

# ALLAN GRAY

## ALLAN GRAY OPTIMAL FUND

**Fund manager:** Ruan Stander. **Inception date:** 1 October 2002

### 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	<b>R20 000</b>
Additional lump sum	<b>R500</b>
Minimum debit order*	<b>R500</b>

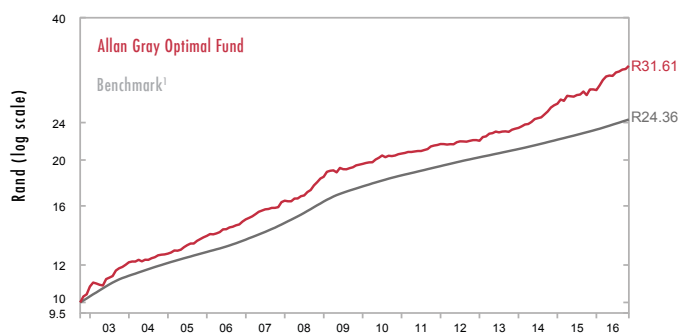
\*Only available to investors with a South African bank account.

### Fund information on 31 October 2016

Fund size	<b>R1.5bn</b>
Number of units	<b>53 026 788</b>
Price (net asset value per unit)	<b>R22.72</b>
Class	<b>A</b>

### 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	216.1	143.6	110.2
<b>Annualised:</b>			
Since inception	8.5	6.5	5.5
Latest 10 years	8.0	6.1	6.2
Latest 5 years	8.1	4.8	5.6
Latest 3 years	10.9	5.1	5.5
Latest 2 years	10.6	5.4	5.3
Latest 1 year	12.1	6.0	6.1
Year-to-date (not annualised)	12.5	5.0	5.5
<b>Risk measures (since inception)</b>			
Maximum drawdown <sup>3</sup>	-3.4	n/a	n/a
Percentage positive months <sup>4</sup>	82.2	100.0	n/a
Annualised monthly volatility <sup>5</sup>	2.9	0.7	n/a
Highest annual return <sup>6</sup>	18.1	11.9	n/a
Lowest annual return <sup>6</sup>	1.6	4.1	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 October 2016.

2. This is based on the latest numbers published by INET BFA as at 30 September 2016.

3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 September 2016 to 13 October 2016. 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. 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 2003 and the benchmark's occurred during the 12 months ended 30 September 2003. The Fund's lowest annual return occurred during the 12 months ended 31 December 2012 and the benchmark's occurred during the 12 months ended 31 August 2013. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

# ALLAN GRAY

## ALLAN GRAY OPTIMAL FUND

### Meeting the Fund objective

Since inception and over the latest 10 and five-year periods, the Fund has outperformed its benchmark, which is the daily interest rate supplied by FirstRand Bank Limited. The Fund aims to deliver positive returns, irrespective of stock market returns. The lowest annual return number, in the 'Performance net of all fees and expenses' table, shows that the Fund has not yet experienced a negative return over any rolling 12-month period, while the stock market has experienced negative returns over some 12-month periods since the inception of the 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.	31 Dec 2015	30 Jun 2016
<b>Cents per unit</b>	<b>25.8500</b>	<b>2.8394</b>

### Annual management fee

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.

### Total expense ratio (TER) and Transaction costs

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 3-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.

TER and Transaction costs breakdown for the 3-year period ending 30 September 2016	%
<b>Total expense ratio</b>	<b>2.24</b>
Fee for benchmark performance	1.00
Performance fees	0.95
Other costs excluding transaction costs	0.02
VAT	0.27
<b>Transaction costs (including VAT)</b>	<b>0.14</b>
<b>Total investment charge</b>	<b>2.38</b>

### Top share holdings on 30 September 2016 (updated quarterly)

Company	% of portfolio
Naspers <sup>7</sup>	18.6
British American Tobacco	8.7
Sasol	7.9
RMB	4.4
Capitec	3.9
Standard Bank	3.8
WBHO	3.1
Rand Merchant Investment <sup>7</sup>	2.5
Reinet	2.2
Coronation	2.2
<b>Total (%)</b>	<b>57.2</b>

7. Including stub certificates.

### Asset allocation on 31 October 2016

Asset Class	Total
Net equity	6.9
Hedged equity	73.6
Property	0.6
Commodity-linked	0.0
Bonds	0.0
Money market and bank deposits	18.9
<b>Total (%)</b>	<b>100.0</b>

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

Minimum	-3.6% <sup>8</sup> (September 2016)
Average	4.5%
Maximum	15.4% (January 2003)

8. The negative net equity exposure as at 30 September 2016 is due to the cash acquisition of SABMiller by Anheuser-Busch In-Bev. This was corrected and the Fund had a positive net equity exposure by 4 October 2016.

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

# ALLAN GRAY

## ALLAN GRAY OPTIMAL FUND

### Fund manager quarterly commentary as at 30 September 2016

The third quarter was another volatile one for world markets with the rand-based MSCI World Index, including income, first moving down 5%, then up 10% and finally down 6% to close down 1% for the quarter. The Optimal Fund returned 1.7%, which brings the year-to-date return to 10.8%.

With SABMiller being de-listed, the FTSE/JSE Top 40 Index (Top 40) has become more concentrated and less efficient as a hedging instrument and, as a result, the Fund decided to make use of futures contracts based on the FTSE/JSE Resource 10 Index (RESI) to augment our stock market hedge. Naspers, in which the Fund prefers to hold a positive exposure, offers a case in point. Because the share now makes up close to 20% of the Top 40, the Fund needs to take a very large stake in the share to end up with a positive net position. After careful consideration, we decided to change the stock market hedge from 100% Top 40 to roughly 75% Top 40 and 25% RESI. As market opportunities change, we might revisit the hedge composition in the future.

The Fund purchased more Sasol, Naspers and British American Tobacco (BAT) and sold some of its banking exposure during the quarter, as sharp relative price movements justified taking profits on some of the banks and rand-sensitive shares became more attractively priced. Within banks, we also switched our FirstRand shareholding into RMB Holdings (RMBH) as the RMBH holding company discount opened up, making RMBH a more attractive entry point for FirstRand.

The Fund's key positive exposures are to tobacco (BAT and Reinet), banks, Naspers and various selected South African based industrial companies. Key negative exposures include resources, Richemont and MTN.

*Commentary contributed by Ruan Stander*

# ALLAN GRAY

## ALLAN GRAY OPTIMAL FUND

### Notes for consideration

#### 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](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. 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 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](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 three years. 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.

#### 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.