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 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 investors with a South African bank account.

Fund information on 30 November 2014

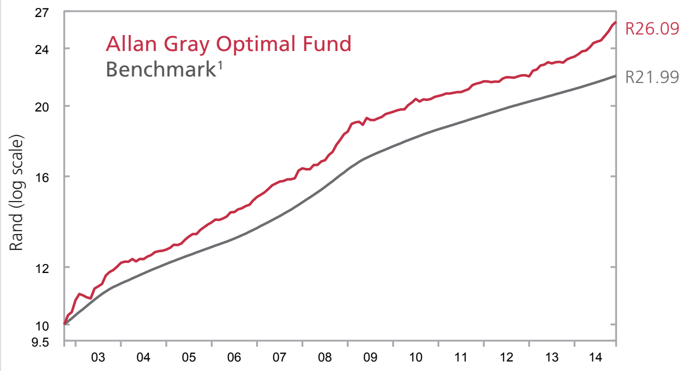
Fund size:	R0.9bn
Fund price:	R19.18
Number of share holdings:	38

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

Value of R10 invested at inception with all distributions reinvested



% Returns	Fund	Benchmark[1]	CPI inflation[2]
Unannualised: Since Inception	160.9	119.9	89.8
Annualised: Since Inception	8.2	6.7	5.4
Latest 10 Years	7.5	6.2	6.1
Latest 5 Years	6.0	4.7	5.3
Latest 3 Years	6.7	4.4	5.7
Latest 2 Years	8.9	4.3	5.7
Latest 1 Year	12.1	4.6	5.9
Year-to-date (unannualised)	11.7	4.2	5.5
Risk measures (since inception)			
Maximum Drawdown[3]	-2.2	n/a	n/a
Percentage Positive Months[4]	83.6	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 30 November 2014.
2. This is based on the latest numbers published by INET BFA as at 31 October 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.

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 30 September 2014	%
Fee for benchmark performance	1.00
Performance fees	0.28
Other costs including trading costs	0.12
VAT	0.19
Total expense ratio	**1.59**

Allan Gray Optimal Fund

Fund manager quarterly commentary as at 30 September 2014

It is still early days since we made changes to the Optimal Fund and the true impact will only be measurable over the next couple of years. However, the initial results are encouraging. The Fund outperformed the benchmark by 2.1% during the third quarter, slightly ahead of the relative outperformance generated by the Equity Fund of 1.1%. Over the long run we are aiming for the Optimal Fund to capture roughly two-thirds of the relative outperformance of the Equity Fund, with less risk of returns varying from month to month.

The JSE declined by 2.1% during Q3, driven predominantly by mining shares. These shares are starting to appear attractively valued on consensus earnings estimates. However, given the long-term nature of commodity cycles the risk is that consensus estimates are still too high, particularly in commodity companies that earned their highest margins during boom years (iron ore and coking coal). As a result we have a significantly smaller weight in mining shares than the Top 40 index used to hedge market risk. We follow this situation closely and will invest in specific opportunities when we can build conviction that share prices trade below prudent estimates of fair value.

South African banks still trade at a reasonable valuation (a price to earnings (PE) ratio of 12) on earnings that seem sustainable. When considering the sustainability of earnings, we factor in the current environment: provisions for bad debts have already been raised in anticipation of a deteriorating environment, and banking fees have been reduced to more affordable levels. As such, we have a higher weight to banking shares when compared to the Top 40 index.

We have written about our holding in Naspers in previous quarters. We have recently purchased a stake in a JSE listed instrument, which provides exposure to the Naspers business but excludes its stake in Tencent (the so-called 'Naspers rump').

What is the valuation of Naspers, if you exclude its holding in Tencent? Believe it or not, the market is currently paying an investor to own shares in this business. In other words, the value of Naspers' holding in Tencent exceeds the Naspers share price. Estimates of intrinsic value for Naspers' rump businesses vary depending on the valuations of the nascent e-commerce businesses but a prudent estimate, in our view, would be around R300/share. We believe this is a compelling opportunity that we hope will add value for clients over the long term.

Commentary contributed by Ruan Stander

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

Company	% of portfolio
SABMiller	12.1
British American Tobacco	10.4
Sasol	10.0
Naspers[6]	8.7
Standard Bank	6.7
Firstrand	4.5
Old Mutual	4.5
Remgro	3.0
BHP Billiton	2.5
Anglo American	2.4
Total	**64.6**

6. Including Naspers Stub Certificates.

Asset allocation on 30 November 2014

Asset Class	Total
Net Equity	4.5
Hedged Equity	74.4
Property	1.2
Commodity-linked	0.0
Bonds	0.0
Money Market and Bank Deposits	19.9
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.