Allan Gray Optimal Fund

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.

Fund information on 31 January 2014

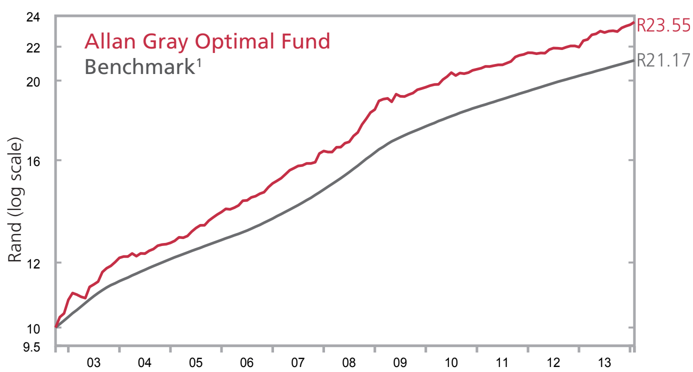
Fund size:	R850m
Fund price:	R17.49
Number of share holdings:	41

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 Jun 2013	31 Dec 2013
Cents per unit	15.6466	19.0309

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	135.5	111.7	79.9
Annualised:			
Since inception	7.9	6.8	5.4
Latest 10 years	6.8	6.3	5.8
Latest 5 years	4.5	5.1	5.4
Latest 3 years	4.4	4.3	5.7
Latest 2 years	4.4	4.2	5.6
Latest 1 year	5.4	4.1	5.4
Year-to-date (unannualised)	0.8	0.3	0.3
Risk measures (since inception)			
Maximum drawdown[3]	-2.2	n/a	n/a
Percentage positive months[4]	82.4	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 31 January 2014.
2. This is based on the latest numbers published by I-Net Bridge as at 31 December 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.

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 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 December 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

Fund manager quarterly commentary as at 31 December 2013

2013 was another fantastic year for equity investors, with the MSCI World index delivering a total return of 57% in rand terms, the highest calendar year return since 1985. The JSE also had a strong year, with the All Share Index (ALSI) returning 21.4%. Valuation levels are close to an extreme with the ALSI trading on a price-to-earnings (PE) ratio of around 19, within a few percentage points of the high set in 1995.

During 2013 the Optimal Fund returned 6.5% versus 4.1% for its benchmark. This is a reasonable result given 1) Our Equity Fund did not outperform its benchmark and 2) The mandate of the Optimal Fund is to protect investor's capital during tough times (i.e. sacrificing upside during the good times).

The equities in the Optimal Fund continue to be positioned defensively for tougher times, with investments in stable companies trading on above-average free cash flow yields (British American Tobacco, SABMiller, Sasol and Standard Bank). In a down market, we expect this positioning to offer a second level of protection for Optimal investors.

Our underweight position in South African retailers served us well, but unfortunately this was offset by an underweight position in Richemont, which outperformed the ALSI by around 33% in 2013. Richemont, perhaps similar to South African retailers a year ago, is a great business, but trading on a high multiple (PE ratio of approximately 23) on earnings that are close to a cyclical high. We would like to be overweight Richemont one day, but only at the right price.

Resources also underperformed for the year, but we maintain a cautious stance since the earnings in cyclical industries tend to be symmetrical, with bigger booms leading to bigger busts; the most recent boom in resources was on an unprecedented scale. The Chinese construction boom continues showing signs of slowing down, with the latest debt audit reflecting that local government debt is building up much faster than previously thought. This indicates that construction growth is funded by debt instead of income, and raises questions about the utility of completed projects.

Our neutral position in Naspers was maintained, primarily because of the fantastic economics in its online businesses, where Naspers' companies have dominant positions, good growth prospects and don't require capital. The valuation discount has narrowed and we will look to reduce exposure to this share if better opportunities are presented to us during 2014.

Commentary contributed by Ruan Stander

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

Company	% of portfolio
SABMiller	10.8
BHP Billiton	10.5
Sasol	7.7
Compagnie Fin Richemont	7.4
Naspers	7.3
British American Tobacco	6.2
Anglo American	5.2
MTN	4.9
Standard Bank	4.5
Remgro	2.8
Total	**67.3**

Asset allocation on 31 January 2014

Asset class	Total
Net SA Equities	3.6
Hedged SA Equities	80.4
Property	0.6
Money Market and Bank Deposits	15.3
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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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.