

Costs and their disclosure are an important part of a fund selection decision, but the most important factor to consider is the role the fund plays in one's overall investment portfolio and how one expects it to perform net of all costs over the long-term.

1. What are the various fees unit trust investors incur?

There are essentially three sets of fees generally paid by unit trust investors: a fee for financial advice where advice is sought, fund administration fees and the investment management fee. When we refer to performance-based fees, we are referring to the type of fee that is charged for investment management.

Allan Gray has offered performance-based investment management fees to institutional investors for over 20 years. Currently most of our assets under management are managed on a performance fee basis. The Allan Gray Equity Fund, launched in 1998, was the first unit trust in South Africa that was offered on a performance fee basis. This was unique at the time but we have noted an increasing trend of managers offering performance-based fees today. There is no single performance fee that satisfies all clients and therefore in every formulation there are positives and negatives. In a nutshell, performance-based annual management fees try to focus the fund manager more on investment performance than growth of assets under management.

With this in mind, we hope that the answers to the questions below serve to provide more insight into Allan Gray performance-based annual management fees and how they are calculated.

Glossary of terms used in this document

Fund	Also known as a unit trust or collective investment scheme
Class (of Fund)	A single unit trust, with one underlying portfolio may offer more than one 'class' of shares to investors. Each class represents a similar interest in the unit trust's portfolio, but has different fees and expenses and may be available to different types of investors.
Annual management fee	This is the fee that is charged for managing the fund. These fees may be fixed (meaning that they are charged regardless of the level of fund performance that is generated) or performance-based which means that the fee is based on the level of investment performance generated relative to a benchmark. Many performance-based fees are made up of a combination of a 'fixed' portion and 'performance-based' portion.
Benchmark	A benchmark is a point of reference by which something may be measured. In this context it is the reference point for establishing whether a fund is under/outperforming.
Fee hurdle	This is the level of performance relative to the benchmark's that the fund must enjoy prior to a fee higher than the minimum fee being charged.
High watermark	The highest level of outperformance the fund has reached since the previous fee payment date.
Base fee	The fee that is payable for 'benchmark' performance. This may also be referred to as a 'fixed fee'.
Manager's sharing rate	The percentage of under/outperformance that the Manager shares in the unit trust

2. What are the minimum and maximum fees for the relevant funds and classes?
3. At what performance levels (also called fee hurdles) will the Manager charge more than the minimum fees?
4. What portion of the funds' performances will the Manager be entitled to share, should the funds perform above their fee hurdles (also called the sharing rate)?

Fund name	Fund code	Class	Benchmark	Performance measurement period	Fee hurdle	Minimum	High watermark	Base fee	Sharing rate	Maximum
Allan Gray Balanced Fund*	AGBF	A	Average (market value weighted) of the Domestic - Asset Allocation - Prudential Medium Equity category and the Domestic - Asset Allocation - Prudential Variable Equity category excluding the Allan Gray Balanced Fund.	two-year rolling average of benchmark	The fee hurdle (above which a fee greater than the minimum fee of 0.5% is charged) is performance equal to the benchmark minus 5%.	0.50%	n/a	1.00%	10.00%	1.50%
Allan Gray Bond Fund	AGBD	A	BEASSA Total return All Bond Index	one-year rolling average of the benchmark	The fee hurdle (above which a fee greater than the minimum fee of 0.25% is charged) is performance equal to the benchmark.	0.25%	n/a	0.25%	25.00%	0.75%
Allan Gray Equity Fund	AGEF	A	FTSE/JSE All Share Index (ALSI)	two-year rolling average of benchmark	The fee hurdle (above which a fee greater than the minimum fee of 0% is charged) is performance equal to the benchmark minus 15%.	0.00%	n/a	1.50%	10.00%	3.00%
Allan Gray Money Market Fund	AGMF	A	Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index	n/a	n/a	0.25%	n/a	0.25%	n/a	0.25%
Allan Gray Stable Fund*	AGSF	A	Return of call deposits (for amounts in excess of R5m) with FirstRand Bank Limited plus 2%; on an after-tax basis at a rate of 25%.	two-year rolling average of benchmark	The fee hurdle (above which a fee greater than the minimum fee of 0.5% is charged) is performance equal to the benchmark minus 5%.	0.50%	n/a	1.00%	10.00%	1.50%
Allan Gray Optimal Fund	AGOF	A	The return on call deposits with FirstRand Bank Limited (for amounts in excess of R5m).	Cumulative benchmark (daily)	The fee hurdle (above which a fee greater than the minimum fee of 1% is charged) is performance equal to the benchmark.	1.00%	Yes	1.00%	20.00%	
Allan Gray-Orbis Global Fund of Funds**	AGGF	A	60% FTSE World Index and 40% of JP Morgan Gov Bond Index Global	n/a	n/a	0.00%	n/a	0.00%	n/a	0.00%
Allan Gray-Orbis Global Equity Feeder Fund**	AGOE	A	FTSE World Index	n/a	n/a	0.00%	n/a	0.00%	n/a	0.00%
Allan Gray-Orbis Global Optimal Fund of Funds**	AGOO	A	The simple average of the bank deposit rates in the currencies of the underlying invested Orbis funds.	n/a	n/a	0.00%	n/a	0.00%	n/a	0.00%

All fees are quoted per annum and excluding VAT. Class A units are available to investors that invest via Allan Gray Unit Trust Management (RF) Proprietary Limited or our linked investment service provider (LISP): Allan Gray Investment Services Limited.

* The annual management fee is calculated on the daily value of the Fund excluding any assets invested in the Orbis Funds. Assets invested in the Orbis Funds incur a investment management fee. These, along with other expenses are included in the Total Expense Ratio.

** Underlying funds charge performance fees.

5. **Are the fee hurdles the same as the relevant fund benchmarks?**
As shown in the table on the previous page, the fee hurdles are based on the relevant fund benchmarks, but are not the same.
6. **Can more than the minimum fee be charged regardless of whether the fund is experiencing positive or negative performance?**
Yes. The performance objectives of the fund are clearly stated in the benchmark and fund objectives. These objectives form the basis for the performance targets that the fund has to meet and the basis for performance-based fees. As an example, the Allan Gray Equity Fund aims to outperform the FTSE/JSE All Share Index. This index will go down as well as up and if the Allan Gray Equity Fund outperforms the index even though the net result is still negative, more than the minimum fee may be charged.
7. **When fund performance is considered, are fees included or excluded (net of fees or gross of fees)?**
Fund performance is calculated net of all fees.

Fund name	Class	Fees paid for varying levels of performance relative to the benchmark				
		-10.00%	-5.00%	Benchmark	+5.00%	+10.00%
Allan Gray Balanced Fund	A	0.50%	0.50%	1.00%	1.5%	1.50%
Allan Gray Bond Fund	A	0.25%	0.25%	0.25%	0.75%	0.75%
Allan Gray Equity Fund	A	0.50%	1.00%	1.50%	2.00%	2.50%
Allan Gray Money Market Fund	A	0.25% irrespective of the performance				
Allan Gray Stable Fund	A	0.50%	0.50%	1.00%	1.50%	1.50%
Allan Gray Optimal Fund	A	1.00%	1.00%	1.00%	4.00%	12.00%
Allan Gray-Orbis Global Fund of Funds	A	Fees are charged by the underlying portfolios and unitholders may carry these performance fees regardless of whether the fund or mandate has outperformed its benchmark.				
Allan Gray-Orbis Global Equity Feeder Fund	A	Fees are charged by the underlying portfolios and unitholders may carry these performance fees regardless of whether the fund or mandate has outperformed its benchmark.				
Allan Gray-Orbis Global Optimal Fund of Funds	A	Fees are charged by the underlying portfolios and unitholders may carry these performance fees regardless of whether the fund or mandate has outperformed its benchmark.				

8. **Do any other classes of the funds charge fixed fees instead of performance fees?**
No. The structure of the fee is the same for all classes of funds.
9. **Are the performance fees accrued daily (also called the fee accrual frequency)?**
Yes

10. **Do performance fee accruals pertain to performance periods more than a month prior to accrual?**
No. Performance fees are accrued daily.
11. **Is a rolling measurement period used?**
Yes, in certain instances. For the Allan Gray Equity Fund, Balanced Fund, Stable Fund and Bond Fund rolling periods are used. For the Allan Gray Optimal Fund a high watermark fee structure is used. We believe that, despite some compromises necessary to facilitate the administration of a large number of clients in a fund, performance fees are a substantial improvement on fixed fees and would only caution against performance fees that use an inappropriate benchmark or are calculated over a very short time period as this can lead a manager to chase short-term returns as opposed to being focused on delivering long-term outperformance.
12. **How often is the performance fee paid to the Manager (also called the fee payment frequency)?**
The fees are accrued daily and paid monthly to the Manager.
13. **Should the fund experience underperformance to the fee hurdle, how long is that underperformance held against the Manager? In particular, at what point would that underperformance be written off from a fee calculation point of view?**
This is held for the length of the performance measurement period (typically for two years).
14. **Does performance in excess of the hurdle need to overcome prior underperformance (also called a high watermark structure)? Are fee accruals suspended, refunded and circumstances in which the structure expires if at all?**
A high watermark structure means that one must first make up any past underperformance prior to a future performance fee being charged. This structure is in place for the performance component of the Allan Gray Optimal Fund. Fees are only accrued for when we reach the required levels of performance. Should we not reach the required performance, fees will not be accrued for.
15. **Do any underlying funds charge implicit performance fees?**
Depending on the underlying funds fee structure, there may be performance fees charged in those funds regardless of whether the top-tier fund has outperformed its own benchmark. In fund of fund structures, Allan Gray does not charge a fee on the top-tier.

Collective Investment Schemes (unit trusts) are generally medium- to long-term investments. The value of participatory interest (units) may go down as well as up and past performance is not necessarily a guide to the future. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from the company/scheme. Commission and incentives may be paid and if so, would be included in the overall costs. Unit trust prices are calculated on a net asset value basis, which, for money market funds, is the total book value of all assets in the portfolio divided by the number of units in issue. The Allan Gray Money Market Fund aims to maintain a constant price of 100 cents per unit. The total return to the investor is primarily made up of interest received but may also include any gain or loss made on any particular instrument held. In most cases this will have the effect of increasing or decreasing the daily yield, but in some cases, for example in the event of a default on the part of an issuer of any instrument held by the fund, it can have the effect of a capital loss. Such losses will be borne by the Allan Gray Money Market Fund and its investors and in order to maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Allan Gray Equity, Balanced, Stable and Optimal Funds only and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. A fund of funds unit trust may only invest in other unit trusts, which levy their own charges, that could result in a higher fee structure for these portfolios. A feeder fund is a unit trust fund that, apart from assets in liquid form, consists solely of units in a single portfolio of a collective investment scheme. All of the unit trusts except the Allan Gray Money Market Fund may be capped at any time in order for them to be managed in accordance with their mandates. Allan Gray Unit Trust Management (RF) Proprietary Limited is a member of the Association for Savings & Investment SA (ASISA). Allan Gray Proprietary Limited, an authorised financial services provider, is the appointed investment manager of Allan Gray Unit Trust Management (RF) Proprietary Limited. The FTSE/JSE Africa Index Series is calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Limited ('JSE') in accordance with standard criteria. The FTSE/JSE Africa Index Series is the proprietary information of FTSE and JSE. All copyright subsisting in the FTSE/JSE Africa Index Series index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved.

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