QUARTERLY COMMENTARY 2

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ALLAN GRAY

Inside this issue

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Rob Dower

Comments from the Chief Operating Officer

In the last six weeks South Africa has been aglow with positive sentiment and optimism. The World Cup has had a real impact on national unity and confidence as well as on how others perceive our country – and our continent. At the same time, the economy has continued its recovery, albeit more by way of higher commodity prices and global demand than through local consumption growth.

Many parts of the world have not had as good a time of it. Developed countries, which make up by far the majority of the world's economy and control most of its wealth, are increasingly struggling between conflicting needs for (a) austerity to rebuild national and personal balance sheets, and (b) the space to nurture what little growth there is and for this growth to translate into increased employment.

This is therefore a good time to remember that both our economy and stock market valuations are influenced strongly by people outside of our borders. On top of the impact of their demand for our commodities, for most of the time since our first democratic election in 1994 foreign investors have been net buyers of companies listed on the JSE. They are now significant (and, in many cases, majority) shareholders in JSE-listed companies. In our first piece this quarter, Ian Liddle elaborates on the implications.

Many readers will know that although we acknowledge that businesses operate within a macroeconomic environment, we believe that macroeconomic factors are generally not predictable. At Orbis and at Allan Gray, investment analysts spend most of their time trying to understand the drivers of earnings in the businesses in which we invest.

Jonathan Brodie and Trevor Black, from Orbis, note that 'the story is in the stocks' as they elaborate on how we build our portfolios bottom-up. On the subject of stocks, British American Tobacco (BAT) is a significant holding in our equity portfolios and has been for some time, previously indirectly. In an update of his 2007 article, Simon Raubenheimer explains why we believe BAT provides the rare opportunity to invest in a superior quality business in a stable industry at a discount to the average company.

Ten years should be more than long enough to make an assessment of the Stable Fund's success at achieving its two objectives: capital stability and cash-beating returns. The last decade has been positive for shares, but has had some decidedly challenging periods for fund managers and for investors. Richard Carter celebrates a decade of the Stable Fund by analysing its record and prospects.

Our investment performance is only half of the equation when it comes to creating long-term wealth for clients. A track record without investors is meaningless, and clients who disinvest at the wrong time because of a loss of confidence are poorly served even if our track record looks good. Chris Tisdall discusses why great service is important to help clients achieve their investment objectives.

I mentioned that we have had three good quarters for GDP growth. At the same time, despite small gains at the end of last year, four of the last five quarters have seen a net loss in jobs in South Africa, with a cumulative loss of more than a million jobs from the peak.

The Allan Gray Orbis Foundation's mission is to educate young people who will one day be high-impact entrepreneurs and leaders. It is founded on the belief that the best solution to the chronic problem of unemployment in South Africa is an increase in entrepreneurship, and that the biggest barrier to entrepreneurship is that we have insufficient skilled people. Anthony Farr provides an update on the Foundation's work and an impressive summary of five years of progress.

I hope you enjoy this issue and appreciate your feedback. Thank you for your support.

Kind regards

Rob Dower

Ian Liddle

Welcoming the world to South Africa (but are they here to stay…?)

EXECUTIVE SUMMARY: For most of the time since our first democratic election in 1994, foreign investors have been net buyers of companies listed on the JSE. They are now significant (and, in many cases, majority) shareholders in JSE-listed companies. There have been only two periods of significant net selling by foreigners (2002/3 and 2008/9) since 1994, and both coincided with important lows in our stock market. Valuations on the JSE are currently not nearly as attractive as they were at these lows, and we are thus carrying a relatively lower equity weighting in our asset allocation portfolios at present.

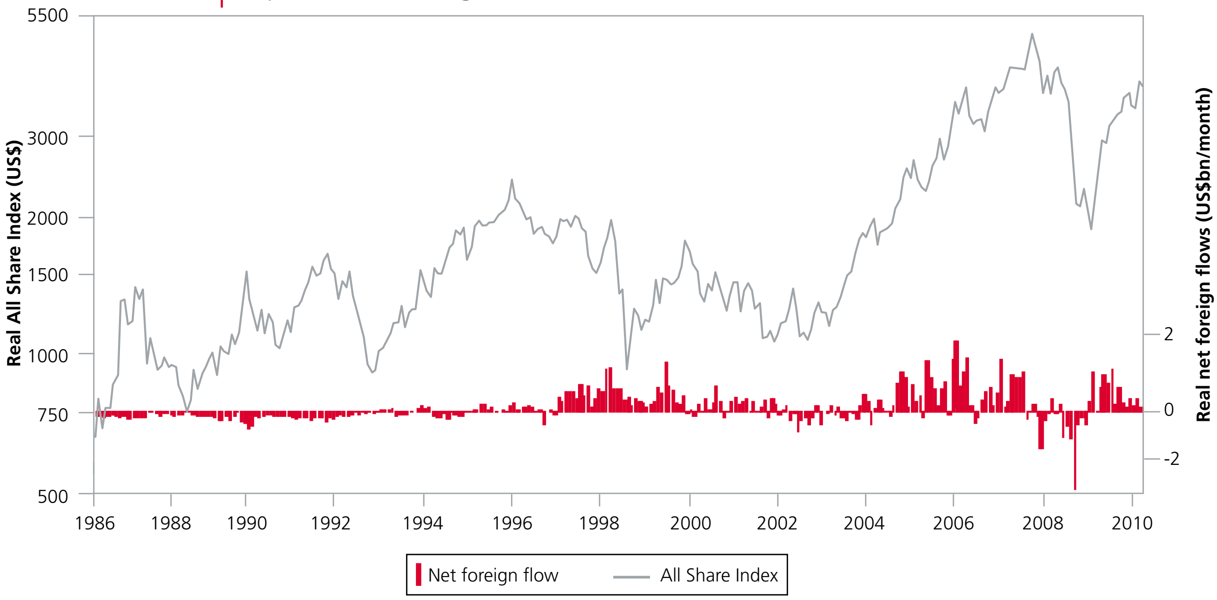
The foreigners arrived at our stock market before our stadiums

I am writing this article on the eve of South Africa's opening World Cup match against Mexico. Hopefully, the vuvuzelas are heralding another important step away from our divided past and towards claiming our place in the international community.

But most ordinary South Africans would probably be surprised by the extent to which our stock market has already been embraced by foreigners since our first democratic elections in 1994. A simple analysis of the top 100 companies listed on the JSE illustrates this point.

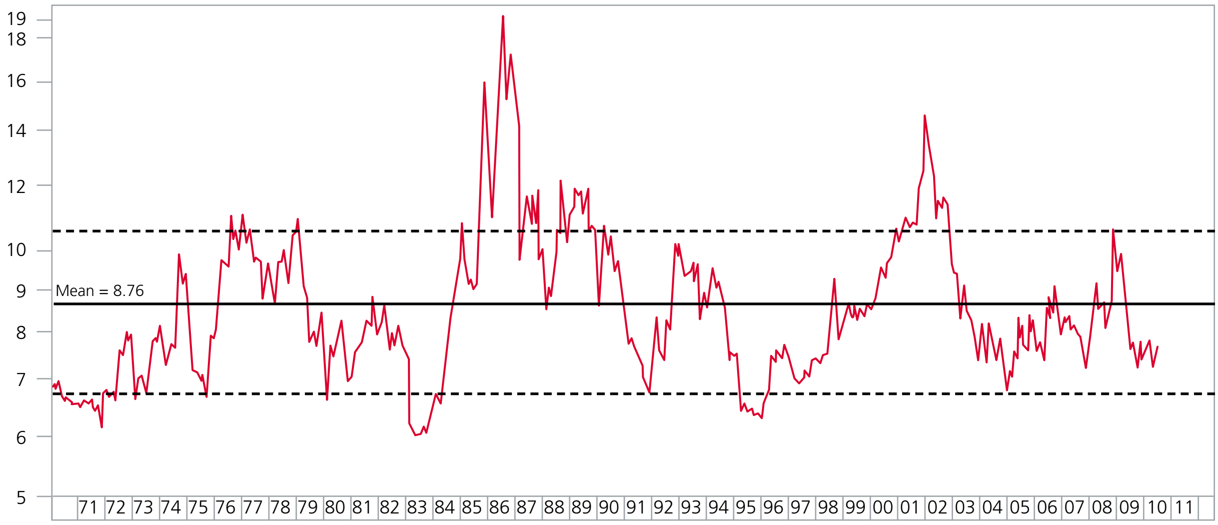
Of the top 100 companies, 11 have a primary or dual listing in Europe (mainly on the London Stock Exchange) and, although South Africans are still significant shareholders in these companies, they are generally in the minority. For example, South Africans now own only 19.5% of SABMiller (our clients collectively own 5% of SABMiller). The other 10 companies are: Anglo American, BHP Billiton, Richemont, Old Mutual,

GRAPH 1 | Impact of net foreign flows on the JSE



Source: I-Net Bridge

GRAPH 2 | Real rand/US dollar



Source: I-Net Bridge

Investec, Capital Shopping Centres, Reinet, Mondi, Lonmin and Didata. Most of these are now multinational businesses, with some significant South African subsidiaries.

A further 10 of the top 100 companies are subsidiaries of multinational companies with only a minority shareholding trading on the JSE. These companies, with the parent company indicated in brackets, include: Anglo Platinum (Anglo American), ABSA (Barclays), Nedbank (Old Mutual), Kumba (Anglo American), Vodacom (Vodafone), ArcelorMittal SA (ArcelorMittal), Illovo (Associated British Foods), Afrox (Linde), Highveld (Evraz) and Palabora Mining (Rio Tinto). Although they are not majority-owned, Aspen (GlaxoSmithKline), Standard Bank (ICBC) and Goldreef / Tsogo (SABMiller, on finalisation of the merger) all have significant strategic multinational shareholders.

> "The two most important lows in our stock market over the last decade … both occurred … when foreigners were net sellers."

The 24 companies listed above tend to be bigger companies, and so collectively they account for just over half of the free float market capitalisation of the FTSE/JSE All Share Index.

But that is not where the story ends. Foreign shareholders account for more than 20% of the shareholders' register in many of the remaining 76 companies. These stakes tend to be portfolio investments by foreign institutional investors and emerging market index-trackers. In some cases, foreign portfolio investors currently own more than half of some iconic South African companies (with percentage of shares held by foreigners estimated in brackets*): Anglogold Ashanti (75.8%), Goldfields (75.5%), Harmony (56.4%), Impala Platinum (50.4%), Naspers (54.3%), Murray & Roberts (61.1%), Massmart (69.3%), Truworths (58.9%).

This is partly a natural result of South Africa's reintegration with the world. While foreigners have been investing in South Africa, South African companies have been allowed to invest and grow outside South Africa, and South African pension funds and savings institutions have been allowed to invest a portion of their portfolios offshore. But it is probably also a result of South Africans selling some of the family silver (or what economists would call 'dis-saving').

Who will be on the other side of the trade if foreigners decide to sell?

If one assumes that South African companies are generally unlikely to sell their foreign operations, and that South African pension funds will probably always want to utilise the bulk

* All shareholding percentages estimated as at 31 March 2010. (Source: TimBukOne)

of their 20% offshore allowance for diversification purposes, then that raises an interesting question. Who will be on the other side of the trade if/when foreign investors decide to sell some of their South African shares?

Graph 1 (on page 2) provides a simple answer. The two most important lows in our stock market over the last decade (in 2002/3 and 2008/9) both occurred at a time when foreigners were net sellers. We should not be surprised when our trading desks are quiet on British and American public holidays. Likewise, we should not be surprised to see short-term swings in our market being dictated not only by foreign investors' perceptions of South Africa (and emerging markets) as an investment destination, but also by their perceptions and reactions to matters that do not have much to do with us, but which are important to them (such as liquidity/debt constraints and asset allocation).

Even if the net portfolio inflows from foreign investors were merely to dry up, rather than turn negative, this would probably impact on the current equilibrium of the country's balance of payments and on the rand. **Graph 2** (on page 3) shows that the rand is currently stronger than its historic average versus the US dollar on a long-term inflation-adjusted basis. We should remember that foreigners are investing in South Africa today for future returns, in the form of dividends, which will have to be paid out from the country and will thus become an increasing drag on our balance of payments in future.

How does all this affect us at Allan Gray?

Very importantly, our investment philosophy and process remain the same. We strive to be disciplined valuation-based investors, taking advantage of bouts of excessive investor pessimism to buy companies at a discount to their intrinsic value. The present optimism and confidence of foreign investors has helped to push valuations on the JSE to much higher levels than at the lows of 2002/3 and 2008/9. We thus have a relatively low equity weighting in our asset allocation portfolios at present.

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.

Simon Raubenheimer

The investment case for BAT

EXECUTIVE SUMMARY: British American Tobacco provides the rare opportunity to invest in a superior quality business in a stable industry at a discount to the average company. With almost six trillion cigarettes consumed every year, we are confident of the company's ability to sustain and grow profits irrespective of global conditions.

To cease smoking is the easiest thing I ever did. I ought to know because I've done it a thousand times.

\- Mark Twain

BAT now listed on the JSE

We last wrote about British American Tobacco (BAT) in the Q4 2007 Quarterly Commentary. At the time, BAT was not listed on the JSE and our clients' stake in BAT was held through Remgro and Richemont. In October 2008, Remgro and Richemont separated their core businesses from their holdings in BAT, and distributed their stake in the tobacco company to their shareholders. This resulted in the listing of BAT on the JSE. BAT accounted for 11% of the Allan Gray Equity Fund at the end of June 2010.

BAT has underperformed the JSE All Share Index by 35% since listing. This has only enhanced BAT's relative attraction, since there have been no significant developments that may impair the future cash flows that the business will generate for its owners. On the contrary, the last two years have confirmed the broad stability of the tobacco sector as BAT's earnings continued to grow in line with its historical trend in a harsh economic climate, while many companies have struggled.

Industry structure

The long-term economics of the tobacco industry are attractive for shareholders of the major producers, and, on balance, industry fundamentals have become more favourable over the past decade.

Tobacco products are habit forming and brand loyalty is high, with the typical user changing brands less often than once every 10 years. Consequently, tobacco consumption is steady and predictable.

Furthermore, there has been significant industry consolidation over the last few years. More than 80% of global tobacco is now controlled by five rational competitors.

Barriers to entry are extremely high. Aside from the challenges of establishing and building a brand in markets which restrict or ban advertising, developing a distribution network of sufficient scale to compete with the existing players is near impossible. Suffice to say, no significant new capital has been attracted to the tobacco industry for decades.

> "BAT's ability to grow profits without the need to retain earnings is a quality the market often overlooks."

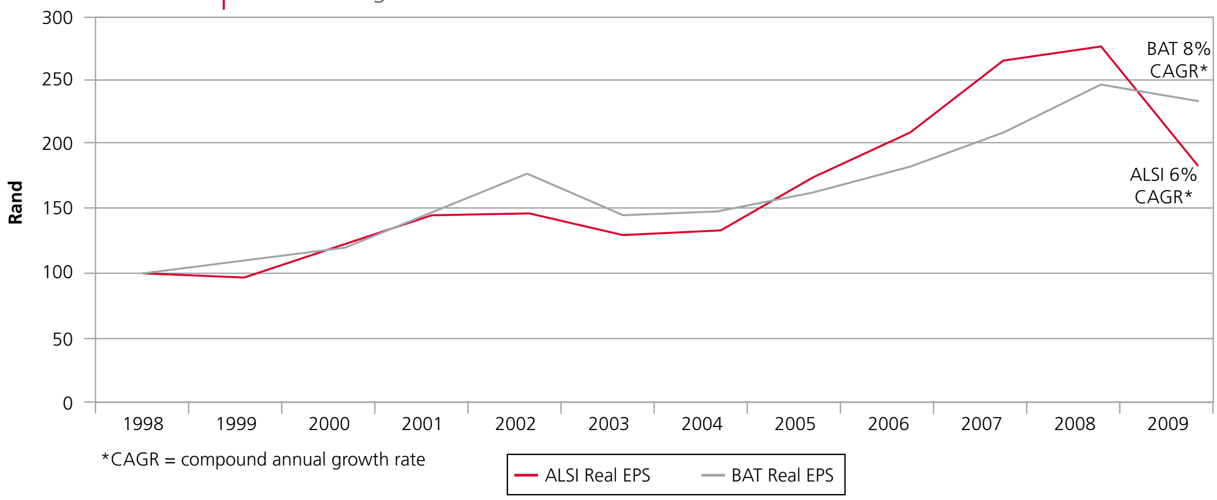
Meanwhile, the evolution of excise tax structures from ad valorem (tax as a percentage of price) to specific (flat tax per cigarette) taxes has favoured the entrenched tobacco companies by further raising the barriers to entry and discouraging price competition. Government interests and those of major tobacco companies are essentially aligned.

Company drivers

First world smoking incidence has been in decline since the harmful effects of tobacco usage were discovered in the 1960s. Despite this steady headwind, the factors contributing to shareholder returns have hardly changed over the decades.

Worldwide, almost six trillion cigarettes are consumed every year. Contrary to popular belief, global cigarette consumption is actually growing. Consumption declines in developed markets are more than offset by a rise in consumption of conventional cigarettes in emerging markets. Emerging

GRAPH 1 | Real earnings



*CAGR = compound annual growth rate

Source: Allan Gray research

markets account for over two-thirds of BAT's volumes, and over half of BAT's profits. Over the medium to longer term, BAT's volumes should be flat or may grow moderately.

BAT's revenue growth continues to exceed its volume growth. This is a function of strong pricing power and favourable mix changes. BAT's 'Global Drive Brands' now account for 27% of its sales volumes, double the proportion they accounted for 10 years ago. These brands (Dunhill, Kent, Pall Mall and Lucky Strike) generate higher margins, and are driven by innovation (e.g. re-sealable packs), product refinements (e.g. Dunhill Fine Cut) and selective marketing.

A century of bolt-on acquisitions has resulted in an unwieldy and sub-optimal manufacturing setup. BAT's subsidiaries produce 725bn cigarettes from 50 factories. Management is on track to deliver on its initiative to contain £800m per year in costs by 2012. Back office integration, supply chain initiatives and slimmer management structures, which generate productivity savings, should result in earnings growing faster than revenues.

BAT's reported earnings equate to the free cash generated by the company. Over time, we expect all the free cash to be returned to shareholders, either through dividends or share buybacks.

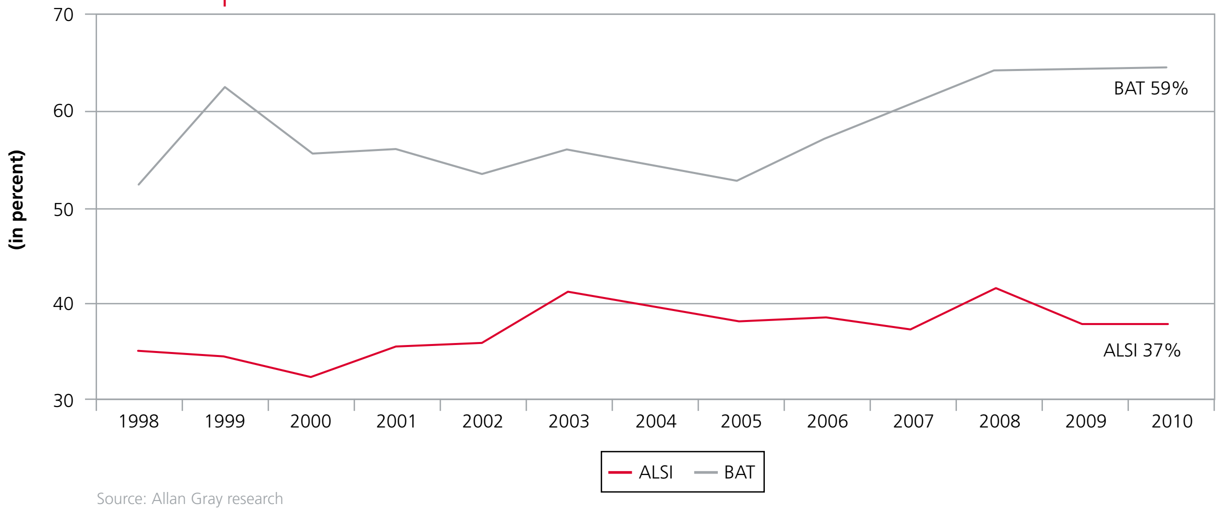
Challenges

The Australian government is considering passing legislation that would force tobacco companies to remove all colour and logos from cigarette packs from 2012. The adoption of generic, or plain packaging, by governments around the world is probably the single largest regulatory threat to the tobacco industry. Plain packaging will restrict the consumer's ability to differentiate tobacco products, and may result in a loss of market share of premium (more profitable) brands over time. This risk is not new; numerous countries (UK, Canada, New Zealand) have contemplated such action in the past but never decided to proceed. Plain packaging is unlikely to affect overall smoking incidence, and would result in markedly higher levels of illicit trade and lower levels of government tax receipts.

A sharp and unexpected excise or tax increase may also impair industry profitability. Seventy percent of the revenue generated by the sale of every BAT cigarette already goes directly to government in the form of excise and taxes – 10 times more than the profit generated per cigarette for BAT shareholders. Given the low price elasticity of tobacco products, increases in excise generally result in higher cigarette prices, higher overall net manufacturer revenue and higher profits. Recent examples of this were in the US, Brazil, Canada, Pakistan, Ukraine, and South Africa.

Tobacco consumption is not immune to economic conditions. While overall consumption is not significantly affected, illicit trade increases in tough times, particularly when unemployment rises. It is estimated that 12% of world consumption, or 700bn cigarettes annually, are currently sold on the black market.

GRAPH 2 | Dividend payout rate



Source: Allan Gray research

Many of the regulatory threats tobacco companies face are in the base already. Current volumes are in the context of public smoking bans, advertising and packaging restrictions, health warnings and tax increases. These risks are to some extent also mitigated by BAT's geographical and brand diversity. No single country accounts for more than 13% of profits and BAT's portfolio is evenly distributed between premium, mid-price and value brands.

Quality at a discount

BAT is currently trading on a price to earnings (P/E) ratio of 13x. The FTSE/JSE All Share Index (ALSI), by contrast, is on 16x earnings. The real attraction of BAT, however, is that the company's economics allow it to pay out substantially all of its earnings to shareholders and still grow. BAT's current dividend policy is to pay out 65% of earnings to shareholders. This results in a dividend yield of 5.2%, versus the ALSI's dividend yield of 2.3%. Since 1998, BAT has grown its earnings at a similar rate to the JSE (see **Graph 1**), despite paying out a far greater share of earnings to shareholders (see **Graph 2**). BAT's ability to grow profits without the need to retain earnings is a quality the market often overlooks.

In addition, management is good at allocating capital. Following the integration of three recent earnings-enhancing acquisitions (Bentoel Indonesia, Tekel Turkey and Scandinavian Tobacco Company), the 65% payout rate is likely to be supplemented by share buybacks, as it was before the acquisitions. Most of BAT's free cash will be returned to shareholders.

An investment in BAT would have outperformed the FTSE by 2% per annum over almost 100 years. The inherent stability that characterises tobacco consumption gives us confidence in BAT's ability to sustain and grow profits irrespective of global conditions. It is seldom that superior quality businesses in stable industries can be acquired at discounts to the average company. BAT provides one such opportunity.

Simon is an equity portfolio manager. He is a CFA charter holder and has been with Allan Gray since 2002.

Richard Carter

The Stable Fund completes a decade

EXECUTIVE SUMMARY: The Allan Gray Stable Fund celebrated its 10-year anniversary on 1 July. This is a good time to reflect on how the Fund has performed over its first 10 years and to consider what the next 10 years may hold. With equities largely responsible for the Fund's exceptional run, investors need to be aware that the significant outperformance is unlikely to be repeated over the next decade.

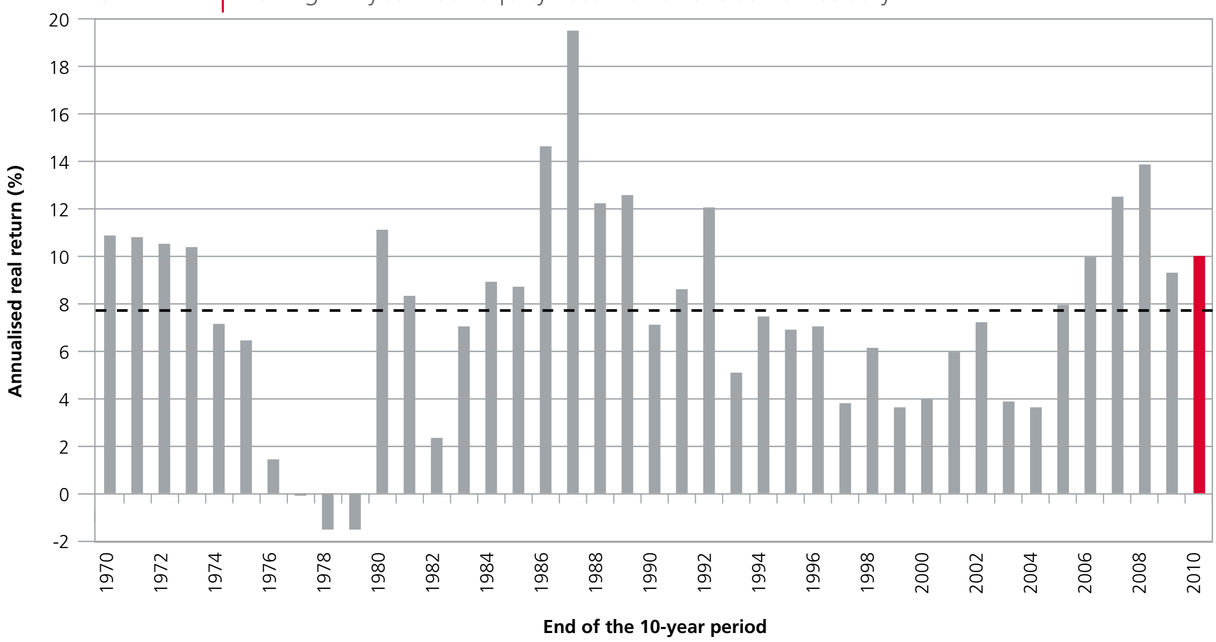
Over the first 10 years of its existence the Stable Fund has performed exceptionally well, beating its benchmark by 5.8% on an after-tax basis. While we are proud of these returns, we caution that they will not necessarily be repeated, especially in light of the Fund's objectives, which are:

- To provide a return that exceeds the return on cash plus 2%, on an after-tax basis, at an assumed tax rate of 25%
- To provide a high level of capital stability (rather than to provide exceptional returns)
- To minimise the risk of loss over any two-year period (Interestingly, since inception there have been no two-year periods where the Fund has delivered a negative return.)

Objectives achieved through varying asset allocation

The Stable Fund invests in a selection of bonds, cash and shares, and its asset allocation complies with the Prudential Investment Guidelines, as laid down in the Pension Funds Act. The portion of the Fund invested in the money and bond markets is actively managed, with fund managers aiming for real returns at low risk. The Fund's maximum net equity exposure is limited to 40%. However, unless the stock market

GRAPH 1 | Rolling 10-year real equity returns for the JSE since July 1960



Source: I-Net Bridge

offers exceptional value, the Fund's equity exposure is likely to be significantly lower.

When investors' expectations are low and stock markets offer good value, the Stable Fund is attracted to the limited downside and the potential for upside surprises. Vice versa, when stock markets offer little value, the Fund is concerned about the potential downside and it reduces its equity market exposure.

"The Stable Fund remains a compelling option for investors who are seeking to preserve capital over a two-year time horizon."

Strong returns thanks to equities

The last 10 years has been a great decade for equities and this environment has contributed to the Fund's strong performance. **Graph 1** shows the rolling 10-year equity returns adjusted for inflation for every 10 years starting in July 1960 up to the present date.

While not the best on record, the most recent 10 years, highlighted in red, produced a return of 10% above inflation, significantly more than the 8.6% return for the full 50 years.

Over these 10 years the average net equity holding of the Fund has been 27%. A strategy of holding this proportion in the FTSE/JSE All Share Index (ALSI) with the balance in cash would have given a return in the region of 3% more than cash on an after-tax basis, but before fees are taken into account. This illustrates the strong tailwind the Fund has had over the period, helping it to deliver strong returns.

Offshore exposure may bolster future returns

One does not know what the future will hold but it is unlikely that the next 10 years will be as good for equities as the last 10 have been. We have been steadily lowering the Fund's net equity exposure, which currently sits at just over 14%. Given this low current net equity exposure, investors could be forgiven for thinking that we have given up and are happy to accept safe returns close to cash. In fact, much of the share exposure has been removed by selling stock index futures and not selling the underlying shares. Before this hedging, the Fund had 38% gross equity exposure, which means that the Fund is still exposed to the potential for us and our offshore partner Orbis to add value through stock picking, to the extent that the shares we pick do better than the overall index.

GRAPH 2 | Inflation-adjusted rand/dollar exchange rate

Source: I-Net Bridge

However, it remains unlikely that these equities will deliver the same results as before. Fortunately, there are other opportunities to bolster the Fund's returns, one of which is the Fund's high offshore exposure. Although the Fund's offshore exposure has been a significant drag on performance over the last year as the rand has strengthened, we expect it to contribute positively over the long term if the rand weakens (which we regard as more likely than long-term strength from this point).

Graph 2 (on page 9) shows the appreciation of the rand versus the dollar in real terms. The rand has appreciated remarkably over the last 10 years, particularly after allowing for inflation. We think that it is more likely that the rand will lose ground against the dollar from here, rather than the other way around. Over the long term, we expect the Fund's exposure to foreign assets, via its holding in Orbis funds, to bolster returns.

Overall, the Stable Fund remains a compelling option for investors who are seeking to preserve capital over a two-year time horizon. However, investors should not necessarily expect the Fund to deliver the same phenomenal returns of the last decade in the next.

Richard heads up product development within the retail business unit, which includes responsibility for retail legal and compliance. He is a qualified actuary and joined Allan Gray in 2007 after working for several years in financial services in the UK.

Jonathan Brodie

Trevor Black

The story is in the stocks

EXECUTIVE SUMMARY: Investors who give their money to professional managers to invest still wish to remain informed about what their managers are thinking and how therefore they are investing their money. Jonathan Brodie and Trevor Black, from our offshore partner Orbis, look at the best way to do this and what pitfalls you should avoid.

For macro-orientated managers, look at their portfolio weightings relative to the index

Some managers take a 'top-down' or macro-orientated approach to investing. In other words, they focus on economic data, variables and trends before deciding on countries and sectors and only then analyse specific shares in which to invest. To understand these managers' views, it is customary to look at their 'active bets' or how their portfolios are weighted relative to the index.

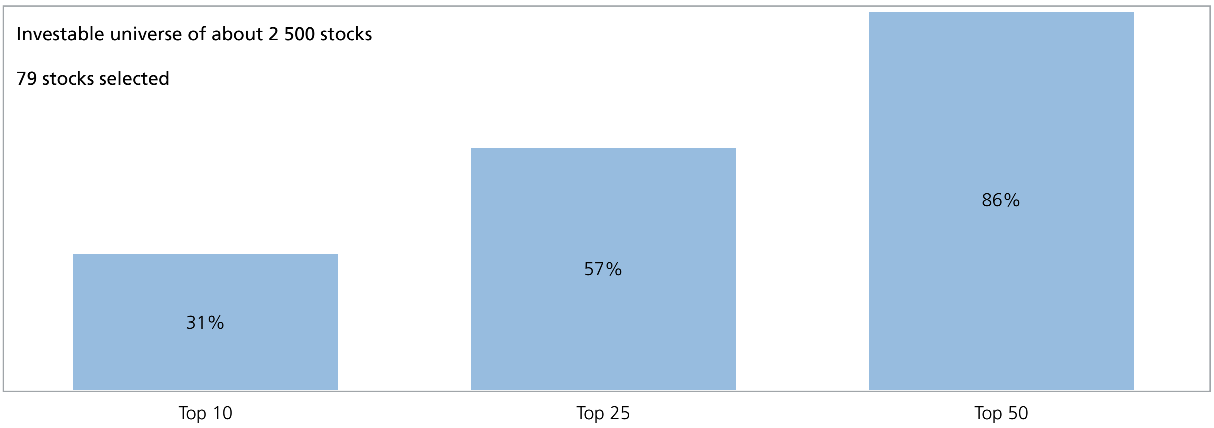
This approach can lead to some misunderstanding if the manager is a 'bottom-up' stock picker, such as Orbis. As a bottom-up stock picker, we focus our time and attention on understanding individual companies, with the belief that, at any time, there will be some that are undervalued and have the potential to outperform regardless of the overall sector, economy or country in which they operate.

The key to our views lies in understanding our investment process

The way to remain informed about our views is to understand and appreciate the process by which Orbis selects businesses, rather than focus on any particular stance relative to the index. Doing this is a distraction.

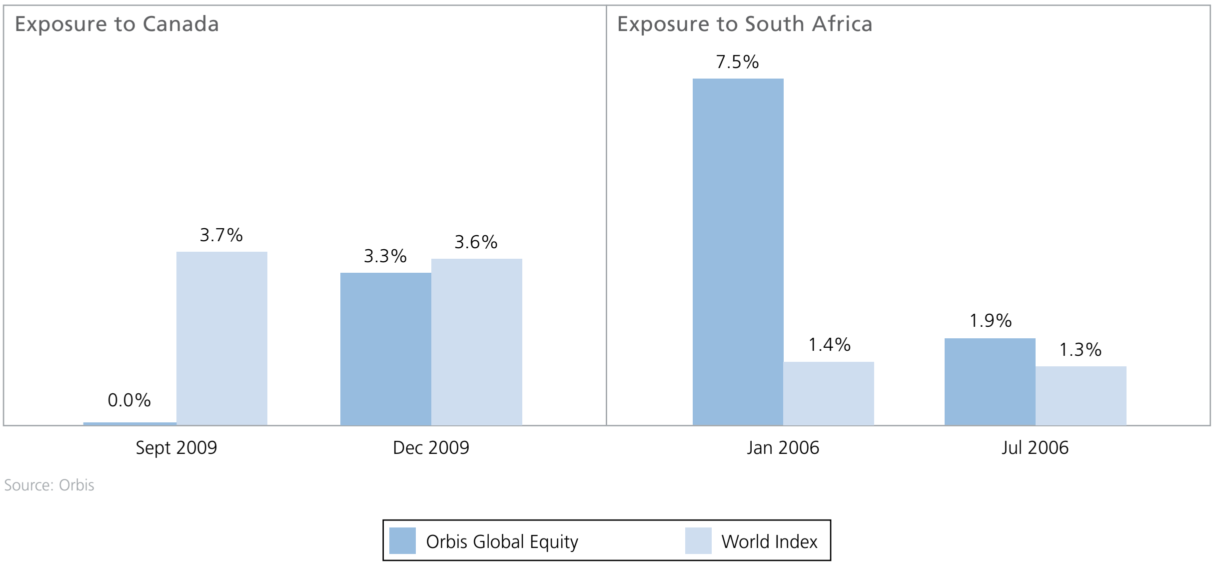
We search for businesses we believe we can buy at a significant discount to their intrinsic value. In industry jargon, we are 'benchmark unaware'. This means we do not look at benchmark holdings or base our investment decisions on taking views relative to the benchmark. Due to this approach, our individual stock picks determine our country weightings, rather than a particular view on the country from where the stock comes. We run a focused portfolio so any over- or under-weight positions are often the result of a relative handful of holdings in selected companies.

GRAPH 1 | Orbis Global Equity Fund – concentration



Source: Orbis, as at 30 June 2010

GRAPH 2 | How top-down views can distract



Source: Orbis

This is why top-down measures of sector or regional exposures of our portfolio can be very distracting as they bear no relationship to our investment approach.

Graph 1 (on page 11) shows that Orbis typically has about 30% to 40% of the portfolio in the Top 10 holdings. In a global context, given the size of the investable universe, this is very concentrated. For example, at the end of June 2010, we held 79 companies out of a possible 2 500 stocks (after screening for size and liquidity) in our primary research universe. This means we have positions in only 3% of the stocks in our potential universe and our Top 50 positions account for about 86% of the portfolio.

Our regional and country exposure is driven by a very modest number of holdings because the portfolio is concentrated

While we hold 41% of the portfolio in US stocks, the exposure is from only 25 companies out of well over 1 000 US stocks in our purchase universe. Where we hold 18% of the portfolio in Japan, this exposure is from only holding 14 companies out of a purchase universe of about 250. When you combine a focused portfolio with our contrarian views and the conviction to stand by those views, our portfolios can deviate from their benchmarks, often quite substantially.

How regional weightings can be distracting

Graph 2 shows the exposure of the Orbis Global Equity Fund and the World Index to Canada and South Africa at two different times. On the left, the Orbis Global Equity Fund had no exposure to Canada in September last year. Three months later, it looks like our views on Canada are more neutral than bearish. On the right, we look at Orbis' exposure to South Africa in January 2006 and then six months later. In this case, it appears as if Orbis was initially very bullish on South Africa and that this changed to being close to neutral.

In both cases, the interpretation of the apparent 'move to neutral' in terms of country views would be incorrect. In each case, this movement was company specific, and because of just one stock. In Canada last year, we bought RIM (Research In Motion). In South Africa in 2006, we sold Sasol.

Sasol, which needs no introduction in South Africa, had quadrupled while we owned it. Meanwhile, unusually low valuations had emerged in a handful of high-quality US companies like Cisco. The sale of our Sasol shares shifted the Fund's country exposure, but this was due to the competitive process for investment capital, not a top-down view that drove our decision. (Note that this was in 2006. Prices and values have since moved and Allan Gray is again seeing value in Sasol.)

RIM manufactures the Blackberry handheld device as well as integrated back-end software and services that support multiple wireless standards. The market feels uncertain about RIM's consumer business because Apple's iPhone dominates and other viable competitors such as Motorola's DROID are entering the space. In focusing on this, we feel the market has been missing an opportunity. We believe that RIM's business should be valued by disaggregating the franchise into two components:

- The enterprise business and
- The consumer business

The enterprise business is a great business, returning more than 30% on invested capital with a very defensible moat. It is a 'need to have', not a 'nice to have' efficiency tool for knowledge workers. RIM provides a highly scalable, reliable, and secure messaging service that is 'always-on' which differentiates it from its competitors and makes it exceptionally difficult to replicate. Switching costs are high and RIM's network dramatically reduces the bandwidth telecom carriers require, which makes it a valuable infrastructure partner to those carriers.

When we bought the stock, it was trading at less than what we believed to be a conservative valuation for just the enterprise business, which effectively gives us the company's global consumer business for free. While Apple is better than RIM in the US consumer market, RIM's dominance in the enterprise arena and opportunity in the global consumer space are, in our assessment, not appreciated by the market.

"… by holding a focused portfolio …, we believe we can generate value over time."

The enterprise business represents a great margin of safety. The multiple that the stock is now trading at (about 9x our estimate of February 11 earnings) seems to ignore the global growth potential of the company.

As ever, it is worth noting that historically only about 60% of our stock picks have outperformed the market, so we highlight RIM merely as an example within the portfolio. The key point is that our research has convinced us that it is priced below what it is worth, and by holding a focused portfolio of these ideas, we believe we can generate value over time.

Orbis analysts do not offer views on macro trends, we focus on understanding businesses and building focused portfolios

So when asking an Orbis analyst how they are thinking, the answer is unlikely to concentrate on the difficult macro-economic conundrums that plague investors today. While we remain very cognisant of the fact that the businesses we analyse operate in, and are subject to, the vagaries of macroeconomic cycles, we spend the majority of our time focusing on the individual factors (which we believe can be analysed with a greater degree of certainty) which drive the long-term intrinsic values. We build our portfolio in a focused, bottom-up way and apply a consistent philosophy over different cycles. Ultimately, we believe the story is in the stocks.

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.

Trevor is a qualified actuary and certified financial planner. He joined Orbis in 2008 and is a member of the Investment Counsellor Group with a specific focus on clients domiciled in Africa and Japan.

Chris Tisdall

Service worth talking about

EXECUTIVE SUMMARY: Although we do our utmost to provide exceptional investment returns we cannot guarantee that we will always get it right – we have no control over market fluctuations. What we do have control of, and what we strive to always get right, is our service. At Allan Gray we aim to exceed expectations – and we hope that this service will encourage investors to stay the course. Chris Tisdall elaborates.

At a dinner party recently I asked some friends if they could give me examples of really good service they had experienced. They were all stumped. But no one had any problem recalling stories of appalling service. Not the best word-of-mouth PR for the businesses we were discussing.

A key question we ask investors and independent financial advisers in our satisfaction surveys is whether they would recommend Allan Gray to someone else. Your answers to this simple question give us insight not only into your satisfaction with your investment returns, but also your satisfaction with the service you receive from us. The question recognises that word of mouth has been, and continues to be, an important element in the growth of our business, especially as we subscribe to the mantra that 'investment products should be bought and not sold'.

Encouraging you to stay the course

We believe that our service needs to reinforce the importance for you to 'stay the course' to achieve your investment objectives. That is, never to give you reason, based on poor service, to leave our funds before you have achieved your goals.

We aspire to provide a level of service commensurate with our ability to create wealth over the long term. This means that we are continuously striving to improve the service we offer – our turnaround times, the accuracy and completeness of information and the tone and manner in which we engage with you.

> "We want every client to be able to report an excellent experience every time they deal with Allan Gray."

Constantly aiming to improve

We have come a long way in both volumes of transactions and client interactions that we handle on a daily basis. In an average month we currently receive approximately 16 000 telephone calls, 12 000 emails, 20 000 instructions (e.g. additional contributions) and 80 000 website log-ins. We answer 90% of the calls in 20 seconds or less; 85% of emails in four hours or less; make less than four errors in 1 000 instructions; and our secure website is available 96% of the time. These results are encouraging, but not good enough. We have zero tolerance for errors. We want every client to be able to report an excellent experience each time they deal with Allan Gray. There is always more that we can do – providing great service is an ongoing challenge.

Over time we have seen a number of subtle but material shifts in client behaviour. More and more clients are using our online and email services, which has reduced the growth rate of calls coming into our Client Service Centre. And, possibly as a result of the convenience and immediacy of the website, investors' expectations of non-online channels have increased.

Some things change

Given the nature of service, there are times when we fall short of our own high standards. We have a number of feedback loops in place to pick up on service failures, complaints and suggestions (from investors, financial advisers and staff). We use these to direct our efforts in fixing problems and introducing new offerings, for example:

- You can now invest via our website (www.allangray.co.za) rather than completing a paper-based application form.
- You can upload outstanding documents (e.g. proof of deposit) via our secure website rather than sending us a fax or email.
- You can authorise your financial adviser to submit instructions via our secure website.
- We will notify you via SMS when we receive or complete an instruction. If your financial adviser submits the instruction we will notify him/her via email.
- You can choose to receive all your communications from Allan Gray via email.

Some stay the same

We have consciously not changed some of the elements of our service:

- When you call our Client Service Centre you will always speak directly to a consultant i.e. we do not have a computerised system attempting to route calls.
- All of our consultants are multi-skilled – any one of them can handle calls as basic as a latest investment account balance to detailed explanation of fund performance.
- You can choose whether you would like to interact with us by phone, email or our website.
- Before giving out any information over the phone, our consultants will ask you a few verification questions to ensure they do not disclose confidential information to the wrong person.
- Although we do not provide advice we continue to recommend that you use an independent financial adviser to help you make appropriate investment decisions.

No article on service would be complete without acknowledging the Allan Gray staff members who deliver it. There is simply no substitute for service-oriented individuals who take ownership of queries and ensure they are answered quickly, accurately and in a professional and respectful manner. We seek to recruit individuals with the right balance of financial qualifications, experience and service ethic. Most of our employees are university graduates and a significant number hold post-graduate, honours or masters degrees. We invest heavily in their training on our funds, products and processes and encourage and support their further education in the industry.

Put simply, we want to be remembered for giving you the best investment results (of course), but we also want to be remembered for giving you exceptional service. The next time someone asks you about a positive service experience we would like Allan Gray to be top of mind. When each of our clients can tell a positive tale, we will know we have achieved our goal of service excellence.

Chris joined Allan Gray in February 2006 and is currently responsible for client experience in our retail business. Prior to joining he worked as a management consultant specialising in business strategy, client relationship management and e-commerce.


Michael Summerton

Carla Rossouw

Early withdrawals from your retirement savings can be taxing

EXECUTIVE SUMMARY: In this article, Michael Summerton and Carla Rossouw provide an overview of how withdrawal and retirement benefits are taxed. They use practical examples to show how this tax is calculated. They illustrate how you can save tax by deferring your withdrawal until retirement. They also look at the tax relief Treasury provides on benefits received when a retirement fund member is retrenched.

Regular readers of our commentary will know that we encourage a long-term approach to investing. We especially encourage investors not to be tempted to dip into their retirement savings. Withdrawing funds from your retirement savings before you retire, not only reduces the tax-free amount available to you when you retire, but also causes the benefit that you take at retirement to be taxed at a higher rate. Therefore, by deferring withdrawals until you retire, you may reduce your total tax bill.

Making sense of your potential tax bill

There are two main categories of benefits that retirement funds pay members.

1. Withdrawal benefits: Payable before retirement (for example if you resign or get divorced)
2. Retirement benefits: Payable when you retire from the fund or upon your death

Before 1 October 2007, the tax on retirement and withdrawal benefits received from retirement funds (including pension, provident and retirement annuity funds) was determined by a complex ratings formula. This formula was simplified from 1 October 2007, with further changes coming into effect on 1 March 2009.

In terms of the latest provisions, your tax liability for retirement and withdrawal benefits is determined by 'special rate' tables. If you are a member of a retirement fund, you do not pay tax on the first R300 000 when you retire from the fund, or upon your death. However, if you withdraw cash before you retire, only the first R22 500 is tax free. In both instances, the tax-free amount is a 'once-in-a-lifetime' concession.

The 'special rate' tables take into account all withdrawal and retirement benefits you received or accrued on or after 1 October 2007. In other words, all the benefits you received on or after 1 October 2007 are added together to calculate how much tax you owe when you withdraw or retire from your retirement fund. (Refer to **Example 3**.)

Tax on withdrawal benefits

From 1 March 2009, all withdrawal benefits from a retirement fund are taxed according to the withdrawal benefit table (see **Table 1**).

Example 1

Mr A is a member of two pension funds. He resigns from his employer and decides to withdraw from one of his funds (as opposed to preserving his savings until retirement). Mr A receives a R250 000 withdrawal benefit from the fund. The tax he has to pay on the R250 000 is calculated as follows:

TABLE 1 | Withdrawal benefit table

Taxable income from lump sum benefits	Rate of tax
R0 – R22 500	0%
R22 501 – R600 000	R0 plus 18% of taxable income exceeding R22 500
R600 001 – R900 000	R103 950 plus 27% of taxable income exceeding R600 000
R900 001 and above	R184 950 plus 36% of taxable income exceeding R900 000

- Step 1: Apply the withdrawal benefit table (Table 1) to the withdrawal amount:
  Calculation: R0 + 18% x (R250 000 – R22 500)
  Tax payable: R40 950

Using Table 1, Mr A need not pay any tax on the first R22 500 of the R250 000. The remaining R227 500 is taxed at a rate of 18%. Based on the above calculation, he must pay an amount of R40 950 on his withdrawal benefit.

Example 2
Mr A subsequently decides to withdraw R350 000 from his second pension fund. Using Table 1, the tax that he must pay on the subsequent R350 000 withdrawal benefit is calculated as follows:

- Step 1: Add up the withdrawal benefits received.
  Calculation: R250 000 + R350 000
  Total withdrawal benefits: R600 000

- Step 2: Apply the withdrawal benefit table (Table 1) to the full amount.
  Calculation: R0 + 18% x (R600 000 – R22 500)
  Tax payable: R103 950

- Step 3: Subtract the tax Mr A had to pay on all withdrawal benefits he received prior to the withdrawal benefit of R350 000. We have already calculated this in Example 1 as being R40 950.
  Calculation: R103 950 – R 40 950
  Total tax payable: R63 000

Mr A must therefore pay a total of R63 000 in tax for his second withdrawal benefit.

Tax on retirement benefits

Retirement benefits are taxed according to the rates shown in **Table 2**.

You do not have to pay tax on the first R300 000 of your retirement benefit. As stated earlier, this is a once-off concession. This means that while your first-time retirement benefit of R300 000 is exempt from tax, any subsequent retirement benefits of R300 000 will be taxed at 18%, the rate applicable to the next band of the retirement benefit table.

Example 3
Mr A now decides to retire from his retirement fund and receives a retirement benefit of R100 000. Taking into account that he has already received two withdrawal benefits (see Examples 1 and 2), the tax he must pay on the R100 000 is calculated as follows:

- Step1: Add up the retirement and withdrawal benefits Mr A received.
  Calculation: R250 000 + R350 000 + R100 000
  Total benefits: R700 000

- Step 2: Apply the retirement benefit rate table (Table 2) to the full amount.
  Calculation: R54 0000 + 27% x (R700 000 - R600 000)
  Calculation: R54 000 + R27 000
  Tax payable: R81 000

- Step 3: Add up the withdrawal benefits received before retirement (i.e. from Examples 1 and 2) and apply the amount to the retirement benefit table (Table 2).
  Calculation: R250 000 + R350 000
  Total benefits: R600 000
  Calculation: R0 +18% x (R600 000 - R300 000)
  Tax payable: R54 000

- Step 4: To calculate the total tax payable on the retirement benefit of R100 000, subtract the tax payable in Step 2 from the tax payable in Step 3.
  Calculation: R81 000 – R54 000
  Total tax payable: R27 000

TABLE 2 | Retirement benefit table

Taxable income from lump sum benefits	Rate of tax
0 – R300 000	0%
R300 001 – R600 000	R0 plus 18% of taxable income exceeding R300 000
R600 001 – R900 000	R54 000 plus 27% of taxable income exceeding R600 000
R900 001 and above	R135 000 plus 36% of taxable income exceeding R900 000

TABLE 3 | Summary

Benefits received in Examples 1, 2 and 3		Tax paid	Average rate of tax
Initial withdrawal	R250 000	R40 950	16.4%
Subsequent withdrawal	R350 000	R63 000	18.0%
At retirement	R100 000	R27 000	27.0%
Total	**R700 000**	**R130 950**	**18.7%**

TABLE 4 | Reduction in tax payable

Retirement benefit only		Tax paid	Average rate of tax
At retirement	R700 000	R81 000	11.6%
Tax reduction		**R49 950**	**7.1%**

The R54 000 is not the actual tax paid on the previous withdrawal benefits, but rather the amount of tax Mr A would have paid on his withdrawal benefits had he postponed them until his retirement. The difference between the solutions in Step 2 and Step 3 (i.e. R27 000), is the actual tax payable on the R100 000 retirement benefit that Mr A received.

If Mr A had deferred his two withdrawals and taken the full R700 000 at retirement he would have saved R49 950 in tax as displayed in **Table 4**.

Retrenchment

Recent changes to the Income Tax Act (effective from 1 March 2010) mean that if you withdraw from your employer's retirement fund because you are retrenched, your withdrawal benefit will, in certain circumstances, be taxed in the same way as if you had retired from that fund.

The intention of the amendments is to treat the withdrawal benefit on retrenchment in the same way as a retirement benefit for tax purposes. The R300 000 exemption and aggregation principle apply.

These changes apply only to withdrawal benefits if you are retrenched from an employer retirement fund, and not to any other retrenchment bonuses or gratuities (other payments) your employer pays you. Depending on your circumstances, retrenchment bonuses and gratuities qualify for the R30 000 tax exemption in terms of section 10(1)(x) of the Income Tax Act, with the balance being taxed at your average rate of tax.

Michael joined Allan Gray in May 2008 and is responsible for retail finance. He was previously a senior audit manager with Ernst & Young in Cape Town and New York where he specialised in the Financial Services and Oil & Gas industries respectively. Michael qualified as a Chartered Accountant (SA) in 2004.

Carla joined Allan Gray in 2006 and is responsible for taxation in the retail business, and accounting for the offshore platform. She has an Honours degree in Management Accounting and completed her Higher Diploma in Tax Law in 2008.

Anthony Farr

The Allan Gray Orbis Foundation update

EXECUTIVE SUMMARY: The middle of 2010 marks the Allan Gray Orbis Foundation's fifth birthday. While this is a significant milestone and the Foundation is satisfied with its early progress, CEO Anthony Farr notes that what has been achieved so far is merely a platform for the real long-term impact the Foundation aspires to make. The reality of change, lasting change, is that it takes time.

Malcolm Gladwell's book 'Outliers' explores the factors behind individuals who achieve success. He explains that a person needs to invest at least 10 000 hours in an activity before he or she is able to master this. Five years into the Foundation, we have now served our initial apprenticeship of 10 000 hours in the field of human capital development. In many ways, therefore, while we continue to make progress, from a long-term perspective we are only at the beginning. The reality is that lasting change takes time.

> "... while we continue to make progress, from a long-term perspective we are only at the beginning."

New fellowship offers

We have now completed the 2010 Early Selection process and are pleased that we have made 24 conditional Allan Gray Fellowship offers. (The schools from which these students hail are included in the listing of Circle of Excellence Schools viewable at: http://www.allangrayorbis.org/teachers/circleofexcellence)

One of the main themes of this year's selection has been a focus on building partnerships with other organisations involved in the development of young talent. We are all pursuing a greater common goal and it makes sense to optimise all possible synergies. So far this has led to us engaging with over two dozen institutions such as the African Leadership Academy, Rotary and Thuthuka Science & Maths, either by way of our 2011 Fellowship Launch Events or by targeted strategic discussions.

To build stronger relationships with schools with good potential that were not included in the list of 100 Circle of Excellence institutions, we initiated a further tier of 200 Gold Partner schools to nominate candidates for the mainstream selection process. Through this, we are able to make better use of on-the-ground educator knowledge in finding candidates. We will also prioritise visits to Gold Partner schools. To date, we have received over 250 nominations from this network.

Allan Gray Fellowship: in pursuit of excellence with each other's support

The Foundation, in partnership with its placement universities, constantly aims to take its facilitation of academic excellence within the Fellowship to a higher and more sophisticated level. We are convinced that opportunities follow excellence, and that the entrenched habit of pursuing excellence is one that will serve our Fellows well for the rest of their careers.

Highlights from the past five years:

1. The Foundation has received just fewer than 20 000 individual, handwritten application forms from talented learners across the region for its two programmes. These have led to over 2 200 interviews, before approximately 1 000 candidates attended our intensive, often life-changing, selection camps.
2. We have provided nearly 750 years of fully funded academic tuition at 23 of the finest secondary and tertiary institutions in the country.
3. Two groups have graduated.
4. One hundred man-years have been invested in these activities already by full time Foundation staff.
5. There have been over 100 000 visits to our website.
6. This year alone, the Foundation is supporting over 300 beneficiaries.

Other elements of the Fellowship continue to evolve. In April, over 60 second year Allan Gray Fellows from around the country gathered at a camp site near Villiersdorp in the Western Cape, for a 'Connect' event. We hold these events to inspire a deeper understanding of the Fellows' community. We designed activities at the camp to encourage group interaction and to build confidence in each other's support.

Second Foundation graduation

Sixteen individuals recently graduated from the Allan Gray Fellowship. Held in Johannesburg, the second Foundation graduation included for the first-time graduates from the Eastern Cape, a programme that started a year later than the Western Cape and Gauteng. It was particularly fitting that our patron, Allan W.B. Gray, as well as his wife Gillian and son William attended.

Mr Gray had important advice to pass on to the graduates as they prepared to continue their journey beyond university. He reminded them that this milestone was a beginning, not an end; and secondly he gave a stirring plea for them: '…to follow your passions and interests; to leverage and develop them in such a way that will make your work more of a continuum to give you great satisfaction, great excitement, and make the whole of your life fulfilling.' In addition to this wisdom, he encouraged them, 'to take a moment to smell the magnolias, to enjoy your efforts and take time to treasure this moment' before heading full speed onto their next goals.

Allan Gray Scholarship: the number of Allan Gray Scholars continues to grow

The Foundation's Scholars Team has completed its selection process which began at the end of last year with over 5 000 applications and ended with the team recommending 50 Allan Gray Scholarships to our various placement schools. For the first time, this campaign included two final stage selection camps that 99 candidates attended. The camps were in Cape Town and Johannesburg. This allowed for 14 different individual and group assessment opportunities.

The current 78 Allan Gray Scholars have continued their progress and the Foundation hosted both the Grade 8 (focusing on 'Identity') and Grade 9 (focusing on 'Discovering my career') National Development camps. We are particularly pleased at how many of the Scholars are starting to excel in various fields.

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

Allan Gray Balanced Fund quarterly disclosure as at 30 June 2010

	% of Fund
South African equities	**45.8**
Resources	**12.1**
Sasol	4.7
Anglogold Ashanti	3.9
Harmony Gold Mining Co.	1.6
BHP Billiton	0.7
African Rainbow Minerals	0.5
Positions individually less than 1% of total JSE-listed securities held by the Fund	0.6
Financials	**6.8**
Sanlam	2.6
Standard Bank Group	1.2
Reinet Investments SA	1.0
Positions individually less than 1% of total JSE-listed securities held by the Fund	1.9
Industrials	**26.4**
SABMiller	6.5
Remgro	3.9
MTN Group	2.3
Dimension Data Holdings	1.6
Sappi	1.5
Nampak	1.4
Illovo Sugar	1.0
Tongaat-Hulett	0.8
Sun International	0.8
Netcare	0.7
Compagnie Fin Richemont SA	0.6
Positions individually less than 1% of total JSE-listed securities held by the Fund	5.6
Other securities	**0.5**
Positions individually less than 1% of total JSE-listed securities held by the Fund	0.5
Derivatives	**-1.1**
ALSI 40 0910-RMB	-1.1
---- Net South African equities ----	*44.7*
Hedged South African Equities	**1.1**
Commodities	**3.8**
New Gold ETF	3.8
Bonds	**9.6**
RSA Bonds	5.9
Parastatal Bonds	0.2
Corporate Bonds	3.6
Money market and call deposits	**20.9**
Foreign - JSE inward listed shares	**3.6**
British American Tobacco Plc	3.6
Foreign - Orbis absolute return funds	**8.7**
Orbis Optimal SA Fund (US$)	5.5
Orbis Optimal SA Fund (Euro)	3.2
Foreign - Orbis equity funds	**7.6**
Orbis Global Equity Fund	4.3
Orbis Japan Equity Fund (Yen)	2.2
Orbis Japan Equity Fund (US$)	1.1
Totals:	**100.0**

Note: There may be slight discrepancies in the totals due to rounding.
The quarterly disclosures of our complete fund range are available at www.allangray.co.za

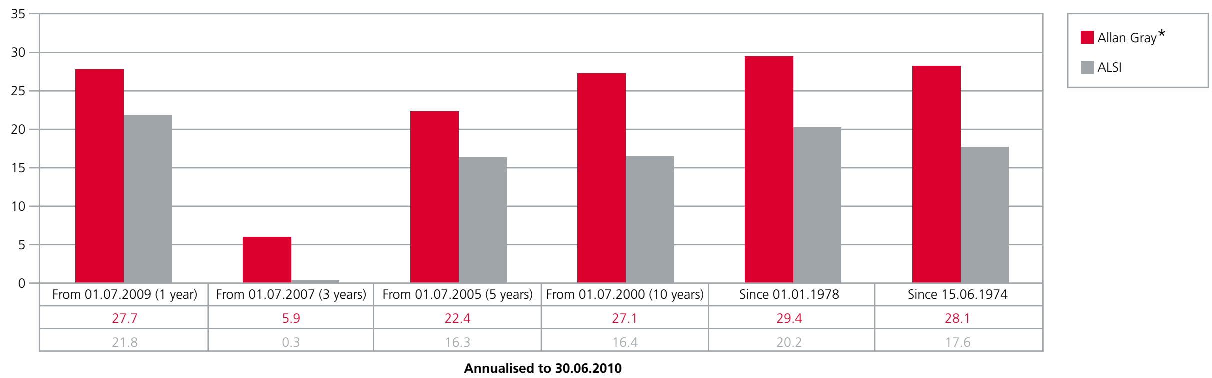
Total Expense Ratios (TERs)

	Equity Fund	Balanced Fund	Stable Fund	Optimal Fund	Bond Fund	Money Market Fund	Global Fund of Funds	Global Equity Feeder Fund
Performance component	1.24%	0.60%	0.14%	0.00%	0.37%	0.00%	0.80%	0.83%
Fee at benchmark	1.71%	1.18%	1.15%	1.14%	0.29%	0.29%	1.41%	1.49%
Trading costs	0.12%	0.08%	0.05%	0.24%	0.00%	0.00%	0.18%	0.16%
Other expenses	0.01%	0.02%	0.03%	0.01%	0.07%	0.01%	0.08%	0.05%
Total Expense Ratio (TER)	3.08%	1.88%	1.37%	1.39%	0.73%	0.30%	2.45%	2.53%

A Total Expense Ratio (TER) of a portfolio is a measure of the portfolio's assets that were relinquished as a payment of services rendered in the management of the portfolio. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of March 2010. 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.

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	28.8	32.1	-3.3
2010 (to 30.06)	2.0	-4.1	6.1
Annualised to 30.06.2010			
From 01.07.2009 (1 year)	27.7	21.8	5.9
From 01.07.2007 (3 years)	5.9	0.3	5.6
From 01.07.2005 (5 years)	22.4	16.3	6.1
From 01.07.2000 (10 years)	27.1	16.4	10.7
Since 01.01.1978	29.4	20.2	9.2
Since 15.06.1974	28.1	17.6	10.5
Average outperformance			10.5
Number of calendar years outperformed			27
Number of calendar years underperformed			8



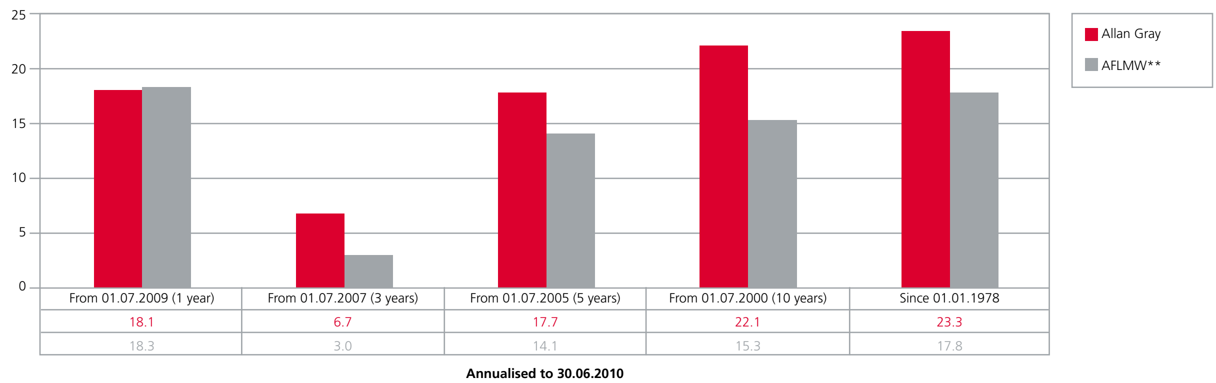
* Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income.

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 **R75 036 668** by 30 June 2010. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to **R3 425 509**.

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	15.6	20.3	-4.7
2010 (to 30.06)	2.8	0.2	2.6
Annualised to 30.06.2010			
From 01.07.2009 (1 year)	18.1	18.3	-0.2
From 01.07.2007 (3 years)	6.7	3.0	3.7
From 01.07.2005 (5 years)	17.7	14.1	3.6
From 01.07.2000 (10 years)	22.1	15.3	6.8
Since 01.01.1978	23.3	17.8	5.5
Average outperformance			5.5
Number of calendar years outperformed			25
Number of calendar years underperformed			7



** Consulting Actuaries Survey returns used up to December 1997.

The return for June 2010 is an estimate. The return from 1 April 2010 is the average of the non-investable Alexander Forbes Large Manager Watch.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to **R9 012 204** by 30 June 2010. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R2 033 897**.

	3 MONTHS (unannualised)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
UNIT TRUSTS[1]								
EQUITY FUND (AGEF)	[3]	22.0	2.9	18.4	23.0	29.5	21 940.0	01.10.98
FTSE/JSE All Share Index		21.8	0.3	16.3	16.4	18.3		
BALANCED FUND (AGBF)	[3]	15.6	5.3	15.4	20.1	20.8	35 723.3	01.10.99
Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)		15.0	2.5	12.4	13.7	13.8		
STABLE FUND (AGSF) - (NET OF TAX)	[3]	8.3	8.0	11.7	-	13.5	31 292.3	01.07.00
Call deposits plus two percentage points (Net of tax)		6.1	8.0	7.4	-	7.8		
STABLE FUND (AGSF) - (GROSS OF TAX)	[3]	9.2	9.1	12.6	-	14.8	31 292.3	01.07.00
Call deposits plus two percentage points (Gross of tax)		8.2	10.9	9.9	-	10.5		
MONEY MARKET FUND (AGMF)	[3]	7.7	10.0	9.1	-	9.4	8 368.4	03.07.01
Domestic fixed interest money market unit trust sector (excl. AGMF) [2]		7.5	9.8	8.9	-	9.4		
OPTIMAL FUND (AGOF)	[3]	6.9	9.1	9.1	-	9.7	3 136.5	01.10.02
Daily call rate of FirstRand Bank Ltd		6.1	8.7	7.8	-	8.0		
BOND FUND (AGBD)	[3]	10.4	9.6	8.3	-	9.3	179.2	01.10.04
BEASSA All Bond Index (total return)		9.9	8.4	7.4	-	8.6		
GLOBAL FUND OF FUNDS (AGGF)	[3]	-2.6	3.0	9.0	-	7.2	6 554.7	03.02.04
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		8.4	0.4	6.4	-	5.8		
GLOBAL EQUITY FEEDER FUND (AGOE)	[3]	3.3	4.1	7.0	-	8.9	3 664.4	01.04.05
FTSE World Index (Rands)		10.9	-7.6	4.3	-	5.7		
LIFE POOLED PORTFOLIOS								
GLOBAL BALANCED PORTFOLIO	0.4	18.4	6.8	17.7	-	21.3	15 367.9	01.09.00
Mean of Alexander Forbes Global Large Manager Watch [2,7]	-4.0	18.3	3.0	14.1	-	14.7		
DOMESTIC BALANCED PORTFOLIO	1.3	23.3	7.7	19.9	-	22.1	5 882.2	01.09.01
Mean of Alexander Forbes Domestic Manager Watch [2,7]	-3.9	20.3	4.6	15.8	-	17.1		
DOMESTIC EQUITY PORTFOLIO	-1.3	26.0	5.5	22.2	-	25.5	6 025.2	01.02.01
FTSE/JSE All Share Index	-8.2	21.8	0.3	16.3	-	15.3		
DOMESTIC ABSOLUTE PORTFOLIO	4.2	23.1	14.1	22.8	-	26.0	1 148.5	06.07.01
Mean of Alexander Forbes Domestic Manager Watch [2,7]	-3.9	20.3	4.6	15.8	-	16.7		
DOMESTIC STABLE PORTFOLIO	3.3	14.8	11.3	15.8	-	17.0	1 338.6	01.12.01
Alexander Forbes Three-Month Deposit Index plus 2%	2.1	9.2	11.8	11.0	-	11.5		
DOMESTIC OPTIMAL PORTFOLIO [1]	3.5	8.6	10.2	10.1	-	10.0	735.3	04.12.02
Daily Call Rate of Nedcor Bank Limited	1.4	6.3	9.1	8.1	-	8.1		
GLOBAL ABSOLUTE PORTFOLIO	3.1	18.3	12.9	21.4	-	21.4	1 482.7	01.03.04
Mean of Alexander Forbes Global Large Manager Watch [2,7]	-4.0	18.3	3.0	14.1	-	16.5		
DOMESTIC MEDICAL SCHEME PORTFOLIO	3.3	14.5	11.2	14.8	-	15.7	1 124.0	01.05.04
Consumer Price Index plus 3% p.a. [2]	1.3	7.6	10.8	10.1	-	9.3		
GLOBAL STABLE PORTFOLIO	2.9	10.5	10.1	14.1	-	15.6	2 872.5	15.07.04
Alexander Forbes Three-Month Deposit Index plus 2%	2.1	9.2	11.8	11.0	-	10.7		
RELATIVE DOMESTIC EQUITY PORTFOLIO	-5.2	23.2	3.9	19.5	-	25.2	309.5	05.05.03
FTSE/JSE CAPI Index	-7.6	22.2	1.3	16.8	-	22.9		
MONEY MARKET PORTFOLIO [1]	1.8	8.0	10.2	9.2	-	9.8	414.4	21.09.00
Alexander Forbes Three-Month Deposit Index	1.6	7.1	9.6	8.8	-	9.4		
FOREIGN PORTFOLIO [1]	-3.4	-3.3	2.4	8.8	-	4.2	1 767.2	23.01.02
60% of the MSCI Index and 40% JP Morgan Government Bond Index Global (Rands)	-2.6	8.6	0.4	6.5	-	0.9		
ORBIS GLOBAL EQUITY PORTFOLIO [1]	-8.6	3.8	-3.9	7.6	-	9.4	2 291.8	18.05.04
FTSE World Index (Rands)	-8.6	10.7	-7.6	4.3	-	6.4		
SEGREGATED PORTFOLIOS [5]								
GLOBAL BALANCED COMPOSITE	0.3	18.1	6.7	17.7	22.1	23.3	26 441.1	01.01.78
Mean of Alexander Forbes Global Large Manager Watch [2,4]	-4.0	18.3	3.0	14.1	15.3	17.8		
DOMESTIC BALANCED COMPOSITE	1.0	22.9	7.7	19.7	23.3	23.9	21 706.3	01.01.78
Mean of Alexander Forbes Domestic Manager Watch [2,7]	-3.9	20.3	4.6	15.8	17.1	18.4		
DOMESTIC EQUITY COMPOSITE	-1.3	26.0	5.8	22.5	26.5	22.3	47 146.5	01.01.90
FTSE/JSE All Share Index	-8.2	21.8	0.3	16.3	16.4	14.5		
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN COMPOSITE	0.6	13.9	7.3	17.2	21.6	20.3	5 514.4	01.01.94
Mean of Alexander Forbes Namibia Average Manager [2]	-4.0	16.4	4.3	14.5	15.3	14.3		
RELATIVE DOMESTIC COMPOSITE	-5.1	23.3	3.2	19.0	-	21.8	10 519.3	19.04.00
Weighted average of client specific benchmarks [2]	-7.8	21.8	0.4	16.1	-	15.7		
FOREIGN BEST VIEW (RANDS) COMPOSITE	-3.5	0.8	1.9	8.5	14.8	14.1	5 413.7	23.05.96
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	-2.6	8.6	0.4	6.5	4.4	9.9		
ORBIS FUNDS (RANDS) [1, 6]								
ORBIS GLOBAL EQUITY FUND (RANDS)	-8.7	3.6	-4.3	7.5	10.8	18.1	-	01.01.90
FTSE World Index (Rands)	-8.7	10.7	-7.7	4.3	1.6	11.3		
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	-3.5	-2.9	-1.4	4.8	4.1	13.4	-	01.01.98
Tokyo Stock Price Index (Rands)	-5.3	-0.3	-8.8	2.0	-2.1	5.4		
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS)	3.0	-2.6	6.1	8.0	-	11.2	-	01.01.05
US$ Bank Deposits (Rands)	4.4	-0.5	5.0	6.1	-	9.2		
ORBIS OPTIMAL SA FUND-EURO CLASS (RANDS)	-5.0	-13.1	3.4	7.4	-	8.7	-	01.01.05
Euro Bank Deposits (Rands)	-5.4	-13.1	2.1	5.9	-	6.5		
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	-6.6	15.6	3.7	-	-	14.7	-	01.01.06
MSCI Asia Ex-Japan (Rands)	-0.7	21.1	0.8	-	-	13.7		

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 2010 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

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 our products, as well as a focused range of unit trusts from other fund providers. The platform enables you to buy, sell and switch 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.
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	The 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 is a BEE trust which provides support and financing to black entrepreneurs. It aims to promote the prosperity in South Africa through entrepreneurship.

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

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