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.

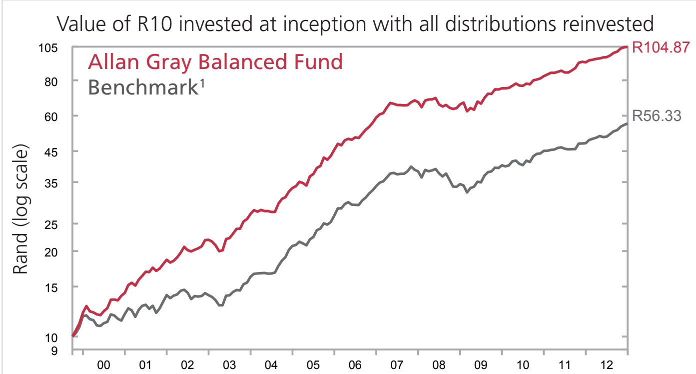
Fund information on 31 December 2012

Fund size:	R61 653m
Fund price:	R67.25
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.	30 Jun 2012	31 Dec 2012
Cents per unit	80.1127	63.4551

Performance net of all fees and expenses



% Returns	Fund	Benchmark[1]	CPI inflation[2]
Unannualised:			
Since inception	948.7	463.3	111.7
Annualised:			
Since inception	19.4	13.9	5.9
Latest 10 years	16.9	15.0	5.3
Latest 5 years	9.4	8.1	6.3
Latest 3 years	11.9	12.0	5.1
Latest 2 years	12.6	11.7	5.8
Latest 1 year	13.4	17.3	5.6
Year-to-date (unannualised)	13.4	17.3	5.4
Risk measures (since inception)			
Maximum drawdown[3]	-15.4	-20.5	n/a
Percentage positive months[4]	71.1	69.8	n/a
Annualised monthly volatility[5]	9.5	9.8	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 December 2012.
2. This is based on the latest numbers published by I-Net Bridge as at 30 November 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 December 2012 was 1.42% (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 31 December 2012

The Fund has delivered another year of inflation-beating returns. Over 2012, it returned 13.4% - substantially exceeding the CPI inflation rate of 5.6%. Since its inception over 12 years ago, the Fund has returned 19.4% per year in comparison with CPI inflation over the same period of 5.9% per year. We are pleased that the Fund has beaten CPI inflation so decisively, but we must confess to being somewhat surprised by the margin of 'victory'.

The Fund has been helped in no small part by a fantastic bull market in South African shares, property and bonds for most of its existence. When the Fund was launched in October 1999, long-dated government bonds yielded 15%, listed property yielded 16%, and the FTSE/JSE All Share Index (ALSI) was priced at 6 629. In early January 2013, long bonds are yielding 6.8%, listed property is yielding 6.4% and the ALSI has just exceeded 40 000 points (up six times).

We are confident that this bull market in South African assets cannot continue forever, but we have relatively little confidence in predicting when the market will turn. Rather than try to time the market, we constantly re-evaluate the prospective long-term returns from all assets in our universe based on their current market prices. All else being equal: the higher the current price, the lower the prospective returns.

As the bull market has marched on, we have responded by 'taking money off the table' from our winning positions in South African assets by increasing the Fund's foreign exposure as the prevailing regulations have allowed, selling South African shares and hedging South African stock market exposure. While this has resulted in the Fund's returns lagging the returns of the average fund in its sector over the last year, we believe that the Fund has assumed less risk of capital loss than the average fund in its sector. We believe that this disciplined approach is the best way to maximise the Fund's returns over the long term (which typically includes both bull and bear markets).

Top 10 share holdings on 31 December 2012 (SA and Foreign) (updated quarterly)

Company	% of portfolio
Sasol	5.4
British American Tobacco	5.0
SABMiller	4.2
Remgro	3.1
Standard Bank	2.4
Anglo American[6]	2.3
Sanlam	2.1
Anglogold Ashanti	1.5
BHP Billiton	1.5
Impala Platinum	1.4
Total	**28.8**

6. Including Anglo American Stub Certificates.

Asset allocation on 31 December 2012

Asset class	Total	SA	Foreign
Net Equity	54.7	43.7	11.0
Hedged Equity	13.4	3.0	10.4
Property	0.8	0.6	0.2
Commodities (Gold)	2.5	2.5	0.0
Bonds	10.3	10.3	0.0
Money Market and Bank Deposits	18.3	14.8	3.4
Total	**100.0**	**75.0**	**25.0**[7]

7. 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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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.