QUARTERLYCOMMENTARY2

30 JUNE 2011

ALLANGRAY

Inside this issue

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Rob Dower

Comments from the Chief Operating Officer

We are conservatively positioned in the portfolios that we manage for clients and have been for some time, to the extent that we have discretion to be so. This has not been in anticipation of the grand and worrying global economic and political events of the last six months, or even of future bad news. Instead of focusing on macroeconomic forecasting, our investment process means that we spend all of our efforts researching the microeconomic prospects of the companies in our investment universe. We use this careful research to make assessments of the fundamental long-term value of the shares and bonds of these companies. Where there is an appropriate margin of safety between the price of a share and our assessment of its long-term value, we will invest your money in that share. If we can't find enough attractively priced investments, measured on this basis, and we are allowed to do so by our mandates, we retain the balance of the funds entrusted to us in cash. Right now, and purely on the basis I have described above, we find ourselves with more than the usual portion of our balanced and stable mandates being held in cash.

It also happens right now that we are invested in cash at a time when interest rates are at a cyclical low. By simple economic logic, you would think that low interest rates would make shares relatively more attractive than cash. In fact, as is argued in our recent GrayIssue newsletter, penned this month by Duncan Artus (available via the 'Latest news' tab on www.allangray.co.za), history shows that the real rate of interest at the beginning of a period is a poor predictor of subsequent share returns. You will probably not be surprised that we believe that the only reliable predictor of long-term share returns is the fundamental analysis of company value. Therefore, for the time being, we prefer that your funds are invested in low yielding cash and available to invest in shares or bonds that may be more attractively priced in future, rather than invested in shares that our research shows to be overpriced at present.

This publication's main purpose is to help our investors to understand our investment and business philosophy in practice. In this issue, Delphine Govender considers the concept of investment risk, which we define as the probability of a permanent loss of capital. Delphine discusses how being consistently and consciously mindful of the possibility of a permanent loss of capital has not prevented us from seeking out the best long-term wealth creating investment opportunities for our clients.

Herd behaviour can easily lead to shares being mispriced. Widespread pessimism about a share can drive its price so low that it no longer reflects the company's underlying fundamentals, and understates its prospects. Equally, widespread optimism can result in unjustifiably high valuations. As contrarian investors we try to identify these situations, seeking to buy shares when they are undervalued and sell them (or avoid buying them) when they are overvalued. Ben Preston and Trevor Black from our offshore partner Orbis show how this approach is being played out in Japan today. As bottom-up stock pickers we have identified a number of Japanese companies whose prospects we are very excited about, even though we are not bullish on the Japanese domestic economy.

In my cover letter last quarter I discussed the revised retirement fund regulation and how it may affect you. In the last few months more light has been shed on this regulation. Please read the piece by Ian Barow and Taryn Hirsch from our legal team to find out if there is any action required from you.

Finally in this issue, in his inspirational update on the Allan Gray Orbis Foundation, Anthony Farr discusses how with its focus on growing leaders and entrepreneurs, the Foundation aims for a highly geared positive effect on the whole economy.

Thank you for your continued trust and confidence in our firm. We do not take it lightly.

Kind regards

Rob Dower

Delphine Govender

The risk that matters

EXECUTIVE SUMMARY: Discussions about investing are incomplete without including the topic of risk. Delphine Govender elaborates, focusing on the most important risk in investing in our view: the risk of permanently losing money.

"Risk: The possibility of loss, injury, or other adverse or unwelcome circumstance; a chance or situation involving such a possibility." (Oxford English Dictionary – 17th Century)

"Rule no.1: Never lose money and Rule no.2: Never forget Rule no.1." (Warren Buffet)

At Allan Gray, we define risk as the probability of a permanent loss of capital. However, we are mindful that other market participants and investors tend to focus on other definitions of risk which they see as being more relevant, namely:

1. Risk as volatility
2. Risk as being different from a benchmark or index

Risk is not volatility

One of the most commonly applied definitions to risk in investing is that of equating risk to volatility. Volatility (also referred to as 'standard deviation') essentially measures how much an investment's return varies from its average over time. Consider **Graph 1** where the black line illustrates a return series on an investment that from point (a) to (b) is highly volatile – falling, rising, falling, rising and so forth. An investor who sees volatility as risk would find such an investment very risky simply because the investment's returns vary frequently from the average return and move in different directions. With risk as volatility, the relationship between the intrinsic value of an investment and its price is downplayed, as is the intrinsic risk of the company's operations or financial structure. On the other hand, the bumpy journey between the two points is given considerably more weight and attention.

"...we define risk as the probability of a permanent loss of capital."

By contrast, however, the same investor may see an investment that follows the path of the red line between point (a) and (b) to be essentially risk-free, as the pattern of performance is a linear return. The fact that this same investment was wiped out at point (c) in a single event very soon after point (b) is not factored in, as up to that point the investment exhibited very low volatility in its returns.

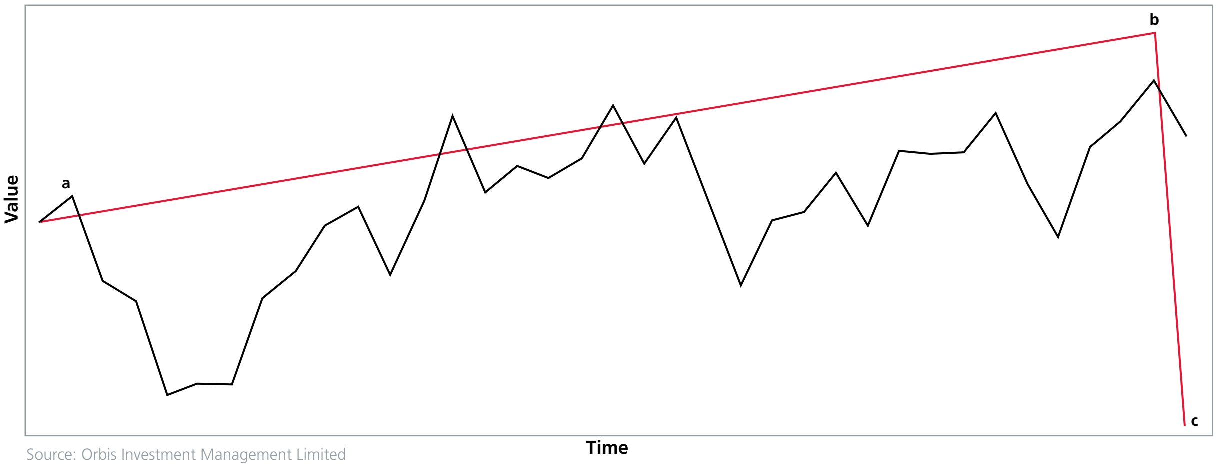
The problem we see with using volatility as a gauge of risk, is that volatility is mostly an indicator of changes in the perceived value of an investment based on the fluctuations of historic return patterns. It therefore gives you no sense of the possibility of an intrinsic looming threat to returns. In our opinion, the best predictor of returns is the price you pay for the investment relative to its intrinsic value and risk.

Risk is not being different

Another popular interpretation of risk is that risk is being different, as measured by tracking error. Tracking error is the statistical amount by which the returns of a particular share differ from those of a benchmark. A share whose returns differ widely from a specific benchmark (usually an index) is considered to have a high tracking error and is therefore considered high risk. We accept that for an investor whose objective is for returns to mimic an index, tracking error is a relevant risk measure. However, for an investor aiming to create long-term wealth, defining risk as tracking error simply does not make sense.

Consider the following example: to minimise tracking error, in June 2008 an investor concerned with this kind of risk may have attempted to keep his/her weighting in Anglo American, one of the two largest shares in the FTSE/JSE All

GRAPH 1 | Volatility does not tell the whole story



Source: Orbis Investment Management Limited

Share Index (ALSI), close to the index weighting of the share – around 16.5%. If the above investor was pessimistic about the prospects of Anglo American relative to the ALSI, he or she may have adopted an underweight position in the share versus its ALSI weight owning, for example, 5% less than the benchmark weight. So, despite being negative on Anglo American as an investment, the same investor could have in excess of 10% of his/her portfolio in the share.

The shortcoming of this approach is that, in reality from end June 2008 to 1 March 2009, Anglo American fell over 70% in absolute terms, while the ALSI fell about 40% over the same period. In other words, owning a share that is fundamentally overpriced, even if you are underweight its benchmark weighting, does not offer protection from the downside risk of that share.

"At Allan Gray we act…without fear of being different"

Risk is losing money

To us, investment risk is not about how variable a share's returns are over history, either versus its own average or that of any pre-selected benchmark. It is simply the probability of permanently losing money from an investment.

In concerning ourselves with risk in this way, it is important to be aware not only of the possibility of loss, but also the potential magnitude of the loss. Given a long-term history, you can assess this for a fund as the largest peak-to-trough decline in returns over the period, also known as the 'maximum drawdown'.

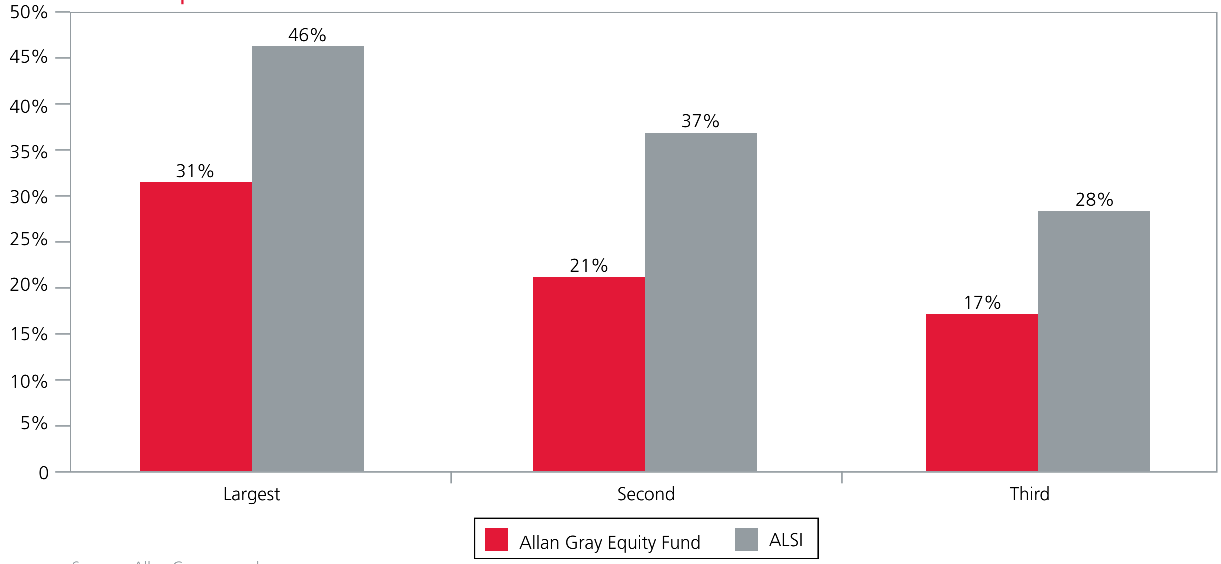
In **Graph 2** (page 4) we highlight in red the three largest drawdowns experienced in the Allan Gray Equity Fund (AGEF) since its inception in 1998, compared to that of the ALSI. As you can see, the single largest decline in the AGEF was a reduction in capital of 31%, whereas the largest drawdown in the ALSI was 46%.

Equally important is to consider how long it takes for an investment to bounce back following a decline – in investing speak, we refer to this as 'months to recovery'. Over its history, the average months to recovery in the AGEF is approximately nine months; the ALSI took more than double this time to recover (19 months).

Benjamin Graham, the father of securities analysis, maintained that a potential decline in the price of a share does not ultimately raise the risk of loss if the decline is temporary and if the probability of selling during the decline is low. Graham applied the concept of risk solely to a loss of value, which may be realised through actual sale; caused by a significant deterioration in the company's position; or, more frequently, may be the result of overpaying for an investment relative to its true intrinsic worth.

Since our primary definition of risk is the probability and the extent of capital loss, we always try to invest in businesses on behalf of our clients when share prices are well below our assessment of intrinsic value and we are offered some protection should things turn out worse than we forecast

GRAPH 2 | Largest drawdowns



Sources: Allan Gray research

(i.e. a 'margin of safety' exists). We believe that to invest where value is exceptional is not only the lowest risk, but also the most rewarding strategy. If our research shows that particular investments are overpriced, we consider them risky and will not purchase them for our clients. Conversely, we consider it prudent to invest in assets that we believe offer exceptional value even if they are out of favour and not represented in the average portfolios. This means that our portfolios often differ markedly from those of the average investment manager.

Being mindful of risk is not the same as being afraid

After reading this article devoted exclusively to risk and given our attitude towards investment risk, some readers might conclude that as an investment house we are extremely conservative. If being fiercely protective about preserving our clients' capital is considered highly conservative, then that is a label we will readily wear. If, however, conservatism is construed as being afraid to act boldly – then nothing could be further from our investment mindset and behaviour.

At Allan Gray we act with conviction, without fear of being different to consensus thinking, or the conventional wisdom of the day. Being consistently and consciously mindful of the possibility of a permanent loss of our clients' capital does not and has not precluded us from seeking out the best long-term wealth-creating investment opportunities for our clients. Internalising risk in the way that we do is a key aspect of our investment philosophy and perhaps one of the most important contributors to our long-term performance track record.

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

Mark Dunley-Owen

An alternative view of commodity demand and supply

EXECUTIVE SUMMARY: In Quarterly Commentary 1, 2011 Sandy McGregor discussed how high commodity prices are being supported by the mining sector's inability to keep pace with China's demand for energy and raw materials. Mark Dunley-Owen discusses the counter-argument.

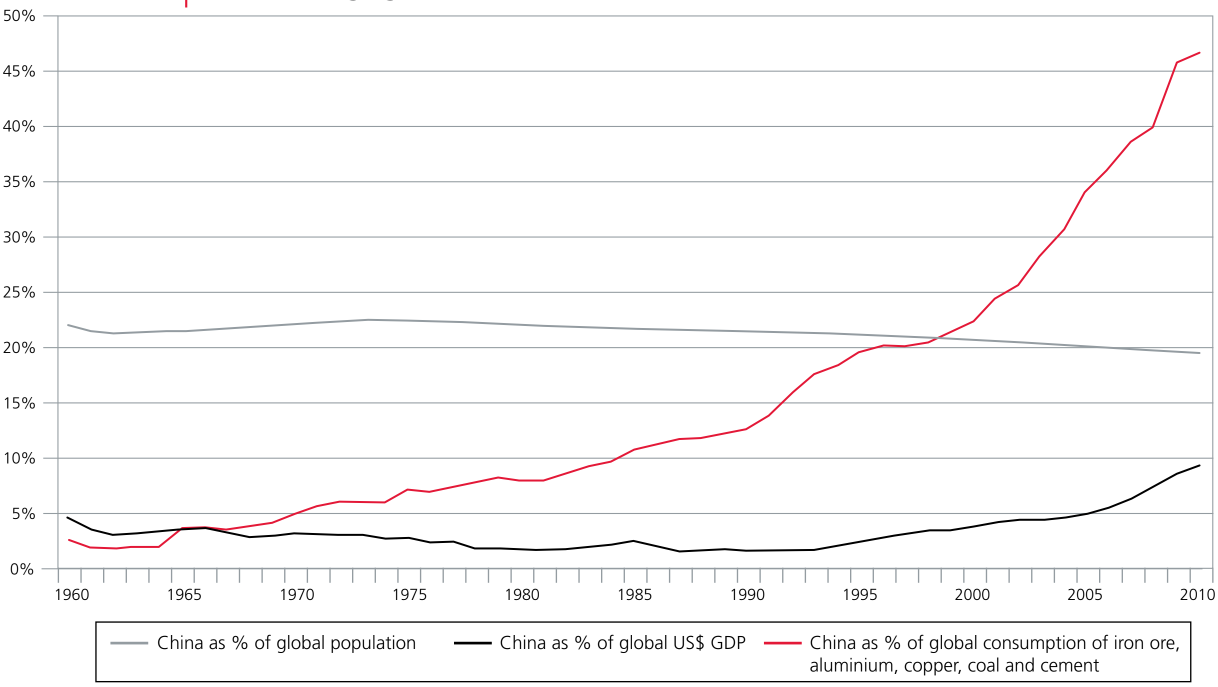
On a recent visit to China I was surprised both by the number of unfinished buildings as well as the lack of activity to complete them. A colleague counted more than 300 construction cranes along a 150 kilometre stretch of highway, of which only six were visibly operating. One wonders whether these buildings will be finished, who will buy them if they are, and if not what will happen to commodity prices.

Is China's commodity demand sustainable?

Graph 1 shows China's changing role in the world over the last 50 years. Despite quadrupling its share of world GDP over the last 15 years, it remains relatively poor with only 9% of global GDP from its 20% of the global population. What is more remarkable is that China consumed 46% of a global commodity basket[1] to generate its 9% of global GDP. China is using five times more of these commodities per unit of GDP than the global average, which is higher than most, if not all, historical precedents.

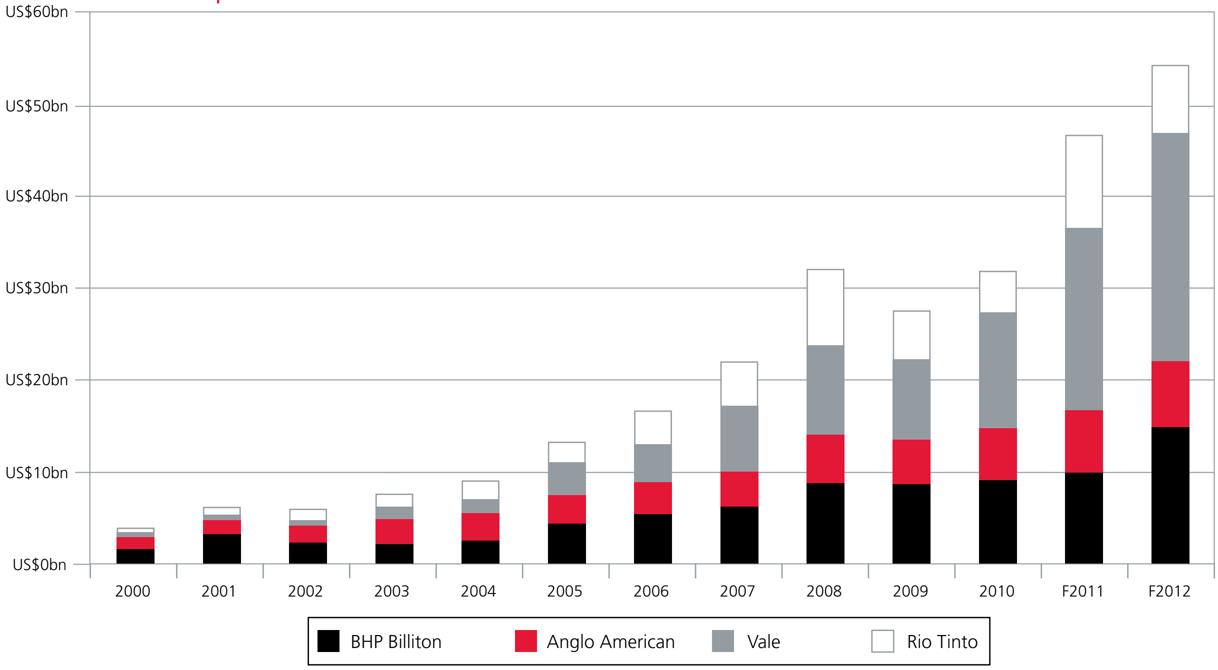
Typically, the further one moves from the mean, the more extreme the correction. China's commodity consumption should be no different. Some argue that high commodity intensity is normal for developing countries going through a building phase. This assumes China is building the right number of the right things. Many countries have failed to

GRAPH 1 China's changing role in the world



Sources: World Bank, UBS, BP

GRAPH 2 | Real capital expenditure, adjusted by OECD* inflation



* OECD = Organisation for Economic Co-operation and Development

Sources: UBS, Allan Gray estimates

achieve a similar goal and it is unclear why China should be more successful. Arguably, the risks are higher in China given its highly planned economy that incentivises growth over profitability.

Take for example the property market. According to the National Bureau of Statistics, 3.8 billion square metres of residential property was under construction in China at the end of 2010. Chinese official statistics are often disputed, but analysing China's 2010 cement consumption suggests that this figure is accurate[2]. To put this into context, more square metres of residential property are currently being built than have been completed cumulatively over the last eight years.

"... China consumed 46% of a global commodity basket[1] to generate its 9% of global GDP."

There is nothing wrong with building lots of housing provided fundamental demand justifies it. In China's case, 'only' one billion square metres of residential floor space was sold during 2010. This equates to about 11 million housing units or between 5% and 10% of China's urban housing stock, which sounds reasonable. This suggests that a sustainable level of residential property construction in China is a similar one billion square metres per year, or less than one-third of the current level.

Property markets seldom tolerate excess for long. China's level of construction will slow if it cannot sell what it builds. As this happens, global commodity demand will also slow.

Could commodity supply grow faster than demand?

We are not China experts and may be wrong about Chinese demand. Even so, commodity prices will not remain at current levels if supply grows faster than expected.

Most forecasts extrapolate poor historical supply growth into the future. This is unlikely to happen while commodity prices offer abnormal profits. At current prices, many iron ore mines break even in less than 18 months, and thereafter earn abnormally high returns. Other commodities are less profitable but still attractive. The rational response is for miners to invest large amounts of capital to grow supply to capture these profits.

Graph 2 shows the combined capital expenditure for four of the big global miners, namely BHP Billiton, Anglo American, Vale and Rio Tinto, over the last decade. The rise in money spent on future growth is impressive. The group expects to invest US$54 billion next year, the same amount in today's money that was cumulatively invested between 2000 and 2005. Although rising capital costs mean one dollar of investment buys less today than it did 10 years ago, the amount of money being spent suggests mining supply should grow strongly over the next few years.

Consider iron ore and copper. Prices of both are above their long-term averages as recent supply has struggled to keep up with Chinese demand. The market expects this to continue, yet iron ore projects already under construction are forecast to add one-third to existing supply. Similarly identified new copper mines could grow copper supply by 50%, on top of growth at existing mines. Geological and logistical constraints mean not all of this supply will be delivered, but some will. Unless China's demand continues to grow from already elevated levels, prices will fall.

Consensus views on current commodity prices seem to be anchored around recent history and do not factor in demand and supply risks. These risks may not imply an imminent crash but do favour caution.

[1] Basket defined as equal weighted iron ore, aluminium, copper, thermal coal and cement.
[2] China consumed 1.8 billion tonnes of cement in 2010, or 53% of global demand. Using industry estimates of 22% of cement used for residential property and 110kg of cement per square metre, this equates to building 3.6 billion square metres.

Mark is a member of the investment team. He joined Allan Gray in 2009 having worked at a number of international investment banks.

Ben Preston

Trevor Black

Japan: economic pessimism creates buying opportunities

EXECUTIVE SUMMARY: As bottom-up stock pickers, we believe that great investment opportunities can be found in even the most challenging conditions. Japan is a perfect example. Ben Preston and Trevor Black from our offshore partner, Orbis, explain why our holdings in Japan are not necessarily a reflection of our views on Japan. We agree that Japan's economic prospects are bleak – but widespread pessimism is precisely what allows us to buy well-managed companies at bargain prices.

'What on earth are you thinking?' It seems as if clients have been asking us some version of that question about Japan for more than two decades.

When the Orbis Funds were launched in 1990, Japan was the investment destination of choice – its stock market was near an all-time high and accounted for nearly 40% of the FTSE World Index. At the time, the Orbis Global Fund's exposure to Japan was precisely zero. Clients thought we were crazy to be missing out on such a great investment opportunity.

Today, Japanese stocks are hovering just 21% above the 27-year low that was set in March 2009 and they account for a mere 8% of the World Index. Orbis Global's allocation to Japan is 17% – more than double the benchmark weighting. Once again, clients think our stance on Japan is crazy, this time for the exact opposite reason.

Deviating significantly from index weights is not unusual for us – our unconstrained, contrarian approach to stock picking quite often produces portfolios that look radically different from their benchmarks (see **Graph 1**). But it is the reason behind those exposures that sometimes needs some explaining.

Intuitively it would seem that if we are significantly overweight in Japan we must be bullish on the economy. That is not true. More importantly, it is not the way we think about building portfolios. We do not allocate a certain percentage of capital to a country and then look for stocks to buy. Regardless of nationality, each individual investment idea must compete for clients' capital based on its own merit: the difference between price and our assessment of value.

"...each individual investment idea must compete for clients' capital based on its own merit: the difference between price and our assessment of value."

We wholeheartedly agree that Japan faces enormous challenges in the years to come. To say nothing of the terrible devastation caused by the 11 March earthquake and tsunami, Japan is struggling with a declining population and a government with one of the worst debt burdens in the world at 200% of gross domestic product (GDP). We have no illusions about any of this.

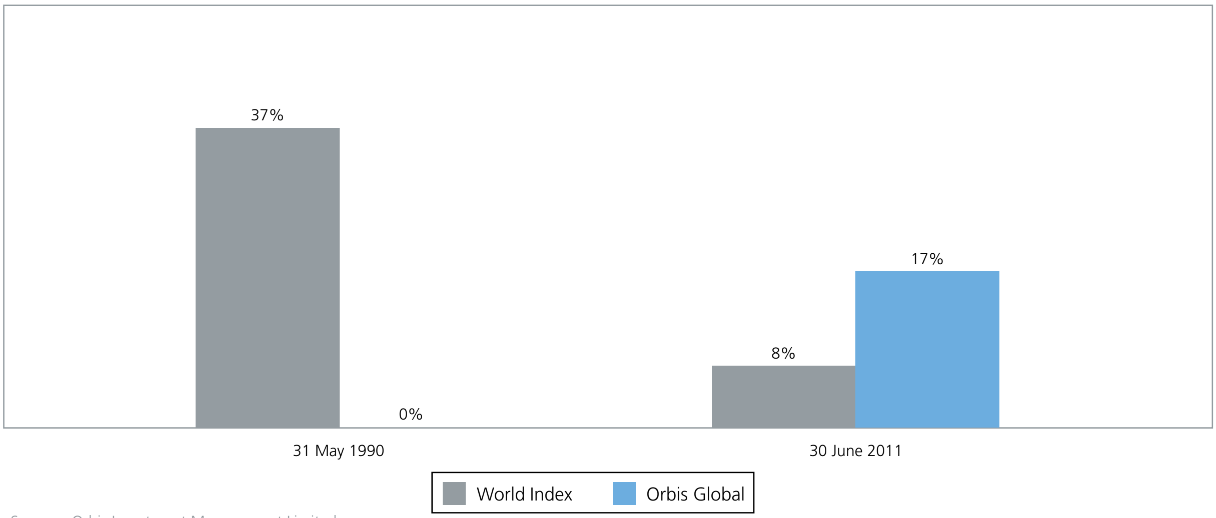
But that does not mean we cannot find compelling investment opportunities in the world's third-largest economy. In fact, we have identified a number of individual Japanese companies whose prospects we are very excited about, even if we are uncertain about the Japanese economy.

Japan's answer to Amazon.com?

Rakuten – the 7th largest holding in Orbis Global – is a perfect illustration. The company is an online shopping mall, somewhat akin to Amazon.com. Instead of carrying its own inventory, Rakuten simply provides a platform for independent merchants. Rakuten handles customer orders and collects payments through its website, but the merchandise is shipped directly from the sellers to customers. With 70 million members, which is more than half the population of Japan, and a network of 37 000 independent merchants, Rakuten is easily the largest e-commerce player in Japan.

While Japan's economy may be sluggish, online shopping is a rapidly growing industry with enormous potential. Online sales represent only 2-3% of total retail sales in Japan, compared to 7%-and-growing in the US and 10%-and-growing in the UK. As such, even though the total Japanese retail market is in

GRAPH 1 | Constrained vs unconstrained – exposure to Japan



Sources: Orbis Investment Management Limited

decline, Rakuten can continue to grow by taking market share from traditional retailers. In a densely populated country like Japan, shopping online makes sense: it is convenient, efficient and offers significant cost savings compared to operating a physical store. Rakuten's core business is growing at 15-20% per annum and we believe it can sustain that growth rate for many years to come.

Growth is one thing, but can it hold off the competition? We think Rakuten has some important competitive advantages. The first is the huge benefit of scale. Customers come to Rakuten because it has the biggest range of merchants; merchants come because Rakuten gives them the biggest potential customer base. This 'network effect' is nearly impossible for a competitor to replicate and it will only become more powerful as Rakuten continues to grow.

At about 18 times next year's estimated earnings, Rakuten's valuation is very reasonable given its growth potential. By comparison, Amazon trades around three times that multiple.

Risky – or just different?

Despite Rakuten's reasonable valuation and strong fundamentals, many investors would argue that filling 17% of your portfolio with Japanese companies is extremely risky. This school of thought argues that risk should be measured by 'tracking error' – or the extent to which a portfolio is different from its benchmark (see Delphine Govender's article on page 2 for a broader discussion on risk).

This has never made much sense to us. In fact, we would argue that investing along with the herd poses a far bigger risk. Sticking close to a benchmark usually means that you will end up buying high and selling low, which is the opposite of what we are trying to do.

That is precisely why we had no exposure to Japanese shares 21 years ago. As investors piled into Japanese stocks, the market became wildly overpriced – trading at more than 80 times earnings at its peak. In that environment, we could not find any attractive stocks to buy and yet our position regarding Japan was considered extremely risky, because it was different.

Of course, with hindsight we all know that the real risk in 1990 was being *in* Japanese stocks, not *out* of them. While stock markets in the rest of the world have increased many times over since then, Japanese stocks remain down more than 70%.

Today the herd is running in the other direction – away from Japan – and we are again being told that our position is risky because it is different. We cannot help but see the irony; if a 17% allocation to Japan would have been considered too little when the market was at its peak, why is it now too much when the market is so much cheaper? Of course, this time around the herd may prove to be right. But that is not to say that taking a different view is 'risky' – at least not according to our definition of risk.

To us, the only risk that matters is the risk of losing money – the permanent loss of capital. Not volatility. Not tracking error. Common sense tells us that paying too much for stocks, like so many investors did in Japan in 1990, is one of the easiest ways to lose money. The converse is not necessarily true – just because stocks are cheap does not mean you will make money, but it certainly tilts the risk-reward proposition in your favour. We continue to find stocks in Japan that trade well below our assessment of their intrinsic value. Quite often these are well-managed companies like Rakuten that have delivered significant growth in earnings and shareholder equity despite incredibly challenging economic conditions. If they could do it in the last decade, difficult as that was, why not also in the next?

Our intensive research process is designed to uncover attractive investment opportunities from all over the world, and often we find the greatest opportunities in markets that others choose to ignore. Just don't call us 'big on Japan'.

Trevor is a qualified actuary and certified financial planner. He joined Orbis in 2008 and is a member of the Investment Counsellor Group with a specific focus on clients in Africa.

Ben is a director of Orbis Investment Advisory Ltd. He joined Orbis in 2000 and his primary responsibility is researching global equities in the consumer and financial sectors. Ben completed his MA (Hons) in Mathematical Sciences at Oxford in 1998 and is CFA charterholder.

Jeanette Marais

Understanding your offshore investment options

EXECUTIVE SUMMARY: On top of making investment decisions, there are various practical options to choose from when investing offshore. Exchange controls are currently a constraint only for the very wealthiest of South Africans, but analysing which investment options are best for you and tackling the administrative challenges can be daunting. For investors who believe that now may be an opportune time to invest offshore, Jeanette Marais discusses, simplifies and compares some of the available choices.

Regular readers of our investment commentary will know that for some time now we have said that we do not have high expectations for returns from South African shares or for continued rand strength. As a result, where we are allowed discretion in our mandates to do so we have generally preferred offshore opportunities and our unit trusts and institutional portfolios reflect this view, remaining close to their maximum allowable offshore exposure. Many investors who agree with our view on local stock market valuations and the rand may still be hesitant to invest offshore due to the perceived difficulty in doing so. But investing offshore need not be complicated.

What are your options?

There are different routes you can take to invest offshore (see **Graph 1** on page 12). Each option has advantages and disadvantages, but your choice depends on how much you wish to invest and whether you want to invest in rands or foreign currency.

"... your choice depends on how much you wish to invest and whether you want to invest in rands or foreign currency."

1. You can use your fund manager's offshore allowance

If you value simplicity, and do not particularly want to expatriate your assets but are simply making an investment decision, there are various rand-denominated offshore unit trusts available locally. The advantage of this route is that there are few administrative requirements and you do not need to buy foreign currency in order to invest – transactions are all in rands even though the underlying investments are offshore. Since you are investing offshore using your unit trust management company's offshore allowance, you also do not need to get tax clearance from SARS. This route is convenient and simple and a range of rand-denominated unit trusts are on offer from local management companies and investment platforms, including our own, that trade daily at relatively low minima. Nevertheless, it may not be right for you if you want to expatriate assets, or if you prefer not to be restricted to the funds of this type on offer in South Africa.

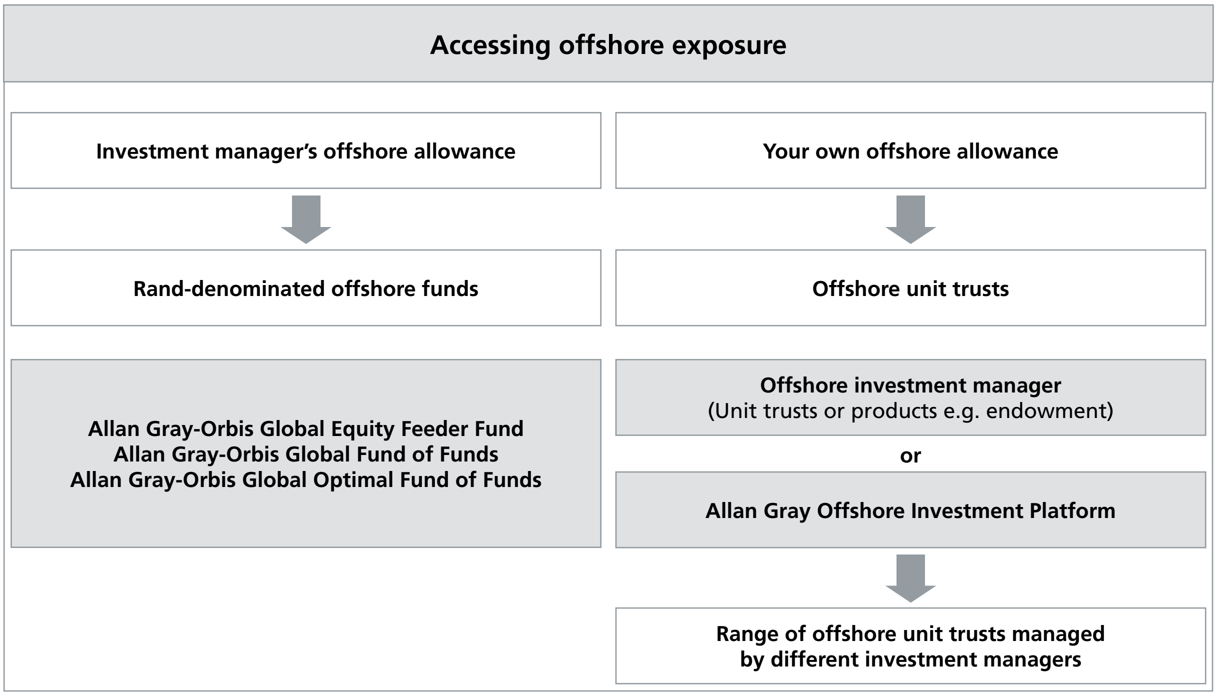
2. Use your own foreign investment allowance

The other option is to invest in foreign currency using your foreign investment allowance (currently R4 million per year) or money already in an offshore bank account. There are various ways to do this:

You can choose from the huge selection of collective investment schemes available worldwide and go directly to the individual offshore investment management companies. If, however, you find too much choice confusing, you may wish to invest via an offshore platform – this gives you options, but makes the selection more manageable. In addition, investing via a platform means you will have one point of contact – you do not have to go to different companies to invest in funds from different investment managers and you may switch between funds easily if you need to. Meanwhile, the minimum investment amounts per fund are often lower. You can also invest in an offshore product, such as an offshore endowment, available through some offshore platforms (although not offered through Allan Gray).

No matter which route you choose, you need to get clearance from SARS, exchange your rands into foreign currency, and make sure you comply with either international or South African FICA or know-your-client (KYC) requirements

GRAPH 1 | Offshore investment exposure



Sources: Allan Gray

(requirements vary depending on the investment manager and the country in which it is based).

Our offshore platform simplifies choice and administration

The Allan Gray Offshore Investment Platform is one example of an offshore platform. It follows the same principles as our local platform, including a strong focus on individual choice, fee savings and transparency. We currently offer 32 mutual funds and unit trusts from different international investment managers. We do not endorse or promote any of the funds except for those of our offshore investment partner Orbis. Our fund selection changes roughly once a year and is based on demand. We get no benefit from any of the offshore fund providers but many of them pay rebates that we pass back to investors in full on the platform, thus reducing the net administration fees payable, in the majority of cases, to zero.

As a South African based offshore platform, we are well equipped to help with local tax and foreign exchange processes. In addition, investors must comply with the same FICA requirements as those for local investments, instead of international KYC requirements.

To help streamline the process of investing offshore we have recently arranged with Global Treasury Solutions (GTS), an independent foreign exchange risk management company, to provide investors on our platform with preferential rates for foreign exchange services. GTS facilitates the foreign exchange and offshore transfer process, including applying for a tax clearance certificate on your behalf, currency conversions from rands into any of our accepted offshore currencies and transferring foreign currency into our offshore bank accounts.

We also offer online functionality, making it easy for investors to invest, access their investment values and transact using the secure section of our website.

How do offshore investment products compare with the Allan Gray investment platform?

There are no initial administration fees on the Allan Gray platform and investors pay no annual administration fees for 26 of the 32 funds listed on our platform. This is because Allan Gray negotiates fee discounts from all the investment managers on our platform, and similar to our local platform, we pass these discounts on to investors by offsetting them transparently against our annual administration fee. In most cases, the discount reduces the administration fee payable by investors to zero. The net result is that the total costs of international funds listed on our platform are comparable with (and often lower than) their local equivalents.

Some offshore vehicles, for example offshore endowments, either tie up your money for five years or levy very high penalties on disinvestment. There are no penalties when you withdraw all or part of your Allan Gray offshore investment. Although Allan Gray is a locally registered company, your investment is physically offshore. This means that when you make withdrawals we can transfer the investment to an offshore bank account registered in your name. Since you will already have been through the approval process when you invest, your money will already be offshore and exchange controls therefore do not apply at the point of withdrawal.

In most cases, in addition to the benefits of simplicity and convenience, using a platform with transparent, low price structures reduces the high direct and indirect costs of international investing. This may help to mitigate the risks and uncertainty of investing in foreign markets.

Jeanette has spent her career in the financial services industry, heading up distribution operations in life offices and investment companies. Her responsibilities include managing client services and the different channels through which all of our clients access Allan Gray's retail products.

Ian Barow

Taryn Hirsch

Making sense of the revised retirement fund regulations

EXECUTIVE SUMMARY: A recent revision in South African pension fund regulations affects your ability to transact on your retirement fund investment account. Ian Barow and Taryn Hirsch look at the regulations and summarise the options available to you.

During the first quarter of this year, the Minister of Finance introduced revised investment requirements for retirement funds (Regulation 28 of the Pension Funds Act). If you are a retirement fund member, these revisions may mean that you need to make changes to your investment accounts.

One of the key objectives of the regulation is to ensure retirement fund investments are adequately diversified and it aims to achieve this by prescribing the maximum exposure that members may have to certain asset classes (e.g. 75% in equities, 25% in property, 25% in foreign assets). Previously Regulation 28 only prescribed maximum limits at retirement fund level. This meant that members could potentially select asset class exposures of their choice outside these limits to make up their investment account, provided that the retirement fund's total holdings complied with the regulation across all of its members.

Impact on member choice

Members of the Allan Gray Retirement Annuity, Pension Preservation and Provident Preservation Funds (so-called member choice retirement funds) need to select unit trusts as underlying investments for their investment accounts. These members are still able to select underlying investments which best suit their risk profile and investment objectives, but they now need to adhere to the maximum limits set by the legislation on their individual investment accounts.

Some investors prefer 'solution' unit trusts, where the asset allocation decision is delegated to the unit trust investment manager. There are several different types of solution unit trusts – your choice would depend on your investment objectives and risk profile. Most of these types of unit trusts are fully Regulation 28 compliant and, in case of doubt, each unit trust's compliance status is noted on our fund lists and fact sheets. If you invest in Regulation 28 compliant unit trusts, your account will most likely always be automatically compliant.

There are other investors who, often with the help of a financial adviser, may prefer to select individual asset class unit trusts, such as equities or bonds, and use a combination of these as 'building blocks' to create their own portfolios. These investors will need to ensure that their accounts are Regulation 28 compliant. We have developed simple tools, such as the Regulation 28 calculator available via our website (see text box on page 16), to help these 'building block' investors and their advisers to maintain compliant portfolios.

What to do if you are a retirement fund member

1. If the combination of unit trusts you have selected complies with the regulation, you do not need to do anything.

Many of the unit trusts that you can select as underlying investments already comply with these requirements, e.g. the Allan Gray Balanced Fund, the Allan Gray Stable Fund and the Allan Gray Money Market Fund. Alternatively, you may be invested in a compliant combination of unit trusts. Either way, no action is required.

2. If your investment account does not comply, and you have not transacted on your account since 1 April 2011, you do not need to do anything until you transact.

Transacting on your account may require action from you – please refer to **Table 1** to find out what constitutes a transaction. Please read point 3 below if you plan to transact.

3. If you transact, you will need to comply with the new limits.

If you wish to transact on your investment account, you will have to make sure your account remains compliant from the point that you transact onwards.

If your investment account does not currently comply with the new limits and you wish to transact, you may keep your account non-compliant, but you will need to direct all new debit orders and/or additional contributions into a new investment account. Your new investment account will need to comply with Regulation 28 but your existing account can then remain non-compliant, as long as you do not transact on it.

If you prefer to keep just one investment account, you are required to make your existing account compliant. To do this, you must switch all or part of your investments and debit order allocations and/or additional contributions in your existing investment account into a combination of unit trusts that complies with the regulation. You can use our Regulation 28 calculator to help you create a compliant account (see text box).

4. If your investment account does not comply, and you have transacted on your account since 1 April 2011, you will need to 'rebalance' your account before 31 December 2011.

You will need to switch your debit order allocations and/or additional contributions into a combination of unit trusts that complies with the regulation.

This means you must either:

- Select unit trusts that comply with these requirements, e.g. the Allan Gray Balanced Fund, the Allan Gray Stable Fund and the Allan Gray Money Market Fund, or

- Select a compliant combination of unit trusts.

The deadline for administrators to implement the revised Regulation 28 is 31 December 2011. As many of you take leave towards the end of the year, please provide us with your rebalance instructions before 31 October 2011. To do this you can log into your secure account and complete a switch instruction online, where you will be able to use our Regulation 28 calculator. You can also complete and sign a 'Rebalance instruction' (available from the Forms section on our website or from the Client Service Centre) and return this to us as soon as possible. If you choose to send us a faxed instruction, please use the online calculator described in the text box, or feel free to call our Client Service Centre, to make sure that the outcome of your switch is compliant before instructing us. We recommend that you discuss your fund selection with your financial adviser.

If we do not receive an instruction from you that results in your account becoming compliant, we are required to make your account compliant. We will do this by moving a percentage of your non-compliant investment into the Allan Gray Money Market Fund.

5. If you open a new retirement annuity, pension preservation and/or provident preservation fund investment account it will need to comply with the new limits.

For assistance, please contact our Client Service Centre or speak to your financial adviser.

As the regulation is still new, the Regulator has not finalised all the practical issues. We will keep you informed if there are any important developments.

TABLE 1 | What is a transaction?

Classified as a transaction	Not classified as a transaction
Setting up a debit order*	Existing debit orders
Increasing or decreasing an existing debit order (This is not the same as an annual escalation)	Annual escalations of debit orders
Additional contributions	Distributions that are re-invested
Switches	Cancellation of debit orders
Transfers-in of units	Existing phase-in arrangements
	Withdrawals from preservation funds
	Divorce order payments
	Where a unit trust is no longer available on the platform and a replacement unit trust is selected
	Switches between classes of the same unit trust

*Debit orders are only relevant for the Allan Gray Retirement Annuity Fund

Source: Allan Gray

Please use our calculator to create a compliant account
To help investors 'rebalance' their accounts we have built a calculator, available via the Regulation 28 button under 'Quick links' on www.allangray.co.za. The calculator is easy to use:

- Simply input your selection of unit trusts and allocation to each.
- The calculator will validate your account (see below).
- If your asset allocation meets the Regulation 28 limits, the calculator will indicate this with a 'yes'; if it does not, the calculator will indicate 'no' and display the areas where your investment does not comply and by how much.

How we validate Regulation 28 compliance
We use the following asset classes to validate Regulation 28 compliance: 75% equities, 25% offshore and 25% property.

As many unit trusts have exposure to property assets within their portfolios, we have limited investments in property unit trusts to 15% to manage compliance more effectively. When assessing asset class limits, we use the unit trusts' intended maximum limit (IML). The IML is the expected maximum amount that fund managers will invest in each asset class. This is based on a combination of their investment mandates, past practices and best understanding of the regulations. By using IML, clients are less likely to have their accounts become non-compliant due to fund manager decisions and market movements.

Ian joined Allan Gray in 2009 as head of the Institutional Legal and Compliance department. He practised Corporate and Commercial Law for five years at Edward Nathan Sonnenbergs, before leaving in 2004 to pursue his career in corporate legal affairs. He is also one of the trustees of the Allan Gray retirement funds.

Taryn is a qualified attorney and certified financial planner. She joined Allan Gray in 2009 and is head of the Retail Legal department. Prior to a stint at an international law firm in Tokyo, Taryn spent eight years at Deneys Reitz (now Norton Rose) where she was a director in the banking and finance department.

Anthony Farr

Allan Gray Orbis Foundation update

EXECUTIVE SUMMARY: Increasing evidence points to the effect that high-impact individuals can have on an economy. With its focus on growing leaders and entrepreneurs, the Allan Gray Orbis Foundation aims to display over time how going deep but only touching a few can have far-reaching positive consequences. It is possible, it seems, to believe in the 'power of one'.

Organisations in the social sector have to choose between using their resources to reach large numbers with a limited intervention, or going deep but only touching a few. While the Foundation has now reached over 400 beneficiaries across its various programmes, it sits firmly in the latter camp. And so it has been interesting to note increasing evidence pointing to the impact that the few can have on an economy, particularly in the Foundation's field of high impact leaders and entrepreneurs – what one might term, the 'power of one'.

On a visit to South Africa at the end of last year, Professor Dan Isenberg, a global expert on fostering entrepreneurial revolutions, made the claim that cities, or even countries, need to produce one high-potential entrepreneur for every 100 000 people to tip into high growth. On this basis, Johannesburg would require just over 30 every year. At the same time, Kauffman Foundation president Carl Schramm holds that 'the single most important contributor to a nation's economic growth is the number of start-ups that grow to a billion dollars in revenue within 20 years.' An additional 50 of these per annum would permanently increase the growth rate of the US economy by 1%. Based on the relative size of the respective economies, South Africa would need only an additional one per annum to have a similar impact. So it seems that, at least in the area of entrepreneurial endeavour, it is possible to believe in the power of one.

> "... it seems that, at least in the area of entrepreneurial endeavour, it is possible to believe in the power of one."

Centre for Values-based Leadership

While impact is important, the nature of that impact is even more important. For this reason, we are excited to report that the UCT Graduate School of Business (GSB) has established a Centre for Values-based Leadership, in association with the Allan Gray Orbis Foundation and through sponsorship from Allan WB Gray himself. The centre is the first of its kind in South Africa and will increase the priority of issues of sustainability and values-based leadership in the country and beyond. It follows an agenda formed by both the GSB and the Foundation with the goal to explore new ways of doing business that will be good for business, good for society and good for the environment. We look forward to the contribution that this centre can make to the Foundation's objective of growing young leaders.

Fellowship news

Since our last update (see Quarterly Commentary 4, 2010) we have completed the 2011 Early Selection process and

Power of one

One of our Allan Gray Fellows, Ludwick Marishane, was recently selected as one of Google's 12 brightest Young Minds in their inaugural Zeitgeist Young Minds competition. The aim of the competition was to find the pioneers, change-makers and leaders of tomorrow who will take their place alongside the greatest minds and innovators of today, including the world-renowned physicist and cosmologist Professor Stephen Hawking. The winners attended Zeitgeist 2011 from 15 - 17 May, just outside London, where they took part in a series of bespoke master classes hosted by Google.

The Foundation's new offices are located at 46 Hof Street, Oranjezicht, Cape Town, 8001.
Contact numbers: (T) 021 481 5400 (F) 021 086 554 0000.

made an additional 15 conditional Allan Gray Fellowship offers. Learners offered Fellowships come from the Circle of Excellence Schools listed on page 19.

In its sixth year of operation the Foundation has 239 Allan Gray Fellows across seven campuses in South Africa. These numbers do not include the 54 Allan Gray Fellows who have graduated over the last three years, including 30 graduates at the end of last year – our class of 2010. Their graduation was hosted in Cape Town, earlier this year, with Mr and Mrs Gray in attendance.

One of the graduates spoke about how the Fellowship had opened up his understanding of the power of purpose, stating: 'There is power in purpose. It's not having a detailed life plan but rather a driving force within. It's something which directs us when we need it most and pushes us just to take the next step.' This was supported by Mr Gray in his address when he encouraged the Allan Gray Fellows to 'pause only a while, you have a great challenge ahead. We can make it possible for you to dream, but it is up to you. It is the goals that you set for yourselves that will drive you forward.'

It is pleasing to note that graduating Fellows have secured jobs at various high quality institutions, including placements at two-thirds of the companies in the South African Graduate Recruiters Association's Top 20 Aspirational Employers of Choice, and some in the form of prestigious international placements.

Online entrepreneurial platform

At the end of 2010 the Foundation began the process of establishing an online entrepreneurial mindset development platform based on attitudes distilled from the Foundation's five pillars: Achievement Excellence, Personal Initiative, Spirit of Selflessness, Courageous Commitment and Intellectual Imagination. This has now been introduced to the Allan Gray Fellowship as a learning tool. The platform is known as iShift and allows Fellows to explore and unlock their inner entrepreneurial leadership ability through this self-directed learning system. The Foundation has enlisted the services of Cognician, an innovative software platform that automates complex intellectual tasks by asking thought-provoking questions, to help make this happen. We look forward to the fruits of this initiative as it starts to develop the thinking and mindset of our Fellows.

Allan Gray scholarship

In its fourth year of operation, the Foundation has 124 Allan Gray Scholars across 16 leading schools in South Africa. Since our last update, the Foundation's Scholars' team has completed its selection process for placement in 2012, resulting in 33 additional Allan Gray Scholarships being offered.

We are proud of the individual achievements of the Allan Gray Scholars, including provincial sporting representation, selection for international exchange opportunities and even an offer for one Scholar's writing to be published.

Examples like these give us continued belief in our deep approach with the few; of the 'power of one'. Yet we cannot afford to become complacent in these beliefs and they need to be partnered with action. This drives us to continually refine and improve our programmes in direct partnership with beneficiaries and alumni. Perhaps this was best captured by one of our Fellows at Graduation: 'Entitlement says I deserve your best, but excellence says you deserve my best.'

Early selection candidates come from the following Circle of Excellence Schools*		
Alexander Road High School	Bergvliet High School	Capricorn High School
Estcourt High School	Eunice High School	Khanyisa Education Centre
Krugersdorp High School	Mbilwi Secondary School	New Forest High School
Port Shepstone High School	Potchefstroom Boys' High School	Pretoria High School for Girls
South African College High School	St Andrew's High School	Umtata High School

* For a complete list of Circle of Excellence Schools, please visit the Foundation's website: www.allangrayorbis.co.za

Anthony is a qualified chartered accountant. Prior to joining the Allan Gray Orbis Foundation in 2005 he worked at the Starfish Greathearts Foundation.

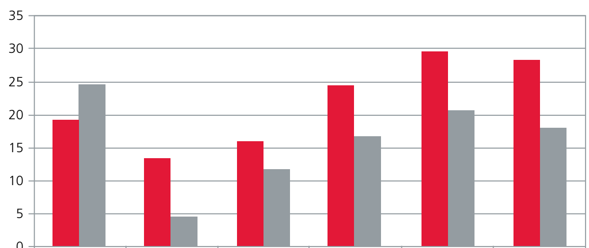
Investment track record - share returns

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	20.9	19.0	1.9
2011 (to 30.06)	0.6	0.5	0.1

Investment track record - balanced returns

Allan Gray Limited global mandate total returns			
	vs. Alexander Forbes Large Manager Watch		
Period	Allan Gray*	AFLMW**	Out/ underperformance
1974	-	-	-
1975	-	-	-
1976	-	-	-
1977	-	-	-
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	11.7	14.5	-2.8
2011 (to 30.06)	2.9	3.0	-0.1

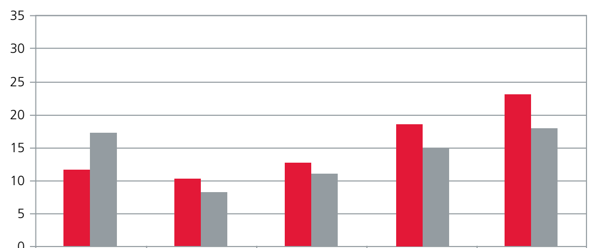
Returns annualised to 30.06.2011



	From 01.07.2010 (1 year)	From 01.07.2008 (3 years)	From 01.07.2006 (5 years)	From 01.07.2001 (10 years)	Since 01.07.1978	Since 15.06.1974
Allan Gray*	19.3	13.4	15.8	24.4	29.1	27.8
ALSI	24.6	4.5	11.4	16.6	20.3	17.8

Allan Gray*
ALSI

Returns annualised to 30.06.2011



	From 01.07.2010 (1 year)	From 01.07.2008 (3 years)	From 01.07.2006 (5 years)	From 01.07.2001 (10 years)	Since 01.01.1978
Allan Gray	11.9	10.2	12.7	18.6	22.9
AFLMW**	17.4	8.4	11.2	15.0	17.8

Allan Gray
AFLMW**

* 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 **R89 508 633** by 30 June 2011. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to **R4 270 265**.

** 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 June 2011 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 **R10 080 428** by 30 June 2011. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R2 414 719**.

Allan Gray Balanced and Stable Fund asset allocation as at 30 June 2011

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign	Total	SA	Foreign
Net equities	57.3	41.8	15.5	18.6	4.8	13.8
Hedged SA equities	11.0	3.4	7.6	27.9	17.8	10.1
Property	0.4	0.4	-	0.2	0.2	-
Commodities (new gold)	3.3	3.3	-	4.6	4.6	-
Bonds	10.8	10.8	-	10.2	10.2	-
Money market and bank deposits	17.2	15.5	1.7	38.5	37.1	1.4
Total	**100.0**	**75.2**	**24.8**	**100.0**	**74.7**	**25.3**

NOTE: There might be slight discrepancies in the totals due to rounding.

Allan Gray Equity Fund net assets as at 30 June 2011

Security (ranked by sector)	Market value (R million)	% of portfolio	JSE ALSI weight (%)
Resources	**6 779**	**25.9**	**38.7**
Sasol	2 739	10.4	
Anglogold Ashanti	1 218	4.6	
Impala Platinum	771	2.9	
Harmony Gold Mining	561	2.1	
Gold Fields	383	1.5	
Anglo American	284	1.1	
Positions less than 1%	822	3.1	
Financials	**3 982**	**15.2**	**42.10**
Sanlam	1 194	4.6	
Standard Bank	1 105	4.2	
Investec	271	1.0	
MMI Holdings	257	1.0	
Positions less than 1%	1 154	4.4	
Industrials	**14 419**	**55.0**	**19.2**
British American Tobacco	2 851	10.9	
SABMiller	2 699	10.3	
Remgro	1 959	7.5	
MTN	1 066	4.1	
Mondi PLC	745	2.8	
Sappi	606	2.3	
Nampak	525	2.0	
Tongaat-Hulett	400	1.5	
Netcare	335	1.3	
Illovo Sugar	316	1.2	
Datatec	303	1.2	
Positions less than 1%	2 613	10.0	
Other securities	**521**	**2.0**	
New Gold ETF	304	1.2	
Positions less than 1%	217	0.8	
Money market and call deposits	**514**	**2.0**	
Totals	**26 215**	**100.0**	

NOTE: 11.29% of the Fund is invested in inward listed shares, which are considered foreign investments.

Allan Gray Unit Trusts annualised performance in percentage per annum to 30 June 2011

	3 MONTHS (unannualised)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
UNIT TRUSTS [1]								
High net equity exposure (100%)								
ALLAN GRAY EQUITY FUND (AGEF)	[3]	18.0	9.1	12.4	20.7	28.5	26 214.7	01.10.98
FTSE/JSE All Share Index		24.6	4.5	11.4	16.6	18.8		
ALLAN GRAY-ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	[3]	9.1	-1.1	4.1	-	9.0	4 954.9	01.04.05
FTSE World Index (Rands)		16.2	-3.2	2.6	-	7.4		
Medium net equity exposure (40% - 75%)								
ALLAN GRAY BALANCED FUND (AGBF)	[3]	11.4	9.0	11.1	17.5	20.0	43 549.4	01.10.99
Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)		14.2	6.9	9.5	13.5	13.8		
ALLAN GRAY-ORBIS GLOBAL FUND OF FUNDS (AGGF)	[3]	-1.7	-1.1	4.6	-	5.9	6 413.7	03.02.04
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		8.5	-0.8	4.7	-	6.2		
Low net equity exposure (20% - 40%)								
ALLAN GRAY STABLE FUND (AGSF) - (NET OF TAX)	[3]	3.5	7.2	8.6	11.7	12.6	26 129.4	01.07.00
Call deposits from FirstRand Bank Ltd plus two percentage points (Net of tax)		5.2	6.8	7.3	7.4	7.6		
ALLAN GRAY STABLE FUND (AGSF) - (GROSS OF TAX)	[3]	4.2	8.2	9.6	12.9	13.8	26 129.4	01.07.00
Call deposits from FirstRand Bank Ltd plus two percentage points (Gross of tax)		7.0	9.2	9.8	10.1	10.2		
Very low net equity exposure (0% - 20%)								
ALLAN GRAY OPTIMAL FUND (AGOF)	[3]	2.2	7.5	7.9	-	8.8	2 682.5	01.10.02
Daily call rate of FirstRand Bank Ltd		4.9	7.1	7.7	-	7.6		
ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS (AGOO)	[3]	-5.6	-	-	-	-6.6	541.9	02.03.10
Average of US$ Bank deposits and EURO Bank deposits		-3.2	-	-	-	-6.0		
No equity exposure								
ALLAN GRAY BOND FUND (AGBD)	[3]	11.1	12.7	9.8	-	9.5	316.1	01.10.04
BEASSA All Bond Index (total return)		11.3	13.4	8.9	-	8.9		
ALLAN GRAY MONEY MARKET FUND (AGMF)	[3]	6.3	8.5	9.0	-	9.1	8 260.7	03.07.01
Domestic fixed interest money market unit trust sector (excl. AGMF) [2]		6.0	8.3	8.8	-	9.0		

Total Expense Ratios (TERs)

	Equity Fund	Global Equity Feeder Fund	Balanced Fund	Global Fund of Funds	Stable Fund	Optimal Fund	Global Optimal Fund of Funds	Bond Fund	Money Market Fund
Performance component	0.28%	0.55%	0.08%	0.31%	0.05%	0.00%	0.00%	0.11%	0.00%
Fee at benchmark	1.71%	1.49%	1.16%	1.24%	1.15%	1.14%	0.97%	0.29%	0.29%
Total fees*	1.99%	2.04%	1.24%	1.55%	1.20%	1.14%	0.97%	0.40%	0.29%
Trading costs	0.10%	0.13%	0.09%	0.16%	0.06%	0.09%	0.18%	0.00%	0.00%
Other expenses	0.01%	0.05%	0.02%	0.07%	0.02%	0.01%	0.08%	0.04%	0.01%
Total Expense Ratio (TER)	2.10%	2.22%	1.35%	1.78%	1.28%	1.24%	1.23%	0.44%	0.30%
Annualised fee* rate for latest quarter	1.76%	2.00%	0.99%	1.61%	1.25%	1.14%	1.17%	0.38%	0.29%

** Including underlying Orbis Fund fees.*

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 31 March 2011. 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.

Orbis Funds annualised performance in percentage per annum to 30 June 2011

	3 MONTHS (unannualised)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
ORBIS FUNDS (RANDS) REGISTERED FOR MARKETING IN SOUTH AFRICA [1, 6]								
ORBIS GLOBAL EQUITY FUND (RANDS)	-1.9	10.4	-0.7	4.1	7.3	17.8	-	01.01.90
FTSE World Index (Rands)	0.9	16.2	-3.1	2.6	3.4	11.6		
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	2.2	0.4	-0.9	-1.3	3.5	12.4	-	01.01.98
Tokyo Stock Price Index (Rands)	0.8	0.0	-8.1	-4.7	-0.2	5.0		
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	-1.3	10.2	3.1	11.2	-	13.9	-	01.01.06
MSCI Asia Ex-Japan (Rands)	0.3	11.2	2.9	10.4	-	13.2		
ORBIS OPTIMAL SA FUND - US$ CLASS (RANDS)	-0.7	-11.1	-2.3	3.3	-	7.4	-	01.01.05
US$ Bank Deposits (Rands)	0.3	-11.3	-3.9	1.4	-	5.7		
ORBIS OPTIMAL SA FUND - EURO CLASS (RANDS)	1.4	2.7	-3.9	5.2	-	7.7	-	01.01.05
Euro Bank Deposits (Rands)	2.9	5.5	-6.0	3.9	-	6.4		

Segregated and life pooled portfolios annualised performance in percentage per annum to 30 June 2011

	3 MONTHS (unannualised)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
SEGREGATED PORTFOLIOS [5]								
GLOBAL BALANCED COMPOSITE	0.5	11.9	10.2	12.7	18.6	22.9	27 650.8	01.01.78
Mean of Alexander Forbes Global Large Manager Watch [2, 4]	1.0	17.4	8.4	11.2	15.0	17.8		
DOMESTIC BALANCED COMPOSITE	0.7	14.5	12.7	14.8	20.9	23.6	25 002.4	01.01.78
Mean of Alexander Forbes Domestic Manager Watch [2,7]	1.0	19.5	11.0	13.2	17.0	18.4		
DOMESTIC EQUITY COMPOSITE	-0.5	18.5	11.9	15.6	23.9	22.2	47 712.2	01.01.90
FTSE/JSE All Share Index	-0.6	24.6	4.5	11.4	16.6	14.9		
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN COMPOSITE	0.4	9.5	8.4	12.1	18.0	19.7	5 909.5	01.01.94
Mean of Alexander Forbes Namibia Average Manager [2]	1.0	18.1	8.6	12.0	15.0	14.5		
RELATIVE DOMESTIC COMPOSITE	-1.1	21.4	9.6	13.4	19.9	21.8	10 759.8	19.04.00
Weighted average of client specific benchmarks [2]	-0.2	24.6	7.2	12.2	16.1	16.4		
FOREIGN BEST VIEW (RANDS) COMPOSITE [8]	-0.6	-1.5	-1.3	3.9	7.5	13.0	7 005.0	23.05.96
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	1.9	8.2	-0.8	4.7	4.9	9.8		
LIFE POOLED PORTFOLIOS								
GLOBAL BALANCED PORTFOLIO	0.5	12.2	10.4	12.8	18.5	20.5	17 135.5	01.09.00
Mean of Alexander Forbes Global Large Manager Watch [7]	1.0	17.4	8.4	11.2	15.0	15.0		
DOMESTIC BALANCED PORTFOLIO	0.7	14.7	12.9	14.8	-	21.3	6 538.3	01.09.01
Mean of Alexander Forbes Domestic Manager Watch [7]	1.0	19.5	11.0	13.2	-	17.4		
DOMESTIC EQUITY PORTFOLIO	-0.4	19.3	12.1	15.6	24.1	24.9	6 709.2	01.02.01
FTSE/JSE All Share Index	-0.6	24.6	4.5	11.4	16.6	16.2		
DOMESTIC ABSOLUTE PORTFOLIO	1.3	8.9	14.8	16.6	-	24.2	1 033.4	06.07.01
Mean of Alexander Forbes Domestic Manager Watch [7]	1.0	19.5	11.0	13.2	-	17.0		
DOMESTIC STABLE PORTFOLIO	1.6	8.0	12.0	12.4	-	16.0	1 791.2	01.12.01
Alexander Forbes Three-Month Deposit Index plus 2%	1.8	8.0	10.1	10.7	-	11.1		
DOMESTIC OPTIMAL PORTFOLIO [1]	0.6	2.9	8.6	8.9	-	9.1	514.5	04.12.02
Daily Call Rate of Nedcor Bank Limited	1.2	5.2	7.3	8.0	-	7.8		
GLOBAL ABSOLUTE PORTFOLIO	1.0	6.4	11.9	14.7	-	19.3	1 827.2	01.03.04
Mean of Alexander Forbes Global Large Manager Watch [7]	1.0	17.4	8.4	11.2	-	16.6		
DOMESTIC MEDICAL SCHEME PORTFOLIO	1.8	8.0	11.6	12.3	-	14.5	1 354.8	01.05.04
Consumer Price Index plus 3% p.a. [2]	2.1	8.3	8.4	10.1	-	9.1		
GLOBAL STABLE PORTFOLIO	1.5	5.2	8.8	10.5	-	14.1	2 823.3	15.07.04
Alexander Forbes Three-Month Deposit Index plus 2%	1.8	8.0	10.1	10.7	-	10.3		
RELATIVE DOMESTIC EQUITY PORTFOLIO	-1.1	20.9	8.5	13.1	-	24.7	482.9	05.05.03
FTSE/JSE CAPI Index	-0.4	24.5	6.4	12.1	-	23.1		
MONEY MARKET PORTFOLIO [1]	1.4	6.6	8.8	9.1	9.4	9.5	322.3	21.09.00
Alexander Forbes Three-Month Deposit Index	1.3	5.9	8.0	8.6	9.0	9.1		
FOREIGN PORTFOLIO [1]	-0.6	-1.6	-1.2	4.0	-	3.6	2 425.2	23.01.02
60% of the MSCI Index and 40% JP Morgan Government Bond Index Global (Rands)	1.9	8.2	-0.8	4.7	-	1.7		
ORBIS GLOBAL EQUITY PORTFOLIO [1]	-1.8	10.1	-0.4	4.2	-	9.5	3 697.6	18.05.04
FTSE World Index (Rands)	0.9	16.2	-3.1	2.6	-	7.7		
HEDGED DOMESTIC EQUITY PORTFOLIO	-0.1	17.7	12.1	-	-	8.8	1 064.1	01.06.08
FTSE/JSE All Share Index	-0.6	24.6	4.5	-	-	2.8		

PERFORMANCE AS CALCULATED BY ALLAN GRAY

[1] The fund returns are net of investment management fees
[2] The return for the quarter ending 30 June 2011 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
[8] The foreign carve out returns of the Global Balanced Composite used from 25.03.96 to 31.08.01. The Foreign Balanced Composite returns are used from 01.09.01.

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 – usually 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, and offers our range of nine South African unit trusts to individual investors.
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	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 stands for 'excellence in entrepreneurship' and as a long-term capital fund its purpose is to provide substantial financing to entrepreneurs who are graduates of the Allan Gray Fellowship Programme. In addition, E^2 provides financing for social entrepreneurs who demonstrate exceptional leadership and creative initiative in the not-for-profit sectors.

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

Notes

Notes

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