

We believe that a long-term approach to investing is the best way of delivering superior performance, while at the same time minimising the risk of capital loss. But how long is long term?

**Graph 1** shows the difference in the returns between our clients' share returns and the FTSE/JSE All Share Index (ALSI) benchmark on a yearly basis\*. Although our long-run average performance is satisfactory, our relative performance in any single year is very unpredictable.

**Graph 2** shows the real (after-inflation) annual performance of the ALSI over the same history. Again, although the average annual real return from investing in shares is attractive, the outcome is dramatically different each year.

After inflation, Allan Gray clients effectively get the red bars shown in Graphs 1 and 2 added together, minus fees. Our investment philosophy means that we tend to protect capital better than the market, and therefore outperform when the market is in decline (and regrettably also sometimes vice versa). This helps to improve the chances of investors making long-term positive returns despite the variable graphs. By far the most powerful way for our clients to reduce the uncertainty and variability in their returns is to stay invested in our funds for a long time.

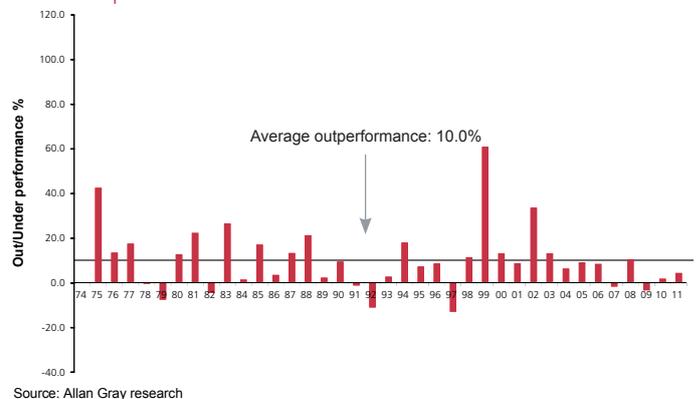
### Patience helps, but equity returns are variable

**Graph 3** shows the standard deviation of the real equity returns, before fees, in Allan Gray portfolios over holding periods of one year or longer, since 1974. The graph shows that the longer the period of investment, the narrower the spread of returns. For example, for three-year periods, roughly two-thirds of the returns in our history were within 15 percentage points of the average return. This is a wide spread. As the years accumulate, the variability of returns becomes narrower and the chances of a substantial good or bad outcome become lower. Over 10 years, approximately two-thirds of the returns lie within seven percentage points of the long-term average. Even with our track record in stock picking, a South African equities portfolio requires a longer-term mindset than many may realise.

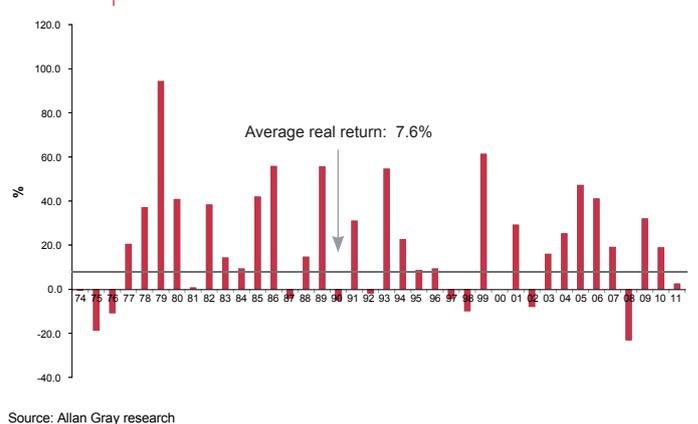
### Standard deviation

Standard deviation essentially measures how much an investment's return varies from its average over time.

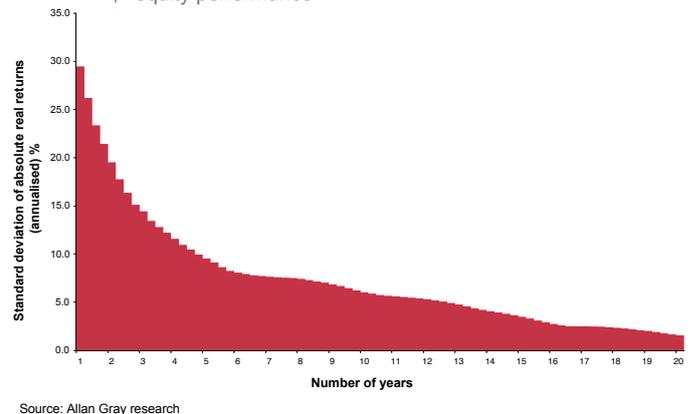
**Graph 1** | Allan Gray share returns vs ALSI



**Graph 2** | ALSI after-inflation annual performance



**Graph 3** | Standard deviation of annualised after-inflation equity performance



\*Allan Gray began managing pension funds on 1 January 1978. Returns prior to 1978 are of individuals managed by Allan Gray, and these returns exclude income.

*Commentary by Andrew MacFarlane and Fiona Jeffery, business analysts, Allan Gray*

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