Allan Gray

QUARTERLY COMMENTARY 3

30 SEPTEMBER 2013

LONG-TERM THINKING IN ACTION

The cover of this Quarterly Commentary features Venice, Italy. This famous 'floating city' was built largely on water. What is not as well-known is that beneath the gilded salons and sensual masked balls, those beautiful Renaissance era buildings are supported by closely spaced wooden piles over 1 200 years old. These were necessary to reach the solid layer of compressed clay that lay deep beneath the mud and loose sand. But why did they use wood? To create a city as eternal as its haunting Vivaldi concertos and frescoes, the original builders of Venice knew something that was truly future-proof. Wood, especially alder, takes longer to decay when it is submerged in water. In fact, the longer it remains in mud and salt water, the harder and more rock-like it becomes. And so with the intimate knowledge of their craft and the wise choices that came from it, they built a city that has stood the test of time. It's like all good investments, where the choices made are underpinned with a long-term perspective in mind.

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ROB DOWER

COMMENTS FROM THE CHIEF OPERATING OFFICER

Our first article this quarter is Sandy McGregor's economic commentary arguing for the US Federal Reserve (the Fed) to begin its long-awaited return to a more normal monetary policy. Analysis of central bank policy is important and makes for interesting debate, but it can be distracting. In fact, these are generally distracting times for investors. As I write, the major arms of the US government have been unable to agree a budget for the next year and appear to be heading towards a similar stand-off on the appropriate total level of debt for their country. If they can't agree, the US will have to cut spending dramatically or default on its obligations, either social or financial.

At the same time, the appointment of the Fed's new governor has been confirmed. The world is hanging on her lips for the first indications of when to expect US quantitative easing (printing money to buy financial assets, thus driving asset prices up and interest rates down, to encourage confidence and economic growth) to taper off.

There is plenty of news in our own country to fret about, including consumer indebtedness, the resources cycle, government economic policy, next year's general election and good and bad news about the ethics and competence of South Africa's public and private sector leaders. African development and political strife, the sustainability of Chinese economic growth, European demographics and Japanese reflation are interesting topics for debate and consume pages and pages of commentary every day.

If they were predictable, or at least had a predictable collective impact on investment returns, these issues would be very useful topics for investment analysis. Instead, for us they are really just potential distractions from the much more productive work of bottom-up stock analysis. Adhering to our investment process and philosophy, we focus on simply analysing the intrinsic value of companies and comparing our estimate of each company's value to the price of its shares. This philosophy seems to reward disciplined and rigorous analysis with long-term outperformance, despite the markets' best efforts at efficiency.

Henk Pieterse and Zwelethu Nkosi make this point in their article about our new advertising campaign. The main message of the campaign – giving in to distractions makes us human, but it isn't good for investing – is not only relevant to our investment process and philosophy, it is also a message to clients; a message to remember when you are tempted to abandon your financial plan or to switch into the most fashionable new opportunity at the wrong moment.

Hunting for opportunities

As you probably expect, this issue of Quarterly Commentary includes some details about South African and international shares that we currently find attractive. One of these is Standard Bank, recently upweighted in our clients' portfolios. Standard Bank's return on assets is currently below its historical average. Mark Dunley-Owen gives his analysis of this decline and explains why we believe it is temporary. Since the share price appears to discount a permanent reduction in profitability, a return to normal would generate above-average returns for shareholders. These are the kind of opportunities we look for based on our 'bottom-up' approach to investing.

Seema Dala briefly covers the investment case for Micron Technology in her offshore piece. While unpacking some of the reasons behind the Orbis funds' outperformance year to date, Seema reminds readers that our and Orbis' funds' overall positioning is driven by our views on individual companies, rather than global macroeconomic events and current trends. The turnaround in fortunes for the Orbis funds shows how important it is for analysts to invest with conviction. In our portfolios, yesterday's losers are often tomorrow's winners, illustrating how critical it is to have thorough research to support your long-term investment ideas.

Many investors are asking if they have missed the offshore boat, bearing in mind how well many offshore investments have done over the past few months. A decision whether or not to hold offshore investments should be based on diversification and access to a wider opportunity set, both of which look through recent performance. We understand that many of you may be keen to invest offshore but neglect to do so as you find it too daunting. Johann Grandia's piece, which explains the benefits of our offshore platform, provides a helpful overview of how to invest using foreign currency.

Back to basics

We like to use this Quarterly Commentary to share our views and insights, but we realise that sometimes clients would just like to have everyday questions answered. We have therefore introduced a new educational article. 'Investing tutorials' will cover one question or idea each quarter. This time we discuss the importance of preserving retirement savings. Tempting as it may be to cash in your retirement savings if given the opportunity, Thandi Ngwane encourages you to think twice.

Thank you for your ongoing support. Do not be distracted from your long-term financial goals.

Kind regards

Rob Dower

SANDY McGREGOR

TIME TO RETURN TO NORMAL GLOBAL MONETARY POLICY

Despite the US Federal Reserve's decision in September not to begin to reduce its support of the US market and the economy, Sandy McGregor believes the US – and indeed the world economy – is now in a sufficiently robust condition for the unconventional policy mix of quantitative easing and zero interest rates to be brought to an end.

'Tapering'

Occasionally financial markets become totally obsessed with a particular issue. Currently an inordinate amount of analysis and commentary is being devoted to when and how the US Federal Reserve (the Fed) will end its present programme of quantitative easing (QE).

QE, which can be described as printing money, currently sees the Fed buying US$85 billion of mortgage and government bonds monthly. This is the third time since the financial crisis of 2008 that the Fed is massively increasing the size of its balance sheet. In 2008 it injected US$1.3 trillion into the financial markets when liquidity disappeared following Lehman's collapse. Then between October 2010 and June 2011 it injected a further US$570 billion in a programme now known as QE2. In December 2012 it launched QE3. In contrast to QE2, this programme is open-ended. When, and only when, the US economy is judged to be sufficiently buoyant will the Fed curtail and then cease buying bonds. In particular it wishes to see the unemployment rate below 6.5%. This exit process has been called 'tapering' because the Fed plans to gradually reduce its monthly purchases as circumstances allow.

The impact of unconventional US monetary policy

QE2 and QE3 have had a similar outcome. The money created has not stimulated any increase in bank lending. Since growth in bank credit is the normal transmission mechanism by which monetary policy affects the real economy, it can be argued that QE has not had a significant impact on economic activity. The money created has largely ended up as cash deposited by banks, mainly foreign banks, with the Fed. Proponents of QE now argue that in a world of zero interest rates, the transmission mechanism acts by boosting asset prices and thus the confidence of homeowners and investors.

During QE2 the Fed expanded its balance sheet by 24% and share prices, as measured by the S&P500 Index, rose by 23%. So far during QE3 a 27% increase in the central bank balance sheet has been accompanied by an 18% rise in share prices (see **Graph 1**). Real estate prices are also recovering. The rise in asset prices has restored household balance sheets to a healthier situation compared with what existed before the financial crisis of 2008, thus boosting confidence, which is needed for sustainable economic growth.

In addition to QE, the Fed has kept short-term rates at close to zero since 2009 and has indicated that they will remain at zero into 2015. This constitutes a massive financial repression of savers. In a desperate search for returns, investors have pushed government bond yields to

GRAPH 1 **S&P 500 INDEX**

USA S&P 500 COMPOSITE INDEX

Source: I-Net Bridge

levels not seen since the late 1930s. In November 2012 the US 10-year government bond fell to 1.58% and the 30-year bond to 2.77%.

Proponents of these policies argue that they are necessary and are having a positive impact. Critics say that any benefits are temporary and the whole exercise is a massive distortion of prices, which ultimately will have to adjust to reflect underlying realities.

Terminating QE

Over the past six months markets have focused increasingly on the inevitable ending of this programme. The US economy has successfully survived going over the 'fiscal cliff' between January and April this year when previously legislated tax increases and government spending cuts were implemented. The fiscal cliff has proved to be a non-event, with dire predictions of imminent disaster proving unwarranted. There is evidence that the US is in a strong enough condition to end QE; inevitably the next step will be to revert to more normal interest rates.

Market participants are concerned about when and how QE will end. The Fed is holding down the yield on mortgage bonds. It is also buying about 70% of the current new debt issuance of the US government. It is crowding out other investors in these markets, forcing money, which would naturally go into bonds, to find a home elsewhere. This encourages investment in equities, especially shares giving a good dividend yield, and the purchase of emerging market debt. It is difficult to predict the impact of the ending of QE3. When QE2 ended in 2011 the US share market declined about 15% but then recovered within six months. Given the fact that QE has evolved into a massive manipulation of asset prices, the communication of how the Fed will manage its exit strategy becomes critically important. It does not want to trigger a financial crash.

"THE FISCAL CLIFF HAS PROVED TO BE A NON-EVENT, WITH DIRE PREDICTIONS OF IMMINENT DISASTER PROVING UNWARRANTED."

Communicating the message to the market

The prevailing fashion among central banks is to place a lot of emphasis on effective communication of their policies. The theory is that by managing expectations, financial assets will be priced to discount efficiently the policy intentions of the central bank. Whereas a former generation of central bankers took an almost malicious pleasure in surprising the market, the modern paradigm is to use effective communication to ensure that there are no surprises. While the new approach is clearly an improvement on the paranoid secrecy of the past, it has a major disadvantage. Central bankers do not have better insight into the economy than private investors. On occasion, communicating clearly sends the message that those who conduct monetary policy do not know what they are doing. The message degenerates to saying that future policy will depend on developments in the economy. While this should be an obvious truism, markets unjustifiably expect something more from central banks, especially of one that has embarked on such a dramatically unconventional policy as quantitative easing.

US policy makers were taken aback by the market's reaction to sensible and measured statements they made in May and June this year on the exit from QE3. The 10-year government bond has sold off from 1.6% to almost 3%. The simple reality is that, when assets are mispriced, any correction can be sudden and violent. The concern is that the Fed has created massive distortions in financial markets which may rapidly adjust to more realistic levels.

"THE US...IS NOW IN A SUFFICIENTLY ROBUST CONDITION FOR THE UNCONVENTIONAL POLICY MIX OF QUANTITATIVE EASING AND ZERO INTEREST RATES TO BE BROUGHT TO AN END."

Concerns in emerging markets

These concerns are not restricted to investors alone. Emerging market governments are also very worried. During the recent bond market sell-off, emerging market currencies and bonds were also smashed. In Quarterly Commentary 3, 2012, we noted that the big investment story was not what was happening in Europe and America; rather it was the slowdown in emerging markets. This story continues to evolve. It is notable that three important countries which have recently been under particular pressure – India, Brazil and South Africa – all face similar problems: inflexible economies inhibited by government regulation; infrastructural problems; government deficits and an adverse balance of payments. All of them are now subject to sceptical scrutiny by investors. Inevitably these countries are calling for the US to temper any changes to policies which have previously encouraged investment flows into emerging markets, in the hope that this will ease the pressures they are currently experiencing.

The time has come for the Fed to end unconventional monetary policy

The US – and indeed the world economy – is now in a sufficiently robust condition for the unconventional policy mix of quantitative easing and zero interest rates to be brought to an end. The process may be accompanied by some market turbulence. However, this will be a small cost compared with the potential benefit of a return to normal asset pricing. In the long run, economic growth is driven by improving productivity. This requires an efficient allocation of capital. Mispricing asset markets inhibits this process and prevents the economy from achieving its full potential.

The ending of QE should represent the start of a return to normal. However, there is a significant possibility that central banks have acquired a taste for dramatic policy intervention, seeing their role as being much more than being the custodians of financial stability. As a consequence of a long history of disastrous political intervention in monetary policy in many countries, central bank independence is now regarded as a necessary feature of a well-functioning financial system. Following the financial crisis of 2008, many central banks have taken advantage of their independence to stray far beyond their normal remit. They would argue that circumstances required this. It is going to be difficult to convince markets that they will abandon their newly found penchant for radical initiatives. Despite the Fed's forward guidance, the uncertainty regarding future US monetary policy continues. Its decision at its September meeting to postpone tapering compounds this uncertainty.

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

MARK DUNLEY-OWEN

STANDARD BANK: HAS ANYTHING CHANGED?

Standard Bank is a Top Five holding in the Allan Gray Equity and Balanced Funds. Mark Dunley-Owen discusses why we believe it is an attractive investment for our clients.

"...STANDARD BANK HAS REFOCUSED ON WHAT IT DOES BEST, NAMELY AFRICA."

Regular readers of our Quarterly Commentary will be familiar with our investment philosophy. We use our analysis of the fundamentals of a business to determine its intrinsic value or worth. We then compare this with the price the market places on the business (the share price). If we can buy the shares of the business for a lower price than we believe they are worth, we will do so.

How do we calculate the underlying value of a company?

We use various metrics for calculating a company's underlying value. One of these, return on assets or ROA, is a useful metric for capital intensive industries such as banking. The **text box** on page 8 shows how it can be used in a valuation model for Standard Bank.

Using this model, **Graph 1** on page 7 shows Standard Bank's value versus its market price since 1990[1]. A value higher than price suggests Standard Bank was undervalued, and vice versa. **Graph 2** on page 7 shows the same data as a percentage of how over or undervalued Standard Bank was at a point in time. It compares this to the subsequent annual return one would have earned by buying Standard Bank at that point in time and holding it for four years.

While far from perfect, this model is appealingly simple. It suggests that buying Standard Bank when it is undervalued, in other words, when the red line in Graph 2 is high, results in higher subsequent returns. This is in line with our investment philosophy.

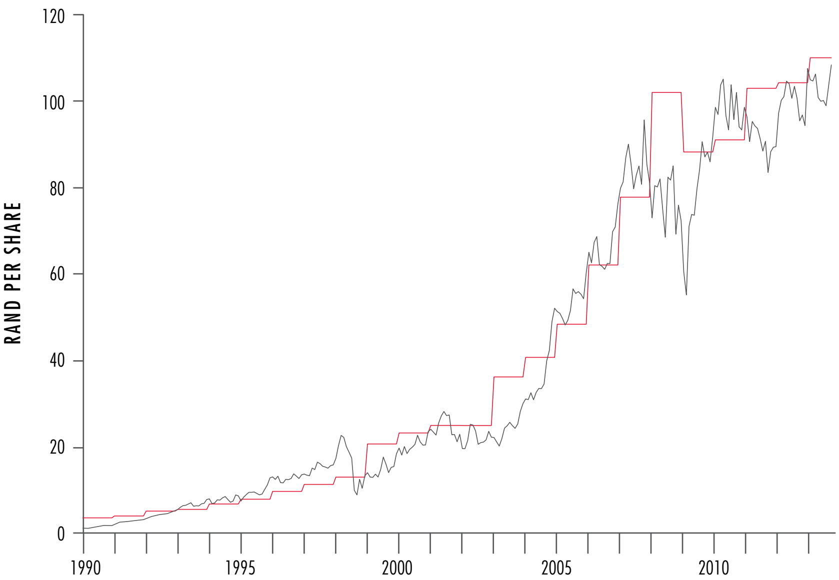
Standard Bank was at its cheapest in 1990. Buying it then resulted in the highest four-year returns over this period. Similarly, buying it at other extreme valuation discounts[2] also resulted in above-average returns. Conversely, buying Standard Bank when it was most expensive in March 1998 was one of only two occasions when an investor would have earned a negative return over the subsequent four years.

Has banking changed?

It is notable that in Graph 2 the relationship between valuation and returns seems to have changed since 2005. The shape of the model remains predictive, meaning returns are higher when Standard Bank is more undervalued, but the absolute level of returns is lower. This leads to the question: has banking, and Standard Bank in particular, changed since the mid-2000s?

There is a perception that banking has changed over the last few years due to increased regulation, introduced in an attempt to avoid a repeat of the

GRAPH 1 **STANDARD BANK MARKET PRICE VS VALUE**



— VALUE — MARKET PRICE, EXCLUDING STAKE IN LIBERTY HOLDINGS

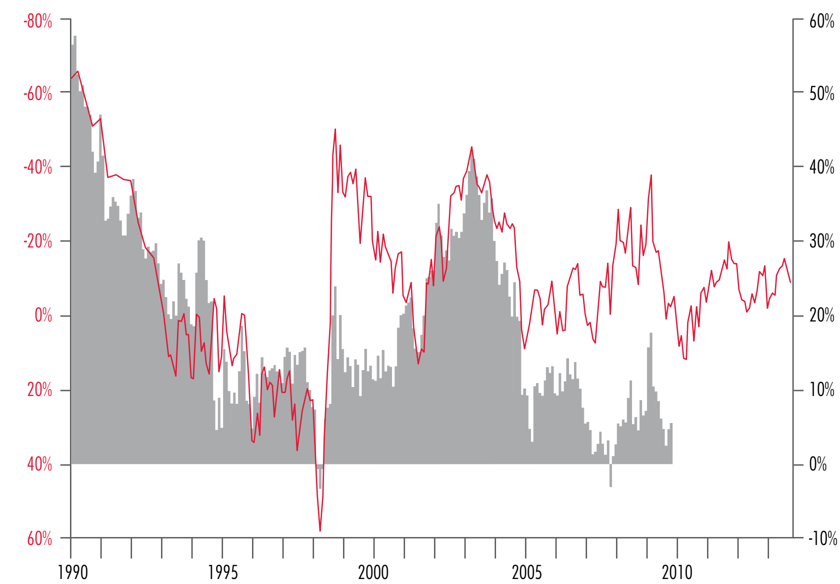
Source: Allan Gray research

2008 global financial crisis. The new regulations have a common goal of requiring banks to take less risk, which in turn means they earn less return.

There is a similar perception that the South African banking industry has changed. Increased oversight by regulators, aggressive advertising campaigns such as FNB's Steve, and growing popularity of Capitec, all point to lower future profitability.

These perceptions may be true, but they are not unique to today. Regulatory and competitive change has long been part of South African banking. There is no reason to believe today's regulators are better at lowering bank profitability than

GRAPH 2 **STANDARD BANK OVER (UNDER) VALUATION VS SUBSEQUENT 4-YEAR ANNUAL RETURNS**



— OVER (UNDER) VALUED, INVERTED (LHS) ■ SUBSEQUENT 4-YEAR ANNUALISED RETURN (RHS)

Source: Allan Gray research

their predecessors were, or that in the past banks were willing to sacrifice their own profitability for the sake of competitors.

Or has Standard Bank itself changed?

If the above reasons do not seem to be valid explanations for Standard Bank's lower recent returns, one should question whether Standard Bank itself has changed. To answer this, **Graph 3** looks at Standard Bank's ROA since 2001, broken down by geography.

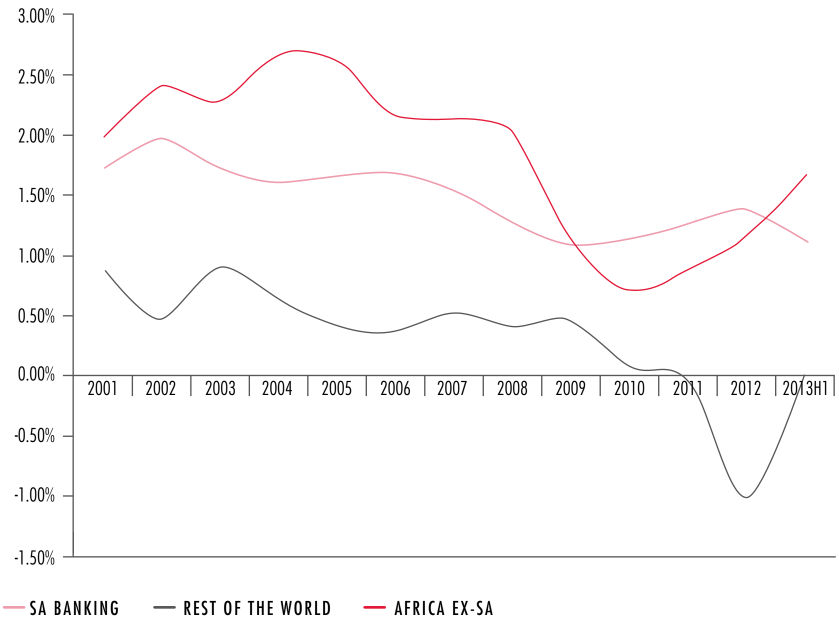
The pink line is Standard Bank South Africa. Its current ROA is below average due to some mistakes and a difficult lending environment. We do not believe anything has fundamentally changed at Standard Bank South Africa and expect its ROA to normalise over time.

The red and grey lines are Standard Bank's Africa and Rest of the World businesses. ROA of both dropped materially between 2005 and 2011. While it is unfair to single out one reason why this happened, comments from past Standard Bank annual reports are insightful.

The 2002 annual report was titled 'Blueprint for growth'. In 2005, the bank was 'well positioned to grow acquisitively outside South Africa'. The 2006 Management Report claimed 'our deep roots in a successful developing economy give us the insight to compete in the global emerging markets arena'. By 2010 Standard Bank had bought or built businesses in 13 countries outside Africa, among them Russia, Brazil, Argentina, Turkey and Hong Kong.

As with many aggressive growth strategies, we believe Standard Bank underestimated the challenges of operating in multiple regions. Returns on some of these investments have

GRAPH 3 **STANDARD BANK SEGMENTAL RETURN ON ASSETS**



Source: Company results

been disappointing, illustrated by the falling ROA in Graph 3.

In response, Standard Bank has refocused on what it does best, namely Africa. It has divested from or aggressively downscaled its non-African businesses, while continuing to invest across Africa. It now has more than 550 branches in 17 African countries that allow it to offer cross-continent banking. Their local presence plus pan-African capabilities is relatively unique, making Standard Bank a natural partner for companies looking to expand across Africa.

The strategy seems to be working. Standard Bank's businesses outside of Africa are no longer making losses. Africa ex-SA earnings have quadrupled since 2010 and now account for 20% of group banking earnings. In the most recent six months, Standard Bank earned more than R1 billion revenue from South African companies outside South Africa. If this continues, both ROA (in Graph 3) and investment returns (in Graph 2) should recover to historical averages.

A worthwhile investment opportunity?

Standard Bank's earnings are currently below their historical average but we do not believe anything has changed permanently. If we are right and Standard Bank returns to its previous profitability, history suggests it will generate above-average returns for our clients.

A valuation model for Standard Bank

At its simplest, a company makes money by earning profit from its assets. This is known as return on assets, or ROA. It can be used to value Standard Bank as follows:

Value = Assets x long-term ROA x long-term price-to-earnings multiple

Where

Assets = Standard Bank's disclosed banking assets at a point in time

Long-term ROA = Standard Bank's average return on banking assets since 1975 = 1.18%

Long-term price-to-earnings multiple = Standard Bank's average price-to-earnings multiple since 1975 = 11.2x

[1] Excluding Standard Bank's stake in Liberty Holdings
[2] Following the Asian crisis in 1998, the South African market sell-off in 2002/03 and the global financial crisis in 2008/09

Mark is a member of the investment team. He joined Allan Gray in 2009 having worked at a number of international investment banks.

SEEMA DALA

ORBIS GLOBAL EQUITY FUND: A REVERSAL OF FORTUNES

After a prolonged period of relative underperformance, since January this year the Orbis Global Equity Fund has meaningfully outpaced its benchmark in US dollars, returning almost 26%, compared with the FTSE World Index return of 10.2%. The Allan Gray-Orbis Global Equity Feeder Fund, which also benefited from the weaker rand, has returned 54% this year (to end August) outperforming the FTSE World Index (including income) by 21% in rand terms. Seema Dala discusses some of the reasons behind this turnaround, while cautioning investors not to look too much into short-term performance.

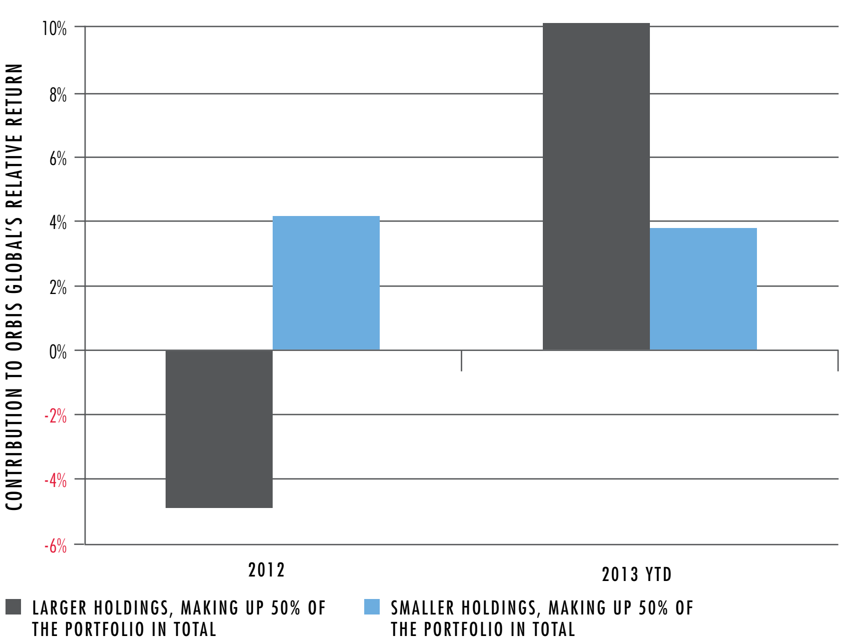
Regular readers of our Quarterly Commentary will know that Orbis and Allan Gray seek to position our portfolios in the most attractive opportunities at any given time, adopting a 'bottom-up' approach and searching for undervalued stocks. Ultimately, our funds' overall positioning is driven by our analysts' views on individual companies, rather than global macroeconomic events and popular trends. Bearing this in mind will help with peeling back the layers to understand where the recent performance has come from.

What factors have contributed to the recent outperformance?

It may be tempting to attribute the strong performance of the Orbis Global Equity Fund to Orbis' holdings in Japan, a market that has risen 30% in yen terms so far this year (to end August). Having a greater weighting in Japanese stocks than the benchmark FTSE World Index has indeed helped the Fund's relative performance, but this has been offset by the negative impact of the Fund's above-average weighting to Asia ex-Japan, a region where stock markets have lagged their global peers.

Overall, the contribution from the decisions to allocate capital between

GRAPH 1 **ORBIS GLOBAL: CONTRIBUTION TO RELATIVE RETURN VS THE FTSE WORLD INDEX OF LARGER AND SMALLER HOLDINGS**



Source: Orbis

the major geographic regions – driven as always by Orbis' bottom-up research – has actually been negative for the Fund this year. In line with the outperformance since the inception of the Global Equity Fund, stock picking within most regions has accounted for the overwhelming majority of the Fund's performance since year-end, which is also the case since the inception of the Fund. In particular, stocks in North America and Asia ex-Japan have been strong contributors to relative return.

It is striking that many of the Fund's best-performing stocks in recent months have been precisely those that detracted from performance before the rebound. The Fund's largest holdings, in aggregate, went from making a negative contribution in 2012 to providing a strong positive contribution so far this year, as can be seen in **Graph 1**.

This reversal of fortune is consistent with what one should expect from Orbis and Allan Gray's fundamental, long-term and contrarian investment philosophy. It is not uncommon to see a stock go from being a major laggard to among the biggest winners in a short period of time, often without a commensurate change in a company's fundamentals.

A good example is Micron, the largest year-to-date contributor to relative performance. Micron is a US-based global semiconductor manufacturer, producing memory chips that are used in PCs, tablets, smartphones and servers. Orbis has owned Micron once before, from 2007 to 2009, and most recently bought back into the company in 2012, with a positive view on industry and company fundamentals. Orbis was able to build a holding in this stock at attractive valuations when it was deeply out of favour with the market, and to buy more shares as the market continued to lag (see Quarterly Commentary 2, 2012 'Investing: A history of bubbles'). In late 2012, Micron cleared several legal milestones in its acquisition of the bankrupt Japanese semiconductor manufacturer, Elpida. At the same time, weaker players had exited the industry leading to a rationalisation of supply, which aided a recovery in memory chip (DRAM) prices. This news contributed to a rerating of the stock – since November 2012 Micron has outperformed the local market by over 70%. Orbis has locked in some profits by trimming the Fund's position, but continues to have a positive long-term view on the structural change for the memory industry and the resulting leverage for Micron's earnings power. It remains a Top 10 holding in the Fund.

TABLE 1 **TOP 10 CONTRIBUTORS AND DETRACTORS**

STOCKS	COUNTRY	INDUSTRY	ANNUALISED CONTRIBUTION	
			ABSOLUTE	RELATIVE
CARMAX GROUP	United States	Consumer Services	7.39%	8.48%
RAILTRACK	United Kingdom	Financials	10.33%	7.60%
MERRILL LYNCH	United States	Financials	6.43%	6.88%
SAMSUNG ELECTRONICS	South Korea	Consumer Goods	6.44%	6.10%
DAIWA SECURITIES	Japan	Financials	6.99%	5.84%
MORGAN STANLEY	United States	Financials	7.18%	5.22%
ASSOCIATED BRITISH FOODS	United Kingdom	Consumer Goods	3.13%	4.33%
INTEL	United States	Technology	4.99%	4.13%
ERICSSON	Sweden	Technology	5.23%	4.13%
MICRON	United States	Technology	4.95%	4.03%
SEKISUI HOUSE	Japan	Consumer Goods	(0.45%)	(2.12%)
GLOBAL CROSSING	United Kingdom	Telecommunications	(2.36%)	(2.16%)
AST RESEARCH	United States	Technology	(2.15%)	(2.18%)
PHILIPS ELECTRONICS	The Netherlands	Industrials	(2.56%)	(2.42%)
KINKI COCA-COLA BOTTLING	Japan	Consumer Goods	(0.19%)	(2.51%)
MITSUI TRUST & BANKING	Japan	Financials	(2.05%)	(2.60%)
KYOCERA	Japan	Industrials	(0.87%)	(2.69%)
T&D HOLDINGS	Japan	Financials	(3.63%)	(2.69%)
CHESAPEAKE ENERGY	United States	Oil and Gas	(2.79%)	(2.74%)
WORLDCOM	United States	Telecommunications	(3.46%)	(3.31%)

Source: Orbis

What are the expectations for returns over the next 12 months?

Given the strong performance of the Global Equity Fund, it is reasonable to wonder how Orbis perceives the current opportunity set, and whether or not returns similar to that of Micron can be expected from the stocks that are now prominent in the portfolio.

As a result of the 'bottom-up' approach described earlier, the Global Equity Fund looks very different from the index, and there is almost no discernible pattern to the types of companies that Orbis owns over time. **Table 1** shows the Top 10 contributors to the Orbis Global Equity Fund's return since the Fund's inception in 1990. Although there have been some meaningful technology winners, some of the best investment ideas have come from other areas, such as used cars, food and mobile homes. Some were large caps, some were small caps. Some were considered value stocks at the time of purchase, others were growth names. The one thing they

TABLE 2 **ORBIS GLOBAL: MAIN OVERWEIGHT AND UNDERWEIGHT EXPOSURES**

<table>
<tr><th></th><th>NORTH AMERICA</th><th>EUROPE</th><th>JAPAN</th><th>ASIA EX-JAPAN</th></tr>
<tr><td>TECHNOLOGY</td><td>Over</td><td>Over</td><td></td><td>Over</td></tr>
<tr><td>FINANCIALS</td><td>Under</td><td></td><td></td><td></td></tr>
<tr><td>CONSUMER SERVICES</td><td></td><td></td><td></td><td></td></tr>
<tr><td>CONSUMER GOODS</td><td>Under</td><td>Under</td><td></td><td></td></tr>
<tr><td>OIL AND GAS</td><td>Over</td><td></td><td></td><td></td></tr>
<tr><td>HEALTHCARE</td><td>Over</td><td></td><td></td><td></td></tr>
<tr><td>INDUSTRIALS</td><td colspan="4">Under</td></tr>
<tr><td>UTILITIES</td><td></td><td></td><td></td><td></td></tr>
<tr><td>TELECOMS</td><td></td><td></td><td></td><td></td></tr>
<tr><td>BASIC MATERIALS</td><td colspan="4">Under</td></tr>
</table>

Sources: FTSE, Orbis

all had in common when Orbis first invested was a significant discount to our analysts' assessment of intrinsic value of the underlying business.

Winners and losers

It is difficult to predict with any certainty which of the stocks in the portfolio at any one time will prove to be 'winners' or 'losers'. Statistically, in the past, our analysts have been proven wrong one out of three times. Sometimes this is because of the irrationality of markets, where stocks remain undervalued for much longer than expected, and sometimes it is because Orbis gets the investment case wrong. Importantly, where new information or analysis shows that an investment case was flawed, the relevant position is culled with discipline. This means that regardless of the lists of most recent winners or losers at any time, the portfolio carries the full conviction of the Orbis investment team.

As at 30 September 2013, the sectoral exposure of the Global Equity Fund looks similar to the end of December 2012. The Fund is overweight in the technology, oil and gas and healthcare sectors, and underweight in consumer goods, industrials, basic materials, and financials as shown in **Table 2**. From the perspective of the South African investor, this sectoral exposure is particularly interesting. Orbis is underweight in basic materials and consumer goods, which in a global opportunity set look relatively less attractive. In our local equity portfolios, by contrast, Allan Gray's SA equity portfolios are at equal weight to the market's substantial allocation to resources and also include large positions in consumer goods and industrial businesses such as British American Tobacco, South African Breweries and Remgro. Our clients own these partly because we find the underlying businesses attractive in their own right, but also because they offer the best relative value in a limited universe of SA stocks. Where Allan Gray considers approximately 250 listed companies every year, Orbis starts by screening at least 6 000 stocks. This broader universe brings a more diverse opportunity set in which Orbis is able to find great businesses trading at very attractive multiples.

Offshore opportunities: relatively attractive

The Orbis Global Equity Fund has significantly outperformed its benchmark this year, and it has been encouraging to see the Orbis funds respond to a more favourable environment for bottom-up stock pickers. Despite this recent strong performance, we continue to believe that global investment opportunities offer investors better relative return prospects than the domestic market.

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

JOHANN GRANDIA

ACCESS GLOBAL INVESTMENT OPPORTUNITIES VIA OUR OFFSHORE PLATFORM

We understand that many investors are keen to invest offshore but neglect to do so as they find it too daunting. Johann Grandia discusses some of the characteristics and workings of Allan Gray's offshore platform.

Over the past few years the South African Reserve Bank (SARB) has relaxed foreign exchange controls, making it considerably easier for investors to take money offshore. If you wish to invest directly into offshore funds, but prefer to use a local administrator rather than have to open accounts with several offshore managers in different jurisdictions, you can do so via a locally administered offshore investment platform, such as Allan Gray's.

Ease of administration and transparent, competitive fees

Working through an offshore platform has significant advantages for investors, particularly if it is administered locally.

The Allan Gray offshore platform is simple and easy to deal with. The platform can process instructions for several funds at the same time, sent to a single address, with local telephone and fax lines for instructions and physical offices. Investors can invest or transfer cash or existing offshore investments to the platform without the need to repatriate them first. Our secure website (the same website through which existing clients manage their other Allan Gray investments) offers easy reporting and online transacting.

For estate planning, an offshore investment on our platform can be dealt with locally in the estate under a South African executorship. The investment will not be subject to the administrative complications of estates law in offshore jurisdictions or require the appointment of an offshore executor, as is the case with many offshore-domiciled investments. This simplifies matters considerably for the deceased's South African executor.

The primary aim of our platform is to offer investors convenient service across a simple range of funds and

What is a platform?

Platforms offer unit trusts from a range of different investment managers and can be thought of as a 'unit trust supermarket' – a one-stop service through which you can access any of these unit trusts, while dealing with only one company. Platforms are able to negotiate discounts in fund management fees because they invest in bulk, and these discounts partly or even sometimes fully offset the extra cost of convenient administration.

to reduce the high direct and indirect costs of international investing. The platform allows you to make investment decisions that are not influenced by opaque and inconsistent fee structures. We charge an annual fee for administration. This is reduced by the manager fee discount, which is an amount that a fund management company may pay Allan Gray to account for the benefit of having its funds distributed via the Allan Gray platform, as well as the money it saves by having Allan Gray do its administration through bulked investments. We pass this discount back to you.

South African regulation

Allan Gray's offshore platform is domiciled and regulated in South Africa. The regulatory regime in our country is rated amongst the best in the world. Under South African regulation, the Allan Gray platform investors' assets have to be held in the name of Allan Gray Nominees Proprietary Limited, a single purpose company that has a majority of independent directors and is tightly regulated by the Financial Services Board. Because you are invested through a protected nominee company, your money is safe from Allan Gray's creditors.

Since we are a South African company the platform can be impacted by changes to the South African foreign exchange regime. You may take some comfort in the fact that although Allan Gray is a locally registered company, your investment is in foreign assets and in foreign currency. When you wish to make a withdrawal, we can transfer your investment to an offshore bank account registered in your name, without any further SA exchange controls.

"OUR PLATFORM HOPES TO REMOVE SOME OF THE ANXIETY AND MYSTIQUE SURROUNDING THE OFFSHORE INVESTMENT PROCESS."

Independent fund ratings to help you make your decisions

With a huge selection of funds available globally, we have committed to making a manageable number available through our offshore platform. The funds are selected through a combination of recommendations from independent financial advisers (through an annual fund survey) and, more recently, also through research conducted by international, independent fund ratings company Fundhouse. Fund ratings add an extra layer of comfort for investors and advisers when selecting funds.

All the funds on our platform were invited to participate in Fundhouse's fund due diligence process. Fundhouse applies a bespoke, qualitative approach based on a fund manager's investment philosophy, investment process, business structure, team and alignment of past investment decisions. The funds are then rated according to three tiers based on the research methodology. Tier 1 is the highest rating and means that Fundhouse is confident that the unit trust is managed according to a well-considered, consistently applied process. Tier 2 is similar to Tier 1 in most respects, but Fundhouse may be concerned about some of the aspects of the underlying investment processes. A Tier 3 rating means that Fundhouse is concerned about several aspects within the investment proposition.

All rated funds will undergo an annual rating review. This is done to identify the impact of any changes to the fund's investment philosophy, process or business structure that could have taken place during the year. We will endeavour to have all new funds that come onto our platform rated. Please contact your financial adviser, or our Client Service Centre on 0860 000 654 if you need more information.

For many investors, investing offshore is fraught with uncertainty. Our platform hopes to remove some of the anxiety and mystique surrounding the offshore investment process. However, at Allan Gray we do not offer financial advice. If you are not comfortable making your own investment decisions you may wish to consult with an independent financial adviser.

How to invest via our offshore platform

You can invest using one of these methods:

1. **Invest online**

   Log on to www.allangray.co.za, click on 'Invest now' and select 'Offshore funds'. Follow the application process to submit your investment online.

2. **Download an application form**

   Fill in the Offshore application form available via our website www.allangray.co.za or from our Client Service Centre. If you need any assistance, you may wish to contact an independent financial adviser.

3. **Contact our Client Service Centre or your financial adviser**

   Call 0860 000 654 or email info@allangray.co.za.

You will also need to obtain tax clearance

You will need to obtain a tax clearance certificate from the South African Revenue Services (SARS), get approval from the South African Reserve Bank (SARB), and convert rands into foreign currency. To help streamline the process, we have negotiated with Peregrine FX (Pty) Ltd (PFX), an independent foreign exchange provider, to provide you with preferential rates for foreign exchange services. PFX facilitates the foreign exchange and offshore transfer process, including applying for tax clearance certificates, currency conversions from rands into any of our accepted offshore currencies and transferring foreign currency into our offshore bank accounts. If you wish to make use of the foreign exchange administration services of PFX, indicate this during the 'Invest now' process or on the application form. Allan Gray earns no direct or indirect benefit from your use of PFX services but we have tried to negotiate the best fees we can from them on your behalf.

Johann joined Allan Gray in 2006 and is responsible for marketing and development of the offshore platform. He holds a Masters Degree in Financial Management from Pretoria University, BCom Honours in Financial Analysis from Stellenbosch University and is a Certified Financial Planner.

HENK PIETERSE & ZWELETHU NKOSI

DISTRACTION IS THE ENEMY

In an always-on, connected world, distractions are around all the time. We have well over a hundred television channels available 24 hours a day, seven days a week. The internet connects us all globally and many of us carry it with us on our mobile phones. Social media networks have rapidly increased the speed with which news, ideas and thoughts are spread. Companies and people go out of their way to capture our attention. There is no shortage of talking heads predicting the hottest new investment. This constant flood of information feeds the fear of missing out and our tendency to be overconfident. These are powerful drivers of our behaviour. In this environment, maintaining focus is a daily challenge.

Henk Pieterse and Zwelethu Nkosi discuss why a focused approach is so important in investing and explain the logic behind our new advertising campaign, which claims 'distraction is the enemy'.

The campaign thought

Over the past 10 years, our advertising has aimed to tap into universal human truths to communicate our brand. Our new campaign continues this tradition by pointing out one of the pitfalls that make us human, our vulnerability to distractions.

Staying focused and committed over the long-term is an important part of successful investing, but human emotions cause even the most focused among us to be pulled off-track. The temptation to change our strategy in pursuit of something more enticing puts our long-term goals in jeopardy. Our key campaign message is simple: while distractions are part of what make us human, ignoring them is what makes us Allan Gray.

"OUR KEY CAMPAIGN MESSAGE IS SIMPLE: WHILE DISTRACTIONS ARE PART OF WHAT MAKE US HUMAN, IGNORING THEM IS WHAT MAKES US ALLAN GRAY."

While it is important to stay informed, investors can easily be distracted by the constant supply of news and information. The following four examples illustrate what we believe are some of the most common pitfalls to avoid when you are a value-based long-term investor:

1. Macroeconomic predictions

Sandy McGregor notes in his article on page 3: 'Occasionally financial markets become totally obsessed with a particular issue'. The same can be said for many investors, who have added the unconventional actions of central banks to their favourite conversation topics, which include the exchange rate, the price of gold and opportunities in emerging markets. While asset prices have been affected by quantitative easing and will most likely be impacted by its end (called 'tapering'), it is very difficult, if not impossible, to predict the long-term impact. Investing based on predictions is inherently uncertain. As the old adage goes: 'the trend is your friend, until it ends'.

2. Geographies or industries that are the flavour of the month

With developed economies like the US and EU still recovering from the biggest recession since the great depression, emerging markets have become attractive investment destinations. The rise of China as an economic powerhouse has been nothing short of spectacular. It is tempting to invest in a country like China, after all, with a GDP per capita growth rate consistently above 9% per year since 2000, it should be a fertile source for investment growth.

What makes sense intuitively does not always play out as expected. When GDP growth is high and things are going well, investors seem to think this will translate into strong future returns for companies in a particular country. In fact, this is often not the case. Strong economic growth often leads to increased competition and a surplus of capital being invested in a specific economy, all of which may result in lower corporate profits. South Africa is a good example of the inverse: our stock market has had a fantastic decade or so, while economic growth has been muted.

3. News headlines of the day

It is worthwhile remembering that the headlines are about what is newsworthy, and bad news sells. A good example is the terrible devastation and loss of human life caused by the Japanese earthquake and tsunami on 11 March 2011. Allan Gray clients invested in our Balanced and Stable Funds were exposed to some Japanese shares through these funds' offshore holdings and, at the time, a newspaper headline shouted 'Allan Gray takes a whack on Japan'. Indeed, the Japanese stock market did drop significantly in the aftermath of the disaster.

In these types of scenarios, knee-jerk reactions are common, with investors selling in haste to avoid further losses. It is human nature to worry about the impact of a specific event on future investment returns. The fact of the matter is that these reactions are usually ill-considered and too late to be of any short-term benefit. The Japanese stock market recovered quite quickly from its sharp decline, and the temporary 'blip' had no long-lasting effect on the performance of our funds.

4. Compelling stories

Investors often make investment decisions based solely on a story, with little consideration for the actual valuation. In Quarterly Commentary 4, 2011, Andrew Lapping wrote that 'it is the price you pay that counts, not the headlines'. It is important to look beyond the story to assess if there truly is opportunity.

There are many shares in our local market that have very good stories to tell. Shoprite is one of them, with strong South African results, a successful African expansion and potential for growth. While Shoprite is an excellent company, we believe the premium being paid for its growth is simply too high. As Duncan Artus detailed in Quarterly Commentary 4, 2012, the amazing rise in its share

Our new advertising campaign is designed to distract you

The television commercial

Our new television commercial is quite different in tone and pace from previous campaigns. The story takes place during a normal working day in a busy city. We follow our lead actor as he tries to evade various distractions, being chased by a group of friends wanting him to join their 'boys night out'. We follow him through figurative locations and situations, occasionally branching off and observing other stories before rejoining him, creating a flowing, energetic pace.

We have tried to create a world dense with distractions and layers – with something new for the audience to discover every time they watch the commercial. The commercial represents the difficulties we all have avoiding distraction. Despite the surreal cinematic world, these events are meant to feel real and believable. The message is universal – distractions affect everyone.

The print and airport campaigns

Our magazine and airport campaigns focus on a series of everyday stories to further bring the pitfalls of distraction to life. Meanwhile, our newspaper adverts reinforce our thinking through copy-driven messages about how we at Allan Gray aim to avoid distraction, and remain focused on our investment philosophy (see page 17).

If you are interested in viewing an extended version of our new commercial, only available online, please visit www.allangray.co.za/tvadvertising/distractionistheenemy/

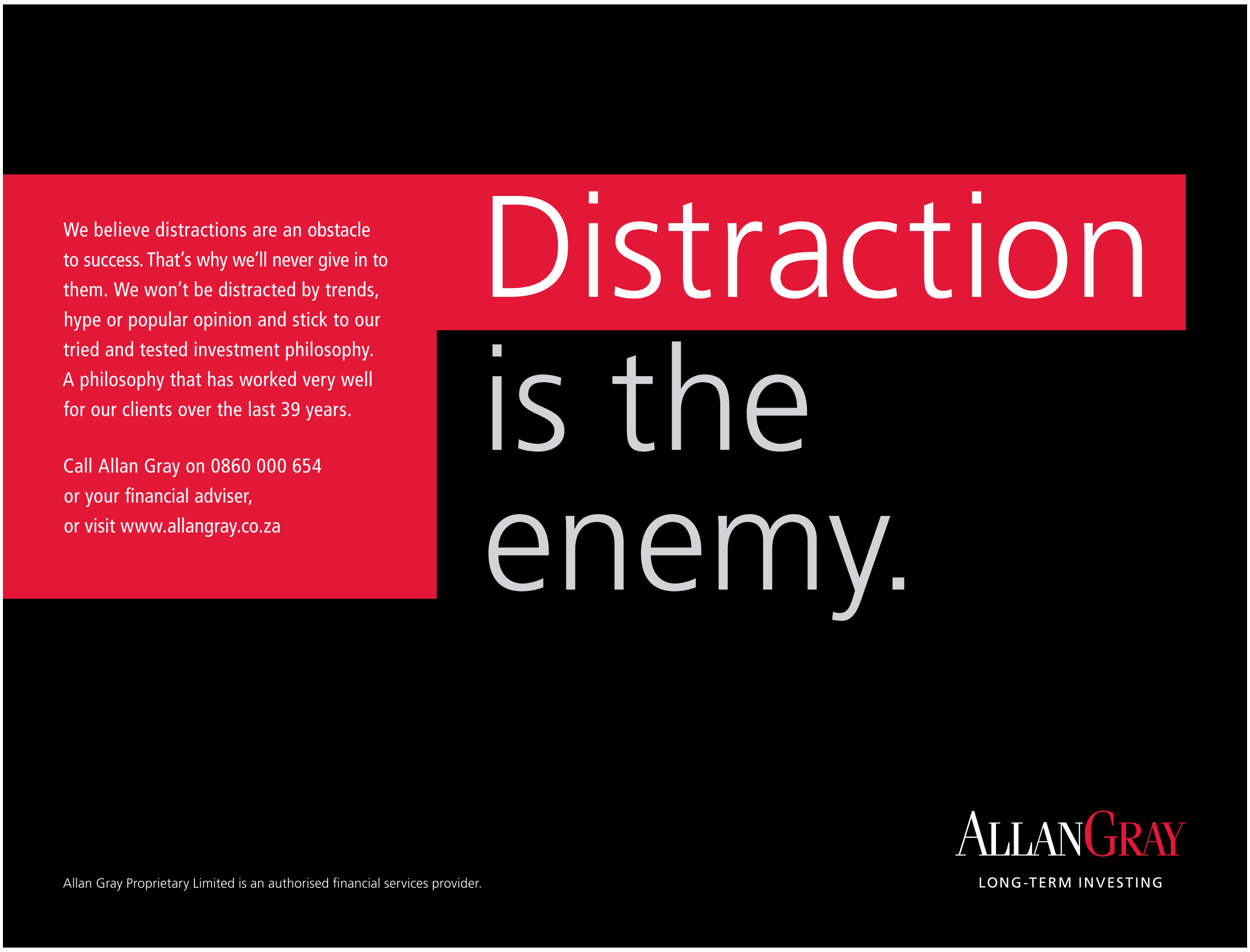
price has been driven by investors willing to pay even more for the forecast earnings of Shoprite.

While the winners on the day may continue to rise in price, and there is certainly money to be made by those who are lucky enough to time the market correctly, we believe that paying a premium seldom pays off. These stories can be a great distraction when looking for long-term opportunities.

Staying focused in investing is more difficult than most people realise

While the above-mentioned examples could all be powerful investment themes, more often than not, what people like to talk about most is not that important when making long-term investment decisions. It is very easy to be distracted from a proven philosophy and to be tempted into solving a short-term crisis with a reactive response.

We do not know what the future holds, but we do know that there will be times when there will be weighty opinions that differ from ours, and that our investment returns may be very different than the market. Our new campaign is a commitment that we won't be distracted by trends, hype or popular opinion and we will stick to our tried and tested investment philosophy.



Henk joined Allan Gray in 2008 and heads up marketing. After qualifying as a CA (SA) he entered the financial services industry and has worked in areas of strategy, marketing, client service, finance, operations and information technology.

Zwelethu joined Allan Gray in January 2010 and manages the brand. She has experience across multiple disciplines in the marketing sphere, including business development, trade marketing, relationship marketing, consumer marketing and innovation. She holds a BCom (PPE) and a Post Graduate Diploma in Management: Marketing, both from UCT.

THANDI NGWANE

WHY PRESERVE?

Learn more about investing and personal finance in 'Investing tutorials', a new addition to our Quarterly Commentary.

South Africans on average change jobs about five to seven times during their working lives. When changing jobs, 80% of them take their retirement benefits in cash, and only 12% transfer to another retirement fund. Thandi Ngwane discusses why you should consider the long-term implications very carefully before you 'take the money and run'.*

Staying invested

Over the long term, taking a payout and spending it may cause more harm to your accumulated retirement savings than you think. You may believe you will have plenty of time to make up for the years of saving; in fact, not preserving costs you more years than you may realise. Not only will you have to start again, you will also miss out on the full power of compounding. Often referred to as the 'eighth wonder of the world', compounding means you earn returns today on the returns you earned yesterday, over and above the amounts of money you contribute.

If, for example, you decide to take a 100% cash payout at the age of 35 and spend it on a holiday or a few months of ill-discipline, you will end up with 40% less to live on when you retire. Put differently, if you need a monthly pension when you retire that is 70% of your final salary (increasing with inflation), your savings will run out 12 years earlier than if you had not taken the payout.

Tax incentives

The government would prefer not to have to support you on a state old age grant, so the tax rules strongly encourage you to preserve your retirement savings. A cash payout now will reduce the tax-free benefits that will be available to you when you retire, so that the net effect is that your withdrawal is fully taxed. If you are taking the money out to invest, for example in a house deposit or even a unit trust investment, all the gains and income that you earn on the money will be taxed. This can make a big difference to the end result.

What are your options?

Depending on your circumstances, the best thing may be to transfer your savings into a preservation fund or a retirement annuity fund (RA). A preservation fund is specifically designed to invest your pension or provident fund savings, and as long as you have not already made a withdrawal, it allows you a once-off chance to access your funds in future. An RA allows you to invest your current retirement fund savings and to continue to save. Modern (but not all) RAs allow you to start and stop contributions at any time without penalties, and a portion of your contributions will be tax-free while you are saving.

There are a number of factors to consider when selecting investment products. It might be helpful to get assistance from an independent financial adviser. For more information you can also visit www.allangray.co.za/investingexplained/ and click on 'Investment products' and then on 'Retirement funds'.

TABLE 1 **HOW DOES A RETIREMENT ANNUITY COMPARE WITH A PRESERVATION FUND?**

RETIREMENT ANNUITY	PRESERVATION FUND
Transfer from your employer fund is tax neutral.	Transfer from your employer fund is tax neutral.
You can make ad-hoc additional contributions at any time and your additional contributions are tax-free up to certain limits.	No additional contributions are permitted.
You are usually not allowed to make any withdrawals until you retire.	You have access to one partial or full withdrawal at any time, provided there are no restrictions in place from the transferring fund.
You can usually only access your retirement benefit from age 55.	You can generally access your retirement benefit from age 55, subject to the rules of your transferring fund.

* Sanlam Benchmark Survey 2010.

Thandi joined Allan Gray in 2008. She is a senior member of the distribution team, having previously worked in legal & compliance and marketing in the financial services sector. Thandi completed her Masters of Business Law at the University of KwaZulu-Natal, has an advanced CFP from the University of the Free State and is an admitted attorney.

INVESTMENT TRACK RECORD – SHARE RETURNS

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

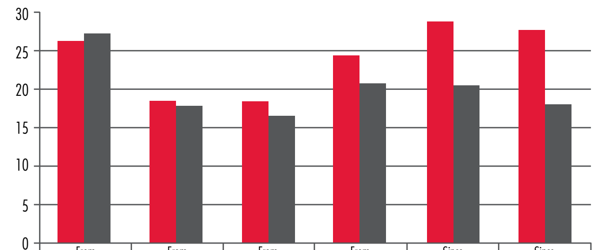
PERIOD	ALLAN GRAY*	JSE ALL SHARE INDEX	OUT/UNDER-PERFORMANCE
1974 (from 15.06)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	-1.6
2008	-13.7	-23.2	9.5
2009	27.0	32.1	-5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.3
2012	20.6	26.7	-6.1
2013 (to 30.09)	17.4	15.1	2.3

INVESTMENT TRACK RECORD – BALANCED RETURNS

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

PERIOD	ALLAN GRAY*	AFLMW**	OUT/UNDER-PERFORMANCE
1974	-	-	-
1975	-	-	-
1976	-	-	-
1977	-	-	-
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	-0.6
2008	-1.1	-12.3	11.2
2009	15.6	20.3	-4.7
2010	11.7	14.5	-2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	-4.9
2013 (to 30.09)	19.4	17.5	1.9

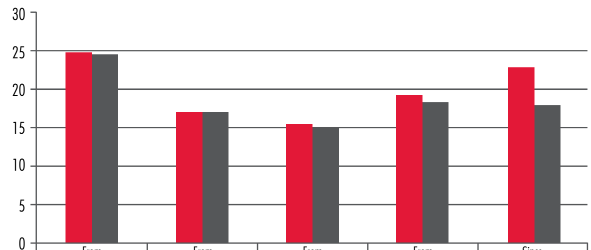
RETURNS ANNUALISED TO 30.09.2013



	From 01.10.2012 (1 year)	From 01.10.2010 (3 years)	From 01.10.2008 (5 years)	From 01.10.2003 (10 years)	Since 01.01.1978	Since 15.06.1974
ALLAN GRAY*	26.0	18.2	18.2	24.1	28.4	27.4
ALSI	27.0	17.8	16.4	20.7	20.3	17.9

ALLAN GRAY* ALSI

RETURNS ANNUALISED TO 30.09.2013



	From 01.10.2012 (1 year)	From 01.10.2010 (3 years)	From 01.10.2008 (5 years)	From 01.10.2003 (10 years)	Since 01.01.1978
ALLAN GRAY*	24.7	17.0	15.3	19.2	22.7
AFLMW**	24.5	17.0	15.0	18.3	17.9

ALLAN GRAY* AFLMW**

* 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. Returns are before fees.

Note: Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown (before fees) to R134 225 279 by 30 September 2013. By comparison, the returns generated by the JSE All Share Index (before any fees) over the same period would have grown a similar investment to R6 353 691.

** 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 September 2013 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown (before fees) to R15 157 108 by 30 September 2013. The average total performance (before fees) of global mandates of Large Managers over the same period would have grown a similar investment to R3 592 894.

ALLAN GRAY BALANCED AND STABLE FUND ASSET ALLOCATION AS AT 30 SEPTEMBER 2013

	BALANCED FUND % OF PORTFOLIO			STABLE FUND % OF PORTFOLIO		
	TOTAL	SA	FOREIGN**	TOTAL	SA	FOREIGN
Net equities	55.9	42.2	13.7	15.4	10.7	4.8
Hedged equities	13.6	2.7	10.9	33.8	15.7	18.1
Property	1.0	0.6	0.4	1.0	0.6	0.3
Commodities	3.7	3.7	0.0	4.5	4.5	0.0
Bonds	9.4	9.3	0.1	5.5	5.5	0.0
Money market and bank deposits	16.3	13.1	3.2	39.8	35.7	4.1
TOTAL	**100.0**	**71.7**	**28.3***	**100.0**	**72.7**	**27.3***

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

* The Fund is above its foreign exposure limit due to market value movements.
** This includes African ex-SA assets.

ALLAN GRAY EQUITY FUND NET ASSETS AS AT 30 SEPTEMBER 2013

SECURITY (RANKED BY SECTOR)	MARKET VALUE (R MILLION)	% OF FUND	JSE ALSI WEIGHT (%)
EQUITIES	**34 929**	**98.0**	
RESOURCES	**9 249**	**25.9**	**27.2**
Sasol	4 280	12.0	
Anglo American*	1 883	5.3	
BHP Billiton	990	2.8	
Impala Platinum	569	1.6	
Positions less than 1%	1 528	4.3	
FINANCIALS	**9 209**	**25.8**	**17.6**
Standard Bank	2 435	6.8	
Reinet Investments SA	1 358	3.8	
Old Mutual	1 083	3.0	
Sanlam	1 034	2.9	
Investec	1 034	2.9	
Rand Merchant Insurance	368	1.0	
Positions less than 1%	1 898	5.3	
INDUSTRIALS	**16 209**	**45.5**	**55.2**
British American Tobacco	3 941	11.1	
SABMiller	3 087	8.7	
Remgro	1 991	5.6	
Netcare	653	1.8	
Mondi	568	1.6	
Nampak	508	1.4	
Tongaat Hulett	495	1.4	
Sappi	425	1.2	
Datatec	354	1.0	
Illovo Sugar	353	1.0	
Positions less than 1%	3 835	10.8	
OTHER SECURITIES	**262**	**0.7**	
COMMODITIES	**68**	**0.2**	
MONEY MARKET AND CALL DEPOSITS	**655**	**1.8**	
TOTALS	**35 651**	**100.0**	

* Including positions in Anglo American stub certificates.

ALLAN GRAY UNIT TRUSTS ANNUALISED PERFORMANCE IN PERCENTAGE PER ANNUM TO 30 SEPTEMBER 2013

UNIT TRUSTS[1]	QTR[3] (UNANNUALISED)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R MILLION)	INCEPTION DATE
HIGH NET EQUITY EXPOSURE (100%)								
Allan Gray Equity Fund (AGEF)	-	**22.7**	**16.1**	**15.8**	**20.8**	**26.9**	35 651.4	01.10.98
FTSE/JSE All Share Index		27.0	17.8	16.4	20.7	18.9		
Allan Gray-Orbis Global Equity Feeder Fund (AGOE)	-	**65.4**	**29.6**	**17.4**	**-**	**15.7**	10 893.7	01.04.05
FTSE World Index (Rands)		44.8	25.8	12.6	-	12.8		
MEDIUM NET EQUITY EXPOSURE (40% - 75%)								
Allan Gray Balanced Fund (AGBF)	-	**22.7**	**15.7**	**14.1**	**17.8**	**19.7**	77 403.2	01.10.99
Average of South African - Multi Asset - High Equity category (excl. AGBF)[10]		21.6	14.5	12.7	16.1	14.3		
Allan Gray-Orbis Global Fund of Funds (AGGF)	-	**48.2**	**23.7**	**13.1**	**-**	**11.2**	10 120.3	03.02.04
60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index (Rands)		32.3	21.3	11.5	-	10.4		
LOW NET EQUITY EXPOSURE (20% - 40%)								
Allan Gray Stable Fund (AGSF)	-	**13.3**	**10.7**	**9.9**	**12.3**	**13.6**	31 593.0	01.07.00
Daily interest rate of FirstRand Bank Limited plus 2%		6.2	6.5	7.7	8.6	9.5		
VERY LOW NET EQUITY EXPOSURE (0% - 20%)								
Allan Gray Optimal Fund (AGOF)	-	**4.5**	**4.0**	**5.4**	**6.9**	**7.8**	868.0	01.10.02
Daily interest rate of FirstRand Bank Limited		4.1	4.4	5.6	6.4	6.9		
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO)	-	**33.9**	**17.5**	**-**	**-**	**11.5**	863.0	02.03.10
Average of US$ Bank Deposits and Euro Bank deposits		24.5	13.4	-	-	8.4		
NO EQUITY EXPOSURE								
Allan Gray Bond Fund (AGBD)	-	**4.8**	**8.7**	**10.1**	**-**	**9.5**	758.1	01.10.04
BEASSA All Bond Index (total return)		3.1	8.5	10.0	-	9.3		
Allan Gray Money Market Fund (AGMF)	-	**5.2**	**5.5**	**6.9**	**7.7**	**8.4**	7 604.7	03.07.01
Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index[9]		5.2	5.5	6.8	7.6	8.4		

ALLAN GRAY TOTAL EXPENSE RATIOS (TERS)

	EQUITY FUND	GLOBAL EQUITY FEEDER FUND	BALANCED FUND	GLOBAL FUND OF FUNDS	STABLE FUND	OPTIMAL FUND	GLOBAL OPTIMAL FUND OF FUNDS	BOND FUND	MONEY MARKET FUND
Performance fees	0.67%	-0.09%	0.33%	0.64%	0.60%	0.00%	1.05%	0.01%	N/A
Fee for benchmark performance	1.50%	1.49%	1.05%	1.21%	1.01%	1.00%	0.98%	0.25%	0.25%
Other costs including trading costs	0.07%	0.19%	0.09%	0.23%	0.09%	0.08%	0.24%	0.02%	0.01%
VAT	0.30%	0.00%	0.14%	0.00%	0.16%	0.15%	0.00%	0.04%	0.04%
TOTAL EXPENSE RATIO (TER)	2.54%	1.59%	1.61%	2.08%	1.86%	1.23%	2.27%	0.32%	0.30%

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 June 2013.
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 30 SEPTEMBER 2013

	QTR (UNANNUALISED)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	INCEPTION DATE
ORBIS FUNDS (RANDS) REGISTERED FOR MARKETING IN SOUTH AFRICA[1, 6]							
Orbis Global Equity Fund (Rands)	**13.0**	**68.4**	**30.4**	**17.8**	**15.8**	**19.3**	01.01.90
FTSE World Index (Rands)	9.7	45.7	25.9	12.7	12.6	13.1	
Orbis SICAV Japan Equity (Yen) Fund (Rands)	**12.1**	**61.6**	**32.6**	**16.2**	**11.8**	**15.7**	01.01.98
Tokyo Stock Price Index (Rands)	8.9	59.4	23.5	9.8	8.6	8.2	
Orbis SICAV Asia Ex-Japan Equity Fund (Rands)	**13.9**	**43.3**	**21.8**	**20.1**	**-**	**18.0**	01.01.06
MSCI Asia Ex-Japan (Rands)	7.2	28.6	15.8	14.7	-	14.8	
Orbis Optimal SA Fund-US$ Class (Rands)	**4.3**	**34.9**	**17.9**	**9.0**	**-**	**11.8**	01.01.05
US$ Bank Deposits (Rands)	1.4	22.3	13.2	4.4	-	9.1	
Orbis Optimal SA Fund-Euro Class (Rands)	**7.9**	**40.1**	**17.4**	**7.9**	**-**	**11.1**	01.01.05
Euro Bank Deposits (Rands)	5.6	28.4	13.3	3.9	-	8.7	

SEGREGATED AND LIFE POOLED PORTFOLIOS ANNUALISED PERFORMANCE IN PERCENTAGE PER ANNUM TO 30 SEPTEMBER 2013

	QTR[3] (UNANNUALISED)	1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R MILLION)	INCEPTION DATE
SEGREGATED PORTFOLIOS[5] (BEFORE FEES, EXCEPT FOR FUNDS INDICATED BY FOOTNOTE 1)								
Domestic Equity Composite FTSE/JSE All Share Index	**9.3** 12.5	**24.5** 27.0	**16.8** 17.8	**17.1** 16.4	**23.9** 20.7	**21.9** 15.3	60 988.4	01.01.90
Domestic Balanced Composite Mean of Alexander Forbes Domestic Manager Watch[2,7]	**6.2** 9.4	**16.0** 19.4	**13.6** 15.1	**14.6** 15.2	**20.2** 19.3	**23.0** 18.3	21 520.7	01.01.78
Global Balanced Composite Mean of Alexander Forbes Global Large Manager Watch[2,4]	**7.1** 8.8	**24.7** 24.5	**17.0** 17.0	**15.3** 15.0	**19.2** 18.3	**22.7** 17.9	55 157.8	01.01.78
Global Balanced Namibian High Foreign Composite Mean of Alexander Forbes Namibia Average Manager[2]	**6.4** 8.1	**26.4** 23.8	**17.4** 16.5	**14.5** 14.0	**18.8** 17.9	**19.8** 14.9	8 028.3	01.01.94
Foreign Best View (Rands) Composite[1,8] 60% of the MSCI World Index[11] and 40% of the JP Morgan Global Government Bond Index (Rands)	**8.5** 7.4	**50.6** 32.4	**23.9** 21.0	**13.2** 11.5	**12.2** 11.4	**15.2** 11.7	6 576.2	23.05.96
Relative Domestic Equity Composite Weighted average of client specific benchmarks[2]	**10.5** 11.3	**27.6** 25.5	**17.8** 17.9	**17.4** 16.6	**22.3** 21.1	**21.4** 16.9	5 215.8	19.04.00
LIFE POOLED PORTFOLIOS (BEFORE FEES, EXCEPT FOR FUNDS INDICATED BY FOOTNOTE 1)								
Domestic Equity Portfolio FTSE/JSE All Share Index	**9.6** 12.5	**26.3** 27.0	**17.6** 17.8	**17.6** 16.4	**24.2** 20.7	**24.0** 16.7	7 971.0	01.02.01
Domestic Balanced Portfolio Mean of Alexander Forbes Domestic Manager Watch[2,7]	**6.1** 9.4	**16.2** 19.4	**14.2** 15.1	**14.9** 15.2	**20.6** 19.3	**20.3** 17.2	5 131.5	01.09.01
Global Balanced Portfolio Mean of Alexander Forbes Global Large Manager Watch[2,7]	**7.0** 8.8	**24.9** 24.5	**17.3** 17.0	**15.4** 15.0	**19.3** 18.3	**20.4** 15.7	27 810.7	01.09.00
Domestic Stable Portfolio Alexander Forbes Three-Month Deposit Index plus 2%	**2.2** 1.8	**7.0** 7.1	**7.8** 7.5	**9.9** 8.7	**14.0** 9.7	**14.5** 10.4	1 985.2	01.12.01
Global Stable Portfolio Alexander Forbes Three-Month Deposit Index plus 2%	**3.2** 1.8	**15.4** 7.1	**11.9** 7.5	**10.7** 8.7	**-** -	**14.0** 9.6	4 767.2	15.07.04
Domestic Absolute Portfolio Mean of Alexander Forbes Domestic Manager Watch[7]	**1.2** 9.4	**5.8** 19.4	**7.5** 15.1	**11.2** 15.2	**18.6** 19.3	**21.0** 17.0	996.5	06.07.01
Global Absolute Portfolio Mean of Alexander Forbes Global Large Manager Watch[2,7]	**3.3** 8.8	**15.3** 24.5	**11.8** 17.0	**12.4** 15.0	**-** -	**17.9** 17.3	3 390.1	01.03.04
Orbis Global Equity Portfolio[1] FTSE World Index (Rands)	**13.0** 9.7	**68.1** 45.7	**30.2** 25.9	**17.8** 12.7	**-** -	**15.5** 12.6	5 805.3	18.05.04
Foreign Portfolio[1] 60% of the MSCI World Index[11] and 40% of the JP Morgan Global Government Bond Index (Rands)	**8.5** 7.4	**50.2** 32.4	**23.7** 21.0	**13.1** 11.5	**12.2** 11.4	**8.3** 5.9	1285.7	23.01.02
Hedged Domestic Equity Portfolio FTSE/JSE CAPI Index	**9.3** 12.4	**23.5** 27.1	**16.3** 18.0	**16.5** 16.7	**-** -	**12.8** 10.5	1 140.8	01.06.08
Relative Domestic Equity Portfolio FTSE/JSE CAPI Index	**11.6** 12.4	**28.7** 27.1	**17.3** 18.0	**16.9** 16.7	**22.0** 21.2	**23.4** 22.3	268.3	05.05.03
Domestic Optimal Portfolio[1] Daily Call Rate of Nedcor Bank Limited	**0.5** 1.1	**5.5** 4.3	**4.9** 4.7	**6.3** 5.9	**7.8** 6.7	**8.3** 7.1	377.0	04.12.02
Domestic Medical Scheme Portfolio Consumer Price Index plus 3% p.a.[2]	**2.2** 2.4	**6.7** 9.0	**7.7** 8.8	**9.7** 8.2	**-** -	**13.0** 9.1	1 515.9	01.05.04
Money Market Portfolio[1] Alexander Forbes Three-Month Deposit Index	**1.3** 1.2	**5.3** 5.0	**5.8** 5.4	**7.1** 6.5	**7.9** 7.5	**8.8** 8.4	382.7	21.09.00

PERFORMANCE AS CALCULATED BY ALLAN GRAY

1 The fund returns are net of investment management fees
2 The return for the period ending 30 September 2013 is an estimate as the relevant survey results have not yet been released
3 Unable to disclose due to ASISA regulations
4 Consulting Actuaries Survey returns used to 31 December 1997. Alexander Forbes Global Large Manager Watch used from 1 January 1998. Alexander Forbes Non-Investable 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 benchmarck 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
10 The benchmark was the daily weighted average of the Domestic Prudential Medium Equity Unit Trust sector excluding Allan Gray Balanced Fund from inception until 31 December 2007. With effect from 1 January 2008 it was changed to the daily weighted average (based on assets under management) of the Domestic Prudential Medium Equity Unit Trust Sector and the Prudential Variable Equity Sector excluding Allan Gray Balanced Fund. The change was as a result of the Allan Gray Balanced Fund being reclassified from the Domestic Prudential Medium Equity Sector to the new Prudential Variable Equity Sector. The benchmark from 1 February 2013 is the daily weighted average return of funds in the South African - Multi Asset - High Equity category (excluding the Allan Gray Balanced Fund)
11 Morgan Stanley Capital International All Country World Index

THE ALLAN GRAY GROUP	
UNIT TRUSTS	A unit trust is a savings vehicle for investors who want to grow their money and may want to access it before they retire. Unit trusts allow investors to pool their money with other investors who have similar investment objectives. Unit trusts are also known as 'portfolios of collective investment schemes' or 'funds'. Allan Gray has nine funds in its stable: Equity, Balanced, Stable, Optimal, Money Market, Bond, Global Equity Feeder, Global Fund of Funds and Global Optimal Fund of Funds.
RETIREMENT ANNUITY*	The Allan Gray Retirement Annuity Fund (RA) is a savings vehicle for investors looking for a flexible, tax-efficient way to save for retirement. Investors can only access their money when they retire. Individually owned RAs can be managed on a group basis, offering employers a flexible solution to the challenge of retirement funding for their staff.
PRESERVATION FUNDS*	The Allan Gray Pension Preservation and Provident Preservation funds are savings vehicles for investors looking for a tax-efficient way to preserve existing retirement benefits when they leave a pension or provident fund, either as a result of a change in employment (e.g. retrenchment or resignation), or when they transfer from another preservation fund.
ENDOWMENT*	The Allan Gray Endowment Policy is a savings policy for investors who want a tax-efficient way to save and wish to create liquidity in their estate.
LIVING ANNUITY*	The Allan Gray Living Annuity gives investors flexibility, within certain regulatory limits, to select an annuity best suited to their income needs after retirement. A living annuity provides investors with a regular income which is not guaranteed, and which is funded by growth on capital and income from interest and dividends.
OFFSHORE FUNDS	Through our partnership with Orbis we offer you a cost-effective way to diversify your portfolio by investing offshore. There are two options for investing offshore through Allan Gray: invest in rand-denominated offshore funds without the need to use your offshore investment allowance, or use your offshore investment allowance to invest in foreign funds.
PLATFORM – LOCAL AND OFFSHORE	Our investment platform provides you with access to all of our products, as well as a focused range of unit trusts from other fund providers. The platform enables you to buy, sell and switch – usually at no charge – between the funds as your needs and objectives change. South African investors who wish to diversify their portfolios can also access funds from certain other offshore fund providers via the same platform.
LIFE POOLED PORTFOLIOS	The minimum investment per client is R20 million. Mandates include risk-profiled pooled portfolios: Stable Portfolio, Balanced Portfolio and Absolute Portfolio; asset class pooled portfolios: Money Market, Equity and Foreign, and finally an Optimal Portfolio.
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.
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 to equip talented young individuals with the skills, attitudes and motivation to have a 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.

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