Quarterly Commentary

30 September 2004

Q3

ALLAN GRAY

INTELLIGENT INVESTING

Inside this issue

Front cover: Some of the people that contributed to this issue are, from left to right:
Jack Mitchell, Christo Terblanche and Duncan Artus.

AllanGray
INTELLIGENT INVESTING

Greg Fury
Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer

Allan Gray seeks to achieve substantial outperformance over the long-term, but accepts that all investment managers underperform in the short-term sooner or later. The article by Jack Mitchell in the 'Investment Perspective' section is therefore both appropriate and important. He makes a case for a long-term approach to investment and for patience during tough times provided that you have confidence in your approach. He quotes from an article by Dan Ferris who uses examples of some of the most famous and successful investment managers who had periods of short-term underperformance, but how those clients who persevered with them over the long-term have been richly rewarded.

Investment Commentary
Duncan Artus shows that it is not the current level of earnings that is important when establishing intrinsic value, but the determination of a normal level of earnings. He illustrates this through focusing on ABSA, which is one of a number of banking shares that our research had highlighted were attractively priced. Using ABSA as an example he provides the rationale behind one of the significant changes in our clients' portfolios over the last year, namely the purchase of banking shares and the sale of certain retailers.

Offshore Update
A question often asked of us is: "In the absence of exchange controls, how much should I invest offshore?" In this section Rob Dower argues that, while this is not always possible, an investor should ideally separate their offshore investment decisions from their currency decisions. He shows how a neutral foreign currency weighting would be approximately 30%, and how most investors justifiably overweight their domestic investments.

Allan Gray Life Update
Christo Terblanche reflects on the past four years by looking at what has changed and what has stayed the same in Allan Gray Life Limited, which offers pooled portfolios catering for retirement fund clients with investments between R20 and R200 million. This part of our firm has enjoyed substantial growth as our clients have enjoyed strong investment performance and continually improved service, and the assets under management have recently passed the R11bn mark.

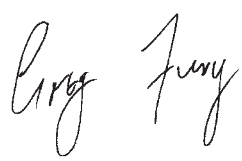
Retail Update
Allan Gray is pleased to announce the launch of the Bond Fund. Barend Ritter discusses this new product as a necessary addition to our unit trust range. The Fund should also be useful as a further investment option for the Allan Gray individual retirement products and endowment policy.

Investment Performance
Following a lacklustre first six months to the year, investors in South Africa have enjoyed a good third quarter of performance, particularly in domestic equities with the JSE rallying by 17.4% since the beginning of July. This has also translated to strong performance for Allan Gray's equity and balanced fund clients. However, Allan Gray's core portfolios have underperformed slightly on a relative basis during the course of 2004 and in the 12 months to September 2004, although all our client composites remain well ahead of their benchmarks over longer periods.

The performance of our largest client composites is illustrative. For the year to 30 September 2004, our global balanced mandate clients earned 24.0% versus our estimate of the average pension fund of 26.0%. Our equity-only mandates received 34.4% over this period versus 35.9% for the FTSE/JSE All Share Index. While no one is pleased with even slight underperformance we do accept that, as Jack Mitchell demonstrates, short-term underperformance is inevitable from time to time for even the most successful investors. We remain focused on the long-term and confident that the application of our process will continue to deliver the superior long-term results it has over the past 30 years.

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

Kind regards



Greg Fury

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

Investment Perspective

Looking long-term

Executive Summary

Investment doyen Jack Mitchell makes the case for achieving riches through long-term investment strategies - even if it means periodic pain and the jeers of one's peers. To emphasise his point, he quotes from an article by Dan Ferris who recalls the history of the highly successful Sequoia Fund which, despite underperforming the S&P 500 in 14 of the last 34 years, has made a fortune for investors who persevered. Comparing favourably with them in performance, Mitchell notes, is Allan Gray where an investment of R10 000 in 1974 would have grown to more than R18 million by June 2004.

A privilege that often comes with age in the investment business is some latitude to focus on the broad investment landscape as opposed to analysing particles to the nth degree.

Each morning I am eager to arrive at the office and piece together the fascinating events that have occurred overnight within the ever-changing kaleidoscope of the marketplace. A number of daily briefs also pass across my desk and occasionally an article that is particularly impactful and worth sharing with others catches my eye.

One such article I read recently was entitled "The Fortune of Loss" by Dan Ferris*. In this report he begins by addressing the folly of 'short-term, momentum-oriented investment strategies'. Thereafter he raises the following questions, and I quote: "What about those successful investors? What's their experience like? Does their long-term investment success feel good every step of the way? Is it made up of a series of pleasurable short-term gains? Or does getting rich investing in stocks require significant periods of underperformance, and the pain of holding losses, sometimes for years at a time?"

He answers these questions by recalling the history of the highly successful managers of the Sequoia Fund - the fund that Warren Buffett recommended to his former clients in 1970, the year after he closed his investment partnership. Former Ben Graham students Bill Ruane and Richard Cunniff still run Sequoia. The Fund underperformed the S&P 500 in its first four years and has underperformed the S&P 500 in 14 of the last 34 years, no less than 41% of the time. Yet in the last 34 years, Sequoia has averaged 16.57% annual returns. A $10 000 investment in 1970 is worth about $1.8 million today versus $463 000 for the S&P 500. If you'd pulled your money out after those first four years and put it in an index fund, you'd have made a huge mistake.

Ferris continues, "Think about that. Four years wasn't enough time to give a true picture of the soundness of Sequoia's basic value-oriented approach to investing. Nearly half the time, getting rich felt like losing ground when compared to the rest of the market. In some years, getting rich by giving your money to Sequoia felt exactly like losing money."

Moreover, the peer pressure on a value investor can be intense. He writes: "Perhaps standing apart from the crowd, as value investing requires, makes people feel as though they, and not just their investments, are out-of-favour. Perhaps holding cash for what seems like forever, awaiting the emergence of an investment opportunity, is simply too emotionally difficult for them. Maybe exposure to criticism or second-guessing as a result of standing apart from the crowd is more than they can comfortably bear. Maybe it is the continued price erosion one can experience from buying corporate misfits and rejects - the relentless drain of out-of-favour securities continuing to melt away - that turns investors off. Perhaps it is hard to sound cool or even sane at cocktail parties when you don't own the hottest IPO's (initial public offers**), and when no one has heard of the unpopular and obscure holdings that comprise your net worth."

Periods of underperformance can also be found in the track records of legends Warren Buffett, the Oakmark Fund, Longleaf Partners, Third Avenue Value Fund, Clipper Fund, Tweedy Browne ... all the most successful investors underperform in the short-term sooner or later.

"If you want to get rich in the stockmarket, you have to know what to expect, not merely for the next few days or months, but for the next several years. That's what it really takes to get rich in the stockmarket, no matter what the spam in your inbox tells you. You have to be able to stick to your guns for five years at a clip without even beating the S&P 500. You have to be so confident in your approach that you never waiver from it, even when there's zero short-term success to brag about. (Oh yes, and your approach has to be one that works)" he advises.

Ferris concludes that people who promise big profits from short-term trading strategies are either ignorant or they think you're inexperienced enough to believe them. "Obviously, you can't afford to align yourself with either party. So, while I can't promise you consistent short-term riches today (or ever), I can promise you two things. I can promise you that: 1) you need rational expectations and a long-term view to get rich investing, and 2) that a disciplined, highly selective, value-orientated approach, adhered to religiously over a period of many years, is your only hope of getting rich by investing in stocks."

At Allan Gray, we identify closely with Mr Ferris' observations. We too have suffered periods of weak performance that inevitably attract ridicule from the press, industry commentators, peers and even our own clients.

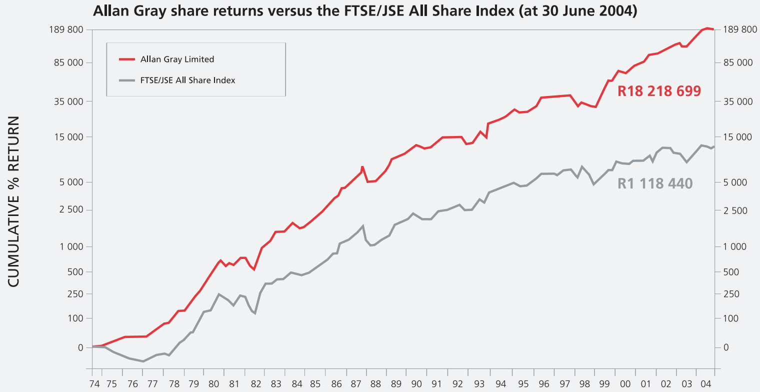
In the recent tech boom, exasperated clients would ask us, "Can't you buy just one tech stock?" Steadfastly, we declined because they all represented poor value. Allan Gray's internal motto has always been 'rather lose clients than lose their money'.

We believe our long-term performance record compares favourably with top international fund managers such as the Sequoia Fund. Our annual performance track record can be found on page 12 of this document. Notice that we have underperformed the benchmark on six out of 30 times or 20% of the time (Sequoia Fund 41% over the time period 1970-2004). An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R18 218 699 by 30 June 2004. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown to R1 118 440 (also displayed in graphic format below).

There are no reliable short cuts to successful investment. Our endeavour is to seek on your behalf investments that represent sound long-term value. Shares that are cheap are by definition normally out of favour and often get cheaper, and vice-versa. This can lead to periods of underperformance but when the investing public see the folly of their ways, the rewards can be very substantial indeed.

While nobody knows the future, I am confident that investment managers who diligently subscribe to the value-oriented approach espoused by Graham and Dodd so many years ago will always deliver rewarding returns at lower than average risk. That is, of course, if you remain invested to enjoy them!

Allan Gray share returns versus the FTSE/JSE All Share Index (at 30 June 2004)



Value of R10 000 invested on 15//06/1974

R18 218 699 R1 118 440

* = The Fortune of Loss, 06/15/04 by Dan Ferris from The Daily Reckoning, pages 8-10

** = Meaning 'new listings'

"Allan Gray's internal motto has always been 'rather lose clients than lose their money'."

Duncan Artus
Trainee Portfolio Manager and Equity Analyst, Allan Gray Limited

Investment Commentary

Why normal earnings are more relevant than current earnings

Please note: This article was approved for print on 13/09/2004 (prior to ABSA's announcement).

Executive Summary

Duncan Artus provides the rationale behind one of the significant changes in our clients' portfolios over the last year, namely the purchase of banking shares and the sale of selected retailers. Through the application of an important investment principle, the determination of a normal level of earnings for individual companies on which to base a valuation, our research highlighted a number of banking shares that were attractively priced, of which ABSA was one.

One of the most prominent changes in our clients' portfolios has been the significant purchase of banking shares and the sale of selected retailers. The reason behind this movement illustrates an important investment principle - the determination of a normal level of earnings for individual companies on which to base a valuation.

Comparing a company's share price relative to its earnings or its price earnings ratio (PE) is a commonly used measure when assessing the attractiveness of a share's valuation. Whilst an extremely useful valuation tool, it is important not to apply it simply at face value. Often, not enough emphasis is placed on the "E" or earnings. For example a share trading on a PE of 10x may be cheaper in fact than one trading on a PE of 7x if its earnings are well below what the company should earn in more normal circumstances.

During periods of declining interest rates, the prices of retail and banking shares have behaved remarkably similarly relative to the market over the last 40 years. This makes sense, as both industries' profitability is more sensitive than the average company to changes in interest rates. As discussed in previous quarterly commentaries, our bottom up research in 2000/2001 identified numerous companies in the retail sector where we believed earnings were well below normal (this often tends to happen when a particular sector falls on hard times) and which could be acquired at attractive valuations.

Banks earnings relative to retail earnings over the long-term

Source: I-Net and Allan Gray research

The Graph on page 4 highlights bank earnings relative to those of retailers. The massive relative decline in retail earnings from the late 1990's was driven by retailers' cost bases growing faster than their revenue as they found it difficult to increase the prices of the goods they sold. On the other hand, banks enjoyed steady growth throughout this period. Although both sectors appeared to be cheap based on PE multiples, we found retail shares to be more attractive than banks because their PE ratios were overstated due to their earnings generally being substantially below normal.

" We now find better value in selected banking shares that are trading on similar forward PE ratios to those of many retailers but on lower earnings."

Retail earnings continued to fall until they bottomed in early 2002 after which they outperformed those of banks by 60%. The catalyst was the substantial weakening of the Rand in 2001 that finally gave retailers the ability to increase revenue at a rate above that of their cost base, which had been restructured during the hard times. Earnings were further boosted by increased consumer spending following the decline in interest rates, higher house prices and tax cuts. More recently, the advancing of credit will boost earnings further for many retailers. The price of retail shares reflected this normalisation in their earnings (which occurred faster than we expected). They have outperformed banks by 50% since early 2002. This outperformance occurred without much expansion in their PE ratios. We believe that in the next financial year most retail companies will report earnings that will be above normal with some exceptions.

We now find better value in selected banking shares that are trading on similar forward PE ratios to those of many retailers but on lower earnings.

ABSA

Absa is one of the banking shares we have purchased for our clients' portfolios over the last year. Except for a few, brief occasions, Absa has always traded on a relatively low PE ratio and at a discount (lower PE) to the banking sector.

Why is this the case? Absa's track record has not been good. This was highlighted by the large write-offs in its micro-lending subsidiary Unifer in 2002 and other smaller mistakes. Absa had the poorest record in the banking sector on a number of measures. Also, at the time, in an effort to improve profitability, Absa was stating publicly its desire to expand into new areas such as merchant banking, where it had little experience and a weak franchise. We believed that instead Absa should have been concentrating on its core retail banking franchise. The franchise is underpinned by a vast distribution network of branches and ATMs through which Absa is able to lend money, collect deposits and sell financial products to its 6 million customers.

In analysing whether Absa was truly trading on a low PE we had to determine whether the historic level of reported earnings was a normal level from which Absa could grow.

The inherent strength of the franchise is evidenced by the fact that, despite not achieving its full potential, Absa managed to generate an average return on equity of 17% over the last 14 years. While not bad when compared to the average company, it was substantially below the returns of the other local banks. An examination of the Table below highlights a steady improvement in Absa's profitability over the last five years as measured by its return on equity. Clearly, management has been making the right moves.

A significant portion of this improvement can be attributed to a substantial increase in Absa's non-interest revenue, essentially bank charges and trading income, to levels more in line with those of its competitors. Further real growth in non-interest revenue off this base will be difficult.

However, we see three factors supporting growth from the current level of earnings.

- Asset growth has been strong, thus growing the balance sheet and providing a ready source of future income
- Net interest margins net of bad debts have been under continued pressure over the last decade and have reached levels that are below normal
- Cost growth going forward should benefit from the long-term restructuring undertaken since the merger that created Absa.

Most importantly, Absa is far more focused on its core franchise, and management continues to implement efficiency gains.

Absa is currently trading on a PE of less than 8.5x our expectation of 2005 earnings, which we believe is a fair reflection of a normal level from which it can grow. We also expect dividends to grow faster than earnings. Therefore, despite the recent strength in its share price, Absa is still priced to deliver an attractive total rate of return.

Time Period	10 years	5 years	3 years	Current
Average return on equity (%)	17	18.7	19.2	23.4
Non-interest revenue / Total revenue (%)	41	46	50	52.6

Rob Dower
Foreign Investments

Offshore Update

How much should a South African invest offshore?

Executive summary

This article argues that South Africans should think separately about currency exposure and underlying offshore investments. For currencies, it is important first to define your neutral Rand/forex mix based on future needs, and then, in cases of over- or undervaluation of the Rand, potentially to buy more or less offshore exposure than your individual benchmark. Approximately 30% offshore is probably a good starting point. For underlying investments, diversification means that investors should logically begin with a benchmark weighted by each country's share of either world GNP or capital markets. However, home country information advantage explains why almost all investors are very overweight this benchmark in domestic investments.

"..., exchange control remains an issue only for the wealthiest individuals."

There are indications that exchange controls for individual investors may soon be a thing of the past. In fact, with many millions of Rands of offshore investment capacity available in unit trust companies, plus the R750 000 individual allowance, exchange control remains an issue only for the wealthiest individuals. Moreover, many South African investors putting the bulk of their savings offshore by applying the old rule of thumb that 'more is better', have generally lost money over the last two years of Rand strength, so it is not surprising that our clients are asking how much offshore exposure we think is optimum for a South African investor.

There are two good reasons for investing outside your home country: you may want to buy offshore currency exposure to make sure you can afford offshore expenses in the future; or you may invest part of your savings in assets outside South Africa to diversify and therefore reduce the risk of your total investments.

Offshore currency exposure

Any investor considering currency exposure should start by defining a benchmark exposure, reflecting the likely portions of his future spending requirements in Rands or other currencies. For most South Africans intending to stay in this country, future costs will be mostly in Rands, but an individual may wish to travel overseas or make provision for overseas studies by a grandchild. Also, all of us consume imported goods to some extent so, even if you are not planning to go skiing next year, some non-Rand exposure to protect against future potential increases in import prices would be prudent. A useful starting point is the fact that about 30% of goods included in the SARB producer price statistics are imported*.

As a second step, you may take a view on whether you think the Rand is over- or undervalued at a point in time. On this basis, if the Rand is very strong, it makes sense to put more money in other currencies; if it is very weak, it is better to keep more of your savings in Rands. Prudent investors are wary of making currency calls because these imbalances can take a long time to correct themselves, but occasionally relative valuations become considerably stretched from the underlying fundamentals. Right now, we consider the Rand to be overvalued relative to the currencies of South Africa's trading partners, particularly those in Asia, and therefore we would be overweight in these currencies and underweight in the Rand.

In summary, the right amount of forex depends largely on the future needs of the individual investor, with the average investor with a neutral Rand view likely to need approximately 30%.

Underlying investments outside South Africa

For maximum diversification, a spread of investments across global markets makes sense, with no particular bias in favour of the home country. Whether you live in England or the US or South Africa makes no difference to the expected returns of your investment portfolio, and you should therefore theoretically seek out the best opportunities wherever they may present themselves. More opportunities are likely to exist in larger economies and fewer in smaller ones, so a neutral global portfolio would be likely to be more or less weighted by country according to the size of GNP, say, with more invested in Japan than in Zambia, and not very much of the neutral portfolio invested in South Africa.

Moreover, because of the strong resource-bias to the South African economy, South African investors will gain more from diversifying their holdings outside this country than those in developed markets. US, Japanese, and other developed market investors can diversify geographically without leaving home by buying multi-national company shares listed in these countries. They have a much greater choice of stocks by sector than South Africans do.

However, it is risky to invest in any instrument, be it a managed fund or an index or an individual equity, which you do not fully understand. For stockpicking, South African investors have an information advantage over those outside this country in that we use the products and services of companies based here and we live in the newsflow that surrounds them. South African based analysts can visit stores and operating sites and have easy access to management.

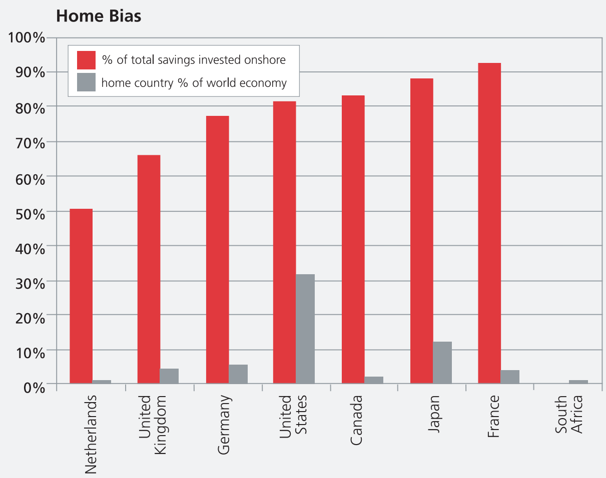
In the same way, South African investors generally have a better understanding of the fund managers operating in this country and the services they offer than we do of overseas fund managers. Advisers can question portfolio managers about philosophy and style and make an assessment of future performance. It is much harder for us to assess the long-term sustainability of skills and processes of fund managers outside this country with the same level of rigour. For example, there are many thousands of funds available, and many managers, in the US alone. It is simply not prudent to invest with a fund manager or in a fund that you do not fully understand. It is because of this information advantage that investors in other countries with no limits on offshore investing are all very overweight their home countries (as shown in the graph below).

So, ignoring the Rand, a rational investor should invest offshore only to the extent that he/she can find attractive opportunities and fully understand the associated risks. In our opinion, buying a fund or a share on 'faith' is much more risky than being slightly less diversified than the optimum.

Although investors should aim for a diversified global portfolio, how much you invest offshore depends on how well you understand what you are investing in. Most South African advisers and investors would benefit from researching global investments much more rigorously than they currently do.

Putting the two together

Because of the practical difficulty of separating foreign currency and foreign investment decisions for the average South African investor, normally these decisions are effectively the same. If we were to devise a simple rule of thumb for foreign exposure, the minimum would be approximately 30% of a diversified portfolio offshore. For the individual investor, whether they are at 30% offshore or more will depend on their individual appetite to find and understand offshore investment opportunities, and the relative attractiveness at any time of South African investments and the Rand.



*= To illustrate the value of currency matching, consider Mr Smith, who wants to use his savings partly to fund a well-deserved retirement and partly to visit relatives in the UK. He estimates the likely costs of each of these needs and decides that the future foreign exchange based costs amount to about 20% of his current savings. He therefore invests his savings so that 20% is directly linked to offshore currencies and the rest is in Rands. If the Rand strengthens, his foreign investments will do poorly, but his future forex costs will also decrease. If the Rand weakens the opposite will happen, and his higher forex costs will be protected by gains on his foreign investments.

Christo Terblanche
Director, Allan Gray Life Limited

Update on Allan Gray Life

Executive Summary

As Allan Gray Life celebrates its fourth anniversary, Christo Terblanche reflects on what has changed in the business and what has stayed the same. He points to significant growth in the pooled portfolio business in both client numbers and assets under management. Also the revision of exchange control regulations has allowed retirement funds once more to transfer 15% of their assets offshore, resulting in the introduction of Allan Gray Life's Global Stable and Global Absolute portfolios. But there is still no intention to conduct any business that may result in balance sheet risk to clients. And clients in the new pooled portfolios and those in segregated accounts continue to be treated equally.

We last provided you with an update on Allan Gray Life some two years ago (Quarterly Commentary 2, 2002). With the life company having recently celebrated its fourth anniversary, we thought it a good time to reflect on the past four years of operation.

Allan Gray Life Limited is a wholly owned subsidiary of Allan Gray Limited. We received our licence from the Financial Services Board to operate as a long-term insurance company in August 2000. By our own choice, the licence was limited to offering investment-linked products only. We therefore do not offer any kind of risk guaranteed products that potentially could place at risk the company's balance sheet, and ultimately the policyholders.

The main purpose in establishing Allan Gray Life was to offer our investment management service to those funds that could not meet the minimum for our segregated accounts. Also, the unitisation facilitated the administration of funds that offered individual member choice. However, the main condition we set ourselves was that pooled clients should be treated equally in terms of investment performance relative to our segregated clients.

So has the business changed at all? Simply, yes and no. First, let's look at why we say the business has changed.

From a growth perspective, there are currently about 220 fund policies with assets under management totalling just over R11bn. Also, we have some 1 500 investment-linked living annuity and endowment policies, totalling about R800m.

"Allan Gray Life still does not intend conducting any business that may result in balance sheet risk to our clients."

Graph 1 on page 9 depicts the growth in the pooled portfolio business by client numbers as well as assets under management since inception. We think that this is a notable achievement - and certainly a milestone that we wouldn't have been able to meet without the continued support of our clients.

From a new product perspective, we launched our Stable Medical Scheme Portfolio in October 2003 (refer to the article in Quarterly Commentary 2, 2004), a portfolio compliant with the investment requirements as set out in Annexure B to the Regulations of the Medical Schemes Act. Currently, this portfolio has approximately R290m in assets under management.

Also, with the recent revision of the exchange control regulations for institutions, retirement funds were given greater control over their foreign investments and, whilst still only limited to 15% of total assets, were allowed once more to transfer assets offshore.

This enabled the establishment of our Global Stable and Global Absolute Portfolios. Whilst these portfolios were part of the original plan at the commencement of the life company, their establishment was possible only after the revision of the previously restrictive exchange control regulations.

The portfolios are the global versions of the Domestic Stable and Domestic Absolute Portfolios, and are allowed up to a maximum of 15% in foreign investments. Whilst both portfolios comply with the prudential investment guidelines set out in Regulation 28 of the Pension Funds Act, they address distinctly different risk profiles. In terms of our risk-profiled range of pooled portfolios, they rank either side of the Balanced Portfolio, which has a moderate risk profile.

The Global (and Domestic) Stable Portfolio is an actively managed, conservative, balanced portfolio and has as primary aim the preservation of capital. It aims to outperform money market investments by 2% per annum, and is suitable for investors with a low tolerance for volatility, such as investors close to retirement, or those who may consider guaranteed funds.

The Global (and Domestic) Absolute Portfolio is an actively managed, moderately aggressive, balanced portfolio and has as its primary aim investment returns over the long-term. It aims to outperform not only the average manager's balanced portfolio, but also Allan Gray's Balanced Portfolio, over the long-term. However, the portfolio can experience higher short-term volatility and therefore is suitable for investors with a higher than average tolerance for risk.

Clients can access these global portfolios by transferring their own foreign assets, i.e. 15% of the investment in foreign currency, or by investing initially in the domestic version if sufficient foreign assets do not exist. In the latter case, Allan Gray Life will make application to the South African Reserve Bank to transfer the appropriate amount of assets offshore, upon which the investment will be switched into the global portfolio. Also, upon termination, the client can request that the foreign portion of the investment be paid out in foreign or local currency.

After all this, what then has stayed the same?

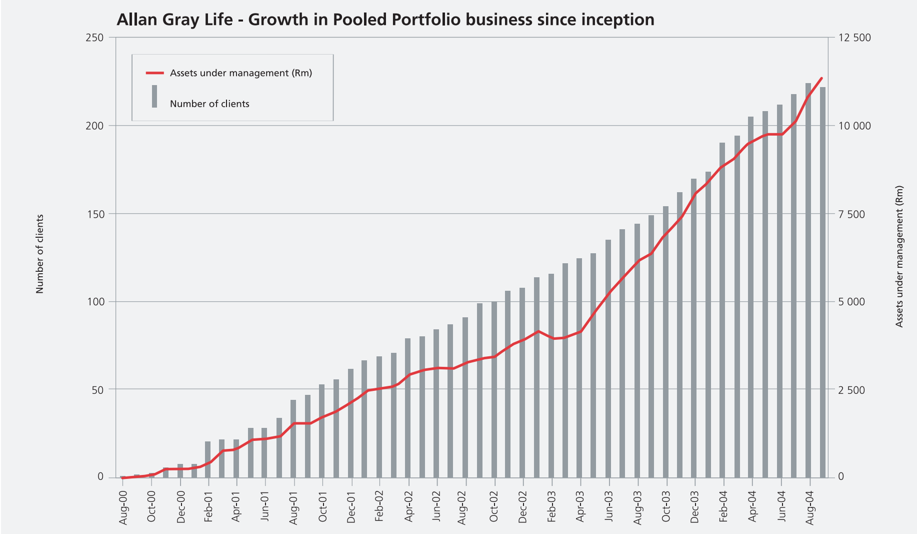
Allan Gray Life still does not intend conducting any business that may result in balance sheet risk to our clients. The Financial Services Board recently conducted a risk audit of Allan Gray Life and found no areas of risk in the business and, as a result, they gave us a clean bill of health.

We continue to treat our clients equally. Clients in the pooled portfolios have been receiving similar performance to that of our clients in segregated accounts with the same mandate, as illustrated in Graphs 2 and 3. The graphs illustrate that the returns achieved for our segregated global and domestic balanced clients were broadly similar to those achieved for our pooled clients in the Global and Domestic Balanced Pooled Portfolios, whilst in both cases outperforming the respective benchmarks by comfortable margins.

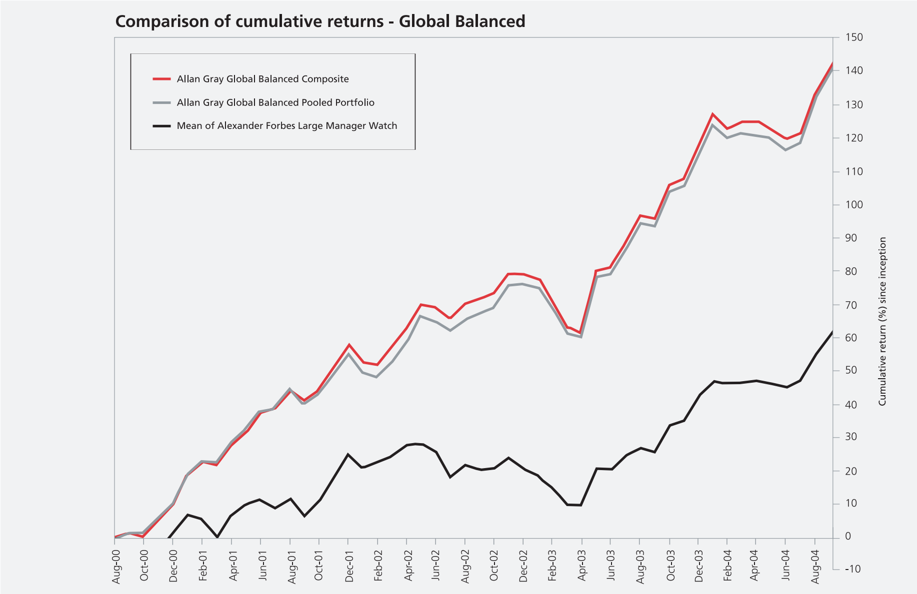
Most importantly, central to all our portfolios is the rigorous application of our investment philosophy, a concept that we haven't changed over the 30 years since Allan Gray was established, and which has delivered superior investment returns over the long-term for our clients.

It seems that the more things change, the more we stay the same....

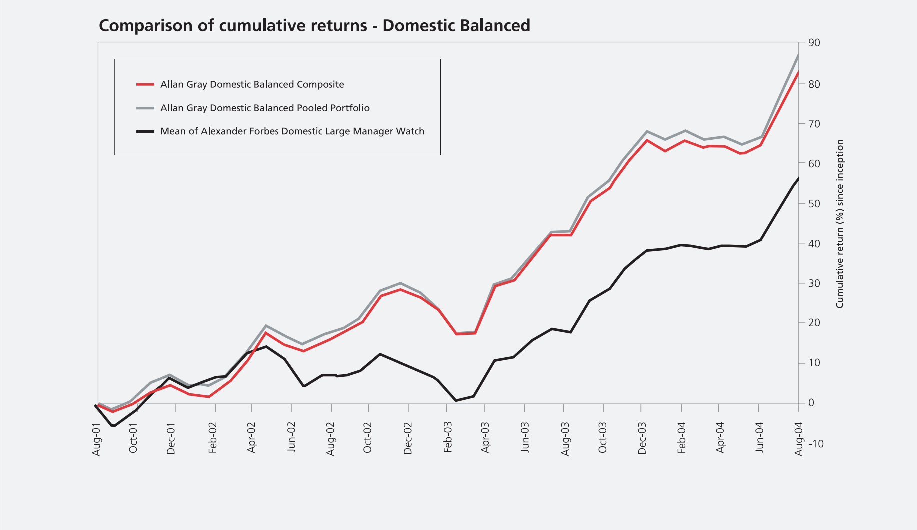
Graph 1



Graph 2



Graph 3



Barend Ritter
Head of Retail Product Development

Retail Update

Allan Gray launches a Bond Fund

Executive Summary

To cater for the needs of those who have high income requirements but wish to invest in interest bearing securities only, Allan Gray has launched a new bond unit trust fund. The Fund - introduced from October 1, 2004 - will seek to provide investors with the maximum returns, both in income and capital growth. Fees will be based on performance, in line with Allan Gray's policy.

Allan Gray has launched a new bond unit trust fund. Introduced from October 1 2004, the Fund aims to provide investors with the maximum returns, both in income and capital growth, available from South African interest bearing securities.

"..., we are certainly no stranger to managing interest bearing assets, including bonds."

Previously, the Allan Gray range of unit trusts addressed the needs of long-term investors with differing risk profiles in equity, money market and asset allocation funds, but did not cater for the needs of those who have high income requirements and wished to invest in interest bearing securities only. Consequently, it was decided to add to our existing suite of funds by launching the Allan Gray Bond Fund.

While the launch of a bond fund in the unit trust market is a first for Allan Gray, we are certainly no stranger to managing interest bearing assets, including bonds. We have managed the fixed interest component of our retirement fund portfolios since January 1978. As shown in the accompanying table, since then, our clients' portfolios have outperformed the fixed interest component of the Consulting Actuaries Survey by more than 1% per year - quite commendable for such a low risk asset class.

The All Bond Index will serve as the benchmark of the Fund. In line with Allan Gray's policy, fees will depend on the relative performance of the Fund against the Index over the preceding rolling 12 months. A performance-based fee ranging between 0.25% and 0.75% per annum (excluding VAT) of the market value of the Fund will be levied. In situations where the performance of the Fund is equal to or worse than the benchmark over the preceding 12 months, the fee will be 0.25% per annum. A positive difference in performance between the Fund and the All Bond Index of 2% per annum will be required to reach the maximum fee of 0.75% per annum. A minimum lump sum of R25 000 and a minimum debit order of R2 500 per month applies.

"Given a superior fixed interest track record, the launch of the Allan Gray Bond Fund was a logical decision."

Jack Mitchell and Sandy McGregor, both Directors of Allan Gray Limited and with extensive experience in the management of interest bearing securities, will manage the Fund jointly. Jack Mitchell is also the Chairman of Allan Gray Unit Trust Management Limited.

The Fund intends to achieve its objectives by investing in a combination of South African interest bearing securities including public, parastatal, municipal and corporate bonds, inflation linked bonds, loan stock, debentures, fixed deposits, money market instruments and cash, and will seek to preserve at least the nominal value of investors' capital.

The Fund will suit investors who are looking for returns in excess of those provided by income funds, money market instruments or cash investments and who are prepared to accept some risk of capital loss in exchange for the prospect of earning increased returns. It will also cater for those investors who want to draw a regular income stream without consuming capital.

Although Allan Gray is typically very conservative when it comes to launching new products, as it does not believe it is in investors' best interests to offer a wide range of 'flavour of the month' funds, we do recognise our clients' needs. Given a superior fixed interest track record, the launch of the Allan Gray Bond Fund was a logical decision.

INTEREST RATE SENSITIVE RETURNS vs CONSULTING ACTUARIES SURVEY* (CAS)

Period	Allan Gray	CAS**	Out/(Under) Performance
1978	22.0	24.9	-2.9
1979	11.5	14.0	-2.5
1980	4.0	-4.2	8.2
1981	9.5	6.1	3.4
1982	22.4	28.6	-6.2
1983	9.9	-1.4	11.3
1984	9.0	5.3	3.7
1985	20.6	14.8	5.8
1986	21.5	28.7	-7.2
1987	9.4	13.0	-3.6
1988	13.3	10.9	2.4
1989	20.3	20.7	-0.4
1990	18.6	17.7	0.9
1991	16.6	16.3	0.3
1992	20.8	23.0	-2.2
1993	22.8	22.3	0.5
1994	1.3	1.0	0.3
1995	24.7	23.1	1.6
1996	8.5	10.0	-1.6
1997	27.4	23.9	3.5
1998	12.2	8.8	3.4
1999	28.4	22.8	5.6
2000	17.6	15.6	2.0
2001	15.1	14.6	0.5
2002	12.8	13.4	-0.6
2003	17.5	14.8	2.7
2004 (to 30.6)	2.3	2.4	-0.1
Annualised to 30.06.2004			
From 1.7.2003 (1 year)	7.1	7.9	-0.8
From 1.7.2001 (3 years)	12.1	11.4	0.7
From 1.7.1999 (5 years)	15.5	14.3	1.2
From 1.7.1994 (10 years)	16.7	14.9	1.8
Since 1.1.78	15.6	14.4	1.2
Volatility***	5.6	6.6	

* Domestic interest rate sensitive returns of Allan Gray's segregated and pooled clients versus the interest rate sensitive carve out of the Consulting Actuaries Survey.

** The return from 1 April 2004 is an estimate.

*** Calculated as the annualised standard deviation of the quarterly returns over the period 1980 to December 2002.

Performance

ALLAN GRAY LIMITED SHARE RETURNS vs FTSE/JSE ALL SHARE INDEX

Period	Allan Gray *	FTSE/JSE 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	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004 (to 30.9)	15.9	16.0	-0.1
Annualised to 30.09.2004			
From 1.10.2003 (1 year)	34.8	35.9	-1.1
From 1.10.2001 (3 years)	27.6	17.0	10.6
From 1.10.1999 (5 years)	30.4	14.9	15.5
From 1.10.1994 (10 years)	22.9	10.6	12.3
Since 1.1.78	30.3	20.7	9.6
Since 15.6.74	28.7	17.5	11.2
Quarterly Standard Deviation	22.3	24.7	
Average outperformance			11.2
No. of calendar years outperformed			23
No. of calendar years underperformed			6

*Note: Allan Gray commenced managing pension funds on 1.1.78. The returns prior to 1.1.78 are of individuals managed by Allan Gray and these returns exclude income.
Note: Listed Property included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R20 848 121 by 30 September 2004. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R1 313 384.

ALLAN GRAY LIMITED GLOBAL MANDATE RETURNS vs AVERAGE OF THE CONSULTING ACTUARIES SURVEY (CAS)

Period	Allan Gray	CAS*	Out/(Under) Performance
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-0.6	7.5
1999	79.7	41.2	38.5
2000	21.6	6.6	15.0
2001	43.9	22.3	21.6
2002	13.4	-2.2	15.6
2003	21.5	16.6	4.9
2004 (to 30.9)	11.6	13.8	-2.2
Annualised to 30.09.2004			
From 1.10.2003 (1 year)	24.0	26.0	-2.0
From 1.10.2001 (3 years)	19.8	14.7	5.1
From 1.10.1999 (5 years)	26.0	15.2	10.8
From 1.10.1994 (10 years)	21.6	13.4	8.2
Since 1.1.78	24.1	17.9	6.2
Average outperformance			6.2
No. of calendar years outperformed			22
No. of calendar years underperformed			4

* The return from 1 July 2004 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R3 223 441 by 30 September 2004. The returns generated by the average of the Consulting Actuaries Survey over the same period would have grown a similar investment to R821 377.

ALLAN GRAY LIMITED PERFORMANCE PROFILE

Annualised performance in percent per annum to 30 September 2004

	Third quarter (unannualised)	1 year	3 years	5 years	Since inception	Assets under management R millions	Inception Date
SEGREGATED RETIREMENT FUNDS							
Global Balanced Mandate	**10.5**	**24.0**	**19.8**	**26.0**	**24.1**	**19,324.9**	**01.01.78**
Mean of Consulting Actuaries Fund Survey*	11.7	26.0	14.7	15.2	17.9		
Domestic Balanced Mandate	**12.7**	**28.8**	**22.9**	**25.5**	**24.5**	**10,578.0**	**01.01.78**
Mean of Alexander Forbes Domestic Manager Watch*	12.6	32.7	18.1	17.2	18.4		
Equity-only Mandate	**14.7**	**34.4**	**26.3**	**27.9**	**21.4**	**21,113.2**	**01.01.90**
FTSE/JSE All Share Index	17.4	35.9	17.0	14.9	13.1		
Global Namibia Balanced Mandate	**9.6**	**23.7**	**19.9**	**25.3**	**21.0**	**2,223.8**	**01.01.94**
Mean of Alexander Forbes Namibia Average Manager*	11.7	28.1	15.3	15.2	13.3		
Equity-only Relative Mandate	**15.7**	**37.5**	**22.4**	**-**	**22.8**	**3,758.5**	**19.04.00**
Resource adjusted FTSE/JSE All Share Index	16.3	39.3	15.7	-	12.3		
POOLED RETIREMENT FUNDS							
Allan Gray Life Global Balanced Portfolio	**11.1**	**24.4**	**19.7**	**-**	**24.0**	**4,773.0**	**01.09.00**
Mean of Alexander Forbes Large Manager Watch*	11.7	29.1	15.1	-	12.7		
Allan Gray Life Domestic Balanced Portfolio	**13.8**	**30.8**	**23.8**	**-**	**22.5**	**3,619.6**	**01.09.01**
Mean of Alexander Forbes Domestic Manager Watch*	12.6	32.7	18.1	-	15.4		
Allan Gray Life Domestic Equity Portfolio	**15.7**	**35.9**	**27.1**	**-**	**26.7**	**1,438.0**	**01.02.01**
FTSE/JSE All Share Index	17.4	35.9	17.0	-	11.0		
Allan Gray Life Domestic Absolute Portfolio	**9.6**	**24.0**	**29.2**	**-**	**29.4**	**551.3**	**06.07.01**
Mean of Alexander Forbes Domestic Manager Watch*	12.6	32.7	18.1	-	14.4		
Allan Gray Life Domestic Stable Portfolio	**7.5**	**20.0**	**-**	**-**	**17.9**	**192.8**	**01.12.01**
Alexander Forbes Three-Month Deposit Index plus 2%	2.4	10.3	-	-	13.0		
Allan Gray Life Foreign Portfolio	**1.3**	**3.7**	**-**	**-**	**-6.7**	**166.2**	**23.01.02**
60% of the MSCI Index and 40% of the JP Morgan Global Government Bond Index	5.5	6.0	-	-	-12.5		
Allan Gray Life Domestic Optimal Portfolio	**2.8**	**6.9**	**-**	**-**	**10.5**	**70.1**	**04.12.02**
Daily call rate of Nedcor Bank Limited	1.6	6.8	-	-	9.0		
FOREIGN-ONLY (RANDS)							
Orbis Global Equity Fund (Rands)	**1.9**	**12.8**	**4.1**	**14.2**	**21.4**	**1,752.6**	**01.01.90**
FTSE World Index (Rands)	3.9	10.1	-4.1	0.9	13.3		
Orbis Optimal US$ Fund (Rands)	**3.1**	**-4.2**	**-2.7**	**15.9**	**19.7**	**1,360.6**	**01.01.90**
US$ Bank Deposits (Rands)	4.8	-5.6	-9.2	4.7	11.6		
Orbis Japan Equity (US$) Fund (Rands)	**-3.3**	**2.7**	**-3.3**	**8.8**	**15.7**	**362.8**	**12.06.98**
Tokyo Stock Price Index (Rands)	-2.5	3.3	-5.8	-0.4	6.9		
Global Balanced Mandate (Rands) - Foreign Component	**1.6**	**3.8**	**4.9**	**21.9**	**17.5**	**2,725.7**	**01.07.96**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	5.5	6.0	-2.8	4.0	11.3		
UNIT TRUSTS **					Figures below unannualised		
Equity Fund (AGEF)	***	**31.1**	**24.2**	**25.7**	**609.1**	**5,819.1**	**01.10.98**
FTSE/JSE All Share Index		35.9	17.0	14.9	177.4		
Balanced Fund (AGBF)	***	**27.4**	**21.5**	**25.0**	**205.5**	**6,038.9**	**01.10.99**
Average Prudential Fund (excl. AGBF)		27.4	15.1	13.1	85.1		
Stable Fund (AGSF)	***	**14.4**	**13.9**	**-**	**83.2**	**2,706.4**	**01.07.00**
After-tax return of call deposits plus two percentage points		6.6	8.7	-	42.1		
Money Market Fund (AGMF)	***	**8.2**	**10.3**	-	**37.8**	**515.4**	**03.07.01**
Domestic fixed interest money market unit trust sector (excl. AGMF)		8.1	10.6	-	38.7		
Global Fund of Funds (AGGF)	***	**-**	**-**	**-**	**-**	**391.8**	**01.02.04**
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		-	-	-	-		
Optimal Fund	***	**6.5**	**-**	**-**	**25.8**	**1,676.6**	**01.10.02**
Daily call rate of FirstRand Bank Ltd		6.7	-	-	19.4		

* The returns from 1 July 2004 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.
*** Unavailable due to ACI Regulations.
**** As of 3 February 2004, the benchmark is displayed. The benchmark was the Morgan Stanley Capital International Index (in Rands) prior to this date.

Unit Trust performance data is based on a lump sum investment calculated on a sell-to-sell basis with distributions reinvested for the Class A units. The source of the figures quoted is the Pretoria's Unit Trust Survey for the period ending 30 September 2004.

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 R200 million.
These mandates are of a balanced or asset class specific nature.
Portfolios can be managed on 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.

NAMIBIAN POOLED PORTFOLIO - ALLAN GRAY NAMIBIA INVESTMENT TRUST

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

ORBIS MUTUAL FUNDS

	ORBIS GLOBAL EQUITY FUND	ORBIS OPTIMAL US$ FUND	ORBIS JAPAN FUNDS (YEN, EURO AND US$ FUND CLASSES)
Type of Fund	US$ denominated Equity Fund which remains fully invested in global equities.	US$ denominated Fund, which invests in selected Orbis Equity Funds, by seeking absolute (i.e. positive) returns regardless of stockmarket trends.	Orbis Japan Equity (Yen) Fund - invests in a relatively focused portfolio of Japanese equities. Orbis Japan Equity (Euro) Fund - invests in the same Japanese equities as the Orbis Japan Equity (Yen) and hedges the resulting Japanese yen exposure into euro with the result that the Fund's returns are managed in euro. Orbis Japan Equity (US$) Fund - invests substantially all of its assets in the Orbis Japan Equity (Yen) and hedges the resulting Japanese yen exposure into US$, with the result that the Fund's returns are managed in US$.
Investment objective	Aims to earn higher returns than world stockmarkets. Its benchmark is the FTSE World Index, including income. The Fund's currency exposure is managed relative to that of the benchmark.	This Fund seeks capital appreciation in its base currency, the US$, while offering a low risk global portfolio. The risk of loss of the Fund is reduced with stockmarket hedging. The Fund's currency benchmark is 100% US$.	Orbis Japan Equity (Yen) Fund – seeks higher returns in yen than the Japanese stockmarkets, without greater risk of loss. Orbis Japan Equity (Euro) Fund - seeks higher returns in euro than the Japanese stockmarkets hedged into euro, without greater risk of loss. Orbis Japan Equity (US$) Fund - seeks higher returns in US$ than the Japanese stockmarkets hedged into US$, without greater risk of loss.
Structure	Open-ended Bermuda mutual fund company (similar to unit trusts in South Africa).	Open-ended Bermuda mutual fund company (similar to unit trusts in South Africa).	Open-ended collective investment schemes.
Dealing costs	None. No front-end fee (initial charge) or transaction charges (compulsory charge). Please note that this is not a Rand-denominated unit trust so a prospective investor is required to have funds offshore.	None. No front- or back-end load. No bid-to-offer spread.	None. No front- or back-end load. No bid-to-offer spread.
Manager's fee	0.5% - 2.5% per annum depending on performance.	0.5% - 3.0% per annum depending on performance.	0.5% - 2.5% per annum depending on performance.
Subscriptions/ redemptions	Weekly each Thursday.	Weekly each Thursday.	Weekly each Thursday.
Reporting	Comprehensive reports are distributed to members each quarter.	Comprehensive reports are distributed to members each quarter.	Comprehensive reports are distributed to members each quarter.
Client Service Centre	Allan Gray Client Services on 0860 000 654.	Allan Gray Client Services on 0860 000 654	Allan Gray Client Services on 0860 000 654.

SOUTH AFRICAN POOLED PORTFOLIOS - ALLAN GRAY LIFE LIMITED

(The minimum investment per Life Company client is R20 million.
Institutional clients below R20 million are accommodated by our Regulation 28 Compliant Unit Trusts.)

RISK-PROFILED POOLED PORTFOLIOS

	STABLE PORTFOLIO	BALANCED PORTFOLIO	ABSOLUTE PORTFOLIO
Investor Profile	• Highly risk-averse institutional investors, e.g. 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.
Product Profile	• 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.	• 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.
Return Characteristics/ Risk of Monetary Loss	• Superior returns to money market investments. • 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.
Benchmark	• Alexander Forbes three-month Deposit Index plus 2%.	• Mean performance of the large managers as surveyed by consulting actuaries.	• Mean performance of the large managers as surveyed by consulting actuaries.
Fee Principles	• Fixed fee, or performance fee based on outperformance of the benchmark.	• Fixed fee, or performance fee based on outperformance of the benchmark.	• Performance fee based on outperformance of the benchmark, 0.5% p.a. plus (or minus) 25% of the out/underperformance of the portfolio relative to the benchmark, subject to an overall minimum of 0% p.a.

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

ASSET CLASS POOLED PORTFOLIOS

	MONEY MARKET	BOND MARKET	LISTED PROPERTY	EQUITY	FOREIGN
Investor Profile	• 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.	• Institutional investors requiring management of a specific foreign portfolio.
Product Profile	• 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.	• 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	• Superior returns to the Alexander Forbes three-month Deposit Index. • Low capital risk. • High flexibility. • Capital preservation. • High level of income.	• Superior returns to that of the FTSE/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 FTSE/JSE All Share Index including dividends. • Risk will be no greater than that of the benchmark. • Higher than average returns at no greater than average risk for an equity portfolio.	• Superior returns to that of the benchmark at no greater than average absolute risk of loss.
Benchmark	• Alexander Forbes three-month Deposit Index.	• FTSE/JSE All Bond Index plus coupon payments.	• Alexander Forbes Listed Property Index (adjusted).	• FTSE/JSE All Share Index including dividends.	• 60% Morgan Stanley Capital International Index, 40% JP Morgan Global Government Bond Index.
Fee Principles	• Fixed fee of 0.2% p.a.	• Fixed fee of 0.35% p.a.	• Fixed fee of 0.75% p.a.	• Performance fee based on outperformance of the benchmark.	• No fee charged by Allan Gray. Unit prices of underlying mutual funds reflected net of performance fees charged by Orbis.

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

OTHER POOLED PORTFOLIO

	OPTIMAL PORTFOLIO
Investor Profile	• Institutional investors wishing to diversify their existing investments with a portfolio that not only has no/low correlation to stock or bond market movements, but also strives to provide a return in excess of that offered by money market investments. • Institutional investors with a high aversion to the risk of capital loss.
Product Profile	• Seeks absolute returns. • Actively managed pooled portfolio consisting of shares and derivative instruments. • Shares selected that offer fundamental value. • Risk of shares underperforming the market is carefully managed. • Stockmarket risk reduced by using derivative instruments.
Return Characteristics/ Risk of Monetary Loss	• Superior returns to bank deposits. • Little or no correlation to stock or bond markets. • Low risk of capital loss. • Low level of income.
Benchmark	• Daily call rate of Nedcor Bank Limited.
Fee Principles	• Fixed fee of 0.5% plus 20% of the outperformance of the benchmark.

COMPULSORY PRODUCTS - RETAIL

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 Bond Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds	• Allan Gray Equity Fund • Allan Gray Balanced Fund • Allan Gray Stable Fund • Allan Gray Bond Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds	• Allan Gray Equity Fund • Allan Gray Balanced Fund • Allan Gray Stable Fund • Allan Gray Bond Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds
Minimum Investment Size	R 20 000 lump sum R 1 000 monthly	R 50 000	R 100 000
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	None	None	None
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%	Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%

* Allan Gray Living Annuity is underwritten by Allan Gray Life Limited.
** For annual investment management fees of Allan Gray unit trusts, please refer to page 7 of the unit trust application form, which can be downloaded from the website www.allangray.co.za

DISCRETIONARY PRODUCTS - RETAIL

ENDOWMENT POLICY*

Description	• An investment policy ideally suited to investors with medium- to long-term investment objectives who want capital growth with after-tax returns. • Ideal for investors interested in a 5-year savings plan.
Investment Options	• Allan Gray Equity Fund • Allan Gray Balanced Fund • Allan Gray Stable Fund • Allan Gray Bond Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds
Minimum Investment Size	R 20 000 lump sum R 1 000 monthly recurring investment
Initial Fee	None
Annual Administration Fee	0.4% (VAT Included)
Investment Management Fee	Depends on the combination of unit trusts selected as investment options.
Switching Fee	None
Financial Adviser Fees (if applicable)	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5 % Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%

* The Endowment Policy is underwritten by Allan Gray Life Limited.

UNIT TRUSTS

	EQUITY FUND	BALANCED FUND	STABLE FUND	BOND FUND	OPTIMAL FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS
Benchmark	FTSE/JSE All Share Index including income.	The average (market value-weighted) of the Domestic Prudential Medium Equity Sector excluding the Allan Gray Balanced Fund.	After-tax return of call deposits (for amounts in excess of R1m) with FirstRand Bank Limited plus two percentage points.	All Bond Index.	The daily call rate of FirstRand Bank Limited (for amounts in excess of R1m).	The simple average of the Domestic Fixed Interest Money Market Unit Trust Sector excluding Allan Gray Money Market Fund.	60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global.
Maximum net equity exposure	100%	75%	60%	0%	15%	0%	100%
Portfolio orientation	A share portfolio selected for superior long-term returns.	A share portfolio which can include all asset classes selected for superior long-term returns.	A portfolio which can include all asset classes chosen for their high income yielding potential. The intention is to keep the equity portion significantly below 60%.	Invested in a combination of South African interest bearing securities including bonds, loan stock, debentures, fixed deposits, money market instruments and cash.	A portfolio of carefully selected equities. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.	Invested in selected money market instruments providing a high income yield.	Invested in the Orbis funds and the Allan Gray Money Market Fund. The Fund will always hold 85% offshore.
Return objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns to bank deposits.	Superior returns to the All Bond Index.	Superior returns to bank deposits.	Superior money market returns.	Superior long-term returns.
Risk of monetary loss	Risk higher than the Balanced Fund but less than average general equity fund due to Allan Gray's investment style.	Risk will be higher than the Stable Fund but less than the Equity Fund. This is a medium risk fund.	• Low risk. • Limited capital volatility. • Seeks to preserve capital over any two-year period.	Low risk, higher than the Money Market Fund, but lower than the Balanced Fund.	• Low risk. • Little or no correlation to stock or bond markets.	• Low risk. • High degree of capital stability.	Risk higher than Balanced Fund but less than average foreign balanced fund.
Target market	• Investors seeking long-term wealth creation who have delegated the equity selection function to Allan Gray. • Investors should be comfortable with market fluctuations i.e. short-term volatility. • Typically the investment horizon is five-year plus.	• Investors seeking long-term wealth creation who have delegated the asset allocation decision to Allan Gray. • Investors seeking a three-year plus investment. • Investors who wish to substantially comply with the Prudential Investment Guidelines of the Pension Fund Act (Reg. 28).	• Risk-averse investors e.g. investors in bank deposits or money market funds. • Investors who wish to substantially comply with the Prudential Investment Guidelines of the Pension Fund Act (Reg. 28). • Those investors who require a regular income.	• Investors seeking returns in excess of that provided by income funds, the money market or cash. • Investors who are prepared to accept some risk of capital loss in exchange for the prospect of increased returns. • Investors who want to draw a regular income stream without consuming capital.	• Risk-averse investors. • Retired investors. • Investors who wish to diversify a portfolio of equities or bonds. • Retirement schemes and Multi-Managers who wish to add a product with an alternative investment strategy to their overall portfolio. • Individuals who have lump sum contractual savings (like Living Annuities, Preservation Funds, and Retirement Annuities).	• Highly risk-averse investors. • Investors seeking a short-term parking place for their funds.	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	Low income yield.	Average income yield in the Allan Gray suite of funds.	High income yield.	High income yield.	Low income yield.	High income yield.	Low income yield.
Income distribution	Distributed bi-annually.	Distributed bi-annually.	Distributed quarterly.	Distributed quarterly.	Distributed bi-annually.	Distributed monthly.	None.
Compliance with Prudential Investment Guidelines, Reg. 28 of the Pension Fund Act	Does not comply.	Complies.	Complies.	Complies.	Does not comply.	Complies.	Does not comply.
Pricing	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.
Fee principles	Performance fee orientated to outperformance of the FTSE/JSE All Share Index over a two-year rolling period.	Performance fee orientated to outperformance of the average Domestic Prudential Medium Equity Sector Fund over a two-year rolling period.	Performance fee orientated to outperformance of taxed bank deposits. No fees if there is a negative return experienced over a two-year rolling period.	Performance fee orientated to outperformance of the All Bond Index over a one-year rolling period.	Fixed fee of 1.0% (excl. VAT) per annum. Performance fee of 20% of the daily outperformance of the benchmark. In times of underperformance no performance fees are charged until the underperformance is recovered.	Fixed fee of 0.25% (excluding VAT) per annum.	No fixed fee. The underlying funds, however, have their own fee structure.
Minimum lump sum investment requirement	R 10 000 lump sum and/or R 500 per month debit order.	R 5 000 lump sum and/or R 500 per month debit order.	R 5 000 lump sum and/or R 500 per month debit order.	R 25 000 lump sum and/or R 2 500 per month debit order.	R 25 000 lump sum and/or R 2 500 per month debit order.	R 50 000 lump sum and/or R 5 000 per month debit order.	R 25 000 lump sum. No debit orders are permitted.
Portfolio Manager	Stephen Mildenhall	Arjen Lugtenburg	Stephen Mildenhall	Jack Mitchell and Sandy McGregor	Stephen Mildenhall	Michael Moyle	Stephen Mildenhall

ALLAN GRAY LIMITED

Registration Number 1992/006778/06 Granger Bay Court Beach Road V&A Waterfront Cape Town 8001

P O Box 51318 V&A Waterfront Cape Town 8002 South Africa Tel 021 415 2300 Fax 021 415 2400

www.allangray.co.za info@allangray.co.za

ALLAN GRAY UNIT TRUST MANAGEMENT LIMITED

Customer Service Line 0860 000 654 Customer Service Facsimile 0860 000 655