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 investment limits governing retirement funds.

ASISA unit trust category: South African - Interest Bearing - Variable Term

Fund objective and benchmark

The Fund aims to provide investors with a real return over the long-term and outperform the BEASSA 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.

Fund information on 28 February 2014

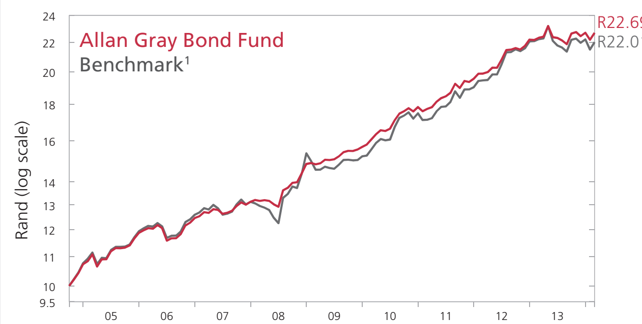
Fund size:	R625m
Fund price:	R11.00
Number of holdings:	58
Fund duration (years):	5.3
Gross yield (before fees):	8.6%

Income distributions for the last 12 months

Actual payout, the Fund distributes quarterly	31 Mar 2013	30 Jun 2013	30 Sept 2013	31 Dec 2013
Cents per unit	19.2730	20.2218	20.3667	20.3958

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	126.9	120.1	72.2
Annualised:			
Since inception	9.1	8.7	6.0
Latest 5 years	8.9	8.6	5.4
Latest 3 years	8.5	8.7	5.8
Latest 2 years	6.8	6.4	5.6
Latest 1 year	1.6	-1.0	5.8
Year-to-date (unannualised)	0.0	-0.9	0.7
Risk measures (since inception)			
Maximum drawdown[3]	-7.3	-10.1	n/a
Percentage positive months[4]	73.5	70.8	n/a
Annualised monthly volatility[5]	5.0	6.9	n/a

1. All Bond Index (source: I-Net Bridge), performance as calculated by Allan Gray as at 28 February 2014.
2. This is based on the latest numbers published by I-Net Bridge as at 31 January 2014
3. Maximum percentage decline over any period. The maximum drawdown occurred from 9 May 2013 to 22 August 2013 and maximum benchmark drawdown occurred from 9 May 2013 to 22 August 2013. 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.

Annual management fee and total expense ratio (TER)

The fee rate is calculated daily by comparing the Fund's total performance over the last year, to that of the benchmark adjusted for Fund expenses and cash flows.

Minimum fee: 0.25% p.a. excl. VAT

If the Fund outperforms its benchmark, for each percentage of performance above the benchmark we add 0.25% to the minimum fee to a maximum fee of 0.75% p.a. excl. VAT. The fee rate is applied to the daily value of the Fund.

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 12 month period.

Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 2 for further information).

TER breakdown for the year ending 31 December 2013	%
Fee for benchmark performance	0.25
Performance fees	0.23
Other costs including trading costs	0.02
VAT	0.07
Total expense ratio	**0.57**

Fund manager quarterly commentary as at 31 December 2013

Over the past year South African bonds have moved in lockstep with international bond prices. This is not surprising given that foreigners own about 35% of bonds issued by the SA government. Bond yields have been depressed by central banks in developed countries, which have set short-term interest rates close to zero, and in the case of the US Federal Reserve and Bank of Japan, have been actively buying bonds to depress long-term yields. It is widely agreed that such policies will not be sustainable in the longer term, and international bond investors are increasingly focusing on the timing of a return to more normal monetary policy. 'More normal' probably means that globally interest rates will rise.

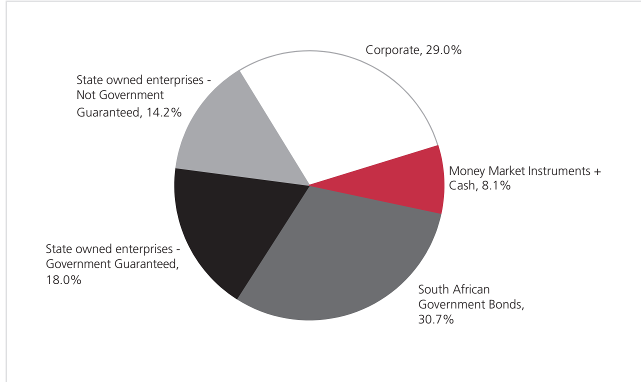
During 2013, along with other emerging markets, South African bonds sold off, partly due to concerns regarding global rates, but also because investment flows into emerging markets declined significantly. South Africa's current account deficit is currently running at more than 6% of GDP, which is depressing the rand. Financial stability in South Africa is dependent on maintaining the confidence of foreign investors. Capital flight would have an adverse impact on interest rates, inflation and the rand.

South Africa is experiencing stagflation – a weak economy and significant inflationary pressures caused by a declining rand. It is difficult to conduct monetary policy in these circumstances. The economy is too weak to raise rates, but inflation too high to allow a cut in rates. So interest rates will remain unchanged until something significant happens.

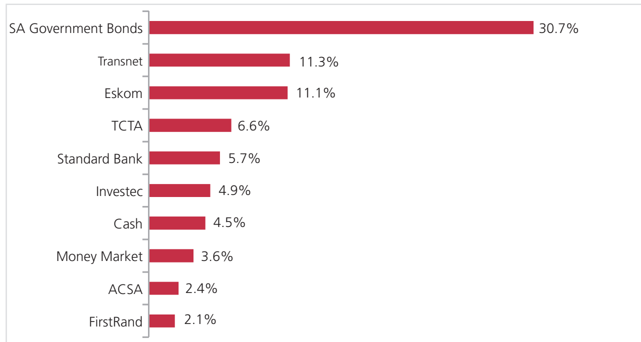
The yield curve is very steep, which creates some value in longer-dated bonds. However, given current uncertainties, the duration of the Fund remains below that of the All Bond Index benchmark.

Commentary contributed by Sandy McGregor

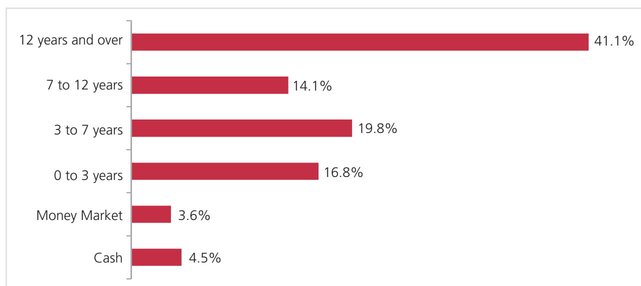
Fund allocation on 28 February 2014



Top 10 credit exposure on 28 February 2014



Maturity profile on 28 February 2014



Tel 0860 000 654 or +27 (0)21 415 2301 Fax 0860 000 655 or +27 (0)21 415 2492 info@allangray.co.za www.allangray.co.za

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 (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.

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

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.