

How has your investment been impacted by the fall in the price of Steinhoff?

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Global retailer Steinhoff International Holdings NV's share price had fallen 86.9% by close of trade on Friday 8 December, following CEO Markus Jooste's resignation and the related press announcements regarding accounting irregularities. At this point in time there is limited information available to ascertain the nature and extent of the irregularities. The situation is fluid, and more information is likely to unfold over the coming weeks.

Allan Gray's Steinhoff exposure

Apart from a brief period in 2013, we have not owned Steinhoff on behalf of our clients. Often the stock looked cheap, but our analysis of the fundamentals of the business raised questions and we decided that we were not being compensated for the risks and uncertainties.

We initiated a small position in Steinhoff in October 2017, after the share underperformed meaningfully due to a tax investigation and other negative news. We did this with knowledge of the risks noted above, largely because we felt these risks were reflected in the share price. This is not unusual for us. Evaluating and managing risk versus potential return is key to our investment process.

Table 1 reflects the estimated loss investors have experienced in our flagship unit trusts.

Table 1 Impact of Steinhoff decline on Allan Gray flagship unit trusts

UNIT TRUST	CUMULATIVE LOSS SINCE PURCHASE ¹	EXPOSURE ON 8 DECEMBER 2017
Allan Gray Equity Fund	-0.44%	0.11%
Allan Gray Balanced Fund	-0.40%	0.11%
Allan Gray Stable Fund ²	-0.16%	0.10%

1. For every R100 in the Equity Fund, 44 cents has been lost; 40 cents in Balanced and 16 cents in Stable, at close of the market on 8 December 2017.

2. Please note the Allan Gray Stable Fund only owns the Steinhoff Preference shares.

Given the size of the position in our unit trusts, we are not a material shareholder, but we will be monitoring the company closely for further developments and will take action accordingly.

Our investment philosophy and process aims to protect your investments

When managing your hard-earned savings our foremost focus is always on absolute risk – the risk of a permanent loss of capital. We believe that it is possible to maximise long-term returns by managing risk while thinking hard about the true underlying long-term value of assets (i.e. taking a 'bottom-up approach') and being contrarian when appropriate.

We also make sure that our portfolios are well diversified, so that when one share or asset class is performing poorly, potential returns can come from somewhere else. A diversified portfolio limits the risk of permanent capital loss, and maximises the probability of real returns over the long term.

Commentary contributed by Andrew Lapping, chief investment officer, Allan Gray

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