

Fund manager: Ruan Stander
Inception date: 1 October 2002
Class: A

Fund description

The Fund invests mainly in selected shares and it uses exchange-traded derivative contracts on stock market indices to substantially reduce its net equity exposure to within a range of 0-20%. As a result, the Fund's return depends on the level of short-term interest rates (implicit in the pricing of the sold futures contracts) and the performance of the Fund's selected shares relative to the stock market index. The Fund's return is therefore unlikely to be correlated with equity market returns. In addition, a portion of the Fund is typically invested in cash and margin deposits.

ASISA unit trust category: South African - Multi Asset - Low Equity

Fund objective and benchmark

The Fund aims to provide investors with long-term positive returns higher than those available in the money market sector, irrespective of stock market returns. The Fund's benchmark is the daily interest rate as supplied by FirstRand Bank Limited.

How we aim to achieve the Fund's objective

The Fund invests in selected shares and seeks to substantially reduce stock market risk by selling exchange-traded equity index derivatives. The selected share portfolio is derived from our thorough research process, but the selection of equities in this Fund may differ from that in the other Allan Gray funds by more closely resembling the composition of the indices on which the derivatives contracts are based. The deviation of the Fund's selected share portfolio from the benchmark indices is restricted and closely monitored. This limits, but does not eliminate, the risk of loss should the selected equities underperform.

Suitable for those investors who

- Seek steady absolute (i.e. positive) returns regardless of stock market trends
- Require a high degree of capital stability
- Wish to invest in a product that offers uncorrelated returns relative to shares or bonds as a '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 to that of the benchmark.

Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT

The Fund is first required to recover any underperformance before a fee higher than the fee for performance equal to the benchmark can be charged. This is known as a high watermark. If the Fund's performance is above its previous high watermark, we add 0.2% to the fee for each percentage of performance above the high watermark. The fee is uncapped.

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

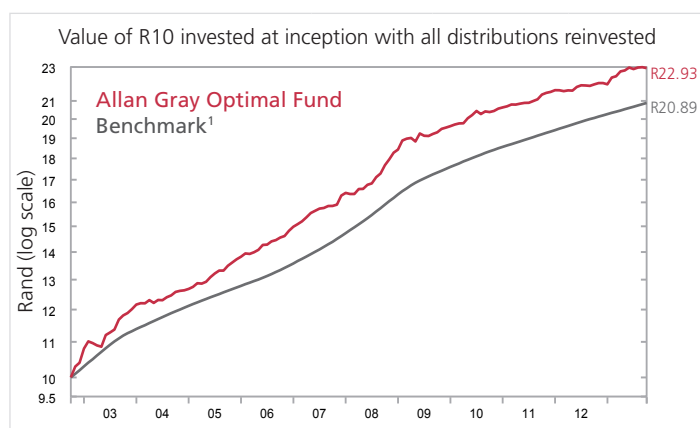
Fund information on 30 September 2013

Fund size: R868m
Fund price: R17.21
Number of share holdings: 42

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 Jun 2013
Cents per unit	17.1315	15.6466

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	129.3	108.9	78.0
<i>Annualised:</i>			
Since inception	7.8	6.9	5.4
Latest 10 years	6.9	6.4	5.5
Latest 5 years	5.4	5.6	5.3
Latest 3 years	4.0	4.4	5.6
Latest 2 years	3.6	4.3	5.7
Latest 1 year	4.5	4.1	6.4
Year-to-date (unannualised)	4.5	3.0	4.3
Risk measures (since inception)			
Maximum drawdown ³	-2.2	n/a	n/a
Percentage positive months ⁴	81.8	100.0	n/a
Annualised monthly volatility ⁵	2.7	0.7	n/a

1. The daily interest rate as supplied by FirstRand Bank Limited (source: FirstRand Bank), 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 25 February 2003 to 27 March 2003. Drawdown is calculated on the total return of the Fund (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.

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	1.00
Performance fees	0.00
Other costs including trading costs	0.08
VAT	0.15
Total expense ratio	1.23

Allan Gray Optimal Fund

ALLAN GRAY

Fund manager quarterly commentary as at 30 September 2013

Relative valuations in the equity market have not changed substantially from the previous quarter and there have not been any significant changes in the Fund's holdings over the period, with the exception of Standard Bank, where the Fund added to an already overweight position following share price weakness. At 11.5 times expected 2013 earnings, Standard Bank is attractively priced relative to the market. It has a dominant market share in South Africa and is well positioned to grow in Africa. Please refer to the Allan Gray Equity Fund commentary for more details on these three points.

The portfolio construction process of the Optimal Fund allows it to hold up to a neutral position in shares that the Equity Fund is underweight should the portfolio manager feel it is an appropriate position for the Fund. This helps to manage the risk of deviating materially from the benchmark. One share where the Optimal Fund differs substantially from the Equity Fund is its neutral position in Naspers, which compares to an underweight position for the Equity Fund. Naspers was purchased at the start of Q3 2012 to offset Naspers' weight in the futures contracts used to hedge the Fund's equity exposure. Naspers' key investment, Tencent, has become increasingly dominant in the Chinese internet sector, and this improves its competitive position and increases the probability of it growing new profit streams from adjacent businesses. The price has rallied significantly since that point, but the Fund has maintained its neutral position.

Tencent itself is trading on 37 times expected profits for 2013, but if one assumes the rest of Naspers is valued on reasonable multiples, the effective price-to-earnings (PE) ratio for a Naspers shareholder on Tencent's expected 2013 earnings is 30 times, which is up 50% from a year ago. However, the PE ratio on the overall market is up by 30% to 18 times earnings. Over the past year it has become increasingly evident that Tencent has a good opportunity to grow new profit streams:

- E-Commerce (15% of Q2 2013 revenue, up 156% on Q2 2012)
- Social Network (9% of Q2 2013 revenue, up 47% on Q2 2012)
- WeChat (a mobile text and voice messaging communication service) has gained more the 300 million users worldwide and has recently launched gaming and e-commerce applications which should be able to contribute to revenue soon.

The probability of Tencent executing on these opportunities and growing into (and perhaps beyond) its current valuation is sufficient to justify a neutral, rather than an effective, short position.

While the Fund has benefited from its neutral position in Naspers, its underweight position in Richemont has been the biggest detractor from returns for the last 12 months (Richemont has doubled over this period). Richemont's sales growth over the last decade has been driven largely by Chinese spending, with revenue up more than 50% in real terms on the previous peak. We think Chinese spending on luxury goods is unlikely to

continue growing at these rates. Richemont is trading at over 20 times earnings, which appear extended relative to its history. We think the underweight position in the share is justified at current levels.

As noted in last quarter's commentary, the Fund continues to favour shares such as British American Tobacco and SABMiller which are among the top overweight positions in the Fund. These are companies which are currently growing earnings, able to operate with good economics and are well diversified globally and thus not overly dependent on revenue streams from South Africa.

Commentary contributed by Ruan Stander

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

Company	% of portfolio
SABMiller	10.5
BHP Billiton	9.6
Sasol	7.1
Naspers	6.5
Compagnie Fin Richemont	6.5
British American Tobacco	5.7
Anglo American	5.7
MTN	4.4
Standard Bank	4.4
Remgro	2.6
Total	63.0

Asset allocation on 30 September 2013

Asset class	Total
Net SA Equities	3.8
Hedged SA Equities	80.6
Property	0.6
Money Market and Bank Deposits	15.0
Total (%)	100.0

Since inception, the Fund's month-end net equity exposure has varied as follows:

Minimum	0.0% (August 2007)
Average	4.5%
Maximum	15.4% (January 2003)

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.