

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 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 JSE 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.

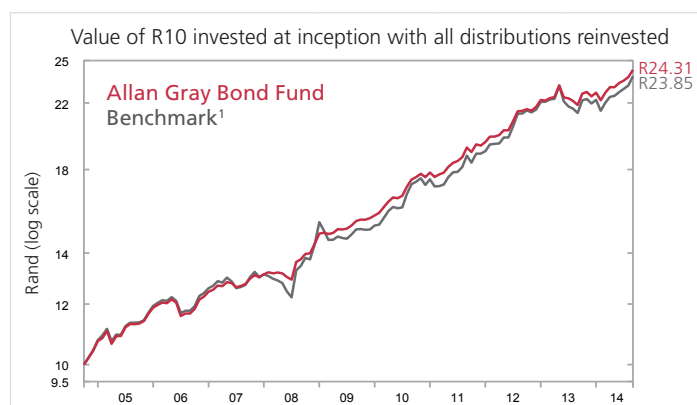
Fund information on 31 August 2014

Fund size: R0.6bn
Fund price: R11.35
Number of holdings: 57
Fund duration (years): 5.4
Gross yield (before fees): 8.3%

Income distributions for the last 12 months

Actual payout, the Fund distributes quarterly	30 Sept 2013	31 Dec 2013	31 Mar 2014	30 Jun 2014
Cents per unit	20.3667	20.3958	20.4900	21.3513

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	143.1	138.5	79.5
<i>Annualised:</i>			
Since inception	9.4	9.2	6.1
Latest 5 years	9.5	9.7	5.3
Latest 3 years	8.1	8.3	5.9
Latest 2 years	6.4	5.8	6.3
Latest 1 year	11.2	11.7	6.3
Year-to-date (unannualised)	7.1	7.4	4.9
Risk measures (since inception)			
Maximum drawdown ³	-7.3	-10.1	n/a
Percentage positive months ⁴	73.9	72.3	n/a
Annualised monthly volatility ⁵	4.9	6.7	n/a

1. JSE All Bond Index (source: I-Net Bridge), performance as calculated by Allan Gray as at 31 August 2014.

2. This is based on the latest numbers published by I-Net Bridge as at 31 July 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 30 June 2014	%
Fee for benchmark performance	0.25
Performance fees	0.46
Other costs including trading costs	0.02
VAT	0.10
Total expense ratio	0.83

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Fund manager quarterly commentary as at 30 June 2014

In June 2014 two rating agencies downgraded South Africa. Standard & Poor's reduced its foreign currency rating to BBB-, with a stable outlook. Fitch left its rating at BBB, but with a negative outlook. What concerns the rating agencies is the failure of the economy to generate meaningful growth, and the political failure to address this issue. The economy grew only 1.9% in 2013 and, as a result of the devastating impact of the platinum strike, contracted at an annual rate of 0.6% in the first quarter of 2014. With the ending of the strike, and provided there are no other disruptive labour disputes, growth should return to the previous rate of 2%. However, the economy is not growing fast enough to ameliorate serious social problems.

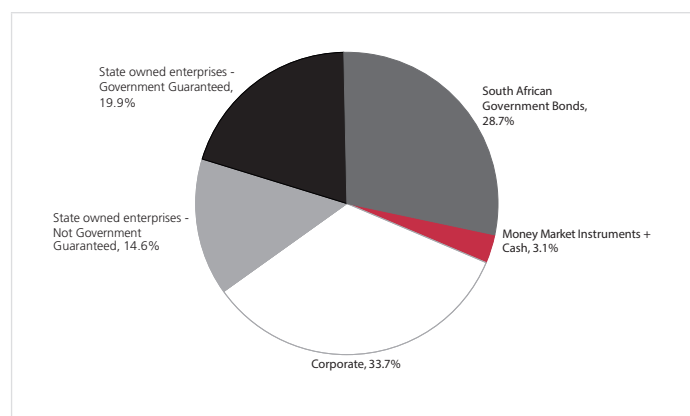
During the past year the rand has weakened significantly, both because the domestic economy has been weak and also because emerging markets in general have been under pressure. Rand depreciation has had an adverse effect on inflation, which increased to 6.6% in May 2014. Given the weak economy, the Reserve Bank has hesitated to further increase interest rates, despite inflation being significantly above its 6% target. However, it has warned that real interest rates are too low, and that an increase in interest rates is probable.

The bond market has been largely unaffected by these events, because the pricing of South African bonds is mainly determined by international, rather than domestic, considerations. After a major sell-off in emerging market debt and currencies earlier in the year, markets have stabilised. The continuing guidance from the US Federal Reserve that US interest rates will remain close to zero for a long time yet has generated renewed interest in emerging markets as an investment destination. Capital flows into South Africa have resumed. However, current US monetary policy is ultimately unsustainable and we come ever closer to the day when the prevailing unconventional monetary policy will be abandoned. South Africa's economic challenges make it vulnerable to a return to normal interest rates in the US, which may disrupt inward capital flows.

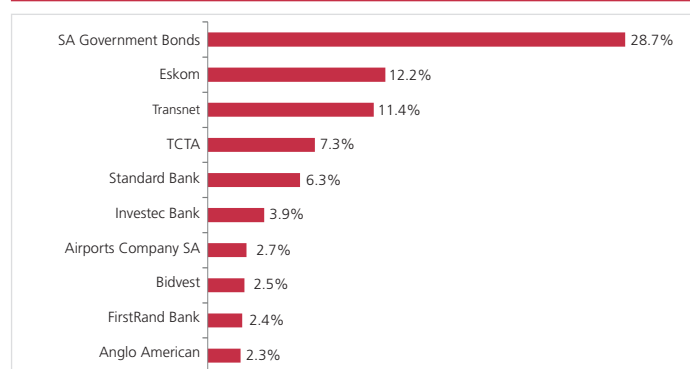
Given these risks, the Fund's portfolio continues to have a duration less than that of its All Bond Index benchmark. However, the steep yield curve prices in these risks to some degree, and the portfolio includes a significant investment in higher-yielding longer-dated bonds.

Commentary contributed by Sandy McGregor

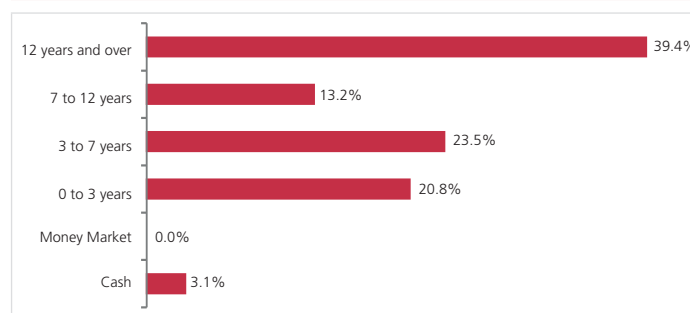
Fund allocation on 31 August 2014



Top 10 credit exposure on 31 August 2014



Maturity profile on 31 August 2014



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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 (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.