ALLAN GRAY

QUARTERLY COMMENTARY 2

30 JUNE 2017

LONG-TERM THINKING IN ACTION

The cover of this Quarterly Commentary features the Panama Canal, one of the most challenging engineering feats in the world. Before its construction, merchants had to send ships through the Straits of Magellan, at the tip of South America, to move goods between Europe and Asia. A trip that took months.

Following the Suez Canal success story, the French attempted doing the same at the Isthmus of Panama, with construction starting in 1881. The project was beset with problems from the outset due to financial burdens, engineering difficulties and disease spreading among the workers. Eventually the French abandoned the project and the Americans took over. Driven by John Frank Stevens, a self-educated engineer, new technologies were applied to excavate and engineer the Canal and medical innovations were used to keep the workforce productive.

Despite setbacks and sometimes gruelling conditions, the Canal was completed in 1914. Today, 103 years after its construction, it is still a vital part of the global economy, with more than 13 000 vessels moving through the Canal every year.

The commitment and perseverance that led to the construction of the Panama Canal inspires us at Allan Gray. With courage of conviction we remain steadfast in our investment beliefs, which have allowed us to create long-term wealth for our clients since 1974.

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CONTENTS

ROB DOWER

COMMENTS FROM THE CHIEF OPERATING OFFICER

UK academics working at the London Business School (LBS) produced a book about 15 years ago called *Triumph of the Optimists*, comparing 101 years of stock market returns around the world. The most striking point from their data is captured in the title: across the world, those prepared to take risk by investing in equities have earned high real returns over very long periods, and more so if the start date was in a period of crisis. The data is updated each year under the sponsorship of Credit Suisse and republished, now under a less eye-catching title, but this main point still holds.

The data series now goes back 117 years. The global average annual return for equities over this period has been just over 5% above inflation. At 7.2% p.a. after inflation, the JSE is the best-performing stock market in the 23 country dataset – it was third behind Australia and Sweden in the original 2002 edition. This isn't because our country has fulfilled its potential or grown faster than others; it is because the risk premium for investing in South Africa has been higher, or, put differently, over long periods in South Africa and especially when times have been tough, investors have tended to be too pessimistic.

No end soon to South Africa's economic woes

It is hard to be optimistic about our economy at the moment. The political leadership is focused on short-term tactics to keep or win power and this will surely be so at least until the next election in 2019. The level and scale of corruption revealed daily in the news, and the heavy impact of our underperforming economy on employment and on millions of middle class South Africans, are alarming. More taxes and bigger government are certainly not the answer. Our government has overstretched its capacity for management and is using resources wastefully and too often corruptly. Sandy McGregor's article makes this point: around the world, the consequences of big government are slow productivity gains and low growth. He argues that our country's current economic woes are the result of a government that is trying to do too much, with less and less efficiency. The way to fix this is to cut waste, and not, as the current government seems wont, to increase taxes.

And yet...

Things may be dire, but so many investors in South African markets are pessimistic right now that there are compelling bargains to be had. Immediately following Sandy's piece, Simon Raubenheimer makes the case for Barclays Group Africa (which may soon revert to being called ABSA), a bank that is mostly exposed to South Africa. We were recently able to invest a meaningful part of client portfolios at a dividend yield of more than 7%, which we consider to be a great price.

South Africa has been through tough times before. Coincidentally, the start date of the LBS long-term market returns data was January in 1900, the middle of the Boer war. It must have been scary to invest in local companies then. Those that did so, and those who bet on democratic South Africa at its birth in the early 90s, or on the recovery after the Global Financial Crisis in 2009, were well rewarded for taking a long-term perspective.

Interesting times for investing overseas as well

These are interesting times for investing. In South Africa pessimism rules, but there are bargains to be had. Globally, just a handful of technology stocks have been driving markets higher and yet they are not obviously expensive: our offshore partner Orbis, who shares our investment philosophy, is finding attractive opportunities in technology stocks, despite the fact that the Nasdaq Composite's peak is 20% higher than its pre-dotcom bubble peak. Ben Preston explains why Orbis feels this time is different, by taking a look at Amazon and retail giant Walmart.

What to do as an individual investor?

It is natural during uncertain times to feel it would be better to exit the markets and hide your money under your mattress. But there are so many reasons why this is not the best way forward – not least because inflation is a bigger enemy than some of the more obvious foes. When things are unpredictable, it can be difficult to know exactly how to position your portfolio. If you don't have the time or appetite to put your own portfolio together, a balanced fund could be the answer. Claudia Del Fante and Radhesen Naidoo take a look at how we manage risk in the Allan Gray Balanced Fund, and discuss why this unit trust could be the solution for investors looking to navigate the choppy waters.

While many investors may prefer to adopt a wait-and-see approach, staying out of the market may mean losing out over the long term. Unfortunately there is no magic trick that can turn savings into a comfortable retirement: you need time and commitment. Thandi Ngwane shares five investment principles that you can follow to give yourself a better chance of achieving this.

Inspiring achievements

As many of you know, the objective of the Allan Gray Orbis Foundation is to create a long-term pipeline of entrepreneurial talent in our country. In his update this quarter, Anthony Farr explains why the Foundation aspires for Allan Gray Fellows to do for entrepreneurship in South Africa what Jamaica has done for sprinting. He also describes what the Foundation can learn from the Jamaican sprinters, using some inspiring examples of home-grown achievement to illustrate how this works in the Foundation's context.

Thank you for your trust.

Kind regards

Rob Dower

SANDY MCGREGOR

THE ECONOMICS OF TAXATION

At a time when many South Africans are advocating the merits of increasing taxes to fund our excessive fiscal deficit, Sandy McGregor explains the interrelationship of taxation and growth.

The rise of big government

An efficient tax system is a necessary feature of a modern state. Taxes have always been a focus of political concern, even when, by modern standards, they were a small levy on incomes and expenditures. Prior to 1914 governments played a more minor role in the state than they do today. They were responsible for policing, law and order, defence and foreign affairs. Local authorities tended to be responsible for roads, sanitation education and public health. The role of government was strictly limited and, in most countries, tax collections were of the order of 5 to 10% of GDP. This started to change in the First World War and, after 1930, in most countries there was an inexorable rise in the size of government relative to the economy. Today, in a developed economy government, spending typically accounts for between 30 and 50% of GDP. In the US the ratio is about 32%. In France it is more than 50%.

In South Africa the spending of central government is about 30% of GDP. The size of government has become a crucial determinant of how fast a country's economy can grow and of whether it can achieve sustainable prosperity.

The economic cost of increased government spending

Economic growth is largely a matter of making things cheaper, which then allows the consumer to divert resources to other expenditures. Growth requires improving productivity. The private sector tends to allocate and use resources more efficiently than government and, as a consequence, its activities are more likely to boost productivity and therefore growth. The private sector is effective because it is subject to the disciplines of the market. A business which produces a product which does not find favour with consumers either loses money or at worse, fails. The market economy works because business is subject to the risk of failure. Only the efficient prosper.

Government, on the other hand, is not usually subject to these disciplines and is prone to use resources wastefully. A typical response of government to disappointing outcomes is to argue that it did not do enough. When regulations do not work the response is more regulation. Legislation which fails gives rise to more legislation. The merit of a project which fails is seldom questioned. A consequence of government's power to tax is that it can continue a wasteful activity long after it should. It is inherently less efficient because it is not subject to disciplines which in the private sector prevent waste.

Increases in the proportion of private incomes paid in tax constitute a transfer of resources from the more efficient to the less efficient part of the economy. Accordingly, total productivity in the economy as a whole declines and growth slows. Countries where government constitutes a smaller share of GDP grow faster and, in the long run, are more prosperous than those subject to big government.

The outcomes of differing responses by countries in Europe to the economic crisis of 2008 are instructive. The Baltic States and Ireland chose to slash government spending to balance their budgets. As a consequence their economies recovered fairly rapidly. In contrast, France has stagnated because it chose to increase taxes and maintain the level of government spending. The case of the UK provides a useful contrast of two differing fiscal strategies. The Labour government led by Gordon Brown increased taxes in 2009. This had adverse economic consequences. When after an election a Conservative government cut taxes and restrained spending the economy recovered. For a period the UK enjoyed the fastest growth rate in Europe. Recent experience is that countries faced with an excessive fiscal deficit that choose to respond by cutting spending enjoy continuing growth. Those that respond by increasing taxes stagnate.

"COUNTRIES FACED WITH AN EXCESSIVE FISCAL DEFICIT THAT CHOOSE TO RESPOND BY CUTTING SPENDING ENJOY CONTINUING GROWTH."

Impact of globalisation on the tax base

A convincing body of empirical evidence supports the proposition that there is a point at which increasing tax rates reduces collections. This dynamic is popularly called 'the Laffer curve'. Although the idea was not uniquely his, it has come to be associated with the American economist Arthur Laffer, whose views gained increasing influence in the 1970s and became the philosophical justification for the tax revolution in the 1980s when most countries eliminated extremely high tax rates. It is noteworthy that, after about 10 to 15 years, many countries which did away with high rates were generating fiscal surpluses.

Since 1980 globalisation has reinforced the power of the Laffer curve and had a profound effect on the ability of nation states to force wealthy individuals and companies into paying exorbitant taxes. Revolutions in transportation and communication have created a global business system which has the freedom to choose the optimal location from which to operate. For example, local production of raw materials no longer constitutes a competitive advantage in manufacturing, which is why national beneficiation strategies are usually flawed. The only nation states which are in a position to force business to locate within their borders are those which can offer a very large market. Currently there are only three such regions: China, the United States and the European Union. The privilege of being able to grant or deny access to their markets gives these three polities their economic power, including the power to financially oppress companies and individuals operating within their borders. Smaller countries, such as South Africa, do not enjoy such policy freedoms.

In recent years both France and the UK have put the Laffer curve to the test and experienced outcomes which yet again confirm its validity. Following the crisis of 2008 both countries increased the top rate of personal income tax and experienced a subsequent decline in tax collections. In the case of France, a top rate of 70% caused a significant migration of the wealthy. Both countries chose to reverse tax increases which had unintended, but not unforeseen, adverse consequences.

The simple truth is that in a global economy, small nation states cannot impose high tax rates without adverse effects on economic growth and on tax collections. The things that drive economic growth, namely investment, skills and entrepreneurial initiative, are extremely mobile. Even the most draconian regulation will fail to prevent them relocating elsewhere. Communist countries, which rejected the very idea of a market economy, felt obliged to deny individuals the right to travel except on government business. Otherwise a majority of those with skills would have emigrated. Only after they embraced market freedoms did their economies escape from extreme stagnation. Today most former communist states, including China, have relatively low personal tax rates. This is contributing to their economic success.

Has South Africa reached a tipping point?

In healthy systems, taxpayers must be located in a comfort zone where a substantial majority does not feel obliged to restructure its affairs to reduce tax payments. Once such a comfort zone is established, the system will be stable and reliably generate expected revenues. There is no continuum in human behaviour. In the case of taxation there are two distinct behavioural sets. In the first, taxpayers generally accept and comply with the regime. The second set is characterised by aggressive tax avoidance. It is unwise for a country which has successfully located itself in the first set to implement changes which cause taxpayers to migrate into the second set and start restructuring their affairs with the purpose of tax avoidance. The US tax code is a good example of a system which has become located in the second set where taxpayers focus on avoidance.

The simplest way to limit tax avoidance is to have low rates and restrict allowable deductions. This has been the approach in South Africa, but with the increase in the top personal rate to 45%, we can no longer claim to be a low tax society, with the consequence that more and more taxpayers will take steps to structure their affairs to reduce their tax payments. One avoidance measure is to emigrate. This option is most readily available to those who are rich and those who are highly skilled. For example, many South African businesses and entrepreneurs have relocated to Mauritius, which offers a more salubrious business and fiscal climate. Others have relocated to Dubai. Government cannot stop emigration. Measures intended to make leaving more difficult will only increase the outward flow. The emigration of large numbers of such taxpayers is probably already a significant contributor to our current economic malaise. It has a short-term cost in the form of reduced tax collections but, more importantly, in the longer run an adverse impact on economic growth due to the loss of skills.

South Africa's dilemma

The inequality in the distribution of wealth and incomes in South Africa is seen by many as a powerful justification for imposing higher taxes on the rich to pay for expenditure to support the poor. The dilemma is that imposing such taxes will probably trigger the adverse consequences of the Laffer curve. What South Africa needs is economic growth. One of the more certain ways of keeping the economy in its present stagnation is to significantly increase taxes. To get the growth we need, government spending should be constrained. However, in the current political environment, it is very difficult and possibly impossible to sell this message to a sceptical electorate.

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.

SIMON RAUBENHEIMER

BARCLAYS GROUP AFRICA: SEIZING THE OPPORTUNITY

Participating in the Barclays PLC sale of more than one-third of South African-listed Barclays Group Africa (BGA) catapulted BGA into a top 10 share across most of our client mandates overnight. Simon Raubenheimer discusses the investment case.

Earlier this quarter our clients had the chance to participate in a rare opportunity: on 31 May 2017, UK-based Barclays PLC announced the sale of 33.7% of BGA for R37.7bn. The placement price of R132 per share was at an almost 10% discount to the closing share price on the day before the announcement and the average price over the preceding month. At very short notice our clients got to invest a substantial sum of money in a decent asset at a great price.

Barclays PLC's history with Barclays Group Africa

The lion's share of Barclays PLC's investment in what was then called ABSA was made in 2005 at R82.50 (or GBP8.00 per share from their perspective). A further investment was made in 2013 (share price GBP9.50), coinciding with a name change to BGA. By March 2016 Barclays PLC – now under a new CEO – reversed course and announced its intention to sell the bulk of its 62.3% in BGA. A chunk was sold off in May 2016 at GBP5.80/share and the recent sale at GBP7.80 will leave Barclays PLC with around 15% of BGA (soon to be called ABSA?).

> **"THE BANK HAS A BIG MARKET SHARE IN CRITICAL AREAS BUT IT IS LOSING GROUND TO COMPETITORS."**

From Barclays PLC's perspective their investment in BGA has been disappointing:

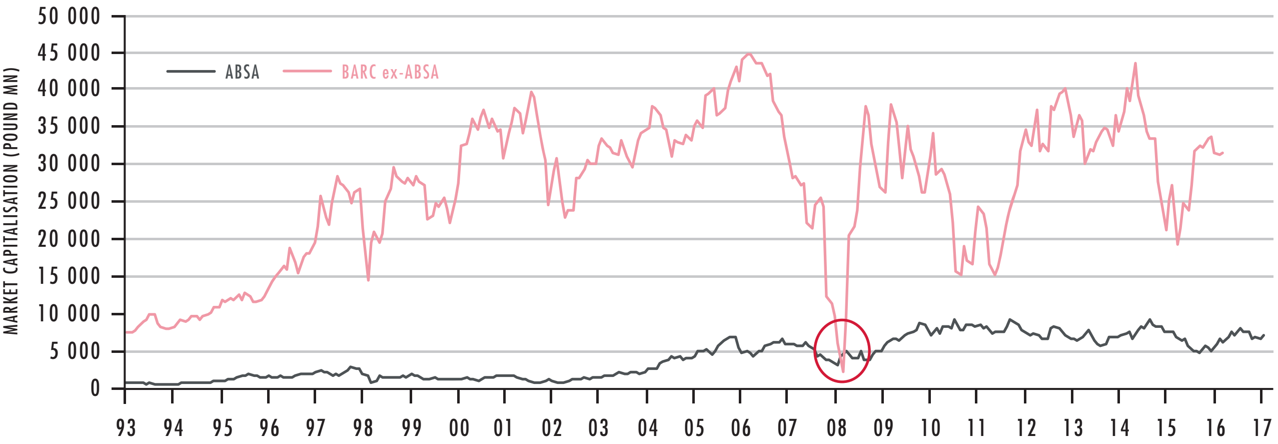
- In British pound terms, we estimate that Barclays PLC generated marginal positive returns after accounting for BGA's generous ordinary and special dividends and R12.8bn of separation fees.
- Barclays PLC's investment would have lagged the South African FTSE/JSE All Share Index (ALSI) by at least 5% per annum.

It is staggering that in early 2009, at the trough of the Global Financial Crisis (GFC), the 320-year old Barclays PLC (excluding its stake in ABSA) – with over 100 000 employees around the world and assets of GBP1.3 trillion – had a market value lower than ABSA's (which at the time had total assets of only GBP60bn, less than 1/20th of Barclays PLC). Just seven years prior to this, Barclay's PLC was 35 times bigger than ABSA, as shown in **Graph 1**, on page 7. The performance of our banks during the GFC is testament to the stability of our banking system.

The South African banking sector

Our major banks have all grown their earnings faster than the market over the long term, and the banking sector overall has done well for all stakeholders.

GRAPH 1 **BARCLAYS PLC VS ABSA***



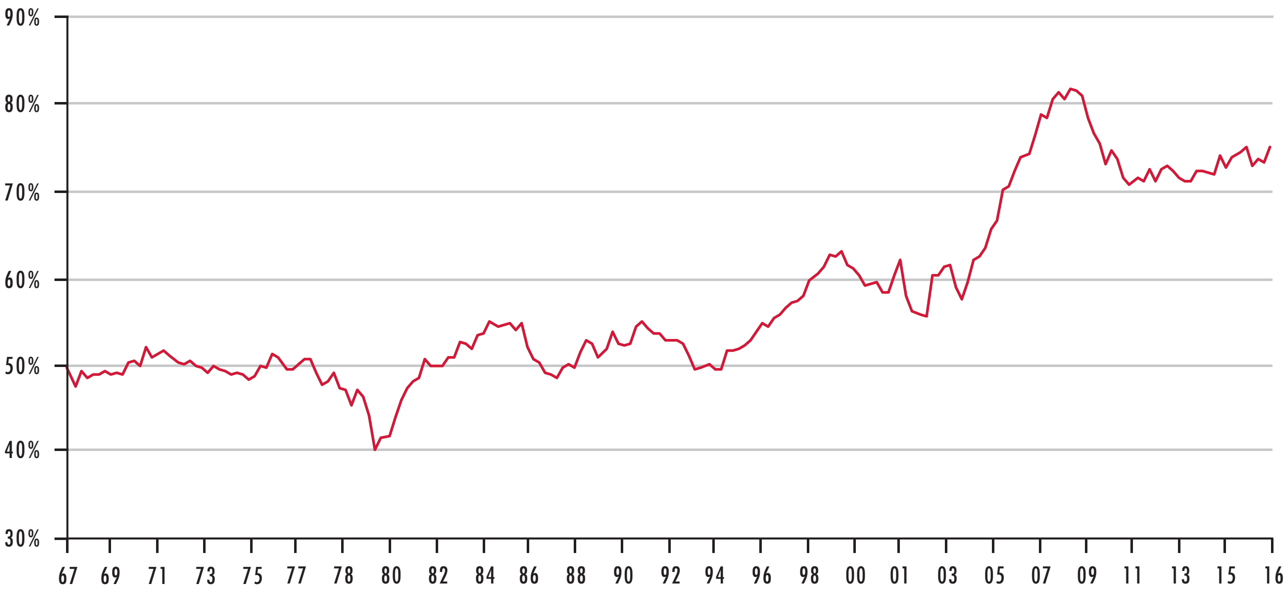
Source: IRESS, Allan Gray Research
* ABSA rebranded to Barclays Group Africa (BGA) in 2013.

We are not oblivious to the challenging economic climate currently facing the banking sector. Weak economic growth and political instability are legitimate concerns. Rating downgrades carry real economic consequences through higher costs of capital and lower returns on equity for the banks. However, these concerns are well known and widely publicised.

Importantly, however, the fundamentals underpinning the South African banking system have not changed. It is vital not to lose sight of the long-term picture amidst all the noise and hysteria. Our banking sector remains a small, conservative and tightly regulated industry operating in a largely closed currency system. The following factors suggest that current banking industry profits are not high:

- Slow credit growth: Private sector credit extension expressed as a percentage of GDP is flat on a decade ago and well below its previous high (see **Graph 2**). Bank clients are less indebted now, on average, than they were 10 years ago.
- Muted asset price growth: Capetonians might find this hard to believe, but South African house prices, on average, have not kept up with inflation for 12 years.
- Conservative provisioning: Post-GFC, post-African Bank – South African banks are cautious. Portfolio provisions are at their highest levels in over a decade. Provisioning entails sacrificing today's profits to buffer future profits against potentially adverse developments.
- Increased regulation: Globally as well as locally, banks are more heavily regulated than in the past.

GRAPH 2 **PRIVATE SECTOR CREDIT EXTENSION AS % OF GDP**



Source: IRESS, Allan Gray Research

As a consequence, their assets are supported by higher levels of equity and lower levels of debt and the riskiness of both their assets and liabilities is reduced.
- Long-term upside to financial penetration: 65% of transactions in South Africa are still done in cash. Excluding South African Social Security Agency (SASSA) cardholders, 58% of South African adults are banked. Only 14% of South Africans borrow from banking institutions. Credit card penetration is estimated to be around 17%; mortgage penetration a mere 5%.

BGA in the South African context

BGA's earnings growth has lagged its competitors by a few percentage points every year over the past five years. With hindsight the bank made a few strategic errors: credit was tightened too aggressively after the GFC, the product offering became too expensive and lagged its peers in terms of digital functionality. Clients who wanted personal and home loans simply moved their accounts elsewhere.

BGA's challenge now is to stem the tide and re-ignite some growth in its top line. The bank has a big market share in critical areas but it is losing ground to competitors.

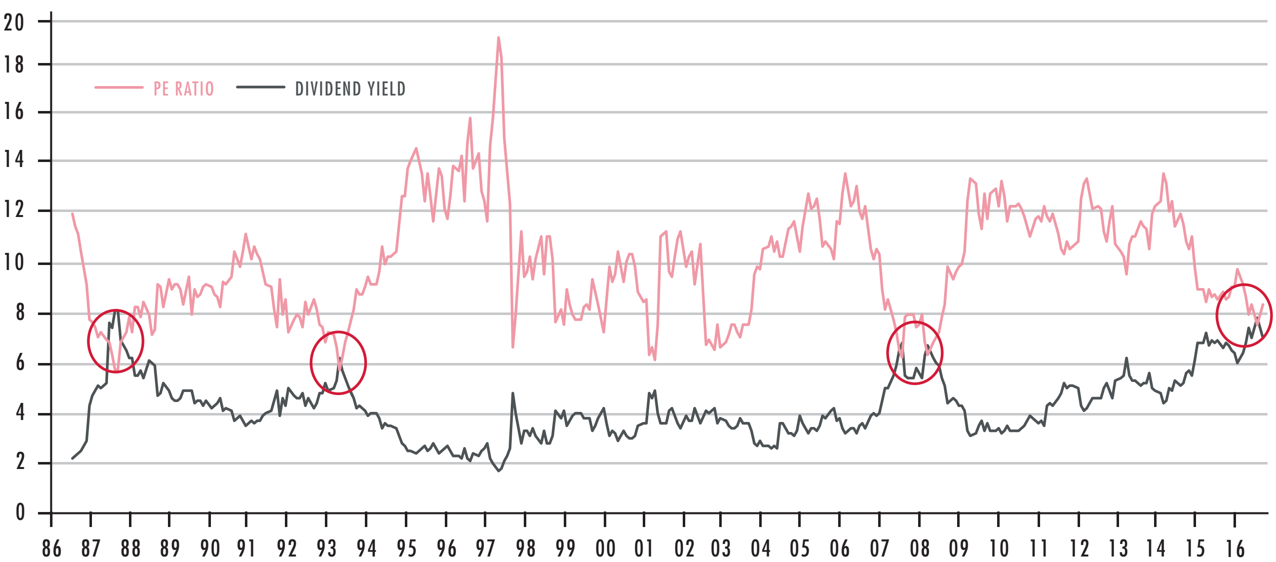
Tough times can have a silver lining if they gift us the opportunity to buy assets at bargain prices. This might classify as one such opportunity: our recent investment in BGA was at a multiple of 7.5 times its most recent earnings and a dividend yield of 7.8%. It is not every day that one sees dividend yields higher than price-to-earnings (PE) ratios on the JSE, as shown on **Graph 3**. ABSA's PE ratio has been lower than its dividend yield on only three occasions in the history that we have for the bank (or its predecessor United Bank, given that ABSA was only established in 1991): 1988, 1994 and 2008. All those times were characterised by massive uncertainty and investor distress. And in all cases investors would have done well over the subsequent three to four years, as reflected in **Graph 4**, on page 9. BGA's PE ratio is currently at a 60% discount to the average company listed in South Africa – a level only seen twice before (1994 and 2008). Similarly, its dividend yield is 1.7 times the dividend yield of the average company, matched only in 1994 and 2008.

"THE MARKET DOESN'T BELIEVE IN BGA'S RECOVERY AND EXPECTATIONS ARE LOW. AS A LONG-TERM INVESTOR, THIS NEGATIVE SENTIMENT IS IN OUR FAVOUR..."

There is indeed some evidence of matters slowly improving:

- Better pricing: from being the most expensive six years ago, ABSA's entry level account is now among the cheapest in South Africa, according to some surveys.
- Improved transactional banking offering: including first-to-market innovations, like "ChatBanking" (transacting via social media) and the world's first trade finance transaction using Blockchain.
- Happier clients: their net promoter score has improved for four consecutive years. Customer

GRAPH 3 **ABSA* DIVIDEND YIELD (%) AND PE RATIO**



Source: IRESS, Allan Gray Research
* ABSA rebranded to Barclays Group Africa (BGA) in 2013.

satisfaction surveys are showing improvements.

- Happier staff: employee engagement scores are trending up.

It takes a long time to turn a big ship around. The market doesn't believe in BGA's recovery and expectations are low. As a long-term investor, this negative sentiment is in our favour.

Patient capital 'on the sideline'

In the absence of a crystal ball, it is impossible to accurately predict market movements or to foresee a sudden opportunity in shares we like. But we know that, from time to time, the unexpected will happen, and we need to be prepared. Three things enable us to react to opportunities with conviction:

1. Thorough and up-to-date research: we research all the companies in our investment universe, whether our clients own them or not.
2. Access to liquidity: across our Equity, Balanced and Stable mandates, we keep a percentage of the funds in cash to participate in unforeseen events. In a rising stock market, this causes a slight drag on performance but the option of deploying the cash profitably outweighs the cost.
3. Benchmark agnosticism: if we like a company, we will invest with confidence irrespective of the size of the company, our peer group holdings or weight in the benchmark.

These factors will continue to allow us to react to opportunities that will hopefully contribute to future outperformance.

GRAPH 4 **ABSA* SHARE PRICE RELATIVE TO THE ALSI**

Source: IRESS, Allan Gray Research
* ABSA rebranded to Barclays Group Africa (BGA) in 2013.

Simon is an equity and balanced portfolio manager and a director of Allan Gray Investment Services Proprietary Limited. He is a CFA charter holder and has been with Allan Gray since 2002.

BEN PRESTON

TECH STOCKS: IS HISTORY REPEATING ITSELF?

From a top-down perspective, the prolonged outperformance of certain technology-focused companies has begun to raise eyebrows among those of us with first-hand experience of the inflation, and subsequent bursting, of the dotcom bubble. From the Nasdaq Composite's peak in March 2000, it took 15 years for its price to exceed that level again. Not only is that an object lesson in one of the dangers of a passive investing strategy, but with the index now standing some 20% higher than that previous peak, it also raises the question of whether today's investors should be worried about history repeating. Ben Preston, from our offshore partner Orbis, investigates.

To cut through the suspense, let me admit up front that I'm not going to answer the question directly: we don't find it productive to spend a lot of time analysing benchmark indices. But to leap ahead to my conclusion, what has come as a surprise — probably just as much to us as to those who are familiar with our investment approach — is the number of attractive investment opportunities we've found even among the group of strongly performing tech-focused companies. As a contrarian, it feels strange to be enthusiastic about stocks that have been rising (see **Graph 1**). Then again, if being contrarian means behaving rationally even when it's uncomfortable, then buying tech shares after a Nasdaq boom that ended so badly last time may be as good an example as any.

Different sentiment, different companies

One clear difference between today's largest tech stocks and those in the dotcom era is the price investors are willing to pay. As shown in **Table 1**, on page 11, headline valuation multiples are about a third as much today. While there's only so much comfort that can be gained by a favourable comparison with the top of a bubble, it does at least indicate the difference in sentiment between the euphoria of the late 90s and the relative caution of investors today, who have been once bitten and are now twice shy.

Not only is the sentiment different, so are the companies themselves. Typically, the class of 1999 was selling technology to corporate customers, and their fortunes were consequently at the mercy of the capital expenditure cycle, which just happened to be peaking after a long run. Today's crop of

GRAPH 1 **THE LONG ROAD TO RECOVERY**

NASDAQ COMPOSITE PRICE INDEX, 1990 TO JUNE 2017

Source: Datastream

TABLE 1 **TECHNOLOGY SHARES THEN AND NOW**

TECHNOLOGY SHARES THEN...

10 MARCH 2000	MARKET CAP (US$ bn)	PRICE/ REVENUE	PRICE/FREE CASH FLOW
Microsoft	507	21	48
Cisco	452	36	122
Intel	402	14	50
Oracle	230	24	107
Sun Microsystems	165	11	70
Average	–	21	80
MSCI World Index	–	1.7	32

...AND NOW

30 JUNE 2017	MARKET CAP (US$ bn)	PRICE/ REVENUE	PRICE/FREE CASH FLOW
Apple	751	3.5	14
Alphabet (Google)	635	6.8	23
Microsoft	532	6.1	19
Amazon	463	3.2	48
Facebook	438	14	36
Average	–	6.8	28
MSCI World Index	–	1.7	20

Source: Bloomberg, Orbis. Shares are the top five Nasdaq constituents by market capitalisation at each date.

leaders are typically household names, providing consumers with products and services which in many cases have become virtually indispensable. Not only that, but many of them have carved out very dominant market shares—an unanticipated benefit of coming of age in the post-bubble technology bust: an era of capital starvation in which only the fittest were able to survive.

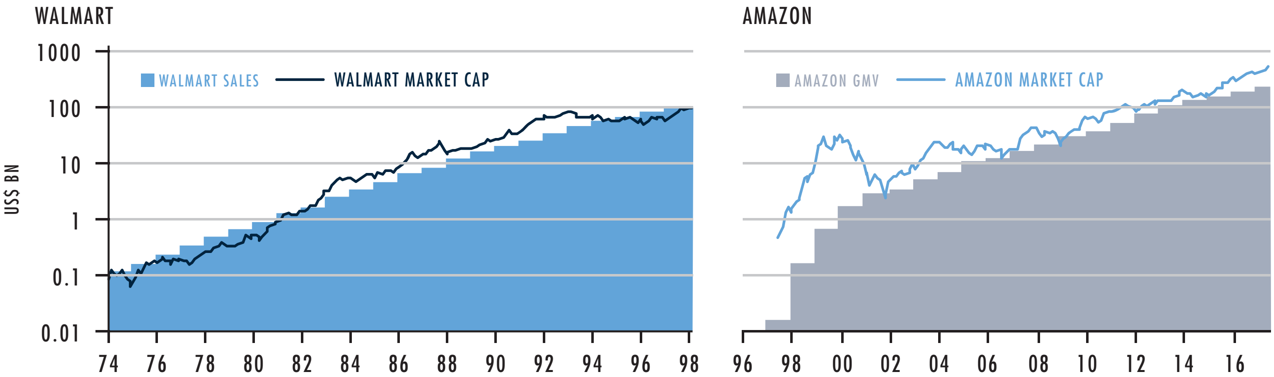
A new retail champion

For a decade now, the smartphone has been affecting the way we live our daily lives. So, while the comparison with the Nasdaq of the late 90s is superficially tempting, the more appropriate comparison — when it comes to real business fundamentals — might be a very different one. Today's Amazon.com, for example, has much more in common with the Walmart of the 1990s than with the Cisco. That's a very different precedent, and one that had a very different outcome for investors. Having been researching retail companies at Orbis for almost 17 years, one of the things I've come to learn is that retail is not one of those sectors in which things typically revert to the mean. Rather, it's in a state of continuous evolution with the old being replaced by the new. Shoppers tend to gravitate towards the retailers with the most effective business models, but they do so slowly — one person at a time — so the trend can take years or even decades to unfold.

The Walmart store was the retail innovation of its time. Its stores offered an unmatched selection of goods and were just a short drive away for most Americans. On its way to becoming the dominant retail franchise, Walmart consistently exploited its cost advantages, gaining market share from weaker rivals and squeezing its suppliers relentlessly. Shareholders were richly rewarded for decades. A generation later, to quote Yogi Berra: "it's like déjà vu all over again". A new retail champion, harnessing new technology, Amazon's growth to date has traced a remarkably similar path.

Amazon's current US market share is roughly where Walmart's was 20 years ago. But, as an investor, what's just as remarkable as the similarity in fundamentals is the similarity in share price performance. Apart from the late 90s 'hump' in Amazon's share price — a manifestation of the bubble euphoria discussed earlier — investors have often been offered the opportunity to purchase Amazon shares at a price of around one times the total annual value of its customers' purchases, the so-called GMV (gross merchandise value). That's equivalent to the one times revenue that Walmart typically traded at — a price which proved extraordinarily attractive for investors with the benefit of hindsight. When adjusting for the value of Amazon's

GRAPH 2 **THE GROWTH OF RETAIL CHAMPIONS**



Source: Company reports, Datastream, Orbis. GMV is Gross Merchandise Value, a measure of e-commerce transaction value.

TABLE 2 **COMPARING CHAMPIONS**

	WALMART 5 YEARS THROUGH 1996	AMAZON 5 YEARS THROUGH 2016
REVENUE GROWTH (% P.A.)	**23**	**23**
All as a % of revenues:		
Cash flow from operations	3.0	9.6
Less stock-based awards	–	(1.5)
Less capex	(4.8)	(5.0)
Less acquisitions	–	(0.6)
Adjusted free cash flow	**(1.9)**	**2.4**

Source: Bloomberg, Orbis. Amazon's capex figure includes investments in its separate cloud computing business.

cloud computing business, a multiple of one times GMV is exactly where Amazon's share price trades today.

But is it contrarian?

What do we see here that others don't? Well, one common belief is that Amazon's retail business doesn't make money the way that Walmart's always did. That's a widely accepted view which turns out, on closer inspection, to be flawed because of a critical difference between the online and offline business models: the way the cost of growth is accounted for, as shown in **Table 2**. Walmart grew its business by building new stores, whereas Amazon reaches new customers via digital marketing. While both forms of spending represent investment in the future, marketing expenses are taken as a charge on the profit and loss statement, while capital expenditure only hits the cash flow statement. While Walmart had higher accounting profits, its business model was naturally more capital intensive. Accounting profits are one thing, but in terms of generating all-important cash flows, it's Amazon's business model that turns out to have been more profitable.

That's not to argue that today's crop of market leaders will all continue to thrive. Rather, it is to observe that individual businesses should be assessed on their own merits. While that's no easy task, it's one that plays to the strengths of Orbis' 'matrix' of independent regional and global sector research teams.

In fact, it is striking that separate work across the firm has identified several attractive opportunities along the same theme — a phenomenon that we've seen before and taken to describing as a 'cluster'. Indeed, all five of our equity research teams have identified at least one member of the basket of technology stocks held in the Orbis Global Equity Fund — Amazon from the Global Sector team, Alphabet from the US, Priceline Group from Europe, NetEase from Emerging Markets, and NEXON from Japan. Each idea has been researched independently, in many cases by more than one analyst, in order to harness the benefits of our intellectual and geographic diversity, and to minimise the dangers of groupthink. The fact that our research efforts have identified so many companies along the same common theme suggests either that we're all independently falling for the same trap, or that we're onto something. Only time will tell which, but as always you can be sure that our culture of client alignment means we are invested alongside you.

ORBIS

Ben joined Orbis in 2000. Based in London, he leads the global sector investment team and conducts fundamental research across sectors globally.

CLAUDIA DEL FANTE AND RADHESEN NAIDOO

STRIKING A BALANCE

There are a number of unpredictable risks facing both local and global markets today. Claudia Del Fante and Radhesen Naidoo discuss how we think about risk at Allan Gray and why a unit trust that is mandated to invest in a variety of assets, such as the Allan Gray Balanced Fund, could be the solution to help most investors navigate the choppy waters.

Where many investors define risk as the volatility of returns, or the risk of looking different, our focus is always on avoiding permanent loss of capital.

The risk of capital loss varies considerably between unit trusts. Generally, the higher the risk of loss, the higher the long-term return you should expect from an investment. When choosing a unit trust, you need to balance the return you require to meet your objectives, the risk of loss you can afford to take, and the risk of loss that you are comfortable with. This may involve a tough trade-off between your objectives and your comfort with risk. But it is better to make a considered decision at the beginning and to stick with it than to be surprised later and shaken into disinvesting at the wrong time.

Once you are invested, your unit trust portfolio managers will be working hard on your behalf to manage risk and return within the fund, and your job is to give your investment the time it needs to deliver on your plan.

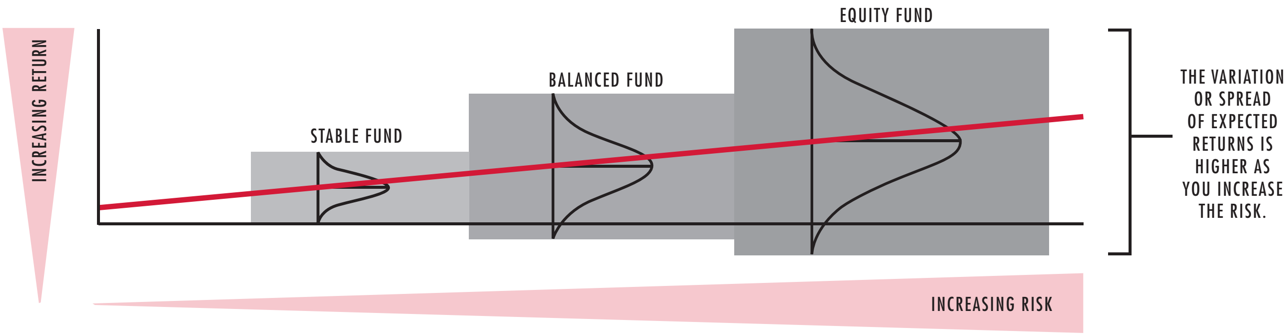
The risk and return conundrum

We would all prefer high returns with no risk, but as the economist Milton Friedman famously liked to say: "There is no such thing as a free lunch." In theory, the more risk an investor assumes, the higher the expected investment return, but more risk also means a wider range of possible outcomes, as shown in **Graph 1.** The graph illustrates that, as you increase the risk, the expected return increases (red line) but so too does the variation of that expected return (the curved black lines shows the spread of possible returns). Putting this into the context for Allan Gray, an investor in our Equity Fund expects to achieve a higher return than the Balanced and Stable Fund, but must also accept that there are periods when this does not occur.

> **"THE BALANCED FUND IS VERY CAREFULLY CONSTRUCTED CONSIDERING THE INDIVIDUAL RISKS OF EACH SECURITY, AS WELL AS THE CORRELATED RISKS ACROSS HOLDINGS."**

The first part of the portfolio manager's job in each of these funds is to invest in securities that individually offer the best trade-offs available between risk and return. Our investment philosophy is to invest in a basket of assets that are trading below what they are intrinsically worth, and to be concerned with the risk of losing capital and not the risk of being different. Portfolio managers combine many of these individual investments, each driven

GRAPH 1 **RISK APPETITE WITHIN ALLAN GRAY UNIT TRUST FUNDS**



Source: Allan Gray Research

by different risks and opportunities, into unit trusts, managing the overall risk of loss and upside potential in each. Focusing on fundamental business risk and not the latest share price action may result in short-term periods of underperformance, but we believe that excessive focus on short-term volatility can be distracting and ultimately detrimental to long-term investment returns.

The Allan Gray Balanced Fund best illustrates our approach

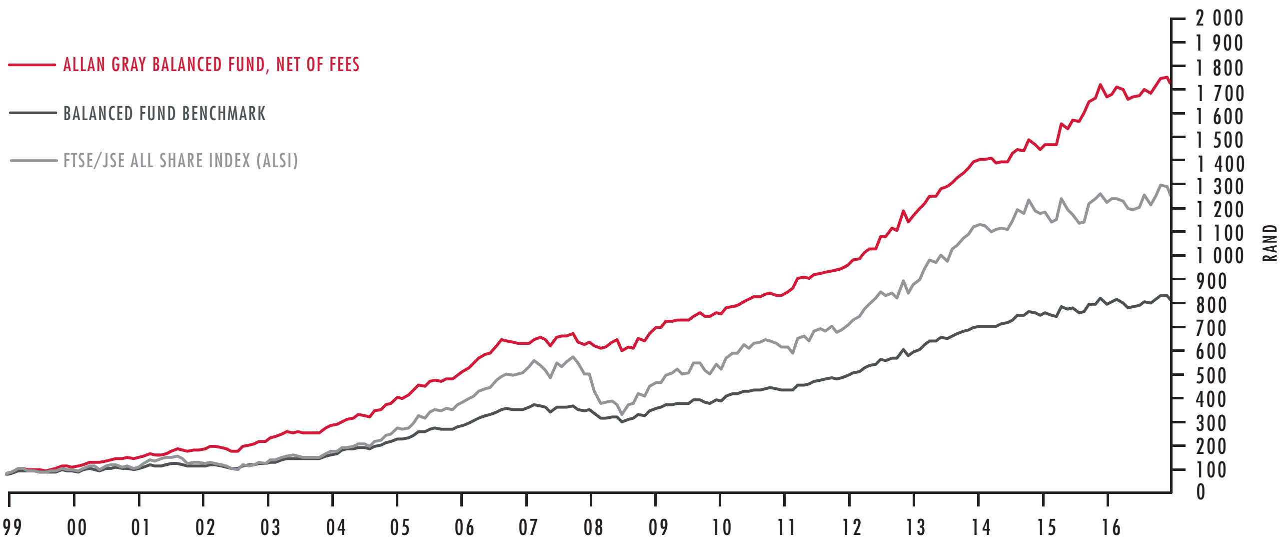
During times of uncertainty, a unit trust that is mandated to invest in a variety of asset classes can work well for investors, because it is diversified and reduces the risk of being overly exposed to a poorly performing asset class at the wrong time. Let's take a look at the Allan Gray Balanced Fund (the Fund) to understand how this works.

Since the launch of the Fund in October 1999, its goal has been to create steady, long-term wealth for investors by balancing income generation, capital growth and risk of loss. The broad investment mandate gives the Fund's portfolio managers the discretion and flexibility (within the constraints of the retirement fund regulations) to choose individual securities across various asset classes, to achieve its goals. Since inception, the Fund has delivered on these objectives and outperformed its benchmark (the average balanced fund in the South African Multi Asset-High Equity sector) and the South African stock market, as shown in **Graph 2,** without taking on greater risk of loss.

Managing risk in the Balanced Fund

The Fund is constructed using a bottom-up investment process. The portfolio managers build the portfolio from a blank sheet of paper, based on the relative attractiveness of individual securities across various asset classes. Each individual security goes through an extensive research process to assess the expected return over a minimum four-year term relative to downside risk. Every individual investment idea – e.g. a South African government bond,

GRAPH 2 **CUMULATIVE VALUE OF R100 INVESTED IN THE ALLAN GRAY BALANCED FUND VS THE BENCHMARK AND THE ALSI**



Source: Allan Gray Research, IRESS, data to 30.06.2017 a commodity ETF or a Sasol share – is competing for a place in the portfolio. The asset allocation is the result of the extent to which individual securities are found most attractive relative to one another. During periods where valuations move to extremes, such as the 2008 Global Financial Crisis, the asset allocation can be more dynamic to protect investors and take advantage of the opportunities presented.

While savvy investors with the time and appetite to do their own risk assessment could put together their own portfolio of assets, investing in our Balanced Fund hands over the responsibility to experienced professionals who have a deep understanding of each of the available instruments and the risks faced at a given point in time. The Fund is very carefully constructed considering the individual risks of each security, as well as the correlated risks across holdings. For instance, when considering the impact of an exchange rate move on a portfolio, one needs to consider exposure to offshore assets as well as holdings in rand-hedge South African shares, local counters such as retailers, which need to import goods, and mining firms, which export commodities.

A practical example was during the 'Nene-gate' debacle in December 2015, when South African banking shares sold off sharply while rand-hedge shares, such as British American Tobacco (BAT), performed relatively well. We had to decide whether to reduce exposure to the rand hedges and take advantage of the cheaper price of banks. Meanwhile, selected resource shares had also become attractive as their prices fell in rand and US dollar terms, as commodity prices and the rand weakened. At the same time, investing in government bonds offered investors a guaranteed nominal return of 9% over 10 years. This gives you a sense of the complex decisions investors may face.

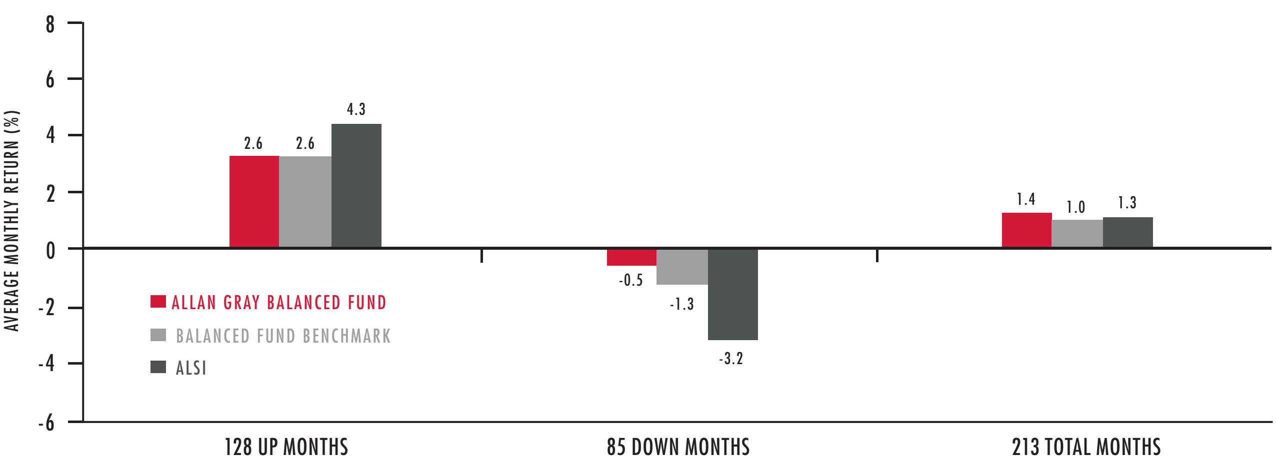
Purchasing assets at prices below their true value provides a built-in level of capital protection for long-term investors, as bad news is already priced in. This approach increases the potential for future returns as asset prices move towards their true value over time. To illustrate what we mean by protecting clients' capital, **Graph 3** shows the average monthly return since inception (213 months in total) of the Fund relative to the FTSE/JSE All Share Index (ALSI). We also compare the average returns during the months where the ALSI generated positive (128 up months) and negative returns (85 down months). During up-months, the Fund's performance has been in line with the benchmark and underperformed the ALSI. However, the Fund has outperformed both the benchmark and the ALSI over the long term by protecting our clients' capital to a much greater extent in down-months. Focusing on absolute risk and protecting capital has enabled us to grow our clients' money from a higher starting point; this is where the power of compounding truly benefits our clients.

How is the Balanced Fund currently positioned?

Approximately 50% of the Fund is currently invested in South African listed shares, 18% in fixed income, just under 5% in commodities and the balance in offshore investments (via our offshore partner Orbis and our Africa ex-SA Funds). Refer to **Table 1**.

The Fund's top 10 shareholdings contain several well-diversified businesses that generate a significant portion of their earnings outside of South Africa's borders, as well as some solid local businesses – all trading at meaningful discounts to our assessment of their respective intrinsic values. We believe these companies offer downside protection, in addition to unique opportunities to unlock further value. An example is BAT, which, given the favourable economics of the tobacco industry, generates stable revenues and pays out a large proportion of earnings

GRAPH 3 **ALLAN GRAY BALANCED FUND PERFORMANCE DURING ALSI UP AND DOWN MONTHS**



Source: Allan Gray Research, IRESS, data to 30.06.2017 to shareholders. BAT also has some upside from growth in emerging markets and the recent US$50bn acquisition of Reynolds American, which should enhance earnings over time. Standard Bank, on the other hand, trades on an undemanding 10 times earnings multiple and a 5.5% dividend yield, with upside from increased efficiencies and lower costs from massive IT investment, in addition to the growth potential of their African business. The risks and opportunities these two companies face are fundamentally different. It is this diversity of economic drivers which helps to reduce the underlying risk of loss in the Fund, even though the prices of shares can sometimes move together for short periods.

We continue to maintain the maximum foreign exposure within the Fund considering both the opportunities Orbis is currently finding globally and the prevailing exchange rate. The global investable universe is about one hundred times larger than our local market and provides increased opportunities to find mispriced shares and to diversify.

Lastly, the fixed interest component of the Fund has low duration, which means it is less sensitive to interest rate changes than the broader bond market. Maintaining a relatively larger portion of the Fund in cash allows us to invest if opportunities arise on the back of further uncertainty.

Stay the course

It is especially important to stay focused on your long-term investment goals and not to get distracted by short-term noise when things are uncertain, as they are now. Avoid the temptation to try and time markets, as this increases the likelihood of permanently destroying value.

The Allan Gray Balanced Fund has a number of different levers it can use to balance the relationship between long-term future returns and risk of loss. Our investment philosophy has served us well in protecting our clients' wealth during periods of uncertainty in the past and we believe it will continue to do so in future.

TABLE 1 **ALLAN GRAY BALANCED FUND ASSET ALLOCATION AS AT 30 JUNE 2017**

ASSET CLASS	TOTAL	SOUTH AFRICA	AFRICA EX-SA	FOREIGN EX-AFRICA
Net equity	64.8	48.6	0.8	15.4
Hedged equity	7.7	0.2	0.0	7.5
Property	1.6	0.9	0.0	0.8
Commodity-linked	4.4	4.2	0.0	0.2
Bonds	11.6	9.7	1.0	0.9
Money market & bank deposits	9.9	8.1	0.4	1.3
Total	100.0	71.7	2.2	26.1

Claudia is an investment specialist in the Manco Distribution team. She joined Allan Gray in 2010 after completing her Bachelor of Business Science Finance Honours Degree at UCT.

Radhesen joined Allan Gray in 2012 and is a business analyst in the Institutional Client Services team. He has a Bachelor of Science (Hons) in Actuarial Science from Wits.

THANDI NGWANE

THE TRICK TO RETIRING WITH ENOUGH

When magicians perform they often draw your eyes away from the simple sleight of hand or hidden trapdoor that makes the trick. This skill is called the prestige: without it, tricks often fail to captivate. Tricks can be entertaining but in the world of investing it is much better to rely on the mundane. Thandi Ngwane explains the wonderful but boring 'magic' of investing.

We are often asked by clients and prospective clients what the magic trick is that can turn a portion of your income into a comfortable retirement. It is hard to accept an extraordinary result by ordinary means. This desire is a fault in human behaviour that can have devastating consequences when it comes to saving for retirement: we rely too strongly on a 'wing and a prayer', when what we need is time and commitment.

Follow these five investment principles and give yourself the potential to experience the 'magic' first-hand.

1. Start with a plan

Set a goal that you can aim for. Here are some simple parameters: Based on a reasonable set of assumptions*, you should be aiming to have accumulated 17 times your final pre-retirement salary at retirement. If your spending or investment returns are very different to the assumptions, your circumstances may require less or significantly more. You can also check your progress along the way by looking at **Table 1** below. You will note that the sum required to meet that goal accelerates as you approach retirement age, but most of the return at that stage will come from compounding.

2. Earn returns that are higher than inflation

To earn real returns you need to take some risk. Risk means investing in things with an uncertain outcome over the short term, which implies that the ride will not always be smooth. Even in a prudently managed portfolio, like the Allan Gray Balanced Fund, over one year your returns can sometimes move up and down quite dramatically. The key is not to be shaken out by an adverse period. If you take a long-term approach and look at returns over three and five-year periods, short-term ups and downs tend to smooth out over time.

3. Avoid switching, which involves predicting what you think will happen in the future

A similar exercise is done by goalkeepers defending a penalty. The conventional wisdom is that you need to guess which way the penalty taker will kick the ball and then leap with conviction in that direction. A study done at the University of Negev showed that this method only worked 20% of the time, but taking a wait-and-see approach by standing in the centre and seeing which way the ball goes increases penalty saves to 33%. But keepers are most motivated to avoid the worst-case scenario: looking like they did nothing while a goal was scored.

In the same way when we are confronted by uncertain markets we have a bias for action. It is difficult to stay consistent and do nothing in a down market – but often this is the best thing to do as switching (i.e. selling out of one investment to buy another) can destroy value. It should not be more important to seem like you have done something than it is to get results in the long term. Doing too much can be your undoing.

4. Diversify - in a meaningful way

The metaphor often used when talking about diversification is to avoid putting all your eggs in one basket. Some investors take this to mean that you need to spread your investments across many different unit trusts. This can work if you are invested in different assets or if the unit trusts are managed in a different way from one another. The metaphor breaks down when you invest in many similar unit trusts. When you invest in the Allan Gray Balanced Fund you have exposure to more than 100 holdings in different asset classes, i.e. it is very well diversified. Investing in multiple balanced funds won't necessarily give you greater diversification, it will simply spread your investment more finely, potentially meaning that you get no better than average market returns while paying higher fees.

TABLE 1 **HOW MUCH DO YOU NEED TO SAVE TO RETIRE COMFORTABLY?**

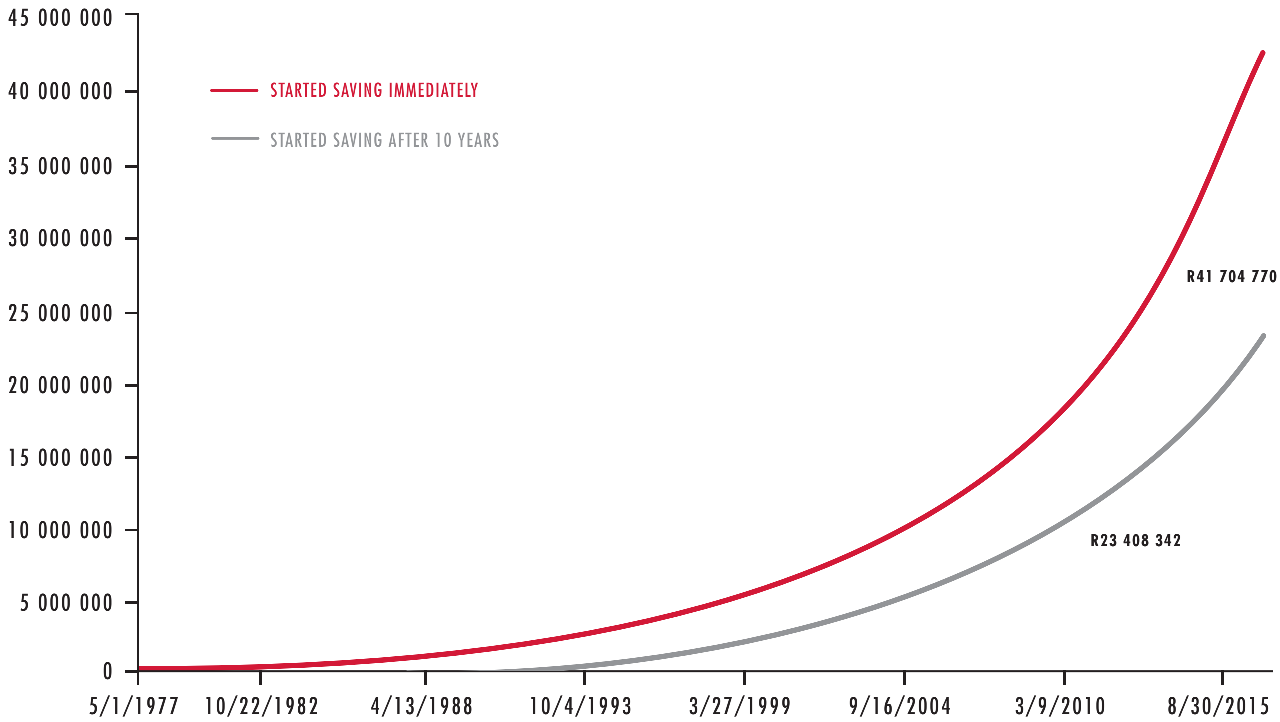
After working for	Saved a capital sum of
10 years	2 x your annual salary
20 years	5 x your annual salary
30 years	10 x your annual salary
40 years	17 x your annual salary

Source: Allan Gray Research

5. Start as soon as you can

Many of us act as though skipping retirement savings for the first 10 years has minimal consequences. In **Graph 1** the grey line shows investors starting to save after 10 years of working and contributing 15% of their salary, based on a starting salary of R20 000, increasing by inflation every year, with an investment return of 11%. The red line shows investors who earn the same, but started contributing from their first pay cheque. The difference illustrates the magic of compound interest, the key ingredient of which is time. Missing those first few years of saving can result in losing almost half of the returns you may get. Even if you have not started yet, the best time to start is still now. These tips seem basic, but implementing them consistently is not easy. As much as we crave a magical solution, pulling a comfortable retirement out of the hat is more about simple and steady than pulling off a grand trick.

GRAPH 1 **THE MAGIC OF COMPOUND INTEREST**



Source: Allan Gray Research

* 11% investment return, income required of 75% of final salary in retirement, 4% drawdown or income yield after retirement.

Thandi joined Allan Gray in 2008. She is a senior member of the distribution team having previously worked in legal and compliance and marketing in the financial services sector. Thandi completed her Masters of Business Law at the University of KwaZulu-Natal and is an admitted attorney and a CFP professional.

ANTHONY FARR

ALLAN GRAY ORBIS FOUNDATION UPDATE

The Allan Gray Orbis Foundation model, that develops a long-term pipeline of entrepreneurial talent starting at high school with Allan Gray Scholars, then Candidate Allan Gray Fellows at university before reaching Allan Gray Fellows pursuing their careers and enterprises, is not one that is found elsewhere. For this reason the Foundation looks to other analogies for the work it does – and some are rather unexpected. Anthony Farr explains why the Foundation aspires for Allan Gray Fellows to do for entrepreneurship in South Africa what Jamaica has done for sprinting.

It may be useful to reflect for a moment how unlikely it is that a small island of less than three million people can so completely dominate sprinting, the most competitive sporting event on the planet. The 100m male and female world champions are currently both Jamaican. Twenty-three of the fastest 28 times in the event have been achieved by Jamaica. To put this into perspective, if one were to suggest that Cape Town, alone, was going to consistently produce the best sprinters in the world, year after year, no one would believe that it could be possible, yet this is exactly what Jamaica has achieved with a smaller population.

We were very interested to understand how this has been accomplished and what we can learn from the Jamaican sprinters in our pursuit of cultivating responsible entrepreneurs for the common good.

Our three initial lessons:

1. Start early
2. Develop a powerful sense of community
3. Be motivated by a bigger vision

Each of these will be unpacked and then illustrated though the example of an Allan Gray Fellow.

1. Start early

Talent explodes into success when identified early and intentionally developed. From as early as eight years old, Jamaican children are competing and dreaming of being world-class athletes. We try to replicate this early activation in our Allan Gray Scholarship at high school and see it clearly in the story of Bradley Wattrus.

Bradley Wattrus

With his love of maths and science at school, Bradley Wattrus had the makings of a successful actuary. Yet, the promise of corporate success paled in comparison to the potential impact he could have as an entrepreneur. This is why he applied to the Allan Gray Fellowship: "I remember feeling that this was a vision for the future of South Africa in which I wanted to be a part."

It has been a mere four years since Bradley co-founded Yoco Technologies, and a few more since he started his journey as an Allan Gray Fellow, yet he is already impacting the financial technology industry. The firm is focused on helping SMEs grow by providing integrated payments, point-of-sale software and access to financial services. They now have 5 000 merchants using Yoco, with 300 000 traditional card terminals in the market and 70% of their merchants accepting card payments for the first time.

Bradley has been flexing his business muscles since primary school. Bradley's father made a point of teaching his children to think in terms of capital and not pocket money, and he and his brother "were regularly exploring different side projects." Bradley's first foray into entrepreneurship was as his school's Coca-Cola vendor and he won an award for entrepreneurship.

At the end of his school career, Bradley applied to the Allan Gray Fellowship. The combination of his BSc (Hons) in Actuarial Science at the University of the Witwatersrand and the Foundation's entrepreneurship programme were enlivening. As Bradley puts it: "If you are interested in going beyond a profession and making a significant impact on the region I would encourage you to apply [to the Fellowship]. The value is really in the opportunity to expand your mindset and leave university with a much broader perspective than you may otherwise have had."

2. Develop a powerful sense of community

Achievement is often seen as an individual pursuit but it is accelerated by community. In Jamaica, the whole island gets behind their runners and the annual athletics event, known as Champs, is held in a vast stadium which is filled to capacity. The sense of community pushes everyone on to even greater heights. In the reflections of Naeem Ganey, the importance of Allan Gray Fellows creating a community is evident.

In 2015 Naeem started EduTree with a friend while finishing his Honours degree in Computer Science. EduTree is a mobile-friendly platform that focuses on revision aid in high school. Students can login to EduTree and practice math and science. The system

Naeem Ganey

then analyses the student's answering patterns, identifying strengths and providing teachers with deep analytics about a student's learning. Being an educational business, the company's business model and choice of tech is

"THERE IS SOMETHING ABOUT PURSUING A GOAL THAT IS BIGGER THAN ONESELF THAT INSPIRES PERFORMANCE."

completely guided by the principle of providing access as widely as possible – no sign-up fee is required, basic smart phones can navigate the platform easily and, best of all, it's data-efficient.

This kind of thinking – about what people need and what they have to work with – lies at the heart of Naeem's business initiatives. In fact, he has a vision of "a digital Africa that is inclusive and revolutionary." A year after co-founding EduTree, he founded Media Measure, a media monitoring business that uses technology to ensure that clients get the correct amount of advertising by automating the comparison of the paid schedule against what was then actually broadcast. This pioneering venture operates in Rwanda, Mozambique, Botswana, Namibia, Swaziland, Zambia, Zimbabwe, Angola and Malawi. Being based in Johannesburg meant that Naeem had to provide these services remotely, which in turn meant setting up data centres in each of these countries – one more thing that hadn't been done before, except by banks or other huge companies. "We're the first small startup to actually do what we've been doing in some of these countries."

His understanding of the importance of the human element stems from both his upbringing and his participation in the Allan Gray Orbis Foundation's Fellowship Programme. Thanks to his parents, he has received business training throughout his youth. From counting stock and tending to customers at Bingo Cash & Carry in the small town of Vryburg, to managing the start of a new fish and chips take-away restaurant in Mahikeng, and coming up with ways to attract more customers – Naeem has seen it all. He attributes the meticulousness with which he approaches writing code to having had to carefully count viennas and pieces of fish as a youngster.

This sense of connecting with people was echoed at the Foundation. Referring to the blend of unique characters in the Fellowship programme, he used to call it a "fruit salad". "The Foundation appreciates the unique abilities in each person … and they taught us how to appreciate the unique abilities in each person."

3. Be motivated by a bigger vision

There is something about pursuing a goal that is bigger than oneself that inspires performance. If Jamaica's athletics was just about the success of one or two individuals it would be difficult to sustain, yet because it is driven by a bigger vision, a sense of showing the world the brilliance of their country, the momentum builds from generation to generation.

Lethabo Motswaledi

At the Foundation, we call this a "spirit of significance" and it is a consistent theme in the journey of Lethabo Motswaledi.

Lethabo Motswaledi always had a burning desire to live a life that made an impact. She might not have been able to name an exact career, but she knew it would involve doing her own thing and she knew it would have to be big. She recalls: "As a child who was fortunate enough to be from a family of accomplished individuals, I felt that I had big shoes to fill and that I had to make something of myself."

With a business on the go in the cutting-edge industry of 3D printing, she's well on her way to filling those shoes. 3DPower, which she started with classmate Matthew Westaway, has been running for two years and already they are celebrating the launch of two products. Hello Baby 3D Prints allows expectant parents to see their baby before its birth. Theirs is the first company in Africa to successfully convert 3D ultrasounds into 3D prints.

Their second product, The Hourglass Project, is part of a nation-building project that enjoys support from both the Nelson Mandela Foundation and the World Design Organisation. A 3D sculpture of Nelson Mandela over an hourglass gets activated on July 18th to trigger 67 minutes of activism. They will also be launching an accredited skills programme aimed at training people in modern craft production using 3D technology.

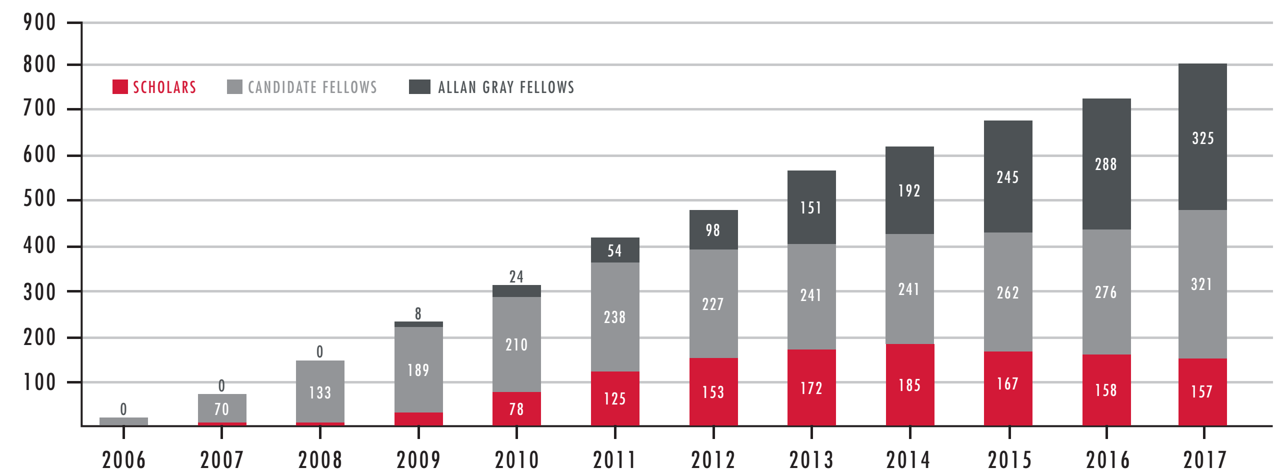
Lethabo recalls eagerly filling in the application for the Allan Gray Fellowship, feeling like she was born to answer some of the questions. "I felt that regardless of what I studied, I would always ultimately pursue a life in entrepreneurship, which is something that isn't easily taught." This mindset, and the hands-on experience the Foundation afforded her, explains why she turned down every job offer she received and chose instead to dive right into the world of startups.

Of her experience in the Fellowship Lethabo says: "I would encourage anyone with a burning desire to make an impact to apply for the Fellowship. This is because the Fellowship not only provides immense opportunities, but because it surrounds one with like-minded individuals who are just as passionate about making an impact."

Making an impact

Following the Jamaican principles of starting early, building a strong community and being driven by a bigger vision, the Foundation's pipeline (as shown in **Graph 1**) has grown from a small group of passionate but inexperienced high school learners to an Association of Allan Gray Fellows, which already has created a portfolio of businesses with a conservative valuation of R850 million. Given the right conditions and support, small groups of individuals can achieve the remarkable.

GRAPH 1 **FOUNDATION BENEFICIARIES**



Source: Allan Gray Orbis Foundation

Anthony is a qualified chartered accountant. Prior to joining the Allan Gray Orbis Foundation in 2005 he worked at the Starfish Greathearts Foundation.

NOTES

ALLAN GRAY BALANCED AND STABLE FUND ASSET ALLOCATION AS AT 30 JUNE 2017

	BALANCED FUND % OF PORTFOLIO			STABLE FUND % OF PORTFOLIO		
	TOTAL	SA	FOREIGN*	TOTAL	SA	FOREIGN*
Net equities	64.8	48.6	16.2	36.6	24.5	12.1
Hedged equities	7.7	0.2	7.5	12.4	2.1	10.3
Property	1.6	0.9	0.8	2.4	1.7	0.8
Commodity-linked	4.4	4.2	0.2	3.7	3.2	0.4
Bonds	11.6	9.7	1.9	20.0	17.1	2.8
Money market and bank deposits	9.9	8.1	1.7	25.0	23.1	1.9
TOTAL	**100.0**	**71.7**	**28.3**	**100.0**	**71.8**	**28.2**

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

ALLAN GRAY EQUITY FUND NET ASSETS TABLE AS AT 30 JUNE 2017

SECURITY (RANKED BY SECTOR)	MARKET VALUE (R MILLION)	% OF FUND	FTSE/JSE ALSI WEIGHT (%)
SOUTH AFRICA	**30 457**	78.2	
SOUTH AFRICAN EQUITIES	**29 351**	75.3	
RESOURCES	**5 909**	15.2	**20.0%**
Sasol	2 970	7.6	
Impala Platinum	439	1.1	
Glencore	418	1.1	
BHP Billiton	392	1.0	
Goldfields	360	0.9	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	1 330	3.4	
FINANCIALS	**10 506**	**27.0**	**25.0%**
Standard Bank	2 393	6.1	
Old Mutual	2 293	5.9	
Investec	1 125	2.9	
Reinet	1 094	2.8	
Rand Merchant Investment[2]	686	1.8	
Barclays Africa	626	1.6	
MMI	305	0.8	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	1 985	5.1	
INDUSTRIALS	**12 726**	**32.7**	**55.0%**
Naspers[2]	2 874	7.4	
British American Tobacco	2 195	5.6	
Remgro	1 260	3.2	
Life Healthcare	798	2.0	
Netcare	667	1.7	
KAP Industrial	611	1.6	
Super Group	455	1.2	
Nampak	418	1.1	
Mr Price	329	0.8	
Blue Label Telecoms	305	0.8	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	2 815	7.2	
OTHER SECURITIES	**210**	**0.5**	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	210	0.5	
COMMODITY-LINKED SECURITIES	**536**	**1.4**	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	536	1.4	
MONEY MARKET AND BANK DEPOSITS	**570**	**1.5**	
FOREIGN EX-AFRICA	**8 145**	**20.9**	
EQUITY FUNDS	**7 857**	**20.2**	
Orbis Global Equity Fund	7 381	18.9	
Orbis SICAV Emerging Markets Equity Fund	476	1.2	
MONEY MARKET AND BANK DEPOSITS	**288**	**0.7**	
AFRICA EX-SA	**356**	**0.9**	
EQUITY FUNDS	**356**	**0.9**	
Allan Gray Africa ex-SA Equity Fund	356	0.9	
TOTALS	**38 958**	**100.0**	

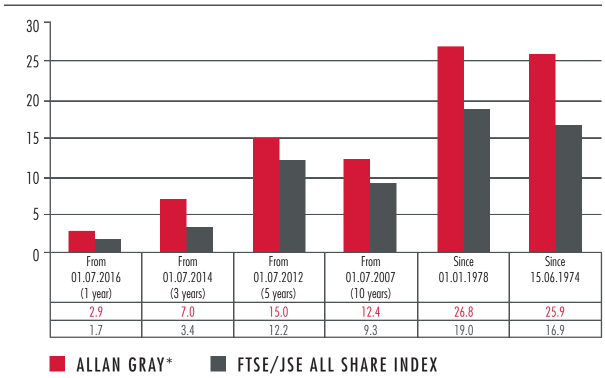
[1] JSE-listed securities include equities, property and commodity-linked instruments.
[2] Including stub certificates. Note: There may be slight discrepancies in the totals due to rounding. For other fund specific information please refer to the monthly fund factsheets.

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	12.2	2.6	9.6
2017 (to 30.06)	1.5	3.4	- 1.9

RETURNS ANNUALISED TO 30.06.2017



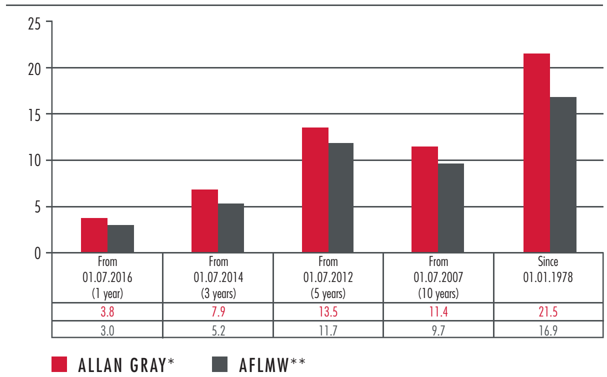
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R202 848 263 by 30 June 2017. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R8 291 243. Returns are before fees.

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	7.5	3.7	3.8
2017 (to 30.06)	3.1	2.7	0.4

RETURNS ANNUALISED TO 30.06.2017



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R21 895 174 by 30 June 2017. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R4 737 844. 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 2017 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 2017 (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) Average of South African - Equity - General category (excl. Allan Gray Funds)[1]	39.0	01.10.1998	**23.3** 16.3	**10.2** 8.9	**12.8** 11.4	**5.2** 2.2	**2.8** –0.6	**125.8** 73.0	**–20.7** –37.6
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	18.0	01.04.2005	**15.6** 13.8	**12.7** 11.2	**25.3** 22.4	**13.0** 13.2	**14.1** 6.3	**78.2** 54.2	**–29.7** –32.7
MEDIUM NET EQUITY EXPOSURE (40% - 75%)									
Allan Gray Balanced Fund (AGBF) Average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[2]	131.6	01.10.1999	**17.5** 12.7	**10.3** 8.4	**12.5** 10.6	**7.1** 5.1	**3.1** 2.3	**46.1** 41.9	**–8.3** –16.7
Allan Gray-Orbis Global Fund of Funds (AGGF) 60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index	13.1	03.02.2004	**11.6** 11.2	**11.8** 11.3	**19.6** 17.4	**12.1** 10.8	**5.9** –2.7	**55.6** 38.8	**–13.7** –17.0
LOW NET EQUITY EXPOSURE (0% - 40%)									
Allan Gray Stable Fund (AGSF) Daily interest rate of FirstRand Bank Limited plus 2%	43.6	01.07.2000	**12.5** 9.1	**9.2** 8.2	**9.6** 7.1	**8.1** 7.7	**5.2** 8.3	**23.3** 14.6	**2.8** 6.2
VERY LOW NET EQUITY EXPOSURE (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate of FirstRand Bank Limited	1.7	01.10.2002	**8.3** 6.5	**7.5** 6.0	**8.1** 5.0	**9.6** 5.5	**5.4** 6.2	**18.1** 11.9	**1.6** 4.1
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US$ Bank Deposits and euro Bank Deposits	1.3	02.03.2010	**9.7** 6.7	**–** –	**13.2** 8.9	**7.8** 4.4	**–3.9** –9.5	**39.6** 35.6	**–12.4** –19.1
NO EQUITY EXPOSURE									
Allan Gray Bond Fund (AGBD) JSE All Bond Index (total return)	0.6	01.10.2004	**8.9** 8.5	**8.9** 8.4	**7.4** 6.6	**8.0** 7.1	**9.5** 7.9	**18.0** 21.2	**–2.6** –5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[3]	14.0	03.07.2001	**8.0** 7.9	**7.4** 7.2	**6.4** 6.3	**7.2** 6.9	**8.0** 7.6	**12.8** 13.3	**5.2** 5.2

[1] From inception to 28 February 2015 the benchmark was the FTSE/JSE All Share Index including income (source: IRESS).

[2] From 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] From 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 returns 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 2017

	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	1.18%	0.82%	0.01%	0.26%	2.27%	0.06%	2.33%
Allan Gray-Orbis Global Equity Feeder Fund	1.50%	0.46%	0.06%	0.01%	2.03%	0.16%	2.19%
Allan Gray Balanced Fund	1.08%	0.37%	0.02%	0.14%	1.61%	0.08%	1.69%
Allan Gray-Orbis Global Fund of Funds	1.36%	0.42%	0.08%	0.00%	1.86%	0.15%	2.01%
Allan Gray Stable Fund	1.05%	0.43%	0.02%	0.15%	1.65%	0.08%	1.73%
Allan Gray Optimal Fund	1.00%	0.86%	0.02%	0.26%	2.14%	0.15%	2.29%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	0.37%	0.09%	0.00%	1.46%	0.15%	1.61%
Allan Gray Bond Fund	0.25%	0.23%	0.02%	0.07%	0.57%	0.00%	0.57%
Allan Gray Money Market Fund	0.25%	N/A	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 2017 (NET OF FEES)

	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[11]	**01.01.1990**	**18.8**	**12.7**	**25.3**	**12.7**	**13.4**	**87.6**	**– 47.5**
FTSE World Index		13.5	11.2	22.5	13.1	6.8	54.2	– 46.2
Orbis SICAV Japan Equity (Yen) Fund	**01.01.1998**	**15.1**	**12.1**	**21.4**	**13.5**	**8.7**	**94.9**	**– 40.1**
Tokyo Stock Price Index		9.4	8.6	21.4	14.7	8.0	91.0	– 46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[5]	**01.01.2006**	**16.1**	**12.9**	**19.5**	**9.7**	**11.1**	**58.6**	**– 34.2**
MSCI Emerging Markets Equity (Net) (US$)[5]		14.4	10.5	17.9	11.4	9.9	60.1	– 39.7
Allan Gray Africa ex-SA Equity Fund	**01.01.2012**	**13.8**	**–**	**12.5**	**– 5.0**	**17.5**	**65.6**	**– 24.3**
Standard Bank Africa Total Return Index		3.6	–	2.4	– 10.1	– 6.4	33.5	– 29.4
Allan Gray Australia Equity Fund	**04.05.2006**	**15.9**	**11.9**	**19.8**	**11.0**	**12.2**	**99.5**	**– 55.4**
S&P/ASX 300 Accumulation Index		12.9	8.9	15.8	6.7	4.8	55.6	– 45.1
MEDIUM NET EQUITY EXPOSURE								
Orbis SICAV Global Balanced Fund	**01.01.2013**	**20.4**	**–**	**–**	**12.1**	**5.9**	**54.4**	**– 0.8**
60% MSCI World Index with net dividends reinvested and 40% JP Morgan Global Government Bond Index		17.0	–	–	10.5	– 2.7	40.2	– 8.4
LOW NET EQUITY EXPOSURE								
Allan Gray Australia Stable Fund	**01.07.2011**	**13.4**	**–**	**11.8**	**7.0**	**0.7**	**32.7**	**– 6.3**
Reserve Bank of Australia cash rate		8.5	–	6.2	2.1	– 6.5	28.8	–12.6
VERY LOW NET EQUITY EXPOSURE								
Orbis Optimal SA Fund-US$ Class	**01.01.2005**	**11.1**	**9.5**	**14.3**	**9.7**	**– 3.5**	**48.6**	**– 15.7**
US$ Bank Deposits		8.7	7.4	10.3	7.7	– 9.8	57.9	– 25.6
Orbis Optimal SA Fund-Euro Class	**01.01.2005**	**9.1**	**7.6**	**11.6**	**3.4**	**– 3.1**	**44.1**	**– 19.3**
Euro Bank Deposits		6.9	5.5	7.5	0.7	– 8.6	40.2	– 20.9

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

[5] From inception to 31 October 2016 this Fund was called the Orbis SICAV Asia Ex-Japan Equity Fund and its benchmark was the MSCI Asia Ex-Japan Index. From 1 November 2016 the Fund's investment mandate was broadened to include all emerging markets. To reflect this, the Fund was renamed and the benchmark was changed.

SOUTH AFRICAN INSTITUTIONAL PORTFOLIOS[6] ANNUALISED PERFORMANCE (RAND) IN PERCENTAGE PER ANNUM TO 30 JUNE 2017

	ASSETS UNDER MANAGEMENT (R BILLION)[7]	INCEPTION DATE	SINCE INCEPTION	10 YEARS	5 YEARS	3 YEARS	1 YEAR
LOCAL PORTFOLIOS[8] (BEFORE LOCAL FEES)							
Domestic Equity Composite (minimum net equity 75% - 95%)	55.9	01.01.1990	20.3	11.8	13.8	6.1	2.6
Domestic Equity Pooled Portfolio (minimum net equity 95%)	4.9	01.02.2001	20.9	12.1	14.5	6.3	2.7
FTSE/JSE All Share Index			14.2/14.5	9.3	12.2	3.4	1.7
Domestic Balanced Composite	16.4	01.01.1978	21.8	11.0	11.9	7.6	4.3
Domestic Balanced Pooled Portfolio	2.1	01.09.2001	17.9	11.2	12.0	7.6	4.2
Mean of Alexander Forbes SA Large Manager Watch (Non-Investable)[9]			17.7/14.7	9.5	9.9	4.4	2.9
Domestic Stable Composite	5.4	01.12.2001	13.0	9.5	8.8	8.4	7.2
Domestic Stable Pooled Portfolio	1.1	01.12.2001	13.3	9.6	9.0	8.6	7.5
Alexander Forbes Three-Month Deposit Index plus 2%			9.9	9.1	8.1	8.7	9.4
GLOBAL PORTFOLIOS[8], LIMITED TO 25% FOREIGN EXPOSURE (BEFORE LOCAL, BUT AFTER FOREIGN FEES)							
Global Balanced Composite	78.0	01.01.1978	21.5	11.4	13.5	7.9	3.8
Global Balanced Pooled Portfolio	4.9	01.09.2000	18.1	11.6	13.7	8.0	4.0
Global Balanced (RRF) Portfolio[14]	27.8	01.09.2000	18.1	11.5	13.6	7.7	3.6
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[9,10]			16.9/13.9	9.7	11.7	5.2	3.0
Global Stable Composite	7.2	15.07.2004	12.7	10.2	10.7	8.9	6.2
Global Stable Pooled Portfolio	6.4	15.07.2004	12.7	10.2	10.7	8.8	6.0
Alexander Forbes Three-Month Deposit Index plus 2%			9.3	9.1	8.1	8.7	9.4
Global Absolute Composite	11.0	01.03.2004	15.2	10.8	10.4	8.0	2.1
Global Absolute Pooled Portfolio	3.0	01.03.2004	15.5	11.1	10.5	8.1	2.6
Mean of Alexander Forbes Global Large Manager Watch (Non-Investable)[9]			14.5	9.7	11.7	5.2	3.0
FOREIGN ONLY PORTFOLIOS[8] (AFTER FEES)							
Orbis Global Equity Pooled Portfolio	0.6	18.05.2004	15.3	12.8	25.3	12.6	13.3
FTSE World Index			13.6	11.1	22.5	13.1	6.8
Foreign Balanced (Rands) Composite[12]	4.9	23.05.1996	14.4	11.0	18.4	9.9	4.7
Foreign Balanced Pooled Portfolio	0.1	23.01.2002	9.0	11.1	18.6	10.3	5.3
60% of the MSCI World Index[13] and 40% of the JP Morgan Global Government Bond Index			11.9/7.5	11.1	17.2	10.6	– 2.2

PERFORMANCE AS CALCULATED BY ALLAN GRAY

[6] 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.
[7] The assets under management for institutional portfolios not listed here amount to R75.9bn.
[8] The composite assets under management figures shown include the assets invested in the pooled portfolios above where appropriate.
[9] The return for the period ending June 2017 is an estimate as the relevant survey results have not yet been released.
[10] From inception to 31 December 1997 the Consulting Actuaries Survey returns were used.
[11] The total assets under management for the Fund is shown, which includes institutional and retail clients that invest directly with Orbis.
[12] From inception to 31 August 2001 the foreign carve-out returns of the Global Balanced Composite were used.
[13] Morgan Stanley Capital International All Country World Index.
[14] 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 fund 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, the Allan Gray Provident Preservation Fund, the Allan Gray Umbrella Pension Fund and the Allan Gray Umbrella Provident 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).

NOTES

NOTES

Directors

Executive

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

Non-Executive

W B Gray	BCom MBA CFA (Irish)
I S Liddle	BBusSc (Hons) CFA
T J Mahuma	BA (Hons) MPhil
K C Morolo	BSc (Eng) MEng
N M Nene	BCom (Hons)

Company Secretary

C E Solomon	BBusSc (Hons) CA (SA)

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ALLANGRAY