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31 March 2005

Quarterly Commentary

ALLAN GRAY

INTELLIGENT INVESTING

Inside this issue

Front cover: Our new portfolio managers are featured on the cover, from top right to bottom left: Ian Liddle, Delphine Govender and Duncan Artus.

ALLAN GRAY
INTELLIGENT INVESTING

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Greg Fury, Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer

There have been many positive developments at Allan Gray since our last Quarterly Commentary and I use this opportunity to provide you with an update.

Undoubtedly the most exciting has been the announcement of a series of empowerment initiatives that will result in a 25% black shareholding in the company, the launch of a focused effort to encourage black entrepreneurship and the acceleration of the internal transformation of the company. Some more detail is provided in an article in the **CORPORATE UPDATE** section on page 2.

In addition, at the beginning of April, Allan Gray completed the first phase of a project to enhance our retail administration offering and client service. This involved the implementation of a world-class software system and assuming full responsibility for the administration of our clients' unit trust investments. Johan de Lange discusses this and other developments (in respect of two new funds) in the **RETAIL UPDATE** section.

A third major announcement is that Allan Gray has achieved Global Investment Performance Standards (GIPS®) compliance with verification from our independent verifiers, Ernst & Young. GIPS® provides the investment community with a set of ethical and presentation standards (with regard to performance) that provide greater uniformity and comparability among investment managers, without regard to geographic location. Allan Gray has for many years had its clients' investment performance audited but the achievement of GIPS® compliance means our clients can now have comfort that we now comply with the most stringent benchmark standard for performance reporting.

In **INVESTMENT PERSPECTIVE**, Ian Liddle explains how South African companies (currently amongst the most profitable in the world) can sustain the high levels of profitability and continue to offer value in global terms for the next decade. He cautions against the sustainability of global company profitability at current high levels above inflation concluding that this decline in real profitability will emphasize the importance of superior stockpicking.

In his contribution in **INVESTMENT COMMENTARY**, Jack Mitchell looks at the year ahead from a 'top-down', and in our case very rare, perspective. In a second article, Heaton van der Linde warns that investors, typically driven by fear, buy assets when they are expensive and sell when they are cheap, or buy the Index, which to a lesser extent does something similar. He urges those investors able to do so, to consider a conservatively selected portfolio of offshore assets that we believe offers better returns at lower risk than local markets.

For years, individuals have been facing the real risk of retiring with too little money to sustain themselves. In **INSTITUTIONAL UPDATE**, Mahesh Cooper analyses the impact of delaying contributing to pension assets as well as the impact of targeting a lower real return when you have time on your hands.

GRAY MATTERS An investment manager is nothing more than the sum of all the efforts of its staff and at Allan Gray, we pride ourselves on the quality of our employees. In this section focusing on staff movements, I detail the appointment of a new senior analyst and three new portfolio managers, provide an update on our Chairman Simon Marais, discuss the new appointments at Allan Gray Namibia, and the retirement of our longest serving employee.

INVESTMENT PERFORMANCE South African investors continued to enjoy strong performance in most asset classes in the quarter ended March 2005. The FTSE/JSE All Share Index (ALSI) returned 5.9% for the quarter, bringing its return to 28.2% for the past year. The weakening Rand led to the resources sector leading the way with a return of 16.9% for the quarter after being down 5% in 2004. Financials and industrials, which both posted strong gains in 2004, were also up, but only marginally so. Against the background of the weaker Rand, foreign portfolios have also performed well (in Rands) during the quarter.

Broadly in line with their benchmarks, our clients' portfolios have returned strong performance in the most recent period and over the longer term. Our largest and most representative mandates show this: over the last 12 months our Global Balanced composite returned 23.7% and our Domestic Equity composite 31.6%. However, against this background and the gains of 2003, we continue to caution investors about expecting such strong absolute returns in the longer term as opportunities become more difficult to find.

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

Kind regards

Greg Fury

Allan W.B. Gray, Non-executive Director, Allan Gray Limited

Allan Gray announces landmark empowerment initiatives

Allan Gray Limited recently announced a series of transactions and initiatives that will result in a 25% black empowerment shareholding in the company, the launch of a focused effort to encourage black entrepreneurship and the acceleration of the internal transformation of the company.

Allan W B Gray, the founder of Allan Gray Limited and of its global partner, Orbis Investment Management Limited, will sell 15% of Allan Gray's South African business (Allan Gray South Africa) to a broad-based BEE trust whose mission will be to foster job creation through the promotion of black entrepreneurship. Similarly, he will sell 15% of Allan Gray's businesses in Namibia, Botswana and Swaziland to entities in each of those countries whose mission will also be to foster entrepreneurship.

Large-scale unemployment is an overwhelming impediment to economic advancement and the achievement of a quality standard of living amongst the majority of Southern Africans. Economic empowerment through the promotion of black entrepreneurship is most likely to alleviate this condition, as small businesses are the primary drivers of job creation throughout the world.

The BEE trust will be a black empowered vehicle controlled by trustees on behalf of a broad-based group of aspiring black entrepreneurs. Its most significant asset, and the principal source of funding for its activities through the receipt of dividends, will be its 15% interest in Allan Gray South Africa. This shareholding will be represented by the appointment of two of its trustees to the board of Allan Gray South Africa.

In addition, the firm has undertaken to reserve further shares for allocation to current and future senior black staff members, which, together with the shares already allocated, will bring the effective percentage of its shares held by black staff to 10% of Allan Gray South Africa. This will bring the firm’s effective BEE shareholding to 25%.

As a private company, Allan Gray has been committed to the principle of ‘empowerment from within’ through providing senior staff (both black and white) the opportunity to purchase shares in the company. Now, by reserving 10% of its shares for allocation to senior black staff members, the company is continuing with an established practice whose success in attracting, developing and retaining talented individuals has been proven by its history of wealth creation for its clients.

The company is also firmly committed to transforming its staff complement through employment equity initiatives, supported by the allocation of shares to senior black staff. The aim is to improve on the current 48% level of black staff by recruitment, development and promotion to the most senior levels of the business.

The full proceeds of the sale to the BEE trust will be donated to a public benefit organisation to be known as the Allan Gray Foundation, whose mission will be to fund the education and training of prospective entrepreneurs and thereby promote economic growth and job creation.

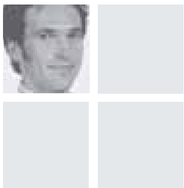
Further, the firm has committed to donate, on an annual basis, a minimum of 7% of its after tax profits to deserving social causes in perpetuity. The bulk of the annual donation will be committed to the Allan Gray Foundation. By concentrating and focusing the firm's efforts with those of the Foundation, as much benefit as possible will accrue to identified beneficiaries.

It is anticipated that the funds available to the Foundation will enable it to fund approximately 100 new students annually and that, in due course, the total number of students supported at universities will exceed 400 at any point in time.

Successful candidates (to be called ‘Allan Gray Fellows’) will be granted full financial support to attend a South African university to pursue a degree in business or other relevant field. Scholarships will be funded by the Allan Gray Foundation and awarded on a competitive basis to attract the highest calibre students. Allan Gray Fellows who excel will be given the opportunity to pursue a post-graduate degree at a South African university or top-rated international institution, frequently after acquiring relevant working experience.

As part of its mission of promoting entrepreneurship, the BEE trust will finance black graduates of the Allan Gray Fellows programme in their pursuit of launching and owning businesses.

The combined efforts of the BEE trust, the Allan Gray Foundation and the annual contribution from Allan Gray Limited will serve to help overcome the two most significant impediments facing aspiring entrepreneurs - education and skills development, and access to capital.



Ian Liddle, Portfolio Manager, Allan Gray Limited

A world view of South African share valuations

EXECUTIVE SUMMARY Listed companies in South Africa are currently amongst the most profitable in the world. The key question, asks Ian Liddle in this analysis, is whether South African companies can sustain these high levels of profitability. He concludes that, even in a general environment of declining profitability, because South African companies face less intense competition than their global peers, they are expected to remain more profitable than the average global company for the next decade. However, although in general South African shares are not expensive compared to the average global share, they no longer offer outstanding value, especially in view of the Rand's current strength. Thus, Allan Gray has invested the maximum allowance of its clients' global balanced mandate offshore, in particular in Japan and South Korea.

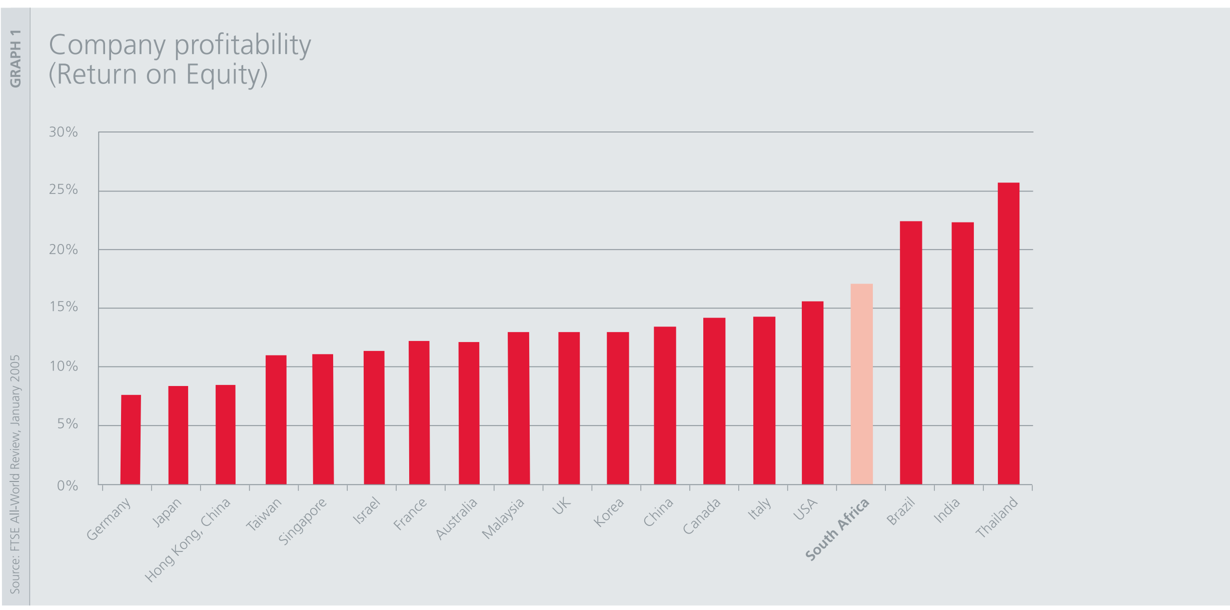
South African shares have appreciated by 177% in US dollars over the last 3.5 years. They have gained 170% relative to the Morgan Stanley world index since the low in 1998 (as discussed by Arjen Lugtenburg in last quarter's 'Investment Perspective'). A prudent investor should now be asking whether South African shares continue to offer value in global terms.

South African listed companies are currently amongst the most profitable in the world. Only Thai, Indian and Brazilian companies are more profitable if one considers the 19 major countries included in the FTSE All-World Index of roughly 3000 companies (see Graph 1 below). The key question is whether South African companies can sustain these high levels of profitability.

"On balance, we expect the average South African company to remain more profitable than the average global company over the next decade."

The profitability of a company is dependent primarily on the intensity of its competition. Our view is that generally South African companies are faced with less intense competition than are their global peers. This is unlikely to change in the near future. Some reasons for this are:

- There are relatively fewer competitors battling it out in many South African industries.
- South Africa's economic heartland is a long way from the coast. This affords many industrial companies a degree of natural trade protection, because of the costs of transporting imported goods inland from the ports.



- South Africa is a 'minnow' in global economic terms. Any potential new competitor who wants to establish successful operations in South Africa will have to win a substantial chunk of market share from a powerful incumbent in order to reach a minimum critical mass.

On balance, we expect the average South African company to remain more profitable than the average global company over the next decade. However, the profitability of companies in certain other countries (especially Japan) may show an improvement off a low base relative to South Africa.

The profitability numbers in Graph 1 are measured by the companies' return on equity. This is calculated by dividing the profits of a company by the net asset value on its balance sheet. The net asset value represents shareholders' equity sourced from the original founding capital plus increments, including profit retentions over the years. Thus Graph 1 approximates the current returns to 'original' shareholders in the companies.

Unfortunately for today's investor, one typically has to pay a premium over the value of the net assets on the balance sheet in order to buy shares in a company. This is partly due to the balance sheet underestimating the true value of the assets because accountants do not adjust the historic costs of assets for the effects of inflation. But it is also due to the goodwill inherent in established businesses - SABMiller is clearly worth more than the sum of the values of its kettles, fermenting tanks, warehouses, and bottle float.

The premium that today's investor pays over the net asset value of companies is shown in Graph 2 below. This is measured by the 'price to book' ratio, which divides a company's share price by its net asset value per share.

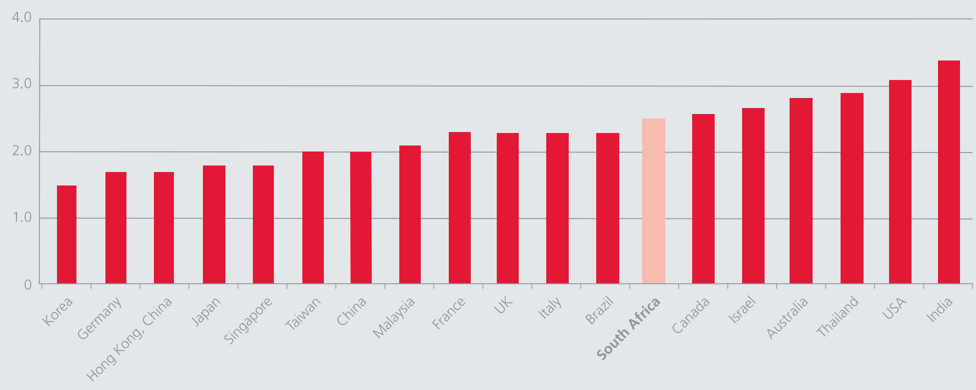
Today's investor pays 2.5 times the net asset value of South African companies. This is close to the global average of 2.6 times.

Thus today's investor cannot expect to enjoy the same profits for every Rand invested, as does the 'original' investor. The company profit per Rand invested for today's investor is shown in Graph 3 on page 5. It is otherwise known as the earnings yield. South African companies generate current returns of just 6.5% for today's investor compared to the 17% for the 'original' investors shown in Graph 1.

But this still compares very favourably with other countries. South African companies currently generate the third highest level of profits per Rand invested for today's investors. This attractive yield

GRAPH 2

Premium to net assets
(Price : Book Ratios)



Source: FTSE All-World Review, January 2005 must be weighed against the political/socio-economic risks inherent in any emerging economy such as South Africa and the above-average profitability of South African companies.

South African shares are generally not expensive compared to the average global share, but they no longer offer outstanding value, especially when one considers that the Rand is very strong versus a basket of currencies. We have thus invested offshore the maximum allowance of our clients' global balanced mandates. Shares in Asian countries such as Japan and South Korea can be bought on low 'price to book' ratios with depressed earnings, and they represent the major portion of the equity exposure in our clients' offshore portfolios.

"Profits cannot grow twice as fast as the economy indefinitely."

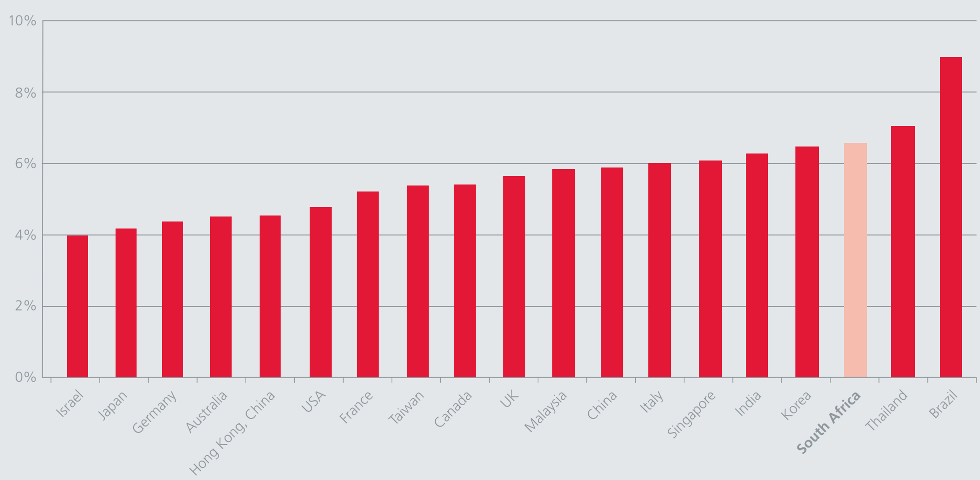
The absolute profitability numbers in Graph 1 provoke some concern, because they are very high in relation to global inflation rates of roughly 2% per annum. If the 3000 companies in the FTSE All-World Index continue to generate the current average return on invested capital of 13.5% and continue to pay out 40% of their profits as dividends, they will theoretically grow their profits by 8% p.a. (or 6% p.a. in real terms). This is high in relation to both long-term historical real earnings growth rates of 1-1.5% p.a., and in relation to expected global economic growth, which will do well to exceed 3% p.a. in real terms over the long run.

Profits cannot grow twice as fast as the economy indefinitely. If they did, profits of these 3000 companies would double as a percent of global economic output within 25 years and would (impossibly) exceed global economic output within 120 years. Powerful mathematical forces are at work to align returns on invested capital and the inflation rate. (However, some companies theoretically could prolong their period of high profitability by increasing their dividend payout ratios.)

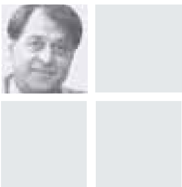
In an environment of generally declining real profitability, stockpicking is paramount. We continue, as always, to perform in-depth fundamental research to identify companies that enjoy a strong competitive advantage that will allow them to sustain superior profitability over longer periods of time. Some examples of this are MTN, Sun International, Naspers, Shoprite, Aspen and the banks. Alternatively, we look for companies that currently earn depressed profits, which are likely to hold up or even grow in the face of generally declining profitability. This applies especially to the resources companies such as Sasol and Harmony, which will perform significantly better if the Rand weakens.

GRAPH 3

Current returns for today's investor (Earnings Yield)



Source: FTSE All-World Review, January 2005



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

Into 2005

PREAMBLE Before launching into our outlook for markets in the year ahead, it is well to remind investors that we view our core competency as being business analysts rather than stockmarket operators. By this we mean our focus is decidedly on assessing the intrinsic value of a business or, if broken down into its parts, per share, as opposed to speculating on the next direction the market will take. In other words, we have much more confidence in our share selection process than we have in our ability to 'time' markets. This is substantiated by our long history of superior share selection, which can be found in the performance section of each of the Quarterly Commentarys we send to you.

Nevertheless, as is customary at this time, we provide you with some of our 'top-down' views for 2005.

INTERNATIONAL STOCKMARKETS Commencing with western stockmarkets, our perspective remains that the bull market that persisted for two decades climaxed around the millennium. Given the record levels of speculation which accompanied the peak, read together with historic events of this magnitude, it would be unusual for the stockmarket to set a new meaningful high, in real terms, for say the next quarter of a century. That is a very long time in any investor's book, so we should all be prepared for it. Each of these extended phases of consolidation (bear markets, if you wish) play out in a unique manner. However, what does appear common to the patterns are precipitous drops in share prices, followed by equally impressive rallies, both in extent and duration, leading investors to believe the bull market has been rekindled. Given that the small and medium capitalisation shares in the USA (e.g. the Russell 2000 Index) have recently posted new highs, many investors now believe this bull market has recommenced. We do not share this view.

Headwinds facing the US market at this point in time include profit levels that are above normal and rising interest rates. Importantly, the U.S. Federal Reserve Chairman has been warning the nation for some time to prepare itself for rising interest rates.

Where our global asset management partner, Orbis, does find much better intrinsic value in shares is largely in the Far East. This is not surprising because there the stockmarkets have been in a bear phase for a much longer time. Japan, in particular, peaked in 1990 whereas the other bourses in the region were devastated by the 1997/8 Asian crisis. In addition, economic growth in this area of the world has been particularly robust since that event.

THE SOUTH AFRICAN STOCKMARKETS While the FTSE/JSE All Share Index has risen about a third since 1 January 2004 in Rand terms, it has done even better than that in US$ terms and notably has more than doubled in that currency since 2003. This rapid appreciation begs the question, are South African shares currently overpriced?

LET'S INSPECT THE FACTS Intrinsic values for shares are essentially a function of sustainable earnings, times a reasonable multiple. On a broad perspective, earnings for the FTSE/JSE All Share Index are currently normal.

Turning to the multiple, at 25 February the figure was 14.9 (or a 6.7% earnings yield if you prefer). This is not out of kilter with its range over the past 15 years. However, in terms of its 45-year history, it is expensive. Note the average is 11 to 12 times earnings. On this basis alone the market is some 20 to 25% overpriced.

Before accepting this judgment, let's take a few steps back. The prime competition for share capital is the money and bond markets that attract capital essentially by paying interest rates, which are largely dependent on inflation rates. Therefore inflation, interest rates and earnings multiples are inter-related.

In the 1990's South African monetary and fiscal authorities embarked on the same deflationary remedies that previously had been adopted by their international peers. As a result, South African inflation rates to date have closely resembled the offshore experience. South African short rates have fallen steadily from 20%, at the time of the Asian crisis in 1998, to the current level of below 7.5%. Given the experience overseas and the fact that our inflation rates are currently well below 5%, South African rates could still fall further.

Therefore, while South African earnings multiples appear aggressive historically, compared to current interest rates, they remain attractive. We say this because company earnings possess a growth function that bonds do not hold.

The major risk facing both international and domestic shares is rising inflation and interest rates. In this context, we note that commodity prices have risen sharply since 2002 and are currently approaching the record levels last seen in 1980. If this harbinger of inflation broadens, risks to world stockmarkets will rise dramatically.

Meanwhile, here at Allan Gray Limited, we still believe that carefully selected shares offer better value than the broad alternatives. Accordingly, our allocation to equities in our balanced (multi-asset class) mandates remains reasonably full.

Heaton van der Linde, Head of Institutional Client Servicing, Allan Gray Limited

On the contrary ...

Despite the strong Rand, and the opportunity that this presents, few investors are diversifying their portfolios offshore. Pension funds generally are not increasing their foreign exposure, nor are individuals taking up the offshore capacity available in locally registered unit trusts. Yet when the Rand was at its weakest in 2001/2002, South African investors poured funds into offshore assets despite the fact that, the currency factor aside, they were expensive in foreign currency terms.

"It makes little sense to sell a cheap local asset measured in dollars to buy an expensive offshore dollar asset."

When diversifying offshore, investors should take into account both the underlying value of the foreign assets they are buying as well as the level of the exchange rate. It makes little sense to sell a cheap local asset measured in dollars to buy an expensive offshore dollar asset. Yet this is precisely what investors did in 2001 and 2002.

Now the reverse is occurring. Bullish about South Africa, investors are keeping their money onshore, despite the fact that local markets have become more expensive. Between 2001 and 2003, South African equities offered substantial discounts relative to offshore equities when measured in dollars, but were eschewed by many investors in favour of their more expensive offshore counterparts or locally listed 'rand hedges'. With the subsequent appreciation of the Rand and concurrent losses in offshore markets, many investors sustained substantial losses.

In our view, the current strength of the Rand is not sustainable. We think the Rand should be priced at around R7 or R8 to the US dollar. As a result, a conservatively selected portfolio of offshore assets is now less expensive than local markets. This points to an opportunity to diversify into selected investments offshore.

However, investors should be aware of the dangers of simply buying an index such as the MSCI World Index. The MSCI comprises more of those shares that have recently appreciated from the regions that have recently appreciated and less of those shares and regions which have gone down in price. For example, US counters currently comprise approximately 54% of the MSCI World Index, after a 20-year bull market. Japanese stocks, on the other hand, account for only 9% of the index after a 15-year bear market. In 1989 when Japanese stocks were at their most expensive relative to US Stocks, Japan comprised fully 44% of the MSCI and the US only 29%.

Driven by fear, investors typically buy assets when they are expensive and sell them when they are cheap, thereby eroding the value of their investment portfolios over the long-term. In buying the Index, you'd be buying more of something that has already appreciated, and less of something that has fallen in price but which, therefore, holds the potential of stronger returns.

The portfolio of the Orbis Global Equity Fund, which is registered for marketing and distribution to South African investors, is currently weighted in favour of Japan at approximately 29% (9% in the MSCI) versus the USA at approximately 27% (51% in the MSCI). Orbis has been able to find value well supported by tangible assets in Japan whereas these are much harder to find in the US. Thus, the risk of capital loss is lower in Japan than the US. Whilst a higher weighting of US stocks in the Orbis portfolios would reduce relative risk, in absolute terms US equities in general are currently priced such that they need substantial earnings growth over the longer term to justify their valuation. In addition to Japan, Orbis is attracted by valuations in Korea. Shares from emerging markets currently account for 18% of the Orbis Global Equity Fund portfolio as opposed to the 8% they comprise of the MSCI World Index.

In conclusion, South African investors learnt to their peril the extent to which currency moves can substantially detract from foreign asset returns in 2002, 2003 and 2004. The danger now is that investors might miss out on the attractive returns available from selected foreign assets, which are cheaper in dollar terms than they were in 2001/2002 and substantially cheaper when the strong Rand is taken into account.

Mahesh Cooper, Business Analyst, Allan Gray Limited

Retirement: What is the real risk?

INTRODUCTION The real risk facing individuals over their retirement is the danger of retiring with too little money to sustain themselves in retirement. To an individual, all other risks may appear incidental in comparison with this real risk. The big question then is how does one reduce the risk of not having enough money to retire comfortably.

TARGETING BENEFITS AT RETIREMENT Members of a defined contribution scheme seldom consider targeting benefits at retirement. People no longer think of their retirement benefits in relation to their salary at retirement as they did in defined benefit schemes. In a defined benefit scheme, the annual pension was specified in relation to salary as retirement approached. Hence the benefit was defined - individuals knew when they joined the fund what they were going to get when they retired from the fund[1]. With defined contribution schemes, the benefits at retirement are simply the assets in each person's pot at retirement - i.e. the accumulated value of contributions up to retirement: no benefit is targeted and no benefit is defined. The risk falls into the hands of the member as to whether or not he or she has enough to retire on.

To reduce the risk of not having enough when you retire comes down to two key decisions:
1. When to start setting aside for your retirement?
2. What to do with the money you set aside every month?

WHEN TO START SETTING ASIDE FOR YOUR RETIREMENT? Let's say that the average person contributes 10% of monthly income towards retirement. This represents a small portion of an individual's monthly income. This small monthly portion needs to accumulate over an individual's working life to provide the person with sufficient income for perhaps 20 years, on average from the time of retirement to the end of his or her life.

The Rand amount you contribute every year grows because, hopefully, your salary grows by at least the inflation rate. Assuming inflation of 6% over your working life, let's say that your annual salary grows by 1% more than inflation (i.e. you get a 7% annual increase), on average over your working lifetime.

The average pension fund has achieved a real return in excess of 5% per annum (above inflation) on its pension assets over time[2].

We think a typical balanced portfolio (one that invests in a prudential mix of equities, bonds and cash) should deliver this over long periods of time. Your pension assets are typically long-term investments so let us assume that your pension assets deliver a return of 11% per annum, on average, over your working life (assuming 6% inflation).

Let's also assume that the retirement age is 65.

Summarising the assumptions:

• Contribution rate:	10% of monthly salary
• Inflation (CPI):	6%
• Salary inflation:	CPI + 1%
• Investment return:	CPI + 5%
• Retirement age:	65

Using these assumptions, an individual's pension assets were calculated in relation to the final salary at retirement. In other words, the number of years of the final salary at retirement that the pension assets will comprise.

"Starting early makes a significant difference to how long you can sustain yourself comfortably into retirement."

If a person starts contributing 10% of his or her salary every month from the age of 25 and these contributions earn a return of 5% above inflation per annum, at retirement at age 65, that individual will have 9.4 years worth of his or her final salary in pension assets. It doesn't sound like much - especially after contributing to pension assets for some 40 years.

Table 1 on page 9 sets out the number of years' final salary at retirement that would have accumulated as pension assets based on different starting ages.

Let's compare someone starting to contribute towards his or her pension assets at the age of 25 and someone who delays starting to 35. Those 10 years of additional contributions make up 3.7 years worth of the final salary out of 9.4 years. So someone who does not start until the age of 35 will accrue only 5.6 years worth of final salary at retirement, effectively losing

[1] AN EXAMPLE OF A DEFINED BENEFIT WOULD BE: PENSION FROM THE FUND OF 2% OF THE FINAL SALARY AT RETIREMENT FOR EACH YEAR OF SERVICE. SO A MEMBER WITH 30 YEARS SERVICE WOULD RECEIVE A PENSION FROM THE FUND OF 60% OF FINAL SALARY AT RETIREMENT.
[2] AS PER THE CONSULTING ACTUARIES SURVEY, 2003.

TABLE 1

Impact of delaying contributing to your pension assets

Starting Age	Number of years final salary	Number of years of final salary 'lost' versus starting contributions at age 25	Percentage reduction in benefits versus starting contributions at age 25
25	9.4 years	-	-
30	7.3 years	2.0 years	22%
35	5.6 years	3.7 years	40%
40	4.2 years	5.2 years	55%
45	3.0 years	6.3 years	68%
50	2.1 years	7.3 years	78%

3.7 years worth of final salary under the same assumptions. Those initial 10 years would 'cost' 40% in income if an annuity were to be bought at retirement. As an example, instead of getting R10 000 per month, the individual would get only R6 000 per month.

"... short-term volatility in returns is often necessary to deliver superior long-term real returns."

Another way to look at it is to determine how long the 9.4 years and 5.6 years final salary for the person starting at ages 25 and 35 respectively would last if they wanted their post retirement income to be 65% of their working income. On this basis, using the same assumptions, those starting at 25 would be able to sustain themselves for 19.3 years after retirement (i.e. to the age of 84). Those starting at 35 will be able to sustain themselves only for 10.3 years (i.e. to the age of 75).

Starting early makes a significant difference to how long you can sustain yourself comfortably into retirement. This is the power of compounding. Those 10 lost years for the 35-year old would have compounded for at least 30 years for the 25-year old. Einstein is rumoured to have said the power of compounding is the greatest force of all. You can see why. So one way to reduce the risk of not having enough money to retire comfortably is to start contributing to your pension assets as early as possible.

WHAT TO DO WITH THE MONEY YOU SET ASIDE EVERY MONTH? The average pension fund has been able to deliver at least 5% above inflation over the long-term from a typical balanced portfolio. People often say that they would prefer to reduce the risk of loss on their pension assets by targeting a lower return. The problem is that it is probably more risky to invest in a lower return portfolio if you have time on your hands. A 25-year old investing in his or her pension assets has a 40-year time horizon to retirement and then probably another 20 years to live off the benefits. However, people are often so concerned with the volatile short-term returns that they are prepared to give up or forego some of their long-term returns to reduce the volatility.

A 25-year old saying that he or she does not want any negative returns on a one-year basis is effectively targeting a lower return. This is because to deliver a positive return on a one-year basis, typically stable, lower expected return asset classes are preferred to volatile, higher expected return asset classes.

If you started contributing towards your pension assets at the age of 25 and using the same assumptions but instead achieved a 3% real return as opposed to a 5% real return, instead of 9.4 years of your annual salary at retirement, you would have only 6.1 years of your annual salary at retirement (a 35% reduction in your pension assets). The pension assets at retirement with a 3% real return is only slightly more than you would have had if you started 10 years later but achieved a real return of 5% per annum on your pension assets. This is shown in Table 2 below.

It must be understood that short-term volatility in returns is often necessary to deliver superior long-term real returns. Targeting a lower return when you have time on your hands is just as risky as starting too late. Time allows you to recover any short-term losses whilst you target a higher long-term return.

TABLE 2

Impact of targeting a lower real return

Starting Age	Real investment return		Reduction in years of benefits as a result of using a 3% versus using a 5% real return	Percentage reduction in benefits as a result of using a 3% versus using a 5% real return
	5%	3%		
25	9.4 years	6.1 years	3.3 years	35%
30	7.3 years	5.1 years	2.3 years	30%
35	5.6 years	4.1 years	1.5 years	27%
40	4.2 years	3.3 years	0.9 years	21%
45	3.0 years	2.5 years	0.5 years	17%
50	2.1 years	1.8 years	0.3 years	14%

According to the Consulting Actuaries Survey, over long periods of time, the top quartile pension funds have been able to outperform CPI in excess of 10% per annum. For 25-year olds achieving this return over their working lives equates to a considerable 30.9 years of final salary at retirement compared with the 9.5 years final salary achieved with a real 5% return. This shows that, whilst the average manager has been able to achieve in excess of 5% real growth per annum, managers who have been able to deliver superior performance over long periods of time have been able to add significant value for members through appreciably higher benefits at retirement. Manager selection matters!

SUMMARY In order to reduce the risk of retiring with too little money (i.e. maximising your pension assets and benefits at retirement), start contributing as early as you possibly can. If you are young and have time on your hands, accept some short-term volatility in returns. It makes a difference in terms of what you will have when you retire.

Johan de Lange, Managing Director, Allan Gray Unit Trust Management Limited
Director, Allan Gray Investor Services

Up close on unit trusts

NEW FUND We are pleased to announce the launch of a new offshore fund, the Allan Gray-Orbis Global Equity Feeder Fund. This Fund was launched to enhance our current offshore offering (to include an equity as well as a balanced mandate) after a significant increase in 'asset swap' capacity was made available.

The Fund will address the needs of those long-term investors who have made the 'asset allocation' decision to invest a predetermined amount in global equities. It will enable clients to invest in a Rand denominated fund with exposure to global stockmarkets and which seeks returns superior to the average of the world equity markets, without greater risk.

The Fund is benchmarked against the FTSE World Index, including income, and is best suited to investors who:
- Seek to invest a predetermined Rand amount in global equities;
- Want to gain exposure to markets and industries that are not available locally;
- Want to hedge their investment against any Rand depreciation;
- Do not have the minimum of US$50 000 to invest in the Orbis Global Equity Fund; and
- Have already utilised their R750K offshore allowance.

As the Fund is a Rand denominated unit trust, investors will not have to utilise their R750K offshore allowance; the Fund will use Allan Gray's foreign capacity. It will also be easier for investors to invest in, and disinvest from, the Fund as they will transact in Rands and will not need to transact with offshore accounts.

The only charges to be levied are those of the underlying fund, being the Orbis Global Equity Fund (there are no initial nor ongoing charges levied on the Feeder Fund itself). These fees are performance based and range between 0.5% and 2.5%. The minimum investment amount is R25 000. Debit orders will not be allowed as the Fund may be closed from time to time due to exchange control regulations.

NEW ORBIS FUND The Orbis Optimal SA Fund was approved by the FSB for marketing and distribution on 30 March 2005, and is one of what are now three approved Orbis mutual funds. These funds cater for those investors who have not fully utilised their R750K offshore allowance.

The Fund seeks capital appreciation on a low risk global portfolio and is offered in a choice of US dollars or euro. The Fund invests principally in a focused portfolio of selected global equities believed to offer superior relative value and employs stockmarket hedging to reduce risk of loss. The Fund's returns are intended to be largely independent of the returns of major asset classes such as cash, equities and bonds.

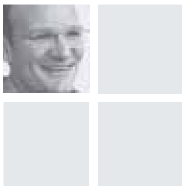
Much like the Allan Gray Optimal Fund, the fees on the Orbis Optimal SA Fund comprise two parts:
- A base fee of 1% per annum, paid monthly; plus
- A performance fee of 20% of the outperformance of each class's benchmark. The performance fee incorporates a high watermark principle. Thus, should the Fund underperform its benchmark over any period, it will first have to recover the underperformance before further performance fees are payable.

The investment minimums for the Fund are the same as that of the Orbis Global Equity and Japan Equity funds, i.e.: R100 000 (initially) and $1 000 (or currency equivalent) thereafter.

RETAIL ADMINISTRATION There have been some developments in our administration set-up. Although we may encounter some initial teething problems, we believe it will have a positive impact on the quality of our service to our valued clients.

Since the inception of our unit trust company in 1998, our back office administration has been taken care of by a third party provider. This relationship has worked well for us, and from the feedback we received it also resulted in a high quality of service to our clients. However with investor support our business has grown substantially placing us in a position to further improve things by bringing this administration in-house and linking it more closely to our client service team. To this end we have installed a world-class administration software system and have assumed full responsibility for back office administration during April 2005. Over the next few months you will therefore notice certain changes as we endeavour to constantly improve our offering to you.

We will make every effort to keep you informed of all new initiatives, and would appreciate any feedback from you.



Greg Fury, Chief Operating Officer, Allan Gray Limited

Staff movements

APPOINTMENTS IN INVESTMENT TEAM Abdul Davids has been with Allan Gray since 1998 and progressed from a trainee analyst to an analyst to a trainee portfolio manager prior to his new appointment as Senior Analyst. In addition to his research duties, he will take responsibility for the training of new trainee analysts.

Delphine Govender, Duncan Artus and Ian Liddle, our new Portfolio Managers, joined Allan Gray in 2001 and have progressed similarly through roles of increasing responsibility. Delphine has assumed the role of Portfolio Manager of all Allan Gray Limited's relative risk portfolios. Duncan and Ian have been appointed to manage a portion of our clients' 'classic' equity and balanced portfolios alongside Stephen Mildenhall, Arjen Lugtenburg and our global asset management partner, Orbis. As a consequence of the new appointments, the allocation of our clients' equity and balanced portfolios to our various managers' portfolios will be realigned, with Duncan, Ian and Orbis managing a smaller portion of the assets than Stephen and Arjen.

Our practice is to employ the best young graduates and professionals and to provide them with on-the-job training and experience in our investment philosophy and process with the aim of identifying the best portfolio managers. We are confident that the new appointments will enhance our capability and are renewed evidence of the success of our training and succession process. We believe that the depth of our investment team is now greater than at any time in our history.

UPDATE ON SIMON MARAIS Since his departure to join Orbis in London in late 2002, our Chairman Simon Marais has acted as an adviser to the portion of our portfolios managed by Orbis. As we have previously informed you, Simon has relocated to Australia to establish a domestic Australian investment manager within the Orbis group. As a result, his involvement as adviser to Orbis on the South African portfolios will be much reduced but he will continue to serve as Chairman of Allan Gray Limited and remains a significant shareholder.

We continue to be convinced of the benefits that Orbis' global perspective brings to our South African clients and are committed to the decision that Orbis will continue to manage a portion of our clients' portfolios (as it has done for much of the 15 years since it was set up by our own founder, Allan Gray). Orbis employs exactly the same investment philosophy as Allan Gray Limited and has enjoyed similar outstanding success in global markets.

NEW APPOINTMENTS AT ALLAN GRAY NAMIBIA Allan Gray Namibia has undergone changes to its management team. Mbakumua Hengari has joined the firm as Managing Director, and Chief Investment Officer Renée Tubbesing has been appointed as an Executive Director. Simon Garoëb, previous Chief Operating Officer of Allan Gray Namibia, has been appointed to the board as a Non-executive Director.

Allan Gray prides itself on attracting the best professionals and is confident that the new appointments will enhance capacity in Namibia.

Mbakumua Hengari joins Allan Gray after four years as a portfolio manager at SIM Namibia and six years at the Bank of Namibia where he held various posts and was promoted to the position of Manager of International Economics. He had previously served as an economist at the Investment Centre and Namibian Development Corporation. He has a BA from Concordia College, USA and an MBA from Pace University in the USA.

Renée Tubbesing was appointed Chief Investment Officer in May 2000. In this capacity she manages fixed interest portions of Allan Gray's Namibian clients as well as domestic Namibian portfolios. Prior to joining Allan Gray in 1998, she completed her articles at Price Waterhouse Coopers in Namibia. She holds an M Sc (University of Pretoria) B Compt Honours Degree (UNISA), is qualified as a CA in Namibia and is a CFA Charterholder.

THE RETIREMENT OF ELLEN SCHOLTZ In March 2005, Allan Gray Limited said goodbye to our longest serving employee, Ellen Scholtz. Ellen worked for us for 24 years.

She started at Allan Gray Investment Counsel on 1 June 1981. She was one of a handful of employees (employee number 12), fulfilling the roles of librarian, tea lady, cleaner, messenger and caterer. As the company has grown, she has had the unenviable task of thinking of different lunch recipes and making food for the increasing number of staff.

It is a tribute to Ellen that she has managed to raise four children who are now successful in their own careers. Ellen has the love and respect of her children and grandchildren, and one of the many things she will be doing in her retirement, whilst furthering her travels, will be forging an even closer bond with her grandchildren.

Allan Gray Limited Global Mandate 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	31.8	25.4	6.4
2005 (to 31.3)	5.1	5.9	-0.8
Annualised to 31.3.2005			
From 1.4.2004 (1 year)	32.6	28.2	4.4
From 1.4.2002 (3 years)	30.5	10.3	20.2
From 1.4.2000 (5 years)	29.7	14.4	15.3
From 1.4.1995 (10 years)	25.6	12.8	12.8
Since 1.1.1978	30.6	20.9	9.7
Since 15.6.1974	28.9	17.7	11.2
Quarterly Standard Deviation	22.1	24.6	
Average outperformance			11.2
No. of calendar years outperformed			24
No. of calendar years underperformed			6

*NOTE: ALLAN GRAY COMMENCED MANAGING PENSION FUNDS ON 1.1.1978. THE RETURNS PRIOR TO 1.1.1978 ARE OF INDIVIDUALS MANAGED BY ALLAN GRAY, AND THESE RETURNS EXCLUDE INCOME.

LISTED PROPERTY IS INCLUDED FROM 1 JULY 2002.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 15 JUNE 1974 WOULD HAVE GROWN TO **R24 925 537** BY 31 MARCH 2005. BY COMPARISON, THE RETURNS GENERATED BY THE FTSE/JSE ALL SHARE INDEX OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R1 504 867**

Allan Gray Limited Global Mandate Total Returns vs 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	21.8	22.2	-0.4
2005 (to 31.3)	5.0	3.2	1.8
Annualised to 31.3.2005			
From 1.4.2004 (1 year)	23.7	22.9	0.8
From 1.4.2002 (3 years)	21.0	13.1	7.9
From 1.4.2000 (5 years)	25.5	13.6	11.9
From 1.4.1995 (10 years)	23.1	14.5	8.6
Since 1.1.1978	24.2	18.0	6.2
Average outperformance			6.2
No. of calendar years outperformed			22
No. of calendar years underperformed			5

*THE RETURN FROM 1 JANUARY 2005 IS AN ESTIMATE AS THE RELEVANT SURVEY RESULTS HAVE NOT YET BEEN RELEASED.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 1 JANUARY 1978 WOULD HAVE GROWN TO **R3 693 488** BY 31 MARCH 2005. THE RETURNS GENERATED BY THE AVERAGE OF THE CONSULTING ACTUARIES SURVEY OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R912 247**.

Annualised performance in percent per annum to 31 March 2005

	FIRST QUARTER (unannualised)	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT R millions	INCEPTION DATE
SEGREGATED RETIREMENT FUNDS							
GLOBAL BALANCED MANDATE	5.0	23.7	21.0	25.5	24.2	22,119.2	01.01.78
Mean of Consulting Actuaries Fund Survey*	3.2	22.9	13.1	13.6	18.0		
DOMESTIC BALANCED MANDATE	4.0	28.5	26.5	25.2	24.7	12,672.4	01.01.78
Mean of Alexander Forbes Domestic Manager Watch*	2.5	31.6	19.5	16.9	18.8		
EQUITY-ONLY MANDATE	4.3	31.6	28.7	28.0	22.0	24,401.6	01.01.90
FTSE/JSE All Share Index	5.9	28.2	10.3	14.4	13.6		
GLOBAL NAMIBIA BALANCED MANDATE	4.3	22.7	20.5	25.1	21.4	2,495.8	01.01.94
Mean of Alexander Forbes Namibia Average Manager*	3.2	27.2	14.8	14.8	14.0		
EQUITY-ONLY RELATIVE MANDATE	4.2	29.7	18.7	-	24.0	3,388.9	19.04.00
Resource adjusted FTSE/JSE All Share Index	4.3	31.9	12.8	-	14.6		
POOLED RETIREMENT FUNDS							
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	4.9	23.7	21.5	-	24.6	5,915.5	01.09.00
Mean of Alexander Forbes Large Manager Watch*	3.2	28.2	14.7	-	14.8		
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	4.2	29.6	26.7	-	24.3	4,080.4	01.09.01
Mean of Alexander Forbes Domestic Manager Watch*	2.5	31.6	19.5	-	18.4		
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	4.5	32.0	29.1	-	28.2	2,057.3	01.02.01
FTSE/JSE All Share Index	5.9	28.2	10.3	-	13.2		
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	2.2	18.7	31.2	-	29.2	472.6	06.07.01
Mean of Alexander Forbes Domestic Manager Watch*	2.5	31.6	19.5	-	17.3		
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	3.2	19.6	18.6	-	18.4	215.7	01.12.01
Alexander Forbes Three-Month Deposit Index plus 2%	2.3	9.8	12.5	-	12.5		
ALLAN GRAY LIFE FOREIGN PORTFOLIO	11.6	3.2	-4.3	-	-3.9	491.3	23.01.02
60% of the MSCI Index and 40% of the JP Morgan Global Government Bond Index	8.9	7.9	-9.6	-	-9.3		
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO	1.7	4.9	-	-	9.3	91.6	04.12.02
Daily call rate of Nedcor Bank Limited	1.5	6.4	-	-	8.4		
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	3.6	16.5	-	-	17.0	247.2	01.03.04
Mean of Alexander Forbes Large Manager Watch*	3.2	28.2	-	-	25.9		
FOREIGN-ONLY (RANDS)							
ORBIS GLOBAL EQUITY FUND (RANDS)	13.2	7.6	-6.4	13.9	21.5	2,900.8	01.01.90
FTSE World Index (Rands)	9.5	10.2	-12.0	-2.7	13.3		
ORBIS JAPAN EQUITY (US$) FUND (RANDS)	18.0	3.3	-7.4	9.6	15.8	220.0	12.06.98
Tokyo Stock Price Index (Rands)	15.0	2.3	-12.7	-4.2	7.1		
GLOBAL BALANCED MANDATE (RANDS)-FOREIGN COMPONENT	11.7	3.8	-3.7	24.3	17.2	3,011.7	23.05.96
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	8.9	7.9	-9.6	1.1	11.2		
UNIT TRUSTS **					Figures below unannualised		
EQUITY FUND (AGEF)	***	25.8	25.8	25.1	717.9	7,501.6	01.10.98
FTSE/JSE All Share Index		28.2	10.3	14.4	217.3		
BALANCED FUND (AGBF)	***	24.4	22.3	23.4	247.4	7,461.8	01.10.99
Average Prudential Fund (excl. AGBF)		27.3	14.8	13.3	112.9		
STABLE FUND (AGSF)	***	14.7	14.4	-	96.6	3,661.6	01.07.00
After-tax return of call deposits plus 2%		6.2	8.3	-	46.3		
MONEY MARKET FUND (AGMF)	***	7.5	10.0	-	42.8	597.7	03.07.01
Domestic fixed interest money market unit trust sector (excl. AGMF)		7.5	10.2	-	43.6		
GLOBAL FUND OF FUNDS (AGGF)	***	1.7	-	-	-18.4	616.6	03.02.04
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		7.9	-	-	-25.7		
OPTIMAL FUND (AGOF)	***	4.5	-	-	28.6	1,338.1	01.10.02
Daily call rate of FirstRand Bank Ltd		6.2	-	-	22.9		

* THE RETURNS FROM 1 JANUARY 2005 ARE ESTIMATED 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.

UNIT TRUST PERFORMANCE DATA IS BASED ON A LUMP SUM INVESTMENT CALCULATED ON A NAV 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 31 MARCH 2005.

Segregated Portfolios

RETIREMENT FUND INVESTMENT MANAGEMENT IN SOUTH AFRICA
Allan Gray manages retirement fund portfolios 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.

Namibia Pooled Portfolio - Allan Gray Namibia Investment Trust

Namibian Products

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.

South African Pooled Portfolios - Allan Gray Life Limited

(THE MINIMUM INVESTMENT PER 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.	• Moderately aggressive 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 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.

THESE RISK-PROFILED PORTFOLIOS COMPLY WITH REGULATION 28 OF THE PENSION FUNDS ACT.

South African Pooled Portfolios - Allan Gray Life Limited (contd.)

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.

THESE ASSET CLASS PORTFOLIOS COMPLY WITH THE ASSET CLASS REQUIREMENTS OF REGULATION 28 OF THE PENSION FUNDS ACT.

Other Pooled Portfolios

	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.

Orbis Mutual Funds

Offshore Products

	ORBIS GLOBAL EQUITY FUND	ORBIS JAPAN FUNDS (YEN, EURO AND US$ FUND CLASSES)	ORBIS OPTIMAL SA FUND (EURO AND US$ FUND CLASSES)
Type of Fund	US$ denominated Equity Fund which remains fully invested in global equities.	Invests in a relatively focused portfolio of Japanese equities. The Euro and US$ funds hedge the resulting Japanese yen exposure into the relevant currency with the result that the returns are managed in those currencies.	The Fund invests in a focused portfolio of selected global equities that offer superior relative value. It employs stockmarket hedging to reduce the risk of loss. The Fund's returns are intended to be independent of the returns of major asset classes such as cash, equities or bonds.
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.	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.	The Fund seeks capital appreciation on a low risk global portfolio.
Structure	Open-ended Bermuda mutual fund company (similar to a unit trust in South Africa).	Open-ended collective investment schemes.	Open-ended Bermuda mutual fund company (similar to a unit trust in South Africa).
Dealing Costs Please note that these are not Rand-denominated unit trusts so a prospective investor is required to have funds offshore.	None. No front-end fee (initial charge) or transaction charges (compulsory charge).	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% - 2.5% per annum depending on performance.	Base fee of 1% per annum, paid monthly, plus a performance fee of 20% of the outperformance of the benchmark of each fund class. The performance fee incorporates a high watermark.
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.

Individual Retirement Products

	Pre-retirement		Post-retirement
	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.		
Minimum Investment Size	R 20 000 lump sum R 1 000 monthly	R 50 000 lump sum	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 Services Provider 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% - 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 THE UNIT TRUST APPLICATION FORM, WHICH CAN BE DOWNLOADED FROM THE WEBSITE WWW.ALLANGRAY.CO.ZA, OR SEE THE SECTION ON PAGES 17 AND 18 OF THIS DOCUMENT ON UNIT TRUSTS.

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	Can be invested in any combination of Allan Gray unit trust 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 Services Provider 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.
** FOR ANNUAL INVESTMENT MANAGEMENT FEES OF ALLAN GRAY UNIT TRUSTS, PLEASE REFER TO THE UNIT TRUST APPLICATION FORM, WHICH CAN BE DOWNLOADED FROM THE WEBSITE WWW.ALLANGRAY.CO.ZA, OR SEE THE SECTION ON PAGES 17 AND 18 OF THIS DOCUMENT ON UNIT TRUSTS.

Unit Trusts - Characteristics & Objectives

	EQUITY FUND	BALANCED FUND	STABLE FUND	BOND FUND
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 2%.	All Bond Index.
Maximum Net Equity Exposure	100%	75%	60%	0%
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 its 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.
Return Objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns to bank deposits.	Superior returns to the All Bond Index.
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.
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 Funds 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 Funds 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.
Income	Low income yield.	Average income yield.	High income yield.	High income yield.
Income Distribution	Distributed bi-annually.	Distributed bi-annually.	Distributed quarterly.	Distributed quarterly.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)	Does not comply.	Complies.	Complies.	Complies.
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.
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.
Minimum Lump Sum Investment Requirement	R10 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R25 000 lump sum and/or R2 500 per month debit order.
Portfolio Manager	Stephen Mildenhall	Arjen Lugtenburg	Stephen Mildenhall	Jack Mitchell and Sandy McGregor

OPTIMAL FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	GLOBAL EQUITY FEEDER FUND
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.	FTSE World Index including income.
15%	0%	100%	100%
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. The Fund will always hold 85% offshore.	A Rand-denominated fund feeding directly into the FSB registered Orbis Global Equity Fund.
Superior returns to bank deposits.	Superior money market returns.	Superior long-term returns.	Superior long-term returns.
• Low risk. • Little or no correlation to stock or bond markets.	• Low risk. • High degree of capital stability.	Risk similar to Balanced Fund but less than average foreign balanced mandate.	Risk higher than Balanced Fund but less than average foreign equity fund.
• 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.	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. • that do not have the minimum to invest in the Orbis Global Equity Fund.
Low income yield.	High income yield.	Low income yield.	Low income yield.
Distributed bi-annually.	Distributed monthly.	None.	None.
Does not comply.	Complies.	Does not comply.	Does not comply.
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.
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 fee. The underlying funds, however, have their own fee structure.	No fee. The underlying fund, however, has its own fee structure.
R25 000 lump sum and/or R2 500 per month debit order.	R50 000 lump sum and/or R5 000 per month debit order.	R25 000 lump sum. No debit orders are permitted.	R25 000 lump sum. No debit orders are permitted.
Stephen Mildenhall	Michael Moyle	Stephen Mildenhall	Stephen Mildenhall

Notes

INTELLIGENT INVESTING