

Fund description and summary of investment policy

The Fund invests primarily in shares listed on the Johannesburg Stock Exchange (JSE). The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. 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

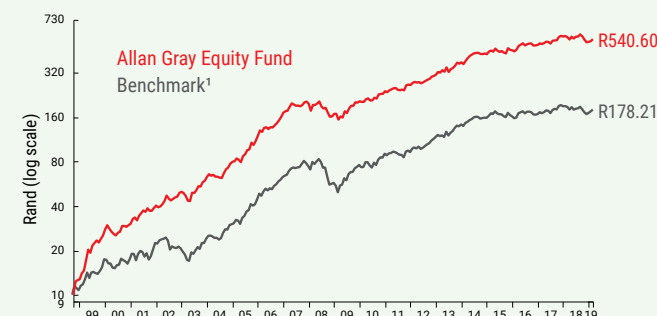
*Only available to investors with a South African bank account.

Fund information on 28 February 2019

Fund size	R40.2bn
Number of units	61 627 779
Price (net asset value per unit)	R391.51
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 28 February 2019.

2. This is based on the latest numbers published by IRESS as at 31 January 2019.

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)	5306.0	1682.1	192.8
Annualised:			
Since inception (1 October 1998)	21.6	15.2	5.4
Latest 10 years	13.4	13.7	5.3
Latest 5 years	7.0	4.3	5.1
Latest 3 years	5.6	4.2	5.0
Latest 2 years	3.9	2.9	4.2
Latest 1 year	-3.1	-3.9	4.0
Year-to-date (not annualised)	4.2	5.3	-0.4
Risk measures (since inception)			
Maximum drawdown ³	-31.3	-45.4	n/a
Percentage positive months ⁴	65.7	59.2	n/a
Annualised monthly volatility ⁵	15.2	16.7	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 five-year periods, the Fund has outperformed its benchmark. Over the latest 10-year period the Fund has underperformed 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 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 2018	31 Dec 2018
Cents per unit	0.0000	328.6621

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 2018 (SA and Foreign) (updated quarterly)⁹

Company	% of portfolio
Naspers ⁷	8.0
Sasol	6.3
Standard Bank	4.8
British American Tobacco	4.6
Remgro	4.0
Investec	3.0
Glencore	2.9
Old Mutual	2.4
NetEase	2.2
Life Healthcare	2.2
Total (%)	40.3

7. Including stub certificates.

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1 and 3-year period ending 31 December 2018	1yr %	3yr %
Total expense ratio	2.22	1.94
Fee for benchmark performance	1.15	1.10
Performance fees	0.84	0.63
Other costs excluding transaction costs	0.02	0.02
VAT	0.21	0.19
Transaction costs (including VAT)	0.08	0.08
Total investment charge	2.30	2.02

Sector allocation on 31 December 2018 (updated quarterly)⁹

Sector	% of Fund	% of ALSI ⁸
Oil and gas	2.2	0.1
Basic materials	17.6	25.4
Industrials	12.3	4.4
Consumer goods	9.5	10.9
Healthcare	7.1	2.3
Consumer services	14.1	26.8
Telecommunications	1.1	3.9
Utilities	0.6	0.0
Financials	25.9	26.0
Technology	5.0	0.2
Commodity-linked	0.4	0.0
Other	0.9	0.0
Money market and bank deposits	3.0	0.0
Total (%)	100.0	100.0

8. FTSE/JSE All Share Index.

Asset allocation on 28 February 2019⁹

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	94.2	64.8	2.0	27.4
Property	1.5	1.2	0.0	0.3
Commodity-linked	0.7	0.7	0.0	0.0
Bonds	0.1	0.0	0.0	0.1
Money market and bank deposits	3.5	2.7	0.1	0.8
Total (%)	100.0	69.4	2.1	28.5

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.

"In the short run, the market is a voting machine but in the long run it is a weighing machine."

- Benjamin Graham

2018 was a disappointing year for South African equity investors, with the FTSE/JSE All Share Index returning -9%. The good news is that based on our research the companies we hold in the Fund should generate healthy returns going forward under most scenarios. British American Tobacco (BAT) is a share that detracted significantly from returns during the year and therefore I thought it a good one to discuss.

BAT, in my opinion, is a good example of a company where the market's 'voting machine' (valuing companies like a popularity contest) and 'weighing machine' (valuing companies on their actual worth) are in conflict. The voting machine part of the stock market is arguably trying to anticipate investors' reactions to the next regulatory announcement from the US Food and Drug Administration (which wants to ban menthol cigarettes). What the voting machine ignores is the company's long track record of compounding earnings for investors through various regulatory changes, as well as evidence that BAT's investments into next-generation products are starting to bear fruit. BAT has grown its earnings by 12% p.a. since 2001, while paying out 63% of earnings in dividends and investing heavily to develop and distribute next-generation products that significantly reduce the health impact of smoking. A recent update from the company shows it is gaining traction in rolling out these products: BAT's vaping volumes in the USA, the largest vaping market globally, grew about 40% in the second half of 2018.

Three scenarios could play out for BAT. Assuming BAT's portfolio of next-generation products helps it to sustain its 17-year track record, an investor today would earn 20% p.a. (growth of 12% p.a. + dividend yield of 7.8%). One could argue that sentiment towards tobacco shares will remain subdued, but there is a scenario where the weighing machine takes over at some stage over the next four years. This would cause the share to price in its track record, resulting in a higher return (assuming a re-rating to a 5% dividend yield results in 32% p.a.). Under a bad scenario (the FDA succeeds in banning menthol and BAT doesn't retain any menthol-smoking customers) regulatory intervention dampens growth. Under such a scenario the company may only grow earnings by inflation over the next four years. At the current price this still results in a good outcome with a total return of 14% p.a. (6% growth + 7.8% dividend yield). The weight one should place on the 14%, 20% or 32% p.a. scenarios is ultimately subjective, but these scenarios illustrate the impact of the 'voting machine' on BAT's current share price and the opportunity that this offers to long-term investors.

BAT, or any of the shares we own, could experience unforeseen events outside the scenarios considered. However, at a portfolio level I think now is a good time to be an Equity Fund investor.

During the quarter we bought Richemont and Glencore and we sold Sasol and Old Mutual.

Commentary contributed by Ruan Stander

**Fund manager quarterly
commentary as at
31 December 2018**

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

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 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').

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**.