

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 and summary of investment policy

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

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

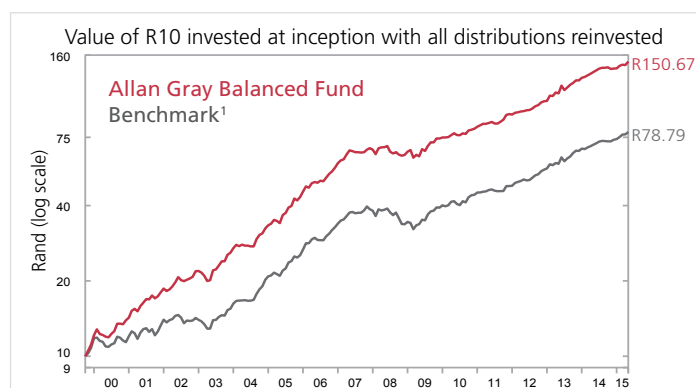
This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark.

A portion of the Fund may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based

Fund information on 30 April 2015

Size: R110.0bn
Price (net asset value per unit): R92.11

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i> Since Inception	1406.7	687.9	140.1
<i>Annualised:</i> Since Inception	19.0	14.2	5.8
Latest 10 Years	16.0	14.2	6.0
Latest 5 Years	14.1	13.6	5.2
Latest 3 Years	16.4	15.7	5.3
Latest 2 Years	15.8	15.8	5.0
Latest 1 Year	10.1	12.4	4.0
Year-to-date (unannualised)	6.5	6.7	1.9
Risk measures (since inception)			
Maximum Drawdown ³	-15.4	-20.5	n/a
Percentage Positive Months ⁴	72.2	70.6	n/a
Annualised Monthly Volatility ⁵	9.2	9.4	n/a
Highest annual return ⁶	46.1	41.9	n/a
Lowest annual return ⁶	-8.3	-16.7	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 30 April 2015.
2. This is based on the latest numbers published by INET BFA as at 31 March 2015.
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.
6. This is the highest or lowest consecutive 12 month returns the Fund has experienced since inception, along with the benchmark performance for the corresponding period. This is a measure of how much the Fund's returns have varied per rolling 12 month period. The highest annual return occurred from 1 May 2005 to 30 April 2006 and the lowest annual return occurred from 1 March 2008 to 28 February 2009. All rolling 12 month figures for the Fund and the benchmark are available from our Client Service Centre on request.

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 March 2015	%
Fee for benchmark performance	1.07
Performance fees	0.37
Other costs including trading costs	0.10
VAT	0.15
Total expense ratio	1.69

Allan Gray Balanced Fund

Fund manager quarterly commentary as at 31 March 2015

The majority of the Fund's 4.7% exposure to commodity-linked instruments is to platinum and palladium metal bars through listed debentures. These metal bars provide no yield, leaving investors entirely dependent on the change in their price for a return. Why does the Fund have a bigger exposure to these zero-yield metal bars than to the property sector, which currently yields 5.1% on average?

The FTSE/JSE SA Listed Property Index has returned a stellar 25.2% p.a. over the last three years. However, a big chunk of this return has come from investors paying an ever higher price for each rand of net rental income. Distributions per share have grown at a steadier 7.7% p.a., but even this flattens the true underlying growth in net rental income. Distribution growth has been augmented by acquisitions of property at higher yields (funded by new debt and share issuance) and by companies borrowing more against ever increasing property valuations.

In short, the true underlying performance of South African property companies has not been as strong as their share prices suggest. And while a platinum bar in a vault may not provide a yield today, it will be just as shiny in 20 years' time. The same can't be said of a shiny A-grade office block – in 20 years' time it will probably need renovation, and may even be on the wrong side of town. Because property companies distribute virtually all of their net rental income, they are forced to borrow to fund substantial renovations. This works well when property valuations are rising, but not when they stagnate or fall. Just as leverage has augmented returns during the up cycle, it will detract from returns in the down cycle.

We have more conviction on the potential for rand capital gains on platinum and palladium from today's valuations. At current prices, less than half of South Africa's platinum mines generate enough revenue to cover cash operating costs and capital expenditures. South Africa has the vast bulk of the world's known platinum resources, so it is hard to see a significant new source of mine supply. Global mine supply of these metals has been falling for years already and it will probably accelerate if prices remain at these levels. Moreover, the cost to mine an ounce of platinum has grown by roughly 15% p.a. over the last decade, and it is likely to continue to grow.

Commentary contributed by Ian Liddle

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.

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Management Company

Allan Gray Unit Trust Management (RF) Proprietary Limited (the 'Management Company') is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates nine unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board (FSB). The Management Company is a member of the Association for Savings & Investment SA (ASISA) and is incorporated under the laws of South Africa. The Management 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. Allan Gray Proprietary Limited (the 'Investment Manager'), an authorised financial services provider, is the appointed investment manager of the Management Company. The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or www.rmb.co.za

Performance

Collective Investment Schemes in Securities (unit trusts or funds) 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 future performance. Movements in exchange rates may also cause of the value of underlying international investments to go up or down. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

Fund mandate

The Fund may be closed to new investments at any time in order to be managed according to its mandate. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of its market value to bridge insufficient liquidity.

Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund including any income accruals and less any permissible deductions from the Fund 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 Management

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Top 10 share holdings on 31 March 2015 (SA and Foreign) (updated quarterly)

Company	% of portfolio
British American Tobacco	6.4
Sasol	5.5
Standard Bank	5.0
SABMiller	4.2
Old Mutual	2.2
Remgro	2.0
Reinet Investments SA	1.6
Investec	1.1
NetEase	1.1
Naspers ⁷	1.0
Total	30.0

7. Including Naspers Stub Certificates.

Asset allocation on 30 April 2015

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net Equity	57.3	44.4	0.6	12.3
Hedged Equity	12.8	2.3	0.0	10.5
Property	1.7	1.1	0.0	0.5
Commodity-linked	4.6	4.6	0.0	0.0
Bonds	11.8	10.8	0.6	0.4
Money Market and Bank Deposits	11.8	9.8	0.1	1.9
Total (%)	100.0	72.9	1.4	25.7⁸

8. The Fund is above its foreign exposure limit due to market value movements.

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.

Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za

Fees

Permissible deductions may include management fees, brokerage, Securities Transfer Tax (STT), auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray.

Total expense ratio (TER)

The 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 FSB Investor Protection Levy), VAT and other expenses. Since unit trust expenses vary, the current TER cannot be used as an indication of future TERs. The Fund's 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.

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. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

Foreign exposure

This fund may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.