

Fund description and summary of investment policy

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 75% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund.

ASISA unit trust category: South African – Multi Asset – High Equity

Fund objective and benchmark

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund's benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds).

How we aim to achieve the Fund's objective

We seek to buy shares at a discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares we may increase the Fund's weighting to alternative assets such as bonds, property, commodities and cash, or we may partially hedge the Fund's stock market exposure. By varying the Fund's exposure to these different asset classes over time, we seek to enhance the Fund's long-term returns and to manage its risk. The Fund's bond and money market investments are actively managed.

Suitable for those investors who

- Seek steady long-term capital growth
- Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund
- Wish to invest in a unit trust that complies with retirement fund investment limits
- Typically have an investment horizon of more than three years

Fund information on 31 January 2019

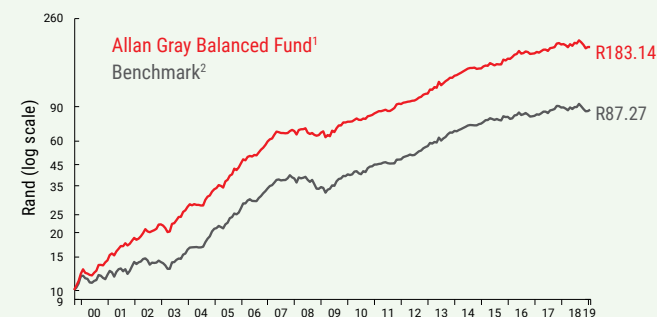
Fund size	R145.8bn
Number of units	698 053 941
Price (net asset value per unit)	R102.09
Class	C

This class of the Fund is not available directly from Allan Gray.

1. Prior to the inception of this class of the Fund (1 July 2013) the performance and risk measures are calculated using the A class performance of the Fund.
2. The market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds). 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. Source: Morningstar, performance as calculated by Allan Gray as at 31 January 2019.
3. This is based on the latest numbers published by IRESS as at 31 December 2018.
4. Maximum percentage decline over any period. The maximum drawdown occurred from 20 May 2008 to 27 October 2008 and maximum benchmark drawdown occurred from 20 May 2008 to 10 March 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
5. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
6. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
7. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 April 2006 and the benchmark's occurred during the 12 months ended 30 April 2006. The Fund's lowest annual return occurred during the 12 months ended 28 February 2009 and the benchmark's occurred during the 12 months ended 28 February 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



% Returns	Fund¹	Benchmark²	CPI inflation³
Cumulative:			
Since inception	1731.4	772.7	189.4
Annualised:			
Since inception	16.2	11.9	5.7
Latest 10 years	10.6	9.9	5.3
Latest 5 years	7.0	5.3	5.3
Latest 3 years	4.9	3.8	5.3
Latest 2 years	3.0	2.8	4.6
Latest 1 year	-3.5	-2.7	4.5
Year-to-date (not annualised)	0.0	1.7	-0.2
Risk measures (since inception)			
Maximum drawdown ⁴	-15.4	-20.5	n/a
Percentage positive months ⁵	69.0	67.2	n/a
Annualised monthly volatility ⁶	9.0	9.1	n/a
Highest annual return ⁷	46.1	41.9	n/a
Lowest annual return ⁷	-8.3	-16.7	n/a

Meeting the Fund objective

The Fund has created wealth for its long-term investors. Since inception and over the latest 10 and five-year periods, the Fund has outperformed its benchmark, and its returns have exceeded CPI inflation. The Fund experiences periods of underperformance in pursuit of its objective of creating long-term wealth for investors, without taking on greater risk of loss than the average balanced fund. The maximum drawdown and lowest annual return numbers, in the 'Performance net of all fees and expenses' table, show that the Fund has successfully reduced downside risk in periods of negative market returns.

Income distributions for the last 12 months

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually.	30 Jun 2018	31 Dec 2018
Cents per unit	99.7091	144.8695

Annual management fee

Allan Gray charges a fee based on the net asset value of the Fund excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark.

Fee for performance equal to the Fund's benchmark: 0.80% p.a. excl. VAT

For each percentage of two-year performance above or below the benchmark, we add or deduct 0.1%, subject to the following limits:

Maximum fee: 1.30% p.a. excl. VAT

Minimum fee: 0.30% p.a. excl. VAT

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark.

A portion of the Fund may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark. Orbis pays a marketing and distribution fee to Allan Gray.

Total expense ratio (TER) and Transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

Top 10 share holdings on 31 December 2018 (SA and Foreign) (updated quarterly)⁹

Company	% of portfolio
Naspers ⁸	7.5
British American Tobacco	4.9
Sasol	4.5
Remgro	3.0
Standard Bank	3.0
Glencore	2.7
Investec	2.1
Woolworths	1.7
Old Mutual	1.7
Life Healthcare	1.6
Total (%)	32.7

8. Including stub certificates.

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1 and 3-year period ending 31 December 2018	1yr %	3yr %
Total expense ratio	1.41	1.55
Fee for benchmark performance	0.97	0.95
Performance fees	0.31	0.45
Other costs excluding transaction costs	0.02	0.02
VAT	0.11	0.13
Transaction costs (including VAT)	0.10	0.09
Total investment charge	1.51	1.64

Asset allocation on 31 January 2019⁹

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	65.5	47.9	1.0	16.7
Hedged equity	7.3	0.7	0.0	6.5
Property	1.9	1.5	0.0	0.4
Commodity-linked	3.2	2.6	0.0	0.6
Bonds	14.6	10.3	1.2	3.1
Money market and bank deposits	7.5	6.1	0.6	0.8
Total (%)	100.0	69.1	2.8	28.2¹⁰

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

10. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

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

Minimum	(February 2000) 49.3%
Average	62.2%
Maximum	(July 2004) 72.7%

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

It was another eventful year on the market. The FTSE/JSE All Share Index (ALSI) was down 9%, making it one of the worst years ever. What made 2018 unique, though, is that nothing did well. Bonds and cash gave mediocre returns, and property did even worse than equities. Contrast this with 2008 (the worst year for stocks on record), when the ALSI was down 23%, but bonds gave you 17% and gold gave you 45%. The average return across the four major domestic asset classes – equities, bonds, cash, and property – has never been worse than in 2018, at least according to our records, which go back to 1976.

Internationally, the picture is similar. No asset class delivered good returns in 2018. More than half the shares in the S&P500 have fallen 20%, or more, from their peak. Some other emerging markets have done much worse than South Africa: shares in Turkey are down 43%, and shares in Argentina are down 50% (both measured in US dollars).

Here are some things that stood out for us in 2018:

- The rand weakened by 16% against the US dollar. Investors seem to have lost confidence in South Africa's turnaround story. Eskom is proving difficult to fix, and public finances more broadly still look tenuous.
- Companies with lots of debt have been punished by the market. These include Aspen, Mediclinic, Intu Properties, MTN, AB InBev, and British American Tobacco (BAT) – the last being one of our top 10 holdings.
- The property sector had its worst year ever.
- Investors became increasingly jittery about accounting fraud. At various times during the year, Aspen, Resilient, Nepi Rockcastle, and Capitec were in focus. There has been little progress in the Steinhoff case, but the fraud does seem to have been worse than we feared.
- BAT, MTN, and Glencore all faced regulatory problems.
- Commodity producers have done well, especially Anglo American Platinum (Angloplats).
- The price of bitcoin is down 73%.

The return of the Allan Gray Balanced Fund was -3% for the year, roughly similar to the return of the average South African balanced fund. If we could have foreseen what markets would do in 2018, we would have had lower equity exposure, or put everything in Angloplats. But of course no-one knows in advance how markets will do. We are confident that having a sizeable proportion of your money in cheap shares is a good idea. We don't know what the market will do in 2019, but we do know that the shares in the portfolio – Naspers, Sasol, BAT, Standard Bank, etc – are currently trading at attractive valuations, which is normally a good sign for long-term returns.

The performance of the Fund was helped by being underweight Steinhoff and by being overweight Sasol. Performance would have been better if we had owned less BAT, and more BHP and Anglo American. In aggregate, the domestic shares in the fund outperformed the ALSI. The weak rand boosted foreign returns, but these were offset by Orbis' underperformance.

During the quarter we bought BAT and Glencore, and we sold Old Mutual and Anglo American.

Commentary contributed by Jacques Plaut

**Fund manager quarterly
commentary as at
31 December 2018**

Management Company

Allan Gray Unit Trust Management (RF) Proprietary Limited (the 'Management Company') is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates 11 unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Sector Conduct Authority ('FSCA'). The Management Company is incorporated under the laws of South Africa and has been approved by the regulatory authority of Botswana to market its unit trusts in Botswana, however it is not supervised or licensed in Botswana. Allan Gray Proprietary Limited (the 'Investment Manager'), an authorised financial services provider, is the appointed Investment Manager of the Management Company and is a member of the Association for Savings & Investment South Africa (ASISA). The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or www.rmb.co.za

Performance

Collective Investment Schemes in Securities (unit trusts or funds) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may also cause the value of underlying international investments to go up or down. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Where annualised performance is mentioned, this refers to the average return per year over the period. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

Fund mandate

The Fund may be closed to new investments at any time in order to be managed according to its mandate. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of its market value to bridge insufficient liquidity.

Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund including any income accruals and less any permissible deductions from the Fund divided by the number of units in issue. Forward pricing is used and fund valuations take place at approximately 16:00 each business day. Purchase and redemption requests must be received by the Management Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za

Fees

Permissible deductions may include management fees, brokerage, Securities Transfer Tax (STT), auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray.

Total expense ratio (TER) and Transaction costs

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past one and three-year periods. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), VAT and other expenses like audit and trustee fees. Transaction costs (including brokerage, Securities Transfer Tax [STT], STRATE and Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted again from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and Transaction costs is shown as the Total investment charge.

Compliance with Regulation 28

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

Foreign exposure

This fund may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

Important information for investors

Need more information?

You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website www.allangray.co.za or via our Client Service Centre on **0860 000 654**.