

Allan Gray Bond Fund

ALLAN GRAY

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
 Additional lump sum: R500
 Minimum debit order*: 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.

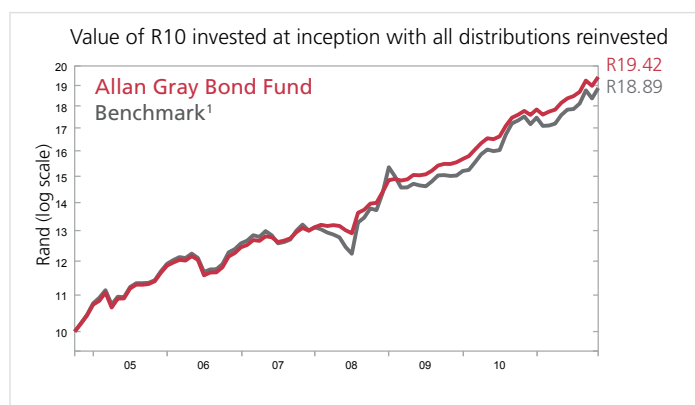
Fund information on 31 October 2011

Fund size: R434m
Fund price: R11.04
Number of holdings: 45
Fund duration (years): 4.41
Gross yield (before fees): 7.53%

Income distributions for the last 12 months

Actual payout, the Fund distributes quarterly	31 Dec 2010	31 Mar 2011	30 Jun 2011	30 Sept 2011
Cents per unit	21.2260	20.9568	21.1033	20.0630

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	94.2	88.9	52.3
<i>Annualised:</i>			
Since inception	9.8	9.4	6.2
Latest 5 years	9.8	9.0	6.8
Latest 3 years	11.6	11.2	5.0
Latest 2 years	12.0	12.2	4.5
Latest 1 year	9.2	7.7	5.7
Year-to-date (unannualised)	8.8	8.0	5.1
Risk measures (since inception)			
Maximum drawdown ³	-5.8	-8.4	n/a
Percentage positive months ⁴	76.5	70.6	n/a
Annualised monthly volatility ⁵	4.8	6.9	n/a

1. All Bond Index (Source: I-Net Bridge), performance as calculated by Allan Gray as at 31 October 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 September 2011 is 0.46% and included in this is performance fee of 0.14% and trading costs of 0%. The annual management fee rate for the three months ending 31 October 2011 was 0.74% (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).

Fund manager quarterly commentary as at 30 September 2011

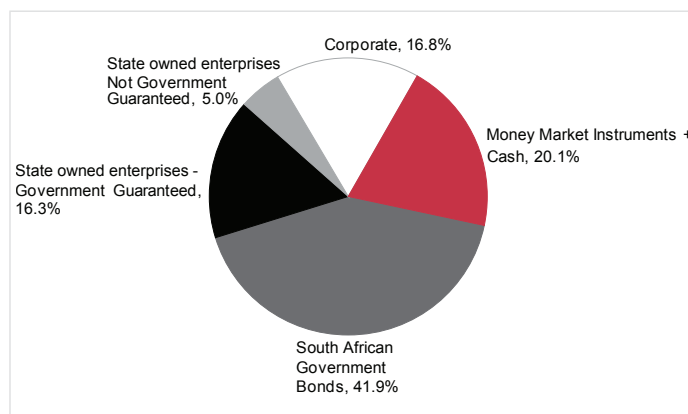
The yields on South African bonds are influenced significantly by foreign investment flows. During September foreigners have been net sellers, driving up the yield on the 10-year bond from 7.6% to 8.4%.

The selloff was precipitated by the European fiscal crisis and a significant slowdown in the fast growing countries of Asia. The political news flow from South Africa may also have had an adverse effect. Capital outflows have caused the rand to weaken. Rising import prices will reinforce inflationary pressures brought about by parastatal tariff hikes and big increases in labour costs. Inflation is likely to be much higher than the targeted 6%. The Reserve Bank has become concerned about stagnant domestic business conditions. Accordingly, the Monetary Policy Committee is likely to delay putting up rates as long as it can. However, the trend in inflation will ultimately require a rise in rates.

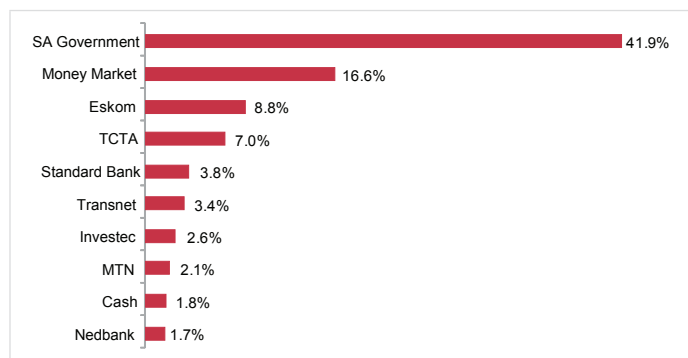
These risks are priced into the yield curve, which is very steep. At the end of September the 25-year government bond yield was 9.0% with call money at 5.5%. Investors are now offered some compensation for the risks associated with buying long-dated assets. Therefore while the duration of the Fund is still below its All Bond Index benchmark, we have taken advantage of the recent selloff to buy certain higher yield long-dated bonds.

The Fund's assets reflect a conservative attitude to credit risk.

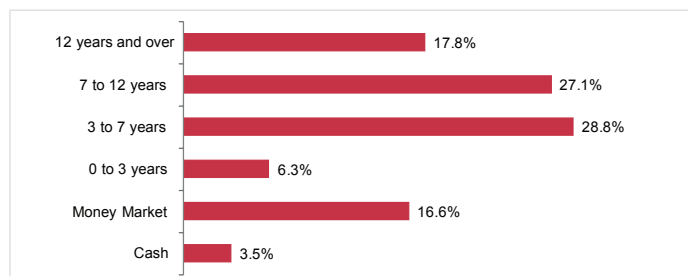
Fund allocation on 31 October 2011



Top 10 credit exposure on 31 October 2011



Maturity profile on 31 October 2011



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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. Allan Gray Unit Trust Management 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 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.

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