Quarterly Commentary

30 June 2004

Q2

ALLAN GRAY

LONG TERM INVESTMENT MANAGEMENT

Inside this issue

Front cover: Some of the people that contributed to this issue are, from left to right:
Abdul Davids, Lise Grobbelaar, Mahesh Cooper.

ALLAN GRAY
LONG TERM INVESTMENT MANAGEMENT

Greg Fury Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer

In seeking to outperform over the long-term, Allan Gray conducts rigorous fundamental research aimed at identifying those companies that can be acquired at a substantial discount to their underlying intrinsic value. Under the 'Investment Perspective' heading, Stephen Mildenhall and Heaton van der Linde discuss how the degree of outperformance over specific time periods is linked to the disparity in valuations found in the market during these periods.

Institutional Update

Mahesh Cooper introduces the Allan Gray Stable Medical Scheme Portfolio that was developed specifically for medical schemes. Similar to the highly successful Allan Gray Stable Portfolio, the Stable Medical Scheme Portfolio is a market-linked pooled portfolio that encompasses Allan Gray's investment philosophy and process whilst complying with the asset class restrictions of the Medical Schemes Act.

Investment Commentary

As an illustration of the application of Allan Gray's investment philosophy and process, Abdul Davids provides some insight into the hidden value of radio broadcasting assets, focusing on Primedia and Kagiso Media, whose shares Allan Gray started acquiring in 2000 when they were out of favour with the rest of the market.

Offshore Update

Exchange rate movements have the potential to complicate straightforward investment decisions when global assets are being selected. Nick Purser explains how the Orbis Global Equity Fund minimises the impact of currency movement on its stock selection skills by hedging the currency exposure of its equity portfolio back to that of its benchmark. In a second article in this section, Craig Bodenstab describes Orbis' decision to buy into a UK-based homebuilder company as a long-term investment while other investors were reacting to short-term developments and staying away from it.

Looking Forward, Looking Back

Allan Gray is pleased to announce the launch of Allan Gray Botswana in Gaborone. This is the second business we have established in the region and follows the extremely successful Allan Gray Namibia, which was established eight years ago and has grown and flourished ever since. In a second article in this section, we celebrate 30 years of being South Africa's most consistently successful investment management house.

Retail Update

When we launched our individual retirement products a few years ago we became acutely aware of the need for investor education in the planning for their retirement, something employers are increasingly requiring of their employees. As a value-added service to our clients, our individual retirement products consultant, Adéle Jankowitz, is offering presentations aimed at empowering our clients to make informed decisions while saving for and at retirement.

Legal Update

Recent experience of corporate mis-management, fraud and accounting irregularities has lead to increased scrutiny of the investment management industry. Lise Grobbelaar looks at the most recent South African legislation aimed at increased control over commercial and financial activity. She also describes how the Allan Gray compliance team, together with the software company Kizen, has implemented a market-leading compliance system that provides a single integrated compliance environment.

Investment Performance

Following the very strong performance of local markets in the latter part of 2003 and largely as a result of this, shares, in particular, are not as attractive as they were in April 2003. It is therefore not surprising that returns in the year to date have been moderate and, in the quarter past, somewhat disappointing. In addition, while the long-term track record of our clients over all periods of more than a year continues to be excellent, our performance over the past quarter has been moderate. However, we continue to focus on the long-term and encourage our clients to do the same and we continue to believe that reasonable broad based value exists in our market, offering the prospects of reasonable long-term returns. We also have confidence that, despite the narrowing of value disparity and manager returns in our market, opportunities still exist for disciplined stockpickers like Allan Gray to add value.

I hope that you enjoy this, our 30th anniversary issue of our Quarterly Commentary.

With kind regards

Greg Fury

Stephen Mildenhall Chief Investment Officer, Allan Gray Limited
Heaton van der Linde Head of Institutional Client Servicing, Allan Gray Limited

Investment Perspective

The disparity in value within the market

Executive Summary

In seeking long-term outperformance, Allan Gray aims to identify those companies that can be acquired at a substantial discount to their underlying intrinsic value. As this article points out, the degree of outperformance over specific time periods is linked directly to the disparity in valuations found in the market during these periods. After peaking in 1997/98 when irrationality drove small capitalisation financial services and IT shares to extremely overvalued levels while large capitalisation resource and industrial shares fell to extremely undervalued levels, the disparity within the current South African market has narrowed and continues to narrow. This makes it likely that outperformance will be lower in the short-term until the disparity emerges again - as it inevitably does.

At any point in time the market, as represented by an index such as the FTSE/JSE All Share Index, comprises some companies which are expensively priced, others which are fairly priced, and yet others which are attractively priced.

In seeking to outperform over the long-term, Allan Gray conducts rigorous fundamental research aimed at identifying those companies which can be acquired at a substantial discount to their underlying intrinsic value and hopefully avoiding those companies where the share price already reflects the full future earnings potential of the operating assets.

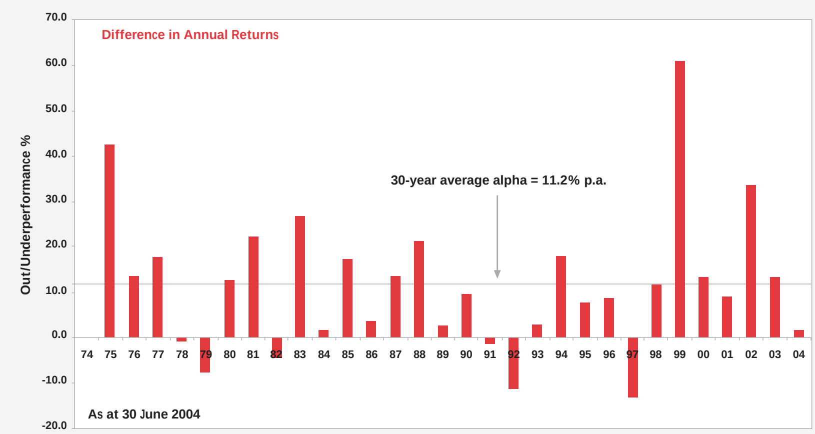
The success or otherwise of our investments can be easily measured by the extent to which these investments outperform the index return over the long-term. This long-term outperformance is referred to as the average alpha. Allan Gray's average alpha on equity-only mandates over the past 30 years since the inception of the firm amounts to 11.2% per annum (see **Graph 1**).

The magnitude of Allan Gray's alpha achievable over specific time periods is linked directly to the disparity in valuations found in the market during those periods. When there is a large disparity in value (with both many expensive and very attractive shares comprising the index) the opportunities for alpha are significant. When the disparity in value is lower it is likely that the outperformance will be lower in the short-term until the disparity emerges again, as it inevitably does.

Trends in disparity for the South African Market

The disparity within the current South African market continues to narrow. The extent of disparity peaked in 1997/98 when irrationality drove small and mid capitalisation financial services and IT shares to extremely overvalued

Graph 1: Allan Gray Share Returns versus FTSE/JSE All Share Index



levels and, at the same time, drove large capitalisation resource and industrial shares to extremely undervalued levels. At that time, there were a large number of very expensive shares and a large number of very attractive shares with very few fairly priced shares. As you are aware, the period of irrationality ended badly for many investors as share prices that were extremely overpriced corrected. After an initial period of relative underperformance as valuations moved to extremes in 1997/98, our clients benefited significantly from the subsequent normalisation in values. Following the correction, people have tended to become increasingly rational in their valuation of South African shares. As a result, disparity in valuations within our share market has narrowed substantially. This is true not only in terms of the relative valuations between small, mid and large capitalisation shares but also the disparity between the major sectors within the market (resources, financials and industrials).

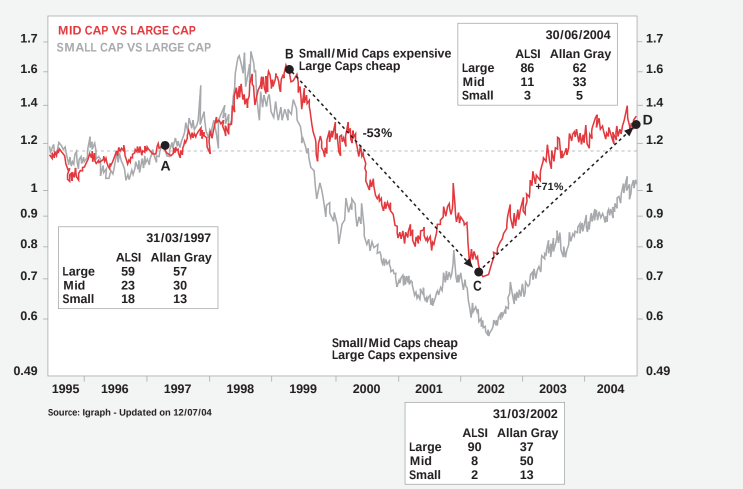
Large, mid and small capitalisation companies

Graph 2 illustrates how the disparity between small, mid and large capitalisation shares has changed over the last eight years. Interestingly, mid, small and large cap shares have performed broadly the same over the entire period. However, there have been times when the market has enthusiastically over- or undervalued small, mid and large cap shares relative to each other. These create significant opportunities. In 1997/98 small and mid cap shares were extremely expensive with large caps offering excellent value. In 2002 this had reversed completely and the previously overvalued small and mid caps were very attractive.

The inset tables in Graph 2 show at three points the weighting of large cap, mid cap and small cap shares in Allan Gray's client portfolios resulting from our bottom-up stockpicking approach.

At the commencement of the IT and Financial bubble in March 1997 our portfolios contained 57% in large caps, 30% in mid caps and 13% in small cap companies (Graph 2, Point A). After becoming extremely expensive in 1997/98 (Point B), small and mid capitalisation shares became extremely attractively priced two years ago, having lost 68% and 53% respectively of their value relative to large cap companies (Point C). This was reflected in our portfolios that were very overweight in mid cap companies (50%), many of which were large businesses that happened to be very attractively priced (e.g. Edgars, Foschini, Anglovaal Industries). In contrast, the share prices of many of the foreign listed large cap companies which dominate the overall market had been bid up to very expensive levels on the back of the weaker Rand (e.g. Anglos, Billiton, Richemont). Not surprisingly, only 37% of our clients' portfolios were invested in large cap shares

Graph 2: Small Caps & Mid Caps versus Large Caps



Source: Igraph - Updated on 12/07/04

Investment Perspective (cont.)

The disparity in value within the market

in March 2002 in contrast to the 90% weighting of the top 40 shares in the overall index.

Small and mid cap shares have outperformed significantly (53% and 71% respectively relative to large caps) over the last two years. These shares are substantially less attractive than they were two years ago as Graph 2, Point D illustrates. It is therefore no surprise that increasingly over the last year we have been finding value in larger capitalisation companies that on a relative basis have become increasingly attractive. Currently, there is not much difference in value between different sized companies.

Financials, industrials and resource companies

Graph 3 illustrates the three major sectors of the market (resources, financials and industrials) relative to the overall market. Once again, it is interesting to note that no one sector of the market has outperformed the others over the long-term. There were periods however where the market also enthusiastically over- or undervalued resources, industrials or financials. Graph 3 also illustrates the percentages held by Allan Gray's clients in each sector at 30 June 2004 and at 31 December 1997. The comparative weighting of each sector in the overall index is also provided. The extent of the disparity between sectors in 1997/98 was the most extreme it has ever been. Financial and IT & Media shares were ridiculously expensive and, as a result, we owned no financial or IT & Media shares for our clients. Resource shares, however, were the most attractive they had ever been and we were significantly overweight in resources based on our bottom-up valuations.

Over the last six years this disparity has narrowed significantly. While South African industrial shares remain marginally attractive relative to resources, the differential in valuations between sectors is now small. This is reflected in our portfolio weightings including our increased exposure to selected banking shares (18%) that, on a relative and absolute basis, are now offering good value.

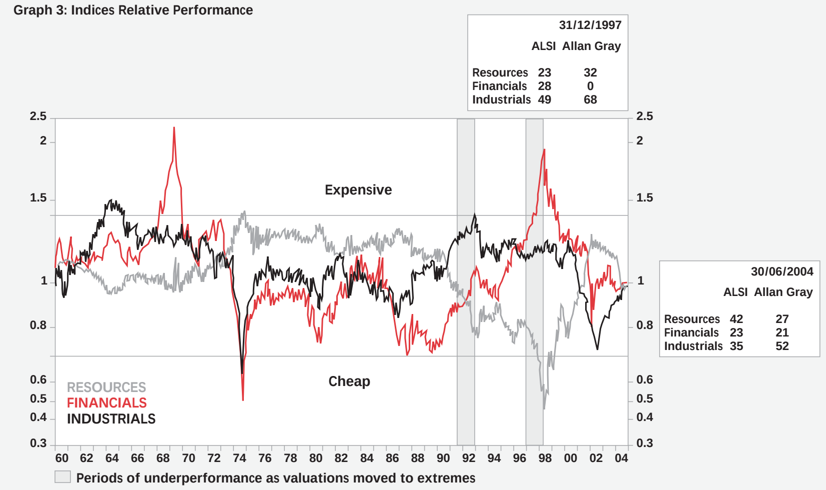
The reduced disparity in valuations within the market is not unique to South Africa and is being mirrored in many foreign markets. What is more unique is the relatively broad-based value that now exists in our market, in contrast to most developed foreign markets that are broadly expensive. We continue to believe that, despite the large rise in the South African market over the last year in both local currency and dollar terms, there remains the prospect of good long-term returns from South African shares relative to bonds and cash.

Obviously, the current lower disparity in valuations means that one's ability to obtain the level of outperformance achieved over the last few years is reduced in the short-term.

Nonetheless, until the extent of disparity in value increases, there remain opportunities for stockpickers like Allan Gray to add value to client portfolios. We are finding, for example, that one can acquire high quality businesses that are currently being rated similarly to average or poor businesses.

Our investment philosophy will continue to lead us to invest in companies whose share prices are trading at a margin of safety discount to their long-term intrinsic value regardless of how big or small the company may be or whether it extracts resources, manufactures industrial products or offers financial services.

Graph 3: Indices Relative Performance



Source: Igraph - Updated to 30/06/04

Mahesh Cooper Business Analyst, Allan Gray Limited

Institutional Update

Allan Gray launches a medical scheme compliant portfolio

Executive Summary

We are pleased to announce the launch of the Allan Gray Stable Medical Scheme Portfolio, a portfolio developed specifically for medical schemes in that it is fully compliant with all the asset limitations as prescribed by Annexure B of the regulations to the Medical Schemes Act. Its design is similar to that of the highly successful Allan Gray Stable Portfolio, a conservative balanced portfolio that has outperformed its benchmark of cash plus 2% by 3.5% on an annualised basis since its launch in December 2001.

Introduction

Prior to November 2002, the limitations imposed on a medical scheme (by Annexure B of the regulations to the Medical Schemes Act), were almost identical to the limitations on assets in which a pension fund could invest (Regulation 28 of the Pension Funds Act). This meant that medical schemes could make use of investment vehicles designed for pension funds and still remain compliant with the Medical Schemes Act.

The November 2002 amendment to Annexure B resulted in significantly different asset limitations for medical schemes in relation to Regulation 28 of the Pension Funds Act. Some of the significant changes were:

- The reduction in the maximum exposure to equities from 70% to 40%;
- More prescriptive individual equity counter restrictions;
- More prescriptive limitations on credit risk;
- Increasing the restrictions on individual issuers as well as limiting exposure to individual banks; and
- Maximum property exposure reduced from 25% to 10% with increased restrictions on individual counters.

These changes meant that historically compliant portfolios (in terms of Regulation 28 and Annexure B) in which medical schemes invested were no longer compliant with Annexure B of the Medical Schemes Act.

Allan Gray Stable Medical Scheme Portfolio

In April 2004, Allan Gray launched the Allan Gray Stable Medical Scheme Portfolio. It is a market-linked pooled portfolio that applies Allan Gray's investment philosophy and process whilst complying with asset class restrictions of the Medical Schemes Act. The portfolio is a balanced portfolio that invests in typical asset classes - equities, bonds, listed property and cash - within the restrictions specified.

The portfolio is managed conservatively with the objective of providing stable returns (low volatility), in excess of cash, with limited risk of capital loss. It achieves this through its portfolio construction which:

- Through our bottom-up stock selection process, selects shares that have limited downside risk (risk of loss) which are trading at significant discounts to intrinsic value and typically have high dividend yields.
- Uses asset allocation to minimise downside risk with equity exposure typically in the region of 30%. At the same time, the scheme benefits from the upside exposure to equity markets.
- Invests the remaining 70% in low duration (short-term) fixed interest instruments, such as short-term bonds, money market instruments and deposits. Focusing on short-term fixed interest instruments reduces the risk of capital loss, which longer dated bonds can experience if interest rates move upwards.

"The Allan Gray Stable Medical Fund Portfolio aims to achieve real returns with reduced risk of loss."

The portfolio has no liquidity restrictions and funds can be accessed on short notice, with full termination on 30 days' notice. The portfolio is characterised by limited capital volatility and strives for capital preservation. The portfolio aims to outperform CPI + 3%.

We recognise that medical inflation figures vary from scheme to scheme depending on factors such as demographics and benefit design. The Allan Gray Stable Medical Scheme Portfolio aims to achieve real returns with reduced risk of loss. It is designed for schemes that wish to protect their funds from short-term capital losses whilst acknowledging the need to grow these funds in real terms.

The Trustees of a medical scheme must ensure that, at a consolidated level, its investments with various asset managers together with cash held, comply with the Annexure B restrictions. Given that the portfolio is a

Institutional Update (cont.)

Allan Gray launches a medical scheme compliant portfolio

pooled portfolio and categorised as a market-linked policy of insurance, a medical scheme would be allowed to invest a maximum of 90% of its assets in such market-linked portfolios.

Protection against capital loss

The Allan Gray Stable Medical Scheme Portfolio does not have any structures or guarantees. Instead, it makes use of portfolio construction and stock selection to reduce the risk of capital loss. The fixed interest component effectively acts as a buffer against volatile equity returns. This means that, under conservative assumptions, the equity component of the portfolio can fall by some 20%, on a 12-month basis, before the Allan Gray Stable Portfolio will deliver a negative 12-month return. This is demonstrated by the following shaded calculation:

Assume a 30% exposure to equities and a 70% exposure to fixed interest instruments. Further, assume that the fixed interest component returns 8% p.a. and the dividend yield on the share component is 3%.

Then the contribution to performance of the fixed interest (R_f) is:

R_f = (Return of fixed interest) x (Fixed interest exposure)
= 8% x 70%
= 5.6%

Dividing this by the equity exposure (Ee) and adding the dividend yield on the ALSI (D) gives the negative return necessary on the equity component (R_e) before the total portfolio delivers a negative return:

R_e = (R_f / Ee) + D
= (5.6% / 30%) + 3%
= 21.7%

Under these assumptions, the 21.7% represents the extent to which the returns on the equity component of the portfolio can fall over a 12-month period before the Stable Medical Scheme Portfolio will deliver a 12-month negative return.

Performance of the Allan Gray Stable Portfolio

The Allan Gray Stable Portfolio (on which the Allan Gray Stable Medical Scheme Portfolio is designed) was launched in December 2001 to meet the needs of clients who require limited capital volatility whilst achieving real returns. The Stable Portfolio has complied retrospectively, since inception, with the post-2002 Annexure B limitations. The **Table** below outlines the performance achieved by the Stable Portfolio in relation to its cash + 2% and its alternate CPI + 3% benchmark. Since inception in December 2001 to 31 May 2004, the portfolio has outperformed its cash benchmark by 3.5% annualised and CPI + 3% by 7.6% annualised. The Stable Portfolio has also outperformed both benchmarks over the shorter term as shown in the Table below.

The Allan Gray Stable Portfolio has been able to outperform the medical inflation component from the CPI calculation by an annualised 4.1% since inception. Whilst this is unlikely to be the medical inflation experienced by a particular scheme, it

Allan Gray Stable Portfolio returns versus CPI + 3%

Returns to 31/05/2004	Stable Portfolio	Cash+ 2%*	CPI + 3%**	Out/Underperformance versus Cash + 2%	Out/Underperformance versus CPI + 3%
Last 3 months	2.4%	2.4%	1.7%	**0.0%**	**0.7%**
Last 6 months	6.7%	4.9%	3.8%	**1.8%**	**2.9%**
Last 12 months	17.3%	11.9%	3.7%	**5.4%**	**13.6%**
Last 24 months (annualised)	15.2%	13.7%	7.3%	**1.5%**	**7.9%**
Since inception (annualised)	16.9%	13.4%	9.3%	**3.5%**	**7.6%**

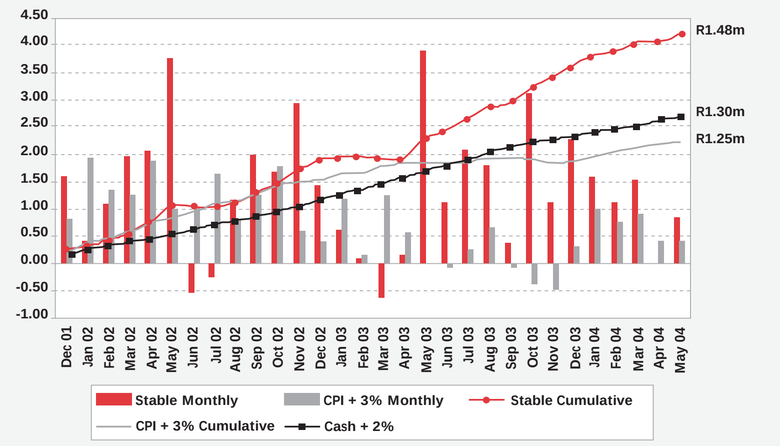
* Cash rates refer to the return on the Alexander Forbes 3-Month Deposit Index
** CPI for May 2004 is an estimate

does provide an indicative figure for comparative purposes.

Graph 1 below shows both the monthly and cumulative performance (red bars and red line) of the Stable Portfolio in relation to its CPI + 3% benchmark (grey bars and grey line). The cumulative cash + 2% return is also shown (black line). The lines show that the cumulative returns since inception on a R1 million investment in the Stable Portfolio would have grown to R1.48m at 31 May 2004 in relation to R1.25m achieved by the CPI + 3% benchmark and R1.30m achieved by the cash + 2% benchmark. The red line shows that the Stable Portfolio has been successful in delivering stable real returns with limited capital volatility whilst at the same time outperforming its benchmark.

The bars reflect the monthly returns achieved by the Allan Gray Stable Portfolio in relation to the CPI + 3% since inception. The red bars show that the Allan Gray Stable Portfolio has had only four individual months of negative returns over the 30-month period since inception, with a maximum loss of 0.64% in a month. This shows that the portfolio has been able to deliver real returns with limited short-term capital loss.

Graph 1: Performance of Allan Gray Stable Portfolio Returns versus CPI + 3% and Cash + 2%



Reporting and administration

The Stable Medical Scheme Portfolio accommodates the liquidity requirements of medical schemes as deposits and withdrawals can be made on a daily basis. Monthly investment accounts as well as quarterly investment reports are provided. Depending on the size of portfolio, medical schemes would qualify for at least one investment report-back presentation per year.

Why the Allan Gray Stable Medical Scheme Portfolio?

The portfolio is a balanced portfolio that actively invests in assets across all classes, subject to the regulations applicable to medical schemes. Being a balanced portfolio, there are no structures or lock-in periods, it is not complex to understand and offers full transparency of investment actions. It affords the medical schemes liquidity that may be required in the short-term whilst at the same time aiming to deliver stable above inflation returns over both the short- and long-terms.

The Allan Gray Stable Medical Scheme Portfolio gives Trustees the peace of mind that the assets in the portfolio will be invested at all times in such a manner that it is in full compliance with the restrictions of Annexure B.

We trust that this portfolio will meet the ongoing investment needs of medical scheme clients in the years ahead.

Abdul Davids Trainee Portfolio Manager and Equity Analyst, Allan Gray Limited

Investment Commentary

The hidden value of radio broadcasting assets

Executive Summary

Through its effective in-house research capability, Allan Gray has been able to identify undervalued and underpriced assets within the overall make-up of a company. A case in point has been the market's valuation of radio broadcasting assets. This article by Abdul Davids points out that radio is an extremely cost-effective medium. Given its low operating costs and equally low capital investment requirements, operating margins and returns on capital are consistently healthy. None more so than Primedia and Kagiso Media, whose shares Allan Gray started acquiring in 2000 when their overall earnings and share prices were in the doldrums but their radio assets were flourishing.

Allan Gray prides itself on its in-house research capabilities; research that has enabled the firm to identify assets that form part of a company that are often mispriced in the overall valuation of the company. The market's valuation of radio broadcasting assets is a case in point, with Primedia and Kagiso Media being prime examples.

Commercial radio broadcasting in South Africa

Commercial radio broadcasting in South Africa began as far back as May 1950 with the introduction of Springbok Radio. In 1986, the English and Afrikaans services, plus Springbok Radio, were replaced by two new national radio services - Radio South Africa (now SAFM) and Radio Suid-Afrika (now Radio Sonder Grense) - which both carried commercials. In 1996, the SABC was forced to sell its six regional stations to private enterprise. Since then, there has been a proliferation of new stations, many of them community radio outlets.

By 2003 there were no fewer than 128 stations on air. In Allan Gray's view, radio broadcasting is by far the most effective advertising medium to the mass consumer market, given the greater penetration of radio compared to television and print media in South Africa. In addition, the cost of buying advertising time on radio is significantly lower than that of television and therefore radio is a very cost-effective advertising medium.

The investment community took a markedly negative view of the commercial radio industry, arguing that, since any change in ownership of the radio licence required the approval of the broadcasting regulator, these assets would be difficult to sell and hence should warrant a 'tradeability' discount. However, radio stations require

Graph 1: Primedia Limited N-Share

Source: I-Net

relatively little capital investment and tend to have high operating leverage. Consequently, the more successful radio stations tend to have very healthy operating margins and returns on capital. In our view, businesses of this quality do not have to be sold but rather can be held for the returns they generate. Furthermore, the restrictions on ownership and the issuing of licences should be regarded as a barrier to entry that entrenches and enhances the asset's profitability.

Primedia

Primedia is a company with a chequered history. It has experienced the euphoria and despair of a wildly oscillating share price (see **Graph 1** on page 8).

Following a dramatic decline in the share price from a high of R47 in 1998 (Graph 1, Point A), Primedia appeared on Allan Gray's radar screen. The company was experiencing an acute bout of indigestion following a string of acquisitions over the preceding three years that were funded primarily through the issue of its highly rated shares. The acquisition spree resulted in Primedia transforming itself into a conglomerate with diverse media interests ranging from radio, through flagship radio station Highveld, to cinema interests, through Ster Kinekor.

We were initially highly sceptical of Primedia's chosen path of growth and believed that the share should be avoided. Following the share price collapse in 1998, the company reported four successive years of earnings declines. However, a closer examination of the company's operating performance revealed consistent profit growth in the company's radio broadcasting assets over the same period, with the division regularly generating an operating margin in excess of 50%. Allan Gray's initial investment in Primedia was made in 2000 but, following the earnings' declines, the share price continued to fall. The market continued to value the broadcasting division at a substantial discount to its intrinsic value, culminating in 2001 at an implied price-earnings (PE) valuation of only 3.6 times (Graph 1, Point B).

"... the more successful radio stations tend to have very healthy operating margins and returns on capital."

Despite the subsequent recovery in the market valuation of Primedia, the company's broadcasting division is currently valued at less than 10 times earnings, which in our opinion remains attractive. In addition, the cash-generative capabilities of the broadcasting portfolio enabled Primedia not only to survive the errors of the past, but also to emerge as a much stronger group operationally, with a better portfolio of cash-generating media assets.

Kagiso Media

Following the market crash in August 1998, Kagiso Media's share price declined from its high of 770cps to a low of 180cps barely 12 months later (**Graph 2**, Points A and B).

However, while the rest of the market recovered subsequently, Kagiso Media's share price remained depressed for the next three years, as the market's disillusionment with small caps and media companies continued. At its low price of 180cps (Graph 2, Point B), Kagiso Media was trading at a price earnings multiple of six times and an even lower five times multiple on its radio broadcasting assets, which we believed offered compelling value. Allan Gray started buying Kagiso Media shares in the first quarter of 2000, with the subsequent decline in the share price used as a buying opportunity to increase our clients' exposure to the share.

Kagiso Media's radio broadcasting assets, which included interests in East Coast Radio (the former SABC-owned Radio Port Natal) and Radio Jacaranda in Pretoria, were achieving operating margins in excess of 40% and 35% respectively, and with an increasing share of radio advertising spending, the two stations grew their revenues by 17% per annum from 1999. This strong growth, coupled with the high operating leverage of radio, led to an expansion in operating margins to 50% and 40% respectively. Consequently, the company has had an average return on equity of 40% over the last five years.

In the absence of finding suitable investments for their growing cash pile, Kagiso's management have been quite willing to return excess cash to shareholders. The very low capital expenditure requirements of the business mean that Kagiso can continue to pay dividends that exceed its earnings in the future.

Despite the recent recovery in the share price, we still find Kagiso Media very attractive because:

- The company's recent acquisition of some of the broadcasting assets of New Africa Investments Limited (NAIL) is expected to be value-enhancing.
- The share is still trading at less than 10 times the implied value of its broad-casting assets.

Graph 2: Kagiso Media Limited

Source: I-Net

Nick Purser Director, Orbis Investment Advisory Limited

Offshore Update

Why currency matters

Executive Summary

Exchange rate movements have the potential to complicate straightforward investment decisions when global assets are being selected. To address foreign exchange risk, the Orbis Global Equity Fund hedges the currency exposure of its equity portfolio back to that of its benchmark. When, for example, the Fund adds a stock in Japan, it sells yen to offset the purchase. This policy - as Nicholas Purser explains - allows the Fund's analysts to focus on the core task of selecting equities that are selling at the greatest discount to their worth at current exchange rates.

"When selecting assets globally, exchange rate movements have the potential to complicate this straightforward view."

Investing is a straightforward discipline. One looks to purchase assets for below one's assessment of the current worth of their future returns. By purchasing these assets one should profit over the long-term, either through the sale of the asset at a higher price, or by receiving the future returns in the form of dividends.

"Investors planning to remain resident in a single country are likely to want to retain a strong bias towards that country's currency."

When selecting assets globally, exchange rate movements have the potential to complicate this straightforward view. One might find that equities in Japan appear to offer good value compared with their current price in yen. However, to investors who measure their wealth in US dollars, purchasing these equities will create exposure not just to the performance of the companies, but also to the performance of the yen against the dollar. If the yen depreciates by more than the stocks appreciate, the end result is a negative return.

Defining your currency benchmark

The first step in dealing with this additional complexity is defining your currency benchmark. This is the mix of currencies that will preserve the investor's purchasing power despite changing exchange rates. The currency benchmark should reflect the mix of currencies in which the money invested will finally be spent. Investors planning to remain resident in a single country are likely to want to retain a strong bias towards that country's currency. They should also allow for an element of their expenditure going on goods that are imported or, as in the case of oil, have their prices set internationally.

The Orbis Global Equity Fund's currency benchmark

The FTSE World Index, including income ("World Index"), Orbis Global's benchmark, assumes that its constituent stocks are simply held in their local currency. If 10% of assets are allocated to stocks in country X, then that 10% of assets will also be exposed to a change in value of country X's currency. At present the currency allocation of the World Index is approximately 50% US dollars, 30% European currencies and 10%

Japanese yen, with the remainder spread over a number of smaller currencies. We believe that this is a reasonable currency allocation for the international part of many investors' portfolios.

"Often the best opportunities arise when whole stockmarkets are overly pessimistic,..."

What Orbis does

Orbis' core skill is identifying companies that are selling below their intrinsic value. Our analysts focus on finding stocks which, compared with others available globally, offer superior value. Often the best opportunities arise when whole stockmarkets are overly pessimistic and it is common for this to lead us to identify several stocks in a single country that appear very attractive investments. This often leads to Orbis Global owning a selection of stocks with a country allocation very different from that of the World Index. This has the potential to create a large exposure to changes in exchange rates. Currency movements are generally hard to predict, and the impact of a large currency movement has the potential to swamp the expected return on the assets. Orbis Global therefore uses forward contracts to hedge the foreign exchange risk back to its benchmark. When the Fund adds a stock in Japan, it will enter into a contract to sell yen for the same amount of another currency at a specified date in the future. If the yen weakens, our investment in the stock becomes less valuable, but this will be fully offset by an increase in value of the forward contract. The Fund will benefit as long as the stock price, measured in yen, performs better than the World Index. This policy allows the Fund's analysts to focus on the task of selecting equities that are good value globally based on current exchange rates.

"Our research sometimes leads us to identify currencies that are selling well below a reasonable assessment of their long-term fair value."

Active foreign exchange management

The Fund also has the ability to manage its foreign exchange (FX) positions actively. Our research sometimes leads us to identify currencies that are selling well below a reasonable assessment of their long-term fair value. By holding above-benchmark positions in these currencies we can profit when they return to a normal valuation. By doing this, we have added modestly to the Fund's return over time. We also use active management of the currency exposure to complement the Fund's equity positions. For instance, at the end of May the Fund's 24% exposure to the yen almost matched the 27% of the Fund's assets in Japanese stocks. A number of Japanese stocks, such as Honda and Toyota, are large exporters or have large operations outside Japan. If the yen strengthens, it will depress the profitability of these companies in yen terms, which is likely to result in weakness in their share prices, but the Fund will profit from its overweight yen investment. Although the stocks are priced in yen, the intrinsic value of these companies may be more stable when measured in US dollars. Where the Fund owns shares in companies with these characteristics, it will tend to reduce the degree to which it hedges their currency exposure.

Craig Bodenstab Head of Global Trading, Orbis Investment Management Limited

Offshore Update

Investing in the longer term

Executive Summary

In this article, Craig Bodenstab of Orbis highlights the decision to buy into a UK-based home building company as a longer term investment, while other investors were reacting to short-term developments and staying away from it. The company was initially identified through Orbis' proprietary computerised share screening tool, following which rigorous fundamental research was undertaken. Despite impressive growth and profitability, Berkeley Group shares could be bought in early 2003 at around 80% of stated tangible net asset value because most investors believed the UK housing market was vulnerable. Wrongly, they chose to treat Berkeley as just another homebuilder and ignored certain positive and unique features of the company.

Many investors in Orbis will be familiar with our charts showing the long-term relationship between price and the underlying fundamentals for the S&P 500 and TOPIX. We find these charts a useful way of illustrating that share prices deviate substantially from 'fair value' at times and how having a long-term perspective can help identify when a share is priced at a level that makes it an attractive investment. This long-term fundamental perspective is at the heart of our investment philosophy and is applied to every investment we make. A good example of how investors at times focus on the short-term prospects at the expense of long-term fundamental value of a company is the UK based homebuilder Berkeley Group ('Berkeley'), one of our larger current holdings.

Berkeley sells about 3000 new homes each year consisting predominantly of high-end flats in city centre locations at an average price of approximately £300 000 per unit.

The company is conservatively financed and well managed with significant insider ownership. It also owns a substantial amount of land that was purchased following the last real estate price correction in the early 1990s. Our Global Equity Fund first purchased the shares of Berkeley in early 2003 at slightly over £6 per share with an approximate ownership by the Fund of 4% of the company.

Berkeley was originally identified as an attractively valued company through our proprietary computerised share screening tool. The **Graph** on page 13 shows data on Berkeley's share price and business fundamentals since 1984, the year it went public. On the right-hand scale, the black line shows the share price, the white bars show the tangible net asset value per share and the red bars show the turnover of the company ('revenue per share'). On the left-hand scale, the red line shows the profits of the company ('earnings per share') and the grey line shows the income the shareholders receive from the company ('dividends per share'). From the graph, one can see that the company has had an impressive record of growing its assets and turnover at 14% per annum, and generating a profit of about 14% per year on those assets for shareholders, making it in our estimation an above-average company since it went public.

The graph can also be used to quickly determine a number of valuation and profitability characteristics of the company. For example, when the price line is below the white bars (as in early 2003), the share price is trading at less than the tangible net asset value per share. When the share price line touches the EPS line, the earnings per share are one-tenth of the share price, so the P/E ratio is 10 and investors are earning a 10% earnings yield. If the share price is above the line, the P/E is greater than 10.

Despite Berkeley's impressive record of growth and profitability, investors were able to purchase the shares of Berkeley at around 80% of stated tangible net asset value per share in early 2003. The stockmarket justified this reduced valuation primarily because it believed the UK housing market, and in particular the London market, was vulnerable, given record low interest rates and recent real estate price appreciation.

As investors familiar with the investment approach of either Allan Gray or Orbis will know, we do not base investment decisions on a ‘top-down‘ approach or macro-economic views but rather ‘bottom-up‘ company-by-company analysis. In fact, when the macro-economic concern is widely held, the climate of fear this produces can sometimes present an opportunity. In Berkeley’s case, we believed (and still believe) that investors were correct to be concerned about the risk posed by the inflated values of residential property in the UK: house prices in the London area are currently many times the average salary and buy-to-rent owners (the drivers of much of the recent price inflation) may well become forced sellers should interest rates rise.

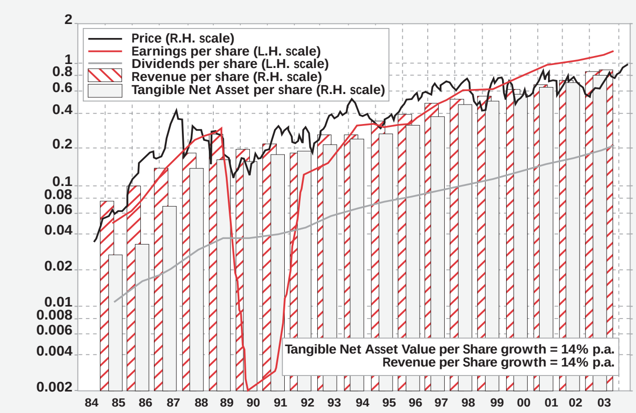
However, by focusing excessively on the downside risk from macro-economic factors impacting the industry, many investors chose to treat Berkeley as just another homebuilder and to ignore certain positive and unique features of the company that mitigate much of this risk.

1. Berkeley’s assets are understated: Consistent with accounting rules, the land purchased by Berkeley beginning in the early 1990s was being carried on its balance sheet at the original cost. Berkeley’s current tangible net asset value of approximately £9 per share represents the historic cost of land, much of it in central London, purchased up to 15 years ago, as well as some working capital. Taking into account a 25% housing correction, build out costs and taxes, we estimate the embedded value of developing the existing land owned by Berkeley to be worth around a further £6-7 per share. This is the value that we expect the company would realise if it simply ‘ran off‘ its current land holdings.

> *“...our investors are being compensated suitably for taking the risk of ownership of Berkeley while having a significant margin of safety...”*

2. Berkeley can withstand a housing price correction: Berkeley has virtually no debt, very low fixed costs (corporate overhead) and minimal pension liabilities. It only starts building on a new development when it has largely covered its cash costs by forward sales of units in the development. With a share price that was already at a 20% discount to the historic cost, let alone the current market value of its assets, we believed shareholders were unlikely to lose significant shareholder value even if there was a major housing market downturn.

Graph: Berkeley Group



3. Berkeley has a smart management team: as the UK housing boom reached its final stages in the late 1980s, most UK homebuilders were producing substantial profits from selling undeveloped land rather than through their core business of building homes. Berkeley’s founder and current Managing Director, Anthony Pidgley, recognised that in effect, UK homebuilders were simply swapping land assets and booking a profit on these transactions. At the height of the boom, Berkeley sold all its land for cash. As a result, even though earnings fell to almost zero (as indicated in the Graph by the sharp decline in the red line), shareholders’ assets were preserved throughout the severe housing market corrections that occurred.

In our estimation, our investors are being compensated suitably for taking the risk of ownership of Berkeley while having a significant margin of safety if things go wrong. We believe the most attractive investment opportunities arise when we are able to buy a share that is out of favour with the market, but which has a significant margin of safety for us to hold the share with confidence until the market comes to reflect our way of thinking. And, if our analysis is mistaken, hopefully the margin of safety will be sufficient to ensure that we lose substantially less than if we had paid a full price.

The above aside, Berkeley has recently announced that, between 2004 and 2010, it will return £12 per share of capital to shareholders. When this was announced, the share price rose approximately 30% to £12. Our assessment of the intrinsic value of the business remains largely unchanged and we are pleased with management’s decision to encourage the market to reduce the discount between the share price and intrinsic value.

Nthisana Phillips Managing Director, Allan Gray Botswana
Tapologo Motshubi Investment Analyst, Allan Gray Botswana
Zola Lupondwana Manager of Institutional Client Services and Business Development, Allan Gray Limited

Looking Forward, Looking Back

The Botswana office launch

Executive Summary

Eight years after opening an office in Windhoek, Namibia, Allan Gray is establishing a presence in the Botswana capital of Gaborone. The growth potential of Botswana's economy and the Government's commitment to diversify the market provide a platform for an established fund manager with a strong performance track record Allan Gray will be offering investment management services to state, parastatal and corporate retirement funds.

Why Botswana?

The commitment that the Botswana government has shown towards creating an attractive environment to do business and of local business to take advantage of that is the best signal to foreign investors like ourselves. It is also the reason that Botswana is so often quoted as an example for all countries in the region. The savings pool in Botswana is already substantial and is expected to grow even faster than the economy given the continued encouragement by the government of the development of a funded pension system.

Establishing this business represents Allan Gray's second expansion beyond South Africa's borders. Eight years ago we established a business in Namibia, which has gone from strength to strength. It has the best performing investment management business track record in Namibia over that time and has enjoyed considerable business success alongside its clients. Our success in Namibia has given us the confidence that we can also prosper in Botswana. Like in Namibia, where we had clients prior to the establishment of a domestic business, so too have we a small number of client relationships in Botswana who have encouraged us to take this step.

Meet the team

We are committed to the idea of staffing the Botswana office with Botswana citizens because, ultimately, people who understand that market best deliver the best insight and the best servicing capability.

Nthisana Phillips

B Com, Associate Diploma in Banking, MBA (Baruch College, City University of New York)

After graduating from the University of Botswana, Nthisana spent one year with the Bank of Botswana's Financial Institutions Department before joining Stockbrokers Botswana. Thereafter she became the first Motswana to be recruited by the United Nations under their competitive examination process. She spent seven years at the United Nations (six years in the New York office and one year in Addis Ababa) in various financial management positions. In Addis Ababa, she was the Chief of Accounts for the UN Economic Commission for Africa. She has spent the last nine months at Barclays Bank of Botswana as Head of Change Management.

Tapologo Motshubi

B Com (Hons), CA (SA), ACPA (Associate Certified Public Accountant, Botswana)

Tapologo, a Motswana, is a South African-trained chartered accountant who completed his articles with Grant Thornton in Cape Town. He was recruited by Allan Gray Botswana in February 2004 and has been undergoing training at Allan Gray's head office in Cape Town since then. Tapologo has been focusing on research of the Botswana capital markets to make sure that Allan Gray is in a position to manage funds should we secure a domestic mandate in the near future.

Zola Lupondwana

B Com, ACA*, CFA

* Member of the Institute of Chartered Accountants in England & Wales

Zola trained as a chartered accountant with Deloitte & Touche in the United Kingdom and is a member of the Institute of Chartered Accountants in England & Wales. He has over seven years' experience in the investment arena, primarily in the area of investment research. Zola will provide support to the Botswana team from an operational and investment perspective. Based in Cape Town, he already spends a significant amount of time in Gaborone.

Simon Marais Non-executive Chairman, Allan Gray Limited
William Gray Non-executive Director, Allan Gray Limited
Allan Gray Non-executive Director, Allan Gray Limited

Celebrating 30 years of successful investing

Allan Gray, a South African born in East London, qualified as a chartered accountant at the age of 22. Following graduation from Harvard University, where he obtained an MBA with distinction, he was employed by the leading investment firm, Fidelity Management and Research, based in Boston, USA. There he worked for eight years, of which the last four were as Portfolio Manager of the Fidelity Capital Fund.

He returned to Cape Town in 1973 to start Allan Gray Investment Counsel (the predecessor firm of Allan Gray Limited), of which he was the sole proprietor. He did so with a clear vision of the investment philosophy and business principles that would so distinguish the firm he founded. In the 30 years that followed, these have never changed nor been compromised.

At this time the 'random walk' hypothesis was popular in investment circles. Central to this theory is that share prices move haphazardly and therefore the future cannot be predicted in any meaningful way. The conclusion was that it is impossible to consistently outperform the stockmarket.

This prevailing view did not, however, convince Allan Gray. He was confident that superior returns could be delivered over the long-term by rigorous fundamental research to identify and acquire shares in companies trading at a substantial discount to their intrinsic value. The introduction of performance fees, which were then unknown in the South African market, reinforced this confidence in the minds of clients. The bias towards long-term performance fees has been a feature of Allan Gray since then.

The investment philosophy was not the only thing that differentiated Allan Gray and the business principles adopted at inception have in equal measure contributed to the success of our clients and the firm. These principles can be summarised as follows:

- Investment management is our only business and we have only one source of income: a fee for assets under management. We do not earn any commissions, initial or exit charges or rebates, nor do we enter into 'soft dollar' arrangements. We thereby avoid conflicts of interest or distraction of focus.
- Investment convictions always come before business considerations, which ensures that our clients' interests always come first.
- Our clients' trust in us is paramount. Trust is earned from unquestionable ethics and honest communication - not promising what you can't deliver.
- Always focus on the long-term.

The result of this approach has been that, since its inception, the firm's clients have achieved an average annual return of nearly 29% on their share portfolios. This means that an investment of R10 000 in an equity portfolio managed by Allan Gray on 15 June 1974 (when its first client joined) would be worth a remarkable R18.6 million today.

Allan Gray has prospered alongside its clients and in 1988, when Allan Gray departed for London to form the predecessor firm of Orbis Investment Management, Allan Gray Investment Counsel had six partners, a staff of 36 and R2.4 billion under management. Four years later, in March of 1992, the firm was incorporated as AGIC Limited, having passed R10 billion in assets under management. Subsequently, it changed its name to Allan Gray Limited.

Today, Allan Gray Limited, in addition to being the best performing asset manager in South Africa over the long-term, has become the largest privately owned investment manager in South Africa. It employs 170 people and has over R80 billion under management. The firm can also look forward to the future confidently, building on the solid foundation of its founding principles and 30-year track record.

Brief highlights of Allan Gray's history:

1974	Allan Gray is founded
1978	Allan Gray gains its first institutional client
1988	The start of Orbis' founding company
1989	Allan Gray is judged top performing equity manager over 10 years
1991	R10 billion assets under management for the Allan Gray group
1998	Launch of Allan Gray unit trusts
2003	Orbis equity funds receive S&P AAA rating
2003	Allan Gray unit trusts pass R10 billion in assets
2004	Allan Gray passes R80 billion in total assets
2004	Allan Gray's 30th birthday

Adéle Jankowitz Individual Retirement Products Consultant, Allan Gray Limited

Retail Update

Education on retirement planning

Executive Summary

Through introducing a range of retirement products in October 2001, Allan Gray became aware of the huge need amoungst individuals for education on retirement planning. As a result, Allan Gray decided to offer education aimed at empowering individuals to make informed decisions, both while saving for retirement and at retirement. Adéle Jankowitz, who provided this article, is responsible for this service which is offered at no cost to Allan Gray clients.

"For many people, retirement savings amount to their single biggest investment."

Planning for retirement is not a simple matter. For many people, retirement savings amount to their single biggest investment. Being aware of the key issues that could impact your plan could make all the difference to your financial well-being at retirement.

In October 2001 Allan Gray launched its individual retirement products: a Retirement Annuity, a Living Annuity, a Pension Preservation Fund and a Provident Preservation Fund. The driving force behind the launch was to meet the demand from our clients for inexpensive, easy-to-use retirement products that provide access to our asset management skills.

"We also see this as a social investment in the financial future of all South Africans."

It is through our involvement in this field that we became aware of individuals' lack of participation in the management of their retirement savings and the huge need that exists for education on these matters. We are very pleased to announce that, from July 2004, we can assist our clients in their goals of retiring financially independent through offering education on retirement planning.

The purpose is to empower individuals to make informed decisions both while saving for retirement and at retirement. By helping clients understand the risks, benefits and tax implications of available savings and retirement products, and helping them to ask their Financial Adviser the right questions, we aim to support them in deciding how to best plan for retirement. By also transferring this knowledge to trustees of retirement funds, we can assist them in their duty to ensure that their members make informed decisions.

The education is offered at no cost to our clients. Since we all well know that there is no such thing as a 'free lunch', what is the benefit for Allan Gray? By adding value to our clients' knowledge, we hope that they will get to know us better and gain a better understanding of our investment philosophy. They will experience first-hand Allan Gray's approach and how we align our clients' interests with that of our own. This is done without the specific promotion of Allan Gray's individual retirement products i.e. the knowledge provided is of an independent non-biased nature. We also see this as a social investment in the financial future of all South Africans.

Retirement planning evolves with the different stages of an individual's life. The education is therefore structured into two modules, one for individuals still saving for retirement and the other for individuals approaching or at retirement.

For individuals in the early stages of their working lives, the focus is primarily on assessing the savings required (according to their income and lifestyle goals) for a financially sound retirement: how much they need to save, and how long it will take to save the required amount. For most people, the last thing on their minds when they first start working and earning an income is retirement. By calculating how long one's savings will last in retirement, the urgency to start saving and planning from a very young age is emphasised. When addressing 'how to accumulate this suitable level of savings' we look at, amongst others, the following factors:

- The impact of delaying saving for retirement
- Getting rid of debt
- Understanding the various savings vehicles
- Understanding risk
- Deciding on your asset allocation
- Making use of tax concessions, and
- Choosing a service provider and a Financial Adviser.

For individuals five years prior to retirement and for retired individuals, the focus is moved from saving for retirement to investing your retirement capital. We address major decisions at retirement such as:

- Can you afford to retire?
- How to structure your asset allocation close to retirement
- How to choose between pension providing vehicles
- How to decide on the amount taken as a cash lump sum, and
- How to manage your living annuity.

Apart from covering the basic financial fundamentals such as tax and investment risk, we also highlight problems that retirees might face, e.g. inflation and financing a longer than expected lifespan. The quote by Bernard Baruch, "I will never be an old man. To me, old age is always fifteen years older than I am," might be appropriate for individual emotional well-being. However, making sure that your financial plan is in order is fundamentally important and Allan Gray can now offer some assistance to you.

Can you afford to retire now?

The content of the presentations not only consists of theory, but also includes practical examples and easy-to-understand explanations.

Set out in the shaded box is an example of the practical considerations of the critical decision: when to retire. The impact of this decision on the total savings available for retirement and the monthly income that can be earned from it is illustrated.

Mr X is 60 years old and has accumulated a pension of R1m for his retirement. He is considering whether he should work an extra few years or retire now.

Assume Mr X earns R100 000 per annum (before tax) and saves R20 000 for each extra year worked. An annual return of 7.3% (net of fees) is realised on his savings, and his life expectancy is 80 years.

The **Table** below illustrates how the pension accumulated and the real monthly income changes if Mr X retires later. Real income adjusts for the increase in prices in the economy (inflation) over time. The difference between the real monthly income that he can earn if he retires at the age of 60 versus 65 is significant, namely R5 933. Two factors contribute to this result. First, Mr X continues saving towards retirement and secondly, he does not take any income for the extra five years that he works, facilitating the growth of his existing retirement savings. Furthermore, the fact that Mr X spends less time in retirement (15 years versus 20 years) results in further monthly income.

Retirement Age	Extra years of working	Years in retirement	Pension accumulated	Expected real monthly income*
60	0	20	R1 000 000	R5 650
61	1	19	R1 109 949	R6 526
62	2	18	R1 231 411	R7 505
63	3	17	R1 365 591	R8 653
64	4	16	R1 513 822	R10 003
65	5	15	R1 677 574	R11 583

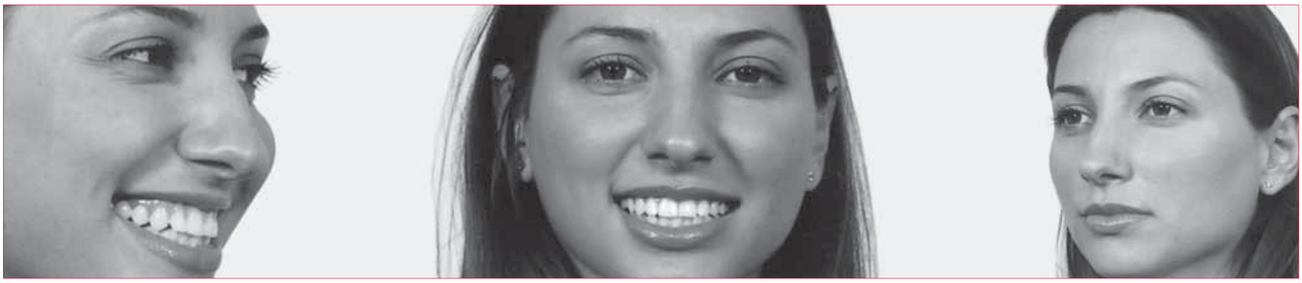
* The monthly income will grow in line with inflation, until age 80.
Source: Allan Gray estimations, based on inflation of 5% p.a., return of 7.3% p.a. net of fees.

One of the major problems experienced at retirement is the drop in income that occurs when you stop working. This example illustrates that working an extra few years can help prevent this and have a positive impact on your future income stream.

Lise Grobbelaar Assistant Compliance Officer, Allan Gray Limited

Legal Update

The logic of compliance



Executive Summary

It is simply good business practice for a company seeking standards of excellence to introduce a compliance culture, involving all employees at all levels. This has been heightened by recent revelations about corporate mismanagement, fraud and accounting irregularities. In this article Lise Grobbelaar summarises the most recent legislation aimed at increasing control over commercial and financial activity and describes how the Allan Gray Compliance team, together with software company Kizen, has implemented a best-of-breed compliance system called Symmetrix Compliance, which provides a single integrated compliance environment.

Prevention has always been more effective than defraying.

Responsible companies will not ignore risk exposure and will implement a compliance culture to prevent legal liability rather than getting involved in a legal process at a later stage.

It is simply good business practice for a company seeking standards of excellence to find ways to rise above the introduction of conduct rules and managerial supervision to maintain compliance. A compliance culture, involving all employees at all levels, is required.

The specific scope of compliance at Allan Gray is about ensuring adherence to the laws and regulations that govern the business, and ensuring that policies and procedures are put in place to enable such adherence and to safeguard clients' investments.

"Recent events have focused attention on the investment industry in a manner never previously seen."

Recent events, particularly the US mutual fund scandal, have focused attention on the investment industry in a manner never previously seen. These worries were compounded by revelations about corporate mismanagement, fraud and accounting irregularities.

The result was an increasing public demand for tighter controls over corporate governance and for executive responsibility. That translated into a collective return to the legal drawing boards by legislatures and regulators, all determined to exercise increasing control, in the name of public protection, over commercial and financial activity. The practical consequence of this in South Africa has been a plethora of new legislation, the key elements of which are set out in the shaded box alongside.

Compliance in action

In order to meet the varied and complex regulatory and client mandate compliance requirements, investment companies are recognising the need for the implementation of sophisticated compliance systems and processes.

The Allan Gray Compliance Team, together with software company, Kizen, has implemented a specialist best-of-breed investment compliance system called Symmetrix Compliance, which provides a single integrated compliance environment. It offers comprehensive functionality and workflow tailored to the needs of the compliance function. Having all regulatory rules, client mandates and in-house requirements in one specialised system eliminates the need for spreadsheets and manual processes, and reduces the dependence on back-office systems and processes.

The Symmetrix Compliance system allows the compliance team to focus on resolving breaches and other value-added tasks and ensures that the company as a whole has a clear and concise view of the status of investment compliance at any point in time through ongoing electronic notification. The communication by various people across the workplace ensures an open and consistent approach to resolving compliance breaches and promotes awareness and understanding.

The organisation can be confident therefore that it is managing the compliance process effectively and delivering a quality service to its clients.

In South Africa, the most recent significant umbrella legislation is:

1. Promotion of Access to Information Act 2 of 2002

This Act gives effect to the constitutional right of access to information held by the state or any other person that is required for the exercise or protection of rights. Access to information is limited however in certain circumstances. Section 65, for example, provides that a private body such as Allan Gray must refuse access to a record if disclosure would constitute an action for breach of the duty of secrecy owed to a client by Allan Gray.

2. The Collective Investment Schemes Control Act 43 of 2002

This Act replaced the Unit Trust Control Act 54 of 1981 and the Participation Bonds Act 55 of 1981. The Act provides a comprehensive legislative framework to regulate and supervise the collective investment schemes industry based on internationally accepted principles and best practice.

The Act has opened the market to allow collective investment schemes through mechanisms other than trusts. A collective investment scheme is defined as a scheme, in whatever form, including an open-ended investment company through which members of the public are invited or permitted to invest money, or other assets in a portfolio.

The Act provides protection to investors in that managers of collective investment schemes are required to act honestly and fairly with due care and skill. Managers are also required to make specific disclosures to investors, such as the risks inherent in the scheme, the net asset value of the investment and the method of income distribution prior to transacting.

3. The Financial Advisory and Intermediary Services Act 37 of 2002

This Act is centred strongly on protecting the investor. Errant advisors could be imprisoned or be liable for fines of up to R100 million. The reporting and compliance provisions are particularly onerous. The Act is good news, however, for investors/consumers, as they will benefit from increased standards of advice, accountability, transparency and recourse for reckless or misleading advice. The most significant requirement of the Act is that Financial Advisers have to be licensed in order to furnish advice or to provide an intermediary service.

4. The Prevention of Organised Crime Act 121 of 1998

The major money laundering offences are created in this Act, and not in the Financial Intelligence Centre Act. The purpose of the Act is to define offences relating to the proceeds of unlawful activities that are punishable: as money laundering; assisting another to benefit from the proceeds of unlawful activities; and acquisition as well as possession or use of proceeds of unlawful activities. The Act also provides for the confiscation and forfeiture of assets.

5. Financial Intelligence Centre Act 38 of 2001

This Act stipulates the requirements to ensure that money laundering is kept tightly under control. The purpose of the Act is to establish a Financial Intelligence Centre and Money Laundering Advisory Council to combat money laundering activities and to impose certain duties on Accountable Institutions, as defined in the Act and other persons that may be used for money laundering purposes.

The two main duties imposed by the Act are the reporting of suspicious and unusual transactions, and the identification and verification of clients, also known as ‘Know Your Client’ provisions.

Performance

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

Period	Allan Gray *	FTSE/JSE All Share Index	Out/(Under) Performance
1974 (from 15.6)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004 (to 30.6)	1.2	-1.2	2.4
Annualised to 30.06.2004			
From 1.7.2003 (1 year)	31.4	24.9	6.5
From 1.7.2001 (3 years)	21.8	6.6	15.2
From 1.7.1999 (5 years)	28.0	10.8	17.2
From 1.7.1994 (10 years)	22.5	9.5	13.0
Since 1.1.78	30.0	20.1	9.9
Since 15.6.74	28.4	17.0	11.4
Quarterly Standard Deviation	22.3	24.7	
Average outperformance			11.4
No. of calendar years outperformed			23
No. of calendar years underperformed			6

*Allan Gray commenced managing pension funds on 1.1.78. The returns prior to 1.1.78 are of individuals managed by Allan Gray, and these returns exclude income. Note: Listed Property included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R18 218 699 by 30 June 2004. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R1 118 440.

ALLAN GRAY LIMITED BALANCED MANDATE RETURNS vs AVERAGE OF THE CONSULTING ACTUARIES SURVEY (CAS)

Period	Allan Gray	CAS*	Out/(Under) Performance
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-0.6	7.5
1999	79.7	41.2	38.5
2000	21.6	6.6	15.0
2001	43.9	22.3	21.6
2002	13.4	-2.2	15.6
2003	21.5	16.6	4.9
2004 (to 30.6)	1.0	1.4	-0.4
Annualised to 30.06.2004			
From 1.7.2003 (1 year)	21.3	17.4	3.9
From 1.7.2001 (3 years)	16.9	8.9	8.0
From 1.7.1999 (5 years)	24.6	12.1	12.5
From 1.7.1994 (10 years)	21.2	12.4	8.8
Since 1.1.78	23.9	17.6	6.3
Average outperformance			6.3
No. of calendar years outperformed			22
No. of calendar years underperformed			4

* The return from 1 April 2004 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R2 916 146 by 30 June 2004. The returns generated by the average of the Consulting Actuaries Survey over the same period would have grown a similar investment to R732 451.

ALLAN GRAY LIMITED PERFORMANCE PROFILE

Annualised performance in percent per annum to 30 June 2004

	Second quarter (unannualised)	1 year	3 years	5 years	Since inception	Assets under management R millions	Inception Date
SEGREGATED RETIREMENT FUNDS							
Global Balanced Mandate	**-2.3**	**21.3**	**16.9**	**24.6**	**23.9**	**17,182.6**	**01.01.78**
Mean of Consulting Actuaries Fund Survey*	-1.2	17.4	8.9	12.1	17.6		
Domestic Balanced Mandate	**-2.0**	**24.2**	**18.6**	**24.5**	**24.2**	**13,744.8**	**01.01.78**
Mean of Alexander Forbes Domestic Manager Watch*	-1.0	23.9	11.2	14.1	18.0		
Equity-only Mandate	**-3.3**	**29.5**	**20.4**	**25.7**	**20.6**	**15,501.2**	**01.01.90**
FTSE/JSE All Share Index	-4.7	24.9	6.6	10.8	12.1		
Global Namibia Balanced Mandate	**-1.7**	**21.1**	**17.1**	**24.0**	**20.5**	**2,166.1**	**01.01.94**
Mean of Alexander Forbes Namibia Average Manager*	-1.2	19.3	8.8	12.3	12.4		
Equity-only Relative Mandate	**-3.4**	**30.3**	**13.5**	**-**	**20.1**	**2,573.1**	**19.04.00**
Resource adjusted FTSE/JSE All Share index	-2.8	28.1	5.3	-	9.1		
POOLED RETIREMENT FUNDS							
Allan Gray Life Global Balanced Portfolio	**-2.4**	**20.9**	**16.2**	**-**	**22.4**	**3,781.9**	**01.09.00**
Mean of Alexander Forbes Large Manager Watch*	-1.2	20.1	9.0	-	10.1		
Allan Gray Life Domestic Balanced Portfolio	**-2.2**	**24.9**	**-**	**-**	**19.2**	**3,456.0**	**01.09.01**
Mean of Alexander Forbes Domestic Manager Watch*	-1.0	23.9	-	-	12.1		
Allan Gray Life Domestic Equity Portfolio	**-3.7**	**29.9**	**20.8**	**-**	**23.5**	**1,177.7**	**01.02.01**
FTSE/JSE All Share Index	-4.7	24.9	6.6	-	6.7		
Allan Gray Life Domestic Absolute Portfolio	**-4.0**	**24.9**	**-**	**-**	**28.3**	**498.5**	**06.07.01**
Mean of Alexander Forbes Domestic Manager Watch*	-1.0	23.9	-	-	11.3		
Allan Gray Life Domestic Stable Portfolio	**1.2**	**16.4**	**-**	**-**	**16.5**	**178.0**	**01.12.01**
Alexander Forbes Three-Month Deposit Index plus 2%	2.4	11.4	-	-	13.3		
Allan Gray Life Foreign Portfolio	**-3.8**	**4.5**	**-**	**-**	**-7.8**	**118.9**	**23.01.02**
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	-2.3	-2.7	-	-	-15.6		
FOREIGN-ONLY (RANDS)							
Orbis Global Equity Fund (Rands)	**-4.1**	**12.5**	**1.6**	**13.1**	**21.7**	**1,534.8**	**01.01.90**
Morgan Stanley Capital International Index (Rands)	-0.7	4.0	-7.0	-0.7	13.3		
Orbis Optimal US$ Fund (Rands)	**-3.4**	**-10.3**	**-0.5**	**14.4**	**19.9**	**1,003.2**	**01.01.90**
US$ Bank Deposits (Rands)	-1.0	-15.9	-6.7	3.9	11.4		
Orbis Japan Equity (US$) Fund (Rands)	**-1.6**	**14.7**	**-1.9**	**8.7**	**17.0**	**374.9**	**12.06.98**
Tokyo Stock Price Index (Rands)	-0.1	12.5	-8.5	1.6	7.6		
Global Balanced Mandate (Rands) - Foreign Component	**-4.0**	**4.2**	**6.9**	**20.3**	**17.8**	**2,634.1**	**01.07.96**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	-2.3	-2.7	-2.9	2.9	11.0		
UNIT TRUSTS **					Figures below unannualised		
Equity Fund (AGEF)	***	**27.2**	**18.6**	**23.6**	**552.1**	**4,908.5**	**01.10.98**
FTSE/JSE All Share Index		24.9	6.6	10.8	136.2		
Balanced Fund (AGBF)	***	**23.6**	**17.5**	**-**	**174.8**	**4,982.0**	**01.10.99**
Average Prudential Fund (excl. AGBF)		19.4	8.8	-	66.8		
Stable Fund (AGSF)	***	**11.6**	**12.6**	**-**	**72.8**	**2,471.1**	**01.07.00**
After-tax return of call deposits plus two percentage points		7.3	8.8	-	40.0		
Money Market Fund (AGMF)	***	**9.1**	**-**	**-**	**35.2**	**368.7**	**03.07.01**
Domestic fixed interest money market unit trust sector (excl. AGMF)		9.1	-	-	36.1		
Global Fund of Funds (AGGF)****	***	**-**	**-**	**-**	**-**	**317.9**	**01.12.01**
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		-	-	-	-		
Optimal Fund (AGOF)	***	**9.0**	**-**	**-**	**23.0**	**1,802.9**	**01.10.02**
Daily call rate of FirstRand Bank Ltd		7.7	-	-	17.6		

* The returns for Quarter 2, 2004 are estimated from various indices as the relevant survey results have not yet been released.
** The returns for the unit trusts and their respective benchmarks are net of investment management fees.
*** Unavailable due to ACI Regulations.
**** As of 1 February 2004, the benchmark is as displayed. The benchmark was the Morgan Stanley Capital International Index (in Rands) prior to this date.

Performance data is based on a lump sum investment calculated on a sell-to-sell basis with distributions reinvested for the Class A units. The source of the figures quoted is the University of Pretoria's Unit Trust Survey for the period ending 30 June 2004.

Products

SEGREGATED PORTFOLIOS

RETIREMENT FUND INVESTMENT MANAGEMENT IN SOUTH AFRICA
Allan Gray manages large retirement funds on a segregated basis where the minimum portfolio size is R200 million.
These mandates are of a balanced or asset class specific nature.
Portfolios can be managed on an absolute or relative risk basis.

RETIREMENT FUND INVESTMENT MANAGEMENT IN NAMIBIA
Allan Gray Namibia manages large retirement funds on a segregated basis.

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

NAMIBIAN POOLED PORTFOLIO - ALLAN GRAY NAMIBIA INVESTMENT TRUST

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

POOLED PORTFOLIOS - LIFE COMPANY

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

RISK-PROFILED POOLED PORTFOLIOS

	STABLE PORTFOLIO	BALANCED PORTFOLIO	ABSOLUTE PORTFOLIO
Investor Profile	• Highly risk-averse institutional investors, e.g. 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.
Product Profile	• Conservatively managed pooled portfolio. • Investments selected from all asset classes. • Shares selected with limited downside and a low correlation to the stockmarket. • Modified duration of the bond portfolio will be conservative. • Choice of global or domestic-only mandate.	• Actively managed pooled portfolio. • Investments selected from all asset classes. • Represents Allan Gray's houseview for a balanced mandate. • Choice of global or domestic-only mandate.	• Aggressively managed pooled portfolio. • Investments selected from all asset classes. • Will fully reflect the manager's strong investment convictions and could deviate considerably in both asset allocation and stock selection from the average retirement portfolio. • Choice of global or domestic-only mandate.
Return Characteristics/ Risk of Monetary Loss	• Superior returns to money market investments. • Limited capital volatility. • Strives for capital preservation over any two-year period.	• Superior long-term returns. • Risk will be higher than Stable Portfolio but less than the Absolute Portfolio.	• Superior absolute returns (in excess of inflation) over the long-term. • Risk of higher short-term volatility than the Balanced Portfolio.
Benchmark	• Alexander Forbes three-month Deposit Index plus 2%.	• Mean performance of the large managers as surveyed by consulting actuaries.	• Mean performance of the large managers as surveyed by consulting actuaries.
Fee Principles	• Fixed fee, or performance fee based on outperformance of the benchmark.	• Fixed fee, or performance fee based on outperformance of the benchmark.	• Performance fee based on outperformance of the benchmark, 0.5% p.a. plus (or minus) 25% of the out/underperformance of the portfolio relative to the benchmark, subject to an overall minimum of 0% p.a.

Note The above risk-profiled portfolios comply with Regulation 28 of the Pension Funds Act.

ASSET CLASS POOLED PORTFOLIOS

	MONEY MARKET	BOND MARKET	LISTED PROPERTY	EQUITY	FOREIGN
Investor Profile	• Institutional investors requiring management of a specific money market portfolio.	• Institutional investors requiring management of a specific bond market portfolio.	• Institutional investors requiring management of a specific listed property portfolio.	• Institutional investors requiring management of a specific equity portfolio.	• Institutional investors requiring management of a specific foreign portfolio.
Product Profile	• Actively managed pooled portfolio. • Investment risk is managed using modified duration and term to maturity of the instruments in the portfolio. • Credit risk is controlled by limiting the exposure to individual institutions and investments.	• Actively managed pooled portfolio. • Modified duration will vary according to interest rate outlook and is not restricted. • Credit risk is controlled by limiting the exposure to individual institutions and investments.	• Actively managed pooled portfolio. • 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.	• Actively managed pooled portfolio. • Investments are made in equity and absolute return foreign mutual funds managed by Orbis. • Represents Allan Gray's houseview for a foreign balanced mandate.
Return Characteristics/ Risk of Monetary Loss	• Superior returns to the Alexander Forbes three-month Deposit Index. • Low capital risk. • High flexibility. • Capital preservation. • High level of income.	• Superior returns to that of the FTSE/JSE All Bond Index plus coupon payments. • Risk will be higher than the Money Market Portfolio but less than the Equity Portfolio. • High level of income.	• Superior returns to that of the 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 FTSE/JSE All Share Index including dividends. • Risk will be no greater than that of the benchmark. • Higher than average returns at no greater than average risk for an equity portfolio.	• Superior returns to that of the benchmark at no greater than average risk of loss.
Benchmark	• Alexander Forbes three-month Deposit Index.	• FTSE/JSE All Bond Index plus coupon payments.	• Alexander Forbes Listed Property Index (adjusted).	• FTSE/JSE All Share Index including dividends.	• 60% Morgan Stanley Capital International Index, 40% JP Morgan Global Government Bond Index.
Fee Principles	• Fixed fee of 0.2% p.a.	• Fixed fee of 0.35% p.a.	• Fixed fee of 0.75% p.a.	• Performance fee based on outperformance of the benchmark.	• No fee charged by Allan Gray. Unit prices of underlying mutual funds reflected net of performance fees charged by Orbis.

Note The above asset class portfolios comply with the asset class requirements of Regulation 28 of the Pension Funds Act.

OTHER POOLED PORTFOLIOS

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

Products (continued)

FOREIGN MUTUAL FUNDS

	ORBIS GLOBAL EQUITY FUND	ORBIS OPTIMAL US$ FUND	ORBIS JAPAN FUNDS (YEN, EURO AND US$ FUND CLASSES)
Type of fund	US$ denominated Equity Fund which remains fully invested in global equities.	US$ denominated Fund, which invests in selected Orbis Equity Funds, by seeking absolute (i.e. positive) returns regardless of stockmarket trends.	Orbis Japan Equity (Yen) Fund - invests in a relatively focused portfolio of Japanese equities. Orbis Japan Equity (Euro) Fund - invests in the same Japanese equities as the Orbis Japan Equity (Yen) and hedges the resulting Japanese yen exposure into euro with the result that the Fund's returns are managed in euro. Orbis Japan Equity (US$) Fund - invests substantially all of its assets in the Orbis Japan Equity (Yen) and hedges the resulting Japanese yen exposure into US$, with the result that the Fund's returns are managed in US$.
Investment objective	Aims to earn higher returns than world stockmarkets. Its benchmark is the FTSE World Index, including income. The Fund's currency exposure is managed relative to that of the benchmark.	This Fund seeks capital appreciation in its base currency, the US$, while offering a low risk global portfolio. The risk of loss of the Fund is reduced with stockmarket hedging. The Fund's currency benchmark is 100% US$.	Orbis Japan Equity (Yen) Fund – seeks higher returns in yen than the Japanese stockmarkets, without greater risk of loss. Orbis Japan Equity (Euro) Fund - seeks higher returns in euro than the Japanese stockmarkets hedged into euro, without greater risk of loss. Orbis Japan Equity (US$) Fund - seeks higher returns in US$ than the Japanese stockmarkets hedged into US$, without greater risk of loss.
Structure	Open-ended Bermuda mutual fund company (similar to unit trust in South Africa).	Open-ended Bermuda mutual fund company (similar to unit trust in South Africa).	Open-ended collective investment schemes.
Dealing costs	None. No front-end fee (initial charge) or transaction charges (compulsory charge). Please note that this is not a Rand-denominated unit trust so a prospective investor is required to have funds offshore.	None. No front- or back-end load. No bid-to-offer spread.	None. No front- or back-end load. No bid-to-offer spread.
Manager's fee	0.5% - 2.5% per annum depending on performance.	0.5% - 3.0% per annum depending on performance.	0.5% - 2.5% per annum depending on performance.
Subscriptions/redemptions	Weekly each Thursday.	Weekly each Thursday.	Weekly each Thursday.
Reporting	Comprehensive reports are distributed to members each quarter.	Comprehensive reports are distributed to members each quarter.	Comprehensive reports are distributed to members each quarter.
Client Service Centre	Allan Gray client service desk on 0860 000 654.	Allan Gray client service desk on 0860 000 654.	Allan Gray client service desk on 0860 000 654.

INDIVIDUAL 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 employees who want to make additional contributions to an approved retirement vehicle.	• Preserves the pre-tax status of a cash lump sum that becomes payable from a pension (or provident) fund at termination of employment. • A single cash withdrawal can be made from the Preservation Fund prior to retirement.	• Provides a regular income from the investment proceeds of a cash lump sum that becomes available as a pension benefit at retirement. • A regular income of between 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 Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds	• Allan Gray Equity Fund • Allan Gray Balanced Fund • Allan Gray Stable Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds	• Allan Gray Equity Fund • Allan Gray Balanced Fund • Allan Gray Stable Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds
Minimum Investment Size	R 20 000 lump sum R 1 000 monthly	R 50 000	R 100 000
Initial Fee	None	None	None
Annual Administration Fee	0.4% (VAT included)	0.4% (VAT included)	0.4% (VAT included)
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.
Switching Fee	0.12% (VAT included)	0.12% (VAT included)	0.12% (VAT included)
Financial Adviser Fees (if applicable)	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%

* The Allan Gray Living Annuity is underwritten by Allan Gray Life Limited.

** For annual investment management fees of Allan Gray unit trusts, please refer to page 7 of the unit trust application form, which can be downloaded from the website www.allangray.co.za

DISCRETIONARY PRODUCTS - RETAIL

ENDOWMENT POLICY*

Description	• An investment policy ideally suited to investors with medium- to long-term investment objectives who want capital growth with after-tax returns. • Ideal for investors interested in a 5-year savings plan.
Investment Options	• Allan Gray Equity Fund • Allan Gray Balanced Fund • Allan Gray Stable Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds
Minimum Investment Size	R 20 000 lump sum R 1 000 monthly recurring investment
Initial Fee	None
Annual Administration Fee	0.4% (VAT Included)
Investment Management Fee	Depends on the combination of unit trusts selected as investment options.
Switching Fee	0.12% (VAT included)
Financial Adviser Fees (if applicable)	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5 % Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%

*The Endowment Policy is underwritten by Allan Gray Life Limited.

UNIT TRUSTS

	EQUITY FUND	BALANCED FUND	STABLE FUND	OPTIMAL FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS
Benchmark	FTSE/JSE All Share Index including income.	The average (market value-weighted) of the Domestic Prudential Medium Equity Sector excluding the Allan Gray Balanced Fund.	After-tax return of call deposits (for amounts in excess of R1m) with FirstRand Bank Limited plus two percentage points.	The daily call rate of FirstRand Bank Limited (for amounts in excess of R1m).	The simple average of the Domestic Fixed Interest Money Market Unit Trust Sector excluding Allan Gray Money Market Fund.	60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global.
Maximum net equity exposure	100%	75%	60%	15%	0%	100%
Portfolio orientation	A share portfolio selected for superior long-term returns.	A share portfolio which can include all asset classes selected for superior long-term returns.	A portfolio which can include all asset classes chosen for its high income yielding potential. The intention is to keep the equity portion significantly below 60%.	A portfolio of carefully selected equities. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.	Invested in selected money market instruments providing a high income yield.	Invested in the Orbis funds and the Allan Gray Money Market Fund. The Fund will always hold 85% offshore.
Return objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns to bank deposits.	Superior returns to bank deposits.	Superior money market returns.	Superior long-term returns.
Risk of monetary loss	Risk higher than the Balanced Fund but less than average general equity fund due to Allan Gray's investment style.	Risk will be higher than the Stable Fund but less than the Equity Fund. This is a medium risk fund.	• Low risk. • Limited capital volatility. • Seeks to preserve capital over any two-year period.	• Low risk. • Little or no correlation to stock or bond markets.	• Low risk. • High degree of capital stability.	Risk higher than Balanced Fund but less than average foreign fund.
Target market	• Investors seeking long-term wealth creation who have delegated the equity selection function to Allan Gray. • Investors should be comfortable with market fluctuations i.e. short-term volatility. • Typically the investment horizon is five-year plus.	• Investors seeking long-term wealth creation who have delegated the asset allocation decision to Allan Gray. • Investors seeking a three-year plus investment. • Investors who need to comply with Prudential Investment Guidelines of the Pension Fund Act (Reg.28).	• Risk-averse investors e.g. investors in bank deposits or money market funds. • Investors who need to comply with Prudential Investment Guidelines of the Pension Fund Act (Reg.28). • Those investors who require a regular income.	• Risk-averse investors. • Retired investors. • Investors who wish to diversify a portfolio of equities or bonds. • Retirement schemes and Multi Managers who wish to add a product with an alternative investment strategy to their overall portfolio. • Individuals who have lump sum contractual savings (like Living Annuities, Preservation Funds, and Retirement Annuities).	• Highly risk-averse investors. • Investors seeking a short-term parking place for their funds.	Investors: • seeking to invest locally in Rands and benefit from offshore exposure. • wanting to gain exposure to markets and industries that are not available locally. • who desire to hedge their investments against any Rand depreciation.
Income	Low income yield.	Average income yield in the Allan Gray suite of funds.	High income yield.	Low income yield.	Highest income yield in the Allan Gray suite of funds.	Low income yield.
Income distribution	Distributed bi-annually.	Distributed bi-annually.	Distributed bi-annually.	Distributed bi-annually.	Distributed monthly.	None.
Compliance with Pension Fund Investment Regulations	Does not comply.	Complies.	Complies.	Does not comply.	Complies.	Does not comply.
Pricing	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.
Fee principles	Performance fee orientated to outperformance of the FTSE/JSE All Share Index over a two-year rolling period.	Performance fee orientated to outperformance of the average Domestic Prudential Medium Equity Sector Fund over a two-year rolling period.	Performance fee orientated to outperformance of taxed bank deposits. No fees if there is a negative return experienced over a two-year rolling period.	Fixed fee of 1.0% (excl. VAT) per annum. Performance fee of 20% of the daily outperformance of the benchmark. In times of underperformance no performance fees are charged until the underperformance is recovered.	Fixed fee of 0.5% (excluding VAT) per annum.	Fixed fee of 1.25% (excluding VAT) per annum. The underlying funds also have their own fee structure.
Minimum lump sum investment requirement	R10 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R25 000 lump sum and/or R2 500 per month debit order.	R50 000 lump sum and/or R5 000 per month debit order.	R25 000 lump sum. No debit orders are permitted.
Portfolio Manager	Stephen Mildenhall	Arjen Lugtenburg	Stephen Mildenhall	Stephen Mildenhall	Michael Moyle	Stephen Mildenhall

ALLAN GRAY LIMITED

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ALLAN GRAY UNIT TRUST MANAGEMENT LIMITED

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

Unit trusts are medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available from the management company/scheme. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Allan Gray Unit Trust Management Limited is a member of the Association of Collective Investments (ACI).

ALLANGRAY

LONG TERM INVESTMENT MANAGEMENT

KINGJAMES rsvp