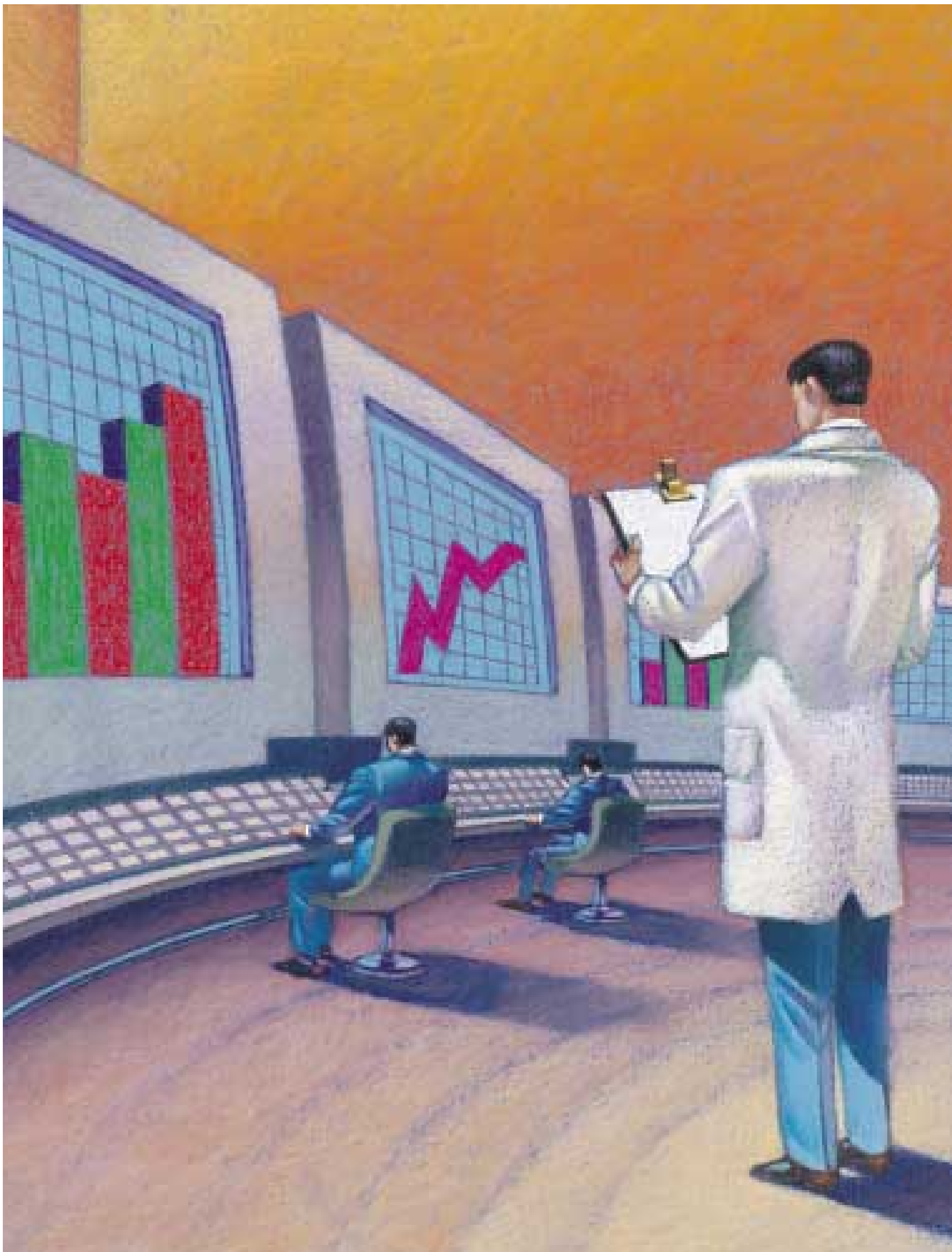
Q4

ALLANGRAY

LONG TERM INVESTMENT MANAGEMENT

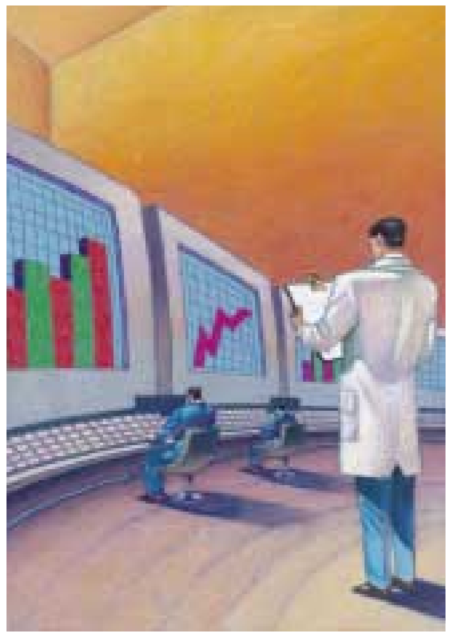


Q4

ALLAN GRAY

LONG TERM INVESTMENT MANAGEMENT

INSIDE THIS ISSUE



The story behind the picture

This illustration was used for an Allan Gray advertisement. It attempts to highlight our intense focus on fundamental research and analysis which we believe is the foundation of our superior long-term investment track record.

1999 was our clients' single best year of performance in our 23 year history of managing retirement fund money. 2000 was our third best year ever.

Mark Herdman
Chief Operating Officer

COMMENTS
FROM THE CHIEF OPERATING OFFICER

Our 'Investment Viewpoint' this quarter focuses on the share issue bubble of 1997 and 1998. Arjen Lugtenburg, one of our three equity portfolio managers, produces some fascinating statistics which show the extent of new capital raised in the euphoric stockmarket of 1997 and early 1998 and the considerable destruction of shareholder value that resulted when the market returned to more realistic levels. It is not surprising that Allan Gray's relative performance reflected this extreme volatility, producing our worst period of under-performance in 1997 and the first quarter of 1998. This was followed by strong out-performance in the remaining three quarters of 1998, our best out-performance ever in 1999 and massive out-performance in 2000.

INVESTMENT COMMENTARY

In 'Investment Commentary', Jack Mitchell provides an important insight into our investment process and follows this with a practical example of how our approach differs when analysing stable versus cyclical shares.

Our Chief Investment Officer, Simon Marais, then analyses Sasol which is the largest single share investment in our clients' portfolios. He concludes that at its current price Sasol offers exceptional investment value.

Both these articles will appear in our fourth quarter Unit Trust Report.

GRAY MATTERS

'Gray Matters' stresses the importance we place upon providing all our clients with a high standard of personalised service. We are determined to maintain the quality of our service during this period of strong growth in our client base and are therefore fortunate to have a dynamic and dedicated unit trust team. We profile the individual members of the team in this section.

INVESTMENT PERFORMANCE

The fourth quarter was another strong period of performance for all of our clients. Our clients' foreign investments achieved a remarkable return of 31.5%. These funds are managed by our affiliate, the Orbis Group. 1999 was our clients' single best year of performance in our 23 year history of managing retirement fund money. 2000 was our third best year ever. Clients with a global balanced mandate, our largest single composite, earned 21.6% for the year compared to our estimate for the mean of the Consulting Actuaries Fund Survey at 5.6%. Shares, which form the largest component of these clients' portfolios, generated a 13.2% return compared to 0.0% for the All Share Index. Property returned 26.3%, which, interestingly, raises the annualised property return for the last three years to an impressive 23.4% p.a. But the most outstanding performance by the various asset classes was the 60.4% earned on our clients' foreign investments. These were up some 37.2% expressed in U.S. Dollars while world stockmarkets as measured by the FTSE World Index were down 11.1%, and bank deposits earned just 6.6%. The primary driver of this performance was superior share selection as investors placed greater emphasis on fundamental value, and valuations reverted to more normal levels.

As mentioned in the previous issue of 'Quarterly Commentary' we do not expect the extent of our recent out-performance to be sustained indefinitely but remain absolutely confident of our ability to generate superior performance, and therefore wealth, over the long term.

We look forward to another successful year in 2001.

We hope you enjoy this issue.
With kind regards

MARK HERDMAN
Chief Operating Officer

ALLAN GRAY QUARTERLY COMMENTARY 31 DECEMBER 2000

INVESTMENT VIEWPOINT

THE SHARE ISSUE BUBBLE OF 1997 - 1998

Markets are not always perfect in that the human emotions of greed and fear tend to dramatically interfere with capital allocation decisions.

Arjen Lugtenburg
Equity Portfolio Manager and Analyst, Director

The primary function of a stock exchange is to give companies and entrepreneurs access to capital in order to fund and grow their businesses. Capital is a scarce resource and needs to be applied optimally for a society to maximise its wealth. Companies needing capital to fund new projects, new ventures, acquisitions or just working capital, can issue new shares for cash in order to raise the capital required. In a perfect world, capital will be allocated to those needs that will yield the highest returns and be withheld from those that yield uneconomic returns. Similarly, the share price of a company that utilises its capital effectively will increase, reducing its cost of capital, and the share price of a company which is ineffective in its use of capital will fall, increasing its cost of capital. In this way the market tries to ensure that a nation's capital pool is optimally invested, i.e. is allocated to those capital needs where the longer-term returns are at their maximum. The ability to issue shares is a necessary ingredient for a modern growing economy.

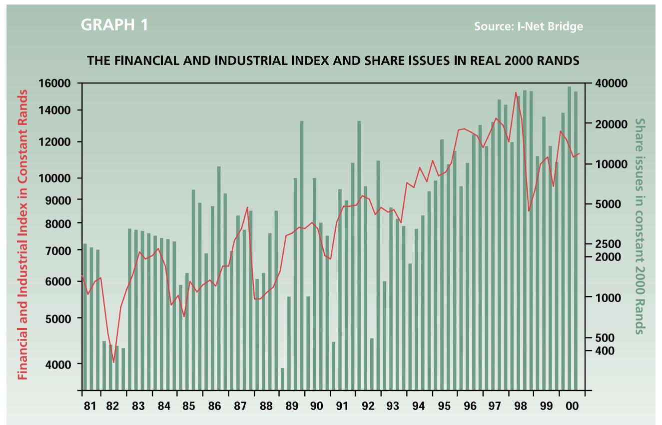


TABLE A	1998	1997	Avg. for prev. 4 yrs
No of new listings	101	54	23
New capital raised through listings Rbn	3.4	0.3	0.7
Rights issues Rbn	14.5	9.7	6.7
Share issues to acquire assets Rbn	33.8	21.6	3.7
Other equity raised Rbn[1]	15.0	18.3	6.8
Total new capital raised on the JSE Rbn	66.7	49.9	17.9

[1]Scrip dividends, share incentives, etc. Source: JSE Monthly Bulletin.

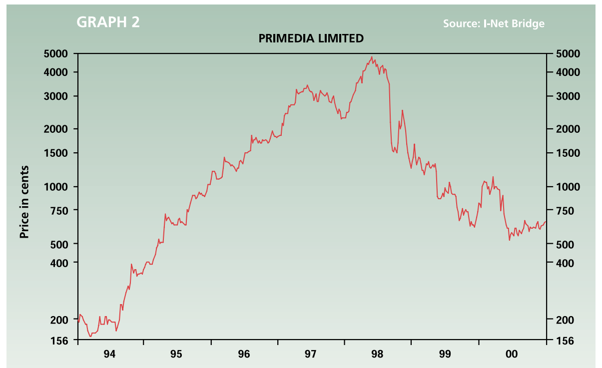
However, markets are not always perfect in that the human emotions of greed and fear tend to dramatically interfere with capital allocation decisions. At times of extreme optimism, driven by greed, the average investor's mindset becomes speculative. As share prices are pushed to unsustainably high levels, companies' cost of capital drops to unrealistically low levels, incentivising these businesses to issue more and more shares. In these cases overly optimistic expectations often lead to mediocre, if not negative, returns on the capital invested. As supply mounts and returns start to disappoint, optimism gives way to pessimism, greed to fear and capital tries to exit the market. It is therefore no coincidence that peaks in share issues are associated with peaks in the market. Table A illustrates this point.

In graph 1, the Financial and Industrial index and the quarterly total value of new share issues are depicted, both deflated in current Rands. Peaks in new share issues in 1981, 1983, 1986, 1989, 1991 and 1998 approximately coincided with peaks in the market. Sometimes, these periods of optimism or pessimism go to extremes. Periods like these do not just result in mediocre returns, but significant amounts of value or portions of the capital base get destroyed. South Africa witnessed such a period starting in 1996 and ending with the crash in 1998 and the subsequent meltdown of previously favoured shares during 1999 and 2000.

The raising of new capital on the JSE increased significantly during 1997 and 1998. The amount of capital raised in 1997 was almost 2.8 times the amount raised on average during the previous 4 years. In 1998 it was 3.7 times. The number of new listings more than doubled in 1997 from the base of the previous four years and in 1998 it quadrupled. Eager investors looking for quick returns gobbled up this surge in new share issues. *Now, two years later, let us examine the results of this share issue spree (see Table B). It makes for some depressing reading.*

The destruction of value has been immense. The R83bn raised lost 31% of its value or R26bn. Of the 155 listings only 35 are trading at prices in excess of their issue price i.e. 77% have failed. The new listings that have failed have on average lost 71% of their value. To make matters worse, investors did not only fund these issues out of cash flows. So-called 'old economy stocks' were sold off to help fund the take-up of these newly issued shares. Allan Gray has largely avoided these newly listed shares, and along with foreign value investors, has been able to buy shares like Richemont, Sappi, Anglo American, De Beers, Billiton and Sasol at bargain basement prices. An equally weighted portfolio of these six shares has appreciated by 118% from its average 1998 value and by 84% from the average value during the 1997 and 1998 period. Simplistically, investors have sold this portfolio of shares largely to foreigners to invest in these new listings and share issues. The impact of this folly on the savings pool of the average investor (and pensioner) has been devastating. If we assume that locals followed 75% of these share issues and half of the funds were raised from cashflows, it would mean that approximately R45bn of South Africa's savings pool has been destroyed in this process, or transferred to foreigners.

TABLE B	No. of new listings	New listings Rbn	Rights Issues Rbn	Share Issues Rbn	Total Rbn
1997	54	0.3	9.7	21.6	31.6
1998	101	3.4	14.5	33.8	51.7
Total	155	3.7	24.2	55.4	83.3
Current value		4.8	15.4	37.0	57.2
% of original		130	64	67	69



By merely looking at a price graph of these shares the picture does not look all that bad. Certainly, one can see the bubble, but prices are in most cases back to where the bubble started. This would seem to refute the calculation above. Look for instance at the price graph of Primedia (see graph 2), which in 1998, was the largest holding of the average general equity unit trust and by implication the most popular share at the time.

However, this graph hides a very important fact, in that Primedia increased its shares in issue by 270% since 1994. Table C summarises Primedia's share issues starting in 1994.

From 1995 the frequent share issues become apparent. This was done to fund acquisitions. By utilising the company's high rating at the time to raise cheap capital and then acquiring businesses that generated income in excess of this low cost of capital, earnings were greatly enhanced. The long-term quality of the business was irrelevant. For example, if the earnings yield on the shares issued was 2% (50 PE), and the earnings yield on the business acquired was 10%, then an extra 8% is earned on the raised capital, which translates into a sharp rise in earnings, even though the underlying organic earnings growth might be negligible. Another interesting point to note is how these issues progressively increased in size.

The outcome of this process has not been a pleasant experience for investors. Only 40% of the shares ever issued by Primedia are in the money today. Since 1994 Primedia has raised a massive R2.6bn. At the current Primedia shareprice (13/12/2000; average of ord and N) these shares are only worth R0.9bn. R1.7bn of shareholder wealth has been eroded. The average investor who took up the shares issued during this period has lost 66% of his/her investment. It is only the original investors who have done well. The shareholders of Primequity, as Primedia was named at the start of 1994, and the subscribers of the 09/94 share issue (when Radio 702 among others was sold into Primedia) and the 02/95 share issue are still up between two and three times on their original investment.

HOW DID THIS HAPPEN?

Capital became completely mispriced. Investors supporting share issues at PE's of 50 and 100 effectively provided capital at yields of 2% and 1%. Businesses, with completely underpriced capital, started overpaying for acquisitions. For instance, Primedia paid R1.5 bn for Ster Kinekor effective 1 July 1996, a business that only managed to generate R90m in operating cashflow (pre tax) for the year ended 30 June 2000. Businesses with little substance were either listed at multiples of their true worth or sold to acquisitive companies at inflated values. When these businesses were eventually unable to meet inflated expectations their share prices were severely marked down.

TABLE C Date	Cumulative issued shares	No. of shares issued (m)	% of end '99 total shares	Price cps	Value Rm
01/94	56.1		27		
09/94	78.0	21.9	11	186	40.7
02/95	80.3	2.3	1	338	7.8
07/95	80.7	0.4	-	600	2.4
08/95	81.9	1.2	1	600	7.2
09/95	82.9	0.9	-	700	6.1
11/95	85.9	3.0	1	800	24.0
03/96	88.7	2.8	1	1125	31.6
07/96	89.0	0.3	-	1125	3.4
09/96	115.3	26.3	13	1332	350.3
01/97	116.5	1.2	1	2007	24.1
07/97	121.9	5.4	3	1945	104.8
09/97	176.1	54.2	27	2550	1382.1
06/98	182.8	6.7	3	3733	250.1
09/98	190.2	7.4	4	2553	188.9
10/98	192.4	2.2	1	1902	41.8
02/99	202.9	10.5	5	1244	130.6
03/99	204.5	1.6	1	1147	18.4
Totals		148.4	100	1762	2614.3
At current		148.4		605	897.8

Adjusted for share splits. Ordinary and N shares combined.

Furthermore, as we demonstrated in a previous issue of Quarterly Commentary, when a company has access to underpriced capital, it can show continuous earnings growth through continuous share issues, even though the company has little or no organic growth. Investors supported a continuous stream of share issues that supported this acquisition-driven earnings growth. When this source of cheap capital, for whatever reason, is no longer available and these companies cannot support their earnings through acquisitions, earnings start to disappoint and their share prices eventually collapse.

At Allan Gray we have been highly sceptical of companies that continuously raise capital or acquire businesses, especially when their share prices appear to be overvalued. We have therefore tended to avoid these share issues. With a consistent and well-defined investment philosophy, based upon common sense business principles, we managed to remain objective throughout this period. Our process firmly focuses on the underlying fundamental value of businesses and tries to ignore market sentiment. We monitor things like share issues and the excessive activity over this period signalled speculative conditions, which made us exceptionally cautious. This, together with our long-term focus, enabled us to avoid this speculative bubble, despite initial underperformance. Our poor performance in 1997 and the first quarter of 1998 has in fact laid the foundations for our exceptional performance of the last three years. Over the full four-year period our clients have handsomely out-performed their various benchmarks. The consistent application of this investment philosophy has enabled Allan Gray to deliver superior returns over our firm's 26-year history.

Our history of superior long-term performance speaks for itself. This includes the occasional year, or in exceptional cases two years, of disappointing returns. The records show that these weaker periods set the stage for a strong rebound in our performance when the share market reverts to normality.

Jack Mitchell
Director, Allan Gray Limited
Chairman, Allan Gray Unit Trusts and Allan Gray Property Trust Management Limited

AN IMPORTANT INSIGHT INTO THE ALLAN GRAY INVESTMENT PROCESS

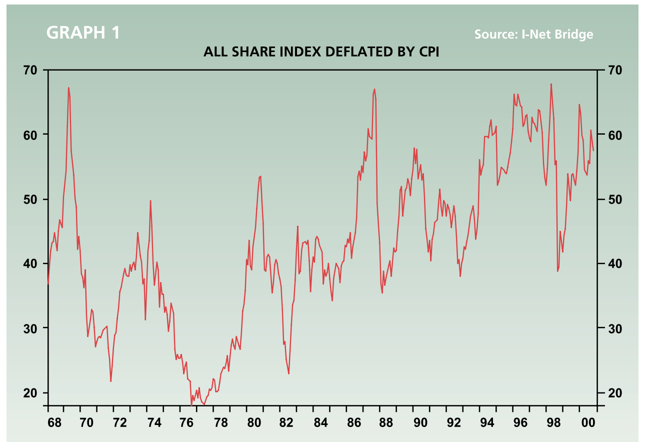
Investment markets by their very nature are mercurial and subject to rapid swings in fashion. Our investment philosophy at Allan Gray is to focus on long-term wealth creation for our clients. This means that we do not rely on shorter-term market movements which are mostly driven by speculation. We do, however, make the most of any irrational behaviour by the investing public as this can greatly assist us in optimising our entrance or exit from specific shares for our clients' benefit.

When there is a preponderance of either buyers or sellers, share prices tend to move dramatically with the tide of popular belief. Clearly the value of an enterprise is largely dependent on the expected future income stream, which in itself has little to do with the share price. Expected future income streams vary less than share prices, resulting in good investment opportunities for the value-based investor such as Allan Gray.

It is very important that our clients understand and identify with a cornerstone of our investment philosophy, namely that value is attractive when the future income stream can be bought cheaply. Conversely there is no value when that same income stream is expensively priced. The risk of capital loss in the former is also much less than the latter especially when seen in the fullness of time.

Accordingly, it should be clear that from time to time, our purchase or sale of shares will seem extremely unconventional. When the immediate investment tide is running strongly counter to our actions, our short-term relative performance may well look disappointing. Typically, press and intermediary comment about Allan Gray at times like these may be expected to be somewhat derogatory.

Our history of superior long-term performance speaks for itself. This includes the occasional year, or in exceptional cases two years, of disappointing returns. The records show that these weaker periods set the stage for a strong rebound in our performance when the share market reverts to normality.



For investment managers, periods of underperformance often herald client withdrawals. The same has been true at Allan Gray. However, in our case, we can safely say that clients who have departed have ultimately regretted their decision.

OUR APPROACH TO STABLE vs CYCLICAL SHARES

In 1969 the domestic stock market peaked following a prolonged advance. The subsequent bear market lasted for the best part of a decade. Interestingly, to this day the All Share Index, after adjusting for inflation, has yet to better its 1969 peak (see graph 1).

Reflecting on the period from 1969 to 2000 we came across two shares that have delivered similar rewards for their respective shareholders. Notwithstanding these comparable overall returns there have been many shorter periods when their returns have been widely disparate. We would like to share this history with you as it exemplifies our approach to cyclical versus stable companies.

The two shares concerned are Sappi and PP Cement. The former is an international pulp and paper producer which is very dependent on the vicissitudes of world pulp and paper prices. In addition, Sappi has periodically assumed significant debt in its mission to become a world player in its industry. As a result earnings and dividends have been particularly volatile and so naturally has the share price.

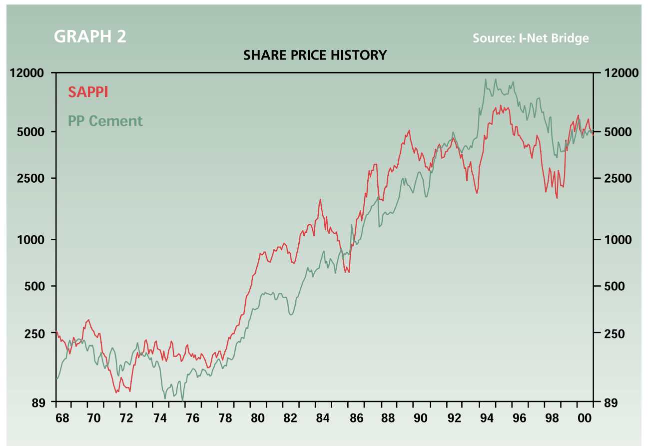
On the other hand PP Cement has been a much more stable company. It produces cement and lime primarily for the domestic market. While demand for its products is cyclical, the industry has been able to control prices due to its oligopolistic nature. Further, import competition is of little significance due to transport costs.

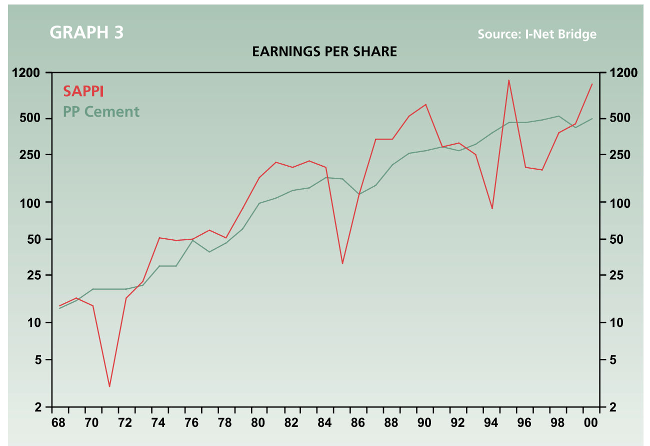
Comparison of the two shares is as follows:

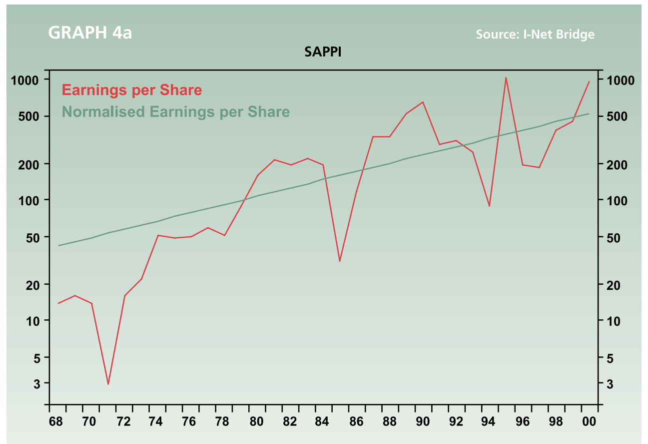
Cents	1969	2000	% Growth P.A.
SAPPI (4800; 7/12/2000)			
Price range	195 / 320	3800 / 7000	9.9*
Earnings per share	16	965	14.1
Dividends per share	12	193	9.4
Net asset value	169'	4908	11.4
Total dividends paid 1969 / 2000 = 2525			
PP CEMENT (5200; 7/12/2000)			
Price range	220 / 229	4150 / 6010	10.7*
Earnings per share	15	500	12.0
Dividends per share	5	315	14.3
Net asset value	141	3443	10.9
Total dividends paid 1969 / 2000 = 3400			

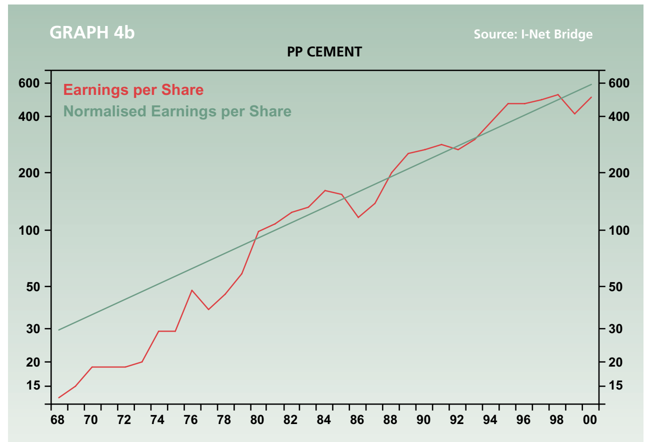
* Mid point to last price

INVESTMENT COMMENTARY









While the share price performance has been similar, PP Cement has paid out 875 cents more in dividends over the past 31 years. Sappi's faster earnings growth must be tempered by the perspective that current earnings of 965 cents per share are cyclically high. Note that last year's earnings amounted to only 450 cents per share. Net asset value growth for the two shares is also comparable.

Turning to the share price history (graph 2) one is reminded of the fable of the rabbit and tortoise, with Sappi sprinting away in some years only to be caught by the measured pace of PP Cement whenever the paper market suffers the inevitable setback. This is highlighted by the cyclical nature of Sappi's earnings compared to PP Cement's, which can be seen in graph 3.

As business analysts, how do we deal with ultra cyclical companies such as Sappi when placing their profits into perspective? Graphs 4a and 4b show the earnings of both Sappi and PP Cement on a stand-alone basis. Note the mathematical trend line drawn through both series. This technique allows an analyst to develop a benchmark for 'normalised' earnings. Clearly the divergence of actual earnings from normalised earnings is greater in the case of a cyclical company than that of a more stable one. Hence it is particularly important for the analyst to be aware of the cycle around the trend in the case of a cyclical company.

Techniques such as these help us to compare cyclical companies to stable ones. In summary, we look through the cycle and focus on normalised earnings and sustainable growth rates in our evaluation process. Importantly our analysts use this data as background to their more detailed analysis of companies.

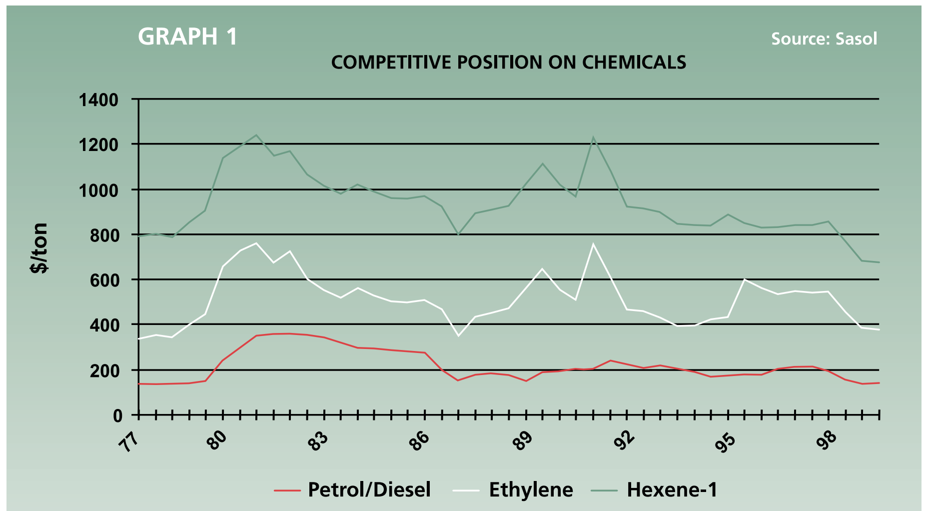
The share prices of Sappi and PP Cement have crossed 17 times over the past 31 years and are currently close together. Both shares have their attractions at this point with perhaps PP Cement, on a top down view, just having the edge.

Since its listing in 1979 Sasol's earnings have grown faster than the average South African company. The reason is the constant stream of new chemical projects over the past decade. There remains significant scope for additional projects to reinforce this strong earnings growth in the future. Sasol's recent acquisition of an international chemicals business, Condea, will assist in this respect.

Simon C Marais
Chief Investment Officer

WHY WE FIND SASOL ATTRACTIVE

Sasol is our clients' largest single investment. Short term profits and sentiment regarding the share price are strongly influenced by movements in the oil price. For that reason most investment analysts focus on the oil price to decide whether to buy or sell Sasol. However, the oil price is very difficult to predict because it can be influenced by factors such as Middle East politics or North American weather patterns. We believe that a better approach is to look through the noise of the short-term fluctuations in order to identify whether Sasol is a rewarding long-term investment.



Sasol's main business is to produce liquid fuels from coal. It sells about 6 billion litres of fuel annually, nearly 30 percent of South Africa's consumption. The other major contributor to earnings is a chemicals business based on Sasol's coal-to-fuel technology.

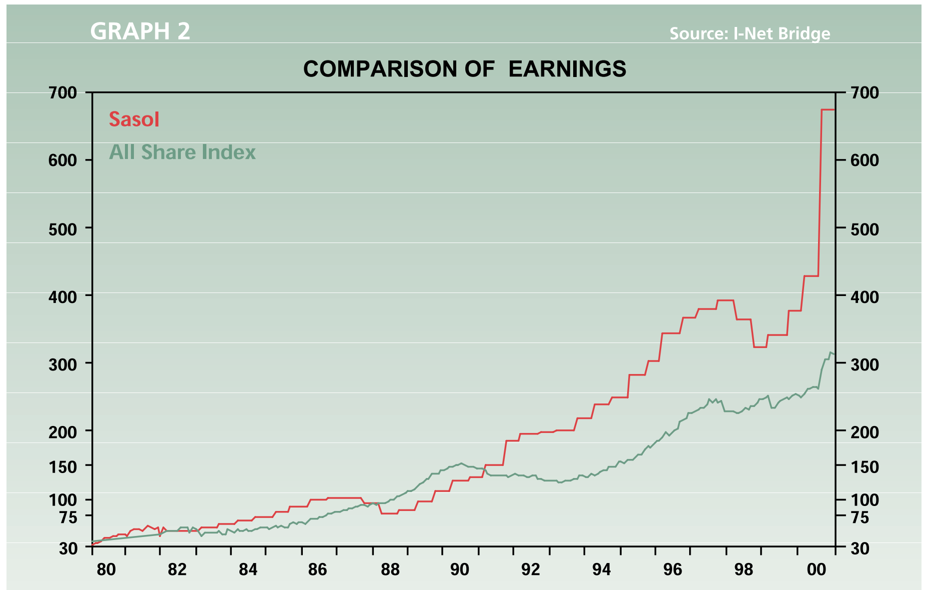
Sasol's earnings are fairly cyclical as it sells oil products which are linked to the $ oil price, while its costs, which have a high fixed component, are in rands. Despite the historical industry protection it is less cyclical than, for instance, Sappi. This is because it enjoys much higher operating margins and historically has had no debt.

Last year Sasol's earnings per share were 674 cents with oil just below $20 per barrel and the rand averaging R6.40 to the dollar. We expect earnings of 1000 cents per share or more in the year to June 2001 unless there is a very large decline in the oil price or the Rand/$ exchange rate strengthens significantly. Undoubtedly this represents cyclically high earnings for Sasol. Using an average $18 oil price we calculate normalised earnings in the range of 700 to 800 cents for Sasol.

To understand Sasol's profits one has to have insight into the technical aspects of its synfuel business. The Secunda complex that produces the bulk of Sasol's products was built near some of the largest coal fields in South Africa. The coal is mined and fed into the synfuel plant. In the plant the coal is gasified and the gas recombined through a series of reactors (the older generation of which are depicted on the back of the R50 note) to form a petrochemical 'soup'. This is refined to produce fuel and certain petrochemicals like plastics, solvents, waxes and fertilisers.

Originally Sasol converted almost the entire petrochemical pool into liquid fuels. Since the late 1980's the company realised that it has a major competitive advantage in the production of certain chemicals. Ethylene is the basic building block for plastics. All other petrochemical producers manufacture ethylene from naphtha, a type of fuel, leading to the

INVESTMENT COMMENTARY



price of ethylene always being above the fuel price. Yet Sasol was converting ethylene into fuel and selling it at half the price of ethylene. During the late 1980's Sasol started to extract ethylene and take advantage of the higher price without any additional cost (see graph 1).

This process was extended in the 1990's. For instance, hexene is used in small quantities to make plastic film, such as the clear plastic that is wrapped around prepared foods. Hexene is manufactured from ethylene using a difficult and expensive process, hence the constantly higher price. As with ethylene Sasol can manufacture hexene for essentially the same price as fuel and over the past few years has taken 30 percent of world market share.

Since its listing in 1979 Sasol's earnings have grown faster than the average South African company (which is clear from graph 2). The reason is the constant stream of new chemical projects over the past decade. There remains significant scope for additional projects to reinforce this strong earnings growth in the future. Sasol's recent acquisition of an international chemicals business, Condea, will assist in this respect.

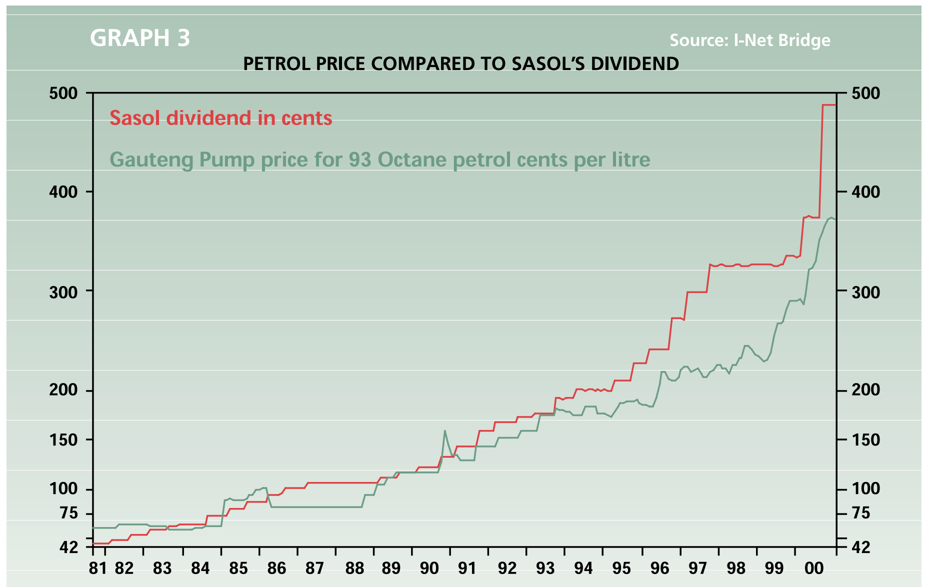
What price should be paid for Sasol using normalised earnings of 750 cents per share for the financial year ended June 2001? Price multiples placed on earnings should depend primarily on earnings growth rates. Shares with above average growth rates deserve high multiples and vice versa.

As a benchmark the All Share Index is priced at 13 times its most recent earnings. Historically Sasol has enjoyed a faster earnings growth rate than the All Share Index and we expect this to continue. In addition, the company has very conservative accounting policies, strong cashflow and is a good rand hedge. We believe Sasol deserves a price earnings multiple on 'normal' earnings at least equal to the All Share Index. Therefore relative to the All Share Index, Sasol is worth at least 13 x 750 cents which equates to 9750 cents. Priced at 5050 cents on 11 December 2000 Sasol offers exceptional investment value.

There is also significant 'blue sky' potential in Sasol. The company probably has more 'intellectual capital' than any other company in South Africa. Sasol employs 700 qualified engineers and 87 PhD's. It has registered more than 300 world-wide patents and is adding to these constantly. New research projects of R323 million were undertaken last year. The most promising of these is a technology to turn gas into diesel.

There are large gas fields in many parts of the world that are too far from major markets to be worth exploiting. Sasol has developed a technology to convert gas into a superior diesel with environmental specifications exceeding those of conventional diesel by a wide margin. A joint venture with Chevron, the fourth largest listed oil company in the world, has recently been concluded. Sasol will license the technology to the joint venture, while both parties will contribute capital for the projects. The first two projects are in Nigeria and Qatar and will commence production in 2004. While it is still uncertain whether the technology will be a commercial success, the benefits to Sasol are very exciting given the potential demand for the product arising from more stringent pollution laws in many countries. If the technology is not a success, your investment in Sasol is secured by the strong earnings and cashflow of 750 cents per share excluding any earnings from these new gas to liquid fuel projects.

Finally, note that an investment in Sasol more than takes care of all your fuel needs whatever the petrol price. This is because the dividends paid by the company have trended with but outstripped the price of fuel, since listing (see graph 3). For the budget conscious investor an investment in Sasol means concerns over future fuel price expenditure can be discarded.

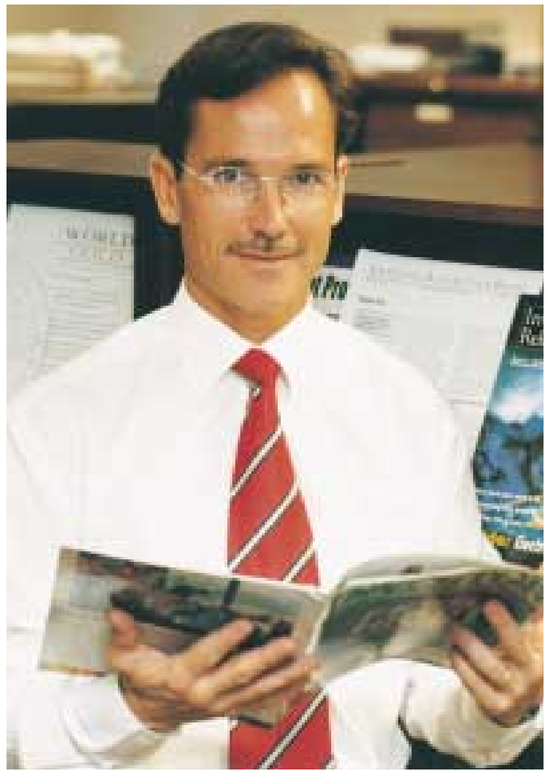


GRAY MATTERS

IT'S NOT ONLY PERFORMANCE - CLIENTS APPRECIATE EFFICIENT PERSONALISED SERVICE

This year we have grown our assets under management significantly and welcomed many new clients. Our focus is on maintaining our high standards of personalised service to all our clients through this period of growth.

Mark Herdman
Chief Operating Officer



Prior to the establishment of our Unit Trust and Life businesses we concentrated on large retirement funds and on our segregated private clients. We have prided ourselves on providing a high level of service to this very focused client base, and clients have regular contact with our senior executives. The challenge now is to extend this quality of personalised service to a rapidly expanding number of unitholders and policyholders.

When we first started referring potential clients to our unit trust products we were amazed at the negative reaction. Clearly clients were not happy with the treatment they received from unit trust companies. We were determined to give our unitholders a level of service similar to that enjoyed by all our other clients.

To this end we are fortunate in having a small but incredibly dedicated unit trust team which we profile in this section of our Quarterly Commentary.

We have had numerous e-mails and letters complimenting our front office staff on the quality of their service. To quote from a letter received from the chairman of a firm of financial advisers *'To us this says it all, with little wonder that your Funds enjoy such ranking esteem in the industry when you have surrounded yourselves with not only high calibre investment professionals but also equally highly trained marketing and administrative personnel'*.

What differentiates them is their passion for their job. They believe deeply in the quality and pedigree of the product that they are promoting and this confidence is evident to prospective clients.

As explained in the first edition of Quarterly Commentary, our intention is not to offer a proliferation of unit trusts attempting to capture popular trends in the market. Instead we have identified the needs of various groups of long-term investors and we offer them investment vehicles that will be enduring. For this reason we only have three unit trusts. The first is aimed at investors who wish to invest in the stockmarket, the second is a moderate risk, mixed asset class fund and the third unit trust is designed for retirees or conservative investors who require income and capital preservation but with the prospect of some appreciation. The latter two funds both comply with Regulation 28 of the Pension Funds Act and are therefore also suitable for investment by retirement funds. For a more detailed description of our Unit Trust Funds, please refer to page 12.

This simple, focused product offering enables our service staff to thoroughly understand and explain our products to prospective investors.

Our team also invites existing and prospective unitholders to our offices at the V & A Waterfront in Cape Town. This helps investors to get a feel for the firm to whom they are entrusting their money. Our senior executives welcome the opportunity of meeting with as many unitholders as possible. It gives us all great pleasure to talk about investment management, and our firm, about which we are equally passionate.

Anne Mayers Client Services Manager – Unit Trusts
Registered Person SAIFM, CAAUT

PROFILE

Anne joined Allan Gray in January 1991 as personal assistant to the head of research. In 1997 she took on the role of marketing co-ordinator focusing primarily on the production of presentation material for existing and new clients. In 1998 Anne became involved in the preparations leading up to the formation of our unit trust company and with the official launch in October 1998 refocused her energies as client services consultant. She now heads up client services and ensures that a superior standard of service excellence is given to our unitholders. This includes making sure that call centre personnel not only have a thorough understanding and knowledge of the unit trust products offered to the retail sector, but that they are also well informed on all aspects of our entire business. Anne's effectiveness in heading up this team is evidenced by its rapid response to client queries, the availability of senior investment professionals to address any unitholder enquiries and the 'open door' policy whereby clients are invited to visit our offices.

Sharna Jegels
Client Services Consultant – Unit Trusts
BSoc Sc, CAAUT

PROFILE

After completing her degree at UCT in 1997, Sharna worked as client services consultant for a large financial institution before joining Allan Gray in May 2000. Sharna assists Anne in servicing our unit trust clients.

Rehana Ebrahim Operations Manager – Unit Trusts
B Acc (Z), CA (Z), H Dip Tax (UCT), B Comm Hons Tax (UCT), CAAUT

PROFILE

Rehana joined Allan Gray in January 2000 as Operations Manager. Previously Rehana worked as a tax consultant for one of the big five auditing firms. She is responsible for managing the operations of the unit trust business which effectively includes servicing the requirements of the Financial Services Board, the Association of Unit Trusts, the Trustees and the Reserve Bank and providing ongoing assistance to the linked product service providers and the client services department.

Rehana is also responsible for managing all the accounting and administrative matters including the production of the annual and quarterly reports and effectively fulfils the in-situ requirements of Company Secretary to the management company.

ALLAN GRAY PERFORMANCE

ALLAN GRAY LIMITED PERFORMANCE PROFILE

	Annualised performance in % per annum (except fourth quarter) to 31 December 2000					Assets under management
	Fourth quarter	1 yr	3 yrs	5 yrs	Since inception	R millions
SEGREGATED RETIREMENT FUNDS						
Global Balanced Mandate	8.4	21.6	32.7	21.1	24.2[1]	6 632
Mean of the Consulting Actuaries Fund Survey*	1.2	5.6	14.0	12.3	18.7	
Domestic Balanced Mandate	4.9	15.6	35.9	22.9	24.6[1]	3 019
Mean of the Consulting Actuaries Fund Survey*	2.0	4.3	14.6	12.7	18.7	
Equity-only Mandate	3.9	11.8	32.8	19.9	19.3[2]	3 049
All Share Index	1.3	0.0	13.3	8.7	13.0	
Namibia Balanced Mandate	8.2	21.6	29.0	18.4	19.7[3]	765
Alexander Forbes Namibia Average Manager*	1.2	5.2	12.6	11.7	12.9	
UNIT TRUSTS**						
Stable Fund	2.7	-	-	-	22.3[4]	27
Benchmark***	2.1	-	-	-	8.6	
Balanced Fund	5.6	17.3	-	-	32.7[5]	244
Average Prudential Fund	1.3	1.7	-	-	15.7	
Equity Fund	3.3	8.9	-	-	63.4[6]	496
All Share Index	1.3	0.0	-	-	27.6	

* The Consulting Actuaries Fund Survey is compiled by Alexander Forbes Asset Consultants and included 224 retirement funds totalling R197 billion at the end of 1999, which makes it the largest performance survey in terms of size of assets measured. The returns for Quarter 4, 2000 are estimated from various JSE Actuaries Indices as the relevant survey results have not yet been released.

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

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

Inception dates: [1]1.1.1978 [2]1.1.1990 [3]1.1.1994 [4]1.7.2000 [5]1.10.1999 [6]1.10.1998.

ALLAN GRAY LIMITED SHARE RETURNS vs ALL SHARE INDEX

Period	Allan Gray*	All Share Index	Out/(Under) Performance
1974 (from 15.6)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	15.8	8.8	7.0
1996	18.4	9.4	9.0
1997	-17.3	-4.5	-12.8
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
Annualised to 31.12.2000			
3 years	36.7	13.2	23.5
5 years	20.1	8.7	11.4
10 years	21.9	14.9	7.0
Since 15.6.74	28.6	18.1	10.5
Average out-performance			10.5
Number of years out-performed			20
Number of years under-performed			6

* Note : Allan Gray commenced managing pension funds on 1.1.78. The returns prior to that date are of individuals managed by Allan Gray. These returns exclude income.

ALLAN GRAY PRODUCTS

SEGREGATED PORTFOLIOS

RETIREMENT FUND INVESTMENT MANAGEMENT IN SOUTH AFRICA

Allan Gray manages large retirement funds on a segregated basis where the minimum portfolio size is R100 million. These mandates are exclusively of a balanced or asset class specific nature.

RETIREMENT FUND INVESTMENT MANAGEMENT IN NAMIBIA

Allan Gray Namibia manages large retirement funds on a segregated basis.

PRIVATE CLIENTS

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

POOLED PORTFOLIOS - UNIT TRUSTS

CHARACTERISTICS AND OBJECTIVES OF ALLAN GRAY UNIT TRUST FUNDS

	STABLE FUND	BALANCED FUND	EQUITY FUND
Maximum equity exposure	60%	75%	95%
Share orientation	A portfolio chosen for its high income yielding potential.	A portfolio selected for superior long-term returns.	A portfolio selected for superior long-term returns.
Return objectives	• Superior after-tax returns to bank deposits.	• Superior long-term returns.	• Superior long-term returns.
Risk of monetary loss	• Limited capital volatility • Seeks to preserve capital over any 2-year period.	• Risk will be higher than the Stable Fund but less than the Equity Fund.	• Risk higher than Balanced Fund but less than average General Equity fund due to our low risk investment style.
Target Market	• Highly risk-averse investors, e.g. investors in bank deposits or money market funds.	• Investors seeking long-term wealth-creation who have delegated the asset balancing decision to Allan Gray.	• Investors seeking long-term wealth creation who have delegated only the equity selection function to Allan Gray.
Income	Highest income yield in the Allan Gray suite of funds.	Average income yield in the Allan Gray suite of funds.	Lowest income yield in the Allan Gray suite of funds.
Income Distribution	Distributed quarterly.	Distributed bi-annually.	Distributed bi-annually.
Compliance with Pension Fund Investment Regulations	Complies.	Complies.	Does not comply.
Fee principles	Performance-fee oriented to outperformance of taxed bank deposits. No fees if a negative return is experienced over a rolling 2-year period.	Performance-fee oriented to outperformance of the average Prudential Sector Fund.	Performance-fee oriented to outperformance of the JSE All Share Index.
Minimum lump sum investment requirement	R5,000.	R5,000.	R10,000.

POOLED PORTFOLIOS - LIFE COMPANY

(The minimum investment per Life Company client is R10 million)

CHARACTERISTICS AND OBJECTIVES OF ALLAN GRAY LIFE PORTFOLIOS

	RISK-PROFILED PORTFOLIOS			ASSET CLASS PORTFOLIOS			
	STABLE	BALANCED	ABSOLUTE	MONEY MARKET	BOND MARKET	LISTED PROPERTY	EQUITY
Investor Profile	• highly risk-averse institutional investors, eg investors in money market funds.	• 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.	• 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 listed property portfolio.	• institutional investors requiring management of a specific equity portfolio.
Product Profile	• conservatively managed pooled portfolio • investments selected from all asset classes • shares selected with limited downside and a low correlation to the stock market • 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.	• aggressively managed pooled portfolio • investments selected from all asset classes • will fully reflect the manager's strong investment convictions and could deviate considerably in both asset allocation and stock selection from the average retirement portfolio • choice of global or domestic-only mandate.	• 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 • portfolio risk is controlled by limiting the exposure to individual counters.	• 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.
Return Characteristics/ Risk of Monetary Loss	• superior after-tax returns to bank deposits • 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.	• superior returns to the Alexander Forbes Money Market Index • low capital risk • high flexibility • capital preservation • high level of income	• superior returns to that of the JSE All Bond Index plus coupon payments • risk will be higher than the Money Market Portfolio but less than the Equity Portfolio • high level of income.	• superior returns to that of the Alexander Forbes Listed Property Index (adjusted) • risk will be no greater than that of the benchmark and will be lower than the Equity Portfolio • high level of income.	• superior returns to that of the JSE All Share Index including dividends • absolute risk will be no greater than that of the benchmark
Benchmark	Taxed bank deposits.	Mean performance of the large managers as surveyed by consulting actuaries.	Mean performance of the large managers as surveyed by consulting actuaries.	Alexander Forbes Money Market Index.	JSE All Bond Index plus coupon payments.	Alexander Forbes Listed Property Index (adjusted).	JSE All Share Index including dividends.
Fee Principles	Fixed fee, or performance fee based on out-performance of the benchmark.	Fixed fee, or performance fee based on out-performance of the benchmark.	Fixed fee, or performance fee based on out-performance of the benchmark.	Fixed fee.	Fixed fee.	Fixed fee.	Fixed fee, or performance fee based on out-performance of the benchmark.

Notes 1 The above risk-profiled portfolios comply with Regulation 28 of the Pension Funds Act.
2 The above asset class portfolios comply with the asset class requirements of Regulation 28.

NAMIBIAN POOLED PORTFOLIO - ALLAN GRAY NAMIBIA INVESTMENT TRUST

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

View of the V&A Waterfront from Allan Gray Headquarters

ALLANGRAY

LONG TERM INVESTMENT MANAGEMENT

ALLAN GRAY LIMITED

Granger Bay Court, Beach Road
V & A Waterfront, Cape Town 8001
P.O. Box 51318, V & A Waterfront
Cape Town 8002
Tel 021 415 2300 Fax 021 415 2400
www.allangray.co.za

ALLAN GRAY UNIT TRUST
MANAGEMENT LIMITED

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