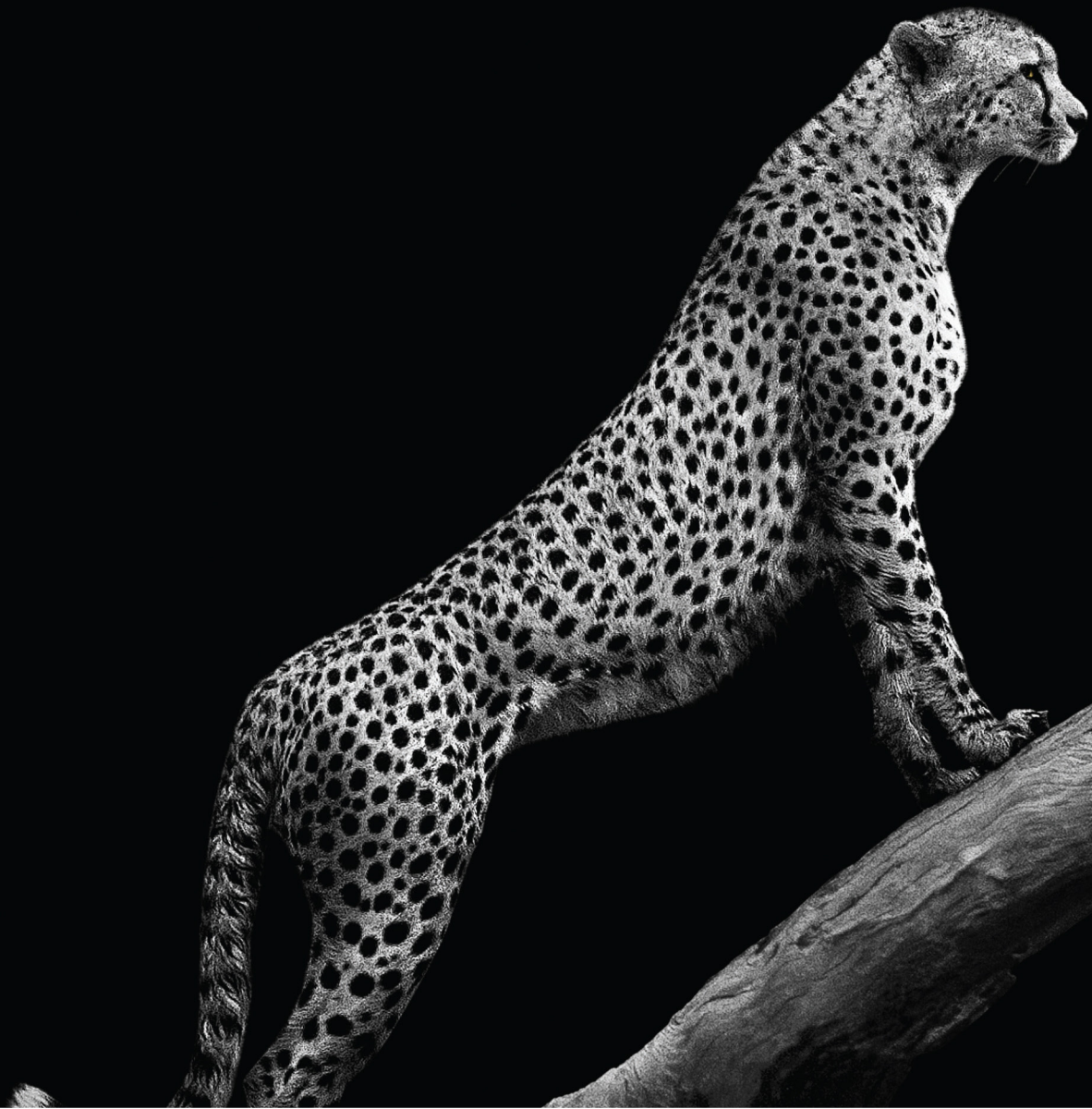


QUARTERLY COMMENTARY

30 SEPTEMBER 2021



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INVESTMENTS AND SUPERANNUATION

# COMMENTARY



**SIMON MAWHINNEY, CFA**  
Managing Director & Chief  
Investment Officer

It has been a wild ride in the Australian sharemarket this quarter. At one stage in early August, our benchmark S&P/ASX 300 Accumulation Index was up almost 5% above its 30 June levels. However, at the time of writing, recent weakness, primarily in the iron-ore-exposed miners, has seen much of these gains erased. Having no exposure to iron ore has been the largest source of the Allan Gray Australia Equity portfolio's modest outperformance this quarter.

We remain optimistic about our portfolio holdings that have, in aggregate, underperformed our benchmark over the short-to-medium term. For this Quarterly Commentary, Analyst Tim Morrison details our investment thesis for Challenger Limited and the reasons we are attracted to the company.



**TIM MORRISON, CFA**  
Analyst

five years), or for the remaining life of the purchaser. These payments are in proportion to an upfront contribution by the purchaser, for example:

Challenger might agree to pay a 1.5% per annum annuity payment on an upfront contribution of \$100,000 (i.e. \$1,500 p.a.), with this upfront contribution being returned at the end of year three. Alternatively, Challenger might agree to pay \$6,000 per annum (representing both principal and interest) for the remainder of the purchaser's life, on an upfront contribution of \$100,000.

For the purchaser, the guaranteed fixed income stream can make annuities an important part of their retirement-planning product arsenal. For Challenger, its profit is the difference between the investment returns they achieve by investing the upfront customer contributions and the annuity rates it is contractually bound to pay (plus a significant amount of business operating costs).

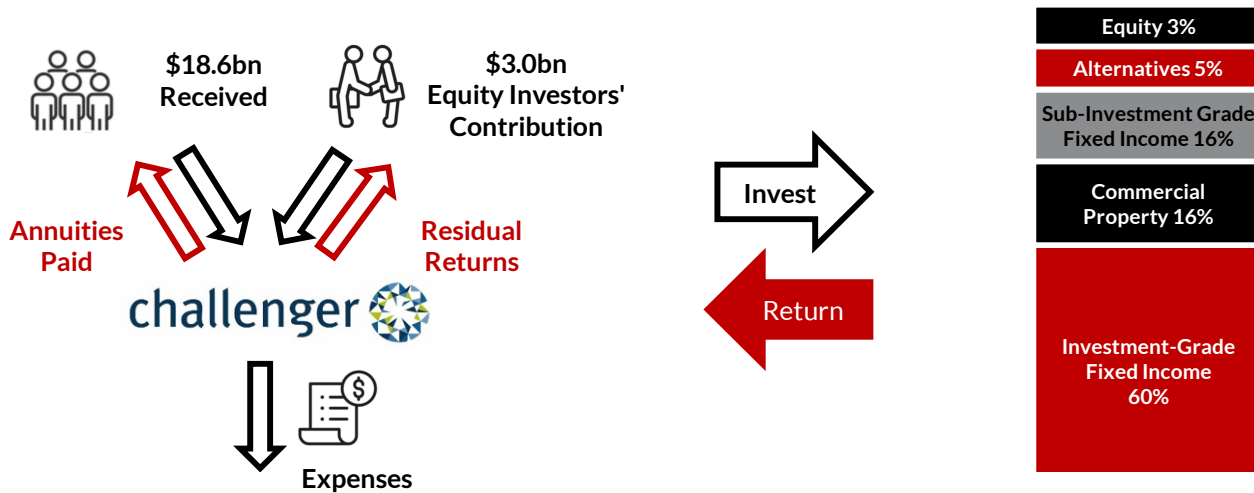
Challenger is more like a bank than an insurer: it operates a spread business. The life risk it takes is a small proportion of overall profitability. Challenger also sells some annuity-like institutional index investment products. Collectively, these products make up Challenger's Life business.

## About Challenger

Challenger Limited is the dominant fixed annuities provider in Australia. It entered the market in 1997 and today it has around an 80% market share.

Before jumping into the company details, it is worthwhile explaining what an annuity is. Fixed annuities are agreements for the issuer (such as Challenger) to pay the purchaser a series of fixed annual payments for either a set term (typically one to

**Figure 1: Challenger's Life business ecosystem**



Source: Challenger Analyst Pack, Allan Gray, as at 30 June 2021.

The risk that Challenger assumes is limited to investment risk and life insurance risk, by matching its investment assets with its annuity-holder liabilities. Challenger's annuity-holder liabilities, and fixed income and property investment assets backing them, have offsetting exposures to changing interest rates. At 30 June 2021, Challenger's Life business ecosystem is illustrated in Figure 1.

Challenger has received \$18.6 billion (bn) from its annuity purchasers and other lenders. This, together with Life shareholders' funds of \$3.0bn, is invested in a variety of investments. Any returns are used to pay contracted annuity amounts to purchasers, operating expenses and the balance remaining is available for shareholders.

Challenger also owns two funds management businesses: Fidante Partners and Challenger Investment Partners. Fidante Partners (\$85bn of underlying assets under management (AUM)) takes a share of the economics of start-up, boutique fund managers in return for distribution, back-office services and working capital. Challenger Investment Partners (\$21bn of AUM) invests a significant component of Challenger Life's fixed income and property investment assets.

### Challenger's challenges

Challenger's share price has fallen significantly in recent years and it is currently less than half of its peak levels of 2017. There are three main reasons for this weakness:

#### 1. Challenger's profitability on new annuity sales is currently depressed

Credit spreads (the excess corporate credit yield relative to the Government bond yield) and interest rates are well below long-term levels.

The low credit spreads on fixed income investments make it difficult for Challenger to earn a sufficient return on its investment portfolio. This is exacerbated by the low absolute level of interest rates today, which limits Challenger's ability to offer high (attractive) retail annuity rates and also reduces the income earned on shareholders' funds.

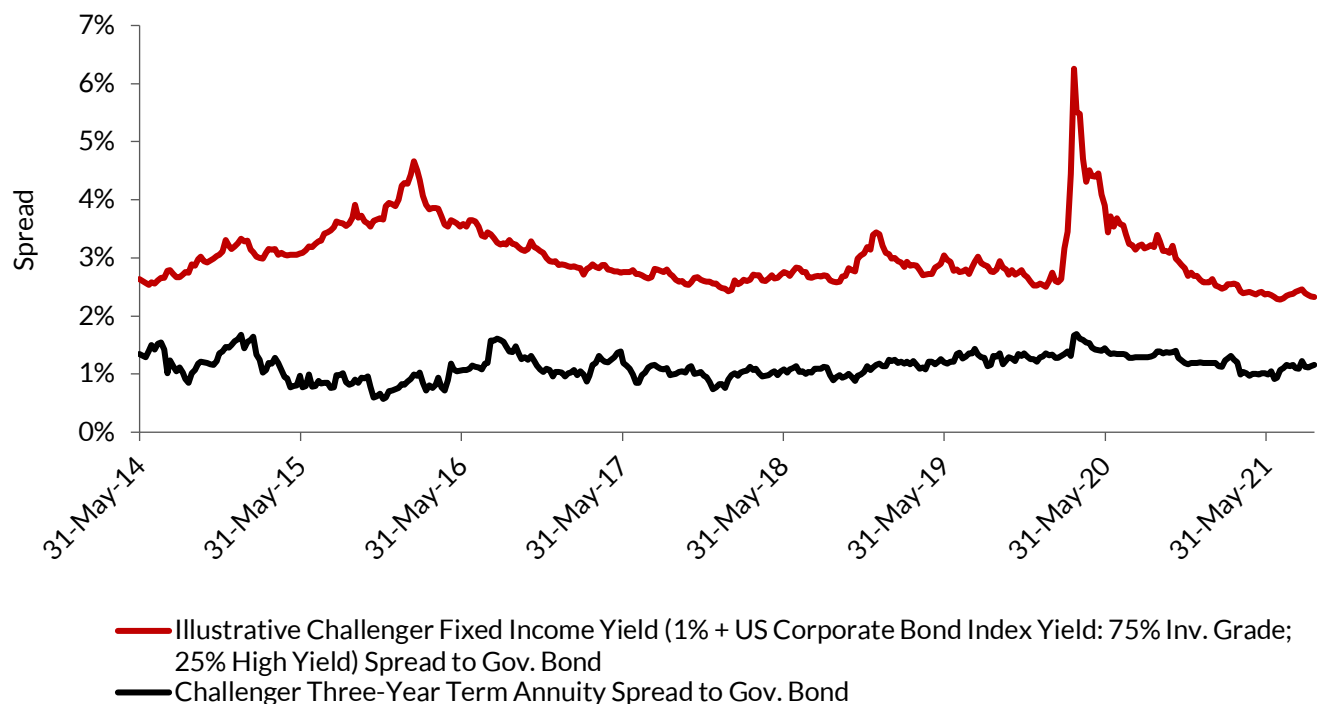
Challenger's new business is being written at narrower than average spreads, as it strikes a delicate balance between attracting new annuitants, replacing expiring annuities and maintaining its profitability. This trend is indicatively represented by the size of the gap between the two lines in Graph 1. As the gap narrows, the spread between Challenger's investment returns and annuity payments falls and profits on new sales are squeezed.

#### 2. Pro-cyclical decisions in Challenger's Life business have destroyed real value for shareholders

An inherent weakness in the Life business model exists. Challenger is regulated by APRA and must maintain sufficient levels of capital to honour obligations to annuitants. Assets owned by Challenger have different capital intensities, depending on their assumed risk profile.

When asset prices decline, capital levels fall. In order to maintain suitable regulatory capital buffers, Challenger has historically felt compelled to rotate its investment portfolio out of more risky (capital intensive) assets into less risky (less capital intensive) assets in order to shore up prescribed capital ratios. This is exactly what happened in 2020, following the onset of COVID-19, when Challenger reduced its riskier equities and credit exposures in favour of low-risk cash and equivalents. Table 1 shows the difference in Challenger's asset allocation between the end of 2019 and the middle of 2020.

**Graph 1: Challenger's difficult balancing act**



Source: Challenger, Bloomberg, as at 23 September 2021.

We acknowledge that we are far from perfect investors ourselves, but this buy-high, sell-low investment strategy is a recipe for certain value destruction. Total capital losses on Challenger Life's investments from 1 January 2020 through to 30 June 2021 were \$600m, despite asset prices generally rising during that time. Together with a capital raise to plug this hole, this has weighed on investor sentiment.

**3. Challenger's main annuities distribution channel is disrupted**

Challenger has a range of distribution channels, namely intermediated advisers to Australian retirees, direct

Australian retirees and Australian institutions such as profit-for-member funds. It also has a distribution agreement with MS&AD, a Japanese insurance company and one of Challenger's largest shareholders. Its largest channel is the financial adviser intermediated channel.

The aftermath of the Royal Commission has seen a 30% reduction in financial advisers and headwinds for sales of new annuities. Despite Challenger having grown its annuity book in recent years, this has shifted to lower margin annuities written for Australian institutions and MS&AD and away from the higher-margin direct and intermediated retail annuities.

**Table 1: Challenger's switch to less risky investments**

Challenger Life Investment Allocations	31/12/2019	30/06/2020
Cash and Equivalents	4%	16%
Investment-Grade Fixed Income	46%	49%
Sub-Investment Grade Fixed Income	16%	11%
Property	17%	18%
Equity and Infrastructure	10%	2%
Alternatives	7%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Challenger Analyst Packs.

## It is important to focus on the price you pay

Undeniably, this is all bad for Challenger, but it needs to be considered in tandem with the prevailing share price. Challenger's market capitalisation is \$4.2bn today and investors could be more than compensated in the long term for the prevailing headwinds. There are at least two ways of assessing this.

The first is to focus on earnings. Assuming the current market conditions are permanent, we estimate that Challenger would make \$230m in post-tax profits without any adjustment to Challenger's cost base, which has been built for much higher spreads. At 18.5 times those earnings at today's share price, Challenger's earnings multiple is in line with the broader sharemarket. Unlike the broader sharemarket however, these earnings are very depressed and are well below company-guided earnings of approximately \$320m for FY22.

The second way is by reference to its asset base. Challenger has \$3.2bn in net tangible assets (NTA, primarily the difference between its investment portfolio and total liabilities to annuity and debt holders). Its market capitalisation is 1.3 times this NTA. But Challenger has two significant earnings streams that have very little tangible asset backing.

The first of these is its fast-growing and scalable funds management business, which generated \$70m of earnings in FY21. The second is a previously unmentioned UK Life Risk business with actuarial assessed future profits of just over \$1bn. Were one to adjust for these, the 1.3 times NTA multiple would fall significantly.

## Storm clouds and rainbows

There are risks to an investment in Challenger that cannot be ignored:

- A major credit cycle and/or large declines in asset prices would be very trying, given Challenger's leverage and its exposure to the level of the market in its funds management business.
- Increased competitive intensity in Australian credit markets and/or Australian life products may eventuate, with the likes of QSuper, Allianz/Pimco and Magellan already positioning themselves accordingly.
- The recently announced retirement of Challenger's well-respected CEO may be a cause for concern.

But there are also reasons for optimism:

- Credit spreads and interest rates are far below long-term averages and seem more likely to increase than decline from here. With this will come higher ongoing profits, comfortably outweighing any negative investment valuation impacts on this journey. We estimate spreads today are 0.9% below long-term averages, with every 0.1% credit spread increase being worth an extra \$11m of ongoing post-tax profit. Ongoing investment returns on shareholders' funds would also increase with any interest rate rises.
- Challenger should be less pro-cyclical in future. It recently announced it will hold a higher capital buffer than the past, thereby hopefully reducing the need to de-risk its investment portfolio during market troughs. This unfortunately comes at the cost of a less-than-ideal, capital-heavy balance sheet, but we believe this is the lesser of the two evils. Also, it has adopted a more conservative investment portfolio allocation currently.
- While distribution within the Australian adviser network may take a while to stabilise, considerable long-term growth potential exists. Challenger Life serves about 1.5% of Australian retirement-phase superannuation assets, which itself had been growing at 10% per annum pre-COVID. Planned regulatory change targeted to take effect on 1 July 2022 will require superannuation trustees to implement a retirement income strategy. This may well increase the demand for annuities.

## Our position

On balance, Challenger appears priced for a continuation of its current operating conditions in perpetuity. We think this is unlikely. We believe conditions are more likely to improve than deteriorate over the long term and any improvement could result in significantly improved earnings. Given this asymmetric payoff profile, we have purchased Challenger to slightly over 2.5% of the Equity portfolio at the time of writing.

# FUND COMMENTARY

## QUARTER IN REVIEW

by JULIAN MORRISON, CFA

Investment Specialist

### Allan Gray Australia Equity Fund

The Australian sharemarket had a positive quarter to September, with the S&P/ASX 300 Accumulation Index up 1.8%. The Allan Gray Australia Equity Fund returned 5.5% during the same period, outperforming its benchmark by 3.7%.

On a monthly basis, the S&P/ASX 300 Accumulation Index fell 1.9% in September. This was the first negative calendar month performance for the broad market in 12 months! In contrast, the Fund rose in this falling market. Undervaluation can be a powerful force as recognition spreads and imbalances are uncovered.

When markets correct imbalances, the pace of adjustment may vary widely. Timing investment decisions in this environment is a challenging game. That is why the closest we get to investment timing is to ask “which stocks look particularly good value, at this particular time”? Sometimes we have to wait very patiently for our decisions to play out. While we may have seen a positive shift in September, we believe this is a small start, and tremendous opportunity remains as the market adjusts from a position of extreme imbalance.

During the quarter, positioning in the Materials sector was the biggest positive contributor. This is remarkable given Materials was by far the worst performing sector overall. Notably, the Fund held zero exposure to the large iron ore miners, which fell heavily. Meanwhile, positions in Alumina, Incitec Pivot and South32 all contributed strongly to relative performance for the quarter. Newcrest Mining and Sims, on the other hand, detracted and we added to those positions on weakness.

Within the Energy sector, Woodside Petroleum, Oil Search and Origin Energy all contributed positively for the quarter. However, we believe these remained significantly underappreciated by the market, and so the Fund continues to hold meaningful positions here. We also added further to engineering services company Worley, which underperformed for the quarter.

The Financials sector was mixed, with outperformance from QBE and NAB offsetting underperformance from stocks such as ANZ and AMP. Within Financials, the banks have performed strongly over the last year. With the rise in share prices, we believe the prospective appeal has reduced versus the potential risk. During the quarter, we therefore reduced positions in the banks, reallocating to more attractive opportunities. These have

included other Financials such as QBE and Challenger, as well as stocks in other sectors.

The last quarter may have hinted at a much larger adjustment to come, for a market that we believe is still woefully unbalanced. Risk in investing is deceptive, and may eventuate in places where it appeared to be absent. Today those places are a wide array of very popular, very expensive stocks, which seem to be viewed as incapable of disappointing. But disappointment doesn't require things to go bad – just a little less great than expected.

The focus on valuation and patience is critical at a time when many are capitulating on that discipline. The risk of piling into today's winners is, in our opinion, much greater than seems to be appreciated. Counter to this, we have positioned the Fund where we see significant latent unrealised value, and thus we remain optimistic regarding future long-term prospects for outperformance.

### Allan Gray Australia Balanced Fund

The Allan Gray Australia Balanced Fund returned 2.4% for the quarter, outperforming its composite benchmark by 0.3%.

The allocation to shares contributed positively to absolute performance, with stock selection in Australian shares contributing positively, while stock selection in global shares detracted slightly from relative returns.

The Fund had 68% in shares at quarter end. This is after accounting for about 7% of the global share exposure being reduced through the use of exchange-traded derivatives, which allows for some protection in those periods where market indices fall.

The Fund held around 20% in fixed income securities and a 5% exposure to gold through an exchange-traded fund at quarter end. The fixed income allocation has remained significantly shorter in duration than the benchmark – at below two years versus almost eight years for the benchmark.

This means that the fixed income portion of the Fund remains more defensively positioned than the benchmark (in terms of both relative and absolute returns), in the event interest rates rise from current historically low levels. Longer-term interest rates did indeed rise during the quarter, and we believe this position continues to be prudent.

As with the Equity Fund, we believe potential 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

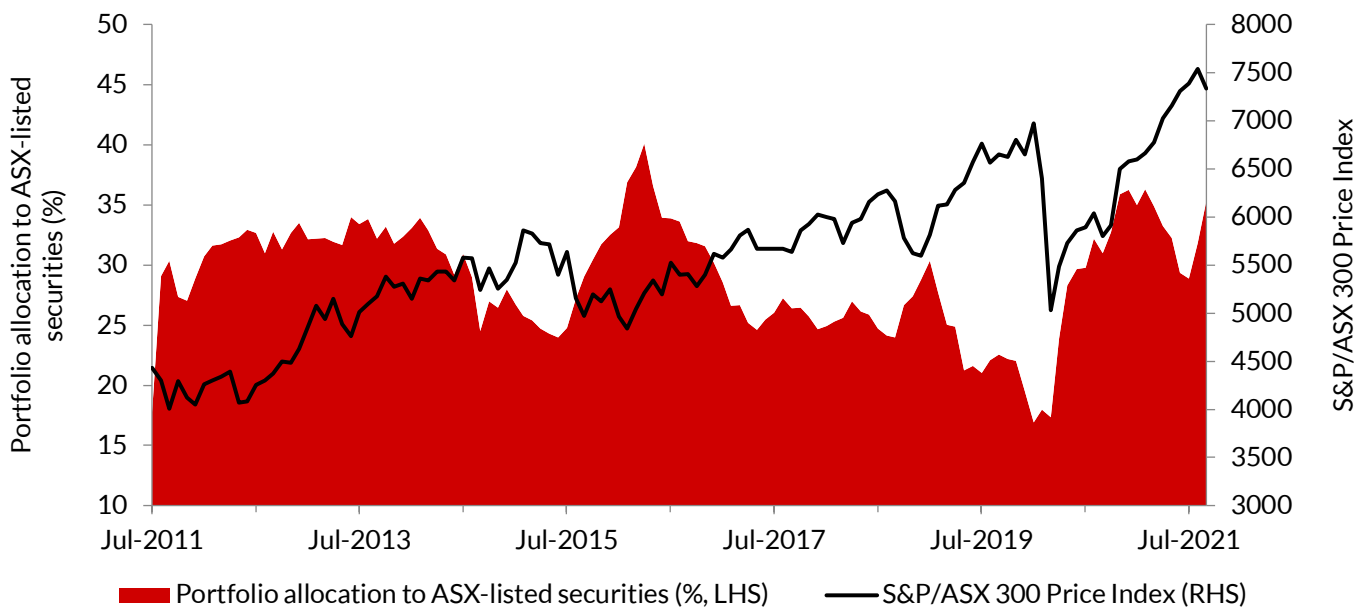
The Allan Gray Australia Stable Fund returned 2.2% for the quarter, strongly outperforming its RBA cash rate benchmark by 2.2%.

The performance of the Stable Fund is driven by the performance of our favoured Australian security holdings and the decision on how much is invested in these listed securities versus cash. The broad Australian sharemarket has risen strongly for four consecutive quarters now, and remains not far from all-time highs in June. The Fund took advantage of the recent strength to lighten some of the positions that have risen to around fair value or beyond. We have also maintained positions in some stocks which have risen, but which are still significantly below fair value.

As at the end of September, the Fund had around 35% invested in ASX-listed securities (of which around 32% was shares and almost 3% selected hybrid securities). The remaining 65% is held in cash and money market investments. This can be seen in Graph 2, which shows our allocation between cash and ASX-listed securities over time.

The extreme strength in the sharemarket during the last year 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 2: Stable Fund listed security weighting – allocation rises where we see value in listed securities**



Source: Allan Gray, Bloomberg, as at 30 September 2021.

# EQUITY FUND PERFORMANCE

## Allan Gray Australia Equity Fund – Class A units

	Allan Gray Australia Equity Fund	S&P/ASX 300 Accumulation Index	Relative Performance
<b>ANNUALISED (%)</b>			
Since Public Launch on 4 May 2006	7.9	6.7	1.2
10 Years	11.1	10.8	0.3
5 Years	9.0	10.5	(1.5)
3 Years	4.7	9.9	(5.2)
1 Year	40.6	30.9	9.7
<b>NOT ANNUALISED (%)</b>			
Latest Quarter	5.5	1.8	3.7

## Allan Gray Australia Equity Fund – Class B units

	Allan Gray Australia Equity Fund	S&P/ASX 300 Accumulation Index	Relative Performance
<b>ANNUALISED (%)</b>			
Since Class Launch on 26 October 2012	11.0	10.2	0.8
5 Years	9.3	10.5	(1.2)
3 Years	5.4	9.9	(4.5)
1 Year	41.6	30.9	10.7
<b>NOT ANNUALISED (%)</b>			
Latest Quarter	5.7	1.8	3.9

## 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 30 September 2021 Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Alumina	214,601	9
Woodside Petroleum	214,374	9
Newcrest Mining	158,748	7
QBE Insurance Group	154,273	7
Incitec Pivot	117,937	5
Aust. and NZ Banking Group	110,260	5
National Australia Bank	108,921	5
Sims	108,306	5
Oil Search	98,180	4
Origin Energy	93,916	4
Metcash	82,223	4
AMP	65,871	3
Challenger	59,513	3
South32	59,372	3
Worley	58,729	3
Virgin Money UK	57,663	2
Nufarm	51,109	2
Fletcher Building	49,841	2
Westpac Banking	41,399	2
G8 Education	39,743	2
Southern Cross Media Group	30,268	1
HT&E	26,725	1
Lendlease Group	25,288	1
SkyCity Entertainment Group	25,186	1
TPG Telecom	25,167	1
Peet	24,625	1
Suncorp Group	23,649	1
Positions less than 1%	175,361	7
<b>Total Security Exposure</b>	<b>2,301,250</b>	<b>98</b>
ASX SPI 200™ Futures Contract (12/2021) <sup>†</sup>	21,879	<1
Net Current Assets	21,291	<1
<b>Net Assets</b>	<b>2,344,420</b>	<b>100</b>
Price per unit - Class A (cum distribution)	AUD 1.6585	
Price per unit - Class B (cum distribution)	AUD 1.6572	
<b>Total Assets Under Management for the Australian equity strategy (AUD 000's)<sup>‡</sup></b>	<b>AUD 8,383,249</b>	

<sup>†</sup> Futures contracts are fully backed by cash holdings.

<sup>‡</sup> 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
<b>ANNUALISED (%)</b>			
Since Public Launch on 1 March 2017	7.1	9.2	(2.1)
3 Years	5.0	8.9	(3.9)
1 Year	24.3	15.6	8.7
<b>NOT ANNUALISED (%)</b>			
Latest Quarter	2.4	2.1	0.3

## 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 30 September 2021 Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Equity		
<b>Domestic Equity</b>		
Alumina	4,126	4
Woodside Petroleum	3,893	3
Newcrest Mining	2,872	3
QBE Insurance Group	2,756	2
Sims	2,276	2
AMP	2,155	2
Incitec Pivot	2,152	2
Aust. and NZ Banking Group	1,980	2
Oil Search	1,896	2
Origin Energy	1,686	1
National Australia Bank	1,629	1
Worley	1,196	1
Metcash	1,148	1
Domestic Equity Positions less than 1%	12,181	11
<b>Global Equity</b>		
Samsung Electronics	2,808	2
AbbVie	1,976	2
Drax Group	1,515	1
Royal Dutch Shell	1,491	1
Taiwan Semiconductor Mfg.	1,321	1
Schlumberger	1,254	1
BP	1,224	1
ING Groep	1,167	1
Global Equity Positions less than 1 %	30,632	27
<b>Total Equity<sup>^</sup></b>	<b>85,334</b>	<b>75</b>

<sup>^</sup> 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		
<b>Domestic Fixed Income</b>		
Australian Government Bonds	18,150	16
<b>Global Fixed Income</b>		
Global Fixed Income Positions less than 1 %	1,217	1
Total Fixed Income	19,366	17
Commodity Linked Investments		
SPDR Gold Trust	5,725	5
Total Commodity Linked Investments	5,725	5
Total Security Exposure	110,426	97
Cash Equivalents and Term Deposits	3,410	3
Net Current Assets	277	<1
Net Assets	114,112	100
Price per unit (cum distribution)	AUD 1.2434	

# STABLE FUND PERFORMANCE

## Allan Gray Australia Stable Fund

	Allan Gray Australia Stable Fund	RBA Cash	Relative Performance	Distribution
<b>ANNUALISED (%)</b>				
Since Public Launch on 1 July 2011	6.1	1.9	4.2	4.0
5 Years	5.0	1.0	4.0	3.6
3 Years	3.9	0.7	3.2	3.2
1 Year	11.7	0.1	11.6	1.5
<b>NOT ANNUALISED (%)</b>				
Latest Quarter	2.2	0.0	2.2	0.1

## 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 30 September 2021 Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Alumina	15,884	5
Woodside Petroleum	15,418	5
Newcrest Mining	10,214	3
AMP	9,510	3
Incitec Pivot	7,244	2
QBE Insurance Group	6,790	2
Origin Energy	6,069	2
Aust. and NZ Banking Group	4,211	1
Latitude Group Holdings	3,872	1
Sims	3,438	1
Positions less than 1%	31,140	10
<b>Total Security Exposure</b>	<b>113,791</b>	<b>35</b>
Cash and Money Market Instruments	209,180	65
Net Current Assets	(517)	(<1)
<b>Net Assets</b>	<b>322,454</b>	<b>100</b>
Price per unit (cum distribution)	AUD 1.2259	

# 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)	<p><b>Class A</b> Management fee comprises:</p> <ul style="list-style-type: none"> <li>Fixed (Base) fee – 0.75% per annum of the Fund's NAV.</li> <li>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.</li> </ul>	<p>Management fee comprises:</p> <ul style="list-style-type: none"> <li>Fixed (Base) fee – 0.75% per annum of the Fund's NAV.</li> <li>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.</li> </ul>	<p>Management fee comprises:</p> <ul style="list-style-type: none"> <li>Fixed (Base) fee – 0.25% per annum of the Fund's NAV.</li> <li>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.</li> </ul>
	<p><b>Class B</b> Management fee comprises:</p> <ul style="list-style-type: none"> <li>Fixed (Base) fee – Nil.</li> <li>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.</li> </ul>		
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 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.

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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.

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