There is still a margin of safety in Sanlam.

The advertising cycle - a key driver of media companies' earnings.

Allan Gray Orbis Foundation update.

A different take on value.

Q2

30 JUNE 2007
QUARTERLY
COMMENTARY

ALLAN GRAY
INTELLIGENT INVESTING

INSIDE THIS ISSUE

Greg Fury

COMMENTS FROM THE CHIEF OPERATING OFFICER

Once again you will find this a sobering issue QC. While we cannot predict stockmarket movements, we are concerned that valuations of many JSE-listed shares are stretched, especially if one believes, as we do, that the current profits being reported are above normal levels.

The last few years have been wonderful years to be invested in stockmarkets. The FTSE/JSE All Share Index rose from a low of 7 322 in April 2003 to a high of over 30 000 in July 2007. The performance of our clients' investments largely reflects this outstanding run and we are pleased that even in this environment of very high absolute returns we have managed not only to keep up but even to add value over and above the market. As usual you can find our full performance history towards the back of the QC. It is a small wonder, then, that many articles in this issue caution in their various ways that expectations going forward need to be tempered.

The first of these is a farewell article – what he calls 'a parting shot' – from Jack Mitchell, a doyen of nearly 40 years' experience in the financial markets, who retired from Allan Gray at the end of June after 19 years with the firm. Jack acted as Managing Director of the company from 1994 to 1998 and then, as one of the driving forces behind the formation and success of Allan Gray's retail business, he was Chairman of the unit trust company from 1998 through to 2006. From its outset until its sale earlier this year, he also chaired Grayprop, the listed property company managed by Allan Gray.

Despite these formal inputs, Jack's greatest contribution has been his general investment experience plus his wisdom and his focus on the interests of our clients. He always made sure that they were placed first.

His insights and alternative take on market trends have been revealed by the many stimulating articles he has written for our clients, not least his final article which he has titled: 'Watch Out for White Ants'. In the piece he places the remarkable surge in asset prices (and particularly stockmarkets) over the past several years in historical perspective and predicts that it cannot continue indefinitely. As usual Jack offers a slightly different perspective and observes that almost all bull markets in history have been undermined from within ('white-anted') well before the ultimate collapse. When he illustrates his point with a long-term graph going back to the 1969 crash we appreciate how much his experience will be missed, as he is one of few investors in South Africa that remembers this personally. While not necessarily predicting a collapse, he offers some insight as to what to watch out for as an indicator of the trend running out of steam.

We wish Jack all the best for a well-earned retirement. He will be missed by all of us.

> "We wish Jack all the best for a well-earned retirement. He will be missed by all of us."

We are also fortunate to have a contribution from our Chairman, Simon Marais. A theme in our client portfolios is that we have sold many of the shares where we were the dominant holders five years ago when their earnings were at cyclical lows but where earnings are now well above even our most optimistic forecasts at the time. Instead, our clients' portfolios have moved towards companies whose earnings are more defensive and higher in quality.

One such company is Sanlam. Michal Nosek notes that it is becoming more and more challenging to find investments that provide investors with a margin of safety, and outlines why we believe that Sanlam presents an opportunity. The market seems to believe that Sanlam is destined to repeat the mistakes of the past, but we believe that management is truly focused on maximising return on capital with firmly set, clear goals.

On the theme of lowering expectations, Duncan Artus presents the case for an alternative and more stable measure to the price earnings (P/E) ratio as a basis for buying into the market, namely the book value, or net asset value, of a company. Price to book value, he argues, helps to look through the level of earnings. His analysis confirms our view that the performance of equities in the recent past is very unlikely to be sustained.

Anthony Farr, CEO of the Allan Gray Orbis Foundation, reports on the progress being made in offering talented young individuals full financial support to pursue a university undergraduate degree in the fields of commerce, engineering and science. He also offers an insight into the history of the Foundation with the initial thinking going back over 20 years. The current total of 79 young 'fellows' is expected to rise to 500 at any one time.

Finally, some staff milestones to report: Julie Campbell, the principal business driver of our IMS project – the most substantial IT project we have ever undertaken – has just completed 15 years' service with the firm. Her dedication and her commitment to absolute excellence is unrivalled not only in Allan Gray but in our industry. It is due to people like her that we are able to set such high performance targets. She is only one of 23 staff members who have been with the firm for more than 10 years; remarkable when we consider that we only had around 50 staff members 10 years ago.

After nearly 10 years at Allan Gray, Sibs Moore left us at the end of June. She served on the board for six years, stepping down in 2006 whilst remaining as a consultant. From 1998 to 2005 Sibs was the entire human resources department, during a period of remarkable growth and success. We wish her and her family all the best in the future.

Kind regards

Greg Fury

Jack Mitchell

PARTING SHOT - WATCH OUT FOR WHITE ANTS

EXECUTIVE SUMMARY: After nearly 40 years in the financial markets, Jack Mitchell is retiring from Allan Gray. He takes a parting look at the current state of markets both abroad and in South Africa and concludes that, while the present record bull market remains in force, it cannot continue forever and he suggests some of the signs that may indicate that its end is nigh.

The headline in Business Report dated 16 May 2007 read:

"Global M&A* action hits $2 trillion"

* 'M&A' stands for Mergers and Acquisitions

In the body of the report we are informed that this figure is 60% ahead of last year's record which in itself was an impressive amount. Students of market history will know that investment bankers are extremely busy when share prices are high. Alternatively, share prices may be high not least due to the bankers' 'selling efforts'. Either way, a case of 'two sides of the same coin'. While record levels of corporate activity do not in themselves define a market top, they do come with a financial health warning.

Perusing world stockmarkets, it is impressive to note that, despite substantial moves both in terms of advance and duration, they remain cohesive, that is with few weak spots. From a time perspective, history teaches us that secular bull phases, such as that which we are currently experiencing, do not last much longer without experiencing a sizeable correction or indeed something even nastier. Using US data, only the run from 1976 to 1980 was longer in terms of duration. Taking this parameter as a guide, the most we can hope for is another year or two of fun before realism dawns.

What about South Africa?

Our markets march with world markets and more particularly 'emerging' markets (Sandy McGregor covered this topic last quarter), which tend to be more volatile than 'developed' markets, both on the upside and downside. This translates to a higher risk label for markets such as our own. Remember, most capital is sourced in 'developed markets' and, in times of financial crisis, investors 'kick for touch' and take their money 'home'. Given our large deficit on the current account of the balance of payments, this type of environment has the potential to trigger a much weaker Rand which would raise inflationary concerns and, worse still, lead to higher interest rates. Such an event would present a rather sombre background to South African financial markets, notwithstanding that certain Rand hedges might cope better than the general index.

At this point I would like to pause and reflect on certain facts about our share market. Unbelievably, prices have appreciated almost fourfold since 2003. Adjusting for inflation (as shown in **Graph 1** on page 4) this is the biggest rise, without a meaningful correction, on record! We all know that records are made to be broken and it is also impressive how most sectors of our stockmarket have continued to participate in this broad advance. However, given the extent of how far this market is 'stretched', one must be especially vigilant in anticipating impending market weakness. Almost all bull markets in history have been undermined from within, well before the index collapses. In African terms, let's call it 'white anted'; that is to say the index (or the wood) looks fine from the outside, but on closer examination its structure is deteriorating rapidly from within. This means that as time passes and the index reaches new highs, the number of shares participating in recording new highs is falling dramatically.

> "Almost all bull markets in history have been undermined from within, well before the index collapses."

An example of this** is the classic peak of the Dow Jones Industrials as far back as 1929. As the index pushed higher in the last few months, fewer and fewer counters were recording new highs. In fact, on the very day the Index peaked, not one of the constituents made a new high! In other words, the final surge was constituted by a couple of laggards rallying from well below their peaks. As yet, this type of action ('weak

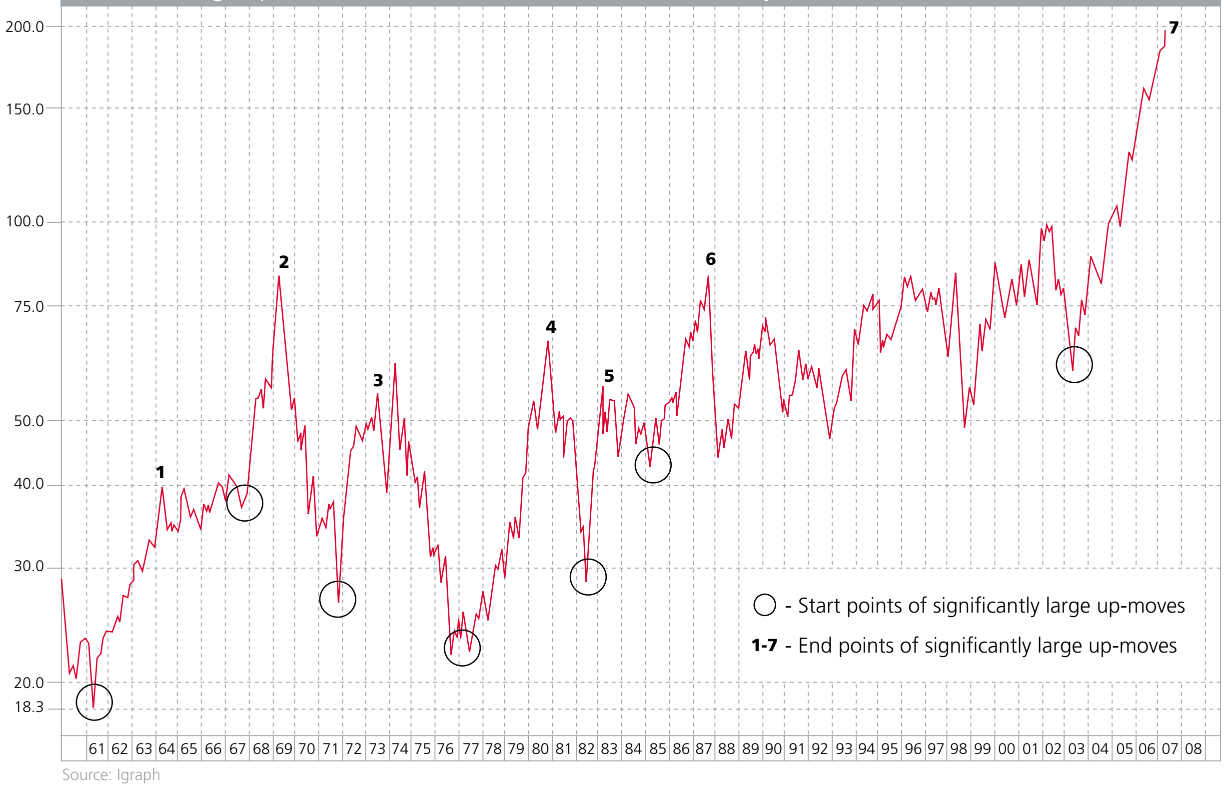
** Attributed to Ned Davis Research, c/o Davis, Mendel & Regenstein, Inc., 2100 Riveredge Parkway, Suite 750, Atlanta, Georgia 30328 USA breadth') is not yet apparent, suggesting the major risk is still some way off.

Another concern at this stage of the cycle is that corporate profits, both in nominal and inflation adjusted terms, are on a vertical trajectory and well into record-breaking territory (as shown in **Graph 2** on page 5). Experience tells us that this cannot be sustained and inevitably a reversal in profits will occur. Perhaps the fact that interest rates have been appreciating for the past year is a harbinger in this regard.

"The bull market remains in force and nobody knows at what level or when it will peak."

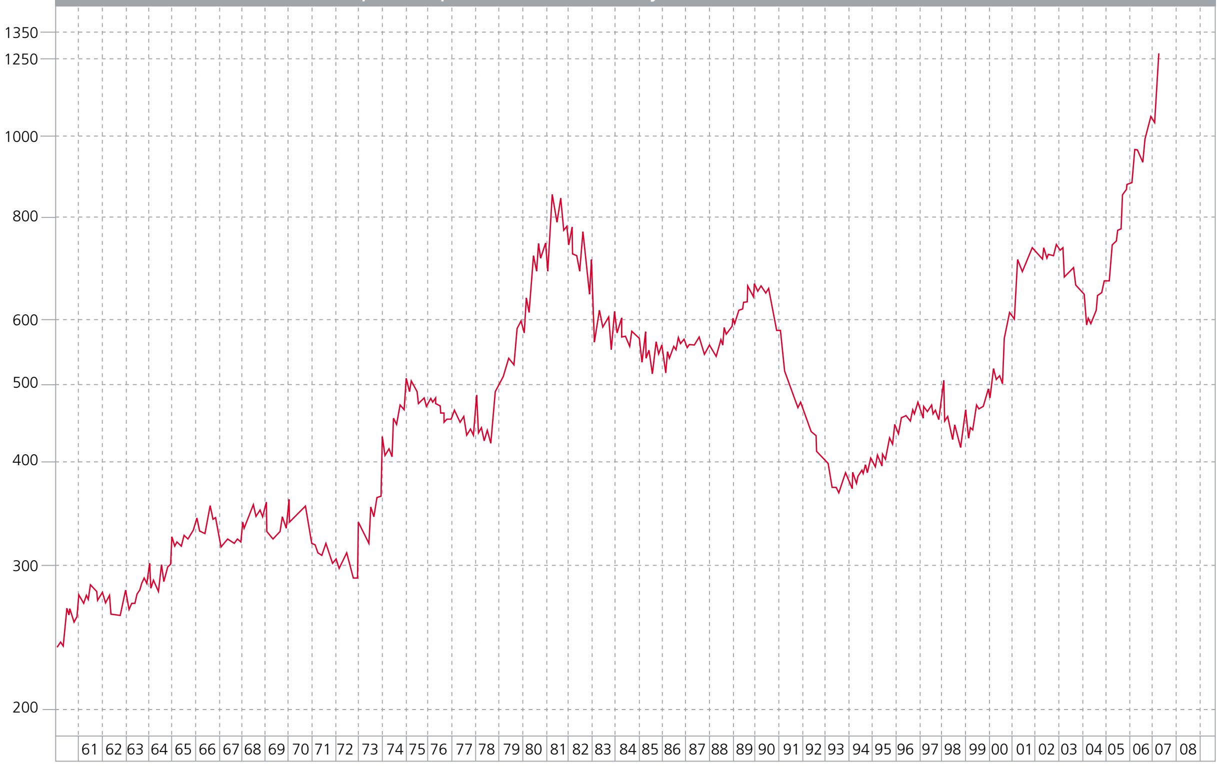
The bull market remains in force and nobody knows at what level or when it will peak. Indications such as those mentioned above could assist in gauging the underlying strength of the uptrend. Another factor to watch for is increased supply of shares. To my memory, major advances in share prices have all ultimately resulted in businessmen selling their shares wholesale to the public and reaping handsome profits from the exchange. Examples of this were seen in 1968/9, 1987 and of course more recently in 1997/8. To date, there has been a paucity of new listings or even rights issues in this bull phase. Quite to the contrary, private equity syndicates have been buying out and delisting counters from stock exchanges, both locally and abroad. This has had the effect of reducing share supply and, from basic economics, we know that this causes share prices to rise.

GRAPH 1 Large up-moves with minimal corrections (inflation adjusted)



Source: Igraph

GRAPH 2 South African corporate profits (inflation adjusted)



Source: Igraph

Parting shot

After nearly four enjoyable decades in the financial markets, I have decided to challenge myself to do other things besides sitting behind a desk. While I'm aware that one can take Jack Mitchell out of the markets, I could never force the markets out of Jack Mitchell. I will be watching closely from the sidelines with my attention currently focused on:

1. Market breadth
2. The profit cycle, and
3. Businessmen trying to sell shares to the public

I sincerely hope you will do the same.

Duncan Artus

A DIFFERENT TAKE ON VALUE

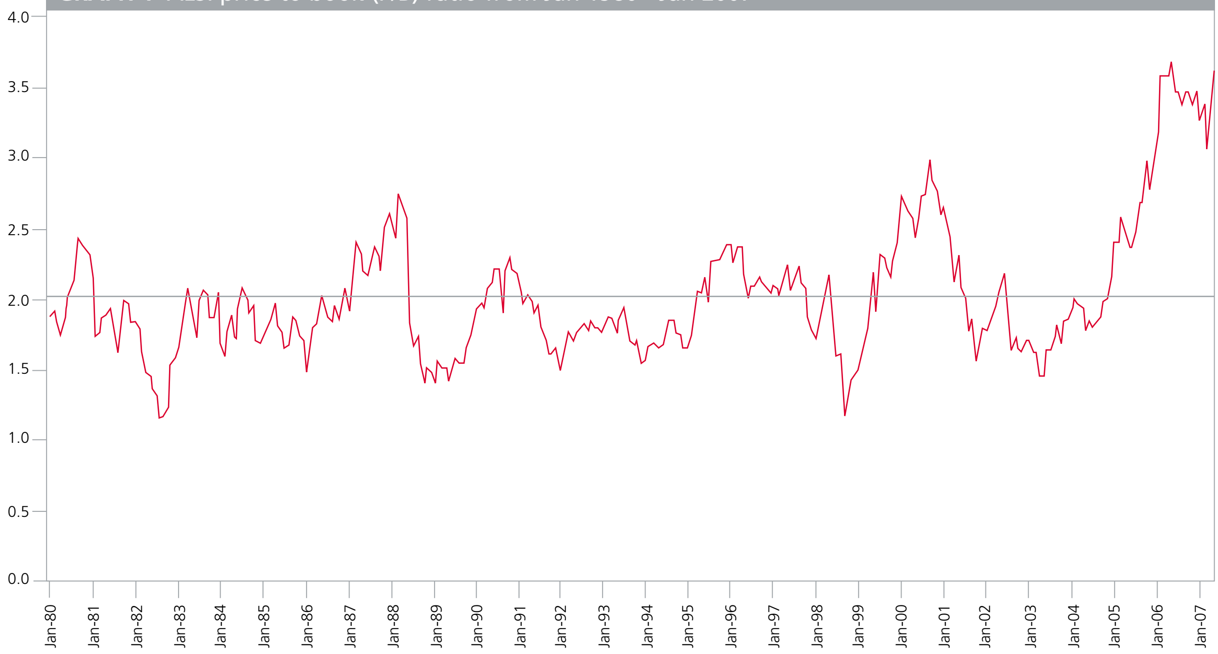
EXECUTIVE SUMMARY: Buying the market on what appeared at the time to be a reasonable price earnings (P/E) ratio can result in very disappointing future returns if earnings at the time are unsustainably high and subsequently revert to trend. Portfolio Manager Duncan Artus argues that over time a more stable variable than the P/E ratio is the book value or net asset value of a company. This is the value remaining after deducting all liabilities from the value of a business's assets. Instead of comparing price to earnings, price to book (P/B) value can be compared as an alternate valuation tool that helps to look through the level of earnings. Applying this approach, the article concludes that the return expectations on equities should be lowered.

The significant rise of over 22 500 points in the FTSE/JSE All Share Index (ALSI) from a low of 7 322 in April 2003 to a high of over 30 000 points in July 2007 has naturally resulted in much discussion about current values and future return expectations. Much of this discussion has focused on the above average price earnings (P/E) ratio (16x) that the market is trading on, weighed up against a very positive short-term earnings outlook.

As we have highlighted in previous articles, one of the problems with taking a P/E at face value is that earnings are cyclical over time. In other words, if earnings are unsustainably high and revert to trend, buying the market on what appeared to be a reasonable P/E can nonetheless result in very disappointing future returns.

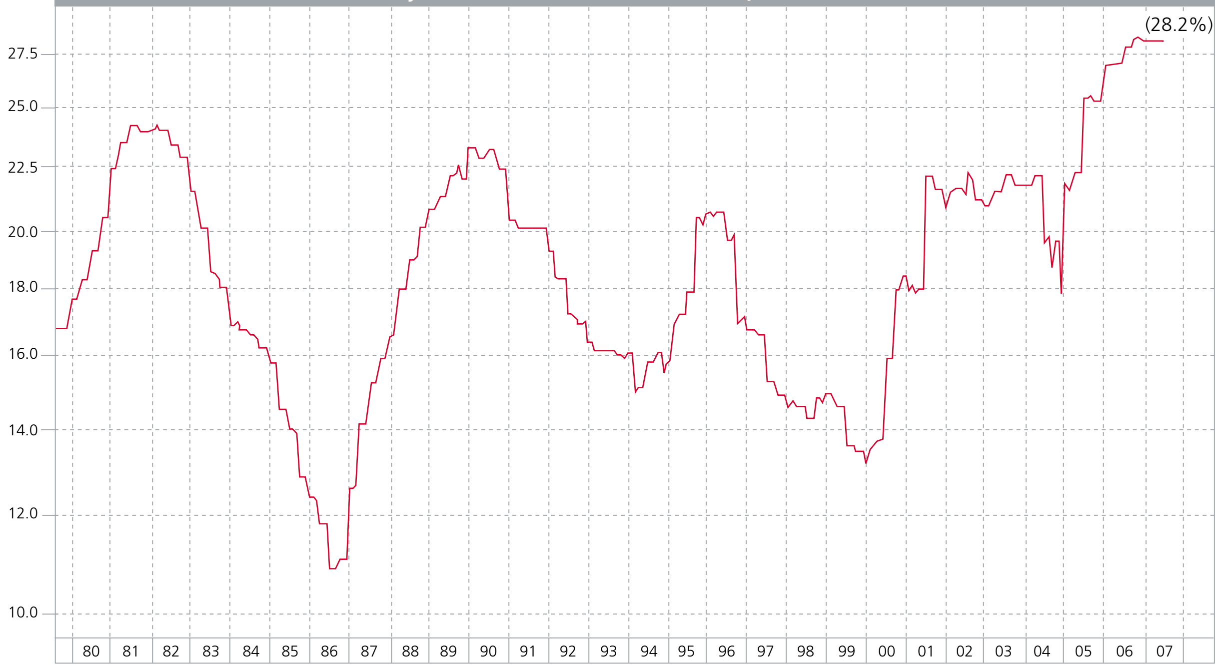
A more stable variable over time is the book value or net asset value of a company. The book value is simply the value remaining after deducting all liabilities from the value of a business's assets. Instead of comparing price to earnings we can compare price to book (P/B) value as an alternate valuation tool that can help look through the level of earnings. In other

GRAPH 1 ALSI price to book (P/B) ratio from Jan 1980 - Jan 2007



Source: Datastream, MSCI Redbook

GRAPH 2 Net return on ordinary shareholders' funds % (Monthly 31/08/1979 - 31/05/2007)



Source: I-Net

words a share can be on a low P/E but a high P/B and vice versa. Let's take a look at the long-term P/B ratio of the ALSI in **Graph 1** on page 6. The current P/B of the ALSI is 3.7x against a long-term average of 2.05x since 1980.

The price investors are willing to pay above (or below) book value should be determined by the returns the net asset value can generate (return on equity) relative to the cost of the equity and long-term growth expectations. A quick review of each of these three variables below highlights the strong tailwind each has provided to the strong performance of equities over the recent past.

Returns (ROE)

ROEs and operating margins are at or close to all-time nominal highs for most businesses. (See **Graph 2** above).

Cost of equity (yield on long government bond + risk premium demanded by investors)

The long bond yield has declined from 13.7% in 2000 (having been 20% in 1998) to the current 7.9%. Part of the decline in yields has been the dramatic narrowing of risk premiums as highlighted by the very narrow spreads demanded by investors for emerging market and corporate bonds.
(See **Graph 3** on page 8).

Growth rate

The long-term trend in the real earnings growth rate of the ALSI has been approximately 2.5% p.a. since 1960. Real earnings for the ALSI have grown at 28% and 20% p.a. compound over the last three and five years respectively. The natural inclination of investors is to up their long-term growth projections in the face of such impressive results. (See **Graph 4** on page 9).

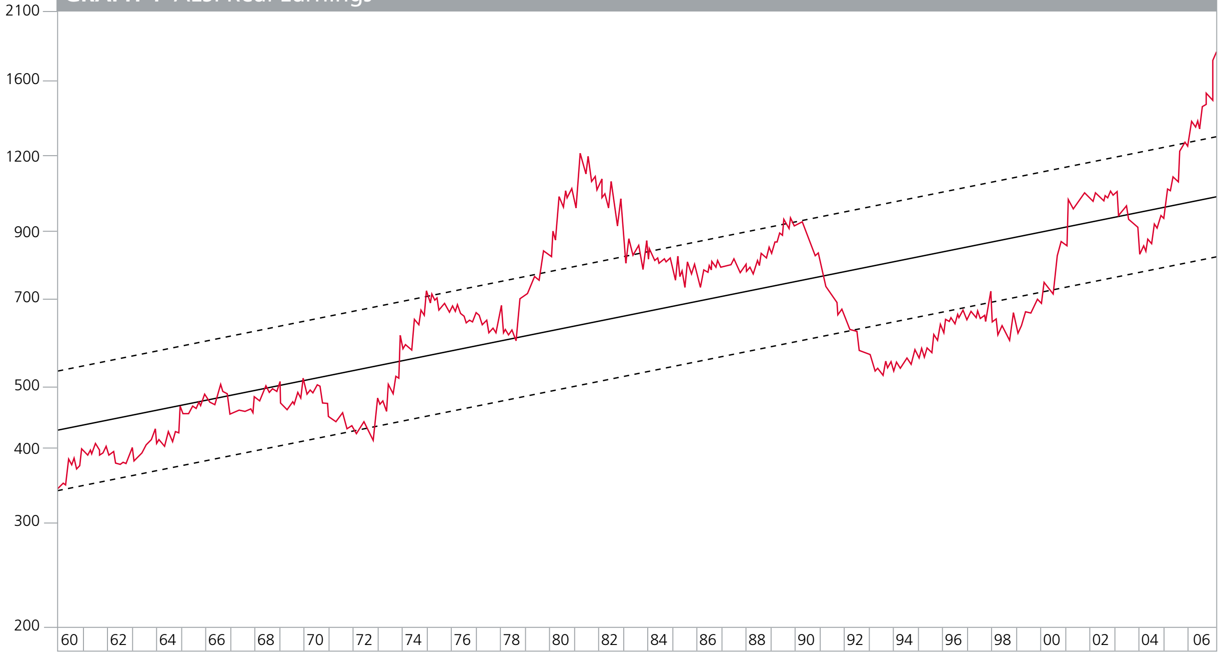
It is clear from this simple review that local companies have operated in an environment of declining cost of equity whilst simultaneously enjoying record profitability. This results in a very attractive spread between ROE and the cost of equity and, when combined with the increase in investors' long-term growth expectations, it would be difficult to imagine a better combination for business valuations based on P/B measures.

So what are we concerned about? The variables being used to generate the appropriate P/B ratio need to be sustained into the future. This is why we value businesses based on their long-term sustainable returns or profitability as distinct from what they are currently generating, which may be well above (or below) normal. With current returns above normal in our view, we are using lower ROEs as inputs in our valuations. Bond yields bottomed in February 2006. Rising yields not only increase the cost of equity (by providing an increasingly attractive competing rate of return for investors) but also typically tend to occur in environments when risk spreads widen and growth expectations are tempered.

GRAPH 3 RSA long bond yield

Source: I-Net

GRAPH 4 ALSI Real Earnings



Source: Igraph

In conclusion, when examining each of the variables determining the PB of local equities, it is clear that the current price levels of many shares are a reflection of a very favourable recent history. In our view it is highly unlikely the future will be as supportive. Return expectations from equities should therefore be lowered. However, we do continue to find attractive businesses that are being rated similarly to more cyclical businesses, but where we believe there is a greater probability of sustaining above average returns on their net assets over the medium-term.

Simon Marais

RECORD EARNINGS LEVELS GLOBALLY

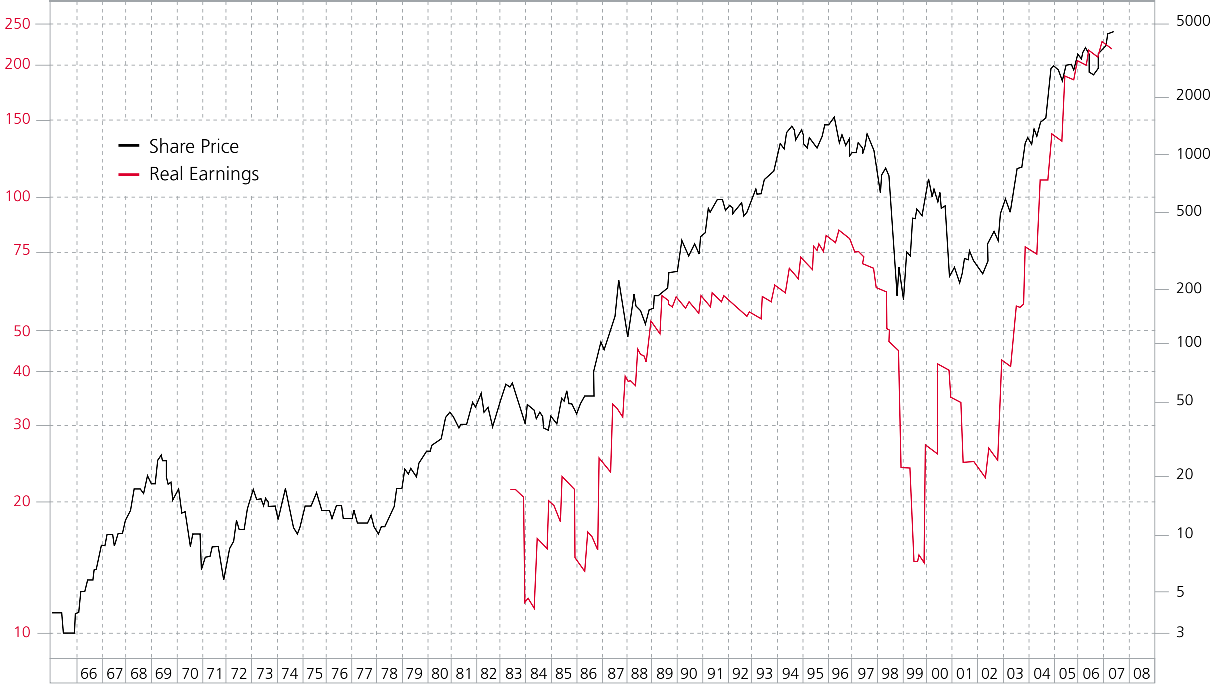
EXECUTIVE SUMMARY: Linking the price of a share to how much it earns at present in order to calculate the price/earnings (P/E) ratio is not a bad start in guarding against paying too much for the share. But, notes Simon Marais, Chairman of Allan Gray Limited, there is an additional consideration to keep in mind: the earnings of a company do not grow in a straight line. Recognising the impending causes of profit growth and profit decline will help decide when and what to buy and sell. Edcon is a case in point.

The basic reason why we invest in the stockmarket is to earn profits. A fancy head office and glossy annual report may look impressive, but what we really want from our investments is a future income stream with which to pay the bills - and then some.

It is thus no surprise that the most common method of evaluating shares is the P/E ratio. This is the price of the share we buy, divided by the last 12 months' earnings. The FTSE/JSE All Share Index (ALSI) is currently trading on a P/E of around 16 which means that the market is willing to pay 16 times last year's earnings now, for all the future income expected to be generated by the market.

At Allan Gray we think this is a very rational way to approach evaluating the stockmarket. One of our core beliefs is that you must always guard against paying too much for a share. Hence, linking the price of a share to how much it already earns is not a bad start. There is, however, an important additional consideration to keep in mind. The earnings of a company do not grow in a straight line. All companies experience times when business is good, margins expand and profits grow quickly. But at other times, sales growth is tough to come by, competition is increasing and earnings decline. These periods can span many years.

GRAPH 1 Long-term real earnings of Edcon



Source: Igraph

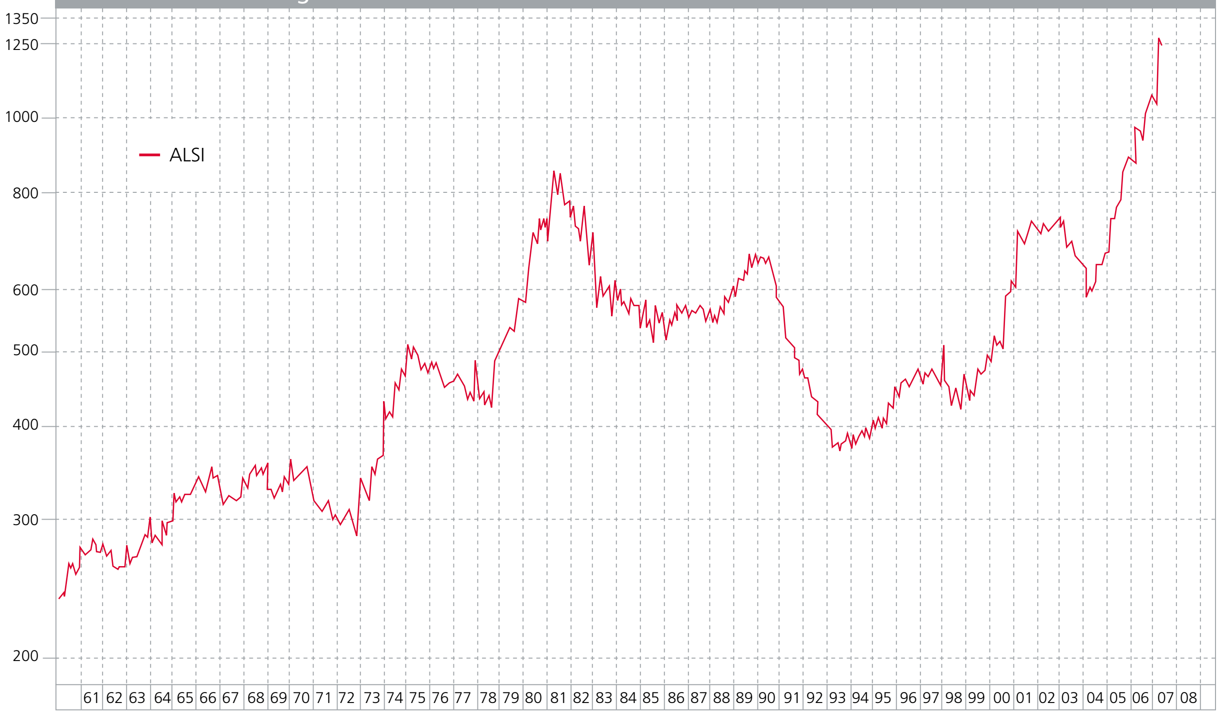
Graph 1, on page 10, shows the earnings of Edcon for the last 24 years adjusted for inflation. From about 1985 to the middle of the 1990s was a great period for credit retailers as their ability to provide credit terms enabled them to capture a new emerging class of clothing consumers who had entered the market. Edcon's real earnings increased about fourfold in that time. By then, the market not only accepted the high earnings as normal, it even started to extrapolate the earnings growth into the future. The share price (black line on the graph) rose even more than the earnings.

But the next seven years were really lean years for the same industry. In the good times retailers had over-expanded their space and so competition increased while South Africa experienced an interest rate shock in the late 1990s, resulting in significant bad debt write-offs for credit-driven operators. By early 2000 all the earnings gains over the late 1980s/early 1990s were lost. In real terms Edcon was earning little more than in 1985. The share dropped more than 80% in value.

Purely on a P/E basis, Edcon (trading on about 12 times the 2002 earnings) did not look very cheap. But a closer analysis showed that the company was trading at less than the value of its stock, a small fraction of turnover and less than half the value of its tangible assets (net of debt). What was not captured by the market was the tremendous upside potential in earnings should better economic times emerge. When these arrived from 2003 onwards, Edcon was ready. Real earnings have grown eight-fold. Even before the buy-out rumours began, the stock had gone up more than 10 times.

The risk to earnings now lies very much on the downside. Credit in South Africa (as in many other parts of the world) has grown much faster than the economy. At the same time,

GRAPH 2 Real earnings of the ALSI



Source: Igraph

retail space growth has also outpaced GDP growth. While Edcon does not look very expensive in terms of P/E, there is now much downside to the earnings (and hence the share price). Management has done well to sell the company to an external buyer.

The message, of **Graph 2** on page 11, is that it is better to buy a share on a higher P/E ratio when earnings are depressed with little downside and significant upside. At the same time, a wise investor will be cautious about investing in a low P/E stock when the earnings have grown at an unsustainable rate for a number of years. While the current price may look cheap, this apparent cheapness can disappear very quickly with tougher economic times.

"Given the boom we have had in South Africa and the world, earnings levels are at record highs."

Given the boom we have had in South Africa and the world, earnings levels are at record highs. This is the case in America, the UK, Australia – in fact in almost all countries in the world.

While a P/E multiple of 16 may not look that high relative to history, the risk for investors in South Africa is that the general level of company profits is at all-time highs. From here there is likely to be little upside in earnings, but significant downside should there be some economic shock. It is always very hard to pinpoint the timing or cause of such a shock, but the very high levels of debt in South Africa and many other countries may well cause problems in future.

We have thus moved our portfolio towards shares which may not necessarily have a lower than average P/E ratio on current earnings, but where we have more than average confidence that earnings levels can be sustained. Such shares include companies in stable industries where earnings show less volatility (Rembrandt, SAB, MTN) or companies which have experienced tough times over the past few years (Sanlam, Nampak) and for which earnings are not high.

We have completely sold many of the shares where we were the dominant holders five years ago, but where earnings are now well above even our most optimistic forecasts at the time. These include retailers such as Edgars, Foschini and Woolworths and many economically sensitive stocks which have benefited hugely from a strong local economy such as PPC, Aveng, Altron, Hudaco, Astrapak and Argent.

Michal Nosek

THERE IS STILL A MARGIN OF SAFETY IN SANLAM

EXECUTIVE SUMMARY: With South Africa equity valuations reaching new highs almost on a daily basis, it is becoming more and more challenging to find investments which provide investors with a margin of safety. Margins of safety, first defined by the founder of value investing, Benjamin Graham, are the difference between the intrinsic or fundamental value of a business enterprise and its market value. Analyst Michal Nosek explains why Allan Gray believes that one such investment is Sanlam.

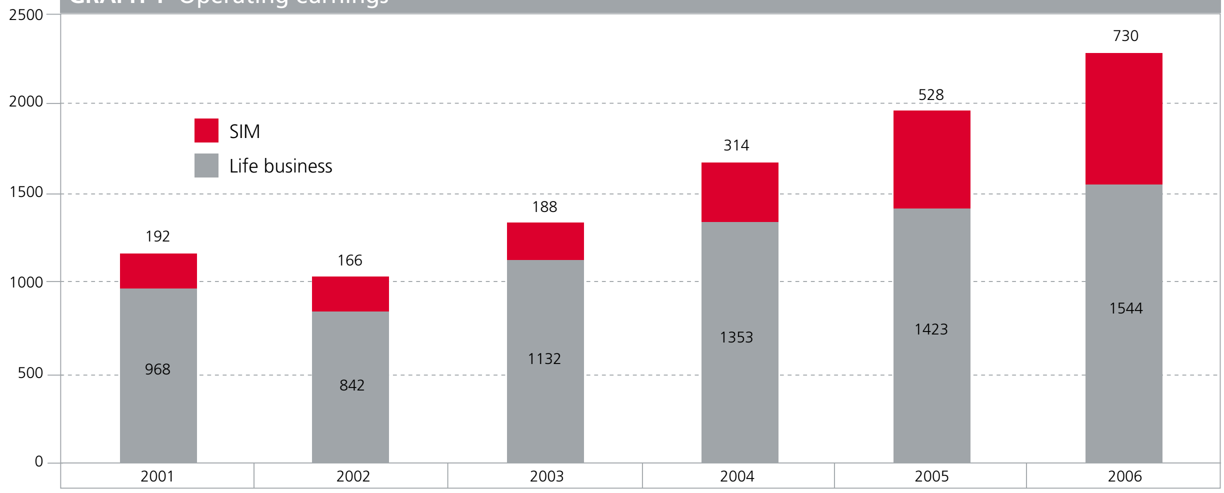
"To have a true investment, there must be a true margin of safety. And a true margin of safety is one that can be demonstrated by figures, by persuasive reasoning, and by reference to a body of actual experience." Benjamin Graham

In simple terms, investing in Sanlam consists of an investment in shareholders' capital and the underlying business operations. When the shareholders' capital (including the investment in Santam) is subtracted from the current market value, the underlying operations are on an undemanding earnings multiple price/earnings (P/E) of nine times. With the FTSE/JSE All Share Index (ALSI) standing at a P/E ratio of 16, we believe that the true value of the underlying operations is worth more than nine times Sanlam's earnings, which are all cash and can be fully distributed to shareholders without reducing the prospects for growth. The difference between the true value and market price of Sanlam's operations provides us with the margin of safety.

Unlike ordinary industrial companies which need shareholders' capital to fund their operations (plant and machinery etc.), financial service companies (banks and insurance companies) need their capital primarily as a security for their clients' deposits or investments. In the case of insurance companies, the capital is generally invested in a balanced portfolio of equities and fixed income securities and in their subsidiaries.

The critical role of top management in a financial company is management of its capital. Too much capital, while making clients and regulators happy, will lead to the destruction of shareholders' value in the long-term. Sanlam shareholders' funds are in excess of its requirements and the management is in the process of optimising capital structure by investing in value enhancing activities and/or returning the excess capital to shareholders. The management is truly focused on maximising the return on capital with clear goals firmly set. Sanlam has come a long way since its demutualisation in

GRAPH 1 Operating earnings



Source: Company records and Allan Gray research

1998. It is no longer a pure life insurance company but a more diversified financial services company, as can be seen from **Graph 1**, on page 13. Sanlam Investment Management (SIM) now accounts for almost one third of the operating earnings.

The important question one has to answer is: Are operating earnings worth more than a nine times multiple? We believe they are.

To demonstrate our case without going into too much detail, we break the operating earnings into two components: SIM, and life and other operations.

SIM is the second largest fund manager in South Africa. Funds under management at the end of December 2006 exceeded R 400 billion and the business earned more than R 700 million after tax with net client inflows. SIM is highly cash generative with the added advantage of captive funds from the life insurance company, which comprise approximately half of the funds under management.

"Whereas in 2002 clients were withdrawing their investments ..., they have been steadily increasing ... in the years since."

To be successful an asset manager has to watch three things: 1. Assets under management, 2. fees charged for managing the assets and 3. operating expenses.

As can be seen from **Table 1** below, SIM has improved on all three measures. The improvement, however, is due largely to extremely favourable market conditions. The ALSI increased by 166% from the end of 2002 to the end of 2006.

Perhaps a better picture (as shown in **Graph 2** on page 15) of the turnaround can be gained from the trend in net fund flows (net amount of money that customers invest with the manager). Whereas in 2002 clients were withdrawing their investments from SIM, they have been steadily increasing their investments with the company in the years since.

The high level of the local market clearly poses a risk to SIM earnings. This risk will be mitigated by the increase in average fees charged. Historically low management fees should increase as the proportion of assets managed for the life company at very low fees decreases.

For a comparative valuation we can look at JSE-listed Coronation Fund Managers (CFM) and international asset management companies. In its presentation of interim results for the period to March 2007, the management of CFM demonstrated the attractiveness of an investment in their company by comparing CFM valuation metrics to those of asset managers in the UK (median P/E 16.4 times) and the USA (median P/E 18.8 times). We share their opinion that CFM at its current rating of P/E 12 times still offers value (in fact, Allan Gray clients are substantial shareholders in CFM). The business models of the two asset managers are not identical, but SIM is definitely worth more than a nine times earnings multiple.

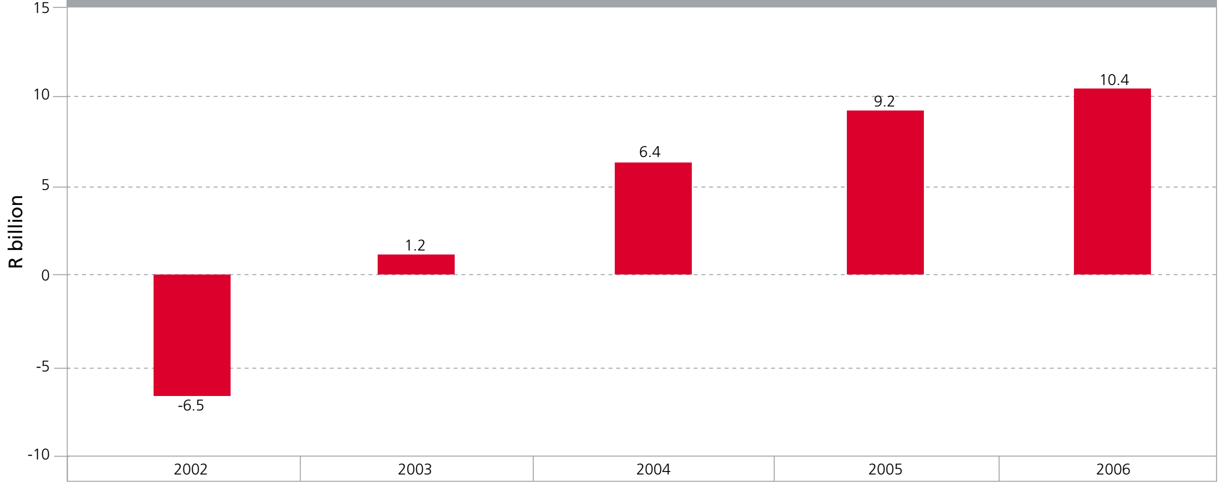
Life and other earnings still represent two thirds of Sanlam's operating earnings, but they are substantially less than the 83% which prevailed in 2001. With the management strategy of changing Sanlam into a diversified financial company, we can safely assume that the share represented by life earnings will decrease. There are two ways in which this can happen: life earnings will decline while other

TABLE 1

SIM	2002	2006
Assets under management (R billion) - year end	220	406
Fee income as % of AUM	0.28%	0.54%
Cost/Income ratio	67%	46%

Source: Company records and Allan Gray research

GRAPH 2 SIM - Net fund flows



Source: Company records
2005 net exclude PIC outflow of R 6bn
2006 net exclude PIC outflow of R 21.6bn

earnings remain constant or life earnings will grow but at a slower rate than other earnings. We believe that the latter will be the case. Since 2001, Sanlam's operating earnings have grown by a compound annual rate of 18%, SIM grew its earnings by 31% and life and other businesses by 10% (as shown in **Graph 1** on page 13). This growth has been achieved despite the negative publicity experienced by the life industry of late, albeit in extremely favourable equity market conditions.

There is no doubt that Sanlam's traditional life business is mature. However, it is still reasonable to believe that life earnings can grow, albeit at a lower rate. The growth will come from engaging with the entry-level market, expansion into the rest of Africa and India and keeping the costs in line with the size of the business. Furthermore, within other businesses, Sanlam is developing new initiatives, which should enhance earnings and improve client retention. A good example is the recently announced transaction account, linked to a money market account, where clients will have the convenience of a debit card while earning high interest on outstanding balances.

Future earnings are supported further by Sanlam's conservative recognition of life earnings. This is evident from the almost unbroken record of positive operating experience variations. Operating experience variations are the difference between what was the actuarial estimate and the actual outcome. Positive variance means that the actual outcome was more favourable for the company than expected. Continuously positive experience variations mean that the assumptions are conservative.

Conclusion

One cannot overlook the challenges that the life insurance industry is facing in the form of increasing consumerism, introduction of new legislation aimed at preventing past questionable business practices and government's move to a national savings plan. However, with equity markets at a high, Sanlam, with its undemanding valuations and management focused on creating shareholders' value, is one of those investments which still provide investors with a margin of safety.

Abdul Davids

THE ADVERTISING CYCLE - A KEY DRIVER OF MEDIA COMPANIES' EARNINGS

EXECUTIVE SUMMARY: The remarkable growth in the share prices of media companies over the past five years has contributed substantially to the returns enjoyed by Allan Gray clients due to the firm's exposure to the top media stocks. Buoyant advertising revenues have been the key driver of earnings. However, senior analyst Abdul Davids notes that the current rising interest rate environment does not bode well for the advertising cycle. Nevertheless, media companies should still be able to grow their revenues in real terms, particularly those with low dependence on advertising revenues – like Naspers – and owners of high quality media platforms – like Johncom.

Media companies listed on the JSE have experienced remarkable growth in their respective share prices and market capitalisations over the last five years. Their average growth in market values was around 60% per annum over the five-year period ended 31 March 2007, compared with a more modest 20% per annum return from the JSE (refer to **Table 1** below).

Allan Gray's exposure to the media sector over the last five years has thus contributed substantially to our clients' performance over this period. However, it is important to analyse the sources of these spectacular returns. Apart from our bottom-up approach to company analysis that identified most of the media stocks as particularly attractive investments, the advertising cycle has been a key driver of earnings and hence valuations in the media sector. In addition, corporate restructuring in the sector has unlocked substantial value for shareholders in companies like Naspers and Johncom.

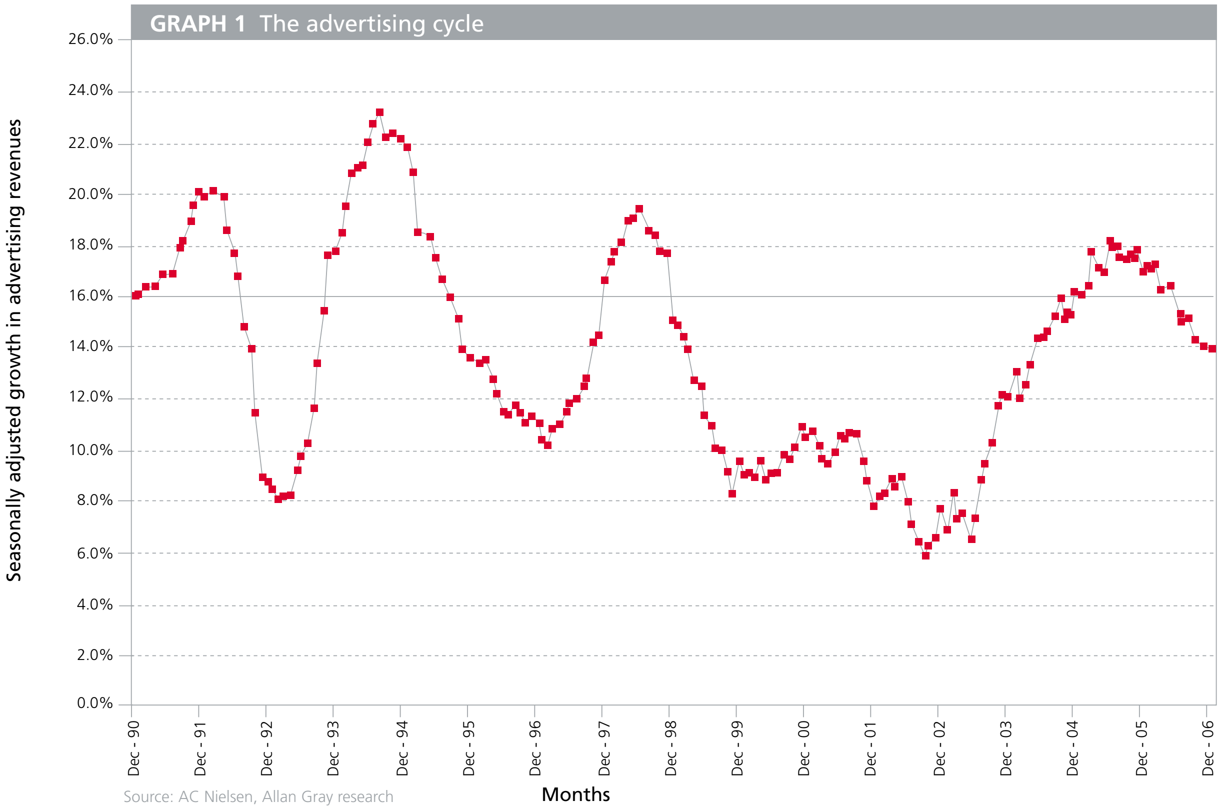
Media companies rely on advertising revenues – from television to radio and newspapers – to generate earnings for their shareholders. Fluctuations in advertising revenues result therefore in oscillation in the earnings of media companies and hence also the value that investors place on their share prices. **Graph 1** on page 17 depicts the seasonally adjusted growth rate in advertising revenues since 1990. Whilst the growth in advertising revenues comfortably exceeded the average inflation rate over this period, the advertising revenue data does exclude any discounting by the media agencies which may have an impact on the true picture. Nevertheless, four cycles are clearly identifiable over the 16-year period. Furthermore, Allan Gray's investment in the media sector in 2002 coincided with an end to a three-year down cycle and the start of the most recent up cycle.

In addition to rising interest rates, the loss of tobacco advertising contributed significantly to the down cycle in the late 1990s and early 2000s as media companies battled to replace this lucrative revenue stream with other advertisers. At its peak in the mid 1990s, tobacco advertising accounted for around 3.5% of total advertising spend. However, increased advertising spend by, amongst others, the mobile phone operators, as well as robust economic growth provided a strong catalyst for the current advertising boom. Telecommunications advertising has increased from around 3% in 1995 to around 7.2% of total advertising spend today; a result of 25% p.a. growth over the last 10 years. Only the more fragmented retail

TABLE 1

Market Value (R'm)	31/03/2002	31/03/2007	Growth% p.a.
Naspers	1 992	64 354	101
Johncom	1 287	9 292	48
Primedia	878	5 671	45
Caxton	1 855	8 265	34
Weighted Average			**60**
All Share Index	**11 015**	**27 267**	**20**

Source: Companies' financial statements



Source: AC Nielsen, Allan Gray research

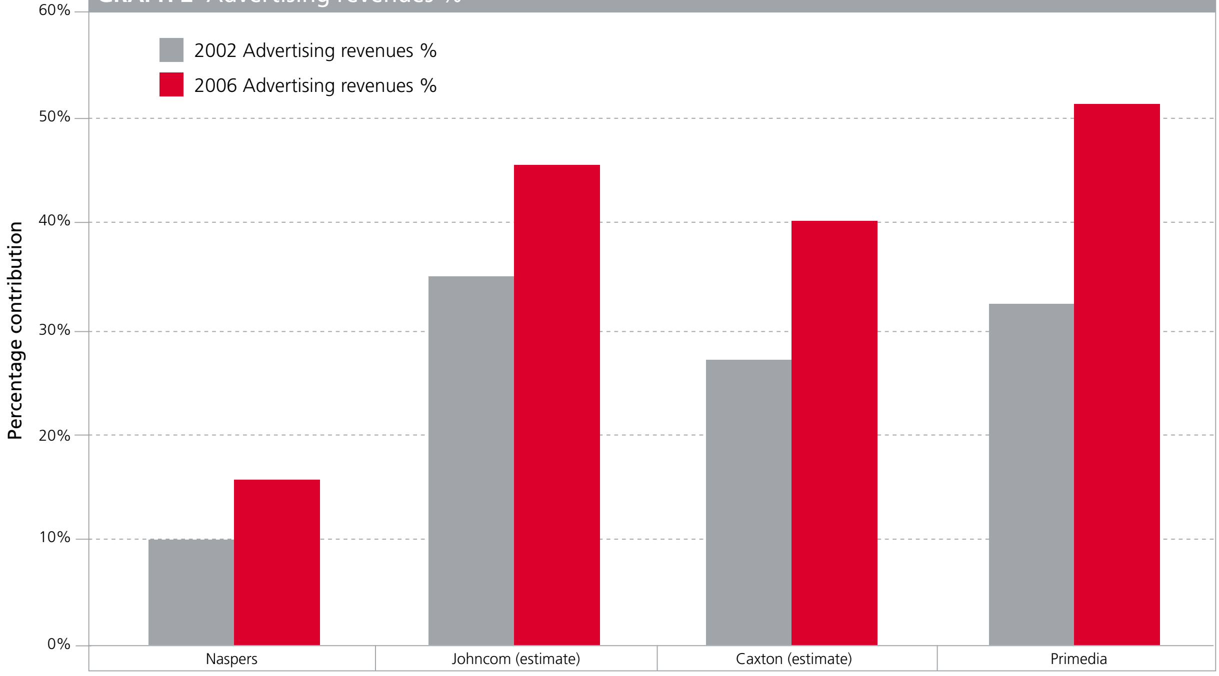
advertising sector has grown at a faster rate over this period. The strong growth rate in advertising spend has started to flatten since 2005. However the absolute level of growth at 14% is still significantly above the inflation rate, thus allowing media companies to continue to grow their revenues in real terms.

Exposure to advertising revenues

The growth in advertising revenues has contributed significantly to media companies' overall revenue growth and, as a result, the contribution from advertising revenues has increased over the last four years. **Graph 2** on page 18 highlights the changing contribution from advertising revenues to overall revenues over the last four years.

Naspers has the lowest contribution from advertising revenues, mainly due to the substantial revenues generated from its subscription-based pay television and internet operations. Johncom's flagship publication, the Sunday Times, is the biggest contributor to the group's advertising revenues, whereas Caxton's magazines and free sheet businesses are its biggest contributors to advertising revenues. Revenue from advertising accounts for more than 50% of Primedia's revenues, mainly due to the substantial contribution from advertising on the group's four radio stations in Cape Town and Gauteng.

GRAPH 2 Advertising revenues %



Source: Allan Gray research

Conclusion

The current rising interest rate environment does not bode well for the advertising cycle. However, if history repeats itself, media companies are unlikely to experience negative growth in advertising spend and should still be able to grow their revenues in real terms. Furthermore, media companies with low dependence on advertising revenues, like Naspers, and owners of high quality media platforms like Johncom's Sunday Times, are well-equipped to withstand a decline in the advertising cycle.

Anthony Farr

ALLAN GRAY ORBIS FOUNDATION UPDATE

EXECUTIVE SUMMARY: The Allan Gray Orbis Foundation was set up to drive the social responsibility efforts of the Allan Gray group and is funded by an annual donation of 7% of the firm's profits. Anthony Farr, CEO of the Allan Gray Orbis Foundation, reports on the progress being made in realising its purpose. The Foundation's main programme is to offer talented young individuals full financial support to pursue a university undergraduate degree in the fields of commerce, engineering and science. He notes that currently there are 79 young 'fellows' on full scholarships at six different South African universities, a number that is expected to rise to 500. They are drawn from nationwide searches across a potential pool of 25 000 applicants and a rigorous selection process. Once chosen, they are exposed to an entrepreneurial development programme, which includes comprehensive mentoring and varied work experience.

It is now two years since the Allan Gray Orbis Foundation took the first steps of its journey aimed at contributing towards the achievement of a better quality of life in South Africa. A contribution that is premised on the belief that an investment in the education and skills of promising young South Africans, leveraged by the fostering of an entrepreneurial spirit, is a powerful strategy to achieve that end. It is a journey that, while only recently commenced, is the fruition of a vision germinated as far back as 1984 (see page 22) to give a 20% interest in the then partnership of Allan Gray Investment Counsel to the Allan Gray Development Trust to sponsor black entrepreneurs.

And, as is the context from which the Foundation emerges, it has a fundamentally long-term orientation in the pursuit of this vision – for the reality of change, lasting change, is that it takes time.

Yet despite this long-term orientation, there have been important early milestones over these initial stages of the journey: the Foundation has been registered as a S18A compliant trust, has conducted two nationwide searches across a potential pool of 25 000 applicants; searches that have involved over 600 schools and five universities and which culminated in the current number of almost 80 young individuals, known as 'fellows,' on full scholarships at six different universities. Finally, the Foundation has established its development programme, serving these fellows, in three locations across the country.

As implied from the above, the Foundation's initial strategy for realising its purpose is to offer talented young individuals full financial support to pursue a university undergraduate degree across the fields of commerce, engineering and science. The Foundation continues to grow these awards towards its intended scale of 500 undergraduate students studying at any one time. In addition, during the course of their studies, they are exposed to an entrepreneurial development process, including comprehensive mentorship and varied work experience. Together, these elements in conjunction with the prospect of post graduate study, even internationally for those that excel, make up the Allan Gray Fellowship Programme - a programme carefully constructed to foster the restoration of a critical catalyst for progress in the next generation: the dreaming of dreams to fulfill their highest potential, strengthened in the genuine confidence that now these dreams can be reached.

There have thus been two main areas of focus over this initial period, namely the selection of these individuals and the development of the fellowship programme.

Selection

Selection was targeted at finding individuals who carry the Foundation's five identified criteria of (see **Table 1** on page 21): intellectual imagination, personal initiative, spirit of selflessness, courageous commitment and achievement excellence. Annually the Foundation conducts a nationwide search for such individuals, who could either be in final year of secondary school or first year of university.

This extensive selection process starts with candidates being nominated by their school or university. Those nominated complete extensive application forms which are then assessed, before a short-list is invited to attend in-depth interviews. Successful interview candidates are then asked to attend an intensive, three-day selection camp, five of which camps have been conducted to date, at locations including Robben Island and the Cradle of Humankind. These camps, bringing together some of the most exciting young talent in the country, have proved to be a unique opportunity for the candidates to learn, to meet like-minded people and to continue building their personal visions.

The impact of these camps was perhaps most poignantly captured in a statement from an unsuccessful candidate who later wrote to the Foundation with the following comments:

"Investment in the youth of South Africa is the only way to ensure that our country can grow and develop into a global player. No matter the outcome of the selection process, I feel humbled to have been part of it and privileged to have had this life changing opportunity."

The first campaign attracted applications from around 100 schools and two universities. In the second campaign this grew to 500 schools, identified as the top performing in the country, and five campuses (University of Cape Town, University of the Witwatersrand, University of Johannesburg, Rhodes University and the Nelson Mandela Metropolitan University), giving the Foundation a potential application pool of approximately 25 000 candidates. From these, a pool of nearly 1000 nominated, screened candidates was drawn from all nine provinces and Namibia. Out of these, 354 candidates were chosen for interviews, of whom 150 were invited to attend four three-day selection camps. This led to the offering of the final fellowships, bringing the total number of fellows currently supported by the Foundation to 79.

Fellowship programme

In 2006, the fellowship programme was implemented in two locations – Western Cape and Gauteng. In 2007, a third hub was initiated in the Eastern Cape.

The entrepreneurial development component is driven by an innovative 'learning by experience' educational methodology. The programme is provided to fellows in parallel to their full-time undergraduate degree programmes. The learning model is strongly linked to the mainstream programmes on which fellows are enrolled, thus ensuring that connections are made between entrepreneurial thinking and university studies. The programme consists of various nodes of interaction, including an initial two-day orientation, Saturday morning learning sessions, quarterly lectures from prominent visiting business leaders and other subject matter experts, as well as a mid-year three-day winter seminar.

These activities are supplemented by carefully selected mentors for each second year fellow, who assist them to expand their sense of possibilities and carry out an individualised self development plan. There are currently almost 50 mentoring relationships in place and, as the number of fellows increases, the Foundation continues to seek out individuals wanting to work with and develop emerging young leaders as part of this holistic development process.

Finally, work experience is facilitated for the fellows to expose them, early on, to the realities of enterprise. Providing this relevant and diverse work experience is a key element of the programme and requires fellows to work at an enterprise for a minimum period of a week during university vacations. The Foundation is constantly building its database of suitable businesses to participate in this programme.

In all of these activities, the Foundation's return is not as easily measured as that of the financial markets, yet this does not excuse it from measurement. The full impact can only be assessed in years to come, so in the interim initial indications are provided through honest feedback from the fellows themselves:

"Many of the things that I have learnt from the programme have actually awakened something within me that I thought never existed; strive for excellence, and use every opportunity you are given to the fullest. Above all, know yourself, who you are and never let anyone tell you differently."

In an important extension of the Foundation's activities, the need has been identified to provide scholarships at the secondary school level in order to increase the potential pool of applicants to the Allan Gray Fellowship Programme. The urgent need for more black South African learners to do well at Mathematics and Science is best captured in the disturbing statistic that currently less than 2500 African candidates pass Mathematics on the Higher Grade with a C aggregate or higher. The first of these scholarships for promising learners to attend selected leading government and private schools for their secondary schooling are scheduled to be awarded for study in 2008.

While excited about the synergies to be created by the new schools programme, in a country of such need and worthy causes, in keeping with the maxim of Allan Gray and Orbis to do few things and strive to do them very well, the Foundation exercises continual discipline to keep its focus on the areas it has chosen in order to achieve its ambitious goal – a lesson that was exemplified by the words of one of the participants at a selection camp, when they wrote: *"When chasing elephants, don't stop to throw stones at birds"*.

www.allangrayorbis.org

TABLE 1 Fellow characteristics

Intellectual Imagination
An enquiring and active mind demonstrated by an established record of intellectual achievement; an ability to see the unseen, challenge the status quo and suggest that things could be done differently.

Personal Initiative
A person that makes things happen and celebrates the satisfaction of bringing new things into being. Independent, proactive and self-starting. A person that is willing and able to make their own decisions.

Spirit of Selflessness
A weight of personality that comes from living a life personified by passion and integrity. A recognition that ultimate personal satisfaction comes from empowering oneself in order that one might be able to serve others.

Courageous Commitment
The courage and dedication to continue, realising that applying consistent commitment has a way of overcoming.

Achievement Excellence
The ongoing pursuit of excellence with a tangible and specific focus on setting goals. A motivation to make a difference and leave a mark. To be bold, not looking back, but pressing forward in the pursuit of one's goals.

ALLAN GRAY DEVELOPMENT TRUST

August 31, 1984

Allan Gray Investment Counsel, a partnership, is a firm of investment

For several years thought has been given to donating part of the firm to a non-profit Trust so as to provide a vehicle for a wider sector of South African society to participate directly in the firm's progress.

It is felt that simply donating the funds

For several years thought has been given to donating to established educational, ecclesiastical and charitable institutions, would fall short of optimising the contribution we could make to society. firm's progress.

It is felt that simply donating the funds flowing to such Trust from its participation in Allan Gray Investment Counsel to established educational, ecclesiastical and charitable institutions, would fall short of optimising the

provide a catalyst for the creation of small labour intensive businesses such as cottage industries, firms in the service industry etc. amongst the less privileged of South African society. money which would accrue to the Trust, but also our skills in investment, accounting, finance and general management to

The objective would be to create job opportunities, to encourage enterprise and sow the seeds of capitalism, in society.

The urgent need to create a stronger middle class in South Africa demands affirmative action by the Trust by confining its loans to non-whites. untry's new dispensation in the political arena with new opportunities in the economic sphere. The urgent need to create a stronger middle class in South Africa demands affirmative action by the Trust by confining its loans to non-whites.

While its effort should be so structured as to have a cumulative and compounding effect. would not be inconsequential, if the Trust is to achieve its goals, its effort should be so structured as to have a cumulative and compounding effect.

Preferably, therefore, financial assistance granted to create or further develop small firms would be repayable - or if an equity interest would be sold - and these funds would in turn become available to finance yet more new firms. The skills within Allan Gray Investment Counsel should prove valuable in determining areas within the economy where new businesses could be viable, in selecting potential entrepeneurs to head the businesses and in anticipating the varied demands that will be made on such businesses. Allan Gray Development Trust would clearly have to develop its own staff some of whom would have to be paid economic salaries, while at the same time, it expects to be able to enlist the assistance of many others, such as non-working wives, on a voluntary basis.

Specifically, the proposal is to donate 20% of Allan Gray Investment Counsel to the Allan Gray Development Trust. The trust would receive about R 500 000 in calendar 1985 and, in keeping with the internal revenue code, at least 75% of this would be disbursed. As the proposed trust would be a partner in Allan Gray Investment Counsel it would participate directly in the firm's profitability and any futur it would participate directly in the firm's profitability and any future growth of the firm would be reflected in increased amounts becoming available to the trust.

a) the formation of the Allan Gray Development Trust by the donation by Allan Gray/the partners of a 20% partnership interest in Allan Gray Investment Counsel, and

b) approval by the authorities of the Allan Gray Development Trust as a non-profit, untaxed body, in terms of section (?) of the income tax act.

The formation of this trust has been under consideration for some years., however, both because of the favourable developments within Allan Gray Investment Counsel and our resultant capacity to be of service, and the demands of our evolving society, we believe the time for planning is past and that of commitment and action is now.

The necessary support of the authorities is hereby enlisted so that we at Allan Gray Investment Counsel can make our contribution to an even better way of life in South Africa.

Johan de Lange

Rob Dower

TRANSPARENCY, PERFORMANCE AND FEES: ARE INVESTORS GETTING VALUE FOR THEIR MONEY?

EXECUTIVE SUMMARY: Fees are the main reason why, on average, actively managed investments eventually underperform the market. For this reason, it is critical that investors understand the fees they pay as well as the basis for any performance-based fees and the value they're getting for their money. This article provides a detailed breakdown of how Allan Gray's unit trust fee structures apply to investments within the context of striving for long-term outperformance on behalf of clients.

South African unit trust funds have always published prices and performance net of investment management fees, allowing investors to compare apples with apples and to understand the value added by the manager.

Table 1 below shows the performance of the Domestic Equity general sector relative to the FTSE/JSE All Share Index. From this, one is able to note the varying levels of outperformance of funds in what has been a significant bull market. Performance here is shown net of investment management charges.

Net performance figures combine two quite different components: performance (which is uncertain) and fees (which are more predictable). Fees are the main reason why, on average, actively managed investments eventually underperform the market. It is critical therefore that investors understand the fees they pay, the basis for any performance-based fees and the value they're getting for their money.

What are the various fees one incurs?

There are essentially three sets of fees paid by unit trust investors: a fee for financial advice (where advice is sought), the investment management fee and fund administration fees. South African unit trusts already offer pretty good disclosure of initial fees and annual management fees charged by the management company for investment management. What haven't been as transparently disclosed to date are the other costs that drag on a fund's performance; those involved in the day-to-day running of a fund, for example, audit fees, bank charges and VAT, which have really only been shown on the annual reports of management companies. To remedy this, the Association of Collective Investment Schemes (ACI) - in line with best practice in most global markets - has initiated the use of a new measure to help investors quantify and compare these.

New measure to quantify costs incurred in investment portfolios

Known as a Total Expense Ratio (TER), the new measure aims to make all of the costs that are incurred in investment portfolios, including management fees, administration costs, custody fees, trustee fees, audit fees, VAT and bank charges transparent. TERs are calculated by adding up all of these charges over a year and dividing them by the daily average value of the investment portfolio over the same period. This gives a retrospective view of the annual costs of the fund, or, in other words, the amount of return that the manager has to earn to get you back to your starting value.

TABLE 1

Domestic Equity General Sector	Performance to 31/06/2007		
	1-year	3-year	5-year
Allan Gray Equity Fund	39.6	45.4	33.6
Benchmark (FTSE/JSE All Share Index)	36.9	44.9	25.3
Worst performing fund in the sector	25.1	34.6	23.3
Top performing fund in the sector	65.7	51.3	36.2

Source: Micropal and Allan Gray

As an example, the TER for the Allan Gray Equity Fund for the year to 31 March 2007 is 3.53%. This includes all costs (including VAT) that the fund incurred: an investor would effectively have paid 3.53% of the average market value of his or her investment during the year for underlying portfolio costs. When considering which fund to invest in, it is worth asking oneself whether over long periods the manager is likely to be able to perform better than the fund's benchmark to the extent of the expense ratio of the fund.

TERs exclude initial fees levied by the asset manager and the initial and ongoing cost of financial advice, all of which have to be shown explicitly on their own. Brokerage and other portfolio trading costs are included in the published Allan Gray TERs, even though this is not required by the industry standard, because we prefer the added transparency over the appearance of a lower cost. As can be seen from **Table 2** below, one of the largest components of the TER is the performance fee.

Performance-based fees: Equity and the alignment of investor interests with our own

The two principles behind performance-based fees are: equity, in that investors should only pay an above average fee where they have benefited from above average performance; and alignment of interests, where the fee encourages investment managers to behave in a manner that is best for their clients, generating long-term investment performance.

A fixed fee basis means the investment manager earns the same fee irrespective of the performance a client achieves and the only way of increasing revenues is to manage an ever increasing amount of assets.

There is also some truth to the view that growth in assets (inflows) is linked to performance, and by implication that fixed fee managers are still incentivised to deliver strong performance. But history has shown that in an environment where investment products are often sold not bought, growth in assets under management is strongly associated with strength of distribution rather than investment success.

Performance fees try to focus the fund manager more strongly, by making the fee dependent in some way on achievement relative to a goal, or benchmark.

Allan Gray has offered performance-based fees to institutional investors for over 20 years. Currently 70% of our assets under management are on a performance fee basis. When we developed our unit trust business in 1998 we took the decision to offer performance-based fees to our individual investors. The Allan Gray Equity Fund, launched in 1998, was the first unit trust in South Africa that was offered on a performance fee basis. We felt that taking a consistent approach to fees across our business was in line with our principle of integrity and our commitment to creating long-term wealth for clients. This was unique at the time but we have noted an increasing trend of managers offering performance-based fees today.

There is no single performance fee that satisfies all clients and therefore in every formulation there are positives and negatives. However, in general, Allan Gray favours performance fees calculated on a 'since inception' basis because this means that, at any point in time, a client has paid a fee based upon the value added to his investment over the entire time period that Allan Gray has managed it. Alternatives can mean that short-term performance may be rewarded even when long-

TABLE 2 Understanding the various components of the Allan Gray Equity Fund TER to 31 March 2007

	Total including VAT
Performance fee	3.53% (incl. VAT) of which 1.69% is included and disclosed seperately as the performance component of this fee wherever the TER is shown.
Fee at benchmark ('Fixed fee')	1.71%
Trading costs (including brokerage, VAT, UST, levy, STRATE, IT levy)	0.13%
Other expenses (including audit fees, bank charges)	0.00%

term (since inception) performance has been poor (and vice versa). This 'since inception' fee also appeals to clients and many of the fees on our institutional client portfolios are calculated in this manner.

However, it is practically impossible to calculate and administer this sort of fee over the large numbers of clients in unit trusts and so some compromises have to be found. These include rolling calculation periods and 'high watermark' structures, both of which have certain advantages and disadvantages. A high watermark structure means that one must first make up any past underperformance prior to a future performance fee being charged.

We believe that, despite the compromises, performance fees are a substantial improvement on fixed fees and would caution only against performance fees that use an inappropriate benchmark or are calculated over a very short time period as this can lead a manager to chase short-term returns as opposed to being focused on delivering long-term outperformance.

Examples of Allan Gray performance-based fees

Allan Gray Equity Fund

Fees in the Allan Gray Equity Fund are heavily geared to performance, and quite often attract criticism from our competitors, despite the (net of fees) performance track record of the fund. Perhaps therefore it is a good example to illustrate how our performance fees work. The annual management fee structure is as follows:

Benchmark: FTSE/JSE All Share Index including income

Annual Management Fee Structure:

- Minimum annual fee: 0.0%
- Maximum annual fee: 3.0% p.a. (excl VAT)
- The minimum and maximum fees are based on 15% under/out performance of the benchmark over a two-year period with a 10% sharing ratio.
- If performance is equal to that of the benchmark then a base fee of 1.5% p.a. (excl VAT) is charged.

For example, let us assume that the Allan Gray Equity Fund returned 30% over the last two years. Also let's assume that

TABLE 3a	
Performance of Allan Gray Equity Fund	= 30% over the last 2 years
Performance of benchmark (FTSE/JSE All Share Index)	= 10% over the last 2 years
Outperformance	= 20% over the last 2 years
Asset management fee (exclusive of VAT)	= Benchmark fee ± (Outperformance x Sharing ratio) = 1.5% ± (20% x 10%) = 1.5% + 2.0% = 3.5%
Maximum fee for the Allan Gray Equity Fund	= 3.0%

TABLE 3b	
Performance of Allan Gray Equity Fund	= 5% over the last 2 years
Performance of benchmark (FTSE/JSE All Share Index)	= 25% over the last 2 years
Underperformance	= 20% over the last 2 years
Asset management fee (exclusive of VAT)	= Benchmark fee ± (Underperformance x Sharing ratio) = 1.5% ± (20% x 10%) = 1.5% - 2.0% = -0.5%
Minimum fee for the Allan Gray Equity Fund	= 0.0%

the benchmark returned 10% over the same period. The outperformance over the two-year period is then 20%. The performance fee is equal to 10% of the outperformance, subject to a maximum of 3.0% p.a., as shown in **Table 3a** on page 25.

The alternative scenario, where the fund delivered a 5% return, 20% less than the benchmark, over the two-year period is shown in **Table 3b**. In this instance a fee of 0% would be charged.

Most investors would agree that this structure strongly aligns their interests with those of the fund manager.

Aligning investor interests with our own

What performance fee has been paid when? Based on the above, there will be times (particularly after a period of outperformance) when new investors come into the Fund and from the outset pay a (relatively) higher performance fee for historical performance, but conversely, there will also be times when new investors could (and have done in the past) come into the Fund after a period of relative underperformance and therefore could pay at the outset a lower fee. As with our long-term approach to investing, these do normalise over time and over the various ups and downs of performance – ensuring a degree of equity for all investors. When there is a divergence between the performance of the Fund and the benchmark, this is marked by a subsequent increase or decrease in fees.

Conclusion

We believe in making informed investment decisions. The new disclosure requirements regarding TERs and performance fees will encourage investors and their advisers to be more aware of the objectives of a fund, whether the fund is managed relative to the benchmark or not and therefore what level of performance is being generated and being paid for.

However, while costs and their disclosure are important, they're still only a part of the fund selection decision. The really important factor is the role the fund plays in one's overall investment portfolio and how one expects it to perform net of all costs over the long-term.

Investment Track Record

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 15.06)	-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	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007 (to 30.06)	13.6	15.1	-1.5
Annualised to 30.06.07			
From 01.07.2006 (1 year)	47.0	36.9	10.1
From 01.07.2004 (3 years)	51.4	44.9	6.5
From 01.07.2002 (5 years)	38.5	25.3	13.2
From 01.07.1997 (10 years)	32.0	17.7	14.3
Since 01.01.1978	32.0	22.5	9.5
Since 15.06.1974	30.3	19.3	11.0
Average outperformance			11.0
No of Calendar Years outperformed			26
No of Calendar Years underperformed			6

* Note: Allan Gray commenced managing pension funds on 01.01.1978. The returns prior to 01.01.1978 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 **R63 140 103** by 30 June 2007. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to **R3 400 599**.

Allan Gray Limited Global Mandate Total Returns vs Alexander Forbes Global Manager Watch

Period	Allan Gray	AFLMW**	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	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007 (to 30.06)	10.8	11.4	-0.6
Annualised to 30.06.07			
From 01.07.2006 (1 year)	33.9	32.4	1.5
From 01.07.2004 (3 years)	36.4	34.3	2.1
From 01.07.2002 (5 years)	26.9	22.8	4.1
From 01.07.1997 (10 years)	27.0	17.8	9.2
Since 01.01.1978	25.1	19.4	5.7
Average outperformance			5.7
No of Calendar Years outperformed			24
No of Calendar Years underperformed			5

** Consulting Actuaries Survey returns used up to December 1997. The return for June 2007 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to **R7 417 561** by 30 June 2007. The average total performance of global mandates of large managers over the same period would have grown a similar investment to **R1 887 402**.

Allan Gray annualised performance in percentage per annum to 30 June 2007

	SECOND QUARTER (unannualised)	1 YEAR
SEGREGATED RETIREMENT FUNDS		
GLOBAL BALANCED MANDATE	**3.4**	**33.9**
Mean of Alexander Forbes Global Large Manager Watch#*	2.4	32.4
DOMESTIC BALANCED MANDATE	**3.6**	**39.1**
Mean of Alexander Forbes Domestic Manager Watch*	2.5	35.3
EQUITY-ONLY MANDATE	**4.0**	**47.2**
FTSE/JSE All Share Index	4.3	36.9
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN MANDATE	**3.4**	**31.1**
Mean of Alexander Forbes Namibia Average Manager*	2.4	32.7
EQUITY-ONLY RELATIVE MANDATE	**3.6**	**40.5**
Weighted average of client specific benchmarks*	3.6	41.7
POOLED RETIREMENT FUNDS		
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	**3.4**	**33.6**
Mean of Alexander Forbes Global Large Manager Watch*	2.4	32.4
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	**3.6**	**39.2**
Mean of Alexander Forbes Domestic Manager Watch*	2.5	35.3
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	**3.6**	**46.9**
FTSE/JSE All Share Index	4.3	36.9
ALLAN GRAY LIFE RELATIVE DOMESTIC EQUITY PORTFOLIO	**4.3**	**36.3**
FTSE/ JSE CAPI Index	4.0	36.6
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	**2.6**	**33.0**
Mean of Alexander Forbes Domestic Manager Watch*	2.5	35.3
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	**2.1**	**29.4**
Mean of Alexander Forbes Global Large Manager Watch*	2.4	32.4
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	**2.3**	**20.8**
Alexander Forbes Three-Month Deposit Index plus 2%	2.7	10.5
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	**2.0**	**17.3**
Alexander Forbes Three-Month Deposit Index plus 2%	2.7	10.5
ALLAN GRAY LIFE FOREIGN PORTFOLIO	**1.3**	**15.1**
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	0.8	14.5
ALLAN GRAY LIFE ORBIS GLOBAL EQUITY PORTFOLIO	**2.9**	**25.8**
FTSE World Index (Rands)	4.4	23.8
ALLAN GRAY LIFE MONEY MARKET PORTFOLIO	**2.2**	**8.6**
Alexander Forbes Three-Month Deposit Index	2.2	8.4
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO	**2.6**	**11.2**
Daily Call Rate of Nedcor Bank Limited	2.0	7.5
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	**2.0**	**20.0**
Consumer Price Index plus 3% p.a.	3.2	10.0
FOREIGN-ONLY (RANDS)		
ORBIS GLOBAL EQUITY FUND	**2.9**	**26.1**
FTSE World Index	4.4	23.7
ORBIS JAPAN EQUITY (YEN) FUND	**-5.7**	**-3.1**
Tokyo Stock Price Index	-3.7	3.1
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS)	**-1.6**	**9.8**
US$ Bank Deposits (Rands)	-1.4	4.0
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	**1.3**	**15.0**
60% of the MSCI and 40% of JP Morgan Government Bond Index Global (Rands)	0.8	14.5
UNIT TRUSTS**		
EQUITY FUND (AGEF)	***	**39.6**
FTSE/JSE All Share Index		36.9
BALANCED FUND (AGBF)	***	**30.0**
Average Prudential Fund (excl. AGBF)		28.1
STABLE FUND (AGSF)	***	**16.1**
After-tax return of call deposits plus two percentage points		7.1
OPTIMAL FUND	***	**10.1**
Daily call rate of Firstrand Bank Ltd		7.4
BOND FUND	***	**9.0**
BEASSA All Bond Index (total return)		7.8
MONEY MARKET FUND (AGMF)	***	**8.5**
Domestic fixed interest money market unit trust sector (excl. AGMF)		8.3
ORBIS GLOBAL FUND OF FUNDS (AGGF)	***	**16.5**
60% of FTSE World Index and 40% of JP Morgan Government Bond Index Global (Rands)		14.6
ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	***	**27.2**
FTSE World Index (Rands)		24.0

PERFORMANCE AS CALCULATED BY ALLAN GRAY.

\# Consulting Actuaries Survey returns used to 31 December 1997. Alexander Forbes Global Manager Watch used from 1 January 2006.

* The return for Quarter Two 2007 is an estimate, 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.

3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R millions)	INCEPTION DATE
36.4	26.9	25.1	27,208.6	01.01.78
34.3	22.8	19.4		
41.0	31.6	25.6	23,408.0	01.01.78
36.5	25.9	19.8		
51.5	37.7	25.4	52,799.9	01.01.90
44.9	25.3	17.1		
34.2	25.9	23.4	5,333.3	01.01.94
32.7	22.2	16.7		
46.7	30.4	30.5	10,032.4	19.04.00
44.8	26.3	22.7		
36.4	27.2	28.3	11,829.5	01.09.00
34.3	22.8	20.3		
41.7	32.0	30.3	5,953.9	01.09.01
36.5	25.9	24.0		
52.0	37.8	36.1	6,246.6	01.02.01
44.9	25.3	23.1		
46.6	-	43.2	550.2	05.05.03
44.9	-	41.2		
36.6	31.6	32.4	531.8	06.07.01
36.5	25.9	23.2		
34.8	-	29.6	695.4	01.03.04
34.3	-	30.1		
23.5	20.3	20.2	537.2	01.12.01
9.7	11.2	11.4		
-	-	21.5	1,258.0	15.07.04
-	-	9.7		
17.1	6.0	5.2	1,193.3	23.01.02
17.2	3.6	1.2		
25.7	-	23.9	1,283.6	18.05.04
23.7	-	21.9		
7.7	9.3	9.6	487.0	21.09.00
7.6	9.1	9.4		
9.6	-	9.8	119.8	04.12.02
6.4	-	7.5		
20.9	-	20.0	901.4	01.05.04
8.0	-	7.9		
26.1	10.6	22.4	14,167.7	01.01.90
23.6	6.9	14.9		
12.4	4.4	18.5	4,987.5	01.01.98
15.7	3.9	10.4		
-	-	17.5	2,111.0	01.01.05
-	-	14.3		
17.4	6.1	17.7	3,936.0	23.05.96
17.2	3.6	12.6		
		Figures below unannualised		
45.4	33.6	1811.2	19,291.0	01.10.98
44.9	25.3	618.0		
33.5	26.5	554.2	23,701.4	01.10.99
30.8	21.2	272.8		
17.8	15.6	182.4	19,743.1	01.07.00
6.2	7.3	67.8		
8.5	-	57.3	984.1	01.10.02
6.2	-	41.0		
-	-	26.3	34.5	01.10.04
-	-	25.9		
7.6	8.9	68.5	1,783.5	03.07.01
7.5	8.9	68.9		
16.8	-	42.6	4,572.2	03.02.04
17.1	-	41.8		
-	-	78.6	2,706.2	01.04.05
-	-	69.8		

Segregated Portfolios

INVESTMENT MANAGEMENT IN SOUTH AFRICA

Allan Gray manages portfolios on a segregated basis where the minimum portfolio size is R500 million. These mandates are of a balanced or asset class specific nature. Portfolios can be managed on an absolute or relative risk basis.

INVESTMENT MANAGEMENT IN NAMIBIA

Allan Gray Namibia manages large portfolios on a segregated basis.

Namibia 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.

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[1, 2]	BALANCED PORTFOLIO[1]	ABSOLUTE PORTFOLIO[1]
Investor Profile	• Risk-averse institutional investors.	• 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 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%. • CPI plus 3%	• Mean performance of the large managers as surveyed by consulting actuaries. • CPI plus 5%	• Mean performance of the large managers as surveyed by consulting actuaries. • CPI plus 7%
Fee Principles	• Fixed fee, or performance fee based on outperformance of the benchmark.	• Performance fee based on outperformance of the benchmark.	• Performance fee 0.5% p.a. plus (or minus) 25% of the out/underperformance of the benchmark.

1. Portfolios comply with the requirements of regulation 28 of the pension funds act.
2. Portfolios comply with the requirements of annexure b of the medical schemes act.
Allan Gray Life Limited does not monitor compliance by retirement funds with section 19(4) of the pension funds act (item 9 of annexure to regulation 28).

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

ASSET CLASS POOLED PORTFOLIOS:

	MONEY MARKET[1, 2]	BOND MARKET[1]	EQUITY[1]	FOREIGN[1]
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 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. • 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 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.	• 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.	• Performance fee based on outperformance of the benchmark.	• 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.

1. Portfolios comply with the asset class requirements of regulation 28 of the pension funds act.
2. Portfolios comply with the requirements of annexure b of the medical schemes act.
Allan Gray Life Limited does not monitor compliance by retirement funds with section 19(4) of the pension funds act (item 9 of annexure to regulation 28).

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 AND EURO 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 fund 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 Optimal SA Fund - US$ – is still registered for marketing in South Africa.	• The Fund seeks capital appreciation on a low risk global portfolio.
Structure	Open-ended collective investment scheme (similar to a unit trust in South Africa).		
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.		
Reporting	Comprehensive reports are distributed to members each quarter.		
Client Service Centre	Allan Gray Client Services on 0860 000 654.		

* Please note that these are not rand-denominated unit trusts so a South African investor is required to have exchange control approval in order to invest.

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 unit trusts.		
Minimum Investment Size	R 20 000 lump sum R 500 monthly	R 50 000 lump sum	R 100 000 lump sum
Initial Fee		None	
Annual Administration Fee		None	
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	

* 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.

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 five-year savings plan.
Investment Options	Can be invested in any combination of unit trusts.
Minimum Investment Size	R 20 000 lump sum R 500 monthly recurring investment
Initial Fee	None
Annual Administration Fee	None
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.
Switching Fee	None

* 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.

Allan Gray Unit Trusts - Characteristics and Objectives as at 18 July 2007

	EQUITY FUND	BALANCED FUND	STABLE FUND	OPTIMAL FUND
Portfolio Structure	A share portfolio selected for superior long-term returns.	A 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 share or equity portion significantly below 60%.	A portfolio of carefully selected shares. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.
Benchmark	FTSE/JSE All Share Index including income.	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%.	Daily call rate of FirstRand Bank Limited (for amounts in excess of R1m).
Maximum Net Equity Exposure	100%	75%	60%	15%
Portfolio Manager	Stephen Mildenhall, Arjen Lugtenburg, Duncan Artus, Ian Liddle, Delphine Govender, Orbis Investment Management Limited	Stephen Mildenhall, Arjen Lugtenburg, Duncan Artus, Ian Liddle, Delphine Govender, Orbis Investment Management Limited	Stephen Mildenhall	Delphine Govender
Return Objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns compared to bank deposits.	Superior returns compared to bank deposits.
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 higher than the Stable Fund but less than the Equity Fund. This is a medium risk fund.	Seeks to preserve capital over any two-year period with low risk of capital loss.	Low risk and little or no correlation to stock or bond markets.
Target Market	• Investor seeking long-term wealth creation. • 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. • Investors who wish to substantially comply with the Prudential Investment Guidelines of the Pension Funds Act (Reg. 28). • Investors seeking a three-year plus investment.	• Risk-averse investors who require a high degree of capital stability. • Investors who are retired or nearing retirement. • Investors who require a regular income. • Investors who seek to preserve capital over any two-year period.	• Risk-averse investors. • Investors who wish to diversify a portfolio of shares or bonds. • Retirement schemes and multi-managers who wish to add a product with an alternative investment strategy to their overall portfolio.
Income Yield	Low income yield.	Average income yield.	High income yield.	Low income yield.
Income Distribution[1]	Bi-annually.	Bi-annually.	Quarterly.	Bi-annually.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)[2]	No.	Yes.	Yes.	No.
Annual Fund Management Fee (excl. VAT)	Performance fee on the under/outperformance of the benchmark over a two-year rolling period. **Minimum Fee:** 0.00% **Fee at benchmark:** 1.50% **Sharing Rate:** 10.00% **Maximum Fee:** 3.00%	Performance fee on the under/outperformance of the benchmark over a two-year rolling period. **Minimum Fee:** 0.50% **Fee at benchmark:** 1.00% **Sharing Rate:** 10.00% **Maximum Fee:** 1.50%	Performance fee on the under/outperformance of the benchmark over a two-year rolling period. **Minimum Fee:** 0.50% **Fee at benchmark:** 1.00% **Sharing Rate:** 10.00% **Maximum Fee:** 1.50%	Performance fee on the outperformance of the benchmark. **Minimum Fee:** 1.00% **Fee at benchmark:** 1.00% **Sharing Rate:** 20.00% **Maximum Fee:** uncapped
Total Expense Ratio[3] **(incl. VAT)**	Total Expense Ratio: 3.53% including - Performance component: 1.69% Fee at benchmark ('fixed fee'): 1.71% Trading costs: 0.13% Other expenses: 0.00%	Total Expense Ratio: 2.10% including - Performance component: 0.59% Fee at benchmark ('fixed fee'): 1.33% Trading costs: 0.13% Other expenses: 0.05%	Total Expense Ratio: 2.05% including - Performance component: 0.60% Fee at benchmark ('fixed fee'): 1.32% Trading costs: 0.09% Other expenses: 0.04%	Total Expense Ratio: 1.84% including - Performance component: 0.49% Fee at benchmark ('fixed fee'): 1.14% Trading costs: 0.21% Other expenses: 0.00%
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.

1. To the extent that the total expenses exceed the income earned in the form of dividends and interest, the funds will not make a distribution.
2. The portfolios are managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals whereby it will be corrected within a reasonable time period.
   For more detailed information and fee details, please consult the relevant fund fact sheets available on www.allangray.co.za
3. A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. It is expressed as a percentage of the average value of the portfolio, calculated for the year to the end of March 2007. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark ('fixed fee'), trading costs (including brokerage, VAT, UST, levy, strate and ITLevy) and other expenses. These are disclosed separately as percentages of the net asset value.
4. The information in the above table is applicable to Class A Funds.

BOND FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	GLOBAL EQUITY FEEDER FUND
A portfolio invested in a combination of South African interest-bearing securities including bonds, loan stock, debentures, fixed deposits, money market instruments and cash.	A portfolio invested in selected money market instruments providing a high income yield and a high degree of capital stability.	A Rand-denominated balanced portfolio invested in selected FSB registered Orbis funds. The Fund will always hold a minimum of 85% of its assets offshore.	A Rand-denominated portfolio feeding directly into the FSB registered Orbis Global Equity Fund.
All Bond Index.	Simple average of the Domestic Fixed Unit Trust Sector excluding Allan Gray Money Market Fund.	60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index.	FTSE World Index.
0%	0%	100%	100%
Sandy McGregor, Andrew Lapping	Andrew Lapping	Stephen Mildenhall (William Gray is the Portfolio Manager of the underlying Orbis funds).	Stephen Mildenhall (William Gray is the Portfolio Manager of the Orbis Global Equity Fund).
Superior returns compared to the All Bond Index.	Superior money market returns.	Superior long-term returns.	Superior long-term returns.
Risk is higher than the Money Market Fund, but lower than the Balanced Fund.	Low risk of capital loss and high degree of capital stability.	Risk similar to Balanced Fund but less than average foreign balanced mandate.	Risk higher than the Global Fund of Funds.
• Investors seeking returns in excess of that provided by income funds, the money market funds 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.	• Highly risk-averse investors. • Investors seeking a short-term 'parking place' for their funds.	• Investors who would like to invest in an offshore balanced fund. • Those seeking to invest locally in Rands, but benefit from offshore exposure. • Investors wanting to gain exposure to markets and industries that are not necessarily available locally. • Investors who wish to hedge their investments against any Rand depreciation.	• Those seeking to invest locally in Rands, but benefit from offshore exposure. • Investors wanting to gain exposure to markets and industries that are not necessarily available locally. • Investors who wish to hedge their investments against any Rand depreciation.
High income yield.	High income yield.	Low income yield.	Low income yield.
Quarterly.	Daily and pays out monthly.	Annually.	Annually.
Yes.	Yes.	No.	No.
Performance fee on the outperformance of the benchmark over a one-year rolling period. **Minimum Fee:** 0.25% **Fee at benchmark:** 0.25% **Sharing Rate:** 25.00% **Maximum Fee:** 0.75%	**Fixed Fee:** 0.25%	No Annual Management Fee. The underlying funds, however, have their own fee structure.	No Annual Management Fee. The underlying funds, however, have their own fee structure.
Total Expense Ratio: 0.61% including - Performance component: 0.06% Fee at benchmark ('fixed fee'): 0.29% Trading costs: 0.00% Other expenses: 0.26%	Total Expense Ratio: 0.31% including - Performance component: 0.00% Fee at benchmark ('fixed fee'): 0.29% Trading costs: 0.00% Other expenses: 0.02%	Total Expense Ratio: 1.97% including - Performance component: 0.42% Fee at benchmark ('fixed fee'): 1.26% Trading costs: 0.03% Other expenses: 0.26%	Total Expense Ratio: 2.52% including - Performance component: 0.87% Fee at benchmark ('fixed fee'): 1.40% Trading costs: 0.04% Other expenses: 0.21%
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. R500 per month debit order.	R25 000 lump sum. R500 per month debit order.

Notes

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Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from Allan Gray Unit Trust Management Limited. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. A fund of funds unit trust only invests in other unit trusts, which levy their own charges, which could result in a higher fee structure for these portfolios. A feeder fund portfolio is a portfolio that, apart from assets in liquid form, consists solely of units in a single portfolio of a collective investment scheme. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Allan Gray Unit Trust Management Limited is a member of the Association of Collective Investments (ACI).

KINGJAMES rsvp