



Quarter-End Fixed Income Update

December 31, 2011

INSIDE

Market Update & Outlook

.....Page 2

Core Asset Allocation Review

.....Page 4

Long-Term Growth Allocation

.....Page 5

Market Overview & Outlook

December 31, 2011

Highlights

Economic Review: Macro uncertainties ignited a flight to quality environment during the summer and fall with yields on Treasuries dropping across the curve. While U.S. economic data showed signs of improvement, Europe continues to run the risk of dragging the continent into a recession.

Markets: Markets remained highly volatile as global risk reduction was the dominant theme. Equity markets ended the quarter with double-digit returns and investment grade corporate bonds slightly outperformed treasuries.

Outlook: We expect headwinds from Europe to persist throughout at least the first half of 2012 but expect the second half of 2012 to be an important milestone for the fixed income markets.

P.R.P. Performa Ltd. is licensed to conduct investment business by the Bermuda Monetary Authority.

Market Overview

- For a year that started with the most promise since 2008, the remainder of 2011 turned out remarkably different than investors anticipated. Regime change in the Middle East and the Japanese earthquake changed momentum in the early spring while the growing European debt crisis and U.S. lawmaker's inability to govern threw fuel on the fire of a flight to quality summer and fall. We ended the year with interest rates at multi-decade lows and global central banks as the main buyers of government bonds.
- As we enter 2012, the landscape does not look much brighter. There are rays of hope that the U.S. economy is growing at a more than cursory rate as employment numbers and unemployment claims are moving in the right direction. Manufacturing and the service sector are gaining as well and auto sales are increasingly brisk. However, all is not well for a good part of the rest of the world as Europe is still in cost cutting mode and risks dragging the continent into a recession.
- With the 10-year bond yield under 2.0%, there is no cushion should rates rise and certainly no value as real yields are negative for most of the U.S. government securities. Many have called this financial repression. From a fair value standpoint, U.S. Treasuries have never been so overvalued. From a practical standpoint, the Federal Reserve has, and will continue to, manipulate the market to keep "easy money" in the system. There is continued talk of quantitative easing III (QE3) that would restart Fed buying of mortgages and no mention of ending easing policies. We also have not seen the end game in Europe, so volatility will continue throughout at least the first half of the year.
- This leaves domestic fixed income buyers with the dilemma of where to invest. Our strategy is to find sectors that bring an acceptable yield over treasuries and provide a cushion for if and when interest rates come under pressure. For shorter term maturities, we believe that asset backed bonds with auto loan and credit card receivables offer the best value. For longer investments, we favor corporate bonds and a smattering of Commercial Mortgage-Backed Securities (CMBS). We feel that while corporate earnings growth will be subdued as many companies have expanded margins through cost cutting, balance sheets are very strong. While CMBS as a whole may be volatile, individual security selection can temper the swings. Finally, for those with a slightly higher risk profile, we believe that the high yield sector will probably offer the best returns as most issuers will not be forced into the markets as they have used the prior two years to rebalance their capital structures.

Outlook

- We are looking for the second half of 2012 to be an important milestone for the fixed income markets. The European crisis should have a path one way or another outlined by then. Many G7 countries have extensive maturities that need to be rolled over during the summer. We will find out if market participants truly want to be involved in government markets that have no fundamental price rationale. With a presidential race to be concluded in November, if the Republican candidate becomes the leader in the polls as we head into the fall, this will bring a boost to financials – both equity and debt – as the specter of reduced regulations will open up liquidity and increase the possibility of earnings momentum.

“There are rays of hope that the U.S. economy is growing at a more than cursory rate as employment numbers and unemployment claims are moving in the right direction.”

- During the quarter, the portfolio remained defensive on duration, focusing on the 6-9 year part of the yield curve and remained overweight to credit and Asset-Backed Securities (ABS). We continue to find value in adding income versus Treasuries and FDIC-backed securities. Looking forward, the Euro solution will not be a quick fix but more of a prolonged approach so our base case is that systemic risks will lessen but volatility will remain elevated. Credit still warrants an overweight in the portfolio due to fundamentals, valuations, better technicals and liquidity as we head into the first quarter of 2012. Most of the recent widening has more to do with structural and liquidity issues rather than individual company fundamentals.
- Income will be important in the current low rate environment. We will continue to maintain our core strategy and use any pockets of volatility to add less defensive credits and look to increase credit duration into steepening yield curves. Sectors of focus will be pipeline, energy, cable, banking and telecommunications. We also see opportunities in strong cash flow credits that widen due to issuing debt for acquisition or to buy back stock. Key risks remain global contagion and weaker economic growth due to the European debt crisis.

Core Asset Allocation Review

December 31, 2011

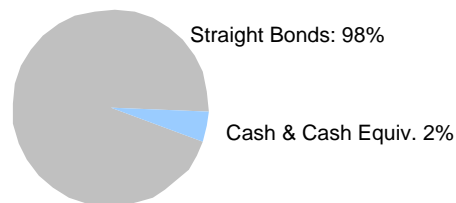
Summary

We did not change our recommended asset allocation in the fourth quarter of 2011 as market volatility did not offer an environment for longer term tactical moves. We will be looking at changes in the first half of 2012 as we believe that a move towards yield generation will allow portfolios to reduce volatility while adjusting to those markets we feel have the best opportunities for returns. In January, we will introduce High Yield as an allocation under the fixed income portion of clients' portfolios and will continue our work towards finding other complementary asset classes.

Global equity returns were brisk in the fourth quarter at over 7%. It was a tale of two parts with October's gain of over 10% followed by the market limping home the last two months of the year. As with most of the year, equity markets were heavily influenced by macroeconomic events and affected by an almost daily "risk on/risk off" mentality typically emanating from the latest happenings out of the eurozone. Market volatility remains high with a negative yearly return showing equities underperforming bonds and cash in 2011. As is typical in such environments, macro issues tend to overwhelm individual stock picking. The Orbis Global Equity and Optimal Funds underperformed their benchmarks, cash and intermediate bonds as technology and healthcare shares continue to remain out of focus for most investors. With an environment that still shows very high correlations amongst stocks and their home equity indices, fundamental investing is being overwhelmed by macro events. As we have written in the fixed income section, the latter half of 2012 should begin to shift the focus back towards rewarding those that chose fundamentally sound investments. Based on the manager's style, Orbis has tended to see improved performance after extended periods of low returns due to large market swings.

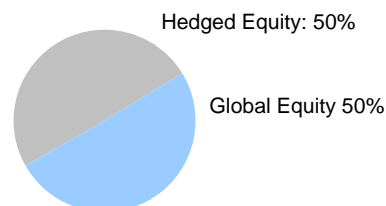
P.R.P. Performa Ltd. is licensed to conduct investment business by the Bermuda Monetary Authority.

Quarter-End Fixed Income Allocation Summary



Asset Class	% Change	Direction
Cash & Cash Equiv.	0%	unchanged
Straight Bonds	0%	unchanged

Quarter-End Equity Allocation Summary



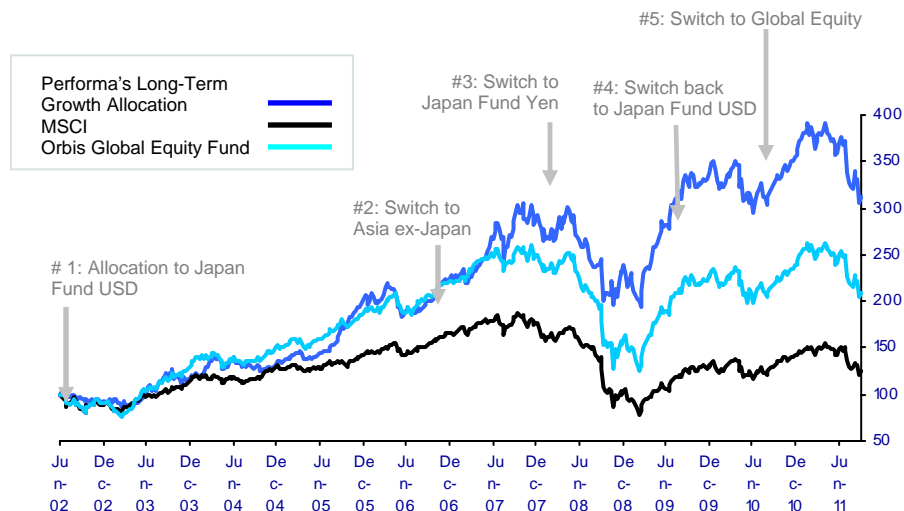
Asset Class	% Change	Direction
Hedged Equity	0%	unchanged
Long Equity	0%	unchanged
Global Equity	0%	unchanged
Japan Equity	N/A	N/A
Asia-Ex Japan Equity	N/A	N/A

Long-Term Growth Allocation

December 31, 2011

“Since January 2002, Performa’s asset allocation decisions have added 191 basis points vs. the returns of the MSCI...”

Below is the strategy Performa has followed in trying to answer the question of what investment is best for a long-term (10+ years) growth allocation.



Since January 2002, Performa’s asset allocation decisions have added 191 basis points vs. the return of the MSCI and 105 basis points vs. the return of an historical investment solely in the Orbis Global Equity Fund.

Timing	Decision & Rationale	Basis Points Added Over MSCI
#1: June 2002	Long-term allocation to Orbis Japan - USD added as a complement to a holding in Orbis Global Equity due to its high unrealized potential value.	+41.2
#2: Aug 2006	After an attractive return in Japan (hedged into USD), we recommended moving this long-term allocation into Asia Ex-Japan which offered more growth potential and exposure to Asian currencies.	+59.2
#3: Nov 2007	After Asian markets experienced great international demand and unusually high returns, we recommended moving back into Japan as the stocks and the Yen both offered greater value and greater downside protection for US dollar investors.	+18.1
#4: Jan 2009	After a strong increase of 21.7% in the value of the Yen versus the US dollar, we recommended decreasing the currency exposure and realizing a relative return for US dollar investors.	+47.1
#5: June 2009	Due to the abundance of attractive worldwide opportunities that Orbis was finding globally, we switched the long-term growth allocation from a concentration in Japan to utilizing the broad diversification of long-term opportunities in the Global Equity Fund.	+26.2
Total:		+191.8