ALLANGRAY

ALLAN GRAY STABLE FUND

Fund managers: Ian Liddle, Mark Dunley-Owen. (Most foreign assets are invested in Orbis funds.) **Inception date:** 1 July 2000

Fund description and summary of investment policy

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%.

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

Minimum investment amounts

Minimum lump sum per investor account	R20 000
Additional lump sum	R500
Minimum debit order*	R500

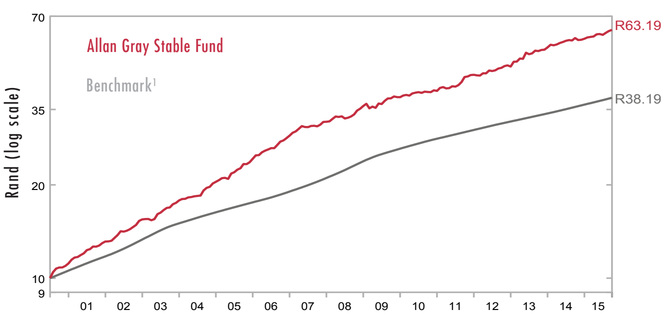
*Only available to investors with a South African bank account.

Fund information on 30 September 2015

Fund size	R35.2bn
Number of units	807 722 128
Price (net asset value per unit)	R31.18
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]
Unannualised:			
Since inception	531.9	281.9	134.1
Annualised:			
Since inception	12.9	9.2	5.8
Latest 10 years	10.5	8.3	6.2
Latest 5 years	9.7	6.6	5.6
Latest 3 years	9.9	6.6	5.8
Latest 2 years	8.2	6.8	5.5
Latest 1 year	6.3	7.0	4.6
Year-to-date (unannualised)	6.8	5.2	4.6
Risk measures (since inception)			
Maximum drawdown[3]	-4.1	n/a	n/a
Percentage positive months[4]	80.9	100.0	n/a
Annualised monthly volatility[5]	4.2	0.7	n/a
Highest annual return[6]	23.3	7.5	n/a
Lowest annual return[6]	3.3	7.9	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 30 Septemer 2015.
2. This is based on the latest numbers published by INET BFA as at 31 August 2015.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 12 May 2006 to 14 June 2006. 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. This is the highest or lowest consecutive 12-month returns the Fund has experienced since inception, along with the benchmark performance for the corresponding period. This is a measure of how much the Fund's returns have varied per rolling 12-month period. The highest annual return occurred from 1 May 2005 to 30 April 2006 and the lowest annual return occurred from 1 November 2009 to 31 October 2010. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

Meeting the Fund objective

Since inception and over the latest 10 and five-year periods, the Fund has outperformed its benchmark and CPI inflation, while providing a high degree of capital stability. The Fund aims to minimise the risk of loss over any two-year period. The lowest annual return numbers, in the 'Performance net of all fees and expenses' table, show that the Fund has not yet experienced a negative return over any rolling 12-month period.

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 2014	31 Mar 2015	30 Jun 2015	30 Sep 2015
Cents per unit	**17.1442**	**20.4196**	**20.3439**	**24.2600**

Annual management fee

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

Total expense ratio (TER)

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 4 for further information).

TER breakdown for the year ending 30 September 2015	%
Fee for benchmark performance	1.03
Performance fees	0.33
Other costs including trading costs	0.08
VAT	0.15
Total expense ratio	**1.59**

Top 10 share holdings on 30 September 2015 (SA and Foreign) (updated quarterly)[8]

Company	% of portfolio
British American Tobacco	5.6
Sasol	3.8
SABMiller	3.5
Old Mutual	2.1
Standard Bank	1.9
Remgro	1.3
NetEase	0.9
Motorola Solutions	0.8
QUALCOMM	0.8
Reinet Investments SCA	0.8
Total (%)	**21.4**

Top credit exposures on 30 September 2015 (SA and Foreign) (updated quarterly)[7,8]

Issuer	% of portfolio
Standard Bank	5.8
Investec Bank	4.2
Nedbank	4.2
Barclays Africa	3.6
FirstRand Bank	2.9
African Bank	2.9
Republic of South Africa	1.7
Mercedes-Benz S.A	1.3
Aspen Pharmacare Holdings	1.3
Safex	1.0
Total (%)	**28.8**

7. All credit exposure 1% or more of portfolio.

Asset allocation on 30 September 2015[8]

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	18.6	13.1	0.2	5.3
Hedged equity	31.7	14.9	0.0	16.8
Property	2.0	1.3	0.0	0.6
Commodity-linked	5.4	5.4	0.0	0.0
Bonds	12.3	11.2	0.5	0.5
Money market and bank deposits	30.0	26.5	0.1	3.4
Total (%)	**100.0**	**72.5**	**0.8**	**26.7**[9]

8. Underlying holdings of Orbis funds are included on a look-through basis.

9. 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	**23.0%**
Maximum	**39.4% (August 2004)**

Note: There may be slight discrepancies in the totals due to rounding.

Fund manager quarterly commentary as at 30 September 2015

Asset allocation is an important determinant of return in the Stable Fund. Currently, 50% of the Fund is invested in gross equities, 42% in fixed interest assets and the remaining 8% in smaller asset classes such as commodities and property.

Almost two-thirds of the Fund's gross equity exposure has been hedged. As a result, the Fund's net equity exposure is only 18.6%, while hedged equity exposure is more than 30%. We believe a low exposure to market risk, or beta, is appropriate when asset prices are high. The hedged equity portion is not exposed to market risk, and we expect it to earn a return similar to the yield on cash plus the relative performance of the Fund's equities, or alpha. Rand cash currently yields close to 6% per annum. We believe the Fund's investment in higher-quality, cash-generative businesses is attractive relative to the market, and should generate positive alpha over the long term. If achieved, this alpha should boost the returns on hedged equity above cash yields.

The fixed interest portion of the Fund is conservatively invested. The average yield is 7% and duration is 0.2 years. The low duration, a measure of risk, indicates that this portion of the Fund should generate stable returns irrespective of what happens to market interest rates.

It is worth noting that 71% of the fixed interest portion, or 30% of the Fund, is held in cash or money market instruments that mature within the next 13 months. This portion of the Fund is highly liquid and low risk. It also provides a steady cash inflow to reinvest into other assets, hopefully at more attractive prices.

Taken together, nearly three-quarters of the Fund is invested in hedged equity and fixed income. If we achieve some equity selection alpha, both should generate relatively stable, high single-digit percentage returns. While this may appear underwhelming relative to the returns generated by risk assets over the last five years, we believe the outlook is less favourable. In this context, a large exposure to hedged equity and low risk fixed interest assets is an effective way of meeting the Fund's dual objectives of generating inflation-beating returns and minimising the risk of capital loss.

There was little active change in the Fund over the last quarter. SAB Miller and British American Tobacco were trimmed following strong performance. A small position was added in Naspers. The Fund added selective mining exposure following the recent sell off. The majority of cash from maturing assets was invested in short duration fixed interest instruments.

Commentary contributed by Mark Dunley-Owen

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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 10 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. Movements in exchange rates may also cause the value of underlying international investments to go up or down. 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. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

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)

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 actual 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, Securities Transfer Tax [STT], STRATE and FSB Investor Protection Levy), VAT and other expenses. Since Fund returns are quoted after the deduction of these expenses, the TER should not be deducted 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.

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. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

Foreign exposure

This fund may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

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