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Reporting asset allocation in the Balanced and Stable funds

Both the Allan Gray Balanced and Stable funds enjoy some flexibility to invest in assets in each of the major asset classes: Equities, Property, Commodities, Bonds and Money Market Instruments.

The funds' allocation to each of these asset classes will change over time depending on asset prices and our evaluation of the potential returns (and the associated risk) offered by individual assets in each class.

We update the asset allocation tables in our fund fact sheets monthly, but it is unlikely that there will be major changes from month to month unless asset prices are moving significantly.

It has come to our attention that the format we were using to present the funds' asset allocation was not intuitive to all our clients.

New format for asset allocation tables in fund fact sheets

Starting with this month's fact sheets, we have therefore rejigged the asset allocation tables in an effort to communicate clearly and simply the funds' positioning to our clients. The tables on the right are taken from the April fund fact sheets and show the new format for both the Balanced Fund and the Stable Fund.

Hedged Equities and Foreign much clearer

You will notice the inclusion of 'Hedged Equities' alongside the other traditional asset classes. This refers to the portion of the Fund's equity holdings which are hedged or protected against overall stock market declines. The returns which can be expected from this asset class will be approximately equal to prevailing money market interest rates plus equity alpha (or minus equity alpha if it is negative).

Equity alpha is industry jargon for the difference between the return on our portfolio of selected equities and the overall stock market return.

Thus, returns from Hedged Equities are dependent on prevailing short-term interest rates and our stock-picking skill and should not be expected to show much correlation with the returns from the other asset classes over time. The funds have exposure to Hedged Equities in South Africa and also overseas via their investment in the Orbis Optimal SA funds.

Foreign holdings split out more clearly

The asset allocation of the funds' foreign holdings is now much clearer. Current prudential rules limit the foreign holdings of both the Balanced and Stable funds to a maximum of 20%.

Balanced Fund asset allocation as at 30 April 2010

	% of portfolio		
Asset class	**Total**	**SA**	**Foreign**
Net Equities	56.2	44.5	11.7
Hedged Equities	8.2	1.2	7.0
Property	0.2	0.2	-
Commodities (Gold)	3.4	3.4	-
Bonds	8.1	8.1	-
Money Market and Bank Deposits	23.9	22.9	1.0
Total	100.0	80.3	19.7

Stable Fund asset allocation as at 30 April 2010

	% of portfolio		
Asset class	**Total**	**SA**	**Foreign**
Net Equities	13.6	5.8	7.8
Hedged Equities	24.9	14.3	10.6
Property	0.1	0.1	-
Commodities (Gold)	3.8	3.8	-
Bonds	4.6	4.6	-
Money Market and Bank Deposits	53.0	51.5	1.5
Total	100.0	80.1	19.9

Net Equities and total exposure to stock-picking skills

'Net Equities' refers to the Fund's equity holdings which are not hedged. Adding Net Equities and Hedged Equities together provides the total portion of each fund that is exposed to our stock-picking skills (and those of Orbis).

Note that at the end of April, although the Stable Fund has relatively low exposure to Net Equities and therefore to stock market risk, the total exposure to our stock-picking skills of 38.5% is approximately at its long-term average.

The allocation to Net Equities is a quick way to assess the Fund's exposure to potential gains or losses in the overall stock market, before considering the value which may be added (or detracted) by stock picking.

Net equity exposure in the Balanced and Stable funds is currently below each of these funds' historic averages. This reflects our view that at current prices it is difficult to find compelling value in global stock markets.

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