

**Fund managers:** Ian Liddle, Duncan Artus, Andrew Lapping, Simon Raubenheimer

**Associate fund managers:** Ruan Stander, Jacques Plaut, Leonard Krüger

**Inception date:** 1 October 1998

**Class:** A

## Fund information on 31 December 2014

**Size:** R40.0bn  
**Price:** R321.98  
**Number of share holdings:** 112

## Fund description

The Fund invests in shares listed on the Johannesburg Stock Exchange (JSE). The Fund is typically fully invested in shares. Returns are likely to be volatile, especially over short- and medium-term periods.

**ASISA unit trust category:** South African - Equity - General

## Fund objective and benchmark<sup>1</sup>

The Fund aims to outperform the South African equity market over the long term, without taking on greater risk. The Fund's benchmark is the FTSE/JSE All Share Index including income.

## How we aim to achieve the Fund's objective

We seek to buy shares offering the best relative value while maintaining a diversified portfolio. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. We invest in a selection of shares across all sectors of the JSE, and across the range of large, mid and smaller cap shares.

## Suitable for those investors who

- Seek exposure to JSE-listed equities to provide long-term capital growth
- Are comfortable with stock market fluctuation, i.e. short- to medium-term volatility
- Are prepared to take on the risk of capital loss
- Typically have an investment horizon of more than five years
- Wish to use the Fund as an equity 'building block' in a diversified multi-asset class portfolio

## Minimum investment amounts

Minimum lump sum per investor account: R20 000  
 Additional lump sum: R500  
 Minimum debit order\*: R500

\*Only available to investors with a South African bank account.

## Annual management fee and total expense ratio (TER)<sup>1</sup>

The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark adjusted for Fund expenses and cash flows.

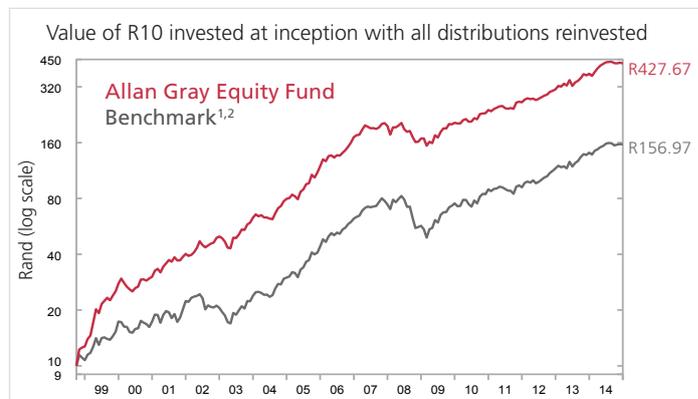
Fee for performance equal to the Fund's benchmark: 1.50% p.a. excl. VAT

For each percentage of two-year performance above or below the benchmark, we add or deduct 0.1%, subject to the following limits:

Maximum fee: 3.00% p.a. excl. VAT  
 Minimum fee: 0.00% p.a. excl. VAT

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark. The fee rate is applied to the daily value of the Fund.

## Performance net of all fees and expenses



| % Returns                                  | Fund   | Benchmark <sup>1,2</sup> | CPI inflation <sup>3</sup> |
|--|--------|--------------------------|----------------------------|
| <i>Unannualised:</i><br>Since Inception    | 4176.7 | 1469.7                   | 140.2                      |
| <i>Annualised:</i><br>Since Inception      | 26.0   | 18.5                     | 5.6                        |
| Latest 10 Years                            | 18.3   | 18.0                     | 6.0                        |
| Latest 5 Years                             | 15.9   | 15.8                     | 5.3                        |
| Latest 3 Years                             | 17.4   | 19.5                     | 5.6                        |
| Latest 2 Years                             | 17.4   | 16.0                     | 5.6                        |
| Latest 1 Year                              | 13.6   | 10.9                     | 5.8                        |
| <b>Risk measures (since inception)</b>     |        |                          |                            |
| Maximum Drawdown <sup>4</sup>              | -31.3  | -45.4                    | n/a                        |
| Percentage Positive Months <sup>5</sup>    | 67.2   | 61.0                     | n/a                        |
| Annualised Monthly Volatility <sup>6</sup> | 16.1   | 17.9                     | n/a                        |

1. Please note that there is currently a ballot in progress that may affect the fund's objective, benchmark and the annual management fee. For more information, please contact us on 0860 000 654 or info@allangray.co.za
2. FTSE/JSE All Share Index including income (source: INET BFA), performance as calculated by Allan Gray as at 31 December 2014.
3. This is based on the latest numbers published by INET BFA as at 30 November 2014.
4. Maximum percentage decline over any period. The maximum drawdown occurred from 20 May 2008 to 27 October 2008 and maximum benchmark drawdown occurred from 22 May 2008 to 20 November 2008. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
5. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
6. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 12 month period. Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 2 for further information).

| TER breakdown for the year ending 31 December 2014 | %           |
|--|-------------|
| Fee for benchmark performance                      | 1.50        |
| Performance fees                                   | 0.44        |
| Other costs including trading costs                | 0.06        |
| VAT  | 0.28        |
| <b>Total expense ratio</b>                         | <b>2.28</b> |

## Fund manager quarterly commentary as at 31 December 2014

When this Fund was launched on 1 October 1998 we believed that South African shares offered very attractive value, but we certainly did not expect the dawning of a 16-year golden era for the JSE. Since its inception, the Fund has returned 26.0% p.a. while the benchmark FTSE/JSE All Share Index (ALSI) has returned 18.5% p.a. Over the same period the Consumer Price Index (CPI) has inflated by 5.6% p.a. The cumulative ALSI return over the period was more than 10x the compounded CPI inflation rate! Moreover there have been relatively few tests of investors' resolve with the ALSI lagging CPI inflation by more than 10 percentage points in only two of the last 16 calendar years.

Real (inflation-adjusted) stock market returns over the previous 16 calendar years (1983-1998) were weaker and the ride was bumpier. Over that period, the ALSI yielded a lower total nominal return of 16.3% p.a., despite CPI inflation compounding at a much higher rate of 12.1% p.a. The ALSI underperformed CPI inflation by more than 10 percentage points in five out of those 16 years, making it even harder for easily-spooked investors to earn significant real returns.

The successful internationalisation of companies with South African roots has been a powerful driving force behind the high returns of the last 16 years. Naspers, SABMiller, Richemont, MTN and Aspen are prime examples. Many South African consumer-facing companies have benefited enormously from the growth in social welfare payments and the public sector wage bill. But these golden era winners will be hard-pressed to sustain their strong growth over the last 16 years for the next 16 years, and the current high valuation multiples on many of these recognised winners further reduces their future expected returns.

So how should we respond to a South African market that we expect to deliver lower future real returns? Should we simply try to increase the Fund's prospective returns by assuming more risk? Absolutely not – the criterion for bearing more risk is whether the prospective returns more than compensate for the risk, not an arbitrary absolute return target. Rather, we strive to maintain the discipline of selecting the relatively most attractively priced JSE-listed shares, and combining them in a sensibly diversified portfolio.

A second response is to expand the Fund's investment universe so as to include more attractively priced shares. We have recently written to investors in the Fund asking them to vote on a number of proposed amendments to the Fund, including allowing the Fund to invest offshore to the extent permitted in the South African – Equity – General sector in which the Fund is classified. This limit is currently 25%. For more information please refer to the ballot letter, available on our website [www.allangray.co.za](http://www.allangray.co.za) or contact our Client Service Centre on 0860 000 654. Every investor in the Fund as at 21 November 2014 is entitled to vote. The deadline to submit votes is 6 February 2015.

Commentary contributed by Ian Liddle

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### Disclaimer

The Fund may be closed to new investments at any time in order to be managed in accordance with its mandate. Permissible deductions may include management fees, brokerage, STT, auditor's fees, bank charges and trustee fees. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. 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 Africa Series 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. Allan Gray Unit Trust Management (RF) Proprietary Limited ("the Company") 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 the Company. The Company is incorporated and registered under the laws of South Africa and is supervised by the Financial Services Board. The Company has been approved by the Regulatory Authority of Botswana to market its unit trusts in Botswana, however it is not supervised or licensed in Botswana.

### Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any permissible deductions from the portfolio 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 the manager by 14:00 each business day to receive that day's price.

### Fees

A schedule of fees, charges and maximum commissions is available on request from the manager. Commission and incentives may be paid and if so, would be included in the overall costs.

### TER

The total expense ratio (TER) is the percentage of the Fund's average assets under management that has been used to pay the Fund's operating expenses over the past year. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), trading costs (including brokerage, STT, STRATE and insider trading levy), VAT and other expenses. Since unit trust expenses vary, the current TER cannot be used as an indication of future TERs. All Allan Gray performance figures are quoted after the deduction of costs incurred within the Fund so the TER is not a new cost. 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. TERs should then be used to evaluate whether the Fund performance offers value for money.

### Performance

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. Performance figures are from Allan Gray Proprietary Limited and are for lump sum investments with income distributions reinvested.

## Top 10 share holdings on 31 December 2014 (updated quarterly)

| Company                  | % of portfolio |
|--------------------------|----------------|
| British American Tobacco | 11.4           |
| Sasol                    | 10.3           |
| Standard Bank            | 8.8            |
| SABMiller                | 8.6            |
| Remgro                   | 5.7            |
| Old Mutual               | 4.5            |
| Reinet Investments SA    | 4.4            |
| Investec                 | 2.9            |
| Naspers <sup>7</sup>     | 2.0            |
| Netcare                  | 1.9            |
| <b>Total</b>             | <b>60.6</b>    |

7. Including Naspers Stub Certificates.

## Sector allocation on 31 December 2014 (updated quarterly)

| Sector                         | % of Fund    | ALSI         |
|--------------------------------|--------------|--------------|
| Oil & Gas                      | 10.4         | 3.6          |
| Basic Materials                | 10.4         | 18.3         |
| Industrials                    | 12.7         | 6.2          |
| Consumer Goods                 | 23.5         | 24.3         |
| Health Care                    | 3.6          | 4.2          |
| Consumer Services              | 6.3          | 14.1         |
| Telecommunications             | 0.8          | 6.9          |
| Financials                     | 29.8         | 22.0         |
| Technology                     | 0.7          | 0.4          |
| Commodity-linked               | 0.5          | 0.0          |
| Money Market and Bank Deposits | 1.3          | 0.0          |
| <b>Total</b>                   | <b>100.0</b> | <b>100.0</b> |

## Income distributions for the last 12 months

|   | 30 Jun 2014 | 31 Dec 2014 |
|---|-------------|-------------|
| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually. |             |             |
| Cents per unit  | 187.7617    | 108.4107    |

Note: There may be slight discrepancies in the totals due to rounding.