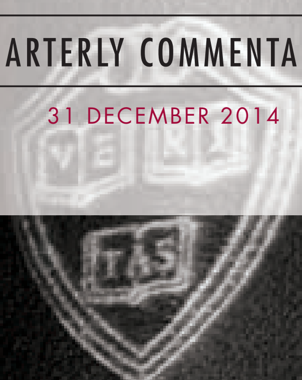
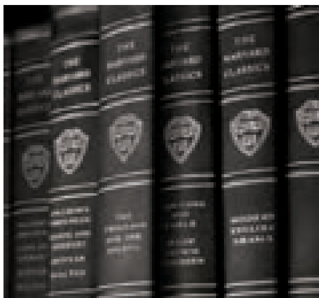
ALLAN GRAY

QUARTERLY COMMENTARY 4

31 DECEMBER 2014



LONG-TERM THINKING IN ACTION



The cover of this Quarterly Commentary features the Harvard Classics, which are housed in the Harvard Library, one of over 70 libraries that comprise Harvard University's impressive library system. The library began in 1638 when clergyman John Harvard left half of his estate and about 400 books to the university. Over the last 376 years, John Harvard's bequest has grown to become the largest academic library in the world: today it houses over 18.9 million volumes, 10 million photographs, 174 000 serial titles and 400 million manuscripts. Although the library system holds some of the oldest documents on earth, it is thoroughly modern – preserving both ancient and contemporary works for posterity on its 56 million archived webpages.

When John Harvard bequeathed his books to the university, he made an investment. Like all good investments it has grown over time, allowing every new generation to benefit from its rewards. This resonates with us at Allan Gray: while staying true to our core values, we take a long-term approach, focusing on future potential rather than fleeting trends. We encourage our clients to do the same.

The Allan Gray Quarterly Commentary is printed on LumiSilk, a paper made from trees grown specifically for paper manufacturing.
The paper is certified by the Forest Stewardship Council (FSC), an organisation which promotes responsible management of the world's forests.

CONTENTS

01 COMMENTS FROM THE CHIEF OPERATING OFFICER
Rob Dower

03 THE COLLAPSE OF THE OIL PRICE AND ITS CONSEQUENCES
Sandy McGregor

05 BUILDING CONFIDENCE IN CONSTRUCTION
Rory Kutisker-Jacobson

09 ORBIS FUNDS: REFLECTING ON 2014 AND LOOKING AHEAD
Graeme Forster

12 PROPOSED CHANGES TO THE ALLAN GRAY EQUITY FUND
Richard Carter

16 THE THEORY OF RISK AND RETURN
Wanita Isaacs

17 PURSUING ENTREPRENEURIAL LITERACY
Anthony Farr

21 ALLAN GRAY BALANCED, STABLE AND EQUITY FUND PORTFOLIOS

22 INVESTMENT TRACK RECORD

23 PERFORMANCE AND TOTAL EXPENSE RATIOS

27 THE ALLAN GRAY GROUP

ROB DOWER

COMMENTS FROM THE CHIEF OPERATING OFFICER

We were expecting 2014 to be a tough year for South Africa's economy and the JSE and, where our mandates allow, we invested cautiously in anticipation of this. After the longest wage strike in our history, severe constraints in energy and the fiscus and weaker-than-expected economic growth, we were somewhat surprised by the market's very sanguine reaction.

The JSE returned 10.9% including dividends and local bonds delivered 10.2% over the year, while rand cash deposits paid 5.7%. You will note from the performance tables at the end of this magazine that your equity portfolios ended the year between 2.7% and 5.3% ahead of the FTSE/JSE All Share Index. At the same time, after pleasing outperformance in 2013, 2014 was a disappointing year of relative performance for our offshore partner, Orbis. The combination of these factors and our cautious asset allocation meant that balanced mandate clients marginally underperformed the average manager while taking on less risk.

Once a week, I receive a friendly and interesting weather forecast from a UCT meteorologist. It includes a chart and a satellite photograph and an assertive prediction of what to expect around Cape Town for the next seven days.

Like the weather, the world's economy is a complex system. Economists put a lot of effort (if I may say, with less scientific support than meteorologists) into trying to predict supply and demand, their impact on prices and what will happen with unemployment or interest rates or growth in different countries and regions. These things all matter a lot to our welfare: as a simple example, it would be beneficial for farmers and consumers if we knew which crops would be most in demand from one year to the next.

Yet macroeconomic factors are very hard to predict accurately. Even if they could be accurately forecast, because of competition, their impact on the profits of companies is unpredictable and, under the leads and lags of markets, the secondary effect of this on the prices of shares and bonds even more so.

This is why, although our company analysis often requires us to assume prices for commodities or exchange rates, each share investment in your portfolios is based on bottom-up analysis of that company's prospects and underlying value, which we compare to its share price. By starting with individual stocks, careful portfolio construction allows us an opportunity to mitigate the risk that the economic assumptions behind any individual investment may be wrong.

Oil price collapse

The oil price is just such a macroeconomic factor. In his contribution this quarter, Sandy McGregor discusses the interaction between the two developments which have led to the decline in the oil price: a technical revolution in the production of oil and the economic slowdown in emerging markets, especially in China.

Impact on our portfolios

Energy equity prices are reacting to the commodity weakness with a mixture of fear and panic, and the market is increasingly sensitive to short-term

developments. Sasol, an oil producer, and currently one of the largest share holdings across the Allan Gray Equity, Balanced and Stable Funds, is no exception. The majority of the products that Sasol sells are priced off the prevailing oil price; Sasol's earnings are thus highly dependent on the rand-dollar exchange rate and the dollar price of oil, both of which can fluctuate substantially over the short term. We have anticipated a lower dollar oil price for some time, but oil prices are now below our estimate of a normal price over the long term. We think Sasol currently offers excellent value in the context of a fully valued JSE, and we have recently been adding to our position.

The Orbis Funds, in particular the Orbis Global Equity Fund, have a large exposure to shares that are highly sensitive to the price of oil. This includes both energy sector shares as well as shares in markets where oil exerts a significant influence (e.g. in Russia). All of these areas were out of favour when Orbis initially invested – and all have since continued to underperform. Opportunities to invest often arise amidst a backdrop of pessimism, fear or neglect. While we believe that we make rational assessments of intrinsic value based on the fundamentals, we know that we can't reliably predict when sentiment will improve. Worse yet, sentiment often continues to deteriorate for some time after we have established our position. Although building these positions quickly has been costly in terms of short-term relative performance, Orbis is now more excited about their future return potential. Graeme Forster from Orbis explains this in more detail.

Finding value

On the local front we continue to work hard to find value. This could be in the guise of an above-average company trading at an average price, or of a mediocre business selling cheaply, which can also prove to be a rewarding investment strategy. As Rory Kutisker-Jacobson discusses in his article, we believe construction companies fall into this latter camp. While these shares are not as cheap as they were at the turn of the century, they are comparatively unloved and currently appear to offer better value than the rest of the market.

Changes to the Equity Fund

When we launched the Allan Gray Equity Fund it was the first retail fund to have a performance fee; it is now the biggest equity fund in South Africa, having grown from good returns and thanks to your support over the years.

Richard Carter discusses the proposed changes to the Equity Fund's investment mandate, benchmark and fee.

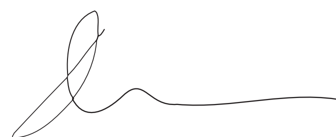
If you were invested in the Fund on 21 November 2014 you would have received a ballot pack asking you to vote for or against them. We think all of the changes are in your interests. Please contact our Client Service Centre on 0860 000 654, or your financial adviser, if you have any questions about the changes or the process.

Foundation update

We end this issue on an inspiring note as we look at the progress the Allan Gray Orbis Foundation is making in fulfilling its vision, which is to create responsible entrepreneurs for the common good. People often ask how the Foundation goes about selecting individuals. In this piece Anthony Farr describes the 'five pillars' that the Foundation uses to measure entrepreneurial behaviour in potential Fellows.

I wish you everything of the best in 2015 and thank you for trusting us with your investments.

Kind regards



Rob Dower

SANDY MCGREGOR

THE COLLAPSE OF THE OIL PRICE AND ITS CONSEQUENCES

The dramatic collapse of oil prices at the end of last year caught most market participants by surprise. For three and a half years, between February 2011 and August 2014, Brent crude oil traded in a stable price range, averaging US$110 per barrel (/bbl). Investors, producers and consumers came to accept that US$100/bbl was an appropriate price for planning purposes. As recently as 19 June 2014, Brent closed at US$114.94/bbl. However, prices then began to fall at an ever-increasing pace until, in January, oil broke through US$50/bbl.

When viewed in retrospect, the sequence of events which precipitated the price collapse seems to have a compelling logic. Sandy McGregor discusses the interaction of two very significant developments: a technical revolution in the production of oil and the economic slowdown in emerging markets, especially in China.

The fracking revolution

Historically, almost all oil production has come from porous rocks, which allow oil to be captured in subterranean reservoirs. Oil exploration involves finding such reservoirs and oil production involves drilling into them to extract their contents.

TABLE 1 **US OIL PRODUCTION (THOUSAND BARRELS/DAY)**

2008	2009	2010	2011	2012	2013	2014
6 783	7 263	7 552	7 868	8 892	10 003	11 312

Source: BP Review of World Energy June 2014, OECD & OPEC

Large amounts of oil and gas are also trapped in less porous shales. Fracking is the technical game changer, which allows these previously inaccessible resources to be profitably exploited. The United States enjoys a combination of factors that have allowed this new technology to be deployed at astonishing speed – an abundance of entrepreneurial initiative, mineral rights in private ownership, a well-developed petroleum infrastructure and a favourable tax regime.

Prior to 2008 there was much talk about 'peak oil', the proposition that, as a consequence of resource depletion, it would no longer be possible to increase oil production significantly. Thanks to fracking, US oil production, which had been in decline for many years, started to increase in 2009, as shown in **Table 1**. This has led to growth in overall global oil production (see **Table 2**), despite static conventional oil production. The fracking revolution has silenced the proponents of peak oil.

The slowdown in developing markets

As a general rule it is always a slowdown in demand which precipitates a price collapse, and recent events in the oil market are no exception. Initially, rising

TABLE 2 **WORLD OIL PRODUCTION**

Thousand barrels/day	2008	2013
United States	6 783	10 003
Rest of world	76 172	76 751
World	82 955	86 754

Source: BP Review of World Energy June 2014

production in the US was easily absorbed by growing demand in emerging markets. Indeed, the fact that the price remained above US$100/bbl for so long is evidence that the oil industry was finding it difficult to meet the needs of these rapidly growing economies. Growth in China, India and Brazil accounted for the majority of the increase, as shown in **Table 3**. Consumption in the developed economies declined.

TABLE 3 **OIL CONSUMPTION**

Thousand barrels/day	2008	2013	Change
China	7 994	10 756	+2 762
India	3 077	3 727	+650
Brazil	2 439	2 973	+534
Saudi Arabia	2 376	3 075	+699
Rest of world	70 261	70 800	+539
	86 147	91 331	5 184

Source: BP Review of World Energy June 2014

In the past two years the great emerging market boom has come to an end, and there has been a significant decline in the growth rates of these countries. In particular, Chinese growth has slowed. The great surge in investment spending, which created the biggest commodity boom ever, is abating. Commodity prices are declining. Oil held up for longer than other commodities but it too has succumbed to the consequences of demand growth declining when supply is increasing. **Table 4** highlights the downward trend. With demand growing much more slowly than supply, a price collapse became inevitable.

What happens next?

There is an old adage in commodity markets that what ends high prices is high prices and what ends low prices is low prices. In response to changing circumstances, producers and consumers change their behaviour. This process takes time. History teaches us that for most metals and minerals this can take more than five years. Oil is probably an exception to this rule and the impact of low prices will become manifest much sooner.

Oil differs from other commodities both in terms of the scale of investment required to sustain production and the weighting of total production costs towards exploration and development. The cost of actually pumping the oil out of the ground, refining and delivering it to the consumer constitutes a much smaller proportion of the whole. At an operating level, the oil industry is still profitable at US$50/bbl. Accordingly, the recent decline will initially have little impact on production. However, the average operating life of oil wells tends to be relatively short. Without continuing investment to establish replacement wells, production will start to decline. As a consequence of lower prices there has been a devastating reduction in cash flows, which oil companies use to pay for sustaining capital expenditure. A US$50 decline in price knocks US$1.6 trillion off industry revenues. Companies will have no choice but to severely curtail investment.

Sustained oil production requires a price significantly higher than US$50/bbl. Probably more than US$80 is required. If prices remain at current levels, production will start to decline within two years. Over the longer term, current oil prices are not sustainable

The impact of low oil prices on the world economy

The US$1.6 trillion revenue loss of producers is matched by an equal gain by consumers. Theoretically, price changes are merely a transfer of money from one group to another. The benefit gained by the winners is cancelled out by the loss of the losers. In the case of oil, this relationship is more asymmetrical because there is a tendency of oil-producing countries to accumulate their profits as foreign exchange reserves or in sovereign wealth funds. For this reason, perhaps counter-intuitively, high oil prices tend to be deflationary. When prices fall, producing countries draw on these reserves to maintain their living standards. Therefore, a fall in oil prices should have a stimulatory effect on consumption of other goods and services. This will more than compensate for declining investment in the oil sector, possible defaults by countries such as Venezuela and Russia, and the bankruptcy of certain highly indebted oil companies. Significant importers such as Europe, Japan and India are the big winners. Given that all these regions are currently economically depressed, lower oil prices will act as a significant stimulus to world growth in 2015.

South Africa is among the beneficiaries. It imports about 150 million barrels of oil annually. A US$50 reduction in price at an exchange rate of R11/US$ is worth R82bn or about 2.2% of GDP. Already consumers are benefiting from a significant reduction in petrol prices. A lower import bill for oil will compensate, to a certain extent, for the decline in prices of South Africa's mineral exports. Low oil prices are not sustainable in the long term, but the prospects for 2015 are looking more favourable.

TABLE 4 **GROWTH IN OIL CONSUMPTION**

Thousand barrels/day	2010	2011	2012	2013	2014
China	1 011	550	500	389	270
World	2 690	1 133	997	1 400	900

Source: BP Review of World Energy June 2014, OECD & OPEC

Sandy joined Allan Gray in October 1991. His current responsibilities include the management of fixed interest and individual client portfolios. Previously he was employed by Gold Fields of South Africa Limited for 22 years where much of his experience was focused on investment-related activities.

RORY KUTISKER-JACOBSON

BUILDING CONFIDENCE IN CONSTRUCTION

'Success in investing is not a question of what you buy, it is a question of what you pay.' Howard Marks

Buying above-average companies at average or hopefully below-average prices is a sound investment strategy. An above-average company will generally have some kind of sustainable competitive advantage, which would allow it to grow at a faster rate than the average company while paying decent dividends. Although the price may not seem cheap, the extra growth will reward shareholders over the long term. Examples include SABMiller and British American Tobacco, two of our clients' largest holdings.

Buying mediocre companies at cheap prices can also prove to be a rewarding investment strategy. Such companies are typically prone to cyclical changes in their profitability. When times are tough, earnings are low and the outlook is often uncertain. As a result, the shares are unloved and trading at an attractive discount to fair value. As conditions improve, so too does sentiment. The patient investor is rewarded as improvements in both earnings and investor interest drive the share back to fair value (and often beyond). As Rory Kutisker-Jacobson discusses, we believe construction companies fall into this latter camp.

The construction industry is fragmented and cyclical, and competitors have few, if any, sustainable competitive advantages. Further to this, the risk/reward balance on large contracts is skewed heavily in the client's favour. Successful delivery on a project will generally result in a low single-digit profit margin. A contract that proves more difficult than anticipated, is poorly executed, and/or mispriced, can however result in losses that exceed the total original value of the project. Thus a single bad job, where losses exceed 100% of the original contract value, can more than wipe out the 4% profit made on 25 jobs of similar size.

For outside shareholders, identifying these risks is made more difficult by larger projects often running over multiple reporting periods. Depending on how conservative the management team has been in recognising profit or losses on the completion of a project, underlying problems may be masked for several months, sometimes years, before the company reports a sudden and dramatic change in fortune. Even if the losses incurred are not of the construction company's making, claims against clients can take years to resolve. In the interim, the obligation is on the construction company to fund the project to completion. This can and often does put significant pressure on the financial well-being of the company.

With this in mind, it may seem obvious that paying a premium for construction companies is unwarranted – but sentiment is a fickle thing. As Benjamin Graham once quipped: 'The memory of the financial community is proverbially and distressingly short.' A review of the recent experience in the sector serves as a good example.

A short history of construction euphoria

Our tale begins in June 2000: For several years, gross fixed capital

Definitions

1. Gross Fixed Capital Formation (GFCF) is a proxy for the level of investment activity in an economy. More specifically, it measures spending on plant, machinery, and equipment; land improvements; and the construction of roads, railways, private residential dwellings, commercial properties and industrial buildings. The disposal of fixed assets is taken away from the total and it does not include the acquisition of land and mineral deposits.

2. Tangible net asset value (TNAV) is the carrying book value of all the assets of a company, less all liabilities and less any intangible assets such as goodwill, patents and trademarks.

formation (GFCF, see text box) has been on a downward trend. GFCF has fallen from over 25% as a percentage of GDP in 1983 to less than 14% in 2000, as shown in **Graph 1**. As construction activity is strongly correlated with GFCF, the low level of activity has led to tough times and constrained margins.

Investor sentiment is at a low. Despite being profitable, Murray & Roberts (M&R)[1], WBHO and Group Five trade in the market at a discount to their tangible net asset value (TNAV, see text box), while Aveng trades at a small premium. WBHO, which at this point has consistently grown earnings and never reported a loss, trades at a discount to the net cash on its balance sheet.

After significant impairments, M&R is disposing of 'non-core operations' to strengthen the balance sheet and 'reposition' the business for growth.

The outlook is uncertain, but cautiously optimistic. WBHO's 2000 annual chairman's letter states: 'The South African construction industry has in general experienced another difficult year but there are, at last, some indications that the long awaited upturn could manifest itself towards the end of the year.'

Probably because conditions can't get worse, they begin to get less bad. Better economic times and falling interest rates cause the demand for construction to increase. Property prices begin to rise, and with it the demand for new premises.

Fast forward to June 2008: A number of factors have combined to create the perfect environment for construction companies:

Seemingly insatiable demand for commodities from China pushes a number of commodities to record high prices. Capital expenditure at mining companies and related industries is at a high as companies seek to capitalise on these high prices.

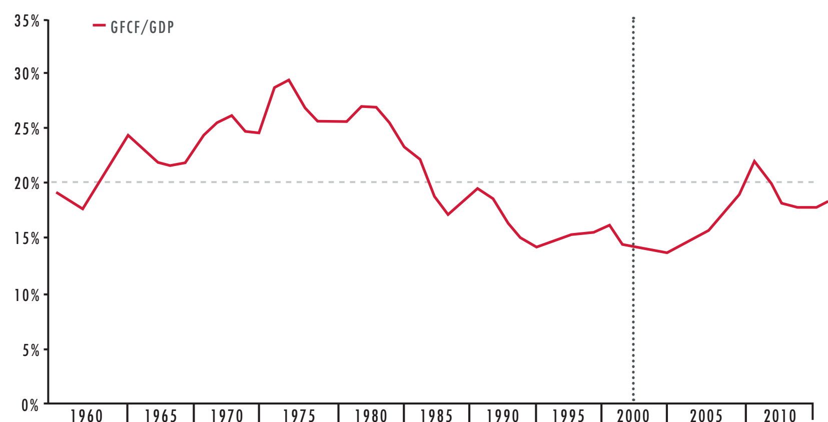
Buoyed by low interest rates, rising property prices and rapid growth in retail consumption, property developers expand aggressively. Meanwhile, the public sector is spending billions to build stadiums and improve our infrastructure in preparation for hosting the 2010 Soccer World Cup. GFCF is now 22% of GDP. The additional demand has led to a tightened construction market as capacity takes time to respond. Incumbents are able to price favourably and cherry pick projects. Extended order books and greater capacity utilisation allow for greater efficiencies and improved operational leverage. Margins are at record highs.

A number of construction-related companies have listed over the past two years to capitalise on renewed investor interest in the sector. From June 2000 to June 2008, an investment in any of Aveng, Group Five, M&R and WBHO has been spectacular, yielding a compound annual return of 35.4%, 51.7%, 54.4% and 59.2% respectively, including dividends.

"...SENTIMENT IS A FICKLE THING."

Various arguments are made as to why margins are structurally higher today and will remain so into perpetuity. M&R's 2007 annual CEO letter states: 'We started with an operating margin of 2.2% in 2000, reaching the low end of our strategic range of 5.0% to 7.5% in 2004, and in 2007 we have

GRAPH 1 **GROSS FIXED CAPITAL FORMATION AS A PERCENTAGE OF GDP OVER TIME**



Source: South African Reserve Bank

[1]For the year to June 2000, M&R reported an attributable loss due to asset impairments and losses on the sale of assets. The underlying businesses were all profitable.

breached that range at 8.0%. In view of current market conditions Murray & Roberts has set its margin target in the range of 7.5% to 10.0% for the foreseeable future.'

M&R's 2008 CEO letter states: 'Since 2002, GFCF has grown steadily relative to GDP, surpassing the critical 20% barrier in 2006 for the first time in twenty years en route to a government set minimum target of 25% by 2014. There is every reason to believe this growth will continue into the 2020s.'

Investors can only see blue sky. The major construction companies now trade at a substantial premium to TNAV and elevated earnings multiples on historically high earnings. This time is different.

As we now know, the optimism was short lived.

Where are we today?

Mining companies have curtailed their capital expenditure budgets materially in the face of declining commodity prices. Post the Soccer World Cup, public infrastructure expenditure has disappointed relative to expectations, and private construction activity has been subdued. Capacity created in the up cycle has led to excess industry supply. Competitive pressure has led to aggressive pricing, putting pressure on margins and causing some contractors to take on undue risk.

Compounding this negative effect, a number of the construction companies have incurred sizeable Competition Commission penalties for collusion during the good years, which has put additional pressure on their balance sheets and strained their relationship with government.

The industry is rationalising. A number of construction-related companies that listed in the good times between June 2006 and December 2007 have gone into business rescue or liquidation. This list includes Protech Khuthele, Sanyati, Sea Kay, Brikor, Alert Steel and Erbacon.

Large losses on mega projects have put considerable strain on the cash flow at select companies. This list of projects notably includes Gautrain, which was undertaken by M&R in a joint venture with Bouygues (a French company), and the pipeline for Queensland Curtis LNG (QCLNG), which was undertaken by an Australian subsidiary of Aveng. Each of these projects has resulted in billions of losses. Both M&R and Aveng have had to raise capital in the market as a result. Investors who bought shares in these companies on June 30, 2008 have lost 72% of their capital in M&R and 65% in Aveng, including dividends and rights issues. Importantly, while the cash losses have been incurred and the projects largely completed, both M&R and Aveng have sizeable claims against their clients. Such claims typically take years to resolve, and while the outcome is uncertain, a favourable ruling may result in a windfall reward for the patient investor.

M&R has once again disposed of 'non-core operations' and, in order to 'reposition' the business for growth, has increased its stake in Australian subsidiary Clough, the one division that is currently earning strong profits. Time will tell if this is a good capital allocation decision.

Reported operating margins have halved since the peak and are now at or below long-term averages. The outlook is once again uncertain. WBHO's 2014 Chairman's letter states: 'On the whole, the construction industry has remained hampered by subdued conditions this year. The global reduction in mining-related work continues to have a significant impact and, in South Africa specifically, the delayed rollout of the public sector strategic integrated projects and persistent low levels of gross domestic fixed investment are clearly having an impact on the economy and the industry.'

"...OPERATING MARGINS HAVE HALVED SINCE THE PEAK..."

The investment case

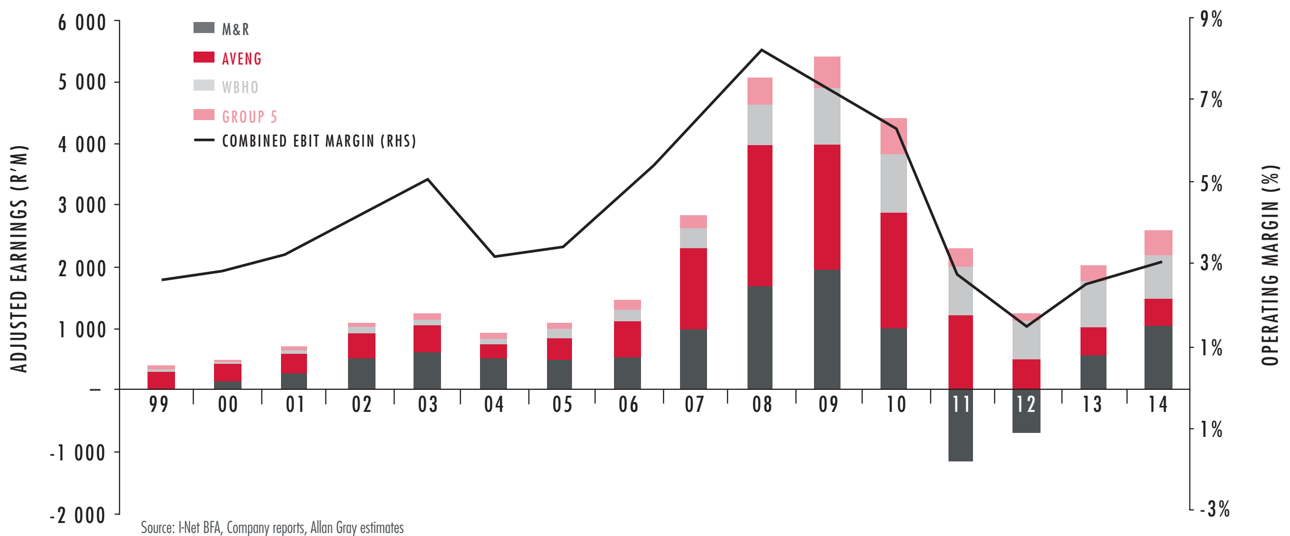
There remains excess capacity in the construction industry and it is impossible to predict when or if the cycle will turn. The sad reality is that despite a growing need for public infrastructure expenditure in SA, the size and speed of expenditure

TABLE 1 **METRICS FOR MAJOR CONSTRUCTION COMPANIES**

SHARE	30 JUNE 2000				30 JUNE 2008				30 NOVEMBER 2014			
	PRICE (R'PS)	PRICE/ TNAV (X)	PE (X)	MARGIN (%)	PRICE (R'PS)	PRICE/ TNAV (X)	PE (X)	MARGIN (%)	PRICE (R'PS)	PRICE/ TNAV (X)	PE (X)	MARGIN (%)
M&R	3.30	0.7	9.1	2.2	86.99	6.2	15.9	8.6	19.90	1.5	8.1	4.4
Aveng	5.95	1.4	8.4	5.1	58.00	2.6	10.8	8.2	16.58	0.5	14.8	1.5
WBHO	3.40	0.9	3.9	4.1	110.50	3.9	9.1	8.3	118.50	1.7	9.3	4.0
Group Five	2.17	0.3	5.2	1.7	44.90	2.5	11.3	7.1	27.62	1.1	6.9	3.7

Source: I-Net BFA, Company reports, Allan Gray estimates

GRAPH 2 COMBINED OPERATING MARGIN & ADJUSTED EARNINGS FOR THE FOUR LARGEST PLAYERS



Source: I-Net BFA, Company reports, Allan Gray estimates

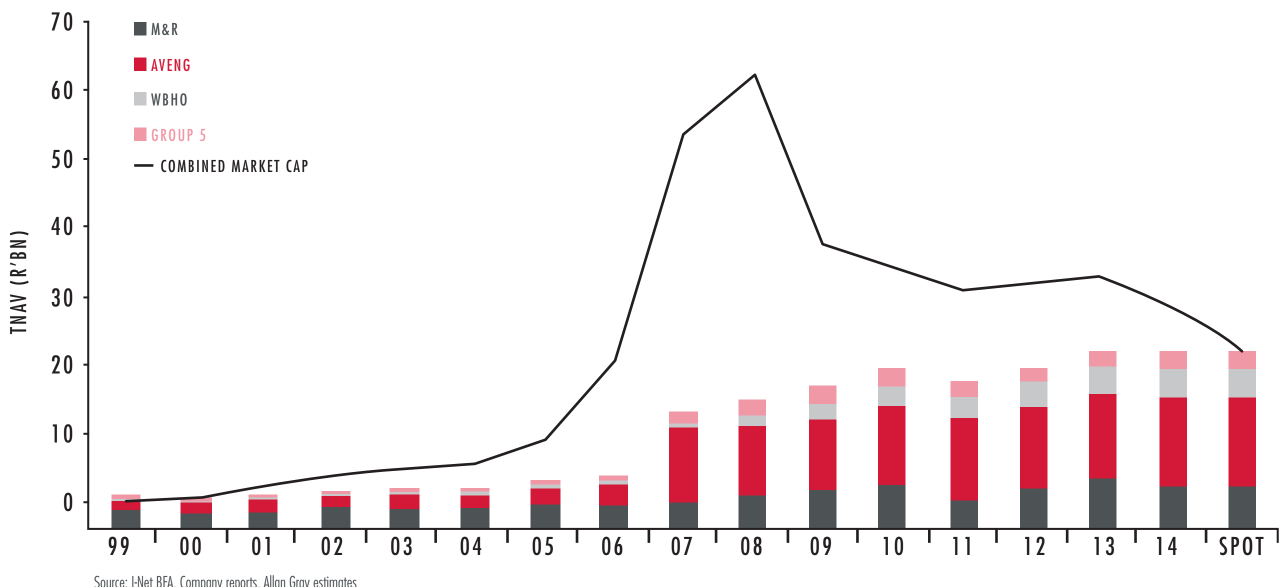
by government is likely to disappoint. Things may indeed get worse before they get better. **Table 1** shows the share price and select metrics for the major construction companies at each time period discussed above. **Graph 2** shows the combined operating margin for the four large players and their combined adjusted earnings over the past 16 years. Earnings remain well below the peak achieved in 2009 but appear to be recovering from the bottom in 2012.

Graph 3 shows their combined market price relative to their combined TNAV over this same period. At spot, M&R, WBHO and Group Five all trade at a small premium to tangible book value. Aveng, which is currently incurring losses in its domestic construction business, trades at a higher earnings multiple, but half its book value. Using long-term average margins and flat revenue, each of these companies is trading on between 7x and 9x our estimates of normal earnings.

While we do not believe construction stocks to be as cheap as they were at the turn of the century, we do believe they are offering value once again. In particular we think they are attractive compared to the market which trades on 17x what we think are high earnings.

Our clients currently hold positions in Aveng, Group Five, M&R and WBHO.

GRAPH 3 MARKET CAP RELATIVE TO TANGIBLE NET ASSET VALUE OF THE FOUR LARGEST PLAYERS



Source: I-Net BFA, Company reports, Allan Gray estimates

Rory joined Allan Gray as an equity analyst in 2008. He has a Bachelor of Business Science and is a CFA charter holder.

GRAEME FORSTER

ORBIS FUNDS: REFLECTING ON 2014 AND LOOKING AHEAD

This piece was originally published in the Orbis December 2014 Annual Manager's Report.

In 2014, Orbis identified several new opportunities, including selected shares in the energy sector, as well as a number of shares in Korea and Russia. All of these areas were out of favour when Orbis initially invested – and all have since continued to underperform. While this has been costly in terms of relative short-term performance, Orbis is now more excited about the Orbis Global Equity Fund's future return potential. Graeme Forster explains.

The past year was a painful reminder that investment returns don't come in a straight line. After particularly strong relative and absolute performance in 2013, the Orbis Global Equity Fund lost 5% while world stock markets gained 5%. While this was one of the worst calendar years in the Fund's history, its relative performance in any given 12-month period has been highly variable, as shown in **Graph 1**. Using our flagship Global Equity Fund as an example, it has underperformed its benchmark on a rolling 12-month basis about 35% of the time since its inception 25 years ago.

For that reason, we caution clients against reading too much into a single year, but accept it would also be wrong to dismiss it as merely short-term noise. In investing there are some things you can control and others you can't – and some of both were to blame for Orbis Global's weak performance in 2014. Bad luck arguably played a role in a few cases, but we also made an above-average number of mistakes of our own.

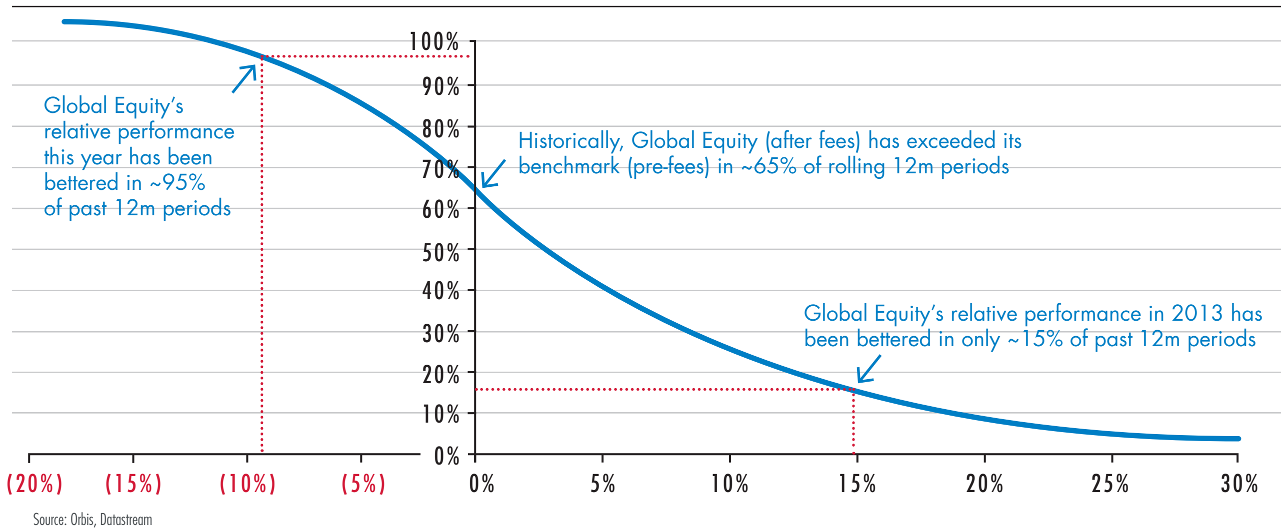
"INVESTMENT RETURNS DON'T COME IN A STRAIGHT LINE."

What could have been done differently?

Our key mistake in 2014 was in allocating too much weight to shares of companies that are highly sensitive to the price of oil. This includes both those shares directly involved in the energy sector as well as other shares where oil prices exert a significant influence over the rest of the country's economy (e.g. in Russia). Taken together, these oil-sensitive shares contributed roughly two-thirds of Orbis Global's underperformance in 2014. Approximately half of that was attributable to Russian holdings and the remainder to other shares outside of Russia, such as Weatherford International, Apache and INPEX.

While we could not have predicted with sufficient confidence the near-50% collapse in oil prices during the second half of the year, our positions were established at a time when oil was trading above what we considered to be 'normal' levels. On a bottom-up basis, the shares we selected were trading at a significant discount to our assessment of intrinsic value, but we should have been more measured in building the positions, knowing that we

GRAPH 1 **PERCENTAGE OF 12-MONTH ROLLING PERIODS IN WHICH THE ORBIS GLOBAL EQUITY FUND HAS BEATEN ITS BENCHMARK AFTER FEES BY...**



Source: Orbis, Datastream

may have had a better opportunity to increase the weighting if the oil price fell to more appropriate levels. As it turned out, the oil price fell a lot more than that, and our oil-linked investments fell accordingly.

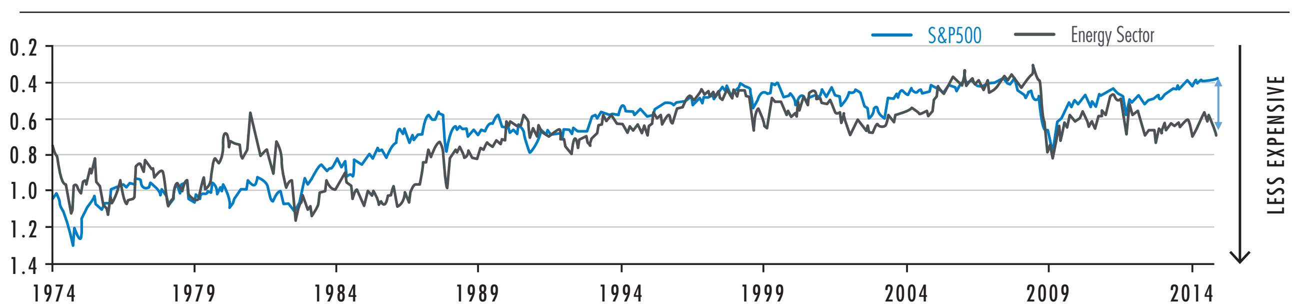
We are no better positioned to predict the yearly swings in the price of oil today than we were heading into 2014, but our assessment of the industry's long-term fundamentals and the intrinsic value of the Fund's holdings have not changed meaningfully. What has changed is the price at which the market is valuing these energy shares, and we have taken the opportunity to add to some existing positions at wider discounts to our assessment of intrinsic value. In addition, we are finding good reason to research a number of new opportunities in the sector. As shown in **Graph 2**, energy shares look more attractive today on a headline valuation basis versus the wider market than they have for quite some time, and it is clear that the market has severely punished our energy-related holdings.

Standing our ground

The situation in Russia is more complex. To get straight to the punchline, we continue to be enthusiastic holders – Russia accounts for about 3% of the Orbis Global Equity Fund today – but we did not add substantially to these positions into share price weakness. When we initially invested in two attractive Russian shares (Sberbank of Russia and Gazprom) following the Crimea referendum in March, we made a risk management decision to limit the combined position to no more than 6% of the Fund. Over time we bought that full amount, believing that it was a temporary political flare-up and it would be the best opportunity available.

Obviously, we underestimated the severity and duration of the Ukraine crisis as well as the lengths the West, and especially Europe, would go to in sanctioning Russia. The lion's share of the underperformance however has been a direct result of the sharp oil price decline and its impact on the economy and currency. In this sense, we concede that we should have been far more conscious of the risk we were carrying by holding our full appetite in Russia in combination with our favoured energy shares.

GRAPH 2 **ENERGY SHARES NOW APPEAR INEXPENSIVE RELATIVE TO THE US MARKET**



Note: The graph shows the ratio of invested capital to enterprise value for energy shares and the S&P 500, equal-weighted, 1974 through 2014

Source: Orbis, Datastream

As it stands today, we consider our Russian holdings to be meaningfully undervalued and, as contrarian investors, we believe there is a lot to be excited about. Though the situation is constantly evolving, Russia remains one of the most depressed markets in the world and the fear surrounding both equities and the currency is palpable. One can now buy Sberbank, a dominant bank with attractive long-term growth prospects, for less than five times what we consider to be normalised earnings – making it one of the cheapest banks globally in our view. The currency also looks undervalued, having fallen further than we believe is economically justified by the oil price alone.

That said, while these Russian shares continue to trade at a wide discount to our assessment of intrinsic value, the range of outcomes has also widened. This is especially true of Sberbank, where the risks of permanent capital impairment have risen. We are likely to see a deeper recession in Russia than we originally envisaged as a result of lower oil prices and higher interest rates. While Sberbank's earnings power should allow it to withstand significant macroeconomic stress, in the event of a deep and protracted recession one cannot rule out the risk of the need to raise more capital, which would be dilutive to existing shareholders.

Reason for optimism in contrarian positioning

Beyond the Global Equity Fund's energy-sensitive investments, another source of weakness in 2014 was its underweight position in US shares and meaningful overweight position in Korea. The US bull market that began in 2009 has continued to run and we have generally shifted weight away from the US, especially mid-cap shares, in favour of more depressed markets such as Korea, where we continue to find significant discounts. Both sides of this decision hurt performance in 2014: US shares kept rising and Korean share prices continued to sink well below what we believe they are worth. Only time will tell if this positioning proves to be a mistake, but we maintain conviction in these decisions and, in fact, have continued to add to our Korean holdings over the past year.

Of course, it can be notoriously difficult to draw the line between mistakes and bad luck – and between being wrong and being 'early'. As a simple example, consider a coin that is weighted to land on heads 60% of the time. A player who risks a dollar can win two dollars if they are able to correctly guess the outcome of each flip. If you know that the coin is weighted in favour of heads, you should always bet heads. But 40% of the time it will look like you have made a 'mistake', when in fact you are following a rational strategy. Over shorter spans, you will be forced to weather inevitable periods in which you suffer far more losing than winning flips. Like the player in the coin game, at Allan Gray and Orbis, we don't define a 'mistake' as a decision that loses money. Instead, we define a mistake as incorrect analysis that leads us to buy something for more than it is worth, which is loosely akin to paying a dollar to bet tails for the 60/40 coin. To risk taking the analogy too far, perhaps our biggest mistake in 2014 wasn't the fact that we bet tails, but that we bet too aggressively on heads when we were more likely than not to get better odds at a later date. If we are correct in this assessment, then many of our underperformers this year may now sit at even deeper discounts to intrinsic value and the potential for future outsized returns in those areas of the portfolio has improved.

"OUR UNDERPERFORMERS THIS YEAR MAY NOW SIT AT EVEN DEEPER DISCOUNTS TO INTRINSIC VALUE AND THE POTENTIAL FOR FUTURE OUTSIZED RETURNS IN THOSE AREAS OF THE PORTFOLIO HAS IMPROVED."

Looking across the portfolio as a whole, we see a more attractive opportunity set than we did at the start of 2014, albeit not as extreme as we have seen at other times throughout our 25-year history. Heading into the New Year, we are optimistic about the potential for relative returns, but not pounding the table.

Of course, as investors, we can't control the opportunities that are available to us. All we can do is take advantage of favourable situations as they arise. Ultimately, we remain confident that if we continue to adhere to our shared philosophy and execute in a disciplined manner then the odds will be skewed in our favour. If we are patient and forthright about our errors – and we continue to learn from them – perhaps we can even improve our odds over the long term.

Graeme joined Orbis in 2007 and is a member of Orbis' portfolio management and construction team in Bermuda. Before moving to Bermuda, Graeme spent five years in London where his primary responsibility was global quantitative equity research. He has a Master of Arts (Honours) in Mathematics (University of Oxford), Master of Research in Applied Mathematics (University of York), Doctor of Philosophy in Mathematical Epidemiology and Economics (University of Cambridge), and is a CFA charter holder.

RICHARD CARTER

PROPOSED CHANGES TO THE ALLAN GRAY EQUITY FUND

Since its inception in 1998, the Allan Gray Equity Fund (the Fund) has returned 26% per year (after fees), while the benchmark FTSE/JSE All Share Index (ALSI) has returned 18.5% per year. At around R40bn in assets, the Fund is the largest equity fund and the 5th largest unit trust in South Africa. We have recently proposed some changes to the Fund that aim to increase long-term returns by adding offshore investment opportunities and by reducing fees. If you were invested in the Fund on 21 November 2014 you would have received a ballot pack explaining these changes and asking you to vote for or against them. Richard Carter explains why we believe the changes are good for the Fund and its investors.

Why change a successful fund?

The history of the Fund has coincided with a 16-year period of fantastic returns on the JSE. As Ian Liddle explains in the December factsheet commentary (available on www.allangray.co.za), after such a strong period, we expect the South African market to deliver lower future returns. The Fund is currently limited to invest only in shares available on the JSE. With the local market representing a tiny sliver of the global share universe, allowing the Fund to invest offshore would give it access to a broader range of global shares. This would provide our portfolio managers with greater investment flexibility and a bigger universe of investment opportunities, which we believe will allow them to do a better job for clients.

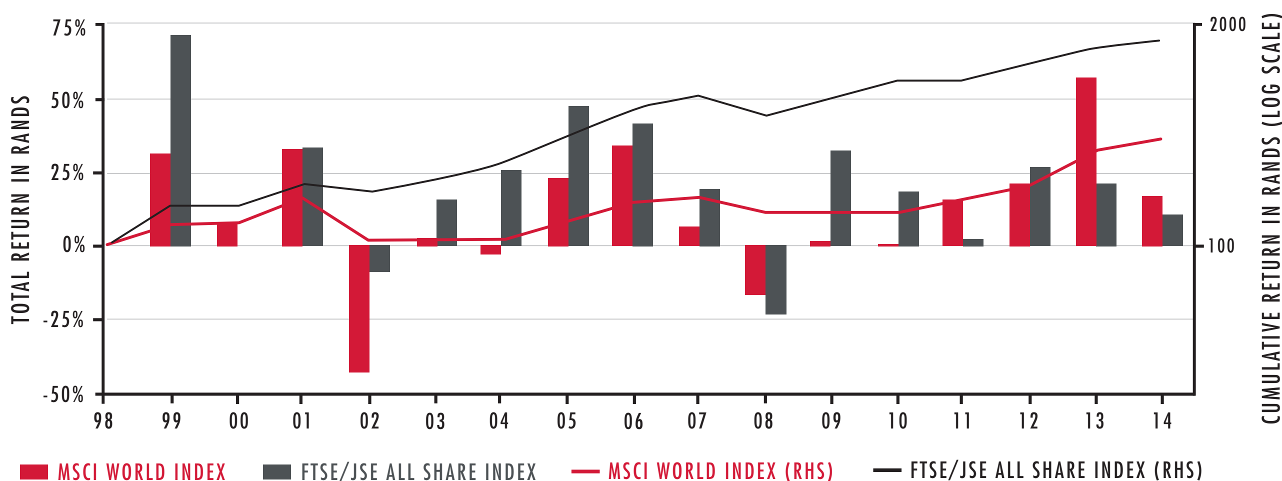
"...OUR STRONG VIEW IS THAT THERE ARE BETTER PROSPECTS FOR FUTURE RETURNS FROM GLOBAL SHARES THAN WE FIND FROM THOSE LISTED ON THE JSE."

To this end, we are proposing to change the Fund's investment mandate to allow offshore investments in line with the limits of the Fund's sector, the South African - Equity - General sector. This is limited to 25% offshore, with a further 5% for African investments, and is in line with many of the Fund's peers.

If our proposal is accepted, our portfolio managers will not suddenly devote their time to global stock picking. Instead they will actively allocate a percentage to be invested offshore based on their view of the attractiveness of global shares compared with JSE shares. This allocation will then be invested in funds managed by our offshore partner Orbis, which also manages the offshore assets of our Balanced and Stable Funds. Allan Gray will manage the portion allocated to African shares.

We caution investors about forming a view based on the rear-view mirror. An historical analysis of adding offshore investments to the Fund shows little benefit. In fact, holding a strategic allocation to offshore since inception would have detracted from the Fund's

GRAPH 1 **FTSE/JSE ALL SHARE INDEX VS MSCI WORLD INDEX**



Source: Allan Gray research

returns. This is because the JSE has come out on top in 11 out of the last 16 years and outperformed global markets by 8.5% per year over this period, as shown in **Graph 1**. From this point, our strong view is that there are better prospects for future returns from global shares than we find from those listed on the JSE.

In addition to an offshore component, we have proposed to change the Fund's mandate to allow it to invest in listed derivative instruments, subject to regulatory limits. Importantly, we do not intend to make extensive use of derivatives in the Fund, but there will be some opportunities to reduce risk, for example in currency exposure on the offshore portion, or to improve returns on the cash portion of the Fund. Investing in derivatives will not change the Fund's underlying investment approach.

A new performance benchmark

The current ALSI benchmark, which consists of only locally listed shares, will no longer be appropriate if the Fund can also invest offshore. We are thus proposing to change the Fund's benchmark to a sector average benchmark, based on the market value-weighted average return of the South African - Equity - General sector, excluding Allan Gray funds. Many funds in the sector already invest offshore and we expect that number to increase in the future. The benefit of the proposed benchmark is that its offshore component will change automatically over time as the views and offshore allocations of competing managers change. We believe this is better than a composite benchmark, for example part ALSI part MSCI World Index, where it is difficult to determine the percentage split to apply as the weightings to offshore and local change over time.

To outperform the new benchmark we will have to generate better returns after fees for investors than would be available to them from our competitors. We feel that this is fair, especially given that the market value weighting places a greater emphasis on the bigger funds in the sector, which tend to have grown through consistently good returns and resulting client support.

The new benchmark is consistent with the sector average benchmark of our Balanced Fund and will be calculated independently in the same way by international independent research firm Morningstar.

A lower fee for benchmark performance

On top of the other changes, we have proposed a new fee, aiming to reduce the cost of investing in the Fund and to better align the fees you pay with the performance you experience. **Table 1** compares the current and proposed fees. We believe that performance fees are a good thing: they can ensure that investors only pay above-average fees when they experience above-average performance and therefore align the interests of investors with those of the fund manager. While the Fund's current fee has embodied this principle, the two-year rolling period fee design and the wide fee range of 0-3% means that there can be a meaningful timing mismatch

> **"...THE PROPOSED FEE IS EXPECTED TO BE SUBSTANTIALLY LOWER ON AVERAGE THAN THE CURRENT FEE..."**

for investors joining or leaving the Fund. If you joined the Fund after a period of outperformance you would have paid for it over the next two years even if you did not experience the same level of outperformance over that two-year period.

We are proposing 1) a fee reduction for benchmark performance from 1.5% to 1% (excl. VAT) and 2) to change the performance fee calculation from over a two-year period to a daily fee. This will improve the timing of the fee, so you will never pay for outperformance you haven't experienced. As is currently the case, the fee can reduce to zero when the Fund underperforms the benchmark.

The proposed fee (before VAT is added) will be calculated daily by comparing the Fund's daily after-fee performance to the performance of the benchmark. If the Fund's performance is equal to the performance of the benchmark then the fee will be an annualised rate of 1%. If the Fund outperforms or underperforms the benchmark then Allan Gray will share in 20% of that out or underperformance. This means that for each percentage of annualised outperformance the annualised fee rate will increase by 0.2% and, for each percentage of annualised underperformance, the annualised fee rate will decrease by 0.2%. For example, 1% annualised outperformance will result in an annualised fee rate of 1.2%, while 1% annualised underperformance will result in an annualised fee rate of 0.8%.

A high watermark principle applies: If the fee would have been negative, 0% will be charged for the day and the negative fee will be carried forward to reduce the next day's fees (and all subsequent days until the underperformance is recovered). For example, 6% annualised underperformance would result in an annualised fee rate of -0.2%. 0% will be charged that day and the fee calculated the next day will be reduced accordingly. This means the fee retains the symmetry that ensures that you don't pay benchmark fees for below benchmark performance, as can be the case with conventional high watermark fees or fixed fees.

The proposed fee does not have an explicit cap – rather it is limited by the extent to which the Fund outperforms other equity funds. The uncapped maximum fee allows us to charge a lower fee for benchmark performance and is needed because the fee for performance is not spread out over a longer period.

The fees relate only to the allocation managed by Allan Gray. Orbis charges its own fees. We would not charge extra fees on the assets invested in Orbis Funds, and there would be no double counting. Orbis fees have been a bit lower, on average, than the Fund's current fee, meaning that any allocation to Orbis is also expected to reduce the cost of investing in the Fund.

We expect the new fees to improve investor returns and strengthen client loyalty

The proposed fee would only ever be higher than the current fee if the Fund outperforms its new benchmark by 14% per year or more before fees. It is very unlikely, however, that we will be able to sustain that kind of outperformance over the long term, which means that over time the proposed fee is expected to be substantially lower on average than the current fee, even though the proposed fee does not have an explicit maximum cap.

To illustrate the potential reduction in cost, **Table 2** on page 15 shows the actual average investment management fees per year that have been charged in the Fund for the past 10 years, compared with what they would have been had the proposed fee been in place since the Fund's inception. As you can see, the new fee would have been 0.8% lower per year on average for the 10-year period.

TABLE 1 **FEE STRUCTURES**

	PROPOSED FEE	CURRENT FEE
Minimum fee rate p.a.	0.0%	0.0%
Benchmark fee rate p.a.	1.0%	1.5%
Maximum fee rate p.a.	Uncapped	3.0%
Measurement period	Daily with a high watermark principle	Rolling 2 years
Sharing rate	20% of annualised out/underperformance	10% of cumulative 2-year out/underperformance (roughly equivalent to 20% of annual out/underperformance)

Fees exclude VAT.

Source: Allan Gray

TABLE 2 **COMPARISON OF CURRENT AND PROPOSED FEES, EXCLUDING VAT**

YEAR	ACTUAL FEE CHARGED	PROPOSED FEE	DIFFERENCE
2005	2.9%	2.1%	-0.8%
2006	2.9%	2.1%	-0.8%
2007	2.7%	1.0%	-1.8%
2008	1.9%	3.0%	1.0%
2009	2.6%	1.0%	-1.6%
2010	2.3%	0.6%	-1.7%
2011	1.7%	1.9%	0.2%
2012	2.2%	0.8%	-1.3%
2013	1.9%	1.2%	-0.7%
2014	1.9%	1.8%	-0.2%
AVERAGE			**-0.8%**

Source: Allan Gray

The investment management fees here exclude VAT. The fees are based on the actual investments held in the Fund historically and therefore exclude the impact of any offshore investments that may be made in future. Had the Fund been able to invest offshore historically, the returns earned would have been different, making a perfect fee comparison on this basis hard to set out.

The ballot closes on 6 February 2015 and, if successful, we aim to implement the proposed changes on 1 March 2015. Regardless of the outcome of the ballot, you remain free to switch or withdraw your investment from the Fund without additional fees or charges, but this may constitute a capital gains tax event. Please contact us on 0860 000 654 if you need any assistance or speak to your financial adviser.

Richard joined Allan Gray in 2007 after working for several years in financial services in the UK. He is jointly responsible for the retail business, heading up Product Development and is also a director of Allan Gray Life. Richard completed his B Bus Sc degree at UCT and is a qualified actuary.

WANITA ISAACS

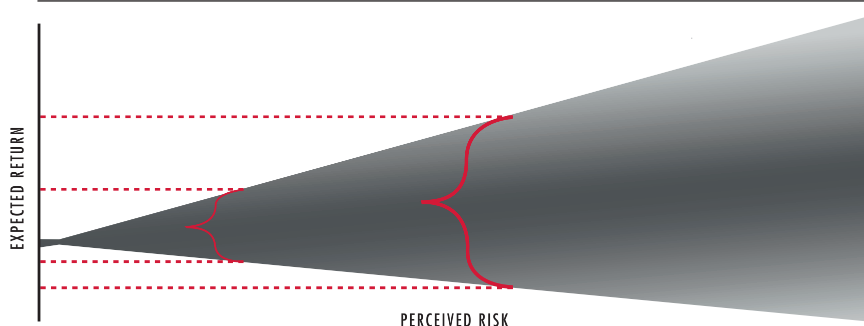
THE THEORY OF RISK AND RETURN

Wanita Isaacs offers some insights into how you can think about risk in your investment process.

Efficient market theory holds that there is a direct relationship between risk and return: the higher the risk associated with an investment, the greater the return. This is intuitive: when we choose investments that we think are more risky, we naturally expect to be rewarded with higher returns.

Unfortunately, in the real world, this simplified relationship does not exist. We have imperfect information, so we are forced to deal with *perceived* risk and *expected* return. And at any level of perceived risk, there is a range of potential outcomes, as shown in **Graph 1**. By definition, this range widens as the risk increases, making it progressively more challenging to predict outcomes with any certainty. Your actual return could be far higher or far lower than your expectations. Even with perfect information and analysis, taking on greater risk does not guarantee greater future returns.

GRAPH 1 **RISK VS RETURN**

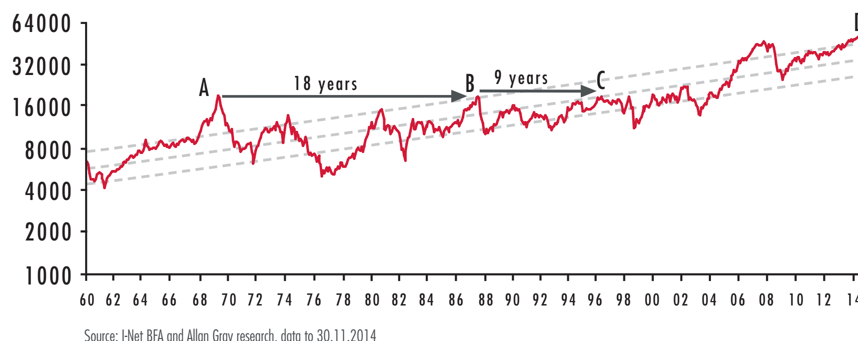


Source: The most important thing, Howard Marks, 2011 (modified)

The price you pay

Your return is determined by the price you pay for an investment relative to its yield and relative to the price you sell it for. We believe the best definition of risk is the risk of permanently losing capital, normally as a result of overpaying. The price you pay is the most powerful determinant of both future risk and return and it is the one factor you can control at the outset.

GRAPH 2 **FTSE/JSE ALL SHARE INDEX ADJUSTED FOR INFLATION**



Source: I-Net BFA and Allan Gray research, data to 30.11.2014

Graph 2 uses the South African stock market as an example of an investment that carries a high level of perceived risk. It shows the fluctuation in the real (after inflation) price level of the market since 1960 (represented by the FTSE/JSE All Share Index, excluding dividends). The ALSI is within a single standard deviation of its trend, as described by the grey lines, roughly two-thirds of the time. The graph illustrates the uncertainty in the expected return from the stock market, and specifically the impact of overpaying. An investor who invested at the peak of the market in 1969 (point A on the graph) would have taken 18 years to get his initial invested capital back, and that is only if he sold his investment at exactly the right time (point B). If he had missed this exit point, he would have had to wait a further nine years to come out even (point C).

Point D shows where the market is today. While equities should always be considered long-term investments, the market is currently expensive compared to its history. As shown in the example, if you come in at a high point and the market returns to more normal levels, you may have to wait longer than expected before your investment recovers its value.

So what should you do?

The best solution for most investors is to choose a unit trust where the investment manager can invest in more than one kind of asset, such as a balanced fund. Managers can then avoid expensive assets in either local or offshore markets – and if everything is expensive, they can retreat to cash. This saves investors having to decide when is the best time to enter or exit the market.

Wanita was appointed as head of investor education at the start of 2013. Prior to that she was a business analyst in the Product Development team. She is a medical doctor and a UCT graduate and has been with Allan Gray since 2008.

ANTHONY FARR

PURSUING ENTREPRENEURIAL LITERACY

The Allan Gray Orbis Foundation's vision is to create responsible entrepreneurs for the common good. People often ask how the Foundation goes about selecting individuals. In this piece Anthony Farr attempts to answer this question noting that, as with Allan Gray's process for selecting stocks, the Foundation will always be working to improve its answer to this fundamental question.

At its simplest level, entrepreneurial behaviour is about an individual's ability to turn ideas into action. In its search for Fellows to help fulfil its vision, the Foundation looks for individuals who exhibit entrepreneurial behaviour measured against five pillars, which are defined in **Table 1**. The first two pillars, Intellectual Imagination and Personal Initiative, are character traits of individuals who have the curiosity to originate an idea and the initiative to bring that idea to life. The remaining three pillars – Spirit of Significance, Achievement Excellence and Courageous Commitment – describe the type of ideas that should come from these individuals and the qualities they will need to sustain their ideas.

Greek shipping tycoon Aristotle Onassis used the analogy: 'We must free ourselves of the hope that the sea will ever rest. We must learn to sail in the high winds.' The rate of change we are currently experiencing is not going to slow, the wind will not die down, and so we should adequately prepare ourselves for this reality. The curiosity, adaptation, critical thinking and problem solving that comes with 'entrepreneurial literacy' is the best possible preparation for the uncertain age of the knowledge-based economy. If we are to develop our country's human capital and to aim that its potential is maximised, then this new literacy is a key competence for every citizen.

This was explained by Jonathan Ortmans, President of Global Entrepreneurship Week, when he stated: 'Entrepreneurship has been transformed from a subject of narrow

TABLE 1 **FIVE PILLARS**

INTELLECTUAL IMAGINATION:	PERSONAL INITIATIVE:	SPIRIT OF SIGNIFICANCE:	ACHIEVEMENT EXCELLENCE:	COURAGEOUS COMMITMENT:
Demonstrated by an established record of intellectual achievement; an ability to see the unseen, challenge the status quo and suggest that things could be done differently.	A person who makes things happen and celebrates the satisfaction of bringing new things into being. Independent, proactive and self-starting.	A weight of personality that comes from living a life personified by passion and integrity.	The ongoing pursuit of excellence with tangible and specific focus on setting goals. A motivation to make a difference and leave a mark.	The courage and dedication to continue, realising that applying consistent commitment has a way of overcoming.

Source: Allan Gray Orbis Foundation

commercial significance into one of substantive cultural consequence that signifies the potential of human endeavour for the benefit of all.'

This shift has even been experienced in one of the cornerstones of education, with the revision in 2001 of Bloom's Taxonomy of cognitive or thinking skills. In Bloom, previously 'Evaluation' stood at the top of the pyramid as the highest level of thinking skill. This has now been replaced as the highest order thinking skill by 'Creating'. The connection between creating and 'turning ideas into action' is immediately evident. It is no longer sufficient to aim for thinking skills such as remembering, understanding and applying that are tied into numeracy and literacy and ultimately support evaluation. We need to aim for education that empowers us to move into the realm of creating – the way of entrepreneurial literacy.

Reflecting on 2014, **Table 2** provides some indication of the Foundation's progress and the initial outcomes of its selection according to the five pillars.

TABLE 2 **PROGRESS UPDATE**

DESCRIPTION	2015 NEW INTAKE	2015 TOTAL
Allan Gray Scholars (High School Learners)	27	167
Candidate Allan Gray Fellows (University Students)	105	268
Allan Gray Fellows (Graduates/Alumni)	50	240
GRAND TOTAL		**675**

Source: Allan Gray Orbis Foundation

Association of Allan Gray Fellows

The Association of Allan Gray Fellows had a full year with the highlights being the launch of peer learning groups across the country, a successful Leadership Seminar in Johannesburg and a Start-Up Weekend in Cape Town. The best three business ideas from the Start-Up Weekend went through to compete at the E² Seminar later in the year. The winning idea at the seminar was a concept for an HIV home-testing kit, which could have a significant impact in its sector. E² provides subsidised equity financing to qualifying Allan Gray Fellow new business owners from the dividend flow of Allan Gray Proprietary Limited.

Recently, as part of the Global Entrepreneurship Week that is active in over 140 countries seeking to develop entrepreneurship culture, two Allan Gray Fellows spearheaded a campaign known as #MakeR100, in which South Africans were challenged to gain exposure to entrepreneurship in a non-threatening manner by finding a way to make R100. From surfing lessons, health smoothies, scarves, books, to accounting expertise and brand consulting there were wonderfully diverse responses to the challenge. The seventh cohort that will graduate at the end of 2014 is expected to add a further 50 Allan Gray Fellows to the growing Association.

"THE ALLAN GRAY ORBIS FOUNDATION'S VISION IS TO CREATE RESPONSIBLE ENTREPRENEURS FOR THE COMMON GOOD."

Allan Gray Fellowship

In its ninth year of operation the Fellowship highlights included the outstanding performance of Candidate Allan Gray Fellows in the Mandela Rhodes Scholarship. Of the 40 Mandela Rhodes Scholars chosen in 2014 from across Africa, nine were either Allan Gray Fellows or Candidate Fellows. In addition, one of our Candidate Fellows was selected out of applicants from 27 different countries across Africa as one of She Leads Africa's Top 10 young female entrepreneurs, resulting in her attending the final event in Lagos, Nigeria.

The flagship event of the Fellowship year was the annual Jamboree where all Candidate Fellows from across the country come together to consolidate their entrepreneurial learning. The event concluded with the 10 best ideas for an enterprise being pitched to an external panel, in quality presentations, which continue to show improvement each year. The top three ideas included an opportunity harnessing the potential of home automation, a platform for student financial understanding and brand building, and a local clothing brand. To view our 2014 Jamboree highlights visit the Foundation's YouTube channel at www.youtube.com/user/AGOFoundation

This year's annual Principal's Conference for Circle of Excellence Schools was hosted in Grahamstown at Rhodes University, in partnership with the Allan Gray Centre for Leadership Ethics. It has been an encouraging journey with these principals, as there has emerged over the years a growing understanding of the importance of entrepreneurial literacy in their schools. For a full list of the current 100 Foundation Circle of Excellence Schools, please go to www.allangrayorbis.org/circle-excellence-schools-list/

Allan Gray Scholarship

In its seventh year of operation the Allan Gray Scholarship completed another selection campaign, awarding a further 27 Scholarships.

During the year two teams containing Allan Gray Scholars made it to the final of the Innovate SA 'InChallenge', a platform to ignite creative thinking, to nurture invention and encourage entrepreneurial mindset among young people. In addition, 18 Allan Gray Scholars were chosen to participate in the Enke Trailblazer Youth Leadership Programme.

At the end of 2014 a further nine Allan Gray Scholars from the Matric cohort were selected as Candidate Allan Gray Fellows for 2015.

Counting our days

Any long-term journey is not without its setbacks and this year we were deeply saddened by the death of an Allan Gray Fellow and a Candidate Allan Gray Fellow. Both of these individuals were set to make a significant mark on the future. While we can never fully understand the reason for such tragedies, we can commit to ensuring that their deaths are not forgotten, through using the memory of their inspirational lives to spur us to even greater commitment to our mission. Their lives being cut short so early, serves as a powerful reminder that we all are only given a certain number of days and we need to make them count. Living each day with greater entrepreneurial literacy is a powerful way of ensuring they do.

If you are interested in more regular reflections on the Foundation's entrepreneurial journey, please sign up to our blog by clicking on the 'Blog' tab of our website, www.allangrayorbis.org

Allan Gray Fellows – Class of 2013

Anthony is a qualified chartered accountant. Prior to joining the Allan Gray Orbis Foundation in 2005 he worked at the Starfish Greathearts Foundation.

NOTES

ALLAN GRAY BALANCED AND STABLE FUND ASSET ALLOCATION AS AT 31 DECEMBER 2014

	BALANCED FUND % OF PORTFOLIO			STABLE FUND % OF PORTFOLIO		
	TOTAL	SA	FOREIGN*	TOTAL	SA	FOREIGN*
Net equities	55.9	43.7	12.2	17.6	12.1	5.6
Hedged equities	12.9	2.2	10.7	30.5	14.4	16.1
Property	1.7	1.3	0.4	2.9	2.5	0.4
Commodity-linked	4.4	4.4	0.0	4.4	4.4	0.0
Bonds	11.9	11.2	0.6	12.6	11.8	0.9
Money market and bank deposits	13.2	10.9	2.3	31.9	28.9	2.9
TOTAL	**100.0**	**73.8**	**26.2**	**100.0**	**74.1**	**25.9**

Note: There might be slight discrepancies in the totals due to rounding.
* This includes African ex-SA assets.

ALLAN GRAY EQUITY FUND NET ASSETS AS AT 31 DECEMBER 2014

SECURITY (RANKED BY SECTOR)	MARKET VALUE (R MILLION)	% OF FUND	FTSE/JSE ALSI WEIGHT (%)
SOUTH AFRICAN EQUITIES	**39 225**	**98.1**	
RESOURCES	**7 128**	**17.8**	**19.4**
Sasol	4 136	10.3	
Anglo American	765	1.9	
Goldfields	414	1.0	
African Rainbow Minerals	404	1.0	
Positions less than 1%	1 410	3.5	
FINANCIALS	**11 915**	**29.8**	**22.0**
Standard Bank	3 518	8.8	
Old Mutual	1 812	4.5	
Reinet Investments SA	1 768	4.4	
Investec	1 142	2.9	
Rand Merchant Insurance	677	1.7	
Barclays Africa	477	1.2	
Positions less than 1%	2 523	6.3	
INDUSTRIALS	**20 182**	**50.5**	**58.6**
British American Tobacco	4 540	11.4	
SABMiller	3 449	8.6	
Remgro	2 296	5.7	
Naspers**	790	2.0	
Netcare	777	1.9	
Aspen Pharmacare	659	1.6	
Nampak	508	1.3	
Tongaat-Hulett	503	1.3	
Mondi	491	1.2	
Sappi	481	1.2	
Super Group	401	1.0	
Kap International	399	1.0	
Positions less than 1%	4 890	12.2	
COMMODITY-LINKED SECURITIES	**204**	**0.5**	
Positions less than 1%	204	0.5	
MONEY-MARKET AND BANK DEPOSITS	**538**	**1.3**	
TOTALS	**39 968**	**100.0**	**100.0**

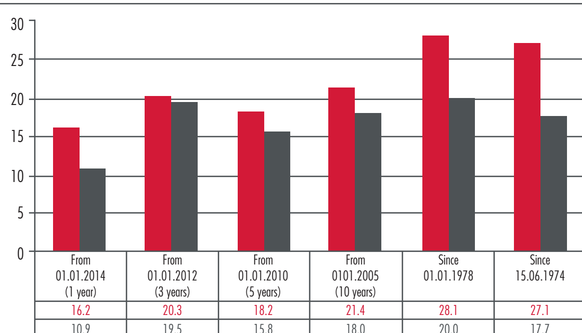
Note: There might be slight discrepancies in the totals due to rounding.
** Including positions in Naspers stub certificates

INVESTMENT TRACK RECORD – SHARE RETURNS

ALLAN GRAY PROPRIETARY LIMITED GLOBAL MANDATE SHARE RETURNS VS FTSE/JSE ALL SHARE INDEX

PERIOD	ALLAN GRAY*	FTSE/JSE ALL SHARE INDEX	OUT/UNDER-PERFORMANCE
1974 (from 15.6)	- 0.8	- 0.8	0.0
1975	23.7	- 18.9	42.6
1976	2.7	- 10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	- 0.3
1979	86.9	94.4	- 7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	- 4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	- 4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	- 5.1	9.6
1991	30.0	31.1	- 1.1
1992	- 13.0	- 2.0	- 11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	- 17.4	- 4.5	- 12.9
1998	1.5	- 10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	- 8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	- 1.6
2008	- 13.7	- 23.2	9.5
2009	27.0	32.1	- 5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.3
2012	20.6	26.7	- 6.1
2013	24.3	21.4	2.9
2014	16.2	10.9	5.3

RETURNS ANNUALISED TO 31.12.2014



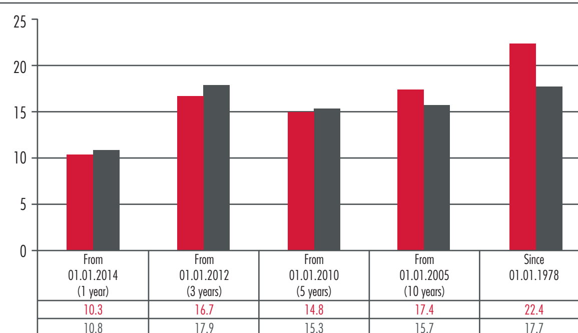
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R165 134 340 by 31 December 2014. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R7 434 222. Returns are before fees.

INVESTMENT TRACK RECORD – BALANCED RETURNS

ALLAN GRAY PROPRIETARY LIMITED GLOBAL MANDATE TOTAL RETURNS VS ALEXANDER FORBES GLOBAL MANAGER WATCH

PERIOD	ALLAN GRAY*	AFLMW**	OUT/UNDER-PERFORMANCE
1974	–	–	–
1975	–	–	–
1976	–	–	–
1977	–	–	–
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	- 0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	- 5.5
1992	1.2	7.6	- 6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	- 1.8	9.5	- 11.3
1998	6.9	- 1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	- 3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	- 6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	- 0.6
2008	- 1.1	- 12.3	11.2
2009	15.6	20.3	- 4.7
2010	11.7	14.5	- 2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	- 4.9
2013	25.0	23.3	1.7
2014	10.3	10.8	- 0.5

RETURNS ANNUALISED TO 31.12.2014



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R17 514 354 by 31 December 2014. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R4 184 177. Returns are before fees.

* Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
** Consulting Actuaries Survey returns used up to December 1997. The return from 1 April 2010 is the average of the non-investable Alexander Forbes Large Manager Watch. The return for December 2014 is an estimate.
Note: Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

ALLAN GRAY SOUTH AFRICAN UNIT TRUSTS ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 31 DECEMBER 2014 (NET OF FEES)

	ASSETS UNDER MANAGEMENT (R BILLION)	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR
HIGH NET EQUITY EXPOSURE (100%)							
Allan Gray Equity Fund (AGEF)	**40.0**	**01.10.1998**	**26.0**	**18.3**	**15.9**	**17.4**	**13.6**
FTSE/JSE All Share Index			18.5	18.0	15.8	19.5	10.9
Allan Gray-Orbis Global Equity Feeder Fund (AGOE)	**14.0**	**01.04.2005**	**15.5**	**-**	**18.9**	**31.2**	**5.4**
FTSE World Index			14.1	-	20.4	29.7	15.4
MEDIUM NET EQUITY EXPOSURE (40% - 75%)							
Allan Gray Balanced Fund (AGBF)	**103.0**	**01.10.1999**	**19.0**	**15.5**	**13.6**	**15.2**	**9.0**
Average of South African - Multi Asset - High Equity category (excl. AGBF)[1]			14.0	13.5	13.0	15.4	9.2
Allan Gray-Orbis Global Fund of Funds (AGGF)	**11.0**	**03.02.2004**	**11.0**	**13.7**	**14.2**	**22.4**	**4.2**
60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index			11.3	13.6	17.1	22.3	13.7
LOW NET EQUITY EXPOSURE (0% - 40%)							
Allan Gray Stable Fund (AGSF)	**37.4**	**01.07.2000**	**13.0**	**11.2**	**9.1**	**9.3**	**6.6**
Daily interest rate of FirstRand Bank Limited plus 2%			9.3	8.3	6.8	6.5	6.8
VERY LOW NET EQUITY EXPOSURE (0% - 20%)							
Allan Gray Optimal Fund (AGOF)	**1.0**	**01.10.2002**	**8.2**	**7.6**	**6.0**	**6.8**	**12.5**
Daily interest rate of FirstRand Bank Limited			6.7	6.2	4.7	4.4	4.7
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO)	**1.2**	**02.03.2010**	**9.9**	**-**	**-**	**15.0**	**1.1**
Average of US$ Bank deposits and Euro Bank deposits			8.1	-	-	11.7	3.7
NO EQUITY EXPOSURE							
Allan Gray Bond Fund (AGBD)	**0.7**	**01.10.2004**	**9.3**	**8.8**	**9.7**	**8.4**	**9.7**
JSE All Bond Index			9.1	8.6	10.0	8.7	10.2
Allan Gray Money Market Fund (AGMF)	**8.7**	**03.07.2001**	**8.2**	**7.5**	**5.9**	**5.6**	**6.1**
Alexander Forbes Short-term Fixed Interest (STeFI) Composite Index[2]			8.1	7.3	5.8	5.5	5.9

[1] Since inception to 31 January 2013 the benchmark was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund.

[2] Since inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011 the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund.

ALLAN GRAY TOTAL EXPENSE RATIOS (TERS) FOR THE YEAR ENDING 31 DECEMBER 2014

	FEE FOR BENCHMARK PERFORMANCE	PERFORMANCE FEES	OTHER COSTS INCLUDING TRADING COSTS	VAT	TOTAL EXPENSE RATIO (TER)
Allan Gray Equity Fund	1.50%	0.44%	0.06%	0.28%	2.28%
Allan Gray-Orbis Global Equity Feeder Fund	1.50%	0.76%	0.25%	0.00%	2.51%
Allan Gray Balanced Fund	1.06%	0.42%	0.10%	0.15%	1.73%
Allan Gray-Orbis Global Fund of Funds	1.26%	0.43%	0.26%	0.00%	1.95%
Allan Gray Stable Fund	1.02%	0.45%	0.08%	0.16%	1.71%
Allan Gray Optimal Fund	1.00%	0.77%	0.12%	0.26%	2.15%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	0.23%	0.24%	0.00%	1.47%
Allan Gray Bond Fund	0.25%	0.32%	0.02%	0.08%	0.67%
Allan Gray Money Market Fund	0.25%	N/A	0.01%	0.04%	0.30%

A Total Expense Ratio (TER) of a portfolio is a measure of the portfolio's assets that were relinquished as a payment of services rendered in the management of the portfolio. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to 31 December 2014. Included in the TER is the proportion of costs incurred by the performance component, fee at benchmark and other expenses. These are disclosed separately as percentages of the net asset value. Trading costs (including brokerage, VAT, STT, STRATE, levy and insider trading levy) are included in the TER. A high TER will not necessarily imply a poor return nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.

FOREIGN DOMICILED FUNDS ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 31 DECEMBER 2014 (NET OF FEES)

	ASSETS UNDER MANAGEMENT (R BILLION)	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR
HIGH NET EQUITY EXPOSURE							
Orbis Global Equity Fund FTSE World Index	**103.0**	**01.01.1990**	**19.1** 13.5	**16.5** 14.7	**18.9** 20.4	**31.1** 29.7	**4.6** 15.4
Orbis SICAV Japan Equity (Yen) Fund Tokyo Stock Price Index	**18.3**	**01.01.1998**	**14.7** 8.4	**11.9** 9.9	**17.4** 15.8	**21.7** 24.0	**–0.5** 6.7
Orbis SICAV Asia ex-Japan Equity Fund MSCI Asia ex-Japan Index	**30.1**	**01.01.2006**	**17.3** 15.5	**-** -	**15.5** 15.4	**26.4** 23.5	**5.5** 15.5
Allan Gray Africa ex-SA Equity Fund Standard Bank Africa Total Return Index	**2.7**	**01.01.2012**	**29.3** 12.8	**-** -	**-** -	**29.3** 12.8	**1.7** –7.9
Allan Gray Australia Equity Fund S&P/ASX 300 Accumulation Index	**8.0**	**04.05.2006**	**16.1** 13.8	**-** -	**17.1** 14.4	**22.6** 20.3	**13.2** 8.3
MEDIUM NET EQUITY EXPOSURE							
Orbis SICAV Global Balanced Fund 60% MSCI World Index with net dividends reinvested and 40% JP Morgan Global Government Bond Index	**11.1**	**01.01.2013**	**28.7** 26.3	**-** -	**-** -	**-** -	**7.4** 13.8
LOW NET EQUITY EXPOSURE							
Allan Gray Australia Opportunity Fund Reserve Bank of Australia cash rate	**0.7**	**01.07.2011**	**16.0** 11.6	**-** -	**-** -	**12.8** 8.0	**9.0** 5.4
VERY LOW NET EQUITY EXPOSURE							
Orbis Optimal SA Fund-US$ Class US$ Bank Deposits	**22.4**	**01.01.2005**	**11.2** 9.4	**-** -	**10.2** 9.6	**15.9** 12.8	**3.6** 10.4
Orbis Optimal SA Fund-Euro Class Euro Bank Deposits	**6.1**	**01.01.2005**	**9.6** 8.0	**-** -	**7.1** 6.2	**13.6** 10.5	**–6.4** –2.7

SOUTH AFRICAN INSTITUTIONAL PORTFOLIOS[3] ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 31 DECEMBER 2014

	ASSETS UNDER MANAGEMENT (R BILLION)[4]	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR
LOCAL PORTFOLIOS[5] (BEFORE LOCAL FEES)							
Domestic Equity Composite (minimum net equity 75% - 95%)	**63.0**	**01.01.1990**	**21.7**	**21.1**	**17.1**	**19.2**	**15.6**
Domestic Equity Pooled Portfolio (minimum net equity 95%)	**7.1**	**01.02.2001**	**23.4**	**21.4**	**17.7**	**19.9**	**15.9**
FTSE/JSE All Share Index			15.2/16.4	18.0	15.8	19.5	10.9
Domestic Balanced Composite	**22.7**	**01.01.1978**	**22.7**	**17.8**	**14.1**	**14.6**	**13.5**
Domestic Balanced Pooled Portfolio	**4.5**	**01.09.2001**	**19.7**	**18.0**	**14.4**	**14.8**	**13.4**
Mean of Alexander Forbes SA Large Manager Watch (Non-Investable)[6]			18.0/16.6	15.8	14.2	15.3	10.2
Domestic Stable Composite	**6.1**	**01.12.2001**	**13.7**	**12.3**	**8.8**	**8.3**	**10.0**
Domestic Stable Pooled Portfolio	**2.0**	**01.12.2001**	**14.0**	**12.6**	**8.8**	**8.3**	**10.0**
Alexander Forbes Three-Month Deposit Index plus 2%			10.1	9.3	7.7	7.4	7.7
GLOBAL PORTFOLIOS[5], LIMITED TO 25% FOREIGN EXPOSURE (BEFORE LOCAL, BUT AFTER FOREIGN FEES)							
Global Balanced Composite	**68.6**	**01.01.1978**	**22.4**	**17.4**	**14.8**	**16.7**	**10.3**
Global Balanced Pooled Portfolio	**32.6**	**01.09.2000**	**19.7**	**17.5**	**15.1**	**16.8**	**10.3**
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[6,7]			17.7/15.5	15.7	15.3	17.9	10.8
Global Stable Composite	**5.7**	**15.07.2004**	**13.3**	**12.6**	**10.1**	**10.6**	**7.7**
Global Stable Pooled Portfolio	**5.0**	**15.07.2004**	**13.3**	**12.7**	**10.2**	**10.7**	**7.8**
Alexander Forbes Three-Month Deposit Index plus 2%			9.4	9.3	7.7	7.4	7.7
Global Absolute Composite	**10.2**	**01.03.2004**	**16.8**	**16.8**	**11.1**	**11.4**	**10.9**
Global Absolute Pooled Portfolio	**3.5**	**01.03.2004**	**17.1**	**17.1**	**11.4**	**11.4**	**11.4**
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[6]			16.7	15.7	15.3	17.9	10.8
FOREIGN ONLY PORTFOLIOS[5] (AFTER FEES)							
Orbis Global Equity Fund	**103.0**	**01.01.1990**	**19.1**	**16.5**	**18.9**	**31.1**	**4.6**
Orbis Global Equity Pooled Portfolio[8]	**5.2**	**18.05.2004**	**15.1**	**16.4**	**18.8**	**31.0**	**4.4**
FTSE World Index			13.5/13.8	14.7	20.4	29.7	15.4
Foreign Balanced Composite[9]	**4.6**	**23.05.1996**	**14.6**	**13.4**	**13.5**	**21.3**	**1.5**
Foreign Balanced Pooled Portfolio	**0.8**	**23.01.2002**	**8.1**	**13.3**	**13.3**	**21.1**	**1.3**
60% MSCI World Index[10] and 40% JP Morgan Global Government Bond Index			12.1/7.0	13.6	17.0	22.0	13.6

PERFORMANCE AS CALCULATED BY ALLAN GRAY

[3] The composites not listed here include: Domestic Balanced Absolute, Domestic Balanced Low Equity, Domestic Balanced Stable Namibia, Domestic Equity MSCI SA, Domestic Equity Namibia, Domestic Money Market, Domestic Optimal, Domestic Tax Paying, Global Balanced High Foreign, Global Balanced Namibia 35% High Foreign, Global Tax Paying and Non Discretionary Foreign.

[4] The assets under management for institutional portfolios not listed here amount to R65.9bn.

[5] The composite assets under management figures shown include the assets invested in the pooled portfolios above where appropriate.

[6] The return for the period ending December 2014 is an estimate as the relevant survey results have not yet been released.

[7] Since inception to 31 December 1997 the Consulting Actuaries Survey returns were used.

[8] The total assets under management for the Fund is shown, which includes institutional and retail clients that invest directly with Orbis.

[9] Since inception to 31 August 2001 the foreign carve-out returns of the Global Balanced Composite were used.

[10] Morgan Stanley Capital International All Country World Index.

THE ALLAN GRAY GROUP	
UNIT TRUSTS	A unit trust is a savings vehicle for investors who want to grow their money and may want to access it before they retire. Unit trusts allow investors to pool their money with other investors who have similar investment objectives. Unit trusts are also known as 'portfolios of collective investment schemes' or 'funds'. Allan Gray has nine funds in its South African stable: Equity, Balanced, Stable, Optimal, Money Market, Bond, Global Equity Feeder, Global Fund of Funds and Global Optimal Fund of Funds.
RETIREMENT ANNUITY*	The Allan Gray Retirement Annuity Fund (RA) is a savings vehicle for investors looking for a flexible, tax-efficient way to save for retirement. Investors can only access their money when they retire. Individually owned RAs can be managed on a group basis, offering employers a flexible solution to the challenge of retirement funding for their staff.
PRESERVATION FUNDS*	The Allan Gray Pension Preservation and Provident Preservation funds are savings vehicles for investors looking for a tax-efficient way to preserve existing retirement benefits when they leave a pension or provident fund, either as a result of a change in employment (e.g. retrenchment or resignation), or when they transfer from another preservation fund.
ENDOWMENT*	The Allan Gray Endowment Policy is a savings policy for investors who want a tax-efficient way to save and wish to create liquidity in their estate.
LIVING ANNUITY*	The Allan Gray Living Annuity gives investors flexibility, within certain regulatory limits, to select an annuity best suited to their income needs after retirement. A living annuity provides investors with a regular income which is not guaranteed, and which is funded by growth on capital and income from interest and dividends.
OFFSHORE FUNDS	Through our partnership with Orbis we offer you a cost-effective way to diversify your portfolio by investing offshore. There are two options for investing offshore through Allan Gray: invest in rand-denominated offshore funds without the need to use your offshore investment allowance, or use your offshore investment allowance to invest in foreign funds.
PLATFORM – LOCAL AND OFFSHORE	Our investment platform provides you with access to all of our products, as well as a focused range of unit trusts from other fund providers. The platform enables you to buy, sell and switch – usually at no charge – between the funds as your needs and objectives change. South African investors who wish to diversify their portfolios can also access funds from certain other offshore fund providers via the same platform.
LIFE POOLED PORTFOLIOS	The minimum investment per client is R20 million. Mandates include risk-profiled pooled portfolios: Stable Portfolio, Balanced Portfolio and Absolute Portfolio; asset class pooled portfolios: Money Market, Equity and Foreign, and finally an Optimal Portfolio.
SEGREGATED PORTFOLIOS	The minimum portfolio size is R500 million. Mandates are of a balanced or asset class specific nature. Portfolios can be managed on an absolute or relative risk basis.
BOTSWANA	Allan Gray Botswana manages institutional portfolios on a segregated basis and offers our range of nine South African unit trusts to individual investors.
NAMIBIA	Allan Gray Namibia offers institutional portfolios on a segregated and pooled basis and the Allan Gray Namibia Balanced Fund is available for institutions, retirements and individuals.
SWAZILAND	Allan Gray Swaziland manages institutional portfolios on a segregated basis.
ALLAN GRAY ORBIS FOUNDATION	Allan Gray Orbis Foundation is a non-profit organisation that was established in 2005 as an education and development catalyst. It seeks to foster a next generation of high-impact leaders and entrepreneurs for the ultimate purpose of increased job creation in Southern Africa. The Foundation focuses on educational and experiential methods at the secondary and tertiary levels to realise the potential of bright young minds. Through its highly-researched learning programmes, it intends to equip talented young individuals with the skills, attitudes and motivation to have a significant future impact.
E^2	E^2 stands for 'excellence in entrepreneurship' and as a long-term capital fund its purpose is to provide substantial financing to entrepreneurs who are graduates of the Allan Gray Fellowship Programme. In addition, E^2 provides financing for social entrepreneurs who demonstrate exceptional leadership and creative initiative in the not-for-profit sectors.

*This product has unit trusts as its underlying investment option.

© Allan Gray Proprietary Limited, 2014.

Directors

Executive

M Cooper	BBusSc FIA FASSA
R W Dower	BSc (Eng) MBA
I S Liddle	BBusSc (Hons) CFA
T Mhlambiso	AB MBA JD

Non-Executive

W B Gray	BCom MBA CFA (Irish)
T J Mahuma	BA (Hons) MPhil
S C Marais	PhD CFA
K C Morolo	BSc (Eng) MEng

Company Secretary

C E Solomon BBusSc (Hons) CA (SA)

Registration Number

2005/002576/07

Business Address

1 Silo Square V&A Waterfront Cape Town 8001
P O Box 51318 V&A Waterfront Cape Town 8002 South Africa

Client Service Centre

Tel: 0860 000 654 / +27 (0)21 415 2301
Fax: 0860 000 655 / +27 (0)21 415 2492
Email: info@allangray.co.za
Website: www.allangray.co.za
Office hours: Monday to Friday 7:30 - 17:30

Collective Investment Schemes (unit trusts) are generally medium- to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees, charges and maximum commissions is available on request from the company/scheme. Commissions and incentives may be paid and if so, would be included in the overall costs. Unit trust prices are calculated on a net asset value basis, which, for money market funds, is the total book value of all assets in the portfolio divided by the number of units in issue. The Allan Gray Money Market Fund aims to maintain a constant price of 100 cents per unit. The total return to the investor is primarily made up of interest received, but may also include any gain or loss made on any particular instrument held. In most cases this will have the effect of increasing or decreasing the daily yield, but in some cases, for example in the event of a default on the part of an issuer of any instrument held by the Fund, it can have the effect of a capital loss. Such losses will be borne by the Allan Gray Money Market Fund and its investors and in order to maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Different classes of units apply to the Allan Gray Equity, Balanced, Stable and Optimal Funds only and are subject to different fees and charges. Forward pricing is used. A fund of funds unit trust may only invest in other unit trusts, which levy their own charges that could result in a higher fee structure for these portfolios. A feeder fund is a unit trust fund that, apart from assets in liquid form, consists solely of units in a single portfolio of a collective investment scheme. All of the unit trusts except the Allan Gray Money Market Fund may be capped at any time in order for them to be managed in accordance with their mandates. Allan Gray Unit Trust Management (RF) Proprietary Limited is a member of the Association for Savings & Investment SA (ASISA). Allan Gray Proprietary Limited, an authorised financial services provider, is the appointed investment manager of Allan Gray Unit Trust Management (RF) Proprietary Limited.

The FTSE/JSE Africa Index Series is calculated by FTSE International Limited (FTSE) in conjunction with the JSE Limited (JSE) in accordance with standard criteria. The FTSE/JSE Africa Index Series is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE Africa Index Series index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved.

Allan Gray Life Limited is an authorised financial services provider and Allan Gray Investment Services Proprietary Limited is an authorised administrative financial services provider.
To read our Email Legal Notice, browse to this URL: http://www.allangray.co.za/legal/email_legal.aspx