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ALLAN GRAY

Inside this issue

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Rob Dower

Comments from the Chief Operating Officer

It has been an interesting year. Twelve months ago, I wrote that we did not think share price valuations were justified by the fundamentals of SA listed stocks, and that investors would be wise not to expect future returns from South African investments that matched those of the preceding decade, especially not in dollar terms. Six months ago, I warned you about the potential consequences should some of the foreign portfolio inflows that have so strengthened our markets and our currency be reversed.

In the last few months the markets have let neither the weak local recovery nor the fickleness of foreign investors bother them at all. The JSE is up 18% in rands and 29% in dollars. Foreign appetite for JSE-listed shares has been such that many of their prices have risen along with a strengthening rand, despite their fundamentals in some cases being theoretically helped by a weaker currency. Although we make investment decisions based on individual stock analysis and not on macroeconomic predictions, the views we expressed in this magazine last year were founded on what we observed in our analysis of shares, and so were also reflected in your portfolios. As a result, while the absolute returns of most of our portfolios have been satisfactory, many of them have lagged their benchmarks over the last year.

It is widely perceived that there is an enormous amount of liquidity available in the world in search of growth and of yield. The potential for further developed market capital flows to drive a bubble in SA and other developing market assets is therefore not insignificant. If that were to happen we would probably continue to underperform on a relative basis. But from here, and at the risk of oversimplifying a very complex environment, the risks we worried about over the past year have become more worrying, and the potential for capital loss greater. Within their mandates, your portfolios remain invested more to protect you from losing money than to capture short-term gains from the current momentum. This is particularly so in the Stable Fund, as Ian and Mahesh set out in our first article.

On top of the global capital flows impacting SA investment markets so dramatically, there have been a number of occasions – sometimes painfully long – when Orbis and Allan Gray's stock-picking decisions have caused us to lag the market and our peers. History has shown, however, that those decisions tend to be vindicated over the long run. Unfortunately that does not make it any easier to endure tough periods. Trevor Black and Henry Allen from our offshore partner Orbis look at some of the factors behind Orbis' disappointing recent stock-picking performance and provide some historical perspective on similar periods in the past.

Rory Kutisker-Jacobson describes the investment case for Royal Bafokeng Platinum, which came to the market in the last quarter of 2010 and which we believe represents the most attractive value in the platinum sector. He tells the story of how the Bafokeng Nation's long-term thinking, sacrifice and disciplined saving over 130 years has resulted in their owning such a valuable stake of the newly listed business.

Nick Ndiritu explores the potential for capital deployment in Africa. Changes in the prudential investment guidelines for pension funds are almost sure to soon allow an extra 5% of these portfolios to be invested on the continent. Nick sets out why we think Africa outside SA is likely to provide long-term opportunities for investors and discusses how we are applying our philosophy in these markets.

Finally, a caution: this issue includes two full articles on the subject, but please remember that the short-term performance of a fund is important only in that it adds up to long-term performance. On its own it is a poor basis on which to make a switching decision.

We remain grateful for your trust and confidence and we are doing our utmost to keep earning it. I sincerely hope our caution in the investment markets for 2011 is unnecessary and I wish you well for the year ahead.

Kind regards

Rob Dower

Ian Liddle

Mahesh Cooper

Foreign exposure in the Allan Gray Stable Fund

EXECUTIVE SUMMARY: The long-term track record of the Allan Gray Stable Fund shows returns well ahead of its benchmark and satisfactory capital stability. Nevertheless, the Fund has disappointed some investors recently as its offshore positions have languished under the strong rand and its early move to a more cautious local share exposure has allowed more daring funds in the same category to overtake it on the short-term performance tables. Ian Liddle and Mahesh Cooper analyse the impact of the Fund's foreign positions on its recent performance, examine the history of how the Stable Fund built up its foreign exposure starting in 2004, and explain why the Fund has recently increased its foreign exposure despite the disappointing past performance from its foreign investments.

While it would be nice for the Stable Fund always to be on top of the short-term performance tables, we do not aim for this. We believe that an unhealthy focus on short-term performance can in fact be detrimental to the achievement of the Fund's long-term objectives. When we launched the Stable Fund in July 2000, we had a simple aim: to meet the needs of investors with a low tolerance for capital loss over any two-year period. Ordinarily these investors may have deposited their capital with a bank or in a money market fund. The Stable Fund aims to provide these investors with a superior long-term return to that which they could earn on a South African bank deposit, while seeking to minimise the risk of capital loss over any two-year period. We remain focused on this goal today.

While this goal is easily explained, it is much more difficult to implement. When pessimism prevails and the investing public is fearful, it can be hard to increase exposure to the stock market in a conservative fund like the Stable Fund. This is especially so when the stock market continues to fall and frightened investors are faced with a few negative months. Conversely it is hard to reduce stock market exposure when the market is rising strongly, because it is inevitable that fund investors will feel they 'missed out' for as long as the momentum continues. But we would not want it any other way – it is precisely because these things are hard to do, that we believe we have an opportunity to grow Stable Fund investors' capital over the long term, while preserving it over any two-year period.

"... an unhealthy focus on short-term performance can in fact be detrimental to the achievement of the Fund's long-term objectives."

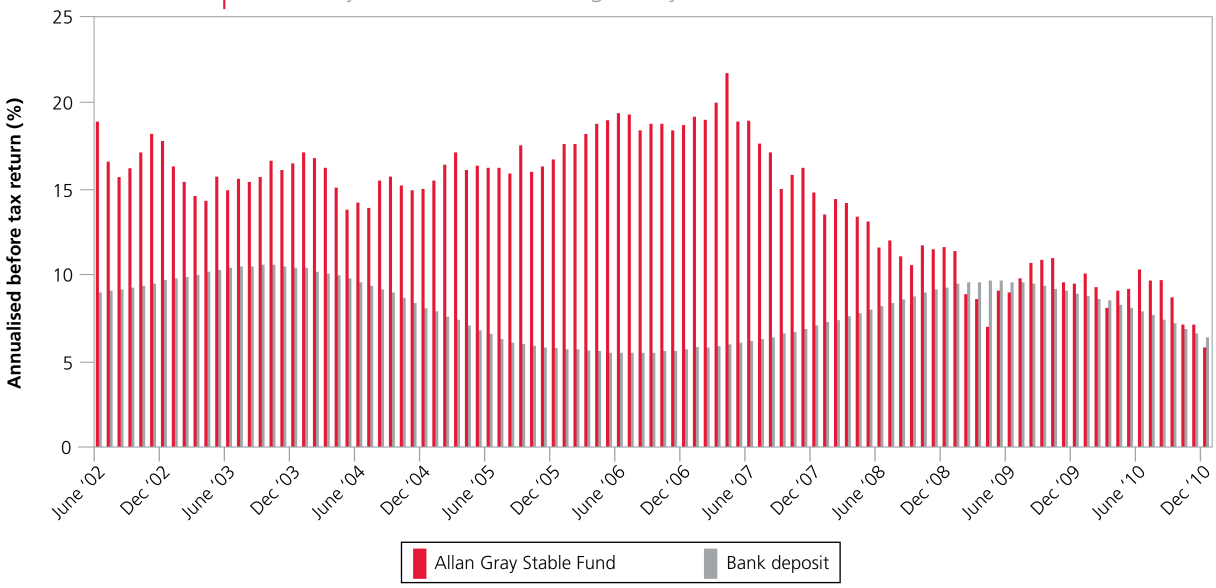
Graph 1 shows the rolling two-year returns of the Stable Fund versus a bank deposit. While the more recent returns demonstrate capital stability over a time of extreme volatility, we can understand investors' disappointment that the returns have not exceeded bank deposit returns by as wide a margin as they did in the Fund's earlier years. In many of our commentaries over the last few years we have explained that it is unlikely that we will be able to match these returns whenever an expensive stock market is the starting point, but there is another reason for the Fund's lacklustre returns over the last couple of years.

Looking back

Graph 2 (on page 4) shows the attribution of the Fund's performance for each of 2008, 2009 and 2010. While the Fund's foreign investments in the Orbis funds contributed to returns in 2008, they significantly detracted from returns in both 2009 and 2010. This disappointing performance can be ascribed to a few important factors including a strengthening rand, low developed market interest rates, developed stock markets underperforming emerging markets such as South Africa, and disappointing relative performance from Orbis' stock picks.

The Fund first allocated capital to foreign investments following South African Reserve Bank (SARB) approval in June 2004. The bulk of the Fund's foreign investments are invested in the Orbis funds. In view of the Stable Fund's conservative objectives, the mix of the Orbis funds historically has been skewed towards the Orbis Optimal SA funds, which hedge

GRAPH 1 | Allan Gray Stable Fund - rolling two-year returns



stock market exposure. **Graph 3** (on page 5) shows the historic asset allocation for the Stable Fund since its inception. For the purpose of this article we will focus on the blue-shaded areas which represent the Fund's foreign investments.

By March 2005 the Fund had increased its foreign exposure to the then applicable maximum prudential limit of 15%. It remained close to this limit for a number of years until it received permission to increase its foreign holdings up to 20% in the midst of the September/October 2008 financial crisis. In what seemed like fortunate timing then, the Fund was able to increase its offshore allocation in the early part of the rand's blow-off from around R8 per dollar to its low of R11.85 per dollar. Shortly thereafter, British American Tobacco (BAT) was unbundled from the Fund's holdings in Remgro and Richemont, and it was classified as a foreign 'inward-listed' security, which further increased the portion of the Fund reported as 'foreign', although the underlying exposure to BAT had been there all along as an asset of the domestic companies, Remgro and Richemont.

"We believe that the current 25% exposure of the Fund to foreign investments will contribute to the achievement of its objectives."

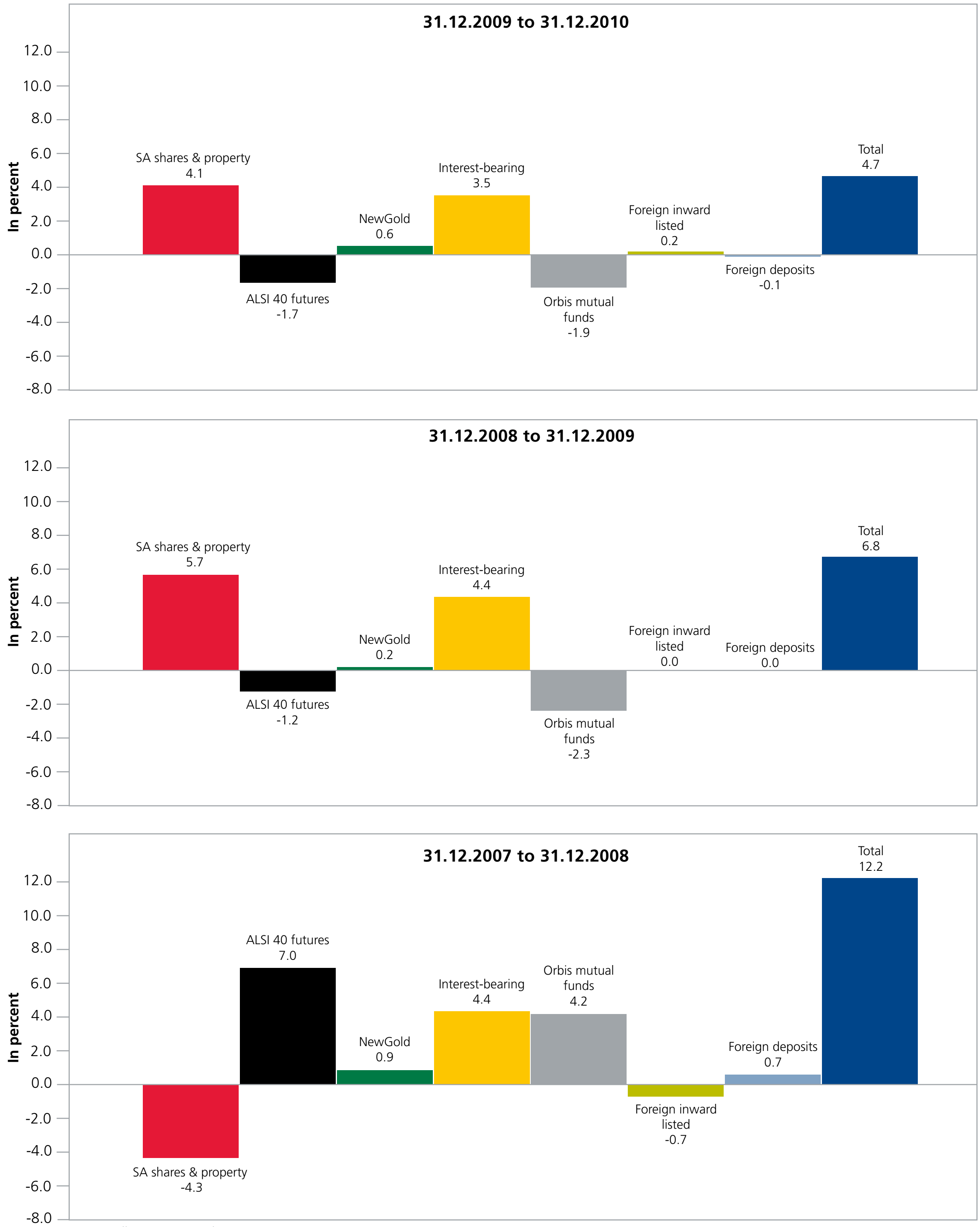
The Fund's foreign investments have so far proven disappointing for not only the last two years, but for most of the last seven years in which they have been included in the Fund. Indeed, even if one goes back to the Fund's inception date in mid-2000, a simple South African rand bank deposit has performed significantly better than world stock markets or a US dollar bank deposit (see bottom section of Graph 3). So when the SARB and the Financial Services Board (FSB) recently announced an increase in the prudential limit on foreign investments, why did we increase the Fund's foreign exposure to 25%?

Looking forward

Money flows into emerging markets, rising commodity prices and the strong rand may seem to have unstoppable momentum right now, but investors would do well to remember that they probably cannot last forever, and that the foreign portion of the Fund can play a valuable role in the event of these trends reversing just as it did in 2008 (see Graph 2). The disappointing relative performance of the Fund's foreign investments to date makes us more optimistic about their potential to add value to the Fund from this day on, because today they start from a lower relative price.

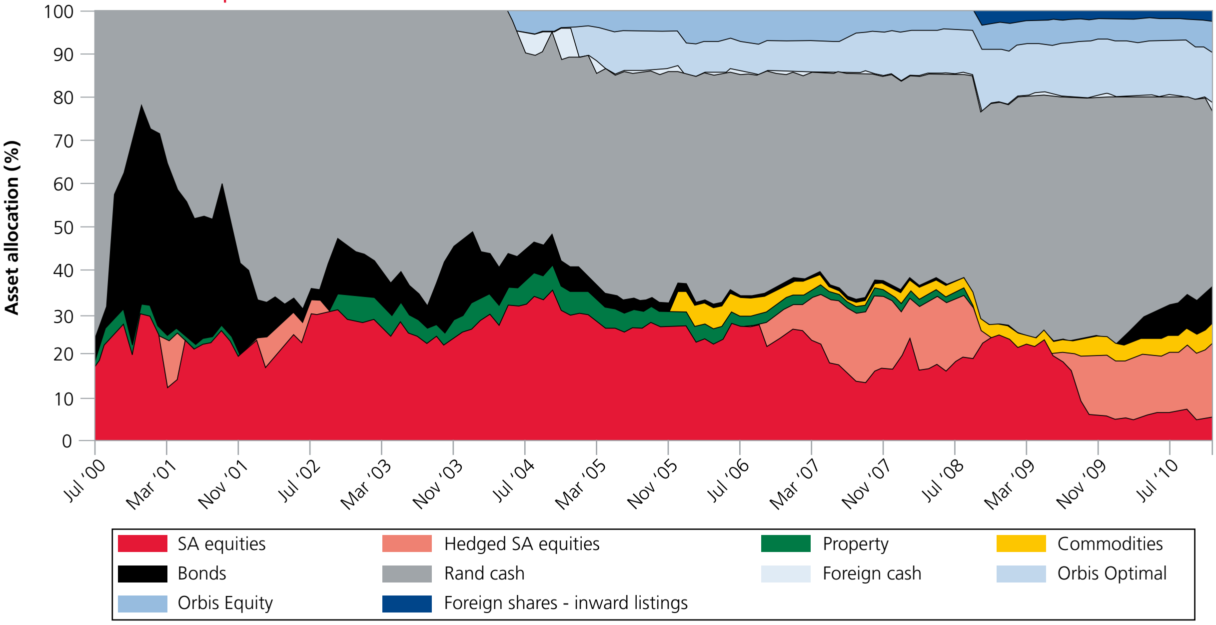
The JSE accounts for about 1.3% of the world's stock market capitalisation. In US dollar terms, the FTSE/JSE All Share Index has almost tripled since its lows in late 2008, and at the time of writing is back at its dollar highs of October 2007. One should

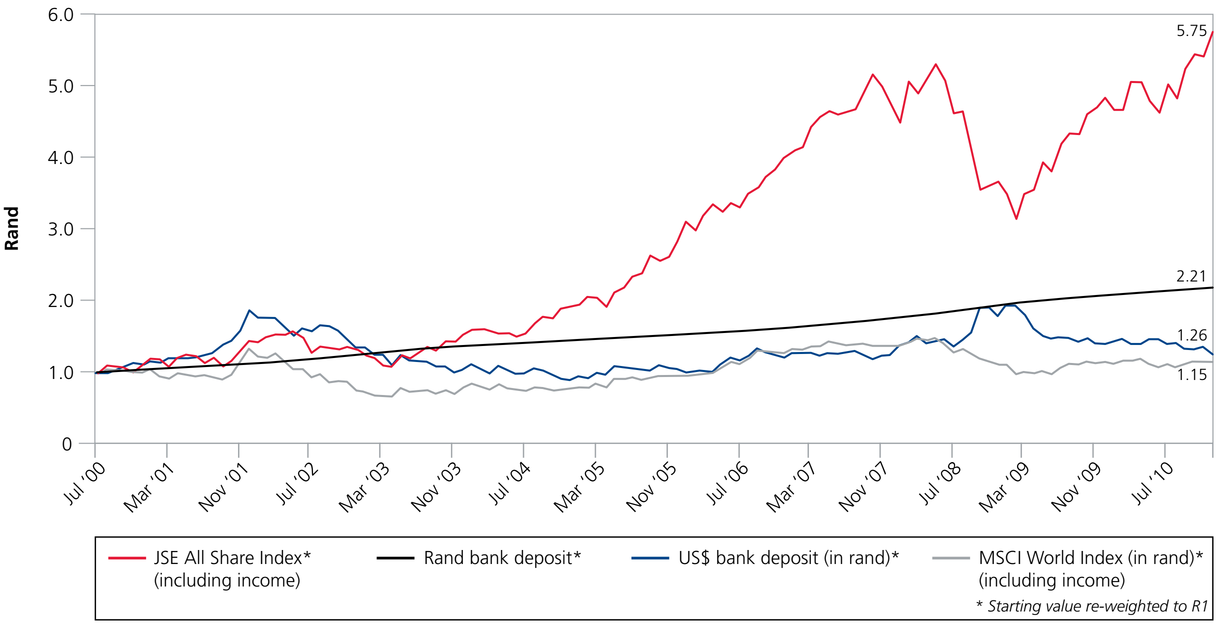
GRAPH 2 Allan Gray Stable Fund attribution of performance



Source: Allan Gray research

GRAPH 3 | Historic asset allocation of the Stable Fund and asset class performance





Source: Bloomberg, I-Net, Allan Gray research

not forget that after peaking in October 2007 this index lost two-thirds of its dollar value in just under a year. Of course, most stock markets around the world are up substantially from their lows, but not to the same extent as the JSE. At current prices, there must be a very strong probability that Orbis is now able to find better opportunities globally than we can find in the very limited investment universe on the JSE. A number of measures show that current sentiment towards many stock markets is close to an optimistic extreme, which is cause for caution. But we believe that the considerable stock market hedge held via the Orbis Optimal SA funds, and the exposure to the Japanese stock market and BAT conform with the

Fund's conservative objectives. Interested investors can read more about the stocks that Orbis is finding attractive in their investment commentaries which can be found on our website (visit www.allangray.co.za/individualinvestors.aspx#offshore or contact our Client Service Centre on 0860 000 654).

When the Stable Fund was launched in July 2000, conservative South African investors needed their arms to be twisted to take on any South African stock market exposure at all, because they were mindful of the relatively poor real returns on the SA stock market during the 1990s. The Stable Fund performed a valuable role for these investors in allowing them to participate partially in a massive bull market in SA stocks in a low-risk manner.

The Stable Fund continues to aim for the same objectives it had on its first day. Its most significant exposure is still to high quality rand-denominated interest-bearing investments. We believe that the current 25% exposure of the Fund to foreign investments will contribute to the achievement of its objectives. This may seem hard to believe for South Africans who have experienced a decade of much stronger returns on local investments. But then it was hard for many to believe that South African equities would be such a great investment for the Stable Fund a decade ago.

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.

Mahesh is a director of Allan Gray Limited and heads up the institutional client servicing team. He joined Allan Gray in 2003 as a business analyst, having had previous experience in investment and healthcare consulting. He completed his B Bus Sc degree at UCT and is a qualified actuary.

Rory
Kutisker-Jacobson

The investment case for Royal Bafokeng Platinum

EXECUTIVE SUMMARY: On a relative basis, we believe Royal Bafokeng Platinum represents the most attractive value in the platinum sector. Upon listing, the Royal Bafokeng Nation (RBN) held 57% of the company. Rory Kutisker-Jacobson looks at the investment case for RB Plats and gives some insight into how the Bafokeng came to own such a sizeable stake in the business.

Royal Bafokeng Platinum (RB Plats) listed on 8 November 2010 at R60.50 per share, giving it a market value of just under R10 billion. At listing, the Royal Bafokeng Nation held 57% of RB Plats, Anglo Platinum held 12.7%, and the remaining 30.3% was made available to the public. Our client portfolios collectively own 5.1% of RB Plats.

For those interested in the fundamentals of the Platinum Group Metals (PGMs) Industry, I refer you to Quarterly Commentary 3, 2006 (you can find previous issues at www.allangray.co.za/quarterlycommentary, or you can call our Client Service Centre on 0860 000 654). As our opinion has not changed materially, I do not repeat it here.

"On a relative basis, RB Plats represents, in our opinion, the most attractive value in the platinum sector."

Given the current debate on nationalisation and questionable practices in awarding mining licences, one might ask how the Bafokeng came to own such a sizeable stake of the business. For centuries the Bafokeng people have occupied land between Rustenburg and Sun City, most of which lies above what is arguably the most valuable ore body in the world. A geological wonder, the ore body called the Bushveld Igneous Complex contains roughly 80% of the world's known platinum reserves. That below the Bafokeng land lies such a valuable ore body is fortuitous, but how they managed to retain their ownership and rights is not (see text box on page 9). The Royal Bafokeng Nation is a success all of its own making.

The argument for RB Plats

Situated north west of Rustenburg, RB Plats' sole asset is a 67% stake in the Bafokeng Rasimone Platinum Mine Joint Venture (BRPM). The remaining unlisted 33% is held by Anglo Platinum. BRPM in turn consists of two lease areas:

- Boschkoppie: An operational mine that currently produces approximately 180 000 ounces of platinum per year (approximately 4% of South African production); and
- Styldrift: A mine under development to add around 200 000 ounces of platinum per year by 2017, with potential for additional shafts in time.

Formulated in the late 1990s, BRPM came about when the RBN and Anglo Platinum pooled their respective mining rights over the Styldrift and Boschkoppie properties. The arrangement was recently restructured to allow RB Plats to have management control in anticipation of the listing.

We find RB Plats attractive relative to its peers for several reasons:

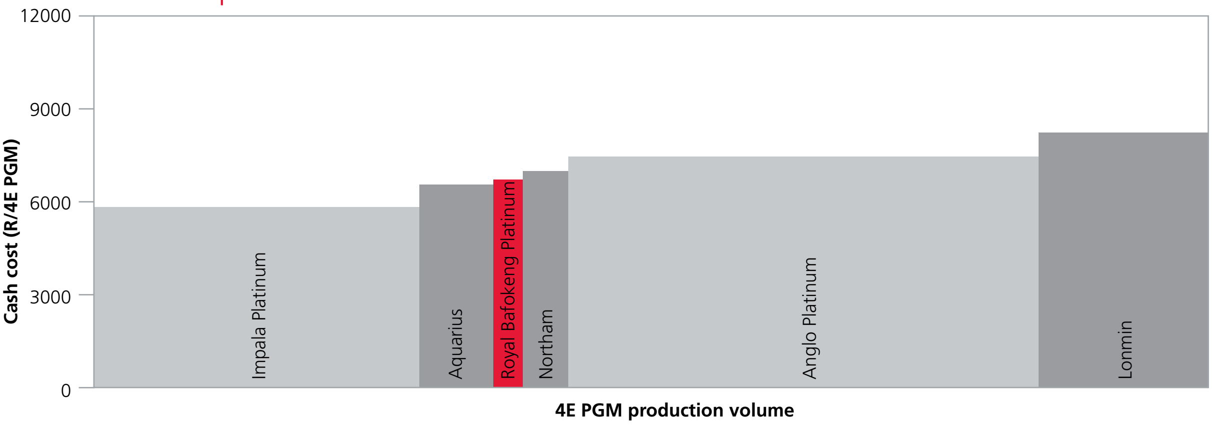
1. Boschkoppie is a shallow mine with relatively low costs

Graph 1 (on page 8) depicts our estimate of the current cash costs for the major listed platinum companies per 4E PGM[1] ounce (note these numbers include various adjustments we make and may not directly compare with those reported by the companies). Among others, the cash cost is a function of both the cost per ton mined, and the grade (mineral content) of the ore body. All else being equal, a higher grade results in a lower cost. Despite being in the bottom half of the industry cost curve, the cost per ton mined at Boschkoppie is relatively high for the depth of the mine, suggesting there is scope for further cost improvements.

2. Styldrift represents one of the best growth projects in the industry

Since 2006, despite cumulative capital expenditure in excess of R80 billion, the local platinum industry has been unable

GRAPH 1 | Allan Gray estimates of total cash costs (excluding capital expenditure)



Source: Company financials adjusted by Allan Gray estimates to facilitate consistent comparison.

to grow production. From the peak in 2006 at approximately 5.3 million platinum ounces, production has actually declined to around 4.6 million ounces.

3. At present Boschkoppie mines (and Styldrift will mine) 100% Merensky reef

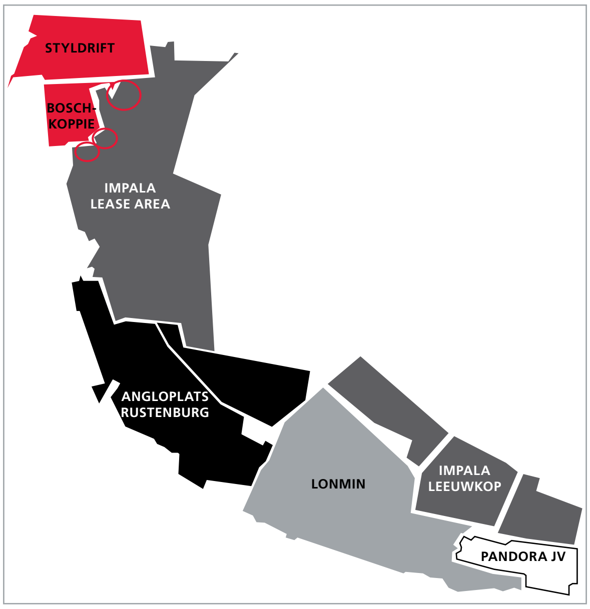
The Bushveld Complex consists of two platinum rich reefs, Merensky and UG2. In addition to having a lower platinum content, the UG2 reef has a high chrome content, which poses a challenge to the existing industry smelter capacity. High chrome content requires higher temperatures for melting and chrome can build up in the furnace hearth, both of which can lead to smelter blowouts and failures. Over time the amount of Merensky reef mined by the incumbents has declined, which has put pressure on them to find alternative sources of Merensky to feed into their smelters alongside the UG2 in order to keep the overall chrome content down (see **Table 1**). This makes BRPM of strategic importance and, at present, Anglo Platinum refines concentrate on its behalf on favourable terms.

4. BRPM is on the border of Impala Platinum's Lease Area, and significant synergies are possible

According to an agreement between the two parties, Impala will mine portions of the ore body below BRPM from existing Impala shaft infrastructure, in exchange for royalty payments to BRPM. This represents additional revenue for no additional costs or risks on the part of BRPM. Further royalty agreements are in the process of being concluded. The map in **Figure 1** shows the location of BRPM relative to Impala and the other incumbents. Impala shafts under construction or in production bordering the BRPM assets are circled.

The strategic importance of BRPM from a growth, Merensky/UG2 mix and location perspective was highlighted recently when Anglo Platinum blocked Impala's attempt to purchase the entire BRPM joint venture for just short of R20 billion. Impala's offer represented a premium in excess of 30% to the current implied market value of BRPM, which is R15 billion.

FIGURE 1 | Map of the western limb of the Bushveld Complex



Source: Company data

[1]4E PGM refers to the total amount of platinum, palladium, rhodium and gold produced.

TABLE 1 | Percentage of Merensky mined

	FY2000	FY2009
Anglo Platinum	74.0%	45.0%
Impala (Rustenburg Lease Area)	49.4%	39.8%
Northam	100.0%	49.0%
Lonmin	24.0%	22.3%

Source: Company financials

Risks associated with an investment in RB Plats

Problems at the existing mine, or in the development of Styldrift, could see operational performance fall short of expectations. Furthermore, the overall return of the company remains very dependent on the PGM basket price and rand/dollar exchange rate, two factors outside management's control.

Although the current share price offers a thin margin of safety, this compares favourably with many shares on the JSE which we find expensive at current levels. On a relative basis, RB Plats represents, in our opinion, the most attractive value in the platinum sector, and the strategic importance of its assets somewhat mitigates the downside risk.

History of the Royal Bafokeng Nation

The listing of a platinum company of such magnitude is a rare event in South Africa, but what makes this particular listing unique is the history of the Bafokeng Nation.

In the 1860s, around the time diamond mining started in Kimberley, white farmers began to settle in the Rustenburg valley and register farms in their own names, ignoring the traditional rights of ownership enjoyed by the Bafokeng people for many centuries. Fearing the seizure of Bafokeng land, Kgosi August Mokgatle – then king of the Bafokeng – realised the Bafokeng would need to purchase farms to retain property to which they were, in essence, already entitled. Lacking funds, he ordered the young men of his tribe to make the trek to Kimberley to work in the diamond mines, bringing their savings home to be pooled in a community fund.

Legally prevented from acquiring property in their own name, the Bafokeng then sought the aid of Lutheran missionaries who would hold the title deeds on their behalf. In this manner, the Bafokeng nation began to acquire property as early as 1869, and over the next 30 to 40 years amassed some 900 hectares in the region. Over time the title deeds held by the missionaries were transferred to government to be held in trust for the Bafokeng nation as a collective.

Subsequently in the 1920s, geologist Hans Merensky discovered outcrops of the Bushveld Complex in the Rustenburg valley, and as luck would have it, a substantial portion of this ore body lay below land owned by the Bafokeng.

Over the next 70 years, there were several attempts to dispossess the Bafokeng of their land. Mines were constructed and the extraction of PGM and other minerals took place. Although the RBN contest that they were not paid sufficient royalties, they were able to retain their legal title and continued to acquire adjoining farms in the region. In the late 1990s, following the abolition of apartheid, the royalty structure was revised and the Bafokeng began to receive royalties of higher value.

Funds generated from the mines have been re-invested in the community and in their investment vehicle, Royal Bafokeng Holdings (RBH). The Bafokeng have used their income to build schools, roads, clinics and other infrastructure in the region, while RBH has grown to a company managing some R30 billion in assets.

Rory joined Allan Gray as an equity analyst in 2008. He has a Bachelor of Business Science with honours in Finance and Economics.

Nick Ndiritu

Africa's investable universe

EXECUTIVE SUMMARY: We expect a change in prudential investment regulations to allow pension fund investors to invest up to 5% of their assets in Africa, in addition to other foreign assets. As value-oriented investors, we view Africa's growing credibility as an investment destination with both optimism and caution. Nick Ndiritu explores the investable universe in Africa and discusses how we are applying our investment philosophy in these markets.

For some time, the South African Reserve Bank (SARB) has allowed institutional investors to invest up to 5% of their assets in Africa (outside SA), on top of their general offshore allowances. Retirement funds and unit trusts which are managed to comply with the prudential investment guidelines (as set out in Regulation 28 of the Pension Funds Act) have their own offshore limits, which are not (yet) aligned with the SARB regulations. The Financial Services Board has recently reconfirmed its intention to align Regulation 28 with the latest SARB foreign limits. If this happens, an additional 5% of these funds' assets may then be invested in African assets.

Whether the prudential guidelines change or not, we believe it is in our clients' interests for us to understand the investment opportunities that Africa may present. We are still in the early stages of our pan-African journey and, undoubtedly, the investment terrain will be different from Cape Town to Casablanca. We believe in the region's long-term investment case and will strive to find compelling opportunities to invest for clients using our value-oriented contrarian compass (with which investors in Allan Gray funds are quite familiar).

As value-oriented investors, we view Africa's growing popularity as an investment destination with both optimism and caution. Reasons for the current optimism have been well documented and include: (i) a population close to one billion underpinning a large and growing consumer class, rapid urbanisation trends and recent productivity gains; (ii) resources-led trade and infrastructure investment flows; and (iii) improving political governance, competitiveness and macroeconomic stability. Although we recognise some of the factors driving the current interest are not sustainable, on balance we believe Africa presents an attractive set of opportunities for long-term investors.

"...on balance, we believe Africa presents an attractive set of opportunities for long-term investors."

Changing perceptions about the continent and developments in developed markets are fuelling a sharp rise in private capital seeking a home in Africa. Net inflows into African regional funds investing in public markets totalled US$660 million for the 12 months to September 2010, close to four times the prior best year in 2007[1]. These flows are relatively small and can just as easily be reversed. However, if the trend is sustained, the inflows could be fairly significant relative to the size of the investable universe in Africa's capital markets and the tradeability in these markets.

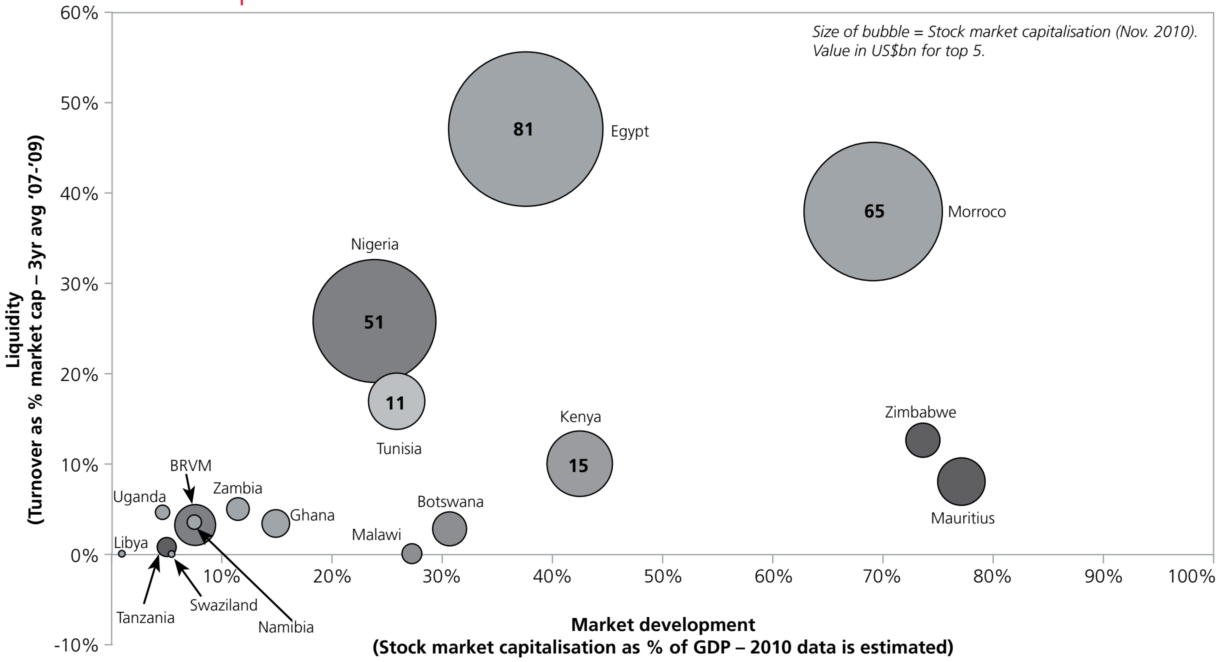
What is the investable universe in public markets?

The investable universe is best illustrated by **Graphs 1** and **2**.

Market capitalisation: The total market value of all of a company's outstanding shares. Market capitalisation is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determine a company's size, as opposed to sales or total asset figures. Consequently, a stock exchange's size is the aggregate market capitalisation of all the individual companies listed on the exchange.

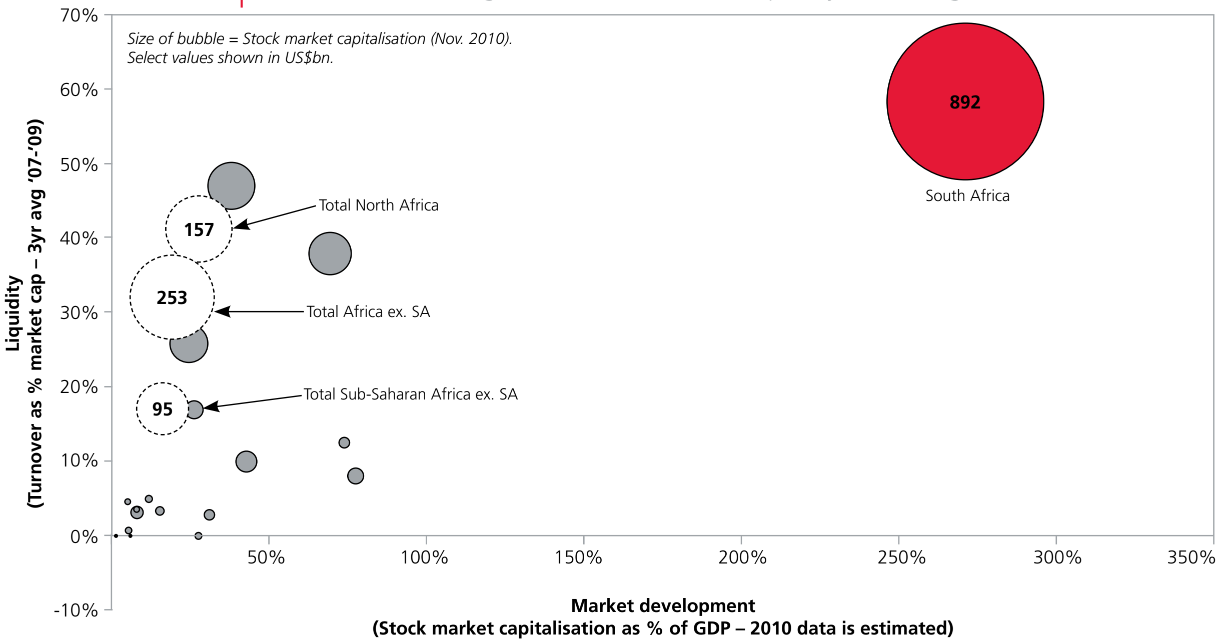
[1]*Financial Times (Sep 14 2010) and EPFR Global which tracks fund flows.*

GRAPH 1 Africa stock exchanges - relative size and liquidity (excluding South Africa)



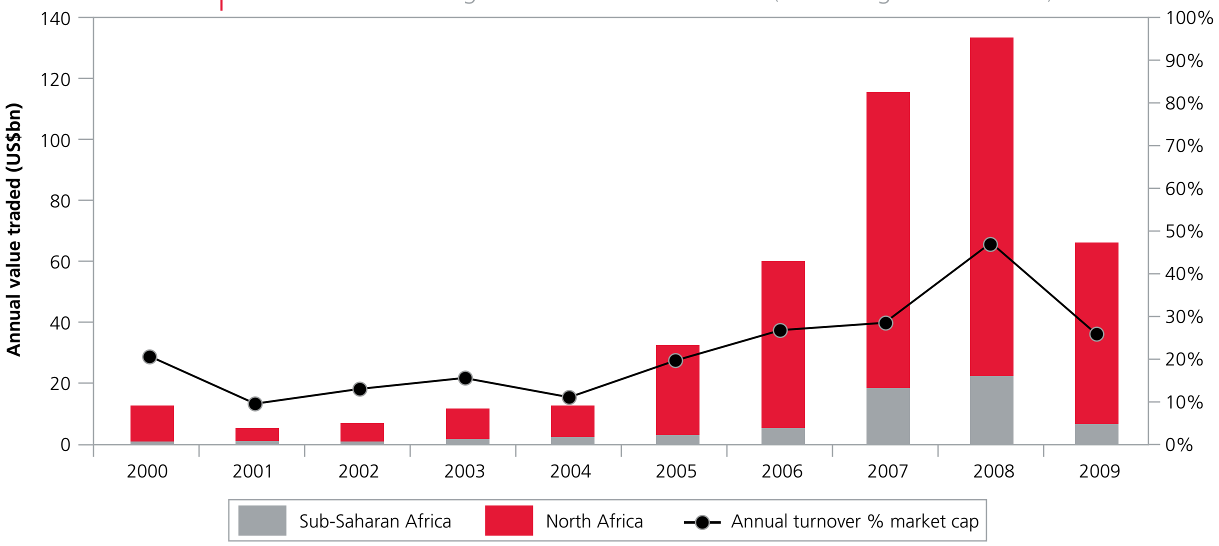
Source: Allan Gray research, Bloomberg, IMF, Standard Bank, World Federation of Exchanges

GRAPH 2 Africa stock exchanges - relative size and liquidity (including South Africa)



Source: Allan Gray research, Bloomberg, IMF, Standard Bank, World Federation of Exchanges

GRAPH 3 | Africa stock exchanges - annual value traded (excluding South Africa)



Source: Allan Gray research, Bloomberg, Standard Bank

Excluding South Africa (see Graph 1), the aggregate market capitalisation of African markets is about US$250 billion, or about 20% of GDP. In contrast, companies listed on South Africa's JSE have a capitalisation of about 270% to GDP (see Graph 2), which drops to about 150% if you exclude companies with primary listings in Europe. This reflects both a higher percentage of government contribution to GDP in countries where free market reforms have yet to take hold fully, as well as the underrepresentation of various sectors in the stock market relative to their share in the overall economy. For example, in Nigeria, banks have a dominant share of the country's stock exchange capitalisation (about 50%).

"... an investment landscape which is inherently illiquid may be ideal for long-term contrarian investors with patient capital."

The turnover ratio (annual value traded / market capitalisation) illustrates the low liquidity in these markets. Often, there are a few stocks which account for a disproportionate share of the country's total market capitalisation. Further, the free float of shares available for trading is reduced by the large fraction of strategic stakes held by multinationals, or the buy-and-hold-forever stakes held by local pension funds with limited investment alternatives in listed equities. Consequently, the annual turnover of Africa's capital markets has averaged about 30% over the last five years (see **Graph 3**) compared to South Africa's at about 51%. The more illiquid sub-Saharan or 'frontier Africa' markets averaged 14% turnover over the same period and account for less than 15% of average daily traded value (Egypt and Morocco account for about 85%).

How is this investable universe likely to evolve?

The growing capital flows could lead to a scarcity premium being paid, especially for well-managed businesses with reasonable liquidity, potentially above what would otherwise be rational. On the positive side, it is possible that investors will travel further out to the more illiquid edges of Africa's frontier markets, further deepening capital markets and precipitating a wave of new equity issuances and capital raisings.

An alternative for investors seeking Africa exposure is via foreign-listed companies with a material contribution from their African operations (mostly resources-related companies and primarily listed in London, Toronto and Sydney). After screening for size and liquidity, the number of publicly-listed companies likely to attract institutional investors' attention shrinks from a total of about 1 100 (either listed on Africa's exchanges outside of South Africa or foreign-listed) to about 150-200 companies. This represents about 10-20% of the total universe but accounts for over 80-85% of the combined market capitalisation.

Our investment approach

Our initial efforts will be focused on a subset of the 92 largest and most liquid African companies. This purchase universe may be expanded in time, but for now it serves as a useful way to focus our efforts. We are also looking selectively at the more illiquid companies outside this core universe. Our premise is that an investment landscape which is inherently illiquid may be ideal for long-term contrarian investors with patient capital. We want to be ideally positioned to provide liquidity for others – patiently buying if the market significantly discounts illiquid stocks below our estimate of their intrinsic value; or selling when the market overvalues liquidity.

Nick is a member of the investment team and joined Allan Gray in 2010 with prior experience in investment banking and management consulting. He has an MBA (Harvard).


Henry Allen


Trevor Black

Responding to challenging times

EXECUTIVE SUMMARY: Performance does not come in a straight line, which means that periods of long-term outperformance will always be accompanied by periods of, sometimes uncomfortable, short-term underperformance. History has shown that clients who have endured the tough periods tend to be well rewarded for their patience. Henry Allen and Trevor Black look at some of the factors behind Orbis' recent underperformance and provide some historical perspective on similar periods in the past.

The past year and a half has been challenging for Orbis – and frustrating for our clients. But it is critical to remember that periods of underperformance are an inherent characteristic of our contrarian approach to investing. They are part of our DNA as investors. Over the past two decades, there have been a number of occasions – sometimes painfully long – when our stock-picking decisions have caused us to lag the market and our peers. History has shown, however, that those decisions tend to be vindicated in the long run, and clients who have endured the tough periods have been well rewarded for their patience.

Unfortunately, that does not make it any easier to endure periods like the current one. Although our analysts are trained to be 'comfortable being uncomfortable', we do not expect our clients to enjoy watching their investments lag the market, or when compared to our competitors. As investors in our own funds, we think it is more important to focus on the consistency of the investment process over the long term. Orbis continues to follow the same investment philosophy and process that have worked for us for more than 20 years (an investment approach we share with Allan Gray). If there is just one thing that is consistent about every stock we hold, it is that we disagree with other market participants, and quite often with conventional wisdom.

We are also committed to being as transparent as possible. This means freely acknowledging our mistakes – and sharing our thought process with you in as much detail as we can. We cannot control how stock markets will behave, but we can ensure that you have the information you need to make considered investment decisions. This report will discuss some of the factors behind our recent underperformance and provide some historical perspective on similar periods in the past.

The last 18 months

Since 30 June 2009, the Orbis Global Equity Fund has risen by 25.6% while the benchmark has risen by 39.3%. In general, we do not believe there has been a common theme or area of geographic or sector exposure that explains our poor stock selection results. Rather, it is stock-specific across all regions, with the exception of continental Europe. That said, two areas merit further comment.

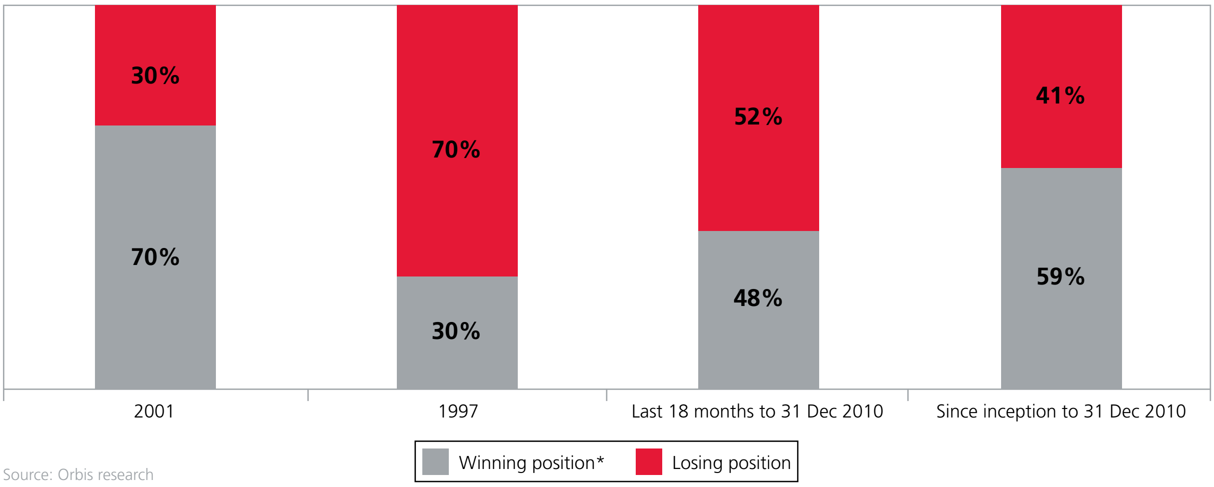
1. Global has had an exposure of 18% to Japan – on par with Europe and Asia ex-Japan

The Japanese stock market remains a disappointment. It has been flat over the past 18 months and is just 30% above its 27-year low of early 2009. Worse yet, the Fund's selections in Japan underperformed even the Japanese market – mostly due to its exposure to Japanese financials that raised capital below intrinsic value, and in doing so lowered per-share intrinsic value. These included SBI Holdings (an online broker), T&D Holdings (a life insurer) and Mitsubishi UFJ Financial Group (Japan's largest bank). Altogether, Global has 8% of its assets in Japanese financials, reflecting our belief that they continue to trade at large discounts to intrinsic value. In general, with market sentiment very depressed in Japan, we are finding many attractive long-term opportunities.

2. Global's relative performance has been hurt by having less exposure than the benchmark to the strongly-performing Industrials, Basic Materials and Consumer Goods sectors

This is not unusual or necessarily undesirable: we do not seek exposure to every area that performs well, and we select stocks in a bottom-up manner with little concern for the composition of the index. Our quantitative analysis did not indicate that these sectors were especially cheap a year

GRAPH 1 | Orbis' success ratio



Source: Orbis research

* *A winning position is one that outperforms what an equal position in the world index would have done.*

ago, and our bottom-up analysis did not uncover many compelling opportunities. Although being underweight these sectors has detracted from relative performance in the past year, and may continue to do so, we believe it is in the best long-term interests of our clients to have a larger exposure to other, more attractive areas of the market.

How does this compare to the past?

One of the toughest things about being a contrarian investor is that we are very often wrong. A professional investor who makes the correct decision 60% of the time can enjoy a long and fruitful career. This stands in stark contrast to almost any other profession. Would you go to a surgeon with a 60% success rate on the operating table? Or a lawyer who won only 60% of his or her cases? Amongst professional investors, contrarians make life even harder for themselves by swimming against the tide.

> "If there is just one thing that is consistent about every stock we hold, it is that we disagree with other market participants, and quite often with conventional wisdom."

We accept these odds because the long-term rewards of this approach far outweigh the discomfort of being wrong in the short run. Although we do not have a crystal ball, our collective experience and analysis of market history tells us that the current period of underperformance is no different from anything we have seen in the past. To this end, our 'success ratio' should help put our investment philosophy and process in historical context. Simply put, although net alpha (outperformance of the benchmark after fees) is the final judge, the 'success ratio' is the proportion of the stocks in the portfolio which have outperformed the benchmark.

Looking at the success ratio can help to manage expectations about what is necessary in order to generate superior long-term returns. **Graph 1** shows that even in our best year we got only 70% of the stock selection decisions right. It is worth noting that in the run-up to this period we had underperformed the World Index by 14% after fees for the year ended July 2000, the second worst separate 12-month period in our history. At that time, the five-year returns also trailed the index. The magnitude of our underperformance was exacerbated further by the fact that 'everyone else' was doing enormously well, with the average global equity fund outperforming the World Index by ± 3%.

The anomaly of the average fund outperforming added insult to our clients' perceived injury. Sometimes the underperformance is because we are invested in ideas that have not come to fruition. In our worst year we got 70% wrong. Since inception, we got about six out of 10 decisions right – but this has been enough to generate satisfactory long-term returns. Although 52% of our ideas have missed the mark in the past 18 months, we do not view this as cause for alarm. Indeed, it is consistent with our historical performance record.

Transparency and consistency are key

During periods of underperformance, it is very tempting to change the way you invest. It is easy to conclude that something must be 'wrong' which requires an immediate fix. We have resisted this urge – and continue to invest the way we always have – because we think we can add value in the long term by sticking to what we do best. In the inevitable challenging periods along the way, we are committed to being transparent about our thinking and consistent in our approach. We believe this is ultimately the best way to serve our clients.

Henry joined Orbis as an investment analyst in 2000. While he retains an involvement in the investment process by mentoring analysts, he is now a member of the Investment Counsellor Group where his primary responsibility is communicating with clients on investment-related matters. He is a CA and CFA Charterholder and has a BA in Economics and Law.

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 in Africa.

Gerhard Klinger

Solving the problem of retirement funding for small and medium-size businesses

EXECUTIVE SUMMARY: In Quarterly Commentary 1 of 2008 we introduced you to the Allan Gray Group Retirement Annuity. Two years on we reflect on how this system is proving to be a cost-effective solution to the problem of retirement funding for small to medium-size organisations.

Regular readers of our commentaries will know that we often write about the cost and danger of delaying investing for your retirement. Many people rely on pension income for the same number of years as they save; add increased medical costs to longevity and the picture looks even scarier.

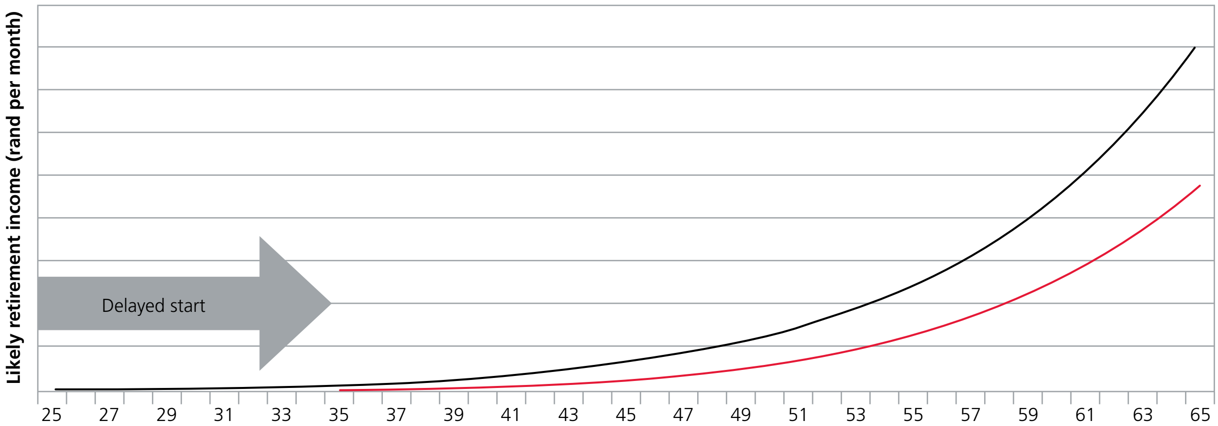
According to the Sanlam BENCHMARK Employee Benefits Survey 2010, 30% of pensioners in South Africa find themselves looking after dependants other than their spouses as a result of extended families and the impact of AIDS. On average, pensioners have 1.97 dependants, putting added pressure on already stretched retirement resources.

At current annuity prices you need a capital sum of 15-20 times your final annual pre-tax income to retire independently. This will give you an income equal to about 70% of your income at a retirement age of 65 (if you buy a conventional annuity with 5% escalation at retirement). To achieve this you would have to save 10% of your salary from age 25. This is based on the assumptions that inflation over the period averages 6%, your salary increases at an average 7%, and your investments achieve a real (i.e. above inflation) return of 5%.

If you start saving for retirement from age 25 you will have significantly more to retire on than if you start at 35. Losing 10 years 'costs' 40% in retirement income. So, for example, instead of getting R10 000 a month, you would only get R6 000 (see **Graph 1**).

Starting early will go a long way to helping you sustain yourself comfortably in retirement. This is the power of compounding – earning interest today on the interest that you earned yesterday.

GRAPH 1 | Growth in retirement savings: the importance of starting early*



To reach the same end point, every year for 30 years the investor would need to save an extra 6.6% of salary, or generate an extra 3.1% real return. (Assume inflation 6%, salary growth 7%, real investment growth 5%, at retirement buy a conventional annuity with 5% escalation).

Source: Allan Gray research

** For illustrative purposes only.*

Employers can make a difference

Employers have the ability to make a difference by helping their staff save for retirement. Pension or provident funds may be the ideal solution for some organisations. However, for many smaller companies, providing a pension or provident fund may be costly and the administration and compliance requirements can be onerous.

The Allan Gray Group Retirement Annuity (Group RA) is an example of a system that circumvents these problems, enabling employers to administer member contributions to individually owned Allan Gray Retirement Annuities (RAs). In so doing, 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. Employers can ensure that employees' contributions are applied to retirement savings, as opposed to paying employees cash as part of their remuneration package and placing the onus on them to buy into their own scheme. This creates a savings culture and a sense of joint responsibility.

"Employers have the ability to make a difference by helping their staff save for retirement."

The Allan Gray Group RA is not a 'typical' group-based product; rather, it simply provides employers with a facility to manage employees' individual contributions to their retirement savings on a group basis. Contributions are allocated to individual investment accounts in the Allan Gray RA for the employees' benefit.

By selecting a system like the Allan Gray Group RA, employers can ensure that their employees get:

1. Clear individual accountability and choice

Employees join the RA in their individual capacities and become individual members – with autonomous and member-specific investment choices and options. This gives each member control of his/her retirement savings. This is a move away from the paternalistic culture of traditional pension and provident funds, which often do not offer choice, and ticks the box for those who have been looking for more control of their investments in the wake of the global financial crisis. According to the BENCHMARK Survey, 55% of retirement funds offer member-directed choice, up from 44% in 2006. A further 13% are considering offering member choice.

Allan Gray provides an uncomplicated range of unit trusts across different sectors, from different providers. Individual members need to select unit trusts that best meet their individual investment objectives as their underlying investment options. While we caution against switching too often, members may switch between these unit trusts at any time, at no cost, as their needs change, giving them flexibility.

2. Tax efficiency

RAs essentially defer tax until employees retire. Contributions are tax deductible to the greater of R3 500 or 15% of their pre-tax income. Investment growth is then generated off this pre-tax base and this growth is also tax free.

When a member retires, he or she can withdraw a lump-sum benefit of one-third of the capital from the RA. This is taxed favourably: the first R300 000 of total pension withdrawals (including RA withdrawals) is tax free, the next R300 000 is taxed at 18%, and the following R300 000 at 27%. Above R900 000, the tax rate is 36%, which is still below the maximum 40% marginal rate for individuals.

The remaining two-thirds of their RA capital must be used to purchase a pension-providing vehicle such as a living annuity or a guaranteed life annuity. The tax rates used for payments from this annuity are based on the members' marginal tax rates after retirement, which may be lower than when they are working.

3. 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. The fee structure is transparent and provides value for money.

4. Flexibility

Gone are the days of life-long employment – today's workforce is highly mobile. Because each RA under the group system is individually owned, employees can continue contributing even if they leave their employer. Or they can stop contributing without any penalties. They may also transfer their Allan Gray RA to another approved retirement annuity fund. There are no penalties or fees charged.

5. Transparency, communication and education

The BENCHMARK Survey notes that 65% of members invested in retirement funds with member-directed choice rely on the trustee or default choice and, as such, do not choose their own investments. There are many reasons people fail to make their own investment decisions (see Marisa Kaplan's piece in Quarterly Commentary 3 of 2009, 'The cost of too much choice' – you can find previous issues of the Quarterly Commentary at www.allangray.co.za/quarterlycommentary, or you can call our Client Service Centre on 0860 000 654), but complexity and lack of understanding play a key role.

Allan Gray is committed to keeping our 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.

Characteristics of the Group RA that may be different to traditional group arrangements

- Employees cannot cash in their fund before age 55, unless the value of their savings is under R7 000 or if they are emigrating. In this way the RA is in line with government's thinking on retirement savings preservation. A big issue for government is the loss of retirement savings when individuals change jobs and take their accumulated pension money in cash instead of transferring their savings to a preservation fund.
- Employers have no rights or duties in the fund rules. Employees merely give permission for employers to deduct and pay over contributions on their behalf. Any unpaid contributions are a matter to be resolved between the employer and the employees, and there is no statutory protection for non-payment of contributions as provided for with pension funds.
- There is no requirement for all employees to become members unless an employer makes membership a condition of employment (but this would need to be enforced by the employer).
- The Allan Gray RA is governed by a board of trustees, some of whom are independent pension experts. Allan Gray pays for the board-level and some other expenses of the Allan Gray RA (i.e. they are not currently deducted from members' investment accounts). Neither the employer nor the staff play any role in electing trustees of the Allan Gray RA.
- There are no insured death or disability benefits available for members of the Allan Gray RA under the fund. Any risk protection or additional benefits of this nature would have to be sourced and provided separately.

Gerhard joined Allan Gray in 2008 and is responsible for all aspects of the Group Retirement Annuity. He has spent nearly 20 years working in financial services. He has an advanced CFP in Benefits Structuring and Fund Financing, and an Australian Diploma in Financial Services.

Anthony Farr

Allan Gray Orbis Foundation update

EXECUTIVE SUMMARY: To achieve its vision of achieving 'long-term economic and societal wealth through the Allan Gray Fellows', Allan Gray Orbis Foundation needs to encourage South Africans to embrace the benefits of an entrepreneurial mindset. Anthony Farr explains what the Foundation has been doing to achieve this end, and gives an update on events and campaigns which have taken place over the last six months.

Allan Gray Orbis Foundation strives to apply its own context to many of the key principles that have proved successful for Allan Gray Limited, so it is not entirely surprising to note the continuity between the ultimate intentions of the company and the Foundation. Allan Gray Limited's mission is 'to create long-term wealth for our clients', while the Foundation's vision is 'to achieve long-term economic and societal wealth through the Allan Gray Fellows'. Allan Gray harnesses the mechanism of its investment expertise and process, while the Foundation's vehicle is the Allan Gray Fellows themselves.

Embracing entrepreneurial thinking

To achieve its vision, the Foundation needs to encourage the country to embrace the benefits of an entrepreneurial mindset. An opportunity to highlight this was provided at the end of November 2010 when the world celebrated Global Entrepreneurship Week.

The Foundation participated in a panel discussion on 'Establishing a vibrant, inclusive and values-driven entrepreneurship eco system' and hosted a round table exploring the debate around 'Can entrepreneurship be taught?' In these discussions it was acknowledged that it is crucial for a developing country like South Africa to stimulate an entrepreneurial spirit to achieve economic transformation and a stronger presence in the global economy. While not everyone can be an entrepreneur, the skills and attitudes of an entrepreneurial mindset must be mainstreamed in response to the increased complexity and rate of change in society.

Rounding off 2010

The Foundation's flagship event, the Winter Seminar, was held in Johannesburg and Cape Town. Over four days the Allan Gray Fellows engaged with various dimensions of the Foundation's philosophy, including leadership, economics, community and Africa. Guests from like-minded organisations such as Mandela Rhodes Scholars and Brightest Young Minds delegates, Africa Leadership Academy and Common Purpose were invited on the first day to foster greater interaction across the spectrum of young Southern African leaders. To entrench the Foundation's ethos, a panel discussion was conducted to explore the importance of ethics, including addresses by the Foundation's Chairman Professor Jakes Gerwel and trustee Professor Ndebele.

The year was brought to a close with regional year-end functions for the 210 Allan Gray Fellows. The 36 final year Fellows said their farewells to the undergraduate stage of the Foundation. The words of one Fellow in the closing speech spoke to the essence of the Foundation's values: *'This juncture does not mark the end for us but is essentially the end of the beginning. It is now time for us to write history. The foundations have been solidly laid and the pillars are fully established. Having folded up our sleeves and being ready to selflessly get our hands dirty, we are prepared to innovatively change this society to ensure that excellence is standard, recognising that this endeavour will require courageous commitment.'*

Campaign Dates for 2011

Allan Gray Fellowship	:	Grade 12 applications close 31 May
Allan Gray Fellowship	:	First year university applications close 31 August
Allan Gray Scholarship	:	Grade 6 applications close 30 September (to start high school in 2013)

Thought leadership event for principals and deputies

The three-day Circle of Excellence Strategic Workshop, held at the Royal Bafokeng Nation in August, was a key event of the year. Fifty-three principals and deputies from South Africa's leading schools attended (see photograph).

The overriding theme was on excellence within the school environment in terms of the school itself, the mindset of its learners and how it engages with its community. Guest speakers included educational policy analyst Graeme Bloch and Kgosi Leruo Molotlegi, King of the Bafokeng. One of the highlights was a visit to Lebone II, the Bafokeng's flagship school built at a cost of R460 million.

The response to the event was overwhelming. A well-respected Western Cape principal summed up this enthusiasm: *'I can quite honestly say the conference was the most stimulating and inspiring principals' conference that I have attended. It was fantastic sharing views and thoughts with fellow principals from all those amazing schools.'*

Selection campaigns

The Matric campaign began with the early selection camp, which resulted in 24 initial offers, (see Quarterly Commentary 2, 2010), and ended with selection camps in late September when a further 26 candidates were offered Allan Gray Fellowships for 2010. Similarly, the university selection campaign was completed in early December. This resulted in an additional 20 Allan Gray Fellowship offers, bringing the total number of new Fellows for placement in 2011 to 70.

The selection campaign for Allan Gray Scholars who will be placed in 2012 has kicked off, and despite the challenges of the national teachers strike, around 2 000 applications were received. Successful applicants completed numeracy and literacy tests. The process continues with interviews and the final stage selection camp in early 2011.

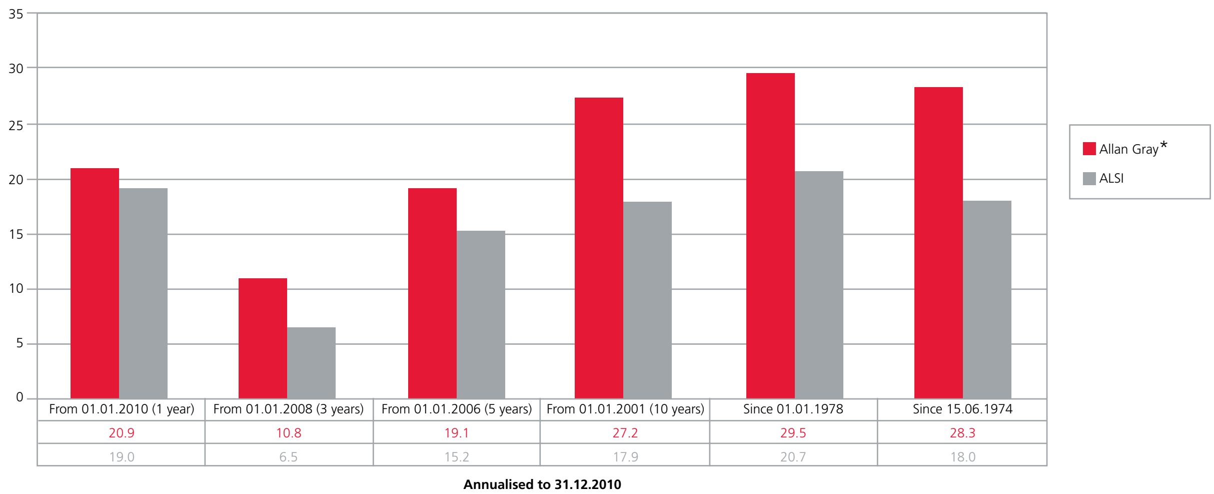
One of the 78 Scholars' stories captures the heart of the programme's intent. Orphaned at the age of nine, this Allan Gray Scholar, along with an older brother and a cousin, has been taken care of by her 73-year old *gogo*. They live together in a tiny house outside Durban where, at times, they are totally dependant on the kindness of others to enjoy a daily meal.

Having completed Grade 9 at Clarendon Girls' High School she is living out her dream of 'attending a good high school, so that I can take care of my grandmother'. In fact she seems destined for much more as evidenced by the fact that despite the challenges she has had to overcome, she continues to excel at school; she is in the top 10 in her grade and has recently participated in the provincial debating trials.

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 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 31.12)	20.9	19.0	1.9
Annualised to 31.12.2010			
From 01.01.2010 (1 year)	20.9	19.0	1.9
From 01.01.2008 (3 years)	10.8	6.5	4.3
From 01.01.2006 (5 years)	19.1	15.2	3.9
From 01.01.2001 (10 years)	27.2	17.9	9.3
Since 01.01.1978	29.5	20.7	8.8
Since 15.06.1974	28.3	18.0	10.3
Average outperformance			10.3
Number of calendar years outperformed			28
Number of calendar years underperformed			8



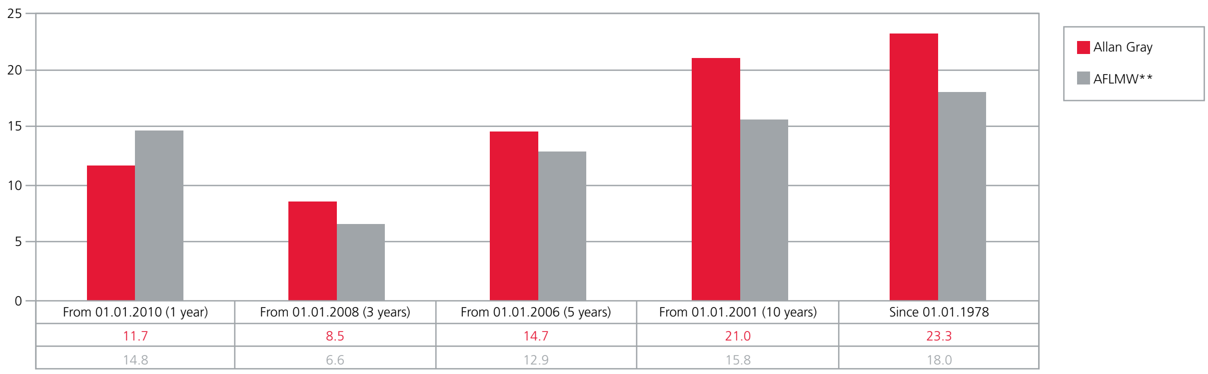
* Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income.

Note: Listed property included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown, before the impact of fees, to **R88 971 139** by 31 December 2010. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to **R4 249 046**.

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 31.12)	11.7	14.8	-3.1
Annualised to 31.12.2010			
From 01.01.2010 (1 year)	11.7	14.8	-3.1
From 01.01.2008 (3 years)	8.5	6.6	1.9
From 01.01.2006 (5 years)	14.7	12.9	1.8
From 01.01.2001 (10 years)	21.0	15.8	5.2
Since 01.01.1978	23.2	18.0	5.2
Average outperformance			5.2
Number of calendar years outperformed			25
Number of calendar years underperformed			8



Annualised to 31.12.2010

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

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

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown, before the impact of fees, to **R9 792 054** by 31 December 2010. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R2 349 957**.

Allan Gray annualised performance in percentage per annum to 31 December 2010

	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]	17.1	6.8	15.0	23.0	29.6	25 818.9	01.10.98
FTSE/JSE All Share Index		19.0	6.5	15.2	17.9	19.6		
BALANCED FUND (AGBF)	[3]	10.4	7.3	12.7	19.2	20.7	40 508.0	01.10.99
Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)		12.5	5.7	11.1	14.2	14.3		
STABLE FUND (AGSF) - (NET OF TAX)	[3]	4.0	6.9	9.7	12.4	12.9	28 081.8	01.07.00
Call deposits plus two percentage points (Net of tax)		5.7	7.6	7.4	7.6	7.7		
STABLE FUND (AGSF) - (GROSS OF TAX)	[3]	4.8	7.9	10.6	13.7	14.2	28 081.8	01.07.00
Call deposits plus two percentage points (Gross of tax)		7.7	10.2	9.9	10.3	10.4		
MONEY MARKET FUND (AGMF)	[3]	7.1	9.5	9.1	-	9.3	8 251.1	03.07.01
Domestic fixed interest money market unit trust sector (excl. AGMF) [2]		6.8	9.2	8.9	-	9.2		
OPTIMAL FUND (AGOF)	[3]	5.2	7.9	8.3	-	9.2	2 983.4	01.10.02
Daily call rate of FirstRand Bank Ltd		5.5	8.0	7.7	-	7.8		
BOND FUND (AGBD)	[3]	13.8	10.8	8.5	-	9.7	311.5	01.10.04
BEASSA All Bond Index (total return)		15.0	10.0	7.9	-	9.3		
GLOBAL FUND OF FUNDS (AGGF)	[3]	-9.2	1.0	6.2	-	5.7	6 179.5	03.02.04
60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index (Rands)		-0.2	0.3	6.8	-	5.6		
GLOBAL EQUITY FEEDER FUND (AGOE)	[3]	-4.6	-2.0	5.7	-	8.9	4 074.7	01.04.05
FTSE World Index (Rands)		1.7	-4.3	4.9	-	6.7		
LIFE POOLED PORTFOLIOS								
GLOBAL BALANCED PORTFOLIO	3.4	11.8	8.5	14.8	20.8	21.2	16 957.3	01.09.00
Mean of Alexander Forbes Global Large Manager Watch [2,7]	4.8	14.8	6.6	12.9	15.8	15.5		
DOMESTIC BALANCED PORTFOLIO	4.4	16.8	10.4	16.9	-	22.3	6 560.9	01.09.01
Mean of Alexander Forbes Domestic Manager Watch [2,7]	5.6	18.7	8.9	14.7	-	18.1		
DOMESTIC EQUITY PORTFOLIO	6.0	20.2	10.0	18.8	-	26.1	6 726.5	01.02.01
FTSE/JSE All Share Index	9.5	19.0	6.5	15.2	-	17.0		
DOMESTIC ABSOLUTE PORTFOLIO	1.5	12.3	14.1	18.9	-	25.1	1 075.3	06.07.01
Mean of Alexander Forbes Domestic Manager Watch [2,7]	5.6	18.7	8.9	14.7	-	17.7		
DOMESTIC STABLE PORTFOLIO	1.6	10.1	10.7	13.8	-	16.5	1 727.7	01.12.01
Alexander Forbes Three-Month Deposit Index plus 2%	2.0	8.7	11.1	10.9	-	11.3		
DOMESTIC OPTIMAL PORTFOLIO [1]	1.4	5.9	8.8	9.4	-	9.5	662.0	04.12.02
Daily Call Rate of Nedcor Bank Limited	1.3	5.8	8.4	8.1	-	7.9		
GLOBAL ABSOLUTE PORTFOLIO	1.5	8.6	12.3	16.9	-	20.2	1 590.3	01.03.04
Mean of Alexander Forbes Global Large Manager Watch [2,7]	4.8	14.8	6.6	12.9	-	17.5		
DOMESTIC MEDICAL SCHEME PORTFOLIO	1.6	10.0	10.7	13.2	-	15.1	1 455.6	01.05.04
Consumer Price Index plus 3% p.a. [2]	1.3	6.6	9.6	10.0	-	9.0		
GLOBAL STABLE PORTFOLIO	1.0	5.8	8.9	11.7	-	14.6	2 982.5	15.07.04
Alexander Forbes Three-Month Deposit Index plus 2%	2.0	8.7	11.1	10.9	-	10.5		
RELATIVE DOMESTIC EQUITY PORTFOLIO	9.2	18.7	8.9	17.3	-	26.4	479.9	05.05.03
FTSE/JSE CAPI Index	9.3	19.6	7.4	15.7	-	24.6		
MONEY MARKET PORTFOLIO [1]	1.8	7.4	9.7	9.2	9.6	9.6	344.5	21.09.00
Alexander Forbes Three-Month Deposit Index	1.5	6.6	9.0	8.7	9.2	9.3		
FOREIGN PORTFOLIO [1]	-0.1	-9.2	0.6	6.0	-	3.3	2 253.6	23.01.02
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index (Rands)	-0.3	0.0	0.3	6.8	-	1.0		
ORBIS GLOBAL EQUITY PORTFOLIO [1]	3.7	-4.6	-1.7	6.2	-	9.3	2 519.0	18.05.04
FTSE World Index (Rands)	4.0	1.6	-4.3	4.9	-	7.2		
SEGREGATED PORTFOLIOS [5]								
GLOBAL BALANCED COMPOSITE	3.5	11.7	8.5	14.7	21.0	23.2	27 516.2	01.01.78
Mean of Alexander Forbes Global Large Manager Watch [2, 4]	4.8	14.8	6.6	12.9	15.8	18.0		
DOMESTIC BALANCED COMPOSITE	4.2	16.5	10.4	16.7	22.9	23.9	25 442.0	01.01.78
Mean of Alexander Forbes Domestic Manager Watch [2,7]	5.6	18.7	8.9	14.7	18.0	18.6		
DOMESTIC EQUITY COMPOSITE	5.8	19.7	10.0	18.9	26.4	22.7	52 169.5	01.01.90
FTSE/JSE All Share Index	9.5	19.0	6.5	15.2	17.9	15.3		
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN COMPOSITE	2.8	8.8	7.5	14.1	20.3	20.1	5 828.4	01.01.94
Mean of Alexander Forbes Namibia Average Manager [2]	4.8	13.7	7.0	13.3	15.8	14.7		
RELATIVE DOMESTIC COMPOSITE	8.8	19.8	8.7	17.0	21.6	22.9	12 536.6	19.04.00
Weighted average of client specific benchmarks [2]	9.0	19.6	6.5	15.1	16.8	17.2		
FOREIGN BEST VIEW (RANDS) COMPOSITE	-0.3	-5.6	1.0	6.1	11.2	13.4	6 258.7	23.05.96
60% of the MSCI and 40% of the JP Morgan Global Government Bond Index (Rands)	-0.3	0.0	0.3	6.8	4.0	9.7		
ORBIS FUNDS (RANDS) [1, 6]								
ORBIS GLOBAL EQUITY FUND (RANDS)	3.8	-4.4	-2.0	6.3	9.5	17.9	-	01.01.90
FTSE World Index (Rands)	4.0	1.6	-4.3	4.9	2.3	11.5		
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	10.2	3.4	0.4	0.2	4.6	12.7	-	01.01.98
Tokyo Stock Price Index (Rands)	6.0	3.2	-4.6	-2.2	0.0	5.4		
ORBIS OPTIMAL SA FUND, US$ CLASS (RANDS)	-4.7	-13.3	1.4	5.2	-	7.4	-	01.01.05
US$ Bank Deposits (Rands)	-4.5	-9.5	0.6	3.9	-	5.9		
ORBIS OPTIMAL SA FUND, EURO CLASS (RANDS)	-6.6	-19.1	-0.9	6.7	-	6.4	-	01.01.05
Euro Bank Deposits (Rands)	-6.5	-16.1	-2.0	6.2	-	5.0		
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	-2.8	-4.9	4.3	14.1	-	14.1	-	01.01.06
MSCI Asia Ex-Japan (Rands)	1.8	7.9	-1.4	14.0	-	14.0		

PERFORMANCE AS CALCULATED BY ALLAN GRAY
1 The fund returns are net of investment management fees
2 The return for the quarter ending 31 December 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

Allan Gray Balanced Fund quarterly disclosure as at 31 December 2010

	% of Fund
South African equities	**46.5**
Resources	**14.9**
Sasol	6.8
Anglogold Ashanti	3.3
Harmony Gold Mining Co.	1.5
Anglo American Plc	0.9
Goldfields Limited	0.6
Positions individually less than 1% of total JSE-listed securities held by the Fund	1.8
Financials	**6.9**
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	2.1
Industrials	**24.1**
SABMiller	6.5
Remgro	3.8
MTN Group	1.9
Nampak	1.5
Sappi	1.3
Illovo Sugar	0.9
Tongaat-Hulett	0.7
Netcare Limited	0.7
Telkom	0.6
Sun International Limited	0.6
Positions individually less than 1% of total JSE-listed securities held by the Fund	5.6
Other securities	**0.6**
Positions individually less than 1% of total JSE-listed securities held by the Fund	0.6
Equity linked derivatives	**-1.4**
ALSI 40 0311-RMB	-1.4
---- Net South African equities ----	*45.1*
Hedged South African Equities	**1.4**
Commodities - Gold	**3.3**
New Gold ETF	3.3
Bonds	**10.0**
RSA Bonds	6.1
Banks	2.6
Parastatal Bonds	0.5
Corporate Bonds	0.8
Money market and call deposits	**15.6**
Foreign deposits	**2.3**
US$ traded call	2.3
Foreign - JSE inward listed shares	**3.6**
British American Tobacco Plc	3.6
Foreign - Orbis absolute return funds	**8.2**
Orbis Optimal SA Fund (US$)	6.3
Orbis Optimal SA Fund (Euro)	1.9
Foreign - Orbis equity funds	**10.5**
Orbis Global Equity Fund	6.5
Orbis Japan Equity Fund (Yen)	2.4
Orbis Japan Equity Fund (US$)	1.5
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	1.47%	0.53%	0.12%	0.00%	0.35%	0.00%	0.38%	0.70%
Fee at benchmark	1.71%	1.17%	1.16%	1.14%	0.29%	0.29%	1.28%	1.49%
Total fees*	3.18%	1.70%	1.28%	1.14%	0.64%	0.29%	1.66%	2.19%
Trading costs	0.11%	0.08%	0.05%	0.13%	0.00%	0.00%	0.18%	0.14%
Other expenses	0.01%	0.02%	0.02%	0.01%	0.05%	0.01%	0.07%	0.05%
Total Expense Ratio (TER)	3.30%	1.80%	1.35%	1.28%	0.69%	0.30%	1.91%	2.38%
Annual fee* rate for latest quarter	1.10%	0.90%	1.04%	1.14%	0.29%	0.29%	1.59%	2.09%

** 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 the end of September 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.

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.
Namibia	Allan Gray Namibia manages institutional portfolios on a segregated basis and the Allan Gray Namibia Investment Trust provides investment management for Namibian retirement funds in a pooled vehicle.
Swaziland	Allan Gray Swaziland manages institutional portfolios on a segregated basis.
Allan Gray Orbis Foundation	Allan Gray Orbis Foundation is a non-profit organisation that was established in 2005 as an education and development catalyst. It seeks to foster a next generation of high-impact leaders and entrepreneurs for the ultimate purpose of increased job creation in Southern Africa. The Foundation focuses on educational and experiential methods at the secondary and tertiary levels to realise the potential of bright young minds. Through its highly researched learning programmes, it intends equipping talented young individuals with the skills, attitudes and motivation to have significant future impact.
E^2	E^2 stands for 'excellence in entrepreneurship' and as a long-term capital fund its purpose is to provide substantial financing to entrepreneurs who are graduates of the Allan Gray Fellowship Programme. In addition, E^2 provides financing for social entrepreneurs who demonstrate exceptional leadership and creative initiative in the not-for-profit sectors.

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

AllanGray

Registration Number 2005/002576/06
Granger Bay Court Beach Road V&A Waterfront Cape Town 8001
P O Box 51318 V&A Waterfront Cape Town 8002 South Africa Tel +27 (0)21 415 2300 Fax +27 (0)21 415 2400
www.allangray.co.za info@allangray.co.za

Client Service Centre 0860 000 654 / +27 (0)21 415 2301
Client Service Email info@allangray.co.za
Client/IFA Service Facsimile 0860 000 655 / +27 (0)21 415 2492
IFA Service Centre 0860 000 653 / +27 (0)21 415 2690
IFA Service Email ifa@allangray.co.za
Portswood Square Dock Road V&A Waterfront Cape Town 8001