

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 information on 31 December 2013

Fund size: R36 993m
Fund price: R286.96
Number of share holdings: 112

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.

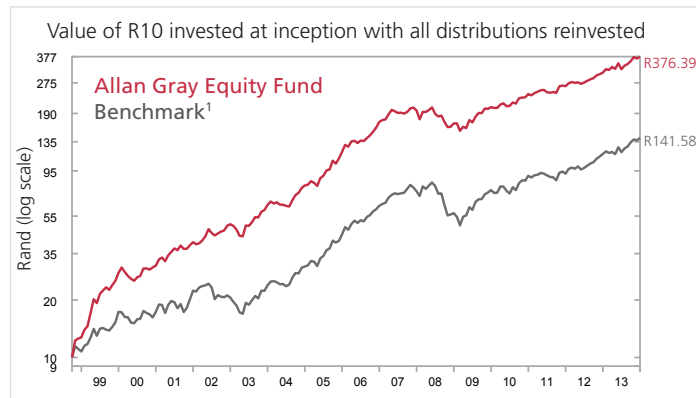
Fee for performance equal to the Fund's benchmark: 1.50% p.a. excl. VAT

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.

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	3663.9	1315.8	127.0
<i>Annualised:</i>			
Since inception	26.9	19.0	5.6
Latest 10 years	19.6	19.5	5.8
Latest 5 years	17.4	19.9	5.3
Latest 3 years	16.2	16.4	5.7
Latest 2 years	19.4	24.0	5.5
Latest 1 year	21.3	21.4	5.3
Year-to-date (unannualised)	21.3	21.4	5.1
Risk measures (since inception)			
Maximum drawdown ³	-31.3	-45.4	n/a
Percentage positive months ⁴	67.2	60.7	n/a
Annualised monthly volatility ⁵	16.5	18.3	n/a

1. FTSE/JSE All Share Index including income (source: I-Net Bridge), performance as calculated by Allan Gray as at 31 December 2013.

2. This is based on the latest numbers published by I-Net Bridge as at 30 November 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 September 2013	%
Fee for benchmark performance	1.50
Performance fees	0.64
Other costs including trading costs	0.07
VAT	0.30
Total expense ratio	2.51

Fund manager quarterly commentary as at 31 December 2013

The FTSE/JSE All share Index (ALSI) produced a real return of 15.4% in 2013, above its long-term average, despite what we believe was an expensive starting point. Returns were driven by a few big shares, as opposed to a broad-based increase.

When evaluating this return, it is important to note that the ALSI is a very concentrated index; currently the largest 10 shares have a weighting of almost 60%. As a result, in pursuit of our goal to outperform the index, what we don't own can sometimes be as important as what we do own. In other words, a few decisions can have an outsized impact on our short-term relative performance when compared to less concentrated markets.

Five of the largest shares had contrasting fortunes, with the industrials – SABMiller, Richemont and Naspers – massively outperforming their two mining counterparts, BHP Billiton and Anglo American, and SAB trailing Richemont and Naspers.

Looking more broadly, resource shares have underperformed industrials to such an extent that they have surrendered almost all of the outperformance from the 1998 low when the commodity bull market began.

What makes this interesting, in our view, is that other than SAB, the fortunes of these big companies are all significantly tied to the evolution of the Chinese economy and the competitive dynamics within it.

Commodity prices (Anglos and Billiton), sales of luxury goods (Richemont) and internet/gaming penetration (Naspers via Tencent) have been buoyed by Chinese demand. While we focus on understanding the underlying economics of each company's business model, it is necessary to have some views on China.

Given our concerns over the sustainability of the commodity intensiveness of Chinese GDP growth, we have been underweight the diversified resource shares, which has been a positive contributor to relative performance. It would have been better to have had even less exposure over the last year.

On the flip side, our concerns about the sustainability of luxury good sales to Chinese consumers and increased competition in the internet sector for Tencent have proved to be unfounded so far. Being underweight these two shares has been a large detractor from relative performance to date.

SAB remains a large position in the portfolio with its ability to sustainably grow its earnings in dollars. While its Chinese operation has the largest beer market share in the country, it is still a small contributor to SAB's total profits, and it has great long-term potential.

Given current valuations we continue to be cautious about the level of expected real returns. But, as always, we concentrate on our investment process to produce returns above that of the market.

Commentary contributed by Duncan Artus

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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.

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

Company	% of portfolio
Sasol	12.2
British American Tobacco	11.1
SABMiller	8.7
Standard Bank	7.6
Remgro	5.6
Anglo American ⁶	4.0
Reinet Investments SA	3.8
Old Mutual	3.3
Investec	3.2
BHP Billiton Plc	2.8
Total	62.4

6. Including Anglo American Stub Certificates.

Sector allocation on 31 December 2013 (updated quarterly)

Sector	% of portfolio	% of ALSI
Oil & gas	12.2	4.6
Basic materials	15.0	23.5
Industrials	11.3	6.2
Consumer goods	23.4	23.3
Healthcare	3.0	3.3
Consumer services	4.0	12.4
Telecommunications	0.8	7.3
Financials	27.2	19.0
Technology	0.9	0.4
Other	0.8	0.0
Commodities	0.2	0.0
Money Market and Bank Deposits	1.2	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.	30 June 2013	31 Dec 2013
Cents per unit	38.9821	195.6494

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