

ALLAN GRAY

ALLAN GRAY OPTIMAL FUND

Fund manager: Ruan Stander. **Inception date:** 1 October 2002

Fund description and summary of investment policy

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

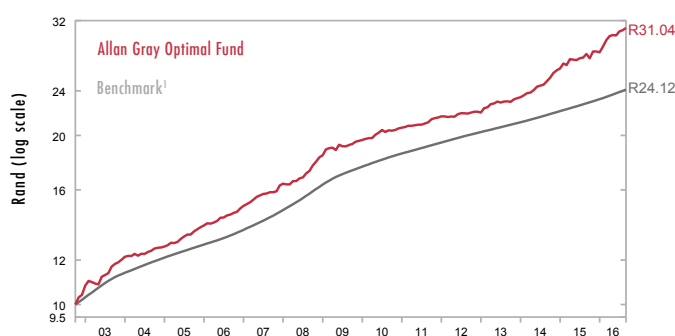
*Only available to investors with a South African bank account.

Fund information on 31 August 2016

Fund size	R1.4bn
Number of units	50 387 319
Price (net asset value per unit)	R22.31
Class	A

Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



% Returns	Fund	Benchmark ¹	CPI inflation ²
Cumulative:			
Since inception	210.4	141.2	110.1
Annualised:			
Since inception	8.5	6.5	5.5
Latest 10 years	7.9	6.2	6.3
Latest 5 years	8.0	4.7	5.7
Latest 3 years	10.5	5.0	5.8
Latest 2 years	11.5	5.4	5.5
Latest 1 year	11.3	5.8	6.0
Year-to-date (not annualised)	10.5	4.0	5.4
Risk measures (since inception)			
Maximum drawdown ³	-3.2	n/a	n/a
Percentage positive months ⁴	82.0	100.0	n/a
Annualised monthly volatility ⁵	2.9	0.7	n/a
Highest annual return ⁶	18.1	11.9	n/a
Lowest annual return ⁶	1.6	4.1	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 2016.

2. This is based on the latest numbers published by INET BFA as at 31 July 2016.

3. Maximum percentage decline over any period. The maximum drawdown occurred from 24 November 2015 to 11 December 2015. 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.

6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 September 2003 and the benchmark's occurred during the 12 months ended 30 September 2003. The Fund's lowest annual return occurred during the 12 months ended 31 December 2012 and the benchmark's occurred during the 12 months ended 31 August 2013. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

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Meeting the Fund objective

Since inception and over the latest 10 and five-year periods, the Fund has outperformed its benchmark, which is the daily interest rate supplied by FirstRand Bank Limited. The Fund aims to deliver positive returns, irrespective of stock market returns. The lowest annual return number, in the 'Performance net of all fees and expenses' table, shows that the Fund has not yet experienced a negative return over any rolling 12-month period, while the stock market has experienced negative returns over some 12-month periods since the inception of the Fund.

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 2015	30 Jun 2016
Cents per unit	25.8500	2.8394

Annual management fee

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.

Total expense ratio (TER) and Transaction costs

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 3-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

TER and Transaction costs breakdown for the 3-year period ending 30 June 2016	%
Total expense ratio	2.03
Fee for benchmark performance	1.00
Performance fees	0.76
Other costs excluding transaction costs	0.02
VAT	0.25
Transaction costs (including VAT)	0.13
Total investment charge	2.16

Top share holdings on 30 June 2016 (updated quarterly)

Company	% of portfolio
Naspers ⁷	17.7
Sasol	6.7
British American Tobacco	6.6
SABMiller	6.6
FirstRand	5.5
Capitec	3.9
Standard Bank	3.4
Coronation	3.0
WBHO	2.7
Rand Merchant Insurance ⁷	2.6
Total (%)	58.7

7. Including stub certificates.

Asset allocation on 31 August 2016

Asset Class	Total
Net equity	4.4
Hedged equity	80.2
Property	0.8
Commodity-linked	0.0
Bonds	0.0
Money market and bank deposits	14.6
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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Fund manager quarterly commentary as at 30 June 2016

During the quarter the Fund established a positive exposure to Naspers, with the Fund's position exceeding the hedged position in stock index futures.

At 50 times core headline earnings, Naspers is not cheap on the face of it. However, our analysis reveals good value for money. Naspers can be considered as the sum of two major parts, the investment in Hong Kong listed Tencent, which has a market value of R2 500 per Naspers share, and all the remaining businesses, including Mail.ru, e-commerce ventures and pay TV. We think the remaining businesses are worth about R800 per share. If a holding company discount is not considered, the Naspers share price of R2 200 implies that investors are buying Tencent at a 44% discount to the listed valuation. This is approximately 19 times Tencent's latest annualised quarterly non-GAAP earnings.

There are a number of reasons why 19x earnings is an attractive multiple for Tencent:

- It has a dominant competitive position in online games and Chinese social media, a growing and highly profitable industry
- The company is in a growth phase, with earnings growing at 40% to 50% per year
- Tencent's cash and associates can be conservatively valued at 20% of its market capitalisation and do not currently contribute to earnings
- Various new growth initiatives show early promise (e.g. online video, payments and banking)
- Free cash flow has historically exceeded earnings by about 10%

When considering the attractive implied price of Tencent one needs to remember that the holding company discount may persist for some time. Investor sentiment could remain negative towards the company and its current loss-making e-commerce ventures while some shareholders might prefer to own Tencent directly.

Additional risks relate to the fact that many internet business models are relatively new and hence the economics could change drastically as technology and innovation march ahead. Thus far, Tencent and Naspers have successfully navigated this space and have developed new products and revenue streams to offset those that have fallen out of favour with consumers.

The long-term capital allocation track record of Naspers gives us confidence that the underlying value should reflect in earnings and their share price in time. We are cognisant of the risks as well as the potential rewards when investing in Naspers and have sized the Fund's position accordingly.

Commentary contributed by Ruan Stander

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Notes for consideration

Management Company

Allan Gray Unit Trust Management (RF) Proprietary Limited (the 'Management Company') is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates 11 unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board ('FSB'). The Management Company is incorporated under the laws of South Africa and 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. Allan Gray Proprietary Limited (the 'Investment Manager'), an authorised financial services provider, is the appointed Investment Manager of the Management Company and is a member of the Association for Savings & Investment South Africa (ASISA). The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or www.rmb.co.za

Performance

Collective Investment Schemes in Securities (unit trusts or funds) 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 future performance. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Where annualised performance is mentioned, this refers to the average return per year over the period. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

Fund mandate

The Fund may be closed to new investments at any time in order to be managed according to its mandate. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of its market value to bridge insufficient liquidity.

Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund including any income accruals and less any permissible deductions from the Fund 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 Management Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za

Fees

Permissible deductions may include management fees, brokerage, Securities Transfer Tax (STT), auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray.

Total expense ratio (TER) and Transaction costs

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past three years. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), VAT and other expenses like audit and trustee fees. Transaction costs (including brokerage, Securities Transfer Tax [STT], STRATE and FSB Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted again from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. 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. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and Transaction costs is shown as the Total investment charge.

Need more information?

You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website www.allangray.co.za or via our Client Service Centre on 0860 000 654.