

Fund description and summary of investment policy

The Fund invests primarily in shares listed on the Johannesburg Stock Exchange (JSE). The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. The Fund invests the bulk of its foreign allowance in equity funds managed by Orbis Investment Management Limited, our offshore investment partner. 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

The Fund aims to create long-term wealth for investors. It aims to outperform the average return of South African General Equity Funds over the long term, without taking on greater risk of loss. To pursue its objective the Fund’s portfolio may differ materially from those of its peers. This will result in the Fund underperforming its benchmark materially at times. The Fund aims to compensate for these periods of underperformance by delivering outperformance over the long term. The Fund’s benchmark is the market value-weighted average return of funds in the South African – Equity – General category (excluding Allan Gray funds).

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 from sellers who over-react to short-term difficulties or undervalue long-term potential. We invest in a selection of shares across all sectors of the stock market, and across the range of large, mid and smaller cap shares.

Suitable for those investors who

- Seek exposure to listed equities to provide long-term capital growth
- Are comfortable with stock market fluctuation, i.e. short- to medium-term volatility
- Are prepared to accept 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*

Initial lump sum per investor account	R50 000
Additional lump sum	R1 000
Debit order**	R1 000

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

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

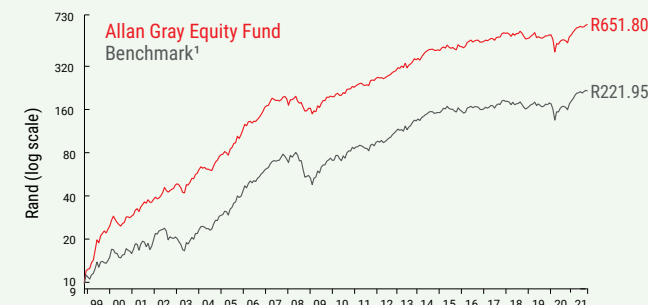
Fund information on 30 September 2021

Fund size	R37.5bn
Number of units	47 645 600
Price (net asset value per unit)	R440.03
Class	A

1. The market value-weighted average return of funds in the South African – Equity – General category (excluding Allan Gray funds). Source: Morningstar, performance as calculated by Allan Gray as at 30 September 2021. From inception to 28 February 2015 the benchmark was the FTSE/JSE All Share Index including income. Source: IRESS.
2. This is based on the latest available numbers published by IRESS as at 31 August 2021.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 3 September 2018 to 23 March 2020 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).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. 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.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund’s highest annual return occurred during the 12 months ended 30 September 1999 and the benchmark’s occurred during the 12 months ended 30 April 2006. The Fund’s lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark’s occurred during the 12 months ended 28 February 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



% Returns	Fund	Benchmark ¹	CPI inflation ²
Cumulative:			
Since inception (1 October 1998)	6418.0	2119.5	227.9
Annualised:			
Since inception (1 October 1998)	19.9	14.4	5.3
Latest 10 years	10.3	10.1	5.0
Latest 5 years	5.2	5.3	4.4
Latest 3 years	4.8	7.5	4.1
Latest 2 years	10.9	12.9	4.0
Latest 1 year	30.3	30.3	4.9
Year-to-date (not annualised)	18.8	17.9	4.4
Risk measures (since inception)			
Maximum drawdown ³	-37.0	-45.4	n/a
Percentage positive months ⁴	65.6	59.1	n/a
Annualised monthly volatility ⁵	15.6	16.9	n/a
Highest annual return ⁶	125.8	73.0	n/a
Lowest annual return ⁶	-24.3	-37.6	n/a

Meeting the Fund objective

The Fund has created wealth for its long-term investors. Since inception and over the latest 10-year period, the Fund has outperformed its benchmark. Over the latest five-year period the Fund has underperformed its benchmark. The Fund experiences periods of underperformance in pursuit of its objective of creating long-term wealth for investors, without taking on greater risk of loss than the average equity fund. The maximum drawdown and lowest annual return numbers, in the 'Performance net of all fees and expenses' table, show that the Fund has successfully reduced downside risk in periods of negative market returns.

Income distributions for the last 12 months

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.	31 Dec 2020	30 Jun 2021
Cents per unit	291.3975	330.8930

Annual management fee

Allan Gray charges a fee based on the net asset value of the Fund excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Fund's total performance for the day to that of the benchmark.

Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT

For each annualised percentage point above or below the benchmark we add or deduct 0.2%. The maximum fee is uncapped and if the fee would have been negative, 0% will be charged for the day and the negative fee will be carried forward to reduce the next day's fee (and all subsequent days until the underperformance is recovered).

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark.

A portion of the Fund may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark. Orbis pays a marketing and distribution fee to Allan Gray.

Total expense ratio (TER) and Transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

Top 10 share holdings on 30 September 2021 (SA and Foreign) (updated quarterly)⁷

Company	% of portfolio
Naspers ⁸	7.6
British American Tobacco	6.3
Glencore	5.1
Standard Bank	3.6
Woolworths	3.3
Remgro	3.0
Sasol	2.7
Old Mutual	2.5
Nedbank	2.4
AB InBev	2.3
Total (%)	38.7

- Underlying holdings of Orbis funds are included on a look-through basis.
- Includes holding in stub certificates or Prosus N.V., if applicable.
- FTSE/JSE All Share Index.

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1- and 3-year period ending 30 September 2021	1yr %	3yr %
Total expense ratio	0.68	0.74
Fee for benchmark performance	1.12	1.13
Performance fees	-0.54	-0.48
Other costs excluding transaction costs	0.04	0.04
VAT	0.06	0.05
Transaction costs (including VAT)	0.10	0.10
Total investment charge	0.78	0.84

Sector allocation on 30 September 2021 (updated quarterly)⁷

Sector	% of Fund	% of ALSI ⁹
Energy	2.1	0.8
Basic materials	17.7	31.8
Industrials	6.5	4.6
Consumer staples	14.4	7.6
Healthcare	3.5	2.4
Consumer discretionary	10.8	13.9
Telecommunications	2.3	5.3
Utilities	0.5	0.0
Financials	28.4	18.4
Technology	9.2	11.8
Commodity-linked	0.6	0.0
Real estate	0.8	3.4
Other	0.1	0.0
Money market and bank deposits	3.2	0.0
Total (%)	100.0	100.0

Asset allocation on 30 September 2021⁷

Asset class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	95.3	66.3	4.0	25.0
Hedged Equity	0.1	0.0	0.0	0.1
Property	0.8	0.7	0.0	0.1
Commodity-linked	0.6	0.6	0.0	0.0
Bonds	0.1	0.0	0.0	0.1
Money market and bank deposits	3.1	2.2	-0.2	1.1
Total (%)	100.0	69.8	3.8	26.4¹⁰

10. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

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

The Fund had a good quarter on a relative basis, generating a return of 4.6% versus the benchmark at 3.4%.

It was a quarter driven by news out of the East, as the headlines and events emanating from China had a material impact on several shares in our market.

On the regulatory front, the Chinese government has made a number of announcements related to what they term anti-competitive behaviour and social ills in the technology sector. This includes far more scrutiny on and regulation of the digital financial system and online lending; clamp downs on monopolistic behaviour such as forced exclusivity and “walled gardens”; additional restrictions on how consumer data is collected and shared; and significant restrictions imposed on youth online gaming. Presumably under government pressure, many of the technology companies have committed to “common prosperity” contributions over the past year. As an example, in two separate announcements, Tencent has committed to donate a total of US\$15bn to a fund to invest in social projects over the coming years.

The news has had a material impact on the share price of Tencent and, as a result, on the share prices of Prosus and Naspers, whose single-largest investment is a 29% stake in Tencent. For the quarter, Tencent was down 21% in US dollars, while Prosus and Naspers were down 15% and 17% respectively in rands.

It is too soon to tell to what degree all of the regulatory changes will affect the long-term growth and earnings prospects for Tencent but, on a balance of probability, it is likely to have some sort of a negative effect. At the very least, we believe it is more likely than not that the multiple the market is willing to pay for Tencent has been permanently impaired. One could argue that, given the price declines, the negative news has already been priced in, but it is a dangerous game to try and predict future behaviour that may emanate from the Chinese Communist Party. As such, while we continue to see significant value in Naspers and Prosus at spot prices, we have an increasingly sharp focus on absolute position size within the portfolios.

The other major news item to emerge out of China was the unofficial default of Evergrande, one of the largest real estate developers in China. Heavily overindebted and faced with material cash flow issues, Evergrande has failed to make bond payments in the past few weeks. The Evergrande default has sparked renewed concerns about a property bubble in China, where the real estate sector accounts for 29% of GDP.

Why is this important to South African investors?

Two of the largest shares on our market, BHP and Anglo American, derive a substantial portion of their profits from the sale of iron ore, the vast majority of which goes into steel production in China, and therefore the property sector. We have for some time believed the iron ore price is unsustainably high, and the correction following this news has been swift. In the space of two months, the iron ore price has fallen from over US\$220/t to around US\$115/t today. Our preferred diversified miner has been, and remains, Glencore, which has zero exposure to iron ore production. Our preference for Glencore is partly due to its commodity mix, but primarily due to valuation, as it continues to trade at a material discount to peers.

If the events of the past quarter have taught us anything, it is that what happens in China can have a material impact on South African investors, as a number of the shares on our market are either directly or indirectly invested in the Chinese economy. That is also why we believe British American Tobacco (BTI) is an excellent holding in our portfolios. Not only is it a globally diversified business that has an excellent track record and trades on a very attractive 8% dollar dividend yield, but it has zero exposure to China. From a portfolio construction and risk diversification perspective, this makes BTI particularly attractive for us.

During the quarter we increased our exposure to select domestic banks and the platinum group metal miners.

Commentary contributed by Rory Kutisker-Jacobson

**Fund manager quarterly
commentary as at
30 September 2021**

1. A closed ecosystem in which all the operations are controlled by the ecosystem operator.

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Allan Gray is an authorised financial services provider.

Management Company

Allan Gray Unit Trust Management (RF) (Pty) Ltd (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 Sector Conduct Authority (FSCA). The Management Company is incorporated under the laws of South Africa and 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. Allan Gray (Pty) Ltd (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).

The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or www.rmb.co.za.

Performance

Collective investment schemes in securities (unit trusts or funds) 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 future performance. Movements in exchange rates may also cause the value of underlying international investments to go up or down. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

Fund mandate

Funds may be closed to new investments at any time in order to be managed according to their mandates. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

Unit price

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 the Management Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

Fees

Permissible deductions may include management fees, brokerage, securities transfer tax, auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray.

Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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, Share Transactions Totally Electronic (STRATE) and FSCA Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are necessary costs 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 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 (TIC).

Foreign exposure

This fund may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

FTSE/JSE All Share Index

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.

Important information for investors

Need more information?

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