QUARTERLY COMMENTARY 2

30 JUNE 2012

ALLAN GRAY

Inside this issue

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Rob Dower

Comments from the Chief Operating Officer

This magazine includes the performance of all of our funds in its last few pages, based on a single lump sum invested at each starting point, as is required by global reporting standards. Fund performance is an important contributor to returns, but equally important is investor behaviour. A track record without clients is meaningless. A great year of performance without clients also earns no performance fees. As a firm, we are both morally and economically dependent on our clients' investment success.

Investors switching between our funds can destroy value by switching out of a fund that is in a performance dip and into one that is at a peak. They can also add value by doing the opposite, although this is less common because it is hard for most people to switch out of a fund that is doing well and into one that is not. **Table 1** shows that over the five years to end June 2012 the average investor in our largest unit trusts has achieved returns broadly in line with those of the funds themselves. But with the Balanced and Stable funds beating their benchmarks by approximately 4% over 10 years, the table also shows that approximately two-thirds of the outperformance of these funds has been lost over 10 years through investors not being invested when the funds did their best work. This is an alarming outcome.

TABLE 1 | Investor returns vs fund returns

Annualised five years ending 30 June 2012			
	Fund return (A)	Average investor return (B)	Difference (B-A)
Allan Gray Equity Fund	7.6%	8.2%	0.6%
Allan Gray Balanced Fund	8.1%	8.5%	0.4%
Allan Gray Stable Fund	8.7%	8.4%	-0.3%

Annualised 10 years ending 30 June 2012			
	Fund return (A)	Average investor return (B)	Difference (B-A)
Allan Gray Equity Fund	19.9%	19.6%	-0.3%
Allan Gray Balanced Fund	17.0%	14.2%	-2.8%
Allan Gray Stable Fund	12.7%	10.3%	-2.4%

Source: Allan Gray Research

The numbers in the column on the right depend on your – and other investors' – behaviour. We try to make it easier for you to make better investment decisions by offering a small and simple range of funds, providing educational material to you (such as this publication), discouraging switching, and by offering client service that builds confidence in us regardless of short-term fund performance.

Of course, if all of our performance came in a straight line it would not make a difference when investors switched into or out of a fund. We cannot deliver performance in a straight line, but we can and do try to reduce the risk of loss in our funds. Buying diverse assets, being careful not to overpay for these and selling investments once they reach our estimate of fair value, all serve to reduce the risk of permanent loss of capital in our funds. This means that our funds generally take less risk to deliver returns similar to their benchmarks.

On top of this, some of our funds are mandated by clients to invest not only in shares, but also in other types of assets. In fact, the majority of our retail and institutional clients ask us to implement our views on asset classes through a multi-asset mandate of some kind, like the Allan Gray Balanced or Stable funds. In these two funds, share investments are assessed against alternative asset classes like cash, bonds and offshore investments. This allows us to look for opportunities to grow your investment when we think shares are generally expensive. These funds are designed to allow you not to have to switch. We encourage you to think carefully about your investment objectives and choose your funds accordingly, and to adopt a long-term approach. This will give you a better chance of achieving returns in line with your fund.

An unpredictable economic environment

Regular readers know that we focus our efforts on researching and evaluating companies, rather than trying to make predictions about the macroeconomic environment. In his article this quarter, Ian Liddle encourages readers to ask themselves if their current investment strategy implicitly relies on the belief that the South African economy is healthy. He uses a selection of graphs from a recent presentation to show some of the factors currently supporting the local economy and questions their sustainability. Some food for thought for investors deciding whether or not to invest offshore.

No shortcuts in investment research

We choose a bottom-up approach because we prefer to work with facts and, while we may be attracted to a particular sector, we assess each company in its own right. Although most industries have a single factor that helps investors to understand them better, it does not always help to figure out what these factors are, as their future state is often unpredictable. There really are no shortcuts in investment research and we assess the merits of each investment opportunity in itself, and relative to the other opportunities the market is offering. Ruan Stander takes a look at some of the factors that define various industries, focusing on British American Tobacco and why we still find it attractive.

Choice and flexibility

With so much uncertainty and complexity in investment research and the investing process, many people prefer to leave it to the professionals. Some investors like to diversify their portfolios and benefit from more than one investment philosophy by investing with more than one investment manager. The Allan Gray Investment Platform makes it easy for you to invest with multiple managers, with consolidated administration. Our platform offers you access to all nine Allan Gray funds in addition to a broad range of third party funds and a simple selection of products. This is not meant to encourage switching. Jeanette Marais discusses some of the key benefits of investing through a fund platform.

Foundation update

In the Allan Gray Orbis Foundation update, Anthony Farr discusses a new move to codify entrepreneurship through development of an 'entrepreneurship method', similar to the development of the scientific method in the 16th century. He notes how, even in its current early stages, the entrepreneurship method provides a powerful lens with which to evaluate and refine the activities undertaken within the Allan Gray Fellowship and Scholarship.

Thank you for your continued support.

Kind regards

Rob Dower

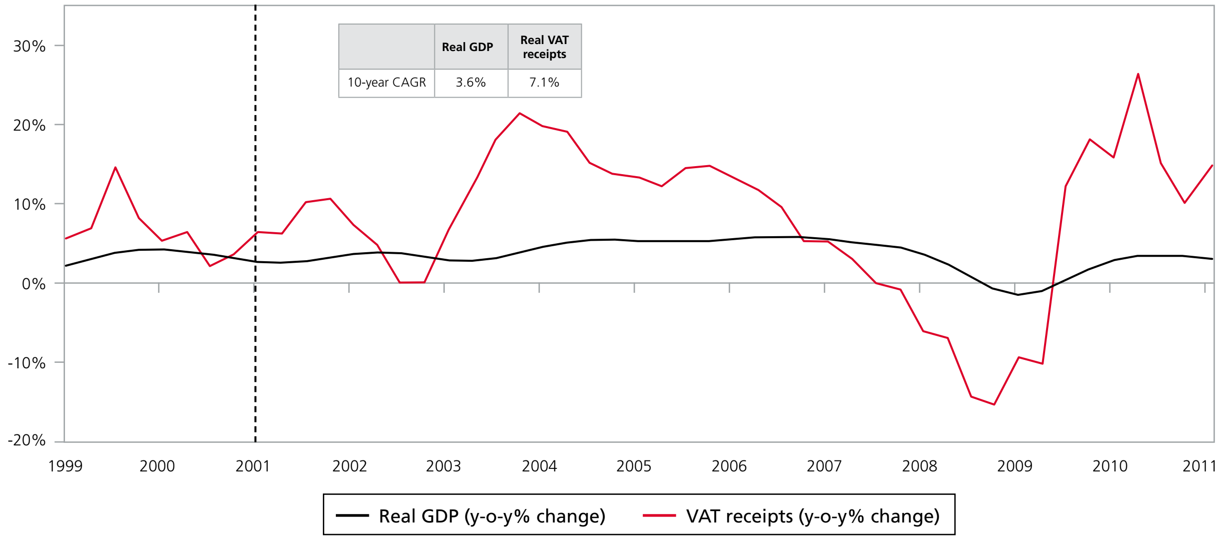
Ian Liddle

How healthy is the South African economy?

EXECUTIVE SUMMARY: At a recent presentation to investors, Ian Liddle encouraged investors to ask themselves whether their current investment strategy implicitly relies on the belief that the South African economy is healthy. He demonstrated that the strong growth in South African consumer spending over the last decade has not been supported by growing production; rather, it has depended on rising commodity prices and investment by foreigners. There is a risk that either or both of these supportive factors may fall away, in which case South African consumer spending and the value of the rand may come under pressure. A selection of slides from Ian's presentation is discussed here. You can see the full presentation on www.allangray.co.za until 31 August 2012 (click on this article, which can be found in the 'Latest news' section).

Note: the graphs that follow represent different time spans. In order to help the reader normalise for this, a black dotted verticle line is drawn on each chart at 31.12.2001, which in most cases, is 10 years before the end point.

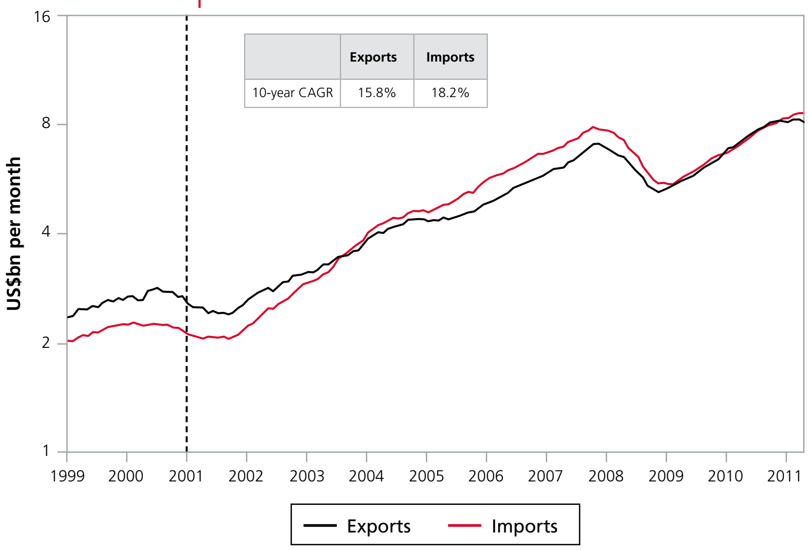
GRAPH 1 | Growth in real VAT receipts and real GDP



Source: I-Net Bridge, data to 31.12.2011, data is smoothed (four-quarter rolling average), 10-year CAGR is to 31.12.2011

Real growth in South African GDP over the last decade has amounted to 3.6% p.a., which is solid but not spectacular. South African consumer spending has grown much faster than the overall economy. A good measure of consumer spending is total VAT receipts, which have grown at almost double the rate of the overall economy over the last decade. The factors driving this growth in consumer spending are well known: wage increases consistently above the inflation rate, growing public sector employment and strong growth in social welfare payments. Growth in bank credit, and more recently in unsecured lending and government borrowing, has added fuel to the fire.

GRAPH 2 | RSA trade balance

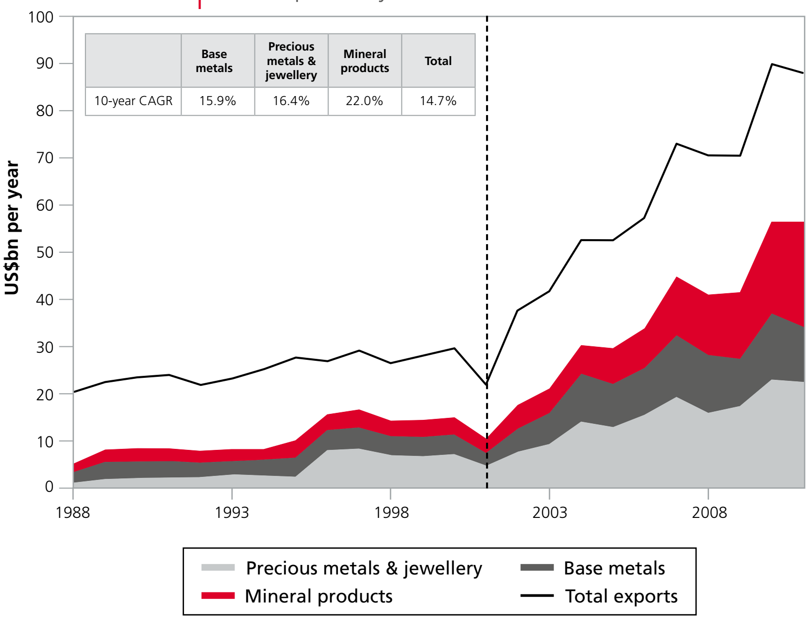


	Exports	Imports
10-year CAGR	15.8%	18.2%

Source: I-Net Bridge, data to 31.03.2012, data is smoothed (12-month rolling average), 10-year CAGR is to 31.12.2011

South Africans buy many things that we do not make for ourselves. The growth in consumer spending has translated into imports into South Africa increasing from approximately US$2 billion per month in 2001 into the current rate of approximately US$8 billion per month. This amounts to a compound annual growth rate of 18.2% p.a. in dollar terms. Fortunately, the value of South African exports has also grown strongly (by 15.8% p.a.) so that the value of imports and exports are roughly matched today.

GRAPH 3 | RSA exports by value

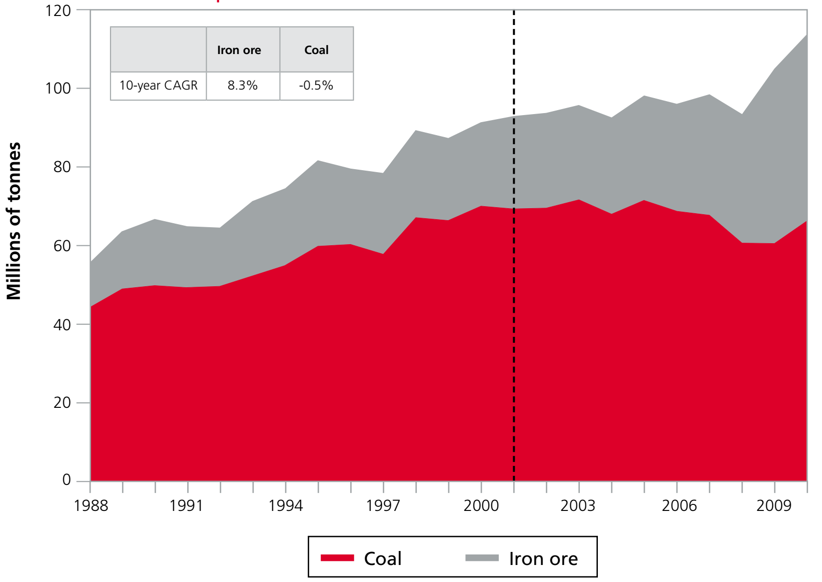


	Base metals	Precious metals & jewellery	Mineral products	Total
10-year CAGR	15.9%	16.4%	22.0%	14.7%

Source: DMR, SARB, data to 31.12.2011, 10-year CAGR is to 31.12.2011

Precious metals, base metals and mineral products together contribute to approximately two-thirds of South African export revenues. Their share of export revenues has expanded over the last decade. Note the long period in which export revenues were stagnant before the boom of the last 10 years.

GRAPH 4 | RSA bulk commodity exports – volume

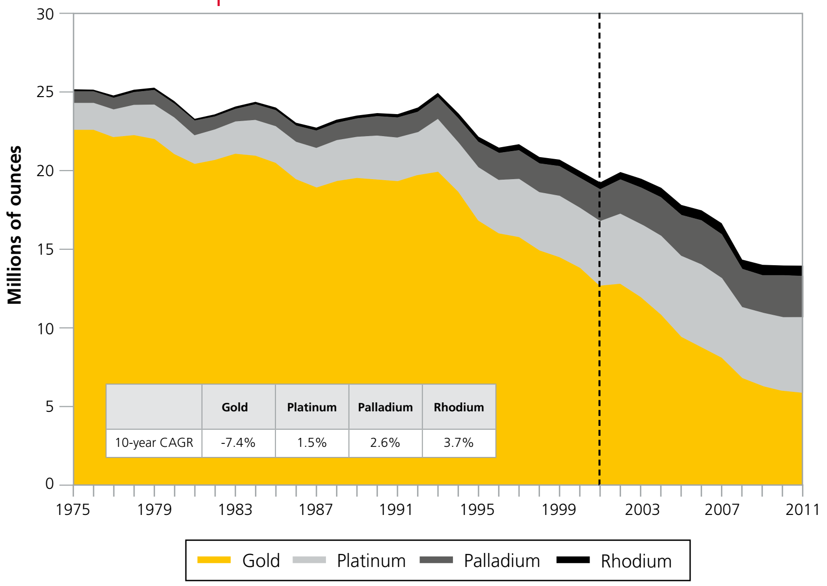


	Iron ore	Coal
10-year CAGR	8.3%	-0.5%

Source: DMR, data to 31.12.2010, 10-year CAGR is to 31.12.2010

Graph 3 showed an economist's view of the world – it looked at the monetary value of our exports. But what would we see if we looked at our exports as an engineer would, in tonnes and ounces? South Africa's two major bulk commodity exports are coal and iron ore. Coal export volumes have been flat over the last decade, as bottlenecks on the railway line to Richards Bay have constrained growth. We have had more success in increasing the capacity on the railway line to Saldanha Bay and iron ore exports have grown by 8.3% p.a.

GRAPH 5 | RSA precious metal production – volume

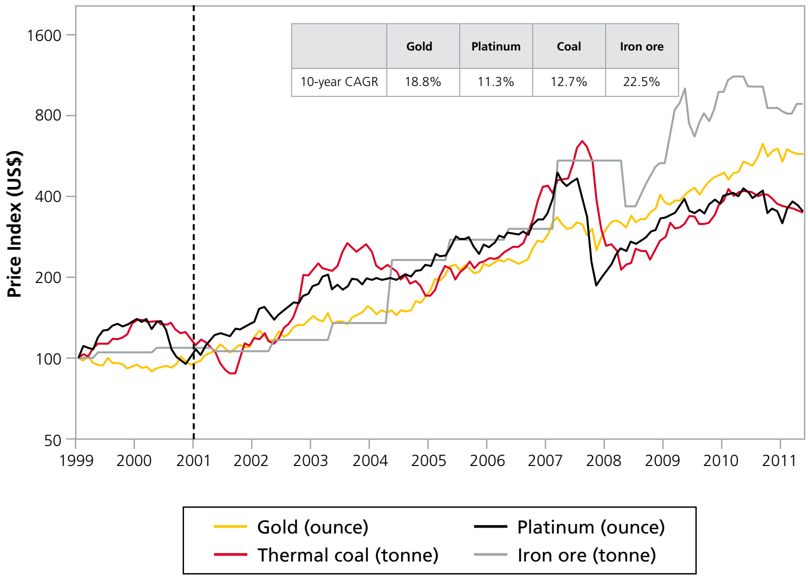


	Gold	Platinum	Palladium	Rhodium
10-year CAGR	-7.4%	1.5%	2.6%	3.7%

Source: Johnson Matthey, data to 31.12.2011, 10-year CAGR is to 31.12.2011

Gold production has halved over the last decade. South Africa is now producing less gold than it did during the First World War. Production of platinum group metals has grown marginally over the last 10 years, but this data does not yet take into account the recent and impending closures of some platinum mines.

GRAPH 6 | Key commodity prices

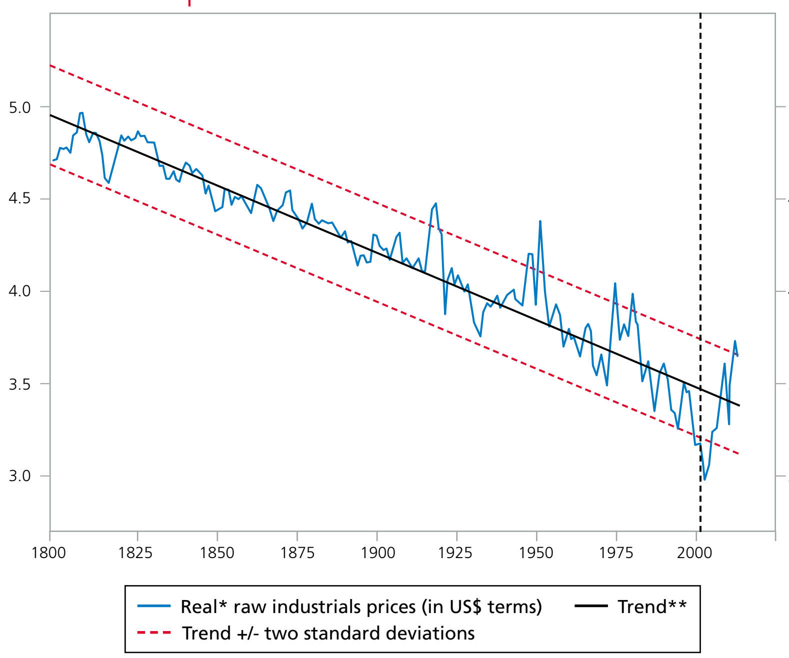


	Gold	Platinum	Coal	Iron ore
10-year CAGR	18.8%	11.3%	12.7%	22.5%

Source: I-Net Bridge, UBS, data to 31.03.2012, 10-year CAGR is to 31.12.2011

So, how does one reconcile the mixed and lacklustre growth in export volumes shown in Graphs 4 and 5 with the strong growth in export revenues shown in Graph 3? The answer, of course, is prices. The dollar prices South Africa receives for its key commodity exports have increased powerfully over the last decade. Platinum and coal prices, the laggards, have roughly tripled since the turn of the century. At their peak, iron ore prices were up eight times from the price at the end of 1999. Rising prices, not rising production volumes, have been the primary driver of our growing export revenues.

GRAPH 7 | Long-term commodity prices

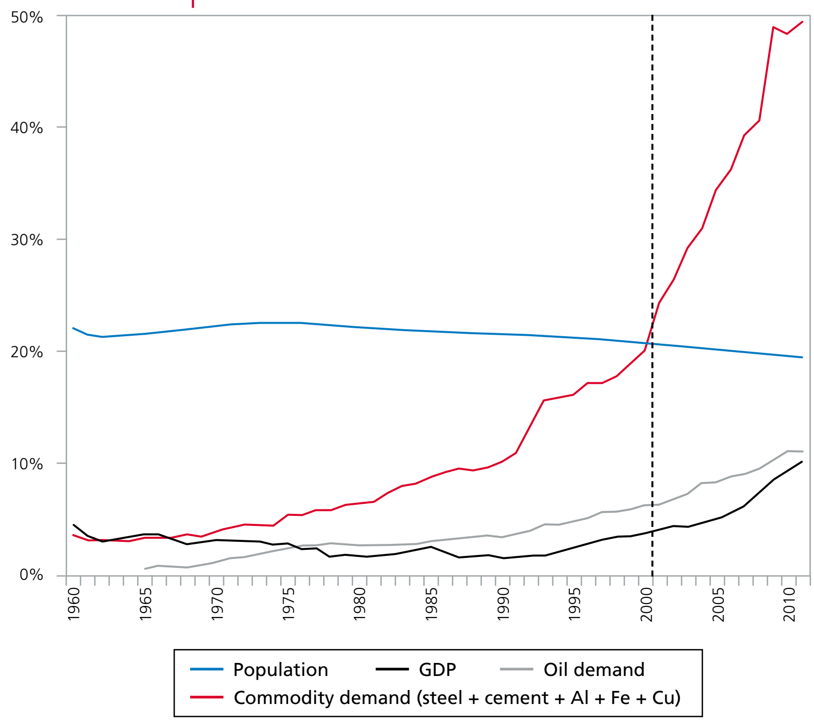


* Adjusted by US GDP Deflator; shown as a natural logarithm
** Time trend from 1800 to 2000

Source: BCA Research

One should view the rise in commodity prices over the last decade in the context of a much longer period of history. The Bank Credit Analyst has compiled an index of commodity prices stretching back to 1800. The boom in commodity prices over the last 10 years has taken their commodity price index from more than two standard deviations below its long-term trend line to more than two standard deviations above its long-term trend-line. Importantly, the long-term trend line is down. This is a testament to human ingenuity. Over the last two centuries, we have constantly found new and more efficient ways to produce and use commodities, and this has driven prices down over time. The new technologies to access America's considerable shale gas reserves are the latest example of this. We believe it would be a mistake to simply extrapolate the strong rise in commodity prices over the last decade far into the future.

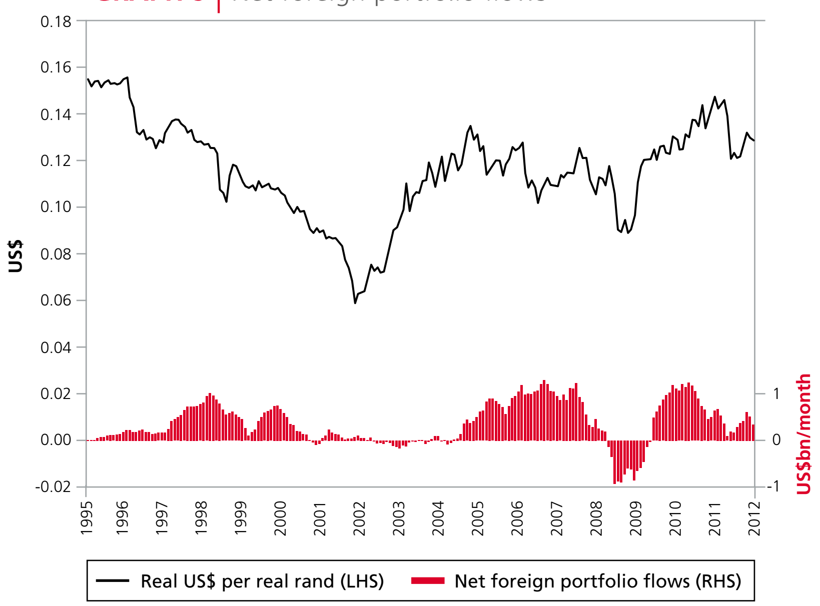
GRAPH 8 | China's share of the world (1960-2011)



Source: Worldbank, BP, UBS, 2011 numbers are estimates

China has had a considerable impact on commodity prices over the last decade. Roughly one in five people on the planet are Chinese. This ratio has been declining slowly. Chinese GDP amounts to a smaller share of global GDP, although it has been growing strongly since the early 1990s. China's share of global oil consumption corroborates the GDP numbers. However, China consumes substantially more than its natural share of the global supply of steel, cement, aluminium, iron ore and copper – between 40 and 50%. China is using these commodities to build roads, railways, airports, dams, bridges, factories, cities, shopping malls, skyscrapers and apartment blocks. The portion of Chinese GDP spent on fixed capital formation is close to 50% – this is unsustainably high. It is hard to see how Chinese demand for these commodities can continue to grow from these levels, and there is some risk that it may even contract.

GRAPH 9 | Net foreign portfolio flows



Source: I-Net Bridge, data to 31.05.2012, smoothed, monthly data (flows)

Graph 2 does not show a complete picture of South Africa's current account, which has generally been in deficit over the last decade. The deficit has been funded by foreign investors buying mainly South African shares and bonds – there has been limited foreign investment into new productive capacity. For most of South Africa's democratic history, foreigners have willingly funded our current account deficit. But they have wavered on two occasions: in the early 2000s the net inflows dried up, and around the time of the global financial crisis in the second half of 2008, the net inflows reversed and became net outflows. On both occasions, the value of the rand came under considerable pressure.

GRAPH 10 | Inflation-adjusted rand/US dollar

	R/US$
10-year CAGR	-3.89%

Source: I-Net Bridge, data to 31.05.2012, 10-year CAGR is to 31.12.2011

When looking at a long-term picture of the rand/US dollar exchange rate, one needs to adjust for the different CPI inflation rates in each currency to see a true picture. For example, an exchange rate of R8.50 to the dollar today is not as competitive as it was in 2001, because rand costs have increased at a much faster rate than dollar costs since then. We believe that there is limited potential for the rand to appreciate over the long term, and substantial potential for it to depreciate. If either dollar commodity prices were to fall or foreign inflows were to dry up (or both), the value of the rand and South African consumer spending could come under considerable pressure. Investors should be mindful of this vulnerability in the South African economy.

Ian is our chief investment officer, with overall responsibility for the investment team and portfolio management. He joined Allan Gray in 2001 after several years as a management consultant.

Ruan Stander

Tobacco economics

EXECUTIVE SUMMARY: Most industries have a single factor that helps investors to understand them better. Unfortunately for investors looking for easy wins, it does not necessarily help to figure out what these factors are, as their future state is often unpredictable. Ruan Stander takes a look at some of the factors that define various industries, focusing on what makes tobacco economics attractive to today's shareholder.

Realising what is important does not make a company's performance predictable

To understand the economic prospects of many manufacturers, for example, requires an understanding of industry capacity and future supply. But this is quite complicated, as there are so many different factors that need to be taken into account when estimating future supply. The lowest cost producer of items can change as low labour cost countries open up and develop. Changing manufacturing technology has the potential to render existing equipment worthless. Counter-intuitively, growth can diminish the advantages of scale since scale economies drop off at some point and a large enough industry makes it easier for new companies to start. So, while it may be simple to identify future supply as the single most important factor in understanding a manufacturer, the outcome is not necessarily predictable.

Financial companies are another good example: understanding downside risk (the impact of a bad outcome) is crucial to building an investment case. But this is also harder than many would think, as we witnessed during the global financial crisis and, for those who were not paying attention, the European crisis is driving the point home. A combination of complex organisations with many layers of management can humble even the companies that say all the right things about downside risk.

Resources companies require an understanding of the cost position of resources in the ground relative to competitors. Geologists set up resource statements that should give investors an idea of the amount of resources recoverable at a reasonable cost. However, industry veterans can point to many companies that misled 'informed' investors about the quality of their resources. On top of this, pricing cycles tend to last longer than investors think and technology can increase supply (and decrease prices) in a short period of time. Who would have thought the Americans would target an energy surplus in 10 years' time?

Fortunately for the tobacco investor, the most important factor is understandable and to an unusual extent predictable.

> "A combination of advertising bans, increased excise taxes and brand-loyal consumers creates a money-making machine that keeps on giving to shareholders and, importantly, governments too."

Pricing power

Tobacco economics is attractive because of the role that a rational government plays in facilitating a larger profit pool. A rational government wants to maximise tax revenue while reducing the health impact of smoking on its citizens. The most effective method of achieving both is to tax tobacco heavily and hope that the high prices will result in less smoking.

A combination of advertising bans, increased excise taxes and brand-loyal consumers creates a money-making machine that keeps on giving to shareholders and, importantly, governments too. Increased excise taxes facilitate higher cigarette prices (other industries require collusion to achieve this), smokers keep on smoking despite higher prices and advertising bans make it very difficult to get brand-loyal smokers to switch to new brands without incurring substantial losses. This allows a tobacco company to earn a low net profit margin of approximately 7% of gross revenue (versus 70% in total taxes collected by tobacco companies on government's behalf) on an inflation-beating retail price of cigarettes.

TABLE 1 Developed world tobacco industry: 1973-2010

	Volume p.a.	Real price p.a.	Real revenue p.a.	Real GDP p.a.	Period
United States	-1.5%	3.4%	1.9%	2.8%	1973-2010
Australia	-1.9%	4.3%	2.3%	3.2%	1973-2010
UK	-1.0%	3.0%	1.3%	2.0%	1988-2010
Average	-1.4%	3.6%	1.8%	2.7%	-

Sources: Australian Bureau of Statistics, US Census Bureau, UK Office of National Statistics

Table 1 illustrates the history that supports this argument by looking at the growth rate of volume, price and revenue of cigarettes in three developed countries.

Some observations from Table 1:

- Volumes declined over time, but
- Tobacco prices increased faster than the country's wealth (GDP)
- The net effect was that the industry revenue pool increased faster than most anticipated

Despite volumes declining by 1.4% per year on average, real industry revenue grew at two-thirds of real GDP (1.8% versus 2.7%). The fact that tobacco companies do not have to invest in new products to increase real prices, or in new capacity to grow volumes, more than makes up for the slightly lower growth. A quick calculation illustrates this best:

Assume you buy a tobacco company and an average company at 15 times earnings (a 6.7% earnings yield) each. You can expect the tobacco company to return 8.5% (1.8% real growth + 6.7% in dividends) in real terms. The average listed company in South Africa pays out half of its profits as dividends and reinvests the balance to fund growth. Therefore, an average company's return will give you only 5.1% (2.7% real growth + 6.7% x 0.5 in dividends).

Table 2 illustrates how the above economics translated into superior returns for shareholders by showing the returns British American Tobacco (BAT) shareholders earned over and above the South African market.

TABLE 2 BAT shareholder returns relative to the market

Look-back period	10 years	20 years	30 years	40 years
Outperformance p.a.	13%	11%	7%	10%

Source: Datastream (SA Total Return Index, BAT Total Return Index in rands)

"...BAT remains an attractive investment for our clients' portfolios."

Plain packaging proposals

Unfortunately, few investment lunches are free and the most recent threat to tobacco shareholders is 'plain packaging'. The idea behind plain packaging is that if it is the brand that gets people to smoke, taking away the last visual image of a brand may help to reduce smoking. This was proposed in Australia and, despite the threat of legal action from tobacco companies, it seems likely that the regulation will be implemented this December. Most attempts to decrease smoking through regulation have succeeded, but they have also indirectly sustained the 'money-making machine' economics described above. One would be foolish to dismiss a new threat simply because of the limited impact of previous changes. Nevertheless, at this stage we expect the potential impact of the Australian changes on BAT's global earnings to be low.

In our view, three things would need to happen for BAT's earnings to be affected significantly by plain packaging regulations:

1. **The regulation needs to be legal**
   Tobacco companies claim that plain packaging steals your brand and are ready to defend this in court.
2. **The regulation needs to be effective**
   No evidence is available that supports the effectiveness of this regulation. On top of this, the regulation might stimulate the counterfeit market that would reduce effectiveness.
3. **Many other countries would need to copy the regulation**
   BAT operates in more than 100 countries. One could argue that political wins are less clear for plain packaging than smoking area bans. The government also needs to weigh up the expected decrease in taxes.

Valuation

BAT is trading on 16 times expected 2012 earnings. This is the same as the market's PE on our estimate of bottom-up normalised earnings. In our view, the history of tobacco economics and the fact that a large portion of BAT's cigarette sales come from countries with low prices more than offsets the regulatory risks and BAT remains an attractive investment for our clients' portfolios.

Ruan joined Allan Gray in 2008. He is a quantitative and equity analyst and is the portfolio manager of our relative risk portfolios (including the Allan Gray Optimal Fund). He has an Honours degree in Financial and Actuarial Mathematics and is a certified GARP Financial Risk Manager.

Jonathan Brodie

Investing: a history of bubbles

EXECUTIVE SUMMARY: ***'Invest in stocks? Forget about it.' – USA Today headline, 8 May 2012.***

As contrarian investors, we cannot help but take notice when one of the most widely read newspapers in the US reports that Main Street has lost interest in the stock market. It brings to mind the infamous 1979 *Business Week* magazine cover that pronounced the 'Death of Equities' after a decade of dismal stock market returns. The consensus view at the time was that inflation hedges were the best place to be. Energy stocks glittered, as did gold and other commodity plays. Jonathan Brodie, from our offshore partner Orbis, examines how this advice panned out as he takes a look at various market gyrations over the last five decades.

Contrary to the forecasts, in the 1980s inflation hedges turned out to be the worst place to put your money. Bonds were the best and equities came back from the dead. But the real excitement was in Japan, which quickly became the next market darling. In the latter half of the decade, the Nikkei 225 Average nearly quadrupled in value and stood at an all-time high of nearly 39 000 by year-end 1989. By then books on Japanese management techniques topped the best-seller lists and became required reading at top business schools. But we all know what happened next. The Nikkei lost half its value by early 1992, and would halve again by 2003 (see **Graph 1**).

By 1999 – two decades after *Business Week's* story – opinion on US stocks had come full circle. Witnessing recent experience, and armed with the apparent certainty that the S&P 500 had never seen a 10-year loss, forecasters now argued that large-cap US stocks were essentially risk-free. The Japanese management books were long gone from coffee tables, replaced by new best-sellers such as *Dow 36 000* and Jeremy Siegel's *Stocks for the Long Run*. The internet was christened 'the next big thing' and Cisco Systems became the most valuable company in the world, priced at over 100 times earnings.

As is well known, the tech bubble subsequently burst, taking the Nasdaq down 70% by 2003. Cisco's shares collapsed 85% from their peak. On the third anniversary of *Dow 36 000* the Dow traded below 8 000, and the S&P 500 would go on to post its first 10-year loss by the end of the decade. In the aftermath of the technology, media and telecommunications (TMT) bubble, the US Federal Reserve moved aggressively to support asset prices. Together with financial engineering and a belief in sure-to-rise housing prices, this liquid courage fuelled a leveraged fiesta in US real estate. The resulting hangover was not pretty: the subprime crisis sent most of the world into recession and a stampede of capital into the 'safety' of global government bonds, which now generally offer negative real yields. The same investors who hated US Treasuries at 13% in the 1980s now happily buy them below a 2% yield. We could be wrong, but we doubt there will be a happy ending.

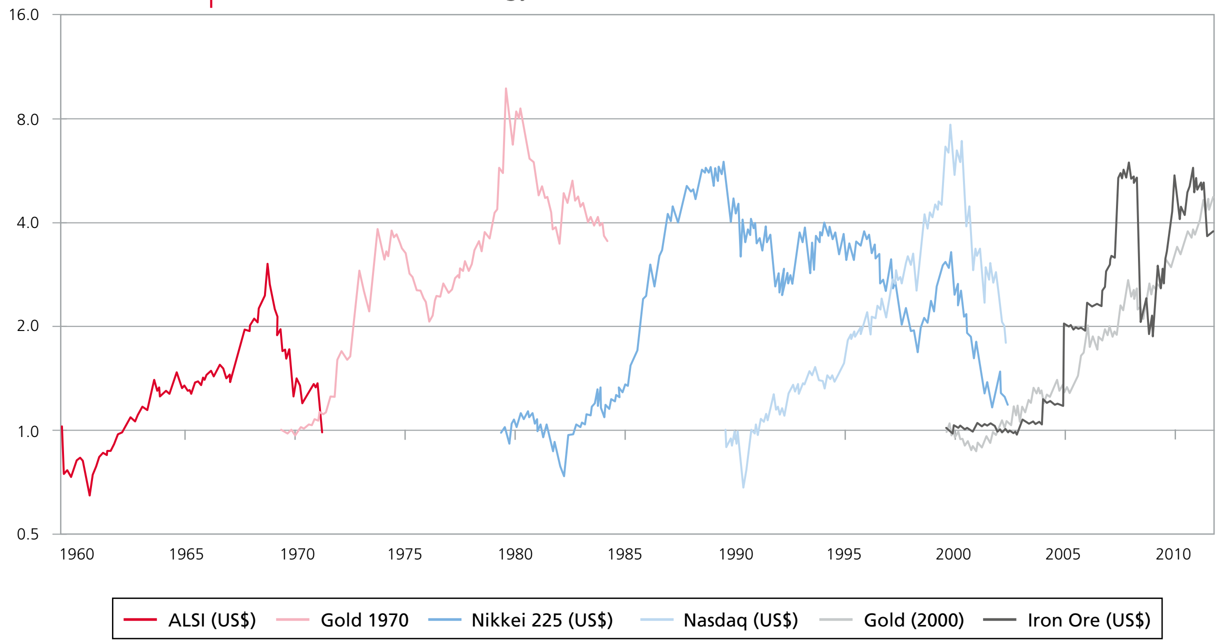
"If there is anything we can say conclusively about the past five decades of market gyrations, it is that drawing long-term conclusions from short-term experiences can be a dangerous proposition."

The South African market in the late 1960s provides yet another sobering example. By 1969 the FTSE/JSE All Share Index (ALSI)had risen by nearly 500% in the decade, prompting the *Financial Mail* to quote a leading broker who declared that 'the market is now in orbit, and the force of gravity no longer applies.' Two years later, the ALSI had lost two-thirds of its value.

In the absence of a crystal ball we stick to our investment philosophy

It is easy to beat up on journalists and market pundits with the benefit of crystal clear hindsight. The history of investing will probably always be a history of bubbles inflating and then deflating badly. Very few succeed at forecasting the next wave of enthusiasm, and the vast majority of investors who try and

GRAPH 1 | Five decades of market gyrations



Source: Orbis Research

fail suffer very significant long-term capital losses. Rather than trying to predict fashions, we focus on picking one stock at a time, with valuation as our guide. This is the essence of contrarian investing: we simply look for opportunities where the stock market allows us to invest at a substantial discount to our estimate of the company's intrinsic value. And we are prepared to wait patiently – and to look foolish, if necessary, while our thesis plays out.

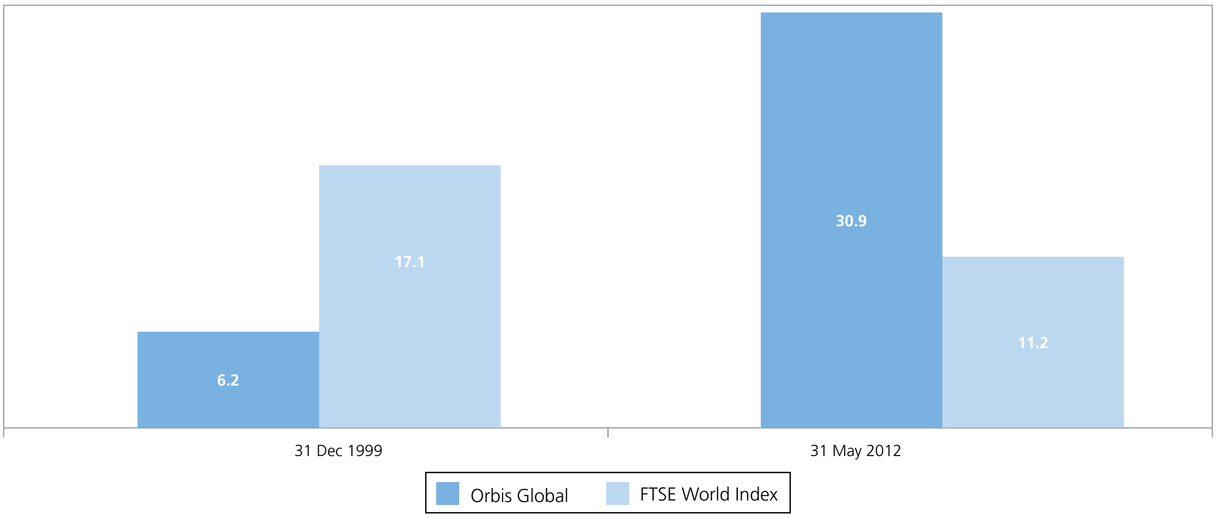
In our experience, some of the best opportunities can be found in shares that are out of favour, neglected or poorly understood. For example, at the peak of the technology bubble in March 2000, the largest holding in Orbis Global was a mobile home manufacturer. Other top 10 holdings in Global made auto parts, golf clubs and jewellery. The Fund owned almost nothing in technology. As shown in **Graph 2** on page 14, the opposite is true today. At more than 30% of the Fund, Global's technology exposure is close to the highest it has been since the Fund's inception. What has changed? In a word: valuation. Today, the S&P Technology Sector Index trades at a discount to the market despite having superior return and balance sheet characteristics. That is not to say, however, that we are making any predictions about the future performance of technology shares as a whole; as was the case when we avoided technology in early 2000, the Fund's large concentration in the sector today is a function of the relative attractiveness of individual companies. We have found that focusing on valuation helps us to avoid areas of over-exuberance, although the clustering of ideas in the portfolio can sometimes have the illusion of a prediction.

Current technology holdings

This can be illustrated by taking a closer look at some of the Fund's current technology holdings. In some cases, such as Google, we are attracted to compelling growth potential at undemanding valuations. In addition to smartphone growth, Google stands to benefit from long-term growth in internet advertising, which still remains in its infancy. The rapid growth in technology adoption in the developing world provides an additional tailwind.

Shares like Micron and Corning, on the other hand, are quite different. These firms operate in highly cyclical markets and the best time to buy is often when sentiment is extremely poor. Micron is currently grappling with a glut of memory chips and abysmal pricing. Yet we believe that it is one of the industry's strongest operators and is best poised to benefit from an

GRAPH 2 Technology exposure then and now



Source: Orbis Research

inevitable turn in the industry cycle, although we cannot predict the timing. Likewise, Corning might be a classic case of short-term pessimism. The company's display glass business has suffered as television manufacturers face weak sales, but Corning commands half of an oligopolistic market for glass, which should help manage price declines rationally. Its other businesses – fibre optics, smartphone glass, and laboratory glass – all offer hearty growth potential. Other technology holdings (e.g. Cisco and Samsung Electronics) have multiple businesses and are exposed to both cyclical and secular forces. The common thread is a compelling valuation.

Only time will tell whether or not our analysis of the opportunities on offer in the tech sector is correct. Similarly, it will be many years before we find out if the recent *USA Today* headline will prove to be as great a contrarian market timing signal as the *Business Week* cover story was in 1979. If there is anything we can say conclusively about the past five decades of market gyrations, it is that drawing long-term conclusions from short-term experiences can be a dangerous proposition. But we do believe that the market has presented us with opportunities to buy shares of many high-quality companies for significantly less than we believe they are worth – a timeless approach that has served us well over many years and in many different market environments.

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.

Jeanette Marais

The Allan Gray Investment Platform: high quality service with simple, transparent fund choice

EXECUTIVE SUMMARY: Objectives for investing change throughout our lives, from buying a car or house, to longer-term goals, such as saving for our children's education and our retirement. When we reach retirement, our goals change again – but this does not mean investing stops; investments need to be carefully selected to protect the real purchasing power of our income. Investment needs and objectives may change over time and subsequently so do fund and product choices. Jeanette Marais discusses how changes in needs should not mean changes in partnerships. Investing via the Allan Gray Investment Platform means you have an investment partner for life.

The Allan Gray Investment Platform offers you access to all nine Allan Gray funds in addition to a broad range of third party funds and a simple selection of products to accommodate your evolving requirements (see **Figure 1** on page 17). Simplicity, choice, flexibility, safety and cost efficiency are the key benefits of investing via our platform.

Diversify your investment with no extra administrative burden

While many investors choose to invest with more than one manager to benefit from more than one investment philosophy and process, others are put off by the increased administrative headache of dealing with more than one fund provider. Investing via our platform (also known in the industry as a linked investment service provider or LISP) simplifies your process and administration significantly, while allowing you to diversify. This is because our platform offers you a range of Allan Gray and third party (i.e. non-Allan Gray) local and offshore funds, with consolidated administration. This means you can invest with multiple fund managers, but have one point of contact for administration, the Allan Gray Client Service Centre, and you will receive only one statement. Simple and convenient.

You also have the option of registering to use our secure online service, which allows you to review the history and performance of your investments and enables you to transact with us securely at your convenience.

> "Investing via the Allan Gray Investment Platform means you have an investment partner for life."

Manageable choice and flexibility

We acknowledge that people are attracted to choice, but that does not mean that having more choice will lead to better decisions, or a better decision-making process. We try to keep the selection on our platform relatively contained – offering 50 funds out of a local universe of around 950. The selection of unit trusts on our platform is driven by independent financial advisers. We regularly survey financial advisers to ascertain demand for both local and offshore funds. We aim to ensure that our range offers adequate choice and remains manageable.

We only offer funds that are registered with the Financial Services Board (FSB) and we require funds to be of a minimum size for liquidity purposes. In addition, we offer more choice where there is more potential for differences in fund performance, i.e. we offer more equity funds than asset allocation/fixed income funds. We therefore ensure that we do not have too much duplication, but rather a spread across the different asset classes.

Investing via our platform gives you flexibility: you can put together an investment portfolio that best suits your needs and easily switch between unit trusts as your needs change. Although switching is easy via the platform, regular switching may have a negative impact on your investment's performance. Even if there is no immediate monetary cost of switching, the longer-term erosion of value may be significant.

Legal safeguards

You may think that making all your investments through one company's platform is like putting all your eggs (hard-earned income and savings, in this case) in one basket and may compromise your money's safety if something goes wrong. However, when you invest via our platform, Allan Gray Investment Services Proprietary Limited, the administrator of the platform, cannot hold your assets directly. These assets are held by Allan Gray Nominees Proprietary Limited. Legislation dictates that trust property, i.e. the assets that the nominee company administers and those that are under the control of unit trust trustees, under no circumstances form part of the assets or funds of the financial institution itself. Because you are invested in a protected fund and not in the company, if anything goes wrong with the investment management company, your money is safe from its creditors.

Although our fund range is relatively small, making fund decisions is complicated

An independent financial adviser can help you to make decisions about which products and funds meet your investment objectives and suit your risk profile. He or she can also help you to manage your emotions and stick to your investment objectives and decisions, when you feel like reacting to short-term news.

We believe that the most important way to distinguish our fund platform from competitors is through the quality of our service and administration, not by offering complex products or an unmanageable fund range. We pride ourselves on our client service. In line with our business principles and philosophy, our platform has been designed to offer you investment solutions that are simple, transparent, and committed to the highest standards of ethics and integrity. We look forward to being your investment partner and assisting you throughout your investment journey.

Cost efficiency

When Allan Gray launched the platform back in 2005, we set new standards in terms of fees and have been working hard to make sure our platform pricing is transparent, fair and competitive. We charge an annual administration fee for ongoing administration, and as our business has grown, we have adjusted the fee structure for your benefit.

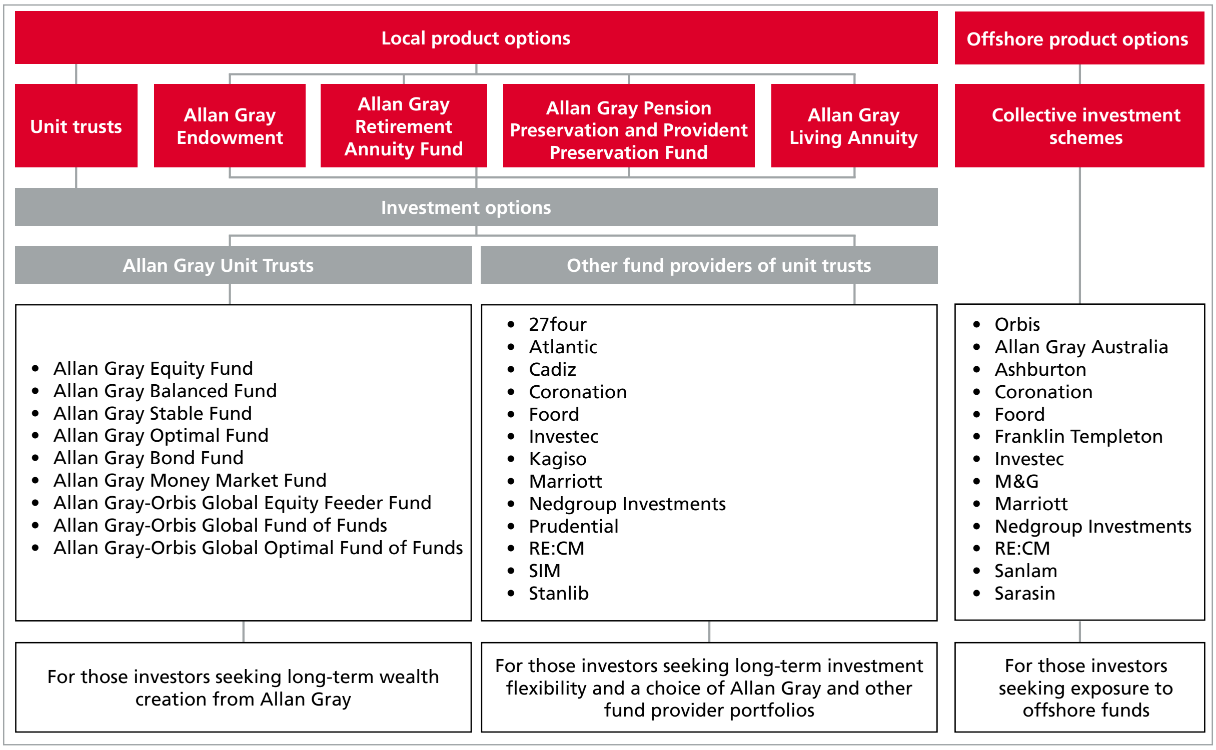
Up until now, our annual administration fee has been set at a flat rate of 0.5%, less any fee discounts received from fund managers – see below. However, as of 1 August 2012, the fee applicable to your investment account will depend on the size of your account. We will calculate the effective annual administration fee (excl. VAT) as follows:

- A maximum annual administration fee of 0.5% on the first R1.5m
- Plus an annual administration fee of 0.2% on the balance of the account market value
- Less any fund manager fee discount passed onto you from the fund managers of your selected unit trusts

The fund manager fee discount is an amount that the fund management company chooses to pay Allan Gray to account for money it saves by having Allan Gray do its administration. The annual administration fee is reduced by the fund manager fee discount we pass on to you. The fund manager fee discount may be larger than the annual administration fee. In such cases you will pay no annual administration fee and can receive additional units into your account.

If you are invested only in Allan Gray unit trusts you will continue to pay no net administration fee.

FIGURE 1 | The Allan Gray Investment Platform: investment options



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

Anthony Farr

Allan Gray Orbis Foundation update

EXECUTIVE SUMMARY: Allan Gray Orbis Foundation is one of many organisations seeking to develop greater entrepreneurial capacity in their beneficiaries to effect change and development in society. Yet while the positive benefits of entrepreneurship are broadly accepted, after 40 years of intensive research there has been no significant progress in unlocking its secrets for broad application. Anthony Farr discusses a new move to codify entrepreneurship through the development of an 'entrepreneurship method', similar to the development of the scientific method in the 16th century. He notes how even in its current early stages, the entrepreneurship method provides a powerful paradigm against which to evaluate and refine the activities undertaken within the Allan Gray Fellowship and Scholarship.

Entrepreneurship is mostly seen as the domain of the gifted, outside the reach of the ordinary man. If we reverse to the 16th century, this so-called 'great man' explanation was exactly the situation in which science found itself. Before the intervention of scientist/philosopher Francis Bacon, scientific progress was circumstantial and largely dependent on the breakthroughs of a select few.

Bacon initiated the process of codifying the actions of scientists, leading to the understanding of empirical evidence and experimentation that became the building blocks of the 'scientific method'. Today, the scientific method is taught as an essential skill; it forms part of the core of all education (not just for science graduates).

> "The impact of codifying entrepreneurship has the potential to be as significant in the field of human endeavour as the scientific method was in the field of nature."

Entrepreneurship as a method

What if similarly the key to unlocking the full potential of entrepreneurship's impact on society is to see entrepreneurship not as a mysterious gift, but as a method that can be understood? By being replicable, entrepreneurship would then be released from the confines of a sub-category of economics and elevated to the level of a social force[1].

The impact of codifying entrepreneurship has the potential to be as significant in the field of human endeavour as the scientific method was in the field of nature. This idea is still at an early stage of exploration, but already the implications are significant. Beyond simply replicating entrepreneurial endeavour, everyone could benefit from the reasoning and problem-solving skills emerging as part of this method. It has potential as a tool to unpack large problems at the centre of progressing humanity.

Even in its current early stages, the 'entrepreneurship method' is providing us with a powerful paradigm against which to evaluate and refine the activities undertaken within the Allan Gray Fellowship and Scholarship.

Allan Gray Centre for Leadership Ethics

Following the launch last year of the Allan Gray Centre for Values Based Leadership at the UCT Graduate School of Business, Rhodes University will soon launch a new academic centre – the Allan Gray Centre for Leadership Ethics. This was made possible by a renewable grant from our founder, Dr Allan Gray.

The Allan Gray Centre for Leadership Ethics will investigate and conceptualise what constitutes ethical and responsible leadership, promote such leadership in diverse contexts and circumstances, and develop education and training initiatives to foster such leadership. The Centre will assist the Foundation with expert input as we continue to explore the ingredients for effectively fostering high-impact leaders and entrepreneurs.

[1] 'Entrepreneurship as Method: Open Questions for an Entrepreneurial Future', Professor Saras D. Sarasvathy and Sankaran Ventakaram.

Allan Gray Orbis Foundation 2012 Scholars Selection Camp, Western Cape.

Allan Gray Fellowship

Now in its seventh year of operation, the Foundation has 227 Allan Gray Fellows across eight campuses in South Africa. This does not include the 98 Allan Gray Fellows who have graduated over the last four years, including 44 graduates at the end of last year. The energy of the recent graduation ceremony for these individuals was captured in the closing words of one of the graduates' speeches: 'Fellows, go out into the world and electrify.'

"Fellows, go out into the world and electrify."

Fellowship selection for placement in 2013 is well underway, and as part of this process, the membership of the Foundation's 100 Circle of Excellence Schools has been updated to align with the schools most consistently producing Allan Gray Fellows. As a result of this we are pleased to welcome 34 new school members (see the listing of these new members on page 20).

Ignitions

As part of the process of developing their entrepreneurial mindset, Allan Gray Fellows are required to engage with a number of different activities known as 'ignitions', which challenge their thinking and drive experiential learning. One such ignition is known as the 'questioning lens'. This helps Fellows to look at every area of life more critically, with a view to practising how to identify inefficiencies and to think of solutions. It aligns with the entrepreneurship method by focusing on their existing context as the starting point before moving forward.

In the first quarter of this year, we have received around 500 of these questioning lens submissions covering a range of different areas including energy, transport, security, the environment and pharmaceuticals. Many of our country's current inefficiencies and frustrations would look very different were we able to implement the innovation contained in these submissions.

Allan Gray Scholarship

In its fifth year of operation, the Foundation has 153 Allan Gray Scholars across 20 leading schools in South Africa. Since our last update, the Foundation's Scholars team has completed its selection for placement in 2013, resulting in 40 additional Allan Gray Scholarships being offered.

As these Scholars continue their journey, we were reminded again where we hope it will lead through the words of Rhodes Vice Chancellor, Dr Saleem Badat, at the 2012 Graduation. He described his vision for the new Allan Gray Centre by commenting on the impact of ethical and responsible leaders: 'They look beyond themselves. They see potential all around them, seek to build new generations of leaders who will be better than them, to provide them with experiences and space to learn lessons, and strive to be role models by living out values associated with ethical and responsible leadership.' With vehicles such as the Centre for Leadership Ethics, and tools such as the entrepreneurial method, we move closer to making this a reality.

To be further inspired by what the Foundation and our Fellows and Scholars are up to, we invite you to watch the clips on our YouTube channel http://www.youtube.com/user/AGOFoundation

New members of the Circle of Excellence Schools

African Leadership Academy	Khanyisa High School	Southdowns College
Alberton High School	McAuley House High School	St Andrew's School for Girls
Alexandra High School	Merensky High School	St Brendan's Catholic Secondary School
Bishop Bavin School	Midrand High School	St Enda's Secondary High School
Calvin College	Mondeor High School	St Mary's Diocesan School for Girls Kloof
Cape Academy of Maths, Science & Technology	Northern Academy Secondary School	St Mary's Diocesan School for Girls Pretoria
Christian Brothers' College Mount Edmund	Northlands Girls' High School	St Matthew's Private School
Dendron Secondary School	Pinelands High School	Stanford Lake College
Grenville High School	Prestige College	The Diocesan School for Girls
Grey College	Queenstown Girls' High School	Wynberg Boys' High School
Hoërskool Pretoria-Wes	Riebeek College Girls' High School	
Islamia College	South Peninsula High School	

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

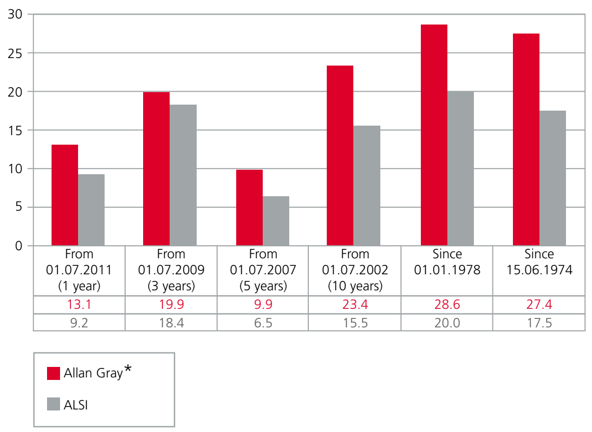
Notes

Investment track record - share returns

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

Period	Allan Gray*	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 30.06)	6.3	7.0	-0.7

Returns annualised to 30.06.2012



* 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.

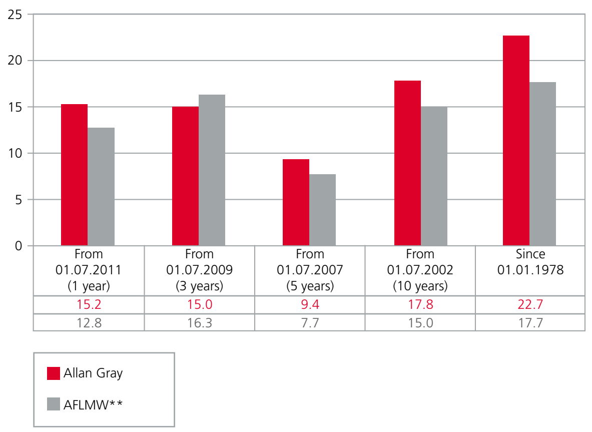
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to **R101 266 996** by 30 June 2012. By comparison, the returns generated by the JSE All Share Index over the same period would have grown a similar investment to **R4 665 089**.

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 30.06)	5.3	6.9	-1.6

Returns annualised to 30.06.2012



** 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 June 2012 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to **R11 609 967** by 30 June 2012. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R2 724 118**.

Allan Gray Balanced and Stable Fund asset allocation as at 30 June 2012

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	**SA**	**Foreign***	**Total**	**SA**	**Foreign***
Net equities	55.3	44.2	11.1	16.9	9.9	7.0
Hedged SA equities	10.5	2.8	7.7	26.9	15.1	11.8
Property	0.6	0.6	0.0	0.4	0.4	0.0
Commodities (new gold)	2.6	2.6	0.0	2.7	2.7	0.0
Bonds	9.7	9.7	0.0	8.4	8.4	0.0
Money market and bank deposits	21.2	14.9	6.3	44.8	38.1	6.7
Total	**100.0**	**74.9**	**25.1**	**100.0**	**74.5**	**25.5**

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 30 June 2012

Security (ranked by sector)	Market value (R million)	% of fund	JSE ALSI weight (%)
Equities	**28 232**	**97.8**	
Resources	**8 279**	**28.7**	**33.3**
Sasol	2 815	9.8	
Anglo American*	1 364	4.7	
Anglogold Ashanti	975	3.4	
Impala Platinum	890	3.1	
BHP Billiton	768	2.7	
Gold Fields	409	1.4	
Harmony Gold Mining	329	1.1	
Positions less than 1%	729	2.5	
Financials	**6 099**	**21.1**	**21.0**
Standard Bank	1 455	5.0	
Sanlam	1 354	4.7	
Reinet Investments	959	3.3	
Old Mutual	616	2.1	
Investec	473	1.6	
MMI	286	1.0	
Positions less than 1%	955	3.3	
Industrials	**13 658**	**47.3**	**45.7**
British American Tobacco	2 789	9.7	
SABMiller	2 420	8.4	
Remgro	2 127	7.4	
Mondi	845	2.9	
Tongaat-Hulett	554	1.9	
Nampak	537	1.9	
Netcare	484	1.7	
Sappi	483	1.7	
Datatec	356	1.2	
Illovo Sugar	346	1.2	
Positions less than 1%	2 718	9.4	
Other securities	**196**	**0.7**	
Money market and call deposits	**629**	**2.2**	
Totals	**28 862**	**100.0**	

* Including positions in Anglo American Plc stub certificates.

Allan Gray Unit Trusts annualised performance in percentage per annum to 30 June 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]	12.4	17.4	7.6	19.9	27.3	28 861.9	01.10.98
FTSE/JSE All Share Index		9.2	18.4	6.5	15.5	18.1		
ALLAN GRAY-ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	[3]	11.7	8.0	1.5	-	9.4	5 354.8	01.04.05
FTSE World Index (Rands)		14.2	13.8	0.9	-	8.3		
Medium net equity exposure (40% - 75%)								
ALLAN GRAY BALANCED FUND (AGBF)	[3]	13.3	13.4	8.1	17.0	19.5	54 680.1	01.10.99
Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)		10.3	13.2	6.3	13.5	13.6		
ALLAN GRAY-ORBIS GLOBAL FUND OF FUNDS (AGGF)	[3]	16.3	3.6	4.5	-	7.1	6 674.0	03.02.04
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		19.2	11.9	5.5	-	7.6		
Low net equity exposure (20% - 40%)								
ALLAN GRAY STABLE FUND (AGSF) - (NET OF TAX)	[3]	11.8	7.8	7.8	11.6	12.5	29 036.7	01.07.00
Call deposits plus two percentage points (Net of tax)		5.0	5.4	6.8	7.1	7.3		
ALLAN GRAY STABLE FUND (AGSF) - (GROSS OF TAX)	[3]	12.3	8.5	8.7	12.7	13.7	29 036.7	01.07.00
Call deposits plus two percentage points (Gross of tax)		6.7	7.3	9.3	9.6	9.9		
Very low net equity exposure (0% - 20%)								
ALLAN GRAY OPTIMAL FUND (AGOF)	[3]	4.8	4.6	6.8	-	8.4	1 307.5	01.10.02
Daily call rate of FirstRand Bank Ltd		4.6	5.2	7.1	-	7.3		
ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS (AGOO)	[3]	15.9	-	-	-	2.5	709.3	02.03.10
Average of US$ Bank Deposits and Euro Bank deposits		14.2	-	-	-	2.2		
No equity exposure								
ALLAN GRAY BOND FUND (AGBD)	[3]	12.7	11.4	10.5	-	9.9	616.4	01.10.04
BEASSA All Bond Index (total return)		14.6	11.9	10.2	-	9.7		
ALLAN GRAY MONEY MARKET FUND (AGMF)	[3]	5.6	6.5	8.4	8.6	8.8	8 235.3	03.07.01
Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index [9]		5.6	6.3	8.2	8.6	8.7		

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	0.74%	0.46%	0.13%	0.31%	0.29%	0.00%	0.00%	0.24%	0.00%
Fee at benchmark	1.71%	1.49%	1.16%	1.23%	1.15%	1.14%	0.99%	0.29%	0.29%
Total fees*	2.45%	1.95%	1.29%	1.54%	1.44%	1.14%	0.99%	0.53%	0.29%
Trading costs	0.10%	0.12%	0.08%	0.14%	0.06%	0.17%	0.16%	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)	2.56%	2.12%	1.39%	1.75%	1.52%	1.32%	1.21%	0.56%	0.30%
Annualised fee* rate for latest quarter	2.59%	1.80%	1.29%	1.40%	1.59%	1.14%	0.98%	0.29%	0.29%

** Including underlying Orbis Fund fees.*

A Total Expense Ratio (TER) of a portfolio is a measure of the portfolio's assets that were relinquished as a payment of services rendered in the management of the portfolio. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to 31 March 2012. Included in the TER is the proportion of costs incurred by the performance component, fee at benchmark and other expenses. These are disclosed separately as percentages of the net asset value. Trading costs (including brokerage, VAT, STT, STRATE, levy and insider trading levy) are included in the TER. A high TER will not necessarily imply a poor return nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.

Orbis Funds annualised performance in percentage per annum to 30 June 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)	-3.1	10.8	8.2	1.4	5.9	17.4	01.01.90
FTSE World Index (Rands)	0.9	13.7	13.5	0.8	3.9	11.6	
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	2.2	23.5	6.3	3.6	3.9	13.0	01.01.98
Tokyo Stock Price Index (Rands)	-0.5	13.5	4.1	-2.9	0.4	5.5	
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	0.0	11.9	12.5	6.6	-	13.6	01.01.06
MSCI Asia Ex-Japan (Rands)	-0.7	4.4	12.1	3.5	-	11.8	
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS)	3.3	18.9	1.0	4.8	-	8.9	01.01.05
US$ Bank Deposits (Rands)	6.5	20.8	2.2	4.4	-	7.6	
ORBIS OPTIMAL SA FUND-EURO CLASS (RANDS)	-0.6	6.1	-1.8	3.7	-	7.5	01.01.05
Euro Bank Deposits (Rands)	1.8	6.4	-0.7	3.6	-	6.4	

Segregated and life pooled portfolios annualised performance in percentage per annum to 30 June 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	**1.8**	**15.2**	**15.0**	**9.4**	**17.8**	**22.7**	**35 991.4**	**01.01.78**
Mean of Alexander Forbes Global Large Manager Watch [2,4]	1.6	12.8	16.3	7.7	15.0	17.7		
DOMESTIC BALANCED COMPOSITE	**2.4**	**13.7**	**16.9**	**10.2**	**20.4**	**23.3**	**21 098.4**	**01.01.78**
Mean of Alexander Forbes Domestic Manager Watch [2,7]	2.0	12.8	17.7	9.2	17.3	18.2		
DOMESTIC EQUITY COMPOSITE	**1.6**	**13.6**	**19.3**	**9.8**	**23.0**	**21.8**	**51 460.1**	**01.01.90**
FTSE/JSE All Share Index	1.0	9.2	18.4	6.5	15.5	14.7		
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN COMPOSITE	**1.9**	**15.2**	**12.8**	**9.3**	**17.3**	**19.4**	**6 731.6**	**01.01.94**
Mean of Alexander Forbes Namibia Average Manager [2]	1.5	11.7	15.0	8.2	15.0	14.3		
RELATIVE DOMESTIC COMPOSITE	**1.1**	**10.5**	**18.2**	**8.0**	**18.7**	**20.8**	**10 014.0**	**19.04.00**
Weighted average of client specific benchmarks [2]	1.3	11.1	19.0	7.0	16.2	16.0		
FOREIGN BEST VIEW (RANDS) COMPOSITE [8]	**0.6**	**15.6**	**3.3**	**4.0**	**5.1**	**13.2**	**6 739.0**	**23.05.96**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	3.8	18.5	11.7	5.4	4.5	10.3		
LIFE POOLED PORTFOLIOS								
GLOBAL BALANCED PORTFOLIO	**1.8**	**15.3**	**15.3**	**9.5**	**18.0**	**20.0**	**20 454.5**	**01.09.00**
Mean of Alexander Forbes Global Large Manager Watch [2,7]	1.6	12.8	16.3	7.7	15.0	14.8		
DOMESTIC BALANCED PORTFOLIO	**2.4**	**14.4**	**17.4**	**10.4**	**20.7**	**20.7**	**6 613.2**	**01.09.01**
Mean of Alexander Forbes Domestic Manager Watch [2,7]	2.0	12.8	17.7	9.2	17.3	17.0		
DOMESTIC EQUITY PORTFOLIO	**1.4**	**13.4**	**19.4**	**9.7**	**23.0**	**23.8**	**7 108.4**	**01.02.01**
FTSE/JSE All Share Index	1.0	9.2	18.4	6.5	15.5	15.5		
DOMESTIC ABSOLUTE PORTFOLIO	**2.3**	**10.9**	**14.1**	**12.4**	**21.6**	**22.9**	**872.7**	**06.07.01**
Mean of Alexander Forbes Domestic Manager Watch [7]	2.0	12.8	17.7	9.2	17.3	16.6		
DOMESTIC STABLE PORTFOLIO	**1.8**	**9.1**	**10.6**	**10.2**	**15.1**	**15.3**	**1 802.3**	**01.12.01**
Alexander Forbes Three-Month Deposit Index plus 2%	1.8	7.6	8.3	10.1	10.7	10.8		
DOMESTIC OPTIMAL PORTFOLIO [1]	**1.6**	**5.6**	**5.7**	**7.8**	**-**	**8.8**	**378.4**	**04.12.02**
Daily Call Rate of Nedcor Bank Limited	1.2	4.8	5.4	7.4	-	7.5		
GLOBAL ABSOLUTE PORTFOLIO	**1.5**	**13.4**	**12.6**	**11.7**	**-**	**18.5**	**2 752.0**	**01.03.04**
Mean of Alexander Forbes Global Large Manager Watch [2,7]	1.6	12.8	16.3	7.7	-	16.2		
DOMESTIC STABLE MEDICAL SCHEME PORTFOLIO	**1.8**	**9.3**	**10.6**	**10.2**	**-**	**13.9**	**1 574.2**	**01.05.04**
Consumer Price Index plus 3% p.a. [2]	1.3	8.5	8.0	9.8	-	9.1		
GLOBAL STABLE PORTFOLIO	**2.0**	**13.1**	**9.5**	**9.7**	**-**	**13.9**	**3 201.3**	**15.07.04**
Alexander Forbes Three-Month Deposit Index plus 2%	1.8	7.6	8.3	10.1	-	10.0		
RELATIVE DOMESTIC EQUITY PORTFOLIO	**0.6**	**8.3**	**17.3**	**8.0**	**-**	**22.8**	**386.0**	**05.05.03**
FTSE/ JSE CAPI Index	1.0	9.7	18.6	7.3	-	21.5		
MONEY MARKET PORTFOLIO [1]	**1.4**	**5.8**	**6.8**	**8.6**	**8.9**	**9.2**	**527.2**	**21.09.00**
Alexander Forbes Three-Month Deposit Index	1.3	5.5	6.1	8.0	8.5	8.8		
FOREIGN PORTFOLIO [1]	**0.7**	**15.2**	**3.1**	**4.0**	**5.0**	**4.6**	**1 577.8**	**23.01.02**
60% of the MSCI Index and 40% JP Morgan Government Bond Index Global (Rands)	3.8	18.5	11.7	5.4	4.5	3.2		
ORBIS GLOBAL EQUITY PORTFOLIO [1]	**-3.0**	**10.6**	**8.1**	**1.6**	**-**	**9.6**	**4 394.8**	**18.05.04**
FTSE World Index (Rands)	0.9	13.7	13.5	0.8	-	8.4		
HEDGED DOMESTIC EQUITY PORTFOLIO	**1.4**	**13.2**	**18.7**	**-**	**-**	**9.9**	**938.3**	**01.06.08**
FTSE/JSE CAPI Index	1.0	9.7	18.6	-	-	5.6		

PERFORMANCE AS CALCULATED BY ALLAN GRAY

1 The fund returns are net of investment management fees
2 The return for the quarter ending 30 June 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.

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