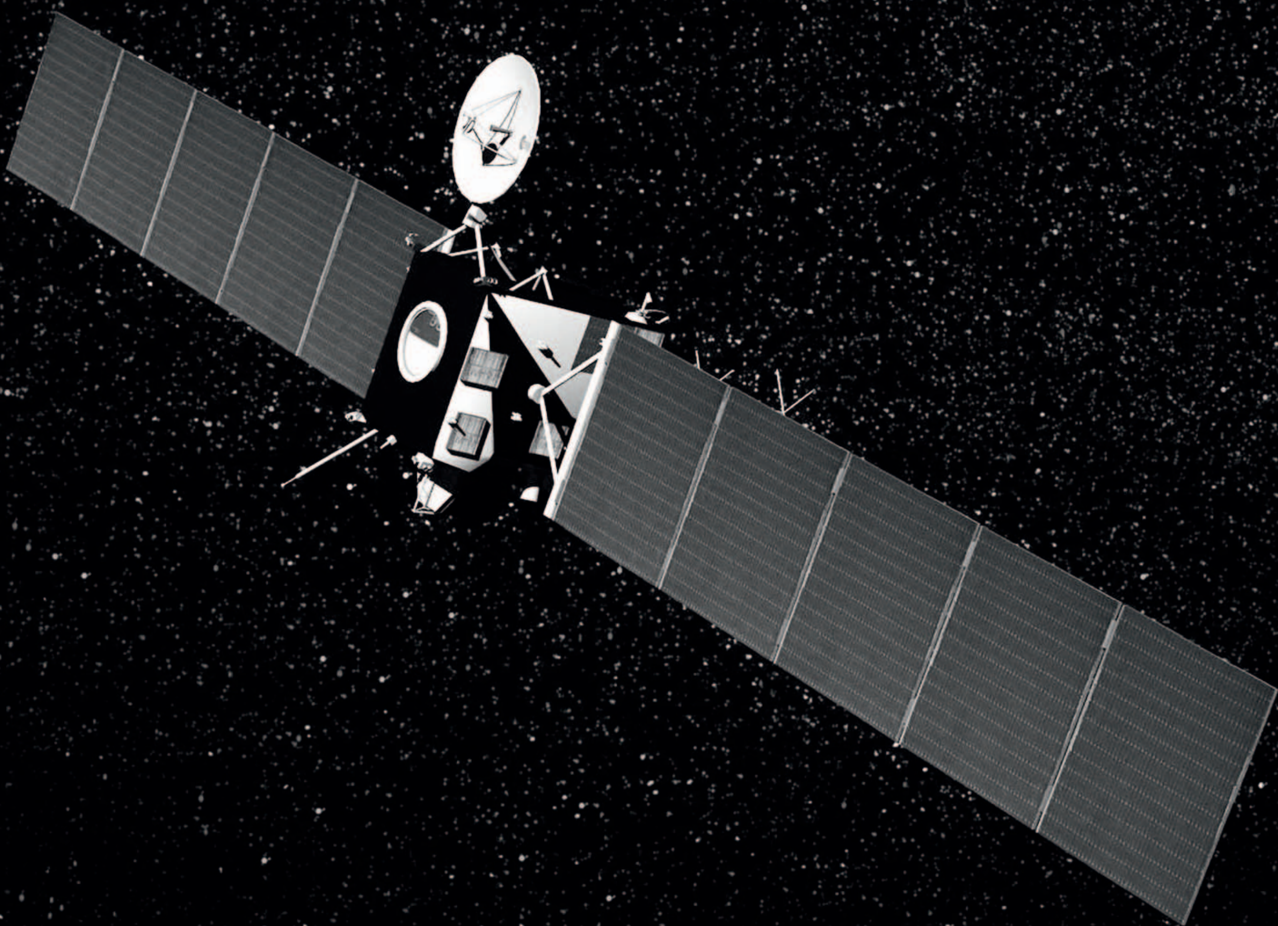
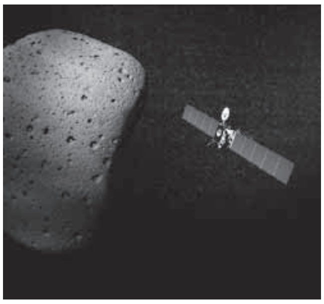
ALLAN GRAY

QUARTERLY COMMENTARY 2

30 JUNE 2016



LONG-TERM THINKING IN ACTION



The cover of this Quarterly Commentary features the Rosetta spacecraft. The mission to land a space probe on a comet began two decades ago as part of an effort to learn about how life on Earth started and how our Solar System was formed.

For ten years a close-knit team worked towards the launch date in 2004, when the spacecraft began a long journey towards its eventual target – Comet 67P. After a decade of flybys and a four-year dormant period, the craft finally reached its target in 2014 and successfully deployed a lander on to the comet's surface.

The Rosetta mission is a triumph of science and shows us what can be achieved through long-term planning, patience, and commitment.

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ROB DOWER

COMMENTS FROM THE CHIEF OPERATING OFFICER

Trust and confidence are especially important for financial markets. Everything that changes hands in financial markets represents a promise of one kind or another – a promise to pay future profits, or a promise to make interest and capital payments, or a promise to accept a paper note in return for a ton of rice on some future date. If you took away the essential ingredients of trust and confidence, these promises would lose value and our basic systems for storing wealth for the future and ultimately for social development would collapse.

Everyone, no matter how rich or poor, has an interest in the world's financial markets operating well and allocating capital to the best opportunities for human progress. Consider the internet, or electric cars, or countries borrowing to build infrastructure: all these depend on financial markets providing capital for many years before enough people are ready to pay for them directly.

Although we all have an interest in the markets, we know that humans will regularly sacrifice their interests if they feel unfairly treated. A well-known social experiment goes as follows: two participants are given a fixed amount of money to share, say R1 000. Only one has the right to propose a split, and the other can either accept or reject the proposal in a one-off game (i.e. there is no second chance). A rejection means that neither gets any of the money. Rationally, the proposer should hang on to as much as possible and the second participant should accept any proposal where they are offered more than zero. But of course, participants regularly turn down 'unfair' proposals to punish the proposer even though this is against their own self-interest. By far the most commonly proposed and accepted split in this game is 50/50.

Over the last 30 years the combination of global sourcing and advances in technology has reduced the value of middle income jobs in developed countries and median salaries in many rich countries like the US have stagnated. More recently, partly because of concerns regarding widespread economic risk, the most powerful central banks have maintained very low interest rates and printed money to lend to governments and banks. Their intention is that this cheap capital will drive investment and thus support economic growth. But economic growth continues to disappoint and the principal impact of their policies has been an increase in the value of financial assets, and thus in the wealth of the wealthiest people. The combined effect has been an increasing wealth gap between rich and poor, or really between the rich and the rest.

This increasing wealth gap and the lack of economic progress for middle classes in many countries has undermined popular trust in the establishment and in financial institutions. This is evident in the politics of the UK, America and Europe. The economic and political adjustments that will inevitably result are a source of significant uncertainty and risk.

Gold as a store of value in uncertain times

We are not alone in being more-than-usually concerned by the current risks in global politics and financial systems. In times of turmoil investors rush to safe-haven investments and recently gold has been a popular choice. As the leadership wrangles continue and existing governments seek to respond to social pressure by interfering in all aspects of economic activity, and central banks continue with their radical monetary experiments, gold is attracting renewed interest among a diverse group of investors. Sandy McGregor takes a comprehensive look at the history of gold supply and gold prices and the role that the precious metal has played over the years.

Simplicity helps build trust and confidence

Allan Gray's reason for existence is to connect savers to the most attractive opportunities for investing their savings, be it in shares, bonds, property or in offshore investments. We aim to do an excellent job as a premium provider in our industry, but the majority of those we serve – in both total assets and numbers of individuals – are ordinary people. We proudly look after the savings of regular South Africans, including miners, municipal workers, people working in media, in engineering, some doctors, accountants and lawyers, some through company pension funds, some through policies bought at one of the large insurers, and some directly on our investment platforms. We try hard to make our products as simple and transparent as possible, and to provide high quality, intelligent service, in order to win our clients' trust and confidence.

Our simple, transparent investment philosophy is an example of this. We buy shares and other assets that we believe are undervalued by the market and sell them when they reach our estimate of their true value. In light of all the uncertainty in the market, we thought that it was appropriate this quarter to use our Investing Tutorial to explain the basics of our approach to investing. Once you have a good idea of how our investment philosophy works you may be interested to learn that we share this exact approach to investing with our offshore partner Orbis. You can get a sense of how this approach is applied by reading the article on XPO Logistics by Ashley Lynn and Matt Adams, from Orbis. Note the big emphasis we place on holistic fundamental research: the same information determines the value of that company's debt and its equity.

While the philosophy itself is simple, the research process is very thorough as we hunt for opportunities the market hasn't recognised. Companies that are ripe for restructuring often offer good potential. Duncan Artus describes how we engage with the management and board representatives of these companies about making changes that can enhance long-term value, using Pick n Pay and Old Mutual as examples.

The tax man encourages you to save

The government has put incentives in place to encourage us to save more. While you can't make investment decisions purely based on tax, it is an important factor to consider. The money you save by paying less tax can have a very positive impact on the returns you ultimately receive. Richard Carter and Jeanette Marais discuss the impact of tax on your investment returns in our different local products.

Allan Gray Orbis Foundation

Our country is one of the most unequal societies in the world. The Allan Gray Orbis Foundation is actively working to cultivate responsible, high-impact entrepreneurs as an economic and social lever for a more equitable and prosperous South Africa. In our final article Zimkhitha Peter from the Allan Gray Orbis Foundation describes how the Foundation aims to do this and she shares the stories of some successful fellows. These remarkable stories bring the Foundation's vision to life.

Thank you for your ongoing trust and support.

Kind regards

Rob Dower

SANDY MCGREGOR

GOLD: A HISTORY OF ITS PRICE

Inventories play a significant role in the pricing of commodities: when they are low prices tend to rise, while excessive inventories depress prices. However, for most commodities other factors, such as the cost of production, are equally important. Precious metals, which can act as a store of value, are a notable exception. In an in-depth look at the history of gold supply, Sandy McGregor notes that above-ground stocks of gold are now so large relative to annual consumption they are the principal determinant of prices. The same is true for silver and platinum. The impact of industry profitability on price is tenuous.

Renewed interest in gold as a financial asset

Currently central banks own 1 039 million ounces of gold and private stocks in the form of jewellery and bars amount to about 4 200 million ounces. This estimate implies that private stocks are currently worth about US$5.4 trillion. This huge inventory has been accumulated partly because gold is the metal of choice for jewellery, and partly because it is regarded as a store of value in times of social and political disorder.

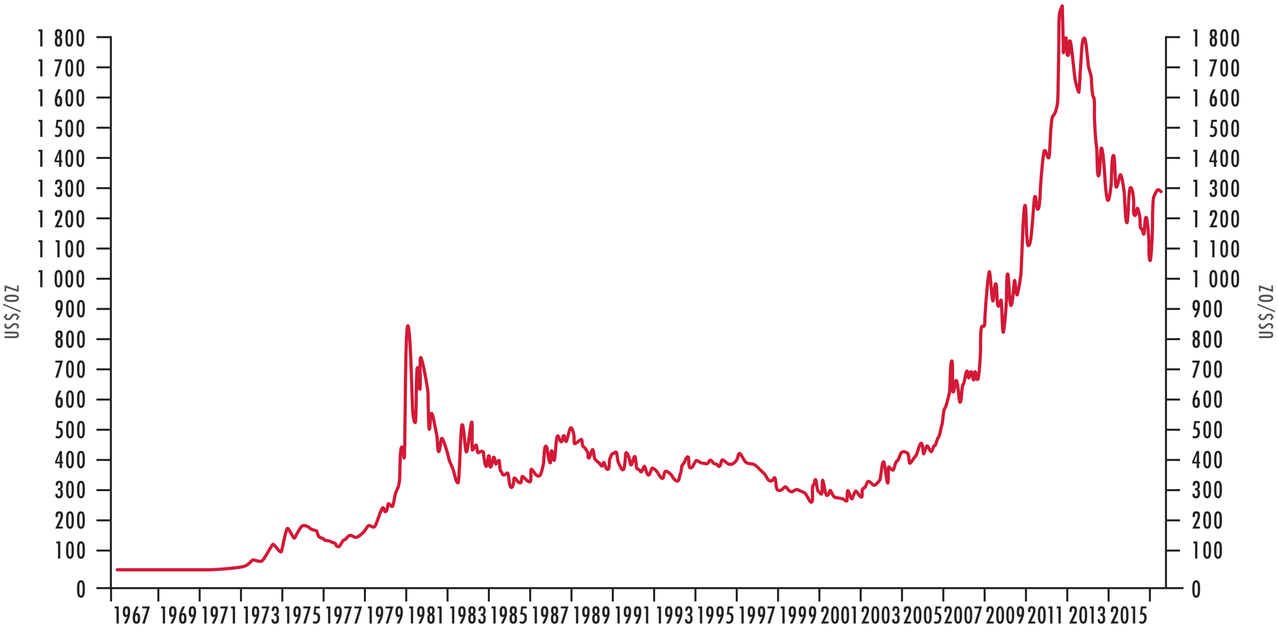
Since 1980 gold demand has been mainly for the fabrication of jewellery and its role as a financial asset has retreated into the background. This may be changing. As governments seek to interfere in all aspects of economic activity and central banks have embarked on radical monetary experiments which distort asset prices, gold as a store of value, which is not someone else's liability, is attracting renewed interest among a diverse group of investors. The amount of gold in private hands is large enough for it to play a significant role in the portfolios of investors who fear the consequences of the current fashion among central banks to promote inflation. We are heading back to the 1970s. Then it was the inadequate response of central banks to inflation which gave gold its attraction. Today it is their response to deflation.

"SINCE 1980 GOLD DEMAND HAS BEEN MAINLY FOR THE FABRICATION OF JEWELLERY AND ITS ROLE AS A FINANCIAL ASSET HAS RETREATED... THIS MAY BE CHANGING."

Gold inventories are uniquely large

Gold has by far the largest above-ground stock of any commodity. It has been mined since antiquity, with about 5 120 million ounces produced since 1800. Although some gold has been lost or consumed for industrial purposes and not recycled, most still exists today, either in the form of bullion bars and coins, or as jewellery. These inventories are equivalent to over 40 years' current annual consumption. While central bank holdings are precisely known, there are no reliable statistics on the exact quantity of the stocks privately owned. However, the simple proposition that together they amount to all gold produced since 1800 provides as good an estimate as any of their order of magnitude and this is the basis of my estimates that follow. To understand the gold price one must understand the history of this inventory.

GRAPH 1 **GOLD PRICE US$/OZ**



Source: INET BFA

Pre-1970: When gold was money

Historically gold was money. Prior to 1933 the value of the US dollar was determined by a gold price of US$20.67 per ounce. After some haphazard experimentation, President Franklin Roosevelt devalued the dollar in 1934, fixing gold at US$35 per ounce, a price which prevailed until the collapse in 1971 of the international monetary system established following the Second World War. Until 1965 this price was too high to clear the market and central banks were persistent buyers of surplus production to prevent the price from dropping below US$35. Indeed, in 1937 these purchases were large enough to prompt serious discussion as to whether the official gold price should be reduced. After gold was made a centre piece of the monetary system established at the Bretton Woods conference in 1944, central banks pooled their efforts to hold the price at US$35.

In the years preceding the Second World War the US$35 price made gold mining extremely profitable. Between 1931 and 1940 annual mine production increased from 22 to 42 million ounces. After 1945 production outside South Africa started to decline as margins were eroded by inflation. The exception to this trend was South Africa, where the discovery of high-grade ore bodies resulted in the opening of new mines, which were profitable at US$35. By 1970 world production, including that of the Soviet Union, had increased to 47 million ounces, of which South Africa accounted for 32 million. Between 1932 and 1970 cumulative mine production was 1 312 million ounces, of which 45% was purchased by central banks.

The 70s: The collapse of the post-war financial system

The central bank gold pool ended in 1968 when private investors fearing monetary instability and inflation became large-scale buyers. The movement of the gold price since then is shown in **Graph 1**. Demand from these buyers ultimately pushed the price to US$800 in 1980. Higher prices had less of an impact on overall supply than one would think. Production outside South Africa stabilised because it was now profitable. Higher prices had a temporarily perverse impact on production because South African mines could afford to reduce the grades of ore they mined. The higher the price, the less gold South Africa produced. As the official sector became a net seller, all newly mined gold ended up in private hands. By 1980 private inventories reached about 1 600 million ounces.

The great bear market from 1980 to 1999

As one would expect, the longer-term response to higher prices was ultimately an increase in supply, in part from renewed interest in exploration for mineable gold. The development of high-altitude helicopters gave geologists greater access to much of the Andes and Rockies. During the 1970s heap leaching technology was developed, which significantly cut the cost of developing low-grade open-cast mines. Large-scale earth moving equipment reduced mining costs. While SA production declined, production elsewhere, driven by new technology, grew strongly.

In the 20 years to 2000 annual world production almost doubled to 82 million ounces. All this gold went to the private sector, whose inventory rose from 1 600 to 2 900 million ounces, but the price gradually declined reaching a low of US$254 in August 1999. The funding of new mines had an adverse impact on the price because they were financed by selling production forward. To make long-term forward prices, bullion banks borrowed gold from the central banks and sold this in the spot market. Mines locked in prices, which made them profitable.

This 20-year price decline was not solely the consequence of increased production. The combination of central bank selling and the liquidation of European investment inventories also had a significant impact. Historically Europeans had long been holders of gold as a reliable store of wealth in a world prone to economic and political upheavals. In response to the monetary crisis of 1968 and to stagflation in the 1970s, investors in Europe further increased their large hoard of the metal.

However, when prudent monetary policy eliminated inflation after 1980 there was no longer a strong rationale for continuing to hold gold.

Attitudes changed as wealth shifted to a younger generation, which had been educated in business schools rather than by the Second World War. Gold became an asset you sold rather than kept. Europe became a seller of gold previously held as an investment.

Fortunately these sales coincided with growing jewellery demand in Asia. Gold flowed from Europe to Asia. For Asian buyers European dishoarding constituted an important source of supply, as significant as rising production. Declining prices played a role in enabling Asia to absorb all this metal. On average, gold has a unit price elasticity of demand. In other words, buyers of gold in the form of jewellery and as store of value tend to determine the quantity they acquire by the amount of money they wish to spend. If the price halves, as it did between 1980 and 2000, the amount purchased can double. As the price fell the surplus inventory in Europe was depleted at an accelerating rate.

"THE DECLINE IN THE GOLD PRICE SINCE 2012 IS BEST EXPLAINED BY THE PROPOSITION THAT, WHEN ASIA IS IN TROUBLE, GOLD IS IN TROUBLE."

Consequences of the Asian boom

By 2000 low prices were starting to have an adverse impact on mine production. However, this was not what reversed the direction of prices; rather it was two decisive inventory events which set gold on the path to US$1 900 in September 2011. The first was the elimination of surplus stocks in Europe. These had been sold. The second was a decision by central banks to stop lending gold and to limit outright gold sales. This decision immediately reduced supply. After 2002, as Asian economies recovered from the emerging market crises of 1997, their demand for gold grew rapidly but over the same period mine production stagnated. Increased production outside South Africa was more than offset by a decline in South Africa due to resource depletion. With demand growing much faster than supply consumers were rationed by higher prices and had to pay up to persuade those who held the inventory to part with some of their gold.

The decline in the gold price since 2012 is best explained by the proposition that when Asia is in trouble gold is in trouble. Asia accounts for the large majority of gold consumption. High prices had brought some US and European investors back as significant participants in the market. Three years ago inventories in London were probably about 300 million ounces or roughly three years' mine supply. A significant decline in Asian purchases left the market with excess inventories and prices collapsed. Surplus London inventories have now largely dissipated, which is reason to believe that as Asian growth recovers the gold price could appreciate significantly.

Gold's unit price elasticity is a powerful mechanism for clearing the market during periods of weak prices.

Note: Statistics on gold production and official transactions are from the CPM Gold Yearbook 2016.

Sandy joined Allan Gray in October 1991. His current responsibilities include the management of fixed interest and individual client portfolios. Previously he was employed by Gold Fields of South Africa Limited for 22 years where much of his experience was focused on investment-related activities.

DUNCAN ARTUS

RESTRUCTURINGS AS A SOURCE OF EXCESS RETURNS

We are always on the lookout for opportunities offered by the potential restructuring of companies. They can often generate attractive returns with a larger-than-average margin of safety. When we believe that value is being trapped or destroyed in a corporate structure we will engage with management and board representatives on the changes that could be made to enhance long-term value. Duncan Artus looks at the potential impact of restructuring at Pick n Pay and Old Mutual. He notes that the nature and philosophy of a company's incentive scheme invariably influences the thinking around potential change.*

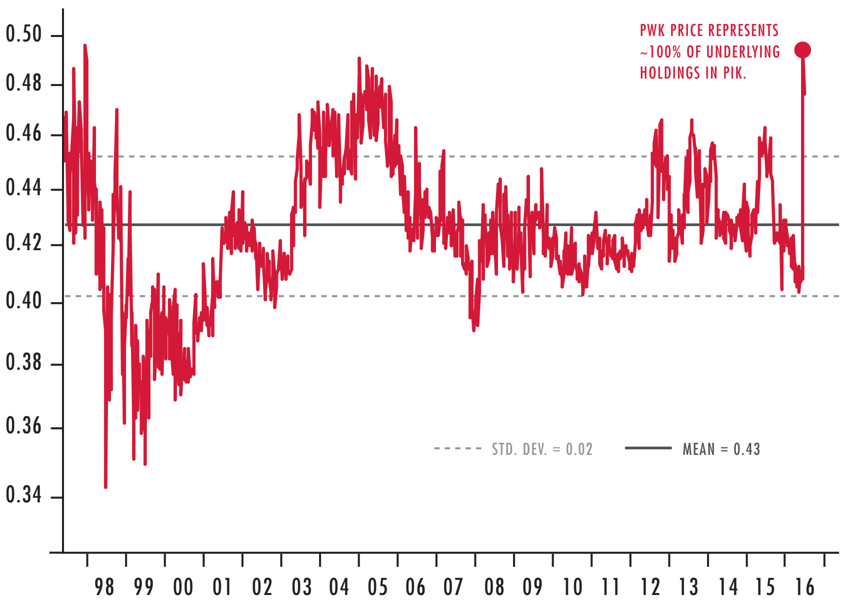
Pick n Pay: Potential dismantling of the pyramid structure

Pick n Pay Holdings (PWK), the holding company of Pick n Pay (PIK) through which the Ackerman family maintained its control of the company, has often traded at a large discount to the value of its holding in PIK, despite incurring insignificant running costs. **Graph 1** shows the PWK share price relative to that of PIK.

PIK had underperformed as a business for a number of years and with the pyramid structure shielding the business from market discipline, many believed the company was in an irreversible decline. The depressed nature of the business attracted us, along with the potential to grow earnings and free cash flow substantially if some hard decisions were made.

Hiring the new CEO Richard Brasher was a key turning point in PIK's fortunes and we were encouraged when PWK recently announced the proposed unbundling of its PIK shares to PWK shareholders, with the PWK share rising 13% as the discount was eliminated. Our clients thus benefited not only from the turnaround of PIK, but from the PWK unbundling as well.

GRAPH 1 **PWK SHARE PRICE RELATIVE TO THAT OF PIK**



Source: INET BFA

*When the share price is significantly below your estimate of true underlying value, this difference is called the 'margin of safety'.

Old Mutual: Unlocking value through restructuring

In Quarterly Commentary 1, 2012, we set out our investment case for the insurance sector, including Old Mutual (OML), which we believed had changed its risk appetite and thinking around capital allocation for the better. As discussed at the time, the change in management's incentives from rewarding aggressive expansion to reducing financial risk and complexity was a key positive. Time has so far proven the value of this change to the group.

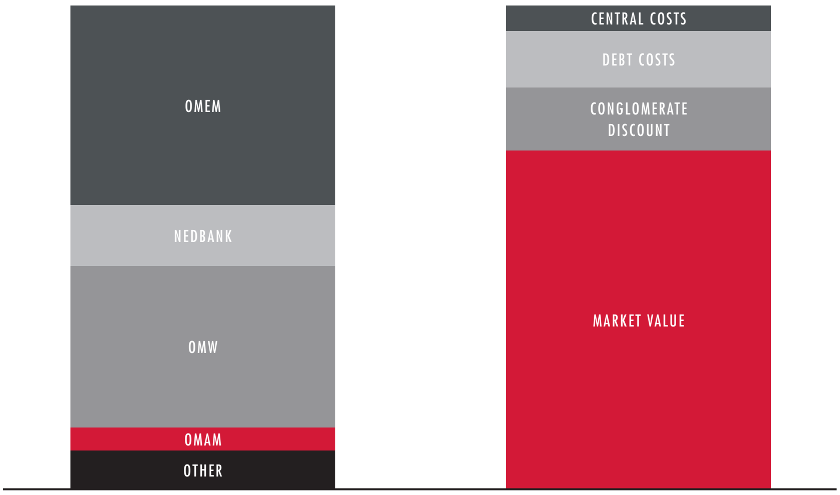
We have continued to invest in OML as we believe that it is trading at a significant discount to the combined value of its underlying operations, which could potentially be unlocked. (See **Graph 2**.)

The reasons for the discount include:

- The complex nature of the group and the resultant need to hold excess regulatory capital
- Offshore investors' concern about the large contribution of earnings from South Africa
- Investors can invest in Nedbank directly as it is separately listed
- A large central cost base in London that was perceived to add little value

The board of OML was keenly aware of this discount and appointed a new CEO, Bruce Hemphill, with a mandate to assess the group structure and to determine the most outcome that would create the most long-term value and put the businesses in a stronger position. The process concluded that the structure of the group was indeed trapping value and that the centre was not critical to the successful everyday running of the underlying businesses.

GRAPH 2 **ILLUSTRATIVE DISCOUNT TO THE SUM OF THE PARTS OF OML**



Source: Old Mutual and Allan Gray research

Subsequently, OML announced that the group would be restructured in a managed separation process and a new executive incentive scheme would be introduced to encourage its completion.

The group will be broken into four separate entities:

1. Old Mutual Emerging Markets (OMEM)
2. Old Mutual Wealth UK (OMW)
3. Nedbank (NED)
4. Old Mutual Asset Management US (OMAM)

businesses more responsive to client needs and allow them to channel resources more effectively.

The introduction of an executive incentive plan that is effective in aligning the long-term interests of shareholders and management for the separation is essential. Management will need to balance the successful implementation of the restructuring process, without losing focus on the performance of the underling businesses, which operate in very competitive markets. We engaged with the board remuneration representatives in an open and robust manner. While not all of our concerns

"WHEN WE BELIEVE THAT VALUE IS BEING TRAPPED OR DESTROYED IN A CORPORATE STRUCTURE WE WILL ENGAGE WITH MANAGEMENT AND BOARD REPRESENTATIVES."

This is positive news for shareholders because the complexity and capital (conglomerate) discount should disappear; the underlying operational businesses should perform better as standalone businesses; and there should be debt and regulatory cost savings, as well as savings on head office costs. The reduced complexity should also make the operating

were addressed, we were able to give significant input.

Features of the incentive plan include:

- 35% of the potential remuneration is linked to total shareholder return relative to peers i.e. if OML performs in line with its peers there will be no vesting on that portion.

- The most valuable operations' – Old Mutual Emerging Markets (including South Africa) and Old Mutual Wealth UK – performance has been up weighted (jointly, 18.3%) relative to the listed subsidiaries Nedbank and OMAM (jointly 6.7%).

- 50% of the award in OML shares is deferred for 12 months after the managed separation is completed (we would have preferred a longer period).

The remuneration committee has committed to giving an annual update on the progress of the restructuring relative to their expectations.

This includes thinking carefully about what an outstanding outcome would be, as opposed to executives being rewarded for simply implementing the plan mechanically. We will be diligently monitoring the annual update.

What would good look like?

In our view, a good outcome for shareholders would include successfully implementing the separation at a reasonable cost, with continued growth in value from the underlying operations. OMEM would trade at a premium to its embedded value given its good returns and strong competitive positioning. OMW would be sold attracting a control premium or would be unbundled and trade in London at a valuation in line with its listed peers. Nedbank, which we believe is currently attractive in its own right, would trade in line with its historical valuation levels. OMAM would be sold and the cash used to pay down debt at the centre.

With not much value being attached to the probability of a successful restructuring, we believe OML is attractively valued with an above-average margin of safety.

We continue to search for opportunities such as OML and PWK in what remains an elevated local equity market.

Duncan is a portfolio manager and director of Allan Gray Group Proprietary Limited. He joined Allan Gray in 2001 and holds both the CFA and CMT charters.

ASHLEY LYNN & MATT ADAMS

XPO LOGISTICS: DIVERSIFICATION THROUGH OWNING BOTH SHARES AND BONDS

Forming contrarian views about the intrinsic value of companies is the core of what we do. In the Orbis Global Balanced Fund, this fundamental company research informs investment decisions for both equities and corporate bonds. Ashley Lynn and Matt Adams, from our offshore partner Orbis, explain how this works, using Orbis' investments in XPO Logistics as an example.

Across asset classes, Orbis and Allan Gray's investment philosophy is the same: all securities must compete with each other to be included in our portfolios, and all must do so on a level playing field. In our multi-asset class funds, rather than trying to meet specified bond and equity quotas, we ask what each security will contribute to the risk-reward profile of the portfolio.

XPO is a company we know well and find highly attractive. We hold the company's equity in our Global Equity Fund, and we hold the equity as well as the 7.875% 2019 and 6.5% 2022 bonds in our Global Balanced Fund. In fact, the Orbis Funds are now the second largest shareholder in the company, after management.

While not a household name, XPO is one of the largest transportation and logistics providers in the world, handling about 150 000 shipments per day in more than 30 countries. The company was built by Brad Jacobs, a highly successful serial entrepreneur who serves as XPO's chairman and chief executive. Jacobs initially funded XPO with a sizeable US$70 million investment of his own capital in 2011 and has not sold a single share. Today he owns approximately 16% of the company, which has a market capitalisation of US$3.6 billion on a fully diluted basis.

Over the nearly four years since our analysts began following XPO, we have had the opportunity to meet frequently with Jacobs and his senior management team, and have gained confidence in his ability to attract and retain top-notch executives throughout the organisation and its operating businesses. That view has also been independently corroborated through extensive reference checks and in-depth discussions with XPO's customers and competitors.

Freight logistics companies like XPO are concerned with arranging the collection, transportation, and distribution of real physical stuff. As a result, they can require heavy capital investments — engaging in trucking, for instance, requires an actual fleet of trucks. However, some logistics companies avoid building out this infrastructure themselves, instead arranging contract logistics and providing brokerage with third parties. These 'asset-light' businesses can generate attractive returns on capital, and so they are typically seen to merit higher valuations than 'asset-heavy' businesses.

"BY OWNING BOTH SECURITIES, WE RETAIN EXPOSURE TO THE GREATER POTENTIAL UPSIDE OF THE EQUITY, BUT WITH A POTENTIALLY LESS VOLATILE RIDE AND HEALTHY COUPON PAYMENTS."

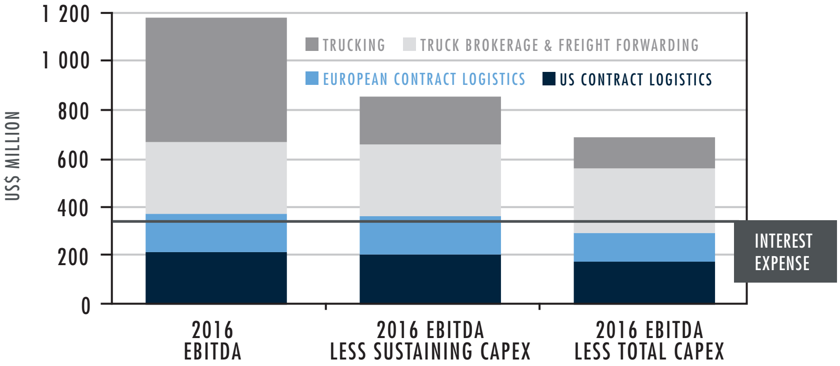
Market negativity provides entry point

Up to mid-2015, the market regarded XPO as an asset-light logistics business. Then, in September, XPO announced that it would buy Con-way, a trucking business – complete with a fleet of actual trucks. In response, the market suddenly began valuing XPO as if all of its businesses were asset-heavy and therefore less attractive. We thought that was unjustified, and instead viewed the deal as a positive one that was likely to deliver sizeable synergies and improve XPO's overall value.

XPO financed the Con-way deal with debt. As the coupon yield on its bonds suggested, the market already believed XPO carried a fair amount of credit risk. On first glance, this makes sense — the company had not generated free cash flow since 2010. So when the company's debt ratios appeared worse following the Con-way acquisition, markets demanded an even higher yield on money loaned to the company, sending bond prices down. In our view, however, XPO's cash generation is likely to improve significantly in future years — this is a key component of our estimate of intrinsic value. Given this view, the bonds, as well as the equity, appear to us to be undervalued. **Graph 1** shows our estimate of XPO's cash flow by segment, along with its interest expense.

GRAPH 1 **XPO'S CONTRACT LOGISTICS BUSINESS PROVIDES STABLE CASH FLOW**

ORBIS ESTIMATES OF XPO LOGISTICS 2016 FREE CASH FLOW BY BUSINESS SEGMENT



Source: Orbis estimates
EBITDA is earnings before interest, tax, depreciation and amortisation. Capex is capital expenditure.

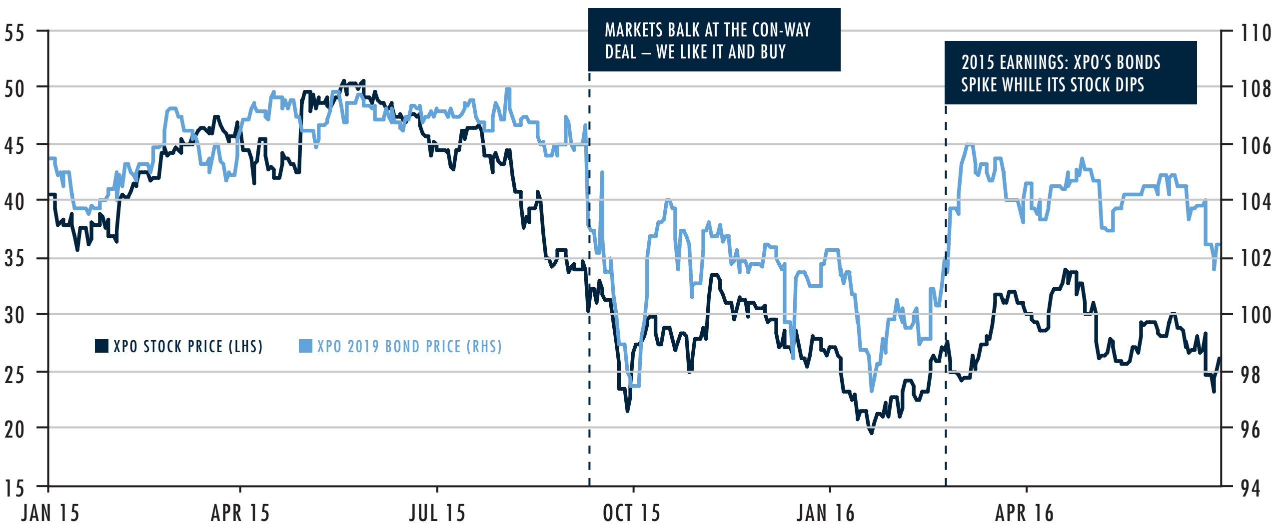
We believe XPO's trucking business (which includes Con-way) will make a meaningful contribution to free cash flow, and that the company overall will generate free cash flow well in excess of its interest expense. That cash can be deployed or paid out to the benefit of shareholders, providing equity upside. It can also be used to reduce debt, including by calling bonds at a premium, which could provide even more upside for bondholders.

Cash flow mitigates downside risk

Graph 1 also points to what we view as limited downside for equity holders — and therefore by definition for bondholders too. The trucking business is cyclical, and relying on it alone to meet interest payments could give bondholders some sleepless nights. Yet our analysis suggests that XPO likely won't need to rely on the cyclical business to meet interest payments at all — the more stable, asset-light contract logistics businesses generate enough cash flow to cover XPO's interest expense. From this perspective, while the equity offers the possibility of higher upside than the bonds, the

GRAPH 2 **TAKE ADVANTAGE OF OPPORTUNITIES IN XPO'S STOCKS AND BONDS**

XPO LOGISTICS STOCK PRICE AND 7.875% 1 SEP 2019 BOND PRICE IN USD, JAN 2015 TO JUN 2016



Source: Bloomberg

bonds have an attractive balance of upside with less risk of loss and a more stable return profile.

The diversification benefit of these different return profiles can be seen in **Graph 2** on page 10.

In its February results call, XPO's management announced a lower share price target for executive bonuses, and an intention to reduce its debt ratios over time. Equity investors disliked the news, and the shares fell. Bond investors, on the other hand, were apparently cheered by the reduced incentive for management risk-taking, as well as the intention to move towards a stronger balance sheet over time.

A contrarian holding

One benefit of our holistic approach is that we observe the action of the bond and the equity markets simultaneously, drawing information from the times when the two markets appear to be saying different things. By owning both securities, we retain exposure to the greater potential upside of the equity, but with a potentially less volatile ride and healthy coupon payments from the bond as we wait for the market to recognise the value we see.

Note: All statements expressed in this commentary reflect our views at 30 June 2016.

Ashley joined Orbis in 2013. She is a member of the Bermuda-based investment team, with primary responsibility for fixed income research. She previously worked as an attorney at Boyden Gray & Associates in Washington, D.C. and in a policy role at the Office of the Secretary of Defense at the United States Department of Defense.

Matthew joined Orbis in 2010. He is a member of the San Francisco-based US company research team. His responsibilities include leading the team's investment research process and researching the US industrials sector. He has previous experience as an officer in the United States Army where he held a variety of leadership roles.

RICHARD CARTER & JEANETTE MARAIS

HOW CAN I EARN HIGHER RETURNS AND PAY LESS TAX?

Tax has a significant impact on the returns of your investment. If, like most of us, you would like to see more return in your account and less in the hands of the tax man, it is important to engage with the details and understand which product is best for your circumstances. If you don't need immediate access to your money, it is worthwhile taking advantage of the incentives the government has put in place to encourage us to invest for the long term. These incentives can be very attractive, particularly when you look at how the value compounds over time. Jeanette Marais and Richard Carter discuss how taxes are applied in different investment products and how this ultimately impacts your investment returns.

Numerous studies have been conducted globally looking at people's attitudes towards paying tax and the question of why people pay or evade tax has received much attention. While the studies come from different standpoints and cover quite a lot of moral ground, there is a common thread: most people don't like to part with their hard-earned money, even if it is for the greater good of society.

With this in mind, it is understandable why investors often ask us which investment products are most tax efficient. While we are not tax advisers, and would suggest you contact your independent financial or tax adviser for advice specific to your circumstances, we can offer some perspective. Note that this article quotes tax rates applicable for the 2016/2017 tax year and applies to individuals investing in their own personal capacity.

First let's face the facts: you are always going to pay some tax at some stage of the process. Most of the time you will be investing with money you have already paid income tax on. In the case of retirement products, you invest with pre-tax money, but your tax is deferred to retirement or withdrawal stage. Let's take a high level look at the local investment products available to you through Allan Gray, and the impact of tax on your investment return.

"IT MAKES SENSE FOR MOST PEOPLE… TO PUT THEIR FIRST R30 000 INTO A TAX-FREE INVESTMENT ACCOUNT."

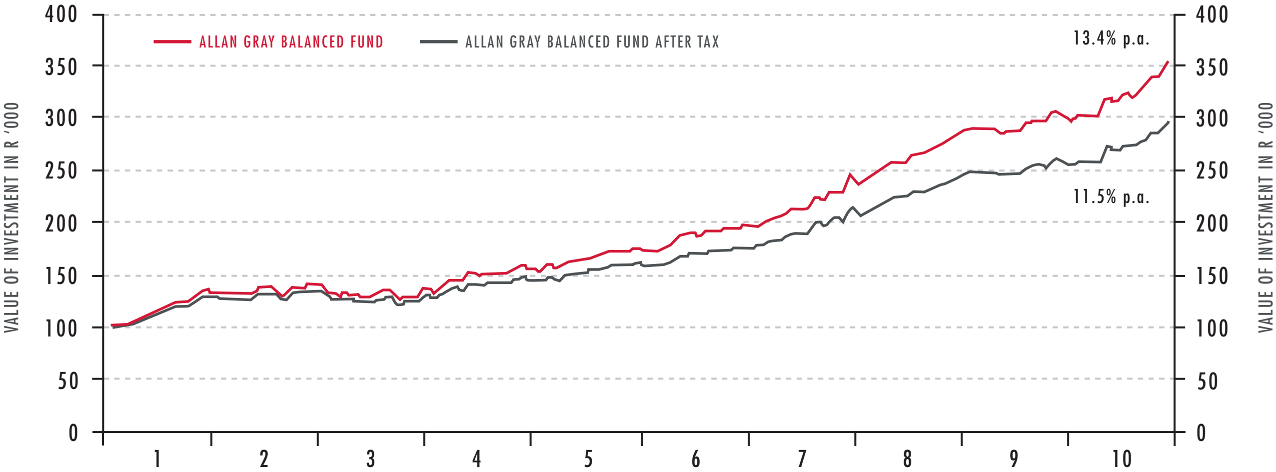
Tax in a unit trust

Unit trust investments are the most flexible of all products as they don't have any contribution or withdrawal restrictions.

You invest in a unit trust with after-tax money and then pay tax on interest, dividends and capital gains. Interest is taxed at your marginal tax rate and dividends are taxed at 15%.

You also pay capital gains tax (CGT) when you withdraw from unit trusts. Forty percent of the capital gain is taxed at your marginal tax rate, but your first R40 000 per year is exempt. You do not pay capital gains tax when your investment manager buys and sells underlying assets within the portfolio.

GRAPH 1 **THE IMPACT OF TAX OVER 10 YEARS**



Source: Allan Gray research, based on Allan Gray Balanced Fund returns to May 2016, 2016 tax treatment with marginal tax rate of 41%. All tax exemptions utilised, all income reinvested.

You experience a capital gain or loss on unit trust investments only once you sell the units (when you switch between unit trusts or withdraw).

Graph 1 illustrates the impact of tax on your investment return in the Allan Gray Balanced Fund over time. The red line illustrates the 10-year return as reported on the Balanced Fund's factsheet, while the grey line reflects the return an investor would receive after tax – although this would be different for everyone as it is based on your personal tax rate and circumstances; the graph reflects the worst case scenario. Note that under this relatively reasonable set of assumptions, around 2% of the growth is lost to the tax man each year, which means your investment is worth 16% less at the end of 10 years based on today's tax rates.

Tax-free investment accounts provide a decent alternative (but note the restrictions)

If these figures leave you wondering how you can earn a similar return but not suffer the tax sacrifice, the government has delivered a great alternative with tax-free investment (TFI) accounts. These were introduced last year and we launched ours in February. While, as with a unit trust investment, you invest in a TFI account with after-tax money, all income and dividends are tax-free and you pay no CGT when you withdraw.

There is a catch. The maximum amount you can invest is R30 000 a year with a lifetime maximum of R500 000. If you exceed these limits you will incur a 40% penalty on the excess amount. It makes sense for most people investing for the long term (but who want ready access to their money) to put their first R30 000 into a TFI account.

If you can handle the restrictive rules, endowments are another option

If you are a high income earner, you can benefit from a favourable tax rate if you invest in an endowment. An endowment is a policy issued by a life insurance company, such as Allan Gray Life. When you invest in an endowment you effectively swap your tax position for that of the policy. The big deal here is that for higher tax payers, instead of paying tax at 41%, you pay tax at the rate that the life company must apply, which is 30%. The downside is that the life company can't give you your exemptions – so you pay tax, albeit at a lower rate, on all of the interest income and capital gains. Dividends are subject to 15% dividend withholding tax irrespective of your country of residence. Endowments have restrictive rules regarding contributions and withdrawals, and should only be considered if you are willing to lock your money in for five years.

Retirement annuities win on the tax front

The product that offers the best tax benefits is the retirement annuity (RA), however, it also comes with the most onerous restrictions on withdrawal. Note when considering an RA that you are buying a product for life because you will have to use two-thirds of your investment to buy a product that can pay you an income when you retire (such as a living annuity or guaranteed life annuity).

As with a TFI account, in an RA you pay no dividend tax, income tax on interest or CGT. Because you are compounding all gains tax free, your investment value at the end of 30 years could end up far higher than in a discretionary unit trust investment.

The main difference between the two products is that an RA offers tax savings now, i.e. you pay less tax now because you make contributions with earnings on which you have not paid tax, but you will pay tax later, i.e. you defer paying tax.

As of 1 March 2016 RA investors are allowed a tax deduction of up to 27.5% of taxable income, capped at R350 000 per year. This is a solid increase from 15% previously and makes the tax savings on an RA more relevant for higher income earners (albeit less so for the very high earners where the new annual rand cap is less than the previous 15% limit).

Apart from deferring tax in an RA, an additional tax saving comes from paying a lower average tax rate on the benefits withdrawn from the RA at and after retirement, versus the tax saved on contributions. The first R500 000 lump sum you withdraw from your RA is currently tax free (importantly, this amount includes any pre-retirement withdrawals you may have made from any other pension fund investment).

As noted above, you must transfer the rest of your benefit to an income-providing product. When you pay income tax on this benefit, you are likely to be taxed at a lower rate than when you were making contributions, which is where the additional tax saving comes in. Because of this, a disciplined investor can make a significant tax saving over their lifetime. The amount saved varies greatly depending on each investor's personal circumstances, salary, age, how much and how long they have saved, any withdrawals made along the way, as well as their tax situation in retirement.

Fit for purpose

But what does all this mean in rand terms?

Table 1 illustrates the impact of tax based on a 10-year investment in the Allan Gray Balanced Fund across our different products. The table is illustrative and ignores various product restrictions. As with graph 1, the analysis assumes that the investor has used all their allowances and is liable for the full tax as appropriate. The tax drag shown is the extent to which the after-tax returns based on the most recent 10 years of the Balanced Fund would have lagged the gross returns of the Fund. A cursory glance at the table suggests that it would be short-sighted not to consider an RA where the tax savings would have resulted in a boost to returns rather than a drag.

TABLE 1 **TAX DRAG ON ANNUAL RETURNS IN DIFFERENT PRODUCTS**

Discretionary	-1.9%
Endowment	-1.5%
Tax-free investment account	0.0%
Retirement annuity	+0.5%

Source: Allan Gray research, based on Allan Gray Balanced Fund returns to May 2016, 2016 tax treatment with marginal tax rate of 41%.

Bear in mind that you cannot simply choose a product based on its tax benefits as other characteristics may make the product unsuitable. The graphic on page 15 offers a summary of the key factors to consider when selecting a product.

Consider getting advice

Working out which product is the most tax-efficient and appropriate for your circumstances can be complex. It is worthwhile talking to your independent financial adviser or tax adviser for more information to make sure you make the best decision for yourself.

CAN I DO A UNIT TRANSFER WITHOUT INCURRING CGT?

Some investors have asked us if it is possible to do a unit transfer from a discretionary investment into a retirement annuity – without incurring capital gains tax. Unfortunately this is not legally possible. A discretionary unit trust is structured differently to a retirement annuity and one would have to withdraw from your unit trust investment and pay the capital gains tax before re-investing the money in your RA.

MOST TAX BENEFITS

TAX	FLEXIBILITY	WHAT'S THE POINT?
Retirement annuities • You pay no tax on your returns. • Contributions are deducted from your pre-tax salary, lowering your tax bill.	**Retirement annuities** • You cannot withdraw from your investment (except under specific circumstances). • At retirement you must choose another investment product that will provide an income in retirement.	An **RA** provides great tax savings and the restrictions could be beneficial if you are saving for your retirement and don't want to access the money before that time.
Tax-free investments • You pay no tax on your returns. • There is a tax penalty if you contribute more than the limits.	**Endowments** • You can add to and withdraw from your investment as soon as the lock-in period has ended. • There are restrictions on how much you can add and withdraw from your investment in the first five years.	**TFIs** offer a good combination of tax savings and flexibility. It makes sense to invest up to the maximum and then use other products for additional investments.
Endowments • You pay tax on all interest and capital gains, but at the standard rate of 30% rather than your marginal tax rate. Dividends are taxed at 15%.	**Tax-free investments** • You can add to and withdraw from your investment. • Amounts withdrawn do not get subtracted from contribution limits.	**Endowments** are relatively complicated products but offer tax savings for high income earners, and some flexibility if used appropriately.
Basic unit trust investment • You pay tax on interest and capital gains at your marginal rate, but only once you have reached the taxable thresholds. Dividends are taxed at 15%.	**Basic unit trust investment** • You can add to and withdraw from your investment as you wish.	**A basic unit trust investment** is ideal if you need a very flexible investment. There are no access restrictions and you only start to pay tax once you reach the taxable thresholds.

MOST FLEXIBLE

Source: Allan Gray research

Richard joined Allan Gray in 2007 after working for several years in financial services in the UK. He is jointly responsible for the retail business, heading up Product Development and is also a director of Allan Gray Life. Richard completed his B Bus Sc degree at UCT and is a qualified actuary.

Jeanette joined Allan Gray in 2009 and is jointly responsible for the retail business, heading up distribution and client service. Jeanette is also a director of Allan Gray Investment Services and Allan Gray Unit Trust Management. She holds a BSc and an MBA from IMD (with Honours) and has spent her career in the financial services industry assuming various senior positions.

WANITA ISAACS

VALUE INVESTING: OUR APPROACH

Our investment philosophy and process is so much part of our DNA that we forget not all clients are familiar with what we actually do and how we make our investment decisions. Wanita Isaacs explains the basics of our approach to investing.

Investing, according to the Oxford dictionary, is simply putting money into shares, property or a commercial venture expecting to make a profit. There are various ways people do this, with varying degrees of success. Some investors try to make quick wins by speculating on trending ideas. Compared to the go-go world of market speculation, our approach can seem relatively boring: we do careful research, find good value investments and buy them only when they are available for a bargain – 'on sale'.

We use this same approach regardless of market conditions. We remain rational and avoid getting caught up in hype or emotion.

To illustrate the process let's consider a normal trading business – like a corner shop – over the course of its life. Although a JSE-listed company is larger and more complex, when we decide whether to invest in a business we look at it from the perspective of an owner and the same fundamental business principles apply.

Our research is in-depth, on-site and takes time

While most investors use the news – share prices and media reports – to pick the companies they want to bet on, we work hard to establish the true value of a business as a whole, including its ability to make a sustainable profit over time, and under different conditions.

If you were to value a corner store you would look at various factors to establish what the shop is worth and whether it is likely to make a profit. You may come up with a list of questions that looks something like the following:

Current worth

- What is the value of the stock owned by the shop, less any money owed to suppliers?
- How much are the equipment, shop fittings and any vehicles owned by the shop worth? Are these things all in a good state?
- How much is the shop owed by its customers and are they all likely to pay their bills?
- Is there any cash in the bank or is there an overdraft or other debts due by the shop, like rental arrears or rates, or taxes not accounted for?

Ongoing worth

- How good is the manager at buying the right amount of stock and at stocking the kind of things that the shop's customers want to buy? Is the store's pricing consistent with what they stand for?
- Is the shop in the right location? Does it have a sensible rental deal and how long does its lease have to run?
- How many employees are there and how good are they at running the shop and serving customers? Are they happy?
- What are all the staff, rent, maintenance and operating costs that the shop incurs over time? What monthly sales does it have to achieve to pay for all these costs?

We value JSE-listed companies in a similar way. The list of questions we try to answer in each case is very different, and some businesses are quite complex to value, but the basic concept is the same: how much would a rational buyer pay for the whole business?

Some important questions appear in almost all of our research reports, for example: how profitable is the business through market cycles and what drives these cycles; how much cash is generated by a business's operations and how much cash is required for it to grow (for example to pay for increased stock or for new factories); how skilled and transparent are the management team, and how good have they been at deciding where and when to allocate capital?

We don't buy all good value assets

To go back to our little corner shop, let's imagine that every year during the school holidays children pile into the store to buy sweets. Sales soar, stock flies off the shelf and as offers to buy the business pick up, the owner increases the asking price to get the best deal. Would you buy this business now?

In many cases the market would answer: yes!

But, if your estimate of the value of the shop looked at how sales change through the seasons (these are this business's market cycles), you would know that the current price is not a true reflection of what the shop is worth through the market cycle. Of course, there are styles of investing that try to time the upswing by buying the corner shop the day before school holidays start, or perhaps as the price is starting to rise. This approach can be lucrative, and quite exciting, but there are two problems that make it risky.

First, others are also anticipating the upswing, and so by the beginning of the school holidays the impact of this is already priced in – you have to be really early to beat the crowd. And at the end of the school holidays, sellers anticipate the downswing and attempt to time their exit just before everyone else. This often results in a peak and then a sudden decline in value, both with unpredictable timing, leaving many investors nursing a loss from having bought at the peak and sold in the trough. The second problem is that not all business cycles are as predictable as a summer holiday. For investors looking to ride a trend, mistiming is easy and can be very costly.

A great deal of emotion and group-thinking influences share prices but this doesn't affect the true value of the company. Our philosophy of looking to buy businesses based on what they are worth to a long-term buyer often leads us to businesses that are unfashionable and out of favour, because this is when they are priced at a bargain. This sometimes feels risky because it means going against the crowd, but in fact it is exactly this that has allowed us to create wealth for clients over time, and it has proven less risky than other strategies.

We only buy undervalued assets

We start to see opportunities when, in our example, the school holidays end and the corner shop seems to be worth a lot less and thus goes up for sale at a much lower price, because no-one is really that interested anymore (they're all looking at the school uniform store). In the real world you usually have to wait a lot longer than a school term to see a fair return, but patience pays off.

Our investment process relies on thorough research that gives us the ability to value a business, and it relies on the discipline to stick to our knitting. It is not an exact science, and it's not always exciting enough for investors looking for quick wins, but it has proved itself over our 42-year history.

Wanita was appointed as head of investor education at the start of 2013. Prior to that she was a business analyst in the product development team. She is a medical doctor and a UCT graduate and has been with Allan Gray since 2008.

ZIMKHITHA PETER

ALLAN GRAY ORBIS FOUNDATION UPDATE

Inspired by the Roman aqueducts of old, the Allan Gray Orbis Foundation has spent the last decade developing and fine tuning an entrepreneurial pipeline made up of the Scholarship Programme, the Fellowship Programme and the Association of Allan Gray Fellows. Zimkhitha Peter discusses how, in the same way that aqueducts channelled water throughout a city enabling increased economic opportunities, the Foundation's pipeline is designed to cultivate responsible high-impact entrepreneurs as an economic and social lever for a more equitable and prosperous South Africa. She celebrates the successes of some of the Foundation's Fellows to illustrate the impact of the programme.

The Foundation's initial offering was its Fellowship opportunity, aimed at supporting university students with entrepreneurial potential throughout their degree courses. Once graduated, these successful Candidate Fellows would then move to the Association of Allan Gray Fellows, where their initial careers and enterprises would be nurtured by a community of like-minded individuals committed to life-long learning. Before long the Foundation recognised the need to enlarge the pool from which Candidate Allan Gray Fellows could be selected. The Scholarship opportunity was created to identify high-potential individuals from an earlier age. Learners selected as Scholars would receive an opportunity to attend some of the best high schools in the country, supported by mentoring, leadership and entrepreneurial development throughout their high school careers.

"LEADERSHIP REQUIRES ONE TO SET ASIDE EGO AND DESIRE FOR PRAISE IN ORDER TO REACH A COMMON GOAL."

An entrepreneurial pipeline protégé

The Foundation pipeline, which consists of the Scholarship moving through the Fellowship to the Association, will be completed for the first time by Sabelwa Matikinca. Sabelwa started as a Scholar in 2008 and is set to graduate as a Fellow and join the Association of Allan Gray Fellows in the next few months.

Her story starts in Port Elizabeth where she was born to parents who made great sacrifices to afford her the best possible education. Her father was a history teacher by day, a taxi driver by night and a pizza delivery man over weekends.

Besides getting her into the best school they could afford, they also instilled in her a great sense of responsibility. She took to heart her parents' instruction to have her homework completed by the time they came home and she remembers waking up in the middle of the night at age eight to study or to prepare for the next school day.

Sabelwa Matikinca

Sabelwa is currently in the fourth year of her BCom Rationum Law degree at Nelson Mandela Metropolitan University. She plans to qualify as both a chartered accountant and a lawyer so that she can create a combined law and accounting firm in South Africa. According to Sabelwa, the development opportunities within the Scholarship allowed her to gain great confidence and learn how to celebrate the daily efforts she made towards reaching her goal. "For the first time in my life I had a community outside my family that genuinely cared for my well-being in all aspects."

The Fellowship opportunity, in turn, allowed her to really get to know herself, what she's passionate about and called to do. Sabelwa views the Foundation's Fellowship Programme as more than a funding opportunity; it is a personal growth programme. Her greatest lesson during her time in the Fellowship "has been learning that leadership requires one to set aside ego and desire for praise in order to reach a common goal – it requires one to be humble."

The Foundation intends that 50% of its Scholars will follow in Sabelwa's footsteps. To date less than 30% of Scholars have obtained the Fellowship. **Graph 1** reflects the growth in numbers of beneficiaries overall since 2006.

Refusing to make peace with inefficiencies

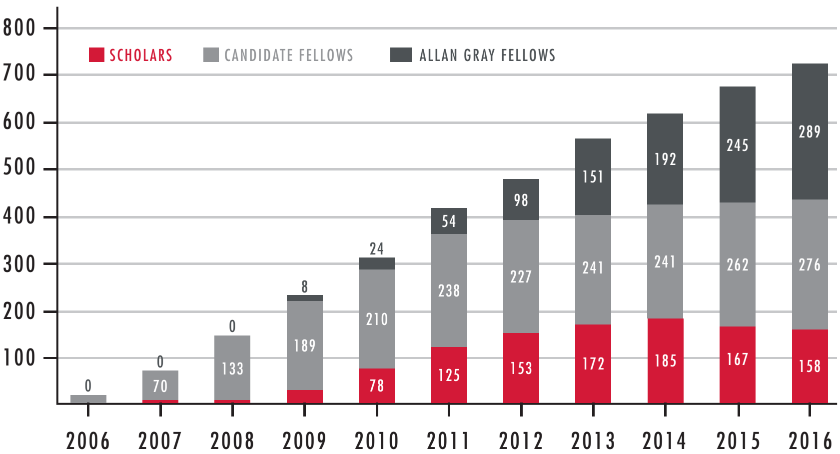
Many Fellows share Sabelwa's view of the Foundation as a shaper of character. They also often speak of being trained to see solutions instead of making peace with problems or inefficiencies. A quintessential example of how this kind of thinking can lead to a successful business is Maurice Madiba and his venture, Cloud Atlas Investments.

Maurice hails from Randburg, Gauteng, and joined the Foundation as one of the first 20 Candidate Fellows in 2006. He graduated in 2009 with an accounting degree from the University of the Witwatersrand and later completed his Honours through Unisa. His long-cherished vision to deal with financial markets led him to dabble in stock trading. Realising that the stock market was not accessible to everyone, he started developing and executing trading models for the JSE and then turned his attention to African markets.

Despite the high barriers to entry, Maurice is determined to facilitate Africans' participation in Africa's growth and is working to launch a series of Africa-focused index funds (African Market Index, or AMI). AMI will be a grouping of 10 sectoral indices with constituents from 15 selected African countries, as well as a pan-African offering, to allow investors to get exposure to African markets, while reducing some of the country-specific risks. The business is still in its pre-product launch phase.

Maurice Madiba

GRAPH 1 **FOUNDATION BENEFICIARIES**



Source: Allan Gray Orbis Foundation

A relentless will to improve inefficiencies

An Allan Gray Fellow from the Class of 2011 who has put this solution-based view of the world to profitable use is Melvyn Lubega, co-founder of GO1, an e-learning platform. Melvyn first began considering an improved approach to staff training during his tenure at the Boston Consulting Group. Working across a number of countries for a host of clients, he was exposed to different types of training programmes – most of which were inadequate. GO1 was developed to address this issue.

Once registered on GO1, organisations can access their self-developed training content online and in a user-friendly format across any device. They also have the option of selecting existing training content via the platform's marketplace and making it part of their staff members' training portal. GO1 has customers in over 20 countries, across all industries and sizes, with its smallest client having staff numbers of 15 and its largest 55 000. Last year GO1 was selected to participate in Y Combinator at Silicon Valley, one of the most respected accelerators in the world.

With teams already established in Australia, Vietnam, Lagos, Johannesburg, London and San Francisco, GO1 now has its sights set

Melvyn Lubega

on extending its South African business. Melvyn notes that his relentless will to improve inefficiencies, to see the world not as it is but as the improved version it can be, and then figuring out how to action that improvement, is something he inherited from the Foundation.

The community net worth calculation

All the Foundation's initiatives aim to equip Fellows at each stage of their professional journeys until they are ready to start a sustainable business or social enterprise. The Association of Allan Gray Fellows has a variety of activities that support these potential entrepreneurs. One example of this is the Ventures Portfolio, which aims to make academic and experiential training available to fast-track ideas into validated, investable enterprises.

The current head of the Association's Ventures Portfolio is Sechaba Selialia, founder of Scoody, a fashion and apparel brand established in 2012. The brand's fledgling product is a twist on the traditional scarf and hoody. Sechaba came across a similar item while studying his BCom degree in Economics and Finance at the University of Cape Town. He saw the potential to build a brand around the item and its hip multi-functionality. Four years on and he's celebrating the brand's biggest contract to date: the licence to manufacture and distribute Kaizer Chiefs branded Scoodies nationwide.

Sechaba describes the experience of becoming a Candidate Fellow of the Foundation in 2009 and graduating as an Allan Gray Fellow four years later as life-changing. He explains that it's not just about the financial benefit; being part of a community of astute entrepreneurs and future change-makers is even more valuable. "A wise man once said that 'your network is your net worth' and [the Fellowship] opportunity certainly increases one's 'net worth' substantially."

The Association is the end point of the Foundation's entrepreneurial pipeline and has the ability, more so than each of its cumulative parts, to activate responsible entrepreneurship for the common good. Its power to do so lies in it being a community of highly engaged individuals, driven by a clear common purpose. History has shown that there is no more powerful vehicle for impact than a small, highly committed group.

Sechaba Selialia

Allan Gray Orbis Foundation

Zimkhitha Peter is the Head of Programmes at the Allan Gray Orbis Foundation. She joined the Foundation in 2008 and holds a BCom Honours in Industrial Psychology (UNISA) and a Leadership Development qualification from Harvard Business School. She is passionate about seeing the Foundation as the centre of excellence in the development of entrepreneurial capabilities.

ALLAN GRAY BALANCED AND STABLE FUND ASSET ALLOCATION AS AT 30 JUNE 2016

	BALANCED FUND % OF PORTFOLIO			STABLE FUND % OF PORTFOLIO		
	TOTAL	SA	FOREIGN*	TOTAL	SA	FOREIGN*
Net equities	59.0	45.0	14.0	28.7	20.4	8.3
Hedged equities	9.9	1.8	8.1	19.5	6.8	12.7
Property	1.3	0.5	0.7	2.5	1.8	0.7
Commodity-linked	5.0	4.9	0.1	4.0	3.8	0.2
Bonds	12.1	10.3	1.7	15.5	13.4	2.1
Money market and bank deposits	12.7	11.0	1.7	29.9	27.8	2.1
TOTAL	**100.0**	**73.6**	**26.4**	**100.0**	**73.9**	**26.1**

Note: There might be slight discrepancies in the totals due to rounding.
* This includes African ex-SA assets.

ALLAN GRAY EQUITY FUND NET ASSETS AS AT 30 JUNE 2016

SECURITY (RANKED BY SECTOR)	MARKET VALUE (R MILLION)	% OF FUND	FTSE/JSE ALSI WEIGHT (%)
SOUTH AFRICA	**34 040**	**86.6**	
SOUTH AFRICAN EQUITIES	**32 900**	**83.7**	
RESOURCES	**7 472**	**19.0**	**18.2%**
Sasol	3 062	7.8	
Sappi	694	1.8	
Goldfields	584	1.5	
Impala Platinum	412	1.0	
Glencore	385	1.0	
African Rainbow Minerals	366	0.9	
Harmony	347	0.9	
Positions less than 1% of total JSE-listed securities held by the fund	1 622	4.1	
FINANCIALS	**11 710**	**29.8**	**21.6%**
Standard Bank	2 687	6.8	
Old Mutual	2 143	5.5	
Reinet	1 444	3.7	
Rand Merchant Investment[1]	805	2.0	
Investec	789	2.0	
Nedbank	657	1.7	
Capitec	620	1.6	
Barclays Africa	607	1.5	
FirstRand	405	1.0	
MMI	378	1.0	
Positions less than 1% of total JSE-listed securities held by the fund	1 174	3.0	
INDUSTRIALS	**13 509**	**34.4**	**60.2%**
British American Tobacco	2 646	6.7	
Naspers[2]	2 409	6.1	
Remgro	1 324	3.4	
SABMiller	978	2.5	
KAP Industrial	498	1.3	
Super Group	490	1.2	
Blue Label Telecoms	428	1.1	
Life Healthcare	410	1.0	
Netcare	371	0.9	
Tongaat-Hulett	365	0.9	
Positions less than 1% of total JSE-listed securities held by the fund	3 589	9.1	
OTHER SECURITIES	**210**	**0.5**	
Positions less than 1% of total JSE-listed securities held by the fund	210	0.5	
COMMODITY-LINKED SECURITIES	**561**	**1.4**	
Positions less than 1% of total JSE-listed securities held by the fund	561	1.4	
MONEY MARKET AND BANK DEPOSITS	**579**	**1.5**	
FOREIGN EX-AFRICA	**4 989**	**12.7**	
EQUITY FUNDS	**4 248**	**10.8**	
Orbis Global Equity Fund	4 248	10.8	
MONEY MARKET AND BANK DEPOSITS	**742**	**1.9**	
AFRICA EX-SA	**263**	**0.7**	
EQUITY FUNDS	**263**	**0.7**	
Allan Gray Africa ex-SA Equity Fund	263	0.7	
TOTALS	**39 292**	**100.0**	

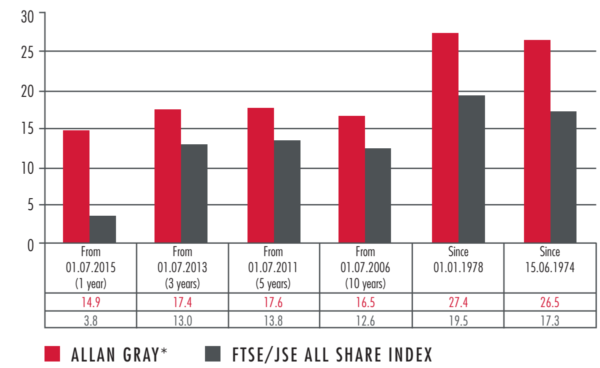
Note: There might be slight discrepancies in the totals due to rounding. Positions less than 1% include positions that are individually less than 1% of total JSE-listed equities, property and community-linked instruments held by the Fund.
[1] Including positions in Rand Merchant Investment stub certificates. [2] Including positions in Naspers stub certificates.

INVESTMENT TRACK RECORD – SHARE RETURNS

ALLAN GRAY PROPRIETARY LIMITED GLOBAL MANDATE SHARE RETURNS VS FTSE/JSE ALL SHARE INDEX

PERIOD	ALLAN GRAY*	FTSE/JSE ALL SHARE INDEX	OUT/UNDER-PERFORMANCE
1974 (from 15.06)	- 0.8	- 0.8	0.0
1975	23.7	- 18.9	42.6
1976	2.7	- 10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	- 0.3
1979	86.9	94.4	- 7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	- 4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	- 4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	- 5.1	9.6
1991	30.0	31.1	- 1.1
1992	- 13.0	- 2.0	- 11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	- 17.4	- 4.5	- 12.9
1998	1.5	- 10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	- 8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	- 1.6
2008	- 13.7	- 23.2	9.5
2009	27.0	32.1	- 5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.3
2012	20.6	26.7	- 6.1
2013	24.3	21.4	2.9
2014	16.2	10.9	5.3
2015	7.8	5.1	2.7
2016 (to 30.06)	10.7	4.3	6.4

RETURNS ANNUALISED TO 30.06.2016



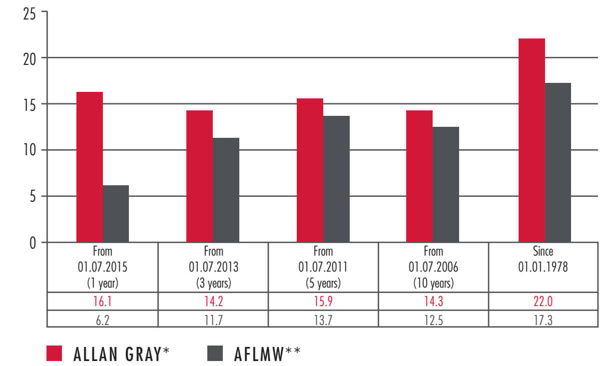
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R197 119 410 by 30 June 2016. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R8 153 274. Returns are before fees.

INVESTMENT TRACK RECORD – BALANCED RETURNS

ALLAN GRAY PROPRIETARY LIMITED GLOBAL MANDATE TOTAL RETURNS VS ALEXANDER FORBES GLOBAL MANAGER WATCH

PERIOD	ALLAN GRAY*	AFLMW**	OUT/UNDER-PERFORMANCE
1974	–	–	–
1975	–	–	–
1976	–	–	–
1977	–	–	–
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	- 0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	- 5.5
1992	1.2	7.6	- 6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	- 1.8	9.5	- 11.3
1998	6.9	- 1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	- 3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	- 6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	- 0.6
2008	- 1.1	- 12.3	11.2
2009	15.6	20.3	- 4.7
2010	11.7	14.5	- 2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	- 4.9
2013	25.0	23.3	1.7
2014	10.3	10.3	0.0
2015	12.8	6.9	5.9
2016 (to 30.06)	6.8	3.5	3.3

RETURNS ANNUALISED TO 30.06.2016



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R21 102 717 by 30 June 2016. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R4 602 029. Returns are before fees.

* Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
** Consulting Actuaries Survey returns used up to December 1997. The return from 1 April 2010 is the average of the non-investable Alexander Forbes Large Manager Watch. The return for June 2016 is an estimate.
Note: Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

ALLAN GRAY SOUTH AFRICAN UNIT TRUSTS ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 30 JUNE 2016 (NET OF FEES)

	ASSETS UNDER MANAGEMENT (R BILLION)	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR	HIGHEST ANNUAL RETURN[4]	LOWEST ANNUAL RETURN[4]
HIGH NET EQUITY EXPOSURE (100%)									
Allan Gray Equity Fund (AGEF)	39.3	01.10.1998	24.5	13.6	14.9	14.9	10.8	125.8	– 20.7
Average of South African - Equity - General category (excl. Allan Gray Funds)[1]			17.3	12.5	13.5	12.5	2.4	73.0	– 37.6
Allan Gray-Orbis Global Equity Feeder Fund (AGOE)	15.6	01.04.2005	15.8	14.0	24.7	18.6	17.8	78.2	– 29.7
FTSE World Index			14.5	12.9	24.2	21.5	17.9	54.2	– 32.7
MEDIUM NET EQUITY EXPOSURE (40% - 75%)									
Allan Gray Balanced Fund (AGBF)	118.6	01.10.1999	18.4	12.8	14.6	13.3	14.9	46.1	– 8.3
Average of South African - Multi Asset - High Equity category (excl. AGBF)[2]			13.4	10.9	12.3	10.8	6.2	41.9	– 16.7
Allan Gray-Orbis Global Fund of Funds (AGGF)	12.7	03.02.2004	12.1	12.9	21.9	16.5	23.4	55.6	– 13.7
60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index			12.4	13.1	22.2	20.0	24.8	38.8	– 17.0
LOW NET EQUITY EXPOSURE (0% - 40%)									
Allan Gray Stable Fund (AGSF)	40.0	01.07.2000	12.9	10.3	11.1	9.9	15.0	23.3	3.3
Daily interest rate of FirstRand Bank Limited plus 2%			9.1	8.3	6.8	7.0	7.7	14.6	6.2
VERY LOW NET EQUITY EXPOSURE (0% - 20%)									
Allan Gray Optimal Fund (AGOF)	1.3	01.10.2002	8.5	7.9	7.9	10.2	11.6	18.1	1.6
Daily interest rate of FirstRand Bank Limited			6.5	6.2	4.7	4.9	5.6	11.9	4.1
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO)	1.4	02.03.2010	12.0	-	17.5	12.9	24.5	39.6	– 8.4
Average of US$ bank deposits and euro bank deposits			9.5	-	14.1	11.0	20.8	35.6	– 7.8
NO EQUITY EXPOSURE									
Allan Gray Bond Fund (AGBD)	0.5	01.10.2004	8.9	8.9	8.0	6.7	6.5	18.0	– 2.6
JSE All Bond Index (total return)			8.5	8.4	7.9	6.3	5.3	21.2	– 5.6
Allan Gray Money Market Fund (AGMF)	12.8	03.07.2001	8.0	7.5	6.0	6.3	7.0	12.8	5.2
Alexander Forbes Short-term Fixed Interest (STeFI) Composite Index[3]			8.0	7.3	5.9	6.2	6.8	13.3	5.2

[1] Since inception to 28 February 2015 the benchmark was the FTSE/JSE All Share Index including income.
[2] Since inception to 31 January 2013 the benchmark was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund.
[3] Since inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011 the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund.
[4] This is the highest or lowest consecutive 12-month return since inception. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

ALLAN GRAY TOTAL EXPENSE RATIOS AND TRANSACTION COSTS FOR THE 3-YEAR PERIOD ENDING 30 JUNE 2016

	FEE FOR BENCHMARK PERFORMANCE	PERFORMANCE FEES	OTHER COSTS EXCLUDING TRANSACTION COSTS	VAT	TOTAL EXPENSE RATIO	TRANSACTION COSTS (INCL. VAT)	TOTAL INVESTMENT CHARGE
Allan Gray Equity Fund	1.32%	0.69%	0.01%	0.27%	2.29%	0.06%	2.35%
Allan Gray-Orbis Global Equity Feeder Fund	1.50%	0.59%	0.06%	0.00%	2.15%	0.14%	2.29%
Allan Gray Balanced Fund	1.07%	0.30%	0.02%	0.13%	1.52%	0.07%	1.59%
Allan Gray-Orbis Global Fund of Funds	1.29%	0.42%	0.07%	0.00%	1.78%	0.17%	1.95%
Allan Gray Stable Fund	1.03%	0.44%	0.02%	0.15%	1.64%	0.07%	1.71%
Allan Gray Optimal Fund	1.00%	0.76%	0.02%	0.25%	2.03%	0.13 %	2.16%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	0.35%	0.07%	0.00%	1.42%	0.16%	1.58%
Allan Gray Bond Fund	0.25%	0.30%	0.02%	0.08%	0.65%	0.00%	0.65%
Allan Gray Money Market Fund	0.25%	NA	0.00%	0.04%	0.29%	0.00%	0.29%

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.

FOREIGN DOMICILED FUNDS ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 30 JUNE 2016 (NET OF FEES)

	ASSETS UNDER MANAGEMENT (R BILLION)	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR	HIGHEST ANNUAL RETURN[4]	LOWEST ANNUAL RETURN[4]
HIGH NET EQUITY EXPOSURE									
Orbis Global Equity Fund[9]	**99.6**	**01.01.1990**	**19.0**	**14.0**	**24.6**	**19.0**	**18.8**	**87.6**	**– 47.5**
FTSE World Index			13.7	12.8	23.9	21.7	17.5	54.2	– 46.2
Orbis SICAV Japan Equity (Yen) Fund	**23.1**	**01.01.1998**	**15.5**	**10.8**	**24.5**	**17.2**	**13.5**	**94.9**	**– 40.1**
Tokyo Stock Price Index			9.4	8.1	22.7	18.5	12.2	91.0	– 46.4
Orbis SICAV Asia Ex-Japan Equity Fund	**39.5**	**01.01.2006**	**16.6**	**15.2**	**19.6**	**16.5**	**9.0**	**58.6**	**– 34.2**
MSCI Asia Ex-Japan Index			14.9	13.4	16.7	16.2	6.1	60.1	– 39.7
Allan Gray Africa ex-SA Equity Fund	**3.2**	**01.01.2012**	**13.1**	-	-	**– 0.5**	**– 15.1**	**65.7**	**– 24.3**
Standard Bank Africa Total Return Index			6.1	-	-	1.3	– 3.8	33.5	– 29.4
Allan Gray Australia Equity Fund	**11.2**	**04.05.2006**	**16.2**	-	**18.9**	**19.0**	**31.6**	**99.5**	**– 55.4**
S&P/ASX 300 Accumulation Index			13.7	-	16.3	14.8	18.1	55.6	– 45.1
MEDIUM NET EQUITY EXPOSURE									
Orbis SICAV Global Balanced Fund	**32.2**	**01.01.2013**	**25.0**	-	-	**18.6**	**22.4**	**54.4**	**2.3**
60% MSCI World Index with net dividends reinvested and 40% JP Morgan Global Government Bond Index			23.4	-	-	20.2	24.2	40.2	7.1
LOW NET EQUITY EXPOSURE									
Allan Gray Australia Opportunity Fund	**1.3**	**01.07.2011**	**16.2**	-	-	**13.8**	**27.3**	**32.7**	**– 6.1**
Reserve Bank of Australia cash rate			11.6	-	-	9.1	19.3	28.8	– 5.3
VERY LOW NET EQUITY EXPOSURE									
Orbis Optimal SA Fund-US$ Class	**13.7**	**01.01.2005**	**12.4**	**10.8**	**19.2**	**14.7**	**25.1**	**48.6**	**– 15.7**
US$ Bank Deposits			10.5	8.8	16.9	14.1	21.2	57.9	– 25.6
Orbis Optimal SA Fund-Euro Class	**7.4**	**01.01.2005**	**10.2**	**9.2**	**13.6**	**9.5**	**23.8**	**44.1**	**– 19.2**
Euro Bank Deposits			8.2	7.3	10.8	8.1	20.2	40.2	– 20.9

[4] This is the highest or lowest consecutive 12-month return since inception. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

SOUTH AFRICAN INSTITUTIONAL PORTFOLIOS[5] ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 30 JUNE 2016

	ASSETS UNDER MANAGEMENT (R BILLION)[6]	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR
LOCAL PORTFOLIOS[6] (BEFORE LOCAL FEES)							
Domestic Equity Composite (minimum net equity 75% - 95%)	60.8	01.01.1990	21.0	15.9	16.2	15.8	12.5
Domestic Equity Pooled Portfolio (minimum net equity 95%)	6.0	01.02.2001	22.2	16.2	16.8	16.4	13.2
FTSE/JSE All Share Index			14.7/15.4	12.6	13.8	13.0	3.8
Domestic Balanced Composite	16.4	01.01.1978	22.2	14.3	13.8	13.9	14.8
Domestic Balanced Pooled Portfolio	2.8	01.09.2001	18.8	14.5	14.1	13.8	14.8
Mean of Alexander Forbes SA Large Manager Watch (Non-Investable)[8]			17.5/15.4	12.4	11.6	10.3	4.2
Domestic Stable Composite	5.5	01.12.2001	13.4	10.8	9.3	10.1	12.9
Domestic Stable Pooled Portfolio	1.3	01.12.2001	13.7	10.9	9.3	10.2	13.2
Alexander Forbes Three-Month Deposit Index plus 2%			10.0	9.2	7.8	8.0	8.6
GLOBAL PORTFOLIOS[7], LIMITED TO 25% FOREIGN EXPOSURE (BEFORE LOCAL, BUT AFTER FOREIGN FEES)							
Global Balanced Composite	78.0	01.01.1978	22.0	14.3	15.9	14.2	16.1
Global Balanced Pooled Portfolio	11.3	01.09.2000	19.1	14.4	16.1	14.3	16.4
Global Balanced (RRF) Portfolio[13]	26.6	01.09.2000	19.0	14.4	16.0	14.2	15.9
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[8,9]			17.3/14.6	12.5	13.7	11.7	6.2
Global Stable Composite	6.5	15.07.2004	13.2	11.3	12.1	11.0	15.9
Global Stable Pooled Portfolio	5.8	15.07.2004	13.3	11.3	12.2	11.0	15.8
Alexander Forbes Three-Month Deposit Index plus 2%			9.2	9.2	7.8	8.0	8.6
Global Absolute Composite	10.4	01.03.2004	16.3	13.4	12.8	12.2	17.2
Global Absolute Pooled Portfolio	3.3	01.03.2004	16.6	13.7	12.7	12.2	17.0
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[8]			15.5	12.5	13.7	11.7	6.2
FOREIGN ONLY PORTFOLIOS[7] (AFTER FEES)							
Orbis Global Equity Fund[10]	99.6	01.01.1990	19.0	14.0	24.6	19.0	18.8
Orbis Global Equity Pooled Portfolio	0.7	18.05.2004	15.5	14.0	24.7	19.1	18.8
FTSE World Index			13.7/14.2	12.8	23.9/24.0	21.7	17.5
Foreign Balanced (Rands) Composite[11]	5.6	23.05.1996	14.9	12.0	20.8	15.1	21.9
Foreign Balanced Pooled Portfolio	0.1	23.01.2002	9.2	12.1	20.8	15.3	23.1
60% of the MSCI World Index[12] and 40% of the JP Morgan Global Government Bond Index			12.7/8.2	12.9	21.8	20.0	24.0

PERFORMANCE AS CALCULATED BY ALLAN GRAY

[5] The composites not listed here include: Domestic Balanced Absolute, Domestic Balanced Low Equity, Domestic Balanced Stable Namibia, Domestic Equity MSCI SA, Domestic Equity Namibia, Domestic Money Market, Domestic Optimal, Domestic Tax Paying, Global Balanced High Foreign, Global Balanced Namibia 35% High Foreign, Global Tax Paying and Non Discretionary Foreign.

[6] The assets under management for institutional portfolios not listed here amount to R75.8bn.

[7] The composite assets under management figures shown include the assets invested in the pooled portfolios above where appropriate.

[8] The return for the period ending June 2016 is an estimate as the relevant survey results have not yet been released.

[9] Since inception to 31 December 1997 the Consulting Actuaries Survey returns were used.

[10] The total assets under management for the Fund is shown, which includes institutional and retail clients that invest directly with Orbis.

[11] Since inception to 31 August 2001 the foreign carve-out returns of the Global Balanced Composite were used.

[12] Morgan Stanley Capital International All Country World Index.

[13] The returns prior to 1 August 2015 are those of the Allan Gray Life Global Balanced Portfolio.

IMPORTANT INFORMATION FOR INVESTORS

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 unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board ('FSB'). 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). Collective Investment Schemes in Securities (unit trusts or funds) are generally medium- to long-term investments. Except for the Allan Gray Money Market Fund, where the Investment Manager aims to maintain a constant unit price, the value of units may go down as well as up. 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 its unit trusts. Funds may be closed to new investments at any time in order for them to be managed according to their mandates. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending.

PERFORMANCE

Performance figures 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. Movements in exchange rates may also be the cause of the value of underlying international investments going up or down. The Equity, Balanced, Stable and Optimal funds each have more than one class of units and these are subject to different fees and charges. 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 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za. Permissible deductions 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 the Management Company.

BENCHMARKS

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UNDERSTANDING THE FUNDS

Investors must make sure that they understand the nature of their choice of funds and that their investment objectives are aligned with those of the Fund/s they select.

The Allan Gray Equity, Balanced, Stable and rand-denominated offshore funds may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

A feeder fund is a unit trust that invests in another single unit trust which charges its own fees. A fund of funds is a unit trust that invests in other unit trusts, which charge their own fees. Allan Gray does not charge any additional fees in its feeder fund or funds of funds.

The Allan Gray Money Market Fund is not a bank deposit account. The Fund aims to maintain a constant price of 100 cents per unit. The total return an investor receives is made up of interest received and any gain or loss made on instruments held by the Fund. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument defaults. In this event investors may lose some of their capital. To maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. The yield is calculated according to the applicable ASISA Standards. Excessive withdrawals from the Fund may place it under liquidity pressure; if this happens withdrawals may be ring-fenced and managed over a period of time.

ADDITIONAL INFORMATION FOR RETIREMENT FUND MEMBERS AND INVESTORS IN THE TAX-FREE INVESTMENT ACCOUNT, LIVING ANNUITY AND ENDOWMENT

The Allan Gray Retirement Annuity Fund, the Allan Gray Pension Preservation Fund and the Allan Gray Provident Preservation Fund are all administered by Allan Gray Investment Services Proprietary Limited, an authorised administrative financial services provider and approved under s13B of the Pension Funds Act as a benefits administrator. The Allan Gray Tax-Free Investment Account, Allan Gray Living Annuity and the Allan Gray Endowment are underwritten by Allan Gray Life Limited, also an authorised financial services provider and licensed under the Long-Term Insurance Act 52 of 1998. The underlying investment options of the Allan Gray individual life and retirement products are portfolios of Collective Investment Schemes in Securities (unit trusts or funds).

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Executive

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R W Dower	BSc (Eng) MBA
A R Lapping	BSc (Eng) BCom CFA
T Mhlambiso	AB MBA JD

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