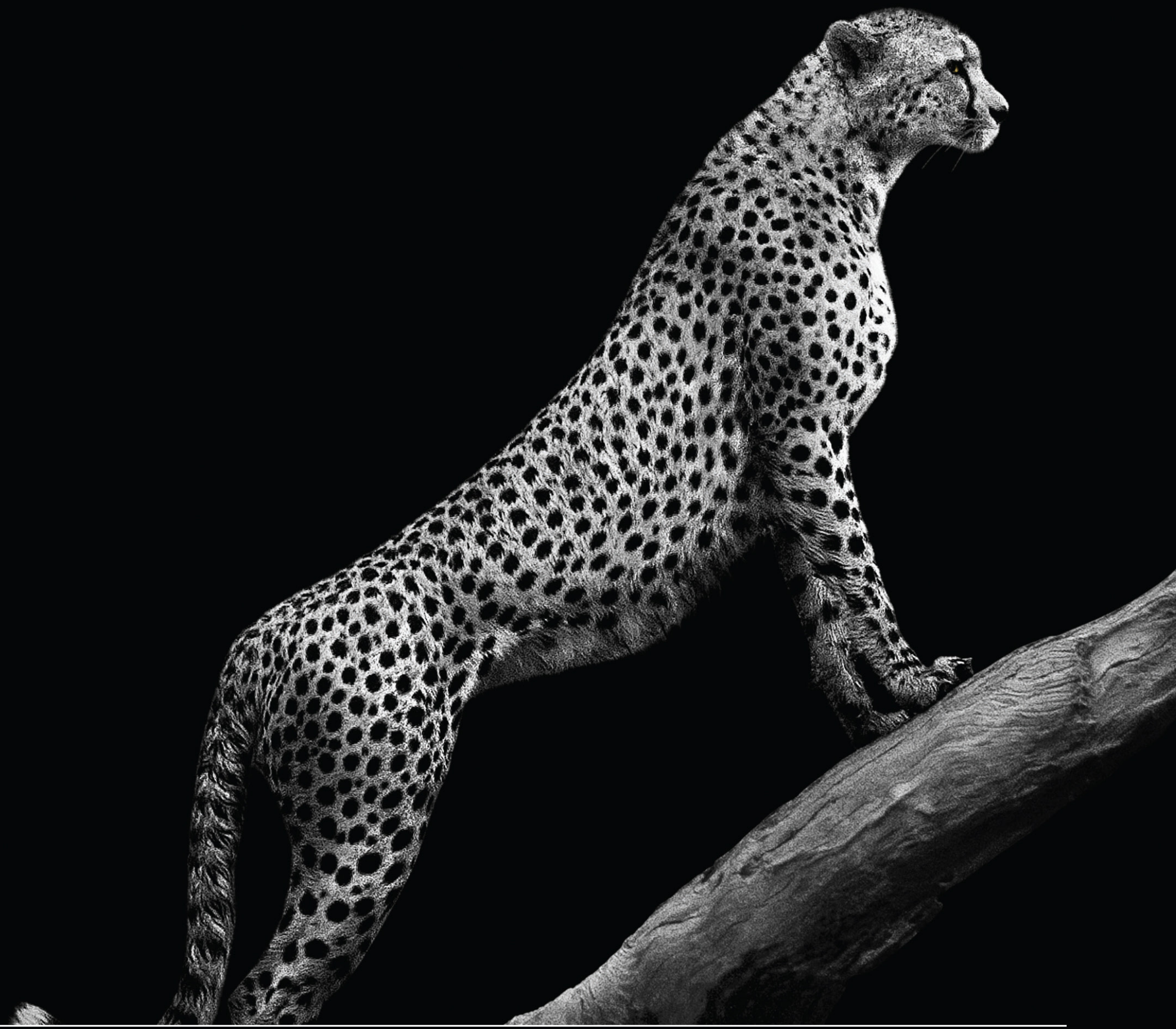
ALLAN GRAY
CONTRARIAN INVESTING

QUARTERLY COMMENTARY

31 DECEMBER 2020



INVESTMENTS AND SUPERANNUATION

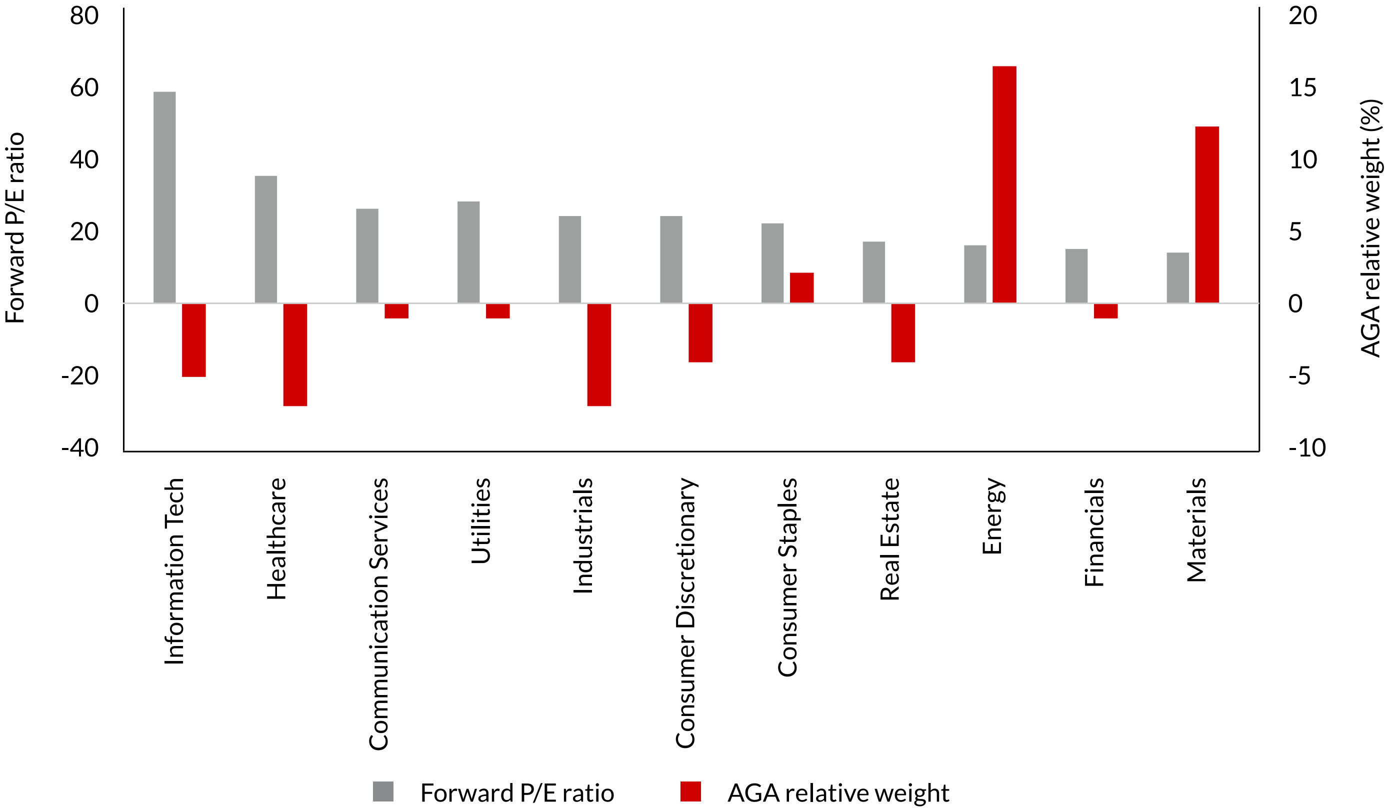
COMMENTARY

SIMON MAWHINNEY, CFA
Managing Director & Chief Investment Officer

The Allan Gray Australia Equity portfolio's stellar returns over the December quarter, while welcome, have not been enough to turn our 2020 performance into a success story. Our heavy skew towards cyclically exposed companies during the onset of the COVID-19 pandemic resulted in a particularly weak March quarter, which we have only recently begun to recover from.

The portfolio remains heavily skewed towards these cyclically exposed companies, whose earnings are depressed and that investors can buy at low multiples of those depressed earnings. Graph 1 shows the forward price/earnings (P/E) ratios of various subsectors of our sharemarket (grey bars), together with the relative weighting of these sectors in the portfolio (red bars). Our significant underweight to information technology and healthcare companies (we have a zero weighting) continues to fund our significant overweight to energy and materials.

Graph 1: Forward P/E ratio of the S&P/ASX 300 Index subsectors compared to the sectors' weight in the Allan Gray Australia Equity Fund



Source: Factset, Allan Gray, 31 December 2020.

Our lack of exposure to the high-growth technology sector and the stable earnings streams from the healthcare and consumer staples sectors may seem extreme. But so are the prices one pays for companies in those sectors today. Consider a hypothetical market darling, whose growth runway extends many years into the future due to its highly sought-after product or service and significant barriers to competition. Notwithstanding its clear attractiveness, there is a price that is simply too high and exceeds the value of the likely trajectory of future earnings. No company is worth an infinite amount. At the other end of the spectrum is a cyclical company with a bleak growth outlook. But a bleak outlook does not necessarily mean the company's shares are worth zero. Navigating the grey area between these extremes requires a focus on underlying fundamentals.

Knowing when a market darling's price is too high is no less important than knowing when an underperforming company's share price is low enough. Avoiding the former and building a portfolio of the latter will generate outsized investment returns in the long term, but it's not easy to do consistently.

We have recently accumulated a stake in South32 Limited, an out-of-favour company that we think is attractively priced. At the other end of the spectrum, an expensive market darling we don't own, is Afterpay. Sudhir Kissun discusses South32 below, followed by my analysis of Afterpay.

SUDHIR KISSUN, CFA

Analyst

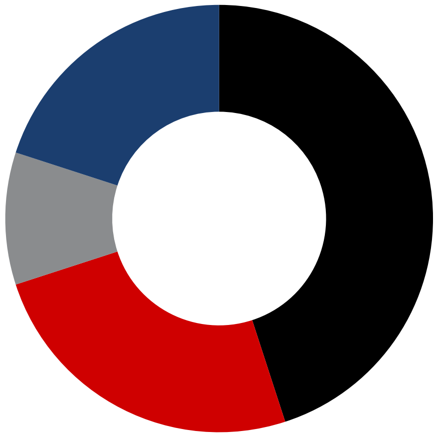
About South32 Limited

In 2015, BHP demerged a diverse portfolio of assets that it considered non-core, creating a new separately listed entity named South32 Limited. The main commodity exposures and assets of South32 are as follows:

- **Alumina and aluminium:** The Boddington bauxite mine and Worsley alumina refinery in Western Australia, the MRN bauxite mine and Alumar alumina refinery in Brazil, and two aluminium smelters in South Africa and Mozambique that source their alumina requirements from South32's alumina refineries.
- **Manganese:** The GEMCO manganese mine in the Northern Territory, two manganese mines in South Africa, and a manganese alloy smelter in South Africa.
- **Coal:** Metallurgical coal mines at Illawarra in New South Wales, and thermal coal mines in South Africa (the South African operation is in the process of being divested).
- **Nickel:** The Cerro Matoso nickel mine in Colombia.
- **Silver, lead and zinc:** The Cannington mine in Queensland.
- **Other:** An investment in the Hermosa zinc, lead, silver and manganese asset in Arizona in the USA, which is currently in the development phase, and various other exploration and development ventures.

The earnings contributions of each of these assets will vary from year to year depending mainly on commodity price movements, but also on production volumes, operating costs and expenditures on sustaining capital. Through the cycle, we estimate the contributions to earnings before interest and taxes (EBIT) to be as per Graph 2.

Graph 2: Estimated contributions to EBIT by commodity group



Alumina and aluminium	45%
Manganese	25%
Metallurgical coal	10%
Nickel, silver, lead and zinc	20%

Source: Company financials, Allan Gray.

It is important to point out that the reserve lives of the individual assets differ. The Boddington bauxite mine has many decades of low-cost, high-quality reserves and resources available, whereas for most of South32's other assets the reserve lives range between 9 and 18 years. Therefore, while alumina (which is produced from bauxite) is a large earnings contributor, it is an even larger component of the company's overall value.

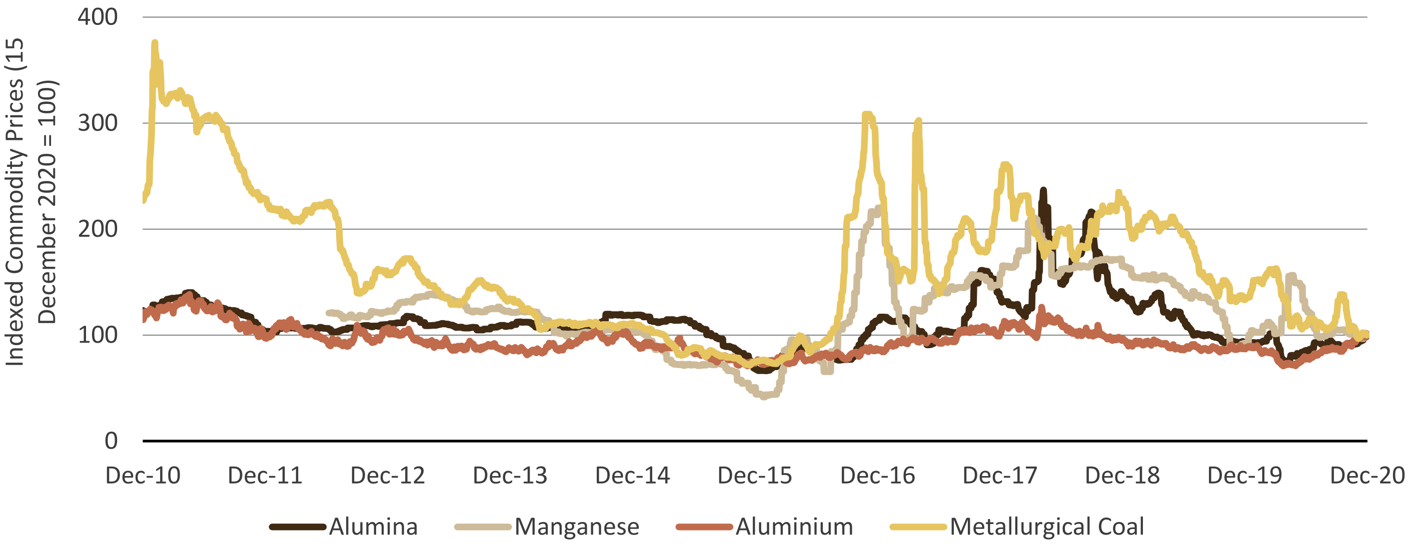
It is also worth noting that the key end-markets for South32's commodities are aluminium and steel (with manganese, metallurgical coal and nickel being key inputs into the steelmaking process). Our view is that both these end-markets should exhibit sustainable demand growth over the long term as they have over the last few decades. Steel demand will be dependent on emerging countries continuing to industrialise and develop new infrastructure, while developed countries replace ageing infrastructure. Aluminium uptake will be supported by consumer demand for housing, automobiles, and packaged goods, to name a few.

As contrarian investors, we aim to adopt a countercyclical approach

Our interest in South32 was piqued after a period of significant weakness in the prices of the commodities that make the largest contributions to its earnings (notably alumina, aluminium, manganese and metallurgical coal, as depicted in Graph 3).

The price weakness began in mid-to-late 2018 and was exacerbated by the demand destruction caused by COVID-19. We now have a situation where South32's commodity prices, and therefore earnings, are low relative to history. As shown in Graph 3, with the exception of aluminium, the prices of South32's other key commodities have been higher than today's levels for most of the past 10 years.

Graph 3: Historical prices of South32's key commodities



Source: Platts, Bloomberg, Metal Bulletin, UBS.

Commodity share prices indirectly reflect market expectations of future underlying commodity prices. As contrarian investors, we prefer to adopt a 'countercyclical' approach: we buy companies when prices are depressed and the share price of the company reflects an expectation that earnings will remain low for the long term. Our view is that it is overly pessimistic to extrapolate today's low commodity prices too far into the future, given the supply-demand imbalance that this will likely create. We believe South32's share price today incorporates a lot of pessimism, creating an attractive buying opportunity for patient long-term investors.

South32 has two other attributes that we find attractive. Firstly, it is a low-cost producer, with most of its operations positioned in the first quartile of the cost curve. It can therefore withstand deep price troughs while mostly still generating positive free cash flow. Secondly, it has a strong balance sheet with a cash balance that exceeds its borrowings, so during periods of weak commodity prices (and therefore weak cash flow) it is not under pressure to service an onerous debt burden. Its strong balance sheet also means it is potentially well-positioned to take advantage of any cheap acquisition opportunities that may arise.

What do we pay for South32?

While it's impossible to predict which of South32's operations will outperform or underperform in any given year, we estimate that its portfolio of operations in aggregate should be able to generate pre-tax earnings of US$1.3 billion to US$1.5 billion per annum through the cycle. We estimate that this represents a high single-digit return on the capital that would be required to replicate South32's portfolio of operating assets today. This does not seem excessive to us. With an enterprise value (EV) of just under US$11 billion, inclusive of the future cost of closing and rehabilitating its mine sites, the company is currently valued by the market at seven to eight times these earnings.

We can compare the earnings multiple to South32's weighted-average reserve life, which is approximately 16 years. With a market capitalisation of a little over US$9 billion and our estimate of post-tax earnings of US$900 million to $1 billion, South32 is trading at 9 to 10 times post-tax earnings. We are therefore expecting to receive 16 years' worth of earnings, but only paying for 9 to 10 years of those earnings. This strikes us as a good deal.

In addition to the attractive earnings multiple, we have identified three additional sources of upside that may or may not materialise.

1. The Hermosa asset in which South32 has invested US$1.6 billion to date. We have not accounted for any EBIT contribution from this asset in our earlier estimate of US$1.3 billion to US$1.5 billion. Even a sub-par return on the investment in Hermosa would represent attractive upside.

2. South32 is in the very early stages of exploring a low-cost option to extend the life of the GEMCO manganese mine. If this extension is successful, it has the potential to meaningfully increase the value of the company.

3. If South32 manages to complete the sale of their South African thermal coal business, US$700 million of rehabilitation liabilities will be released from the balance sheet.

Our investment thesis is not dependent on any of these three events coming to pass, but if they do, the upside in South32 could be compelling.

As with any investment, a lot could go wrong from here. Structural, political, regulatory or other factors could conspire to negatively impact South32's commodity prices, sales volumes or production costs. While it is difficult to quantify these uncertainties, our view is that the low earnings multiple that investors pay today, alongside the company's assets (which are low on the cost curve), and a strong balance sheet provide a reasonable margin of safety against adverse future outcomes.

SIMON MAWHINNEY, CFA
Managing Director & Chief Investment Officer

About Afterpay Limited

Afterpay is a buy-now-pay-later facilitator that allows its users to split the cost of retail purchases into four equal two-weekly instalments over six weeks (with the first instalment paid at the time of purchase). It does not charge its users interest and generates its revenue by charging retailers a percentage of the merchant sales it facilitates as well as by charging its users late fees.

Afterpay's business is best understood with reference to its unit economics. Table 1 shows its 2020 annual results with reference to its underlying merchant sales.

For the year ended 30 June 2020, retailers were charged 4.1% of merchant sales on average. The company made a further 0.6% of merchant sales in late fees and incurred non-scalable processing costs totalling 1.2% of merchant sales. It incurred bad debts of 0.9% with the net of all these amounts, its net transaction margin (NTM) being 2.6% of merchant sales. It targets an NTM of greater than 2%. Below this NTM are almost $300 million in scalable costs dedicated to customer acquisition, business development, head office costs, IT development and so on.

How successful might Afterpay be?

In order to determine what a mature and successful Afterpay might look like, we first need to determine how big its addressable market is. In Australia, retail sales excluding food retailing, cafés, restaurants and takeaway food services amounted to $104billion for the 12 months to September 2020. This represents approximately 5% of Australia's gross domestic product.

We can use Australia's addressable market to infer Afterpay's total addressable market from the geographies in which it is seeking to grow. The combined GDP of the United States, Australia, the United Kingdom, Canada, Spain, France, Italy and Portugal (Afterpay's chosen target markets) was US$33.7 trillion in 2019 (and likely lower in 2020). Assuming the same 5% addressable market share as in Australia, Afterpay's addressable market would be US$1.7 trillion or about A$2.3 trillion in merchant sales.

Table 1: Afterpay's unit economics

	Year to June 2020, A$m	As % of merchant sales
Underlying merchant sales	11,114	100%
Afterpay income	450	4.1%
Late fees	69	0.6%
Cost of sales (processing costs)	-134	-1.2%
Impairments	-94	-0.9%
Net transaction margin	290	2.6%
Expenses (scalable costs)	-295	-2.7%
Operating loss	-5	0.0%

Source: Afterpay Annual Report 2020.

Mastercard's share of global consumer-to-business purchases is 14%. Let's assume the successful and mature Afterpay has a market share that matches that of Mastercard's. This would imply merchant sales of $322 billion (14% of $2.3 trillion).

How profitable might a successful Afterpay be?

Using this level of merchant sales and the unit economics detailed above, it is possible to calculate how much profit Afterpay will generate. First we need to make two important assumptions:

1. The current NTM of approximately 2.5% is sustainable.
2. Afterpay's scalable cost base will only grow by half of the dollar transaction margin growth.

Using the above, we can calculate that Afterpay's earnings before interest and taxes would be $3.7 billion.

Profit = net transaction margin (in dollars) minus scalable costs

OR

Profit = (2.5% x merchant sales) minus (growth in merchant sales x 50% scale ratio x starting scalable expenses)

OR

Profit = (2.5% x $322 billion) minus ($322 billion ÷ $11 billion x 50% x $0.3 billion)

Profit = $3.7 billion

How much does an investor pay for Afterpay?

Afterpay currently has a market capitalisation of over $30 billion. It is largely debt free today, but would require a further $18 billion in capital were merchant sales to grow by over $300 billion. Its enterprise value then (assuming the share price doesn't change between now and then) would be close to $50 billion. Investors are paying over 13 times those future pre-interest and pre-tax earnings today.

This mature Afterpay should be as cyclical as any other short-term money-lender. Its fortunes will rise and fall with the economic cycle that already sees retail spending (upon which it relies heavily) and bad and doubtful debts fluctuate. Banks, which are similarly exposed but have both a more secured loan book (Afterpay's loan book is unsecured) and longer-dated lending profile (Afterpay's loans are repaid over six weeks) trade at much lower multiples than this today.

There are a few obvious pitfalls in the analysis above. For example, Afterpay could expand beyond the chosen geographies in our analysis. The bigger Visa might be a better benchmark to judge success than its smaller rival Mastercard. Its customer database might have considerable value across a number of adjacencies that Afterpay is not currently targeting. Or its costs might scale far better than the 50% we have assumed (though doing so would place them among the very best technology companies). But there are also significant risks that we've not mentioned (e.g. regulatory risk and competition) that will go a long way towards offsetting any upside and an almost certain near-term future of no or very low profits (as distinct from an established lender like a bank).

At today's price, the risks in owning Afterpay seem heavily skewed to the downside.

Avoiding the losers is as important as picking winners

The sharemarket today appears to be as polarised as the recent US presidential election, with cyclical stocks being as cheap as they have ever been, while technology and other 'growth' stocks are as expensive as they have ever been. Your Allan Gray Australia Equity portfolio is filled with companies like South32 that we think are in the unloved space, and has zero exposure to popular stocks like Afterpay. We think this is the best way to position the portfolio for strong future relative returns.

FUND COMMENTARY
QUARTER IN REVIEW

by JULIAN MORRISON, CFA

Head of Research Relationships and National Key Accounts

Allan Gray Australia Equity Fund

The Australian sharemarket had a strong quarter with the ASX 300 Accumulation Index up 13.8%. The Allan Gray Australia Equity Fund - Class A returned 23.1% during this period, outperforming its benchmark by 9.3%.

In a reversal from the prior quarter, our overweight position in the Energy sector was the largest positive contributor to relative returns. This includes stocks such as Woodside Petroleum and Oil Search. The Materials sector was also positive overall, with Alumina and Sims contributing strongly to relative performance, which more than offset underperformance from Newcrest Mining. We continue to view the abovementioned companies as sustainable businesses with strong balance sheets that offer particularly attractive value relative to the market.

Elsewhere, the Fund's underweight position in Healthcare contributed strongly to relative performance as that sector fared poorly during the quarter. We have long held the view that some of the stocks in this sector have been priced with excessively optimistic expectations, and remain wary of the risk of overvaluation.

On the negative side, the underweight exposure to Information Technology was the largest detractor on a sector basis. However, the detraction was not particularly substantial versus the overall portfolio, which featured a high proportion of outperformers for the quarter.

We continue to see great opportunity in discounting the obvious, and investing where others are not looking. These opportunities are among longer-standing companies that have a proven track record, and a sound basis to exist, but which for some reason have appeared unappealing to most investors. Despite the strong performance in the last quarter, the recovery to date has been relatively immaterial in the context of the preceding underperformance, and similar past experiences. We see significant unrealised value in the Fund versus the market, and thus remain optimistic about future long-term prospects.

Allan Gray Australia Balanced Fund

The Allan Gray Australia Balanced Fund returned 12.8% for the December quarter, outperforming its composite benchmark by 7.5%.

The Fund has been overweight equities versus fixed income. This contributed positively to relative performance for the quarter, as did stock selection in both Australian and global stocks. As at quarter-end, the Fund had 37% in domestic equities and 37% in global equities, though about 6% of the global equity exposure is reduced through the use of exchange-traded derivatives, which allows for some protection in those periods where market indices fall.

The Fund held around 21% in fixed income securities and 5% in gold at quarter-end. The fixed income allocation has remained significantly shorter in duration than the benchmark – below one year versus eight for the benchmark. This contributed to outperformance for the December quarter, with government bond yields generally rising during the quarter. The Fund remains more defensively positioned than the benchmark in terms of both relative and absolute returns, in the event that interest rates rise further. The exposure to gold detracted slightly from relative performance for the quarter and we retain that position. As with the Equity Fund, we believe portfolio value relative to the market is significant, and we continue to manage for risk with a long-term, valuation-driven perspective.

Allan Gray Australia Stable Fund

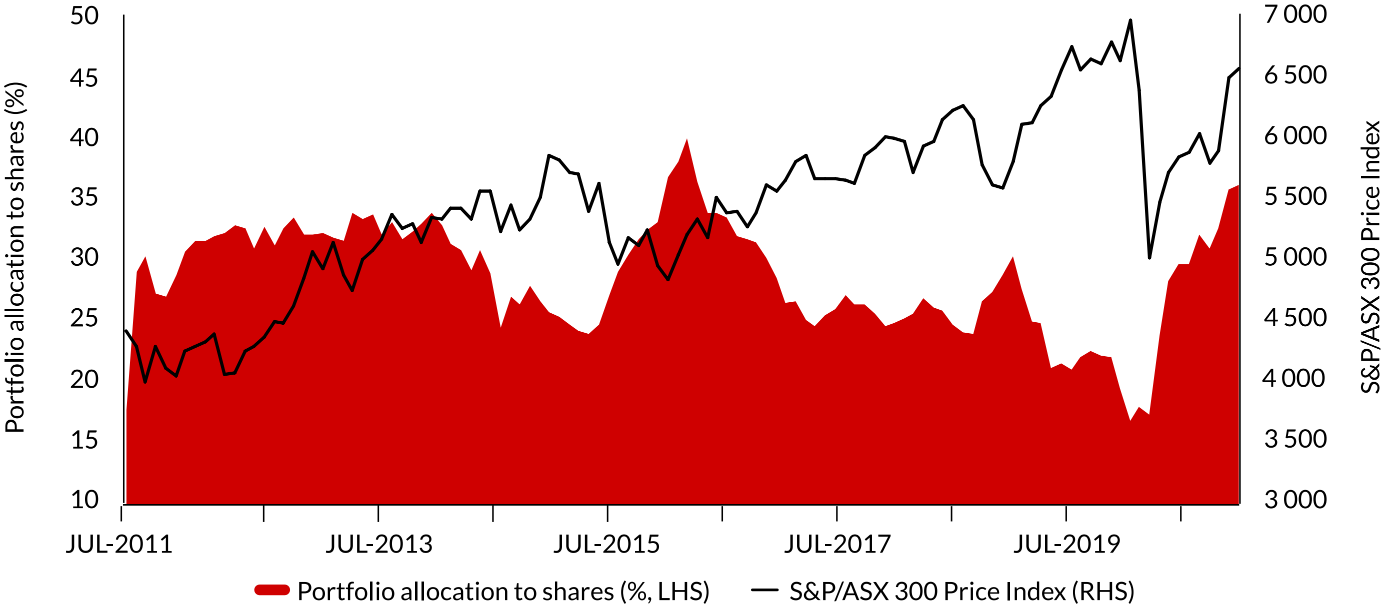
The Allan Gray Australia Stable Fund delivered 7.2% for the December quarter, outperforming its cash rate benchmark, which delivered just above 0%.

The performance of the Stable Fund is driven by the performance of our favoured Australian share holdings and the decision on how much is invested in shares versus cash. Having added to share exposure during the weakness of the prior quarter, the Fund took advantage of the strength of the December quarter to lighten many positions. One exception to this was Newcrest Mining, to which we added on relative weakness.

As at the end of December, the Fund had around 36% invested in shares, with the remainder in cash and money market investments. (This can be seen in Graph 4, which shows our allocation between cash and equities over time.)

The overall recovery in the sharemarket during the last quarter fails to highlight the significant divergence that has built up over time between different categories of stocks. Some popular stocks and sectors are priced at levels that in our view are far too optimistic. We therefore remain focused on avoiding those areas and the risks that come with excessive valuation. Instead, the shares held in the Fund will be those we have assessed as most attractively priced, and where we believe the risk of permanent capital loss is low.

Graph 4: Stable Fund share weighting – share allocation rises where we see value in shares



Source: Allan Gray, Bloomberg, as at 31 December 2020.

EQUITY FUND PERFORMANCE

Allan Gray Australia Equity Fund — Class A units

	Allan Gray Australia Equity Fund	S&P/ASX 300 Accumulation Index	Relative Performance
ANNUALISED (%)			
Since Public Launch on 4 May 2006	7.4	6.0	1.4
10 Years	8.4	7.7	0.7
5 Years	10.9	8.8	2.1
3 Years	1.5	6.9	(5.4)
1 Year	(7.7)	1.7	(9.4)
NOT ANNUALISED (%)			
Latest Quarter	23.1	13.8	9.3

Allan Gray Australia Equity Fund — Class B units

	Allan Gray Australia Equity Fund	S&P/ASX 300 Accumulation Index	Relative Performance
ANNUALISED (%)			
Since Class Launch on 26 October 2012	10.1	9.3	0.8
5 Years	11.0	8.8	2.2
3 Years	2.2	6.9	(4.7)
1 Year	(7.0)	1.7	(8.7)
NOT ANNUALISED (%)			
Latest Quarter	23.4	13.8	9.6

Highest and lowest annual return since launch

Allan Gray Australia Equity Fund - Class A units	Return %	Calendar year
Highest	55.1	2009
Lowest	(45.9)	2008

Allan Gray Australia Equity Fund - Class B units	Return %	Calendar year
Highest	33.4	2016
Lowest	(7.0)	2018

Returns shown are net of fees and assume reinvestment of distributions. Returns are annualised for periods of one year and over. Annualised returns show the average amount earned on an investment in the relevant Class each year over the given time period. Actual investor performance may differ as a result of the investment date, the date of reinvestment of income distributions, and withholding tax applied to income distributions.

The highest and lowest returns earned during any calendar year since the launch of each Class are shown to demonstrate the variability of returns. The complete return history for each Class can be obtained by contacting our Client Services team.

EQUITY FUND HOLDINGS

(CLASS A AND CLASS B)

Fund holdings as at 31 December 2020

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Woodside Petroleum	163,848	8
Alumina	150,715	8
Newcrest Mining	140,754	7
Sims	125,846	6
QBE Insurance Group	108,989	5
National Australia Bank	105,043	5
Metcash	101,107	5
Aust. and NZ Banking Group	100,556	5
Oil Search	99,467	5
AMP	92,692	5
Incitec Pivot	69,093	3
Origin Energy	65,660	3
Fletcher Building	57,559	3
Worley	46,874	2
Nufarm	38,886	2
Virgin Money UK	38,724	2
G8 Education	36,859	2
South32	36,405	2
Asaleo Care	35,811	2
Southern Cross Media Group	30,554	2
HT&E	30,147	2
Peet	28,570	1
Westpac Banking	28,554	1
Challenger	22,421	1
SKYCITY Entertainment Group	20,888	1
Positions less than 1%	152,215	8
Total Security Exposure	1,949,037	98
ASX SPI 200 ™ Futures Contract (03/2021)†	29,253	1
Net Current Assets	11,279	1
Net Assets	1,989,569	100
Price per unit - Class A (cum distribution)	AUD 1.494	
Price per unit - Class B (cum distribution)	AUD 1.4973	
Total Assets Under Management for the Australian equity strategy (AUD 000's)‡	AUD 7,090,053	

† Futures contracts are fully backed by cash holdings.
‡ Allan Gray Australia Pty Ltd also manages segregated accounts that have substantially the same investment goals and restrictions as the Fund.

BALANCED FUND PERFORMANCE

Allan Gray Australia Balanced Fund

	Allan Gray Australia Balanced Fund	Custom Benchmark*	Relative Performance
ANNUALISED (%)			
Since Public Launch on 1 March 2017	5.8	8.4	(2.6)
3 Years	2.9	7.9	(5.0)
1 Year	(0.1)	4.2	(4.3)
NOT ANNUALISED (%)			
Latest Quarter	12.8	5.3	7.5

Highest and lowest annual return since public launch

Allan Gray Australia Balanced Fund	Return %	Calendar year
Highest	13.9	2019
Lowest	(4.1)	2018

** The Custom Benchmark for the Fund comprises 36% S&P/ASX 300 Accumulation Index; 24% S&P/ASX Australian Government Bond Index; 24% MSCI World Index (net dividends reinvested) expressed in AUD; and 16% JPMorgan Global Government Bond Index expressed in AUD.*

Returns shown are net of fees and assume reinvestment of distributions. Returns are annualised for periods of one year and over. Annualised returns show the average amount earned on an investment in the relevant Fund each year over the given time period. Actual investor performance may differ as a result of the investment date, the date of reinvestment of income distributions, and withholding tax applied to income distributions.

The highest and lowest returns earned during any calendar year since the public launch of each Fund are shown to demonstrate the variability of returns. The complete return history for each Fund can be obtained by contacting our Client Services team.

BALANCED FUND HOLDINGS

Fund holdings as at 31 December 2020

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Equity		
Domestic Equity		
Woodside Petroleum	3,165	3
Alumina	3,056	3
Sims	2,637	3
Newcrest Mining	2,561	2
National Australia Bank	2,538	2
AMP	2,366	2
QBE Insurance Group	2,260	2
Metcash	2,157	2
Aust. and NZ Banking Group	1,972	2
Oil Search	1,958	2
Incitec Pivot	1,478	1
Origin Energy	1,309	1
Worley	1,224	1
G8 Education	1,088	1
Domestic Equity Positions less than 1%	9,042	9
Global Equity		
Taiwan Semiconductor Mfg.	3,448	3
Samsung Electronics	2,721	3
AbbVie	2,162	2
British American Tobacco	1,475	1
NetEase	1,378	1
Bayerische Motoren Werke	1,318	1
Fletcher Building	1,249	1
XPO Logistics	1,171	1
Global Equity Positions less than 1 %	23,342	23
Total Equity^	77,096	74

^ The Fund holds derivative contracts which reduces the effective net equity exposure to 68%.

BALANCED FUND
HOLDINGS

Security	Market Value AUD 000's	% of Fund
Fixed Income		
Domestic Fixed Income		
Australian Government Bonds	18,408	18
Global Fixed Income		
Global Fixed Income Positions less than 1 %	1,416	1
Total Fixed Income	19,824	19
Commodity Linked Investments		
SPDR Gold Trust	5,050	5
Total Commodity Linked Investments	5,050	5
Total Security Exposure	101,970	98
Cash Equivalents and Term Deposits	1,540	2
Net Current Assets	189	<1
Net Assets	103,699	100
Price per unit (cum distribution)	AUD 1.1332	

STABLE FUND PERFORMANCE

Allan Gray Australia Stable Fund

	Allan Gray Australia Stable Fund	RBA Cash	Relative Performance	Distribution
ANNUALISED (%)				
Since Public Launch on 1 July 2011	6.2	2.1	4.1	4.1
5 Years	6.2	1.3	4.9	3.7
3 Years	3.2	1.0	2.2	3.9
1 Year	2.9	0.3	2.6	4.0
NOT ANNUALISED (%)				
Latest Quarter	7.2	0.0	7.2	0.0

Highest and lowest annual return since public launch

Allan Gray Australia Stable Fund	Return %	Calendar year
Highest	14.4	2016
Lowest	(0.5)	2018

Returns shown are net of fees and assume reinvestment of distributions. Returns are annualised for periods of one year and over. Annualised returns show the average amount earned on an investment in the relevant Fund each year over the given time period. Actual investor performance may differ as a result of the investment date, the date of reinvestment of income distributions, and withholding tax applied to income distributions.

The highest and lowest returns earned during any calendar year since the public launch of each Fund are shown to demonstrate the variability of returns. The complete return history for each Fund can be obtained by contacting our Client Services team.

STABLE FUND HOLDINGS

Fund holdings as at 31 December 2020

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Alumina	11,188	4
Woodside Petroleum	10,915	3
Newcrest Mining	8,382	3
AMP	6,988	2
Oil Search	6,907	2
Sims	6,374	2
Aust. and NZ Banking Group	5,953	2
QBE Insurance Group	5,922	2
Incitec Pivot	5,828	2
National Australia Bank	4,593	1
Metcash	3,951	1
Origin Energy	3,770	1
Positions less than 1%	30,886	10
Total Security Exposure	114,997	36
Cash and Money Market Instruments	201,604	64
Net Current Assets	588	<1
Net Assets	317,189	100
Price per unit (cum distribution)	AUD 1.1923	

INFORMATION
ABOUT THE FUNDS

	Allan Gray Australia Equity Fund	Allan Gray Australia Balanced Fund	Allan Gray Australia Stable Fund
Investment objective	The Fund seeks long-term returns that are higher than the S&P/ ASX 300 Accumulation Index (Benchmark).	To seek long-term returns that are higher than the Custom Benchmark. In doing so, the Fund aims to balance capital growth, income generation and risk of loss using a diversified portfolio.	The Fund aims to provide a long-term return that exceeds the Reserve Bank of Australia cash rate (Benchmark), with less volatility than the Australia sharemarket.
Who should invest?	Investors looking for contrarian investment style exposure to the Australian sharemarket and who are able to take a long-term view and endure performance fluctuations.	Investors with an investment horizon of at least three years who want to easily diversify their portfolio within a single fund and are looking for less ups and downs than investing solely in shares. The Fund invests in shares, fixed income, cash and commodity investments sourced locally and globally.	Investors with a two-year or longer investment horizon who are looking for an alternative to traditional money market and income generating investments. The Fund's portfolio can hold a combination of cash and money market instruments (100% to 50%) and ASX securities (up to 50%) in pursuit of stable long-term returns.
Dealing	Daily (cut-off at 2pm Sydney time. A different cut-off applies if investing via mFund, where applicable).		
Buy/sell spread	+0.2%/-0.2%	+0.2%/-0.2%	+0.1%/-0.1%
Fees and expenses (excluding GST)	**Class A** Management fee comprises: • Fixed (Base) fee – 0.75% per annum of the Fund's NAV. • Performance fee – 20% of the Class' outperformance, net of the base fee, in comparison to the Benchmark. A performance fee is only payable where the Class' outperformance exceeds the high watermark, which represents the highest level of outperformance, net of base fees, since the Class' inception.	Management fee comprises: • Fixed (Base) fee – 0.75% per annum of the Fund's NAV. • Performance fee – 20% of the Fund's outperformance, net of the base fee, in comparison to the custom Benchmark. A performance fee is only payable where the Fund's outperformance exceeds the high watermark, which represents the highest level of outperformance, net of base fees, since the Fund's inception.	Management fee comprises: • Fixed (Base) fee – 0.25% per annum of the Fund's NAV. • Performance fee – 20% of the Fund's outperformance, net of the base fee, in comparison to the Benchmark. A performance fee is only payable where the Fund's outperformance exceeds the high watermark, which represents the highest level of outperformance, net of base fees, since the Fund's inception.
	Class B Management fee comprises: • Fixed (Base) fee – Nil. • Performance fee – 35% of the Class' outperformance in comparison to the Benchmark. A performance fee is only payable where the Class' outperformance exceeds the high watermark, which represents the highest level of outperformance, since the Class' inception.		
Minimum initial investment	AUD 10,000/AUD 500 per month on a regular savings plan.		
Additional investment	AUD 1,000/AUD 500 per month on a regular savings plan.		
Redemption	No minimum applies for ad hoc redemptions. A minimum of AUD 500 per month applies on a regular redemption plan. Investors must maintain a minimum account balance of AUD 10,000.		

NOTICES

Sources

The source for the S&P/ASX 300 Accumulation Index and the S&P/ASX Australian Government Bond Index is Standard & Poor's. "S&P" is a trademark of S&P Global, Inc.; "ASX" and "ASX 300" are trademarks of ASX Operations Pty Limited ("ASXO"); and "S&P/ASX300" exists pursuant to an arrangement between ASXO and Standard & Poor's.

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The third party information providers do not guarantee the accuracy, adequacy or completeness of this information, and no further distribution or dissemination of the index data is permitted without express written consent of the providers. None of those parties shall have any liability for any damages (whether direct or otherwise).

Returns

Fund returns are gross of all income, net of all expenses and fees, assume reinvestment of distributions and exclude any applicable spreads.

Risk Warnings

Managed investment schemes are generally medium to long-term investments. Past performance is not indicative of future performance. Each Fund's unit price will fluctuate and the Fund's performance is not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment in a Fund, an investor's capital is at risk. Subject to the disclosure documents, managed investment schemes are traded at prevailing prices and can engage in borrowing and securities lending.

Fees

The base fee and the performance fee (if applicable) are calculated and accrued daily, and paid monthly. A schedule of fees and charges is available in the relevant Fund's disclosure documents.

US and European Persons

The Funds do not accept US persons as investors and are not marketed in the European Economic Area (EEA). Investors resident in the EEA can only invest in the Fund under certain circumstances as determined by, and in compliance with, applicable law.

Other

Equity Trustees Limited, AFSL No. 240975 is the issuer of units in the Allan Gray Australia Equity Fund, the Allan Gray Australia Balanced Fund and the Allan Gray Australia Stable Fund and has full responsibility for each Fund. Equity Trustees Limited is a subsidiary of EQT Holdings Limited, a publicly listed company on the Australian Stock Exchange (ASX:EQT). Allan Gray Australia Pty Limited, AFSL No. 298487 is the Funds' investment manager. Each Fund's Product Disclosure Statement and Information Booklet (together, PDS) are available from www.allangray.com.au or by contacting Client Services on 1300 604 604 (within Australia) or +61 2 8224 8604 (outside Australia). You should consider the relevant Fund's PDS in deciding whether to acquire, or continue to hold, units in the fund.

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