

ALLAN GRAY

ALLAN GRAY BALANCED FUND

Fund managers: Andrew Lapping, Duncan Artus, Jacques Plaut, Simon Raubenheimer, Ruan Stander.
(Most foreign assets are invested in Orbis funds.) **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 Allan Gray funds).

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

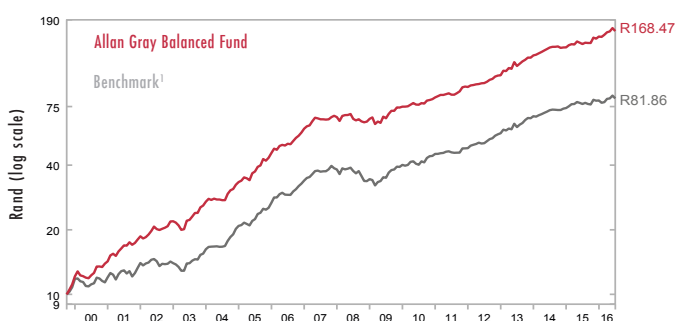
*Only available to investors with a South African bank account.

Fund information on 30 June 2016

Fund size	R118.6bn
Number of units	775 224 273
Price (net asset value per unit)	R100.75
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
Cumulative:			
Since inception	1584.7	718.6	157.7
Annualised:			
Since inception	18.4	13.4	5.8
Latest 10 years	12.8	10.9	6.3
Latest 5 years	14.6	12.3	5.7
Latest 3 years	13.3	10.8	5.8
Latest 2 years	9.2	6.5	5.3
Latest 1 year	14.9	6.2	6.1
Year-to-date (not annualised)	6.1	2.2	3.9
Risk measures (since inception)			
Maximum drawdown ³	-15.4	-20.5	n/a
Percentage positive months ⁴	70.6	69.2	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 Allan Gray funds). 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 30 June 2016.

2. This is based on the latest numbers published by INET BFA as at 31 May 2016.

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. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 April 2006 and the benchmark's occurred during the 12 months ended 30 April 2006. The Fund's lowest annual return occurred during the 12 months ended 28 February 2009 and the benchmark's occurred during the 12 months ended 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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Meeting the Fund objective

The Fund has created wealth for its long-term investors. Since inception and over the latest 10 and five-year periods, the Fund has outperformed its benchmark, and its returns have exceeded CPI inflation by a significant margin. 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 2015	30 Jun 2016
Cents per unit	104.2709	98.5369

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) and Transaction costs

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 3-year period (annualised). 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). Transaction costs are disclosed separately.

TER and Transaction costs breakdown for the 3-year period ending 30 June 2016	%
Total expense ratio	1.52
Fee for benchmark performance	1.07
Performance fees	0.30
Other costs excluding transaction costs	0.02
VAT	0.13
Transaction costs (including VAT)	0.07
Total investment charge	1.59

Top 10 share holdings on 30 June 2016 (SA and Foreign) (updated quarterly)⁸

Company	% of portfolio
British American Tobacco	6.1
Sasol	4.3
Standard Bank	3.7
Naspers ⁷	3.1
Old Mutual	2.8
SABMiller	2.1
Remgro	1.8
Reinet	1.8
Sappi	1.3
NetEase	1.2
Total (%)	28.1

7. Including Naspers Stub Certificates.

Asset allocation on 30 June 2016⁸

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	59.0	45.0	0.7	13.3
Hedged equity	9.9	1.8	0.0	8.1
Property	1.3	0.5	0.0	0.7
Commodity-linked	5.0	4.9	0.0	0.1
Bonds	12.1	10.3	1.0	0.7
Money market and bank deposits	12.7	11.0	0.1	1.6
Total (%)	100.0	73.6	1.8	24.6

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

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

Minimum	49.3% (February 2000)
Average	62.2%
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 2016

'Ultra-low interest rates pull consumption forward in time and push failure backward in time. They flatter the judgement of the aggressive lender and ease the burdens of encumbered borrowers. The benefits of today's monetary experiments are mainly in the past, the costs of those benefits are yet to come.'

- Grant's Interest Rate Observer, December 2015.

After a long bull market in any asset class, it is entirely natural for investors to focus on returns and forget about the risks taken to generate them. The events in local asset markets towards the end of 2015 and into the current year are a stark reminder of the dangers of falling into this psychological trap.

When managing our clients' hard-earned savings, our foremost focus is always on absolute risk – the risk of a permanent loss of capital – even if this introduces risk into our performance relative to our peers. We believe that it is possible to maximise long-term returns by managing risk while thinking long term about bottom-up fundamentals and being contrarian when appropriate.

We can think of a number of long-term risks facing the Fund currently, including:

- The lowest interest rates in 5 000 years (according to Bank of America Merrill Lynch estimates)
- Debt and central bank balance sheets at extremely elevated peacetime levels
- Deteriorating demographics globally
- Accelerated technological disruption
- Excessive leverage in China
- Social unrest driven by the divergent fortunes of asset owners and those of the ordinary worker

We are investing during perhaps the greatest monetary experiment in history with very little precedent to use as reference for possible outcomes.

We suspect that in distorting interest rates, the most important aspect of prices in markets, there is likely to have been large misallocations of capital. As such, we remain cautious on assets that have benefited from unsustainable demand borrowed from the future, including government bonds, Chinese infrastructure, luxury goods and leveraged acquisitions (whether of other companies or share buybacks).

The Fund's holdings of short-duration cash, hedges and high-quality offshore equities have provided liquidity to take advantage of dislocations, including oversold local equities, at various stages over the past year.

Of course, the best protection against these risks is to buy cheap assets. Assets bought at low valuations by long-term investors can better withstand bad news. As highlighted in previous commentaries, we are finding value in many local financial shares, select depressed cyclical companies, certain high-quality businesses and depressed emerging market shares. In addition, approximately 8% of the Fund is invested in precious metal exchange-traded funds (ETFs) and the miners of those metals.

We believe the Fund's diversified holding of undervalued assets should stand it in good stead in these uncertain times.

The Fund's positioning has not changed significantly from the previous quarter, other than an increased investment in financial shares, particularly those which were down significantly following the results of the UK referendum.

Commentary contributed by Duncan Artus

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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 11 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. Where annualised performance is mentioned, this refers to the average return per year over the period. 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) and Transaction costs

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past three years. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), VAT and other expenses like audit and trustee fees. Transaction costs (including brokerage, Securities Transfer Tax [STT], STRATE and FSB Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted again 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. The sum of the TER and Transaction costs is shown as the Total investment charge.

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.

Need more information?

You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website www.allangray.co.za or via our Client Service Centre on 0860 000 654.