

THE GRAY ISSUE

12 September 2001
Issue no. 2

In response to the shocking events in America yesterday, we give our perspective on the potential impact on the investments we have made on your behalf:

- We have for some time now viewed Western stockmarkets as being grossly overpriced in historic terms and have expected them to produce disappointing results. This has been factored into our investment strategy.
- The events yesterday will undoubtedly spur on this correction and furthermore will exert downward pressure on consumer spending and the economy which will have knock-on effects to commodity prices and world trade.
- Given overnight movements in world stockmarkets, our stockmarket could be expected to fall by 5 to 10% which will be reflected in the unit trust sale price today. This should be factored into any redemption decision.
- Turning to the South African stockmarket, the price earnings ratio is around 10 versus 20 to 30 on Western stockmarkets. Therefore our shares offer much better value than their offshore counterparts. Also note that the yield on bonds is about the same as the yield on shares, making shares in South Africa as cheap as they have been relative to bonds since the early 80's.
- Focussing on our share portfolios we believe that we are reasonably well protected. This is because we have relatively high exposure to Sasol and gold shares, both of these underlying commodities you will notice rose yesterday in the face of the financial collapse. Furthermore, we have relatively low exposure to banking shares which, given their gearing, can often face financial problems following events like this.
- It is our experience that on these occasions all shares collapse at first resulting from the initial shock, but shares which offer very sound value tend to recover first. We view these sell-offs as opportunities to buy solid income streams at cheap prices.
- Orbis Global Equity Fund employs the same investment philosophy as Allan Gray and is invested in shares representing sound fundamental value and has avoided overvalued shares which are well represented in the various Western stockmarket indices. Orbis' reaction to this shock would mirror ours as mentioned above.

Commentary by Mark Herdman: Chief Operating Officer