FUND FACT SHEET

Sanlam Namibia Balanced Fund

31 May 2024

Sanlam Investments

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$ 323.6 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	10.51
Naspers -N-	3.87
Anglos	3.66
Sanlam Spi Gl Hq G Usd Acc	2.85
iShares Core MSCI World UCITS ETF	2.66
FirstRand / RMBH	2.19
British American Tobacco	2.05
Sanlam Real Assets SI USD	1.85
NBS	1.75
Prosus (PRX)	1.69

Top 10 Holdings as at 31 Mar 2024

Performance (Annualised)

Retail Class	Fund (%)	Benchmark (%)
1 year	8.20	10.05
3 year	9.16	9.52
5 year	8.55	8.49
10 year	6.88	7.26

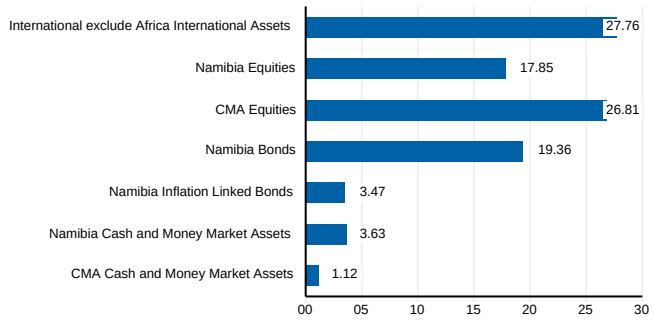
Annualized return is the weighted average compound growth rate over the period measured.

Performance (Cumulative)

Retail Class	Fund (%)	Benchmark (%)
1 year	8.20	10.05
3 year	30.07	31.37
5 year	50.74	50.30
10 year	94.59	101.55

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

Asset Allocation



This monthly Fund Fact Sheet should be viewed in conjunction with the Portfolio Manager Commentary Sheet.

FUND
FACT SHEET

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Sanlam Namibia Balanced Fund

Portfolio Manager(s) Quarterly Comment - 31 Mar 2024

Namibian commentary

The US bull run was sustained in the first quarter of the year as companies continued to deliver strong earnings, resulting in higher demand for tech companies implementing any form of artificial intelligence into their products or processes. This strong performance was observed at a time where the macro environment was not necessarily accommodative. More specifically, the overarching message from the Developed Market Central Bank's meetings being that rate cuts are on the horizon but will be delayed and dependent on policymakers gaining greater confidence that inflation is returning sustainably to target. Looking at Federal Reserve Bank's (Fed) updated interest rates forecasts, it shows that the committee still believes that several interest rate cuts will be appropriate this year. The market's implied fed funds futures indicate that the US interest rate cutting cycle will begin in July 2024.

However, the release of solid economic data from the US and hawkish commentary from several Fed officials has kept the money market rates elevated somewhat, largely reflecting a slow descent of inflation as a disincentive to cutting interest rates early. Another important factor to consider is that the rally was sustained by NVIDIA (82%), Meta Platforms (37%) and Microsoft (12%). The Eurozone followed the US as the IT sector led strong gains. Financials, consumer discretionary and industrials also showed positive momentum. The positive narrative was supported by an improvement in flash PMI in Europe (rising to 49.9 from 49.2) – suggesting that business activity is stable. The Japanese equity market (+18.1%) was a standout performer as foreign investors poured capital into the market. This was fueled by increasing optimism over Japan's positive economic cycle, characterized by mild inflation and wage growth – driving the Nikkei225 to an all-time high. Corporate earnings in Japan have exceeded expectations, and there have been positive revisions for both the current and the next fiscal years. The weakening yen has provided support, but more importantly, the inflationary environment is expected to boost earnings for many Japanese companies, especially those with pricing power (the ability to raise prices by more than inflation).

As a result, the Emerging markets (+2.37%) continued to lag developed markets (+8.5%) over the quarter. Emerging markets have failed to attract capital even though the major economies adopted looser monetary policies considering monetary tightening in the developed world. China equities saw a pullback from February's strong performance as US-China tensions picked up due to various congressional actions that would reduce US investments in China. Though AI optimism lifted Tech markets such as Taiwan and Korea, the boost to US markets was higher. The top three markets: Peru (+15.5%), Turkey (+14.1%), and Colombia (+12.5%). Bottom three markets: Egypt (-29.7%), Thailand (-8.7%), and Brazil (-8.5%). In South Africa, gains were limited. The 2024 Budget Review released in February further highlighted a few fiscal challenges, including lower than expected revenue, mounting debt service costs and increased demand for higher public service wages. However, the key outcome in this budget was the decision by the National Treasury to utilize R150bn of the country's surplus in the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) to reduce the debt servicing cost by R33bn over the medium term thereby reducing the borrowing requirement. The SARB kept the repo rate stable at 8.25% at its March meeting. The decision was unanimous. The MPC made a slight revision to its 2024 inflation projection, now expecting inflation at 5.1%, up from 5.0% previously. The forecasts for the subsequent years remain stable at 4.6% in 2025 and 4.5% in 2026.

The committee assessed risks to its inflation outlook to be on the upside. While the recent moderation in inflation expectations is a positive development, the SARB remains cautious about expectations in the outer years. South Africa's Consumer prices rose by 5.6% in February, a slight increase from the 5.3% recorded in January, slightly surpassing the Bloomberg consensus of 5.5%. This acceleration was primarily driven by a sharp increase in transport costs, largely due to escalating fuel prices, alongside rising administered prices and insurance inflation, which offset the marked deceleration in food and non-alcoholic beverage prices. On a month-to-month basis, headline inflation registered at 1.0%, a significant jump from the flat reading in the prior month. Core inflation, rose to 5.0%, from 4.6%, on underlying inflationary pressures. The South African equity market was dragged down over the quarter due to declines in January and February. The largest detractors were financials and resources, which make up the majority of the JSE All Share Index's weighting. We have seen a strong uptick in metal prices in March, which could be a positive catalyst to see the resources sector claw back returns in the next quarter.

Namibian fourth quarter real GDP growth disappointed as it printed 4.4% as downward revisions were made for the last three years. An important factor to consider is that growth was mainly driven by Gross Fixed Capital Formation (GFCF) and household expenditure. Furthermore, the Namibian Consumer Price Index (NCPI) continued its downward trend over the last quarter (4.5% from 5% in February). Most of the inflationary basket saw declines as the main increases in prices were observed in the tourism related baskets. The month of March stood out over the last quarter as the Namibian yield curve weakened significantly on the back of the SAGB cure's sharp sell off. The primary auctions were well bid for and repriced the entire curve but was later repriced weaker in the secondary market. The NSX local index (+0.8%) remained relatively flat while the NSX overall index (-6.4%) had a negative performance over the last quarter as dual listed financials and resources dragged down the index. Letshego Namibia (+17.4%) was the best performing counter as their book is expected to benefit from the local public worker wage adjustments. Namibian Breweries (-4.8%) was the only counter to return negatively as the counter faced troubles with rising input costs and an inability to increase sales in the local market.

The divergence in performance between developed markets relative to emerging markets, particularly the US for the last decade has created a significant opportunity for long term investors. Our house believes that there are long term opportunities to enter markets where valuations are undemanding. In the second quarter of 2024 we see a more supportive near-term backdrop for risk-taking and think upbeat market sentiment can persist as inflation keeps falling. Investors will benefit from an active approach to investing as the risks associated with geopolitical risk and uncertainty around whether the US will enter a recession or not does not warrant an autopilot approach to investments.

Manager Information: Sanlam Namibia Trust Managers Limited. Physical address: 154 Independence Avenue, Windhoek 9000, Postal address: PO Box 317, Windhoek, Namibia

FUND
FACT SHEET
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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.
However, since 2021, global inflation, specifically US inflation, has been substantially above this target. The US annual inflation reached 9% in June 2022, a 40-year high, before declining to the current rate of 3.1%.

We believe the risk of global inflation being higher than the central banks' targets for a prolonged period has increased. 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.
Our asset allocation positions reflect our concern that inflation could be higher than the developed market central banks' 2% target and the SARB's 3-6% target range for a protracted period.

Local equities

We maintained an overweight position in NAM and SA equities.
The South African market remains undervalued compared to other emerging markets, which, in turn, are undervalued relative to the global developed markets. The current forward price-to-earnings (PE) ratio of the FTSE/JSE Capped Shareholder Weighted All Share Index (Capped SWIX) is around 10.5, while the forecast dividend yield is 4.6%. Relative to history, our market is attractively priced.
South Africa's deteriorating infrastructure has curtailed the earnings growth of local companies. However, about 65% of the JSE-listed companies' earnings originate from their offshore operations and are largely unaffected by domestic issues.

Local bonds

We maintained a benchmark position in local bonds.
Namibia 10-year bonds are trading at around 12%, offering a real return of 6% 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.
Government debt as a percentage of GDP, which is already high relative to history, continues to rise. To reduce the need for new borrowings, the government has drawn R150 billion from the SARB's Gold and Foreign Exchange Contingency Reserve Account (GFECRA).

Furthermore, given the energy and infrastructure problems in the country, real GDP growth is expected to be poor, thus making it difficult for the government to reduce its debt-to-GDP ratio.
If the government's debt-to-GDP ratio continues to rise, it will eventually reach a point where the government cannot service the debt without a concomitant rise in inflation. In such a scenario, inflation-linked bonds (ILBs) are likely to give a better real return than nominal bonds, as their principal value adjusts with inflation.

We, therefore, continue to prefer inflation-linked bonds (ILBs) ahead of conventional bonds.

Inflation-linked bonds

We've maintained our overweight targeted position in ILBs of 4%.
Ten-year ILBs offers a 5.8% real yield.
The inflation break-even rate is about 7%, 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 6%, right at the upper end of the SARB's inflation target band.
As explained above, we believe the likelihood of SA's long-run inflation being above the target range has increased, along with the rest of the world. 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, believe that ILBs are attractive and less risky than nominal bonds.

Local listed property

The property sector has been severely affected by Covid. Work-from-home has become more prevalent, reducing the need for office space, and online retail shopping has reduced the need for retail space.
This is evident from the ongoing write-downs of underlying property values. Property companies are heavily geared, and the higher interest rate is reducing their earnings.
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 9.8 and a one-year forward dividend yield of about 9.2%.
We continue to prefer SA equities and ILBs instead of SA-listed property stocks.

Global equities

We retained our material underweight position in global equities.
Global developed equity markets are trading at an 18.4 one-year forward PE ratio and a 1.9% forward dividend yield. The S&P 500 trading at a one-year forward PE ratio of 23.2 is expensive relative to history.

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In particular, technology companies and companies likely to benefit from advances in artificial intelligence (AI) are priced for earnings growth well above the overall market.
We think that the market is overoptimistic about the contribution of AI to the earnings growth of these companies. New industrial or technological advances result in fierce competition among companies, each aiming to become the dominant player. Running AI models requires an unprecedented amount of computing power that is very capital-intensive, as is evident from the chart below. However, unlike traditional manufacturing, the equipment quickly becomes obsolete and must be upgraded for companies to remain competitive. In addition, scepticism about what can be achieved with AI is rising. See, for example, the weekend essay, “AI keeps going wrong. What if it can’t be fixed?”, which appeared in the Financial Times of 6 April 2024.

Global bonds

We have a small overweight position in US long-dated inflation-protected securities (TIPS) currently trading at a 2% yield. A prospective 1% real return from conventional 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. Unlike conventional bonds, the real return of TIPS does not decline with rising inflation.
US long-bonds yield about 4.3%. Assuming long-run inflation settles at the 2% target, they only offer a 0.3% additional return above TIPS, with the additional inflation risk.

Risks and opportunities ahead

Global inflation remains above the central banks’ targets. Commodity prices have been rising, so the risk of higher long-run inflation remains.

Portfolio Manager(s)

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