

# Allan Gray Optimal Fund

ALLAN GRAY

Fund manager: Ruan Stander  
Inception date: 1 October 2002  
Class: A

## Fund information on 31 May 2015

Fund size: R1.2bn  
Price (net asset value per unit): R19.92

## Fund description and summary of investment policy

The Fund invests mainly in selected shares and it uses exchange-traded derivative contracts on stock market indices to substantially reduce its net equity exposure to within a range of 0-20%. As a result, the Fund's return depends on the level of short-term interest rates (implicit in the pricing of the sold futures contracts) and the performance of the Fund's selected shares relative to the stock market index. The Fund's return is therefore unlikely to be correlated with equity market returns. In addition, a portion of the Fund is typically invested in cash and margin deposits.

ASISA unit trust category: South African - Multi Asset - Low Equity

## Fund objective and benchmark

The Fund aims to provide investors with long-term positive returns higher than those available in the money market sector, irrespective of stock market returns. The Fund's benchmark is the daily interest rate as supplied by FirstRand Bank Limited.

## How we aim to achieve the Fund's objective

The Fund invests in selected shares and seeks to substantially reduce stock market risk by selling exchange-traded equity index derivatives. The selected share portfolio is derived from our thorough research process, but the selection of equities in this Fund may differ from that in the other Allan Gray funds by more closely resembling the composition of the indices on which the derivatives contracts are based. The deviation of the Fund's selected share portfolio from the benchmark indices is restricted and closely monitored. This does not eliminate the risk of loss should the selected equities underperform.

## Suitable for those investors who

- Seek steady absolute (i.e. positive) returns regardless of stock market trends
- Require a high degree of capital stability
- Wish to invest in a product that offers uncorrelated returns relative to shares or bonds as a '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.

## Annual management fee and total expense ratio (TER)

The fee rate is calculated daily by comparing the Fund's total performance to that of the benchmark.

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

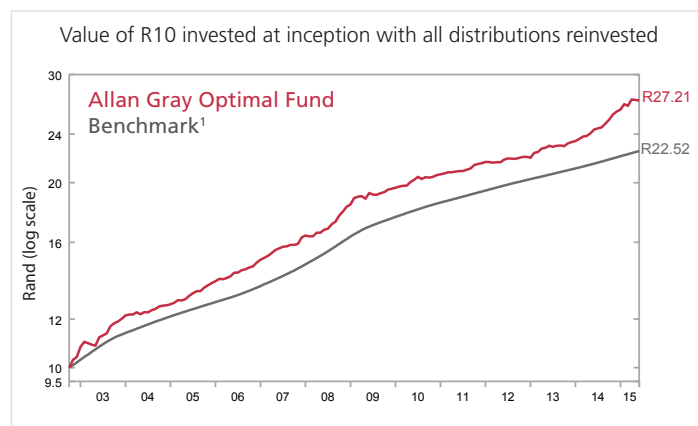
The Fund is first required to recover any underperformance before a fee higher than the fee for performance equal to the benchmark can be charged. This is known as a high watermark. If the Fund's performance is above its previous high watermark, we add 0.2% to the fee for each percentage of performance above the high watermark. The fee is uncapped.

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 12 month period. Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 2 for further information).

## 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 2014 | 31 Dec 2014 |
| Cents per unit  | 18.4801     | 7.7824      |

## Performance net of all fees and expenses



| % Returns                                  | Fund  | Benchmark <sup>1</sup> | CPI inflation <sup>2</sup> |
|--|-------|------------------------|----------------------------|
| <i>Unannualised:</i><br>Since Inception    | 172.1 | 125.2                  | 94.7                       |
| <i>Annualised:</i><br>Since Inception      | 8.2   | 6.6                    | 5.4                        |
| Latest 10 Years                            | 7.6   | 6.1                    | 6.1                        |
| Latest 5 Years                             | 6.1   | 4.6                    | 5.4                        |
| Latest 3 Years                             | 7.7   | 4.4                    | 5.5                        |
| Latest 2 Years                             | 8.9   | 4.5                    | 5.3                        |
| Latest 1 Year                              | 11.5  | 4.8                    | 4.5                        |
| Year-to-date (unannualised)                | 3.5   | 2.0                    | 2.8                        |
| <b>Risk measures (since inception)</b>     |       |                        |                            |
| Maximum Drawdown <sup>3</sup>              | -2.2  | n/a                    | n/a                        |
| Percentage Positive Months <sup>4</sup>    | 82.2  | 100.0                  | n/a                        |
| Annualised Monthly Volatility <sup>5</sup> | 2.7   | 0.7                    | n/a                        |
| Highest annual return <sup>6</sup>         | 18.1  | 11.9                   | n/a                        |
| Lowest annual return <sup>6</sup>          | 1.6   | 4.4                    | n/a                        |

1. The daily interest rate as supplied by FirstRand Bank Limited (source: FirstRand Bank), performance as calculated by Allan Gray as at 31 May 2015.
2. This is based on the latest numbers published by INET BFA as at 30 April 2015.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 25 February 2003 to 27 March 2003. Drawdown is calculated on the total return of the Fund (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. This is the highest or lowest consecutive 12 month returns the Fund has experienced since inception, along with the benchmark performance for the corresponding period. This is a measure of how much the Fund's returns have varied per rolling 12 month period. The highest annual return occurred from 1 October 2002 to 30 September 2003 and the lowest annual return occurred from 1 January 2012 to 31 December 2012. All rolling 12 month figures for the Fund and the benchmark are available from our Client Service Centre on request.

| TER breakdown for the year ending 31 March 2015 | %           |
|---|-------------|
| Fee for benchmark performance                   | 1.00        |
| Performance fees                                | 1.31        |
| Other costs including trading costs             | 0.12        |
| VAT   | 0.32        |
| <b>Total expense ratio</b>                      | <b>2.75</b> |

## Fund manager quarterly commentary as at 31 March 2015

The Fund had a good first quarter, returning 3.9%. Readers will recall that we had three key positions at the end of 2014:

- 1) A positive exposure to banks and a negative exposure to mines
- 2) A positive exposure to British American Tobacco (BAT) and a negative exposure to mobile networks
- 3) A positive exposure to Sasol and a negative exposure to Richemont

Banks have substantially outperformed mines over the last quarter. However, we believe that banks are still reasonably priced on conservative accounting earnings, while mines tend to have long-term cycles in profitability. The historical boom in Chinese construction saw mines ramping up supply – a process that is hard to reverse once in force. In the context of slowing demand, the down cycle could last for a number of years.

The second position mentioned above still holds. In some respects these companies are opposites, with BAT growing earnings with price increases, while the mobile networks need to invest in capacity to offset declining prices. We believe that declining prices, revenue and operating profits are not fully priced in for the mobile networks; on the other hand, BAT offers a low-risk and growing stream of free cash flow.

The third position has also been maintained. Despite operating in different sectors, Sasol and Richemont have much in common. Both companies exhibit severe profit cyclicity yet historically have managed to grow earnings faster than the market and, in years of normal profit, are able to deliver an attractive return on shareholder equity. Last year could be seen as a strong year for both companies. Richemont earned high margins after strong growth in sales to Chinese customers and Sasol benefited from a high rand oil price. More recently, Sasol has come under pressure as a result of the falling oil price and investors are only willing to pay seven times earnings for Sasol compared to 21 times for Richemont. It is not clear how long the down cycle in oil will last or how severe the next down cycle will be for Richemont, but the price disparity creates much room for different outcomes.

A new position in JD Group (JDG) was acquired during the quarter. JDG is the dominant furniture retailer in South Africa and is majority owned by Steinhoff. The investment case for JDG is centred on a number of points. Firstly, there is potential to restructure the business, assembled by acquisition over the years, to make it more efficient. Steinhoff has a great track record at restructuring retail businesses around the world. Secondly, JDG's largest competitor, Ellerrines, is in liquidation, which should result in reduced competition. Thirdly, the lending business is being sold to RCS – reducing the probability of a substantial loss to shareholders. Lastly, the company is not trading on a high multiple.

Commentary contributed by Ruan Stander

## Top 10 share holdings on 31 March 2015 (updated quarterly)

| Company                  | % of portfolio |
|--------------------------|----------------|
| Naspers <sup>7</sup>     | 10.8           |
| British American Tobacco | 8.8            |
| SABMiller                | 8.4            |
| Standard Bank            | 7.6            |
| Sasol                    | 6.7            |
| FirstRand                | 5.8            |
| Old Mutual               | 5.1            |
| Capitec                  | 4.0            |
| Remgro                   | 2.8            |
| JD Group                 | 2.7            |
| <b>Total</b>             | <b>62.7</b>    |

7. Including Naspers Stub Certificates.

## Asset allocation on 31 May 2015

| Asset Class                    | Total        |
|--------------------------------|--------------|
| Net Equity                     | 4.9          |
| Hedged Equity                  | 77.6         |
| Property                       | 1.0          |
| Commodity-linked               | 0.0          |
| Bonds                          | 0.0          |
| Money Market and Bank Deposits | 16.4         |
| <b>Total (%)</b>               | <b>100.0</b> |

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

|         |                       |
|---------|-----------------------|
| Minimum | 0.0 % (August 2007)   |
| Average | 4.5 %                 |
| Maximum | 15.4 % (January 2003) |

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

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### 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 nine unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board (FSB). The Management Company is a member of the Association for Savings & Investment SA (ASISA) and is incorporated under the laws of South Africa. The Management Company 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. 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. 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. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

### 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

The TER is the percentage of the Fund's average assets under management that has been used to pay the Fund's operating expenses over the past year. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), trading costs (including brokerage, STT, STRATE and FSB Investor Protection Levy), VAT and other expenses. Since unit trust expenses vary, the current TER cannot be used as an indication of future TERs. The Fund's performance figures are quoted after the deduction of costs incurred within the Fund so the TER is not a new cost. 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. TERs should then be used to evaluate whether the Fund performance offers value for money.