

### Fund description and summary of investment policy

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. 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.

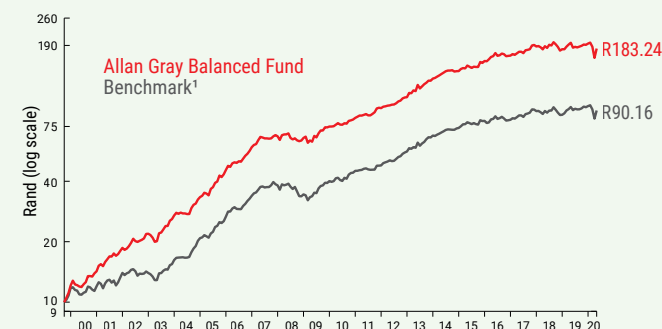
### Fund information on 30 April 2020

Fund size	R134.8bn
Number of units	581 103 571
Price (net asset value per unit)	R100.25
Class	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 April 2020.
2. This is based on the latest numbers published by IRESS as at 31 March 2020.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 January 2020 to 23 March 2020 and maximum benchmark drawdown occurred from 20 January 2020 to 23 March 2020. 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 31 March 2020 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.

### Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



% Returns	Fund	Benchmark <sup>1</sup>	CPI inflation <sup>2</sup>
<b>Cumulative:</b>			
Since inception (1 October 1999)	1732.4	801.6	205.8
<b>Annualised:</b>			
Since inception (1 October 1999)	15.2	11.3	5.6
Latest 10 years	8.9	8.0	5.1
Latest 5 years	4.0	2.7	5.0
Latest 3 years	1.2	1.9	4.2
Latest 2 years	-1.3	0.3	4.3
Latest 1 year	-6.4	-3.9	4.1
Year-to-date (not annualised)	-5.5	-4.9	1.9
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-25.4	-23.3	n/a
Percentage positive months <sup>4</sup>	68.8	67.2	n/a
Annualised monthly volatility <sup>5</sup>	9.7	9.5	n/a
Highest annual return <sup>6</sup>	46.1	41.9	n/a
Lowest annual return <sup>6</sup>	-14.2	-16.7	n/a

## 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. The Fund has provided returns in excess of CPI inflation since inception and over the last 10 years, but it should be noted that returns over the last five years have been below CPI inflation. 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.

## 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.	<b>30 Jun 2019</b>	<b>31 Dec 2019</b>
<b>Cents per unit</b>	<b>150.7560</b>	<b>129.8537</b>

## 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. Orbis pays a marketing and distribution fee to Allan Gray.

## 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 one and three-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.

## Top 10 share holdings on 31 March 2020 (SA and Foreign) (updated quarterly)<sup>8</sup>

Company	% of portfolio
Naspers <sup>7</sup>	9.9
British American Tobacco	7.0
Glencore	2.7
Standard Bank	2.5
Remgro	2.2
Old Mutual	1.7
NetEase	1.4
Woolworths	1.4
Reinet	1.3
Life Healthcare	1.3
<b>Total (%)</b>	<b>31.5</b>

7. Including stub certificates and Prosus NV.

## Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1 and 3-year period ending 31 March 2020	1yr %	3yr %
<b>Total expense ratio</b>	<b>1.02</b>	<b>1.43</b>
Fee for benchmark performance	1.12	1.11
Performance fees	-0.23	0.17
Other costs excluding transaction costs	0.04	0.03
VAT	0.09	0.12
<b>Transaction costs (including VAT)</b>	<b>0.09</b>	<b>0.09</b>
<b>Total investment charge</b>	<b>1.11</b>	<b>1.52</b>

## Asset allocation on 30 April 2020<sup>8</sup>

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	63.3	42.3	1.5	19.5
Hedged equity	9.1	3.6	0.0	5.5
Property	0.8	0.7	0.0	0.1
Commodity-linked	4.1	3.1	0.0	0.9
Bonds	13.9	10.4	1.3	2.2
Money market and bank deposits	8.8	6.6	1.0	1.3
<b>Total (%)</b>	<b>100.0</b>	<b>66.8</b>	<b>3.7</b>	<b>29.5<sup>9</sup></b>

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

9. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

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

Minimum	(February 2000) 49.3%
Average	62.3%
Maximum	(July 2004) 72.7%

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

The Balanced Fund's 15% price decline over the quarter was clearly disappointing; we strive for consistent real returns. The past quarter was an extremely unusual one, with global asset prices collapsing as economic turmoil resulting from COVID-19 swept across the world. March's price movements have dragged down not just the short-term returns for South African assets, but also long-term returns. The five-year return for the FTSE/JSE All Share Index (ALSI) is now negative 0.1%; bonds have done better, but the 5.2% annual return of the JSE All Bond Index is equal to the inflation rate over five years.

These returns could lead people to draw very different conclusions. The first reaction could be to give up on equity investments and conclude that the best returns are to be had in money market funds. Alternatively, the conclusion may be that this is a great time to make equity and bond investments as the next five years are unlikely to be like the last. Historically, investors who arrived at the second conclusion have come out on top.

The most important driver of asset price returns is the price you pay. You are paying a great deal less today for South African assets than at any time in the past decade. These low prices should result in excellent returns over the next five years. In March 2015, the South African 10-year bond yielded 7.7%, compared to today's 11.3%. Although the South African fiscal situation has deteriorated, and the current crisis means our government budget will be in a deep deficit in the near term, some things have improved: In 2015 the country was led by Jacob Zuma. Buying a government bond with an 11.3% yield offers a far greater margin of safety and return potential than buying one at 7.7%. We have been accumulating government bonds for the Fund and increasing the duration of the bond exposure as yields have sold off. The 11.3% available on medium-duration bonds compares to the 5.6% available in money market assets.

The Fund's 41% South African share exposure is lower than December's 47%. However, we actually bought 3% of Fund in equities over the quarter. The underperformance of equities relative to other assets caused the share exposure to fall. We think there is excellent value to be had in South African shares. The ALSI dividend yield is 4.9% and peaked at 5.6% earlier in March; this compares to the previous 25-year yield high of 5.4% in March 2009, which marked the equity low point during the global financial crisis (GFC). If Naspers – which (with Prosus) accounts for 23% of the ALSI and yields only 0.29% – is stripped out of the calculation, the market yields 6.3%. Historically, buying equities at these valuations resulted in excellent returns. Many companies will reduce or scrap their dividend pay-outs over the next year as the global recession bites, but the dividend yield is a strong indication of value.

The largest detractors from our performance over the past quarter were Sasol, Glencore and banking shares. We wrote about Sasol in a recent article on our

website (see [“Coronavirus: Taking stock of the state of the markets”](#)); here I will focus on Glencore and Nedbank, one of the banks we have been buying.

Glencore has been a consistent detractor since we started buying during the second half of 2018. Most recently, the share has fallen from R46 in February to R27 today; when measured in dollars, this decline is even sharper: US\$3.00 to US\$1.50. Demand for, and thus the prices of, many industrial commodities collapsed as the COVID-19 crisis gripped the world. For sure this shock has affected Glencore's near-term prospects, with the copper price down 20% year to date and zinc down 18%. These prices may fall further as the situation develops. However, our estimates of long-term metal and coal prices, and therefore Glencore's normal cash flows, are unchanged. We think Glencore should generate US\$33 of cash flow per share through the cycle. On our forecasts, Glencore should reward investors with 25%+ dollar returns per year over a four-year investment horizon.

Banking shares have understandably borne the brunt of the recent sell-off. Banks are leveraged to the economic cycle and a severe downturn will impact them harshly: This is our base case. Nedbank trades on three times historic earnings and 0.4 times book value. During the GFC, Nedbank traded down to 0.9 times book value. The share is clearly priced for significant distress. Do we expect this recession will be worse than the GFC? Yes, substantially. However, we think the large South African banks will survive. Nedbank's 10-year average price-to-book value is 1.5. If Nedbank just returns to book value, and that value is unchanged, the share will appreciate 150%.

South African assets have sharply underperformed global assets, despite global equities being very weak. We have taken this opportunity to repatriate funds from offshore to invest in South African assets. Additionally, we think the rand at R18/US\$ is undervalued. While we have sold some offshore assets to rebalance the portfolio, the Orbis team is very excited about the assets we own offshore and expect strong returns from these investments.

The patience of even long-term investors is being tested by the poor South African equity and bond returns. The incredible uncertainty and negative sentiment around the global economic outlook generally, and the South African economy in particular, does not help. At times like these, retreating to the seeming-stability of cash is very tempting. Unfortunately, the comfort of cash does not protect wealth over long periods of time. When it is hardest to stick with your portfolio of assets, doing just that is most important for long-term growth.

Over the quarter we bought government bonds, Nedbank and Standard Bank and sold British American Tobacco, Naspers and Netcare.

**Commentary contributed by Andrew Lapping**

**Fund manager quarterly commentary as at 31 March 2020**

## 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 Sector Conduct Authority ('FSCA'). 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](http://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](http://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 one and three-year periods. 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 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 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 ('TIC').

## 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 and investments in Africa outside of South Africa.

## Important information for investors

### 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](http://www.allangray.co.za) or via our Client Service Centre on **0860 000 654**