

Q1



Quarterly Commentary

31 March 2003

ALLAN GRAY
LONG TERM INVESTMENT MANAGEMENT

Inside this issue

Comments from the Chief Operating Officer	1
Investment Perspective	
Be realistic, warns Simon Marais	2
Investment Commentary	
Long-term rising trend seen for gold price	4
New Product News	
Absolute return fund now on offer to South African investors	6
Legislative Changes	
Legislative changes affecting the retail investor	8
Gray Matters	
Optimal levels of service from Client Service	10
Allan Gray Performance	12
Allan Gray Products	14

Front cover: Some of the contributors to this issue are from left to right: Craig Bodenstab, Anne Mayers, Sandy McGregor

Mark Herdman
Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer



The first quarter of 2003 has seen global stockmarkets and our local stockmarket fall by -4,9% (MSCI Index expressed in US\$) and -16,3% (All Share Index in Rands) respectively. This is after a decline in the MSCI Index of -19,5% and the All Share Index of -8,1% in 2002. Understandably investors are feeling shell shocked and undecided as to what to do. In 'Investment Perspective' Simon Marais, our Chairman makes the point that in order to invest successfully, an investor must start by setting realistic expectations and goals. He then gives his view on realistic expectations. He concludes that after a long period of disappointing returns in the stockmarket we are currently able to find a large number of attractively priced shares, indicating that the overall stockmarket is reflecting better value now than it has for years and therefore should deliver long-term returns significantly higher than inflation.

Investment Commentary

Director, Sandy McGregor and our Chief Investment Officer, Stephen Mildenhall, take a long-term view on gold. After experiencing a bear market since 1980, the gold price has turned up strongly. Although it is notoriously difficult to predict, after looking at the favourable supply and demand fundamentals for gold as well as increased investor demand due to concerns about the stability of the global financial system, they conclude that it is possible that we are in for a long period where the gold price will be on a rising trend.

New Product News

Craig Bodenstab, Head of Global Trading at Orbis, discusses the recent approval granted

by the Financial Services Board (FSB) for the Orbis Optimal (US\$) Fund to be marketed and distributed by Allan Gray Unit Trusts in South Africa. Essentially the Fund attempts to remove the unpredictable element of the stockmarket's return from the portfolio leaving the value added by Orbis through its share selection skills. This approach has delivered long-term returns well in excess of global share and bond indices as well as bank deposits with considerably lower risk of loss than that of the stockmarket as a whole. Craig then shows how incorporating Orbis Optimal into a typical portfolio can, not only significantly increase the portfolio's return, but also decrease the risk of loss.

Legislative Changes

Turning to retail, we focus on the many legislative changes affecting the unit trust investor. The new Acts aim to enhance transparency, simplify pricing and improve relationships between the Management Company and the client. The primary objective of the Acts is the protection of clients and therefore proper disclosures are required.

Gray Matters

In 'Gray Matters', we feature our retail client service team - the personalities behind the phones! Optimum levels of service has always been high on our list of priorities at Allan Gray and here it is no different. Head of Retail Client Services and Administration, Anne Mayers, explains how she ensures that a superior standard of service is maintained with all our clients.

Investment Performance

In a very difficult quarter for investors, our

investment team continued to deliver superior performance across most of our clients' mandates. This is of little cheer though to investors who experienced negative returns. Given the strong positive returns delivered last year, all of our clients' mandates (except for foreign-only and equity-only relative) still show positive returns over one year whilst their benchmarks are all negative. Our investment approach of selecting shares that represent fundamental value has provided a lower risk of loss whilst delivering superior returns. For equity-only mandates for retirement funds the one year return to 31 March 2003 was 7,9% versus -27,2% for the All Share Index. Over the first quarter the returns were -11,9% versus -16,3% for the All Share Index.

While we cannot predict performance in the short-term we are excited about the value we can find in the local and select global stockmarkets and therefore feel confident that our clients should enjoy returns significantly in excess of inflation over the longer-term.

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

With kind regards

Mark Herdman
Chief Operating Officer

Simon Marais

Non-Executive Chairman, Allan Gray Limited
Equity Analyst

Investment Perspective

Be realistic, warns Simon Marais



Executive Summary

Allan Gray Chairman, Simon Marais, provides some key pointers to assist you in the making of sound investment decisions. He warns that it is unrealistic and dangerous to assume real returns of 10 to 20% per annum after tax. First, make sure you at least get your capital back after adjusting for inflation. Thereafter, if you achieve a 3 to 5% real return on your money over an extended period, you are doing well. One way of doing this in the medium-term, is to invest in a low risk fund like the Allan Gray Stable Fund. For long-term investors, Marais says the best opportunity for real returns lies in the stockmarket. But he cautions against using historic returns as a guide for the future. Allan Gray has identified a number of sound companies that will bring you real returns that may increase significantly as the investing public comes to realise their value.

Everyone reading our quarterly comments is probably in the fortunate position of either having money invested or money to invest. This money usually plays a very important part in future plans for retirement, children's education or buying a house. The fact that government finances worldwide are under strain increases the need for individuals to become responsible for looking after themselves.

When planning for future events such as retirement, there are two factors that

determine the amount of money that will ultimately be available: the amount of money initially invested and the investment return achieved on that money. At Allan Gray we can do nothing about the amount of money you have available to invest, but with a long-term investment, the effect of compounding returns makes a dramatic difference to the ultimate available investment pool and thus potential lifestyle of an investor. An extra annual return of 3% per annum achieved over a 30-year period will leave an investor with a final amount 150% higher than would otherwise be the case, i.e. the difference between a potential monthly income of R5 000 and R12 500. While we all strive for the extra return, it is important to note that the power of compounding also works in reverse. Falling short by 3% p.a. over 30 years would leave a retiree with only R2 000 per month rather than R5 000.

Yet we often find that people spend less time doing background research on their investment options than they would do on selecting a new car.

Proper investment of your hard-earned money is one of the most important

decisions you have to make. Yet we often find that people spend less time doing background research on their investment options than they would do on selecting a new car. Given that, I devote the balance of this commentary to arriving at a few pointers, in everyday language, to assist our investors with this very important, but difficult decision.

An investor who achieves a 3 to 5% real return on his or her money over an extended period is doing well.

To invest successfully, an investor must have realistic expectations and goals. Unfortunately, I have seen many retirees almost destitute because they aimed for unrealistically high returns, but were in fact (often unknowingly) assuming very high risk. So what level of reward/risk should a long-term investor expect? First, the downside. I think investors should always try to ensure that they at least get their invested capital back after adjusting for inflation. While this may seem a very low target, a large number of investors worldwide have learnt to their cost that this is not always so easy to attain. Now for the upside. Investors who achieve a 3 to 5% real return on their

money over an extended period are doing well. While we will always aim for more at Allan Gray, it must be remembered that the returns we achieved over the past few years are exceptional.

To illustrate my point, one dollar invested at the start of the previous millennium (about \$20 000 in today's money) and achieving a return of 5% per annum over the thousand-year period would result today in an amount of money, which exceeds the world's Gross National Product (GNP) millions of times. Even 5% per annum over very long periods has thus proved impossible. To assume a real return of 10 to 20% per annum for investment money is unrealistic and dangerous.

A major problem for investors worldwide is that bank deposits give almost no real (in some countries nominal) returns. This is also true in South Africa, especially after tax. This provides short- to medium-term investors with a dilemma which we at Allan Gray aimed to solve with the introduction of the Stable Fund, which has a low risk of loss but which we expect to yield a real return after tax over the medium-term. So far, results have been encouraging.

For long-term investors the best opportunity for real returns is in the stockmarket. The trick is to recognise when the market offers the prospect of decent real returns with limited long-term risk as opposed to where most stock investments amount to no more than speculation, but with limited long-term returns. Most investors and advisers use recent historic returns as a guide for the future. This gives exactly the wrong result. After a strong rise in prices (such as we experienced in South Africa up to early 1998 or in the US technology market up to March 2000) historic returns will be high. It is exactly at those points that stock prices have risen far beyond their intrinsic value,

leaving little scope for return and coupled with significant risk.

An understanding of how much companies are really worth, and not what we think someone will pay for them next quarter, is the cornerstone of Allan Gray's business.

The potential long-term returns in the stockmarket depend on how much you pay for shares relative to the real, underlying value of the companies whose ownership these shares represent. An understanding of how much companies are really worth, and not what we think someone will pay for them next quarter, is the cornerstone of Allan Gray's business. At the moment we see a number of companies with decent management, sound balance sheets and honest accounts that are trading at less than ten times this year's earnings and are yielding dividends of around 5%. Given these companies' histories and the fact that they are typically retaining 60 to 70% of their income to re-invest in the business, we would expect their earnings at least to keep up with inflation, if not a little more. An investor at current prices thus gets a 5% tax-free dividend plus a business whose underlying earnings' power (and thus long-term value) grows at inflation plus a little. This represents sound investment value in our opinion.

Additional returns may eventuate as the investing public comes to realise the value in these shares and bids the share price up. This will allow us to earn our long-term returns of more than 10% real. But even if this does not happen, we are likely to realise

at least the 5% real return even though there may be fluctuations in the short- to medium-term.

In summary, after a long period of disappointing returns in the stockmarket, we are finding better value than we have for years. Any investor with a long-term horizon should consider a sizeable weighting in equities through the Allan Gray Equity Fund, or the Allan Gray Balanced Fund if he or she is a little more conservative. We would be very disappointed if these funds do not yield long-term returns significantly higher than inflation from this point in time.



Simon Marais

Sandy McGregor
Stephen Mildenhall

Director, Allan Gray Limited, Fixed Interest and Private Client Portfolio Manager, Commodity Analyst
Chief Investment Officer, Allan Gray Limited, Equity Portfolio Manager and Analyst

Investment Commentary

Long-term rising trend seen for gold price



Executive Summary

The selling off of excess gold reserves by central banks in the 1990s depressed the gold price, bringing serious threats to continuing mine production. Since 1999, however, the gold price has been rising again, reaching a six-year high of \$383 on 5 February 2003, for reasons outlined in this analysis. It is possible that a long period of a rising trend for the gold price lies ahead. Allan Gray therefore continues to favour selected gold shares.

Currently, the subject of gold is not only a topical issue but also one foremost on investors' minds. So what is the reasoning behind this renewed interest, how long will it last and what is Allan Gray's view?

Central banks hold 1,042 million ounces of gold, equivalent to about 10 years' consumption, a legacy of the era when the world was on the gold standard. During the 1990s increasing mobilisation of these reserves depressed the gold price. Official gold entered the market in two ways.

- Firstly, there were direct sales by central banks, which took the view that gold no longer was an appropriate reserve asset or, at least, that gold formed too large a proportion of their foreign exchange reserves.
- Secondly, as the price fell, gold mines made even larger forward sales in an

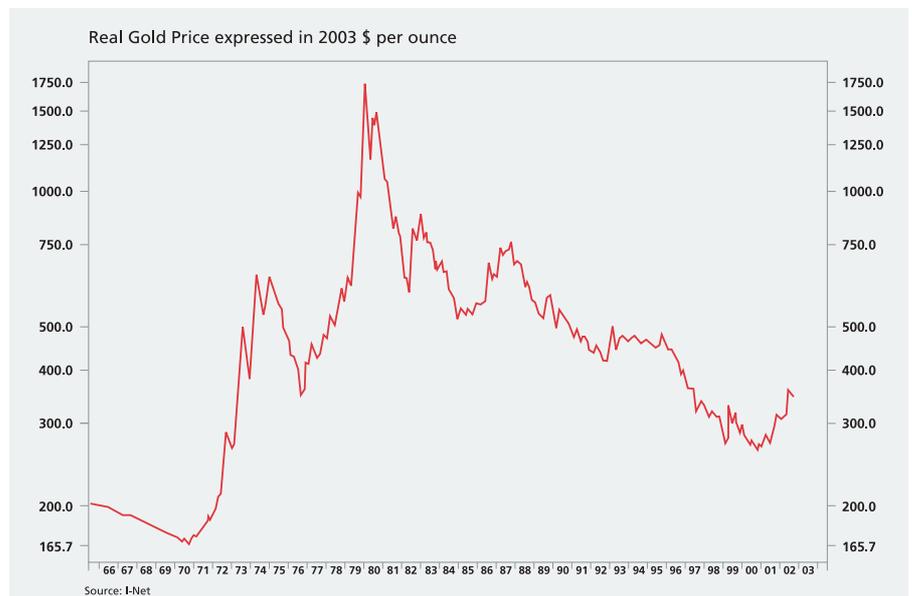
effort to protect their profits against what was perceived to be a perpetually declining price.

After 2008 production from existing mines will start declining precipitously and even higher prices will be required.

Forward sales involve borrowing gold from central banks and selling it on the spot market. By mid 1999, mines had sold

forward 108 million ounces, equivalent to 1.3 years' future production, and the price had fallen to \$260.

This situation was unsustainable because, at such low prices, mine production could not have been maintained for more than three or four years before falling dramatically. Currently, a price of at least \$350 is required to justify the development of new capacity to replace the continual depletion of reserves. After 2008 production from existing mines will start declining precipitously and even higher prices will be required.



In Effect, Gold Supplies Have Contracted

Since 1999 the gold price has been rising again, reaching a six-year high of \$383 on 5 February 2003. Initially, this was caused by the announcement of an agreement among European central banks to co-ordinate their selling programmes so as not to depress the price. More importantly, the mining industry was forced by shareholder pressure, and a change in the attitude of bullion banks to the credit worthiness of gold producers, to reverse their policy of selling forward. Last year over 11 million ounces were delivered into hedges, effectively reducing new mine supply by that amount.

Whereas previously mining companies were selling more gold than they produced, now the situation has reversed with a significant proportion of output being unavailable for sale to consumers. This has been the most important cause of the upward trend in the price and is likely to continue to have a positive effect on gold for some time to come.

Given the scale of the world's problems, it is possible that we are in for another long period where the gold price will be on a rising trend.

Investors Seek Out Gold

Recently the improving fundamentals for gold have been reinforced by a renewed interest in it as an investment asset. In the two decades following 1980 investors were net sellers of gold. This has now changed. Central banks in the U.S., Europe and Japan have pushed interest rates to the lowest levels since the 1930s, in an effort to prop up global growth. Monetary policy is extremely lax and fiscal deficits are

ballooning. The \$500bn US current account deficit is particularly worrying for the Dollar but there is also a lack of confidence in the Euro and the Yen.

It is not surprising that the weaker dollar and concerns about the stability of the global financial system have generated renewed interest in gold as a store of wealth and, with interest rates so low, it has never been cheaper to hold gold.

The global bear market has made investors cautious about equity markets. Even bonds seem more risky following the collapse of some large corporations. It is not surprising that the weaker dollar and concerns about the stability of the global financial system have generated renewed interest in gold as a store of wealth and, with interest rates so low, it has never been cheaper to hold gold. The last great gold bull market was driven by similar concerns and lasted 10 years between 1970 and 1980. Given the scale of the world's problems, it is possible that we are in for another long period where the gold price will be on a rising trend.

Although the gold price is notoriously difficult to predict, our view is that the background has become very favourable for the metal.

A Favourable Scenario

In conclusion, gold, after being in a bear

market since 1980, has now turned up strongly. Although the gold price is notoriously difficult to predict, our view is that the background has become very favourable for the metal. Notwithstanding its recent rise, the real gold price is not high in the context of its history since the end of the Bretton Woods System in 1971 (which pegged gold at \$35 per ounce). It is presently at the same value it traded at in 1973 and less than 25 per cent of the real value it attained in 1980. Importantly, it holds an inverse relationship with world financial markets and provides a risk diversification for portfolios. Accordingly, we continue to favour selected gold shares.



Stephen Mildenhall

Craig Bodenstab
Head of Global Trading, Orbis

New Product News

Absolute return fund now on offer to South African investors



Executive Summary

The Bermuda based Orbis Optimal (US\$) Fund is the first international absolute return fund to be granted permission by the Financial Services Board to be marketed to South African investors. In such a fund, as Craig Bodenstab explains, returns are driven principally by the skill of the investment manager, not by the return of a particular asset class such as shares or bonds. This means that whether markets are up or down is irrelevant to whether Orbis Optimal makes money for its clients in the long-term. By including the Orbis Optimal (US\$) Fund in a typical balanced portfolio, investors have the potential to reduce their portfolio's risk, while at the same time enhance their return.

The Orbis Optimal Fund is managed in the same manner as the Allan Gray Optimal Fund but on an international platform

Introduction

We have been managing the Orbis Optimal (US\$) Fund for over 13 years with respectable gains, but only recently began marketing this new product to South African investors. Clients who are familiar

with the domestic Allan Gray Optimal Fund will be familiar with the Orbis Optimal Fund as it is managed in the same manner but on an international platform. We hope that this article will allow investors the opportunity to better understand the fund and help determine whether it is appropriate to be part of their investment portfolio.

What is the difference between an absolute return fund and a relative return fund?

An absolute return fund aims to provide its investors with positive returns, regardless of the return generated by any particular asset class, while the more familiar relative return fund aims to provide a return that exceeds the return provided by its asset class. Unlike absolute return funds, relative return funds are generally less concerned whether the portfolio makes money or not but rather that the portfolio beats its asset class. Despite that objective, relative return funds generally perform very similarly to their asset class.

An equity portfolio's total return is a combination of the stockmarket's return, and the value added (or detracted) by the manager. As investors have become painfully aware over the past few years, stockmarkets as an asset class, are subject to potential large and enduring losses. Therefore, even if we can maintain our

historical 10% per annum pre fee outperformance, investors in our equity portfolios are likely to suffer losses at times.

Separating Skill and Chance

What if we could isolate our skill at selecting shares that outperformed stockmarkets over the long-term by removing that portion (positive or negative) of the portfolio's return that was directly attributable to the general stockmarket performance? This is precisely what Orbis Optimal does.

Orbis Optimal attempts to remove the unpredictable stockmarket return from the portfolio by selling stock index futures against our most attractive global shares. This combination of our most attractive shares and short futures leaves Orbis Optimal exposed to the difference in returns between these shares and their respective stockmarkets. Simply put, the performance of Orbis Optimal is driven by our ability as managers to buy shares that outperform stockmarket indices over the long-term.

Balanced Portfolios

Given that equities have provided investors with higher long-term returns than bonds and cash, why do investment advisors insist that we include bonds and/or cash in our portfolios? They do so because equities are subject to occasional significant losses. So, by selling some of the equities for bonds

and cash, which are much less subject to loss, the overall risk of the portfolio is reduced. Unfortunately, this risk reduction comes at the expense of the combined portfolio achieving substantially lower returns than an all-share portfolio.

Orbis Optimal plays an important part in building a more efficient portfolio.

Enhancing Balanced Portfolios

Another way of reducing the risk of a portfolio is to include an asset in the portfolio whose return is unrelated to that of the rest of the portfolio. If the assets being considered are bonds and cash, the portfolio will be less risky but its return will also likely be less, as cash and bonds tend to earn lower returns than equities over time. However, if the asset being considered has an expected return that is higher than bonds and cash, the combined portfolio may not only contain less risk but also higher prospective returns. This is in essence where Orbis Optimal plays an important part in building a more efficient portfolio.

The table below compares the return and risk statistics for the Orbis Optimal Fund, other major international asset classes (US\$ bank deposits, global equity funds and US\$ bonds), a typical balanced portfolio of 60% equities, 30% bonds and 10% cash and two hypothetical portfolios.

Orbis Optimal's low correlation with traditional asset classes, coupled with its potential for superior returns, has proved a powerful combination in portfolio construction.

The first hypothetical portfolio has Orbis Optimal included as 20% of an already established balanced portfolio and the second portfolio uses Optimal as a substitute for the 40% that would normally be bond and cash. The box highlights the hypothetical portfolios' return and risk characteristics compared to the other asset classes since Orbis Optimal's inception over 13 years ago.

Of particular note is the combined risk and return numbers for a traditional balanced portfolio of shares, bonds and cash, after you include Orbis Optimal in varying amounts. Orbis Optimal's low correlation with traditional asset classes, coupled with its potential for superior returns, has proved a powerful combination in portfolio construction. Incorporating Orbis Optimal into a typical balanced portfolio not only would have significantly increased the portfolio's return, but also decreased its risk of loss.

In summary, the Orbis Optimal Fund, and the recently launched Allan Gray Optimal Fund are our preferred vehicles for managing a portfolio's exposure to stockmarket risk. They can therefore be seen as an alternative or a supplement to bonds and cash within a balanced portfolio. The attraction of the Orbis Optimal type portfolio over bonds and cash is that it retains the potential for high real rates of return over time that can be earned by actively investing in equities without being exposed to the stockmarket risk overall.

	Total Returns* Cumulative		Maximum Loss	Annualised Monthly Volatility	Correlation vs World Index
	%	p.a	%	%	%
Orbis Optimal (US\$)	384	12.6	17	9.9	(0.1)
US\$ Bank Deposits	95	5.2	0	0.5	0.1
Average Global Equity Fund	45	2.9	47	12.7	0.9
Average US\$ Bond Fund	126	6.3	5	3.3	0.2
Traditional Balanced Portfolio**	75	4.3	26	7.9	0.9
80% Balanced Portfolio, 20% Optimal	118	6.1	13	6.5	0.8
60% Equities, 40% Optimal	161	7.5	15	8.4	0.7

* 1 January 1990 to 31 March 2003.

** The traditional balanced portfolio represents 60% Average Global Equity Fund, 30% Average US\$ Bond Fund and 10% US\$ Bank Deposits.

Richard Bedford
Helena Swart
Johan de Lange

Operations Manager, Allan Gray Unit Trust Management Limited
Compliance Officer, Allan Gray Limited
Director, Allan Gray Unit Trust Management Limited

Legislative Changes

Legislative changes affecting the retail investor



Executive Summary

Unit trust investors may have gathered that there have been a number of changes in the industry through the introduction of recent legislation. Most noticeable of these is the move to single pricing: in place of the previous method of calculating and listing buy and sell prices, a single price at which unit trust transactions take place is now shown. But there are many other changes flowing from three Acts which impact on the unit trust industry. This article summarises the key features of the Acts and how they affect you as an investor.

The need to protect the investor more extensively than has happened in the past and to provide clearer guidance on which to base investment decisions has led to the introduction of new legislation governing the unit trust industry.

The new Acts that are having an impact on our industry are:

1. The Collective Investment Schemes Control Act, which replaced the 22-year old Unit Trust Control Act and Participation Bonds Act from March 2003.
2. The Financial Intelligence Centre Act of 2001 whose main provisions have taken or are taking effect in 2003.
3. The Financial Advisory and Intermediary Services Act, signed by the President in November 2002 although its most

pertinent sections will only become effective on a date to be advised in the Gazette.

4. Income tax changes announced in the budget speech.

These new laws are aimed at changing the way institutions conduct themselves in the marketplace and at enhancing the disclosure of all information necessary for you to make an informed decision to buy or sell. They also seek to ensure that relationships between management companies and you, their client, are more transparent and that they know your needs better.

A more detailed analysis of each of the Acts follows.

1. Collective Investment Schemes Control Act (CISCA)

This Act provides an up to date legislative framework to control, regulate and supervise the collective investment schemes industry based on internationally accepted principles and best practice.

CISCA aims to make the local industry more competitive globally and thus boost South Africa as an investment destination.

Investor Protection

Investors in unit trusts have always been protected as assets are held in a trust separate from the managing company's assets. An independent trustee administers these assets on the unitholder's behalf.

Under CISCA, the trustee's duties are enhanced significantly. Investors are further protected from any negligence by the trustee through being able to claim for any loss or damages.

CISCA will also enhance transparency for investors. Before concluding a transaction with an investor, a manager must disclose details such as the fund's investment objectives, the method of calculating the net asset value and dealing prices, charges, risk factors, distribution of income accruals, and any other information necessary to make an informed decision.

These disclosure requirements are nothing new to Allan Gray's clients as we have always applied a policy of transparency.

Single Pricing

The new Act provides for a simplified method of pricing whereby costs such as trustee/custodian fees, audit fees, manager's annual service fee, regional services council levies, marketable securities tax, brokerage and bank charges will be paid by the fund. This will result in a single price (calculated by dividing the total asset value in the fund by the number of units in issue once permissible deductions such as those listed above have been made) based on the net asset value of the assets in the fund. The previous system of a buy and sell price has fallen away. This new method is in line with international practice.

Apart from simplifying pricing, the main benefit is greater transparency on fee disclosure. Investors will now be able to compare initial fees between funds more easily, as the fees will be disclosed separately from the price of a unit in a fund.

Client statements will also show a breakdown of fees between the manager and Financial Adviser although Allan Gray does not charge an initial fee on any of its unit trusts.

Protection from Over-exposure

Protection is enhanced with potential for better returns as a result. Limits have been set to protect investors from unnecessary risk arising from over-exposure to an individual share.

The old requirement that funds hold cash equal to 5% of the value of a portfolio will fall away, allowing funds to be fully invested and thus enhancing the prospect of greater returns, if sound investments are made.

Ring Fencing

Smaller investors are now protected against large withdrawals from a fund. Where this happens, assets may be ring-fenced and sold separately to repay the large withdrawal. This will ensure that a large withdrawal will not cause a liquidity problem or force the manager to sell assets at an inopportune time, thereby impacting on remaining investors.

Capital Requirements of the Management Company

A management company must have liquid assets to ensure there are sufficient resources to continue the operation for three months in the event of winding up.

2. Financial Intelligence Centre Act (FICA)

In terms of the Financial Intelligence Centre Act, 38 of 2001 an accountable institution such as Allan Gray may not establish a business relationship or conclude any transaction unless it has taken the prescribed steps to establish and verify the identity of the client and/or any person authorised to act as a representative of the client.

Records of identification, verification and of all transactions have to be kept for at

least five years from the date on which the business relationship is terminated or a single transaction is concluded.

FICA also provides that where a person knows or suspects that a suspicious or unusual transaction:

- is in any way linked to the proceeds of unlawful activities or money laundering;
- has no apparent business or lawful purpose;
- may be an evasion or an attempt to evade the payment of any tax, duty or levy to SARS;

he or she must report, within a prescribed period, the grounds for the knowledge or suspicion and the particulars of the transaction to the Financial Intelligence Centre. Failure to report a suspicious or unusual transaction is an offence and, on conviction, a person can face a fine of up to R10 million or imprisonment for a period up to 15 years.

Examples of information we now need to obtain to identify and verify clients include certified copies of ID documents in the case of individual clients and certified copies of company registration papers and Articles and Memorandum for companies.

The duty to report suspicious and unusual transactions in terms of section 29 came into effect on 3 February 2003, whereas the KYC ('know your client') and record-keeping provisions contained in the Act will become effective from 30 June 2003.

3. Financial Advisory and Intermediary Services Act (FAIS)

This Act regulates the rendering of financial services to clients over a large range of financial products. Providers need to be licensed, and professional conduct, which includes 'fit and proper' requirements for financial services providers (FSP's), is controlled through codes of conduct and other enforcement measures.

FAIS covers ground not previously regulated. In particular, it deals with furnishing advice on investing in financial products. The Act seeks to establish a new, properly regulated profession. Those who render other intermediary services mentioned in the Act

(e.g. management of investments) are presently regulated to a limited extent by other laws. FAIS will repeal these regulations where it now governs them. At the heart of the Act lies the protection of clients, and proper disclosures are therefore required.

Allan Gray is not registered to provide advice.

4. Income Tax Changes Announced in the Budget Speech

Exchange Control Amnesty

Trevor Manuel, in his Budget speech, announced an Income Tax and Exchange Control amnesty. This has far reaching consequences and gives South African resident taxpayers an opportunity to legitimise undisclosed offshore assets with a clear understanding of the costs of doing so.

In terms of the Income Tax amnesty, a taxpayer is released from all income taxes, interest and civil penalty and criminal sanction arising from the failure to disclose foreign income and capital gains from sources prior to 28 February 2002.

However, a 5% penalty will be levied in terms of the Exchange Control Amnesty on foreign assets repatriated to South Africa and a 10% penalty on foreign assets that are kept offshore.

Increase in Interest Income Exemption

Good news for investors in receipt of interest income is that the exempt component increases from R6 000 to R10 000 for individuals under the age of 65 and from R10 000 to R15 000 for individuals over the age of 65. Foreign interest and taxable foreign dividends will remain exempt up to an amount of R1 000 of the total exemption limit.

Offshore Investment Capacity

Institutional investors will be allowed to invest, on approval, up to an existing foreign asset limit. These foreign asset limits are 20% of total assets for unit trust companies. The previous restriction based on 10% of the prior year's net inflow of funds will no longer apply. The new dispensation will become operational 1 May 2003. Investors will be informed as soon as we have obtained approval to take advantage of the above.

Anne Mayers

Head of Retail Client Services and Administration

Gray Matters

Optimal levels of service from Client Service



Executive Summary

Head of Retail Client Services and Administration, Anne Mayers, discusses the recipe for the 'right' level of service to clients. After 12 years' contribution to Allan Gray, she compares her favourable impression that she had then and that of which she still has now. In achieving the goal of a happy client, Anne focusses her energy on ensuring that her team is equipped to manage and control the process from start to finish. We profile Anne and her team, their roles and responsibilities.

Many articles have been published over a number of years on what is considered to be the acceptable norm in delivering the 'right' level of service to clients across all industries the world over. Of course, opinions are wide and varied in their revelation of that wonderful secret ingredient which ultimately results in the recipe being a flop or a success. Do we at Allan Gray have all the right constituents in our mixing bowl that sets us apart from the rest?

My present impression of Allan Gray is exactly the same as it was when I joined the company in January 1991. My initial thoughts then embraced professionalism combined with a high standard of service. I was struck by the integrity and commitment of every staff member at

the time and, as our business has evolved to include retail products, my perspective has not changed. Embracing the private investor towards the end of 1998 added another dimension to the meaning 'service level' and has brought with it many new challenges and opportunities. Namely, to re-examine continually our effectiveness and efficiency in assisting our clients in a manner that is both reasonable and equitable to all parties involved in the transaction.

Number one in our long list of priorities is the client.

What is our objective and how do we ascertain that we are always performing at our peak and, in so doing, keeping our growing client base happy? Number one in our long list of priorities is the client.

- Was the client well received on first point of contact with Allan Gray?
- Did we provide the client with the right documentation to match investment choice?
- Was the documentation validated thoroughly by our administration team so as to prevent any delays in processing the application?
- Is the client's investment confirmation executed and mailed in a timeous manner?
- Do we have a happy client?

To achieve that goal we realise that the people who work for us are critical...

To achieve that goal we realise that the people who work for us are critical so we need to ensure that our staff is equipped to manage and control the process from start to finish. Efficient technology, an encouraging working environment, adequate resources and sufficient ongoing training in all aspects of the business are important in ensuring a mutually beneficial working relationship between the client and Allan Gray.

It is based on a well-entrenched, unfailing, age-old philosophy founded on Day One in June 1974 when Allan Gray, the company, was born.

However, even though every precautionary step is taken to incorporate these factors on a daily basis, some days have not been without their problems, and slippages have occurred. Of more importance is the attitude with which we have approached these problematic situations, the method adopted in the resolution thereof and the steps taken to prevent the error from occurring a second time. Also essential is

that this was handled by following the correct protocol to the benefit and satisfaction of our client.

The net result is that I am of the strong opinion that at Allan Gray we do have all the necessary ingredients to streamline continually what to date has been a successful 'service orientated' recipe for us. It is based on a well-entrenched, unflinching, age-old philosophy founded on Day One in June 1974 when Allan Gray, the company, was born.

Every day and every application is a challenge. No two days are the same. I enjoy adding value to staff and client experience with Allan Gray. Building a personal relationship is one of the most appreciated things we do for our clients.

The Client Service Team

Anne Mayers (SAIFM, AAUT) joined Allan Gray in January 1991 as a personal assistant to the head of research. In 1997 she took on the role of marketing coordinator, focussing primarily on the production of presentation material for existing and new clients. In 1998, Anne became involved in the preparations leading up to the formation of our unit trust company and, with the official launch in October 1998, refocused her energies as a client services consultant. She now heads up Client Services and Administration of all the retail products and ensures that a superior standard of service is given to all of our clients. This includes making sure that the

Client Services Centre personnel not only have a thorough understanding and knowledge of all of the products offered to the retail sector, but also that they are well-informed on all aspects of our entire business. Anne's effectiveness in heading up this team is evidenced by its rapid response to client queries, the availability of senior investment professionals to address any client enquiries and the 'open door' policy whereby clients are invited to visit our offices.

The Front Office is responsible for meeting with clients and handling all the incoming calls, which includes discussing our product selection in detail. In addition, they work with the Marketing Department to ensure that the website information is updated, respond to all emails received via our general information email address, supply product information to prospective clients through the applicable medium, produce ad-hoc statements and deal directly with all general client enquiries. Their main objective is to ensure sound knowledge of all retail products and all aspects of Allan Gray's business.

Front Office

Sean Haiden, Client Services Co-ordinator (of a team of five) has been working in the industry for 11 years. "I believe that Allan Gray's selection of investment products, although limited, adequately addresses three important risk profile categories (high, medium and low)". As a result, Sean and the team enjoy being able to add value to clients' portfolios by offering them intelligent investment solutions. They are proud to be a part of trusted personnel who are dedicated to providing superior investment performance and excellent service, and it is their belief that this is what sets Allan Gray apart in the competitive

financial industry. Landiwe Tybosch, Edward Adams, Adiel Slarmie and Juliet Molyneux complete the team.

Administration Teams

Lynelle Leng is the co-ordinator of the 'Alpha' team, which is primarily responsible for the processing of individual retirement products in addition to our local funds. She has 2 years' experience as a retail products portfolio administrator. "Every day and every application is a challenge. No two days are the same. I enjoy adding value to staff and client experience with Allan Gray. Building a personal relationship is one of the most appreciated things we do for our clients." Jacqui Manoek, Ismail Bardien, Athena Gabriels and Heidi Alson complete the team.

Julia Ellenberger is the co-ordinator of the 'Omega' team, which is primarily responsible for the processing of offshore business in addition to our local funds. She has 16 years' experience in the financial industry and enjoys interacting with people and problem solving. She has learnt that wisdom comes from experience. "Whether the experience was good or bad, you must take something positive and learn from it. The next step is to remember to pass on that knowledge as this is very important in the success of a team, business unit, company or life as a whole." Carlene Dodgen, Megan Olivier, Augustina Asafo-Adjei and Cara Abrahamse complete the team.

Jordri Smith focuses on IFA registrations and accreditation, and the compilation of daily sales report figures.

Natalie Hill is the administrative assistant responsible for the clerical processing across all our retail products. Together with Melicia August and Anieq Samsodien, they form a hard-working trio.

Performance

ALLAN GRAY LIMITED SHARE RETURNS vs ALL SHARE INDEX

Period	Allan Gray*	All Share Index	Out/(Under) Performance
1974 (from 15.6)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003 (to 31.3)	-11.1	-16.3	5.2
ANNUALISED TO 31.03.2003			
From 1.4.2000 (3 years)	22.2	2.0	20.2
From 1.4.1998 (5 years)	29.9	3.3	26.6
From 1.4.1993 (10 years)	24.2	11.0	13.2
Since 1.1.78	29.7	19.7	10.0
Since 15.6.74	28.1	16.5	11.6
AVERAGE OUTPERFORMANCE			11.6
Number of years outperformed			22
Number of years underperformed			6

* Note: Allan Gray commenced managing pension funds on 1.1.1978. The returns prior to that date are of individuals managed by Allan Gray. These returns exclude income.

Note: Listed Property returns included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R12 363 585 by 31 March 2003. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R816 611.

ALLAN GRAY LIMITED PERFORMANCE PROFILE
Annualised performance in percent per annum to 31 March 2003

	First quarter (not annualised)	1 year	3 years	5 years	Since inception	Assets under management R millions
RETIREMENT FUNDS						
Global Balanced Mandate Mean of Consulting Actuaries Fund Survey*	-8.8 -9.2	3.9 -10.6	22.3 5.4	26.7 6.9	23.7 17.3	10,935.2 ¹
Domestic Balanced Mandate Mean of Alexander Forbes Domestic Manager Watch*	-8.4 -9.1	12.0 -6.3	19.3 6.2	27.5 7.6	24.0 17.4	9,124.9 ¹
Equity-only Mandate All Share Index	-11.9 -16.3	7.9 -27.2	20.2 2.0	26.8 3.3	19.4 10.6	8,296.8 ²
Global Namibia Balanced Mandate Mean of Alexander Forbes Namibia Average Manager*	-7.2 -9.2	4.0 -11.5	22.2 5.3	24.0 6.1	19.7 10.7	1,360.4 ³
POOLED RETIREMENT FUNDS						
Allan Gray Life Global Balanced Portfolio Mean of Alexander Forbes Large Manager Watch*	-8.4 -9.2	5.8 -11.9	- -	- -	20.5 3.6	1,272.6 ⁴
Allan Gray Life Domestic Balanced Portfolio Mean of Alexander Forbes Domestic Manager Watch*	-9.4 -9.1	10.0 -6.3	- -	- -	10.8 0.2	1,619.4 ⁵
Allan Gray Life Domestic Equity Portfolio All Share Index	-12.6 -16.3	7.2 -27.2	- -	- -	17.0 -4.2	482.8 ⁶
Allan Gray Life Domestic Absolute Portfolio Mean of Alexander Forbes Domestic Manager Watch*	-9.1 -9.1	29.4 -6.3	- -	- -	25.9 -0.1	214.7 ⁷
Allan Gray Life Domestic Stable Portfolio Alexander Forbes Three Month Deposit Index plus 2	0.0 3.8	15.1 15.0	- -	- -	15.4 14.3	56.8 ⁸
RELATIVE RISK						
Equity-only Mandate Resource adjusted All Share Index	-15.4 -16.3	-14.2 -25.8	- -	- -	14.4 0.4	1,226.5 ⁹
FOREIGN-ONLY (RANDS)						
Orbis Global Equity Fund (Rands) Morgan Stanley Capital Index (Rands)	-19.6 -11.8	-47.5 -46.3	6.8 -12.5	16.9 3.8	20.9 13.5	870.7 ²
Global Balanced Mandate (Rands) - Foreign Component Mean of Consulting Actuaries Fund Survey (Rands) - Foreign Component*	-12.6 -8.9	-28.4 -33.8	33.6 0.9	27.8 11.0	20.1 13.8	1,815.2 ¹⁰
UNIT TRUSTS **						
Stable Fund Benchmark***	****	12.0 10.5	- -	- -	46.9 27.2	549.6 ¹¹
Balanced Fund Average Prudential Fund	****	5.1 -8.5	18.0 4.1	- -	99.9 28.8	1,976.9 ¹²
Equity Fund All Share Index	****	5.6 -27.2	17.5 2.0	- -	333.5 72.5	2,207.8 ¹³

* The returns for Quarter 1, 2003 are estimated from various indices as the relevant survey results have not yet been released.

** The returns for the unit trusts and their respective benchmarks are net of investment management fees.

*** After tax return of call deposits plus two percentage points.

**** Unavailable due to AUT Regulations.

Inception Date: ¹1.1.78 ²1.1.90 ³1.1.94 ⁴1.9.00 ⁵1.9.01 ⁶1.2.01 ⁷6.7.01 ⁸1.12.01 ⁹19.4.00 ¹⁰1.7.96 ¹¹1.7.00 ¹²1.10.99 ¹³1.10.98

Unit trusts are medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio. A schedule of fees and charges and maximum commissions is available from the management company/scheme. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Member of the AUT. Performance data is based on a lump sum investment calculated on a sell to sell basis with distributions reinvested for the Class A units. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. The source of the figures quoted is the University of Pretoria's Unit Trust Survey for the period ending 31 March 2003.

The FTSE/JSE Africa Index Series is calculated by FTSE International Limited ("FTSE") in conjunction with the JSE Securities Exchange South Africa ("JSE") in accordance with standard criteria. The FTSE/JSE Africa Index Series is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE Africa Index Series index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved.

Products

SEGREGATED PORTFOLIOS

RETIREMENT FUND INVESTMENT MANAGEMENT IN SOUTH AFRICA
Allan Gray manages large retirement funds on a segregated basis where the minimum portfolio size is R200 million. These mandates are exclusively of a balanced or asset class specific nature. Portfolios can be managed on the preference of an absolute or relative risk basis.

RETIREMENT FUND INVESTMENT MANAGEMENT IN NAMIBIA
Allan Gray Namibia manages large retirement funds on a segregated basis.

PRIVATE CLIENTS
Allan Gray manages segregated portfolios for individuals where the minimum portfolio size is R20 million.

NAMIBIAN POOLED PORTFOLIO - ALLAN GRAY NAMIBIA INVESTMENT TRUST

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

POOLED PORTFOLIOS - LIFE COMPANY

(The minimum investment per Life Company client is R20 million)
Characteristics and objectives of Allan Gray's Pooled Portfolios

RISK-PROFILED PORTFOLIOS

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

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

ASSET CLASS PORTFOLIOS

	MONEY MARKET	BOND MARKET	LISTED PROPERTY	EQUITY	FOREIGN
Investor Profile	<ul style="list-style-type: none"> Institutional investors requiring management of a specific money market portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific bond market portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific listed property portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific equity portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific foreign portfolio.
Product Profile	<ul style="list-style-type: none"> Actively managed pooled portfolio. Investment risk is managed using modified duration and term to maturity of the instruments in the portfolio. Credit risk is controlled by limiting the exposure to individual institutions and investments. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Modified duration will vary according to interest rate outlook and is not restricted. Credit risk is controlled by limiting the exposure to individual institutions and investments. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Portfolio risk is controlled by limiting the exposure to individual counters. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Represents Allan Gray's houseview for a specialist equity-only mandate. Portfolio risk is controlled by limiting the exposure to individual counters. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Investments are made in equity and absolute return foreign mutual funds managed by Orbis. Represents Allan Gray's houseview for a foreign balanced mandate.
Return Characteristics/ Risk of Monetary Loss	<ul style="list-style-type: none"> Superior returns to the Alexander Forbes three-month Deposit Index. Low capital risk. High flexibility. Capital preservation. High level of income. 	<ul style="list-style-type: none"> Superior returns to that of the JSE All Bond Index plus coupon payments. Risk will be higher than the Money Market Portfolio but less than the Equity Portfolio. High level of income. 	<ul style="list-style-type: none"> Superior returns to that of the Alexander Forbes Listed Property Index (adjusted). Risk will be no greater than that of the benchmark and will be lower than the Equity Portfolio. High level of income. 	<ul style="list-style-type: none"> Superior returns to that of the JSE All Share Index including dividends. Risk will be no greater than that of the benchmark. Higher than average returns at no greater than average risk for an equity portfolio. 	<ul style="list-style-type: none"> Superior returns to that of the benchmark at no greater than average absolute risk.
Benchmark	<ul style="list-style-type: none"> Alexander Forbes three-month Deposit Index. 	<ul style="list-style-type: none"> JSE All Bond Index plus coupon payments. 	<ul style="list-style-type: none"> Alexander Forbes Listed Property Index (adjusted). 	<ul style="list-style-type: none"> JSE All Share Index including dividends. 	<ul style="list-style-type: none"> 60% Morgan Stanley Capital International Index, 40% JP Morgan Global Government Bond Index.
Fee Principles	<ul style="list-style-type: none"> Fixed fee. 	<ul style="list-style-type: none"> Fixed fee. 	<ul style="list-style-type: none"> Fixed fee. 	<ul style="list-style-type: none"> Fixed fee, or performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> No fee charged by Allan Gray. Unit prices of underlying mutual funds reflected net of performance fees charged by foreign manager.

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

OTHER PORTFOLIOS

OPTIMAL PORTFOLIO

Investor Profile	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Seeks absolute returns. Actively managed pooled portfolio consisting of shares and derivative instruments. Shares selected that offer superior fundamental value. Risk of shares underperforming the market is carefully managed. Stockmarket risk reduced by using derivative instruments.
Return Characteristics/ Risk of Monetary Loss	<ul style="list-style-type: none"> Superior returns to bank deposits. Little or no correlation to stock or bond markets. Low risk of capital loss. Low level of income.
Benchmark	<ul style="list-style-type: none"> Daily call rate of Nedcor Bank Limited.
Fee Principles	<ul style="list-style-type: none"> Fixed fee, plus performance fee based on outperformance of the benchmark.

Products (continued)

POOLED PORTFOLIOS - INTERNATIONAL

ORBIS GLOBAL EQUITY FUND

ORBIS OPTIMAL US\$ FUND

Type of Fund	ORBIS GLOBAL EQUITY FUND	ORBIS OPTIMAL US\$ FUND
Type of Fund	U.S. dollar denominated Equity Fund which remains fully invested in global equities.	U.S dollar denominated Fund, which invests in selected Orbis Equity Funds, by seeking absolute (i.e. positive) returns regardless of stockmarket trends.
Investment Objective	Aims to earn higher returns than world stockmarkets. Its benchmark is the FTSE World Index, including income. The Fund's currency exposure is managed relative to that of the benchmark.	This Fund seeks capital appreciation in its base currency, the US dollar, while offering a low risk global portfolio. The risk of loss of the Fund is reduced with stockmarket hedging. The Fund's currency benchmark is 100% US dollars.
Structure	Open-ended Bermuda mutual fund company (similar to unit trusts in South Africa).	Open-ended Bermuda mutual fund company (similar to unit trusts in South Africa).
Dealing Costs	None. No front-end fee (initial charge) or transaction charges (compulsory charge). Please note that this is not a Rand-dominated unit trust so a prospective investor is required to have funds offshore.	None. No front or back end load. No bid to offer spread.
Manager's Fee	0.5% - 2.5% per annum depending on performance.	0.5% - 2.5% per annum depending on performance.
Subscriptions/Redemptions	Weekly each Thursday.	Weekly each Thursday.
Reporting	Comprehensive reports are distributed to members each quarter.	Comprehensive reports are distributed to members each quarter.
Client Service Centre	Allan Gray Client Service Desk on 0860 000 654.	Allan Gray Client Service Desk on 0860 000 654.

INDIVIDUAL RETIREMENT PRODUCTS

RETIREMENT ANNUITY

PENSION OR PROVIDENT PRESERVATION FUND

LIVING ANNUITY*

Description	RETIREMENT ANNUITY	PENSION OR PROVIDENT PRESERVATION FUND	LIVING ANNUITY*
Description	<ul style="list-style-type: none"> Enables saving for retirement with pre-tax money. Contributions can be at regular intervals or as single lump sums Ideal for the self-employed or employees who want to make additional contributions to an approved retirement vehicle. 	<ul style="list-style-type: none"> Preserves the pre-tax status of a cash lump sum that becomes payable from a pension (or provident) fund at termination of employment. A single cash withdrawal can be made from the Preservation Fund prior to retirement. 	<ul style="list-style-type: none"> Provides a regular income from the investment proceeds of a cash lump sum that becomes available as a pension benefit at retirement. A regular income of between 5% and 20% per year of the value of the lump sum can be selected. Ownership of the annuity goes to the investor's beneficiaries on his/her death.
Investment Options The contribution(s) to any one of these products can be invested in any combination of Allan Gray unit trust funds as indicated.	<ul style="list-style-type: none"> Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Optimal Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds 	<ul style="list-style-type: none"> Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Optimal Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds 	<ul style="list-style-type: none"> Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Optimal Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds
Minimum Investment Size	R50 000 lump sum R1 500 monthly	R 100 000	R 250 000
Initial Fee	None	None	None
Annual Administration Fee	0.4% (VAT included)	0.4% (VAT included)	0.4% (VAT included)
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.
Switching Fee	0.12% (VAT included)	0.12% (VAT included)	0.12% (VAT included)
Financial Adviser Fees (if applicable)	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%

* Allan Gray Living Annuity is underwritten by Allan Gray Life Limited.

** For annual investment management fees of Allan Gray unit trusts, please refer to page 4 of the unit trust application form, which can be downloaded from the website www.allangray.co.za.

UNIT TRUSTS

Comparison of characteristics and objectives of Allan Gray unit trusts

	EQUITY FUND	BALANCED FUND	STABLE FUND	OPTIMAL FUND	MONEY MARKET FUND	GLOBAL EQUITY FUND OF FUNDS
Benchmark	All Share Index including income.	The average (market value-weighted) of the Domestic Prudential Unit Trust Sector excluding the Allan Gray Balanced Fund.	After tax return of call deposits with one of the large banks plus two percentage points.	The daily call rate of Firststrand Bank Limited.	The simple average of the Domestic Fixed Interest Money Market Unit Trust sector excluding Allan Gray Money Market Fund.	Morgan Stanley Capital International Index.
Maximum equity exposure	95%	75%	60%	15%	0%	95%
Portfolio orientation	A 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 equities. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.	Invested in selected money market instruments providing a high income yield.	Invested in the Orbis Global Equity Fund and the Allan Gray Money Market Fund. The fund will always hold 85% offshore.
Return objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns to bank deposits.	Superior returns to bank deposits.	Superior money market returns.	Superior long-term returns.
Risk of monetary loss	Risk higher than Balanced Fund but less than average General Equity Fund due to low risk investment style.	Risk will be higher than the Stable Fund but less than the Equity Fund.	<ul style="list-style-type: none"> • Limited capital volatility. • Seeks to preserve capital over any two-year period. 	<ul style="list-style-type: none"> • Low risk. • Little or no correlation to stock or bond markets. 	<ul style="list-style-type: none"> • Low risk. • High degree of capital stability. 	Risk higher than Balanced Fund but less than average foreign fund.
Target market	Investors seeking long-term wealth-creation who have delegated the equity selection function to Allan Gray.	Investors seeking long-term wealth-creation who have delegated the asset allocation decision to Allan Gray.	Risk-averse investors eg. investors in bank deposits or money market funds.	<ul style="list-style-type: none"> • Risk averse investors. • Retired investors. • Investors who wish to diversify a portfolio of equities or bonds. • Retirement schemes and Multi-Managers who wish to add a product with an alternative investment strategy to their overall portfolio. • Individuals who have lump sum contractual savings (like Living Annuities, Preservation Funds, and Retirement Annuities). 	<ul style="list-style-type: none"> • Highly risk-averse investors • Investors seeking a short-term parking place for their funds. 	Investors <ul style="list-style-type: none"> • seeking to invest locally in Rands and benefit from offshore exposure. • wanting to gain exposure to markets and industries that are not available locally. • who desire to hedge their investments against any Rand depreciation.
Income	Lowest income yield in the Allan Gray suite of funds.	Average income yield in the Allan Gray suite of funds.	Higher income yield than the Balanced Fund in the Allan Gray suite of funds.	Low income yield.	Highest income yield in the Allan Gray suite of funds.	Low income yield.
Income distribution	Distributed bi-annually.	Distributed bi-annually.	Distributed quarterly.	Distributed bi-annually.	Distributed monthly.	None.
Compliance with Pension Fund Investment Regulations	Does not comply.	Complies.	Complies.	Does not comply.	Complies.	Does not comply.
Pricing	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.
Fee principles	Performance-fee orientated to outperformance of the JSE All Share Index.	Performance-fee orientated to outperformance of the average Prudential Sector Fund.	Performance-fee orientated to outperformance of taxed bank deposits. No fees if there is a negative return experienced over a two-year rolling period.	Fixed fee of 1.0% (excl VAT) per annum. Performance-fee of 20% of the daily outperformance of the benchmark. In times of underperformance no performance fees are charged until the underperformance is recovered.	Fixed fee of 0.5% (excluding VAT) per annum.	Fixed fee of 1.25% (excluding VAT) per annum. The underlying funds also have their own fee structure.
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.	R50,000 lump sum and/or R5,000 per month debit order.	R25,000 lump sum. No debit orders are permitted.
Portfolio Manager	Stephen Mildenhall	Arjen Lugtenburg	Stephen Mildenhall	Stephen Mildenhall	Michael Moyle	Stephen Mildenhall

ALLAN GRAY LIMITED

Registration Number 1992/006778/06 Granger Bay Court Beach Road V&A Waterfront Cape Town 8001
P O Box 51318 V&A Waterfront Cape Town 8002 South Africa Tel 021 415 2300 Fax 021 415 2400
www.allangray.co.za info@allangray.co.za

DIRECTORS

A W B Gray B Com CA (SA) MBA CFA Hon LLD (Non-Executive) **W B Gray** B Com MBA CFA (Non-Executive) (Irish)
M Herdman M Com CFA **E D Loxton** B Com (Hons) MBA **J A Lugtenburg** M Com CA (SA) CFA **A A McGregor** B Sc BA (Hons)
S C Marais PhD CFA **S C Mildenhall** B Com (Hons) CA (SA) CFA **W J C Mitchell** B Com
S Moodley-Moore BA (Hons) MA PhD **F J van der Merwe** LLB MA (Non-Executive)

Company Secretary: **C J Hetherington** B Com CA (SA)

ALLAN GRAY UNIT TRUST MANAGEMENT LIMITED

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

ALLAN GRAY
LONG TERM INVESTMENT MANAGEMENT