Allan Gray Bond Fund

Fund managers: Sandy McGregor, Andrew Lapping
Inception date: 1 October 2004
Class: A

Fund description

The Fund invests in South African interest bearing securities. Securities include national government, parastatal, municipal, corporate bonds and money market instruments. The Fund price is sensitive to interest rate movements because of the long-term nature of the Fund's investments. The duration of the Fund may differ materially from the benchmark. The Fund is managed to comply with regulations governing retirement funds.

ASISA unit trust category: Domestic - Fixed Interest - Bond

Fund objective and benchmark

The Fund aims to provide investors with a real return over the long-term and outperform the All Bond Index at no greater risk.

How we aim to achieve the Fund's objective

We formulate a view of the long-term inflation rate. This forecast together with an estimate of a reasonable real return requirement for bond investors is used to determine a fair value for the various bonds in the South African market. The assets in the fund are then optimised to give investors the highest returns based on the managers fair value estimates.

Suitable for those investors who

- Seek a bond 'building block' for a diversified multi-asset class portfolio
- Are looking for returns in excess of those provided by money market or cash investments
- Are prepared to accept more risk of capital depreciation than in a money market or cash investment

Minimum investment amounts

Minimum lump sum per investor account:	R20 000
Minimum lump sum per fund:	R5 000
Minimum debit order per fund*:	R500
Additional lump sum per fund:	R500

*Only available to South African residents.

Annual management fee

The annual management fee rate is dependent on the return of the Fund relative to its benchmark, the BEASSA Total Return All Bond Index (adjusted for fund expenses and cash flows) over a rolling one-year period. The fee hurdle (above which a fee greater than the minimum fee of 0.25% is charged) is performance equal to the benchmark. The manager's sharing rate is 25% of the outperformance of the benchmark over a rolling one-year period with a maximum fee of 0.75% (excl. VAT) per annum.

Fund information on 31 July 2011

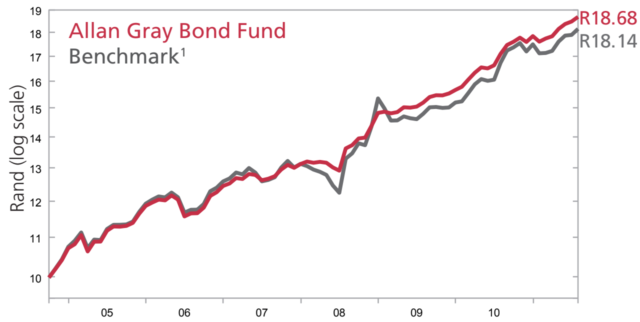
Fund size:	R329m
Fund price:	R10.82
Number of holdings:	43
Fund duration (years):	4.36
Gross yield (before fees as at 31 July 2011):	8.11%

Income distributions for the last 12 months

Actual payout, the Fund distributes quarterly	30 Sept 2010	31 Dec 2010	31 Mar 2011	30 Jun 2011
Cents per unit	21.3259	21.2260	20.9568	21.1033

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	86.8	81.4	50.1
Annualised:			
Since inception	9.6	9.1	6.2
Latest 5 years	9.9	9.1	6.9
Latest 3 years	11.1	10.9	5.4
Latest 2 years	10.8	10.7	4.6
Latest 1 year	9.3	8.5	5.0
Risk measures (Since inception)			
Maximum drawdown[3]	-5.8	-8.4	
Percentage positive months[4]	76.8	70.7	
Annualised monthly volatility[5]	4.7	6.8	

1. All Bond Index (Source: I-Net Bridge), performance as calculated by Allan Gray as at 31 July 2011.
2. This is based on the latest numbers published by I-Net Bridge.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 25 April 2006 to 26 June 2006 and maximum benchmark drawdown occurred from 15 January 2008 to 1 July 2008. 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 June 2011 is 0.38% and included in this is performance fee of 0.05% and trading costs of 0%. The annual management fee rate for the 3 months ending 31 July 2011 was 0.35% (annualised). These figures are inclusive of VAT. 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).

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Fund manager commentary

As at 30 June 2011:

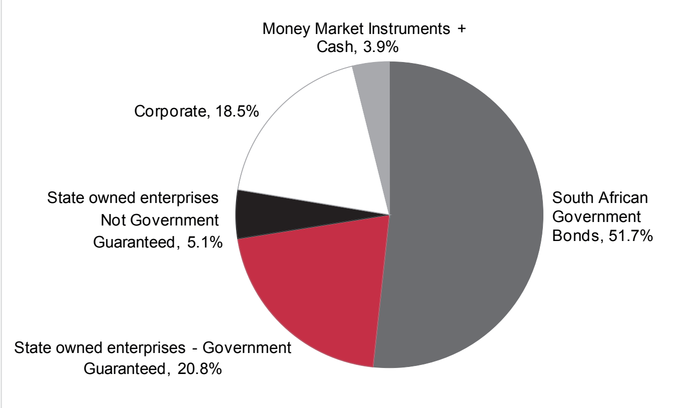
Foreign buying and selling is a significant determinant of prices in the South African bond market. The spread between the benchmark US bond yields and South Africa has in recent years contracted as offshore investors perception of the relative risk of investing in South Africa has improved. For the past three years the South African 10 year government bond has consistently traded at about 5.25% higher than the equivalent US bond. Deflationary pressures have depressed the yield on US and German bonds and SA bonds have followed suit. This benign environment has been underpinned by an appreciating rand and declining inflation.

There is no inevitability that this relationship between South Africa and the rest of the world will be sustained. In particular there are risks that inflation will now surprise on the upside, reflecting extremely rapid growth in domestic wages. The transmission mechanism of excessive wage growth into prices will ultimately take place through the exchange rate. A significant depreciation of the rand will be followed by a big rise in domestic prices which would force the SARB to raise interest rates.

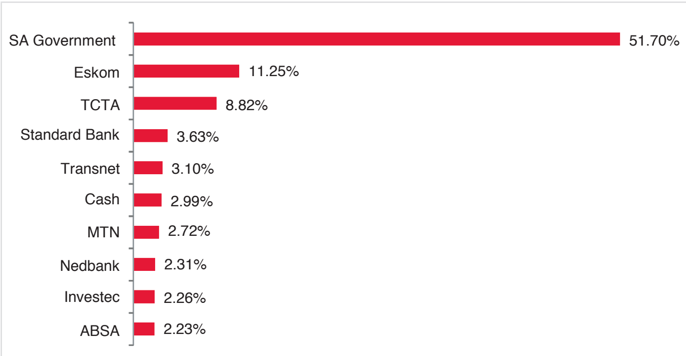
To some extent the bond market is pricing in these risks through a very steep yield curve. The managers of your fund have taken advantage of this to maintain a relatively high yield. However they also have for the past three years reduced risk by maintaining duration significantly below that of the ALBI benchmark.

The Fund's assets reflect a conservative attitude to credit risk, at the end of June 2011. About 72% of the portfolio was in government or government guaranteed issues.

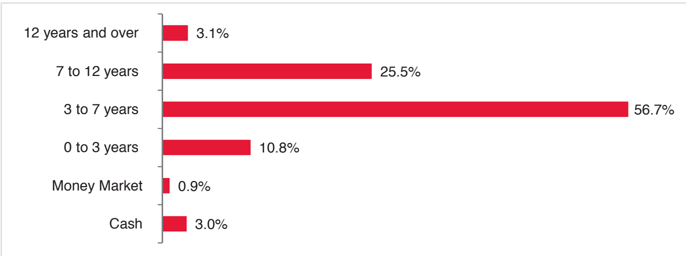
Fund allocation on 31 July 2011



Top 10 credit exposure on 31 July 2011



Maturity profile on 31 July 2011



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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 market value fluctuations or capital withdrawals, in which case they will be corrected within a reasonable time period. Allan Gray Unit Trust Management Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of Annexure A 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.

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 Limited (GIPS compliant) and are for lump sum investments with income distributions reinvested.