QUARTERLY COMMENTARY 4

31 DECEMBER 2012

ALLAN GRAY

Inside this issue

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Rob Dower

Comments from the Chief Operating Officer

The Allan Gray group exists to make money for our clients. This is a good objective. Mostly our clients are regular people with everyday goals: to retire with dignity, to fund their children's education, to set something aside for a rainy day. Where they have given us sufficient time to do so, for a healthy majority of clients, we have succeeded in our goal against inflation and compared to our peers. This is despite many periods of short-term underperformance, some of them extreme.

Clients look to us to deliver investment performance that beats inflation (absolute returns) and other fund managers (relative returns). Regular readers will know that for some time we have been more worried about potential absolute losses than we have been excited about the opportunities for gains on the JSE, even as the market has repeatedly made new highs, rising by almost 27% in 2012. We remain underweight on equities where our mandates allow. Net of hedging, the Allan Gray Balanced and Stable Funds are each about 10 percentage points less exposed to shares than their long-term averages. While we have delivered modest annualised absolute returns over the last three years of 12% in Balanced and 7% in Stable, our current overall scepticism about equities, particularly equities focused on the SA consumer, has caused us to lag the average of our peers. Periods of underperformance are the price we pay for long-term outperformance, but we know that you expect better. Our business and livelihoods depend on investment returns and because we charge performance fees we suffer underperformance alongside our clients: be assured, we are very focused on delivering strong long-term results.

Overall net flows in our funds were positive in 2012 and gross outflows divided by assets were at an all-time low of about 15%. This means that, on average, clients are giving us a healthy seven years to deliver returns. Clients who have confidence in long-term performance should not switch out of a fund during times of underperformance; rather those looking to earn better-than-average returns over the next five years may see this as a good time to invest in Allan Gray funds.

Philosophy, process and people

Our long-term performance depends on our philosophy, our investment processes, and the people in our investment team. We have followed the same philosophy since 1974 and our processes are mature and evolve slowly. Chief Investment Officer Ian Liddle's challenge is to build a pipeline of analysts and portfolio managers, such that each generation of Allan Gray investment decision makers is better than its predecessors. This issue of Quarterly Commentary includes an article from Ian describing how we find, develop and motivate the next generation of investment professionals. We have recently promoted two senior analysts to Associate Portfolio Manager: congratulations to Ruan Stander and Jacques Plaut. Congratulations also to Mark Dunley-Owen who will soon manage a slice of our stable portfolios in addition to his fixed interest responsibilities.

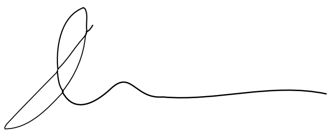
A compelling part-explanation for the prices of SA shares remains the extremely accommodative monetary policies in the US, Europe and Japan. These policies have tended to push up the prices of assets, especially in markets with prospects for growth: emerging markets like South Africa have done well because global investors currently find investments in low-growth, highly indebted developed markets relatively unattractive. Less easy money and/or an increase in expectations of growth and returns in developed markets would likely see a reversal in investment flows. In his piece this quarter, Duncan Artus points out the paradox that good news for world growth could be bad news for asset prices if it signals the end of easy money.

Milestone year for the Foundation

Last year was a significant milestone in the journey of the Allan Gray Orbis Foundation, with the first cohort of 12 Allan Gray Scholarship learners reaching Grade 12. After four years at university 98 graduated Fellows have now set out on their life journeys in the Association of Allan Gray Fellows. It is gratifying to see the impact the opportunities offered by the Foundation are having on young South Africans.

We are thankful for your confidence over the last year and remain committed to delivering you superior performance over the long term.

Sincerely



Rob Dower

Ian Liddle

Building an investment team that thrives (not just survives) on generational transition

EXECUTIVE SUMMARY: We aim to provide you with benchmark-beating investment returns for at least the next 100 years. But we can succeed in this ambition only for as long as we and our successors retain the trust and confidence of you and your successors. We have worthy competitors, and no 'guaranteed' market share or contractual lock-ins to fall back on. If we fail to retain your trust and confidence over the long term, we will fail to survive. That is how it should be.

To achieve our long-term aspiration it is crucial for us to find, develop and motivate the right successors. Ideally, these successors should do a better job than us, before passing the baton to a new generation who do even better, and so on. It is hard for clients to evaluate the quality of our efforts in this regard. One way would be to wait a long time to see how future generations perform. This is, of course, the ultimate test. But for clients desiring a shorter feedback loop, Ian Liddle discusses here our efforts to find, develop and motivate the next generation of portfolio managers.

Find

Fortunately, there are many bright, hard-working and ambitious graduates from both South African and foreign universities who are eager to join the Allan Gray investment team. The hard part for us is to choose just a few from the many worthy applicants. Applicants need to pass successive filters including a record of academic excellence, a differentiating CV, a thoughtfully completed questionnaire, psychometric and aptitude tests, and an insightful written report on a company before being selected to be interviewed by our portfolio managers. We usually interview about 30 candidates per year and make just a few offers.

Successful applicants typically have a few years of work experience, although some have joined us straight out of university. We do not hire only accountants and actuaries – we are prepared to hire graduates from all faculties. Indeed, we prefer to do so to maintain a diversity of skills, experiences and outlooks in the investment team.

New analysts join us on a fixed-term contract as 'trainee analysts'. This fixed term affords us the opportunity to develop a better informed view of the analyst's long-term potential to make money for clients. It also affords the analyst a wonderful opportunity to learn about the stock market by participating in a dynamic investment team. Over time, we tend to offer permanent employment to only a minority of trainee analysts – those who we believe have the best potential. While we strive to be as well-informed as possible when we make this decision, it is ultimately subjective given the relatively short time frame we have to measure the analyst's performance. We have made mistakes on this decision in the past, and I am sure we will do so again in the future, but as with stock picking, a 100% success rate in picking winners is probably neither attainable nor necessary for a successful final outcome.

We aim to keep the turnover rate in the investment team at an optimal level, which balances the need to have a core contingent of experienced analysts who know their companies/industries well with the need to make enough space to be able to keep hiring promising new candidates to give us the best chance of finding the next Simon Marais, or indeed the next Allan Gray.

We hired two trainee analysts in 2012 and three trainees are scheduled to join us in the first half of 2013.

Develop

The pace of an analyst's development is determined mainly by that analyst's own internal motivation. There are no official Allan Gray training courses for investment analysts.

Analysts learn by listening in policy group meetings, by discussing and debating ideas, by taking responsibility for their own reports, by asking questions, by part-time study, by reading widely and by any other means that work for them. We prefer it if our analysts do not all read the same material, but rather follow their own interests/angles so that a diversity of opinions is brought to bear on our discussions.

Having said that, we do provide a clear framework within which analysts should focus their efforts, and which forms the basis for a regular evaluation of their performance. The most important deliverable for less experienced analysts is well-researched and insightful research reports accompanied by well-motivated buy or sell recommendations. As analysts gain experience they are expected to make increasing contributions to policy group discussions.

Experienced analysts are offered the opportunity to manage a paper portfolio (known internally as an ARL – analyst recommendation list). The ARL operates in a realistic fashion: analysts enter buy and sell orders, they are charged market impact costs which depend on the aggression of their order, and they are allocated trades based on actual volumes trading in the market. We measure the performance of each analyst's ARL. In addition, analysts are required to write brief motivations for their major trades and quarterly updates on their thinking about their portfolios. This provides us with rich information on which to assess the potential for analysts to develop into money-makers for our clients. Eight of our analysts are currently managing their own individual paper portfolios. Importantly, the analysts' trade motivations are sent automatically to all our portfolio managers so that they can consider putting our analysts' ideas into action in our clients' real money portfolios.

We have recently promoted two of our experienced analysts (Ruan Stander and Jacques Plaut) to the role of Associate Portfolio Manager. The practical impact of this is that the trade instructions on their ARLs will now drive real-money trades on a small slice of our clients' equity and balanced portfolios. Mark Dunley-Owen, who has been managing a slice of our clients' fixed interest assets since July 2011, will soon manage a slice of our stable portfolios alongside me. These are exciting developments for Ruan, Jacques, Mark and for us. We are looking forward to appointing a few more Associate Portfolio Managers over time.

Motivate

The people who work their way to a position as an Allan Gray portfolio manager are by nature competitive and internally motivated. They do not need much encouragement to work hard and strive to be the best. Nevertheless, Allan Gray executives are strongly incentivised to do the best they can for our clients over a long period of time.

> "…it is crucial for us to find, develop and motivate the right successors."

Our senior analysts and portfolio managers (along with senior executives responsible for our company's operations) share in the profits of our firm much like partners at different levels in a partnership. Our firm's profitability over both the short term (because of performance fees) and the long term (because clients can move their money elsewhere) is completely dependent on the quality of the service we provide to our clients. Thus, our senior executives will succeed only to the extent that we do a good job for clients.

Senior executives share in the profits of our business both while they are active in the business and, importantly, after they have left the firm. The 'tail' on this participation typically extends for up to 10 years. This creates a clear incentive for all of us incumbents to find and develop outstanding people to whom we can pass the baton, and to motivate them to do the same.

Many of our senior executives have also accepted the opportunity to buy ordinary shares in our business, and this further entrenches the incentive we have to think long term for clients, for our business and for future generations of Allan Gray executives.

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.

Duncan Artus

The nature of contrarian investing

EXECUTIVE SUMMARY: The average investor cannot avoid being bullish at market tops and bearish at bottoms. This produces periods of speculation and panic within the normal up and down cycles of the market. It is during such periods that an investment manager's conviction is tested, but equally provides opportunity to outperform. These opportunities typically occur towards the end of trends of good or bad news which have been in place for long enough that their continuation is widely accepted and priced into valuations. Duncan Artus discusses.

To be a good contrarian, you need to know what you are contrary about.

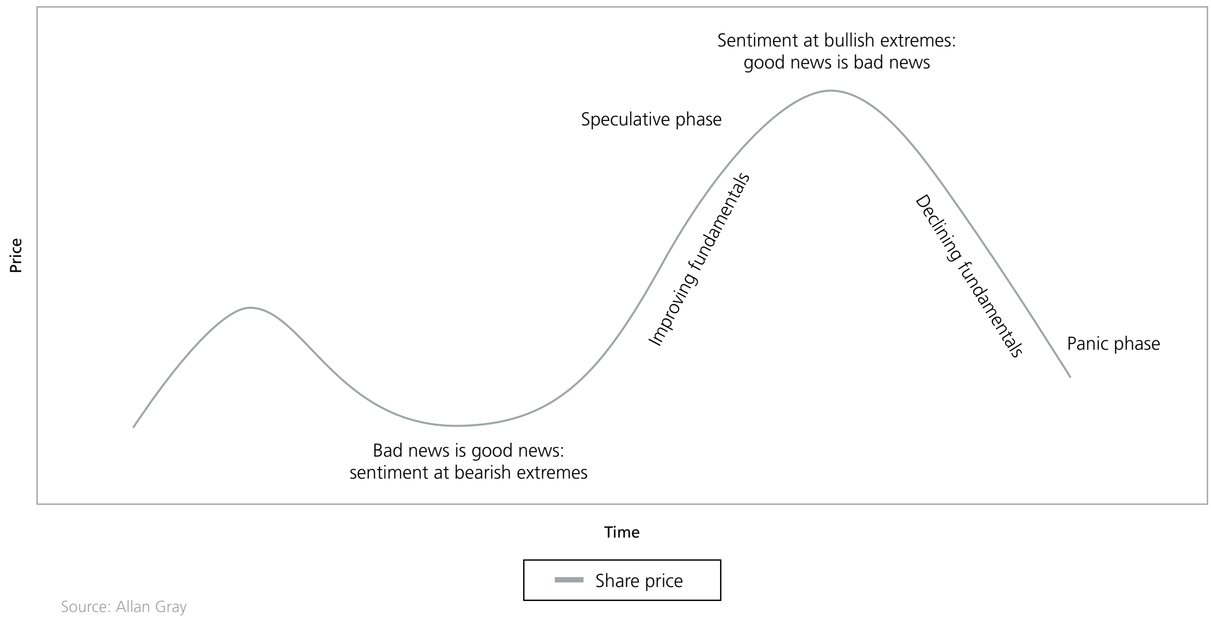
- 'Tomorrow's Gold', Marc Faber

Our investment philosophy and process focus on adding value through bottom-up stock picking – our decisions are driven by our analysts' views on individual companies rather than 'the big picture'. Having an idea of where we are in the investing cycle, as depicted in **Graph 1**, improves the probability of protecting and growing our clients' capital over the long term, as it is in the panic and speculative phases that investing contrary to the market is most important.

This is very difficult to do psychologically, especially as the market is correct in its assessment of value across a significant proportion of the cycle. It has been said that being early is often indistinguishable from being wrong. The doubts inevitably creep in as the trend continues.

Table 1 illustrates the dilemma an investor faces when deciding to take a contrarian position. What is the contrarian view and, if so, is it the correct view? If the fundamental news is bad, does that mean you should be a buyer? Or is the bad news really just bad news? You may have heard the phrase 'the market is climbing a wall of worry', for example.

GRAPH 1 | It helps to have a good idea of where we are in the cycle



Source: Allan Gray

TABLE 1 | Contrarian dilemmas

Good news about fundamentals is good news for investors (e.g. it was not already priced in).	Good news about fundamentals is bad news for investors (e.g. even better news may already be priced in).
Bad news about fundamentals is bad news for investors (e.g. it was not already priced in).	Bad news about fundamentals is good news for investors (e.g. even worse news may already be priced in).

Source: Allan Gray

Practical applications in today's investing environment

The almost unprecedented level of official intervention in markets in both the developed world and in China (discussed in Quarterly Commentary 3, 2012 and Quarterly Commentaries 1 and 2, 2011) has either greatly increased, or greatly decreased the risks in investing, depending on your point of view.

Fourteen economies with a combined equity and bond market cap of US$65 trillion have zero interest rates[1] – is more bad news good news for equity investors? The sheer size of the official response has complicated the process of constructing portfolios, as investors have to think a lot harder about how low probability events that have outsized effects will affect their portfolios.

"The average investor cannot avoid being bullish at market tops and bearish at bottoms."

In an effort to mitigate the downside risks of extreme events on their portfolios, investors have been willing to pay high relative prices for high quality assets, especially those that also offer stable growth. The flipside is that many of the assets that have underperformed and appear cheap are of lower quality and still have downside risk to their valuations in 'bad news is bad news' scenarios.

This dilemma is a dominant theme in the local market. High quality, internationally diversified industrial shares and domestic consumer shares have significantly outperformed resources and, to a lesser extent, financials. The point is well illustrated by comparing two shares that have been represented in our portfolio at different times over the last five years:

Shoprite (SHP), Africa's largest retailer, a highly valued, quality growth share and globally diversified miner Anglo American (AGL), a depressed, lower quality, cyclical share. **Table 2** highlights the staggering contrast in the fortunes of Shoprite and Anglo over the past five years.

TABLE 2 | Shoprite vs Anglo American: staggering differences

	Shoprite (SHP)	Anglo American (AGL)
Weight in the ALSI (%)		
2007	0.5	14.3
2009	0.9	11.5
Today	2.0	6.4
Annualised capital return (%)		
1 year	40.7	-19.8
3 years	45.8	-11.5
5 years	36.5	-11.4
Price to earnings ratio (x)		
Today	33	11.4
1 year forward	28	16
Weight in Allan Gray equity portfolios (%)		
2007	2.8	0.3
Today	0	4.5

Source: Allan Gray data as at 21 December 2012

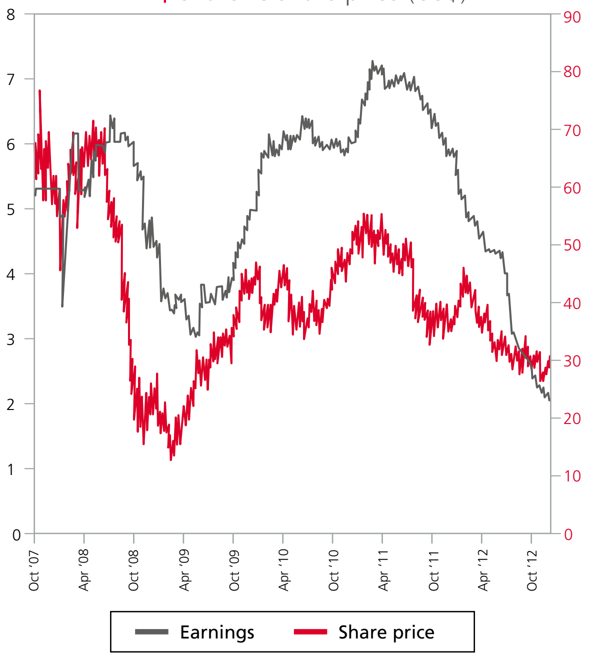
Given the significant performance and valuation differential, we would expect to find value/contrarian managers favouring AGL over SHP. This has certainly been our view. However, AGL has continued to underperform with lower commodity prices, slowing Chinese commodity consumption, platinum strikes and a number of poor capital allocation decisions. SHP, meanwhile, has continued to outperform with strong South African results, a successful African expansion and foreign fund buying.

Graphs 2 and **3** on page 6 show the consensus earnings per share (left hand axes) analysts expected from AGL and SHP in 2012 going back in time against the performance of the shares (right hand axes) over the same period.

Graph 2 shows how simply deciding to be contrarian and buying AGL on a low PE during a period of bad news has proven to be a poor decision, as earnings expectations have more than halved over the period and the share price has followed. AGL has been in the 'bad news bad news' quadrant.

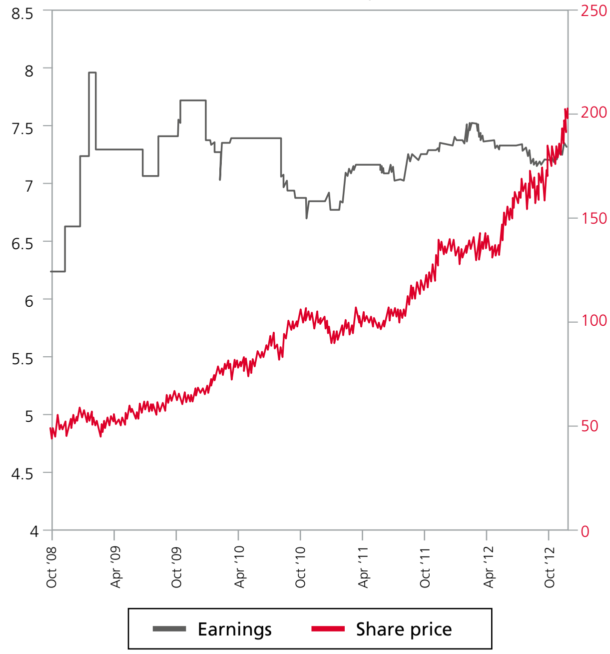
Graph 3 shows how simply deciding to be contrarian and not buying SHP on a high PE during a period of good news has proved so far to be a poor decision. Despite earnings

GRAPH 2 AGL 2012 consensus earnings per share vs share price (US$)



Source: Bloomberg data as at 21 December 2012

GRAPH 3 SHP 2012 consensus earnings per share vs share price (ZAR)



Source: Bloomberg data as at 21 December 2012

expectations for SHP not changing significantly, the amazing rise in the share price has been driven by investors willing to pay ever more for the forecast earnings. SHP has been in the 'good news good news' quadrant.

However, we believe the premium being paid for SHP's quality growth is too high. Valuing SHP's furniture business on an 11x PE and the South African business on 20x implies a PE on the African business of over 140x. In our view, this valuation has moved SHP into the 'good news bad news' quadrant.

While we are underweight AGL, it is a top 10 position in our funds (see Quarterly Commentary 4, 2011). Earnings continue to fall and remain vulnerable to the global risks discussed above and the consequences of poor capital allocation decisions. If AGL's stakes in Anglo American Platinum (Amplats) and Kumba Iron Ore are valued at market, the remainder of the business is on a 7.5x PE. From these depressed levels we believe AGL is moving into the 'bad news good news' quadrant.

Given the rise in the local equity market over the last decade, we think there are very few growing quality businesses that are trading at attractive absolute valuations. We have been increasing exposure to lower quality underperforming shares, mainly in the resource sector, in a measured manner, while still maintaining a healthy weighting to SABMiller, British American Tobacco and Remgro should the recent spate of bad economic news ultimately turn out to also be bad news for valuations, as we suspect it may well be.

[1] BOAML

Duncan is a portfolio manager. He joined Allan Gray in 2001 and is a CFA charter holder.

Dan Brocklebank

Drilling into the detail of oil and gas investments

EXECUTIVE SUMMARY: At first glance, the Orbis Global Equity Fund's exposure to Oil & Gas stocks appears to be similar to that of its benchmark. At December 2012, about 9% of the Fund was invested in the sector, a little below the 10% weighting in the benchmark. This slightly below-average exposure to the sector, though, does not mean Orbis is bearish on the price of oil or gas. As Dan Brocklebank from our Offshore partner Orbis elaborates, the allocation to these stocks is simply a function of the opportunities Orbis has identified to invest in undervalued companies in the sector.

The industry environment

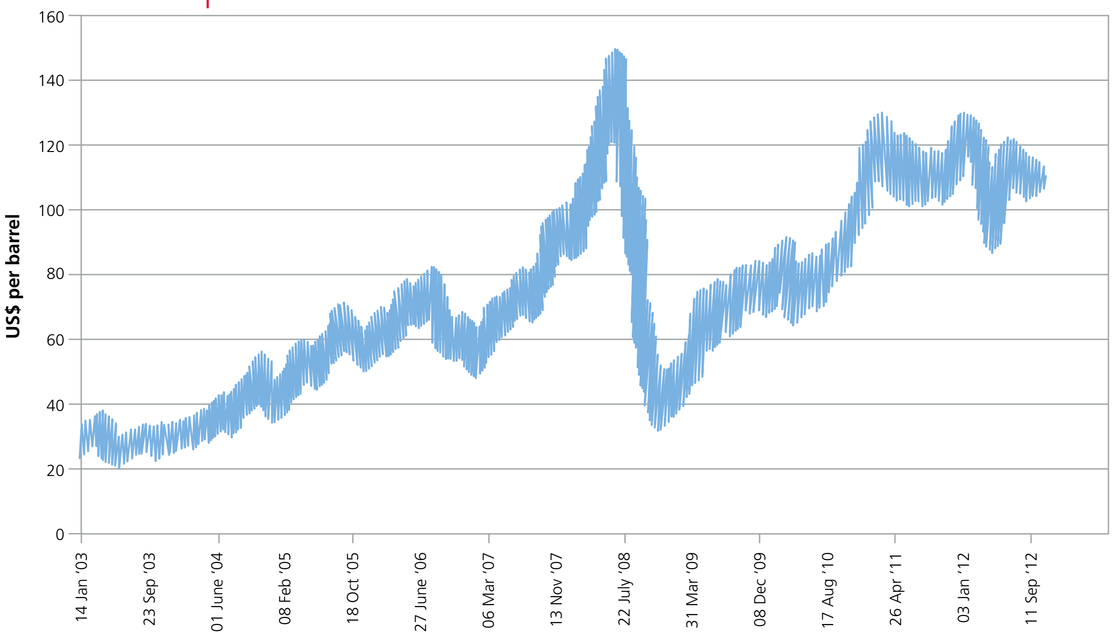
The Oil & Gas sector is a relatively complex one and its high capital intensity means that there are few really attractive business franchises.

Companies are typically also price takers, rather than price setters, so commodity prices are an obvious consideration for investors in this sector. However, these are notoriously difficult to predict and can be extremely volatile; investors are still generally very wary of this, remembering the experience of 2008 when the price of Brent crude fell from about US$140 a barrel to about a quarter of that level in less than six months.

As commodity prices are one of the key determinants of profits for companies in this sector, short-term earnings remain very difficult to predict. Our investment philosophy, though, places little weight on such forecasts anyway; instead, we try to focus on a conservative estimate of normalised commodity prices in estimating company profits and values.

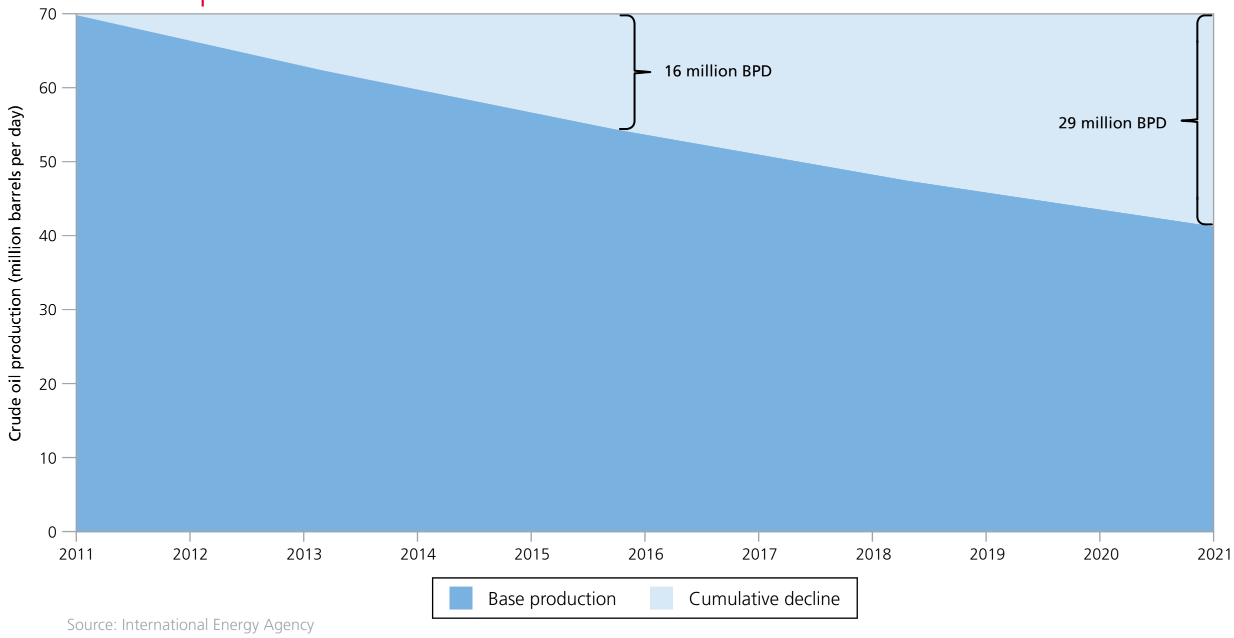
In assessing 'normalised' profits we take into account secular trends facing the industry, on both the supply and demand side of the equation. One unusual aspect of the production in the industry is the geologically driven 'decline rate' that oil and gas production faces each year. The term 'decline rate' (expressed as a %) indicates how much less an existing well

GRAPH 1 | Brent crude



Source: Datastream

GRAPH 2 | Decline rates are a treadmill for the industry



Source: International Energy Agency

will produce in one year's time as a result of production during the year depleting the reservoir. On a combined basis, the industry faces a production decline rate of about 5-7% per annum. Currently, about 70 million barrels of oil are produced per day (BPD) so the industry needs to develop and add about 3.5 million BPD each year just to keep production constant. By 2016, for example, production from today's existing wells is forecast to drop by 16 million BPD, more than Saudi Arabia's current production levels. Across the industry, this means that a significant amount of new production will be required on an ongoing basis unless we see a meaningful drop in consumption.

At the same time that declining production needs to be replaced, oil continues to become harder to find and extract; this in turn generates demand for new technology and services. One measure of the increasing technical difficulties involved, is how the depth of an oil and gas well has increased over time. In 1950, the average US well was drilled to about 3 600 feet. Now it is closer to 6 000 feet and shale oil wells are routinely drilled to a depth of 8 000 feet or more. Unsurprisingly, the deeper the well, the more complex, time consuming, and expensive the drilling and production process becomes. Indeed, over the last decade, the total global capital expenditure of the Oil & Gas industry has more than doubled, while production has increased by only about 15%. We would expect these broad trends to continue and for the services market to continue to expand as a result.

Portfolio positioning

Looking at the sector exposure in the Orbis Global Equity Fund, you will see that the Oil & Gas stocks in the Fund are very different from those in the benchmark. The top 20 Oil & Gas producers, such as ExxonMobil, Chevron and BP, comprise more than 60% of the benchmark's exposure to the sector. Orbis owns none of these companies.

We find little to disagree with about the way the market considers these companies; they trade at a significant discount to the market on price to earnings (PE) multiples, but are arguably less attractive on a free cash flow basis given the ever-rising cost of replacing their depleting asset base and their limited growth potential. As a result, we do not find them to be particularly attractive relative to the market as a whole, and particularly not when compared with other opportunities in the sector.

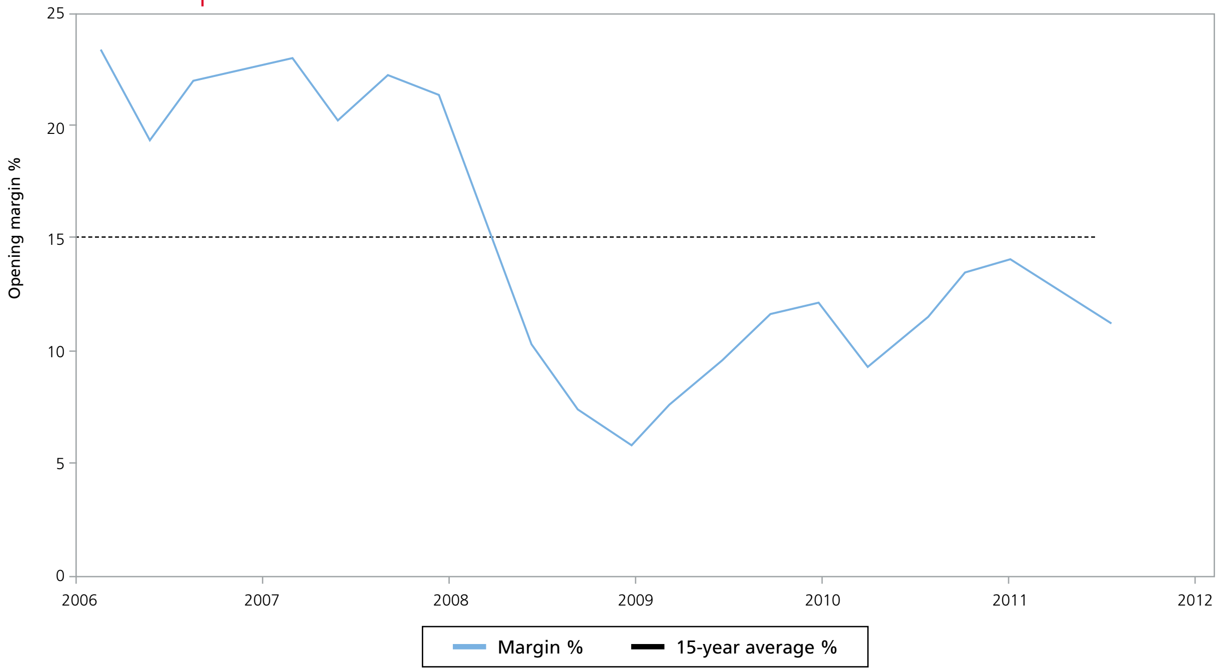
By contrast, we have found opportunity in the smaller Oilfield Services sub-sector. These companies provide the technology and services to the companies that actually own or produce the oil and gas.

Clearly these companies are well positioned to benefit from the secular trends facing the whole industry outlined earlier. As well as this ongoing growth opportunity as the market expands, we think there is a case for mean reversion in the sector's margins and earnings multiple following a volatile few years.

Consider our holding in Weatherford International, which is the smallest of the four major global service providers. There are many reasons for the market to dislike the stock, not least a long series of recent earnings disappointments and a recent re-filing of its financial statements caused by errors in its tax accounting. Weatherford's current earnings remain well below our assessment of their long-term, cross-cycle potential, with operating margins near a cyclical low of 10% – about 5% below their 15-year average. Based on trailing revenues and operating margins, Weatherford trades at 12 times price to earnings, and six times its enterprise value (EV) to earnings before interest, tax, depreciation, and amortisation (EBITDA), suggesting that the market thinks that revenues are unsustainable or that operating margins will remain at current levels. We think that this view is overly pessimistic. Industry demand for oilfield services is cyclical and is showing some signs of weakness in North America. However, it remains robust in most other markets and, importantly, for Weatherford's key product lines. Based on the current revenue run-rate and normalised operating margins, Weatherford trades at an EV/EBITDA multiple of less than five and a PE multiple of about eight. Over time, we expect Weatherford will be able to grow faster than the industry due to its product portfolio and exposure to faster growing international markets. Taking a long-term view on intrinsic value, we think that the company can justify an earnings multiple of 15 times, which is below what it has averaged over long periods of time.

We have also uncovered value within some smaller, more idiosyncratic energy stocks, such as US-based Cheniere Energy and Calgary-based companies Petrobank Energy & Resources and Petrobakken Energy. Before new technology made it possible to successfully develop shale gas formations, Cheniere constructed a terminal at Sabine Pass on the US Gulf Coast to import foreign gas into the US. Since production from shale gas has taken off, the US natural gas price has collapsed, making imports unnecessary. As a result, Cheniere has been forced to radically adapt its business model and is now in the process of converting its Sabine Pass plant to export gas instead. Over the last 12 months, Cheniere has

GRAPH 3 | Depressed operating margins (Weatherford)



Source: Orbis

signed multiple long-term contracts to finance this plant conversion. Interestingly, the contracts are structured on a 'take or pay' basis so that Cheniere gets paid whether or not gas actually ends up being exported by its customers. This means that the future earnings of the company are largely immunised from fluctuations in commodity prices.

Petrobank, meanwhile, provides us with a free option on some potentially transformative technology for heavy oil production. On 1 January 2013, Petrobank (an existing holding) spun out its remaining holding in its oil-producing subsidiary Petrobakken so the Fund now owns shares in both of these companies directly. We think that this spin will reduce complexity in the previous corporate structure and finally allow investors to properly appraise both companies. Petrobakken is an on-shore oil producer that should be able to grow production and cashflows at around 10% per annum. With a current dividend yield of 10%, the market is clearly sceptical about the company's plans and the sustainability of the current capital structure. We think the market is underestimating the quality of the company's drilling inventory. The remaining Petrobank 'stub' consists of net cash, some heavy oil assets and Petrobank's technology interests. The main technology is called Toe to Heel Air Injection (THAI) which, if commercially viable, will significantly improve the economics of heavy oil production. It is important to recognise that this technology may very well not prove to be commercial; the first large-scale project has suffered delays and investors are disinterested in the story as a result. We would not claim to be able to handicap the odds of success with any degree of precision. However, this has been a free option for us in the investment because, prior to the spin, the market valued Petrobank at less than the market value of its Petrobakken stake.

"...we believe we have found a small number of attractive investments in the sector, stocks which remain attractive within quite a wide range of commodity prices."

Sticking to our investment philosophy

Investments in the Oil & Gas industry are always going to be somewhat sensitive to movements in, and sentiment around, underlying commodity prices, particularly in the short term. These movements are not something we can control or forecast.

However, we believe we have found a small number of attractive investments in the sector, stocks which remain attractive within quite a wide range of commodity prices. These holdings are the result of extensive stock-by-stock research rather than a bet on the sector or underlying commodity prices. The common reason for us being able to identify these opportunities is that the market is typically more concerned about various shorter-term issues facing each company than we believe is warranted and, as a result, is paying insufficient attention to the long-term prospects and intrinsic value of each company.

Dan joined Orbis in 2002 and is a director of Orbis Investment Advisory Limited, having had previous experience in financial services. He is primarily responsible for the UK-based team of global sector investment analysts.

Rob Formby

Making sense of unit trust categories and intentions

EXECUTIVE SUMMARY: We aim to ensure that our range of funds offers enough choice to meet your needs but remains manageable, without being confusing or creating too much overlap. This is why we offer only nine funds. We hope this makes it easier for you to research your options and make appropriate decisions. We encourage you to be clear on your investment objectives at the outset and to try to minimise switching in and out of funds, which often destroys value. If you do your homework, you are more likely to make the right decisions and remain committed over the long term. Rob Formby offers some pointers.

Things to consider when choosing a fund

When choosing a unit trust, it is important that you understand the funds that you are planning to invest in. Consider how a fund is categorised and what the fund manager's intention is with each of its funds. This information, which is readily available on the fund's factsheet (a compulsory document fund managers need to make available each month, usually found on the fund manager's website), should steer you in the right direction.

1. Fund categories

To help investors make sense of the huge amount of choice in the unit trust industry, the Association for Savings and Investments SA (ASISA) puts funds into categories. These have recently been revised for added clarity. All funds are now classified first according to their geographic exposure, then, within each of these, the types of assets they invest in. Within each asset class there is a third tier which indicates the main investment focus (see **Table 1** for a breakdown of the categories, simplified to show only those third tier categories that are relevant to the Allan Gray funds, and **Graph 1** for the actual Allan Gray fund classifications).

2. The intention of the funds

While the category of the fund gives good insight into what the fund invests in, it is also important to understand what the fund manager wishes to achieve. Allan Gray's broad intentions are discussed below. More specific details are included in the fund objectives, which are also documented in the fund factsheets.

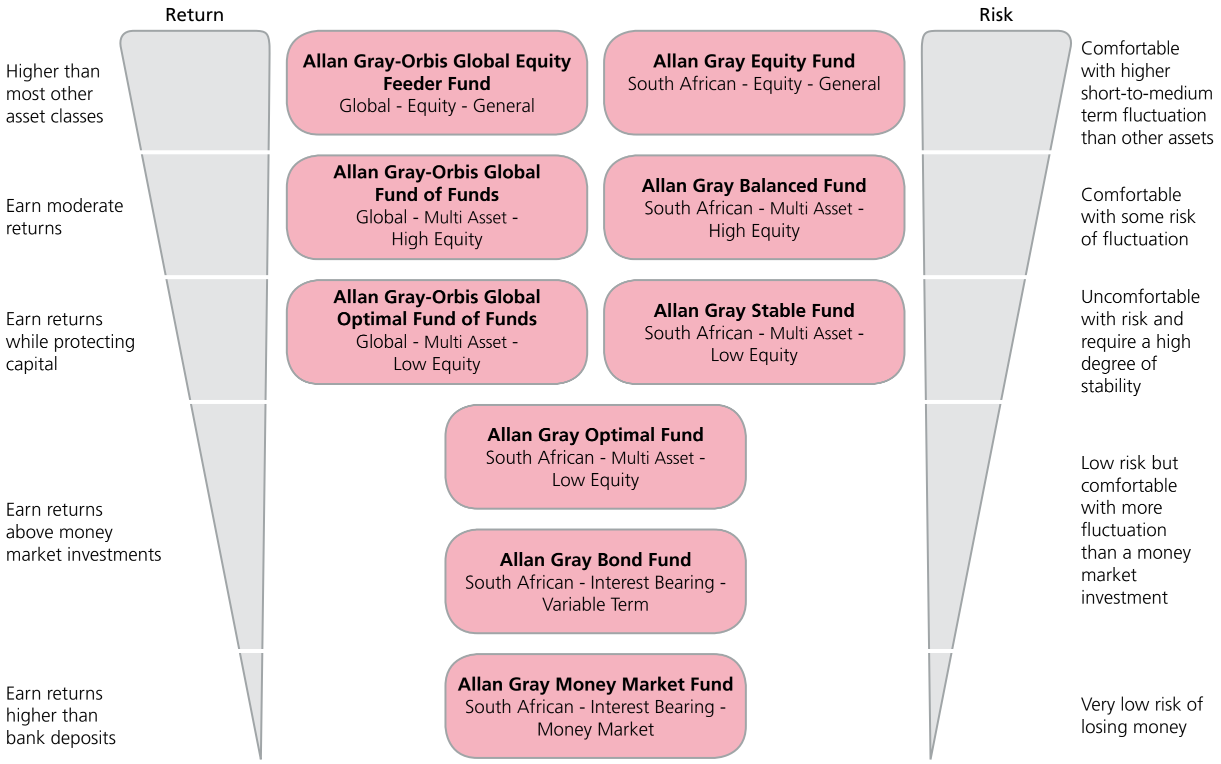
All nine Allan Gray funds are priced in rands; however six are invested in local assets and three in offshore assets. The three funds invested in offshore assets all use Orbis funds as their underlying investments. Orbis and Allan Gray are closely aligned, sharing the same philosophy, founder and majority shareholder. It therefore makes sense that the Orbis funds form the basis of the investment.

TABLE 1 | New ASISA categories (only showing the third tier relevant to Allan Gray funds)

First tier: Geographic exposure	Second tier: Main asset class	Third tier: Main investment focus within the asset class
South African (previously Domestic) – at least 70% SA, max. 25% outside SA, additional 5% in Africa excl. SA (aligned with exchange control and pension fund regulations)	Equity	General (minimum 80% equities)
Global (previously Foreign) – at least 80% outside SA, max. 20% in SA and less than 80% in a specific region	Multi Asset (previously Asset Allocation)	• High equity (maximum 75% equities) • Low equity (maximum 40%)
Worldwide – no limits on either domestic or foreign assets	Interest Bearing (previously Fixed Interest)	• Variable term (100% must be in money market instruments, government or corporate bonds) • Money market (maturity less than 13 months, average duration not exceeding 90 days)
Regional – at least 80% in a specific region other than SA	Real Estate	General

Source: Allan Gray

GRAPH 1 | Allan Gray funds - risk/return scale and new ASISA categories



Source: Allan Gray

Of our nine funds, five are 'single asset class' funds, i.e. they invest in one kind of asset only, for example in shares or bonds, and four are 'solution' funds. A 'solution' fund can invest in various asset classes depending where the fund managers find value at a particular point in time and save investors the trouble of doing this themselves, as is required with an investment in a single asset class fund. These different types of funds suit different investor objectives, as reflected in Graph 1.

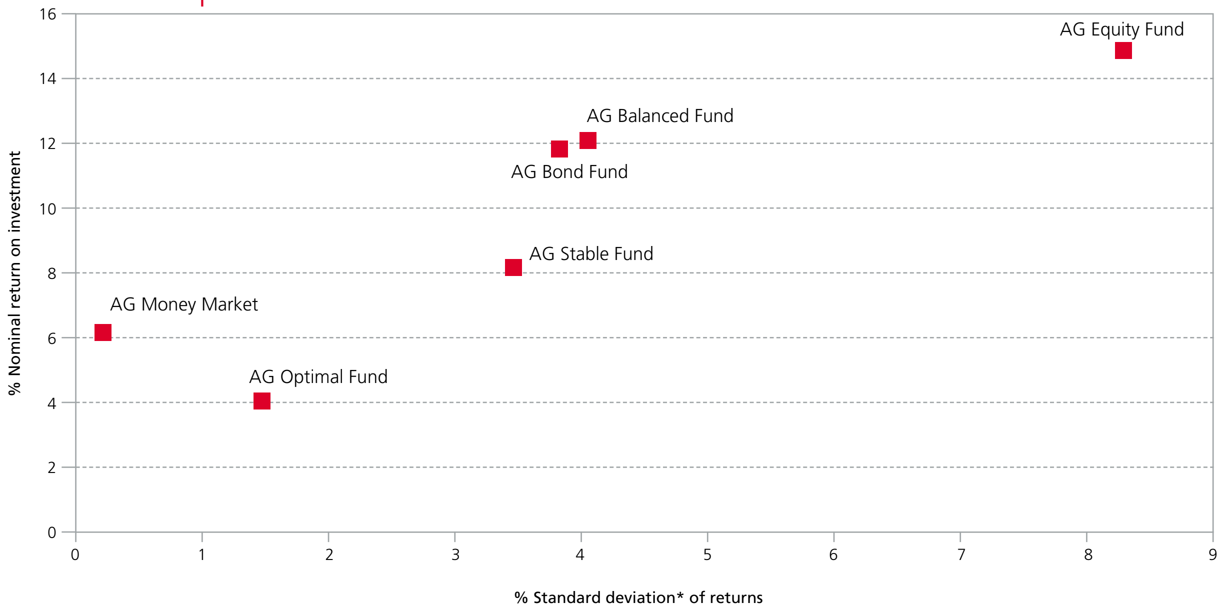
Single asset class funds

Our Equity Fund, Global Equity Feeder Fund, Bond Fund and Money Market Fund each invest in a single type of asset all the time i.e. equities, offshore equities, bonds or money market instruments. This exposure does not change over time as the relative appeal of asset classes varies. If you invest in one of these funds you will get Allan Gray's best view within this asset class. However, you will not get a view of how Allan Gray views this asset class relative to others.

The Optimal Fund is a more specialised fund that aims to offer a positive return in excess of the money market sector irrespective of the stock market. It does this by investing in a portfolio of shares and then eliminating the broader market movement by selling the market index, ALSI 40 futures in this case. The effective share exposure is low, so it is conservative, but the investor will get the benefit of any outperformance of the shares. In addition, the Fund's returns are not related to the stock market over long periods of time so it can be used to diversify a portfolio. While Optimal uses only a single asset class, because some equity is hedged, ASISA definitions show this as a multiple asset class fund.

Because single asset class funds invest in a single asset class, you can use them to create a bespoke investment with the help of a financial adviser, if necessary. You may not want a 100% equity investment and instead have a portfolio that has 60% in an equity fund and 40% in a money market fund. In this way you would be taking a view of what works best for your circumstances.

GRAPH 2 | Risk vs return: three years to 30 November 2012 (South African funds only)



* This is a measure of how much an investment's return varies from its average over time.
Source: Allan Gray

Solution funds

Solution funds, on the other hand, offer investors a broader mandate than investing in just one particular asset class. The Allan Gray Balanced and Stable Funds, for example, offer investors with different risk appetites our portfolio managers' view on both selection within each asset class, as well as the selection across asset classes.

Investors who pick these funds delegate their asset allocation decisions to the fund managers, and they should need to switch less often. Typically, by varying the decisions across asset classes these funds are less risky than pure equity funds, but this comes with lower return, as illustrated in **Graph 2**.

The exposure to certain asset classes can vary depending on the fund manager's view of the market at the time. The Balanced Fund's equity exposure varies from 40%-75%, while Stable can range from no exposure to equities at all up to a maximum of 40%. In both cases the maximum offshore exposure will be 25% and the remainder will be made up of bonds, money market instruments or hedged equities. Both these funds comply with retirement fund regulations, which limit exposure to certain asset classes (e.g. 75% in equities, 25% offshore).

The Allan Gray-Orbis Global Fund of Funds has a similar equity exposure to the Balanced Fund but utilises offshore assets. It offers a view on the relative appeal of equities, a regional weighting of these equities (e.g. Europe, US, Japan etc.), as well as a view on currencies (the euro, US dollar etc.). Unlike the Balanced Fund, it is not a traditional asset allocation fund in that it does not try to balance different asset classes; rather, it uses a relative mix of Orbis funds to give it a make-up of equities and more conservative instruments.

> "Fund selection should be based on individual objectives and circumstances."

The Allan Gray-Orbis Global Optimal Fund of Funds uses a combination of Orbis Optimal Funds and cash to offer a low equity global solution. This is a similar offering to the Stable Fund but in a global market.

Choosing funds

Fund selection should be based on individual objectives and circumstances. The intention of this article is to give more insight into how our funds are designed so that you can align your goals with your fund's objective. The value of advice should not be underestimated and if you are uncertain about which fund to use please consider calling an independent adviser to assist in this process.

While this is a discussion on Allan Gray funds, advisers and individuals who want to access funds of other managers can do so via our investment platform. We offer a range of both local and offshore funds (including funds from Orbis). For more information please visit our website www.allangray.co.za or call our Client Service Centre on 0860 000 654.

Rob has joint responsibility for the retail business, specifically operations, technology and financial management. Prior to joining Allan Gray, he headed up a services company within the Mvelaphanda Group and was a strategy consultant with McKinsey.

Margie Worthington-Smith

Allan Gray Orbis Foundation update

EXECUTIVE SUMMARY: 2012 was a significant milestone in the journey of the Allan Gray Orbis Foundation, giving a glimpse of the end in mind. The long road towards high-impact entrepreneurial leadership starts with small steps and it is only after enough time has passed that it is possible to get a view of whether or not these chosen steps are the ones that will lead to the destination. Margie Worthington-Smith takes us on the journey.

Flowing through 'the pipeline'

The Foundation describes its role in the continuous process from primary school to the end of university as 'the pipeline' – analogous to that supportive structure that carries life-giving water over a long distance for a long time.

The flow begins with a rigorous process of identifying young people with potential and need in Grade 6, and progresses them through a structured supportive programme during their time at one of 16 selected placement high schools. It continues through another even more rigorous selection process at the end of Grade 12 (or in first year at university) and into a further structured supportive programme during the four years at university. The culmination of the Foundation's role in the pipeline is the graduation of these Candidate Fellows to the official status of Allan Gray Fellows and into membership of the Association of Allan Gray Fellows. This membership gives these Fellows the opportunity to apply for funding from E^2, the special purpose venture capital fund. But this pipeline has not always looked like this; our experiences from year to year have encouraged us to make fundamental changes.

> "...it is gratifying to witness the effect the opportunity is having on young South Africans."

The Foundation's initial strategy was to support students only at university with the understanding that if they had the required academic standards they would be eligible to apply for the Fellowship programme.

This first flow through the pipeline began with the first selection camp for Grade 12s held in 2005, leading to the first eight university graduates in 2008, and has now reached a force of 229 at university. The trouble with this approach was that, due to the slow pace of educational redress in the country, too many of the eligible applicants were not previously disadvantaged, and we felt our reach was not broad enough.

Therefore, to broaden the pool of Fellowship applications from financially disadvantaged groups and to ensure that a greater number of scholars would not be disadvantaged by their lack of access to good educational opportunities, the Scholars programme was established in 2008 to include an opportunity for high school scholars to enter the programme. This has helped to increase the quality and reach of the flow, and has added a further 150 potential Candidate Fellows to the stream.

The Scholarship Selection team selects candidates from a diverse pool of applicants from all over the country, and places deserving applicants in schools that have produced a significant number of Allan Gray Fellows. As a result, there will be an increase in the access to quality high school education among financially disadvantaged South Africans – resulting in a broader stream of eligible applicants to the Fellowship.

Many outstanding achievements in 2012

Last year saw the first cohort of 12 Allan Gray Scholarship learners reach Grade 12. Of these 12 who have now been through the Fellowship Selection process, two have been chosen as Candidate Fellows for 2013. Although few in number, we are delighted that, given the low base from which they came, these Scholars succeeded so well academically and in leadership opportunities that they were able to compete with the other applicants on merit and be chosen as Candidate Fellows. We look forward to these numbers increasing year on year as we push to achieve our goal of 50% of Scholars becoming Candidate Fellows.

The two successful Scholars join the 86 Candidate Fellows selected for the 2013 intake into university. This brings the total of Candidate Fellows studying at nine South African universities to 238. Already graduated, after four years at university, are 98 Fellows who are starting their life journeys towards significance within the Association of Allan Gray Fellows. In March 2013 the Alumni Association is expected to grow by an additional 48 members as the class of 2012 officially graduates.

At this juncture of the Foundation's journey, it is gratifying to witness the effect the opportunity is having on young South Africans. Without the Foundation's support many of these learners may well have remained in schools with little or no opportunity for academic excellence or leadership development; instead, many have excelled beyond our wildest expectations.

"...many [Allan Gray Scholars] have excelled beyond our wildest expectations."

A few examples of some of their achievements will bear this out: a young Grade 8 Scholar at Collegiate Girls has been selected for a provincial hockey team to tour Europe; a Scholar in Grade 10 at Maritzburg College was part of the choir which came second in the world choir championships, going on to record a CD and being in the top 10 of the singing talent competition. At the same school a number of Scholars received academic merit awards coming in the top 10 in their grade. At Clarendon two Scholars will be school prefects in 2013 and one Deputy Head of the Hostel. At Selborne the Head Boy will once again be an Allan Gray Scholar and, like his predecessor, also has an overall academic average of over 80%. Together these two particular Scholars have started a 'Prides Movement' organisation working in township high schools, facilitating the concept of pride in self in young people in these communities.

At Rhenish, the Head Girl for 2013 is an Allan Gray Scholar with another Scholar having been chosen as Prefect and Deputy Head of House. Further Scholars at Rhenish have travelled to Malaysia on a hockey tour and represented WP U16 hockey. At Bishops, a Scholar is Deputy Head Boy for 2013 with two Scholars chosen as Heads of Houses. Another Scholar at Bishops came first in the grade and won a gold medal at the Eskom Regional Science Expo and a bronze medal at the Nationals. Two Scholars at Bishops travelled to Greece on a music tour.

At Paul Roos a Scholar is a Hostel Prefect and at St Cyprians a Scholar also represented the school on a Malaysian hockey tour. At Rustenburg a Scholar won the bronze President's Award and another is Head Deputy Form Captain. At St Mary's Waverley a Scholar went on an exchange to London. Too many other Scholars to mention in the lower grades in many of the placement schools also received numerous recognitions in sport, debating, chess, academics, Olympiads and drama. This bodes very well for the cultural, sport and academic achievements and leadership positions we can look forward to from Scholars in future years.

Potential becomes reality

The glimpse of the potential becoming real and the efforts of the Foundation being realised can be seen in the achievements of these Scholars. Hard work on the part of the Scholars with the support from the Foundation's Development Officers, each of whom mentor and individually care for these Scholars, has made these achievements possible. And recognition must also be given to the schools for their roles in these achievements.

If we add to that the phenomenal achievements of the Candidate Fellows at university and those who have graduated, there is no doubt in our minds that the vision of Dr Allan Gray of long-term economic and societal wealth through high-impact, ethical entrepreneurial Allan Gray Fellows, is well on the way to becoming a reality.

Graduating Scholars (Grade 12) at the 2012 Grade 11 camp.

For a more detailed look at the Foundation's activities in 2012, we encourage you to watch our 'Year in Review 2012' video on our YouTube channel.

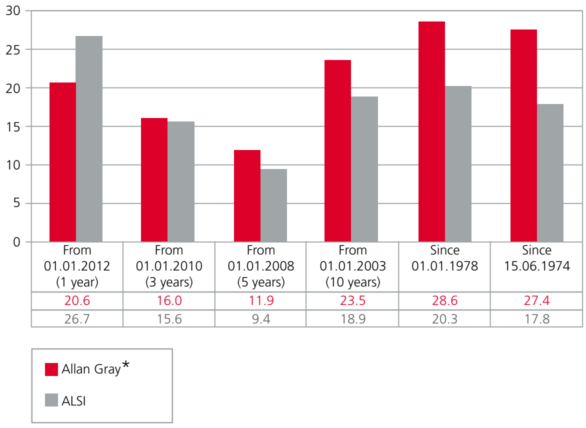
Margie is the executive director responsible for strategic and functional management at the Allan Gray Orbis Foundation. In this capacity she contributes to the Foundation's vision of a new generation of high impact entrepreneurial leaders. Prior to joining the Foundation in 2009, Margie spent over 25 years in the SA education and development sectors.

Investment track record - share returns

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

Period	Allan Gray*	JSE All Share Index	Out/ underperformance
1974 (from 15.06)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	-1.6
2008	-12.6	-23.2	10.6
2009	28.8	32.1	-3.3
2010	20.9	19.0	1.9
2011	7.1	2.6	4.5
2012 (to 31.12)	20.6	26.7	-6.1

Returns annualised to 31.12.2012



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

Note: Listed property included from 1 July 2002.

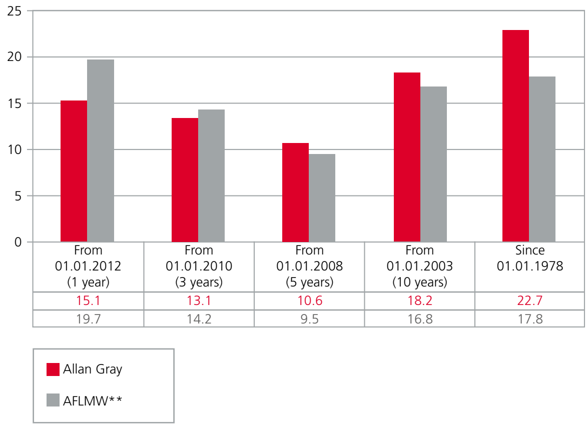
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to **R114 893 226** by 31 December 2012. By comparison, the returns generated by the JSE All Share Index over the same period would have grown a similar investment to **R5 520 950**.

Investment track record - balanced returns

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

Period	Allan Gray*	AFLMW**	Out/ underperformance
1974	-	-	-
1975	-	-	-
1976	-	-	-
1977	-	-	-
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	-0.6
2008	-1.1	-12.3	11.2
2009	15.6	20.3	-4.7
2010	11.7	14.5	-2.8
2011	12.6	8.8	3.8
2012 (to 31.12)	15.1	19.7	-4.6

Returns annualised to 31.12.2012



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

The return from 1 April 2010 is the average of the non-investable Alexander Forbes Large Manager Watch. The return for December 2012 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to **R12 698 932** by 31 December 2012. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R3 051 259**.

Allan Gray Balanced and Stable Fund asset allocation as at 31 December 2012

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	**SA**	**Foreign****	**Total**	**SA**	**Foreign**
Net equities	54.7	43.7	11.0	14.4	8.9	5.5
Hedged equities	13.4	3.0	10.4	34.6	18.1	16.5
Property	0.8	0.6	0.2	0.5	0.3	0.2
Commodities (gold)	2.5	2.5	0.0	2.9	2.9	0.0
Bonds	10.3	10.3	0.0	7.8	7.8	0.0
Money market and bank deposits	18.3	14.8	3.4	39.8	36.0	3.8
Total	**100.0**	**75.0**	**25.0**	**100.0**	**74.0**	**26.0***

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 December 2012

Security (ranked by sector)	**Market value (R million)**	**% of fund**	**JSE ALSI weight (%)**
Equities	**31 491**	**97.3**	
Resources	**9 028**	**27.9**	**31.2**
Sasol	3 231	10.0	
Anglo American*	1 476	4.6	
BHP Billiton	972	3.0	
Impala Platinum	969	3.0	
Anglogold Ashanti	853	2.6	
Gold Fields	462	1.4	
Harmony Gold Mining	318	1.0	
Positions less than 1%	749	2.3	
Financials	**7 212**	**22.3**	**20.6**
Standard Bank	1 675	5.2	
Sanlam	1 523	4.7	
Reinet Investments	996	3.1	
Old Mutual	788	2.4	
Investec	578	1.8	
Positions less than 1%	1 653	5.1	
Industrials	**15 025**	**46.4**	**48.2**
British American Tobacco	3 049	9.4	
SABMiller	2 577	8.0	
Remgro	2 323	7.2	
Mondi	1 109	3.4	
Nampak	614	1.9	
Tongaat-Hulett	593	1.8	
Netcare	585	1.8	
Sappi	548	1.7	
Datatec	373	1.2	
Illovo Sugar	358	1.1	
Positions less than 1%	2 897	9.0	
Other securities	**226**	**0.7**	
Money market and call deposits	**891**	**2.8**	
Totals	**32 382**	**100.0**	

* Including positions in Anglo American Plc stub certificates.

Allan Gray Unit Trusts annualised performance in percentage per annum to 31 December 2012

	QTR (unannualised)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R million)	INCEPTION DATE
UNIT TRUSTS [1]								
High net equity exposure (100%)								
ALLAN GRAY EQUITY FUND (AGEF)	[3]	17.6	14.9	9.5	20.1	27.3	32 382.0	01.10.98
FTSE/JSE All Share Index		26.7	15.6	9.4	18.9	18.8		
ALLAN GRAY-ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	[3]	20.4	8.2	4.5	-	10.5	6 161.2	01.04.05
FTSE World Index (Rands)		22.6	12.4	4.1	-	9.6		
Medium net equity exposure (40% - 75%)								
ALLAN GRAY BALANCED FUND (AGBF)	[3]	13.4	11.9	9.4	16.9	19.4	61 652.6	01.10.99
Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)		17.3	12.0	8.1	15.0	13.9		
ALLAN GRAY-ORBIS GLOBAL FUND OF FUNDS (AGGF)	[3]	13.0	6.2	6.3	-	7.7	7 059.7	03.02.04
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		16.0	11.8	7.2	-	8.3		
Low net equity exposure (20% - 40%)								
ALLAN GRAY STABLE FUND (AGSF) - (NET OF TAX)	[3]	5.9	7.3	7.7	11.1	12.3	28 975.8	01.07.00
Call deposits plus two percentage points (Net of tax)		4.8	5.1	6.5	6.8	7.2		
ALLAN GRAY STABLE FUND (AGSF) - (GROSS OF TAX)	[3]	6.3	7.9	8.5	12.0	13.4	28 975.8	01.07.00
Call deposits plus two percentage points (Gross of tax)		6.5	7.0	8.7	9.2	9.7		
Very low net equity exposure (0% - 20%)								
ALLAN GRAY OPTIMAL FUND (AGOF)	[3]	1.6	3.8	6.0	7.3	8.0	1 012.5	01.10.02
Daily call rate of FirstRand Bank Ltd		4.4	4.8	6.6	7.0	7.1		
ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS (AGOO)	[3]	7.8	-	-	-	4.0	634.1	02.03.10
Average of US$ Bank Deposits and Euro Bank deposits		6.2	-	-	-	3.8		
No equity exposure								
ALLAN GRAY BOND FUND (AGBD)	[3]	13.5	12.3	11.1	-	10.1	805.7	01.10.04
BEASSA All Bond Index (total return)		16.0	13.2	10.9	-	10.1		
ALLAN GRAY MONEY MARKET FUND (AGMF)	[3]	5.4	6.1	7.9	8.3	8.6	7 803.8	03.07.01
Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index [9]		5.5	6.0	7.7	8.2	8.6		

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	0.87%	0.02%	0.18%	0.14%	0.44%	0.00%	0.00%	0.11%	0.00%
Fee at benchmark	1.71%	1.49%	1.17%	1.21%	1.14%	1.14%	0.98%	0.29%	0.29%
Total fees*	2.58%	1.51%	1.35%	1.35%	1.58%	1.14%	0.98%	0.40%	0.29%
Trading costs	0.05%	0.13%	0.07%	0.15%	0.05%	0.15%	0.17%	0.00%	0.00%
Other expenses	0.01%	0.06%	0.02%	0.08%	0.02%	0.01%	0.07%	0.02%	0.01%
Total Expense Ratio (TER)	2.64%	1.70%	1.44%	1.58%	1.65%	1.30%	1.22%	0.42%	0.30%
Annualised fee* rate for latest quarter	2.47%	1.25%	1.42%	1.18%	1.56%	1.14%	0.99%	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 30 September 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 December 2012

	QTR (unannualised)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	INCEPTION DATE
ORBIS FUNDS REGISTERED FOR MARKETING IN SOUTH AFRICA [1, 6]							
ORBIS GLOBAL EQUITY FUND (RANDS)	6.0	21.8	8.7	4.8	10.8	17.7	01.01.90
FTSE World Index (Rands)	6.1	22.6	12.4	4.1	8.5	12.0	
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	4.3	13.5	12.1	6.6	7.8	13.2	01.01.98
Tokyo Stock Price Index (Rands)	8.6	14.1	7.7	1.1	5.0	6.0	
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	6.7	29.1	9.6	9.4	-	15.0	01.01.06
MSCI Asia Ex-Japan (Rands)	8.9	28.3	11.7	4.3	-	13.8	
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS)	1.7	7.9	4.1	6.2	-	9.1	01.01.05
US$ Bank Deposits (Rands)	3.0	5.0	5.0	5.3	-	7.7	
ORBIS OPTIMAL SA FUND-EURO CLASS (RANDS)	3.6	8.8	1.3	4.6	-	8.0	01.01.05
Euro Bank Deposits (Rands)	5.6	7.3	2.4	3.8	-	7.0	

Segregated and life pooled portfolios annualised performance in percentage per annum to 31 December 2012

	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	**6.9**	**19.1**	**15.7**	**11.5**	**23.1**	**21.9**	**56 300.2**	**01.01.90**
FTSE/JSE All Share Index	10.3	26.7	15.6	9.4	18.9	15.2		
DOMESTIC BALANCED COMPOSITE	**4.4**	**15.0**	**13.8**	**11.2**	**20.1**	**23.2**	**21 796.1**	**01.01.78**
Mean of Alexander Forbes Domestic Manager Watch [2,7]	6.3	20.3	15.1	10.7	18.6	18.3		
GLOBAL BALANCED COMPOSITE	**4.5**	**15.1**	**13.1**	**10.6**	**18.2**	**22.7**	**39 875.6**	**01.01.78**
Mean of Alexander Forbes Global Large Manager Watch [2,4]	5.7	19.7	14.2	9.5	16.8	17.8		
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN COMPOSITE	**5.2**	**15.8**	**12.6**	**10.2**	**17.9**	**19.5**	**7 174.4**	**01.01.94**
Mean of Alexander Forbes Namibia Average Manager [2]	5.7	18.9	13.6	9.6	16.7	14.6		
FOREIGN BEST VIEW (RANDS) COMPOSITE [8]	**5.0**	**14.2**	**6.5**	**6.2**	**8.1**	**13.4**	**6 261.8**	**23.05.96**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	4.1	15.9	11.8	7.1	7.9	10.6		
RELATIVE DOMESTIC EQUITY COMPOSITE	**9.0**	**23.6**	**15.5**	**10.5**	**20.8**	**21.3**	**5 032.4**	**19.04.00**
Weighted average of client specific benchmarks [2]	10.1	27.5	16.4	9.7	19.5	16.8		
LIFE POOLED PORTFOLIOS								
DOMESTIC EQUITY PORTFOLIO	**7.4**	**19.6**	**16.1**	**11.6**	**23.2**	**24.0**	**7 454.9**	**01.02.01**
FTSE/JSE All Share Index	10.3	26.7	15.6	9.4	18.9	16.5		
DOMESTIC BALANCED PORTFOLIO	**4.5**	**15.6**	**14.4**	**11.5**	**20.5**	**20.6**	**6 981.0**	**01.09.01**
Mean of Alexander Forbes Domestic Manager Watch [2,7]	6.3	20.3	15.1	10.7	18.6	17.3		
GLOBAL BALANCED PORTFOLIO	**4.5**	**15.4**	**13.4**	**10.8**	**18.3**	**20.0**	**22 714.8**	**01.09.00**
Mean of Alexander Forbes Global Large Manager Watch [2,7]	5.7	19.7	14.2	9.5	16.8	15.2		
DOMESTIC STABLE PORTFOLIO	**1.2**	**6.9**	**8.6**	**9.6**	**14.5**	**14.9**	**1 959.8**	**01.12.01**
Alexander Forbes Three-Month Deposit Index plus 2%	1.7	7.4	7.9	9.7	10.3	10.6		
GLOBAL STABLE PORTFOLIO	**1.9**	**8.1**	**9.0**	**9.6**	**-**	**13.6**	**3 601.1**	**15.07.04**
Alexander Forbes Three-Month Deposit Index plus 2%	1.7	7.4	7.9	9.7	-	9.8		
DOMESTIC ABSOLUTE PORTFOLIO	**0.2**	**3.8**	**9.2**	**11.4**	**19.5**	**21.9**	**1 067.8**	**06.07.01**
Mean of Alexander Forbes Domestic Manager Watch [7]	6.3	20.3	15.1	10.7	18.6	17.0		
GLOBAL ABSOLUTE PORTFOLIO	**1.4**	**6.3**	**9.6**	**11.4**	**-**	**17.8**	**3 127.6**	**01.03.04**
Mean of Alexander Forbes Global Large Manager Watch [2,7]	5.7	19.7	14.2	9.5	-	16.7		
ORBIS GLOBAL EQUITY PORTFOLIO [1]	**5.9**	**21.6**	**8.6**	**5.0**	**-**	**10.8**	**4 263.1**	**18.05.04**
FTSE World Index (Rands)	6.1	22.6	12.4	4.1	-	9.6		
FOREIGN PORTFOLIO [1]	**5.0**	**14.1**	**6.4**	**6.2**	**8.1**	**5.4**	**1 757.3**	**23.01.02**
60% of the MSCI Index and 40% JP Morgan Government Bond Index Global (Rands)	4.1	15.9	11.8	7.1	7.9	4.0		
HEDGED DOMESTIC EQUITY PORTFOLIO	**6.6**	**18.0**	**15.3**	**-**	**-**	**11.4**	**1 046.6**	**01.06.08**
FTSE/JSE CAPI Index	10.3	26.7	16.0	-	-	8.9		
RELATIVE DOMESTIC EQUITY PORTFOLIO	**9.2**	**21.7**	**14.2**	**10.2**	**-**	**23.3**	**242.2**	**05.05.03**
FTSE/JSE CAPI Index	10.3	26.7	16.0	10.1	-	22.4		
DOMESTIC OPTIMAL PORTFOLIO [1]	**0.2**	**2.4**	**4.6**	**6.9**	**8.2**	**8.4**	**351.8**	**04.12.02**
Daily Call Rate of Nedcor Bank Limited	1.1	4.6	5.1	6.9	7.3	7.3		
DOMESTIC STABLE MEDICAL SCHEME PORTFOLIO	**1.2**	**7.0**	**8.7**	**9.6**	**-**	**13.5**	**1 556.2**	**01.05.04**
Consumer Price Index plus 3% p.a. [2]	1.9	8.9	8.3	9.4	-	9.0		
MONEY MARKET PORTFOLIO [1]	**1.3**	**5.6**	**6.3**	**8.1**	**8.6**	**9.0**	**471.2**	**21.09.00**
Alexander Forbes Three-Month Deposit Index	1.2	5.3	5.8	7.5	8.1	8.6		

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 2012 is an estimate as the relevant survey results have not yet been released
3 Unable to disclose due to ASISA regulations
4 Consulting Actuaries Survey returns used to 31 December 1997. Alexander Forbes Global Large Manager Watch used from 1 January 1998. Alexander Forbes Non-Investable Global 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 (STeFI) Composite Index

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

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

Registration Number 2005/002576/07
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
IFA Service Email ifa@allangray.co.za
Portswood Square Dock Road V&A Waterfront Cape Town 8001

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

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