

# PRUDENTIAL (NAMIBIA) UNIT TRUSTS LIMITED

## ANNUAL REPORT

### MANAGING DIRECTOR'S REPORT

#### Dear Investor,

Although the past year has yet again been relatively tough for Namibian investors, at least financial markets generally delivered better returns than 2018. Notably, global equities delivered their strongest annual returns in a decade, and global government bonds also produced respectable results despite already-high prices, with yields sinking further into negative territory.

Meanwhile, Namibian and SA bond and money market returns were also strong – it was primarily local equities and listed property where returns were subdued compared to their long-term history. SA was one of the only equity markets globally to de-rate despite posting positive earnings surprises consistently during the year. Market sentiment remained weighed down by the weak growth outlook, stressed government finances, Eskom and the possibility of further credit rating downgrades.

It was certainly a year where the benefits of diversification added value to investor portfolios – particularly offshore equity exposure and domestic bond exposure. However, it was only a mere 10 years ago that global equities recovered from delivering over a decade of poor returns (1998-2009). This again demonstrates the importance of having a long-term view and being patient, as well as not trying to time the market.

#### Market overview

The Namibian economy continued to slow on the back of the prevailing drought, lack of jobs and contractions across most sectors. On a positive note, inflation fell to its lowest level since 2005, at 2.5% y/y, helping underpin real returns for investors, especially in bonds.

Despite the weak conditions, bonds performed surprisingly well. Namibian bonds managed to deliver a 12.1% return for 2019, while SA bonds produced 10.3% as investors looked for attractive real yields. SA inflation-linked bonds returned only 2.6% for the year, while SA cash (as measured by the STeFI Composite) delivered 7.3%. Namibia's IJG Money Market Index was slightly higher at 7.5% for the year, both comfortably beating inflation.

Turning to equities, Namibia's NSX All Share Index returned 4.6% for the year. The Healthcare and Resources sectors produced the strongest returns with 31.4% and 29.5%, respectively, the latter helped by higher commodity prices. Property stocks delivered 8.8%, while Financials returned -1.1%. Industrials were by far the worst-performing stocks for the year with a -23.9% return.

In South Africa, the FTSE/JSE Capped SWIX All Share Index returned 6.8% for the year. The FTSE/JSE All Share Index returned 12.0%, thanks largely to the Resources sector which delivered 28.5%. This far outpaced the 8.9% from Industrials, 0.6% from Financials and 1.9% from Listed Property.

Finally, the Namibian dollar (and rand) performed relatively strongly against the three major global currencies in 2019, along with most other emerging market currencies – appreciating 2.7% versus the US dollar and 4.5% against the euro, but losing 0.5% against the pound sterling.

#### Fund performance

It proved to be a challenging 12 months in investment management terms. However, the absolute investment returns from our funds improved from 2018, and both the Prudential Namibia Inflation Plus and Namibia Enhanced Income funds beat their respective benchmarks for the year. The Namibia Balanced Fund's relative performance was somewhat disappointing, having underperformed its benchmark by 0.3% for the year. It was our overweight positions in Sappi and Sasol and underweight positions in precious metals producers that proved to be the largest detractors from fund performance. By contrast, select overweight holdings in large international rand-hedge shares such as British American Tobacco, Anglo American, Richemont and Naspers added value to client portfolios. Equally, our asset allocation decisions contributed to performance in the Namibia Balanced and Inflation Plus Funds.

Although it is certainly uncomfortable, underperformance is something that we accept as inevitable from time-to-time; alpha is never delivered in a straight-line fashion, and we expect to have occasional periods of underperformance. This is particularly relevant for 2019, since in

The annualised returns (net of fees) of our Namibian retail funds to the end of 2019 are listed below:

Fund type	Prudential Namibian Funds	1-year return	3-year return	5-year return
<b>INCOME</b>	Money Market Fund	7.3%	7.6%	7.3%
<b>MULTI-ASSET</b>	Enhanced Income Fund	7.6%	6.8%	6.6%
	Inflation Plus Fund	9.1%	6.8%	6.6%
	Balanced Fund	9.3%	6.5%	6.6%

2018 we delivered the best equity alpha in our history. Nevertheless, we have full confidence in our investment philosophy and process, and our track record provides the evidence that it is successful at achieving medium- to long-term outperformance. After all, it has delivered exceptional value to our clients over our 25-year history. This is why we remain confident that our funds will continue to deliver on their investment objectives over the medium- to longer term.

As of the end of 2019, the Prudential Namibian Inflation Plus Fund still ranks in the top-quartile in its AUTN category over most annual periods through 10 years (according to Morningstar). The annualised returns (net of fees) of our Namibian retail (A Class) funds to the end of 2019 are listed below.

#### Looking to 2020

For the year ahead, it's true that growth expectations for Namibia and South Africa remain subdued and investor sentiment pessimistic about progress on government finances, Eskom and the country's credit quality. Equity markets are always looking ahead, pricing in the future on the basis of earnings and growth forecasts, and this pessimism is reflected in current asset valuations. In the short term, equity performance is volatile and driven by re-ratings and revised forecasts, but in the long term, share prices inevitably follow earnings. Over the past few years, SA company earnings have continued to grow steadily (despite our sluggish economy), even as share prices have lagged and valuations have cheapened. Eventually, share prices will have to follow earnings and respond to valuations signals by rising to catch up.

Going into 2020, most local asset class valuations appear very attractive, particularly SA equities, which are pricing in very pessimistic outcomes – as poor as those during the Global Financial

Crisis (GFC). At such a low point, history has shown that even modest indications of progress by the government, or apparently small upside surprises in economic data, can trigger rapid share price gains that deliver reasonably good returns for investors. History has also shown that those investors avoiding equities but hoping to be able to jump into the market to catch this rally will miss out. For this reason we have been cautioning clients not to be short of equity in their portfolios for some time now.

As long-term valuation-based investors, we have been using this opportunity to add attractive holdings in quality companies to our client portfolios. This should bode well for future returns over the medium term. We promise to remain patient, keep a long-term outlook and follow our consistent investment process to deliver competitive, inflation-beating returns for all our clients.

To conclude, I would like to thank you for your continued support in 2019. We take the trust you place in us to look after your hard-earned money very seriously, and we remain dedicated to delivering you the best possible returns over time.

Regards,



**BEN BERTOLINI**  
Managing Director  
Prudential (Namibia) Unit Trusts Limited

# OUR FINANCIAL INFORMATION

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Prudential Namibian Inflation Plus Fund	Prudential Namibian Balanced Fund	Prudential Namibian Money Market Fund	Prudential Namibian Enhanced Income Fund
Securities at market value	1 821 148 453	547 301 492	668 585 831	1 985 865
Other assets	216 517 981	148 181 134	134 736 920	1 363 275
<b>Total</b>	<b>2 037 666 434</b>	<b>695 482 626</b>	<b>803 322 751</b>	<b>3 349 140</b>
Total unitholder funds	1 996 142 415	681 827 503	798 165 066	3 272 783
Total liabilities	41 524 019	13 655 123	5 157 685	76 357
<b>Total</b>	<b>2 037 666 434</b>	<b>695 482 626</b>	<b>803 322 751</b>	<b>3 349 140</b>
Net Income	73 446 964	21 193 292	57 070 966	981 055
<b>Distributions</b>	<b>73 443 956</b>	<b>21 198 490</b>	<b>57 070 966</b>	<b>981 053</b>
Undistributed (loss)/income at year end	3 008	(5 198 )	0	2
<b>Net (loss)/gain after distributed income*</b>	<b>(41)</b>	<b>(29)</b>	<b>3</b>	<b>1</b>
Difference (income attributable to unitholders opening balance)	3 049	(5 169)	(3)	1

\*Net (loss)/gain per statement of comprehensive income after adjusting for net fair value gains & losses and transaction costs

## RETAIL (A CLASS) UNITS

### ANNUALISED PERFORMANCE (%) AS AT 31 DECEMBER 2019

Fund	1 year	2 years	3 years	4 years	5 years	Since inception	Fund inception date
Prudential Namibian Balanced Fund	9,27	3,79	6,48	5,65	6,59	8,25	1 August 2008
Prudential Namibian Inflation Plus Fund	9,10	5,31	6,76	5,71	6,64	10,85	15 September 2003
Prudential Namibian Money Market Fund	7,33	7,41	7,60	7,59	7,28	6,32	12 March 2010
Prudential Namibian Enhanced Income Fund	7,57	6,22	6,77	7,30	6,63	6,59	19 June 2014

## INSTITUTIONAL (B CLASS) UNITS

### ANNUALISED PERFORMANCE (%) AS AT 31 DECEMBER 2019

Fund	1 year	2 years	3 years	4 years	5 years	Since inception	Fund inception date
Prudential Namibian Balanced Fund	9,89	4,36	7,04	6,21	7,14	8,83	1 August 2008
Prudential Namibian Inflation Plus Fund	9,54	5,73	7,18	6,13	6,98	10,53	1 July 2011
Prudential Namibian Enhanced Income Fund	7,91	6,58	7,14	7,66	6,99	6,96	19 June 2014

Source: Morningstar performance figures for the Funds are based on NAV price.

## RETAIL (A CLASS) UNITS

There are no initial charges levied by Prudential (Namibia) Unit Trusts Limited. Initial fees may be agreed between the investor and the financial adviser.

<b>Prudential Annual Management Fee</b>	<b>(Excl. VAT)</b>
Prudential Namibian Money Market Fund	0.50%
Prudential Namibian Balanced Fund	1.25%
Prudential Namibian Inflation Plus Fund	1.00%
Prudential Namibian Enhanced Income Fund	0.85%

## INSTITUTIONAL (B CLASS) UNITS

<b>Prudential Annual Management Fee</b>	<b>(Excl. VAT)</b>
Prudential Namibian Balanced Fund	0.75%
Prudential Namibian Inflation Plus Fund	0.60%
Prudential Namibian Enhanced Income Fund	0.50%

## DISTRIBUTIONS - INSTITUTIONAL CLASS B

<b>Fund</b>	<b>Declaration date</b>	<b>Cents per unit</b>
Prudential Namibian Balanced Fund	31-Dec-19	3,84
	30-Jun-19	3,29
Prudential Namibian Inflation Plus Fund	31-Dec-19	5,58
	30-Jun-19	5,21
Prudential Namibian Enhanced Income Fund	31-Dec-19	1,70
	30-Sep-19	1,89
	30-Jun-19	1,81
	31-Mar-19	1,75

## DISTRIBUTIONS - RETAIL CLASS A

<b>Fund</b>	<b>Declaration date</b>	<b>Cents per unit</b>
Prudential Namibian Balanced Fund	31-Dec-19	3,34
	30-Jun-19	2,81
Prudential Namibian Inflation Plus Fund	31-Dec-19	5,01
	30-Jun-19	4,68
Prudential Namibian Enhanced Income Fund	31-Dec-19	1,63
	30-Sep-19	1,80
	30-Jun-19	1,72
	31-Mar-19	1,66
Prudential Namibian Money Market Fund	31-Dec-19	0,59
	30-Nov-19	0,57
	31-Oct-19	0,59
	30-Sep-19	0,58
	31-Aug-19	0,61
	31-Jul-19	0,61
	30-Jun-19	0,59
31-May-19	0,61	
30-Apr-19	0,59	
31-Mar-19	0,61	
28-Feb-19	0,54	
31-Jan-19	0,60	

Stock markets continually rise and fall. Investing in them is always more risky than a deposit-based savings fund. However, the rewards can be much greater, provided you are prepared to take a longer-term view. Prudential's Unit Trusts are managed by professional fund managers. Their job is to make sure you have a stake in a portfolio of investments, which over a period of time, is likely to produce a good rate of growth that aims to offset any short-term fluctuations.

## TRUSTEE REPORT ON THE PRUDENTIAL (NAMIBIA) UNIT TRUSTS LIMITED

As Trustees to the Prudential (Namibia) Unit Trust Scheme (“the Scheme”), we are entrusted by the scheme to report to unit holders on the administration of the Scheme during the accounting period under review.

We advise for the period 1 January 2019 to 31 December 2019 we reasonably believe that the Manager has administered the Scheme in accordance with:

- (i) the limitations imposed on the investment by the Act; and
- (ii) the provisions of the Act and the relevant deeds.

We confirm that according to the records available to us there were no material instances of compliance contraventions and therefore no consequent losses incurred by the Portfolio in the year.

Yours faithfully



**SEPO HAIHAMBO**  
Head RMB Global Markets

23 March 2020



**LAHJA M. HAILULU**  
RMB Trustee Services

## PRUDENTIAL (NAMIBIA) UNIT TRUSTS LIMITED COLLECTIVE INVESTMENT SCHEMES ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

This summarised report is extracted from the audited information, but is not itself audited. The annual financial statements were audited by Ernst & Young Namibia, who expressed an unmodified opinion on 23 March 2020. The audited annual financial statements and the auditor’s report thereon are available for inspection at the Schemes’ registered office.

The directors take full responsibility for the preparation of the abridged report and the financial information has been correctly extracted from the underlying annual financial statements.

## DISCLAIMER

Prudential (Namibia) Unit Trusts Limited is an approved Management Company in terms of the Namibian Unit Trusts Control Act, 1981. Unit trust funds are generally medium- to long-term investments. The value of a unit may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Prudential (Namibia) Unit Trust Schemes and are subject to different fees and charges. Permissible deductions may include management fees, NAMFISA levies and auditor’s fees. A detailed schedule of fees and charges and maximum commissions is available on request from the management company. Forward pricing is used. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates.

The Prudential Namibian Money Market Fund aims to maintain a constant price of 100 cents per unit. The total return to the investor is primarily made up of interest received but may also include any gain or loss made on any particular instrument held. In most cases this may have the effect of increasing or decreasing the daily yield, but in some cases, for example in the event of a default on the part of an issuer of any instrument held by the Fund, it can have the effect of a capital loss. Such losses will be borne by the Prudential Namibian Money Market Fund and its investors and in order to maintain a constant price of 100 cents per unit, investors’ unit holdings will be reduced to the extent of such losses.

**Prudential (Namibia) Unit Trusts Limited**  
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