Allan Gray Equity Fund

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.

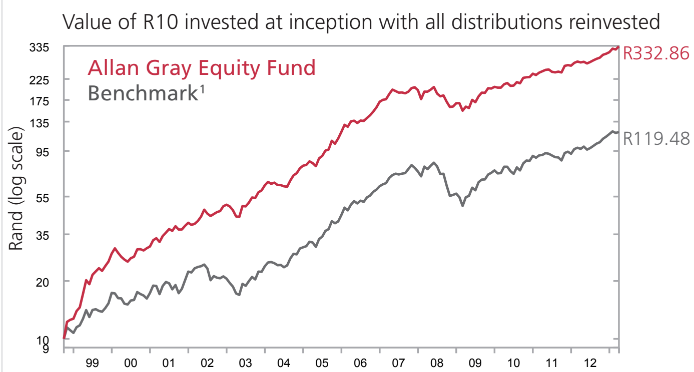
Fund information on 31 March 2013

Fund size:	R34 259m
Fund price:	R254.17
Number of share holdings:	99

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]
Unannualised:			
Since inception	3228.6	1094.8	118.8
Annualised:			
Since inception	27.3	18.6	5.6
Latest 10 years	22.6	21.4	5.3
Latest 5 years	11.5	9.3	6.0
Latest 3 years	16.3	14.9	5.2
Latest 2 years	16.1	14.7	6.0
Latest 1 year	21.2	22.5	5.9
Year-to-date (unannualised)	7.2	2.5	1.3
Risk measures (since inception)			
Maximum drawdown[3]	-31.3	-45.4	n/a
Percentage positive months[4]	67.2	60.3	n/a
Annualised monthly volatility[5]	16.6	18.5	n/a

1. FTSE/JSE All Share Index including income (Source: I-Net Bridge), performance as calculated by Allan Gray as at 31 March 2013.
2. This is based on the latest numbers published by I-Net Bridge as at 28 February 2013.
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 March 2013 was 2.64% (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).

Allan Gray Equity Fund

Fund manager quarterly commentary as at 31 March 2013

Most South African mining stocks extended their underperformance into Q1 of 2013. The severity of the sell-off indicates the extent to which the market has lost/is losing confidence in South African mining companies' capacity to pay future dividends to shareholders to justify their share prices.

The knee-jerk response of a self-described 'contrarian' investor is to buy the oversold mining stocks on the simple thesis that the news can't be this bad forever. But there is a risk that the poor fundamentals may persist for a long time – or at least for longer than many investors can stomach. This risk is exacerbated by what we perceive, up to now, to have been complacency and a reluctance to change amongst many leaders in mining companies, unions and government.

Managers of mining companies generally rate their own performance as good, but this is at odds with their share prices. For example, the managers of one large mining company recently scored more than 100% on their own internal performance measure, but 0% on a total shareholder return measure used to calculate their long-term incentives. Union leaders seem content to see their membership base dwindle as real wage increases and disruptive strikes force the closure of marginal shafts. Regulators appear to be aiming to extract as much as they can from the mining sector, which contrasts with their support for other less labour-intensive industries. There is little sign of enthusiasm for implementing reforms to our labour regulations to make South Africa more competitive.

There are some glimmers of hope. The penny seems to have dropped with the mine managers that shareholders are more interested in sustainable free cash flows and dividends than in fanciful production growth targets. Some managers also appear to be stiffening their resolve to deal firmly and fairly with illegal strikes and indiscipline. National Treasury is keenly aware of the very important role still played by the mining sector in our economy.

The dilemma is that when one carefully studies the performance of mining companies over the last 10 to 15 years, a disturbing picture emerges for many (but not all) companies: an increase in share count, increased debt levels, stay-in-business capital expenditure masquerading as 'growth' capital expenditure, disappointing production and cost performance and surprisingly low generation of free cash for the payment of dividends to shareholders. These poor fundamentals have persisted for so long, that it could be argued that they are 'normal' for the industry. It is very hard to predict whether conditions will change for the better over the next decade; there is a significant probability that they will not.

Therefore, the Fund continues to hold substantial positions in high-quality globally diversified companies such as British American Tobacco and SABMiller. The Fund's 8% exposure to South African gold and platinum miners (including indirectly via Anglo American) reflects our assessment of the current risk-reward balance in these stocks.

Top 10 share holdings on 31 March 2013 (updated quarterly)

Company	% of portfolio
British American Tobacco	10.8
Sasol	10.6
SABMiller	9.2
Remgro	7.1
Standard Bank	4.7
Anglo American[6]	4.4
Sanlam	4.1
Reinet Investments	3.8
BHP Billiton	2.7
Old Mutual	2.7
Total	**60.0**

6. Including Anglo American Stub Certificates.

Sector allocation on 31 March 2013 (updated quarterly)

Sector	% of portfolio	% of ALSI
Oil & gas	10.7	4.4
Basic materials	18.9	27.3
Industrials	12.2	6.9
Consumer goods	24.2	20.1
Healthcare	2.9	3.3
Consumer services	3.3	10.8
Telecommunications	0.7	6.2
Financials	22.5	20.5
Technology	1.2	0.3
Other	0.7	0.1
Money Market and Bank Deposits	2.7	0.0
Total	**100.0**	**100.0**

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

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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.