



Q3

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QUARTERLY
COMMENTARY

The benefits
(or not?) of
foresight

Fallen stars –
a contrarian's
hunting ground

Retirement
reform revisited

The Allan Gray
Equity Fund
turns 10

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Greg Fury

COMMENTS FROM THE CHIEF OPERATING OFFICER

We celebrated the 10th birthday of the Allan Gray Equity Fund on October 1

We did so at a difficult and uncertain time for many investors. It is not often that we have as eventful a period as September and early October 2008. President Mbeki's resignation and replacement by new President Kgalema Motlanthe was announced the week after news of the provisional bankruptcy of Lehman Brothers, the sale of Merrill Lynch to Bank of America and the US government stepping in to support AIG. All this political and economic turbulence has been reflected in substantial falls in stock markets in South Africa and globally amid remarkable volatility.

We must remind ourselves, however, that there have been previous crises and that, while the flood of news and market data can be enormously distracting, we need to stick to our investment strategy. Our markets have survived previous crises and we have no doubt that they will survive this one too. So my message is that you should expect nothing different from us during these times. We will continue to do what we have always done: the thorough analysis of individual companies; striving to prevent permanent losses of capital; and keeping our focus very much on the long term.

Us doing our job is only part of the equation however, and as Richard Carter shows in his article, the returns our clients achieve are as much a function of their behaviour as they are of ours. The unfortunate truth is not only does the average fund do worse than the market, but the average investor does (much) worse than that. While, as is noted below, the first part fortunately is not true of the Allan Gray Equity Fund, our experience has been that the second part certainly is. Richard explains how herd mentality can lead to short-term thinking and how this can erode real wealth. He also suggests some ways to improve the returns you actually get out of your investment.

I hope that this investment has been in the Allan Gray Equity Fund over the past 10 years. We are very proud of the track

record of our first retail fund and celebrate its birthday in an article by Heaton van der Linde and Claire Maclaurin. But I do caution that this has been an extraordinary period of opportunity, taken over the full 10-year term, and that future returns are unlikely to be as good.

Retirement fund reform will affect us all

Since most of our clients are investing for their retirement, the retirement fund reform process underway is critical for them and us. This process, which began more than 10 years ago, is now firmly in the spotlight as stakeholders try to bed down the best way forward. Broadly speaking, the changes aim to increase participation of all South Africans in the financial system (increase savings) and provide a social security net for the vulnerable and poor. Christo Terblanche shares some insights on the current proposals and sets the scene for a series of future articles that will address and debate the key issues at stake.

Our role in the industry may change under these proposals as a larger number of individuals will be required to save for retirement. The potential growth in savings will be very good for the economy which is starved of domestic savings. While we are supportive of the broad objectives of retirement reform, we caution that the devil is likely to be in the detail.

I encourage you to stay the course during these difficult times and take comfort in the fact that not only will we survive this latest turmoil, but that often hard times bring with them great opportunity. We will seek to capitalise on these opportunities to achieve market-beating returns for you. Here's to the next 10 years!

Kind regards

Greg Fury



Simon Marais

THE BENEFITS (OR NOT?) OF FORESIGHT

EXECUTIVE SUMMARY: Simon Marais concludes that, even if we could forecast the future of industry growth, it is far from clear that it would be much help. Instead, investment decisions should be made by a detailed study of companies which other investors have written off because they dislike the industry or find it 'boring'.

At Allan Gray we do not usually have colourful charts to show clients about growth in China or the latest sub-prime disaster in America. The reason for this is simple – most of the time we have no special knowledge about such affairs and therefore cannot add to what is already known in the market.

But there is an even deeper reason for trying to limit our reliance on economic forecasting. Suppose you had perfect knowledge about which sector would experience the best growth over the next 30 years and which the least. Surely this would make your investment decisions easy? Buy the best industry and avoid the worst.

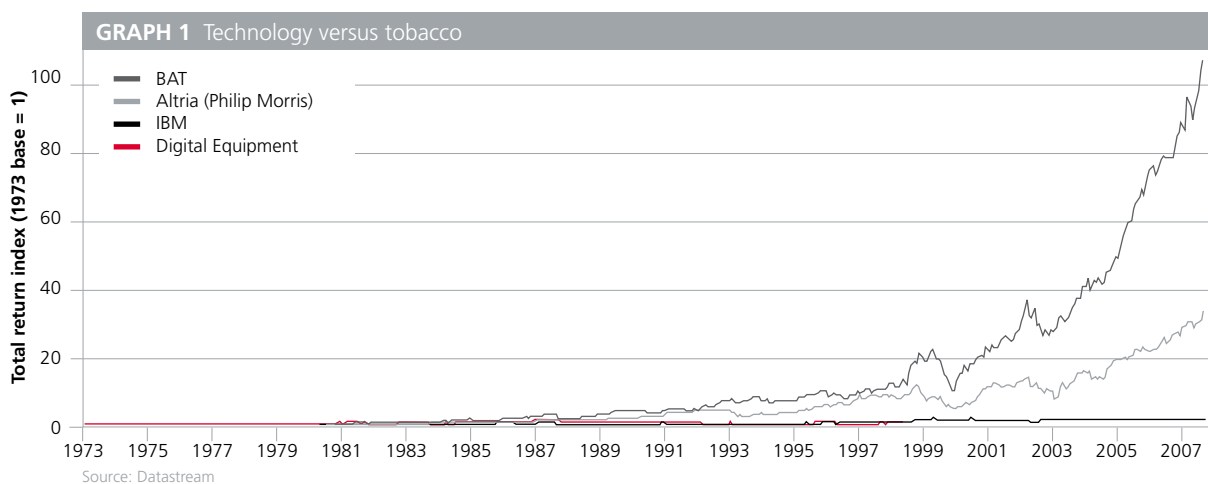
Which sector has shown the best growth since 1973 and which has experienced the most headwinds?

Looking at our Orbis database which goes back to 1973, we conclude that developments in the information technology (IT) sector have exceeded even the highest expectations of 35 years ago. Meanwhile, the worst-performing industry since then has probably been tobacco. In 1973, smoking

was still common on aeroplanes and you would probably have been classified as eccentric if you had told someone to smoke outside.

Armed with this knowledge, you would think making money (at least in a relative sense) would be simple: buy the dominant companies in the IT sector and stay away from tobacco companies. Back then, IBM dominated the computer space, while the largest tobacco company was Phillip Morris (now called Altria).

Graph 1 shows the value of an investment in 1973 in both stocks with dividends re-invested. A US\$100 investment in IBM had grown to US\$1 700 by the end of 2007 – a little better than inflation, but worse than the general stock market which yielded US\$3 500. Foresight on the IT sector would have been of no help. But an investment in Phillip Morris/Altria increased to US\$35 000 over the same period – 20 times more than the IBM investment and 10 times more than the stock market.



Where there is smoke there is fire

Our choice of companies was not just fortunate. The second-largest computer company of the day was Digital Equipment, which was taken over by Compaq 10 years ago for less than four times its 1973 price. You have to look carefully to distinguish Digital Equipment's graph from the bottom axis. Meanwhile, British American Tobacco (BAT), the second-largest tobacco company at the time, was up 1 000 times.

The same has been true in South Africa. We recently looked into which local shares have performed best since Allan Gray opened its doors for business in 1974. The top total returns by far have been from Rembrandt, which until earlier this year was dominated by tobacco. (See **Graph 2**.)

“... perfect foresight in macroeconomics is often of little value; in fact, it could actively lead you to make poor investments.”

The importance of a holistic approach to financial markets research

The examples mentioned illustrate that perfect foresight in macroeconomics is often of little value; in fact, it could actively lead you to make poor investments. One of the most under-appreciated facts about financial market research is, in our view, that it is not only the growth in your markets that is important; even more significant is the growth in competition that you face. This is the part that is very difficult, if not impossible, to predict.

The computer industry experienced rapid growth, but that

spawned massive competition and constant innovation. The large incumbents of the day had to fight both existing and new competitors for their market. Emerging competitors such as Apple, Microsoft, Dell and Google had innovative business models that the incumbents found difficult to copy. At the same time, the tobacco industry faced a shrinking market, rising taxes, a ban on advertising and a series of huge lawsuits.

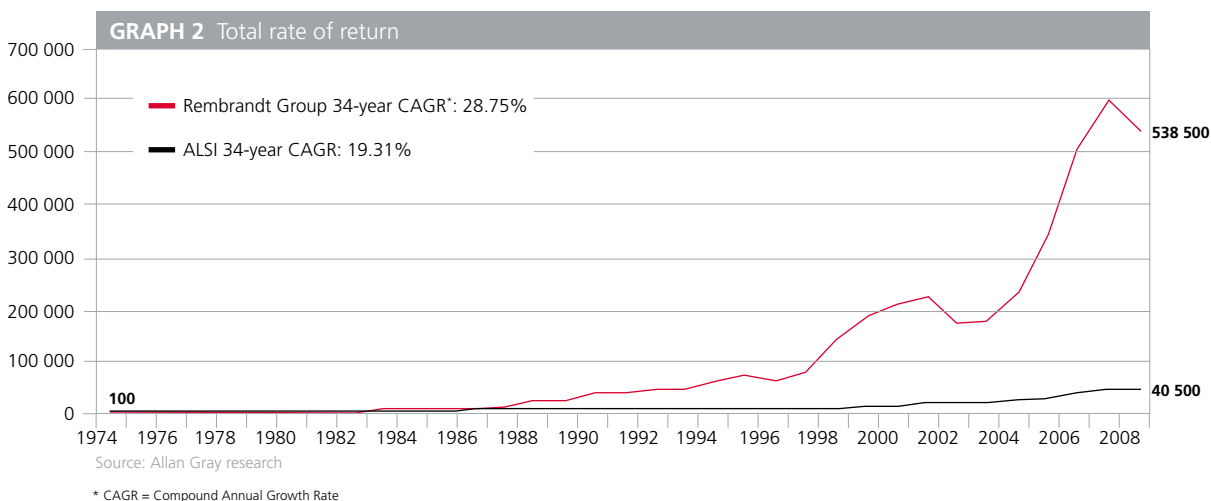
However, nobody entered the market and the incumbents could pass all costs on to their customers and, with no re-investment needs, all profits could flow to investors as dividends.

Cracks in the crystal ball theory

So we can conclude that even if (and it is a very big if) we could forecast the future of industry growth, it is far from clear whether

the information would help much. Instead, we elect to stick to our investment philosophy: we make our investment decisions by completing a detailed study of companies. We often choose industries that other investors dislike or have written off as 'boring'. Our research involves a careful study of financial accounts and annual reports, management and competitor interviews and a strong focus on value. In this way we make sure we do not overpay.

While this approach does not work every year (as some of our more recent numbers show), it has stood us in good stead since inception. We have no doubt that as long as we keep up our standards of analysis, our approach will work for the next 34 years. No need for that crystal ball then!





Delphine Govender

FALLEN STARS – A CONTRARIAN'S HUNTING GROUND

EXECUTIVE SUMMARY: In the short term, share prices are affected by market psychology. Over the long term, we believe share prices are always determined by the economic progress of the underlying business. Delphine Govender discusses how Dimension Data is a great example of a share that, at the height of its popularity, was conspicuously absent from our portfolios, but has now become a substantial investment in Allan Gray funds.

While picking winning shares has been key in driving our investment performance, what has been equally important are those that we have intentionally decided not to own because of overvaluation.

Dimension Data (Didata) is a great example of a share that, at the height of its popularity, was conspicuously absent from our portfolios. For a host of reasons, Didata's popularity subsequently unravelled and the share lost favour with the market, falling 97% (**Point A to B on Graph 1** on page 5) from its peak share price (Point A: 7000c) to bottom (Point B: 180c) in just two and a half years. Avoiding this loss was certainly a contributor to the outperformance of our clients' portfolios at the time.

Didata's extreme share price action presented an opportunity to us

Our research shows that Didata today is a fundamentally better, more sustainable business than it was at the peak of its share price. In our view, the current share price considerably undervalues what we believe the business is worth. Didata currently represents a meaningful investment in our portfolios. It is one of those investments that we believe could add substantial value for our clients – but this time through including it in our portfolios.

That was then...

At the end of the 1990s and the start of this decade, information technology (IT) and internet shares were the darlings of stock markets worldwide. These were businesses that represented the 'new paradigm' in the global economy or as many were convinced, IT itself was the 'new economy'. South Africa was no exception. The share prices of IT companies reached heady levels as the market became supremely optimistic about the prospects for continued high rates of profit growth. By early 2000 many South African IT shares traded at price-earnings (P/E) ratios well in excess of 50x! (Put this in the context of the long-term price-earnings ratio for the overall stock market of 11.5x.)

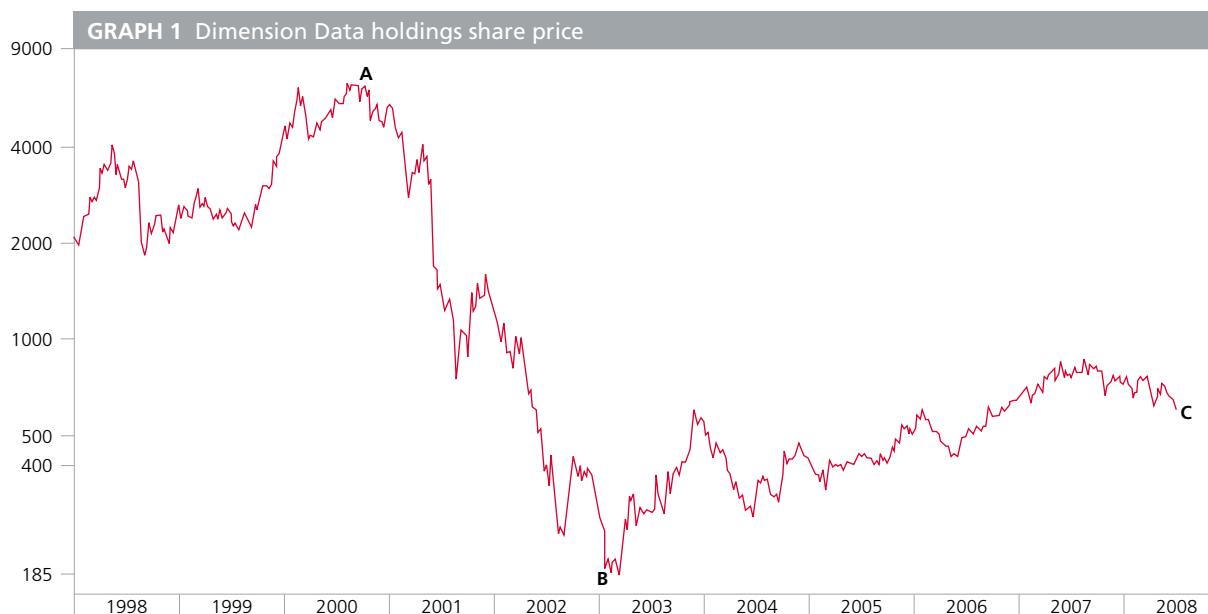
Didata was South Africa's IT poster child

In March 2000 Didata's P/E ratio stood at a hefty 88x (versus the All Share Index P/E ratio of approximately 16x at the time). It was South Africa's largest IT company by market capitalisation.

What is Didata's business about?

Didata's business model is centred on corporate IT networks. It is a reseller of hardware components required to physically build a company's IT network. Didata provides the service of taking all these hardware components and integrating them with each other as well as other existing infrastructure to create both the physical and virtual IT network for its corporate clients.

In addition, Didata also has the expertise to provide several other services to its clients, including connectivity to the internet, securing and storing of company networks and information, and setting up and managing company call centres.



Source: I-Net Bridge

In our opinion, the market's optimism that high earnings growth would continue was based largely on the following:

1. Didata's existing client base would need more and more network components. At the same time, Didata could grow its client base aggressively.
2. The margins Didata earned on both its products and services would expand.
3. As a result of the market believing points 1 and 2, Didata could and would continue to raise capital through issuing shares at its very high P/E ratio. Even if there was no need for the cash, it would earn interest in the bank, which would then further boost earnings.

The bubble bursts

However, the market's extremely bullish expectations for the IT sector turned out to be unrealistic. Demand for IT products and services came under pressure as many businesses started pulling back their IT spending post the 'non-event' of Y2K. Then there was the global economic fall-out following the terrorist attacks on the United States in September 2001.

In anticipation of rapidly declining earnings, the infamous IT share price bubble burst and several IT and internet shares plummeted. For Didata, the rest – as they say – is history.

This is now...

Didata's earnings are currently below normal, in our view

Today Didata's share price (**Point C** on Graph 1: 647c) trades at less than one-tenth of its peak share price in 2000 (Point A). However, its last reported revenue (2007) on a per share basis was almost 50% higher than the revenue per share recorded back in 2000. Admittedly, the current profits of the business are some way lower than peak profits achieved in 2000. While we held the view in 2000 that Didata's earnings were then unsustainably high, our opinion now is that the current earnings for this business are below normal.

The core of Didata's business model remains unchanged but the overall picture is quite different:

- **Scale** – Didata has become one of the largest global resellers of Cisco products. Cisco is the world's leading manufacturer and vendor of networking equipment. In Africa, Asia and Australia, Didata commands the number one position in its market share of Cisco product sales.
- **User behaviour** – The IT network has become deep-rooted in our lives over the past decade thanks to mobile telephony and our need to be connected constantly to the internet. The network of the present and future must

allow connectivity of any device (mobile phone, laptop, Blackberry) to any application (email, voicemail, documents, Microsoft programmes) and at any location (the office, the home, the airport). With this evolution, companies like Didata that build and customise company networks have a significantly increased load of needs for which to cater. This entrenches Didata's importance to its customers and widens its revenue streams.

- **Regulation** – South Africa's electronic communications environment has been undergoing deregulation. Previously only certain dominant service providers, like Telkom, had the legal right to provide telecommunication services such as 'voice'. This is no longer the case. Private network providers that lease any form of communication lines to their subscribers/clients can now offer a wide scope of telecommunications services. As a result, Didata is able to compete head-on with the likes of Telkom and the other telephony operators, through its subsidiary Internet Solutions – South Africa's largest corporate internet service provider. This is because it may now transmit telephone/voice calls through the computer network and over the internet. We believe Internet Solutions is a source of considerable value within the broader Didata group.
- **Management** – The current CEO has been in place since early 2004. From a loss-making position, he has steered the business through an effective financial turnaround with the right balance of conservatism and progressiveness. Going forward, we believe the management team is likely to carry through this steady approach.
- **Dividends** – For the first time in its history Didata paid dividends in September 2006. In our opinion, this points to a business that has stabilised and signals confidence about the future.

"... there are more reasons to be excited about Didata as a business and as an investment today than ever before."

Prospects for strong revenue growth and improved profitability

We believe these material changes, combined with several other operational and strategic refinements, have improved the sustainability of Didata's business model. We are conservative, however. With its current business mix, we don't believe Didata will ever again earn previous peak profit margins. But in relation to current profitability, our base case expectations are for earnings to increase.

In our opinion, there are more reasons to be excited about Didata as a business and as an investment today than ever before. Ironically, perhaps an element of the market's historic optimism about this company was not unjustified, just premature.

We are happily contrarian

It is common for 'flavour of the month' shares to be missing from our portfolios. When positive market sentiment drives prices up, typically to levels not supported by intrinsic value, we cannot justify investing in those overvalued shares, even if we suspect that the share prices could go up further in the short term.

The way investors over-react – either positively or negatively – is proportionate. Investors become overly optimistic about the prospects for a company or industry and they over-react positively about this; then things might just start to go wrong and they then over-react negatively. Like a pendulum, optimism can swing rapidly to pessimism. This can cause the share price to correct, often extremely, and a 'fallen star' is born.

Owning Didata today is hardly as fashionable as it once was. However, that doesn't concern us too much. If it did, we could not justly claim the description contrarian.



Christo Terblanche

RETIREMENT REFORM REVISITED

EXECUTIVE SUMMARY: Retirement fund reform will affect us all. In this article Christo Terblanche shares some insights on the current proposals and the complicated debates taking place. In the coming editions of Quarterly Commentary we plan to tackle some of the issues in more depth and, where appropriate, give you our views on them. We do not anticipate a speedy resolution to the process.

Retirement fund reform is a complex topic

Retirement fund reform refers to the way the retirement system in South Africa is being changed. This process began more than 10 years ago with a series of reviews of the tax system and is now firmly in the spotlight as stakeholders try to bed down the best way forward. Broadly speaking, the changes aim to increase participation of all South Africans in the financial system (through an increase in savings) and provide a social security net for the vulnerable and poor.

The range of objectives policymakers aim to meet is diverse, and includes:

- Poverty alleviation
- Increasing savings
- Limiting the impact on the state’s purse
- Increasing public confidence in the retirement fund system
- Capital market stability
- Labour market incentives

These are all hefty topics in their own right. It is no surprise therefore that it is a complicated, sensitive and politically charged subject.

Consultative processes take time and there are divergent views on many issues

It has taken some time to get to the stage in the process where there is coordination (but not necessarily consensus views) between government departments on the various issues. There are also many other groups involved in the process with vested interests and differing views.

An overview of the current proposals and issues:
Proposed pillar one – social security

The first proposed level (or pillar as they are also referred to) is about making sure there is a safety net for everyone. It is intended to be a public grant system to deal with poverty. You will not have to contribute directly to this – the state will fund this out of tax revenues. It is proposed that everyone will get access to three basic social grants: an income grant, child support grant and old age pension.

There is some interplay between this level and the next, which covers compulsory retirement saving. Depending on the level of the state old age pension, it either increases or decreases the level of importance of the next pillar: the funded element.

Current debates about social security:

There is broad consensus on some issues, but there are some difficult decisions still to be made.

1. **Basic income grant:** Should any social security system extend benefits to include a basic income grant that provides a minimum level of income to all adult citizens?
2. **Means-testing to qualify for the state old age pension:** An example of an issue where there is broad consensus is that the basic state old age pension should no longer be means-tested. The reason for this is that if you are on the margin between qualifying for this and not, there is a perverse incentive to spend more so that you make sure you qualify. To make sure that you get rid of these incentives, it is generally agreed that everybody should get the basic state old age pension. Even the wealthy.

Proposed pillar two – mandatory saving for retirement together with mandatory risk insurance (life and disability)

A lot of the debate is about the compulsory retirement savings level or pillar of the proposed new retirement system. This level is about establishing a 'mega' government fund called the National Social Security Fund (NSSF). Every employed person will have to contribute a percentage of his or her salary to this fund.

It is not completely clear how many people will be covered in each level. If the limit for mandatory contributions before individuals can opt out is R150K, how many people will qualify? Alexander Forbes estimates that only one million people in South Africa earn more than R150K. This means that potentially only one million people will be investing in retirement products outside the mandatory fund space.

Proposed pillar three – voluntary savings

Pillar three is similar to the current retirement annuity fund world, where individuals may choose to contribute to and build up retirement savings in addition to any employer-based retirement funding arrangement.

Benefits at retirement: compulsory pensions

Regarding what you get at retirement (the so called 'benefit' stage) – there is a big push towards requiring everyone to take out an annuity with no ability to withdraw a lump sum at retirement. The key question is whether one will be forced to buy a guaranteed annuity (a conventional pension) or whether one will be given the choice to invest in an investment-linked annuity (a living annuity). A conventional annuity requirement is likely to prejudice poorer people as the richer tend to live (and hence draw pensions) for longer than the poor.

Current debates about mandatory retirement savings:

- 1. Tax:** An approach consistent with the current retirement funding system would be a tax deduction going into the fund, i.e. pre-tax income, with no tax paid in the fund, and tax being levied on income received on the payments out of the fund in retirement.
- 2. Compulsion:** There is general agreement that it should be compulsory for all in formal employment to contribute.
- 3. Level of contribution:** This debate is about the absolute level you should contribute, e.g. 15% of your salary. It also questions how much income this contribution should be based on – is it on your first R60K that you have to make a contribution on, or your first R150K, or could it be a higher level?
- 4. Preservation:** It is largely agreed that you will have to preserve your existing benefits and you will not be able to cash in your savings early – but this is not without controversy. People whose circumstances change (e.g. when they lose their jobs) need their money to survive today.
- 5. Role of the private sector and government:** There is a lot of debate about who should administer the scheme.
- 6. Fund design issues:** How will it be funded, will benefits be defined benefit (DB) or defined contribution (DC)?
- 7. Risk benefits:** It is largely agreed that there will be compulsory risk benefits in the structure. It is not agreed how much of your contribution will go to providing risk benefits versus how much will go into retirement savings. Government is making a strong argument that no matter what happens, even if you are allowed choice on the investment side, you will not be allowed choice on the risk benefits side.
- 8. Extending the reach of the system to the informal sector:** If you are not formally employed you are not caught in the net at all. Chile also has a large informal work force and when they introduced a mandatory system it was hoped that eventually all those from the informal sector would see the benefits of the scheme and move into the formal sector. But it turned out to have the opposite effect – people left the formal sector because they wanted to avoid the compulsory fund, which they saw as tantamount to losing control over their savings.
- 9. Issues around investment management mandates:** There is a general view that investment management will be outsourced to the private sector, but this is not uniformly held. Another debate is around the extent to which choice of underlying investment options will be made available.
- 10. Opting out of the NSSF:** There are issues around opting out and what scheme you can use instead. While there is an argument about economies of scale reducing the cost, there is also an argument for the role of competition in driving efficiencies. A possible outcome is high hurdles for size of scheme, possibly with lower levels required for closed funds (e.g. corporate retirement funds) than for open funds.
- 11. Costs:** Will costs be regulated or will competition be allowed with rules on effective disclosure and transparency (as in the unit trust industry)?

The role of consistency in creating public confidence

Once design issues are resolved and the debates are over, a consistent approach is required to maintain and build public confidence in the retirement fund system over the long term. Some reassurance has been given to members of existing schemes, who were concerned about whether their existing savings would be transferred to the NSSF to their detriment.

In conclusion: the reforms will grow the savings pool... or will they?

Our role in the industry may change under these proposals as a larger number of individuals will be required to save for

retirement. The potential growth in savings will be very good for the economy which is starved of domestic savings.

There is a caveat to this. One of the design issues currently being debated is how the NSSF scheme will be funded: should it be what is called 'pay as you go' (PAYG), or will it be a funded system? If it is PAYG, there is little if no increase in savings. We will address this debate in a future issue of the Quarterly Commentary.

While we are supportive of the broad objectives of retirement reform, we caution that the devil is likely to be in the detail.

Current debates about voluntary savings:

Should there be a tax incentive, and if so, up to what level?

Right now you can get a tax break on up to 15% of your (non-retirement funding) income, with no upper limit and no compulsion (requirement to do so). It is very likely that in the new regime an upper limit will be applied beyond which no tax break will be available.

An overview of retirement fund reform:

A. Who is involved?

It is a consultative process involving a number of different groups. They include:

1. **The National Treasury** – which wishes to ensure that there is 'transparency, accountability and sound financial controls in the management of public finances'.
2. **The Department of Social Development** – which wishes to ensure that South Africans 'have access to comprehensive, integrated, sustainable and quality social-development services to combat vulnerability and poverty'.
3. **The private sector:**
 - a. Employers – who are currently sponsors of the majority of retirement funds and have a strong interest in ensuring that their employees are adequately catered for.
 - b. The financial sector – which has a vested interest in encouraging members to save more for retirement and which wishes to play a role in administration and management.
4. **Organised labour** (e.g. COSATU).
5. **Regulators** (e.g. the Financial Services Board).

B. Why the change?

1. To get more people to save for their retirement – grow savings.

In South Africa, one cannot assume everyone has enough money to put some aside to look after themselves as they get old and retire. High unemployment levels, extent of poverty and the impact of HIV are all factors that affect this. Financial literacy and the structure of the informal (and currently 'excluded') sector are also factors that affect the debate about any reform to increase savings. Even for those currently employed, the impact of a proportion of one's wage being put away for 'later' on both labour and the private sector is significant.

2. To enable more people to maintain their standard of living when they retire.

Factors that affect how much your retirement income will replace your salary or earnings include:

- a. How much money you put in
- b. How much money is eaten away by costs
- c. How much your money grows
- d. How long you save
- e. How much you take out and when

3. To reduce the extent to which people take money out of their retirement savings to spend on current needs.

The most significant time that people tend to erode their retirement savings is when they change jobs and make early withdrawals. People need to be encouraged to preserve their benefits and stay invested for longer. On the other hand, there are vast numbers of people who need this money to simply survive and stay above the breadline, so a balanced approach is required.

C. What principles underpin the change?

Equity:

- People's differing abilities to contribute to be taken into account

Mandatory participation/compulsion:

- Based on the belief that people do not and will not save enough if left up to them
- Increase scale, reduce cost
- Increase coverage

Efficiency of the system:

- Scale will help achieve this
- There is still uncertainty about the roles of government and private sector in achieving this

Solidarity:

- With context of equity and different people's abilities to pay, it is acknowledged that the design of the system must allow some degree of cross-subsidy of the poor by the rich



Richard Carter

HOW CAN YOU IMPROVE YOUR INVESTMENT RETURNS?

EXECUTIVE SUMMARY: Richard Carter highlights the gap that exists between the return you get as an investor and the actual returns generated by Allan Gray's funds. He explains the cause of this and suggests some ways to improve the returns you get out of your investment.

The difference between the returns you get from your investment and the actual fund returns

The returns of the fund are the returns generated by the portfolio managers over a period of time. The returns you actually get as an investor depend on your participation in the fund:

- How much and when you invest
- How long you remain invested
- When you disinvest

For example, if you invested R1 000 in the Allan Gray Equity Fund in the very first week that the Fund was launched (10 years ago) and kept it there, your return would be the same as the 'since inception' returns reported in our literature. If, however, you had invested R500 at the start of the Fund and a further R500 at the beginning of this year, your return would have been much less than the Fund returns over the same period.

The example below illustrates the potential difference between fund returns and investor returns:

Context

The Allan Gray Equity Fund produced a return of 35.21% for the three-year period shown in the table below:

	Fund performance
2005	50.03%
2006	43.47%
2007	14.83%
3-year return	35.21%

Scenario

Now assume that three different investors (Investor A, Investor B and Investor C) invested the same amount in total, and were invested in the Allan Gray Equity Fund over the same three years, but made their investments at different times according to the table below. The table shows that each investor's returns vary significantly both from each other and from the Fund return.

	Investor A	Investor B	Investor C
Total investment	R30 000	R30 000	R30 000
When they invest and when they take their money out	At the start of: 2005 invested R10 000 2006 invested R10 000 2007 invested R10 000	At the start of: 2005 invested R30 000	At the start of: 2005 invested R30 000 2007 withdrew R30 000
Investor return	30.92%	35.21%	39.6%

Investor B would have received the same return as the Fund (35.21%), having adopted a 'buy and hold' approach to his/her investment for the entire three years. Investor C could have achieved a better return than the Fund by taking his/her initial R30 000 out of the investment (excluding growth on the investment in the previous two years) at the start of 2007. This, on the face of it, looks appealing – but evidence shows that timing not only fund performance but also market performance is very difficult to do.

We measure our success by the wealth we build for our investors, not just our fund returns

Because investor returns are a function of the decisions they take as well as those our investment team take, we have only done half our job by ensuring that our funds deliver outperformance. We also need to consider the difference between fund returns and investor returns as a measure of how successful we have been at encouraging investors to remain invested for long enough to benefit from our investment approach. A fund may perform well but if it has no investors in it or if they are in the fund for too short a time to benefit from our approach, little wealth is created.

Your investing behaviour can increase or reduce the gap between your returns and fund returns

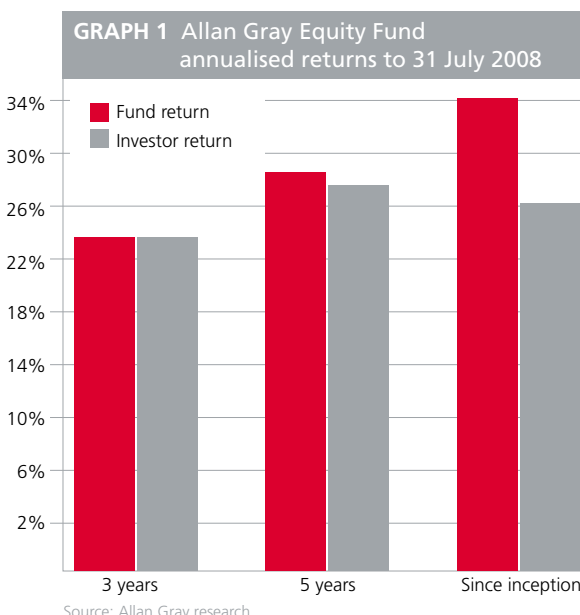
Aside from educating investors and communicating the benefits of a long-term, buy and hold approach to investing, we have little control over when investors invest or for how long they hold their investments. In fact we think that it is essential that we do not have control and that our clients have the freedom to disinvest at any time and without penalty. The degree to which your investing behaviour is aligned with our long-term philosophy will define how big or how small the gap is between the Fund's returns and your own returns.

Are we creating wealth for investors over the long term?

It is tempting for confident investors to switch between different funds in the belief that they can 'time' performance

and generate better returns than staying in their current fund. While there are undoubtedly examples of this, they are few and far between and experience has shown that 'timing' fund performance is extraordinarily difficult to do, perhaps even more so than 'timing' markets – something even investment professionals find challenging.

Part of this experience is shown in **Graph 1** below, and in **Graph 2** on page 13, where you can see the Fund returns compared with the average investor returns for the Allan Gray Equity Fund and Allan Gray Balanced Fund over various time periods.



The statistical calculation behind fund returns (time-weighted returns) and investor returns (money-weighted returns)

The difference between an investor's returns and the actual fund returns is the difference between what is referred to as 'time-weighted returns' and 'money-weighted returns'.

Fund returns (time-weighted returns)

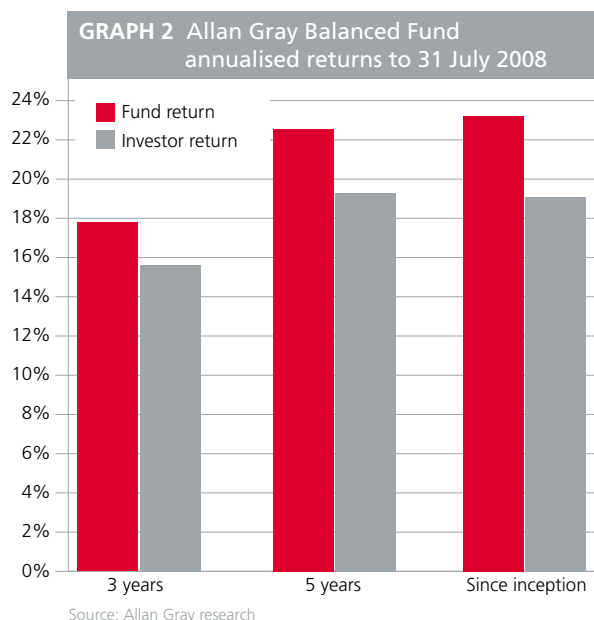
When calculating 'time-weighted returns', the size and timing of cash flows in and out of the fund do not really matter. This calculation applies the same weighting to the returns over every period and provides the single rate of investment return which is equal to the actual fund returns over time.

We report time-weighted returns in our documentation.

Investor returns (money-weighted returns)

'Money-weighted returns' are a much more accurate measure of actual investor returns. They take into account when the investment is made, how long that investment is held and when the returns are generated. This calculation takes the size and timing of these 'cash flows' into account.

Each investor may have a different return depending on their own pattern of investments. For the purposes of this article we are looking at the average investor returns for all investors invested in the funds.



It is encouraging that the average investor in the Allan Gray Equity Fund has done more or less as well as the Fund over the last five years. Indeed, in the five-year period to the end of July 2008 investors in the Allan Gray Equity Fund received 0.96% per year less than the return the Fund generated. However, the average investor in the Fund holds the Fund for only around three years, which in our view is not long enough to benefit consistently from the Fund's performance. Evidence of this is the large gap in the 'since inception' returns, showing that investors have missed out on a significant amount of performance generated by the Fund.

Over the same five-year period, investors in the Allan Gray Balanced Fund missed out on a 3.3% performance per year. This is significant and we are concerned that in spite of achieving a benchmark-beating performance, we are not creating the same level of long-term wealth for the average Balanced Fund investor. This is particularly disappointing for us when we consider that when investors choose the Allan Gray Balanced Fund, they are delegating not only the underlying share or security selection, but also the asset allocation decision (or how much is invested in equities, bonds, cash and offshore). Investors who believe in our ability to make these decisions on their behalf will keep the rewards of our investment approach only if they stay invested for long enough.

"Investors ... will keep the rewards of our investment approach only if they stay invested for long enough."

The pattern is similar for all our funds. Over most periods, investor returns have underperformed the Fund returns by a few percentage points. This may not sound like a lot but, over a five-year period, a few percentage points each year can make a significant difference.

More volatile markets increase investor fears and the price to pay for irrational switching may be high

The difference between fund returns and investor returns is likely to increase during times when the market is very high, decreasing or very volatile. These extreme conditions unsettle investors and increase the number of emotive short-term investment decisions. In the example above, the figures being used were from a bull market or period of rising returns. Whether investors would stay the course in the context of the current volatility, market extremes and anticipated 'normalisation' of market returns remains to be seen.

American mutual fund investor experience is similar to ours

We have looked at two American research studies and found that in both instances, mutual fund investor experience is similar.

1. Morningstar research shows the difference between fund returns and investor returns

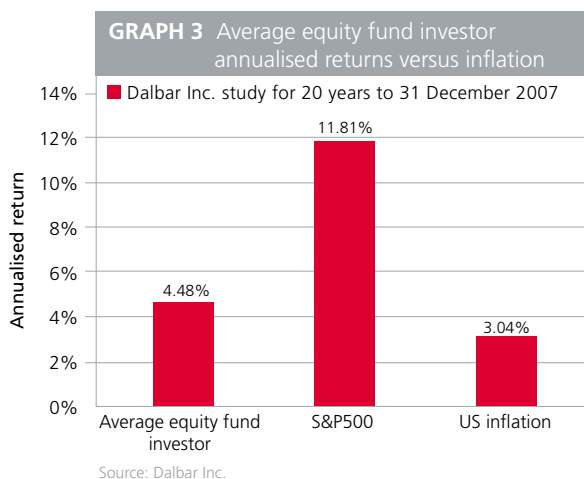
In 2006, Morningstar, a Chicago-based securities research firm, started to report mutual fund (unit trust) returns in a new way. The 'Morningstar Investor Return' gives a statistical measure of the price investors have paid for failing to be disciplined and patient by measuring the difference between fund returns and investor returns.

Morningstar research (as quoted in an article titled 'Investor return versus total return', 10 February 2006) indicates that for most mutual fund categories, fund returns and investor returns were fairly close together over the three-year and five-year periods to the end of September 2006. But the gap widened substantially over the trailing 10-year period. This may be likely because the 10-year period encompassed the late 90s bull run as well as the bear market, and both extremes tended to stimulate poor decision-making. In every diversified stock category and most sector categories, funds' 10-year investor returns lagged their total returns. The divergence was, in several

cases, quite striking. For example, technology sector funds over the period on average generated total returns of 6.4% but investors lost an average of 4.2% on an annualised basis over the period. It was a similar story for growth funds which generally posted 10-year investor returns that fell far short of their total returns. The same was true for communications and health-care funds.

2. The average equity fund investor seeking to outperform the S&P index did not achieve this goal

In a different research study by financial services research company Dalbar Inc. it was found that, on average, equity fund investors undermined their ability to create wealth through chasing past performance, switching funds and trying to time the market. As you can see in **Graph 3** below, this behaviour manifested itself in very poor returns relative to the S&P index, barely outperforming inflation.



We are committed to help you achieve the highest possible return on your investment

If you do not benefit from our long-term investment performance, we believe we will have failed in our mission to create long-term wealth for our investors. We are committed to helping our investors achieve the same performance as our funds. Below are some of the specific ways that we can do this:

1. Continue to educate and inform our investors about our approach

Our investment approach is long-term in nature. If you believe in this approach and want to benefit from it, it is

important that you understand it, buy into it and remain disciplined in spite of short-term fluctuations. We will continue to emphasise the importance of taking a long-term view to investing.

2. We will not market or 'sell' funds based on short-term performance

The danger of chasing past performance is well documented. It leads to investors undermining their own investment returns through frequent switching and taking a very short-term view. Aggressive fund-specific performance advertising hypes the fear among investors of 'missing out', causes investors to switch funds more frequently and undermines the returns they get from their investment.

3. Publish an investor return for your accounts

We plan to publish your investor return per account (also known as an 'internal rate of return') on the secure area of our website. It will enable you to analyse the actual return you are getting from your investment accounts over various periods. This can be quite different from the fund return of your chosen funds, but you are able to influence this by your investment behaviour.

4. Continue to offer a simple and manageable range of funds

We realise that investing is complicated enough. We have tried to simplify this for you by maintaining a small range of funds that we aim to make as easy to understand as possible. This range includes enough choice to meet investor needs without unnecessary complexity. We will not launch funds for the sake of doing so – and therefore hope to lessen the confusion that investors may experience in the face of 'marketing hype' about new and 'better' funds.

There may be times when it is appropriate for you to disinvest or switch funds, but this depends on your personal circumstances and portfolio. Some investors are sufficiently knowledgeable, confident and disciplined to make these kind of decisions on their own. However, if you require guidance in considering your investment plan holistically, an independent adviser may be able to help you to meet your objectives and grow your wealth. They provide expertise and are able to reassure you during times of market volatility, helping you maintain the level of investment discipline you need to meet your goals.



Heaton van der Linde



Claire Maclaurin

THE ALLAN GRAY EQUITY FUND TURNS 10

EXECUTIVE SUMMARY: The Allan Gray Equity Fund is 10th old this month. In this article Heaton van der Linde and Claire Maclaurin use a series of graphs to illustrate its success in achieving its objective of long-term wealth creation for our clients. This is despite the current market turmoil and poor equity returns over the past year.

Allan Gray proudly celebrates the Equity Fund's 10th birthday this month, having achieved an annualised return of 32.9% p.a. since its inception on 1 October 1998. This means that an investment of R1 000 on 1 October 1998 would have grown to R17 146* by 30 September 2008. By contrast, the same investment in the FTSE/JSE All Share Index (ALSI) would have grown to R6 272**.

The annualised returns achieved by the Fund versus the ALSI over various periods to 30 September 2008 are summarised in **Graph 1**.

Remarkable average returns over the 10-year period

While the average absolute returns (above zero) and relative returns (above the ALSI) have been fantastic over the 10-year

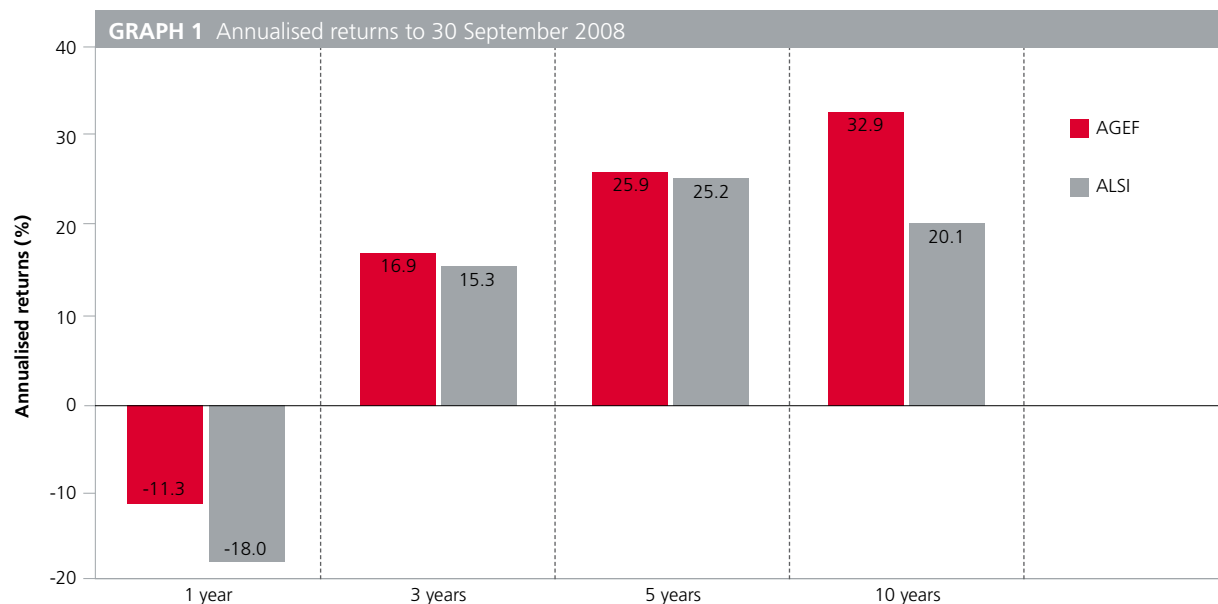
period, these average returns have not been achieved in a straight line. This is particularly evident when comparing the one-year return with the five-year and 10-year average returns. It is also evident when one examines the growth of R1 invested in the Fund and the ALSI since inception, shown in **Graph 2** on page 16, together with the monthly alpha achieved ('alpha' being jargon for the excess return of the Fund over that of the stock market).

A tale of two five-year periods

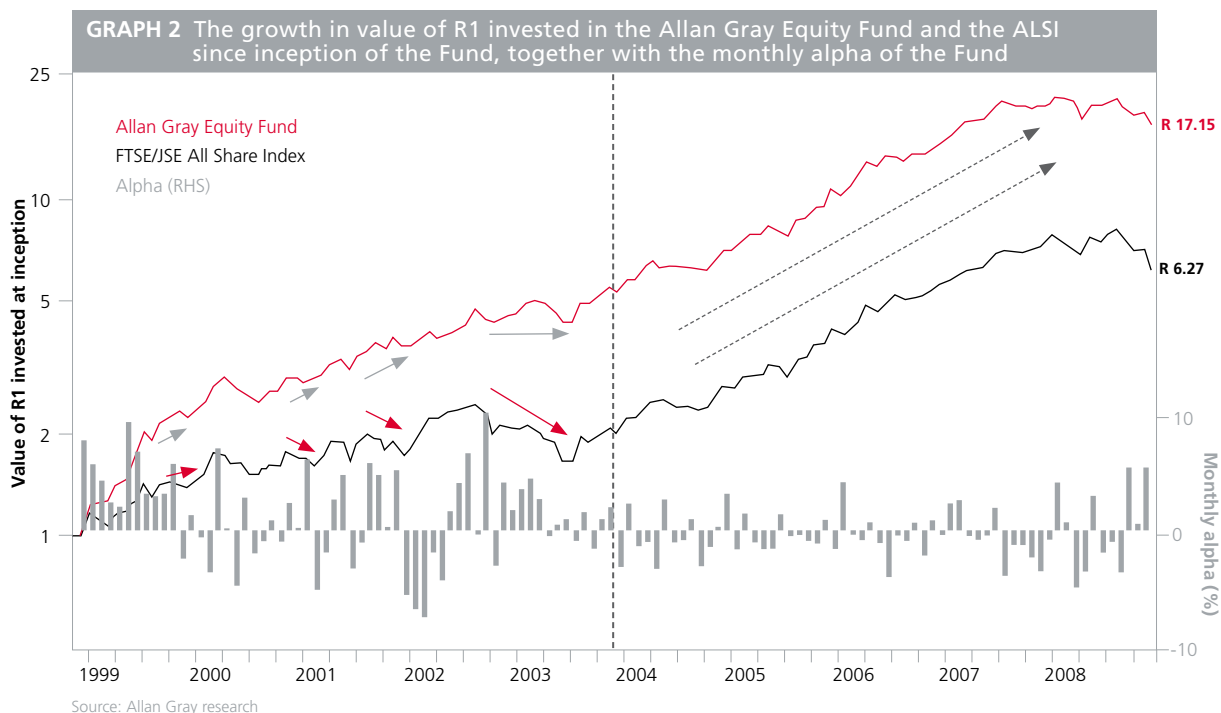
What is interesting is that the 10-year history is made up of two very different five-year periods:

- The first, a period of much volatility and disparity between sectors in the market.

* After fees and with distributions reinvested
** Before fees but with distributions reinvested



Source: Allan Gray research



- The second five years, one of the strongest and most persistent bull-runs in the history of our market with the ALSI up over 300% in the first four years. The last year, however, has been characterised by volatile shifts in value in individual stocks and sectors in the market and negative total returns.

They usually occur when the market undervalues a meaningful number of companies, while the overall market is driven increasingly higher by dominant overvalued companies. This aspect of investing was addressed in detail in the article 'Price disparities typically reverse themselves' in last quarter's (Q2 2008) Quarterly Commentary.

Stock picking is important

When large valuation differences exist between stocks and even broad sectors, good stock picking can add significant value as the difference in returns between great and poor performing stocks can be substantial. In contrast, strong bull markets are often characterised by a broad advance of all sectors resulting in less reward for stock picking.

The arrows in Graph 2 highlight four periods of alpha in the first five-year period. These were periods of significant outperformance by the Fund at a time when the ALSI was falling. While we aim to achieve alpha in all market conditions, these periods were significant as they made noteworthy contributions to 'widening the gap' between the cumulative return of the ALSI (black line) and the cumulative return of the Equity Fund (red line). While the ALSI was losing value during these periods, our Equity Fund investors enjoyed positive returns. Opportunities like this come around only occasionally.

The make-up of absolute returns changes over time

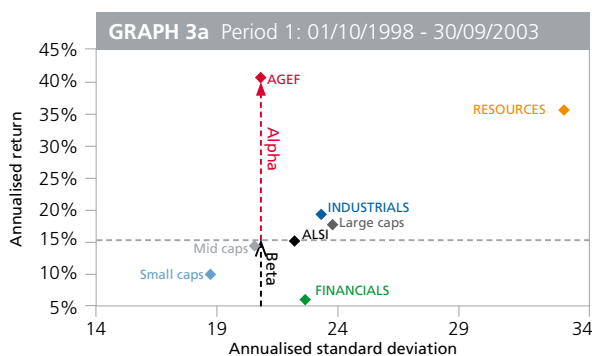
Absolute returns from the Equity Fund have been pleasing for both five-year periods, but the contributors to the returns have differed significantly:

- The first five-year period was all about alpha (See **Graph 3a**)
- The returns of the Fund over the second five-year period were driven by the market return (beta) and were less about alpha (See **Graph 3b**)

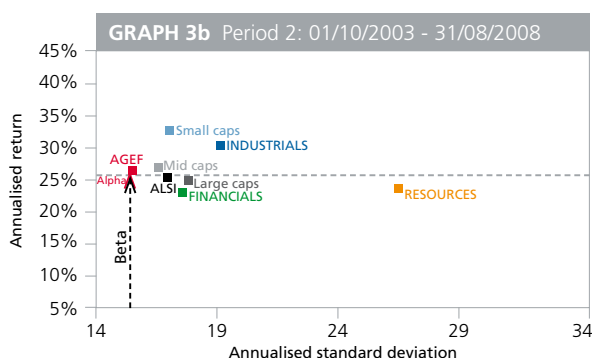
While we aim at all times to outperform the ALSI, we acknowledge that in bull-market periods such as those we have experienced until very recently, where volatility is relatively low and the prices of most shares are going up strongly, it is difficult to earn significant alpha even if your judgement is good. In periods like these, we are happy to just keep pace with the market and our clients can take comfort that their

total returns remain excellent; after all they are perhaps more concerned with total performance than whether that comes from the market or manager skill.

Graphs 3a and 3b present an interesting picture of the differences between the two five-year periods:



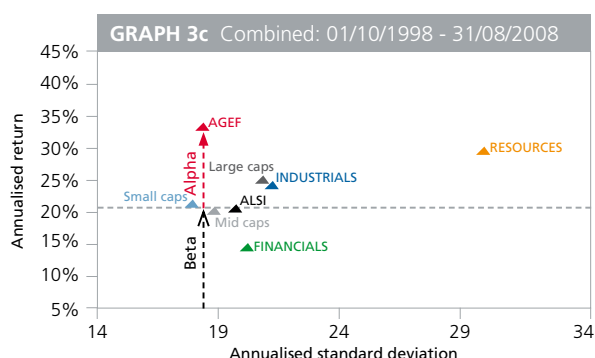
Source: I-Net Bridge and Allan Gray research



Source: I-Net Bridge and Allan Gray research

different levels of volatility experienced while achieving these returns. Interestingly, while the resources sector had strong absolute returns in both five-year periods, it did so at significantly greater levels of volatility. The financial sector was the poorest performer in terms of returns for both five-year periods, but had far lower volatility than the resources sector. Interestingly, the benefits of diversification on reducing risk can also be seen as over both periods the average volatility of the ALSI was lower than that of any of its constituent parts.

Graph 3c looks at performance over the combined 10-year period. It shows how the Equity Fund has outperformed not only the overall market (the annualised return of 32.9%p.a. exceeds that of the index return of 20.2%p.a.) but also the return of a single investment in any of the financials, industrials and resources indices, as well as the small, medium and large cap groupings, whilst maintaining a lower level of volatility (standard deviation) than all but small caps.

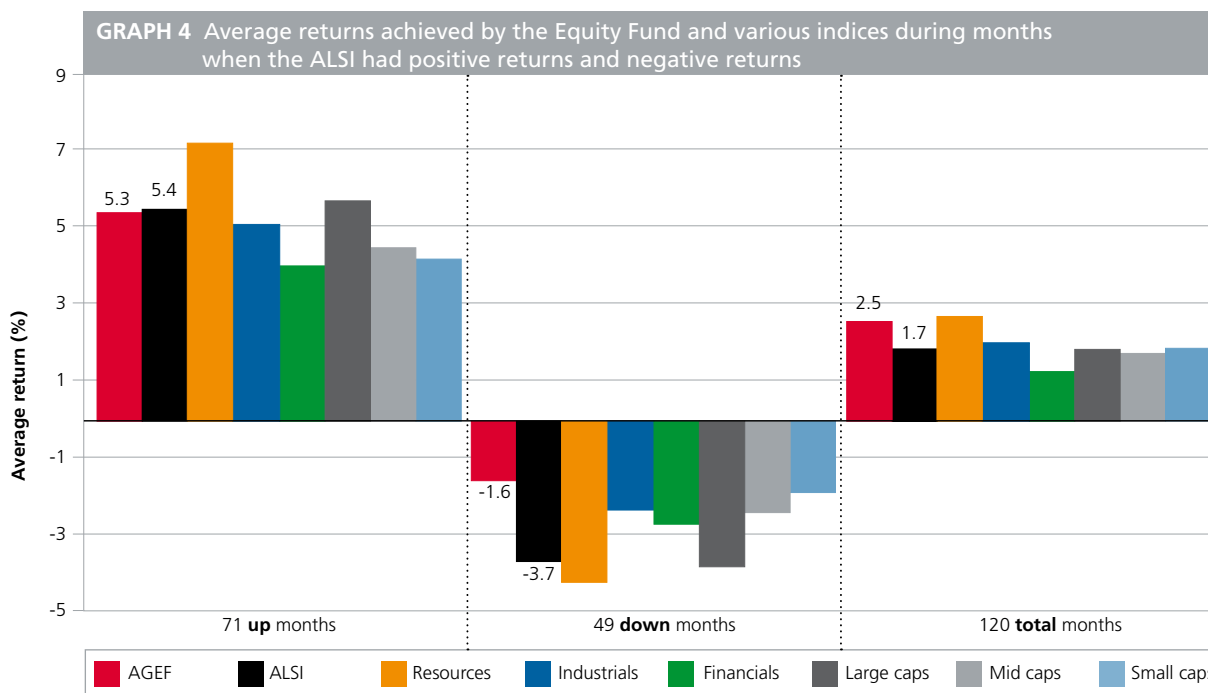


Source: I-Net Bridge and Allan Gray research

- **Firstly they illustrate the differing contributions of alpha and beta to the total return of the Equity Fund between the two five-year periods.** While the average return for the Equity Fund over the first five years was 40.2%p.a., the market (beta) contributed only 15.3%p.a. to the return, the balance being the 'alpha' added by Allan Gray. In contrast to this in the latter five-year period, the market return (beta) of 25.2%p.a. contributed the bulk of the average annual return of 25.9%p.a. for the Equity Fund.
- **Secondly they illustrate how the returns from each market sector differed over the two five-year periods.** The graphs plot the annualised returns of the resources, industrials and financials indices together with the

The Equity Fund has protected investors during market declines over the 10-year period

Graph 4 (on page 18) of this 'anniversary series' summarises the returns achieved by the Fund, the ALSI and individual market sectors during times when the ALSI achieved positive returns (up months) and when the ALSI had negative returns (down months). While the Equity Fund has marginally underperformed the ALSI during the 71 up months, it has provided investors with significant protection during the 49 months when the market declined, falling by 2.1% less on average. This is a direct result of the lower volatility experienced by the Fund as illustrated in Graphs 3a, 3b and 3c above.



Stay the course

Our investment philosophy is long term in nature and we encourage our investors to share this time horizon with us. At Allan Gray, we do not chase the latest trends and as a result do not offer specialist equity funds. Instead we offer a single general Equity Fund where we concentrate our best ideas without being constrained by sector or market-cap size constraints.

Over the short term, markets are driven by sentiment and it is impossible to predict with any certainty what our returns will be. We are particularly mindful that investors joining the Fund over the past year have not experienced the strong absolute returns that those invested with us for longer periods have enjoyed. We are confident, however, that over long periods of time the patience of our investors sharing our investment philosophy will be rewarded with market-beating returns. We look forward to the next 10 years!

Allan Gray Balanced Fund Quarterly Disclosure as at 30 September 2008

	% of Fund
South African Equities	65.4
Resources	12.8
Anglogold Ashanti	3.7
Sasol	3.4
Harmony	3.4
African Rainbow Minerals	1.5
Positions individually less than 1% of total JSE listed securities held by the Fund	0.8
Financials	11.8
Sanlam	3.1
Standard Bank	3.5
ABSA	2.8
Firststrand	0.8
Positions individually less than 1% of total JSE listed securities held by the Fund	1.6
Industrials	40.6
SABMiller	6.5
Remgro	6.8
MTN	5.8
Richemont	4.7
Sappi	2.9
Shoprite	2.3
Nampak	1.7
Dimension Data	1.3
Sun International	1.3
Illovo Sugar	1.1
Mondi Ltd	0.9
Aspen Healthcare	1.0
Positions individually less than 1% of total JSE listed securities held by the Fund	4.5
Other Securities	0.3
Positions individually less than 1% of total JSE listed securities held by the Fund	0.3
Derivatives	-7.3
ALSI 40 12/08 - RMB	-7.3
---- Net South African Equities ----	58.2
Hedged South African Equities	7.3
Property	0.3
Positions individually less than 1% of total JSE listed securities held by the Fund	0.3
Commodities	2.5
New Gold ETF	2.5
Bonds	1.9
RSA Bonds	0.2
Corporate Bonds	1.7
Money-market and Call Deposits	15.0
Foreign Equities	6.8
Orbis Global Equity Fund	3.7
Orbis Japan Equity Fund (Yen)	3.0
Mondi PLC	0.1
Foreign Absolute Return Funds	8.0
Orbis Optimal SA Fund (US\$)	5.0
Orbis Optimal SA Fund (Euro)	3.1
Totals:	100.0

Total Expense Ratios (TERs)

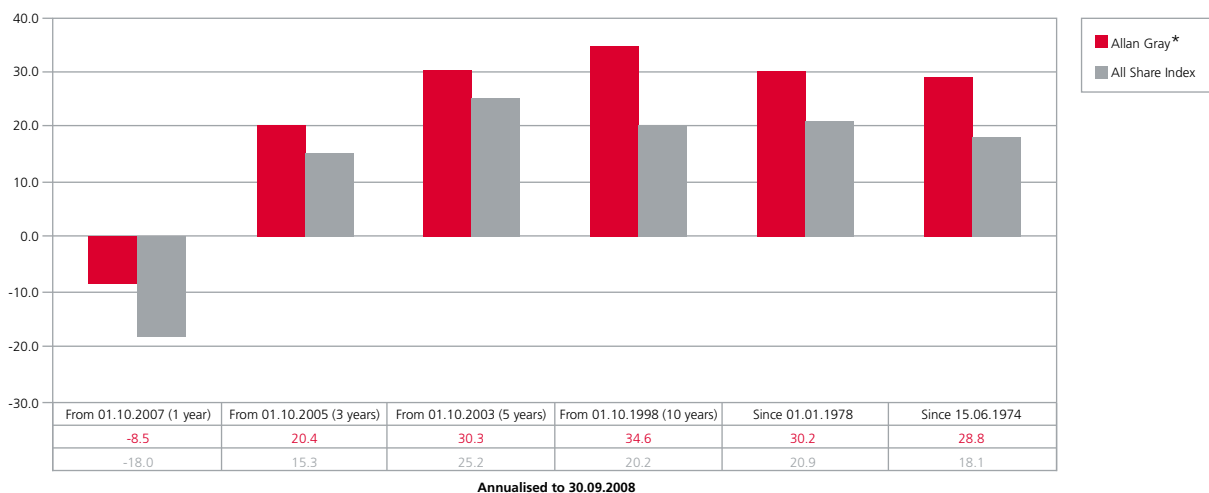
	Equity Fund	Balanced Fund	Stable Fund	Optimal Fund	Bond Fund	Money Market Fund	Global Fund of Funds	Global Equity Feeder Fund
Performance component	0.53%	0.45%	0.53%	0.07%	0.51%	0.00%	0.47%	1.01%
Fee at benchmark	1.71%	1.16%	1.14%	1.14%	0.29%	0.29%	1.23%	1.49%
Trading costs	0.15%	0.15%	0.09%	0.22%	0.00%	0.00%	0.23%	0.18%
Other expenses	0.01%	0.06%	0.06%	0.02%	0.10%	0.01%	0.35%	0.34%
Total Expense Ratio (TER)	2.40%	1.82%	1.82%	1.45%	0.90%	0.30%	2.28%	3.02%

A Total Expense Ratio (TER) of a portfolio is a measure of the portfolio's assets that were relinquished as a payment of services rendered in the management of the portfolio. This is expressed as a percentage of the average value of the portfolio, calculated for the year to the end of June 2008. Included in the TER is the proportion of costs incurred by the performance component, fee at benchmark and other expenses. These are disclosed separately as percentages of the net asset value. Trading costs (including brokerage, VAT, STI, STRATE, levy and insider trading levy) are included in the TER. A high TER will not necessarily imply a poor return nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.

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/Underperformance
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	17.6	19.2	-1.6
2008 (to 30.09)	-11.0	-15.5	4.5
Annualised to 30.09.2008			
From 01.10.2007 (1 year)	-8.5	-18.0	9.5
From 01.10.2005 (3 years)	20.4	15.3	5.1
From 01.10.2003 (5 years)	30.3	25.2	5.1
From 01.10.1998 (10 years)	34.6	20.2	14.4
Since 01.01.1978	30.2	20.9	9.3
Since 15.06.1974	28.8	18.1	10.7
Average outperformance			10.7
No. of calendar years outperformed			26
No. of calendar years underperformed			7



* Note: Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income.

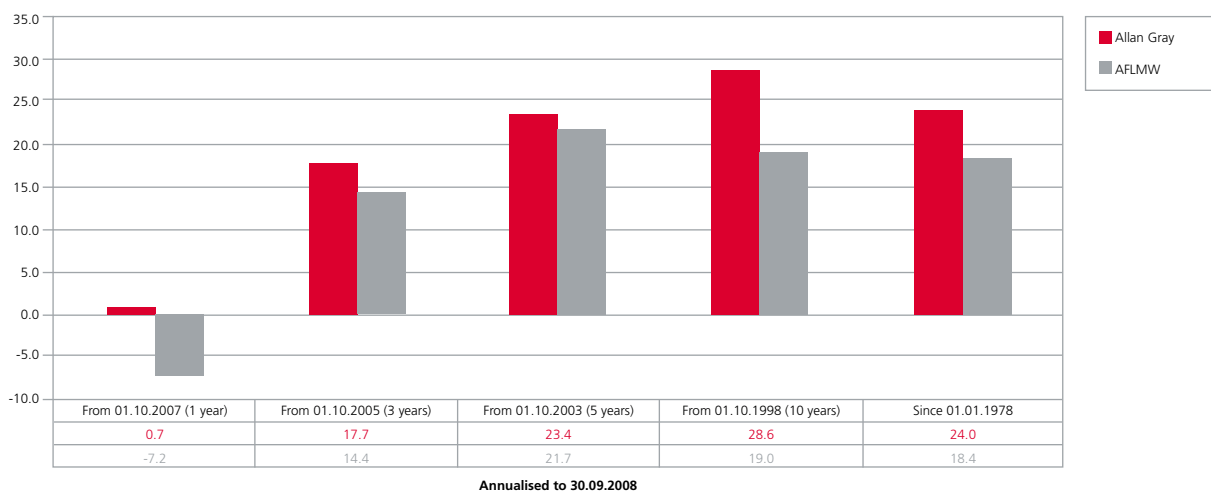
Note: Listed property included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to **R58 201 060** by 30 September 2008. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to **R2 974 938**.

Investment track record

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

Period	Allan Gray	AFLMW**	Out/Underperformance
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	14.5	15.1	-0.6
2008 (to 30.09)	-2.8	-7.6	4.8
Annualised to 30.09.2008			
From 01.10.2007 (1 year)	0.7	-7.2	7.9
From 01.10.2005 (3 years)	17.7	14.4	3.3
From 01.10.2003 (5 years)	23.4	21.7	1.7
From 01.10.1998 (10 years)	28.6	19.0	9.6
Since 01.01.1978	24.0	18.4	5.6
Average outperformance			5.6
No. of calendar years outperformed			24
No. of calendar years underperformed			6



** Consulting Actuaries Survey returns used up to December 1997. The return for September 2008 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to **R7 451 527** by 30 September 2008. The average total performance of global mandates of large managers over the same period would have grown a similar investment to **R1 793 698**.

Allan Gray annualised performance in percentage per annum to 30 September 2008

	THIRD QUARTER (unannualised)
UNIT TRUSTS**	
EQUITY FUND (AGEF) FTSE/JSE All Share Index	***
BALANCED FUND (AGBF) Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)	***
STABLE FUND (AGSF) - (NET OF TAX) After-tax return of call deposits plus two percentage points (Net of tax)	***
STABLE FUND (AGSF) - (GROSS OF TAX) After-tax return of call deposits plus two percentage points (Gross of tax)	***
MONEY MARKET FUND (AGMF) Domestic fixed interest money market unit trust sector (excl. AGMF)	***
OPTIMAL FUND (AGOF) Daily call rate of Firstrand Bank Ltd	***
BOND FUND (AGBD) BEASSA All Bond Index (total return)	***
ORBIS GLOBAL FUND OF FUNDS (AGGF) 60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)	***
ORBIS GLOBAL EQUITY FEEDER FUND (AGOE) FTSE World Index (Rands)	***
POOLED RETIREMENT FUNDS	
LIFE GLOBAL BALANCED PORTFOLIO Mean of Alexander Forbes Global Large Manager Watch *	-0.9 -5.3
LIFE DOMESTIC BALANCED PORTFOLIO Mean of Alexander Forbes Domestic Manager Watch *	-0.3 -4.8
LIFE DOMESTIC EQUITY PORTFOLIO FTSE/JSE All Share Index	-5.4 -20.6
LIFE DOMESTIC ABSOLUTE PORTFOLIO Mean of Alexander Forbes Domestic Manager Watch *	5.3 -4.8
LIFE DOMESTIC STABLE PORTFOLIO Alexander Forbes Three-Month Deposit Index plus 2%	4.6 3.4
LIFE DOMESTIC OPTIMAL PORTFOLIO ** Daily Call Rate of Nedcor Bank Limited	5.6 2.9
LIFE GLOBAL ABSOLUTE PORTFOLIO Mean of Alexander Forbes Global Large Manager Watch *	4.0 -5.3
LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO Consumer Price Index plus 3% p.a. *	4.2 4.4
LIFE GLOBAL STABLE PORTFOLIO Alexander Forbes Three-Month Deposit Index plus 2%	3.6 3.4
LIFE RELATIVE DOMESTIC EQUITY PORTFOLIO FTSE/JSE CAPI Index	-13.5 -16.9
LIFE MONEY MARKET PORTFOLIO ** Alexander Forbes Three-Month Deposit Index	3.0 2.9
LIFE FOREIGN PORTFOLIO ** 60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	-5.5 -5.8
LIFE ORBIS GLOBAL EQUITY PORTFOLIO ** FTSE World Index (Rands)	-12.3 -10.8
SEGREGATED RETIREMENT FUNDS	
GLOBAL BALANCED MANDATE Mean of Alexander Forbes Global Large Manager Watch # *	-1.1 -5.3
DOMESTIC BALANCED MANDATE Mean of Alexander Forbes Domestic Manager Watch *	-0.2 -4.8
EQUITY-ONLY MANDATE FTSE/JSE All Share Index	-5.4 -20.6
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN MANDATE Mean of Alexander Forbes Namibia Average Manager *	-1.3 -5.3
EQUITY-ONLY RELATIVE MANDATE Weighted average of client specific benchmarks *	-11.4 -14.4
FOREIGN BEST VIEW (RANDS) 60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	-5.6 -5.8
ORBIS FUNDS (RANDS)**	
ORBIS GLOBAL EQUITY FUND (RANDS) FTSE World Index (Rands)	-12.6 -10.8
ORBIS JAPAN EQUITY (YEN) FUND (RANDS) Tokyo Stock Price Index (Rands)	-4.3 -12.1
ORBIS OPTIMAL SA FUND-US\$ CLASS (RANDS) US\$ Bank Deposits (Rands)	1.1 6.6
ORBIS OPTIMAL SA FUND-EURO CLASS (RANDS) Euro Bank Deposits (Rands)	-6.3 -4.3
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS) MSCI Asia Ex-Japan (Rands)	-22.3 -18.5

PERFORMANCE AS CALCULATED BY ALLAN GRAY.

Consulting Actuaries Survey returns used to 31 December 1997. Alexander Forbes Global Manager Watch used from 1 January 1998.

* The return for Quarter 3, 2008 is an estimate, as the relevant survey results have not yet been released.

** The returns and their respective benchmarks are net of investment management fees.

*** Unable to disclose due to ACI regulations.

1 YEAR	3 YEARS	5 YEARS	10 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R millions)	INCEPTION DATE
-11.3	16.9	25.9	32.9	1614.9	14,931.5	01.10.98
-18.0	15.3	25.2	20.2	528.3		
-2.2	14.4	21.7	-	539.8	23,169.7	01.10.99
-6.9	12.4	19.6	-	256.3		
8.1	12.2	13.8	-	206.4	20,564.9	01.07.00
9.4	7.6	7.0	-	87.1		
9.2	13.1	14.8	-	237.2	20,564.9	01.07.00
12.7	10.2	9.4	-	130.5		
11.6	9.2	8.6	-	92.5	8,807.5	03.07.01
11.3	9.0	8.4	-	92.2		
11.5	9.4	8.4	-	76.7	982.6	01.10.02
10.5	8.0	7.3	-	59.0		
7.7	7.2	-	-	39.6	56.5	01.10.04
6.0	6.7	-	-	37.9		
8.1	12.5	-	-	50.5	5,739.7	03.02.04
4.5	13.4	-	-	51.5		
-11.9	8.9	-	-	54.8	2,491.6	01.04.05
-10.0	11.5	-	-	53.7		
				Figures above unannualised		
0.8	17.7	23.4	-	23.6	11,686.1	01.09.00
-7.2	14.4	21.7	-	16.2		
-0.5	18.9	26.5	-	24.2	4,748.4	01.09.01
-7.5	14.9	23.4	-	18.7		
-6.3	21.5	31.1	-	28.4	4,964.1	01.02.01
-18.0	15.3	25.2	-	16.9		
15.6	23.5	26.6	-	28.2	475.8	06.07.01
-7.5	14.9	23.4	-	18.1		
8.8	15.7	18.4	-	17.9	482.8	01.12.01
13.5	11.2	10.7	-	11.7		
12.3	10.2	9.2	-	10.0	177.0	04.12.02
11.1	8.4	7.6	-	8.2		
16.6	22.0	-	-	24.2	851.0	01.03.04
-7.2	14.4	-	-	19.9		
9.5	14.6	-	-	16.8	1,069.7	01.05.04
17.2	12.0	-	-	10.2		
11.9	14.8	-	-	18.0	2,532.4	15.07.04
13.5	11.2	-	-	10.7		
-12.3	18.2	27.3	-	29.7	438.7	05.05.03
-15.7	15.8	25.9	-	27.7		
11.6	9.3	8.8	-	9.8	856.5	21.09.00
11.3	9.1	8.5	-	9.6		
5.7	12.0	11.2	-	4.8	1,339.4	23.01.02
3.1	13.2	11.4	-	1.8		
-12.6	9.2	-	-	12.8	1,529.1	18.05.04
-10.7	11.3	-	-	12.4		
0.7	17.7	23.4	28.6	24.0	22,570.1	01.01.78
-7.2	14.4	21.7	19.0	18.4		
-0.5	19.0	26.1	29.4	24.4	20,292.6	01.01.78
-7.5	14.9	23.4	20.4	18.8		
-5.5	21.9	31.0	33.5	23.2	40,326.4	01.01.90
-18.0	15.3	25.2	20.2	15.0		
4.1	18.6	23.3	27.6	21.6	5,499.3	01.01.94
-4.7	14.9	21.4	17.7	15.0		
-12.7	17.5	27.4	-	23.9	8,611.1	19.04.00
-16.1	15.0	25.8	-	17.2		
4.6	11.6	11.1	18.7	16.0	3,819.0	23.05.96
3.1	13.2	11.4	8.9	11.8		
-12.8	9.4	13.9	16.6	19.9	14,540.9	01.01.90
-10.7	11.3	12.5	8.7	13.2		
2.4	3.8	7.6	13.3	15.6	6,626.1	01.01.98
-10.6	3.8	7.4	7.8	7.5		
20.0	12.7	-	-	15.7	4,436.8	01.01.05
24.7	14.3	-	-	15.7		
20.5	16.5	-	-	15.5	3,698.3	01.01.05
24.5	19.3	-	-	15.6		
-18.3	-	-	-	14.3	70.4	01.01.06
-26.4	-	-	-	15.3		

ALLAN GRAY

ALLAN GRAY LIMITED

Registration Number 2005/002576/06

Granger Bay Court Beach Road V&A Waterfront Cape Town 8001

P O Box 51318 V&A Waterfront Cape Town 8002 South Africa Tel +27 (0)21 415 2300 Fax +27 (0)21 415 2400

www.allangray.co.za info@allangray.co.za

ALLAN GRAY INVESTOR SERVICES

Portwood Square Dock Road V&A Waterfront Cape Town 8001

Client Service Centre 0860 000 654 / +27 (0)21 415 2301

Client Service Email info@allangray.co.za

Client/IFA Service Facsimile 0860 000 655 / +27 (0)21 415 2492

IFA Service Centre 0860 000 653 / +27 (0)21 415 2690

IFA Email ifa@allangray.co.za

DIRECTORS

M Cooper B Bus Sc FIA FASSA **GW Fury** BA LLB MA CFA **DD Govender** B Com CA (SA) CFA

WB Gray B Com MBA CFA (Non-Executive) (Irish) **IS Liddle** B Bus Sc (Hons) CFA **SC Marais** PhD CFA (Non-Executive)

T Mhlambiso AB MBA JD (Non-Executive) **IN Mkhize** BSc MBA (Non-Executive)

COMPANY SECRETARY

CJ Hetherington B Com CA (SA)

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