

Allan Gray Stable Fund

ALLAN GRAY

Fund managers: Ian Liddle, Mark Dunley-Owen
(Most foreign assets are invested in Orbis funds)

Inception date: 1 July 2000

Class: A

Fund information on 31 October 2013

Fund size: R31 967m

Fund price: R28.04

Number of share holdings: 70

Fund description

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund may buy foreign assets up to a maximum of 25% of the Fund (with an additional 5% for African ex-SA investments). The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 40%. The Fund's net equity exposure may be reduced from time to time using exchange-traded derivative contracts on stock market indices. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund or a balanced fund.

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

Fund objective and benchmark

The Fund aims to provide a high degree of capital stability and to minimise the risk of loss over any two-year period, while producing long-term returns that are superior to bank deposits. The Fund's benchmark is the daily interest rate as supplied by FirstRand Bank Limited plus 2%. Historically the Fund's performance and benchmark were on an after-tax basis at an assumed tax rate of 25%. We have removed this tax adjustment from 1 August 2013.

How we aim to achieve the Fund's objective

A major portion of the Fund is typically invested in money market instruments. We seek to deploy the Fund's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares, we may allocate a low weight to shares or partially hedge the Fund's stock market exposure in consideration of the Fund's capital preservation objectives. The Fund may also invest in bonds, property and commodities. The Fund's bond and money market investments are actively managed.

Suitable for those investors who

- Are risk-averse and require a high degree of capital stability
- Seek both above-inflation returns over the long term, and capital preservation over any two-year period
- Require some income but also some capital growth
- Wish to invest in a unit trust that complies with retirement fund investment limits

Annual management fee and total expense ratio (TER)

Allan Gray charges a fee based on the net asset value of the Fund excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark. If the Fund's return over two years is equal to or less than 0%, Allan Gray will not charge a fee.

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

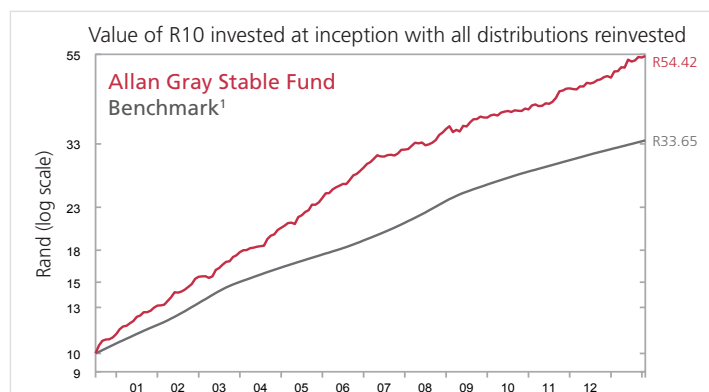
For each percentage of two-year performance above or below the benchmark we add or deduct 0.1%, subject to the following limits:

Maximum fee: 1.50% p.a. excl. VAT
Minimum fee: 0.50% p.a. excl. VAT

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark.

A portion of the Fund may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based

Performance net of all fees and expenses



% Returns	Fund	Benchmark ¹	CPI inflation ²
<i>Unannualised:</i>			
Since inception	444.2	236.5	111.3
<i>Annualised:</i>			
Since inception	13.6	9.5	5.8
Latest 10 years	12.1	8.6	5.6
Latest 5 years	9.4	7.6	5.3
Latest 3 years	11.0	6.5	5.7
Latest 2 years	10.3	6.4	5.7
Latest 1 year	12.7	6.2	6.0
Year-to-date (unannualised)	13.1	5.1	4.8
Risk measures (since inception)			
Maximum drawdown ³		n/a	n/a
Percentage positive months ⁴		100.0	n/a
Annualised monthly volatility ⁵			n/a

1. The Fund's benchmark is the daily interest rate as supplied by FirstRand Bank Limited plus 2%, performance as calculated by Allan Gray as at 31 October 2013.
2. This is based on the latest numbers published by I-Net Bridge as at 30 September 2013.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 12 January 2009 to 10 March 2009. 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.

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.

on each Orbis fund's performance relative to its own benchmark.

The annual management fees charged by both Allan Gray and Orbis are 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 2013	%
Fees for benchmark performance	1.02
Performance fees	0.76
Other costs including trading costs	0.09
VAT	0.16
Total expense ratio	2.03

Allan Gray Stable Fund

Fund manager quarterly commentary as at 30 September 2013

Investors in the platinum miners argue that their shares are priced below the replacement cost of their assets, that recovering demand for platinum group metals (PGMs) will soon exceed stagnant / shrinking supply, and that the miners are at last starting to assert themselves in a consolidated market. But the crux of all these arguments is that PGM prices have to rise faster than the mines' unit costs of production, because at today's PGM prices the mines are not generating enough free cash flow to justify their share prices.

Unit costs at the biggest producer, Anglo American Platinum, have compounded by 14% per year for the last decade. While the cost escalation may slow, it is hard to see future unit cost increases below CPI inflation being sustained unless radical changes are made to South African labour regulations or there is some kind of technological breakthrough. Geological and physical constraints impinge on productivity as deep underground mines mature. This is compounded by declining worker productivity, and wage settlements above the inflation rate.

By our calculations, the South African platinum miners may scrape out a living at current PGM prices (while continuing to close shafts). But PGM prices need to rise by at least 20% (without any cost increases) to justify the current share prices. Of course, the miners will be good investments if PGM prices rise by even more than this, and if the newly expanded margin is not whittled away by a militant unionised labour force, a demanding regulator, or by executive hubris and lax cost control.

Although the potential returns from investing in the platinum miners are higher than those from investing in the metal itself (for example, if PGM prices rise substantially and costs are controlled), the risks are greater too. Risks include PGM prices rising enough to keep the mines operating but not enough to generate sufficient free cash flow for shareholders, or PGM prices rising substantially but costs rising to match revenues as they have done historically.

In light of its conservative objectives, the Stable Fund currently prefers investing in the metal to the miners. The Fund's exposure to the recently listed Newgold Platinum instrument now exceeds its exposure to the platinum miners. In a similar vein, the Fund has had more exposure to gold (the metal) than to gold miners for most of the time since it first bought gold in 2005.

Commentary contributed by Ian Liddle

ALLAN GRAY

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

Company	% of portfolio
British American Tobacco	4.4
Sasol	3.9
SABMiller	2.7
Standard Bank	1.8
Remgro	1.3
Reinet Investments SA	0.9
NetEase	0.9
INPEX	0.7
Sanlam	0.7
American Intl. Group	0.7
Total	18.2

Asset allocation on 31 October 2013

Asset class	Total	SA	Foreign
Net Equity	16.0	11.4	4.6
Hedged Equity	33.5	15.9	17.5
Property	1.3	0.9	0.3
Commodities	4.8	4.8	0.0
Bonds	6.1	6.1	0.0
Money Market and Bank Deposits	38.3	34.3	4.0
Total (%)	100.0	73.5	26.5⁷

7. The Fund is above its foreign exposure limit due to market value movements.

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

Minimum	12.4% (January 2010)
Average	23.8%
Maximum	39.4% (August 2004)

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 quarterly.

	31 Dec 2012	31 Mar 2013	30 Jun 2013	30 Sept 2013
Cents per unit	14.3128	13.4051	13.0091	14.2539

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. 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.

Compliance with Regulation 28

The Fund is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g market value fluctuations, in which case they will be corrected within a reasonable time period. Allan Gray Unit Trust Management (RF) Proprietary Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

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. Fluctuations and movements in exchange rates may also cause the value of underlying international investments to go up or down.

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.