

Fund description and summary of investment policy

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy foreign assets up to a maximum of 30% of the Fund (with an additional 10% 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%.

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

Minimum investment amounts

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

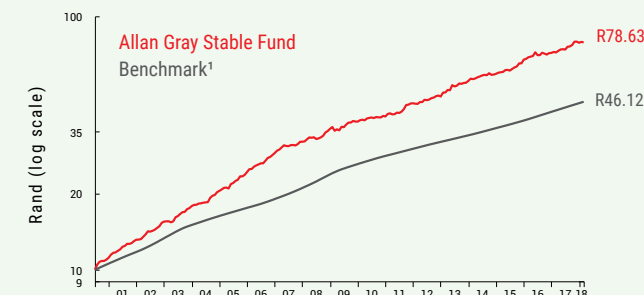
*Only available to investors with a South African bank account.

Fund information on 28 February 2018

Fund size	R46.2bn
Number of units	777 704 448
Price (net asset value per unit)	35.79
Class	A

Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



- 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 28 February 2018.
- This is based on the latest numbers published by IRESS as at 31 January 2018.
- Maximum percentage decline over any period. The maximum drawdown occurred from 12 May 2006 to 14 June 2006. Drawdown is calculated on the total return of the Fund (i.e. including income).
- The percentage of calendar months in which the Fund produced a positive monthly return since inception.
- 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.
- 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 April 2006 and the benchmark's occurred during the 12 months ended 30 June 2003. The Fund's lowest annual return occurred during the 12 months ended 31 May 2017 and the benchmark's occurred during the 12 months ended 31 January 2014. 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 July 2000)	686.3	361.2	163.8
Annualised:			
Since inception (1 July 2000)	12.4	9.0	5.7
Latest 10 years	9.2	8.0	5.8
Latest 5 years	9.5	7.4	5.5
Latest 3 years	9.5	7.9	5.7
Latest 2 years	7.0	8.2	5.5
Latest 1 year	9.6	8.2	4.4
Year-to-date (not annualised)	0.3	1.3	0.8
Risk measures (since inception)			
Maximum drawdown ³	-4.1	n/a	n/a
Percentage positive months ⁴	79.7	100.0	n/a
Annualised monthly volatility ⁵	4.3	0.7	n/a
Highest annual return ⁶	23.3	14.6	n/a
Lowest annual return ⁶	2.8	6.2	n/a

Meeting the Fund objective

Since inception and over the latest 10 and five-year periods, the Fund has outperformed its benchmark and CPI inflation, while providing a high degree of capital stability. The Fund aims to minimise the risk of loss over any two-year period. The lowest annual return number, in the 'Performance net of all fees and expenses' table, show that the Fund has not yet experienced a negative return over any rolling 12-month period.

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 Mar 2017	30 Jun 2017	30 Sep 2017	31 Dec 2017
Cents per unit	35.5995	27.5280	35.3905	22.3895

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 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. 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)⁸

Company	% of portfolio
Sasol	4.0
Naspers	2.0
Old Mutual	2.0
Nedbank	1.4
Standard Bank	1.4
Life Healthcare	1.2
Remgro	1.2
Investec	1.2
British American Tobacco	1.0
AbbVie	0.9
Total (%)	16.4

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	1.73	1.67
Fee for benchmark performance	1.08	1.06
Performance fees	0.48	0.44
Other costs excluding transaction costs	0.02	0.02
VAT	0.15	0.15
Transaction costs (including VAT)	0.08	0.07
Total investment charge	1.81	1.74

Top credit exposures on 31 December 2017 (SA and Foreign) (updated quarterly)^{7,8}

Issuer	% of portfolio
FirstRand Bank	6.4
Standard Bank	5.4
Nedbank	4.3
Absa Bank	4.1
Investec Bank	3.7
Republic of South Africa	3.6
African Bank	1.7
Sanlam	1.5
Total (%)	30.8

7. All credit exposure 1% or more of portfolio.

Asset allocation on 28 February⁸

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	34.1	25.2	1.0	7.9
Hedged equity	13.2	0.4	0.0	12.9
Property	3.3	2.9	0.0	0.4
Commodity-linked	2.9	2.6	0.0	0.4
Bonds	20.7	18.4	1.1	1.1
Money market and bank deposits	25.8	21.0	1.0	3.9
Total (%)	100.0	70.4	3.1	26.5⁹

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

9. Up to 30% of the Fund's value can be invested outside of Africa and 10% in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

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

Minimum	(January 2010) 12.4%
Average	24.1%
Maximum	(August 2004) 39.4%

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

Scott Adams, the Dilbert cartoonist, writes that: "When it comes to any big or complicated question, humility is the only sensible point of view."

Humility is an important part of Allan Gray's philosophy, particularly in the Stable Fund with its dual objectives of generating attractive real returns while minimising the risk of capital loss. Over the longer term, these objectives increase the probability that we can maximise wealth for our clients, but over the short term they may conflict with each other.

The binary nature of the recent ANC presidential race made it likely that either domestic or foreign portfolios would outperform depending on the outcome. Investors who were willing to invest with a bias towards a predicted outcome were rewarded with above-average returns if proven correct. We do not believe we can predict such outcomes reliably, particularly when they relate to politics. Instead, we position the Stable Fund to protect our clients' capital in different scenarios. We do so by investing in low duration fixed income instruments and equities that are undervalued over a longer-term horizon.

Recently the Fund owned above-average quality global companies such as Naspers, Sasol and British American Tobacco, as well as South African-specific companies pricing in low expectations – such as the banks and retailers. This approach limited the risk of capital loss but meant we had to forego the opportunity of material outperformance if the Fund had been positioned towards a positive political outcome. We are nonetheless relieved by Cyril Ramaphosa's victory, and fortunate that the Fund was still able to generate reasonable returns over the last year.

A further aspect of humility is willingness to accept one's limitations. Doing so helps us avoid investments in which we have a poor understanding of intrinsic value, such as Steinhoff. Given the Fund's risk mandate, our failure to make sense of the company's accounting meant that the Fund was not invested in Steinhoff ordinary shares. The Fund does however have limited exposure to Steinhoff preference shares. These are senior to the ordinary shares and should avoid permanent capital loss in many scenarios. We are monitoring the risks following recent announcements.

Activity

The Fund increased exposure to South Africa sensitive shares over much of the last year as deteriorating expectations meant that prices fell below intrinsic value. Many of these shares have performed well since Cyril Ramaphosa's victory, and the Fund has reduced exposure to those which we believe are now fully valued.

During the fourth quarter, the Fund reduced its holdings in Naspers, miners, selected banks and retailers and increased its holdings in Sasol, insurers and selected property companies.

Commentary contributed by Mark Dunley-Owen

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.

Compliance with Regulation 28

The Fund is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

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**.