ALLAN GRAY

QUARTERLY COMMENTARY 4

31 DECEMBER 2016

LONG-TERM THINKING IN ACTION

The cover of this Quarterly Commentary features the Molai Forest in Assam, India. In 1979, a teenage boy named Jadav "Molai" Payeng noticed that a great number of snakes that had been washed onto a sandbar during flooding were dying in the heat due to the lack of a tree canopy.

He was deeply moved by what he witnessed and decided to take action. He alerted the forestry department only to be told that there was little chance of growing anything in the arid conditions.

Undeterred, he planted trees daily for over 30 years, turning the once-barren sandbar into a sprawling 1 360 acre forest. Today, this ecological haven is home to a diversity of wildlife, including birds, deer, apes, elephants, rhino and even endangered Bengal tigers.

The Molai Forest is an accomplishment that demonstrates the power of adopting a long-term approach. It teaches us at Allan Gray what commitment, courage and perseverance can achieve over time.

The Allan Gray Quarterly Commentary is printed on LumiSilk, a paper made from trees grown specifically for paper manufacturing.
The paper is certified by the Forest Stewardship Council (FSC), an organisation which promotes responsible management of the world's forests.

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ROB DOWER

COMMENTS FROM THE CHIEF OPERATING OFFICER

The Cape Town traffic can be quite frustrating. Mountain biking is fun. Combined, these two facts make commuting on a bicycle along Table Mountain's gravel tracks a logical choice if you live here. The problem is that in the summer, when it is light early enough to ride to work, the wind blows incessantly. This is good when there is a tailwind, but very unpleasant when it buffets from the side or blows from the front.

2016 was a tough year for South African investors. There was no wind from behind to help us along in local equities or property and, when priced in rands, no tailwind in foreign equities or international bonds either. Investors in South African bonds were rewarded with double-digit returns in 2016 (15.4%), but they had a very nervous time thanks to terrible politics and sceptical rating agencies. Contrast this with the 10 years from 2005 to 2015, when the average balanced fund manager, combining these asset classes in a moderate risk portfolio, beat inflation by 5% largely thanks to helpful tailwinds from local and international equities. In 2016 the same balanced funds returned a measly 1.2%, way behind inflation. Our Allan Gray Balanced Fund was more than 5% ahead of its benchmark for the year, which helped improve the picture for many investors. But we can't be too happy with our relative victory since we didn't create any real wealth; we were marginally behind inflation.

This may be pushing the analogy a bit, but active managers like us have handlebars to steer and pedals on our bicycles. I admit that these require skill, but they are very useful when the wind isn't blowing in your favour. Passive funds make no attempt to stand or counter the market's buffeting, so although they look good when the wind is blowing in the right direction, they also tend to do less well when it isn't.

Performance of our unit trusts

I am pleased to report that, to the end of 2016, our Equity, Balanced and Stable Funds all beat their benchmarks over three, five and 10-year periods. 2016 was also an unusually good year for our offshore partner Orbis, with the Orbis funds outperforming their benchmarks by an asset-weighted 7.6% after all fees and expenses. This benefited our unit trusts that have offshore exposure (although rand strength tempered this somewhat).

The tables at the end of this magazine show performance over different periods for all our mandates. While good historic performance is always pleasing, remember that you are now invested for future performance.

Understanding the context in which we invest

Although the economic and political landscapes are not major considerations for our stock selection, it's important to understand the context in which we must invest. Time can give us perspective as we get used to a changing world and try to understand the reasons for the unexpected events and the implications of these events for the future. It also helps to look back over history. Sandy McGregor provides some perspective as we begin 2017 with the global political landscape looking very different.

Application of our investment philosophy

This quarter, Alec Cutler shares some details about the Orbis Global Balanced

Fund. This is an important Fund for our unit trust investors. If you are invested in the Allan Gray Orbis Global Fund of Funds, the Orbis Global Balanced Fund makes up around 75% of your portfolio, it makes up 9% of the Allan Gray Balanced Fund (35% of its offshore allocation) and 15% of Stable (60% of its offshore allocation).

Global Balanced aims for both capital appreciation and income generation, balanced by the risk taken to achieve each. Alec explains why Orbis isn't currently buying the highest yielding shares, since these are now priced at a level that makes these 'low risk' investments unusually risky. He points out that, for Orbis and Allan Gray, in every mandate we manage, we base investment decisions on whether a security offers a discount to our assessment of its intrinsic value, and whether holding it will improve the portfolio's overall balance of risk and return.

Alec also briefly touches on the investment case for US lender Wells Fargo. Moving back on to home soil, Ruan Stander looks at the investment case for hospital operator Life Healthcare. Both these examples illustrate how negative sentiment can push share prices down. Ruan explains why we believe negativity can create opportunity for long-term investors like us to earn attractive returns.

Get your tax breaks now

Every year ahead of the end of the tax year in February, we remind investors to think about taking advantage of some of the incentives the government has put in place to encourage us to save. In March 2016, the amount you can contribute to your retirement funds tax-free was increased from 15% to 27.5% of the higher of taxable income or of remuneration, capped at R350 000 per year. On top of this, in March 2015 the government introduced a tax-free savings product to encourage us to save our after-tax money. You can invest R30 000 per year (up to a maximum of R500 000 over your lifetime) and benefit from growth free of dividends tax, income tax on interest and capital gains tax.

If you haven't taken full advantage of these tax incentives I encourage you to read Carla Rossouw's piece to learn more, and to take action ahead of the end of the tax year on 28 February.

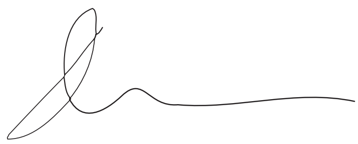
All of our tax-incentivised vehicles use unit trusts as their underlying investments. While there is an overwhelming number of local unit trusts to choose from, once you have narrowed down your choice, factsheets provide a comparable summary. In this quarter's Investing Tutorial, Ray Mhere explains how to read a factsheet, which is an essential part of your research and should help you make smarter investment decisions, with the help of your financial adviser if you use one.

Foundation update

The Allan Gray Orbis Foundation's mission is to cultivate the entrepreneurial mindset of young people. We are very inspired by the Fellows from the Foundation who have gone on to establish businesses. In Zimkhitha Peter's update this quarter, she shares some of the Foundation's successes in the face of a difficult year for tertiary education.

Thank you for trusting us with your savings and best wishes for 2017 from all of us at Allan Gray.

Kind regards



Rob Dower

SANDY MCGREGOR

A CHANGING WORLD

The political shocks of 2016 are a manifestation of rising public discontent about prevailing economic and social conditions. Sandy McGregor provides some perspective to help us understand this changing world in which we find ourselves so that we can plan for a more uncertain future.

The victory of Donald Trump is a vote for change

The victory of Donald Trump in the US presidential election took the market by surprise. Market behaviour subsequent to the event suggests that while Trump's victory was unexpected by investors, it was not unwelcome. After a brief hesitation on the evening the last election results were announced, US share prices and the dollar appreciated.

Trump won despite having insulted at one time or another almost every constituency in the US, including women, blacks, Hispanics, Mexicans, Muslims, the Wall Street elite, war heroes and even the obese. Repeatedly he expressed opinions which conventional wisdom judged to be fatal to his cause. Perhaps he won because Hillary Clinton offered nothing more than another four or even eight years of the same policies, which many judge to have failed. Trump offered change. Voters may not know the solutions to their grievances but they are increasingly of the view that, where current policies are not working, something different should be tried.

A common characteristic of any ruling political elite is an inability to contemplate, let alone implement, radical change. If you want change you must replace the entire incumbent leadership. This is what happened in the UK and the US between 1979 and 1981 when Margaret Thatcher and Ronald Reagan came to power espousing an economic philosophy totally different from the then-prevailing consensus. More dramatically, in 1989 communist regimes in Eastern Europe were overthrown by a popular uprising and replaced by market economies. The election of Trump is following a trend we are seeing in other democracies, where incumbent political leaders, who have been judged to have failed, are being voted out, regardless of their political persuasion. There is increasing pressure for change.

Secular stagnation

In developed economies the root cause of contemporary popular discontent is 'secular stagnation', a concept we discussed in detail in Quarterly Commentary 2, 2015. These countries have ageing populations and face rising costs of pensions and healthcare. Increasingly the surplus produced by a shrinking workforce is being redistributed as social benefits. Improved healthcare and healthier lifestyles are extending longevity and therefore the pension burden. The simple truth is that many countries have made commitments to pay retirement benefits which they cannot afford.

Economic growth requires increasing productivity. Ever-rising welfare payments crowd out productive investment required to grow the economy. The inevitable cost of adverse demographics is slower economic growth. The dilemma faced by a redistributive state is that it needs strong economic growth to be able to afford to make welfare payments but, because of them, it is not going to achieve the growth it requires.

The crisis of 2008 was triggered by imprudent borrowing and lending. The legacy of this crisis was a burden of excessive debt. Combined with the consequences of ageing populations, this has created a condition of secular stagnation in developed economies to which the incumbent political elite has few answers. Probably there is no sustainable long-term solution, but the pressure to do something, indeed anything, is growing.

The response to the crisis of 2008

There was a three-pronged response in developed countries to the crisis of 2008 and subsequent secular stagnation. The first was fiscal prudence, which was essential if excessive government debt was to be serviced. The second was aggressive monetary easing by central banks. Interest rates went to zero. They also embarked on programmes of quantitative easing, which is a euphemism for printing money. Thirdly, there was a plethora of new regulation of both the business sector and private individuals. These had varying degrees of success:

1. A positive outcome from fiscal discipline

Fiscal prudence has delivered positive results. The poster children of fiscal discipline are the Baltic States and Ireland, all of which aggressively balanced their budgets despite the severe contraction their economies suffered as a consequence. They accepted short-term hardship as a price for sustainable longer-term growth. Their economies rapidly adjusted and repriced, allowing growth to resume. The Conservative government in the UK cut its budget deficit aggressively, against the advice of the International Monetary Fund (IMF), and now is one of the better economic performers in Europe. Germany never had big deficits and its economy was only slightly damaged by the financial crisis. The countries which imposed fiscal discipline have been rewarded with better growth. However, while they may be doing relatively well, in a world of secular stagnation they are growing at a much slower rate than they did in earlier, happier times.

"IN CONTRAST TO FISCAL DISCIPLINE, THE GREAT MONETARY EXPERIMENT OF ZERO INTEREST RATES AND PRINTING MONEY HAS BEEN A TOTAL FAILURE."

2. Monetary policy fails

In contrast to fiscal discipline, the great monetary experiment of zero interest rates and printing money has been a total failure. It has not created growth because one cannot reverse the consequences of adverse demographics by manipulating interest rates. Rather it has had adverse consequences on the way people save and invest, creating asset price bubbles and a misallocation of resources, which has had a cost in declining productivity and therefore slower growth. In boosting asset prices it has led to the unpopular consequence of making the rich richer.

3. Increased regulation stifles growth

Greater regulation has also had a negative impact on growth. Unfortunately, regulatory structures are created by governments with sanctimonious claims of their virtuous intentions, but with little study of the huge costs that compliance imposes on business and ordinary citizens.

In the US, Obamacare and the Dodd Frank Act – which regulates the financial sector – are administrative nightmares, imposing incredible complexity on business. The Basel accords to control international banking are an attempt to solve the 2008 crisis in retrospect. The consequences of regulation are higher costs to the consumer, who has to pay for compliance and a significant decrease in investment because regulation increases the cost of doing business. One of the biggest systemic risks facing the world economy is the unintended consequences of regulations which have become far too complex. The explosion in the scope and number of regulations is a significant contributor to the current economic malaise.

The push for more government spending

During the past year there has been growing popular discontent about the failure of the above-mentioned strategies to deliver an improving quality of life to any but the super-rich. Trump's victory reinforces the pushback against what are increasingly regarded as failed policies.

Demands that governments spend more on infrastructure are increasing. Trump has promised to do just this and the deteriorating condition of America's infrastructure, most of which is more than 50 years old, provides a strong argument which might persuade Congress to support such a programme. In Europe, Germany is being pressured by the EU to abandon its balanced budget and to spend more to boost growth on the continent as a whole. In July, when Theresa May became prime minister of the UK, she promised to ease up on the austerity imposed by the Cameron government. A fashionable consensus is developing that governments should spend more.

The lesson of history is that governments abandon prudent finance at their peril. In a world of rising commitments to fund retirement benefits, any state which adds significantly to public debt to pay for a temporary boost to growth faces ultimate financial disaster. Germany's approach of balancing its budget is the only prudent way to go.

This orthodoxy is increasingly being questioned. Over the past eight years central banks in developed economies have abandoned all prudence and printed vast amounts of money in a failed attempt to stimulate demand. The expectation was that this would cause inflation. Indeed the central banks themselves expected and wanted inflation. However, they have been unable to reverse deflationary pressures, which have kept inflation close to zero. The prices of assets have gone up but not those of goods and services.

The proponents of fiscal imprudence argue that we are presented with a unique opportunity because governments can borrow cheaply and, if necessary, print the money required. Cheap money has become an excuse for fiscal irresponsibility. The pressures for an imprudent spending spree are rising. Donald Trump's victory reinforces these pressures.

The end of zero rates

The push to take advantage of zero interest rates coincides with the increasing recognition that they are unsustainable and must end soon. Central banks are being criticised for monetary policies which, far from stimulating growth, are actually a significant cause of economic stagnation. The critics argue that zero interest rates distort the pattern of saving and investment, promoting a misallocation of resources, which erodes economic efficiency and therefore growth.

The failure of unconventional monetary policy is giving credibility to its critics. It is noteworthy that Prime Minister May has publicly criticised extremely low interest rates in the UK – the first time that a head of government of a major economy has expressed such sentiments. In the US the Federal Reserve Board has finally reached the point where, with the economy operating at full capacity, it has to raise rates if it is to avoid significant inflation. The Trump victory, with its promise of more government spending, reinforces the need for higher interest rates and prompted a big sell-off of bonds. As the international monetary system is based on the dollar, ultimately all countries will have to follow the US in raising rates. The market will punish any country which persists with zero rates with a major depreciation in its exchange rate.

In recent months the dollar has been strengthening against all other currencies, a trend that has accelerated following the US election. There is a risk that the combination of a push for higher government spending and rising interest rates will cause major instability in the global financial system. A particular vulnerability is the large amount of corporate debt in the emerging economies, much of which is denominated in dollars.

Trump promises deregulation

The Obama administration was a major proponent of increasing regulation of business. Trump promises to reverse this trend. It is worth mentioning that such serious opponents of regulation as Margaret Thatcher and Ronald Reagan had limited success in reversing the inexorable increase in the number and scope of rules and regulations. However, their attitude did limit the growth in regulation. The same can be expected of Trump. International cooperation aimed at creating global regulatory systems is likely to suffer. The consequences will probably be positive for world growth. If entrepreneurs can attend to growing their businesses, rather than spend time filling in forms, the world will be more prosperous.

"THE LESSON OF HISTORY IS THAT GOVERNMENTS ABANDON PRUDENT FINANCE AT THEIR PERIL."

Change brings instability

There is a prevailing sense that things cannot carry on as they are. This will accelerate changes which were already starting to happen. The great experiment with unconventional monetary policy and excessive regulation has created a system which is inherently unstable and is unsustainable. We have entered a period of change. Change can happen with astonishing speed. It inevitably brings with it instability. In previous periods of profound change, such as the end of the post war expansion in the 1970s and early 1980s, financial markets were extremely volatile and exceptionally confusing. It is concerning that these difficult periods of transition can last for a decade or more. Getting things right will take time. The unknown unknowns which make planning for the future so difficult are compounding.

Sandy joined Allan Gray in October 1991. His current responsibilities include the management of fixed interest and individual client portfolios. Previously he was employed by Gold Fields of South Africa Limited for 22 years where much of his experience was focused on investment-related activities.

RUAN STANDER

AN INVESTMENT CASE FOR LIFE HEALTHCARE

Recent news about private hospital operator Life Healthcare's international investments has created negative sentiment about the company's ability to allocate capital wisely. Ruan Stander explains why we believe this creates the potential for long-term investors like us to earn attractive returns.

Life Healthcare has fallen out of favour with the market, but is this negativity over-exaggerated?

The company has spent the last eight years diversifying away from its South African hospitals by acquiring hospital groups in India, Poland and the UK, so far with mixed results. Under a bad scenario, where the Indian business is worth only half of the current share price, the latest acquisition in the UK is worth 50% of the price paid, and Polish hospitals are worthless, the company would lose around 10% of its current value. However, using the cash flow plus growth analysis below, the company still generates a return of 16% per annum (p.a.). Under a good scenario we believe Life Healthcare will deliver a return of 18% p.a., with substantial upside from the removal of negative sentiment.

How are these numbers calculated?

A long-term investor needs to carefully consider three things when evaluating an opportunity:

"UNDER A GOOD SCENARIO WE BELIEVE LIFE HEALTHCARE WILL DELIVER A RETURN OF 18% P.A., WITH SUBSTANTIAL UPSIDE FROM THE REMOVAL OF NEGATIVE SENTIMENT."

1. What rate of growth can a business achieve organically?
2. How much cash is generated after spending capital to achieve organic growth?
3. Does the management team manage excess cash wisely?

By way of example, let's say a company with a share price of R100:

1. Grows at 9% p.a.
2. While generating R3 of free cash flow for shareholders and
3. Distributes all the free cash flow to shareholders in dividends.

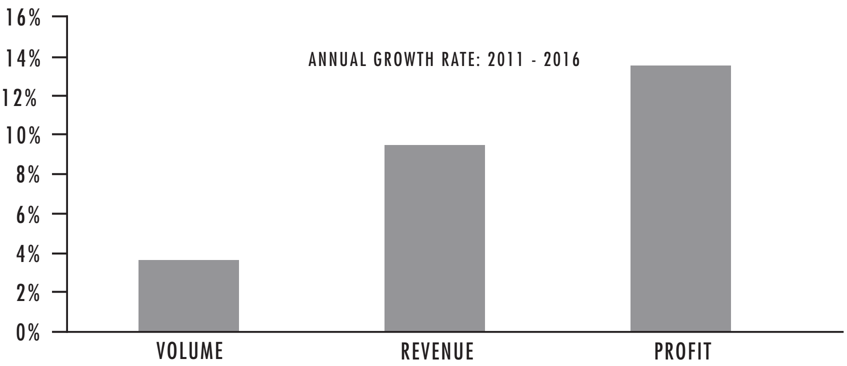
The outcome for shareholders is a total return of 12% p.a. that is calculated as a 3% dividend yield plus a 9% capital gain, assuming that the valuation multiple stays the same. This is roughly in line with the dividend yield, earnings growth and total return generated by the South African stock market (ignoring the change in valuation multiple) over the past 20 years.

Now let's consider the prospects for Life Healthcare using this framework.

Growth: Estimated at 10% p.a. going forward in South Africa

Healthcare costs grow faster than the economy in most societies these days for various reasons: ageing populations require more healthcare, innovation increases the variety of treatments available and, importantly, healthcare is a non-negotiable expense since you only get to live once. On the other hand, increasing costs attract the attention of regulators (and politicians), so hospitals

GRAPH 1 **LIFE HEALTHCARE'S SOUTH AFRICAN HOSPITALS**



Source: Allan Gray Research.

need to do their best to control costs and price increases over time for the greater good of society.

Graph 1 illustrates that Life Healthcare's South African hospitals have done well to keep costs low while growing at a healthy rate. Over the past five years, volumes have grown faster than real GDP at 3.6% p.a., with revenue growth of 9.5% p.a. (implying a price increase in line with inflation) and profit* growth of 13.5% p.a. (implying that unit costs increased less than inflation). Some of the cost drivers include scalable central costs, better utilisation of fixed assets by improving occupancies, and working constructively with doctors and medical schemes to reduce the cost of treating patients without compromising the quality of care.

If one assumes 6% price inflation, 3% volume growth (lower than 3.6% before) and 1% from operating more efficiently, the South African business could grow profits at 10% p.a. going forward.

Cash generation: 6.6% yield on South African operations alone

Double-entry bookkeeping was an important financial innovation but unfortunately some of its benefits come at a cost. One of the costs of an internally consistent accounting system is that accounting earnings almost never accurately reflect the cash a company generates for shareholders. The average company converts only half of accounting earnings to free cash flow and many companies are able to exist for decades on accounting earnings, while never generating a cent of cash flow for shareholders.

In contrast, Life Healthcare has converted around 90% of its South African earnings to free cash flow over the past five years, while growing at a healthy rate. Ninety percent of its latest reported South African earnings is roughly 6.6% of the current share price, which compares favourably with the 3% dividend yield on the South African stock market. Given that 1) healthcare is likely to exist 100 years from now, 2) substantial barriers to entry in private healthcare make it hard for new entrants to take a slice of the pie and 3) the company's low-cost operations make them strong compared to their competitors, one could argue that these cash flows will be sustainable for a longer period than the average company.

Capital allocation

Life Healthcare has spent significant capital to invest in healthcare services in India, Poland and the recently announced acquisition of Alliance Medical Group in the UK. It is perhaps premature to judge the management's capital allocation track record, but indications are mixed so far:

- Max India is not making an earnings contribution after financing costs, but the Indian stock market rates the long-term prospects of the investment highly favourable. Revenue is growing fast and earnings before interest, tax, depreciation and amortisation (EBITDA) margins are improving for mature hospitals. If it were to be sold at market prices, Life Healthcare would make an attractive return on its investment of around 20% p.a.

- Scanmed in Poland is struggling after draconian tariff cuts were enforced by the recently elected right-wing Law and Justice Party, undoing the progress achieved in improving the efficiency of hospitals acquired. Given Scanmed's low cost of doing business, it is well placed to take market share from competitors who are going out of business, which would improve its profits if or when prices become more reasonable.

- The UK acquisition seems fully priced at 20 times estimated free cash flow but, according to the CEO, it operates at a much lower cost than its competitors in diagnostics, a sector which is growing faster than the UK healthcare sector as a whole, and government hospitals are under increasing pressure to outsource to the private sector.

Scenario analysis

A punitive calculation could assume that Life Healthcare overpaid by 100% for the UK acquisition, the Indian business is worth only half the current market price and Polish assets are worthless. In this scenario, disillusioned shareholders need to inject an extra 10% in equity to maintain current free cash flow. This reduces the cash flow yield from 6.6% to 6% but still results in a total return of 16%. One could argue that this scenario holds further downside risk from future poor capital allocation decisions. This would cause shareholders

*Earnings before tax, interest and amortisation.

to hold existing board members and management accountable and most likely retreat to focus on distributing South African cash flow to shareholders, limiting the downside of further value destruction.

If the Indian business is sold at market prices, Poland is sold at cost and the UK acquisition is neutral to free cash flow per share over time, the South African business would generate an 8% cash flow yield on the remaining share price (assuming sales proceeds are paid out as a special dividend). If it grows at 10% the total return would be 18% p.a. This scenario could well deliver a higher rate of return from a higher market rating as sentiment should revert from negative to positive.

We currently hold 13.7% of Life Healthcare, which amounted to 1.4% of the Allan Gray Equity Fund on 31 December 2016.

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 as 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.

ALEC CUTLER

GLOBAL PERSPECTIVE: DO VALUE SHARES DESERVE TO BE THIS CHEAP?

The Orbis Global Balanced Fund aims to balance capital appreciation and income generation with the associated risk of its investments. These objectives naturally make the Fund relatively fond of securities that offer attractive yields. Alec Cutler looks at where the Fund is finding value.

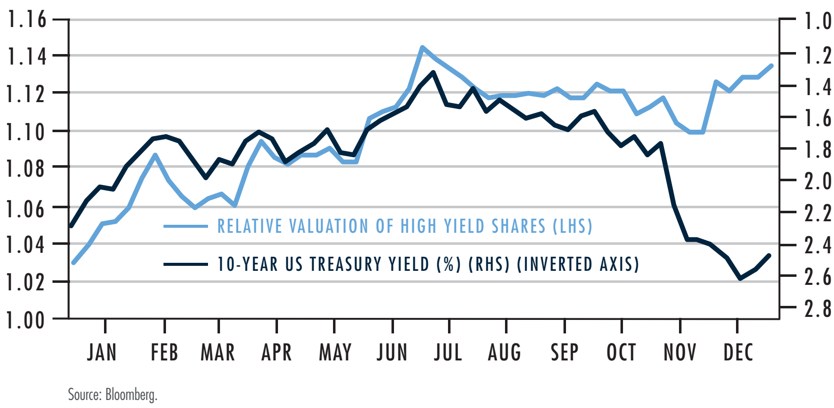
There is a difference between attractive yield and high yield, and we do not pursue high yield at the expense of all other characteristics. In Global Balanced, as in all the Orbis and Allan Gray funds, two considerations trump all others: whether a security offers a discount to our assessment of its intrinsic value, and whether holding it will improve the portfolio's overall balance of risk and return.

In 2016, Global Balanced's yield declined, from a peak of 3.5% per annum (p.a.) to 2.5% p.a. today. This does not mean we are departing from the Fund's mandate. Far from it. We still like securities with attractive yields, but with their rising popularity and valuations, we believe stocks with high yields now offer less potential for capital appreciation and a higher risk of loss than they have for some time.

This year global high yield shares in aggregate have grown roughly 10% more expensive relative to the wider stock market, as shown in **Graph 1**. Their relative price-to-book valuations peaked just as US bond yields troughed, which is no accident – low bond yields have pushed many investors into stable yielding equities in search of income. And more recently high-yield shares have remained expensive despite rising bond yields. That keeps us wary. Finding these 'lower risk' names in the portfolio rather risky from a valuation standpoint, we sold many of the Fund's stable yielding holdings in early 2016.

GRAPH 1 **HIGH-YIELD SHARES HAVE GROWN MORE EXPENSIVE RELATIVE TO THE MARKET**

PRICE-TO-BOOK OF THE MSCI WORLD HIGH DIVIDEND YIELD INDEX DIVIDED BY THAT OF THE MSCI WORLD INDEX, AND 10-YEAR US TREASURY YIELD TO MATURITY, JAN 2016 TO DEC 2016



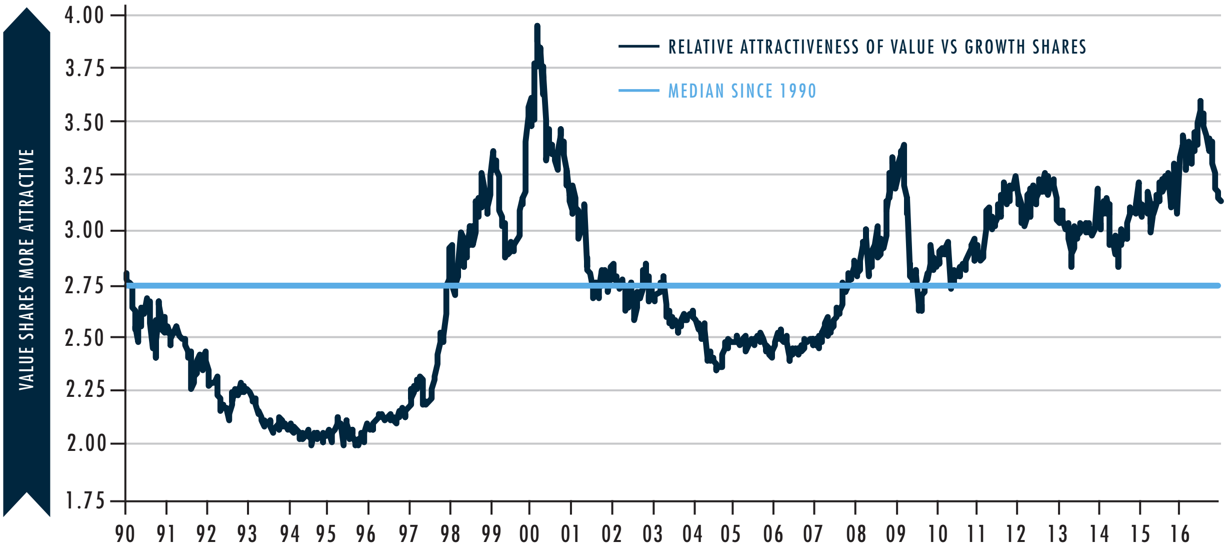
Source: Bloomberg.

Instead, we have gone to where the discounts are. Often, the best way to protect against losing money is to buy what's already down and inexpensive. Where that has led us to shares with greater business uncertainty, volatility, or economic sensitivity, we have worked to mitigate these risks by selectively hedging stock market exposure and by building greater conviction through continued fundamental research.

There are similarities between our investment philosophy and a traditional value approach of buying shares

GRAPH 2 **RECENTLY, VALUE SHARES HAVE APPEARED EXCEPTIONALLY ATTRACTIVE**

RELATIVE ATTRACTIVENESS OF VALUE VS GROWTH SHARES IN THE FTSE WORLD INDEX, 1990 TO DEC 2016



Source: Orbis. Value and growth shares are defined using price-to-book ratios. Relative attractiveness is determined using a proprietary valuation metric.

with low price multiples. We are not textbook value investors, as we believe discounts to intrinsic value can also arise when the market assigns an average valuation to a company with superior growth prospects. But if you are looking for shares that trade at a discount to intrinsic value, it's not a bad idea to hunt among shares that trade at low multiples of their book value, earnings, or free cash flow. Lately, such 'value' shares have appeared exceptionally attractive, as shown in **Graph 2**.

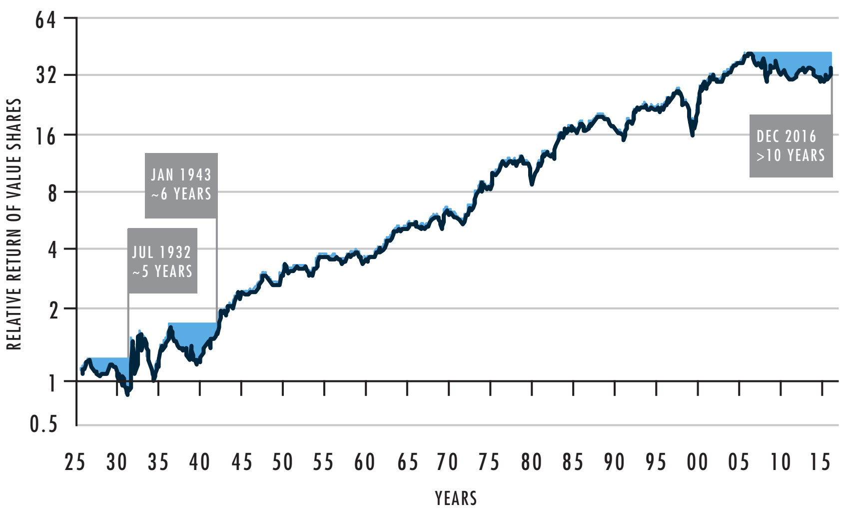
This follows a period of unusual underperformance for value stocks. Over very long periods, buying stocks that trade at a low multiple of their book value, earnings, or cash flow has proven to be a winning strategy. In the US, where a longer history of the factor's return is available, value shares have outperformed by 4% p.a. since 1926, and by at least 2% p.a. in almost every 20-year rolling period. There have been some painful periods of underperformance, such as the great depression in the 1930s and the run-up to the 2000 technology bubble, but since 1926 value shares had never gone more than six years in a row without experiencing outperformance (see **Graph 3**).

In the US and globally, value shares have lagged their growth counterparts since the end of 2006. With the data available to us, this looks to be the longest value shares have ever gone without marking a new peak in relative performance. After a long period of pain, it is tempting to wonder whether this time is different. Perhaps the value 'anomaly' has been eroded as investors have become aware of it. Perhaps the poor recent performance is a sign that the value approach is broken and it's time to give up. Or maybe it's a sign that the relationships between prices and fundamentals are still really stretched in some parts of the market. We believe that is the more likely explanation, and it leaves us excited about the opportunities in your portfolio.

How has this played out in the positioning of your Fund? The shift toward value – as well as the drop

GRAPH 3 **WE APPEAR TO BE IN THE LONGEST RUT FOR VALUE SHARES IN THE PAST 90 YEARS**

RELATIVE RETURN SERIES CALCULATED FROM THE MONTHLY RETURN OF US HIGH BOOK-TO-PRICE PORTFOLIO LESS THE RETURN OF US LOW-BOOK-TO-PRICE PORTFOLIO, LARGE- AND SMALL-CAP SHARES, JUL 1926 TO DEC 2016



Source: Kenneth French, CRSP, Datastream, Orbis. Flags show drawdown / subsequent recovery periods for US value shares' relative performance that lasted more than five years. The value factor relative return for Dec 2016 has been calculated using the Russell 1000 and 2000 growth and value indices.

in yield – has been driven by increased bank, energy, and health insurer holdings, as well as one-off deep value opportunities where we believe we have a research-driven edge. Wells Fargo is a recent example of what we're finding.

Wells is one of the premier US lenders. Reflecting its high quality, it has historically commanded a premium valuation compared to its banking peers. It is unusual for that premium to evaporate – yet it has this year. Wells was caught in a fake accounts scandal, and, although the breach was serious, it was exacerbated by the very partisan US election cycle, leaving the normally-above-the-fray company stuck in congressional hearings and on the front page of newspapers for weeks. Investors responded to the negative press, pushing the share down 14% from the beginning of September to early October. That brought the company's valuation down to 11 times trailing earnings and 1.25 times book value. Those would be reasonable multiples for a mediocre bank, but for Wells, they were deep value levels. With our research identifying the fake account issues as unlikely to have nearly the lasting impact on valuations priced into the stock, and likely to be short-lived in intensity, we were able to build Wells into a top ten holding with a 2.4% position. While the stock has risen since then, the ride back to fair value may well still be a bumpy one.

It would of course be nice, and not too hard, to craft a pretty portfolio that has a high indicated yield. But we're not hired to do nice or easy, and right now we believe that a feel-good portfolio would be very risky without bringing much in terms of reward potential. More to the point, our best investment ideas and research efforts have resulted in an overall shift towards more classic value shares in Global Balanced's portfolio. While only time will tell whether this was the right move in the near or medium term, we are confident that following our philosophy in a disciplined manner will bear fruit over the long run.

Alec joined Orbis in 2004 and is a Director of Orbis Holdings Limited. He previously worked for 10 years at Brandywine Asset Management Ltd managing the Relative Value strategy, co-managing the Large Cap Value area and co-managing the firm as a member of the Executive Committee.

CARLA ROSSOUW

HOW TO MAXIMISE TAX BENEFITS BEFORE THE END OF THE TAX YEAR

Every year at around this time – ahead of the end of the tax year in February – we remind investors to think about taking advantage of some of the incentives the government has put in place to encourage us to save. We repeat this message here to help you understand what's on offer if you want to invest some of your hard-earned money so that less lands up in the hands of the taxman. Carla Rossouw explains some of the options.

Take full advantage of the increased tax-free limits for retirement annuity contributions

The government offers incentives to save for your retirement in an official retirement saving product, such as a retirement annuity (RA). In return for putting your money away for the long term, you can invest in an RA and deduct the amount from your taxable income. In addition, while you are invested in an RA growth is free of dividends tax, income tax on interest and capital gains tax.

In March 2016, the amount you can contribute to your retirement funds tax-free was increased from 15% to the higher of 27.5% of taxable income or remuneration, capped at R350 000 per year. If you haven't reached these limits you have until the end of February to take advantage.

"BOTH THE ALLAN GRAY RA AND TFI ARE PROTECTED AGAINST THE CLAIMS OF CREDITORS"

Remember that RAs are available to everyone – whether you want to supplement your existing contributions to your employer's pension or provident fund, or if you are an entrepreneur or an individual without an existing savings structure in place. If you are an employer, you can offer a group retirement annuity to your employees, giving them individual RA accounts, but managing them on a group basis.

Use a tax-free investment account to benefit from long-term tax savings

In March 2015 the government introduced a tax-free investment (TFI) product to encourage us to save our after-tax money. You can invest R30 000 per year (up to a maximum of R500 000 over your lifetime) and benefit from growth free of dividends tax, income tax on interest and capital gains tax.

How do retirement annuities and tax-free investments compare?

1. Access to your cash

Your investments in an RA cannot be accessed before the age of 55, except in very specific circumstances.

You can access your TFI at any time. However, withdrawing from a TFI account impacts negatively on your lifetime investment limit of R500 000 – you cannot replace money that you have withdrawn.

2. Tax savings

The main difference between the two products is when you get the tax benefit.

An RA offers tax savings now, i.e. you pay less tax now because you make contributions with earnings on which you have not paid tax, but you will pay tax later, i.e. you defer paying tax.

Apart from deferring tax in an RA, a further tax saving may come from paying a lower average tax rate on the benefits withdrawn from the RA at and after retirement, versus the tax saved on contributions. The first R500 000 of any lump sum you withdraw from your RA at retirement is currently tax-free, but this includes any pre-retirement withdrawals from this or any other retirement products. You can withdraw up to one-third; the rest of the benefit must be transferred to an income-providing product, such as a living annuity or a guaranteed life annuity. When you pay income tax on the benefit from your living annuity or guaranteed life annuity, you are likely to be taxed at a lower rate than when you were making contributions, which is where the potential additional tax savings come in.

With TFI products, on the other hand, you use after-tax money to invest, but you pay no tax later; your withdrawals are completely tax-free.

3. Investment restrictions

RAs are governed by the retirement fund regulations, specifically Regulation 28 of the Pension Funds Act, which limits the exposure you can have to riskier asset classes, such as equities and offshore investments. In TFI products, there are no restrictions on asset classes but you can only invest in investments that charge fixed fees, which limits your selection.

4. Maximum investments

While you can only invest up to 27.5% of your salary tax-free into an RA, there are no penalties for exceeding this limit. You can invest as much as you like, whenever you want.

It's important to note that you can only invest R30 000 per year in TFI products. This is the maximum limit for all TFI accounts in your name, across product providers.

If your goal is to save for retirement, the maximum annual contribution of R30 000 in a tax-free savings account may not be enough to sustain your lifestyle, and, if you over-contribute, SARS will hit you with a hefty 40% tax penalty.

> **"RAs AND TFIs FULFIL DIFFERENT OBJECTIVES AND IT MAY NOT BE AN EITHER/OR DECISION..."**

5. Creditors

Both the Allan Gray RA and TFI are protected against the claims of creditors and do not form part of your insolvent estate. This feature is not applicable to all TFI products but it is applicable to the Allan Gray TFI, which is a life policy.

6. Estate planning

You may nominate beneficiaries for an RA, although the trustees determine the allocation between your dependants and nominees. You may nominate beneficiaries when the TFI is a life policy. RAs are exempt from estate duty, whereas TFIs form part of your estate and attract duty, although there are no executor fees if beneficiaries have been nominated.

7. Investing on behalf of your children

While it is technically possible to invest in an RA on behalf of your children, you will forego the tax benefit if they have little or no income to claim against. They can also only access the money once they retire.

Because TFIs grow free of capital gains tax, they are an excellent option for investing on behalf of your child as their true benefit will be felt through compounding gains over the long term. While you cannot invest more than R30 000 per year in a TFI, this restriction is per individual investor, so you are free to invest R30 000 in your own name and those of your children. However, the amount you invest on behalf of your children will reduce their own life-time contribution limit.

Remember, that if you donate money to your children or transfer an investment to them, you are liable for donations tax at a rate of 20% of the donated amount, which must be paid by the end of the month after the month the donation is made. There is an annual donations tax exemption of R100 000. This exemption is per person donating per year and not per donation made.

Which product is right for you?

RAs and TFIs fulfil different objectives and it may not be an either/or decision, but rather a question of using both for different needs. From a retirement savings perspective, in most cases RAs offer the best tax deal. However, you need to be able to live with the restrictions described above. For long-term discretionary investments, it probably makes sense to put your first R30 000 into a TFI product. Remember, however, that you will need to be disciplined and resist the temptation of withdrawing from your TFI account in order to enjoy the long-term compounding benefits.

It is important to look at your portfolio holistically, either on your own or with the help of a good, independent financial adviser, to ensure your decisions fit in with your long-term plan.

CONTRIBUTION DEADLINES

If you are planning to make use of the tax concessions for this tax year by starting a new RA or TFI, or by making an additional contribution to an existing account, please make sure we receive your instruction, supporting documents and payment well in advance of the 28 February deadline. Remember that some methods of payment take longer than others to reflect in our bank account. Please note the cut-off times listed below:

Electronic collections

We need to receive your instructions and proof of banking details (if we do not already have this information on record) before 14:00 on Monday, 27 February 2017.

Withdrawals from existing unit trust investments into an RA or TFI

We need to receive your unit trust withdrawal instructions, as well as additional contribution instructions, before:

- 14:00 on Wednesday, 22 February 2017, for withdrawals from Allan Gray Investment Platform accounts (i.e. if your account number starts with AGLP)
- 14:00 on Friday, 24 February 2017, for withdrawals from Allan Gray Unit Trust accounts (i.e. if your account number starts with AGUT)

Electronic fund transfers and cheque deposits (RAs only)

As electronic fund transfers (EFTs) may take up to two business days to reflect and cheque deposits may take up to three business days to reflect, please submit your instructions and make payment sufficiently in advance. Please note that we do not accept EFTs or cheque deposits for contributions into TFI accounts.

Carla joined Allan Gray in 2006 and is responsible for taxation in the retail business. She has an Honours degree in Management Accounting, a Higher Diploma in Tax Law and a Post Graduate Diploma in Financial Planning.

RAY MHERE

HOW TO READ A FACTSHEET

The number of options when choosing a unit trust can be overwhelming and is one of the most common barriers to investing. Unit trusts are registered in categories to make it easier to choose between them, and Allan Gray offers a very limited range of unit trusts to keep things simple. Once you are choosing between a final few unit trusts, factsheets provide a useful and comparable summary. Ray Mhere explains how to read a factsheet to help you make better investment decisions.

Legislation requires that all unit trusts produce a minimum disclosure document (MDD), which in many cases is called a factsheet. This document details how the unit trust operates, its performance, its risk profile and the costs associated with it. You can use factsheets to get more insights into the unit trusts you are considering and to compare their characteristics. This should help you make more informed investment decisions.

What a factsheet can tell you

Each of the sections on the factsheet builds a picture of the personality of the unit trust. Using this, you can compare unit trusts and make decisions based on comparable facts.

The sections of a factsheet are designed to answer the following questions:

1. What is the unit trust's objective and benchmark?

This section lays out the definition of success for a unit trust, by stating its goal and benchmark. A unit trust measures its success in achieving its goal by comparing its return to that of a benchmark.

For example, the objective of the Allan Gray Balanced Fund is 'to create long-term wealth for investors…. It aims to outperform the average return of similar unit trusts without assuming any more risk.'

> "A FACTSHEET IS A GOOD SUMMARY THAT CAN HELP YOU FIND OUT ABOUT A UNIT TRUST, BUT IT CANNOT REPLACE PROFESSIONAL FINANCIAL ADVICE."

You can use benchmarks to evaluate performance. In the case of the Balanced Fund, the benchmark is the weighted average return of all the unit trusts in its category (excluding Allan Gray unit trusts).

When appraising a unit trust you should look at whether its benchmark is appropriate, as it may be used to determine the fees charged by the unit trust. If it charges performance fees, a unit trust with a lower benchmark than that of others in the same category may cost more as it more easily collects fees when it clears that benchmark.

2. How does the unit trust aim to achieve its objective?

The mandate of a unit trust dictates what types of assets it buys into, while the investment philosophy of the manager describes the way the manager invests.

A single factsheet won't show you whether the stated investment philosophy actually describes how the unit trust manager behaves. But if you are choosing between a few final unit trusts, it is worth reading the investment commentaries written by the portfolio managers over time, to get a sense of whether or not they are sticking to a tried-and-tested method. If this is the case, their long-term performance is probably a reasonable indicator of future outcomes.

A positive long-term track record that shows reasonably consistent performance at similar points in different market cycles also gives some indication that a manager is applying a consistent investment philosophy and process.

3. How much do I need to invest and what will it cost?

Unit trusts charge either a fixed percentage of the fund (a fixed fee) or a variable percentage based on performance (a performance fee). The factsheet will show the basis for calculating the fee and the average annual total fees and expenses in the fund over the last three years (the total expense ratio).

Just like anything you buy, you should aim to get value for money with fees, so a unit trust that charges fees above the average of its peers should also deliver above-average returns. Since performance is easy to measure, you would expect that more expensive unit trusts would always be better than cheaper ones, but that is not the case. Some cheaper unit trusts are very good value for money, and some expensive ones are very poor value for money. Well-designed performance fees can help to make sure that you only pay a high fee if the unit trust performs well.

A factsheet will also include the minimum investment amounts. Many very good unit trusts have lower minimums than you would expect, especially if you make a monthly contribution.

4. How has the unit trust performed in the past?

On every factsheet, somewhere in the fine print, you will have language saying something to this effect: 'Past performance is not necessarily a guide to future performance'. With this warning in mind, it is important to tread carefully when using performance as an indicator – especially when it is used in isolation. Read the performance figures alongside the investment philosophy and the risk numbers to get a clearer picture of how the unit trust operates.

Having said that, over long periods, good performance is more likely to be an indicator of a good manager and is unlikely to be the result of pure luck. Short-term returns (less than three years) can vary widely and are often meaningless when it comes to selecting a unit trust, but long-term returns can show a skillful manager.

5. How much risk has the unit trust taken on to achieve its returns?

Risk and performance are intertwined and one cannot speak about one without mentioning the other. On a factsheet the relevant numbers to note will include:

- Maximum drawdown: the highest percentage decline the unit trust has had.
- Positive months: the number of months the unit trusts has produced a positive return.
- Monthly volatility (in some cases called 'Standard Deviation'): how much the unit trust's return varies statistically from its average over time.
- Highest and lowest annual return: the highest and lowest returns over a 12-month period.

Each of these measures show how well the manager has done to manage risk, but they also depend a lot on the type of assets your unit trust invests into. Equity unit trusts will usually be the most risky, followed by balanced (high and medium equity multi-asset) unit trusts, low equity unit trusts and then money market unit trusts.

These risk measures show the lived experience of being in that unit trust. If you, as the investor, cannot handle the ups and downs of being in the unit trust you choose, you could find yourself selling your investments at exactly the wrong time, just after a period of losses and before a period of recovery.

What a factsheet will not tell you

Although some factsheets may include a 'Who this is suitable for' section, no factsheet can tell you whether a unit trust fits into your broader portfolio and whether it matches your personal goals. If you need help to link your needs as an individual and the financial tools available to you, you would probably benefit from independent financial advice. A factsheet is a good summary that can help you find out about a unit trust, but it cannot replace professional financial advice that speaks to your unique situation.

Where can I find factsheets?

Unit trust factsheets are usually available online on the investment managers' website in PDF format and are updated by managers, like Allan Gray, every month. You can call our Client Service Centre if you would like to receive your Allan Gray factsheets by email.

Ray joined Allan Gray in 2010 and is currently the Johannesburg regional manager. He holds a B.Com. degree from the University of Cape Town in Economics and Law and has also completed his Post Graduate Diploma in financial planning through the University of the Free State.

ZIMKHITHA PETER

ALLAN GRAY ORBIS FOUNDATION UPDATE: WHAT MUST RISE?

The Allan Gray Orbis Foundation's mission is to cultivate the entrepreneurial potential of young people. To do this, we try to help candidates build entrepreneurial growth mindsets, which can lead to success in many other spheres of life. Zimkhitha Peter looks back at the Foundation's achievements in 2016.

The past year has been described as a year of fallism in South Africa. The #FeesMustFall movement has given rise to a new generation of controversial student activists. Following on that, #MustFall became a mantra for anything and anyone that we disagreed with.

Towards the end of the year, some prominent South African leaders started asking 'What must rise?' as a counter to fallism. What can we all put our energies towards improving our society? This reframing is characteristic of the Foundation's approach to investing in young people who want to positively change our country. For us at the Foundation, we believe that for South Africa to begin to fulfil its exciting potential and to prosper, the entrepreneurial mindset must rise.

What is an entrepreneurial mindset?

We believe that being able to recognise opportunities and creatively generate new ideas (Intellectual Imagination), having a bias for action (Personal Initiative), focusing on the future and being self-efficient (Spirit of Significance), having resilience and accepting risk (Courageous Commitment) and possessing the motivation and desire to achieve (Achievement Excellence) are all critical to becoming a successful entrepreneur. Not only do we select for these qualities, but our programmes are designed to develop them further. This is demonstrated by the achievements of our beneficiaries in 2016. These attributes add up to an entrepreneurial mindset.

"FOR SOUTH AFRICA TO BEGIN TO FULFIL ITS EXCITING POTENTIAL AND TO PROSPER, THE ENTREPRENEURIAL MINDSET MUST RISE."

In their bestselling book 'Put Your Mindset to Work', James Reed and Paul Stoltz describe mindset as what you see, think and believe. Each person's unique mindset is coloured by life experience, personal traits and education, and can thus be developed. Carol Dweck, a professor of psychology at Stanford University, goes further by describing the difference between fixed and growth mindsets. People with a fixed mindset believe that their capacity and ability are static. Since they believe they are limited, they tend to give up easily when they face a challenge that they don't have the immediate ability to conquer. A growth mindset, on the other hand, is rooted in the belief that capacity and ability can be developed, challenges must be embraced with innovative solutions and that criticism is a learning opportunity. Since they believe that they can grow, they tend to be more persistent.

The Foundation's programme and curriculum are focused on providing structure and opportunity for all our beneficiaries to engage in the deliberate practice and hard work that we believe will lead to the development of an entrepreneurial mindset.

Summary of the achievements of Foundation beneficiaries in 2016

Over 50 Allan Gray Scholars doing their high school education were elected to leadership positions, including as prefects. Two Scholars were appointed as Deputy Head students of their respective schools, Bishops Diocesan College and St. Cyprians, while another represented SA Schools in the World Knowledge Forum in Japan.

Nine Candidate Fellows became members of the Golden Key Honours Society. One Candidate Fellow started a home security app called Jonga, which achieved third place at the Global Social Venture Competition. Another Candidate Fellow attended the One Young World Conference in Ottawa, Canada and one was head of the University of Cape Town's delegation to the Model United Nations in Rome. Another seven Candidate Fellows were awarded Mandela Rhodes Scholarships at the end of the year.

This year the Association of Allan Gray Fellows, in collaboration with our empowerment partner E^2, launched an accelerator programme for Fellow-led start-up businesses. The accelerator took the form of a three-month programme of intensive work to prepare start-ups to pitch to investors, culminating in a Demo Day at the end of November 2016, where the businesses presented to a carefully selected audience of stakeholders.

The businesses that participated are shown on page 19.

2016 Foundation selection

Allan Gray Fellowship

Our university Fellowship continues to excite and draw applicants from all provinces in South Africa, and we seek to select those with the greatest potential to become high-impact, responsible entrepreneurs. Only 6% of those who applied for the Fellowship opportunity were selected, as shown in **Table 1**.

Allan Gray Scholarship

This year 30 Grade 7 candidates were selected for an Allan Gray Scholarship for high school, as shown in **Table 2**. A further 10 scholarships will be funded by our partner, the Standard Bank Tutuwa initiative.

Through our candidate Fellows and our work in education, the Foundation finds itself currently in the midst of the student struggles. The issues we need to resolve are challenging. Like many other institutions involved in education in South Africa, we find ourselves needing to exercise our own entrepreneurial mindset. These are uncomfortable times, but we are being pushed to lift our game as an institution and to think hard about how we add value. Our commitment remains unwavering to seeing an equitable, entrepreneurial South Africa that is flourishing with meaningful employment.

TABLE 1 **ALLAN GRAY FELLOWSHIP**

FELLOWSHIP CANDIDATES	GRADE 12	UNIVERSITY	TOTAL
Applications received	1 035	915	**1 945**
Interviews conducted	320	165	**485**
Camp attendees	167	85	**252**
Offers			**122**

TABLE 2 **ALLAN GRAY SCHOLARSHIP**

SCHOLARSHIP CANDIDATES	
Applications received	**3 200**
Exams for interview	**1 031**
Interviews conducted	**137**
Camp attendees	**60**
Allan Gray Scholarship offers	**30**

BUSINESSES STARTED BY FELLOWS WHO PARTICIPATED IN THE ACCELERATOR PROGRAMME

Parktown Clothing, a Cape Town based company which creates made-to-measure clothing. www.parktownclothing.com

AKAN Organics, which sells all-natural hair and skin care products. www.akanorganics.co.za

HouseME, a new way to rent which improves the processes of finding a property to rent for tenants and that of finding tenants for landlords, and deals with property management headaches from both sides. www.houseme.co.za

Rooster, an alarm-app for mobile devices that allows users to send and receive personal audio notes that surprise the receiver (positively) when they wake up. www.roostermornings.com

Scoody, which manufactures and distributes a custom garment called the Scoody (scarf/hoody) to corporates, sporting brands, schools, societies, events and promotions companies, and individuals. www.scoody.co.za

Map Blitz, an educational, fun, and engaging new brand of the world map puzzles with a time challenge. www.mapblitz.com

Chicco's Barbers, a tech-enabled turnkey system to optimise the haircutting business, allowing barbers to generate more revenue and operate more professionally. www.chiccosbarbers.co.za

InciTech, a medical diagnostics company that has developed a revolutionary rapid HIV test. www.incitech.co.za

thegradspace, an exclusive professional network for top performing university students. www.thegradspace.co.za

Interested learners can find more information about the Scholarship and Fellowship opportunities at: www.allangrayorbis.org

Deadlines for applications for Fellowship opportunities, to study at university, are 28 April 2017 for Grade 12 learners and 18 August 2017 for first and second year university students. Grade 6 learners must apply for a Scholarship opportunity, for their high school education, by 29 September 2017.

Allan Gray Orbis Foundation

Zimkhitha Peter is the Head of Programmes at the Allan Gray Orbis Foundation. She holds a B.Com. Honours in Industrial Psychology (UNISA) and a Leadership Development qualification from Harvard Business School. She is passionate about seeing the Foundation as the centre of excellence in the development of entrepreneurial capabilities.

NOTES

ALLAN GRAY BALANCED AND STABLE FUND ASSET ALLOCATION AS AT 31 DECEMBER 2016

	BALANCED FUND % OF PORTFOLIO			STABLE FUND % OF PORTFOLIO		
	TOTAL	SA	FOREIGN*	TOTAL	SA	FOREIGN*
Net equities	60.9	46.2	14.7	30.3	20.2	10.1
Hedged equities	8.6	0.9	7.7	14.5	3.5	11.0
Property	1.4	0.7	0.7	2.5	1.8	0.7
Commodity-linked	4.2	4.1	0.2	3.4	3.1	0.3
Bonds	12.0	10.5	1.5	16.6	14.5	2.1
Money market and bank deposits	12.9	11.1	1.8	32.7	30.5	2.2
TOTAL	**100.0**	**73.4**	**26.6**	**100.0**	**73.7**	**26.3**

Note: There might be slight discrepancies in the totals due to rounding.
* This includes African ex-SA assets.

ALLAN GRAY EQUITY FUND NET ASSETS AS AT 31 DECEMBER 2016

SECURITY (RANKED BY SECTOR)	MARKET VALUE (R MILLION)	% OF FUND	FTSE/JSE ALSI WEIGHT (%)
SOUTH AFRICA	**32 431**	**83.5**	
SOUTH AFRICAN EQUITIES	**31 282**	**80.5**	
RESOURCES	**6 643**	**17.1**	**22.4**
Sasol	3 304	8.5	
Sappi	479	1.2	
Glencore	446	1.1	
Impala Platinum	386	1.0	
Goldfields	349	0.9	
Positions less than 1%	1 679	4.3	
FINANCIALS	**11 667**	**30.0**	**25.5**
Standard Bank	2 836	7.3	
Old Mutual	2 389	6.1	
Reinet	1 115	2.9	
Investec	1 058	2.7	
Rand Merchant Investment[1]	799	2.1	
Capitec	520	1.3	
Barclays Africa	457	1.2	
MMI	406	1.0	
Nedbank	382	1.0	
Positions less than 1%	1 705	4.4	
INDUSTRIALS	**12 726**	**32.7**	**52.1**
British American Tobacco	2 441	6.3	
Naspers[2]	2 335	6.0	
Remgro	1 257	3.2	
KAP Industrial	646	1.7	
Netcare	623	1.6	
Life Healthcare	551	1.4	
Super Group	480	1.2	
Blue Label Telecoms	417	1.1	
Nampak	339	0.9	
Positions less than 1%	3 636	9.4	
OTHER SECURITIES	**246**	**0.6**	
Positions less than 1%	246	0.6	
COMMODITY-LINKED SECURITIES	**505**	**1.3**	
Positions less than 1%	505	1.3	
MONEY MARKET AND BANK DEPOSITS	**644**	**1.7**	
FOREIGN EX-AFRICA	**6 154**	**15.8**	
EQUITY FUNDS	**5 806**	**14.9**	
Orbis Global Equity Fund	5 806	14.9	
MONEY MARKET AND BANK DEPOSITS	**349**	**0.9**	
AFRICA EX-SA	**277**	**0.7**	
EQUITY FUNDS	**277**	**0.7**	
Allan Gray Africa Ex-SA Equity Fund	277	0.7	
TOTALS	**38 862**	**100.0**	

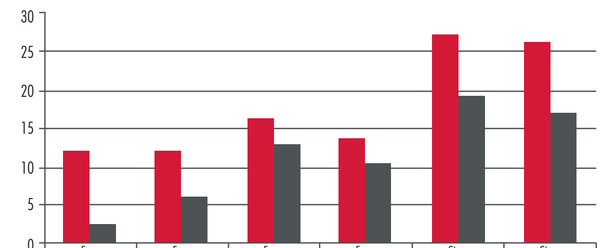
Note: There might be slight discrepancies in the totals due to rounding. Positions less than 1% include positions that are individually less than 1% of total JSE-listed equities, property and community-linked instruments held by the Fund.
[1] Including positions in Rand Merchant Investment Holdings Limited stub certificates.
[2] Including positions in Naspers Limited - N stub certificates.

INVESTMENT TRACK RECORD – SHARE RETURNS

ALLAN GRAY PROPRIETARY LIMITED GLOBAL MANDATE SHARE RETURNS VS FTSE/JSE ALL SHARE INDEX

PERIOD	ALLAN GRAY*	FTSE/JSE ALL SHARE INDEX	OUT/UNDER-PERFORMANCE
1974 (from 15.06)	- 0.8	- 0.8	0.0
1975	23.7	- 18.9	42.6
1976	2.7	- 10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	- 0.3
1979	86.9	94.4	- 7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	- 4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	- 4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	- 5.1	9.6
1991	30.0	31.1	- 1.1
1992	- 13.0	- 2.0	- 11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	- 17.4	- 4.5	- 12.9
1998	1.5	- 10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	- 8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	- 1.6
2008	- 13.7	- 23.2	9.5
2009	27.0	32.1	- 5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.3
2012	20.6	26.7	- 6.1
2013	24.3	21.4	2.9
2014	16.2	10.9	5.3
2015	7.8	5.1	2.7
2016	12.2	2.6	9.6

RETURNS ANNUALISED TO 31.12.2016



	From 01.01.2016 (1 year)	From 01.01.2014 (3 years)	From 01.01.2012 (5 years)	From 01.01.2007 (10 years)	Since 01.01.1978	Since 15.06.1974
ALLAN GRAY*	12.2	12.0	16.1	13.7	27.1	26.2
FTSE/JSE ALL SHARE INDEX	2.6	6.2	13.0	10.5	19.1	17.0

ALLAN GRAY* FTSE/JSE ALL SHARE INDEX

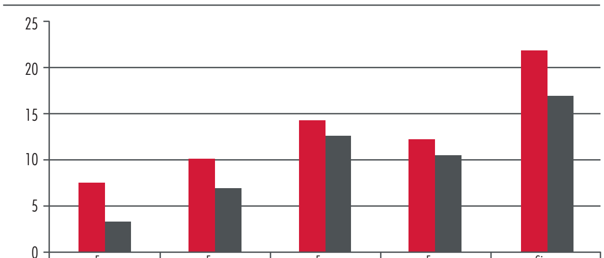
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R199 835 300 by 31 December 2016. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R8 021 527. Returns are before fees.

INVESTMENT TRACK RECORD – BALANCED RETURNS

ALLAN GRAY PROPRIETARY LIMITED GLOBAL MANDATE TOTAL RETURNS VS ALEXANDER FORBES GLOBAL MANAGER WATCH

PERIOD	ALLAN GRAY*	AFLMW**	OUT/UNDER-PERFORMANCE
1974	–	–	–
1975	–	–	–
1976	–	–	–
1977	–	–	–
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	- 0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	- 5.5
1992	1.2	7.6	- 6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	- 1.8	9.5	- 11.3
1998	6.9	- 1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	- 3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	- 6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	- 0.6
2008	- 1.1	- 12.3	11.2
2009	15.6	20.3	- 4.7
2010	11.7	14.5	- 2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	- 4.9
2013	25.0	23.3	1.7
2014	10.3	10.3	0.0
2015	12.8	6.9	5.9
2016	7.5	3.5	4.0

RETURNS ANNUALISED TO 31.12.2016



	From 01.01.2016 (1 year)	From 01.01.2014 (3 years)	From 01.01.2012 (5 years)	From 01.01.2007 (10 years)	Since 01.01.1978
ALLAN GRAY*	7.5	10.2	14.0	12.2	21.7
AFLMW**	3.5	6.9	12.5	10.6	17.0

ALLAN GRAY* AFLMW**

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R21 234 074 by 31 December 2016. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R4 602 233. Returns are before fees.

* Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
** Consulting Actuaries Survey returns used up to December 1997. The return from 1 April 2010 is the average of the non-investable Alexander Forbes Large Manager Watch. The return for December 2016 is an estimate.
Note: Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

ALLAN GRAY SOUTH AFRICAN UNIT TRUSTS ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 31 DECEMBER 2016 (NET OF FEES)

	ASSETS UNDER MANAGEMENT (R BILLION)	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR	HIGHEST ANNUAL RETURN[4]	LOWEST ANNUAL RETURN[4]
HIGH NET EQUITY EXPOSURE (100%)									
Allan Gray Equity Fund (AGEF)	38.9	01.10.1998	23.8	11.2	13.4	9.5	8.8	125.8	– 20.7
Average of South African - Equity - General category (excl. Allan Gray Funds)[1]			16.7	10.3	12.6	5.6	3.8	73.0	– 37.6
Allan Gray-Orbis Global Equity Feeder Fund (AGOE)	16.5	01.04.2005	15.6	13.3	25.1	12.6	4.6	78.2	– 29.7
FTSE World Index			13.8	11.6	22.5	13.5	– 4.8	54.2	– 32.7
MEDIUM NET EQUITY EXPOSURE (40% - 75%)									
Allan Gray Balanced Fund (AGBF)	124.0	01.10.1999	17.8	11.1	12.8	9.2	6.3	46.1	– 8.3
Average of South African - Multi Asset - High Equity category (excl. Allan Gray Funds)[2]			12.9	9.1	11.0	6.2	1.2	41.9	– 16.7
Allan Gray-Orbis Global Fund of Funds (AGGF)	12.7	03.02.2004	11.7	12.4	19.5	11.6	1.6	55.6	– 13.7
60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index			11.3	11.6	17.7	11.9	– 7.2	38.8	– 17.0
LOW NET EQUITY EXPOSURE (0% - 40%)									
Allan Gray Stable Fund (AGSF)	42.7	01.07.2000	12.7	9.5	9.6	8.8	6.4	23.3	3.3
Daily interest rate of FirstRand Bank Limited plus 2%			9.1	8.3	7.0	7.4	8.2	14.6	6.2
VERY LOW NET EQUITY EXPOSURE (0% - 20%)									
Allan Gray Optimal Fund (AGOF)	1.5	01.10.2002	8.4	7.7	7.8	10.5	12.2	18.1	1.6
Daily interest rate of FirstRand Bank Limited			6.5	6.1	4.8	5.3	6.1	11.9	4.1
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO)	1.3	02.03.2010	10.3	–	13.6	7.9	– 5.9	39.6	– 8.4
Average of US$ bank deposits and euro bank deposits			7.3	–	9.1	4.7	– 13.8	35.6	– 13.8
NO EQUITY EXPOSURE									
Allan Gray Bond Fund (AGBD)	0.5	01.10.2004	8.8	8.5	7.6	7.6	14.9	18.0	– 2.6
JSE All Bond Index (total return)			8.5	8.0	7.4	6.9	15.4	21.2	– 5.6
Allan Gray Money Market Fund (AGMF)	13.6	03.07.2001	8.0	7.5	6.2	6.8	7.7	12.8	5.2
Alexander Forbes Short-term Fixed Interest (STeFI) Composite Index[3]			8.0	7.3	6.1	6.6	7.4	13.3	5.2

[1] Since inception to 28 February 2015 the benchmark was the FTSE/JSE All Share Index including income (source: INET BFA).
[2] Since inception to 31 January 2013 the benchmark was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund.
[3] 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.
[4] This is the highest or lowest consecutive 12-month returns since inception. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

ALLAN GRAY TOTAL EXPENSE RATIOS AND TRANSACTION COSTS FOR THE 3-YEAR PERIOD ENDING 31 DECEMBER 2016

	FEE FOR BENCHMARK PERFORMANCE	PERFORMANCE FEES	OTHER COSTS EXCLUDING TRANSACTION COSTS	VAT	TOTAL EXPENSE RATIO	TRANSACTION COSTS (INCL. VAT)	TOTAL INVESTMENT CHARGE
Allan Gray Equity Fund	1.25%	0.83%	0.01%	0.27%	2.36%	0.06%	2.42%
Allan Gray-Orbis Global Equity Feeder Fund	1.50%	0.57%	0.06%	0.00%	2.13%	0.15%	2.28%
Allan Gray Balanced Fund	1.07%	0.36%	0.02%	0.14%	1.59%	0.08%	1.67%
Allan Gray-Orbis Global Fund of Funds	1.33 %	0.42%	0.08%	0.00%	1.83%	0.15%	1.98%
Allan Gray Stable Fund	1.04%	0.44%	0.02%	0.15%	1.65%	0.07%	1.72%
Allan Gray Optimal Fund	1.00%	0.92%	0.02%	0.27%	2.21%	0.17%	2.38%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	0.37%	0.09%	0.00%	1.46%	0.15%	1.61%
Allan Gray Bond Fund	0.25%	0.27%	0.02%	0.08%	0.62%	0.00%	0.62%
Allan Gray Money Market Fund	0.25%	N/A	0.00%	0.04%	0.29%	0.00%	0.29%

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

FOREIGN DOMICILED FUNDS ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 31 DECEMBER 2016 (NET OF FEES)

	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR	HIGHEST ANNUAL RETURN[4]	LOWEST ANNUAL RETURN[4]
HIGH NET EQUITY EXPOSURE								
Orbis Global Equity Fund	01.01.1990	**18.8**	**13.3**	**24.9**	**12.3**	**4.3**	**87.6**	**– 47.5**
FTSE World Index		13.5	11.6	22.5	13.5	– 4.8	54.2	– 46.2
Orbis SICAV Emerging Markets Equity Fund (US$)[5]	01.01.2006	**15.3**	**13.1**	**18.2**	**6.5**	**– 10.4**	**58.6**	**– 34.2**
MSCI Emerging Markets Index (Net) (US$)[5]		13.7	11.0	16.4	9.5	– 7.1	60.1	– 39.7
Orbis SICAV Japan Equity (Yen) Fund	01.01.1998	**15.4**	**12.2**	**21.9**	**14.4**	**– 0.1**	**94.9**	**– 40.1**
Tokyo Stock Price Index		9.3	8.3	21.0	13.2	– 9.4	91.0	– 46.4
Allan Gray Africa ex-SA Equity Fund	01.01.2012	**10.0**	-	**10.0**	**– 8.8**	**– 18.0**	**65.7**	**– 24.3**
Standard Bank Africa Total Return Index		3.7	-	3.7	– 8.5	– 9.3	33.5	– 29.4
Allan Gray Australia Equity Fund	04.05.2006	**15.9**	**13.7**	**19.7**	**14.7**	**16.6**	**99.5**	**– 55.4**
S&P/ASX 300 Accumulation Index		13.0	10.9	15.8	9.2	– 3.3	55.6	– 45.1
MEDIUM NET EQUITY EXPOSURE								
Orbis SICAV Global Balanced Fund	01.01.2013	**22.1**	-	-	**12.8**	**2.4**	**54.4**	**2.3**
60% MSCI World Index with net dividends reinvested and 40% JP Morgan Global Government Bond Index		18.3	-	-	11.8	– 7.8	40.2	– 7.7
LOW NET EQUITY EXPOSURE								
Allan Gray Australia Opportunity Fund	01.07.2011	**13.8**	-	**11.9**	**10.0**	**– 1.0**	**32.7**	**– 6.1**
Reserve Bank of Australia cash rate		8.8	-	6.5	4.6	– 11.9	28.8	– 11.9
VERY LOW NET EQUITY EXPOSURE								
Orbis Optimal SA Fund-US$ Class	01.01.2005	**11.7**	**10.4**	**15.3**	**10.7**	**– 4.0**	**48.6**	**– 15.7**
US$ Bank Deposits		9.4	8.2	11.3	9.6	– 11.9	57.9	– 25.6
Orbis Optimal SA Fund-Euro Class	01.01.2005	**9.2**	**8.1**	**10.8**	**2.1**	**– 8.5**	**44.1**	**– 19.2**
Euro Bank Deposits		6.9	5.8	6.6	– 0.2	– 15.7	40.2	– 20.9

[4] This is the highest or lowest consecutive 12-month return the Fund has experienced since inception, along with the benchmark performance for the corresponding period. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

[5] Since inception to 31 October 2016 this Fund was called the Orbis SICAV Asia Ex-Japan Equity Fund and its benchmark was the MSCI Asia Ex-Japan Index. From 1 November 2016 the Fund's investment mandate was broadened to include all emerging markets. To reflect this, the Fund was renamed and the benchmark was changed.

SOUTH AFRICAN INSTITUTIONAL PORTFOLIOS[6] ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 31 DECEMBER 2016

	ASSETS UNDER MANAGEMENT (R BILLION)[7]	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR
LOCAL PORTFOLIOS[8] (BEFORE LOCAL FEES)							
Domestic Equity Composite (minimum net equity 75% - 95%)	57.8	01.01.1990	20.7	13.2	14.9	11.0	12.7
Domestic Equity Pooled Portfolio (minimum net equity 95%)	5.4	01.02.2001	21.5	13.5	15.6	11.5	13.5
FTSE/JSE All Share Index			14.3/14.8	10.5	13.0	6.2	2.6
Domestic Balanced Composite	16.0	01.01.1978	22.0	12.0	12.6	10.9	13.1
Domestic Balanced Pooled Portfolio	2.1	01.09.2001	18.3	12.2	12.7	10.9	13.2
Mean of Alexander Forbes SA Large Manager Watch (Non-Investable)[9]			17.3/15.0	10.6	11.1	6.8	8.4
Domestic Stable Composite	5.7	01.12.2001	13.2	10.0	8.9	9.9	10.4
Domestic Stable Pooled Portfolio	1.4	01.12.2001	13.5	10.1	9.0	10.0	10.8
Alexander Forbes Three-Month Deposit Index plus 2%			9.9	9.2	7.9	8.4	9.2
GLOBAL PORTFOLIOS[8], LIMITED TO 25% FOREIGN EXPOSURE (BEFORE LOCAL, BUT AFTER FOREIGN FEES)							
Global Balanced Composite	75.8	01.01.1978	21.7	12.2	14.0	10.2	7.5
Global Balanced Pooled Portfolio	5.0	01.09.2000	18.5	12.4	14.2	10.3	7.8
Global Balanced (RRF) Portfolio[11]	27.5	01.09.2000	18.4	12.3	14.0	10.0	7.0
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[9,10]			17.0/14.1	10.6	12.5	6.9	3.5
Global Stable Composite	6.3	15.07.2004	12.9	10.6	10.7	9.8	7.3
Global Stable Pooled Portfolio	5.6	15.07.2004	12.9	10.6	10.7	9.8	7.4
Alexander Forbes Three-Month Deposit Index plus 2%			9.3	9.2	7.9	8.4	9.2
Global Absolute Composite	10.1	01.03.2004	15.7	11.7	10.8	10.2	7.5
Global Absolute Pooled Portfolio	3.1	01.03.2004	16.0	12.0	10.7	10.3	7.9
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[9]			14.8	10.6	12.5	6.9	3.5
FOREIGN ONLY PORTFOLIOS[8] (AFTER FEES)							
Orbis Global Equity Pooled Portfolio	0.6	18.05.2004	15.3	13.3	24.9	12.2	4.5
FTSE World Index			13.6	11.6	22.5	13.5	– 4.8
Foreign Balanced (Rands) Composite[12]	4.6	23.05.1996	14.6	11.6	18.3	9.6	– 0.3
Foreign Balanced Pooled Portfolio	0.1	23.01.2002	9.0	11.6	18.4	10.0	1.0
60% of the MSCI World Index[13] and 40% of the JP Morgan Global Government Bond Index			12.0/7.5	11.4	17.4	11.8	– 7.3

PERFORMANCE AS CALCULATED BY ALLAN GRAY

[6] The composites not listed here include: Domestic Balanced Absolute, Domestic Balanced Low Equity, Domestic Balanced Stable Namibia, Domestic Equity MSCI SA, Domestic Equity Namibia, Domestic Money Market, Domestic Optimal, Domestic Tax Paying, Global Balanced High Foreign, Global Balanced Namibia 35% High Foreign, Global Tax Paying, Non Discretionary Foreign.
[7] The assets under management for institutional portfolios not listed here amount to R74.1bn.
[8] The composite assets under management figures shown include the assets invested in the pooled portfolios above where appropriate.
[9] The return for the period ending December 2016 is an estimate as the relevant survey results have not yet been released.
[10] Since inception to 31 December 1997 the Consulting Actuaries Survey returns were used.
[11] The returns prior to 1 August 2015 are those of the Allan Gray Life Global Balanced Portfolio.
[12] Since inception to 31 August 2001 the foreign carve-out returns of the Global Balanced Composite were used.
[13] Morgan Stanley Capital International All Country World Index.

IMPORTANT INFORMATION FOR INVESTORS

Allan Gray Unit Trust Management (RF) Proprietary Limited (the 'Management Company') is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board ('FSB'). 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). Collective Investment Schemes in Securities (unit trusts or funds) are generally medium to long-term investments. Except for the Allan Gray Money Market Fund, where the Investment Manager aims to maintain a constant unit price, the value of units may go down as well as up. Past performance is not necessarily a guide to future performance. The Management Company does not provide any guarantee regarding the capital or the performance of its unit trusts. Funds may be closed to new investments at any time in order for them to be managed according to their mandates. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending.

PERFORMANCE

Performance figures are for lump sum investments with income distributions reinvested. Where annualised performance is mentioned, this refers to the average return per year over the period. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax. Movements in exchange rates may also be the cause of the value of underlying international investments going up or down. The Equity, Balanced, Stable and Optimal funds each have more than one class of units and these are subject to different fees and charges. 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 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za. Permissible deductions include management fees, brokerage, Securities Transfer Tax (STT), auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from the Management Company.

BENCHMARKS

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UNDERSTANDING THE FUNDS

Investors must make sure that they understand the nature of their choice of funds and that their investment objectives are aligned with those of the Fund/s they select.

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

A feeder fund is a unit trust that invests in another single unit trust which charges its own fees. 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 feeder fund or fund of funds.

The Allan Gray Money Market Fund is not a bank deposit account. The Fund aims to maintain a constant price of 100 cents per unit. The total return an investor receives is made up of interest received and any gain or loss made on instruments held by the Fund. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument defaults. In this event, investors may lose some of their capital. To maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. The yield is calculated according to the applicable 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.

ADDITIONAL INFORMATION FOR RETIREMENT FUND MEMBERS AND INVESTORS IN THE TAX-FREE INVESTMENT ACCOUNT, LIVING ANNUITY AND ENDOWMENT

The Allan Gray Retirement Annuity Fund, the Allan Gray Pension Preservation Fund and the Allan Gray Provident Preservation Fund are all administered by Allan Gray Investment Services Proprietary Limited, an authorised administrative financial services provider and approved under s13B of the Pension Funds Act as a benefits administrator. The Allan Gray Tax-Free Investment Account, Allan Gray Living Annuity and the Allan Gray Endowment are underwritten by Allan Gray Life Limited, also an authorised financial services provider and licensed under the Long-Term Insurance Act 52 of 1998. The underlying investment options of the Allan Gray individual life and retirement products are portfolios of Collective Investment Schemes in Securities (unit trusts or funds).

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M Cooper	BBusSc FIA FASSA
R W Dower	BSc (Eng) MBA
A R Lapping	BSc (Eng) BCom CFA
T Mhlambiso	AB MBA JD
Non-Executive	
W B Gray	BCom MBA CFA (Irish)
I S Liddle	BBusSc (Hons) CFA
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