3 December 2014

Dear Investor

Proposed changes to the Allan Gray Equity Fund

As an investor in the Allan Gray Equity Fund (the Fund), we invite you to consider and vote on a number of proposed changes to the Fund. The changes aim to increase long-term returns and reduce risk through wider investment opportunities and lower fees, and to better align the fees paid with the performance you experience. If approved, our goal is to implement these changes from **1 March 2015**.

Please consider the information below and in Appendix A carefully and return your vote to the auditors before **6 February 2015** (see the 'What do you need to do?' section on page 3). We encourage you to vote in favour of the changes as we believe they are in your best interests. Regardless of the outcome of the vote, you remain free to switch or withdraw your investment from the Fund without additional fees or charges, but this may constitute a capital gains tax (CGT) event. If you require any assistance, we encourage you to speak to your financial adviser or to contact us.

Proposed changes and their impact on your investment

1. **Amend the Fund's investment mandate to allow investment offshore in line with the limits of the South African – Equity – General sector**
   Amending the investment mandate will allow the Fund to invest up to 25% in global equities and a further 5% in African equities, in terms of the current limits of the South African – Equity – General sector. Allowing investment offshore will provide the Fund's portfolio managers with greater investment flexibility and a bigger universe of investment opportunities. This will improve diversification and, more importantly, we believe it will improve long-term investment returns. The offshore portion may be invested into one or more Orbis and/or Allan Gray funds invested fully in offshore equities, for example the Orbis Global Equity Fund or Allan Gray Africa ex-SA Equity Fund. No layered fees will be charged on any of the Fund's assets invested in Orbis funds as these funds charge their own investment management fees. This amendment will not change the Fund's investment objective or investment philosophy in any way.

2. **Change the Fund's benchmark to the market value-weighted average return of the South African – Equity – General sector, excluding Allan Gray funds**
   The Fund's current benchmark, the FTSE/JSE All Share Index including income, consists only of listed South African equities and will be less appropriate if the Fund is allowed to invest offshore. The sector average benchmark will be more appropriate, as many of the funds in the sector already have the ability to invest offshore and have done so.

3. **Change the Fund's investment management fee**
   The proposed and current investment management fees are presented in **Table 1** below. The proposed investment management fee is intended to reduce the cost of investing in the Fund and better align the fees paid with the out/underperformance you experience.

Directors: V A Christian*, R W Dower+*, R J Formby+*, E D Loxton+*, J C Marais+*, J W T Mort*, S A Raubenheimer+, S P C Terblanche+ **Company Secretary:** T Pickering+* +**Allan Gray Investment Services Proprietary Limited:** Registration Number 2004/015145/07 ***Allan Gray Unit Trust Management (RF) Proprietary Limited:** Registration Number 1998/007756/07 1 Silo Square V&A Waterfront Cape Town 8001, P O Box 51605 V&A Waterfront Cape Town 8002 South Africa **Client Service Centre** Tel 0860 000 654 / +27 (0)21 415 2301, Fax 0860 000 655 / +27 (0)21 415 2492 Email info@allangray.co.za www.allangray.co.za

Table 1: Proposed and current investment management fees

	Proposed fee	Current fee
Minimum fee rate p.a.	0.0%	0.0%
Benchmark fee rate p.a.	1.0%	1.5%
Maximum fee rate p.a.	Uncapped	3.0%
Measurement period	Daily with a high watermark principle	Rolling 2 years
Sharing rate	20% of annual out/underperformance	10% of cumulative two year out/underperformance (roughly equivalent to 20% of annual out/underperformance)

The fees in the table exclude VAT and will not be charged on any assets invested in Orbis funds as these funds charge their own investment management fees.

The proposed fee rate has a lower fee for benchmark performance, continues to share in both out and underperformance and can still reduce to 0%. The proposed fee's daily fee measurement period and uncapped maximum will mean that on any given day the proposed fee rate could be very different to what the current fee rate would be. The new fee rate will only be higher than the current fee rate if the Fund outperforms its new benchmark by 14% p.a. or more. Over time the new fee rate is therefore expected to be substantially lower on average than the current fee rate.

Calculating the fee each day based on the out/underperformance on that day introduces a more direct link between returns and fees. Furthermore, if the Fund underperforms the benchmark by more than 5% p.a. then, because there is a minimum fee rate of 0%, the difference is carried forward to reduce the next day's fee. The high watermark principle means that all excess underperformance, which would have resulted in negative fees, has to be fully recovered before a fee can be charged again.

4. **Amend the Fund's investment policy and mandate to allow the use of listed financial instruments (including derivative instruments)**
   The investment policy will be amended to allow the Fund to buy or sell listed financial instruments which will improve the Fund's flexibility. For example, listed derivative instruments could be used for hedging equity or currency exposures, or for offsetting the 'cash drag' from the Fund's holding of cash. Limitations on the use of listed derivatives will be governed by the Fund's investment mandate and by the Collective Investment Schemes Control Act 45 of 2002 (CISCA). The amendment to the investment policy is shown in Appendix B. This is required to meet the new investment limitations in terms of Board Notice 90 of 2012 of CISCA as there is a specific requirement that in order to use financial instruments, a portfolio's supplemental trust deed must allow for it.

Other than the proposed changes discussed, all the other features of the Fund will remain unchanged.

Your rights as an investor

As outlined in section 98 of CISCA and clause 67 of the Trust Deed between Allan Gray Unit Trust Management (RF) Proprietary Limited and its Trustee, Firstrand Bank Limited (the Trust Deed), **you have the right to vote for or against the above changes. Alternatively, you have the right to switch or withdraw your investment from the Fund. Switching or withdrawing may constitute a CGT event**. If you do not switch or withdraw your investment from the Fund, the changes will then automatically apply to your investment.

What do you need to do?

1. Once you have considered the proposed changes, please complete the attached ballot form and return it directly to our auditors in the enclosed self-addressed envelope, by fax to 021 443 1678 or by email to allangrayballots@za.ey.com. Please return the ballot form before **6 February 2015**.
2. Please do not include any other instructions regarding your investment with your ballot form (e.g. investment instructions, switching instructions, etc.) as the ballots go straight to the auditors and your instruction may not reach us.
3. If you have fully disposed of your investment in the Fund on or before **3 December 2014**, you do not have to do anything.
4. The trustees of the Allan Gray retirement funds or the Allan Gray Life Limited board of directors, as applicable, have considered the proposed changes and formed the view that they will provide wider investment opportunities and lower fees, and better align the fees paid with the performance experienced. Accordingly, if you are invested in one of the products listed below, and you do not return your ballot by **6 February 2015**, the trustees of the Allan Gray retirement funds or the Allan Gray Life Limited board of directors, as applicable, will vote in favour of the changes as outlined in the ballot on your behalf.
    - Allan Gray Endowment
    - Allan Gray Living Annuity
    - Allan Gray Pension Preservation Fund
    - Allan Gray Provident Preservation Fund
    - Allan Gray Retirement Annuity Fund

The proposed changes will only be implemented if our auditors receive completed ballot forms for at least 25% of the Fund's units, as required by legislation, by **6 February 2015**, and the majority of the votes received are in favour of the changes.

If you have any questions or queries, or require assistance or additional information, please contact your financial adviser or our Client Service Centre on 0860 000 654.

Yours sincerely

Jeanette Marais
Director: Distribution & Client Service

Appendix A – Summary of proposed changes to the Allan Gray Equity Fund

Proposed effective date: **1 March 2015** provided we receive the necessary approval from investors

	Proposed		Current	
Investment universe	South African equities, offshore equities in line with the limits of the South African – Equity – General sector (currently up to 25% in global equities and a further 5% in African equities) and listed derivative instruments		South African equities only	
Benchmark	Market value-weighted average return of the South African – Equity – General sector, excluding Allan Gray funds		FTSE/JSE All Share Index including income	
Investment management fee	Minimum fee rate p.a.	0.0%	Minimum fee rate p.a.	0.0%
	Benchmark fee rate p.a.	1.0%	Benchmark fee rate p.a.	1.5%
	Maximum fee rate p.a.	Uncapped	Maximum fee rate p.a.	3.0%
	Measurement period	Daily with a high watermark principle	Measurement period	Rolling 2 years
	Sharing rate	20% of annual out/ underperformance	Sharing rate	10% of cumulative two year out/ underperformance (roughly equivalent to 20% of annual out/ underperformance)

The fees in the table exclude VAT and will not be charged on any assets invested in Orbis funds as these funds charge their own investment management fees.

Appendix B – Amendment to the investment policy

Amended investment policy	Current investment policy
Unchanged	
3.1. The Fund will be a general portfolio. The Manager in selecting securities for the portfolio will seek to follow an investment policy which will allow it to secure for investors an optimum overall return, that is to say steady growth of income and preservation of capital in real terms. In order to achieve these main objectives the investments to be acquired for the portfolio shall comprise a mix of equity securities, non-equity securities and assets in liquid form as defined in the Act and the Deed. 3.2 Nothing in this supplemental trust deed shall preclude the Manager from: 3.2.1. varying the ratios of securities, to maximise overall return in response to market conditions or legal requirements; and 3.2.2. retaining cash or placing cash on deposit in terms of the Deed, provided that the Manager shall ensure that the portfolio complies with the Act. 3.3. The Trustee shall ensure that the investment policy in respect of the portfolio, set out in the Deed, is carried out. 3.4. The Manager reserves the right to close the portfolio to new investors at any time and from time to time in order to preserve its ability to manage the portfolio in accordance with its investment policy. The critical size shall be determined from time to time by the Manager. 3.5. The portfolio may from time to time include participatory interests or any other form of participation in portfolios of collective investment schemes in property or other similar schemes registered in the Republic of South Africa or participatory interests or any other form of participation in portfolios of collective investment schemes in property or other similar schemes operated in territories other than South Africa, with a regulatory environment which is to the satisfaction of the Manager and the Trustee of a sufficient standard to provide investors protection at least equivalent to that in South Africa and which is consistent with the portfolio's objectives.	3.1. The Fund will be a general portfolio. The Manager in selecting securities for the portfolio will seek to follow an investment policy which will allow it to secure for investors an optimum overall return, that is to say steady growth of income and preservation of capital in real terms. In order to achieve these main objectives the investments to be acquired for the portfolio shall comprise a mix of equity securities, non-equity securities and assets in liquid form as defined in the Act and the Deed. 3.2 Nothing in this supplemental trust deed shall preclude the Manager from: 3.2.1. varying the ratios of securities, to maximise overall return in response to market conditions or legal requirements; and 3.2.2. retaining cash or placing cash on deposit in terms of the Deed, provided that the Manager shall ensure that the portfolio complies with the Act. 3.3. The Trustee shall ensure that the investment policy in respect of the portfolio, set out in the Deed, is carried out. 3.4. The Manager reserves the right to close the portfolio to new investors at any time and from time to time in order to preserve its ability to manage the portfolio in accordance with its investment policy. The critical size shall be determined from time to time by the Manager. 3.5. The portfolio may from time to time include participatory interests or any other form of participation in portfolios of collective investment schemes in property or other similar schemes registered in the Republic of South Africa or participatory interests or any other form of participation in portfolios of collective investment schemes in property or other similar schemes operated in territories other than South Africa, with a regulatory environment which is to the satisfaction of the Manager and the Trustee of a sufficient standard to provide investors protection at least equivalent to that in South Africa and which is consistent with the portfolio's objectives.
Addition	
3.6. The portfolio may also include listed financial instruments.	