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31 MARCH 2008
QUARTERLY
COMMENTARY

ALLANGRAY
INTELLIGENT INVESTING

INSIDE THIS ISSUE

Greg Fury

COMMENTS FROM THE CHIEF OPERATING OFFICER

This edition of the Quarterly Commentary sports some changes as we try to make it more useful to a wider audience of clients. The most substantial of these is the inclusion of the summarised portfolio holdings of the Allan Gray Balanced Fund, which is a representative portfolio of our 'Global Balanced Mandate' and is a reflection of our views on individual stocks, sectors, asset classes and foreign assets. This has been done principally to give readers an insight into how the investment views expressed in the articles in the Quarterly Commentary translate into the actual client portfolios.

As will be evident from the portfolio summary, our client portfolios are significantly invested in high quality, defensive industrial companies but do not contain any shares in Anglo American or BHP Billiton. This is largely reflective of our view that many companies' earnings (including the large diversified miners) are above normal and that their PE ratings do not reflect this. The extent of the growth in Chinese basic materials demand over the last decade and its impact on commodity prices has surprised us, but our view on these counters reflects the extent to which we believe current earnings are above normal. That China will continue to grow and commodity markets will likely remain firm in the short- to medium-term does not alter the observation that commodity prices are currently very high. We believe the shares are overvalued on a long-term view and thus do not hold them.

Against this background, the outperformance of Anglo American and BHP Billiton is especially significant as these two shares account for 29.8% of the FTSE/JSE All Share Index. This is reflected in the 12-month performance of our key mandates, with the domestic equity composite returning 6.4%, relative to the 11.1% of the FTSE/JSE All Share Index and our Global Balanced composite delivering 9.1% vs. its benchmark of the average manager, which delivered 6.7%. This unusual state of affairs, where our client funds underperformed the index but outperformed the average, shows the effect of the size of Anglo and Billiton and the fact that most fund managers have been underweight in terms of these counters.

While we have avoided diversified miners, our client portfolios do contain significant holdings in gold miners. Against this background, Sandy McGregor, looks at the re-emergence of gold in its traditional role as a store of value and an inflation hedge after 25 years of behaving as a normal commodity. Now, Sandy writes, we are back to a situation uncannily like the 1970s where fears regarding currencies, monetary policy and inflation determined the gold price. He identifies two interlinked concerns that are redirecting investors' attention to gold: first, the erosion of the value of the dollar due to America's huge current account deficit coupled with the (US Federal Reserve's) aggressive low-interest rate policy and, secondly, indications that the world is about to return to a period of high inflation.

We have never been concerned at Allan Gray about taking a contrarian position on certain shares that feature in our various portfolios. In this issue we focus on SABMiller in which, unlike our peers, we retain a significant holding. Chief Investment Officer Ian Liddle lists six sound reasons for our decision while expressing surprise that other South African investors are so negative about a company that many would rank as one of the country's most successful global companies.

Richemont and Remgro constitute two of the largest holdings in our client portfolios. In the previous issue of the Quarterly Commentary we highlighted the merits of British American Tobacco (BAT), which, indirectly through Remgro and Richemont, is itself one of our largest holdings. In this issue Simon Raubenheimer looks at Richemont's luxury goods division and concludes that it is a superior quality business, targeted as it is at high-end and price-insensitive consumers.

As the saying goes, forecasting is very difficult. Especially about the future. One way of gaining some insight into what they may hold is to look to the lessons of the past, but only if one is prepared to look back over long periods of time and is prepared to wait long periods of time for a particular investment view to come true. The danger, Mahesh Cooper warns in his article, is that investors tend to over-emphasise short-term past performance as a frame of reference when making future investment decisions. In this context, they often compare the recent performance of offshore assets with that of local assets when making future investment decisions. Mahesh shows how very different decisions may be made in regard to the merits of investing offshore, depending on the perspective and time frame one considers.

In light of this, it may be increasingly prudent for South African investors to diversify their investments offshore. Allan Gray has, through its relationship with its offshore asset management partner Orbis, offered this opportunity to clients. Johan de Lange provides the details of how investors and their advisers can access Orbis funds as well as a focused range of offshore funds from other providers on Allan Gray's retail investment platform.

We regularly remind our clients of the benefits of retirement annuities (RAs) and the cost and danger of delaying investing for your future. At Allan Gray we have enjoyed great support for our retirement annuity product. So much so that we have now extended the RA product by offering a group administration system to enable employers to offer individual member RAs to their staff as an alternative to a traditional retirement fund or umbrella fund. Richard Carter explains how the system operates.

The Allan Gray Orbis Foundation, set up in March 2005, is pursueing the ambitious target of having 500 'fellows' enrolled in its university scholarship programme at any one time. An ongoing challenge it faces is finding enough candidates of the right calibre to meet this target. The Foundation's Chief Executive, Anthony Farr outlines two new strategies that have been developed to help address this constraint. Firstly the Foundation has extended its activities to a 'scholars programme' to provide talented young people the opportunity to attend top quality high schools on full scholarships. Secondly the application process for both the Fellowship Programme and the Scholars Programme has been thrown open to pupils across the country in order to widen the field of potential candidates. There are currently 135 Allan Gray Fellows on full scholarships at six participating South African universities.

I take this opportunity to congratulate and thank Edgar Loxton for his 20 years service at Allan Gray. Edgar joined the firm on 1 April 1988 as a computer programmer, progressing over the years to head of IT, a partner in the Allan Gray Investment Councel, a director of Allan Gray Group Limited and head of operations. Many of you will have had dealings with Edgar over the years. He is at the heart of all that makes the firm tick as well as a source of great wisdom to all he works with. We are lucky to have him.

Finally and on a lighter note, we are very proud of our latest TV commercial. Titled 'Beautiful,' its story is a metaphor for Allan Gray's long-term approach to reaping rewards. This investment philosophy has its roots in identifying potential and then having the necessary patience to wait for it to be realised. In what is a touching love story, the advertisement depicts a young boy's fascination with a seemingly 'plain Jane,' despite being teased by his classmates. Such is his infatuation and conviction that he unhesitatingly defends her honour against a playground bully – which ultimately wins her over. This message is: staying the course, no matter the knocks one may endure, will ultimately be rewarded.

As usual, we provide towards the back of the edition, full details of our range of investment funds and performance details against the benchmarks that have been set.

Kind regards

Greg Fury

Greg Fury

Sandy McGregor

GOLD BACK TO THE 1970s

EXECUTIVE SUMMARY: After 25 years of behaving as a normal commodity, gold's traditional monetary role as a store of value and an inflation hedge has started to re-emerge, boosting its price to record highs. In this article Sandy McGregor traces the role of gold, from the time it was sold purely as 'money' at a fixed price of $35 an ounce after the Second World War, to becoming a commodity when the Bretton Woods system collapsed at the end of the 1960s and the first great bull market in gold emerged from 1971 to January 1980. Now, he writes, we are back to a situation uncannily similar to that of the 1970s where fears regarding currencies, monetary policy and inflation determined the gold price.

Gold displays the attributes both of a commodity and of money. However, this was not always the case. Prior to the closure of the gold window in March 1968, gold was money, pure and simple. The Bretton Woods system, established at the end of the Second World War, was based on a dollar which was exchangeable into gold at a fixed price of $35 per ounce. $35 was chosen rather whimsically by President Roosevelt in 1934 as the official US gold price and this was carried over into the new system. The new order worked well until 1966. It is often claimed that the Bretton Woods system kept the gold price artificially low, but until 1964 this was not true. Prior to 1964 central banks were net buyers of gold, and producers such as South Africa and the Soviet Union were able to sell at higher prices than they would have achieved otherwise. However, it is true that demand for gold was depressed by regulations which forbade citizens of many countries, including the United States, United Kingdom and Japan, from owning physical gold. The whole edifice was propped up by exchange controls which prevented markets from clearing efficiently.

The Bretton Woods system collapsed at the end of the 1960s, because US money aggregates grew much faster than the stock of gold. Foreign dollar holdings ballooned and it became obvious that the US was no longer able to honour its commitment to allow the free exchange of dollars into gold at $35. In 1967 and early 1968 there was a scramble to buy gold, which forced the closure of the gold window. Gold was finally demonetised as part of the Smithsonian Agreement in December 1971 and the modern era of gold began.

Keynes famously described gold as a 'barbarous relic,' arguing that the value of money arose from the credit of government and not from gold. Certainly the gold standard became unsustainable as the scale of the modern economy grew. However, the 'barbarous relic' has prospered despite demonetisation, and found roles which have surprised the many sceptics who in 1971 thought that gold had no future.

The first great gold bull market lasted from 1971 to January 1980. When the metal was demonetised, there were no longer any valid arguments for restricting an individual's rights to own gold. Accordingly, most countries abolished these restrictions, notably Japan in 1972 and the United States in 1975. While governments may have believed gold was no longer money, many ordinary citizens thought otherwise, and exercised their new-found freedom to own gold. As the inflationary crisis of the 1970s unfolded, investors accumulated gold as a hedge in which to preserve the value of their money. Ultimately, its price rose to $800. Central bankers and politicians came to regard gold as a rival currency whose strength was a continuing rebuke of their mismanagement of the monetary system. Both the International Monetary Fund and the United States sold gold from their reserves, but this did not have a significant effect on the surging price. Indeed, investors regarded official sales as an opportunity to dispose of unwanted paper currencies. The final blow-off occurred in January 1980, when Iran, which was subject to global financial sanctions following the hostage crisis, started buying gold as a store of value in which to preserve some of its oil wealth outside the American-dominated financial system.

By 1979 the adverse effects of massive inflation had become so dire that certain political leaders concluded that price stability had to be achieved, regardless of the economic distress it might cost. Paul Volker became Chairman of the US Federal Reserve (Fed) and acted to bring the inflationary cycle to an end by hiking interest rates to levels which precipitated a severe global recession. In time, the discredited Keynesian policies of the 1960s and 1970s were replaced by a return to old-fashioned economic doctrines which allowed free markets to operate, encouraged competition and globalisation, and significantly reduced taxation. Inflation gradually disappeared. Gold's role as an inflation hedge became redundant and gold became a mere commodity.

In this new world of price stability, jewellery accounted for up to 80% of gold consumption, powered by growing wealth in Asia. It's no coincidence that after 1980 the periods when the gold price was most buoyant coincided with growth surges in Asia. The focus of activity shifted from country to country. In 1986 Taiwan and Japan set the pace. In the early 1990s it was China and more recently India. Conversely, major setbacks in Asia, such as the emerging market crisis of 1997, saw gold prices weaken significantly. Gold behaved like any other commodity where economic growth drives demand and demand drives prices.

Recently, however, after 25 years of behaving as a normal commodity, gold's traditional monetary role as a store of value and an inflation hedge has started to re-emerge, boosting its price to record highs. Two interlinked concerns are redirecting investors' attention to gold. The first is the erosion of the value of the dollar by America's huge current account deficit (currently $750 bn per year), and the aggressive low-interest rate policy the Fed has followed during economic slowdowns. The second is the fear that the world is about to return to a period of high inflation similar to that of the 1970s.

One can date the new era of higher gold prices from November 2005 when Ben Bernanke, as a member of the Fed, made a speech in which he said that if the US entered a period of deflation similar to that which Japan had experienced since 1991, the Fed would aggressively inject money into the system to sustain prices. His speech spooked the market and gold rose $100 over the next three months. More recently, in his new role as Fed Chairman, Bernanke has had the opportunity to preside over the implementation of this policy in response to the sub prime crisis. The combination of extremely low interest rates and a massive current account deficit is a formula for a weaker dollar, and it should be no surprise that the dollar keeps hitting new lows. Some investors have sought to protect themselves against this trend by buying gold.

> "…, gold's traditional monetary role as a store of value and an inflation hedge has started to re-emerge, …."

I have written recently (Quarterley Commentary Q4, 2007) of the risks of a resurgence in global inflation. Inflation is much more than a monetary phenomenon, but the expansionary monetary policy currently being followed by many central banks cannot but stoke the inflationary fires. There is general unease among investors about these trends, sufficient to prompt some buying of gold. While the amount of money going into gold is small in the totality of the world economy, it is sufficiently large enough to have become the principal determinant of the gold price.

Without investment and speculative buying, gold would be several hundred dollars cheaper than it is today. We are back to a situation similar to that of the 1970s where fears regarding currencies, monetary policy and inflation determined the gold price. The parallels with the early 1970s are uncanny: surging commodity and food prices, record oil prices, conflicts in the Middle East, an America which has lost its way as a global leader, and rising inflation. Where this will end, no one knows. However, it is sobering to recall that the inflationary crisis of the 1970s lasted over a decade. It could take that long to resolve the problems we now face. We could be only at the start of a long period of elevated gold prices.

Ian Liddle

SABMILLER – NOW FOR CONTRARIANS?

EXECUTIVE SUMMARY: Unlike its peers, Allan Gray retains a significant shareholding in SABMiller, one of South Africa's most successful global companies. Ian Liddle explains why it does so, listing six sound reasons for this decision and expressing surprise that other South African investors are so negative about the company.

"You can't be a Real Country unless you have a beer and an airline — it helps if you have some kind of a football team, or some nuclear weapons, but at the very least you need a beer." – Frank Zappa (1940–1993) rock and roll musician.

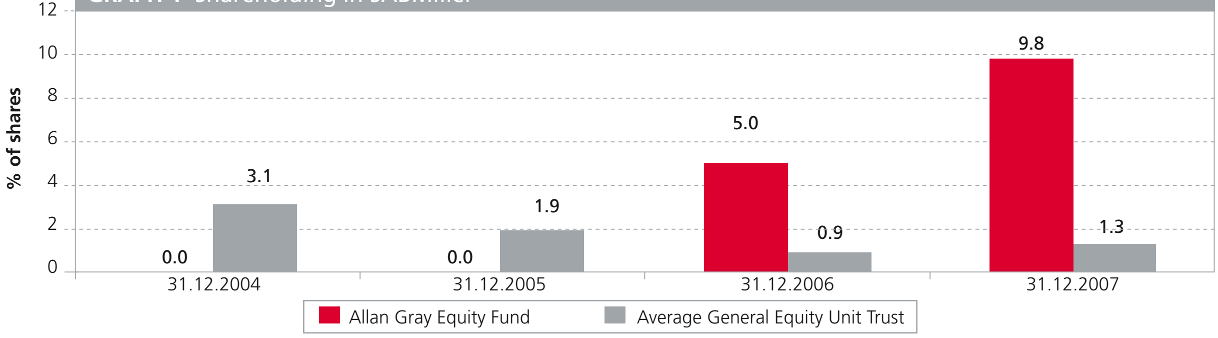
South African Airways is in the midst of another restructuring, our footballers couldn't win a game at the Africa Cup of Nations, and we have been struggling just to keep Koeberg up and running. But at least South Africans still have SABMiller – or do we?

Our analysis leads us to believe that we are one of the few South African asset managers to retain a significant shareholding in SABMiller (see **Graph 1** below). In fact, SABMiller is the share that currently accounts for the single biggest point of difference between our portfolios and the average portfolio of our South African peers. While we naturally take comfort from our contrarian position, we still find it surprising that South African fund managers are so negative about a company that many would rank as one of our country's most successful global companies.

Since the early 1990s SABMiller has transformed itself from an unfocused South African conglomerate into one of the top four global beer companies (alongside Inbev, Heineken and Anheuser-Busch). Today SABMiller sells beer in over 60 countries across six continents, with its South African business contributing only one third of operating profits. Other significant profit contributors are Colombia, Peru, the USA, Poland, Czech Republic, Russia, China, Botswana and Tanzania (see **Graph 2** on page 6). In its 2007 financial year it sold 21.6 billion litres of lager beer (equivalent to 8,640 Olympic-size swimming pools!). Admittedly, most of SABMiller's global growth has come from acquisitions; for some of these SABMiller paid a low price and for others it paid a high price.

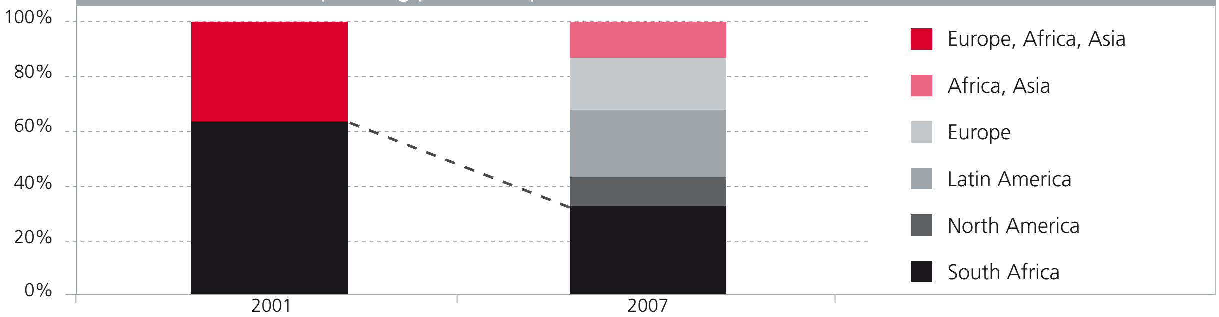
So why are South African fund managers so negative? One reason may be the poor performance of the SABMiller share price relative to the outstanding performance of the FTSE/JSE All Share Index over the last decade (see **Graph 3** on page 7 – SABMiller has halved relative to the market since April 1998). More fundamental reasons for negativity may be: input costs are increasing significantly (barley, malt, packaging, and diesel for distribution); Heineken is building a new brewery in Gauteng, and the very strong growth in SABMiller's beer volumes is now slowing.

GRAPH 1 Shareholding in SABMiller



Source: UBS, Allan Gray research

GRAPH 2 SABMiller operating profit composition



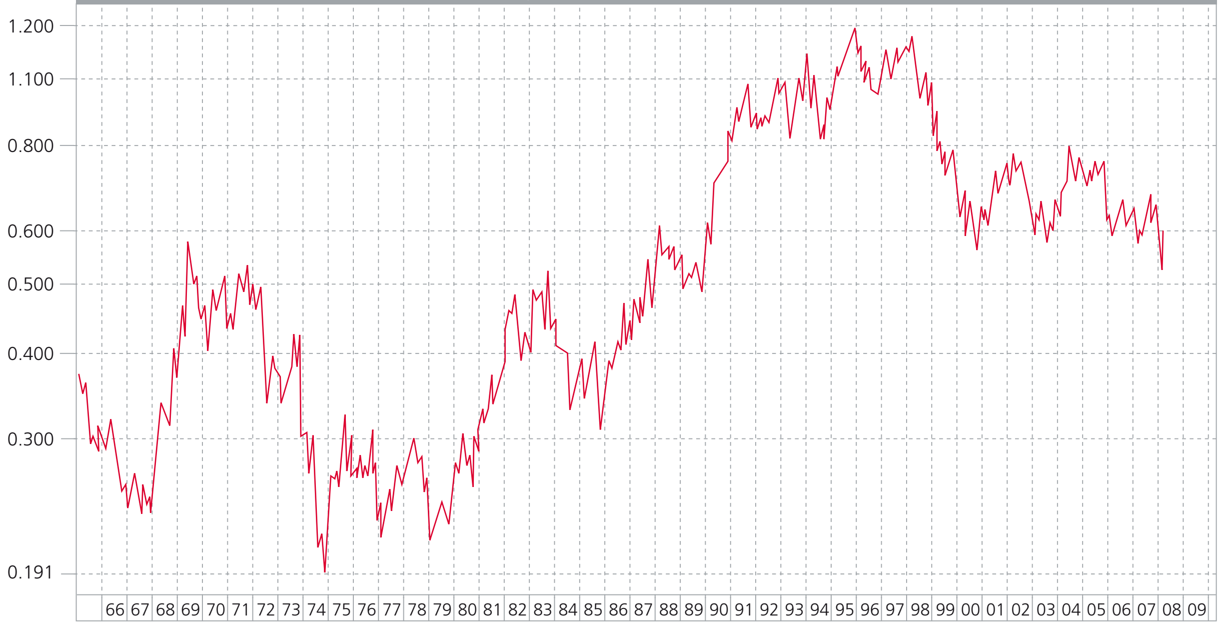
Source: Allan Gray research

While these fundamental reasons for negativity are undoubtedly of concern, one needs to remember that SABMiller is a quality business and is well able to weather these storms. Indeed, it is at such times that the opportunity can come to buy a great quality business at a good price. We believe that now is such a time, and that in comparison with the FTSE/JSE All Share Index, which is currently priced at 15 times earnings, SABMiller is a great buy at around 16 times its estimated 2008 profits. What makes SABMiller such a quality business? These are some of the characteristics:

- High barriers to entry in the beer industry - scale economies in brewing and, probably more importantly, in distribution, make it difficult for new entrants to succeed. It remains to be seen whether Heineken's new brewery in South Africa will be profitable.
- Strong market positions – most of SABMiller's operations are the number 1 or 2 players in their local markets.
- Almost no technological obsolescence – most businesses have to spend continually on research and development and new equipment to innovate and keep their products up-to-date and competitive. The rate of technological change is much slower, almost non-existent, in beer.
- No, or negative, working capital requirements – SABMiller generally receives cash for beer sales before it has to pay its suppliers, which means that the business can grow over many years without requiring additional capital to fund working capital balances. This factor and the slow rate of technological obsolescence means that the company could truly pay out all of its earnings as a dividend were it to choose to do so at some point in the future.
- Substantial contributor to the fiscus – SABMiller pays over 70% of its profits before excise and income taxes to the State, mainly in the form of excise taxes (which are based on sales). In many of its countries of operation, SABMiller is one of the biggest and most efficient contributors to the fiscus. National governments thus have an interest in the ongoing success of SABMiller.
- Performance culture – it would be understandable if management of such a strong business grew complacent, but SABMiller must have one of the most aggressive performance cultures of all JSE-listed companies. They have arguably outsmarted and out-competed both Heineken and Inbev to claim a dominant share of the beer profit pool in Eastern Europe. The so-called 'SABMiller way' seems to work in both concentrated and competitive markets.

Much is being made of the recent slowdown in SABMiller's volume growth rates (from the very fast organic growth of 10% in 2007). While we do expect the rate of volume growth to

GRAPH 3 SABMiller share price divided by FTSE/JSE All Share Index



Source: Igraph

slow, that is not to say that volumes will not continue to grow at a fair clip for many years to come in many of SABMiller's regions of activity. The per capita beer consumption rates in most of SABMiller's regions are still relatively low.

However, growing volumes are by no means the only lever for SABMiller to pull to grow its profits. The steady drift of beer-drinkers towards premium beers is a powerful source of incremental profit growth as the higher-priced premium beers tend to be more profitable. We would also expect SABMiller to continue to squeeze out productivity gains, particularly in its more recently acquired businesses in Latin America. And if the proposed merger between Miller and Coors is allowed to proceed in the USA, there will be substantial scope for productivity gains there, not to mention the much more powerful competitive position versus Anheuser-Busch. Anheuser-Busch sells roughly 50% more beer in the USA than Miller and Coors do together, yet it makes roughly four times more profits in the USA than Miller and Coors do combined!

It should also be noted that China has already overtaken the USA as the largest beer market in the world by volume, and that SABMiller's Chinese joint venture is the number one player with the number one brand (Snow) in the Chinese beer market. However, its contribution to SABMiller's profits is immaterial as beer prices in China are low and the industry is still relatively fragmented, although it is consolidating. It is difficult to know when the Chinese market will consolidate sufficiently, but we would expect China to be a significant contributor to SABMiller's profits one day.

SABMiller holds one of the top three positions in our portfolios and we believe that the current share price presents a good opportunity to long-term investors.

Simon Raubenheimer

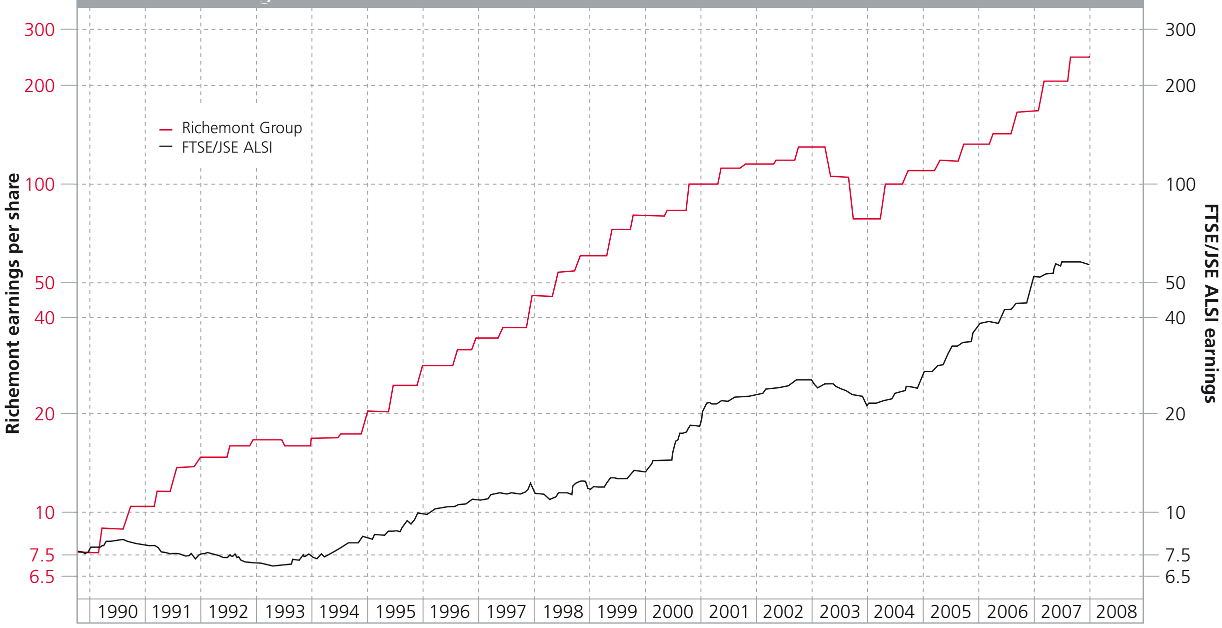
THE VALUE OF CENTURY-OLD BRANDS

EXECUTIVE SUMMARY: In our previous issue of the Quarterly Commentary we highlighted the merits of Richemont's 19.5% stake in British American Tobacco (BAT). In this article Simon Raubenheimer looks at Richemont's luxury goods division and concludes that it is a superior quality business, targeted as it is at high-end and price-insensitive consumers.

Richemont has proven, over time, to be a superior company. It has grown its earnings by 22% p.a. since 1988 (the date at which Richemont was unbundled from the Rembrandt Group) versus 12% for the FTSE/JSE All Share Index (ALSI) (see **Graph 1** below). Its effective 19.5% stake in British American Tobacco (BAT) makes up 45% of Richemont's market capitalisation, with net cash of €1.1bn accounting for 5% and the remaining half comprising the luxury goods division. Our views on BAT were discussed in the Q4 2007 commentary; this article will focus on Richemont's luxury goods division.

From jewellery, handmade timepieces and writing instruments to leather products and accessories, Richemont's products target the very high-end and price-insensitive consumers. Richemont's specialist watchmaking division produces and assembles some of the most expensive and exclusive watches in the world. Timepieces from Jaeger Le Coultre, Panerai and Piaget are handmade by experienced and skilled Swiss craftsmen and can range in price from R50 000 to R1 million. Vacheron Constantin (acquired by Richemont in 1996) is the world's oldest existing watch brand, having produced watches for 253 years. Contributing 60% of Richemont's luxury goods' earnings and over half Richemont's revenue is Cartier, a 160-year old prestigious, aspirational watchmaker and jeweller. Other important brands in the luxury division include Montblanc, Dunhill and Van Cleef & Arpels. For reasons of esteem, prestige and social status, these brands have commanded an unwavering customer loyalty for centuries.

GRAPH 1 Earnings: Richemont versus FTSE/JSE ALSI



Source: Allan Gray research

Luxury businesses have undoubtedly benefited from thriving world economies and strong financial markets over the past four years, and Richemont's profit margin (using Cartier as a proxy due to its available history), at one standard deviation above its long-term mean, is not low in a historical context, as indicated by the red lines in **Graph 2** below. In comparison the profit margin for the average South African industrial company is even more inflated, as indicated by the black lines, at over two standard deviations above its respective mean, driven primarily by record capacity utilisation and buoyant consumers.

We believe Richemont is a superior quality business because:

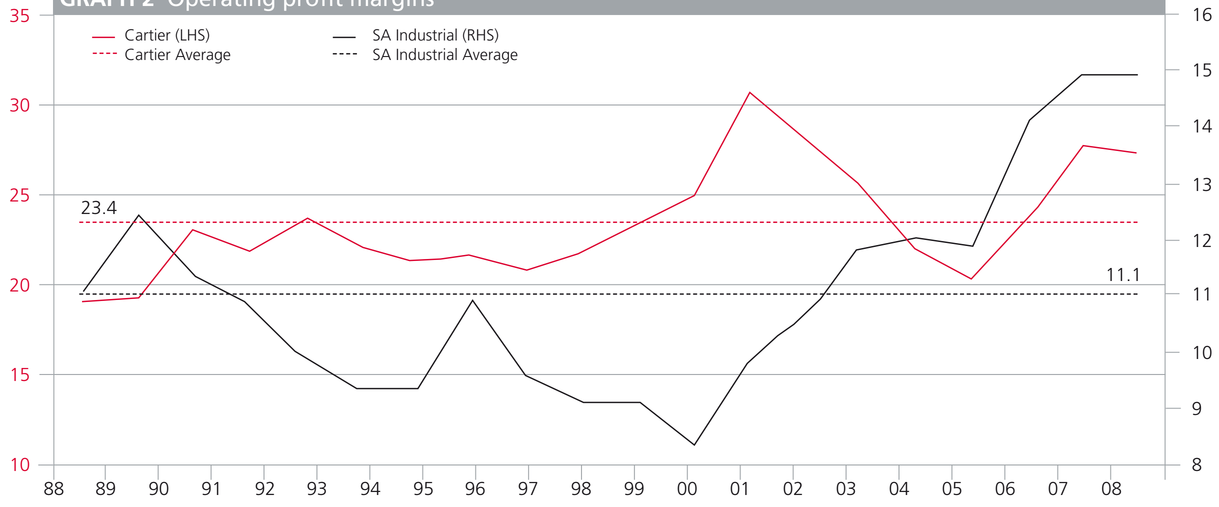
- Luxury goods businesses are characterised by considerable barriers to entry. Century-old histories and legacies create brand equity that cannot be replicated overnight. Furthermore, the specialist skills required to manufacture complex watch movements are considerable and competition is sparse.

- A further distinguishing feature of a luxury brand is its unique pricing power. Discounting and price/mix reductions are generally avoided as they damage the brand integrity in the long-term. It is important in this context to differentiate between luxury and fashion, with the latter driven by trends, advertising and the mass market.

- Sales are diversified geographically with Japan and Europe each contributing approximately 30% of sales, and Asia (ex-Japan) and the Americas each accounting for 20%. China and Russia are currently growing by over 50% per annum, and each still account for only 7% of sales. It is an objective of management to grow the US market until its revenue contribution (currently 15%) mirrors the US 30% share of world GDP. Since 2002, the US dollar and Japanese yen have weakened by over 40% and 70% to the euro respectively. With Richemont's costs largely euro- (and swiss franc-) based, the margin damage is in the base and currency reversals could provide upside.

- Internal efficiency improvements such as the integration and centralising of administration and support systems, together with the cost-cutting initiatives embarked on in 2003, should support profits through future cycles.

GRAPH 2 Operating profit margins

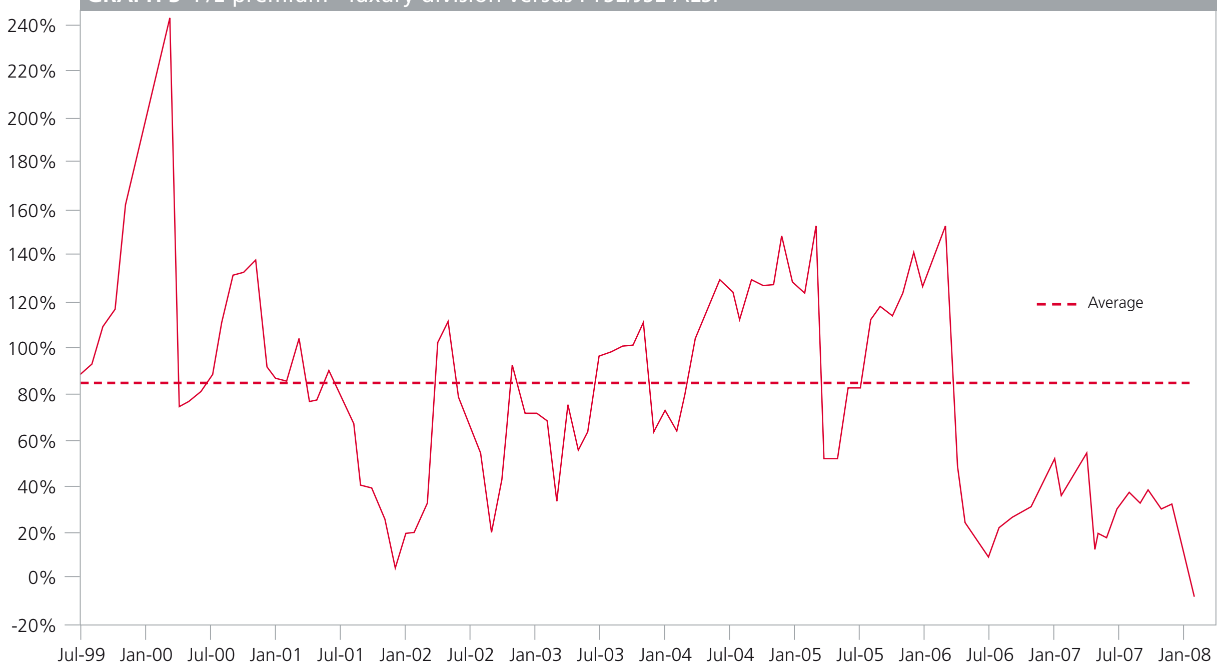


Source: Allan Gray research

The desirability of luxury items reinforces, and is driven by, an intangible 'feel good' factor. Demand remains susceptible to swings in future levels of confidence, which are difficult to predict. Stripping out BAT, net cash and finance income, Richemont's ungeared luxury division is trading at a discount to the ALSI – having historically traded on a substantial P/E premium (see **Graph 3** below). On a P/E of 11 on earnings for the year ending March 2008, Richemont's luxury division is also trading at a 15% discount to its international peer group. The luxury industry is not immune to adverse global conditions, as evidenced by the failure of Vincent van Gogh's 'Wheat Fields' to achieve its reserve price of US$30m at a recent Sotheby's auction. We believe, however, that shareholders are more than compensated for potential shorter term macro-economic concerns at the current valuation levels.

Richemont's luxury division exemplifies a high quality, globally diversified business on below average valuations that provides South African investors with a complete hedge against a weakening Rand. In the midst of the 2003 down-cycle, Johann Rupert was quoted as saying 'the only way to wreck a brand is to wreck it yourself.' Century-old brands, like Cartier, Montblanc, Vacheron and Van Cleef, if correctly managed, should survive governments, monarchies and revolutions and will probably enjoy unchallenged pricing power for many more decades. Coupled with BAT, which we believe remains attractive in the context of our domestic market, and a debt-free balance sheet with net cash of €1.1bn, Richemont makes for a compelling long-term investment.

GRAPH 3 P/E premium - luxury division versus FTSE/JSE ALSI



Source: Allan Gray research

Mahesh Cooper

THE DANGER OF CHASING PAST PERFORMANCE

EXECUTIVE SUMMARY: Investors often tend to compare the recent performance of offshore assets with that of local assets when making future investment decisions. Mahesh Cooper warns that it is important to evaluate these returns by splitting the decision into two components: the exchange rate and the pricing of local assets relative to foreign assets.

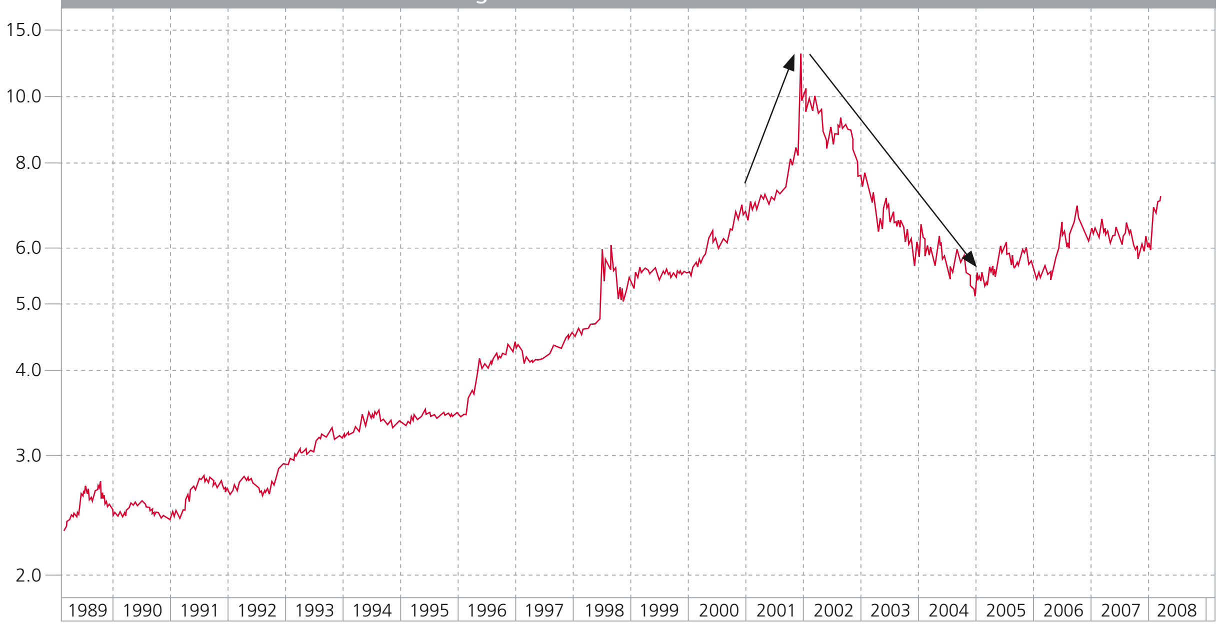
Whilst no one knows what the future holds, one method of looking forward is to look back to the past to try and explain the present and predict the future. This may be a plausible assumption if one is prepared to look back over long periods of time and to wait long periods of time for a particular investment view to come true. The danger is that investors tend to over-emphasise short-term past performance as a frame of reference when making future investment decisions.

"... investors tend to over-emphasise short-term past performance ..."

When investing offshore, one often tends to compare the recent performance of offshore assets to that of local assets. However, it is important to evaluate these returns by splitting the decision into two components, namely the exchange rate and the pricing of local assets relative to foreign assets.

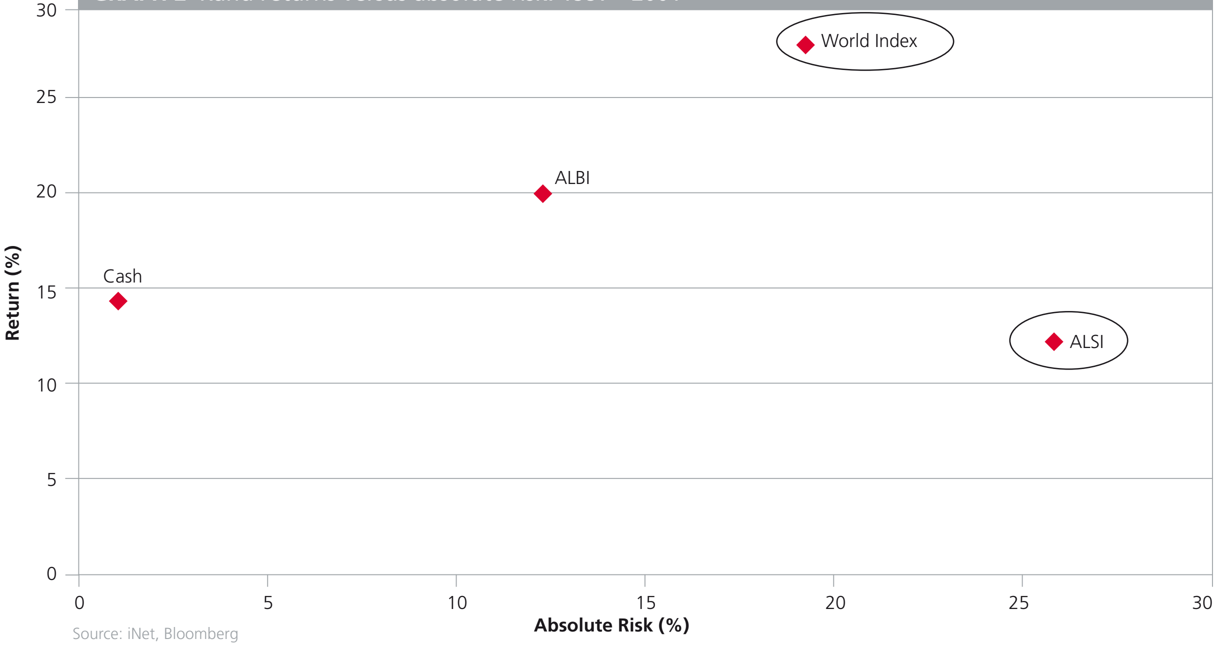
Graph 1 below plots the Rand/US dollar exchange rate from 1989. When the Rand weakened to more than R12 to the US dollar in December 2001, many were very eager to take money offshore, when the then common view was that the Rand would continue to weaken at the same rate that it had in 2001 (it lost almost 60% for the year). In addition, over that recent period, the Rand return from foreign assets had significantly outpaced the Rand return of local assets.

GRAPH 1 SA Rand / US dollar exchange rate



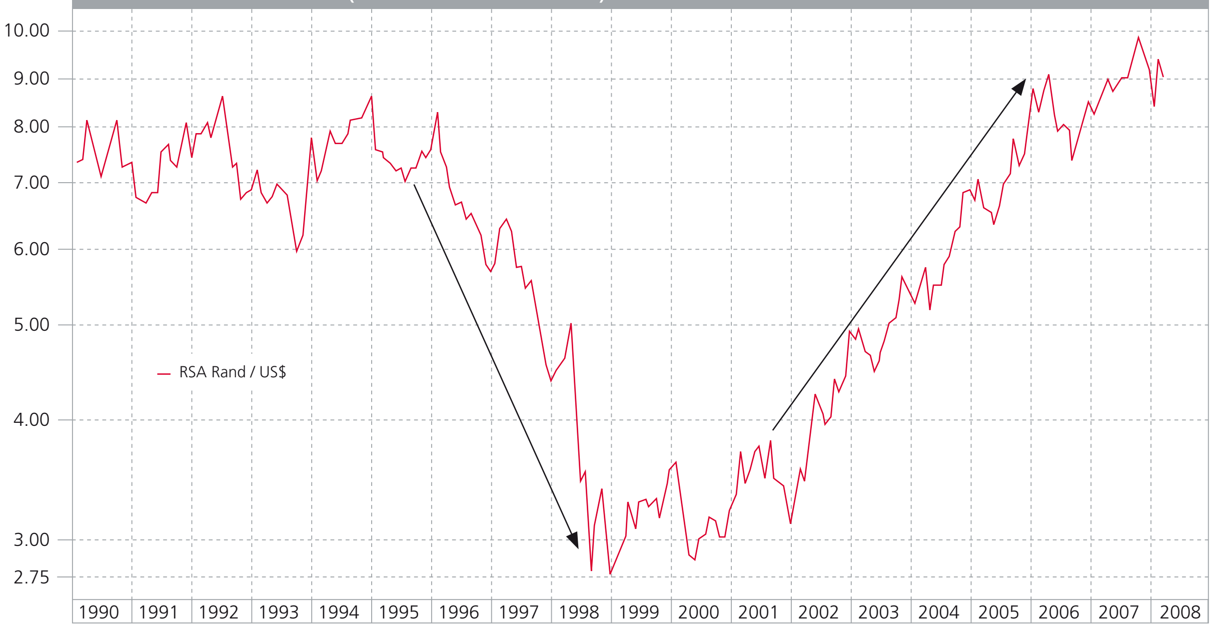
Source: Igraph

GRAPH 2 Rand returns versus absolute risk: 1997 - 2001



Source: iNet, Bloomberg

GRAPH 3 FTSE/JSE ALSI (relative to World Index) in US dollars



Source: Igraph

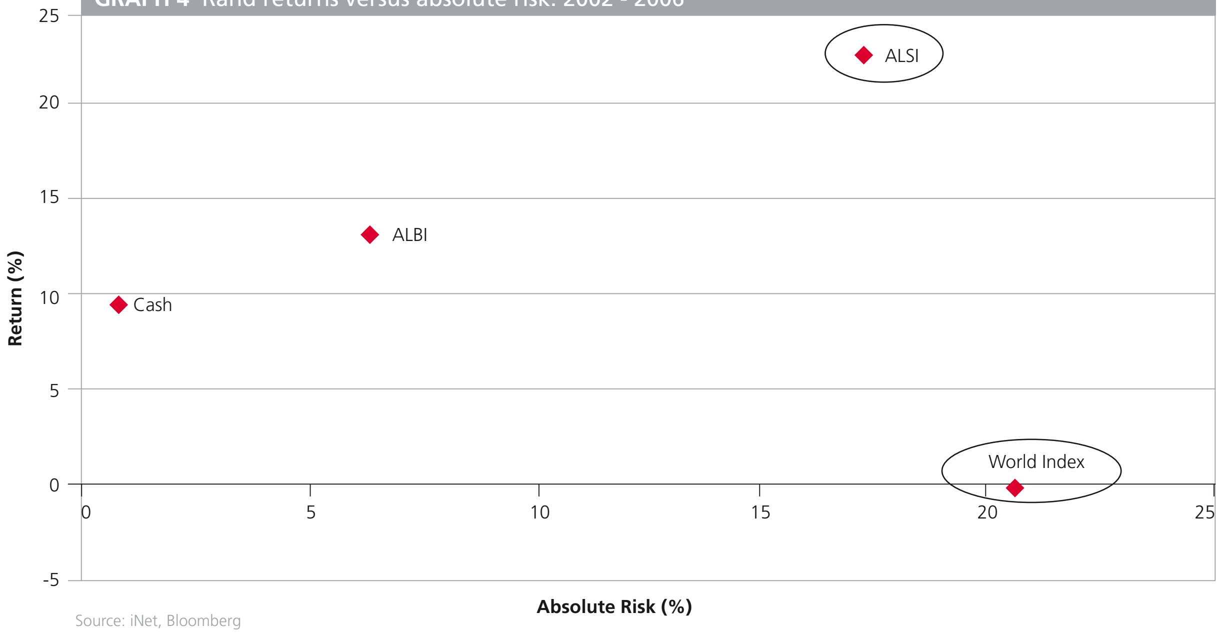
Graph 2 on page 12 highlights this over the five-year period from 1 January 1997 to 31 December 2001 with the FTSE World Index (World Index) delivering an annualised 28% per annum Rand return. In contrast, the FTSE/JSE ALSI (ALSI) delivered a Rand return lower than cash over the five years at a much higher level of absolute risk (volatility).

The only problem with this was that on a relative basis, in 2001, South African equities were cheap relative to foreign equities. This can be seen in **Graph 3** on page 12 which contrasts the ALSI relative to the World Index in US dollar terms. A downward sloping line shows that the ALSI underperformed the World Index in US dollar terms (such as during the late 1990s) whilst an upward sloping line shows that the ALSI outperformed the World Index in US dollar terms (such as over the last six years). Interestingly, the ALSI lost more than half of its value relative to the World Index in US dollar terms in the late 1990s. Local investors were therefore selling relatively cheap local equities to fund purchases of more expensive foreign equities at the end of 2001.

"Local investors were therefore selling relatively cheap local equities to fund purchases of more expensive foreign equities ...."

This disparity would have negatively impacted the subsequent performance that investors would have received in Rand terms had they invested in the World Index over the next five years. This is shown in **Graph 4** below, which shows the annualised Rand return from 1 January 2002 to 31 December 2006. Over this five-year period, the World Index effectively delivered a 0% per annum Rand return whilst the ALSI delivered 23% per annum at a lower level of absolute risk (volatility). This was mainly as a result of the strong Rand which negated the US dollar returns of the World Index as well as the strong local returns from the ALSI, which benefited

GRAPH 4 Rand returns versus absolute risk: 2002 - 2006



Source: iNet, Bloomberg

from the equity bull market that emerging markets were experiencing.

So, as a Rand investor, if you had taken your money offshore at the end of 2001 and invested in the World Index, you would have had no appreciation in the value of your investment in Rand terms at a higher level of absolute risk than if you had invested in the ALSI over the same period. Many South African investors did take money offshore in 2001/2002 and have not experienced pleasant returns relative to their local investments. This is because they were using a very weak currency to buy assets that were expensive relative to South African assets.

> "..., we believe that a conservatively managed foreign portfolio is more attractive currently than local assets ...."

Investors using the picture over the last five years to determine what they should invest in going forward should look at the attractiveness of assets relative to each other when determining what to invest in. Graph 3 on page 12 illustrates this in that South African assets are no longer as cheap as they were previously, relative to the World Index in US dollar terms. In addition, we believe that the Rand remains a vulnerable emerging market currency.

As a result, we believe that a conservatively managed foreign portfolio is more attractive currently than local assets over the next three to five years. Where we have discretion, we are keeping clients' portfolios as close to the regulatory maximum foreign exposure as possible.

In summary, when looking at the expected future returns from foreign investments, investors need to consider the expected returns from foreign assets as well as the expected relative currency movements.

Johan de Lange

MORE OFFSHORE FUNDS NOW AVAILABLE VIA ALLAN GRAY

EXECUTIVE SUMMARY: In an investment environment where it may be increasingly prudent for South African investors to diversify their investments offshore, Allan Gray is now able to offer a wider range of offshore funds through its retail investment platform. Johan de Lange provides the details of how investors and their advisers can access Orbis funds as well as a focused range of offshore funds from other select fund providers.

For some time, we have communicated our view that, after a significant period of outperformance by the South African market and a strong rand, we expect a period of lower returns and possibly investment volatility from South African assets as valuations normalise. We have shared our view with you that we believe the Rand will decline in value over time and, in light of this, it may be increasingly prudent for South African investors to diversify their investments offshore. It is thus timeous for us to fulfil our commitment to investors and advisers to make a range of offshore funds available to you on our retail investment platform.

Some background

In June 2005, 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 the Allan Gray funds, as well as a focused range of funds from other selected South African fund providers. It offers consolidated reporting across investor portfolios and the ability to buy, sell and switch between the funds.

At the time, 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. We gave you some insight into the overall long-term solution we were aiming to provide investors with, by linking our administration processes more closely to our client service team and improving the quality of service to our clients and reducing the price of administration services. This process is ongoing as we strive to improve our service to you.

In September of 2005 we announced that we had insourced 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 meant that, for the first time, South African investors were able to invest in both local and offshore unit trusts/mutual funds via one investment platform, with pricing parity between the two.

We believe there is a need for a restricted, demand-driven offshore platform with a simple fee structure and we see this as an opportunity to introduce more competition into the offshore platform market. We believe there is scope to offer administrative ease, value and fee structure simplicity, and a demand-driven range of funds from other global investment managers, to our investors.

A manageable range of funds with sufficient choice

Consistent with our approach to our local range of funds, our intention is to ensure that the range of funds offers adequate choice and remains manageable. We do not endorse or promote any of the funds except for those of Orbis. The list of funds selected is based on adviser demand. Of interest is that we have found that the most requested funds are those that have strong local representation. This may give you some measure of reassurance when faced with the uncertainty of investing offshore with investment managers of whom you may not have heard.

As with our range of local funds, more funds are available where differentiation is possible and necessary. In other words we offer more choice of equity funds, where dispersion of returns is greater, than we do in money market funds.

Of the total range of 20 funds, nine are equity funds, three are balanced funds, two are index funds, two are absolute return funds, one is a real estate fund and one is a money market fund that is available in three currencies.

TABLE 1 Range of platform offshore funds

The Orbis funds available on the Allan Gray Investor Services platform

Orbis Global Equity Fund (US$)	The core and largest of the Orbis funds, is an actively managed fund investing in global shares, seeking to outperform the benchmark FTSE World Index.
Orbis Optimal SA Fund (US$, EUR)	Offered in US dollar and euro classes, these funds invest in global equities and employ stockmarket hedging to reduce risk of loss.
Orbis Japan Equity Fund (YEN, EUR)	Offered in yen, US dollar and euro classes that invest solely in Japanese stockmarkets.
Orbis SICAV Asia ex-Japan Equity Fund	Aimed at investors who are seeking a portfolio that is fully invested in and exposed to Asian equities outside of Japan.

In addition to the above, there are 14 new funds available from five other investment managers. Many of these investment managers are well known in the South African market and are:

- Ashburton
- Franklin Templeton
- GinsGlobal
- Investec
- Sarasin

Please refer to the Allan Gray Offshore Investment Platform Fund List and the various fund fact sheets available on our website www.allangray.co.za for more information about the range of funds.

What is the investment minimum?

The investment minimum for the above offshore funds is R100 000 (or foreign currency equivalent). A minimum of R10 000 per fund applies and South African investors must use their foreign exchange allowance under the Exchange Control rules.

A reminder that, for those investors who may either not have foreign exchange permission/capacity, or may not have R100 000 to invest but still wish to diversify their portfolio offshore, the Allan Gray-Orbis Rand-denominated offshore funds are an alternative option. You need a minimum investment of R5 000 for these funds. Investors may find that these are easier to invest in and disinvest from as they transact in rands.

Pricing: transparency and value for money

We aim to ensure parity as far as possible with our local funds with regard to pricing. The fee structure is straightforward, with total transparency. There are no hidden or opaque fees, and fund provider transaction fees and bank charges are passed on at cost. Typically, when you invest, there are three costs to expect: the cost of administration; cost of investment management and the cost of advice.

1. Cost of administration
   The administration fees are the same for both local and offshore investments:
   - No initial platform fees apply.
   - The maximum annual administrative platform fee (charged quarterly in arrears) will be 50 basis points (bps). This is reduced by any discount from the standard fee that we receive from fund providers.

2. Cost of investment management
   Underlying fund management fees apply and are specific to each fund offered.

3. Cost of independent investment advice
   Allan Gray does not offer investment advice. As is applicable to all our products, adviser fees are negotiable and agreed between investors and their advisers to the extent that the services of an adviser are used. Those investing directly are not charged an adviser fee.

Conclusion

When we launched the Allan Gray retail investment platform our intention was to offer as consistent an approach as possible to investors, enabling them to manage both their on- and offshore portfolios in one place. In essence, the rationale for offering more choice of offshore funds and providers is the same as the rationale for offering choice of onshore investment managers. We believe that it is prudent from a personal financial planning perspective.

We undertake to manage the service and administration of this new range of funds in a way that is complementary to and consistent with the way we administer and service your other investments with Allan Gray and Orbis.

Richard Carter

ALLAN GRAY GROUP RETIREMENT ANNUITY

EXECUTIVE SUMMARY: On the back of strong support for its retirement annuity (RA) product, Allan Gray has launched a group administration system that enables employers to administer individual member contributions to individually owned Allan Gray retirement annuities. Richard Carter explains how the system will enable employers and employees to save for retirement with a flexible product.

The importance of saving for your retirement is well known. We regularly communicate with investors and advisers to remind them of the benefits of retirement annuities (RAs) and the cost and danger of delaying investing for the future.

At Allan Gray we have enjoyed much support for our retirement annuity product from investors and independent advisers. We have also been very fortunate to receive favourable comment from the media and the pension fund adjudicator for the high standards we aspire to when it comes to offering investors flexibility, transparency and value for money.

We have now launched a group administration system to enable employers to administer individual member contributions to individually owned Allan Gray retirement annuities. In so doing, employers are able to offer their staff the individual benefits of an Allan Gray RA and encourage them to make provision for their future financial security.

Why did we decide to enhance the administration of our RA for groups?

Investor and adviser feedback drove this enhancement along with the fact that we already administer our own staff retirement annuities in much the same way. We simply had to establish how we could develop an uncomplicated administrative system that would make Allan Gray Group RAs as easy and effective for an employer to use.

What is the Allan Gray Group RA?

The Allan Gray Group Retirement Annuity is a flexible solution to the challenge of retirement funding for staff.

The Allan Gray Group RA:

- Offers individual investors the benefits of an individually owned Allan Gray Retirement Annuity, administered on a group basis.
- Has the flexibility to cater for individual needs without the complexity of many group retirement funding arrangements.
- Enables employees to monitor and manage their own investment.
- Offers access to Allan Gray's proven expertise and experience in managing retirement fund money.
- Enables employers to offer staff a tax-efficient, flexible, portable and hassle-free way to save for their retirement.

Administrative efficiency for employers

Allan Gray is committed to providing employers with a secure and efficient administration system to monitor and make changes to employee information and monthly contributions. The Allan Gray Group RA Administration System ensures updates and changes are communicated to Allan Gray in a standardised way, limiting potential for inaccuracies.

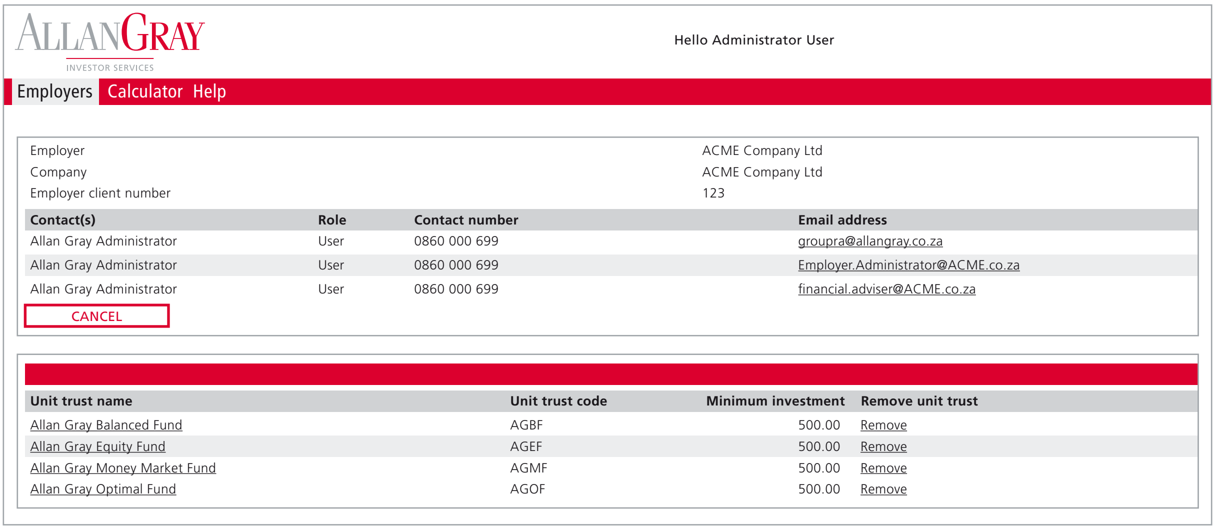
What are the benefits of the Allan Gray Group RA?

A cost effective solution for smaller companies

It is often difficult for smaller companies to provide pension or provident funds for their staff. The cost of setting up a fund is substantial and the administration and compliance requirements are onerous. The Allan Gray Group RA enables smaller companies to overcome these issues.

The importance of flexibility for employees to move their RA if they change jobs

Flexibility is crucial as employees are likely to encounter change, both in their personal lives and their financial requirements.



ALLANGRAY INVESTOR SERVICES

Hello Administrator User

Employers Calculator Help

Employer	ACME Company Ltd
Company	ACME Company Ltd
Employer client number	123

Contact(s)	Role	Contact number	Email address
Allan Gray Administrator	User	0860 000 699	groupra@allangray.co.za
Allan Gray Administrator	User	0860 000 699	Employer.Administrator@ACME.co.za
Allan Gray Administrator	User	0860 000 699	financial.adviser@ACME.co.za

CANCEL

Unit trust name	Unit trust code	Minimum investment	Remove unit trust
Allan Gray Balanced Fund	AGBF	500.00	Remove
Allan Gray Equity Fund	AGEF	500.00	Remove
Allan Gray Money Market Fund	AGMF	500.00	Remove
Allan Gray Optimal Fund	AGOF	500.00	Remove

Employers need a way to manage and administer these changes. For employees, portability is a significant advantage of the product, together with the tax-efficiency and other benefits of RAs. Gone are the days of life-long employment – today's workforce is highly mobile. Because each RA under the group scheme is individually owned, employees can continue contributing after they have left the company. Alternatively, they can stop contributing without any penalties.

What they cannot do is cash in their fund until a minimum age of 55. In this way, group RAs are in line with government's thinking on retirement reform. A big issue for government is the loss of retirement savings when individuals change jobs and take their accumulated pension monies in cash instead of transferring them to preservation funds.

Separating risk from investment

Furthermore, the investment industry as a whole has moved away from wrapping risk assurance together with investments. Instead, these are now offered as discrete, specialised components. This has improved transparency as bundled products tended to be opaque, particularly in terms of costs.

A reminder that the Allan Gray RA is an investment product – so it follows that the Allan Gray Group RA does not offer risk protection. This means that we focus on generating long-term investment returns at a lower cost than products that aggregate risk and investment.

Allan Gray investment options

When investors invest via an Allan Gray Group RA they have access to a variety of unit trusts across different sectors, from Allan Gray and other providers, with the flexibility to switch funds should their needs change after your initial selection. Unit trusts are transparent and provide access to expert portfolio managers. They offer benefits of diversification and come with safeguards. Through Allan Gray Online and our regular reporting, it is easy to monitor and compare their performance.

For more detailed information about the underlying investment options please refer to the 'Allan Gray Unit Trusts' brochure, 'Allan Gray Investor Services Investment Platform Fund List' and the relevant fund fact sheets available from your Financial Adviser, the Allan Gray Client Service Centre on 0860 000 654 or www.allangray.co.za

Fee structure and investment limits

The financial services industry has sought retirement solutions for smaller companies for years. One development in this quest was the umbrella fund. Like traditional pension funds, umbrella funds contain both a pension benefit and risk benefits such as group life and disability cover. The idea was to leverage the benefits of economies of scale across different companies to provide a cost effective, holistic solution. However, the hoped for cost benefits have not materialised in any meaningful way, and umbrella funds have proven in many cases to be just as costly as setting up a stand-alone fund.

The Allan Gray Group RA fee structure:

- Initial fees:
  No initial fee is charged by Allan Gray for the retirement annuity or the underlying funds.
- Annual fees:
  No annual administration fee is charged if the underlying unit trusts are managed by Allan Gray. If Allan Gray

Employee Benefits

1. **Value for money**
   The fee structure is transparent and provides value for money. There is no initial administration fee.
2. **Simplicity of choice**
   We provide access to an uncomplicated range of unit trusts designed to enable you and if you so wish, your Financial Adviser to select an underlying unit trust to suit your risk profile.
3. **Flexibility and freedom**
   You may switch between the unit trusts at any time, stop and start contributions without any penalties and if you change jobs your RA moves with you. You may transfer your investment to any other approved retirement product subject to prevailing legislation.
4. **Transparent fees and regular reporting**
   All fees are fully disclosed and we will keep you regularly informed on all aspects of your investment. You may also access your investment information (updated daily) online via www.allangray.co.za

Employer Benefits

1. **Clear individual accountability because each Allan Gray RA is member-owned**
   The Allan Gray RA is owned individually by each member. This heightens awareness of and makes it clear that it is ultimately the responsibilty of each member to save for his/her own retirement.
2. **Flexibility**
   The Allan Gray Group RA is very flexible. This makes it highly attractive to an increasingly mobile work force. Members are able to make additional contributions to an existing arrangement. When a member leaves an employer, he/she can:
   - Stop contributing.
   - Continue to contribute to their retirement savings (given the prevailing minimum requirements).
3. **Helps you fulfil your retirement savings obligation to your employees**
   You are able to ensure that your employees' contributions are in fact applied to retirement savings (as opposed to paying employees cash as part of their remuneration package and placing the onus on them to buy into their own scheme). It enables more effective management of your employees long-term savings liability. Risk protection should be provided separately.
4. **Cost management**
   Enables employers to manage the increasing costs associated with existing employee pension/provident funds and umbrella funds.

receives a fee discount from a fund provider, this is disclosed and passed on to investors.

- Annual investment management fees vary depending on the unit trust selected.
- Other fees:
  There is no cancellation fee and no switching fee.
- Fees for financial advice:
  This is agreed between the investor and their adviser, if they choose to appoint one. If not, there is no fee.

The monthly minimum investment

This is R500 per month per member. If the average contribution for the group is in excess of R1 000 per month there is flexibility to reduce any single minimum contribution to R250 per month. Please refer to the application form for further details.

In conclusion

The enhancement of our retirement annuity enables small- to medium-sized employers the opportunity to offer their staff a simple and transparent retirement savings option. The administrative simplicity is aimed at reducing the burden of time, the opaque costs and hassle normally associated with group arrangements. In so doing, we hope to encourage those who do not have any arrangement in place to make retirement provision and planning accessible and available to their staff.

Anthony Farr

ALLAN GRAY ORBIS FOUNDATION UPDATE

EXECUTIVE SUMMARY: Anthony Farr, Chief Executive of the Allan Gray Orbis Foundation, outlines the new initiatives that have been introduced to deepen the pool of talented candidates competing for the 500 Allan Gray Fellowships available through the Fellowship Programme at any one time. One of which is the growing 'Allan Gray Scholars' programme, where the Foundation is looking for grade seven learners who can clearly demonstrate financial need and who show exceptional ability and potential in mathematics and english as well as initiative and self-starter behaviour.

The Allan Gray Orbis Foundation is pursing the ambitious target of having 500 'Allan Gray Fellows' enrolled at university in the Fellowship Programme at any one time. In moving towards this target (currrently 135 enrolled), an ongoing challenge faced by the Foundation is finding sufficient candidates of the right calibre.

To address this, two new strategies have been developed since we last provided an update on the Foundation's activities in the second Quarterly Commentary of 2007. An 'Allan Gray Scholars' programme has been introduced to act as a feeder system into the Allan Gray Fellowship Programme (though progression is not guaranteed), and the application process for both the programmes has been opened up to all learners across the country in order to widen the field of potential candidates.

The Foundation was initiated in July 2005 to drive the social responsibility efforts of the Allan Gray Group, and is funded by an annual donation of at least 7% of the firm's taxed profits. In addition, this income stream is secured by a R1.1 billion bequest to a special-purpose endowment by the Group's founder, Allan W B Gray. This makes it the largest scheme of its kind in South Africa.

The Allan Gray Fellowship Programme is aimed at fostering job creation by offering talented young individuals full financial support to pursue a university degree in commerce, engineering or science. There are currently 135 Allan Gray Fellows on full scholarships at six different participating South African universities: the University of Johannesburg, the University of the Witwatersrand, the University of Pretoria, the University of Cape Town, Nelson Mandela Metropolitan University and Rhodes University. During the course of their studies they are exposed to an entrepreneurial development programme which includes comprehensive mentoring and varied work experience.

Scholars Programme gains momentum

Last year, the Foundation began offering a limited number of scholarships to promising learners in grade seven, to study at selected secondary schools from 2008. There are currently 12 scholars enrolled in four schools. For 2009, the number of participating schools is planned to increase. Each of these schools will reserve up to five places for Allan Gray Scholars, with the intention of enrolling an additional 50 Allan Gray Scholars in 2009 if all the places are filled.

The current and proposed participating schools include those shown in **Table 1** on page 23.

In addition to full scholarships for tuition and boarding, Allan Gray Scholars are given guidance from an appointed schools representative and a number of relationship sessions with the Foundation. Allan Gray Scholars are further exposed to a range of personal development programmes – the first, known as the 'Youth Development Programme' focuses on topics ranging from time management and motivation to listening skills and taking personal responsibility.

As a result of Allan Gray Scholars typically coming from previously disadvantaged backgrounds it has been important to ensure that all their needs are met including clothing, textbooks, incidental costs and even medical and dental costs. The Foundation will also facilitate two trips home a year for each Allan Gray Scholar.

TABLE 1	
Public Schools	**Private Schools**
Selborne College (East London)	Diocesan College (Bishops) (Cape Town)
Collegiate Girls' High School (Port Elizabeth)	St Cyprian's School (Cape Town)
Grey High School (Port Elizabeth)	St Andrew's College (Grahamstown)
Clarendon High School for Girls (East London)	

The Foundation is looking for learners that can clearly demonstrate financial need and who show exceptional ability and potential in mathematics and english as well as initiative and self-starter behaviour.

New application process

Previously, schools were used as the first selection filter and applicants for the Allan Gray Fellowship Programme had to be nominated by their schools. The Foundation visited and corresponded with literally hundreds of schools each year and asked them to nominate their most suitable five matric candidates and submit applications to the Foundation. Thereafter, several further layers of screening would ensue, including interviews, academic and entrepreneurial assessment tests, and finally, three-day selection camps. Now, aspirant Allan Gray Fellows can apply directly to the Foundation themselves.

The new selection process will hopefully attract a larger pool of potential talent by transferring the application responsibility to the learners themselves. Potential applicants use SMS technology to register for standardised assessment tests that will be offered in 19 venues across the nine provinces. Following the writing of these tests, applicants are then required to submit application forms. Thereafter, as before, interviews, further assessment tests and selection camps complete the process.

The assessment tests do not require any specialised knowledge, and are geared towards revealing academic ability and potential in mathematics and english, the cornerstones of future successful impact. The Foundation is using AARP (Alternative Admissions Research Project) testing for the initial assessment in order to fairly assess an applicant's academic suitability to compete for the Allan Gray Fellowship.

The Foundation launched the new application process in March through a substantial, nationwide advertising campaign. Interested learners are encouraged to visit the Foundation's website, www.allangrayorbis.org to learn more about the process. (see **Table 2** on page 24)

Honouring of excellence in the educational system

A concerning reality of the secondary school system in South Africa is that there is a significant concentration of educational excellence. According to research by the Centre for Development and Enterprise, 70% of the higher grade mathematics passes in this country are produced by only 11% of its secondary schools. The Foundation experienced a similar phenomenon when reviewing its previous selection campaigns. This analysis showed that despite working with hundreds of schools, 60% of the final stage selection candidates over the last two years were represented by only 40 schools.

This was the catalyst for the launch of the Foundation's Circle of Excellence for these schools (see **Table 3** on page 25) and a handful of others that have historically produced extraordinary results, particularly in the disciplines of mathematics and science. The final membership totaled 73 schools from across the country.

The intention behind the Circle of Excellence is to build stronger relationships with these institutions in working together to further develop the human capital of this country. It is vital that these centres of educational excellence continue to be encouraged and supported. The initial members of the Circle of Excellence were inducted at countrywide functions for these schools' principals in February 2008.

TABLE 2

Process	Date
Allan Gray Scholars	
Application opening date	Immediate
Application closing date	Friday, May 30, 2008
Assessment test for successful candidates at assessment centres	June 2008
Interviews for successful applicants	August 2008
Selection assessment at placement schools	September 2008
Allan Gray Scholarships offers	End September 2008
Allan Gray Fellows (Grade 12 learners)	
Application opening date	Immediate
1st AARP test opportunity	Saturday, March 29, 2008
2nd AARP test opportunity	Saturday, April 19, 2008
3rd AARP test opportunity	Saturday, May 24, 2008
Application closing date	Monday, June 30, 2008
Interviews of 1st round successful applicants	August 2008
Three-day selection camps	End September 2008
Allan Gray Fellowship offers	October 2008
Allan Gray Fellows (1st year university students)	
Application opening date	Thursday, May 01, 2008
Application closing date	Sunday, August 31, 2008
Interviews of 1st round successful applicants	October 2008
Three-day selection camps	End November 2008
Allan Gray Fellowship offers	December 2008

TABLE 3 Circle of Excellence members

School	Province
Alexander Road High	Eastern Cape
Bergvliet High School	Western Cape
Bishops (Diocesan College)	Western Cape
Bryanston High School	Gauteng
Carter High School	KwaZulu-Natal
Clarendon High School For Girls	Eastern Cape
Collegiate Girls' High School	Eastern Cape
Cornerstone College	Gauteng
Cosat (Centre For Science And Technology)	Western Cape
Crawford College, Durban (North Coast)	KwaZulu-Natal
Crawford College, Pretoria	Gauteng
DF Malan High School	Western Cape
Domino Servite School	KwaZulu-Natal
Durban Girls' High School	KwaZulu-Natal
Epworth Independent High School For Girls	KwaZulu-Natal
Eunice High School	Free State
Glenwood High School	KwaZulu-Natal
Greenside High School	Gauteng
Grey High School	Eastern Cape
Hershel Girls' School	Western Cape
Hilton College	KwaZulu-Natal
Hudson Park High School	Eastern Cape
Hyde Park High School	Gauteng
Inkamana High School	KwaZulu-Natal
Iona Convent	Gauteng
Jeppe High School For Boys	Gauteng
John Ross College	KwaZulu-Natal
Kearsney College	KwaZulu-Natal
Khanyisa Education Centre	Limpopo
Kimberley Girls' High School	Northern Cape
Kingsway High School	KwaZulu-Natal
King Edward VII High School	Gauteng
Livingstone High School	Western Cape
Loreto Convent School	Gauteng
Maritzburg College	KwaZulu-Natal
Metropolitan RAUcall	Gauteng
Michaelhouse	KwaZulu-Natal
Newton Technical High School	Eastern Cape
Northcliff High School	Gauteng
Parktown Boys' High School	Gauteng
Parktown High School For Girls	Gauteng
Paul Roos Gymnasium	Western Cape
Pietermaritzburg Girls' High School	KwaZulu-Natal
Port Rex Technical High School	Eastern Cape
Port Shepstone High School	KwaZulu-Natal
Pretoria Boys' High School	Gauteng
Pretoria High School For Girls	Gauteng
Queens High School	Gauteng
Ridge Park College	KwaZulu-Natal
Roedean School For Girls	Gauteng
Rondebosch Boys' High School	Western Cape
Rustenburg High School For Girls	Western Cape
South African College School (SACS)	Western Cape
Sandringham High School	Gauteng
Sekolo Sa Borokgo	Gauteng
Selborne College	Eastern Cape
St Alban's College	Gauteng
St Catherine's High School	KwaZulu-Natal
St Cyprian's School	Western Cape
St John's College	Gauteng
St Stithians College	Gauteng
St Andrew's College	Eastern Cape
St Francis College Marianhill	KwaZulu-Natal
St Mary's School Waverley	Gauteng
Stirling High School	Eastern Cape
The Settlers' High School	Western Cape
Theodor Herzl	Eastern Cape
Tiger Kloof Educational Institution	North West Province
Tygerberg High School	Western Cape
Victoria Girls' High School	Eastern Cape
Westerford High School	Western Cape
Westville Boys' High School	KwaZulu-Natal
Westville Girls' High School	KwaZulu-Natal

Tracy Hirst

2008 TV COMMERCIAL

EXECUTIVE SUMMARY: Allan Gray's approach to advertising continues to be built around communicating the characteristics of the organisation that are designed to produce superior results, and not around the result itself – investment performance. It conveys a straightforward message wrapped up in a human truth to which people can relate. Lastly, it continues to employ a black and white colour scheme. With all these cornerstones, it's no wonder an Allan Gray television commercial is instantly recognisable.

Background

I have written before of the 2007 television commercial that depicts one type of investor – those who chase the 'quick buck' – and contrasts them with those who know that patience is handsomely rewarded. The metaphorical tale drew upon a popular and well-known but false piece of folklore: that there is a pot of gold at the end of every rainbow. It was a strong, simple idea, which illustrates that, if one invests like this, all it ultimately leads to is disappointment. You need to be patient to succeed. And that's part of the secret of our clients' success. Our new television commercial finds another way to demonstrate the rewards of patience.

> "..., is a simple analogy of Allan Gray's long-term approach to reaping rewards."

The new television commercial

The theme of the new commercial, titled 'Beautiful,' is a simple analogy of Allan Gray's long-term approach to reaping rewards. This investment philosophy has its roots in identifying potential and then having the necessary patience to realise it. We believe there to be no more intelligent a way to invest.

In what is basically a touching love story, the minute-long commercial depicts a young boy's fascination with a seemingly plain Jane, despite being teased by his classmates. Such is his infatuation and conviction that he unhesitatingly defends her honour against a playground bully – which ultimately wins her over. This specific scene is a powerful analogy for a contrarian investor such as Allan Gray: staying the course, no matter the knocks one may endure, will ultimately reap reward.

It has purposely been made as a realistic and honest portrayal, and in this we are simply observing a real story, a day in the life of a girl and a boy. As the commercial draws to a climax, his motivation for wooing her becomes apparent as the little girl's mother is revealed. She is absolutely beautiful – a good indication of what the little girl might ultimately grow up to look like.

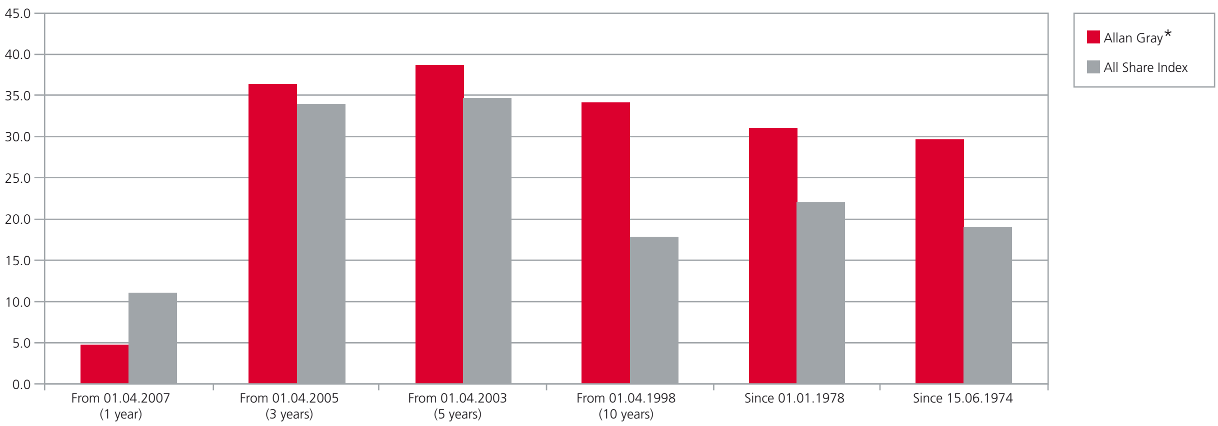
The commercial was developed by advertising agency King James and shot on location in Buenos Aires by production house Velocity. The grain finish gives it an older, cinematic feel. These elements make the tale timeless and universal.

The campaign was launched in early February and will run for the remainder of the calendar year on selected programmes on SABC 2 and 3 as well as on MNET and a few DSTV bouquet channels.

Investment Track Record

Allan Gray Limited Global Mandate Share Returns vs. FTSE/JSE All Share Index

Period	Allan Gray*	FTSE/JSE All Share Index	Outperformance
1974 (from 15.06)	-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	49.7	41.2	8.5
2007	17.6	19.2	-1.6
2008 (to 31.03)	-3.0	2.9	-5.9
Annualised to 31.03.2008			
From 01.04.2007 (1 year)	4.8	11.1	-6.3
From 01.04.2005 (3 years)	36.5	34.0	2.5
From 01.04.2003 (5 years)	38.6	34.7	3.9
From 01.04.1998 (10 years)	34.2	18.0	16.2
Since 01.01.1978	31.1	22.1	9.0
Since 15.06.1974	29.9	19.0	10.6
Average outperformance			10.6
No. of calendar years outperformed			26
No. of calendar years underperformed			7



* Note: Allan Gray commenced managing pension funds on 01.01.1978. The returns prior to 01.01.1978 are of individuals managed by Allan Gray, and these returns exclude income.

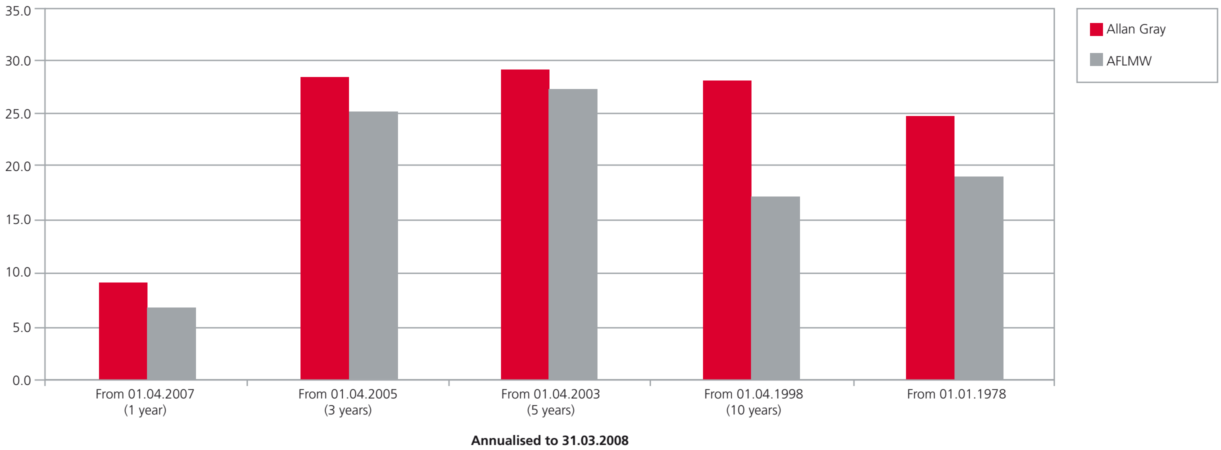
Note: Listed Property included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to **R63 380 931** by 31 March 2008. By comparison, the returns generated by the FTS/JSE All Share Index over the same period would have grown a similar investment to **R3 623 351**.

Investment Track Record

Allan Gray Limited Global Mandate Total Returns vs. Alexander Forbes Global Manager Watch

Period	Allan Gray	AFLMW**	Outperformance
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	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	-0.6
2008 (to 31.03)	2.2	0.8	1.4
Annualised to 31.03.08			
From 01.04.2007 (1 year)	9.1	6.7	2.4
From 01.04.2005 (3 years)	28.3	25.1	3.2
From 01.04.2003 (5 years)	29.2	27.3	1.9
From 01.04.1998 (10 years)	28.0	17.1	10.9
Since 01.01.1978	24.6	19.1	5.5
Average outperformance			5.5
No. of calendar years outperformed			24
No. of calendar years underperformed			6



** Consulting Actuaries Survey returns used up to December 1997. The return for March 2008 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to **R7 829 771** by 31 March 2008. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to **R1956 880**.

Allan Gray annualised performance in percentage per annum to 31 March 2008

	FIRST QUARTER (unannualised)	1 YEAR
UNIT TRUSTS**		
EQUITY FUND (AGEF)	***	**2.9**
FTSE/JSE All Share Index		11.1
BALANCED FUND (AGBF)	***	**6.8**
Average of both Prudential Medium Equity category and Prudential Variable Equity category (excl. AGBF)		5.3
STABLE FUND (AGSF) - (NET OF TAX)	***	**8.6**
After-tax return of call deposits plus two percentage points (Net of tax)		8.3
STABLE FUND (AGSF) - (GROSS OF TAX)	***	**9.6**
After-tax return of call deposits plus two percentage points (Gross of tax)		11.2
OPTIMAL FUND (AGOF)	***	**7.9**
Daily call rate of Firstrand Bank Ltd		9.0
BOND FUND (AGBD)	***	**4.2**
BEASSA All Bond Index (total return)		0.6
MONEY MARKET FUND (AGMF)	***	**10.2**
Domestic fixed interest money market unit trust sector (excl. AGMF)		10.0
ORBIS GLOBAL FUND OF FUNDS (AGGF) ****	***	**22.9**
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		20.3
ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	***	**14.1**
FTSE World Index (Rands)		11.0
FOREIGN-ONLY (RANDS) **		
ORBIS GLOBAL EQUITY FUND (RANDS)	**13.3**	**13.5**
FTSE World Index (Rands)	9.0	11.1
ORBIS JAPAN EQUITY (YEN) FUND (RANDS)	**16.7**	**3.4**
Tokyo Stock Price Index (Rands)	11.6	-4.2
ORBIS OPTIMAL SA FUND-US$ CLASS (RANDS)	**24.3**	**20.7**
US$ Bank Deposits (Rands)	20.6	17.8
ORBIS ASIA EX-JAPAN EQUITY FUND (RANDS)	**20.3**	**41.4**
MSCI Asia Ex-Japan (Rands)	2.3	33.3
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	**20.6**	**21.3**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	17.3	20.6
POOLED RETIREMENT FUNDS		
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	**2.1**	**9.3**
Mean of Alexander Forbes Global Large Manager Watch *	0.8	6.7
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	**-1.4**	**6.1**
Mean of Alexander Forbes Domestic Manager Watch *	-1.2	5.6
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	**-1.9**	**5.4**
FTSE/JSE All Share Index	2.9	11.1
ALLAN GRAY LIFE RELATIVE DOMESTIC EQUITY PORTFOLIO	**0.9**	**10.3**
FTSE/JSE CAPI Index	1.7	9.8
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	**3.4**	**11.9**
Mean of Alexander Forbes Domestic Manager Watch *	-1.2	5.6
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	**6.5**	**14.1**
Mean of Alexander Forbes Global Large Manager Watch *	0.8	6.7
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	**0.5**	**9.0**
Alexander Forbes Three-Month Deposit Index plus 2%	3.2	12.2
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	**4.7**	**11.9**
Alexander Forbes Three-Month Deposit Index plus 2%	3.2	12.2
ALLAN GRAY LIFE FOREIGN PORTFOLIO **	**20.9**	**21.8**
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	17.3	20.6
ALLAN GRAY LIFE ORBIS GLOBAL EQUITY PORTFOLIO **	**13.2**	**13.4**
FTSE World Index (Rands)	9.0	11.1
ALLAN GRAY LIFE MONEY MARKET PORTFOLIO **	**2.7**	**10.2**
Alexander Forbes Three-month Deposit Index	2.6	10.0
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO **	**0.7**	**8.7**
Daily Call Rate of Nedcor Bank Limited	2.6	9.7
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	**1.3**	**9.4**
Consumer Price Index plus 3% p.a. *	2.6	12.5
SEGREGATED RETIREMENT FUNDS		
GLOBAL BALANCED MANDATE	**2.2**	**9.1**
Mean of Alexander Forbes Global Large Manager Watch # *	0.8	6.7
DOMESTIC BALANCED MANDATE	**-1.2**	**6.4**
Mean of Alexander Forbes Domestic Manager Watch *	-1.2	5.6
EQUITY-ONLY MANDATE	**-1.7**	**6.4**
FTSE/JSE All Share Index	2.9	11.1
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN MANDATE	**3.7**	**12.9**
Mean of Alexander Forbes Namibia Average Manager *	0.8	8.4
EQUITY-ONLY RELATIVE MANDATE	**-1.4**	**5.9**
Weighted average of client specific benchmarks *	-0.7	6.5

PERFORMANCE AS CALCULATED BY ALLAN GRAY.

Consulting Actuaries Survey returns used to 31 December 1997. Alexander Forbes Global Manager Watch used from 1 January 2006.

* The return for Quarter 1, 2008 is an estimate, as the relevant survey results have not yet been released.

** The returns 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.

3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R millions)	INCEPTION DATE
33.0	34.8	1834.4	17,766.8	01.10.98
34.0	34.7	665.2		
25.3	27.9	584.2	25,465.2	01.10.99
21.5	24.3	282.2		
15.6	15.6	203.5	21,288.1	01.07.00
6.9	7.0	78.5		
16.4	16.7	232.2	21,288.1	01.07.00
9.2	9.5	116.5		
8.8	8.8	65.7	1,018.3	01.10.02
7.1	7.3	50.8		
7.4	-	32.0	96.5	01.10.04
6.3	-	28.8		
8.4	8.6	81.6	4,976.5	03.07.01
8.2	8.5	81.8		
21.7	-	72.8	6,137.5	03.02.04
20.2	-	69.7		
-	-	98.3	3,060.2	01.04.05
-	-	81.0		
		Figures above unannualised		
25.3	25.3	22.2	16,539.8	01.01.90
21.9	18.1	14.7		
13.8	15.3	17.9	6,882.3	01.01.98
14.5	14.5	9.4		
-	-	20.6	4,387.5	01.01.05
-	-	17.2		
-	-	37.8	104.6	01.01.06
-	-	37.6		
21.4	17.4	18.3	4,098.4	23.05.96
20.3	14.3	13.5		
28.4	29.2	26.1	12,210.7	01.09.00
25.1	27.3	18.7		
30.0	32.4	26.9	5,483.9	01.09.01
25.7	29.2	21.6		
37.5	39.1	32.1	6,559.5	01.02.01
34.0	34.7	21.5		
35.6	-	37.1	460.3	05.05.03
33.3	-	35.4		
31.0	31.4	30.0	538.0	06.07.01
25.7	29.2	20.9		
30.7	-	26.9	748.8	01.03.04
25.1	-	25.2		
19.2	19.7	18.8	457.3	01.12.01
10.4	10.8	11.5		
18.6	-	19.8	2,381.0	15.07.04
10.4	-	10.3		
21.6	17.4	7.7	1,492.5	23.01.02
20.3	14.3	4.0		
24.6	-	21.9	1,514.4	18.05.04
21.9	-	19.2		
8.4	9.0	9.7	519.2	21.09.00
8.3	8.6	9.5		
9.8	9.7	9.6	162.4	04.12.02
7.4	7.5	7.8		
17.5	-	18.0	1,013.8	01.05.04
9.4	-	8.7		
28.3	29.2	24.6	24,765.6	01.01.78
25.1	27.3	19.1		
29.9	31.7	25.0	22,910.3	01.01.78
25.7	29.2	19.4		
37.7	38.9	24.4	46,747.9	01.01.90
34.0	34.7	16.7		
28.3	28.8	22.8	5,790.0	01.01.94
24.9	26.7	16.2		
33.9	36.1	27.6	8,673.5	19.04.00
31.9	34.7	20.8		

Balanced Fund Quarterly Disclosure as at 31 March 2008	
	% of Fund
South African Equities	**66.1**
Resources	**14.2**
Sasol	4.0
Anglogold Ashanti	3.8
Harmony Gold Mining Co	3.7
African Rainbow Minerals	2.0
Positions individually less than 1% of total JSE listed securities held by the Fund	0.8
Financials	**10.3**
Sanlam	3.3
ABSA Group	2.4
Standard Bank Group	2.1
Positions individually less than 1% of total JSE listed securities held by the Fund	2.6
Industrials	**41.1**
Remgro	6.7
SABMiller	6.6
MTN Group	5.7
Richemont	5.0
Sappi	3.1
Nampak	1.8
Shoprite Holdings	1.7
Sun International	1.4
Dimension Data Holdings	1.3
Illovo Sugar	1.2
Tiger Brands	0.8
Aspen Healthcare Holdings	0.7
Positions individually less than 1% of total JSE listed securities held by the Fund	5.1
Other Securities	**0.4**
Positions individually less than 1% of total JSE listed securities held by the Fund	0.4
Derivatives	**-9.0**
ALSI 40 06/08 - RMB	-9.0
---- Net South African Equities ----	*57.1*
Hedged South African Equities	**9.0**
Property	**1.4**
Liberty International	1.4
Commodities	**2.3**
New Gold ETF	2.3
Bonds	**3.7**
RSA Bonds	1.7
Parastatal Bonds	0.6
Corporate Bonds	1.4
Money-market and Call Deposits	**11.3**
Foreign Equities	**7.6**
Orbis Global Equity Fund	4.0
Orbis Japan Equity(Yen) Fund	2.8
Mondi	0.8
Foreign Absolute Return Funds	**7.6**
Orbis Optimal SA Fund (US$)	4.5
Orbis Optimal SA Fund Euro	3.1
Totals:	**100.0**

ALLAN GRAY

INTELLIGENT INVESTING

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