Changing of the guard

New chief operating officer designate

Remgro: the cigarettes are out but the spark is very much alight

Digital makeover for Allan Gray

Q1

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QUARTERLY
COMMENTARY

ALLANGRAY

INSIDE THIS ISSUE

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Greg Fury

COMMENTS FROM THE CHIEF OPERATING OFFICER

The financial world - and South Africa is no exception - looks very different today from what it did a year ago, when the FTSE/JSE All Share Index (ALSI) peaked at over 33 000 in May 2008. As I write this, the ALSI is at around 21 000 points. Our clients know that our instinct is to worry when things are going well and to be positive when things are going badly; in the words of Warren Buffet, "Be fearful when others are greedy and greedy when others are fearful". So you would expect us to have been somewhat nervous this time last year, as we were, but probably also expect us to be much more optimistic now. Certainly, we are more optimistic about the prospect of returns from this point forward than we were last year but we could not be described as being too 'greedy'.

There is a good reason for this. As Duncan Artus discusses in his article, lower share prices mean better value and we have steadily increased the weighting to equities in our asset allocation funds. Based on our forecasts, more shares are likely to outperform cash (in rands) on the four-year view we always take when buying shares.

However, we do retain the view that we have held for some time, which is that company earnings, particularly in cyclical businesses, are unsustainably high. We remain concerned about earnings, in part because, despite reported earnings starting to fall, the real global economy is in much worse shape than we predicted. This view has influenced our share selection over the past year or two as we have concentrated our investments in high quality 'defensive' companies whose earnings are more sustainable. So our portfolios have not changed much despite the radical change in the investing environment – you could say we were 'early arrivals at the bear party'. This approach has worked for us as prices have fallen to a closer approximation of fair value.

One of these high-quality, defensive companies is Remgro, and Simon Raubenheimer explains why we consider Remgro to be a high quality business and continue to find an investment in Remgro shares to be attractive.

Performance

We do not want to get too carried away about returns (in either direction), particularly over the short term, and we would certainly classify one-year returns as being short term, but the outperformance of our core portfolios over both the past year and over the longer term have been pleasing – although the absolute returns of our equity funds in particular over the past year are much less pleasing. As usual, comprehensive performance reports on all our funds appear at the back of this QC.

Some things change, some stay the same

What our portfolios are able to deliver over the long term is only a part of what contributes to the results that our clients enjoy: what you do is at least of equal importance. Sandy McGregor has previously discussed with us how a long-term perspective helps avoid surprises. He points to the constancy of human nature and has written about how people repeat mistakes and do not learn from past experiences. Johan de Lange looks more closely at this theme. He shows how, in good times, investors' risk tolerance increases and during bad times it decreases. This is intuitive, but wrong, as history has shown, and does not bode well for achieving good long-term returns.

Changing of the guard

As most of you may be aware, I am leaving Allan Gray in July after nearly six years to pursue other opportunities and this will be my last QC. While I look forward to my next adventure, I am very sad to be leaving.

Many of you are familiar with my colleague Rob Dower, who will assume the role of chief operating officer of Allan Gray in July. Rob joined the firm in 2003 after several years with McKinsey & Co. in London following an MBA at INSEAD. Before that he worked for Unilever, having qualified as an

engineer at UCT. In his time at the firm Rob, has fulfilled a number of roles, most recently as joint head of the firm's retail division, with specific responsibility for operations, technology and finance. Rob has great leadership qualities, technical skills and experience and has already made a substantial contribution to the range and quality of service we have been able to offer clients. He is also a complete believer in our values and culture. In good and bad times, his key objective is to ensure that Allan Gray continues to deliver what our clients expect. This means we will continue to work hard to preserve your wealth in real terms and identify the best opportunities for long-term capital growth.

Rob is in the process of handing over his current responsibilities to a new appointee, Rob Formby. Rob has a similar background to Rob Dower and is also an engineer by training, has an MBA from INSEAD and spent several years at McKinsey & Co. More recently, he headed a large services company within the Mvelaphanda Group and so has a good mix of strategic and operational experience in both consulting and line management roles.

Despite the pleasing performance of our funds both more recently and over the long term, we continue to focus on process rather than outcome. I recently read a report of athletes who were asked what went through their minds just before competing in the Beijing Olympics and that their consistent response was a focus on process not outcome. It is easy for philosophy and process to break down under the strain of bear markets or client pressures, but I assure you of our continued commitment to the disciplined application of our investment philosophy and process. I also encourage you to help us by understanding our own objectives, choosing your investments based upon realistic expectations and resisting the urge to 'chop and change' in response to inevitable short-term market movements.

I wish you all the best.

Greg Fury

Duncan Artus

SOMETIMES THE HARDEST THING TO DO IS NOTHING

EXECUTIVE SUMMARY: We believe that the investment environment will continue to be characterised by downward pressure on earnings and high volatility. For this reason the makeup of the equities in our funds has not changed too much over the last year. However, writes Duncan Artus, we have steadily increased the weighting to equities in our asset allocation funds, as more shares are showing, based on our forecasts, the ability to outperform rand cash on a four-year view.

The makeup of the equities in our funds has not changed too much over the last year which has surprised some. Sometimes doing nothing is the hardest thing to do when managing money. However, we did make two big decisions over the past year: closing the hedge in the asset allocation funds and maintaining our large individual equity positions.

Learning from mistakes

While we hate to lose even one rand of our clients' savings to a permanent (as opposed to a temporary paper) loss of value in an asset, we are aware that we will make mistakes – in truth, more often than our clients expect from us. That is the nature of investing with imperfect information and imperfect foresight. The recent investment environment has been particularly conducive to mistakes. We hope to limit the number we make to best preserve and grow your savings. We can increase the probability of achieving this by learning from the mistakes of investors in times past and, of course, those of the Allan Gray/Orbis group.

Sometimes things are different or have not happened for many decades

One thing that has intrigued us for some time now is the performance of financial stocks in the US over the recent past (2007 – now) as compared with that during 1989 – 1991. We are interested because many prominent value managers, with long successful track records, held significant exposure to financial shares going into the 2007 collapse.

To understand this, we have to look back to 1989. US financials, after almost halving from their October 1989 peak, bottomed a year later and then outperformed significantly. At the time, the environment was eerily similar to 2007 – Citigroup had just cut its dividend, Donald Trump had large leveraged property exposure, and the US economy was in recession. Yet the contrarian call to buy financials, despite all the bad news of the time, was a career-making one in hindsight. Citigroup's share price quadrupled in the following two years.

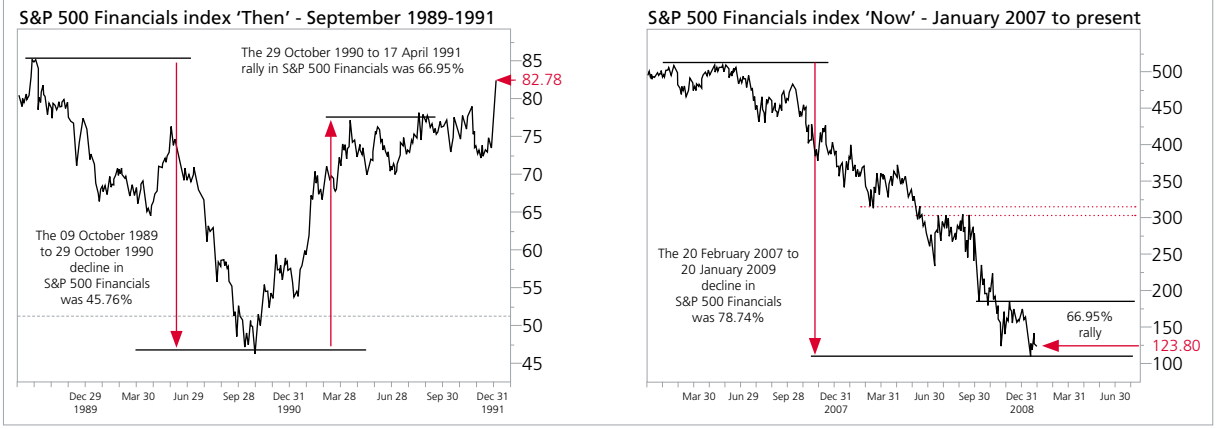
We can try to imagine what was going through the very same investors' minds when US financial shares started to collapse in February 2007 – "I have seen this before! The market had priced in an Armageddon scenario for financials in 1989/90 and it was wrong. Time to buy financials." The performance of the financial index in the two periods is shown in **Graph 1** (on page 04). Only this time financials, after halving, continued to fall – in some cases spectacularly so. This time it was not a normal credit cycle. It was different. What can we learn from this?

While history tends to repeat itself in financial markets (they have always been subject to the emotions and herding instinct of humans just as they are today), occasionally one has to go back a lot further in history to understand present extreme events – which these will be remembered as. It is important to question continuously assumed historical financial relationships and whether they will hold true currently. While this is often a dangerous thing to say, we are of the opinion some relationships are and will be different this time in the local equity market.

Our funds are not invested in the same companies as during the period after the currency weakness (2002 – 2004)

Within domestic equities, we continue to be underweight in businesses benefiting from the high local profit pool.

GRAPH 1 That was then, this is now



Source: Banc of America Securities - Merrill Lynch Market Analysis, Bloomberg

Earnings for many domestically focused businesses remain high by historical standards, despite the bad economic news. We believe that, in many cases, the bad news has yet to be reflected adequately in their ratings. Investors (including ourselves) often take a long time to factor in fully the possible extent of downward revisions in future earnings forecasts. Over the recent past we have been spending most of our time evaluating potential downside to earnings. The really tough part, of course, is that profits are inherently interlinked across industries, and the downward pressure can spread quickly to businesses that have held up so far. Our apparent error in some cases in this bear market has been to underestimate the extent to which what appeared to be low earnings (in admittedly lower-than-average quality businesses) have fallen further, such as in the paper and transportation stocks.

"We believe that our chosen equities will outperform rand cash on a four-year view, …."

In our view, the key difference between the current investment environment and that of post 2002 is that collapsing commodity prices were a major cause of the rand's devaluation in 2007. This was not the case in 2002. The collapse in commodity prices is likely to have a significant effect on the local economy at a time when non-commodity profit margins remain high. In 2002 margins were near all-time lows as was capacity utilisation, which is shown in **Graph 2**. The new capacity investment by many businesses over the last year or so in response to the economic expansion is about to come on line in a much tougher sales environment. This is a recipe for margin contraction.

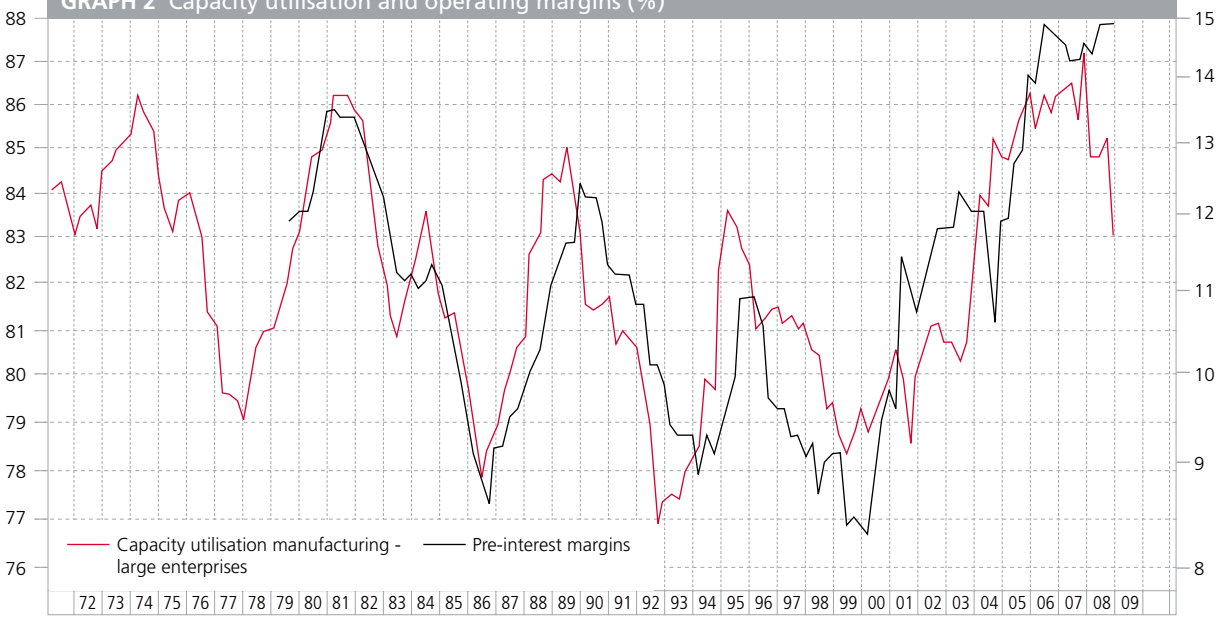
We may not be able to fund our infrastructure spend which is seen as the great saviour of domestic profits

A further consideration when constructing a portfolio for these times is the probability that South Africa may be 'crowded out' as a destination for capital at a time when we are short of it. Why do we think this is a risk? South Africa is undertaking a well-publicised (and much-needed) infrastructure investment programme that needs to be funded at a time when we have:

- A large current account deficit (coming out of an environment of high commodity prices)
- Personal savings remaining negative
- High corporate profits which are declining

This potential funding 'gap' has arrived at a time of almost unprecedented global bond issuance in the developed world (gross issuance for 2009 could be greater than US$4 trillion), outflows from emerging markets and ever more equity issues by large global companies to shore up their balance sheets. Unfortunately, all of this may impede our government's ability to fill the financing gap. The corresponding adjustment may well be a (much) weaker currency or higher long-term interest rates, which will make our asset prices more attractive to foreign capital. This is not certain, but quite probable.

GRAPH 2 Capacity utilisation and operating margins (%)



Source: I-Net Bridge and Allan Gray research

Putting it all together in a portfolio that we believe will best protect and hopefully grow value in real terms, we have increased steadily the weighting to equities in our asset allocation funds. This is despite some of our more macro concerns and is driven by our work on individual companies highlighting that an ever-increasing number of shares which we do not own currently are offering potential four-year total returns above that currently offered by rand cash. Clearly, we hope our shares will do better.

Of course, the potential return depends on our forecast of future earnings which, as discussed above, we see as the variable we are most likely to get wrong. The potential for big downside surprises remains far higher than normal, in our view. The consequences of the de-leveraging of corporate and consumer balance sheets as earnings come off a high base is difficult to model with high conviction. We have attempted to take the prospect of significant downside surprises (Anglo is missing a final dividend for the first time in 70 years) into account when selecting the blend of equities for inclusion in our funds.

We believe that our chosen equities will outperform rand cash on a four-year view, but we continue to caution that the margin of outperformance will be smaller and more volatile than during the 2003 – 2007 bull market. In addition, the shares that make up a significant portion of the current portfolio are different from those the funds owned in 2002/2003. This time has been different.

Simon Raubenheimer

REMGRO: THE CIGARETTES ARE OUT BUT THE SPARK IS VERY MUCH ALIGHT

EXECUTIVE SUMMARY: Although investment holding company Remgro is much smaller since it unbundled its interests in British American Tobacco (BAT) in October 2008, we believe it still has a superior ability to generate cash over the long term. In our view, its broad portfolio of high quality, South African financial and industrial companies remains attractive relative to the market.

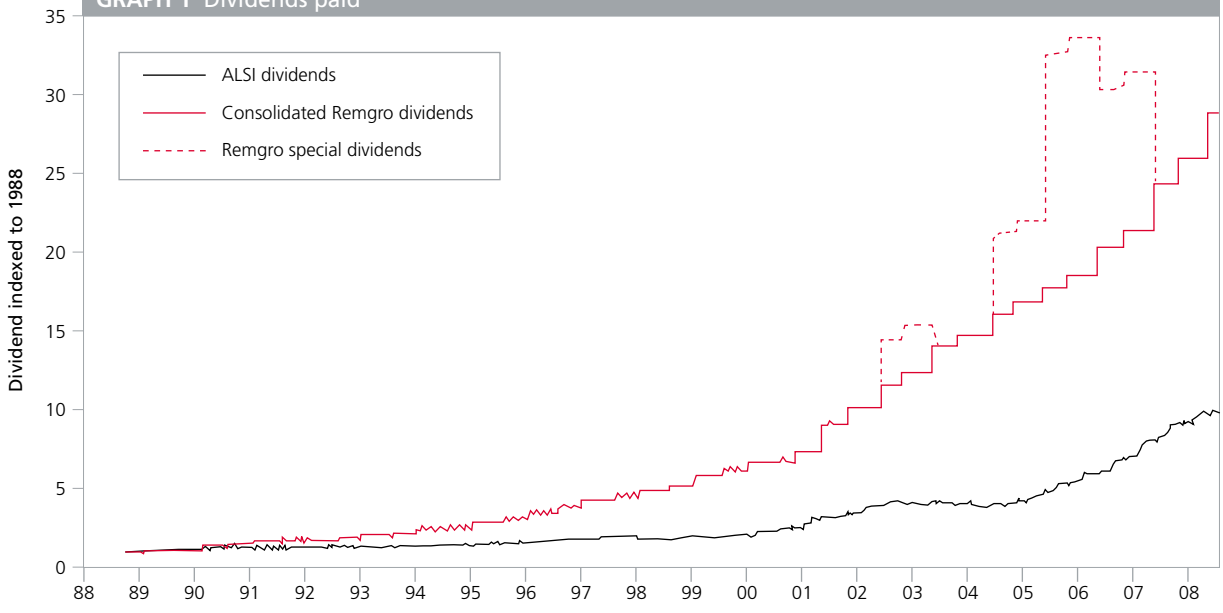
Remgro's strategy of investing in businesses that can deliver superior growth in cash earnings and dividends over the long term has paid off for shareholders in the past, and we believe this should continue. The company is only a third of its previous size since it unbundled its interests in British American Tobacco (BAT) in October 2008. We believe that, as a smaller entity, the scope for management to add value through capital allocation decisions – its ability validated by its long-term track record – is enhanced.

An exemplary track record of creating value

Since 1988, the date at which the old Rembrandt Group was split into Remgro and Richemont, Remgro's dividends have grown by 18% per year versus 12% per year for the market. R1 of dividends per unit of the FTSE/JSE All Share Index (ALSI) in 1988 would have grown to R9.90 today, whereas R1 of dividends per Remgro share would have grown to R29 over the same period.

Superior cash generation is one element of Remgro's track record of value creation over the longer term. Where an investment in the ALSI would have generated a total return of 18.9% per annum in the 34 years between the start of 1975 and the end of 2008, an investment in the Rembrandt Group, from which Remgro, Richemont and Venfin emanated, would have generated a total return of 28.8% per annum. R100 invested in the ALSI in January 1975 would have grown to R36 000 by the end of 2008, whereas R100 invested in the Rembrandt Group would have grown to R541 000 over

GRAPH 1 Dividends paid



Source: Allan Gray research

the same period, a 15-fold increase on the market's returns. Incidentally, the returns on an investment in the Rembrandt Group marginally exceeded the 28.5% annualised return an Allan Gray client would have enjoyed in an equity mandate over the same time period.

Historically, the bulk of Remgro's value was comprised of its investments in the tobacco industry through its 10.6% share in BAT. In October 2008, Remgro's tobacco interests were separated from the company's other interests and unbundled to shareholders, which resulted in shareholders owning a direct stake in BAT in addition to their stake in Remgro.

We acknowledge that Remgro's investments in the tobacco industry have contributed significantly to its track record. Therefore, BAT remains one of our clients' top holdings in recognition of its continued outperformance, particularly in tough economic conditions. We also believe that Remgro's existing portfolio of companies remains attractive relative to the market.

Remgro today: a portfolio of high quality South African companies

Remgro mainly comprises of a broad portfolio of high quality South African financial and industrial companies. Approximately 70% of Remgro's portfolio consists of JSE-listed companies, with 20% held in unlisted investments and the balance in foreign currency net cash. Almost half of Remgro's portfolio could be classified as 'defensive', as the demand for medical care and foodstuffs and the returns on cash are relatively stable.

A quarter of Remgro's intrinsic value is made up of FirstRand and RMB Holdings – financial institutions which have managed to generate high returns on capital and grow their earnings

TABLE 1 Remgro intrinsic net asset value (31 March 2009)

	Spot value [Rm]	Per share [R]	% of value	Effective holding
Financial services	**11 767**	**25**	**27%**	
FirstRand	5 754	12	13%	9.3%
RMB Holdings	6 013	13	14%	25.0%
Industrial interests	**24 208**	**51**	**55%**	
Medi-Clinic	5 365	11	12%	47.6%
Unilever SA	4 110	9	9%	25.8%
Distell Group	3 053	6	7%	29.4%
Rainbow Chicken	3 316	7	8%	74.0%
Total South Africa	1 445	3	3%	24.9%
Transvaal Sugar	2 127	5	5%	100%
Air Products South Africa	1 591	3	4%	50.0%
Kagiso Trust Investments	1 136	2	3%	41.8%
Nampak	980	2	2%	13.5%
PG Group	530	1	1%	24.5%
Wispeco	413	1	1%	100%
Dorbyl	49	0	0%	41.4%
Caxton	94	0	0%	1.6%
Mining interests	**4 422**	**9**	**10%**	
Implats	4 378	9	10%	4.4%
Trans Hex Group	44	0	0%	33.6%
Other interests	488	1	1%	
Cash at the centre	**4 522**	**10**	**10%**	
Domestic cash	290	1	1%	100%
Offshore cash	4 232	9	9%	100%
NAV	**45 406**	**97**	**103%**	
Potential CGT liability	-1 233	-3	-3%	
INTRINSIC VALUE	**44 173**	**94**	**100%**	
REM spot price		67.5		
Discount		28%		

Source: Remgro and Allan Gray research

in excess of the market over many years. Another 60% of Remgro's intrinsic value is comprised of industrial companies, the biggest holdings being Medi-Clinic, Unilever SA (unlisted) and Distell. Remgro has R3.5bn of net cash on its balance sheet, of which R3.1bn, or R6.50 per share, is denominated in US dollars and euros.

Remgro's discount generates a return on its own

Remgro has always traded at a discount to its 'intrinsic value', which is merely the market value of its underlying assets, should they trade separately. This discount is currently 27.5%, which is higher than the average discount of 20.9% that Remgro has traded at since 2000, but comparable to the 26.5% average discount that Remgro has traded at since the unbundling of BAT in October 2008. The intrinsic value is already net of a discount that accounts for potential capital gains tax. Provisions for secondary tax on companies (STC), central costs and a control structure through higher voting shares are three reasons why some discount is justified.

"R100 invested in the Rembrandt Group (in January 1975) would have grown to R541 000 (by the end of 2008)."

Even in a worst-case scenario, however, it is difficult to justify a discount in the double digits, especially given Remgro's track record. Management has proven to be a long-term buyer and holder of above-average businesses, and resisted the temptation to try to add value by trading in the underlying investments.

Importantly for long-term shareholders, this discount generates a return: one is effectively buying a portfolio of companies and benefiting from 100% of the cash flows at 72.5% of the price. In fact, it is to some extent because of the discount that Remgro has managed to outperform the market.

On the conservative assumptions that 1) the discount remains at 27.5%, 2) dividend cover is 2x (which means that profits attributable to shareholders can pay for the dividend twice) for the ALSI and Remgro, and 3) Remgro's earnings merely grow in line with the market, an investment in Remgro would outperform the market by 2.1% per year over 10 years. And as Remgro's history has shown, a small number compounded over many years makes a significant difference to long-term performance.

Additional information about the British American Tobacco unbundling

1. Why is the unbundling of BAT important for you?

BAT has been one of our portfolios' biggest holdings through our holdings in Remgro and Richemont for some time. Our positive view on the value of BAT was one of the main reasons we held Remgro and Richemont, as their holdings in BAT comprised a substantial part of their value.

A summary of the holdings (as shown in our Unit Trust Quarterly Portfolio Disclosures as at 31 March 2009)

		Market value [Rm]	% of Fund
Allan Gray Equity Fund	Remgro	799	5.4
	Richemont	527	3.6
Allan Gray Balanced Fund	Remgro	744	3.2
	Richemont	487	2.1
Allan Gray Stable Fund	Remgro	314	1.4
	Richemont	204	0.9
Allan Gray Optimal Fund	Remgro	29	1.5
	Richemont	61	3.2

2. When and why did the unbundling take place? Are there any benefits for shareholders?
The unbundling took place in October 2008.

1. Remgro and Richemont together held a ±30% interest in BAT (at the time listed only on the LSE) via a Luxembourg company, R&R Holdings.

2. The catalyst for this restructuring was an impending change in the Luxembourg tax regime that would have prejudiced shareholders. (A tax change on dividends due to come into effect in 2010 would adversely affect R&R Holdings because of its structure, so Remgro and Richemont had no choice but to unwind this structure).

3. In October 2008, Remgro and Richemont were restructured to separate the companies' tobacco interests from their other interests.

4. This transaction granted shareholders added flexibility by providing direct access to the tobacco investments (BAT shares were unbundled to shareholders of Remgro and Richemont). Shareholders in Remgro and Richemont received 90% of their respective companies' holdings in BAT. BAT was then listed on the JSE in addition to its existing listing on the LSE, making it a dual-listed share.

5. At the same time, a new investment company was incorporated in Luxembourg, called Reinet Investments. The remaining 10% of Remgro's and Richemont's existing stake in BAT was transferred to this company.

6. Reinet also had a rights offer, in terms of which shareholders were entitled to swap BAT shares received in the unbundling in return for additional Reinet shares.

BAT has a market cap of over R500 billion, and is therefore by far the largest share listed on the JSE.

How does the unbundling of BAT affect Allan Gray investors?

What happened in the affected Allan Gray Funds?
For accounting and tax purposes an unbundling (the distribution of shares in company A held by company B to the shareholders of company B) can take the form of either a 'capital reduction' or a dividend. The precise legalities are not important but whether it is one or the other or a combination is a consequence of the company's specific circumstances and to some extent choices it makes: shareholders have no say in the matter. The BAT unbundling was effected as a combination of a partial capital reduction and a partial dividend, but the overwhelming majority was a dividend.

Under SA law and the rules of the Allan Gray Collective Investment Scheme, the Allan Gray Funds were and are required to treat all dividends as income and the Funds are required to distribute all income to investors as a distribution on the periodic distribution dates – the relevant date here being 31 December 2008. When you invested with us (or in a subsequent instruction), you would have chosen to either have your distributions paid out in cash or reinvested in the Fund (if you have chosen reinvestment, you have asked us to buy more units for you, rather than pay the dividend in cash into your bank account).

Because the amounts involved were large, the distribution had a material effect on the price of, in particular, the Allan Gray Equity Fund and the Allan Gray Balanced Fund. However the value of the total investment did not change: those who elected re-investment received new units in the fund (purchased with the distribution) and those who had chosen to have your distributions paid out, were paid cash equal to the value of all income (including the value of BAT shares received as a dividend) during the preceding period.

Johan de Lange

HOW LONG IS LONG-TERM? SETTING REASONABLE GOALS

EXECUTIVE SUMMARY: At Allan Gray we believe that when you select an investment manager, you need to understand and be committed to its approach to managing money to get the best results. We frequently refer to the importance of investing for the long term. This is core to our investment philosophy and process. But how long is long enough and what does 'long-term investing' really mean for you? The answer depends on many personal factors. But there are some common steps to follow to determine how long this is to achieve your goals. In this article, Johan de Lange explains the importance of setting reasonable goals, having realistic return expectations and knowing what level of uncertainty you can stomach.

1. Have reasonable return expectations

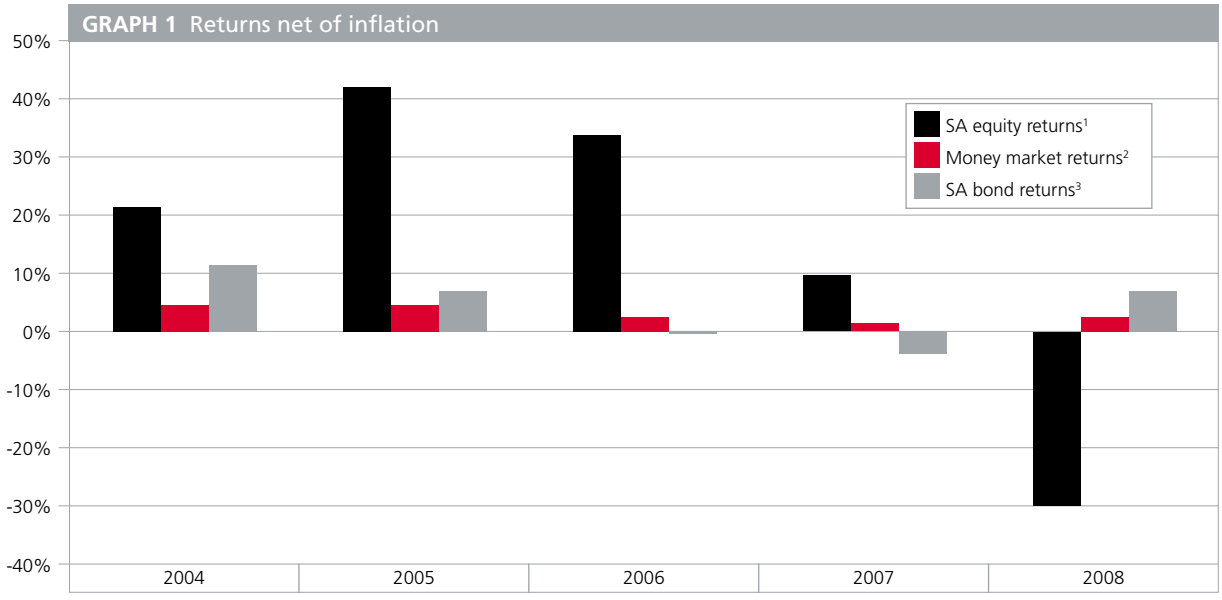
Realistic return expectations help you plan rational and realistic timeframes for achieving goals. They also help you avoid making emotional short-term investment decisions that erode your wealth. Your return expectations, and whether these expectations are met, play an important role in influencing whether you choose to remain invested or not. Therefore, you should think hard about your return expectations relative to your financial goals. Are your goals realistic?

It is dangerous to use recent returns as a basis for future return expectations

It is easier to stay invested when your expectations are being exceeded. This should have been relatively easy over the five-year bull market to May 2008. Now it is harder. Having experienced the most extreme fall in global markets since the Great Depression, investors are re-evaluating their financial goals and plans.

Graph 1 illustrates how investors could have benefited from the opportunities presented over the last few years during the bull market, or paid dearly for being in equity markets at

GRAPH 1 Returns net of inflation



[1] FTSE/JSE ALSI total return index [2] Alexander Forbes Money Market Index [3] ALBI total return index

Source: I-Net Bridge

the time of the crash in October 2008. It is at best a history lesson, at worst an illustration of the real losses suffered by investors.

A year ago we found it difficult to convince investors that the preceding five years' returns would not continue indefinitely. Now it is difficult to contemplate that the current doom and gloom will not last forever. In this alone we can see that investors tend to base their return expectations disproportionately on the most recent past.

What are 'normal conditions' and therefore 'normal' return expectations?

Is there such a thing as 'normal' investment conditions and what returns could or should one plan for going forward? Chris du Toit tackled this issue in our Quarterly Commentary in the fourth quarter of 2007 when he wrote about what returns are reasonable to expect. It is a tricky issue because we do not like making predictions. What Chris did was base his views on some very long-term history. We tend to believe in mean reversion, namely, that, in the long run, markets tend to return to their long-run average. So these long-run averages are reasonably useful when you consider long-term return expectations, although your entry point (when you buy) remains very important.

a. Reasonable long-term return expectations from a 'balanced' portfolio

   From analysing this data, Chris concluded that a reasonable long-term return from a 'classic' balanced portfolio (with an asset allocation of 60% shares, 30% bonds, and 10% cash) was in the order of inflation (as measured by the Consumer Price Index, CPI) plus 5%.

b. Reasonable long-term return expectations from South African shares

   In an update of this analysis, Chris found that, from 1900 to 2008, long-term real returns (i.e. after inflation) from South African shares averaged 7.1%.

   A word of caution: 7.1% real returns are, in our view, somewhat high. Based on the fact that only three other stock markets in the world enjoyed returns approaching this number over the 20th century, realistic expectations from shares should be a bit lower than this.

Can long-term asset class returns be different from short-term experience?

If you had asked this question a year ago, as we tried to in Chris' article, many people would have concluded that CPI +5% is too low a return to expect from a balanced portfolio and, similarly, CPI+7% for equities. We believe that return expectations from such a portfolio should not be based only on the most recent few years' experience, but rather on the very long-term relationships that exist between nominal asset class returns and inflation. **Table 1** shows that shorter-term share returns can vary significantly.

2. The level of uncertainty with which you are comfortable with affects how long long-term is for you

It is generally accepted that investment risk refers to the uncertainty or unpredictability of returns. **Graph 2** (on page 12) shows how, with time, the volatility (or movement up and down) of returns is different for each unit trust in our range but, more importantly, that this volatility decreases with time. The messages are clear:

a. Decide on the risk/return trade-off you are prepared to make

   You need to match the returns that you wish to achieve with your ability to sleep at night if an investment is more volatile over the short term. For many investors a reasonable measure is to ask yourself how big a loss you can handle.

b. Your investment timeframe can reduce risk

   The uncertainty (volatility) of returns (and therefore risk) decreases with time.

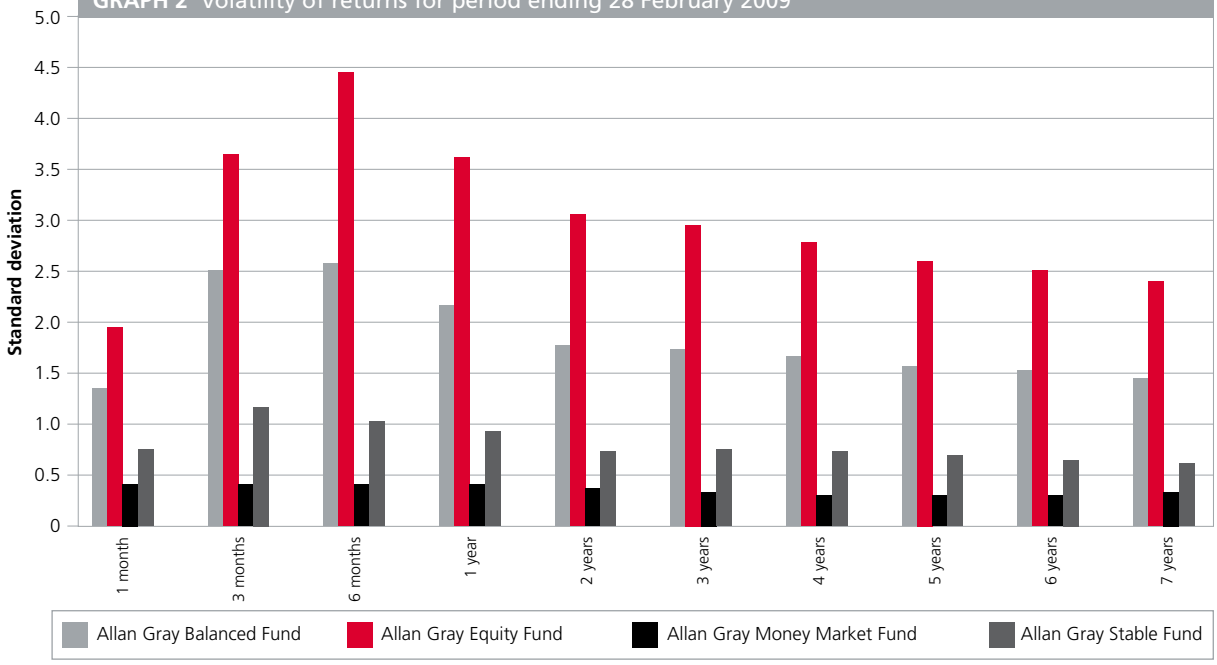
If you are investing for a shorter time period, you need to accept that returns may be more uncertain (both up and down), and need to factor this into your planning and goal setting.

TABLE 1 Annualised South African share returns for the 1, 5 and 10-year periods to 28 February 2009

	1 year	5 years	10 years
South African share returns (as measured by FTSE/JSE ALSI return)	-39.80%	11.13%	12.79%
Inflation (as measured by CPI)	8.70%	6.11%	5.72%
Real South African share returns	**-48.50%**	**5.02%**	**7.07%**

Source: I-Net Bridge, Allan Gray research, Credit Suisse Global Investment Returns Sourcebook 2009

GRAPH 2 Volatility of returns for period ending 28 February 2009



Source: Morningstar

Learn more about standard deviation

As used in the chart above, standard deviation is a statistical measure that gives you an idea of how much the returns vary over time. It tells you how tightly all the returns are clustered around the average return in a set of data. When returns are tightly clustered or grouped together (and do not vary a lot) the standard deviation is small. When returns vary more, the standard deviation is relatively larger. In this way it provides a quantified measurement of the potential uncertainty of future returns. In other words, how risky or uncertain the returns could be relative to the average.

Investors do not achieve their potential if they do not remain invested for long enough

The above return expectations may give some indication of realistic long-term return expectations, and we have concluded that CPI + 5% for balanced funds and a bit more for equity funds is probably realistic. It also exposes you to understanding that market losses of up to 42% are not impossible (even on well diversified South African equity portfolios). However, the average investor experience may be even worse.

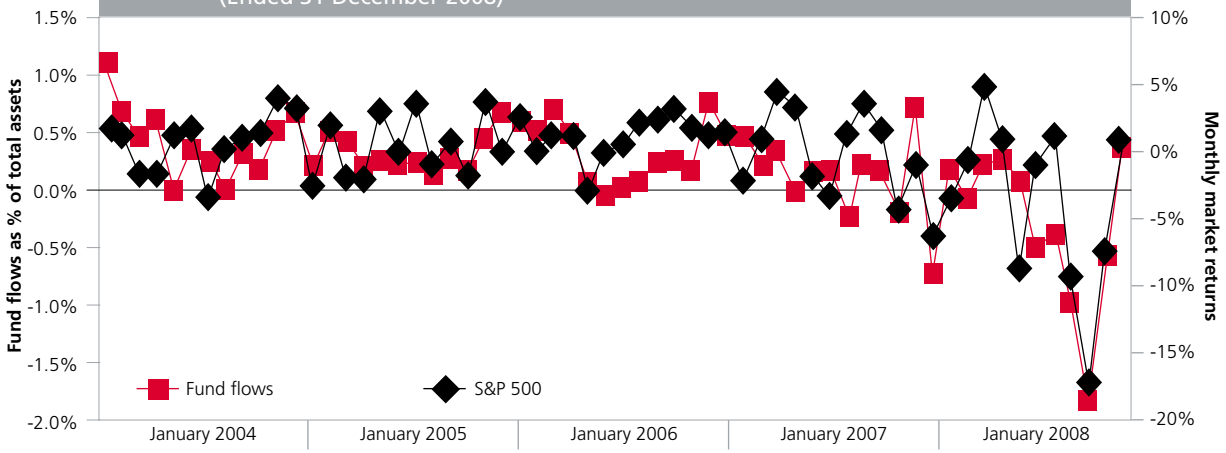
3. The challenge is to 'stay the course' when the market moves and your goals have not changed

It is clear that investors do try to time the market and that they do not get it right. In an analysis of investor fund flows by DALBAR Inc. (QAIB Investor Research March 2009), DALBAR shows that investors continue to buy when the market rises and sell when it drops, as shown in **Graph 3**. The research goes on to demonstrate that, regardless of investor timeframes, they just do not have the stomach to ride out the rough times. It further demonstrates the psychological impact of how actual risk exposure affects one's response to this. Be careful about traditional risk profiling that has a market focus, because in good times, investors' risk tolerance increases and, during bad times, it decreases. This is intuitive but wrong, and does not bode well for achieving good long-term returns.

In conclusion, what do reasonable return expectations mean for your goals and how do you make the most of your investment with us?

Align your goals, specific income or liquidity needs, and factors such as your tax status with reasonable return expectations. Ensure your goals are measurable and that you have an objective framework for revisiting these goals to reduce your emotional reactions.

GRAPH 3 US investor fund flows and market performance for the 5 years (Ended 31 December 2008)



Source: DALBAR, Inc., March 2009

Be clear on your goals and planned timeframe for investing and ensure that you invest for long enough to benefit from our approach. Of all the variables to consider when you invest, time is the one factor that you have within your control. We suggest you use this to your advantage as it can reduce your risk and increase your long-term returns. Take the time and trouble to understand why funds have performed the way they have. This may be due to good (or bad) investment management, or a result of market movements. As an example, because we take at least a four-year view on any share investment, we suggest that you do the same when investing in the Allan Gray Equity Fund.

The analysis above refers to the inevitable movements of the market up and down. These movements are a certainty. But, how you choose to react to these movements can be instrumental in the level of wealth you are able to accumulate.

Our investment philosophy and process seek to limit the investment risk inherent in the downward movements in price and generate real long-term returns from the upward movements in price, relative to our view of the intrinsic value of a share. But, for us to grow your real wealth and help you achieve your goals, you need to remain invested for long enough.

Practical ways to grow your wealth

1. Be clear on your investment goals

Do you have an overall objective for investing? Perhaps you have different objectives for different investments or amounts of money that you save. We suggest you write these goals down and, if you need assistance, engage the services of a professional (and independent) financial adviser.

2. How realistic are your goals? A plan will help you

By forcing you to write down the steps you need to take to achieve your goals, a written plan helps you to think critically about how realistic your goals are, how long (and what) it will take to achieve them. Your plan should include how much money you wish to accumulate by when, what income you will need and when, and then how you could begin to achieve these goals. Once you have a plan, you have a yardstick to decide what fits in and what does not. If you document this it will help you remain disciplined and give you something to measure your progress against. The market will move up and down, but it is whether you respond to these movements (or not) when your goals have not changed, that will affect your returns. If you are not tempted to chop and change your investments in response to the inevitable short-term news, market movements and influence of marketing messages, you have much more chance of attaining your goals.

3. Take responsibility for your financial wellbeing by learning more about your investment options – how we can help you

At Allan Gray, we can give you information about the process of investing and detailed information about our investment options. We are unable to give you advice on which unit trust or combination of unit trusts may help meet your goals. This is the role and expertise of independent financial advisers. As important as it is to weigh all the potential risks, returns and costs of investing, the opportunity cost of not being invested and remaining invested for long enough to grow your wealth is the biggest financial price you may pay.

Richard Carter

Roenica Botha

THE IMPORTANCE OF STABILITY IN A LIVING ANNUITY

EXECUTIVE SUMMARY: Living Annuity investors need stable returns that consistently beat inflation. We believe the Allan Gray Stable Fund provides investors with an investment option that is worth considering. It has been able to grow investors' capital ahead of inflation consistently and provide high levels of income over the last eight and a half years.

As a living annuity investor there are two key decisions you need to make:

- What percentage of your capital you can withdraw as an income on a regular basis.
- What underlying unit trust or combination of unit trusts meet your needs.

There is a strong interplay between these two questions: the level of income you choose will affect the investment decisions you need to make. This inherent flexibility, which is a key benefit of this type of investment product, can also burden investors with tough decisions. It is very important to understand the impact of drawing income from your investment on the lifespan of your capital. You also need to consider how much risk you can tolerate, balanced with the need to grow your investment.

The 'order of returns' does not matter if you are not drawing income

Three hypothetical unit trust investment scenarios are displayed in **Table 1**. It is important to note that over the 10-year period, all three scenarios result in an 'average' return of 10% per annum.

If you invest R1m at the outset and do not draw any income, all three investments would grow to R2.59m at the end of the 10-year period. This is equal to a real (inflation-adjusted) value of R1.45m (based upon assumed inflation of 6%).

This demonstrates that the 'order of returns' (when your investment goes up and down) is irrelevant for an investor who invests a lump sum and holds it throughout the period, without investing more or withdrawing from the investment. The only thing that matters is the total return earned over the period.

TABLE 1 Investment return scenarios

		Average investor returns		
	Year	A	B	C
Scenario A Assumes that a constant return of 10% is generated every year for 10 years.	1	10%	-6%	30%
	2	10%	-3%	40%
	3	10%	8%	15%
Scenario B Assumes that the returns are more volatile (or vary more). In this scenario there are low and negative returns in the early years and then great positive returns in later years.	4	10%	1%	10%
	5	10%	5%	8%
	6	10%	8%	5%
	7	10%	10%	1%
Scenario C Assumes the same level of volatility as scenario B, but that the large returns are generated in the early years and lower and negative returns are generated in the later years.	8	10%	15%	8%
	9	10%	40%	-3%
	10	10%	30%	-6%
	Average	10%	10%	10%

Source: Allan Gray research

The impact of drawing income on an investment

However, if you assume that you withdraw income, starting at 5% of the capital invested and increasing with inflation each year, it makes a great difference. **Graph 1** shows how the investment would grow under the three scenarios. The real value of the investment (adjusted for inflation) is shown in brackets.

Although, when no income was taken, all three scenarios had the same end value, there is now a big difference. The worst outcome is 38% lower than the best outcome. The gap arises because, when you take income from an investment, the order of returns does matter.

When drawing income, the impact of negative returns in the early years is amplified. The combination of the bad returns and the income withdrawn erodes the capital, leaving a smaller capital base. The great returns earned later on this small capital base cannot compensate for the early losses. For this reason, scenario B, where bad returns are experienced in the early years, gives the worst outcome.

> "The returns earned in the Allan Gray Stable Fund since inception have been far less volatile than equities in general, while still delivering returns well in excess of cash."

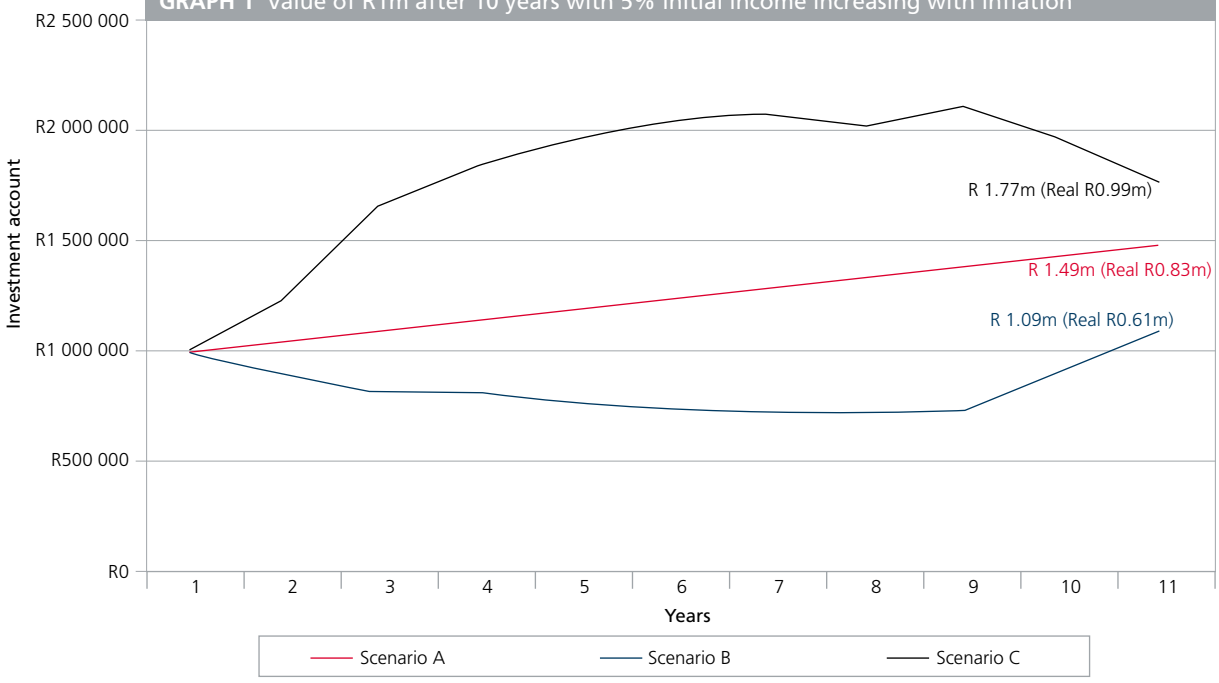
The more income taken, the more significant the impact

If we assume a higher level of income each year, this further increases the impact on the investment. **Graph 2** (on page 16) is based on 8% income, increasing with inflation each year.

With a higher level of income, the gap between the best and worst outcomes is much wider, with the worst outcome now 85% lower than the best outcome. What this demonstrates is that the more income you take from your investment, the more susceptible your investment is to periods of poor performance.

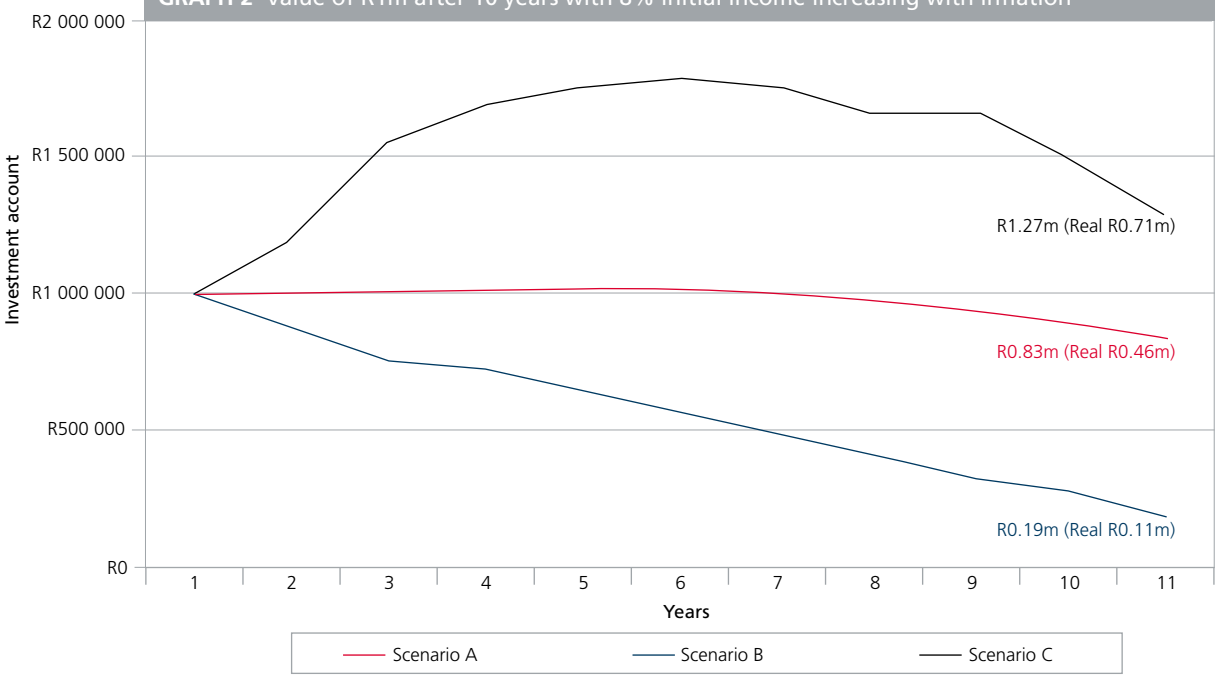
But we do not know, and no one really knows, when positive returns will be made. The dangers of trying to time the market or guessing which unit trusts will perform better are well documented. This means that one could try to pick a unit trust that will result in an outcome like scenario C, but you could quite easily end up with something more like scenario B. So, one has to conclude that the more volatile

GRAPH 1 Value of R1m after 10 years with 5% initial income increasing with inflation



Source: Allan Gray research

GRAPH 2 Value of R1m after 10 years with 8% initial income increasing with inflation



Source: Allan Gray research

the returns (both up and down) of a unit trust, the riskier this could be for a retired living annuity investor.

So what is a better option for a living annuity investor? Common sense from the above analysis, tells us that it should be to try to select a fund that has shown proven and consistent performance and low levels of volatility.

The Allan Gray Stable Fund produces stable returns over time

The Allan Gray Stable Fund aims to achieve a high level of capital stability and to minimise the risk of loss over any two-year period. It seeks to meet the needs of investors who:

- Are risk averse and require a high degree of capital stability
- Require reasonable income, but also capital growth
- Are retired or nearing retirement
- Seek to preserve capital over any two-year period

Mahesh Cooper and Tabane Mafojane provided us with some analysis of the Allan Gray Stable Fund in a previous article (Q3 2006). In this piece, they showed that the Allan Gray Stable Fund has been able to meet its objectives in all market conditions. Their analysis demonstrated consistent returns at a low level of absolute risk in rising, falling and flat markets.

Allan Gray Stable Fund returns compared with cash and equities

Graph 3 shows how the returns earned in the Allan Gray Stable Fund since inception have been far less volatile than equities in general, while still delivering returns well in excess of cash.

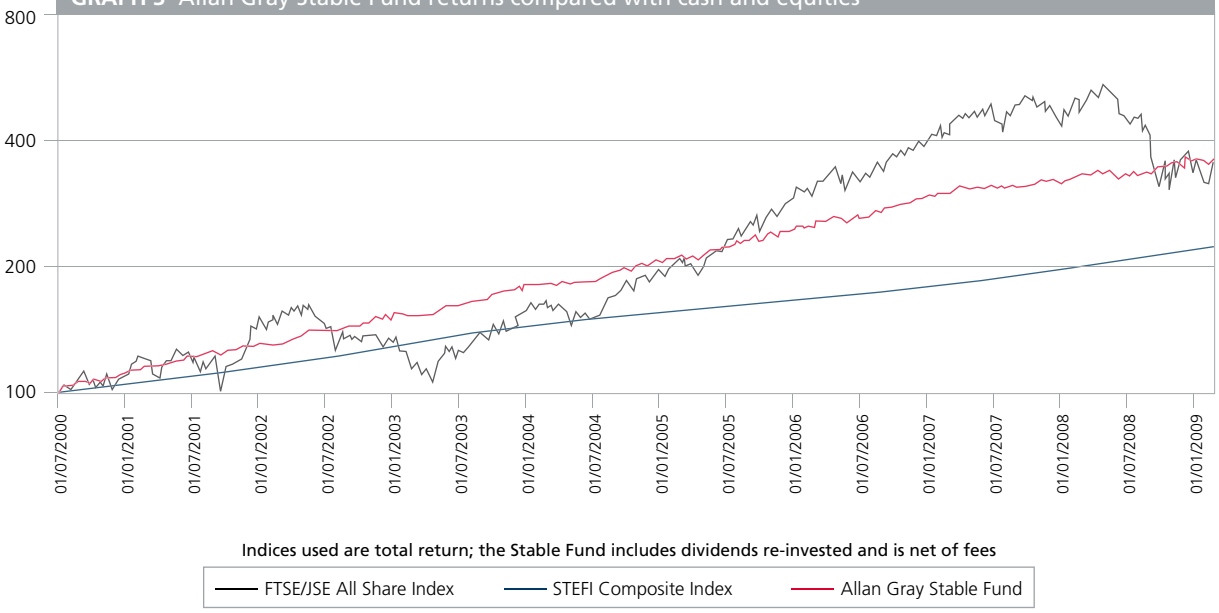
The impact of drawing an income if you are invested in the Stable Fund

Graph 4 shows the value at the end of December 2008 of R1m invested in the Allan Gray Stable Fund at various points in the past. The final value in real terms (i.e. adjusted for inflation) allows for income starting at 5%, 7% or 9% and increasing with inflation each year.

For example

R1m invested in the Allan Gray Stable Fund seven years ago would have provided for an income starting at R70 000 per year (7% of investment capital), increasing with inflation to R98 333 in 2008. The original R1m invested would have grown to R1 763 937, which would be worth R1 156 539 in real terms (i.e. measured in the same terms as the original R1m seven years ago).

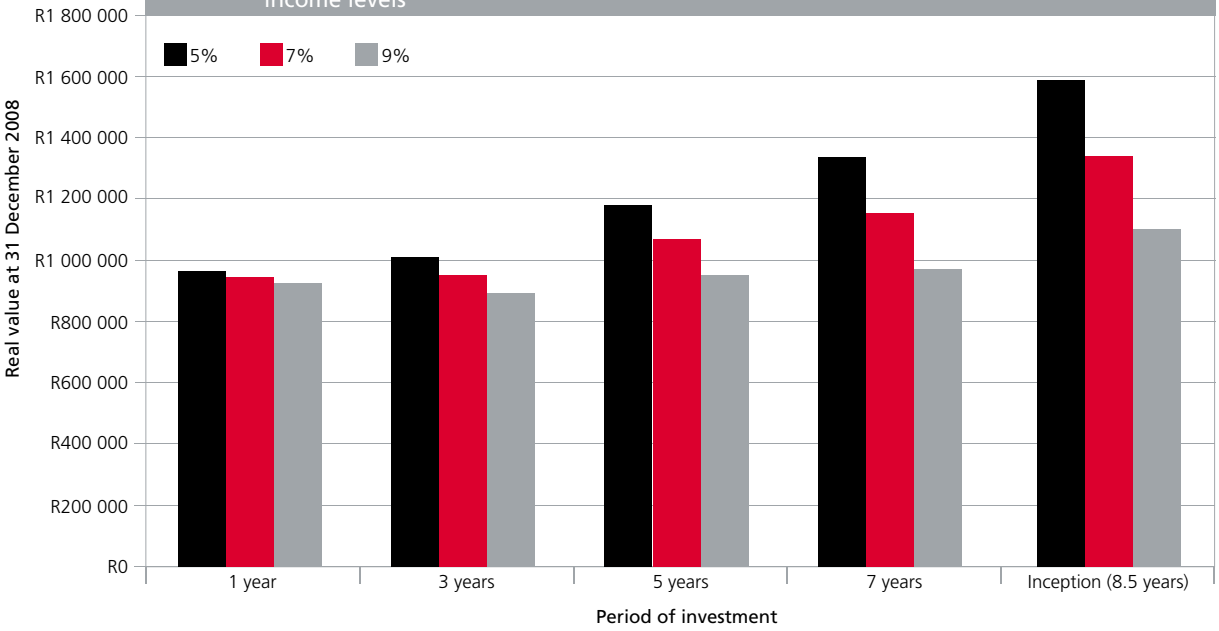
GRAPH 3 Allan Gray Stable Fund returns compared with cash and equities



Source: I-Net Bridge

As you can see in Graph 4, the Allan Gray Stable Fund has been able to grow investors' capital after inflation consistently and provide high levels of income over the last eight and a half years. While we cannot predict returns going forward, we can offer a very consistent track record. We believe the Allan Gray Stable Fund provides living annuity investors with an investment option that is worth considering.

GRAPH 4 Real value of R1m if invested in the Allan Gray Stable Fund at different annuity income levels



Source: Allan Gray research

Mahesh Cooper

Chris du Toit

STOCK SELECTION VERSUS ASSET ALLOCATION IN BALANCED PORTFOLIOS

EXECUTIVE SUMMARY: South Africa has been something of an exception globally in that actively managed portfolios have managed, on average, to outperform the passive alternative. When considering balanced (multi-asset class) portfolios, the question is whether this is due to active managers' skill in stock selection or asset allocation decisions. Mahesh Cooper and Chris du Toit show a unique way to answer this question and conclude that, again on average, South African investment managers have not added any value in asset allocation, but have added value from stock selection. As usual an analysis of averages is somewhat dangerous as it hides a wide dispersion between those who have added lots of value to their clients and those that have destroyed value.

Balanced portfolios offered by single managers remain a solution for South African pension funds seeking to invest their members' assets over the long term. Such portfolios have the advantage of giving investment managers the discretion to choose between different asset classes and individual securities in order to achieve the objectives of the portfolio.

Essentially, the management of the assets of a retirement fund requires two investment decisions:

1. **The asset allocation decision.** This decision concerns what proportion of the funds should be invested in the different asset classes, e.g. 60% in equities, 30% in bonds and 10% in cash.
2. **The stock selection decision.** This decision encompasses which securities will make up the asset class components, e.g. what shares to invest in to make up the 60% equity component.

Who should make the stock selection and asset allocation decisions?

The active versus passive (indexation) investment debate examines who should make the stock selection decision: the market index or the asset manager. The specialist versus balanced portfolio debate queries who should make the asset allocation decision: the trustees of a pension fund guided by their advisers, or the investment manager.

We examined the performance of the large managers with balanced portfolios to see if they have added value from the decisions made about stock selection and asset allocation.

Successful stock selection within a balanced portfolio is reasonably easy to measure, by comparing the balanced portfolio's individual asset class performance with various market indices.

Successful asset allocation over time is more difficult and subjective to measure. This is because traditional asset allocation attribution analysis assumes:

- A top-down strategic asset allocation to measure against the mix of assets selected by the asset manager at different points in time
- A distinct (often short) period over which the effectiveness of the asset allocation decision is measured

Asset managers (like Allan Gray) who do not follow a top-down approach to investing may prefer to build portfolios based on bottom-up stock selection rather than starting with a benchmark. Attribution analyses of such managers are tricky as they do not have strategic benchmarks against which to assess whether they have added value from asset allocation. This is because their stock selection decision includes an element of asset allocation. The traditional attribution analysis is unable to allocate performance to this implicit asset allocation decision – it combines it with performance from stock selection.

Also, investment managers may take a longer-term view on a particular asset allocation which may detract performance over the short term, but may be proven right over a longer period of time.

As a result of these difficulties, we looked at attribution from a different perspective to determine whether balanced portfolios have added value over the long term. We examined the performance of the portfolios surveyed in the Alexander Forbes Large Manager Watch to determine whether balanced managers as a group have added or detracted from performance via the asset allocation decisions made.

The model

We chose to perform the analysis on domestic balanced portfolios, ignoring foreign assets, given the regulatory issues, historically and currently, around the exchange control restrictions for retirement funds investing offshore. Also, the availability of monthly industry data meant that we could only perform the analysis with a starting point of October 1999.

We performed our analysis based on the gross-of-fee returns of a number of investment managers. We did not want to compare portfolios to a benchmark with some arbitrary asset allocation because some investment managers may have specific strategic internal benchmarks, while others may have no internal benchmark at all. As a result, we decided to look at all possible combinations of equity and bond asset allocations assuming cash allocation fixed at 10%.

> "… the choice of manager makes a significant impact on the extent to which a retirement fund is able to gain the maximum benefit from a balanced portfolio."

Using the actual asset class returns achieved by the average manager as surveyed by the Alexander Forbes Large Manager Watch, we calculated the annualised return and the absolute risk[1] for each possible asset allocation combination. This effectively shows the return-risk point that a retirement fund would have achieved if it had selected a fixed asset allocation and rebalanced to this allocation quarterly, with the retirement fund achieving the average asset class return of the investment managers surveyed.

The results, shown in **Table 1**, were then plotted to create the Large Managers' Efficient Frontier. This is shown as the black line in **Graph 1** (on page 20). We have highlighted in grey in Table 1 the two portfolio return-risk points with the lowest and highest equity exposure. These portfolios correspond to the two ends of the Large Managers' Efficient Frontier and are shown as circles.

We then plotted an Index Efficient Frontier (red line in Graph 1) using the indices' returns for the different asset classes (i.e. FTSE/JSE All Share Index for equities, BESA All Bond Index for bonds and the Alexander Forbes Money Market Index for cash). This effectively shows each return-risk point that a retirement fund would have achieved if it had selected the asset allocation and rebalanced to this allocation quarterly, while invested in each of the relevant indices.

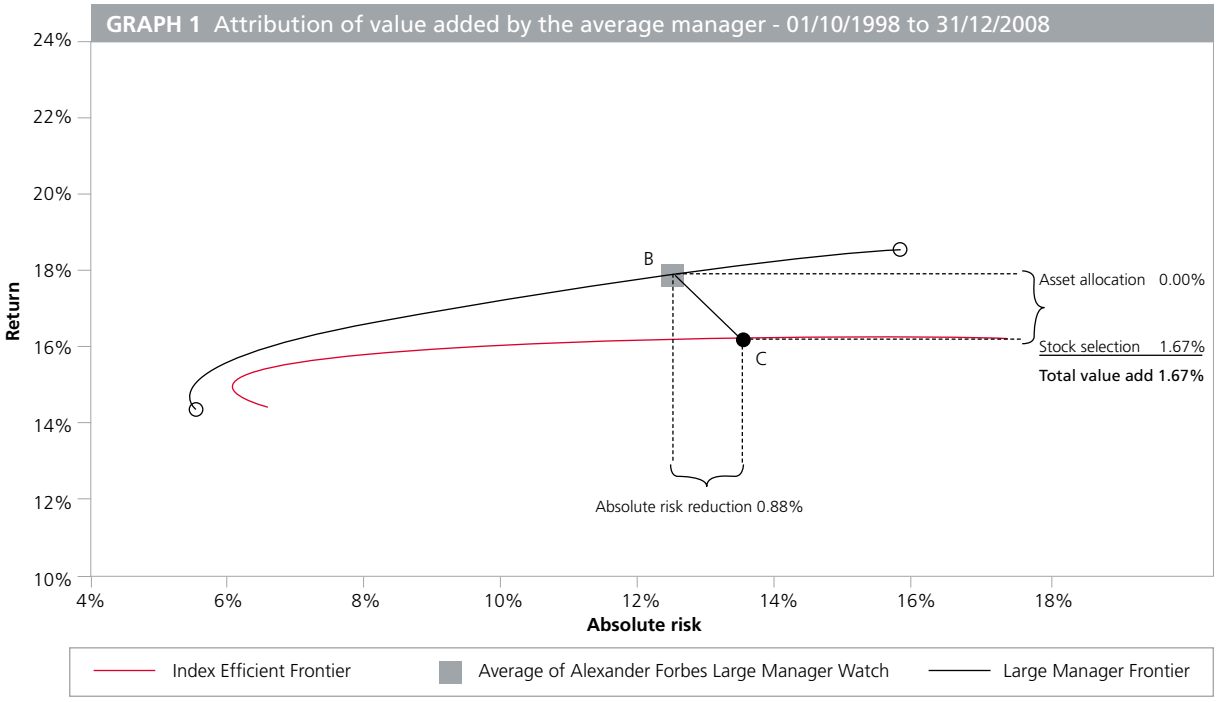
TABLE 1 Resulting annualised return and absolute risk from 1/10/1999 to 31/12/2008 for each asset allocation combination

Asset class combination			Annualised return	Annualised risk
Equities	Bonds	Cash		
0%	90%	10%	14.25%	5.55%
1%	89%	10%	14.31%	5.52%
2%	88%	10%	14.38%	5.50%
…	…	…	…	…
…	…	…	…	…
60%	30%	10%	17.46%	10.99%
61%	29%	10%	17.50%	11.14%
62%	38%	10%	17.54%	11.30%
…	…	…	…	…
…	…	…	…	…
89%	1%	10%	18.46%	15.66%
90%	0%	10%	18.49%	15.83%

Source: Allan Gray research

[1] Annualised absolute risk is defined as the annualised volatility (standard deviation) of monthly returns. Absolute risk is the risk of capital loss or the risk of losing money.

GRAPH 1 Attribution of value added by the average manager - 01/10/1998 to 31/12/2008



Source: Allan Gray research

The fact that the Large Managers' Efficient Frontier lies above the Index Efficient Frontier shows that, on average, investment managers' balanced portfolios have been able to outperform a passive index investment strategy.

The actual annualised return and absolute risk of the average manager of the Alexander Forbes Large Manager Watch (shown as a grey square on Graph 1) was then compared with the two efficient frontiers. Interestingly, the grey square lies exactly on the Large Managers' Efficient Frontier. The return and volatility the average manager achieved could have been achieved by investing in a fixed allocation of equity, bonds and cash (as managed by the average manager), rebalanced quarterly to that same fixed asset allocation (70% equity, 20% bonds, 10% cash in this instance).

Value added from asset allocation

As evidenced by the position of the average manager (grey square) on the Large Managers' Efficient Frontier, there was no value added from asset allocation decisions over the period. Any active asset allocation decisions the average manager made did not result in outperformance of the fixed asset allocation portfolio from a return-risk perspective over the period of analysis.

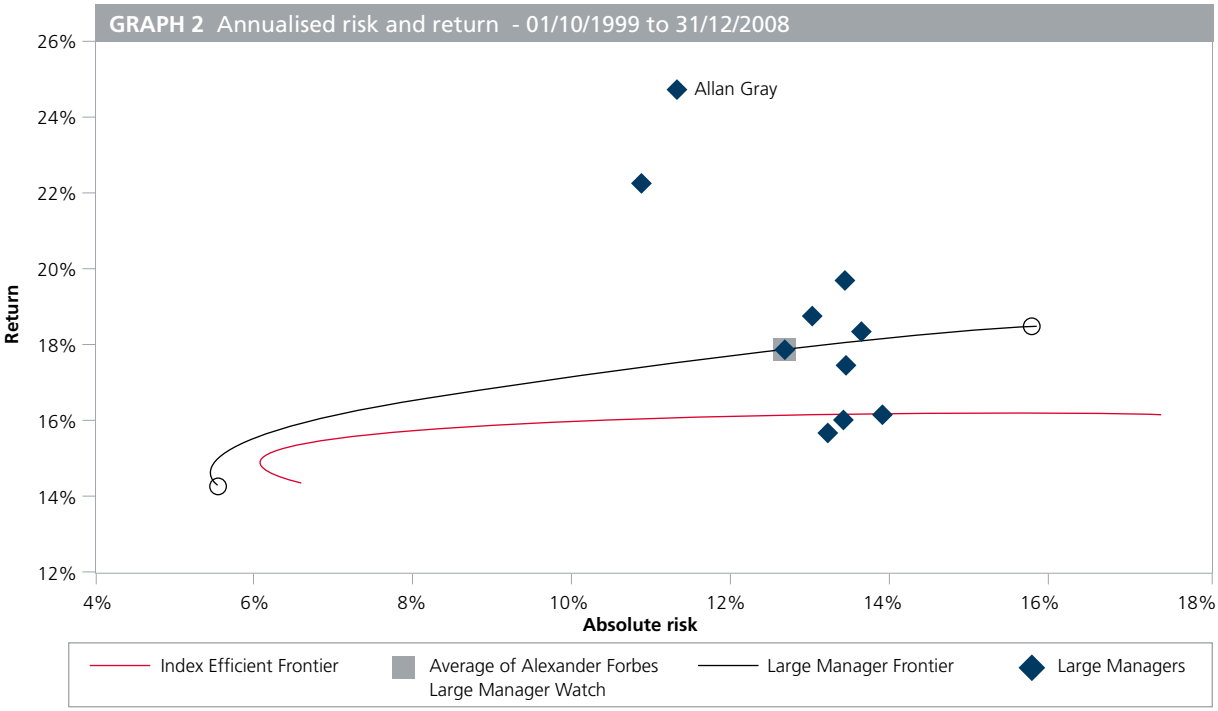
Value added from stock selection

The percentage return difference between the Large Managers' Efficient Frontier and the Index Efficient Frontier for the same asset allocation is the value added by the Large Managers' through stock selection (as shown by the line between **Points B** and **C** on Graph 1). The reduction in volatility of 0.88% by the average manager's portfolio due to stock selection is also shown on Graph 1. Both portfolios used the same fixed asset allocation but one used the average asset class returns of the large managers, and the other used the returns from the respective indices. The graph shows that, over the period of analysis, the average manager was able to add 1.67% per annum from stock selection, at a level of absolute risk that is 0.88% lower than the index portfolio.

The problem with using an average of manager returns is that the average masks the fact that some managers may have added value and some may not have. **Graph 2** plots the return-risk points for the managers that currently make up the Alexander Forbes Large Manager Watch (shown as blue diamonds).

What becomes clear is that some managers have been able to add significant value as a result of both asset allocation

GRAPH 2 Annualised risk and return - 01/10/1999 to 31/12/2008



Source: Allan Gray research

and stock selection, while other managers have been able to add little or no value. In fact, certain managers have performed worse than the index frontier for the same level of absolute risk, highlighting that they detracted value from both stock selection and asset allocation. This holds significant implications for pension funds which use a combination of managers' balanced portfolios. By combining potentially outperforming portfolios with potentially underperforming portfolios, pension funds could end up with no better than average performance, but at higher cost than a pure index tracking portfolio, as fees for active management are almost always higher than for passive (index) management.

At Allan Gray we consistently apply our investment philosophy when we select stocks and in so doing we use a bottom-up approach to managing the asset allocation of our domestic balanced portfolios. In this context bottom-up investing involves selecting individual shares based not only on their attractiveness relative to other shares, but also to the alternatives of cash or bonds. In this way the asset allocation decision is made on the attractiveness of an individual share basis, rather than based on a macro view of the attractiveness of shares as an asset class. History has shown that this approach has added value for clients, as indicated in Graph 2. We acknowledge that past performance is not an indicator of future performance, but we will continue to rigorously apply our investment philosophy that has created this success.

> "By combining potentially outperforming portfolios with potentially underperforming portfolios, pension funds could end up with no better than average performance, …."

Understand your manager's strategy

The analysis shows that, on average over the long term, balanced portfolios have been able to add value over a passive mandate but through stock selection, not through asset allocation. More importantly, not all managers have been able to generate the same extent of value add. Managers who lie above the Large Managers' Efficient Frontier have been able to add value from a combination of stock selection and asset allocation perspective. Managers who lie on or below the Index Efficient Frontier have not been able to add value relative to a passive investment strategy. Therefore, the choice of manager makes a significant impact on the extent to which a retirement fund is able to gain the maximum benefit from a balanced portfolio.

Chris Tisdall

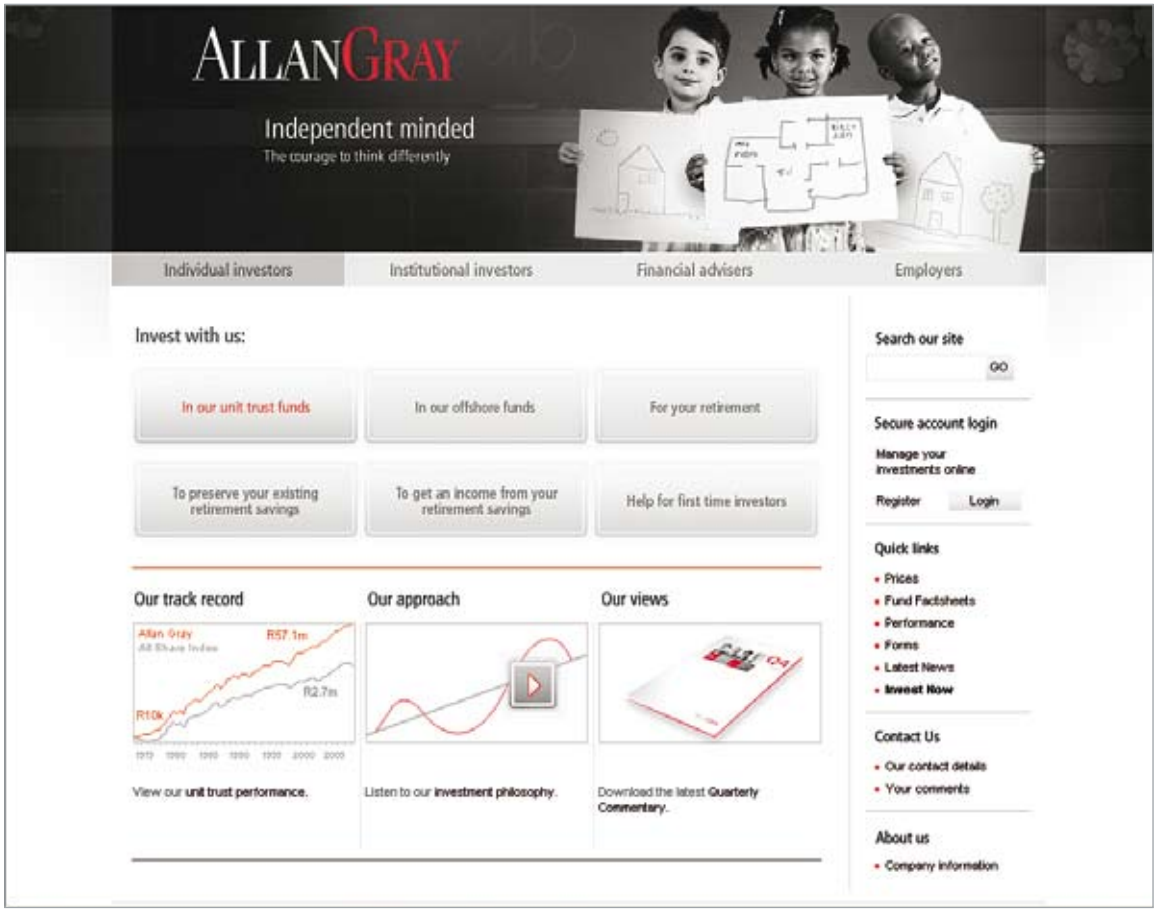
DIGITAL MAKEOVER FOR ALLAN GRAY

EXECUTIVE SUMMARY: Once you have finished reading your Quarterly Commentary, we invite you to take a look at our new website at www.allangray.co.za. We hope you will find the new website simple to use and the information you need only a few clicks away.

The Allan Gray website has become an important channel through which clients access information about our funds and our products as well as their investments with us. Unlike our investment philosophy, we felt it was time for change. In keeping with our commitment to improve our clients' understanding of investments and overall experience, we recently launched our new website at: www.allangray.co.za

Simple design and tailored information in plain English

While users of the website will be the ultimate judge, our approach when designing the new website has been all about making it simple to use and providing relevant information written in plain English. At the same time, the use of black and white imagery, which is unmistakeably



Allan Gray, highlights some of our values: our commitment to long-term thinking and extremely high standards, and our courage to think differently.

Whether you are a novice or seasoned investor, a professional financial adviser or a pension fund trustee, we have worked hard to ensure that you find the information you need within a few intuitive clicks. The most frequently requested information, such as fund prices and latest performance, is now always just a single click away under 'Quick links'.

More informed clients make better investment decisions

We firmly believe that the best investment decisions are informed ones. We have kept this in mind in structuring the information about our funds and products. And while we expect that investors will learn a great deal from the website, there is no substitute for sound independent advice should you still not be comfortable making your own investment decisions.

Accessing your investment information

The secure section of our website continues to provide individual investors and independent financial advisers with immediate access to their investments with us. This includes investment statements, asset allocation, investor performance reports and instruction history, as well as the ability to submit transactions directly via the website. Please register for an online account on our homepage if you have not already done so and would like to make use of this service. You can look forward to constant improvements to our website in the future, including the ability to make initial investments online.

Contact our Client Service Centre for assistance

If you do have any difficulty finding the information you are looking for, or you need a more complex question answered, our Client Service Centre continues to be on hand to assist you during business hours.

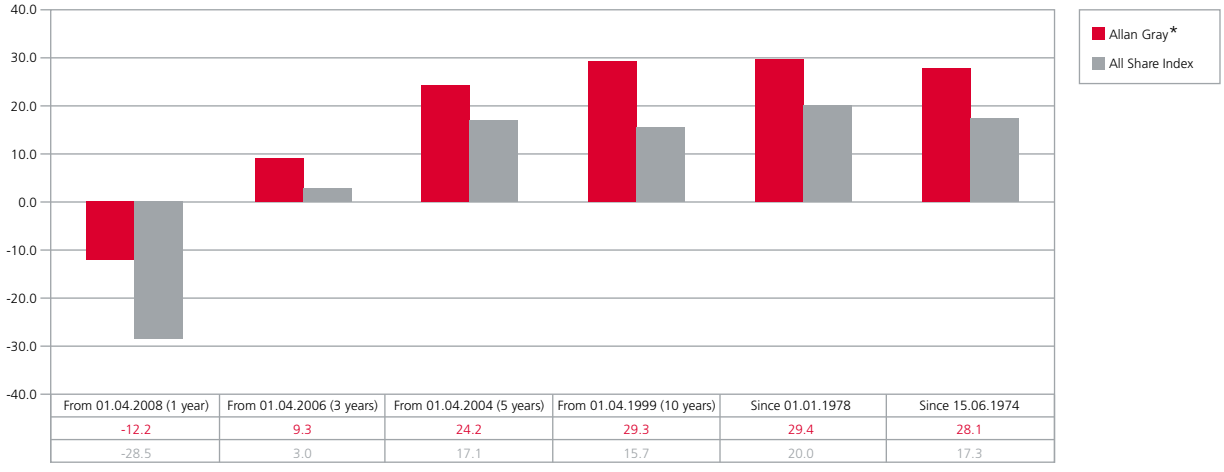
Feedback welcome

We are excited for you to start using our new website, and even more interested to hear what you think. We would really welcome your feedback. Please click on 'Your comments' under the 'Contact us' tab on our homepage to share your views with us, or email us at info@allangray.co.za

Investment track record

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

Period	Allan Gray*	FTSE/JSE All Share Index	Out/Underperformance
1974 (from 15.06)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	-1.6
2008	-12.6	-23.2	10.6
2009 (to 31.03)	-2.7	-4.2	1.5
Annualised to 31.03.2009			
From 01.04.2008 (1 year)	-12.3	-28.5	16.2
From 01.04.2006 (3 years)	9.3	3.0	6.3
From 01.04.2004 (5 years)	24.2	17.1	7.1
From 01.04.1999 (10 years)	29.4	15.7	13.7
Since 01.01.1978	29.5	20.0	9.5
Since 15.06.1974	28.1	17.3	10.8
Average outperformance			10.8
Number of calendar years outperformed			27
Number of calendar years underperformed			7



* 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.

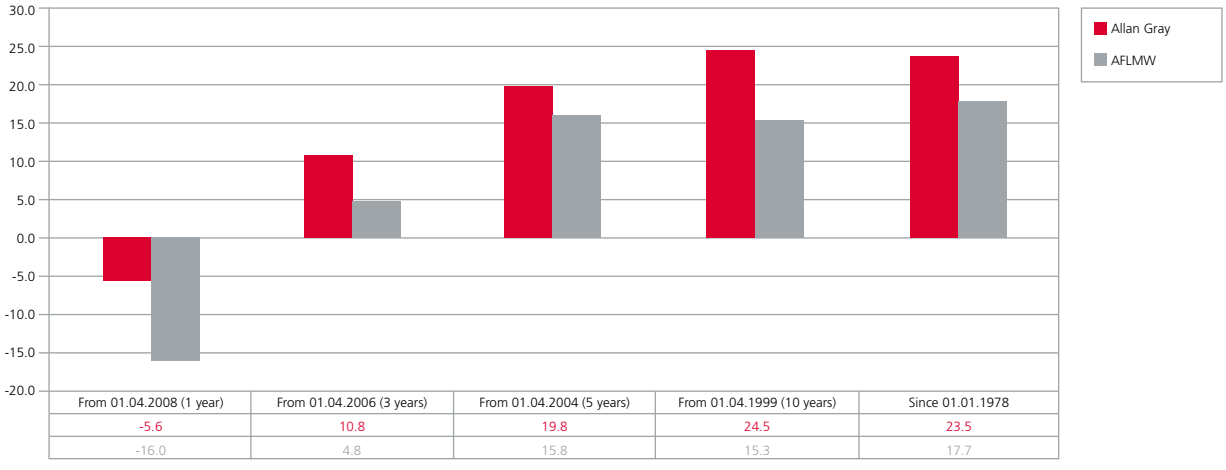
Note: Listed property included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to **R55 599 285** by 31 March 2009. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to **R2 588 966**.

Investment track record

Allan Gray Limited global mandate total returns vs. Alexander Forbes Large Manager Watch

Period	Allan Gray	AFLMW**	Out/Underperformance
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	-0.6
2008	-1.1	-12.3	11.2
2009 (to 31.03)	-2.6	-4.3	1.7
Annualised to 31.03.2009			
From 01.04.2008 (1 year)	-5.6	-16.0	10.4
From 01.04.2006 (3 years)	10.8	4.8	6.0
From 01.04.2004 (5 years)	19.8	15.8	4.0
From 01.04.1999 (10 years)	24.5	15.3	9.2
Since 01.01.1978	23.5	17.7	5.8
Average outperformance			5.8
Number of calendar years outperformed			25
Number of calendar years underperformed			6



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

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to **R7 388 260** by 31 March 2009. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R1 628 176**.

Allan Gray annualised performance in percentage per annum to 31 March 2009

	FIRST QUARTER (unannualised)
UNIT TRUSTS[1]	
EQUITY FUND (AGEF) FTSE/JSE All Share Index	[3]
BALANCED FUND (AGBF) Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)	[3]
STABLE FUND (AGSF) - (NET OF TAX) Call deposits plus two percentage points (Net of tax)	[3]
STABLE FUND (AGSF) - (GROSS OF TAX) Call deposits plus two percentage points (Gross of tax)	[3]
MONEY MARKET FUND (AGMF) Domestic fixed interest money market unit trust sector (excl. AGMF)	[3]
OPTIMAL FUND (AGOF) Daily call rate of FirstRand Bank Ltd	[3]
BOND FUND (AGBD) BEASSA All Bond Index (total return)	[3]
GLOBAL FUND OF FUNDS (AGGF) 60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index (Rands)	[3]
GLOBAL EQUITY FEEDER FUND (AGOE) FTSE World Index (Rands)	[3]
LIFE POOLED PORTFOLIOS	
GLOBAL BALANCED PORTFOLIO Mean of Alexander Forbes Global Large Manager Watch [2]	**-2.5** -4.3
DOMESTIC BALANCED PORTFOLIO Mean of Alexander Forbes Domestic Manager Watch [2]	**-1.4** -3.4
DOMESTIC EQUITY PORTFOLIO FTSE/JSE All Share Index	**-3.2** -4.2
DOMESTIC ABSOLUTE PORTFOLIO Mean of Alexander Forbes Domestic Manager Watch [2]	**-0.3** -3.4
DOMESTIC STABLE PORTFOLIO Alexander Forbes Three-Month Deposit Index plus 2%	**1.1** 3.2
DOMESTIC OPTIMAL PORTFOLIO [1] Daily Call Rate of Nedcor Bank Limited	**3.2** 2.5
GLOBAL ABSOLUTE PORTFOLIO Mean of Alexander Forbes Global Large Manager Watch [2]	**-2.2** -4.3
DOMESTIC MEDICAL SCHEME PORTFOLIO Consumer Price Index plus 3% p.a. [2]	**0.9** 3.5
GLOBAL STABLE PORTFOLIO Alexander Forbes Three-Month Deposit Index plus 2%	**-0.5** 3.2
RELATIVE DOMESTIC EQUITY PORTFOLIO FTSE/JSE CAPI Index	**-2.6** -4.6
MONEY MARKET PORTFOLIO [1] Alexander Forbes Three-Month Deposit Index	**2.8** 2.7
FOREIGN PORTFOLIO [1] 60% of the MSCI Index and 40% JP Morgan Global Government Bond Index (Rands)	**-7.8** -6.9
GLOBAL EQUITY PORTFOLIO [1] FTSE World Index (Rands)	**-9.0** -9.7
SEGREGATED PORTFOLIOS [5]	
GLOBAL BALANCED COMPOSITE Mean of Alexander Forbes Global Large Manager Watch [2, 4]	**-2.6** -4.3
DOMESTIC BALANCED COMPOSITE Mean of Alexander Forbes Domestic Manager Watch [2]	**-1.4** -3.4
DOMESTIC EQUITY COMPOSITE FTSE/JSE All Share Index	**-3.3** -4.2
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN COMPOSITE Mean of Alexander Forbes Namibia Average Manager [2]	**-3.2** -4.3
RELATIVE DOMESTIC COMPOSITE Weighted average of client specific benchmarks [2]	**-3.2** -4.5
FOREIGN BEST VIEW (RANDS) COMPOSITE 60% of the MSCI and 40% of the JP Morgan Global Government Bond Index (Rands)	**-7.7** -6.9
ORBIS FUNDS (RANDS) [1, 6]	
ORBIS GLOBAL EQUITY FUND (RANDS) FTSE World Index (Rands)	**-9.1** -9.7
ORBIS JAPAN EQUITY (YEN) FUND (RANDS) Tokyo Stock Price Index (Rands)	**-17.4** -15.3
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS) US$ Bank Deposits (Rands)	**0.2** 1.5
ORBIS OPTIMAL SA FUND-EURO CLASS (RANDS) Euro Bank Deposits (Rands)	**-4.1** -3.9
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS) MSCI Asia Ex-Japan (Rands)	**3.0** 2.0

PERFORMANCE AS CALCULATED BY ALLAN GRAY

[1] The fund returns are net of investment management fees
[2] The return for Quarter 1, 2009 is an estimate as the relevant survey results have not yet been released
[3] Unable to disclose due to ASISA regulations
[4] Consulting Actuaries Survey returns used to 31 December 1997. Alexander Forbes Global Large Manager Watch used from 1 January 1998
[5] The composite assets under management figures shown include the assets invested in the pooled portfolios above where appropriate
[6] Amounts invested by the Allan Gray client portfolios in the Orbis Funds are included in the assets under management figures in the table above

1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R millions)	INCEPTION DATE
-16.4	**6.1**	**20.0**	**25.2**	**30.4**	**14,782.0**	**01.10.98**
-28.5	3.0	17.1	15.7	17.6		
-6.7	**9.1**	**18.0**	-	**21.6**	**23,394.0**	**01.10.99**
-12.7	4.4	14.8	-	13.5		
6.4	**11.0**	**13.5**	-	**14.3**	**22,986.9**	**01.07.00**
9.8	8.2	7.3	-	8.0		
7.6	**12.0**	**14.4**	-	**15.7**	**22,986.9**	**01.07.00**
13.2	11.1	9.8	-	10.8		
12.2	**10.1**	**8.9**	-	**9.6**	**10,057.3**	**03.07.01**
12.0	9.9	8.8	-	9.6		
14.7	**10.8**	**9.1**	-	**10.4**	**1,888.9**	**01.10.02**
11.0	8.9	7.7	-	8.3		
12.7	**7.3**	-	-	**9.2**	**102.6**	**01.10.04**
13.1	6.3	-	-	8.7		
-10.6	**12.1**	**10.4**	-	**8.8**	**5,284.0**	**03.02.04**
-16.0	10.2	9.5	-	7.1		
-29.7	**3.1**	-	-	**8.7**	**2,410.1**	**01.04.05**
-32.7	0.7	-	-	5.1		
-5.9	**10.8**	**19.8**	-	**21.9**	**11,605.1**	**01.09.00**
-16.0	4.8	15.8	-	13.9		
-4.3	**11.1**	**22.2**	-	**22.2**	**4,520.4**	**01.09.01**
-13.7	5.4	17.4	-	16.1		
-13.1	**9.7**	**24.5**	-	**25.5**	**4,416.8**	**01.02.01**
-28.5	3.0	17.1	-	13.9		
6.7	**16.3**	**23.3**	-	**26.7**	**456.9**	**06.07.01**
-13.7	5.4	17.4	-	15.7		
9.4	**12.7**	**17.3**	-	**17.4**	**384.7**	**01.12.01**
13.9	12.0	11.0	-	11.8		
15.8	**11.7**	**10.0**	-	**10.5**	**143.8**	**04.12.02**
11.4	9.3	8.0	-	8.4		
5.4	**16.6**	**22.4**	-	**22.4**	**866.1**	**01.03.04**
-16.0	4.8	15.8	-	15.5		
8.8	**12.5**	-	-	**16.0**	**1,108.0**	**01.05.04**
12.4	11.9	-	-	9.7		
8.0	**13.0**	-	-	**17.2**	**2,334.4**	**15.07.04**
13.9	12.0	-	-	11.0		
-19.2	**7.5**	**20.8**	-	**25.4**	**493.1**	**05.05.03**
-26.5	3.4	17.8	-	22.1		
12.3	**10.1**	**9.0**	-	**10.0**	**1,115.7**	**21.09.00**
11.7	9.8	8.8	-	9.7		
-9.8	**12.3**	**10.9**	-	**5.1**	**1,332.9**	**23.01.02**
-16.2	10.3	9.5	-	0.9		
-28.3	**4.1**	-	-	**9.3**	**1,494.1**	**18.05.04**
-32.5	0.9	-	-	6.0		
-5.6	**10.8**	**19.8**	**24.5**	**23.5**	**21,776.7**	**01.01.78**
-16.0	4.8	15.8	15.3	17.7		
-4.4	**11.0**	**21.9**	**25.3**	**24.0**	**19,117.9**	**01.01.78**
-13.7	5.4	17.4	16.7	18.2		
-13.0	**10.0**	**24.5**	**28.2**	**22.1**	**37,694.6**	**01.01.90**
-28.5	3.0	17.1	15.7	13.8		
-3.6	**12.6**	**20.1**	**23.6**	**20.9**	**5,027.6**	**01.01.94**
-14.0	6.4	16.3	14.9	13.9		
-18.4	**6.5**	**20.5**	-	**21.4**	**7,800.5**	**19.04.00**
-25.9	2.5	17.4	-	14.3		
-13.8	**10.4**	**9.9**	**16.8**	**15.4**	**4,842.8**	**23.05.96**
-16.2	10.3	9.5	6.3	10.8		
-29.1	**3.9**	**8.5**	**12.6**	**18.8**	-	**01.01.90**
-32.5	0.9	6.1	3.3	11.6		
-18.3	**-2.2**	**3.5**	**7.5**	**14.3**	-	**01.01.98**
-23.0	-4.5	2.5	2.4	6.1		
9.8	**19.7**	-	-	**18.0**	-	**01.01.05**
19.7	20.5	-	-	17.8		
-2.0	**22.3**	-	-	**16.5**	-	**01.01.05**
1.8	23.7	-	-	16.1		
-34.0	**8.8**	-	-	**9.9**	-	**01.01.06**
-34.5	8.1	-	-	9.4		

Allan Gray Balanced Fund Quarterly Disclosure as at 31 March 2009	
	% of Fund
South African equities	**54.6**
Resources	**16.4**
Anglogold Ashanti	6.4
Sasol	4.0
Harmony Gold Mining Co.	3.1
African Rainbow Minerals	1.8
Positions individually less than 1% of total JSE-listed securities held by the Fund	1.0
Financials	**8.5**
Sanlam	3.1
Standard Bank Group	1.9
Reinet Investments SA	0.9
ABSA Group	0.7
Firstrand	0.6
Liberty Holdings	0.6
Positions individually less than 1% of total JSE-listed securities held by the Fund	0.7
Industrials	**29.6**
SABMiller	6.4
MTN Group	5.2
Remgro	3.2
Compagnie Fin Richemont SA	2.1
Shoprite Holdings	1.6
Nampak	1.5
Sappi	1.5
Dimension Data Holdings	1.2
Illovo Sugar	1.2
Sun International	1.0
Aspen Healthcare Holdings	0.7
Mondi Limited	0.6
Positions individually less than 1% of total JSE-listed securities held by the Fund	3.5
Other securities	**0.1**
Positions individually less than 1% of total JSE-listed securities held by the Fund	0.1
---- Net South African equities ----	*54.6*
Commodities	**2.9**
New Gold ETF	2.9
Bonds	**1.9**
RSA Bonds	0.3
Parastatal Bonds	0.1
Corporate Bonds	1.5
Money market and call deposits	**18.8**
Foreign - JSE inward listed shares	**5.0**
British American Tobacco	4.9
Mondi Plc	0.1
Foreign - Orbis absolute return funds	**6.3**
Orbis Optimal SA Fund (Euro)	3.2
Orbis Optimal SA Fund (US$)	3.1
Foreign - Orbis equity funds	**10.4**
Orbis Global Equity Fund	6.6
Orbis Japan Equity Fund (Yen)	3.8
Totals:	**100.0**

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

Total Expense Ratios (TERs)

	Equity Fund	Balanced Fund	Stable Fund	Optimal Fund	Bond Fund	Money Market Fund	Global Fund of Funds	Global Equity Feeder Fund
Performance component	0.50%	0.50%	0.48%	0.54%	0.50%	0.00%	0.39%	0.72%
Fee at benchmark	1.71%	1.15%	1.14%	1.14%	0.29%	0.29%	1.24%	1.49%
Trading costs	0.10%	0.10%	0.08%	0.28%	0.00%	0.00%	0.21%	0.20%
Other expenses	0.01%	0.07%	0.08%	0.02%	0.10%	0.01%	0.43%	0.37%
Total Expense Ratio (TER)	2.32%	1.82%	1.78%	1.98%	0.89%	0.30%	2.27%	2.78%

A Total Expense Ratio (TER) of a portfolio is a measure of the portfolio's assets that were relinquished as a payment of services rendered in the management of the portfolio. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of December 2008. 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.

ALLANGRAY

Registration Number 2005/002576/06
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 / +27 (0)21 415 2690
IFA Email ifa@allangray.co.za
Portswood Square Dock Road V&A Waterfront Cape Town 8001

Collective Investment Schemes (unit trusts) are generally medium- to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which, for money market funds, is the total book value of all assets in the portfolio divided by the number of units in issue. The Allan Gray Money Market Fund aims to maintain a constant price of 100 cents per unit. The total return to the investor is primarily made up of interest received but may also include any gain or loss made on any particular instrument held. In most cases this will have the effect of increasing or decreasing the daily yield, but in some cases, for example in the event of a default on the part of an issuer of any instrument held by the Fund, it can have the effect of a capital loss. Such losses will be borne by the Allan Gray Money Market Fund and its investors and in order to maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down. Unit trusts are traded at ruling prices. Commissions and incentives may be paid and if so, would be included in the overall costs. Different classes of units apply to the Allan Gray Equity, Balanced, Stable and Optimal Funds only and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the company. Forward pricing is used. A fund of funds unit trust may only invest in other unit trusts, which levy their own charges that could result in a higher fee structure for these portfolios. A feeder fund is a unit trust fund that, apart from assets in liquid form, consists solely of units in a single portfolio of a collective investment scheme. All of the unit trusts except the Allan Gray Money Market Fund may be capped at any time in order for them to be managed in accordance with their mandates. Allan Gray Unit Trust Management Limited is a member of the Association for Savings and Investment SA (ASISA).