

**Fund description and summary of investment policy**

The Fund is managed in broadly the same way as the Allan Gray Balanced Fund. It was created specifically for use in tax-free accounts and can only be accessed through these products. The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 75% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund.

**ASISA unit trust category:** South African – Multi Asset – High Equity

**Fund objective and benchmark**

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund's benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds).

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

We seek to buy shares at a discount to their intrinsic value. 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. If the stock market offers few attractive shares we may increase the Fund's weighting to alternative assets such as bonds, property, commodities and cash, or we may partially hedge the Fund's stock market exposure. By varying the Fund's exposure to these different asset classes over time, we seek to enhance the Fund's long-term returns and to manage its risk. The Fund's bond and money market investments are actively managed.

**Suitable for those investors who**

- Seek steady long-term capital growth
- Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund
- Wish to invest in a tax-free investment account
- Typically have an investment horizon of at least three years

**Minimum investment amounts**

|                                       |         |
|---------------------------------------|---------|
| Minimum lump sum per investor account | R20 000 |
| Additional lump sum                   | R500    |
| Minimum debit order*                  | R500    |

**Maximum investment amounts**

|                                       |          |
|---------------------------------------|----------|
| Maximum lump sum per investor account | R33 000  |
| Lifetime maximum                      | R500 000 |
| Maximum debit order*                  | R2 750   |

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

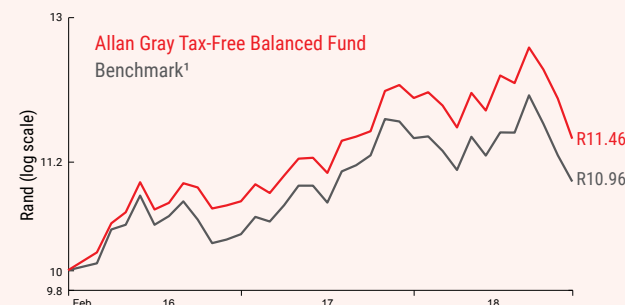
**Fund information on 30 November 2018**

|                                  |            |
|----------------------------------|------------|
| Fund size                        | R748m      |
| Number of units                  | 59 078 753 |
| Price (net asset value per unit) | R10.86     |
| Class                            | A          |

1. The market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds). Source: Morningstar, performance as calculated by Allan Gray as at 30 November 2018.
2. This is based on the latest numbers published by IRESS as at 31 October 2018.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 5 September 2018 to 23 November 2018 and maximum benchmark drawdown occurred from 29 August 2018 to 23 November 2018. 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 November 2017 and the benchmark's occurred during the 12 months ended 31 October 2017. The Fund's lowest annual return occurred during the 12 months ended 30 November 2018 and the benchmark's occurred during the 12 months ended 30 November 2018. 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 <sup>1</sup> | CPI inflation <sup>2</sup> |
|--|-------|------------------------|----------------------------|
| <b>Cumulative:</b>                         |       |                        |                            |
| Since inception (1 February 2016)          | 14.6  | 9.6                    | 15.9                       |
| <b>Annualised:</b>                         |       |                        |                            |
| Since inception (1 February 2016)          | 4.9   | 3.3                    | 5.5                        |
| Latest 2 years                             | 3.5   | 3.1                    | 5.0                        |
| Latest 1 year                              | -5.4  | -6.0                   | 5.1                        |
| Year-to-date (not annualised)              | -4.1  | -4.4                   | 5.0                        |
| <b>Risk measures (since inception)</b>     |       |                        |                            |
| Maximum drawdown <sup>3</sup>              | -10.4 | -10.1                  | n/a                        |
| Percentage positive months <sup>4</sup>    | 61.8  | 55.9                   | n/a                        |
| Annualised monthly volatility <sup>5</sup> | 7.7   | 7.5                    | n/a                        |
| Highest annual return <sup>6</sup>         | 13.3  | 13.7                   | n/a                        |
| Lowest annual return <sup>6</sup>          | -5.4  | -6.0                   | n/a                        |

## Fund history

This Fund is managed in broadly the same way as the Allan Gray Balanced Fund. It was created specifically for use in tax-free accounts. Refer to the Allan Gray Balanced Fund factsheet for a history of the Allan Gray Balanced Fund since its inception on 1 October 1999.

## Meeting the Fund objective

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund experiences periods of underperformance in pursuit of this objective. As the Fund is less than five years old it is too early to tell if it has met its objective. However, since inception the Fund has outperformed its benchmark and we are confident that the Fund will meet its objective over the long term.

## 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 2017    | 30 Jun 2018    |
|---|----------------|----------------|
| <b>Cents per unit</b>   | <b>12.4376</b> | <b>10.0517</b> |

## Annual management fee

The fee we charge is fixed at 1.25% excluding VAT.

This fee only applies to the portion of the unit trusts that we manage. The offshore portion of the unit trust is managed by Orbis. Orbis charges fixed fees within these funds. Orbis pays a marketing and distribution fee to Allan Gray.

## Total expense ratio (TER) and Transaction costs

TER and Transaction Costs calculations are based on actual data, and best estimates where actual data is not available or provides a poor estimate of potential future costs. Due to the short lifespan of the fund, actual data provides a poor estimate of future costs, and so an estimated TER and Transaction cost calculation is shown. The annual management fees charged by both Allan Gray and Orbis are included in the below estimated TER. A TER is a measure of the actual expenses incurred by a 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 2018 (SA and Foreign) (updated quarterly)<sup>8</sup>

| Company                  | % of portfolio |
|--------------------------|----------------|
| Naspers <sup>7</sup>     | 5.8            |
| Sasol                    | 5.5            |
| British American Tobacco | 4.3            |
| Old Mutual               | 2.6            |
| Remgro                   | 2.5            |
| Standard Bank            | 2.3            |
| Investec                 | 2.2            |
| Glencore                 | 2.0            |
| Woolworths               | 1.4            |
| Life Healthcare          | 1.3            |
| <b>Total (%)</b>         | <b>30.0</b>    |

7. Including stub certificates.

## Total expense ratio (TER) and Transaction costs

| TER and Transaction costs breakdown for the 1 and 3-year period ending 30 September 2018 | 1yr %       | 3yr %       |
|--|-------------|-------------|
| <b>Total expense ratio</b>   | <b>1.33</b> | <b>1.15</b> |
| Fixed fee  | 1.18        | 1.03        |
| Other costs excluding transaction costs  | 0.02        | 0.01        |
| VAT  | 0.14        | 0.11        |
| <b>Transaction costs (including VAT)</b>   | <b>0.16</b> | <b>0.14</b> |
| <b>Total investment charge</b>   | <b>1.49</b> | <b>1.29</b> |

## Asset allocation on 30 November 2018<sup>8</sup>

| Asset Class                    | Total        | South Africa | Africa ex-SA | Foreign ex-Africa       |
|--------------------------------|--------------|--------------|--------------|-------------------------|
| Net equity                     | 63.7         | 47.8         | 1.0          | 14.9                    |
| Hedged equity                  | 8.8          | 0.8          | 0.0          | 8.0                     |
| Property                       | 1.9          | 1.5          | 0.0          | 0.5                     |
| Commodity-linked               | 2.8          | 2.2          | 0.0          | 0.6                     |
| Bonds                          | 13.4         | 9.7          | 1.1          | 2.7                     |
| Money market and bank deposits | 9.3          | 6.7          | 0.6          | 2.0                     |
| <b>Total (%)</b>               | <b>100.0</b> | <b>68.7</b>  | <b>2.7</b>   | <b>28.6<sup>9</sup></b> |

8. Underlying holdings of Orbis funds are included on a look-through basis.

9. 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.

## Since inception, the Fund's month-end net equity exposure has varied as follows:

|         |                       |
|---------|-----------------------|
| Minimum | (February 2016) 57.5% |
| Average | 61.1%                 |
| Maximum | (June 2017) 64.5%     |

Emerging market equity and currency markets had a very volatile quarter. Vulnerabilities, both economic and political, are being exposed as global financial conditions tighten. The MSCI Emerging Market Index is now 22% off its peak and the FTSE/JSE All Share Index fell 6% over the quarter when measured in US dollars. This has impacted both local and the offshore equities in the Fund.

Investors are currently focused on the risks as opposed to the upside in emerging markets – this is understandable. As contrarians, we are looking for opportunities where we believe intrinsic value has not been impaired to the same extent as the price has fallen.

Investors in emerging markets have to balance the upside of above-average long-term potential growth and lower levels of competition with the risks of less developed and market-friendly government institutions and regulators.

Three shares have recently been affected by regulation, causing investors to question the value of some of their business units operating in emerging and frontier economies:

Naspers had a volatile quarter impacted by negative sentiment towards emerging markets and potential changes in regulation in China, which could affect Chinese technology company Tencent (Naspers holds 31% of the company). Tencent's gaming business, which generates a significant portion of its profit, suffered from a delay in official approval to monetise new games. The government also issued statements implying that many Chinese, in particular youth, may be spending too much time gaming. While the process still needs to be completed, and indeed may even be positive for Tencent, we believe the implied valuation for Tencent when bought through Naspers is attractive. Naspers remains the Fund's largest position.

MTN announced claims by the Nigerian government of wrongdoing involving the repatriation of cash from Nigeria as well as underpayment of tax. While MTN denies the allegations, and the amounts appear unbelievably large (approximately US\$10bn), it is difficult to fight a government (especially one short of US dollars) which ultimately controls your licence to operate in their country. The value of the Nigerian business has long been a concern of ours, but with the change in price, we are taking a closer look.

Glencore's share price has also fallen due to regulatory issues involving its copper operations in the Democratic Republic of Congo. In addition to having to negotiate with the local mining regulator, Glencore faces a potential fine from the US Department of Justice for dealing with a person on their sanctions list. Taking the above into account, we believe the share price has fallen more than the intrinsic value. We like the profile of Glencore's commodity basket and while it does operate in riskier jurisdictions, the discount relative to the other major diversified miners is large. Glencore has been one of the Fund's largest purchases.

Investors in emerging and frontier markets have been reminded 1) Of the associated risks that come with the upside and 2) That this is particularly the case in countries with unbalanced economies (think Turkey). Dislocations will invariably present opportunities to long-term investors who are willing to do the work. It is also a timely reminder that South Africa must get its house in order to reduce our vulnerability in a world with tighter financial conditions.

Over the quarter, the Fund lightened its position in Sasol and purchased Glencore and Naspers.

**Commentary contributed by Duncan Artus**

**Fund manager quarterly  
commentary as at  
30 September 2018**

## Management Company

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 11 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 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). 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. 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.

## Fund mandate

The Fund may be closed to new investments at any time in order to be managed according to its mandate. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of its 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 (STT), 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 [STT], STRATE and 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.

## Compliance with Regulation 28

The Fund is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

## Foreign exposure

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

## The Allan Gray Tax-Free Investment Account

The Allan Gray Tax-Free Investment Account is provided by Allan Gray Life Limited, an authorised financial services provider and licensed under the Long-Term Insurance Act 52 of 1998. Allan Gray Life Limited is a subsidiary of Allan Gray Proprietary Limited (Allan Gray). The Allan Gray Tax-Free Investment account is administered by Allan Gray Investment Services Proprietary Limited, an authorised administrative financial services provider. The underlying investment options of the Allan Gray individual life products are portfolios of Collective Investment Schemes in Securities (unit trusts or funds).

## Important information for investors

### Need more information?

You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website [www.allangray.co.za](http://www.allangray.co.za) or via our Client Service Centre on **0860 000 654**.