

Allan Gray Equity Fund

ALLAN GRAY

Fund managers: Ian Liddle, Duncan Artus, Andrew Lapping, Simon Raubenheimer

Associate fund managers: Ruan Stander, Jacques Plaut, Leonard Krüger

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.

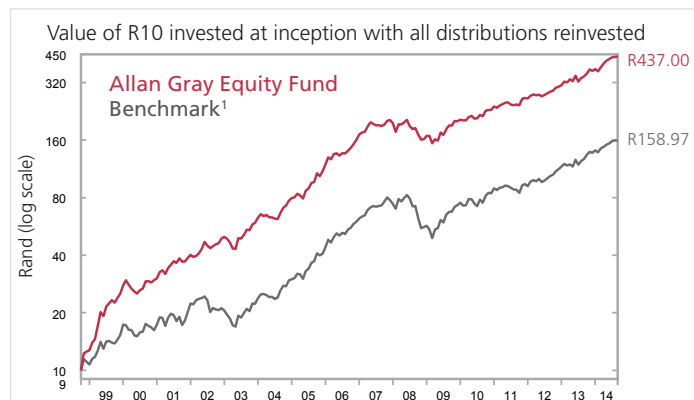
Fund information on 31 August 2014

Fund size: R41.4bn

Fund price: R329.00

Number of share holdings: 111

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	4270.0	1489.7	138.8
<i>Annualised:</i>			
Since inception	26.8	19.0	5.7
Latest 10 years	20.7	19.7	6.0
Latest 5 years	18.0	18.7	5.3
Latest 3 years	21.1	21.7	5.9
Latest 2 years	23.5	23.7	6.3
Latest 1 year	26.8	24.5	6.3
Year-to-date (unannualised)	16.1	12.3	4.9
Risk measures (since inception)			
Maximum drawdown ³	-31.3	-45.4	n/a
Percentage positive months ⁴	68.1	61.3	n/a
Annualised monthly volatility ⁵	16.2	18.0	n/a

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

2. This is based on the latest numbers published by I-Net Bridge as at 31 July 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 30 June 2014	%
Fee for benchmark performance	1.50
Performance fees	0.15
Other costs including trading costs	0.06
VAT	0.24
Total expense ratio	1.95

Fund manager quarterly commentary as at 30 June 2014

The Fund's current active share* is 53%. The top 10 'heavyweight' stocks listed on the JSE are individually significant contributors to this active share. Let's consider eight of them in pairs.

We prefer British American Tobacco (BAT) to Richemont. BAT is trading on a lower multiple, despite it scoring better on metrics related to free cash flow, return on equity (ROE) and dividends, and despite the risk that Richemont's profits are close to a cyclical high.

We prefer Sasol to BHP Billiton. We see more downside risk to iron ore prices than oil prices, as low-cost iron ore mines in Australia and Brazil are expanded. Sasol trades on a lower multiple of our estimate of normal profits, and it has significant scope to become more efficient.

We prefer Standard Bank to MTN. Standard Bank's ROE is low compared to its average over 40 years, and it will improve if its operations in Nigeria and Angola continue to grow into their cost bases. Falling tariffs and call termination rates impair MTN's potential to grow revenues, while necessitating continued high levels of capital spending to carry growing network traffic.

We prefer SABMiller to Naspers. While Naspers' associate, Chinese online gaming and social media company Tencent, is growing strongly, one is already paying for many years of growth when you pay 59 times profits for Naspers. SABMiller may not be growing as fast as Tencent, but it has reasonable prospects for growing its profits as beer consumption expands in emerging markets, and as SABMiller obtains better prices for its beer and continues to grow its profit margins. SABMiller can be bought for 23 times profits, which is high compared to its history, but much lower than the multiple on Naspers.

These 'heavyweight' pairs currently contribute roughly half of the Fund's active share. Just as important as this contribution from the heavyweights, is the collective contribution from the Fund's exposure to smaller companies. Some of the Fund's small and mid-cap picks were discussed last quarter – since then we increased exposure to industrial company KAP, by buying about 10% of the company for our clients in a single transaction.

**Active share is calculated by summing the absolute values of the differences in weight between each share in a fund and the benchmark index, and then dividing the sum by two. It indicates the overall degree of difference between the fund and the index. Active share of 0% indicates that a fund contains only benchmark stocks in exactly the same proportion as the benchmark; its performance would therefore track the index. Active share of 100% represents a fund which is entirely invested in 'fledgling' stocks not included in the FTSE/JSE All Share Index. The measure was devised in 2006 by Martijn Cremers and Antti Petajisto at the Yale School of Management.*

Commentary contributed by Ian Liddle

Top 10 share holdings on 30 June 2014 (updated quarterly)

Company	% of portfolio
Sasol	12.4
British American Tobacco	11.2
SABMiller	8.7
Standard Bank	7.6
Remgro	5.6
Reinet Investments SA	4.3
Anglo American ⁶	3.5
Old Mutual	3.3
Investec	3.1
Netcare	1.8
Total	61.4

6. Including Anglo American Stub Certificates.

Sector allocation on 30 June 2014 (updated quarterly)

Sector	% of portfolio	% of ALSI
Oil & gas	12.4	5.2
Basic materials	13.1	23.1
Industrials	11.9	6.0
Consumer goods	23.4	23.8
Healthcare	3.1	3.2
Consumer services	4.7	12.1
Telecommunications	0.8	6.8
Financials	27.5	19.6
Technology	0.8	0.3
Other	0.3	0.0
Commodity-Linked	0.4	0.0
Money Market and Bank Deposits	1.7	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 2013	30 Jun 2014
Cents per unit	195.6494	187.7617

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.