QUARTERLY COMMENTARY 4

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ALLAN GRAY

Inside this issue

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Rob Dower

Comments from the Chief Operating Officer

Over the tumultuous past year, the returns from lump sum investments in the Allan Gray Balanced, Stable and Equity Funds differ by less than 3%, and over the five years since the beginning of the financial crisis, the annualised difference between these three is 0.5%. In both cases the Stable Fund leads the pack. For valuation-oriented investors, disappointing past equity returns can be a signal to invest. In our view, this is not currently the case: at year-end prices, based on bottom-up stock analysis, the reward on offer relative to the risk of loss in most JSE-listed stocks remains as unexciting as it was a year ago.

Meanwhile, asset allocation funds like Balanced and Stable fulfil their brief by reducing the risk of loss and taking advantage of short-term buying opportunities. This comes from diversifying between different asset classes and, most importantly, by not taking on risk when it is not justified by potential gains. And reduced risk is a real benefit: since our asset allocation funds have managed to smooth over the dips that equity investors have experienced this year, it follows that fewer of these clients will have made a permanent capital loss by selling their investments at a damaging low point.

Delphine Govender

We are sad to be saying goodbye to Delphine Govender, who will be leaving Allan Gray in the next few weeks to pursue personal interests. Delphine has made an outstanding contribution to the success of our clients and our company over her more than 10 years with Allan Gray. She joined Allan Gray as an equity analyst in July 2001 and was appointed as a portfolio manager in 2005. She has served as a director on the boards of Allan Gray Proprietary Limited and Allan Gray Group Proprietary Limited since 2006 and on the board of trustees of the Allan Gray Orbis Endowment. We wish her well in her future endeavours.

In order to allow more than one manager to participate in individual decision making, we notionally slice clients' equity and balanced portfolios into separate 'manager portfolios'. This system makes each of our portfolio managers responsible for managing his or her 'slice' and accountable for their own individual performance. When a portfolio manager moves on, their 'slice' is re-allocated among the remaining portfolio managers. Re-allocations have occurred at regular intervals throughout our history and our portfolio manager system is well-suited to adapt to these changes. Over the last decade, the number of portfolio managers responsible for equity and balanced portfolios has varied between three and five - without Delphine we will be dividing the portfolios between the remaining four managers.

While it is always sad to say goodbye to people of Delphine's calibre, we believe that our pipeline of talented analysts puts us in a strong position to continue adding value to your investments.

Stock market investing

Investors often have stories to tell about individual equities, sectors or even entire countries. Stories are great, but according to Andrew Lapping, when it comes to investing one has to be careful not to be sucked into the headlines. At the end of the day, it is not the story that counts, but the price you pay.

Jonathan Brodie and Trevor Black, from our offshore partner Orbis, echo this point. They note that while we do not believe it is possible to predict (let alone control) political or economic outcomes, we can fully control what shares we buy and the price we pay for them. Orbis and Allan Gray work hard to find stocks that look compelling, analyse them in the context of a consistent philosophy, and build a concentrated portfolio of the best ideas.

Our service commitment

We are unashamedly obsessive about providing you with excellent client service and hope that if we fall short of these standards you will complain. Your feedback enlightens us about what we need to change to make it easier for you to do business with us. Michael Summerton elaborates in his piece, and we invite you to be in touch.

Sincere thanks for your ongoing support and I wish you well in 2012.

Kind regards

Rob Dower

Andrew Lapping

It is the price you pay that counts, not the headlines

EXECUTIVE SUMMARY: **People enjoy stories; they are fun. This is true in all facets of life, including investing. Investors often have stories to tell about individual equities, sectors or even entire countries. Stories are great, but according to Andrew Lapping, when it comes to investing it is not the story that counts, but the price you pay.**

Last year I attended a mining conference where senior executives of most of the world's major mining companies presented on their businesses. These presentations must always be taken with a pinch of salt as you are hearing about the beauty, not the warts. Even so, it is useful to listen to many company representatives in a short space of time to get a sense of whether they are generally positive and investing in projects that will add new supply in the long run, or conversely, if they are negative and cutting production. As contrarians, we are usually looking for the negativity that could lead to investment opportunities: if company management is negative, investors often follow.

One of the presentations I attended was by a relatively small company with a great story to tell about the various projects it has on the drawing board (all the information disclosed had been in the public domain for some time). After the presentation the guy on my left said: 'Great story, I've got to buy this stock.' He was not the only person with these thoughts; the share was up 10% on the day. It seemed a number of people had made an investment decision based solely on a story with little consideration for the actual valuation and what was already discounted in the share price. To me, the only certainty was that the CEO was a powerful public speaker.

"As contrarians, we are usually looking for the negativity that could lead to investment opportunities..."

Base investment decisions on facts

The hard work when it comes to investing, is establishing the facts. This involves analysing data, investigating the industry in which the company operates and meeting company management. Investors need to ask a lot of questions. Is the business sustainable? Is the demand for the product likely to shrink or grow? Will excess capital investment destroy returns? Are returns above or below normal? The goal should be to extract factual data to aid quantitative valuation.

The value of a company is the sum of the future cash flows

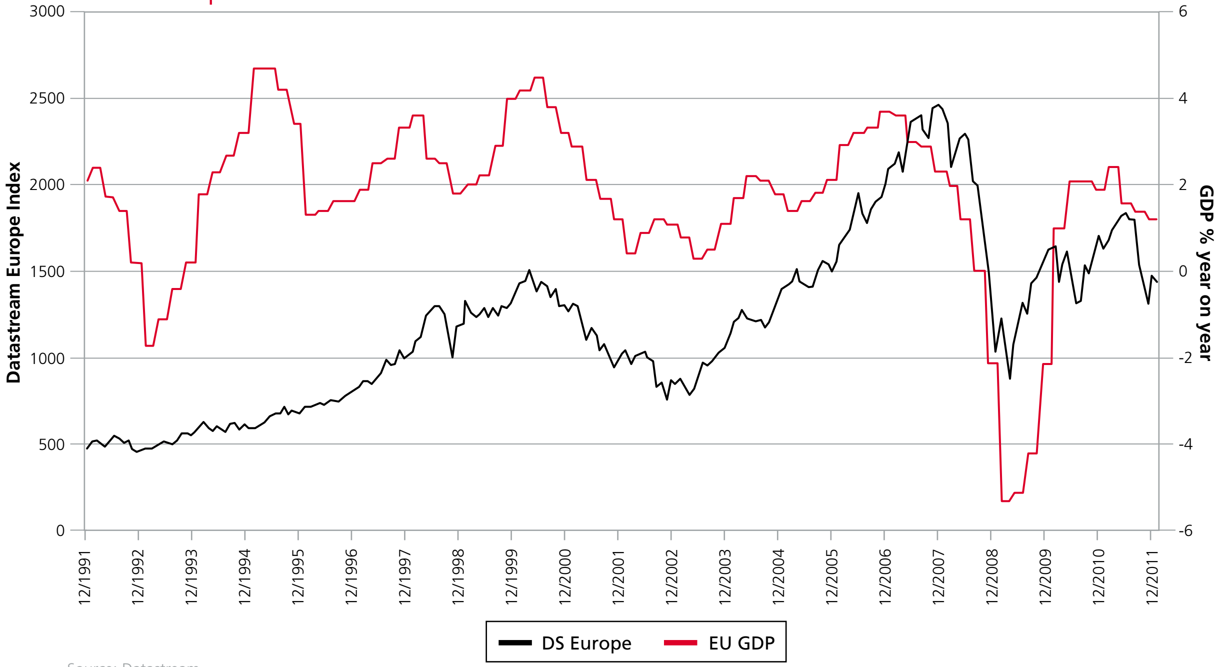
At Allan Gray we believe that the most important variable in establishing the value of a company is the estimate of future cash flows. As it is not possible to forecast the future with any accuracy, we try instead to establish the average cash flows a business can sustain through the business cycle. We use this sustainable cash flow in normal conditions to determine the value. It is important not to think of current conditions as normal and just extrapolate these. When the news and short-term outlook are positive, market participants tend to extrapolate these conditions in the earnings outlook rather than assess the long-term earnings power of the company.

It is very difficult to not be swayed by current events and operational data, but at the very least you should be aware that, if the outlook and news are positive, it is probably in the share price; similarly for bad news. That the market often extrapolates current conditions as normal, is what enables us to generate alpha.

Stock market indices, for example the Datastream Europe Index, provide a good illustration of this concept. Many people assume Europe is currently not the place to invest, as there is so much bad news and so many stories about the dire outlook for European GDP growth. This is borne out in the weakness of European equity markets. There are two separate concepts at work here:

1. The news is bad therefore it is a bad investment
Often the opposite is true. When the news is terrible it is likely you could be looking at a good investment opportunity.

GRAPH 1 | European equities and GDP growth



Source: Datastream

The reason is that investors may be extrapolating the current situation into the future. They may be right, but at least it is in the price. And if things turn out to be even a little better, it is more than what is discounted in the share price.

Graphs 1 and **2** illustrate this for the Datastream Europe Index. When GDP growth is high and things are going well, investors extrapolate this into the future and bid up share prices (most notably in 2000 and late 2006). Actually, this is not the time to buy. Rather, the time to buy is when the valuations are low (I have used dividend yield as an indicator of value). Note that the dividend yield was relatively high in 1992/93, 2002/03, 2008/09 and late 2011. What created the buying opportunity in each of these cases was a weak economy and investors expecting the situation to continue.

"...the time to buy is when the valuations are low..."

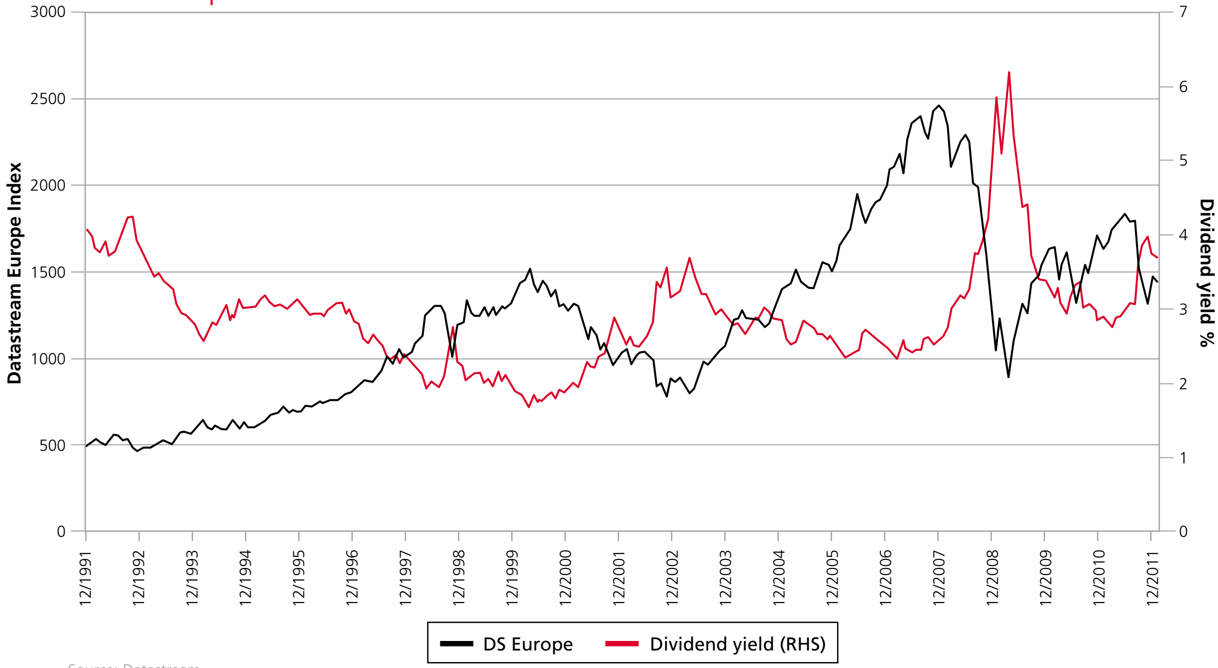
When it comes to investing, there are very few things you know for certain. If you consider the world right now, one thing that is certain is that people are negative about Europe. To us, this may indicate an opportunity.

2. Conventional wisdom asserts that GDP growth drives stock market returns

This is also not necessarily true. The most important driver of stock market returns is the starting valuation. GDP growth and stock market returns are not well correlated.

Investors are always trying to forecast the future, so when people expect GDP growth they tend to pay too much for it and are often disappointed, in other words, the growth is already in the price as the market is bid up in anticipation. However, one of the most important reasons for the low correlation is something else: investment and the competitive dynamic. Investment spending can have the opposite impact on equity returns and GDP growth. When a business invests in new plant and machinery, it is reflected as GDP growth, so the greater the level of investment the faster GDP grows. Unfortunately, all these companies putting capital to work and investing, brings down the return on capital. Lower returns on capital mean lower profits and poor returns for equity investors. A good example is China, where massive investment, amongst other

GRAPH 2 | European equities and dividend yield



Source: Datastream

factors like productivity growth, has led to real GDP growth of 10% per year over the past 18 years. Over the same period the Shanghai SE A Share Index has appreciated a little less than the Datastream Europe Index, where GDP growth has averaged 1.6% (see **Graph 3**).

Contrast this with the FTSE/JSE All Share Index (ALSI), which has grown at a real 6.4% per year over the past 18 years, with GDP growth of only 3% per year. The low starting valuation is important, but another reason is that South African businesses often have a very high return on capital. One of the reasons for this is that South African businessmen are often very cautious about the outlook for South Africa and are loath to invest capital. This results in a very favourable competitive dynamic, as well as mediocre GDP growth.

"We believe the most important variable in establishing the value of a company is the estimate of future cash flows."

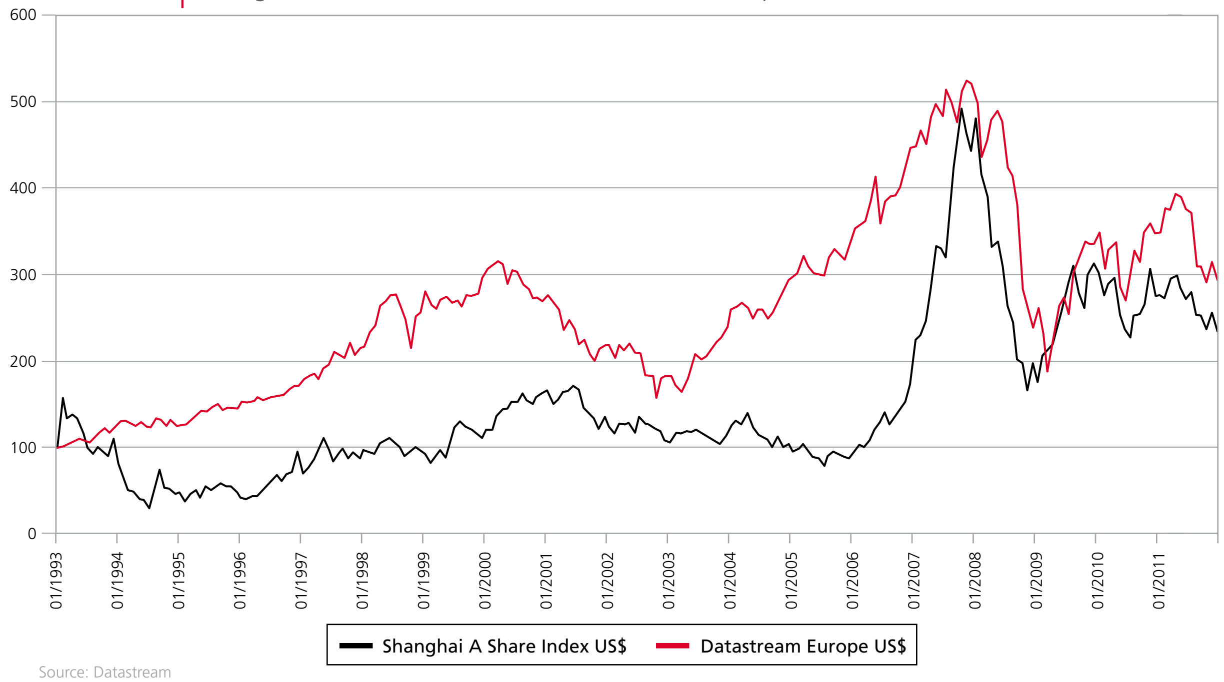
The current negativity towards the European and the US economies, and the subsequent lack of investment, may actually lead to higher returns on capital. How many times have you heard American politicians lament the failure of US businesses to invest and create jobs? Interestingly, corporate profits to GDP are at a record high in the US. The takeaway is not that you must look for weak economies for investment opportunities; rather it is the fundamentals and the entry-price that matter.

Fact versus fiction

The reason stories should be avoided when making investment decisions, is that it is very easy to listen to a narrative and get sucked in, rather than actually doing the hard work and establishing the facts. A great tale can lead an investor to believe that it is possible to forecast the future. The problem is, more often than not, the current news is already discounted in the price.

Instead, investors should look forward and establish what people do not know or do not expect. By using all the available information, investors can try to estimate the normal level of earnings, and hence the appropriate value, for the business. This is the approach we follow rather than just listening to stories, even though stories are fun.

GRAPH 3 | Shanghai A Share Index versus Datastream Europe Index



Source: Datastream

Andrew joined Allan Gray in February 2001. He is a fund manager for the Allan Gray Bond and Money Market Funds and also manages a portion of client equity and balanced portfolios.

Rory
Kutisker-Jacobson

Anglo American: Getting what you pay for?

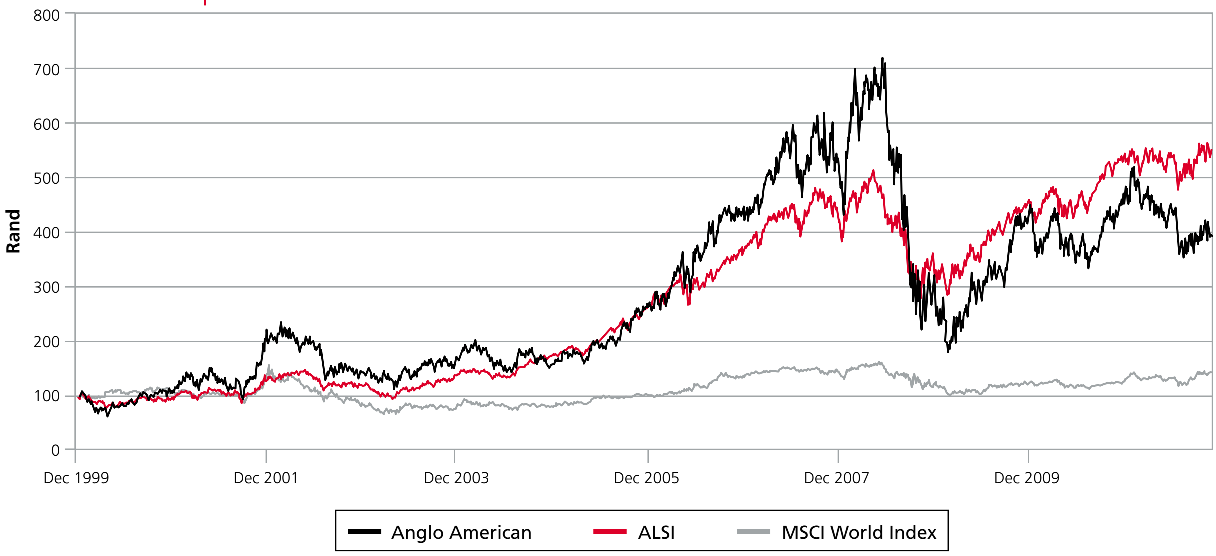
EXECUTIVE SUMMARY: As contrarian investors we are always on the lookout for assets which we can buy for less than our estimate of their intrinsic value. As a result, much of our time is spent assessing what we regard to be fair value. Anglo American has recently entered our top 10. Rory Kutisker-Jacobson discusses the investment case.

Given the surge in commodity prices since the turn of the century, one might be surprised to learn that an investment in Anglo American has underperformed the FTSE/JSE All Share Index (ALSI) over this same period. R100 invested in the ALSI on 31 December 1999, with all dividends reinvested, would be worth R545 today, but just R392 had one invested it in Anglo American. A poor relative performance for South African investors, but then, like Anglo, aggregate ALSI earnings have benefited immensely from the commodities' boom. For a global investor, R100 invested in the MSCI World Index over this same period would be worth just R144 today (see **Graph 1**). Determining whether Anglo American has been a good investment depends on where you sit. What is disappointing for some may be jubilation for others.

Of course, such comparisons also depend on when you start and end. In the build up to the global financial crisis, Anglo was the Cinderella of the market. It had significantly outperformed the ALSI and by June 2008 shareholders were sitting pretty with the share price around R550 per share (US$70). Anglo could seemingly do no wrong. Unfortunately, management was not immune to this optimism, and over the preceding two years had increased the debt on the balance sheet significantly by making what now appear – with the benefit of hindsight – to be overpriced acquisitions. When the clock struck 12 in late 2008, the subsequent deceleration was fierce. Anglo found itself in an over-indebted position, its dividend was cut, and its share price plummeted to R134 per share (US$13). What had once appeared to be a golden carriage, now looked decidedly like a pumpkin.

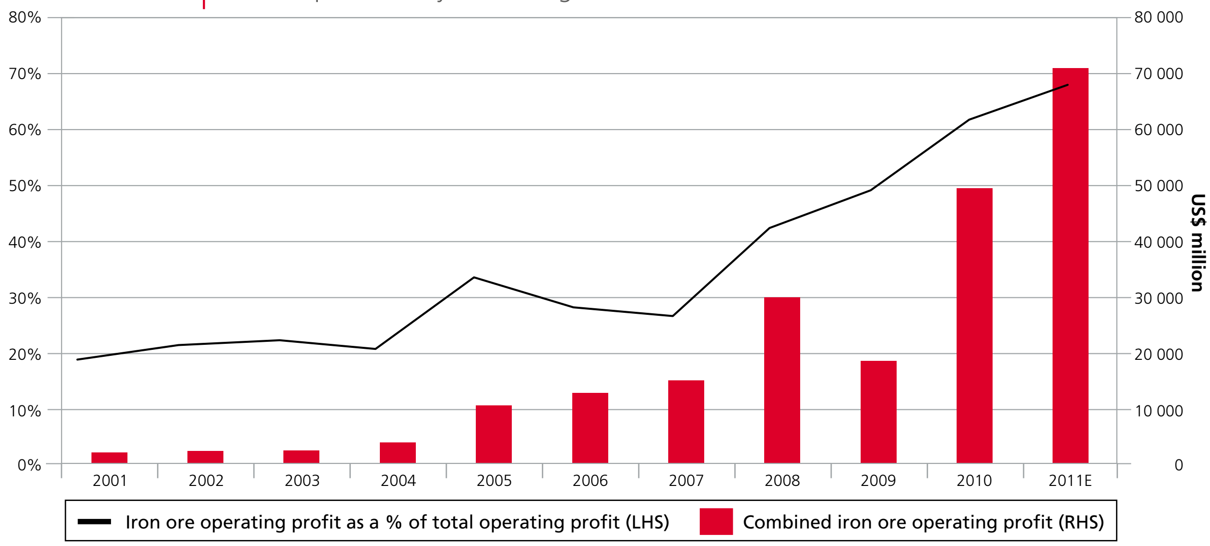
Since then commodity prices have recovered strongly, non-core assets have been sold, the dividend has been reinstated and the balance sheet is much stronger. Accordingly, the

GRAPH 1 | Value of R100 invested on 31 December 1999



Source: Datastream

GRAPH 2 | Iron ore profitability of the big four diversified miners



Source: UBS. The big four diversified miners are Anglo American, BHP Billiton, Rio Tinto and Vale

share price has recovered to R296 per share (US$37), but it is still some 48% below its 2008 dollar peak and trading close to its long-term relative low versus the ALSI.

Is Anglo American cheap? In our minds the investment case is mixed.

Valuing Anglo American

Anglo American can be thought of as the sum of three parts:

- A 65.3% stake in Kumba Iron Ore (Kumba), which in turn has a 74% stake in the Sishen Iron Ore Company (SIOC).
- A 79.7% stake in Anglo American Platinum (Amplats).
- The remaining assets (known as the 'rump' or 'stub') of Anglo American, which include its stake in De Beers, its coal mines in South Africa, Australia and Colombia, its copper and nickel mines in South America, the Minas Rio iron ore project in Brazil, and other non-core assets.

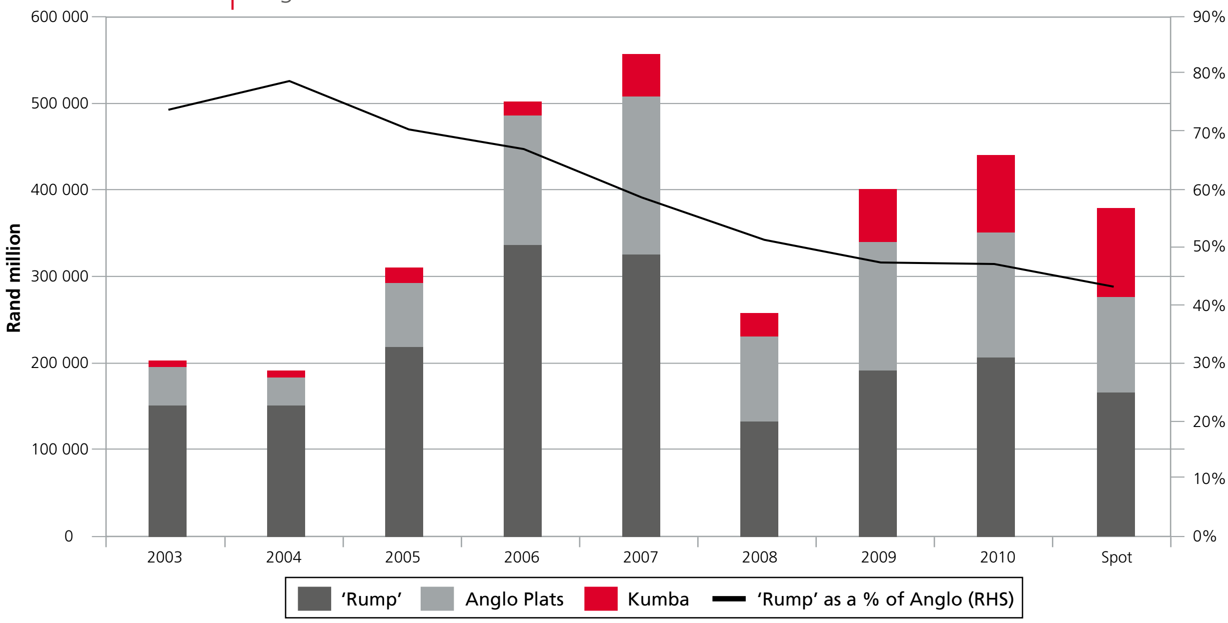
As Amplats and Kumba are both listed, one can think of buying one share in Anglo American for R296 as the equivalent of investing R84 in Kumba, R89 in Amplats and R123 in the 'rump'.

Kumba was formed in November 2006, when Kumba Resources was split into Exxaro and Kumba. Had one invested R100 in Kumba Resources when it first listed in November 2001, retained one's stakes in Exxaro and Kumba in the 2006 unbundling, and reinvested the respective dividends in each entity, one would now have an investment worth approximately R4 221. This equates to a return of 45% per year and a tenfold outperformance over the ALSI over this same period. With such spectacular growth, it may seem surprising that Kumba is trading on a historical P/E multiple of just 9.6 and a dividend yield of 8.5%, both of which appear attractive at first glance. However, we are concerned that Kumba's current profitability is unsustainably high.

Primarily due to rapid growth in Chinese industrialisation, the iron ore price has increased fivefold over the last 10 years, leading to a massive increase in industry profitability. In 2001, the big four diversified miners generated operating profits of US$2bn from iron ore. For 2011 this is estimated to have been around US$70bn. Similarly, in 2001, iron ore accounted for 18.5% of the diversified miners' operating profits; in 2011 it is estimated to have accounted for 67% (see **Graph 2**). With the industry investing record amounts of capital, iron ore projects already under construction are forecast to add one-third to existing supply. At the same time, question marks remain over the sustainability of Chinese consumption. While we cannot predict the future, knowing where we are in the cycle gives us reason to be cautious and we believe the risks are now to the downside.

In contrast to iron ore, current platinum group metal prices are below those required to generate a fair return on capital.

GRAPH 3 | Anglo American market value



Source: I-Net Bridge

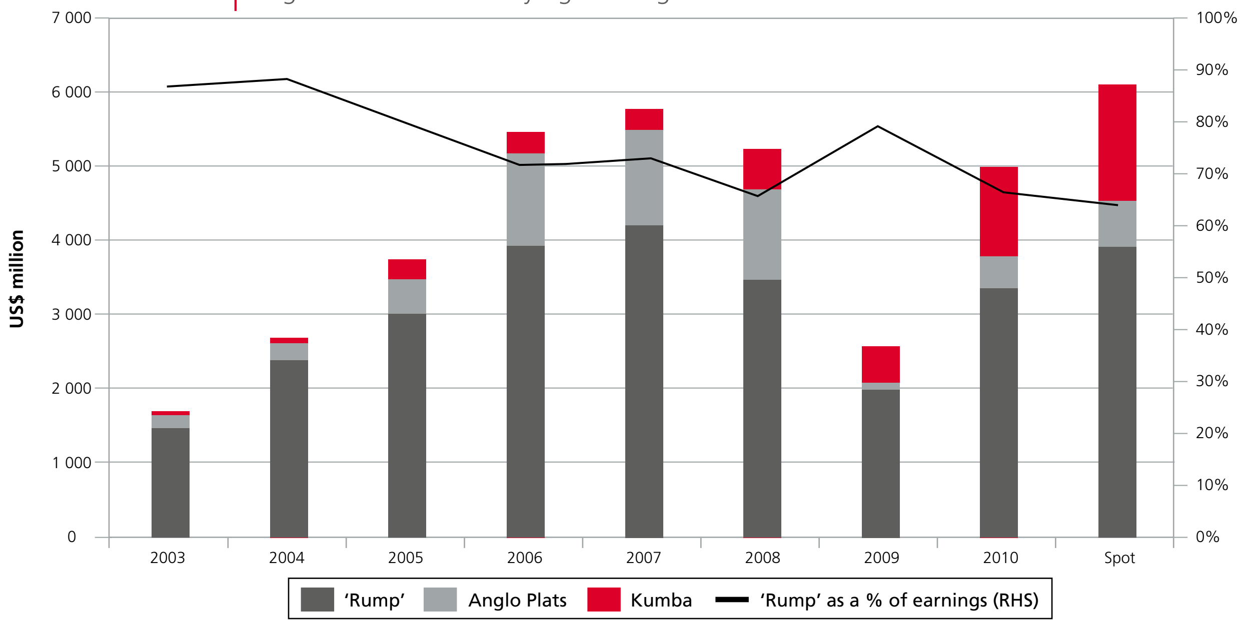
As a result, the platinum miners have all underperformed the market significantly. While we view this as unsustainable, we regard Impala Platinum and some of the juniors as more attractive long-term investments than Amplats at current prices. Despite excellent cost control over the past three years, Amplats' unit costs remain above those of Impala. We have our doubts as to whether any further savings are achievable to change Amplats' relative position. We further have doubts about whether Amplats is investing sufficient capital to maintain and indeed grow production over the long term. In contrast, Impala is reinvesting a considerable portion of current profits in sinking new shafts, which should entrench its position as a low-cost producer over the longer term. Impala is a top 10 holding.

In valuing companies on a relative basis, it can be illuminating to look not only at historical performance, current earnings and share price multiples, but also at the total absolute value that the market is attributing to them. At present, the market values Kumba at R161bn, which implies a market value of R218bn for SIOC. At present SIOC produces around 44 million tons per annum of iron ore, which is around 3% of global production. The vast majority of this comes from its Sishen mine in the Northern Cape. In contrast, the market is attributing a value of R140bn to Anglo Platinum, a company which controls roughly 40% of global platinum production.

Finally, we regard R123 as an attractive price to pay for Anglo's remaining 'rump' assets. While the 'rump' accounts for 64% of current earnings, it makes up just 43% of Anglo's current market cap (see **Graphs 3** and **4**). Amongst others, the 'rump' has excellent copper assets in Chile, metallurgical coal assets in Australia and a soon-to-be majority stake in De Beers, which accounts for a third of global diamond production. On a copper equivalent basis, the 'rump' accounts for over 80% of the group's volume growth over the next five years. Using commodity prices well below those presently prevailing, the 'rump' is trading on less than 10 times our estimate of normal earnings.

Recent corporate action has underpinned the value inherent in the 'rump': In November, Anglo sold 24.5% of its Anglo Sur copper division in Chile for US$5.4bn, implying a value of US$23bn for 100% of Anglo Sur, including debt. Adjusting for future growth, Anglo Sur accounts for roughly 60% of Anglo's total copper production. At current share prices, the implied market value of the entire 'rump' is just US$20bn. While we view the Anglo Sur price as high and unlikely to be repeated, one could then in theory buy the 'rump', sell 60% of the copper assets and effectively get all the remaining assets in the 'rump' for free.

GRAPH 4 | Anglo American underlying earnings contribution



Source: Company reports, Allan Gray estimates

The investment case is mixed

In buying Anglo American, one is acquiring Kumba, which we consider to be expensive, Amplats, whose prospects are good but in our view inferior to its peers, and the 'rump', which we find attractive. Alternatively, one is acquiring exposure to Kumba and Amplats at a considerable discount to their independent market values.

Where possible we have skewed our exposure in Anglo American towards the 'rump' by investing a portion of the total position in Anglos 'stub' certificates, which are listed on the JSE and priced daily. Issued by Deutsche Bank, the 'stub' certificates had a quarter end price of R123. While Anglo American is now a top 10 holding, we remain underweight relative to the benchmark.

In his personal capacity, Rory has a short position in both Anglo American Platinum and Kumba Iron Ore.

Rory joined Allan Gray as an equity analyst in 2008. He has a Bachelors of Business Science, with Honours in Finance and Economics.


Trevor Black


Jonathan Brodie

Things you can control, and things you cannot

EXECUTIVE SUMMARY: In this current very uncertain world, we cannot begin to control or predict political or economic outcomes. But we can control what shares we buy and we are acutely aware of the price we pay for them. Jonathan Brodie and Trevor Black, from our offshore partner Orbis, discuss how instead of trying to control the uncontrollable, Orbis and Allan Gray work hard to find stocks that look compelling, analyse them in the context of a consistent philosophy, and build a concentrated portfolio of the best ideas.

We can be certain that the world will always be full of uncertainties – and the last few years have confirmed this fact. From European deleveraging, austerity and fears that the euro dream is falling apart to concerns over a possible hard-landing in China, Japan's continuing moribund economy and dysfunctional politics in the US, investors can find little source of comfort. In such an environment, many investors prefer to take refuge in cash, but even that does not provide much comfort when the world's major currencies are questionable long-term stores of value and interest rates are likely to be negative in real terms.

"There are roughly 7 800 eligible stocks in our universe. In 2011 our analysts studied approximately 580 of them, and the Global Fund invested in around 15 major new positions…"

Being bottom-up stock pickers does not shield us from uncertainty – the stocks we pick operate in the same difficult universe. But our approach is somewhat different. We do not try to predict the macro outcomes because we do not think we can add value that way. Rather than trying to bet on how the big problems might play out, we focus on finding specific companies that we think offer compelling opportunities to enhance our clients' capital – even in the face of difficult macro problems.

In the current environment, and this is true in all environments, we need to search long and hard for specific ideas where we can develop conviction; we spend most of our time rejecting ideas. There are roughly 7 800 eligible stocks in our universe. In 2011 our analysts studied approximately 580 of them, and the Global Fund invested in around 15 major new positions, or well under one big idea per analyst. In essence, we are asking each analyst to uncover one great idea per year. Critically, to find that great idea, they have to look at many others. A lot of them will be suitable, and some will be good, but very few will inspire a high enough level of conviction for capital to be committed.

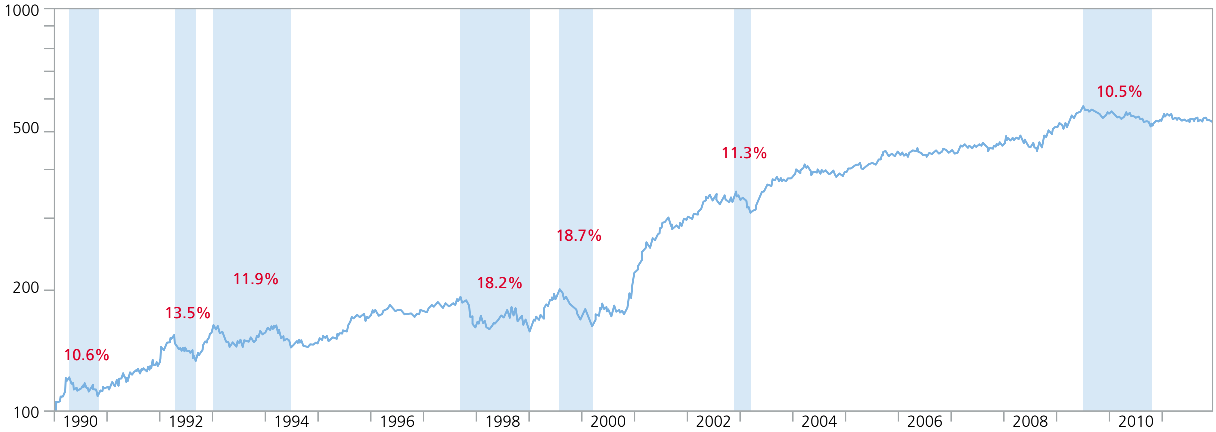
It is an uncertain world and we cannot control the behaviour of politicians, overall investment decision-makers, consumers or stock market pundits. But we can control which shares we buy and we are acutely aware of the price we pay for them. Before we buy any share, we analyse the businesses in depth, assessing its competitive position, suppliers, customers and financial circumstances. We constantly look for specific, rare opportunities that are priced significantly below what we believe they are worth – these are the companies that offer an attractive potential return and decreased risk of loss.

Why does everybody not do this?

Those opportunities are so rare that our portfolio ends up being very focused and different from the market. Despite the long-term benefits of our approach to investing, being different means that performance will often diverge – and some of the divergences will be negative and persistent, not just short-term dips. The ultimate challenge of our contrarian approach is how we handle these periods.

Underperforming periods result because the market can simply move against our positions for some time, and because we can – and do – make mistakes. Clients are naturally concerned by these negative detours, especially because it is always unclear how long they might last. Doubts creep in and many investors feel the need to do something, often acting at just the wrong time.

GRAPH 1 Orbis Global's cumulative gross relative performance*

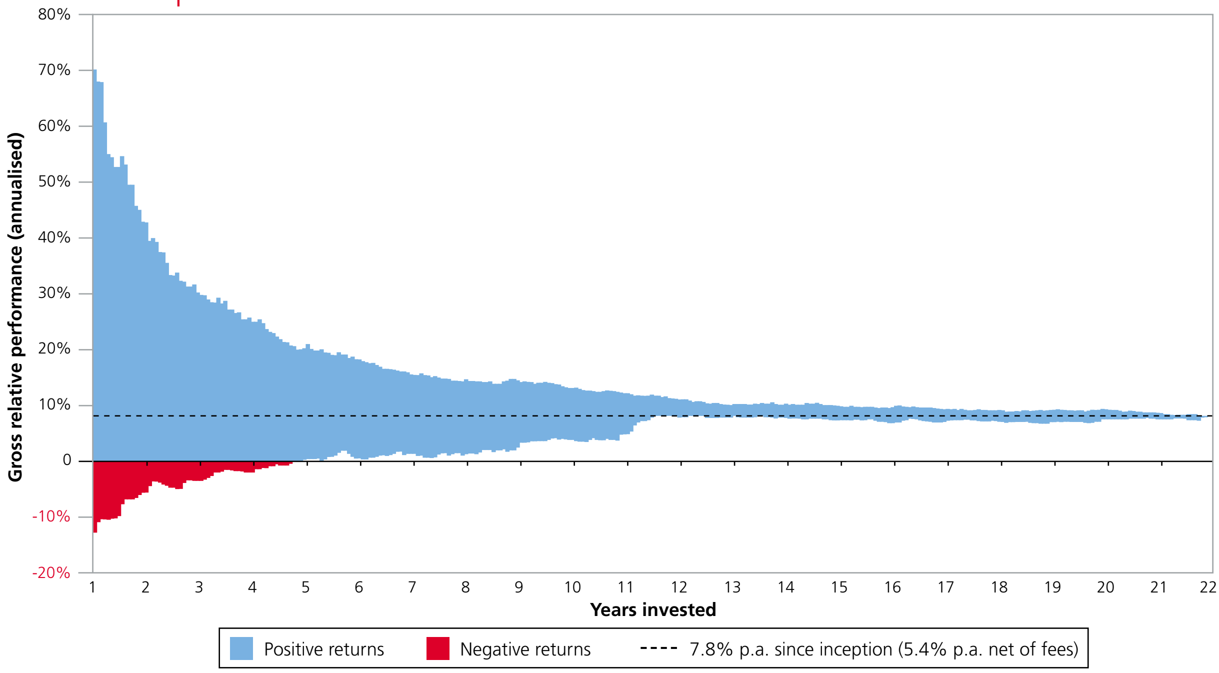


Source: Orbis Research as at 31 December 2011

Graph 1 shows the seven periods in our history where we have had significant drawdowns. While the relative performance line has agreeably sloped up over time, there have been more than a few periods of underperformance.

Although it may be deceptively easy to look at the blue line and say, 'I can take this volatility', in practice it is much harder to do nothing in the face of drawdowns. We cannot even help investors by telling them that because there has

GRAPH 2 Orbis Global: historical ranges of gross relative performance*



Source: Orbis Research as at 31 December 2011

* Past performance is not a reliable indicator of future results. Orbis Fund share prices fluctuate and are not guaranteed. When making an investment in the funds, an investors capital is at risk. Returns for Orbis Funds are calculated gross of all income and assume reinvestment of distributions/dividends. Gross returns are net of all expenses (i.e. before the deduction of all management and performance fees).

been underperformance, 'outperformance is due'. Any period of underperformance can be followed by a short respite and another period of underperformance. Even though our approach seems sensible and rewarding in the long term, not everybody invests like this because periods of underperformance are of a very uncertain duration and hurt too much if one is not prepared to accept them.

So, what should you do?

Graph 2 looks complicated, but the gist of it is patience. The graph shows the range of the best and worst annualised gross relative performance experience over any holding period longer than one year throughout the Global Fund's history. The Fund has outperformed the market by about 8% annualised since inception, but each client's experience depends on when they invested and for how long they stayed invested. After investing in the Fund for just one year, the best possible outperformance was greater than 70% and the worst was underperformance of more than 10%. At the three-year mark, the range is still remarkably wide. It is only at the five-year mark that the range narrows and turns positive, even for the poorest period.

If a client was in the fat part of the cone on the left of the chart, having invested with us for any given one-year period, they may have been very happy with us – or really angry. But neither extreme reflects our true long-term performance pattern. The longer the holding period, the greater the likelihood that the client would have experienced the thin part of the chart towards the right – and that is what we aim for. (Note that the graph is based on Orbis' historical data and is not a prediction in any way).

In the same way that we cannot time the stock market, we think it is equally futile to attempt to time our relative performance. Clients should expect our performance to be variable in the short and medium term, while stabilising only over longer holding periods.

We do not claim any grand insight into the big questions facing the world. What we do claim is that we will work hard to find stocks that look compelling, analyse them in the context of our consistent philosophy, reject most of them, and build a concentrated portfolio of our best ideas – those shares that we believe will reduce your risk of loss while increasing the chance that you will do well over the long term. Combine that with patience, and you may have a winning formula.

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.

Jonathan joined Allan Gray as an investment analyst in 1980. At Orbis, he is a member of the Investment Counsellor Group with primary responsibility for global education and strategy.

Carla Rossouw

New Dividend Withholding Tax: how will it affect you?

EXECUTIVE SUMMARY: As part of his February 2011 Budget speech, Minister of Finance Pravin Gordhan announced that Dividend Withholding Tax would come into effect from 1 April 2012, and that it would replace the current Secondary Tax on Companies. Carla Rossouw discusses this change and its impact on your investment.

In a bid to improve the transparency and equity of the tax system, and ultimately to try and align South African practices with international standards, Secondary Tax on Companies (STC) will be phased out and replaced with a dividend tax at investor level (Dividend Withholding Tax or DWT) on 1 April 2012. Converting STC to DWT is the second phase of this tax reform, which began back in October 2007 when the STC rate was reduced from 12.5% to 10%.

What is Dividend Withholding Tax?

DWT is a 10% tax levied on investors receiving dividends declared and paid by South African resident companies or foreign companies listed on the JSE. Although DWT is a tax borne by investors, it is the responsibility of the companies paying the dividends, or where relevant, certain 'withholding agents', to withhold the tax and pay it to the South African Revenue Service (SARS) on behalf of the ultimate recipients.

Allan Gray Unit Trust Management Limited and our investment platform, Allan Gray Investment Services Limited, are examples of 'withholding agents'. We must therefore pay the tax to SARS on behalf of our investors.

What does this mean for you?

1. Taxation of distributed profits moves from company level to investor level, but will be paid on your behalf

The key difference between DWT and STC is that DWT is a tax levied on investors who receive dividends, whereas STC is a tax payable by the company declaring the dividend. The legal liability for tax on a dividend distribution therefore shifts from the company paying the dividend to the investor (also known as the 'beneficial owner') receiving it.

2. The new dividends tax is a final withholding tax set at 10% on dividends paid

This means that if a dividend of R100 is paid, the recipient will receive R90 and SARS R10. The dividend income (R100 in the above example) will still be exempt from normal tax in the beneficiary's hands because the dividends tax does not influence the normal tax rules. Ten percent will be the final tax payable on the dividend.

For most investors, the introduction of dividend tax will probably go unnoticed. This is because this portion of the dividend is currently paid as STC; in other words, you will not receive a smaller dividend. In addition, DWT will be paid on your behalf, in other words, you do not have to personally pay the tax.

Some investors are exempt from DWT

In certain circumstances, you may be exempt from DWT:

- Dividends paid to South African resident companies or tax-exempt institutions, such as public benefit organisations or retirement funds, will not attract DWT provided that the investor has submitted a written declaration to the company or withholding agent.
- If you are a non-resident investor, your dividend tax rate

What is a dividend?
A dividend is the portion of a company's earnings that is paid out to shareholders. It can be in the form of cash or shares. A company is under no obligation to pay a dividend.

may be reduced where the relevant Double Tax Agreement (DTA) between South Africa and your country of residence provides for a reduction, and the requirements set out in the DTA have been met. The applicable DTA article normally requires the non-resident investor to be a company and to own a minimum percentage of share capital in the South African company declaring the dividend (typically between 10% and 25%). If the dividend is subject to a tax of less than 10%, then you will need to submit a declaration to the company declaring the dividend, or to the withholding agent, stating that a reduced tax should be applied. In the absence of a declaration, the company or withholding agent will withhold tax at the default rate of 10%.

- If you are invested in the Allan Gray Endowment and your policy is allocated to the Individual Policyholder Fund (IPF) as per the 'Four Funds' classification, the dividends distributed to your investment account will attract 10% DWT, irrespective of your status. This is because the IPF of the insurer, in this case Allan Gray Life Limited, is the tax payer and not the underlying policy holder.

> "For most investors, the introduction of dividend tax will probably go unnoticed."

Next steps

If you are an individual and resident in South Africa for tax purposes your investment account will attract DWT at the default rate of 10%. If not, we will send you a declaration to complete. To ensure that you are taxed at the correct rate, or to establish whether you are exempt from Dividend Withholding Tax, please complete the declaration when it arrives, and send it back to us before 29 February 2012. The information that you provide will cover all future dividend distributions for your investment.

Practical example

Mr A, a South African resident individual, holds units in the Allan Gray Equity Fund via the Allan Gray investment platform. On 30 April 2012, Anglo American (a share listed on the JSE and which the Allan Gray Equity Fund owns) declares and pays a dividend to its various investors. Because the Allan Gray Equity Fund distributes on 30 June and 31 December, only on the 30 June 2012 (when the distribution accrues and becomes payable to Mr A), will Allan Gray deduct the 10% DWT, pay this to SARS and pay Mr A his net dividend distribution.

Carla joined Allan Gray in 2006 and is responsible for taxation in the retail business. She has an Honours degree in Management Accounting and completed her Higher Diploma in Tax Law in 2008. Carla recently completed her Post Graduate Diploma in Financial Planning.

Michael Summerton

Everything can be improved

EXECUTIVE SUMMARY: We are obsessed with always providing you with the best service and hope that, if we fall short of these standards, you will complain. Your honest feedback teaches us valuable lessons about what we need to change to make it easier for you to do business with us. Michael Summerton elaborates.

'Your most unhappy customers are your greatest source of learning.'

- Bill Gates

As a company with its roots firmly planted in the rational, it seems a big leap to base our client service strategy on emotion. The two, by definition, are polar opposites. From our philosophy to our investment analysis, emotion is not welcome. Conversely, rationality and logic seem often to hinder, rather than to help, the delivery of great client service. It is the combination of emotional connections with clients and the rigorous application of rationality and logic to problem areas that distinguishes our service offering.

A surprising source of innovation

Take our complaints process as an example. We take every complaint and query very seriously. Our client service mantra is to build trust, confidence and satisfaction with each interaction. Since a complaint invariably involves a breakdown in one or all three of those emotions, we recognise the importance of each client concern. When we receive a complaint, it is personally acknowledged and a turnaround time committed. We notify the relevant Allan Gray staff who would best be able to resolve the complaint (in many cases this involves one of our directors). The complaint is then investigated thoroughly, discussed and, where possible, a solution for the specific issue selected. The complainant is kept up to date regularly with the status of the query and informed telephonically and via post once the complaint is resolved.

> "...please complain about anything that creates extra effort for you in doing business with us."

We do not stop there

Although complaints sometimes are uncomfortable to deal with and not always easy to resolve, they often teach us valuable lessons about what we need to change to make it easier for you to do business with us. Like sand in an oyster, the bit of pain we experience up-front during the resolution process is often a catalyst for beneficial process, form or system changes, which we may not have identified unprompted. Each complaint is dissected and the root cause established. These are discussed at a monthly meeting attended by senior members of our staff. Where possible, a solution is implemented that could either eliminate future client frustration completely, or reduce it substantially.

As an example, since the introduction of the Financial Intelligence Centre Act (FICA), many of you have voiced your frustration with our seemingly rigid rules around what documents we will accept for FICA verification. While we continue to prioritise the safety of your investments, we have heard you. We have thus expanded our range of acceptable FICA documents and empowered our people to use their judgment better during the process. We are pleased that the number of FICA-related complaints has diminished substantially as a result of these changes.

Incidentally, the custodian of the local savings industry, the Association of Savings and Investment South Africa (ASISA), recently released a non-binding Standard on Complaint Resolution (effective date 1 February 2012). Amongst others, the Standard stipulates the minimum time within which a financial service provider should acknowledge, attend and communicate resolution to a complaint (20 days). While our existing processes fall well within the minimum requirements (five-day turnaround time), our aim is to get any issues resolved as soon as possible.

We ask that you continue to hold us to the highest service standards and give us honest feedback when we do not live up to these standards. Further, please complain about anything that creates extra effort for you in doing business with us.

Simplicity is the ultimate sophistication

A number of years ago, I endured a particularly challenging job interview with a hedge fund manager in the US. He posed a seemingly simple question: 'Pretend I am your grandmother. Explain to me what a hedge fund is and how it works.' Thinking that I had the job in the bag if this was all that I needed to solve, I relied on my formal accounting training to answer the question. I quickly found out that explaining how a hedge fund works in layman's terms is not as simple as it sounds. Suffice to say, I did not get the job and my own grandmother remains largely uninformed about the workings of a hedge fund.

Much of what we do every day at Allan Gray is trying our best to bring simplicity and transparency to each interaction with you. From talking to us over the phone, navigating our website, reading our forms and understanding our processes, our aim is to make it easy for you to do business with us. We welcome your feedback and invite any suggestions.

Our secure website

We have noticed a shift in client behaviour over the past couple of years. Many of you seem to prefer self-service, with increased traffic to our website to check market values, prices, fund factsheets and to download transaction histories, statements and tax certificates. There has also been a noticeable increase in email traffic.

In acknowledgement of this trend, we have expanded, and continue to expand, the functionality of our secure website. You can now do almost anything online that you can do in the offline world, along with other features and services. We encourage you to register for a secure account if you do not already have one. Simply visit www.allangray.co.za and click on 'Register'. If you are already an online user, you may wish to experiment with the tools. For example, you can:

- Review your investment performance by requesting a bar chart which compares your investment with various benchmarks such as cash, inflation and the FTSE/JSE All Share Index.
- Download statements, transaction histories and asset allocations.
- Submit instructions if you would like to make an additional contribution to your investment, withdraw funds or switch between unit trusts.
- Make changes to debit orders and regular withdrawals.
- View or download your tax certificates.
- Amend your personal details, such as telephone numbers and email addresses.

We are very happy to help you help yourselves with a great range of online tools, but we also encourage you to call our Client Service Centre to experience the Allan Gray personal touch. We believe there is simply no substitute for service-oriented individuals who take ownership of queries and ensure they are answered quickly, accurately and in a professional and respectful manner. We are committed to ensuring that every service experience you have with Allan Gray builds trust in us and instils confidence in our abilities.

Michael joined Allan Gray in May 2008 and is responsible for the client experience. Michael qualified as a Chartered Accountant (SA) in 2004.

Anthony Farr

Allan Gray Orbis Foundation update

EXECUTIVE SUMMARY: The Allan Gray Orbis Foundation continues to work tirelessly in developing a new generation of high impact entrepreneurial leaders. Anthony Farr discusses some of the Foundation's learnings from the year, and looks at the Fellows' remarkable achievements.

'What rubbish is this that we are getting by with mediocrity?' This simple question, posed by Professor Jonathan Jansen, vice chancellor of the University of Free State, at a recent Allan Gray Orbis Foundation event, captures one of the challenges we are experiencing currently in our country. He went on further: 'I am not concerned by our current leadership, but I am very concerned about who will replace them.'

It is this concern that is the central thrust of the Foundation in seeking to contribute to a new generation of high impact entrepreneurial leaders – a generation that will be intolerant of the rubbish of mediocrity and will move us all towards a higher plane of success.

The spirit of significance

The more we immerse ourselves in the process of equipping the youth of our country, the more we realise that there are different types of success, and they are not equal partners in the nation building project.

Success can happen with a singular focus on self or it can be achieved with a focus on others. At the Foundation we had captured this focus on others by seeking out people with a spirit of selflessness, a clear counter weight to the dangers of selfish success. But there is another type of success that, while still maintaining the focus on others, is more enduring than the often transient nature of selflessness. This success we have come to understand as the 'spirit of significance'.

We live in significant times and, many would argue, in a significant location. It is our hope that the Allan Gray Fellows and the Foundation itself will be animated by aspirations of significance. In doing so, we will be joining many others in working toward leaving a legacy worthy of our moment in history.

Rounding off 2011

In July, the Foundation hosted a national Jamboree for the first time, bringing together in Cape Town over 200 Allan Gray Fellows from across the country. These four days provided a unique opportunity for the Fellows to challenge each other, as the overall intention of the Jamboree was to unlock the power of the Fellowship community. The event primarily focused on activating and catalysing entrepreneurial leadership through a facilitation process known as 'Open Space Technology' – a self-organising meeting that allows participants to set the agenda. Discussion is determined by themes or purpose. Guest speakers included the Foundation's chairman, Futhi Mtoba and Suzie Nkambule, an Allan Gray Alumni.

The Fellowship year was brought to a close with regional year-end functions. These functions gave the Fellows the opportunity to celebrate some of the remarkable achievements of the year, including:

- A Fellow was the international winner of the Entrepreneurs' Organisation's Global Student Entrepreneur Competition in New York, effectively being recognised as the best student entrepreneur in the world.
- Our second Rhodes Scholar was selected.

The Foundation's definition of the 'spirit of significance'
'A weight of personality that comes from living a life personified by passion and integrity. A recognition that ultimate personal satisfaction comes from empowering oneself in order that one may serve others.'

National Jamboree: Allan Gray Fellows came together for four days in July.

- One Fellow was included in the Mail & Guardian's listing of Top 200 Young South Africans.

- Three Fellows were selected to attend One Young World, joining over 1 000 participants from 170 countries at this 'Youth Davos'.

- A Fellow was chosen as the South African Minister of Finance at the G20 Youth Summit in France.

- Three Fellows were chosen for the Brightest Young Minds conference, which selects the country's brightest 100 university students.

- Two Fellows were chosen for the South Africa Washington Internship Programme.

- A Fellow won an Abe Bailey Travel Bursary.

- A Fellow participated in the 18th International Mathematics Competition for University Students in Bulgaria. (It was the first time South Africa had competed in this competition.)

But as one of the speeches quoted: 'On the river of life, these are mere rufflings of the wind across the surface of the water. Look a little deeper to find the real currents of our generation. Amongst all this daily noise, quietly in the background, some currents are flowing strongly.' And the current that we see is a group of young individuals who are growing more committed, year after year to maximising their impact by moving beyond success to significance.

The Foundation's final event of the year was the Alumni Imbizo, where all 54 members of the Association of Allan Gray Fellows were invited to a weekend gathering in Pretoria. On one level this was the culmination of the Foundation's six years of work. It was a powerful opportunity to witness these young leaders sharing stories from their own industries, engaging with the guest panel on issues such as technology and job creation, and taking responsibility for the future momentum of the Association, while all the time remembering these same individuals as bright eyed Matriculants just a few short years ago.

Selection campaigns

The Foundation's selection machinery keeps working through the year. The campaign for the selection of 2011 Matric learners for the Allan Gray Fellowship next year began with an early selection camp. This resulted in 15 initial offers (see Quarterly Commentary 2, 2011) and ended with final selection camps in early October, where a further 27 offers were made, including two from Swaziland and two from Botswana. For the first time a separate selection camp was hosted in Namibia, which resulted in four offers. As usual, the campaign for the selection of 2011 first year university students for the Fellowship next year, was completed with a camp in early December. This resulted in an additional 20 offers, bringing the total number of new Fellows across the four countries for placement in 2012 to 66.

At the same time, the selection campaign for Allan Gray Scholars to be placed in 2013 has started with great momentum; we have already received over 4 000 applications. From this starting pool, the selection process continues through various stages, including application form assessment, numeracy and literacy tests, and interviews before the final selection camps at the end of the first quarter 2012.

Interestingly, the Scholars' programme completed its fourth year of operation in 2011. This is important because it means that our first cohort of 12 Allan Gray Scholars will be entering Matric next year. In 2012 we will have, for the first time, Scholars who will compete with the rest of the country for selection as Allan Gray Fellows. The pipeline created by the Allan Gray Scholarship, envisaged to increase the pool of potential Allan Gray Fellows, is now ready for activation. Within this small initial group it is fitting that at Selborne College, the alma mater of our founder, Mr Allan Gray, an Allan Gray Scholar will be the head of the school next year.

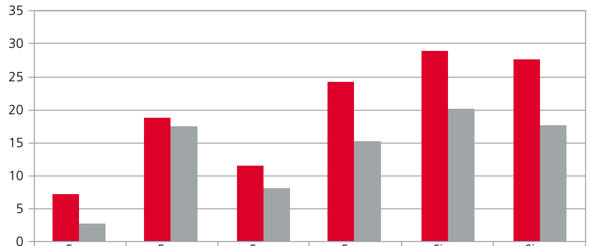
Campaign dates for 2012
Allan Gray Fellowship: Grade 12 applications close 31 May
Allan Gray Fellowship: First year university applications close 31 August
Allan Gray Scholarship: Grade 6 applications close 28 September (to start high school in 2014)

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 Proprietary 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 31.12)	7.1	2.6	4.5

Returns annualised to 31.12.2011



	From 01.01.2011 (1 year)	From 01.01.2009 (3 years)	From 01.01.2007 (5 years)	From 01.01.2002 (10 years)	Since 01.01.1978	Since 15.06.1974
Allan Gray*	7.1	18.6	11.4	24.0	28.8	27.6
ALSI	2.6	17.3	8.1	15.2	20.1	17.6

Allan Gray*
ALSI

* 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.

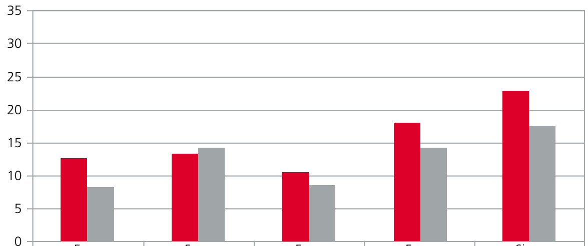
Note: Listed property included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown, before the impact of fees, to **R92 568 509** by 31 December 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 358 178**.

Investment track record - balanced returns

Allan Gray Proprietary 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 31.12)	12.6	8.3	4.3

Returns annualised to 31.12.2011



	From 01.01.2011 (1 year)	From 01.01.2009 (3 years)	From 01.01.2007 (5 years)	From 01.01.2002 (10 years)	Since 01.01.1978
Allan Gray	12.6	13.3	10.5	18.0	22.9
AFLMW**	8.3	14.2	8.5	14.3	17.7

Allan Gray
AFLMW**

** 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 December 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 **R11 029 160** by 31 December 2011. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R2 536 957**.

Allan Gray Balanced and Stable Fund asset allocation as at 31 December 2011

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	**SA**	**Foreign**	**Total**	**SA**	**Foreign**
Net equities	57.0	46.1	10.9	18.7	10.6	8.1
Hedged SA equities	10.6	3.1	7.6	25.2	15.1	10.1
Property	0.4	0.4	-	0.3	0.3	-
Commodities (new gold)	2.9	2.9	-	2.7	2.7	-
Bonds	9.6	9.6	-	9.2	9.2	-
Money market and bank deposits	19.5	13.7	5.8	43.9	37.8	6.1
Total	**100.0**	**75.8**	**24.3**	**100.0**	**75.7**	**24.3**

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

Allan Gray Equity Fund net assets as at 31 December 2011

Security (ranked by sector)	Market value (R million)	% of fund	JSE ALSI weight (%)
Resources	**8 030**	**29.0**	**35.8**
Sasol	3 096	11.2	
Anglogold Ashanti	1 205	4.4	
Anglo American*	1 065	3.8	
Impala Platinum	909	3.3	
Gold Fields Limited	475	1.7	
Harmony Gold Mining	411	1.5	
Positions less than 1%	870	3.1	
Financials	**4 813**	**17.4**	**44.6**
Standard Bank	1 293	4.7	
Sanlam	1 214	4.4	
Old Mutual	563	2.0	
Investec	304	1.1	
MMI Holdings	288	1.0	
Reinet Investments SA	270	1.0	
Positions less than 1%	882	3.2	
Industrials	**13 683**	**49.4**	**19.6**
British American Tobacco	3 171	11.4	
SABMiller	2 597	9.4	
Remgro	1 975	7.1	
Mondi	544	2.0	
Nampak	516	1.9	
Tongaat-Hulett	449	1.6	
Sappi	422	1.5	
MTN	414	1.5	
Netcare	331	1.2	
Tiger Brands	323	1.2	
Datatec	315	1.1	
Illovo Sugar	301	1.1	
Positions less than 1%	2 327	8.4	
Other securities	**196**	**0.7**	
Money market and call deposits	**1 006**	**3.6**	
Totals	**27 728**	**100.0**	

* Including positions in Anglo American Plc stub certificates.

Allan Gray Unit Trusts annualised performance in percentage per annum to 31 December 2011

	3 MONTHS (unannualised)
UNIT TRUSTS [1]	
High net equity exposure (100%)	
ALLAN GRAY EQUITY FUND (AGEF)	[3]
FTSE/JSE All Share Index	
ALLAN GRAY-ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	[3]
FTSE World Index (Rands)	
Medium net equity exposure (40% - 75%)	
ALLAN GRAY BALANCED FUND (AGBF)	[3]
Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)	
ALLAN GRAY-ORBIS GLOBAL FUND OF FUNDS (AGGF)	[3]
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)	
Low net equity exposure (20% - 40%)	
ALLAN GRAY STABLE FUND (AGSF) - (NET OF TAX)	[3]
Call deposits from FirstRand Bank Ltd plus two percentage points (Net of tax)	
ALLAN GRAY STABLE FUND (AGSF) - (GROSS OF TAX)	[3]
Call deposits from FirstRand Bank Ltd plus two percentage points (Gross of tax)	
Very low net equity exposure (0% - 20%)	
ALLAN GRAY OPTIMAL FUND (AGOF)	[3]
Daily call rate of FirstRand Bank Ltd	
ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS (AGOO)	[3]
Average of US$ Bank deposits and Euro Bank deposits	
No equity exposure	
ALLAN GRAY BOND FUND (AGBD)	[3]
BEASSA All Bond Index (total return)	
ALLAN GRAY MONEY MARKET FUND (AGMF)	[3]
Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index [9]	

Total Expense Ratios (TERs)

	Equity Fund	Global Equity Feeder Fund	Balanced Fund	Global Fund of Funds
Performance component	-0.27%	0.55%	-0.17%	0.32%
Fee at benchmark	1.71%	1.49%	1.16%	1.24%
Total fees*	1.44%	2.04%	0.99%	1.56%
Trading costs	0.11%	0.13%	0.09%	0.15%
Other expenses	0.01%	0.05%	0.02%	0.08%
Total Expense Ratio (TER)	1.56%	2.22%	1.10%	1.79%
Annualised fee* rate for latest quarter	2.87%	1.94%	1.50%	1.51%

** 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 30 September 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 31 December 2011

	3 MONTHS (unannualised)
ORBIS FUNDS (RANDS) REGISTERED FOR MARKETING IN SOUTH AFRICA [1, 6]	
ORBIS GLOBAL EQUITY FUND (RANDS)	**6.6**
FTSE World Index (Rands)	8.3
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	**-3.7**
Tokyo Stock Price Index (Rands)	-4.0
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	**7.8**
MSCI Asia Ex-Japan (Rands)	4.1
ORBIS OPTIMAL SA FUND - US$ CLASS (RANDS)	**0.4**
US$ Bank Deposits (Rands)	0.8
ORBIS OPTIMAL SA FUND - EURO CLASS (RANDS)	**-2.7**
Euro Bank Deposits (Rands)	-2.6

1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
10.1	**16.2**	**9.0**	**20.7**	**28.0**	**27 727.9**	**01.10.98**
2.6	17.3	8.1	15.2	18.2		
10.2	**5.6**	**2.6**	**-**	**9.1**	**5 081.8**	**01.04.05**
13.9	7.0	1.6	-	7.8		
11.9	**12.1**	**9.4**	**17.4**	**19.9**	**48 633.7**	**01.10.99**
6.4	11.7	7.2	13.1	13.7		
16.6	**0.6**	**5.6**	**-**	**7.0**	**6 659.6**	**03.02.04**
20.7	4.7	5.8	-	7.4		
12.1	**7.2**	**8.5**	**12.1**	**12.8**	**27 997.3**	**01.07.00**
4.9	6.0	7.1	7.3	7.4		
12.7	**8.0**	**9.5**	**13.2**	**14.0**	**27 997.3**	**01.07.00**
6.7	8.1	9.6	9.8	10.0		
4.7	**5.5**	**7.6**	**-**	**8.7**	**1 900.6**	**01.10.02**
4.6	5.9	7.4	-	7.4		
19.8	**-**	**-**	**-**	**1.9**	**580.0**	**02.03.10**
20.8	-	-	-	2.5		
9.6	**9.6**	**9.4**	**-**	**9.7**	**466.8**	**01.10.04**
8.8	7.4	8.6	-	9.3		
5.7	**7.3**	**8.7**	**8.9**	**8.9**	**8 758.0**	**03.07.01**
5.5	7.2	8.5	8.8	8.9		

Stable Fund	Optimal Fund	Global Optimal Fund of Funds	Bond Fund	Money Market Fund
0.03%	0.00%	0.00%	0.14%	0.00%
1.15%	1.14%	0.97%	0.29%	0.29%
1.18%	1.14%	0.97%	0.43%	0.29%
0.06%	0.11%	0.16%	0.00%	0.00%
0.01%	0.01%	0.08%	0.03%	0.01%
1.25%	1.26%	1.21%	0.46%	0.30%
1.61%	1.14%	0.99%	0.73%	0.29%

1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
10.5	**5.6**	**2.6**	**3.8**	**17.5**	**-**	**01.01.90**
13.9	7.0	1.6	0.6	11.6		
20.2	**1.6**	**3.1**	**5.9**	**13.2**	**-**	**01.01.98**
6.2	-3.2	-3.3	1.7	5.3		
7.3	**16.5**	**8.0**	**-**	**13.1**	**-**	**01.01.06**
0.7	13.8	5.7	-	11.7		
20.5	**-2.7**	**5.7**	**-**	**9.2**	**-**	**01.01.05**
22.0	-4.4	5.0	-	8.0		
18.0	**-5.0**	**5.3**	**-**	**7.9**	**-**	**01.01.05**
19.3	-6.7	4.9	-	6.9		

Segregated and life pooled portfolios annualised performance in percentage per annum to 31 December 2011

	3 MONTHS (unannualised)
SEGREGATED PORTFOLIOS [5]	
GLOBAL BALANCED COMPOSITE	**4.9**
Mean of Alexander Forbes Global Large Manager Watch [2, 4]	5.3
DOMESTIC BALANCED COMPOSITE	**5.7**
Mean of Alexander Forbes Domestic Manager Watch [2,7]	5.9
DOMESTIC EQUITY COMPOSITE	**8.0**
FTSE/JSE All Share Index	8.4
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN COMPOSITE	**4.4**
Mean of Alexander Forbes Namibia Average Manager [2]	5.3
RELATIVE DOMESTIC COMPOSITE	**7.8**
Weighted average of client specific benchmarks [2]	8.3
FOREIGN BEST VIEW (RANDS) COMPOSITE [8]	**0.7**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	5.4
LIFE POOLED PORTFOLIOS	
GLOBAL BALANCED PORTFOLIO	**5.0**
Mean of Alexander Forbes Global Large Manager Watch [7]	5.3
DOMESTIC BALANCED PORTFOLIO	**6.2**
Mean of Alexander Forbes Domestic Manager Watch [7]	5.9
DOMESTIC EQUITY PORTFOLIO	**8.1**
FTSE/JSE All Share Index	8.4
DOMESTIC ABSOLUTE PORTFOLIO	**2.9**
Mean of Alexander Forbes Domestic Manager Watch [7]	5.9
DOMESTIC STABLE PORTFOLIO	**2.5**
Alexander Forbes Three-Month Deposit Index plus 2%	1.9
DOMESTIC OPTIMAL PORTFOLIO [1]	**1.3**
Daily Call Rate of Nedcor Bank Limited	1.2
GLOBAL ABSOLUTE PORTFOLIO	**2.5**
Mean of Alexander Forbes Global Large Manager Watch [7]	5.3
DOMESTIC STABLE MEDICAL SCHEME PORTFOLIO	**2.6**
Consumer Price Index plus 3% p.a. [2]	1.8
GLOBAL STABLE PORTFOLIO	**2.0**
Alexander Forbes Three-Month Deposit Index plus 2%	1.9
RELATIVE DOMESTIC EQUITY PORTFOLIO	**7.5**
FTSE/JSE CAPI Index	8.4
MONEY MARKET PORTFOLIO [1]	**1.4**
Alexander Forbes Three-Month Deposit Index	1.3
FOREIGN PORTFOLIO [1]	**0.6**
60% of the MSCI Index and 40% JP Morgan Government Bond Index Global (Rands)	5.4
ORBIS GLOBAL EQUITY PORTFOLIO [1]	**6.6**
FTSE World Index (Rands)	8.3
HEDGED DOMESTIC EQUITY PORTFOLIO	**7.8**
FTSE/JSE All Share Index	8.4

PERFORMANCE AS CALCULATED BY ALLAN GRAY

1 The fund returns are net of investment management fees
2 The return for the quarter ending 31 December 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 23.05.96 to 31.08.01. The Foreign Balanced Composite returns are used from 01.09.01
9 Alexander Forbes Three Month Deposit Index from 3 July 2001 to 31 March 2003. As from 1 April 2003, the benchmarck is the simple average of the Domestic Fixed Interest Money Market Unit Trust Sector excluding Allan Gray Money Market Fund. The benchmark from 1 November 2011 is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index.

1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
12.6	13.3	10.5	18.0	22.9	35 183.8	01.01.78
8.3	14.2	8.5	14.3	17.7		
10.1	15.6	11.5	20.9	23.4	22 683.0	01.01.78
6.5	16.2	9.9	16.8	18.3		
8.7	17.9	11.5	23.6	22.0	49 096.0	01.01.90
2.6	17.3	8.1	15.2	14.7		
13.2	10.8	10.6	17.5	19.7	6 380.9	01.01.94
7.3	13.1	9.1	14.3	14.3		
3.6	17.0	9.4	18.9	21.1	10 618.5	19.04.00
3.4	17.6	8.2	15.6	15.9		
16.2	0.1	5.2	4.1	13.4	7 106.8	23.05.96
20.4	4.8	5.8	2.3	10.3		
13.1	13.6	10.7	18.2	20.4	19 234.3	01.09.00
8.3	14.2	8.5	14.3	14.8		
10.8	16.0	11.7	21.0	21.1	6 917.8	01.09.01
6.5	16.2	9.9	16.8	16.9		
9.0	18.1	11.5	23.7	24.4	6 782.6	01.02.01
2.6	17.3	8.1	15.2	15.6		
11.6	14.4	13.9	23.5	23.8	900.6	06.07.01
6.5	16.2	9.9	16.8	16.6		
8.9	10.8	11.2	15.7	15.8	1 834.7	01.12.01
7.6	9.0	10.5	10.9	10.9		
5.5	6.4	8.6	-	9.1	405.7	04.12.02
4.8	6.2	7.8	-	7.6		
14.0	12.0	13.2	-	19.4	2 476.6	01.03.04
8.3	14.2	8.5	-	16.2		
9.2	10.7	11.1	-	14.3	1 448.3	01.05.04
9.4	8.5	10.1	-	9.1		
13.3	8.8	10.5	-	14.4	2 350.8	15.07.04
7.6	9.0	10.5	-	10.1		
3.2	16.8	9.8	-	23.5	483.8	05.05.03
3.0	17.7	8.7	-	21.9		
5.9	7.6	8.9	9.2	9.3	594.5	21.09.00
5.5	6.9	8.3	8.8	8.9		
16.0	0.0	5.2	-	4.5	1 935.8	23.01.02
20.4	4.8	5.8	-	2.8		
10.4	5.5	2.8	-	9.5	4 117.3	18.05.04
13.9	7.0	1.6	-	8.1		
9.6	17.4	-	-	9.7	998.0	01.06.08
3.0	17.7	-	-	4.4		

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.

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