Q4

Inside this issue

Front cover: Some of the contributors to this issue are from left to right: Edgar Loxton, Stephen Mildenhall, Michael Moyle

ALLANGRAY

LONG TERM INVESTMENT MANAGEMENT

Rand depreciation appears overdone

Mark Herdman

Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer

"The Allan Gray Global Equity Fund of Funds gives investors with Rands access to our international expertise."

Just as 2001 will be remembered throughout the world for the September 11 terrorist attacks in the U.S.A., it will also be remembered in South Africa for the unprecedented depreciation of the Rand. In "Investment Perspective" our equity strategist, Jack Mitchell, provides a long-term fundamental perspective to the Rand. He concludes that the extent of the depreciation appears overdone and that significant consolidation is likely to occur. In a second article, Jack outlines our expectations for long-term real returns from the broad South African asset classes expressing our belief that shares remain the most attractive medium for investment in the years ahead.

Investment Commentary

This quarter's "Investment Commentary", written jointly by our Chairman, Simon Marais, and Chief Investment Officer, Stephen Mildenhall, provides an explanation for the underperformance of our clients' share portfolios over the last quarter. In addition, it examines the relative valuations of Anglo American and two of our preferred large counters, Sasol and Tiger Brands. Their arguments justify our preference for South African industrial companies and alternatively why we find large offshore listed resource shares such as Anglo American and Billiton unattractive.

New Product News

Although we started managing money for our first relative risk product client in April 2000, we have not actively launched the new product. Our first objective was to establish a sound track record over a reasonable period of time and we are pleased to report that the results have been better than expected.

Our risk manager, Michael Moyle, explains that this product focuses on managing relative risk (or tracking error). In brief, this is the extent to which the returns and composition of a portfolio deviates from a given benchmark like the All Share Index. All of our normal investment products focus on absolute risk (or the risk of losing money) and tend to have high tracking errors or deviations from their benchmarks. Michael discusses the differences in the new product's portfolio construction process and compares risk and return statistics.

On 3 December 2001 we added a much-needed Rand-denominated offshore fund to our suite of unit trusts. The Allan Gray Global Equity Fund of Funds gives investors with Rands access to our international investment expertise. 95% of the new fund is invested in the Orbis Global Equity Fund which is the best performing fund in its category in the world over the last 10 years. It is managed by our offshore sister company in Bermuda. Regrettably, due to the limited size of offshore investment capacity available to our Unit Trust Management Company, the new fund has already been capped but we hope to be able to re-open it to new investors soon.

Gray Matters

In "Gray Matters" we feature the team that maintains and develops our customised Information Technology systems which have evolved over the last twenty years. The flexibility and very quick reaction time of an in-house system combined with the quality of our IT professionals is considered to be one of our major competitive advantages.

"2001 in Summary" provides some interesting statistics highlighting the success that Allan Gray enjoyed during the year. We conclude by reconfirming our commitment to delivering an exceptional investment management service to all of our clients.

I hope you enjoy this issue of 'Quarterly Commentary'.

MARK HERDMAN

Chief Operating Officer

Expected long-term returns for the broad S.A. asset classes

Jack Mitchell
Director, Allan Gray Limited
Chairman, Allan Gray Unit Trusts and
Allan Gray Property Trust Management Limited

Investment Perspective

"It is our belief that shares remain the most attractive medium for investment in the years ahead."

A useful rule for evaluating investment prospects is:

Expected return = initial yield plus long term growth rate.

While initial yields are well advertised, forecasting the correct growth rate is arduous. Furthermore, forecasting a growth rate for a specific counter is more onerous than forecasting for share indices which bundle a number of shares together. This is because there are natural "winners" and "losers" within an index which largely offset each other, allowing a smooth growth rate, primarily determined by economic forces.

Given long-term historical growth rates, how do the broad market categories measure up against each other at the end of 2001?

1. All Share Index (ALSI = 10442)

Nominal earnings growth is strongly influenced by inflation (CPI) which rises and falls over time. Stripping out inflation leaves the real growth rate which is more consistent. Earnings growth since 1960 has been:

% Per annum	
ALSI	11.5
CPI	8.9
Real	2.6

If history repeats itself the expected real return will therefore be the current dividend yield (2.8%) plus long-term growth (2.6%), totalling 5.4%.

2. Property Trusts (PUT = 149)

Property trusts have a shorter history with the index commencing in 1976. Earnings growth has been:

% Per annum	
PUT	6.7
CPI	11.6
Real	(4.9)

Currently the PUT yield is 14.2% which traditionally has a negative real growth rate of 4.9%, leaving an expected real return of 9.3%. Applying a 25% tax rate on the initial yield reduces the net real return to 5.8%.

3. Nine Year SA Bond (R153 = 11.5%)

In order to calculate a real return for bonds, an adjustment has to be made for inflation. While official inflation targets could prove useful, a more market orientated method would be to deduct the inflation linked bond rate (R189 = 5.0%) from the R153, which has a similar maturity date. This suggests an inflation rate of 6.5% over the period.

In this event the real return on bonds would be 5%, which is cut to 2.1%, after applying a tax rate of 25% on 11.5%.

Caveat

The above examples do not take into account any change in market ratings such as P.E. ratios, dividend yields or changes in bond yields. The calculations assume a completely passive investor presuming history will repeat itself in the fullness of time.

Conclusion

From the above, our expectations for long-term real returns from the broad SA asset classes are as follows:

% Per annum	
Property Trusts	5.8
Shares	5.4
Bonds	2.1

Given our historic ability to select shares which significantly outperform the All Share Index (refer performance table on page 13) it is our belief that shares remain the most attractive medium for investment in the years ahead.

"Expected return = initial yield plus long-term growth rate."

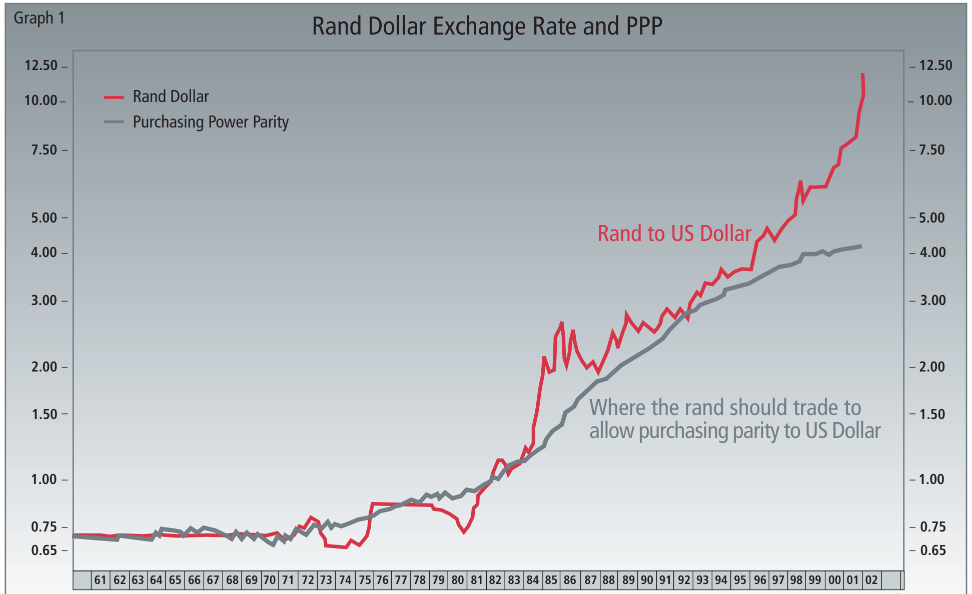
The Rand exchange rate

The graph below shows the Rand / US $ exchange rate from 1960. Also shown is the inflation differential between SA and the USA over the period. This line implies a "purchasing power parity" (PPP) level for the rand.

Notice how the currency tracked the PPP throughout the sixties and even moved to a premium on a number of occasions during the gold and commodity boom of the seventies. Admittedly strict foreign exchange controls, including the financial rand, helped to create an orderly albeit artificial market.

Deteriorating political sentiment and financial sanctions, notably following PW Botha's "Rubicon" speech caused a sell-off in the rand in the mid-eighties. The extent of the sell-off is highlighted in the second graph showing the exchange rate relative to the PPP. Subsequently the rand pulled back to the PPP benchmark which again proved a reliable guideline until the end of 1995.

Since 1994 there has been a gradual dismantling of exchange controls leading to increased rand volatility in response to economic and political events. As capital outflows have exceeded inflows the rand has weakened consistently. With no Rand buyer of last resort (historically a role played by the SA Reserve Bank) in the market, it has increasingly paid importers and exporters to avoid holding Rands while keeping $ holdings abroad for as long as possible ("leads and lags"). In addition, currency speculators have climbed on the bandwagon.



Source: Igraph

Investment Perspective

"As capital outflows have exceeded inflows the Rand has weakened consistently."

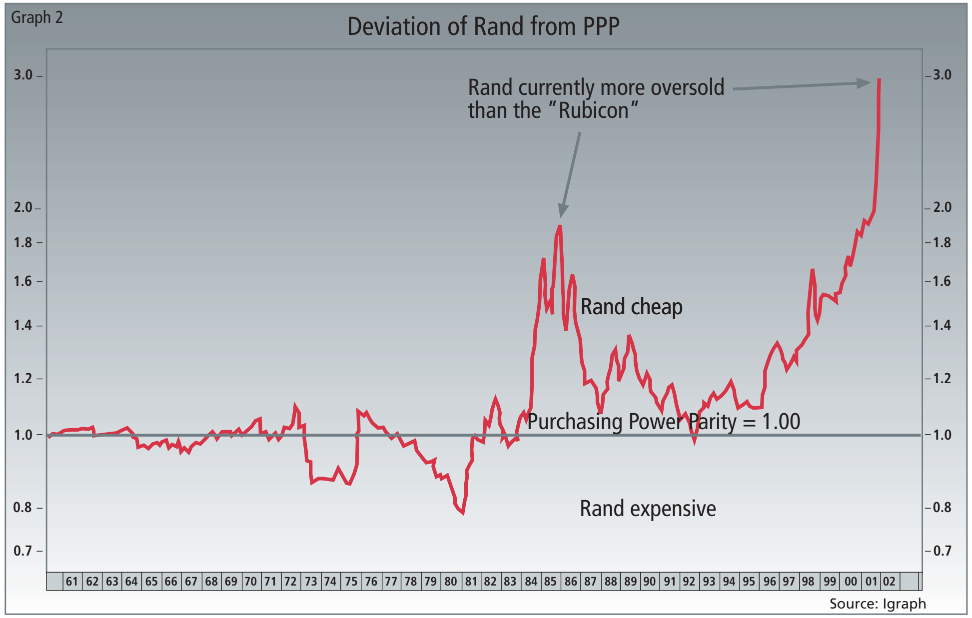
Currently the Rand is by most measures very undervalued (the latest "Big Mac" Index shows the Rand to be the cheapest world currency). As value investors, this is an interesting development and brings with it investment opportunities and risks which will influence our portfolio management.

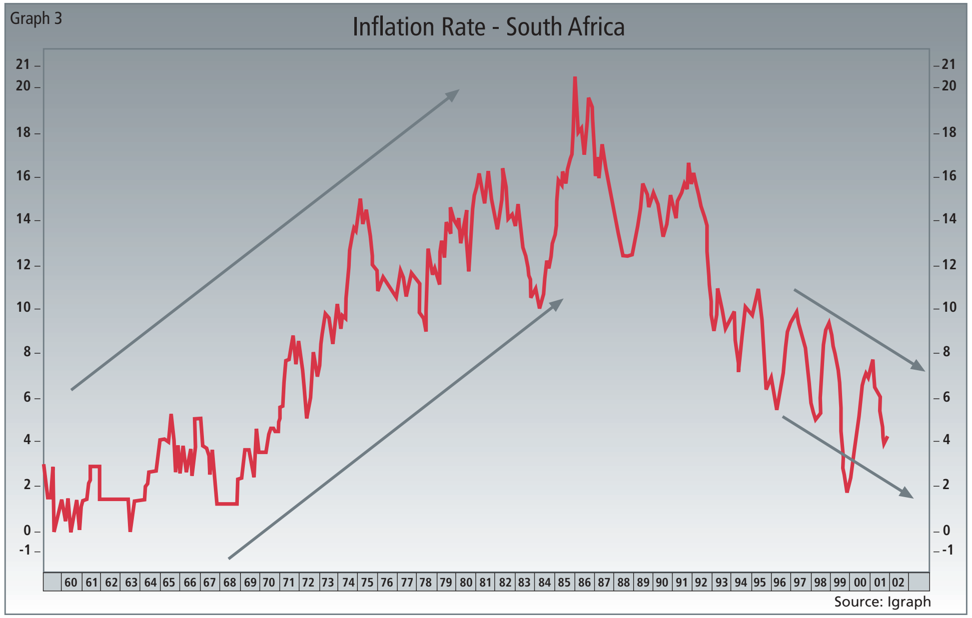
While currency movements are notoriously difficult to time, we believe the stage is being set for a reversal of the "one-way traffic" that occurred in the late 1990's. We say this because the "top down" economic management in SA under the ANC government has, to date, been solid. Inflation (see graph 3 below) is slowly being squeezed out of the system as has happened elsewhere in the world. Whether the inflationary impact of the recent devaluation will eventually be contained remains to be seen.

At the current exchange rate, exports will be strongly stimulated whereas imports will become much more costly. In time, the trade account should improve considerably which could spur some foreign exchange earnings to come home sooner rather than later. When the trend is not so obviously one-way, it can be expected that some exporters will "cover" the Rand forward at these exceptionally good rates substantially adding to the demand for rands.

In the final analysis, we do not share the market's pessimism about the Rand at current levels. It is our belief SA exporters should lock into this favourable exchange rate. Further, portfolios which have greatly benefited from internationally listed South African companies (such as Anglos and Billiton) are now vulnerable to an extended period of Rand consolidation, as seen after 1986.

"Economic management in South Africa under the ANC Government has, to date, been solid and inflation is slowly being squeezed out of the system."





Industrial shares become increasingly attractive

Stephen Mildenhall
Chief Investment Officer, Allan Gray Limited
Equity Portfolio Manager and Analyst

Simon C. Marais
Chairman, Allan Gray Limited
Equity Portfolio Manager and Analyst

Investment Commentary

Using the share performance of the Allan Gray Equity Fund Unit Trust as an example, this has been a very disappointing quarter for us. While this fund has increased in value by a respectable 8.5%, an investment in the All Share Index (ALSI) would have returned 29.5% while the average General Equity unit trust manager would have delivered 19.4%. Nevertheless, our return for the year 2001 of 32.8% is still comfortably ahead of both the ALSI at 29.1% or the average manager at 18.2%. These results explain why we have always cautioned investors that we fully expect to experience periods of underperformance from time to time. However, as a serious investor, it is always important to understand why our returns are sometimes less than expected.

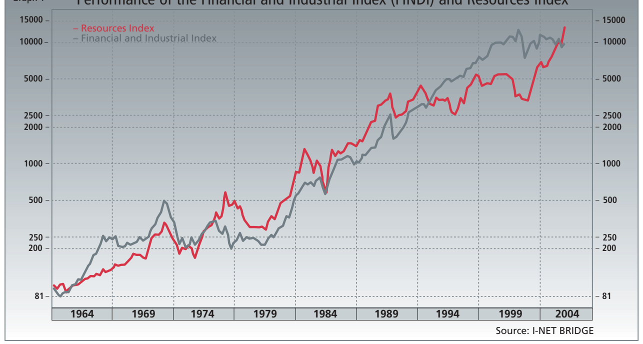
The major reason for our relatively poor performance in this quarter lies with the exchange rate movements and their immediate impact on resource shares. Your fund had no investment in either Anglo American or Billiton. These are the two largest shares on the JSE and account for over 20% of the ALSI. Both shares were up over 70% in the quarter. In fact resource shares in total constitute 40% of the ALSI and their performance has masked the significant disparity in valuations within our market. In effect, the market has come full circle from 1998. When the Allan Gray Equity Fund was launched in late 1998 we found exceptional value in resource shares. At the time they were largely ignored by local fund managers. Instead, more glamourous sectors such as financials and technology found favour with investors. Unfortunately, as Ben Graham, the Father of Modern Securities Analysis observed: "Though the stock market functions as a voting machine in the short run, it acts as a weighing machine in the long run". Since the beginning of 1999 resource stocks have outperformed significantly. Currently these same resource shares which were shunned three years ago are in favour. The voting machine is at work again. At the same time industrial and financial shares are out of favour. This disparity in valuations between resource and financial and industrial shares has occurred several times over the years. **Graph 1** indicates the performance of the Financial and Industrial Index (FINDI) and Resources Index over the last four decades. At times the market favours financial and industrial shares and at other times resource shares. As the graph indicates, resource shares were very attractive relative to the rest of the market in late 1998. While they could very well go even higher in the short-term, there are presently other investments which are much more attractive.

As you are aware we are long term investors. We seek out investment opportunities that we believe offer the prospect of superior long-term returns for our clients. Given this bottom-up, fundamental approach we do find selective opportunities attractive within the resource sector. Shares such as Sasol, Anglovaal Mining and Gold Fields are some examples of shares that are undervalued relative to their global peers. For instance **Graph 2** illustrates Sasol's earnings versus Anglo American's earnings. The companies have achieved similar earnings growth and in fact earn similar earnings per share. In nominal terms, yet the market is willing to pay 80% more for Anglo American. This difference in valuation is not considered to be sustainable in the long-term.

The largest disparity within the market is however considered to be between the large internationally rated resource shares and South African industrial shares. Tiger Brands is one example of a large consumer share that we find very attractive. Tiger Brands has significant investments in food, pharmaceuticals and food retailing, and owns many of the most well known brands in the country (including Tastic, All Gold, Beacon, Sea Harvest, Panado, Myprodol and Spar). **Graph 3** indicates the historic earnings growth of Anglo American and Tiger Brands. Interestingly, both companies have generated similar growth in earnings per share. This has been despite the significant depreciation of the Rand against the US$ over the entire period. Rand depreciation has a significant benefit for many South African industrial companies over the medium-term as they become more competitive either in terms of exports or import replacement. With the opening up of the South African economy the major competitor for many companies is imports. The decline in the Rand/Dollar exchange rate has increased the pricing power of local industrial companies as local prices are in many cases now well below comparable import prices. Given our view on the underlying businesses, there is no reason for us to believe that the long-term earnings growth of Tiger Brands would be significantly different to that of Anglo American from this point.

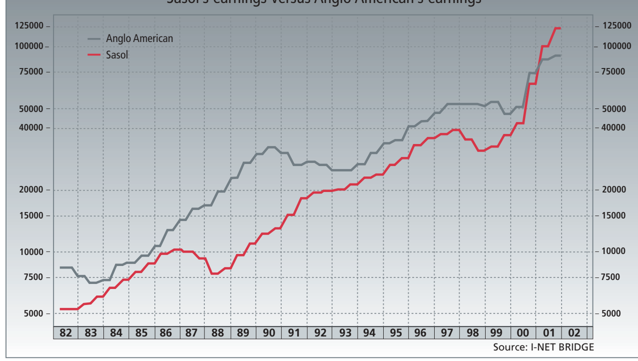
Also of interest is that Tiger Brands has clearly had a less volatile earnings stream than Anglo American. This is because Anglo American is a more cyclical commodity-based company. Tiger Brands' products have an enduring quality. It has been said that statistics show that a woman is more likely to divorce her husband than change her brand of tomato sauce. With Tiger Brands owning the dominant All Gold tomato sauce brand it is no wonder its earnings growth is consistent! Even on the pharmaceutical side of the business, consumers who always use Panado are unlikely to gamble with their health to save a few cents on a lesser known pain killer. As a result of this consistency, it is hardly surprising that the market has historically ascribed a higher rating to Tiger Brands' earnings than that of Anglo American, as can be seen from **Graph 4**. On average the market has been willing to pay 1.3 times the earnings multiple of that for Anglo American. There are, however, times when the market is willing to pay significantly higher multiples for either company. In the early 1990's investors in Tiger Brands were willing to pay more than twice the rating of Anglo American. Today, investors are only willing to pay half the rating. These significant swings in market sentiment provide opportunities for investors. We believe Tiger Brands offers the prospect of significantly higher future returns from this point than an investment in Anglo American. We believe the same is true for many other South African industrial companies. This belief is reflected in the Fund's preference for industrial shares.

Graph 1 Performance of the Financial and Industrial Index (FINDI) and Resources Index



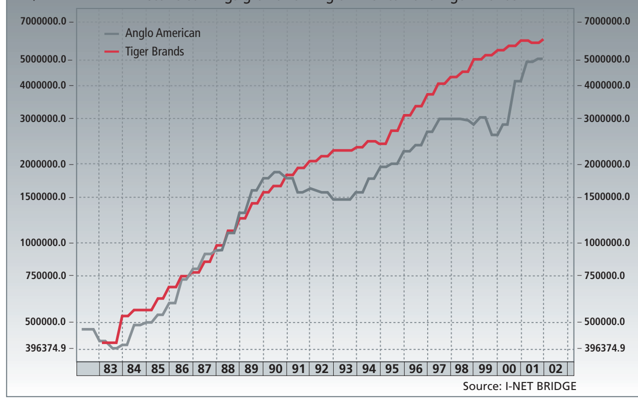
Source: I-NET BRIDGE

Graph 2 Sasol's earnings versus Anglo American's earnings



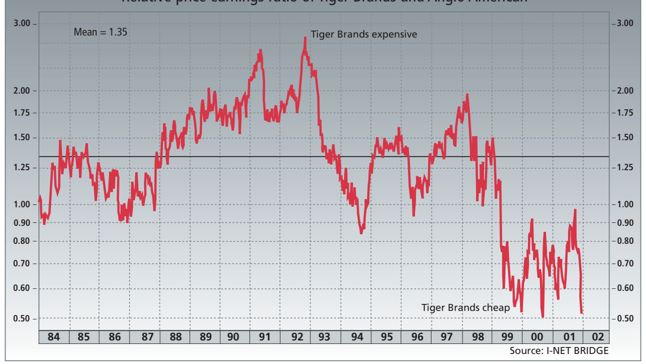
Source: I-NET BRIDGE

Graph 3 Historic earnings growth of Anglo American and Tiger Brands



Source: I-NET BRIDGE

Graph 4 Relative price earnings ratio of Tiger Brands and Anglo American



Source: I-NET BRIDGE

Allan Gray Global Equity Fund of Funds

New Product News

> "Orbis is our offshore sister company based in Bermuda and is run by Dr Allan W.B. Gray and his son William."

On 3 December 2001, we launched a new unit trust, the Allan Gray Global Equity Fund of Funds. This is a Rand-denominated offshore fund that provides investors access to Allan Gray's international investment expertise.

Up to 95% of the Fund will be invested in the Orbis Global Equity Fund. The balance will be invested in the Allan Gray Money Market Fund in line with the 5% liquidity requirements as set down by the Unit Trust Control Act. Orbis is our offshore sister company based in Bermuda and is run by Dr Allan W.B. Gray and his son William (pictured right). They have a superior 12-year performance track record and have grown the Orbis Group from $67 million under management at the beginning of 1990 to about $1.4 billion today. The Orbis Global Equity Fund is the top performing offshore global equity fund in the world over the last 10 years as measured by Standard & Poor's. For more information about Orbis, please refer to their website www.orbisfunds.com.

The Allan Gray Global Equity Fund of Funds' investment objective is to exceed the return of the Morgan Stanley Capital International Index (MSCI) at no greater than average risk.

This Fund caters for those long-term investors who have the following requirements:

- Seek to invest locally in Rands and benefit from our offshore expertise;
- Want to gain exposure to markets and industries that are not available locally;
- Desire to hedge their investments against Rand depreciation.

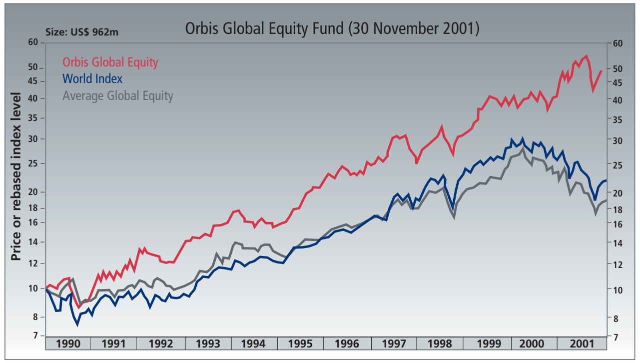
The fees payable consist of a compulsory initial charge of 0.25% and an annual Allan Gray Unit Trust Management Limited service fee of 1.25%. The Financial Adviser fees are negotiable and range from a 0-3% initial fee and a 0-1% recurring fee. The minimum lump sum investment is R25 000 and no debit orders are permitted. Net income will be reinvested. Orbis does not generally make distributions, therefore in the event that a distribution is made, the unit holder will be given the choice to receive or reinvest the distribution.

Allan Gray's Chief Investment Officer, Stephen Mildenhall, manages the Fund.

Please note that the Fund is presently capped, as our capacity is restricted according to current legislation. We hope to be able to re-open the Fund early in 2002.

William Gray
Orbis President and Portfolio Manager

Performance in US$ (Net of fees)	Orbis Global	World Index	Average Global Equity Fund
% Returns Annualised Since inception (1 Jan 1990)	14.5	6.8	5.6
Latest 10 years	15.1	8.3	6.3
Latest 5 years	15.5	5.9	2.7
Latest 3 years	17.7	(2.1)	(1.9)
Latest year	18.2	(16.1)	(18.0)



New relative risk portfolio management service

Michael Moyle (Risk Manager) and Stephen Mildenhall (Portfolio Manager of the Relative Risk Product)

In April 2000, we were requested by a large client to manage a low relative risk, or low tracking error, share portfolio on their behalf. By reducing tracking error, or the extent to which returns and portfolio composition deviates from a benchmark, an investment manager's ability to outperform is inherently reduced. Our challenge, therefore, was to retain as much of our historic outperformance (alpha) while reducing the tracking error to that of the average of our investment manager peer group. This, we believe, we have now accomplished. In fact, on the strength of this, Allan Gray Limited has now launched a relative risk portfolio management service for retirement funds in addition to our current absolute risk service. The relative risk product uses the same investment approach and philosophy as the absolute risk product, and is managed by the same investment team. The aim of both products is identical:

> "To maximise the investment returns of the fund over the long-term without incurring unacceptable levels of risk."

The essential difference between the two services is the definition of acceptable risk. In the case of our traditional absolute risk product, the primary focus is on the risk of monetary loss and volatility of absolute returns. The primary focus of the relative risk product is on the risk of being different from the benchmark and the volatility of relative returns (also known as the tracking error).

These two types of risk are illustrated diagrammatically in **Figure 1** which shows an idealised graph of market value versus time. The absolute risk portfolio has a low absolute volatility or risk, but can deviate substantially from the market at times. In our experience this portfolio should also outperform over the long-term. The relative risk portfolio tracks the market with a low relative volatility, but has a high absolute volatility. We would also expect this portfolio to outperform the market over time as it still captures some of the outperformance from our absolute risk portfolio investment research.

The difference in risk levels is achieved by utilising a different portfolio construction process for the two products. While both employ Allan Gray's value-orientated approach, there is a fundamental difference in the portfolio construction and risk management processes. In the case of the absolute risk fund, the managers start selecting shares and constructing a portfolio with a "clean sheet" and, subject to wide parameters, operate with few limitations. The constraints that apply are designed to limit the fund's exposure to the risk of monetary loss.

For the relative risk portfolio, the manager starts with the benchmark (usually an index like the All Share Index) and uses the same research inputs to deviate from the benchmark subject to strict constraints. These constraints are designed to ensure that the portfolio's deviation from the benchmark is kept within acceptable limits.

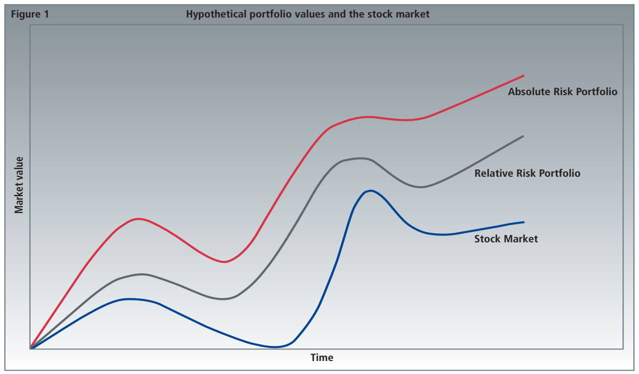
The primary difference in the resultant portfolios is that the absolute risk portfolio only contains investments that we find attractive. Investments to which we are neutral or find unattractive are avoided irrespective of whether they appear in the benchmark or not. In the relative risk portfolio, however, neutral shares which appear in the benchmark are neutrally weighted and unattractive shares are given the lowest weighting allowable within the set constraints. The comparative risk and return statistics are shown in **Table 1**.

While both portfolios have comfortably outperformed the benchmark, the important result is the information ratio. This is defined as the relative return of the portfolio per unit of relative risk.

The relative risk portfolio has so far achieved its objective of achieving a much higher information ratio than the absolute risk portfolio.

Table 1. Share Portfolio Risk and Return (19 April 2000 - 31 December 2001)

	Absolute Return Portfolio	Relative Return Portfolio	Benchmark (Resource Adjusted All Share Index)
Return (annualised)	42.3	35.6	17.9
Absolute Risk	14.5	18.0	20.5
Relative Risk	10.5	3.4	
Information Ratio	2.3	5.1	



Gray Matters

Annette Cooper, Edgar Loxton, Herda Silverman and Claire Snibbe

"Having the flexibility of an in-house system, means that we are in a position to react on the day to a user request."

The IT department is responsible for all computer technology needed to drive the various investment research, trading, compliance and administration processes. Technology embraces a whole kaleidoscope of systems (the major ones being investment research, client accounting, performance measurement, and trading allocation, entry and reporting), most of which have been developed in-house over the past 20 years. These systems are run on a Windows NT/2000 network with 120 workstations, supported by 10 servers.

Our function is about building and maintaining relationships with our users and so we endeavour to provide users with all computer requirements as quickly as possible, trying not to 'byte off more than we can chew' in the process! Having the flexibility of an in-house system means that we are in a position to react "on the day" to a user request. This is particularly appropriate when having to accommodate a new type of investment in the system e.g. various derivatives. This allows us to fulfil the expectation from the portfolio managers vis-à-vis seeing their portfolios first thing in the morning and correctly reflecting all trades from the previous working day. Running nightly batchruns monitored via the ritual of 'batseat' ensures that the portfolios are updated in time for our investment decision-makers to scrutinise them. Thus the adage, 'You snooze, you lose!' sums up 'batseat'.

Investment professionals who have moved to other peer firms have on more than one occasion reported back that our IT department is highly efficient and that the level of the investment management systems are particularly sophisticated.

The IT department comprises Edgar Loxton, Craig Sales, Annette Cooper, Herda Silverman, Claire Snibbe and Steven Trimble. Old-timers Edgar, Annette, Herda and Claire have a combined service of 50 years while Steven has been here for approximately two years and Craig started on 1 December 2001.

Edgar (started in 1988) is IT Director with additional responsibilities in the areas of investment administration, compliance and management of Allan Gray Namibia. He has a B.Com (Hons) MBA. His first claim to fame was speeding up the network. (Pre-Edgar, it could take an hour to run a standard transaction history.) He also created the accounts and reports batchruns that are still the backbone of the monthly routine for our portfolio administration team.

Annette (started in 1989) had six years of network administration experience with another large asset manager prior to joining us and currently manages the network.

Herda also started in 1989, having worked for over eight years in the investment division of another large asset manager where she provided computer support to investment research. She is our webmistress and is responsible for Lotus Notes support and development and the Investment Research system. She has a morbid fascination with the really horrific problems which most of us are too scared to contemplate.

Claire was recruited in 1988 after graduating B.Sc (Hons) in Mathematical Statistics and B.Sc (Hons) in Mathematics. She ran the performance analysis department in 1988, managed the performance/managers system in 1989 and moved to the IT department in 1990, where she supports the client accounting system. Computerisation of the accounting and reporting systems for pooled portfolios has been her latest endeavour.

Steven also joined fresh from UCT, in 2000, armed with a B.Bus Sc (Hons) in Computer Science. He too supports the client accounting system with the focus on compliance and Swift message processing (electronic settlements) and has just completed level one of the CFA programme.

Steven Trimble

Craig has come on board as our IT manager and brings to the table a B.Com (Hons) in Information Systems. His past experience includes a year in New Zealand focussing on retail automation for Shell South Africa, four years in the UK with Andersen Consulting and JP Morgan, and two years in Cape Town managing the software team of another large asset manager. He is currently completing his MBA.

Craig Sales

2001 in Summary

The year 2001 was very volatile for financial markets throughout the world and in particular for South Africa as a result of the spectacular movements of the Rand. Although our clients' performance in the fourth quarter was disappointing, due primarily to a low exposure to the large offshore listed resource shares, the overall performance for the year was most pleasing.

- New assets under management rose by over R8 billion and grew our total assets from R20 billion to R33 billion.
- We welcomed 64 new retirement fund clients, six private clients and 3046 unitholders.
- Two new unit trusts were introduced: the Allan Gray Money Market Fund and Allan Gray Global Equity Fund of Funds; we launched three individual retirement products: Living Annuity, Retirement Annuity and Pension/Provident Preservation Funds, and expanded our relative product (please refer to page nine).
- Grayprop and Grayvest merged and we now manage South Africa's largest property trust with assets of R2.4 billion.
- We employed 21 new staff members.
- Our investment team delivered a return for the year of 43.9% (global balanced mandate) versus the average pension fund return of 23.4%*. The Allan Gray Equity Fund ended the year third in its sector with a 32.8% return while the Allan Gray Balanced Fund ended second in its sector with a 30.6% return (as per the Hugo Lamprechts Survey).

*= Mean of the Consulting Actuaries Fund Survey. Quarter 4, 2001 returns are estimated from various JSE Actuaries Indices as the relevant survey results have not yet been released.

- Allan Gray Namibia turned five years old and grew its assets from N$2.4 billion to $N3.4 billion. It now has a substantial share of the market.
- Out of our total of 78 employees, 32 have been with us for more than five years and 19 for more than ten years.

While 2001 has been a year of substantial growth and success for Allan Gray, we are aware that the continued success of our business is dependent upon the support of our clients and our staff.

We are excited about the prospects for 2002 given the substantial fundamental value underlying our clients' portfolios but caution that the extent of our extraordinary out-performance over the last few years is unlikely to be sustained. However, we remain absolutely confident in our ability to generate superior performance over the long-term.

We remain totally committed to delivering an exceptional investment management service to all of our clients and are confident that the outstanding quality, professionalism and loyalty of our staff will enable us to meet our clients' high expectations in 2002 and beyond.

Performance

ALLAN GRAY LIMITED PERFORMANCE PROFILE

Annualised performance in percent per annum to 31 December 2001

	Fourth quarter (not annualised)	1 year	3 years	5 years	Since inception	Assets under management R millions	Inception Date
RETIREMENT FUNDS							
Global Balanced Mandate	**11.8**	**43.9**	**46.5**	**27.0**	**24.9**	**12,172.6**	**1.1.78**
Mean of the Consulting Actuaries Fund Survey*	17.2	23.4	22.9	15.1	18.9		
Domestic Balanced Mandate	**6.2**	**29.3**	**43.3**	**26.1**	**24.8**	**5,720.3**	**1.1.78**
Mean of Alexander Forbes Domestic Manager Watch*	12.6	17.5	21.4	14.3	18.7		
Equity-only Mandate	**9.9**	**36.0**	**47.7**	**23.1**	**20.6**	**5,168.8**	**1.1.90**
All Share Index	29.5	29.3	27.8	12.4	14.2		
Namibia Balanced Mandate	**12.3**	**43.7**	**42.9**	**24.5**	**22.5**	**1,305.4**	**1.1.94**
Mean of Alexander Forbes Namibia Average Manager*	17.2	24.0	22.5	14.3	14.5		
POOLED RETIREMENT FUNDS							
Global Balanced Mandate	**10.3**	**40.8**	**-**	**-**	**38.9**	**1,239.9**	**1.9.00**
Mean of Alexander Forbes Large Manager Watch*	17.2	22.9	-	-	18.0		
RELATIVE RISK							
Equity-only Mandate	**22.1**	**30.1**	**-**	**-**	**35.2**	**988.91**	**19.4.00**
Resource adjusted All Share Index	22.1	14.5	-	-	17.9		
FOREIGN-ONLY (RANDS)							
Equity-only Mandate (Rands)	**54.3**	**87.8**	**49.6**	**-**	**48.7**	**1,302.9**	**1.1.98**
Morgan Stanley Capital Index (Rands)	45.0	32.6	23.2	-	29.5		
UNIT TRUSTS**							
Stable Fund		**15.9**	**-**	**-**		**127.9**	**1.7.00**
Benchmark***		8.2	-	-			
Balanced Fund		**30.6**	**-**	**-**		**937.7**	**1.10.99**
Average Prudential Fund		16.6	-	-			
Equity Fund		**32.8**	**44.4**	**-**		**1,209.5**	**1.10.98**
All Share Index		29.1	27.7	-			

* The returns for Quarter 4, 2001 are estimated from various JSE Actuaries Indices as the relevant survey results have not yet been released.
** The returns for the Unit Trusts and their respective benchmarks are net of investment management fees.
*** After tax return of call deposits plus two percentage points.

Unit Trusts should be considered medium- to long-term investments. Unit Trusts are sold at the ruling prices of the day. This price is calculated on a forward pricing basis. Unit prices may fluctuate relative to the market value of securities comprising the fund's portfolio. Past performance is no indication of future returns. A schedule of fees and charges is available on request from Allan Gray Unit Trusts. Commission and incentives may be paid and are included in the overall costs. Except for the three-year performance figure which is based on a buy to sell basis, all other performance data is based on a lump sum investment calculated on a sell to sell basis with distributions reinvested. The source of the figures quoted is the University of Pretoria's Unit Trust Survey for the period ending 31 December 2001.

ALLAN GRAY LIMITED SHARE RETURNS vs ALL SHARE INDEX

Period	Allan Gray*	All Share Index	Out/(Under) Performance
1974 (from 15.6)	-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
Annualised to 31.12.2001			
From 1.1.1999 (3 years)	51.5	27.8	23.7
From 1.1.1997 (5 years)	23.9	12.4	11.5
From 1.1.1992 (10 years)	22.7	14.8	7.9
Since 15.6.74	29.0	18.5	10.5
Average out-performance			10.5
Number of years out-performed			21
Number of years under-performed			6

*Note: Allan Gray commenced managing pension funds on 1.1.1978. The returns prior to that date are of individuals managed by Allan Gray. These returns exclude income.

Products

SEGREGATED PORTFOLIOS

RETIREMENT FUND INVESTMENT MANAGEMENT IN SOUTH AFRICA
Allan Gray manages large retirement funds on a segregated basis where the minimum portfolio size is R100 million. These mandates are exclusively of a balanced or asset class specific nature.

RETIREMENT FUND INVESTMENT MANAGEMENT IN NAMIBIA
Allan Gray Namibia manages large retirement funds on a segregated basis.

PRIVATE CLIENTS
Allan Gray manages segregated portfolios for individuals where the minimum portfolio size is R20 million.

POOLED PORTFOLIOS - UNIT TRUSTS

Comparison of characteristics and objectives of Allan Gray Unit Trusts

	MONEY MARKET FUND	STABLE FUND	BALANCED FUND	EQUITY FUND	GLOBAL EQUITY FUND OF FUNDS
Benchmark	The Alexander Forbes 3-month deposit index.	After tax return of call deposits with one of the large banks plus two percentage points.	The average (market value- weighted) of the Domestic Prudential Unit Trust Sector excluding the Allan Gray Balanced Fund.	All Share Index including income.	Morgan Stanley Capital International Index.
Maximum equity exposure	95%	0%	60%	75%	95%
Portfolio orientation	Invested in selected money market instruments providing a high income yield.	A portfolio which can include all asset classes chosen for its high income yielding potential.	A portfolio which can include all asset classes selected for superior long-term returns.	A portfolio selected for superior long-term returns.	Invested in the Orbis Global Equity Fund and the Allan Gray Money Market Fund. The Fund will always hold 85% offshore.
Return objectives	Superior money market returns.	Superior after-tax returns to bank deposits.	Superior long-term returns.	Superior long-term returns.	Superior long-term returns.
Risk of monetary loss	• Low risk • High degree of capital stability.	• Limited capital volatility • Seeks to preserve capital over any 2-year period.	Risk will be higher than the Stable Fund but less than the Equity Fund.	Risk higher than Balanced Fund but less than average General Equity Fund due to low risk investment style.	Risk higher than Balanced Fund but less than average foreign fund.
Target market	• Highly risk-averse investors • Investors seeking a short-term parking place for their funds.	Risk-averse investors e.g. investors in bank deposits or money market funds.	Investors seeking long-term wealth-creation who have delegated the asset allocation decision to Allan Gray.	Investors seeking long-term wealth creation who have delegated only the equity selection function to Allan Gray.	Investors • seeking to invest locally in rands and benefit from offshore exposure. • wanting to gain exposure to markets and industries that are not available locally. • who desire to hedge their investments against any rand depreciation.
Income	Highest income yield in the Allan Gray suite of funds.	Higher income yield than the Balanced Fund in the Allan Gray suite of funds.	Average income yield in the Allan Gray suite of funds.	Lowest income yield in the Allan Gray suite of funds.	Low income yield.
Income distribution	Distributed monthly.	Distributed quarterly.	Distributed bi-annually.	Distributed bi-annually.	None.
Compliance with Pension Fund Investment Regulations	Complies.	Complies.	Complies.	Does not comply.	Does not comply.
Fee principles	Fixed fee of 0.5% (excluding VAT) per annum.	Performance-fee oriented to out-performance of taxed bank deposits. No fees if there is a negative return experienced over a 2-year rolling period.	Performance-fee oriented to outperformance of the average Prudential Sector Fund.	Performance-fee oriented to outperformance of the JSE All Share Index.	Fixed fee of 1.25% (excluding VAT) per annum. The underlying funds also have their own fee structure.
Minimum lump sum investment requirement	R50,000.	R5,000.	R5,000.	R10,000.	R25,000.

POOLED PORTFOLIOS - LIFE COMPANY

(The minimum investment per Life Company client is R10 million)

Characteristics and objectives of Allan Gray Life Portfolios

	RISK-PROFILED PORTFOLIOS			ASSET CLASS PORTFOLIOS			
	STABLE	BALANCED	ABSOLUTE	MONEY MARKET	BOND MARKET	LISTED PROPERTY	EQUITY
Investor Profile	• highly risk-averse institutional investors, eg investors in money market funds.	• institutional investors with an average risk tolerance.	• institutional investors seeking superior absolute returns (in excess of inflation) over the long-term with a higher than average short-term risk tolerance.	• institutional investors requiring management of a specific money market portfolio.	• institutional investors requiring management of a specific bond market portfolio.	• institutional investors requiring management of a specific listed property portfolio.	• institutional investors requiring management of a specific equity portfolio.
Product Profile	• conservatively managed pooled portfolio • investments selected from all asset classes • shares selected with limited downside and a low correlation to the stock market • modified duration of the bond portfolio will be conservative • choice of global or domestic-only mandate.	• actively managed pooled portfolio • investments selected from all asset classes • represents Allan Gray's houseview for a balanced mandate • choice of global or domestic-only mandate.	• aggressively managed pooled portfolio • investments selected from all asset classes • will fully reflect the manager's strong investment convictions and could deviate considerably in both asset allocation and stock selection from the average retirement portfolio • choice of global or domestic-only mandate.	• actively managed pooled portfolio • investment risk is managed using modified duration and term to maturity of the instruments in the portfolio • credit risk is controlled by limiting the exposure to individual institutions and investments.	• actively managed pooled portfolio • modified duration will vary according to interest rate outlook and is not restricted • credit risk is controlled by limiting the exposure to individual institutions and investments.	• actively managed pooled portfolio • portfolio risk is controlled by limiting the exposure to individual counters.	• actively managed pooled portfolio • represents Allan Gray's houseview for a specialist equity-only mandate • portfolio risk is controlled by limiting the exposure to individual counters.
Return Characteristics/ Risk of Monetary Loss	• superior after-tax returns to bank deposits • limited capital volatility • strives for capital preservation over any two-year period.	• superior long-term returns • risk will be higher than Stable Portfolio but less than the Absolute Portfolio.	• superior absolute returns (in excess of inflation) over the long-term • risk of higher short term volatility than the Balanced Portfolio.	• superior returns to the Alexander Forbes Money Market Index • low capital risk • high flexibility • capital preservation • high level of income	• superior returns to that of the JSE All Bond Index plus coupon payments • risk will be higher than the Money Market Portfolio but less than the Equity Portfolio • high level of income.	• superior returns to that of the Alexander Forbes Listed Property Index (adjusted) • risk will be no greater than that of the benchmark and will be lower than the Equity Portfolio • high level of income.	• superior returns to that of the JSE All Share Index including dividends • absolute risk will be no greater than that of the benchmark
Benchmark	Taxed bank deposits.	Mean performance of the large managers as surveyed by consulting actuaries.	Mean performance of the large managers as surveyed by consulting actuaries.	Alexander Forbes Money Market Index.	JSE All Bond Index plus coupon payments.	Alexander Forbes Listed Property Index (adjusted).	JSE All Share Index including dividends.
Fee Principles	Fixed fee, or performance fee based on out-performance of the benchmark.	Fixed fee, or performance fee based on out-performance of the benchmark.	Fixed fee, or performance fee based on out-performance of the benchmark.	Fixed fee.	Fixed fee.	Fixed fee.	Fixed fee, or performance fee based on out-performance of the benchmark.

Notes 1 The above risk-profiled portfolios comply with Regulation 28 of the Pension Funds Act.
2 The above asset class portfolios comply with the asset class requirements of Regulation 28.

NAMIBIAN POOLED PORTFOLIO - ALLAN GRAY NAMIBIA INVESTMENT TRUST

This fund provides investment management for Namibian retirement funds in a pooled vehicle that is identical to that for segregated Namibian retirement fund portfolios.
The minimum investment requirement is N$5 million.

Products (continued)

INTERNATIONAL POOLED PORTFOLIOS ORBIS GLOBAL EQUITY FUND	
Type of Fund	U.S. dollar denominated Equity Fund which remains fully invested in global equities.
Investment objective	Aims to earn higher returns than world stockmarkets. Its benchmark is the FTSE World Index, including income. The Fund's currency exposure is managed relative to that of the benchmark.
Structure	Open-ended Bermuda mutual fund company. (Similar to unit trusts in South Africa).
Dealing costs	None. No front-end fee (initial charge) or transaction charges (compulsory charge). Please note that this is not a Rand-dominated unit trust so a prospective investor is required to have funds offshore.
Manager's fee	0.5% - 2.5% per annum depending on performance.
Subscriptions/redemptions	Weekly each Thursday.
Reporting	Comprehensive reports are distributed to members each quarter.
Client Service Centre	Allan Gray client service desk on 0860 000 654.

Summary of Allan Gray Individual Retirement Products

	Retirement Annuity	**Pension or Provident Preservation Fund**	**Living Annuity**
Description	Enables saving for retirement with pre-tax money. Contributions can be at regular intervals or as single lump-sums Ideal for the self-employed or employees who want to make additional contributions to an approved retirement vehicle.	Preserves the pre-tax status of a cash lump-sum that becomes payable from a pension (or provident) fund at termination of employment. A single cash withdrawal can be made from the Preservation Fund prior to retirement.	Provides a regular income from the investment proceeds of a cash lump-sum that becomes available as a pension benefit at retirement. A regular income of between 5% and 20% per year of the value of the lump-sum can be selected. Ownership of the annuity goes to the investor's beneficiaries on his/her death.
Investment Options The contribution(s) to any one of these products can be invested in any combination of Allan Gray unit trust funds as indicated.	Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds	Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds	Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds
Minimum Investment Size	R50 000 lump-sum R2 500 monthly	R 100 000	R 250 000
Initial Fee	None	None	None
Annual Administration Fee	0.4% (VAT included)	0.4% (VAT included)	0.4% (VAT included)
Investment Management Fee*	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.
Switching Fee	0.12% (VAT included)	0.12% (VAT included)	0.12% (VAT included)
Financial Adviser Fees (if applicable)	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%

* For annual investment management fees of Allan Gray unit trusts, please refer to page 4 of the unit trust application form, which can be downloaded from the website www.allangray.co.za