

## 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.

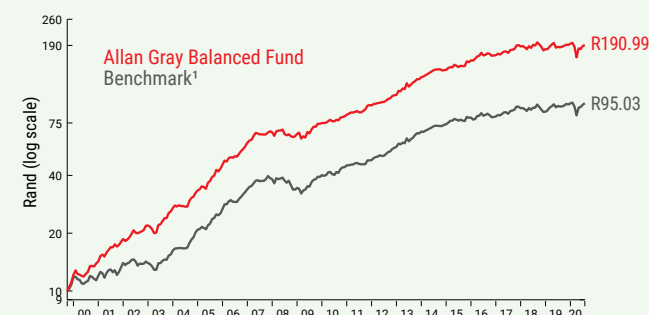
## Fund information on 31 July 2020

Fund size	R136.8bn
Number of units	582 968 133
Price (net asset value per unit)	R101.79
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 31 July 2020.
2. This is based on the latest available numbers published by IRESS as at 30 June 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)	1809.9	850.3	204.0
<b>Annualised:</b>			
Since inception (1 October 1999)	15.2	11.4	5.5
Latest 10 years	9.4	8.6	5.0
Latest 5 years	5.1	4.0	4.5
Latest 3 years	2.1	3.2	3.7
Latest 2 years	0.3	2.7	3.3
Latest 1 year	2.9	4.1	2.2
Year-to-date (not annualised)	-1.5	0.2	1.2
<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	67.6	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 for all three periods. 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>31 Dec 2019</b>	<b>30 Jun 2020</b>
<b>Cents per unit</b>	<b>129.8537</b>	<b>266.4257</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 30 June 2020 (SA and Foreign) (updated quarterly)<sup>8</sup>

Company	% of portfolio
Naspers <sup>7</sup>	11.0
British American Tobacco	6.9
Glencore	3.2
Standard Bank	2.4
Remgro	1.6
NetEase	1.6
Old Mutual	1.5
Woolworths	1.5
Reinet	1.3
Sasol	1.3
<b>Total (%)</b>	<b>32.2</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 30 June 2020	1yr %	3yr %
<b>Total expense ratio</b>	<b>0.90</b>	<b>1.34</b>
Fee for benchmark performance	1.09	1.10
Performance fees	-0.31	0.10
Other costs excluding transaction costs	0.04	0.03
VAT	0.08	0.11
<b>Transaction costs (including VAT)</b>	<b>0.09</b>	<b>0.09</b>
<b>Total investment charge</b>	<b>0.99</b>	<b>1.43</b>

## Asset allocation on 31 July 2020<sup>8</sup>

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	65.2	44.4	1.5	19.3
Hedged equity	9.1	3.9	0.0	5.2
Property	0.9	0.8	0.0	0.1
Commodity-linked	4.5	3.5	0.0	0.9
Bonds	14.3	10.8	1.4	2.1
Money market and bank deposits	6.0	3.7	1.0	1.4
<b>Total (%)</b>	<b>100.0</b>	<b>67.1</b>	<b>3.8</b>	<b>29.1<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	62.4%
Maximum	(July 2004) 72.7%

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

Financial assets rallied strongly during the quarter. The FTSE/JSE All Share Index (ALSI) is up over 40% after bottoming in late March, while the MSCI World Index is up 38%. While this may seem confusing given the poor economic backdrop, it highlights that equity markets were oversold, and that central bank liquidity can overwhelm fundamentals in the short term. For example, the US Federal Reserve has committed to buying at least US\$120bn of debt per month and keeping interest rates at zero for the foreseeable future. To put this number into context, you could buy 100% of Richemont and British American Tobacco (BAT) every month with the money. For the moment, the market is not focusing on the consequences of this money creation. This will change.

The Fund has a higher weighting to South African equities than many of its peers: Many funds hold a full weighting in offshore equities, most of the multinationals which happen to be listed in South Africa, alongside a large position in South African long-dated government bonds. This has been the correct strategy.

Of the 43% of the Fund invested in South African equities, 20% is invested in Naspers, BAT, Reinet and Glencore, which have little exposure to the fragile South African economy. Naspers and BAT have been strong performers, but we have not been sellers. Glencore has substantially lagged its mining peers BHP Billiton and Anglo American. This is because it has no exposure to the strong iron ore price, and it is dealing with the overhang created by several regulatory investigations. We continue to believe Glencore offers great value.

The remainder of the local equity exposure includes depressed and unloved domestic-facing businesses, including financials, retailers, and hospitality shares. The risks to the SA economy are real, and the near-term outlook for earnings is bleak, but these factors are well known and reflected in low share prices. Many of these shares are down over 60% when measured in US dollars. While hard to imagine now, in a more normalised economy, many of these

shares have significant upside potential and it is difficult to pick the bottom. We believe many local fund managers are underweight these shares.

The Fund purchased long-dated South African bonds during the sell-off earlier in the year. The bonds have since rallied and the yield on the 10-year bond is now 9% after yielding over 12% in March. While the yield after inflation remains attractive, we manage the position size given the poor fiscal situation in which South Africa finds itself. We are also aware that owning these bonds is a consensus view. Unfortunately, with the yield on short-dated cash around 4%, the steep yield curve is a dilemma facing risk-averse investors who want real returns outside of equities.

When considering the portfolio, we believe the most relative upside exists in the offshore portion managed by our colleagues at Orbis. Positioning offshore is extreme, with most funds concentrated in technology stocks, such as the so-called "FANGAMs" (Facebook, Amazon, Netflix, Google (Alphabet), Apple and Microsoft), as well as pharmaceutical and consumer staple companies. Any flows into the oversold more cyclical shares could result in large outperformance relative to the benchmark.

We aim to own a diversified portfolio of undervalued assets in the Fund. We have spent a lot of time thinking about risk and how best to balance local opportunities against the Fund's effective offshore exposure. From current price levels we would be disappointed if future real returns are not closer to their historical average than the disappointing returns of the past few years.

Over the quarter the Fund purchased Capitec, Naspers and South African government bonds and sold some of the Platinum ETF.

**Commentary contributed by Duncan Artus**

**Fund manager quarterly  
commentary as at  
30 June 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.

## FTSE/JSE All Share Index

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 All Share Index is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE All Share Index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved.

## MSCI Index

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## 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**