Private Equity

Retirement Reform

The Diversification Benefits of Orbis Optimal

Marketing Update

Q3

30 SEPTEMBER 2007
QUARTERLY
COMMENTARY

ALLAN GRAY
INTELLIGENT INVESTING

INSIDE THIS ISSUE

Greg Fury

COMMENTS FROM THE CHIEF OPERATING OFFICER

The recent surge in private equity transactions in South Africa has drawn mixed responses from the marketplace. There has been unease over the consequent delisting of the companies involved and their removal from the radar of scrutiny to which their listed counterparts are subjected. On the other hand, there has been an acknowledgment that private equity bids are good for shareholders: for a bid to be successful, it has to secure the approval of 75% of non-related shareholders. Our particular interest at Allan Gray is the influence of private equity on our clients' portfolios.

In the opening article, Portfolio Manager Duncan Artus finds that there are, in fact, many similarities between the way we value a business and the methods used by private equity investors. Most importantly, he notes, we don't buy shares because we think they are going to go up – we attempt to buy businesses for less than they are worth. We try to think like a businessman or a private equity investor who generally buys 100% of a business and is comfortable taking a long-term view.

We believe the surge in private equity deals for listed companies is a net positive trend for our clients' investments with us, as private equity increases the number of potential buyers for our clients' assets.

When it comes to investment, many people seem to have particularly short memories. Take small companies. Portfolio Manager Ian Liddle looks at the value of small JSE-listed companies relative to large companies over the past 12 years and discerns three waves of sentiment from growing popularity to increasing disenchantment to growing popularity once more. He advises those who are considering investing in today's new listings to consider the experience of those who invested in new listings during the 1997-1999 listings boom. Of the 229 companies listed in that period, 202 companies (88%) provided negative returns over the four-year period subsequent to their listing. In 111 (almost half) of these companies, investors lost more than 80% of their capital. Not surprisingly, Ian concludes that today Allan Gray sees better value in large companies such as MTN, Remgro and SABMiller, which have strong growth prospects given their size.

On another theme, current retirement funding and social security systems provide for no more than about 25% of the South African workforce. They are governed by pensions legislation that is 51 years old, with only minor adjustments having been made to it over time. Now Government plans a major overhaul of the entire savings industry. In his article Christo Terblanche explains what the implications of the intended overhaul will be and sets out the broad impact it will have on every one of us. Most important is that more people will experience improved standards of living in retirement. The aim is to increase from five million to ten million the number of people who are funding for retirement.

The Orbis Optimal SA funds were launched in January 2005, they are designed to adhere to South African specific regulations but are based on our sister company's successful absolute return strategy in running hedged portfolios since 1990. The funds seek capital appreciation on a low risk global portfolio and are offered in a choice of either US dollars or euros. The funds are invested largely in a focused portfolio of selected global shares which Orbis believes should provide relative outperformance in the long-term. Orbis then use stockmarket hedging to reduce the exposure to equity markets and hence the risk of loss on the portfolio. Mahesh Cooper points out that it is the reduction in exposure to the equity markets that has resulted in the Optimal Strategy historically producing returns that have been largely independent of and uncorrelated with world stockmarkets. This hedging strategy provides Optimal with the potential to deliver absolute returns during times when stockmarkets may be flat or declining.

Allan Gray's new print advertising campaign makes the point that, with careful planning, retirement is not an end but a beginning. The campaign deals with the human truth of growing older. Shot in black and white, it uses large scale close-ups of a hand, an ear, a foot, an eye and hair, accompanied by copy which tells of the life experiences of each, what it's been through and accomplished as the person aged.

The usual full investment performance update is provided at the back of the QC. You will see that the performance of our clients' portfolios has been poor relative to our benchmarks in the year to date. This is largely a result of the portfolios being somewhat conservatively positioned at a time at which the FTSE/JSE All Share Index has continued its upward momentum. We again repeat our caution that investors temper their expectations for future returns and remind our clients that the recent experience is not unusual in our history and periods of short-term underperformance are sometimes the price to be paid for long-term outperformance.

Kind Regards

Duncan Artus

PRIVATE EQUITY

EXECUTIVE SUMMARY: Allan Gray's thoughts on private equity transactions are summarised in this commentary by Portfolio Manager Duncan Artus. It is helpful to step back and consider what the objective of an asset manager should be when forming an opinion on the effects of private equity. Our objective at Allan Gray is long-term wealth creation for our clients. Compounding outperformance over the long-term creates wealth. This involves continually assessing, without emotion, the price at which assets can be bought and sold (whether this is reflected in a market price or a private equity offer) relative to their intrinsic value. Just as important as buying those trading at the largest discounts is selling those when the price offered warrants this.

Our investment approach has similarities to the private equity approach

Allan Gray's track record has been built on the consistent application of our investment philosophy. There are many similarities between the ways we value a business and the methods used by private equity investors. Most importantly, we don't buy shares because we think they are going to go up – we attempt to buy businesses for less than they are worth. If we have done our work correctly, the valuation should be recognised in the share price over time. In other words, we try to think like a businessman or private equity investor who generally buys 100% of the business (as opposed to a few shares) and is comfortable taking a long-term view.

At any given time there are many shares trading at various discounts or premiums to intrinsic value. If an offer is made for a company in which our clients are invested, the pricing of the offer could alter the relative attractiveness of the investment to us. This is a judgement of relative value that investors make on a daily basis when buying and selling shares on the stockmarket in the course of normal trade. It is just less dramatic and newsworthy than a big buy out deal.

Clearly there are differences too

The major difference is the ability of private equity funds to introduce debt (leverage) into the businesses they purchase. Theoretically, the ability to leverage allows private equity investors to pay more for each Rand of earnings than investors are willing to pay for a company in its traditional listed form (with an ungeared balance sheet). A not insignificant portion of the expected return from private equity investments is achieved simply by paying down the introduced debt over time. Whilst it would be tempting to calculate what Allan Gray's performance would have been with similar gearing, it is fraught with difficulty and so we haven't done so. The times when equities are most out of favour typically tend to coincide with a lack of or very expensive debt funding.

Unlike portfolio investors, private equity investors also get actively involved in the running of the actual business through having access to management accounts and sitting on various committees.

Is private equity a good thing?

Many commentators have expressed the view that the rise of private equity is a negative. There are numerous studies on the issue focusing on both the social and investment merits of private equity with conflicting conclusions. We are more interested in its influence on our clients' portfolios.

We believe the surge in private equity deals for listed companies is a net positive trend for our clients' investments (held via retirement funds and unit trusts) with Allan Gray. The good thing about private equity is it increases the number of potential buyers for our clients' assets. As an analogy, it is far easier to sell one's house at a good price if there are ten interested buyers rather than two or three. An increased pool of buyers is clearly a good thing for owners of undervalued assets. Shareholders are also in a strong position when deciding to accept or reject offers. A successful bid has to be on terms favourable enough to secure the approval of 75% of non-related shareholders.

To meet our objective of creating wealth, it is vital to sell businesses when offered an appropriate price. To our mind, too many investors confuse investing in a 'great company' with a 'great investment'. Purchasing a great company is no guarantee of achieving above average future returns. If the entry price is too high it will provide average to very poor future returns.

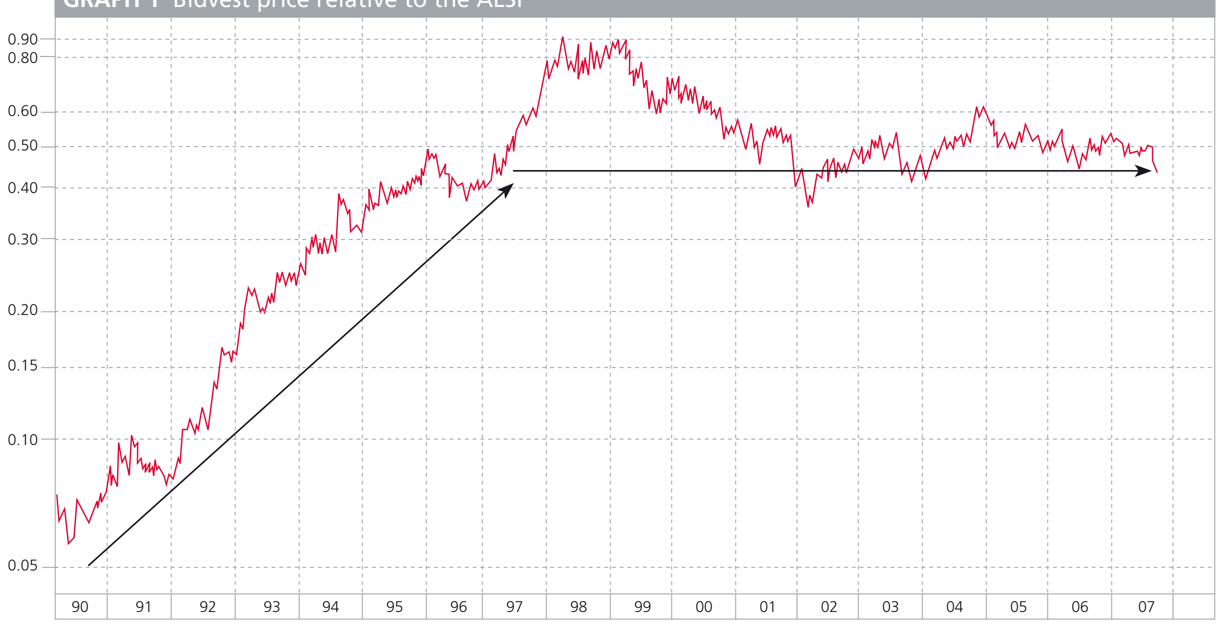
We regard Bidvest as one of South Africa's shrewdest acquirers of businesses. It is well known for its ability to add value to its acquisitions through management skills i.e. very similar to private equity. Yet, despite all the achievements of Bidvest over the years, its share price has been flat relative to the market over the past 10 years. If investors, including private equity funds, buy at prices which have discounted all potential good news, at best only average returns should be expected. (As seen in **Graph 1** below).

Allan Gray's involvement in announced deals

It is a natural feature of any traded market that participants will have different views on prices and values. Private equity players are not blessed with some kind of foresight unavailable to other market participants – they will have winners and losers in their portfolios too. To illustrate this, of the 27 leveraged buyouts of listed JSE shares since 2000 that we identified, only 10 were held by our clients at the time of the announcement.

Companies held by Allan Gray clients at time of offer:
Alexander Forbes, Coronation Holdings, Dunlop, Peermont, Life Healthcare, Midas, Pepkor, Primedia, Shoprite, Unihold.

GRAPH 1 Bidvest price relative to the ALSI



Source: I-Net

TABLE 1a A valuation comparison (early August 1998)

Blue Chips of the Decade	Market Cap (Rbn)	Selected IT Shares	Market Cap (Rbn)	Selected Niche Banks	Market Cap (Rbn)
Remgro	18.0	PQ Holdings	21.6	Theta	12.5
Tiger Oats	7.4	Didata	20.6	Coronation	8.8
AMIC	6.1	Datatec	8.9	AMB	7.8
Barlows	5.6	CCHold	3.5	African Harvest	7.5
Nampak	4.4	Ixchange	2.9	African Life	6.6
Engen	2.8	Softline	2.5	Real African Durolink	6.4
Wooltru	2.5			Peregrine	5.1
Afrox	2.4			Brait	4.8
Edgars	1.7			Outsource	2.8
Anglovaal	1.7				
Foschini	1.6				
Toyota	0.7				
Total	54.9	Total	60.0	Total	62.3
Total Earnings	7.8	Total Earnings	0.65	Total Earnings	0.96
Weighted P/E	7.1	Weighted P/E	93.0	Weighted P/E	65.0

Note: Above shares held by Allan Gray

TABLE 1b A valuation comparison (as at 5 October 2001)

Blue Chips of this Decade	Market Cap (Rbn)	Selected IT Shares	Market Cap (Rbn)	Selected Niche Banks	Market Cap (Rbn)
Remgro	39.5	PQ Holdings	3.8	Theta	4.4
- Remgro	30.6	Didata	13.1	Coronation	3.3
- Venfin	8.9	Datatec	1.4	AMB	1.2
Tiger Oats	10.4	CCHold	0.1	African Harvest	0.7
- Tiger Brands	9.9	Ixchange	0.1	African Life	1.7
- Astral	0.5	Softline	0.3	Real African Durolink	0.3
AMIC Delisted 05/02/99	20.2			Peregrine	0.5
- AGL 55/100	20.1	Subtotal	18.8	Brait	1.2
- Cash 135cps	0.1			Outsource	0.1
Barlows	11.6	Less Share Issues	14.9		
Nampak	5.7	- Didata	20.2	Subtotal	13.4
Engen Delisted 05/11/98	4.1	- Comparex	-11.7		
Wooltru	3.5	- Datatec	4.4	Less Share Issues	5.1
Afrox	3.8	- CCH	0.6	- ABIL	2.2
Edgars	1.5	- Ixchange	0.9	- Coronation	0.2
Anglovaal	5.9	- Softline	0.5	- AMB	0.5
- AVI	1.7			- African Harvest	0.2
- Aveng	1.3			- African Life	0.2
- Avmin	1.6			- Real African Durolink	0.0
- Cash	1.2			- Peregrine	0.2
Foschini	1.7			- Brait	0.0
Toyota Delisted	1.9			- Outsource	1.6
Comparable Market Cap	109.8	Comparable Market Cap	3.9	Comparable Market Cap	8.3
Total Earnings	8.6	Total Earnings	2.3	Total Earnings	1.8
Weighted P/E	12.6	Weighted P/E	8.1	Weighted P/E	7.3

Note: Above shares held by the market

Aren't delistings bad for investors?

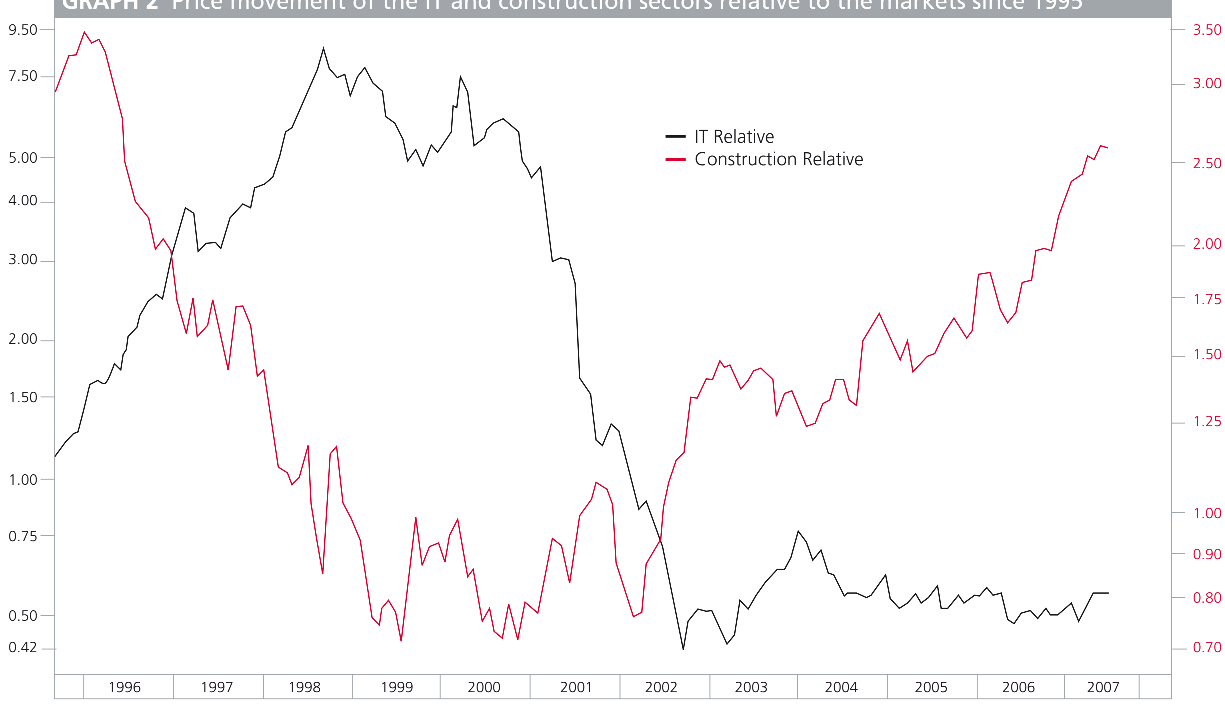
We believe that such things go through cycles. Periodically, market participants themselves will create disparity in valuations within the equity market and between asset classes, as illustrated in **Table 1a** and **1b**, on page 04, which shows just how extreme disparity became in 1998. High valuations on the stock exchange will attract businessmen to sell to the public. This is exactly what occurred. (Refer to Ian Liddle's article on page 06 for a great discussion on this point.)

Graph 2 below highlights the price movement of the IT and construction sectors relative to the market since 1995. Upon taking a closer look, it should come as little surprise that a majority of the current new listings are construction/ infrastructure related whilst in 1998/99 the new listings were dominated by IT and niche financial service companies.

Current market conditions

The private equity industry has raised significant funds, which means there are likely to be more deals in the future despite recent market turmoil. Ironically, it is easier to raise funds when times are good despite the fact that good times are generally discounted into prices already. We believe that profitability for many companies is above normal at present and that gearing levels that rely on the current level of earnings to service the debt may prove to be a risky proposition. We continue to caution that return expectations from equities, whether held via a listed or indeed a private equity portfolio, need to be lowered.

GRAPH 2 Price movement of the IT and construction sectors relative to the markets since 1995



Source: Igraph - updated 31/08/2007

Ian Liddle

CHANGING FASHIONS: BIG vs. SMALL

EXECUTIVE SUMMARY: Three waves of sentiment towards small companies over the last 12 years – from growing popularity to increasing disenchantment to growing popularity once more – are tracked by Portfolio Manager Ian Liddle. He advises those who are considering investing in today's new listings to consider the experience of those who invested in new listings of the 1997-1999 listings boom. He notes that, of the 229 companies listed in that period, 202 companies (88%) provided negative returns over the four-year period subsequent to their listing. In 111 (almost half) of these companies, investors lost more than 80% of their capital. He concludes that today Allan Gray sees better value in large companies such as MTN, Remgro and SABMiller, which have surprisingly strong growth prospects given their size.

"Only two things are infinite, the universe and human stupidity, and I'm not sure about the former." Albert Einstein.

We as the human species are dangerously prone to unquestioning groupthink and herd-like behaviour. How else can one explain leg warmers, Brylcreem, Scoubidou, yo-yos or spiral perms? It is not surprising therefore that stockmarket 'fashions' change too. Perhaps more surprising is that outmoded stockmarket 'fashions' can make a bold comeback within just a decade. When it comes to investments, people seem to have particularly short memories.

Graph 1 below shows the value of small JSE-listed companies relative to large JSE-listed companies over the last 12 years. One can discern three waves of sentiment:

1. Growing popularity of small companies (or often called 'emerging companies' at the time) climaxing in August 1998.
2. Increasing disenchantment with small companies culminating in April 2002, by which stage small companies had lost 70% of their value relative to large companies from their peak.
3. Growing popularity of small companies climaxing in ...?

GRAPH 1 Relative value: small companies vs. large companies

Source: FTSE/JSE Small Cap Index divided by FTSE/JSE ALSI40 Index

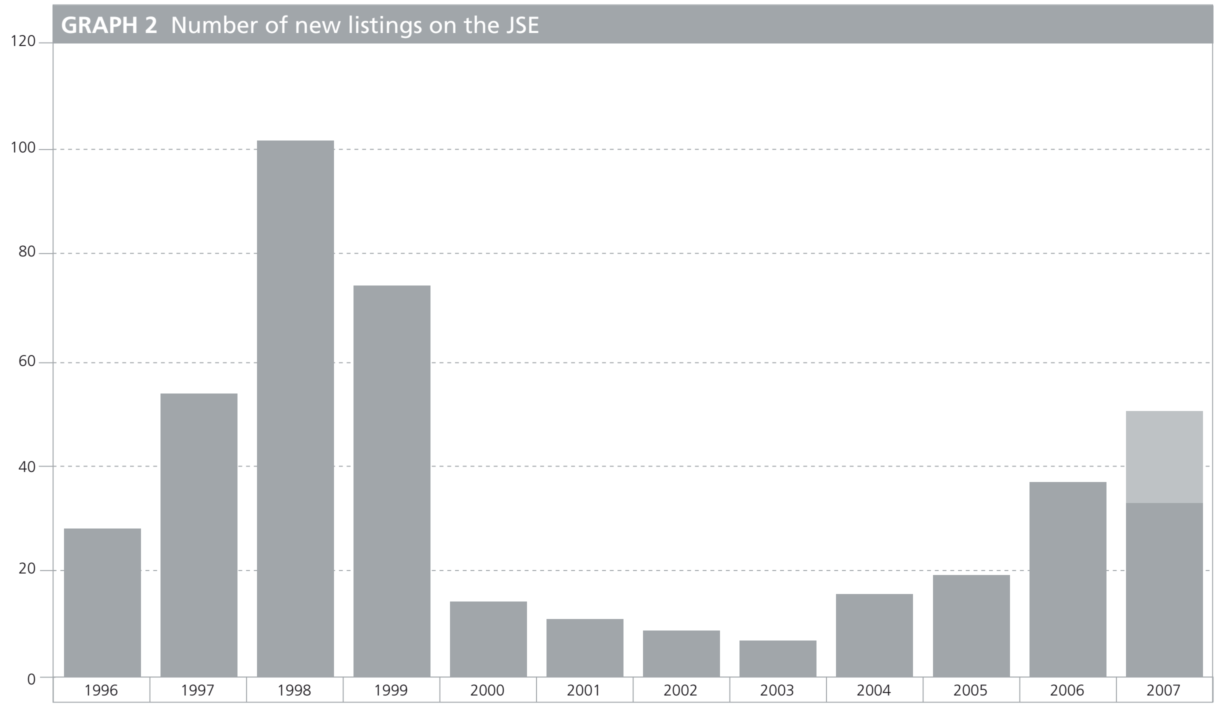
As contrarian investors we try to take advantage of these extreme swings in stockmarket 'fashions' to maximise returns for our clients. However, we are not the only ones who attempt to do so. Businessmen with a nose for a profit also try to exploit 'fashion' extremes, particularly by selling shares in their (normally small) businesses to the public, when small companies are in vogue.

Graph 2 below shows the number of new companies listed on the JSE over the last 12 years. It should come as no surprise that the number of new listings corresponds very closely with the popularity of small companies as seen in Graph 1 on page 06, and that the recent third wave highlighted above is once again attracting substantial numbers of companies to list on the JSE (or the ALTX – the JSE's market for small companies).

Before investing in today's new listings, investors would do well to consider the experience of those who invested in the new listings of the 1997-1999 listings boom[1]:

1. Of the 229 companies listed between 1997 and 1999, 202 companies (88%) provided negative nominal capital returns over the four-year period subsequent to their listing.
2. In fact, in 111 (almost half) of these companies, investors lost more than 80% of their capital over this four-year period.
3. The arithmetic average annual capital return on these newly listed companies was NEGATIVE 33% p.a. for the four years after listing.

GRAPH 2 Number of new listings on the JSE



Source: JSE Bulletin, Allan Gray estimate for the remainder of 2007

[1] Data limitations required us to make certain simplifying assumptions in this analysis. Returns are calculated assuming that the newly listed companies were bought at their closing price on the first Friday after listing. Dividends and capital distributions are ignored (most of these companies didn't pay much in the way of dividends). If a company was delisted before the end of the four-year period, returns are calculated up until the delisting day (only 141 of the 229 companies were still listed four years after listing). The data set of 229 companies includes some large companies too such as Billiton, Sanlam and Liberty International, which favourably impacted the averages.

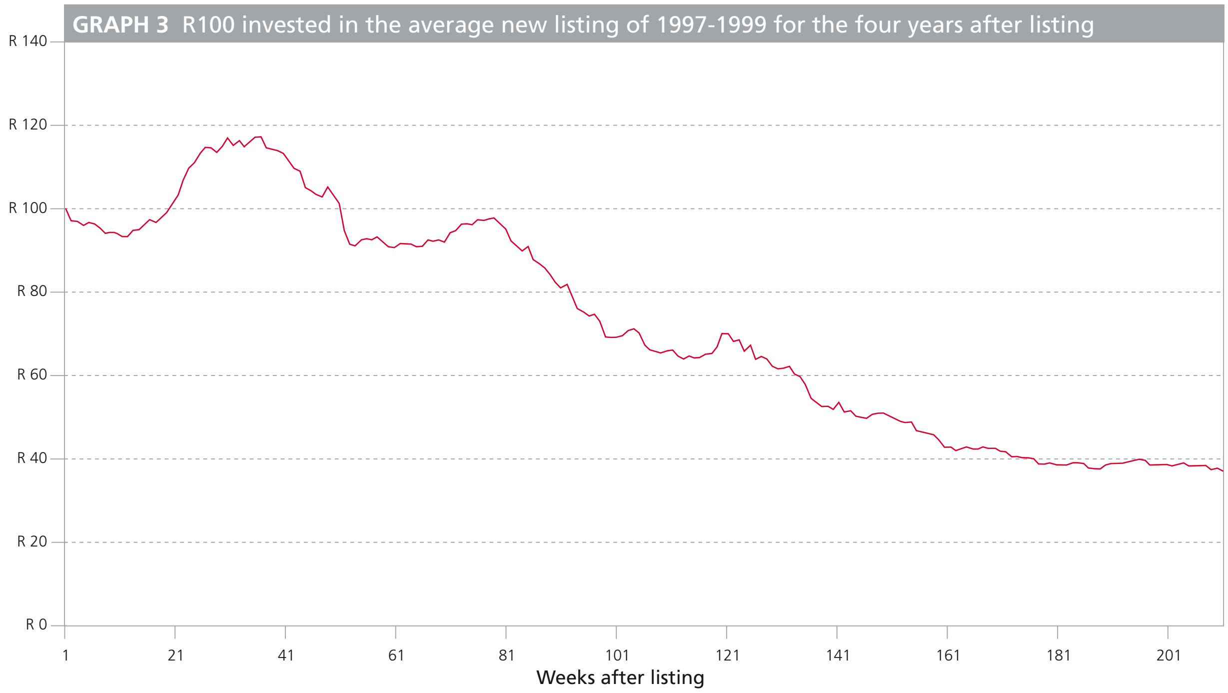
Graph 3 below shows the dismal long-term capital return accruing to the investor of R100 in the average new listing of the time. Investors at first made short-term gains from investing in the new listings (which fanned the flames of the new listing euphoria), but the longer term picture is sobering. Of the R100 invested in the typical new listing, on average less than R40 was left four years later.

The graph shows an average. There were many new listings, which initially appreciated by multiples of their listing price. Remember the darlings: Specialised Outsourcing, Ixchange, CCH, Beige, Idion, and Intervid. However, even these high-flyers eventually had their wings clipped with most of their shares trading below their listing price four years later. The painful part for many investors is that they didn't invest at the listing price, but only after the share price had multiplied.

The mood of the times is wonderfully captured by a ***Moneyweb*** interview with Dave King, the former CEO of Specialised Outsourcing, in February 2000. Mr King reflects on the 1997-1999 listing boom with a refreshing candour that makes the interview essential reading for anyone who is feeling tempted to invest in a new listing today. Some of Mr King's comments:

- "Firstly the conventional wisdom is to develop a track record before taking the company to the market. I'd say don't do that. Don't have a track record. You must sell maximum potential, minimum delivery. You're selling the story, you're selling the vision and if you wait three or four years, the history starts to work against you because people start looking back."
- "From a personal point of view, I certainly am much more comfortable with the institutions being emotional because they're sitting in shares and I'm sitting in the cash, than the other way around."
- "I think the markets overprice intellectual capital, which is why I am a seller of it. I go into the markets to list and sell intellectual capital. I'm not a buyer, I wouldn't invest in businesses like that."

GRAPH 3 R100 invested in the average new listing of 1997-1999 for the four years after listing



Source: Allan Gray Research, see footnote 1 for simplifying assumptions

Of course, some of the small businesses that listed in 1997-1999 were businesses of real substance. The subsequent collapse in the share prices of small companies (the second wave in Graph 1) presented us with some fantastic moneymaking opportunities such as Aplitec (Net1) and Frontrange (formerly Ixchange), which I wrote about in our Quarterly Commentary of June 2003.

So what is our investment strategy in the light of these observations? Graphs 1 and 2 indicate that small companies are back in fashion, and that their popularity may wax even more if the scale of the 1997-1999 boom is to be repeated. However, buying overvalued shares in the hope that an even greater fool will pay an even higher price down the line is in our view a risky, and in the long-term, unrewarding strategy.

Today we see better value in large companies such as MTN, Remgro and SABMiller, which have surprisingly strong growth prospects given their size. Thus our portfolios currently are heavily skewed towards large companies. We are content to wait patiently in the wings until small companies once again fall out of favour. When that happens we will attempt to sort the wheat from the chaff and invest in those small companies which offer compelling value.

Christo
Terblanche

RETIREMENT REFORM

EXECUTIVE SUMMARY: The current retirement funding and social security systems provide for only about 25% of the South African workforce. They are governed by pensions legislation that is 51 years old, with only minor adjustments having been made to it over time. Now Government plans a major overhaul of the entire savings industry. In this article Christo Terblanche explains what the implications of the intended overhaul will be and sets out the broad impacts it will have on every one of us.

If you were born in 1956, then you will be 51 years old this year. And without commenting on whether 51 is 'over the hill' or 'in the prime of your life', one thing is certain – there are a lot of changes one has to adapt to in 51 years!

Whilst our existing pensions legislation, being 51 years old, has had some minor adjustments made to it over time to try to keep up with changes, earlier this year Government announced plans for a major overhaul of the entire savings industry, including the social security and retirement funding systems.

What has led Government to this decision? Well, the current retirement funding system has many flaws. It doesn't cater for recent product innovations and, as such, many inconsistencies exist between retirement funding vehicles, for example the tax treatment of preservation funds and retirement annuity funds. Even within the same product there are inconsistencies, for example traditional life company retirement annuities and the more recent flexible retirement annuities.

"... Government announced plans for a major overhaul of the entire savings industry, including the social security and retirement funding systems."

Investment structures have also evolved and the current prudential investment guidelines, as set out in Regulation 28 of the Pension Funds Act, do not adequately (in some cases not at all) cater for some of these, for example hedge funds, private equity investments, exchange traded funds etc.

Other problems are a highly fragmented system, with currently some 13 500 registered funds, of which 80% have less than 100 members, and the increased cost of complexity.

However, there are bigger issues. The current system provides coverage for only about 25% of the South African workforce. Add to that our inclination to spend rather than save and it makes for poor retirement funding overall. This has resulted in poor, insufficient benefits (if any) at retirement, causing a big burden to fall on Government through the provision of a basic grant, called the State Old Age Pension. However, the means test used to determine whether one qualifies for this grant has added to the spending, as it creates a perverse incentive to squander what little has been accumulated, in order to qualify for the basic grant.

So what does Government propose? In a discussion paper released by the National Treasury in February this year, the following key proposals were made:

Basic state grant:
Firstly, similar to the current State Old Age Pension, a social assistance grant to provide a safety net against poverty in old age, but with the current means test removed or significantly relaxed, to be funded by tax revenue, as is currently the case. The assistance would include support to the disabled, children and care-givers.

Contributions to National Savings Fund:
Secondly, compulsory contributions to a National Savings Fund by everyone in employment, up to an income threshold. The contribution rate has not yet been set, but levels of 13% to 18% of after-tax salary are being mooted.

At this stage the exact structure of this arrangement is not clear. There are arguments for either a defined contribution or defined benefit arrangement, or even a combination of the two. Benefits will be paid in the form of annuities, in all likelihood guaranteed annuities, with limited payout in the form of lump sums. Government has proposed to assist those with low earnings (they are suggesting an annual salary of up to R45 000) to contribute to the National Savings Fund through the provision of a wage subsidy, reducing on a sliding scale as those earnings approach R45 000.

Contributions to Occupational or Individual Retirement Funds:

As a third level, Government is proposing compulsory contributions to an approved occupational or individual scheme for all earnings above the first threshold, up to a second threshold. No idea has yet been given as to what 'approved' will mean, but it is likely to include requirements of strict governance, flexibility in investment and benefit choice, full portability, appropriateness of charges, etc. This seems to be the mechanism through which Government aims to reduce the number of funds in the industry from the current 13 500 to about 100.

Additional voluntary savings:

As a fourth and last level, additional voluntary savings above the second threshold of earnings. Government has also called for taxation reforms to support the overall structure and to encourage savings. Whilst it is likely that there will be beneficial tax treatment for contributions below the second earnings threshold, it is unlikely that there will be any tax benefit for contributions above that level. Government will use this additional tax revenue to offset the wage subsidy paid to low earners as mentioned above.

> "... the more important long-term impact is that more people will experience improved standards of living in retirement, ..."

Through these proposals, Government aims to cast the net wider and to increase the coverage of people who are funding for retirement from the current five million, to roughly 10 million.

How are these proposals likely to affect us all?

The National Treasury Task Team is currently in the process of modelling the data to assess the impacts of various thresholds, contribution rates, etc. and additional discussion papers are likely to follow. Various Government departments, such as the Department of Social Development, as well as industry bodies, such as the Life Offices Association (LOA) and the Actuarial Society of South Africa (ASSA) have also started on research and modelling, in attempts to provide early indications of the potential impacts and some further recommendations.

At this stage, therefore, we can comment only on a few broad impacts:

1. Each of us will be compelled to contribute to the National Savings Fund in future.
2. Compulsory contributions will lead to more funds being available for investment, which can have positive effects on our economy over the long-term.
3. However, a large portion of the contributions currently made towards employer sponsored funds will be redirected into the National Savings Fund.
4. Some employer funds will be forced to close for not meeting Government's 'approved fund' requirements.
5. As such, employees will have the opportunity to transfer benefits already built up in employer funds into preservation vehicles.
6. For those earning in excess of the first threshold, there will be the opportunity to exercise more control over retirement savings through the use of individual retirement arrangements.
7. However, Government is proposing compulsory preservation of retirement benefits. This means that, although you would be able to choose the individual retirement fund you want to join and even the underlying investment portfolios, you will not be able to access your benefit until retirement – after all, this is the purpose of retirement savings!

However, the more important long-term impact is that more people will experience improved standards of living in retirement, not only through the basic grant system, but more specifically through accumulated individual savings (although at the price of forgone current consumption either through increased taxes or compulsory savings). This not only reduces the burden on Government, but also has a significant empowering effect.

Whilst there is still a lot of uncertainty around the structure and nature of the National Savings Fund, plus the absolute levels of the thresholds and the taxation structure, to name but a few, Government's principles are quite clear and they can be commended for their initiatives to date.

When will all of this be implemented? Whilst Government is working towards final implementation by 2010, some of the proposals will be rolled out sooner, in the period leading up to 2010. We will try to keep you updated on progress through future Quarterly Commentaries.

Mahesh Cooper

THE DIVERSIFICATION BENEFITS OF ORBIS OPTIMAL

EXECUTIVE SUMMARY: This article outlines how the Orbis Optimal SA funds use stockmarket hedging to reduce exposure to equity markets and hence the risk of loss on the portfolio. It is a strategy that has provided Optimal with the potential to deliver absolute returns during times when stockmarkets may be flat or declining, periods during which unhedged equity funds would typically deliver less attractive returns.

The Orbis Optimal SA funds were launched in January 2005, based on Orbis' successful absolute return strategy in running hedged portfolios since 1990. The funds seek capital appreciation on a low risk global portfolio and are offered in a choice of either US dollars or euros. The funds are invested largely in a focused portfolio of selected global shares which Orbis believes should provide relative outperformance in the long-term. Orbis then use stockmarket hedging to reduce the exposure to equity markets and hence the risk of loss on the portfolio.

It is the reduction in exposure to the equity markets that has resulted in the Optimal Strategy historically producing returns that have been largely independent of and uncorrelated with world stockmarkets. This hedging strategy provides Optimal with the potential to deliver absolute returns during times when stockmarkets may be flat or declining, periods during which unhedged equity funds would typically deliver less attractive returns. This makes the strategy an appealing and useful addition to a foreign balanced portfolio.

> "This is due to the success of Orbis' investment philosophy which aims to outperform in rising markets and reduce the risk of capital loss in falling markets."

This can be seen in **Graph 1**, on page 14, which analyses the Orbis Optimal Strategy relative to the Orbis Global Equity Fund, US$ Bank Deposits, the World Index, the Average Global Equity Fund and the average US$ Bond Fund since 1 January 1990, the inception date of both the Orbis Global Equity Fund and the Orbis Optimal Strategy. The graph shows on the far right that, on average per quarter, the Orbis Global Equity Fund has delivered 4.0%, the Optimal Strategy 2.9% whilst the Average Global Equity Fund has delivered 2.1% versus the World Index's 2.4%. This is in comparison to the returns on US$ Bank Deposits of 1.1% and the average US$ Bond Fund of 1.5% on average per quarter since 1990.

It is interesting to split the periods into those quarters in which the stockmarkets were up versus those quarters in which the stockmarkets were down. The left side of the graph shows the up quarters in which the World Index was up on average 5.9% per quarter. During the same period, the Orbis Global Equity Fund returned 6.9% on average per quarter whilst the average global equity fund returned 5.2% per quarter. Over the same period, the Optimal Strategy returned 2.4% per quarter versus the US$ Bank Deposit benchmark's 1.1% per quarter and the average US$ Bond Fund's quarterly return of 1.3%. The return for the Optimal Strategy was lower than its historical average largely as a result of the low alpha generated by Orbis over this period (1.0% outperformance versus the average of 1.6%).

The middle part of the graph shows how the different funds performed in down markets, during which on average the World Index returned -7.2% per quarter. The Orbis Global Equity Fund returned -4.0% on average per quarter versus the average global equity fund which returned an average of -6.3% per quarter. The Optimal Strategy was up on average by 4.2% per quarter over the same period, mainly as a result of the strong alpha that Orbis was able to generate in the down periods (3.2% outperformance versus the World Index). This is due to the success of Orbis' investment philosophy which aims to outperform in rising markets and reduce the risk of capital loss in falling markets. Over the same period US$ Bank Deposits returned 1.2% per quarter and the average US$ Bond Fund 1.8% per quarter.

With the exposure to stockmarkets largely hedged through the use of stockmarket index futures, the Optimal Strategy has a very low correlation to equity markets. We believe that this presents an attractive risk reward tradeoff, especially in the context of a foreign balanced portfolio, such as the Allan Gray-Orbis Global Fund of Funds. We prefer to use the Orbis Optimal SA funds in this portfolio rather than cash or bonds: the portfolio currently has approximately 40% exposure to the Orbis Optimal SA funds.

In order to look at how effective the Optimal Strategy is, Orbis has calculated the impact on return and risk (volatility of returns) of a portfolio that comprises the Orbis Global Equity Fund and incremental additions of the Optimal Strategy. Ideally one wants to reduce risk by more than the reduction in return for there to be an attractive risk reward tradeoff.

> "Ideally one wants to reduce risk by more than the reduction in return for there to be an attractive risk reward tradeoff."

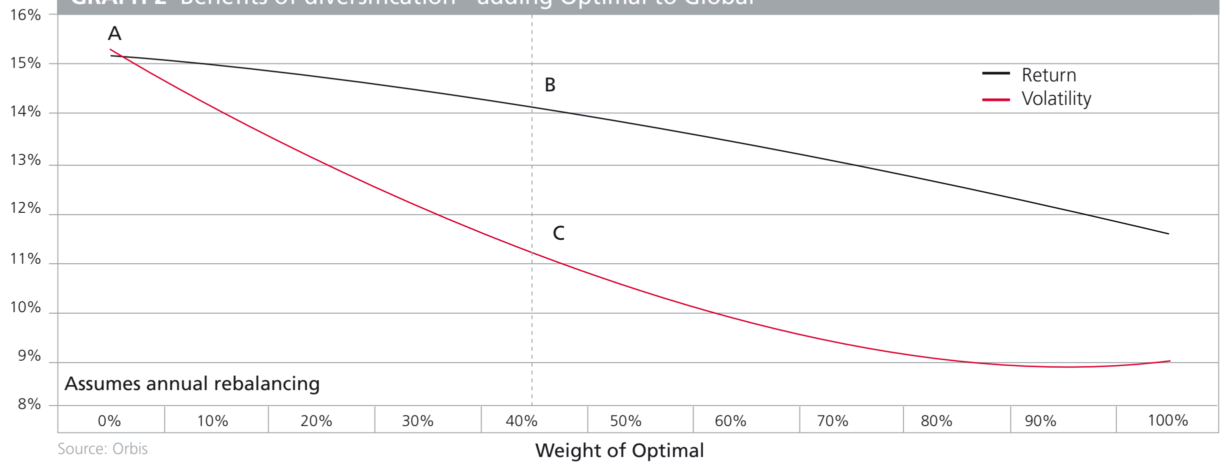
Point A on **Graph 2**, on page 15, assumes 100% of the portfolio was invested in the Orbis Global Equity Fund for 16 years to December 2006. The black line shows the annual return that would have been achieved and the red the annualised risk, both just over 15% p.a. for a portfolio comprising 100% Orbis Global Equity Fund. As one increases the weighting to the Optimal Strategy, one sees that the red risk line reduces much faster than the black return line. The dotted line is a portfolio comprising 60% Orbis Global Equity Fund and 40% Optimal Strategy since their common inception in 1990 (assuming annual rebalancing). One can clearly see the fall in return from A to B (a reduction of about a twelfth) is less than the reduction in risk from point A to C (reduction of about a quarter).

Whilst the Orbis Optimal SA funds have outperformed their cash benchmarks recently, the returns have been sedate relative to other asset classes. This has largely been the result

GRAPH 1 Performance in up and down quarters

Based on returns from January 1990 to September 2007

GRAPH 2 Benefits of diversification - adding Optimal to Global



Source: Orbis

of the stockmarket hedging in a strong equity market as well as the lower levels of alpha that Orbis has been able to generate on its selection of equities. We believe that it is important to look at long-term performance through market cycles as well as consideration of the diversification benefits and risk reduction attributes of the Fund. Therefore, we continue to utilise the Optimal Strategy as an alternative to foreign cash and bonds when managing a foreign balanced mandate on behalf of clients.

Tracy Hirst

MARKETING UPDATE

Allan Gray's advertising strategy has always been about tapping into human truths. The advertising voice – like the brand – has been presented as intelligent and challenging but still warm. This tone has been retained in Allan Gray's new print advertising campaign which deals with the human truth of growing older.

Ageing, the campaign stresses, is not something to pity – it's something to respect.

With age comes the joy and wisdom of a lifetime of experiences. It's a time for reflection and, with the right investment decisions, enjoying some of the comforts for which you've been working all your life.
The campaign suggests that with retirement comes a certain dignity. With careful planning, retirement is not an end. Allan Gray positions itself as a home for investors interested in committing for the long-term so the focus on the long-term results of ageing is apposite.

The striking black and white campaign uses large scale close-ups of a hand, ear, foot, eye and hair. It was shot by Michael Meyersfeld, one of South Africa's premier photographers, using close-up macro photography. The copy tells of the life experience of each body part, what it's been through and accomplished as the person aged.

The 'foot' ad, for example, has the following copy line:

> They were there for the first steps.
> They've skipped rope and skipped class.
> Done everything from the foxtrot to the flamenco.
> They've run marathons, been stubbed and stood on.
> And through it all they've always managed to put the best one forward.
> After 60 years they deserve some time off.

"Allan Gray's advertising has always been about connecting with people on an emotional level. The aim here was not to lose this aspect while doing something that is still surprising and different. We wanted to make ageing something beautiful, not depressing. So we were satisfied with the end result, especially since retirement falls in a category that people don't usually perceive as creative or exciting," says Devin Kennedy, creative director of King James Advertising.

All in all, the interaction between copy and visuals adds up to a campaign that is fresh and that continues to build a relationship between the brand and its audiences.

Investment Track Record

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

Period	Allan Gray*	FTSE/JSE All Share Index	Out-performance
1974 (from 15.06)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007 (to 30.09)	14.5	22.8	-8.3
Annualised to 30.09.2007			
From 01.10.2006 (1 year)	36.5	37.4	-0.9
From 01.10.2004 (3 years)	45.1	40.3	4.8
From 01.10.2002 (5 years)	38.2	29.8	8.4
From 01.10.1997 (10 years)	32.4	18.9	13.5
Since 01.01.1978	31.8	22.5	9.3
Since 15.06.1974	30.1	19.4	10.7
Average outperformance			10.7
No. of Calendar Years outperformed			26
No. of Calendar Years underperformed			6

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

Note: Listed Property included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to **R63 613 008** by 30 September 2007. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to **R3 628 714**.

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

Period	Allan Gray	AFLMW**	Out-performance
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007 (to 30.09)	10.5	14.6	-4.1
Annualised to 30.09.2007			
From 01.10.2006 (1 year)	24.0	27.6	-3.6
From 01.10.2004 (3 years)	31.8	30.7	1.1
From 01.10.2002 (5 years)	26.5	24.6	1.9
From 01.10.1997 (10 years)	26.9	18.2	8.7
Since 01.01.1978	24.9	19.4	5.5
Average outperformance			5.5
No. of Calendar Years outperformed			24
No. of Calendar Years underperformed			5

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

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to **R7 396 761** by 30 September 2007. The average total performance of global mandates of large managers over the same period would have grown a similar investment to **R1 932 337**.

Allan Gray annualised performance in percentage per annum to 30 September 2007	THIRD QUARTER (unannualised)	1 YEAR
SEGREGATED RETIREMENT FUNDS		
GLOBAL BALANCED MANDATE	-0.3	24.0
Mean of Alexander Forbes Global Large Manager Watch # *	2.9	27.6
DOMESTIC BALANCED MANDATE	0.1	30.0
Mean of Alexander Forbes Domestic Manager Watch *	3.5	32.4
EQUITY - ONLY MANDATE	0.5	37.2
FTSE/JSE All Share Index	6.7	37.4
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN MANDATE	0.6	23.1
Mean of Alexander Forbes Namibia Average Manager *	3.2	28.6
EQUITY-ONLY RELATIVE MANDATE	2.8	35.5
Weighted average of client specific benchmarks *	4.4	38.2
POOLED RETIREMENT FUNDS		
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	0.0	24.1
Mean of Alexander Forbes Global Large Manager Watch *	2.9	27.6
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	0.0	29.9
Mean of Alexander Forbes Domestic Manager Watch *	3.5	32.4
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	0.5	37.2
FTSE/JSE All Share Index	6.7	37.4
ALLAN GRAY LIFE RELATIVE DOMESTIC EQUITY PORTFOLIO	4.8	35.2
FTSE/JSE CAPI Index	5.9	36.3
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	-2.4	21.8
Mean of Alexander Forbes Domestic Manager Watch *	3.5	32.4
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	-2.4	18.5
Mean of Alexander Forbes Global Large Manager Watch *	2.9	27.6
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	1.8	18.1
Alexander Forbes Three-Month Deposit Index plus 2%	2.8	11.0
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	0.9	13.0
Alexander Forbes Three-Month Deposit Index plus 2%	2.8	11.0
ALLAN GRAY LIFE FOREIGN PORTFOLIO **	-1.9	1.2
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	2.7	4.7
ALLAN GRAY LIFE ORBIS GLOBAL EQUITY PORTFOLIO **	-0.9	8.1
FTSE World Index (Rands)	0.8	9.6
ALLAN GRAY LIFE MONEY MARKET PORTFOLIO **	2.4	9.1
Alexander Forbes Three-Month Deposit Index	2.3	8.8
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO **	1.1	10.0
Daily Call Rate of Nedcor Bank Limited	2.2	8.2
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	1.8	17.2
Consumer Price Index plus 3% p.a.	2.7	10.2
FOREIGN-ONLY (RANDS)		
ORBIS GLOBAL EQUITY FUND (RANDS)	-0.8	8.3
FTSE World Index (Rands)	0.7	9.5
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	-7.5	-16.1
Tokyo Stock Price Index (Rands)	-3.9	-7.3
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS)	-3.7	-5.7
US$ Bank Deposits (Rands)	-0.8	-6.4
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	6.8	28.2
MSCI Asia Ex-Japan (Rands)	16.1	42.6
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	-1.9	1.2
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	2.7	4.7
UNIT TRUSTS**		
EQUITY FUND (AGEF)	***	32.6
FTSE/JSE All Share Index including income		37.4
BALANCED FUND (AGBF)	***	22.1
Average Prudential Fund (excl. AGBF)		23.8
STABLE FUND (AGSF) - (NET OF TAX)	***	11.1
After-tax return of call deposits plus two percentage points (Net of tax)		7.5
STABLE FUND (AGSF) - (GROSS OF TAX)	***	12.0
After-tax return of call deposits plus two percentage points (Gross of tax)		10.1
OPTIMAL FUND (AGOF)	***	8.9
Daily call rate of Firstrand Bank Ltd		7.9
BOND FUND (AGBD)	***	9.5
BEASSA All Bond Index (total return)		9.1
MONEY MARKET FUND (AGMF)	***	9.0
Domestic fixed interest money market unit trust sector (excl. AGMF)		8.8
ORBIS GLOBAL FUND OF FUNDS (AGGF) ****	***	0.4
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		3.6
ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	***	6.3
FTSE World Index (Rands)		9.0

PERFORMANCE AS CALCULATED BY ALLAN GRAY.

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

* The return for Quarter Three 2007 is an estimate, as the relevant survey results have not yet been released.

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

*** Unavailable due to ACI regulations.

**** As of 1 February 2004, the benchmark is displayed. The benchmark was the Morgan Stanley Capital International Index (in Rands) prior to this date.

3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R millions)	INCEPTION DATE
31.8	26.5	24.9	24,461.7	01.01.78
30.7	24.6	19.4		
35.5	31.1	25.4	22,604.9	01.01.78
32.5	27.8	19.8		
44.9	37.4	25.1	47,901.9	01.01.90
40.3	29.8	17.3		
30.3	25.9	23.0	5,365.5	01.01.94
29.3	24.1	16.6		
41.0	32.9	29.8	9,826.1	19.04.00
39.4	30.3	22.5		
31.7	26.8	27.2	11,507.0	01.09.00
30.7	24.6	20.0		
35.7	31.5	28.8	5,629.2	01.09.01
32.5	27.8	23.6		
45.0	37.8	34.6	6,621.3	01.02.01
40.3	29.8	23.3		
41.7	-	41.8	566.0	05.05.03
40.1	-	40.3		
31.4	29.4	30.4	507.8	06.07.01
32.5	27.8	22.9		
29.8	-	26.4	695.0	01.03.04
30.7	-	28.8		
21.2	20.0	19.6	560.1	01.12.01
9.8	11.1	11.4		
19.1	-	20.0	1,668.4	15.07.04
9.8	-	9.9		
15.9	6.5	4.6	1,181.8	23.01.02
16.2	5.9	1.6		
24.5	-	21.6	1,278.8	18.05.04
22.4	-	20.4		
7.8	9.2	9.6	640.4	21.09.00
7.7	8.9	9.4		
9.0	-	9.5	128.1	04.12.02
6.7	-	7.6		
18.5	-	19.0	908.0	01.05.04
8.7	-	8.2		
25.0	14.2	22.1	14,820.3	01.01.90
22.4	10.9	14.8		
11.5	4.0	17.1	5,310.3	01.01.98
15.8	5.2	9.6		
-	-	14.2	3,377.8	01.01.05
-	-	12.5		
-	-	38.5	1,499.1	01.01.06
-	-	49.1		
16.0	6.6	17.1	3,586.6	23.05.96
16.2	5.9	12.6		
		Figures below unannualised		
39.7	33.5	1833.5	18,673.2	01.10.98
40.3	29.8	666.2		
28.9	26.1	554.0	24,323.6	01.10.99
27.4	22.6	282.6		
15.7	15.0	183.5	21,160.3	01.07.00
6.4	7.2	71.0		
16.4	16.1	208.8	21,160.3	01.07.00
8.6	9.7	104.6		
8.0	9.6	58.4	996.8	01.10.02
6.4	7.6	43.9		
9.0	-	29.6	64.5	01.10.04
9.2	-	30.1		
7.8	8.8	72.4	3,096.1	03.07.01
7.6	8.8	72.7		
15.4	-	39.2	4,678.1	03.02.04
15.9	-	45.0		
-	-	75.7	2,899.3	01.04.05
-	-	70.8		

Segregated Portfolios

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

INVESTMENT MANAGEMENT IN NAMIBIA
Allan Gray Namibia manages institutional portfolios on a segregated basis.

INVESTMENT MANAGEMENT IN BOTSWANA
Allan Gray Botswana manages institutional portfolios on a segregated basis.

Namibia Pooled Portfolio - Allan Gray Namibia Investment Trust

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

South African Pooled Portfolios - Allan Gray Life Limited

(The minimum investment per client is R20 million. Institutional clients below R20 million are accommodated by our Regulation 28 Compliant Unit Trusts.)

RISK-PROFILED POOLED PORTFOLIOS:

	STABLE PORTFOLIO	BALANCED PORTFOLIO	ABSOLUTE PORTFOLIO
Investor Profile	• Risk-averse institutional investors.	• Institutional investors with an average risk tolerance.	• Institutional investors seeking superior absolute returns (in excess of inflation) over the long-term with a higher than average short-term risk tolerance.
Product Profile	• Conservatively managed pooled portfolio. • Investments selected from all asset classes. • Shares selected with limited downside and a low correlation to the stockmarket. • Modified duration of the bond portfolio will be conservative. • Choice of global or domestic-only mandate.	• Actively managed pooled portfolio. • Investments selected from all asset classes. • Represents Allan Gray's 'houseview' for a balanced mandate. • Choice of global or domestic-only mandate.	• Moderately aggressive pooled portfolio. • Investments selected from all asset classes. • Will fully reflect the manager's strong investment convictions and could deviate considerably in both asset allocation and stock selection from the average retirement portfolio. • Choice of global or domestic-only mandate.
Return Characteristics/ Risk of Monetary Loss	• Superior returns to money market investments. • Limited capital volatility. • Strives for capital preservation over any two-year period.	• Superior long-term returns. • Risk will be higher than Stable Portfolio but less than the Absolute Portfolio.	• Superior absolute returns (in excess of inflation) over the long-term. • Risk of higher short-term volatility than the Balanced Portfolio.
Benchmark	• Alexander Forbes three-month Deposit Index plus 2% • CPI plus 3%	• Mean performance of the large managers as surveyed by consulting actuaries. • CPI plus 5%	• Mean performance of the large managers as surveyed by consulting actuaries. • CPI plus 7%
Fee Principles	• Fixed fee, or performance fee based on outperformance of the benchmark.	• Performance fee based on outperformance of the benchmark.	• Performance fee 0.5% p.a. plus (or minus) 25% of the out/underperformance of the benchmark.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)	Yes.[1]	Yes.[1]	Yes.[1]

1. The Portfolios are managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act.
Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals in which case they will be corrected within a reasonable time period.
Allan Gray Life Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of Annexure A to Regulation 28).

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

ASSET CLASS POOLED PORTFOLIOS:

	MONEY MARKET	BOND MARKET	EQUITY	FOREIGN
Investor Profile	• Institutional investors requiring management of a specific money market portfolio.	• Institutional investors requiring management of a specific bond market portfolio.	• Institutional investors requiring management of a specific equity portfolio.	• Institutional investors requiring management of a specific foreign portfolio.
Product Profile	• Actively managed pooled portfolio. • Investment risk is managed using modified duration and term to maturity of the instruments in the portfolio. • Credit risk is controlled by limiting the exposure to individual institutions and investments.	• Actively managed pooled portfolio. • Modified duration will vary according to interest rate outlook and is not restricted. • Credit risk is controlled by limiting the exposure to individual institutions and investments.	• Actively managed pooled portfolio. • Represents Allan Gray's 'houseview' for a specialist equity-only mandate. • Portfolio risk is controlled by limiting the exposure to individual counters.	• Actively managed pooled portfolio. • Investments are made in equity and absolute return foreign mutual funds managed by Orbis. • Represents Allan Gray's 'houseview' for a foreign balanced mandate.
Return Characteristics/ Risk of Monetary Loss	• Superior returns to the Alexander Forbes three-month Deposit Index. • Low capital risk. • High flexibility. • Capital preservation. • High level of income.	• Superior returns to that of the FTSE/JSE All Bond Index plus coupon payments. • Risk will be higher than the Money Market Portfolio but less than the Equity Portfolio. • High level of income.	• Superior returns to that of the FTSE/JSE All Share Index including dividends. • Risk will be no greater than that of the benchmark. • Higher than average returns at no greater than average risk for an equity portfolio.	• Superior returns to that of the benchmark at no greater than average absolute risk of loss.
Benchmark	• Alexander Forbes three-month Deposit Index.	• FTSE/JSE All Bond Index plus coupon payments.	• FTSE/JSE All Share Index including dividends.	• 60% Morgan Stanley Capital International Index, 40% JP Morgan Global Government Bond Index.
Fee Principles	• Fixed fee of 0.2% p.a.	• Performance fee based on outperformance of the benchmark.	• Performance fee based on outperformance of the benchmark.	• No fee charged by Allan Gray. Unit prices of underlying mutual funds reflected net of performance fees charged by Orbis.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)	Yes.[1]	Yes.[1]	No.[2]	No.

1. The Portfolios are managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act.
   Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals in which case they will be corrected within a reasonable time period.
   Allan Gray Life Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of Annexure A to Regulation 28).
2. The Portfolio is managed to comply with the individual asset class limits of Annexure A to Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals whereby it will be corrected within a reasonable time period.
   Allan Gray Life Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of Annexure A to Regulation 28).

OTHER POOLED PORTFOLIOS:

	OPTIMAL PORTFOLIO
Investor Profile	• Institutional investors wishing to diversify their existing investments with a portfolio that not only has no/low correlation to stock or bond market movements, but also strives to provide a return in excess of that offered by money market investments. • Institutional investors with a high aversion to the risk of capital loss.
Product Profile	• Seeks absolute returns. • Actively managed pooled portfolio consisting of shares and derivative instruments. • Shares selected that offer fundamental value. • Risk of shares underperforming the market is carefully managed. • Stockmarket risk reduced by using derivative instruments.
Return Characteristics/ Risk of Monetary Loss	• Superior returns to bank deposits. • Little or no correlation to stock or bond markets. • Low risk of capital loss. • Low level of income.
Benchmark	• Daily call rate of Nedcor Bank Limited.
Fee Principles	• Fixed fee of 0.5% plus 20% of the outperformance of the benchmark.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)	No.

Orbis Mutual Funds*

OFFSHORE PRODUCTS

	ORBIS GLOBAL EQUITY FUND	ORBIS JAPAN FUNDS (YEN AND EURO FUND CLASSES)	ORBIS ASIA ex-JAPAN FUND (US$ FUND CLASS)	ORBIS OPTIMAL SA FUND (EURO AND US$ FUND CLASSES)
Type of Fund	• US$ denominated Equity Fund which remains fully invested in global equities.	• Invests in a relatively focused portfolio of Japanese equities. The Euro fund hedge the resulting Japanese Yen exposure into the relevant currency with the result that the returns are managed in those currencies.	• US$ dominated Asia ex-Japan Equity Fund aimed at investors who are seeking a portfolio that is fully invested in, and exposed to, Asian equities outside of Japan.	• The Fund invests in a focused portfolio of selected global equities that offer superior relative value. It employs stockmarket hedging to reduce the risk of loss. The Fund's returns are intended to be independent of the returns of major asset classes such as cash, equities or bonds.
Investment Objective	• Aims to earn higher returns than world stockmarkets. Its benchmark is the FTSE World Index, including income. The Fund's currency exposure is managed relative to that of the benchmark.	• Orbis Japan Equity (Yen) Fund – seeks higher returns in Yen than the Japanese stockmarkets, without greater risk of loss. • Orbis Japan Equity (Euro) Fund – seeks higher returns in Euro than the Japanese stockmarkets hedged into Euro, without greater risk of loss.	• The Fund aims to earn higher returns than the average of the Asia ex-Japan equity markets, without greater risk of loss. Its benchmark is the MSCI All Country Asia ex-Japan (Net) (US$) Index. The Fund's currency exposure managed relative to that of the benchmark.	• The Fund seeks capital appreciation on a low risk global portfolio. • Orbis Optimal SA Fund – US$ – is still registered for marketing in South Africa.
Structure	Open-ended collective investment scheme (similar to a unit trust in South Africa).			
Manager's Fee	0.5% - 2.5% per annum depending on performance.	0.5% - 2.5% per annum depending on performance.	0.5% - 2.5% per annum depending on performance.	Base fee of 1% per annum, paid monthly, plus a performance fee of 20% of the outperformance of the benchmark of each fund class. The performance fee incorporates a high watermark.
Subscriptions / Redemptions	Weekly each Thursday.			
Reporting	Comprehensive reports are distributed to members each quarter. Summary Fund Fact Sheets are available at www.allangray.co.za			
Client Service Centre	Allan Gray Client Services on 0860 000 654.			

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

Individual Retirement Products

	PRE-RETIREMENT		POST-RETIREMENT
	RETIREMENT ANNUITY	PENSION OR PROVIDENT PRESERVATION FUND	LIVING ANNUITY*
Description	• Enables saving for retirement with pre-tax money. • Contributions can be at regular intervals or as single lump sums. • Ideal for the self-employed or employees who want to make additional contributions to an approved retirement vehicle.	• Preserves the pre-tax status of a cash lump sum that becomes payable from a pension (or provident) fund at termination of employment. • A single cash withdrawal can be made from the Preservation Fund prior to retirement.	• Provides a regular income from the investment proceeds of a cash lump sum that becomes available as a pension benefit at retirement. • A regular income of between 2.5% and 17.5% per year of the value of the lump sum can be selected. • Ownership of the annuity goes to the investor's beneficiaries on his/her death.
Investment Options	The contribution(s) to any one of these products can be invested in any combination of unit trusts.		
Minimum Investment Size	R 20 000 lump sum R 500 monthly	R 50 000 lump sum	R 100 000 lump sum
Initial Fee	None		
Annual Administration Fee	None		
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.
Switching Fee	None		

* Allan Gray living annuity is underwritten by Allan Gray Life Limited.
** For annual investment management fees of Allan Gray Unit Trusts, please refer to the unit trust application form, which can be downloaded from the website www.allangray.co.za.

Discretionary Products Retail

ENDOWMENT POLICY*

Description	• An investment policy ideally suited to investors with medium- to long-term investment objectives who want capital growth with after-tax returns. • Ideal for investors interested in a five-year savings plan.
Investment Options	Can be invested in any combination of unit trusts.
Minimum Investment Size	R 20 000 lump sum R 500 monthly recurring investment
Initial Fee	None
Annual Administration Fee	None
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.
Switching Fee	None

* Allan Gray endowment policy is underwritten by Allan Gray Life Limited.
** For annual investment management fees of Allan Gray Unit Trusts, please refer to the unit trust application form, which can be downloaded from the website www.allangray.co.za.

Allan Gray Unit Trusts - Characteristics & Objectives as at 12 October 2007				
	EQUITY FUND	BALANCED FUND	STABLE FUND	OPTIMAL FUND
Portfolio Structure	A share portfolio selected for superior long-term returns.	A portfolio (which can include all asset classes) selected for superior long-term returns.	A portfolio (which can include all asset classes) chosen for its high income yielding potential.	A portfolio of carefully selected shares. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.
Benchmark	FTSE/JSE All Share Index including income.	Average (market value weighted) of the Domestic Prudential Medium Equity Sector excluding the Allan Gray Balanced Fund.	Return of call deposits (for amounts in excess of R5m) with FirstRand Bank Limited plus 2%. On an after-tax basis at a rate of 25%.	The return on call deposits with FirstRand Bank Limited (for amounts in excess of R5m).
Maximum Net Equity Exposure	100%	75%	40%	15%
Portfolio Manager	Stephen Mildenhall, Arjen Lugtenburg, Duncan Artus, Ian Liddle, Delphine Govender, Orbis Investment Management Limited	Stephen Mildenhall, Arjen Lugtenburg, Duncan Artus, Ian Liddle, Delphine Govender, Orbis Investment Management Limited	Stephen Mildenhall	Delphine Govender
Return Objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns compared to bank deposits.	Superior returns compared to bank deposits.
Risk of Monetary Loss	Risk higher than the Balanced Fund but less than average general equity fund due to Allan Gray's investment style.	Risk higher than the Stable Fund but less than the Equity Fund. This is a medium risk fund.	Seeks to preserve capital over any two-year period with low risk of capital loss.	Low risk and little or no correlation to stock or bond markets.
Target Market	• Investor seeking long-term wealth creation. • Investors should be comfortable with market fluctuations i.e. short-term volatility. • Typically the investment horizon is five-year plus.	• Investors seeking long-term wealth creation. • Investors who wish to substantially comply with the Prudential Investment Guidelines of the Pension Funds Act (Reg. 28). • Investors seeking a three-year plus investment.	• Risk-averse investors who require a high degree of capital stability. • Investors who are retired or nearing retirement. • Investors who require a regular income. • Investors who seek to preserve capital over any two-year period.	• Risk-averse investors. • Investors who wish to diversify a portfolio of shares or bonds. • Retirement schemes and multi-managers who wish to add a product with an alternative investment strategy to their overall portfolio.
Income Yield	Low income yield.	Average income yield.	High income yield.	Low income yield.
Income Distribution[1]	Bi-annually.	Bi-annually.	Quarterly.	Bi-annually.
Compliance with Prudential Investment Guidelines	No.[2]	Yes.[3]	Yes.[3]	No.
Annual Fund Management Fee (excl. VAT)	Performance fee on the under/outperformance of the benchmark (adjusted for fund expenses and cash flows) over a two-year rolling period. **Minimum Fee:** 0.00% **Fee at benchmark:** 1.50% **Sharing Rate:** 10.00% **Maximum Fee:** 3.00%	Performance fee on the under/outperformance of the benchmark over a two-year rolling period. **Minimum Fee:** 0.50% **Fee at benchmark:** 1.00% **Sharing Rate:** 10.00% **Maximum Fee:** 1.50%	Performance fee on the under/outperformance of the benchmark over a two-year rolling period. **Minimum Fee:** 0.50% **Fee at benchmark:** 1.00% **Sharing Rate:** 10.00% **Maximum Fee:** 1.50%	Performance fee on the outperformance of the benchmark. A high watermark structure applies. **Minimum Fee:** 1.00% **Fee at benchmark:** 1.00% **Sharing Rate:** 20.00% **Maximum Fee:** uncapped
Total Expense Ratio[4] (incl. VAT)	Total Expense Ratio: 3.56% including - Performance component: 1.70% Fee at benchmark: 1.71% Trading costs: 0.15% Other expenses: 0.00%	Total Expense Ratio: 2.17% including - Performance component: 0.63% Fee at benchmark: 1.33% Trading costs: 0.17% Other expenses: 0.04%	Total Expense Ratio: 2.07% including - Performance component: 0.61% Fee at benchmark: 1.32% Trading costs: 0.10% Other expenses: 0.04%	Total Expense Ratio: 1.83% including - Performance component: 0.48% Fee at benchmark: 1.14% Trading costs: 0.19% Other expenses: 0.02%
Minimum Lump Sum Investment Requirement	R10 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R25 000 lump sum and/or R2 500 per month debit order.

1. To the extent that the total expenses exceed the income earned in the form of dividends and interest, the funds will not make a distribution.
2. The portfolio is managed to comply with the individual asset class limits of Annexure A to Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals in which case they will be corrected within a reasonable time. Allan Gray Unit Trust Management Limited does not monitor compliance by retirement funds with section 19(4) of the Pensions Funds Act (item 9 of Annexure A to Regulation 28).
3. The portfolios are managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals in which case they will be corrected within a reasonable time period. Allan Gray Unit Trust Management Limited does not monitor compliance by retirement funds with section 19(4) of the Pensions Funds Act (item 9 of Annexure A to Regulation 28).
4. A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. It is expressed as a percentage of the average value of the portfolio, calculated for the year to the end of June 2007. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, UST, levy, strate and ITLevy) and other expenses. These are disclosed separately as percentages of the net asset value.

The information in the above table is applicable to Class A Funds.

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

	BOND FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	GLOBAL EQUITY FEEDER FUND
ares. hese ially s.	A portfolio invested in a combination of South African interest-bearing securities including bonds, loan stock, debentures, fixed deposits, money market instruments and cash.	A portfolio invested in selected South African money market instruments providing a high income yield and a high degree of capital stability.	A Rand-denominated balanced portfolio invested in selected FSB registered Orbis funds.	A Rand-denominated portfolio feeding directly into the FSB registered Orbis Global Equity Fund.
	All Bond Index.	Simple average of the Domestic Fixed Unit Trust Sector excluding Allan Gray Money Market Fund.	60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index.	FTSE World Index.
	0%	0%	100%	100%
	Sandy McGregor, Andrew Lapping	Andrew Lapping	Stephen Mildenhall (William Gray is the Portfolio Manager of the underlying Orbis funds).	Stephen Mildenhall (William Gray is the Portfolio Manager of the Orbis Global Equity Fund).
	Superior returns compared to the All Bond Index.	Superior money market returns.	Superior long-term returns.	Superior long-term returns.
n	Risk is higher than the Money Market Fund, but lower than the Balanced Fund.	Low risk of capital loss and high degree of capital stability.	Risk similar to Balanced Fund but less than average foreign balanced mandate.	Risk higher than the Global Fund of Funds.
d	• Investors seeking returns in excess of that provided by income funds, the money market funds or cash. • Investors who are prepared to accept some risk of capital loss in exchange for the prospect of increased returns. • Investors who want to draw a regular income stream without consuming capital.	• Highly risk-averse investors. • Investors seeking a short-term 'parking place' for their funds.	• Investors who would like to invest in an offshore balanced fund. • Those seeking to invest locally in Rands, but benefit from offshore exposure. • Investors wanting to gain exposure to markets and industries that are not necessarily available locally. • Investors who wish to hedge their investments against any Rand depreciation.	• Those seeking to invest locally in Rands, but benefit from offshore exposure. • Investors wanting to gain exposure to markets and industries that are not necessarily available locally. • Investors who wish to hedge their investments against any Rand depreciation.
	High income yield.	High income yield.	Low income yield.	Low income yield.
	Quarterly.	Daily and pays out monthly.	Annually.	Annually.
	Yes.[3]	Yes.[3]	No.	No.
k. s. % % % d	Performance fee on the outperformance of the benchmark (adjusted for fund expenses and cash flows) over a one-year rolling period. **Minimum Fee:** 0.25% **Fee at benchmark:** 0.25% **Sharing Rate:** 25.00% **Maximum Fee:** 0.75%	**Fixed Fee:** 0.25%	No Annual Management Fee. The underlying funds, however, have their own fee structure.	No Annual Management Fee. The underlying funds, however, have their own fee structure.
	Total Expense Ratio: 0.53% including - Performance component: 0.04% Fee at benchmark: 0.29% Trading costs: 0.00% Other expenses: 0.20%	Total Expense Ratio: 0.30% including - Performance component: 0.00% Fee at benchmark: 0.29% Trading costs: 0.00% Other expenses: 0.01%	Total Expense Ratio: 2.36% including - Performance component: 0.68% Fee at benchmark: 1.25% Trading costs: 0.16% Other expenses: 0.27%	Total Expense Ratio: 2.61% including - Performance component: 0.89% Fee at benchmark: 1.44% Trading costs: 0.06% Other expenses: 0.22%
	R25 000 lump sum and/or R2 500 per month debit order.	R50 000 lump sum and/or R5 000 per month debit order.	R25 000 lump sum. R500 per month debit order.	R25 000 lump sum. R500 per month debit order.

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ALLAN GRAY
INTELLIGENT INVESTING

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

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