

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:

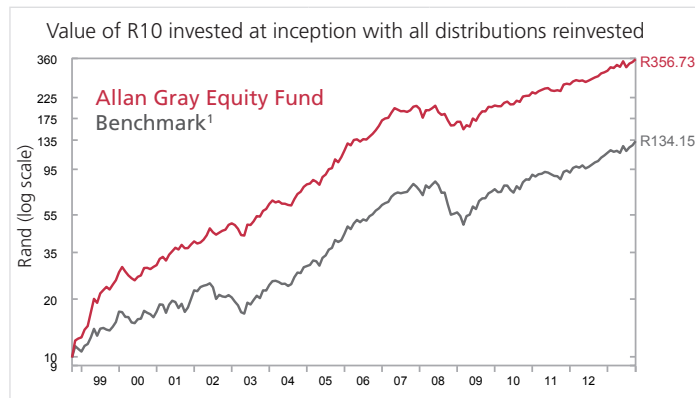
Maximum fee: 3.00% p.a. excl. VAT
Minimum fee: 0.00% p.a. excl. VAT

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 30 September 2013

Fund size: R35 651m
Fund price: R271.97
Number of share holdings: 108

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	3467.3	1241.5	125.3
<i>Annualised:</i>			
Since inception	26.9	18.9	5.6
Latest 10 years	20.8	20.7	5.5
Latest 5 years	15.8	16.4	5.3
Latest 3 years	16.1	17.8	5.6
Latest 2 years	21.0	25.7	5.7
Latest 1 year	22.7	27.0	6.4
Year-to-date (unannualised)	14.9	15.1	4.3
Risk measures (since inception)			
Maximum drawdown ³	-31.3	-45.4	n/a
Percentage positive months ⁴	67.2	60.6	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 30 September 2013.

2. This is based on the latest numbers published by I-Net Bridge as at 31 August 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 September 2013

The biggest active change in the Fund over the past quarter was the purchase of additional Standard Bank shares, now a 7% position in the Fund.

Standard Bank is not outrageously cheap in absolute terms, trading at 1.7 times tangible book value and 11.5 times forward earnings, but in the context of a generally overvalued South African equity market we think it is very attractive for a few reasons. The earnings' base for this 11.5 price to earnings (PE) multiple is not high, unlike many other South African companies. In real terms, earnings are still 9% below the peak achieved in 2008, despite retentions of R16 per share. Off this base there are various factors that lead to a positive outlook for earnings' growth. In South Africa, management did well to take mortgage market share following the global financial crisis by putting good, profitable business on its books while the other banks were still cautious. The bank will also benefit from improved interest margins if the interest rate cycle turns (declining interest rates have been a substantial headwind over the past few years).

Internationally the group has simplified its business and is focusing on areas where it has a competitive advantage, namely Africa, and not the very competitive space of emerging markets in general. It is the African business that sets Standard Bank apart. The bank has been investing in its Africa Strategy for 20 years and this has finally become significant. Investors don't tend to care when a small part of a business is growing rapidly, but suddenly when 19% of the profits come from Africa and the division grows 27% year on year, the market takes note.

What sets Standard Bank apart is the significant presence and actual branch network across a range of African countries. In many cases Standard Bank is the only highly rated, international bank with a branch network, rather than just a representative office, making it the go-to choice for multinationals looking to expand. The business from international customers adds to the solid domestic businesses in these growing markets.

Commentary contributed by Andrew Lapping

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

Company	% of portfolio
Sasol	12.0
British American Tobacco	11.1
SABMiller	8.7
Standard Bank	6.8
Remgro	5.6
Anglo American ⁶	5.3
Reinet Investments SA	3.8
Old Mutual	3.0
Sanlam	2.9
Investec	2.9
Total	62.1

6. Including Anglo American Stub Certificates.

Sector allocation on 30 September 2013 (updated quarterly)

Sector	% of portfolio	% of ALSI
Oil & gas	12.0	4.6
Basic materials	16.7	24.7
Industrials	11.0	6.2
Consumer goods	23.8	23.4
Healthcare	2.2	3.2
Consumer services	3.8	11.9
Telecommunications	0.8	7.0
Financials	25.8	18.7
Technology	1.0	0.4
Commodities	0.2	0.0
Other	0.7	0.0
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

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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

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.