

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: South African - 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.

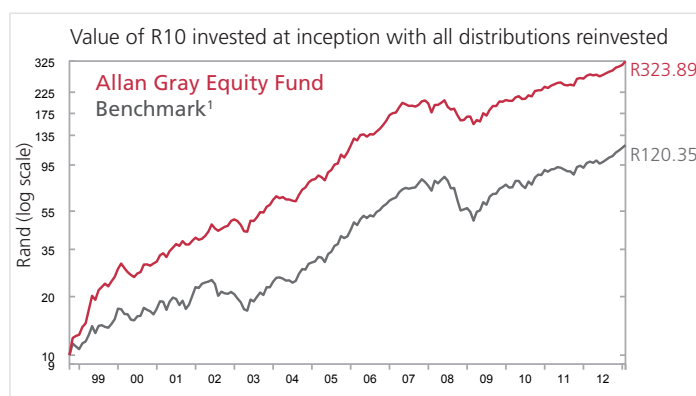
Fund information on 31 January 2013

Fund size: R33 618m
Fund price: R247.33
Number of share holdings: 92

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 2012	31 Dec 2012
Cents per unit	183.8525	69.1269

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	3138.9	1103.5	116.2
<i>Annualised:</i>			
Since inception	27.4	18.9	5.6
Latest 10 years	20.8	19.9	5.3
Latest 5 years	12.9	11.4	6.2
Latest 3 years	16.8	18.3	5.1
Latest 2 years	17.1	17.1	5.9
Latest 1 year	18.6	23.7	5.7
Year-to-date (unannualised)	4.3	3.2	0.2
Risk measures (since inception)			
Maximum drawdown ³	-31.3	-45.4	n/a
Percentage positive months ⁴	67.4	60.5	n/a
Annualised monthly volatility ⁵	16.6	18.6	n/a

1. FTSE/JSE All Share Index including income (Source: I-Net Bridge), performance as calculated by Allan Gray as at 31 January 2013.
2. This is based on the latest numbers published by I-Net Bridge as at 31 December 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 December 2012 is 2.56% and included in this is a performance fee of 0.78% and trading costs of 0.05%. The annual management fee rate for the three months ending 31 January 2013 was 2.48% (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 December 2012

The Fund returned 17.6% for the 2012 calendar year compared with the CPI inflation rate of 5.6%. The bull market in South African shares has rumbled on: the FTSE/JSE All Share Index (ALSI) topped 40 000 points on the first trading day of 2013. For more commentary on the overall market, please refer to the December 2012 fund factsheets for the Allan Gray Balanced and Stable Funds.

The Fund's returns lagged the benchmark ALSI in 2012. A significant portion of this relative underperformance is explained by the drag from the Fund's conservative cash position in rising markets and by its two top holdings, Sasol and British American Tobacco. Despite being one of the Fund's biggest positions, Sasol did not contribute to the Fund's absolute returns as the dividends received from the share were marginally outweighed by the depreciation of the share price. British American Tobacco performed better with an annual total return of 16.4%, but this was not enough to beat the benchmark return of 26.7%. After re-evaluating the investment case for these two companies, we added to the Fund's positions in both over the second half of 2012.

Sasol is priced at just less than nine times historic profits and yields 4.8%. This compares favourably with the P/E of 15 times and dividend yield of 2.8% on the basket of companies that comprise the ALSI. Sasol has a longer reserve life than most traditional oil companies and many South African mines. In Qatar, it has proved itself as a world leading operator of the technology to convert natural gas into liquid fuels. Why is the share priced so cheaply versus the ALSI? The dollar oil price is certainly high compared to its history, but then the rand is arguably also too strong versus the dollar on an inflation-adjusted basis, meaning that the current rand oil price may be closer to its 'normal' level than the dollar oil price. Sasol (like many other South African companies) has been struggling to control cost inflation, but there are some encouraging signs that production stability is returning to its plants. The market's biggest concern now is arguably the potentially huge capital expenditure if the company decides to invest in opportunities in America stemming from the shale gas revolution. We continue to stress to company representatives the importance of sound capital allocation, which will generate appropriate returns in a wide range of possible scenarios.

British American Tobacco is priced at 15 times its estimated profits for 2012. We find it very attractive to buy a business of the quality of BAT on close to a market multiple. Please refer to Quarterly Commentary 2, 2012 for an explanation of why we find the economics of the tobacco industry so attractive. While there are clearly risks arising from aggressive (and not necessarily rational) regulatory actions in some countries, it is important to consider the positives such as the company's flexibility to respond to regulatory changes, its exposure to growing emerging markets and the remaining potential from the company's long-term cost saving programme.

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

Company	% of portfolio
Sasol	10.0
British American Tobacco	9.4
SABMiller	8.0
Remgro	7.2
Standard Bank	5.2
Sanlam	4.7
Anglo American ⁶	4.6
Mondi	3.4
Reinet Investments	3.1
BHP Billiton	3.0
Total	58.5

6. Including Anglo American Stub Certificates.

Sector allocation on 31 December 2012 (updated quarterly)

Sector	% of portfolio	% of ALSI
Oil & gas	10.0	4.1
Basic materials	23.0	28.1
Industrials	11.9	6.2
Consumer goods	21.6	19.4
Healthcare	3.2	2.8
Consumer services	2.7	11.2
Telecommunications	0.8	7.1
Financials	22.3	20.7
Technology	1.2	0.3
Other	0.7	0.0
Money Market and Bank Deposits	2.8	0.0
Total	100.0	100.0

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

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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.