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Quarterly Commentary

ALLAN GRAY

INTELLIGENT INVESTING

Inside this issue

Front cover: Sandy McGregor, Heike Smith and Abdul Davids.

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Greg Fury, Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer

This quarter we provide some insight into a matter that has a significant impact on all of us: the state of the South African economy. I am sure that you will read with interest the comment from Sandy McGregor in **INVESTMENT PERSPECTIVE**, his analysis revealing a much more positive picture of our economy than the official GDP numbers would have us believe. This is particularly significant at a time when there is much public debate about current and future economic policy - the danger being that we fail to acknowledge the pace of economic growth already taking place.

Earnings yields do matter as investors turn to equities rather than bonds. We believe that it is important to be cognisant not only of the level of earnings, but their sustainability too, as earnings yields are a function of both the level of the earnings and the rating placed on those earnings by the market. In **INVESTMENT COMMENTARY**, Abdul Davids demonstrates the benefits of our bottom up approach to investing and advocates caution at a time when the market is expensive.

FROM THE NAMIBIAN OFFICE, Heike Smith, an investment analyst with Allan Gray Namibia, shows how Allan Gray Namibia has managed to capitalise on the liquidity discount that other investors apply to Namibian shares in general. FNB Holdings Namibia (FNB) is used as an example of a share that still trades at a discount to fair value and should continue to enhance the return on the portfolios of Allan Gray Namibia's clients.

We are delighted that this Quarterly Commentary includes a contribution from Simon Marais, our Chairman who is now based in Australia. In **FROM THE CHAIRMAN'S DESK**, in an article entitled: `Which shares are most likely to survive in South Africa?' he identifies two South African investments that stand out from their peers. He singles out those that have attributes that are significantly unique, enabling them to survive and compete successfully in an increasingly challenging global environment.

It has been an extremely busy period on the retail side of our business for a number of reasons. Firstly, we are pleased to announce that at the beginning of September we in-sourced the administration of our offshore funds (managed by our global asset management partner, Orbis) and the offering was integrated onto our local investment platform. Secondly, on 3 October we also successfully migrated individual life and retirement products onto the platform. The completion of these two phases of our retail development is a key milestone. Johan de Lange and Rob Dower share more about the impact of these developments on you as well as a glimpse of our future plans in this quarter's **RETAIL UPDATE**.

Along with these developments, we have experienced unprecedented growth, tripling transaction volumes in the past two years. As we have grown to support these volumes, Allan Gray's Retail Client Services remain as committed to ensuring that you have the best possible investment experience at Allan Gray. Anne Mayers, Head of Retail Client Services, provides us with an update from her team and some insight into what happens behind the scenes to ensure a dedicated client service and administration team.

In **BUSINESS SERVICES UPDATE**, Mark Orpen, HR Manager at Allan Gray, describes the key role that HR plays in ensuring that we attract, recruit, train and retain the calibre of people that will ensure we continue to produce sound investment returns and a positive investing experience for you into the years ahead.

INVESTMENT PERFORMANCE For some time we have been cautioning investors that the returns that we have been experiencing have been well above long-term averages and our expectations. We have been completely wrong on the timing to date, with the FTSE/JSE All Share Index delivering a return of just more than 20% in the last quarter and 36.7% in the year to date. In addition, our team continues to add value over and above the market returns. This has meant that our clients have received excellent returns with their equity portfolios delivering 58.8% in the 12 months to end September 2005 against the 47.8% return of the JSE and global balanced mandates delivering 41.4% against the average fund's 34.3%. Full performance information is available at the back of the QC.

While we have little confidence in our ability to predict market movements over the short- and medium-term, as our recent experience has shown once again, our expectation is that returns over the longer term will be much lower than those enjoyed recently and that there is risk on the downside. As a result all of our client portfolios are now positioned more defensively.

Despite that note of caution, I hope you enjoy reading this issue.

Kind regards

Greg Fury

Greg Fury

Sandy McGregor, Director, Allan Gray Limited

The South African economy is booming

EXECUTIVE SUMMARY South Africa's economy is growing more strongly than official statistics maintain. Sandy analyses why we believe this to be true and argues that investors, businessmen and government must recognise this reality.

One reason why the South African share market has performed so well over the past year has been a buoyant economy that has strongly increased corporate profits. However, it is easy to become confused as to exactly how strongly the economy actually is growing. On the one hand, there are frequent reports that South Africa is growing too slowly and underperforming other developing countries. The picture described by Statistics South Africa is one of an improving but not a booming economy. There are continuing debates in government on what can be done to accelerate growth and a sense that job creation is far less than it should be. In contrast to this cautious picture, with the exception of some industries such as agriculture and gold mining, most sectors of the economy are reporting the strongest sales and profitability in 25 years.

The problem is one of perceptions and how economic statistics are prepared and presented. It is very difficult for official statisticians to keep abreast of rapid changes in spending and employment patterns and in new technologies.

Tax collections and VAT in particular give a good indication of what is actually happening in the economy as a whole. The official GDP growth rate for the year to June 2005 is a real 4.6% or 9.1% including inflation. However, VAT collections in the period April to July 2005 increased by 15.6% over the same period in the previous year and personal income tax was up 15.2%, despite tax relief in the 2005 budget. Sector specific data is also generally buoyant. Vehicle sales were up 28.2% and cement sales 11.8%. Typically, retailers are reporting sales growth in excess of 15%. Government spending is up 12.2%.

Certainly some of the increased spending has been met by imports. In the year to March 2005, South Africa's current

GRAPH 1

Growth in vat collections (% change in 12-month moving average)

Source: Igraph

account deficit as a percentage of GDP increased by 2%. However, this implies that if spending is growing at say 15%, 13% of the increase is being met by domestic suppliers and output must have increased by 13% in value and about 9% in volume. This is a simplistic analysis and it is unlikely the economy is growing that strongly, but one gets the impression that it is growing much faster than the official statistics maintain. Indeed, this has been the case for a number of years. **Graph 1** on page 2 shows how VAT collections expressed in real terms have been volatile but on a rising trend since 1999.

"If you judge South Africa through the prism of the official GDP numbers, you can miss what is a great success story."

Among the buoyant sectors are building and construction (particularly house building and renovation), telecommunications, banking, motor vehicles and retailing. Domestic manufacturing has suffered from a lack of competitiveness due to the strong Rand but is being pulled up by strong demand.

Why is South Africa booming? Broadly, there are two reasons. Firstly, commodity prices are high which has boosted the value if not the volumes of our exports. Secondly, the process of eliminating inflation and opening the economy to competition, thereby allowing interest rates to fall, is starting to pay dividends. The policy initiatives of the mid 1990s, the so-called GEAR strategy, is delivering. We have mentioned in a previous article about how typically it has taken a decade for policies such as those South Africa adopted in the 1990s to deliver strong growth. What is now happening in South Africa is typical of what has happened elsewhere.

Perhaps one of the biggest dangers we now face is that this success is not widely recognised. If you judge South Africa through the prism of the official GDP numbers, you can miss what is a great success story. Indeed, it is not clear that, given the skills shortage, we can grow faster than we are. Yet there is continual discussion about the interventions that are required to accelerate growth. Some proposals - such as an increased investment in infrastructure - are essential if the current momentum is to be maintained. The large and growing trade deficit ultimately will cause the Rand to depreciate, which could put up the cost of living and slow down retail sales. However, the debate on future economic policy should take as its starting point the fact that the economy is already growing very strongly.

Abdul Davids, Senior Analyst, Allan Gray Limited

Earnings do matter

EXECUTIVE SUMMARY In the current bull market in South Africa, many investors and fund managers are turning to equities rather than bonds because of the relatively higher yields on shares. Abdul warns, however, that they may be ignoring an important lesson from history, namely that relative earnings yields cannot be considered in isolation. The level of earnings, plus their quality and sustainability, remain an important consideration as those who bought Primedia shares when earnings peaked in 1998 learnt to their detriment.

The current bull market in South African equities has resulted in significant interest and participation by the public as they clamour to 'get invested'. In addition, the search for capital growth, coupled with record low interest rates in South Africa, has seen many investors turn away from the safety of cash and bond holdings in favour of equities. Many fund managers are advocating investments in equities over bonds based on the relatively higher earnings yields on shares versus the interest yield on bonds. (The earnings yield is the earnings per share divided by the share price.) However, these investors may be ignoring an important lesson from history: earnings yields are a product of both the levels of earnings and the rating placed on those earnings by the market, and cannot be considered in isolation, and before determining whether the earnings yield is attractive, they must consider whether the level of earnings is normal.

Graph 1 is frequently used to argue the case in favour of equities over bonds. It is important to note that the bond yields are pre-tax yields whereas the earnings yield is an after-tax yield. When the graph is downward sloping (as in the period 1982-1987), the earnings yield on shares is declining relative to the yield on bonds. The decline in earnings yields could be attributed to a decline in earnings <u>or</u> a rise in share prices. A decline in bond yields can be attributed <u>only</u> to a rise in bond prices, since the nominal yield on bonds is fixed. The warning for investors is clear: company earnings, unlike nominal bond yields, can show negative growth.

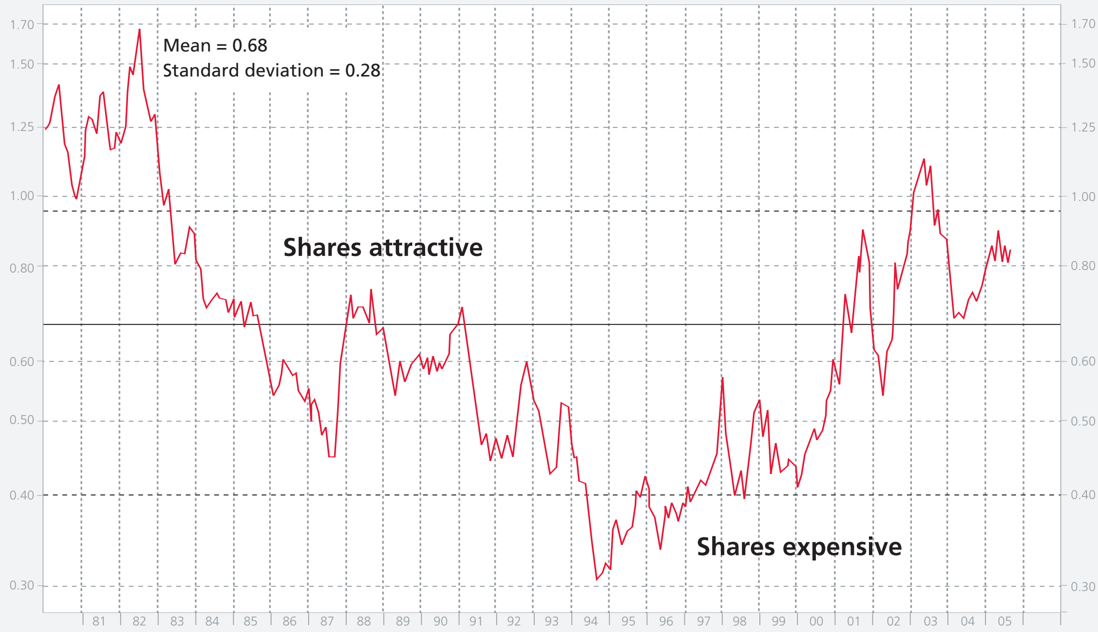
Shares were very attractive relative to bonds in 1982-1983 and conversely were very expensive relative to bonds in 1994. Currently, shares appear attractive relative to bonds. In 1998, bond yields peaked at 20% on the back of high interest rates, whereas the earnings yield on the JSE was 5%. The reduction in interest rates between 1999 and 2005 increased bond prices significantly and has reduced the attractiveness of bonds. (As yields fall, bond prices increase and vice versa.) In addition, the growth in equity earnings (faster than share prices) has increased the earnings yields of shares over the same period. Consequently, in 2003, shares were offering earnings yields in excess of 11%, whereas bonds were yielding around 9% on a pre-tax basis.

PRIMEDIA We have discussed Primedia in previous Quarterly Commentaries, highlighting the fact that the share price of R49 in 1998 was very expensive (**Graph 2**).

Primedia was one of those companies that benefited from the TMT (telecommunications, media and technology) bull market between 1994 and 1998. A string of acquisitions during this period significantly contributed to rapid earnings growth - but why did the market drive the share price so high? In our opinion, investors would have compared the Primedia earnings yield to the

GRAPH 1

Equities earnings yield relative to bond yields



Source: Igraph

yield on bonds and, coupled with the very positive earnings growth prospects, would have found the share to be attractive.

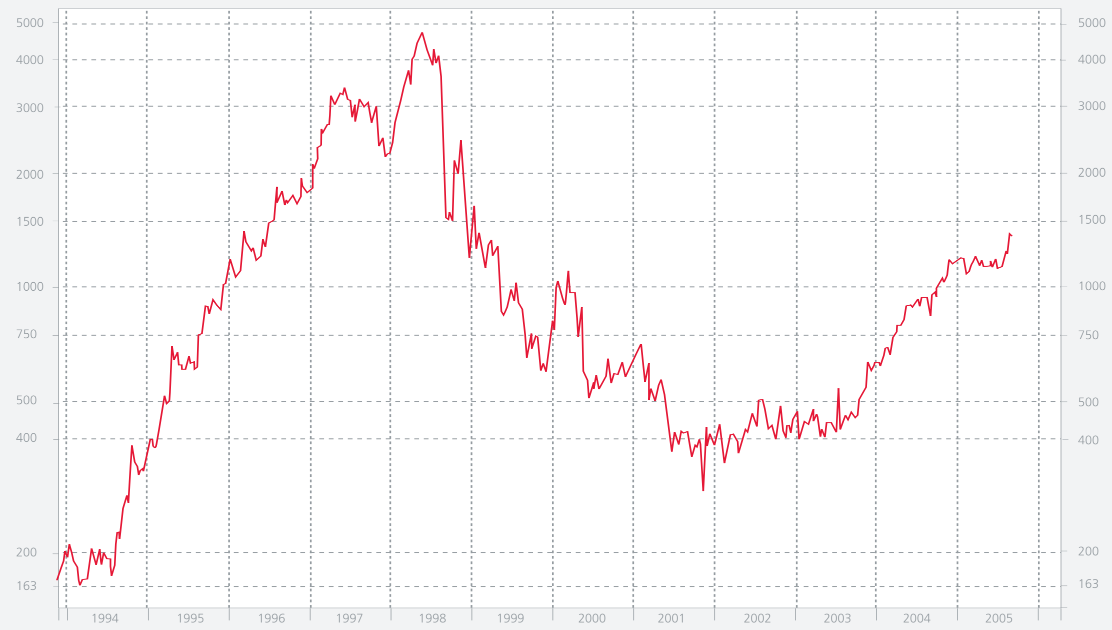
WHAT ABOUT THE EARNINGS? Primedia's acquisition spree culminated in the acquisition of the Ster-Kinekor business from Interleisure in 1997, with the company using an issue of its highly rated shares to fund the purchase. This acquisition contributed significantly to the growth in earnings during this period (**Point A** in **Graph 3**). The company reported a 50% rise in earnings to 120cps in 1998, and investors were quick to reward the company for the record earnings (**Point B**). In hindsight, Primedia's earnings in 1998 were significantly above a normalised level of earnings for the company and, in addition, the Primedia share price rose as a result of expectations for significant future earnings growth from that already high level. The subsequent and equally dramatic decline in Primedia's earnings and share price has been well documented. Primedia is yet to achieve the level of earnings it recorded in 1998 (**Point C**).

The lesson for investors is that the level of earnings is a very important consideration in evaluating the attractiveness of a particular share. Our investment process requires that our analysts spend a significant percentage of their overall research time on determining the quality and sustainability of company earnings. Where, in our opinion, the level of earnings is unsustainably high, we tend to avoid those companies. We would advocate a bottom-up approach to investing in the current expensive market and investors should avoid companies whose earnings are unsustainably high.

ABDUL'S NEW ROLE Abdul was promoted to the position of Senior Analyst at the beginning of this year. In addition to his extensive research and client servicing duties, Abdul also assumed responsibility for the recruitment and training of new trainee analysts at Allan Gray.

GRAPH 2

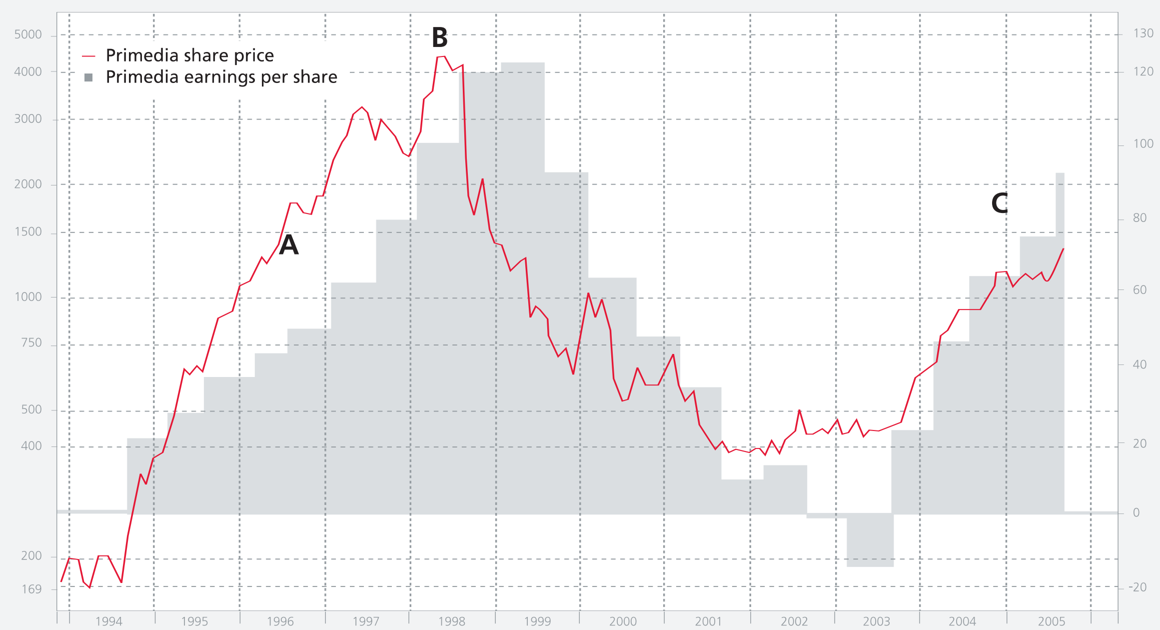
Primedia share price



Source: Igraph

GRAPH 3

Primedia share price and earnings



Source: Igraph

Heike Smith, Investment Analyst, Allan Gray Namibia

FNB Namibia is still attractive

EXECUTIVE SUMMARY Allan Gray Namibia has managed to capitalise on the liquidity discount that other investors apply to Namibian shares in general and, as this analysis specifically shows, to FNB Holdings Namibia in particular. The share, in fact, still trades at a discount to fair value and should continue to enhance the return on the portfolios of Allan Gray Namibia's clients.

FNB Holdings Namibia (FNB), the holding company of the First National Bank of Namibia, is used in this article to show how Allan Gray Namibia has managed to capitalize on the liquidity discount other investors apply to Namibian shares in general and to FNB in particular.

While the Namibian Stock Exchange (NSX) closely followed the trend of the JSE over the last few years, local shares trading on the NSX are characterised typically by very low levels of liquidity. While low trading volumes may be seen as a big deterrent by many investors, this does not overly concern Allan Gray Namibia. We are far more concerned about our ability to buy a high quality business at a discount to its intrinsic value. Therefore, it often counts in our favour when other investors shy away from a good quality share because of a lack of liquidity. These market dynamics allowed us to buy FNB at very low price to earnings and price to book ratios.

Since we first started buying FNB at the beginning of 2000 for 260cps, the share price has not only appreciated to 605cps at the beginning of September 2005 but shareholders have also received 160 cents per share in dividends. Roughly two thirds of the original investment was returned in dividends over the last five years. These dividends received, together with the capital appreciation since 2000, have resulted in a very attractive return of 31% per annum.

"… FNB Namibia seems to be a more attractive investment opportunity than FirstRand."

Despite this price appreciation, we continue to believe that FNB Namibia trades at a discount to its intrinsic value. As has been explained in previous articles, we try to normalize a company's earnings when evaluating its intrinsic value. Some of the most important factors that were considered in this analysis of FNB Namibia are discussed in more detail in the following paragraphs.

TABLE 1

Selected share statistics

	FNB Namibia (12 months to December 2004)	FNB Namibia (normalised)	FirstRand (12 months to December 2004)
Risk adjusted interest margin	5.5 %	5.0 %	2.52 %
Cost to income ratio (banking operations)	55.6 %	50.0 %	55.8 %
Non-interest income to net operating income (banking)	38.9 %	42.5 %	50.0 %
Tax rate	30.8 %	34.0 %	25.0 %
Capital adequacy	18.9 %	18.9 %	14.4 %
Headline earnings per share (cps)	68.4	85.3	126
Dividends per share (cps)	28.5	42.6	53.4
Return on average equity	20.4 %	22.0 %	27.0 %
Share price (cps)	605	605	1657
Price earnings ratio	8.8	7.1	13.2
Dividend yield	4.7 %	7.0 %	3.2 %
Price to net asset value	1.4	1.4	3.5

Source: I-Net Bridge, annual reports & Allan Gray research

The net risk-adjusted interest margin is one of the most important profitability drivers of banking organizations. Historically, these margins have been considerably higher for Namibian banks than for their South African counterparts. In recent years this differential has narrowed and is likely to decrease further into the future. We, however, believe that Namibian interest margins will continue to exceed those in South Africa because of differences in client mix (more retail, less corporate), higher levels of interest rates and the larger use by Namibian banks of shareholder capital funding. Traditionally, Namibian prime lending rates were between 50 and 125 basis points above those for South Africa. While this leaves considerable scope for FNB Namibia to lower its margin, we believe that margins will settle at a level that is approximately two percentage points above margins for FirstRand in South Africa. Therefore we believe that when margins normalize, it should be around the 5% level.

FNB Namibia recently merged with Swabou, another Namibian banking and insurance company. Due to Swabou's higher cost structures and merger expenses, FNB Namibia's current cost ratios are not representative of expected future cost ratios. As a result of the merger, a high cost to income ratio decreased earnings. Management has been able to reduce this ratio since the 2004 year-end and we believe it likely that management will be able to decrease this further so that the ratio settles at around 50%. Before the merger FNB Namibia's cost to income ratio was 46%.

Further, FNB Namibia has very little non-interest revenue. Although opportunities to grow this is limited in Namibia, revenue from insurance operations is still under-represented. FNB has the biggest home loan book in Namibia and this presents it with numerous cross-selling opportunities for its insurance operations. In line with this, insurance operations are expected to increase their contribution to earnings quite rapidly.

Recently South African banks have decreased their dividend cover. Since Namibian banks are particularly well capitalised, we expect them to follow suit. Therefore our analysis assumes that FNB Namibia's dividend cover will decrease to 2x.

From the above discussion and **Table 1** on page 6, FNB Namibia seems to be a more attractive investment opportunity than FirstRand. While FirstRand has a higher return on average equity than FNB Namibia, this does not indicate that FirstRand's earnings are higher than those for FNB Namibia, but rather reflects FNB Namibia's much higher capital ratios. Based on FNB Namibia's normalised earnings, we believe that this share still trades at a discount to fair value. Therefore, owning FNB Namibia should continue to enhance the return on our Namibian clients' portfolios.

Simon Marais, Non-Executive Chairman, Allan Gray Limited

Which shares are most likely to survive in South Africa?

EXECUTIVE SUMMARY Over the decades, companies come and go. Many that seem invincible end up as basket cases. Simon warns that, with the enormous growth in Asia, many companies in the rest of the world are going to struggle to survive. So what investment opportunities are there in South Africa that have attributes sufficiently unique to enable them to compete successfully in an increasingly competitive world? He identifies two that stand out amongst the rest and gives the reason why.

One of the most striking features of international markets is how much things change. Companies that seem invincible become basket cases. The once proud General Motors (seen as one of America's safest companies with a AAA credit rating) just recently had its debt downgraded to junk status. In fact, of the 30 companies that made up the original Dow Jones Index in 1896, only one company (General Electric) survives in the index today.

The enormous growth in Asia is likely to accelerate this process of change. Confronting a region with over 50% of the world's population, high levels of education and very low labour costs and taxes, many companies outside Asia may find it very difficult to survive, let alone show a respectable return on capital. As investors, this should concern us a great deal, given that return on capital is what ultimately drives investment returns over the long-term.

With this perspective in mind, it is interesting to ask which South African investment opportunities have unique attributes that will allow them to compete successfully in an increasingly competitive world. I think two stand out: Sasol and the platinum sector.

We all know of the relentless rise in oil prices. While this is driven in the short-term by supply constraints, the long-term driver of the oil price is increased demand. As the East grows, it consumes ever more oil. Yet oil is a finite resource. Most of the world's major listed oil companies struggle to maintain their reserves – i.e. the amount of oil and gas in the ground available for future production. Even those that manage to do so succeed only by having a growing proportion of reserves in the form of gas. In addition, governments have woken up to the revenue-generative power of oil reserves and are demanding a larger cut of these revenues. Thus oil shares have risen with higher oil prices, but not nearly to the extent one would have expected, given the huge rise in oil prices.

Among the few significant exceptions to this rule is the South African company, Sasol. The company uses low-grade coal (and gas) as its feedstock for oil products. It has 30 years' worth of coal reserves around its Secunda plant and many more years of reserves elsewhere. This compares very well with the 10–12 years' worth of reserves for the oil majors. In addition, Sasol's GTL (gas to liquid) process converts gas into liquid fuel. As mentioned above, the industry is finding more gas, but little oil. Hence Sasol's technology could prove to be exceptionally valuable.

Sasol's share price has been very strong with the higher oil price, but we have not sold our holdings yet. While the price may go down in the short-term, should the oil price decline, there are not many companies in the world with a competitive position as strong as that of Sasol.

For instance, Australia is full of minerals – coal, iron, copper, gold, oil and gas etc. There are about 500 listed mining companies, but the only listed platinum stocks have their mines in Southern Africa. No major platinum deposit has been found anywhere else in the world for 80 years.

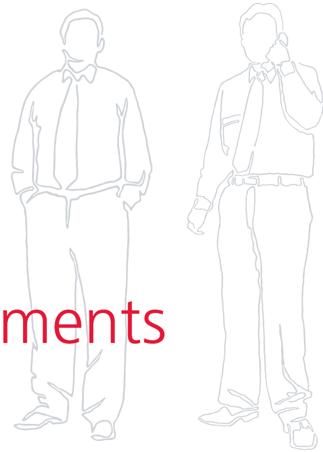
Platinum is consumed both in industry (mainly as a catalyst) and as jewellery. Demand from both sectors has grown strongly in recent years. As Japan became a wealthy society, platinum demand skyrocketed. Early indications are that China will be no different – as income exceeds a certain threshold, platinum demand shoots up.

South Africa sits with 80% of the world's reserves – probably one of the most dominant positions of any mineral in the world. Yet the companies that control most of these reserves (Amplats, Implats, Lonmin, Northam) have been battered by the strong Rand. We have added some of their shares to your portfolios over the past few months.

Twenty years from now a lot will have changed in the corporate world and many world-beating companies will have disappeared. But, in all probability, Sasol and the platinum companies will still have the same (or better) economics than they have today. It is worth paying up for this.

Johan de Lange and Rob Dower, Directors, Allan Gray Investor Services

On track with platform developments



In June this year Allan Gray Investor Services announced the launch of an investment platform to offer a range of unit trusts to investors. The platform provides our clients and their advisers (IFAs) with access to Allan Gray's funds as well as a focused range of funds from other selected fund providers. It offers consolidated reporting on total portfolios and the ability to buy, sell and switch between the funds offered.

In the last Quarterly Commentary (Q2, June 2005), we explained that this was only one stage of a series of developments to integrate and develop a more scaleable long-term investment business around investor and IFA needs. In the article by Jocelyn Hathaway, some insight was provided into the overall long-term solution aimed at linking our administration processes more closely to our client service team and improving the quality and cost of service to our clients.

We now announce that at the beginning of September, Phase 3 of the rollout was completed as we in-sourced the administration of our offshore funds (managed by our global asset management partner, Orbis) and the offering was integrated onto our local investment platform. This means that for the first time South African investors are able to invest in both local and offshore unit trusts/mutual funds via one investment platform with pricing parity between the two. Whether you are investing in a local unit trust or an offshore mutual fund, Allan Gray Investor Services provides a convenient, transparent and integrated way of constructing globally diversified investment portfolios.

A suite of three Orbis funds now complements the range of local funds and Rand-denominated offshore funds already offered on the investment platform:

- **Orbis Global Equity Fund (US$)**
  - The core and largest of the Orbis funds (an actively managed fund investing in global shares) seeking to outperform the benchmark FTSE World Index.
- **Orbis Japan Equity Fund (YEN, US$, EUR)**
  - Offered in Yen, US$ and Euro classes and invested solely in Japanese stockmarkets.
- **Orbis Optimal SA Fund (US$, EUR)**
  - Offered in US$ and Euro classes, these funds invest in global shares via the various Orbis equity funds and employ hedging to limit stockmarket risk.

Because the Allan Gray Investor Services platform aggregates or pools individual investments, it is possible to provide investors with access to the above funds at lower minima. The investment minimum is US$7 500 minimum lump sum (or currency equivalent: GBP, ZAR, EUR, JPY) with a US$1 000 (or currency equivalent: GBP, ZAR, EUR, JPY) minimum per fund.

A totally transparent cost structure applies to both local and offshore investments. They are priced on the same basis:

- No initial platform fees apply.
- The maximum administrative platform fee (charged quarterly in arrears) will be 50bps per annum. Due to the distribution arrangements between Orbis and Allan Gray, there is a 50bps saving, which means that there is no net administration fee for the investor's account.
- Underlying fund fees are performance based, are included in the NAV and priced within the fund.

Phase 4 of the rollout is also complete (as of 3 October) and includes the migration of individual life and retirement products onto the platform. This fulfils our initial promise to provide a simple and flexible product range that offers direct access to the Allan Gray suite of unit trusts and other investment funds, both directly and via tax efficient savings vehicles, with pricing parity across the product range.

We now look forward to the introduction of a full online transactional facility for the platform as we continue to develop and enhance our service to be convenient, simple, transparent, investment-oriented and completely trustworthy.

Anne Mayers, Head of Retail Client Services

Striving for service excellence

EXECUTIVE SUMMARY Despite a tripling of volumes in the past two years, Allan Gray's Retail Client Services team remains as committed as ever to ensuring the best possible service to clients within a reasonable turnaround time. Each member of the team aims to provide innovative input in support of the aim to 'always think with our client service hat on.' A strong focus on training has been introduced to ensure dedicated and committed personnel. Included has been a commitment to empowerment, exemplified by staff formerly engaged in serving refreshments now playing important roles in the clerical team.

Since my article in March 2003 entitled 'Optimal levels of service from Client Service', so much has transpired. But first a brief summary of the March 2003 review. I wrote about what would be considered as the norm in delivering the 'right' level of service to clients across all industries the world over. I highlighted that opinions are varied in their revelation of that wonderful secret ingredient which ultimately results in the recipe being a flop or a success. I described what was important to Allan Gray in delivering above average service to its clients. Finally I introduced you to my then small but dedicated team of 19 people.

Well that was March 2003! In September 2005 we paint a vastly different picture! However, perhaps it is more prudent to begin with what has not changed.

> "The ethical manner in which we manage our clients' investments and the delivery of service excellence have always been at the top of Allan Gray's list of priorities."

We are as committed as we always have been in ensuring that we deliver the best possible service within a reasonable turnaround time. Has our commitment to meeting our exacting objectives changed? The answer is a definite 'no'. Has it become harder to meet our obligations that are as sound as they were when I first wrote about them in March 2003? I would fail in my honest duty if I did not respond with a resounding 'yes'.

What has changed is that the number of transaction and call volumes has more than tripled across our entire product range (unit trusts, offshore and individual life and retirement products), all previously outsourced functions have now been in-sourced and my team, no less dedicated, now comprises over 80 people. In June 2003, the total clients passed the 10 000 mark and two years later, the figure exceeds 35 000. In the client services centre alone, call volumes have increased from 2 600 per month at the end of 2002 to just over 11 000 per month in mid 2005. There is an average of 12 to 15 walk-in clients per day whilst the team also deals with 110 emails daily (sent to info@allangray.co.za).

So, what are we at Allan Gray doing to ensure that we do not fail you, our client, despite the obvious challenges? Each member of the team is intimately involved in providing innovative input in support of our client-centric objective that is to 'always think with our client service hat on'. As a daily reminder, each employee has been issued with a specially made miniature top hat to remind him/her constantly of five critical elements of excellent service delivery.

- Was the client WELL RECEIVED on first point of contact with Allan Gray?
- Did we LISTEN carefully to what was being said?
- Did we CLARIFY any points of uncertainty?
- Did we TRANSLATE what we heard into a clear UNDERSTANDING? and
- Did we SUPPLY the client with the right information/assistance?

The decision to in-source the administration of all our product lines, whilst presenting a number of new and different challenges, has provided us with the unique opportunity to streamline our processes further, consolidate our reporting to our clients and exercise greater control, thereby taking our service offering to a new level.

The ethical manner in which we manage our clients' investments and the delivery of service excellence have always been at the very top of Allan Gray's list of priorities. Meeting client expectations in every aspect of the business requires a solid foundation and well-defined structure. We recognise that the solution we offer to our clients needs to be supported at every level of the supply chain. Therefore we have gone out of our way to ensure that we have dedicated and committed personnel. Recruitment and training have become a strong focal point in which time and effort are spent to ensure that the expertise of our team is closely aligned with the needs of our clients. Individual accountability instils a sense of ownership, allows room for improvement where necessary, whilst at the same time cultivates a stimulating environment for personal growth. Interactions with clients are confident but never arrogant.

As with any major implementation which involves numerous changes to current business practices, our in-sourcing project has meant that client investment queries or complaints will arise. It is important therefore to note that our approach to resolving any query or complaint is not a 'reactive one' and we are also acutely aware of the fact that we need to cure the cause of the problem rather than just fix the symptom. With the assistance of a dedicated team of query administrators, we are able to identify quickly any recurring trends, which then allow us to readdress and review our controls, and apply the appropriate corrective measures.

Our detailed analyses of the number of calls received and flow of transaction volumes allow us to plan ahead in recruiting extra staff. However, it would be naive of us to assume or to suggest that the process is an easy one to fulfil. The larger an organisation becomes, the more difficult it is to provide a level of service that is consistently trouble-free. We do not get it right all the time and we are sincerely disappointed when we fail to meet our own expectations and high standards. What is fundamental though is the manner in which, and how quickly, problematic issues are dealt with.

Special mention is necessary for the team who work tirelessly in the background to ensure that the service levels are maintained at an optimal level. Julia Ellenberger was appointed Client Services Manager in February this year. She has been with Allan Gray for three years and comes with a wealth of experience in the financial services industry. Julia's focus is centred primarily on the Client Services Administration area and is responsible for ensuring that the flow of work runs smoothly. Team Co-ordinators: Timothy Molteno (unit trusts), Megan Olivier/Liezl Alberts (retirement products), Cara Abrahamse (Prime team - top IFA database), Heidi Alson (offshore products and transfers process), Rameez Johaar (client services support), Landiwe Tybosch (IFA Services Centre) and Sean Haiden (Client Services Centre) together with their specialist teams, provide the sound infrastructure to support our growing client base. Our frontline receptionists and telephony assistants recognise the importance of making our clients feel welcome and comfortable when phoning in or visiting our offices. Whilst our client facing team ensures that all interaction with clients works well, our 'engine room' ensures that our clients' investments are processed timeously and accurately. It is critical therefore that we continually ensure that the flow of work and communication between the two teams is seamlessly integrated into a solid frame.

Empowerment is high on the agenda of priorities. As such, we are encouraged by the positive attitude, enthusiasm and approach of everyone in the team to progress to the next level of responsibility. Ndileka Mazule, Nandi Mhlongo and Elna Mgidi, whose previous job functions consisted of providing refreshments to staff and guests are now part of the clerical team managing not only general clerical and mailing functions but also the routing of the electronic workflow to the administration teams. We are extremely proud of the swift progress they have made in a relatively short space of time in grasping their new job functions.

Mark Orpen-Lyall, HR Manager, Allan Gray Limited

HR at Allan Gray

EXECUTIVE SUMMARY This article describes how the Human Resources (HR) function at Allan Gray has evolved with the increase in scale and complexity of the business. As the demands on HR have grown, more formal processes have replaced what was previously informal, and alignment of HR with the organisation's business principles and strategy has been the focus. HR at Allan Gray must assist in ensuring that the success, which has been achieved through a consistently applied investment philosophy, quality people and unique culture, continues in the years ahead.

HUMAN RESOURCES ROLE IN MAINTAINING A COMPETITIVE ORGANISATION Fundamentally, HR has four roles which it must fulfil if it is to assist in keeping an organisation competitive. These roles are depicted in the diagram below and they imply that HR will move towards being a more strategic partner in the business.

PRINCIPLES OF ALLAN GRAY'S HR DELIVERY In reflecting on the underlying message of the diagram below, it became imperative that we identify how HR at Allan Gray will deliver as the business grows. The following are considered to be principles intrinsic to our delivery:

1. Return on investment: the cost-benefit analysis of interventions must become integral.

2. Aligned to business principles: all interventions must be aligned to our business principles and strategy.

3. Simple and effective: management has huge demands on it already, so wherever possible interventions must be kept simple to be effective.

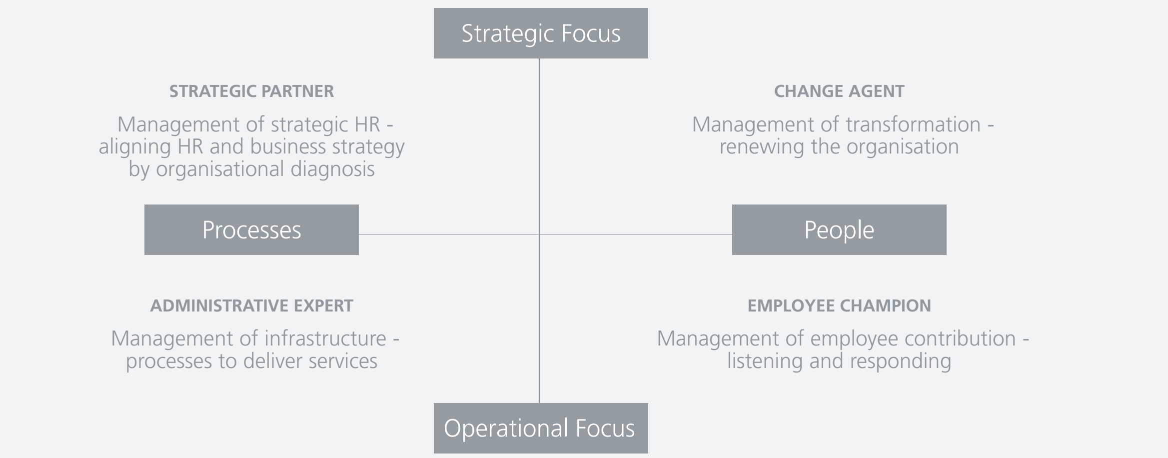
4. Scientific foundation: we must resist 'fads'; whatever is recommended is based on a real need and has a valid scientific foundation.

5. Knowledge management: we must provide ease of access to information pertaining to HR processes, from online policies and procedures to leave applications.

6. HR metrics: HR must provide management with valuable information relevant to managing the business e.g. analysis of staff turnover and sick leave trends.

FROM THEORY TO REALITY A large part of Allan Gray's success can be attributed to a consistently applied investment philosophy, a disciplined process and the quality of the people implementing these.

HR role in maintaining a competitive organisation (International trends)



Source: Dave Ulrich, quoted from Transformig your Employment Brand, 2004.

On a practical level, this means that HR must be proactive and innovative in identifying the best talent in South Africa while maintaining the Allan Gray culture. A concerted effort has been made to ensure this is a reality. In the area of recruitment and selection we have focused on:

1. Graduate recruitment. For sustainable business success, it is important that we recruit the best possible young talent and train them in our specific way of thinking; hence the importance of graduate recruitment. This year we visited four tertiary institutions in search of the best graduates to fill various positions available. It was gratifying to see the appreciation of the Allan Gray brand as we presented to 200-300 students on average per university. Currently, we are interviewing applicants and the calibre of student has been exceptional.

2. Interviewing techniques. Line managers have been trained in objective, competency based interviewing skills that tap job specific expertise, knowledge and abilities.

3. Organisation fit. A person who will be successful at Allan Gray must not only meet the inherent job requirements but also needs to be aligned to how we do things (our culture); hence the introduction of organizational competencies that measure this alignment. The 'how' is often as important as the 'what' in terms of delivery.

4. Ability and personality testing. Even structured, competency based interviews can be enhanced by additional, objective sources of information that ability and personality questionnaires provide. Ultimately, the more valid, reliable insights one can get, the better the final recruitment decision.

5. Technology enablement. In mid-July this year our online recruitment website was launched (www.allangray.co.za/careers). External applicants who are interested in joining Allan Gray now have an online application process through which to navigate. An applicant fills in data in nine specific fields, which takes approximately 20-30 minutes to complete. We can then 'mine' our database when managers require specific skillsets. We can also advertise specific positions online and people can apply for these posts. By using this technology we can:

   - Streamline the application process,
   - Provide fast and effective screening,
   - Provide professional response levels,
   - Leverage off the power of the Allan Gray brand.

In the first three weeks of going live there were over 1000 applications online, largely a result of the graduate recruitment initiatives.

CULTURE Allan Gray is a rewarding place to work, and a specific culture has been nurtured over the last 31 years. We are starting to use certain HR processes to ensure we maintain the existing culture. They include:

1. Recruitment: organisational competencies are used to see if applicants fit our culture of individual accountability, passion, independent mindedness, results orientation and integrity.

2. Induction: senior management present to staff on Allan Gray's core values, history, competitive advantage and how the various units integrate.

3. Performance management: discussions are held with staff on how they have performed against the Allan Gray values. Behavioural indicators are used to make these values come alive.

On a less structured level, the culture is inculcated at quarterly business reviews, monthly get-togethers and other social occasions.

HR TEAM Those accountable for HR related issues are:

Dr Sibs Moodley-Moore: HR Director, who has been with Allan Gray for the last eight years. She has a Doctorate in Political Science and is working on an MBA through the University of Connecticut. Prior to returning to South Africa in 1993 to assume a lectureship at the University of Stellenbosch, she was a visiting professor at various institutions in Canada, USA and Korea where she taught in the areas of affirmative action, diversity management and ethnic relations. She is responsible for transformation, corporate social investment and the investment team.

Mark Orpen-Lyall: HR Manager, who joined Allan Gray in January this year. He is a registered Industrial Psychologist, currently completing his Doctorate in Resilience at the North West University. He has worked at Harrods, Unilever, and most recently, Old Mutual as an HR Generalist. He is responsible for HR strategy and implementation, plus the retail side of the business.

Shanaaz Parker: HR Support Specialist, who is a recent addition, joining us in August this year. She is completing her B Com (Management) degree through Unisa. She previously worked for VIP Payroll as a Payroll Consultant, and also gained valuable experience at Damelin as an Academic Co-ordinator, KPMG in HR Administration and software lecturing at Comtech. She is responsible for HR Administration, e-Recruitment and HR MIS (Management Information Systems).

Allan Gray Limited Global Mandate 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	31.8	25.4	6.4
2005 (to 30.9)	40.6	36.7	3.9
Annualised to 30.09.2005			
From 1.10.2004 (1 year)	60.0	47.8	12.2
From 1.10.2002 (3 years)	38.2	25.3	12.9
From 1.10.2000 (5 years)	33.9	19.1	14.8
From 1.10.1995 (10 years)	27.8	14.8	13.0
Since 1.1.1978	31.3	21.5	9.8
Since 15.6.1974	29.6	18.3	11.3
Quaterly Standard Deviation	22.1	24.5	
Average outperformance			11.3
No. of calendar years outperformed			24
No. of calendar years underperformed			6

*NOTE: ALLAN GRAY COMMENCED MANAGING PENSION FUNDS ON 1.1.1978. THE RETURNS PRIOR TO 1.1.1978 ARE OF INDIVIDUALS MANAGED BY ALLAN GRAY, AND THESE RETURNS EXCLUDE INCOME. LISTED PROPERTY IS INCLUDED FROM 1 JULY 2002.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 15 JUNE 1974 WOULD HAVE GROWN TO **R33 351 571** BY 30 SEPTEMBER 2005. BY COMPARISON, THE RETURNS GENERATED BY THE FTSE/JSE ALL SHARE INDEX OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R1 914 212.**

Allan Gray Limited Global Mandate Total Returns vs 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	80.0	41.2	38.8
2000	21.7	6.6	15.1
2001	44.0	22.3	21.7
2002	13.4	-2.2	15.6
2003	21.5	16.6	4.9
2004	21.8	22.2	-0.4
2005 (to 30.9)	29.6	23.0	6.6
Annualised to 30.09.2005			
From 1.10.2004 (1 year)	41.4	34.3	7.1
From 1.10.2002 (3 years)	26.1	20.7	5.4
From 1.10.2000 (5 years)	27.7	16.5	11.2
From 1.10.1995 (10 years)	24.5	15.4	9.1
Since 1.1.1978	24.7	18.4	6.3
Average outperformance			6.3
No. of calendar years outperformed			22
No. of calendar years underperformed			5

*THE RETURN FROM 1 JULY 2005 IS AN ESTIMATE.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 1 JANUARY 1978 WOULD HAVE GROWN TO **R4 571 041** BY 30 SEPTEMBER 2005. THE RETURNS GENERATED BY THE AVERAGE OF THE CONSULTING ACTUARIES SURVEY OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R1 085 055**.

Annualised performance in percent per annum to 30 September 2005

	THIRD QUARTER (unannualised)	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT R millions	INCEPTION DATE
SEGREGATED RETIREMENT FUNDS							
GLOBAL BALANCED MANDATE	**14.4**	**41.4**	**26.1**	**27.7**	**24.7**	**25,387.9**	**01.01.78**
Mean of Consulting Actuaries Fund Survey *	13.1	34.3	20.7	16.5	18.4		
DOMESTIC BALANCED MANDATE	**16.6**	**46.9**	**31.7**	**28.3**	**25.1**	**15,157.0**	**01.01.78**
Mean of Alexander Forbes Domestic Manager Watch *	15.3	42.4	27.8	20.3	19.2		
EQUITY-ONLY MANDATE	**22.0**	**58.8**	**36.8**	**32.7**	**23.5**	**31,430.9**	**01.01.90**
FTSE/JSE All Share Index	20.3	47.8	25.3	19.1	15.0		
GLOBAL NAMIBIA BALANCED MANDATE	**12.5**	**38.2**	**25.5**	**26.9**	**22.4**	**3,466.5**	**01.01.94**
Mean of Alexander Forbes Namibia Average Manager *	13.1	36.4	23.0	17.6	15.1		
EQUITY-ONLY RELATIVE MANDATE	**20.1**	**50.6**	**30.5**	**25.0**	**27.5**	**4,598.6**	**19.04.00**
Resource adjusted FTSE/JSE All Share Index	20.3	50.1	27.6	16.8	18.5		
POOLED RETIREMENT FUNDS							
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	**14.5**	**41.0**	**26.6**	**27.4**	**22.2**	**7,443.1**	**01.09.00**
Mean of Alexander Forbes Large Manager Watch *	13.1	38.4	23.1	17.9	17.4		
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	**16.9**	**47.4**	**32.4**	-	**28.2**	**4,849.0**	**01.09.01**
Mean of Alexander Forbes Domestic Manager Watch *	15.3	42.4	27.8	-	21.6		
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	**21.9**	**59.1**	**37.4**	-	**33.0**	**3,224.0**	**01.02.01**
FTSE/JSE All Share Index	20.3	47.8	25.3	-	18.0		
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	**12.9**	**39.3**	**30.6**	-	**31.7**	**522.0**	**06.07.01**
Mean of Alexander Forbes Domestic Manager Watch *	15.3	42.4	27.8	-	20.6		
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	**8.3**	**25.2**	**20.5**	-	**19.7**	**247.0**	**01.12.01**
Alexander Forbes Three-Month Deposit Index plus 2%	2.2	9.3	11.7	-	12.0		
ALLAN GRAY LIFE FOREIGN PORTFOLIO	**4.9**	**16.9**	**1.0**	-	**-0.8**	**514.3**	**23.01.02**
60% of the MSCI and 40% of the JP Morgan Government Bond Index	-0.9	11.6	-1.8	-	-6.5		
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO	**2.2**	**8.4**	-	-	**9.8**	**210.6**	**04.12.02**
Daily Call Rate of Nedcor Bank Limited	1.4	5.9	-	-	7.9		
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	**14.6**	**40.5**	-	-	**28.4**	**340.7**	**01.03.04**
Mean of Alexander Forbes Large Manager Watch *	13.1	38.4	-	-	31.1		
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	**7.3**	**21.0**	-	-	**21.6**	**625.0**	**01.05.04**
Consumer Price Index plus 3% p.a.	2.4	7.5	-	-	6.6		
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	**7.8**	**24.7**	-	-	**26.2**	**128.8**	**15.07.04**
Alexander Forbes Three-Month Deposit Index plus 2%	2.2	9.3	-	-	9.4		
FOREIGN-ONLY (RANDS)**							
ORBIS GLOBAL EQUITY FUND (RANDS)	**8.3**	**29.9**	**9.1**	**15.3**	**22.0**	**4,292.9**	**01.01.90**
FTSE World Index (Rands)	2.2	18.6	2.9	-1.3	13.6		
ORBIS JAPAN EQUITY (US$) FUND (RANDS)	**14.9**	**32.8**	**2.8**	**9.8**	**17.8**	**3,001.4**	**12.06.98**
Tokyo Stock Price Index (Rands)	15.7	31.0	0.5	0.1	9.9		
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	**4.9**	**17.5**	**1.2**	**22.5**	**17.5**	**3,257.3**	**23.05.96**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	-0.9	11.6	-1.8	1.6	11.3		
UNIT TRUSTS **					Figures below unannualised		
EQUITY FUND (AGEF)	***	**51.4**	**33.0**	**29.7**	**973.8**	**9,989.9**	**01.10.98**
FTSE/JSE All Share Index		47.8	25.3	19.1	302.9		
BALANCED FUND (AGBF)	***	**39.8**	**27.8**	**25.9**	**327.1**	**10,407.7**	**01.10.99**
Average Prudential Fund (excl. AGBF)		35.4	21.9	16.1	150.6		
STABLE FUND (AGSF)	***	**18.5**	**15.5**	**15.0**	**117.1**	**5,724.0**	**01.07.00**
After-tax return of call deposits plus two percentage points		5.8	7.6	8.1	50.4		
MONEY MARKET FUND (AGMF)	***	**7.2**	**9.3**	-	**47.7**	**813.8**	**03.07.01**
Domestic fixed interest money market unit trust sector (excl. AGMF)		7.0	9.4	-	48.4		
GLOBAL FUND OF FUNDS (AGGF) ****	***	**16.7**	-	-	**5.7**	**1,159.2**	**03.02.04**
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		11.5	-	-	4.0		
OPTIMAL FUND (AGOF)	***	**7.3**	**10.5**	-	**34.9**	**1,217.7**	**01.10.02**
Daily call rate of FirstRand Bank Ltd		5.7	8.1	-	26.2		
BOND FUND (AGBD)	***	**13.2**	-	-	**13.2**	**17.5**	**01.10.04**
JSE/All bond Index (total return)		13.6	-	-	13.6		

* THE RETURNS FROM 1 JULY 2005 ARE ESTIMATED FROM VARIOUS INDICES AS THE RELEVANT SURVEY RESULTS HAVE NOT YET BEEN RELEASED.
** THE RETURNS FOR THE FOREIGN ONLY FUNDS, THE UNIT TRUSTS AND THEIR RESPECTIVE BENCHMARKS ARE NET OF INVESTMENT MANAGEMENT FEES.
*** UNAVAILABLE DUE TO ACI REGULATIONS.
**** AS OF 3 FEBRUARY 2004, THE BENCHMARK IS DISPLAYED. THE BENCHMARK WAS THE MORGAN STANLEY CAPITAL INTERNATIONAL INDEX (IN RANDS) PRIOR TO THIS DATE.

Segregated Portfolios

RETIREMENT FUND INVESTMENT MANAGEMENT IN SOUTH AFRICA
Allan Gray manages retirement fund portfolios 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.

Namibia Pooled Portfolio - Allan Gray Namibia Investment Trust

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

South African Pooled Portfolios - Allan Gray Life Limited

(THE MINIMUM INVESTMENT PER CLIENT IS R20 MILLION. INSTITUTIONAL CLIENTS BELOW R20 MILLION ARE ACCOMMODATED BY OUR REGULATION 28 COMPLIANT UNIT TRUSTS.)

Risk-profiled Pooled Portfolios

	STABLE PORTFOLIO	BALANCED PORTFOLIO	ABSOLUTE PORTFOLIO
Investor Profile	• 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.	• Moderately aggressive 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 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.

THESE RISK-PROFILED PORTFOLIOS COMPLY WITH REGULATION 28 OF THE PENSION FUNDS ACT.
ALLAN GRAY LIFE LIMITED DOES NOT MONITOR COMPLIANCE BY RETIREMENT FUNDS WITH SECTION 19(4) OF THE PENSION FUNDS ACT (ITEM 9 OF ANNEXURE TO REGULATION 28).

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

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 absolute 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.

THESE ASSET CLASS PORTFOLIOS COMPLY WITH THE ASSET CLASS REQUIREMENTS OF REGULATION 28 OF THE PENSION FUNDS ACT.

ALLAN GRAY LIFE LIMITED DOES NOT MONITOR COMPLIANCE BY RETIREMENT FUNDS WITH SECTION 19(4) OF THE PENSION FUNDS ACT (ITEM 9 OF ANNEXURE TO REGULATION 28).

Other Pooled Portfolios

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

Orbis Mutual Funds*

Offshore Products

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

* PLEASE NOTE THAT THESE ARE NOT RAND-DENOMINATED UNIT TRUSTS SO A PROSPECTIVE INVESTOR IS REQUIRED TO HAVE EXCHANGE CONTROL APPROVAL.

Individual Retirement Products

	Pre-retirement		Post-retirement
	RETIREMENT ANNUITY	PENSION OR PROVIDENT PRESERVATION FUND	LIVING ANNUITY*
Description	• Enables saving for retirement with pre-tax money. • Contributions can be at regular intervals or as single lump sums. • Ideal for the self-employed or employees who want to make additional contributions to an approved retirement vehicle.	• Preserves the pre-tax status of a cash lump sum that becomes payable from a pension (or provident) fund at termination of employment. • A single cash withdrawal can be made from the Preservation Fund prior to retirement.	• Provides a regular income from the investment proceeds of a cash lump sum that becomes available as a pension benefit at retirement. • A regular income of between 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 unit trusts.		
Minimum Investment Size	R 20 000 lump sum R 500 monthly	R 50 000 lump sum	R 100 000 lump sum
Initial Fee		None	
Annual Administration Fee		None	
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.
Switching Fee		None	

* ALLAN GRAY LIVING ANNUITY IS UNDERWRITTEN BY ALLAN GRAY LIFE LIMITED.
** FOR ANNUAL INVESTMENT MANAGEMENT FEES OF ALLAN GRAY UNIT TRUSTS, PLEASE REFER TO THE UNIT TRUST APPLICATION FORM, WHICH CAN BE DOWNLOADED FROM THE WEBSITE WWW.ALLANGRAY.CO.ZA, OR SEE THE SECTION ON PAGES 20 AND 21 OF THIS DOCUMENT ON UNIT TRUSTS.

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	Can be invested in any combination of unit trusts.
Minimum Investment Size	R 20 000 lump sum R 500 monthly recurring investment
Initial Fee	None
Annual Administration Fee	None
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.
Switching Fee	None

* THE ENDOWMENT POLICY IS UNDERWRITTEN BY ALLAN GRAY LIFE LIMITED.
** FOR ANNUAL INVESTMENT MANAGEMENT FEES OF ALLAN GRAY UNIT TRUSTS, PLEASE REFER TO THE UNIT TRUST APPLICATION FORM, WHICH CAN BE DOWNLOADED FROM THE WEBSITE WWW.ALLANGRAY.CO.ZA, OR SEE THE SECTION ON PAGES 20 AND 21 OF THIS DOCUMENT ON UNIT TRUSTS.

Unit Trusts - Characteristics & Objectives

	EQUITY FUND	BALANCED FUND	STABLE FUND	BOND FUND
Benchmark	FTSE/JSE All Share Index including income.	Average (market value-weighted) of the Domestic Prudential Medium Equity Sector excluding the Allan Gray Balanced Fund.	After-tax return of call deposits (for amounts in excess of R1m) with FirstRand Bank Limited plus 2%.	All Bond Index.
Maximum Net Equity Exposure	100%	75%	60%	0%
Portfolio Orientation	A share portfolio selected for superior long-term returns.	A portfolio (which can include all asset classes) selected for superior long-term returns.	A portfolio (which can include all asset classes) chosen for its high income yielding potential. The intention is to keep the equity portion significantly below 60%.	A portfolio invested in a combination of South African interest-bearing securities including bonds, loan stock, debentures, fixed deposits, money market instruments and cash.
Return Objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns compared to bank deposits.	Superior returns compared to the All Bond Index.
Risk of Monetary Loss	Risk higher than the Balanced Fund but less than average general equity fund due to Allan Gray's investment style.	Risk higher than the Stable Fund but less than the Equity Fund. This is a medium risk fund.	• Low risk. • Limited capital volatility. • Seeks to preserve capital over any two-year period.	Low risk, higher than the Money Market Fund, but lower than the Balanced Fund.
Target Market	• Investors seeking long-term wealth creation. • Investors should be comfortable with market fluctuations i.e. short-term volatility. • Typically the investment horizon is five-year plus.	• Investors seeking long-term wealth creation. • Investors seeking a three-year plus investment. • Investors who wish to substantially comply with the Prudential Investment Guidelines of the Pension Funds Act (Reg. 28).	• Risk-averse investors. • Investors who wish to substantially comply with the Prudential Investment Guidelines of the Pension Funds Act (Reg. 28). • Investors who require a regular income.	• Investors seeking returns in excess of that provided by income funds, the money market funds or cash. • Investors who are prepared to accept some risk of capital loss in exchange for the prospect of increased returns. • Investors who want to draw a regular income stream without consuming capital.
Income Yield	Low income yield.	Average income yield.	High income yield.	High income yield.
Income Distribution	Distribute bi-annually.	Distribute bi-annually.	Distribute quarterly.	Distribute quarterly.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)*	Does not comply.	Complies.	Complies.	Complies.
Fee Principles (Financial Adviser fees are agreed between the client and IFA)	Performance fee for outperformance of the FTSE/JSE All Share Index over a two-year rolling period.	Performance fee for outperformance of the average Domestic Prudential Medium Equity Sector Fund over a two-year rolling period.	Performance fee for outperformance of taxed bank deposits. No fees if there is a negative return experienced over a two-year rolling period.	Performance fee for outperformance of the All Bond Index over a one-year rolling period.
Minimum Lump Sum Investment Requirement (Retirement product and endowment minimums apply)	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.
Portfolio Manager	Stephen Mildenhall	Arjen Lugtenburg	Stephen Mildenhall	Jack Mitchell and Sandy McGregor

* ALLAN GRAY UNIT TRUST MANAGEMENT LIMITED DOES NOT MONITOR COMPLIANCE BY RETIREMENT FUNDS WITH SECTION 19(4) OF THE PENSION FUNDS ACT (ITEM 9 OF ANNEXURE TO REGULATION 28).

OPTIMAL FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	GLOBAL EQUITY FEEDER FUND
Daily call rate of FirstRand Bank Limited. (for amounts in excess of R1m).	Simple average of the Domestic Fixed Unit Trust Sector excluding Allan Gray Money Market Fund.	60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index.	FTSE World Index.
15%	0%	100%	100%
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 selected Orbis funds. The Fund will always hold minimum 85% of its assets offshore.	A Rand-denominated fund feeding directly into the FSB registered Orbis Global Equity Fund.
Superior returns compared to bank deposits.	Superior money market returns.	Superior long-term returns.	Superior long-term returns.
• Low risk. • Little or no correlation to stock or bond markets.	• Low risk. • High degree of capital stability.	Risk similar to Balanced Fund but less than average foreign balanced mandate.	Risk higher than the Global Fund of Funds.
• Risk-averse 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.	• 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.	Investors: • seeking to invest in global equities 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. • that do not have the minimum required to invest directly in the Orbis Global Equity Fund.
Low income yield.	High income yield.	Low income yield.	Low income yield.
Distribute bi-annually.	Distribute monthly.	None.	Annually if applicable.
Does not comply.	Complies.	Does not comply.	Does not comply.
Fixed fee of 1.0% (excl. VAT) per annum, plus 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 0.25% (excluding VAT) per annum.	No fee. The underlying funds, however, have their own fee structure.	No fee. The underlying fund, however, has its own fee structure.
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.	R25 000 lump sum. No debit orders are permitted.
Stephen Mildenhall	Michael Moyle	Stephen Mildenhall (William Gray is the Portfolio Manager of the underlying Orbis funds.)	Stephen Mildenhall (William Gray is the Portfolio Manager of the Orbis Global Equity Fund.)

INTELLIGENT INVESTING