Allan Gray Balanced Fund

ALLAN GRAY

Fund managers:	Ian Liddle, Duncan Artus, Andrew Lapping, Simon Raubenheimer (Most foreign assets are invested in Orbis funds)
Associate fund managers:	Ruan Stander, Jacques Plaut, Leonard Krüger
Inception date:	1 October 1999
Class:	A

Fund description

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy foreign assets up to a maximum of 25% of the Fund (with an additional 5% for African ex-SA investments). The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 75% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund.

ASISA unit trust category: South African - Multi Asset - High Equity

Fund objective and benchmark

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund's benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding the Allan Gray Balanced Fund).

How we aim to achieve the Fund's objective

We seek to buy shares at a discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares we may increase the Fund's weighting to alternative assets such as bonds, property, commodities and cash, or we may partially hedge the Fund's stock market exposure. By varying the Fund's exposure to these different asset classes over time, we seek to enhance the Fund's long-term returns and to manage its risk. The Fund's bond and money market investments are actively managed.

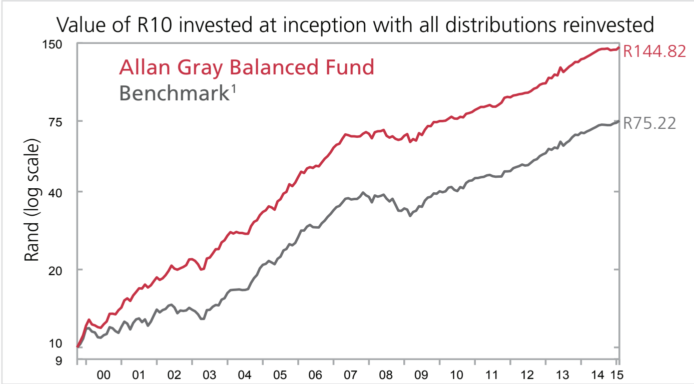
Suitable for those investors who

- Seek steady long-term capital growth
- Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund
- Wish to invest in a unit trust that complies with retirement fund investment limits
- Typically have an investment horizon of more than three years

Fund information on 31 January 2015

Size:	R105.8bn
Price:	R88.54
Number of share holdings:	103

Performance net of all fees and expenses



% Returns	Fund	Benchmark[1]	CPI inflation[2]
Unannualised: Since Inception	1348.2	652.2	135.7
Annualised: Since Inception	19.0	14.1	5.8
Latest 10 Years	15.6	13.6	6.0
Latest 5 Years	14.1	13.6	5.2
Latest 3 Years	15.5	15.1	5.5
Latest 2 Years	14.7	13.4	5.4
Latest 1 Year	10.8	11.7	5.3
Year-to-date (unannualised)	2.4	1.9	-
Risk measures (since inception)			
Maximum Drawdown[3]	-15.4	-20.5	n/a
Percentage Positive Months[4]	72.3	70.1	n/a
Annualised Monthly Volatility[5]	9.2	9.4	n/a

1. The current benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding the Allan Gray Balanced Fund). 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. Source: Morningstar, performance as calculated by Allan Gray as at 31 January 2015.
2. This is based on the latest numbers published by INET BFA as at 31 December 2014.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 May 2008 to 27 October 2008 and maximum benchmark drawdown occurred from 20 May 2008 to 10 March 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.

Minimum investment amounts

Minimum lump sum per investor account:	R20 000
Additional lump sum:	R500
Minimum debit order*:	R500

*Only available to investors with a South African bank account.

Annual management fee and total expense ratio (TER)

Allan Gray charges a fee based on the net asset value of the Fund excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark.

Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT

For each percentage of two-year performance above or below the benchmark we add or deduct 0.1%, subject to the following limits:

Maximum fee:	1.50% p.a. excl. VAT
Minimum fee:	0.50% p.a. excl. VAT

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark.

A portion of the Fund may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark.

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 12 month period. Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 2 for further information).

TER breakdown for the year ending 31 December 2014	%
Fee for benchmark performance	1.06
Performance fees	0.42
Other costs including trading costs	0.10
VAT	0.15
Total expense ratio	**1.73**

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ALLANGRAY

Fund manager quarterly commentary as at 31 December 2014

The Fund's total return of 9.0% constituted a good first nine months of the year and a more difficult final quarter. The FTSE/JSE All Share Index (ALSI) returned 1.4% for the fourth quarter, but Sasol underperformed and the Orbis portfolio, which accounts for 25% of the Fund's assets, also had a weaker period.

The rapid decline in the oil price was the root cause of both Sasol and Orbis' tough quarter. Orbis owns some very attractively priced Russian businesses, as well as a few oil-related companies, that sold off with the oil price.

In early September oil was trading at US$100 per barrel (/bbl), a long way from end Decembers US$57/bbl. A slowdown in emerging market oil demand coincided with strong supply growth from the US. As the price fell, many commentators became very negative on the price outlook, forecasting surpluses through the second half of 2015.

Rather than trying to forecast the near-term price fluctuations, we focus on assessing what we believe is a long-term sustainable price using the information available. Our long-term assumption, using currently available information, is US$85/bbl. The high price over the past few years has enabled oil companies to invest heavily in new projects using both operating cash flow and debt. Many of these projects are not feasible at lower prices and companies do not have the cash required to fund them. Despite the oil price only falling below US$80/bbl in November, at least half the major companies have already announced spending cuts for 2015. Lower capital spending should lead to a tighter market and price recovery. At current levels, Sasol is discounting a long-term oil price well below US$85/bbl. We think the company offers excellent value, especially in the context of a fully valued JSE.

The Fund's relatively low net share exposure of 55.9% is a function of the South African market offering few compelling value opportunities. Similarly, global markets have had an excellent five years and do not offer the value of a few years ago. In this environment we prefer low-risk fixed income investments and the Orbis Optimal SA funds to many JSE-listed equities. These liquid, low-risk assets put the Fund in a position to take advantage of opportunities as they present themselves.

Commentary contributed by Andrew Lapping

Top 10 share holdings on 31 December 2014 (SA and Foreign) (updated quarterly)

Company	% of portfolio
British American Tobacco	6.7
Sasol	5.4
Standard Bank	4.4
SABMiller	4.1
Remgro	2.0
Old Mutual	1.8
Reinet Investments SA	1.7
Samsung Electronics	1.1
Investec	1.1
NetEase	1.1
Total	**29.4**

Asset allocation on 31 January 2015

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net Equity	56.2	44.8	0.6	10.8
Hedged Equity	12.5	2.2	0.0	10.3
Property	1.6	1.2	0.0	0.4
Commodity-linked	4.5	4.4	0.0	0.0
Bonds	12.0	11.3	0.5	0.2
Money Market and Bank Deposits	13.2	10.4	0.1	2.8
Total (%)	**100.0**	**74.4**	**1.2**	**24.4**

Since inception, the Fund's month-end net equity exposure has varied as follows:

Minimum	49.3 % (February 2000)
Average	62.5 %
Maximum	72.7 % (July 2004)

Income distributions for the last 12 months

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually.	30 Jun 2014	31 Dec 2014
Cents per unit	86.2524	82.9017

Note: There may be slight discrepancies in the totals due to rounding.

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Disclaimer

The Fund may be closed to new investments at any time in order to be managed in accordance with its mandate. Permissible deductions may include management fees, brokerage, STT, auditor's fees, bank charges and trustee fees. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. The FTSE/JSE All Share Index is calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Limited ('JSE') in accordance with standard criteria. The FTSE/JSE Africa Series is the proprietary information of FTSE and the JSE. Allan Gray Unit Trust Management (RF) Proprietary Limited ("the Company") 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 the Company. The Company is incorporated and registered under the laws of South Africa and is supervised by the Financial Services Board. The Company has been approved by the Regulatory Authority of Botswana to market its unit trusts in Botswana, however it is not supervised or licensed in Botswana.

Compliance with Regulation 28

The Fund is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g market value fluctuations, in which case they will be corrected within a reasonable time period. Allan Gray Unit Trust Management (RF) Proprietary Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any permissible deductions from the portfolio divided by the number of units in issue. Forward pricing is used and Fund valuations take place at approximately 16:00 each business day. Purchase and redemption requests must be received by the manager by 14:00 each business day to receive that day's price. Fluctuations and movements in exchange rates may also cause the value of underlying international investments to go up or down.

Fees

A schedule of fees, charges and maximum commissions is available on request from the manager. Commission and incentives may be paid and if so, would be included in the overall costs.

TER

The total expense ratio (TER) is the percentage of the Fund's average assets under management that has been used to pay the Fund's operating expenses over the past year. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), trading costs (including brokerage, STT, STRATE and insider trading levy), VAT and other expenses. Since unit trust expenses vary, the current TER cannot be used as an indication of future TERs. All Allan Gray performance figures are quoted after the deduction of costs incurred within the Fund so the TER is not a new cost. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. TERs should then be used to evaluate whether the Fund performance offers value for money.

Performance

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. Performance figures are from Allan Gray Proprietary Limited and are for lump sum investments with income distributions reinvested.