QUARTERLY COMMENTARY 1

31 MARCH 2012

ALLAN GRAY

Inside this issue

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Rob Dower

Comments from the Chief Operating Officer

A brief primer: *A nominal interest rate is the rate you pay or receive before taking inflation into account. This is the rate you see quoted on money market funds and on bonds. If you subtract inflation from a nominal rate you get the real interest rate, being the rate after accounting for the effects of inflation on buying power over time. If the nominal rate is 8% and inflation is 5%, the real interest rate is 3%.*

Living in London several years ago my wife and I were able to borrow money to buy a house and we have hung onto it since then. Like many people who borrowed money in the UK at a floating rate before the financial crisis, we are now being charged very little interest on our debt. After UK inflation, our cost of borrowing is negative – you may say we are being paid to not pay the debt back. Real interest rates in the UK have been negative for some time, encouraging people to spend rather than to save or to repay debts and thereby helping economic growth (or maybe preventing economic decline). Money acts as both a medium of exchange and a store of value, so while low rates work for some, they compromise others. Sandy McGregor looks at money's dual role and offers some insight into why zero and near-zero nominal interest rates in several developed markets constitute a challenge for investors.

Closer to home, in October last year, South African real interest rates became negative for the first time since September 2008. This means that you are now being paid less than inflation on rand cash deposits, before tax. Real interest rates in SA have been negative for extended periods in the past, almost continuously from 1970 to 1982 and again between 1986 and 1989. However, for most of the time since then you have at least been able to earn something in real terms on a cash deposit. On top of this, nominal short-term rates in rands are the lowest they have been for more than 30 years. The combination of current negative real returns on cash, the last 10 years of very strong stock returns in SA, and poor returns from global markets may tempt investors to invest by looking in the rear-view mirror. Mahesh Cooper compares the past two decades, noting how poor historic returns have been as a long-term guide for allocating assets between local and offshore shares and cash.

Challenging times for investment management

Looking back on an extraordinary decade for local stocks we continue to caution investors about the level of our market and their return expectations from local equities going forward. We believe that there are more attractive opportunities to be found globally, and our Balanced and Stable mandates continue to have below-average net exposure to South African shares.

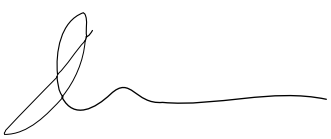
Active fund managers themselves face challenges. Chris du Toit and Seema Dala discuss how actively managed funds are usually able to beat the market because they are different from the market. However, currently there are smaller differences in returns between shares, making it more difficult for active fund managers to excel. This does not mean there is no opportunity to find value. Duncan Artus and Leonard Krüger take a look at the Insurance sector and note that shareholders not put off by the sector's complexities have been delivered excellent returns over the last 10 years.

A final point on your portfolios: with tempting investments offshore and negative real interest rates in rands, you may be wondering why any portion of our Balanced and Stable mandates is invested in cash. Remember that the real real return on cash is the nominal return, less inflation, plus the option to buy other things in the future. If the prices of other assets come down, the value of the cash in these portfolios increases.

Responding to your needs

We work hard to provide you with an excellent online service. In the final article this quarter, Shabnam Osman takes you through some of the benefits of our secure online facility. Using our website to answer the bulk of client queries allows us to keep a highly skilled team to help you on the phone – we very much understand the value of personal contact and are available for any questions you may have about your investments.

Kind regards



Rob Dower

Sandy McGregor

A zero interest rate world

EXECUTIVE SUMMARY: Following the financial crisis of 2008, central banks in Europe and the United States have reduced short-term interest rates to almost zero. The precedent for this was set by Japan, where rates have been at or below 0.5% since 1995. In practice, the world's financial system is on a dollar standard, which means that the US monetary policy is the principal determinant of monetary policy elsewhere. As long as US rates are so low, interest rates in other countries will be artificially depressed. For example, the euro area cannot set rates at say 3% without attracting vast capital inflows, which would force up the euro exchange rate, creating major deflationary pressures.

Zero interest rates constitute a formidable challenge for investors. Money acts both as a medium of exchange and a store of value. The latter is of critical importance to the savings process. How does one invest one's savings when central bankers are actively compromising money's role as a store of value? There is no easy answer to this question. Short-term interest rates reflect policy choices of central banks. Sandy McGregor offers some insights on how such choices have evolved.

Real rates

The history of the US three-month interest rates since 1966 can be seen in **Graph 1**. Clearly zero rates are totally abnormal. There is only one precedent in the late 1930s. For investors, however, it is not only the absolute level of rates that is important. They also look for real rates. When we talk about real rates, we mean the interest return less the inflation rate. Positive real rates compensate investors for inflation. Negative real rates do not. The history of the US real rates is shown in **Graph 2**.

The inflationary crisis of the 1970s

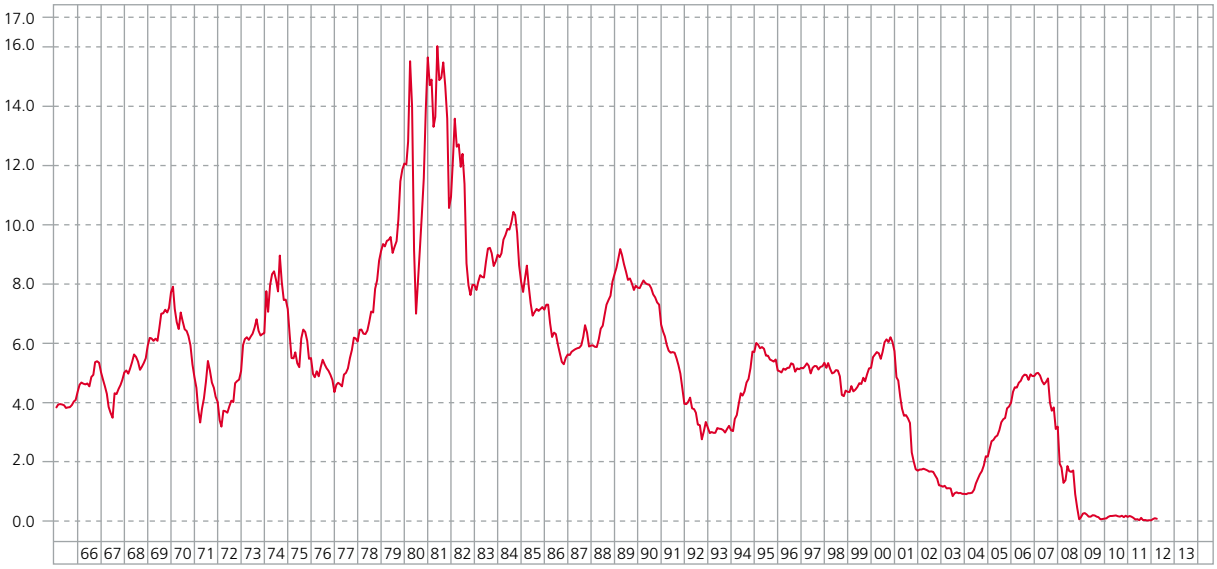
Monetary policy prior to 2008 evolved from the inflationary crisis of the 1970s (see **Graph 3** on page 04). In the post-war period, global inflationary pressures were subdued. Rapid growth was accompanied by rising productivity which allowed a substantial growth in wages without pushing up prices. However, by the end of the 1960s the potential for further productivity gains ran out at a time when government spending was rising inexorably. Government spending is inherently inflationary because governments tend to use resources less efficiently than the private sector. For structural reasons world economic growth started slowing from 1968 onwards. This was politically unacceptable and many governments responded with increased fiscal deficits and monetary stimulus. Without compensating productivity gains this stimulus mutated into inflation. Add a fivefold increase in oil prices after the 1973 Middle East war, and the circumstances were created for an inflationary explosion that lasted a decade. By the end of 1979 the US inflation rate reached 14%.

> "The key driver of price stability is not monetary policy, it is productivity."

A new paradigm

With governments proving increasingly unable to manage monetary turbulence, new ideas were required on how to bring inflation under control. They were found in the doctrines of the aggressively articulate economist Milton Friedman, who made two key contributions. His dictum that inflation is always a monetary phenomenon has become the mantra of a generation of monetary theorists. He argued that if central banks controlled the growth in money supply, they would create price stability. At the end of the 1970s the US Federal Reserve tried to implement what Friedman had recommended. The outcome was disappointing, because interest rates became extremely volatile. As a result, the Fed changed their strategy to fixing short-term interest rates higher than inflation. This formula of real rates was discovered almost

GRAPH 1 | US three-month treasury bill

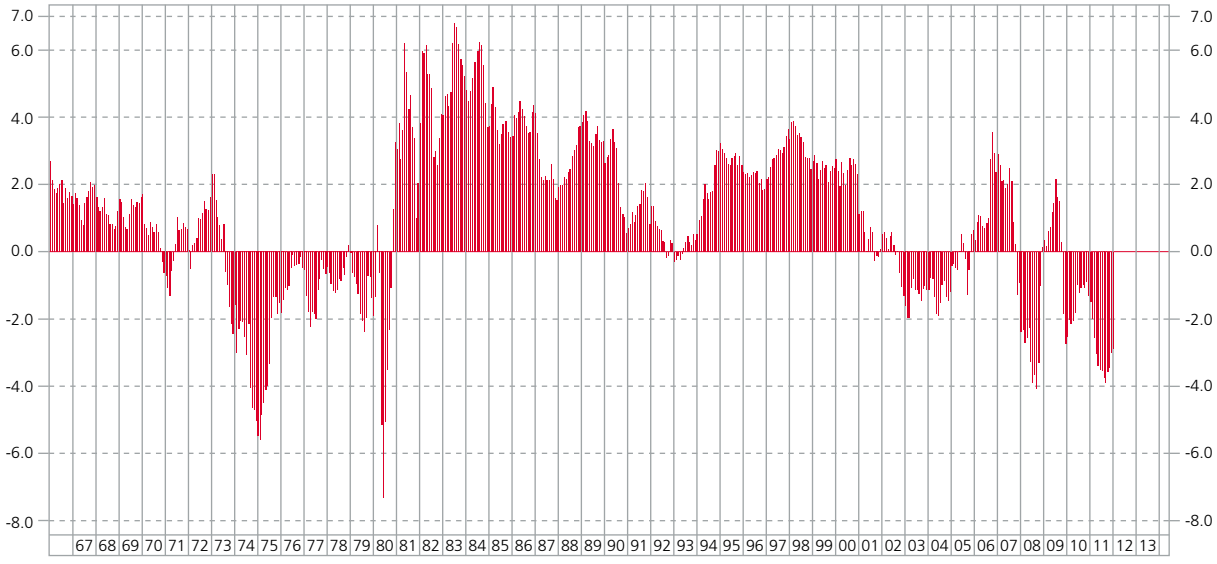


Source: I-Net Bridge

by accident, but it worked. Initially, high rates created a severe recession which crushed inflation. Thereafter, the fact that money had a real cost made people use it productively. Monetary policy was no longer inflationary. For the next 27 years a new mantra permeated monetary policy – real rates.

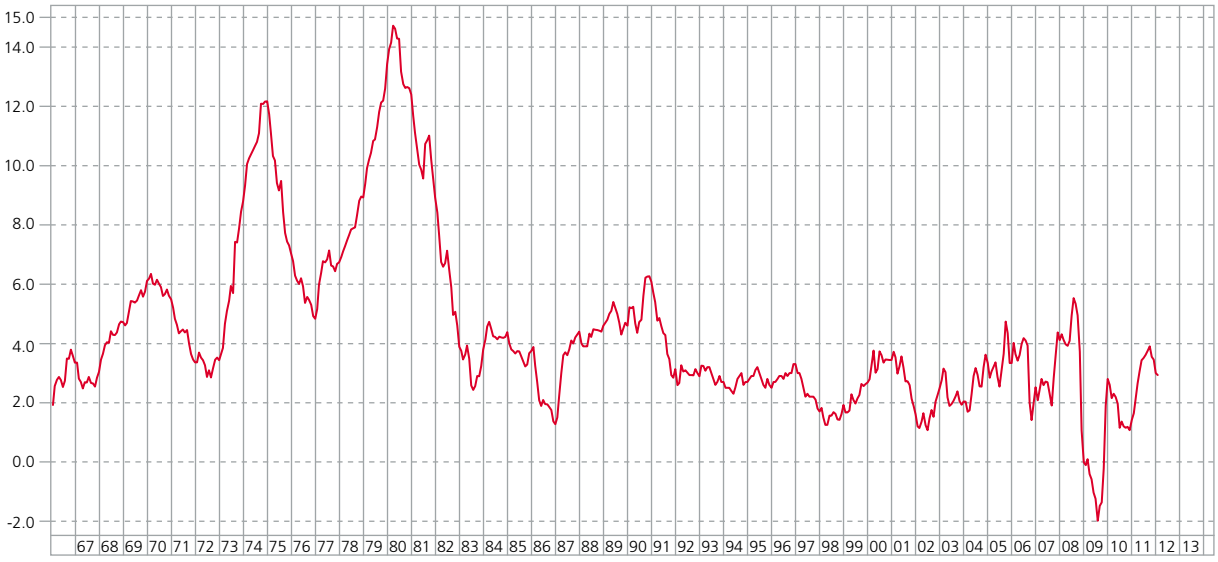
However, the key reason inflation was brought under control was the domain of Friedman's second contribution. He was one of the greatest proponents of free markets. There have been many advocates of free markets, but Milton Friedman probably did more than anyone since the 18th century economist Adam Smith in changing political attitudes in their favour. The role of free markets in creating the benign global inflationary environment of the past three decades was critical. The key driver of price stability is not monetary policy, it is productivity. Economic growth can be characterised

GRAPH 2 | US real interest rates (three-month treasury bill minus inflation rate)



Source: I-Net Bridge

GRAPH 3 | US inflation rate (% per year)



Source: I-Net Bridge

as the process of making things cheaper. From the 1980s onwards, globalisation and expanding world trade brought down prices. Free markets forced companies to compete more aggressively. A new wave of technology created products that reduced costs. Allowing markets to operate without massive intervention brought inflation under control.

But the credit for this achievement was given to central bankers. Friedman's dictum that inflation is a monetary phenomenon gave birth to the proposition that central banks could control inflation. Inflation targeting mandates for central banks became fashionable. The fallacy in this doctrine is that, while inappropriate monetary policy may cause inflation, it is merely a subset of a much bigger picture. Appropriate monetary policy is a necessary condition but by no means the only condition for price stability. Alas, central bankers, being human, took more credit for the decades of price stability than what they deserved.

"The notorious process of quantitative easing, the modern way to print money, was invented in Japan."

The real rates paradigm is abandoned

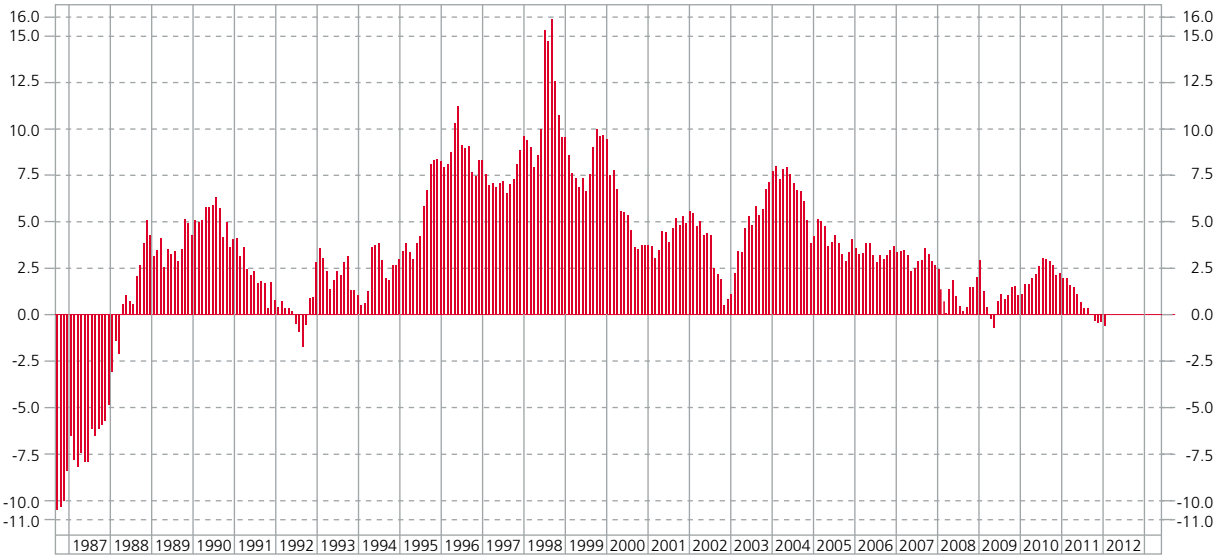
The first warning that price stability had origins much more complex than money creation, was seen in Japan where for two decades the government has been combating deflation with lavish government deficits, money creation and zero interest rates. The notorious process of quantitative easing, the modern way to print money, was invented in Japan. However, these measures failed to kick start the Japanese economy or to reverse the deflationary tide.

Despite this failure in Japan, monetary authorities elsewhere adopted similar measures to regenerate their economies after the 2008 recession. US government officials have criticised the Japanese response to deflation as being inadequate. They argue that Japan should have been more aggressive and spent more money. They maintain that the policy was correct but the application was wrong.

In Europe and North America, interest rates have been cut to almost zero. The Fed and the Bank of England have pumped money into the system. The European Central Bank has just completed the second leg of its long-term refinancing operation (LTRO), in terms of which it has lent EUR1 trillion to European banks. Real rates, the proposition which underpinned monetary policy between 1981 and 2008, have been abandoned.

The proponents of zero rates argue that they stabilise the economy, that they relieve the pressure on highly indebted

GRAPH 4 | South African real rates (three-month NCD* less inflation rate)



* Negotiable Certificate of Deposit

Source: I-Net Bridge

consumers and, by making the cost of capital cheaper, encourage investment. A new sinister reason is that low rates make it easier for governments to fund over-large deficits.

However, unnaturally low interest rates have costs. They distort the pricing of asset markets, creating a misallocation of resources which ultimately can cause serious damage. The failure of the Fed to take steps to rein in the US housing bubble is a good example. It can be argued that the financial collapse of 2008 was caused by inappropriate money policy over the previous decade. More recently, the Fed's programme of quantitative easing between November 2011 and June 2012 (QE2) may have pushed up commodity prices, including oil, which triggered a global economic slowdown.

Perhaps the most pernicious effect of zero interest rates is on savers, many of whom are older people, dependent on interest income. In recent years the term 'financial oppression' has gained widespread currency to describe certain impositions of governments on citizens and taxpayers. A good example is zero interest rates. Savers are being oppressed to support those who were previously imprudent. Older people are the main victims. At this stage it is difficult to see the benefits of this policy, but the hardship it creates is manifest. Some would argue that, had rates been allowed to bottom at say 3% instead of zero, economic growth may well have been no different than what has actually happened without these social costs.

"Savers are being oppressed to support those who were previously imprudent. Older people are the main victims."

When will we return to real rates?

It is noteworthy that the policy of zero rates is attracting increasing criticism. This has not stopped the Fed from stating that rates will be at zero into 2014. However, the tide of opinion is turning against the policy. Accordingly, a change in direction may happen sooner than central banks and the markets currently believe. Already the US economy is starting to surprise on the upside, probably not due to the actions of the Fed but rather due to normal economic processes which cause recoveries – improving balance sheets and a repricing of mispriced assets. A recovering US economy will increasingly undermine the Fed's ability to sustain a regime of mispriced interest rates, both politically and economically. If the Fed starts raising rates in due course, Europe will have to follow suit.

Traditionally, rising short-term interest rates undermine the valuation of equities and long-dated bonds. This does not necessarily mean global equity prices will collapse, but increasing interest rates will act as a brake on further appreciation.

Where does South Africa fit into the picture?

Since mid-2011 the base interest rate set by the South African Reserve Bank has also been lower than the inflation rate. The question of what is an appropriate interest rate for South Africa is also likely to become the subject of debate. However, we have not experienced the egregious financial oppression prevalent in Europe, the US and Japan. One can argue that our rates are somewhat too high or too low, but they are not clearly mispriced. As **Graph 4** on page 05 shows, South Africa has had positive real rates since 1988. Only in the past six months have they gone negative.

A change in global rates is likely to have its impact on South Africa through capital flows and the exchange rate. In recent years there has been a large foreign investment into our bond market. More attractive rates elsewhere may reverse this trend and put downward pressure on the rand. This in turn will create inflationary pressures which may require higher interest rates. South Africa is unlikely to escape the impact of rising global interest rates.

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

Mahesh Cooper

Lest we forget

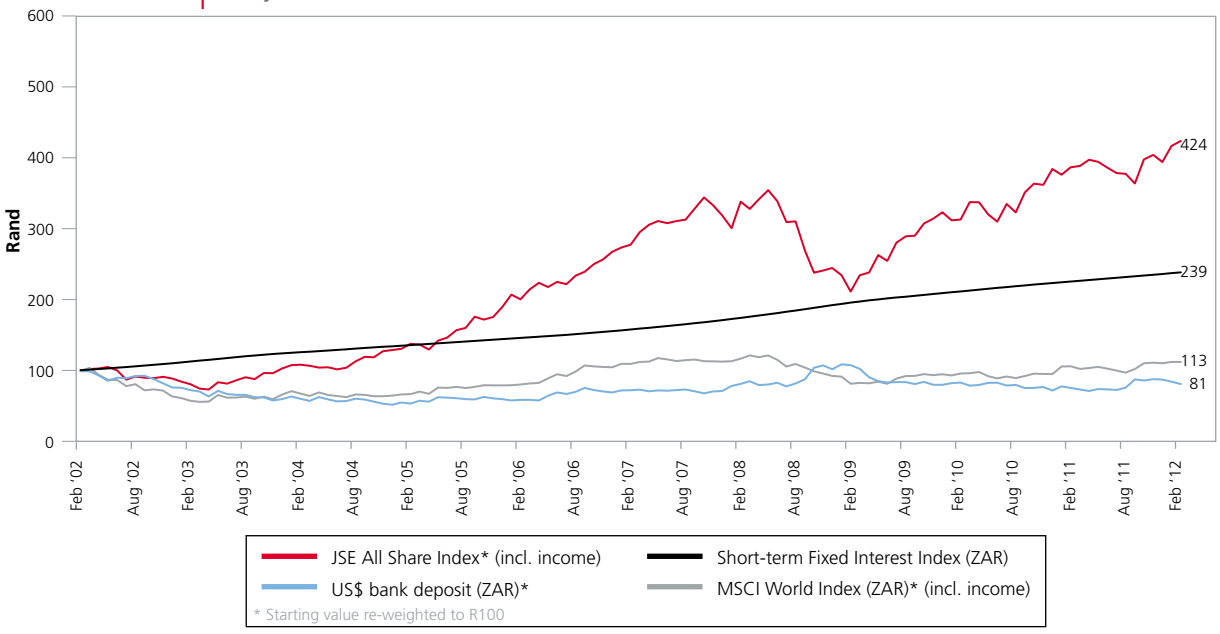
EXECUTIVE SUMMARY: We sometimes forget what an extraordinary period the last 10 years has been for local investors despite the Global Financial Crisis. The local stock market has gone up over four times, with strong real returns from local cash and bonds as well. Meanwhile, the rand has strengthened from R11.42 to the US dollar 10 years ago to R7.47 by 29 February 2012. Mahesh Cooper compares the past two decades and cautions investors about investing by looking in the rear-view mirror.

Ten years to February 2012

If we look at the last 10 years from the perspective of a rand investor, R100 invested in our stock market 10 years ago would have grown to R424, a return of 15.5% per year (9.7% per year above inflation). If that same R100 had been invested in cash, it would be worth R239, a return of 9.1% per year (3.3% per year above inflation), see **Graph 1**. These are astonishingly high real (above inflation) returns, especially when over the last 110 years South African equities have achieved a real return of 7.5% per year and cash 1% per year[1].

Contrasting the R424 from the JSE over the last 10 years, R100 invested offshore in the MSCI World Index (World Index) would be worth just R113 versus R81 in a US dollar bank account. This shows that over a 10-year period, as a South African investor you would have achieved a return of only 1.2% per year investing in the World Index or lost 2.1% per year by investing in a US dollar bank account. Investors looking

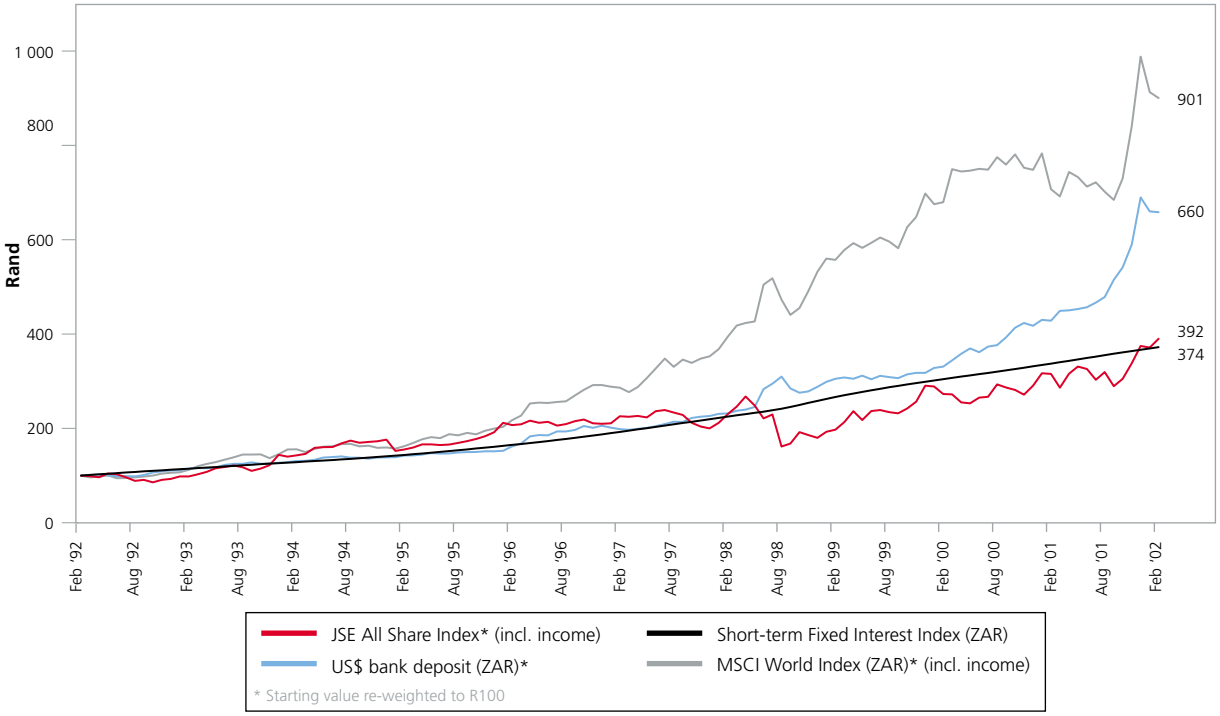
GRAPH 1 | Ten years to 2012



Source: Bloomberg, I-Net Bridge, Allan Gray research

[1] Elroy Dimson, Paul Marsh and Mike Staunton, Triumph of the Optimists, Princeton University Press, 2002, and subsequent research.

GRAPH 2 | Ten years to 2002



Source: Bloomberg, I-Net Bridge, Allan Gray research

at these numbers often ask: 'Why bother investing offshore when we have received such fantastic returns investing locally?' It is important to remember that these are historic returns and just because they happened in the past, it does not necessarily mean they will be repeated in the future. We have often highlighted our concerns about the current level of the South African equity market and that it is unlikely to experience similar real returns over the next 10 years as it has experienced over the last 10 years.

Ten years to February 2002

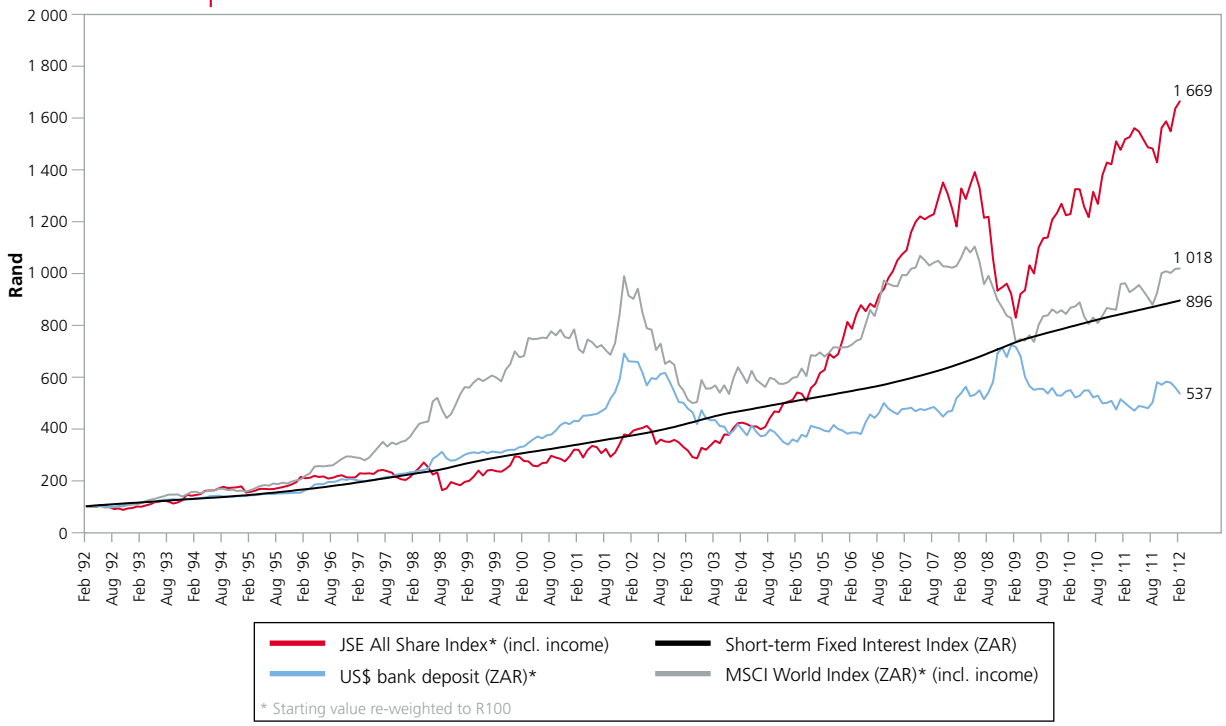
It is interesting to contrast the last 10 years to the previous 10 years and perform the same analysis (see **Graph 2**). A R100 investment into the South African stock market in 1992 would have grown to R392, a respectable 14.6% per year, lower than what an investor would have achieved over the 10 years to 2012. Over that same period, R100 invested in a bank account would have returned R374, or 14.1% per year. This means that over the 10-year period, an investor would have earned very similar returns from the South African equity market and cash. Importantly, inflation over this period was 7.5% resulting in a real return from shares of 7.1% per year and cash of an incredible 6.6% per year above inflation.

> "We continue to caution investors about the level of our local stock market and their real return expectations from equities going forward..."

However, investment psychology often revolves around relative performance. When comparing this R392 against what investors would have received by investing offshore in global equities, there is a stark difference. The rand had blown out, having gone from R6 to the US dollar in 1999 to over R11 to the US dollar in 2002; many South African investors were taking a view that the rand would continue to weaken and were clamouring to get as much money offshore as possible. Over this period, R100 would have grown to R901 in the World Index (24.6% per year over 10 years), with US bank deposits being worth R660 (20.8% per year over 10 years). Effectively, South African investors were selling cheap South African assets to buy expensive foreign assets by looking at historic returns[2]. This decision would have resulted in poor rand returns over

[2] Granted that South Africans could not take money offshore in 1992 due to exchange controls.

GRAPH 3 | Twenty years to 2012



Source: Bloomberg, I-Net Bridge, Allan Gray research

the next 10 years for South African investors relative to investing their money locally. Interestingly in 2002, we were finding the local industrial counters more attractive than rand hedge resource counters, which had appreciated on the back of the weak rand.

Combined: 20 years to February 2012

The results are interesting if you combine these two periods and look at the 20 years to February 2012, as shown in **Graph 3**. This shows how strong our stock market has been in rand terms relative to the World Index. The World Index has barely outperformed local cash over the last 20 years.

Given this strong performance of our local markets relative to global markets, it is therefore not surprising that we believe that Orbis' bottom-up stock selection is finding more attractive opportunities globally than we are able to find on the local stock market. We continue to caution investors about the level of our local stock market and their real return expectations from equities going forward, especially considering the returns over the last 10 years. It is also not surprising that as a result of fewer local opportunities being found through our bottom-up stock selection process, our Balanced and Stable mandates continue to have below average net exposure to South African shares.

Mahesh is a director of Allan Gray Proprietary Limited and heads up the Institutional Client Servicing team.

Duncan Artus

Leonard Krüger

Insurance: better than you think

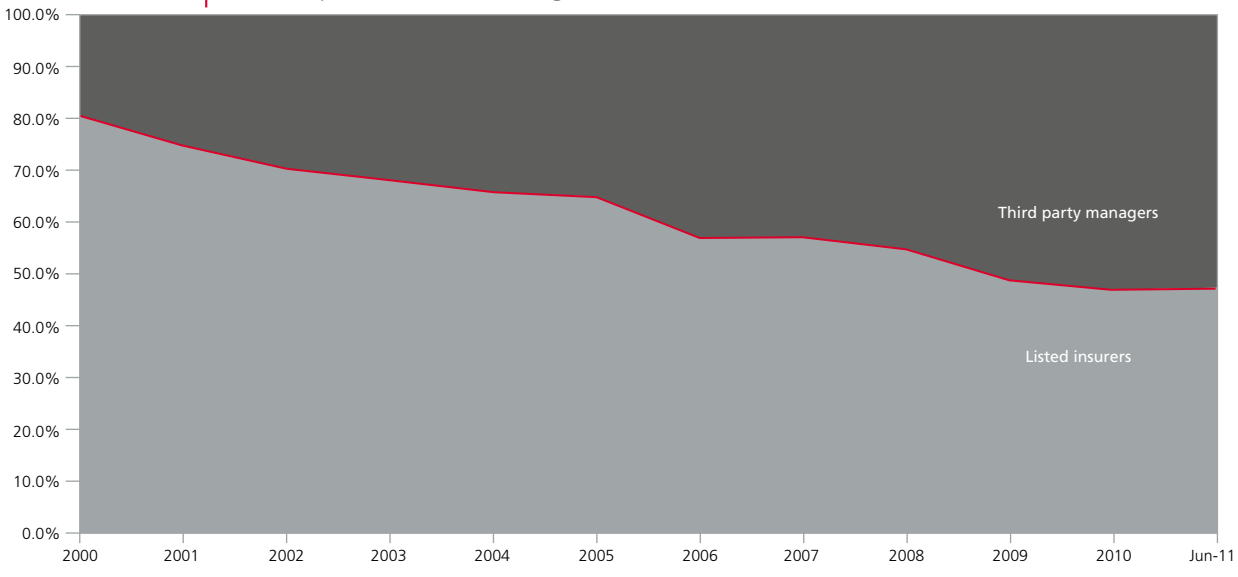
EXECUTIVE SUMMARY: **We have previously set out the reasons Sanlam has an above-benchmark position in our clients' portfolios (see Quarterly Commentary 1, 2010). On a 'look-through' basis our position is however not limited to Sanlam (although it is currently the only insurer in our Top 10). Total exposure to the insurance and related sectors currently amounts to 11.2% of local equities if both direct holdings such as Sanlam and Old Mutual, as well as indirect exposure via holding companies like Remgro, RMI and Standard Bank, are added together. Despite being out of favour with many investors, the insurance sector has outperformed the total return of the market since 2002. Duncan Artus and Leonard Krüger discuss.**

A sector facing adversity

Many investors dislike insurers and dismiss the sector due to its poor growth outlook and the view that it is difficult to understand. High fees, a lack of transparency for customers and the onus of increased regulation further reinforce the negative perceptions. The past decade has witnessed a very public loss of assets relative to third party managers, as illustrated in **Graph 1**. Whereas insurers managed 80% of South Africa's savings in 2000, their combined share reduced to 50% in 2011.

An investor given perfect foresight of such market share losses and the evolving regulatory environment would be surprised to find the excellent returns the sector was able to deliver during this time for shareholders (see **Graphs 2** and **3**). Measured by the increase in embedded value (an internal measure of value used by insurers), the sector kept up with strong equity market returns. Similarly, the total return (dividends reinvested) from insurance companies has outperformed the total return of the market since 2002.

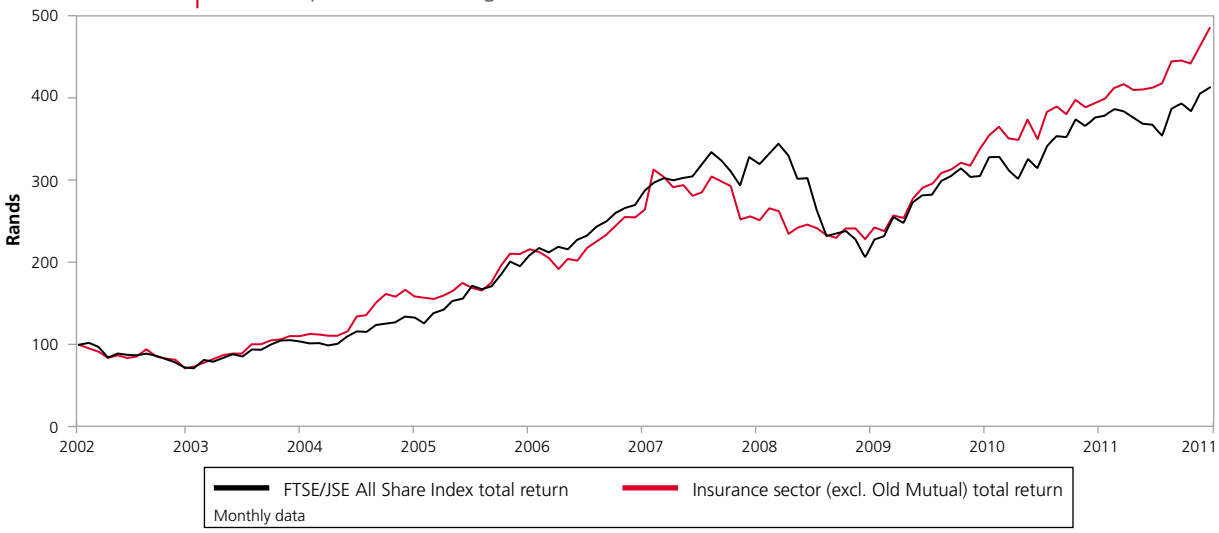
GRAPH 1 | Life companies have been significant net losers of market share*



* Savings market excluding government sector and banking.

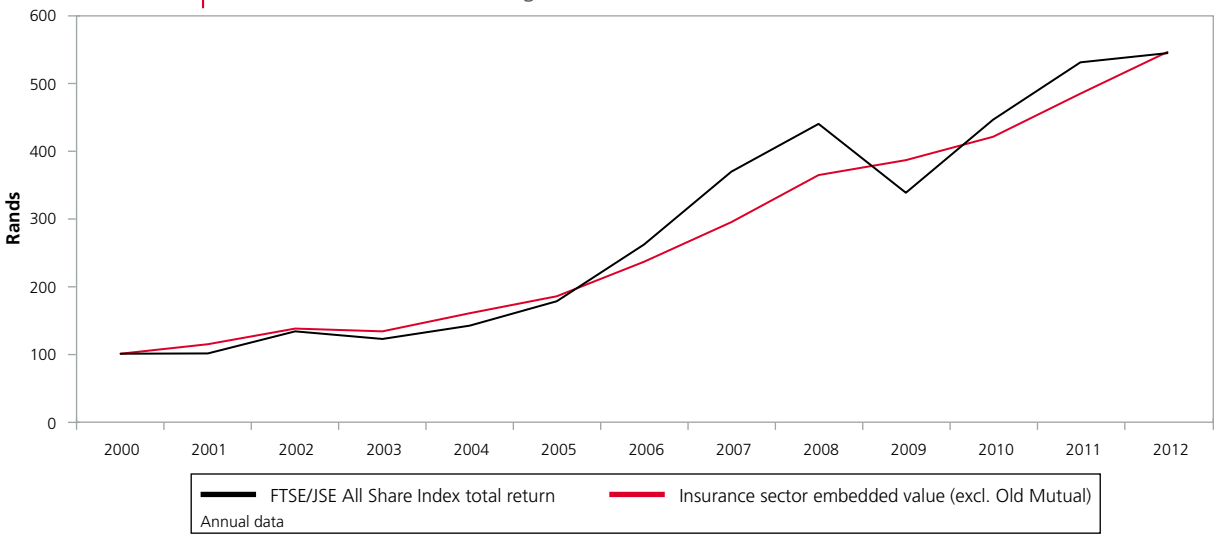
Source: Allan Gray research

GRAPH 2 | Relative performance against the market



Source: Allan Gray research, Datastream data to 29.02.2012

GRAPH 3 | Embedded value has also grown



Source: Allan Gray research, Datastream data to 29.02.2012

A closer look at insurance economics

We believe the business of a typical South African insurer can be divided into three broad categories:

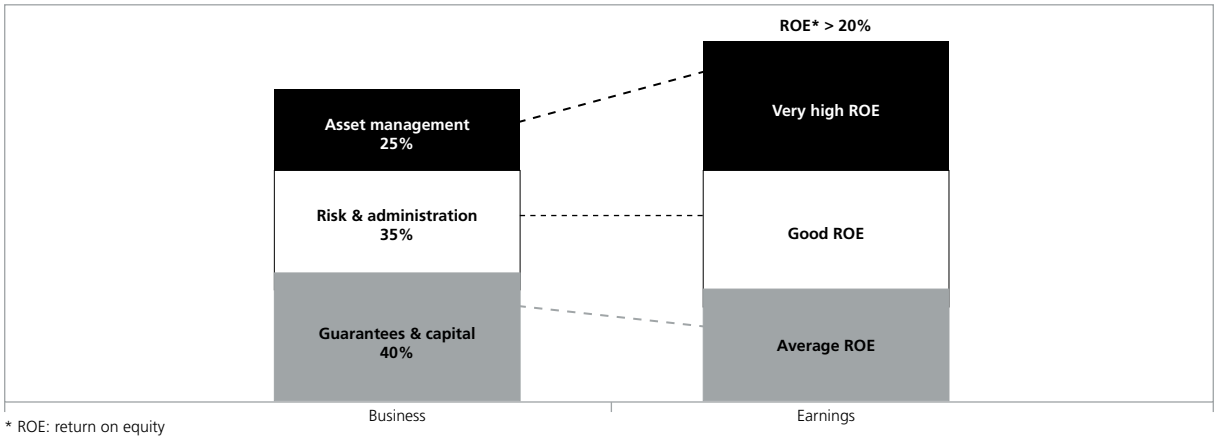
1. Guarantees and capital

Many client investments with insurers carry some form of guaranteed return over a specified period. To ensure insurers are able to meet such guaranteed returns when due, capital is held and invested in a conservative manner. Such capital belongs to shareholders if not needed but is valued at a discount due to the tax drag and a lack of control over investment decision making. As insurers have diversified their businesses over time, by our estimates, such guarantees and capital account for 40% of the average total insurance business today and generate an average return on equity through the cycle.

2. Risk and administration

Insurers sell policies covering against the risk of events like

GRAPH 4 | Typical South African insurer



* ROE: return on equity

Source: Allan Gray research

death, disability or dread disease and make a profit when premiums received exceed the cost of claims and expenses. They also offer administration and other services to the likes of medical schemes, pension funds, property portfolios etc. By doing so on a large scale, efficiency and pooling of risks allow the industry to earn good returns on equity.

3. Asset management

All the South African insurers own and operate large asset management franchises. Management of different asset classes on behalf of the life parent, as well as non-life client assets such as unit trusts, is a fee-based business that does not require a lot of shareholder capital. This means that returns on equity can be very high.

Combining these individual business segments, insurers on average should achieve returns on equity in excess of 20% per year (see **Graph 4**). Although returns may fluctuate from year to year, the high average returns on equity allow for higher dividends to be paid if growth rates are low. Purchasing insurers on dividend yields of 1.5 times the market on average over the past 10 years has compensated shareholders for periods of lower return and a lot of the industry negatives that occurred.

Telling tortoise from hare

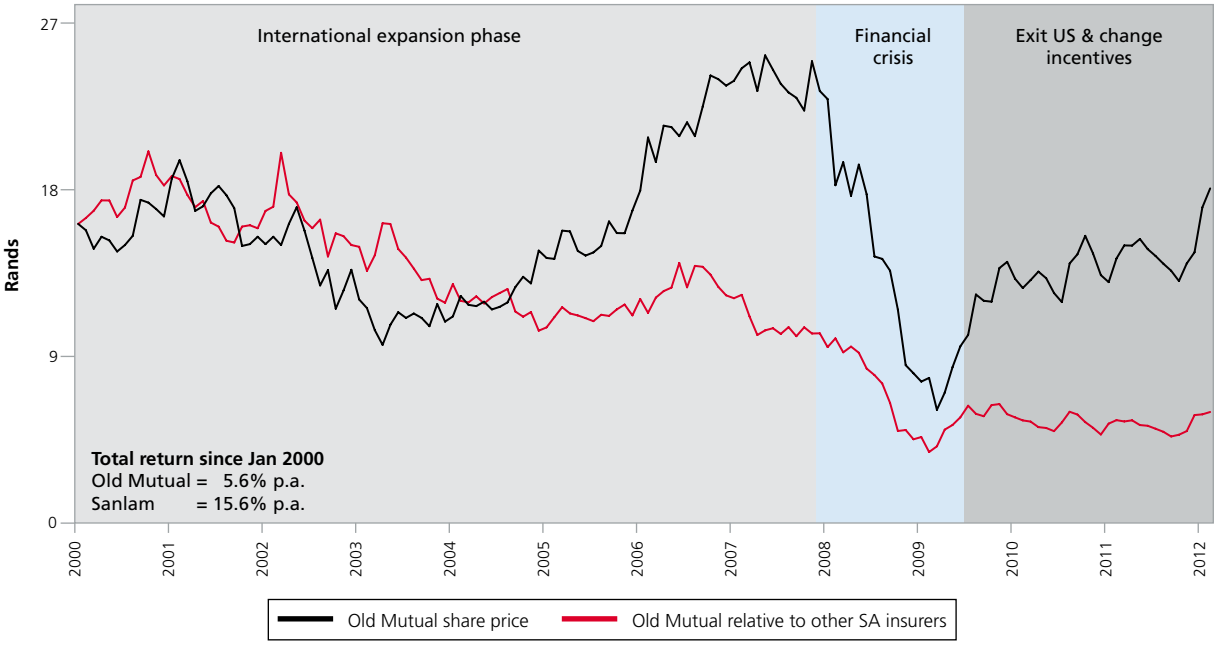
As is illustrated in Aesop's ancient tale of the tortoise and the hare, in business, steady progress often gives a better result than aggression and speed. In Graphs 2 and 3 you may have noticed the exclusion of Old Mutual from our analysis. Following its de-mutualisation in 1999, the newly London-listed Old Mutual embarked upon an aggressive international expansion at times seemingly characterised by a hare-like attitude of invincibility. New acquisitions focused on size and popular markets, often at peak or very high prices. In doing so, Old Mutual built up substantial company debt and exposure to a varied number of markets, notably in its US Life insurance business. The US Life business primarily offered clients higher than industry guaranteed returns by investing in higher yielding bonds that also had higher risks, including sub-prime mortgage bonds.

> "We believe the period of perennial underperformance… has come to an end and that Old Mutual in future should enjoy comparable economics to that of the sector."

The onset of the financial crisis brought matters to a head and crystallised the risks of this strategy. The hare was caught napping in the fields.

Substantial change has since been achieved at Old Mutual as is often the case in times of distress. Critically, it exited the US Life business and focused management incentives and objectives on shareholder value rather than indiscriminate growth. This has resulted in promising reductions in debt and adjustments in risk exposure. We believe the period of perennial underperformance (the red line on **Graph 5**) relative to other SA insurers has come to an end and that Old Mutual in future should enjoy comparable economics to that of the sector.

GRAPH 5 | Evolution of Old Mutual



Source: Allan Gray research, Datastream data to 29.02.2012

Our investment philosophy typically results in us investing early when building a position in a new share, as prices often continue to fall due to short-term pessimism. With Old Mutual however, this was not the case. We believe Old Mutual offered better value at R13-14 excluding US Life than at R8 including it, given our assessment of the downside risk. Throughout 2011, we continued to acquire Old Mutual shares at around the R13-14 level.

In December, Old Mutual announced the sale of its Nordic operations for a good price. This was a surprise to us and the market and the share price responded favourably to the transaction prior to us acquiring as many shares as we would have liked.

As fundamental analysts we spend our time researching the operating environment, industry trends and company specifics to estimate a firm's intrinsic value. Determining management quality is usually the hardest part to get right but can be very rewarding. Sanlam has proven the value of a good insurance management team. We believe that fixing the basics and maintaining a patient and disciplined process of capital allocation creates the most value for shareholders.

Duncan is a portfolio manager. He joined Allan Gray in 2001 and is a CFA charter holder.
Leonard is a qualified actuary. He joined Allan Gray in July 2007 and is a member of the investment team.

Seema Dala

Chris du Toit

High correlations present challenges

EXECUTIVE SUMMARY: Actively managed funds, including the Orbis Global Equity Fund, have struggled to outperform the market over the past year. Actively managed funds are able to beat the market because they are different from the market. In recent periods, however, share price movements have been highly correlated, so being different has not necessarily helped. Chris du Toit and Seema Dala look at how the smaller differences in returns between individual shares have impacted active fund managers.

2011 was one of the worst periods of underperformance that active managers have experienced relative to their benchmarks and passive counterparts globally. According to a report by BofA Merrill Lynch and Lipper Analytical Service, only 17% of US Large Cap active fund managers beat the S&P 500 Index return during 2011 (see **Graph 1**). Managers with a 'value' style fared slightly better, with nearly one in three outperforming the Index. This is the worst annual performance by active managers since 1997 when only 12% outperformed the S&P 500.

Active managers try to outperform the market by investing in a selection of shares that they believe will do better than the overall market. Managers pick shares based on various methods, including researching the business fundamentals of companies to determine if their shares are cheap or expensive relative to their estimated true worth. It is impossible to pick the best shares all the time, as managers have imperfect information on which to base their research, and the future is uncertain. Successful active managers pick more outperforming shares than underperforming shares over long periods of time.

"The market in the short term behaves like a voting machine, but in the long term acts like a weighing machine." – Benjamin Graham

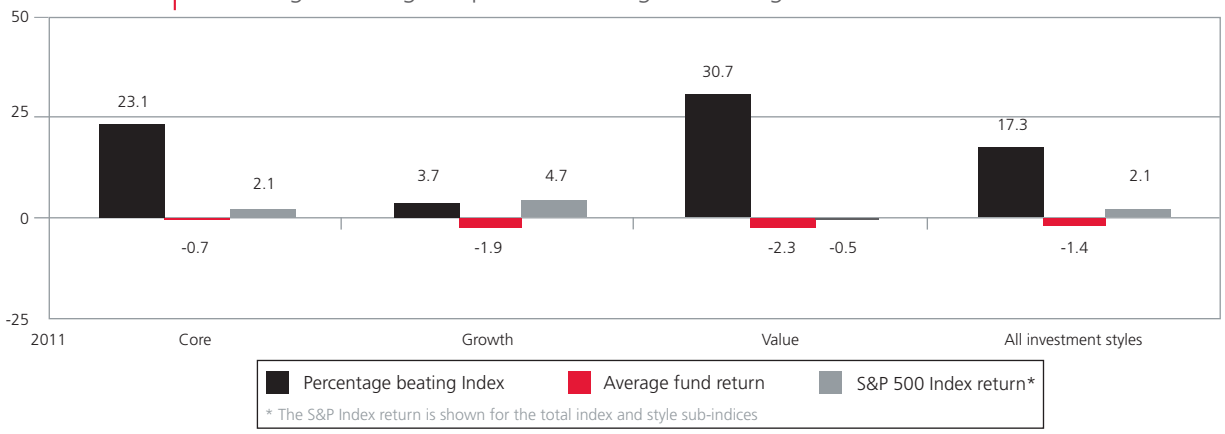
Why did active managers do so poorly in 2011?

One of the key assumptions active managers make, is that share prices should reflect economic realities over the long term. Shares may be underpriced or overpriced in the short term due to market participants overreacting to recent news, but the true value of a company as determined by its earnings power should be reflected in its share price once these overreactions subside. Benjamin Graham, the father of securities analysis, famously taught that the market 'in the short term behaves like a voting machine, but in the long term acts like a weighing machine'. In the long term, individual shares should behave differently to the overall market, as their returns are driven by fundamental factors unique to each company. This is not always the case over shorter periods where the sentiment and expectations of the market often affect all stocks together.

Investors' appetite for risk was severely shaken by the events of 2008/2009. Reeling from the financial crisis, investors as a whole largely fled the perceived riskiness of equity markets, with little or no consideration for which equity investments they were selling. For all intents and purposes, investors treated all shares as being the same. The impact on markets was an immediate increase in volatility and smaller differences in returns between individual shares.

To boost asset prices, central banks around the world, but especially the US Federal Reserve, injected massive amounts of money into the banking system, through various quantitative easing programmes (essentially printing money to lend to banks at very low interest rates). These policies have led to unprecedented levels of liquidity being released and seeking a place to be invested. Equity and bond markets, especially in the emerging markets, have been indiscriminate beneficiaries. Just as almost all shares were discarded during the crisis as a result of a massive liquidity shortage, the massive liquidity inflow by central banks has caused all shares to go up. Not only have markets been strong, the extent to which they have moved in unison has been unusual.

GRAPH 1 | Percentage US Large Cap active managers beating the S&P 500 Index in 2011



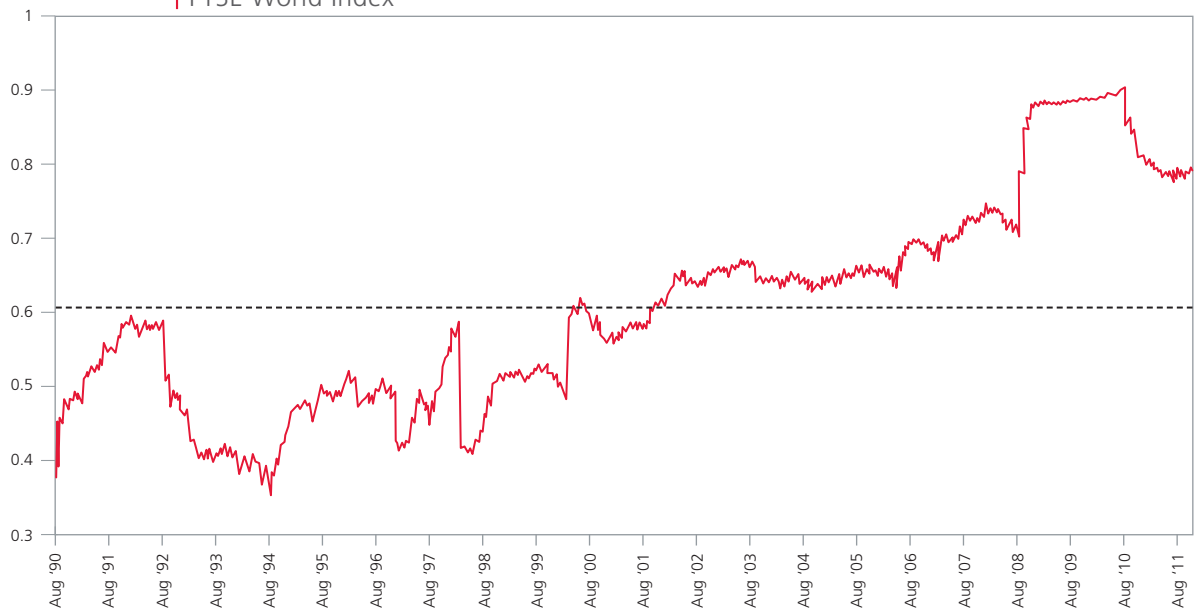
Source: BofA Merrill Lynch and Lipper Analytical Service

Fear and optimism

Graph 2 shows that, for 17 major markets globally, the average rolling two-year correlation of their weekly returns relative to the FTSE World Index is higher than its average of the last 20 years. Correlation measures its extent to which two assets (it could be two shares, or two market indices) move together, either up, down, or sideways. The higher the correlation, the more closely the two assets move together, with one being a perfect positive correlation – in other words two assets move exactly in line with each other.

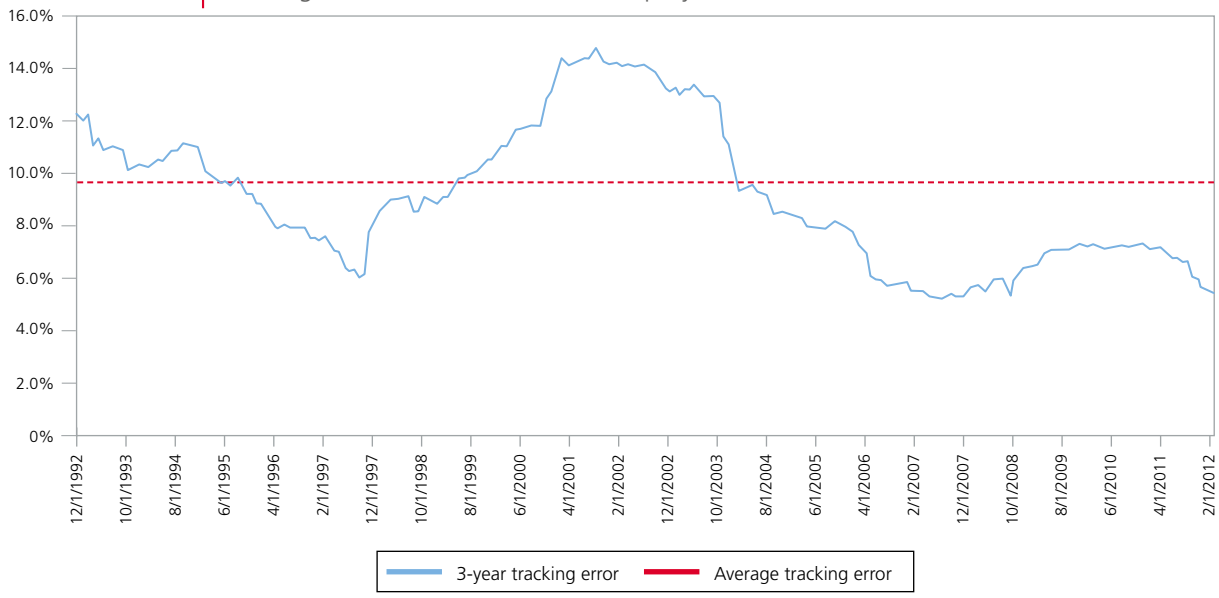
This high correlation has caused active funds, which distinguish themselves by being different from the market, to struggle to outperform, as being different has not necessarily helped. Of course, a high correlation between

GRAPH 2 | Average rolling two-year correlation of weekly returns of major markets vs the FTSE World Index



Source: I-Net Bridge, Allan Gray research

GRAPH 3 | Tracking error of the Orbis Global Equity Fund vs the FTSE World Index



Source: Orbis, Allan Gray research

shares and markets does not explain underperformance by active managers. It merely shows that active funds would have found it more difficult to achieve different returns from the market, all else being equal. One can find further evidence of high correlations in the performance of the Orbis Global Equity Fund.

Orbis Global Equity Fund

The Orbis Global Equity Fund is actively managed and invested in a very concentrated portfolio of global shares. We fully expect the Fund to perform very differently to the market, especially in the short term. Orbis was not immune to the tough stock picking conditions of 2011, and during the year underperformed the FTSE World Index by 2.8%.

> "...the market must eventually return to being a 'weighing machine', driven by the fundamental value of the businesses it represents."

Variable short-term performance by actively managed funds versus their benchmarks is normal. **Graph 3** shows the 'tracking error' of the Fund relative to the FTSE World Index measured over three-year periods since the Fund's inception. Tracking error is a measure of how different a fund's performance has been compared to its benchmark. The higher a fund's tracking error, the more variable its returns are compared to the benchmark. Tracking error does not tell you if a fund has performed better or worse than its benchmark, merely whether or not its returns have been different. Note that the Orbis Global Equity Fund's tracking error has been falling at the same time as the correlations between markets have been increasing.

Looking at the graph, one could conclude that the Orbis Global Equity Fund has started to invest more like the FTSE World Index because its tracking error is falling. However, tracking error is a function of two things: (1) how different your investments are from the market, and (2) how differently individual shares perform relative to the market. Number (2) is beyond a manager's control, and has recently been affected by the liquidity injections described earlier. Number (1) is certainly within a manager's control and, in the case of the Orbis Global Equity Fund, the differences to the market are as large as ever. The Fund is invested in only 83 stocks with 86% of the Fund made up of the 50 largest positions. Areas of particular concentration include Technology stocks, where the Fund has 34% exposure compared to 11% in the benchmark. There are also parts of the market that Orbis finds unattractive, including Basic Materials, where it has a 0% weighting compared to 8% in the World Index.

Difficult market conditions present active fund managers with an opportunity – once volatility in the market decreases, and correlations begin to normalise, fundamentals should begin to drive individual stock returns.

High correlations do not make it impossible to outperform the market, but they can make it more difficult and could last for some time. We do not know how and when these high correlations will end, but we do know that the market must eventually return to being a 'weighing machine', driven by the fundamental value of the businesses it represents.

Chris is a qualified actuary and has been a member of the Institutional Client Servicing team since 2004.

Seema is a member of the Institutional Client Servicing team. She joined Allan Gray in 2007 and is a qualified CA (SA).

Shabnam Osman

Online: your service channel of choice?

EXECUTIVE SUMMARY: South Africa has seen a surge of internet users recently, with the number doubling over the last two years, and the current count standing at around 6.5 million. We are becoming more present digitally, and getting more comfortable transacting in the online world, with well-established online banking, travel and shopping services and more sophisticated online security. At Allan Gray we are seeing an increase in the number of online account registrations each month. In response to growing adviser and client needs for self service and additional reporting functionality, we constantly strive to improve and add to our online offering. Shabnam Osman explains our online services.

If you are invested with us and do not have an online account, you can activate yours by simply visiting www.allangray.co.za and clicking 'Register'. Once you have logged into our secure site you will be able to interact with all of your investments – including reviewing the history and performance of your accounts – and transact with us at your convenience. All of our client service consultants are trained to guide you in setting up and using your online account and we have a dedicated team to provide any specific technical assistance you may need. However, we are unable to provide you with financial advice and our tools and reports do not replace the role of a competent, independent financial adviser in helping you make the right investment choices and managing these choices over time.

Reports and tools

A key benefit of using an online account is that you need not wait for us to send you account-related information. Most of the information you will need is easily available. At a glance you can view a quick summary of your investment. If you want to know more, you can download a detailed statement, which shows you all transactions, distributions and fees.

You are also able to download various investment reports to gain a better understanding of your investment. We have worked hard to make these easy to understand, with comprehensible numbers and meaningful descriptions and comparisons. Our performance report, for example, shows by how much your money has grown and the return you have received on your investment and compares your investment with how much it would have grown had you invested it in cash or equities. Other reports allow you see how your investment is split between the different asset classes, such as equities, cash and bonds, with graphs giving you a clear view of your portfolio.

We also offer tools to help you and your financial adviser make your investment decisions, such as our Fund Comparison Tool. This tool allows you to compare all the funds on our investment platform, in terms of fees, performance, risk measures, income distributions and compliance with retirement fund regulations.

> "...our tools and reports do not replace the role of a competent, independent financial adviser in helping you make the right investment choices and managing these choices over time."

Paperless transactions

Our products allow you the freedom and flexibility to make changes to your investment. Most investors appreciate the flexibility, but do not enjoy the administrative burden of completing forms and faxing in documents to make simple changes. You can conveniently use your online account for most administrative changes. In addition you can switch between unit trusts, contribute to your existing investment, and submit withdrawal instructions online.

As some investors may feel that transacting online does not give them the same confidence as signing a form or talking to a consultant, we have made the online process completely transparent. You can see when your instruction was submitted, track its progress online, and understand if

anything is obstructing the process. If we need any documents from you, such as proof of deposit or proof of new banking details, we highlight these. You can submit copies of these documents electronically through your online account.

Security: an ever-present priority

We are uncompromising about keeping your personal and investment details secure and confidential in both our online and offline worlds. This means making sure that your information is available for only you to see. When you log into our secure site, you will see a padlock in the bottom left of your browser window. This indicates that the information you send from your computer to our secure site – when transacting with us or viewing your investment reports – is encrypted and cannot be seen by anyone else.

We also take your unique online identity extremely seriously. We confirm all transactions and personal detail changes via SMS. In this way you are immediately alerted in the unlikely event of someone attempting a transaction without your knowledge. We constantly monitor all online activity and will lock your account and contact you directly if we detect any suspicious activity on your account.

Convenience is key

If you are responsible for managing both your own as well as others' investments, for example your spouse, children or other dependants, you can arrange to monitor and manage all of these investments through your online account. You will need to contact our Client Service Centre to set this up, but once the accounts are linked you will have convenient access to all the investments you have permission to monitor and manage online.

Choose your channel

We have integrated the online and offline worlds at Allan Gray so that whether you fax in a form, send an email, or submit an instruction online, you will receive exactly the same outstanding service that you have come to expect from us. We also understand the value of personal contact and our qualified consultants will gladly assist you with any queries. As always, we welcome feedback and suggestions. Kindly email us at info@allangray.co.za or contact our Client Service Centre on 0860 000 654.

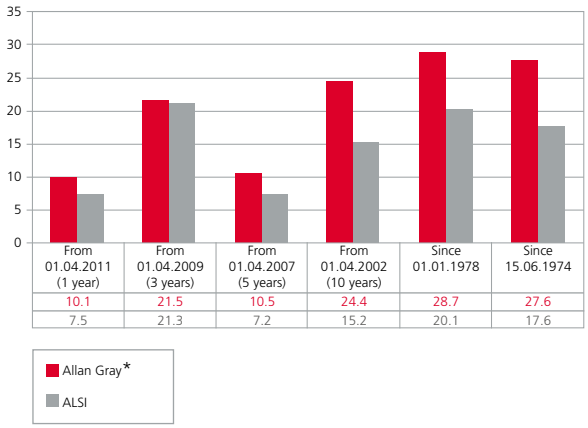
Shabnam joined Allan Gray in 2007 as a business analyst. She is responsible for eCommerce.

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	7.1	2.6	4.5
2012 (to 31.03)	4.6	6.0	-1.4

Returns annualised to 31.03.2012



* 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.

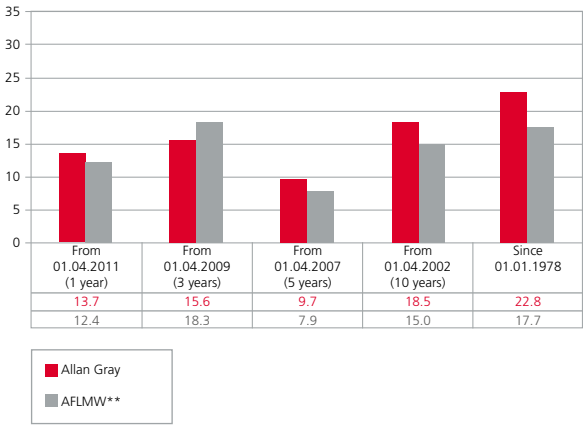
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown, before the impact of fees, to **R99 619 277** by 31 March 2012. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to **R4 620 160**.

Investment track record - balanced returns

Allan Gray Proprietary Limited global mandate total returns vs. Alexander Forbes Global 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	12.6	8.8	3.8
2012 (to 31.03)	3.4	5.4	-2.0

Returns annualised to 31.03.2012



** 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 March 2012 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 406 880** by 31 March 2012. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R2 687 808**.

Allan Gray Balanced and Stable Fund asset allocation as at 31 March 2012

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	**SA**	**Foreign***	**Total**	**SA**	**Foreign***
Net equities	56.3	44.3	11.9	17.3	9.2	8.1
Hedged SA equities	10.2	3.0	7.2	26.1	15.5	10.6
Property	0.5	0.5	-	0.3	0.3	-
Commodities (new gold)	2.7	2.7	-	2.6	2.6	-
Bonds	9.4	9.4	-	8.8	8.8	-
Money market and bank deposits	21.0	14.6	6.4	44.8	37.9	6.9
Total	**100.0**	**74.5**	**25.5**	**100.0**	**74.4**	**25.6**

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

* The Fund is above its foreign exposure limit due to market value movement.

Allan Gray Equity Fund net assets as at 31 March 2012

Security (ranked by sector)	**Market value (R million)**	**% of fund**	**JSE ALSI weight (%)**
Resources	**7 942**	**27.2**	**32.7**
Sasol	2 983	10.2	
Anglo American*	1 077	3.7	
Anglogold Ashanti	991	3.4	
Impala Platinum	828	2.8	
BHP Billiton	476	1.6	
Gold Fields	401	1.4	
Harmony Gold Mining	362	1.2	
Positions less than 1%	824	2.8	
Financials	**6 056**	**20.8**	**20.7**
Standard Bank	1 493	5.1	
Sanlam	1 363	4.7	
Reinet Investments	879	3.0	
Old Mutual	649	2.2	
Investec	394	1.4	
MMI	282	1.0	
Positions less than 1%	997	3.4	
Industrials	**13 754**	**47.1**	**46.6**
British American Tobacco	2 575	8.8	
SABMiller	2 520	8.6	
Remgro	2 188	7.5	
Mondi	688	2.4	
Nampak	503	1.7	
Sappi	500	1.7	
Tongaat-Hulett	464	1.6	
Netcare	407	1.4	
Tiger Brands	339	1.2	
Datatec	339	1.2	
Illovo Sugar	312	1.1	
MTN	298	1.0	
Positions less than 1%	2 622	9.0	
Other securities	**200**	**0.7**	
Money market and call deposits	**1 233**	**4.2**	
Totals	**29 185**	**100.0**	

* Including positions in Anglo American Plc stub certificates.

Allan Gray Unit Trusts annualised performance in percentage per annum to 31 March 2012

	3 MONTHS (unannualised)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
UNIT TRUSTS [1]								
High net equity exposure (100%)								
ALLAN GRAY EQUITY FUND (AGEF)	[3]	**11.2**	**19.3**	**7.9**	**20.9**	**27.8**	**29 184.7**	**01.10.98**
FTSE/JSE All Share Index		7.5	21.3	7.2	15.2	18.4		
ALLAN GRAY-ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	[3]	**12.1**	**12.4**	**2.7**	**-**	**10.3**	**5 549.4**	**01.04.05**
FTSE World Index (Rands)		13.5	13.0	1.5	-	8.4		
Medium net equity exposure (40% - 75%)								
ALLAN GRAY BALANCED FUND (AGBF)	[3]	**12.0**	**14.2**	**8.2**	**17.5**	**19.8**	**51 964.1**	**01.10.99**
Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)		10.0	14.6	6.7	13.6	13.8		
ALLAN GRAY-ORBIS GLOBAL FUND OF FUNDS (AGGF)	[3]	**14.6**	**4.6**	**4.7**	**-**	**7.2**	**6 785.0**	**03.02.04**
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		16.4	7.7	4.8	-	7.3		
Low net equity exposure (20% - 40%)								
ALLAN GRAY STABLE FUND (AGSF) - (NET OF TAX)	[3]	**11.3**	**7.8**	**7.7**	**11.9**	**12.6**	**28 569.1**	**01.07.00**
Call deposits plus two percentage points (Net of tax)		5.0	5.6	7.0	7.2	7.4		
ALLAN GRAY STABLE FUND (AGSF) - (GROSS OF TAX)	[3]	**11.9**	**8.6**	**8.6**	**13.0**	**13.8**	**28 569.1**	**01.07.00**
Call deposits plus two percentage points (Gross of tax)		6.7	7.6	9.4	9.7	10.0		
Very low net equity exposure (0% - 20%)								
ALLAN GRAY OPTIMAL FUND (AGOF)	[3]	**3.9**	**4.3**	**7.0**	**-**	**8.4**	**1 449.0**	**01.10.02**
Daily call rate of FirstRand Bank Ltd		4.6	5.5	7.3	-	7.4		
ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS (AGOO)	[3]	**12.8**	**-**	**-**	**-**	**1.7**	**663.7**	**02.03.10**
Average of US$ Bank Deposits and Euro Bank deposits		10.8	-	-	-	0.4		
No equity exposure								
ALLAN GRAY BOND FUND (AGBD)	[3]	**12.0**	**10.3**	**9.5**	**-**	**9.7**	**545.7**	**01.10.04**
BEASSA All Bond Index (total return)		13.2	10.2	8.7	-	9.3		
ALLAN GRAY MONEY MARKET FUND (AGMF)	[3]	**5.6**	**6.9**	**8.6**	**8.8**	**8.8**	**8 190.1**	**03.07.01**
Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index [9]		5.6	6.7	8.4	8.7	8.8		

Total Expense Ratios (TERs)

	Equity Fund	Global Equity Feeder Fund	Balanced Fund	Global Fund of Funds	Stable Fund	Optimal Fund	Global Optimal Fund of Funds	Bond Fund	Money Market Fund
Performance component	0.18%	0.54%	-0.02%	0.33%	0.17%	0.00%	0.00%	0.27%	0.00%
Fee at benchmark	1.71%	1.49%	1.15%	1.24%	1.14%	1.14%	0.98%	0.29%	0.29%
Total fees*	1.89%	2.03%	1.13%	1.57%	1.31%	1.14%	0.98%	0.56%	0.29%
Trading costs	0.10%	0.14%	0.09%	0.15%	0.06%	0.12%	0.17%	0.00%	0.00%
Other expenses	0.01%	0.05%	0.02%	0.07%	0.02%	0.01%	0.06%	0.03%	0.01%
Total Expense Ratio (TER)	2.00%	2.22%	1.24%	1.79%	1.39%	1.27%	1.21%	0.59%	0.30%
Annualised fee* rate for latest quarter	2.81%	1.79%	1.41%	1.46%	1.59%	1.14%	1.01%	0.37%	0.29%

** Including underlying Orbis Fund fees.*

A Total Expense Ratio (TER) of a portfolio is a measure of the portfolio's assets that were relinquished as a payment of services rendered in the management of the portfolio. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to 31 December 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 March 2012

	3 MONTHS (unannualised)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	INCEPTION DATE
ORBIS FUNDS (RANDS) REGISTERED FOR MARKETING IN SOUTH AFRICA [1, 6]							
ORBIS GLOBAL EQUITY FUND (RANDS)	**9.4**	**12.0**	**12.2**	**2.6**	**5.0**	**17.8**	**01.01.90**
FTSE World Index (Rands)	6.1	13.7	12.9	1.5	1.8	11.7	
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	**2.3**	**23.4**	**9.1**	**1.9**	**3.9**	**13.1**	**01.01.98**
Tokyo Stock Price Index (Rands)	5.6	15.0	4.2	-3.6	0.2	5.6	
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	**9.9**	**10.4**	**19.0**	**9.4**	**-**	**14.1**	**01.01.06**
MSCI Asia Ex-Japan (Rands)	7.7	5.4	15.8	6.3	-	12.5	
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS)	**-1.1**	**14.1**	**-3.2**	**3.7**	**-**	**8.8**	**01.01.05**
US$ Bank Deposits (Rands)	-5.2	13.7	-6.6	2.7	-	7.0	
ORBIS OPTIMAL SA FUND-EURO CLASS (RANDS)	**1.1**	**8.3**	**-3.4**	**3.8**	**-**	**7.8**	**01.01.05**
Euro Bank Deposits (Rands)	-2.3	7.7	-6.1	3.3	-	6.4	

Segregated and life pooled portfolios annualised performance in percentage per annum to 31 March 2012

	3 MONTHS (unannualised)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
SEGREGATED PORTFOLIOS [5]								
GLOBAL BALANCED COMPOSITE	**3.4**	**13.7**	**15.6**	**9.7**	**18.5**	**22.8**	**37 427.0**	**01.01.78**
Mean of Alexander Forbes Global Large Manager Watch [2,4]	5.4	12.4	18.3	7.9	15.0	17.7		
DOMESTIC BALANCED COMPOSITE	**3.3**	**11.8**	**17.4**	**10.5**	**21.2**	**23.4**	**21 812.1**	**01.01.78**
Mean of Alexander Forbes Domestic Manager Watch [2,7]	6.1	12.3	20.3	9.4	17.5	18.3		
DOMESTIC EQUITY COMPOSITE	**4.3**	**11.3**	**20.8**	**10.3**	**23.9**	**22.0**	**50 691.4**	**01.01.90**
FTSE/JSE All Share Index	6.0	7.5	21.3	7.2	15.2	14.8		
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN COMPOSITE	**3.2**	**13.4**	**13.2**	**9.6**	**17.8**	**19.6**	**6 534.4**	**01.01.94**
Mean of Alexander Forbes Namibia Average Manager [2]	5.4	11.3	17.3	8.5	15.0	14.5		
RELATIVE DOMESTIC COMPOSITE	**5.5**	**8.1**	**20.4**	**8.6**	**19.1**	**21.1**	**10 519.4**	**19.04.00**
Weighted average of client specific benchmarks [2]	6.7	9.5	22.0	7.4	16.0	16.2		
FOREIGN BEST VIEW (RANDS) COMPOSITE [8]	**3.0**	**14.2**	**3.9**	**4.2**	**4.8**	**13.4**	**6 695.9**	**23.05.96**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	1.1	16.4	7.7	4,8	3.0	10.2		
LIFE POOLED PORTFOLIOS								
GLOBAL BALANCED PORTFOLIO	**3.5**	**13.9**	**15.9**	**9.9**	**18.7**	**20.3**	**19 758.1**	**01.09.00**
Mean of Alexander Forbes Global Large Manager Watch [2,7]	5.4	12.4	18.3	7.9	15.0	15.0		
DOMESTIC BALANCED PORTFOLIO	**3.4**	**12.5**	**17.8**	**10.7**	**21.5**	**20.9**	**6 973.1**	**01.09.01**
Mean of Alexander Forbes Domestic Manager Watch [2,7]	6.1	12.3	20.3	9.4	17.5	17.2		
DOMESTIC EQUITY PORTFOLIO	**4.2**	**11.3**	**21.0**	**10.2**	**24.0**	**24.2**	**7 122.4**	**01.02.01**
FTSE/JSE All Share Index	6.0	7.5	21.3	7.2	15.2	15.8		
DOMESTIC ABSOLUTE PORTFOLIO	**0.3**	**9.7**	**14.6**	**12.4**	**23.3**	**23.2**	**881.9**	**06.07.01**
Mean of Alexander Forbes Domestic Manager Watch [7]	6.1	12.3	20.3	9.4	17.5	16.9		
DOMESTIC STABLE PORTFOLIO	**1.6**	**8.9**	**11.0**	**10.3**	**15.5**	**15.5**	**1 764.4**	**01.12.01**
Alexander Forbes Three-Month Deposit Index plus 2%	1.9	7.6	8.5	10.3	10.8	10.9		
DOMESTIC OPTIMAL PORTFOLIO [1]	**0.1**	**4.6**	**5.3**	**8.0**	**-**	**8.8**	**398.5**	**04.12.02**
Daily Call Rate of Nedcor Bank Limited	1.2	4.8	5.7	7.6	-	7.5		
GLOBAL ABSOLUTE PORTFOLIO	**1.2**	**12.8**	**13.3**	**11.8**	**-**	**18.9**	**2 403.2**	**01.03.04**
Mean of Alexander Forbes Global Large Manager Watch [2,7]	5.4	12.4	18.3	7.9	-	16.5		
DOMESTIC MEDICAL SCHEME PORTFOLIO	**1.6**	**9.2**	**11.0**	**10.2**	**-**	**14,1**	**1 468.6**	**01.05.04**
Consumer Price Index plus 3% p.a. [2]	2.5	8.6	8.1	10.1	-	9.1		
GLOBAL STABLE PORTFOLIO	**1.4**	**12.5**	**9.5**	**9.7**	**-**	**14,1**	**2 897.1**	**15.07.04**
Alexander Forbes Three-Month Deposit Index plus 2%	1.9	7.6	8.5	10.3	-	10.1		
RELATIVE DOMESTIC EQUITY PORTFOLIO	**4.4**	**6.5**	**19.5**	**8.8**	**-**	**23.4**	**521.3**	**05.05.03**
FTSE/ JSE CAPI Index	6.0	8.1	21.9	7.9	-	22.0		
MONEY MARKET PORTFOLIO [1]	**1.4**	**5.8**	**7.1**	**8.7**	**9.1**	**9.2**	**549.5**	**21.09.00**
Alexander Forbes Three-Month Deposit Index	1.3	5.5	6.4	8.2	8.7	8.9		
FOREIGN PORTFOLIO [1]	**2.8**	**13.7**	**3.7**	**4.1**	**4.7**	**4.7**	**1 661.2**	**23.01.02**
60% of the MSCI Index and 40% JP Morgan Government Bond Index Global (Rands)	1.1	16.4	7.7	4.8	3.0	2.9		
ORBIS GLOBAL EQUITY PORTFOLIO [1]	**9.3**	**12.0**	**12.1**	**2.8**	**-**	**10.4**	**4 510.9**	**18.05.04**
FTSE World Index (Rands)	6.1	13.7	12.9	1.5	-	8.6		
HEDGED DOMESTIC EQUITY PORTFOLIO	**4.0**	**11.5**	**20.1**	**-**	**-**	**10.1**	**932.4**	**01.06.08**
FTSE/JSE CAPI Index	6.0	8.1	21.9	-	-	5.7		

PERFORMANCE AS CALCULATED BY ALLAN GRAY

[1] The fund returns are net of investment management fees
[2] The return for the quarter ending 31 March 2012 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.

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

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

Notes

Notes

ALLAN GRAY

Registration Number 2005/002576/07
Granger Bay Court Beach Road V&A Waterfront Cape Town 8001
P O Box 51318 V&A Waterfront Cape Town 8002 South Africa Tel +27 (0)21 415 2300 Fax +27 (0)21 415 2400
www.allangray.co.za info@allangray.co.za

Client Service Centre 0860 000 654 / +27 (0)21 415 2301
Client Service Email info@allangray.co.za
Client/IFA Service Facsimile 0860 000 655 / +27 (0)21 415 2492
IFA Service Centre 0860 000 653
IFA Service Email ifa@allangray.co.za
Portswood Square Dock Road V&A Waterfront Cape Town 8001

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