ALLAN GRAY

QUARTERLY COMMENTARY 1

31 MARCH 2017

LONG-TERM THINKING IN ACTION

The cover of this Quarterly Commentary features the synthetic fibre Kevlar, which is most famously used for bullet-proof vests. The material was invented by Stephanie Kwolek and developed by Herbert Blades, both scientists at the DuPont Corporation.

Working to create a synthetic material to replace steel, Kwolek first noticed a liquid crystalline solution behaving differently to expectations. Conventional wisdom would have been to throw it away. Instead, intrigued, she persuaded a sceptical lab technician to spin it into a fibre. The result was a fire-resistant material five times stronger than steel.

Her colleague, Blades, spotted the potential of the material straight away. He persevered through seven years of experimentation before finding a way to produce Kevlar economically and at high speeds. Over five decades later, new uses for Kevlar are still being discovered.

Kevlar is testament to what contrarian thinking and dogged persistence can achieve. Like Kwolek and Blades, we look for potential where others may not and through our unwavering commitment to our investment philosophy are able to create value for our clients over the long term.

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ROB DOWER

COMMENTS FROM THE CHIEF OPERATING OFFICER

Turkey's President Erdoğan has recently won a controversial referendum to expand his executive powers and extend his maximum term by 10 years. The UK is negotiating the terms of its departure from the EU. There is a new US government in place with a controversial agenda, South Korea's president has been impeached and charged with corruption, and Brazil's entire political leadership (bar the new president) remains engulfed in a corruption scandal that seems to have no end. The news is always full of things going wrong in other countries, but right now South Africa's political uncertainty and economic woes seem like the norm rather than the exception.

Our problems may not be unique, but they matter a lot to us. The recent cabinet reshuffle and the resulting debt ratings downgrades have left us reeling. South Africans as a whole do not save (all extra savings each year are more than offset by extra borrowing), so the interest rate we pay when we borrow from overseas to grow our economy is very important.

In the first half of April, after the downgrades, the daily closing yield of SA 10-year bonds traded at an average of just under 9%, about 4% weaker in price terms than a week prior to the downgrade. On the domestic government bond issuance planned for the current 2017/18 financial year, this would equate to a rough R8bn increase in the cost of raising this debt. Things could be worse: the 2.5% inflation-adjusted risk premium for South African debt over US debt is still lower than the average premium we achieved throughout 2016. Compared with other countries, the unemotional weight of the bond market remains quite optimistic about SA's ability to solve its problems.

There are reasons to be optimistic, not least of which is our robust, engaged democracy. But while optimism is a useful attitude for living, a dose of prudence is good for investing. In your Balanced and Stable portfolios we converted some of the foreign exposure back into rands at attractive levels in early 2016, but these portfolios remain at their maximum offshore allowance, allowing the portfolios to benefit from global returns uncorrelated with events in South Africa. Our top 10 equity holdings contain several well-diversified global businesses whose earnings are generated offshore. We also have investments in many solid local businesses that have proven that they can withstand shocks such as what we are going through. We will add to these if their share prices are impacted by a widespread sell-off of domestic assets.

We constantly reassess risk and make changes to your portfolios when we believe it is appropriate. Like the rest of the country, we will continue to monitor the situation.

A quick look at this quarter's articles

Our spread of articles this quarter gives you a sense of how our investment philosophy is applied and how we hunt for the best opportunities for your portfolios. As Mark Dunley-Owen discusses in his analysis of bonds, we apply our investment philosophy and process across asset classes. We research the fundamentals of each security to determine its fair value, using sustainable cash flow as a core input. We buy when the price is below this fair value, and sell when the opposite is true. This applies to both equities and bonds. Mark explains that it is prudent to maintain bond exposure within diversified investment portfolios, and vary this according to your objectives and your view on relative risk and return.

While once-enthusiastic investors are doing what they can to get out of Africa, Andrew Lapping is using this mood to accumulate the shares of better Nigerian banks at bargain prices. In his article he talks us through this thinking.

Although there are bargains to be found in Africa, the same can't be said of many developed markets, where shares currently look overvalued. Allan Gray and our offshore partner Orbis share the same investment philosophy and we both believe that the biggest risk investors face is paying too much for an asset. William Gray and Jeremie Teboul, from Orbis, explain Orbis' perspective on the risk of loss in the current investment environment and discuss where they are finding value.

We are just a few weeks in from the announcement of tax changes and the national budget for this year. In her piece this quarter Carla Rossouw gives some examples of the real impact of the budget on your pocket and offers some pointers on how to deal with the pinch.

We have recently launched an umbrella fund as we think we can offer a differentiated, transparent, cost-effective product in an otherwise opaque and expensive group savings space. Nazia Suleman and Saleem Sonday look at group savings in South Africa and describe our offering.

Deadline for Foundation applications is 12 May

You may be familiar with the work of the Allan Gray Orbis Foundation, which believes that entrepreneurially-minded individuals with ethical values and strong leadership skills hold the promise of change in this country. The Foundation believes that entrepreneurs can meaningfully improve the socio-economic landscape of Southern Africa. The Allan Gray Fellowship, offered by the Foundation, is one of the most comprehensive and stimulating university fellowship opportunities in Southern Africa. The Fellowship's entrepreneurial and personal development programme runs throughout the academic year alongside Candidate Fellows' university studies. The Fellowship includes full tertiary financial support and living expenses.

If you know an exceptional young person who is a budding future entrepreneur and goes against, behind and in front of the grain, please encourage them to apply for the Fellowship before the 12 May deadline. For more information please visit **www.allangrayorbis.org**

We are living in uncertain times in South Africa. We will continue to do our utmost to deliver you the best possible return for your investments at the lowest risk of loss.

Thank you for your trust.

Kind regards

Rob Dower

ANDREW LAPPING

NIGERIA: FINDING OPPORTUNITIES WHERE OTHERS FEAR TO TREAD

Wow, that valuation changed quickly!

A few years ago investors were very excited about investing in Africa outside of South Africa. People spoke of Africa rising, the growing middle class, financial deepening, less reliance on commodities etc. Now the popular refrain is, "How do I get my money out?" The "Get me out" sentiment applies both to corporates that invested in plant and machinery and financial market investors. Andrew Lapping questions this mentality as he discusses where we are finding value in Nigeria.

As you can imagine, the valuations investors put on assets vary widely, depending on whether everyone is desperately trying to buy or rushing for the door. But to what degree do asset prices change? Let's consider a few Nigerian examples.

Beta Glass

Beta Glass is a Nigerian glass bottle business. People generally know how long it takes and what it costs to build a glass bottle facility, so it is a fairly easy asset to value.

In May 2015, private equity company GZI agreed to buy 70% of Beta Glass from its parent company at a price that valued 100% of Beta Glass at US$265m. The deal fell through when GZI could not secure US dollar funding. Move forward to today: the enterprise value for Beta Glass on the Nigerian stock exchange is US$33m. A valuation change from US$265m to US$33m is substantial for an easy-to-value physical asset.

Nestlé Nigeria

Nestlé Nigeria (NN) is a very well-run business and the blue chip of the Nigerian stock market. At its peak in December 2013, investors valued NN at 40 times historic earnings on the back of vast growth potential: the Nigerian middle class was growing and Nestlé was only selling a handful of its 50 000 products in Nigeria. As retail formalised, investors anticipated that the company would sell more products to more people at higher prices with lower costs. When a business trades on 40 times earnings, investors are looking at least 10 to 15 years into the future and factors such as recessions and currency fluctuations should make almost no difference to the underlying business value. In December 2013 investors thought NN was worth US$6.2bn. Three years later, after a period when the underlying value should have increased as the business reinvested and grew production, investors think NN is worth US$1.6bn. For us, despite the 75% valuation cut, NN now only looks reasonably valued.

Focus on financials

Our area of interest in Nigeria is the financial sector, where the sentiment is truly extreme. The price level and valuation are one measure of sentiment, the very low volumes traded are another, but the best indicator is the incredulous looks on people's faces when you mention buying Nigerian banks.

Nigeria is a country of 175 million people with a Gross Domestic Product (GDP) supposedly larger than that of South Africa. The potential for Nigerian GDP growth is huge if the Buhari government can get a few things right. The government is focused on reducing corruption, sorting out the electricity supply, growing the non-oil economy and broadening the tax base. Even partial improvements in a few of these areas will have a very positive impact on economic growth.

Nigerian banks: Out of favour

Banks are an important part of any economy and tend to do better in good times rather than bad. The Nigerian banking sector is well developed and far more consolidated than only 10 years ago. The quality of lending and oversight is also vastly improved from pre-2008, where the main business of banks was lending money to management to invest in the stock market. Needless to say that ended badly, with a number of banks going bust and most of the remainder being bailed out to some degree.

Investors dislike Nigerian banks for many reasons. It is not currently possible to get money out of Nigeria. Investors are unlikely to put new money into a country when they have no idea if they will be able to get cash out and at what rate. The naira is marked at NGN307/US$, but the expectation is for the currency to weaken sharply if the government allows a free float. It is possible to get small amounts of money in and out of Nigeria at a rate of NGN410/US$ by buying and selling Seplat Petroleum, which is listed in both Nigeria and the UK. Given the recovering oil production, higher oil price and weak domestic demand, I think a fair rate is probably somewhere between the NGN410/US$ and the official NGN307/US$. The naira is already substantially weaker than the NGN 163/US$ of October 2014.

A sector-specific reason for the dislike of Nigerian banks is the distrust of the balance sheets. Given the tough economic times and low oil revenues, the Nigerian banks' non-performing loans (NPLs) seem to be understated. Zenith, the largest Nigerian bank, discloses NPLs of only 3% and took a bad debt charge of 1.5% last year. The most trusted balance sheet belongs to Stanbic IBTC, a subsidiary of Standard Bank, which disclosed NPLs of 6.4% and took a bad debt charge of 5.6% in 2016. Despite this substantial charge Stanbic was comfortably profitable and trades on 7 times historic earnings.

When dollar funding was readily available many banks made the mistake of taking dollar deposits and term lending these dollars to oil companies. As the dollar shortage developed the banks had to pay back the dollar deposits but could not get the dollar term loans back, leading to an acute funding squeeze.

The investment case for Nigerian banks

There is clearly a lot not to like, so why do we own Nigerian banks in the Allan Gray Africa ex-SA Equity Fund? Clearly we think the businesses will survive. Consider Zenith, our largest position. Zenith's total loans are only 3.3 times that of its equity. This is a very low ratio by global standards. In South Africa the ratio is closer to 8 times. The low advances to equity ratio means Zenith can take a huge bad debt charge and still have a substantial equity buffer. The large Nigerian banks are also very profitable, which allows for a greater margin of error. In 2016 Zenith could have taken an 8.9% bad debt charge and still broken even. A bad debt charge of that magnitude would bankrupt most developed market banks.

A further positive is that the founders own around 9% of both Zenith and Access Bank, another large Nigerian bank. This level of insider ownership is very unusual in the banking industry. When a person owns 10% of a large business they usually care far more about long-term sustainability than a manager who is just trying to get an annual bonus. The tough times in Nigeria are culling some of the weaker banks leading to a better, more consolidated industry.

Even if the Nigerian economy does not grow much the banks have plenty of growth potential. The Nigerian mortgage and retail lending market is practically non-existent and the vast majority of transactions are still cash rather than electronic. Previously retail lending was difficult as Nigeria did not have a national identity (ID) system. This is changing as a biometric ID system is introduced. According to the World Bank, Nigerian bank loans equate to 23% of GDP, compared to 179% in South Africa and 45% in Kenya.

Zenith's return on equity (ROE) has averaged 16.5% over the past 10 years, which includes the recent down cycle and a very difficult 2009. In future Zenith should be able to achieve a similar ROE to that achieved historically. If this is the case, the bank will earn NGN3.63 per share; the current price is NGN14.00. Zenith pays out 50% of its earnings as dividends; this indicates a 13% dividend yield – an attractive prospect.

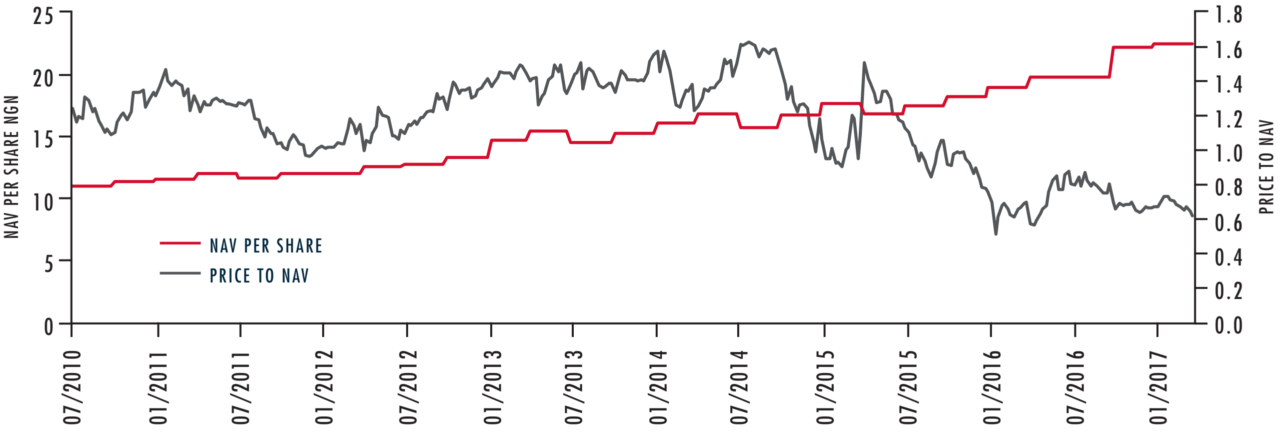
"THE NIGERIAN BANKING SECTOR IS WELL DEVELOPED AND FAR MORE CONSOLIDATED THAN ONLY 10 YEARS AGO."

What investors are willing to pay for a unit of Zenith's net asset value (NAV) has fallen from 1.4 to 0.6 despite Zenith consistently growing its NAV, as shown in **Graph 1** on page 5.

A reasonability check

The 10 largest banks in Nigeria have a market capitalisation of US$6.5bn. These 10 banks account for almost the entire sector, so it is possible to buy the

GRAPH 1 ZENITH BANK NET ASSET VALUE (NAV) PER SHARE AND PRICE TO NAV



Source: Bloomberg.

Nigerian banking sector for US$6.5bn. Yes, some of these banks may be insolvent, but if they close down the deposits and customers will move to one of the other banks in the top 10. These banks have value for a few reasons: they hold US$50bn in customer deposits; they have significant infrastructure and provide banking services to the largest economy in Africa with a population of 175 million and they generated US$1.5 billion in profits over the past 12 months. To me US$6.5bn seems fairly cheap. In 2008, investors thought these 10 banks were worth US$35bn when they were much smaller, inferior businesses.

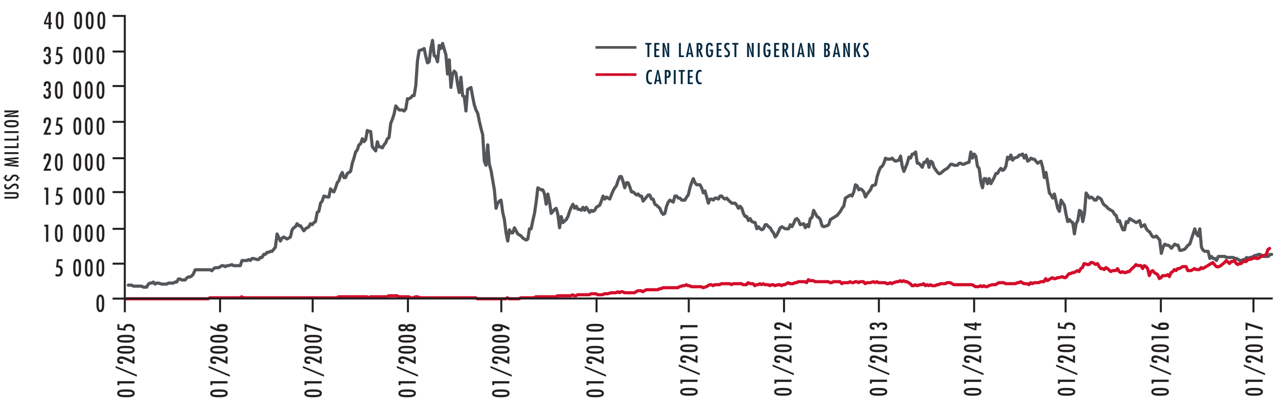
For context Capitec, a bank that offers low-cost transactional banking and microloans to the low and middle market segment in South Africa, is valued at US$7.5bn, 15% more than the entire Nigerian banking sector, as shown in **Graph 2**. Capitec generated US$240m in profits in the year to August 2016, only 16% of the profits of the top 10 Nigerian banks. Either Capitec is somewhat expensive or Nigerian banks are very cheap. Will Capitec or the sum of the current largest 10 Nigerian banks be worth more in 2027? I know where my money lies.

Some may argue that all banks in Africa ex-SA deserve to trade on low valuations because the risks are so great. Consider Commercial International Bank (CIB), commonly regarded as the best Egyptian bank. During the Arab Spring in 2011 when risks were high and there was literally blood on the streets, CIB traded on 1.3 times net asset value. Now that investors like Egypt, CIB trades at 4.2 times NAV.

When is the best time to buy a share?

The time to buy a share is when earnings are low, those earnings are on a low multiple and the currency the asset is denominated in is weak. These opportunities don't arise when things are going swimmingly, but rather when the risks seem overwhelming. Fortunately the risks to Nigerian banks are well reflected in the extremely depressed valuations.

GRAPH 2 MARKET CAPITALISATION IN US DOLLARS



Source: Bloomberg.

Andrew joined Allan Gray in 2001 as a fixed interest trader and became an equity analyst in 2003. He was appointed as fixed interest portfolio manager in 2006 and chief investment officer in March 2016. Andrew completed his BSc (Eng) and BCom at UCT and is a Chartered Financial Analyst.

MARK DUNLEY-OWEN

SHOULD YOU HAVE BONDS IN YOUR PORTFOLIO?

Fixed income instruments, commonly referred to as bonds, are an important component of our multi-asset class unit trusts such as the Allan Gray Balanced Fund and Stable Fund, as well as the specialist Allan Gray Bond Fund. Mark Dunley-Owen outlines some of our fixed income principles and explains our current investment view.

Bonds are boring, or so the saying goes. A better interpretation is that bond returns are less volatile than equity returns, most of the time. This is positive for investors who value stability, such as retirees. It is negative for investors with long time horizons since higher risk investments, such as equities, typically outperform over long time periods. R1 in 2000 would be worth R10.65 today if you had invested it in the FTSE/JSE All Share Index (ALSI) versus R5.67 in the JSE All Bond Index (ALBI).

Boring or not, the diversification benefits of bonds make them relevant to many investors. They tend to perform well when equities perform poorly, and vice versa. It is prudent to maintain bond exposure within diversified investment portfolios, and vary this according to your objectives and your view on relative risk and return. This principle underlies our multi-asset class unit trusts, in which bonds typically have a material weighting and are a meaningful contributor to performance.

How we manage fixed income

In a recent podcast, Malcolm Gladwell discusses the free throw record of NBA Hall of Fame basketball player Rick Barry. Free throws are uncontested attempts to score points after a player is fouled in the restricted area. Historically they were particularly important in the last few minutes of a game – interested readers should google 'Hack-a-Shaq'.

Barry's career free throw percentage of 89.3% means he was successful in almost nine out of ten free throw attempts. This is the seventh highest career free throw percentage in the history of the NBA. For current context, Stephen Curry, sometimes referred to as the greatest shooter ever, has a 90.4% career free throw percentage.

What is unusual about Barry's free throw record is that he threw the ball underhand, using so-called 'granny style'. He is the only NBA player to do so consistently* and was ridiculed for doing so, but persevered because it maximised his scoring ability. Malcolm Gladwell describes Barry as a low threshold personality who prioritises results over popularity.

"WE BELIEVE THERE ARE UPSIDE RISKS TO SOUTH AFRICA'S LONG-TERM INFLATION AND REAL YIELDS."

Allan Gray is similar in that we will deviate from common wisdom if it improves our ability to generate long-term wealth for our clients. Some of our fixed-income principles are thus different from other managers:

* Wilt Chamberlain experimented with shooting underhand for one season. He recorded a career best 61% free throw percentage over that season, yet switched back to the traditional style of shooting thereafter.

- We believe investment skills are asset class independent. Our fixed-income investment team is part of our broader investment team, with the same analysts covering equities and bonds.

- We apply the same investment philosophy and process across asset classes. We do fundamental research to determine the fair value of an asset, using sustainable cash flow as a core input. We buy when the price is below this fair value, and sell when the opposite is true. This applies to both equities and bonds.

- We target long-term absolute returns.

This thinking has helped deliver attractive risk-adjusted returns for our clients. **Graph 1** shows 1, 3, 5 and 10-year annualised returns for the Allan Gray Bond Fund in red and the ALBI in grey. The two lines in the graph look similar, except that the Bond Fund is further to the left. This indicates that the Fund has generated similar returns as the ALBI over various time periods, but at lower volatility or risk, meaning the Fund's risk-adjusted returns are better.

Adjusting returns for risk is important if one believes, like we do, that the last few decades have been unusually good to bond investors. The benefits of lower risk are often overlooked during bull markets only to become apparent when markets turn.

Our investment outlook for bonds

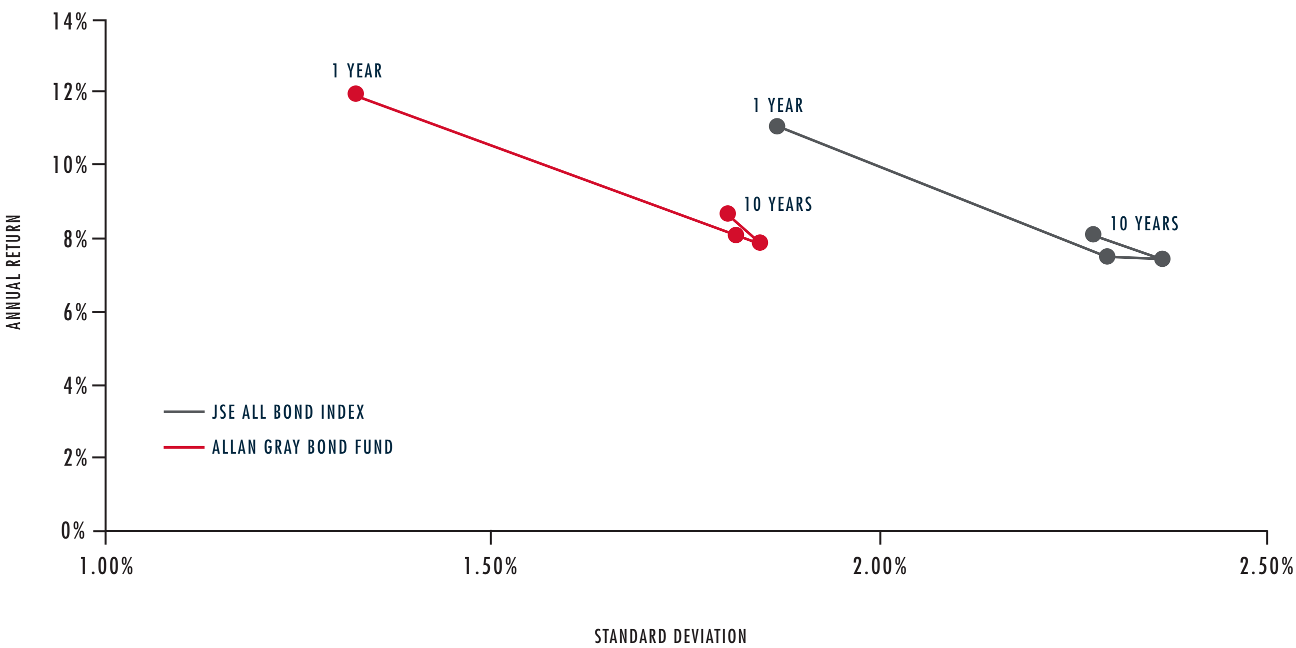
We caution against making broad assumptions about the future, such as macroeconomic forecasts, as these are seldom correct or indicative of investment performance. This is unusual in fixed-income investing where it is popular to have macroeconomic opinions, often over the short term. Instead, we spend our time thinking about key variables that we believe will impact long-term bond returns. Two of these are South Africa's long-term inflation and the real return required to make South African bonds attractive to investors.

The three-year moving average of SA inflation has ranged between 4% and 8% over most of the last 20 years. This is remarkably stable considering the economic fluctuations over this period, testament to a supportive global interest rate environment and the competency of the South African Reserve Bank. Few investors remember that SA inflation was regularly higher than 15% in the 1980s, and even fewer think future inflation will return to these levels.

We likewise do not expect double-digit inflation anytime soon, but our view is that global inflation is likely to rise as some of the disinflationary trends of the last few decades moderate, such as global trade, fiscal prudence and excess savings. Since much of South Africa's costs are imported, this will place upward pressure on South Africa's inflation. Even if we are wrong, it is unlikely that SA inflation will fall sustainably below current levels while we remain an open economy with below average productivity and above average wage pressure.

The second variable, namely the required real return from bonds, is difficult to predict. A reasonable starting point is the historical real yield on the 10-year government bond, which is

GRAPH 1 **RISK AND RETURN OVER 1, 3, 5 AND 10-YEAR PERIODS (AS OF 31.03.2017)**



Source: Allan Gray Research.

4.1% over the last 20 years. The real 10-year government bond yield at the end of March was 2.6%, which suggests investors are more comfortable or complacent about South African risks today relative to history. This is surprising when one considers the economic consequences of recent events such as the sovereign ratings downgrade to junk status. It is even more surprising when one looks at South Africa's underlying fundamentals:

- Real GDP growth was negative in December 2016, and the lowest it has been in post-apartheid South Africa outside of the Global Financial Crisis of 2009 and the Asian/Russian Crisis of 1998.
- Government gross loan debt is at 51.7% of GDP, the highest it has been since 1970. This ignores record high debt at the state-owned enterprises. Eskom and Transnet's combined net debt was R444bn as of September 2016, double what it was in 2012 and equivalent to another 10.5% of GDP.
- Long-term growth drivers such as education, capital investment and policy certainty are deteriorating from already-low levels. Most readers are aware of South Africa's education and policy challenges, but equally worrying is that government fixed capital spend is at the lowest percentage of GDP since 1970.

There appears to be a dichotomy between the real return investors are accepting from South African bonds, and the underlying risks these bonds are exposed to. A reasonable explanation is that investors are looking forward to improving fundamentals. While a cyclical recovery may have seemed likely earlier this year, recent events have changed this. Furthermore, investors like us who focus on long-term absolute returns, will find it difficult to forecast improvements to the fundamentals necessary to justify current real returns.

Approach with caution

We believe there are upside risks to South Africa's long-term inflation and real yields. In some scenarios a correction in one may negatively impact the other. For example, the government has three broad ways to reduce its debt to GDP – higher growth, austerity or inflation. Higher growth and austerity would be positive for bonds but are difficult to implement within South Africa's socio-economic realities. Inflation, as the path of least resistance, is likely to be at least part of the solution. This would be negative not only for bonds, but also for the currency and South Africa's long-term competitiveness, which could in turn force investors to require a higher real return from South Africa's bonds.

If we are right, future bond returns are likely to be disappointing. Our caution is reflected in limited bond duration, a measure of risk, within our clients' portfolios. The duration of the Allan Gray Bond Fund is 5.4 years, materially lower than its ALBI benchmark duration of 7.2 years. The duration of the Allan Gray Balanced Fund and the Allan Gray Stable Fund is lower still, at 2.3 years and 1.2 years respectively.

Mark joined Allan Gray in 2009 having worked at a number of international investment banks. He is one of the portfolio managers of the Allan Gray Stable Fund, the portfolio manager of the Allan Gray Bond Fund and also manages Africa ex-SA bonds.

JEREMIE TEBOUL AND WILLIAM GRAY

ORBIS: ARE THERE ANY BARGAINS OUT THERE?

Since 1990, the Orbis Global Equity Fund's investment mandate has been to seek higher returns than the average of the world's equity markets, without greater risk of loss. While the objective of producing higher returns is relatively self-explanatory, the goal of no greater risk of loss is much more nuanced. After all, the historical risk of loss cannot be accurately measured because most risks never materialise. As a result, clients tend to look at significant declines in the price of a fund as a proxy for historical risk of loss. Through that lens, one might conclude that we have successfully positioned the Fund to deliver on that objective by experiencing both smaller and much less enduring price declines than market averages in times of extreme stress. But simply looking back at these measures can be misleading, in that stock market environments are always different. Jeremie Teboul and William Gray from our offshore partner Orbis discuss Orbis' perspective on the risk of loss in the current investment environment.

Looking back

Historically, like Allan Gray, we have protected your capital by limiting our investments in the speculative, bubble-like areas of the global equity markets. For example, the Fund had minimal exposure to both Japanese equities in the early 1990s and to the technology, media and telecommunications (TMT) sector at the height of its bubble in 2000. The common experience in these periods was underperformance for investors who did not own some of the most rapidly rising shares, followed by meaningful outperformance for those who remained disciplined as those same shares fell sharply. Key to this experience was the fact that during each of these periods the attraction of the most rapidly rising parts of the market sapped the interest out of other large sectors of the stock market. As a result, valuations in those sectors became sufficiently low that we believed they offered both high prospective returns and lower risk of medium-term price declines. That opportunity, to invest in shares others had sold so they could own the most popular ones, is what allowed us to meet the Fund's investment mandate in those periods.

"TODAY, AS WE ENTER THE NINTH YEAR OF THE BULL MARKET THAT STARTED WITH 2009 LOWS, WE ARE PRESENTED WITH A MORE CHALLENGING ENVIRONMENT THAN THE 1990 AND TMT ERAS..."

During the Global Financial Crisis, we were less successful at avoiding losses. Prior to the crisis, the Fund had some exposure to shares trading at low valuation measures, but when economies collapsed and credit markets ceased to function properly, those low valuations provided little protection given the magnitude of the deterioration in earnings most companies experienced. In fact many financial sector and highly-leveraged equities suffered very large, permanent capital impairments as they either became insolvent or sought rescue financing on highly dilutive terms. Students of markets might observe that, in response to their past experience, investors avoided participating in a valuation-driven bubble and instead were caught by a less discernible credit bubble.

Current challenges

Today, as we enter the ninth year of the bull market that started with 2009 lows, we are presented with a more challenging environment than the 1990 and TMT eras in that we don't believe there are large sectors of the market which offer meaningfully lower risk of medium-term price declines. Governments and central banks have injected so much low-cost money into the global economy that investors don't face a trade-off to sell shares to buy others. Combined with economic activity being brought forward through borrowing and stimulus, the majority of share prices, valuations and earnings are elevated.

Traditionally, shares of stable, predictable, and therefore less glamorous businesses tend to be the most attractive after long bull markets. But that is not the case this time. Faced with uncharacteristically low interest rates, investors have been attracted by the steady and predictable dividends offered by these shares as a good source of annual income, bidding the prices of these shares up so much that they could easily fall significantly and not recover for a long period of time.

On the other end of the spectrum, the shares of companies with heightened economic sensitivity, secular challenges, or dependency on credit markets are still risky as investors there are willing to pay high prices for their potential exposure to accelerating economic growth and protection against unexpected inflation. With no large sectors of the equity markets unpopular, there is very little opportunity to invest where current prices present low risk of short- to medium-term losses. Put simply, the areas of equity markets which have historically been attractive in the advanced innings of bull markets don't presently offer meaningfully lower risk of loss, as they have in the past.

Key risk: paying too much for a share

The risk we are most concerned about is permanent impairment of capital - the risk that in time a share ends up being worth less than we paid for it. We believe we have limited exposure to that risk. The risk we are exposed to is that most share prices could fall meaningfully in the short or medium term. Considering the current market context, it would be naïve of us to think that our investments individually or collectively possess limited potential for such price declines given our Fund's policy of remaining fully invested in and exposed to equities. By remaining focused on our disciplined investment process, however, we believe we can avoid permanent impairments of capital while producing well above-average long-term returns.

> **"BY REMAINING FOCUSED ON OUR DISCIPLINED INVESTMENT PROCESS, HOWEVER, WE BELIEVE WE CAN AVOID PERMANENT IMPAIRMENTS OF CAPITAL WHILE PRODUCING WELL ABOVE-AVERAGE LONG-TERM RETURNS."**

Current positioning

Today, we are enthusiastic about both the long-term business prospects of the companies in the Fund and the prices at which many are trading. Many are led by outstanding management teams who we believe are capable of navigating through troubled times and taking advantage of distressed market conditions. The portfolio includes a number of shares of businesses that are protected by wide economic moats. Some – such as Air Products and Chemicals, and Berkshire Hathaway – possess large cash balances that can be readily deployed towards attractive investment opportunities in the event of large price declines. Investments such as Charter Communications, Rolls-Royce Holdings, and CDK Global, which makes software for car dealers, are undergoing transformations which should enhance their intrinsic value. Other investments such as Amazon.com, Priceline Group, Latin American online marketplace MercadoLibre and Chinese ecommerce company JD.com benefit from innovation and secular change. And lastly, some investments, such as the US health insurers and Sberbank of Russia are available at attractive valuations due to concerns about uncertain conditions in their industries or countries. The portfolio retains very little exposure to businesses that rely on ongoing access to capital and are therefore at greater risk of suffering permanent capital impairments. Overall, we believe the portfolio's holdings possess strong economic characteristics and are well-positioned for a range of long-term outcomes.

Our investment process

Everything we do is focused on creating an environment that allows us to invest differently and thoughtfully. Our investment process is designed to produce alpha-generative insights and create the environment that allows them to be acted on. It leverages a deep and broad research-driven capability, encourages individual yet collaborative decision-making and empowers long-term thinking. Our aligned fee structures ensure that we are rewarded much more for superior performance than for increasing assets under management, and that we feel the pain when we underperform. All these factors enhance our ability to seek investments with a multi-year horizon and to have the staying power to see through market vagaries, which we see as a meaningful advantage.

Beyond the structural aspects, the softer parts of our process are enriched by the talent and diversity of our analysts. Whether they are predisposed to be contrarians, pessimists or optimists, demonstrate deep intellectual curiosity, or have the vision to see things through a different lens, collectively our analysts identify and select bottom-up investment opportunities that are aligned with your patient capital.

The best time to prepare for and to consider how one might react during a period of distress is before it happens rather than in the heat of the moment. As painful as short-term losses may be, they often present compelling opportunities for investors who can be patient and capitalise on temporary distress. As long-term investors, we would seek to do so on your behalf as we have in the past. And we would like nothing more than for you to also be in a good position to hold firm and do the same alongside us.

Jeremie joined Orbis in 2008. Based in Bermuda, he conducts fundamental research globally and is one of the stockpickers who directs client capital in the Orbis Global Equity Strategy.

William Gray leads Orbis' investment team. He is a Director of Orbis Holdings Limited, a Director of Orbis' Bermuda and Luxembourg Funds, and a Director of Orbis Allan Gray Limited. Prior to rejoining Orbis in 1993, William had been an analyst with Orbis and with the Orbis predecessor company in Hong Kong.

CARLA ROSSOUW

HOW TO COMBAT THE BUDGET PINCH

Some weeks have passed since former Finance Minister Pravin Gordhan's Budget speech, but we are only just beginning to feel the pinch. Carla Rossouw discusses how the tax increases impact you and offers some pointers on how to relieve some of the burden.

The 2017 Budget contained some surprises. Whether we like it or not, taxes aren't optional and we have to rework our personal budgets to accommodate the changes. To recap, here's a summary of the key take-outs:

- There was little increase in the tax brackets, leading to 'bracket creep'.
- A new tax bracket was created for income above R1.5 million, with an income tax rate of 45%.
- Dividend withholding tax (DWT) was increased from 15% to 20%.
- The annual allowance for tax-free savings was increased from R30 000 to R33 000 per year.

But what does this all mean for you? Let's take a look at each component.

Bracket creep impacts low- to middle-income earners

It was easy to misinterpret the Budget as having little impact on anyone other than the very wealthy. However, as you may have realised over the past month or so, a harsh silent tax increase has been imposed on the average South African tax-payer, resulting in less money in our pockets to save and spend. **Table 1** reflects the personal income tax rates for 2017/18. While personal taxes were not raised, individual tax brackets have only gone up by 1%, compared to inflation of approximately 6%. This means that if you received an inflationary salary increase, the purchasing power of your after-tax income will be lower due to the higher tax paid on this income (see the scenarios on page 13) and, as a result, you may come out poorer. This increase, which is also known as 'bracket creep', is likely to raise more than three times more money than the new tax on the wealthy (discussed later).

You may also feel the impact of bracket creep if you own a pension or living annuity and you increase your income by inflation.

TABLE 1 **PERSONAL INCOME TAX RATES FOR 2017/18**

TAXABLE INCOME	TAX RATE
R0 – R189 880	18% of taxable income
R189 881 – R296 540	R34 178 + 26% of taxable income above R189 880
R296 541 – R410 460	R61 190 + 31% of taxable income above R296 540
R410 461 – R555 600	R97 225 + 36% of taxable income above R410 460
R555 601 – R708 310	R149 475 + 39% of taxable income above R555 600
R708 311 – R1 500 000	R209 032 + 41% of taxable income above R708 310
R1 500 001 and above	R533 625 + 45% of taxable income above R1 500 000

Source: SARS.

SCENARIO 1: MR X'S INCOME AND TAX FOR THE TAX YEAR 2016/2017
Annual taxable income: R190 000 Income tax: R33 840 + 26% x (R190 000 - R188 000) = R34 360 - R13 500 (primary rebate) = R20 860 Income after tax: R190 000 – R20 860 = R169 140

SCENARIO 2: MR X'S INCOME AND TAX FOR THE TAX YEAR 2017/2018 IF HIS INCOME INCREASES BY 6%
Annual taxable income: R190 000 + (R190 000 x 6%) = R201 400 Income tax: R34 178 + 26% x (R201 400 - R189 880) = R37 173 - R13 635 (primary rebate) = R23 538 Income after tax: R201 400 – R23 538 = R177 862

Although Mr X's income has increased by 6%, his after-tax income has only increased by 5.2% due to bracket creep. This equates to a monthly reduction in purchasing power of around R119, which means that Mr X will be able to buy less with his after-tax income than he is currently able to buy.

You can use **Graph 1** to work out your approximate monthly reduction in purchasing power. Simply look for your tax bracket along the bottom axis and then find the corresponding reduction on the left-hand side.

A new tax for high-income earners

For the highest earners (those earning above R1 500 000), the marginal tax rate has been increased from 41% to 45%. If you fall into this bracket your taxable income earned from investments will be taxed at the higher rate, resulting in reduced after-tax investment returns.

You will also pay more capital gains tax (CGT) if you withdraw from your unit trust investment. This is because CGT is collected at an effective rate which is a function of your marginal tax rate. The effective CGT rate for individuals in this top bracket increased from 16.4% to 18%.

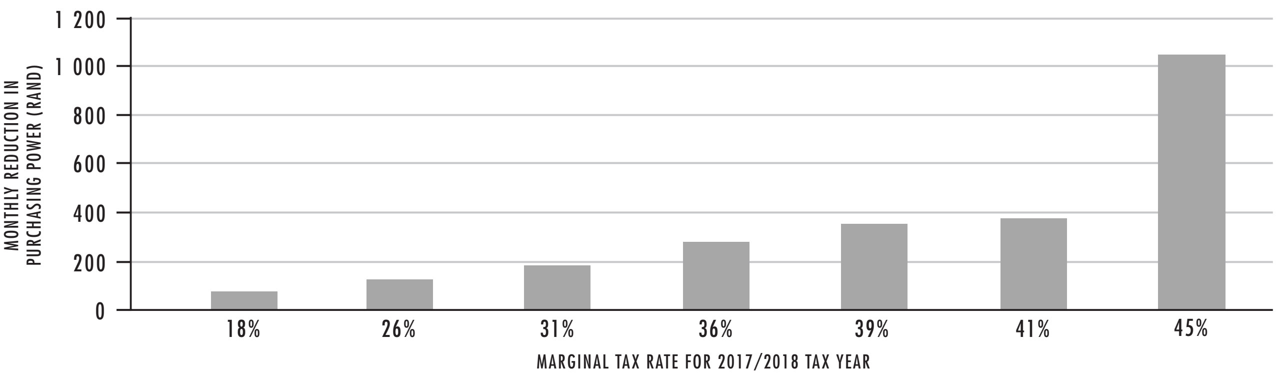
Dividend withholding tax goes up

DWT is a tax collected from investors receiving dividends declared and paid by South African resident companies or foreign companies listed on the JSE. The increase in DWT affects the return on any discretionary investment that holds shares in either type of company. Dividend withholding tax was introduced in 2012 to replace secondary tax on companies. It affects the dividends portion of your investment's overall return. The increase in the DWT rate will result in an additional 5% of a dividend being withheld and paid over to SARS. This means you will receive less in your pocket, or have less available for reinvestment.

Since it reduces the investment income that you receive, the increase in DWT will also impact the long-term returns on an investment. This is because a lower dividend reinvested today will have a compounded effect on returns in the future. This will result in a reduction in the growth of an investment over the long term.

The new DWT rate will have an impact on all discretionary investments that earn dividends including Allan Gray Unit Trust, Endowment and Investment Platform (local investments only) accounts. However, retirement funds, including the Allan Gray Retirement Annuity Fund and the Allan Gray Pension Preservation and Provident Preservation Funds, are exempt from income tax and from paying DWT and therefore your retirement fund investment will not be affected by the

GRAPH 1 **MONTHLY REDUCTION IN PURCHASING POWER**



Source: Allan Gray Research.

increase in DWT. Similarly your tax-free investment accounts are not impacted. Annuity income received form the Allan Gray Living Annuity is subject to income tax but not DWT.

How can you relieve some of the tax burden?

The annual limit for contributions to a tax-free investment account has increased by 10%. This product offers great shelter from the increases in the tax rates. While you invest with after-tax money, you can now invest up to R33 000 per year and pay no tax on your investment returns. The lifetime limit remains unchanged at R500 000. Additionally, saving in a retirement annuity, pension fund or provident fund allows you to reduce the amount of tax you pay from your salary and effectively have the government fund some of your retirement savings. This is because contributions to a retirement fund are tax deductible from your income. However, this comes at the cost of restricted access to your savings: you can mostly only access your money in these funds when you retire.

Lastly, an endowment has become an even more attractive choice. If you are a high earner looking to reduce your income tax and CGT liability you can do this using an endowment – provided you are prepared to tie your money up for five years. The life insurance company issuing the endowment pays (and deducts from policy holders) income tax at 30% and CGT at an effective rate of 12%.

Carla joined Allan Gray in 2006 and is responsible for taxation across 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.

NAZIA SULEMAN AND SALEEM SONDAY

INTRODUCING THE ALLAN GRAY UMBRELLA RETIREMENT FUND

Group savings should be an extremely efficient way to prepare for a comfortable retirement. Nazia Suleman and Saleem Sonday discuss how Allan Gray plans to make a difference in the retirement savings space.

The Australian Centre for Financial Studies has an index comparing pension systems across the world – the Melbourne Mercer Global Pension Index. While they acknowledge that comparing systems is controversial, as each country's system evolves from unique circumstances, there are certain characteristics that can be applied universally. The index rates each country based on the system's adequacy, sustainability and integrity.

Sadly, South Africa comes in well below average overall, with the key pressure point being adequacy, which considers the benefits provided to both low and middle-income earners, as well as general characteristics which describe the efficiency of the overall retirement income system. We can learn from countries that do well, such as Denmark, the Netherlands and Australia. These are all countries which have inclusive systems that benefit from scale efficiency, while still delivering high-quality investment management.

The South African retirement industry today (excluding the government pension fund) manages assets of around R1.8 trillion. Of this, around 49% is in non-commercial funds, 17% in commercial umbrella funds and around 34% in individual retirement annuity accounts and preservation funds. Over the last four years, the market share of commercial umbrella funds has increased by two thirds (from a base of 10% in 2012), at the expense of stand-alone employer funds. This should be a good thing. Since an umbrella fund clubs together thousands of employees from different organisations in a single fund with standardised rules and a single board of trustees, it is more efficient to govern and administer than a stand-alone employer fund.

Like all employer-sponsored funds, umbrella funds are also typically better than individual retail arrangements. With employer-sponsored retirement saving, employees save for retirement as part of their conditions of employment (which should mean lower distribution costs for providers and thus lower fees) and employers represent a big enough group of employees to negotiate better fees than each employee could on their own. These advantages should result in better outcomes for members than small and mid-sized employer-sponsored funds can offer but this isn't always the case.

"A GOOD UMBRELLA FUND SHOULD OFFER MEMBERS UNBIASED ACCESS TO THE MOST HIGHLY REGARDED SA INVESTMENT MANAGERS."

The commercial umbrella fund market is dominated by large life insurance companies which together make up 85% of the market. Although there are some funds that offer super-efficient administration and simple products that sell themselves, mostly, umbrella funds today have a reputation for high costs, poor transparency and ill-disciplined (or maybe worse, contrived) complexity. Search the term 'umbrella fund' on the HelloPeter service feedback website for a frank review of the state of customer service: it isn't good. If you're a business owner or finance director, request quotes from three providers and try to compare costs. You won't be able to, or at least not easily. There are some services where it is inherently complicated to compare costs – for example health insurance, where the benefits can vary significantly between different plans. Retirement savings should not be complicated at all: the service offered is very standardised and price and value-for-money should be easy to compare. Fees for administering retirement savings are often bundled with those for group life and disability insurance cover. The target is offered invoicing convenience in return for opaque pricing.

We think this is an industry that could do with more competition. A new entrant using technology to provide better service than the incumbents at a competitive and more transparent price could win over some clients. If they already had a trusted brand (for example, Allan Gray), and the first clients were impressed enough to tell others, the newcomer could build scale without having to pay commission to a large sales force and recover this from their clients.

Umbrella fund members need high quality investment management, value for money and great service

Investment returns have a large impact on retirement fund members' capital over time. The best investment teams in South Africa are independent: they aren't allocated assets preferentially from an in-house balance sheet and they don't have sales armies pushing their funds in an in-house distribution force. Without these advantages, independent managers are heavily dependent on their performance in order to run sustainable businesses: the survivors are better because of natural selection. A good umbrella fund should offer members unbiased access to the most highly-regarded SA investment managers. Choice is good, but too much choice is not always a good thing.

"OUR UMBRELLA HAS A VERY SIMPLE AND TRANSPARENT PRODUCT AND FEE STRUCTURE, WHICH MEANS THAT EMPLOYERS AND THEIR EMPLOYEES HAVE CLEAR SIGHT OF CONTRIBUTIONS, RETURNS AND CHARGES."

Fees disclosure is critical to ensure that where a member or employer representative is exercising choice, they understand what they will be charged for and how much, and are equipped to make the right decisions. While retail investment products like unit trusts have well-defined disclosure standards which aim to facilitate value-for-money comparisons, in the group retirement savings space, cost comparisons are more difficult. The way fees are disclosed varies from one provider to the next making decision-making challenging and often leading to poor outcomes for members. A better understanding of the types of fees that are charged can help you to assess your options if you are an employer looking for a group retirement saving solution, and provide some clarity if you are a member trying to understand what you are being charged.

Understanding fees

There are four common types of fees that apply in retirement funds, but it is important to look at the total fee over a period of time when comparing different providers to ensure a proper understanding. This is because providers often discount easily comparable fees, for example administration, and make up their lost revenue where it is less easy to compare, for example with fees on risk or investment products.

1. **An administration/product fee**
   This fee is charged to administer the member's monthly contribution and to direct it into the selected portfolio(s). This fee is typically highly correlated to the range of investment options available within the product. A lower fee may mean there is a limited range of investment choices, while a wider range often results in higher administration fees. There is no industry standard as to how this fee is levied, which makes it difficult to compare administration fees across providers. It is usually expressed as one of the following:

   - A percentage of a member's salary
   - A percentage of a member's assets in the retirement fund
   - A rand-based fee per member per month

2. **An investment management fee**
   A percentage fee is charged for investing the member's contributions in each portfolio selected. The investment management fee is intended to compensate the managers for their time and

expertise for selecting stocks and managing each fund within the investment portfolio. Investment management fees typically vary depending on the underlying investment manager selected. In addition, this fee is often linked to the administration option selected (as mentioned previously). Traditional umbrella fund service providers typically price administration very cheaply provided that their in-house default investment portfolio is selected. This leaves them with less incentive to price the default portfolio attractively.

3. **An adviser/consultant fee (only if an adviser is appointed)**
   This fee has to be agreed to between the employer and adviser. It can be charged either as a percentage of contributions, or as a percentage of assets, or a combination of both.

4. **A fee for risk benefits**
   This fee is charged to access risk benefits, such as life cover, disability and/or income protection benefits.

Fees which charge a low percentage of salary for administration and make this up with a higher ongoing investment management fee charged as a percentage of assets are often cheaper for a year or two and then become more expensive for members over time, as their asset balances increase. This is because, for the average member, salaries increase at close to inflation and yet investments should grow at a few percentage points more than inflation. When charges can be deducted either as a percent of salary or as a percent of assets, it matters which of these will grow at a faster rate. To compare the two, employers would be well-advised to consider fees over many years into the future to make sure they are getting the best deal.

Our offering

It is probably clear to you by now that we are excited about launching a new umbrella fund, which allows employers to give their employees access to the best investment managers in South Africa at competitive, institutional prices. Through the Allan Gray Umbrella Retirement Fund we aim to offer a product that makes things simple for employers and puts member needs at the centre by offering an unbiased, limited range of high quality managers, fair and transparent pricing and great service. If we get this right, there is an opportunity for us to contribute towards improving the South African retirement saving system.

Our Umbrella Retirement Fund has a simple product and fee structure, which means that employers and their employees have clear sight of contributions, returns and charges. The Fund offers no built-in risk benefits: retirement fund contributions are only used for their intended purpose, i.e. saving for retirement. We can put employers in touch with an independent specialist risk benefits provider to arrange group risk cover for their staff. Members benefit from competitive administration and investment management fees and there are no hidden costs.

Everyone gets the same excellent service regardless of their contribution levels. Members can contact our Client Service Centre during business hours if they have any questions and they can monitor and manage their investments through their own secure online account. We also invite all members to learn more about the importance of saving for their retirement via our website and we are happy to provide customised training and member education on request at no additional charge.

Nazia joined Allan Gray in 2016 as a specialist in the Group Savings and Investments team. Before joining Allan Gray she spent four years as a senior asset consultant at Alexander Forbes where she consulted to large stand-alone pension and provident funds. Prior to that she held positions as a sell-side quantitative strategist at Macquarie Investment Bank and a quants analyst at Stanlib Asset Management. She holds a B.Bus Sci (Actuarial Science) degree from UCT and is a Chartered Financial Analyst.

Saleem was appointed as head of the Group Savings and Investments team at Allan Gray in 2016. He joined the company in 2006 as head of infrastructure and support services, moving on to look after the marketing, distribution and investment servicing of the Allan Gray funds to third-party channels in 2010. He has an MBA from UCT and completed an executive development programme at IMD.

BEKITHEMBA MAFULELA

WHEN IS A DEBIT ORDER THE BETTER OPTION?

When you think about starting a new investment there are two ways to approach it: either you invest in one go with a lump sum or you do recurring investments with a debit order. Although both are equally valid choices many investors think that they need to save up for a lump sum, when a debit order will do. Bekithemba Mafulela explains why a debit order may be a good solution in situations where you do not have enough to start with a lump sum payment.

Against the backdrop of South Africa's poor savings rate, it is critical that we create an investing culture, but many would-be investors fall at the first hurdle – the minimum contribution amount. Our lump sum minimum of R20 000 may be out of reach for many South Africans, but in many cases a debit order works equally well – especially when you are trying to build a savings habit.

The return you spurn

Many investors (first-time and experienced alike) fall into the trap of thinking that they need to save in order to invest. Putting aside R500 or more a month to get to the lump sum amount of R20 000 may seem like the way to do it, but evidence suggests otherwise.

Consider two investors who are only able to invest R500 a month. One investor (A) chooses to save R500 in a bank account* for 40 months to get to the lump sum minimum of R20 000. The other (B) invests R500 a month in the Allan Gray Balanced Fund with a debit order. Who would do better?

If we assume that these investors both started from 1 December 2013 (40 months ago) and their investment period ended on 31 March 2017, Investor A will have accumulated R22 040.88 and Investor B R24 039.41. Although a bank account offers a smoother, more predictable incline, the returns from the Balanced Fund outstrip it as time progresses (see **Graph 1**).

There isn't a guarantee that the Balanced Fund will do better, but in every rolling period since 2008 and 88.3% of the 40-month rolling periods since the Fund's inception in 1999 you would have been better off investing with a debit order than saving to invest with a lump sum. But that is not the only advantage of debit orders.

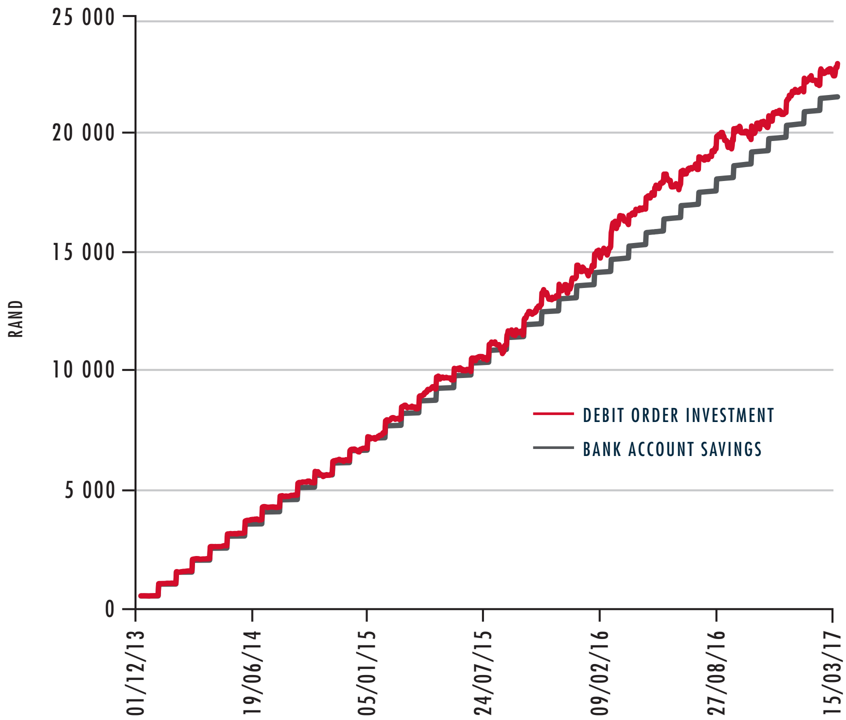
The timing risk

A further benefit of using a debit order is that you can reduce timing risk. The biggest predictor of whether an investment will be successful is the price you pay – this applies as much to us as your investment manager as it does to you as an investor. When you buy an investment cheaply there is a higher chance that you will get returns if the investment appreciates.

A lump sum payment gets you only that day's price. But timing the market perfectly is very difficult to do and waiting for the right moment to invest can mean you miss out on the compounding benefits of being in the market: each month you put off investing waiting for the perfect moment is a lost opportunity (see 'The cost of waiting to save' in our Latest insights section on our website).

A debit order solves this problem by allowing you to get the average price of all the months you invest, which is called rand-cost averaging.

GRAPH 1 **SAVING TO INVEST VERSUS USING A DEBIT ORDER**



Source: Allan Gray Research.

* The FNB overnight call rate was used to calculate the savings from a bank account.

Put in another way, when you buy with a lump sum you get the price of the day, which may be high and means you get fewer units. When you use a debit order you sometimes pay a high price when the fund is doing well, and you get fewer units, and sometimes you pay a low price, and you get more units. Over time you pay the average price.

If we reframe our example we see that the price Investor A gets on 1 April 2017, after they accumulated enough for a lump sum investment, is R203.05 per unit compared to Investor B who paid the lower average price of R184.27.

Building a habit and taking emotion out of it

The softer side-benefit of using a debit order is that it takes the emotion out of your decision-making. Every month the money goes off without involving you at all. The motivational legwork of committing to an investment plan happens once at the beginning and then the system handles itself. Of course you need to maintain your debit order – but the habit of investing builds up automatically and over time your budget adjusts. If you need to make changes in your investment, such as when you receive a bonus, you can also make a once-off additional contribution or change your debit order.

The most important thing to remember is that the best time to start your investment is now. Trying to accumulate a lump sum may mean that you miss out on returns in the long term.

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 31 MARCH 2017

	BALANCED FUND % OF PORTFOLIO			STABLE FUND % OF PORTFOLIO		
	TOTAL	SA	FOREIGN*	TOTAL	SA	FOREIGN*
Net equities	61.4	47.0	14.5	32.0	21.5	10.5
Hedged equities	8.0	0.5	7.4	13.3	2.8	10.5
Property	1.6	0.8	0.8	2.5	1.7	0.8
Commodity-linked	4.8	4.6	0.2	4.0	3.6	0.4
Bonds	11.9	10.1	1.8	19.8	17.1	2.7
Money market and bank deposits	12.3	9.6	2.7	28.4	26.1	2.3
TOTAL	**100.0**	**72.5**	**27.5**	**100.0**	**72.7**	**27.3**

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 MARCH 2017

SECURITY (RANKED BY SECTOR)	MARKET VALUE (R MILLION)	% OF FUND	FTSE/JSE ALSI WEIGHT (%)
SOUTH AFRICA	**32 501**	81.7	
SOUTH AFRICAN EQUITIES	**31 444**	79.0	
RESOURCES	**6 635**	16.7	**22.0%**
Sasol	3 273	8.2	
Impala Platinum	560	1.4	
Glencore	441	1.1	
Sappi	403	1.0	
Goldfields	375	0.9	
Positions less than 1%	1 583	4.0	
FINANCIALS	**10 816**	**27.2**	**24.2%**
Standard Bank	2 375	6.0	
Old Mutual	2 335	5.9	
Reinet	1 216	3.1	
Investec	1 066	2.7	
Rand Merchant Investment[2]	793	2.0	
Barclays Africa	427	1.1	
MMI	398	1.0	
Capitec	338	0.8	
Nedbank	328	0.8	
Positions less than 1%	1 540	3.9	
INDUSTRIALS	**13 732**	**34.5**	**53.8%**
British American Tobacco	2 872	7.2	
Naspers[2]	2 830	7.1	
Remgro	1 248	3.1	
KAP Industrial	756	1.9	
Life Healthcare	698	1.8	
Netcare	560	1.4	
Super Group	443	1.1	
Blue Label Telecoms	376	0.9	
Nampak	367	0.9	
Mr Price	325	0.8	
Positions less than 1%	3 256	8.2	
OTHER SECURITIES	**262**	**0.7**	
Positions less than 1%	262	0.7	
COMMODITY-LINKED SECURITIES	**549**	**1.4**	
Positions less than 1%	549	1.4	
MONEY MARKET AND BANK DEPOSITS	**507**	**1.3**	
FOREIGN EX-AFRICA	**7 003**	**17.6**	
EQUITY FUNDS	**6 564**	**16.5**	
Orbis Global Equity Fund	6 255	15.7	
Orbis SICAV Emerging Markets Equity Fund	309	0.8	
MONEY MARKET AND BANK DEPOSITS	**439**	**1.1**	
AFRICA EX-SA	**290**	**0.7**	
EQUITY FUNDS	**290**	**0.7**	
Allan Gray Africa Ex-SA Equity Fund	290	0.7	
TOTALS	**39 793**	**100.0**	

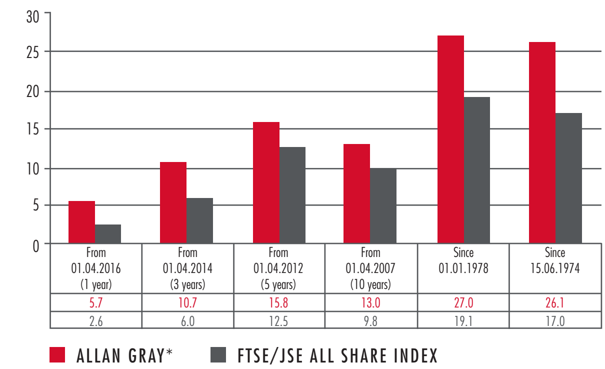
[1] JSE-listed securities include equities, property and commodity-linked instruments.
[2] Including stub certificates. Note: There may be slight discrepancies in the totals due to rounding. For other fund specific information please refer to the monthly fund factsheets.

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
2017 (to 31.03)	3.1	3.8	- 0.7

RETURNS ANNUALISED TO 31.03.2017



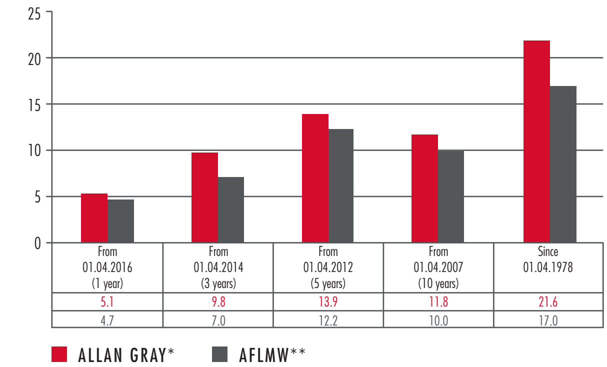
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R206 008 501 by 31 March 2017. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R8 324 301. Returns are before fees.

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	3.7	3.8
2017 (to 31.03)	2.9	3.2	- 0.3

RETURNS ANNUALISED TO 31.03.2017



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R21 845 168 by 31 March 2017. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R4 761 143. 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 March 2017 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 MARCH 2017 (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]	**39.8**	**01.10.1998**	**23.7** 16.6	**10.5** 9.5	**13.1** 11.9	**8.1** 5.1	**4.6** 1.4	**125.8** 73.0	**– 20.7** – 37.6
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	**17.1**	**01.04.2005**	**15.6** 13.9	**12.6** 11.4	**23.5** 22.2	**13.8** 14.5	**11.2** 5.2	**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]	**130.3**	**01.10.1999**	**17.7** 12.9	**10.5** 8.7	**12.8** 10.7	**8.8** 6.5	**4.2** 2.6	**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	**12.7**	**03.02.2004**	**11.6** 11.2	**11.7** 11.2	**19.1** 17.9	**12.3** 11.8	**4.6** – 2.1	**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%	**43.4**	**01.07.2000**	**12.6** 9.1	**9.2** 8.2	**9.7** 7.0	**8.7** 7.5	**5.4** 8.3	**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	**1.6**	**01.10.2002**	**8.5** 6.5	**7.8** 6.1	**8.5** 4.9	**10.9** 5.4	**8.3** 6.2	**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	**1.2**	**02.03.2010**	**9.7** 6.8	**–** –	**13.3** 9.5	**7.5** 3.9	**– 5.9** – 11.8	**39.6** 35.6	**– 11.9** – 19.1
NO EQUITY EXPOSURE									
Allan Gray Bond Fund (AGBD) JSE All Bond Index (total return)	**0.6**	**01.10.2004**	**8.9** 8.5	**8.7** 8.1	**7.8** 7.4	**8.1** 7.5	**11.9** 11.0	**18.0** 21.2	**– 2.6** – 5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-term Fixed Interest (STeFI) Composite Index[3]	**13.0**	**03.07.2001**	**8.0** 8.0	**7.4** 7.3	**6.3** 6.2	**7.0** 6.8	**7.9** 7.6	**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 31 MARCH 2017

	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	1.22%	0.84%	0.01%	0.27%	2.34%	0.06%	2.40%
Allan Gray-Orbis Global Equity Feeder Fund	1.50%	0.53%	0.06%	0.00%	2.09%	0.15%	2.24%
Allan Gray Balanced Fund	1.07%	0.37%	0.02%	0.14%	1.60%	0.08%	1.68%
Allan Gray-Orbis Global Fund of Funds	1.34%	0.42%	0.07%	0.00%	1.83%	0.15%	1.98%
Allan Gray Stable Fund	1.05%	0.43%	0.02%	0.15%	1.65%	0.07%	1.72%
Allan Gray Optimal Fund	1.00%	0.89%	0.02%	0.27%	2.18%	0.17%	2.35%
Allan Gray-Orbis Global Optimal Fund of Funds	0.99%	0.36%	0.08%	0.00%	1.43%	0.15%	1.58%
Allan Gray Bond Fund	0.25%	0.24%	0.02%	0.07%	0.58%	0.00%	0.58%
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 MARCH 2017 (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**	**12.7**	**23.8**	**14.0**	**12.1**	**87.6**	**– 47.5**
FTSE World Index		13.6	11.3	22.2	14.7	5.4	54.2	– 46.2
Orbis SICAV Japan Equity (Yen) Fund	01.01.1998	**15.3**	**11.3**	**21.6**	**15.8**	**10.0**	**94.9**	**– 40.1**
Tokyo Stock Price Index		9.4	7.9	20.5	16.5	5.5	91.0	– 46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[5]	01.01.2006	**16.2**	**14.0**	**18.8**	**11.3**	**7.2**	**58.6**	**– 34.2**
MSCI Emerging Markets Index (Net) (US$)[5]		14.4	11.4	16.8	13.0	5.8	60.1	– 39.7
Allan Gray Africa ex-SA Equity Fund	01.01.2012	**10.4**	-	**8.7**	**– 8.3**	**– 4.8**	**65.7**	**– 24.3**
Standard Bank Africa Total Return Index		3.6	-	2.1	– 8.7	– 8.0	33.5	– 29.4
Allan Gray Australia Equity Fund	04.05.2006	**16.4**	**13.1**	**19.8**	**13.7**	**20.2**	**99.5**	**– 55.4**
S&P/ASX 300 Accumulation Index		13.5	10.1	16.6	9.2	8.7	55.6	– 45.1
MEDIUM NET EQUITY EXPOSURE								
Orbis SICAV Global Balanced Fund	01.01.2013	**21.2**	-	-	**13.3**	**6.2**	**54.4**	**– 0.4**
60% MSCI World Index with net dividends reinvested and 40% JP Morgan Global Government Bond Index		17.9	-	-	11.9	– 2.2	40.2	– 8.2
LOW NET EQUITY EXPOSURE								
Allan Gray Australia Stable Fund	01.07.2011	**14.4**	-	**13.0**	**9.2**	**1.6**	**32.7**	**– 6.1**
Reserve Bank of Australia cash rate		9.1	-	7.7	3.7	– 8.2	28.8	– 11.9
VERY LOW NET EQUITY EXPOSURE								
Orbis Optimal SA Fund-US$ Class	01.01.2005	**11.3**	**9.3**	**15.3**	**10.6**	**– 2.3**	**48.6**	**– 15.7**
US$ Bank Deposits		9.0	7.4	12.1	8.8	– 8.3	57.9	– 25.6
Orbis Optimal SA Fund-Euro Class	01.01.2005	**8.9**	**7.1**	**10.3**	**2.2**	**– 9.3**	**44.1**	**– 19.3**
Euro Bank Deposits		6.6	5.1	7.0	– 0.4	– 14.7	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 MARCH 2017

	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%)	58.7	01.01.1990	20.6	12.4	14.6	9.5	5.5
Domestic Equity Pooled Portfolio (minimum net equity 95%)	5.3	01.02.2001	21.4	12.7	15.2	10.0	5.7
FTSE/JSE All Share Index			14.4/14.8	9.8	12.5	6.0	2.6
Domestic Balanced Composite	16.5	01.01.1978	21.9	11.5	12.5	10.1	7.2
Domestic Balanced Pooled Portfolio	2.1	01.09.2001	18.2	11.6	12.6	10.1	7.2
Mean of Alexander Forbes SA Large Manager Watch (Non-Investable)[9]			17.3/15.0	10.0	10.6	6.6	6.4
Domestic Stable Composite	5.7	01.12.2001	13.1	9.6	9.0	9.3	7.9
Domestic Stable Pooled Portfolio	1.5	01.12.2001	13.4	9.7	9.2	9.5	8.2
Alexander Forbes Three-Month Deposit Index plus 2%			9.9	9.2	8.0	8.6	9.3
GLOBAL PORTFOLIOS[8], LIMITED TO 25% FOREIGN EXPOSURE (BEFORE LOCAL, BUT AFTER FOREIGN FEES)							
Global Balanced Composite	77.3	01.01.1978	21.6	11.8	13.9	9.8	5.1
Global Balanced Pooled Portfolio	5.0	01.09.2000	18.4	11.9	14.1	9.9	5.4
Global Balanced (RRF) Portfolio[11]	27.8	01.09.2000	18.3	11.9	13.9	9.7	4.7
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[9,10]			17.0/14.1	10.0	12.2	7.0	4.7
Global Stable Composite	6.7	15.07.2004	12.8	10.2	10.8	9.5	6.0
Global Stable Pooled Portfolio	5.9	15.07.2004	12.8	10.3	10.9	9.5	6.0
Alexander Forbes Three-Month Deposit Index plus 2%			9.3	9.2	8.0	8.6	9.3
Global Absolute Composite	10.3	01.03.2004	15.6	11.1	11.0	9.7	4.5
Global Absolute Pooled Portfolio	3.1	01.03.2004	15.8	11.4	11.0	9.8	4.9
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[9]			14.8	10.0	12.2	7.0	4.7
FOREIGN ONLY PORTFOLIOS[8] (AFTER FEES)							
Orbis Global Equity Pooled Portfolio	0.6	18.05.2004	15.4	12.8	23.7	14.0	12.2
FTSE World Index			13.7	11.4	22.3	14.7	5.4
Foreign Balanced (Rands) Composite[12]	4.8	23.05.1996	14.5	10.9	18.1	10.5	4.1
Foreign Balanced Pooled Portfolio	0.1	23.01.2002	9.0	11.0	18.3	10.8	4.8
60% of the MSCI World Index[13] and 40% of the JP Morgan Global Government Bond Index			12.0/7.6	11.1	17.8	12.0	– 1.8

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 and Non Discretionary Foreign.
[7] The assets under management for institutional portfolios not listed here amount to R75.7bn.
[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 March 2017 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 total assets under management for the Fund is shown, which includes institutional and retail clients that invest directly with Orbis.
[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

The FTSE/JSE All Share Index is calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Limited ('JSE') in accordance with standard criteria. The FTSE/JSE All Share Index is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE All Share Index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved. FTSE is a trademark of the London Stock Exchange Group of Companies. The FTSE World Index is calculated by FTSE International Limited ('FTSE') in accordance with standard criteria and is the proprietary information of FTSE. All copyright subsisting in the FTSE World Index values and constituent lists vests in FTSE. All its rights are reserved.

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, the Allan Gray Provident Preservation Fund and the Allan Gray Umbrella Pension 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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Directors

Executive

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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ALLANGRAY