

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:

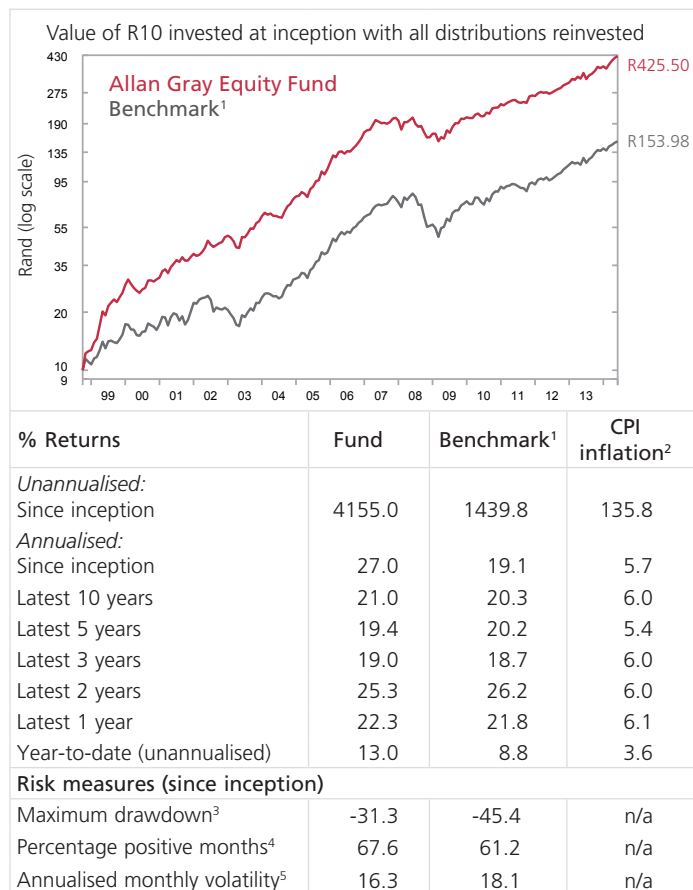
Maximum fee: 3.00% p.a. excl. VAT
Minimum fee: 0.00% p.a. excl. VAT

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 May 2014

Fund size: R40 653m
Fund price: R322.19
Number of share holdings: 109

Performance net of all fees and expenses



1. FTSE/JSE All Share Index including income (source: I-Net Bridge), performance as calculated by Allan Gray as at 31 May 2014.

2. This is based on the latest numbers published by I-Net Bridge as at 30 April 2014.

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 31 March 2014	%
Fee for benchmark performance	1.50
Performance fees	0.24
Other costs including trading costs	0.08
VAT	0.25
Total expense ratio	2.07

Fund manager quarterly commentary as at 31 March 2014

We tend to focus on the Fund's big positions in this commentary. Our choice to hold large positions in British American Tobacco (rather than Richemont), Sasol (rather than BHP Billiton), Standard Bank (rather than MTN) and SABMiller (rather than Naspers) will be an important determinant of the Fund's future relative performance (alpha).

However, more than a quarter of the Fund is invested in small- and mid-cap shares. Any one of these shares could contribute materially to alpha if it appreciates significantly. Of course, their collective impact could be even larger. Each one of these small- or mid-cap shares has been selected by an individually accountable portfolio manager after the share has passed through our research process. These companies operate in a wide range of industries and are often attractive for idiosyncratic rather than thematic reasons. Some of the Fund's small-cap holdings include: Adcorp, Blue Label Telecoms, Clover, Comair, KAP, Net1 UEPS Technologies and Pan African Resources.

We believe that an increasing administrative and regulatory burden on employment services companies will counter-intuitively benefit Adcorp and further entrench its competitive advantage. Blue Label Telecoms is a dominant distributor of prepaid airtime and electricity in South Africa with the potential to expand into other products in SA, and with a reasonable shot at replicating its successful model in Mexico and India. Clover continues to drive efficiencies in its operations and will shortly be adding yoghurt to its product mix. Comair is entrenching its competitive advantage against its weak competitors by investing in more fuel-efficient aircraft and sophisticated IT, which helps the airline to maximise the revenue generated from each flight. KAP is a mini industrial conglomerate which should generate strongly growing free cash flow from supply chain and logistics solutions provider Unitrans, timber company PG Bison and PET (a component in plastic) manufacturer Hosaf. Net1 UEPS Technologies is successfully distributing over R9 billion per month to South Africa's 22 million social grant beneficiaries, but the awarding of the national tender to Net1 has been challenged in the courts. This makes for considerable uncertainty and risk, but we believe the share is attractive on a balance of probabilities. Pan African Resources is showing that with disciplined capital allocation and cost control, South African gold mining companies can pay dividends.

Commentary contributed by Ian Liddle

Top 10 share holdings on 31 March 2014 (updated quarterly)

Company	% of portfolio
Sasol	12.3
British American Tobacco	11.1
SABMiller	8.2
Standard Bank	7.9
Remgro	5.2
Anglo American ⁶	4.3
Reinet Investments SA	4.2
Old Mutual	3.4
Investec	3.1
Sanlam	2.4
Total	62.4

6. Including Anglo American Stub Certificates.

Sector allocation on 31 March 2014 (updated quarterly)

Sector	% of portfolio	% of ALSI
Oil & gas	12.3	5.1
Basic materials	14.8	24.3
Industrials	11.0	6.0
Consumer goods	22.5	22.4
Healthcare	2.8	3.1
Consumer services	4.0	12.2
Telecommunications	0.7	7.0
Financials	28.5	19.5
Technology	0.8	0.3
Other	0.5	0.0
Commodities	0.2	0.0
Money Market and Bank Deposits	2.0	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.

Tel 0860 000 654 or +27 (0)21 415 2301 Fax 0860 000 655 or +27 (0)21 415 2492 info@allangray.co.za www.allangray.co.za

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.