Q2

30 June 2006

Quarterly Commentary

ALLAN GRAY

INTELLIGENT INVESTING

Inside this issue

Front cover (top left to right): Jack Mitchell, Ian Liddle and Mbakumua Hengari

ALLAN GRAY
INTELLIGENT INVESTING

Allan Gray Limited Registration Number 1992/006778/06 Granger Bay Court Beach Road V&A Waterfront Cape Town 8001
P O Box 51318 V&A Waterfront Cape Town 8002 South Africa Tel 021 415 2300 Fax 021 415 2400
www.allangray.co.za info@allangray.co.za

ALLAN GRAY INVESTOR SERVICES
Client Service Line 0860 000 654 / +27 (0)21 415 2301
Client Service Email info@allangray.co.za
Client/IFA Service Facsimile 0860 000 655 / +27 (0)21 415 2492
IFA Service Line 0860 000 653 / +27 (0)21 415 2690
IFA Email ifa@allangray.co.za

Greg Fury, Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer

Equities have outperformed all other asset classes over a long period of time, but have done so at the price of more volatility – risk of capital loss. Because share prices do not move upward in an uninterrupted line, it is no surprise that the line has been bumpier over the last quarter. There is a positive side to this volatility though, as without short-term irrationality fundamental investors like us would have few opportunities to generate market-beating performance. Another positive is that it serves as a reminder to investors that although when one climbs the highest loop of the roller coaster, the dip is often out of sight, that doesn't mean that it is not around the corner.

Yet despite the bumpy ride, I remind readers that the ALSI is still over 21 000 points and very much the same as it was a quarter ago. I would also remind you that for a number of quarters we have been advocating caution and the message in this edition of the Quarterly Commentary is no different. In fact we think it should be reassuring that nothing much has changed at Allan Gray over the last quarter. Our long-term views, investment philosophy and process all remain the same.

What has this meant in terms of performance? Our clients' portfolios have broadly had a flat quarter but returns over the past year have been 58.0% for domestic equity investors and 38.7% for global balanced investors. While these are well ahead of their benchmarks, which returned 53.9% and 27.0% respectively, they are also ahead of our long-term track record and our expectations for the future.

This quarter, Jack Mitchell, with the aide of some charts, shares his observations on the influencing forces at play in the market in **INVESTMENT PERSPECTIVE**. In **INVESTMENT COMMENTARY** Ian Liddle explains the importance of our role in influencing and acting as a custodian of share capital in issue and how this role has the potential to enhance or dilute value for our investors. In the **ORBIS UPDATE**, Sean Peché puts short-term volatility in perspective with regard to our offshore equity proposition. The Orbis Global Equity Fund, having delivered significant long-term returns to investors is used as an example to demonstrate how investment performance and alpha is rarely generated in straight lines and how patience is rewarded. We believe that this message applies just as much to Allan Gray as it does to its clients.

In a low inflation environment the risk of pensioners depleting their retirement capital prematurely by withdrawing too high an income is increasing. In the **RETAIL UPDATE**, Johan de Lange explains the importance of the choice of income level at both inception and on each anniversary of an Allan Gray Living Annuity so that the most prudent income level particular to each individual is selected. On the occasion of Allan Gray Namibia's 10-year anniversary, it is appropriate to give an update on our business in Namibia, reflect on achievements to date and to thank our Namibian investors for their ongoing support in the **NAMIBIA UPDATE**.

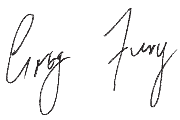
As at 1 July 2006 there was a change in the named portfolio managers of the Allan Gray Balanced and Allan Gray Equity funds to reflect the names of all of our balanced and equity portfolio managers. This has been done to more accurately reflect the reality of our investment process, namely that these funds have been managed to, over time, reflect the average of our consolidated manager portfolios. This is consistent with our principle that all clients with similar mandates should receive similar portfolios and performance, whether they are institutional or retail.

Two further changes are occasioned by a change in responsibilities at Allan Gray and affect the Allan Gray Optimal Fund and Allan Gray Bond Fund. Delphine Govender will be replacing Stephen Mildenhall as manager of the Allan Gray Optimal Fund and Andrew Lapping will replace Jack Mitchell in managing the Allan Gray Bond Fund jointly with Sandy McGregor.

Delphine is a director of Allan Gray Limited. She joined the firm in July 2001, was promoted to the position of portfolio manager in January 2005 and has been responsible for the firm's relative and optimal portfolios since then. The appointment as manager of the Allan Gray Optimal Fund is a confirmation of the role she has in effect been fulfilling since January 2005. Andrew has been with the firm since 2001 and has been working closely with Jack and Sandy on fixed interest management for several months.

I hope you enjoy this issue of our Quarterly Commentary.

Kind regards



Greg Fury

Jack Mitchell, Chairman of Grayprop and Allan Gray Unit Trust Management Limited, Director of Allan Gray Limited

The outlook for shares - is the best behind us?

EXECUTIVE SUMMARY All the signs in South Africa and abroad have for some time pointed to rising risk in equities, as the text and graphs in this article illustrate. We are also reminded that, even if the signals on the domestic front are ignored, the evidence is that major share slumps on the international front – where there are strong warning signals - tend to come home to roost in South Africa.

The FTSE/JSE All Share Index, adjusted for inflation, has appreciated from 60 in 2003 to 160 as at 7 June 2006. The real return has been in excess of 30% per annum. Study **Graph 1** below which captures the inflation adjusted index from inception. Note the largest two previous upward moves i.e. from 1961 to 1969 (marked AB) and from 1977 to 1980 (marked CD). While in magnitude the current appreciation (marked EF) still falls short of the original move in the 60s, it appears similar in dimension to the next move in the late 70s. On the face of it, one should be cautious of equities at these elevated levels.

What value do shares offer at present in terms of yield?

Graph 2 on page 3 shows the earnings yield on shares compared to the long government bond yield. Insofar as earnings are post tax and bond yields are shown pre-tax as well as the historical fact that earnings have grown over time, shares, at present, look relatively cheap by comparison. But it must be noted that both earnings yields and interest rates are currently at low levels, suggesting an environment of high risk for all investment categories.

Talking of interest rates (or the cost of capital), it can be seen in **Graph 3** on page 3, that after falling for more than two years, rates have recently begun to rise. Look back over the history focusing specifically on the shaded areas denoting periods of rising rates. Almost all the significant drops in share values have occurred during periods of rising rates and more specifically, it was often the onset of rising rates or even the threat thereof (1987) that was particularly harmful to share prices. The current monetary background presents a risky environment for shares.

We are all aware that profits are cyclical. What about the current level of earnings?

Graph 4, on page 4, depicts the historical earnings for the FTSE/JSE All Share Index, once again adjusted for inflation. Earnings are currently at very high levels reminiscent of the 1980 boom which, one might remember, was also based on high metal prices. This perspective once again suggests that profits are likely to fall at some time in the future, accentuating the equity risk ahead.

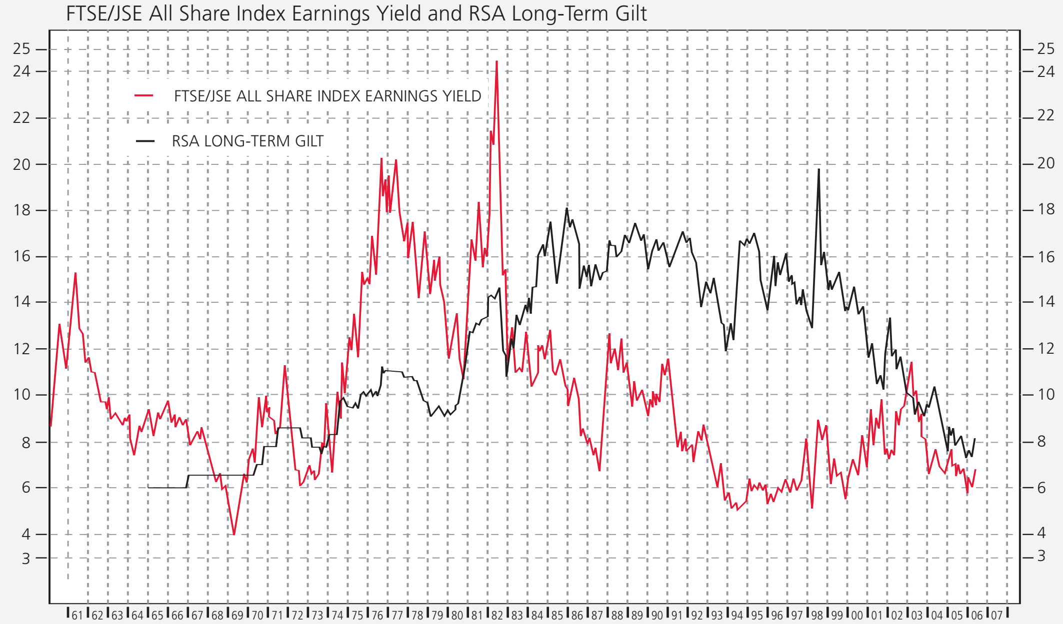
GRAPH 1

FTSE/JSE All Share Index (adjusted for inflation)

Source: Igraph

GRAPH 2

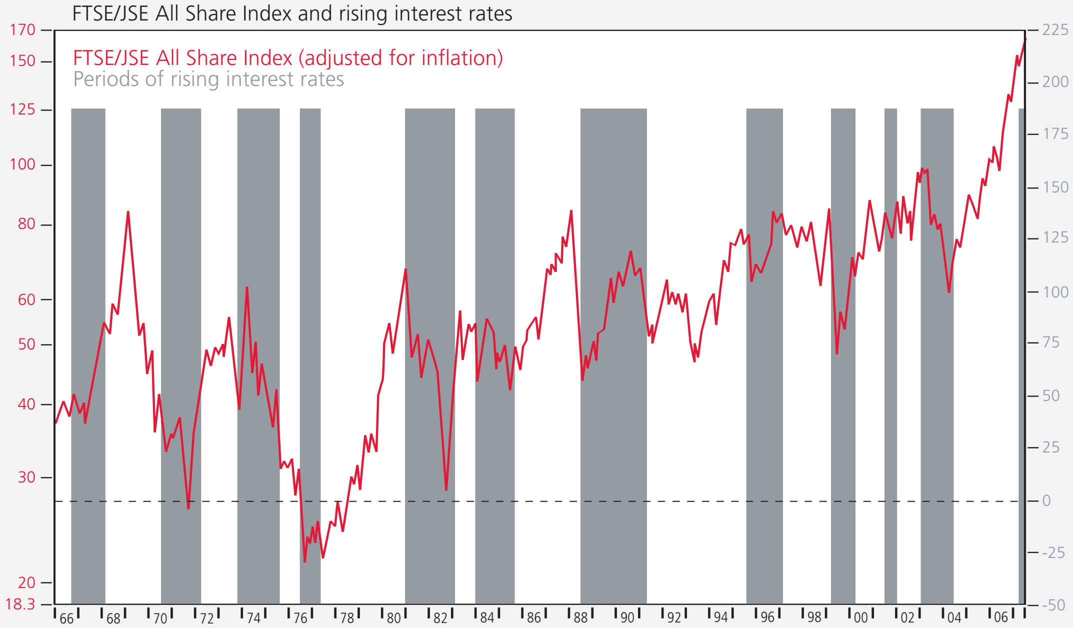
FTSE/JSE All Share Index Earnings Yield and RSA Long-Term Gilt



Source: Igraph

GRAPH 3

FTSE/JSE All Share Index and rising interest rates



Source: Igraph

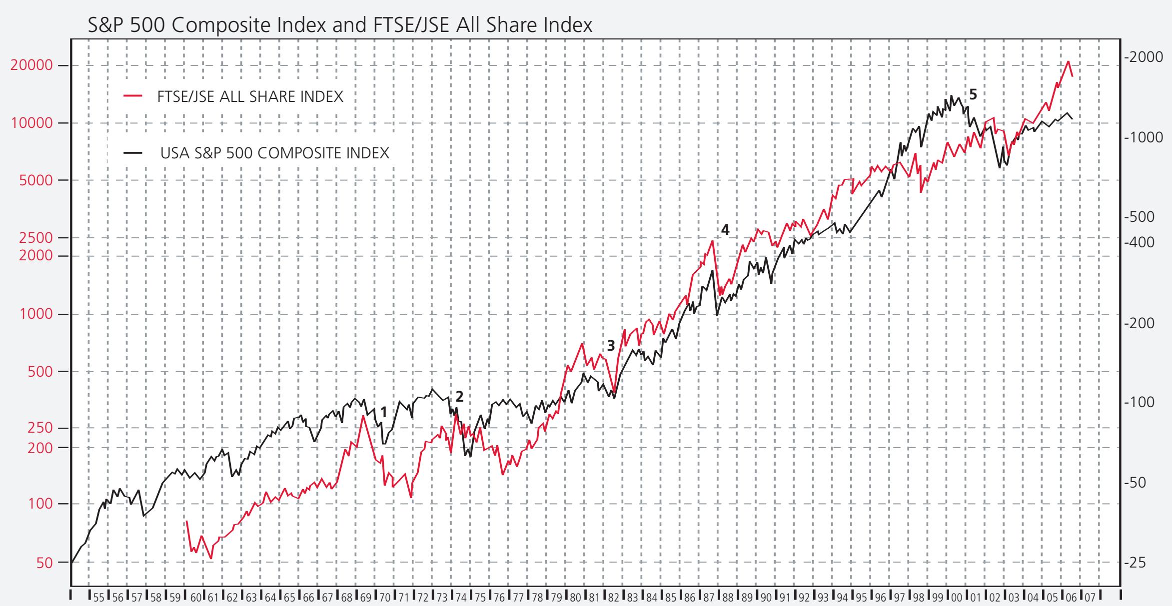
GRAPH 4

Source: Igraph

What about the influence of international stockmarkets on domestic shares?

Graph 5 below shows the broad S&P Index in the United States of America as a background to our domestic FTSE/JSE All Share Index. While the moves are often disparate, major share slumps abroad tend to come home to roost in South Africa.

GRAPH 5



Source: Igraph

In particular, we draw your attention to the following periods of extreme weakness:

1. 1969 / 1970
2. 1973 / 1974
3. 1981 / 1982
4. 1987
5. 2000 / 2002

The conclusion may be drawn that any major sell-off in international shares will be felt at home.

Are shares currently vulnerable abroad?

It might be remembered from previous commentaries that we suspect that the secular bull market which commenced in the early 1980s topped out in 2000. The subsequent sell-off and rally is not untypical of bear markets. Most recent bear markets namely the 1930s and 1970s periods were marked by sharp drops interspersed with extensive and impressive rallies, often leading investors to believe the bull market had re-emerged. History teaches us to be sceptical that a prolonged bull market of 20 years could be fully corrected by a bear market lasting only three years.

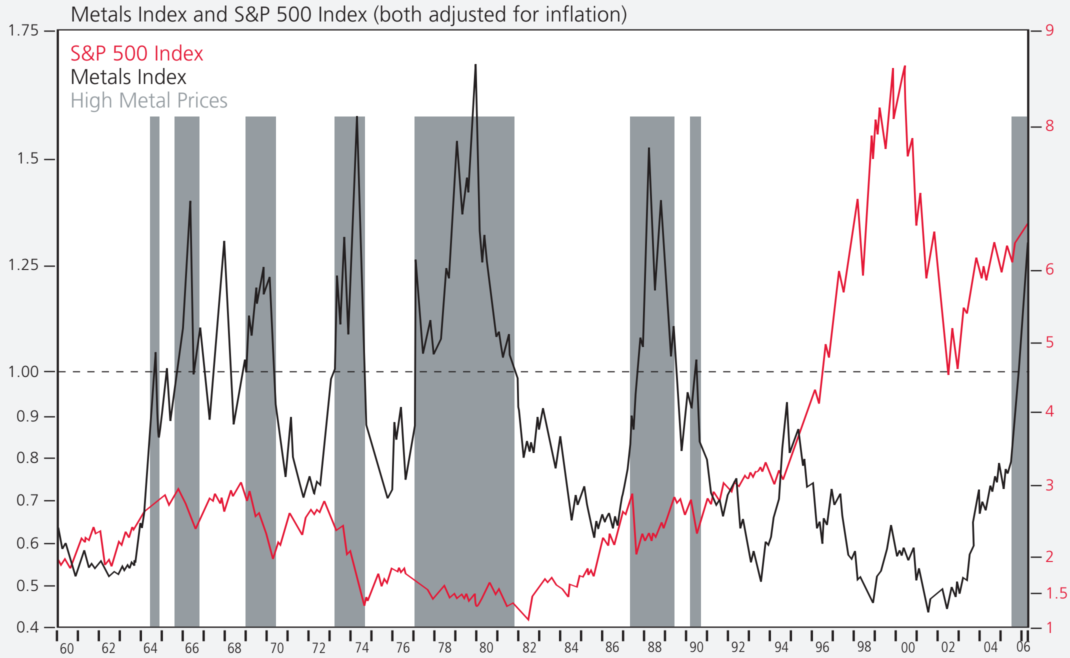
The cost of capital, or prevailing interest rate, is the most dominant factor influencing the environment for shares. In turn, interest rates are dependent upon the rates of inflation. Although service components have become economically very significant, commodity prices are still a good proxy for the trend in inflation.

Peruse **Graph 6** below. Note that share prices often experience weakness when metal prices, once again adjusted for inflation, rise above a certain level. This level we have marked in at 1.00 on the graph. It was penetrated earlier this year, presenting a strong warning signal. This is a risky climate for US and international shares.

Conclusion

Nobody knows how stockmarkets are going to perform. Nevertheless, signs exist that, after strong rallies, the risks are rising on world markets. This is also a threatening background to the South African stockmarket. While we are cautious overall about share returns for the foreseeable future we would hope to augment these returns, as has historically been the case, through careful share selection.

GRAPH 6



Source: Igraph

Ian Liddle, Portfolio Manager, Allan Gray Limited

Share issues and buybacks: when do they make sense?

EXECUTIVE SUMMARY Both new share issues and share buybacks can create value for shareholders, if they are done at the right price. Because Allan Gray invests in companies when the share price is below its fair value, we find ourselves to be natural opponents of new share issues and supporters of share buybacks. We believe that our active participation in the control over a company's share capital is one of the important contributors to our success as investment managers.

The value of a share in a company is equal to the total value of the company divided by the total number of shares in issue. This is an obvious observation but it is worth making because company managers, being human after all, like to manage a big company – and this desire can sometimes run contrary to the best interests of a shareholder in the company. We encourage company managers to maximise the value of each share in the company. This is not necessarily the same as maximising the total value of the company. Effective control over the number of shares in issue can be just as important as the management of the business itself.

Issuing new shares at a price below their fair value can be prejudicial to existing shareholders. In the illustrative **Table 1** below, Company A issues 10 new shares at R1.20 per share, but the fair value of each pre-existing share was R2. After the share issue, the fair value of each share falls to R1.93. The managers have permanently 'vapourised' 3.5% of the pre-existing shareholders' capital, although they are now in charge of a bigger company!

Allan Gray invests in shares when they can be bought at a discount to our estimate of their fair value, in other words when the share price is below the fair value. By definition therefore, we are natural opponents of a new share issue by any company in which we are invested, unless such issue is justified by exceptional circumstances. We advise our clients to vote against the resolutions – often proposed at companies' annual general meetings – which place the unissued share capital under the control of the directors or grant the directors the authority to issue shares for cash. We feel that these resolutions are too broad. If managers wish to issue new shares, ideally they should win the support of shareholders to do so on the merits of the specific opportunity at hand rather than on the basis of a blanket pre-approval.

"Effective control over the number of shares in issue can be just as important as the management of the business itself."

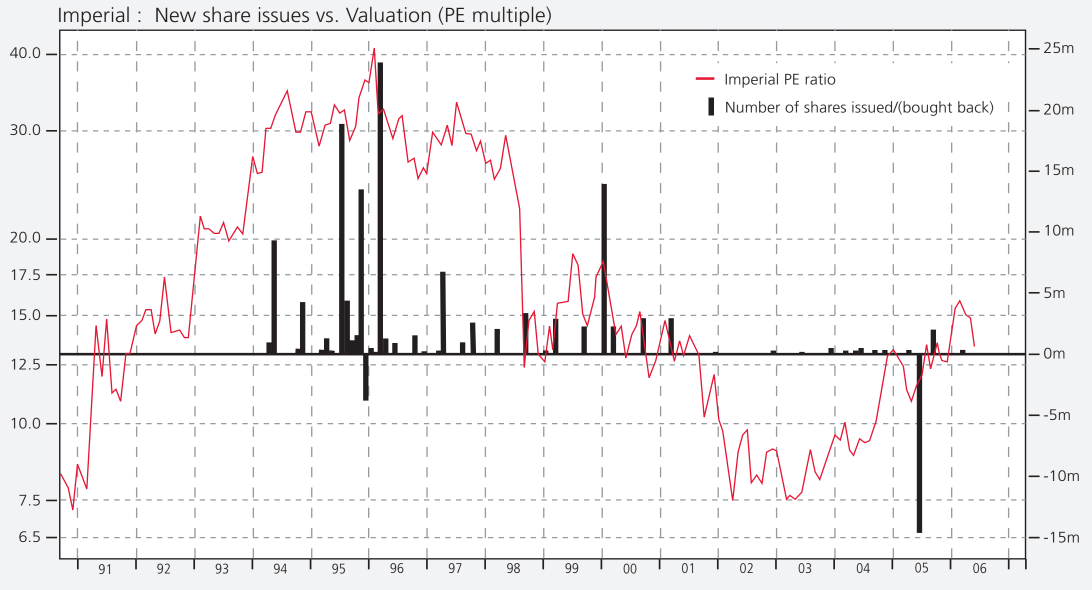
It can sometimes make sense for a company to issue new shares at a discount to their fair value – provided the proceeds will, in turn, be used to buy assets at an even greater discount to their own underlying (intrinsic) value.

TABLE 1

Company A - value dilution

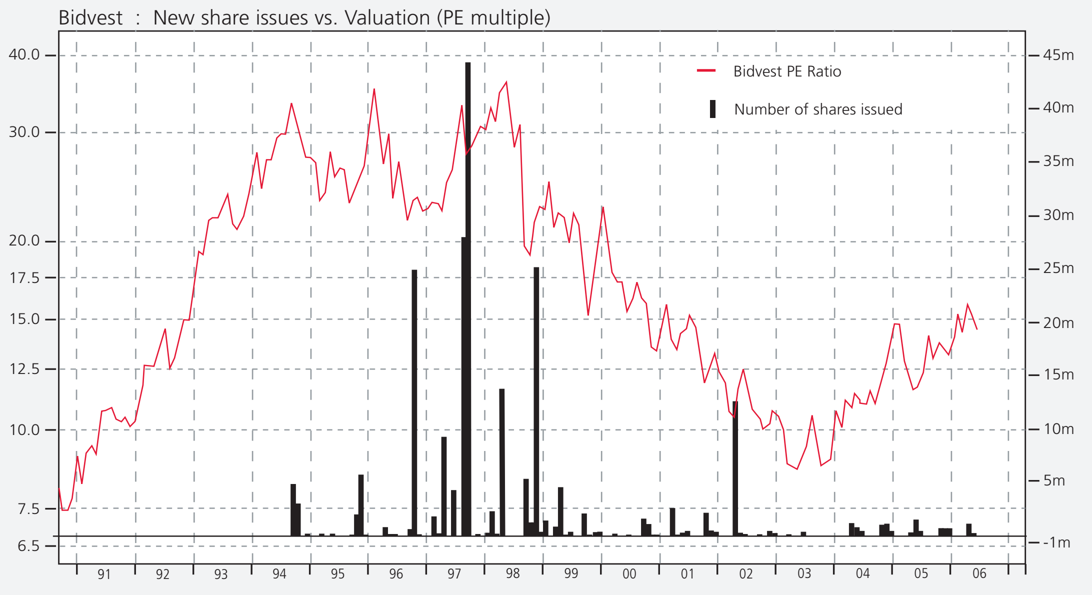
	Company fair value	Number of shares	Fair value per share
Pre-existing	200	100	2.00
Shares issued for cash	12	10	1.20
After share issue	212	110	1.93

GRAPH 1



Source: Igraph

GRAPH 2



Source: Igraph

Of course, any manager proposing a new share issue will claim this to be the case. We tend to be more sceptical, but there are rare occasions on which we will support a new share issue. An example of this is MTN's proposed acquisition of Investcom for shares and cash.

What if a share is trading above its fair value? Most importantly, we will hopefully not own it. But it does present astute company managers with an opportunity to create real value for existing shareholders by issuing new shares at a premium to their true worth. **Graphs 1** and **2** on page 7 show how the managers of Imperial and Bidvest took advantage of the very high valuations placed on their shares in the mid-90s by issuing new shares.

"Given that we invest only in shares at a discount to their fair value, we are natural supporters of share buyback programmes, ..."

Similarly, private businesses will list and sell their shares on the stock exchange when valuations are high. In the 1997/8 listings boom there were over 60 new listings in the five quarters before the crash. The increasing valuations on the JSE have attracted over 25 new listings in the last three quarters. This should serve as a further warning to investors to reduce their return expectations from the JSE at current levels.

If Company A in my first illustration were to buy back its own shares at R1.20 per share, instead of issuing new shares, it would create value for shareholders, despite becoming a smaller company as shown in **Table 2** below.

Given that we invest only in shares at a discount to their fair value, we are natural supporters of share buyback programmes, and usually advise our clients to vote in favour of resolutions granting directors a general authority to buy back the company's own shares.

The ability to buy back shares differs from company to company depending on the amount of free cash remaining after company profits have been used to pay dividends and invest in assets required to keep the company in business and remain competitive. If free cash does remain, managers may be tempted to invest in new projects or make acquisitions, but these should always be evaluated against the buying back of the

TABLE 2

Company A - share buyback

	Company fair value	Number of shares	Fair value per share
Pre-existing	200	100	2.00
Shares bought back	-12	-10	1.20
After share buyback	188	90	2.09

company's own shares. After all, buying one's own shares means investing in a company that one knows very well and with outstanding management (of course!). This is much less risky than an acquisition of a business one doesn't know well.

"... buying one's own shares means investing in a company that one knows very well ...."

Remgro (an investment holding company) is one of our clients' major investments that has been making judicious use of share buybacks to enhance shareholder value. Remgro has repurchased close to 9% of its issued share capital over the last four years at an average price of R79 per share. This compares favourably with the current price of R134 per share.

This simple value creation mechanism can be exploited for as long as Remgro trades at a discount to the intrinsic value of its underlying investments, as it does today. If Remgro buys back only 3% of its shares every year at a 20% discount to fair value, this will augment real returns to shareholders by 0.6% p.a. (before tax effects). Although it sounds low, this return enhancement is not to be sniffed at in the context of today's much lower return expectations from the JSE, and it does call into question whether the current 18% discount to Remgro's intrinsic value is justified.

We believe that one of the important contributors to our success as investment managers is our acting as a watchman over the issued share capital of companies in which we are invested, and we encourage the managers of these companies to adopt a similar attitude to the share capital under their stewardship.

Sean Peché, Investment Analyst, Orbis

Long-term investors rewarded offshore

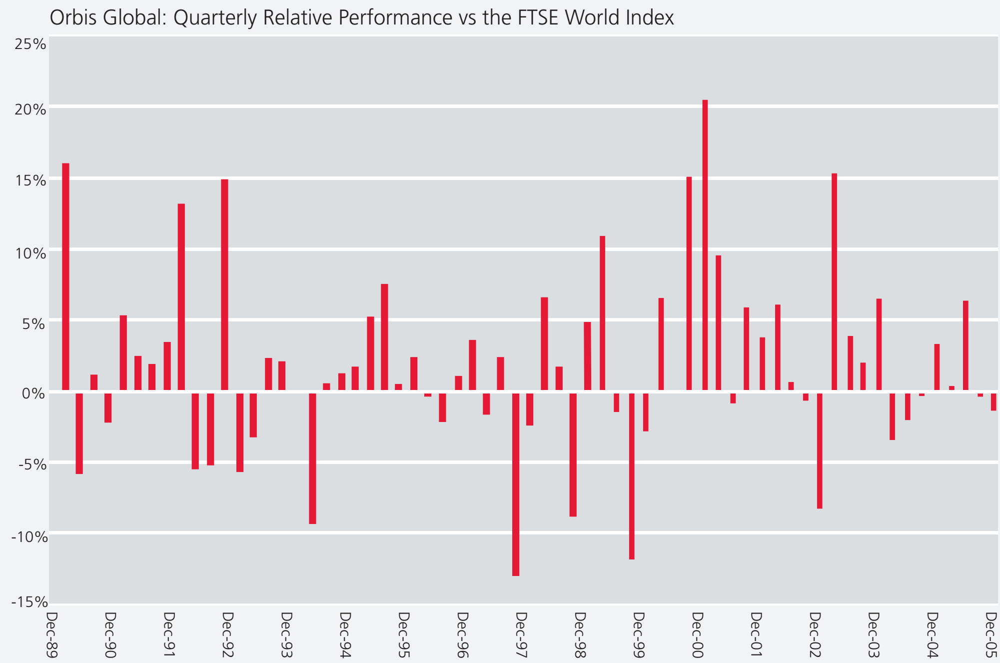
EXECUTIVE SUMMARY The contrarian investment philosophy of the Orbis Global Equity Fund has enabled the Fund to achieve a compounded increase of 14.8% per annum, net of all fees, compared with the FTSE World Index of 7.5% per annum. This has not been accomplished without some testing periods along the way. However, long-term investors who held their nerve have clearly been rewarded, as this article illustrates.

In April 2006, the share price of the Orbis Global Equity Fund surpassed the $100 milestone for the first time since launch, a 10-fold increase in a little over 16 years. This is equivalent to compound performance of 14.8% per annum and outperformance, 'alpha', when compared with the FTSE World Index (FTWI) of 7.5% per annum, net of all fees. The Fund has achieved these returns through the consistent and disciplined application of our contrarian investment philosophy.

However, at this milestone we should remind investors that performance and alpha are rarely generated in straight lines. Whilst long-term investors clearly have been rewarded, there have been some testing periods for them along the way. To illustrate this, **Graph 1** below plots the quarterly relative performance of the Orbis Global Equity Fund (return of the Fund minus the return of the FTWI) since inception. What the graph shows is that there have been nine quarters in the Fund's 65-quarter history when the Fund underperformed the FTWI by 5% or more in a single quarter. To fund managers who are benchmark focused, such short-term relative underperformance would be nothing short of disastrous. Whilst we clearly don't enjoy such periods, we recognize that, as contrarian investors, buying (and often selling) too early are 'risks' we face, and short-term underperformance is a consequence of those risks. If we are not prepared to withstand underperformance of such magnitude, we could not reasonably expect to enjoy periods of significant outperformance.

Whilst quarterly performance is interesting, and a data point focused on by many market participants, how important is it, and what should investors do, when the Fund experiences another period of short-term underperformance? In an effort to answer these questions, we remind investors that the Fund invests with a five-year horizon and encourage them to invest in the Fund with a similar time horizon. To support this we present **Table 1** on page 11.

GRAPH 1



Source: Orbis

TABLE 1

Putting short-term performance in context

		Compound Annual Return (5 years)		
Quarter ended	**Quarterly relative underperformance (A)**	**Orbis Global Equity (B)**	**FTWI (C)**	**Global Equity & FTWI (D)**
30/06/1990	-5.9%	10.6%	8.2%	7.0%
30/06/1992	-5.5%	14.6%	12.8%	11.6%
30/09/1992	-5.2%	18.5%	15.7%	14.5%
31/03/1993	-5.6%	13.2%	15.2%	14.0%
30/06/1994	-9.4%	15.5%	15.9%	13.7%
31/12/1997	-12.9%	6.7%	-3.4%	-6.1%
31/12/1998	-8.9%	15.5%	1.6%	0.1%
31/12/1999	-11.7%	12.4%	-0.6%	-2.7%
31/03/2003	-8.3%	27.2%	20.9%	17.5%

Source: Orbis

Column A shows the quarterly relative performance for all nine (out of 65) quarters where the Fund underperformed the FTWI by 5% or more in a single quarter. Column B illustrates the compound annual absolute return investors would have enjoyed, had they invested at the beginning of each of those underperforming quarters, but remained invested for five years or, in the most recent example, until the end of March 2006. Column C reflects the compound absolute return of the Index over the same periods and column D shows the compound absolute returns that would have been experienced where the investors panic, having seen the underperformance of their first invested quarter, sell the Fund, and invest the proceeds in the Index for the remaining period.

What is interesting is that investors would have received double digit compound absolute returns in all but one of the nine periods, and outperformed the Index in seven of the nine periods. In contrast, investors in the Index would have experienced negative absolute returns in two of the periods. Investors who panicked and sold after only one quarter, investing their proceeds in the Index, fared worse than the Fund in eight of the nine periods. This highlights the importance of investors in the Orbis Global Equity Fund having a long-term investment time horizon and 'staying the course' during tough times. In the current environment of increased global volatility, investors would do well to keep this in mind.


Mbakumua Hengari, Managing Director and Brown Amuenje, Research Analyst, Allan Gray Namibia

Allan Gray Namibia; Looking back over 10 years

EXECUTIVE SUMMARY Established in 1996 Allan Gray Namibia is now in its 10th year of operation. This article highlights the operating history of the company. The success of the company is demonstrated by the growth in its client base, assets under management and the increase in staff members. As at 31 March 2006, Allan Gray Namibia had approximately N$9 billion in assets under management with 35 clients compared to N$906 million of assets under management and only two clients when it started out.

History Allan Gray's presence in Namibia can be traced back to 1984 when the firm acquired its first pension fund client. The assets were managed from South Africa and to date this client remains invested with us. Our founder, Allan W B Gray, used to fly to Namibia specifically to provide report backs to this client in the early years. In June 1996, the company received a license to operate an asset management business in Namibia which was the prelude to the opening of an office and significant growth of new business during the same and subsequent years. Allan Gray Namibia specialises in institutional management via segregated accounts and a pooled institutional investment trust. While there are a number of individual Namibian investors in Allan Gray's range of South African unit trusts and Orbis' international mutual funds, the firm does not offer Namibian unit trusts. The company remains wholly owned by Allan Gray Limited, but on implementation of the BEE initiative announced last year, Allan Gray Namibia will have 25% local ownership.

The objective of the business, as with the Allan Gray Group, is to excel in investment management on behalf of our clients. Investment management is our only business and we strive to be not the largest or the most profitable, but the best performing asset manager in Namibia.

Growth in size and profitability is a product of this investment success not the direct objective and today, Allan Gray Namibia's exceptional performance track record has led to it enjoying significant market share.

In addition to delivering superior investment performance for our clients, Allan Gray Namibia has three objectives:

- To develop a viable Namibian asset management business
- To develop investment skills in Namibia
- To contribute towards the development of the Namibian investment management industry

Allan Gray Namibia's objective is augmented by the resources of Allan Gray in South Africa and through continual training and mentorship received from South African colleagues.

Like our parent company, Allan Gray Namibia invests in equities when they are priced at a meaningful discount to their underlying business value. The expected four year total return is compared first and foremost with the expected return on bonds and cash before any relative comparison with other equities. Asset allocation within our Namibian portfolios is a bottom-up process and we do not follow the stockmarket or even try to predict economic and political trends.

Performance The Allan Gray Namibia's Global Balanced Portfolio has returned 23.01% for our clients over the last 10 years. By way of comparison, the mean pension fund manager over the same period returned 15.9% for its clients.

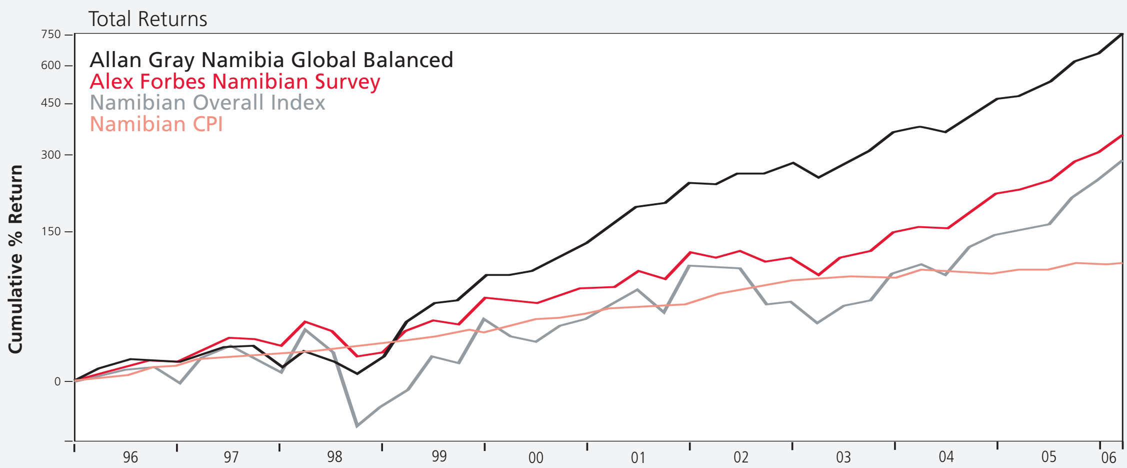
TABLE 1

Key milestones of Allan Gray Namibia

Year	Highlight	Assets under management	Client	Staff
1984	First client, managed from South Africa		1	
1996	Office opened & gained significant client	N$ 906 million	2	2
1999	Allan Gray Namibia Investment Trust was launched	N$ 1.8 billion	6	3
2001	Five year celebration	N$ 3.6 billion	6	5
2006	10-year celebration	N$ 9.0 billion	48	7

Source: Allan Gray Limited

GRAPH 1



PRESENT VALUE OF N$100 000 INVESTED ON 01/01/1996 TO 31/03/2006

N$ 832 889	N$ 451 953	N$ 391 410	N$ 206 587

ANNUALISED RETURNS FROM : 01/01/1996 TO 31/03/2006

23%	15.9%	14.2%	7.3%

Source: Igraph

As a result of this 7.1% outperformance, N$100 000 invested with Allan Gray Namibia 10 years ago (with income reinvested) is worth over N$832 000 today. If the same amount had been invested with the mean pension fund manager the value would have been N$451 953.

Similarly, the initial investment would have been N$391 410 if it had kept pace with the Namibian Stock Exchange (NSX) Overall Index or N$206 587 with inflation (see **Graph 1** above).

Namibian Team In line with our objective of building a viable Namibian business and developing investment skills, a number of new staff members have been appointed during the last two years. These include the appointment of Mbakumua Hengari as Managing Director of Allan Gray Namibia and Brown Amuenje who was appointed in 2004 as a research analyst responsible for analysing and recommending Namibian investments. There were also internal promotions and structural changes that resulted in the creation of a fully fledged portfolio administration department. Gwynneth Rukoro was promoted to the position of manager and she is assisted by Bianca Bush and Annerea van Taak in this department which is also responsible for trading.

Other staff members are Elaine Louw and Linea Egumbo. Elaine is responsible for reception, office administration and secretarial services while Linea is the office assistant.

Allan Gray Namibia continues to receive mentoring and guidance from Allan Gray Limited in all aspects of the business through an extensive service level agreement that exists between the two entities.

Bursary Scheme & Social Responsibility The Allan Gray Namibia bursary scheme was launched in 1999 with the objective of providing comprehensive financial assistance to needy students in the field of commerce. Since its launch, Allan Gray Namibia has funded bursaries with donations of over N$800 000, enabling a number of students to complete their education at Namibian and South African universities with full financial support. In addition to funding, we further develop the students by providing part-time employment.

Conclusion We would like to thank our clients for their loyal support and we continue to strive to deliver an exceptional investment management service in Namibia to develop our Namibian personnel. We look forward to building on the past to create another successful 10 years in Namibia and beyond.

Johan De Lange, Director, Allan Gray Investor Services

Living annuities: What income level is sustainable for the rest of your life?

Investment linked living annuities were introduced as an alternative to guaranteed annuities (pensions). At the time, guaranteed annuities often offered poor value for money, little flexibility and when the annuitant died, so did the pension. However, flexibility without control can have unintended consequences and the inherent flexibility of the new living annuities brought two new risks to bear:

1. In giving investors the flexibility to select the income level they preferred, many investors could, and indeed many did, draw a pension that exceeded the return on the investment – causing pensioners to run out of money before they died.
2. More dependence on the underlying investments: If markets fall or inappropriate investments are made, it is less likely that your pension will beat inflation or that your capital will last until the day you die.

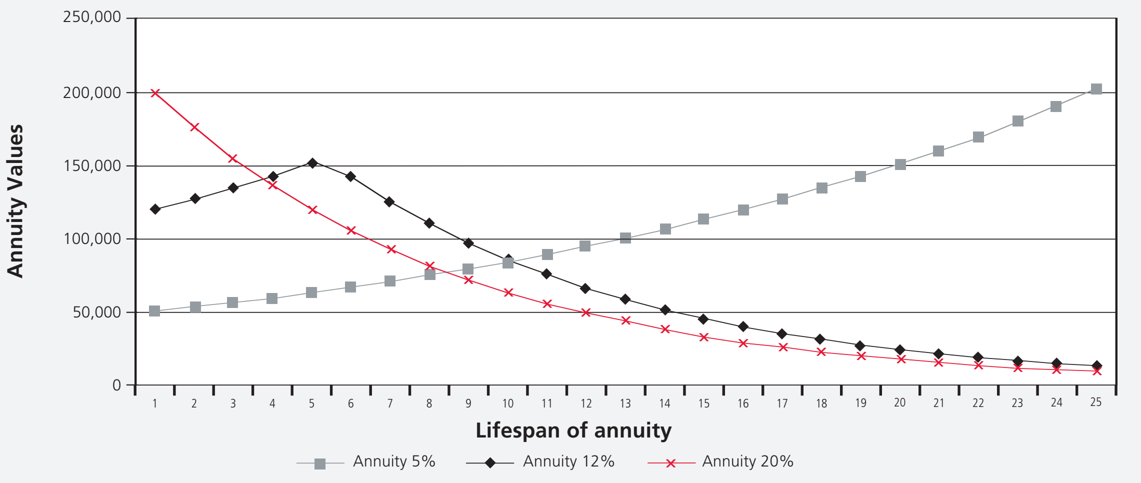
In the nineties the South African Revenue Service (SARS) became concerned about the above risks and that, as a result of high monthly withdrawals (as a percentage of the capital) and volatile underlying investments, pensioners with living annuities would not have a sustainable income, and would become dependent on a state pension. They therefore issued Practice Note RF1/96. This practice note states that Inland Revenue had, "in principle, no objection to flexible annuity arrangements …" but that "the purpose of a compulsory annuity is to provide a life annuity for a member …". The note proceeded to set out parameters within which all flexible living annuity arrangements must operate. One of these parameters was that "income levels must be based on a minimum of five (5) per cent simple interest rate of return calculation and a maximum of twenty (20) per cent simple interest rate of return calculation, and must at all times produce a life annuity." In so doing, SARS instructed the life assurance and linked investment product industries to ensure that investment-linked living annuities provide pensions that are sustainable throughout a pensioner's life.

Almost 10 years have passed since this note was issued, and inflation levels and (as a result) expected nominal investment returns have gradually reduced so that they are now substantially less than the high double-digit figures of 1996. However, many flexible annuities continue to be issued at income levels close to 20%. SARS issued Addendum A to RF1/96 in June 2004, which emphasised the requirement that a flexible annuity must at all times produce a life annuity. However, the practice of issuing flexible annuities at very high income levels has continued. It was therefore considered in the industry that it would be appropriate that the income level parameters of RF1/96 be adjusted to reflect investment return and inflation level realities. After several submissions had been made to SARS by various industry organisations, SARS issued a draft addendum B to RF1/96 proposing reduced income levels of 3% - 12%. This addendum has not been finally signed off by SARS, but SARS has stated from the start that the purpose of a compulsory annuity is to provide a life annuity for a member or an annuity for dependants or nominees of deceased members. They have also made it clear that if an annuity is provided that is not a life annuity (for the life of the annuitant), then the fund that purchased such an annuity could effectively lose its tax approved status.

Graph 1 on page 15 shows an amount of an annual annuity received by an annuitant given an initially selected drawdown percentage of 5%, 12% and 20% of their initial R1m capital value. An underlying investment return of 10% is assumed. Inflation is assumed to be 6% and an increase of 6% is applied to the initial drawdown percentage selected on an annual basis. Due to the fact that the maximum drawdown percentage permitted is 20%, this increase of 6% is not applied (and where necessary the annuity is in fact reduced) to ensure that annual withdrawal rates do not exceed 20% of the opening asset balance in each year. As the graph illustrates, when the drawdown percentage selected is 20%, the nominal annuity amount reduces quite significantly from R200 000 in year 1, to less than half of this by year 7 and by year 12 is less than a quarter of its initial value. For an annuity of 12%, by year 8, the nominal annuity value is reducing each year and is less than the initial R120 000. Of the three scenarios illustrated, only the annuity values for a 5% drawdown percentage (+ 6% annual increases) are sustainable under the conditions assumed.

The appropriate income rate to be applied will therefore depend on the individual annuitant's probable life expectancy. One of the ways of dealing with the responsibility placed on intermediaries, administrators and trustees by RF1/96, is to base drawdown rates on the equivalent level of income that can be obtained from a guaranteed annuity for the same client, (with some leeway for greater flexibility). This would suggest that the drawdown should vary based on the client's age, and their state of health. These limits should be monitored, and amended in line with changes in guaranteed annuity rates and the annuitant's circumstances.

GRAPH 1



Source: Allan Gray Limited

Under FAIS legislation, an intermediary who is advising trustees is expected to comprehensively inform the trustees of the implications of RF1/96, and to advise them to ensure where members are permitted in the fund rules to retire with flexible annuities, that the product providers from which such annuities are purchased have measures in place to ensure that the principle of an annuity for life is followed. An intermediary who is advising a retiree regarding the appropriate annuity/annuities for his/her retirement should explain the implications of RF1/96 to the client and what limitations on the income drawdowns exist. It is not good advice to increase an income level to that which may result in an annuity that is not considered by SARS to be an annuity for life.

Allan Gray has taken account of the provisions of draft Addendum B to RF1/96 and has urged both investors and Financial Advisers to carefully consider the choice of income level. This warning is repeated to new clients at inception and to all clients on each anniversary of their Allan Gray Living Annuity so that the most prudent and sustainable income level particular to each individual is selected.

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	56.5	47.3	9.2
2006 (to 30.06)	15.7	18.8	-3.1
Annualised to 30.6.06			
From 1.7.2005 (1 year)	57.0	53.9	3.1
From 1.7.2003 (3 years)	45.7	40.5	5.2
From 1.7.2001 (5 years)	33.6	21.9	11.7
From 1.7.1996 (10 years)	27.4	15.2	12.2
Since 1.1.78	31.5	22.0	9.5
Since 15.6.74	29.8	18.8	11.0
Average outperformance			11.0
No. of calendar years outperformed			25
No. of calendar years underperformed			6

*NOTE: 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. LISTED PROPERTY INCLUDED FROM 1 JULY 2002.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 15 JUNE 1974 WOULD HAVE GROWN TO **R42 949 646** BY 30 JUNE 2006. BY COMPARISON, THE RETURNS GENERATED BY THE FTSE/JSE ALL SHARE INDEX OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R2 484 215**.

Allan Gray Limited Global Mandate Total 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	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	40.0	26.9	13.1
2006 (to 30.6)	12.2	9.3	2.9
Annualised to 30.6.06			
From 1.7.2005 (1 year)	38.7	27.0	11.7
From 1.7.2003 (3 years)	32.0	25.2	6.8
From 1.7.2001 (5 years)	24.8	16.6	8.2
From 1.7.1996 (10 years)	24.3	14.6	9.7
Since 1.1.78	24.8	18.4	6.4
Average outperformance			6.4
No. of calendar years outperformed			23
No. of calendar years underperformed			5

*THE RETURN FROM 1 APRIL 2006 IS AN ESTIMATE.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 1 JANUARY 1978 WOULD HAVE GROWN TO **R5 538 310** BY 30 JUNE 2006. THE RETURNS GENERATED BY THE AVERAGE OF THE CONSULTING ACTUARIES SURVEY OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R1 223 483**.

Annualised performance in percent per annum to 30 June 2006

	FIRST QUARTER (unannualised)	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R millions)	INCEPTION DATE
SEGREGATED RETIREMENT FUNDS							
GLOBAL BALANCED MANDATE	2.1	38.7	32.0	24.8	24.8	23,095.0	01.01.78
Mean of Consulting Actuaries Fund Survey *	1.0	27.0	25.2	16.6	18.4		
DOMESTIC BALANCED MANDATE	0.1	41.7	35.7	27.4	25.2	20,492.6	01.01.78
Mean of Alexander Forbes Domestic Manager Watch #	-1.3	35.3	32.9	21.0	19.4		
EQUITY-ONLY MANDATE	1.5	58.0	45.1	32.7	24.2	36,833.5	01.01.90
FTSE/JSE All Share Index	4.9	53.9	40.5	21.9	16.0		
GLOBAL NAMIBIA BALANCED MANDATE	3.0	36.0	30.4	24.1	22.8	1,600.3	01.01.94
Mean of Alexander Forbes Namibia Average Manager *	1.0	32.7	29.1	18.4	15.6		
EQUITY-ONLY RELATIVE MANDATE	3.2	54.7	43.0	26.9	29.0	6,435.7	19.04.00
Resource adjusted FTSE/JSE All Share Index	0.4	47.8	40.0	20.2	20.0		
POOLED RETIREMENT FUNDS							
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	2.4	38.7	31.9	24.4	27.5	8,828.9	01.09.00
Mean of Alexander Forbes Large Manager Watch #	1.0	34.4	30.4	19.1	18.4		
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	0.5	42.2	36.6	-	28.5	5,427.9	01.09.01
Mean of Alexander Forbes Domestic Manager Watch #	-1.3	35.3	32.9	-	22.0		
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	1.7	57.9	45.8	33.3	34.1	4,226.1	01.02.01
FTSE/JSE All Share Index	4.9	53.9	40.5	21.9	20.7		
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	1.8	41.6	33.7	-	32.3	514.5	06.07.01
Mean of Alexander Forbes Domestic Manager Watch #	-1.3	35.3	32.9	-	21.1		
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	1.8	25.3	21.9	-	20.0	432.9	01.12.01
Alexander Forbes Three-Month Deposit Index plus 2%	2.2	9.1	10.0	-	11.6		
ALLAN GRAY LIFE FOREIGN PORTFOLIO	13.5	23.6	13.4	-	3.1	965.0	23.01.02
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	17.0	18.4	11.0	-	-1.6		
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO	2.0	8.4	8.9	-	9.4	98.3	04.12.02
Daily Call Rate of Nedcor Bank Limited	1.4	5.7	6.5	-	7.5		
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	3.9	41.3	-	-	29.6	517.6	01.03.04
Mean of Alexander Forbes Large Manager Watch #	1.0	34.4	-	-	29.4		
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	1.6	20.6	-	-	20.0	737.1	01.05.04
Consumer Price Index plus 3% p.a.	2.4	7.9	-	-	6.8		
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	3.7	23.3	-	-	23.7	297.6	15.07.04
Alexander Forbes Three-Month Deposit Index plus 2%	2.2	9.1	-	-	9.3		
FOREIGN-ONLY (RANDS)							
ORBIS GLOBAL EQUITY FUND (RANDS)	13.7	30.0	21.4	10.7	22.1	7,561.5	01.01.90
FTSE World Index (Rands)	15.5	26.6	16.6	4.2	14.4		
ORBIS JAPAN EQUITY (US$) FUND (RANDS)	5.4	44.1	22.8	8.7	19.4	211.8	12.06.98
Tokyo Stock Price Index (Rands)	8.0	52.0	23.6	5.1	12.7		
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	13.4	23.5	13.6	11.4	18.0	3,337.0	23.05.96
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	17.0	18.4	11.0	5.2	12.4		
UNIT TRUSTS **					Figures below unannualised		
EQUITY FUND (AGEF)	***	52.8	40.9	29.7	1268.6	12,953.2	01.10.98
FTSE/JSE All Share Index		53.9	40.5	21.9	424.5		
BALANCED FUND (AGBF)	***	34.6	31.3	24.4	403.2	14,278.1	01.10.99
Average Prudential Fund (excl. AGBF)		29.8	27.7	17.6	191.0		
STABLE FUND (AGSF)	***	18.9	16.3	15.0	143.3	10,349.2	01.07.00
After-tax return of call deposits plus two percentage points		5.6	6.3	7.6	56.7		
MONEY MARKET FUND (AGMF)	***	6.9	7.8	9.2	55.3	1,137.7	03.07.01
Domestic fixed interest money market unit trust sector (excl. AGMF)		6.8	7.7	9.3	55.9		
ORBIS GLOBAL FUND OF FUNDS (AGGF) ****	***	20.7	-	-	22.4	2,703.7	03.02.04
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		18.2	-	-	24.3		
OPTIMAL FUND	***	8.0	8.2	-	42.8	859.3	01.10.02
Daily call rate of Firstrand Bank Ltd		5.4	6.3	-	31.3		
BOND FUND	***	3.5	-	-	15.8	42.4	01.10.04
BEASSA All Bond Index (total return)		4.0	-	-	16.8		
ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	***	25.3	-	-	40.4	771.7	01.04.05
FTSE World Index (Rands)		26.6	-	-	37.4		

THE RETURN FOR JUNE 2006 IS ESTIMATED FROM VARIOUS INDICES AS THE RELEVANT SURVEY RESULTS HAVE NOT YET BEEN RELEASED.

* THE RETURNS FROM 1 APRIL 2006 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 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	• 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 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.	• 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 (cont.)

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 SOUTH AFRICAN INVESTOR IS REQUIRED TO HAVE EXCHANGE CONTROL APPROVAL IN ORDER TO INVEST.

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.

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.

ALLAN GRAY UNIT TRUSTS - CHARACTERISTICS AND 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 Structure	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 share or 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.
Portfolio Manager(s)	Stephen Mildenhall	Arjen Lugtenburg	Stephen Mildenhall	Sandy McGregor, Andrew Lapping
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.	Seeks to preserve capital over any two-year period with low risk of capital loss.	Risk is 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 who wish to substantially comply with the Prudential Investment Guidelines of the Pension Funds Act (Reg. 28). • Investors seeking a three-year plus investment.	• Risk-averse investors who require a high degree of capital stability. • Investors who are retired or nearing retirement. • Investors who require a regular income. • Investors who seek to preserve capital over any two year period.	• 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*	Distributes bi-annually.	Distributes bi-annually.	Distributes quarterly.	Distributes quarterly.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)**	Does not comply.	Complies.	Complies.	Complies.
Fee Principles • transparency • alignment of investor interests with our own	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, endowment and retail investment platform 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.

* TO THE EXTENT THAT THE TOTAL EXPENSES EXCEED THE INCOME EARNED IN THE FORM OF DIVIDENDS AND INTEREST, THE FUNDS WILL NOT MAKE A DISTRIBUTION.

** 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 shares. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.	A portfolio invested in selected money market instruments providing a high income yield and a high degree of capital stability.	A Rand-denominated balanced portfolio invested in selected FSB registered Orbis funds. The Fund will always hold a minimum 85% of its assets offshore.	A Rand-denominated portfolio feeding directly into the FSB registered Orbis Global Equity Fund.
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.)
Superior returns compared to bank deposits.	Superior money market returns.	Superior long-term returns.	Superior long-term returns.
Low risk and little or no correlation to stock or bond markets.	Low risk of capital loss and 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 shares 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 who would like to invest in an offshore balanced fund. • Those seeking to invest locally in Rands, but benefit from offshore exposure. • Investors wanting to gain exposure to markets and industries that are not necessarily available locally. • Investors who wish to hedge their investments against any Rand depreciation.	• Investors who would like to invest in an offshore global equity fund but do not have the minimum required to invest directly in the Orbis Global Equity Fund. • Those seeking to invest locally in Rands, but benefit from offshore exposure. • Investors wanting to gain exposure to markets and industries that are not necessarily available locally. • Investors who wish to hedge their investments against any Rand depreciation.
Low income yield.	High income yield.	Low income yield.	Low income yield.
Distributes bi-annually.	Distributes daily and pays out monthly.	Distributes annually.	Distributes annually.
Does not comply.	Complies.	Does not comply.	Does not comply.
Fixed fee of 1.0% (excl. VAT) p.a, 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.

Notes

ALLAN GRAY
INTELLIGENT INVESTING