

ALLAN GRAY

ALLAN GRAY BOND FUND

Fund managers: Sandy McGregor, Andrew Lapping. **Inception date:** 1 October 2004

Fund description and summary of investment policy

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 |

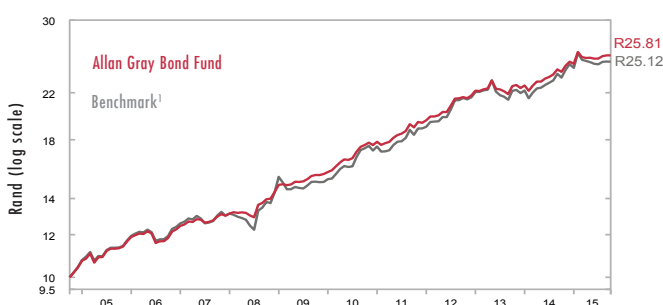
*Only available to investors with a South African bank account.

Fund information on 30 September 2015

| | |
|----------------------------------|-------------------|
| Fund size | R0.6bn |
| Number of units | 53 951 079 |
| Price (net asset value per unit) | R11.13 |
| Fund duration (years) | 5.2 |
| Gross yield (before fees) | 9.0 |
| Class | A |

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 | 158.1 | 151.2 | 88.5 |
| Annualised: | | | |
| Since inception | 9.0 | 8.7 | 6.0 |
| Latest 10 years | 8.6 | 8.3 | 6.2 |
| Latest 5 years | 8.0 | 7.7 | 5.6 |
| Latest 3 years | 6.1 | 5.3 | 5.8 |
| Latest 2 years | 6.8 | 6.4 | 5.5 |
| Latest 1 year | 7.3 | 7.0 | 4.6 |
| Year-to-date (unannualised) | 3.7 | 2.7 | 4.6 |
| Risk measures (since inception) | | | |
| Maximum drawdown ³ | -7.3 | -10.1 | n/a |
| Percentage positive months ⁴ | 72.7 | 68.9 | n/a |
| Annualised monthly volatility ⁵ | 5.1 | 6.9 | n/a |
| Highest annual return ⁶ | 18.0 | 21.2 | n/a |
| Lowest annual return ⁶ | -0.5 | -3.0 | n/a |

1. JSE All Bond Index (source: INET BFA), performance as calculated by Allan Gray as at 30 September 2015.

2. This is based on the latest numbers published by INET BFA as at 31 August 2015.

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.

6. This is the highest or lowest consecutive 12-month returns the Fund has experienced since inception, along with the benchmark performance for the corresponding period. This is a measure of how much the Fund's returns have varied per rolling 12-month period. The highest annual return occurred from 1 February 2014 to 31 January 2015 and the lowest annual return occurred from 1 May 2013 to 30 April 2014. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

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Meeting the Fund objective

Since inception and over the latest 10 and five-year periods, the Fund has outperformed its benchmark, and its returns have exceeded CPI inflation. The Fund aims to take no greater risk than its benchmark. The maximum drawdown and lowest annual return numbers, in the 'Performance net of all fees and expenses' table, show that the Fund has successfully reduced downside risk in periods of negative market returns.

Income distributions for the last 12 months

| Actual payout, the Fund distributes quarterly | 31 Dec 2014 | 31 Mar 2015 | 30 Jun 2015 | 30 Sep 2015 |
|---|-------------|-------------|-------------|-------------|
| Cents per unit | 22.4307 | 22.4315 | 22.2723 | 22.5558 |

Annual management fee

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

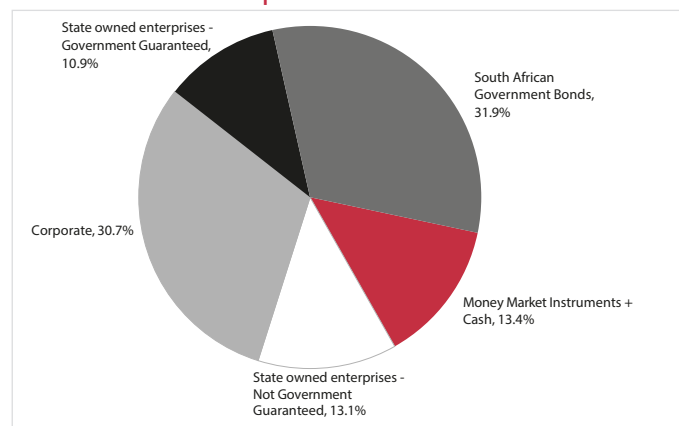
If the Fund outperforms its benchmark, for each percentage of performance above the benchmark we add 0.25% to the minimum fee to a maximum fee of 0.75% p.a. excl. VAT. The fee rate is applied to the daily value of the Fund.

Total expense ratio (TER)

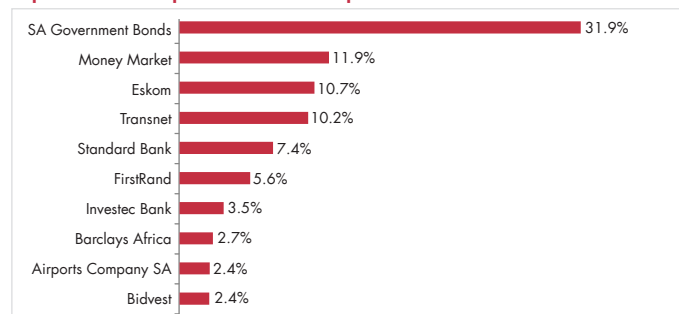
The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 12-month period. Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information).

| TER breakdown for the year ending 30 September 2015 | % |
|---|-------------|
| Fee for benchmark performance | 0.25 |
| Performance fees | 0.07 |
| Other costs including trading costs | 0.02 |
| VAT | 0.05 |
| Total expense ratio | 0.39 |

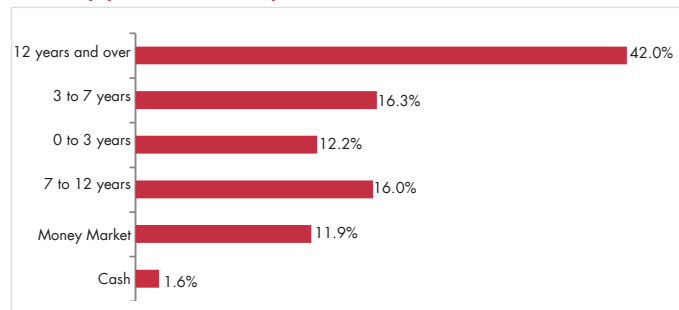
Fund allocation on 30 September 2015



Top 10 credit exposures on 30 September 2015



Maturity profile on 30 September 2015



Note: There may be slight discrepancies in the totals due to rounding.

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Fund manager quarterly commentary as at 30 September 2015

For the past six years the principal determinant of bond yields in South Africa has been the attitude of foreign investors, who have been significant buyers of South African government bonds. Inward investment flows have been influenced more by global economic trends than by specifically South African issues. Since July, this has changed. There has been a major sell-off of emerging market currencies, reflecting concerns regarding emerging market growth prospects and, more specifically, the outlook for China. South African bonds, which previously were highly correlated to changes in US bond prices, have sold off at a time when US bonds have strengthened. Specifically South African issues are likely to play a much bigger role in determining our interest rates than they have in recent years.

South Africa is experiencing serious economic problems. We are not alone: most emerging markets are facing similar challenges. Brazil's credit rating has been downgraded below investment grade by the rating agency Standard & Poor's. The rating agencies have warned the South African Treasury that it must stick to its spending ceiling if it is to avoid a similar fate. Should South Africa lose its investment grade status, the consequences for our bond market could be dire. The Treasury has assured investors that the government will take the necessary steps to avoid this.

After hiking short rates by 0.25% in July, the South African Reserve Bank's Monetary Policy Committee (MPC) chose to leave them unchanged in September. However, the MPC still regards real rates as being too low. Despite recent rand weakness, inflationary pressures remain benign. However, the possibility that inflation will surprise on the upside remains a significant upside risk to the outlook for interest rates.

Our cautious investment stance remains unchanged, with an average duration of 5.2 years compared with the benchmark duration of 7.0. A steep yield curve does provide some compensation for the risks discussed above.

Commentary contributed by Sandy McGregor

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Notes for consideration

Management Company

Allan Gray Unit Trust Management (RF) Proprietary Limited (the 'Management Company') is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates 10 unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board ('FSB'). The Management Company is incorporated under the laws of South Africa and 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. Allan Gray Proprietary Limited (the 'Investment Manager'), an authorised financial services provider, is the appointed Investment Manager of the Management Company and is a member of the Association for Savings & Investment South Africa (ASISA). The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or www.rmb.co.za

Performance

Collective Investment Schemes in Securities (unit trusts or funds) 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 future performance. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

Fund mandate

The Fund may be closed to new investments at any time in order to be managed according to its mandate. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of its market value to bridge insufficient liquidity.

Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund including any income accruals and less any permissible deductions from the Fund 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 Management Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za

Yield

The Allan Gray Bond Fund yield is current, calculated as at month-end.

Fees

Permissible deductions may include management fees, brokerage, Securities Transfer Tax (STT), auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray.

Total expense ratio (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 actual 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, Securities Transfer Tax [STT], STRATE and FSB Investor Protection Levy), VAT and other expenses. Since Fund returns are quoted after the deduction of these expenses, the TER should not be deducted from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. 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. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money.

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. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).