

ABRIDGED ANNUAL REPORT **UNIT TRUSTS**

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ALLAN**GRAY**

# CONTENTS

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1	<b>CHAIRMAN'S REPORT</b>		
3	<b>CHIEF INVESTMENT OFFICER'S REPORT</b>	45	
5	<b>PORTFOLIO MANAGERS</b>	49	
9	<b>ALLAN GRAY UNIT TRUSTS</b>	53	
19	<b>PERFORMANCE SUMMARY</b>	64	
	<b>FUND DATA</b>		
21	Allan Gray Equity Fund		
23	Allan Gray SA Equity Fund		
25	Allan Gray-Orbis Global Equity Feeder Fund		
27	Allan Gray Balanced Fund		
29	Allan Gray-Orbis Global Fund of Funds		
31	Allan Gray Stable Fund		
33	Allan Gray Optimal Fund		
35	Allan Gray-Orbis Global Optimal Fund of Funds		
37	Allan Gray Bond Fund		
39	Allan Gray Money Market Fund		
41	Allan Gray Tax-Free Balanced Fund		
43	Allan Gray Unit Trusts annual fees		
44	Allan Gray Unit Trusts total expense ratios and transaction costs		
			<b>ALLAN GRAY UNIT TRUSTS</b>
			Statements of comprehensive income
			Statements of financial position
			Distribution to unitholders
			Trustees' report on the Allan Gray Unit Trust Scheme
		65	<b>IMPORTANT NOTES FOR INVESTORS</b>



EDGAR LOXTON

## CHAIRMAN'S REPORT

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In last year's comments I noted that "an investment manager's job is to remain rational during testing times", and I think 2016 could be fairly described as a "testing time". Political uncertainty dominated the headlines locally and globally, with Brexit and Trump reflecting voters' discontent with the status quo. At home ongoing political and rating agency uncertainty made for a somewhat distracting environment.

Although we account for the economic and political landscape when making investment decisions, these are not major considerations for our stock selection. We don't have any edge over others in predicting the future. If anything, our active, bottom-up investment philosophy often works better where there are surprises. Since markets often overreact, political and economic surprises can give us an opportunity to buy shares that are priced below their intrinsic worth. Over time, once a period of calm has made investors less aware of all the things that could go wrong with a company, we can realise the same investment at a fair price. We get more right than wrong but of course no investment is certain. We therefore invest your money in portfolios that can weather multiple potential outcomes. It can be exciting to make only a few very big bets, but we have found that a carefully constructed portfolio delivers better returns for investors over time.

### Performance of our unit trusts

Our unit trusts were well positioned to navigate the sometimes-extreme market moves that resulted from the political upheaval in South Africa and the rest of the world during the year, with our Equity, Balanced and Stable Funds beating their benchmarks over three, five and ten-year periods. The offshore component of these Funds boosted performance thanks to a good showing from Orbis in dollars, though this performance was masked to some extent by the strengthening of the rand.

### Positioning of our unit trusts

The most notable change to our holdings over the 12-month period was the exit of SABMiller (SAB). September 30 saw the end of an era, with the brewer delisting from the JSE after 119 years of trading, as the merger with Belgian brewer Anheuser-Busch InBev moved into its final stages. SAB outperformed the FTSE/JSE All Share Index (ALSI) by more than 125% cumulatively over the five years we held it and contributed substantially to our clients' equity returns. We had been positioning our portfolios for the delisting for some time before the event and received the cash for our remaining shares in early October. The proceeds were used for other opportunities, including Naspers, which is now our third-biggest position in the Equity portfolio (6% of the Fund), up from sixth place last year this time (4.8% of the Fund). Interestingly we are still underweight Naspers when compared to the ALSI and this underweight position meant that it was one of the detractors from performance this year.

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

### Launch of the Allan Gray Tax-Free Balanced Fund

As you know we aim to keep our product and fund range small, and only introduce new offerings if we believe they will benefit our clients. In February 2016 we launched the Allan Gray Tax-Free Balanced Fund, available for investment via our Allan Gray Tax-Free Investment (TFI) Account.

The Tax-Free Balanced Fund is nearly identical to our flagship Balanced Fund but charges a fixed fee instead of a performance-based fee, to comply with legislation governing TFI products, which the government launched in February 2015 to incentivise people to save.

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The investment management fee is fixed on both the portions managed by Allan Gray and Orbis and averages out at a total investment charge (TIC) of approximately 1.59%, including all investment management fees, trading costs, administration fees and VAT.

I would like to emphasise that our stance on performance fees has not changed: While we disagree with the outright ban on performance fees in TFI products, we were keen for clients of TFI products to have the option of investing in an Allan Gray unit trust. We remain committed to performance fees that are fair, symmetrical and based on the right benchmark. We believe that performance-based fees align the interests of the investment manager with those of the client, and encourage investment managers to outperform over the long term, rather than to focus on gathering assets.

Our Tax-Free Balanced Fund is only available for investment via TFI products.

### Service is key

It is critical to us that every experience you have of Allan Gray exceeds your expectations, whether you are transacting, corresponding with us via email or talking to one of our client servicing consultants. To monitor your experiences we use an international measure called a Net Promoter Score (NPS). To calculate our NPS we survey clients after some interactions asking them to score us out of 10. We tally up the scores of 9 or 10 out of 10 and subtract those scores of 0 – 6 out of 10. We ignore the 7s and 8s. We are happy to report that our scores are very high when compared to other local and international companies using this measure. While this is pleasing, we are committed to working hard to uphold these standards and ask that you hold us accountable.

### Update on unitholders

Assets under management as at 31 December 2016 were R254.3bn. This is an increase from the R230bn we reported at the end of 2015. There were net outflows of R9bn in 2016.

Gross client outflows divided by the average value of assets in our unit trusts in 2016 were at 14%. This means that, on average, clients are staying with Allan Gray for seven years. Our individual fund churn rate, which includes switches between unit trusts\*, has come in at 17% for the year, reflecting a weighted average fund holding period for investors of just under six years. This suggests that our messages to remain focused on the long term during difficult periods of short-term underperformance are being heard. We appreciate this support and thank you for holding tight so that you can enjoy the benefits of our philosophy and approach to investing.

\*This excludes switches between classes of the same unit trust, and excludes switches from the Money Market Fund.



ANDREW LAPPING

## CHIEF INVESTMENT OFFICER'S REPORT

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The past 12 months seem to have passed particularly swiftly, maybe because fundamentally very little changed. Interestingly, the light in which investors view this unchanged reality is very different: the colour has changed from red to cool white.

A year ago investors were desperately seeking ways to take money offshore with the rand trading at R15.60/US\$. The rand is now trading at R13.60/US\$ and this quest has gone quiet. This is counterintuitive: surely a dollar at R13.60 is a better investment than a dollar at R15.60 if the fundamentals are the same? The deficit on the current account is similar to a year ago, the fiscal position unchanged and, if anything, the probability of President Jacob Zuma leaving office early has lessened despite ever-more damning evidence of corruption and mismanagement in the ruling party. People have just chosen to worry about these issues a bit less. Maybe the level of concern is normal now and was too extreme in December 2015/January 2016.

A similar picture can be drawn in the commodity markets where, against all expectations, prices for some industrial commodities have doubled or tripled over the last year. In fact, the risks to Chinese demand, which is basically the only thing that matters in the commodity world, have increased, with debt levels rising and the number of vacant Chinese apartments only growing.

### The importance of a rational approach

The examples above indicate why it is so important to keep a level head and take a long-term approach when investing. A clear view of an asset's value allows the calm investor to make rational decisions, while others are panicking or getting over excited about current events.

A good illustration of this approach is our investment in Standard Bank, which my predecessor Ian Liddle discussed in the 2015 Annual Report. Ian noted that Standard Bank's share price had fallen from US\$17 to US\$6.40, a level that looked irrationally low and made for an exciting investment opportunity. Today the Standard Bank share price is US\$11.20, 75% higher 12 months later (excluding the US\$0.48 per share the company paid in dividends during 2016). Has Standard Bank's intrinsic value increased 75% in a year? No, it is probably unchanged over the period. This is why we were aggressive buyers at US\$6.40 and are now reducing the position size given the much lower margin of safety to fair value.

### Looking back on 2016

South African asset class returns were fairly muted in 2016, except for bonds – the All Bond Index returned 15.4%. These more moderate returns are what investors should expect after the spectacular returns of the past 20 years, driven by substantial earnings

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growth and a general rerating of South African assets. Unfortunately rerating can't continue indefinitely (well it can, to a degree, but these situations are commonly termed 'bubbles') so this tailwind had to stop sometime. Despite the past two years of moderate returns, our bottom-up research indicates that returns for South African markets will likely be modest over the medium term. Fortunately our Funds do not own the market but rather a specific group of assets that we think are undervalued.

Both the Allan Gray Equity and Balanced Funds managed to outperform their respective benchmarks in 2016. Unfortunately the Balanced and Stable Funds did not manage to grow our clients' investments in real terms, slightly underperforming inflation of 6.8%. What makes me positive for the future, particularly for our equity investments, is that the 2016 relative outperformance came despite 7 of our top 10 equity holdings actually falling in price over the year. Our view of the intrinsic value of these underperforming investments is unchanged, or in some cases is slightly higher. This underperformance sows the seeds for future outperformance, as the differential between the share price and intrinsic value has increased. That said, our Funds did benefit from the move in the banking shares from a position of substantial undervaluation to one approaching fair value, something that won't be repeated in 2017.

The Orbis Funds had a great year, outperforming their various benchmarks and the team is excited about the opportunities they are finding to add further value.

Thank you for trusting us with your hard-earned savings. We will endeavour to protect and grow these investments as we have done historically. We cannot control the vagaries of the market, but we can control our decisions, and we will continue to make these decisions in a rational manner by following the same investment philosophy and process we have for the past 42 years.

## PORTFOLIO MANAGERS

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### **ANDREW LAPPING**

CHIEF INVESTMENT OFFICER

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, began managing a portion of client equity and balanced portfolios in February 2008 and was appointed as chief investment officer in March 2016. He also manages African equities. He completed his BSc (Eng) and BCom at UCT.



### **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.



**GARY ELSTON**

PORTFOLIO MANAGER

BBusSc (Hons) CFA

Gary joined Allan Gray in 2008 and is currently a credit analyst as well as a portfolio manager for the Allan Gray Money Market Fund. Prior to this role, he was a fixed interest trader for over five years and has previous experience working in the asset management industry in London. Gary has an Honours degree in Business Science from UCT and is a CFA charter holder.



**LEONARD KRÜGER**

PORTFOLIO MANAGER

BSc (Hons) Actuarial Mathematics

Leonard joined Allan Gray in 2007 as an equity analyst. He began managing a portion of our client's equity and balanced portfolios earmarked for associate portfolio managers from July 2014 and was appointed as portfolio manager of the Stable portfolio in November 2015. Leonard completed his BSc (Hons) Actuarial Mathematics at the University of Pretoria and is a qualified actuary.



## PORTFOLIO MANAGERS

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### **SANDY MCGREGOR**

PORTFOLIO MANAGER

BSc BA (Hons)

Sandy joined Allan Gray as an investment analyst and economist in 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 (Eng) (Magna cum laude) MBA

Nick is a portfolio manager for the Allan Gray Africa ex-SA Equity Fund and Africa ex-SA Bond Fund. He joined Allan Gray in 2010, with prior experience 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.



### **JACQUES PLAUT**

PORTFOLIO MANAGER

BSc in Mathematics

Jacques joined Allan Gray in 2008 as an equity analyst after working as a management consultant. He began managing a portion of client equity and balanced portfolios earmarked for associate portfolio managers from March 2013 and was appointed as portfolio manager in November 2015. Jacques completed his BSc degree in Mathematics at UCT.



**SIMON RAUBENHEIMER**

PORTFOLIO MANAGER

BCom (Hons) (Cum laude) CFA

Simon joined Allan Gray in 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 managed a portion of client equity and balanced portfolios earmarked for associate portfolio managers from March 2013 and was appointed portfolio manager of these portfolios in November 2015. 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 FUND DATA PAGES THAT FOLLOW)	LOCAL/OFFSHORE	FUND DESCRIPTION	SUITABLE FOR INVESTORS WHO:	CATEGORY
<b>100% HIGH NET EQUITY EXPOSURE</b>					
Allan Gray Equity Fund	The Fund aims to create long-term wealth for investors. It aims to outperform the average return of South African General Equity Funds over the long term, without taking on greater risk of loss. To pursue its objective the Fund's portfolio may differ materially from those of its peers. This will result in the Fund underperforming its benchmark materially at times. The Fund aims to compensate for these periods of underperformance by delivering outperformance over the long term.	Local	The Fund invests primarily in shares listed on the Johannesburg Stock Exchange (JSE). The Fund may buy foreign assets up to a maximum of 25% of the Fund, with an additional 5% allowed for African ex-SA investments. The Fund invests the bulk of its foreign allowance in equity funds managed by Orbis Investment Management Limited, our offshore investment partner. The Fund is typically fully invested in shares. Returns are likely to be volatile, especially over short- and medium-term periods.	<ul style="list-style-type: none"> <li>Seek exposure to listed equities to provide long-term capital growth</li> <li>Are comfortable with stock market fluctuation, i.e. short- to medium-term volatility</li> <li>Are prepared to accept the risk of capital loss</li> <li>Typically have an investment horizon of more than five years</li> <li>Wish to use the Fund as an equity 'building block' in a diversified multi-asset class portfolio</li> </ul>	South African-Equity-General
Allan Gray SA Equity Fund	The Fund aims to create long-term wealth for investors. It aims to outperform the South African equity market over the long term, without taking on greater risk. To pursue its objective the Fund's portfolio may differ materially from its benchmark. This will result in the Fund underperforming its benchmark materially at times. The Fund aims to compensate for these periods of underperformance by delivering outperformance over the long term.	Local	The Fund invests in shares listed on the Johannesburg Stock Exchange (JSE). The Fund is typically fully invested in shares. Returns are likely to be volatile, especially over short- and medium-term periods.	<ul style="list-style-type: none"> <li>Seek exposure to JSE-listed equities to provide long-term capital growth</li> <li>Are comfortable with stock market fluctuation, i.e. short- to medium- term volatility</li> <li>Are prepared to accept the risk of capital loss</li> <li>Typically have an investment horizon of more than five years</li> <li>Wish to use the Fund as an equity 'building block' in a diversified multi asset class portfolio</li> </ul>	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	The Fund is a feeder fund and invests only in the Orbis Global Equity Fund, managed by Allan Gray's offshore investment partner, Orbis Investment Management Limited. The Orbis Global Equity Fund invests in shares listed on stock markets around the world and aims to be fully invested at all times. Returns are likely to be volatile, especially over short- and medium-term periods. Although the Fund is fully invested outside South Africa, the units in the Fund are priced and traded daily in rands.	<ul style="list-style-type: none"> <li>Seek exposure to diversified international equities to provide long-term capital growth</li> <li>Wish to invest in international assets without having to personally expatriate rands</li> <li>Are comfortable with global stock market and currency fluctuation and risk of capital loss</li> <li>Typically have an investment horizon of more than five years</li> <li>Wish to use the Fund as a fully invested global equity 'building block' in a diversified multi-asset class portfolio</li> </ul>	Global-Equity-General

## ALLAN GRAY UNIT TRUSTS

FUND	FUND OBJECTIVE (SPECIFIC BENCHMARKS ARE SHOWN ON THE FUND DATA PAGES THAT FOLLOW)	LOCAL/ OFFSHORE	FUND DESCRIPTION	SUITABLE FOR INVESTORS WHO:	CATEGORY
<b>40% - 75% MEDIUM NET EQUITY EXPOSURE</b>					
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	The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy foreign assets up to a maximum of 25% of the Fund (with an additional 5% for African ex-SA investments). The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 75% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund.	<ul style="list-style-type: none"> <li>Seek steady long-term capital growth</li> <li>Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund</li> <li>Wish to invest in a unit trust that complies with retirement fund investment limits</li> <li>Typically have an investment horizon of more than three years</li> </ul>	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	The Fund invests in a mix of equity, absolute return and multi-asset class funds managed by Allan Gray's offshore investment partner, Orbis Investment Management Limited. The typical net equity exposure of the Fund is between 40% and 75%. The Orbis Optimal SA funds included in the Fund use exchange-traded derivative contracts on stock market indices to reduce net equity exposure. In these funds, the market exposure of equity portfolios is effectively replaced with cash-like exposure, plus or minus Orbis' skills in delivering returns above or below the market. Returns are likely to be less volatile than those of an international equity-only fund. Although the Fund is fully invested outside South Africa, the units in the Fund are priced and traded daily in rands.	<ul style="list-style-type: none"> <li>Seek long-term capital growth from a diversified international equity portfolio without being fully exposed to stock market risk</li> <li>Wish to invest in international assets without having to personally expatriate rands</li> <li>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</li> <li>Typically have an investment horizon of more than five years</li> <li>Wish to use the Fund as a foreign medium equity 'building block' in a diversified multi-asset class portfolio</li> </ul>	Global - Multi Asset - High Equity

## ALLAN GRAY UNIT TRUSTS

FUND	FUND OBJECTIVE (SPECIFIC BENCHMARKS ARE SHOWN ON THE FUND DATA PAGES THAT FOLLOW)	LOCAL/ OFFSHORE	FUND DESCRIPTION	SUITABLE FOR INVESTORS WHO:	CATEGORY
<b>40% - 75% MEDIUM NET EQUITY EXPOSURE</b>					
Allan Gray Tax-Free 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. The Fund's benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds).	Local	The Fund is managed in broadly the same way as the Allan Gray Balanced Fund. It was created specifically for use in tax-free accounts and can only be accessed through these products. The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy foreign assets up to a maximum of 25% of the Fund (with an additional 5% for African ex-SA investments). The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 75% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund.	<ul style="list-style-type: none"> <li>Seek steady long-term capital growth</li> <li>Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund</li> <li>Wish to invest in a tax-free investment account</li> <li>Typically have an investment horizon of at least three years</li> </ul>	South African - Multi Asset - High Equity
<b>0% - 40% LOW NET EQUITY EXPOSURE</b>					
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	The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy foreign assets up to a maximum of 25% of the Fund (with an additional 5% for African ex-SA investments). The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 40%. The Fund's net equity exposure may be reduced from time to time using exchange-traded derivative contracts on stock market indices. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund or a balanced fund.	<ul style="list-style-type: none"> <li>Are risk-averse and require a high degree of capital stability</li> <li>Seek both above-inflation returns over the long term, and capital preservation over any two-year period</li> <li>Require some income but also some capital growth</li> <li>Wish to invest in a unit trust that complies with retirement fund investment limits</li> </ul>	South African - Multi Asset - Low Equity

## ALLAN GRAY UNIT TRUSTS

FUND	FUND OBJECTIVE (SPECIFIC BENCHMARKS ARE SHOWN ON THE FUND DATA PAGES THAT FOLLOW)	LOCAL/OFFSHORE	FUND DESCRIPTION	SUITABLE FOR INVESTORS WHO:	CATEGORY
<b>0% - 20% VERY LOW NET EQUITY EXPOSURE</b>					
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	The Fund invests mainly in selected shares and it uses exchange-traded derivative contracts on stock market indices to substantially reduce its net equity exposure to within a range of 0-20%. As a result, the Fund's return depends on the level of short-term interest rates (implicit in the pricing of the sold futures contracts) and the performance of the Fund's selected shares relative to the stock market index. The Fund's return is therefore unlikely to be correlated with equity market returns. In addition, a portion of the Fund is typically invested in cash and margin deposits.	<ul style="list-style-type: none"> <li>Seek steady absolute (i.e. positive) returns regardless of stock market trends</li> <li>Require a high degree of capital stability</li> <li>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</li> </ul>	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	The Fund invests in a mix of absolute return funds managed by Allan Gray's offshore investment partner, Orbis Investment Management Limited. The typical net equity exposure of the Fund is between 0% and 20%. The Orbis Optimal SA funds included in the Fund use exchange-traded derivative contracts on stock market indices to reduce net equity exposure. In these funds, the market exposure of equity portfolios is effectively replaced with cash-like exposure, plus or minus Orbis' skills in delivering returns above or below the market. Returns are likely to be less volatile than those of a foreign equity or balanced fund. Although the Fund is fully invested outside South Africa, the units in the Fund are priced and traded daily in rands. When considered in rands, returns of this foreign fund are likely to be more volatile than domestic funds with similar equity constraints.	<ul style="list-style-type: none"> <li>Seek steady absolute returns ahead of those of cash measured in global currencies</li> <li>Wish to invest in international assets without having to personally expatriate rands</li> <li>Are comfortable with taking on the risk of currency fluctuation, but prefer little exposure to stock market risk</li> <li>Wish to use the Fund as a foreign absolute return 'building block' in a diversified multi-asset class portfolio</li> </ul>	Global - Multi Asset - Low Equity

## ALLAN GRAY UNIT TRUSTS

FUND	FUND OBJECTIVE (SPECIFIC BENCHMARKS ARE SHOWN ON THE FUND DATA PAGES THAT FOLLOW)	LOCAL/OFFSHORE	FUND DESCRIPTION	SUITABLE FOR INVESTORS WHO:	CATEGORY
<b>NO EQUITY EXPOSURE</b>					
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	The Fund invests in South African interest bearing securities. Securities include national government, parastatal, municipal, corporate bonds and money market instruments. The Fund price is sensitive to interest rate movements because of the long-term nature of the Fund's investments. The duration of the Fund may differ materially from the benchmark. The Fund is managed to comply with investment limits governing retirement funds.	<ul style="list-style-type: none"> <li>Seek a bond 'building block' for a diversified multi-asset class portfolio</li> <li>Are looking for returns in excess of those provided by money market or cash investments</li> <li>Are prepared to accept more risk of capital depreciation than in a money market or cash investment</li> </ul>	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	<p>The Fund invests in South African money market instruments with a term shorter than 13 months. These instruments can be issued by government, parastatals, corporates and banks. The Fund is managed to comply with regulations governing retirement funds.</p> <p>While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument held by the Fund defaults. In this event losses will be borne by the Fund and its investors.</p>	<ul style="list-style-type: none"> <li>Require monthly income distributions</li> <li>Are highly risk-averse but seek returns higher than bank deposits</li> <li>Need a short-term investment account</li> </ul>	South African - Interest Bearing - Money Market

## PERFORMANCE SUMMARY

Annualised performance to 31 December 2016 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 <sup>1</sup>	11.2%	13.4%	9.5%
Benchmark <sup>2</sup>	10.3%	12.6%	5.6%
Allan Gray-Orbis Global Equity Feeder Fund	13.3%	25.1%	12.6%
Benchmark <sup>3</sup>	11.6%	22.5%	13.5%
Allan Gray Balanced Fund <sup>1</sup>	11.1%	12.8%	9.2%
Benchmark <sup>4</sup>	9.1%	11.0%	6.2%
Allan Gray-Orbis Global Fund of Funds	12.4%	19.5%	11.6%
Benchmark <sup>5</sup>	11.6%	17.7%	11.9%
Allan Gray Stable Fund <sup>1</sup>	9.5%	9.6%	8.8%
Benchmark <sup>6</sup>	8.3%	7.0%	7.4%
Allan Gray Optimal Fund <sup>1</sup>	7.7%	7.8%	10.5%
Benchmark <sup>7</sup>	6.1%	4.8%	5.3%
Allan Gray-Orbis Global Optimal Fund of Funds		13.6%	7.9%
Benchmark <sup>8</sup>		9.1%	4.7%
Allan Gray Bond Fund	8.5%	7.6%	7.6%
Benchmark <sup>9</sup>	8.0%	7.4%	6.9%
Allan Gray Money Market Fund	7.5%	6.2%	6.8%
Benchmark <sup>10</sup>	7.3%	6.1%	6.6%
CPI inflation <sup>11</sup>	6.3%	5.6%	5.7%

The Funds returns shown above are all class A. All benchmark performance is calculated by Allan Gray as at 31 December 2016.  
The Allan Gray SA Equity Fund and the Allan Gray Tax-Free Balanced Fund have not been included as they were launched less than 3 years ago.

1. Different classes of units apply to the Equity, Balanced, Stable and Optimal Funds only and are subject to different fees and charges.
2. The market value-weighted average return of funds in the South African – Equity – General category (excluding Allan Gray funds). From inception to 28 February 2015 the benchmark was the FTSE/JSE All Share index including income (source: INET BFA).
3. FTSE World Index including income (source: Bloomberg).
4. The market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding the Allan Gray funds). From 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 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 2016.



# ALLAN GRAY EQUITY FUND

Inception date: 1 October 1998

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## Portfolio managers

Andrew Lapping, Duncan Artus, Jacques Plaut, Simon Raubenheimer, Ruan Stander. (Most foreign assets are invested in Orbis funds.)

## Fund objective and benchmark

The Fund aims to create long-term wealth for investors. It aims to outperform the average return of South African General Equity Funds over the long term, without taking on greater risk of loss. To pursue its objective the Fund's portfolio may differ materially from those of its peers. This will result in the Fund underperforming its benchmark materially at times. The Fund aims to compensate for these periods of underperformance by delivering outperformance over the long term. The Fund's benchmark is the market value-weighted average return of funds in the South African – Equity – General category (excluding Allan Gray funds).

## Commentary

The year 2016 will be remembered by investors as one in which politics dominated the headlines. But what do we make of it all as investors trying to focus on the fundamentals of the businesses in which we invest?

While we all have opinions on potential political outcomes, maybe even educated ones, the poor track record of political experts over the last year should give one pause for thought on the usefulness of predictions. We believe it is better to focus on valuations and to take advantage of opportunities that present themselves from short-term market moves in response to what are often unnerving political headlines.

The Fund was well positioned to navigate the sometimes-extreme market moves that resulted from the political upheaval in South Africa during the year. We used our large holdings in British American Tobacco and SABMiller as liquidity to fund purchases of local banking shares, which had reached very attractive valuations. The period was also a reminder that prices in an economy with large imbalances can correct via a fall in the exchange rate, and not just via the price quoted in local currency.

We have seen two similar potential opportunities to look for value:

## Africa

It was not so long ago that almost every South African company filled large portions of their presentations and annual reports with information about their African strategy – even if it hardly contributed to the bottom line. The huge correction in African asset prices and currencies has exposed many of the fault lines in the Africa growth narrative and, more importantly, also in poorly executed 'me too' African expansions.

While the risks in Africa – such as over-reliance on high commodity prices, currency devaluations, repatriation of profits, corruption, indigenisation and local competition – are real, it is important to note that prices have changed significantly in the buyer's favour. We have been actively looking at shares that may have been oversold due to problems in their African operations which, in our opinion, still offer long-term opportunity.

## Brexit

Brexit caused a reappraisal of the value of British assets and pound profit streams, which are well represented on our market. UK property stocks, for example, were often seen as a one-way bet with an ever-weakening rand and rising valuations in London. Many local consumer companies have recently allocated capital to the UK and we wonder whether the returns will stack up when reviewed in a few years' time. Unfortunately, Brexit also adversely affected the share prices of Old Mutual and Investec, two of our top 10 holdings, which have substantial UK operations. We have increased our holdings in both shares and we are researching other UK-linked stocks that have fallen from favour.

The portion of the Fund invested offshore with Orbis is now 15%. Orbis has performed strongly in dollars but this performance has to an extent been masked by the strengthening of the rand. Please see the Allan Gray-Orbis Global Equity Feeder Fund commentary for more detail.

*Commentary contributed by Duncan Artus*

## Performance net of all fees and expenses

% Returns	Fund	Benchmark <sup>1</sup>	CPI inflation <sup>2</sup>
<b>Unannualised:</b>			
Since inception	4845.6	1563.0	168.3
<b>Annualised:</b>			
Since inception	23.8	16.7	5.6
Latest 10 years	11.2	10.3	6.3
Latest 5 years	13.4	12.6	5.6
Latest 3 years	9.5	5.6	5.7
Latest 2 years	7.5	3.0	5.7
Latest 1 year	8.8	3.8	6.6
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-31.3	-45.4	n/a
Percentage positive months <sup>4</sup>	66.2	59.4	n/a
Annualised monthly volatility <sup>5</sup>	15.7	17.3	n/a
Highest annual return <sup>6</sup>	125.8	73.0	n/a
Lowest annual return <sup>6</sup>	-20.7	-37.6	n/a

1. The market value-weighted average return of funds in the South African – Equity – General category (excluding Allan Gray funds). From inception to 28 February 2015 the benchmark was the FTSE/JSE All Share Index including income. Source: INET BFA, performance as calculated by Allan Gray as at 31 December 2016.

2. This is based on the latest numbers published by INET BFA as at 30 November 2016.

3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 May 2008 to 27 October 2008 and maximum benchmark drawdown occurred from 22 May 2008 to 20 November 2008. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).

4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.

5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.

6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 September 1999 and the benchmark's occurred during the 12 months ended 30 April 2006. The Fund's lowest annual return occurred during the 12 months ended 30 November 2008 and the benchmark's occurred during the 12 months ended 28 February 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Sector allocation on 31 December 2016<sup>7</sup>

Sector	% of Fund	% of ALSI <sup>8</sup>
Oil and gas	1.1	0.0
Basic materials	17.9	22.4
Industrials	12.2	5.3
Consumer goods	9.2	15.8
Healthcare	4.3	3.8
Consumer services	12.1	21.6
Telecommunications	1.3	5.2
Utilities	0.1	0.0
Financials	33.9	25.5
Technology	3.2	0.5
Commodity-linked	1.3	0.0
Other	0.6	0.0
Money market and bank deposits	2.7	0.0
<b>Total (%)</b>	<b>100.0</b>	<b>100.0</b>

7. Underlying holdings of Orbis funds are included on a look-through basis.

8. FTSE/JSE All Share Index.

## Income distributions for the last 12 months

	30 Jun 2016	31 Dec 2016
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.		
<b>Cents per unit</b>	<b>114.5508</b>	<b>150.9719</b>

## Foreign exposure on 31 December 2016<sup>7</sup>

15.8% of the Fund is invested in foreign investments.

Up to 25% of the Fund's value can be invested outside of Africa and 5% in Africa outside of South Africa.

# ALLAN GRAY SA EQUITY FUND

Inception date: 13 March 2015

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## Portfolio managers

Andrew Lapping, Duncan Artus, Jacques Plaut, Simon Raubenheimer, Ruan Stander.

## Fund objective and benchmark

The Fund aims to create long-term wealth for investors. It aims to outperform the South African equity market over the long term, without taking on greater risk. To pursue its objective the Fund's portfolio may differ materially from its benchmark. This will result in the Fund underperforming its benchmark materially at times. The Fund aims to compensate for these periods of underperformance by delivering outperformance over the long term. The Fund's benchmark is the FTSE/JSE All Share Index including income.

## Commentary

The year 2016 will be remembered by investors as one in which politics dominated the headlines. But what do we make of it all as investors trying to focus on the fundamentals of the businesses in which we invest?

While we all have opinions on potential political outcomes, maybe even educated ones, the poor track record of political experts over the last year should give one pause for thought on the usefulness of predictions. We believe it is better to focus on valuations and to take advantage of opportunities that present themselves from short-term market moves in response to what are often unnerving political headlines.

The Fund was well positioned to navigate the sometimes-extreme market moves that resulted from the political upheaval in South Africa during the year. We used our large holdings in British American Tobacco and SABMiller as liquidity to fund purchases of local banking shares, which had reached very attractive valuations. The period was also a reminder that prices in an economy with large imbalances can correct via a fall in the exchange rate, and not just via the price quoted in local currency.

We have seen two similar potential opportunities to look for value:

## Africa

It was not so long ago that almost every South African company filled large portions of their presentations and annual reports with information about their African strategy – even if it hardly contributed to the bottom line. The huge correction in African asset prices and currencies has exposed many of the fault lines in the Africa growth narrative and, more importantly, also in poorly executed 'me too' African expansions.

While the risks in Africa – such as over-reliance on high commodity prices, currency devaluations, repatriation of profits, corruption, indigenisation and local competition – are real, it is important to note that prices have changed significantly in the buyer's favour. We have been actively looking at shares that may have been oversold due to problems in their African operations which, in our opinion, still offer long-term opportunity.

## Brexit

Brexit caused a reappraisal of the value of British assets and pound profit streams, which are well represented on our market. UK property stocks, for example, were often seen as a one-way bet with an ever-weakening rand and rising valuations in London. Many local consumer companies have recently allocated capital to the UK and we wonder whether the returns will stack up when reviewed in a few years' time. Unfortunately, Brexit also adversely affected the share prices of Old Mutual and Investec, two of our top 10 holdings, which have substantial UK operations. We have increased our holdings in both shares and we are researching other UK-linked stocks that have fallen from favour.

*Commentary contributed by Duncan Artus*

## Performance net of all fees and expenses

% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
<b>Cumulative:</b>			
Since inception	10.1	2.4	11.4
<b>Annualised:</b>			
Since inception	5.5	1.3	6.5
Latest 1 year	9.9	2.6	6.6
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-13.7	-15.0	n/a
Percentage positive months <sup>4</sup>	45.5	54.5	n/a
Annualised monthly volatility <sup>5</sup>	11.5	10.8	n/a
Highest annual return <sup>6</sup>	17.2	8.6	n/a
Lowest annual return <sup>6</sup>	3.9	-3.4	n/a

1. FTSE/JSE All Share Index including income (source: INET BFA), performance as calculated by Allan Gray as at 31 December 2016.
2. This is based on the latest numbers published by INET BFA as at 30 November 2016.
3. Maximum percentage decline over any period. The maximum drawdown for the Fund occurred from 4 November 2015 to 20 January 2016 and maximum benchmark drawdown occurred from 4 November 2015 to 21 January 2016. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months which produced a positive monthly return since inception of the Fund.
5. The standard deviation of monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception of the Fund. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 September 2016 and the benchmark's occurred during the 12 months ended 31 August 2016. The Fund's lowest annual return occurred during the 12 months ended 31 October 2016 and the benchmark's occurred during the 12 months ended 31 October 2016. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Sector allocation on 31 December 2016

Sector	% of Fund	% of ALSI <sup>7</sup>
Basic materials	20.5	22.4
Industrials	12.6	5.3
Consumer goods	9.9	15.8
Healthcare	4.2	3.8
Consumer services	11.8	21.6
Telecommunications	1.2	5.2
Financials	34.2	25.5
Technology	0.2	0.5
Commodity-linked	1.3	0.0
Other	0.7	0.0
Money market and bank deposits	3.5	0.0
<b>Total (%)</b>	<b>100.0</b>	<b>100.0</b>

7. FTSE/JSE All Share Index.

## 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 2016	31 Dec 2016
<b>Cents per unit</b>	<b>0.0000</b>	<b>173.8058</b>

# ALLAN GRAY-ORBIS GLOBAL EQUITY FEEDER FUND

Inception date: 1 April 2005

## 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

The Fund returned 4.6% in 2016 – a relative gain of 9.4% versus its benchmark. This was a particularly good year, but also serves to reinforce the message that highly selective investment management is unlikely to produce performance in a steady and linear fashion.

There are simply too many variables, both known and unknown, and too much inherent randomness in markets to allow for smooth, predictable returns. Even for the most skilled managers, striving for outperformance over the long term has proven to be the more reasonable objective.

In addition to the natural ebb and flow of good and bad fortune, another reason for the lumpy performance of the Fund over the last few years has been the market environment, in particular the high degree of 'trending' – the unusually high propensity for certain stocks to continually outperform or underperform over multiple years. Active stockpicking is inherently volatile under normal conditions – and trending markets only serve to amplify this effect. Correlations rise across the board and value becomes increasingly clustered into certain interconnected areas of the market.

A current example is the low exposure that the Fund has to stable growth businesses, such as those in the consumer staples sector. This was a headwind in previous years as these types of shares (which typically command large weights in the market indices) trended higher, but then became a tailwind in 2016 as the trending dynamic began to break down.

Despite this year's reversal, Orbis still finds very few compelling opportunities among stable growth shares and the portfolio remains skewed towards shares of cyclical companies such as industrials, banks and basic resources. Examples include Rolls Royce, Wells Fargo and Newcrest Mining.

A number of Orbis' preferred laggards rebounded

to deliver strong returns this year. One example is Qualcomm, a US-based research and development company focused on wireless communications technology for 3G, 4G and soon 5G network standards. Orbis first invested in Qualcomm in 2014, when fears over possible market share erosion left its shares deeply depressed. Those concerns were prompted by Qualcomm losing business at one of its major clients, Samsung, on the production of the Galaxy S6 smartphone. Orbis believed them to be short-sighted and focused instead on the business's attractive fundamentals.

Qualcomm's licensing agreements are long-term, effectively insulating the company against shifts in market share between manufacturers. Its chipset business utilises an asset-light model whereby all manufacturing is outsourced, allowing Qualcomm to focus on developing new chips while avoiding the massive capital expenditure that is part and parcel of semiconductor manufacturing. Despite Qualcomm's meaningful outperformance in the last year, boosted by the announcement of a series of new licensing deals as well as its winning back 50% of the chipset business at Samsung's next-generation flagship Galaxy S7, Orbis retains conviction that its long-term prospects come at a reasonable price.

At all times, Orbis seeks to ensure that your capital is allocated to the most compelling pockets of value in the market. The outcome of this process is a portfolio that differs meaningfully from passive stock market indices and that will experience both strong and weak periods of performance. But, as examples like Qualcomm illustrate, volatility in relative performance is a natural and inevitable consequence of active investing. At Orbis and Allan Gray, we believe looking through these gyrations and focusing wholly on fundamental security selection provides the best chance of compounding value on your behalf over the long term.

*Adapted from Orbis commentaries contributed by Adam Karr and Eric Marais  
For the full commentary please see [www.orbisfunds.com](http://www.orbisfunds.com)*

## Performance net of all fees and expenses

% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
	ZAR	ZAR	ZAR
<b>Unannualised:</b>			
Since inception	452.3	357.8	97.5
<b>Annualised:</b>			
Since inception	15.6	13.8	6.0
Latest 10 years	13.3	11.6	6.3
Latest 5 years	25.1	22.5	5.6
Latest 3 years	12.6	13.5	5.7
Latest 2 years	16.4	12.6	5.7
Latest 1 year	4.6	-4.8	6.6
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-34.1	-38.0	n/a
Percentage positive months <sup>4</sup>	64.5	63.1	n/a
Annualised monthly volatility <sup>5</sup>	15.3	13.5	n/a
Highest annual return <sup>6</sup>	78.2	54.2	n/a
Lowest annual return <sup>6</sup>	-29.7	-32.7	n/a

% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
	US\$	US\$	US\$
<b>Unannualised:</b>			
Since inception	151.2	108.2	25.5
<b>Annualised:</b>			
Since inception	8.1	6.5	2.0
Latest 10 years	5.9	4.3	1.8
Latest 5 years	12.7	10.4	1.3
Latest 3 years	3.1	3.9	1.1
Latest 2 years	7.1	3.6	1.1
Latest 1 year	19.4	8.7	1.7
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-52.8	-57.6	n/a
Percentage positive months <sup>4</sup>	58.9	60.3	n/a
Annualised monthly volatility <sup>5</sup>	17.2	15.9	n/a
Highest annual return <sup>6</sup>	63.0	58.4	n/a
Lowest annual return <sup>6</sup>	-44.8	-47.3	n/a

1. FTSE World Index including income (source: Bloomberg), performance as calculated by Allan Gray as at 31 December 2016.

2. This is based on the latest numbers published by INET BFA as at 30 November 2016.

3. Maximum percentage decline over any period. The maximum rand drawdown occurred from 6 June 2008 to 10 March 2009 and maximum benchmark drawdown occurred from 5 June 2008 to 6 March 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).

4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.

5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.

6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 December 2013 and the benchmark's occurred during the 12 months ended 31 December 2013. The Fund's lowest annual return occurred during the 12 months ended 31 March 2009 and the benchmark's occurred during the 12 months ended 31 March 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## 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 2016
<b>Cents per unit</b>	<b>0.3806</b>

## Asset allocation on 31 December 2016

This fund invests solely into the Orbis Global Equity Fund

	Total	North America	Europe	Japan	Asia ex-Japan	Other
Net equity	99.3	51.4	18.2	8.1	16.5	5.2
Hedged equity	0.0	0.0	0.0	0.0	0.0	0.0
Fixed interest	0.0	0.0	0.0	0.0	0.0	0.0
Net current assets	0.7	0.0	0.0	0.0	0.0	0.7
<b>Total</b>	<b>100.0</b>	<b>51.4</b>	<b>18.2</b>	<b>8.1</b>	<b>16.5</b>	<b>5.9</b>

Currency exposure of the Orbis Global Equity Fund						
Fund	100.0	52.1	27.2	9.1	6.4	5.2
Index	100.0	59.2	22.0	8.8	5.3	4.6

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

# ALLAN GRAY BALANCED FUND

Inception date: 1 October 1999

## Portfolio manager

Andrew Lapping, Duncan Artus, Jacques Plaut, Simon Raubenheimer, Ruan Stander.

(Most foreign assets are invested in Orbis funds.)

## 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 Allan Gray funds).

## Commentary

The three major asset classes – equity, fixed interest and offshore – all contributed positively to the Fund's 6.3% total return for the year. What is clear is that returns for most asset class were fairly modest, especially compared to the returns of the previous 5, 10 or even 15 years. The FTSE/JSE All Share Index (ALSI) returned 2.6% for the year, while the MSCI World Index rose 8.5% in US dollars but declined 3.8% when measured in rands. The standout for the year was the JSE All Bond Index, which returned 15.4%. The small moves in the headline indices mask substantial moves in the underlying investments. The Resources Index returned 34.2% while the Industrials Index had its first down year since 2008, falling 6.6%. The Orbis funds had a great year relative to international benchmarks – but this was offset to some extent by the stronger rand.

Despite South African equity markets being more-or-less flat over the past two years, we are still cautious. Valuations are down, but from a very high level compared to both historic metrics and what we consider to be fair value. We think the majority of companies are overvalued rather than undervalued. This informs the Fund's 46% exposure to domestic equities and total equity exposure of 61%.

Like the overall market, the Fund had individual shares that contributed strongly to performance and others that were significant detractors. The good thing about

the detractors is that our estimates of fair value have not changed; lower prices mean greater margins of safety and additional upside potential. We have reduced exposure to some of the winners, such as the banking stocks, as they approached fair value, and we have added to the underperforming positions. The increased exposure to the, now cheaper, laggards should put the Fund in a position to deliver good returns going forward.

An example of a share we added to is Sasol. The low oil price and cost overruns on Sasol's very large Lake Charles Chemical Project (LCCP) in Louisiana have turned investors against the company. The LCCP cost escalations are disappointing and diminish the valuation, but not to the extent discounted by the market. Even though beneficial operation and operational cash flow from the LCCP will only begin in 2019, Sasol has a number of smaller projects ramping up over the next 12 months that should contribute meaningfully to cash flow. Additionally, in our view, an oil price of US\$50 is low rather than high, which skews the risks in favour of Sasol investors. We don't expect much of an oil price recovery, but a higher oil price is possible despite the negative rhetoric. As the very sharp price appreciation, against all expectations, of various industrial commodities (including copper, zinc, coal and iron ore) in 2016 demonstrated, forecasting commodity prices is very difficult. In our view, one should rather be a buyer when an industry is struggling and sentiment is poor (the oil industry currently), and a seller when the consensus is positive and an industry is booming.

The Fund is a collection of undervalued assets that we believe will yield good real returns to investors over time. It is conservatively positioned and ready to take advantage of any opportunities that may arise.

*Commentary contributed by Andrew Lapping*

## Performance net of all fees and expenses

% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
<b>Unannualised:</b>			
Since inception	1588.5	710.7	163.7
<b>Annualised:</b>			
Since inception	17.8	12.9	5.8
Latest 10 years	11.1	9.1	6.3
Latest 5 years	12.8	11.0	5.6
Latest 3 years	9.2	6.2	5.7
Latest 2 years	9.3	4.8	5.7
Latest 1 year	6.3	1.2	6.6
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-15.4	-20.5	n/a
Percentage positive months <sup>4</sup>	70.5	69.1	n/a
Annualised monthly volatility <sup>5</sup>	9.0	9.2	n/a
Highest annual return <sup>6</sup>	46.1	41.9	n/a
Lowest annual return <sup>6</sup>	-8.3	-16.7	n/a

1. The market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds). From 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 2016.

2. This is based on the latest numbers published by INET BFA as at 30 November 2016.

3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 May 2008 to 27 October 2008 and maximum benchmark drawdown occurred from 20 May 2008 to 10 March 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).

4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.

5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.

6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 April 2006 and the benchmark's occurred during the 12 months ended 30 April 2006. The Fund's lowest annual return occurred during the 12 months ended 28 February 2009 and the benchmark's occurred during the 12 months ended 28 February 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Asset allocation on 31 December 2016<sup>7</sup>

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	60.9	46.2	0.7	14.1
Hedged equity	8.6	0.9	0.0	7.7
Property	1.4	0.7	0.0	0.7
Commodity-linked	4.2	4.1	0.0	0.2
Bonds	12.0	10.5	0.9	0.7
Money market and bank deposits	12.9	11.1	0.4	1.3
<b>Total (%)</b>	<b>100.0</b>	<b>73.4</b>	<b>2.0</b>	<b>24.6<sup>8</sup></b>

7. Underlying holdings of Orbis funds are included on a look-through basis.

8. Up to 25% of the Fund's value can be invested outside of Africa and 5% in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

## 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 2016	31 Dec 2016
<b>Cents per unit</b>	<b>98.5369</b>	<b>107.9166</b>



# ALLAN GRAY-ORBIS GLOBAL FUND OF FUNDS

Inception date: 3 February 2004

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## Portfolio manager

Andrew Lapping. (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

Orbis Global Balanced currently comprises 74% of the Fund. This Fund aims to balance capital appreciation and income generation with the risk of loss, which naturally promotes securities that offer attractive yields. But yield alone is not reason to purchase a security. Rather, two considerations trump all others: whether a security offers a discount to its intrinsic value, and whether holding it will improve the portfolio's overall balance of risk and return.

This is particularly relevant in today's environment. While Orbis still likes securities with attractive yields, these stocks now offer less potential for capital appreciation and a higher risk of loss than they have for some time, with their rising popularity and valuations. In fact, the relative valuations of high yield shares has peaked just as US bond yields troughed – no accident, as low bond yields have pushed many investors into stable yielding equities in search of income.

Finding many 'lower risk' names rather risky from a valuation standpoint, Orbis sold many of the Orbis Global Balanced Fund's stable yielding holdings in early 2016, hunting for discounts in other areas. Where that led to shares with greater business uncertainty, volatility, or economic sensitivity, Orbis worked to mitigate these risks by selectively hedging stock market exposure and by building greater conviction through continual fundamental research. Often, the best way to protect against downside is to buy what's already down and inexpensive.

At Orbis and Allan Gray, we are not textbook value investors, as we believe discounts to intrinsic value can also arise when the market assigns an average valuation to a company with superior growth

prospects. But, if you are looking for shares that trade at a discount to intrinsic value, it's not a bad idea to hunt among shares that trade at low multiples of their equity, earnings or free cash flow. Lately, such value shares have appeared exceptionally attractive.

This follows a period of unusual underperformance for value stocks. Over very long periods, buying stocks that trade at a low multiple of their book value, earnings or cash flow has proven to be a winning strategy. However, in the US and globally, value shares have lagged their growth counterparts since the end of 2006 – the longest value shares have ever gone without notching a new peak in relative performance. That makes it tempting to wonder whether this time is different. Perhaps the value 'anomaly' has been eroded as investors have become aware of it and the poor recent performance is a sign that the value approach is broken.

Or maybe value's underperformance is a sign that the relationship between prices and fundamentals is still really stretched in some parts of the market. Orbis believes that is the more likely explanation and this has resulted in an increase in the holdings of selected bank, energy and health insurer names, as well as one-off 'deep value' opportunities where Orbis believes it has a research-driven edge.

Wells Fargo, one of the premier US lenders, is a recent example. Reflecting its high quality, it has historically commanded a premium valuation compared to its banking peers. It is unusual for that premium to evaporate – yet it has this year, amidst a highly publicised fake accounts scandal. Orbis believes the controversy is likely short-lived in intensity and that the performance dip presented a unique entry point.

The competition for capital within the portfolio has led to a shift towards more classic value shares and while only time will tell whether this was the right move in the near or medium term, Orbis is confident that following our shared philosophy in a disciplined manner will bear fruit over the long run.

*Adapted from Orbis commentaries contributed by Alec Cutler.*

*For the full commentary please see [www.orbisfunds.com](http://www.orbisfunds.com)*

## Performance net of all fees and expenses

% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
	ZAR	ZAR	ZAR
<b>Unannualised:</b>			
Since inception	317.4	297.4	105.6
<b>Annualised:</b>			
Since inception	11.7	11.3	5.8
Latest 10 years	12.4	11.6	6.3
Latest 5 years	19.5	17.7	5.6
Latest 3 years	11.6	11.9	5.7
Latest 2 years	15.4	11.0	5.7
Latest 1 year	1.6	-7.2	6.6
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-24.0	-25.1	n/a
Percentage positive months <sup>4</sup>	57.4	57.4	n/a
Annualised monthly volatility <sup>5</sup>	14.0	12.4	n/a
Highest annual return <sup>6</sup>	55.6	38.8	n/a
Lowest annual return <sup>6</sup>	-13.7	-17.0	n/a

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 2016.

2. This is based on the latest numbers published by INET BFA as at 30 November 2016.

3. Maximum percentage decline over any period. The maximum rand drawdown occurred from 23 October 2008 to 14 October 2010 and maximum benchmark drawdown occurred from 23 October 2008 to 30 June 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).

4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.

5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.

6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 December 2013 and the benchmark's occurred during the 12 months ended 31 December 2013. The Fund's lowest annual return occurred during the 12 months ended 31 October 2010 and the benchmark's occurred during the 12 months ended 30 June 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## 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.

Cents per unit

31 Dec  
2016

0.1949

% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
	US\$	US\$	US\$
<b>Unannualised:</b>			
Since inception	114.4	104.1	30.1
<b>Annualised:</b>			
Since inception	6.1	5.7	2.1
Latest 10 years	5.0	4.3	1.8
Latest 5 years	7.7	6.0	1.3
Latest 3 years	2.2	2.5	1.1
Latest 2 years	6.2	2.1	1.1
Latest 1 year	16.0	5.9	1.7
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-34.1	-37.5	n/a
Percentage positive months <sup>4</sup>	59.4	61.3	n/a
Annualised monthly volatility <sup>5</sup>	10.9	10.1	n/a
Highest annual return <sup>6</sup>	40.1	37.6	n/a
Lowest annual return <sup>6</sup>	-27.3	-31.7	n/a

## Asset allocation on 31 December 2016

	Total	North Amer- ica	Europe	Japan	Asia ex- Japan	Other
Net equity	62.5	24.0	18.0	5.2	12.4	2.8
Hedged equity	25.4	12.0	6.5	4.5	2.1	0.4
Fixed interest	8.9	7.9	0.9	0.1	0.1	0.0
Commodity-linked	1.6	0.0	0.0	0.0	0.0	1.6
Net current assets	1.6	0.0	0.0	0.0	0.0	1.6
<b>Total</b>	<b>100.0</b>	<b>43.9</b>	<b>25.4</b>	<b>9.8</b>	<b>14.6</b>	<b>6.4</b>
<b>Currency exposure of the Orbis funds</b>						
Funds	100.0	46.8	35.3	9.6	5.3	3.0
Index	100.0	54.5	28.1	14.1	1.0	2.3

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

# ALLAN GRAY STABLE FUND

Inception date: 1 July 2000

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## Portfolio manager

Andrew Lapping, Mark Dunley-Owen, Leonard Krüger. (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

History is but only one of the potential paths the world could have chosen to follow. No ambiguity exists when we view the past as only the things that happened, actually came to pass. Looking back at 2016, many unexpected or low probability events came to pass. Brexit happened, Donald Trump is president-elect of the USA and Leicester City FC won the English Premier League. Each one of these events was thought to be a long shot in January 2016. If you had placed a R1 bet on all three events occurring, you would have snaffled almost R600 from bookies by November. In other words, the probability was thought to be less than 1 in 500, yet this is what came to pass. Unlikely things happen – and likely things fail to happen – all the time.

When managing your investment in the Stable Fund, we at Allan Gray face an inescapable conundrum: Investing your money requires us to decide how to position the portfolio for the future, but the future isn't predictable as 2016 events demonstrated. Not knowing what is going to happen does not mean we can't deal with investment risk, however. With a highly diversified portfolio in excess of 300 underlying holdings across different asset classes, regions, currencies and sectors, the Fund manages the risk of an uncertain future with multiple possible outcomes.

This includes holdings that can be classified as macro hedges or 'insurance' against potential bad outcomes. The Fund also continues to hold a large amount of cash, which is another way to protect clients' absolute money invested. Moreover, holding cash gives us options when we are presented with good investment opportunities. The current fluidity of the local political environment is a good example of the benefit of this strategy in an uncertain, unknown future.

The Fund returned 6.4% for the 2016 calendar year, in excess of the return achieved by the local stock market (including dividends) and just below SA inflation of 6.6%.

During the last quarter, we increased the overall net equity exposure of the Fund to 30.3% by reducing exposure to both domestic and foreign hedging instruments. We actively reduced the Fund's shareholding in both the banks and general miners following strong share price performance and bought a basket of industrial names. Sasol remains the largest single position at 3.4% of the Fund and we think offers excellent value at current levels.

The Fund holds close to the maximum allowed offshore exposure. Excellent US dollar performance from Orbis was masked by the stronger rand, which strengthened 11% during the year.

Risk means that more things can happen than will happen. That's the reality of an unpredictable world. Thinking in terms of diverse outcomes mitigates investment risk.

*Commentary contributed by Leonard Krüger*

## Performance net of all fees and expenses

% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
<b>Unannualised:</b>			
Since inception	615.0	320.9	150.4
<b>Annualised:</b>			
Since inception	12.7	9.1	5.7
Latest 10 years	9.5	8.3	6.3
Latest 5 years	9.6	7.0	5.6
Latest 3 years	8.8	7.4	5.7
Latest 2 years	10.0	7.7	5.7
Latest 1 year	6.4	8.2	6.6
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-4.1	n/a	n/a
Percentage positive months <sup>4</sup>	80.3	100.0	n/a
Annualised monthly volatility <sup>5</sup>	4.3	0.7	n/a
Highest annual return <sup>6</sup>	23.3	14.6	n/a
Lowest annual return <sup>6</sup>	3.3	6.2	n/a

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 2016.
2. This is based on the latest numbers published by INET BFA as at 30 November 2016.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 12 May 2006 to 14 June 2006. Drawdown is calculated on the total return of the Fund (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 April 2006 and the benchmark's occurred during the 12 months ended 30 June 2003. The Fund's lowest annual return occurred during the 12 months ended 31 October 2010 and the benchmark's occurred during the 12 months ended 31 January 2014. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Asset allocation on 31 December 2016<sup>7</sup>

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	30.3	20.2	0.5	9.6
Hedged equity	14.5	3.5	0.0	11.0
Property	2.5	1.8	0.0	0.7
Commodity-linked	3.4	3.1	0.0	0.3
Bonds	16.6	14.5	1.0	1.2
Money market and bank deposits	32.7	30.5	0.5	1.6
<b>Total (%)</b>	<b>100.0</b>	<b>73.7</b>	<b>2.0</b>	<b>24.3<sup>8</sup></b>

7. Underlying holdings of Orbis funds are included on a look-through basis.

8. Up to 25% of the Fund's value can be invested outside of Africa and 5% in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

## 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 2016	30 Jun 2016	30 Sep 2016	31 Dec 2016
<b>Cents per unit</b>	<b>26.2262</b>	<b>24.9945</b>	<b>34.6935</b>	<b>24.4266</b>

# ALLAN GRAY OPTIMAL FUND

Inception date: 1 October 2002

## 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

2016 will be remembered as the year of the unexpected and in this context we are pleased that the Optimal Fund managed to return 12.2% for the year. During the year we learned that America will be run by an unpopular president with unpredictable policies. A UK referendum will in all likelihood cause the UK to leave the European Union (EU) and populist politics across Europe pose a real threat to the EU experiment in the year ahead. Chinese politicians responded to falling growth by accelerating infrastructure spend at the cost of a substantial increase in government debt and spiralling commodity prices. And there were many twists and turns in South African politics. This all brings either bad or good news depending on your perspective. The bad news for investors is that it will most likely continue to be a bumpy ride with greater than usual volatility in stock and fund prices. The Optimal Fund experienced an unusually large drawdown of 4.8% during the first nine trading days in November and investors rightfully questioned the source of this volatility.

### What happened?

The Fund benefited from a rebound in sentiment towards mining companies during the first quarter of 2016, but unfortunately (with hindsight) sold out too early to an underweight position. This, combined with the Resource Index futures hedge introduced in the previous quarter, created the risk that a short-term rally in resource share prices could hurt Fund returns. This was exactly what happened after commodity prices surged in anticipation of a US infrastructure revival following Donald Trump's election. If Trump follows

through with his plans for an increased infrastructure budget it may well increase commodity demand, but 1) the US is dwarfed by China in terms of commodity demand and Chinese demand seems unsustainable, 2) the recycling industry is well established, which could re-use much of the material disposed and 3) it's easier to budget for infrastructure spend than spending it.

The good news for investors is that the price volatility that results from unexpected political outcomes creates opportunities to invest in companies with sustainable cash flow at attractive valuations. One recent example is South African banks. Banks sold down substantially during Nenegate and remained cheap throughout the UK referendum in June, but rebounded towards the end of 2016, with the index increasing 37% since Nenegate and 20% since the UK referendum.

During the fourth quarter, we reduced the Fund's banking exposure by selling Standard Bank and increased our stake in the private hospital group Life Healthcare. Going forward, we expect stock and fund prices to remain volatile, since the Optimal Fund's active share\* is at a high level of 59% and global politics remain as uncertain as ever. However, this should also ensure a good return if the Fund is correctly positioned and can make use of new opportunities presented in the year ahead.

The most significant overweight positions include Naspers, banks, Sasol and British American Tobacco, while underweight positions include mining companies, Richemont and MTN.

The most significant contribution to the Fund's returns was the Industrials sector, where our stock selection added value by being underweight highly rated international shares (SABMiller and Richemont) and overweight depressed local shares (WBHO and Comair).

### *Commentary contributed by Ruan Stander*

\* Active share is a measure of how different a fund is from a benchmark index (in this case the stock index underlying the futures used to hedge stock market risk). It can vary between 0% and 100%.

## Performance net of all fees and expenses

% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
<b>Unannualised</b>			
Since inception	215.2	146.1	111.9
<b>Annualised:</b>			
Since inception	8.4	6.5	5.4
Latest 10 years	7.7	6.1	6.3
Latest 5 years	7.8	4.8	5.6
Latest 3 years	10.5	5.3	5.7
Latest 2 years	9.5	5.5	5.7
Latest 1 year	12.2	6.1	6.6
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-5.7	n/a	n/a
Percentage positive months <sup>4</sup>	81.9	100.0	n/a
Annualised monthly volatility <sup>5</sup>	3.1	0.7	n/a
Highest annual return <sup>6</sup>	18.1	11.9	n/a
Lowest annual return <sup>6</sup>	1.6	4.1	n/a

1. The daily interest rate as supplied by FirstRand Bank Limited (source: FirstRand Bank), performance as calculated by Allan Gray as at 31 December 2016.
2. This is based on the latest numbers published by INET BFA as at 30 November 2016.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 September 2016 to 11 November 2016. Drawdown is calculated on the total return of the Fund (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 September 2003 and the benchmark's occurred during the 12 months ended 30 September 2003. The Fund's lowest annual return occurred during the 12 months ended 31 December 2012 and the benchmark's occurred during the 12 months ended 31 August 2013. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Asset allocation on 31 December 2016

Asset Class	Total
Net equity	4.9
Hedged equity	83.2
Property	0.7
Commodity-linked	0.0
Bonds	0.0
Money market and bank deposits	11.3
<b>Total (%)</b>	<b>100.0</b>

## 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 2016	31 Dec 2016
	<b>2.8394</b>	<b>12.7035</b>
<b>Cents per unit</b>	<b>2.8394</b>	<b>12.7035</b>

# ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS

Inception date: 2 March 2010

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## Portfolio manager

Duncan Artus. (Most foreign assets are invested in Orbis funds.)

## 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

Bottom-up stockpicking is the lifeblood of the Optimal Strategy. This is evident in both good years and bad, and it's refreshing to report that 2016 was one of the former. It is also a reminder that relative performance from stock selection – and hence Optimal's performance – comes in anything but a straight line.

There are simply too many variables, both known and unknown, and too much inherent randomness in markets to allow for smooth, predictable returns. Even for the most skilled managers, striving for outperformance over the long term has proven to be the more reasonable objective.

Lumps and bumps in Optimal's performance are highly idiosyncratic and typically uncorrelated with risk assets, and also much more subdued than volatile asset classes such as equities. In fact, over the last 10 years, Optimal's return volatility has been more similar to that of government bonds than of equities.

When considering Optimal's place in a broad multi-asset portfolio, it is therefore useful to draw some comparison with bonds. Optimal has had its work cut out just to keep up with the exceptional returns on fixed income over the last few decades. Not only have even the safest sovereign bonds delivered handsome real returns, but they have also provided protection during periods of heightened equity market volatility.

The problem with this historical comparison is that starting valuations have a very large degree of influence on the prospective returns of traditional asset classes. It's hard to envisage a repeat of the last few decades if one buys bonds at today's low yields. Indeed, over the 80 years prior to the start of the fixed income bull market, US Treasuries produced more or less flat returns after inflation. In addition, the negative correlation between bonds and equities that we have witnessed in recent times is not reflective of the longer-term history. Looking ahead, it is not hard to imagine a period of negative real returns on bonds and a return to positive correlations with equities, wiping out the diversification benefits that bonds have brought to the table for many years.

Unlike bonds, Optimal has no 'starting valuation' and its past returns therefore have little impact on future prospects. Orbis' stock selection results in any given year will be driven partly by skill and partly by the ebb and flow of fortune. This produces a pattern of shorter-term returns that is highly idiosyncratic and uncorrelated with other asset classes.

We believe that this characteristic, coupled with the longer-term value Orbis strives to add through bottom up stock selection, makes Optimal a compelling complement to traditional asset classes as part of a broader portfolio.

Orbis typically retains modest long exposure to the stock markets they consider to be the most attractive based on their bottom-up research, and likewise, uses hedging to eliminate exposure to stock markets where they believe assets are overvalued.

*Adapted from Orbis commentaries contributed by Graeme Forster.*

*For the full commentary please see [www.orbisfunds.com](http://www.orbisfunds.com)*

## Performance net of all fees and expenses

% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
	ZAR	ZAR	ZAR
<b>Unannualised:</b>			
Since inception	96.1	61.5	42.8
<b>Annualised:</b>			
Since inception	10.3	7.3	5.4
Latest 5 years	13.6	9.1	5.6
Latest 3 years	7.9	4.7	5.7
Latest 2 years	11.5	5.2	5.7
Latest 1 year	-5.9	-13.8	6.6
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-15.9	-20.1	n/a
Percentage positive months <sup>4</sup>	50.0	45.1	n/a
Annualised monthly volatility <sup>5</sup>	14.4	13.7	n/a
Highest annual return <sup>6</sup>	39.6	35.6	n/a
Lowest annual return <sup>6</sup>	-8.4	-13.8	n/a

- The simple average of the benchmarks of the underlying funds, performance as calculated by Allan Gray as at 31 December 2016.
- This is based on the latest numbers published by INET BFA as at 30 November 2016.
- Maximum percentage decline over any period. The maximum rand drawdown occurred from 21 May 2010 to 29 December 2010 and maximum benchmark drawdown occurred from 18 January 2016 to 29 December 2016. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
- The percentage of calendar months in which the Fund produced a positive monthly return since inception.
- The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
- These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 December 2013 and the benchmark's occurred during the 12 months ended 31 January 2016. The Fund's lowest annual return occurred during the 12 months ended 31 January 2015 and the benchmark's occurred during the 12 months ended 31 December 2016. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## 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 2016
<b>Cents per unit</b>	<b>0.0000</b>

% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
	US\$	US\$	US\$
<b>Unannualised:</b>			
Since inception	10.1	-9.3	11.5
<b>Annualised:</b>			
Since inception	1.4	-1.4	1.6
Latest 5 years	2.3	-1.7	1.3
Latest 3 years	-1.2	-4.1	1.1
Latest 2 years	2.6	-3.2	1.1
Latest 1 year	7.4	-1.6	1.7
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-14.1	-15.1	n/a
Percentage positive months <sup>4</sup>	51.2	47.6	n/a
Annualised monthly volatility <sup>5</sup>	6.7	5.0	n/a
Highest annual return <sup>6</sup>	12.9	9.4	n/a
Lowest annual return <sup>6</sup>	-11.8	-11.6	n/a

## Asset allocation on 31 December 2016

	Total	North America	Europe	Japan	Asia ex- Japan	Other
Net equity	3.3	-7.4	3.2	1.5	5.8	0.1
Hedged equity	85.9	35.3	13.9	24.5	9.7	2.6
Fixed interest	0.0	0.0	0.0	0.0	0.0	0.0
Commodity- linked	0.0	0.0	0.0	0.0	0.0	0.0
Net current assets	10.8	0.0	0.0	0.0	0.0	10.8
<b>Total</b>	<b>100.0</b>	<b>28.0</b>	<b>17.1</b>	<b>26.0</b>	<b>15.5</b>	<b>13.5</b>

<b>Currency exposure of the Orbis funds</b>						
Funds	100.0	54.0	41.5	-0.3	3.6	1.2

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



# ALLAN GRAY BOND FUND

Inception date: 1 October 2004

## Portfolio manager

Mark Dunley-Owen

## 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 Fund returned 14.9% in 2016 versus the JSE All Bond Index (ALBI) return of 15.4%. The underperformance was largely due to the Fund having lower duration than the ALBI. South African bonds returned 27% in US dollars and outperformed most global markets with developed bond markets returning 2%<sup>1</sup> and emerging markets 10.2%<sup>2</sup>.

Allan Gray aims to invest in assets at a price below their intrinsic value, with the expectation that the price will increase over time to reflect value. We apply this investment philosophy across asset classes, including fixed income instruments held by the Allan Gray Bond Fund. However, it is challenging to determine the intrinsic value of fixed income investments since doing so requires making macroeconomic forecasts, which are seldom accurate over the short term.

2016 is a case in point. A year ago, few would have predicted the rand would appreciate by 26% against the British pound, South Africa would maintain its investment grade status or Donald Trump would threaten multi-decade trends such as declining inflation and increasing globalisation.

2017 is likely to contain similar unknowns. Consider one widely held forecast, namely that the Trump presidency will introduce expansionary fiscal policies. This may turn out to be true, but the success of such policies is less certain. More importantly, the implication

of US policies on South African bond yields requires numerous assumptions such as the pass through from US growth to South African inflation and the effect on South Africa's risk premium. The combined probability of predicting these correctly is very low, which makes relying on short-term macroeconomic forecasts a poor investment strategy.

Instead, we try to understand a few important trends over the long term. Currently, we believe the following:

- Global and South African uncertainties, and thus risks, are high.
- Global bond yields are low relative to history and do not compensate for above-average risks.
- South African bond yields are low on an absolute basis, but fair relative to alternative investments.
- Within the Fund's investment universe, short and long duration instruments offer relative value. Yields on short bank instruments remain attractive due to bank funding requirements. Long duration government bonds are pricing in reasonable long-term inflation expectations. The middle of the yield curve is exposed to foreign investment demand that is difficult to predict and susceptible to short-term unknowns.

Based on the above, the Fund is targeting higher yields than the ALBI while limiting duration risk, by minimising exposure to the middle of the curve and maintaining sufficient liquidity to take advantage of opportunities.

*Commentary contributed by Mark Dunley-Owen*

1. BofA Merrill Lynch Developed Markets Sovereign Bond Index

2. J.P. Morgan Emerging Bond Index

## Performance net of all fees and expenses

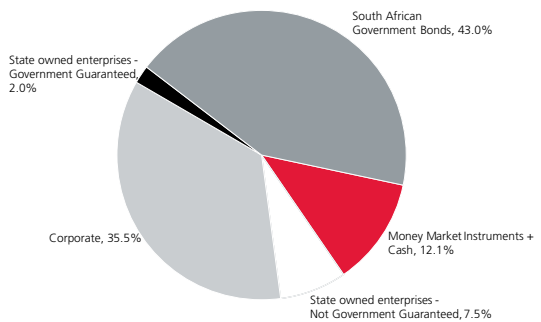
% Returns	Fund	Bench- mark <sup>1</sup>	CPI infla- tion <sup>2</sup>
<b>Unannualised:</b>			
Since inception	182.6	171.3	101.6
<b>Annualised:</b>			
Since inception	8.8	8.5	5.9
Latest 10 years	8.5	8.0	6.3
Latest 5 years	7.6	7.4	5.6
Latest 3 years	7.6	6.9	5.7
Latest 2 years	6.5	5.3	5.7
Latest 1 year	14.9	15.4	6.6
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-11.7	-14.4	n/a
Percentage positive months <sup>4</sup>	71.4	68.0	n/a
Annualised monthly volatility <sup>5</sup>	5.4	7.2	n/a
Highest annual return <sup>6</sup>	18.0	21.2	n/a
Lowest annual return <sup>6</sup>	-2.6	-5.6	n/a

1. JSE All Bond Index (source: INET BFA), performance as calculated by Allan Gray as at 31 December 2016.
2. This is based on the latest numbers published by INET BFA as at 30 November 2016.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 30 January 2015 to 11 December 2015 and maximum benchmark drawdown occurred from 29 January 2015 to 11 December 2015. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 January 2015 and the benchmark's occurred during the 12 months ended 31 January 2015. The Fund's lowest annual return occurred during the 12 months ended 31 January 2016 and the benchmark's occurred during the 12 months ended 31 January 2016. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Income distributions for the last 12 months

Actual payout, the Fund distributes quarterly	31 Mar 2016	30 Jun 2016	30 Sep 2016	31 Dec 2016
<b>Cents per unit</b>	<b>22.3000</b>	<b>22.4224</b>	<b>23.1106</b>	<b>22.9788</b>

## Asset allocation on 31 December 2016



# ALLAN GRAY MONEY MARKET FUND

Inception date: 1 July 2001

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## Portfolio manager

Andrew Lapping, Gary Elston.

## 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

2016 brought with it numerous events, both domestic and international, to remind investors of the uncertain and unpredictable times that we are living in. Who would have thought that we would be faced with the unlikely scenarios of Brexit, a Trump presidency or that many of the developed countries would have 10-year bonds with negative yields at some point in the year? Two of the dominant local stories for 2016 were the heightened political uncertainty and the rating agencies' reviews of the country – adding to volatility in the markets.

South Africa managed to retain its investment grade ratings on both its local and foreign currency debt from all three rating agencies. While this was good news for fixed income investors, it unfortunately does not mean that the threat has gone away, and the political uncertainty is far from over.

Despite the volatility in 2016, the 12-month bank NCD rate ended the year around the same level it started, at around 8.45%, having traded in a 50-basis point range over the year. The 10-year government bond (R186) rallied in 2016 from 9.71% down to below 9%, and the rand strengthened from R15.56/US\$ to under R14.00/US\$.

In November 2016 the annual rate of inflation as measured by the South African Consumer Price Index (CPI) was 6.6% year-on-year (y-o-y). This is off the peak of 7.0% y-o-y in February, but well above the

lowest point of 5.9% y-o-y in August. Food remains a large driver of inflation, with the latest reading of 11.8% y-o-y as the drought persists. Food inflation is expected to moderate from here and average annual inflation should fall to below the 6% y-o-y upper end of the South African Reserve Bank's target band in 2017.

The Monetary Policy Committee (MPC) left the repo rate unchanged again in November, bringing the total repo rate hikes to 75-basis points for the year, with all hikes occurring in the first quarter. There is a general feeling that we may be at the end of the current repo rate hiking cycle, with inflation expectations moderating given the current levels of the rand.

South Africa's Gross Domestic Product (GDP) appears to have bottomed, with the latest forecast from the MPC of 0.4% for 2016 and then 1.2% for 2017, showing improvement. However, the current account deficit remains a concern, with the latest estimate at 4.0% of GDP for 2016.

We still maintain that the shape of the money market yield curve is too steep, and the Fund's strategy is to continue taking advantage of this steepness by investing in the longer end, which offers the best value for the associated risks. With the prospect of interest rates not rising in the near future, we are reducing our allocation to pure floating rate notes. We are focusing on a mix of short-dated treasury bills for liquidity and longer-dated bank NCDs with maturities between six months and one year.

*Commentary contributed by Gary Elston*

## Performance net of all fees and expenses

% Returns	Fund	Benchmark <sup>1</sup>	CPI inflation <sup>2</sup>
<b>Unannualised:</b>			
Since inception	231.1	227.6	136.1
<b>Annualised:</b>			
Since inception	8.0	8.0	5.7
Latest 10 years	7.5	7.3	6.3
Latest 5 years	6.2	6.1	5.6
Latest 3 years	6.8	6.6	5.7
Latest 2 years	7.1	6.9	5.7
Latest 1 year	7.7	7.4	6.6
<b>Risk measures (since inception)</b>			
Highest annual return <sup>3</sup>	12.8	13.3	n/a
Lowest annual return <sup>3</sup>	5.2	5.2	n/a

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 2016.

2. This is based on the latest numbers published by INET BFA as at 30 November 2016.

3. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 July 2003 and the benchmark's occurred during the 12 months ended 31 July 2003. The Fund's lowest annual return occurred during the 12 months ended 30 September 2013 and the benchmark's occurred during the 12 months ended 31 October 2013. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Income distribution for the last 12 months

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

Jan 2016	Feb 2016	Mar 2016	Apr 2016
0.57	0.55	0.60	0.59
May 2016	Jun 2016	Jul 2016	Aug 2016
0.62	0.61	0.64	0.64
Sep 2016	Oct 2016	Nov 2016	Dec 2016
0.63	0.65	0.63	0.66

## Exposure by issuer on 31 December 2016

	% of portfolio
<b>Government and parastatals</b>	<b>17.7</b>
Republic of South Africa	17.7
<b>Corporates</b>	<b>5.6</b>
Sanlam	2.3
Toyota Financial Services	1.8
Mercedes-Benz S.A.	1.1
Aspen	0.4
<b>Banks<sup>4</sup></b>	<b>76.7</b>
FirstRand	17.9
Barclays Africa	17.4
Nedbank	17.4
Standard Bank	15.2
Investec Bank	8.8
<b>Total (%)</b>	<b>100.0</b>

4. 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 TAX-FREE BALANCED FUND

Inception date: 1 February 2016

## Portfolio manager

Andrew Lapping, Duncan Artus, Jacques Plaut, Simon Raubenheimer, Ruan Stander.

(Most foreign assets are invested in Orbis funds.)

## 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 Allan Gray funds).

## Commentary

The three major asset classes – equity, fixed interest and offshore – all contributed positively to the Fund's 7.4% unannualised return since inception. What is clear is that returns for most asset class were fairly modest, especially compared to the returns of the previous 5, 10 or even 15 years. The FTSE/JSE All Share Index (ALSI) returned 2.6% for the year, while the MSCI World Index rose 8.5% in US dollars but declined 3.8% when measured in rands. The standout for the year was the JSE All Bond Index, which returned 15.4%. The small moves in the headline indices mask substantial moves in the underlying investments. The Resources Index returned 34.2% while the Industrials Index had its first down year since 2008, falling 6.6%. The Orbis funds had a great year relative to international benchmarks – but this was offset to some extent by the stronger rand.

Despite South African equity markets being more-or-less flat over the past two years, we are still cautious. Valuations are down, but from a very high level compared to both historic metrics and what we consider to be fair value. We think the majority of companies are overvalued rather than undervalued. This informs the Fund's 46.3% exposure to domestic equities and total equity exposure of 60.5%.

Like the overall market, the Fund had individual shares that contributed strongly to performance and others

that were significant detractors. The good thing about the detractors is that our estimates of fair value have not changed; lower prices mean greater margins of safety and additional upside potential. We have reduced exposure to some of the winners, such as the banking stocks, as they approached fair value, and we have added to the underperforming positions. The increased exposure to the, now cheaper, laggards should put the Fund in a position to deliver good returns going forward.

An example of a share we added to is Sasol. The low oil price and cost overruns on Sasol's very large Lake Charles Chemical Project (LCCP) in Louisiana have turned investors against the company. The LCCP cost escalations are disappointing and diminish the valuation, but not to the extent discounted by the market. Even though beneficial operation and operational cash flow from the LCCP will only begin in 2019, Sasol has a number of smaller projects ramping up over the next 12 months that should contribute meaningfully to cash flow. Additionally, in our view, an oil price of US\$50 is low rather than high, which skews the risks in favour of Sasol investors. We don't expect much of an oil price recovery, but a higher oil price is possible despite the negative rhetoric. As the very sharp price appreciation, against all expectations, of various industrial commodities (including copper, zinc, coal and iron ore) in 2016 demonstrated, forecasting commodity prices is very difficult. In our view, one should rather be a buyer when an industry is struggling and sentiment is poor (the oil industry currently), and a seller when the consensus is positive and an industry is booming.

The Fund is a collection of undervalued assets that we believe will yield good real returns to investors over time. It is conservatively positioned and ready to take advantage of any opportunities that may arise.

*Commentary contributed by Andrew Lapping*

## Performance net of all fees and expenses

% Returns	Fund	Bench- mark <sup>1</sup>	CPI inflation <sup>2</sup>
<b>Unannualised:</b>			
Since inception	7.4	3.8	5.5

1. The market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds). Source: Morningstar, performance as calculated by Allan Gray as at 31 December 2016.

2. This is based on the latest numbers published by INET BFA as at 30 November 2016.

## 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 2016	31 Dec 2016
<b>Cents per unit</b>	<b>11.8510</b>	<b>12.8481</b>

## Asset allocation on 31 December 2016<sup>3</sup>

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	60.5	46.3	0.6	13.6
Hedged equity	8.6	1.0	0.0	7.5
Property	1.5	0.8	0.0	0.7
Commodity- linked	3.7	3.5	0.0	0.2
Bonds	11.9	10.3	0.9	0.7
Money market and bank deposits	13.9	11.5	0.5	1.9
<b>Total (%)</b>	<b>100.0</b>	<b>73.5</b>	<b>1.9</b>	<b>24.6<sup>4</sup></b>

3. Underlying holdings of Orbis funds are included on a look-through basis.

4. Up to 25% of the Fund's value can be invested outside of Africa and 5% in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

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 (JSE code: AGEF)	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 for the day to that of the benchmark. Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT. For each annualised percentage point above or below the benchmark we add or deduct 0.2%. The maximum fee is uncapped and if the fee would have been negative, 0% will be charged for the day and the negative fee will be carried forward to reduce the next day's fee (and all subsequent days until the underperformance is recovered). 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. The Orbis equity funds charge 1.5% p.a. for performance equal to their benchmarks. The minimum Orbis equity fund fee is 0.5% p.a. and the maximum is 2.5% p.a.
Allan Gray SA Equity Fund (JSE code: AGDA)	Allan Gray charges a fee based on the net asset value of the Fund. The fee rate is calculated daily by comparing the Fund's total performance for the day to that of the benchmark. Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT. For each annualised percentage point above or below the benchmark we add or deduct 0.2%. The maximum fee is uncapped and if the fee would have been negative, 0% will be charged for the day and the negative fee will be carried forward to reduce the next day's fee (and all subsequent days until the underperformance is recovered). This means that Allan Gray shares in 20% of annualised performance relative to the benchmark.
Allan Gray-Orbis Global Equity Feeder Fund <sup>1</sup> (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 <a href="http://www.allangray.co.za">www.allangray.co.za</a>
Allan Gray Balanced Fund (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. Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT For each percentage of two-year performance above or below the benchmark we add or deduct 0.1%, subject to the following limits: Maximum fee: 1.50% p.a. excl. VAT Minimum fee: 0.50% p.a. excl. VAT 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.
Allan Gray Tax-Free Balanced Fund (JSE code: AGTBA)	A fixed fee of 1.25% p.a. excl. VAT. This fee only applies to the portion of the unit trusts that we manage. The offshore portion of the unit trust is managed by Orbis. Orbis charges fixed fees within these funds.
Allan Gray-Orbis Global Fund of Funds <sup>1</sup> (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 <a href="http://www.allangray.co.za">www.allangray.co.za</a>
Allan Gray Stable Fund (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. Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT For each percentage of two-year performance above or below the benchmark we add or deduct 0.1%, subject to the following limits: Maximum fee: 1.50% p.a. excl. VAT Minimum fee: 0.50% p.a. excl. VAT 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.
Allan Gray Optimal Fund (JSE code: AGOF)	The fee rate is calculated daily by comparing the Fund's total performance to that of the benchmark. Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT 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 <sup>1</sup> (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 <a href="http://www.allangray.co.za">www.allangray.co.za</a>
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. Minimum fee: 0.25% p.a. excl. VAT 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)	A fixed fee of 0.25% p.a. excl. VAT

# ALLAN GRAY UNIT TRUSTS

## TOTAL EXPENSE RATIOS (TER) AND TRANSACTION COSTS

For the 3-year period ending 31 December 2016

FUND	FEE FOR BENCHMARK PERFORMANCE %	PERFORMANCE FEE %	OTHER COSTS EXCLUDING TRANSACTION COSTS %	VAT %	TOTAL EXPENSE RATIO (TER) <sup>3,5</sup> %	TRANSACTION COSTS (INCL. VAT) <sup>3,5</sup> %	TOTAL INVESTMENT CHARGE %
Allan Gray Equity Fund <sup>2,4</sup> (JSE code: AGEF)	1.25	0.83	0.01	0.27	<b>2.36</b>	0.06	<b>2.42</b>
Allan Gray SA Equity Fund <sup>4,6</sup> (JSE code: AGDA)	1.00	0.90	0.07	0.28	<b>2.25</b>	0.08	<b>2.33</b>
Allan Gray-Orbis Global Equity Feeder Fund <sup>1</sup> (JSE code: AGOE)	1.50	0.57	0.06	0.00	<b>2.13</b>	0.15	<b>2.28</b>
Allan Gray Balanced Fund <sup>2,4</sup> (JSE code: AGBF)	1.07	0.36	0.02	0.14	<b>1.59</b>	0.08	<b>1.67</b>
Allan Gray Tax-Free Balanced Fund <sup>2,4,6,7</sup> (JSE code: AGTBA)	1.36	N/A	0.02	0.13	<b>1.52</b>	0.08	<b>1.59</b>
Allan Gray-Orbis Global Fund of Funds <sup>1</sup> (JSE code: AGGF)	1.33	0.42	0.08	0.00	<b>1.83</b>	0.15	<b>1.98</b>
Allan Gray Stable Fund <sup>2,4</sup> (JSE code: AGSF)	1.04	0.44	0.02	0.15	<b>1.65</b>	0.07	<b>1.72</b>
Allan Gray Optimal Fund <sup>4</sup> (JSE code: AGOF)	1.00	0.92	0.02	0.27	<b>2.21</b>	0.17	<b>2.38</b>
Allan Gray-Orbis Global Optimal Fund of Funds <sup>1</sup> (JSE code: AGOO)	1.00	0.37	0.09	0.00	<b>1.46</b>	0.15	<b>1.61</b>
Allan Gray Bond Fund (JSE code: AGBD)	0.25	0.27	0.02	0.08	<b>0.62</b>	0.00	<b>0.62</b>
Allan Gray Money Market Fund <sup>7</sup> (JSE code: AGMF)	0.25	N/A	0.00	0.04	<b>0.29</b>	0.00	<b>0.29</b>

1. 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.
2. Assets invested in the Orbis funds incur a management fee. These, along with other expenses, are included in the total expense ratio.
3. The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past three years. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), VAT and other expenses like audit and trustee fees. Transaction costs (including brokerage, Securities Transfer Tax [STT], STRATE and FSB Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and transaction costs should not be deducted again from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and transaction costs is shown as the total investment charge.
4. The fees, TERs and Transaction costs provided are for Class A funds only. The fees, TERs and transaction costs for Class B and Class C funds are available from our Client Service Centre.
5. TERs and Transaction costs are unaudited.
6. The TER and Transaction costs cannot currently be determined accurately because of the short lifespan of the Fund. Calculations are based on actual data, and best estimates where actual data is not available or provides a poor estimate of potential future costs.
7. The Allan Gray Tax-Free Balanced Fund and Allan Gray Money Market Fund charges a fixed fee.

### COMPLIANCE WITH RETIREMENT FUND REGULATIONS:

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

These Funds are managed to comply with Regulation 28 of the Pension Fund Act. Exposures in excess of the limits 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).



ALLAN GRAY UNIT TRUSTS  
**STATEMENTS OF COMPREHENSIVE INCOME**

For the year ended 31 December 2016

	NOTE	EQUITY FUND		GLOBAL EQUITY FEEDER FUND		BALANCED FUND		GLOBAL FUND OF FUNDS		STABLE FUND	
		2016 R	2015 Restated* R	2016 R	2015 Restated* R	2016 R	2015 Restated* R	2016 R	2015 Restated* R	2016 R	2015 Restated* R
<b>REVENUE</b>		1 022 853 962	1 181 437 291	2 296 931	1 458 273	3 977 557 823	3 387 406 552	1 645 257	1 467 037	1 816 465 573	1 401 054 318
Dividends - Local		957 679 971	1 129 873 675	-	-	1 699 146 218	1 576 621 140	-	-	379 218 890	368 292 375
Dividends - Foreign		12 777 943	-	-	-	33 471 925	230 172	-	-	3 569 180	52 887
Dividends - Real estate investment trust income		6 888 519	13 768 822	-	-	20 419 372	41 032 440	-	-	40 948 927	32 213 139
Interest - Local		41 342 671	37 186 614	2 296 931	1 458 273	2 121 535 490	1 735 191 295	1 645 257	1 467 037	1 364 790 515	992 793 071
Interest - Foreign		-	608 180	-	-	95 305 196	34 331 505	-	-	25 911 371	7 702 846
Sundry income		4 164 858	-	-	-	7 679 622	-	-	-	2 026 690	-
<b>OPERATING EXPENSES</b>		717 130 604	1 025 425 388	1 138 546	589 960	1 469 593 085	940 931 648	929 457	480 420	499 493 294	424 554 262
Audit fee		132 333	111 601	49 540	41 776	152 510	128 619	51 335	43 293	135 403	114 361
Bank charges		122 113	158 679	7 828	6 727	478 374	485 502	8 832	8 099	269 487	232 067
Interest expense		-	-	-	-	-	-	-	-	-	-
Trustee fees		2 643 412	1 496 392	1 081 178	541 457	4 579 534	4 047 131	869 290	429 028	1 541 422	1 338 442
Management fee		714 232 746	1 023 658 716	-	-	1 464 382 667	936 270 396	-	-	497 546 982	422 869 392
<b>PROFIT/(LOSS) BEFORE UNDISTRIBUTABLE INCOME ITEMS</b>	1	305 723 358	156 011 903	1 158 385	868 313	2 507 964 738	2 446 474 904	715 800	986 617	1 316 972 279	976 500 056

\* Refer to note 2 of the annual financial statements.

**STATEMENTS OF COMPREHENSIVE INCOME**

For the year ended 31 December 2016

	NOTE	OPTIMAL FUND		GLOBAL OPTIMAL FUND OF FUNDS		BOND FUND		MONEY MARKET FUND		SA EQUITY FUND		TAX-FREE BALANCED FUND	
		2016 R	2015 Restated* R	2016 R	2015 Restated* R	2016 R	2015 Restated* R	2016 R	2015 Restated* R	2016 R	2015 Restated* R	2016 R	2015 Restated* R
<b>REVENUE</b>		44 509 096	42 609 084	-	26 513	46 845 583	54 848 002	986 814 704	667 967 568	38 999 338	4 583 730	6 625 798	-
Dividends - Local		30 453 649	32 048 266	-	-	-	-	-	-	35 710 091	4 191 537	2 686 023	-
Dividends - Foreign		-	-	-	-	-	-	-	-	-	-	258	-
Dividends - Real estate investment trust income		-	-	-	-	-	-	-	-	150 702	30 548	21 745	-
Interest - Local		13 939 607	10 170 248	-	26 513	46 845 583	54 848 002	986 814 704	667 967 568	2 835 009	349 895	3 827 117	-
Interest - Foreign		-	390 570	-	-	-	-	-	-	-	11 750	76 400	-
Sundry income		115 840	-	-	-	-	-	-	-	303 536	-	14 255	-
<b>OPERATING EXPENSES</b>		34 166 842	21 906 143	237 780	94 902	3 912 413	2 932 640	37 253 254	28 957 786	4 754 460	813 732	2 011 797	-
Audit fee		132 737	141 100	51 337	43 294	91 011	76 756	106 632	89 694	26 195	97 238	63 550	-
Bank charges		62 775	50 726	8 802	7 240	22 595	35 948	105 845	92 449	82 946	56 020	84 639	-
Interest expense		-	-	83 481	-	-	-	-	-	-	-	-	-
Trustee fees		51 416	44 770	94 160	44 368	19 585	24 297	496 739	384 166	66 293	5 136	6 961	-
Management fee		33 919 914	21 669 547	-	-	3 779 222	2 795 639	36 544 038	28 391 477	4 579 026	655 338	1 856 647	-
<b>PROFIT/(LOSS) BEFORE UNDISTRIBUTABLE INCOME ITEMS</b>	<b>1</b>	10 342 254	20 702 941	(237 780)	(68 389)	42 933 170	51 915 362	949 561 450	639 009 782	34 244 878	3 769 998	4 614 001	-

\* Refer to note 2 of the annual financial statements.

**STATEMENTS OF FINANCIAL POSITION**

As at 31 December 2016

	EQUITY FUND		GLOBAL EQUITY FEEDER FUND		BALANCED FUND		GLOBAL FUND OF FUNDS		STABLE FUND	
	2016 R	2015 R	2016 R	2015 R	2016 R	2015 R	2016 R	2015 R	2016 R	2015 R
<b>ASSETS</b>										
Investments	38 868 247 974	38 068 977 456	16 463 900 662	16 260 216 873	124 138 001 022	111 178 104 346	12 619 667 761	13 093 097 113	42 687 320 652	36 442 197 060
Current assets	48 519 197	55 534 589	67 199 694	43 164 339	60 684 515	66 383 573	38 407 534	85 623	20 662 273	13 946 632
<b>TOTAL ASSETS</b>	<b>38 916 767 171</b>	<b>38 124 512 045</b>	<b>16 531 100 356</b>	<b>16 303 381 212</b>	<b>124 198 685 537</b>	<b>111 244 487 919</b>	<b>12 658 075 295</b>	<b>13 093 182 736</b>	<b>42 707 982 925</b>	<b>36 456 143 692</b>
<b>LIABILITIES</b>										
Current liabilities	232 391 821	218 167 403	1 239 412	880 085	1 538 010 049	1 324 273 914	783 852	15 076 567	354 776 551	239 348 482
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	<b>38 684 375 350</b>	<b>37 906 344 642</b>	<b>16 529 860 944</b>	<b>16 302 501 127</b>	<b>122 660 675 488</b>	<b>109 920 214 005</b>	<b>12 657 291 443</b>	<b>13 078 106 169</b>	<b>42 353 206 374</b>	<b>36 216 795 210</b>

**STATEMENTS OF FINANCIAL POSITION**

As at 31 December 2016

	OPTIMAL FUND		GLOBAL OPTIMAL FUND OF FUNDS		BOND FUND		MONEY MARKET FUND		SA EQUITY FUND		TAX-FREE BALANCED FUND	
	2016 R	2015 R	2016 R	2015 R	2016 R	2015 R	2016 R	2015 R	2016 R	2015 R	2016 R	2015 R
<b>ASSETS</b>												
Investments	1 514 963 939	1 247 693 528	1 269 002 003	1 517 710 676	544 678 182	525 494 196	13 571 177 574	12 041 009 355	2 496 905 694	241 832 942	221 099 013	-
Current assets	18 593 096	8 315 630	156	5 953 726	998 933	832 947	9 253 913	9 224 107	14 052 127	1 062 445	1 762 471	-
<b>TOTAL ASSETS</b>	<b>1 533 557 035</b>	<b>1 256 009 158</b>	<b>1 269 002 159</b>	<b>1 523 664 402</b>	<b>545 677 115</b>	<b>526 327 143</b>	<b>13 580 431 487</b>	<b>12 050 233 462</b>	<b>2 510 957 821</b>	<b>242 895 387</b>	<b>222 861 484</b>	<b>-</b>
<b>LIABILITIES</b>												
Current liabilities	10 386 543	17 794 605	5 827 805	48 529	11 819 166	11 736 295	90 794 217	70 034 990	44 051 149	3 581 604	4 572 910	-
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	<b>1 523 170 492</b>	<b>1 238 214 553</b>	<b>1 263 174 354</b>	<b>1 523 615 873</b>	<b>533 857 949</b>	<b>514 590 848</b>	<b>13 489 637 270</b>	<b>11 980 198 472</b>	<b>2 466 906 672</b>	<b>239 313 783</b>	<b>218 288 574</b>	<b>-</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 1. DISTRIBUTION SCHEDULES

	NOTE	2016	2015
<b>Allan Gray Equity Fund</b>			
<b>30 June</b>			
Class A			
Cents per unit		114.5508	225.5493
Distribution paid - R		80 121 522	201 182 052
Class B			
Cents per unit		-	15.9598
Distribution paid - R		-	335 501
Class C			
Cents per unit		137.0173	250.5013
Distribution paid - R		45 243 542	75 892 172
Class X			
Cents per unit		450.7716	-
Distribution paid - R		13 192 644	-
<b>31 December</b>			
Class A			
Cents per unit		150.9719	-
Distribution paid - R		104 062 930	-
Class B			
Cents per unit		-	-
Distribution paid - R		-	-
Class C			
Cents per unit		184.8204	-
Distribution paid - R		60 937 266	-
Class X			
Cents per unit		496.0161	488.2767
Distribution paid - R		12 660 718	148 043
TOTAL DISTRIBUTION FOR THE YEAR		316 218 622	277 557 768
Shortfall of income funded by net assets attributed to unitholders (Income)/expense on creation and cancellation of units	3	(2 488 803) (8 006 461)	(124 963 973) 3 418 108
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		305 723 358	156 011 903
<b>Allan Gray-Orbis Global Equity Feeder Fund</b>			
<b>31 December</b>			
Class A			
Cents per unit		0.3806	0.2523
Distribution paid - R		1 143 181	783 381
TOTAL DISTRIBUTION FOR THE YEAR		1 143 181	783 381
(Income)/expense on creation and cancellation of units		15 204	84 932
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		1 158 385	868 313

ALLAN GRAY UNIT TRUSTS

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2016

	NOTE	2016	2015
<b>Allan Gray Balanced Fund</b>			
<b>30 June</b>			
Class A			
Cents per unit		98.5369	99.3770
Distribution paid - R		763 882 039	818 868 883
Class B			
Cents per unit		37.3690	43.8658
Distribution paid - R		5 347 455	10 358 804
Class C			
Cents per unit		106.9497	106.9666
Distribution paid - R		409 740 550	360 478 276
Class X			
Cents per unit		161.3881	-
Distribution paid - R		6 991 900	-
<b>31 December</b>			
Class A			
Cents per unit		107.9166	104.2709
Distribution paid - R		845 603 764	813 021 228
Class B			
Cents per unit		45.2876	46.7725
Distribution paid - R		5 390 651	7 650 765
Class C			
Cents per unit		116.5161	112.0891
Distribution paid - R		510 492 414	402 216 229
Class X			
Cents per unit		172.5725	146.1504
Distribution paid - R		11 619 045	3 250 135
TOTAL DISTRIBUTION FOR THE YEAR		2 559 067 818	2 446 474 904
(Income)/expense on creation and cancellation of units		(51 103 080)	30 630 584
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		2 507 964 738	2 477 105 488
<b>Allan Gray-Orbis Global Fund of Funds</b>			
<b>31 December</b>			
Class A			
Cents per unit		0.1949	0.2369
Distribution paid - R		697 918	890 722
TOTAL DISTRIBUTION FOR THE YEAR		697 918	890 722
(Income)/expense on creation and cancellation of units		17 882	95 895
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		715 800	986 617

ALLAN GRAY UNIT TRUSTS

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2016

	NOTE	2016	2015
<b>Allan Gray Stable Fund</b>			
<b>31 March</b>			
Class A			
Cents per unit		26.2262	20.4196
Distribution paid - R		209 873 492	180 355 306
Class B			
Cents per unit		15.8605	11.1918
Distribution paid - R		4 251 299	4 719 263
Class C			
Cents per unit		27.6520	21.6857
Distribution paid - R		84 344 552	60 245 985
Class X			
Cents per unit		36.9055	-
Distribution paid - R		125 243	-
<b>30 June</b>			
Class A			
Cents per unit		24.9945	20.3439
Distribution paid - R		204 669 540	172 831 608
Class B			
Cents per unit		14.4370	10.8808
Distribution paid - R		3 569 400	4 179 698
Class C			
Cents per unit		26.4508	21.6239
Distribution paid - R		89 622 939	59 896 101
Class X			
Cents per unit		35.8828	-
Distribution paid - R		123 117	-
<b>30 September</b>			
Class A			
Cents per unit		34.6935	24.2600
Distribution paid - R		285 250 566	195 906 657
Class B			
Cents per unit		24.0154	14.5954
Distribution paid - R		4 660 659	4 828 385

ALLAN GRAY UNIT TRUSTS

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2016

	NOTE	2016	2015
<b>Allan Gray Stable Fund</b>			
Class C			
Cents per unit		36.1602	25.5739
Distribution paid - R		135 712 466	73 324 191
Class X			
Cents per unit		45.3986	32.3123
Distribution paid - R		157 424	107 609
<b>31 December</b>			
Class A			
Cents per unit		24.4266	18.1246
Distribution paid - R		202 368 630	142 857 010
Class B			
Cents per unit		13.9266	8.1092
Distribution paid - R		2 612 370	2 306 243
Class C			
Cents per unit		25.8682	19.4853
Distribution paid - R		105 877 183	56 397 727
Class X			
Cents per unit		35.0408	27.9517
Distribution paid - R		236 848	94 056
TOTAL DISTRIBUTION FOR THE YEAR		1 333 455 728	958 049 839
(Income)/expense on creation and cancellation of units		(16 483 449)	18 450 217
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		1 316 972 279	976 500 056

**Allan Gray Optimal Fund**

<b>30 June</b>			
Class A			
Cents per unit		2.8394	9.1719
Distribution paid - R		1 374 656	4 548 039
Class B			
Cents per unit		-	-
Distribution paid - R		-	-
Class C			
Cents per unit		4.6697	10.6466
Distribution paid - R		440 344	741 994
<b>31 December</b>			
Class A			
Cents per unit		12.7035	25.8500
Distribution paid - R		6 791 645	13 390 545
Class B			
Cents per unit		-	6.0520
Distribution paid - R		-	38 224



ALLAN GRAY UNIT TRUSTS

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2016

	NOTE	2016	2015
<b>Allan Gray Optimal Fund</b>			
Class C			
Cents per unit		14.5972	27.6128
Distribution paid - R		1 954 042	2 425 547
<b>TOTAL DISTRIBUTION FOR THE YEAR</b>		<b>10 560 687</b>	<b>21 144 349</b>
Shortfall of income		(85 458)	-
(Income)/expense on creation and cancellation of units		(132 975)	(441 408)
<b>OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS</b>		<b>10 342 254</b>	<b>20 702 941</b>
<b>Allan Gray-Orbis Global Optimal Fund of Funds</b>			
<b>31 December</b>			
Class A			
Cents per unit		-	-
<b>TOTAL DISTRIBUTION FOR THE YEAR</b>		<b>-</b>	<b>-</b>
Shortfall of income funded by net assets attributed to unitholders	3	(227 038)	(82 950)
(Income)/expense on creation and cancellation of units		(10 742)	14 561
<b>OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS</b>		<b>(237 780)</b>	<b>(68 389)</b>
<b>Allan Gray Bond Fund</b>			
<b>31 March</b>			
Class A			
Cents per unit		22.3000	22.4315
Distribution paid - R		10 317 585	14 077 939
<b>30 June</b>			
Class A			
Cents per unit		22.4224	22.2723
Distribution paid - R		10 405 349	13 814 497
<b>30 September</b>			
Class A			
Cents per unit		23.1106	22.5558
Distribution paid - R		10 279 334	12 174 500
<b>31 December</b>			
Class A			
Cents per unit		22.9788	22.2728
Distribution paid - R		11 505 249	11 260 421
<b>TOTAL DISTRIBUTION FOR THE YEAR</b>		<b>42 507 517</b>	<b>51 327 357</b>
(Income)/expense on creation and cancellation of units		425 653	588 005
<b>OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS</b>		<b>42 933 170</b>	<b>51 915 362</b>

ALLAN GRAY UNIT TRUSTS

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2016

	NOTE	2016	2015
<b>Allan Gray SA Equity Fund</b>			
<b>30 June</b>			
Class A			
Cents per unit		-	206.2980
Distribution paid - R		-	200 429
Class C			
Cents per unit		-	220.4594
Distribution paid - R		-	199 357
Class X			
Cents per unit		532.5325	-
Distribution paid - R		6 732 834	-
<b>31 December</b>			
Class A			
Cents per unit		173.8058	359.8288
Distribution paid - R		260 346	354 366
Class C			
Cents per unit		209.8261	385.2338
Distribution paid - R		1 577 061	858 097
Class X			
Cents per unit		606.2906	553.7858
Distribution paid - R		36 085 906	2 253 248
TOTAL DISTRIBUTION FOR THE YEAR		44 656 147	3 865 497
Shortfall of income funded by net assets attributed to unitholders	3	(143 368)	
(Income)/expense on creation and cancellation of units		(10 267 901)	(95 499)
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		34 244 878	3 769 998

ALLAN GRAY UNIT TRUSTS

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2016

	NOTE	2016	2015
<b>Allan Gray Tax-Free Balanced Fund</b>			
<b>30 June</b>			
Class A			
Cents per unit		11.8510	-
Distribution paid - R		1 673 215	-
Class C			
Cents per unit		12.6227	-
Distribution paid - R		644 701	-
<b>31 December</b>			
Class A			
Cents per unit		12.8481	-
Distribution paid - R		1 894 563	-
Class C			
Cents per unit		13.7617	-
Distribution paid - R		835 938	-
TOTAL DISTRIBUTION FOR THE YEAR		5 048 417	-
(Income)/expense on creation and cancellation of units		(434 416)	-
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		4 614 001	-

**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.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

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### 2. PRIOR YEAR ADJUSTMENT

Prior year figures were restated to reclassify the income adjustments on creation and cancellation of units by the Fund during the year ended 31 December 2015, which were previously reported in the Statement of comprehensive income, as the directors consider this reclassification to the Statement of changes in net assets attributable to unitholders more appropriate.

These adjustments have no impact on distributions for the year ended 31 December 2015, or net asset value as at 31 December 2015.

The table on page 61 details comparative figures as restated to account for the income adjustments reclassified to the Statement of changes in net assets attributable to unitholders for the year ended 31 December 2015:

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2016

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2016

**PRIOR YEAR ADJUSTMENT SCHEDULE**

	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	SA EQUITY FUND	TAX-FREE BALANCED FUND
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**STATEMENTS OF COMPREHENSIVE INCOME**

Audited 31 December 2015: profit/(loss) before undistributable income items	152 593 795	783 381	2 415 844 320	890 722	958 049 839	21 144 349	(82 950)	51 327 357	639 009 782	3 865 497	-
Income adjustment reclassified	3 418 108	84 932	30 630 584	95 895	18 450 217	(441 408)	14 561	588 005	-	(95 499)	-
<b>RESTATED 31 DECEMBER 2015: OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS</b>	<b>156 011 903</b>	<b>868 313</b>	<b>2 446 474 904</b>	<b>986 617</b>	<b>976 500 056</b>	<b>20 702 941</b>	<b>(68 389)</b>	<b>51 915 362</b>	<b>639 009 782</b>	<b>3 769 998</b>	<b>-</b>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

For the year ended 31 December 2016

**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 the Funds' Trust Deed.

	2016 R	2015 R
Allan Gray Equity Fund B Class (June)	1 532 983	-
Allan Gray Equity Fund B Class (December)	955 820	5 497 674
Allan Gray Equity Fund A Class (December)	-	92 075 035
Allan Gray Equity Fund C Class (December)	-	27 391 264
Allan Gray SA Equity Fund A Class (June)	79 043	-
Allan Gray SA Equity Fund C Class (June)	64 325	-
Allan Gray-Orbis Global Optimal Fund of Funds (December)	227 038	82 950

## TRUSTEES' REPORT ON THE ALLAN GRAY UNIT TRUST SCHEME

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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 participatory interest holders on the administration of the Scheme during each annual accounting period.

We advise for the period 1 January 2016 to 31 December 2016 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 Portfolios, operated by the Scheme, in the year.

Yours faithfully



Nelia de Beer  
Head Trustee Services



Marian Rutters  
Manager Trustee Services

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

Johannesburg  
22 February 2017

# IMPORTANT NOTES FOR INVESTORS

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## Management Company

Allan Gray Unit Trust Management (RF) Proprietary Limited (the Management Company) is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board (FSB). The Management Company is incorporated under the laws of South Africa and has been approved by the regulatory authority of Botswana to market its unit trusts in Botswana, however it is not supervised or licensed in Botswana. Allan Gray Proprietary Limited (the Investment Manager), an authorised financial services provider, is the appointed Investment Manager of the Management Company and is a member of the Association for Savings & Investment South Africa (ASISA). The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or [www.rmb.co.za](http://www.rmb.co.za)

## Performance

Collective Investment Schemes in Securities (unit trusts or funds) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may also cause the value of underlying international investments to go up or down. The Management Company does not provide any guarantee regarding the capital or the performance of the fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

## Fund mandate

The funds may be closed to new investments at any time in order to be managed according to their mandate. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

## Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the fund including any income accruals and less any permissible deductions from the Fund divided by the number of units in issue. Forward pricing is used and fund valuations take place at approximately 16:00 each business day. Purchase and redemption requests must be received by the Management Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on [www.allangray.co.za](http://www.allangray.co.za)

## Fees

Permissible deductions may include management fees, brokerage, Securities Transfer Tax (STT), auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray.

## Total expense ratios and Transaction costs

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the fund's actual expenses over the past three years. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), VAT and other expenses like audit and trustee fees. Transaction costs (including brokerage, STT, STRATE and FSB Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost in administering the funds and impact returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and transaction costs should not be deducted again from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the fund should be aligned with the investor's objective and compared against the performance of the fund. The TER and other funds' TERs should then be used to



## IMPORTANT NOTES FOR INVESTORS

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evaluate whether the Fund performance offers value for money. The sum of the TER and Transaction costs is shown as the total investment charge.

### The Allan Gray Money Market Fund is not a bank deposit account

The Fund aims to maintain a constant price of 100 cents per unit. The total return an investor receives is made up of interest received and any gain or loss made on instruments held by the Fund. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument defaults. In this event investors may lose some of their capital. To maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. The yield is calculated according to ASISA standards. Excessive withdrawals from the Fund may place it under liquidity pressure; if this happens withdrawals may be ring-fenced and managed over a period of time. Purchase and redemption requests must be received by the Management Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on [www.allangray.co.za](http://www.allangray.co.za)

### FTSE/JSE All Share Index

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

### FTSE World Index

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### Feeder fund

A feeder fund is a unit trust that invests in another single unit trust which charges its own fees. Allan Gray does not charge any additional fees in its feeder funds.

### Fund of funds

A fund of funds is a unit trust that invests in other unit trusts, which charge their own fees. Allan Gray does not charge any additional fees in its funds of funds.

### Foreign exposure

The Allan Gray Equity, Balanced, Stable, Tax-Free Balanced and rand-denominated funds may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

### Yield

The Allan Gray Bond Fund yield is current, calculated as at month-end.

### Compliance with Regulation 28

The Allan Gray Balanced, Stable, Money Market, Tax-Free Balanced and Bond Fund are managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits 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. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

### 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).

Copies of the audited annual financial statements of the Manager and of the unit trusts it manages are available, free of charge, on request by any investor.

## 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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[www.allangray.co.za](http://www.allangray.co.za)

## DIRECTORS

### Executive Directors

R J Formby BSc (Eng) MBA  
J C Marais BSc MBA

### Non-executive Directors

V A Christian BCom CA (SA) (Independent)  
R W Dower BSc (Eng) MBA  
E D Loxton BCom (Hons) MBA (Chairman)  
J W T Mort BA LLB (Independent)

## COMPANY SECRETARY

C E Solomon BBus (Hons) CA (SA)

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

T J W Molloy BCom (Hons) CA (SA)

## INVESTMENT MANAGER

Allan Gray Proprietary Limited

## TRUSTEE

Rand Merchant Bank, a division of FirstRand Bank Limited  
P O Box 786273 Sandton 2146  
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.