# Allan Gray Stable Fund

ALLANGRAY

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|---|---|
| **Fund managers:** | Ian Liddle, Mark Dunley-Owen (Most foreign assets are invested in Orbis funds) |
| **Inception date:** | 1 July 2000 |
| **Class:** | A |

## Fund description

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy foreign assets up to a maximum of 25% of the Fund (with an additional 5% for African ex-SA investments). 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 40%. The Fund's net equity exposure may be reduced from time to time using exchange-traded derivative contracts on stock market indices. 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 or a balanced fund.

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

## Fund objective and benchmark

The Fund aims to provide a high degree of capital stability and to minimise the risk of loss over any two-year period, while producing long-term returns that are superior to bank deposits. The Fund's benchmark is the daily interest rate as supplied by FirstRand Bank Limited plus 2%. Historically the Fund's performance and benchmark were on an after-tax basis at an assumed tax rate of 25%. We have removed this tax adjustment from 1 August 2013.

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

A major portion of the Fund is typically invested in money market instruments. We seek to deploy the Fund's cash by investing in shares when they can be bought at a significant 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 allocate a low weight to shares or partially hedge the Fund's stock market exposure in consideration of the Fund's capital preservation objectives. The Fund may also invest in bonds, property and commodities. The Fund's bond and money market investments are actively managed.

## Suitable for those investors who

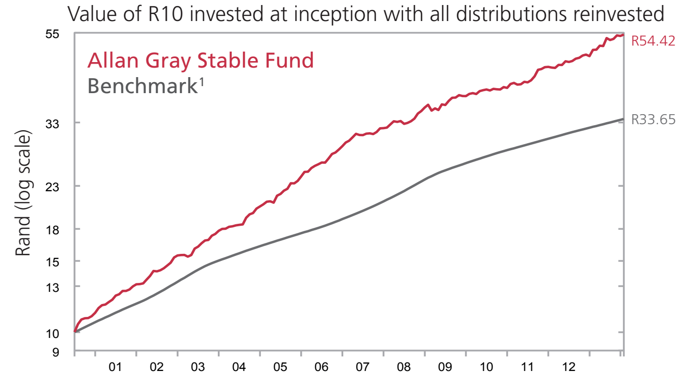
- Are risk-averse and require a high degree of capital stability
- Seek both above-inflation returns over the long term, and capital preservation over any two-year period
- Require some income but also some capital growth
- Wish to invest in a unit trust that complies with retirement fund investment limits

## Fund information on 31 October 2013

| | |
|---|---|
| Fund size: | R31 967m |
| Fund price: | R28.04 |
| Number of share holdings: | 70 |

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | Benchmark[1] | CPI inflation[2] |
|---|---|---|---|
| *Unannualised:* | | | |
| Since inception | 444.2 | 236.5 | 111.3 |
| *Annualised:* | | | |
| Since inception | 13.6 | 9.5 | 5.8 |
| Latest 10 years | 12.1 | 8.6 | 5.6 |
| Latest 5 years | 9.4 | 7.6 | 5.3 |
| Latest 3 years | 11.0 | 6.5 | 5.7 |
| Latest 2 years | 10.3 | 6.4 | 5.7 |
| Latest 1 year | 12.7 | 6.2 | 6.0 |
| Year-to-date (unannualised) | 13.1 | 5.1 | 4.8 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | | n/a | n/a |
| Percentage positive months[4] | | 100.0 | n/a |
| Annualised monthly volatility[5] | | | n/a |

1. The Fund's benchmark is the daily interest rate as supplied by FirstRand Bank Limited plus 2%, performance as calculated by Allan Gray as at 31 October 2013.
2. This is based on the latest numbers published by I-Net Bridge as at 30 September 2013.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 12 January 2009 to 10 March 2009. 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.

## Minimum investment amounts

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

*Only available to South African residents.

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

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. If the Fund's return over two years is equal to or less than 0%, Allan Gray will not charge a fee.

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.

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 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).

| TER breakdown for the year ending 30 September 2013 | % |
|---|---|
| Fees for benchmark performance | 1.02 |
| Performance fees | 0.76 |
| Other costs including trading costs | 0.09 |
| VAT | 0.16 |
| **Total expense ratio** | **2.03** |

# Allan Gray Stable Fund

## Fund manager quarterly commentary as at 30 September 2013

Investors in the platinum miners argue that their shares are priced below the replacement cost of their assets, that recovering demand for platinum group metals (PGMs) will soon exceed stagnant / shrinking supply, and that the miners are at last starting to assert themselves in a consolidated market. But the crux of all these arguments is that PGM prices have to rise faster than the mines' unit costs of production, because at today's PGM prices the mines are not generating enough free cash flow to justify their share prices.

Unit costs at the biggest producer, Anglo American Platinum, have compounded by 14% per year for the last decade. While the cost escalation may slow, it is hard to see future unit cost increases below CPI inflation being sustained unless radical changes are made to South African labour regulations or there is some kind of technological breakthrough. Geological and physical constraints impinge on productivity as deep underground mines mature. This is compounded by declining worker productivity, and wage settlements above the inflation rate.

By our calculations, the South African platinum miners may scrape out a living at current PGM prices (while continuing to close shafts). But PGM prices need to rise by at least 20% (without any cost increases) to justify the current share prices. Of course, the miners will be good investments if PGM prices rise by even more than this, and if the newly expanded margin is not whittled away by a militant unionised labour force, a demanding regulator, or by executive hubris and lax cost control.

Although the potential returns from investing in the platinum miners are higher than those from investing in the metal itself (for example, if PGM prices rise substantially and costs are controlled), the risks are greater too. Risks include PGM prices rising enough to keep the mines operating but not enough to generate sufficient free cash flow for shareholders, or PGM prices rising substantially but costs rising to match revenues as they have done historically.

In light of its conservative objectives, the Stable Fund currently prefers investing in the metal to the miners. The Fund's exposure to the recently listed Newgold Platinum instrument now exceeds its exposure to the platinum miners. In a similar vein, the Fund has had more exposure to gold (the metal) than to gold miners for most of the time since it first bought gold in 2005.

*Commentary contributed by Ian Liddle*

## Top 10 share holdings on 30 September 2013 (SA and Foreign) (updated quarterly)

| Company | % of portfolio |
|---|---|
| British American Tobacco | 4.4 |
| Sasol | 3.9 |
| SABMiller | 2.7 |
| Standard Bank | 1.8 |
| Remgro | 1.3 |
| Reinet Investments SA | 0.9 |
| NetEase | 0.9 |
| INPEX | 0.7 |
| Sanlam | 0.7 |
| American Intl. Group | 0.7 |
| **Total** | **18.2** |

## Asset allocation on 31 October 2013

| Asset class | Total | SA | Foreign |
|---|---|---|---|
| Net Equity | 16.0 | 11.4 | 4.6 |
| Hedged Equity | 33.5 | 15.9 | 17.5 |
| Property | 1.3 | 0.9 | 0.3 |
| Commodities | 4.8 | 4.8 | 0.0 |
| Bonds | 6.1 | 6.1 | 0.0 |
| Money Market and Bank Deposits | 38.3 | 34.3 | 4.0 |
| **Total (%)** | **100.0** | **73.5** | **26.5**[7] |

7. The Fund is above its foreign exposure limit due to market value movements.

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

| | |
|---|---|
| Minimum | 12.4% (January 2010) |
| Average | 23.8% |
| Maximum | 39.4% (August 2004) |

## 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 quarterly.

| | 31 Dec 2012 | 31 Mar 2013 | 30 Jun 2013 | 30 Sept 2013 |
|---|---|---|---|---|
| Cents per unit | 14.3128 | 13.4051 | 13.0091 | 14.2539 |

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

Tel 0860 000 654 or +27 (0)21 415 2301 Fax 0860 000 655 or +27 (0)21 415 2492 info@allangray.co.za www.allangray.co.za