The flight from the dollar

Why normal matters for us

The Allan Gray Orbis Foundation update

Safer than equities, better than cash

Q2

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QUARTERLY
COMMENTARY

ALLAN GRAY

INSIDE THIS ISSUE

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Rob Dower

COMMENTS FROM THE CHIEF OPERATING OFFICER

This issue of our Quarterly Commentary is my first as chief operating officer. I am extremely excited to be given the chance to build on the foundation that Greg and others have laid, while remaining true to the investment philosophy, business principles and core values that distinguish Allan Gray.

I take over as operating lead in the midst of tough global economic and financial times. Last year's market crash, the international financial crisis and not least the spate of recent fraudulent investment schemes and other scandals have all had an impact on our environment. An important (if expensive) lesson from all the pain that these events have generated is that, in general, investors and regulators need to be more questioning of providers of financial services and products, and less inclined to take things at face value. We welcome your renewed interest in what we do and in whether we are doing it well, and we encourage you to keep engaged in this way even when things have calmed down a bit.

The crisis

It seems clear, to us anyway, that it will take a long time for the excesses that led to the financial crisis, and those resulting from it, to properly work themselves out of the global system. This will continue to have an impact on the prices of shares and, indeed, on most aspects of the South African economy. Sandy McGregor examines in his piece the impact of the fiscal and monetary stimulus being applied in the US on the value of the dollar as reserve currency and on the attractiveness of an alternative store of value, gold.

Sticking to our investment philosophy

If you are reading this, you are probably quite familiar already with our investment philosophy. In short, we follow a valuation-orientated, contrarian approach to investing. This means we focus on investing in companies that we believe are priced at less than their intrinsic value, and we try not to worry about what others say. We see the intrinsic value of a company as being what a prudent businessman would pay to buy the whole company – and he is more concerned about the long-term prospects of the company than the short-term ones.

You may be less familiar with how we go about determining an estimate of intrinsic value and, in particular, how we think about the inputs to this calculation. Maybe the single most important input is normal (or normalised) earnings. Delphine Govender discusses why normal matters for us and how we establish what it is.

The Allan Gray Orbis Foundation gathers momentum

Sticking with intrinsic value, but in an entirely different sense, Anthony Farr in his article describes the Allan Gray Orbis Foundation's progress in its mission to find and sponsor deserving young people who will make great entrepreneurs, ultimately creating jobs and wealth in South African society. The Foundation recently celebrated the graduation of its first eight fellows and will have a total of 282 fellows and 78 scholars in the pipeline by 2010. The total numbers hide some of the richness of individual stories; it is clear that they have potential to make a tremendous difference to the success of our country.

Understanding the Allan Gray Optimal Fund

Our business has enjoyed substantial net inflows in the first half of this year, the largest proportion going into the stable, balanced and equity mandates, all three of which are simple and well understood by investors. In the mix, however, there have also been substantial retail flows into the Allan Gray Optimal Fund. The Fund has a very simple strategy but is less intuitive than our other funds. With large flows following good performance, we worry that some of the Fund's new investors may be simply chasing last quarter's performance, without fully understanding how it was derived.

Just in case our suspicions are founded, Mahesh Cooper and Lindy du Plessis have written an article describing how the Fund works and what you can expect from it: low risk returns that are independent of the market and beat those of cash.

Paying tribute

Greg's last day was at the end of June. His six years as chief operating officer have seen the firm flourish, most visibly in the results we have delivered to clients and in business performance. Perhaps less visible, but more lasting, has been the impact of his leadership on the quality and the culture of our organisation. He has been a source of inspiration, friendship and counsel to me personally, and to many others, and he leaves with all our best wishes and thanks for his remarkable contribution to our success.

Kind regards

Rob Dower

Sandy McGregor

THE FLIGHT FROM THE DOLLAR

EXECUTIVE SUMMARY: Doubts are starting to emerge as to whether the United States is a financial safe-haven and whether the dollar will continue to have the most important attribute of a reserve currency – that it be a stable store of value. The recent strength of the gold price suggests we may be witnessing the early stages of a flight from the dollar. Sandy McGregor explains.

We have commented previously that gold has the characteristics of both a commodity and a currency. Since the sub-prime crisis broke in July 2007, the role of gold as a store of value has become increasingly prominent, with its dollar price rising from US$660 to US$980 at a time when almost all other commodity prices have declined significantly. This is not simply a matter of a weak dollar. In euros, gold is up 42% and in yen, 17%. If gold is regarded as a currency, it has been the best performer of its class since the start of the financial crisis.

What is driving people to invest in a financial instrument that economist John Maynard Keynes famously described as a barbarous relic? Underlying the shift of investor sentiment towards gold is concern about governments generally abandoning fiscal and monetary discipline in an attempt to stabilise global economic conditions, and, in particular, worries about the dollar as the world's reserve currency.

> "If gold is regarded as a currency, it has been the best performer of its class since the start of the financial crisis."

The rise and fall of reserve currencies

In modern times there have been two reserve currencies. The first was the pound sterling, which played the central role in global finance over the century between the end of the Napoleonic wars and the outbreak of the First World War in 1914. Two world wars destroyed Britain's financial hegemony and, after a period of considerable confusion, in 1945 the dollar emerged as the lynchpin of the world's financial system, a position it has held ever since.

While prior to 1914 Britain did not abuse its privileged position at the centre of the world's financial system, generally running balanced budgets and current account surpluses, the same cannot be said of the United States. Since 1981 the US has run huge current account deficits. Initially, this did not matter because it had substantial foreign assets to offset foreign obligations. However, over time the US has become the world's largest net debtor. The dollar's special role has allowed Americans to live beyond their means for almost three decades. The rest of the world has been willing to finance this spendthrift behaviour because it has prized, perhaps irrationally, US assets above all others. In addition, many countries have supported the dollar in order to grow their own economies.

Japan, the Asian Tigers (Indonesia, South Korea, Malaysia, Thailand and the Philippines) and, more recently, China have all used export-led growth to create their present prosperity. They have boosted exports by maintaining artificially competitive exchange rates, generating large current account surpluses and, as a consequence, have accumulated substantial dollar foreign exchange reserves. The great boom in emerging markets over the past decade has been based on this simple formula of undervalued currencies. As is the nature of such things, matters got out of control and went to excess, the most dramatic manifestation of which has been China's accumulation of foreign reserves valued at US$2 trillion.

Confidence in the dollar is eroding

Foreign central banks continue to prop up the dollar because they have no alternative. They would like to diversify their reserves into other currencies but cannot do so without causing a major realignment in exchange rates, with unfavourable consequences for world trade. In contrast, private investors have the freedom to act and are doing so. The market as a whole has become increasingly neurotic about US government finances. Doubts are starting to emerge as to whether the US is in fact a financial safe-haven, and whether the dollar will continue to have the most important attribute of a reserve currency – that it be a stable store of value.

At the heart of the problem is the US fiscal deficit, which will be between US$1.5 and US$2 trillion this year. The Federal Reserve is planning to fund a substantial part of the deficit by printing money. The Federal Budget Office projects that federal debt will increase from 41% of GDP at the end of 2008 to 82% in 10 years time – provided certain policy changes are made. Without these changes the debt will exceed 100% of GDP. Such projections are at the best of times very unreliable, but clearly the US faces a severe fiscal crisis.

Can the spiralling US deficit be brought under control?

Economic history is replete with examples of countries which have managed to bring seemingly intractable budget deficits under control. However, when we consider the traditional ways this has been achieved, it is very difficult to see how the US is going to extricate itself from this fiscal morass.

> "The dollar's special role has allowed Americans to live beyond their means for almost three decades."

1. Strong economic growth – unlikely at this stage

The best solution would be strong US economic growth, which would boost fiscal revenues and reduce the level of debt relative to the size of the economy. Unfortunately, the huge debt burden is likely to constrain growth for many years to come. The recent history of Japan, which built up an excess of debt in the 1980s, is not encouraging. Japan's economy has stagnated for two decades. America is a more dynamic and flexible society and will probably emerge from its present problems more quickly, but it will take some years to do this.

2. Increase tax collections – difficult to achieve

Another way of eliminating a deficit is to increase tax collections. This will be very difficult to achieve because the US tax base has been severely eroded by declining profits and dividends, low interest rates, capital losses, unemployment and a contraction in remuneration packages. Because the deficit is so large, it will require a very substantial increase in tax rates to have a significant impact. The US government has become very dependent on a small group of rich taxpayers. In 2005 the top 1% of taxpayers paid 38% of income taxes. Meanwhile, history has demonstrated that increasing tax rates tends to decrease collections. A big increase in tax rates on the wealthy will aggravate an already large deficit. The fiscal problem cannot be solved by increasing personal taxes and a broad-based consumption tax, such as value added tax (VAT), is unlikely to get political support.

3. Reduce spending – equally unlikely

Bringing the deficit under control by reducing spending is equally unlikely. This is always the last resort politically and can be achieved only when the electorate supports such harsh remedies, as for instance in the political revolutions at the end of the 1970s when Ronald Reagan and Margaret Thatcher came to power. However, it took a decade of increasing misery to bring voters to accept that radical changes were necessary. We are only at the start of this process.

Inflation may be the only option

Given that the deficit is unlikely to be brought under control by growth, tax increases or by reduced expenditure, one way out may be inflation. Inflation is a stealth tax. Generally, people do not realise that it is a regressive levy on their earnings. It erodes the value of liabilities such as the national debt, while boosting asset prices. US monetary policy now clearly has an inflationary bias with the Fed printing money to buy government bonds. Given the large surplus of capacity and high levels of unemployment, inflation seems improbable in the near term – but once world economic growth resumes, it could return with a vengeance.

There are two classes of inflation – asset prices and the prices of goods and services. We are already seeing a rise in asset prices as surplus money creation works its way through the economy. Recently, there have been significant rallies in the prices of equities and commodities and in the dollar prices of currencies such as the euro and the rand. Many investors are choosing gold because they fear the latter type of inflation, where the prices of goods and services spiral upwards. As yet there is little evidence of this happening, but the concerns are there. Hence the rise in the gold price.

Delphine Govender

WHY NORMAL MATTERS FOR US

EXECUTIVE SUMMARY: At a time when the investment world continues to reel from the extreme and unsettling events of the past 18 months, when respected market participants debate whether or not we are now entering a period of 'new normal', and the general rethinking of conventional wisdom seems to have become the pastime *du jour*, we find sticking with the basics and fundamentals of investing sits far more comfortably with us. One particular aspect of our investment style we see as being consistently relevant and defensible, no matter what market conditions might be, is our practice of valuing companies on their 'normal' earnings. Delphine Govender explains.

Investors in our funds may already be quite familiar with the investment philosophy we at Allan Gray pursue. In short, we follow a valuation-based or valuation-orientated philosophy, which simply means we focus on investing in companies that are priced at less than their intrinsic value.

We see the intrinsic value of a company as being what a prudent businessman would pay to buy the whole company – and he is more concerned about the long-term prospects of the company than the short-term ones.

In determining intrinsic value, we believe one of the single most important inputs into this calculation is our determination of normal (or normalised) earnings. Investopedia defines 'normalised earnings' as 'earnings adjusted for cyclical ups or downs in the economy'. While this might be a somewhat oversimplified definition, in essence it captures the notion we subscribe to – that of assessing the sustainable level of profitability for a company throughout business and economic cycles.

"In determining intrinsic value, we believe one of the single most important inputs into this calculation is our determination of normal earnings."

How do we determine what is 'normal'?

As bottom-up stock-specific analysts and investors, the exercise we undertake when we estimate normal earnings for each share is particular to that specific company. We often find it useful to consider 'long-term averages' when we try to determine what a sustainable level of earnings could or should be. We may consider, for example, long-term average operating margins or long-term returns on equity.

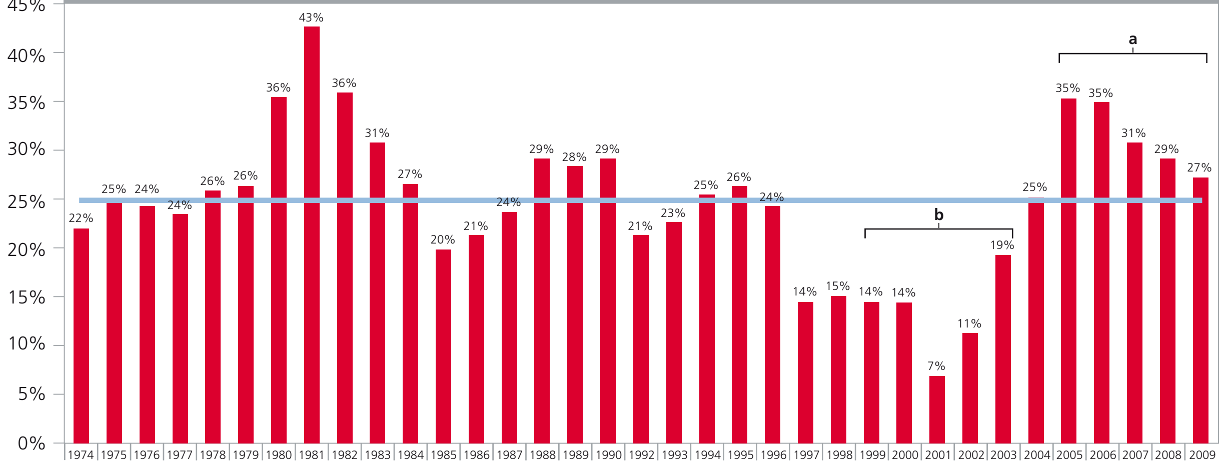
The reason we believe applying long-term averages is usually appropriate is connected to the mathematical concept of mean-reversion. Mean-reversion can be described as the tendency for a number that changes over time to return to its long-term average, particularly after anomalous (irregular) periods. For example, mean-reversion can often be applied usefully to a company's profit margin, its earnings growth rate or its level of returns on equity.

Return-on-equity: a useful indicator of company profitability

To illustrate this, consider **Graph 1** (on page 06), which depicts retailer Foschini's long-term return-on-equity (ROE). ROE is a ratio of annualised earnings for a company divided by the shareholders' capital required to generate those earnings. ROE is a very useful indicator to assess the level of profitability/return of a company both at a point in time and over a period of time. Foschini's long-term ROE has a naturally cyclical pattern to it as the company is predominantly a retailer of semi-durable products (clothing, shoes etc.) and the demand for semi-durable products is closely connected to household consumption, which is closely correlated with economic growth.

According to this graph, Foschini's long-term average ROE over the past 35 years is approximately 25% (represented by the blue horizontal line in the graph). The last recorded ROE was 27%, above its long-term average. In fact, over the past five years (period 'a') Foschini's ROE has been well above its

GRAPH 1 Foschini long-term ROE



Note: Foschini had a change of year-end from December to March over the 1990-1992 period, therefore there is no reporting date for 1991 (i.e. results were reported in December 1990 then again in March 1992). Variations in the length of bars of the same percentage value are due to rounding.

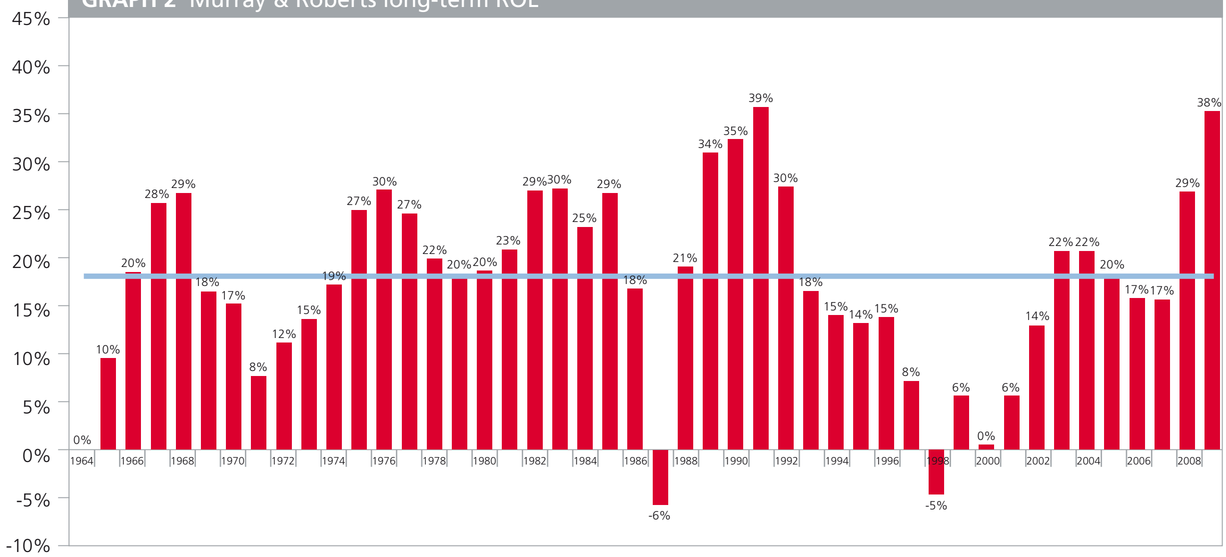
Source: Company reports and Allan Gray research

long-term average (five-year average ROE of 32%), as during this time the company achieved record operating margins in a period of unprecedented economic growth and consumption in South Africa. Contrast that period to the five years from 1999 to 2003 (period 'b') where Foschini's ROE languished (five-year average of 13%), touching a low of 7% in 2000. In the context of the long-term history reflected, both periods 'a' and 'b' would constitute abnormal periods of returns in our analysis – period 'a' representing a period of above-normal returns and conversely period 'b', below-normal.

The limitations of considering a period in isolation

While for most investors five years might seem like a long enough standalone period to consider a company's performance, this example of Foschini over these two periods

GRAPH 2 Murray & Roberts long-term ROE



Variations in the length of bars of the same percentage value are due to rounding.

Source: Company reports and Allan Gray research shows the limitation of looking at any period in isolation. It should not come as a surprise that Allan Gray clients were among the largest shareholders in Foschini in 2000/2001 when ROEs were at their lowest. Why should this be unsurprising? Because our analysis of the company at the time led us to conclude that, while the company's recent performance had been poor and the near-term outlook was not very favourable, we did not believe those tough times would last forever. We applied our technique of looking beyond the anomalous period of well below normal returns. In our company-specific analysis we found sufficient factors that we believed would cause the company's earnings and returns to revert closer to their long-term average. This normalisation transpired, and by 2004 Foschini's returns reverted closer to their long-term average.

"... look through the recent history and near-term outlook of a company to assess where sustainable value truly lies."

Taking this one step further – the fact that our clients today do not hold any Foschini shares should again not surprise an attentive reader. We are of the view that there are not sufficient factors (be they industry, company-specific or general) to argue why Foschini's returns should remain above their long-term average (bearing in mind that the long-term average today includes the past five boom years and is therefore higher than the long-term average as it would have been in 2000).

Another share-specific example that illustrates the normalisation concept is shown in **Graph 2**, which reflects the long-term annualised ROE ratios for construction company Murray & Roberts. The long-term average ROE for Murray & Roberts is just over 19%. Similarly with Foschini, Murray & Roberts' ROE reflects a cyclical history, but the amplitude of its return cycles tends to be even greater. In our portfolios today we do not have an investment in Murray & Roberts (current ROE 38%), while the share featured prominently in our portfolios in 2000 (when the ROE was just under 1%).

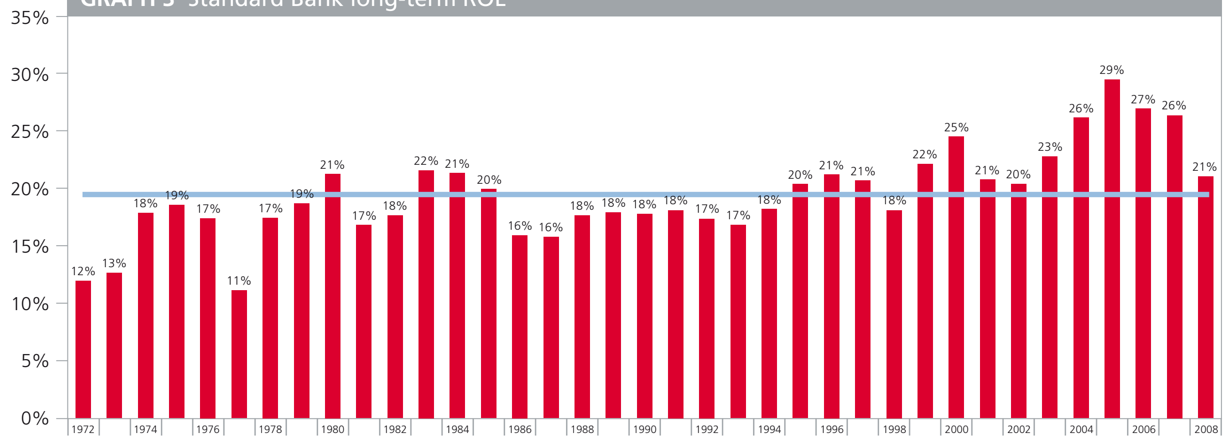
One of the shares we are currently invested in is Standard Bank. Standard Bank's current ROE (21%) is marginally above its long-term average ROE (approximately 20% – see **Graph 3**). What is important to note, however, is that we believe there are sufficient factors pointing to the long-term sustainability of the current ROE. The history also shows that Standard Bank's returns have tended to display far less volatility in terms of their difference from the long-term average over time.

Are current ALSI earnings above normal?

One final example to consider in this discussion of 'normalisation of earnings' is the earnings for the market as a whole, as reflected by the All Share Index (ALSI).

In **Graph 4** (on page 08) we choose to show the ALSI earnings stream (excluding the inflationary impact), as opposed to ROE percentages. As a result, the more appropriate yardstick against which to assess the level of earnings at any point in time is the long-term trendline in earnings, as opposed to the long-term average. The long-term trendline is labelled line 'a'.

GRAPH 3 Standard Bank long-term ROE



Variations in the length of bars of the same percentage value are due to rounding.

Source: Company reports and Allan Gray research

The graph indicates that current ALSI earnings are well above trendline. Does this mean ALSI earnings are necessarily above normal? Or at unsustainable levels? At this point, our assessment is that ALSI earnings are indeed well above normal and unsustainably so. This assessment (a possible topic for an entirely separate article!) is informed by several factors, but most importantly by our view that the last reported earnings for several large listed South African companies are significantly above normal and likely to come under mounting pressure. It would not surprise us if ALSI real earnings were to revert closer to trendline levels, and quite possibly even lower.

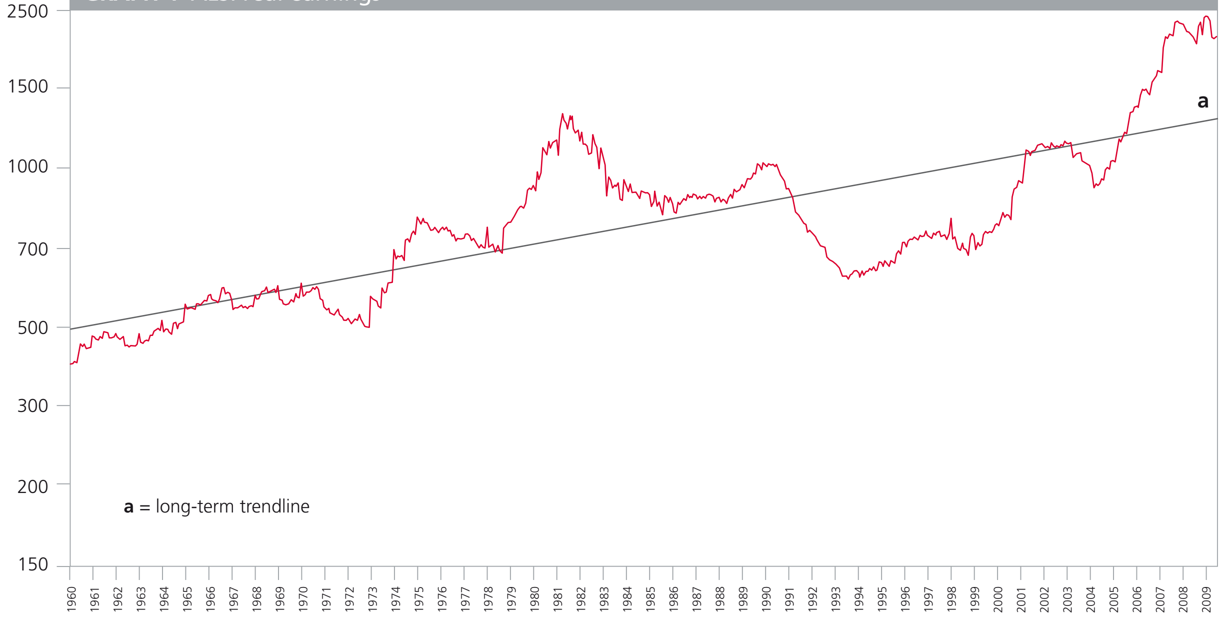
It is not always easy sticking to what is 'normal'

The concept of normalising earnings as discussed in this article, and the valuation-based investment philosophy we follow, are certainly not the exclusive intellectual property of Allan Gray. These are widely known, widely accepted and widely followed theories. Where we believe we have been able to differentiate ourselves over the past 35 years in investing has been by being both consistent and persistent in our adoption of these notions of investing.

When a company's last recorded earnings are poor; its next set of forecasted earnings look bleak; the economic environment is uncertain and opaque and all of this negativity is reflected in the share price, it is often extremely difficult to hold, explain and defend a view pointing to an earnings' recovery to more normal levels. It is also hard to justify the investment case for buying into that share. Similarly the converse is also true. When a company's earnings are in a strong upward momentum; both the short- and medium-term outlooks appear favourable, and all this extreme optimism is reflected in the market's pricing of the share – being the unpopular proponent of the view that the company's earnings could correct to lower, more normal levels is often seen as being misguided and even erroneous.

But at Allan Gray our approach in applying and implementing our investment philosophy means we are seeking to look through the recent history and near-term outlook of a company to assess where sustainable value truly lies. This approach sounds simpler in theory than it is in practice. However, by giving ourselves the liberty of adopting a longer-term investment horizon, we are able to base our investment decisions on more steadfast fundamentals, rather than short-lived aberrations.

GRAPH 4 ALSI real earnings



Source: Allan Gray research

Jonathan Brodie

Trevor Black

TURMOIL REIGNS IN THE MARKETS. WHAT SHOULD I DO NEXT?

EXECUTIVE SUMMARY: With the events of the recent past in mind, Jonathan Brodie and Trevor Black, from our offshore partner Orbis, deliver some insights on making investment decisions. They note that successful long-term investment performance requires a partnership: your investment manager needs to have an effective approach to enable it to outperform markets, and you and/or your advisers need to ensure that you do not react inappropriately to short-term factors. Together this partnership can build long-term value.

Much has been written about the turmoil which has engulfed world financial markets for the past 18 months. Rather than a post-mortem, or an attempt at forecasting outcomes, we thought it might be helpful to address a more focused question: given the events of the recent past, how should a long-term investor react?

By describing what we at Orbis are doing, we hope to provide some guidance on how to answer this question.

Increased exposure to technology companies

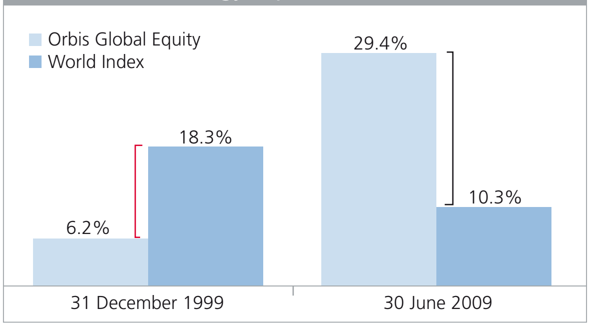
We currently have a significant exposure to technology companies. This is a marked shift from the end of 1999, the peak of the technology, media and telecommunications (TMT) bubble. At the time, we wrote in our annual report:

'Your Fund has very little invested in technology shares. This does not reflect scepticism regarding the wonderful potential of technological developments such as the internet.'

Back then we were concerned about the very high valuation and prices the market was paying for these businesses. Ten years later, we find that the information technology (IT) industry is more mature. Spending money on core IT is now central to all organisations. Company valuations are supported by real cash flows, while in the bubble they were largely speculative.

We find a number of technology companies attractive as a direct result of applying our existing philosophy to bottom-up stock picking. Each of our holdings appeals to us because of the specific business characteristics involved. The reason for the cluster in the technology area is a response – we think reasoned and consistent – to the opportunity set which the market now offers us.

GRAPH 1 Technology exposure - then and now



Source: Orbis research

In some cases, such as Microsoft and Samsung, we see solid businesses meeting our criteria for valuable franchises with attractive margins of safety. Google appeals to us as it has a strong competitive position, but the stock has been sold off indiscriminately. And then there are companies where an adverse market cycle has allowed us to buy long-term winners at a discount, particularly in the semi-conductor industry, which accounts for about 10% of our portfolio.

The point here is that while we have changed our weighting in technology stocks from what we held in 1999 in response to developments in those businesses, there has been no change in the rigour of our bottom-up analysis or in our investment philosophy. And because we have high conviction in our analysis and our philosophy, we are able to withstand short-term price movements and ultimately to behave logically at times when it has been extremely hard for global investors to do so.

This point is as relevant for investors in our funds as it is for ourselves – investors do not always stay invested for long enough to enjoy the benefits of our approach, and their investments do not always perform as well as the funds in which they have invested. This is because the returns experienced by the investor depend not only on the returns generated by the manager, but also on the time and timing of the investor's holding in the fund.

How should you respond to recent turmoil in the markets?

There are three key determinants of the returns which investors experience over time: the performance of markets, the performance of the manager, and the behaviour of the investor in timing his or her exposure to their chosen investment managers.

"By chasing recent winners, investors make allocation decisions between funds by looking in the rear-view mirror ..."

1. Do not give up on equities

We at Orbis claim little expertise in predicting overall market returns. However, we do not agree with those who believe they should give up on the stock market entirely. It is true that the FTSE World Market Index declined over 50% from its 2007 peak to the trough earlier this year, and it is also the case that, since the inception of our funds in 1990, the Average Global Equity Fund has failed to outperform US dollar bank deposits – a fact which is particularly sobering.

Nevertheless, we are of the opinion that the long-term outlook for global equities is more attractive than bonds or cash, particularly in the face of a potential rise in inflation in coming years. If stocks offer a dividend yield of 2.5%, real long-term earnings growth is about 1% (in line with long-term normalised performance), and assuming no significant change in valuation levels (markets currently trade at about the mid-point of their long-term ranges), then stocks generally offer sound, if not remarkable, long-term value.

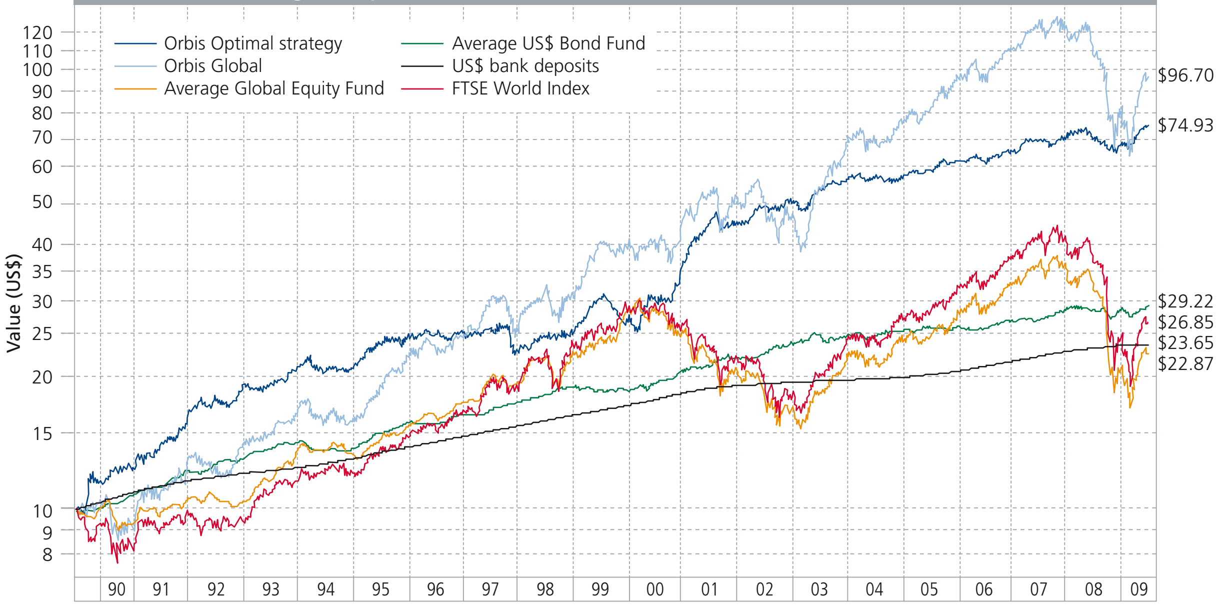
2. Choose a manager very carefully...

Turning from the market in general to managers in particular, the unfortunate reality is that over the long term, the average money manager adds little value. As indicated in **Graph 2**, the average Global Equity Fund has underperformed the market index. At Orbis, we have been fortunate to outperform over the long term – although not every year. We remind investors that outperformance does not come in a straight line.

3. ...and do not switch around

A troubling observation is that, for all long-term periods, the

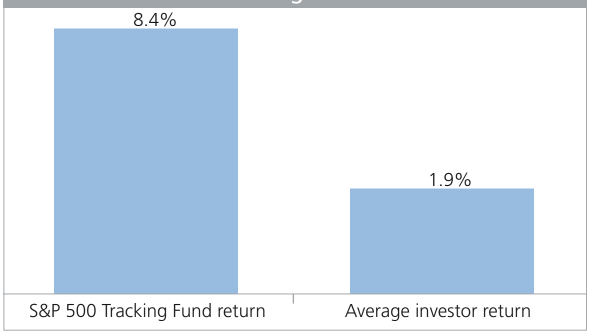
GRAPH 2 Orbis long-term performance versus the market (to 30 June 2009)



Source: FTSE World Index data source: FTSE International Limited.
Average Fund data source: ©2009 Morningstar Inc. All rights reserved.

average investor has continuously lagged the performance of the funds in which he or she was invested. By chasing recent winners, investors make allocation decisions between funds by looking in the rear-view mirror and are engaged in a systematic process of buying high and selling low. The ensuing performance gap can be wide, as shown in **Graph 3**, which highlights the impact of ill-timed shifts between funds.[1]

GRAPH 3 The cost of using the rear-view mirror



Source: Quantitative Analysis of Investor Behaviour, 2009, DALBAR Inc.

[1] Johan de Lange covered this subject is some detail in the previous issue of Quarterly Commentary in his piece 'How long is long-term? Setting reasonable goals'. (You can also read this piece on our website, www.allangray.co.za under the 'Latest news' tab.)

The investment performance partnership

One might conclude from the above discussion that we advocate not making any shifts in response to significant market changes. However, the real point is that we believe that responses to short-term price changes are generally ill-advised unless they are based on analysis and philosophy. Investors should understand the underlying philosophy and process which their managers use so that they are equipped to withstand short-term volatility and to avoid switching around inappropriately. It is this same emphasis on philosophy and process which led us to make what we believe is a sensible shift within the portfolio towards technology companies and to hold both our 1999 and current positions with conviction.

Long-term investment success requires a partnership. Investment management needs to have an effective approach to enable it to outperform markets and, critically, investors and their advisers need to ensure that they do not react inappropriately to market moves. Both the investment manager and the investor need to commit to a strategic philosophy and an established approach. Together, this partnership can build long-term value.

Mahesh Cooper

Lindy du Plessis

SAFER THAN EQUITIES, BETTER THAN CASH

EXECUTIVE SUMMARY: The Allan Gray Optimal Fund is a low risk absolute return fund that aims to deliver positive returns through all market conditions. While it does not guarantee positive returns in every month, it has a maximum peak to trough drawdown of 2.2% and has delivered consistent returns through different market conditions. It has also been able to outperform its benchmark, with a high level of capital stability, and deliver a higher return per unit risk than both the All Bond Index (ALBI) and the All Share Index (ALSI). Lindy du Plessis and Mahesh Cooper note that, in addition, the uncorrelated nature of the Optimal Fund's returns relative to the ALSI, means that it is suitable for investors seeking diversification from stock market returns.

The Allan Gray Optimal Fund was launched in October 2002, based on the Orbis Optimal strategy, which Orbis has successfully run since 1990 (see Quarterly Commentary Q3 2007). It is suited for the investor who wants to avoid the volatility associated with stock and bond markets, but still wants exposure to Allan Gray's performance relative to these markets through our stock picking skills. The Fund is listed in the Domestic Asset Allocation Targeted Absolute Return sector and has as its benchmark the return of the Daily Call Rate of FirstRand Bank Limited.

How does the Fund work?

The objective of the Fund is to allow investors to benefit from Allan Gray's stock picking skills without full exposure to the stock market. The Fund does this by investing in a portfolio of equities that we think are attractive. It then reduces the stock market risk of this portfolio by selling ALSI40 futures against these equities, which has the effect of replacing market returns, positive or negative, with those approximately equal to cash. The result is a return equal to the difference between the equity portfolio's returns and that of the index – commonly called 'alpha' – plus cash. The Fund's return is therefore largely immunised or hedged against that of the stock market, and is dependent rather on short-term interest rates and the ability of its equity portfolio to outperform the FTSE/JSE Top 40 Index.

The portfolio manager has limited discretion not to hedge a portion of the equities and may leave up to 20% of the Fund unhedged depending on the attractiveness of equities in general. On average, the monthly net equity exposure since inception has been 4.3%. **Table 1** outlines the asset allocation of the Allan Gray Optimal Fund at 30 June 2009.

TABLE 1 Optimal Fund asset allocation at 30 June 2009

Net equity exposure (unhedged)	3.5% (Market return + alpha)
Hedged equities	83.2% (Cash-like return + alpha)
Cash	13.3% (Cash return)
Total	100.0%

Source: Allan Gray research

To recap, the Fund's return comprises three components:

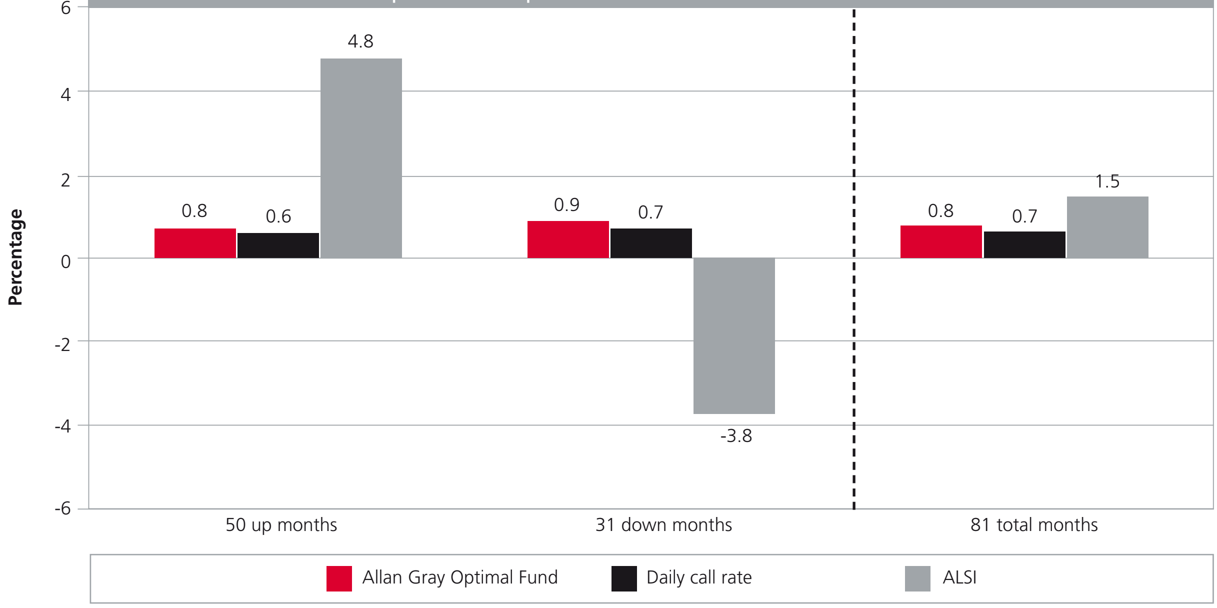
1. The cash return implicit in the pricing of the ALSI40 futures contracts sold
2. The out/underperformance of the equity portfolio versus the index, i.e. the alpha
3. The performance of the unhedged portion of the equity portfolio (if any)

The Optimal Fund's equity selection is not the same as the Allan Gray Equity Fund. This is because we believe that the volatility of our alpha in our equity fund is too high for a low risk absolute return fund. In an attempt to reduce this volatility, the selection of shares in the Optimal Fund takes into account the construction of the FTSE/JSE Top 40 Index and deviates from this index depending on which shares we think are attractive.

Performance of the Optimal Fund

Graph 1 illustrates the result of the Fund construction described above. It shows the average monthly returns achieved by

GRAPH 1 Performance in up and down periods - 1 October 2002 to 30 June 2009



Source: Allan Gray research

the Optimal Fund versus its cash benchmark and the ALSI over different market conditions since inception. For this 81 month period, the ALSI delivered an average monthly return of 1.5%. Over the same period, the Optimal Fund was able to deliver an average monthly return of 0.8%, outperforming its cash benchmark.

What is interesting is to look at the performance of the Optimal Fund and its cash benchmark since inception of the Fund during months when the ALSI delivered a positive return (50 up months), and during months when the ALSI delivered a negative return (31 down months). Graph 1 shows that during the 50 up months the average monthly return of the ALSI was 4.8%. In contrast, the average monthly return generated by the Optimal Fund was 0.8%, underperforming the ALSI but outperforming its benchmark. During the 31 down months the ALSI delivered an average monthly return of -3.8%. However, the average monthly return generated by the Optimal Fund was 0.9% showing that, on average, the Optimal Fund was able to avoid the negative returns of the equity market but still outperform its benchmark.

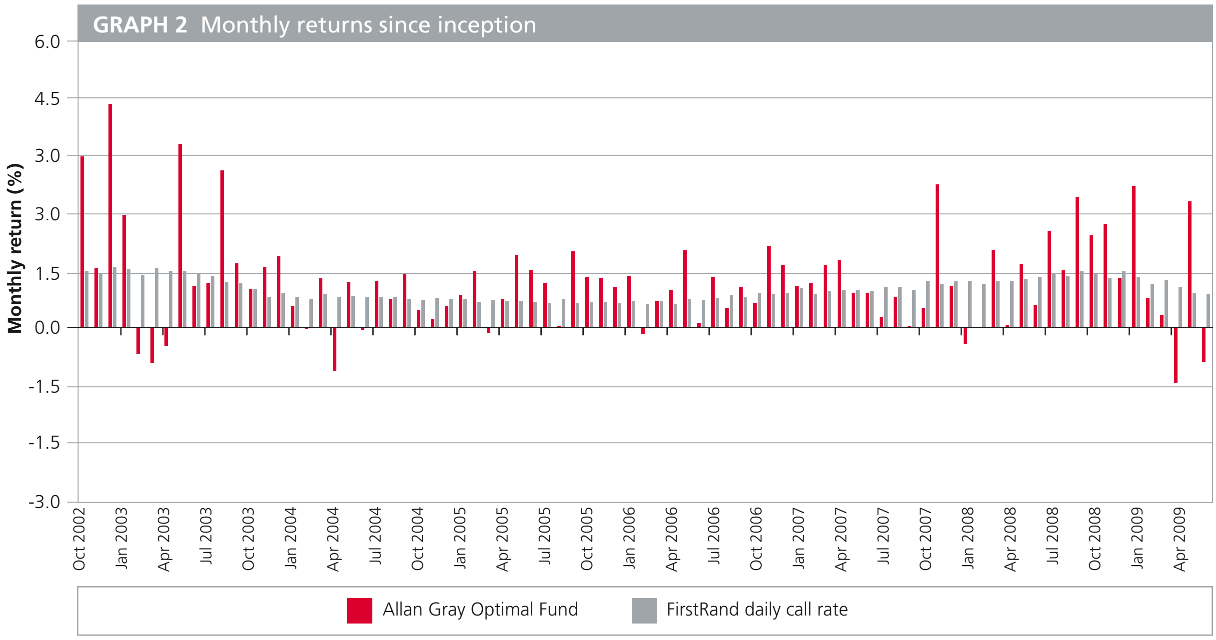
"The Optimal Fund is suitable for investors who are risk averse and require a high degree of capital stability."

The Optimal Fund is suitable for investors who are risk averse and require a high degree of capital stability. This can be seen in its low maximum drawdown in **Table 2**, but a low risk fund should also withstand a scrutiny of individual monthly returns. **Graph 2** shows monthly returns of the Fund relative to its cash benchmark. Note that, while they are unusual, negative monthly returns do occur and are the result of the negative alpha and/or negative returns on the unhedged equities being greater than the cash returns in that month.

TABLE 2 Risk return data from 1 October 2002 to 30 June 2009

Risk return statistics	Allan Gray Optimal Fund	Daily call rate	ALSI	ALBI
Annualised return	10.1%	8.2%	16.8%	10.7%
Annualised standard deviation	3.0%	0.7%	18.7%	6.8%
Correlation with ALSI	0.01	-0.35	1.00	0.02
Sharpe ratio	0.78	-	0.47	0.40
Maximum drawdown	-2.2%	-	-45.4%	-

Source: Allan Gray research



Source: Allan Gray research

Statistical risk analysis

When analysing historical performance, it is important to consider the risk associated with delivering that performance. The Sharpe ratio, shown in Table 2, is a measure of how much risk the Fund took in order to achieve its returns. A higher ratio is good, implying a higher return achieved per unit of risk. On **Graph 3**, the Sharpe ratio can be seen in the slope of a line drawn from the Optimal benchmark (cash) to each point on the graph; the steeper the slope, the higher the Sharpe ratio. Importantly, the Optimal Fund delivers return per unit of risk better than the ALSI, the ALBI and the average balanced fund manager (the Balanced Fund benchmark).

Table 2 also reinforces our earlier point that the Optimal Fund is suitable for investors who are seeking diversification and the benefits of uncorrelated returns relative to the stock market. Table 2 shows that this has indeed been the case – the Fund's historical monthly returns effectively have a zero correlation with those of the ALSI, which means that statistically there is

Source: Allan Gray research

no evident relationship between the returns of the Optimal Fund and the ALSI.

Graph 3 shows the annualised return and absolute risk of the Optimal Fund, its benchmark as well as the other Allan Gray funds relative to their benchmarks. The graph shows the low volatility of returns the Optimal Fund has achieved, especially compared to the stock and bond market.

The Optimal Fund is therefore suitable for investors seeking long-term positive returns higher than cash with a high degree of capital stability.

Definition box

Absolute risk: Absolute risk is the risk of capital loss or the risk of losing money. At Allan Gray we focus on reducing the risk of capital loss and hence strive for a low absolute risk. In the graphs, absolute risk is approximated by the annualised volatility (standard deviation) of monthly returns.

Correlation: The extent to which a relationship exists between the returns of two investments. If the correlation is close to zero, it means there is no relationship between returns of the investments. If the correlation is positive, it means that as the returns from one of the investments increases, the other increases. If the correlation is negative it means that as one increases, the other decreases.

Sharpe ratio: Measures a portfolio's return in excess of the return on cash relative to the portfolio's absolute risk in excess of cash's absolute risk.

Anthony Farr

THE ALLAN GRAY ORBIS FOUNDATION UPDATE

EXECUTIVE SUMMARY: Identifying the most suitable candidates for the Allan Gray Fellowship is one of the key challenges facing the Allan Gray Orbis Foundation. Anthony Farr explains the selection process, and describes how the Foundation's programme is gaining momentum.

At the Allan Gray Orbis Foundation we believe we are taking small steps to make a difference to the broader scheme of the challenges that face South Africa. We remain convinced that our consistent nurturing of talent and development of the next wave of leaders and innovators will not only ultimately achieve our mission of value and job creation for society, but also empower many others to create a more prosperous future. One of our greatest challenges is finding the right candidates for the opportunity.

The selection process

In terms of selection for the Allan Gray Fellowship, the Foundation has a simply defined objective: to identify up to 100 of the most suitable candidates. Implementing this has proved challenging, given our uncompromising approach to the quality of candidates we are looking for – individuals with academic and leadership abilities as well as entrepreneurial characteristics. Our challenge is compounded by the poor performance of the South African educational system.

Following four years of selection experience, the Foundation's approach has been refined into three selection campaigns:

1. Early selection – aimed at key schools

The first campaign is known as 'early selection' and is open to the Foundation's 'Circle of Excellence' schools (see **Table 1**, on page 18). These are the schools that have established the best track record for producing Allan Gray Fellows. These schools nominate applicants at the start of the year. This year, we received 212 applications in this targeted campaign. Following our selection process, which involves assessment of application forms, competency-based interviews, psychometric and academic testing and a final three-day selection camp hosted in early April in the Free State, 17 Allan Gray Fellowship offers were made.

The selection camp has a profound impact on attendees, with one commenting that they had 'become part of something revolutionary by being on this camp. I spent time with the future leaders in South Africa and seeing their creativity and character gave me a good feeling about our future'. Another reflected that the 'most amazing aspect was the simple fact that we were surrounded by the greatest young minds in Africa'.

2. Mainstream Grade 12 campaign

The second campaign is the 'mainstream Grade 12 campaign' and is open to all matriculants in the country. The Foundation

Circle of Excellence schools

The Foundation's Circle of Excellence was established last year to honour those schools that historically have produced the strongest candidates for the Allan Gray Fellowship. The Circle of Excellence also provides a platform for working with these institutions to find and develop the country's talent. In the past, these schools have produced around 60% of our selection camp candidates despite representing only 1.5% of the high schools in the country. An initial 73 schools were included in 2008. Twenty-seven new members have been included this year, bringing the total membership to 100 schools (see Table 1 on page 18). Over the last year, principals of member schools were given facilitated strategic workshops by Chantell Ilbury using the 'Mind of a Fox' framework developed by Clem Sunter and herself. This year the Foundation will be working with these schools around the principles of Jim Collin's 'Good to Great'.

creates awareness of this opportunity through a nationwide media campaign – styled this year under the caption 'Dream Big'. In addition, the Foundation has completed over 100 school visits, educating pupils both on the opportunity and the importance of having an entrepreneurial orientation in life. Finally, we send email and postal correspondence to a further 526 schools.

During the first stage of this campaign candidates write an academic test (known as AARP). At the time of writing, over 2 000 individuals had registered for this test.

3. Campaign for first year university students

The final campaign targets first year university students at the seven placement universities involved in the Allan Gray Fellowship. In 2009, about 2 000 students attended 12 presentations hosted at these campuses. The initial awareness campaigns were built around the phrase 'Could this be you?'.

Constantly improving the programme

The Foundation continues to seek ways to enhance the journey of development that it embarks upon with the Allan Gray Fellows. This year we built an important new aspect into the programme: second year Allan Gray Fellows participated in a 'Safari' experience. The group was taken to the Cederberg for three days in January to foster a common bond, explore the notion of the hero's journey, and shape their vision and future expectations of the Fellowship.

We believe that all the elements of the programme contribute to the growing achievements of the Allan Gray Fellows. These achievements include:

- Being selected as members of the 'Brightest Young Minds' (a summit which brings together the country's brightest young minds from diverse backgrounds for a week of training and development)
- Winning national budget speech essay competitions
- National innovation fund competition placings at undergraduate level
- Acceptance into international universities
- Placements on international secondments

Honouring the first eight graduates

The Foundation's inaugural graduation was held in February 2009, where we proudly awarded the Allan Gray Fellowship to the first eight graduates from the programme.

The reflections of these first graduates were perhaps best expressed by one of their number in a recent newspaper article on the Allan Gray Fellowship:

'At the end of the programme you realise that there is actually a greater responsibility which rests on you. It is to fulfil the vision of the Foundation, which sees a link between entrepreneurship and job creation and poverty alleviation. So this is what I need to give back, not only to the Foundation, but to the country as well.'

The first eight Allan Gray Fellowship graduates.

The Allan Gray Scholarship campaign for placement in 2010 has recently concluded. This campaign started with nearly 7 000 applications. Following assessment of application forms, numeracy and literacy testing, telephonic and face-to-face interviews, and individual school reviews, 45 Allan Gray Scholarship offers were made. This means there will be a total of 78 Allan Gray scholars at 16 schools in 2010.

One of the Allan Gray Scholars at Selborne College captured the significance of the opportunity in a recent letter to the Foundation: *'I constantly remind myself of how lucky and fortunate I am to be in the position I find myself in every day. I want to express my deepest gratitude for all that you have done and your faith in us to succeed in life.'*

TABLE 1 Circle of Excellence schools 2009

GAUTENG
- Benoni High School*
- Bracken High School*
- Bryanston High School
- Cornerstone College
- Crawford College, Pretoria
- Crawford Sandton School*
- Glenvista High School*
- Greenside High School
- Hyde Park High School
- Iona Convent
- Jeppe High School For Boys
- King Edward VII High School
- Krugersdorp High School*
- Loreto Convent School
- Metropolitan RAUcall
- Northcliff High School
- Parktown Boys' High School*
- Parktown Girls' High School*
- Pretoria Boys' High School
- Pretoria High School For Girls
- Queens High School
- Roedean School For Girls
- Sandringham High School
- Sekolo Sa Borokgo
- St Alban's College
- St David's Marist Inanda*
- St Dunstan's College*
- St John's College
- St Stithians College
- St Mary's School, Waverley
- The Hill High School*

WESTERN CAPE
- Bergvliet High School
- Bishops (Diocesan College)
- COSAT (Centre of Science and Technology)
- Deutsche Internationale Schule Kapstadt*
- DF Malan High School
- Hershel Girls' School
- Livingstone High School
- Paul Roos Gymnasium
- Rondebosch Boys' High School
- Rustenburg High School For Girls
- South African College School (SACS)
- St Cyprian's School
- The Settlers' High School
- Tygerberg High School
- Westerford High School

NORTHERN CAPE
- Kimberley Girls' High School

EASTERN CAPE
- Alexander Road High
- Clarendon High School For Girls
- Collegiate Girls' High School
- Graeme College Boys' High School*
- Grey High School
- Hudson Park High School
- Newton Technical High School
- Port Rex Technical High School
- Selborne College
- St Andrew's College
- Stirling High School
- Theodor Herzl
- Ugie High School*
- Umtata High School*
- Victoria Girls' High School
- Victoria Park High School*
- Westering High School*
- Zingisa Comprehensive High School*

KWAZULU-NATAL
- Carter High School
- Crawford College, Durban (North Coast)
- Domino Servite School
- Durban Girls' High School
- Durban High School*
- Epworth Independent High School For Girls
- Estcourt High School*
- Glenwood High School
- Hilton College
- Inkamana High School
- John Ross College
- Kearsney College
- Kingsway High School
- Ladysmith High School*
- Maritzburg College
- Michaelhouse
- New Forest High School*
- Northwood High School*
- Pietermaritzburg Girls' High School
- Pinetown Girls' High School*
- Port Shepstone High School
- Ridge Park College
- St Catherine's High School
- St Francis College Marianhill
- Tongaat Secondary School*
- Westville Boys' High School
- Westville Girls' High School

LIMPOPO
- Capricorn High School*
- Harry Oppenheimer Agricultural High School*
- Khanyisa Education Centre
- Mbilwi Secondary School*

FREE STATE
- Eunice Education Centre
- St Andrew's High School*

NORTH WEST PROVINCE
- Potchefstroom Boys' High*
- Tiger Kloof Educational Institution

** New schools for 2009*

Allan Gray Balanced Fund Quarterly Disclosure as at 30 June 2009	
	% of Fund
South African equities	**53.4**
Resources	**13.7**
Anglogold Ashanti	4.9
Sasol	3.9
Harmony Gold Mining Co.	2.3
African Rainbow Minerals	1.6
Positions individually less than 1% of total JSE-listed securities held by the Fund	0.9
Financials	**8.5**
Sanlam	3.0
Standard Bank Group	2.0
Reinet Investments SA	1.0
Firstrand	0.8
Positions individually less than 1% of total JSE-listed securities held by the Fund	1.7
Industrials	**31.2**
SABMiller	6.8
MTN Group	4.9
Remgro	3.5
Compagnie Fin Richemont SA	2.1
Sappi	1.7
Nampak	1.6
Dimension Data Holdings	1.6
Shoprite Holdings	1.1
Illovo Sugar	1.0
Sun International	1.0
Aspen Healthcare Holdings	0.8
Mondi Limited	0.7
Tongaat-Hulett	0.6
Positions individually less than 1% of total JSE-listed securities held by the Fund	3.6
Other securities	**0.1**
Positions individually less than 1% of total JSE-listed securities held by the Fund	0.1
---- Net South African equities ----	*53.4*
Commodities	**2.9**
New Gold ETF	2.9
Bonds	**2.2**
RSA Bonds	0.7
Parastatal Bonds	0.1
Corporate Bonds	1.5
Money market and call deposits	**20.9**
Foreign - JSE inward listed shares	**4.6**
British American Tobacco	4.4
Positions individually less than 1% of total JSE-listed securities held by the Fund	0.2
Foreign - Orbis absolute return funds	**5.8**
Orbis Optimal SA Fund (US$)	2.9
Orbis Optimal SA Fund (Euro)	2.8
Foreign - Orbis equity funds	**10.2**
Orbis Global Equity Fund	6.3
Orbis Japan Equity Fund (Yen)	3.9
Totals:	**100.0**

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

Total Expense Ratios (TERs)

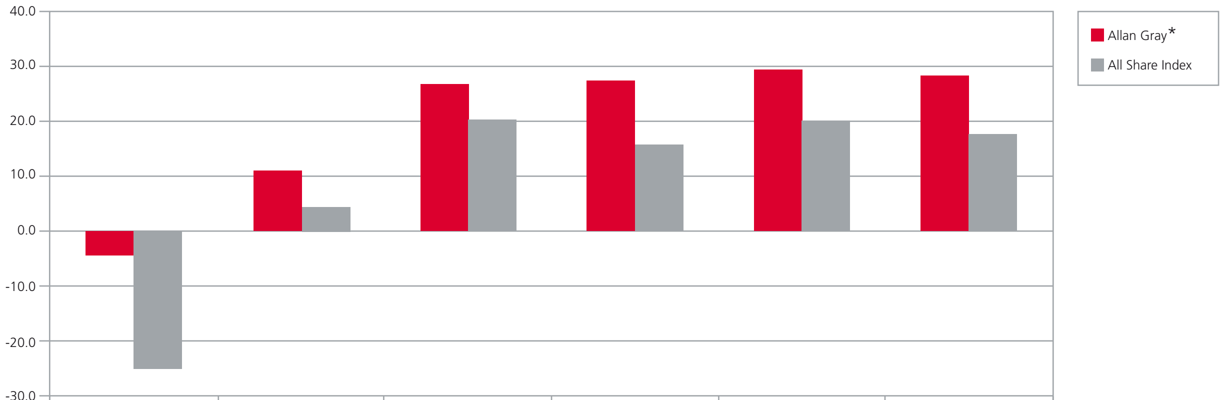
	Equity Fund	**Balanced Fund**	**Stable Fund**	**Optimal Fund**	**Bond Fund**	**Money Market Fund**	**Global Fund of Funds**	**Global Equity Feeder Fund**
Performance component	0.84%	0.48%	0.34%	0.56%	0.34%	0.00%	0.27%	0.57%
Fee at benchmark	1.71%	1.16%	1.14%	1.14%	0.29%	0.29%	1.26%	1.49%
Trading costs	0.12%	0.09%	0.08%	0.30%	0.00%	0.00%	0.20%	0.18%
Other expenses	0.01%	0.06%	0.06%	0.02%	0.11%	0.01%	0.33%	0.39%
Total Expense Ratio (TER)	2.68%	1.79%	1.62%	2.02%	0.74%	0.30%	2.06%	2.63%

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 March 2009. 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.

Investment track record

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 (to 30.06)	2.9	4.1	-1.2
Annualised to 30.06.2009			
From 01.07.2008 (1 year)	-4.3	-24.9	20.6
From 01.07.2006 (3 years)	11.0	4.2	6.8
From 01.07.2004 (5 years)	26.4	20.3	6.1
From 01.07.1999 (10 years)	27.2	15.4	11.8
Since 01.01.1978	29.4	20.2	9.2
Since 15.06.1974	28.1	17.5	10.6
Average outperformance			10.6
Number of calendar years outperformed			27
Number of calendar years underperformed			7



	From 01.07.2008 (1 year)	From 01.07.2006 (3 years)	From 01.07.2004 (5 years)	From 01.07.1999 (10 years)	Since 01.01.1978	Since 15.06.1974
Allan Gray*	-4.3	11.0	26.4	27.2	29.4	28.1
All Share Index	-24.9	4.2	20.3	15.4	20.2	17.5

Annualised to 30.06.2009

* 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 to **R58 779 420** by 30 June 2009. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to **R2 812 750**.

Investment track record

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 (to 30.06)	0.6	1.2	-0.6
Annualised to 30.06.2009			
From 01.07.2008 (1 year)	1.3	-9.0	10.3
From 01.07.2006 (3 years)	11.3	6.7	4.6
From 01.07.2004 (5 years)	21.2	17.3	3.9
From 01.07.1999 (10 years)	22.9	15.1	7.8
Since 01.01.1978	23.5	17.8	5.7
Average outperformance			5.7
Number of calendar years outperformed			25
Number of calendar years underperformed			6

** Consulting Actuaries Survey returns used up to December 1997. The return for June 2009 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to **R7 633 216** by 30 June 2009. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R1 722 378**.

Allan Gray annualised performance in percentage per annum to 30 June 2009	SECOND QUARTER (unannualised)
UNIT TRUSTS[1]	
EQUITY FUND (AGEF) FTSE/JSE All Share Index	[3]
BALANCED FUND (AGBF) Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)	[3]
STABLE FUND (AGSF) - (NET OF TAX) Call deposits plus two percentage points (Net of tax)	[3]
STABLE FUND (AGSF) - (GROSS OF TAX) Call deposits plus two percentage points (Gross of tax)	[3]
MONEY MARKET FUND (AGMF) Domestic fixed interest money market unit trust sector (excl. AGMF)	[3]
OPTIMAL FUND (AGOF) Daily call rate of FirstRand Bank Ltd	[3]
BOND FUND (AGBD) BEASSA All Bond Index (total return)	[3]
GLOBAL FUND OF FUNDS (AGGF) 60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index (Rands)	[3]
GLOBAL EQUITY FEEDER FUND (AGOE) FTSE World Index (Rands)	[3]
LIFE POOLED PORTFOLIOS	
GLOBAL BALANCED PORTFOLIO Mean of Alexander Forbes Global Large Manager Watch[2]	**3.4** 6.0
DOMESTIC BALANCED PORTFOLIO Mean of Alexander Forbes Domestic Manager Watch[2]	**3.5** 8.2
DOMESTIC EQUITY PORTFOLIO FTSE/JSE All Share Index	**5.4** 8.6
DOMESTIC ABSOLUTE PORTFOLIO Mean of Alexander Forbes Domestic Manager Watch[2]	**3.7** 8.2
DOMESTIC STABLE PORTFOLIO Alexander Forbes Three-Month Deposit Index plus 2%	**3.0** 2.7
DOMESTIC OPTIMAL PORTFOLIO[1] Daily Call Rate of Nedcor Bank Limited	**0.5** 1.9
GLOBAL ABSOLUTE PORTFOLIO Mean of Alexander Forbes Global Large Manager Watch[2]	**3.4** 6.0
DOMESTIC MEDICAL SCHEME PORTFOLIO Consumer Price Index plus 3% p.a.[2]	**3.0** 2.0
GLOBAL STABLE PORTFOLIO Alexander Forbes Three-Month Deposit Index plus 2%	**1.9** 2.7
RELATIVE DOMESTIC EQUITY PORTFOLIO FTSE/JSE CAPI Index	**6.6** 9.6
MONEY MARKET PORTFOLIO[1] Alexander Forbes Three-Month Deposit Index	**2.4** 2.2
FOREIGN PORTFOLIO[1] 60% of the MSCI Index and 40% JP Morgan Global Government Bond Index (Rands)	**2.4** -6.9
GLOBAL EQUITY PORTFOLIO[1] FTSE World Index (Rands)	**8.2** -0.8
SEGREGATED PORTFOLIOS[5]	
GLOBAL BALANCED COMPOSITE Mean of Alexander Forbes Global Large Manager Watch[2, 4]	**3.3** 6.0
DOMESTIC BALANCED COMPOSITE Mean of Alexander Forbes Domestic Manager Watch[2]	**3.6** 8.2
DOMESTIC EQUITY COMPOSITE FTSE/JSE All Share Index	**5.7** 8.6
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN COMPOSITE Mean of Alexander Forbes Namibia Average Manager[2]	**3.0** 6.0
RELATIVE DOMESTIC COMPOSITE Weighted average of client specific benchmarks[2]	**6.7** 9.2
FOREIGN BEST VIEW (RANDS) COMPOSITE 60% of the MSCI and 40% of the JP Morgan Global Government Bond Index (Rands)	**1.6** -6.9
ORBIS FUNDS (RANDS)[1, 6]	
ORBIS GLOBAL EQUITY FUND (RANDS) FTSE World Index (Rands)	**8.2** -0.8
ORBIS JAPAN EQUITY (YEN) FUND (RANDS) Tokyo Stock Price Index (Rands)	**10.5** -0.4
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS) US$ Bank Deposits (Rands)	**-8.8** -18.6
ORBIS OPTIMAL SA FUND-EURO CLASS (RANDS) Euro Bank Deposits (Rands)	**-5.4** -13.9
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS) MSCI Asia Ex-Japan (Rands)	**18.0** 9.6

PERFORMANCE AS CALCULATED BY ALLAN GRAY

1 The fund returns are net of investment management fees
2 The return for Quarter 2, 2009 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
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

1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
-9.8	7.6	22.3	23.0	30.2	16,265.2	01.10.98
-24.9	4.2	20.3	15.4	18.0		
0.7	9.5	19.2	-	21.4	25,394.0	01.10.99
-7.0	6.3	15.9	-	13.7		
10.0	10.5	13.7	-	14.1	24,765.7	01.07.00
9.2	8.4	7.3	-	8.0		
11.3	11.5	14.6	-	15.5	24,765.7	01.07.00
12.5	11.3	9.9	-	10.8		
11.6	10.3	9.0	-	9.6	10,107.6	03.07.01
11.5	10.1	8.9	-	9.6		
13.6	10.2	9.2	-	10.1	2,388.5	01.10.02
10.3	9.1	7.7	-	8.2		
16.6	9.2	-	-	9.0	114.7	01.10.04
19.3	7.7	-	-	8.3		
1.1	9.3	12.3	-	9.1	5,561.7	03.02.04
-17.0	2.2	8.4	-	5.3		
-14.2	2.8	-	-	10.4	2,799.1	01.04.05
-29.6	-4.1	-	-	4.6		
1.2	11.2	21.2	-	21.7	12,065.9	01.09.00
-9.0	6.7	17.3	-	14.2		
1.8	12.2	23.6	-	22.0	4,704.0	01.09.01
-5.6	8.7	19.2	-	16.6		
-6.3	11.1	26.7	-	25.4	4,640.6	01.02.01
-24.9	4.2	20.3	-	14.5		
12.7	17.1	25.2	-	26.3	483.5	06.07.01
-5.6	8.7	19.2	-	16.2		
13.3	13.2	17.7	-	17.3	437.9	01.12.01
13.3	12.2	11.0	-	11.8		
14.7	11.1	10.2	-	10.2	179.0	04.12.02
10.6	9.5	8.0	-	8.4		
11.3	16.4	24.4	-	22.0	916.3	01.03.04
-9.0	6.7	17.3	-	16.0		
12.4	13.0	16.2	-	15.9	1,180.5	01.05.04
9.4	11.7	9.8	-	9.7		
10.9	12.3	-	-	16.7	2,804.6	15.07.04
13.3	12.2	-	-	11.0		
-14.3	7.5	23.5	-	25.5	541.7	05.05.03
-20.9	5.1	20.9	-	22.9		
11.7	10.4	9.1	-	10.0	1,189.8	21.09.00
11.1	10.0	8.9	-	9.7		
1.2	8.5	12.3	-	5.2	1,404.7	23.01.02
-17.0	2.2	8.5	-	-0.1		
-13.5	2.4	11.1	-	10.5	1,638.6	18.05.04
-29.4	-4.1	6.1	-	5.6		
1.3	11.3	21.2	22.9	23.5	21,915.1	01.01.78
-9.0	6.7	17.3	15.1	17.8		
1.8	12.3	23.3	23.7	23.9	22,776.0	01.01.78
-5.6	8.7	19.2	16.6	18.3		
-6.3	11.5	26.7	26.2	22.2	37,967.8	01.01.90
-24.9	4.2	20.3	15.4	14.1		
2.3	12.5	21.2	22.6	20.7	5,147.3	01.01.94
-7.3	8.5	17.6	15.0	14.1		
-12.1	7.7	22.9	-	21.6	8,191.6	19.04.00
-18.7	5.5	20.2	-	15.0		
-3.6	6.4	11.1	15.6	15.2	4,741.8	23.05.96
-17.0	2.2	8.5	5.6	10.0		
-14.4	2.2	11.2	12.1	18.9	-	01.01.90
-29.4	-4.1	6.1	2.9	11.3		
-0.2	-1.4	7.0	7.4	14.9	-	01.01.98
-22.0	-7.6	3.4	1.7	5.9		
7.5	10.5	-	-	14.5	-	01.01.05
0.4	6.6	-	-	11.4		
-0.4	12.9	-	-	14.2	-	01.01.05
-9.5	9.7	-	-	11.4		
-13.9	10.0	-	-	14.4	-	01.01.06
-19.1	6.7	-	-	11.6		

Notes

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