Q4

31 DECEMBER 2007
QUARTERLY
COMMENTARY

Retiring with a regular income that is sustainable for life

What is a reasonable expectation for future returns?

Focus on the Allan Gray Stable Fund

British American Tobacco: A long consistent history of generating returns

ALLANGRAY
INTELLIGENT INVESTING

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COMMENTS FROM THE CHIEF OPERATING OFFICER

I am pleased to inform you of the appointment of Ian Liddle as Chief Investment Officer of Allan Gray Limited effective 1 March 2008. He will assume responsibility from Stephen Mildenhall, who is relocating to the United Kingdom. At the same time, Andrew Lapping will become a portfolio manager.

Ian joined the firm in 2001 and has progressed rapidly, becoming an assistant portfolio manager in 2003 and a portfolio manager of equity and balanced portfolios in January 2005. He has a B Bus Sci (Hons) degree from UCT and is a CFA Charterholder. He has been groomed for the role as Stephen's successor for some time and we are confident that he has the skills, experience and temperament to do an outstanding job.

Andrew has been appointed as an equity and balanced portfolio manager. He joined Allan Gray in February 2001 initially as a trader, later becoming an analyst, and was appointed a portfolio manager of fixed interest funds in June 2006. Andrew holds a B Sc (Hons) (Eng) and B Com from UCT and is a CFA Charterholder.

Stephen, who is leaving the Allan Gray/Orbis Group, has made an enormous contribution over the past 10 years to Allan Gray's clients and to the firm, and will remain a substantial shareholder in Allan Gray Group Limited. We all wish him and his family well in their future.

At the same time Arjen Lugtenburg, a director of Allan Gray Group Limited and portfolio manager, will be leaving South Africa to join our global asset management partner Orbis. Orbis is currently, and has been for the majority of the period since 1996, one of the appointed portfolio managers of Allan Gray Limited, managing part of our clients' funds alongside the local portfolio managers. This brings additional international perspective to our portfolios, which has become even more important over time. Arjen will remain a director and substantial shareholder of Allan Gray Group Limited and our clients' portfolios will continue to benefit from his advice on South African investments through Orbis.

Providing continuity to our clients has been a hallmark of the firm ever since its foundation 34 years ago. Just as in the case of his predecessors, we have great confidence that under Ian's leadership the firm's investment team will continue to excel, in what we believe may be more challenging market conditions than we have experienced over the past several years.

We have been living in benign times for a good number of years and over the last four years, with the FTSE/JSE All Share Index (ALSI) rising by 39.2% per annum, the benign times became a bonanza. In a climate of low inflation, the world has enjoyed what is probably the greatest period of prosperity in its history. So much so that many of us have forgotten what 'normal' conditions are.

There are now clear indications that we all face a wake-up call. In this edition we warn of strains that are starting to be displayed in the global economy with the inevitable knock-on effects in this country. Take inflation. High rates of inflation for many of the present generation of investors in South Africa are a distant memory. We have become used to, as Sandy McGregor notes, conducting our lives in a relatively stable price environment. There are now distinct signs that this comfortable situation is under threat and that modern-day investors will have to start factoring inflation into their calculations when structuring their portfolios.

The good times we have enjoyed recently have also influenced investors' projections of future returns from the market. Recent history suggests that such returns, while likely to be tempered, should continue to remain firm. Delving much further back into history (105 years to be precise) gives, we think, a better indication of what real returns (nominal returns less inflation) should be expected from a typical balanced portfolio in the future. Chris du Toit reveals that a reasonable figure should be 5% per annum over the long-term. This may disappoint many investors who have become accustomed to real returns of 34.7% per annum over the past four years but it remains, nevertheless, an important reality check.

This is a message we have tried to convey over many months, but despite our caution about equity valuations in particular, our equity funds still produced the best performance for 2007 amongst the fund mandates offered by us. Although at the time of writing the ALSI is more than 15% down from its peak in October 2007, we still believe that many company valuations are stretched and that return expectations from South African shares should be low.

As a consequence, our funds are largely invested in good quality global companies (such as MTN, SAB, Remgro and Richemont) whose profits, we believe, will prove to be more sustainable than those of the average company, or in cyclical companies whose profits we believe to be below normal (such as the gold mines and paper manufacturers). As an added precaution we have reduced equity exposure in our asset allocation funds.

This positioning showed tentative signs of success in the fourth quarter as we significantly outperformed a declining market. Our usual full investment performance update is provided at the back of the QC. The results reflect the strong last quarter following a modest first nine months of the year as our caution was reflected in client portfolios some time ago: a position which we believe will be shown, with hindsight, to have been correct, albeit in the eyes of some as somewhat premature.

Kind regards

Greg Fury

Sandy
McGregor

IS INFLATION COMING BACK?

EXECUTIVE SUMMARY: High rates of inflation are at best a distant memory for the present generation of investors in South Africa. People have become used to conducting their lives in a relatively stable price environment. Sandy McGregor notes, however, that there are signs that this relatively benign situation is under threat, and inflation is again becoming a significant factor which investors must take into account when structuring their portfolios.

During the 1970s inflation had a profound effect on the pricing of goods, services and assets. In almost all countries, combatting inflation was the predominant focus of fiscal and monetary policy. The great equity bull market which commenced in 1982 coincided with the turning of the inflationary tide by a combination of higher real interest rates, freer markets, globalisation and a surge in productivity.

In South Africa, high rates of inflation continued unabated until the early 1990s but, as the country was reintegrated into the world economy after 1994, inflationary pressures subsided. There is now a new generation of investors for whom high rates of inflation are at best a distant memory. People have become used to conducting their lives in a relatively stable price environment. However, there are signs that this relatively benign situation is under threat, and inflation is again becoming a significant factor of which investors must be cognisant when structuring their portfolios.

> "... inflation is a manifestation of the general trend of productivity in the economy."

The causes of inflation are complex and intimately linked with the processes that generate economic growth. Certain economists (most notably the late Milton Friedman) have argued that inflation is purely a monetary phenomenon. However, empirical evidence suggests that money is only part of the problem. There have been periods when money creation has been the principal or indeed only cause of inflation, but usually money is merely part of a much bigger picture. Recently, the best example of this has been in Japan where, over the past decade, despite massive money creation and interest rates set at zero, the authorities have been unable to prevent deflation. Probably it is more correct to say that inflation is a manifestation of the general trend of productivity in the economy. Strong productivity gains mask what would otherwise be an inflationary problem. Under an umbrella of productivity; wages, living standards and government can grow correspondingly without disturbing the general price level. It can be argued that economic growth is the process of making things cheaper, and that anything that makes goods and services more costly is bad for growth.

After the Second World War there was a period of rapid economic expansion lasting over two decades, during which inflation was benign even though monetary policy was being conducted in a way which today would be regarded as totally inappropriate. This was possible because there were huge productivity gains associated with rising economies of scale. These allowed for a substantial increase in the general standard of living without increasing the price of goods and services. However, by the end of the 1960s the scope for such gains became exhausted. Prices started to rise. Strong demand caused commodity prices to rise. In particular, oil and grains became very expensive. An inflationary spiral – fuelled by poor monetary policy – developed.

This bout of inflation was brought under control by a combination of factors, most notably positive real interest rates which made people use money efficiently, deregulation and globalisation which encouraged competition and new technologies, especially the application of the computer to the process of production. Since 1980 global inflation has been increasingly benign.

The emerging market boom of the past five years has allowed the world to enjoy the greatest period of prosperity in its history. However, the system is starting to display strains. A market economy adjusts to such strains through changes in

prices. For example, the huge US current account deficit is causing the dollar to depreciate. The shortage of commodities has sparked a big increase in the price of oil and food. It is not clear whether these are one-off price shocks or whether we are at the start of a cycle of continual price increases, in which one price rise causes another – in other words an inflationary cycle. The second round effects which cause still higher prices are most notably wage increases. In China, food inflation probably will put an upward pressure on wage levels. For the United States, a rising cost of Chinese goods would have a significant effect on living standards.

The situation has been aggravated because certain countries are acting to prevent natural market adjustments from occurring. Interest rates have been slashed to sustain growth at a time when the economy should be slowing down, thereby relieving inflationary pressures. Huge money creation since 2001 has the potential to fuel future price rises. Intervention has kept exchange rates of Asian currencies artificially low against the dollar and the euro. By preventing necessary adjustments from occurring the monetary authorities are promoting even larger imbalances. As they are acting to prevent a return to equilibrium through an economic slowdown, the problems caused by the disequilibria may well have to be resolved through inflation. The danger is that the productivity gains associated with globalisation will start to run out and no longer be able to counteract underlying inflationary pressures.

"South Africa faces a particularly difficult inflation problem."

South Africa faces a particularly difficult inflation problem. High oil and food prices are stimulating strong demands for higher wages. The economy is operating at full capacity with a severe skills shortage. So wage demands are likely to be met. A major infrastructural programme is pushing up regulated prices such as electricity but also keeping demand buoyant. It is a classic recipe for rising inflation. The problem is that the only solution to the problem is slower growth, something that is politically unpalatable.

What should investors do when facing such risks? As is usually the case, the lessons of the past are confusing and contradictory. Globally, the late 1960s and 1970s were a poor time for equities. There was a scramble for hard assets such as real estate and gold. Bonds behaved poorly. That equities should behave so badly in a period of rising prices is counter intuitive. Part of the problem was that firms could not pass on prices efficiently and, after adjusting for inventory profits caused by inflation, margins declined. Business now operates with greater freedom than it did in the 1970s and this time around may be more successful in handling these problems. But the biggest problem for equities is that inflation brings with it higher interest rates. Interest rates are the benchmarks for the valuation of assets. Higher rates are bad for asset prices. A situation can develop where all asset classes give poor returns.

It is not clear whether we are entering a new inflationary epoch like the 1970s. There are good reasons to be very worried. Certainly, the inflation risks in South Africa are significantly greater than in other leading economies. Investors should be cognisant of these risks and keep a watchful eye on inflation outcomes.

Heaton van der Linde

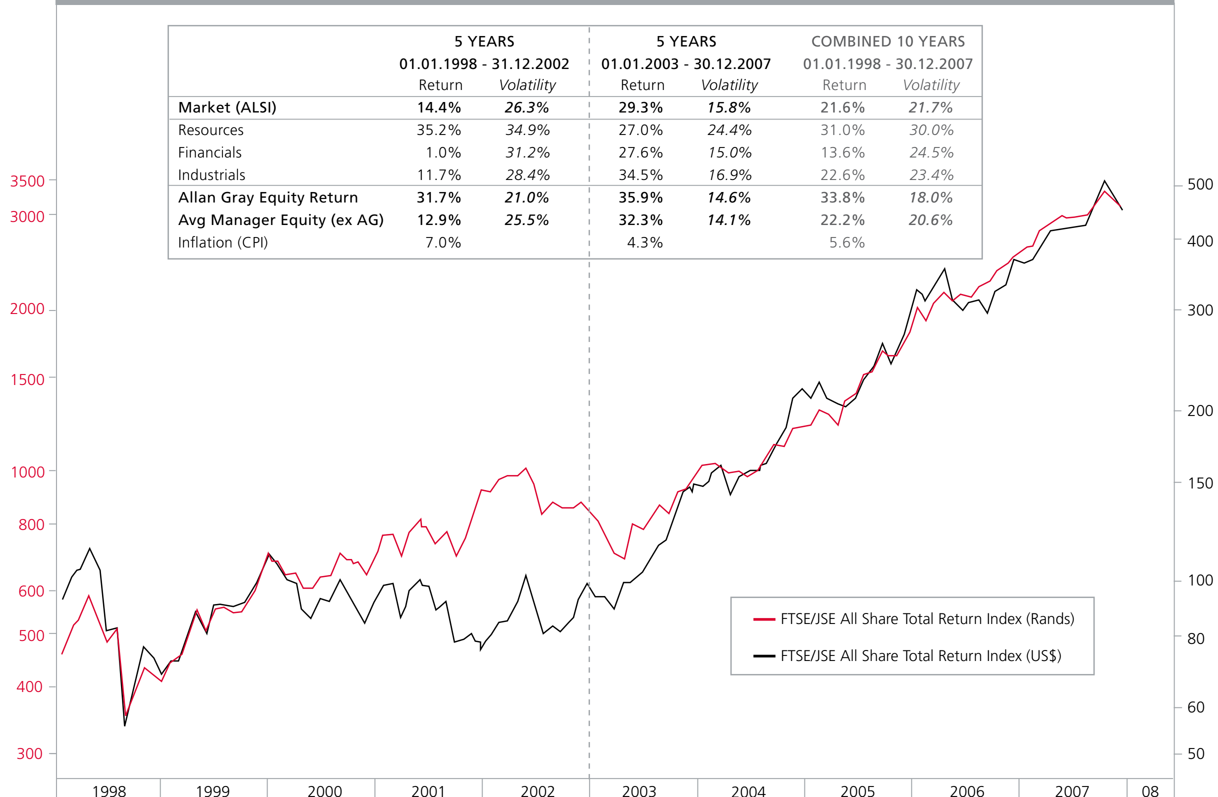
IT ALL DEPENDS ON THE STARTING POINT

EXECUTIVE SUMMARY: In this article Heaton van der Linde contrasts FTSE/JSE All Share Index returns over the past five years (2003-2007) with those experienced by investors during the previous five years (1998-2002). He raises the question whether investors' future return expectations should be informed by their most recent experience or by valuations at the beginning of 2008?

Investor expectations are strongly influenced by their past experience. The most recent five years (2003-2007) have been a wonderful time to own assets in South Africa with the All Share Index (ALSI) delivering total returns on an annualised basis of 29.3% p.a.; well in excess of CPI inflation of 4.3% annually. The market's remarkable run is depicted in **Graph 1** below, which compares the most recent five-year equity market returns with those of the preceding five-year period.

Therefore as we enter 2008, many investors understandably expect share prices to continue to appreciate as smoothly as they have done over the past five years, with small hiccups here and there. But what will the next five years hold? Will they be as kind to investors or should we expect greater volatility and lower returns more akin to the five-year period from 1998 to 2002, when the ALSI returned an annualised 14.4% and inflation averaged 7% p.a.?

GRAPH 1 The All Share Index total returns over 10 years



	5 YEARS 01.01.1998 - 31.12.2002		5 YEARS 01.01.2003 - 30.12.2007		COMBINED 10 YEARS 01.01.1998 - 30.12.2007	
	Return	*Volatility*	Return	*Volatility*	Return	*Volatility*
Market (ALSI)	14.4%	*26.3%*	29.3%	*15.8%*	21.6%	*21.7%*
Resources	35.2%	*34.9%*	27.0%	*24.4%*	31.0%	*30.0%*
Financials	1.0%	*31.2%*	27.6%	*15.0%*	13.6%	*24.5%*
Industrials	11.7%	*28.4%*	34.5%	*16.9%*	22.6%	*23.4%*
Allan Gray Equity Return	31.7%	*21.0%*	35.9%	*14.6%*	33.8%	*18.0%*
Avg Manager Equity (ex AG)	12.9%	*25.5%*	32.3%	*14.1%*	22.2%	*20.6%*
Inflation (CPI)	7.0%		4.3%		5.6%	

Source: Allan Gray research

Future market returns depend on share price valuations at the starting point. It was, in fact, investors' recent negative experience in 2002 (when the ALSI declined 8%) that allowed for the attractive valuations at the beginning of 2003. There had been two currency-induced inflation and interest rate shocks in the preceding five years (1998 and 2001/2); the economy was growing slowly; profit margins had contracted; and company earnings growth had been poor. Consequently, at the beginning of 2003, investors were prepared to pay only 10.6x the most recent year's (2002) profits for the ALSI.

Hindsight is a perfect science and we now know that the South African economy grew strongly in 2003-2007, inflation and interest rates declined, most companies expanded profit margins with earnings for the ALSI growing at an annualised rate of 17.5% for the five-year period. Consequently, at 31 December 2007, investors were now prepared to pay a multiple of 14.9x the most recent year's (2007) profits, anticipating that companies would sell more goods at even higher profit margins (and continue to become more profitable) over the coming five years.

What does this say about starting valuations today – and how should this influence investors' return expectations for the next five years? As we have cautioned in recent issues of our Quarterly Commentary, the profitability of most JSE-listed companies is currently very high and, in our view, unlikely to be maintained. Profit margins are likely to return to more normal levels through a combination of rising interest rates, commodity price declines (from record levels) and the inability of companies to pass on their growing cost pressures to an increasingly exhausted domestic consumer. Looking forward, we anticipate much tougher conditions more akin to the five-year period from 1998 to 2002 where returns were very volatile and starting valuations were high. Our current stock picks include companies whose earnings, we believe, can be sustained through tougher times and we have reduced the equity-weightings in our asset allocation portfolios. Preservation of the capital achieved through the growth of the past five years is a key focus.

Interesting observations

A few additional interesting observations can be made from the graph which sets out the annualised returns and volatility per sector over both the two five-year periods as well as the combined ten-year period.

- Note how similar the returns of each broad sector (Resources, Financials, Industrials) were to the ALSI return in the most recent five years compared with those in the previous period. All sectors have contributed similarly to the ALSI 29.3% p.a. return in the most recent period.

- Whilst Allan Gray achieved satisfactory outperformance over the most recent five years, the outperformance achieved in the period 1998-2002 was far greater when volatility was significantly higher and different sectors achieved astonishingly different returns.

- Financials returned just 1% p.a. during 1998 to 2002 whilst Resources returned 35.2% annually. This too is indicative of starting valuations: in 1998 resource company earnings and valuations were extremely depressed whereas the opposite can be said of financial shares, which had been the darlings of the mid-to-late 90s. Interestingly, we enter 2008 with resource company valuations arguably more stretched than financial company valuations!

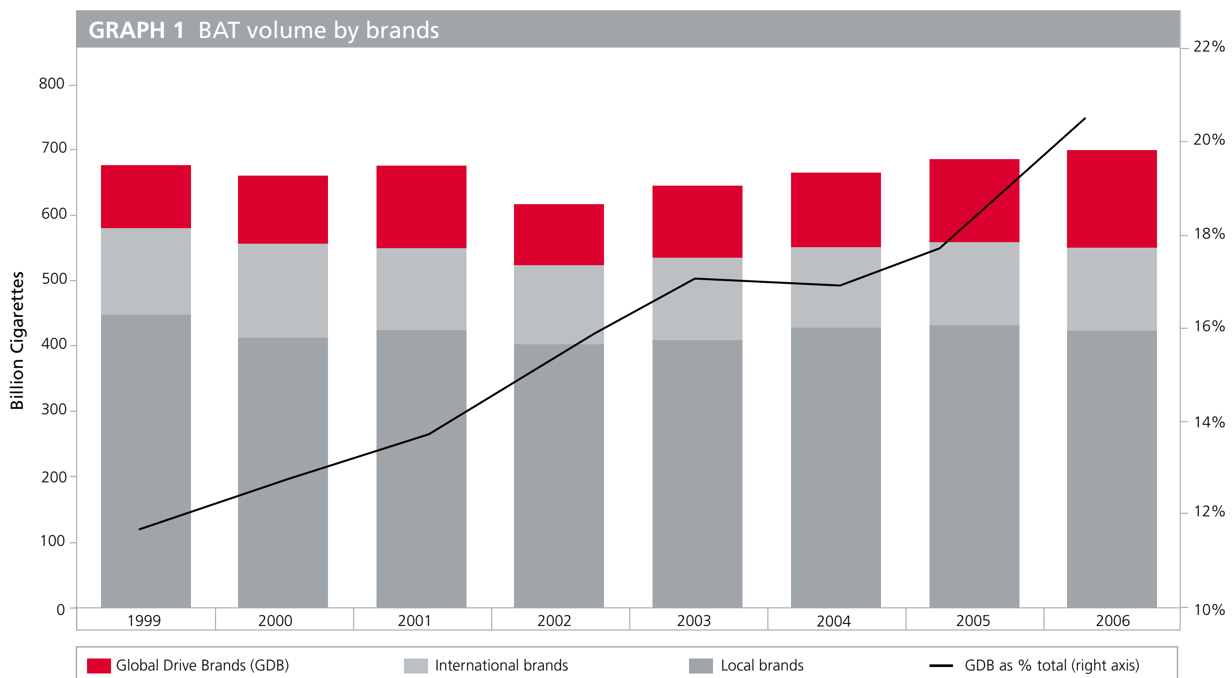
Simon
Raubenheimer

BRITISH AMERICAN TOBACCO: A LONG CONSISTENT HISTORY OF GENERATING RETURNS

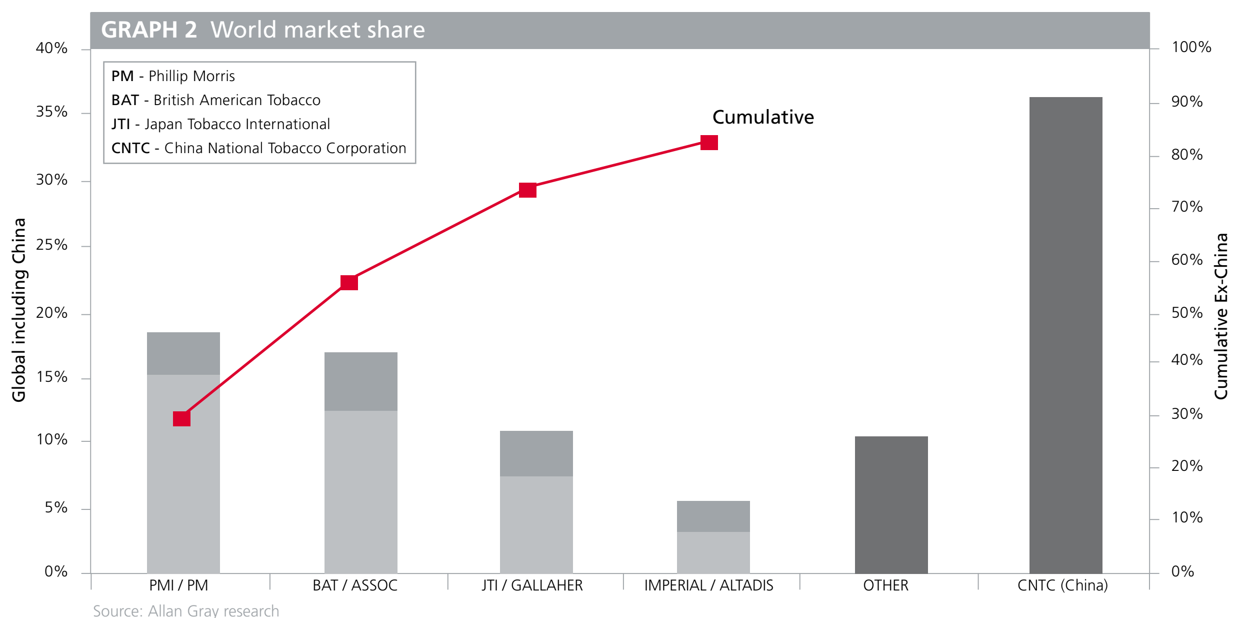
EXECUTIVE SUMMARY: The constancy of demand for tobacco over many decades makes it a particularly attractive investment especially for South African investors, given the unsustainably high levels of profitability currently enjoyed by many local companies. Investors can tap into British American Tobacco (BAT), which has produced phenomenal returns over 95 years, through Remgro and Richemont, who own 11% and 19% of BAT respectively. Simon Raubenheimer outlines the investment case for BAT, based on three factors: volume growth, successful brand management and cost savings.

British American Tobacco (BAT) has been a phenomenal investment over the very long-term: £1000 invested in BAT in 1912 would have generated a total return of £93m vs. £25m for the FTSE, an outperformance of 1.3% p.a. for 95 years. A distinguishing feature of the tobacco industry has been the constancy of demand for its products over many decades. This defensiveness is particularly attractive in our market, given what we believe to be the unsustainably high levels of profitability currently enjoyed by many South African companies.

BAT is not listed directly on the JSE, but remains one of our clients' biggest holdings through Remgro and Richemont, who own 11% and 19% of BAT respectively. At the current share price, BAT accounts for 50% of Remgro and 40% of Richemont's value. Remgro and Richemont recently announced their intention to explore the possibility of splitting their tobacco assets from their remaining operations, which may entail providing their shareholders with the option of becoming direct shareholders in BAT. Depending on the mechanics of the unbundling, this transaction could be significant for our domestic stockmarket as BAT's market capitalisation, at £39bn, is similar to that of Anglo American.



Source: Allan Gray research



Source: Allan Gray research

The investment case for BAT: volume growth, successful brand management and cost savings

The investment case is substantiated by:

- Volume growth in emerging markets: accounting for 80% of BAT's volumes and offsetting the decline experienced by developed markets, resulting in flat to moderate growth overall;

- Favourable mix effects and real price increases: largely due to consumer up-trading to BAT's Global Drive Brands (Kent, Lucky Strike, Pall Mall and Dunhill) that generate significantly higher margins. Global Drive Brand volumes have grown by over 9% p.a. since 1999 and almost doubled as a percentage of overall volumes (to 22%). This can be attributed to successful brand management, product and packaging innovation. Examples of these include flavour threads, Superslims, 'Top Leaf' and 'Fine Cut' tobacco; wallet, moisture-proof and resealable packs. Marlboro, the world's best-selling premium cigarette and competitor to BAT's Global Drive Brands, experienced marginally declining volumes over the same period;

- Significant cost savings and efficiency gains: in 2006, BAT operated from 52 factories in 51 countries. A century of bolt-on acquisitions has resulted in BAT's current unwieldy manufacturing setup. Despite having initiated a restructuring programme in 2003, BAT retains the highest cost base in global tobacco but management is confident that much can be done to align BAT's costs further with its global peers.

Regulatory changes moderately soften demand but adds barriers to new entrants

First world tobacco usage has been in moderate decline since the publicity in the early 60s of tobacco's harmful effects, and undoubtedly will continue to decline in the face of quickening regulatory changes and excise increases. Despite a proliferation of increasingly antagonistic regulatory changes over the past decade, BAT has managed to grow its earnings by over 10% annually. Regulatory threats remain, but are largely in the

base: global tax incidence (the portion of the retail cigarette price that accrues to government) is now at 65% (from 58% in 2003), and numerous countries have instituted advertising and public smoking bans. Empirical evidence (UK, Ireland, Italy) has shown that consumer behaviour adjusts swiftly to new regulation and historical trends usually prevail after an initial short-lived knee-jerk reaction. Where, on the one hand, higher tobacco taxes have served to soften demand, they have, on the other hand, also raised the barriers to entry by making it more difficult for new brands to compete on price.

Following the Master Settlement Agreement in the US in 1998, global tobacco litigation has been in secular decline. The curtain seems to be falling on global tobacco consolidation with the recent corporate activity likely to result in four companies (Philip Morris, BAT, JTI-Gallaher and Imperial-Altadis) controlling over 80% of global tobacco ex-China. Competition is expected to remain fierce but rational.

"... BAT will remain undergeared, with one of the strongest balance sheets in global tobacco."

Not currently cheap, but inherent stability gives us confidence

On over 17x earnings, BAT is not outstandingly cheap. However, its economics should enable the company to grow earnings in real terms despite paying out all its earnings. This is a hypothesis management will test over the next few years by raising the dividend payout ratio (as a percentage of earnings) from 50% to 65% and raising the share buybacks to £750m p.a., effectively returning almost all of its earnings to shareholders. Despite this BAT will remain undergeared, with one of the strongest balance sheets in global tobacco. BAT is globally diversified with no single country accounting for more than 8% of operating profits. The inherent stability that characterises tobacco consumption gives us additional confidence in BAT's ability to sustain and grow profits irrespective of global conditions. It is difficult to claim this of many other companies that have enjoyed record profitability amidst boom times.

Chris du Toit

WHAT IS A REASONABLE EXPECTATION FOR FUTURE RETURNS?

EXECUTIVE SUMMARY: The exceptional returns from South African shares over the last four years have influenced the projections of many investors when extrapolating future returns from the market. In this article Chris du Toit goes back into history in order to establish what a reasonable return from a typical balanced portfolio (shares 60%, bonds 30%, cash 10%) should be going forward. Using real returns (nominal returns less inflation) from the three asset classes over a 105-year period, he finds that the average balanced portfolio returned 5% p.a. This, he argues, is a reasonable return to expect from a balanced portfolio over the long-term.

South African shares have experienced remarkable returns over the last four years. The FTSE/JSE All Share Index (ALSI) rose by 39.2% p.a. between October 2003 and the end of September 2007. Over the same period inflation averaged only 4.5% p.a., giving investors in shares real returns of 34.7% p.a. for four years. During such good times 'normal' conditions are often forgotten, with investors using recent history to extrapolate their future return expectations from their investments.

> "During such good times 'normal' conditions are often forgotten,..."

Average investors who are saving towards their retirement are probably members of private savings schemes such as pension funds, or they are saving towards retirement via a vehicle such as a retirement annuity. Typically, investors with average risk profiles and a reasonable number of years until they retire will be invested in a balanced portfolio with exposure to shares, bonds, cash, property and some foreign investments. Benchmarks assigned to a balanced portfolio influence investors' expectations of future returns from such a portfolio, especially benchmarks such as inflation (the change in the Consumer Price Index or CPI) plus some percentage return. Although the choice of benchmark does not influence the manner in which Allan Gray manages such a balanced portfolio, it is useful to consider longer term history in order to set reasonable expectations for returns from a balanced portfolio going forward.

In order to do this we have assumed that a balanced portfolio will have 60% invested in local shares (ALSI), 30% in bonds (All Bond Index or ALBI) and 10% in cash (the three-month STEFI Index) over the long-term, as illustrated in **Table 1** below. This broad asset allocation can be adjusted from time to time, of course, according to the relative attractiveness of the various asset classes, but we have assumed a static asset allocation over time to simplify the analysis. If we use the actual real returns (i.e. the difference between the nominal return and the rate of inflation) from each of these three asset classes over the 105-year period from 1900 to 2005, we see that the average balanced portfolio returned 5% p.a. in real terms.

We think a real return of 5% is a reasonable expectation going forward and therefore a reasonable benchmark for a balanced portfolio. Analysing the performance of the balanced portfolio versus CPI + 5% over the last 47 years illustrates why

TABLE 1

South African asset class	Real return from 1900 - 2005 (p.a.)	Average asset allocation
Shares	7.3%	60%
Bonds	1.8%	30%
Cash	1.0%	10%
Real return from balanced portfolio	5.0%	

Source: Triumph of the Optimists, Global Investment Returns Yearbook 2006.

investors' current expectations from a balanced portfolio may be above normal.

Graph 1 below shows the return from this balanced portfolio over rolling five-year periods for the five years ending January 1965 to the five years ending September 2007. This encompasses periods of strong and weak equity returns, high and low interest rates, rising and falling inflation and commodity bull and bear markets.

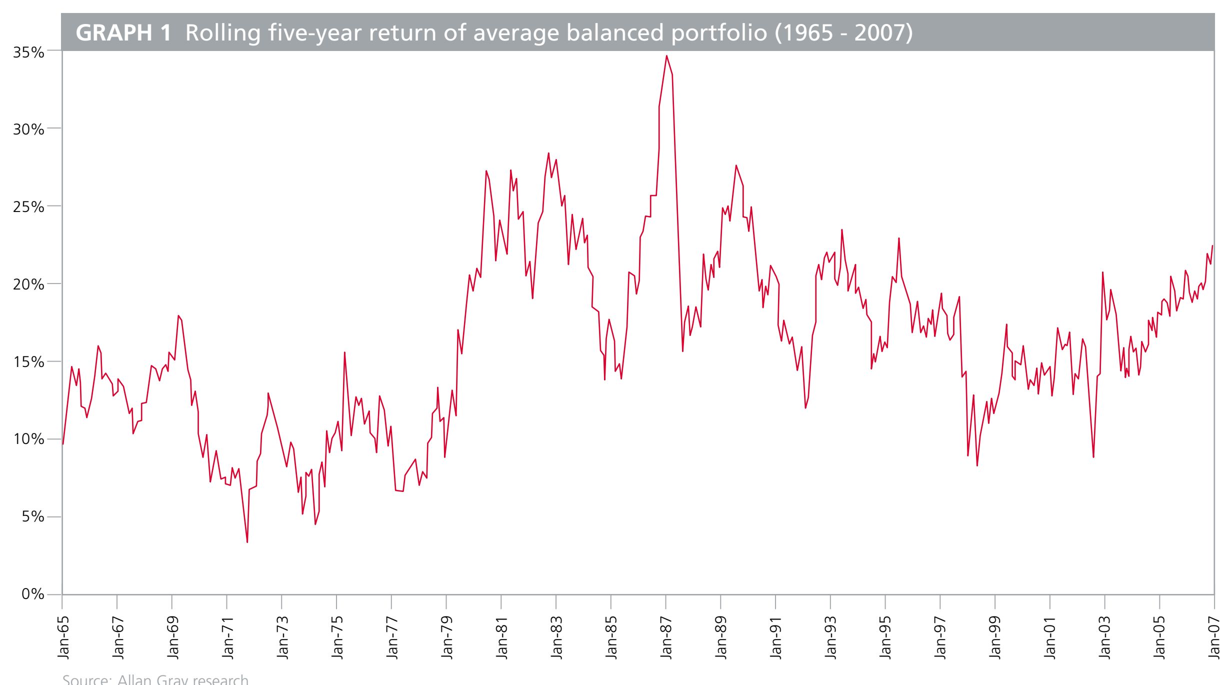
The graph illustrates how volatile the five-year rolling return of the balanced portfolio is over time, as markets go through periods of high and low returns. The returns are nominal returns, of course, and investors should evaluate the growth in their portfolios relative to inflation.

When we add the return of CPI + 5%, CPI + 6% and CPI + 7% over the same rolling five-year periods, as shown in **Graph 2** on page 12, we see a definite long-term relationship between inflation and nominal returns.

We can see why currently investors' expectations for returns from such a portfolio may be above normal. Investors saving for the five years to September 2007 would have achieved a nominal return of 22.4% p.a. from the balanced portfolio compared to inflation at 4.4% p.a., a real return of 18%. This is shown by **point A** on the graph. The balanced portfolio has achieved such high real returns only once before, in 1987 (**point B**). This period (and other periods of high real returns) were followed by significant periods of very low (and even negative) real returns.

This analysis ignores the fact that retirement funds were actually prohibited by prescribed assets regulation from having more than 50% invested in equities up to 1990. The effect of fees on the return achieved by the balanced portfolio is also ignored.

By extrapolating recent returns into the near future, investors could easily conclude that CPI + 5% is too low a return to expect from a balanced portfolio. We believe that future

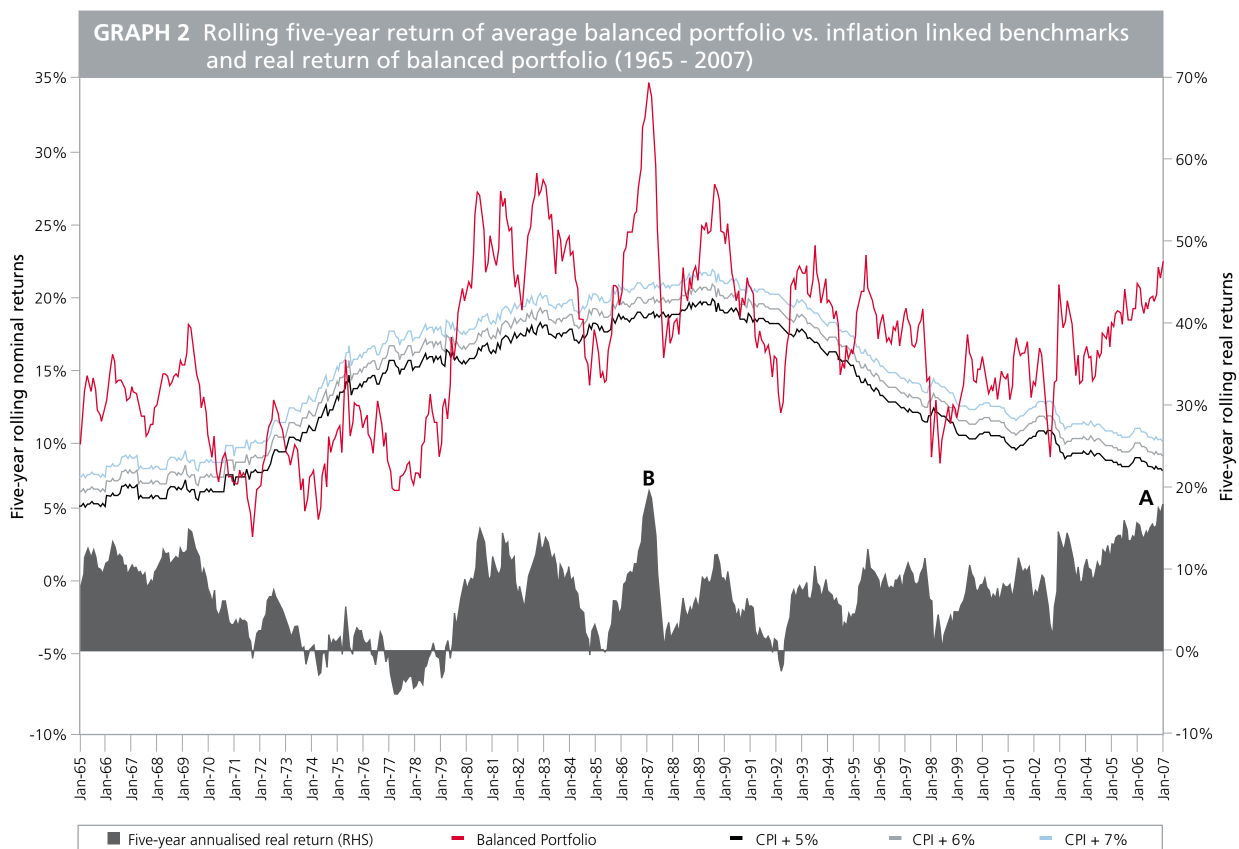


Source: Allan Gray research.

return expectations from such a portfolio should not be based only on the most recent five years' experience, but rather on the very long-term relationships that exist between nominal asset class returns and inflation.

It is our experience that, given enough time, abnormal conditions inevitably revert to normal. This has certainly been the case for real asset class returns in the past, and we believe CPI + 5% is a reasonable return to expect over the long-term from a balanced portfolio.

GRAPH 2 Rolling five-year return of average balanced portfolio vs. inflation linked benchmarks and real return of balanced portfolio (1965 - 2007)



Source: Allan Gray research

Heaton van der Linde

Claire Maclaurin

FOCUS ON THE ALLAN GRAY STABLE FUND

EXECUTIVE SUMMARY: Many investors were disappointed with the Stable Fund's returns during the 2nd and 3rd quarters of 2007. In this article, Claire Maclaurin and Heaton van der Linde illustrate the importance of the quarterly income distributions to total returns over time, specifically in 2007. They go on to discuss the positioning of the fund (stock selection, hedged equities, asset allocation, foreign returns) which led to the disappointing returns. Pleasingly it was these same positions which resulted in the good absolute returns in the final quarter of 2007 when markets generally were weak.

Components of the Stable Fund return

The Allan Gray Stable Fund was launched on 1 July 2000 for those investors seeking a reasonable income whilst at the same time looking to preserve and grow their investment in real terms. The Stable Fund's conservative profile is more suited for the risk-averse investor in search of capital stability.

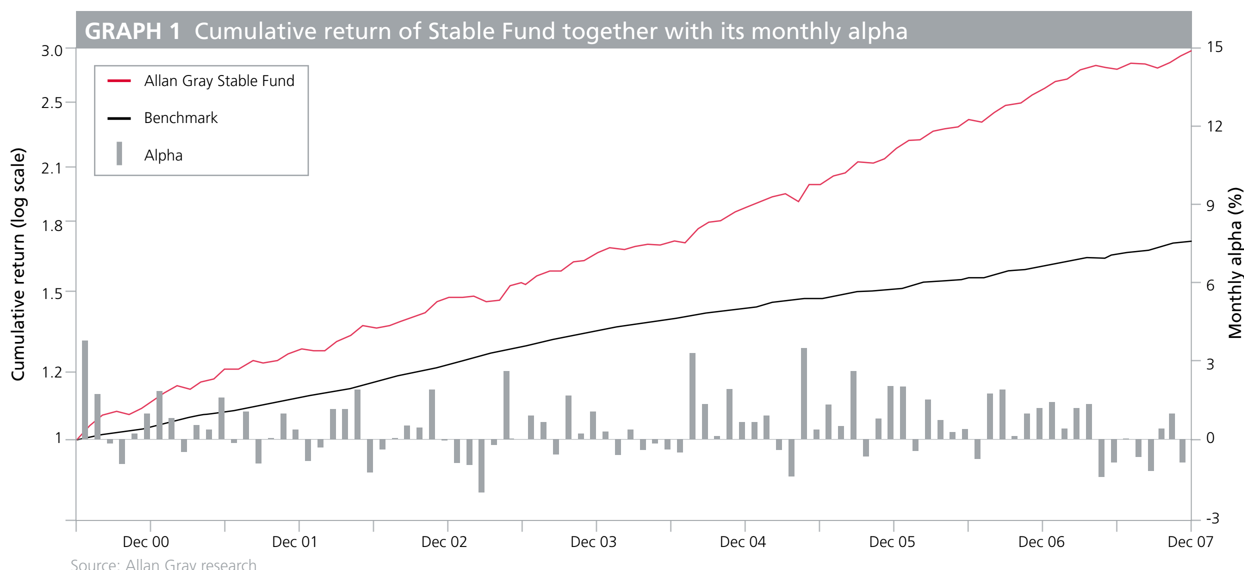
Since its inception, the Stable Fund has been able to achieve its objectives in all market conditions. This has provided investors with consistent after-tax returns well in excess of its benchmark, the after-tax return (applying a notional income tax charge of 25%) of the FirstRand Bank Call Deposit Rate plus 2%, as **Graph 1** below illustrates. The grey bars indicate the difference in performance (alpha) of the Fund over its benchmark on a monthly basis (right hand axis). While it seems that the Fund has grown and outperformed almost linearly over time, it is clear from the graph of the monthly alpha that outperformance does not come in a straight line.

Asset allocation and stock selection the key

The Stable Fund's success in the past and, we believe, into the future is based on its portfolio construction. It utilises bottom-up stockpicking and asset allocation to minimise downside risk whilst capturing upside returns. The selection of equities is managed conservatively with particular emphasis placed on finding shares with limited risk of capital loss, a low correlation to the stockmarket and high current or prospective dividend yields.

While the returns in the Stable Fund for the three years prior to 2007 were remarkable, they were driven by exceptionally strong equity market returns which are unlikely to be sustained

GRAPH 1 Cumulative return of Stable Fund together with its monthly alpha



Source: Allan Gray research

going forward. The flexibility of the Stable Fund to invest in other asset classes provides protection to its investors in times of market uncertainty. While at times in the past the Fund has had over 40% exposure to equities (both foreign and local), this exposure has been trimmed significantly over the past year to just 20%. This has been driven by the fact that we are finding relatively fewer shares which offer significant value compared to the fixed interest alternatives.

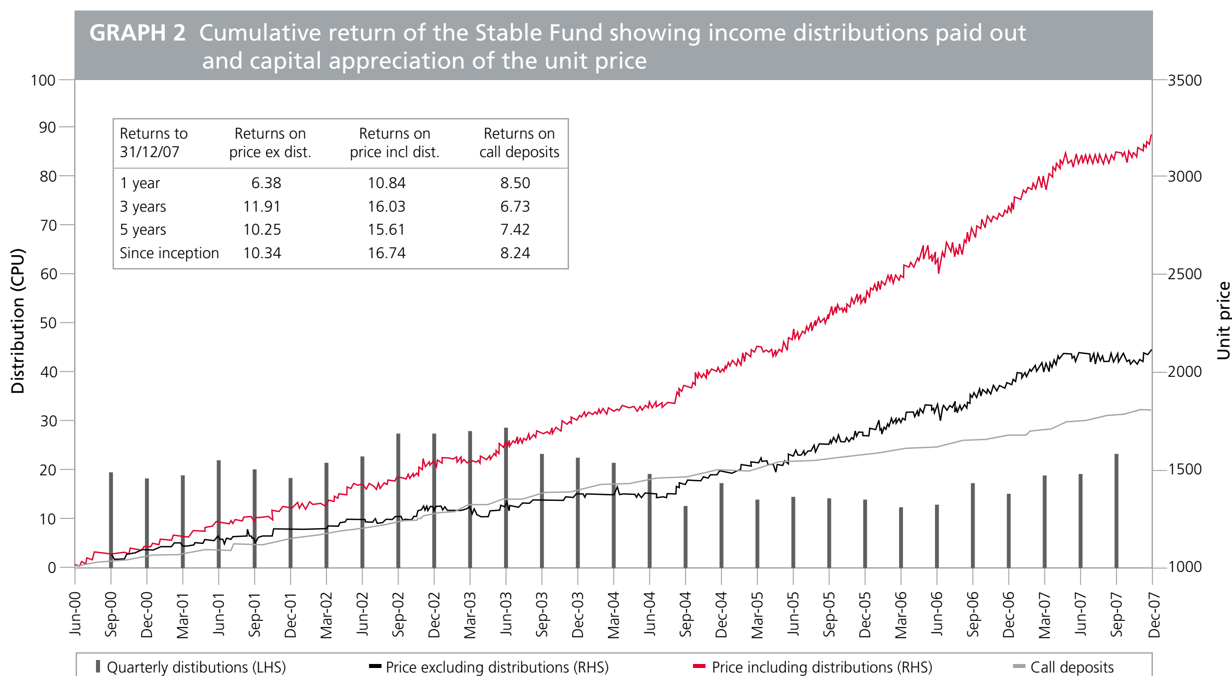
Components of the Stable Fund total return

There are two components which contribute to the return earned on an investment in the Stable Fund. The first is a capital return due to a change in the price of the underlying investments held in the Fund, and the second is an income return which comes in the form of distributions which are paid out on a quarterly basis. This distribution comprises all the interest and dividends that have been earned on the underlying investments in the Fund and, as a result, forms a significant part of the total return of the Fund. In times where the Fund's exposure to fixed interest is relatively high, the income component would contribute a greater proportion to the total return of the Fund than the capital component.

Graph 2 below illustrates the total return (the red line) earned on the Fund since its inception in July 2000 by assuming that any distributions paid out are reinvested in the Fund. The black line represents the unit price of the Stable Fund which is just the capital component of the total return of the Fund plus accrued income for the current quarter prior to the quarter-end distribution. The vertical bars represent the distributions paid out quarterly (left hand axis).

As is evident below, the distributions contribute a substantial proportion to the total return. While R1000 invested at inception would have grown to R2092 without distributions, this figure increases to R3194 when distributions are considered to be reinvested.

GRAPH 2 Cumulative return of the Stable Fund showing income distributions paid out and capital appreciation of the unit price



Returns to 31/12/07	Returns on price ex dist.	Returns on price incl dist.	Returns on call deposits
1 year	6.38	10.84	8.50
3 years	11.91	16.03	6.73
5 years	10.25	15.61	7.42
Since inception	10.34	16.74	8.24

Source: Allan Gray research

Analysis of short-term performance during 2007

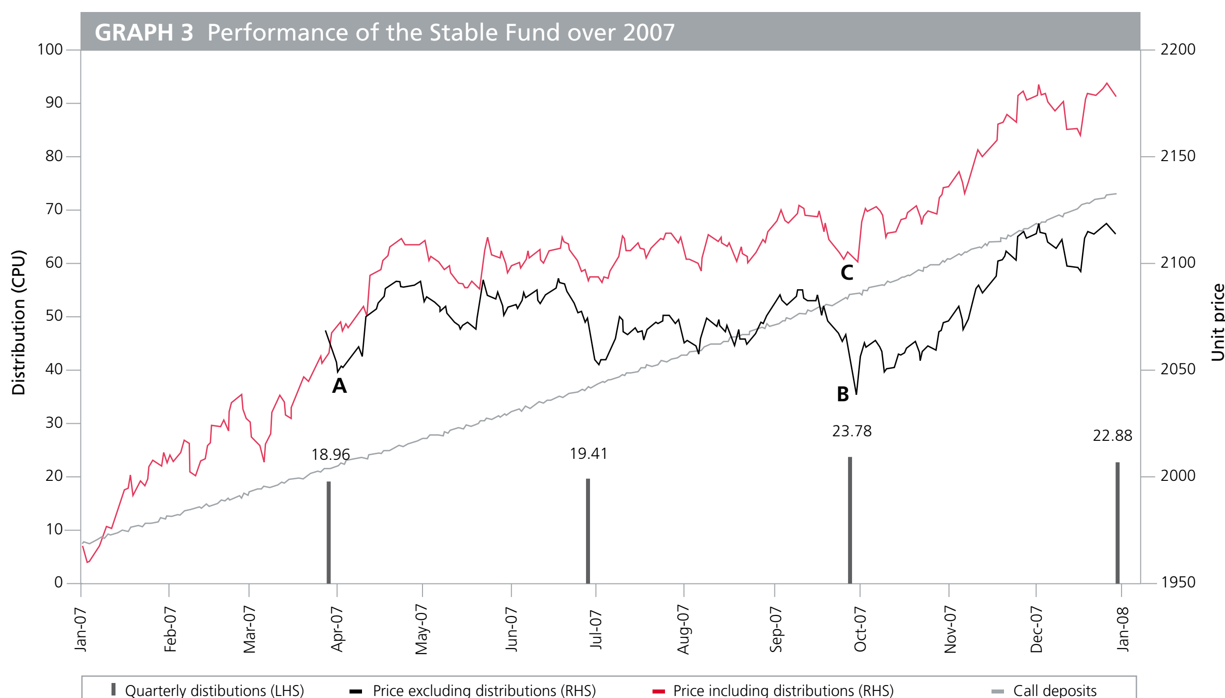
Many investors expressed concern about the Fund's performance over the past year. In particular, they were under the impression that they had experienced capital losses during the 2nd and 3rd quarters of 2007. This misconception resulted as they were comparing merely the unit price of the Fund over various periods of the year, ignoring the distributions which had been paid out.

Graph 3 below considers the performance of the Fund over the year 2007. Once again, the black line tracks the unit price of the Fund (i.e. capital return excluding all previous distributions with only the portion of the current quarter's income accrued) while the red line assumes that distributions have been reinvested and therefore represents the total return of the Fund.

Investors tracking the price of units were concerned given that their price at the beginning of October (**Point B**) was lower than at the end of March (**Point A**). What is important to consider is the size of the distributions that were paid out at the beginning of April, July and October as the unit price would fall by these amounts on the day that distributions are paid. This distribution is the cause of the two sharp falls seen in the black unit price line at Points A and B. If we take these distributions into account and consider them to be reinvested in the Fund, it is evident that there was not a capital loss suffered by being invested in the Fund. Considering the period from Point A to **Point C**, the total return earned was 1.86% rather than the -1.17% reflected by the change in unit price from Point A to Point B.

While this may provide relief for some investors, we are the first to acknowledge that the Fund indeed performed poorly in the 2nd and 3rd quarters of 2007. The return for the six

GRAPH 3 Performance of the Stable Fund over 2007



Source: Allan Gray research

month period to the end of September was disappointing as the Fund's 1.86% underperformed the return of 4.06% on call deposits. The underperformance was due to specific positions taken in the Fund which have been highlighted below, and which interestingly all contributed to significant outperformance in the final quarter of the year.

Stock selection

The first significant factor affecting the Fund's performance was a stock specific issue. The Fund did not hold any Anglo or Billiton shares which make up over 27% of the ALSI 40 index and which had particularly strong returns over the period (which we thus did not participate in). Our fundamental analysis of these two counters indicates that they are overpriced, and thus, in line with our investment philosophy, we do not hold shares in either of them. This is the risk that Allan Gray faces as a contrarian asset manager. Although events of this sort do detract from the returns earned by our investors in the short-run, we maintain confidence in our investment philosophy which has been implemented with success for the past 33 years and are confident in our ability to outperform in the long-run. While this position detracted significantly from performance in the 3rd quarter, it benefited the Fund significantly in the final quarter of the year.

> "Should the Rand weaken relative to the foreign currency, gains will be made when translating the foreign return into a Rand return."

'Hedged equities'

On the back of the stock specific underperformance in the 3rd quarter, our equities underperformed the Top 40 Index, resulting in negative alpha. As a result, the Stable Fund's hedged equity position, which had been increased over the year and which aims to capture a 'cash plus alpha' return, was affected adversely. This negative performance was reversed in the final quarter of the year when our shares outperformed. We continue to prefer our selection of shares to the market, and thus, despite the short-term underperformance and volatility of this asset class, we have maintained a high exposure to hedged equities throughout the year. Should conditions remain the same, we will maintain this hedged equity component to the portfolio going forward.

Low share exposure

Our low exposure to domestic equities, particularly during the 3rd quarter, means that the Stable Fund underperformed conservative balanced funds with higher equity exposure in a quarter when equity market returns were strong. This too reversed in the final quarter of the year when equity markets were weak.

Foreign component and strength of the Rand

A further factor which has had a significant impact on the Fund's performance is the foreign component of the Fund. The Fund has a conservative selection of foreign investments maintained close to the 15% maximum level to preserve capital in foreign currency terms. All foreign assets are invested in Orbis Mutual Funds, currently one third in the Japan Equity (yen) Fund and two thirds in the Orbis Optimal (US$ and euro) Funds.

The returns on the foreign component of the Fund are derived from two sources. Firstly, returns are derived from the return achieved in the underlying Orbis funds which also underperformed in 2nd and 3rd quarters of 2007. These returns are denominated in a variety of foreign currencies namely yen, euro and US dollars, depending on the currency underlying the particular fund. The second component of returns on the foreign assets in the Stable Fund is derived from the performance of the Rand relative to each of the aforementioned foreign currencies. Should the Rand weaken relative to the foreign currency, gains will be made when translating the foreign return into a Rand return. Similarly, should the Rand strengthen, a loss will be made. The foreign component's performance suffered particularly in the 3rd quarter due to the strengthening of the Rand relative to both the US dollar and the euro. At present, the combination

of an expensive local equity market and a strong currency significantly increases the relative attractiveness of selected foreign assets. Our asset allocation reflects this view, with the Stable Fund continuing to hold the maximum offshore exposure within the regulatory limit of 15%.

Conclusion

We remain focused on the objectives of the Fund, namely to preserve capital first before achieving moderate growth in real terms over time. We continue to caution investors that, although the Fund experienced extraordinary returns throughout the bull market in equities over the past five years, the riskier assets that performed well in rising markets can experience below-cash returns in flat or declining markets and, as such, the Fund's exposure to these assets has been trimmed significantly. Investors need to be aware of the characteristics of the Stable Fund and temper their future return expectations accordingly. We remain confident that the Stable Fund, through its bottom-up stock selection and asset allocation, will meet the ongoing investment needs of clients with a low tolerance for the risk of capital loss in the years ahead.

Richard Carter

RETIRING WITH A REGULAR INCOME THAT IS SUSTAINABLE FOR LIFE

EXECUTIVE SUMMARY: Investment linked living annuities provide an alternative to conventional pensions. They have been around in South Africa since 1993 and were first offered in response to the limited flexibility of traditional pensions (also known as guaranteed or life annuities). Although they are flexible, there is a danger that the inherent flexibility of living annuities can burden investors with unexpected risks. In this article, Richard Carter outlines these risks and provides suggestions on how to think about and deal with them.

Some background on living annuities

Living annuities are intended to provide a regular income for investors who are retired. Investors purchase them at retirement, using accumulated pension benefits originating from their pension, provident, preservation or retirement annuity funds.

A living annuity is also known as a 'linked annuity', being a special type of compulsory purchase annuity offered by insurers and retirement funds. Income from the annuity is not guaranteed as it is dependent on the performance of underlying investments. It allows the annuitant to select an income level that ranges between a pre-defined minimum and maximum level.

The Allan Gray Living Annuity provides a flexible post-retirement income from an investment portfolio made up of a selection of underlying unit trusts. The income is funded by the growth from the capital and income of the investments. The income percentage may be changed annually and is subject to minimum and maximum parameters.

After years of hard work and disciplined contributions to a retirement fund, most of us hope to retire with a regular income that keeps pace with inflation. But, the future is uncertain:

- You may live longer than you think (and therefore need more money off which to live);
- Inflation or the increasing cost of living may eat away at your retirement nest egg faster than you anticipate;
- Actual investment returns may be less than what is needed to support your income level.

This means that the level of income you choose now may not be sustainable in the future.

The flexibility to select your income level and your underlying investment options brings risks

Investment linked living annuities were introduced as an alternative to guaranteed annuities (pensions). At the time, guaranteed annuities offered little flexibility and often when the annuitant died, so did the pension. However, flexibility without control can have unintended consequences and the inherent flexibility of the new living annuities brought two new risks to bear:

- Because investors can select the income levels they prefer, many of them could, and indeed did, draw a pension that exceeded the return on the investment – causing capital to erode and ultimately reduce income over time;

Questions to consider:

1. What income will you need when you retire?
2. What level of income can you draw? Will this be sustainable regardless of market circumstances?
3. How do you manage the risk of running out of money or your income reducing to a level off which you cannot live?
4. What decisions do you need to be aware of and make with regard to a living annuity investment?
5. Who can give you advice about this?

- The performance of the annuity is dependent on the underlying investments: If markets fall or inappropriate investments are made, it is less likely that your pension will beat inflation or that your capital will last until the day you die.

It is important to remain disciplined about your investments at all times, but to achieve the goal of a comfortable and sustainable income, you need to be aware of the factors that influence your level of income in order to be able to manage this after you retire.

Regulatory controls mitigate the risk of unsustainably high income withdrawals

Regulators are concerned that, as a result of high monthly withdrawals (as a percentage of capital) and volatile underlying investments, pensioners with living annuities might not have a sustainable income and therefore become dependent on a state pension.

As a result, there are certain regulated parameters within which all flexible living annuity arrangements must operate, especially minimum and maximum limits on the income which can be taken from a living annuity. The purpose of these rules is to try and ensure that flexible annuities would at all times produce an income for life. The most recent limits on withdrawal were issued by SARS on 21 February 2007, in terms of which the annual income limits for living annuity contracts concluded after 1 March 2007 are a minimum of 2.5% and a maximum of 17.5% of the capital in the living annuity. These new limits do not apply to any older living annuities transferred between providers.

A new industry code on linked annuities took effect on 31 December 2007. This code is intended to provide industry standards so that linked annuities are responsibly marketed and administered. In its own words, it 'seeks to ensure that a living annuity fulfils its originally intended design requirements whilst at all times producing a level of income that is sustainable for life'. The code lists product standards that include:

a. **Minimum disclosures at the point of sale.** This includes prescribed wording and a table of illustrative annuity rates as shown in **Table 1** below.

The table below shows initial guaranteed annuity income levels for different age groups. It may be useful to compare your desired annuity income relative to your current age. If your selected income percentage is more than that reflected in the table you are at risk of not having enough capital to support this level of real income for life.

TABLE 1 Indicative guaranteed annuity rates

Age	55	60	65	70	75	80	85
Male	5.5%	6.2%	7.3%	8.7%	10.7%	13.5%	17.5%
Female	4.8%	5.4%	6.2%	7.3%	8.9%	11.2%	14.6%

Source: LISPA Code on Linked Annuities (October 2007)

It is important to note that the table is based on life annuity rates where the insurer carries the full investment and longevity risk. This contrasts with a living annuity where you carry both these risks in full. If you survive for a longer period than the average life expectancy on which these rates are based, you could also run out of capital. The table is for a guaranteed single-life annuity. It assumes a 5% escalation rate and no guaranteed term for different ages. The annuity income drawn from your living annuity is not guaranteed and will be affected by the investment performance of the underlying collective investment schemes that you have chosen.

b. **Minimum disclosures and appropriate drawdown for ongoing business.** On the investor's anniversary date (as a minimum) we must provide similar disclosures to those shown in Table 1.

Factors that influence a sustainable annuity income level

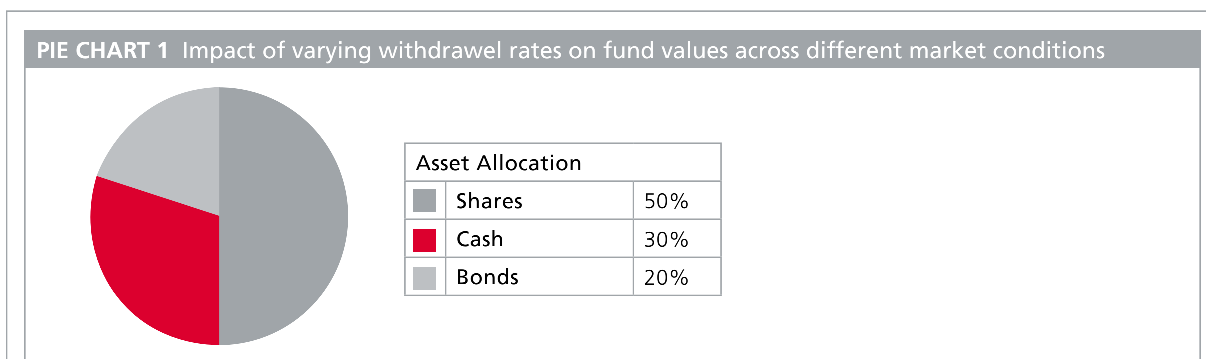
a. **Your income needs and probable life expectancy.** The appropriate income rate to be applied depends on your investment amount and income needs (influenced by whatever other sources of income you have), your age and your health (probable life expectancy). You have the flexibility to review your living annuity income level annually, given that your circumstances may change from year to year.

b. **Your decision about what funds your living annuity is invested in.** Your underlying investment decisions play a significant role in your income level over the long-term. This is because your asset allocation (or how your investments are spread between different asset classes, primarily shares, bonds and cash) and individual fund selection play a significant role in how much your investment grows. This in turn affects the sustainability of your desired income level.

Investment case study of returns over bull and bear markets

The impact of drawing down varying income levels over a five-year bull market versus a five-year bear market are shown in **Table 2** below, for a fixed asset allocation as shown. The reducing or increasing size of the investment amount impacts on the sustainability of the income level. Over time, as the figures show, the investment amount and therefore income level that will be drawn from this investment reduce significantly for higher levels of withdrawals during unfavourable markets.

PIE CHART 1 Impact of varying withdrawel rates on fund values across different market conditions



Current prices (adjusted for inflation)

Real value of an initial R100 living annuity investment at the end of each year given the portfolio above, rebalanced annually with withdrawals as shown.

TABLE 2

Annual income as a percentage of the portfolio	0%	3%	6%	9%	12%	15%
Fund value at the end of five years to Oct 2007 (Bull market conditions)	202.7	174.4	150.0	129.0	110.9	95.3
Fund value at the end of five years to Oct 2002 (Bear market conditions)	137.8	118.6	102.0	87.7	75.4	64.8

Source: FTSE/JSE All Share Index, All Bond Index and Alexander Forbes Money Market Index taken from INET as at 31/10/2007

Over the past five years, an investor with a living annuity invested in the notional portfolio, as illustrated in **Pie Chart 1** on page 20, would have been able to draw an income of 14% p.a. and have no erosion of capital in real terms. Over the previous five years, income would have had to be 6% to achieve this same preservation. With income of 14% p.a. the capital would have reduced by more than 30% in real terms. This illustrates the investment risk being borne by the investor and the impact on capital preservation of drawing an income greater than the investment return earned. For example: if an annuitant had R1 000 000 in todays terms, R11 500 income per month would have been sustainable with no erosion of capital, given the last five years' returns. Over the previous five years only R5 000 income per month would have been sustainable.

Ensuring a sustainable income for life

None of us know how long we will need our pensions to last. Clearly, the longer you think you will live, the less you should be drawing – and the less you draw, the longer it will last. Beyond this though, each pensioner's prudent drawdown rate will be a factor of all sorts of personal factors – including his or her health and present circumstances.

One way to tell whether you may be drawing an unsustainable annuity is to compare it to the equivalent level of income you could obtain from a normal pension for life, shown in the extract from the Code on Linked Annuities (Table 1 on page 19). The problem with this table is that it is good for the average person and half of us will live longer than the average person. If you choose an income drawdown rate expecting to need your pension for as long as the average person and you live longer than expected, the consequences can be very severe.

We urge investors and financial advisers to consider carefully and very prudently the choice of income level in the current market environment.

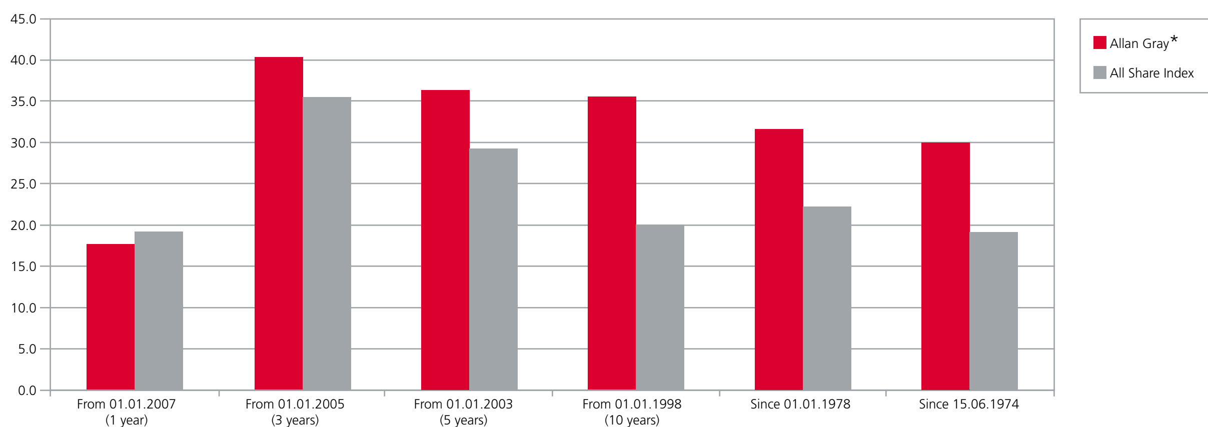
In closing, below are three investment tips that may help you when reviewing your living annuity income levels. We hope they will also be helpful if you are not yet retired and are still building up your retirement savings.

1. **If you are not comfortable with making your own decisions, or don't have the time, engage the services of an independent financial adviser.**
   Financial advisers are an effective way to overcome a lack of investment knowledge or to recognise that you may not have enough time to be a great investor and manage all the other pressures on your life. The best are independent and will help you take a holistic approach to your investment: considering your other sources of income, other investments and specific needs. They provide a combination of investment advice, retirement planning, estate planning and tax advice. Like fund managers, advisers should be chosen carefully and word of mouth recommendations generally work best.
2. **Invest in things you understand, and take the time to understand your investments.**
   At any point in time, there are thousands of opportunities for all of us to invest. Our ability to take advantage of these is dependent on whether we know enough about each to make a sensible decision. It is obviously a mistake to leap in without having a good idea about whether you are paying a sensible price. It is equally unwise not to make an effort to expand your known set of opportunities, and to deepen your knowledge about the investments you hold.
3. **Ask yourself upfront whether you have the strength of conviction to stick with your investment even if it falls out of fashion.**
   Great investment decisions are frequently unfashionable at some point. We have found that it often helps later in the lifecycle of the investment to recognise this at the start. We have lost investors at critical low points in our past when they crystallised painful short-term losses. These same investors would have massively outperformed if they had stayed on for as little as a few more months. In order to get the best out of a contrarian fund manager like ourselves you need to stay invested when we are unfashionable.

Investment Track Record

Allan Gray Limited Global Mandate Share Returns vs. FTSE/JSE All Share Index

Period	Allan Gray*	FTSE/JSE All Share Index	Outperformance
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 31.12)	17.6	19.2	-1.6
Average outperformance			10.8
No. of calendar years outperformed			26
No. of calendar years underperformed			7
Annualised to 31.12.2007			
From 01.01.2007 (1 year)	17.6	19.2	-1.6
From 01.01.2005 (3 years)	40.2	35.4	4.8
From 01.01.2003 (5 years)	36.3	29.3	7.0
From 01.01.1998 (10 years)	35.5	20.1	15.4
Since 01.01.1978	31.6	22.2	9.4
Since 15.06.1974	29.9	19.1	10.8



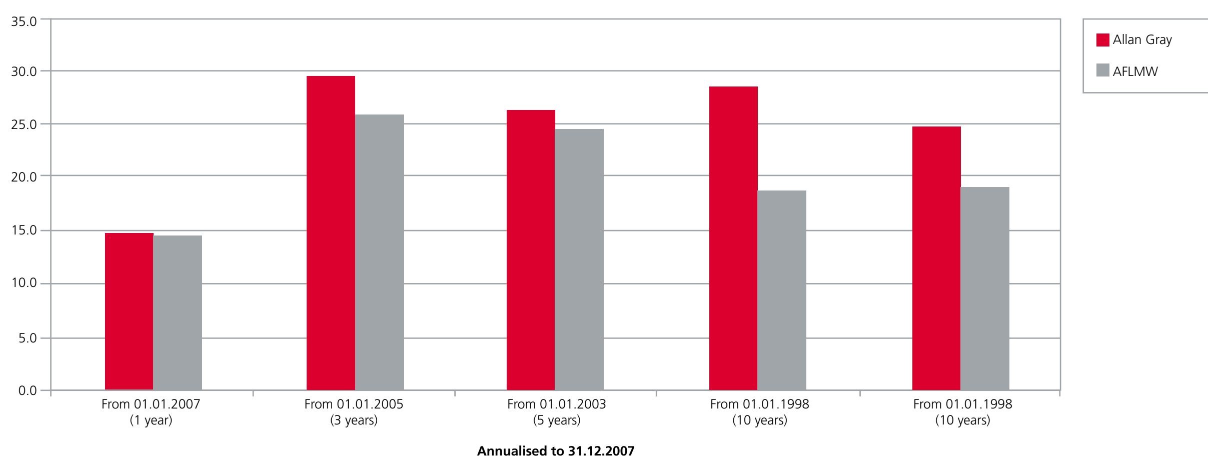
* Note: Allan Gray commenced managing pension funds on 01.01.78. The returns prior to 01.01.1978 are of individuals managed by Allan Gray and these returns exclude income.

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 **R 65 358 344** by 31 December 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 520 727**.

Investment Track Record

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

Period	Allan Gray	AFLMW**	Outperformance
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 31.12)	14.5	14.4	0.1
Average outperformance			5.6
No. of calendar years outperformed			25
No. of calendar years underperformed			5
Annualised to 31.12.07			
From 01.01.2007 (1 year)	14.5	14.4	0.1
From 01.01.2005 (3 years)	29.6	25.7	3.9
From 01.01.2003 (5 years)	26.3	24.6	1.7
From 01.01.1998 (10 years)	28.5	18.8	9.7
Since 01.01.1978	24.8	19.2	5.6



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

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to **R7 664 833** by 31 December 2007. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R1 928 678**.

Allan Gray annualised performance in percentage per annum to 31 December 2007

	FOURTH QUARTER (unannualised)	1 YEAR
SEGREGATED RETIREMENT FUNDS		
GLOBAL BALANCED MANDATE	**3.6**	**14.5**
Mean of Alexander Forbes Global Large Manager Watch # *	-0.2	14.4
DOMESTIC BALANCED MANDATE	**3.8**	**16.3**
Mean of Alexander Forbes Domestic Manager Watch *	0.0	16.0
EQUITY-ONLY MANDATE	**3.6**	**19.3**
FTSE/JSE All Share Index	-3.0	19.2
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN MANDATE	**4.7**	**17.8**
Mean of Alexander Forbes Namibia Average Manager *	-0.2	15.2
EQUITY-ONLY RELATIVE MANDATE	**0.9**	**17.9**
Weighted average of client specific benchmarks *	-1.1	18.3
POOLED RETIREMENT FUNDS		
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	**3.6**	**14.7**
Mean of Alexander Forbes Global Large Manager Watch *	-0.2	14.4
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	**4.0**	**16.4**
Mean of Alexander Forbes Domestic Manager Watch *	0.0	16.0
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	**3.2**	**18.6**
FTSE/JSE All Share Index	-3.0	19.2
ALLAN GRAY LIFE RELATIVE DOMESTIC EQUITY PORTFOLIO	**0.0**	**19.6**
FTSE/JSE CAPI Index	-1.9	19.0
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	**8.1**	**15.9**
Mean of Alexander Forbes Domestic Manager Watch *	0.0	16.0
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	**7.5**	**15.3**
Mean of Alexander Forbes Global Large Manager Watch *	-0.2	14.4
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	**4.2**	**15.1**
Alexander Forbes Three-Month Deposit Index plus 2%	3.0	11.6
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	**3.8**	**12.3**
Alexander Forbes Three-Month Deposit Index plus 2%	3.0	11.6
ALLAN GRAY LIFE FOREIGN PORTFOLIO **	**1.3**	**9.0**
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	-0.7	9.0
ALLAN GRAY LIFE ORBIS GLOBAL EQUITY PORTFOLIO **	**-1.8**	**9.4**
FTSE World Index (Rands)	-3.1	8.5
ALLAN GRAY LIFE MONEY MARKET PORTFOLIO **	**2.6**	**9.6**
Alexander Forbes Three-Month Deposit Index	2.5	9.4
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO **	**4.1**	**11.2**
Daily Call Rate of Nedcor Bank Limited	2.5	8.9
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	**4.1**	**14.2**
Consumer Price Index plus 3% p.a.	2.5	11.8
FOREIGN-ONLY (RANDS) **		
ORBIS GLOBAL EQUITY FUND (RANDS)	**-1.7**	**9.8**
FTSE World Index (Rands)	-3.1	8.5
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	**1.2**	**-3.7**
Tokyo Stock Price Index (Rands)	-7.5	-8.0
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS)	**2.6**	**5.1**
US$ Bank Deposits (Rands)	0.1	2.7
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	**-3.4**	**21.4**
MSCI Asia Ex-Japan (Rands)	-0.4	36.5
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	**1.2**	**8.8**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	-0.7	9.0
UNIT TRUSTS**		
EQUITY FUND (AGEF) INCL. INCOME	***	**14.8**
FTSE/JSE All Share Index		19.2
BALANCED FUND (AGBF)	***	**13.2**
Average Prudential Fund (excl. AGBF)		12.6
STABLE FUND (AGSF) - (NET OF TAX)	***	**9.9**
After-tax return of call deposits plus two percentage points (Net of tax)		7.9
STABLE FUND (AGSF) - (GROSS OF TAX)	***	**10.9**
After-tax return of call deposits plus two percentage points (Gross of tax)		10.6
OPTIMAL FUND (AGOF)	***	**9.5**
Daily call rate of Firstrand Bank Ltd		8.5
BOND FUND (AGBD)	***	**5.4**
BEASSA All Bond Index (total return)		4.3
MONEY MARKET FUND (AGMF)	***	**9.6**
Domestic fixed interest money market unit trust sector (excl. AGMF)		9.4
ORBIS GLOBAL FUND OF FUNDS (AGGF) ****	***	**9.3**
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		8.5
ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	***	**9.4**
FTSE World Index (Rands)		8.6

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 Four, 2007 is an estimate, as the relevant survey results have not yet been released.

** The returns are net of investment management fees.

*** Unavailable due to ACI regulations.

**** As of 3 February 2004, the benchmark is displayed. The benchmark was the Morgan Stanley Capital International Index (in Rands) prior to this date.

3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R millions)	INCEPTION DATE
29.6	**26.3**	**24.8**	24,766.6	01.01.78
25.7	24.6	19.2		
32.2	**29.7**	**25.3**	23,512.7	01.01.78
26.8	27.0	19.6		
40.5	**35.9**	**24.9**	49,439.9	01.01.90
35.4	29.3	16.8		
28.5	**26.0**	**22.9**	5,681.8	01.01.94
24.8	23.9	16.3		
36.4	**32.1**	**28.9**	9,048.3	19.04.00
33.9	30.0	21.6		
29.6	**26.4**	**26.8**	11,831.9	01.09.00
25.7	24.6	19.2		
32.4	**30.2**	**28.3**	5,767.1	01.09.01
26.8	27.0	22.6		
40.5	**36.0**	**33.8**	6,829.8	01.02.01
35.4	29.3	21.9		
37.9	-	**39.2**	464.0	05.05.03
35.2	-	37.2		
30.5	**28.1**	**30.6**	531.6	06.07.01
26.8	27.0	21.9		
29.5	-	**26.8**	713.2	01.03.04
25.7	-	26.6		
20.3	**19.6**	**19.5**	536.5	01.12.01
10.1	10.9	11.4		
18.4	-	**19.7**	1,904.5	15.07.04
10.1	-	10.1		
18.5	**10.0**	**4.6**	1,250.2	23.01.02
17.4	8.7	1.4		
24.6	-	**19.4**	1,543.8	18.05.04
22.1	-	17.8		
8.1	**9.1**	**9.6**	558.2	21.09.00
8.0	8.8	9.4		
10.2	-	**9.9**	159.8	04.12.02
7.0	-	7.7		
18.1	-	**18.9**	899.4	01.05.04
9.2	-	8.4		
25.4	**17.0**	**21.5**	15,392.2	01.01.90
22.1	13.1	14.4		
12.4	**9.3**	**16.7**	5,965.3	01.01.98
13.7	9.3	8.5		
-	-	**13.8**	3,918.2	01.01.05
-	-	11.5		
-	-	**30.6**	88.8	01.01.06
-	-	41.5		
18.4	**10.1**	**16.8**	3,622.9	23.05.96
17.4	8.7	12.2		
		Figures below unannualised		
35.2	**31.6**	**1868.3**	18,662.0	01.10.98
35.4	29.3	643.5		
26.1	**25.0**	**569.5**	25,335.0	01.10.99
22.3	22.3	281.7		
15.2	**14.5**	**192.5**	20,859.5	01.07.00
6.6	7.1	74.7		
16.0	**15.6**	**219.5**	20,859.5	01.07.00
8.9	9.6	110.4		
9.0	**8.7**	**64.0**	1,045.1	01.10.02
6.7	7.4	47.3		
7.0	-	**31.3**	74.3	01.10.04
6.8	-	31.3		
8.0	**8.7**	**76.8**	3,572.0	03.07.01
7.9	8.6	77.1		
17.8	-	**42.2**	4,981.2	03.02.04
17.2	-	44.4		
-	-	**74.0**	2,754.6	01.04.05
-	-	66.1		

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 institutional portfolios on a segregated basis.

INVESTMENT MANAGEMENT IN BOTSWANA
Allan Gray Botswana manages institutional 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	BALANCED PORTFOLIO	ABSOLUTE PORTFOLIO
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.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)	Yes.[1]	Yes.[1]	Yes.[1]

1. 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 in which case they will be corrected within a reasonable time period.
Allan Gray Life Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of Annexure A to Regulation 28).

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

ASSET CLASS POOLED PORTFOLIOS:

	MONEY MARKET	BOND MARKET	EQUITY	FOREIGN
Investor Profile	• Institutional investors requiring management of a specific money market portfolio.	• Institutional investors requiring management of a specific bond market portfolio.	• Institutional investors requiring management of a specific 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.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)	Yes.[1]	Yes.[1]	No.[2]	No.

1. 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 in which case they will be corrected within a reasonable time period.
Allan Gray Life Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of Annexure A to Regulation 28).
2. The Portfolio is managed to comply with the individual asset class 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.
Allan Gray Life Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of Annexure A 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.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)	No.

Orbis Mutual Funds*

OFFSHORE PRODUCTS

	ORBIS GLOBAL EQUITY FUND	ORBIS JAPAN FUNDS (YEN AND EURO FUND CLASSES)	ORBIS ASIA ex-JAPAN FUND (US$ FUND CLASS)	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.	• US$ dominated Asia ex-Japan Equity Fund aimed at investors who are seeking a portfolio that is fully invested in, and exposed to, Asian equities outside of Japan.	• 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.	• The Fund aims to earn higher returns than the average of the Asia ex-Japan equity markets, without greater risk of loss. Its benchmark is the MSCI All Country Asia ex-Japan (Net) (US$) Index. The Fund's currency exposure managed relative to that of the benchmark.	• The Fund seeks capital appreciation on a low risk global portfolio. • Orbis Optimal SA Fund – US$ – is still registered for marketing in South Africa.
Structure	Open-ended collective investment scheme (similar to a unit trust in South Africa).			
Manager's Fee	0.5% - 2.5% p.a. depending on performance.	0.5% - 2.5% p.a. depending on performance.	0.5% - 2.5% p.a. depending on performance.	Base fee of 1% p.a., 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. Summary Fund Fact Sheets are available at www.allangray.co.za			
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 2.5% and 17.5% 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

* Allan Gray 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 & Objectives as at 31 December 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.	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.	The market value weighted average of the domestic medium equity Prudential unit trust sector excluding the Allan Gray Balanced Fund.	Return of call deposits (for amounts in excess of R5m) with FirstRand Bank Limited plus 2%; on an after-tax basis at a rate of 25%.	The return on call deposits with FirstRand Bank Limited (for amounts in excess of R5m).
Maximum Net Equity Exposure	100%	75%	40%	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 Prudential Investment Guidelines	No.[2]	Yes.[3]	Yes.[3]	No.
Annual Fund Management Fee (excl. VAT)	Performance fee on the under/ outperformance of the benchmark (adjusted for fund expenses and cash flows) 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. [4] **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. [4] **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. A high watermark structure applies. **Minimum Fee:** 1.00% **Fee at benchmark:** 1.00% **Sharing Rate:** 20.00% **Maximum Fee:** uncapped
Total Expense Ratio[5] (incl. VAT)	Total Expense Ratio: 3.57% including - Performance component: 1.64% Fee at benchmark: 1.71% Trading costs: 0.21% Other expenses: 0.01%	Total Expense Ratio: 2.09% including - Performance component: 0.58% Fee at benchmark: 1.25% Trading costs: 0.22% Other expenses: 0.03%	Total Expense Ratio: 1.94% including - Performance component: 0.55% Fee at benchmark: 1.24% Trading costs: 0.12% Other expenses: 0.04%	Total Expense Ratio: 1.78% including - Performance component: 0.45% Fee at benchmark: 1.14% Trading costs: 0.17% Other expenses: 0.02%
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. Retirement Funds: The Portfolio is managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act, except for the overall/total equity distribution limit, due to it being an equity portfolio. 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. Allan Gray Unit Trust Management Limited does not monitor compliance by retirement funds with Section 19(4) of the Pensions Funds Act (item 9 of Annexure A to Regulation 28).
3. Retirement Funds: 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 in which case they will be corrected within a reasonable time period. Allan Gray Unit Trust Management Limited does not monitor compliance by retirement funds with Section 19(4) of the Pensions Funds Act (item 9 of Annexure A to Regulation 28).
4. The annual management fee is calculated on the daily value of the Fund excluding any underlying assets invested in Orbis.
5. 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 September 2007. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, UST, levy, strate and ITLevy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER can not be regarded as an indication of future TERs. The information provided is applicable to Class A Funds.

For more detailed information and fee details, please consult the relevant fund fact sheets available on www.allangray.co.za

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 South African 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.	A Rand-denominated portfolio feeding directly into the FSB registered Orbis Global Equity Fund.
All Bond Index.	Simple average of the Domestic Fixed Interest Money Market Unit Trust Category 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.[3]	Yes.[3]	No.	No.
Performance fee on the outperformance of the benchmark (adjusted for fund expenses and cash flows) 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: 0.18% Fee at benchmark: 0.29% Trading costs: 0.00% Other expenses: 0.15%	Total Expense Ratio: 0.30% including - Performance component: 0.00% Fee at benchmark: 0.29% Trading costs: 0.00% Other expenses: 0.01%	Total Expense Ratio: 2.07% including - Performance component: 0.38% Fee at benchmark: 1.25% Trading costs: 0.26% Other expenses: 0.18%	Total Expense Ratio: 2.71% including - Performance component: 0.91% Fee at benchmark: 1.44% Trading costs: 0.29% Other expenses: 0.08%
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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DIRECTORS
M Cooper B Bus Sc FIA FASSA **GW Fury** BA LLB MA CFA **DD Govender** B Com CA (SA) CFA
WB Gray B Com MBA CFA (Non-Executive) (Irish) **SC Marais** PhD CFA (Non-Executive)
T Mhlambiso AB MBA JD (Non-Executive) **SC Mildenhall** B Com (Hons) CA (SA) CFA
IN Mkhize BSc MBA (Non-Executive)

COMPANY SECRETARY
CJ Hetherington B Com CA (SA)

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