

Q2



Quarterly Commentary

30 June 2003

ALLAN GRAY
LONG TERM INVESTMENT MANAGEMENT

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Front cover: Some of the contributors to this issue are, from left to right: Ian Liddle, Zola Lupondwana, Heaton van der Linde

Mark Herdman
Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer



In the second quarter of 2003, world stockmarkets and our local stockmarket staged a recovery with a rise of 17.2% (MSCI Index expressed in US\$) and 9.7% (All Share Index in Rands) respectively. The world index now shows a positive return for the year to date but is still some 40% off its peak in 2000. Our local stockmarket still reflects a negative return for the year to date and is 29% off its 2002 peak.

In 'Investment Perspective' Jack Mitchell, our equity strategist, reiterates the point that at Allan Gray we have significantly higher confidence in choosing winning shares than in betting on the next direction of the economy or stockmarket. He adds that, despite market volatility, if fundamentally undervalued shares are selected, their true value will eventually emerge.

Investment Commentary

To give further insight into the current valuation of our local stockmarket, Arjen Lugtenburg, one of our Equity Portfolio Managers, argues that at current levels it makes good business sense to be invested in shares. He reasons that shares, from current prices, should generate an acceptable real return and should outperform bonds.

In a second article under 'Investment Commentary', Ian Liddle, an equity analyst, identifies a number of 'growth' companies that are trading at well below his assessment of their fair value, and that are represented in our clients' portfolios. He also expresses a view that most equity investors have

expectations for earnings growth that are unrealistically high and explains why companies grow slower than their retained earnings suggest they should.

Institutional Update

We introduce our institutional client servicing team in 'Institutional Update' and highlight some of the differences between our approach to servicing our clients and those of other asset managers. In report-backs we tend to focus on specific shares in our clients' portfolios rather than top down macro-economic variables. Also, all of our team have equity analyst responsibilities which keeps them right on top of our current investment thinking.

Retail Update

Turning to retail, Johan de Lange, a Director of our Unit Trust Management company, gives guidelines to follow as part of an investment planning process before selecting a fund in which to invest. Barend Ritter, Head of Retail Retirement Products, then provides a comparison of the fees payable on a living annuity investment and alerts investors to the fact that the level of annual fees paid is far more important than the level of the initial fee.

Investment Performance

It is pleasing to report that our clients continue to enjoy superior performance. For the year to 30 June 2003, our global balanced mandate segregated institutional clients (largest client composite including all asset classes) earned 7.1% versus our

estimate of the average pension fund at -2.1%. Our equity-only mandate clients, over the same period, received 10.2% versus -18.7% for the All Share Index. We remain excited about the value we can find in local and select global stockmarkets.

On a personal note, on 3 July I announced that my family and I would be relocating to Sydney, Australia early in January 2004. I will keep a close connection with Allan Gray as I will be joining the newly established Orbis office. Greg Fury will be joining Allan Gray on 1 August as Deputy Chief Operating Officer and it is intended that he will replace me when I leave. (We will be profiling him in the next quarter's issue.) Greg's strategic and business analysis skills, together with his legal training and leadership qualities, will complement our existing management team and ensure that Allan Gray continues to meet its own high standard on behalf of its clients.

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

With kind regards

Mark Herdman
Chief Operating Officer

Jack Mitchell

Director, Allan Gray Limited

Chairman, Allan Gray Unit Trust Management Limited and Allan Gray Property Trust Management Limited

Investment Perspective

Picking shares



Executive Summary

Allan Gray's confidence in choosing winning shares is significantly higher than betting on the next direction of the economy or stockmarket. Shares that offer great intrinsic value are characteristically robust and their true value will emerge eventually despite market volatility. In our methodology, earnings over the next year do not constitute a large part of the valuation of a share.

At Allan Gray, our core competency has always been finding good value for our investors in the stockmarket. Not all our selections work out but the overall record since inception in 1974 has proved very rewarding for our clients. Our confidence in continuing to succeed on your behalf is fortified by this long history.

Timing markets

We are often asked about our outlook for the economy or markets in general. Any views we hold on these broad 'top down' subjects need to be accompanied by a financial 'health warning'. In short, our confidence in choosing winning shares is significantly higher than betting on the next direction of the economy or stockmarket. Also, we don't believe that selecting rewarding shares is necessarily dependent upon market timing. Shares that offer great intrinsic value are characteristically robust and their true value will eventually emerge despite market volatility.

Because our 'hit rate' on market timing is not special, we avoid consensus 'house views'. Essentially, our decision makers develop their own broad perspectives which impact only on the portfolios they manage. We believe this style of 'investment democracy' reduces risk in our clients' portfolios because they are not reliant on any single outcome.

Is there any crystal ball in the timing game? If the monetary powers that be in, say, Washington or Pretoria can influence spending patterns at the wave of a wand (or pen) by changing the cost of money, presumably this eventually impacts on markets. Remember their influence is predominantly over the short-term cost of

money. If lending rates are reduced, the cost of money in the short-term falls while long-term money (or bonds) may remain less affected. Naturally the difference between short rates and long rates (the 'yield curve') steepens, resulting in an economic stimulatory environment and vice versa when lending rates are increased.

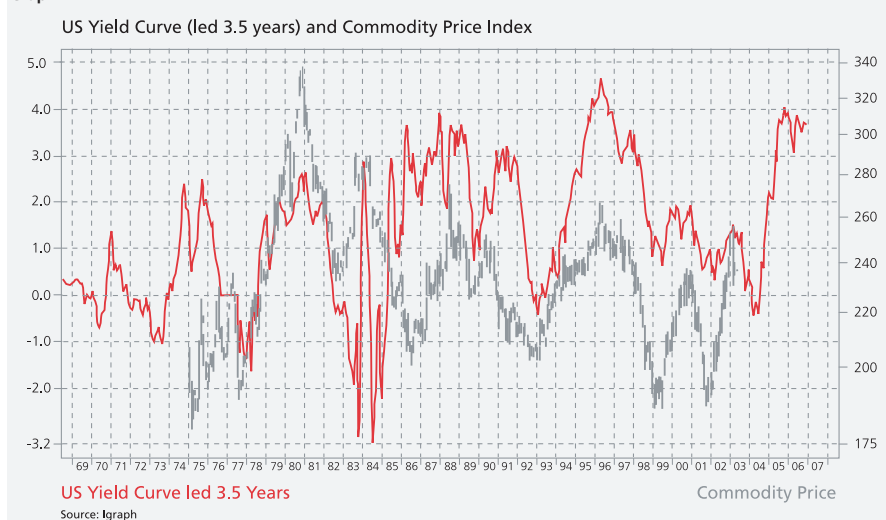
Testing the 'yield curve' as a lead indicator as to what to expect in markets is fruitful.

I show four examples that may be of interest to our investors.

Graph 1

On the eye, the relationship looks very good but note the lead-time is a long 42 months.

Graph 1



Remember commodity prices are particularly influenced by fixed investment, which gets going only when capacity utilisation is very high at the tail end of an economic upswing. Hence the significant three and a half year lag.

If the indicator remains valid, commodity prices should show strength in the latter half of 2004 and through 2005.

Graph 2

Once again the relationship looks fairly solid with the yield curve influencing sales a year later. Look for weaker retail sales over the next twelve months.

Graph 3

This correlation looks best with a two-year lead. Short rates are likely to drop for the next two years.

Graph 4

Best fit here appears to be about 18 months. Expect weak earnings right through to the end of 2004.

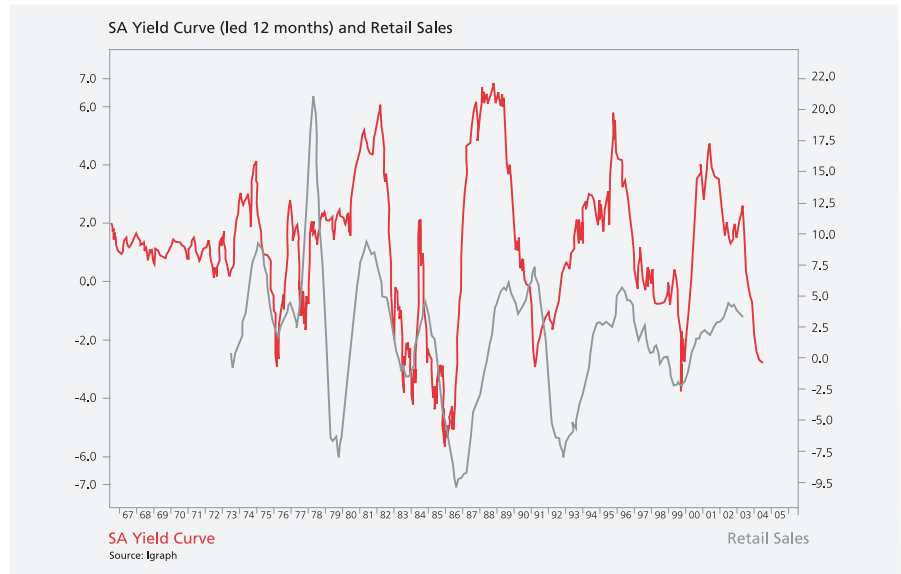
We don't believe that selecting rewarding shares is necessarily dependent upon market timing.

It might seem strange that we currently prefer domestically orientated shares, given the expectation of a weak earnings patch immediately ahead. In our methodology, earnings over the next year do not constitute a large part of the valuation of a share. Therefore very attractive valuations are unlikely to be much influenced by a weak trading period, which as we mentioned above, is in itself less reliable than our valuations.

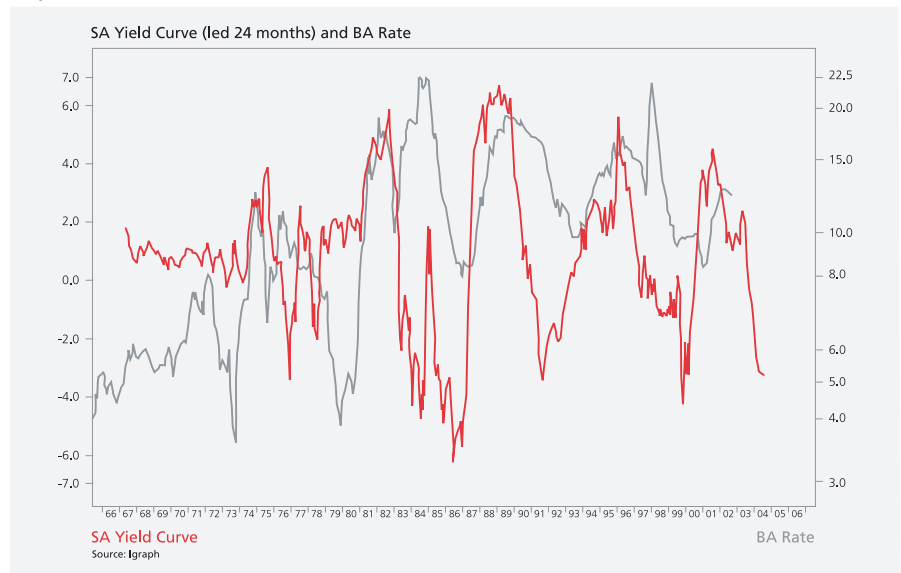
Does monetary policy have less traction nowadays?

Whether the relationships reflected will hold true in coming years is uncertain. For instance, stimulatory monetary policy appears less effective in periods of low inflation (e.g. currently USA) and deflation (e.g. currently Japan). Note South Africa's inflation is still relatively high but falling. So while I wouldn't bet against the expectations, I wouldn't bet the house on them either.

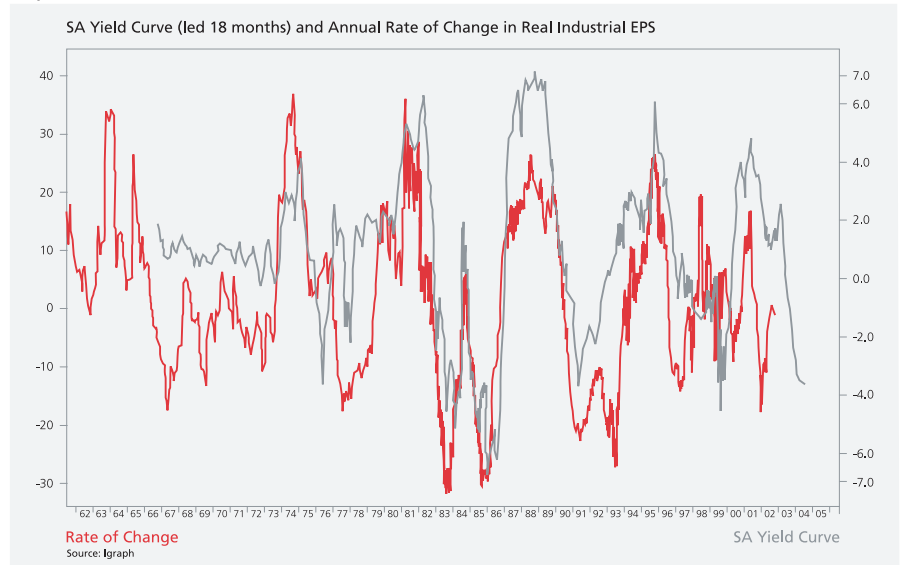
Graph 2



Graph 3



Graph 4



Arjen Lugtenburg

Director, Allan Gray Limited
Equity Portfolio Manager and Analyst

Investment Commentary

Does an investment in shares currently make business sense?



Executive Summary

Many investors, after having their fingers burnt in recent years, are questioning the wisdom of returning to the stockmarket. After looking at the recent behaviour of businessmen and reviewing the prospects of shares as an asset class, Arjen Lugtenburg concludes that they will yield better returns than bonds over the next five years. Add to this Allan Gray's stock-picking abilities and a return to the market makes good business sense.

After dreadful returns over the previous few years, numerous savers are questioning the wisdom of investing a portion of their funds in shares. In prior publications and on our website, we have described our investment philosophy as being business orientated. Investing in shares merely represents the acquisition of a small portion of the ownership of the underlying business. Collectively, all the shares of a company represent the full ownership of that company. The decision whether or not to buy shares in a company is essentially the same decision a businessman faces when considering whether to buy the entire business.

A rational businessman should be willing to buy a business up to a price where the future cash flows from that business are expected to yield a competitive return on his investment over the longer term.

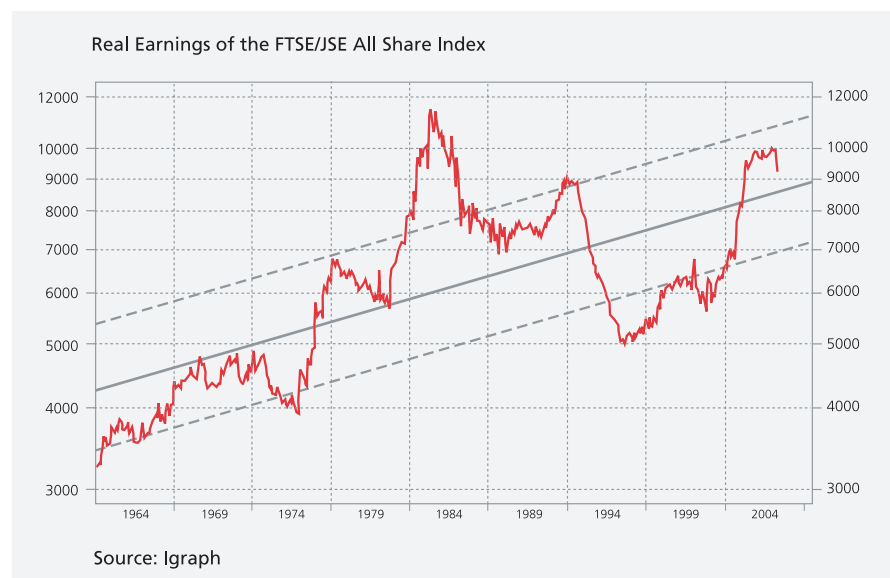
The businessman hopes to receive this return through a growing flow of distributions from the company (dividends), after it has retained the necessary funds needed to maintain its business and fund future growth. In other words, this return is equal to the initial dividend yield on the investment plus the expected growth rate of these dividends.

Buy-outs point the way

One way to determine if businessmen would buy shares at current prices is to look at their behaviour. Since 1 January 2002, 112 companies have been delisted from the JSE.

Admittedly, some of these are failures from the 1997/8 listings boom, but a large number are viable long-term businesses that have been taken into private ownership i.e. the managers or other businessmen are buying them. This action implies that investors should also be looking to buy sound shares.

Alternatively, we could estimate the long-term returns expected from an investment in shares and compare these with anticipated returns from alternative investments. Just as all the shares in a company collectively represent its full



ownership, the FTSE/JSE All Share Index (ALSI) represents all the companies listed on the JSE. Therefore, in order to form an opinion on shares as an asset class, it makes sense to review the prospects for the ALSI.

The graph on page 4 depicts the underlying earnings of the ALSI, i.e. the earnings for the average company included in the index at any particular point in time. This earnings series has been adjusted to remove the effects of inflation and the series now reflects historic earnings in current Rands. The growth we see in this series therefore represents real growth.

Therefore, expect shares to yield better returns than bonds over the next five years. Add to this Allan Gray's ability to enhance share returns through our stock-picking ability (11.4% per annum higher return over the previous 29 years), and investing in shares currently makes good business sense.

Note the extreme volatility of this earnings series. Investors in the stockmarket are essentially buying into these future earnings streams. As an investor does not want to pay too much for these earnings when they are unsustainably high but is prepared to pay up when the earnings are at cyclical lows, it is important to understand where we are in the earnings cycle.

From the graph we can see how earnings growth accelerated during the 70s on the back of strong commodity prices and peaked in 1981 after the gold price reached \$850/oz. Earnings remained at high levels through the 80s due to a very protected

domestic economy and collapsed at the beginning of the 90s when import tariffs were slashed and the economy was opened up. During the 90s corporate South Africa restructured its businesses and the benefits became visible in company earnings towards the late 90s. The collapse of the Rand at the end of 2001 gave earnings a further push, while the recent Rand strength is placing earnings under pressure. It is clear that a number of different variables tend to impact on company earnings at any point in time such as the business cycle, commodity prices, the exchange rate of the Rand and monetary and fiscal policy. However, over the longer term, the underlying trend tends to endure.

Determining the underlying trendline

Therefore, one way to try to look beyond this earnings cyclicality is to determine the underlying trendline of this series. We have fitted a trendline statistically to the earnings series as depicted by the solid black line on the graph on the opposite page. As a reality check, we can compare this trendline's 1.7% p.a. growth to economic growth, which has averaged 3.1% over this period. The index's lower earnings growth rate is very similar to observations in other markets and can be explained by the following factors:

- New companies continuously entering the economy.
- Under-depreciation due to inflation and technological obsolescence.
- The dilutionary effects of share option schemes, share issues and poor business deals.

Note that earnings are currently almost on the trendline and therefore no significant adjustment to earnings is necessary to depict a normal level. After a 14% recovery in May, the market was trading at 10 times earnings at the end of May. Over the long-

term, the domestic stockmarket has, on average, traded at 11 times earnings. To expect the market to rerate to this level over time would not be unreasonable. It is also fair to expect real earnings growth over the next few years to be in line with the historical trendline growth rate of 1.7%, given an economic growth expectation in line with the historic average of 3%.

As we already pointed out in paragraph 2, on page 4 the expected return from an investment is equal to its initial yield (dividend yield) plus its growth rate, plus or minus any rerating. Accordingly, an investment in the general stockmarket at current levels over the next five years should yield the following real return:

• Dividend growth	1.7%
• Rerating (PE from 10.0 to 11.0)	1.9%
• Current dividend yield	3.9%
Expected real return	<u>7.5%</u>

This expected future real return is not dissimilar to the return of 6.8% achieved by the SA stockmarket over the previous 100 years (see Quarterly Commentary 4, 2002, article by Jack Mitchell). This is not surprising seeing that, after the May recovery, our market is trading in line with long-term valuation levels and on normal levels of earnings. The expected real return for bonds can be ascertained from the inflation-linked bond (R189), which currently yields 3.9%. Should inflation average 5% over this period, which is not an unreasonable expectation, nominal expected returns for shares and bonds are 12.5% and 9% respectively.

Therefore, expect shares to yield better returns than bonds over the next five years. Add to this Allan Gray's ability to enhance share returns through our stock-picking ability (11.4% per annum higher return over the previous 29 years), and investing in shares currently makes good business sense.

Ian Liddle

Equity Analyst, Trainee Portfolio Manager

Investment Commentary (continued)

Investing in 'growth' companies



Executive Summary

Many equity investors have expectations for growth that are unrealistically high. Real earnings of the FTSE/JSE All Share Index (ALSI) have grown at only 1.7% per annum since 1960 and real dividends at only 1.5% per annum since 1900. Ian Liddle explains why companies grow slower than retained earnings suggest they should and illustrates this by examining the share performance of three leading companies. He goes on to identify a number of companies on the JSE that currently have a strong competitive advantage and superior growth prospects at attractive prices.

A long-term shareholder can expect a return on his investment roughly equal to the initial dividend yield on the share plus the long-term growth rate in dividends. Many equity investors are disappointed by the returns they achieve because they have unrealistically high expectations for the contribution of growth to their total return.

In Arjen Lugtenburg's article we saw that the real earnings of the FTSE/JSE All Share Index (ALSI) have grown at only 1.7% p.a. since 1960. ALSI real dividends have grown at 1.5% p.a. since 1900. This seemingly slow real growth is not peculiar to South Africa. In fact, South Africa ranks second only to Sweden in achieving the best real dividend growth rate amongst the world's major stockmarkets for the 100 years from 1900.* (See Graph 1) Real dividends in the US grew at only 0.6% p.a. over the past century.

In theory, companies should be able to grow much faster than the 1.5% – 1.7% achieved

in the past. South African companies typically pay out only 40% of their earnings as dividends; this leaves 60% of each year's earnings to be re-invested in the business. The average company claims to earn a return on equity (ROE) of around 20%. If each year's retained earnings are invested to earn this ROE, then earnings should grow at 12% p.a. in nominal terms or around 5% p.a. in real terms.

Reasons for slow growth

Why do companies grow markedly slower than the 5% real suggested by this theory? Three of the principal reasons are:

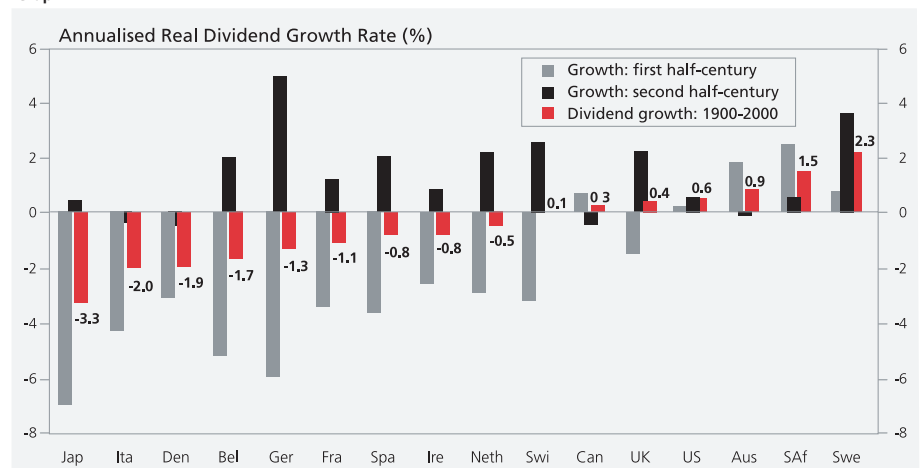
- Price inflation forces companies to utilise some of their retained earnings to invest in higher-priced working capital and fixed capital merely to sustain their existing operations instead of investing to increase the real productive capacity of the company.

- Most companies' products and services are eventually rendered obsolete by technological innovation or superior competition. This requires a large part of a company's retained earnings to be invested in modernising or re-inventing the business.
- Dilution of shareholders' interests by share option schemes and poor acquisitions.

Tiger Brands, Pick 'n Pay and SAB have been three of the most successful South African businesses over the last 20 years and their real earnings have grown significantly faster than those of the average company. (See Graph 2) However, the powerful forces of inflation and obsolescence act as a brake on the growth of even the best quality businesses.

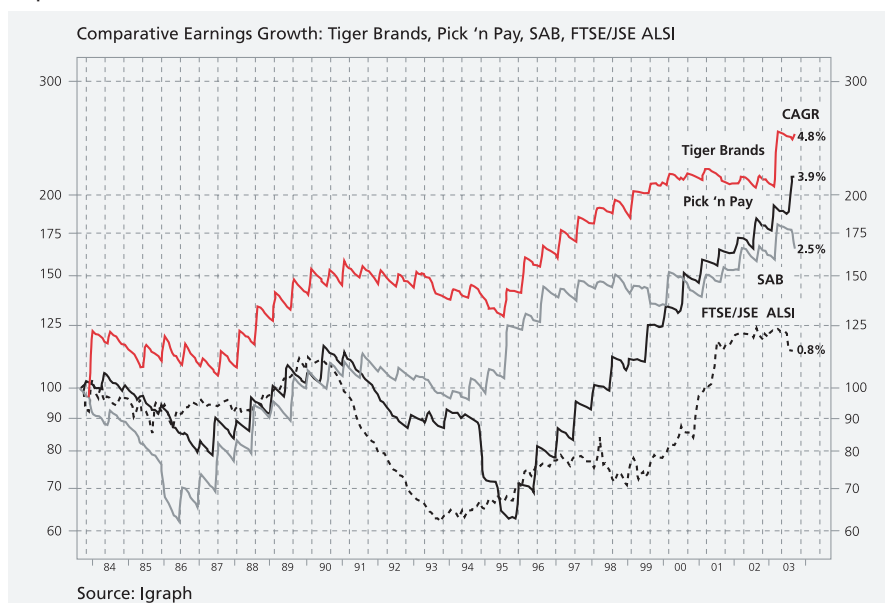
One can calculate the sum invested in these

Graph 1*



*Dimson, Marsh, Staunton; "Triumph of the Optimists: 101 years of Global Investment Returns." Princeton University Press, 2002.

Graph 2



businesses over the last 20 years as the real price paid for a share in 1983 plus the real value of all retained earnings since 1983.

Table 1 compares this sum invested with the current share price. Only Pick 'n Pay's current share price exceeds the sum invested. The current prices of Tiger Brands, SAB and the FTSE/JSE ALSI would have to increase by 39%, 28% and 67% respectively in order to match the sum invested. We believe that Tiger's current share price does not fairly reflect its intrinsic value and, if fairly priced, the share would match the sum invested. However, the main thrust of the table is that shareholders in even these great businesses have barely captured the full value of all retained earnings, let alone earned a return on them. The erosion of real retained earnings is far greater in average businesses as can be seen from the performance of the ALSI in **Table 1**.

Why investors overpay for shares

The above observations all boil down to this: investors frequently make the mistake of overpaying for a share because they are too optimistic about the growth prospects of a company. This can be attributed either to ignorance of these lessons of history or an over-estimation of the company's sustainable competitive advantage. Both of these errors were made in the extreme when ridiculously

high prices were paid for widely touted 'growth' shares such as Didata, Datatec, Fronrange and others during the 1997/8 bubble.

On rare occasions the market's over-optimism towards growth companies recedes, and value investors such as Allan Gray are able to acquire companies with a strong competitive advantage and superior growth prospects at attractive prices. Tiger Brands, Woolworths, AVI and Kersaf/SISA currently fit this description and are sizeable holdings in our clients' portfolios.

Three promising smaller companies

Most clients are now familiar with the investment case for these companies, but it is worthwhile to dwell on three smaller companies in our clients' portfolios which hold amongst the best long-term growth prospects on the JSE: Aspen, Aplitec and Fronrange. In all three cases, an investor should earn a reasonable return on the current share price even if the growth we expect in these businesses does not materialise. The expected growth provides significant upside potential to the patient investor.

Aspen has a dominant market share in the South African generic pharmaceutical market. This market share should continue to grow as

Aspen's extensive pipeline of new medicines is registered. Generic usage in South Africa will be fuelled by a new law requiring pharmacists to inform customers of cheaper generic alternatives to off-patent original drugs. Aspen has also signed a number of favourable co-marketing agreements with the multinational drug companies that are expected to contribute materially to future earnings. The capacity of the factory in Port Elizabeth is being expanded, and export opportunities may arise. We expect these growth opportunities to outweigh downward pressure on the prices of branded prescription generics. Yet Aspen can be bought for less than 10 times forward earnings.

Aplitec's UEPS (Universal Electronic Payment System) uses proprietary smart-card technology to facilitate the payment of wages, pensions and other benefits to (and the subsequent spending of these benefits by) the 'un-banked masses' for whom traditional banking services are costly and inaccessible. Aplitec is already proving the feasibility of its technology in South Africa, Malawi and Mozambique. It has the potential to become a widely used payment system in the world's emerging countries. Although there is considerable uncertainty as to whether this potential will ever be realised, the share is attractively priced because one is paying eight times the earnings of Aplitec's existing welfare payment delivery business and getting a free option on the upside potential of UEPS.

Fronrange traded at R39 a share at its peak in 1998. At this price investors were clearly too optimistic about the growth prospects of the company. However, at the current price of R1.50 a share, one is paying roughly four to five times forward earnings plus full value for the company's considerable cash reserves. It is difficult to pin down an exact estimate for Fronrange's growth potential because of the rapid changes that take place in the information technology industry. However, investors receive more than adequate compensation for this uncertainty at the current price. Ironically, the growth prospects for Fronrange's CRM software are now stronger than in 1998 as the market has consolidated and Fronrange's products have been improved significantly.

Thus our clients should not concern themselves about a return to the 'growth cycle' if this means that the share prices of dynamic companies with strong competitive advantages and good growth prospects re-rate to reflect more fairly the growth potential of the businesses. In this event we expect our clients to continue to enjoy rewarding investment returns.

Table 1*

	1983 Real Share Price (A)	Real Retained Earnings (B)	Sum Invested (A + B)	Current Share Price	Price Appreciation Required %
Tiger Brands	2 517	6 772	9 288	6 700	39%
Pick 'n Pay	849	424	1 273	1 385	-8%
SAB	3 171	3 672	6 843	5 350	28%
FTSE/JSE ALSI	6 664	7 839	14 503	8 700	67%

* In today's Rands.

Heaton van der Linde Head of Institutional Client Servicing
 Zola Lupondwana Manager of Institutional Client Servicing and Business Development
 Christo Terblanche Director, Allan Gray Life Limited

Institutional Update

Servicing our institutional clients



Executive Summary

The benefits of effective long-term investment management are illustrated in this article by the results obtained for Allan Gray's first pension fund client who invested just over 25 years ago. An annualised return of 24.4% has been achieved for this client compared with the mean pension fund return of 17.6% over the same period. This remarkable outperformance of 6.8% would have meant that an initial investment of R1m on 1.1.1978 would be worth R263.1m with Allan Gray today if there had been no capital withdrawals or contributions and with income re-invested. In contrast, the sum would be worth only R62.5m had it received the returns of the average pension fund. In addition to seeking above average returns over time, the other functions, which complete Allan Gray's investment service offering to clients, are outlined in this article.

Allan Gray Limited has managed retirement fund monies successfully for over 25 years. Our first pension fund client joined us on 1 January 1978 and remains a client today. The benefits of effective 'Long Term Investment Management' can be astounding as illustrated for this client in **Graph 1** on the opposite page.

We have achieved an annualised return of 24.4% for this client over the 25 years and five months of our business relationship. By way of comparison, the mean pension fund return over the same period (as measured by the Consulting Actuaries Survey for global balanced mandates) amounts to 17.6%. The effect of compounding this outperformance of 6.8% p.a. for over 25 years is truly

astonishing: an initial investment of R1m on 1.1.1978 (without capital withdrawals or contributions, and with income reinvested) would be worth R263.1m with Allan Gray at 30 June 2003 and R62.5m had it received the return of the average pension fund.

The investment result above reflects our key objective at Allan Gray, namely long-term wealth creation for our clients. Both the current members and those who have retired or withdrawn from this pension fund client during the past 25 years have benefited from the above average returns achieved on their behalf.

More than just average returns

Above-average investment returns are critical. But providing a long-term investment management service does not begin and end with the research and selection of our best ideas expected to produce above average returns over time. A number of additional functions complete our investment management service offering to our clients.

Our performance department, led by Julie Campbell, calculates the returns achieved for each client and maintains our performance database both on a client and composite basis. Returns achieved over various periods are communicated to both our clients and to industry surveys on a regular basis.

Accounting for the instruments bought and sold, and the composition of the portfolio at monthly and quarterly intervals, is also required. Our dedicated

portfolio administration department headed up by Lauren Honeyman performs this important role. Regular and ongoing contact is maintained with retirement fund principal officers and their appointed asset consultants and custodian banks. We pride ourselves on a quick response to administration queries and other requests.

Report-backs with a difference

In addition, regular physical report-backs are made to the trustees of our retirement fund clients. These would include a review of investment returns achieved as well as our view on the current valuation and outlook for investment markets. Feedback received from trustees is that our report-backs tend to differ from those of their other asset managers. This, we believe, is because our presentations reflect our bottom-up approach to building a portfolio. We far prefer spending time talking about the investment merits of the shares included in the portfolio as opposed to concentrating on our expectations for changes in macro-economic variables. To this end, we typically pick out two or three stocks per report-back and present our investment case for these specific companies to trustees. Our valuations often differ substantially from the valuation attributed to the company by the share price at that time. This can lead to lively debate as our investment philosophy usually directs us toward stocks that are out of favour with the market, and where the press coverage is often negative at the time that we are buyers.

It is not that we do not have strong views on economic variables including the Rand

exchange rate, GDP growth, inflation and the level of interest rates. We do, and we factor our long-term 'normalised' macro-economic expectations into our company earnings models. Rather, it is because our experience has been that the predictive value of macro-economic forecasts is limited in comparison to the far greater rewards offered by detailed fundamental research on a company-by-company basis.

It is because of our focus on individual stocks that we use only investment-oriented people to do report backs to our institutional clients. Historically, our portfolio managers and senior analysts have done all report backs and day-to-day servicing of our institutional clients. Given the growth in our client base, this has presented a challenge as it is imperative that our portfolio managers and analysts continue to spend the majority of their time identifying, researching and acquiring the best investment ideas we can find.

We have met this challenge by forming a small institutional client servicing and business development team. This currently comprises a team of four investment-oriented people with an in-depth understanding of Allan Gray's investment philosophy, process and products, as well as a thorough understanding of our current portfolios and market outlook. In addition to report backs and new client presentations, this team deals with tenders, mandates and contractual and product queries for new and existing clients and their intermediaries, removing this burden from our portfolio managers.

Getting it right the first time

When it comes to mandates, our emphasis is very much on getting it right the first time to avoid accepting mandate requirements that we are unable to meet. In these and other contractual issues, our Legal and Compliance department, headed up by Helena Swart, assists in ensuring that we comply with the regulatory and contractual needs of our clients.

The increase in fiduciary responsibilities facing retirement fund trustees has led to increasing service demands on investment managers. Many of our retirement fund clients are currently reviewing or drafting investment policies in terms of the proposed revision to the Prudential Investment Guidelines (Regulation 28) of the Pension Funds Act and the governance issues described in the UK Myners Report. The types of issues trustees are grappling with, and with which we have been asked to assist, include:

- The need for absolute returns in very

volatile markets;

- The choice of strategic or flexible asset allocation guidelines to take into account their funds' liability profiles;
- Appropriate 'risk-profiled' portfolios for defined contribution funds offering member choice;
- Commenting on regulatory and legislative changes and their impact on portfolios;
- Addressing benchmark concerns;
- Providing updates on shareholder activism and proxy voting procedures.

An important development over the past five years has been Allan Gray's ability to service smaller retirement funds through our Regulation 28 compliant unitised portfolios. We accommodate smaller retirement funds through our Stable (conservative) and Balanced Unit Trust Funds. We established Allan Gray Life in September 2000 and offer portfolios that are ideal for small- and medium-sized retirement funds with more than R20m to invest. Our risk-profiled portfolios are particularly appropriate for defined contribution funds offering a level of member choice. These are for clients who previously had no access to Allan Gray's investment management services due to our requirement that segregated accounts be at least R200m in size. Importantly, whether via our pooled portfolios or via a segregated account, our investment process and client servicing commitment ensures that all clients benefit equally from our investment research.

Meet the team

The members of the institutional client servicing team have different and varied backgrounds:

Heaton van der Linde has the primary responsibility for servicing our segregated account clients. He has been with Allan Gray

for five years and was involved in the establishment of both the Unit Trust Management company and Allan Gray Life during his three years as group financial manager. Heaton is a Chartered Accountant and also a Chartered Financial Analyst. He retains his equity analyst coverage of the construction sector and certain of the clothing retailers.

Christo Terblanche is primarily responsible for the servicing of our pooled institutional clients. Christo has an actuarial and employee benefits background. He has been with Allan Gray for three years developing and servicing our pooled retirement fund business since its inception.

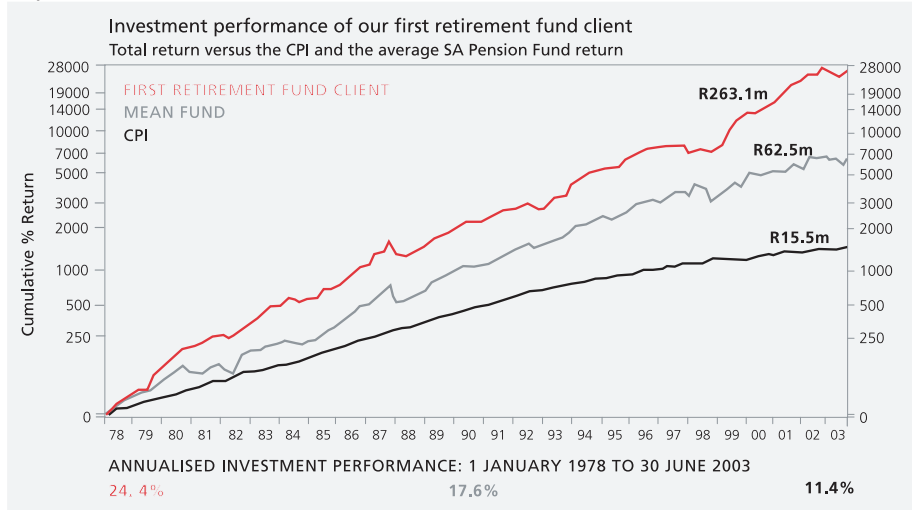
Zola Lupondwana is a UK trained chartered accountant as well as a CFA charterholder. After working at Allan Gray for two years as an equity analyst, he worked in private equity and corporate finance specialising in empowerment transactions. In addition to his client servicing responsibilities, he also spends time on equity analysis to retain his investment focus.

Mahesh Cooper joined Allan Gray in April 2003 as a Business Analyst providing support to the Institutional Client Servicing team. He is a qualified actuary with experience in asset and risk consulting.

Another 25 years

At Allan Gray we enjoy researching stocks and managing portfolios. And we enjoy talking about our best ideas and servicing our clients to the best of our abilities. As long as we remain passionate about what we do, we are convinced that we can meet the investment management needs of our institutional clients for another 25 years and beyond.

Graph 1



Johan de Lange
Barend Ritter
Anne Mayers

Director, Allan Gray Unit Trust Management Limited
Head of Retail Retirement Products
Head of Retail Client Services and Administration

Retail Update

Selecting the appropriate Allan Gray unit trust



Executive summary

Before selecting a fund (or funds) in which to invest, Johan de Lange urges you to follow certain guidelines as part of a deliberate investment planning process. Begin with understanding what your investment needs are, then gain a thorough understanding of what products are available and, finally, make a cost comparison. Only then should you decide where to invest.

Despite Allan Gray's very limited product range, we are consistently inundated with requests from prospective investors to assist them in selecting the appropriate fund/s. As an investment manager, we are not allowed to give personal investment advice. However, our funds are based on a range of risk-profiles to assist prospective investors in selecting the appropriate fund/s. Selecting the fund/s is actually the last step in a very deliberate investment planning process for the investor. In order to do this effectively, the investor can use some of the following guidelines in preparing to reach a decision.

Understand your investment needs

The purpose behind defining your needs is to create your own risk profile. It is imperative that you undertake a thorough

needs analysis in order to do this successfully. There are a number of publications that can assist you. It is important to remember that a needs analysis should also provide for your personality profile in addition to your financial profile. Professional advice will also assist in the decision-making and investors are urged to get a second opinion.

Gain a thorough understanding of the available products

It is important to understand the difference between the investment vehicles e.g. unit trusts, endowments, retirement annuities and the underlying investment instruments (asset allocation) e.g. shares, bonds, cash. First, you have to decide which investment vehicle is the most appropriate and then decide on the appropriate asset allocation that will suit your risk profile.

Do a cost comparison

We are entering a low inflationary environment with expected lower investment returns so the costs associated with investing will become more relevant than in the past. The best method to get the total picture is to write down all the costs and to understand the different types. Generally, the investor will incur an initial and an annual cost that includes the following: product fee (investment vehicle),

investment instrument fee, advisor fee and LISP or multi-manager fee (if applicable).

Doing the above exercise will give you a much better understanding of your needs and what products are available to you.

... our funds are based on a range of risk-profiles to assist prospective investors in selecting the appropriate fund/s.

The following quote by Warren Buffet (and amended by Allan Gray) that we use on the asset management side is as appropriate to you as it is to us in our own investment decisions:

"You don't have to do extraordinary things to get extraordinary results. Just do ordinary things extraordinarily well."

We will discuss the risk-profiles of our unit trusts in our next quarter's documentation.

In the interim, a summary of the characteristics and objectives of our unit trusts can be found on page 17 of this Quarterly Commentary.

Comparison of fees payable on a living annuity investment

Executive Summary

Most South Africans buying a pension now choose a living annuity. Legislation dictates that those available on the South African market are very similar. The major difference between them lies in the fees charged by product providers. There is an initial fee and an annual fee. In this article Barend Ritter alerts investors to the fact that the level of annual fees paid is far more important than the level of the initial fee. A recent survey has shown that, by shopping around, investors can make substantial savings in administration fees. A table comparing these fees amongst providers highlights the point.

A living annuity has become the product of choice for most South Africans buying a pension. As of January 2003, product providers can no longer refuse a client's request for the transfer of a living annuity from one product provider to another.

To a large extent, the features of living annuities are determined by legislation. As a result, there is a lot of similarity among the more than 15 living annuities available on the South African market.

The major differences, from a survey conducted by Nick Green Consulting, are:

- The level of fees charged
- The number and extent of investment options offered
- The availability of guaranteed and market linked investment options
- The use of multi-managers or wrap funds
- A compulsory or voluntary payment for financial advice.

The categories of fees typically charged on a living annuity are provided in the table alongside. The administration fees quoted are based on an investment of R500 000. Advisor fees tend to be negotiable if large investments are placed through the advisor. The use of a multi-manager (or wrap fund manager) to select the best combination of unit trust funds on an ongoing basis is a common feature.

Initial fees (charged once-off as a percentage of the initial value of the living

annuity) are:

Advisor fee (optional)	1.50%
Administration fee	1.30%
Multi-manager fee (optional)	0.25%
Unit trust management company fee	0.25%
Total	3.30%
Total initial fee (incl. VAT)	3.80%

Annual fees (fee percentage based on market value) are:

Advisor fee (optional)	0.50% p.a.
Administration fee	0.80% p.a.
Multi-manager fee (optional)	0.50% p.a.
Asset management fee on unit trusts	1.50% p.a.
Total	3.30% p.a.
Total annual fee (incl. VAT)	3.80% p.a.

Please note that the initial unit trust management company fee and the annual unit trust asset management fee are subtracted before calculating the price of the unit trust fund and are not indicated separately by product providers when communicating with clients on their investments.

Switching between unit trust funds can be done at a fee of around 0.25% on the amount switched. In some cases one free switch is provided annually.

The survey found that, by shopping around amongst product providers, a saving of about R80 000 in administration fees, in

today's money, may be realised on a R500 000 investment in a living annuity. **(See table below.)** This equates to a 14% saving, which is easily more than two years' worth of pension withdrawn by the average investor from their living annuity.

When comparing fees, investors should be aware that the level of annual fees paid is far more important than the level of initial fees. For example, a difference of 1% in annual fees payable, over a period of 20 years, is equivalent to an initial fee of around 15%.

A further interesting fact is that, for a lot of investors in a living annuity, the fees charged over the life of the annuity may well be higher than the tax that they will be paying on the income withdrawn from the annuity. The Allan Gray Living Annuity clients on average withdraw around 8% of their capital per year as a pension. The average tax rate payable for most retirees is of the order of 20% to 30%. A 30% average tax rate combined with an 8% withdrawal results in a tax charge of 2.4% p.a. This tax charge is significantly lower than the 3.4% annual fees typically payable on a living annuity.

Set out below is a comparison of administration fees between various living annuity providers. All fees are based on a R500 000 investment in a living annuity and include VAT.

	Initial fee	Annual fee	Total fees over life of annuity, in today's money	
			Rand value	As % of initial capital
Allan Gray	R 0	R1 995	R 33 092	7%
Manager A	R6 270	R2 850	R 53 545	11%
Manager B	R6 270	R3 420	R 63 000	13%
Manager C	R4 418	R3 563	R 63 511	13%
Manager D	R9 975	R3 420	R 66 705	13%
Manager E	R6 336	R4 061	R 73 702	15%
Manager F	R8 123	R4 275	R 79 035	16%
Manager G	R8 550	R4 275	R 79 462	16%
Manager H	R8 550	R4 357	R 80 824	16%
Manager I	R8 550	R4 703	R 86 553	17%
Manager J	R5 700	R5 809	R102 065	20%
Minimum	R 0	R1 995	R 3 3092	7%
Average	R6 613	R3 884	R 71 045	14%
Maximum	R9 975	R5 809	R102 065	20%
Max – Min spread	R9 975	R3 814	R 68 973	14%

Source: Survey performed by Nick Green Consulting.

Performance

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

Period	Allan Gray*	FTSE/JSE All Share Index	Out/(Under) Performance
1974 (from 15.6)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003 (to 30.6)	-0.3	-8.2	7.9
ANNUALISED TO 30.06.2003			
From 1.7.2000 (3 years)	26.6	6.1	20.5
From 1.7.1998 (5 years)	34.4	7.5	26.9
From 1.7.1993 (10 years)	23.7	10.4	13.3
Since 1.1.78	30.0	20.0	10.0
Since 15.6.74	28.3	16.7	11.6
AVERAGE OUTPERFORMANCE			11.6
Number of calendar years outperformed			22
Number of calendar 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 R13 869 177 by 30 June 2003. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R895 659.

ALLAN GRAY LIMITED PERFORMANCE PROFILE
Annualised performance in percent per annum to 30 June 2003

	Second 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*	10.9 9.1	7.1 -2.1	25.3 9.4	30.1 10.6	24.0 17.6	11,984.0 ¹
Domestic Balanced Mandate Mean of Alexander Forbes Domestic Manager Watch*	11.1 9.8	13.8 -0.4	23.2 10.2	32.1 11.1	24.2 17.7	11,033.8 ¹
Equity-only Mandate All Share Index	12.4 9.7	10.2 -18.7	25.5 6.1	31.4 7.5	20.0 11.2	9,866.5 ²
Global Namibia Balanced Mandate Mean of Alexander Forbes Namibia Average Manager*	11.2 9.1	8.2 -3.5	25.2 9.1	28.0 9.2	20.5 11.6	1,359.7 ³
POOLED RETIREMENT FUNDS						
Allan Gray Life Global Balanced Portfolio Mean of Alexander Forbes Large Manager Watch*	10.8 9.1	8.6 -5.0	- -	- -	22.9 6.6	1,480.4 ⁴
Allan Gray Life Domestic Balanced Portfolio Mean of Alexander Forbes Domestic Manager Watch*	11.8 9.8	12.8 -0.4	- -	- -	16.2 5.7	2,132.5 ⁵
Allan Gray Life Domestic Equity Portfolio All Share Index	12.7 9.7	9.2 -18.7	- -	- -	20.9 0.0	660.6 ⁶
Allan Gray Life Domestic Absolute Portfolio Mean of Alexander Forbes Domestic Manager Watch*	12.9 9.8	23.8 -0.4	- -	- -	30.1 5.0	277.2 ⁷
Allan Gray Life Domestic Stable Portfolio Alexander Forbes Three Month Deposit Index plus 2%	5.2 3.8	15.0 15.7	- -	- -	16.5 14.6	77.5 ⁸
RELATIVE RISK						
Equity-only Mandate Resource adjusted All Share Index	11.3 11.4	-8.3 -16.8	- -	- -	17.1 3.8	1,739.7 ⁹
FOREIGN-ONLY (RANDS)						
Orbis Global Equity Fund (Rands) Morgan Stanley Capital Index (Rands)	24.0 9.4	-26.9 -29.4	12.2 -9.8	16.2 1.8	22.4 14.0	1,129.8 ²
Global Balanced Mandate (Rands) - Foreign Component Mean of Consulting Actuaries Fund Survey (Rands) - Foreign Component*	10.5 4.4	-20.3 -24.5	30.6 1.9	24.1 8.0	21.0 13.9	2,008.1 ¹⁰
UNIT TRUSTS **						
Equity Fund (AGEF) FTSE/JSE All Share Index	***	9.1 -18.7	23.0 6.1	- -	389.1 89.2	2,816.6 ¹¹
Balanced Fund (AGBF) Average Prudential Fund (excl. AGBF)	***	10.2 -2.1	21.9 7.8	- -	122.3 39.7	2,383.1 ¹²
Stable Fund (AGSF) After-tax return of call deposits plus two percentage points	***	13.0 10.8	- -	- -	54.7 30.4	677.1 ¹³
Money Market Fund (AGMF) Domestic fixed interest money market unit trust sector (excl. AGMF)	***	12.8 13.3	- -	- -	23.9 24.7	286.1 ¹⁴
Global Fund of Funds (AGGF) Morgan Stanley Capital International Index (Rands)	***	-23.4 -29.4	- -	- -	-26.4 -34.4	12.6 ⁸

* The returns for Quarter 2, 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.

*** Unavailable due to ACI Regulations.

Inception Date: ¹1.1.78 ²1.1.90 ³1.1.94 ⁴1.9.00 ⁵1.9.01 ⁶1.2.01 ⁷6.7.01 ⁸1.12.01 ⁹19.4.00 ¹⁰1.7.96 ¹¹1.10.98 ¹²1.10.99 ¹³1.7.00 ¹⁴3.7.01

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 ACI. 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 30 June 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"> 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	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 or transaction charges.
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	<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 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 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 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 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 Firstrand 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	100%	75%	60%	15%	0%	100%
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 registered Orbis funds and the Allan Gray Money Market Fund. The Fund will always hold 85% offshore.
Return Objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns to bank deposits.	Superior returns to 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 Allan Gray Balanced Fund.	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

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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)

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ALLAN GRAY
LONG TERM INVESTMENT MANAGEMENT