other emerging markets.

Local bonds

We maintained a benchmark position in local bonds.
Namibia 10-year bonds are trading at around 10.25%, offering a real return of 4% if measured relative to the upper end of the SARB's long-run inflation target of 3-6%. This is well above their historical real return of about 1.8%. The current high yield on long bonds reflects an increase in inflation risk premia.
The higher country risk premium can be ascribed to rising government debt as a percentage of GDP. Given the energy and infrastructure problems in the country, real growth in GDP is expected to be poor, thus making it difficult for the SA government to reduce its debt-to-GDP ratio.
We believe the likelihood of SA's long-run inflation being above the target range has increased, along with the rest of the world, due to deglobalisation, as explained above. A higher long-run inflation rate would also benefit the government's fiscal situation as it will reduce its debt burden in real terms.
We, therefore, continue to prefer inflation-linked bonds (ILBs) ahead of conventional bonds.

Inflation-linked bonds

We’ve maintained our overweight position in ILBs of 4%. Ten-year ILBs offers a 5.8% real yield.
The inflation break-even rate is about 4.5%, calculated by subtracting the 10-year ILB yield from the conventional long-bond yield.
Therefore, assuming an inflation risk premium of about 1%, the market prices future inflation at 3.5%, on the lower end of the SARB inflation target band.
However, considering the global inflation concerns and the risk that the government could use higher inflation to reduce its debt obligations in real terms, we believe that ILBs are attractive and less risky than nominal bonds.

Local listed property

The property sector has been severely affected by Covid. The ongoing write-downs of underlying property values reflect the pandemic's long-term effect on the asset class.
Property companies are also required to make unplanned capital investments in solar energy and battery backup systems to supplement the intermittent electricity supply from Eskom.
Based on consensus forecasts, the SA-listed property sector is trading on a one-year forward PE ratio of about 10.6 and a one-year forward dividend yield of about 8.7%.
We continue to prefer SA equities and ILBs ahead of SA-listed property stocks.

Global equities

We currently favour SA assets ahead of developed market assets.
The rand is trading over two standard deviations weaker than its purchasing power parity valuation versus the US dollar, and SA assets are relatively more attractive
We increased our underweight position in global equities by 50bps to -3%. Global developed equity markets are trading at a 19.3 one-year forward PE ratio and a 2% forward dividend yield. The S&P 500 is trading at a one-year forward PE ratio of 23.
The seven largest stocks in the S&P 500 index, which are all technology-related, constitute a record-high 28% index weight. Their combined one-year forward PE is about 29, based on consensus earnings growth of about 25%. These seven stocks are trading at a significant premium valuation relative to the rest of the developed world's listed equities. The current valuation of these companies implies that their earnings will continue to grow ahead of the equity market in general and the overall economy. In other words, they will continue to take market share and their weights in the equity indices will continue to reach new record highs.
Given the size of these companies, we believe that the market is over-optimistic in the earnings growth assumptions and is consequently overvaluing these stocks.
Excluding these seven stocks, the remainder of equities are more reasonably priced. However, there is the risk that companies' profit margins, which are high relative to history, might revert to the lower levels seen in the past.
In response to the lower nominal interest rates following the 2008 financial crisis, non-financial companies have generally increased their leverage. For example, in the US, the percentage of total debt to total assets has risen from a low of 26% in 2006 to 35% currently. If higher nominal interest rates persist, companies' interest costs will

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significantly increase as their debt comes up for refinancing.
Also, effective corporate tax rates in the US are now 15% compared to 30% in 2002. The tax rate is more likely to increase than decrease in the future.
US companies' interest and tax expenses as a percentage of earnings before interest and tax have declined from 47% to 25% over the past 20 years.
All this has contributed to US profit margins being at their current high levels

Global bonds

During the past quarter, US 10-year inflation-linked bonds (TIPS) weakened briefly to offer a real yield of 2.5%, which is attractive relative to the long-run real return history of nominal long bonds. We introduced a small overweight position in US TIPS at these attractive levels.
We believe a prospective 1% real return from developed market sovereign bonds is fair compensation for their term and inflation risk. This belief is founded in the long-run return histories of these bonds and their competing asset classes.
Developed market central banks have an implicit inflation target of 2%, implying that US long bonds, for example, are fairly priced at around a 3% nominal yield. However, as explained above, long-run inflation might settle above the central banks' 2% target for a protracted period. In addition, developed markets' debt-to-GDP ratios are extremely high, so bond investors should require an increased term risk premium.
The current yield of US 10-year bonds of about 4% most likely reflects these concerns.

Risks and opportunities ahead

The risk of a global recession remains high. A recession could result in a repricing of equities and corporate debt.

Portfolio Manager(s)

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