

## Allan Gray Balanced Fund turns 10

The Allan Gray Balanced Fund proudly marks its 10th anniversary this month, having achieved a total annualised return of 21.8% per year since inception. This is significant outperformance compared to the 14.3% annualised return of its benchmark\* and 6.2% annualised inflation for this period.

However, few investors have been invested for the full lifespan of the Balanced Fund, and thus few have entirely benefited from the 10-year performance. A fund may perform well but if it has no investors in it, or if they are in the fund for too short a time to benefit from our approach, little wealth is created. An analysis of the Balanced Fund's performance over all the rolling three- and five-year periods since its launch in 1999 illustrates how the Fund has consistently outperformed its benchmark and inflation. What is also apparent is that volatility is reduced over longer periods.

### Beating its peers and inflation

The Fund has on average outperformed the average of its peers in the Domestic Asset Allocation Prudential Medium and Variable Equity categories (as represented by the benchmark) by 6% over every rolling three- and five-year period.

Outperforming the benchmark is satisfying, but it is also important for investors that their investment beats inflation. Inflation (measured by the Consumer Price Index, CPI) ranged between 4% and 7% per year over the rolling five-year periods (see black section of the bars on the **Graph**). The Fund's returns ranged between 18% and 28% over the same periods (full bars on graph). The red bars on the graph represent the outperformance of the Fund over inflation. The Fund returned at least 11% more than CPI per year for each rolling five-year period.

This means that an investor who joined the Fund at any point over the last 10 years and remained invested for five years would have earned a real (after inflation) return of at least 11% per year.

Unsurprisingly, both inflation and the returns of the Fund are more volatile over shorter time periods. Over rolling three-year periods the Fund only managed to achieve this same level of real return about 80% of the time. While the Fund returned comfortably more than inflation over most three-year periods, there were some where the Fund only managed to deliver returns in line with inflation. One reason for this is that a shorter investment period increases the significance of the start and end point of the investment and the role that timing plays in the overall investment returns. It is notoriously difficult to time the market, so investing over a shorter period increases the risk that an investor will underperform.

### The next 10 years

It is highly unlikely that the Fund's returns over the next 10 years will be anywhere near as high as that of the first 10. From current levels it is hard to believe in equity returns significantly outperforming cash for the foreseeable future. This is true of both local and foreign equity markets. While we remain confident in our ability to generate additional returns for our investors over the market, this would be more likely to translate into returns above inflation of the order of 5% per year rather than the astonishingly high 15% achieved over the first 10 years of the Fund's history.

\*The daily average return weighted by market value of funds in both the Domestic Asset Allocation Prudential Medium and Prudential Variable Equity categories excluding the Allan Gray Balanced Fund, over a rolling two-year period.

### Historical overview

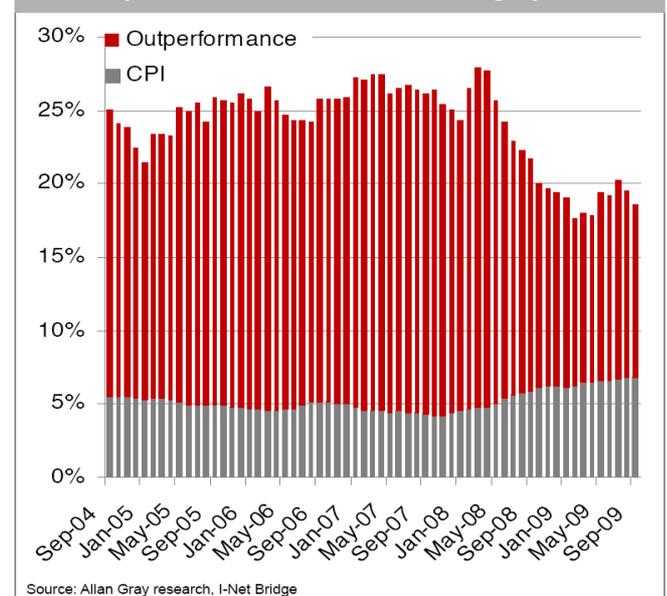
Following the 1998 launch of the Allan Gray Equity Fund, we introduced the Allan Gray Balanced Fund in 1999 to provide investors with a more flexible investment product. As the Equity Fund is dedicated to equity investments, its returns largely depend on the level of the overall stock market. The Balanced Fund however has a wider selection of assets available to it, including shares, bonds, offshore, property and cash. As a result, you can expect to get more stable returns than if you invest in the Equity Fund, and 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.

Although the Balanced Fund was only launched in 1999, our Global Balanced mandate track record dates back to 1978. The Balanced Fund is an exact replica of this mandate. The same investment philosophy, research and investment guiding principles provide us with a consistent framework to help our portfolio managers make the best decisions for our investors in a changing environment and over time.

### Portfolio managers

Over the last 10 years the Fund has seen different personalities at the helm. Initially managed by Simon Marais, and now by a team of managers led by Ian Liddle, the Fund has maintained its performance track record through successive generations of managers.

Allan Gray Balanced Fund: Annualised rolling 5-year returns



*Commentary by Jeanette Marais and Richard Carter Allan Gray Unit Trust Management Limited*

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