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Allan Gray Balanced Fund turns 5

The Allan Gray Balanced Fund marked its fifth anniversary by boosting its total assets to more than R6bn in October this year. Not including the money market funds, it is now the largest single unit trust fund in any South African sector.

Following the 1998 launch of the Allan Gray Equity Fund, the Allan Gray Balanced Fund was introduced in 1999 to provide a more flexible investment product implementing Allan Gray's absolute return philosophy. As the Equity Fund is dedicated to equity investments, its returns are to a large extent dependent upon the level of the overall stockmarket. The Balanced Fund however has a wider selection of assets available to it, namely shares, listed property, interest bearing securities and international assets. As a result its returns can be expected to be more stable than those of the Equity Fund. Importantly, the risk of monetary loss is lower.

The Balanced Fund is equally suited to pension funds and private investors seeking long-term wealth creation and who want to delegate the asset allocation decision to Allan Gray. The Fund's return objective is to earn a higher rate of return than the market value-weighted average of the domestic medium equity prudential unit trust sector excluding the Allan Gray Balanced Fund without assuming any greater monetary risk. Since its inception and over the 5-year period, the Fund has handsomely exceeded its benchmark by achieving a total annualised return of 24.1% p.a. This is almost double the return of its benchmark over this period of 13.1%.

Although recent returns have slightly lagged those of its benchmark, the Fund nonetheless returned an acceptable 21.7% over the most recent 12-month period. This is on the back of the JSE appreciating strongly from its lows in April last year. Despite this appreciation, we still prefer domestic shares to bonds and cash, and the Fund has maintained a relatively high exposure to equities. Due to a booming domestic economy, industrial shares have done most of the running, while our persistently strong currency has exerted pressure on resource stocks. On the back of this strong appreciation in industrial shares, especially credit retailers, we have rotated the portfolio out of industrials, where we used to be heavily invested, in favour of banking and selected resource shares where we find valuations now more attractive. Although we can be criticised for making these changes too early, they are in line with our philosophy of investing the portfolio in the best available long-term return opportunities. The Fund continues to hold a reasonable exposure to resource shares whilst it increased its exposure to foreign assets, based on attractive valuations and what we believe to be an unsustainably strong Rand.

At the end of the September quarter, the following shares were the major holdings in the Fund's share portfolio and the Fund had the following asset allocation in comparison to the average Prudential Fund:

	% of Portfolio at 30 Sept. '04		Sector	% of Fund	Average of sector *
Sasol	8.34		Shares	65.57	71.50
Stanbank	4.77		Property	3.94	
Tigbrands	4.59		Bonds	16.16	12.50
MTN-Group	4.51		Money Market & Cash	3.71	8.60
Absa	4.43		Foreign	10.62	7.40
Harmony	4.19				
FirstRand	3.38				
Anglo	2.94				
Nampak	2.68				
Grayprop	2.57				

Source: JP Morgan Unit Trust Review – 30 September 2004

Commentary by Arjen Lugtenburg, Director, Allan Gray Limited and Portfolio Manager of the Balanced Fund, Allan Gray Unit Trust Management