Allan Gray Balanced Fund

ALLANGRAY

Fund managers: Ian Liddle, Duncan Artus, Andrew Lapping, Simon Raubenheimer (Most foreign assets are invested in Orbis funds)
Inception date: 1 October 1999
Class: A

Fund description

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy foreign assets up to a maximum of 25% of the Fund (with an additional 5% for African ex-SA investments). The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 75% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund.

ASISA unit trust category: Domestic - Asset Allocation - Prudential Variable Equity

Fund objective and benchmark

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund's benchmark is the market value-weighted average return of funds in both the Prudential Medium Equity category and the Prudential Variable Equity category (excluding the Allan Gray Balanced Fund).

How we aim to achieve the Fund's objective

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

Suitable for those investors who

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

Minimum investment amounts

Minimum lump sum per investor account:	R20 000
Additional lump sum:	R500
Minimum debit order*:	R500

*Only available to South African residents.

Fund information on 31 October 2012

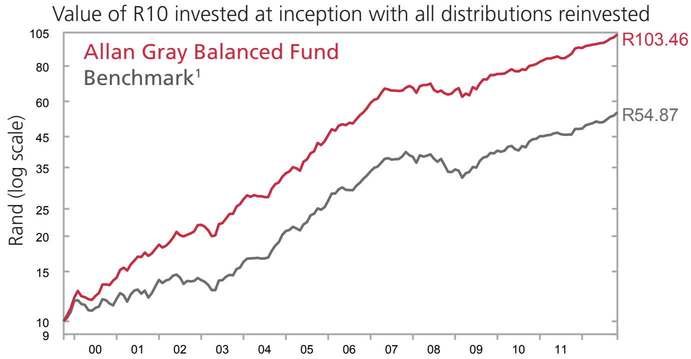
Fund size:	R59 831m
Fund price:	R66.34
Number of share holdings:	93

Income distributions for the last 12 months

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually.	31 Dec 2011	30 Jun 2012
Cents per unit	67.8871	80.1127

Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



% Returns	Fund	Benchmark[1]	CPI inflation[2]
Unannualised:			
Since inception	934.6	448.7	109.8
Annualised:			
Since inception	19.6	13.9	5.9
Latest 10 years	17.4	14.7	5.4
Latest 5 years	9.1	6.7	6.4
Latest 3 years	11.7	11.7	4.8
Latest 2 years	13.4	11.6	5.6
Latest 1 year	12.2	14.6	5.5
Year-to-date (unannualised)	11.8	14.3	4.5
Risk measures (since inception)			
Maximum drawdown[3]	-15.4	-20.5	n/a
Percentage positive months[4]	70.7	69.4	n/a
Annualised monthly volatility[5]	9.5	9.9	n/a

1. The daily average return weighted by market value of funds in both the Domestic Asset Allocation Prudential Medium and Prudential Variable Equity categories excluding the Allan Gray Balanced Fund (Source: Morningstar), performance as calculated by Allan Gray as at 31 October 2012.
2. This is based on the latest numbers published by I-Net Bridge as at 30 September 2012.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 May 2008 to 27 October 2008 and maximum benchmark drawdown occurred from 20 May 2008 to 10 March 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.

Total expense ratio (TER)

The TER for the year ending 30 September 2012 is 1.44% and included in this is a performance fee of 0.18% and trading costs of 0.07%. The annual management fee rate for the three months ending 31 October 2012 was 1.31% (annualised). These figures are inclusive of VAT, where applicable. Fund returns are quoted after deduction of costs incurred within the Fund so the TER should not be deducted from Fund returns (refer to page 2 for further information).

Annual management fee

The annual management fee rate is dependent on the return of the Fund relative to its benchmark, the daily average return weighted by market value of funds in both the Domestic Asset Allocation Prudential Medium and Prudential Variable Equity categories excluding the Allan Gray Balanced Fund, over a rolling two-year period. The fee hurdle (above which a fee greater than the minimum fee of 0.5% is charged) is performance equal to the benchmark minus 5%. For performance equal to the benchmark a fee of 1.0% (excl. VAT) per annum is payable. The manager's sharing rate is 10% of the out- and underperformance of the benchmark over a rolling two-year period and a maximum fee of 1.5% (excl. VAT) applies. The annual management fee is calculated on the daily value of the Fund excluding any assets invested in the Orbis funds. Assets invested in the Orbis funds incur a management fee within the Orbis funds. These fees and other expenses are included in the total expense ratio.

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Fund manager quarterly commentary as at 30 September 2012

Our thoughts are with all who lost loved ones in the tragedy which unfolded in Marikana over the last quarter. Our thoughts are also with any hard-working South Africans who may have been intimidated by threats of violence into staying away from work.

Despite the illegal strikes plaguing the South African gold and platinum mines, the exchange rate barely moved from R8.14 per dollar at the start of the quarter to R8.30 per dollar at quarter-end. This is a surprising outcome until one considers the effect of the inclusion of South African government bonds into Citigroup's World Government Bond Index (WGBI) with effect from 1 October 2012.

Since the announcement of South Africa's eligibility for the WGBI in April 2012, R58 billion has flowed into the domestic South African bond market. Of course, it is not possible to discern what portion of this flow is directly attributable to South Africa's inclusion in this widely tracked index. But whatever the cause, the inflows are significant when considered against the R348 billion South Africa earned from exports for the most recently reported half-year. RSA bonds are rapidly becoming one of our biggest exports.

We should remember that the foreign investment into South African bonds is not intended to be charity – those investors expect a return on their investment. To the extent that their loans are used to invest in infrastructure which expands South Africa's productive capacity and tax base, they will probably rest easy. But to the extent that their loans are being used to fund current expenditure on public servants' wages and social grants, they may have some concerns as to how their loan will ultimately be repaid. In an ironic twist, Moody's downgraded SA bond's on the eve of their inclusion into the WGBI.

While the momentum of flows into South Africa may seem irrepressible right now, it is surely not sustainable. We believe the Fund is relatively well positioned for a reversal in this momentum – the Fund maintains a maximum foreign exposure, a short duration bond portfolio, and a number of shares that should benefit from a weaker rand (all things being equal). Unfortunately we have no way of knowing when this momentum will indeed reverse.

Top 10 share holdings on 30 September 2012 (SA and Foreign) (updated quarterly)

Company	% of portfolio
Sasol	5.5
British American Tobacco	5.0
SABMiller	4.2
Remgro	3.1
Anglo American[6]	2.2
Standard Bank	2.0
Sanlam	2.0
Anglogold Ashanti	1.8
BHP Billiton	1.4
Impala Platinum	1.4
Total	**28.6**

6. Including Anglo American Stub Certificates.

Asset allocation on 31 October 2012

Asset class	Total	SA	Foreign[7]
Net Equity	54.7	43.4	11.3
Hedged Equity	13.0	2.9	10.1
Property	0.8	0.6	0.2
Commodities (Gold)	2.7	2.7	0.0
Bonds	9.3	9.3	0.0
Money Market and Bank Deposits	19.5	15.6	3.9
Total	**100.0**	**74.5**	**25.5[8]**

7. The Fund is above its foreign exposure limit due to market value movements.
8. This includes African ex-SA assets.

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

Minimum	49.3% (February 2000)
Average	63.7%
Maximum	72.7% (July 2004)

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

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Disclaimer

The Fund may be closed to new investments at any time in order to be managed in accordance with its mandate. Permissible deductions may include management fees, brokerage, STT, auditor's fees, bank charges and trustee fees. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. The FTSE/JSE All Share Index is calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Limited ('JSE') in accordance with standard criteria. The FTSE/JSE Africa Series is the proprietary information of FTSE and the JSE. Allan Gray Unit Trust Management (RF) Proprietary Limited ("the Company") is a member of the Association for Savings & Investment SA (ASISA). Allan Gray Proprietary Limited, an authorised financial services provider, is the appointed investment manager of the Company. The Company is incorporated and registered under the laws of South Africa and is supervised by the Financial Services Board. The Company has been approved by the Regulatory Authority of Botswana to market its unit trusts in Botswana, however it is not supervised or licensed in Botswana.

Compliance with Regulation 28

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

Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any permissible deductions from the portfolio divided by the number of units in issue. Forward pricing is used and Fund valuations take place at approximately 16:00 each business day. Purchase and redemption requests must be received by the manager by 14:00 each business day to receive that day's price. Fluctuations and movements in exchange rates may also cause the value of underlying international investments to go up or down.

Fees

A schedule of fees, charges and maximum commissions is available on request from the manager. Commission and incentives may be paid and if so, would be included in the overall costs.

TER

*TERs are shown for class A units only

The Total Expense Ratio (TER) is the percentage of the fund's average assets under management that has been used to pay the fund's operating expenses over the past year. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), trading costs (including brokerage, STT, STRATE and insider trading levy), VAT and other expenses. Since unit trust expenses vary, the current TER cannot be used as an indication of future TERs. All Allan Gray performance figures are quoted after the deduction of costs incurred within the Fund so the TER is not a new cost. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. TERs should then be used to evaluate whether the Fund performance offers value for money.

Performance

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. Performance figures are from Allan Gray Proprietary Limited and are for lump sum investments with income distributions reinvested.