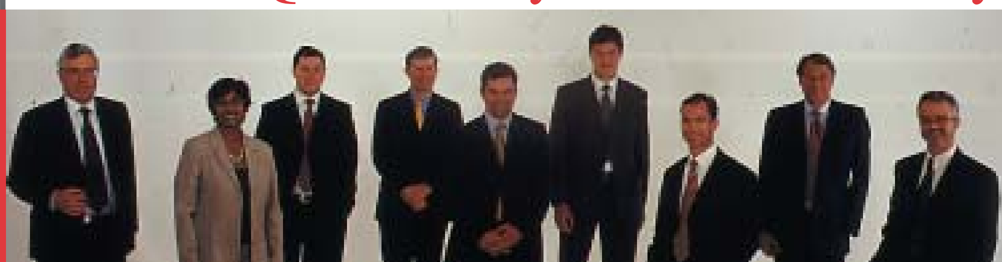
Quarterly Commentary

Q3



30 September 2001

ALLAN GRAY

LONG TERM INVESTMENT MANAGEMENT

Q3

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Front cover the Board of Directors, Allan Gray Limited

From left to right: Sandy McGregor; Sibs Moodley-Moore; Stephen Mildenhall; Francois van der Merwe; Arjen Lugtenburg; Simon Marais; Mark Herdman; Jack Mitchell; Edgar Loxton

AllanGray

LONG TERM INVESTMENT MANAGEMENT

Recent events underscore Allan Gray's long-term investment philosophy

Mark Herdman
Chief Operating Officer, Allan Gray Limited

Comments from the Chief

"We wish to offer enduring value-for-money products whose main objective is long-term wealth creation."

The most significant event of this past quarter was the 11 September terrorist attacks in the U.S.A. In "Investment Perspective", our Equity Strategist, Jack Mitchell, comments on the implications of these events for investment and places them in the broader context of already weakening stock markets. Jack follows with an article describing our investment philosophy and process and explains why our funds have performed relatively well during this period.

Investment Commentary

The first article in this section is written by our Commodity Analyst, Sandy McGregor, who discusses the attractions of gold and gold shares. Sandy believes that an investment in gold currently offers an attractive combination of relatively low risk with significant upside potential. He justifies this by analysing the supply and demand factors of the gold market.

Also in this section our Chairman, Simon Marais, explains the importance of understanding the real underlying earnings growth generated by a company and how this often differs dramatically from reported earnings. He gives a hypothetical example of how reported earnings can be manipulated to overstate the true economic picture. He ends with a practical example, Sun International South Africa, where the true earnings power is understated due to accounting conventions.

New Product News

This is the second quarter in a row in which we have launched new products. As mentioned in the previous 'Quarterly Commentary', this is unusual as we do not believe in offering products which are based on prevailing short-term trends or 'flavour of the month' investment themes because they are not in our clients' best long-term interest. We wish to offer enduring value-for-money products whose main objective is long-term wealth creation.

However, when the market and our retirement fund clients approach us to provide them with what we believe are sound and sensible products, we react enthusiastically. One of our Investment Analysts, Barend Ritter, was briefed with the responsibility of researching, recommending and imple-menting the launch of a suite of suitable individual retirement products. In this section, we give some of the supporting principles upon which they were created and summarise their main features.

Operating Officer

Gray Matters

In 'Gray Matters' we feature our portfolio administration department which performs a vital but often neglected role in effective asset management. Our teams have a reputation for 'zero tolerance', priding themselves on a very low number of errors despite the increasing complexity and variety of issues with which they have to deal on a daily basis. A superior investment management service is a combination of superior performance and top quality administration.

Investment Performance

In what was a tumultuous, volatile and often painful quarter, it is most gratifying to report that our balanced mandate clients (all asset classes) earned a positive return compared with that of the average which was negative. In addition, our equity-only mandate clients earned a slightly negative -0.4% versus the All Share Index of -11.2%.

Our segregated retirement funds with a global balanced mandate earned 2.6% versus our estimate of the mean of the Consulting Actuaries Survey of -4.7%. Over the last year, the total return produced by our clients' global balanced portfolios was 39.5% versus the mean of the Consulting Actuaries Fund Survey of 6.3%.

Our first unit trust, the Allan Gray Equity Fund, turned three years old on 30 September 2001. The fund has generated 52.3% per annum, or 253.4% cumulative over the three-year period compared with that of the All Share Index of 20.1% and 73.0% respectively.

The prospects for financial markets, in particular stock markets and economies, are as uncertain and volatile as almost any time in history. Despite this, our fundamental, value-based approach will look to exploit any resultant mispricing to the advantage of our clients.

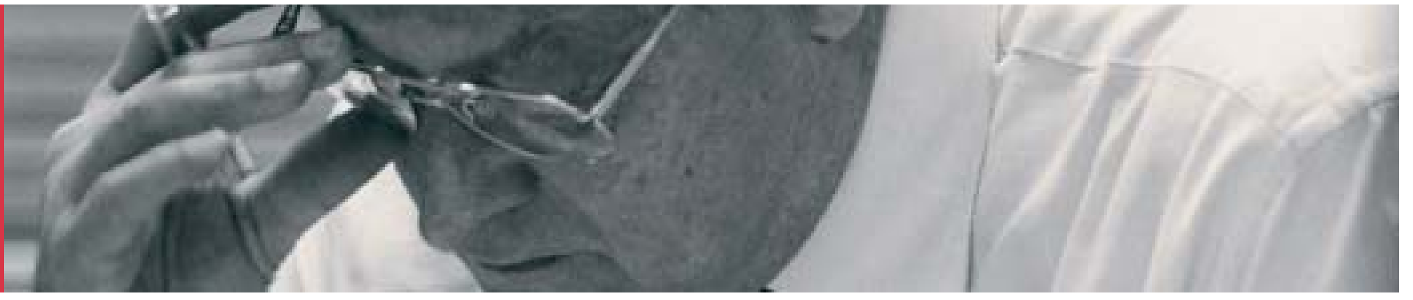
I hope that you enjoy this issue of 'Quarterly Commentary'.

Mark Herdman
Chief Operating Officer

Repercussions of 11 September

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

Investment Perspective



> "Experience at Allan Gray shows that our share portfolios perform relatively well in weak stock markets."

The tragic events that occurred on September 11 in the USA have left a trail of stock market losses around the world. Although shares fell rapidly in the aftermath of the attacks, it must be remembered that the US and world markets actually peaked in the first quarter of 2000, some eighteen months ago. The recent falls, therefore, should be seen within the broader context of weakening stock markets.

In our March Quarterly Commentary, we highlighted the significant risk in world stock markets insofar as they remained at exceptionally high valuations. By continuing to discount a never-ending stream of good news, our view was that they were highly vulnerable to any adverse developments. Clearly this situation was exacerbated by the events of 11 September and will undoubtedly worsen in the foreseeable future as a result of rapidly deteriorating economic news. Currently, commodity prices are in free-fall and central banks internationally are reacting to the weak economic environment by concertedly easing monetary policy, resulting in very low interest rates.

This type of investment environment plays into the hands of value investors such as Allan Gray. The most rewarding long-term investments are made when shares are priced well below intrinsic value. Under these circumstances, investors should consider increasing their exposure to shares as the stock market falls. After all, one is buying a long-term income stream for a diminishing capital outlay. In contrast, the after tax rewards of keeping money in the bank are fast losing their attraction as interest rates plummet.

Experience at Allan Gray shows that our share portfolios perform relatively well in weak stock markets, evidence of which can be seen in the performance section of this Quarterly Commentary. Reasons why our portfolios tend to fare better in weak markets can be found in the following section entitled "Our Investment Philosophy and Process".

Our Investment Philosophy and Process

Consistently superior returns over nearly three decades confirm that the investment philosophy and process applied at Allan Gray is conducive to creating long-term wealth for our clients. Critically, while individual talents are important in applying the process from time to time, the overall results have not been dependent upon any single individual. As one would expect, senior investment personnel have changed over the past 27 years. Conversely, what has not changed, is our undying belief in the long-term benefit of investing in shares that represent excellent value coupled with Allan Gray's strong and ever-present culture of integrity.

Investment Philosophy

The cornerstone of our success is our value-based investment philosophy. Essentially we search for the truth about investments with minimal reliance on conjecture and long-term forecasts. Simply put, we obtain investments for our clients that are trading well below their intrinsic worth. By intrinsic worth we mean the price that a prudent businessman, using normal valuation techniques, would pay for a business. We believe, and it is our experience, that shares bought well below intrinsic value have a low risk of suffering permanent capital loss whereas they hold the promise of superior capital returns. On the other hand shares trading above intrinsic value hold high risk of permanent capital loss and are likely to provide disappointing returns.

"Essentially we search for the truth about investments with minimal reliance on conjecture and long-term forecasts."

Naturally we have experienced occasions when investment markets are primarily driven by emotion in the form of super optimism or bleak pessimism. On these occasions our investment philosophy of acting sensibly in an irrational world delivers disappointing results. For examples of our weak years, refer to our long-term track record on page 16. During these periods of under-performance, Allan Gray is often criticised for being 'old-fashioned' and 'behind the times' because 'the world has changed'.

Annualised Share Returns vs All Share Index

Annualised to 30.09.2001	Allan Gray %	ALSI %	Outperformance %
From 1.10.98 (3 Years)	49.9	20.1	29.8
From 1.10.96 (5 Years)	21.1	6.2	14.9
From 1.10.91 (10 Years)	21.8	12.4	9.4
Since 15.06.74 (27 Years)	28.8	17.5	11.3
No. of Years Outperformed			21
No. of Years Underperformed			**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.

Philosophy and Process continued

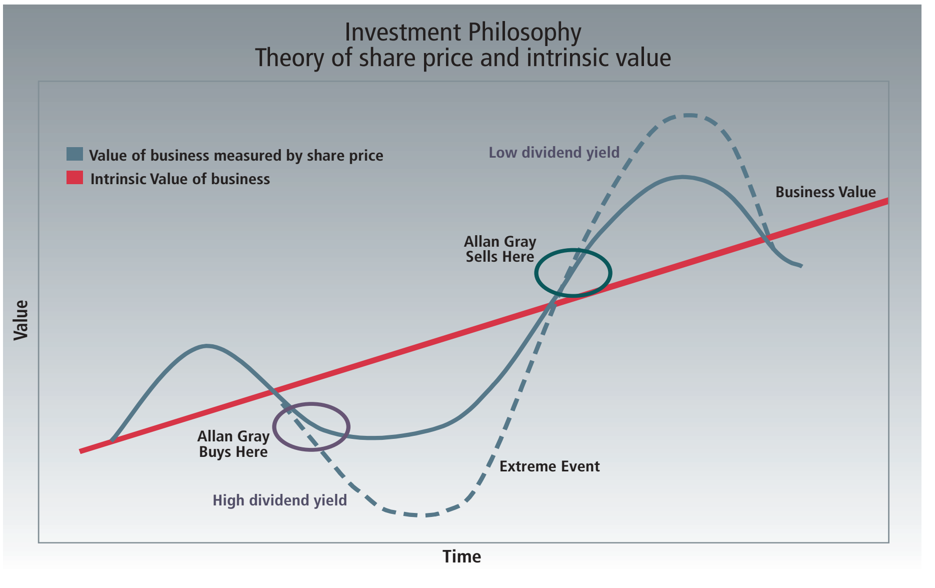
Investment Perspective

"Shares bought well below intrinsic value have a low risk of suffering permanent capital loss."

Both clients and media apply pressure to abandon the rational for the irrational approach and to 'follow the herd'. This has never been an option at Allan Gray as our ethos is the search for true value, and true value in our experience is not determined by crowd psychology.

Below we show a graphic representation of the typical interplay between a share price and its intrinsic value. The occasional extreme event when our performance tends to disappoint is also illustrated when the share price diverts excessively from fair value.

Following an extreme event, the share price often moves rapidly back to fair value. As a result, Allan Gray's performance can be outstanding following a weak period of performance (once again, see long-term track record).



> "While individual team members are critical to the process, the process is not dependent on any individual."

Investment Process

It is important for clients to understand the rigorous and durable process we have developed for investing their money. As mentioned before, while individual team members are critical to the process, the process is not dependent on any individual.

While we could dwell at length on the overall process, the salient characteristics are perhaps more comprehendible in point form:

- Share investments are based on our in-house proprietary research.
- Our analysts are trained internally and, typically, their first job in investment management is with Allan Gray.
- Our current share portfolio managers were all trained at Allan Gray, their original employer in the investment profession.
- All portfolio managers undertake research.
- Share portfolio managers are encouraged to make the largest investments in companies they themselves have researched.
- Proprietary analysis is subjected to rigorous peer group appraisal before significant action can be taken on behalf of clients.
- Portfolio managers and not committees take responsibility for performance. We have no 'house view' but an independent 'allocations' division reduces portfolio divergences and keeps portfolio variance to a minimum. Therefore, clients' portfolios reflect a scientific blend of our share managers' portfolios.
- In exceptional cases we allocate a specific manager to take overall responsibility for a portfolio. In the case of our unit trusts, this is essential as they have unique cash flows that demand daily attention. Nevertheless, these portfolios are constructed to resemble, as closely as possible, the combined portfolio of all our share portfolio managers. The overriding objective is to ensure the same performance, taking into account cash flows, for all of our clients with similar mandates.

The above approach facilitates the training of exceptional individuals as investment professionals. It is our experience that individuals, and not committees, are best at identifying and reacting timeously to investment opportunities. Before they do so, the combined experience of the group probes their reasons, which is constructive in that it assists in developing realistic confidence or doubt as the case may be.

Importantly for our clients, we are continually training new analysts, some of whom are destined to be portfolio managers in the years ahead. They will be steeped in the Allan Gray tradition of value-investing, allowing their expertise to continue the legacy of superior long-term wealth creation that our clients have come to expect. Our current investment team appears in the table above.

Southern African Investment Team

	Qualifications	Expertise	Years Investment Experience	Years with Allan Gray
EQUITY AND FIXED INTEREST				
Simon Marais*	MSc PhD (Physics) CFA	Portfolio Manager	10	10
Arjen Lugtenburg	MCom CA(SA) CFA	Portfolio Manager	11	11
Stephen Mildenhall**	BCom (Hons) CA(SA) CFA	Portfolio Manager	4	4
Jack Mitchell	BCom	Equity Strategist & Bond Portfolio Manager	30	14
Sandy McGregor	BSc BA (Hons)(Econ)	Bond & Private Client Portfolio Manager	31	10
Mark Herdman ***	MCom CFA	Investment Manager	19	14
Duncan Artus	BBusSc (Hons) PGDA	Trainee Analyst	2	New
Abdul Davids	BCom CFA	Analyst	1	3
Meirine Giggins	BCom (Hons) CA(SA)	Analyst	1	1
Delphine Govender	Dip FMI CA(SA) CFA	Trainee Analyst	3	New
Ian Liddle	BBusSc (Hons) PGDA	Trainee Analyst	New	New
Michael Moyle	MSc Eng MBA CFA	Allocations and Quant Manager	4	4
Reneé Tubbesing****	MSc (Maths) B Compt (Hons) CA(Nam)	Analyst	2	3
Heaton van der Linde	BBusSc (Hons) CA(SA) CFATrainee	Analyst	New	3
Leon van Wyk	PhD (Mathematics)	Trainee Analyst	New	New
PROPERTY				
John Rainier #	BCom LLB	MD of Allan Gray Property Trust	19	11
Rael Abramowitz		Property Manager	2	2
Sean McCoy	BCom CA(SA)	Property Manager	2	3.5
Jonathan Hemp	BSc (Eng) MBA	Property Manager	11	New

*Chairman of Allan Gray Limited **Chief Investment Officer *** Chief Operating Officer ****Chief Investment Officer - Namibia #Head of Property Division

The attractions of gold and gold shares

Sandy McGregor
Director, Allan Gray Limited
Fixed Interest and Private Client Portfolio Manager,
Commodity Analyst

Investment Commentary

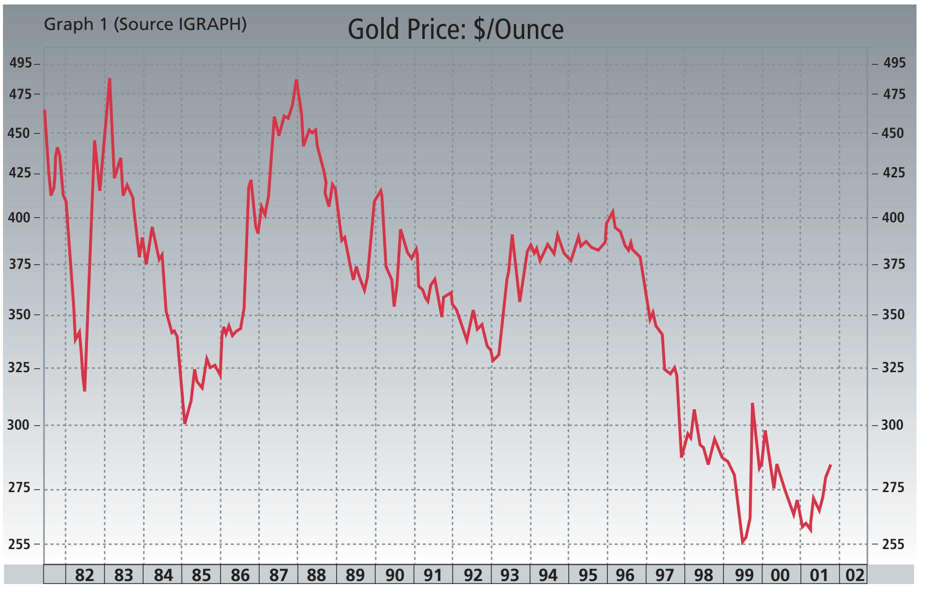
"Allan Gray's equity portfolios have a significant weighting in gold shares. This article explains why we regard gold shares as an attractive investment."

Currently, we believe gold offers a combination of relatively low risk on the downside combined with a significant opportunity on the upside. To understand our reasoning one must consider the balance between gold supply and demand which, at present, is as follows:

		Tons / Year
Demand	Jewellery	3200
	Other	750
	Total	3950
Supply	Mine production	2550
	Scrap	650
	Total	3200
Drawdown from stocks		750

The drawdown from stocks is the component of supply which is critical in determining the price. Most of the gold from this source enters the market from central banks either through direct sales or indirectly through loans to mining companies which wish to lock in a future price. This is known as "official" gold. About 5 000 tons of official gold is on lease. Since 1989 about 8 000 tons of official gold has been bought by consumers. Aggressive mobilisation of official gold is the principal reason why, despite a strong growth in demand, the price has fallen from $400 in 1989 to $278 currently (graph 1). There was a time during 1998 when it looked as if the central banks were willing to sell at any price and would continue to force market prices lower and lower. However, the major producers, many of which are developing countries, have, through intense political lobbying made the leading central banks aware of the damaging consequences of uncontrolled dumping. Accordingly, agreements have been reached whereby official sales are co-ordinated so as not to drive down prices. In practice this has created a price floor at about $250, which limits the downside risk of gold investments.

Gold's upside potential comes from the continuing depletion of ore bodies and the inability of the mining industry to replace reserves unless the price is significantly above $300 / ounce. If the price remains at current levels gold production will decline over the next 10 years, possibly by 30 per cent. Even if gold demand remains unchanged, the cumulative deficit between 2001 and 2010 would be 10 000 tons. This will have to be met by official selling. If demand were to grow 2 per cent annually, 14 000 tons would be required. In addition there are 5 000 tons out on lease which the borrowers will ultimately have to repay. The official sector currently holds

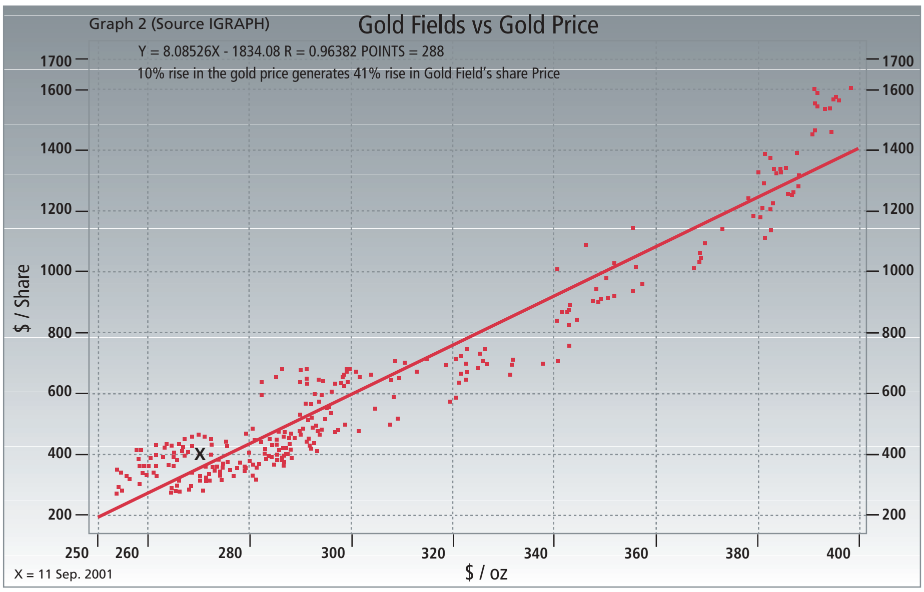


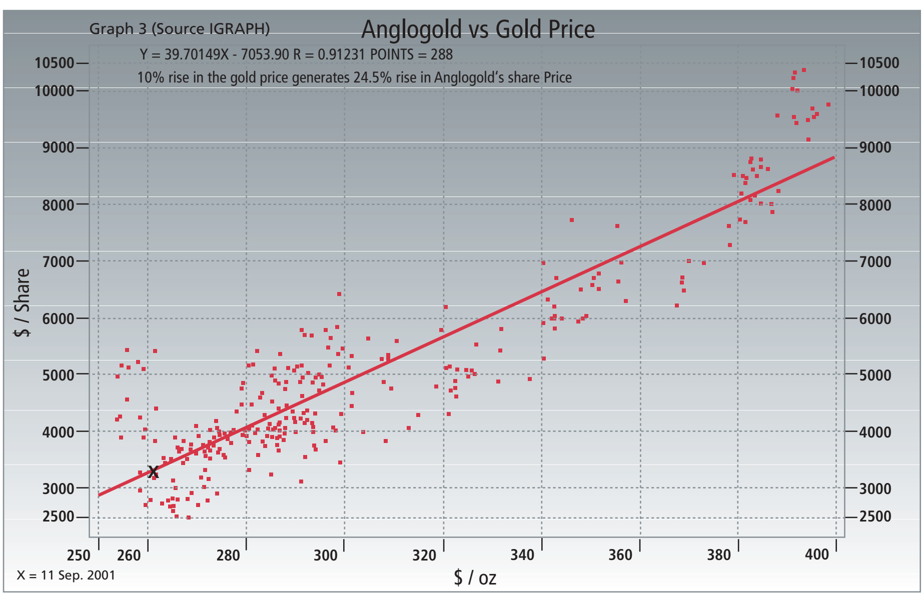
30 000 tons of gold but not all central banks wish to sell so the depletion of inventories available for disposal could take place fairly rapidly. Of course 10 years is an eternity to many investors, but even in four years time the market will be increasingly aware of the prospective shortage of gold.

We do not know what might change sentiment about gold. It could be disappointing returns in equity markets. It could be Japan where interest rates are zero and the government is trying to create inflation, (a lethal combination for the protection of the value of savings). It could be jewellery demand in China. Central banks have responded to the events of 11 September with massive monetary stimulus. One cannot predict, with any certainty, the consequences of this injection of liquidity into the world economy. Possible outcomes include an early recovery from recession and renewed inflationary pressures, both of which should increase the demand for gold. Regardless, the longer term decline in mine production combined with restrained selling by central banks suggest that the trend in prices will be upwards, and any event which boosts demand could have a big impact on the price.

The prices of gold mining shares are determined by expectations regarding the price of gold bullion. Graphs 2 and 3 offer examples of this correlation. They plot the dollar share prices of two leading gold companies, Gold Fields and Anglogold, against the gold price for each week over the past five years. During this period a 10 per cent change caused a 41 per cent and 25 per cent move in their respective share prices. Anglogold is less sensitive to changes in the gold price because it has sold forward a significant proportion of its production. In contrast Gold Fields is unhedged.

The way in which we invest to benefit from gold's upside potential is to buy mining companies, which are unhedged such as Gold Fields and Harmony. Also we favour mines which have long lives such as Avgold and Western Areas because in time the market will recognise the value of companies which will be able to maintain and increase production and benefit from the higher prices caused by the gradual decline of global production.





Seeing through the smoke and mirrors

Simon C. Marais
Chairman, Allan Gray Limited
Equity Portfolio Manager and Analyst

Investment Commentary

> "The most room for earnings manipulation is where a company is involved in mergers or acquisitions."

Companies that manage to grow their earnings faster than inflation over long periods are invariably good long-term investments. Yet no company can do this consistently. In fact, all companies in South Africa have encountered at least one period during the last 20 years in which their earnings were under pressure. The major challenge for us as managers of your money is to try and find those companies that will show real earnings growth over long periods of time and whose shares are reasonably priced. At the same time it is equally important to avoid paying high prices for shares in companies which appear to offer strong earnings growth, but where a careful analysis will indicate that the growth is unsustainable.

To ascertain whether a company's growth is due to long-term business fundamentals or to factors that may be of a temporary nature, is far from easy. In many cases the stock market, with its hundreds of highly educated analysts, will not be aware of the lack of real growth in a company until it is too late. A typical example is the growth through the issue of highly priced shares (e.g. Dimension Data) that we highlighted in our March 2000 quarterly.

Why would the growth of a company not be sustainable, especially if the company has a record of five or more years of spectacular growth? The main reason is that the growth reported by the company may not be a fair reflection of the true increase in the earnings of the company's operations. Accountants have significant latitude when it comes to reporting a company's earnings. While the earnings numbers may be narrowly defined in a simple operating company, the scope for reporting different numbers increases dramatically with an increase in the complexity of a company's structure.

The most room for earnings manipulation is where a company is involved in mergers or acquisitions. For example, assume Company A acquires Company B and merges their operations. The details of both companies are listed below:

	A	B	New A
Net Assets	100	100	200
Earnings	10	10	20

Not much complication here. But this is before potential 'enhancement' by A's corporate accountants. For example, it can be decided that certain of Company B's stock is obsolete and must be written down to a more 'realistic' level - say by R10. In addition, it may be deemed prudent to create a reserve against potential bad debts in B (another R10 provision). Further provisions amounting to R30 for costs associated with the merger can also be motivated.

The statement of New A's accounts after the merger would now read:

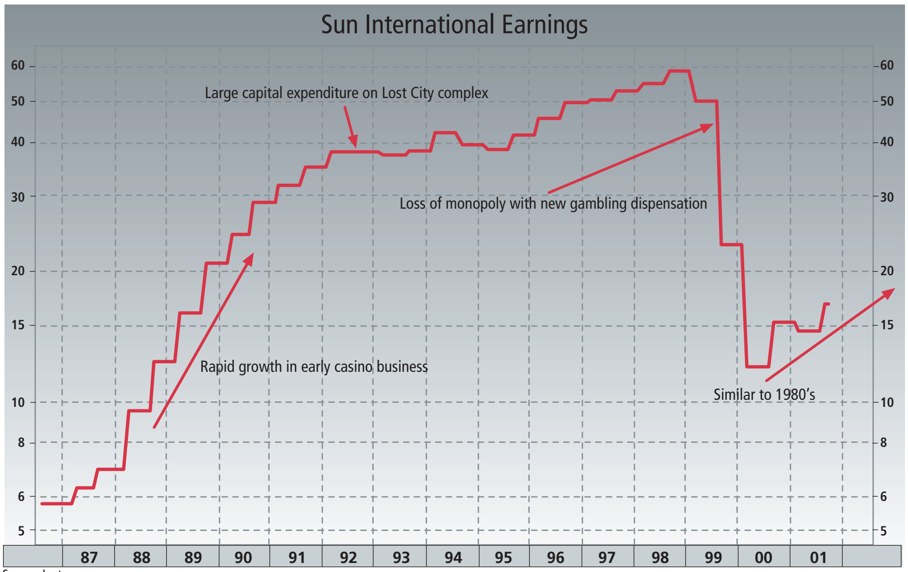
Net Assets (With total provisions of R50)	150
Earnings	20

Still nothing that appears alarming. If anything, the second set of accounts appear more conservative. But the same is not true for future earnings.

Assume that the merger is not as successful as originally planned and New A shows no earnings growth for the next two years, i.e. earnings stay at R20. However, during the first year, the company may sell half the stock that it wrote down as obsolete. This will add R5 to profits (half the R10 by which the value of the stock was decreased during the merger).

New A will thus unveil earnings of R25 - an increase of 25% over the previous year's result. In year two the company may find that the bad debts actually pay their accounts adding R10 to profits giving total earnings of R30 or growth of 20%. At this stage management can confidently state that the merger has been a huge success and that the outlook is excellent since they have R35 of their reserves still intact to help bolster future earnings - despite the true economic picture being one of stagnation and unexciting prospects.

Given the complexity of modern business, it is very difficult to determine whether the numbers published after a merger are real. Therefore at Allan Gray, we are extra careful



Source: Inet

about investing in companies that make constant acquisitions. While a well-timed acquisition can certainly add value, the quality of the results of a company with frequent acquisitions is much more difficult to ascertain than a single operating entity with easily comparable results.

Accounting conventions can sometimes also understate the true value of a company and thus offer attractive investment opportunities. This is most clearly illustrated in the case of SISA (Sun International South Africa), one of our clients' major investments. Their effective exposure to SISA is further enhanced by the fact that it accounts for a large portion of the value of Kersaf, another of our clients' major investments.

SISA has two major businesses: A resorts and hotel division that includes Sun City and the Table Bay Hotel in Cape Town, as well as a number of casinos. SISA was awarded licences in Gauteng, Cape Town, Durban, Port Elizabeth, Kimberley, Bloemfontein and Pietersburg, and have either recently completed their casinos or are in the process of constructing them. In a new casino business, accounting rules may hide the value of the company. The following table sets out the major operating statistics for a new casino as reported in the company's income statement. The terms are explained below the headings.

> "Accounting conventions can sometimes understate the true value of a company and thus offer attractive investment opportunities."

Gross Turnover	100

The total amount of money that the casino makes from its customers. For illustration purposes this number was taken to be R100.

Net Turnover	73

The casino has to pay VAT and various other levies amounting to about 27 cents in the Rand leaving it with R73.

Operating Costs	(40)

The cash costs incurred by the casino such as staff costs, electricity, security, etc. Accountants put expenses in brackets to indicate that they are negative numbers.

EBITDA	33

An acronym to ensure most people do not understand accounts! This is the earnings before interest, tax and depreciation. Another interpretation is the cash flow out of a business before the banks and receiver have been paid (a very temporary phenomenon) and before the business has made provision for maintaining its operations.

Interest	(12)

All SISA's casinos were built with about 60% debt. The typical interest charge on this debt is 12% of gross sales.

Depreciation	(12)

On the casino building and equipment.

Net Profit	9

This would be the earnings reported by SISA. For simplicity, tax has been ignored.

Note that most of the costs are fairly fixed. A small decline in gross revenue by R1 to R99 would reduce net profit by almost R1 or 10%. This explains the recent disappointing earnings results of SISA (they reported earnings per share of 17 cents versus expectations of 18 cents), because in some operations the revenue was a little below expectation.

The value of SISA lies in the fact that the current reported net profit is a poor reflection of the true underlying earnings power of the company. Since the assets are all brand new, very little money has to be spent on maintenance for a number of years. The free cash flow that management can use to repay debt is thus R21 instead of the reported R9 earnings.

With the strong cash flow, it is easy to work out that SISA can repay the debt on its casinos in four years. If we assume that the casino business grows at 8% p.a. for the next four years, this will yield revenue 36% higher than current levels. Assume the same growth in casino costs. The income statement by 2005 will now look something like this:

Gross Revenue	136

Our assumption of 36% growth.

Net Revenue	99

Charges of 27% as above.

Costs	(54)

36% increase in costs.

EBITDA	45

Interest	0

SISA has repaid all debt.

Depreciation	(12)

This number remains fixed.

Net Profit	33

The net profit of SISA's casino operations is thus expected to increase from R9 to R33 or 38% p.a. even though we only assumed 8% growth (in line with costs which are likely to equal inflation) in the casino revenue. This is due to the high cash flow used to repay debt and the large fixed depreciation charge. SISA's total earnings will grow somewhat slower, since the resorts business will grow more in line with revenue. However, total earnings growth should still average 20% p.a. or more. This was the case in the 1980's as shown in the above graph.

The share price of both SISA and Kersaf has fallen significantly after the 11 September attacks since there is an expectation of reduced tourism which could therefore impact on earnings. SISA is trading at about 10 times earnings at the moment. This may not look particularly cheap on the surface, but a closer analysis as simplified above, indicates that these earnings will show significant increases over the medium-term despite some short-term weakness in the aftermath of the attacks. For a history and our expectations of earnings, see the graph above. We believe it offers far better value than many other companies with better histories, but where current earnings' levels may be difficult to sustain beyond the immediate future.

Expansion of Allan Gray's retail offering

Barend Ritter
Head of Individual Retirement Products

New Product News

"Our new retirement products will suit individuals saving for their retirement or retired individuals who are seeking long-term wealth creation."

Allan Gray launched the first of a suite of unit trusts three years ago in order to provide the man-in-the-street and smaller retirement fund investors access to Allan Gray's investment management expertise. At the time, we insisted that our retail clients would be offered products with exactly the same attributes as those that had served our wholesale or corporate clients for the previous 24 years. These attributes are:

- Value for money - their sole purpose is to generate superior wealth after deduction of all fees.
- High standards of reporting - regular, detailed and clear communication of how our clients' funds have been invested, the returns generated by these investments and all fees and costs incurred.
- Uncompromising integrity - offer only what is always in the client's best interest. Our business considerations come second.

We have been approached on numerous occasions over the years, in particular by retiring or withdrawing members of institutional retirement funds managed by ourselves, requesting that we extend our services to include individual retirement products. Following the launch of Allan Gray Life in August 2000, we are now able to meet this demand by offering the following retirement products:

- Living Annuities
- Retirement Annuities
- Pension & Provident Preservation Funds

All these products invest in our range of risk-profiled unit trusts.

Our retirement products will suit individuals saving for retirement or retired individuals, who are seeking long-term wealth creation and have decided to delegate asset management responsibilities to Allan Gray.

Our individual retirement products are generic in nature, offering the features and benefits as dictated by legislation and prescribed by the relevant regulatory authorities. We aim to differentiate these products by the investment approach and delivering consistent value for money. For this reason we have made our full range of unit trusts available as investment options across all the new products. Allan Gray unit trusts are distinctly different from each other and are designed to meet the needs of all investors as dictated by age and circumstance.

In line with our business policy, our only source of income is an investment management fee charged on assets under management. Any additional administration charges are levied at cost. There is no initial charge for investing in our products other than legally required compulsory charges to cover brokerage and marketable securities tax. All fees are fully disclosed and we keep clients regularly informed on all aspects of their investments.

We offer a concise range of four risk-profiled funds in which we take responsibility for all the complex investment decisions. Clients only have to select the fund that suits their risk profile. They may switch between funds at any time and to assist them, we take pride in providing an efficient, personalised Client Services Department which can be contacted on 0860 000 654 or via e-mail at: info@allangray.co.za. Visit our website: www.allangray.co.za for an introductory marketing leaflet and application form.

For your convenience, please find below a summarised table of our retirement products.

Summary of new Allan Gray Retirement Products

	Retirement Annuity	Pension or Provident Preservation Fund	Living Annuity
Description	Enables saving for retirement with pre-tax money. Contributions can be at regular intervals or as single lump-sums Ideal for the self-employed or the employed who want to make additional contributions to an approved retirement vehicle.	Preserves the pre-tax status of a cash lump-sum that becomes payable from a pension (or provident) fund at termination of employment. A single cash withdrawal can be made from the Preservation Fund prior to retirement.	Provides a regular income from the investment proceeds of a cash lump-sum that becomes available as a pension benefit at retirement. A regular income of between 5% and 20% per year of the value of the lump-sum can be selected. Ownership of the annuity goes to the investor's beneficiaries on his/her death.
Investment Options The contribution(s) to any one of these products can be invested in any combination of Allan Gray unit trust funds as indicated.	Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund	Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund	Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market
Minimum Investment Size	R50 000 lump-sum R2 500 monthly	R 100 000	R 250 000
Initial Fee	None	None	None
Annual Administration Fee	0.4% (VAT included)	0.4% (VAT included)	0.4% (no VAT payable)
Investment Management Fee*	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.
Switching Fee	0.12% (VAT included)	0.12% (VAT included)	0.12% (No VAT payable)
Financial Adviser Fees (if applicable)	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%

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

The teams behind the scenes

Gray Matters

"The role of the Portfolio Administrator has grown and is highly interactive with clients, banks and brokers."

The portfolio administration department is responsible for complete and accurate accounting and reporting to clients on a daily, monthly and quarterly basis. The role of the portfolio administrator has grown considerably and is highly interactive with clients, banks and brokers. Members of the team are often the first point of call for client queries and meetings with various other financial institutions on behalf of the client.

Currently our portfolio administration department is split into two teams headed by Lauren Honeyman and Julie Campbell. Lauren's team consists of the more traditional portfolio administrator roles and administers our segregated client accounts. In addition, her team is responsible for all trade settlements. Julie's team administers our pooled or unitised accounts, both institutional and retail. Her team is also responsible for system wide portfolio accounting matters including corporate actions, retirement fund tax and CGT, also for our manager system and performance measurement and analysis.

Lauren's team includes three portfolio administrators Wilma Mostert, Beverley Frier and Julian Calvert, and a settlement administrator Mauvina Pienaar. Mauvina has been with Allan Gray for over 17 years; only Ellen Scholtz, our caterer, has been here longer. Julie's team currently consists of herself and two others, Tova Levin and Roshaan Allie.

Julie's Team

Julie performs the management role, corporate actions, and the more intricate aspects of administration. She graduated from University of Cape Town with a BSc (Hons) degree in Mathematical Statistics and joined Allan Gray in June 1992 as Client Performance Analyst. In 1995, she took over responsibility for the portfolio accounting and performance measurement functions for the investment managers, and in 1998 was promoted to Manager of Portfolio Performance and Accounting. Most recently, with the launch of Allan Gray Life in August 2000, she designed the accounting and reporting systems for the pooled portfolios. Coupled with sincere dedication, her understanding of the intricacies of asset manager administration has led her to be a vital link at Allan Gray.

Roshaan joined Allan Gray in May 1995 after completing a B.Com degree at UCT, and is in charge of the performance and manager system. Tova joined Allan Gray in January 2001 and has a B.Com degree from UCT. She is primarily involved in the accounting for Allan Gray Life's pooled portfolios and handles most of the unitised administration.

Lauren Honeyman's team - Julian, Wilma, Lauren, Beverley.

"Portfolio administration is one of the most important aspects of investment management, and yet this function and those who staff it are often not recognised for their vital work."

Julie Campbell with Roshaan, left, and Tova, right.

Lauren's Team

Lauren joined Allan Gray in 1993. Over the past 9 years, she has helped develop a client focussed Portfolio Administration capability. As Manager of Portfolio Administration, Lauren has taken the Allan Gray ethos of superior client communication to its natural conclusion helping to engender the professional service for which Allan Gray is renowned.

Wilma graduated from the University of Stellenbosch with a B.Com degree. She has worked at Allan Gray for 11 years as a Portfolio Administrator. Apart from normal portfolio duties, she is responsible for all administrative matters regarding foreign investments, including quarterly reporting to the South African Reserve Bank. Beverley joined Allan Gray in November 1994 and has been in Lauren's team for five years. Julian joined Allan Gray in the Property division three years ago and has been part of Lauren's team for a year. He graduated from Cape Technikon with a Cost and Management Accounting National Diploma.

Performance

ALLAN GRAY LIMITED PERFORMANCE PROFILE

Annualised performance in percent per annum to 30 September 2001

	Third quarter (not annualised)	1 year	3 years	5 years	Since inception	Assets under management R millions
RETIREMENT FUNDS						
Global Balanced Mandate	**2.6**	**39.5**	**46.0**	**24.0**	**24.7**[1]	**10 555**
Mean of the Consulting Actuaries Fund Survey*	-4.7	6.3	19.1	11.0	18.3	
Domestic Balanced Mandate	**1.3**	**27.7**	**46.1**	**24.5**	**24.7**[1]	**5 194**
Mean of Alexander Forbes Domestic Manager Watch*	-6.7	6.1	19.4	11.2	18.3	
Equity-only Mandate	**-0.4**	**28.6**	**45.9**	**20.4**	**20.2**[2]	**4 282**
All Share Index	-11.2	1.1	20.1	6.2	12.1	
Namibia Balanced Mandate	**2.2**	**38.4**	**42.2**	**21.5**	**21.5**[3]	**1 126**
Mean of Alexander Forbes Namibia Average Manager*	-4.7	8.5	17.7	10.7	12.6	
POOLED RETIREMENT FUNDS						
Global Balanced Mandate	**1.7**	**38.7**	**-**	**-**	**37.0**[4]	**1 050**
Mean of Alexander Forbes Large Manager Watch*	-4.7	7.6	-	-	6.0	
Foreign Equity-only Mandate (Rands)	**-5.5**	**39.0**	**34.4**	**-**	**36.1**[5]	**845**
Morgan Stanley Capital Index (Rands)	-3.8	-10.1	15.9	-	19.3	
UNIT TRUSTS**						
Stable Fund	**2.2**	**14.9**	**-**	**-**	**18.6**[6]	**65**
Benchmark***	2.0	8.5	-	-	8.5	
Balanced Fund	**0.6**	**26.0**	**-**	**-**	**30.3**[7]	**705**
Average Prudential Fund	-6.3	2.2	-	-	10.1	
Equity Fund	**-0.6**	**26.5**	**52.3**	**-**	**52.3**[8]	**1 107**
All Share Index	-11.2	1.1	20.1	-	20.1	

* The returns for Quarter 3, 2001 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] 1.9.2000 [5] 1.1.1998 [6] 1.7.2000 [7] 1.10.1999 [8] 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	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 (to 30.9)	25.2	-0.2	25.3
Annualised to 30.9.2001			
3 years	49.9	20.1	29.8
5 years	21.1	6.2	14.9
10 years	21.8	12.4	9.4
Since 15.6.74	28.8	17.5	11.3

Average out-performance	11.3
Number of years out-performed	21
Number of years under-performed	6

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

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

	MONEY MARKET FUND	STABLE FUND	BALANCED FUND	EQUITY FUND
Benchmark	The Alexander Forbes 3-month deposit index.	After tax return of call deposits plus two percentage points.	The average (market value-weighted) of the Domestic Prudential Unit Trust Sector excluding the Allan Gray Balanced Fund.	All Share Index including income.
Maximum equity exposure	0%	60%	75%	95%
Portfolio orientation	Invested in selected money market instruments providing a high income yield.	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 money market returns.	Superior after-tax returns to bank deposits.	Superior long-term returns.	Superior long-term returns.
Risk of monetary loss	• Low risk • High degree of capital stability.	• 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 the average general equity fund due to our low risk investment style.
Target market	• Highly risk-averse investors • Investors seeking a short-term parking place for their funds.	• 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.	Higher income yield than the Balanced Fund 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 but typically higher than that of the average General Equity fund.
Income distribution	Distributed monthly.	Distributed quarterly.	Distributed bi-annually.	Distributed bi-annually.
Compliance with Pension Fund Investment Regulations	Complies.	Complies.	Complies.	Does not comply.
Fee principles	Fixed fee of 0.5% (excluding VAT) per annum.	Performance-fee oriented to out-performance 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	R50,000.	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.

Products (continued)

INTERNATIONAL POOLED PORTFOLIOS
ORBIS GLOBAL EQUITY FUND

Type of Fund	U.S. dollar denominated Equity Fund which remains fully invested in global equities.
Investment objective	Aims to earn higher returns than world stockmarkets. Its benchmark is the FTSE World Index, including income. The Fund's currency exposure is managed relative to that of the benchmark.
Structure	Open-ended Bermuda mutual fund company. (Similar to unit trusts in South Africa).
Dealing costs	None. No front-end fee (initial charge) or transaction charges (compulsory charge). Please note that this is not a Rand-dominated unit trust so a prospective investor is required to have funds offshore.
Manager's fee	0.5% - 2.5% per annum depending on performance.
Subscriptions/redemptions	Weekly each Thursday.
Reporting	Comprehensive reports are distributed to members each quarter.
Client Service Centre	Allan Gray client service desk on 0860 000 654.