

The Allan Gray Stable Fund through different market conditions

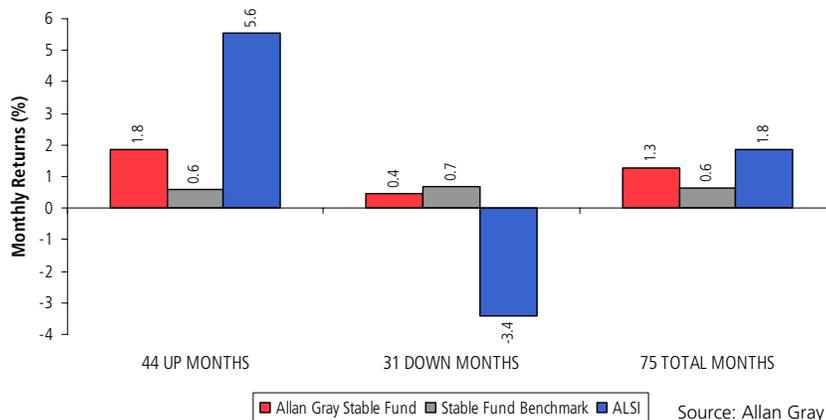
The Allan Gray Stable Fund was launched on 1 July 2000 for those investors seeking to preserve capital, and/or wanting a reasonable income whilst at the same time looking to grow their investment in real terms. The Stable Fund's conservative profile is more suited for the risk-averse investor in search of capital stability. Since inception, the Stable Fund has been able to achieve its objectives in rising, flat and declining markets with an annualised return of 16.2% versus the 7.7% achieved by the benchmark: after tax return on bank deposits plus 2%.

Bottom-up stock selection and asset allocation

The Stable Fund's success in the past and, we believe, into the future is based on its portfolio construction. It utilises bottom-up stock-picking and asset allocation to minimise downside risk whilst capturing upside returns. The selection of equities is managed conservatively with particular emphasis placed on finding shares with limited risk of capital loss, a low correlation to the stockmarket and high current or prospective dividend yields. Each share is selected through our bottom-up process, after applying rigorous fundamental research in determining the intrinsic value of the underlying business. The share exposure for the Fund is typically between 20% and 40% with the flexibility within the mandate to increase that exposure to 60% based on the relative attractiveness of equities. Currently, the fixed interest component of the Fund is invested conservatively in low duration (short-term) fixed interest instruments, such as short-term bonds, money market instruments and deposits. Being short-term in nature reduces the risk of capital loss, to which bonds are exposed, should interest rates move upward. The Fund also has a conservative selection of foreign investments maintained at the 15% maximum level to preserve capital in foreign currency terms.

Long-term performance

The outperformance by the Stable Fund over its benchmark has been achieved in different market conditions. The graph below illustrates the Stable Fund's average monthly performance since inception during months when the ALSI delivered a positive return (44 up months) and during months when the ALSI delivered a negative return (31 down months). We then looked at the average returns achieved by the Stable Fund versus its benchmark during the up and down ALSI months.



The left section of the graph shows that during the up months, the average monthly return of the ALSI was 5.6%. In contrast, the average monthly return generated by the Stable Fund was 1.8%, outperforming its benchmark and capturing over 30% of the average monthly return of the ALSI. The middle section of the graph shows that during the down months, the ALSI delivered an average monthly return of -3.4%. However, the average monthly return generated by the Stable Fund was 0.4%. Whilst, during the negative equity market, the Stable Fund underperformed its benchmark, it was still able to deliver a positive return. This shows that though the Stable Fund shared in the performance of the equity markets in the up months, on average, it was protected against the fall in the equity markets in the down months. Combining both up and down months for the full 75-month period, the ALSI delivered an average monthly return of 1.8%. In contrast the Stable Portfolio was able to deliver an average monthly return of 1.3% with significantly lower annualised volatility in monthly returns – just 3.9% for the Stable Fund versus 19.1% for the ALSI.

Since inception, from a return and risk perspective, the performance of the Allan Gray Stable Fund has been remarkable despite the varying market conditions which South Africa has experienced over the life of the Fund.

Commentary by Mahesh Cooper, Director, Allan Gray Limited

Collective Investment Schemes in Securities (unit trusts) are generally medium-to long-term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from Allan Gray Unit Trust Management Limited. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Member of the Association of Collective Investments.