

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

Fund information on 31 August 2014

Fund size: R0.8bn
Fund price: R18.34
Number of share holdings: 38

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 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

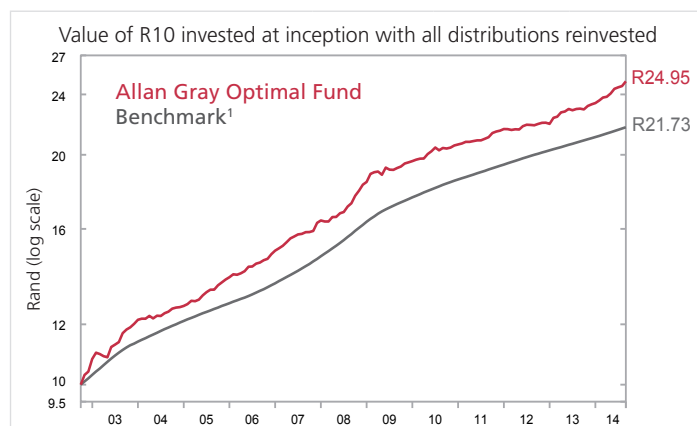
The Fund is first required to recover any underperformance before a fee higher than the fee for performance equal to the benchmark can be charged. This is known as a high watermark. If the Fund's performance is above its previous high watermark, we add 0.2% to the fee for each percentage of performance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

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	19.0309	18.4801

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	149.5	117.3	88.7
<i>Annualised:</i>			
Since inception	8.0	6.7	5.5
Latest 10 years	7.2	6.2	6.0
Latest 5 years	5.4	4.7	5.3
Latest 3 years	5.8	4.3	5.9
Latest 2 years	6.9	4.2	6.3
Latest 1 year	8.6	4.4	6.3
Year-to-date (unannualised)	6.8	3.0	4.9
Risk measures (since inception)			
Maximum drawdown ³	-2.2	n/a	n/a
Percentage positive months ⁴	83.2	100.0	n/a
Annualised monthly volatility ⁵	2.6	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 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 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 2014	%
Fee for benchmark performance	1.00
Performance fees	0.00
Other costs including trading costs	0.13
VAT	0.15
Total expense ratio	1.28

Allan Gray Optimal Fund

Fund manager quarterly commentary as at 30 June 2014

We have started implementing changes to the Fund mentioned in the March commentary, which we believe will enhance the prospects for higher returns in the long run, without putting the long-term capital preservation objectives of the Fund at risk. This has resulted in our holdings increasing in companies we find attractive (British American Tobacco, Sasol and Standard Bank) and decreasing in companies we find expensive (Richemont, BHP Billiton and MTN). In doing so, we have increased the total deviation between the stock picks in the Fund and the Top 40 Index used to hedge out market movements from around 20% to just under 40% (this is similar to the active share measure discussed in the Allan Gray Equity Fund commentary).

The Top 10 holdings do not always give a good idea of the Fund's exposure. This is because we substantially reduce stock market exposure in the Fund by selling Top 40 index futures against the portfolio of shares that we own. For example, we might hold 5% in a share but if it constitutes 10% of the index our investors would have an effective underweight position of 5% in the stock.

As a result, we believe it is important to understand the most significant differences between the Fund and the index (or 'active positions') as this reflects our investors' real exposure when investing in the Fund. The most significant overweight positions in the Fund include British American Tobacco, Sasol and selected shares in the financials sector, most notably the banks. At the same time, the most significant underweight positions are in stocks like BHP Billiton and Anglo American in the basic materials sector as well as MTN in the telecommunications sector and Richemont. These over- and underweight positions are all big contributors to the current deviation between the Fund and the index.

We hope that the changes will allow the Optimal Fund to capture higher returns in the future by making better use of our best investment ideas.

Commentary contributed by Ruan Stander

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

Company	% of portfolio
SABMiller	12.1
Sasol	10.5
British American Tobacco	10.4
Naspers	7.8
Standard Bank	7.5
Old Mutual	4.9
BHP Billiton	4.4
Life Healthcare	3.7
Remgro	3.0
Firststrand	2.8
Total	67.2

Asset allocation on 31 August 2014

Asset class	Total
Net SA Equities	5.2
Hedged SA Equities	82.0
Property	0.7
Money Market and Bank Deposits	12.0
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

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.