

Fund managers: Ian Liddle, Duncan Artus, Andrew Lapping, Simon Raubenheimer
Inception date: 1 October 1998
Class: A

Fund description

The Fund invests in shares listed on the Johannesburg Stock Exchange (JSE). The Fund is typically fully invested in shares. Returns are likely to be volatile, especially over short- and medium-term periods.

ASISA unit trust category: Domestic - Equity - General

Fund objective and benchmark

The Fund aims to outperform the South African equity market over the long term, without taking on greater risk. The Fund's benchmark is the FTSE/JSE All Share Index including income.

How we aim to achieve the Fund's objective

We seek to buy shares offering the best relative value while maintaining a diversified portfolio. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. We invest in a selection of shares across all sectors of the JSE, and across the range of large, mid and smaller cap shares.

Suitable for those investors who

- Seek exposure to JSE-listed equities to provide long-term capital growth
- Are comfortable with stock market fluctuation, i.e. short- to medium-term volatility
- Are prepared to take on the risk of capital loss
- Typically have an investment horizon of more than five years
- Wish to use the Fund as an equity 'building block' in a diversified multi-asset class portfolio

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 FTSE/JSE All Share Index including income (adjusted for Fund expenses and cash flows), over a rolling two-year period. The fee hurdle (above which a fee greater than the minimum fee of 0% is charged) is performance equal to the benchmark minus 15%. For performance equal to the benchmark a fee of 1.5% (excl.VAT) per annum is payable. The manager's sharing rate is 10% of the out- and underperformance of the benchmark over a rolling two-year period and a maximum fee of 3% (excl.VAT) applies.

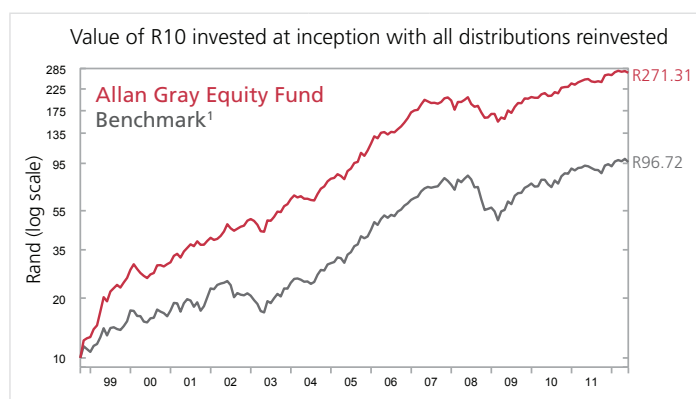
Fund information on 31 May 2012

Fund size: R28 759m
Fund price: R209.58
Number of share holdings: 91

Income distributions for the last 12 months

To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually.	30 Jun 2011	31 Dec 2011
Cents per unit	179.2718	62.9228

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	2613.1	867.2	110.1
<i>Annualised:</i>			
Since inception	27.3	18.1	5.6
Latest 10 years	19.2	14.8	5.7
Latest 5 years	6.8	5.9	6.8
Latest 3 years	15.7	16.4	5.0
Latest 2 years	14.4	13.8	5.2
Latest 1 year	7.5	5.1	6.1
Year-to-date (unannualised)	2.7	5.1	2.7
Risk measures (since inception)			
Maximum drawdown ³	-31.3	-45.4	n/a
Percentage positive months ⁴	65.9	58.5	n/a
Annualised monthly volatility ⁵	17.0	19.0	n/a

1. FTSE/JSE All Share Index including income (Source: I-Net Bridge), performance as calculated by Allan Gray as at 31 May 2012.
2. This is based on the latest numbers published by I-Net Bridge as at 30 April 2012.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 May 2008 to 27 October 2008 and maximum benchmark drawdown occurred from 22 May 2008 to 20 November 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 31 March 2012 is 2.56% and included in this is a performance fee of 0.74% and trading costs of 0.10%. The annual management fee rate for the three months ending 31 May 2012 was 2.76% (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 31 March 2012

Two of the important concepts underpinning the management of the Fund are relative value and valuation-based investing. Relative value means that the allocation of capital to any share should be assessed in relation to possible alternative investments, which in the case of this Fund are restricted to other shares listed on the JSE. This means that when the overall stock market is expensive, the Fund may have to settle for holding fairly valued, or the least over-valued (in extreme cases) shares listed on the JSE. Valuation-based investing means that the Fund is prepared to allocate capital to any share listed on the JSE if the price at which it can be bought compares more favourably with its intrinsic value than similar comparisons for other listed shares.

The Fund's recent acquisition of shares in BHP Billiton (1.6% of the Fund at quarter-end) illustrates these two principles in action. For some years now, we have been emphasising the risk that a slowdown in Chinese infrastructural investment presents for metal prices, especially iron ore. We continue to see this as a significant risk, and we believe that prices of many metals and the profitability of many mining companies are currently substantially above the normal levels one could expect to see through the full commodity cycle. So what has changed, and why have we bought a position in BHP?

In short, the price of BHP shares has declined significantly relative to other shares which the Fund owns. For example, one year ago BHP closed at R270 per share and SABMiller at R243 per share. At this quarter-end, BHP closed at R234 and SABMiller at R307. The Fund still retains a significantly larger position in SABMiller than in BHP, but we believe that the current prices warrant some holding in BHP.

All the risks that we have previously identified regarding BHP remain valid. But its share price is now somewhat more reflective of these risks with the share trading on less than 10 times earnings. Although steel-making materials (primarily iron ore and coking coal) presently contribute more than half of BHP's profits, we find other characteristics of BHP attractive relative to the South African gold and platinum mines. BHP's mines generally have a longer expected life than the underground South African mines, which will require more capital as mining activity moves deeper, and the risks of 'resource nationalism' are arguably lower for BHP than for South African mines.

When a representative of one of the largest institutional shareholders in BHP is reported to be selling its shares and is quoted by Bloomberg as saying: 'Some of the decisions they are making are very good in terms of long-term strategy but are you going to make money from it in the next three years, which is our investment horizon?', then it is probably time for long-term investors such as ourselves to be taking a closer look at the share.

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Disclaimer

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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 and are for lump sum investments with income distributions reinvested.

Top 10 share holdings on 31 March 2012 (updated quarterly)

Company	% of portfolio
Sasol	10.2
British American Tobacco	8.8
SABMiller	8.6
Remgro	7.5
Standard Bank	5.1
Sanlam	4.7
Anglo American ⁶	3.7
Anglogold Ashanti	3.4
Reinet Investments	3.0
Mondi	3.0
Total	58.1

6. Including Anglo American Stub Certificates.

Sector allocation on 31 March 2012 (updated quarterly)

Sector	% of portfolio	% of ALSI
Oil & gas	10.3	5.0
Basic materials	21.6	30.7
Industrials	11.8	6.5
Consumer goods	22.3	17.8
Health care	2.6	2.2
Consumer services	2.4	10.3
Telecommunications	2.1	6.6
Financials	20.8	20.6
Technology	1.2	0.3
Other	0.7	0.0
Money Market and Bank Deposits	4.2	0.0
Total	100.0	100.0

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