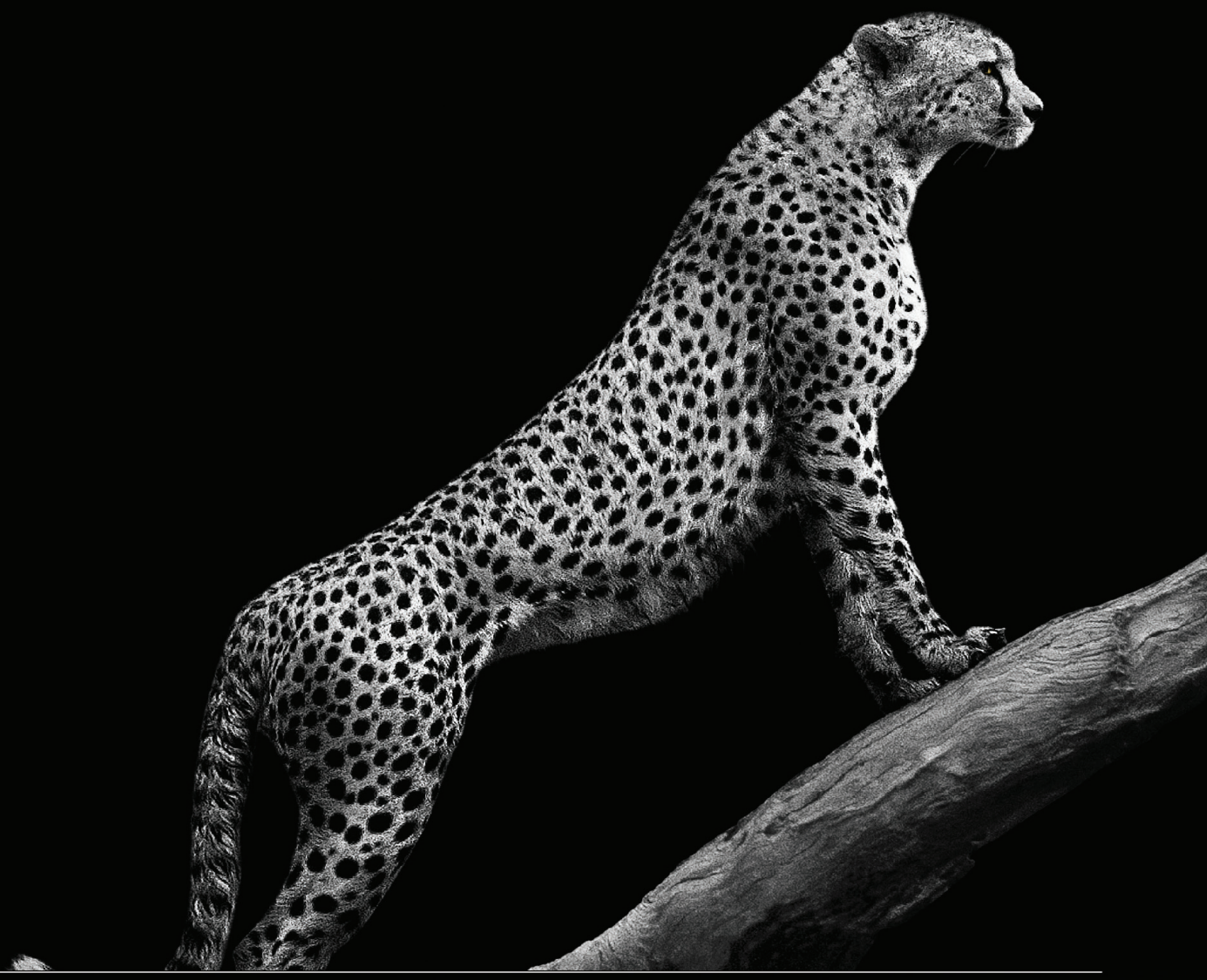
ALLANGRAY

CONTRARIAN INVESTING

QUARTERLY COMMENTARY

30 SEPTEMBER 2019



INVESTMENTS AND SUPERANNUATION

COMMENTARY

SIMON MAWHINNEY, CFA

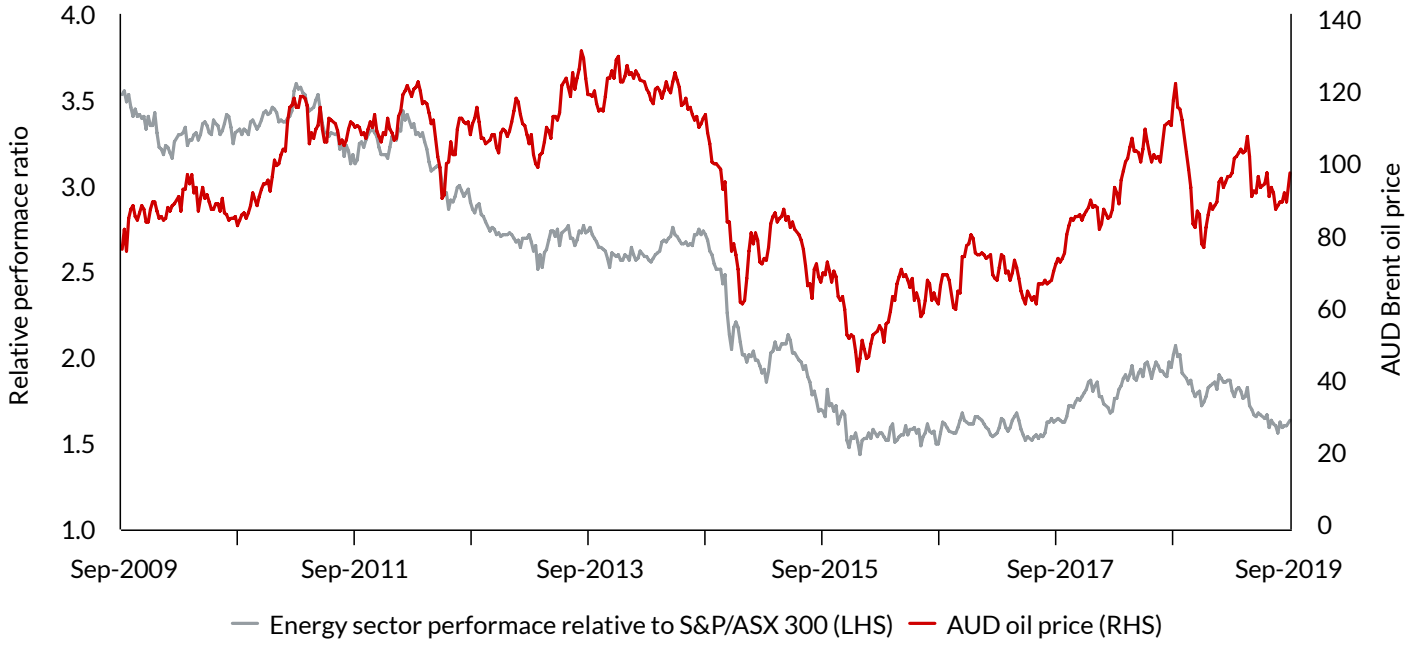
Managing Director & Chief Investment Officer

With close to 20% of our portfolio exposed to the energy sector, this has been by far our largest performance detractor over the last year. Graph 1 shows the energy sector's performance relative to the broader share market. Over the past 10 years, the sector has underperformed the broader share market by 55% and is priced at relative levels similar to January 2016 when oil prices fell below US$30 per barrel. And while Australian dollar oil prices are now back above A$90 per barrel, Australian oil and gas stock prices are nowhere near the levels reached the last time oil was trading at those levels.

Much of the weakness in the energy sector can be attributed to the fall in the oil price from levels above US$100 per barrel earlier this decade to today's price of close to US$60 per barrel. Technological advancements in methods to extract oil from US onshore shale fields has led to sharply higher production levels from previously uneconomic oil basins which in turn has contributed to excess supply, inventory builds and weaker energy prices. More recently, demand has also played a role, with subdued world economic growth and the unknown impact of trade tensions on future demand having soured sentiment.

Australia's energy sector and our exposure to this sector is comprised mainly of liquefied natural gas (LNG) producers. With gas likely to benefit from a change in the mix of hydrocarbons consumed in future (as the world moves away from dirtier coal), some of the structural headwinds that have plagued the energy space are less relevant for LNG producers. Despite this, the LNG producers have been every bit as weak as

Graph 1: Energy sector performance relative to the broader share market over the last 10 years



Source: Allan Gray, Iress as at 25 September 2019, Energy performance ratio is S&P/ASX 300 Energy sector ÷ S&P/ASX 300

oil (and coal) producers. There have been two reasons for this. Contracts to supply LNG are priced off prevailing oil prices (usually a fixed percentage of the oil price, known as the 'slope') so as oil prices fall, so do LNG prices. Also, the expected growth in gas consumption was well anticipated and a huge amount of supply has been brought to market resulting in excess supply similar to that impacting oil prices.

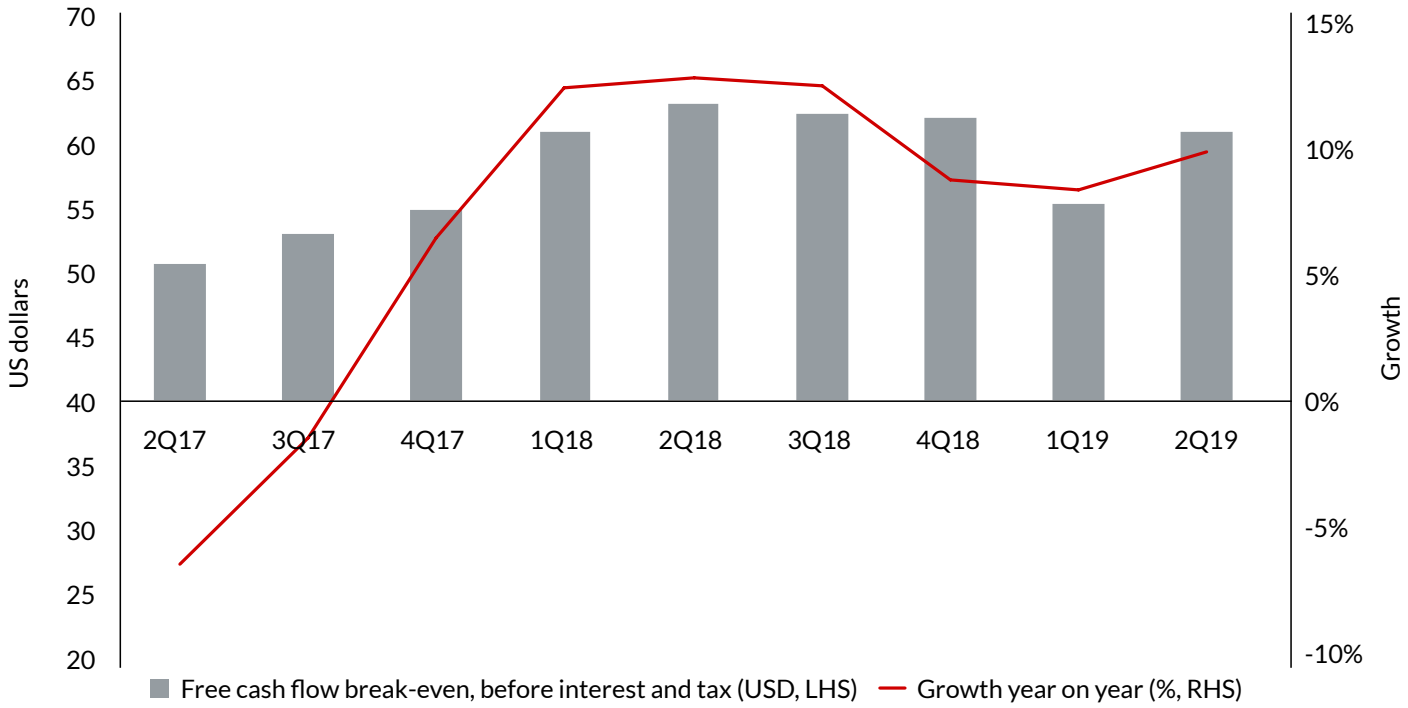
We acknowledge that blindly allocating capital to a broken thesis is a recipe for disaster. But flippantly selling investments where the thesis has not worked is not the recipe for success. Most of our excess performance over the years has come from holding the line and not capitulating when swathes of investors head for the exits.

While a mistimed investment in the energy sector is no reason to sell it, there are two areas where our thesis could be wrong. Firstly, oil prices may actually be high today with further technological advancements in shale production and lower future demand (e.g. from weak economic conditions or strong uptake in disrupting technologies like renewables) conspiring to create what many call a 'value trap'. Secondly, it is possible that realised LNG prices will remain low creating headwinds over and above those inferred by potentially lower oil prices. We explore both these areas below.

Are oil prices high?

Whilst far from certain, it is commonly thought that US onshore shale producers are the marginal producers of oil and gas. Many of these producers are publicly listed so it is easy to measure their financial health. Graph 2 summarises our analysis of the cashflow break-evens and production growth of a number of US shale producers which collectively represent one-third of the US's total daily production. This focus on cashflow is more important than usual with shale producers as they have to reinvest heavily just to keep production flat.

Graph 2: US shale producer break-evens and production growth



Source: Allan Gray, company financial statements as at 30 June 2019 (EOG, Marathon, Devon, Pioneer, Continental, Whiting, Apache, Anadarko, Noble, Concho)

With US oil prices in the low- to mid-US$50s per barrel, it is not possible to break even unless capital expenditures are curtailed. But this results in production levels declining. For production to grow at close to 10% per annum (as it has been) and for producers to break even, US oil prices in the low- to mid-US$60s are required (with global benchmark prices which determine LNG prices currently at a premium to this). This production growth may sound high, but it is also necessary when one considers the extent of the production declines in the more mature oil basins around the world and the extent of the underinvestment in conventional oil field discovery and development in recent years.

The above might be a generous assessment of producers' financial health. Yes, technological advancements have helped produce oil more cheaply, but so too has the significant deflation in service provider costs. This tailwind may become a headwind if service providers regain some pricing power. On top of that, drillers have also been drawing on their drilled-but-uncompleted (DUC) well inventory in order to conserve cash. Future cash break-evens should increase as these DUCs are replenished or oil production will fall. And let's not forget that at some point these companies may want to actually deliver cash returns on their investments (and pay their interest bills). All of this should support higher oil prices.

Image 1: Shale producing regions in the US

Source: US Energy Information Administration

It is also worth remembering that the most prospective acreage is always pursued first. Absent the discovery of prolific new basins, we could expect declining well economics to support higher oil prices in future. Much has been written recently about parent-child well interference leading to lower than expected production levels from new wells drilled near older wells. Shale oil production may, as a result, be more difficult and costly to grow from here. In Texas we've already seen peak oil in the Barnett and Eagle Ford shale districts. Only the Permian has been growing strongly and even that seems to be slowing down. Refer to Image 1 which illustrates shale producing regions in the US.

Table 1 shows daily production from the Texan part of the Permian. Oil production in 2019 is now 0.8% below 2018's levels. Growth rates in gas production have also fallen significantly but remain positive.

Table 1: Daily production from the Texan part of the Permian

Permian daily production rates	2012	2013	2014	2015	2016	2017	2018	2019
Oil (barrels per day)	948,046	1,062,026	1,261,623	1,410,520	1,535,083	1,860,800	2,489,210	2,469,732
Gas (m cubic feet per day)	3,194	3,504	4,262	4,984	5,447	6,627	8,936	9,659
Year on year change in production growth	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Oil (barrels per day)	15.9%	12.0%	18.8%	11.8%	8.8%	21.2%	33.8%	-0.8%
Gas (m cubic feet per day)	4.6%	9.7%	21.6%	16.9%	9.3%	21.7%	34.8%	8.1%

Source: Railroad Commission of Texas, subject to subsequent (often upwards) revisions

Today's oil prices are unlikely to sustain current production levels. A vast amount of production is currently unprofitable (at least in an economic sense) and future production economics are likely to be more challenged than today's. Unfortunately the same is less easy to conclude for gas prices.

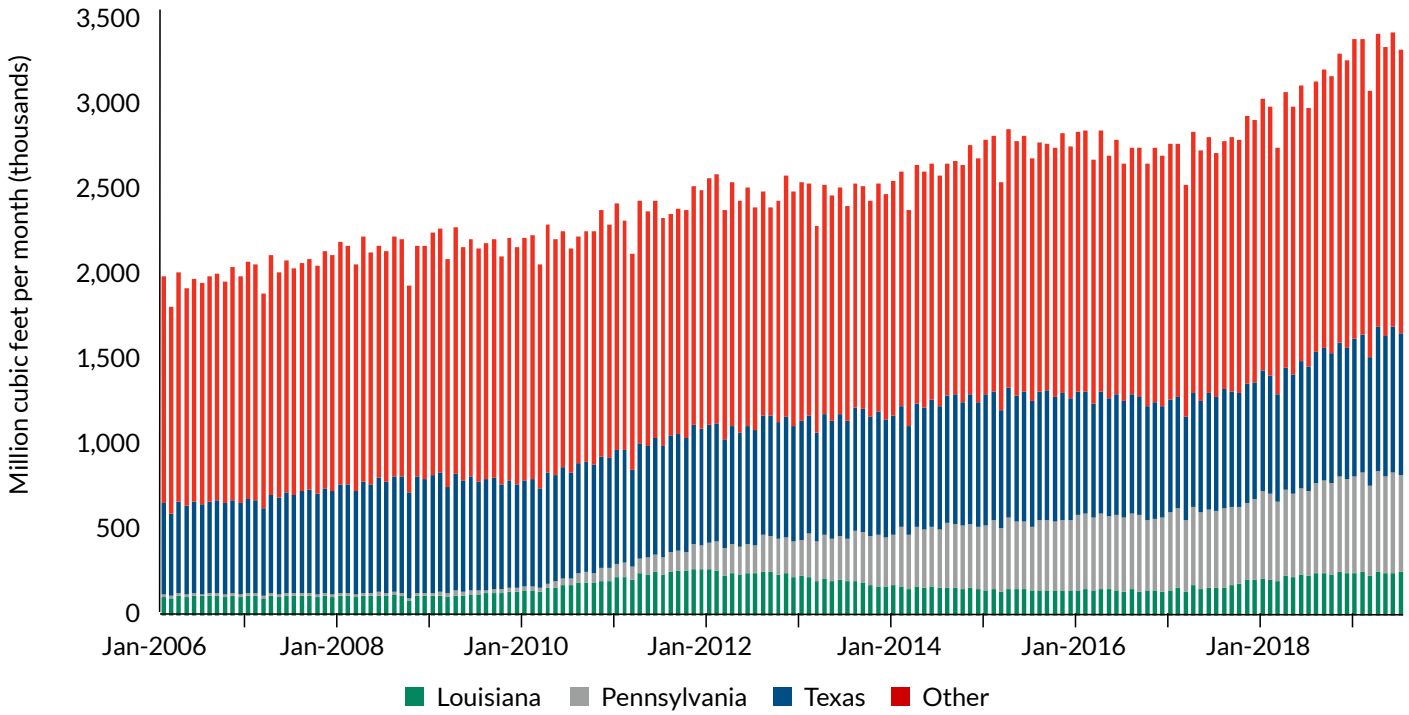
Are gas prices too low?

Gas liquefaction facilities are expensive to build. As a result, investment decisions rarely proceed before foundation customers or offtake partners agree to purchase most of the anticipated production volumes (measured in millions of British Thermal Units or mmBTUs) at pre-agreed pricing (i.e. 'slope'). Historically, the slope has ranged between 13% and 15% of the prevailing oil price. This results in average prices achieved by LNG exporters of around US$9/mmBTU in today's environment.

Any uncontracted volumes are sold on 'spot' (whatever the prevailing market price is on that day). The significant increase in supply has resulted in recent spot prices in the low US$4s per mmBTU delivered into Asia and downward pressure on slopes for new contracts. It is very unlikely that foundation customers will walk away from their long-term supply contracts, but it is quite likely that price reopening mechanisms provided in each contract will result in lower slopes, certainly until supply growth moderates. The current glut will therefore not only impact current earnings to some degree, but also the likely return from the large expansion projects that Oil Search (PNG LNG and Papua LNG) and Woodside (Scarborough and Browse) are embarking on.

Some of the world's lowest cost LNG production currently comes from the US, the source of a lot of the world's recent new supply. But we believe that even low-cost US-based LNG production would lose money at current spot prices suggesting gas prices are too low. The shale boom has resulted in daily production increasing from 60 billion cubic feet (bcf) per day in 2006 to over 100bcf/day today. Much of this increase has come from Texas (Permian), Louisiana (Haynesville) and Pennsylvania (Marcellus) as shown in Graph 3. This growth has far outstripped domestic demand resulting in the need to export the surplus gas either via pipeline or through liquefaction and shipment.

Graph 3: US gas production



Source: US Energy Information Administration as at 30 June 2019

Given the glut of gas, LNG exporters have been able to purchase gas very cheaply. A gas pricing benchmark in Louisiana, the Henry Hub price, has fallen to US$2.60/mmBTU from over US$10/mmBTU prior to the glut. Transport costs (approximately 15% of Henry Hub), liquefaction tolls (US$2/mmBTU) and freight to Asia (US$1.25/mmBTU) allow liquefiers to deliver gas into Asia for about US$6.25/mmBTU. This is well in excess of current depressed spot prices but still well below the prices required for our Australian-listed LNG producers to make a reasonable return on their investments. But these economics only hold for as long as Henry Hub prices of US$2.60/mmBTU can be sustained.

Like oil, US gas prices may remain low for a number of years but current levels are too low for even the most prospective acreage to generate an economic return. Marcellus focused producers like Cabot Oil and Gas and EQT Corporation are very-low-cost producers with total costs of US$2-US$2.50/mmBTU. In its June 2019 quarterly update, Cabot flagged its intent to reduce capital expenditures and production growth in favour of maximising value for shareholders and free cashflows. Hardly the actions of a company making super-normal profits.

The situation in the Permian is more difficult to assess as gas is produced alongside oil. Permian producers treat their gas production as a nuisance by-product to their oil production, which is not usually a healthy backdrop for prices, especially as oil production has continued to climb. But there are definitely some early signs that drillers recognise their challenged economics and are positioning their businesses on a more sustainable footing before their bankers force this upon them. While gas prices appear to be too low today, it is hard to know what gas prices will be required to support a sustainable production base.

Investing is difficult and full of uncertainty and risks. The most effective protection remains price. Some but not all of the downside from lower gas prices is already factored into the share prices of Woodside and Oil Search, our two largest exposures to oil and gas markets. But turning the coin over reveals upside which gets us quite excited. Unsustainable economics from oil and gas producers are a necessary backdrop for significantly higher energy prices in future. These might underpin very profitable expansions which both companies expect to undertake and which consumers are likely to support in order to introduce diverse sources of supply (rather than becoming solely reliant on US-sourced LNG or gas from Qatar).

We've worked hard to build a portfolio of companies with expected investment returns skewed to the upside. Our energy investments have taken much longer than we anticipated to generate a return for our investors, but they remain attractive to us and we believe they can contribute handsomely to future returns.

FUND COMMENTARY
QUARTER IN REVIEW

Allan Gray Australia Equity Fund

The Australian share market was up 2.6% for the third quarter, having fallen during August, but recovering to near all-time highs by end September.

The Allan Gray Australia Equity Fund outperformed its ASX 300 benchmark by 1.8% for the last quarter, despite further underperformance in some of the sectors where we have larger exposures. While energy was again one of the weaker sectors (+0.1% for the ASX300 Energy Sector), some of our energy positions bucked the sector trend, with Origin Energy in particular contributing positively. Materials was also one of the weaker sectors, but again our stock selection there contributed positively, with Newcrest and Alumina contributing to outperformance.

In contrast, our largest energy position Woodside Petroleum was the largest detractor from performance. The weakest area of the market from a sector basis was communication services, and our exposure there to Telstra also detracted from performance.

Allan Gray Australia Balanced Fund

The Allan Gray Australia Balanced Fund underperformed its composite benchmark by 0.4% in the third quarter. Overall equity exposure contributed positively to relative returns. Part of the global share exposure is hedged, which detracted from returns as the market rose, but which should provide some protection in those periods where market indices fall. The Fund has around 67% in equities but including the hedging, the total net equity exposure is 59%.

The Fund's exposure to gold contributed positively during the quarter as the gold price rose.

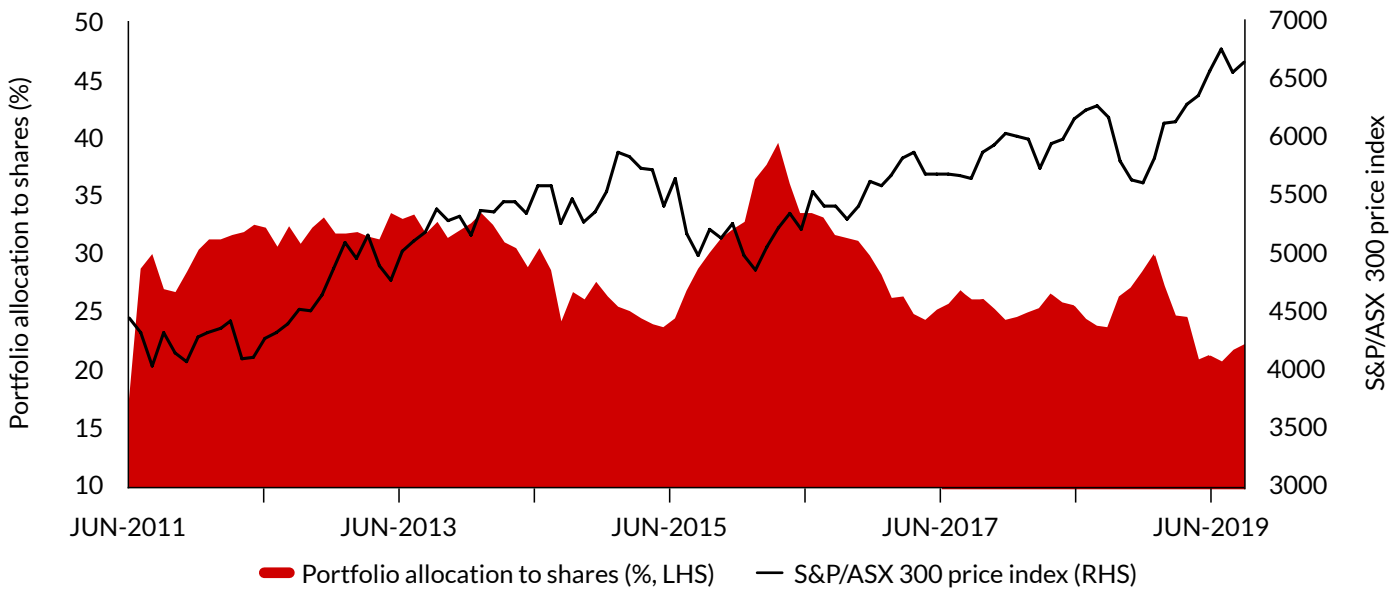
For the roughly 28% of the portfolio currently invested in fixed income and cash, we remain significantly shorter in duration than the benchmark – at around one and a half years versus around seven and a half years for the benchmark. This detracted from relative performance in an environment of falling interest rates. However, the Fund should be more defensively positioned than the benchmark in terms of both relative and absolute returns, in the event interest rates rise.

Allan Gray Australia Stable Fund

The Allan Gray Australia Stable Fund outperformed its RBA cash rate benchmark by 1% in the third quarter.

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. The exposure to shares can range from zero to 50% of the Fund, and the allocation over time is illustrated by the red shaded area in the graph below. As the share market has risen strongly over the course of the year, we have reduced the Fund's overall exposure to shares. At the end of the third quarter, exposure to selected shares remains around the lowest in the history of the Fund at around 23%. We have, however, added to positions in out of favour shares, such as Woodside Petroleum, where we believe the price is too low and good value is on offer.

Graph 4: Stable Fund portfolio weightings – equity allocation falls when there is less value in equities



Source: Allan Gray Australia as at 30 September 2019

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	8.8	6.4	2.4
10 Years	10.3	8.0	2.3
5 Years	11.3	9.6	1.7
3 Years	13.7	11.9	1.8
1 Year	9.5	12.6	(3.1)
NOT ANNUALISED (%)			
Latest Quarter	4.4	2.6	1.8

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	13.3	10.7	2.6
5 Years	11.3	9.6	1.7
3 Years	13.6	11.9	1.7
1 Year	10.2	12.6	(2.4)
NOT ANNUALISED (%)			
Latest Quarter	4.7	2.6	2.1

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 2019

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Woodside Petroleum	169,823	9
Newcrest Mining	142,317	7
Alumina	132,253	7
QBE Insurance Group	125,357	7
National Australia Bank	116,685	6
Origin Energy	104,881	6
Sims Metal Management	95,601	5
Metcash	94,595	5
AMP	91,980	5
Oil Search	88,301	5
Telstra	60,230	3
Aust. and NZ Banking Group	57,038	3
Incitec Pivot	52,753	3
Fletcher Building	45,313	2
Nufarm	37,746	2
WorleyParsons	36,071	2
CSR	35,893	2
Southern Cross Media Group	33,192	2
Coles Group	33,076	2
HT&E	29,866	2
Peet	26,973	1
Asaleo Care	25,410	1
Challenger	21,990	1
CYBG	21,037	1
SKYCITY Entertainment Group	20,305	1
Positions less than 1%	130,256	7
Total Security Exposure	1,828,940	96
ASX SPI 200 ™ Futures Contract (12/2019)†	61,307	3
Net Current Assets	9,832	1
Net Assets	1,900,079	100
Price per unit - Class A (cum distribution)	AUD 1.7291	
Price per unit - Class B (cum distribution)	AUD 1.7325	
Total Assets Under Management for the Australian equity strategy (AUD 000's)‡	AUD 7,026,093	

† 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	7.9	11.0	(3.1)
1 Year	3.0	13.0	(10.0)
NOT ANNUALISED (%)			
Latest Quarter	3.1	3.5	(0.4)

Highest and lowest annual return since public launch

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

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Equity		
Domestic Equity		
Woodside Petroleum	3,100	3
National Australia Bank	2,539	3
Newcrest Mining	2,504	3
QBE Insurance Group	2,094	2
Alumina	2,080	2
Sims Metal Management	1,860	2
Origin Energy	1,819	2
Metcash	1,752	2
Oil Search	1,729	2
AMP	1,602	2
Telstra	1,068	1
Incitec Pivot	1,006	1
Domestic Equity Positions less than 1%	8,808	9
Global Equity		
Taiwan Semiconductor Mfg.	2,016	2
AbbVie	1,803	2
Celgene	1,792	2
BP	1,742	2
British American Tobacco	1,494	2
Royal Dutch Shell	1,309	1
NetEase	1,307	1
Samsung Electronics (Common and Pfd)	1,217	1
Bayer	1,056	1
Global Equity Positions less than 1 %	16,740	18
Total Equity^	62,439	67

^ The Fund holds derivative contracts which reduces the effective net equity exposure to 59%.

BALANCED FUND HOLDINGS

Security	Market Value AUD 000's	% of Fund
Fixed Income		
Domestic Fixed Income		
Australian Government Bonds	17,460	19
Global Fixed Income		
Global Fixed Income Positions less than 1 %	4,316	5
Total Fixed Income	21,776	23
Commodity Linked Investments		
SPDR Gold Trust	4,782	5
Total Commodity Linked Investments	4,782	5
Total Security Exposure	88,996	95
Cash Equivalents and Term Deposits	4,337	5
Net Current Assets	485	1
Net Assets	93,818	100
Price per unit (cum distribution)	AUD 1.1482	

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	6.7	2.3	4.4	4.2
5 Years	5.9	1.7	4.2	3.8
3 Years	5.8	1.5	4.3	4.1
1 Year	3.9	1.4	2.5	3.9
NOT ANNUALISED (%)				
Latest Quarter	1.3	0.3	1.0	0.2

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.

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STABLE FUND HOLDINGS

Fund holdings as at September 2019

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Woodside Petroleum	9,252	3
Origin Energy	7,629	2
Sims Metal Management	6,658	2
Newcrest Mining	6,650	2
Alumina	6,436	2
Metcash	6,329	2
AMP	5,175	1
QBE Insurance Group	5,012	1
Oil Search	4,718	1
National Australia Bank	4,494	1
Positions less than 1%	17,894	5
Total Security Exposure	80,248	23
Cash Equivalents and Term Deposits	272,869	77
Net Current Assets	2,363	<1
Net Assets	355,481	100
Price per unit (cum distribution)	AUD 1.2045	

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. **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.	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.
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.

The source for the MSCI World Index is MSCI Inc. "MSCI" is a trademark of MSCI Inc.

The source for the JP Morgan Global Government Bond Index is J.P. Morgan Securities LLC. "JP Morgan" is a trademark of JPMorgan Chase & Co.

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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ALLANGRAY

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