## Fund Fact Sheet

# Sanlam Namibia General Equity Fund

August 2021

### Fund Objective

This is a pure equity fund diversified across all sectors of the JSE. This fund is suitable for investors who can withstand potential capital volatility in the shorter term.

### Fund Strategy

This fund aims to outperform the FTSE/JSE All Share Index through active stock selection across all sectors and market capiltalisation on the JSE. The fund may at any time hold a maximum of 25% in offshore assets.

### Why choose this fund?

*The fund offers a carefully selected, well diversified basket of listed shares.
*All shares are subject to rigorous, in-depth research and must adhere to SIM's pragmatic value investment philosophy.
*This is a risky fund and is not for the short-term investor.
*The fund aims to achieve maximum capital growth over the meduim to long-term by investing in companies that are undervalued relative to realistic growth prospects.

### Fund Information

| | |
|---|---|
| **Classification** | Namibia Equity Domestic General Funds |
| **Risk profile** | Moderate aggressive |
| **Benchmark** | General Equity Funds Average |
| **Portfolio launch date** | 1 July 1994 |
| **Minimum investment** | Lump Sum: N$ 2 000 \| Monthly N$ 200 |
| **Portfolio size** | N$773.6 million |
| **Last two distributions** | 30 Jun 21: 4.94 cents per unit<br>31 Dec 20: 1.09 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 (Incl. VAT)

| | Retail Class (%) |
|---|---|
| **Initial Fee** | N/A |
| **Annual Service Fee** | 1.50 |

This fund is also available via certain LISPS (Linked Investment Service Providers), which levy their own fees.

### Top 10 Holdings

| Securities | % of Portfolio |
|---|---|
| Naspers -N- | 16.89 |
| Prosus (PRX) | 6.68 |
| British American Tobacco | 4.77 |
| FirstRand / RMBH | 4.58 |
| Anglos | 4.49 |
| MTN | 3.95 |
| Implats | 3.85 |
| Stanbank | 3.76 |
| Sasol | 3.46 |
| NBS | 3.42 |

Top 10 Holdings as at 30 Jun 2021

### Performance (Annualised)

| Retail Class | Fund (%) | Benchmark (%) |
|---|---|---|
| 1 year | 20.03 | 24.58 |
| 3 year | 4.00 | 2.93 |
| 5 year | 4.04 | 3.17 |
| 10 year | 8.83 | 8.12 |

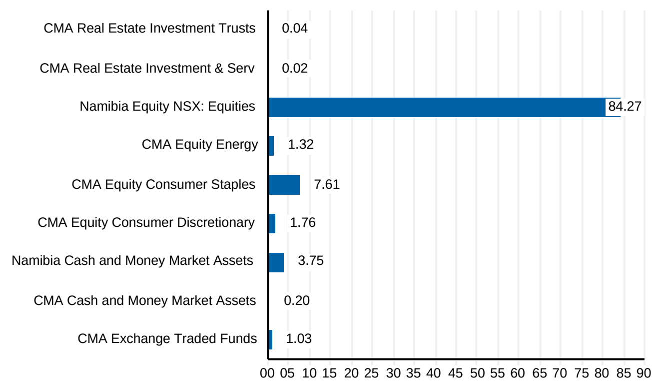
Annualized return is the weighted average compound growth rate over the period measured.

### Performance (Cumulative)

| Retail Class | Fund (%) | Benchmark (%) |
|---|---|---|
| 1 year | 20.03 | 24.58 |
| 3 year | 12.50 | 9.05 |
| 5 year | 21.88 | 16.89 |
| 10 year | 133.11 | 118.30 |

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

### Asset Allocation



**Portfolio Manager(s) Quarterly Comment - 30 Jun 2021**

Market review

In South Africa, the economic recovery remains held back by the slow pace of vaccine rollouts, increased restrictions following rising infection levels, with the country moving back to adjusted level 4 lockdown at quarter-end, as well as economic policy inertia and weak demand. While broadly the economy has continued to normalise, several key sectors remain challenged, namely those in the service economy, especially in tourism, sport and live events. Indeed, compared to developed markets the slow pace of vaccine rollouts is of some concern and unfortunately not helped by rising infection levels as the third wave of infections arrives. Over time the SA economy has become more service-orientated at the expense of manufacturing and it is this area that unfortunately has been most impacted by the pandemic. In addition, the government and municipal services area has grown as a proportion of the SA economy, but is now slowly being reined in and in itself a detractor to economic growth. Many unsustainable practices within government SOEs and municipalities have resulted in funding being withdrawn, which results in more efficient allocation of future capital but initially slows the economy  unless better practices are implemented at the same time. Unfortunately, there is a broad shortage of skills in various industries, which makes enacting these much-needed changes difficult. Structural challenges in the educational sector have unfortunately hampered skills development. In the quarter there have been some signs of improving consumer and business confidence, resulting in a recovery in economic growth, although admittedly off a low base created from Covid-19 in the prior year. Returning to a more robust level of economic growth remains challenging as there has been little support from government policy, with political issues continuing to hamstring the ruling party from being more assertive and stimulatory.

Low interest rates are supporting some consumer demand; however, a lack of government handouts and limited employment growth is not providing enough support to get the economy going. Demand outside SA from our neighbouring countries also remains subdued. Prior to the virus arriving, the SA fiscal situation was somewhat precarious, with unsustainably high debt levels that continued to rise post Covid-19 in a virtuous circle. This was made worse by the pandemic and limited what could be provided in the form of state-lending and other financial support. Small and medium-sized entities (SMEs) have suffered most, resulting in significant capacity on the small, medium and micro enterprise (SMME) side leaving the industry permanently. Invariably large business looks like the winner, as it was able to cut capacity and had long-term funding to draw on. While progress is being made on the Eskom side, a series of disruptions in the quarter again reminded us how fragile our energy supply remains. On the positive side, the announcement from the president that energy users can more meaningfully generate their own supply of energy was well received by the market and will assist in future as several power plants face decommissioning in future years. SA has also benefited from rising demand for commodities, as our trade surpluses continue to surprise positively, lending support to rand strength and keeping inflation in check. The platinum group metals in particular have seen strong demand which, if sustained, will aid economic growth. Unfortunately, over time mining has shrunk as a broad contributor to the economy. Logistical and port challenges have also moderated what would have been even better export figures. Inflation, aided by a strong currency, at least looks like it will be contained,

notwithstanding rising prices in areas like agriculture and oil and other commodities. The agricultural sector appears to be having a strong period and is benefiting from decent weather, higher international soft commodity prices and increased production  a somewhat unusual combination, but well received by the farming community. Overall, we expect the SA economy to continue recovering gradually, but it would be greatly assisted by lower infection levels and a more expansive vaccine rollout programme, as well as more decisive and supportive government economic policy.

From a global financial market perspective, equity markets continued to strengthen throughout Q2 as the combination of significant global liquidity and record low interest rates continue to support financial markets as capital seeks the best return. As markets open up post lockdown, albeit in a somewhat haphazard way, investors have supported financial markets, although continue to favour developed markets over emerging markets as liquidity is internally focused and hasn't shifted materially into emerging markets just yet. Indeed, some commentators are questioning what happens once the liquidity is withdrawn, with central bankers likely to keep record low developed market interest rates on hold for an extended period of time, until evidence of how effective all this monetary support has been for markets economically. There is perhaps an element of distortion in capital allocation, not only to appease the poor voter, but also in financial markets where various exchanges remain close to record highs. Improved liquidity, improving consumer confidence and record low interest rates are also supporting the property market globally, aided by supply shortages as double-digit price increases are experienced in many markets. Accessing the property market for young workers will remain challenging. Evidence of inflation rising globally and becoming more broad-based is now more accepted, accentuated by supply disruptions and capacity constraints, as well as manufacturing and transportation bottlenecks. For now, it appears as if rising inflation may be temporary, induced by the disruptions from Covid-19 and not a function of unreasonable demand. Initially, previously, US bond yields had risen in expectation of higher inflation and robust economic growth, however, in Q2, long-term yields declined as most investors expect the recent bout of inflation now to be temporary. The Fed has indicated that it will tolerate inflation above their long-term expectations of around 2% for an extended period, as ultimately they expect inflation to self-correct downwards after this initial spike. There is a risk that the Fed may be behind the curve, as inflation expectations continue to ratchet up in response to various input costs that continue to rise and a lack of investment in new capacity, which has supported higher prices for longer. Current demand is distorted by an extended period of lockdown in some key segments and consumer confidence that has been stimulated by central bank liquidity. Inevitably something will have to give as debt levels in the US, Europe, Japan and elsewhere look very elevated and are likely to crowd out investment unless incremental capital can be efficiently deployed.
Emerging markets have lagged developed markets as they have not had the benefit of 'US-type' interest rates nor the central bank support that the US has enjoyed. Some geographies are more self-reliant than others in an environment where countries are becoming more introspective and less inclined to support global trade. In Q2, prices

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of agricultural products and other raw materials continued to rise, although some industrial commodities weakened after a period of protracted strength in prior quarters. The oil price continued to rise as OPEC remains constrained in increasing production. Shifts to more environmentally-friendly energy sources have already started to create supply challenges in some key markets. This will need to be carefully monitored, especially as energy producers have been very reluctant to bring on new capacity in environmentally-challenged sectors. China as an example experienced some manufacturing disruptions in Q2 due to energy challenges, which may be made far worse in future if the country is to achieve their recently profiled and ambitious environmental aspirations. Currencies were surprisingly well behaved in Q2 as capital waits for the next shift economically. Emerging markets are expected to improve as vaccine rollouts broaden and should liquidity redirect here from the US and other developed markets, it may well support a more significant rebound in these markets. On the other hand, some Asian markets that have exhibited relatively robust economic growth amid a modest virus impact are now showing signs of slowing down. Ultimately, a carefully measured approach is probably warranted given the many imbalances that exist across markets.

In Q2, the MSCI World Index was up again by 7.9%, outperforming emerging markets, which were also up a reasonable 5.1%. Indeed, year-to-date developed markets have performed well, aided by record low interest rates, significant government support and a strongly recovering market, with the impact from the virus receding. Emerging markets have not enjoyed the same level of support, although rising commodity prices have aided selected markets. Year-to-date the MSCI World Index is up 13.3% whereas the MSCI Emerging Markets Index is up 7.6% in US dollar.

From a South African perspective, the market declined slightly after an exceptionally strong first quarter of 2021, with the FTSE/JSE Shareholder Weighted All Share Index (SWIX) down 1.8% in Q2. The resources sector declined by 5% in Q2 as a result of a decline in commodity prices, particularly the industrial and precious metal commodity prices after an extended period of previously rising prices. Some cooling off of global economic growth towards the end of the quarter was no doubt a contributing factor, particularly with demand out of China slowing. Industrials moved sideways, with the sector up 0.8%, although there was a wide dispersion of returns within the sector, with the personal goods and support services sectors performing strongly, while the technology sector was down sharply. Financials performed the strongest in Q2, with banks and property shares performing particularly well, aiding a sector performance of 7.5% for Q2. Year-to-date the SWIX is up 11.2%, with all three sectors performing broadly similarly, with industrials leading, up 13.8%, followed by the resources sector, up 12.8%, and financials still up a respectful 11.7%. The best performing areas of the market year-to-date have been the more economically-sensitive local shares and the chemical sector, given the rapid rise in the oil price. The weakest sector has been the technology sector given the regulatory and other challenges here.

Our strategy and conclusion

We remain mindful that we continue to have an overweight position in the resources sector as a confluence of factors have arisen to support the sector for longer than initially expected. While a number of commodity prices are now well above our long-term prices, within the sector there are other commodity prices that remain below our long-term ‘normalised pricing’. With this in mind, sector and stock selection within the mining sector are now more important. We have been rotating out of areas that have done well and recycling back into different areas that are currently weak or out of favour. That said, we are also pragmatic and recognise that a more nuanced approach is required as in some instances pricing has remained reasonable while capacity limitations in the industry in certain commodities will result in pricing remaining relatively buoyant for an extended period. As always, the near-term strong outlook needs to be tempered with a healthy sense check and a significant margin of safety from a valuation perspective.

We remain constructive on Sasol and Sappi and while the former has benefiting recently from a rising oil price, the combination of an improved balance sheet, higher oil prices for longer relative to our long-term pricing, as well as the internal reorganising and cost cutting inside the group will materially benefit Sasol over the medium term. Not much of this is currently priced into the share by the market and thus we remain with a significant active position in the share. Sappi has recently retreated after initially recovering, and is now well below our fair value. Over time we expect the environment to gradually improve for the share. A long-term mindset is key.

On the financial side of the portfolio, much like components of the local industrial sector, there has been a sharp rebound as better-than-expected results and a gradually improving economy have surprised market participants. As to how much of this earnings surprise continues remains to be seen, although in many instances the full recovery has not been priced in as some uncertainty remains. We have trimmed selective financial counters, although mainly in the insurance sector as we believe there is better value elsewhere. The property sector has also rebounded materially and is looking closer to fair value.

We have made selective additions to industrial counters that look well placed for a gradually improving local economy but have been held back by investor caution or uncertainty as to when the economy fully recovers. We prefer stock picking and don’t want to rely unduly on the SA economy performing as it’s unclear post the Covid-19 recovery whether we shift into an environment of more meaningful economic growth. We prefer to seek opportunities where expectations are cautious and a heathy margin of safety exists from a valuation perspective. A number of international counters are also looking more interesting after a bout of weakness and rand strength, and we’ve been adding to Naspers and others which currently seem very out of favour.

The environment over the past 18 months has resulted in significant disruptions making detailed stock-picking work worthwhile and, as always, we will endeavour to seek the best opportunities for the fund using our pragmatic value detailed-orientated bottom-up research process. A long-term though-the-cycle orientation is key, as is the ability to weather the storm in anticipation of future returns.

**Portfolio Manager(s)**

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CFA, CA (SA), CA (NAM)

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CFA