

Launching the Allan Gray Tax-Free Balanced Fund

At Allan Gray we aim to keep our product and fund range small, and only introduce new offerings if we believe they will benefit our clients. We are pleased to announce the launch of the Allan Gray Tax-Free Balanced Fund, which will be available for investment via our Allan Gray Tax-Free Investment Account on 1 February 2016.

The Allan Gray Tax-Free Investment Account

We recently launched the Allan Gray Tax-Free Investment Account, to allow clients to benefit from the legislation introduced by the government in March 2015. As a reminder, dividend withholding and capital gains tax are reduced to zero, and when you invest in tax-free investment (TFI) products there are no restrictions on withdrawals. Contribution limits are currently set at R30 000 per year and R500 000 over your lifetime. Regulation further requires that all tax-free investment options charge fixed fees.

The Allan Gray Tax-Free Balanced Fund

While we disagree with the outright ban on performance fees in TFI products, we are keen for clients to have the option of investing in an Allan Gray unit trust. For this reason, we have created a new version of our flagship unit trust: the Allan Gray Tax-Free Balanced Fund. This will be an entirely separate, fixed fee unit trust and will only be available for investment via tax-free products.

The Tax-Free Balanced Fund is broadly the same as the Balanced Fund but charges a fixed fee instead of a performance-based fee. The two unit trusts will have the same mandate and investment objective and over time we expect that they will deliver broadly similar returns.

How much will it cost to invest in the Allan Gray Tax-Free Balanced Fund?

The investment management fee will be fixed on both the portions managed by Allan Gray and Orbis and will average out at a TER of approximately 1.57% including all investment management fees, trading costs, administration fees and VAT.

As discussed, investors will only be able to access the Tax-Free Balanced Fund through tax-free savings and investment accounts. If they use the newly created Allan Gray Tax-Free Investment Account, consistent with all of our other products, the administration fees that we charge will be based on the same tiered pricing structure of our other platform products and will be determined based on the total value of all of an investor's local platform investments with us. There are no additional transaction fees and no penalties for withdrawing any portion of the investment value.

Have we abandoned our view on performance fees?

We remain committed to performance fees that are fair, symmetrical and based on the right benchmark. We believe that performance-based fees align the interests of the investment manager with those of the client, and encourage investment managers to outperform over the long term, rather than to focus on gathering assets.

Commentary by Richard Carter, head of product development, Allan Gray

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. 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). Collective Investment Schemes in Securities (unit trusts or funds) are generally medium- to long-term investments. Except for the Allan Gray Money Market Fund, where the Investment Manager aims to maintain a constant unit price, the value of units may go down as well as up. Past performance is not necessarily a guide to future performance. The Management Company does not provide any guarantee regarding the capital or the performance of its unit trusts. Funds may be closed to new investments at any time in order for them to be managed according to their mandates. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending.

The annual management fees charged by both Allan Gray and Orbis (if applicable) are included in the total investment charge. 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 three years. 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 FSB Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost in administering the Financial Product and impacts Financial Product 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.

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