

Fund description and summary of investment policy

The Fund invests primarily in shares listed on the Johannesburg Stock Exchange (JSE). The Fund may buy foreign assets up to a maximum of 25% of the Fund, with an additional 5% allowed for African ex-SA investments. The Fund invests the bulk of its foreign allowance in equity funds managed by Orbis Investment Management Limited, our offshore investment partner. The Fund is typically fully invested in shares. Returns are likely to be volatile, especially over short- and medium-term periods.

ASISA unit trust category: South African – Equity – General

Fund objective and benchmark

The Fund aims to create long-term wealth for investors. It aims to outperform the average return of South African General Equity Funds over the long term, without taking on greater risk of loss. To pursue its objective the Fund's portfolio may differ materially from those of its peers. This will result in the Fund underperforming its benchmark materially at times. The Fund aims to compensate for these periods of underperformance by delivering outperformance over the long term. The Fund's benchmark is the market value-weighted average return of funds in the South African – Equity – General category (excluding Allan Gray funds).

How we aim to achieve the Fund's objective

We seek to buy shares offering the best relative value while maintaining a diversified portfolio. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares from sellers who over-react to short-term difficulties or undervalue long-term potential. We invest in a selection of shares across all sectors of the stock market, and across the range of large, mid and smaller cap shares.

Suitable for those investors who

- Seek exposure to listed equities to provide long-term capital growth
- Are comfortable with stock market fluctuation, i.e. short- to medium-term volatility
- Are prepared to accept the risk of capital loss
- Typically have an investment horizon of more than five years
- Wish to use the Fund as an equity 'building block' in a diversified multi-asset class portfolio

Minimum investment amounts

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

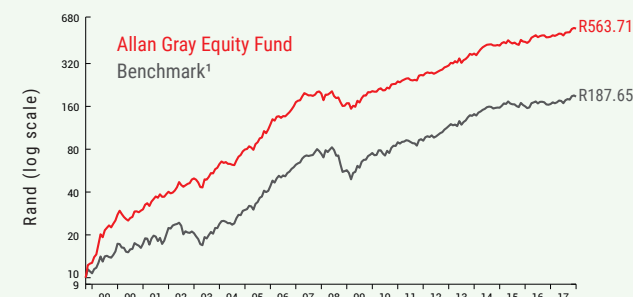
*Only available to investors with a South African bank account.

Fund information on 31 December 2017

Fund size	R42.7bn
Number of units	64 713 810
Price (net asset value per unit)	R414.30
Class	A

Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



1. The market value-weighted average return of funds in the South African – Equity – General category (excluding Allan Gray funds). From inception to 28 February 2015 the benchmark was the FTSE/JSE All Share Index including income. Source: IRESS, performance as calculated by Allan Gray as at 31 December 2017.

2. This is based on the latest numbers published by IRESS as at 30 November 2017.

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 22 May 2008 to 20 November 2008. 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 September 1999 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 30 November 2008 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.

% Returns	Fund	Benchmark ¹	CPI inflation ²
Cumulative:			
Since inception (1 October 1998)	5537.1	1776.5	179.4
Annualised:			
Since inception (1 October 1998)	23.3	16.5	5.5
Latest 10 years	11.1	9.7	5.9
Latest 5 years	12.7	10.0	5.4
Latest 3 years	9.6	6.2	5.3
Latest 2 years	11.3	8.2	5.6
Latest 1 year	14.0	12.8	4.6
Year-to-date (not annualised)	14.0	12.8	4.6
Risk measures (since inception)			
Maximum drawdown ³	-31.3	-45.4	n/a
Percentage positive months ⁴	66.2	59.3	n/a
Annualised monthly volatility ⁵	15.4	16.9	n/a
Highest annual return ⁶	125.8	73.0	n/a
Lowest annual return ⁶	-20.7	-37.6	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, 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 equity 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.	30 Jun 2017	31 Dec 2017
Cents per unit	247.4720	248.1496

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 for the day to that of the benchmark.

Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT

For each annualised percentage point above or below the benchmark we add or deduct 0.2%. The maximum fee is uncapped and if the fee would have been negative, 0% will be charged for the day and the negative fee will be carried forward to reduce the next day's fee (and all subsequent days until the underperformance is recovered).

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. The Orbis equity funds charge 1.5% p.a. for performance equal to their benchmarks. The minimum Orbis equity fund fee is 0.5% p.a. and the maximum is 2.5% p.a. 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 December 2017 (SA and Foreign) (updated quarterly)⁹

Company	% of portfolio
Naspers ⁷	8.3
Sasol	8.1
Old Mutual	6.2
Standard Bank	5.7
British American Tobacco	4.7
Remgro	4.2
Investec	2.8
Reinet	2.2
Life Healthcare	2.0
Netcare	1.7
Total (%)	45.9

7. Including stub certificates.

Sector allocation on 31 December 2017 (updated quarterly)⁹

Sector	% of Fund	% of ALSI ⁸
Oil and gas	1.0	0.0
Basic materials	17.2	20.7
Industrials	12.2	4.9
Consumer goods	8.6	12.8
Healthcare	5.4	2.9
Consumer services	14.8	27.5
Telecommunications	0.8	4.7
Utilities	0.3	0.0
Financials	29.0	26.3
Technology	3.5	0.3
Commodity-linked	1.3	0.0
Other	1.1	0.0
Money market and bank deposits	4.8	0.0
Total (%)	100.0	100.0

8. FTSE/JSE All Share Index.

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1 and 3-year period ending 31 December 2017	1yr %	3yr %
Total expense ratio	1.51	2.12
Fee for benchmark performance	1.10	1.10
Performance fees	0.25	0.78
Other costs excluding transaction costs	0.02	0.01
VAT	0.14	0.23
Transaction costs (including VAT)	0.09	0.07
Total investment charge	1.60	2.19

Asset allocation on 31 December 2017⁹

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	92.8	71.9	1.6	19.2
Property	1.2	0.8	0.0	0.4
Commodity-linked	1.3	1.3	0.0	0.0
Money market and bank deposits	4.8	3.9	0.1	0.8
Total (%)	100.0	77.8	1.7	20.4

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

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

For most of 2017, domestically orientated sectors fared poorly against the FTSE/JSE All Share Index (ALSI). However, the last few weeks of the year saw a sharp and sudden reversal of this trend. Banks, insurers and retailers all rallied on the back of improving sentiment towards South Africa, and a stronger rand, to regain most, if not more, of all the prior year's lost ground. The last six weeks of 2017 are a reminder of how quickly perceptions can change. Investors in out-of-favour sectors would have been well placed, at least in the short run. Naspers' meteoric rise continued, with the stock up 70% for the year. It now constitutes 20% of the ALSI.

Over the course of 2017 the positioning of the Fund has tilted towards a domestic bias as we bought into the laggards. Two positions that have recently crept into the top 10 are Netcare and Life Healthcare.

The companies have a lot in common: Netcare and Life Healthcare are the largest and second-largest private hospital groups in South Africa. Both companies have underperformed the market substantially over the past year. Both companies generate the bulk of their profits in South Africa, a region both companies are actively trying to diversify away from with varying degrees of success.

The combination of a mature healthcare market, poor macroeconomic environment and intensified case management efforts by healthcare funders has resulted in a decline in profitability from South Africa. We believe this is temporary.

Given our dual burden of disease and a growing, ageing population, it is not unreasonable to expect case-load growth to resume at some stage. If the hospital operators do a good job on costs, profitability should follow. These are valuable earnings: medical spend is largely non-discretionary, barriers to entry are high, cash conversion is good and the operations are well capitalised.

The prognosis on their foreign operations is less clear. Life Healthcare's Polish business has performed poorly. Their Indian joint venture might be valuable on paper, but it has hardly contributed to profits. Life Healthcare's recent acquisition of UK-domiciled Alliance Medical Group did not come cheaply. The performance of this business is encouraging, but it is too early to pass a verdict. Netcare's foray into the UK, through General Healthcare Group (GHG), has disappointed. GHG's original structure was flawed and errors have compounded subsequently. On our estimates it is unlikely that capital allocated to the UK operations is recoverable. Fortunately for Netcare shareholders, the value of their South African operations exceeds the value of the company. It is important for the management team to ensure that this value is preserved.

The biggest disposals this quarter were British American Tobacco, Naspers and Standard Bank. The Fund's offshore exposure is 22% with 2% comprising of pan-African (excluding SA) shares.

Commentary contributed by Simon Raubenheimer

**Fund manager quarterly
commentary as at
31 December 2017**

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 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 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.

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.

Foreign exposure

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

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 or via our Client Service Centre on **0860 000 654**.