QUARTERLY COMMENTARY 3

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ALLAN GRAY

Inside this issue

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Rob Dower

Comments from the Chief Operating Officer

In past issues we have highlighted the potential gap between a unit trust's returns and the returns achieved by the average investor in that fund. A fund's published returns assume that a lump sum remains invested over a stated period. In reality, people invest and make withdrawals over time, and generally are more tempted to invest after outperformance and to disinvest following underperformance.

Earlier this year market research firm Dalbar Inc. published the latest US statistics that describe this phenomenon. The study showed that over the 20 years to the end of 2009, the average US investor earned 3.2% in US equity mutual funds, while the market returned 8.2% in that country.

Our goal at Allan Gray is to make money over the long term for our clients. Clients who are invested in unit trusts have an opportunity to match or beat fund returns by remaining invested for long periods, and by being contrarian in their choice of when to invest or to withdraw their units. Unfortunately, like the American investors in the Dalbar study, our clients have earned lower returns than our funds over the last decade, as shown in the table below.

Annualised fund returns vs average investor returns (August 2000-2010)

	Fund return after fees	Investor return	Difference
Allan Gray Stable Fund	14.2%	11.0%	3.2%
Allan Gray Balanced Fund	20.0%	15.6%	4.4%
Allan Gray Equity Fund	23.3%	21.8%	1.5%

This is disappointing, particularly for the Balanced and Stable funds, where we are tasked with allocating assets between different asset classes like shares, bonds, property and cash. In these funds, frequent investor switching is not necessary as the funds have the freedom to take on more or less risk on behalf of investors.

When considering your next investment into a fund, or if you are planning to switch between funds, please remember that in general, those clients who have done best out of our services have picked a fund carefully and then remained invested without switching.

This issue of the Quarterly Commentary includes two examples to demonstrate the application of our investment philosophy. As you may expect, as value-based contrarian managers we invested in Didata when the profitability of the business was well below normal and the share price depressed. Our investment case essentially hinged on a turnaround in the business and we were able to buy the shares at a deep discount to our estimate of the company's value. Nippon Telegraph and Telephone Corporation (NTT) has recently offered to purchase the whole of Didata for 120p (around 1400 cents) a share, an offer which we consider to be fair value, and considerably more than the average price our clients paid for their stake.

In the second example Chris du Toit and Tamryn Lamb remind us how Allan Gray and Orbis share the same philosophy. They look at the rationale behind Orbis' decision to invest in Spanish Bank Banco Bilbao Vizcaya Argentaria. Although sentiment towards Spanish banks in general has turned extremely negative due to concerns over the state of the Spanish banking system and economy, Orbis believes this company has some specific features which make it an attractive investment.

I would like to end off by noting that Allan Gray Life Limited recently celebrated its 10th anniversary. Since it received its licence in August 2000, it now serves roughly 330 pension fund clients, 13 300 pensioners in our living annuity and 2 500 long-term savers invested through our endowment product. Thank you to all of you for your support. We are doing our utmost to make the next decade as successful as the last for Allan Gray Life.

Kind regards

Rob Dower

Delphine Govender

You win some...

EXECUTIVE SUMMARY: Building and managing a portfolio of investments inevitably includes shares that will prove to be winners but also those that will fail to deliver on their investment case – the losers. Successful portfolio management essentially involves picking more winners than losers. Following the recently announced buyout offer for the whole of Dimension Data, this investment has turned out to be one of the portfolio's winners. The Dimension Data investment clearly demonstrates the application of our investment philosophy.

A portfolio of investment ideas

While we describe ourselves as bottom-up stock pickers, these individual share ideas are delivered in practice to our clients through a portfolio of several stocks. At the point of investment we are naturally optimistic that each stock we decide to invest in will outperform the greater investable universe we can select from. However, in reality there will also be those investments that will disappoint for a variety of reasons. In all investment portfolios over time there will therefore be both winners and losers. Successful portfolio management essentially involves picking more winners than losers. There are clearly added dimensions to this in that it is not simply enough to numerically choose more winners than losers. To be a consistently successful investor one also has to ensure that:

- One's winners outperform by more than one's losers underperform
- One has allocated more capital to one's winners than one's losers

A recent winner

In Quarterly Commentary 3, 2008, I explained the detailed investment case for Dimension Data (Didata), one of the top 20 holdings in our portfolios at the time. That article summarised the main reasons why we considered Didata an attractive investment, especially given that it had been noticeably absent from our portfolios when it was very popular at the height of the IT bubble in late 1990s.

At the time the 2008 article was written, Didata's share price was 705c or 50p (Didata has a primary listing on the London Stock Exchange). On 15 July 2010, Nippon Telegraph and Telephone Corporation (NTT) – Japan's largest telecommunications company – announced an offer of 120p (approximately 1400c at the prevailing exchange rate, representing an 18% premium to the previous day's share price) for the whole of Dimension Data. Relative to the South African All Share Index (ALSI), Didata outperformed by close to 100% from the end of September 2008 to 15 July 2010. Once all the necessary buyout conditions are met, we expect the transaction to be imminently concluded and Didata (now one of the top 10 overall holdings) would be monetised in our portfolios.

Apart from the specifics of the company itself, the investment in Didata was and is an interesting example of two important aspects of our investment approach:

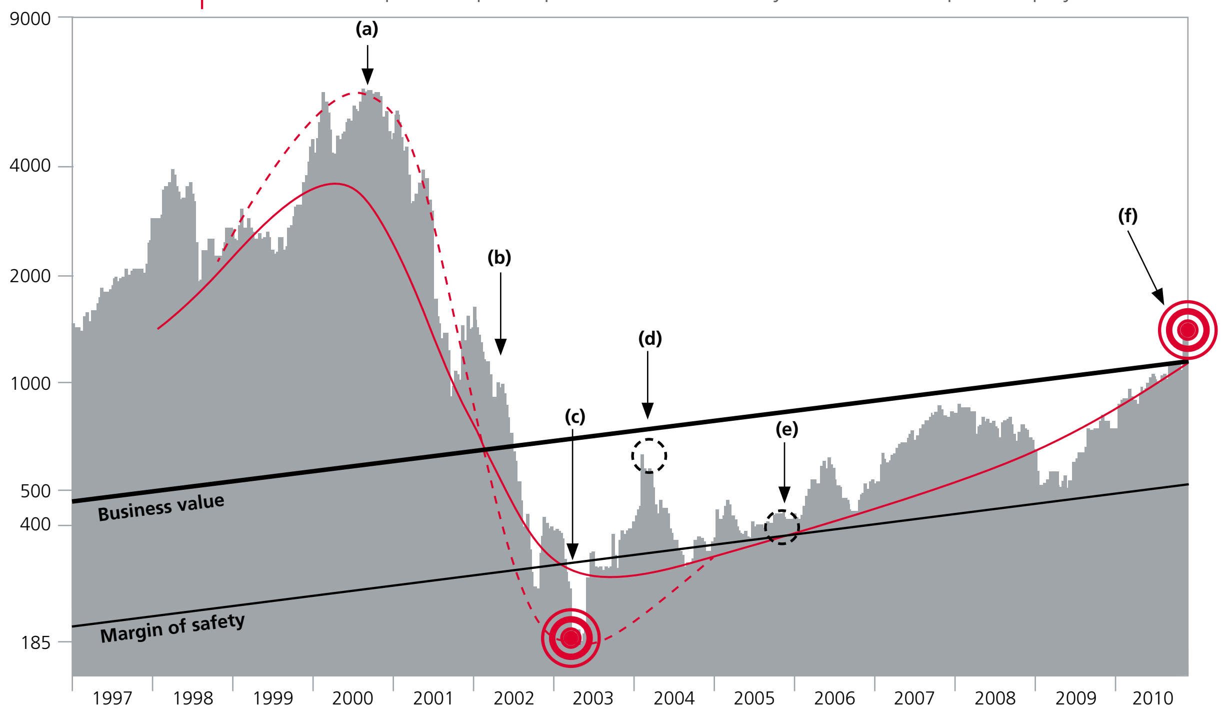
1. It illustrates our contrarian, value-based philosophy in application
2. It displays the manner in which we are able to accumulate and then sell a large stake in a single company

1. Philosophy in application

Graph 1 reflects the share price of Didata from 1997 to the present time (shaded area) and superimposed on this is a stylised graphical representation of the Allan Gray investment philosophy.

From the point of maximum optimism reflected in the share price at **Point (a)** to extreme pessimism at **Point (c)**, Didata share price lost over 97% of its value. As contrarian value-based investors, who prefer to be, in the words of founding father of value investing, Benjamin Graham, 'greedy when others are fearful', Didata first started appearing in Allan Gray portfolios at around Point (c) – when panicked investors aggressively sold the share. Shortly thereafter however, a short-lived but sharp rally in positive sentiment caused the

GRAPH 1 Didata's share price superimposed on Allan Gray's investment philosophy



Source: I-Net Bridge and Allan Gray research

share to re-rate, quickly reaching close to fair value (see **Point (d)**) without a corresponding improvement in the underlying fundamentals of the business. This caused us to exit the relatively small stake we had begun to accumulate sooner than we would have expected as the share price was not justifiable.

However, by late 2005/early 2006 (**Point (e)**), the Didata share price once again started entering attractive territory when the counter traded at a wide margin of safety discount to our estimate of its intrinsic value. From this point we re-commenced accumulating a stake in Didata for our clients as we believed the long-term business fundamentals of the company were not being reflected in the share price. With an investment philosophy that accommodates both patience and a long-term approach, we felt convicted in the view that over time the improving financial performance of the company in a more normalised operating environment would justify a higher share price than the market was attributing at the time.

Some market participants might argue that the purchase price offered by NTT for Didata (effectively **Point (f)** on the graph) might not be high enough to reflect the value of the business, as if NTT is prepared to pay close to 1400c for the entire business, then Didata must be worth more.

The way to address this is to consider our overriding investment objective. As value-based contrarian managers we invested in Didata when the profitability of the business was well below normal and the share price depressed due to *inter alia* the poor financial performance of the company. Our investment case essentially hinged on a turnaround in the business and we were able to invest at a price that reflected a deep discount to the value of the business. From NTT's perspective, it is investing in a Didata that today is largely firing on most cylinders – the business has successfully turned around and is now achieving what we believed would be normalised operating profit returns.

NTT is specifically optimistic about the unique strategic fit that Didata has with NTT's existing operations (in terms of geography and product offering); the benefits that putting the two groups together can unlock; and the opportunity for greater growth that the combined entities can achieve which might not necessarily be possible if they were separate.

Indeed we expect the value of Didata as a company to continue to grow in NTT's hands. As an investment, however, we think the quantum of return we have achieved through the considerable re-rating in the share price culminating in the buyout offer has been material, and we are content we have extracted sufficient value for our clients.

2. Selling a large holding

Our clients collectively owned in excess of 25% of the issued share capital in Didata by late 2008, with our holdings reaching a peak level of over 27% by the end of 2009. In our history as investment managers it is not uncommon for us to accumulate large stakes in investments in which we have high conviction.

These large stakes have at times drawn criticism by external parties in that they are perceived as being risky both in terms of concentration risk (too much money invested in a single share) and liquidity risk (the difficulty of selling a large stake in the market).

We do not believe that owning a large stake in a very attractive share is risky. We feel we mitigate the above-mentioned risks by:

- Adhering to strict controls that govern the percentage of our total portfolio that can be invested in a single share
- Limiting the overall percentage of the issued share capital we purchase in any single company to 25% (and in exceptional circumstances up to 30%)

In our opinion the market tends to misunderstand the issue of historic liquidity/tradeability. In the Didata example, at Point (a) on Graph 1, at the height of optimism over IT shares, Didata was a highly tradeable and liquid share as there was both great demand for and supply of the share. When the IT bubble burst and Didata's share price collapsed (**Point (b)**), the high liquidity and tradeability of the counter in 2000 did not provide any protection against loss in capital that subsequently ensued.

During the period between (e) and about a year before (f) is probably when Didata's liquidity was lower than its historic average, as value-based shareholders such as ourselves were accumulating and holding a position when we believed the share price was not yet reflecting the intrinsic value of the company. As the earnings performance and prospects of the company began to improve over this same period, so too the investor interest and sentiment in the company began to recover, and then also the corresponding liquidity of the share. This culminated in the NTT offer. With the opportunity to exit our clients' entire holding in Didata in a single transaction at what we believe is a price reflective of the business value of the share, the issue of liquidity risk is in effect a non-issue.

> "Successful portfolio management essentially involves picking more winners than losers."

The risk we are most concerned about in investing is losing our clients' money. We accumulate significant stakes in companies when we have a particularly strong investment case and can invest with a reasonable margin of safety. Buying or holding a share with low liquidity at a discount to its intrinsic value will always be far more preferable to us than buying a highly liquid but overvalued share.

We lose some too

As investment managers, we are always mindful of the reality that not all investments will end in the positive way Didata has ended. While we never intend to invest in shares that ultimately underperform, we know there will unfortunately be losing investments in our portfolios, just as there will be winning ones. What we can control, however, is our commitment to our investment philosophy that, over the past 36 years, has enabled us consistently to uncover more winners than losers for our clients.

Delphine is a portfolio manager and director at Allan Gray Limited. She is a CA (SA) and CFA charter holder and has been with Allan Gray since 2001.

Duncan Artus

Happy equilibrium

EXECUTIVE SUMMARY: Duncan Artus discusses the implications of the growth in the local asset management industry being focused on asset managers who variously describe their philosophy as long term, value or contrarian. History suggests that such a high percentage of assets being run on a common approach is unlikely to last. The catalyst for change has typically been asset classes or sectors within asset classes going to extremes which test the manager's conviction.

'Sometimes, what matters is not so much how low the odds are that circumstances would turn quite negative, what matters more is what the circumstances would be if that happens. In terms of finance jargon, expected payoff has two components: expected return and probability. While the probability may be small, a truly appalling expected return can still result in a negative payoff.'

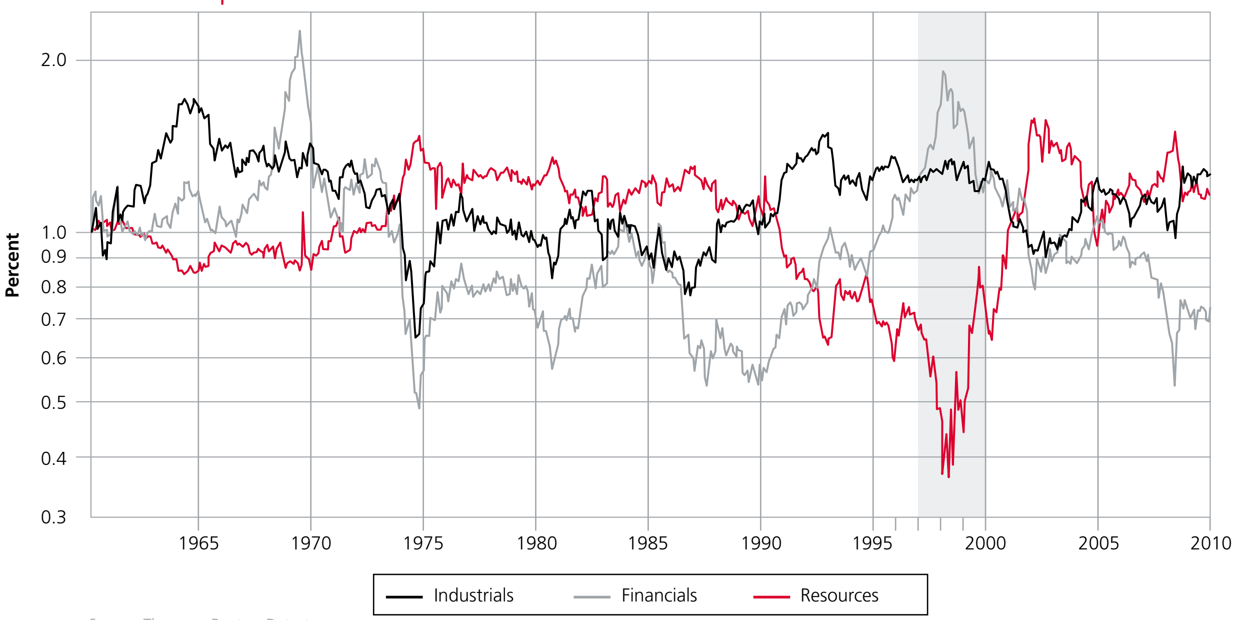
(Jean-Marie Eveillerd and James Montier)

Not quite so contrarian

A relatively large number of new local asset management businesses, or new divisions within traditional asset managers, have opened over the past five to 10 years, perhaps in response to the extreme market events of 1997-2000 (see **Graph 1**). These new players variously describe their investment philosophy as long term, value or contrarian. The industry's competitive environment has definitely been elevated – to outperform the average one cannot be the average.

Long-term, value ('valuation based') and contrarian investing should by definition intermittently produce very difficult periods for its practitioners. As Barton Biggs points out in his book 'Hedge Hogging', of the 10 managers highlighted by Warren Buffet who had beaten the market over the long term, eight had long cycles (defined as three or three out of four consecutive years) of underperformance within that outperformance.

GRAPH 1 Indices relative chart



Source: Thomson Reuters Datastream

Periods of underperformance by their very nature test the character, and with client withdrawals following underperformance, sometimes even the viability, of the investment manager's business. Indeed, as Biggs points out, one of Buffet's greatest advantages as a long-term investor is that he is his own client. These periods tend to coincide with asset classes, or sectors within asset classes, going to extremes, which in hindsight seem to defy common sense – these are low probability events.

History, whilst not certain to be repeated, would suggest that there is a low probability of a high percentage of the industry's assets continuing to be successfully managed on a common philosophy based on being different. It is not so contrarian these days to open a long-only value-based/contrarian asset manager. The true contrarians may argue that the time is ripe to open a growth fund or a short-selling fund.

"It is not so contrarian these days to open a long-only value-based/contrarian asset manager."

Nobody is perfect

'A prerequisite for obtaining a method is acceptance of the fact that perfection is not achievable. You do not need to be perfect to win in the markets you just have to be better than almost everyone else, and that is hard enough!'

(Robert Prechter)

Orbis has kept a record of the success rate of the equity decisions it has made over the last two decades. Over the full period around two-thirds of the Orbis Global Equity Fund's net assets have been invested in winning positions. While many clients are aware of this statistic, the converse that a top quartile manager will be wrong roughly one-third of the time appears to be less top of mind. (Interestingly, Orbis's track record is remarkably similar to that of Ernie Els, whose career statistics indicate he hits only 60% of fairways and 68% of the greens on the PGA tour – Americans seem to keep track of everything!)

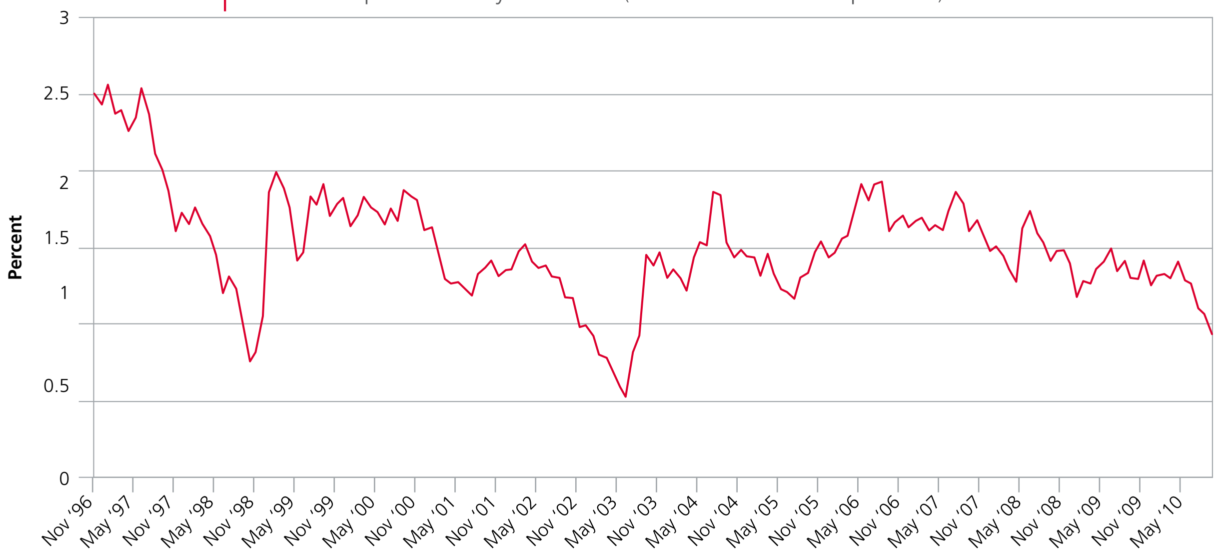
A shortlist of low probability events that could make value-based investing less fashionable

We have compiled a shortlist of a few potential low probability events whose outcomes could precipitate one of the difficult periods we know will come, but do not look forward to:

1. Despite low global bond yields, government bonds outperform equities

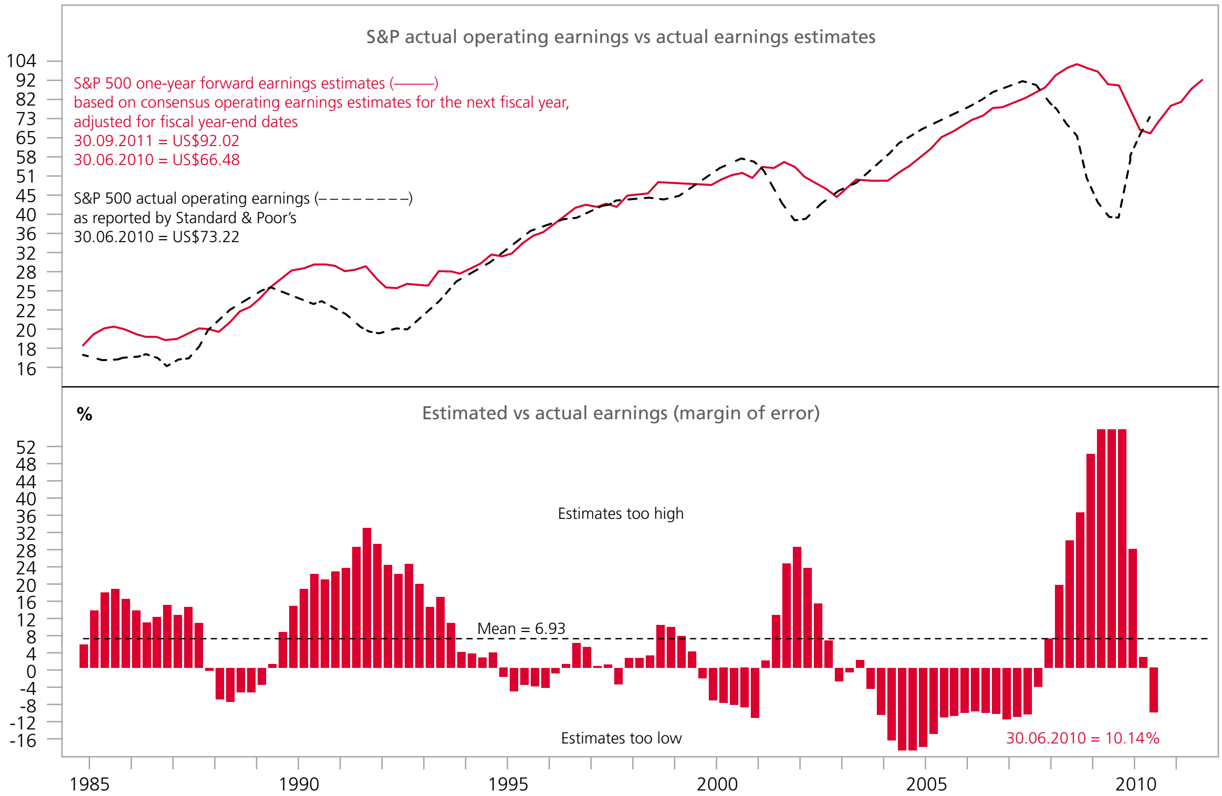
Ten-year US government bonds yield only 2.5% while the earnings yield on US stocks is 6%, yet bond funds continue to attract record inflows, despite the widely known deteriorating

GRAPH 2 | Yield on Japanese 10-year bond (November 1996 – present)



Source: I-Net Bridge

GRAPH 3 | S&P 500 forecast earnings vs actual earnings



Source: Ned Davis Research, Inc.

fiscal position. A classic bubble in the making? Yet as **Graph 2** depicts, the yield on the Japanese 10-year bond is currently 0.94%, 14 years after it first yielded 2.5%, despite years of Japanese government stimulus. Japanese equities are down 45% over the same period.

2. The currently undemanding 12-month forward global PEs provide little margin of safety

Investors often use one-year forecasted earnings when assessing the value of equities. Yet as **Graph 3** (courtesy of Ned Davis Research) shows, forecasting earnings one year ahead is far from an exact science. We believe the probability distribution around the mean forecast earnings stream is especially high at the moment. This is reflected in the level of forecast error, which has recently been at its highest in history, as shown in Graph 3.

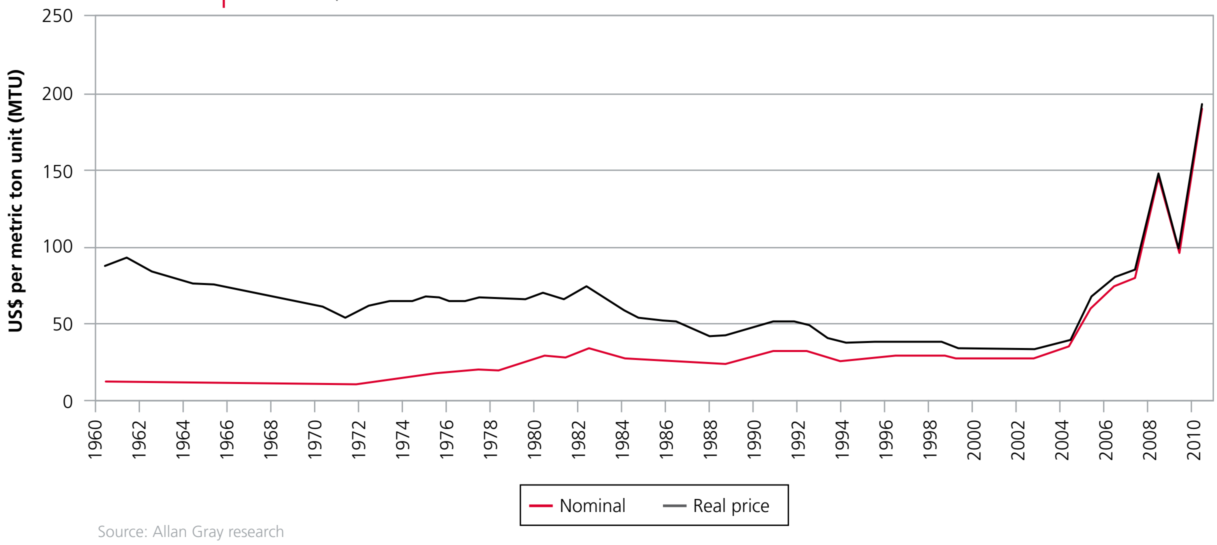
"… there remains a not insignificant chance of an extreme outcome which will test our, and fellow long-term investors', conviction."

3. Emerging market growth and asset markets do not save the day

The consensus saviour appears to be forecast emerging market, especially Chinese, growth. While China is destined to become the world's biggest economy it is certainly not clear that a) the path there will be a smooth one, or that b) we have not seen the peak in infrastructure demand for many commodities, especially iron ore (**Graph 4** on page 8). We have previously highlighted the sheer size of Chinese credit expansion and investment relative to the size of its economy as unprecedented, along with all the associated risks of a credit boom.

As Ian Liddle discussed in Quarterly Commentary 2 2010, the outcome of any of the above events, or others, is likely to be magnified by the extent of foreign net investment in

GRAPH 4 | Iron ore price (US$)



Source: Allan Gray research

local equities and emerging markets in general. The sheer weight of the money could continue to push disparity in valuations and/or absolute valuations to extremes in either direction, which in hindsight may seem to defy conventional valuations.

We continue to caution, particularly in the case of local equities, that we are not finding sufficient value to have high conviction that it will be possible to achieve average historic real returns. Indeed, given government actions and the amount of leverage globally, there remains a not insignificant chance of an extreme outcome which will test our, and fellow long-term investors', conviction.

Duncan is a portfolio manager. He joined Allan Gray in 2001 and is a CFA charter holder.

Chris du Toit

Tamryn Lamb

When is bad news good news?

EXECUTIVE SUMMARY: As contrarian investors we are always on the lookout for shares that we can buy at a significantly lower price than we believe they are worth. Thus, with banks in many developed markets coming under pressure, we launched a concerted research effort to see if we could uncover any investment opportunities. Spanish Bank, Banco Bilbao Vizcaya Argentaria (BBVA), presents one such opportunity as it has some specific features which we believe make it an attractive investment. Chris du Toit and Tamryn Lamb elaborate.

News flow drives market movements in the short term. People tend to overreact to both good and bad news, which creates opportunities for contrarian long-term investors like Orbis and Allan Gray. More often than not it is the bad news that attracts us, as our philosophy leads us to buy shares that have recently fallen out of favour and where we are able to build conviction in a view that is different from that prevailing in the market. Clients have come to know this philosophy well and often ask us to explain our research process and give them examples of where we are seeing such contrarian opportunities.

> "... we always look to buy shares that trade at a significant discount to our estimate of intrinsic value."

The research process

Our research process starts with identifying potential opportunities through a combination of qualitative and quantitative screening tools. Screening for shares where the price has fallen significantly and where current operating metrics appear inconsistent with the company's long-term track record helps uncover opportunities. In such instances, we look to build conviction that the current issues causing the share price to fall are temporary in nature, and that the business' franchise and underlying competitive positioning are not materially damaged. As long-term shareholders in these companies, we are reminded of Winston Churchill's quote that 'difficulties mastered are opportunities won'.

The critical question is how the fall in the share price compares to the permanent fall in the intrinsic value of the business. If the fall in the share price is greater than the fall in intrinsic value an interesting investment opportunity may arise. However, the market is often right and the current price is in many instances a fair reflection of the underlying value of the business. Given the inherent uncertainty of investing, we look to mitigate this risk by requiring a 'margin of safety' in case our assumptions turn out to be wrong. Simply put, we always look to buy shares that trade at a significant discount to our estimate of intrinsic value.

Putting processes into practice

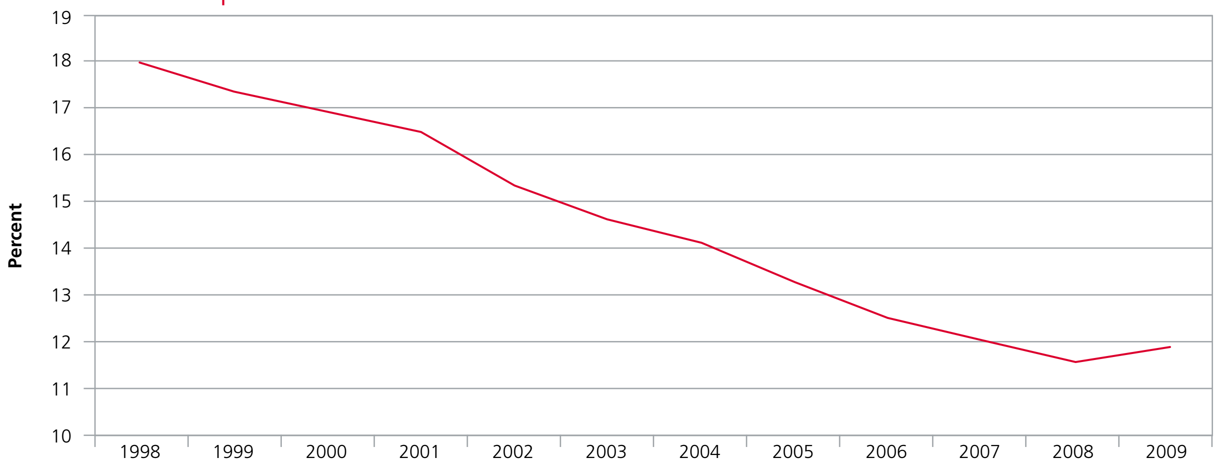
Following the financial crisis of 2008-2009, shares of banks in developed markets were under severe pressure. While the sector did experience a recovery off the lows tested in early 2009, many banking shares, particularly those in Southern Europe, came under pressure again, largely due to fears of contagion from Greece's fiscal deficit issues to other countries such as Portugal, Spain and Italy. Against this backdrop, we were conducting a concerted research effort to see if we could uncover any attractive investment opportunities.

BBVA – a contrarian investment opportunity

Banco Bilbao Vizcaya Argentaria (BBVA) is a Spanish bank focused on the retail market. Sentiment towards Spanish banks in general has turned extremely negative, due to concerns about the state of the Spanish banking system and economy. Although we too are concerned about the Spanish economy and the risks facing the bank's Spanish operations, we believe this company has some specific features which make it an attractive investment.

BBVA is listed in Spain but is a globally diversified bank, with only 37% of its operating income coming from Spain and Portugal. BBVA's market share of lending in Spain itself has

GRAPH 1 | BBVA's lending share in Spain (%)



Source: BBVA presentation

fallen over the last 12 years (see **Graph 1**), a comforting trend given the low quality of lending that took place in the market.

The biggest protagonists in the explosive loan growth seen in Spain in the years running up to the onset of the global financial crisis were the Spanish savings banks or 'cajas', which are controlled by the respective local and regional authorities. These cajas pursued market share aggressively with seemingly little attention paid to risk-adjusted returns. The Spanish government is now in the process of restructuring its banking system and is facilitating a merger and rationalisation process, which we anticipate will result in a significant number of cajas disappearing, and a potential closure of up to 20% of Spanish branches. These formerly aggressive, pure domestic rivals will thus be focusing on recapitalisation and restructuring. This means that BBVA, with its high cost efficiency and national presence, is well positioned to benefit – in much the same way as healthy institutions benefited from the Savings and Loans crisis in the US in the 1990s.

"Bad news and share price declines often show us where to look, but the key is still the research process."

But it is the non-Spanish opportunity which is even more intriguing. While its share price has been pummelled along with its local peers, the market appears not to have taken account of BBVA's attractive franchise outside Spain. It was the first international bank to develop operations in Mexico and has a strong competitive position, holding 34% market share. The level of loans in the Mexican economy is still very low compared to other countries (household debt is only 13% of GDP, compared to 80% in Spain). Furthermore, the size of the bankable population and its income is expected to grow over the next 10 years. All this is good news for Mexican banks. Mexico and South America already account for approximately 45% of BBVA's operating income, and over our investment horizon we expect this to increase further.

Further loan losses remain a risk. However, our analysis indicates that BBVA is profitable enough to withstand severe loan losses, comparable to those that occurred during the Great Depression and the property market collapse in Japan in the early 1990s. The bank is trading on a price-earnings ratio of only six times our estimate of normal earnings, which we believe suggests that many of the market's fears about banks are now reflected in the price. This makes BBVA an attractive long-term investment.

We may be too early (or indeed, wrong). However, instead of unduly focusing on the short-term timing, we believe our clients' interests are best served by us maintaining an unerring focus on our long-term horizon. At the end of September 2010 BBVA made up 2.4% of the Orbis Global Equity Fund.

Performance does not come in a straight line

While we have confidence in the long-term viability of our research-intensive process, it is critical for observers to note that the benefits of this approach do not come in a straight line – we can, and do, have periods of underperformance which can last longer than just a few quarters.

Although buying shares below what they are worth means our ideas will always be contrarian, we will not buy every share that is underperforming. We are not contrarian for its own sake, but use our broad research team to probe for situations where we can distinguish between price and value. Bad news and share price declines often show us where to look, but the key is still the research process.

Chris is a qualified actuary and has been a member of the institutional client servicing team since 2004.

Tamryn joined Orbis in 2006 as an investment analyst, with her primary focus being the research of European equities. From 2010, she has taken on more client facing responsibilities. She is a CA (SA) and CFA charter holder.

Sandy McGregor

Deflation

EXECUTIVE SUMMARY: It seems the world may divide into two distinct camps: the mature economies gripped by deflation and stagnation, and the emerging markets, which continue to grow strongly. Sandy McGregor discusses how deflation can become a serious obstacle to prosperity, and governments may lack the power to reverse deflationary forces.

If one were to ask financial policy makers in Europe or the United States what their greatest fear is, the probable answer would be deflation. Deflation can be described as 'a continuing and general decline in the prices of goods, services and assets'.

Deflation and growth are not necessarily incompatible

When the aggregate level of debt in society is low, deflation can have a positive effect on economic growth. Falling prices allow consumers to increase the quantity or quality of goods which make up their shopping baskets, thereby increasing general wellbeing.

In the *laissez faire* conditions prevailing prior to 1914, there were periods of severe deflation during which the world economy grew strongly. For example, the advent of railways and steamships gave Europe access to much cheaper food produced in the rich agricultural regions of the Americas. Lower food prices caused hardship among Europe's farmers, but boosted the living standards of industrial workers. To a large degree economic growth depends on making things cheaper. Deflation and growth are not necessarily incompatible.

"... deflation can have a positive effect on economic growth."

However, in a highly indebted society deflation can severely impede prosperity. When borrowers find it necessary to reduce their levels of debt, either for reasons of prudence or because access to credit has been withdrawn, loan repayments become their priority, reducing the amount that can be spent elsewhere. Savings increase and spending declines. Economic growth slows. Inflationary pressures abate. We are currently witnessing this process as highly indebted consumers and governments in Europe try to get their balance sheets in order. The greater the debt burden, the greater the risk of a deflationary contraction.

The great deflation of 1925-1935 was a seminal event. Initially falling prices in the period 1925-1929 did not have adverse consequences for growth. However, after 1929 excessive international debt could not be serviced, which resulted in a severe contraction in world trade, a series of banking crises and the worst of depressions.

The crisis of the 1930s and the Second World War transformed the role governments play in the economy. Big government became the order of the day. Proponents of state intervention found justification in the ideas of economist John Maynard Keynes, who argued that fiscal policy should be conducted in a counter-cyclical way to stabilise economic growth. An unintended by-product of the rise of government's role in the economy was persistent inflation. Initially inflationary pressures were mild, but ultimately the Keynesian response to the oil shocks of the 1970s generated a massive rise in prices. Even after the situation was brought back under control by a combination of real interest rates, globalisation and deregulation, inflation persisted in most developed countries, albeit at low levels of about 1% to 3% per year. The entire theoretical paradigm and policy framework assumed a background of rising prices.

A different story in Japan

However, there was one country whose economy behaved totally differently from the predictions of mainstream

Keynesian and monetarist theories. In Japan during the late 1980s, prices of property and shares rose to totally unsustainable levels. Business was heavily indebted. High interest rates pricked the asset bubble. The economy went into recession. The government tried to restore growth by spending money on infrastructure – the Keynesian solution. It did not work. They tried to generate inflation by printing money. This did not work either. Both the Keynesian and monetarist responses failed. The stimulus merely increased savings and had little impact on the real economy. Japan has been in a state of deflationary stagnation for 20 years.

America has persistently criticised Japan, saying that its measures have not been aggressive enough, despite the fact that Japanese government debt now exceeds 190% of GDP. However, the US and Europe's massive responses to the Lehman and Greek crises have precipitated government debt crises from which it will be very difficult to escape. The cure for problems caused by excessive debt cannot be even more debt. This is especially true of the euro area where governments do not individually have the flexibility to debase their currency. But even the US and UK may be on the same path as Japan. Fiscal deficits are so large that they cannot be increased. Private savings, both of individuals and companies, are rising as debt is repaid. Consumer spending is under pressure.

A significant feature of a deflationary economy often is a rise in exports. For example, the growth that Japan has experienced has been entirely due to growing exports: exports as a proportion of GDP rose from 5% in 1990 to 14% in 2009. Similarly, German exports have grown strongly over the past decade. With strong growth in emerging markets, one can expect European and US exports to grow while their domestic economies stagnate. The pronounced trade imbalances of recent years will be reduced – yet another manifestation of rising savings in the developed world.

Rising savings and stagnant domestic consumption is a formula for price stability or deflation. The best panacea for excessive debt is growth in the nominal value of GDP, which can be achieved through a mixture of real growth and inflation. However, there is significant risk that Europe and America will get neither, and they will be condemned to repeat the experience of Japan. The frightening lesson from Japan is that governments may lack the power to reverse deflationary forces.

How should one invest in a deflationary world?

A key point is that while half the world – America, Europe and Japan – may sink into deflationary stagnation, the other half, where the large majority of the world's population lives, will continue to grow strongly. The balance sheets of emerging markets are strong, with large foreign exchange reserves and relatively low levels of indebtedness. The danger in emerging markets is not deflation but inflation. In practice, the reserve status of the dollar allows the US to export its monetary policy to the rest of the world. Consequently, emerging market interest rates are generally too low. Strong growth and low interest rates is a combination which promotes inflation. The world may divide into two distinct camps, the mature economies gripped by deflation and stagnation, and the emerging markets which enjoy a combination of inflation and growth.

As an emerging market South Africa will benefit from this dynamic. Of course we have many problems which might prevent us from achieving the same growth rate as other more flexible and less regulated economies. However, growth in Africa will create opportunities for South African business, and we should also benefit from the demand for commodities, especially in Asia.

While we cannot definitely assert that there will be a deflationary crisis in developed markets, there is a significant possibility that this will happen. Governments would welcome moderate inflation and will do what they can to get it. However, their efforts to reverse the deflationary tide may fail, just as the Japanese government's efforts have failed. Investors must be cognisant of this and structure their portfolios accordingly.

Sandy joined Allan Gray in October 1991. His current responsibilities include the management of fixed interest and individual client portfolios. Previously he was employed by Gold Fields of South Africa Limited for 22 years where much of his experience was focused on investment-related activities.

Taryn Hirsch

What safeguards are in place to protect your individual investments?

EXECUTIVE SUMMARY: At Allan Gray we believe that a critical part of your investment decision is arming yourself with full knowledge of the risks you will be exposed to. There is no such thing as a risk-free investment, but one of the best ways to mitigate risk is knowing what you are getting yourself into from the beginning, and understanding the safeguards that are, or are not, in place to protect you.

Understand what you invest in

By definition, all investors are exposed to investment risk. For managed investments, the nature of the risk varies greatly depending on the objective and the mandate given to the manager. As an individual investor, before you select a unit trust you need to be very clear on your goals. Your time horizon, return objectives and your ability to stomach ups and downs all need to be compared against the return objective and characteristics of the funds you are considering.

In considering a fund's objectives you need to examine its mandate, which dictates how the fund is managed. This is usually summarised to investors in marketing material, but more detailed information is contained in the fund's trust deed. The deed is a comprehensive document and includes the fund's return objectives, performance benchmarks, liquidity requirements, fees and specific investment parameters with which the fund managers must comply.

> "A good unit trust … does not surprise investors who have chosen to invest in the fund based on its objective."

Investment parameters consist of guidelines and restrictions imposed either by the client, by regulations, or the asset manager's own internal investment rules. For example, a parameter would be the limit on the amount of equities that may be held in a fund.

Of course if you do not have the time, expertise or confidence to research your options, you may be better off seeking the advice of an independent financial adviser. Independent advisers are able to provide an objective and well-considered view of all the factors that can affect which fund may be best for you.

But how do you know that the fund manager is going to stick to his/her objectives?

A good unit trust 'does what it says on the tin' over time, and does not surprise investors who have chosen to invest in the fund based on its objective. There are many theories and statistical measures of risk and they boil down to one key factor: the level of uncertainty that you can expect. The financial services industry makes sure that unit trusts stick to their objectives by enforcing the provisions of the Collective Investment Schemes Control Act 2002 (CISCA). This Act requires all unit trusts to appoint an independent trustee – usually a bank – to ensure that the unit trust adheres to its investment objectives and acts in your best interests. The trustees include an assessment of how the fund has been administered over the course of the year in the unit trust annual report, which is made available to all investors. If you invest via Allan Gray Unit Trust Management Limited the trustee is First National Bank.

Similarly, retirement funds (including retirement annuity and preservation funds) have trustees who make sure they are acting in their members' best interests. Trustees send an annual benefit statement to the members each year to report on their findings.

Understand the company that handles your investments

In addition to its trustee requirements, the CISCA provides an assurance that any money or other assets received from an investor are regarded as trust property. Likewise when you invest via an investment platform your money is held in trust by a nominee company approved by the Financial Services Board (FSB). When you invest through our investment platform, Allan Gray Investment Services Limited, as the administrator, cannot directly hold your assets. These assets are held by Allan Gray Nominees Pty Limited. Legislation dictates that trust property, i.e. the assets the nominee company administers, and those that are under the control of unit trust trustees, under no circumstances form part of the assets or funds of the financial institution itself. Because you are invested in a protected fund and not in the company, if anything goes wrong with the investment management company, your money is safe from its creditors.

The FAIS Act ensures fair and appropriate treatment

In addition to the safeguards discussed above, you are also protected through the Financial Advisory and Intermediary Services Act 2002 (FAIS Act), which sets broader compliance parameters. The FAIS Act, which came into force in 2004, ensures that you are treated fairly and appropriately in your dealings with financial services providers (FSPs) and that all FSPs act with integrity and in the best interests of their clients and the financial services industry.

The FAIS Act regulates the activities of anyone who gives advice or who provides administration or investment management services on certain financial products. It requires all providers to be approved and licensed by the FSB and to operate according to codes of conduct. By making use of an appropriately licensed financial adviser, you are protected under the FAIS Act. This means you can complain to the FAIS Ombudsman if you feel that you have not been given proper and/or objective advice.

Reputation is key

Unfortunately, legislation offers little prospective protection against outright fraud. Investors have to make a decision about whether their chosen fund manager is trustworthy and often do so on the basis of very little research. The combination of reputation, which on its own would not have saved the friends of US Ponzi schemer Berni Madoff, and some simple disciplines like checking published audited annual statements, can reduce this risk dramatically.

Aside from ethical issues, the reputational risk that accompanies untoward action is a powerful incentive for an asset manager to monitor and prevent mismanagement and fraud. Good asset managers understand that the single most important precondition for operating a successful investment management company is the earned trust of clients.

Taryn joined Allan Gray in 2009 as legal adviser to the retail business. Following a stint at an international law firm in Tokyo, Taryn spent eight years at a South African law firm where she was a director.

Henk Pieterse

Investing made not so scary

EXECUTIVE SUMMARY: Many people find investing in financial products intimidating and complicated, and so they procrastinate and miss out on the benefits of being invested for longer. Our new advertising campaign aims to show that investing does not have to be 'scary'.

Most advertising is an invitation to purchase a product or service. For us it is more than this, and more than just building brand awareness; we aim to communicate a message that allows investors and potential investors to deepen their understanding and knowledge of Allan Gray.

Although our advertising typically focuses on our investment philosophy and the long-term investment approach we follow, our research has shown that potential investors who may share our approach often have perceptions about Allan Gray (and the financial services industry in general) that prevent them from considering investing with us.

With this in mind, our new print and online advertising campaign aims to tackle the barriers that prevent people from entering the investment space. Our objective is to remind you, our valued investors, of our core values as they are expressed in our products, while at the same time communicating to potential clients that it may be easier to invest with Allan Gray than they realise. As usual, we aim to do this in a way that is congruent with the Allan Gray brand.

"... our new print and online advertising campaign aims to tackle the barriers that prevent people from entering the investment space."

The rationale behind the idea

The financial services industry in South Africa presents investors with a vast amount of choice – there are a number of brands to choose from, each offering investors a wide selection of products and funds. But although spoilt for choice, many would-be investors are intimidated by the industry, perceiving it to be only for the in-the-know and the wealthy.

The creative idea behind our new campaign hinges on taking something that generally creates a sense of fear and then decreasing the scariness, to show investors how we make investing 'not so scary'. Look out for these adverts in newspapers and magazines: you may see a fierce-looking dog with bows on its ears; a cute little girl trying to make a scary face with a torch or a big, hairy spider which on close inspection has a 'made in China' sign engraved on its rear.

If you read the text with each picture you will see that we aim to create a better understanding of Allan Gray by highlighting key attributes that make the investing process less intimidating:

Investing with Allan Gray is simple and affordable

You need only R500 per month to invest with Allan Gray. We have a simple range of nine unit trusts designed to meet the needs of most investors. These unit trusts provide you with an affordable way to access the financial markets. For a relatively small amount of money, you can benefit from the expertise of a team skilled in managing money, and backed by highly experienced researchers. Our unit trusts are intended to be easy to understand, with names that clearly reflect their investment mandates.

You get flexibility and accessibility

You can invest a lump sum and/or set up a monthly debit order to invest a regular amount, and you can make additional contributions whenever you like. Meanwhile, we keep things flexible by giving you the ability to switch between unit trusts at no charge as your needs change. In addition, although we believe that it is best to leave your money invested over the long term, you may withdraw some or all of your money from our unit trusts at any time, with no notice and at no cost.

But you need to understand our investment philosophy

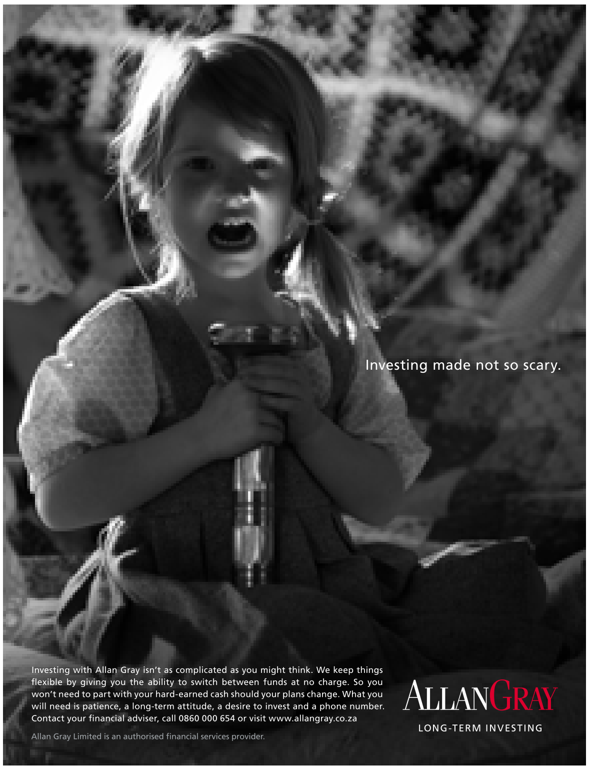
As with our other advertising, this new campaign reminds investors that all you need is patience and a long-term attitude. We are committed to consistently delivering the best investment performance to our clients over the long term. Ultimately it is the returns that an investor achieves that matter, not just the investment returns we generate – and investor returns are a combination of fund manager performance and investor behaviour (as we have discussed in detail in previous issues of the Quarterly Commentary*).

Although it is relatively simple to invest with Allan Gray, it is important to us that investors understand this partnership.

We welcome your opinion

We know that advertising is subjective, but we hope that our new campaign manages to deliver its message: investing does not have to be as complicated as you might think. As always, we are interested in hearing your thoughts and feedback.

*Q2 2009 Jonathan Brodie and Trevor Black: 'Turmoil reigns in the markets, what should I do next?'
Q3 2008, Richard Carter: 'How can you improve your investment returns?'



Investing with Allan Gray isn't as complicated as you might think. We keep things flexible by giving you the ability to switch between funds at no charge. So you won't need to part with your hard-earned cash should your plans change. What you will need is patience, a long-term attitude, a desire to invest and a phone number. Contact your financial adviser, call 0860 000 654 or visit www.allangray.co.za

Investing with Allan Gray isn't as complicated as you might think. We keep things simple by focusing on just nine funds, and by calling those funds what they are. So you won't need to spend too much time figuring them out. What you will need is patience, a long-term attitude, a desire to invest and a phone number. Contact your financial adviser, call 0860 000 654 or visit www.allangray.co.za

Henk joined Allan Gray in 2008 and heads up marketing. After qualifying as a CA (SA) he entered the financial services industry and has worked in areas of strategy, marketing, client service, finance, operations and information technology.

Edgar Loxton

Dirk Steyn

Our long-term technology investment

EXECUTIVE SUMMARY: Seamless administration is a key component of the superior client service we strive for at Allan Gray. In keeping with our long-term approach, over the last few years we have been developing and investing in the technology we use every day to manage your investments. We are thus excited to announce that our new portfolio management and portfolio administration systems are finally operational. Edgar Loxton and Dirk Steyn elaborate.

'Any sufficiently advanced technology is indistinguishable from magic.' (Arthur C Clarke)

Motivating factors

At Allan Gray we see technology as a key enabler. Therefore, we regularly assess business and client needs and evaluate how our systems are managing these demands.

A few years ago it became apparent that the programming language we were using was becoming obsolete. Given that it was also becoming difficult to find software developers to extend and maintain our systems, we decided to begin upgrading our technology.

The process

We spent about six months rigorously researching our requirements in order to select our new systems. This planning phase required substantial senior management involvement. From the outset we knew it would take some time to achieve a satisfactory solution.

"Seamless administration is a key component of the superior client service we strive for at Allan Gray."

The technology has been given a complete overhaul, benefiting many areas of our business from portfolio management (the actual money managing/investment side), to portfolio administration (which includes, amongst others, institutional compliance, reporting, client record keeping as well as unit pricing). At the project's peak, there were around 70 people committed full time.

The new architecture comprises a number of best-of-breed systems which have either been customised to suit our needs or developed internally. At the core is local financial software company, Fundamental's Portfolio Manager. Fundamental redeveloped its existing product into a solution that would have maximum benefit for us.

Taking a long-term approach

The initial development was completed in 2007. Testing commenced in 2008, with significant focus placed on the integration of the various applications, accuracy, performance and stability. We spent a lot of time interrogating all the components to get them absolutely right.

As an Allan Gray investor you are most likely aware that we always take a long-term approach. This extends into all areas of our business. Rather than put a deadline on our development work, we kept at it until we were satisfied with the quality.

We are now in a very normal 'settling in' phase, a period of stabilisation. We believe we are well positioned to service your immediate needs, and to address future requirements as they arise.

Edgar joined Allan Gray in 1988. He serves as operations director for the Allan Gray group, chairman of Allan Gray Unit Trusts, director on various boards in the group and trustee on the Allan Gray retirement funds. He holds a BCom Hons and MBA.

Dirk joined Allan Gray in 2008 and heads up strategic initiatives. He has spent nearly 20 years in the financial services industry in various actuarial, operational and consulting capacities.

Allan Gray Balanced Fund quarterly disclosure as at 30 September 2010

	% of Fund
South African equities	**48.1**
Resources	**14.0**
Sasol	6.0
Anglogold Ashanti	3.4
Harmony Gold Mining Co.	1.5
BHP Billiton Plc	1.0
Anglo American Plc	0.7
Positions individually less than 1% of total JSE-listed securities held by the Fund	1.5
Financials	**6.9**
Sanlam	2.7
Standard Bank Group	1.2
Reinet Investments SA	1.1
Positions individually less than 1% of total JSE-listed securities held by the Fund	1.8
Industrials	**26.5**
SABMiller Plc	6.4
Remgro	4.2
MTN Group	2.3
Dimension Data Holdings Plc	1.8
Sappi	1.5
Nampak	1.2
Sun International Limited	0.8
Illovo Sugar	0.8
Tongaat-Hulett	0.7
Netcare Limited	0.7
Telkom	0.6
Mondi Plc	0.6
Compagnie Fin Richemont SA	0.6
Positions individually less than 1% of total JSE-listed securities held by the Fund	4.3
Other securities	**0.7**
Positions individually less than 1% of total JSE-listed securities held by the Fund	0.7
Equity Linked Derivatives	**-1.2**
ALSI 40 1210-RMB	-1.2
---- Net South African equities ----	*46.9*
Hedged South African Equities	**1.2**
Commodities	**3.4**
New Gold ETF	3.4
Money market and call deposits	**18.9**
Bonds	**9.8**
Government Bonds	5.9
Bank Bonds	2.8
Corporate Bonds	0.6
Parastatal Bonds	0.6
Foreign deposits	**0.2**
US$ Traded Call	0.2
Euro Traded Call	0.0
Foreign - JSE inward listed shares	**3.6**
British American Tobacco Plc	3.6
Foreign - Orbis absolute return funds	**7.7**
Orbis Optimal SA Fund (US$)	4.5
Orbis Optimal SA Fund (Euro)	3.1
Foreign - Orbis equity funds	**8.3**
Orbis Global Equity Fund	5.2
Orbis Japan Equity Fund (Yen)	2.0
Orbis Japan Equity Fund (US$)	1.0
Totals:	**100.0**

Note: There may be slight discrepancies in the totals due to rounding.
The quarterly disclosures of our complete fund range are available at www.allangray.co.za

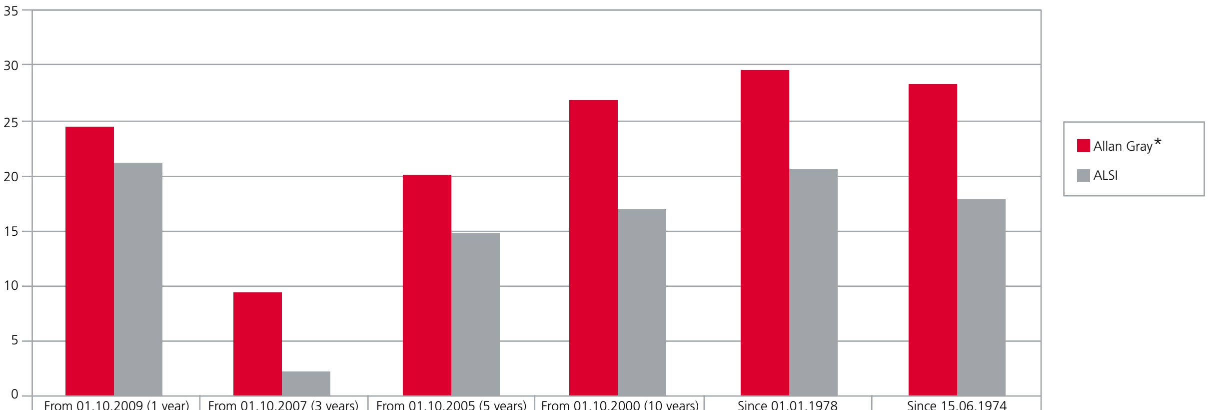
Total Expense Ratios (TERs)

	Equity Fund	Balanced Fund	Stable Fund	Optimal Fund	Bond Fund	Money Market Fund	Global Fund of Funds	Global Equity Feeder Fund
Performance component	1.40%	0.57%	0.12%	0.00%	0.45%	0.00%	0.60%	0.80%
Fee at benchmark	1.71%	1.17%	1.17%	1.14%	0.29%	0.29%	1.34%	1.49%
Trading costs	0.11%	0.08%	0.05%	0.14%	0.00%	0.00%	0.16%	0.14%
Other expenses	0.01%	0.02%	0.02%	0.01%	0.06%	0.01%	0.08%	0.06%
Total Expense Ratio (TER)	3.23%	1.84%	1.36%	1.29%	0.80%	0.30%	2.18%	2.49%

A Total Expense Ratio (TER) of a portfolio is a measure of the portfolio's assets that were relinquished as a payment of services rendered in the management of the portfolio. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of June 2010. Included in the TER is the proportion of costs incurred by the performance component, fee at benchmark and other expenses. These are disclosed separately as percentages of the net asset value. Trading costs (including brokerage, VAT, STT, STRATE, levy and insider trading levy) are included in the TER. A high TER will not necessarily imply a poor return nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.

Allan Gray Limited global mandate share returns vs. FTSE/JSE All Share Index

Period	Allan Gray*	FTSE/JSE All Share Index	Out/Underperformance
1974 (from 15.06)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	-1.6
2008	-12.6	-23.2	10.6
2009	28.8	32.1	-3.3
2010 (to 30.09)	13.2	8.7	4.5
Annualised to 30.09.2010			
From 01.10.2009 (1 year)	24.3	21.1	3.2
From 01.10.2007 (3 years)	9.4	2.3	7.1
From 01.10.2005 (5 years)	20.1	14.9	5.2
From 01.10.2000 (10 years)	26.8	17.0	9.8
Since 01.01.1978	29.5	20.5	9.0
Since 15.06.1974	28.2	17.9	10.3
Average outperformance			10.3
Number of calendar years outperformed			27
Number of calendar years underperformed			8



	From 01.10.2009 (1 year)	From 01.10.2007 (3 years)	From 01.10.2005 (5 years)	From 01.10.2000 (10 years)	Since 01.01.1978	Since 15.06.1974
Allan Gray*	24.3	9.4	20.1	26.8	29.5	28.2
ALSI	21.1	2.3	14.9	17.0	20.5	17.9

Annualised to 30.09.2010

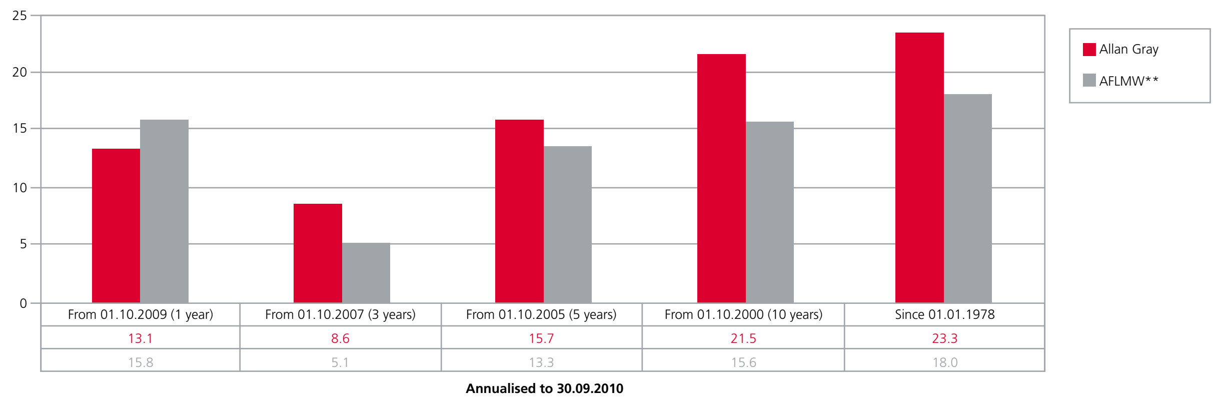
* Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income.

Note: Listed property included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown, before the impact of fees, to **R83 286 128** by 30 September 2010. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to **R3 881 285**.

Allan Gray Limited global mandate total returns vs. Alexander Forbes Large Manager Watch

Period	Allan Gray	AFLMW**	Out/Underperformance
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	-0.6
2008	-1.1	-12.3	11.2
2009	15.6	20.3	-4.7
2010 (to 30.09)	8.0	9.6	-1.6
Annualised to 30.09.2010			
From 01.10.2009 (1 year)	13.1	15.8	-2.7
From 01.10.2007 (3 years)	8.6	5.1	3.5
From 01.10.2005 (5 years)	15.7	13.3	2.4
From 01.10.2000 (10 years)	21.5	15.6	5.9
Since 01.01.1978	23.3	18.0	5.3
Average outperformance			5.3
Number of calendar years outperformed			25
Number of calendar years underperformed			7



** Consulting Actuaries Survey returns used up to December 1997.

The return from 1 April 2010 is the average of the non-investable Alexander Forbes Large Manager Watch. The return for September 2010 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown, before the impact of fees, to **R9 465 412** by 30 September 2010. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R2 243 851**.

Allan Gray annualised performance in percentage per annum to 30 September 2010

	3 MONTHS (unannualised)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
UNIT TRUSTS [1]								
EQUITY FUND (AGEF)	[3]	19.6	5.7	16.3	22.8	29.8	24 221.0	01.10.98
FTSE/JSE All Share Index		21.1	2.3	14.9	17.0	19.2		
BALANCED FUND (AGBF)	[3]	11.7	6.9	13.4	19.5	20.8	38 190.0	01.10.99
Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)		13.2	4.1	11.5	13.8	14.2		
STABLE FUND (AGSF) - (NET OF TAX)	[3]	4.0	7.8	10.3	12.7	13.2	30 566.7	01.07.00
Call deposits plus two percentage points (Net of tax)		5.9	7.8	7.4	7.7	7.7		
STABLE FUND (AGSF) - (GROSS OF TAX)	[3]	4.8	8.9	11.3	13.9	14.4	30 566.7	01.07.00
Call deposits plus two percentage points (Gross of tax)		8.0	10.6	9.9	10.4	10.4		
MONEY MARKET FUND (AGMF)	[3]	7.4	9.8	9.1	-	9.3	8 371.4	03.07.01
Domestic fixed interest money market unit trust sector (excl. AGMF) [2]		7.2	9.6	8.9	-	9.3		
OPTIMAL FUND (AGOF)	[3]	5.6	8.8	8.6	-	9.3	3 079.0	01.10.02
Daily call rate of FirstRand Bank Ltd		5.9	8.4	7.8	-	7.9		
BOND FUND (AGBD)	[3]	13.7	10.7	9.2	-	9.9	272.1	01.10.04
BEASSA All Bond Index (total return)		15.3	10.1	8.8	-	9.6		
GLOBAL FUND OF FUNDS (AGGF)	[3]	-13.1	1.8	6.8	-	5.9	6 203.8	03.02.04
60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index (Rands)		-0.4	0.3	7.1	-	5.9		
GLOBAL EQUITY FEEDER FUND (AGOE)	[3]	8.0	3.3	5.8	-	8.7	3 698.8	01.04.05
FTSE World Index (Rands)		-0.2	-6.4	4.7	-	6.3		
LIFE POOLED PORTFOLIOS								
GLOBAL BALANCED PORTFOLIO	5.1	13.5	8.6	15.7	21.4	21.4	16 305.4	01.09.00
Mean of Alexander Forbes Global Large Manager Watch [2,7]	9.1	15.8	5.1	13.3	15.6	15.3		
DOMESTIC BALANCED PORTFOLIO	7.1	19.2	10.3	17.8	-	22.4	6 364.4	01.09.01
Mean of Alexander Forbes Domestic Manager Watch [2,7]	11.3	20.1	7.3	15.2	-	18.0		
DOMESTIC EQUITY PORTFOLIO	10.8	23.5	9.0	19.9	-	26.1	6 600.2	01.02.01
FTSE/JSE All Share Index	13.3	21.1	2.3	14.9	-	16.4		
DOMESTIC ABSOLUTE PORTFOLIO	3.8	15.2	16.5	20.8	-	25.7	1 149.5	06.07.01
Mean of Alexander Forbes Domestic Manager Watch [2,7]	11.3	20.1	7.3	15.2	-	17.6		
DOMESTIC STABLE PORTFOLIO	2.9	11.7	11.7	14.6	-	16.8	1 571.5	01.12.01
Alexander Forbes Three-Month Deposit Index plus 2%	2.1	9.0	11.5	10.9	-	11.4		
DOMESTIC OPTIMAL PORTFOLIO [1]	-0.2	7.1	9.8	9.6	-	9.6	647.2	04.12.02
Daily Call Rate of Nedcor Bank Limited	1.4	6.1	8.8	8.1	-	8.0		
GLOBAL ABSOLUTE PORTFOLIO	1.6	9.7	14.4	18.5	-	20.8	1 550.9	01.03.04
Mean of Alexander Forbes Global Large Manager Watch [2,7]	9.1	15.8	5.1	13.3	-	17.4		
DOMESTIC MEDICAL SCHEME PORTFOLIO	2.8	11.5	11.6	13.8	-	15.5	1 364.6	01.05.04
Consumer Price Index plus 3% p.a. [2]	1.6	6.4	10.2	9.9	-	9.2		
GLOBAL STABLE PORTFOLIO	0.5	5.9	9.9	12.5	-	15.0	2 977.2	15.07.04
Alexander Forbes Three-Month Deposit Index plus 2%	2.1	9.0	11.5	10.9	-	10.6		
RELATIVE DOMESTIC EQUITY PORTFOLIO	10.6	21.3	5.8	17.4	-	25.9	364.1	05.05.03
FTSE/JSE CAPI Index	13.3	21.8	3.6	15.4	-	24.1		
MONEY MARKET PORTFOLIO [1]	1.7	7.7	10.0	9.2	9.7	9.7	510.9	21.09.00
Alexander Forbes Three-Month Deposit Index	1.6	6.8	9.3	8.8	9.4	9.4		
FOREIGN PORTFOLIO [1]	-5.5	-13.3	1.1	6.6	-	3.4	1 963.9	23.01.02
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index (Rands)	1.9	0.1	0.2	7.1	-	1.1		
ORBIS GLOBAL EQUITY PORTFOLIO [1]	0.4	-8.1	-3.5	6.0	-	9.1	2 491.9	18.05.04
FTSE World Index (Rands)	4.2	-0.2	-6.6	4.7	-	6.8		
SEGREGATED PORTFOLIOS [5]								
GLOBAL BALANCED COMPOSITE	5.0	13.1	8.6	15.7	21.5	23.3	27 521.9	01.01.78
Mean of Alexander Forbes Global Large Manager Watch [2, 4]	9.1	15.8	5.1	13.3	15.6	18.0		
DOMESTIC BALANCED COMPOSITE	7.3	19.1	10.2	17.8	22.9	23.9	23 479.7	01.01.78
Mean of Alexander Forbes Domestic Manager Watch [2,7]	11.3	20.1	7.3	15.2	17.7	18.6		
DOMESTIC EQUITY COMPOSITE	10.5	23.0	9.2	20.1	26.2	22.6	50 555.0	01.01.90
FTSE/JSE All Share Index	13.3	21.1	2.3	14.9	17.0	15.0		
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN COMPOSITE	3.1	8.4	8.2	15.2	20.9	20.2	5 695.1	01.01.94
Mean of Alexander Forbes Namibia Average Manager [2]	9.1	14.6	6.3	13.8	15.7	14.7		
RELATIVE DOMESTIC COMPOSITE	11.6	21.9	6.0	17.3	21.1	22.5	11 640.7	19.04.00
Weighted average of client specific benchmarks [2]	13.6	21.4	3.3	14.9	15.8	16.7		
FOREIGN BEST VIEW (RANDS) COMPOSITE	-3.0	-8.3	1.5	6.8	14.3	13.6	5 461.8	23.05.96
60% of the MSCI and 40% of the JP Morgan Global Government Bond Index (Rands)	1.9	0.1	0.2	7.1	4.3	9.9		
ORBIS FUNDS (RANDS) [1, 6]								
ORBIS GLOBAL EQUITY FUND (RANDS)	0.6	-8.2	-3.8	6.0	10.6	17.9	-	01.01.90
FTSE World Index (Rands)	4.2	-0.2	-6.6	4.7	1.7	11.4		
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	-10.4	-16.8	-2.5	0.3	3.2	12.0	-	01.01.98
Tokyo Stock Price Index (Rands)	-4.1	-7.9	-8.9	-1.0	-2.2	4.9		
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS)	-10.0	-11.9	3.9	6.1	-	8.8	-	01.01.05
US$ Bank Deposits (Rands)	-8.9	-7.3	2.1	5.1	-	7.0		
ORBIS OPTIMAL SA FUND-EURO CLASS (RANDS)	-1.4	-16.8	3.0	7.4	-	8.0	-	01.01.05
Euro Bank Deposits (Rands)	1.5	-13.4	1.3	7.2	-	6.5		
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	7.5	1.3	4.0	-	-	15.6	-	01.01.06
MSCI Asia Ex-Japan (Rands)	5.9	10.4	-2.1	-	-	14.2		

PERFORMANCE AS CALCULATED BY ALLAN GRAY

[1] The fund returns are net of investment management fees
[2] The return for the quarter ending 30 September 2010 is an estimate as the relevant survey results have not yet been released
[3] Unable to disclose due to ASISA regulations
[4] Consulting Actuaries Survey returns used to 31 December 1997. Alexander Forbes Global Large Manager Watch used from 1 January 1998. Alexander Forbes Non-Investable Large Manager Watch used from 1 April 2010
[5] The composite assets under management figures shown include the assets invested in the pooled portfolios above where appropriate
[6] Amounts invested by the Allan Gray client portfolios in the Orbis funds are included in the assets under management figures in the table above
[7] The mean returns of the Alexander Forbes Non-Investable Large Manager Watch used from 1 April 2010

Unit Trusts	A unit trust is a savings vehicle for investors who want to grow their money and may want to access it before they retire. Unit trusts allow investors to pool their money with other investors who have similar investment objectives. Unit trusts are also known as 'portfolios of collective investment schemes' or 'funds'. Allan Gray has nine funds in its stable: Equity, Balanced, Stable, Optimal, Money Market, Bond, Global Equity Feeder, Global Fund of Funds and Global Optimal Fund of Funds.
Retirement Annuity*	The Allan Gray Retirement Annuity Fund (RA) is a savings vehicle for investors looking for a flexible, tax-efficient way to save for retirement. Investors can only access their money when they retire. Individually owned RAs can be managed on a group basis, offering employers a flexible solution to the challenge of retirement funding for their staff.
Preservation Funds*	The Allan Gray Pension Preservation and Provident Preservation funds are savings vehicles for investors looking for a tax-efficient way to preserve existing retirement benefits when they leave a pension or provident fund, either as a result of a change in employment (e.g. retrenchment or resignation), or when they transfer from another preservation fund.
Endowment*	The Allan Gray Endowment Policy is a savings policy for investors who want a tax-efficient way to save, and wish to create liquidity in their estate.
Living Annuity*	The Allan Gray Living Annuity gives investors flexibility, within certain regulatory limits, to select an annuity best suited to their income needs after retirement. A living annuity provides investors with a regular income which is not guaranteed, and which is funded by growth on capital and income from interest and dividends.
Offshore funds	Through our partnership with Orbis we offer you a cost-effective way to diversify your portfolio by investing offshore. There are two options for investing offshore through Allan Gray: invest in rand-denominated offshore funds without the need to use your offshore investment allowance, or use your offshore investment allowance to invest in foreign funds.
Platform – Local and Offshore	Our investment platform provides you with access to all of our products, as well as a focused range of unit trusts from other fund providers. The platform enables you to buy, sell and switch at no charge between the funds as your needs and objectives change. South African investors who wish to diversify their portfolios can also access funds from certain other offshore fund providers via the same platform.
Life Pooled Portfolios	The minimum investment per client is R20 million. Mandates include risk-profiled pooled portfolios: Stable Portfolio, Balanced Portfolio and Absolute Portfolio; asset class pooled portfolios: Money Market, Equity and Foreign, and finally an Optimal Portfolio. Institutional investments are currently restricted to existing investors only (except for foreign mandates).
Segregated Portfolios	The minimum portfolio size is R500 million. Mandates are of a balanced or asset class specific nature. Portfolios can be managed on an absolute or relative risk basis. Institutional investments are currently restricted to existing investors only (except for foreign mandates).
Botswana	Allan Gray Botswana manages institutional portfolios on a segregated basis.
Namibia	Allan Gray Namibia manages institutional portfolios on a segregated basis and the Allan Gray Namibia Investment Trust provides investment management for Namibian retirement funds in a pooled vehicle.
Swaziland	Allan Gray Swaziland manages institutional portfolios on a segregated basis.
Allan Gray Orbis Foundation	The Allan Gray Orbis Foundation is a non-profit organisation that was established in 2005 as an education and development catalyst. It seeks to foster a next generation of high-impact leaders and entrepreneurs for the ultimate purpose of increased job creation in Southern Africa. The Foundation focuses on educational and experiential methods at the secondary and tertiary levels to realise the potential of bright young minds. Through its highly researched learning programmes, it intends equipping talented young individuals with the skills, attitudes and motivation to have significant future impact.
E^2	E^2 is a BEE trust which provides support and financing to black entrepreneurs. It aims to promote prosperity in South Africa through entrepreneurship.

* This product has unit trusts as its underlying investment option.

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