



ALLAN GRAY

QUARTERLY COMMENTARY 1

31 MARCH 2013

LONG-TERM THINKING IN ACTION



The cover of this Quarterly Commentary features the Living Bridges of Meghalaya. The people of Meghalaya deep in the rainforests of India do not build bridges. They grow them. They ingeniously stretch vines and tree roots across rivers and ravines, then wait for them to intertwine and grow into sturdy lattice work structures. And the longer they wait, the stronger and more impressive these bridges become – some of them are centuries old, up to 100 feet long and can carry up to 50 people. Just like all good plans, investments gain strength over time.

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ROB DOWER

COMMENTS FROM THE CHIEF OPERATING OFFICER

South Africans save too little in general but we especially save too little for retirement. People who have no savings have to live only off the returns they get from their labour, since they have no capital working for them. Even if they are careful only to borrow for emergencies, those without any savings have to pay interest on the money they borrow to those who have the capital to lend. You can keep working for as long as possible, but jobs are scarce and even those lucky enough to be employed until late in life eventually can't work anymore. In old age, without savings, we have to fall back on the kindness of relatives or on the small state old-age grant.

To improve retirement savings, National Treasury is leading a collaborative effort to make the retirement funding

mechanisms in our country work better for savers. The current system is not completely broken, but it has some challenges. For example, the current rules allow people who lose their jobs and therefore leave their pension fund one opportunity to draw up to 100% of their pension. As a result, there is an incentive to take it all out, to the extent that some people resign simply to access their savings. One of the proposed reforms will help preservation by allowing 'slow release' access to pension savings, without affecting any vested rights.

Too much complexity and choice is a barrier to savings

Over the five years to the end of 2012 the 800 or so South African unit trusts, *excluding money market funds* and

considered as a whole, have delivered average money-weighted returns after fees of almost 2% ahead of inflation (see **text box**). This sounds good, but it is no more than the returns of money market funds over the same period. At the same time, investment risk pooled across all of these funds was similar to that of a balanced fund. Those who actually did invest in balanced funds did almost a full percent better. Doing the same analysis over three years, investors in the average balanced fund beat the average all-unit-trusts investor by about 2.5%. Simplicity, it seems, pays off. A good balanced fund reduces risk and switching, which should help the average investor's outcome. Treasury is proposing a mechanism for retirement fund trustees to nudge members towards pre-qualified default choices, a proposal which has the

Time-weighted returns versus money-weighted returns

Time-weighted returns ignore when money flows into a fund. If a fund performs really well when it has few investors and little capital to employ, and then poorly after attracting strong flows, each of these periods are weighted equally (hence 'time weighted') in the return calculation. Money-weighted returns measure more accurately the average investor experience in the fund, weighing periods when the fund has more capital invested, more heavily. The published returns of a fund are time weighted, since these are under the control of the investment manager; investors control the flows.

potential to reduce the negative impact of too much choice without reducing competition.

The proposals from Treasury announced in March are targeted at the biggest problem areas and, if implemented carefully and with the collaboration of a client-oriented savings industry, will do a lot to improve inclusion and outcomes for savers. Some of the problems we face will be hard to solve, for example reducing costs while increasing coverage. Yet, with capable and committed people engaged on all sides, this feels like an exciting and rare opportunity for positive change. Richard Carter sets out some of the details of the proposed reforms in his article this quarter.

Is inflation dead, or is it just sleeping?

As bottom-up investors we are focused on our search for good value investments, choosing not to get caught up in predicting macroeconomic events. Nevertheless, some macroeconomic factors have a big influence on valuations, for example any view of bond valuations has to be informed by an

expected future inflation rate. After two decades of low inflation in developed economies, people behave as if price stability is the norm. Sandy McGregor explains how recent developments in monetary policy may undermine this comfortable paradigm, creating a much more volatile investment environment.

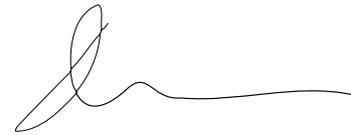
Increasing our footprint

As you may be aware, we cast our net widely when looking for interesting investments. Over the last two years we have established stock and bond research coverage for Africa (excluding South Africa) and we have recently opened a small representative office in Nigeria. We now have offices in South Africa, Botswana, Namibia and Nigeria. Our sister companies Allan Gray Australia and Orbis are established in London, Bermuda, San Francisco, Vancouver, Hong Kong and Sydney. You don't have to have an office in a country to research the companies listed there, but this geographic span definitely helps Allan Gray and Orbis to uncover and research long-term investment opportunities globally, while being fully accessible to South African investors.

A global perspective is important, not only to deliver the best returns, but also for diversification. Simply put, diversification means choosing investments that behave differently from one another under different circumstances, thus reducing the impact of the individual risks associated with each. This includes picking investments in different sectors and with operations in different countries. Seema Dala discusses how investing offshore allows you to gain exposure to sectors that are underrepresented in South Africa.

I hope you find this quarter's spread of articles beneficial and that you enjoy our new design. Thank you for your ongoing support. We appreciate the trust you place in us.

Kind regards



Rob Dower



SANDY MCGREGOR

THE RETURN OF INFLATION

After two decades of low inflation in developed economies, people are behaving as if price stability is the norm. Sandy McGregor discusses how recent developments in monetary policy may undermine this comfortable paradigm, creating a much more volatile investment environment.

It is now over 30 years since central banks brought an end to the great inflation of the 1970s. Initially the very idea that inflation had been tamed was regarded with incredulity. However, over time the concept of relatively stable prices has become entrenched in our psyche. Inflation expectations reflect the experience of the recent past.

Table 1 shows the average annual rise in consumer prices in some of the major economic regions since 1992.

In the modern parlance of central bankers and economists, inflationary expectations are well anchored. People's behaviour reflects the belief that price stability is the norm.

When central banks, first in Japan, and then elsewhere embarked on programmes of quantitative easing, which more correctly may be described

as printing money, there were widespread fears that this would rekindle inflationary pressures. The disastrous inflation in Germany after World War One, and more recent inflationary episodes in Brazil, Turkey and Zimbabwe, are very much part of our collective memory. Among economists, Milton Friedman's dictum that inflation is always a monetary phenomenon, is an ever-present warning against reckless expansion of the money supply.

Questioning the impact of extreme measures

However, the massive monetary expansion by the Bank of Japan, the US Federal Reserve (the Fed) and others has had little visible impact to date on prices. The proponents of quantitative easing argue that there has been a significant impact because, without substantial injections of money into the economy, prices would have fallen. They argue that the actions of central banks have prevented serious deflation.

The scale of money creation since 2008 is unprecedented. The Fed has tripled its balance sheet to US\$3 trillion and has announced plans to create almost

TABLE 1 AVERAGE INFLATION IN MAJOR ECONOMIC REGIONS

	AVERAGE CPI INFLATION SINCE 1992 %
USA	2.5
UK	2.7
GERMANY	1.8
EUROZONE	2.1
JAPAN	0.0
SOUTH AFRICA	6.9

Source: Allan Gray

US\$1 trillion dollars in 2013. The reason why, contrary to previous experience, this orgy of money creation has not had a massive inflationary impact, is that the high level of private sector debt has broken the normal transmission mechanism between money supply and the prices of goods and services. The impact of monetary policy on the real economy is transmitted through credit creation. Since the financial crisis, over-indebted households have been trying to reduce their borrowings. The corporate sector has record amounts of cash on its balance sheet, but the attitude towards gearing (the extent to which a company is funded by debt) has changed. After

Lehmann's collapse, companies found the banking system was unable to meet their short-term working capital requirements when they most needed it. Business is now far more conservative when determining a prudent cash balance.

Accordingly, with one notable exception, the massive increase in money supply by central banks has not generated growth in credit. The exception was China, which directed banks to increase lending in 2009 by an amount equal to 30% of GDP. In this case money creation and credit creation were one and the same thing. It is noteworthy that China consequently experienced significant inflationary pressures in 2010.

At the end of last year, both the Fed and the new Japanese government led by Prime Minister Shinzo Abe announced that they believed that during 2013 the pace of money creation should be accelerated substantially. They argued that this policy was necessary because economic growth remained anaemic and unemployment unacceptably high. However, a crucial assumption underlying this policy is that it will not lead to a big rise in prices and inflation will not exceed 2.5%, which is

the level they regard as acceptable and indeed desirable. As in previous bouts of quantitative easing, the prices of equities and bonds may rise (which means long-term interest rates fall), but this is regarded as desirable because increasing wealth boosts consumer and business confidence.

What could undermine this complacent view of the risks created by a policy of astonishing boldness?

The danger is that global economic growth could surprise on the upside and that the credit multiplier, which is the transmission mechanism of monetary policy into the real economy, will revert

are still trying to combat the massive rise in property prices that followed the monetary stimulus of 2009. In the United States it looks as if the decline in house prices has come to an end. Inventories of unsold houses are declining rapidly and housing starts are beginning to recover (see **Graph 1**). In many parts of the US the affordability of housing is the most favourable it has been in more than 20 years. It is natural that as household balance sheets recover, buyers will increasingly take advantage of extremely low interest rates to buy property. Property purchases require credit so credit demand will grow rapidly. Homebuilding will recover, creating demand for labour-boosting expenditures

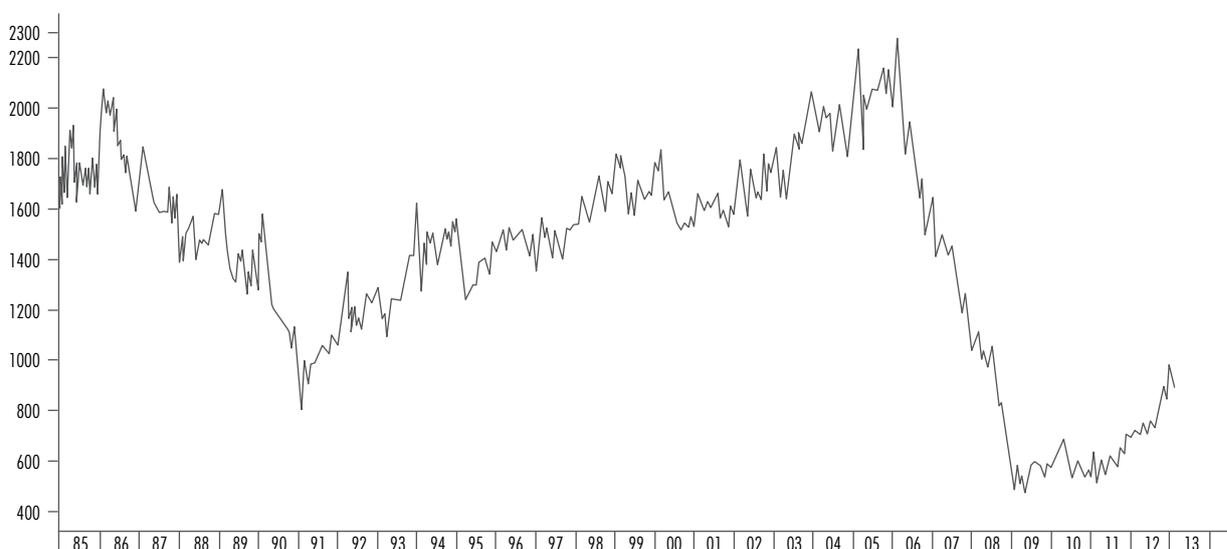
"THE DANGER IS THAT GLOBAL ECONOMIC GROWTH COULD SURPRISE ON THE UPSIDE..."

to the way it used to work before 2008. The key is the housing market. Already in certain cities, such as London, Munich and Hong Kong, low interest rates are pushing up the price of residential property to levels reminiscent of the boom of 2006. In China the authorities

elsewhere in the economy. Credit growth will spur economic activity.

Central banks, especially the Fed, believe they can manage any recovery in growth so that the economic system as a whole remains stable. However, the official

GRAPH 1 US HOUSING STARTS ARE RECOVERING ('000 SEASONALLY ADJUSTED ANNUAL RATE)



— US HOUSING STARTS '000 (S/A) (890)

Source: I/Net Bridge

sector no longer has the policy freedom it had when the world financial system imploded in 2008. Budget deficits are now too large for countercyclical fiscal policy to be used. In many countries government debt has reached a level at which any increase in interest rates will undermine public finances. Central banks will be subject to political pressure to keep interest rates too low for too long. Should the normal relationship of credit and inflation return there may be neither the means nor the will to stabilise prices.

US monetary policy is currently predicated on the assumption that

stagnant business conditions will prevail for several years. Since the world financial system is based on a dollar standard, the Fed's policy becomes a global policy. But what if the global economy does much better than the Fed expects? There is a real risk that they have created a potent cocktail of rising asset prices and rising consumer prices which they will be unable to control.

Monetary policy: a significant risk to investors

At the very least another asset bubble may be in the making. Even more

concerning is the risk that the paradigm which underpins most valuation metrics, namely that inflation will be contained at not more than say 2.5%, may prove to be unfounded. If inflation returns, interest rates will ultimately have to rise, thus undermining asset prices. Today's monetary policy environment is a significant risk to investors, probably more than they currently expect.

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



RUAN STANDER

BUY OUTSURANCE

In capitalism it is most often the case that competitive advantages do not last. One only needs to think about the ongoing competition between cell phone manufacturers to realise that good ideas rarely translate into long-term advantages. Exceptions to this rule make interesting subjects for analysis. Ruan Stander looks at well-managed direct insurance company OUTsurance, part of the Rand Merchant Insurance Holdings (RMI) Group, as a good example of a company enjoying multiple competitive advantages. Acquired at a reasonable price, shareholders should do well by owning companies such as OUTsurance.

Evidence for sustainable advantages requires a company that has:

1. Been around for a long time
2. Outperformed the average company consistently
3. Not changed a lot over time to distort the analysis

One company that fits the profile is Coca-Cola. The company has been around for 126 years and has faced capitalism's creative destruction for long enough to be counted as a fair example. **Table 1** on page 7 illustrates how Coca-Cola has been able to generate value for shareholders over the short, medium and

long term beyond the market average. If an investment in the market in 1919 was worth R1m today, an equal investment in Coca-Cola would be worth R37m.

bottling and distribution system that is hard to replicate and a recipe that is widely regarded as one of the best-kept secrets in business. What is it that

“ONE CANNOT UNDERESTIMATE THE ROLE THAT COMPANY MANAGEMENT PLAYS IN THE CONTINUED SUCCESS OF OUTSURANCE.”

Although the details around the success of Coca-Cola and an investment case for the company today are beyond the scope of this article, three similarities with OUTsurance stand out at a high level:

1. Significant benefits to scale (an industry in which being bigger helps to keep costs low)
2. A leading market share (capturing the benefits of [1])
3. A supply chain that is superior and hard to copy for existing competitors

A supply chain that is superior and hard to copy for competitors with a reasonable market share

The third point is important since it is the 'moat' that turns 1) and 2) into a money-making machine for shareholders. For Coca-Cola the advantages are a

makes OUTsurance superior and hard to copy? Surely the policy documents are not a secret and it is easy to copy the OUTbonus? The advantage lies deeper than this and actually helps to keep costs lower than the scale economies alone are able to.

The insurance value chain is well known for being filled with vested interests that are hard to change once established. Some policyholders are happy to claim as much as they are allowed to; many panel beaters would like to charge as much as possible; and most salesmen are more interested in commission than the quality of the customer or the price being charged. It is hard to change the behaviour of participants once relationships are established, even if it is clear that a better alternative is available.

This allows a well-managed direct insurance company like OUTsurance to offer clients a lower rate than existing insurers can afford (because of cross subsidies to poor clients and panel beaters), while making a high margin in doing so. If the theory sounds too good to be true, the reader should find comfort that it is supported by evidence.

An early example of an insurance company which was able to achieve this is the State Farm Insurance Company. A small venture founded by a retired farmer in 1922 became the largest motor insurance company in the US in 1942 by avoiding the risks inherent in the insurance value chain. Unfortunately this company was never listed since it would have made for an interesting comparison with Coca-Cola. Other well-known examples include auto insurers GEICO and The Progressive Corporation in the US and Admiral¹ in the UK. Regretably, GEICO was de-listed when Berkshire Hathaway bought the company in 1996 and Admiral listed only in 2005. As an indication of the economics at work: shareholders in The Progressive Corporation have earned 17.4% p.a. since 1973, outperforming the US stock market by 7.4% p.a.

Graph 1 illustrates the extent to which OUTsurance has turned advantages into profitable growth for shareholders by showing annual growth in gross premiums.

How long will it last?

Although one would not expect the rapid market share gains of the past to be repeated, an 11% market share in South Africa offers plenty of scope for further gains. There also seem to be attractive opportunities in other countries, with the Youi venture in Australia making positive noises.

¹ Ruan owns shares in Admiral in his personal capacity.

TABLE 1 **COMPARISON OF ANNUALISED SHAREHOLDER TOTAL RETURN**

YEARS	COCA-COLA	S&P 500	OUTPERFORMANCE
5	6%	1%	5%
25	14%	10%	4%
50	14%	10%	4%
93	14%	10%	4%

Sources: Coca-Cola, Datastream, Allan Gray research

The following bodes well for OUTsurance shareholders in terms of Youi:

- Youi is growing fast (100% growth in gross premiums in the first half of 2013)
- Importantly, by writing good business: it has a claims ratio below that of the industry
- A 29% contribution to gross premiums from only a 2% market share implies that lots of value can be created

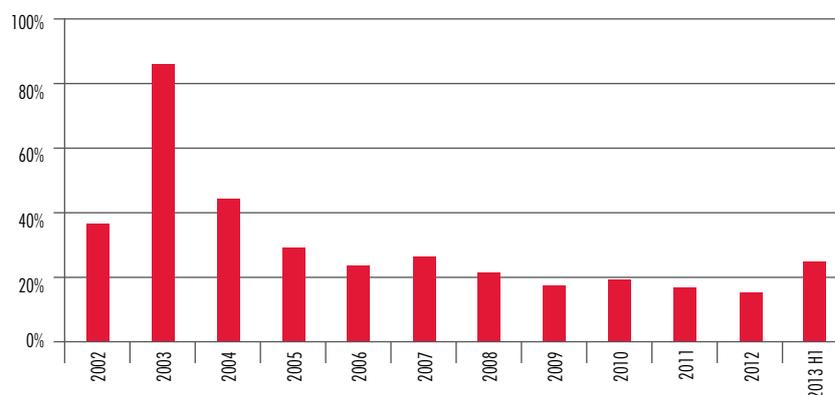
Strong management and attractive valuation

One cannot underestimate the role that company management plays in the continued success of OUTsurance.

Shareholders are fortunate to be invested alongside founders who boast one of the best track records in insurance history.

The RMI Group is a holding company with stakes in MMI, Discovery and OUTsurance. The market valuation of RMI implies a 12 price to earnings (PE) ratio for unlisted OUTsurance (excluding Youi start-up losses). This is a low price in absolute terms for a company that can grow at a high return on capital. It is very attractive compared to the FTSE/JSE All Share Index (ALSI), currently trading on a 17 PE (20x bottom up normal earnings).

GRAPH 1 **GROWTH IN OUTSURANCE GROSS PREMIUMS**



Source: Company data

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



SEEMA DALA

INVESTING OFFSHORE TO REDUCE PORTFOLIO RISK

Five years on from the start of the Global Financial Crisis, as economic uncertainty continues across the world, investors remain sceptical about exposing their savings to these risks. Seema Dala asks: does it still make sense to add offshore investments to your portfolio?

The ALSI: a very small piece of the pie

Offshore investing is an ever-popular watercooler discussion topic – is it a good idea, how to do it, and how to know when the time is right? South Africans still have well below the regulated 25% of their retirement funds invested in foreign assets. The vast majority of us invest in equities listed on the Johannesburg Stock Exchange (JSE). While the FTSE/JSE All Share Index (ALSI) is well-developed and houses some large globally diversified businesses, it makes up just over 1% of the world's total listed equity universe by market capitalisation. It is also a concentrated index: approximately 40% of the total market capitalisation on the ALSI consists of just five shares – BHP Billiton, SAB, Anglo American, Richemont and MTN. Looking at the picture from a sectoral perspective, as we have in **Graph 1** on

page 9, 80% of the ALSI is made up of shares in the Basic Materials, Financials, Consumer Goods and Consumer Services sectors; these four sectors make up just half of the FTSE World Index (WI). This implies that relative to the WI, investors on the ALSI are overexposed to these sectors, and conversely, have too little exposure to sectors like Technology and Utilities, which together make up 12% in the WI but just 0.3% in the ALSI.

31 January 2013, the ALSI returned 1.3% per month in rands compared to the WI, which returned 1.4%. During the 229 ALSI up months, the WI also experienced positive returns, but to a lesser extent than the ALSI, returning 2.8% per month on average compared to the ALSI's 5.1%. However, in the 155 months that the ALSI experienced negative returns, where the value of the index fell on average by 4.3% per month, the WI lost just 0.7% per month.

“DIVERSIFICATION IS ONLY USEFUL WHEN THE ASSETS BEING ADDED TO THE PORTFOLIO HAVE LOW CORRELATIONS WITH THE EXISTING ASSETS.”

Intuitively it makes sense to increase exposure to the sectors and markets that are underrepresented in our local market. Adding international equity exposure diversifies your returns. One way to illustrate this is by examining the returns of both the ALSI and WI during periods when the ALSI experienced positive returns ('up' months) and periods where the ALSI experienced negative returns ('down' months). **Graph 2** (see page 10) shows ALSI and WI monthly returns in rands over the last 32 years. During the 384 months from 31 January 1981 to

Lessons in portfolio theory

Correlation measures the strength of the relationship between the returns of different asset classes:

- A positive correlation between two asset classes means that returns tend to move together
- A negative correlation implies that returns move in opposite directions
- A correlation of zero means there is no relationship between the returns of the shares of the two different asset classes

Diversification is only useful when the assets being added to the portfolio have low correlations with the existing assets. As we add asset classes to a portfolio which have negative or zero correlations to the assets which are already in the portfolio, the portfolio becomes more diversified. This should in turn reduce the volatility, or unpredictability, of portfolio returns.

Map 1 (on page 10) uses the I-Maps Visual Positioning System to create a correlation and volatility map, which is a simple visual tool that shows the correlations between various asset classes and displays the risk-reduction benefits of adding various asset classes to a local portfolio¹. Assets that appear at 180 degrees to each other are negatively correlated, whereas those that are at 90 degree angles are uncorrelated. The ALSI appears far away from the centre point, which means that the returns on this index are relatively volatile. The position of the MSCI Emerging Markets Index shows that the returns on these markets are similarly volatile, and importantly that there is a strong positive correlation to the ALSI, implying that there would be

little diversification benefit from adding emerging market exposure to an ALSI portfolio. We have labelled these assets as 'Group 1'. Group 2 reflects the returns of global equities, including the MSCI World Index and the Orbis Global Equity Fund. Interestingly, since 2009 the returns on global markets have become more correlated to emerging markets and the ALSI, a result of increased correlations across major markets globally (as discussed in Quarterly Commentary 1, 2012). However, these developed market assets remain relatively less correlated to the ALSI, implying that the overall risk level of the ALSI portfolio will be reduced by the addition of these assets. On the far left, Group 3 is comprised of other

adding these assets to a portfolio of local assets would significantly reduce overall portfolio volatility.

Offshore exposure in Allan Gray's portfolios

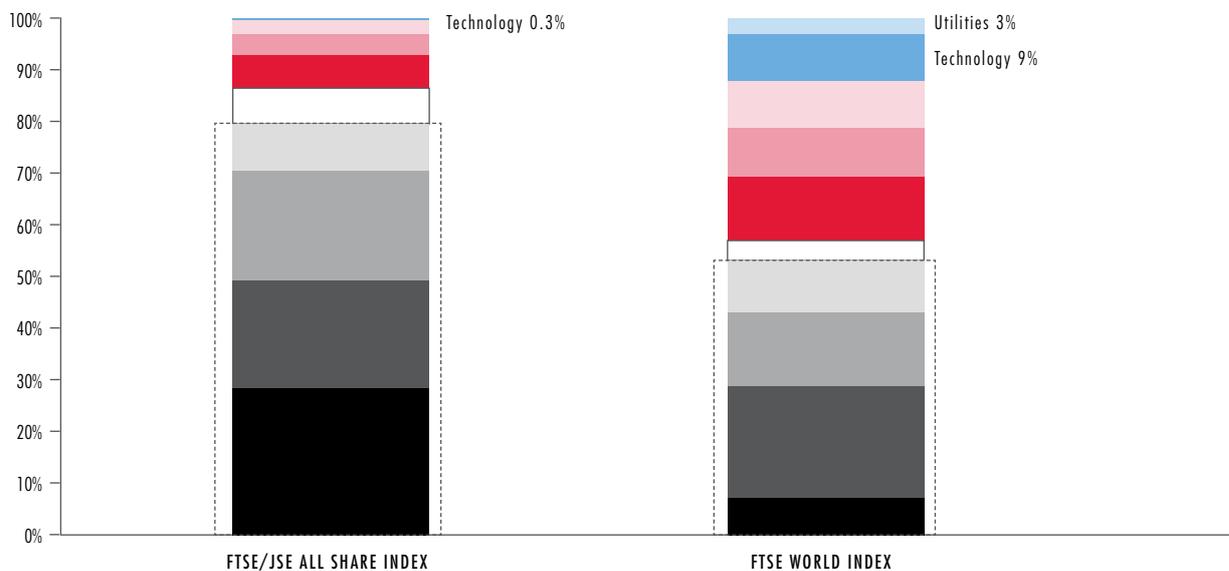
Investors in those Allan Gray portfolios which are mandated to include an offshore component, gain offshore exposure via our global investment partner, Orbis. As Map 1 shows, the Orbis Global Equity Fund, like the MSCI World Index, is less correlated with the ALSI than other emerging market funds, suggesting that it would provide a diversification benefit to local investors. Unlike investing in an index,

"...INVESTING OFFSHORE WILL ALLOW YOU TO GAIN EXPOSURE TO SECTORS THAT ARE UNDERREPRESENTED IN SOUTH AFRICA..."

foreign assets, including global bonds and cash. The Orbis Optimal Strategy, which is a hedged equity portfolio, is also in this group. These asset classes are highly uncorrelated to the ALSI, so

where the shares with the largest market capitalisations would be dominant, the shares in the Orbis Global Equity Fund are carefully selected by a team of experienced global analysts who

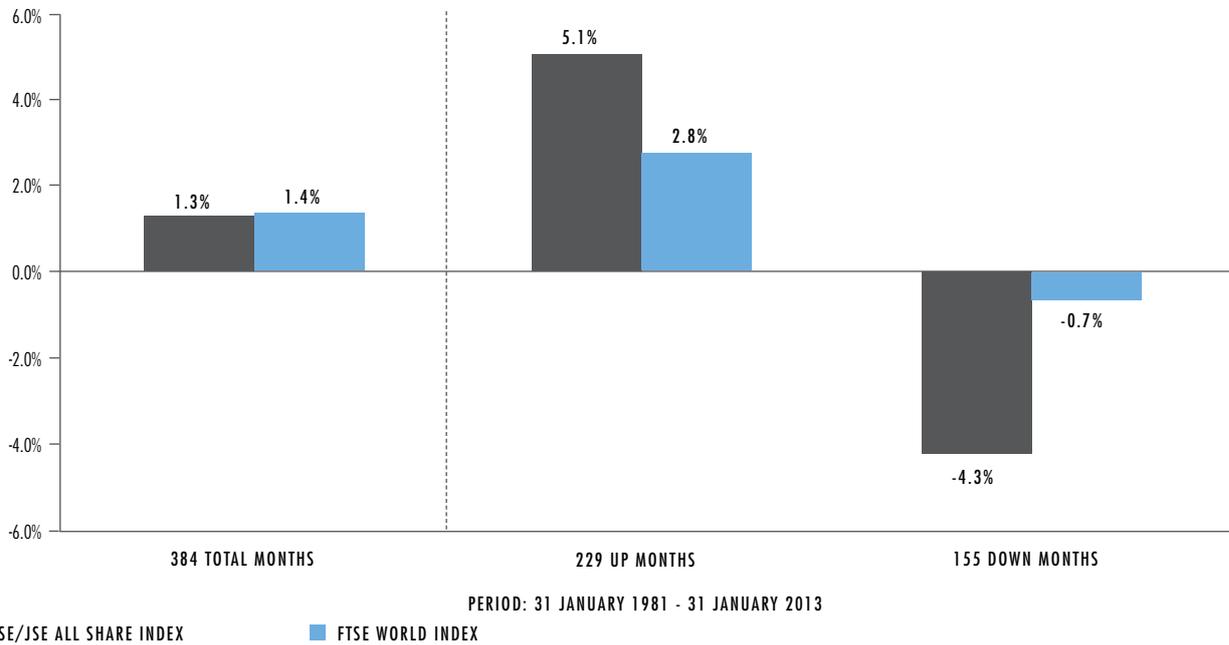
GRAPH 1 SECTORAL EXPOSURE OF THE ALSI AND THE FTSE WORLD INDEX



BASIC MATERIALS
 FINANCIALS
 CONS. GOODS
 CONS. SERVICES
 TELECOMS
 INDUSTRIALS
 OIL & GAS
 HEALTH CARE
 TECHNOLOGY
 UTILITIES

Sources: JSE, FTSE, Allan Gray research

GRAPH 2 RETURNS IN BULL AND BEAR MARKETS



Sources: Datastream, INet Bridge

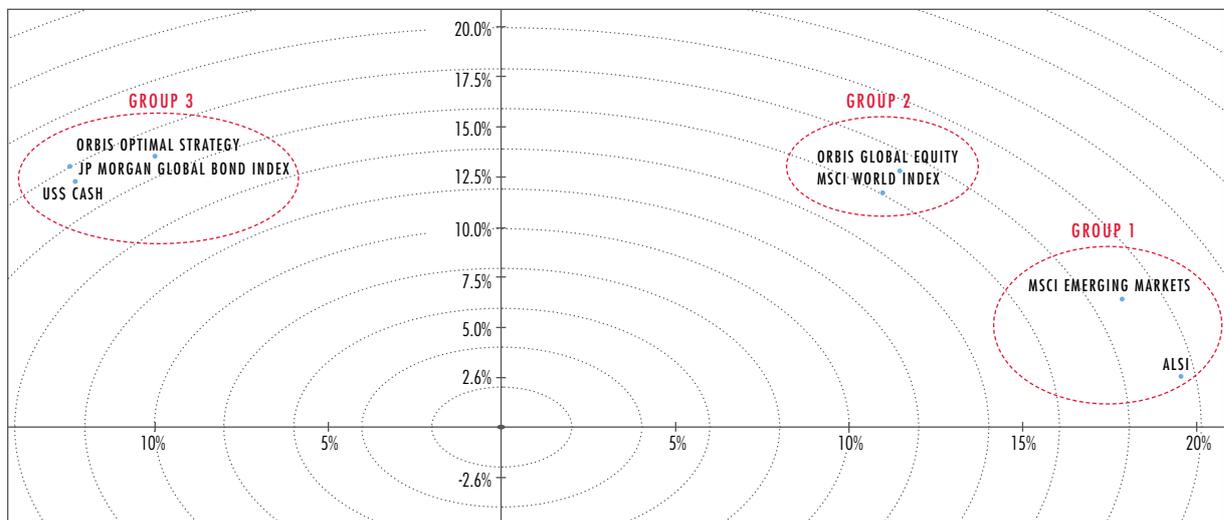
apply the same bottom-up, fundamental research approach favoured by Allan Gray. This means that the best investment opportunities across sectors and markets are carefully researched, and the ideas with the largest return potential, i.e. that are trading at significant discounts to Orbis' assessment of their intrinsic values,

are included in the Fund. Investors into the Orbis Global Equity Fund would currently have over 20% exposure to the Technology, across North America, Asia ex-Japan countries and Europe.

As the positioning of the assets in Groups 2 and 3 shows, the last five years have

been characterised by high correlations between the returns investors have achieved in the Orbis Global Equity Fund and the Orbis Optimal Strategy, and the underlying asset classes in which these Funds are invested. These market conditions are challenging for stock pickers like Orbis. Over the long

MAP 1 CORRELATION AND VOLATILITY OF VARIOUS ASSET CLASSES



PERIOD: 25 JANUARY 2008 TO 18 JANUARY 2013

Sources: I-Maps, Allan Gray research

term, however, markets tend to mean-revert, and we anticipate that going forward the returns will be relatively less correlated. It is extremely difficult to predict macroeconomic events with any certainty, and even more difficult

to predict the impact these will have on stock market returns. We can be certain that investing offshore will allow you to gain exposure to sectors that are underrepresented in South Africa, and also reduce the overall riskiness of your

portfolio. However, diversification alone cannot guarantee above-benchmark returns at lower levels of risk: finding and investing in shares that are undervalued by the market is the most important determinant of future returns in a portfolio.

¹ We used this system previously in Quarterly Commentary 3, 2009.



Seema is a member of the Institutional Client Servicing team and is responsible for Orbis client servicing in South Africa. She joined Allan Gray in 2007 as an investment analyst and is a qualified CA (SA).



RICHARD CARTER

RETIREMENT REFORM: HOW WILL THE CHANGES AFFECT YOU?

With a very small percentage of South Africans able to support themselves financially in retirement, Treasury has been taking a thorough look at retirement savings, trying to figure out how to manage this alarming problem. Several discussion documents have been released for comment, with a further paper made public alongside the 2013 Budget Speech. Through consultation and debate with various groups, including the financial services industry, Treasury hopes to introduce reforms that will help individuals make appropriate, sustainable long-term decisions.

While we do not think the retirement system is broken, most parties acknowledge that improvements are vital to nudge people in the right direction. Good progress is being made but this is a complicated process and it may be a while before far-reaching changes are implemented. Richard Carter takes a look at some of the changes that may affect you as a retirement fund investor.

There are numerous points of interest and importance in Treasury's proposals. As a retirement fund investor there are perhaps three areas that will affect you directly:

1. Plans to create alignment in the industry between the different retirement products
2. Access to your money (with a focus on preservation)
3. Default annuities at retirement

not penalise anyone already invested; the idea is to keep money in the system, not to chase it away. Those invested before the time of new regulations will not be bound to the changes and the changes will not apply to investors at or

"...THE CHANGES WILL NOT LEAVE YOU ANY WORSE OFF THAN BEFORE."

1. Alignment

There are currently several different types of retirement savings products, with varying rules, particularly around preservation and accessing money. Treasury is aiming for fewer arrangements, with consistent treatment of active savings on the one hand, and preserved savings on the other. The devil is in the detail and achieving alignment across all product types will be tricky. Indeed, with retirement annuities there are still many areas that require further consultation and one set of rules may not be achievable.

At the same time as making these changes, Treasury acknowledges that it is crucial to protect vested interests and

nearing retirement age. In other words, the changes will not leave you any worse off than before.

2. Access to your money

Treasury believes that the rules around accessing your retirement savings – both on leaving an employer and at retirement – should be standardised. The rules currently vary from product to product, as shown in **Table 1** on page 13. In addition, the rules should acknowledge that investors may need their money desperately at particular points in time and that it is not productive or acceptable to make funds completely inaccessible. Treasury wants the rules to encourage people to take out less and to preserve more. Getting the balance right is like walking a tightrope.

After the proposals take effect, when you leave a pension or provident fund before retirement, instead of having access to all the cash, as you do currently, the fund will be required to put your money into a preservation fund automatically. The rules applying to preservation funds will be changed – rather than the existing once-off access to your money, one withdrawal per year will be allowed, but that withdrawal will be limited to a much smaller amount. You will be able to carry unused withdrawals forward to future years.

The treatment of your money when you leave a fund, both before and at retirement, will be the same for pension and provident funds and so the distinction between these products will ultimately fall away.

3. Default annuities at retirement

Another hot topic is that of default annuities. Treasury is concerned about the lack of assistance and advice given to retirement fund members reaching retirement. In its mind, too many retirees choose inappropriate products and are unable to support themselves adequately. The decisions they make often fail to account for the rise in the cost of living and the possibility that they will live for

a long time. While we contend that the root cause of this is people reaching retirement with insufficient savings, there is no doubt that many retirees choose higher income in the early years of retirement at the expense of the later years when they will become dependent on family or the state.

Treasury’s proposals involve introducing default annuities. The responsibility

necessarily a ‘one size fits all game’ and what is suitable for one member may not suit another. We do not believe the outcomes will improve significantly until people start retiring with significantly more savings. This is the key piece that needs to be addressed. Where the proposals do ring true is that they endorse long-term thinking and will certainly get people thinking about their options.

“IF YOU ARE STILL WORKING TOWARDS RETIREMENT, KEEP PUTTING YOUR MONEY ASIDE. THIS WILL HELP YOU TO ACHIEVE FINANCIAL INDEPENDENCE WHEN YOU RETIRE.”

would lie with the trustees to identify a suitable annuity option for members, one that passes certain tests on fees and design. Living annuities will be eligible for selection as long as they pass these tests. To increase competition, providers other than registered life insurers will be able to sell living annuities. There are also proposals that will make it easier for individuals to purchase combinations of conventional annuities and living annuities to suit their preferences.

We think there is certainly logic in a default annuity option, but members would do well to remember it is not

There are several other proposals on the table, some of which will be more easily actioned than others. A few changes are already being pushed through, such as positive changes on the tax front for the average person (see **text box** on page 14).

Take charge of your own savings

Treasury wants us to save for retirement and to take less out along the way. This will ultimately lead to South Africans accumulating more retirement savings and thus enable smarter long-term choices when we retire.

TABLE 1 **ACCESS TO RETIREMENT MONEY: CURRENT RULES**

	PENSION FUND	PROVIDENT FUND	RETIREMENT ANNUITY
ACCESS TO YOUR MONEY BEFORE RETIREMENT	When you leave your fund you can withdraw the full benefit, subject to the rules of the fund, or you can preserve your investment by transferring into a preservation fund. If you go this route, you can subsequently take a single, partial or full withdrawal, provided there are no restrictions in legislation or from the original transferring fund.		You cannot normally access your benefit.
ACCESS TO YOUR MONEY AT RETIREMENT	You can take a maximum of one-third in cash, subject to the rules of the fund. You must use the rest to buy a pension-providing product such as a living annuity or a conventional annuity. If your benefit is equal to or less than R75 000, you can take the full amount in cash.	You can take the full amount in cash. If only a portion is taken in cash, you must use the rest to buy a pension-providing product such as a living annuity or a conventional annuity.	You can take a maximum of one-third in cash. You must use the rest to buy a pension-providing product such as a living annuity or a conventional annuity. If your benefit is equal to or less than R75 000, you can take the full amount in cash.

Source: Allan Gray research

These are sensible goals. While you may not be able to write the rules for the country's savings, you can certainly take charge of your own. If you are still

working towards retirement, keep putting your money aside. This will help you to achieve financial independence when you retire. If you leave your retirement fund, do your best to preserve as much

of your built up savings as you can. And when you retire, remember that your savings may have to last for many more years than you expect, so you need to plan accordingly.

Tax talk

According to the proposals, from or after 2015, employer contributions to retirement funds will become a fringe benefit in the hands of the employee for tax purposes. Individuals will be able to receive a tax deduction on employer and employee contributions to a retirement fund of up to 27.5% of the greater of remuneration or taxable income. A ceiling of R350 000 will apply.

Retirement annuities (RAs) are currently restricted to a 15% tax deduction, so this change will allow those investors whose main retirement savings are in an RA to save more.

Richard looks after Allan Gray's Life business. He joined Allan Gray in 2007 after working for several years in financial services in the UK. He completed his B Bus Sc degree at UCT and is a qualified actuary.



GERHARD KLINGER & DEBBIE RYAN

GROUP RETIREMENT ANNUITIES BOLSTERED BY RETIREMENT REFORM

You should not let the current uncertainty around retirement reform inhibit your willingness to save for your retirement; it is very difficult to make up for lost time. With government's assurances that vested interests will be protected, it makes sense to find a product that meets your needs and to start, or continue, saving even while many questions remain unanswered. Gerhard Klinger and Debbie Ryan look at the suitability of retirement annuities (RAs) for employer-arranged retirement savings, with the Allan Gray Group Retirement Annuity System (Group RA) being a potential answer for small to medium-size businesses looking for a cost-effective way to solve the retirement savings question.

As discussed in Richard Carter's article on page 12, two key areas of focus in Treasury's recent retirement reform proposals are preservation and income at retirement. Modern unit trust-based RAs are already structured for income at retirement and to enforce preservation. There are several reasons why an RA works well for individuals who want to save for their retirement. Many of these also make them an appealing choice for small and medium-size business owners looking for a retirement savings solution for their staff.

In many ways RAs managed through a group system are a better choice for employers and their employees than other retirement funding options, such as umbrella funds, which have high set up costs and time-consuming administrative requirements. It is our experience that employers prefer to focus on running their businesses rather than burdening themselves with the administrative and

autonomous and member-specific investment choices and options. This gives each member control of his/her retirement savings.

RAs are a move away from the paternalistic culture of traditional pension and provident funds, which often do not offer choice, and tick the box for those who want more

"...THERE HAS BEEN REPEATED ASSURANCE FROM REGULATORS AND THE TREASURY THAT VESTED RIGHTS WILL BE PROTECTED."

legal responsibilities of a pension or provident fund. By selecting a group retirement annuity system, employers can focus on managing their businesses whilst not detracting from the importance of retirement saving for their employees. Group systems, like that offered by Allan Gray, allow employers to ensure that their employees get all the benefits of an individually managed RA. These include:

- **Individual accountability and choice**
Employees join the RA in their individual capacities and become individual members – with

control of their investments. Members can select their underlying investment options from a range of unit trusts across different sectors, from different providers. The combination of unit trusts that a member chooses must comply with the asset allocation limits for retirement funds (e.g. 75% in equities, 25% in foreign assets) and should also meet their individual investment objectives. Each member can use the services of their own independent financial adviser if they need help in making their investment decisions, or an employer

could negotiate with a single independent adviser to provide unbiased advice to employees.

While we caution against switching too often, members may switch between these unit trusts, as their needs change, giving them flexibility over time.

■ **Tax efficiency**

RAs essentially defer tax until employees retire. The government is planning to streamline the tax treatment of all retirement funds, but the changes currently under discussion will benefit retirement annuity members.

■ **Value for money**

In many 'modern' RA funds, including Allan Gray's, an annual administration fee is charged which is reduced by any fee discounts received from the providers of the chosen unit trusts. There are no initial administration fees, no switching

fees and no exit fees. Initial and annual fees for investment management depend on each member's choice of unit trusts. Modern RA fee structures are generally transparent and competitive and offer good value for money.

■ **Flexibility**

Gone are the days of life-long employment – today's workforce tends to be highly mobile. RAs under a group system are individually owned, which means employees can either continue contributing if they leave their employer, or they can stop contributing without any penalties. Allan Gray RA members may also transfer their Allan Gray RA to any other FSB-approved retirement annuity fund without penalties or fees.

■ **Transparency, communication and education**

Approaches to communication vary depending on the RA provider. Allan Gray is committed to keeping

communications and investment products simple. Members of the Allan Gray RA are sent quarterly statements showing how their investments are performing. They can also monitor and administer their investments by registering to become users of the secure section of our website. This is key in giving members ownership and a sense of responsibility for their investment.

Retirement reform is an evolving process and it is unclear when all the issues will be resolved, but there has been repeated assurance from regulators and the Treasury that vested rights will be protected. Time is very important in long-term savings; each month you put off saving or helping employees to plan for their retirements either increases the amount that will have to be saved at a later stage, or pushes out your or their date of retirement.

Investing through the Allan Gray Group Retirement Annuity System

The Allan Gray Group Retirement Annuity System is a group-based administration system that allows employers to deduct monthly contributions from their employees' salaries and pay them into the Allan Gray Retirement Annuity Fund on behalf of their employees. Employees are members of the Allan Gray Retirement Annuity Fund in their individual capacity. Contributions are flexible and may either form part of an employee's cost to company or be deducted on a voluntary basis – depending on the arrangement the employer sets up.

By using the Group Retirement Annuity System, employers are able to offer their staff the individual benefits of an Allan Gray RA and encourage them to make provision for their future financial security.

Gerhard joined Allan Gray in 2008 and is an Employee Benefits Specialist. He has spent more than 20 years working in financial services. He has an advanced CFP in Benefits Structuring and Fund Financing, and a Diploma in Financial Services.

Debbie joined Allan Gray in 2006 and is currently responsible for assisting new clients in the Group Retirement Annuity System. She also looks after all Group RA clients in the Western Cape, KwaZulu Natal and Eastern Cape. Debbie has a Post Graduate Diploma in Business Administration and is currently studying towards her CFP.

INVESTMENT TRACK RECORD – SHARE RETURNS

ALLAN GRAY PROPRIETARY LIMITED GLOBAL MANDATE SHARE RETURNS VS. JSE ALL SHARE INDEX

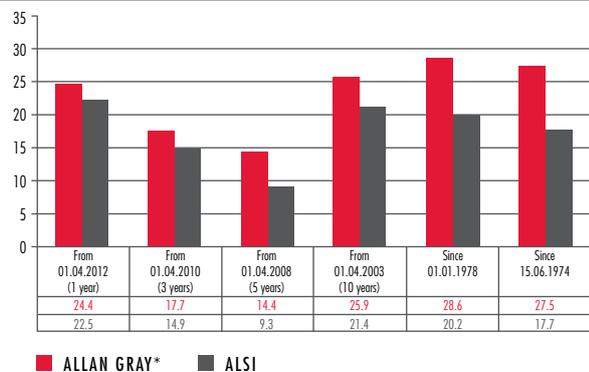
PERIOD	ALLAN GRAY*	JSE ALL SHARE INDEX	OUT/UNDER-PERFORMANCE
1974 (from 15.06)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	-1.6
2008	-12.6	-23.2	10.6
2009	28.8	32.1	-3.3
2010	20.9	19.0	1.9
2011	7.1	2.6	4.5
2012	20.6	26.7	-6.1
2013 (to 31.03)	7.9	2.5	5.4

INVESTMENT TRACK RECORD – BALANCED RETURNS

ALLAN GRAY PROPRIETARY LIMITED GLOBAL MANDATE TOTAL RETURNS VS. ALEXANDER FORBES GLOBAL MANAGER WATCH

PERIOD	ALLAN GRAY*	AFLMW**	OUT/UNDER-PERFORMANCE
1974	-	-	-
1975	-	-	-
1976	-	-	-
1977	-	-	-
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	-0.6
2008	-1.1	-12.3	11.2
2009	15.6	20.3	-4.7
2010	11.7	14.5	-2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	-4.9
2013 (to 31.03)	8.6	5.9	2.7

RETURNS ANNUALISED TO 31.03.2013

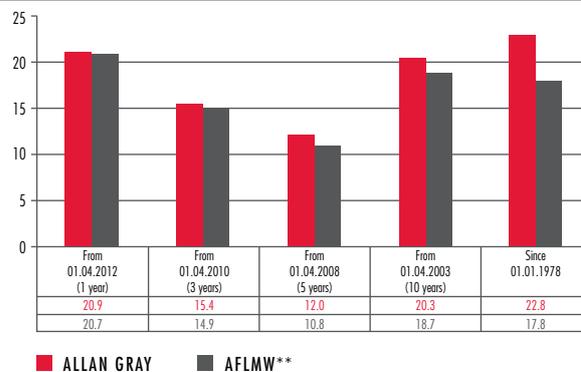


* Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income.

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 R123 925 880 by 31 March 2013. By comparison, the returns generated by the JSE All Share Index over the same period would have grown a similar investment to R5 658 100.

RETURNS ANNUALISED TO 31.03.2013



** Consulting Actuaries Survey returns used up to December 1997. The return for March 2013 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 R13 795 317 by 31 March 2013. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R3 239 319.

ALLAN GRAY BALANCED AND STABLE FUND ASSET ALLOCATION AS AT 31 MARCH 2013

	BALANCED FUND % OF PORTFOLIO			STABLE FUND % OF PORTFOLIO		
	TOTAL	SA	FOREIGN**	TOTAL	SA	FOREIGN
Net equities	55.7	43.5	12.1	13.8	9.6	4.2
Hedged equities	14.8	2.7	12.0	36.1	17.9	18.2
Property	0.7	0.5	0.2	0.5	0.3	0.2
Commodities (gold)	3.1	3.1	0.0	2.9	2.9	0.0
Bonds	9.8	9.8	0.0	5.0	5.0	0.0
Money market and bank deposits	15.9	13.4	2.5	41.7	38.6	3.1
TOTAL	100.0	73.1	26.9*	100.0	74.4	25.6*

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

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

** This includes African ex-SA assets.

ALLAN GRAY EQUITY FUND NET ASSETS AS AT 31 MARCH 2013

SECURITY (RANKED BY SECTOR)	MARKET VALUE (R MILLION)	% OF FUND	JSE ALSI WEIGHT (%)
EQUITIES	33 330	97.3	
RESOURCES	8 944	26.1	30.2
Sasol	3 637	10.6	
Anglo American*	1 510	4.4	
BHP Billiton	930	2.7	
Impala Platinum	696	2.0	
Anglogold Ashanti	695	2.0	
Positions less than 1%	1 476	4.3	
FINANCIALS	7 712	22.5	20.6
Standard Bank	1 617	4.7	
Sanlam	1 411	4.1	
Reinet Investments	1 285	3.8	
Old Mutual	910	2.7	
Investec	634	1.9	
Positions less than 1%	1 856	5.4	
INDUSTRIALS	16 440	48.0	49.2
British American Tobacco	3 686	10.8	
SABMiller	3 142	9.2	
Remgro	2 444	7.1	
Mondi	724	2.1	
Tongaat-Hulett	630	1.8	
Nampak	606	1.8	
Netcare	584	1.7	
Sappi	473	1.4	
Datatec	384	1.1	
Illovo Sugar	373	1.1	
Positions less than 1%	3 396	9.9	
OTHER SECURITIES	234	0.7	
MONEY MARKET AND CALL DEPOSITS	929	2.7	
TOTALS	34 259	100.0	

* Including positions in Anglo American stub certificates.

ALLAN GRAY UNIT TRUSTS ANNUALISED PERFORMANCE IN PERCENTAGE PER ANNUM TO 31 MARCH 2013

UNIT TRUSTS ¹	QTR ³ (UNANNUALISED)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R MILLION)	INCEPTION DATE
HIGH NET EQUITY EXPOSURE (100%)								
Allan Gray Equity Fund (AGEF) FTSE/JSE All Share Index	-	21.2	16.3	11.5	22.6	27.3	34 259.4	01.10.98
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index (Rands)	-	34.6	15.7	6.1	-	13.0	7 548.7	01.04.05
MEDIUM NET EQUITY EXPOSURE (40% - 75%)								
Allan Gray Balanced Fund (AGBF) Average of South African - Multi Asset - High Equity category (excl. AGBF) ¹⁰	-	19.1	14.0	10.6	19.0	19.7	67 355.5	01.10.99
Allan Gray-Orbis Global Fund of Funds (AGGF) 60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)	-	27.8	11.9	5.5	-	9.3	8 151.4	03.02.04
LOW NET EQUITY EXPOSURE (20% - 40%)								
Allan Gray Stable Fund (AGSF) - (Net of tax) Call deposits plus two percentage points (Net of tax)	-	11.2	9.1	8.2	11.8	12.5	29 826.3	01.07.00
Allan Gray Stable Fund (AGSF) - (Gross of tax) Call deposits plus two percentage points (Gross of tax)	-	11.6	9.6	9.0	12.8	13.6	29 826.3	01.07.00
VERY LOW NET EQUITY EXPOSURE (0% - 20%)								
Allan Gray Optimal Fund (AGOF) Daily call rate of FirstRand Bank Ltd	-	5.2	4.7	6.5	7.6	8.1	998.5	01.10.02
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US\$ Bank Deposits and Euro Bank deposits	-	21.1	8.7	-	-	7.6	671.8	02.03.10
NO EQUITY EXPOSURE								
Allan Gray Bond Fund (AGBD) BEASSA All Bond Index (total return)	-	12.1	11.1	11.2	-	10.0	811.5	01.10.04
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index ⁹	-	5.3	5.9	7.6	8.1	8.5	7 421.9	03.07.01

ALLAN GRAY TOTAL EXPENSE RATIOS (TERS)

	EQUITY FUND	GLOBAL EQUITY FEEDER FUND	BALANCED FUND	GLOBAL FUND OF FUNDS	STABLE FUND	OPTIMAL FUND	GLOBAL OPTIMAL FUND OF FUNDS	BOND FUND	MONEY MARKET FUND
Performance component	0.78%	-0.15%	0.16%	0.05%	0.45%	0.00%	0.00%	0.02%	0.00%
Fee at benchmark	1.71%	1.49%	1.16%	1.21%	1.13%	1.14%	0.98%	0.29%	0.29%
Total fees*	2.49%	1.34%	1.32%	1.26%	1.58%	1.14%	0.98%	0.31%	0.29%
Trading costs	0.05%	0.14%	0.06%	0.15%	0.05%	0.11%	0.17%	0.00%	0.00%
Other expenses	0.02%	0.06%	0.02%	0.07%	0.02%	0.02%	0.07%	0.02%	0.01%
TOTAL EXPENSE RATIO (TER)	2.56%	1.54%	1.40%	1.48%	1.65%	1.27%	1.22%	0.33%	0.30%
Annualised fee* rate for latest quarter	2.64%	1.41%	1.32%	1.20%	1.55%	1.14%	1.00%	0.29%	0.29%

* Including underlying Orbis Fund fees.

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

ORBIS FUNDS ANNUALISED PERFORMANCE IN PERCENTAGE PER ANNUM TO 31 MARCH 2013

	QTR (UNANNUALISED)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	INCEPTION DATE
ORBIS FUNDS (RANDS) REGISTERED FOR MARKETING IN SOUTH AFRICA ^{1,4}							
Orbis Global Equity Fund (Rands) FTSE World Index (Rands)	21.5	35.4	15.9	6.3	15.4	18.5	01.01.90
Orbis SICAV Japan Equity (Yen) Fund (Rands) Tokyo Stock Price Index (Rands)	21.2	34.5	16.3	7.3	11.3	14.4	01.01.98
Orbis SICAV Asia Ex-Japan Equity Fund (Rands) MSCI Asia Ex-Japan (Rands)	11.5	30.9	14.7	7.8	-	16.4	01.01.06
Orbis Optimal SA Fund-US\$ Class (Rands) US\$ Bank Deposits (Rands)	12.8	23.3	9.1	4.2	-	10.3	01.01.05
Orbis Optimal SA Fund-Euro Class (Rands) Euro Bank Deposits (Rands)	10.2	18.6	7.3	1.0	-	9.1	01.01.05

SEGREGATED AND LIFE POOLED PORTFOLIOS ANNUALISED PERFORMANCE IN PERCENTAGE PER ANNUM TO 31 MARCH 2013

	QTR (UNANNUALISED)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R MILLION)	INCEPTION DATE
SEGREGATED PORTFOLIOS ⁵								
Domestic Equity Composite	7.6	22.9	17.1	13.5	25.6	22.0		
FTSE/JSE All Share Index	2.5	22.5	14.9	9.3	21.4	15.1	59 147.4	01.01.90
Domestic Balanced Composite	5.8	17.9	14.8	12.8	21.9	23.2		
Mean of Alexander Forbes Domestic Manager Watch ^{2,7}	3.1	17.1	14.4	11.8	20.1	18.3	22 292.9	01.01.78
Global Balanced Composite	8.6	20.9	15.4	12.0	20.3	22.8		
Mean of Alexander Forbes Global Large Manager Watch ^{2,4}	5.9	20.7	14.9	10.8	18.7	17.9	43 647.4	01.01.78
Global Balanced Namibian High Foreign Composite	8.8	22.1	14.9	11.3	19.7			
Mean of Alexander Forbes Namibia Average Manager ²	5.8	20.2	14.2	10.6	18.4	14.7	7 782.3	01.01.94
Foreign Best View (Rands) Composite ⁸	16.4	29.1	12.2	5.4	11.2	14.3		
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	11.4	27.7	15.4	6.0	10.1	11.2	6 874.3	23.05.96
Relative Domestic Equity Composite	5.1	23.2	15.9	12.0	23.5	21.3		
Weighted average of client specific benchmarks ²	1.7	21.5	15.3	10.3	21.9	16.6	4 690.3	19.04.00
LIFE POOLED PORTFOLIOS								
Domestic Equity Portfolio	8.1	24.0	17.8	13.8	25.9	24.2		
FTSE/JSE All Share Index	2.5	22.5	14.9	9.3	21.4	16.3	7 456.0	01.02.01
Domestic Balanced Portfolio	6.1	18.6	15.5	13.2	22.4	20.7		
Mean of Alexander Forbes Domestic Manager Watch ^{2,7}	3.1	17.1	14.4	11.8	20.1	17.2	7 099.5	01.09.01
Global Balanced Portfolio	8.7	21.3	15.7	12.2	20.4	20.4		
Mean of Alexander Forbes Global Large Manager Watch ^{2,7}	5.9	20.7	14.9	10.8	18.7	15.4	24 667.2	01.09.00
Domestic Stable Portfolio	3.0	8.4	9.0	10.2	14.8	14.9		
Alexander Forbes Three-Month Deposit Index plus 2%	1.7	7.3	7.7	9.4	10.1	10.5	2 024.0	01.12.01
Global Stable Portfolio	6.1	13.1	10.7	9.9	-	14.0		
Alexander Forbes Three-Month Deposit Index plus 2%	1.7	7.3	7.7	9.4	-	9.7	3 793.8	15.07.04
Domestic Absolute Portfolio	5.2	8.9	10.2	11.8	21.2	21.9		
Mean of Alexander Forbes Domestic Manager Watch ⁷	3.1	17.1	14.4	11.8	20.1	16.9	1 101.6	06.07.01
Global Absolute Portfolio	7.5	12.9	11.4	11.6	-	18.3		
Mean of Alexander Forbes Global Large Manager Watch ^{2,7}	5.9	20.7	14.9	10.8	-	16.9	3 379.1	01.03.04
Orbis Global Equity Portfolio ¹	21.3	35.1	15.7	6.4	-	12.9		
FTSE World Index (Rands)	15.8	33.9	17.0	5.4	-	11.2	4 439.7	18.05.04
Foreign Portfolio ¹	16.3	29.2	12.0	5.4	11.2	6.7		
60% of the MSCI Index and 40% JP Morgan Government Bond Index Global (Rands)	11.4	27.7	15.4	6.0	10.1	4.9	2 111.5	23.01.02
Hedged Domestic Equity Portfolio	7.0	21.4	16.7	-	-	12.4		
FTSE/JSE CAPI Index	2.6	22.6	15.3	-	-	9.0	1 111.5	01.06.08
Relative Domestic Equity Portfolio	5.4	22.8	14.9	11.1	-	23.3		
FTSE/JSE CAPI Index	2.6	22.6	15.3	10.3	-	22.1	250.4	05.05.03
Domestic Optimal Portfolio ¹	3.6	5.9	5.5	7.5	8.6	8.5		
Daily Call Rate of Nedcor Bank Limited	1.1	4.5	4.9	6.6	7.1	7.2	358.5	04.12.02
Domestic Stable Medical Scheme Portfolio	3.0	8.5	9.1	10.0	-	13.4		
Consumer Price Index plus 3% p.a. ²	3.1	8.9	8.5	9.3	-	9.1	1 491.0	01.05.04
Money Market Portfolio ¹	1.3	5.5	6.1	7.8	8.4	8.9		
Alexander Forbes Three-Month Deposit Index	1.2	5.2	5.6	7.2	7.9	8.6	455.5	21.09.00

PERFORMANCE AS CALCULATED BY ALLAN GRAY

¹ The fund returns are net of investment management fees

² The return for the quarter ending 31 March 2013 is an estimate as the relevant survey results have not yet been released

³ Unable to disclose due to ASISA regulations

⁴ Consulting Actuaries Survey returns used to 31 December 1997. Alexander Forbes Global Large Manager Watch used from 1 January 1998. Alexander Forbes Non-Investable Large Manager Watch used from 1 April 2010

⁵ The composite assets under management figures shown include the assets invested in the pooled portfolios above where appropriate

⁶ Amounts invested by the Allan Gray client portfolios in the Orbis funds are included in the assets under management figures in the table above

⁷ The mean returns of the Alexander Forbes Non-Investable Large Manager Watch used from 1 April 2010

⁸ The foreign carve-out returns of the Global Balanced Composite used from 23 May 1996 to 31 August 2001. The Foreign Balanced Composite returns are used from 1 September 2001

⁹ Alexander Forbes Three-Month Deposit Index from 3 July 2001 to 31 March 2003. As from 1 April 2003, the benchmark is the simple average of the Domestic Fixed Interest Money Market Unit Trust Sector excluding the Allan Gray Money Market Fund. The benchmark from 1 November 2011 is the Alexander Forbes Short Term Fixed Interest (STFI) Composite Index

¹⁰ The current benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding the Allan Gray Balanced Fund). Since inception to 31 January 2013 the benchmark was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund

THE ALLAN GRAY GROUP

UNIT TRUSTS	A unit trust is a savings vehicle for investors who want to grow their money and may want to access it before they retire. Unit trusts allow investors to pool their money with other investors who have similar investment objectives. Unit trusts are also known as 'portfolios of collective investment schemes' or 'funds'. Allan Gray has nine funds in its stable: Equity, Balanced, Stable, Optimal, Money Market, Bond, Global Equity Feeder, Global Fund of Funds and Global Optimal Fund of Funds.
RETIREMENT ANNUITY*	The Allan Gray Retirement Annuity Fund (RA) is a savings vehicle for investors looking for a flexible, tax-efficient way to save for retirement. Investors can only access their money when they retire. Individually owned RAs can be managed on a group basis, offering employers a flexible solution to the challenge of retirement funding for their staff.
PRESERVATION FUNDS*	The Allan Gray Pension Preservation and Provident Preservation funds are savings vehicles for investors looking for a tax-efficient way to preserve existing retirement benefits when they leave a pension or provident fund, either as a result of a change in employment (e.g. retrenchment or resignation), or when they transfer from another preservation fund.
ENDOWMENT*	The Allan Gray Endowment Policy is a savings policy for investors who want a tax-efficient way to save, and wish to create liquidity in their estate.
LIVING ANNUITY*	The Allan Gray Living Annuity gives investors flexibility, within certain regulatory limits, to select an annuity best suited to their income needs after retirement. A living annuity provides investors with a regular income which is not guaranteed, and which is funded by growth on capital and income from interest and dividends.
OFFSHORE FUNDS	Through our partnership with Orbis we offer you a cost-effective way to diversify your portfolio by investing offshore. There are two options for investing offshore through Allan Gray: invest in rand-denominated offshore funds without the need to use your offshore investment allowance, or use your offshore investment allowance to invest in foreign funds.
PLATFORM – LOCAL AND OFFSHORE	Our investment platform provides you with access to all of our products, as well as a focused range of unit trusts from other fund providers. The platform enables you to buy, sell and switch – usually at no charge – between the funds as your needs and objectives change. South African investors who wish to diversify their portfolios can also access funds from certain other offshore fund providers via the same platform.
LIFE POOLED PORTFOLIOS	The minimum investment per client is R20 million. Mandates include risk-profiled pooled portfolios: Stable Portfolio, Balanced Portfolio and Absolute Portfolio; asset class pooled portfolios: Money Market, Equity and Foreign, and finally an Optimal Portfolio. Institutional investments are currently restricted to existing investors only (except for foreign mandates).
SEGREGATED PORTFOLIOS	The minimum portfolio size is R500 million. Mandates are of a balanced or asset class specific nature. Portfolios can be managed on an absolute or relative risk basis. Institutional investments are currently restricted to existing investors only (except for foreign mandates).
BOTSWANA	Allan Gray Botswana manages institutional portfolios on a segregated basis, and offers our range of nine South African unit trusts to individual investors.
NAMIBIA	Allan Gray Namibia manages institutional portfolios on a segregated basis and the Allan Gray Namibia Investment Trust provides investment management for Namibian retirement funds in a pooled vehicle.
SWAZILAND	Allan Gray Swaziland manages institutional portfolios on a segregated basis.
ALLAN GRAY ORBIS FOUNDATION	Allan Gray Orbis Foundation is a non-profit organisation that was established in 2005 as an education and development catalyst. It seeks to foster a next generation of high-impact leaders and entrepreneurs for the ultimate purpose of increased job creation in Southern Africa. The Foundation focuses on educational and experiential methods at the secondary and tertiary levels to realise the potential of bright young minds. Through its highly researched learning programmes, it intends equipping talented young individuals with the skills, attitudes and motivation to have significant future impact.
E²	E ² stands for 'excellence in entrepreneurship' and as a long-term capital fund its purpose is to provide substantial financing to entrepreneurs who are graduates of the Allan Gray Fellowship Programme. In addition, E ² provides financing for social entrepreneurs who demonstrate exceptional leadership and creative initiative in the not-for-profit sectors.

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

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