ALLANGRAY

QUARTERLY COMMENTARY 3

30 SEPTEMBER 2016

LONG-TERM THINKING IN ACTION

The cover of this Quarterly Commentary features the Gutenberg Printing Press. In the early 1400's, most books were in Latin and were either handwritten or woodblock printed. The process of creating a book could easily take up to a year to complete, making books very rare and expensive.

Using the idea of a wine press, and making individual letters to create movable type, Johannes Gutenberg designed the most efficient printing press of his time. In fact, it was so effective that it remained virtually unchanged for the next 550 years.

Unlike other printers of his day, who used wood, Johannes Gutenberg built his printing press to last. He made type from a metal alloy that had a much longer lifespan and could simply be re-moulded when it wore out. The changes he made would make a difference well into the future.

Like Gutenberg's printing press, things that are well-considered and well-crafted endure and prove their true value over time. Our investment philosophy, which has remained the same since Mr Gray began managing money on behalf of clients in 1974, is the reason we have been able to create long-term value for our clients for over 42 years.

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

It is so easy to get caught up in the latest bad news (and there has been a lot of it in the week I'm writing this) that we can miss the underlying positive march of human progress. This is partly because our attention is drawn to the big events, to politics, war, power and governments, but most real progress is made in small ways by ordinary people. Everywhere you look there are examples of this: just think of the hundreds of small things that the internet and mobile phones have enabled that improve peoples' lives, often for free, driven by small start-ups all over the world. Globally we have massively improved food security, medical care, nutrition and literacy. There are fewer oil spills on our beaches (99% less oil is spilled in the oceans than in 1970). Of course you can make statistics support just about any narrative, but a recently published book "Progress" by Swedish economic historian Johan Norberg is very convincing: we are now better off than ever in history on almost every dimension you care to name – less war, less murder and violence, better health, more tolerance, much less poverty and less global inequality, better environmental care, more and better education.

Maybe our progress matters less than the weight of problems we still have to solve, and dissatisfaction, high emotions and righteous anger are useful drivers of social change. The energy that we need to right the many remaining wrongs in South Africa (indeed, in the world) cannot come only from rational analysis. Sometimes optimism (even when it's based on real progress) can even be self-defeating.

But unlike social change, successful investing is an exercise in logic, not emotion. At times when fear and pessimism prevail, there are often opportunities to buy assets for less than what they are worth on a rational assessment of value and risk. This is because the most important factor of success in long-term investing is the relationship between the actual (not popularly perceived) prospects and risk of an investment, and its current price. Ben Preston and Maurits Ovaa from Orbis make this point in their article when discussing the Orbis Global Equity Fund's investment in Sberbank, a large Russian bank.

Shaheed Mohamed looks at some other common behavioural biases and errors of judgement in his article this quarter, and how these lead to irrational investment decisions. When presented with information, we interpret it according to our own biases, and then we tend to react to the information. Understanding the traps you are prone to falling into, and avoiding them, and knowing what information to pay attention to, all contribute to your investment success.

Most of us are prone to drawing overly-strong inferences from previous, and especially recent, events or trends. Africa sovereign bonds denominated in US dollars are among the best-performing assets globally this year, returning about 17%. Naturally these returns have attracted the attention of many investors. Nick Ndiritu explains that simply investing based on these recent returns may be short-sighted. He says that the case for investing in Africa's debt markets shouldn't be based on today's positive sentiment; rather investors need to hunt for, and understand, the long-term risks and opportunities.

Preservation fund withdrawals

If you are close to or above the age of 55 and you have not yet taken a once-off withdrawal from your preservation fund, it is important to carefully consider the tax implications of each option before you make any decisions. Carla Rossouw and Carrie Furman help you get to grips with your choices in their article. They stress that SARS does not allow formal tax directives to be cancelled, so it is imperative to understand your situation before you submit any instructions to us.

When to use a money market unit trust

In Shaheed's piece (described earlier) he uses unit trusts and market returns to illustrate the impact of investor behaviour. At face value these examples could lead you to believe that your money is safest in a money market unit trust. While it is certainly true that you lose less in a money market fund if the market crashes, you also lose out on buying power over time as the returns of a money market unit trust often do not keep up with inflation over the long term.

In this quarter's investing tutorial, Beki Mafulela explains the best use for money market unit trusts and how they fit in to your broader portfolio. He notes that they are a good tool to use for money in transition or for a short-term savings or emergency plan. They are an effective parking place for your money.

Cheers to SABMiller

September 30th saw the end of an era, with brewer SABMiller (SAB) delisted from the JSE after 119 years of trading, as the merger with Belgian brewer Anheuser-Busch InBev moved into its final stages. The company has been a top holding in our portfolios over the years and is a neat illustration of our long-term, contrarian approach to investing.

In 2008 our overweight position in SAB accounted for the single biggest point of difference between our portfolios and the average portfolio of our South African peers. We invested for clients in the company because it had high barriers to entry in its sector, a strong position in markets where it operated, almost no technological obsolescence, no working capital requirements and a strong performance culture within the business. In many of its countries of operation, SAB was one of the biggest and most efficient contributors to the fiscus; national governments thus had an interest in its ongoing success. Despite the sceptical market view in 2008, SAB has outperformed the FTSE/JSE All Share Index (ALSI) by more than 125% cumulatively over the last five years and contributed substantially to our clients' equity returns.

Sifting the wheat from the chaff

Describing the investment case for a huge multinational like SAB in one paragraph doesn't do justice to the importance of proper stock analysis. In his piece this quarter, Leonard Krüger discusses why one should thoroughly interrogate the numbers that companies present. He notes that it is not unusual for a company to report six or more different earnings per share numbers when presenting results, causing much confusion. Before you make investment decisions you need to be sure you are focusing on the right information.

I hope that you have taken the same rigorous approach to picking your investment manager as we take to picking investments for your funds. We are doing our utmost to prove your choice wise – thank you for your trust.

Kind regards

Rob Dower

LEONARD KRÜGER

NUANCED NUMBERS AND VALUATION PITFALLS

We pick shares for client portfolios following a rigorous, bottom-up, fundamental research process. This involves, among many other considerations, the careful scrutiny of audited company results, presentations and annual reports. We use these sources of information as the building blocks in our process to determine the fair value of a share for potential investment. Leonard Krüger shares some of the intricacies of the process, cautioning that accepting the building blocks at face value may at times be deceptive. He offers a few pointers on some of the nuances to consider.

Companies report a host of numbers to the market every six months, often in excess of a hundred pages. Profit or Earnings Per Share (EPS) commonly receives the most market attention. EPS is after all a key variable in favoured valuation metrics like the Price-to-Earnings (PE) ratio, earnings yield and dividend pay-out ratio.

Listed companies are required to follow prescriptive accounting rules and to report on their financial situation according to the International Financial Reporting Standards (IFRS), which South Africa adopted in 2005. In the US, companies use Generally Accepted Accounting Principles (GAAP).

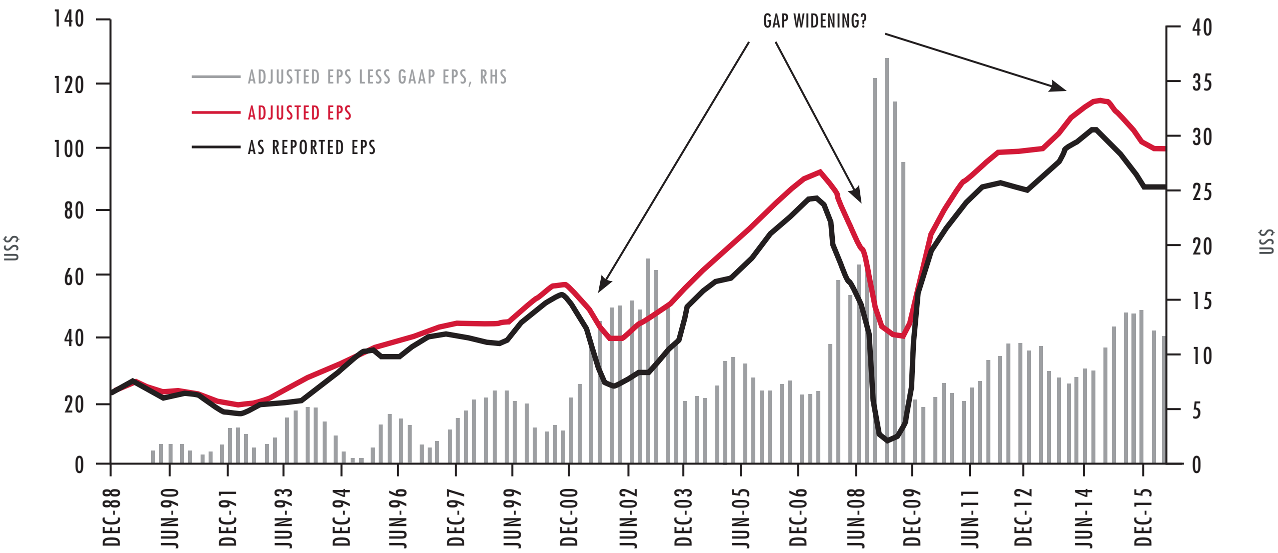
Management teams however often argue that IFRS and GAAP do not fairly represent the economic reality of their businesses and, for that reason, present an alternative interpretation of EPS. This has given rise to numerous mutations of EPS, referred to as either 'normalised', 'adjusted', 'headline', 'continuing', 'diluted', 'attributable' or my personal favourite, 'comparable normalised headline' EPS. It is not unusual for a company to report six or more different EPS numbers when presenting results. Which one is right in this confusion?

While some adjustments are valid, companies on average tend to present a far more favourable EPS number than that dictated by the accounting rules. This gap between reported EPS and the adjusted EPS can be seen in the US example in **Graph 1**.

This gap has actually increased since 2009 and averaged 15% in more recent company reports. Consider the average company growing at 5% per year: it will take three years for the 'as reported' EPS to catch up with the adjusted EPS. It is also true that in a number of cases management compensation is based on adjusted EPS, providing a powerful incentive to report adjusted EPS as high as possible. Investors are often unaware or ignorant of these upward biases. We prefer to use our own judgement when assessing adjustments to IFRS accounts. We also consider the usefulness of a given metric for each company we research.

"COMPANIES ON AVERAGE TEND TO PRESENT A FAR MORE FAVOURABLE EPS NUMBER THAN THAT DICTATED BY THE ACCOUNTING RULES."

GRAPH 1 **MIND THE GAP - USA GAP BETWEEN REPORTED GAAP EPS AND 'ADJUSTED' EPS**



Source: S&P DJI, Macquarie Research, August 2016.

Different metrics for different industries

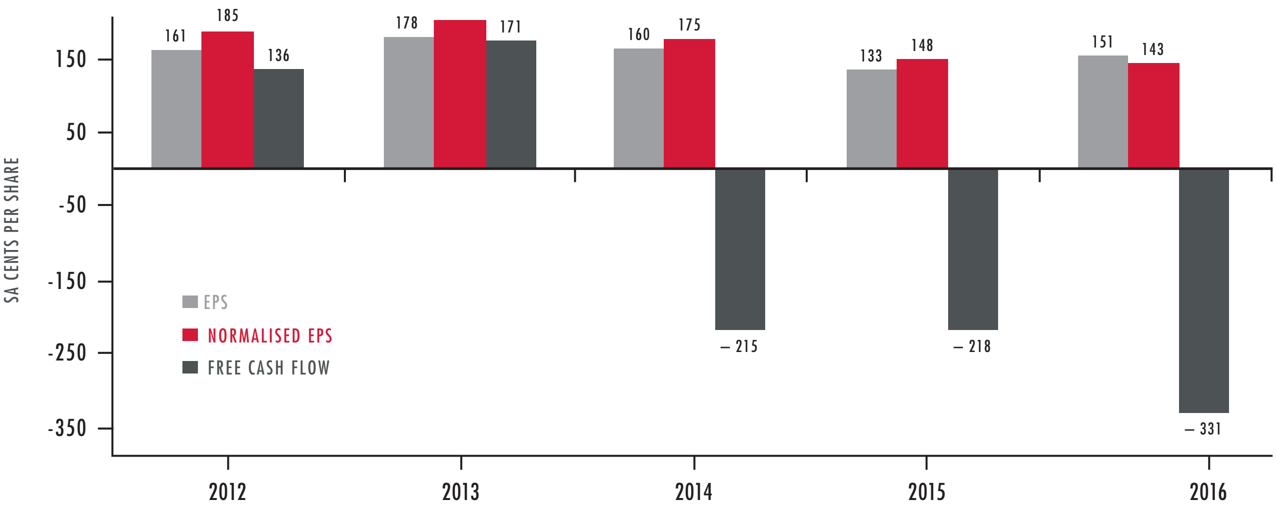
Let's consider some examples:

PPC, the South African cement maker, completed a deeply discounted recapitalisation of its business in September this year. **Graph 2** illustrates the reported EPS and normalised EPS as presented by PPC since 2012. An investor who only focused on PPC's normalised EPS would have noticed a business with declining profits but may nevertheless have been comforted by what still seemed like a solidly profitable enterprise reporting in excess of 140 cents per share of profit as recently as March 2016. This hypothetical investor would have failed to recognise the substantial negative free cash flow[1] per share PPC had been incurring since 2014 and the deteriorating balance sheet and liquidity position of the company.

Normalised EPS was thus an inappropriate metric and a valuation pitfall in the case of PPC, proving the old adage that, 'profit is what you report, cash is what you make'.

The market focuses on different metrics for different industries. Foreign property companies for instance prefer to look at a Price to Net Asset Value (P/NAV) metric rather than traditional EPS. Using this metric, a property company is considered cheap if the price is lower than its NAV. However, like normalised EPS, there are nuances to the numbers in this seemingly simple P/NAV metric:

GRAPH 2 **PPC DIVERGING METRICS**



Source: Company reports, Allan Gray Research.

[1] "Free cash flow" – Cash flow from operations less cash flow from investing activity.

the NAV is a balance sheet number based on an external valuator's opinion using backward-looking market evidence. The NAV also does not consider income statement realities like the overhead expenses incurred by the company.

The Johannesburg-listed UK mall owner, Intu Properties, is a good example. At first glance the company appears attractive on a P/NAV metric, in recent times trading at a discount of up to 30%. However, overhead expenses amounted to GBP38m in 2015 – a cost an investor can almost certainly expect to incur every year. By just capitalising such a cost liability at a similar yield to value the property assets of Intu Properties, a 15% discount is already justified. What appears to be a discount to NAV in many such property companies can simply turn out to be a reflection of the structural economics at play.

Not all negative

Nuances and valuation pitfalls or opportunities need not always hold negative implications from an investor's point of view. Life insurance companies arguably have more nuances in reported IFRS numbers than any other industry. To aid investor understanding they also publish an Embedded Value (EV) statement every six months. EV can roughly be described as the estimated fair value, as calculated by the actuaries of the life company, of all the current business (policies) of the insurer. The typical insurer writes new policies on a daily basis, policies it expects to make money from in the future. EV places no value on the ability of the insurer to write these new policies. If an insurer has a track record of a conservatively stated EV, there is a good reason for it to trade at a premium to published EV numbers.

So what should you do?

For the weary reader confused by the long list of acronyms, terminologies and seemingly endless nuances and pitfalls, the message is this:

- View reported and adjusted published numbers with a fair dose of scepticism.
- If the difference between reported and adjusted numbers is large or increasing, history suggests that additional caution is warranted.
- Look beyond the metrics the market focuses on.
- Don't rely on a sole metric: an investor focused on only one metric might fail to identify risks and/or opportunities.
- Understand why company managers or investors are focusing on the metric being presented and the implications of this.

OR (please forgive my plug)

- Select an investment manager dedicated to active, fundamental research with resources to understand and interpret the facts and figures.

Entrusted with your savings, you have tasked us to navigate these nuances and pitfalls on your behalf, a task we relish and extensively debate internally on a daily basis. We scrutinise the numbers, question the adjustments and hold the management of invested companies to account. Doing so consistently is part and parcel of our investment process and philosophy to ultimately deliver superior investment returns over the long term.

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

INVESTING IN AFRICA'S DEBT MARKETS

Patient capital dedicated to Africa's capital markets is scarce, especially during economic or political downturns. Nick Ndiritu explains how long-term investors can exploit valuation discrepancies that emerge when consensus views are extremely negative or markets are less efficient.

As an investor in our Balanced and Stable Funds you have a small[1] exposure to African debt markets through the Allan Gray Africa ex-SA Bond Fund (the Fund)[2]. When we launched the Fund in March 2013, we had not anticipated a world of US$12 trillion bonds offering negative yields. The expansionary policies of central banks in a number of developed markets has led to significant capital inflows into higher-yielding emerging market bonds, including Africa's debt markets. African sovereign bonds denominated in US dollars are among the best performing assets, with 17% returns this year.

But the case for investing in Africa's debt markets isn't based on today's positive sentiment; rather we need to hunt for long-term opportunities. A closer look at the Fund's positioning will give you some insight into where we are finding these opportunities.

"A REGION WHERE PATIENT CAPITAL IS SCARCE AND MARKET DISLOCATIONS ARE MORE FREQUENT IS IDEAL FOR LONG-TERM INVESTORS WITH A VALUE-ORIENTED APPROACH."

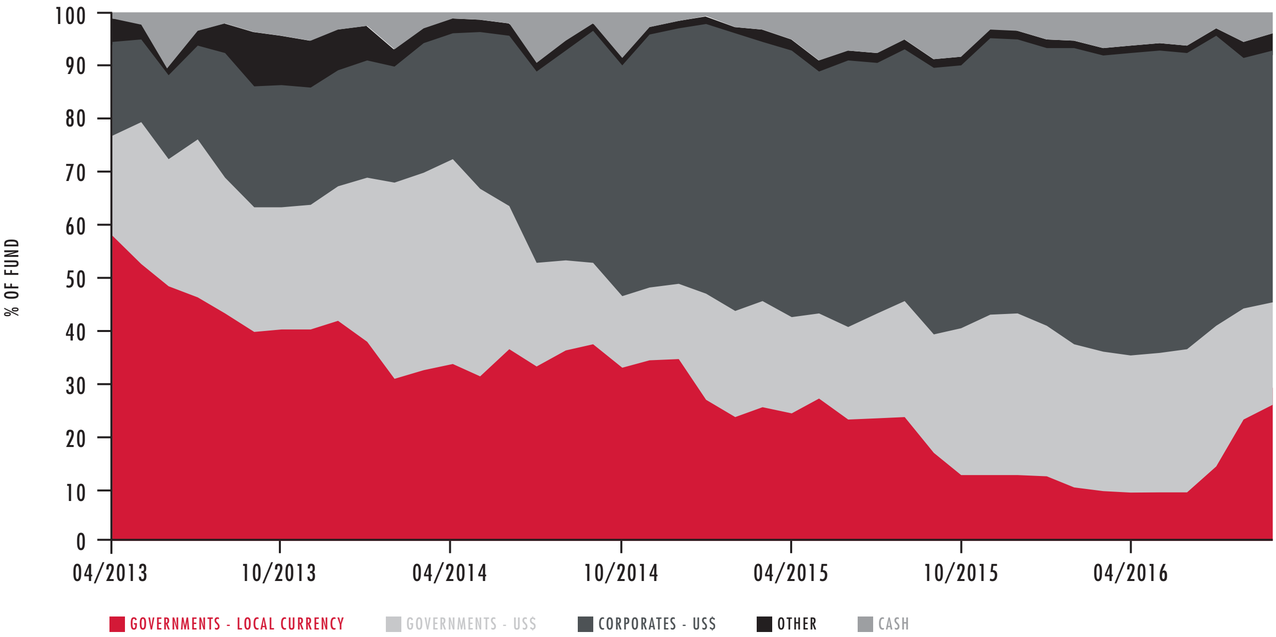
Investment universe

Graph 1 on page 7 shows the Fund's positioning across three distinct underlying segments. About 24% of the Fund is invested in local currency government securities; 20% in sovereign debt denominated in US dollars; and 50% in corporate debt (of which 43% is in US dollars and 4% in Canadian dollars). The total value of Africa ex-South Africa tradeable debt is about US$500bn, which excludes commercial bank loans and other unlisted instruments. Government debt accounts for 95% of the universe and the remaining 5% is corporate debt. Investors are often concerned about the liquidity constraints in Africa's capital markets, but it is worth noting that debt markets are about 2.5x larger and more liquid than the listed equities market. In Nigeria the daily value traded for local currency debt alone is more than twenty times the daily liquidity in the equity market.

The size of the local currency debt market is skewed towards Nigeria and Egypt; but many smaller markets are readily accessible to foreign investors (e.g. Kenya, Ghana,

[1] 0.9% of the Balanced and Stable Funds. [2] The Africa ex-SA Bond Fund is only open to institutional investors.

GRAPH 1 **ALLAN GRAY AFRICA EX-SOUTH AFRICA BOND FUND – POSITIONING SINCE INCEPTION**



Source: Allan Gray research.

Zambia). Local currency markets attract a captive pool of domestic capital from pension funds and banking sector deposits. For example, 68% of Nigeria's US$18.5bn pension fund assets are invested in government securities, with only 11% allocated to domestic and foreign equities. Foreign investor participation is low and, unlike in most developed sovereign debt markets, there is little evidence that global capital flows are distorting prices in Africa's local currency markets.

External sovereign debt issued in international markets has a higher correlation to global risk sentiment. The current amount outstanding is US$32bn issued by 19 countries in Africa ex-SA, up from just US$3.5bn issued by three countries in 2005. The accelerated growth is from a combination of global investors seeking higher yields and African governments' diversifying funding sources away from development finance institutions and bilateral loans from foreign governments, which often carry stringent conditions. Most funds are earmarked for infrastructure-related investments, but we are cognisant of the risk that a number of countries may over-stretch themselves.

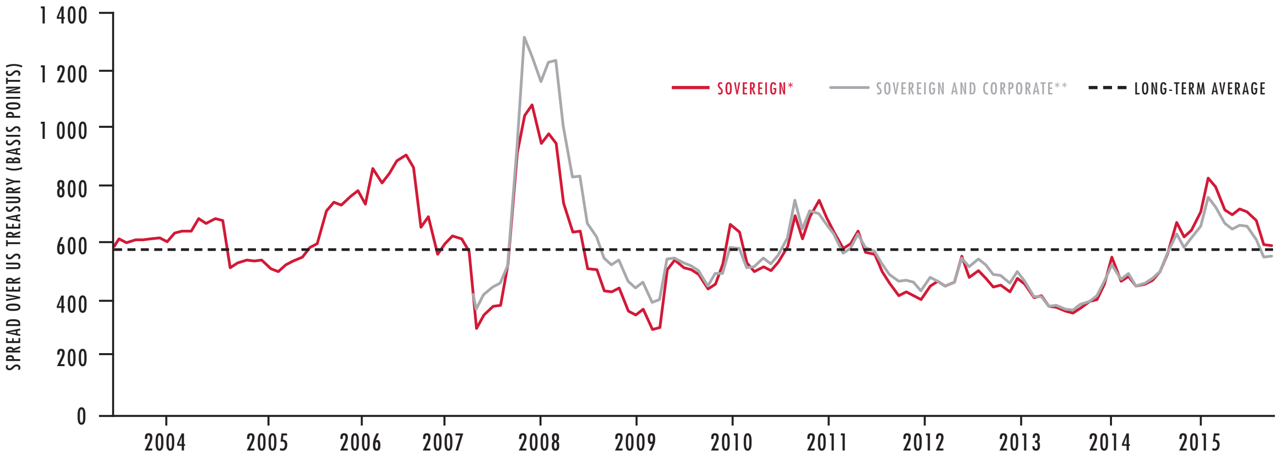
The universe of dollar-denominated corporate bonds is about US$12bn and the issuers are mainly financial institutions and commodity-related companies. Our higher allocation to this niche segment is informed by our research experience as equity investors and market inefficiencies. For example, we have invested in dollar-denominated bonds issued by publicly-listed Nigerian banks, which we also own in our equity funds, with market-leading positions and established franchises in their domestic market. There is a limited pool of investors specialising in Africa-ex SA corporate bonds. In turn, these bonds are less liquid than Africa's sovereign bonds. Further, tighter prudential requirements for financial intermediaries have curtailed their ability to hold corporate bonds on their balance sheets and facilitate efficient trading. These factors create a good recipe for finding valuation discrepancies in Africa ex-SA corporate bonds.

What is an appropriate risk premium for African debt?

Credit rating agencies rate most of Africa's sovereign bonds as sub-investment grade. About 77% (by dollar amount outstanding) of Africa ex-SA sovereign debt is rated as single B, 7% is rated higher as BB, and only 11% is rated as BBB (investment grade). Investors demand a higher risk premium for lower-rated bonds which carry a higher default risk. This risk premium is reflected in the difference in yields (spread) relative to US government bonds. As shown in **Graph 2**, the spread for Africa ex-SA sovereign debt has averaged 5.75% since 2004. Current spreads are in line with longer-term averages, suggesting that valuations aren't yet stretched for Africa ex-SA dollar-denominated bonds.

There is limited historical data for Africa's dollar-denominated bonds; an alternative approach is to look at how similar-rated global bonds have performed through longer credit cycles. As an example, the Bank of America Merrill Lynch US High Yield B Index has yielded 5.85% above US government

GRAPH 2 **AFRICA EX-SA RISK PREMIUM**



*J.P. Morgan NEXGEM Africa Sovereign Spread Index.
**Standard Bank Africa ex South Africa Sovereign & Corporate Bond UST Spread Index.
Source: Bloomberg, Allan Gray research.

bonds since 1997. Finally, investors should expect a certain level of credit losses. Investors' expectations of default risk and recovery rates will vary, but assuming a 2% default rate and 40% recovery rate, then the exposure to credit loss could be 1.20% per year on average. Long-term spreads adjusted for 1.2% expected credit losses, implies about 4.5% credit risk premium for a market-weighted basket of Africa ex-SA dollar-denominated bonds. Over the long run, this is a reasonable indication of the potential risk-adjusted excess returns above US Treasury yields.

Our approach

Our primary objective is capital preservation. We focus our analysis and investment review process on the ability of a sovereign or corporate borrower to sustainably service its debt obligations, i.e. credit risk. We also assess the default risk, the fair value of the assets in the event of default, and the likely recovery rate. Attractive opportunities often emerge if spreads widen to well above our fair estimates, when consensus views are extremely negative or due to market inefficiencies. Conversely, we are more cautious when positive sentiment drives spreads to tighten, reducing the margin of safety for taking on Africa credit risk (see **Box 1**).

We explicitly evaluate currency risks in assessing local currency debt, but we do not have an edge in forecasting currency movements over the short-term. Rather, we hope to identify structural imbalances and anticipate major trends. Consequently, we prefer to limit our currency exposures to instances where yields offer a significant margin of safety or when market dislocations create attractive opportunities.

We believe the Fund's diversified credits can generate superior returns with reduced risk of loss. Over the long run, a region where patient capital is scarce and market dislocations are more frequent is ideal for long-term investors with a value-oriented approach. This approach has worked well for our clients for over 40 years and is well suited to Africa's ex-SA debt markets.

Box 1: Zambia case study

Zambia issued its first sovereign dollar bond in 2012, borrowing for 10 years at 5.375%. In a sign of the times, the US$750mn bond was 15x over subscribed at US$12bn from over 420 international investors. Few could have predicted Zambia's swift turnaround. Under a populist President Michael Sata elected at the end of 2011, public sector wages and benefits as a percent of tax revenues jumped from 56% in 2011 to 84% by 2014. When Zambia issued its second sovereign bond in 2014, the market demanded an 8.5% coupon.

President Sata died in late 2014 and President Edgar Lungu was elected in January 2015 to complete Sata's term. Political uncertainty ahead of planned elections in August 2016 added to heightened risk perception. Market sentiment sharply deteriorated from mid-2015. Zambia's kwacha had lost 50% of its value for the year through to October 2015. Copper prices had slumped to six-year lows, for a commodity that accounts for 70% of Zambia's export earnings and 25-30% of government revenues. Copper production was expected to fall by 26%, from mine closures and power supply cutbacks.

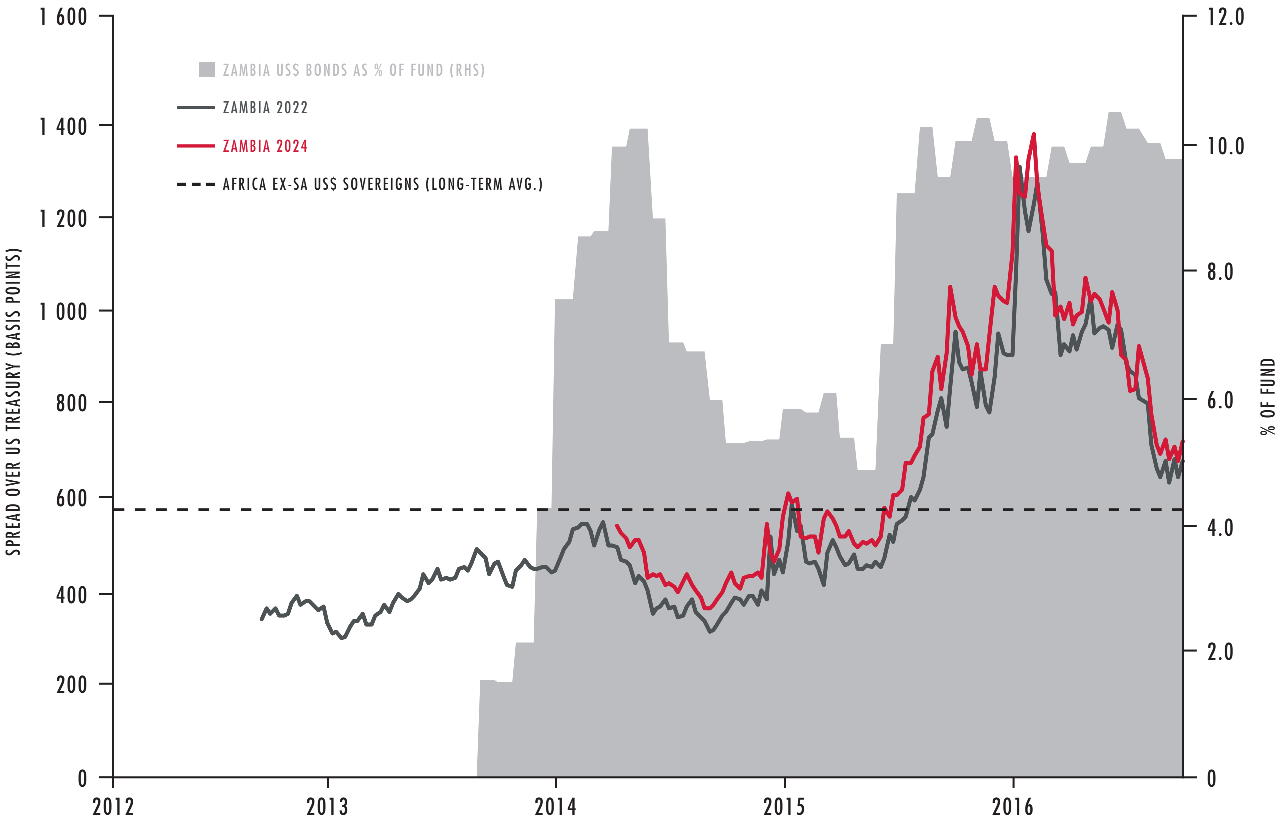
...continues overleaf

The country was in the midst of its worst drought in decades from the El Niño climate pattern. Zambia is reliant on hydro power and water levels recorded at Lake Kariba Dam were at 20 year lows, forcing extensive power rationing. Zambia's challenges were widely reported, amplifying risk perceptions. As noted in a New York Times article: 'People across the nation now track Kariba's water level... as closely as they follow their favourite soccer teams.'

The outlook is improving after more than a year of negative news. Copper production is expected to increase by 7% in 2016. The currency has strengthened by 20% over the last year. Kariba's water level has increased to 28% from 11% in January 2016. Political tensions have eased after the August 2016 presidential elections and the government expects to conclude an agreement with the International Monetary Fund on a funding package and improve fiscal restraint. The country's debt to GDP is manageable at about 45%.

As shown in **Graph 3**, Zambia's credit was mispriced when its first bond was issued, but risk perception moved to extreme levels from mid-2015. In our analysis, the economy's vulnerability to severe shocks wasn't a permanent impairment to Zambia's credit risk for investors with longer time horizons. Spreads have tightened sharply and the Fund's Zambia dollar bonds have outperformed, returning 30% this year.

GRAPH 3 **ZAMBIA SOVEREIGN SPREADS AND FUND POSITIONING**



Source: Bloomberg; Allan Gray research.

Nick Ndiritu 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.

BEN PRESTON AND MAURITS OVAA

PURSUING LONG-TERM RETURNS WITHOUT SIMPLY REACHING FOR RISK

Ben Preston and Maurits Ovaa explain why Orbis believes minimising losses is arguably more important than maximising gains at a time when many stock markets in the developed world appear fully valued. That's not to say attractive investment ideas cannot be found in this environment, but it does mean that even more vigilance is needed than usual when assessing the risk-return proposition in individual shares.

At Orbis and Allan Gray, our approach to managing risk has always differed from the conventional approach. Whereas many investors define 'risk' in terms of short-term volatility or the risk of differing from a benchmark (tracking error), our focus is always on avoiding permanent loss of capital. We'll happily tolerate periods of short-term volatility and underperformance – indeed this is often the price we must pay for long-term success – but the longer-term risk of simply losing our clients' money is the one that keeps us awake at night. To see how this differs from the conventional view of risk, consider **Graph 1** on page 11, the classic textbook view of risk and return. The upward-sloping line suggests a strong link between the amount of risk you take and the returns that you can expect. It's easy to forget that there is a wide range of outcomes at each point along the line. When you take risk on a given investment, you may be handsomely rewarded... or you may end up nursing a heavy loss. Said differently, the realised return may have nothing to do with the expected return implied by the level of risk you've taken.

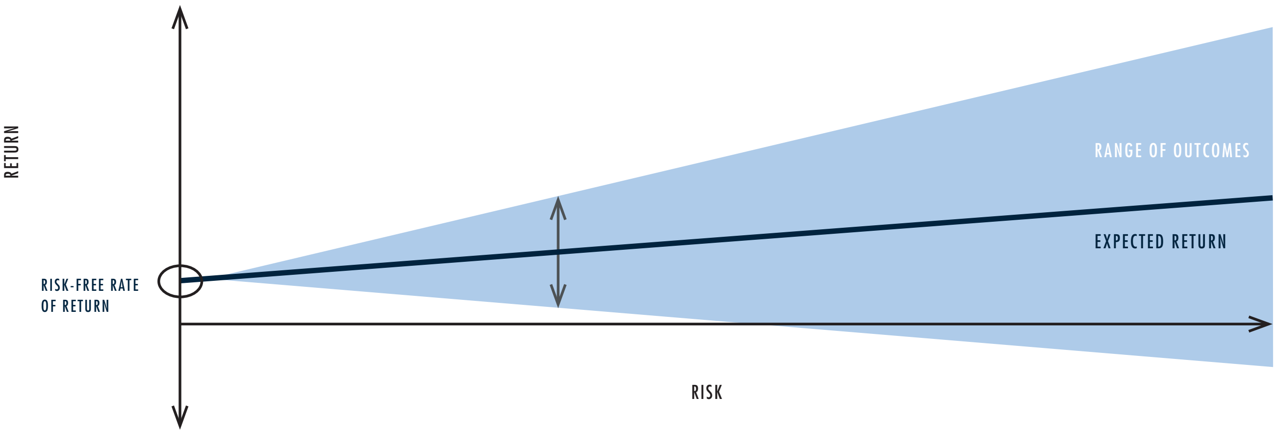
Caught between a rock and a hard place

In today's market environment, we believe the actions of central banks have deliberately shifted the classic risk-reward line downwards, by depressing the left-hand end of the line (the 'risk-free rate') and letting market forces take care of the rest (see **Graph 2** on page 11). With investors having been successfully herded into riskier assets, asset prices have risen all along the risk spectrum, a boon to investors over the last few years. But with higher prices come lower subsequent returns, leaving today's investors facing a tough choice. They can either shift to the right and take on more risk in pursuit of the returns to which they have become accustomed, or they can reduce risk and settle for lower returns. Neither choice – lower returns or higher risk – is particularly appealing. A popular response to this dilemma has been to load up on stocks that are considered 'stable' or 'defensive', including shares of companies that make food, beverages, and household staples. Telecoms and utilities have also been a popular choice. While we sympathise with the plight that has encouraged many investors to seek the apparent 'safety' of these investments, we respectfully beg to differ with their conclusion. By flocking to the same areas of the market and pushing valuations up to what we believe are dangerous levels,

"...FOCUS ON ASSETS THAT ARE TRADING WELL BELOW WHAT THEY ARE WORTH..."

GRAPH 1 **THE CONVENTIONAL VIEW OF RISK AND RETURN**

ILLUSTRATIVE ONLY



Source: Orbis.

defensive investors may end up being their own worst enemies.

Price is more important than timing

Under our definition of risk, we believe the best way to preserve purchasing power is to focus on assets that are trading well below what they are worth, and the best way to destroy it is to pay more for an asset than it is worth. In the short term, this may mean bearing substantial risk of uncertainty, volatility, and underperformance. But in the long-term, we believe these risks pale in comparison to the risk of holding an asset which proves less valuable than one paid for it. We'd rather take the small-and-obvious risks to avoid the bigger-but-less-appreciated ones.

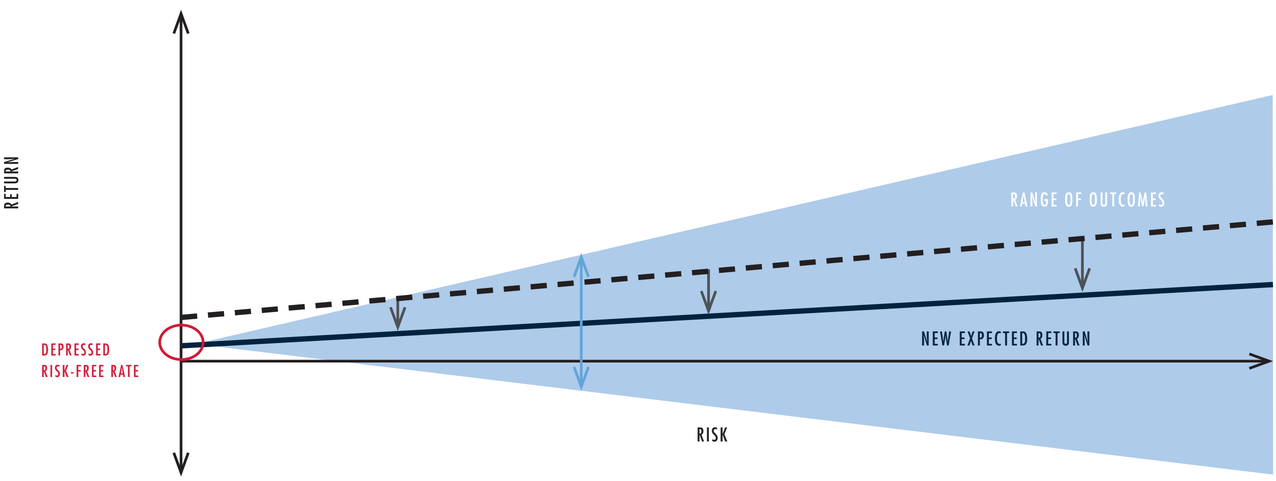
A good example is Russia's Sberbank. Few things scream 'risk' as loudly as a Russian bank! But not everything that screams loudly is telling the truth. Sberbank is undoubtedly in both a market and sector that many investors have loved to hate. When we first invested in Sberbank two years ago, pessimism about Russia was unusually high, allowing us to buy a dominant banking franchise at a very compelling discount to its intrinsic value on an absolute basis and, on a relative basis, to its banking peers elsewhere in the world.

Initially, we took our share of pain. Along with other Russian stocks, Sberbank shares were hit hard by the combination of sanctions and the collapse in oil prices. The stock was a drag on the Orbis Global Equity Fund's performance in 2014. Since then, not only has Sberbank made a positive contribution to performance over the fullness of our holding period, but it still continues to look attractive.

This is what we mean by looking beyond short-term risks as we seek to protect and enhance our clients' capital for the long-term. With hindsight, it would have been nice to time our investment in Sberbank precisely at the bottom, resulting in

GRAPH 2 **RISK AND RETURN WHEN CENTRAL BANKS DEPRESS THE RISK-FREE RATE**

ILLUSTRATIVE ONLY



Source: Orbis.

lower risk of loss, and even higher returns. But timing has never been our strong suit — indeed, we would be sceptical that it is anybody's. Market prices are inherently volatile over short time periods, and we have found it much more effective to focus on buying shares at the right price than at the perfect time.

Back the right horse

Interestingly, the Sberbank example also highlights a less discussed advantage that comes with contrarian investing. When investors are concerned about an industry's prospects and pessimistic about the future, it's usually the case that management teams and entrepreneurs are too. By discouraging new investment into the industry – and perhaps even encouraging disinvestment – widespread fear and uncertainty can be instrumental in reducing competition. Therefore, while being perilous for the weaker hands, economic downturns can often end up a boon to the companies with the staying power to survive. Even though it doesn't feel like it at the time, intrinsic value can grow faster in downturns – as long as you're backing the right company.

Excluding Sberbank, the Russian banking sector experienced pre-tax losses in every quarter from the fourth quarter of 2014 to the first quarter of this year. As the sector has gradually returned to profitability, Sberbank in particular has emerged in an even stronger competitive position. Shareholders who were patient enough to wait for that reduced competition to translate into improved earnings and market share are now, finally, being rewarded. That's one area where we differ from the conventional risk-reward diagram. Expected returns are not enhanced merely by taking on more risk. Rather, we've always believed that careful analysis and a willingness to go against the crowd can be a powerful combination in enhancing returns without necessarily taking on more risk.

Ben is a director of Orbis Investment Advisory Ltd. He joined Orbis in 2000 and his primary responsibility is researching global equities in the consumer and financial sectors.

Maurits joined Orbis in 2010. He is a member of the global sector investment team, with primary responsibility for researching the financial services sector. He previously worked as a consultant within the European Corporate Finance Practice of McKinsey & Company.

SHAHEED MOHAMED

HOW TO BE A BETTER LONG-TERM INVESTOR

Is your behaviour standing in the way of your investment success? Shaheed Mohamed helps us become more aware of common biases so that we can adjust our behaviour and improve our chances of achieving returns in line with those of our chosen unit trusts.

Heads or tails?

If a fair coin is tossed 10 times in a row and lands heads for each of the tosses, what would your choice be for the 11th toss? Many would guess heads, assuming that the current trend will continue. Others may choose tails believing that the trend must buck. But what has actually changed between the 1st and the 11th toss? Nothing – statistically there is still a 50% probability that it would land either heads or tails. So why favour one over the other?

When presented with information we interpret it according to our own biases, and then react to the information. Most of us are prone to drawing overly-strong inferences from previous, and especially recent, events or trends. The information during the first 10 tosses of the coin is irrelevant, as it has no bearing on the 11th toss – there is still a 50% probability of landing on heads or tails.

Now let's consider a second example

You have an opaque bag containing 50 black and 50 white marbles and you have to remove marbles one at a time without replacing them. There would be a 50% probability of selecting a black marble on your first go. If you had just removed 10 black marbles in a row, what would your guess be for the 11th go?

"INVESTOR BEHAVIOUR IS DRIVEN BY THE PSYCHOLOGICAL TRAPS, TRIGGERS, AND MISTAKEN BELIEFS… THAT CAUSE US TO ACT IRRATIONALLY AND DESTROY WEALTH."

Most of us should select 'white' because there is a higher probability of selecting a white marble than a black one – the odds moved from a 50% probability on the first attempt to a 56% (50/90) probability of white on the 11th attempt. Unlike the coin toss example, the information presented between removing the 1st marble and 10th marble is extremely relevant in guiding our choice for the 11th attempt.

We are presented with a lot of information on a daily basis from which we have to make decisions. Fortunately our minds make things easier for us by using efficient thinking strategies known as 'heuristics' – mental shortcuts that help us make decisions and judgements quickly without having to spend a significant amount of time analysing the information. Mostly, heuristics allow us to respond rationally and effectively – like avoiding a pothole in the road. However, heuristics can also lead to errors in judgement, as we see from the coin toss example. Psychologists and behavioural scientists who have studied heuristics have categorised over 100 behavioural biases which lead to errors in judgement and irrational decision-making, including, over-extrapolation, anchoring (the tendency to rely too heavily on one piece of information), overconfidence, fear, greed and confirmation bias (the tendency to search for new information that supports one's beliefs), to name a few.

These biases influence our success as investors

As we have discussed in previous articles, investor behaviour is a key determinant of investment success over time. Investor behaviour is driven by the psychological traps, triggers, and mistaken beliefs – because of over-weighting irrelevant information – that cause us to act irrationally and destroy wealth.

A study of investors in equity funds in the US over the last 30 years shows that the average investor underperformed the overall market by over 6% per annum (DALBAR, 2016). South African investors, on average, are no different. The lead up to the 2008 South African stock market peak and subsequent crash is evidence of heuristics at play. For the five years prior to the crash in May 2008 the stock market returned close to 36% per year. Investors flocked to the market in the hope of enjoying fantastic returns and in the process drove the market even higher.

Then came the Global Financial Crisis, which led to one of the worst sell-offs in our stock market's history. The same biases that tempted investors in, led many to sell their investments and, in certain instances, materialise losses that would largely have been only on paper, had investors not succumbed to their emotions.

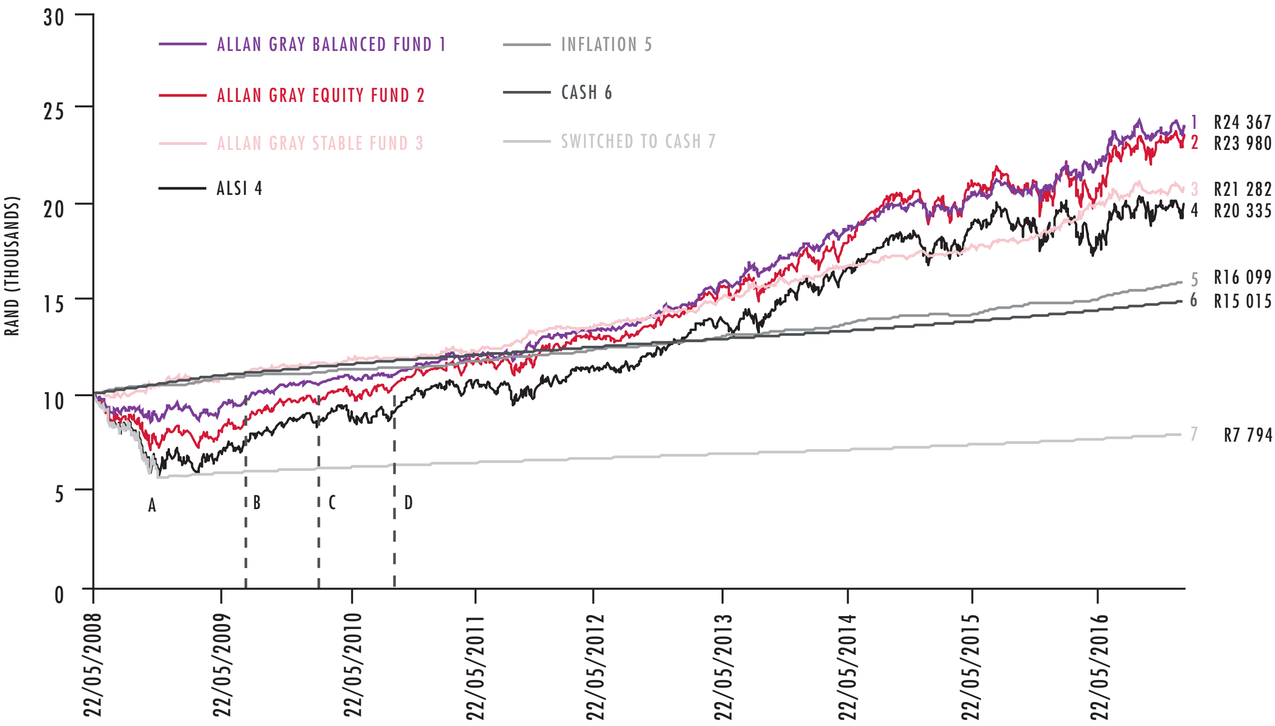
For the first three quarters of 2008, collective investment industry statistics show that R9 billion was withdrawn from equity and property unit trusts, and R34 billion flowed into money market funds. This irrational behaviour destroyed wealth for many investors who invested prior to May 2008.

Every action has a reaction

We all react differently to information presented to us and our reaction has a bearing on the outcomes we experience. **Graph 1** reflects the value over subsequent periods of R10 000 invested at the peak of the market on 22 May 2008. The FTSE/JSE All Share Index (ALSI) including dividends, the Allan Gray Equity Fund, and the Allan Gray Balanced Fund lost (on paper) 45.4%, 29.6% and 14.2% respectively from the height of the market to the bottom. An investment of R10 000 in May 2008 would have been worth R5 465, R7 039, and R8 582 respectively at the market bottom in November 2008 (point A).

The ALSI, Equity Fund and Balanced Fund recovered after 2.5 years (D),

GRAPH 1 **VALUE OF R10 000 INVESTED AT THE 2008 PEAK**



Source: INET BFA, Profile, Allan Gray research.

TABLE 1 **RECENT ALSI CRASHES**

	ABSOLUTE			REAL (INFLATION)	
CRASH*	DECLINE	YEARS TO RECOVER	YEARS TO BEAT CASH**	DECLINE	YEARS TO RECOVER
1969	-58.0%	4.2	10.4	-64.0%	10.7
1974	-42.4%	4.3	5.5	-57.2%	5.6
1980	-38.7%	2.1	5.3	-50.9%	2.3
1987	-42.6%	1.6	8.4	-45.6%	6.3
1998	-39.0%	1.6	3.8	-41.4%	1.7
2002	-30.4%	1.7	3	-35.7%	2.5
2008	-45.4%	2.5	4.5	-47.7%	4.4

*Crash for this article is defined as declines greater than 30%
**Years it would take for your ALSI investment to catch up to an investment left in cash if you invested in the ALSI at the peak.
Note that this includes periods of very high interest rates and high inflation.

Sources: Allan Gray research. From 1969-2002 monthly ALSI data with dividends is used along with the Monthly Alexander Forbes Money Market Index for cash. For 2008 daily ALSI data with dividends is used and the FNB call rate for cash.

1.8 years (C) and 1.2 years (B), in absolute terms (i.e. not accounting for inflation), from the date of the crash. Investors who did not succumb to their emotions would have made back their losses and would have more than doubled their money in absolute terms by 30 September 2016.

By comparison, in an extreme case, investors who switched from the ALSI into cash at the bottom of the market would have R7 794 at 30 September 2016, significantly less than their original investment. In addition, their buying power would have halved as the investment has not kept up with inflation.

It must be noted that the strong recovery following the 2008 crash can be explained partly by central banks' monetary policies helping to drive up asset returns globally. There have been market crashes in the past that have taken longer to recover in absolute terms and even longer when accounting for inflation. **Table 1** shows the market crashes over the past 50 years and the length of time it took for investors to make back their money.

Stable performance but not-so-stable behaviour

The Stable Fund returned 3.2% during the same period that the market crashed, doing what it says on its tin: protecting investors' capital. We expect investors to choose the Stable Fund if they are risk averse and want stability. However, despite the Stable Fund being the most conservative of our asset allocation unit trusts, our research indicates that investors in the Fund are not immune to irrational behaviour. **Graph 2** shows that there is a high correlation between 1-year performance (red line) and unit trust flows (grey bars). Again, as with the coin toss bias, many Stable Fund investors tend to over-extrapolate 1-year performance trends to inform their decision to withdraw or invest. The problem with this approach is that investors who withdraw after a downward trend (point A to B) do not receive the performance when it trends upwards again (point B to C), which is why they do not perform as well as the unit trusts in which they are invested.

Investing is more like picking marbles than tossing coins

Many use the same heuristic when they invest as they do for a random coin toss, often resulting in a poor outcome. However, following a marble-from-the-bag approach, assessing information and using it when it is relevant, generally results in better outcomes.

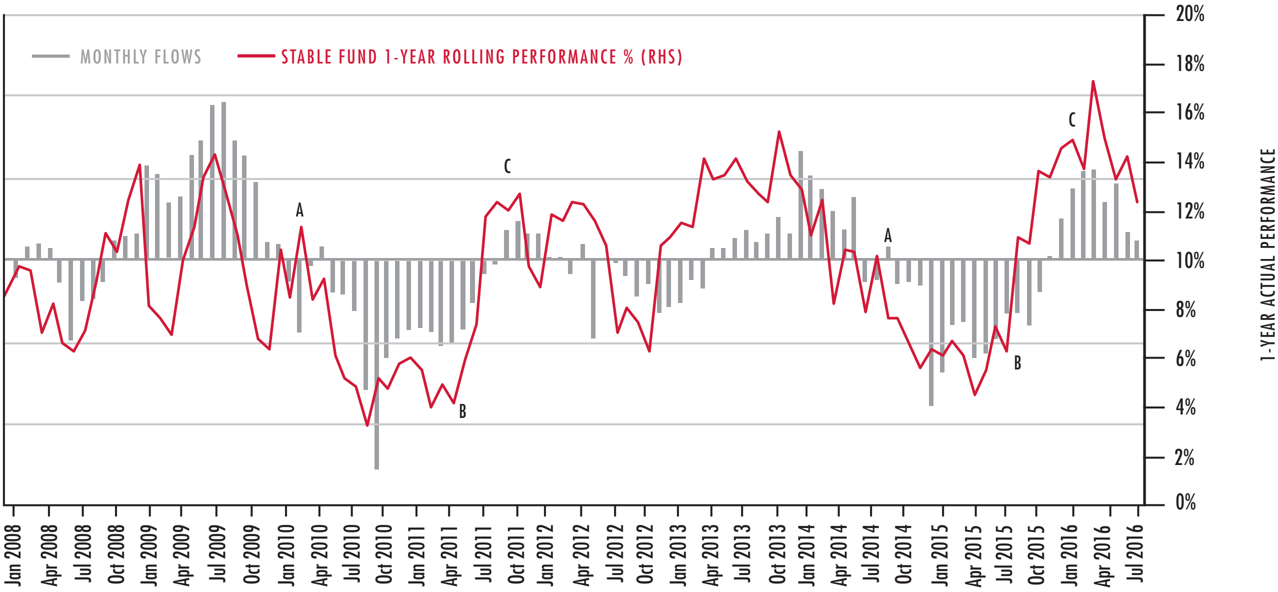
"BE AWARE OF YOUR OWN BEHAVIOURAL BIASES AND ACT RATIONALLY WHEN MAKING INVESTMENT DECISIONS."

If you buy into the investment philosophy of your investment manager and understand the unit trust you are invested in, it is usually easier to sit tight through market cycles and benefit from the upswing when it comes. In fact, dips in performance are often a good time to add to your investment at a cheaper price, knowing, as you would in the marble example, that the longer the market is trending downwards, the more likely the approaching correction.

Investor behaviour and heuristics, along with market and fund performance, determine investor returns. At Allan Gray we follow the same disciplined approach regardless of market conditions and work hard to find the best opportunities to deliver returns to our clients.

You also have an important role to

GRAPH 2 **ALLAN GRAY STABLE FUND 1-YEAR PERFORMANCE AND MONTHLY FLOWS**



Source: Allan Gray research.

play in determining overall returns: try to be aware of your own behavioural biases and act rationally when making investment decisions. Sticking to an investment strategy that is tailored to your goals, time-horizon and risk-tolerance will help take the emotion out of decision making. Your long-term strategy should not change when markets turn volatile. A good, independent financial adviser can help you to remain focused and stick to your goals when emotion threatens to get the better of you.

Shaheed joined Allan Gray in 2007 as a Business Development Manager. In 2012, he moved to Allan Gray unit trust distribution as an investment specialist where his responsibilities include distribution and investment servicing of the Allan Gray funds. Shaheed completed his B Com (Finance), CFP, and MBA (cum laude) at UCT GSB.

CARLA ROSSOUW AND CARRIE FURMAN

READ THE FINE PRINT BEFORE YOU DECIDE TO WITHDRAW OR RETIRE FROM YOUR PRESERVATION FUND

South Africans on average change jobs about five to seven times during their working lives. More than two-thirds do not preserve their retirement savings when they change jobs. If you have been wise enough to preserve your savings, take heed before you decide to withdraw or retire from your preservation fund so you don't get a tax shock, caution Carla Rossouw and Carrie Furman.*

When you send a withdrawal or retirement instruction to your retirement fund, the administrators have to apply for a tax directive from the South African Revenue Service (SARS), which will indicate the amount of tax that needs to be deducted from the lump sum before it is paid to you.

SARS does not allow tax directives to be cancelled, so it is imperative to get to grips with the facts before you submit any instructions to Allan Gray.

Understand the cash lump sums you are allowed to take

There are different tax implications for withdrawal and retirement lump sums.

If you are close to or above the age of 55 and you have not yet taken a once-off withdrawal from your preservation fund, it's important to carefully consider the tax implications of each option before making any decisions.

Preservation funds allow members to take cash lump sums from their accounts, according to the following rules:

Provident preservation funds

- Before you retire, you can take a single full or partial withdrawal lump sum (if there aren't any restrictions from the original fund).
- At retirement (which can occur any time after the age of 55), you can take a single full or partial lump sum. You must use any remaining amount to buy a product that can provide you with an income in retirement, such as a living annuity or guaranteed life annuity.

Pension preservation funds

- Before you retire, you can take a single full or partial withdrawal lump sum (if there aren't any restrictions from the original fund).
- At retirement (which can occur any time after the age of 55), you can take a single lump sum. If the market value of your account/s in the fund exceeds R247 500 at retirement, this lump sum will be limited to one-third of the market value of the account/s you are retiring from. You must use any remaining amount to buy a product that can provide you with an income in

> "SARS DOES NOT ALLOW TAX DIRECTIVES TO BE CANCELLED, SO IT IS IMPERATIVE TO GET TO GRIPS WITH THE FACTS BEFORE YOU SUBMIT ANY INSTRUCTIONS TO ALLAN GRAY."

*According to the Sanlam Benchmark survey.

retirement, such as a living annuity or guaranteed life annuity.

Understand the different tax implications of withdrawal and retirement lump sum benefits

Any withdrawals you take from a preservation fund prior to retirement are taxed according to the rates shown in **Table 1**, with the first R25 000 taxed at 0%.

Retirement lump sum benefits are taxed according to the rates shown in **Table 2.** In this case the first R500 000 of such a lump sum is taxed at 0%.

Understand that previous lump sum benefits are taken into account

In applying the tax tables, SARS takes into account all previous withdrawal, retirement and severance payments received when calculating the tax that needs to be deducted from your lump sum benefit. These include:

- All retirement lump sum benefits (including death benefits**) accruing from 1 October 2007
- All withdrawal lump sum benefits accruing from 1 March 2009
- All severance benefits accruing from 1 March 2011

lump sum. If you have any tax-related disputes you need to contact SARS directly. Note that tax legislation requires your retirement fund to deduct tax according to the tax directive and pay it to SARS regardless of whether or not the dispute has been resolved.

"IN MOST CASES YOU WILL BE BETTER OFF RETIRING FROM YOUR PRESERVATION FUND RATHER THAN TAKING A WITHDRAWAL."

Get a holistic picture of your tax situation

To obtain a tax estimate requires a holistic understanding of your previous lump sum benefits. It is worthwhile consulting a tax practitioner or contacting SARS to establish the probable tax impact before you decide to take a cash

Illustrative example

Mr A (aged 58) has an Allan Gray Provident Preservation Fund account with a market value of R800 000 and would like to take the full amount in cash. As he has not taken a previous lump sum from the account and he has reached the retirement age of 55,

TABLE 1 **WITHDRAWAL TAX TABLE**

TAXABLE INCOME FROM LUMP SUM BENEFITS	RATE OF TAX
R0 - R25 000	0% of taxable income
R25 001 - R660 000	18% of taxable income above R25 000
R660 001 - R990 000	R114 300 + 27% of taxable income above R660 000
R990 001 and above	R203 400 + 36% of taxable income above R990 000

Note: The first R25 000 that is taxed at 0% is a once-off lifetime concession and applies across all of an individual's retirement funds (including those from Allan Gray and other third-party fund providers).

Source: SARS.

TABLE 2 **RETIREMENT TAX TABLE**

TAXABLE INCOME FROM LUMP SUM BENEFITS	RATE OF TAX
R0 - R500 000	0% of taxable income
R500 001 - R700 000	18% of taxable income above R500 000
R700 001 - R1 050 000	R36 000 + 27% of taxable income above R700 000
R1 050 001 and above	R130 500 + 36% of taxable income above R1 050 000

Note: The first R500 000 that is taxed at 0% is a once-off lifetime concession and applies across all of an individual's retirement funds (including those from Allan Gray and other third-party fund providers).

Source: SARS.

**When an individual dies, the lump sum that the dependant or nominated beneficiary receives is regarded as a retirement lump sum benefit and is taxed in the hands of the deceased individual. This applies to retirement funds as well as living annuities.

he can access the R800 000 either through a withdrawal or by retiring from the account.

We can use the rates in Table 1 and Table 2 on page 18 to calculate the tax that will be deducted from Mr A's lump sum should he choose to make a withdrawal or retire from the account. The results are shown in **Table 3**. Please note that this example assumes that this is the first time Mr A will receive a lump sum from a retirement product.

If you have not taken any previous lump sums and you are over the age of 55 years, in most cases you will be better off retiring from your preservation fund rather than taking a withdrawal.

TABLE 3 **THE TAX IMPLICATIONS OF MR A'S FIRST LUMP SUM**

	WITHDRAWAL	RETIREMENT
Lump sum (before tax)	R800 000	R800 000
Tax	- R152 100	- R63 000
After-tax lump sum paid to Mr A	**R647 900**	**R737 000**

Source: Allan Gray research.

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

Carrie joined Allan Gray in 2008 and is a tax specialist in the retail business. She has an Honours degree in Finance, a Masters in Tax Law and is a Certified Financial Planner.

BEKITHEMBA MAFULELA

WHAT IS A MONEY MARKET FUND?

Money market unit trusts, commonly referred to as 'money market funds', have become a synonym for safe, secure and reliable investments. You put your money in and you get it back with a sliver more. But no investment is risk-free. Understanding how money market unit trusts work can help you use them effectively in your portfolio. Beki Mafulela explains their mechanics.

Before we delve into what money market unit trusts are it is probably a good idea to have an understanding of what the 'money market' is. Most of us can conjure up images of the old-school stock market with traders shouting buy and sell prices from the floor, but the money market draws a blank. In simple terms the money market is where companies, governments and banks raise money by getting short-term loans from investors. In practical terms, all transactions are now done electronically through a network of buyers and sellers, sometimes in auctions run by the banks, and there is no central or physical location where the money market exists.

What is a money market instrument?

A money market instrument entitles an investor to receive their loan amount back at the end of the term of the loan with accumulated interest payments from the institution. Let's unpack how this works by using a simple example:

1. A bank (or a company or a government) needs R100 million to cover operating costs for the next 12 months. The bank issues money market instruments to raise this money, which investors then buy.

2. This instrument offers 8.5% interest (which is called the yield) with a maturity of 12 months (the length of the loan period). Investors require that instruments with longer maturities offer them higher interest to compensate them for the risk.

3. Interest will accrue to the investor until the day the fund matures, when the investor will receive the total interest amount plus the initial capital investment.

4. If the investor sells that instrument before maturity, then the new holder picks up where the old one left off.

Some of you may already be asking: what makes this different from a bond? The answer is time. Money market instruments have terms that are usually a year or less. As money market instruments are commonly bought in minimum sizes of R1 million, money market unit trusts allow normal investors, without millions to spare, to access these instruments by pooling together their investments.

What happens if the institution can't pay?

By their nature, money market instruments are short dated, and you can choose to only invest in those issued by large, safe institutions – but this does not make them risk-free. Banks fail, companies go bankrupt and countries default. Recent events, like the collapse of African Bank and the global financial crisis of 2008, underlined the fact that no investment is without risk.

To protect against this risk, the Allan Gray Money Market Fund invests in a range of instruments offered by different issuers, so that it is not over-exposed to any single institution. In the unlikely event that an institution is unable to pay back the money, some money may be recovered in the liquidation process. Money market instruments are considered to be 'senior debt', which means that an institution has to pay these debts off first before other types of debt in case of liquidation.

"MONEY MARKET UNIT TRUSTS ARE A GOOD TOOL TO USE FOR MONEY IN TRANSITION OR FOR A SHORT-TERM SAVINGS OR EMERGENCY PLAN."

When should I use a money market unit trust?

Money market unit trusts are a good tool to use for money in transition or for a short-term savings or emergency plan; they are an effective parking place for your money. They allow you to store money that you will use in the near future, while getting some returns.

In some ways a money market

fund is comparable in use to a fixed deposit account that you get from a bank, with some advantages:

- You can cash out whenever you want. With most fixed deposit accounts you are locked in for a specified period where you may not withdraw your money without penalties. A money market unit trust is more liquid, which is something you should consider when comparing its returns to a fixed deposit from a bank.

- Your eggs are not all in one basket. A money market unit trust has investments across lots of issuers, whereas a deposit is only with a single bank (they guarantee your deposit but banks do sometimes fail), so although your risk is low it is also concentrated.

Investors who need to withdraw on a monthly basis may also find them useful, but beware of the downside of using a money market unit trust below.

The downside

In a word: inflation.

The returns of a money market unit trust often do not keep up with inflation over the long-term. If inflation exceeds the yield you may not lose a cent from the balance you see on your investment statement, but each cent will buy less the longer you keep your money in the unit trust. Put differently, money market unit trusts are usually not appropriate for long-term investing, like saving for retirement or your child's education.

Bekithemba joined Allan Gray in 2013 as a Business Development Manager. He has a Bachelor's degree in Economics, a postgraduate diploma and an advanced postgraduate qualification in Financial Planning. He is also a CFA charter holder and a CFP professional.

NOTES

ALLAN GRAY BALANCED AND STABLE FUND ASSET ALLOCATION AS AT 30 SEPTEMBER 2016

	BALANCED FUND % OF PORTFOLIO			STABLE FUND % OF PORTFOLIO		
	TOTAL	SA	FOREIGN*	TOTAL	SA	FOREIGN*
Net equities	59.4	44.8	14.6	28.6	18.8	9.8
Hedged equities	9.2	1.3	7.9	17.3	5.8	11.5
Property	1.4	0.6	0.7	2.4	1.7	0.7
Commodity-linked	4.8	4.6	0.2	4.0	3.7	0.3
Bonds	11.9	10.1	1.7	15.5	13.2	2.3
Money market and bank deposits	13.3	11.6	1.7	32.1	30.1	2.0
TOTAL	**100.0**	**73.1**	**26.9**	**100.0**	**73.3**	**26.7**

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 30 SEPTEMBER 2016

SECURITY (RANKED BY SECTOR)	MARKET VALUE (R MILLION)	% OF FUND	FTSE/JSE ALSI WEIGHT (%)
SOUTH AFRICA	**33 893**	**84.7**	
SOUTH AFRICAN EQUITIES	**32 016**	**80.0**	
RESOURCES	**7 336**	**18.3**	**22.1**
Sasol	2 936	7.3	
Sappi	658	1.6	
Impala Platinum	617	1.5	
Goldfields	531	1.3	
Glencore	492	1.2	
Positions less than 1%	2 102	5.3	
FINANCIALS	**11 495**	**28.7**	**24.3**
Standard Bank	2 722	6.8	
Old Mutual	2 067	5.2	
Reinet	1 249	3.1	
Investec	902	2.3	
Rand Merchant Insurance[1]	815	2.0	
Nedbank	727	1.8	
Barclays Africa	542	1.4	
Capitec	505	1.3	
MMI	385	1.0	
Positions less than 1%	1 582	4.0	
INDUSTRIALS	**12 952**	**32.4**	**53.6**
Naspers[2]	2 663	6.7	
British American Tobacco	2 478	6.2	
Remgro	1 187	3.0	
Netcare	640	1.6	
KAP Industrial	594	1.5	
Super Group	531	1.3	
Life Healthcare	520	1.3	
Blue Label Telecoms	439	1.1	
Tongaat-Hulett	369	0.9	
Positions less than 1%	3 531	8.8	
OTHER SECURITIES	**233**	**0.6**	
Positions less than 1%	233	0.6	
COMMODITY-LINKED SECURITIES	**586**	**1.5**	
Positions less than 1%	586	1.5	
MONEY MARKET AND BANK DEPOSITS	**1 290**	**3.2**	
FOREIGN EX-AFRICA	**5 848**	**14.6**	
EQUITY FUNDS	**5 393**	**13.5**	
Orbis Global Equity Fund	5 393	13.5	
MONEY MARKET AND BANK DEPOSITS	**455**	**1.1**	
AFRICA EX-SA	**275**	**0.7**	
EQUITY FUNDS	**275**	**0.7**	
Allan Gray Africa ex-SA Equity Fund	275	0.7	
TOTALS	**40 016**	**100.0**	

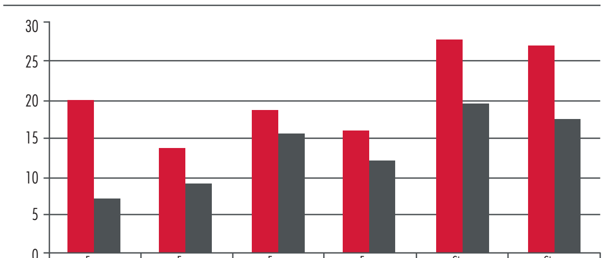
Note: There might be slight discrepancies in the totals due to rounding. Positions less then 1% include positions that are individually less than 1% of total JSE-listed equities, property and community-linked instruments held by the Fund.
[1] Including positions in Rand Merchant Investment Holdings Limited 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 (to 30.09)	13.8	4.8	9.0

RETURNS ANNUALISED TO 30.09.2016



	From 01.10.2015 (1 year)	From 01.10.2013 (3 years)	From 01.10.2011 (5 years)	From 01.10.2006 (10 years)	Since 01.01.1978	Since 15.06.1974
ALLAN GRAY*	20.0	14.7	18.3	15.8	27.3	26.4
FTSE/JSE ALL SHARE INDEX	6.6	8.8	15.3	12.0	19.3	17.2

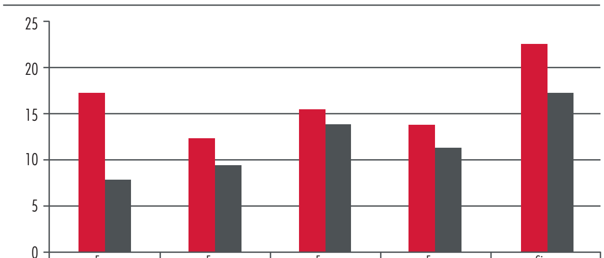
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R202 560 433 by 30 September 2016. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R8 192 392. Returns are before fees.

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 (to 30.09)	8.8	3.8	5.0

RETURNS ANNUALISED TO 30.09.2016



	From 01.10.2015 (1 year)	From 01.10.2013 (3 years)	From 01.10.2011 (5 years)	From 01.10.2006 (10 years)	Since 01.01.1978
ALLAN GRAY*	17.1	12.3	15.4	13.7	21.9
AFLMW**	7.6	8.8	13.9	11.8	17.2

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R21 495 694 by 30 September 2016. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R4 618 029. 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 September 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 30 SEPTEMBER 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) Average of South African - Equity - General category (excl. Allan Gray Funds)[1]	40.0	01.10.1998	**24.3** 17.1	**13.2** 11.9	**15.7** 15.1	**12.3** 8.5	**16.7** 8.1	**125.8** 73.0	**– 20.7** – 37.6
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	16.3	01.04.2005	**15.9** 14.1	**12.7** 11.2	**26.1** 24.1	**16.4** 17.7	**25.7** 11.9	**78.2** 54.2	**– 29.7** – 32.7
MEDIUM NET EQUITY EXPOSURE (40% - 75%)									
Allan Gray Balanced Fund (AGBF) Average of South African - Multi Asset - High Equity category (excl. Allan Gray Funds)[2]	123.3	01.10.1999	**18.2** 13.2	**12.3** 10.3	**14.2** 12.4	**11.5** 8.2	**15.8** 7.3	**46.1** 41.9	**– 8.3** – 16.7
Allan Gray-Orbis Global Fund of Funds (AGGF) 60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index	12.8	03.02.2004	**11.9** 11.8	**11.6** 11.4	**19.6** 19.5	**14.5** 16.3	**18.6** 11.0	**55.6** 38.8	**– 13.7** – 17.0
LOW NET EQUITY EXPOSURE (0% - 40%)									
Allan Gray Stable Fund (AGSF) Daily interest rate of FirstRand Bank Limited plus 2%	41.5	01.07.2000	**12.8** 9.1	**9.9** 8.3	**9.8** 6.9	**9.6** 7.2	**12.4** 8.0	**23.3** 14.6	**3.3** 6.2
VERY LOW NET EQUITY EXPOSURE (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate of FirstRand Bank Limited	1.4	01.10.2002	**8.5** 6.5	**7.9** 6.2	**7.8** 4.8	**10.7** 5.1	**13.6** 5.9	**18.1** 11.9	**1.6** 4.1
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US$ bank deposits and euro bank deposits	1.4	02.03.2010	**11.2** 8.2	**–** –	**13.9** 9.6	**10.9** 8.0	**11.5** – 0.2	**39.6** 35.6	**– 8.4** – 7.8
NO EQUITY EXPOSURE									
Allan Gray Bond Fund (AGBD) JSE All Bond Index (total return)	0.5	01.10.2004	**8.9** 8.6	**9.0** 8.5	**8.1** 8.0	**7.3** 6.8	**8.3** 7.6	**18.0** 21.2	**– 2.6** – 5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-term Fixed Interest (STeFI) Composite Index[3]	12.7	03.07.2001	**8.0** 8.0	**7.5** 7.3	**6.1** 6.0	**6.5** 6.4	**7.3** 7.1	**12.8** 13.3	**5.2** 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 30 SEPTEMBER 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	1.29%	0.72%	0.01%	0.27%	2.29%	0.06%	2.35%
Allan Gray-Orbis Global Equity Feeder Fund	1.50%	0.64%	0.06%	0.00%	2.20%	0.15%	2.35%
Allan Gray Balanced Fund	1.07%	0.31%	0.02%	0.13%	1.53%	0.08%	1.61%
Allan Gray-Orbis Global Fund of Funds	1.31%	0.40%	0.07%	0.00%	1.78%	0.16%	1.94%
Allan Gray Stable Fund	1.03%	0.43%	0.02%	0.15%	1.63%	0.07%	1.70%
Allan Gray Optimal Fund	1.00%	0.95%	0.02%	0.27%	2.24%	0.14%	2.38%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	0.29%	0.07%	0.00%	1.36%	0.15%	1.51%
Allan Gray Bond Fund	0.25%	0.29%	0.02%	0.08%	0.64%	0.00%	0.64%
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 30 SEPTEMBER 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	**19.1**	**12.8**	**26.2**	**16.0**	**25.2**	**87.6**	**– 47.5**
FTSE World Index		13.6	11.2	24.2	17.5	11.9	54.2	– 46.2
Orbis SICAV Japan Equity (Yen) Fund	01.01.1998	**15.6**	**10.7**	**20.9**	**15.1**	**23.1**	**94.9**	**– 40.1**
Tokyo Stock Price Index		9.5	7.5	20.2	15.9	12.7	91.0	– 46.4
Orbis SICAV Asia Ex-Japan Equity Fund	01.01.2006	**16.5**	**14.1**	**21.7**	**12.7**	**19.2**	**58.6**	**– 34.2**
MSCI Asia Ex-Japan Index		14.9	12.1	19.0	14.9	16.2	60.1	– 39.7
Allan Gray Africa ex-SA Equity Fund	01.01.2012	**10.3**	-	-	**– 5.4**	**– 17.6**	**65.7**	**– 24.3**
Standard Bank Africa Total Return Index		5.0	-	-	– 3.7	3.3	33.5	– 29.4
Allan Gray Australia Equity Fund	04.05.2006	**16.2**	**14.3**	**20.1**	**14.3**	**45.8**	**99.5**	**– 55.4**
S&P/ASX 300 Accumulation Index		13.5	11.5	17.8	10.3	23.0	55.6	– 45.1
MEDIUM NET EQUITY EXPOSURE								
Orbis SICAV Global Balanced Fund	01.01.2013	**23.5**	-	-	**16.1**	**19.3**	**54.4**	**2.3**
60% MSCI World Index with net dividends reinvested and 40% JP Morgan Global Government Bond Index		20.5	-	-	16.1	10.3	40.2	7.1
LOW NET EQUITY EXPOSURE								
Allan Gray Australia Opportunity Fund	01.07.2011	**15.2**	-	**13.8**	**10.7**	**22.9**	**32.7**	**– 6.1**
Reserve Bank of Australia cash rate		10.5	-	9.1	6.3	10.5	28.8	– 5.3
VERY LOW NET EQUITY EXPOSURE								
Orbis Optimal SA Fund-US$ Class	01.01.2005	**12.0**	**9.5**	**15.3**	**12.4**	**11.9**	**48.6**	**– 15.7**
US$ Bank Deposits		9.6	7.2	11.6	11.3	0.1	57.9	– 25.6
Orbis Optimal SA Fund-Euro Class	01.01.2005	**9.8**	**7.9**	**11.5**	**6.3**	**10.8**	**44.1**	**– 19.2**
Euro Bank Deposits		7.6	5.9	7.6	4.3	0.0	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.

SOUTH AFRICAN INSTITUTIONAL PORTFOLIOS[5] ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 30 SEPTEMBER 2016

	ASSETS UNDER MANAGEMENT (R BILLION)[6]	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR
LOCAL PORTFOLIOS[7] (BEFORE LOCAL FEES)							
Domestic Equity Composite (minimum net equity 75% - 95%)	**59.4**	**01.01.1990**	**20.9**	**15.4**	**17.0**	**13.6**	**19.0**
Domestic Equity Pooled Portfolio (minimum net equity 95%)	**5.6**	**01.02.2001**	**22.1**	**15.7**	**17.8**	**14.2**	**20.3**
FTSE/JSE All Share Index			14.6/15.2	12.0	15.3	8.8	6.6
Domestic Balanced Composite	**16.3**	**01.01.1978**	**22.2**	**13.8**	**14.0**	**12.6**	**18.5**
Domestic Balanced Pooled Portfolio	**3.0**	**01.09.2001**	**18.7**	**14.0**	**14.3**	**12.6**	**18.6**
Mean of Alexander Forbes SA Large Manager Watch (Non-Investable)[8]			17.4/15.3	12.0	12.4	8.0	7.7
Domestic Stable Composite	**5.7**	**01.12.2001**	**13.3**	**10.6**	**9.1**	**10.1**	**12.8**
Domestic Stable Pooled Portfolio	**1.4**	**01.12.2001**	**13.6**	**10.7**	**9.2**	**10.2**	**13.2**
Alexander Forbes Three-Month Deposit Index plus 2%			9.9	9.2	7.8	8.2	8.9
GLOBAL PORTFOLIOS[7], LIMITED TO 25% FOREIGN EXPOSURE (BEFORE LOCAL, BUT AFTER FOREIGN FEES)							
Global Balanced Composite	**77.1**	**01.01.1978**	**21.9**	**13.7**	**15.4**	**12.3**	**17.1**
Global Balanced Pooled Portfolio	**9.4**	**01.09.2000**	**18.9**	**13.8**	**15.6**	**12.5**	**17.6**
Global Balanced (RRF) Portfolio[10]	**27.2**	**01.09.2000**	**18.8**	**13.8**	**15.4**	**12.3**	**16.8**
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[8,9]			17.2/14.4	11.8	13.9	8.8	7.6
Global Stable Composite	**6.3**	**15.07.2004**	**13.1**	**11.0**	**10.9**	**10.5**	**13.4**
Global Stable Pooled Portfolio	**5.5**	**15.07.2004**	**13.1**	**11.0**	**11.0**	**10.5**	**13.4**
Alexander Forbes Three-Month Deposit Index plus 2%			9.2	9.2	7.8	8.2	8.9
Global Absolute Composite	**10.3**	**01.03.2004**	**16.2**	**12.9**	**11.6**	**11.7**	**16.8**
Global Absolute Pooled Portfolio	**3.1**	**01.03.2004**	**16.4**	**13.2**	**11.6**	**11.8**	**16.9**
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[8]			15.2	11.8	13.9	8.8	7.6
FOREIGN ONLY PORTFOLIOS[7] (AFTER FEES)							
Orbis Global Equity Pooled Portfolio	**0.7**	**18.05.2004**	**15.6**	**12.8**	**26.2**	**15.9**	**25.3**
FTSE World Index			13.8	11.2	24.2	17.5	12.0
Foreign Balanced (Rands) Composite[11]	**5.4**	**23.05.1996**	**14.8**	**10.9**	**18.5**	**12.3**	**17.2**
Foreign Balanced Pooled Portfolio	**0.1**	**23.01.2002**	**9.1**	**10.9**	**18.5**	**12.5**	**17.1**
60% of the MSCI World Index[12] and 40% of the JP Morgan Global Government Bond Index			12.3/7.9	11.3	19.4	16.0	11.1

PERFORMANCE AS CALCULATED BY ALLAN GRAY

[5] 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.
[6] The assets under management for institutional portfolios not listed here amount to R75.3bn.
[7] The composite assets under management figures shown include the assets invested in the pooled portfolios above where appropriate.
[8] The return for the period ending September 2016 is an estimate as the relevant survey results have not yet been released.
[9] Since inception to 31 December 1997 the Consulting Actuaries Survey returns were used.
[10] The returns prior to 1 August 2015 are those of the Allan Gray Life Global Balanced Portfolio.
[11] Since inception to 31 August 2001 the foreign carve-out returns of the Global Balanced Composite were used.
[12] 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 funds 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).

NOTES

NOTES

Directors

Executive

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
T J Mahuma	BA (Hons) MPhil
K C Morolo	BSc (Eng) MEng
N M Nene	BCom (Hons)

Company Secretary

C E Solomon BBusSc (Hons) CA (SA)

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