

Allan Gray Equity Fund

ALLAN GRAY

Fund managers: Ian Liddle, Duncan Artus, Andrew Lapping, Simon Raubenheimer
Associate fund managers: Ruan Stander, Jacques Plaut
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 and total expense ratio (TER)

The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark adjusted for Fund expenses and cash flows.

Fee for performance equal to the Fund's benchmark: 1.50% p.a. excl. VAT

For each percentage of two-year performance above or below the benchmark, we add or deduct 0.1%, subject to the following limits:

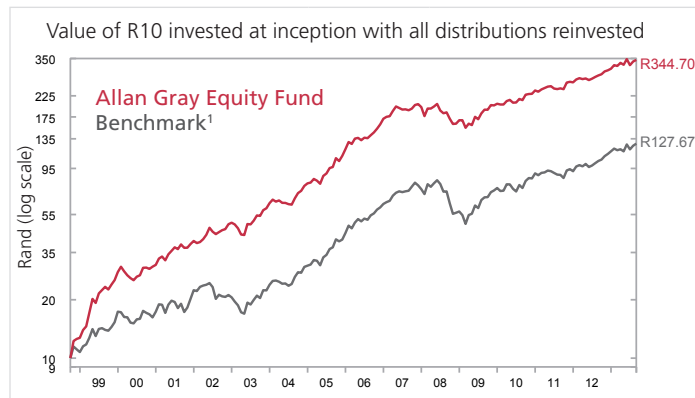
Maximum fee: 3.00% p.a. excl. VAT
Minimum fee: 0.00% p.a. excl. VAT

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark. The fee rate is applied to the daily value of the Fund.

Fund information on 31 August 2013

Fund size: R34 978m
Fund price: R262.80
Number of share holdings: 107

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	3347.0	1176.7	124.6
<i>Annualised:</i>			
Since inception	26.8	18.6	5.6
Latest 10 years	20.3	19.8	5.5
Latest 5 years	13.3	12.0	5.4
Latest 3 years	17.2	19.2	5.5
Latest 2 years	18.4	20.4	5.6
Latest 1 year	20.2	22.8	6.3
Year-to-date (unannualised)	11.0	9.5	4.0
Risk measures (since inception)			
Maximum drawdown ³	-31.3	-45.4	n/a
Percentage positive months ⁴	67.0	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 August 2013.

2. This is based on the latest numbers published by I-Net Bridge as at 31 July 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.

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 2013	%
Fee for benchmark performance	1.50
Performance fees	0.67
Other costs including trading costs	0.07
VAT	0.30
Total expense ratio	2.54

Fund manager quarterly commentary as at 30 June 2013

Many people perceive stock market returns and economic performance to be closely correlated. Our interpretation of the very long-term data is that the link is tenuous at best. There are more important factors, such as the level of competition. For example, a stagnant economy like South Africa's may not attract much new investment, which allows the incumbents to continue earning high returns on capital. A rapidly growing economy like China's may attract substantial investment, which increases competition and depresses returns on capital.

In South Africa the link between our economy and our FTSE/JSE All Share Index (ALSI) is made even more tenuous by the inclusion in the index of large multinational companies, which have grown substantially from their humble South African roots. The top 5 industrial shares, which carry a combined weight of just under one-third of the ALSI, are SABMiller, Richemont, MTN, Naspers and British American Tobacco. South African operations contribute a minority of the profits and value in these companies today.

These five shares have been massive winners over the last decade. Their share price appreciation (before even considering dividends) has been spectacular: SABMiller has moved from US\$7 to US\$49; MTN from US\$2 to US\$19; Naspers from US\$3 to US\$74; BAT from US\$11 to US\$51; Richemont too has been a big winner (after adjusting for its unbundling of BAT). South African investors should be extremely grateful to the management teams of these companies for the value they have created.

The ALSI's heavy weighting to these winners conceals the dismal returns on a number of shares which are much more dependent on South African operations. There has been considerable selling pressure on Anglo American, our gold and platinum mines, construction firms, some unsecured lenders, furniture retailers and even some clothing retailers this year.

This may be a leading indicator of the many challenges which lie ahead for the South African economy. We are concerned about the imbalances and vulnerabilities in the South African economy (simply speaking, we South Africans are, and have been, living beyond our means). Fortunately, our job is not to make economic forecasts, but to allocate capital to a portfolio of JSE-listed shares offering the best long-term value. We have been buying some of the underperforming domestic companies, but we are mindful that the quality of their businesses is generally inferior to that of the multinationals, such as BAT and SABMiller, which remain top 3 positions in the Fund.

Top 10 share holdings on 30 June 2013 (updated quarterly)

Company	% of portfolio
British American Tobacco	11.6
Sasol	11.4
SABMiller	8.7
Remgro	6.3
Standard Bank	5.4
Anglo American ⁶	4.0
Reinet Investments SA	4.0
Sanlam	3.7
Investec	3.0
Old Mutual	3.0
Total	61.2

6. Including Anglo American Stub Certificates.

Sector allocation on 30 June 2013 (updated quarterly)

Sector	% of portfolio	% of ALSI
Oil & gas	11.4	4.7
Basic materials	15.8	23.4
Industrials	11.9	6.8
Consumer goods	24.5	22.1
Healthcare	2.5	3.4
Consumer services	4.1	12.0
Telecommunications	0.8	7.0
Financials	25.1	20.2
Technology	1.2	0.4
Other	0.8	0.1
Money Market and Bank Deposits	1.8	0.0
Total	100.0	100.0

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.	31 Dec 2012	30 June 2013
Cents per unit	69.1269	38.9821

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

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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. The FTSE/JSE All Share Index is calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Limited ('JSE') in accordance with standard criteria. The FTSE/JSE Africa Series is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE All Share Index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved. 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.

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.