ANNUAL REPORT
# UNIT TRUSTS

2014

ALLANGRAY

# CONTENTS

EDGAR LOXTON

# CHAIRMAN'S REPORT

It has been an eventful year. We've had an extended strike (platinum mining), infrastructure failures (Eskom) and a bank failure (African Bank) and, while economic conditions in the US have improved, the slowdown in emerging markets, particularly in China, is taking a heavy toll on the price of our commodity exports.

It is not all bad news though. Lower growth in China and new US oil supply have contributed to a collapse in the price of oil. A low oil price is damaging to exporters such as Russia and Nigeria, but for importers such as India and South Africa, it will have positive consequences. Lower petrol prices boost disposable income and allow consumers to increase spending on other goods and services. South Africa imports about 150 million barrels of oil annually. A US$50 decline in the price at an exchange rate of R11/US$ is worth R82 billion or about 2.2% of GDP and it will help our current account deficit.

Basic commodity and energy prices, interest rates in the US and Europe and many other important macroeconomic factors are very unpredictable, maybe impossible, to predict. The only certainty is that things will continue to be uncertain. This is why we stick to what we know, doing our very best to estimate the underlying value of individual companies and to buy them at a discount. The last few months have seen significant changes in the relative prices of JSE listed companies, which should offer increasing opportunities to add value in your portfolios.

## FUND UPDATE

Our equity portfolios have outperformed over the year and the Allan Gray Equity Fund beat its benchmark by 2.7%. The biggest contributors to our relative equity performance were overweight positions in British American Tobacco and Remgro and underweight positions in BHP Billiton and Richemont.

The single biggest detractor from equity performance over the year was Sasol. The majority of the products that Sasol sells are priced off the prevailing oil price; Sasol's earnings are thus highly dependent on the rand-dollar exchange rate and the dollar price of oil, both of which can fluctuate substantially over the short term. We have anticipated a lower dollar oil price for some time, but oil prices are now below our estimate of a normal price over the long term. We think Sasol currently offers excellent value in the context of a fully valued JSE, and we have recently been adding to our position.

The Balanced Fund underperformed its benchmark by 0.2% after fees. We kept a substantial portion of the Fund in cash investments (see Ian Liddle's CIO report on page 3) and, with the equity market up just over 10% for the year, our caution detracted from returns. Since 25% of the Fund is held offshore in Orbis funds, their performance relative to the global markets also had an impact.

The Orbis Global Equity Fund is overweight shares that are sensitive to the price of oil, including both energy sector shares as well as shares in markets where oil exerts a significant influence (e.g. in Russia). While this has been costly in terms of short-term relative performance, Orbis is optimistic about these positions' future return potential.

I would like to congratulate Orbis, our offshore partner, on their 25th anniversary. At the risk of triggering a period of bad luck, I know of no other asset manager that has their track record of stock picking, earned over long periods and across several geographies. We are fortunate to have them as our global partner and doubly fortunate that they share our philosophy and founder.

The Orbis funds continue to enjoy the strong support of local investors; indeed our rand-denominated feeder funds are currently closed to new investment. This is not unusual – these funds open and close from time to time.

The fund commentaries later in this report give good insight into the performance of the individual funds, as well as their exposures.

## CHANGES TO THE ALLAN GRAY EQUITY FUND

Towards the end of 2014 we sent a ballot to all investors in the Allan Gray Equity Fund (the Fund) to gauge appetite for a number of changes we wanted to make to the Fund. I am pleased to report that the auditors have notified us that the ballot was successful. Nearly 50% of the Fund's assets voted and 99.4% of those votes were in favour of the proposed changes. While these changes fall outside our review period, they are far reaching, so I have summarised them below:

- The Fund's mandate will be changed to allow investments offshore in line with the limits of the South African-Equity-General sector. This will enable the Fund to invest up to 25% of its assets in global equities and a further 5% in African equities.
- The Fund's benchmark will be changed to the market value-weighted average return of the South African-Equity-General sector, excluding Allan Gray Funds.
- The Fund's investment management fee will be restructured and reduced.
- The Fund's mandate will be changed to allow the use of listed financial instruments (including derivative instruments).

The changes are expected to increase long-term returns and reduce risk through wider investment opportunities, greater investment flexibility and lower fees, and to better align the fees you pay with the performance you experience.

For more information, please refer to our Q4 2014 Quarterly Commentary or our original ballot letter, both of which are available on our website www.allangray.co.za or from our Client Service Centre.

## UPDATE ON UNIT HOLDERS

We are pleased to report that the number of unit holders who entrust us with their investments continues to increase. Net flows into our funds were R16 billion in 2014. Assets under management as at 31 December 2014 were R215 billion, which is a 15% increase on the R187 billion at 31 December 2013.

Gross client outflows divided by the average value of assets in our funds in 2014 were at 13%. This means that, on average, clients are giving us about seven and a half years to deliver returns. Our fund churn rate, which includes switches between funds (but excludes switches between classes of the same fund, and excludes switches from the Money Market Fund), has come in at 17% for the year, reflecting a weighted average holding period for investors of just under six years. These are important measures for us: if clients can avoid making emotional decisions in response to the ups and downs of the market, and remain invested for a reasonable period of time, they will have more opportunity to share in the performance of their chosen funds.

IAN LIDDLE

# CHIEF INVESTMENT OFFICER'S REPORT

More than half of global government bonds now yield less than 1%[1]. Many European and Japanese government bonds now carry a negative yield. What does this mean for South African investors?

The markets are assessing a higher probability of deflation, or at least an extended period of low inflation, in many developed countries. Future returns on global government bonds from today's starting point will be low, with the most likely outcomes ranging from small positive returns to significant negative returns. The spread, or extra return, that is promised, but not guaranteed, by lending to less creditworthy corporations is also on the low side. It is certainly much lower than it has been in previous cycles when investors have suddenly become concerned about the ability of borrowers to repay their debts.

## TODAY'S DILEMMA

Some commentators leap straight from this bearish assessment of global bonds to a bullish view on global equities. But there is a problem with this approach. In aggregate, corporate profits are high by historic standards. If one normalises corporate profits downwards, aggregate equity market valuations are revealed to be significantly higher than their long-term averages. If corporate profits and valuations were to normalise, substantial losses could be incurred by the major equity market indices.

Following this logic, it would seem prudent for balanced (or multi-asset class) funds to maintain significant liquidity reserves. These reserves allow investors to deploy more capital to long-term assets, such as bonds and shares, when valuations become more attractive. But it can be hard to hold these reserves, as short-term interest rates are low and they act as a drag on portfolio returns for as long as the 'music keeps playing' and valuations continue to rise.

This dilemma is compounded in our domestic multi-asset unit trusts, where retirement fund regulations restrict our foreign exposure and prevent us from holding as much liquidity in the major global currencies as we would like. Although the rand has depreciated significantly over the last four years, we continue to believe it remains vulnerable. This means that there is a risk that the rand-denominated liquid reserves we are holding to purchase long-term assets at more attractive valuations in the future, may also lose some of their global buying power. As Charlie Munger said: "It's not supposed to be easy."

## HOW ARE WE APPROACHING THIS DILEMMA?

In our flagship Allan Gray Balanced Fund, our net equity exposure of 56% is significantly below the maximum allowed 75%. If, or when, the cycle turns and the market once again offers us long-term assets at more normal or even attractive valuations, we have the capacity to increase net equity exposure by closing our hedges and deploying cash reserves. While we wait for this opportunity, we hold a portion of our reserves in hedged equities and precious metals. The hedged equities should provide better long-term returns than bank deposits if we and our offshore partner Orbis can continue our track record of picking portfolios of shares that outperform the market indices. However, the price one pays for this long-term stock-picking alpha is volatility of returns. This can be seen clearly from the excellent year the Orbis Optimal funds had in 2013 followed by a very disappointing year in 2014.

Perhaps most importantly, we continue to research the investment opportunities offered by the market rigorously, and continue to execute our investment process without being swayed by the mood swings of Mr. Market. By constantly exercising the discipline of selecting shares (and other securities) that we calculate to offer better value relative to the available alternatives, we should hopefully be able to compound better long-term returns than those provided by the overall market, even if market returns overall prove disappointing.

1. Source: Bank of America Merrill Lynch

# PORTFOLIO MANAGERS

## IAN LIDDLE

CHIEF INVESTMENT OFFICER

BBusSc (Hons) CFA

Ian joined Allan Gray in 2001 as an equity analyst after several years as a management consultant. He has been managing a portion of client equity and balanced portfolios since January 2005, when he was appointed as a portfolio manager. In February 2008 Ian was appointed as chief investment officer, with overall responsibility for the investment team and portfolio management. He is a director of Allan Gray Proprietary Limited and a CFA charter holder.

## DUNCAN ARTUS

PORTFOLIO MANAGER

BBusSc (Hons) PGDA CFA CMT

Duncan joined Allan Gray in 2001 and has been managing a portion of client equity and balanced portfolios since January 2005, when he was appointed as a portfolio manager. He is a director of Allan Gray Group Proprietary Limited. Duncan completed his Honours in Business Science and postgraduate diploma in accounting at UCT. He holds both the CFA and CMT charters.

## MARK DUNLEY-OWEN

PORTFOLIO MANAGER

BBusSc (Hons)

Mark joined Allan Gray in 2009 having worked at a number of international investment banks. He started managing a portion of the fixed interest portfolios in July 2011, and a portion of the stable portfolios in May 2013. He is one of the portfolio managers of the Allan Gray Money Market and Stable Funds, in addition to managing Africa ex-SA bonds.

## ANDREW LAPPING

PORTFOLIO MANAGER

BSc (Eng) BCom CFA

Andrew joined Allan Gray in February 2001 as a fixed interest trader and moved to the research team as an equity analyst in February 2003. He was appointed as fixed interest portfolio manager in June 2006 and in February 2008 took on the additional responsibility of managing a portion of client equity and balanced portfolios. He is a fund manager for the Allan Gray Bond and Money Market Funds, as well as managing African equities. Andrew completed his BSc (Eng) and BCom at UCT and is a CFA charter holder.



## SANDY MCGREGOR

PORTFOLIO MANAGER

BSc BA (Hons)

Sandy joined Allan Gray as an investment analyst and economist in October 1991. Previously he was employed by Gold Fields of South Africa Limited in a variety of management positions for 22 years, where much of his experience was focused on investment related activities. His current responsibilities include the management of fixed interest and individual client portfolios and he is a fund manager for the Allan Gray Bond Fund. He was a director of Allan Gray Group Proprietary Limited from 1997 to 2006.

## NICK NDIRITU

PORTFOLIO MANAGER

BSc (Magna cum laude) MBA

Nick joined Allan Gray in March 2010 and is a member of the investment team with a pan-African focus across equities and fixed income. He previously worked in investment banking and management consulting. Nick holds a BSc in Industrial Engineering (magna cum laude) from Northeastern University and an MBA from Harvard Business School.

## SIMON RAUBENHEIMER

PORTFOLIO MANAGER

BCom (Hons) (Cum laude) CFA

Simon joined Allan Gray in February 2002 and has been managing a portion of client equity and balanced portfolios since July 2008, when he was appointed as a portfolio manager. He completed a BCom (Econometrics) degree at UP in 2000 and a BCom (Honours) degree at UCT in 2001 and is a CFA charter holder. Simon is a director of Allan Gray Investment Services Proprietary Limited.

## RUAN STANDER

PORTFOLIO MANAGER

BSc (Hons) FIA FRM

Ruan joined Allan Gray in 2008 and is a quantitative and equity analyst as well as the portfolio manager of the Allan Gray Optimal Fund. Ruan has managed a portion of client equity and balanced portfolios earmarked for associate portfolio managers since March 2013. He has an Honours degree in Financial and Actuarial Mathematics, is a certified GARP Financial Risk Manager and a qualified actuary.

# ALLAN GRAY UNIT TRUSTS

| FUND | FUND OBJECTIVE (SPECIFIC BENCHMARKS ARE SHOWN ON THE PERFORMANCE PAGES THAT FOLLOW) | LOCAL/ OFFSHORE | SUITABLE FOR INVESTORS WHO: | CATEGORY |
|---|---|---|---|---|
| **100% HIGH NET EQUITY EXPOSURE** | | | | |
| Allan Gray Equity Fund | The Fund aims to outperform the South African equity market over the long term, without taking on greater risk. | Local | • Seek exposure to JSE-listed equities to provide long-term capital growth<br>• Are comfortable with stock market fluctuation, i.e. short- to medium-term volatility<br>• Are prepared to take on the risk of capital loss<br>• Typically have an investment horizon of more than five years<br>• Wish to use the Fund as an equity 'building block' in a diversified multi-asset class portfolio | South African-Equity-General |
| Allan Gray-Orbis Global Equity Feeder Fund | The Fund aims to outperform global stock markets over the long term, without taking on greater risk. | Offshore | • Seek exposure to diversified international equities to provide long-term capital growth<br>• Wish to invest in international assets without having to personally expatriate rands<br>• Are comfortable with global stock market and currency fluctuation and risk of capital loss<br>• Typically have an investment horizon of more than five years<br>• Wish to use the Fund as a fully invested global equity 'building block' in a diversified multi-asset class portfolio | Global-Equity-General |
| **40% - 75% MEDIUM NET EQUITY EXPOSURE** | | | | |
| Allan Gray Balanced Fund | The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. | Local | • Seek steady long-term capital growth<br>• Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund<br>• Wish to invest in a unit trust that complies with retirement fund investment limits<br>• Typically have an investment horizon of more than three years | South African - Multi Asset - High Equity |
| Allan Gray-Orbis Global Fund of Funds | The Fund aims to create long-term wealth for investors without exceeding a maximum net equity exposure limit of 75%. It aims to outperform the average return of funds subject to similar constraints without taking on more than their average risk. | Offshore | • Seek long-term capital growth from a diversified international equity portfolio without being fully exposed to stock market risk<br>• Wish to invest in international assets without having to personally expatriate rands<br>• Are comfortable with taking on some risk of market and currency fluctuation and potential capital loss, but typically less than that of an equity fund<br>• Typically have an investment horizon of more than five years<br>• Wish to use the Fund as a foreign medium equity 'building block' in a diversified multi-asset class portfolio | Global - Multi Asset - High Equity |
| **0% - 40% LOW NET EQUITY EXPOSURE** | | | | |
| Allan Gray Stable Fund | 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. | Local | • Are risk-averse and require a high degree of capital stability<br>• Seek both above-inflation returns over the long term, and capital preservation over any two-year period<br>• Require some income but also some capital growth<br>• Wish to invest in a unit trust that complies with retirement fund investment limits | South African - Multi Asset - Low Equity |

# ALLAN GRAY UNIT TRUSTS

| FUND | FUND OBJECTIVE (SPECIFIC BENCHMARKS ARE SHOWN ON THE PERFORMANCE PAGES THAT FOLLOW) | LOCAL/ OFFSHORE | SUITABLE FOR INVESTORS WHO: | CATEGORY |
|---|---|---|---|---|
| **0% - 20% VERY LOW NET EQUITY EXPOSURE** | | | | |
| Allan Gray Optimal Fund | The Fund aims to provide investors with long-term positive returns higher than those available in the money market sector, irrespective of stock market returns. | Local | • Seek steady absolute (i.e. positive) returns regardless of stock market trends<br>• Require a high degree of capital stability<br>• Wish to invest in a product that offers uncorrelated returns relative to shares or bonds as a 'building block' in a diversified multi-asset class portfolio | South African - Multi Asset - Low Equity |
| Allan Gray-Orbis Global Optimal Fund of Funds | The Fund aims to provide a high degree of capital stability (when measured in the foreign currency denominations of the underlying Orbis Funds), while producing long-term returns that are superior to foreign currency bank deposits. | Offshore | • Seek steady absolute returns ahead of those of cash measured in global currencies<br>• Wish to invest in international assets without having to personally expatriate rands<br>• Are comfortable with taking on the risk of currency fluctuation, but prefer little exposure to stock market risk<br>• Wish to use the Fund as a foreign absolute return 'building block' in a diversified multi-asset class portfolio | Global - Multi Asset - Low Equity |
| **NO EQUITY EXPOSURE** | | | | |
| Allan Gray Bond Fund | The Fund aims to provide investors with a real return over the long-term and outperform the JSE All Bond Index at no greater risk. | Local | • Seek a bond 'building block' for a diversified multi-asset class portfolio<br>• Are looking for returns in excess of those provided by money market or cash investments<br>• Are prepared to accept more risk of capital depreciation than in a money market or cash investment | South African - Interest Bearing - Variable Term |
| Allan Gray Money Market Fund | The Fund aims to preserve capital, maintain liquidity and generate a sound level of income. | Local | • Require monthly income distributions<br>• Are highly risk-averse but seek returns higher than bank deposits<br>• Need a short-term investment account | South African - Interest Bearing - Money Market |

# PERFORMANCE SUMMARY

Annualised performance to 31 December 2014 over 10, 5 and 3 years.
Fund performance is shown net of all management fees and expenses.

| FUND | 10 YEARS | 5 YEARS | 3 YEARS |
|---|---|---|---|
| Allan Gray Equity Fund[1] | 18.3% | 15.9% | 17.4% |
| Benchmark[2] | 18.0% | 15.8% | 19.5% |
| Allan Gray-Orbis Global Equity Feeder Fund | | 18.9% | 31.2% |
| Benchmark[3] | | 20.4% | 29.7% |
| Allan Gray Balanced Fund[1] | 15.5% | 13.6% | 15.2% |
| Benchmark[4] | 13.5% | 13.0% | 15.4% |
| Allan Gray-Orbis Global Fund of Funds | 13.7% | 14.2% | 22.4% |
| Benchmark[5] | 13.6% | 17.1% | 22.3% |
| Allan Gray Stable Fund[1] | 11.2% | 9.1% | 9.3% |
| Benchmark[6] | 8.3% | 6.8% | 6.5% |
| Allan Gray Optimal Fund[1] | 7.6% | 6.0% | 6.8% |
| Benchmark[7] | 6.2% | 4.7% | 4.4% |
| Allan Gray-Orbis Global Optimal Fund of Funds | | | 15.0% |
| Benchmark[8] | | | 11.7% |
| Allan Gray Bond Fund | 8.8% | 9.7% | 8.4% |
| Benchmark[9] | 8.6% | 10.0% | 8.7% |
| Allan Gray Money Market Fund | 7.5% | 5.9% | 5.6% |
| Benchmark[10] | 7.3% | 5.8% | 5.5% |
| CPI inflation[11] | 6.0% | 5.3% | 5.6% |

The Funds shown above are all class A. All benchmark performance is calculated by Allan Gray as at 31 December 2014.

1. Different classes of units apply to the Equity, Balanced, Stable and Optimal Funds only and are subject to different fees and charges.
2. FTSE/JSE All Share Index including income (Source: INET BFA).
3. FTSE World Index including income (Source: Bloomberg).
4. The current benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding the Allan Gray Balanced Fund). Since inception to 31 January 2013 the benchmark was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund (Source: Morningstar).
5. 60% of the FTSE World Index including income and 40% of the JP Morgan Global Government Bond Index (Source: Bloomberg).
6. The daily interest rate as supplied by FirstRand Bank Limited plus 2%.
7. The daily interest rate as supplied by FirstRand Bank Limited.
8. The simple average of the benchmarks of the underlying funds.
9. JSE All Bond Index (source: INET BFA).
10. The current benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index. Since inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011 the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund.
11. This is based on the latest numbers published by INET BFA as at 30 November 2014.

# ALLAN GRAY EQUITY FUND

## PORTFOLIO MANAGERS

Ian Liddle, Duncan Artus, Andrew Lapping, Simon Raubenheimer

## ASSOCIATE PORTFOLIO MANAGERS

Ruan Stander, Jacques Plaut, Leonard Krüger

## FUND OBJECTIVE AND BENCHMARK

The Fund aims to outperform the South African equity market over the long term, without taking on greater risk. The Fund's benchmark is the FTSE/JSE All Share Index including income.

## COMMENTARY

When this Fund was launched on 1 October 1998 we believed that South African shares offered very attractive value, but we certainly did not expect the dawning of a 16-year golden era for the JSE. Since its inception, the Fund has returned 26.0% p.a. while the benchmark FTSE/JSE All Share Index (ALSI) has returned 18.5% p.a. Over the same period the Consumer Price Index (CPI) has inflated by 5.6% p.a. The cumulative ALSI return over the period was more than 10x the compounded CPI inflation rate! Moreover there have been relatively few tests of investors' resolve with the ALSI lagging CPI inflation by more than 10 percentage points in only two of the last 16 calendar years.

Real (inflation-adjusted) stock market returns over the previous 16 calendar years (1983-1998) were weaker and the ride was bumpier. Over that period, the ALSI yielded a lower total nominal return of 16.3% p.a., despite CPI inflation compounding at a much higher rate of 12.1% p.a. The ALSI underperformed CPI inflation by more than 10 percentage points in five out of those 16 years, making it even harder for easily-spooked investors to earn significant real returns.

The successful internationalisation of companies with South African roots has been a powerful driving force behind the high returns of the last 16 years. Naspers, SABMiller, Richemont, MTN and Aspen are prime examples. Many South African consumer-facing companies have benefited enormously from the growth in social welfare payments and the public sector wage bill. But these golden era winners will be hard-pressed to sustain their strong growth over the last 16 years for the next 16 years, and the current high valuation multiples on many of these recognised winners further reduces their future expected returns.

So how should we respond to a South African market that we expect to deliver lower future real returns? Should we simply try to increase the Fund's prospective returns by assuming more risk? Absolutely not – the criterion for bearing more risk is whether the prospective returns more than compensate for the risk, not an arbitrary absolute return target. Rather, we strive to maintain the discipline of selecting the relatively most attractively priced JSE-listed shares, and combining them in a sensibly diversified portfolio.

A second response is to expand the Fund's investment universe so as to include more attractively priced shares. We wrote to investors in the Fund towards the end of 2014 asking them to vote on a number of proposed amendments to the Fund, including allowing the Fund to invest offshore to the extent permitted in the South African – Equity – General sector in which the Fund is classified. This limit is currently 25%. See the chairman's report on page 1 for more information.

*Commentary contributed by Ian Liddle*

## PERFORMANCE NET OF ALL FEES AND EXPENSES

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| Unannualised: Since inception | 4176.7 | 1469.7 | 140.2 |
| Annualised: Since inception | 26.0 | 18.5 | 5.6 |
| Latest 10 years | 18.3 | 18.0 | 6.0 |
| Latest 5 years | 15.9 | 15.8 | 5.3 |
| Latest 3 years | 17.4 | 19.5 | 5.6 |
| Latest 2 years | 17.4 | 16.0 | 5.6 |
| Latest 1 year | 13.6 | 10.9 | 5.8 |

1. FTSE/JSE All Share Index including income (source: INET BFA), performance as calculated by Allan Gray as at 31 December 2014.
2. This is based on the latest numbers published by INET BFA as at 30 November 2014.

## SECTOR ALLOCATION ON 31 DECEMBER 2014

| SECTOR | % OF PORTFOLIO | % OF ALSI |
|---|---|---|
| Oil & Gas | 10.4 | 3.6 |
| Basic Materials | 10.4 | 18.3 |
| Industrials | 12.7 | 6.2 |
| Consumer Goods | 23.5 | 24.3 |
| Health Care | 3.6 | 4.2 |
| Consumer Services | 6.3 | 14.1 |
| Telecommunications | 0.8 | 6.9 |
| Financials | 29.8 | 22.0 |
| Technology | 0.7 | 0.4 |
| Commodity-linked | 0.5 | 0.0 |
| Money Market and Bank Deposits | 1.3 | 0.0 |
| **TOTAL** | 100.0 | 100.0 |

Note: There may be slight discrepancies in the totals due to rounding.

## 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 biannually. | 30 JUN 2014 | 31 DEC 2014 |
|---|---|---|
| Cents per unit | 187.7617 | 108.4107 |

# ALLAN GRAY-ORBIS GLOBAL EQUITY FEEDER FUND

## PORTFOLIO MANAGER

This Fund invests solely into the Orbis Global Equity Fund, managed by Orbis Investment Management Limited.

## FUND OBJECTIVE AND BENCHMARK

The Fund aims to outperform global stock markets over the long term, without taking on greater risk. Its benchmark is the FTSE World Index, including income.

## COMMENTARY

After particularly strong relative and absolute performance in 2013, the Orbis Global Equity Fund's performance was poor in 2014. As frustrating as this may be, it is important to recognise that periods of underperformance are not unprecedented at Orbis and Allan Gray – they are an inevitable part of our shared long-term, contrarian investment approach.

In investing there are some things you can control and others you can't; some of both were to blame for the weak performance in 2014. A key mistake was in allocating too much weight to shares that are highly sensitive to the price of oil. This includes both energy sector shares as well as shares in markets where oil exerts a significant influence (e.g. in Russia).

The Fund's energy positions, such as Weatherford International and Apache, were established on a bottom-up basis at a time when oil was trading above what Orbis considered to be normal levels. With hindsight, had Orbis built the Fund's exposure more slowly, it could have accumulated shares at an even greater discount to their assessment of intrinsic value as oil prices fell in the second half of the year.

Although the price of oil remains notoriously difficult to predict, Orbis' assessment of the industry's long-term fundamentals and the intrinsic value of the Fund's holdings has not changed meaningfully. Orbis continues to find the Fund's oil-related holdings attractive. Indeed, valuations in the energy sector are now approaching depressed levels following the sell-off. Our shared history has shown that such declines can provide attractive buying opportunities, and Orbis has done just that by adding to selected oil-related underperformers.

In Russia, the situation is more complex. While Orbis continues to be enthusiastic about Sberbank and Gazprom, it did not add substantially to these positions when the plummeting oil price hit Russia's economy, currency, and stock market. The shares' valuations are now extreme: Sberbank, for example, trades at less than five times normalised earnings, despite its dominant position and long-term growth prospects. But the range of outcomes has also widened. Earnings can withstand significant economic stress, but there is a small risk that a deep and protracted recession could trigger a capital raise. Orbis continues to carefully manage the Fund's overall weight in these shares.

Additional sources of weakness in 2014 were an underweight position in the US, where a bull market has continued to run, and meaningful overweight exposure to Korea, where Orbis has found shares trading at significant discounts. However, Orbis remains confident that the market will come to see the value in its Korean investments, and that these remain more attractive than the many US equities, which appear fully valued.

Of course, it can be difficult to draw the line between being wrong and being 'early'. While Orbis made mistakes in 2014 in building positions too aggressively, it views many of this year's underperformers as offering even deeper discounts to intrinsic value today. Orbis remains confident that sticking to our shared philosophy will serve clients well over the long term.

*Adapted from commentary contributed by Graeme Forster*



## PERFORMANCE NET OF ALL FEES AND EXPENSES

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| | ZAR | ZAR | ZAR |
| Unannualised: Since inception | 307.8 | 261.2 | 76.8 |
| Annualised: Since inception | 15.5 | 14.1 | 6.1 |
| Latest 5 years | 18.9 | 20.4 | 5.3 |
| Latest 3 years | 31.2 | 29.7 | 5.6 |
| Latest 2 years | 37.1 | 33.4 | 5.6 |
| Latest 1 year | 5.4 | 15.4 | 5.8 |

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| | US$ | US$ | US$ |
| Unannualised: Since inception | 119.4 | 94.3 | 22.8 |
| Annualised: Since inception | 8.3 | 7.0 | 2.1 |
| Latest 5 years | 8.7 | 10.1 | 1.8 |
| Latest 3 years | 16.5 | 15.2 | 1.4 |
| Latest 2 years | 17.5 | 14.3 | 1.3 |
| Latest 1 year | -4.4 | 4.7 | 1.3 |

1. FTSE World Index including income (source: Bloomberg), performance as calculated by Allan Gray as at 31 December 2014.
2. This is based on the latest numbers published by INET BFA as at 30 November 2014.

## 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 annually. | 31 DEC 2014 |
|---|---|
| Cents per unit | 0.1763 |

## GEOGRAPHICAL EXPOSURE ON 31 DECEMBER 2014

This Fund invests solely into the Orbis Global Equity Fund

| REGION | FUND'S % EXPOSURE TO: | | % OF WORLD INDEX |
|---|---|---|---|
| | EQUITIES | CURRENCIES | |
| United States | 46 | 53 | 54 |
| Canada | 2 | 2 | 3 |
| Other | 0 | 0 | 1 |
| **North America** | 47 | 54 | 58 |
| Korea | 13 | 7 | 2 |
| Greater China | 9 | 5 | 3 |
| Other | 4 | 4 | 1 |
| **Asia ex-Japan** | 25 | 15 | 5 |
| Continental Europe | 9 | 16 | 16 |
| United Kingdom | 7 | 7 | 8 |
| **Europe** | 16 | 24 | 24 |
| **Japan** | 7 | 3 | 8 |
| **Other** | 4 | 4 | 5 |
| **TOTAL** | 100 | 100 | 100 |

Note: There may be slight discrepancies in the totals due to rounding.

# ALLAN GRAY BALANCED FUND

## PORTFOLIO MANAGERS

Ian Liddle, Duncan Artus, Andrew Lapping, Simon Raubenheimer (Most foreign assets are invested in Orbis funds)

## ASSOCIATE PORTFOLIO MANAGERS

Ruan Stander, Jacques Plaut, Leonard Krüger

## FUND OBJECTIVE AND BENCHMARK

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund's benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding the Allan Gray Balanced Fund).

## COMMENTARY

The Fund's total return of 9.0% constituted a good first nine months of the year and a more difficult final quarter. The FTSE/JSE All Share Index (ALSI) returned 1.4% for the fourth quarter, but Sasol underperformed and the Orbis portfolio, which accounts for 25% of the Fund's assets, also had a weaker period.

The rapid decline in the oil price was the root cause of both Sasol and Orbis' tough quarter. Orbis owns some very attractively priced Russian businesses, as well as a few oil-related companies, that sold off with the oil price.

In early September oil was trading at US$100 per barrel (/bbl), a long way from end December's US$57/bbl. A slowdown in emerging market oil demand coincided with strong supply growth from the US. As the price fell, many commentators became very negative on the price outlook, forecasting surpluses through the second half of 2015.

Rather than trying to forecast the near-term price fluctuations, we focus on assessing what we believe is a long-term sustainable price using the information available. Our long-term assumption, using currently available information, is US$85/bbl. The high price over the past few years has enabled oil companies to invest heavily in new projects using both operating cash flow and debt. Many of these projects are not feasible at lower prices and companies do not have the cash required to fund them. Despite the oil price only falling below US$80/bbl in November, at least half the major companies have already announced spending cuts for 2015. Lower capital spending should lead to a tighter market and price recovery. At current levels, Sasol is discounting a long-term oil price well below US$85/bbl. We think the company offers excellent value, especially in the context of a fully valued JSE.

The Fund's relatively low net share exposure of 55.9% is a function of the South African market offering few compelling value opportunities. Similarly, global markets have had an excellent five years and do not offer the value of a few years ago. In this environment we prefer low-risk fixed income investments and the Orbis Optimal SA funds to many JSE-listed equities. These liquid, low-risk assets put the Fund in a position to take advantage of opportunities as they present themselves.

*Commentary contributed by Andrew Lapping*

## PERFORMANCE NET OF ALL FEES AND EXPENSES

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| Unannualised: Since inception | 1314.6 | 638.3 | 136.1 |
| Annualised: Since inception | 19.0 | 14.0 | 5.8 |
| Latest 10 years | 15.5 | 13.5 | 6.0 |
| Latest 5 years | 13.6 | 13.0 | 5.3 |
| Latest 3 years | 15.2 | 15.4 | 5.6 |
| Latest 2 years | 16.2 | 14.5 | 5.6 |
| Latest 1 year | 9.0 | 9.2 | 5.8 |

1. The current benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding the Allan Gray Balanced Fund). Since inception to 31 January 2013 the benchmark was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund. Source: Morningstar, performance as calculated by Allan Gray as at 31 December 2014.
2. This is based on the latest numbers published by INET BFA as at 30 November 2014.

## ASSET ALLOCATION ON 31 DECEMBER 2014

| ASSET CLASS | TOTAL | SOUTH AFRICA | AFRICA EX-SA | FOREIGN EX-AFRICA |
|---|---|---|---|---|
| Net Equity | 55.9 | 43.7 | 0.7 | 11.5 |
| Hedged Equity | 12.9 | 2.2 | 0.0 | 10.7 |
| Property | 1.7 | 1.3 | 0.0 | 0.4 |
| Commodity-linked | 4.4 | 4.4 | 0.0 | 0.0 |
| Bonds | 11.9 | 11.2 | 0.4 | 0.2 |
| Money Market and Bank Deposits | 13.2 | 10.9 | 0.2 | 2.1 |
| **TOTAL (%)** | 100.0 | 73.8 | 1.3 | 24.9 |

Note: There may be slight discrepancies in the totals due to rounding.

## 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 biannually. | 30 JUN 2014 | 31 DEC 2014 |
|---|---|---|
| Cents per unit | 86.2524 | 82.9017 |

# ALLAN GRAY-ORBIS GLOBAL FUND OF FUNDS

## PORTFOLIO MANAGER

Ian Liddle (The underlying Orbis funds are managed by Orbis.)

## FUND OBJECTIVE AND BENCHMARK

The Fund aims to create long-term wealth for investors without exceeding a maximum net equity exposure limit of 75%. It aims to outperform the average return of funds subject to similar constraints without taking on more than their average risk. The Fund's benchmark is a portfolio made up 60% by the FTSE World Index, including income, and 40% the JP Morgan Global Government Bond index.

## COMMENTARY

After particularly strong relative and absolute performance in 2013, the Fund's performance disappointed in 2014. The primary driver of this was the underlying Orbis Funds underperforming their respective benchmarks, which included the Orbis Optimal SA Funds underperforming both cash and bonds.

The pull-back from 2013's strong performance is a painful reminder that investment returns do not come in a straight line. While this is frustrating, it is not unprecedented in Orbis or Allan Gray's history. A key driver of the poor performance across all the funds, albeit in varying degrees, was the exposure to shares of companies that are highly sensitive to the price of oil. This includes both energy sector shares as well as those in other parts of the market where oil exerts a significant influence (in Russia, for example).

With hindsight, had Orbis built the Fund's underlying exposure to energy related shares more slowly, it could have accumulated shares at an even greater discount to its assessment of intrinsic value when oil prices fell in the second half of the year. Looking forward however, Orbis' assessment of the industry's long-term fundamentals and the intrinsic value of the holdings has not changed meaningfully. In addition, valuations in the energy sector are now approaching depressed levels. Our history shows that such times can provide attractive buying opportunities, and Orbis has done just that by adding incrementally to selected oil-related underperformers.

Beyond energy-sensitive investments, another source of weakness in 2014 was the Fund's underweight position in US equities – where a bull market has continued to run – and an overweight exposure to Korea, where Orbis has found shares trading at meaningful discounts. While both exposures hurt performance in 2014, Orbis remains confident that the market will come to see the value in the Fund's Korean investments, and that these remain more attractive than many US equities, which appear fully valued.

In an environment where areas of the stock market, like the US, appear expensive, where the return on cash is unlikely to keep pace with inflation and where the total return on government bonds may fall short of that of cash, asset allocation decisions continue to prove challenging. In the Orbis Global Balanced Fund, currently comprising 46.9% of this Fund, these decisions are determined from the bottom up with all stocks, bonds and commodities competing for capital. While the Fund draws on the same investment team and research used by the Orbis Equity Funds, its lower risk tolerance results in it viewing attractive investments with a slightly different lens, preferring those names with more stable cash flows and attractive dividend yields. Combined with the ability to reduce stock market exposure through hedging, the Fund provides a flexible approach to asset allocation, with a number of levers to pull to assist in navigating the current uncertain global investment environment.

*Adapted from Orbis commentaries by Tamryn Lamb*

## PERFORMANCE NET OF ALL FEES AND EXPENSES

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| | ZAR | ZAR | ZAR |
| Unannualised: Since inception | 213.3 | 222.4 | 84.1 |
| Annualised: Since inception | 11.0 | 11.3 | 5.8 |
| Latest 10 years | 13.7 | 13.6 | 6.0 |
| Latest 5 years | 14.2 | 17.1 | 5.3 |
| Latest 3 years | 22.4 | 22.3 | 5.6 |
| Latest 2 years | 27.4 | 25.6 | 5.6 |
| Latest 1 year | 4.2 | 13.7 | 5.8 |

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| | US$ | US$ | US$ |
| Unannualised: Since inception | 90.3 | 95.9 | 27.2 |
| Annualised: Since inception | 6.0 | 6.3 | 2.2 |
| Latest 10 years | 5.8 | 5.7 | 2.1 |
| Latest 5 years | 4.4 | 7.0 | 1.8 |
| Latest 3 years | 8.7 | 8.6 | 1.4 |
| Latest 2 years | 9.2 | 7.6 | 1.3 |
| Latest 1 year | -5.4 | 3.2 | 1.3 |

1. 60% of the FTSE World Index including income and 40% of the JP Morgan Global Government Bond Index (source: Bloomberg), performance as calculated by Allan Gray as at 31 December 2014.
2. This is based on the latest numbers published by INET BFA as at 30 November 2014.

## 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 annually. | 31 DEC 2014 |
|---|---|
| Cents per unit | 0.9858 |

## ASSET ALLOCATION ON 31 DECEMBER 2014

| | TOTAL | NORTH AMERICA | EUROPE | JAPAN | ASIA EX-JAPAN | OTHER |
|---|---|---|---|---|---|---|
| Net equities | 51 | 17 | 13 | 5 | 14 | 1 |
| Hedged equities | 39 | 19 | 6 | 9 | 5 | 1 |
| Bonds | 5 | 4 | 1 | 0 | 0 | 0 |
| Cash/ currency hedge | 5 | 21 | 2 | -9 | -9 | 0 |
| **TOTAL (%)** | 100 | 61 | 23 | 5 | 10 | 1 |

Note: There may be slight discrepancies in the totals due to rounding.

# ALLAN GRAY STABLE FUND

## PORTFOLIO MANAGER

Ian Liddle, Mark Dunley-Owen
(Most foreign assets are invested in Orbis funds)

## 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 FirstRand Bank Limited plus 2%.

## COMMENTARY

The Fund outperformed its benchmark over the last three, five and 10-year periods, despite lagging the benchmark by 0.2% in 2014. Since its inception in July 2000, the Fund has returned 13.0% p.a., compared with the benchmark of 9.3% p.a, and CPI inflation of 5.8% p.a. The maximum drawdown has been 4.1%, while the lowest return over any two-year rolling period has been 5.8% p.a. The Fund has so far operated in a very favourable environment and it would be disappointing had it not achieved its objectives. The next 15 years will likely prove more challenging.

Over the bull market of the last five years, the Fund has underperformed most of its peers. This is partially explained by the Fund's lower risk tolerance – it aims to minimise the risk of loss over any two-year period. This is much more stringent than aiming to exhibit lower volatility than an average balanced portfolio. It is hard to prove that the Fund has incurred significantly less risk over the last five years, as the upward march of equity markets has not provided any stern tests of downside protection. When the tide does go out, we hope that Fund investors will be able to discern that we have not been 'swimming naked' (to borrow from a Buffett analogy).

With the benefit of hindsight, the Fund could have maintained the higher net equity exposure which it accumulated in the last quarter of 2008 for longer without compromising its risk objective. Moreover, we are disappointed by the lacklustre contribution from the substantial portion of the Fund invested in hedged equities, especially hedged global equities over the last year.

We constantly re-evaluate the Fund's portfolio. Despite these two disappointments, we consider the Fund's current relatively low net equity exposure of 17.6% to be prudent given stretched equity market valuations. We remain optimistic about the potential long-term return from hedged equities, when compared with other asset classes today.

*Commentary contributed by Ian Liddle*

## PERFORMANCE NET OF ALL FEES AND EXPENSES

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| Unannualised: Since inception | 491.5 | 263.0 | 124.2 |
| Annualised: Since inception | 13.0 | 9.3 | 5.8 |
| Latest 10 years | 11.2 | 8.3 | 6.0 |
| Latest 5 years | 9.1 | 6.8 | 5.3 |
| Latest 3 years | 9.3 | 6.5 | 5.6 |
| Latest 2 years | 10.9 | 6.5 | 5.6 |
| Latest 1 year | 6.6 | 6.8 | 5.8 |

1. The Fund's benchmark is the daily interest rate as supplied by FirstRand Bank Limited plus 2%, performance as calculated by Allan Gray as at 31 December 2014.
2. This is based on the latest numbers published by INET BFA as at 30 November 2014.

## ASSET ALLOCATION ON 31 DECEMBER 2014

| ASSET CLASS | TOTAL | SOUTH AFRICA | AFRICA EX-SA | FOREIGN EX-AFRICA |
|---|---|---|---|---|
| Net Equity | 17.6 | 12.1 | 0.2 | 5.4 |
| Hedged Equity | 30.5 | 14.4 | 0.0 | 16.1 |
| Property | 2.9 | 2.5 | 0.0 | 0.4 |
| Commodity-linked | 4.4 | 4.4 | 0.0 | 0.0 |
| Bonds | 12.6 | 11.8 | 0.5 | 0.4 |
| Money Market and Bank Deposits | 31.9 | 28.9 | 0.1 | 2.8 |
| **TOTAL (%)** | 100.0 | 74.1 | 0.7 | 25.1[3] |

3. The Fund is above its foreign exposure limit due to market value movements.

Note: There may be slight discrepancies in the totals due to rounding.

## 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 MAR 2014 | 30 JUN 2014 | 30 SEPT 2014 | 31 DEC 2014 |
|---|---|---|---|---|
| Cents per unit | 16.8936 | 18.7388 | 19.6174 | 17.1442 |

# ALLAN GRAY OPTIMAL FUND

## PORTFOLIO MANAGER

Ruan Stander

## FUND OBJECTIVE AND BENCHMARK

The Fund aims to provide investors with long-term positive returns higher than those available in the money market sector, irrespective of stock market returns. The Fund's benchmark is the daily interest rate as supplied by FirstRand Bank Limited.

## COMMENTARY

The Optimal Fund's conservative style paid off during 2014, with the Fund returning 12.5% during a volatile year for world markets. This is key to the Fund's purpose, which is to provide investors with long-term returns that are higher than those available in the money market sector, irrespective of stock market returns.

At the end of the first quarter of 2014 we made some changes to the way we manage the Fund to allow us to make more intensive use of our thorough, bottom-up stock picking research. Given that we now expect the Fund to capture roughly two-thirds of the Equity Fund's relative outperformance from domestic stock picking over the long term, the initial results have overshot our expectations. Some investors might ask if we have done so by taking more risk; strangely the answer is that we have done so by taking less risk. This is evident by the variation of monthly returns and the Fund's active share* being roughly two-thirds that of the Equity Fund.

Although we strive for good risk-adjusted returns, we don't expect things to always work out as favourably as in 2014. One scenario in which the Optimal Fund's relative performance may fall short of the Equity Fund's domestic equity alpha is if asset prices are depressed and the Equity Fund invests significantly in deep value cyclical shares. In this scenario, the Optimal Fund could potentially capture less than 50% of the outperformance in an attempt to offer more stable returns.

The Fund continues to be positioned conservatively, with a low net equity exposure of 4.5%. The most significant positive/negative positions (i.e. where the Fund gains if the price increases/decreases) are summarised below:

1) A positive exposure to banks and a negative exposure to mines
2) A positive exposure to British American Tobacco and a negative exposure to mobile networks
3) A positive exposure to Sasol and a negative exposure to Richemont

*Commentary contributed by Ruan Stander*

*Active share is calculated by summing the absolute values of the differences in weight between each share in a fund and the benchmark index, and then dividing the sum by two. It indicates the overall degree of difference between the fund and the index. Active share of 0% indicates that a fund contains only benchmark stocks in exactly the same proportion as the benchmark; its performance would therefore track the index. Active share of 100% represents a fund which is entirely invested in 'fledgling' stocks not included in the FTSE/JSE All Share Index. The measure was devised in 2006 by Martijn Cremers and Antti Petajisto at the Yale School of Management.

## PERFORMANCE NET OF ALL FEES AND EXPENSES

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| Unannualised: Since inception | 162.9 | 120.9 | 89.8 |
| Annualised: Since inception | 8.2 | 6.7 | 5.4 |
| Latest 10 years | 7.6 | 6.2 | 6.0 |
| Latest 5 years | 6.0 | 4.7 | 5.3 |
| Latest 3 years | 6.8 | 4.4 | 5.6 |
| Latest 2 years | 9.5 | 4.4 | 5.6 |
| Latest 1 year | 12.5 | 4.7 | 5.8 |

1. The daily interest rate as supplied by FirstRand Bank Limited (source: FirstRand Bank), performance as calculated by Allan Gray as at 31 December 2014.
2. This is based on the latest numbers published by INET BFA as at 30 November 2014.

## ASSET ALLOCATION ON 31 DECEMBER 2014

| ASSET CLASS | TOTAL |
|---|---|
| Net Equity | 4.5 |
| Hedged Equity | 72.0 |
| Property | 1.1 |
| Commodity-linked | 0.0 |
| Bonds | 0.0 |
| Money Market and Bank Deposits | 22.4 |
| **TOTAL (%)** | 100.0 |

Note: There may be slight discrepancies in the totals due to rounding.

## 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 biannually. | 30 JUN 2014 | 31 DEC 2014 |
|---|---|---|
| Cents per unit | 18.4801 | 7.7824 |

# ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS

## PORTFOLIO MANAGER

Ian Liddle (The underlying Orbis funds are managed by Orbis.)

## FUND OBJECTIVE AND BENCHMARK

The Fund aims to provide a high degree of capital stability (when measured in the foreign currency denominations of the underlying Orbis Funds), while producing long-term returns that are superior to foreign currency bank deposits. The Fund's benchmark is the simple average of the benchmarks of the underlying Orbis funds.

## COMMENTARY

The negative return for the Orbis Optimal SA Fund (Optimal) in 2014 was clearly disappointing for an absolute return vehicle. While these results are frustrating for even the most patient investors, it is important to step back and remember the role that Optimal is designed to play in a portfolio context.

Optimal can be thought of as a 'building block'. It is intended to complement the Orbis Global Equity Fund in a balanced portfolio by producing long-term returns that are competitive with cash and bonds, and uncorrelated with equities.

The vast majority of Optimal's past returns have comprised the return on cash plus any additional value Orbis has been able to add through its stock-picking decisions. During the past five years, cash has yielded virtually nothing and Orbis has not added any value on top of that. Central bank measures to depress interest rates in the wake of the Global Financial Crisis have reduced returns on cash – and therefore also on Optimal. Those same expansionary measures have boosted returns on equities and other real assets. In turn this has dampened the potential for stock-picking outperformance, because Orbis' value-oriented stock selections have struggled to keep pace with more expensive, momentum-driven shares as the current bull market has matured. Against this backdrop, one would expect Optimal to lag other building blocks.

There will be times when Optimal earns its keep by providing downside protection – for example during the 2008-2009 collapse in global equity prices – and other times when its value is less obvious. At all times, the critical question for investors is whether or not Optimal is doing what it is designed to do.

Such a view hinges on Orbis' ability to generate positive stock-picking alpha, as has been the case since the inception of the Fund in 1990. During 2014, and as noted in the Allan Gray-Orbis Global Equity Feeder Fund's commentary, our stock selections detracted value in North America, Europe and Japan, and only contributed positively in Asia ex-Japan. In aggregate, stock picking was the biggest single driver of the Fund's poor performance over the past year. An unhedged exposure to Russia also detracted approximately 2% from the Fund's return, primarily due to depreciation in the rouble.

With equities and bonds trading at today's elevated valuations, the next five years may look quite different to the last five. Orbis does not expect the return on cash to keep pace with inflation and considers it likely that the total return on government bonds will fall short of that of cash. However, Orbis has a high degree of conviction that Optimal's underlying holdings are more attractive than their local stock markets. In such an environment, Optimal provides clients with a fighting chance to achieve positive real returns over the long term, without being exposed to inflated asset prices and the associated risk of permanent capital loss.

As such, Orbis believes Optimal remains a highly relevant substitute for cash and bonds.

*Adapted from commentary contributed by Henry Allen*

## PERFORMANCE NET OF ALL FEES AND EXPENSES

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| | ZAR | ZAR | ZAR |
| Unannualised: Since inception | 57.6 | 45.9 | 27.8 |
| Annualised: Since inception | 9.9 | 8.1 | 5.3 |
| Latest 3 years | 15.0 | 11.7 | 5.6 |
| Latest 2 years | 18.8 | 14.6 | 5.6 |
| Latest 1 year | 1.1 | 3.7 | 5.8 |

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| | US$ | US$ | US$ |
| Unannualised: Since inception | 4.6 | -3.1 | 9.1 |
| Annualised: Since inception | 1.0 | -0.6 | 1.9 |
| Latest 3 years | 2.1 | -0.8 | 1.4 |
| Latest 2 years | 1.8 | -1.8 | 1.3 |
| Latest 1 year | -8.3 | -5.9 | 1.3 |

1. The simple average of the benchmarks of the underlying funds, performance as calculated by Allan Gray as at 31 December 2014.
2. This is based on the latest numbers published by INET BFA as at 30 November 2014.

## 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 annually. | 31 DEC 2014 |
|---|---|
| Cents per unit | 0.0000 |

## ASSET ALLOCATION ON 31 DECEMBER 2014

| | TOTAL | NORTH AMERICA | EUROPE | JAPAN | ASIA EX-JAPAN | OTHER |
|---|---|---|---|---|---|---|
| Net Equities | 9 | 0 | 1 | 1 | 8 | 0 |
| Hedged Equities | 79 | 33 | 14 | 19 | 12 | 2 |
| Cash/ currency hedge | 12 | 25 | 14 | -20 | -7 | -1 |
| **TOTAL (%)** | 100 | 58 | 29 | 0 | 13 | 1 |

Note: There may be slight discrepancies in the totals due to rounding.

# ALLAN GRAY BOND FUND

## PORTFOLIO MANAGERS

Sandy McGregor, Andrew Lapping

## FUND OBJECTIVE AND BENCHMARK

The Fund aims to provide investors with a real return over the long-term and outperform the JSE All Bond Index at no greater risk.

## COMMENTARY

The sudden collapse of the price of oil has important consequences for global bond markets. Energy companies and certain oil exporting countries are now under significant financial pressure, which could trigger a wave of defaults. Among central banks, heightened concern about deflation is likely to postpone any normalisation of interest rates. Low rates could be with us for a long time yet.

The slowdown in emerging markets has put downward pressure on commodity prices. Conditions have become difficult for commodity producers such as South Africa. The domestic economy can best be described as stagnant. Despite this, Fitch and Standard & Poor's have both chosen to reaffirm their previous ratings on South African debt. They are giving credit to the National Treasury's serious efforts to bring the country's fiscal imbalances under control.

To a large extent the success or failure of this project will depend on the outcome of wage negotiations between the government and the public sector unions in 2015. Excessive wage increases could result in further downgrades.

While the rand has been relatively stable compared to currencies of other commodity-producing countries, it otherwise has been weak. Since August 2013, foreigners have been significant sellers of South African bonds.

With lower oil prices, the inflation rate will be well below the South African Reserve Bank's target of 6%. Although the Monetary Policy Committee has warned that real rates are too low, the combination of a stagnant economy and declining inflation makes it unlikely that short-term rates will be increased any time soon.

The Fund continues to have a duration less than its JSE All Bond Index benchmark, because there are significant global financial risks which could adversely impact South Africa's small open economy. However, the steep yield curve does, to a certain degree, compensate for these risks. Accordingly, the Fund includes high-yielding, longer-dated securities.

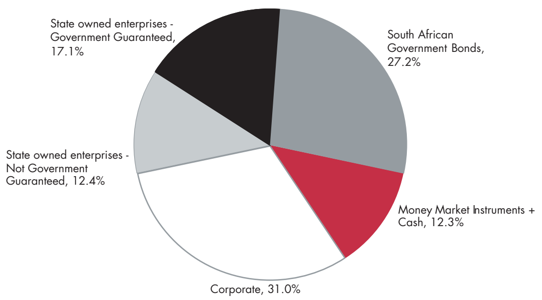
*Commentary contributed by Sandy McGregor*

## PERFORMANCE NET OF ALL FEES AND EXPENSES

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| Unannualised: Since inception | 148.9 | 144.6 | 80.5 |
| Annualised: Since inception | 9.3 | 9.1 | 6.0 |
| Latest 10 years | 8.8 | 8.6 | 6.0 |
| Latest 5 years | 9.7 | 10.0 | 5.3 |
| Latest 3 years | 8.4 | 8.7 | 5.6 |
| Latest 2 years | 5.9 | 5.3 | 5.6 |
| Latest 1 year | 9.7 | 10.2 | 5.8 |

1. JSE All Bond Index (source: INET BFA), performance as calculated by Allan Gray as at 31 December 2014.
2. This is based on the latest numbers published by INET BFA as at 30 November 2014.

## FUND ALLOCATION ON 31 DECEMBER 2014




Note: There may be slight discrepancies in the totals due to rounding.

## INCOME DISTRIBUTIONS FOR THE LAST 12 MONTHS

Actual payout, the Fund distributes quarterly.

| | 31 MAR 2014 | 30 JUN 2014 | 30 SEPT 2014 | 31 DEC 2014 |
|---|---|---|---|---|
| Cents per unit | 20.4900 | 21.3513 | 22.2786 | 22.4307 |

# ALLAN GRAY MONEY MARKET FUND

## PORTFOLIO MANAGER

Andrew Lapping, Mark Dunley-Owen

## FUND OBJECTIVE AND BENCHMARK

The Fund aims to preserve capital, maintain liquidity and generate a sound level of income. The Fund's benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index.

## COMMENTARY

The past year was a surprisingly uneventful one in the money market arena. After selling off in early January with the 0.5% interest rate hike, term interest rates were remarkably stable for the remainder of the year. Throughout the period the money market priced in interest rate increases, but the Monetary Policy Committee of the Reserve Bank only made one further move of 0.25% in July.

We implemented a very similar strategy throughout the year, taking advantage of the steep yield curve by buying six-month NCDs and 12-month floating rate notes to making the best of the banking sector's need for term funding. This strategy allows us to maintain a liquid portfolio and receive a decent yield, while taking limited duration risk. During the third quarter, market participants bid up Treasury bills to a level where purchasing the asset no longer made sense from a value perspective. As a result, our Treasury bill holding fell to below 5%. Pleasingly, the three-month Treasury bill rate has normalised and we have begun to increase our holding.

We still think the inflation and interest rate risks are skewed to the upside because of the imbalances in the South African economy, as discussed in the September fund factsheet commentary available on www.allangray.co.za. In the short term, there is no doubt that the sharply lower oil and food prices will reduce the inflation rate. The only problem is that weak emerging market demand is one of the reasons for these lower oil prices. Weak economic growth in emerging markets often makes investors negative on the asset class as a whole. This plays out in declining equity prices and currencies. The rand has held up relatively well over the past three months as other emerging market and commodity currencies have weakened.

We will continue to manage the Fund to limit both credit and duration risk while maintaining a very strong liquidity position. This means we will continue to follow the same strategy as we did in 2014, unless the risk/reward profile of the money market changes.

*Commentary contributed by Andrew Lapping*

## PERFORMANCE NET OF ALL FEES AND EXPENSES

| % RETURNS | FUND | BENCHMARK[1] | CPI INFLATION[2] |
|---|---|---|---|
| Unannualised: Since inception | 188.5 | 186.5 | 111.4 |
| Annualised: Since inception | 8.2 | 8.1 | 5.7 |
| Latest 10 years | 7.5 | 7.3 | 6.0 |
| Latest 5 years | 5.9 | 5.8 | 5.3 |
| Latest 3 years | 5.6 | 5.5 | 5.6 |
| Latest 2 years | 5.6 | 5.5 | 5.6 |
| Latest 1 year | 6.1 | 5.9 | 5.8 |

1. The current benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index. Since inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011 the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund, performance as calculated by Allan Gray as at 31 December 2014.
2. This is based on the latest numbers published by INET BFA as at 30 November 2014.

## INCOME DISTRIBUTIONS FOR THE LAST 12 MONTHS

Actual payout (cents per unit), the Fund distributes monthly.

| Jan 2014 | Feb 2014 | Mar 2014 | Apr 2014 |
|---|---|---|---|
| 0.44 | 0.41 | 0.48 | 0.47 |
| **May 2014** | **Jun 2014** | **Jul 2014** | **Aug 2014** |
| 0.50 | 0.49 | 0.51 | 0.52 |
| **Sept 2014** | **Oct 2014** | **Nov 2014** | **Dec 2014** |
| 0.51 | 0.53 | 0.52 | 0.53 |

## EXPOSURE BY ISSUER ON 31 DECEMBER 2014

| | % OF PORTFOLIO |
|---|---|
| **GOVERNMENT AND PARASTATALS** | 12.0 |
| Republic of South Africa | 10.9 |
| Transnet | 1.1 |
| **CORPORATES** | 5.2 |
| Aspen Pharmacare | 2.5 |
| Bidvest | 1.1 |
| Emira Property Fund | 1.0 |
| Sanlam | 0.6 |
| **BANKS[3]** | 82.9 |
| ABSA | 18.5 |
| FirstRand Bank | 18.2 |
| Nedbank | 18.0 |
| Standard Bank | 16.9 |
| Investec Bank | 9.3 |
| Standard Chartered | 2.0 |
| **TOTAL** | 100.0 |

3. Banks include negotiable certificates of deposit (NCDs), fixed deposits and call deposits.

Note: There may be slight discrepancies in the totals due to rounding.

# ALLAN GRAY UNIT TRUSTS ANNUAL FEES

| FUND | ANNUAL INVESTMENT MANAGEMENT FEE (EXCL. VAT) |
|---|---|
| Allan Gray Equity Fund[1,5] (JSE code: AGEF) | The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark adjusted for Fund expenses and cash flows.<br>Fee for performance equal to the Fund's benchmark: 1.50% p.a. excl. VAT<br>For each percentage of two-year performance above or below the benchmark, we add or deduct 0.1%, subject to the following limits:<br>Maximum fee: 3.00% p.a. excl. VAT<br>Minimum fee: 0.00% p.a. excl. VAT<br>This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark. The fee rate is applied to the daily value of the Fund. |
| Allan Gray-Orbis Global Equity Feeder Fund[2] (JSE code: AGOE) | Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis. Orbis charges an annual management fee within the underlying Orbis Global Equity Fund. The fee rate is calculated based on the Orbis fund's performance relative to its benchmark. For more information please refer to the Orbis Global Equity Fund factsheet, which can be found at www.allangray.co.za. |
| Allan Gray Balanced Fund[5] (JSE code: AGBF) | 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.<br>Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT<br>For each percentage of two-year performance above or below the benchmark we add or deduct 0.1%, subject to the following limits:<br>Maximum fee: 1.50% p.a. excl. VAT<br>Minimum fee: 0.50% p.a. excl. VAT<br>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.[3] |
| Allan Gray-Orbis Global Fund of Funds[2] (JSE code: AGGF) | Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis. Orbis charges annual management fees within the underlying Orbis funds. Each fund's fee rate is calculated based on the fund's performance relative to its own benchmark. For more information please refer to the respective Orbis funds' factsheets, which can be found at www.allangray.co.za. |
| Allan Gray Stable Fund[5] (JSE code: AGSF) | 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.<br>Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT<br>For each percentage of two-year performance above or below the benchmark we add or deduct 0.1%, subject to the following limits:<br>Maximum fee: 1.50% p.a. excl. VAT<br>Minimum fee: 0.50% p.a. excl. VAT<br>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.[3] |
| Allan Gray Optimal Fund[5] (JSE code: AGOF) | The fee rate is calculated daily by comparing the Fund's total performance to that of the benchmark.<br>Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT<br>The Fund is first required to recover any underperformance before a fee higher than the fee for performance equal to the benchmark can be charged. This is known as a high watermark. If the Fund's performance is above its previous high watermark, we add 0.2% to the fee for each percentage of performance above the high watermark. The fee is uncapped. |
| Allan Gray-Orbis Global Optimal Fund of Funds[2] (JSE code: AGOO) | Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis. Orbis charges annual management fees within the underlying Orbis funds. Each fund's fee rate is calculated based on the fund's performance relative to its own benchmark. For more information please refer to the respective Orbis funds' factsheets, which can be found at www.allangray.co.za. |
| Allan Gray Bond Fund (JSE code: AGBD) | The fee rate is calculated daily by comparing the Fund's total performance over the last year, to that of the benchmark adjusted for Fund expenses and cash flows.<br>Minimum fee: 0.25% p.a. excl. VAT<br>If the Fund outperforms its benchmark, for each percentage of performance above the benchmark we add 0.25% to the minimum fee to a maximum fee of 0.75% p.a. excl. VAT. The fee rate is applied to the daily value of the Fund. |
| Allan Gray Money Market Fund (JSE code: AGMF) | Fixed fee: 0.25% p.a. excl. VAT |



# ALLAN GRAY UNIT TRUSTS TOTAL EXPENSE RATIOS

| FUND | TOTAL EXPENSE RATIO[4,6] (INCL. VAT) | | | | |
|---|---|---|---|---|---|
| | FEE FOR BENCHMARK PERFORMANCE | PERFORMANCE FEE | OTHER COST INCLUDING TRADING COSTS | VAT | TOTAL EXPENSE RATIO (TER) |
| Allan Gray Equity Fund[1,5] (JSE code: AGEF) | 1.50% | 0.44% | 0.06% | 0.28% | 2.28% |
| Allan Gray-Orbis Global Equity Feeder Fund[2] (JSE code: AGOE) | 1.50% | 0.76% | 0.25% | 0.00% | 2.51% |
| Allan Gray Balanced Fund[3,5] (JSE code: AGBF) | 1.06% | 0.42% | 0.10% | 0.15% | 1.73% |
| Allan Gray-Orbis Global Fund of Funds[2] (JSE code: AGGF) | 1.26% | 0.43% | 0.26% | 0.00% | 1.95% |
| Allan Gray Stable Fund[3,5] (JSE code: AGSF) | 1.02% | 0.45% | 0.08% | 0.16% | 1.71% |
| Allan Gray Optimal Fund[5] (JSE code: AGOF) | 1.00% | 0.77% | 0.12% | 0.26% | 2.15% |
| Allan Gray-Orbis Global Optimal Fund of Funds[2] (JSE code: AGOO) | 1.00% | 0.23% | 0.24% | 0.00% | 1.47% |
| Allan Gray Bond Fund (JSE code: AGBD) | 0.25% | 0.32% | 0.02% | 0.08% | 0.67% |
| Allan Gray Money Market Fund (JSE code: AGMF) | 0.25% | n/a | 0.01% | 0.04% | 0.30% |

1. The Fund management fee may change in 2015 as described in the Chairman's report on page 1.
2. Due to foreign exchange control regulations, the Fund may be closed from time to time. Unit holders can contact our Client Service Centre to confirm whether or not the Fund is open.
3. Assets invested in the Orbis funds incur a management fee. These, along with other expenses, are included in the total expense ratio.
4. A total expense ratio (TER) of a unit trust is a measure of the unit trust's assets that were relinquished as a payment of services rendered in the management of the unit trust. The total operating expenses are expressed as a percentage of the average value of the unit trust, calculated for the year ended 31 December 2014. Included in the TER is the proportion of costs incurred by the performance component, fee at benchmark and other expenses. These are disclosed separately as percentages of the net asset value. Trading costs (including brokerage, VAT, STT, STRATE, levy and insider trading levy) are included in the TER. A high TER will not necessarily imply a poor return nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.
5. The fees and TERs provided are for Class A funds only. TERs for Class B and Class C funds are available from our Client Service Centre.
6. TERs are unaudited.

## COMPLIANCE WITH PRUDENTIAL INVESTMENT GUIDELINES:

### ALLAN GRAY BALANCED, STABLE, BOND AND MONEY MARKET FUNDS

The Funds are managed to comply with Regulation 28 of the Pension Fund Act. Exposures in excess of the limit will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period. Allan Gray Unit Trust Management (RF) Proprietary Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (Item 6 of Table 1 to Regulation 28).

## THE COMPANY AND GROUP

1 Allan Gray Unit Trust Management (RF) Proprietary Limited (Company) is a subsidiary of Allan Gray Proprietary Limited (AGPL) and forms part of the Allan Gray group of companies (Group) of which Allan Gray Group Proprietary Limited (AGGPL) is the ultimate holding company. AGPL and AGGPL are incorporated in the Republic of South Africa and are subject to the corporate governance regime set out in the Companies Act, No. 71 of 2008, and the King Code of Governance for South Africa 2009 (King III or the Code).

2. The Group provides financial services to clients in Southern Africa. It offers a range of investment products and services through various operating companies and subsidiaries registered in South Africa, Namibia, Botswana, Swaziland and Nigeria. These operating companies and subsidiaries are registered and / or licensed financial services providers in South Africa and / or their respective countries of registration. The Group's size, structure and location of operations and activities as well as its products and services are detailed on its website.

3. The Company is registered in South Africa and its principal business is to manage the Allan Gray Unit Trust Funds registered under the Allan Gray Unit Trust Scheme in accordance with the Collective Investment Schemes Control Act No. 45 of 2002. The Company has appointed its holding company as investment manager and to undertake certain company administrative and marketing functions and the day to day administration of local unit trusts. AGPL is licensed as an authorised financial services provider with the Financial Services Board in South Africa. The Company is a member of the Association for Savings & Investments SA (ASISA).

4. The Group is privately owned and does not offer shares to the public.

## CLIENT ORIENTATION

5. The Group provides investment management services to clients through a variety of investment products. Its main source of revenue and its only source of operating income are fees charged to clients for these investment management services. Fees are aligned with the interests of clients in that they are charged in proportion to assets and / or directly linked to the investment performance achieved for clients. Shareholder value is therefore created by, amongst other things, excelling for clients.

6. The Group is client focused and its corporate governance efforts are first and foremost directed towards protecting the interests of clients. This is appropriate as clients have entrusted their investment funds to the Group that, in managing such funds, acts in a fiduciary capacity.

## KING III

7. The Group applies the highest standards of integrity and ethics in its business and in its dealings with clients, the public, employees, shareholders, regulatory and fiscal authorities and all other stakeholders and interested or effected parties. It is committed to the principles of effective corporate governance. The Group supports King III.





## BOARD COMPOSITION

8. The board of the Company (Board) consists of six directors of which four are non-executive including two who are independent.

9. The board of AGPL consisted of eight directors during the year, of which four are non-executive and two are independent. The chairman of the board is a non-executive director and shareholder of AGGPL. He is not independent. He is suitably experienced, including as a former executive of the Group, to fulfill his role as chairman. His lack of independence does not prevent him from fulfilling the chairman's functions.

10. The board of AGGPL consisted of eight directors during the year, of which three are non-executive, including one who is independent. The chairman of the board is a non-executive director and shareholder of AGGPL. He is not independent. He is suitably experienced, including as a former executive of the Group, to fulfill his role as chairman. His lack of independence does not prevent him from fulfilling the chairman's functions.

## BOARD MEETINGS

11. The Board meets regularly, including as often as is required to effectively perform its duties. It met twice during the 2014 financial year.

## BOARD APPOINTMENT

12. Directors are appointed and annually re-appointed by shareholders.

## AUDIT COMMITTEE

13. The Board is assisted by the Group Audit Committee appointed by AGGPL shareholders. The Group Audit Committee has five members of which two are executives and two are independent. It is chaired by a non-executive AGGPL director who is not an independent director of AGGPL. He is suitably experienced to fulfill his role as chairman of the Group Audit Committee. The Group Audit Committee met five times during the year.

14. The most senior financial officer, the internal auditor as well as the external auditors of the Group attend the Group Audit Committee meetings by invitation.

15. The Group Audit Committee performs its functions in accordance with applicable legislation and as set out in its terms of reference adopted by the AGGPL board.

## ROLE AND RESPONSIBILITY OF THE BOARD

16. The board directs, controls and monitors the affairs of the Company while at the same time protecting the interests of clients. The board is responsible for risk management.

## COMPANY SECRETARY

17. The Company Secretary attends to all company secretarial matters as prescribed by law and King III. All directors have access to the Company Secretary.

18. The Company Secretary is not a director or prescribed officer of the Company.

## CODE OF ETHICS

19. In support of its commitment to apply the highest standards of integrity and ethics in dealing with all stakeholders, the Group has adopted the Code of Ethics and Standards of Professional Conduct of the CFA Institute (www.cfainstitute.org).

## REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES

20. Executive and director remuneration is dealt with at a Group level and is monitored and approved by the AGGPL shareholders that act through a shareholder appointed Remuneration Committee constituted in terms of the AGGPL Memorandum of Incorporation.

## SUSTAINABILITY

21. As a provider of financial services, the Group's business activities have minimal direct environmental impact and the Group strives to minimise these and any indirect impact through appropriate environmentally sensitive practices and procedures. This includes locating the head office in Cape Town in a green building that has been awarded 6 stars by the Green Building Council of South Africa.

22. The Group's investment professionals consider the long-term sustainability of the companies in which the Group invests clients' funds.

23. The Group contributes 7% of its profits (after tax) to the Allan Gray Orbis Foundation, a registered public benefit organisation which promotes education and entrepreneurship in Southern Africa.

24. The Group is committed to employment equity and meaningful transformation.

## SOCIAL AND ETHICS COMMITTEE

25. The Company has appointed the Social and Ethics Committee of AGPL as the Company's Social and Ethics Committee. This committee consists of three AGPL directors, of which the Chairman is an independent, non-executive. The function of this committee is to monitor activities regarding social and economic development, good corporate citizenship, the environment, consumer relationships and employment practices. The Social and Ethics Committee met four times during the year.

## COMPLIANCE

26. The Group has appointed Compliance Officers as required in applicable statutes. Compliance issues are overseen by the Group Audit Committee and the board through suitable reports and enquiry.

## INTERNAL CONTROL AND RISK MANAGEMENT

27. The Group's internal control and risk management procedures serve to provide assurance against material misstatement and loss.

28. An Enterprise Risk Management (ERM) framework provides a consistent process for identifying, measuring and managing risk on a company-wide basis. The Group is increasingly embedding ERM within existing organisational structures and procedures.

## INTERNAL AUDIT

29. The Group internal audit function assists the Board and management in monitoring the adequacy and effectiveness of the Company's internal controls, including to consider their design and operating efficiency and to recommend improvements.

30. The internal audit function reports directly to the Group Audit Committee.

31. The Group internal audit function operates in terms of a Group-wide internal audit plan. The plan is compiled with the involvement of senior executives and is regularly updated. The Group Audit Committee and the AGGPL board monitor and review the implementation of the plan regularly, and in the case of the latter, at least once a year. The internal audit findings are presented to management and the Group Audit Committee. Follow-up audits are conducted in areas where significant internal control weaknesses are found.

## CONTROL OPINION

32. Nothing has come to the attention of the board that causes it to believe that the Company's system of internal controls and risk management is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements. The board's opinion is supported by the Group Audit Committee.

## GOING CONCERN

33. The board is satisfied that the Company remains a going concern.

## INTRODUCTION

1. The Allan Gray Group Audit Committee (Committee) is a committee voluntarily appointed by the shareholders of Allan Gray Group Proprietary Limited (AGGPL), the ultimate holding company of the Allan Gray group of companies (Group). The duties of the Committee are set out in its terms of reference, the Companies Act, No. 71 of 2008, of South Africa (Act) and other applicable legislation, if any. The Committee acts as audit committee of a number of entities in the Group.

## TERMS OF REFERENCE

2. The AGGPL board has determined the terms of reference of the Committee.

## MEMBERSHIP, MEETINGS AND ANNUAL ASSESSMENT

3. For the reporting period, the Committee had five members. Four were directors of AGGPL and / or its subsidiaries. Two of the members were non-executive directors and one was independent. One further member, chosen for his skills and experience, was not a director or executive of any Group company and was independent. Shareholders approved the composition of the Committee knowing that the King III Code of Corporate Governance (King III) recommends that all audit committee members should be independent non-executive directors.

4. The chairman of the Committee is a non-executive director of AGGPL. He is not independent and is suitably experienced, including as a former member of other audit committees, to act as chairman.

5. Various executives as well as the Group external auditor attend meetings by invitation.

6. During the year under review the Committee met five times.

7. The effectiveness of the Committee and its members is assessed on an annual basis.

## ROLE AND RESPONSIBILITIES

8. Although the Company is a private company and therefore not required by the Act to have an audit committee, the Committee's role and responsibilities include, through its terms of reference, the statutory duties set out in the Act for such committees. The Committee adheres to King III and when not, the circumstances have been explained in the Corporate Governance Statement, included elsewhere in the Annual Report.

9. The Committee satisfied itself that the external auditor was independent of Allan Gray Unit Trust Management (RF) Proprietary Limited (Company) and the AGGPL Group, as set out in section 94(8) of the Act. This included consideration of other appointments of the auditor, the extent of other work undertaken by the auditor for the Company and the AGGPL Group and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the auditor that its internal governance processes supported and demonstrated its claim to independence. The Committee ensured that the appointment of the auditor complied with the Act, and any other legislation relating to the appointment of auditors.

10. The Committee, in consultation with executive management, considered and approved the audit plan and budgeted audit fees for the 2014 year with the external auditor. The Committee did not set a formal procedure for the engagement of the external auditor for non-audit services. When practicable, the Committee approved non-audit services in advance. When the external auditor provided non-audit services that had not been approved by the Committee in advance, full details were provided to the Committee at the earliest available opportunity.

11. The Committee recommended to the Company's board and shareholder that Ernst & Young Inc. be reappointed as the external auditor for the 2015 financial year.

12. The Committee reviewed the accounting policies and the draft annual financial statements of the Company and was satisfied that they were appropriate and complied with International Financial Reporting Standards.

13. The Committee relied on the Group's investor complaint resolution procedures (as required by legislation) to receive and deal appropriately with any concerns and complaints relating to the reporting practices of the Company. No matters of significance were raised in the past financial year.

14. The Committee reviewed and reported to the Board on the effectiveness of the Company's internal control and risk management systems. In this it relied on the external auditor and the AGGPL internal audit function.

15. The Committee accepted that it has a responsibility to deal with concerns and complaints, if any and whether from within or outside the Company, relating to the accounting practices and internal audit of the Company, the content or auditing of the Company's financial statements, the internal financial controls of the Company and related matters. No matters of significance were raised with the Committee during the financial year.

16. Additional duties and functions assigned by the board to the Committee, as set out in its terms of reference, included the following:

    16.1 an oversight role regarding the Company's reporting process generally;

    16.2 satisfying itself that the Company, in its reporting process, optimised the assurance coverage obtained from management and internal and external assurance providers in accordance with an appropriate combined assurance model;

    16.3 reviewing and recommending, as it normally does at a meeting held in February every year, the annual financial statements for approval by the board;

    16.4 considering the performance, financial position and general state of affairs of the Company in assisting the board in formulating its statement regarding the 'going concern' status of the Company as set out elsewhere in the Annual Report;

    16.5 considering the Company's risk management function which was assigned to an executive risk and compliance committee, the meetings of which were, by invitation, open for any Committee member to attend; and

    16.6 considering the management of financial and operational reporting risks, the implementation of internal financial and operational controls and measures aimed at preventing or mitigating fraud and information technology risks.

# REPORT OF THE AUDIT COMMITTEE

For the year ended 31 December 2014

17. The Committee ensured that the Group's internal audit function operates independently and had the resources, standing and authority necessary to discharge its duties. The Committee ensured cooperation between the internal and external auditors, and served as a link between the Board and these functions.

18. The Committee recommended a risk management charter which was approved by the AGGPL board.

19. The Committee approved the annual audit plan of the internal audit function. This included that:

    19.1 the internal audit function reported centrally with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across the Group's operations, including the Company;

    19.2 the internal audit function reported its findings against the agreed internal audit plan to the Committee on a regular basis; and

    19.3 The internal audit function had direct access to the Committee.

20. The Committee assessed the performance of the internal audit function. An effectiveness review was performed and the internal audit function was rated as being adequate and satisfactory. The Committee was satisfied that an independent external review was not required.

21. The Committee was satisfied that the appointment and employment status of the internal audit manager was commensurate with such function acting with the required degree of independence and that the Committee had complete and unfettered access to these functions to be able to play an effective oversight role.

22. The Committee had not charged the internal audit function with the King III requirement of considering the opportunities that would have promoted the realisation of strategic goals that were identified, assessed and managed by the Company's management team.

23. The Committee was satisfied that it had complied with its legal, regulatory and other responsibilities.

24. The Committee was satisfied that the persons assigned to manage the Company's finances had appropriate expertise and experience.

25. The Committee considered and satisfied itself that the expertise and resources of the finance function and experience of the senior members of management responsible for the finance function were adequate.

F J Van Der Merwe
Chairman
16 February 2015





# TRUSTEES' REPORT ON THE ALLAN GRAY UNIT TRUST SCHEME

As Trustees to the Allan Gray Unit Trust Scheme ("the Scheme"), we are required in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002) ("the Act") to report to unitholders on the administration of the Scheme during each annual accounting period.

We advise for the period 1 January 2014 to 31 December 2014 we reasonably believe that the Manager has administered the Scheme in accordance with:

(i) the limitations imposed on the investment and borrowing powers of the manager 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

Nelia de Beer
Head Trustee Services

Shawn Viljoen
Manager Trustee Services

Custody and Trustee Services
Rand Merchant Bank, a division of FirstRand Bank Limited

Johannesburg
11 February 2015

# APPROVAL OF THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

The directors of Allan Gray Unit Trust Management (RF) Proprietary Limited are responsible for the preparation of the annual financial statements and related financial information included in this report.

The annual financial statements For the year ended 31 December 2014 set out on pages 43 to 82 have been approved by the board of directors of Allan Gray Unit Trust Management (RF) Proprietary Limited and are signed on its behalf by:

| | |
|---|---|
| ED Loxton<br>Chairman | RW Dower<br>Director |
| Cape Town<br>20 February 2015 | Cape Town<br>20 February 2015 |





# INDEPENDENT AUDITOR’S REPORT TO THE UNITHOLDERS O

Allan Gray Equity Fund
Allan Gray-Orbis Global Equity Feeder Fund
Allan Gray Balanced Fund
Allan Gray-Orbis Global Fund of Funds
Allan Gray Stable Fund
Allan Gray Optimal Fund
Allan Gray-Orbis Global Optimal Fund of Funds
Allan Gray Bond Fund
Allan Gray Money Market Fund
(The ‘Allan Gray Unit Trust Funds’ or the ‘Funds’)

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of The Allan Gray Unit Trust Funds set out on pages 43 to 82 which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

## DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of Allan Gray Unit trust (RF) Proprietary Limited are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR’S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Allan Gray Unit Trusts at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Ernst & Young Inc.
Director – Anthony Robert Cadman
Registered Auditor
Chartered Accountant
Ernst & Young, 35 Lower Long Street, Cape Town
20 February 2015

ALLAN GRAY UNIT TRUSTS

# STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | NOTES | EQUITY FUND | | GLOBAL EQUITY FEEDER FUND | | BALANCED FUND | | GLOBAL FUND OF FUNDS | | STABLE FUND | | OPTIMAL FUND | | GLOBAL OPTIMAL FUND OF FUNDS | | BOND FUND | | MONEY MARKET FUND | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R |
| **REVENUE** | | 1 268 282 655 | 1 079 815 256 | 1 280 817 | 1 682 226 | 3 028 942 657 | 2 133 708 681 | 5 023 969 | 1 275 251 | 1 364 927 145 | 1 014 668 444 | 30 423 562 | 29 532 428 | - | 334 264 | 50 462 602 | 58 100 079 | 509 999 243 | 407 155 215 |
| Dividends | | 1 190 613 185 | 1 014 252 536 | - | - | 1 389 035 284 | 1 004 476 046 | 3 482 842 | - | 369 276 743 | 264 593 927 | 24 161 254 | 24 070 731 | - | - | - | - | - | - |
| - Local | | 1 173 964 794 | 1 014 252 536 | - | - | 1 346 821 792 | 1 004 476 046 | - | - | 346 939 788 | 264 593 927 | 24 161 254 | 24 070 731 | - | - | - | - | - | - |
| - Foreign | | - | - | - | - | 6 434 494 | - | 3 482 842 | - | - | - | - | - | - | - | - | - | - | - |
| - Real estate investment trust income | | 16 648 391 | - | - | - | 35 778 998 | - | - | - | 22 336 955 | - | - | - | - | - | - | - | - | - |
| Interest - Local | | 77 669 470 | 64 507 424 | 1 280 817 | 1 682 226 | 1 639 519 319 | 1 128 748 005 | 1 541 127 | 1 275 251 | 995 529 253 | 750 005 849 | 6 262 308 | 5 461 697 | - | 334 264 | 50 462 602 | 58 100 079 | 509 999 243 | 407 155 215 |
| - Bonds | | - | - | - | - | 857 977 163 | 527 788 021 | - | - | 255 101 013 | 119 084 736 | - | - | - | - | 48 103 656 | 49 402 485 | - | - |
| - Money market instruments | | - | - | - | - | 716 339 042 | 502 376 916 | - | - | 695 639 934 | 583 744 450 | - | - | - | 334 264 | 1 702 140 | 7 792 318 | 482 616 993 | 385 063 114 |
| - Property funds | | - | 22 774 045 | - | - | - | 30 533 939 | - | - | - | 7 510 447 | - | - | - | - | - | - | - | - |
| - Cash and cash equivalents | | 77 669 470 | 41 733 379 | 1 280 817 | 1 682 226 | 65 203 114 | 68 049 129 | 1 541 127 | 1 275 251 | 44 788 306 | 39 666 216 | 6 262 308 | 5 461 697 | - | - | 656 806 | 905 276 | 27 382 250 | 22 092 101 |
| Interest - Foreign investments | | - | - | - | - | 388 054 | 191 647 | - | - | 121 149 | 68 668 | - | - | - | - | - | - | - | - |
| Sundry income | | - | 1 055 296 | - | - | - | 292 983 | - | - | - | - | - | - | - | - | - | - | - | - |
| **OPERATING EXPENSES** | | 889 880 618 | 778 360 822 | 664 667 | 518 938 | 1 162 769 596 | 739 870 130 | 569 818 | 512 144 | 481 504 588 | 411 441 023 | 18 253 665 | 10 895 589 | 254 478 | 89 288 | 4 007 769 | 4 328 222 | 23 969 796 | 22 053 618 |
| Audit fee | | 117 507 | 108 765 | 43 989 | 38 756 | 135 425 | 124 553 | 45 583 | 40 160 | 120 059 | 111 166 | 117 869 | 109 090 | 45 584 | 40 158 | 80 816 | 71 202 | 94 438 | 83 201 |
| Bank charges | | 243 877 | 300 049 | 3 352 | 6 966 | 508 645 | 412 303 | 2 630 | 3 973 | 278 596 | 274 857 | 43 164 | 48 426 | 2 690 | 6 731 | 26 364 | 21 628 | 87 549 | 87 758 |
| Interest expense | | - | - | - | - | - | - | - | - | - | - | - | - | 139 585 | - | - | - | - | - |
| Trustee fees | | 1 764 479 | 1 757 475 | 617 326 | 473 216 | 4 235 445 | 3 665 031 | 521 605 | 468 011 | 1 609 827 | 1 555 547 | 38 240 | 46 316 | 66 619 | 42 399 | 26 803 | 38 504 | 363 947 | 380 453 |
| Management fee | | 887 754 755 | 776 194 533 | - | - | 1 157 890 081 | 735 668 243 | - | - | 479 496 106 | 409 499 453 | 18 054 392 | 10 691 757 | - | - | 3 873 786 | 4 196 888 | 23 423 862 | 21 502 206 |
| **OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS** | | 378 402 037 | 301 454 434 | 616 150 | 1 163 288 | 1 866 173 061 | 1 393 838 551 | 4 454 151 | 763 107 | 883 422 557 | 603 227 421 | 12 169 897 | 18 636 839 | (254 478) | 244 976 | 46 454 833 | 53 771 857 | 486 029 447 | 385 101 597 |
| (Expense)/income on creation and cancellation of units | | (5 236 155) | (2 948 979) | (9 002) | 130 241 | 67 494 323 | 36 074 263 | (350 693) | 22 011 | 5 433 596 | 1 030 578 | 208 027 | (1 437 495) | 30 057 | 77 976 | (198 562) | (1 730 008) | - | - |
| **PROFIT/(LOSS) BEFORE UNDISTRIBUTABLE INCOME ITEMS** | 2 | 373 165 882 | 298 505 455 | 607 148 | 1 293 529 | 1 933 667 384 | 1 429 912 814 | 4 103 458 | 785 118 | 888 856 153 | 604 257 999 | 12 377 924 | 17 199 344 | (224 421) | 322 952 | 46 256 271 | 52 041 849 | 486 029 447 | 385 101 597 |
| Investment transaction costs on investments at fair value through profit or loss | | - | - | - | - | (144 255) | (118 295) | - | - | (334 694) | (330 679) | (46 089) | (53 342) | - | - | - | - | - | - |
| Realised gains/(losses) on disposal of available-for-sale investments | | 2 626 306 873 | 2 743 453 148 | 577 116 728 | 185 251 778 | 3 308 259 696 | 2 910 505 300 | 2 787 400 327 | 444 567 962 | 1 722 166 990 | 1 644 417 404 | 138 593 131 | 147 936 033 | 97 653 693 | 39 696 926 | (236 832) | 318 563 | - | - |
| Losses on investments at fair value through profit or loss | | - | - | - | - | (67 298 337) | (304 411 111) | - | - | (157 360 277) | (879 853 977) | (25 337 013) | (118 915 090) | - | - | - | - | - | - |
| Foreign exchange gains/(losses) on foreign cash held for investment purposes | | - | - | 960 694 | 4 225 392 | 73 996 329 | 198 600 919 | 2 762 997 | (183 513) | 26 270 036 | 75 531 498 | - | - | 2 748 707 | 914 002 | - | - | - | - |
| Impairment of available-for-sale investments | | (439 544 653) | (915 349 033) | - | - | (438 029 739) | (1 025 566 313) | - | - | (65 887 477) | (214 602 654) | - | (27 177 424) | - | - | - | - | - | - |
| **OPERATING PROFIT FOR THE YEAR** | | 2 559 928 102 | 2 126 609 570 | 578 684 570 | 190 770 699 | 4 810 451 078 | 3 208 923 314 | 2 794 266 782 | 445 169 567 | 2 413 710 731 | 1 229 419 591 | 125 587 953 | 18 989 521 | 100 177 979 | 40 933 880 | 46 019 439 | 52 360 412 | 486 029 447 | 385 101 597 |
| Finance costs - distributions to unitholders | 2 | (375 421 246) | (301 841 362) | (607 148) | (1 293 529) | (1 933 667 384) | (1 429 912 814) | (4 103 458) | (785 118) | (888 856 153) | (604 257 999) | (12 407 074) | (17 199 344) | - | (322 952) | (46 256 271) | (52 041 849) | (486 029 447) | (385 101 597) |
| **UNDISTRIBUTED PROFIT FOR THE YEAR** | | 2 184 506 856 | 1 824 768 208 | 578 077 422 | 189 477 170 | 2 876 783 694 | 1 779 010 500 | 2 790 163 324 | 444 384 449 | 1 524 854 578 | 625 161 592 | 113 180 879 | 1 790 177 | 100 177 979 | 40 610 928 | (236 832) | 318 563 | - | - |
| **OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS** | | 2 372 118 956 | 4 566 593 828 | 94 251 646 | 4 879 384 119 | 3 022 533 182 | 11 984 203 190 | (2 309 653 031) | 3 468 944 334 | (133 813 202) | 3 061 756 241 | (23 603 728) | 38 845 768 | (85 445 293) | 219 131 915 | 8 418 900 | (38 330 520) | - | - |
| Unrealised gains/(losses) on available-for-sale investments | | 4 558 881 176 | 6 394 697 943 | 671 368 374 | 5 064 635 897 | 5 892 763 139 | 13 869 142 177 | 477 747 296 | 3 913 512 296 | 1 522 466 311 | 4 491 570 991 | 114 989 403 | 159 604 377 | 12 208 400 | 258 828 841 | 8 182 068 | (38 011 957) | - | - |
| Reclassification adjustment for realised gains on available-for-sale investments included in profit or loss | | (2 626 306 873) | (2 743 453 148) | (577 116 728) | (185 251 778) | (3 308 259 696) | (2 910 505 300) | (2 787 400 327) | (444 567 962) | (1 722 166 990) | (1 644 417 404) | (138 593 131) | (147 936 033) | (97 653 693) | (39 696 926) | 236 832 | (318 563) | - | - |
| Reclassification adjustment for impairment of available-for-sale investments | | 439 544 653 | 915 349 033 | - | - | 438 029 739 | 1 025 566 313 | - | - | 65 887 477 | 214 602 654 | - | 27 177 424 | - | - | - | - | - | - |
| **INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS AS A RESULT OF OPERATIONS** | | 4 556 625 812 | 6 391 362 036 | 672 329 068 | 5 068 861 289 | 5 899 316 876 | 13 763 213 690 | 480 510 293 | 3 913 328 783 | 1 391 041 376 | 3 686 917 833 | 89 577 151 | 40 635 945 | 14 732 686 | 259 742 843 | 8 182 068 | (38 011 957) | - | - |

# STATEMENTS OF FINANCIAL POSITION

As at 31 December 2014

| | NOTES | EQUITY FUND | | GLOBAL EQUITY FEEDER FUND | | BALANCED FUND | | GLOBAL FUND OF FUNDS | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R |
| **ASSETS** | | | | | | | | | |
| Investments | 8 | 40 060 619 177 | 36 946 329 423 | 13 950 927 007 | 13 043 360 383 | 103 130 750 576 | 83 474 778 440 | 11 014 855 672 | 11 281 914 040 |
| Available-for-sale investments | | 39 428 619 177 | 36 537 329 423 | 13 950 904 656 | 13 000 259 868 | 91 376 795 966 | 70 179 487 220 | 11 014 820 675 | 11 250 838 018 |
| - Equity instruments | | 39 428 619 177 | 36 537 329 423 | - | - | 53 183 560 037 | 40 744 582 627 | - | - |
| - Listed bonds | | - | - | - | - | 11 790 863 634 | 8 110 912 875 | - | - |
| - Foreign investments** | | - | - | 13 950 904 656 | 13 000 259 868 | 26 402 372 295 | 21 323 991 718 | 11 014 820 675 | 11 250 838 018 |
| Money market investments classified as loans and receivables | | - | - | - | - | 10 427 881 161 | 11 868 772 571 | - | - |
| Cash and cash equivalents held for investment purposes** | | 632 000 000 | 409 000 000 | 22 351 | 43 100 515 | 1 326 073 449 | 1 426 518 649 | 34 997 | 31 076 022 |
| Accounts receivable* | | 45 848 041 | 88 430 179 | - | 167 | 18 627 538 | 46 656 429 | - | - |
| Interest receivable | | 2 522 200 | 792 372 | 142 680 | 254 431 | 2 689 467 | 4 276 318 | 119 747 | 173 255 |
| Cash and cash equivalents | | 10 630 899 | 10 894 198 | 42 908 126 | 89 811 586 | 10 686 431 | 6 188 230 | 34 339 757 | 65 890 149 |
| **TOTAL ASSETS** | | 40 119 620 317 | 37 046 446 172 | 13 993 977 813 | 13 133 426 567 | 103 162 754 012 | 83 531 899 417 | 11 049 315 176 | 11 347 977 444 |
| **LIABILITIES** | | | | | | | | | |
| Accounts payable* | | 151 658 591 | 53 240 904 | 92 471 | 43 089 191 | 180 646 839 | 78 332 489 | 83 934 | 31 090 700 |
| Interest payable | | - | - | - | - | - | - | - | - |
| Distribution payable to unitholders | 2 | 140 338 773 | 250 838 825 | 607 148 | 1 293 529 | 985 977 468 | 830 630 934 | 4 103 458 | 785 118 |
| **TOTAL LIABILITIES, EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS** | | 291 997 364 | 304 079 729 | 699 619 | 44 382 720 | 1 166 624 307 | 908 963 423 | 4 187 392 | 31 875 818 |
| **NET ASSETS ATTRIBUTABLE TO UNITHOLDERS** | | 39 827 622 953 | 36 742 366 443 | 13 993 278 194 | 13 089 043 847 | 101 996 129 705 | 82 622 935 994 | 11 045 127 784 | 11 316 101 626 |

| | STABLE FUND | | OPTIMAL FUND | | GLOBAL OPTIMAL FUND OF FUNDS | | BOND FUND | | MONEY MARKET FUND | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R |
| **ASSETS** | | | | | | | | | | |
| Investments | 37 400 037 356 | 32 986 729 595 | 967 184 256 | 844 576 371 | 1 235 289 211 | 1 287 474 978 | 651 177 558 | 630 961 582 | 8 678 398 772 | 7 847 226 552 |
| Available-for-sale investments | 26 416 153 876 | 21 642 574 498 | 754 871 672 | 750 157 885 | 1 235 272 018 | 1 287 474 978 | 570 444 958 | 567 699 816 | - | - |
| - Equity instruments | 12 482 887 527 | 10 892 536 064 | 754 871 672 | 750 157 885 | - | - | - | - | - | - |
| - Listed bonds | 4 445 734 954 | 2 492 016 773 | - | - | - | - | 570 444 958 | 567 699 816 | - | - |
| - Foreign investments** | 9 487 531 395 | 8 258 021 661 | - | - | 1 235 272 018 | 1 287 474 978 | - | - | - | - |
| Money market investments classified as loans and receivables | 10 194 706 931 | 10 832 035 883 | - | - | - | - | 63 732 600 | 62 261 766 | 8 234 398 772 | 7 473 226 552 |
| Cash and cash equivalents held for investment purposes** | 789 176 549 | 512 119 214 | 212 312 584 | 94 418 486 | 17 193 | - | 17 000 000 | 1 000 000 | 444 000 000 | 374 000 000 |
| Accounts receivable* | 11 882 530 | 3 026 154 | 17 | 877 | 3 019 409 | 782 | 16 720 | - | - | 76 |
| Interest receivable | 2 791 928 | 2 500 296 | 967 057 | 523 731 | - | 30 417 | 87 906 | 37 676 | 4 498 555 | 1 839 539 |
| Cash and cash equivalents | 7 799 184 | 29 081 393 | 6 614 481 | 4 738 075 | 1 732 134 | 7 239 547 | 563 767 | 943 365 | 3 134 283 | 5 573 698 |
| **TOTAL ASSETS** | 37 422 510 998 | 33 021 337 438 | 974 765 811 | 849 839 054 | 1 240 040 754 | 1 294 745 724 | 651 845 951 | 631 942 623 | 8 686 031 610 | 7 854 639 865 |
| **LIABILITIES** | | | | | | | | | | |
| Accounts payable* | 61 318 629 | 38 951 355 | 1 988 376 | 967 222 | 3 067 521 | 43 690 | 298 326 | 634 677 | 2 233 498 | 1 990 385 |
| Interest payable | - | - | - | - | 70 439 | - | - | - | - | - |
| Distribution payable to unitholders | 213 967 656 | 162 489 272 | 3 965 491 | 9 119 344 | - | 322 952 | 12 841 354 | 11 406 270 | 46 157 630 | 34 364 269 |
| **TOTAL LIABILITIES, EXCLUDING NET ASSETS ATTRIBUTABLE TO UNITHOLDERS** | 275 286 285 | 201 440 627 | 5 953 867 | 10 086 566 | 3 137 960 | 366 642 | 13 139 680 | 12 040 947 | 48 391 128 | 36 354 654 |
| **NET ASSETS ATTRIBUTABLE TO UNITHOLDERS** | 37 147 224 713 | 32 819 896 811 | 968 811 944 | 839 752 488 | 1 236 902 794 | 1 294 379 082 | 638 706 271 | 619 901 676 | 8 637 640 482 | 7 818 285 211 |

* Accounts receivable and accounts payable are interest-free and are generally settled within 30 days.

** Prior year foreign currency for investment in foreign mutual funds have been reclassified from available-for-sale foreign investments to cash and cash equivalents held for investment purposes.

# STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2014

| | EQUITY FUND | | GLOBAL EQUITY FEEDER FUND | | BALANCED FUND | | GLOBAL FUND OF FUNDS | |
|---|---|---|---|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R |
| **OPENING BALANCE** | 36 742 366 443 | 32 290 317 971 | 13 089 043 847 | 6 160 691 827 | 82 622 935 994 | 61 082 327 722 | 11 316 101 626 | 7 059 517 684 |
| Increase/(decrease) in net assets attributable to unitholders as a result of operations | 4 556 625 812 | 6 391 362 036 | 672 329 068 | 5 068 861 289 | 5 899 316 876 | 13 763 213 690 | 480 510 293 | 3 913 328 783 |
| Undistributed profit/(loss) for the year | 2 184 506 856 | 1 824 768 208 | 578 077 422 | 189 477 170 | 2 876 783 694 | 1 779 010 500 | 2 790 163 324 | 444 384 449 |
| Other comprehensive income | 2 372 118 956 | 4 566 593 828 | 94 251 646 | 4 879 384 119 | 3 022 533 182 | 11 984 203 190 | (2 309 653 031) | 3 468 944 334 |
| Change in net assets attributable to unitholders as a result of net (cancellations)/creations of units during the year | (1 471 369 302) | (1 939 313 564) | 231 905 279 | 1 859 490 731 | 13 473 876 835 | 7 777 394 582 | (751 484 135) | 343 255 159 |
| **TOTAL NET ASSETS ATTRIBUTABLE TO UNITHOLDERS** | 39 827 622 953 | 36 742 366 443 | 13 993 278 194 | 13 089 043 847 | 101 996 129 705 | 82 622 935 994 | 11 045 127 784 | 11 316 101 626 |
| Represented by the following: | | | | | | | | |
| Cumulative available-for-sale reserve | 17 006 780 834 | 14 634 661 878 | 6 458 693 994 | 6 364 441 289 | 27 507 316 611 | 24 421 934 980 | 2 466 690 353 | 4 776 343 751 |
| Book value of net assets | 22 820 842 119 | 22 107 704 565 | 7 534 584 200 | 6 724 602 558 | 74 488 813 094 | 58 201 001 014 | 8 578 437 431 | 6 539 757 875 |
| **TOTAL** | 39 827 622 953 | 36 742 366 443 | 13 993 278 194 | 13 089 043 847 | 101 996 129 705 | 82 622 935 994 | 11 045 127 784 | 11 316 101 626 |

| | STABLE FUND | | OPTIMAL FUND | | GLOBAL OPTIMAL FUND OF FUNDS | | BOND FUND | | MONEY MARKET FUND | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R |
| **OPENING BALANCE** | 32 819 896 811 | 28 816 762 690 | 839 752 488 | 1 002 294 057 | 1 294 379 082 | 633 959 107 | 619 901 676 | 791 658 357 | 7 818 285 211 | 7 770 991 074 |
| Increase/(decrease) in net assets attributable to unitholders as a result of operations | 1 391 041 376 | 3 686 917 833 | 89 577 151 | 40 635 945 | 14 732 686 | 259 742 843 | 8 182 068 | (38 011 957) | - | - |
| Undistributed profit/(loss) for the year | 1 524 854 578 | 625 161 592 | 113 180 879 | 1 790 177 | 100 177 979 | 40 610 928 | (236 832) | 318 563 | - | - |
| Other comprehensive income | (133 813 202) | 3 061 756 241 | (23 603 728) | 38 845 768 | (85 445 293) | 219 131 915 | 8 418 900 | (38 330 520) | - | - |
| Change in net assets attributable to unitholders as a result of net (cancellations)/creations of units during the year | 2 936 286 526 | 316 216 288 | 39 482 305 | (203 177 514) | (72 208 974) | 400 677 132 | 10 622 527 | (133 744 724) | 819 355 271 | 47 294 137 |
| **TOTAL NET ASSETS ATTRIBUTABLE TO UNITHOLDERS** | 37 147 224 713 | 32 819 896 811 | 968 811 944 | 839 752 488 | 1 236 902 794 | 1 294 379 082 | 638 706 271 | 619 901 676 | 8 637 640 482 | 7 818 285 211 |
| Represented by the following: | | | | | | | | | | |
| Cumulative available-for-sale reserve | 7 140 984 330 | 7 257 452 547 | 354 492 468 | 378 096 196 | 204 791 855 | 290 237 319 | 1 971 587 | (5 590 484) | - | - |
| Book value of net assets | 30 006 240 383 | 25 562 444 264 | 614 319 476 | 461 656 292 | 1 032 110 939 | 1 004 141 763 | 636 734 684 | 625 492 160 | 8 637 640 482 | 7 818 285 211 |
| **TOTAL** | 37 147 224 713 | 32 819 896 811 | 968 811 944 | 839 752 488 | 1 236 902 794 | 1 294 379 082 | 638 706 271 | 619 901 676 | 8 637 640 482 | 7 818 285 211 |

# STATEMENTS OF CASH FLOWS

For the year ended 31 December 2014

| | NOTE | EQUITY FUND | | GLOBAL EQUITY FEEDER FUND | | BALANCED FUND | | GLOBAL FUND OF FUNDS | | STABLE FUND | | OPTIMAL FUND | | GLOBAL OPTIMAL FUND OF FUNDS | | BOND FUND | | MONEY MARKET FUND | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | | | | | | | | | | | | | | | |
| Interest received/(paid) | | 75 939 642 | 70 843 030 | 1 392 568 | 1 533 519 | 1 528 676 868 | 1 030 050 288 | 1 594 635 | 1 130 819 | 955 384 420 | 720 790 119 | 5 818 982 | 5 352 391 | (38 729) | 330 402 | 51 790 972 | 57 924 772 | 503 258 073 | 378 714 211 |
| Dividends received | | 1 190 583 824 | 1 011 539 541 | - | - | 1 390 040 480 | 1 002 579 674 | 3 482 842 | - | 370 896 785 | 262 973 885 | 24 161 254 | 24 070 731 | - | - | - | - | - | - |
| Sundry income | | - | 1 055 296 | - | - | - | 292 983 | - | - | - | - | - | - | - | - | - | - | - | - |
| Distributions paid | | (485 921 299) | (142 757 216) | (1 293 529) | (459 389) | (1 778 320 850) | (1 169 699 255) | (785 118) | (220 506) | (837 377 769) | (600 752 248) | (17 560 927) | (18 293 936) | (322 952) | (184 452) | (44 821 187) | (54 654 296) | (474 236 086) | (383 533 160) |
| Cash used by operations before working capital changes* | 4 | (895 116 773) | (781 309 801) | (673 669) | (388 697) | (1 095 275 273) | (703 795 867) | (920 511) | (490 133) | (476 070 992) | (410 410 445) | (18 045 638) | (12 333 084) | (84 836) | (11 312) | (4 206 331) | (6 058 230) | (23 969 796) | (22 053 618) |
| Working capital changes | 4 | 141 029 186 | (66 709 570) | (42 996 553) | 32 023 953 | 129 338 045 | (234 408 000) | (31 006 766) | 53 020 369 | 11 890 856 | 9 879 018 | 1 022 014 | 3 064 676 | 5 204 | (3 496 454) | (353 071) | 369 040 | 243 189 | (3 689) |
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | | 26 514 580 | 92 661 280 | (43 571 183) | 32 709 386 | 174 459 270 | (74 980 177) | (27 634 918) | 53 440 549 | 24 723 300 | (17 519 671) | (4 604 315) | 1 860 778 | (441 313) | (3 361 816) | 2 410 383 | (2 418 714) | 5 295 380 | (26 876 256) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | | | | | | | | | | | | | | | | |
| Purchase of investments | | (12 798 294 709) | (13 249 199 758) | (3 183 414 467) | (4 522 486 835) | (62 437 143 369) | (46 779 276 549) | (1 341 676 696) | (1 023 336 465) | (35 742 290 377) | (35 570 795 447) | (1 523 596 218) | (1 535 640 658) | (1 002 078 656) | (1 187 294 009) | (524 315 991) | (742 303 636) | (25 181 415 234) | (19 930 871 818) |
| Proceeds on disposal of investments | | 14 242 886 132 | 15 099 851 617 | 2 698 653 057 | 2 687 950 635 | 48 793 305 465 | 39 073 437 458 | 1 014 856 189 | 693 041 465 | 32 759 998 342 | 35 291 866 241 | 1 490 594 634 | 1 735 230 827 | 881 006 707 | 787 354 008 | 510 903 483 | 878 190 914 | 24 354 325 168 | 19 910 932 140 |
| **NET CASH FLOW FROM INVESTING ACTIVITIES** | | 1 444 591 423 | 1 850 651 859 | (484 761 410) | (1 834 536 200) | (13 643 837 904) | (7 705 839 091) | (326 820 507) | (330 295 000) | (2 982 292 035) | (278 929 206) | (33 001 584) | 199 590 169 | (121 071 949) | (399 940 001) | (13 412 508) | 135 887 278 | (827 090 066) | (19 939 678) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | | | | | | | | | | | | | | | | |
| Net (payments)/proceeds from creation and cancellation of units | | (1 471 369 302) | (1 939 313 564) | 481 429 133 | 1 859 490 731 | 13 473 876 835 | 7 777 394 582 | 322 905 033 | 343 255 159 | 2 936 286 526 | 316 216 288 | 39 482 305 | (203 177 514) | 116 005 849 | 400 677 132 | 10 622 527 | (133 744 724) | 819 355 271 | 47 294 137 |
| **Net cash flow from financing activities** | | (1 471 369 302) | (1 939 313 564) | 481 429 133 | 1 859 490 731 | 13 473 876 835 | 7 777 394 582 | 322 905 033 | 343 255 159 | 2 936 286 526 | 316 216 288 | 39 482 305 | (203 177 514) | 116 005 849 | 400 677 132 | 10 622 527 | (133 744 724) | 819 355 271 | 47 294 137 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | (263 299) | 3 999 575 | (46 903 460) | 57 663 917 | 4 498 201 | (3 424 686) | (31 550 392) | 66 400 708 | (21 282 209) | 19 767 411 | 1 876 406 | (1 726 567) | (5 507 413) | (2 624 685) | (379 598) | (276 160) | (2 439 415) | 478 203 |
| Cash and cash equivalents at beginning of year | | 10 894 198 | 6 894 623 | 89 811 586 | 32 147 669 | 6 188 230 | 9 612 916 | 65 890 149 | (510 559) | 29 081 393 | 9 313 982 | 4 738 075 | 6 464 642 | 7 239 547 | 9 864 232 | 943 365 | 1 219 525 | 5 573 698 | 5 095 495 |
| Foreign exchange gains/(losses) on foreign cash held for investment purposes* | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 10 630 899 | 10 894 198 | 42 908 126 | 89 811 586 | 10 686 431 | 6 188 230 | 34 339 757 | 65 890 149 | 7 799 184 | 29 081 393 | 6 614 481 | 4 738 075 | 1 732 134 | 7 239 547 | 563 767 | 943 365 | 3 134 283 | 5 573 698 |

* Prior year foreign exchange gains/(losses) on cash and cash equivalents held for investment purposes have been reclassified and adjusted for within cash generated by operations.

## 1. ACCOUNTING STANDARDS AND POLICIES

### 1.1 BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at either fair value or amortised cost, in accordance with International Financial Reporting Standards (IFRS). These financial statements are presented in South African rands being the functional currency of the Funds. The accounting policies have been applied consistently in current and prior years, unless specifically stated otherwise.

### 1.2 IFRS

The Funds have adopted all new and revised Standards, Interpretations and Amendments issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) of the IASB that are relevant to their operations and effective for annual accounting periods ended 31 December 2014.

The significant accounting policies adopted in the preparation of the financial statements are set out below and are in accordance with and comply with IFRS.

The following new IFRS standards, interpretations and amendments applicable to the Funds were adopted during the year:

| STANDARDS/INTERPRETATIONS/AMENDMENTS | | EFFECTIVE DATE YEARS BEGINNING ON / AFTER | IMPACT |
|---|---|---|---|
| IAS 32 | Financial Instruments: Presentation (amendment) | 1 January 2014 | No material impact |
| IAS 36 | Impairment of Assets (amendment) | 1 January 2014 | No material impact |





The following new or revised IFRS standards, interpretations and amendments applicable to the Funds have been issued but are not yet effective.

| STANDARDS/INTERPRETATIONS/AMENDMENTS | | EFFECTIVE DATE YEARS BEGINNING ON/AFTER | EXPECTED IMPACT |
|---|---|---|---|
| IFRS 9 | Financial instruments | 1 January 2018 | No material impact |
| IAS 24 | Related Party Disclosures (amendment) | 1 July 2014 | No material impact |
| IFRS 7 | Financial Instruments: Disclosures (amendment) | 1 January 2016 | No material impact |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2017 | Yet to be determined |

### 1.3 ACCOUNTING POLICIES

The Funds have identified the accounting policies that are most significant to their business operations and the understanding of their results. These accounting policies are set out below and have been consistently applied.

#### 1.3.1 REVENUE

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Funds and the amount of revenue can be measured reliably.

Dividend income comprises dividends accrued on equity investments for which the last date to register falls within the accounting period.

Interest income is accrued for on a daily basis using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its carrying value. Interest income includes income from cash and cash equivalents, debt securities and money market instruments.

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### 1.3.2 INCOME ADJUSTMENTS

Income adjustments on creation/cancellation of units represent the income portion of the price received or paid when units are created or cancelled. The income portion of the price received by the Fund on creation of units is, in effect, a payment by unitholders for entitlement to a distribution of income that was earned by the Fund before they joined. The income portion of the price paid to unitholders when units are cancelled is, in effect, compensation for the income distribution they will forfeit when exiting the Fund before the distribution date. The income adjustment on creation or cancellation of units is recognised when units from which it arises are either purchased or sold.

### 1.3.3 REALISED GAINS AND LOSSES ON INVESTMENTS

Realised gains and losses on equity investments are calculated as the difference between sales proceeds and the original purchase price on a weighted average basis. Realised gains and losses on debt instruments are calculated as the difference between proceeds and amortized cost.

### 1.3.4 MANAGEMENT FEE

The management fee is the fee paid by the Funds to Allan Gray Unit Trust Management (RF) Proprietary Limited (the Manager) for the management of the Funds and the administration of unitholder transactions. Management fees are calculated and accrued based on the daily market value of the portfolios.

### 1.3.5 DISTRIBUTIONS PAID

Distributions paid represent profits paid to unitholders at each distribution date. Distributable profits are determined by deducting operating expenses incurred from the revenue earned by the fund since the last distribution date. Distributions are calculated to the fourth decimal place.

Where the Funds' operating expenses exceed revenue earned during the distribution period, the shortfall is funded by reducing the non-distributable portion of the Funds' net assets attributable to unitholders.

Distributions to unitholders are recognised in the Statements of comprehensive income as finance costs.

### 1.3.6 TAXATION AND DEFERRED TAXATION

Taxation and deferred taxation are not recognised in the financial statements of the Funds as the Funds are all exempt from tax under the current taxation laws of South Africa.

### 1.3.7 EXPENSES

All other expenses are recognised in profit or loss on an accrual basis.

### 1.3.8 FINANCIAL INSTRUMENTS

#### FINANCIAL ASSETS AND LIABILITIES

**CLASSIFICATION**

The Funds classify their investments in debt and equity instruments and unit trusts as available-for-sale financial assets, related derivatives as financial assets at fair value through profit or loss and money market instruments as loans and receivables.

AVAILABLE-FOR-SALE FINANCIAL ASSETS
Available-for-sale financial assets are those non-derivative financial assets that are intended to be held for an indefinite period of time, and that may be sold in response to needs of liquidity or changes in interest rates, exchange rates or equity prices. Investments in bonds, equities (including mutual funds and commodities) and unit trusts are classified as available-for-sale assets.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
Derivatives are categorised as held for trading and are not designated as effective hedging instruments in terms of IAS 39. When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

LOANS AND RECEIVABLES
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Money market instruments are classified as loans and receivables.

FINANCIAL LIABILITIES
The Funds classify their trade and other payables as financial instruments measured at amortised cost and net assets attributable to unitholders are classified as financial liabilities at fair value through profit or loss.

#### RECOGNITION AND MEASUREMENT

A 'regular way' contract is one that requires the delivery of an asset within the time frame established, generally by regulation or convention within the marketplace concerned. Regular way purchases and sales of financial assets are recognised using trade date accounting. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. The trade date is the date that an entity commits itself to purchase or to sell an asset.

Financial instruments are recognised on the trade date at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Funds determine the classification of their financial instruments on initial recognition, when the Fund becomes a party to the contract governing the instrument.

AVAILABLE-FOR-SALE FINANCIAL ASSETS
Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income. Fair value is determined as the price that would be received to sell the investment in an orderly transaction between market participants at the reporting date. Gains and losses arising from changes in the fair value are recognised in other comprehensive income, with the exception of foreign exchange gains or losses on monetary items; these are recognised immediately in profit or loss.  When instruments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in profit or loss.

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Interest on available-for-sale debt instruments is calculated using the effective interest method and is recognised in profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
Financial assets designated as at fair value through profit or loss are measured at fair value. Subsequent to initial recognition, investments at fair value through profit or loss are marked to market on a daily basis with changes in fair value taken through profit or loss as gains and losses. Attributable transaction costs are recognised in profit or loss as incurred.

LOANS AND RECEIVABLES
Loans and receivables are measured initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Gains and losses are recognised in profit or loss when loans and receivables are derecognised or impaired, and through the amortisation process.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in value. Balances held for the purposes of meeting short-term cash commitments rather than for investment or other purposes are current assets and are disclosed separately on the face of the Statements of financial position. Margin deposits are aggregated with cash balances held for investment purposes and are disclosed as cash and cash equivalents held for investment purposes on the face of the Statements of financial position. Margin deposits are not readily available for use by the Funds as they are held as collateral to cover losses that the Funds may incur from their derivative trades. Details on margin deposits may be found in note 8.3.

Subsequent to initial recognition, cash and cash equivalents, accounts receivable, accounts payable and distributions payable to unitholders are measured at amortised cost using the effective interest rate method.

### DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

A financial asset is derecognised where:

- The rights to receive cash flows from the asset have expired, or
- The Fund has transferred its rights to receive cash flows from the asset, or
- The Fund has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.  Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in profit or loss.

### IMPAIRMENT OF FINANCIAL ASSETS

The Funds assess at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

ASSETS CARRIED AT AMORTISED COST
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its original amortised cost at the reversal date.

AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS
In the case of available-for-sale equity instruments, a significant or prolonged decline in the fair value of the instrument below its cost is considered in determining whether the instruments are impaired. A decrease of 30% in fair value is seen as significant and a period of 12 months or more as prolonged. If evidence of impairment exists, the cumulative loss previously recognised in other comprehensive income is reclassified from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its original amortised cost at the date of reversal.

### DETERMINATION OF FAIR VALUE

Financial instruments carried at fair value are valued based on a quoted price in an active market. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. An analysis of fair values of financial instruments and further details as to how they are measured, are provided in note 8.2.

### OFFSETTING

A financial asset and a financial liability are offset, and the net amount presented in the Statements of financial position, only when the Funds currently have a legally enforceable right to set off the recognised amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expense items are only offset to the extent that their related instruments have been offset in the Statements of financial position.

## 1.3.9 FOREIGN CURRENCIES

Foreign currency items are recorded at the exchange rate ruling on the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the reporting date or when settled. Gains and losses arising from the translation of these monetary assets and liabilities are recognised in profit or loss.

Non-monetary assets classified as available-for-sale investments are also translated at rates of exchange ruling at the reporting date. Unrealised gains and losses arising from the translation of these assets are included in unrealised gains and losses on available-for-sale investments and are recognised in other comprehensive income.

### 1.3.10 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

Units issued by the Funds are classified as financial liabilities and disclosed as net assets attributable to unitholders. The value of net assets attributable to unitholders is what is commonly known as the capital value of the fund. This financial liability (as defined by IAS 32) is carried at fair value, being the redemption amount representing the unitholders' right to a residual interest in the Funds' net assets.

### 1.3.11 CRITICAL JUDGEMENT IN APPLYING THE FUNDS' ACCOUNTING POLICIES

The Funds follow the guidance of IAS 39 to determine when an available-for-sale asset is impaired. In making this judgement the Funds evaluate, among other factors the duration and extent to which the fair value of an investment is less than its cost.

### 1.3.12 FINANCIAL RESULTS

The results of operations for the year are prepared in terms of IFRS and are set out in the accompanying Statements of comprehensive income and Statements of cash flows for the year ended 31 December 2014 as well as the Statements of financial position as at 31 December 2014.

### 1.3.13 EVENTS SUBSEQUENT TO YEAR END

A ballot has been sent to unit holders proposing changes to the Allan Gray Equity Fund fee and investment mandate. The ballot is currently ongoing.

There were no other significant events subsequent to year end.



ALLAN GRAY UNIT TRUSTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2. DISTRIBUTION SCHEDULES

| | NOTE | 2014 | 2013 |
|---|---|---|---|
| **Allan Gray Equity Fund** | | | |
| **30 June** | | | |
| Class A | | | |
| Cents per unit | | 187.7617 | 38.9821 |
| Distribution paid - R | | 206 482 713 | 51 002 537 |
| Class B | | | |
| Cents per unit | | - | - |
| Distribution paid - R | | - | - |
| Class C | | | |
| Cents per unit | | 213.5778 | - |
| Distribution paid - R | | 28 599 761 | - |
| **31 December** | | | |
| Class A | | | |
| Cents per unit | | 108.4107 | 195.6494 |
| Distribution paid - R | | 102 014 228 | 222 380 614 |
| Class B | | | |
| Cents per unit | | - | 22.3941 |
| Distribution paid - R | | - | 680 417 |
| Class C | | | |
| Cents per unit | | 138.4874 | 225.1460 |
| Distribution paid - R | | 38 324 544 | 27 777 794 |
| TOTAL DISTRIBUTION FOR THE YEAR | | 375 421 246 | 301 841 362 |
| Shortfall of income funded by net assets attributed to unitholders | 3 | (2 255 364) | (3 335 907) |
| DISTRIBUTABLE PROFIT FOR THE YEAR | | 373 165 882 | 298 505 455 |
| **Allan Gray-Orbis Global Equity Feeder Fund** | | | |
| **31 December** | | | |
| Class A | | | |
| Cents per unit | | 0.1763 | 0.3809 |
| Distribution paid - R | | 607 148 | 1 293 529 |
| TOTAL DISTRIBUTION FOR THE YEAR | | 607 148 | 1 293 529 |
| **Allan Gray Balanced Fund** | | | |
| **30 June** | | | |
| Class A | | | |
| Cents per unit | | 86.2524 | 63.9191 |
| Distribution paid - R | | 801 712 477 | 593 804 922 |
| Class B | | | |
| Cents per unit | | 34.2035 | 20.1326 |
| Distribution paid - R | | 9 080 070 | 5 476 958 |
| Class C | | | |
| Cents per unit | | 93.5099 | - |
| Distribution paid - R | | 136 897 369 | - |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 2. DISTRIBUTION SCHEDULES (CONTINUED)

| | NOTE | 2014 | 2013 |
|---|---|---|---|
| **31 December** | | | |
| Class A | | | |
| Cents per unit | | 82.9017 | 82.2722 |
| Distribution paid - R | | 716 465 922 | 726 336 841 |
| Class B | | | |
| Cents per unit | | 28.1012 | 32.9661 |
| Distribution paid - R | | 7 332 978 | 8 849 592 |
| Class C | | | |
| Cents per unit | | 90.7019 | 85.1816 |
| Distribution paid - R | | 262 178 568 | 95 444 501 |
| TOTAL DISTRIBUTION FOR THE YEAR | | 1 933 667 384 | 1 429 912 814 |
| **Allan Gray-Orbis Global Fund of Funds** | | | |
| **31 December** | | | |
| Class A | | | |
| Cents per unit | | 0.9858 | 0.1766 |
| Distribution paid - R | | 4 103 458 | 785 118 |
| TOTAL DISTRIBUTION FOR THE YEAR | | 4 103 458 | 785 118 |
| **Allan Gray Stable Fund** | | | |
| **31 March** | | | |
| Class A | | | |
| Cents per unit | | 16.8936 | 13.4051 |
| Distribution paid - R | | 173 915 797 | 141 964 552 |
| Class B | | | |
| Cents per unit | | 7.9866 | 5.6297 |
| Distribution paid - R | | 4 224 908 | 3 240 887 |
| Class C | | | |
| Cents per unit | | 18.1170 | - |
| Distribution paid - R | | 22 365 834 | - |
| **30 June** | | | |
| Class A | | | |
| Cents per unit | | 18.7388 | 13.0091 |
| Distribution paid - R | | 195 777 733 | 137 514 267 |
| Class B | | | |
| Cents per unit | | 9.6012 | 4.5160 |
| Distribution paid - R | | 5 029 573 | 2 521 562 |
| Class C | | | |
| Cents per unit | | 20.0168 | - |
| Distribution paid - R | | 29 270 279 | - |
| **30 September** | | | |
| Class A | | | |
| Cents per unit | | 19.6174 | 14.2539 |
| Distribution paid - R | | 193 970 245 | 147 863 085 |





NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

| | NOTE | 2014 | 2013 |
|---|---|---|---|
| Class B | | | |
| Cents per unit | | 10.2811 | 5.3597 |
| Distribution paid - R | | 5 219 643 | 3 025 981 |
| Class C | | | |
| Cents per unit | | 20.9592 | 14.9790 |
| Distribution paid - R | | 45 114 483 | 5 638 393 |
| **31 December** | | | |
| Class A | | | |
| Cents per unit | | 17.1442 | 14.3869 |
| Distribution paid - R | | 164 872 902 | 144 090 153 |
| Class B | | | |
| Cents per unit | | 7.8181 | 5.5375 |
| Distribution paid - R | | 3 689 438 | 3 039 852 |
| Class C | | | |
| Cents per unit | | 18.4283 | 15.6064 |
| Distribution paid - R | | 45 405 318 | 15 359 267 |
| TOTAL DISTRIBUTION FOR THE YEAR | | 888 856 153 | 604 257 999 |
| **Allan Gray Optimal Fund** | | | |
| **30 June** | | | |
| Class A | | | |
| Cents per unit | | 18.4801 | 15.6466 |
| Distribution paid - R | | 8 347 707 | 8 032 843 |
| Class B | | | |
| Cents per unit | | 7.5064 | 5.1752 |
| Distribution paid - R | | 60 330 | 47 157 |
| Class C | | | |
| Cents per unit | | 19.9911 | - |
| Distribution paid - R | | 33 546 | - |
| **31 December** | | | |
| Class A | | | |
| Cents per unit | | 7.7824 | 19.0309 |
| Distribution paid - R | | 3 371 646 | 9 037 737 |
| Class B | | | |
| Cents per unit | | - | 8.0403 |
| Distribution paid - R | | - | 66 880 |
| Class C | | | |
| Cents per unit | | 9.4851 | 20.6937 |
| Distribution paid - R | | 593 845 | 14 727 |
| TOTAL DISTRIBUTION FOR THE YEAR | | 12 407 074 | 17 199 344 |
| Shortfall of income funded by net assets attributed to unitholders | 3 | (29 150) | - |
| DISTRIBUTABLE PROFIT FOR THE YEAR | | 12 377 924 | 17 199 344 |

## 2. DISTRIBUTION SCHEDULES (CONTINUED)

| | NOTE | 2014 | 2013 |
|---|---|---|---|
| **Allan Gray-Orbis Global Optimal Fund of Funds** | | | |
| **31 December** | | | |
| Class A | | | |
| Cents per unit | | - | 0.3877 |
| TOTAL DISTRIBUTION FOR THE YEAR | | - | 322 952 |
| Shortfall of income funded by net assets attributed to unitholders | 3 | (224 421) | - |
| DISTRIBUTABLE (DEFICIT)/PROFIT FOR THE YEAR | | (224 421) | 322 952 |
| **Allan Gray Bond Fund** | | | |
| **31 March** | | | |
| Class A | | | |
| Cents per unit | | 20.4900 | 19.2730 |
| Distribution paid - R | | 11 481 324 | 13 417 989 |
| **30 June** | | | |
| Class A | | | |
| Cents per unit | | 21.3513 | 20.2218 |
| Distribution paid - R | | 10 116 796 | 13 692 209 |
| **30 September** | | | |
| Class A | | | |
| Cents per unit | | 22.2786 | 20.3667 |
| Distribution paid - R | | 11 816 798 | 13 525 381 |
| **31 December** | | | |
| Class A | | | |
| Cents per unit | | 22.4307 | 20.3958 |
| Distribution paid - R | | 12 841 353 | 11 406 270 |
| TOTAL DISTRIBUTION FOR THE YEAR | | 46 256 271 | 52 041 849 |

### ALLAN GRAY MONEY MARKET FUND

The Allan Gray Money Market Fund distributes on a daily basis. This distribution is paid over to unitholders on a monthly basis. These daily distribution details have not been disclosed in this note due to the frequency of the distributions.



ALLAN GRAY UNIT TRUSTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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### INVESTMENTS APPLIED TO THE FUNDING OF DISTRIBUTION PAYABLE TO UNITHOLDERS

In the event of a cash shortfall to fund distributions, the Funds have access to liquid assets, classified as cash and cash equivalents held for investment purposes, to honour their obligations to unitholders. The following funds were in this position at reporting date:

| EQUITY FUND | 2014 R | 2013 R |
|---|---|---|
| Distribution payable to unitholders | 140 338 773 | 250 838 825 |
| Distribution to be reinvested | (126 187 813) | (151 380 707) |
| Distribution expected to be paid in cash | 14 150 960 | 99 458 118 |
| Less: current account cash balance | (10 630 899) | (10 894 198) |
| CASH AND CASH EQUIVALENTS HELD FOR INVESTMENT PURPOSES RING-FENCED IN THE EVENT OF A CASH SHORTFALL AT DISTRIBUTION DATE | 3 520 061 | 88 563 920 |

| BALANCED FUND | 2014 R | 2013 R |
|---|---|---|
| Distribution payable to unitholders | 985 977 468 | 830 630 934 |
| Distribution to be reinvested | (902 618 422) | (518 936 703) |
| Distribution expected to be paid in cash | 83 359 046 | 311 694 231 |
| Less: current account cash balance | (10 686 431) | (6 188 230) |
| CASH AND CASH EQUIVALENTS HELD FOR INVESTMENT PURPOSES RING-FENCED IN THE EVENT OF A CASH SHORTFALL AT DISTRIBUTION DATE | 72 672 615 | 305 506 001 |

## INVESTMENTS APPLIED TO THE FUNDING OF DISTRIBUTION PAYABLE TO UNITHOLDERS (CONTINUED)

| STABLE FUND | 2014 R | 2013 R |
|---|---|---|
| Distribution payable to unitholders | 213 967 656 | 162 489 272 |
| Distribution to be reinvested | (196 739 819) | (111 494 631) |
| Distribution expected to be paid in cash | 17 227 837 | 50 994 641 |
| Less: current account cash balance | (7 799 184) | (29 081 393) |
| CASH AND CASH EQUIVALENTS HELD FOR INVESTMENT PURPOSES RING-FENCED IN THE EVENT OF A CASH SHORTFALL AT DISTRIBUTION DATE | 9 428 653 | 21 913 248 |

| BOND FUND | 2014 R | 2013 R |
|---|---|---|
| Distribution payable to unitholders | 12 841 354 | 11 406 270 |
| Distribution to be reinvested | (12 693 161) | (6 451 778) |
| Distribution expected to be paid in cash | 148 193 | 4 954 492 |
| Less: current account cash balance | (563 767) | (943 365) |
| CASH AND CASH EQUIVALENTS HELD FOR INVESTMENT PURPOSES RING-FENCED IN THE EVENT OF A CASH SHORTFALL AT DISTRIBUTION DATE | N/A | 4 011 127 |





## 3. SHORTFALLS OF DISTRIBUTABLE PROFITS

The following amounts have been transferred from the net assets attributable to unitholders to fund shortfalls in distributable profits in terms of Section 51.2 of the Funds Trust Deed.

| | 2014 R | 2013 R |
|---|---|---|
| Allan Gray Equity Fund B Class (June) | 18 502 | 3 335 907 |
| Allan Gray Equity Fund B Class (December) | 2 236 862 | - |
| Allan Gray Optimal Fund B Class (December) | 29 150 | - |
| Allan Gray Global Optimal Fund of Funds (December) | 224 421 | - |
| TOTAL SHORTFALLS FOR THE YEAR | 2 508 935 | 3 335 907 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 4. NOTES TO THE STATEMENTS OF CASH FLOWS

| | EQUITY FUND | | GLOBAL EQUITY FEEDER FUND | | BALANCED FUND | | GLOBAL FUND OF FUNDS | |
|---|---|---|---|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R |
| **CASH GENERATED BY OPERATIONS** | | | | | | | | |
| Profit for the year | 2 559 928 102 | 2 126 609 570 | 578 684 570 | 190 770 699 | 4 810 451 078 | 3 208 923 314 | 2 794 266 782 | 445 169 567 |
| Adjusted for: | | | | | | | | |
| Impairment of available-for-sale investments | 439 544 653 | 915 349 033 | - | - | 438 029 739 | 1 025 566 313 | - | - |
| Investment transaction costs on investments at fair value through profit or loss | - | - | - | - | 144 255 | 118 295 | - | - |
| Sundry income | - | (1 055 296) | - | - | - | (292 983) | - | - |
| Interest (income)/expense | (77 669 470) | (64 507 424) | (1 280 817) | (1 682 226) | (1 639 907 373) | (1 128 939 652) | (1 541 127) | (1 275 251) |
| Dividend income | (1 190 613 185) | (1 014 252 536) | - | - | (1 389 035 284) | (1 004 476 046) | (3 482 842) | - |
| Realised (gains)/losses on disposal of available-for-sale investments | (2 626 306 873) | (2 743 453 148) | (577 116 728) | (185 251 778) | (3 308 259 696) | (2 910 505 300) | (2 787 400 327) | (444 567 962) |
| Foreign exchange (gains)/losses on foreign cash held for investment purposes* | - | - | (960 694) | (4 225 392) | (73 996 329) | (198 600 919) | (2 762 997) | 183 513 |
| Losses on investments at fair value through profit or loss | - | - | - | - | 67 298 337 | 304 411 111 | - | - |
| **CASH USED BY OPERATIONS BEFORE WORKING CAPITAL CHANGES** | (895 116 773) | (781 309 801) | (673 669) | (388 697) | (1 095 275 273) | (703 795 867) | (920 511) | (490 133) |
| **WORKING CAPITAL CHANGES** | | | | | | | | |
| Decrease/(increase) in accounts receivable | 42 611 499 | (7 895 234) | 167 | (42) | 27 023 695 | (19 940 029) | - | 22 000 086 |
| Increase/(decrease) in accounts payable | 98 417 687 | (58 814 336) | (42 996 720) | 32 023 995 | 102 314 350 | (214 467 971) | (31 006 766) | 31 020 283 |
| **WORKING CAPITAL CHANGES** | 141 029 186 | (66 709 570) | (42 996 553) | 32 023 953 | 129 338 045 | (234 408 000) | (31 006 766) | 53 020 369 |

| | STABLE FUND | | OPTIMAL FUND | | GLOBAL OPTIMAL FUND OF FUNDS | | BOND FUND | | MONEY MARKET FUND | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R | 2014 R | 2013 R |
| **CASH GENERATED BY OPERATIONS** | | | | | | | | | | |
| Profit for the year | 2 413 710 731 | 1 229 419 591 | 125 587 953 | 18 989 521 | 100 177 979 | 40 933 880 | 46 019 439 | 52 360 412 | 486 029 447 | 385 101 597 |
| Adjusted for: | | | | | | | | | | |
| Impairment of available-for-sale investments | 65 887 477 | 214 602 654 | - | 27 177 424 | - | - | - | - | - | - |
| Investment transaction costs on investments at fair value through profit or loss | 334 694 | 330 679 | 46 089 | 53 342 | - | - | - | - | - | - |
| Sundry income | - | - | - | - | - | - | - | - | - | - |
| Interest (income)/expense | (995 650 402) | (750 074 517) | (6 262 308) | (5 461 697) | 139 585 | (334 264) | (50 462 602) | (58 100 079) | (509 999 243) | (407 155 215) |
| Dividend income | (369 276 743) | (264 593 927) | (24 161 254) | (24 070 731) | - | - | - | - | - | - |
| Realised (gains)/losses on disposal of available-for-sale investments | (1 722 166 990) | (1 644 417 404) | (138 593 131) | (147 936 033) | (97 653 693) | (39 696 926) | 236 832 | (318 563) | - | - |
| Foreign exchange (gains)/losses on foreign cash held for investment purposes* | (26 270 036) | (75 531 498) | - | - | (2 748 707) | (914 002) | - | - | - | - |
| Losses on investments at fair value through profit or loss | 157 360 277 | 879 853 977 | 25 337 013 | 118 915 090 | - | - | - | - | - | - |
| **CASH USED BY OPERATIONS BEFORE WORKING CAPITAL CHANGES** | (476 070 992) | (410 410 445) | (18 045 638) | (12 333 084) | (84 836) | (11 312) | (4 206 331) | (6 058 230) | (23 969 796) | (22 053 618) |
| **WORKING CAPITAL CHANGES** | | | | | | | | | | |
| Decrease/(increase) in accounts receivable | (10 476 418) | 5 363 860 | 860 | 3 263 651 | (3 018 627) | (713) | (16 720) | - | 76 | 5 |
| Increase/(decrease) in accounts payable | 22 367 274 | 4 515 158 | 1 021 154 | (198 975) | 3 023 831 | (3 495 741) | (336 351) | 369 040 | 243 113 | (3 694) |
| **WORKING CAPITAL CHANGES** | 11 890 856 | 9 879 018 | 1 022 014 | 3 064 676 | 5 204 | (3 496 454) | (353 071) | 369 040 | 243 189 | (3 689) |

* Prior year foreign exchange gains/(losses) on cash and cash equivalents held for investment purposes have been reclassified and adjusted for within cash generated by operations.

ALLAN GRAY UNIT TRUSTS

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

## 5. RECONCILIATION OF UNITS

| | EQUITY FUND | GLOBAL EQUITY FEEDER FUND | BALANCED FUND | GLOBAL FUND OF FUNDS | STABLE FUND | OPTIMAL FUND | GLOBAL OPTIMAL FUND OF FUNDS | BOND FUND | MONEY MARKET FUND |
|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | |
| Opening balance | 129 040 551 | 339 525 756 | 1 021 404 736 | 444 580 658 | 1 154 377 339 | 48 388 170 | 83 096 209 | 56 332 342 | 7 818 285 211 |
| Net units (cancelled)/created during the year | (4 822 989) | 4 976 490 | 157 966 454 | (28 229 150) | 101 085 634 | 1 946 820 | (4 524 790) | 842 149 | 819 355 271 |
| CLOSING BALANCE | 124 217 562 | 344 502 246 | 1 179 371 190 | 416 351 508 | 1 255 462 973 | 50 334 990 | 78 571 419 | 57 174 491 | 8 637 640 482 |
| **2013** | | | | | | | | | |
| Opening balance | 136 361 025 | 284 704 596 | 916 973 209 | 431 335 071 | 1 144 793 420 | 60 275 115 | 56 825 285 | 68 515 451 | 7 770 991 074 |
| Net units (cancelled)/created during the year | (7 320 474) | 54 821 160 | 104 431 527 | 13 245 587 | 9 583 919 | (11 886 945) | 26 270 924 | (12 183 109) | 47 294 137 |
| CLOSING BALANCE | 129 040 551 | 339 525 756 | 1 021 404 736 | 444 580 658 | 1 154 377 339 | 48 388 170 | 83 096 209 | 56 332 342 | 7 818 285 211 |

## 6. REVIEW OF FLUCTUATIONS OF UNIT PRICES

| CENTS | EQUITY FUND | GLOBAL EQUITY FEEDER FUND | BALANCED FUND | GLOBAL FUND OF FUNDS | STABLE FUND | OPTIMAL FUND | GLOBAL OPTIMAL FUND OF FUNDS | BOND FUND | MONEY MARKET FUND |
|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | |
| CLASS A | | | | | | | | | |
| Lowest | 27 394.63 | 3 754.27 | 8 035.95 | 2 496.42 | 2 856.45 | 1 732.68 | 1 530.86 | 1 075.75 | 100.00 |
| Highest | 33 637.87 | 4 216.21 | 8 947.53 | 2 734.59 | 3 011.93 | 1 933.97 | 1 673.84 | 1 153.67 | 100.00 |
| CLASS B | | | | | | | | | |
| Lowest | 26 263.47 | n/a | 8 026.12 | n/a | 2 856.15 | 1 732.56 | n/a | n/a | n/a |
| Highest | 32 202.03 | n/a | 8 923.49 | n/a | 3 002.70 | 1 922.83 | n/a | n/a | n/a |
| CLASS C | | | | | | | | | |
| Lowest | 27 399.45 | n/a | 8 037.29 | n/a | 2 856.50 | 1 732.69 | n/a | n/a | n/a |
| Highest | 33 652.53 | n/a | 8 951.06 | n/a | 3 013.26 | 1 935.58 | n/a | n/a | n/a |
| **2013** | | | | | | | | | |
| CLASS A | | | | | | | | | |
| Lowest | 24 069.83 | 2 232.59 | 6 732.12 | 1 659.25 | 2 525.85 | 1 667.02 | 1 121.37 | 1 089.27 | 100.00 |
| Highest | 28 823.43 | 3 855.48 | 8 171.42 | 2 545.52 | 2 857.47 | 1 755.70 | 1 558.08 | 1 195.59 | 100.00 |
| CLASS B | | | | | | | | | |
| Lowest | 23 138.25 | n/a | 6 731.66 | n/a | 2 525.68 | 1 666.85 | n/a | n/a | n/a |
| Highest | 27 552.80 | n/a | 8 122.12 | n/a | 2 848.62 | 1 745.78 | n/a | n/a | n/a |
| CLASS C | | | | | | | | | |
| Lowest | 24 677.57 | n/a | 7 297.00 | n/a | 2 729.46 | 1 713.03 | n/a | n/a | n/a |
| Highest | 28 845.91 | n/a | 8 174.33 | n/a | 2 858.70 | 1 757.21 | n/a | n/a | n/a |

n/a denotes funds without either B-Class or C-Class units

The prices of units fluctuate in accordance with the changes in the market values of the investments included in the portfolio.

## 7. RELATED PARTY TRANSACTIONS

All transactions with related parties are conducted at arm's length. Outstanding balances bear no interest, are unsecured and are settled within 14 days of invoice date.

The Manager earns a management fee for managing and administering the Funds. As a consequence of the performance fee orientation, management fees will typically be higher following periods where the Funds' total investment performance (income plus capital appreciation) have outperformed their respective benchmarks and lower in the case of underperformance. This ensures that the Manager's interests are aligned with those of our investors.

During the year, the Funds collectively paid management fees of R2 570.5 million, including value added tax, to the Manager (2013: R1 957.8 million). At 31 December 2014, the balance due to the Manager is detailed as follows:

| | VAT INCLUSIVE | VAT INCLUSIVE |
|---|---|---|
| | 2014 R | 2013 R |
| Allan Gray Equity Fund | 96 849 628 | 46 382 190 |
| Allan Gray Balanced Fund | 108 267 947 | 56 703 930 |
| Allan Gray Stable Fund | 43 922 380 | 37 982 860 |
| Allan Gray Optimal Fund | 1 870 816 | 863 007 |
| Allan Gray Bond Fund | 218 104 | 480 883 |
| Allan Gray Money Market Fund | 2 110 435 | 1 878 688 |
| | 253 239 310 | 144 291 558 |

The Directors of the Manager have acquired and hold units in the Funds. These units were valued at R56 791 131 at 31 December 2014 (2013: R49 200 842). During the year, the directors' share of distributions paid by the Funds on their attributable unit holdings amounted to R500 240 (2013: R248 372).

The Manager holds discretionary investments in the Funds. These units were valued at R156 892 227 at 31 December 2014 (2013: R95 199 020). During the year, the Manager's share of distributions paid by the Funds on their attributable unit holdings amounted to R9 230 029 (2013: R49 984).

## 8. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

### 8.1 FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Funds maintain positions in a variety of derivative and non-derivative financial instruments as dictated by each Fund's specific investment management strategy. The Funds' investment portfolios may comprise listed equity and debt investments, unlisted equity and debt investments, investments in other funds, unlisted money market instruments and short-term cash deposits. Asset allocation is determined by the Funds' Manager who manages the distribution of the assets to achieve the Funds' investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored daily by the Allan Gray compliance department.





NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

### MARKET RISK

The Funds' investing activities expose unitholders to various types of risk that are associated with the financial instruments and markets in which the Funds invest. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and includes interest rate, foreign currency and other price risks.

The table below shows the Funds' exposure to price and interest rate risks, split into the different types of financial instruments held by the Funds at reporting date. The analysis only relates to instruments subject to those specific risks.

| 2014 - R'000 | EQUITY FUND | GLOBAL EQUITY FEEDER FUND | BALANCED FUND | GLOBAL FUND OF FUNDS | STABLE FUND | OPTIMAL FUND | GLOBAL OPTIMAL FUND OF FUNDS | BOND FUND | MONEY MARKET FUND |
|---|---|---|---|---|---|---|---|---|---|
| Subject to price risk | 39 428 619 | 13 950 905 | 79 585 932 | 11 014 821 | 21 970 419 | 754 872 | 1 235 272 | - | - |
| Local instruments | 39 428 619 | - | 53 183 560 | - | 12 482 888 | 754 872 | - | - | - |
| Foreign instruments | - | 13 950 905 | 26 402 372 | 11 014 821 | 9 487 531 | - | 1 235 272 | - | - |
| Subject to interest rate risk | 632 000 | 22 | 23 544 819 | 35 | 15 429 618 | 212 313 | 17 | 651 178 | 8 678 399 |
| Money market and cash investments | 632 000 | 22 | 11 753 955 | 35 | 10 983 883 | 212 313 | 17 | 80 733 | 8 678 399 |
| Bonds | - | - | 11 790 864 | - | 4 445 735 | - | - | 570 445 | - |
| TOTAL INVESTMENTS | 40 060 619 | 13 950 927 | 103 130 751 | 11 014 856 | 37 400 037 | 967 185 | 1 235 289 | 651 178 | 8 678 399 |

## MARKET RISK (CONTINUED)

| 2013 - R'000 | EQUITY FUND | GLOBAL EQUITY FEEDER FUND | BALANCED FUND | GLOBAL FUND OF FUNDS | STABLE FUND | OPTIMAL FUND | GLOBAL OPTIMAL FUND OF FUNDS | BOND FUND | MONEY MARKET FUND |
|---|---|---|---|---|---|---|---|---|---|
| Subject to price risk | 36 537 329 | 13 000 259 | 62 068 575 | 11 250 838 | 19 150 557 | 750 158 | 1 287 475 | - | - |
| Local instruments | 36 537 329 | - | 40 744 583 | - | 10 892 536 | 750 158 | - | - | - |
| Foreign instruments* | - | 13 000 259 | 21 323 992 | 11 250 838 | 8 258 021 | - | 1 287 475 | - | - |
| Subject to interest rate risk | 409 000 | 43 101 | 21 406 204 | 31 076 | 13 836 172 | 94 418 | - | 630 962 | 7 847 227 |
| Money market and cash investments* | 409 000 | 43 101 | 13 295 291 | 31 076 | 11 344 155 | 94 418 | - | 63 262 | 7 847 227 |
| Bonds | - | - | 8 110 913 | - | 2 492 017 | - | - | 567 700 | - |
| TOTAL INVESTMENTS | 36 946 329 | 13 043 360 | 83 474 779 | 11 281 914 | 32 986 729 | 844 576 | 1 287 475 | 630 962 | 7 847 227 |

* Prior year foreign currency for investment in foreign mutual funds have been reclassified from available-for-sale foreign investments to cash and cash equivalents held for investment purposes.

## PRICE RISK

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether the changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

Unitholders are exposed to changes in the market values of the individual investments underlying each Fund. The security selection and asset allocation within each of the Funds is monitored daily by the Manager in terms of each individual Fund's stated investment objectives. Allan Gray's compliance department monitors compliance with applicable regulations (for example Regulation 28 of the Pension Funds Act, No. 24 of 1956 where applicable (Regulation 28) and CISCA, (as amended from time to time)) and the Funds' investment mandates on a daily basis. In addition, price risk may be hedged using derivative financial instruments such as futures contracts.

Exposure to price risk is mainly through listed instruments.



ALLAN GRAY UNIT TRUSTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

There has been no change to the Funds' exposure to price risk or the manner in which it manages and measures the risk. The following analysis indicates the possible impact on net assets attributable to unitholders to price risk, until such time as the investments are sold. The table also illustrates the effect of reasonably possible changes in fair value of investments for price risk, assuming that all other variables remain constant. It follows that the actual results may differ from the sensitivity analysis below and the difference could be material. Note that changes in the fair value of available-for-sale investments will impact other comprehensive income whilst changes in the fair value of derivative hedging instruments will impact profit or loss. The disclosure provides information on the risks to which unitholders are exposed and is not indicative of future performance.

| 2014 - R'000 | EQUITY FUND | GLOBAL EQUITY FEEDER FUND | BALANCED FUND | GLOBAL FUND OF FUNDS | STABLE FUND | OPTIMAL FUND | GLOBAL OPTIMAL FUND OF FUNDS |
|---|---|---|---|---|---|---|---|
| INVESTMENTS SUBJECT TO PRICE RISK | 39 428 619 | 13 950 905 | 79 585 932 | 11 014 821 | 21 970 419 | 754 872 | 1 235 272 |
| Analysed as follows: | | | | | | | |
| **Local Instruments** | | | | | | | |
| Net exposure | 39 428 619 | - | 50 883 472 | - | 7 105 541 | 54 268 | - |
| Gross instruments | 39 428 619 | - | 53 183 560 | - | 12 482 888 | 754 872 | - |
| Hedged instruments | - | - | (2 300 088) | - | (5 377 347) | (700 604) | - |
| + or - 5% | 1 971 431 | - | 2 544 174 | - | 355 277 | 2 713 | - |
| + or - 10% | 3 942 862 | - | 5 088 347 | - | 710 554 | 5 427 | - |
| + or - 20% | 7 885 724 | - | 10 176 694 | - | 1 421 108 | 10 854 | - |
| **Foreign Instruments** | | | | | | | |
| Foreign exposure | - | 13 950 905 | 26 402 372 | 11 014 821 | 9 487 531 | - | 1 235 272 |
| + or - 5% | - | 697 545 | 1 320 119 | 550 741 | 474 377 | - | 61 764 |
| + or - 10% | - | 1 395 090 | 2 640 237 | 1 101 482 | 948 753 | - | 123 527 |
| + or - 20% | - | 2 790 181 | 5 280 474 | 2 202 964 | 1 897 506 | - | 247 054 |

## PRICE RISK (CONTINUED)

| 2013 - R'000 | EQUITY FUND | GLOBAL EQUITY FEEDER FUND | BALANCED FUND | GLOBAL FUND OF FUNDS | STABLE FUND | OPTIMAL FUND | GLOBAL OPTIMAL FUND OF FUNDS |
|---|---|---|---|---|---|---|---|
| INVESTMENTS SUBJECT TO PRICE RISK* | 36 537 329 | 13 000 259 | 62 068 575 | 11 250 838 | 19 150 557 | 750 158 | 1 287 475 |
| Analysed as follows: | | | | | | | |
| **Local Instruments** | | | | | | | |
| Net exposure | 36 537 329 | - | 38 577 434 | - | 5 825 986 | 37 505 | - |
| Gross instruments | 36 537 329 | - | 40 744 583 | - | 10 892 536 | 750 158 | - |
| Hedged instruments | - | - | (2 167 149) | - | (5 066 550) | (712 653) | - |
| + or - 5% | 1 826 866 | - | 1 928 872 | - | 291 299 | 1 875 | - |
| + or - 10% | 3 653 733 | - | 3 857 743 | - | 582 599 | 3 750 | - |
| + or - 20% | 7 307 466 | - | 7 715 487 | - | 1 165 197 | 7 501 | - |
| **Foreign Instruments** | | | | | | | |
| Foreign exposure* | - | 13 000 259 | 21 323 992 | 11 250 838 | 8 258 021 | - | 1 287 475 |
| + or - 5% | - | 650 013 | 1 066 200 | 562 542 | 412 901 | - | 64 374 |
| + or - 10% | - | 1 300 026 | 2 132 399 | 1 125 084 | 825 802 | - | 128 748 |
| + or - 20% | - | 2 600 052 | 4 264 798 | 2 250 168 | 1 651 604 | - | 257 495 |

* Prior year foreign currency for investment in foreign mutual funds have been reclassified from available-for-sale foreign investments to cash and cash equivalents held for investment purposes.

## INTEREST RATE RISK

The value of Funds' holding in listed interest bearing investments varies in accordance with changes in the prevailing market interest rates. The risk of loss due to adverse interest rate movements is monitored daily by the Manager. All Funds are exposed to interest rate risk as a result of cash balances held, however, the Funds that are significantly exposed to interest rate risk are those that invest in bonds (the Allan Gray Balanced Fund, the Allan Gray Bond Fund and the Allan Gray Stable Fund) and money market instruments (the Allan Gray Bond Fund, the Allan Gray Balanced Fund, the Allan Gray Stable Fund and the Allan Gray Money Market Fund). See note 8.4 for maturity profiles of interest-bearing investments.





The table below illustrates the effect of reasonably possible changes in prevailing interest rates, with all other variables held constant. The effect on initial margin deposits on derivative investments is factored into the calculation. This analysis ignores operating bank accounts in the underlying Funds. Modified duration is used to estimate the change in the net assets attributable to unitholders as a result of a change in interest rates. The actual results may differ from the sensitivity analysis and the difference could be material. The disclosure provides information on the risks to which unitholders are exposed and is not indicative of future performance.

| R'000 SENSITIVITY TO CHANGES IN INTEREST RATES | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | INVESTMENT VALUE | + OR - 0.50% | + OR - 1.00% | INVESTMENT VALUE | + OR - 0.50% | + OR - 1.00% |
| Allan Gray Balanced Fund* | 23 544 818 | 288 012 | 576 023 | 21 406 204 | 171 091 | 342 183 |
| Allan Gray Stable Fund * | 15 429 618 | 21 490 | 42 979 | 13 836 172 | 14 267 | 28 534 |
| Allan Gray Bond Fund | 651 178 | 15 297 | 30 594 | 630 962 | 16 334 | 32 669 |

* Prior year foreign currency for investment in foreign mutual funds have been reclassified from available-for-sale foreign investments to cash and cash equivalents held for investment purposes.

The value of Allan Gray Money Market Fund investments do not change as a result of a change in interest rates. The Allan Gray Equity Fund, the Allan Gray-Orbis Global Fund of Funds, the Allan Gray Optimal Fund, the Allan Gray- Orbis Global Optimal Fund of Funds and the Allan Gray-Orbis Global Equity Feeder Fund all have cash balances that attract variable interest rates. Fluctuations in prevailing interest rates would therefore have no effect on those cash balances. However, there would be changes to the interest income of the Funds. Any such changes would be immaterial due to the temporary nature of these balances.

## FOREIGN CURRENCY RISK

The Allan Gray Balanced Fund, the Allan Gray Stable Fund, the Allan Gray-Orbis Global Fund of Funds, the Allan Gray-Orbis Global Equity Feeder Fund and the Allan Gray-Orbis Optimal Fund of Funds invest in foreign mutual funds. For the purposes of IFRS disclosure, currency risk is not considered to arise from financial instruments that are non-monetary items, however to the extent that these Funds hold cash in foreign currencies, they expose unitholders to risk in respect of changes in foreign exchange rates. The risk of loss due to adverse foreign exchange rate movements is monitored daily by the Manager.

The table on page 75 illustrates the effect of reasonably possible changes in exchange rates, with all other variables held constant. The actual results may differ from the sensitivity analysis and the difference could be material. The disclosure provides information on the risks to which unitholders are exposed and is not indicative of future performance.

### FOREIGN CURRENCY RISK (CONTINUED)

| R'000 | 2014 | | 2013 | |
|---|---|---|---|---|
| | DOLLAR-DENOMINATED | EURO-DENOMINATED | DOLLAR-DENOMINATED | EURO-DENOMINATED |
| **Allan Gray-Orbis Equity Feeder Fund** | 22 | - | 43 101 | - |
| + or - 5% | 1 | - | 2 155 | - |
| + or - 10% | 2 | - | 4 310 | - |
| + or - 20% | 4 | - | 8 620 | - |
| **Allan Gray Balanced Fund** | 573 030 | - | 409 189 | - |
| + or - 5% | 28 651 | - | 20 459 | - |
| + or - 10% | 57 303 | - | 40 919 | - |
| + or - 20% | 114 606 | - | 81 838 | - |
| **Allan Gray-Orbis Global Fund of Funds** | 35 | - | 28 180 | 2 896 |
| + or - 5% | 2 | - | 1 409 | 145 |
| + or - 10% | 3 | - | 2 818 | 290 |
| + or - 20% | 7 | - | 5 636 | 579 |
| **Allan Gray Stable Fund** | 180 716 | - | 181 987 | - |
| + or - 5% | 9 036 | - | 9 099 | - |
| + or - 10% | 18 072 | - | 18 199 | - |
| + or - 20% | 36 143 | - | 36 397 | - |
| **Allan Gray-Orbis Global Optimal Fund of Funds** | 17 | - | - | - |
| + or - 5% | 1 | - | - | - |
| + or - 10% | 2 | - | - | - |
| + or - 20% | 3 | - | - | - |

The Allan Gray Balanced Fund, the Allan Gray Stable Fund, the Allan Gray-Orbis Global Fund of Funds, the Allan Gray-Orbis Global Equity Feeder Fund and the Allan Gray-Orbis Optimal Fund of Funds use foreign currency to purchase investments in foreign mutual funds.

### LIQUIDITY RISK

Liquidity risk is the risk that the Funds will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk management rests with the Manager, which has built an appropriate liquidity risk management framework for the management of each of the Fund's short-, medium- and long-term funding and liquidity requirements. The Funds manage their liquidity risk by investing in marketable securities listed on recognised exchanges which may be sold in an active market at any point in time.

The Funds have access to overdraft facilities with one of the major banks. CISCA allows the Funds to utilise these facilities in cases where insufficient liquidity exists in a portfolio or where assets cannot be realised to repurchase participatory interests. Borrowings may not exceed 10% of the market value of such a portfolio





at the time of borrowing. Allan Gray's compliance department monitors compliance with the applicable regulations. The contractual value of accounts payable and net assets attributable to unitholders is the carrying value. The maturity for accounts payable and distributions payable is less than 30 days and net assets attributable to unitholders are payable on demand.

The Funds in aggregate have an overdraft facility of R1 billion with First National Bank. This is limited to 10% of the market value of the borrowing Fund. As at 31 December 2014 the Funds had not utilised their overdraft facility.

The Funds' main concentration of liquidity risk lies with the net assets attributable to unitholders and distributions payable to unitholders, as disclosed on the face of the Statements of financial position and note 2.

There has been no change in the manner in which the Funds manage and measure risk.

### CREDIT RISK

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds.

The Funds expose unitholders to credit risk as a result of transacting with various institutions. Risk is mitigated by transacting on recognised exchanges where it is possible and practical. An interest rate policy committee manages credit risk by setting exposure limits for counterparties, issuers and financial instruments.

Allan Gray's compliance department monitors compliance with applicable regulations (for example Regulation 28 and CISCA) and the investment mandate on a daily basis. Maximum exposure to individual instruments does not exceed those set out by the regulations mentioned above.

The carrying amount of financial assets recorded in the financial statements represents unitholders' maximum exposure to credit risk. At 31 December 2014 the Funds did not consider there to be any significant concentration of credit risk which needed to be provided for. Accounts receivable are considered to be of a high credit quality.

The table on page 77 provides an analysis of the credit quality of interest-bearing investments at reporting date. Fitch ratings are used to describe the credit quality. Ratings are presented in ascending order of credit risk.

There has been no change in the manner in which the Funds manage and measure the risk.

## CREDIT RISK (CONTINUED)

| 2014 | EQUITY FUND | BALANCED FUND | STABLE FUND | OPTIMAL FUND | BOND FUND | MONEY MARKET FUND |
|---|---|---|---|---|---|---|
| National long-term credit ratings | | | | | | |
| AAA | - | 23% | 7% | - | 40% | - |
| AA+ | - | 2% | 1% | - | 8% | - |
| AA | - | 15% | 7% | - | 23% | - |
| AA- | - | 2% | 2% | - | 5% | - |
| A+ | - | 5% | 4% | - | 4% | - |
| A | - | 2% | 4% | - | 1% | - |
| A- | - | 1% | 2% | - | 3% | - |
| BBB+ | - | 1% | - | - | 1% | - |
| BBB | - | - | 1% | - | - | - |
| Not Rated | | 2% | 6% | - | - | - |
| National short-term credit ratings | | | | | | |
| F1+ | 48% | 40% | 58% | 58% | 11% | 87% |
| F1 | 52% | 7% | 7% | 42% | 4% | 13% |
| F2 | - | - | 1% | - | - | - |
| | 100% | 100% | 100% | 100% | 100% | 100% |





| 2013 | EQUITY FUND | BALANCED FUND | STABLE FUND | OPTIMAL FUND | BOND FUND | MONEY MARKET FUND |
|---|---|---|---|---|---|---|
| National long-term credit ratings | | | | | | |
| AAA | - | 19% | 4% | - | 51% | - |
| AA+ | - | 3% | 2% | - | 2% | - |
| AA | - | 8% | 6% | - | 19% | - |
| AA- | - | 1% | - | - | 5% | - |
| A+ | - | 4% | 2% | - | 5% | - |
| A | - | 1% | 3% | - | 1% | - |
| A- | - | 1% | - | - | 2% | - |
| BBB+ | - | 1% | - | - | 2% | - |
| BBB | - | - | - | - | 1% | - |
| National short-term credit ratings | | | | | | |
| F1+ | 44% | 51% | 70% | 64% | 12% | 89% |
| F1 | 56% | 8% | 11% | 36% | - | 11% |
| F2 | - | 3% | 2% | - | - | - |
| | 100% | 100% | 100% | 100% | 100% | 100% |

## 8.2 FAIR VALUE

The fair values of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions, which are traded in active liquid markets, is determined with reference to quoted market prices. Loans and receivables are usually held for the instruments' entire life. The carrying amount of these instruments closely approximates the fair value. For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques.

## 8.2 FAIR VALUE (CONTINUED)

The directors of Allan Gray Unit Trust Management (RF) Proprietary Limited are of the opinion that the fair value of all remaining financial instruments approximates the carrying amount in the Statements of financial position as these balances are due within 30 days. IFRS 13 requires fair value measurements to be disclosed by the source of inputs, using a three-level hierarchy as follows:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date;
- Level 2: inputs are those, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs are those that are unobservable for the asset or liability.

The fair values of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions, which are traded in active liquid markets, is determined with reference to quoted market prices. Loans and receivables, which are considered level 2, are usually held for the instruments' entire life, meaning that the carrying amount of these instruments closely approximates the fair value.

The fair value of cash and cash equivalents is generally considered to be the amount held on deposit at the relevant institution. When considered necessary a credit spread will be applied. This is considered a level 2 valuation. For all financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques.

Investments in listed instruments, bonds and foreign instruments are measured at fair value, based on quoted prices in active markets. Therefore these are classified within level 1. The table below shows the fair values of these instruments at 31 December 2014.

| 2014<br>R'000 | EQUITY FUND | GLOBAL EQUITY FEEDER FUND | BALANCED FUND | GLOBAL FUND OF FUNDS | STABLE FUND | OPTIMAL FUND | GLOBAL OPTIMAL FUND OF FUNDS | BOND FUND |
|---|---|---|---|---|---|---|---|---|
| Listed equities | 39 428 619 | - | 52 168 514 | - | 12 154 153 | 754 872 | - | - |
| Foreign instruments | - | 13 950 905 | 26 402 372 | 11 014 821 | 9 487 531 | - | 1 235 272 | - |
| Listed bonds | - | - | 11 790 864 | - | 4 445 735 | - | - | 570 445 |
| TOTAL | 39 428 619 | 13 950 905 | 90 361 750 | 11 014 821 | 26 087 419 | 754 872 | 1 235 272 | 570 445 |





| 2013<br>R'000 | EQUITY FUND | GLOBAL EQUITY FEEDER FUND | BALANCED FUND | GLOBAL FUND OF FUNDS | STABLE FUND | OPTIMAL FUND | GLOBAL OPTIMAL FUND OF FUNDS | BOND FUND |
|---|---|---|---|---|---|---|---|---|
| Listed equities | 36 417 940 | - | 40 637 492 | - | 10 882 226 | 744 629 | - | - |
| Foreign instruments* | - | 13 000 259 | 21 323 992 | 11 250 838 | 8 258 021 | - | 1 287 475 | - |
| Listed bonds | - | - | 8 110 913 | - | 2 492 017 | - | - | 567 700 |
| TOTAL | 36 417 940 | 13 000 259 | 70 072 397 | 11 250 838 | 21 632 264 | 744 629 | 1 287 475 | 567 700 |

* Prior year foreign currency for investment in foreign mutual funds have been reclassified from available-for-sale foreign investments to cash and cash equivalents held for investment purposes.

The Funds hold investments in suspended, listed and unlisted instruments. These are classified within level 2. The table below shows the fair values of these instruments at 31 December 2014.

| 2014<br>R'000 | EQUITY FUND | GLOBAL EQUITY FEEDER FUND | BALANCED FUND | GLOBAL FUND OF FUNDS | STABLE FUND | OPTIMAL FUND | GLOBAL OPTIMAL FUND OF FUNDS | BOND FUND |
|---|---|---|---|---|---|---|---|---|
| Listed equities | - | - | 1 015 046 | - | 328 735 | - | - | - |
| Listed bonds | - | - | - | - | - | - | - | - |
| Unlisted equities | - | - | - | - | - | - | - | - |
| TOTAL | | | 1 015 046 | | 328 735 | | | |

| 2013<br>R'000 | EQUITY FUND | GLOBAL EQUITY FEEDER FUND | BALANCED FUND | GLOBAL FUND OF FUNDS | STABLE FUND | OPTIMAL FUND | GLOBAL OPTIMAL FUND OF FUNDS | BOND FUND |
|---|---|---|---|---|---|---|---|---|
| Unlisted equities | 119 389 | - | 107 091 | - | 10 310 | 5 529 | - | - |

There were no transfers between level 1 and 2 during the year. Listed equities include commodity instruments classified as level 2. The instruments are valued using prevailing lease rates, credit spreads, numismatic premiums and gold delta inputs.

The Funds have no investments that are classified within level 3.

## 8.3 DERIVATIVE INSTRUMENTS

Derivatives are used for hedging purposes in accordance with CISCA. Derivatives are not designated as effective hedging instruments in terms of IAS 39 and are classified as investments at fair value through profit or loss.

Investments in derivatives are regulated by the Financial Services Board. Submissions were made to the Financial Services Board at the end of each quarter during the period under review in terms of CISCA Board Notice 90 of 2014.

The fair value of derivative instruments are calculated using quoted prices.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

In terms of South Africa Futures Exchange (SAFEX) requirements, margin deposits are pledged as collateral for derivatives held. Margin deposits are included in cash and cash equivalents for investment purposes.

Short exposure is the value of the Funds' commitment to sell a derivative instrument at contract maturity. Short exposures and margin deposits at 31 December were:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | MARGIN DEPOSIT R'000 | SHORT EXPOSURE R'000 | MARGIN DEPOSIT R'000 | SHORT EXPOSURE R'000 |
| Allan Gray Stable Fund | 355 461 | 5 377 347 | 273 133 | 5 066 550 |
| Allan Gray Balanced Fund | 152 044 | 2 300 088 | 116 829 | 2 167 149 |
| Allan Gray Optimal Fund | 46 313 | 700 604 | 38 418 | 712 653 |

## 8.4 INTEREST-BEARING INSTRUMENTS

### ALLAN GRAY BALANCED FUND

| MATURITIES | < 1 YEAR R | 1 TO 3 YEARS R | 3 TO 7 YEARS R | > 7 YEARS R | TOTAL R |
|---|---|---|---|---|---|
| Bonds | 1 499 031 902 | 2 669 559 844 | 2 977 341 898 | 4 644 929 990 | 11 790 863 634 |
| Money market instruments | 9 949 916 161 | 234 985 000 | 242 980 000 | - | 10 427 881 161 |
| Money at call | 1 326 073 449 | - | - | - | 1 326 073 449 |
| Non-interest bearing equity investments | - | - | - | - | 79 585 932 332 |
| TOTAL INVESTMENTS PER THE STATEMENT OF FINANCIAL POSITION | 12 775 021 512 | 2 904 544 844 | 3 220 321 898 | 4 644 929 990 | 103 130 750 576 |

Accounts payable and accounts receivable are not interest bearing.

Coupon rates on bonds are fixed and range between 2.50% and 11.68%. Yields on the money market instruments are fixed and range between 5.91% and 10.63% and money at call earns variable interest at rates ranging between 4.75% and 5.90%.

### ALLAN GRAY STABLE FUND

| MATURITIES | < 1 YEAR R | 1 TO 3 YEARS R | 3 TO 7 YEARS R | > 7 YEARS R | TOTAL R |
|---|---|---|---|---|---|
| Bonds | 574 632 196 | 1 565 087 644 | 2 159 770 114 | 146 245 000 | 4 445 734 954 |
| Money market instruments | 9 119 246 431 | 625 480 500 | 449 980 000 | - | 10 194 706 931 |
| Money at call | 789 176 549 | - | - | - | 789 176 549 |
| Non-interest bearing equity investments | - | - | - | - | 21 970 418 922 |
| TOTAL INVESTMENTS PER THE STATEMENT OF FINANCIAL POSITION | 10 483 055 176 | 2 190 568 144 | 2 609 750 114 | 146 245 000 | 37 400 037 356 |

Accounts payable and accounts receivable are not interest bearing.





NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

Coupon rates on bonds are fixed and range between 5.00% and 10.38%. Yields on the money market instruments are fixed and range between 5.91% and 11.08% and money at call earns variable interest at rates ranging between 4.75% and 5.83%.

### ALLAN GRAY MONEY MARKET FUND

| MATURITIES | < 1 YEAR R | 1 TO 3 YEARS R | 3 TO 7 YEARS R | > 7 YEARS R | TOTAL R |
|---|---|---|---|---|---|
| Money market instruments | 8 234 398 772 | - | - | - | 8 234 398 772 |
| Money at call | 444 000 000 | - | - | - | 444 000 000 |
| TOTAL INVESTMENTS PER THE STATEMENT OF FINANCIAL POSITION | 8 678 398 772 | - | - | - | 8 678 398 772 |

Accounts payable and accounts receivable are not interest bearing.

Yields on the money market instruments are fixed and range between 5.91% and 7.38% and money at call earns variable interest rates ranging between 4.75% and 5.90%

### ALLAN GRAY BOND FUND

| MATURITIES | < 1 YEAR R | 1 TO 3 YEARS R | 3 TO 7 YEARS R | > 7 YEARS R | TOTAL R |
|---|---|---|---|---|---|
| Bonds | 80 225 965 | 75 643 660 | 96 606 783 | 317 968 550 | 570 444 958 |
| Money market instruments | 63 732 600 | - | - | - | 63 732 600 |
| Money at call | 17 000 000 | - | - | - | 17 000 000 |
| TOTAL INVESTMENTS PER THE STATEMENT OF FINANCIAL POSITION | 160 958 565 | 75 643 660 | 96 606 783 | 317 968 550 | 651 177 558 |

Accounts payable and accounts receivable are not interest bearing.

Coupon rates for the bond portfolio are fixed and range between 7.13% and 12.50%. Yields on the money market instruments are fixed and range between 6.65% and 7.30% and money at call earns variable interest rates ranging between 4.75% and 5.60%

### OTHER FUNDS

The Allan Gray Equity Fund had money at call amounting to R632 000 000 at 31 December 2014, earning variable interest at rates ranging between 4.75% and 5.65%.

The Allan Gray Optimal Fund had R212 312 584 at call at 31 December 2014, earning variable interest at rates ranging between 4.75% and 5.83%.

The Allan Orbis-Global Fund of Funds, Allan Gray-Orbis Global Equity Feeder Fund and Allan Gray-Orbis Global Optimal Fund of Funds did not hold any interest bearing investments at 31 December 2014.

# APPROVAL OF THE AUDITED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

The directors of Allan Gray Unit Trust Management (RF) Proprietary Limited (the Company and Manager) are responsible for the preparation of the annual financial statements and related financial information included in this report.

The annual financial statements for the year ended 31 December 2014 set out on pages 87 to 110 have been approved by the board of directors and are signed on its behalf by:

| | |
|---|---|
| E D Loxton | R W Dower |
| Chairman | Director and Public officer |
| | |
| Cape Town | Cape Town |
| 20 February 2015 | 20 February 2015 |





# CERTIFICATION BY THE COMPANY SECRETARY

For the year ended 31 December 2014

I hereby confirm, in terms of the Companies Act, No 71 of 2008, as amended, that for the year ended 31 December 2014 the Company has lodged with the Companies Intellectual and Property Commission all such returns as are required in terms of this Act and that all such returns are true, correct and up to date.

T Pickering
Company secretary

Cape Town
20 February 2015

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF ALLAN GRAY UNIT TRUST MANAGEMENT (RF) PROPRIETARY LIMITED

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Allan Gray Unit Trust Management (RF) Proprietary Limited set out on pages 87 to 108, which comprise the Statement of financial position as at 31 December 2013, and the Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF ALLAN GRAY UNIT TRUST MANAGEMENT (RF) PROPRIETARY LIMITED

## OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Allan Gray Unit Trust Management (RF) Proprietary Limited as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

## OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 31 December 2013, we have read the Report of the Directors and the Certification by the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Ernst & Young Inc.
Director – Anthony Robert Cadman
Registered Auditor
Chartered Accountant
Ernst & Young
35 Lower Long Street
Cape Town
21 February 2014

# REPORT OF THE DIRECTORS

For the year ended 31 December 2014

The directors of the Company have pleasure in presenting their report for the year ended 31 December 2014.

## NATURE OF THE COMPANY'S BUSINESS

Allan Gray Unit Trust Management (RF) Proprietary Limited is a private company incorporated in South Africa in terms of the South African Companies Act No 71 of 2008 (the Companies Act), as amended.

The principal business of the Company is to manage the Allan Gray Unit Trust Funds (the Funds) registered under the Allan Gray Unit Trust Scheme (the Scheme) in accordance with the Collective Investment Schemes Control Act No. 45 of 2002 (CISCA), as amended.

| ALLAN GRAY UNIT TRUST FUNDS | FUND LAUNCH DATE |
|---|---|
| Allan Gray Equity Fund | 1 October 1998 |
| Allan Gray Balanced Fund | 1 October 1999 |
| Allan Gray Stable Fund | 1 July 2000 |
| Allan Gray Money Market Fund | 1 July 2001 |
| Allan Gray Optimal Fund | 1 October 2002 |
| Allan Gray Bond Fund | 1 October 2004 |
| Allan Gray-Orbis Global Fund of Funds | 3 February 2004 |
| Allan Gray-Orbis Global Equity Feeder Fund | 1 April 2005 |
| Allan Gray-Orbis Global Optimal Fund of Funds | 1 March 2010 |

## THE COMPANY'S INVESTMENTS IN THE FUNDS

| UNIT TRUST FUNDS | 2014 | | 2013 | |
|---|---|---|---|---|
| | UNITS | FAIR VALUE R | UNITS | FAIR VALUE R |
| Allan Gray Balanced Fund | 7 676 | 670 227 | 7 663 | 626 159 |
| Allan Gray Equity Fund | - | - | 41 | 11 641 |
| Allan Gray Optimal Fund | - | - | 582 | 10 229 |
| Allan Gray Stable Fund | - | - | 368 | 10 521 |
| Allan Gray Money Market Fund | 156 222 000 | 156 222 000 | 94 540 470 | 94 540 470 |



ALLAN GRAY UNIT TRUST MANAGEMENT (RF) PROPRIETARY LIMITED

REPORT OF THE DIRECTORS

For the year ended 31 December 2014

## RESULTS OF THE COMPANY

The detailed results of operations for the year are reported in terms of International Financial Reporting Standards (IFRS) and are set out in the accompanying Statement of comprehensive income and Statement of cash flows for the year ended 31 December 2014 and the Statement of financial position as at 31 December 2014.

## DIVIDENDS

| DECLARATION DATE | RANDS PER SHARE |
|---|---|
| 11 April 2013 | 334.98 |
| 10 October 2013 | 399.98 |
| 26 March 2014 | 269.98 |
| 7 October 2014 | 549.97 |

In 2014 the Company declared total dividends of R820 million (2013: R735 million).

## DIRECTORS AND COMPANY SECRETARY

Particulars of the directors and company secretary are given on the back cover.

## EVENTS SUBSEQUENT TO YEAR END

A ballot has been sent to unit holders proposing changes to the Allan Gray Equity Fund fee and investment mandate. The ballot is currently ongoing.

There were no other significant events subsequent to year end.

# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

| | NOTES | 2014 R | 2013 R |
|---|---|---|---|
| **INCOME** | | | |
| REVENUE | | 2 571 253 671 | 1 965 978 650 |
| Management fees | 16 | 2 254 803 410 | 1 717 573 172 |
| Income from the Company's investment in the Funds: | | | |
| - Dividends | | 137 082 | 4 343 |
| - Interest | | 9 747 315 | 5 171 |
| Interest earned | | 8 309 617 | 12 886 727 |
| Service fees from Orbis | 16 | 298 256 247 | 235 509 237 |
| OTHER INCOME | | 33 434 798 | 39 016 534 |
| Unrealised gain on revaluation of investments at fair value through profit or loss | | 38 983 | 111 966 |
| Realised gain on disposal of investments at fair value through profit or loss | | 4 528 547 | - |
| Net foreign exchange gain | | 28 867 268 | 38 904 568 |
| OPERATING COSTS | | 904 189 569 | 891 968 636 |
| Linked investment service provider costs | | 282 740 599 | 352 614 696 |
| Audit fees | | | |
| - Fees for audit | | 649 191 | 618 120 |
| - Other services | | 64 550 | 60 896 |
| Fees charged by the holding company | 16 | 613 787 762 | 530 101 508 |
| Other operating expenses | | 6 947 467 | 8 573 416 |
| DONATION | 16 | 85 016 027 | 64 500 454 |
| PROFIT BEFORE TAXATION | | 1 615 482 873 | 1 048 526 094 |
| Taxation expense | 4 | 452 292 533 | 293 575 759 |
| PROFIT FOR THE YEAR | | 1 163 190 340 | 754 950 335 |
| Total comprehensive income attributable to equity holder | | 1 163 190 340 | 754 950 335 |



# STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

| | NOTES | 2014 R | 2013 R |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | 670 227 | 658 550 |
| Investments at fair value through profit or loss | 5 | 670 227 | 658 550 |
| Current assets | | 789 994 239 | 417 933 990 |
| Trade and other receivables | 6 | 308 053 190 | 199 156 226 |
| Cash | 7 | 187 901 826 | 105 278 048 |
| Group treasury: cash equivalent | 7 | 289 664 391 | 113 499 716 |
| Taxation receivable | | 4 374 832 | - |
| TOTAL ASSETS | | 790 664 466 | 418 592 540 |
| **EQUITY AND LIABILITIES** | | | |
| Total equity attributable to equity holder | | 673 666 838 | 330 476 498 |
| Share capital | 8 | 1 000 060 | 1 000 060 |
| Share premium | 8 | 2 000 000 | 2 000 000 |
| Accumulated profit | | 670 666 778 | 327 476 438 |
| Non-current liabilities | | 47 768 | 40 498 |
| Deferred taxation liability | 9 | 47 768 | 40 498 |
| Current liabilities | | 116 949 860 | 88 075 544 |
| Trade and other payables | 10 | 116 949 860 | 86 112 182 |
| Taxation payable | | - | 1 963 362 |
| TOTAL EQUITY AND LIABILITIES | | 790 664 466 | 418 592 540 |

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

| | NOTES | SHARE CAPITAL R | SHARE PREMIUM R | ACCUMULATED PROFIT R | TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDER R |
|---|---|---|---|---|---|
| BALANCE AS AT 31 DECEMBER 2012 | 8 | 1 000 060 | 2 000 000 | 307 526 103 | 310 526 163 |
| Transactions with equity holder | | | | | |
| - Ordinary dividend | | - | - | (735 000 000) | (735 000 000) |
| Total comprehensive income | | | | | |
| - Profit for the year | | - | - | 754 950 335 | 754 950 335 |
| BALANCE AS AT 31 DECEMBER 2013 | 8 | 1 000 060 | 2 000 000 | 327 476 438 | 330 476 498 |
| Transactions with equity holder | | | | | |
| - Ordinary dividend | | - | - | (820 000 000) | (820 000 000) |
| Total comprehensive income | | | | | |
| - Profit for the year | | - | - | 1 163 190 340 | 1 163 190 340 |
| BALANCE AS AT 31 DECEMBER 2014 | | 1 000 060 | 2 000 000 | 670 666 778 | 673 666 838 |





# STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

| | NOTES | 2014 R | 2013 R |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Cash generated by operations before changes in working capital | 11.1 | 1 592 721 329 | 1 035 517 887 |
| Changes in working capital | 11.2 | (78 059 286) | 8 142 762 |
| Cash generated from operations | | 1 514 662 043 | 1 043 660 649 |
| Interest received | | 18 056 932 | 12 891 898 |
| Dividends received | | 137 082 | 4 343 |
| Dividends paid | | (820 000 000) | (735 000 000) |
| Taxation paid | 11.3 | (458 623 457) | (281 110 850) |
| Net cash flow from operating activities | | 254 232 600 | 40 446 040 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Purchase of investments in the Funds | | (441 656 953) | (49 515) |
| Proceeds on disposal of investments in the Funds | | 446 212 806 | - |
| Net cash flow from investing activities | | 4 555 853 | (49 515) |
| Net increase in cash and cash equivalents | | 258 788 453 | 40 396 525 |
| Cash and cash equivalents at beginning of year | | 218 777 764 | 178 381 239 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 7 | 477 566 217 | 218 777 764 |

## 1. COMPANY DETAILS

Allan Gray Unit Trust Management (RF) Proprietary Limited is a private company incorporated in and subject to the laws of the Republic of South Africa. The address of its registered office is disclosed on the back cover. The principal business activities of the Company are described in the report of the directors.

## 2. ACCOUNTING STANDARDS

### 2.1 BASIS OF PREPARATION

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) on a historical cost basis, except for certain financial instruments that have been measured at fair value, in accordance with the relevant IFRS, and in accordance with the Companies Act. These annual financial statements are presented in South African Rands. The accounting policies have been applied consistently in the current and prior years, unless specifically stated otherwise.

### 2.2 INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has adopted all new, revised and amended Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for the year ended 31 December 2014.

The significant accounting policies adopted in the preparation of these annual financial statements are set out in note 3 and comply with IFRS.

The following new, revised and amended IFRS standards, interpretations and amendments applicable to the Company were adopted during the year:

| STANDARDS/INTERPRETATIONS AND AMENDMENTS | | EFFECTIVE DATE: YEARS BEGINNING ON/AFTER | IMPACT |
|---|---|---|---|
| IAS 32 | Financial Instruments: Presentation (amendment) | 1 January 2014 | No material impact |
| IAS 36 | Impairment of Assets (amendment) | 1 January 2014 | No material impact |



ALLAN GRAY UNIT TRUST MANAGEMENT (RF) PROPRIETARY LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2014

The following new or revised IFRS standards, interpretations and amendments applicable to the Company have been issued with effective dates applicable to future annual financial statements of the Company:

| STANDARDS/INTERPRETATIONS AND AMENDMENTS | | EFFECTIVE DATE: YEARS BEGINNING ON/AFTER | EXPECTED IMPACT |
|---|---|---|---|
| IAS 19 | Employee Benefits (amendment) | 1 July 2014 | No material impact |
| IAS 24 | Related Party Disclosures (amendment) | 1 July 2014 | No material impact |
| IFRS 7 | Financial Instruments: Disclosures (amendment) | 1 January 2016 | No material impact |
| IFRS 9 | Financial instruments | 1 January 2018 | No material impact |
| IFRS 13 | Fair Value Measurement (amendment) | 1 July 2014 | No material impact |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2017 | Yet to be determined |

### 2.3 FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between unrelated parties at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Fair value has been determined taking into account the characteristics of assets and liabilities.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs are observable.

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date;
- Level 2: inputs are those, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs are those that are unobservable for the asset or liability.

### 2.4 USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates and assumptions affect the reported amounts of assets, liabilities and contingent liabilities at the reporting date as well as the reported income and expenses for the year. Although estimates are based on management's best knowledge and judgement of current facts as at the reporting date, the actual outcome may differ from these estimates. The estimates and underlying assumptions are reviewed regularly. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

No critical estimates and judgements were applied in preparing these financial statements.

## 3. ACCOUNTING POLICIES

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results. These accounting policies are set out below and have been consistently applied.

### 3.1 REVENUE

Revenue excludes any value added taxation and includes management fees from managing and administering the collective investment scheme portfolios, service fees, interest income, and income distributions from investments in the Funds.

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. All transactions with related parties are conducted at arm's length.

Management fees accrue on a daily basis and are based on the daily market values of the Funds.

Service fees are recognised monthly on an accrual basis according to the average market value of assets invested in mutual funds offered by Orbis Investment Management Limited (Orbis).

Interest income is recognised on an accrual basis using the effective interest method.

All dividend and income distributions from the Company's investments in the Funds are recognised when the unitholder's right to receive payment has been established and the last date to register has passed.

### 3.2 TAXATION

#### TAXATION RECEIVABLE / PAYABLE

Taxation assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The taxation rates and taxation laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

#### TAXATION EXPENSE

The taxation expense in the Statement of comprehensive income represents the sum of the normal taxation, capital gains taxation and deferred taxation. The current taxation expense is based on taxable profit for the year. Taxable profit may differ from profit as reported in the Statement of comprehensive income because of timing or permanent differences in taxation treatment.

#### DEFERRED TAXATION

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding taxation bases used in the computation of taxable profit, based on the expected manner of recovery or settlement. Deferred taxation assets and liabilities are determined in respect of the recognition of temporary differences that affect either the taxable profit or accounting profit.

Deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will





be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated using the taxation rates and taxation laws that are enacted or substantively enacted at the reporting date.

Deferred taxation is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred taxation is dealt with in other comprehensive income.

Deferred taxation assets and liabilities are offset if a legally enforceable right exists to set off current taxation assets against current taxation liabilities.

### 3.3 EXPENSES

Expenses are recognised when they are incurred.

### 3.4 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised when the Company becomes party to the contractual provisions of the instruments.

#### FINANCIAL ASSETS

Financial assets are classified as either financial assets at *fair value through profit or loss* or *loans and receivables*. Financial assets are recognised on the trade date at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Detail on how fair value is determined may be found in note 14. The Company determines the classification of its financial assets on initial recognition when it becomes a party to the contract governing the instrument, according to the nature and purpose of the financial instrument.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently measured at amortised cost using the effective interest method, except for short-term items where the recognition of interest would be immaterial. Losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

*TRADE AND OTHER RECEIVABLES*

Trade and other receivables are classified as loans and receivables and are generally settled within 30 days. Trade and other receivables are initially recognised at original invoice amount, and subsequently carried at this amount less any uncollectible amounts.

*CASH AND CASH EQUIVALENTS*

Cash and cash equivalents in the Statement of financial position comprise cash at banks, funds held in a Group dollar denominated bank account, money market and short-term deposits with an original maturity of three months or less.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or it is designated as such upon initial recognition.

All assets at fair value through profit or loss are measured at quoted market values. Gains and losses on investments at fair value through profit or loss are determined by reference to the quoted market prices, excluding any interest and dividends.

The investments at fair value through profit or loss consist of discretionary holdings in the Funds.

### DERECOGNITION OF FINANCIAL ASSETS

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset; or
- the Company has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, any gains or losses, including those previously recognised in other comprehensive income are recognised in profit or loss.

### IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. Financial assets are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

LOANS AND RECEIVABLES

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is then reduced directly. The amount of the loss is recognised in income (as part of operating costs). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any such reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its original amortised cost had the impairment not been recognised. In the case of trade and other receivables, provision is made where there is objective evidence (such as the probability of insolvency or significant financial difficulty of the debtor), at year end, that the Company will not be able to collect the debts. Any bad debts are written off when identified. Losses are recognised in profit or loss when the loans and receivables are derecognised or impaired.

### FINANCIAL LIABILITIES

Financial liabilities are classified as *financial liabilities held at amortised cost*. The Company determines the classification of its financial liabilities on initial recognition, when it becomes a party to the contract governing the instrument, according to the nature and purpose of the financial instrument. Financial liabilities at amortised cost are recognised on the trade date at fair value, less directly attributable transaction costs.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all liabilities. Equity instruments issued are recognised at the proceeds received, net of direct issue costs.





FINANCIAL LIABILITIES HELD AT AMORTISED COST

*TRADE AND OTHER PAYABLES*

Trade and other payables are recognised at original invoice amount and are subsequently stated at amortised cost by applying the effective interest method. Trade and other payables are generally settled within 30 days and are interest free.

### DERECOGNITION OF FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in profit or loss.

## 3.5 FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the date of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Exchange differences arising on the settlement and translation of monetary items are included in profit or loss in the period in which they arise.

## 3.6 PROVISIONS

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value in line with IFRS where the effect is material.

## 3.7 CONTINGENCIES

In the event that there may ever be (1) possible obligations that arise from past events the existence of which will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Company or (2) material present obligations of the Company that arise from past events where it is not probable, but is possible, that an outflow of economic benefits will be required to settle the obligation that arises from past events or where the amount of the obligation cannot be measured reliably, then a liability is not recognised in the Statement of financial position but rather disclosed in the notes to the financial statements.

Possible assets of the Company whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Company are not recognised in the Statement of financial position and are only disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

## 4. TAXATION EXPENSE

| | 2014<br>R | 2013<br>R |
|---|---|---|
| South African normal taxation | | |
| - Current | 452 283 977 | 293 554 884 |
| - Prior year over provision | (2) | (4) |
| - Capital gains taxation | 1 288 | - |
| Deferred taxation | | |
| - Fair value adjustments on revaluation of investments at fair value through profit or loss | 7 270 | 20 879 |
| | 452 292 533 | 293 575 759 |

| | | |
|---|---|---|
| Reconciliation of taxation rate: | % | % |
| Standard taxation rate | 28.00 | 28.00 |
| EFFECTIVE TAXATION RATE | 28.00 | 28.00 |

## 5. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | COST<br>R | FAIR VALUE<br>R | COST<br>R | FAIR VALUE<br>R |
| Allan Gray Balanced Fund | | | | |
| - 7 676 units (2013: 7 663) | 414 071 | 670 227 | 411 322 | 626 159 |
| Allan Gray Equity Fund | | | | |
| - Nil units (2013: 41) | - | - | 10 000 | 11 641 |
| Allan Gray Optimal Fund | | | | |
| - Nil units (2013: 582) | - | - | 10 000 | 10 229 |
| Allan Gray Stable Fund | | | | |
| - Nil units (2013 : 368) | - | - | 10 055 | 10 521 |
| | 414 071 | 670 227 | 441 377 | 658 550 |

The investments at fair value through profit or loss consist of investments in the Funds, and therefore have no fixed maturity date or coupon rate.



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## 6. TRADE AND OTHER RECEIVABLES

| | 2014<br>R | 2013<br>R |
|---|---|---|
| Receivables from related parties - refer note 16 | 303 039 193 | 193 004 729 |
| Other receivables | 4 850 098 | 4 940 764 |
| Prepayments | 163 899 | 1 210 733 |
| | 308 053 190 | 199 156 226 |

Trade and other receivables are classified as loans and receivables for financial statement reporting purposes.

The carrying value of trade and other receivables approximates fair value due to the short-term nature (generally settled within 30 days).

## 7. CASH AND CASH EQUIVALENTS

| | 2014<br>R | 2013<br>R |
|---|---|---|
| Cash | 187 901 826 | 105 278 048 |
| - Cash at bank | 523 826 | 416 578 |
| - Short-term deposits | 31 156 000 | 10 321 000 |
| - Allan Gray Money Market Fund deposit | 156 222 000 | 94 540 470 |
| Group treasury: cash equivalent - refer note 16 | 289 664 391 | 113 499 716 |
| | 477 566 217 | 218 777 764 |

Cash and cash equivalents comprise cash held, money market and short-term deposits with an original maturity of three months or less. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between 1 and 30 days, depending on the cash requirements of the Company, and earn interest at the respective short-term rates.

Cash and cash equivalents are classified as loans and receivables for financial statement reporting purposes.

The carrying value of cash and cash equivalents approximates fair value due to the short-term nature of the deposits and market related interest rate earned.

In terms of section 105 of CISCA, investments into and out of unit trust funds managed by the Manager must be processed through trust bank accounts. These funds belong to unitholders and therefore are not reflected in the Company's Statement of financial position. Unitholder cash awaiting investment at 31 December 2014 amounted to R51 035 147 (2013: R30 954 248).

## 8. SHARE CAPITAL AND SHARE PREMIUM

| | 2014 R | 2013 R |
|---|---|---|
| Authorised | | |
| 3 000 000 ordinary shares of R1 each | 3 000 000 | 3 000 000 |
| Issued and fully paid | | |
| 1 000 060 ordinary shares of R1 each | 1 000 060 | 1 000 060 |
| Share premium account | | |
| Arising on the issue of ordinary shares | 2 000 000 | 2 000 000 |

## 9. DEFERRED TAXATION

| | 2014 R | 2013 R |
|---|---|---|
| Balance at beginning of year | 40 498 | 19 619 |
| Amount charged directly to profit or loss | 7 270 | 20 879 |
| BALANCE AT END OF YEAR | 47 768 | 40 498 |

Deferred tax arises on revaluation of investments held at fair value through profit or loss.

## 10. TRADE AND OTHER PAYABLES

| | 2014 R | 2013 R |
|---|---|---|
| Payables to related parties - refer to note 16 | 91 900 369 | 67 094 602 |
| Trade and other payables | 25 049 491 | 19 017 580 |
| | 116 949 860 | 86 112 182 |

Trade and other payables are classified as financial liabilities held at amortised cost for financial statement reporting purposes.

The carrying value of trade and other payables approximates the fair value due tothe short-term nature (due within 30 days).





## 11. NOTES TO THE STATEMENT OF CASH FLOWS

### 11.1 CASH GENERATED BY OPERATIONS BEFORE CHANGES IN WORKING CAPITAL

| | 2014 R | 2013 R |
|---|---|---|
| Profit before taxation | 1 615 482 873 | 1 048 526 094 |
| Adjustments for: | | |
| Unrealised gain on revaluation of investments at fair value through profit or loss | (38 983) | (111 966) |
| Realised gain on disposal of investments at fair value through profit or loss | (4 528 547) | - |
| Interest income | (18 056 932) | (12 891 898) |
| Dividend income | (137 082) | (4 343) |
| | 1 592 721 329 | 1 035 517 887 |

### 11.2 CHANGES IN WORKING CAPITAL

| | 2014 R | 2013 R |
|---|---|---|
| Increase in trade and other receivables | (108 896 964) | (5 045 119) |
| Increase in trade and other payables | 30 837 678 | 13 187 881 |
| | (78 059 286) | 8 142 762 |

### 11.3 TAXATION PAID

| | 2014 R | 2013 R |
|---|---|---|
| Amount (payable)/receivable at beginning of year | (1 963 362) | 10 480 668 |
| Amount charged through profit or loss | (452 285 263) | (293 554 880) |
| Amount (receivable)/payable at end of year | (4 374 832) | 1 963 362 |
| AMOUNT PAID | (458 623 457) | (281 110 850) |

## 12. CANCELLATION OF UNITS

The Company undertakes to repurchase units in accordance with the requirements of CISCA, and on terms and conditions as set out in the Funds' trust deeds. Refer to note 13.5.

## 13. FINANCIAL RISK MANAGEMENT

The Company's principal financial instruments comprise:

- Investments at fair value through profit or loss: These are holdings in the Allan Gray suite of collective investment scheme portfolios.
- Cash and cash equivalents: These arise from operating activities and are used to fund working capital requirements and distributions to the equity participant.
- Trade and other receivables: These arise from daily operations.
- Trade and other payables: These arise from daily operations.

The investments at fair value through profit or loss are reviewed by the board periodically to ensure that they are consistent with the Company's risk strategy. Cash and cash equivalents are reviewed weekly and are invested to earn the most appropriate interest rates. Trade and other payables and trade and other receivables arise from daily operations and are managed in such a way to achieve an operating cycle of not more than 30 days.

### 13.1 CREDIT RISK

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company resulting in a financial loss.

At the reporting date, credit risk consisted principally of fees due from the Funds, service fees due from Orbis and money market and short-term deposits. Maximum credit exposure for these financial instruments is limited to the carrying value per the Statement of financial position since all the balances are unsecured. The Funds and Orbis are both related parties of the Company (see note 16 for details). During the year, the Company deposited cash surpluses with the Funds and South African financial institutions considered to be of high quality credit standing.

There has been no change in the Company credit risk management policy.

At 31 December 2014 the Company did not consider there to be any significant concentration of credit risk which needed to be provided for. All assets are considered to be of good credit quality.  All financial assets disclosed in the financial statements are neither past due nor impaired.

### 13.2 PRICE RISK

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether the changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.



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The investments at fair value through profit or loss consist of discretionary holdings in the Funds which are subject to market fluctuations. The actual risk and return profile of the investments are monitored and reviewed from time to time to ensure that they remain in line with the Company's risk appetite and long-term capital management framework. The Company's price risk policy remains unchanged from previous years.

#### PRICE SENSITIVITY ANALYSIS

The following table demonstrates the sensitivity of the Company profit before taxation to a reasonable possible change in the market value of investments at fair value through profit or loss, with all other variables held constant. The analysis has been prepared on a pre-taxation basis.

| | INCREASE / (DECREASE) IN MARKET VALUE | EFFECT ON PROFIT BEFORE TAXATION | EFFECT ON PROFIT BEFORE TAXATION |
|---|---|---|---|
| | % | R | R |
| Investments at fair value through profit or loss | 20 | 134 046 | 131 710 |
| Investments at fair value through profit or loss | 10 | 67 023 | 65 855 |
| Investments at fair value through profit or loss | (10) | (67 023) | (65 855) |
| Investments at fair value through profit or loss | (20) | (134 046) | (131 710) |

### 13.3 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

These assets are held as part of daily operations. The interest rate risk is monitored by the Company to determine appropriate financial instrument allocations.

There has been no change in the interest rate risk management policies of the Company.

#### INTEREST RATE SENSITIVITY ANALYSIS

All interest bearing instruments are subject to variable interest linked to the relevant interest rate.

No sensitivity analysis has been prepared for the Company in respect of interest earned on cash and cash equivalents as any reasonable variation is not expected to have a material impact on the financial results as any significant surplus cash balances held at year end are distributed as a dividend.

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## 13.4 CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to currency risk in respect of foreign cash held, as well as certain receivables.

Group treasury: cash equivalent constitutes an amount of US$ 25 076 997 (2013: US$ 10 788 331) held in a US dollar bank account on behalf of the Company. Trade and other receivables include a balance of US$ 6 938 736 (2013: US$ 6 298 395) receivable directly from Orbis. The exchange rate is monitored to ensure that currency risk, including the financial impact, is minimised at all times and that the amounts held remain appropriate for the Company's requirements and risk profile. There has been no change in the currency risk management policies of the Company.

### CURRENCY SENSITIVITY ANALYSIS

The following table reflects the sensitivity of profit before taxation to reasonable possible changes in the value of foreign financial assets due to changes in foreign exchange rates, with all other variables held constant. The analysis has been prepared on a pre-taxation basis.

| % RATE CHANGE | 2014 | 2013 |
|---|---|---|
| | R | R |
| +-5 | 18 490 687 | 8 988 130 |
| +-10 | 36 981 374 | 17 976 260 |
| +-20 | 73 962 748 | 35 952 520 |

## 13.5 LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations in respect of financial liabilities.

Liquidity risk relates to trade and other payables, which arise from daily operations. These liabilities are settled on 30 day terms. The Company's liquidity risk is managed by holding financial assets for which there is a liquid market and by holding sufficient deposits at recognised financial institutions to meet any future negotiated liquidity requirements.

There has been no change in the liquidity risk management policy of the Company.

The undertaking of the Company to repurchase units in accordance with the requirements of CISCA and on terms and conditions set out in the Funds' trust deeds exposes the Company to liquidity risk. This risk is mitigated by stringent cash management and capacity for substantial banking facilities at the reporting date. The Funds in aggregate have an overdraft facility of R1 billion with First National Bank. This facility is subject to regulatory limits on the borrowing of collective investments schemes in terms of CISCA. None of the Funds were in overdraft at the end of the current or prior year.

## 13.6 CAPITAL ADEQUACY RISK

CISCA requires that a manager must, on an ongoing basis, maintain in liquid form the capital for the matters and risks determined by the Registrar of Collective Investment Schemes (the Registrar). Board Notice 91 of 2014 (BN91) prescribes the calculation of the capital required and requires that a calculation of the capital position as at the last business day of each calendar month, be submitted to the Registrar within 14 business days after the end of such calendar month.

The required capital, as defined by BN91, comprises three components: basic capital, seed capital and position risk capital.

The Basic capital component is defined as 13 weeks of the Manager's fixed cost (as defined) to be calculated as the previous financial year's fixed costs divided by four.

The Seed capital component which requires R1 million to be invested by the Manager does not apply to the Company as BN91 allows for the prescribed amount of R1 million to be reduced by 10% for every R1 million invested by investors (independent from the manager) in a portfolio. At 31 December 2014, the Manager did not have any investments held as seed capital.

The Position risk capital component is a percentage (10% for a money market portfolio, 15% for an income portfolio and 25% for all other portfolios) of the amount paid by the Manager for units held in a portfolio administered by itself.

At 31 December 2014 these capital requirements totalled R116 397 522 (2013: R92 910 278).

The Company satisfied the capital requirements and its reporting obligations in terms of BN91. The dividends declared during the year were limited to the liquid resources of the Company as calculated in accordance with the capital adequacy requirements stipulated.

There has been no change in the capital adequacy risk management policies of the Company.

## 14. FAIR VALUE

All of the Company investments held at fair value are classified within level 1 of the fair value hierarchy as determined by IFRS 13, *Fair value*. Gains and losses on investments at fair value are determined by reference to the quoted prices in active markets, excluding any interest and dividends.

Loans and receivables and payables are classified as a level 2 valuation. These are usually held for the instruments' entire life, meaning that the carrying amount of these instruments closely approximates the fair value.

Cash and cash equivalents are classified as a level 2 valuation. The fair value of cash and cash equivalents is generally considered to be the amount held on deposit at the relevant institution. When considered necessary a credit spread will be applied.

The directors are of the opinion that the carrying amount of all remaining financial instruments approximates the fair value in the Statement of financial position as these balances are receivable within 30 days.

There were no transfers between the various levels during the year.

## 15. CAPITAL MANAGEMENT STRATEGY

The Company's capital structure comprises its issued share capital, share premium and accumulated profit. The Company's capital strategy is based on changing economic conditions in order to provide maximum benefit to its equity participant.

The Company does not have any target gearing ratio and instead focuses on determining the most efficient use of surplus funds. Changes in operations are traditionally funded from the Company's accumulated profit.

## 16. RELATED PARTIES

### RELATIONSHIPS

A related party relationship exists between the Company and the following entities:

### ALLAN GRAY PROPRIETARY LIMITED – HOLDING COMPANY:

Allan Gray Proprietary Limited provides certain administrative and marketing and investment management services to the Company. These charges are disclosed in the Statement of comprehensive income.

### ALLAN GRAY INVESTMENT SERVICES PROPRIETARY LIMITED – FELLOW SUBSIDIARY:

The Company pays Allan Gray Investment Services Proprietary Limited (AGIS) a monthly fee, based on bulk amounts invested in the Funds through the investment platform administered by AGIS. These charges are included in the Linked investment service provider costs in the Statement of comprehensive income. In addition, the Company pays certain share operating costs, which are recovered directly from AGIS.

### ALLAN GRAY UNIT TRUST FUNDS:

The Company earns a management fee for managing and administering the Funds. Management fees per fund are either performance-based or fixed. As a consequence of the performance fee orientation, management fees will typically be higher following periods where the Funds' total investment performance (income plus capital appreciation) has outperformed their respective benchmarks and lower in periods of underperformance.

The Company holds investments in the Funds, as detailed in Note 5. Income earned in these investments is detailed in the Statement of comprehensive income.





### ORBIS:

The Company and Orbis are related parties by virtue of a common shareholder with significant influence. The associated revenues are disclosed in the Statement of comprehensive income.

### ALLAN GRAY GROUP PROPRIETARY LIMITED – ULTIMATE HOLDING COMPANY:

The Company receives fees earned from Orbis into Allan Gray Group Proprietary Limited's US dollar denominated group treasury account. Allan Gray Group Proprietary Limited holds these funds until the Company requires cash reserves. At year end the amount owed by Allan Gray Group Proprietary Limited to the Company was R289 664 391 (2013: R113 499 716).

### ALLAN GRAY LIFE LIMITED - FELLOW SUBSIDIARY:

Living annuity and endowment policies issued by Allan Gray Life Limited invest in the Funds.

### ALLAN GRAY NAMIBIA UNIT TRUST MANAGEMENT LIMITED - FELLOW GROUP SUBSIDIARY:

Client services are provided by Allan Gray Namibia Unit Trust Management Limited to Namibian residents with investments in the Company's Funds.

### ALLAN GRAY (BOTSWANA) PROPRIETARY LIMITED- FELLOW GROUP SUBSIDIARY:

Representation and distribution services are provided by Allan Gray (Botswana) Proprietary Limited to the Company.

### ALLAN GRAY ORBIS FOUNDATION:

The Company has, as part of the Group's initiative to social upliftment and black empowerment, made a commitment to donate up to 10% of its annual taxable income to deserving social causes. To this end the Company made a contribution of R85 016 027 (2013: R64 500 454) to the Allan Gray Orbis Foundation.

### TRANSACTIONS AND BALANCES

All related party transactions are concluded at arm's length. Details of transactions during the year and balances at year end are summarised below.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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| | 2014 R | 2013 R |
|---|---|---|
| **INCOME RECEIVED FROM:** | | |
| Allan Gray Equity Fund | 778 694 970 | 680 988 831 |
| Allan Gray Balanced Fund | 1 015 715 825 | 645 452 405 |
| Allan Gray Stable Fund | 420 610 615 | 359 210 135 |
| Allan Gray Optimal Fund | 15 837 186 | 9 378 736 |
| Allan Gray Bond Fund | 3 397 567 | 3 681 481 |
| Allan Gray Money Market Fund | 20 547 247 | 18 861 584 |
| | 2 254 803 410 | 1 717 573 172 |
| **EXPENSES PAID TO:** | | |
| Allan Gray (Botswana) (Pty) Limited | 40 910 | 100 465 |
| Allan Gray Investment Services (Pty) Limited | 134 465 374 | 199 467 250 |
| Allan Gray Namibia Unit Trust Management Limited | 3 721 044 | - |
| | 138 227 328 | 199 567 715 |
| **AMOUNTS DUE TO THE COMPANY:** | | |
| Allan Gray Unit Trust Funds | 222 139 748 | 126 571 542 |
| - Allan Gray Equity Fund | 84 955 814 | 40 686 132 |
| - Allan Gray Balanced Fund | 94 971 884 | 49 740 289 |
| - Allan Gray Stable Fund | 38 528 404 | 33 318 298 |
| - Allan Gray Optimal Fund | 1 641 067 | 757 024 |
| - Allan Gray Bond Fund | 191 320 | 421 827 |
| - Allan Gray Money Market Fund | 1 851 259 | 1 647 972 |
| Orbis | 80 587 709 | 66 271 420 |
| Allan Gray Investment Services (Pty) Limited | 311 736 | 161 767 |
| | 303 039 193 | 193 004 729 |
| **AMOUNTS DUE BY THE COMPANY:** | | |
| Allan Gray (Botswana) (Pty) Limited | 10 658 | - |
| Allan Gray Investment Services (Pty) Limited | 11 241 053 | 18 006 640 |
| Allan Gray Namibia Unit Trust Management Limited | 944 708 | - |
| Allan Gray (Pty) Limited | 79 703 950 | 49 087 962 |
| | 91 900 369 | 67 094 602 |





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## DIRECTORS' EMOLUMENTS

As previously mentioned, the Company has appointed its holding company as investment manager of the Funds and to undertake certain company administrative and marketing functions and the day-to-day administration of the Funds. This service entails having certain of the holding company's employees serve on the board of directors from time to time. The following directors of the Company, J C Marais, R J Formby (executives), E D Loxton and R W Dower (non-executives) are all employed by Allan Gray (Pty) Limited. Below is an analysis of attributable amounts paid to them by the holding company, and recovered by the holding company, for time spent on Allan Gray Unit Trust Management (RF) (Pty) Limited's activities during the year:

| | 2014 R | 2013 R |
|---|---|---|
| **IAS24 DISCLOSURE** | | |
| Short-term employee benefits | 7 483 938 | 6 320 666 |
| Post-employment benefits | 267 711 | 252 946 |
| | 7 751 649 | 6 573 612 |

The details of the members of the board of directors are shown on the back cover.

Collective Investment Schemes (unit trusts) are generally medium- to long-term investments. The value of participatory interests (units) may change in line with market movements. Past performance is not necessarily a guide to the future. Fluctuations or movements in exchange rates may also cause the value of underlying international investments to change.

Performance data is based on a lump sum investment calculated on a net asset value (NAV) to NAV basis where distributions may be reinvested for certain classes of funds.

Collective Investment Schemes may borrow up to 10% of the market value of the portfolio where insufficient liquidity exists in a portfolio, or where assets cannot be realised to repurchase, or cancel participatory interests.

Minimum investment amounts may be raised in the future at the discretion of the Manager.

## UNITS ARE PRICED USING THE FORWARD PRICING METHOD

Investment, withdrawals and switching instructions received after 14:00 on any day shall be processed on the following day (excluding weekends and public holidays) at the value of the units on the day that the instruction is processed. Please refer to the relevant Terms and Conditions on the relevant application form. Collective Investment Schemes valuations take place at approximately 16:00 each business day.

Units will be repurchased by the Manager at the ruling price, according to the requirements of the Collective Investment Schemes Control Act No. 45 of 2002 and in line with the Terms and Conditions set out in the relevant deed, and paid to the investor.

The Allan Gray 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 will 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 Allan Gray 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.

## DIFFERENT CLASSES OF UNITS ARE SUBJECT TO DIFFERENT FEES AND CHARGES

Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. Commissions may be paid and if so, would be included in the overall costs. Different classes of units apply to the Allan Gray Equity, Balanced, Stable and Optimal Funds only and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the management company. A fund of funds unit trust may only invest in other unit trusts, which levy their own charges. A feeder fund is a unit trust fund that, apart from assets in liquid form, consists solely of units in a single portfolio of a collective investment scheme. This could result in a higher fee structure for these funds. Permissible deductions





from the total portfolio may include bank charges, trustee/custodian fees, auditor's fees, manager's annual management fee, securities transfer tax and brokerage fees.

## UNIT TRUSTS MAY BE CAPPED TO ALLOW THEM TO STICK TO THEIR MANDATES

All of the unit trusts except the Allan Gray Money Market Fund may be closed to new investments at any time. This is to allow them to be managed according to their mandates.

## INITIAL ADVISER FEES

The buying price of units may include an initial adviser fee of up to a maximum of 3.42% (3% plus VAT) of the investment amount. This fee is not compulsory and is negotiated independently between the unitholder and the financial adviser.

## FTSE/JSE

The FTSE/JSE Africa Index Series is calculated by FTSE International Limited (FTSE) in conjunction with the JSE Limited (JSE) in accordance with standard criteria. The FTSE/JSE Africa Index Series is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE Africa Index Series index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved.

## ALLAN GRAY UNIT TRUST MANAGEMENT (RF) PROPRIETARY LIMITED

Allan Gray Unit Trust Management (RF) Proprietary Limited is a member of the Association for Savings and Investment SA (ASISA) in South Africa. Allan Gray Proprietary Limited, an authorised financial services provider, is the appointed investment manager of Allan Gray Unit Trust Management (RF) Proprietary Limited.

## COMMUNICATION WITH INVESTORS

Statements are sent to all unitholders on a quarterly basis. In addition, confirmations are sent on a transaction basis (excluding debit orders).

# NOTES



## MANAGEMENT COMPANY

Allan Gray Unit Trust Management (RF) Proprietary Limited
Reg. No. 1998/007756/07
1 Silo Square V&A Waterfront Cape Town 8001

## CONTACT DETAILS


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Cape Town 8002 South Africa

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Tel 0860 000 654 / +27 (0)21 415 2301
Fax 0860 000 655 / +27 (0)21 415 2492
Email info@allangray.co.za

Adviser Service Centre
Tel 0860 000 653 / +27 (0)21 415 2690
Fax 0860 000 655 / +27 (0)21 415 2492
Email ifa@allangray.co.za
www.allangray.co.za


## DIRECTORS

Executive Directors

| | |
|---|---|
| R J Formby | B Sc (Eng) MBA |
| J C Marais | B Sc |

Non-executive Directors

| | |
|---|---|
| V A Christian | B Com CA (SA) (Independent) |
| R W Dower | B Sc (Eng) MBA |
| E D Loxton | B Com (Hons) MBA (Chairman) |
| J W T Mort | BA LLB (Independent) |

## COMPANY SECRETARY

| | |
|---|---|
| T Pickering | B Bus Sc (Hons) CA (SA) |

## DETAILS OF THE INDIVIDUAL WHO SUPERVISED THE PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

| | |
|---|---|
| C E Solomon | B Bus Sc (Hons) CA (SA) |

## INVESTMENT MANAGER

Allan Gray Proprietary Limited

## TRUSTEE

Rand Merchant Bank, a division of FirstRand Bank Limited
PO Box 7731 Johannesburg 2000
South Africa

## AUDITORS

Ernst & Young Inc.

Allan Gray Unit Trust Management (RF) Proprietary Limited is a member of the Association for Savings & Investment SA (ASISA).
Allan Gray Proprietary Limited is an authorised financial services provider.