Allan Gray Equity Fund

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

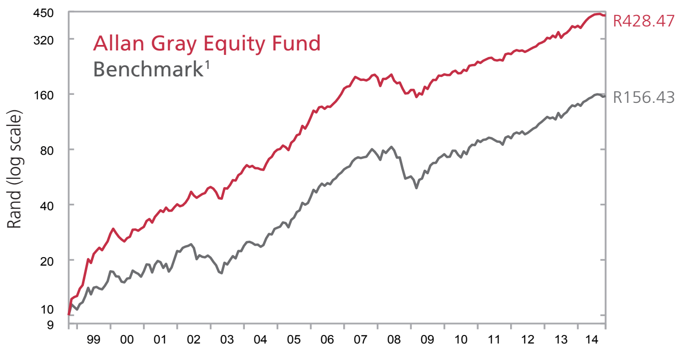
*Only available to investors with a South African bank account.

Fund information on 31 October 2014

Size:	R40.2bn
Price:	R322.59
Number of share holdings:	108

Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



% Returns	Fund	Benchmark[1]	CPI inflation[2]
Unannualised: Since Inception	4184.7	1464.3	139.7
Annualised: Since Inception	26.3	18.6	5.6
Latest 10 Years	19.4	19.0	6.1
Latest 5 Years	16.3	16.9	5.2
Latest 3 Years	17.6	19.0	5.8
Latest 2 Years	19.4	19.2	5.9
Latest 1 Year	14.4	12.5	5.9
Year-to-date (unannualised)	13.8	10.5	5.3
Risk measures (since inception)			
Maximum Drawdown[3]	-31.3	-45.4	n/a
Percentage Positive Months[4]	67.4	61.1	n/a
Annualised Monthly Volatility[5]	16.2	17.9	n/a

1. FTSE/JSE All Share Index including income (source: INET BFA), performance as calculated by Allan Gray as at 31 October 2014.
2. This is based on the latest numbers published by INET BFA as at 30 September 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.

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.

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 2014	%
Fee for benchmark performance	1.50
Performance fees	0.22
Other costs including trading costs	0.05
VAT	0.24
Total expense ratio	**2.01**

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Fund manager quarterly commentary as at 30 September 2014

We have written about the high valuation levels of the FTSE/JSE All Share Index (ALSI) for quite some time. Despite our circumspection, the ALSI has continued along its upward trajectory.

We define the intrinsic value of a company as the present value of unencumbered cash generated by the company over its lifetime. This is the free cash available to shareholders, over and above what is required by the company to sustain its operations.

Since a company's intrinsic value is determined over many years – indeed, decades – it is not a value that fluctuates wildly on a daily basis. With the market climbing as rapidly as it has, the market values (i.e. share prices) of many companies have risen beyond their intrinsic values.

This exposes investors to a risk that we are increasingly concerned about: one of permanently losing capital, should share prices revert back to (or below) their intrinsic values. This risk is proportionate to the gap between market and intrinsic values: the higher the market versus the intrinsic value, the greater the risk.

In the Equity Fund, our primary way of mitigating this risk is to stick to a disciplined valuation-based approach to investing. Valuation-based investing entails allocating capital to the shares that are trading at the most favourable valuations relative to their intrinsic values. Like a beauty contest, it is a relative game, since the Fund is currently restricted to shares that are listed on the JSE. In other words, in an expensive market we may have to settle for holding the least expensive shares.

An unambiguous measure of the cash generating capacity of a company is the history of cash dividends paid to shareholders over time. Sasol, Standard Bank and British American Tobacco (BAT) have managed to grow their dividends much faster than the average company over the past 33 years – by 5.8%, 6.6% and 12.3% in real terms respectively, compared to 1.8% for the ALSI overall; a clear demonstration of the strength of the companies' fundamentals. The 4% difference in growth rates between Sasol and the ALSI may not seem like much, but when compounded over 33 years it means that Sasol now pays out 3.5x more in dividends to shareholders (in real terms) than the ALSI. The difference of course is even more pronounced for Standard Bank and BAT.

Better still for investors, these shares can be bought at cheaper valuations than the market: the average dividend yields for the above three shares are just under 4%, versus the ALSI average of 2.7%. As a result: Sasol, Standard Bank and BAT make up 31.5% of the Equity Fund directly (and around 34.8% indirectly, if Reinet's exposure to BAT is included).

These are not glamorous growth stocks, but steady compounders that will hopefully stand us in good stead irrespective of market conditions.

Commentary contributed by Simon Raubenheimer

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

Company	% of portfolio
Sasol	12.2
British American Tobacco	11.5
SABMiller	8.8
Standard Bank	7.8
Remgro	5.4
Reinet Investments SA	4.3
Old Mutual	3.7
Investec	2.9
Anglo American	2.5
Netcare	1.8
Total	**61.0**

Sector allocation on 30 September 2014 (updated quarterly)

Sector	% of Fund	ALSI
Oil & Gas	12.2	5.2
Basic Materials	11.4	21.7
Industrials	12.2	6.1
Consumer Goods	24.0	23.4
Health Care	3.2	3.7
Consumer Services	4.9	12.0
Telecommunications	0.9	7.3
Financials	27.8	20.2
Technology	0.8	0.4
Commodity-Linked	0.4	0.0
Money Market and Bank Deposits	2.2	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.	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.

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