AllanGray

ALLAN GRAY BALANCED FUND

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

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

Minimum investment amounts

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

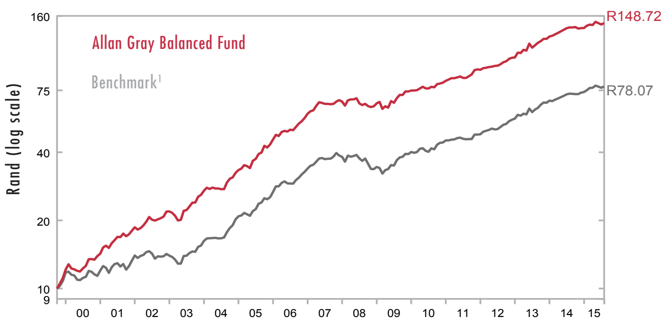
*Only available to investors with a South African bank account.

Fund information on 31 July 2015

Fund size	R107.2bn
Number of units	810 097 961
Price (net asset value per unit)	R89.91
Class	A

Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



% Returns	Fund	Benchmark[1]	CPI inflation[2]
Unannualised:			
Since inception	1 387.2	680.7	143.9
Annualised:			
Since inception	18.6	13.9	5.8
Latest 10 years	14.2	12.7	6.2
Latest 5 years	13.8	13.4	5.5
Latest 3 years	15.0	14.7	5.6
Latest 2 years	11.9	12.4	5.7
Latest 1 year	4.5	7.5	4.7
Year-to-date (unannualised)	5.1	5.7	3.5
Risk measures (since inception)			
Maximum drawdown[3]	-15.4	-20.5	n/a
Percentage positive months[4]	71.6	70.0	n/a
Annualised monthly volatility[5]	9.1	9.3	n/a
Highest annual return[6]	46.1	41.9	n/a
Lowest annual return[6]	-8.3	-16.7	n/a

1. The market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding the Allan Gray Balanced Fund). From 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 July 2015.
2. This is based on the latest numbers published by INET BFA as at 30 June 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.

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ALLAN GRAY BALANCED FUND

Meeting the Fund objective

The Fund has created wealth for its long-term investors. Since inception and over the latest 10 year period, the Fund has outperformed its benchmark, and its returns have exceeded CPI inflation by a significant margin. Over the last five years, the Fund has provided returns significantly in excess of CPI inflation and performed in line with its benchmark. The Fund experiences periods of underperformance in pursuit of its objective of creating long-term wealth for investors, without taking on greater risk of loss than the average balanced fund. The maximum drawdown and lowest annual return numbers, in the 'Performance net of all fees and expenses' table, show that the Fund has successfully reduced downside risk in periods of negative market returns.

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.	31 Dec 2014	30 Jun 2015
Cents per unit	**82.9017**	**99.3770**

Annual management fee

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.

Total expense ratio (TER)

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 4 for further information).

TER breakdown for the year ending 30 June 2015	%
Fee for benchmark performance	1.07
Performance fees	0.27
Other costs including trading costs	0.09
VAT	0.13
Total expense ratio	**1.56**

Top 10 share holdings on 30 June 2015 (SA and Foreign) (updated quarterly)[8]

Company	% of portfolio
British American Tobacco	6.6
Sasol	5.9
Standard Bank	4.6
SABMiller	4.2
Old Mutual	2.1
Remgro	1.9
Reinet Investments SCA	1.6
Investec	1.2
NetEase	1.1
Naspers[7]	1.1
Total (%)	**30.4**

7. Including Naspers Stub Certificates.

Asset allocation on 31 July 2015[8]

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net Equity	57.0	44.2	0.7	12.1
Hedged Equity	13.2	2.2	0.0	10.9
Property	1.8	1.1	0.0	0.7
Commodity-linked	5.0	5.0	0.0	0.0
Bonds	12.7	11.5	0.8	0.5
Money Market and Bank Deposits	10.3	8.2	0.2	2.0
Total (%)	**100.0**	**72.1**	**1.6**	**26.3**[9]

8. Underlying holdings of Orbis funds are included on a look-through basis.

9. 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	**62.4%**
Maximum	**72.7% (July 2004)**

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

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Fund manager quarterly commentary as at 30 June 2015

The Fund's lower-than-average net exposure to equities reflects our continued concern over equity valuations both locally and offshore.

South African equities have outperformed cash on average by 8.4% on an annual basis since 1900. Interestingly, the difference in any given calendar year has only been within 2% above or below the 8.4% average on six occasions. Therefore, investors are very unlikely to receive the average excess return in any given year. If we focus on the last 10 years the average excess return accruing to equities above cash rises to 12% or 43% above the long-term average. This highlights the powerful effect that starting valuations, rather than economic growth, have on future returns.

One measure of value we can use for the overall market is its price-to-earnings (PE) ratio. We expect high excess returns to show up in high valuations and indeed this is the case: the FTSE/JSE All Share Index is trading on 18x its last reported 12-months earnings – an almost 50% premium to its 55-year average of 12x.

Whilst the PE ratio is normally thought of as a fundamental indicator of value, we can also look at it as a sentiment indicator. When investors are positively disposed towards equities they are willing to pay higher prices for the future; the opposite is true when they are uncertain or even fearful. The PE ratio has fluctuated between a low of 4x and a peak of 25x since 1960, with the market typically bottoming near 8x and peaking near 17x. Of course, the market could potentially return to its late 1960s valuation of 25x – but most of the data suggests it is currently overvalued. One thing we do know for certain is that the market is not depressed. Twelve years ago the market was trading on 9x low earnings, which explains the great decade that followed – despite being interrupted by the great financial crisis in 2008.

The Fund therefore continues to hold a greater-than-average allocation to relatively short duration fixed income and hedged equities. While central banks continue to punish prudent investors who retreat to cash by keeping interest rates low or close to zero, we like the option that cash provides to buy assets at lower prices when or if sentiment turns.

We continue to search for assets that are trading below fair value and which increase diversification in a world where we see little obvious value. The Fund continues to have a maximum exposure to offshore assets, which can be invested across a broad range of industries and geographies, and a position in commodity-linked instruments, such as the platinum and palladium listed debentures discussed in our previous commentary.

Another example would be the Zambezi Platinum Preference shares, which have funded Northam Platinum's recent BEE deal. The preference shares accrue a dividend of prime plus 3.5% over a 10-year period, substantially secured by Northam ordinary shares. We believe they offer an attractive return at lower-than-average risk.

During the quarter there have been no material changes to the composition of the Fund, but we have continued to increase the position in the platinum and palladium listed debentures.

Commentary contributed by Duncan Artus

Notes for consideration

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 10 unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board ('FSB'). The Management Company is incorporated under the laws of South Africa and 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 and is a member of the Association for Savings & Investment South Africa (ASISA). 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 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 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 total expense ratio (TER) is the percentage of the Fund's average assets under management that has been used to pay the Fund's actual 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, Securities Transfer Tax [STT], STRATE and FSB Investor Protection Levy), VAT and other expenses. Since Fund returns are quoted after the deduction of these expenses, the TER should not be deducted from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. 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. The TER and other funds' 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.