2018

ABRIDGED ANNUAL REPORT

UNIT TRUSTS

Allan Gray

Contents

Edgar Loxton

The Allan Gray Equity Fund celebrates 20 years

The Allan Gray Equity Fund, the first unit trust that we launched to retail investors, celebrated its 20th anniversary in October. It's hard to believe that the Fund was one of only 186 unit trusts available in South Africa at the time; there are more than 1200 today. The industry and the environment have changed, but we continue to use the same investment philosophy, which has been tried and tested through different market cycles and helped us achieve our long-term track record.

A long-term track record is hollow if clients don't remain invested to enjoy the long-term outcome. As such, we aim to communicate our approach in a clear and straightforward way so that you, our clients, can share the underlying conviction that we have in our approach, team and firm. This can be tested during times when performance disappoints – such as over the past 12 months. We thank you for your continued support and we do not take it lightly.

While periods of underperformance are a necessary part of the investment cycle, they are not easy to endure. However, we encourage you to sit tight. Disinvesting when markets are down is the worst possible course of action – you land up locking in losses and miss the chance of enjoying potential future returns.

Is it time to turn to cash?

With cash outperforming equities over the last 12 months, many investors have been asking if they should switch out of their equity investments into money markets. While this seems an appealing idea while equity markets are faltering, over the long term equities have outperformed cash. Therefore, if you have a long time horizon, cash is unlikely to consistently deliver the returns you need, not forgetting the tax consequences of cash returns.

We also caution against trying to time the best time to enter or exit a market. While there are some lucky investors who manage to do this successfully, they are few and far between. It is more common to lose money when you make snap investment decisions based on how you feel during a period of underperformance. Those same investors who want out when the market falls often feel the lure of equities when they are performing well again. As a result they land up selling out at low points and buying at high points, effectively locking in their losses and destroying value.

Remember, the best time to switch between unit trusts is when your needs or objectives change. If your needs haven't changed, and you made a well-researched decision to begin with, act with care and be sure to consult with your independent financial adviser, if you use one. Likewise, it is important for us as your investment manager to apply our investment philosophy and process consistently, to invest with conviction and to focus on the long term.

Changes to offshore limits in our local units trusts

National Treasury surprised us by announcing in the 2018 Budget that the limits on foreign assets held on behalf of individual investors by management companies of unit trusts would be increased by five percentage points to a total of 40% offshore (plus 10% in Africa ex-SA). This was a significant relaxation of exchange controls and great news for savers. The portfolio managers of your unit trusts have taken full advantage of the opportunity to build more diversification into your portfolios by investing more with our offshore partner Orbis. This should help you get some additional offshore exposure in the face of our Allan Gray-Orbis rand-based offshore unit trusts remaining closed to new investment.

You may be wondering why the Allan-Gray Orbis unit trusts remain closed despite the increased limits. Available foreign capacity is affected dramatically by offshore assets out or underperforming local assets in rand terms, by the strength of the local currency and by demand. When local optimism wanes and the rand weakens, the demand for offshore capacity tends to increase – sometimes very rapidly. We need to constantly monitor our levels to make sure we comply with the restrictions. As a result, we cannot reopen the funds until we are sure we have enough of a buffer to fulfil the demand and remain compliant.

Changes at Allan Gray

There have been a few leadership changes at Allan Gray over the past 12 months. Former Chief Operating Officer, Rob Dower, is pursuing new projects in the business and has been succeeded by Rob Formby. Rob Formby joined Allan Gray in 2009 as Director of Retail Operations and understands the operations and culture of the business well. Jeanette Marais, who was Director of Retail Distribution and Client Services, resigned to take up an opportunity outside of Allan Gray. These moves created the space to appoint new directors to the board of Allan Gray Unit Trust Management (RF) Proprietary Limited: Earl van Zyl, who heads up the retail Product Development team and has been in the business since 2015, and Tamryn Lamb, who has taken over Jeanette's distribution role, having been with Allan Gray since 2012 and Orbis for the six years prior. This experienced team is well-equipped to look after your investments.

In addition, we said goodbye to Simon Raubenheimer, who decided to leave Allan Gray to pursue personal interests. Simon joined Allan Gray in February 2002 and managed a portion of client equity and balanced portfolios from July 2008. An important strength of our investment process is that it provides for multiple portfolio managers to each manage a slice of our clients' portfolios for which they are individually accountable. Not only does this allow for a diversity of views to be expressed, it also facilitates succession. When a portfolio manager moves on, their 'slice' is re-allocated among the remaining portfolio managers. Re-allocations have occurred at regular intervals throughout our history and our portfolio manager system is well-suited to adapt to these changes.

Update on unit holders

Assets under management as at 31 December 2018 were R290.1bn. This is an increase from the R287.5bn we reported at the end of 2017. There were net inflows of R8.5bn in 2018. Gross client outflows divided by the average value of assets in our unit trusts in 2018 were at 12%. This means that, on average, clients are staying with Allan Gray for eight years. Our individual fund churn rate, which includes switches between unit trusts*, has come in at 15% for the year, reflecting a weighted average fund holding period for investors of seven years. This suggests that clients are taking note of our message to remain focused on the long term to enjoy the benefits of our philosophy and approach to investing. This is especially important during down markets when performance is disappointing. Thank you for your support – it is much appreciated.

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

Andrew Lapping

2018 was not a good year for investors with price declines in many asset classes. The FTSE/JSE All Share Index (ALSI) fell 9% in 2018, or 21% when measured in US dollars, underperforming the MSCI World Index, which was down 8.7%. An annual single-digit price decline for the ALSI is not unusual and the 15% drawdown from the January 2018 peak is minor compared to the 40% drawdown in 2008 and the 32% drawdown in 2003. What concerns some investors is that the five-year annual return for the South African stock market is only 5.8% compared to the inflation rate of 5.4% over the same period. That said, the 10-year equity real returns are over 5%.

Over long periods of time, investing in real assets – equities and property as opposed to cash – has proven to be a superior method of protecting your savings. In many countries equities have outperformed inflation, but not overwhelmingly so. Consider the UK, where the FTSE 100 returned 4.2% over the past 20 years compared to inflation of 2%: this is 2.2% real before any costs or tax drag. South African investors have been far more fortunate with the ALSI beating inflation by a quite incredible 10% over the same period. The UK is not unique – in many countries equity markets have only ground out marginal real returns. The real return for the MSCI World Index over the past two decades was 2.1%.

How to be a successful investor in the current environment

For me there are a few takeaways from what many may consider the mediocre returns from global stock markets:

- The first is that every bit counts. It is crucial to think about each investment with care and look to extract the maximum value from every decision. Even a few small mistakes can shift your returns from a positive to a negative real return.
- The second is to take a conservative approach to your investment planning. Plan your saving and spending on modest return assumptions, that way if asset returns are not great you are well prepared.
- Thirdly, stay invested and stick with your strategy. Our client data indicates that most investors are not very good at timing switches between our high and low equity unit trusts. Rather pick a unit trust that suits your tolerance for volatility, and a manager whose philosophy and process makes sense to you, and stick with it, as Edgar Loxton discusses in his chairman's comments on page 1.

Performance

Across our funds, the local and global equities detracted from performance, while the fixed interest investments contributed. Our best-performing domestic fund over the past one and five years is the Allan Gray Bond Fund. Unfortunately the Orbis investments underperformed, which detracted from the performance of our asset allocation funds and meant the funds did not benefit from their offshore exposure – despite the rand weakening 16% against the dollar. It is not unusual for a contrarian manager, whose funds look very different to the benchmark, to underperform. The Orbis Global Equity Fund has underperformed by more than 10% on nine occasions over the past 28 years, including two periods when it underperformed by more than 18%. On each occasion the underperformance was recovered and the Fund went on to outperform. Orbis has applied the same philosophy successfully since 1990, across multiple generations of stockpickers, and we see no reason that this time would be different.

The most significant detractors from our performance were British American Tobacco (BAT), Naspers, Reinet, Glencore and Investec. In all these cases, bar one, we do not think the underlying value has changed materially over the period. In every case we still own the companies and in certain cases we are increasing our holdings. In the case of BAT, the largest detractor by some margin, our assessment of the value has declined as the risks facing the company have increased materially. The US regulator is taking a more aggressive stance on nicotine use and the level of competition from e-cigarettes has increased sharply. That said the 46% fall in the share price is much greater than the decline in our estimate of fair value.

Please refer to the individual fund pages for more detailed information on each fund.

Outlook

Many commentators are discussing the risks facing the global economy. For sure there are many risks. The most acute risk global investors are facing is probably the level of debt in the system, whether corporate or sovereign, while the most important global issue for South African investors is perhaps the Chinese investment bubble. As with many things, these risks are not new, it is just the emphasis investors choose to place on them. Investors face their greatest risk when there are no risks apparent and assets are priced for perfection; conversely the time of least risk is when investors are extremely nervous about the future and assets are priced accordingly.

We are not in a world where assets are priced for extreme risk and are deeply undervalued, as was the case in the early 2000s and early 2009. However, in our view there appears to be decent value in South African stocks – and for sure better value than five years ago. We are consistent buyers of equity at these valuations, as demonstrated by the steadily increasing share exposure in our asset allocation funds. As we find more opportunities, we sell cash with its expected return of 7.5% and invest the proceeds in assets with greater return potential. We think the companies we are investing in should generate returns well in excess of 10% over the next four years – an attractive proposition compared to an expected inflation rate of 6%.

Thank you for trusting us with your savings

The future is extremely uncertain and we strive to construct a portfolio that consists of undervalued assets, but also has the potential to outperform and protect your savings in many different scenarios.

PORTFOLIO MANAGERS

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 Stable Fund, the Allan Gray Africa ex-SA Bond Fund and the portfolio manager of the Allan Gray Bond Fund.

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.

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.

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.

Fund	Fund objective (specific benchmarks are shown on the fund data pages that follow)	Local/Offshore	Fund description	Suitable for investors who:	Category
100% HIGH NET EQUITY EXPOSURE					
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 30% of the Fund, with an additional 10% 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.	▪ Seek exposure to listed equities to provide long-term capital growth ▪ Are comfortable with stock market fluctuation, i.e. short- to medium-term volatility ▪ Are prepared to accept the risk of capital loss ▪ Typically have an investment horizon of more than five years ▪ Wish to use the Fund as an equity 'building block' in a diversified multi-asset class portfolio	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 of loss. 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.	▪ Seek exposure to JSE-listed equities to provide long-term capital growth ▪ Are comfortable with stock market fluctuation, i.e. short- to medium- term volatility ▪ Are prepared to accept the risk of capital loss ▪ Typically have an investment horizon of more than five years ▪ Wish to use the Fund as an equity 'building block' in a diversified multi asset class portfolio	South African - Equity - General
Allan Gray-Orbis Global Equity Feeder Fund	The Fund aims to outperform global stock markets over the long term, without taking on greater risk.	Offshore	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's investment universe is global, the units in the Fund are priced and traded daily in rands.	▪ Seek exposure to diversified international equities to provide long-term capital growth ▪ Wish to invest in international assets without having to personally expatriate rands ▪ Are comfortable with global stock market and currency fluctuation and risk of capital loss ▪ Typically have an investment horizon of more than five years ▪ Wish to use the Fund as a fully invested global equity 'building block' in a diversified multi-asset class portfolio	Global - Equity - General

Fund	Fund objective (specific benchmarks are shown on the fund data pages that follow)	Local/Offshore	Fund description	Suitable for investors who:	Category
40% – 75% MEDIUM NET EQUITY EXPOSURE					
Allan Gray Balanced Fund	The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk.	Local	The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy foreign assets up to a maximum of 30% of the Fund (with an additional 10% 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.	▪ Seek steady long-term capital growth ▪ Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund ▪ Wish to invest in a unit trust that complies with retirement fund investment limits ▪ Typically have an investment horizon of more than three years	South African - Multi Asset - High Equity
Allan Gray-Orbis Global Fund of Funds	The Fund aims to create long-term wealth for investors without exceeding a maximum net equity exposure limit of 75%. It aims to outperform the average return of funds subject to similar constraints without taking on more than their average risk.	Offshore	The Fund invests in a mix of equity, absolute return and multi-asset class funds managed by our 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's investment universe is global, the units in the Fund are priced and traded daily in rands.	▪ Seek long-term capital growth from a diversified international equity portfolio without being fully exposed to stock market risk ▪ Wish to invest in international assets without having to personally expatriate rands ▪ 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 ▪ Typically have an investment horizon of more than five years ▪ Wish to use the Fund as a foreign medium equity 'building block' in a diversified multi-asset class portfolio	Global - Multi Asset - High Equity
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. This Fund was created specifically for tax-free investment accounts and can only be accessed through these products.	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 30% of the Fund (with an additional 10% 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.	▪ Seek steady long-term capital growth ▪ Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund ▪ Wish to invest in a tax-free investment account ▪ Typically have an investment horizon of at least three years	South African - Multi Asset - High Equity
0% – 40% LOW NET EQUITY EXPOSURE					
Allan Gray Stable Fund	The Fund aims to provide a high degree of capital stability and to minimise the risk of loss over any two-year period, while producing long-term returns that are superior to bank deposits.	Local	The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy foreign assets up to a maximum of 30% of the Fund (with an additional 10% 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.	▪ Are risk-averse and require a high degree of capital stability ▪ Seek both above-inflation returns over the long term, and capital preservation over any two-year period ▪ Require some income but also some capital growth ▪ Wish to invest in a unit trust that complies with retirement fund investment limits	South African - Multi Asset - Low Equity

Fund	Fund objective (specific benchmarks are shown on the fund data pages that follow)	Local/Offshore	Fund description	Suitable for investors who:	Category
0% – 20% VERY LOW NET EQUITY EXPOSURE					
Allan Gray Optimal Fund	The Fund aims to provide investors with long-term positive returns higher than those available in the money market sector, irrespective of stock market returns.	Local	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.	▪ Seek steady absolute (i.e. positive) returns regardless of stock market trends ▪ Require a high degree of capital stability ▪ Wish to invest in a product that offers uncorrelated returns relative to shares or bonds as a 'building block' in a diversified multi-asset class portfolio	South African - Multi Asset - Low Equity
Allan Gray-Orbis Global Optimal Fund of Funds	The Fund aims to provide a high degree of capital stability (when measured in the foreign currency denominations of the underlying Orbis Funds), while producing long-term returns that are superior to foreign currency bank deposits.	Offshore	The Fund invests in a mix of absolute return funds managed by our 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's investment universe is global, 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.	▪ Seek steady absolute returns ahead of those of cash measured in global currencies ▪ Wish to invest in international assets without having to personally expatriate rands ▪ Are comfortable with taking on the risk of currency fluctuation, but prefer little exposure to stock market risk ▪ Wish to use the Fund as a foreign absolute return 'building block' in a diversified multi-asset class portfolio	Global - Multi Asset - Low Equity
NO EQUITY EXPOSURE					
Allan Gray Bond Fund	The Fund aims to provide investors with a real return over the long-term and outperform the JSE All Bond Index at no greater risk.	Local	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.	▪ Seek a bond 'building block' for a diversified multi-asset class portfolio ▪ Are looking for returns in excess of those provided by money market or cash investments ▪ Are prepared to accept more risk of capital depreciation than in a money market or cash investment	South African - Interest Bearing - Variable Term
Allan Gray Money Market Fund	The Fund aims to preserve capital, maintain liquidity and generate a sound level of income.	Local	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. 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.	▪ Require monthly income distributions ▪ Are highly risk-averse but seek returns higher than bank deposits ▪ Need a short-term investment account	South African - Interest Bearing - Money Market

PERFORMANCE SUMMARY

Annualised performance to 31 December 2018 over 10, 5 and 3 years.
Fund performance is shown net of all management fees and expenses.

Fund	10 Years	5 Years	3 Years
Allan Gray Equity Fund[1]	11.9%	6.6%	4.5%
Benchmark[2]	11.5%	3.7%	1.9%
Allan Gray SA Equity Fund[1]			4.7%
Benchmark[3]			4.3%
Allan Gray-Orbis Global Equity Feeder Fund	14.4%	8.7%	3.6%
Benchmark[4]	15.0%	11.7%	4.2%
Allan Gray Balanced Fund[1]	10.7%	7.0%	4.6%
Benchmark[5]	9.6%	4.9%	2.3%
Allan Gray-Orbis Global Fund of Funds	10.1%	7.8%	2.2%
Benchmark[6]	11.6%	10.3%	2.6%
Allan Gray Stable Fund[1]	8.4%	7.8%	6.2%
Benchmark[7]	7.5%	7.7%	8.1%
Allan Gray Optimal Fund[1]	6.5%	8.1%	7.1%
Benchmark[8]	5.4%	5.5%	6.0%
Allan Gray-Orbis Global Optimal Fund of Funds		5.0%	-1.5%
Benchmark[9]		4.9%	-1.5%
Allan Gray Bond Fund	8.8%	8.7%	11.9%
Benchmark[10]	7.7%	7.7%	11.1%
Allan Gray Money Market Fund	6.9%	7.2%	7.8%
Benchmark[11]	6.7%	6.9%	7.4%
CPI inflation[12]	5.2%	5.4%	5.5%

The Funds returns shown above are all class A. All benchmark performance is calculated by Allan Gray as at 31 December 2018.
The Allan Gray Tax-Free Balanced Fund has not been included as the Fund was launched less than three years ago.

1. Different classes of units apply to the Equity, SA 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 the Allan Gray funds). From inception to 28 February 2015 the benchmark was the FTSE/JSE All Share index including income (source: IRESS).
3. FTSE/JSE All Share Index including income (source: IRESS).
4. FTSE World Index including income (source: Bloomberg).
5. 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).
6. 60% of the FTSE World Index including income and 40% of the JP Morgan Global Government Bond Index (source: Bloomberg).
7. The daily interest rate as supplied by FirstRand Bank Limited plus 2%.
8. The daily interest rate as supplied by FirstRand Bank Limited.
9. The simple average of the benchmarks of the underlying funds.
10. JSE All Bond Index (source: IRESS).
11. 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.
12. This is based on the latest numbers published by IRESS as at 30 November 2018.

ALLAN GRAY EQUITY FUND

Inception date: 1 October 1998

Portfolio managers

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

Fund objective and benchmark

The Fund invests primarily in shares listed on the Johannesburg Stock Exchange (JSE). The Fund may buy foreign assets up to a maximum of 30% of the Fund, with an additional 10% 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.

Commentary

"In the short run, the market is a voting machine but in the long run it is a weighing machine."
- Benjamin Graham

2018 was a disappointing year for South African equity investors, with the FTSE/JSE All Share Index returning -9%. The good news is that based on our research the companies we hold in the Fund should generate healthy returns going forward under most scenarios. British American Tobacco (BAT) is a share that detracted significantly from returns during the year and therefore I thought it a good one to discuss.

BAT, in my opinion, is a good example of a company where the market's 'voting machine' (valuing companies like a popularity contest) and 'weighing machine' (valuing companies on their actual worth) are in conflict. The voting machine part of the stock market is arguably trying to anticipate investors' reactions to the next regulatory announcement from the US Food and Drug Administration (which wants to ban menthol cigarettes). What the voting machine ignores is the company's long track record of compounding earnings for investors through various regulatory changes, as well as evidence that BAT's investments into next-generation products are starting to bear fruit. BAT has grown its earnings by 12% p.a. since 2001, while paying out 63% of earnings in dividends and investing heavily to develop and distribute next-generation products that significantly reduce the health impact of smoking. A recent update from the company shows it is gaining traction in rolling out these products: BAT's vaping volumes in the USA, the largest vaping market globally, grew about 40% in the second half of 2018.

Three scenarios could play out for BAT. Assuming BAT's portfolio of next-generation products helps it to sustain its 17-year track record, an investor today would earn 20% p.a. (growth of 12% p.a. + dividend yield of 7.8%). One could argue that sentiment towards tobacco shares will remain subdued, but there is a scenario where the weighing machine takes over at some stage over the next four years. This would cause the share to price in its track record, resulting in a higher return (assuming a re-rating to a 5% dividend yield results in 32% p.a.). Under a bad scenario (the FDA succeeds in banning menthol and BAT doesn't retain any menthol-smoking customers) regulatory intervention dampens growth. Under such a scenario the company may only grow earnings by inflation over the next four years. At the current price this still results in a good outcome with a total return of 14% p.a. (6% growth + 7.8% dividend yield). The weight one should place on the 14%, 20% or 32% p.a. scenarios is ultimately subjective, but these scenarios illustrate the impact of the 'voting machine' on BAT's current share price and the opportunity that this offers to long-term investors.

BAT, or any of the shares we own, could experience unforeseen events outside the scenarios considered. However, at a portfolio level I think now is a good time to be an Equity Fund investor.

Commentary contributed by Ruan Stander

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 October 1998)	5088.7	1592.1	193.8
Annualised:			
Since inception (1 October 1998)	21.5	15.0	5.5
Latest 10 years	11.9	11.5	5.2
Latest 5 years	6.6	3.7	5.4
Latest 3 years	4.5	1.9	5.5
Latest 2 years	2.4	0.9	4.9
Latest 1 year	-8.0	-9.8	5.2
Risk measures (since inception)			
Maximum drawdown[3]	-31.3	-45.4	n/a
Percentage positive months[4]	65.4	58.8	n/a
Annualised monthly volatility[5]	15.3	16.7	n/a
Highest annual return[6]	125.8	73.0	n/a
Lowest annual return[6]	-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: IRESS, performance as calculated by Allan Gray as at 31 December 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
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 2018[7]

Sector	% of Fund	% of ALSI[8]
Oil and gas	2.2	0.1
Basic materials	17.6	25.4
Industrials	12.3	4.4
Consumer goods	9.5	10.9
Healthcare	7.1	2.3
Consumer services	14.1	26.8
Telecommunications	1.1	3.9
Utilities	0.6	0.0
Financials	25.9	26.0
Technology	5.0	0.2
Commodity-linked	0.4	0.0
Other	0.9	0.0
Money market and bank deposits	3.0	0.0
Total (%)	**100.0**	**100.0**

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

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 2018	31 Dec 2018
Cents per unit	**0.0000**	**328.6621**

Foreign exposure on 31 December 2018[7]

30.3% of the Fund is invested in foreign investments.

Up to 30% of the Fund's value can be invested outside of Africa and 10% in Africa outside of South Africa.

ALLAN GRAY SA EQUITY FUND

Inception date: 13 March 2015

Portfolio managers

Andrew Lapping, Duncan Artus, Jacques Plaut, 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

"In the short run, the market is a voting machine but in the long run it is a weighing machine."
- Benjamin Graham

2018 was a disappointing year for South African equity investors, with the FTSE/JSE All Share Index returning -9%. The good news is that based on our research the companies we hold in the Fund should generate healthy returns going forward under most scenarios. British American Tobacco (BAT) is a share that detracted significantly from returns during the year and therefore I thought it a good one to discuss.

BAT, in my opinion, is a good example of a company where the market's 'voting machine' (valuing companies like a popularity contest) and 'weighing machine' (valuing companies on their actual worth) are in conflict. The voting machine part of the stock market is arguably trying to anticipate investors' reactions to the next regulatory announcement from the US Food and Drug Administration (which wants to ban menthol cigarettes). What the voting machine ignores is the company's long track record of compounding earnings for investors through various regulatory changes, as well as evidence that BAT's investments into next-generation products are starting to bear fruit. BAT has grown its earnings by 12% p.a. since 2001, while paying out 63% of earnings in dividends and investing heavily to develop and distribute next-generation products that significantly reduce the health impact of smoking. A recent update from the company shows it is gaining traction in rolling out these products: BAT's vaping volumes in the USA, the largest vaping market globally, grew about 40% in the second half of 2018.

Three scenarios could play out for BAT. Assuming BAT's portfolio of next-generation products helps it to sustain its 17-year track record, an investor today would earn 20% p.a. (growth of 12% p.a. + dividend yield of 7.8%). One could argue that sentiment towards tobacco shares will remain subdued, but there is a scenario where the weighing machine takes over at some stage over the next four years. This would cause the share to price in its track record, resulting in a higher return (assuming a re-rating to a 5% dividend yield results in 32% p.a.). Under a bad scenario (the FDA succeeds in banning menthol and BAT doesn't retain any menthol-smoking customers) regulatory intervention dampens growth. Under such a scenario the company may only grow earnings by inflation over the next four years. At the current price this still results in a good outcome with a total return of 14% p.a. (6% growth + 7.8% dividend yield). The weight one should place on the 14%, 20% or 32% p.a. scenarios is ultimately subjective, but these scenarios illustrate the impact of the 'voting machine' on BAT's current share price and the opportunity that this offers to long-term investors.

BAT, or any of the shares we own, could experience unforeseen events outside the scenarios considered. However, at a portfolio level I think now is a good time to be an Equity Fund investor.

Commentary contributed by Ruan Stander

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (13 March 2015)	15.1	13.3	22.6
Annualised:			
Since inception (13 March 2015)	3.8	3.3	5.6
Latest 3 years	4.7	4.3	5.5
Latest 2 years	2.2	5.2	4.9
Latest 1 year	-8.9	-8.5	5.2
Risk measures (since inception)			
Maximum drawdown[3]	-14.6	-15.8	n/a
Percentage positive months[4]	52.2	52.2	n/a
Annualised monthly volatility[5]	10.5	11.7	n/a
Highest annual return[6]	17.2	22.5	n/a
Lowest annual return[6]	-9.0	-12.6	n/a

1. FTSE/JSE All Share Index including income (source: IRESS), performance as calculated by Allan Gray as at 31 December 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
3. Maximum percentage decline over any period. The maximum drawdown for the Fund occurred from 25 January 2018 to 27 December 2018 and maximum benchmark drawdown occurred from 25 January 2018 to 10 December 2018. 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 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 30 November 2017. The Fund's lowest annual return occurred during the 12 months ended 30 November 2018 and the benchmark's occurred during the 12 months ended 30 November 2018. 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 2018

Sector	% of Fund	% of ALSI[7]
Oil and gas	0.0	0.1
Basic materials	22.3	25.4
Industrials	11.5	4.4
Consumer goods	8.5	10.9
Healthcare	6.6	2.3
Consumer services	15.0	26.8
Telecommunications	0.6	3.9
Financials	31.2	26.0
Technology	0.0	0.2
Commodity-linked	0.5	0.0
Other	0.7	0.0
Money market and bank deposits	3.2	0.0
Total (%)	**100.0**	**100.0**

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 2018	31 Dec 2018
Cents per unit	**370.2354**	**359.4384**

ALLAN GRAY-ORBIS GLOBAL EQUITY FEEDER FUND

Inception date: 1 April 2005

Portfolio managers

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

Fund objective and benchmark

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's investment universe is global, the units in the Fund are priced and traded daily in rands.

Commentary

The last year was brutal. It offered more than its share of pain and was deeply disappointing. The Orbis Global Equity Fund lost about 20% of its value in 2018 – more than twice that of the broader decline in global equities. About 60% of our stock selections underperformed, consistent with similar bouts in the past. Emotionally, however, it felt more like 100%. Our craft is to acknowledge and set aside those emotions to capitalise on the advantage this emotional control offers. It's the actions we take now and in these situations that will compound to make the greatest difference.

Successful long-term investing is not about avoiding these uncomfortable times, but rather about having the courage to embrace the rewards that they can offer. Nothing illustrates this better than our recent experience with XPO Logistics. When we last wrote about the company in the first quarter of 2018, it was the Fund's largest position and trading at about US$100 per share. The company, one of the largest transportation and logistics companies in the world, had a productive start to the year and was the top contributor to the Fund's performance for the nine months ended 30 September. As recently as October, XPO shares traded at nearly US$115 before hitting an intra-day low of US$41 in mid-December. Much of this seemed to be fuelled by a combination of concerns about the global economy as well as a sharp rise in risk aversion.

The most visible part of the rout was a sensational 70-page 'sell' report from a short seller on 13 December. The previous day, the more substantive development was XPO's reduction of its 2019 guidance for operating cash flow (or EBITDA) from 15% to 18% year-over-year growth to a lower 12% to 15% range, given softness they cited in Europe. What followed over the next several days was a period of intense primary research, thesis interrogation and reflection.

XPO's stock has demonstrated huge price volatility at times and has not been a stock for the faint of heart. But what really matters to us is intrinsic value. Is the company worth massively less than our own internal estimates and 50% of what it was a few months ago? In our view, the answer is 'no'. None of the principal claims in the short seller's report hold up relative to our primary research, and we calculate little impairment to XPO's intrinsic value.

To use a technical term, we believe the opportunity to own XPO at current prices is 'juicy'. In XPO, we pay about a 40% discount to the S&P 500, yet we get what we regard as a world-class business that plays in a large, growing addressable market; owns scarce supply chain assets; earns high incremental returns on capital and is a prime beneficiary of the secular boom in e-commerce. We expect XPO to organically grow its free cash flow at a mid-teens rate annually over our investment horizon, with acquisitions as an incremental kicker.

We have taken advantage of the recent sell-off to begin rebuilding the Fund's position and have now bought back nearly the entire amount that we trimmed earlier in the year. And XPO, for its part, has also used the opportunity to authorise a US$1 billion buy-back of its own shares – equivalent to 15% of shares outstanding.

While we believe the hurt experienced in XPO will prove rewarding in time, in other cases the sell-offs have just plain hurt. Another key detractor in 2018 was Pacific Gas & Electric (PG&E), which collapsed by more than 50% in early November as the worst wildfires in the history of California raged. We built our PG&E position to a bit over 2% of the Fund after state legislation was passed this summer that authorised a process to fund wildfire claims from 2017 as well as future claims. The legislation had a quirky loophole and did not address claims that might occur in 2018. We recognised this as a risk at the time, albeit a low probability one. Sadly, that risk was realised and it appears the fires could result in liabilities of more than US$10 billion. At this point, the prospect of bankruptcy is real. It was our judgement that the odds of further downside was meaningful relative to the potential upside, so we exited the position in November.

What's striking in each of these examples is how swiftly and almost irrationally the shares were punished. The insatiable appetite for perceived 'safety' has been quite punitive for the types of shares that we currently own, but we believe these market conditions represent opportunity for those who can take a more patient view.

The same can be said of investing with Orbis. Some of our most rewarding decisions have come at trying times for our clients. Our Global Equity Strategy has lagged the MSCI World Index by more than 10% multiple times in its nearly 30-year history. But here is the silver lining – all prior drawdowns proved rewarding for those who could endure the discomfort and look to the horizon.

Today we find ourselves at another painful juncture. Stepping back and looking at the portfolio, a number of companies are trading at fat discounts to our intrinsic value estimates – and some of these discounts look extreme. While we would not count on a quick rebound, we can say that a large portion of what we own is squarely in the 'juicy' bucket and in those cases, we have either already added capital or are eagerly waiting to add more.

Adapted from an Orbis commentary by Adam Karr

For the full commentary please see www.orbis.com

Performance net of all fees and expenses

% Returns	Fund		Benchmark[1]		CPI inflation[2]	
Cumulative:	**ZAR**	**US$**	**ZAR**	**US$**	**ZAR**	**US$**
Since inception (1 April 2005)	486.5	153.8	444.8	135.7	117.5	31.0
Annualised:						
Since inception (1 April 2005)	13.7	7.0	13.1	6.4	5.8	2.0
Latest 10 years	14.4	9.6	15.0	10.2	5.2	1.7
Latest 5 years	8.7	2.1	11.7	4.9	5.4	1.6
Latest 3 years	3.6	6.5	4.2	7.1	5.5	2.0
Latest 2 years	3.1	0.6	9.1	6.4	4.9	2.2
Latest 1 year	-8.2	-21.5	6.6	-8.8	5.2	2.2
Risk measures (since inception)						
Maximum drawdown[3]	-34.1	-52.8	-38.0	-57.6	n/a	n/a
Percentage positive months[4]	64.4	58.8	61.8	63.0	n/a	n/a
Annualised monthly volatility[5]	15.4	16.7	14.0	15.2	n/a	n/a
Highest annual return[6]	78.2	63.0	54.2	58.4	n/a	n/a
Lowest annual return[6]	-29.7	-44.8	-32.7	-47.3	n/a	n/a

1. FTSE World Index including income (source: Bloomberg), performance as calculated by Allan Gray as at 31 December 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
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.

Asset allocation on 31 December 2018

This fund invests solely into the Orbis Global Equity Fund

	Total	North America	Europe	Japan	Asia ex-Japan	Other
Net equity	99.2	39.0	12.5	13.9	23.1	10.6
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	0.8	0.0	0.0	0.0	0.0	0.8
Total	**100.0**	**39.0**	**12.5**	**13.9**	**23.1**	**11.5**
Currency exposure of the Orbis Global Equity Fund						
Fund	100.0	47.4	23.8	8.5	9.6	10.7
Index	100.0	59.9	21.1	8.9	5.6	4.5

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

Income distributions for the last 12 months

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus annually.	**31 Dec 2018**
Cents per unit	**0.6759**

ALLAN GRAY BALANCED FUND

Inception date: 1 October 1999

Portfolio managers

Andrew Lapping, Duncan Artus, Jacques Plaut, 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

It was another eventful year on the market. The FTSE/JSE All Share Index (ALSI) was down 9%, making it one of the worst years ever. What made 2018 unique, though, is that nothing did well. Bonds and cash gave mediocre returns, and property did even worse than equities. Contrast this with 2008 (the worst year for stocks on record), when the ALSI was down 23%, but bonds gave you 17% and gold gave you 45%. The average return across the four major domestic asset classes – equities, bonds, cash, and property – has never been worse than in 2018, at least according to our records, which go back to 1976.

Internationally, the picture is similar. No asset class delivered good returns in 2018. More than half the shares in the S&P500 have fallen 20%, or more, from their peak. Some other emerging markets have done much worse than South Africa: shares in Turkey are down 43%, and shares in Argentina are down 50% (both measured in US dollars).

Here are some things that stood out for us in 2018:

- The rand weakened by 16% against the US dollar. Investors seem to have lost confidence in South Africa's turnaround story. Eskom is proving difficult to fix, and public finances more broadly still look tenuous.
- Companies with lots of debt have been punished by the market. These include Aspen, Mediclinic, Intu Properties, MTN, AB InBev, and British American Tobacco (BAT) – the last being one of our top 10 holdings.
- The property sector had its worst year ever.
- Investors became increasingly jittery about accounting fraud. At various times during the year, Aspen, Resilient, Nepi Rockcastle, and Capitec were in focus. There has been little progress in the Steinhoff case, but the fraud does seem to have been worse than we feared.
- BAT, MTN, and Glencore all faced regulatory problems.
- Commodity producers have done well, especially Anglo American Platinum (Angloplats).
- The price of bitcoin is down 73%.

The return of the Allan Gray Balanced Fund was -3% for the year, roughly similar to the return of the average South African balanced fund. If we could have foreseen what markets would do in 2018, we would have had lower equity exposure, or put everything in Angloplats. But of course no-one knows in advance how markets will do. We are confident that having a sizeable proportion of your money in cheap shares is a good idea. We don't know what the market will do in 2019, but we do know that the shares in the portfolio – Naspers, Sasol, BAT, Standard Bank, etc – are currently trading at attractive valuations, which is normally a good sign for long-term returns.

The performance of the Fund was helped by being underweight Steinhoff and by being overweight Sasol. Performance would have been better if we had owned less BAT, and more BHP and Anglo American. In aggregate, the domestic shares in the fund outperformed the ALSI. The weak rand boosted foreign returns, but these were offset by Orbis' underperformance.

Commentary contributed by Jacques Plaut

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 October 1999)	1716.4	758.5	189.9
Annualised:			
Since inception (1 October 1999)	16.3	11.8	5.7
Latest 10 years	10.7	9.6	5.2
Latest 5 years	7.0	4.9	5.4
Latest 3 years	4.6	2.3	5.5
Latest 2 years	3.7	2.9	4.9
Latest 1 year	-3.1	-4.2	5.2
Risk measures (since inception)			
Maximum drawdown[3]	-15.4	-20.5	n/a
Percentage positive months[4]	69.3	67.1	n/a
Annualised monthly volatility[5]	9.0	9.1	n/a
Highest annual return[6]	46.1	41.9	n/a
Lowest annual return[6]	-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 2018.

2. This is based on the latest numbers published by IRESS as at 30 November 2018.

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 2018[7]

Asset class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	65.0	47.9	1.1	16.0
Hedged equity	7.8	0.7	0.0	7.1
Property	1.8	1.3	0.0	0.5
Commodity-linked	3.4	2.8	0.0	0.6
Bonds	14.8	10.1	1.2	3.5
Money market and bank deposits	7.2	5.4	0.7	1.1
Total (%)	**100.0**	**68.2**	**2.9**	**28.9**[8]

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

8. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments 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 2018	31 Dec 2018
Cents per unit	**90.8244**	**135.9317**

ALLAN GRAY-ORBIS GLOBAL FUND OF FUNDS

Inception date: 3 February 2004

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

2018 was a disappointing year, particularly as the Orbis SICAV Global Balanced Fund underperformed in a down market. To understand the year as we do, it's important to revisit some of the changes we discussed early last year.

It may feel like a lifetime ago, but the beginning of 2018 was a time of enthusiasm in the investing world. By February, valuations were telling us that investors were insufficiently fearful, so we took the opportunity to reduce our positions in financials and some industrial cyclicals.

This rotation reduced the Fund's net stock market exposure from 67% at the beginning of last year to 56% at the end of March. Through much of the year, we continued this shift, and from January, our exposure to shares in cyclical sectors decreased by as much as 19 percentage points before buying our most beaten up stocks at the end of the year. From a risk management perspective, this rotation was sensible, which makes it all the more frustrating that the Fund has underperformed as the market has fallen. The reason is simple: our favoured securities have simply not performed as we hoped.

With the capital from the cyclicals we sold, we bought or added to positions in underappreciated defensive shares, selected corporate bonds, gold, and short-term US Treasuries. Of these, only the short-term Treasuries have performed well this year. Indeed, cash was the only major asset class to deliver a positive return in 2018. Even 'safe haven' gold declined, and our selected corporate bonds are also down, though we remain confident that their issuers' cash flows and assets can cover what they owe us.

But the biggest driver of the poor return, by far, was the performance of our underappreciated defensive equities, including Pacific Gas & Electric (PG&E) and our long-term holdings in diversified oil majors BP and Royal Dutch Shell.

PG&E was the standout disaster investment, leading to a permanent loss of roughly 2% of the portfolio's value and single-handedly accounting for a fifth of the underperformance.

We built the position in PG&E when it traded at a more than 30% discount to its utility peers due to concerns around the 2017 California wildfires. We believed the market was pricing in too high a chance of a worst-case scenario. In November, less than three months on from newly legislated protections for PG&E, that worst-case scenario came when the 'once in a century' Camp Fire broke out in California. The resulting potential liability could overwhelm PG&E's financial capacity and it may now make sense for the company to voluntarily file for bankruptcy. This possibility led us to significantly reduce our assessment of the company's intrinsic value, as well as its position in the Orbis Global Balanced Fund.

Even leaving PG&E aside, the dramatic underperformance of our fundamentally stable businesses has been the biggest disappointment of the year. In our view, our contrarian defensives offer better fundamental prospects, more sustainable dividend payouts, and lower valuations than the "approved" defensives in the market – yet ours have lagged. This sometimes happens with our approach. When markets are scary, investors don't buy contrarian names, they buy things that make them feel comfortable in the moment – regardless of the relationship between price and intrinsic value. This leaves us frustrated about performance, but no less enthusiastic about the prospects for the opportunities we like. Shell is an excellent example here, as is fellow integrated major BP. In our opinion, the valuations on these shares look increasingly attractive.

The shares are down because the oil price is down, though for reasons that should prove short-lived. We have no idea where volatile spot oil prices will go, but longer-term prices have barely budged over the past four years, three-year Brent oil futures have consistently been between US$55 and US$65 a barrel. At those levels, both Shell and BP can do very well for their shareholders.

While the companies' share price performance could continue to belie their relatively stable fundamentals, what matters to a business owner is free cash flow, and we believe BP and Shell can each grow theirs over the next four years. In the meantime, each company offers a dividend yield of 6%, which is higher than their historical averages and roughly quadruple the yield on long-term global government bonds.

As we look around the portfolio, we see a familiar pattern – companies we regard as having above-average fundamentals, trading at a discount to the wider market. At times over the past year, shares like Taiwan Semiconductor Manufacturing Company, AbbVie, and NetEase have been painful to own. But we are delighted to own them today.

Adapted from Orbis commentaries contributed by Alec Cutler

For the full commentary please visit www.orbis.com

Performance net of all fees and expenses

% Returns	Fund		Benchmark[1]		CPI inflation[2]	
Cumulative:	**ZAR**	**US$**	**ZAR**	**US$**	**ZAR**	**US$**
Since inception (3 February 2004)	338.2	114.2	362.2	125.9	126.4	35.7
Annualised:						
Since inception (3 February 2004)	10.4	5.2	10.8	5.6	5.7	2.1
Latest 10 years	10.1	5.5	11.6	6.9	5.2	1.7
Latest 5 years	7.8	1.2	10.3	3.6	5.4	1.6
Latest 3 years	2.2	5.0	2.6	5.4	5.5	2.0
Latest 2 years	2.5	0.0	7.8	5.2	4.9	2.2
Latest 1 year	-1.9	-16.1	10.6	-5.4	5.2	2.2
Risk measures (since inception)						
Maximum drawdown[3]	-24.0	-34.1	-25.1	-37.5	n/a	n/a
Percentage positive months[4]	57.0	59.8	57.0	62.0	n/a	n/a
Annualised monthly volatility[5]	14.2	10.6	12.9	9.6	n/a	n/a
Highest annual return[6]	55.6	40.1	38.8	37.6	n/a	n/a
Lowest annual return[6]	-13.7	-27.3	-17.0	-31.7	n/a	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 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
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.

Asset allocation on 31 December 2018

	Total	North America	Europe	Japan	Asia ex-Japan	Other
Net equity	56.4	12.3	17.2	6.7	15.2	5.1
Hedged equity	23.8	13.4	4.4	2.4	2.6	1.0
Fixed interest	14.6	14.3	0.2	0.0	0.1	0.0
Commodity-linked	3.4	0.0	0.0	0.0	0.0	3.4
Net current assets	1.8	0.0	0.0	0.0	0.0	1.8
Total	**100.0**	**39.9**	**21.7**	**9.1**	**17.9**	**11.3**
Currency exposure of the Orbis Funds						
Funds	100.0	48.4	30.5	9.1	7.8	4.2
Index	100.0	56.3	27.3	13.0	1.1	2.3

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

Income distributions for the last 12 months

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus annually.	31 Dec 2018
Cents per unit	**0.3169**

ALLAN GRAY STABLE FUND

Inception date: 1 July 2000

Portfolio managers

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

2018 was a difficult year for the Fund with returns that were well below inflation. This contrasts with our goal of inflation beating returns. The only assets in the Fund to beat inflation over the past year were South African bonds and cash, which returned 8% and 5% respectively and the Africa ex-SA assets which returned 23%. The 41% of Fund invested in these assets was insufficient to offset the weak returns from the remainder. 27% was invested in South African equities, which as an asset class fell 9%. Fortunately the shares in the Fund outperformed the FTSE/JSE All Share Index, falling only 4%. The 27% invested in Orbis Funds also detracted, falling 1%. The small position in property was a marginal detractor, while commodities were a marginal contributor to returns.

We invest the Fund in cash and a collection of other assets that we think will generate real returns over time. Cash provides very stable returns but unfortunately its purchasing power is often eroded by inflation. Assets that guard against inflation come at the cost of far greater volatility. The 44% of the portfolio invested in equity and property means that when these assets perform poorly the Fund will do likewise. However, over time we think money invested in equities should contribute to returns rather than detract.

Rather than investing across a broad selection of equities we select specific companies that we think will generate superior returns over a multi-year investment horizon. A long investment horizon allows time for the fundamentals to overcome the noise and for business cycles to normalise. We are very aware that the future is extremely uncertain. With this in mind we construct a portfolio that we think will endure in various scenarios rather than excel in one. Each company we invest in is bought based on our view of sustainable earnings and a fair price for those earnings. In the short term the market usually disagrees with our assessment of value and sometimes we are wrong in our assessment of normal earnings. In the cases where we have misjudged the normal earnings power of a company it is important to reassess the fundamental value.

Some of the Fund's largest holdings, Naspers, Glencore, British American Tobacco (BAT) and Investec, fell in price over the past year. The important question is whether the price declines were based on the underlying fundamental value falling as the earning power declined, or possibly something more short-term in nature. For Investec, Naspers and Glencore our view of the underlying value is basically unchanged, as you would expect over just 12 months. In the case of BAT, the Fund's biggest detractor, our expectations in terms of earnings and cash flow are a little lower than 12 months ago, but the risks facing the share have no doubt increased. The regulatory headwinds and level of competition from new entrants into the nicotine industry are definitely greater; add to this the increased debt from the recent Reynolds acquisition. This uncertainty and risk mean the company will attract, and deserves, a lower multiple on normal earnings. However, to our minds, the 43% fall in the share price more than accounts for the increased risk and the share is more attractively priced than a year ago relative to the underlying value. Therefore, we still own the share and have recently added to the position.

We strive to find assets – whether fixed interest, equity or property – that will give our investors inflation beating returns. There will be times when the asset mix underperforms inflation but we think the portfolio should generate real returns over the long term as the cash flows and fundamental value of our holdings come through.

Commentary contributed by Andrew Lapping

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 July 2000)	706.0	391.4	175.4
Annualised:			
Since inception (1 July 2000)	11.9	9.0	5.7
Latest 10 years	8.4	7.5	5.2
Latest 5 years	7.8	7.7	5.4
Latest 3 years	6.2	8.1	5.5
Latest 2 years	6.2	8.1	4.9
Latest 1 year	2.9	7.9	5.2
Risk measures (since inception)			
Maximum drawdown[3]	-6.9	n/a	n/a
Percentage positive months[4]	77.9	100.0	n/a
Annualised monthly volatility[5]	4.5	0.6	n/a
Highest annual return[6]	23.3	14.6	n/a
Lowest annual return[6]	0.2	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 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 5 September 2018 to 23 November 2018. 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 30 November 2018 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 2018[7]

Asset class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	39.6	26.7	1.0	11.9
Hedged equity	6.0	0.0	0.0	6.0
Property	4.4	3.9	0.0	0.4
Commodity-linked	2.1	1.2	0.0	0.9
Bonds	28.7	19.2	3.5	5.9
Money market and bank deposits	19.3	16.3	1.3	1.6
Total (%)	**100.0**	**67.4**	**5.9**	**26.8**[8]

7. Underlying holdings of Orbis funds are included on a look-through basis.
8. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments 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 2018	30 Jun 2018	30 Sep 2018	31 Dec 2018
Cents per unit	**32.0105**	**31.4834**	**37.2622**	**35.1922**

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

2018 was a very disappointing year for asset prices with all major global asset classes giving negative returns. Locally the FTSE/JSE All Share Index (ALSI) returned -9%, while the MSCI World Index returned -8% in US dollars. The Optimal Fund returned 6.2%, in line with its objective to offer returns that are not correlated to asset price returns. During the fourth quarter the Fund increased its net equity exposure from 4.4% to 13.9%. This is close to the highest net equity exposure the Fund held of 15.4% in 2003 (the Fund also briefly had 15.4% net equity exposure in November 2018). There are two reasons for this: The stock market is attractively priced now and the Fund's net equity component should add (detract) to performance if markets go up (down). These two factors are discussed further below.

One way of thinking about future returns for the stock market is the current dividend yield plus an expected annual growth in dividends plus an expected change in investor sentiment. In the long run the dividend yield on the ALSI averaged around 3% and you could expect companies to grow at around 8% for a total return of 11% p.a. – excluding changes in sentiment. The current dividend yield of the ALSI excluding Naspers is 4.3%, in line with the peak in 2003 when the Optimal Fund had its peak exposure to equities. If earnings grow by 8% p.a. investors are in for a 12.5% total return before changes in sentiment are taken into account. How could sentiment impact this return?

To judge the potential impact of sentiment we could consider where the current dividend yield is within its range. The highest dividend yield on the ALSI (excluding Naspers) in the past 20 years was 5.5% during the global financial crisis. If the ALSI were to return to that yield over a four-year term the change in sentiment would reduce the total return from 12.5% to 7.9% p.a., still a decent return ahead of inflation. If our stock market returned to its average dividend yield of 3% over the next four years the total return would increase from 12.5% p.a. to 23.6% p.a. If the dividend yield decreased to a low of 2% the return increases further to 36% p.a.

The last scenario illustrates why it could be risky for the Optimal Fund to hold a low net equity position: the Fund performs better when the stock market falls and worse when the stock market is increasing. This is because it is currently overweight defensive companies and underweight cyclical companies. Therefore a higher net equity weight gives some protection to Fund returns when asset prices are strong.

Commentary contributed by Ruan Stander

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 October 2002)	245.4	176.0	133.2
Annualised:			
Since inception (1 October 2002)	7.9	6.4	5.4
Latest 10 years	6.5	5.4	5.2
Latest 5 years	8.1	5.5	5.4
Latest 3 years	7.1	6.0	5.5
Latest 2 years	4.7	5.9	4.9
Latest 1 year	6.2	5.8	5.2
Risk measures (since inception)			
Maximum drawdown[3]	-5.9	n/a	n/a
Percentage positive months[4]	79.5	100.0	n/a
Annualised monthly volatility[5]	3.7	0.6	n/a
Highest annual return[6]	18.1	11.9	n/a
Lowest annual return[6]	-1.5	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 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 17 May 2017 to 27 September 2017. 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 March 2018 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 2018

Asset class	Total
Net equity	13.9
Hedged equity	70.6
Property	0.0
Commodity-linked	0.0
Bonds	0.0
Money market and bank deposits	15.5
Total (%)	**100.0**

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 2018	31 Dec 2018
Cents per unit	**17.1981**	**33.6479**

ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS

Inception date: 2 March 2010

Portfolio manager

Duncan Artus. (The underlying Orbis funds are managed by Orbis.)

Fund objective and benchmark

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

Commentary

The returns of our long-only equity funds can be broken down into three components: a risk-free rate, an equity risk premium, and the value added by our stock selections. Simplistically, the Orbis Optimal Strategy is designed to capture the risk-free rate and the value added by Orbis. Giving up the equity risk premium may seem crazy given the substantial returns delivered by this component over the last decade, but looking back a little further in time it's clear that equity risk hasn't always delivered commensurate returns. Market weakness during the second half of 2018 has been a painful reminder of this.

Periods when there are seemingly few places to hide should make the Fund extremely appealing given its idiosyncratic return stream. It is therefore both disappointing and frustrating that recent market weakness has coincided with a particularly weak period for Orbis' 'value add' or 'alpha', and the Optimal Fund as a result.

It's worth emphasising that the Fund's return is uncorrelated to equities, but as the latest period shows, it is not anti-correlated. The Fund does not necessarily zig when the market zags – it just does its own thing. The current drawdown, while far from ideal from a timing perspective or otherwise, is not unusual versus history.

Why has our recent alpha been so weak? One reason has been the nature of the equity-market selloff – a classic kneejerk 'risk off' environment in which the shares of more defensive companies have been by far the strongest outperformers. These include large pharmaceuticals such as Novartis, Roche, Abbott Laboratories, Sanofi, Pfizer and AstraZeneca along with dominant consumer staples businesses like Nestlé, Diageo, Clorox, Procter & Gamble, and Unilever.

Over the last few years, we have researched each of these businesses, but have found insufficient value to invest. Many of the traditional pharmaceutical majors have been plagued by weak research and development productivity, drug pricing pressure, patent expiration and poor capital allocation. These factors have weighed heavily on our assessment of intrinsic value. Consumer staples businesses like Nestlé tend to be higher quality, but at current valuations they are a far cry from the type of bargains that we seek to own.

Kikkoman, a Japanese soy sauce maker, is our favourite proxy for the extreme overpricing evident in the more defensive areas of the market. We need look no further for an indication as to whether prices trended toward or away from intrinsic value over the last year. At the start of 2018, Kikkoman sold at a multiple of nearly 40 times earnings, unjustifiably high for a company with modest earnings growth. Despite this lofty valuation, the shares subsequently rose by over 30% in US dollars during the year and now trade close to a price-earnings multiple of 45.

Compare this to Taiwan Semiconductor Manufacturing Company (TSMC). TSMC has a good chance of delivering earnings per share growth about 10% per annum for the foreseeable future despite paying our enough earnings each year to realise a healthy 3.5% dividend yield. Yet TSMC delivered negative returns in 2018, presumably a function of its economic sensitivity and broader emerging market sentiment.

Though these are isolated examples, we believe the wide gap between the most overpriced and most underpriced assets has only become more pronounced during 2018. The widening of this gap has been particularly painful for investors like us who are focused on intrinsic value, but we believe this dynamic ultimately sows the seeds for excess future returns.

As uncomfortable as the Fund's recent performance has been, it reminds us of previous periods of prolonged underperformance. Then, as now, these times have produced tremendous opportunity for stockpickers who are able to remain disciplined and focused on the long term. To put some numbers on it, the trailing one-year return of the Fund has been below that of US$ Bank Deposits for around 25% of its history. But considering the three-year cumulative returns, the strategy has delivered positive absolute returns over three years 95% of the time.

Of course, that's no guarantee of future performance, but we remain as optimistic as we have been for some time on the opportunity set and prospects for value-add going forward. As such, despite underperforming the local indices we use for hedging, we continue to have a high degree of conviction in the alpha potential of the stocks Optimal holds. And we are equally optimistic that the Fund will fulfil its role as a unique vehicle that can deliver positive and uncorrelated real returns over the long term.

Adapted from Orbis commentaries contributed by by Graeme Forster

For the full commentary please see www.orbis.com

Performance net of all fees and expenses

% Returns	Fund		Benchmark[1]		CPI inflation[2]	
Cumulative:	ZAR	US$	ZAR	US$	ZAR	US$
Since inception (2 March 2010)	99.1	6.4	79.1	-4.3	57.0	16.4
Annualised:						
Since inception (2 March 2010)	8.1	0.7	6.8	-0.6	5.3	1.7
Latest 5 years	5.0	-1.4	4.9	-1.5	5.4	1.6
Latest 3 years	-1.5	1.2	-1.5	1.2	5.5	2.0
Latest 2 years	0.8	-1.7	5.3	2.7	4.9	2.2
Latest 1 year	2.1	-12.7	15.2	-1.5	5.2	2.2
Risk measures (since inception)						
Maximum drawdown[3]	-18.9	-16.5	-26.6	-15.1	n/a	n/a
Percentage positive months[4]	49.1	51.9	47.2	50.9	n/a	n/a
Annualised monthly volatility[5]	14.5	6.7	14.2	4.7	n/a	n/a
Highest annual return[6]	39.6	12.9	35.6	9.4	n/a	n/a
Lowest annual return[6]	-12.4	-12.7	-19.1	-11.6	n/a	n/a

1. The simple average of the benchmarks of the underlying funds, performance as calculated by Allan Gray as at 31 December 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
3. Maximum percentage decline over any period. The maximum rand drawdown occurred from 18 May 2016 to 24 March 2017 and maximum benchmark drawdown occurred from 18 January 2016 to 23 February 2018. 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 January 2016. The Fund's lowest annual return occurred during the 12 months ended 31 May 2017 and the benchmark's occurred during the 12 months ended 28 February 2017. 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 2018

	Total	North America	Europe	Japan	Asia ex-Japan	Other
Net equity	9.7	-3.5	1.8	0.3	9.2	2.0
Hedged equity	78.3	30.5	15.8	18.5	10.4	3.1
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	12.0	0.0	0.0	0.0	0.0	12.0
Total	**100.0**	**26.9**	**17.6**	**18.8**	**19.6**	**17.1**
Currency exposure of the Orbis Funds						
Funds	100.0	58.2	37.2	-0.2	4.6	0.1

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

Income distributions for the last 12 months

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus annually.	31 Dec 2018
Cents per unit	**0.0000**

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

Eleven percent of the Allan Gray Bond Fund is invested in Eskom bonds. Eskom is technically bankrupt, and appears unlikely to be able to pay the interest, let alone the capital, on its R420bn gross debt. All of the Fund's Eskom holdings are however government guaranteed, meaning the South African government guarantees to take over the debt obligations if Eskom is unable to do so.

Eskom bonds yield approximately 1.25% higher than comparable government bonds, an attractive yield pick-up if one believes that the credit risk of government guaranteed Eskom bonds is equivalent to the credit risk on government bonds. In other words, the government will honour the guarantee. We believe this is likely and are comfortable holding Eskom bonds despite the company's perilous financial condition.

The technical implications of the government not honouring its guarantee are not clear, but it is probable that the rating agencies would consider this a sovereign default and South Africa would be downgraded multiple notches below its current rating. The South African government has defaulted before, but not since the abolition of apartheid or since being upgraded to investment grade. The practical implications of doing so would be severe. South African risk would re-price materially higher, meaning the rand would weaken, share prices of South African companies would fall, and bond yields would rise. The already high cost of servicing the government's debt would rise further, fewer investors would be willing to fund the country's twin fiscal and current account deficits, and economic growth would fall. South Africa cannot afford this scenario.

Our view remains that South African bonds offer attractive yield with limited risk of a large price move either up or down. The Fund maintained duration higher than its historical average, and average yield in line with the benchmark JSE All Bond Index.

Commentary contributed by Mark Dunley-Owen

Performance net of all fees and expenses

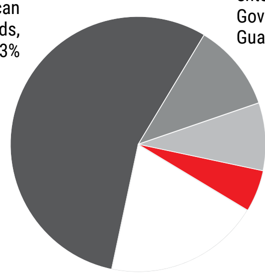
% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 October 2004)	245.0	222.0	121.9
Annualised:			
Since inception (1 October 2004)	9.1	8.6	5.8
Latest 10 years	8.8	7.7	5.2
Latest 5 years	8.7	7.7	5.4
Latest 3 years	11.9	11.1	5.5
Latest 2 years	10.5	9.0	4.9
Latest 1 year	9.4	7.7	5.2
Risk measures (since inception)			
Maximum drawdown[3]	-11.7	-14.4	n/a
Percentage positive months[4]	71.3	67.8	n/a
Annualised monthly volatility[5]	5.3	7.2	n/a
Highest annual return[6]	18.0	21.2	n/a
Lowest annual return[6]	-2.6	-5.6	n/a

1. JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 31 December 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
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 2018	30 Jun 2018	30 Sep 2018	31 Dec 2018
Cents per unit	**22.8618**	**23.4296**	**23.2524**	**24.9249**

Asset allocation on 31 December 2018



ALLAN GRAY MONEY MARKET FUND

Inception date: 1 July 2001

Fund manager

Mark Dunley-Owen.

Fund objective and benchmark

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

Commentary

South Africa's economy has performed poorly over recent years. Five years ago, at the end of 2013:

- The South African government had R1.6tn gross loan debt or 44% of GDP, and Eskom had around R250bn gross debt. Government debt has since grown to R2.7tn (as of September 2018), substantially faster than GDP has grown. Eskom gross debt has grown even quicker to R420bn, or 16% of GDP.
- Nominal GDP was growing at 8.8% per year. This growth rate has since dropped to 7.9%, despite much of the increase in government debt being used to fund 'counter-cyclical fiscal policy'.
- The rand/dollar exchange rate was R10.35/US$ and the 10-year government bond yield was 8.0%. Exchange rates and bond yields are reliable indicators of risk for a small, open country such as South Africa. Both have increased materially over the last five years, the rand/dollar to R14.38 and the government bond yield to 9.2%, highlighting South Africa's economic decline.

In US dollar terms, the FTSE/JSE All Share Index (ALSI) has fallen 3.2% over five years while the FTSE World Index has increased by 26.8%. Share prices do not always represent underlying realities, but this seems a fair indication of South Africa's decline relative to the rest of the world.

In light of the above, low risk assets such as cash have been among the best performing South African investments over recent time periods. The outperformance of cash over one year is notable, generating 7% return compared to -9% from the ALSI. Investors who have sat on the sidelines have been rewarded for doing so. This is unlikely to continue forever but until hard choices are made to correct South Africa's deficiencies, money market investments offer attractive returns higher than inflation with minimal volatility.

Commentary contributed by Mark Dunley-Owen

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 July 2001)	285.3	277.8	159.7
Annualised:			
Since inception (1 July 2001)	8.0	7.9	5.6
Latest 10 years	6.9	6.7	5.2
Latest 5 years	7.2	6.9	5.4
Latest 3 years	7.8	7.4	5.5
Latest 2 years	7.9	7.4	4.9
Latest 1 year	7.8	7.2	5.2
Risk measures (since inception)			
Highest annual return[3]	12.8	13.3	n/a
Lowest annual return[3]	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 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
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 distributions for the last 12 months

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

Jan 2018	Feb 2018	Mar 2018	Apr 2018
0.65	**0.58**	**0.65**	**0.62**
May 2018	Jun 2018	Jul 2018	Aug 2018
0.63	**0.61**	**0.63**	**0.63**
Sep 2018	Oct 2018	Nov 2018	Dec 2018
0.61	**0.64**	**0.62**	**0.64**

Exposure by issuer on 31 December 2018

	% of portfolio
Government and parastatals	**16.5**
Republic of South Africa	16.5
Corporates	**8.4**
Pick 'n Pay	2.4
Sanlam	2.3
Life Healthcare Group	1.6
Shoprite	1.4
Toyota Financial Services	0.5
The Thekwini Warehousing Conduit	0.2
Banks[4]	**75.1**
Absa Bank	18.6
Nedbank	17.3
Standard Bank	13.9
FirstRand Bank	13.1
Investec Bank	12.2
Total (%)	**100.0**

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 managers

Andrew Lapping, Duncan Artus, Jacques Plaut, 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

It was another eventful year on the market. The FTSE/JSE All Share Index (ALSI) was down 9%, making it one of the worst years ever. What made 2018 unique, though, is that nothing did well. Bonds and cash gave mediocre returns, and property did even worse than equities. Contrast this with 2008 (the worst year for stocks on record), when the ALSI was down 23%, but bonds gave you 17% and gold gave you 45%. The average return across the four major domestic asset classes – equities, bonds, cash, and property – has never been worse than in 2018, at least according to our records, which go back to 1976.

Internationally, the picture is similar. No asset class delivered good returns in 2018. More than half the shares in the S&P500 have fallen 20%, or more, from their peak. Some other emerging markets have done much worse than South Africa: shares in Turkey are down 43%, and shares in Argentina are down 50% (both measured in US dollars).

Here are some things that stood out for us in 2018:

- The rand weakened by 16% against the US dollar. Investors seem to have lost confidence in South Africa's turnaround story. Eskom is proving difficult to fix, and public finances more broadly still look tenuous.
- Companies with lots of debt have been punished by the market. These include Aspen, Mediclinic, Intu Properties, MTN, AB InBev, and British American Tobacco (BAT) – the last being one of our top 10 holdings.
- The property sector had its worst year ever.
- Investors became increasingly jittery about accounting fraud. At various times during the year, Aspen, Resilient, Nepi Rockcastle, and Capitec were in focus. There has been little progress in the Steinhoff case, but the fraud does seem to have been worse than we feared.
- BAT, MTN, and Glencore all faced regulatory problems.
- Commodity producers have done well, especially Anglo American Platinum (Angloplats).
- The price of bitcoin is down 73%.

The return of the Allan Gray Balanced Fund was –3% for the year, roughly similar to the return of the average South African balanced fund. If we could have foreseen what markets would do in 2018, we would have had lower equity exposure, or put everything in Angloplats. But of course no-one knows in advance how markets will do. We are confident that having a sizeable proportion of your money in cheap shares is a good idea. We don't know what the market will do in 2019, but we do know that the shares in the portfolio – Naspers, Sasol, BAT, Standard Bank, etc – are currently trading at attractive valuations, which is normally a good sign for long-term returns.

The performance of the Fund was helped by being underweight Steinhoff and by being overweight Sasol. Performance would have been better if we had owned less BAT, and more BHP and Anglos. In aggregate, the domestic shares in the fund outperformed the ALSI. The weak rand boosted foreign returns, but these were offset by Orbis' underperformance.

Commentary contributed by Jacques Plaut

Performance net of all fees and expenses

% Returns	Fund	Benchmark[1]	CPI inflation[2]
Cumulative:			
Since inception (1 February 2016)	16.3	9.9	16.1
Annualised:			
Since inception (1 February 2016)	5.3	3.3	5.4
Latest 2 years	4.1	2.9	4.9
Latest 1 year	-2.7	-4.2	5.2
Risk measures (since inception)			
Maximum drawdown[3]	-10.4	-10.7	n/a
Percentage positive months[4]	62.9	57.1	n/a
Annualised monthly volatility[5]	7.6	7.4	n/a
Highest annual return[6]	13.3	13.7	n/a
Lowest annual return[6]	-5.4	-6.0	n/a

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 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 5 September 2018 to 23 November 2018 and maximum benchmark drawdown occurred from 29 August 2018 to 27 December 2018. 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 November 2017 and the benchmark's occurred during the 12 months ended 31 October 2017. The Fund's lowest annual return occurred during the 12 months ended 30 November 2018 and the benchmark's occurred during the 12 months ended 30 November 2018. 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 2018[7]

Asset class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	64.7	47.5	1.0	16.1
Hedged equity	7.7	0.7	0.0	7.0
Property	1.9	1.4	0.0	0.5
Commodity-linked	2.9	2.2	0.0	0.7
Bonds	13.4	9.5	1.1	2.9
Money market and bank deposits	9.5	7.5	0.6	1.3
Total (%)	**100.0**	**68.8**	**2.7**	**28.6**[8]

7. Underlying holdings of Orbis funds are included on a look-through basis.
8. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments 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.

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 2018	31 Dec 2018
Cents per unit	**10.0517**	**13.8285**

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. Orbis pays a marketing and distribution fee to Allan Gray.
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 approximately 20% of annualised performance relative to the benchmark.
Allan Gray-Orbis Global Equity Feeder Fund[1] (JSE code: AGOE)	Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis. Orbis charges an annual management fee within the underlying Orbis Global Equity Fund. The fee rate is calculated based on the Orbis fund's performance relative to its benchmark. For more information please refer to the Orbis Global Equity Fund factsheet, which can be found at www.allangray.co.za
Allan Gray Balanced Fund (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. Orbis pays a marketing and distribution fee to Allan Gray.
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. Orbis pays a marketing and distribution fee to Allan Gray.
Allan Gray-Orbis Global Fund of Funds[1] (JSE code: AGGF)	Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis. Orbis charges annual management fees within the underlying Orbis funds. Each fund's fee rate is calculated based on the fund's performance relative to its own benchmark. For more information please refer to the respective Orbis funds' factsheets, which can be found at www.allangray.co.za
Allan Gray Stable Fund (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. Orbis pays a marketing and distribution fee to Allan Gray.
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[1] (JSE code: AGOO)	Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis. Orbis charges annual management fees within the underlying Orbis funds. Each fund's fee rate is calculated based on the fund's performance relative to its own benchmark. For more information please refer to the respective Orbis funds' factsheets, which can be found at www.allangray.co.za
Allan Gray Bond Fund (JSE code: AGBD)	The fee rate is calculated daily by comparing the Fund's total performance over the last year, to that of the benchmark adjusted for Fund expenses and cash flows. 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 1-year period ending 31 December 2018

Fund	Fee for benchmark performance %	Performance fee %	Other costs excluding transaction costs %	VAT %	Total expense ratio (TER)[3,5] %	Transaction costs (incl. VAT)[3,5] %	Total Investment charge %
Allan Gray Equity Fund[2,4] (JSE code: AGEF)	1.15	0.84	0.02	0.21	**2.22**	0.08	**2.30**
Allan Gray SA Equity Fund[4] (JSE code: AGDA)	1.00	0.30	0.01	0.19	**1.50**	0.10	**1.60**
Allan Gray-Orbis Global Equity Feeder Fund[1] (JSE code: AGOE)	1.50	0.62	0.05	0.00	**2.17**	0.10	**2.27**
Allan Gray Balanced Fund[2,4] (JSE code: AGBF)	1.11	0.31	0.02	0.13	**1.57**	0.10	**1.67**
Allan Gray Tax-Free Balanced Fund[2,4,6] (JSE code: AGTBA)	1.39	0.00	0.04	0.14	**1.57**	0.16	**1.73**
Allan Gray-Orbis Global Fund of Funds[1] (JSE code: AGGF)	1.44	0.56	0.02	0.00	**2.02**	0.12	**2.14**
Allan Gray Stable Fund[2,4] (JSE code: AGSF)	1.09	0.00	0.02	0.09	**1.20**	0.10	**1.30**
Allan Gray Optimal Fund[4] (JSE code: AGOF)	1.00	0.00	0.01	0.15	**1.16**	0.13	**1.29**
Allan Gray-Orbis Global Optimal Fund of Funds[1] (JSE code: AGOO)	1.00	0.37	0.07	0.00	**1.44**	0.13	**1.57**
Allan Gray Bond Fund (JSE code: AGBD)	0.25	0.40	0.01	0.10	**0.76**	0.00	**0.76**
Allan Gray Money Market Fund[6] (JSE code: AGMF)	0.25	0.00	0.00	0.04	**0.29**	0.00	**0.29**

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 one year. 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 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 Allan Gray Tax-Free Balanced Fund and Allan Gray Money Market Fund charge a fixed fee.

Compliance with retirement fund regulations

Allan Gray Balanced, Stable, Bond, Tax-Free Balanced 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).

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	Equity Fund		Global Equity Feeder Fund		Balanced Fund		Global Fund of Funds		Stable Fund	
		2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R
INVESTMENT INCOME		1 004 939 708	983 568 026	3 595 053	3 545 071	4 691 686 543	4 331 587 067	2 197 475	2 632 173	2 172 254 411	2 069 413 744
Dividends - Local		917 752 846	909 852 385	-	-	2 255 229 370	1 893 436 220	-	-	402 546 444	406 057 368
Dividends - Foreign		-	10 030 195	-	-	-	32 400 838	-	-	-	8 385 066
Dividends - Real Estate Investment Trust income		23 305 177	10 451 807	-	-	72 643 168	30 392 927	-	-	121 650 959	48 390 226
Interest - Local		63 545 985	51 229 219	3 595 053	3 545 071	2 331 444 922	2 307 094 260	2 197 475	2 632 173	1 605 743 432	1 579 128 596
Interest - Foreign		-	-	-	-	31 783 131	64 083 201	-	-	42 224 782	27 167 286
Sundry income		335 700	2 004 420	-	-	585 952	4 179 621	-	-	88 794	285 202
OPERATING EXPENSES		669 974 306	439 719 248	1 536 801	1 753 516	1 421 968 982	1 635 240 454	1 084 899	1 300 740	314 534 926	512 381 878
Audit fee		59 033	141 805	22 101	53 085	52 742	163 432	22 901	55 009	60 407	145 090
Bank charges		108 212	124 226	9 580	8 484	563 462	496 603	9 775	8 569	367 432	310 391
Commitment fee		1 783 127	2 309 263	818 002	1 026 646	615 183	209 053	571 611	757 768	58 299	126 111
Trustee fees		1 496 808	1 457 135	687 118	665 301	5 292 893	4 878 104	480 612	479 394	1 741 829	1 591 595
Management fee		666 527 126	435 686 819	-	-	1 415 444 702	1 629 493 262	-	-	312 306 959	510 208 691
PROFIT/(LOSS) BEFORE UNDISTRIBUTABLE INCOME ITEMS	1	334 965 402	543 848 778	2 058 252	1 791 555	3 269 717 561	2 696 346 613	1 112 576	1 331 433	1 857 719 485	1 557 031 866

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	Optimal Fund		Global Optimal Fund of Funds		Bond Fund		Money Market Fund		SA Equity Fund		Tax-Free Balanced Fund	
		2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R
INVESTMENT INCOME		40 417 556	50 436 498	10 747	69 428	116 149 421	59 427 654	1 246 656 730	1 113 251 587	95 572 941	81 409 449	21 831 483	12 415 984
Dividends - Local		28 475 433	32 619 023	-	-	-	-	-	-	86 381 558	76 301 058	10 360 543	5 339 470
Dividends - Foreign		-	-	-	-	-	-	-	-	-	-	-	48 999
Dividends - Real Estate Investment Trust income		119 505	-	-	-	-	-	-	-	2 784 657	1 157 698	392 586	169 130
Interest - Local		11 822 618	17 710 735	10 747	69 428	116 149 421	59 427 654	1 246 656 730	1 113 251 587	6 359 737	3 775 242	11 073 548	6 724 366
Interest - Foreign		-	-	-	-	-	-	-	-	-	-	-	123 203
Sundry income		-	106 740	-	-	-	-	-	-	46 989	175 451	4 806	10 816
OPERATING EXPENSES		14 014 751	18 175 432	122 159	179 409	9 709 025	4 618 714	46 654 148	40 395 164	8 055 572	1 025 452	7 058 615	4 070 227
Audit fee		59 217	142 244	22 807	54 678	40 601	97 532	46 339	114 326	43 510	117 421	34 648	90 922
Bank charges		65 832	76 213	9 761	9 322	48 635	30 046	104 086	100 462	53 345	89 234	83 967	83 257
Commitment fee		-	-	47 936	70 249	1 612	4 177	-	-	118 895	153 128	-	1 540
Trustee fees		43 553	56 490	41 655	45 160	46 359	23 622	574 062	501 899	100 328	97 828	24 558	13 922
Management fee		13 846 149	17 900 485	-	-	9 571 818	4 463 337	45 929 661	39 678 477	7 739 494	567 841	6 915 442	3 880 586
PROFIT/(LOSS) BEFORE UNDISTRIBUTABLE INCOME ITEMS	1	26 402 805	32 261 066	(111 412)	(109 981)	106 440 396	54 808 940	1 200 002 582	1 072 856 423	87 517 369	80 383 997	14 772 868	8 345 757

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

	Equity Fund		Global Equity Feeder Fund		Balanced Fund		Global Fund of Funds		Stable Fund	
	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R
ASSETS										
Investments	38 940 465 936	42 747 510 028	16 675 310 707	19 466 336 272	145 910 082 803	144 383 215 672	12 536 422 046	13 372 557 364	50 583 881 715	46 037 277 410
Current assets	85 132 594	110 381 015	75 597 148	438	286 825 448	108 748 276	61 787 603	84 589 705	59 451 015	88 240 865
TOTAL ASSETS	39 025 598 530	42 857 891 043	16 750 907 855	19 466 336 710	146 196 908 251	144 491 963 948	12 598 209 649	13 457 147 069	50 643 332 730	46 125 518 275
LIABILITIES										
Current liabilities	351 329 742	414 035 676	2 015 555	59 180 456	2 133 225 081	1 631 505 234	1 142 143	1 420 617	890 045 222	335 103 784
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	38 674 268 788	42 443 855 367	16 748 892 300	19 407 156 254	144 063 683 170	142 860 458 714	12 597 067 506	13 455 726 452	49 753 287 508	45 790 414 491

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

	Optimal Fund		Global Optimal Fund of Funds		Bond Fund		Money Market Fund		SA Equity Fund		Tax-Free Balanced Fund	
	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R	2018 R	2017 R
ASSETS												
Investments	1 225 776 259	1 384 834 489	1 069 144 608	1 189 748 568	1 578 750 955	776 083 469	18 528 663 311	14 984 298 030	2 789 526 324	2 803 852 914	774 080 861	476 390 057
Current assets	7 587 035	7 887 462	101	2 906 226	895 409	1 739 930	9 407 931	8 300 631	16 922 970	4 192 415	1 959 449	1 583 746
TOTAL ASSETS	1 233 363 294	1 392 721 951	1 069 144 709	1 192 654 794	1 579 646 364	777 823 399	18 538 071 242	14 992 598 661	2 806 449 294	2 808 045 329	776 040 310	477 973 803
LIABILITIES												
Current liabilities	18 758 810	16 175 871	746 875	70 370	35 822 026	16 275 762	717 794 603	99 809 908	53 671 631	50 208 418	11 060 435	6 185 115
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	1 214 604 484	1 376 546 080	1 068 397 834	1 192 584 424	1 543 824 338	761 547 637	17 820 276 639	14 892 788 753	2 752 777 663	2 757 836 911	764 979 875	471 788 688

1. Distribution schedules

	Note	2018	2017
ALLAN GRAY EQUITY FUND			
30 June			
Class A			
Cents per unit		-	247.4720
Distribution paid - R		-	167 035 159
Class B			
Cents per unit		-	14.1132
Distribution paid - R		-	168 286
Class C			
Cents per unit		0.5075	273.5282
Distribution paid - R		179 776	90 734 164
Class X			
Cents per unit		383.9983	416.5525
Distribution paid - R		6 938 491	10 179 578
31 December			
Class A			
Cents per unit		328.6621	248.1496
Distribution paid - R		205 883 042	160 587 047
Class B			
Cents per unit		73.3964	3.9918
Distribution paid - R		494 803	43 583
Class C			
Cents per unit		343.1074	275.0244
Distribution paid - R		129 983 721	96 556 323
Class X			
Cents per unit		582.9456	521.8662
Distribution paid - R		10 040 824	10 991 676
TOTAL DISTRIBUTION FOR THE YEAR		353 520 657	536 295 816
Shortfall of income funded by net assets attributed to unitholders	2	(20 183 198)	-
Expense/(income) on creation and cancellation of units		1 627 943	7 552 962
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		334 965 402	543 848 778

	Note	2018	2017
ALLAN GRAY-ORBIS GLOBAL EQUITY FEEDER FUND			
31 December			
Class A			
Cents per unit		0.6759	0.5811
Distribution paid - R		1 938 042	1 772 976
TOTAL DISTRIBUTION FOR THE YEAR		1 938 042	1 772 976
Expense/(income) on creation and cancellation of units		120 210	18 579
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		2 058 252	1 791 555

1. Distribution schedules

	Note	2018	2017
ALLAN GRAY BALANCED FUND			
30 June			
Class A			
Cents per unit		90.8244	99.1583
Distribution paid - R		721 652 778	782 652 226
Class B			
Cents per unit		23.8665	36.1712
Distribution paid - R		2 230 755	4 038 513
Class C			
Cents per unit		99.7091	107.8277
Distribution paid - R		562 105 285	516 423 207
Class X			
Cents per unit		148.7985	164.2895
Distribution paid - R		31 023 754	24 300 315
31 December			
Class A			
Cents per unit		135.9317	102.0649
Distribution paid - R		951 392 158	786 091 011
Class B			
Cents per unit		67.5829	35.7981
Distribution paid - R		3 969 820	3 563 561
Class C			
Cents per unit		144.8695	111.0155
Distribution paid - R		981 971 460	587 128 292
Class X			
Cents per unit		188.3163	169.3861
Distribution paid - R		50 493 220	29 701 077
TOTAL DISTRIBUTION FOR THE YEAR		3 304 839 230	2 733 898 202
(Income)/expense on creation and cancellation of units		(35 121 669)	(37 551 589)
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		3 269 717 561	2 696 346 613
ALLAN GRAY-ORBIS GLOBAL FUND OF FUNDS			
31 December			
Class A			
Cents per unit		0.3169	0.3731
Distribution paid - R		1 076 645	1 327 247
TOTAL DISTRIBUTION FOR THE YEAR		1 076 645	1 327 247
Expense/(income) on creation and cancellation of units		35 931	4 186
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		1 112 576	1 331 433

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Distribution schedules

	Note	2018	2017
ALLAN GRAY STABLE FUND			
31 March			
Class A			
Cents per unit		32.0105	35.5995
Distribution paid - R		249 577 598	291 403 284
Class B			
Cents per unit		20.9381	25.0273
Distribution paid - R		2 983 046	4 516 647
Class C			
Cents per unit		33.5278	37.0675
Distribution paid - R		167 032 796	158 758 412
Class X			
Cents per unit		38.2514	45.8776
Distribution paid - R		1 959 757	357 979
30 June			
Class A			
Cents per unit		31.4834	27.5280
Distribution paid - R		250 324 035	224 116 424
Class B			
Cents per unit		19.9935	16.8361
Distribution paid - R		2 735 091	2 882 052
Class C			
Cents per unit		32.9846	28.9839
Distribution paid - R		171 017 512	126 248 860
Class X			
Cents per unit		36.8142	37.5797
Distribution paid - R		1 783 541	360 785
30 September			
Class A			
Cents per unit		37.2622	35.3905
Distribution paid - R		302 097 786	286 128 267
Class B			
Cents per unit		25.6475	24.4869
Distribution paid - R		3 151 590	3 784 210
Class C			
Cents per unit		38.7961	36.8605
Distribution paid - R		211 201 233	162 157 821
Class X			
Cents per unit		45.0731	46.0847
Distribution paid - R		2 213 910	474 267

1. Distribution schedules

	Note	2018	2017
31 December			
Class A			
Cents per unit		35.1922	22.3895
Distribution paid - R		262 055 797	173 602 100
Class B			
Cents per unit		23.5270	11.1413
Distribution paid - R		1 853 117	1 619 517
Class C			
Cents per unit		36.8463	23.8889
Distribution paid - R		237 893 496	116 754 720
Class X			
Cents per unit		41.1625	32.9292
Distribution paid - R		4 082 108	1 680 766
TOTAL DISTRIBUTION FOR THE YEAR		1 871 962 413	1 554 846 111
(Income)/expense on creation and cancellation of units		(14 242 928)	2 185 755
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		1 857 719 485	1 557 031 866

ALLAN GRAY OPTIMAL FUND

30 June			
Class A			
Cents per unit		17.1981	22.0761
Distribution paid - R		6 899 040	12 674 446
Class B			
Cents per unit		3.1169	-
Distribution paid - R		17 674	-
Class C			
Cents per unit		19.1209	24.0499
Distribution paid - R		1 905 725	3 822 395
31 December			
Class A			
Cents per unit		33.6479	24.2193
Distribution paid - R		11 798 059	11 216 665
Class B			
Cents per unit		18.4524	6.8523
Distribution paid - R		97 309	49 254
Class C			
Cents per unit		35.7586	26.1454
Distribution paid - R		5 616 156	3 499 547
TOTAL DISTRIBUTION FOR THE YEAR		26 333 963	31 262 307
Shortfall of income		-	85 458
Expense/(income) on creation and cancellation of units		68 842	913 301
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		26 402 805	32 261 066

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Distribution schedules

	Note	2018	2017
ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS			
31 December			
Class A			
Cents per unit		-	-
TOTAL DISTRIBUTION FOR THE YEAR		-	-
Shortfall of income funded by net assets attributed to unitholders	2	(110 419)	(109 367)
(Income)/expense on creation and cancellation of units		(993)	(614)
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		(111 412)	(109 981)
ALLAN GRAY BOND FUND			
31 March			
Class A			
Cents per unit		22.8618	23.8795
Distribution paid - R		22 453 303	12 950 634
30 June			
Class A			
Cents per unit		23.4296	23.6523
Distribution paid - R		25 626 731	13 719 910
30 September			
Class A			
Cents per unit		23.2524	22.4566
Distribution paid - R		31 056 118	15 082 650
31 December			
Class A			
Cents per unit		24.9249	22.6344
Distribution paid - R		34 721 665	15 681 487
TOTAL DISTRIBUTION FOR THE YEAR		113 857 817	57 434 681
(Income)/expense on creation and cancellation of units		(7 417 421)	(2 625 741)
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		106 440 396	54 808 940
ALLAN GRAY SA EQUITY FUND			
30 June			
Class A			
Cents per unit		370.2354	445.4012
Distribution paid - R		1 154 657	938 440
Class C			
Cents per unit		441.5399	459.5569
Distribution paid - R		3 817 829	5 156 203
Class X			
Cents per unit		502.0824	506.2363
Distribution paid - R		29 437 258	30 885 554

1. Distribution schedules

	Note	2018	2017
31 December			
Class A			
Cents per unit		359.4384	616.8465
Distribution paid - R		2 476 244	1 386 299
Class C			
Cents per unit		398.1521	617.6742
Distribution paid - R		4 605 514	4 844 301
Class X			
Cents per unit		798.2847	617.8535
Distribution paid - R		46 485 603	36 143 864
TOTAL DISTRIBUTION FOR THE YEAR		87 977 105	79 354 661
(Income)/expense on creation and cancellation of units		(459 736)	1 029 336
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		87 517 369	80 383 997
ALLAN GRAY TAX-FREE BALANCED FUND			
30 June			
Class A			
Cents per unit		10.0517	11.7509
Distribution paid - R		5 207 016	3 217 245
Class C			
Cents per unit		11.0109	12.6766
Distribution paid - R		1 007 507	1 033 027
31 December			
Class A			
Cents per unit		13.8285	12.4376
Distribution paid - R		8 325 957	4 259 293
Class C			
Cents per unit		14.7746	13.3977
Distribution paid - R		1 489 390	947 537
TOTAL DISTRIBUTION FOR THE YEAR		16 029 870	9 457 102
(Income)/expense on creation and cancellation of units		(1 257 002)	(1 111 345)
OPERATING PROFIT/(LOSS) BEFORE INCOME ADJUSTMENTS		14 772 868	8 345 757

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.

2. 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.

	2018 R	2017 R
Allan Gray Equity Fund A Class (June)	17 562 778	-
Allan Gray Equity Fund B Class (June)	2 620 420	-
Allan Gray Global Optimal Fund of Funds (December)	110 419	109 367

TRUSTEES' REPORT ON THE ALLAN GRAY UNIT TRUST SCHEME

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

We advise for the period 1 January 2018 to 31 December 2018 we reasonably believe that the Manager has administered the Scheme in accordance with:

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

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

Yours faithfully

Nelia de Beer
Head Trustee Services

Rand Merchant Bank
A division of FirstRand Bank Limited

Marian Rutters
Operations Manager Trustee Services

Rand Merchant Bank
A division of FirstRand Bank Limited

Johannesburg
18 February 2019

IMPORTANT NOTES FOR INVESTORS

Information and content

The information and content of this publication is provided by Allan Gray as general information about the company and its products and services ("Allan Gray" means Allan Gray Proprietary Limited and all of its subsidiaries and associate companies, and "the company" includes all of those entities). Allan Gray does not guarantee the suitability or potential value of any information or particular investment source. The information provided is not intended to nor does it constitute financial, tax, legal, investment, or other advice. Before making any decision or taking any action regarding your finances, it is recommended that you consult an independent, qualified financial adviser regarding your specific situation. Nothing contained in this publication constitutes a solicitation, recommendation, endorsement or offer by Allan Gray, but is merely an invitation to do business.

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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 Sector Conduct Authority (FSCA). 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

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.

IMPORTANT NOTES FOR INVESTORS

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

Fees

Permissible deductions may include management fees, brokerage, Securities Transfer Tax (STT), auditor's fees, bank charges (including the overdraft facility charge) 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 one year. 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 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 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 (TIC).

The Allan Gray Money Market Fund (the 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

FTSE/JSE All Share Index

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IMPORTANT NOTES FOR INVESTORS

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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 offshore 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
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Directors

Executive Directors

T G Lamb	BBusSc (Hons) CA (SA) CFA
E van Zyl	BSc (Eng) MBA MFin

Non-Executive Directors

VA Christian	BCom CA (SA) (Independent)
R J Formby	BSc (Eng) MBA
ED Loxton	BCom (Hons) MBA (Chairman)
B Madikizela	MCom (Int Acc) CA (SA) (Independent)
JWT Mort	BA LLB (Independent)

Company Secretary

C E Solomon BBusSc (Hons) CA (SA)

Details of the individual who supervised the preparation of the Annual Financial Statements

TJW 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 South Africa (ASISA).