

# BALANCED FUND

## FUND DETAILS AT 31 JULY 2008

**Sector:** Domestic AA - Prudential - Variable Equity  
**Inception date:** 1 October 1999  
**Fund managers:** Ian Liddle, Duncan Artus, Delphine Govender, Andrew Lapping, Simon Raubenheimer.  
 (Foreign assets are invested in Orbis Funds.)

### Fund objective:

The Fund's investment strategy is to earn a higher rate of return than the market value-weighted average of its sector, excluding the Allan Gray Balanced Fund, without assuming greater risk.

### Suitable for those investors who:

- Seek long-term wealth creation.
- Have an appetite for risk similar to the average person investing in pension funds.
- Typically have an investment horizon of three years plus.
- Wish to delegate the asset allocation decision to Allan Gray.

### Compliance with Prudential Investment Guidelines:

Retirement Funds: The portfolio is managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to market value fluctuations or capital withdrawals, in which case they will be corrected within a reasonable time period. Allan Gray Unit Trust Management Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of Annexure A to Regulation 28).

**Price:** R 48.58  
**Size:** R 23 539 m  
**Minimum lump sum:** R 5 000  
**Minimum monthly:** R 500  
**Subsequent lump sums:** R 500  
**No. of share holdings:** 54

**Income distribution: 01/07/07 - 30/06/08 (cents per unit)** Total 100.99  
 Distributes bi-annually. To the extent that the total expenses exceed the income earned in the form of dividends and interest, the Fund will not make a distribution.

### Annual management fee:

The annual management fee rate is dependent on the return of the Fund relative to its benchmark, 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. The fee hurdle (above which a fee greater than the minimum fee of 0.5% is charged) is performance equal to the benchmark minus 5%. For performance equal to the benchmark a fee of 1.0% (excl. VAT) per annum is payable. The manager's sharing rate is 10% of the under- and outperformance of the benchmark over a rolling two-year period and a maximum fee of 1.5% (excl. VAT) applies. The annual management fee is calculated on the daily value of the Fund excluding any assets invested in the Orbis Funds. Assets invested in the Orbis Funds incur a management fee. These along with other expenses are included in the Total Expense Ratio.

## COMMENTARY

The South African stockmarket continued to fall away from its May highs, decreasing by over 8% in July. As mentioned in previous commentaries, the Fund's equity exposure has been held at levels significantly below the maximum allowed by Regulation 28 (as explained above in the 'Compliance with Prudential Investment Guidelines' section). Despite this lower equity exposure and the relative outperformance of the shares the Fund holds, the Fund is now showing a negative return over the latest year.

While negative returns are never welcome, we caution against a knee-jerk reaction. By the end of July, the FTSE/JSE All Share Index was down by more than 15% from its May high, which means at the very least that shares were offering 15% better value than they were at the top. Investors in the Fund can expect us to manage the equity exposure of the Fund in the same way that we manage the equity exposure of our Regulation 28 compliant institutional clients (mainly pension funds). Hopefully this means that investors, who have similar needs to the average pension fund and for whom the Balanced Fund is well-suited, can take a long-term view on their investment in the Fund and leave the asset allocation decisions to us.

However, it is important to stress that investors should not expect the Fund to deliver the very high real returns that it has earned over the last five years, as the stockmarket is no longer offering the kind of starting values that made these returns possible.

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## TOP 10 SHARE HOLDINGS AT 30 JUNE 2008\*

Company	% of portfolio
SABMiller	6.9
Remgro	6.7
MTN Group	6.1
Richemont	5.2
AngloGold Ashanti	4.8
Sasol	4.4
Harmony Gold Mining Co	3.7
Sappi	3.4
Sanlam	2.9
Standard Bank Group	2.8

\* The 'Top 10 Share Holdings' table is updated quarterly.

## TOTAL EXPENSE RATIO\*

Total expense ratio	Included in TER			
	Trading costs	Performance component	Fee at benchmark	Other expenses
1.82%	0.15%	0.45%	1.16%	0.06%

\*A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. It is expressed as a percentage of the average value of the portfolio, calculated for the year to the end of June 2008. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, STT, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does 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. The information provided is applicable to class A units.

## ASSET ALLOCATION

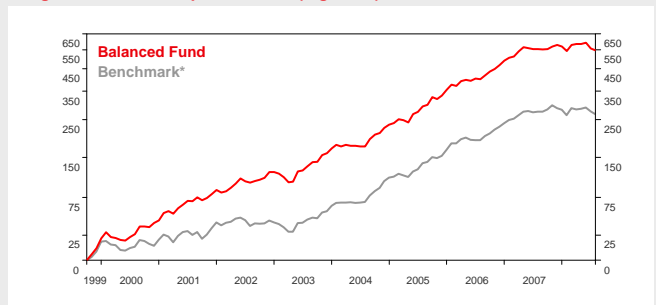
Asset class	% of fund
Net SA equities	58.9
Hedged SA equities	10.5
Listed property	1.3
Commodities (New Gold)	2.2
Bonds	3.1
Money market and cash	9.4
Foreign	14.6
Total	100.0

Total net SA and foreign equity exposure: 66.8%.

## PERFORMANCE

Fund performance shown net of all fees and expenses as per the TER disclosure.

Long-term cumulative performance (log scale)



% Returns	Fund	Benchmark*
Since inception (unannualised)	546.5	266.1
Latest 5 years (annualised)	22.9	20.6
Latest 3 years (annualised)	18.1	15.6
Latest 1 year	-1.2	-2.2
<b>Risk measures (Since inception month end prices)</b>		
Maximum drawdown**	-12.5	-19.2
Percentage positive months	69.8	67.9
Annualised monthly volatility	10.4	10.6

\* 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. Source: Micropal, performance as calculated by Allan Gray as at 31 July 2008.

\*\* Maximum percentage decline over any period.

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