

Q3



Quarterly Commentary

30 September 2002

ALLAN GRAY LIMITED

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ALLAN GRAY
LONG TERM INVESTMENT MANAGEMENT

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Front cover: Some of the contributors to this issue are from left to right: John Rainier, Simon Garoëb, Delphine Govender

ALLAN GRAY

LONG TERM INVESTMENT MANAGEMENT

Mark Herdman

Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer



Simon Marais, the Chairman of Allan Gray, relocated to the London office of Orbis Investment Advisory Limited, our global asset management partner, in early August 2002. In 'Investment Perspective' he gives some initial observations on global investment conditions. He identifies the historically very low level of interest rates in most developed countries as the most dominant factor in the international investment world. Also, he suggests that most first world companies will battle to show any meaningful earnings growth due to weaker economies, high levels of gearing and the unwinding of accounting excesses. In South Africa the situation is far better and he believes that selected investments in our local stockmarket should produce some of the best returns worldwide.

Investment Commentary

Two of our equity analysts, Delphine Govender and Abdul Davids, give their views on share investments which they find particularly attractive. Delphine discusses retailers and in particular Woolworths Holdings which is one of our favourite retailers. Abdul gives the investment case for Nampak and he believes that due to successful cost-rationalisation, acquisitions and the consolidation of the packaging industry Nampak should grow earnings over the next few years at a faster rate than that of the overall market. This should make it a rewarding investment.

Namibia and Property

Our Namibian team provide an update on Allan Gray Namibia, which has shown excellent growth in both the number of clients and total assets under management. The total staff has grown to six including a recently recruited trainee investment analyst, Gottlieb Hinda.

John Rainier, the Managing Director of Allan Gray Property Trust Management Limited, reviews the performance of Allan Gray Property Trust (Grayprop) since we took over the management thereof in September 1997 and concludes that we have met our objective of providing a total rate of return in excess of inflation. He also explains the R150 million re-development programme currently underway which aims to enhance the value of Grayprop's large shopping centres.

Gray matters

Our new advertising campaign has attracted a lot of comment from both existing and potential clients. In 'Gray Matters' we set out the logic behind our decision to advertise as well as the desired message of the campaign.

In 'New Product News' Johan de Lange, our Head of Retail Marketing and Distribution, discusses our new unit trust the Allan Gray Optimal Fund, which we believe not only aims to meet the specific needs of a broad range of clients but also complements our existing offering. He also provides an update on our retail business.

Investment performance

In what was a very poor quarter for the financial markets, the resilience of our clients' performance was again proved with positive returns across all of our local mandates (excluding the relative risk product) compared to negative returns for their respective benchmarks. Our global balanced mandate clients, who form our largest composite, earned 1.3% for the third quarter compared to -6.1% for our estimate of the mean of the Consulting Actuaries Survey. Our equity only clients generated a return of 1.5% versus the -10.4% for the All Share Index. For the 1-year, 3-year, 5-year and since inception periods up to 30 September 2002 every single client composite has earned a performance comprehensively in excess of their respective benchmark.

While we continue to expect poor returns from most of the developed country stockmarkets we are excited by the value we can find in the local stockmarket and remain fully invested.

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

With kind regards

Mark Herdman
Chief Operating Officer

Simon Marais

Chairman, Allan Gray Limited

Investment Perspective

Observations from London on global investment conditions



My first month in the London office of Orbis Investment Advisory Limited, Allan Gray Limited's global asset management partner, has passed. What I have learnt is that attempting to analyse the world stockmarkets is bewilderingly complex. Rather than a few sectors, each with a company or two as we have in South Africa, you face scores of industries with hundreds of companies listed all over the world, each with its own accounting rules and way of doing business. No wonder Orbis employs six PhDs (along with a number of CAs and other graduates) to find the hidden investment opportunities.

If there is one factor that we believe dominates the international investment world it is the very low interest rates in most developed countries. In the US short term interest rates, even for large investors, are less than 2%. Europe does not give you much more, while in Japan you get no interest at all. Long term deposits are not much better. Even committing your money to a 30-year government bond will yield you less than 5% p.a. in America. In Japan the yield is less than 2% p.a.

While this is great news for homebuyers and for consumers (Americans have been making full use of the low rates as is their custom), it presents a problem for investors

anxious to compound reasonable returns on their money. A 2% drop in return for a 30-year investor means having the final capital amount almost halved in value. Not a pleasant prospect for an increasingly ageing society nearing retirement.

The major hope for investors squeezed by lower rates has been the stockmarket. The excessive optimism of the late 1990s/early 2000 period, where investors took 20% plus annual returns almost as a basic human right, has been cooled substantially by the events of the last two years. Expectations are now much lower and most investors are looking for stable companies which have solid accounts, give a dividend yield of 1 to 2% and will grow earnings consistently at 5 to 10% p.a. This is a far cry from what was the norm before, but it certainly is a lot better than the major alternative, namely money in the bank.

The problem is that in low inflation environments, a 5 to 10% growth company is a rare find. Looking through the financial histories of Japanese stocks for the last decade, even 5% p.a. growth is an exception. Most companies show declining earnings. In the US there is the major additional problem of the quality of reported earnings. Although a few of the most blatant excesses have come to light (Enron, Worldcom and the like), there are still a number of

poor practices that have affected many corporations and have not been addressed. The largest of these is probably the way in which pension funds are accounted for in the US and UK. Many readers may choose to skip the next three paragraphs which are a little technical. However, I include them to show what one has to be aware of when investing, especially internationally.

Many large corporations have defined benefit pension funds - i.e. when the employee retires, the company pays their pension until death. This is a major liability especially for older companies with large workforces. The best estimate of this future cost to a company is called the actuarial liability. To provide for this liability, companies contribute money to an asset pool from which this liability will be paid i.e. the company's pension assets. Typically, 60 to 70% of the assets are invested in shares. If the pension assets exceed the actuarial liability (which often happens after sustained periods of strong stockmarket performance), the company may not contribute to the pool for that year. This is called a 'pension fund holiday' and increases the company's earnings because there is no expense incurred to fund pensions. In South African companies we have been aware of such holidays and have often adjusted earnings to account for this. However, the relentless pressure from

investors (often with a poor understanding of how markets work) to produce growth in earnings has led American companies and their auditors to come up with a new way to account for pensions. In this 'innovative' way of accounting, a liability to the company (the obligation to pay pensions) is turned into a major contributor to earnings. This is how it works:

First, look at the increase in your liabilities from one year to the next. This is a cost to the company - nothing funny here. Now look at the pension assets of the company. Assume a return for those assets since investment markets can fluctuate widely. A typical assumption is 9 to 10% p.a. This is a decrease in the company's obligation and can be added to earnings. In most cases the assumed increase in assets is more than the increase in liability so that the pension fund actually contributes to the corporation's profits! In fact, for some large companies this has accounted for 25% or more of their reported profits.

Yet the current reality is that with poor stockmarkets and low interest rates no funds have had returns even close to 10% p.a. In addition, while happily booking a profit from the pension fund year after year, many companies are now in the position where their pension funds are seriously in deficit and they are now faced with

making good on the backlog.

What this all means is that getting even 5% p.a. growth from here on may prove to be tough for most first world companies, given weaker economies, the unwinding of accounting excesses and very high levels of gearing.

Fortunately, there is some good news. In South Africa we have been spared the worst excesses. The 1998 boom and subsequent collapse of many 'new-economy' shares are just a painful memory to some investors. Most companies now have good quality accounts and solid balance sheets. The pension fund problem which bedevils many international companies is hardly an issue because most companies have transferred the risk to employees through defined contribution funds. Looking ahead, there is scope for growth off a low base with management teams that compare favourably with the best anywhere in the world.

Yet these companies can be bought for less than ten times earnings and give investors between 4 and 6% in dividends. Cash flows are solid and most management teams feel more upbeat than they have for many years. We would expect selected investments in local shares to produce some of the best returns worldwide.



Simon C. Marais

Delphine Govender Equity analyst, Allan Gray Limited

Abdulazeez Davids Equity analyst, Allan Gray Limited

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

From left to right

Investment Commentary



Retailers remain attractive

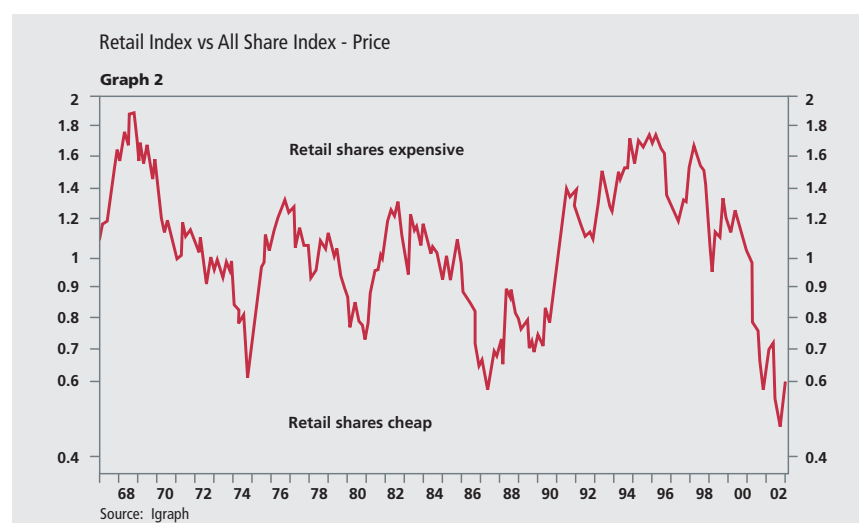
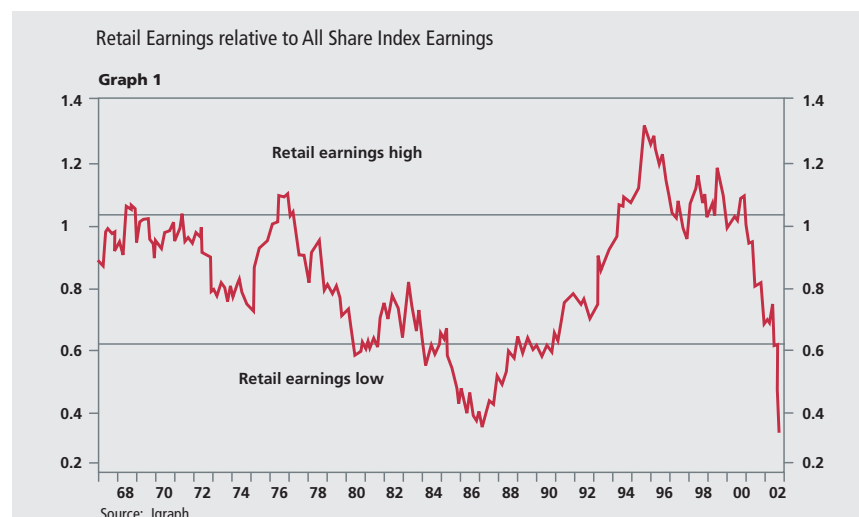
Earlier this year we highlighted that our research was uncovering great value among industrial shares, which have been trading at their lowest relative levels in 25 years. In particular, we found retailers attractive. The reason for this is broadly summarised by the two graphs alongside.

Graph 1 reflects earnings for the retail sector relative to the earnings for the All Share Index (ALSI) since 1968. At the end of July 2002, retail earnings relative to ALSI earnings were at a 32-year low. We believe that this is unsustainable and that earnings for the retail sector should begin to normalise relative to the rest of the market.

Graph 2 reflects the price of the retail index relative to the ALSI over the past 32 years. Once again retail shares are at their cheapest level relative to the market. Clearly this correlates with the collapse of retail earnings reflected in graph 1.

When earnings recover we expect retailers to outperform the market.

The recent release of better-than-expected results from South African retailers has fortified our view that retail earnings have begun to improve. One of our favourite retailers which has positively surprised the market lately with good results has been Woolworths Holdings.



Woolworths Holdings (WHL)

WHL comprises Woolworths SA (Woolies) and Country Road, the Australian-based subsidiary. Contributing approximately 90% of WHL's turnover and virtually all the operating profit, Woolies is by far the most significant component of WHL. Following an earnings dip in 1999 and 2000, this is the second year of an earnings recovery at WHL.

A comparison of some of the key fundamentals of WHL compared to leading South African retailer, Pick 'n Pay, is contained in the table below.

Pick 'n Pay (PIK) is currently the most highly rated retailer in terms of its PE ratio. This is due to its good consistent earnings growth

rate, strong dividend payout and superior return on equity.

WHL has exceeded PIK's earnings growth rate over the past 10 years and represents excellent value if it can maintain this record. We believe that this is possible by:

- Growing its food retail market share through the Woolies' Foods division by rolling-out stand-alone food stores to a wider reach of locations across South Africa;
- Continuously refining the Woolies Textiles (clothing and homeware) offering to ensure that value-for-money, classic clothes are consistently delivered to the loyal Woolies customer base;

- Ensuring that Woolworths remains synonymous with 'quality' in the minds of South African consumers; and

- Re-establishing Country Road as the pre-eminent aspirational clothing brand in Australia.

Strategically, we believe Woolies is a solid company holding a secure position in the South African retail market. Our expectations are for a sustained improvement in earnings and ROE as management successfully implements its stated strategies. If this transpires, the share offers excellent value on a 5% dividend yield, twice covered by earnings.

Article by: Delphine Govender

Key Factors ¹	Woolworths	Pick 'n Pay
Compound annual growth in Earnings (past 10 years - since 1993) ²	24.1%	16.2%
Return on Equity (ROE)	17.2%	35.6%
Share of S.A. Market : Textiles	± 17%	small
Share of S.A. Market : Food	± 7%	± 40%
Turnover per square metre	R27,000	R22,100
PE Ratio ³	9.9x	16.7x
Dividend Yield	4.8%	4.1%
Dividend Payout Ratio	43%	68%
Price : Book Ratio	1.6x	6.2x

¹Friday 30/8 WHL @ 420c PIK @ 1270c

²All Share Index (ALSI) compounded annual growth in earnings = 12.7%

³ALSI PE Ratio = 11.5x

The Investment case for Nampak

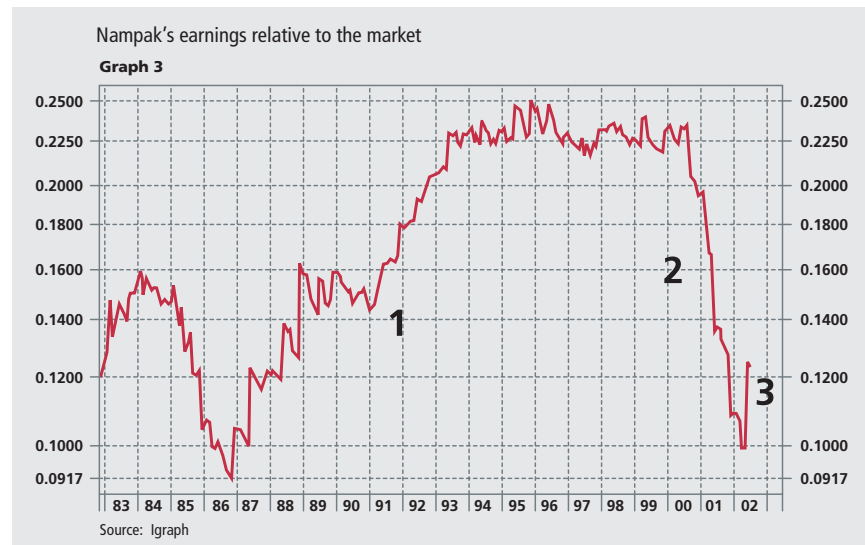
Nampak's recent earnings history can be divided into three distinct parts. The first phase (as shown in Graph 3 on page 6 as the number 1) occurred during the late 1980's, when Nampak was a favourite industrial share among investment managers. South Africa's economic isolation meant that the company was operating in a quasi-cartel environment, allowing earnings to grow faster than the market during this period.

The end of South Africa's economic isolation heralded the next phase (2) of Nampak's earnings history. What followed was a rapid reduction in import duties, which meant that companies like Nampak were now competing against international packaging companies in the local market. The increased competition resulted in excess capacity in the industry and falling profitability. Nampak's earnings halved relative to the market during this period.

Nampak successfully embarked on a two-pronged plan of action to recover its battered margins:

- Cost-rationalisation
- Consolidation of the fragmented packaging industry

The initial impact of these actions on earnings was negative. However, Nampak is currently the lowest-cost producer in some



The Malbak merger affords Nampak the opportunity to further entrench its dominant position in the South African packaging market and to expand its solid European packaging interests.

For Nampak, the foundations have now been laid for delivering significant earnings growth over the next few years. Last year's reported earnings of 88c are well below our estimate of normalised earnings. Furthermore, we note that Nampak has always traded around the same yield as the All Share Index (refer **Graph 4** below).

of its market segments and, with the significantly weaker Rand, now one of the lowest-cost packaging companies globally. As a result, Nampak has embarked on a major export drive that is expected to contribute to earnings in the future.

with a management team that historically over-promised and under-delivered. However, the value of Malbak's established European packaging interests (acquired at very favourable exchange rates) was not reflected in the company's share price.

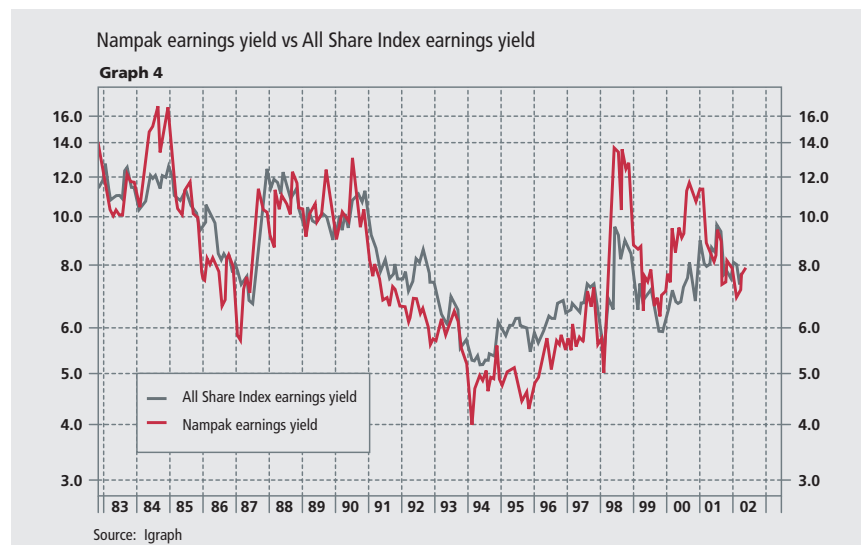
This relationship holds true today, despite the fact that current earnings are well below normal levels. Therefore, if the earnings yield remains constant, the share price will rise concomitantly with the growth in earnings.

Article by: Abdulazeez Davids

These factors, together with three acquisitions during 2002, will be the catalyst for the next growth phase (3) of Nampak's earnings:

- Buy-out of Crown Cork's minority interest in Nampak's Metals division
- Acquisition of Crown Cork's lucrative African packaging business
- Merger with Malbak

The recent merger with Malbak is fortuitous for Nampak: Malbak experienced severe hardships in the process of transforming itself from an industrial conglomerate into a serious packaging player. Malbak's low rating reflected the market's disillusionment



Simon Garoëb
Renée Tubbessing
Edgar Loxton

Chief Operating Officer, Allan Gray Namibia
Chief Investment Officer, Allan Gray Namibia
Director, Allan Gray Namibia

From left to right

Allan Gray Namibia

Update



“The success of the company is demonstrated by the excellent growth in client base and assets under management.”

Established in 1996, our Namibian subsidiary, Allan Gray Namibia, is now in its sixth year of operation. The success of the company is demonstrated by the excellent growth in client base and assets under management - from two clients and N\$906 million in 1996 to 35 clients and N\$ 3.6 billion in 2002.

The Allan Gray Namibia Investment Trust (launched in 1999) has proved to be successful in maintaining our customary single-minded focus on investment management while enabling us to extend our services to a broader spectrum of retirement funds. The Trust, which offers a Global Balanced, Regulation 28 compliant mandate on a pooled and unitised basis to Namibian retirement funds of N\$5 million and larger, has grown to N\$718 million with 30 unitholders.

Our clients' investment performance has been excellent with an annualised return of 24.3% on our Balanced Mandate portfolios for the five years up to September 2002, compared to a return of 9.8% by the average manager over the same period, according to the Jacques Malan (Namibia) Survey.

In line with our objective to build a viable Namibian business and develop local investment skills, we have invested further in our Namibian subsidiary's staffing, with the recent appointment of Gottlieb Hinda as trainee investment analyst bringing the total staff complement to six. Gottlieb holds a BSc Agric. in Biochemistry and Physiological Biochemistry and is currently completing his MBA through the University of Stellenbosch. His previous experience includes stints at an investment company and various food businesses. The appointment of Sam Geiseb as non-executive director to the board of Allan Gray Namibia further strengthened our Namibian skill set.

The Namibian office does its own portfolio administration and trading. The fixed interest portions of our Namibian clients as

well as a Namibia-only portfolio is now being managed by Renée Tubbessing, the Chief Investment Officer.

Simon T.F. Garoëb fills the role of Chief Operating Officer; Gwyneth McClune is Portfolio Administrator and Bianca Busch is involved in Trading whilst also administering portfolios. Sylvia Jason's duties include receptionist and general secretary.

We have also been assisting in building skills in the wider Namibian community, primarily through the Allan Gray Namibia Bursary Scheme, which has already sponsored nine students at the University of Namibia.

Through continued commitment to the principles of excellence that have been central to the success of Allan Gray, and through the development of our personnel, we look forward to continued success for our Namibian subsidiary.

John Rainier

Managing Director, Allan Gray Property Trust Management Limited

Allan Gray Property Trust



Allan Gray Properties, the division of Allan Gray Limited, responsible for the asset management of both Allan Gray Property Trust (Grayprop) and the direct property investments of various retirement fund clients has a simple objective. It is to create wealth for its clients by generating a total rate of return in excess of inflation. This is achieved by optimising net rental growth and hence maximising the value of the properties in its portfolio. In this respect, since September 1997 when we assumed the management of Grayprop to 30 June 2002, the total rate of return of the Trust has been 21.1% p.a compared with inflation of 6.5% p.a. Grayprop is the largest local property investment vehicle listed on the JSE with a market capitalisation in excess of R2 billion.

Unlike share transactions, the seller involved in direct property investments typically knows more about what he is selling than the buyer. With shares, both the buyer and the seller have access to the same information. Whether they wish to buy or sell at a particular price depends on their interpretation of that information. With property, even with the greatest

disclosure and investigation by the buyer, the seller is at an advantage in knowing all the nuances, however small, that affect the property. For this reason, in the seven years of managing Grayprop, we have yet to buy an individual building. (Note: sellers who withdraw from property investments for policy reasons do not in our opinion qualify as being more informed than buyers.)

All the proceeds from the sale of properties, which we considered to be unattractive from an investment point of view, have been invested in improving select properties in the portfolio. In addition to this, the land in such improvements is 'free', hence very attractive incremental returns are more easily achievable.

In line with this philosophy and the active asset management of the portfolio, over the past eighteen months, properties worth over R200 million have been sold. These holdings were identified as not adding positively to the total return of Grayprop whereas the funds would be better used in further enhancing the earnings potential of other, more suitable properties.

Following on the very successful upgrades

to the Bedford Gardens private hospital and the Kenilworth Centre, Grayprop is now embarking on a R150 million re-development programme to substantially alter and improve four of its shopping centres. Grayprop is one of the biggest owners of large shopping centres in South Africa, owning outright or in partnership with others six regional shopping centres and five smaller centres worth around R1.5 billion, situated in the Western Cape and Gauteng.

At Blue Route Mall, in the Southern Suburbs of Cape Town, a R45 million alteration is underway, with the first phase having recently opened and with the bulk of the remaining phases due before Christmas 2002. A new image 2700m² Boardmans will complete the project by Easter 2003. The project has involved replacing Shoprite in order to obtain the space needed to improve the shopping mix. As a result there is far more emphasis on fashion and homewear. We have introduced, among others, a 2000m² Mr. Price including its Home Store, a bigger, revamped Foschini and Markhams, as well as a new Identity store. On the lower floor a value component has been introduced including Shoe City and Clothing City, as well as the

first outlet for home furnishing store Coricraft in the Southern Suburbs. The area around Blue Route Mall has seen phenomenal growth in housing over the past few years, ranging from high density developments to the upmarket Steenberg Estate and this expansion continues apace. An extra 250 parking bays have been provided to ensure that the centre will have ample parking for shoppers. Over the years we have been involved with Blue Route, it has proved to be a very rewarding investment; consistently expanding its market share and growing net income by 14% p.a over the past 10 years.

At Northmead Shopping Centre in Benoni a R25 million re-development will see the introduction of a 3000m² Pick 'n Pay and a large pharmacy, plus re-tenanting the mall shops with national fashion and convenience retailers. Northmead is well situated in an affluent node and we have been working for some time to re-position the centre with the relevant mix of retailers for that neighbourhood.

In Randburg, the old Randburg Waterfront will receive an R80 million transformation. Under the original ownership, the emphasis was on food and entertainment. However,

competition in this market has grown dramatically over recent years.

In addition, the demise of the Randburg CBD has taken place. This has given us the opportunity to create a totally new product focussing on traditional retail and lifestyle shopping with less reliance on entertainment although we are still retaining some of the existing successful elements. As a result, the very successful Pick 'n Pay will be expanding as will the traditional retail offering. Negotiations are underway with Boardmans, the CD Warehouse, Mr. Price, Exclusive Books and a large Mica hardware store. A number of the existing stores will also be expanding. The large lake in the middle will be replaced with softer, meandering water to add to the revival of the 'Main Street' theme so strong in many areas of Johannesburg and Cape Town.

At Southgate Mall, a 70 000m² centre south of Johannesburg, R75 million is being spent on alterations. Grayprop owns just under 20% of this centre. The addition of 3000m² retail space, including the creation of a banking court, will free up space elsewhere for comparative fashion shopping. The fast food court has been remodelled, and

Pick 'n Pay and Checkers, the two food anchors, are upgrading their stores. In addition, a new improved taxi rank facility is being created for the benefit of the growing number of shoppers using this mode of transport. Also planned, is a fast food outlet and motor parts fitment centre to assist the drivers.

In addition to these confirmed projects, negotiations are at a very advanced stage for a R200 million extension to the highly successful 51 000m² Centurion shopping centre. Some 20 000m² of retail space will be added to accommodate some 'big box' retailers and to relocate Woolworths in order to give other national tenants who have outgrown their existing space the opportunity to expand. This centre has seen sales growing consistently above inflation for a number of years on the back of an increasing work and residential population. This has provided us with the incentive to capitalise on this market and expand and improve the facilities on offer.

We believe that our ongoing commitment to proactive asset management of the portfolio will enhance the size and quality of future earnings to the benefit of our unitholders.

Johan de Lange Head of Retail Marketing and Distribution, Allan Gray Limited

Tracy Hirst Marketing Manager, Allan Gray Limited

Mark Herdman Chief Operating Officer, Allan Gray Limited

From left to right

Gray Matters

Why is Allan Gray advertising?



The reaction to our new advertising campaign from a number of our existing clients, and intermediaries who know us, has generally been one of mild concern. The questions being asked are: "is Allan Gray deviating from its clear business objective and trying to become a big brand financial institution?" and if so, "what impact will this have on my future investment performance?" The answer to these questions is emphatically that we remain committed to our business objective of delivering superior performance for our clients. We do understand that we will have difficulty in achieving this if we become one of the three largest asset managers in South Africa. It's onerous to beat the market if you are a significant part of the market.

So then, 'why the need to advertise?' The answer lies in the fundamental changes that have taken place in our industry as well as our desire to make our investment management services available to a more diversified client base.

From 1974, when Dr Allan Gray founded the business, until 1978 we only managed private segregated client accounts. In 1978 we started managing money for large segregated retirement funds and they quickly dominated our client base. Over the years we have been approached by

individuals and small pension funds but we did not have suitable pooling vehicles to accommodate them. Then, in October 1998, after receiving approval from the FSB to start a Unit Trust Management Company, we launched our first unit trust with a minimum investment size of R10 000. In September 2000 we formed our Life Company with a minimum retirement fund client size of R10 million. We were now catering for a much broader market.

At the same time our traditional client base was facing major changes. Defined benefit pension funds were converting to defined contribution schemes. The move to allow individual retirement fund members the choice as to how and who would manage their money was growing. A number of pension fund members have unknowingly benefitted from Allan Gray's investment expertise through their pension fund. Clearly, there was a need for Allan Gray to increase its public profile and educate the public about its investment approach and business principles or face ongoing withdrawals from individuals. We had to develop brand awareness, not only in our expanded market but also amongst our existing, but changing client base.

So, our objective for the new Allan Gray campaign is twofold. First, to build brand awareness by creating advertising that stands out in a cluttered market and

second, to reinforce our commitment to our long-standing clients.

Given our distinctive investment approach which we have employed for the last 28 years and which has generated our superior long-term track record, we wanted to avoid the usual financial service clichés offering reassurance and peace of mind (often with little justification) and focus instead on the way that we invest our clients' money.

Allan Gray does not follow the herd. We base our investments on sound business principles, thorough research and good common sense, not market sentiment or popular opinion. To Allan Gray, investing is a serious business, not a game. It is 'intelligent investing'. A fact reinforced by our superior, consistent performance over the last 28 years. As a result, the mantra for this new campaign became, 'Single-minded is good', a line which not only reflects the focused nature of Allan Gray's investment philosophy, but also the mindset of the majority of our clients, who know exactly what they want from their investments.

In partnership with our advertising agency, King James, we have created advertising that expresses this theme across several different media: TV, magazine, press and outdoor. The press ads consist of strong,

headline-driven executions. These headlines, that were also used in airport corridors, define the Allan Gray investment philosophy in a series of simple, bold statements that challenge our target market to change the way they think about investing. The TV and magazine ads were approached slightly differently. In these media, we have continued the 'Single-minded is good' theme by saluting single-mindedness in its various forms. Whether it be the Bosnian athlete who trained in the streets of Sarajevo, the mathematician who solved the world's most elusive mathematical problem after 9 intense years, or the Antarctic explorer

who rescued his crew against impossible odds; the single-minded pursuit of a goal and the incredible focus needed to succeed are characteristics that are key to the Allan Gray investment philosophy.

The various media chosen were also very carefully considered. TV allowed us to reach a large segment of our market, and strategic placement of our ads during news and sports programmes helped us achieve maximum impact with our messages. With regards to magazines, we chose a mix of lifestyle and financial titles, which widened our coverage of the target market and also allowed us to reach

them outside of conventional investment environments. In press we launched with large space ads for maximum impact and later reduced to strip ads to ensure our target market received multiple messages in this medium. Similarly, by placing our messages in the domestic departure corridors, we were able to increase the frequency of exposure to the regular business traveller.

By approaching our advertising in such a strong and direct manner, we hope to give Allan Gray a unique and unmistakable identity. We are a serious investment company, for serious investors.

Johan de Lange

Head of Retail Marketing and Distribution, Allan Gray Limited and Director, Allan Gray Unit Trust Management Limited

New Product News

The Allan Gray Optimal Fund and Retail Update

Although it has seemed to be quiet for the last two quarters on the product development front, we have been busy behind the scenes. The Financial Services Board has recently approved a new unit trust, the Allan Gray Optimal Fund, which we opened on 1 October 2002.

The rationale to add another fund to our existing suite is based on the fact that a number of our investors are finding the current volatility associated with stock and bond markets unnerving and unacceptable. The problem faced by these investors is that virtually their only alternative investment is cash. Increasingly therefore, there has been a demand worldwide for absolute return funds i.e. funds that focus on providing positive returns despite financial market conditions.

The Allan Gray Optimal Fund aims to meet this need. It is for those clients who seek diversification from pure equity markets and who hope to obtain an expected return higher than cash. Although these characteristics may seem similar to those

of the Allan Gray Stable Fund, the major difference between the two funds is that the Allan Gray Optimal Fund is uncorrelated to the stockmarket. To achieve this the Fund will invest in shares offering superior fundamental value whilst managing the risk of loss by using equity derivatives. The Fund will have little or no correlation to the stock or bond market and will seek to have a lower volatility than the typical equity fund.

We will continue to honour our philosophy of keeping our suite of unit trusts limited and only add a fund if it is fundamentally different to an existing one and if it meets a clearly identified need for our client base. This new Fund offers investors the opportunity to further diversify their market-linked portfolios by adding an alternative fund which is uncorrelated to the market. We are of the opinion that the public will be well-served by this product that embodies our low risk investment approach and unique differentiated investment philosophy. In light of this, the Fund is in line with making long-term investment sense and our Allan Gray

philosophy of value creation.

A more detailed document on the Fund is available in electronic format from our call centre.

Some Retail News

As stated in a previous Quarterly Commentary we have appointed two Business Development Managers in Gauteng. We have now ensured that our presence in Gauteng will be permanent by formally opening an office in Melrose Arch on 3 September. The office is currently aimed at supporting the retail market i.e. investors and Independent Financial Advisers (IFAs). Pam Hockney who has been with Allan Gray for 8 years is running the office and can be reached on (011) 214 4200.

We have also entered into an exclusive arrangement with Fingingly Financial Services (FFS) to distribute our product range to IFAs in Kwazulu-Natal. Mr Morris Crookes who has a number of years of experience in servicing IFAs heads up FFS. Morris can be contacted on 082 828 2021.

Performance

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
2002 (to 30.9)	14.2	-7.0	21.2
ANNUALISED TO 30.9.2002			
From 1.10.1999 (3 years)	31.7	14.6	17.1
From 1.10.1997 (5 years)	27.0	8.9	18.1
From 1.10.1992 (10 years)	26.3	14.5	11.8
Since 15.6.74	28.7	17.6	11.1
AVERAGE OUTPERFORMANCE			
Number of years outperformed			22
Number of years underperformed			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.

Note: Listed Property returns included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R12 639 097 by 30 September 2002. By comparison, the returns generated by the JSE All Share Index over the same period would have grown a similar investment to R986 891.

ALLAN GRAY LIMITED PERFORMANCE PROFILE

Annualised performance in percent per annum to 30 June 2002

	Third quarter (not annualised)	1 year	3 years	5 years	Since inception	Assets under management R millions
RETIREMENT FUNDS						
Global Balanced Mandate Mean of Consulting Actuaries Fund Survey*	1.3 -6.1	21.4 10.4	30.9 14.1	27.1 10.5	24.5 18.0	13,341.8 ¹
Domestic Balanced Mandate Mean of Alexander Forbes Domestic Manager Watch*	2.3 -5.5	19.4 11.2	26.1 14.5	27.1 10.8	24.5 18.0	8,651.1 ¹
Equity-only Mandate All Share Index	1.5 -10.4	24.9 20.4	28.6 14.6	24.7 8.9	20.5 12.7	6,678.1 ²
Namibia Balanced Mandate Mean of Alexander Forbes Namibia Average Manager*	0.5 -6.1	20.5 10.7	29.3 13.5	24.3 9.8	21.4 12.3	1,337.5 ³
POOLED RETIREMENT FUNDS						
Allan Gray Life Global Balanced Portfolio Mean of Alexander Forbes Large Manager Watch*	1.4 -6.1	19.1 11.1	- -	- -	28.0 8.4	1,481.1 ⁴
Allan Gray Life Domestic Balanced Portfolio Mean of Alexander Forbes Large Manager Watch*	1.8 -5.5	20.6 11.2	- -	- -	17.3 4.6	1,191.2 ⁵
Allan Gray Life Domestic Equity Portfolio All Share Index	0.7 -10.4	26.1 20.4	- -	- -	25.5 5.9	397.8 ⁶
Allan Gray Life Domestic Absolute Portfolio Mean of Alexander Forbes Domestic Manager Watch*	5.9 -5.5	34.9 11.2	- -	- -	34.5 3.6	130.6 ⁷
RELATIVE RISK						
Equity-only Mandate Resource adjusted All Share Index	-6.3 -10.8	24.2 11.6	- -	- -	23.9 8.0	1,176.6 ⁸
FOREIGN-ONLY (RANDS)						
Orbis Global Equity Fund (Rands) Morgan Stanley Capital Index (Rands)	-16.1 -16.8	13.1 -5.0	24.8 3.7	25.8 13.4	25.2 16.4	- ² -
Global Balanced Mandate (Rands) - Foreign Component Mean of Consulting Actuaries Fund Survey (Rands) - Foreign Components	- 4.2 - 8.0	30.9 11.0	45.0 17.0	32.7 18.7	27.5 19.4	2,774.0 ⁹
UNIT TRUSTS **						
Stable Fund Benchmark ***	- ****	13.8 9.0	- -	- -	41.0 20.7	302.3 ¹⁰
Balanced Fund Average Prudential Fund	- ****	19.9 14.1	26.7 11.4	- -	104.5 38.3	1,615.4 ¹¹
Equity Fund All Share Index	- ****	23.3 20.4	26.4 14.6	- -	356.6 108.4	1,761.9 ¹²

* The returns for Quarter 3, 2002 are estimated from various 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.

**** Unavailable due to AUT Regulations.

Inception Date: ¹1.1.78 ²1.1.90 ³1.1.94 ⁴1.9.00 ⁵1.9.01 ⁶1.2.01 ⁷6.7.01 ⁸19.4.00 ⁹1.7.96 ¹⁰1.7.00 ¹¹1.10.99 ¹²1.10.98

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 30 September 2002.

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. Portfolios can be managed on the preference of an absolute or relative risk basis.

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.

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	0%	60%	75%	95%	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	<ul style="list-style-type: none"> Low risk. High degree of capital stability. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> 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 outperformance 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's Pooled Portfolios

RISK-PROFILED PORTFOLIOS

	STABLE PORTFOLIO	BALANCED PORTFOLIO	ABSOLUTE PORTFOLIO
Investor Profile	<ul style="list-style-type: none"> Highly risk-averse institutional investors, e.g. investors in money market funds. 	<ul style="list-style-type: none"> Institutional investors with an average risk tolerance. 	<ul style="list-style-type: none"> Institutional investors seeking superior absolute returns (in excess of inflation) over the long-term with a higher than average short-term risk tolerance.
Product Profile	<ul style="list-style-type: none"> Conservatively managed pooled portfolio. Investments selected from all asset classes. Shares selected with limited downside and a low correlation to the stockmarket. Modified duration of the bond portfolio will be conservative. Choice of global or domestic-only mandate. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.
Return Characteristics/ Risk of Monetary Loss	<ul style="list-style-type: none"> Superior returns to money market investments. Limited capital volatility. Strives for capital preservation over any two-year period. 	<ul style="list-style-type: none"> Superior long-term returns. Risk will be higher than Stable Portfolio but less than the Absolute Portfolio. 	<ul style="list-style-type: none"> Superior absolute returns (in excess of inflation) over the long-term. Risk of higher short-term volatility than the Balanced Portfolio.
Benchmark	<ul style="list-style-type: none"> Alexander Forbes three month Deposit Index plus 2%. 	<ul style="list-style-type: none"> Mean performance of the large managers as surveyed by consulting actuaries. 	<ul style="list-style-type: none"> Mean performance of the large managers as surveyed by consulting actuaries.
Fee Principles	<ul style="list-style-type: none"> Fixed fee, or performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> Fixed fee, or performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> Performance fee based on outperformance of the benchmark.

Note The above risk-profiled portfolios comply with Regulation 28 of the Pension Funds Act.

ASSET CLASS PORTFOLIOS

	MONEY MARKET	BOND MARKET	LISTED PROPERTY	EQUITY	FOREIGN
Investor Profile	<ul style="list-style-type: none"> Institutional investors requiring management of a specific money market portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific bond market portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific listed property portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific equity portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific foreign portfolio.
Product Profile	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Portfolio risk is controlled by limiting the exposure to individual counters. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Investments are made in equity and absolute return foreign mutual funds managed by Orbis. Represents Allan Gray's houseview for a foreign balanced mandate.
Return Characteristics/ Risk of Monetary Loss	<ul style="list-style-type: none"> Superior returns to the Alexander Forbes 3-month Deposit Index. Low capital risk. High flexibility. Capital preservation. High level of income. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Superior returns to that of the JSE All Share Index including dividends. Risk will be no greater than that of the benchmark. 	<ul style="list-style-type: none"> Superior returns to that of the benchmark at no greater than average absolute risk.
Benchmark	<ul style="list-style-type: none"> Alexander Forbes 3-month Deposit Index. 	<ul style="list-style-type: none"> JSE All Bond Index plus coupon payments. 	<ul style="list-style-type: none"> Alexander Forbes Listed Property Index (adjusted). 	<ul style="list-style-type: none"> JSE All Share Index including dividends. 	<ul style="list-style-type: none"> 60% Morgan Stanley Capital International Index, 40% JP Morgan Global Government Bond Index.
Fee Principles	<ul style="list-style-type: none"> Fixed fee. 	<ul style="list-style-type: none"> Fixed fee. 	<ul style="list-style-type: none"> Fixed fee. 	<ul style="list-style-type: none"> Fixed fee, or performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> No fee charged by Allan Gray. Unit prices of underlying mutual funds reflected net of performance fees charged by foreign manager.

Note The above asset class portfolios comply with the asset class requirements of Regulation 28.

Products (continued)

POOLED PORTFOLIOS - INTERNATIONAL 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.

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.

INDIVIDUAL RETIREMENT PRODUCTS

	RETIREMENT ANNUITY	PENSION OR PROVIDENT PRESERVATION FUND	LIVING ANNUITY
Description	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds 	<ul style="list-style-type: none"> Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds 	<ul style="list-style-type: none"> 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