

Quarterly Commentary

Q2



30 June 2002

ALLAN GRAY

LONG TERM INVESTMENT MANAGEMENT

Q2

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Front cover: Some of the contributors to this issue are from left to right: Arjen Lugtenburg, Helena Swart, Christo Terblanche

Mark Herdman

Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer



“We remain confident in our ability to deliver superior returns, on behalf of our clients, over the next few years.”

The first half of 2002 has seen global stockmarkets fall by 8.6% in US\$ (as represented by the MSCI Index) and the local stockmarket (JSE All Share Index) rise by only 3.8%. Clearly investment conditions are difficult. Despite the more than 30% decline in the World Index over the past two years, Jack Mitchell, our equity strategist, concludes in ‘Investment Perspective’ that we remain extremely concerned about the still high level of share prices, especially in the western world. He goes on to show that the fundamentals for our local share prices look far more favourable and therefore hold less risk. In addition, well-chosen domestic shares are expected to outperform interest related investments in future.

Investment Commentary

Arjen Lugtenburg, one of our equity portfolio managers, explains the primary difference between our portfolio construction process and that of most of our peers. This is, that we do not use the composition of some benchmark index as a departure point when we construct a portfolio. Instead we start with a “clean sheet” and only select under-valued shares irrespective of their weighting in the benchmark. As a result our clients’ portfolios often differ markedly from

the average and therefore their performance is often quite different. Fortunately, this difference in performance has historically been overwhelmingly in favour of our clients. Arjen, then uses the three broad sectoral components of the All share Index to show that constructing a portfolio based upon an assessment of value, rather than merely following the index, can significantly enhance long-term returns.

Allan Gray Life Limited

Christo Terblanche, an Executive Director and the person responsible for the operational management of our Life Company, reflects on its progress during the first two years of existence. The acceptance by the market of our concise product range has been most satisfying and we remain confident that we can continue to meet the objectives that we initially set out to achieve.

Gray Matters

In ‘Gray Matters’ we feature our Compliance Officer, Helena Swart. Compliance has always been a very important function at Allan Gray and one, which we take extremely seriously. The reputation and existence of an asset management firm depends upon winning and retaining its clients’ trust. Ensuring an uncompromisingly high standard of internal controls and regulatory compliance is therefore essential. We are proud of the standards of compliance that we have achieved and maintain.

Johan de Lange, Head of Retail Marketing and Distribution, then provides an update on the progress of our retail business, which has been very exciting.

Investment Performance

Across all of our client’s various mandates their average performance has considerably exceeded their respective benchmarks during the second quarter of 2002. The largest client composite, that of our segregated global balanced mandate, earned 7.7% versus 1.2% for our estimate of the mean of the Consulting Actuaries Survey. Our equity-only clients generated a return of 10.0% versus the -1.8% for the All Share Index. Once again, our investment approach of selecting shares that represent fundamental value has been most rewarding. Orbis Investment Management Limited, our global asset management partner to whom we have entrusted all of our clients’ foreign investments, delivered a creditable -0.7% return (in Rands) on the foreign component of our global balanced clients versus -9.4% (in Rands) for our estimate of the foreign component of the mean of the Consulting Actuaries Survey.

We remain confident in our ability to deliver superior returns, on behalf of our clients, over the next few years as the prospects for our clients’ major investments continue to improve and are not yet fully reflected in their pricing.

I hope that you enjoy this issue of our ‘Quarterly Commentary’.

MARK HERDMAN
Chief Operating Officer

Revisiting the stockmarket

Jack Mitchell

Director, Allan Gray Limited

Chairman, Allan Gray Unit Trusts and Allan Gray Property Trust Management Limited

Investment Perspective



“We expect poor returns from international share markets in the years ahead.”

In our Quarterly Commentary dated 31 March 2001 I expressed some views on the outlook for the major world stockmarkets. Whilst share selection rather than market timing is our core competency, we are committed to share with you any strong feelings we might hold on the markets from time to time.

We have reproduced an updated version of the S & P index together with its fundamental benchmark values, indicating the changing value inherent in the USA market since 1925. The features of **graph 1** (see page 3 opposite) are:

- The red line is the price level of the index.
- The blue line shows the level that the index would be priced at, if it traded at its average earnings yield of 7.5%, which equates to 3.3 times historical earnings.
- The black line depicts where the index would be priced at, if it traded at its average dividend yield of 4.2%.

- The white bars represent the level of the index, if it traded at its average price to net asset ('book') value of 1.9 times.

“We are committed to share with you any strong feelings we might hold on the markets from time to time.”

Before reaching any conclusions on the graph, be cautioned that the 77-year history coupled with the logarithmic scale (where a straight line represents a constant growth rate), tends to make historically large movements appear in the fullness of time, quite mild. For instance, the rolling bear market between 1968 and 1978 resembles a consolidatory affair, hardly reflective of the build-up of investor anxiety during that period. Even the horrific 1987 collapse looks like just another squiggle on the graph from the current vantage point.

“It was 25 years before the S & P index surpassed the 1929 peak.”

Being then aware of how 'distance lends enchantment to the view' we make the following observations:

- As one would expect, share prices are buoyed over extended periods of time by growth of earnings, dividends and net asset value.
- The interplay between the level of share prices and their fundamental values is dependant on swings in investor mood from optimism to pessimism and back again*. The up and down cycles tend to be lengthy. Investors should steady themselves for a long down cycle after the twenty-six year up cycle, which ended in 2000.
- Notwithstanding the recent weakness in share prices, the level of optimism remains greater than the 1929 experience. From an earnings perspective this is exacerbated by the recent collapse in profits as represented by the sharp drop in the blue line.
- It was 25 years before the S & P index surpassed the 1929 peak.
- High levels of optimism often give way to extremes in pessimism, once the speculative fever is broken.

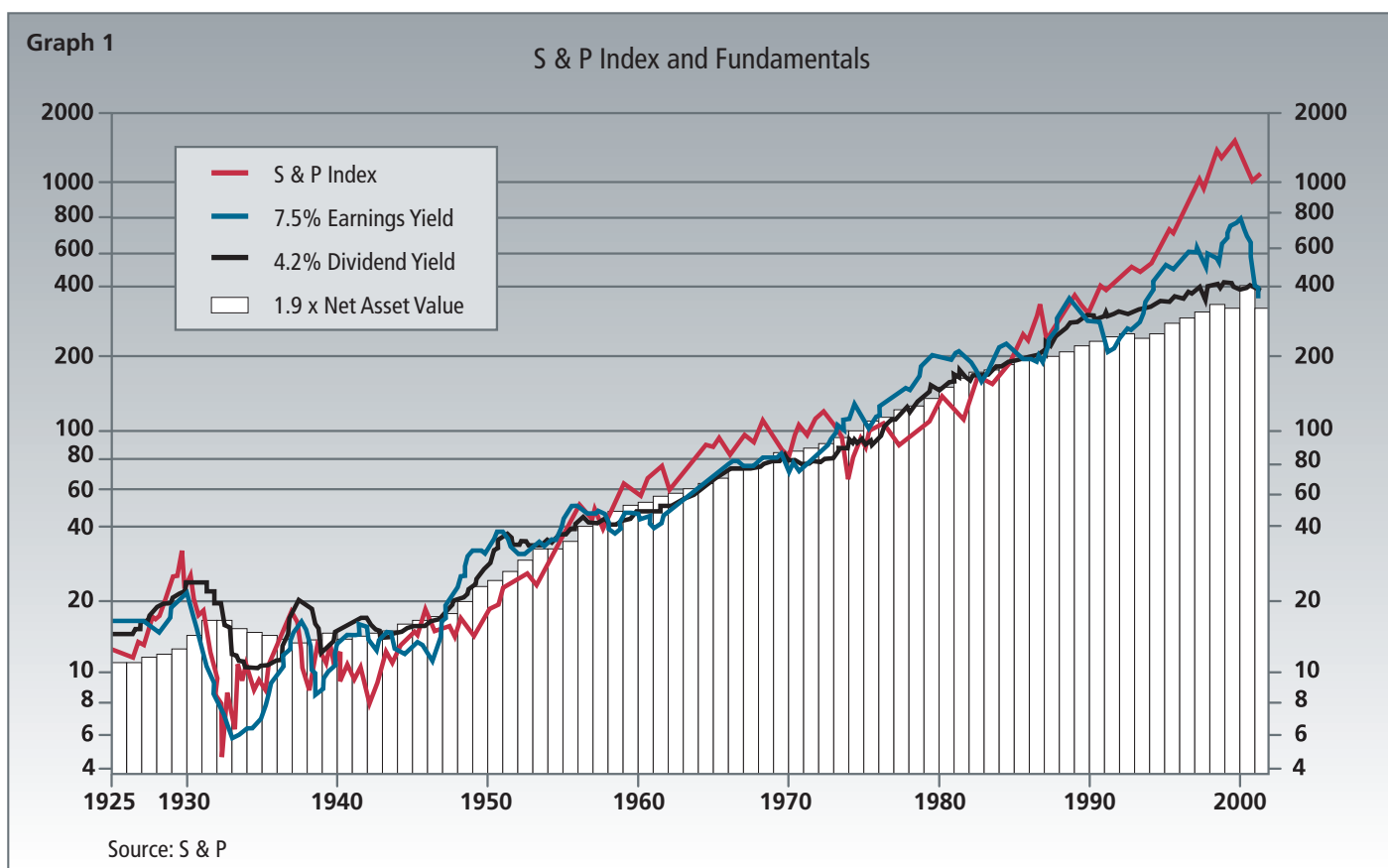
* Simon Marais, our Chairman, commented on the cyclical effects of investor sentiment in the previous Quarterly Commentary.

“We remain extremely concerned about the high level of share prices, especially in the western world.”

Given the above, we remain extremely concerned about the level of share prices, especially in the western world. Consequently, share returns are likely to be poor over a prolonged period.

Naturally this is an unfavourable background for all world stockmarkets including our own.

However, the fundamentals regarding our own share prices look much less extreme (see **Graph 2** on page 4). This means that our shares hold less risk than, for instance, those of the USA.

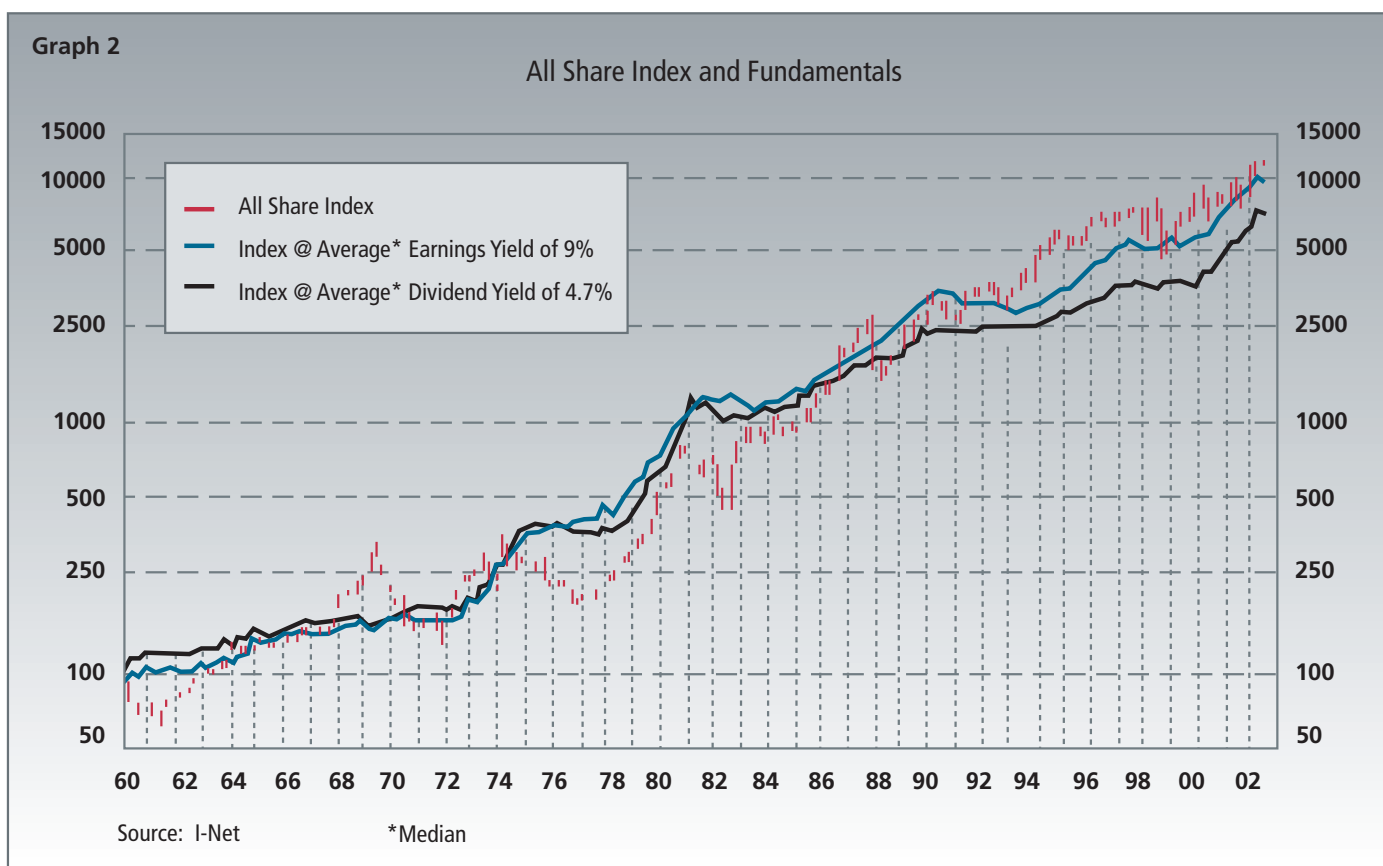


“It is comforting to note that our value style investment process tends to perform relatively well during periods when the JSE All Share Index is weak.”

In addition, it is comforting to note that our value style investment process tends to perform relatively well during periods when the JSE All Share Index is weak.

Turning to alternative investments, the most widely used comparison is bonds.

Comparing the current earnings yield on shares to the after tax bond yield (see **Graph 3** on opposite page), reveals that shares offer their best relative value for decades. Remember that earnings have an inherent growth function as depicted in **Graph 2**, whereas bond returns are static.



“Comparing the current earnings yield on shares to the after tax bond yield, reveals that shares offer their best relative value for decades.”

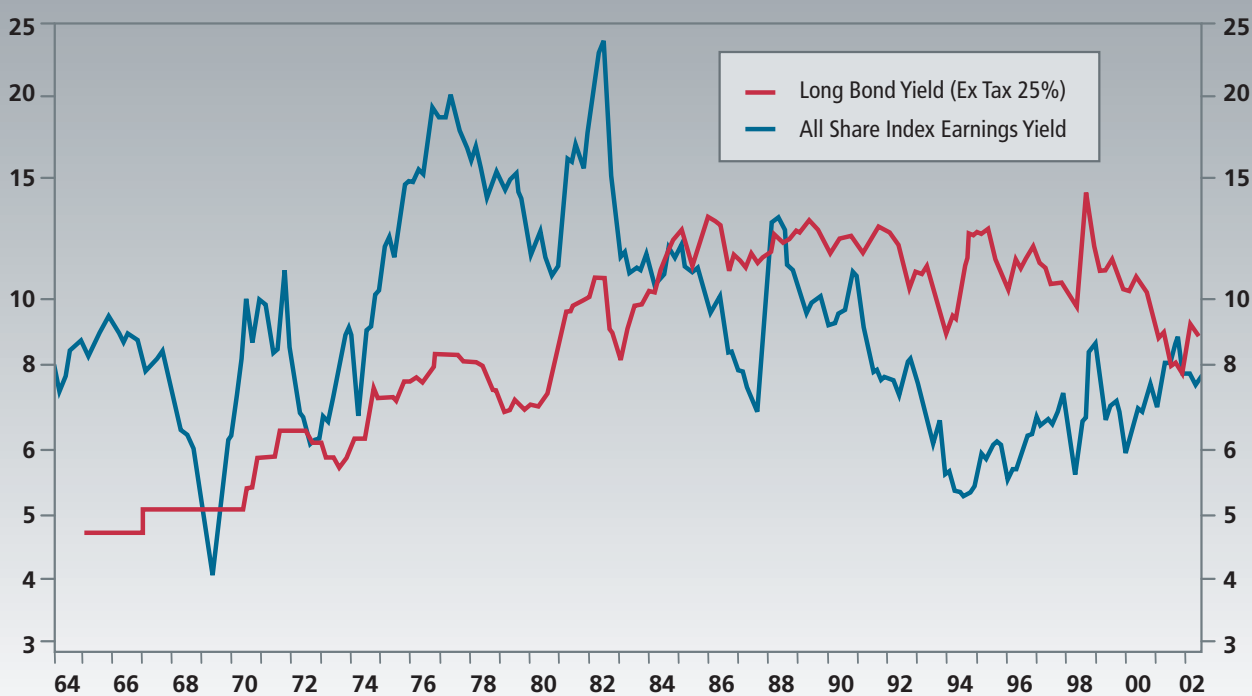
All of the above factors coupled with our historic ability to add value for our clients through superior share selection leads us to maintain a healthy share exposure, notwithstanding the risks cited offshore.

the years ahead, which will undoubtedly lead to a bumpy ride for local investors, we continue to believe that well-chosen domestic shares will outperform interest related investments in future.

In conclusion, although we expect poor returns from international share markets in

Graph 3

Comparative SA Asset Yields



Source: I-Net

Why being different makes sense

Arjen Lugtenburg

Director, Allan Gray Limited

Equity Portfolio Manager and Analyst

Investment Commentary



As previously explained, Allan Gray's investment process aims to invest in shares that are under-valued meaning that they are trading at discounts to their underlying fair value. Unlike other investment houses, we do not use the composition of a benchmark index, such as the JSE All Share Index, as a departure point when we construct a portfolio.

An Allan Gray portfolio will be composed of under-valued shares and will not contain those that we believe are over-valued, despite the fact that they may be substantial components of the benchmark index. The result is that our portfolios often look markedly different to those of the benchmark index and of our competitors, as illustrated in the table below.

The table clearly shows that the Allan Gray portfolio differs significantly in its composition from both the index and the average fund. The average manager's portfolio is more closely aligned to the index

and the differences that exist can be ascribed to the significance of a number of counters in the domestic index that have primary listings offshore. These therefore are not available to domestic managers in their entirety. These are mainly resource counters.

Since the composition of our portfolios is so different, it should not be surprising that our performance often differs markedly from that of our peers and the benchmark index. Although this difference in performance has been predominantly in favour of our clients, there have been times when we have underperformed. Interestingly, it is exactly the fear of occasional underperformance that keeps most investment managers from straying too far from the benchmarks.

A study of our performance track record will reveal that these periods of under-performance have never persisted for too long. Although they are never pleasant to endure at the time, they generally lead to significant outperformance. No gain without some pain, so to speak.

This is because the components of the benchmark index are market capitalisation weighted. In other words, the higher the value assigned by the market to a particular company, the higher its weighting is in the index. Therefore, by merely investing in the index, or constructing a portfolio to be in line with the index, the more expensive shares would demand a higher weighting, and the cheaper shares a lower weighting. This point is explained below.

Graph 1 shows the relative values of the three broad indices: the resource, industrial and financial index over time. Over the longer term, the performance of these three indices has been very similar. In this context, an investor would have been indifferent as to what index he had invested in. If however, he had continually rebalanced his portfolio in favour of the most under-valued index at the expense of the most over-valued index, he would have substantially enhanced returns. For instance, had he sold all his financial shares at the end of the first quarter 1998 and invested his entire portfolio in resource shares, his subsequent investment returns would have been substantially superior to merely buying some appropriate mix of the three indices. This is because any mixture would have included financial shares, which were particularly expensive at that point in time and which subsequently underperformed.

SHARE PORTFOLIO SECTORAL ANALYSIS ON A LOOK-THROUGH BASIS (at 31 March 2002)

	Allan Gray %	Average General Equity Unit Trust %	ALSI 40* %
Resources	20	41	55
Industrials	70	38	24
Financials	10	21	21
Total	100	100	100

*JSE All Share Top 40 Index

Graph 2 illustrates the annual average weights of the three indices in the broad All Share Index (ALSI) since 1974. It is interesting to note that at the end of the first quarter 1998 the weighting of the financial shares in the ALSI was 32.9%, its highest weighting over this period, while the resource index contributed only 23.4%, by far its lowest weighting. Therefore, had your portfolio continuously approximated the benchmark index, it would have had its highest weighting in financial shares, at that point in time when they were most expensive. Similarly your portfolio would have had its lowest weighting in resource stocks at the time when they were at their cheapest.

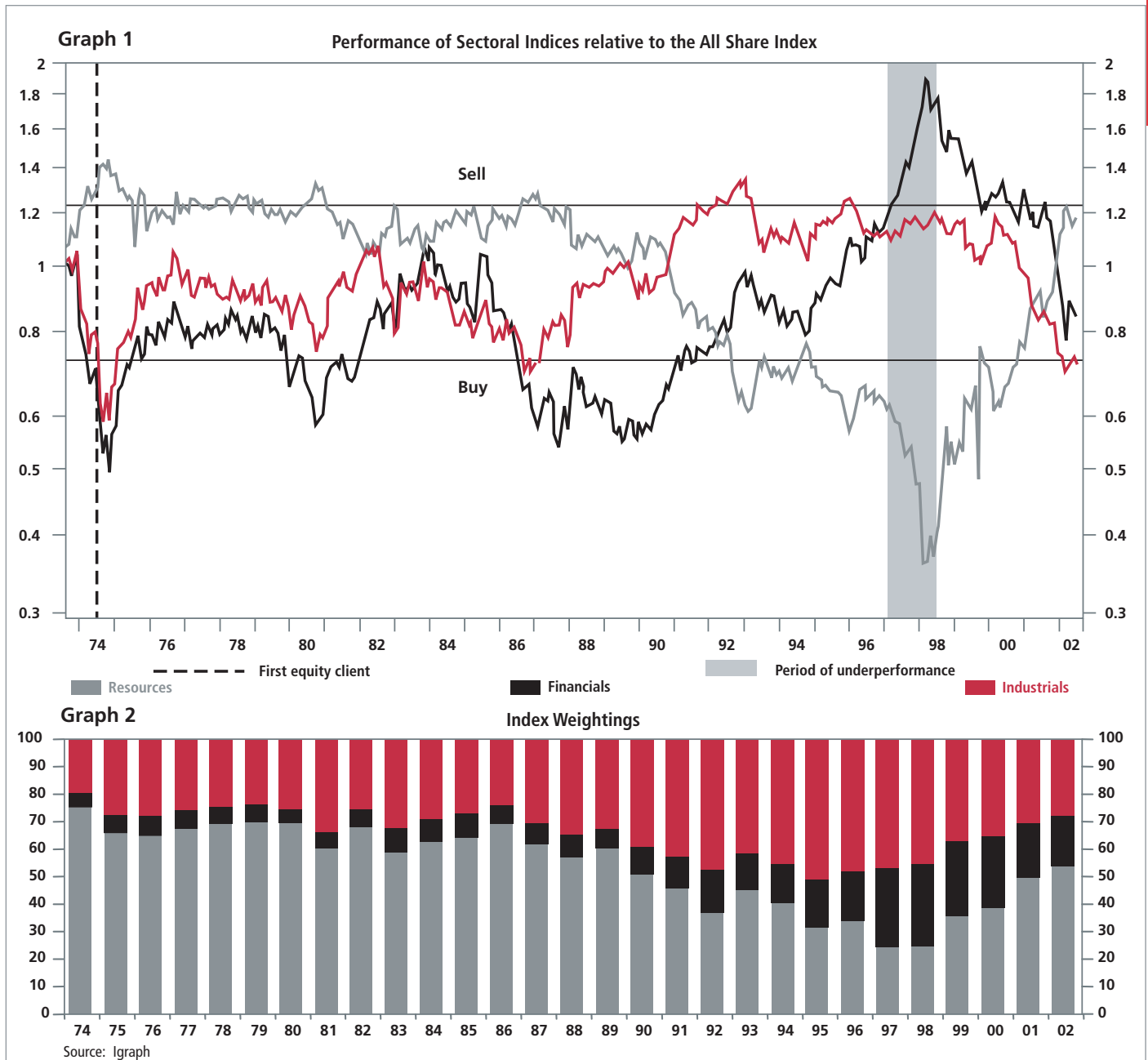
This does not make sense if your aim is to maximise returns over the long-term. To us,

resource stocks offered a once-in-a-lifetime buying opportunity in 1998. It should therefore not be surprising that resource stocks constituted 32.5% of our portfolio at the end of the first quarter 1998 versus only 8% in the average general equity unit trust.

Although our clients' performance suffered in 1997 (they underperformed by 12.9%) when resource stocks went from cheap to very cheap, and financial shares went from expensive to very expensive, this underperformance was handsomely rewarded in subsequent years when market valuations returned to relatively normal levels. Our clients' equity returns outperformed by 11.5% in 1998, 61% in 1999 and 13.2% in 2000. The poor returns posted in 1997 were

indeed a small cost to pay. Our willingness to be prudently different was not only rewarding for our clients in the late 1990's, but more importantly has led to enhanced returns for them ever since inception in 1974.

Today, we again face a situation where valuations are extended, with resource stocks at the top of their historical range while industrial shares are at a particularly low point. The weighting of industrial shares in the ALSI stood at 28% on 30 June 2002, its lowest weighting since the mid '80s. To us, industrial shares currently present an exceptional investment opportunity and our clients should not be surprised to find the weighting of industrial counters in our portfolios at 70%.



Allan Gray Life Limited

Christo Terblanche

Director, Allan Gray Life Limited

Update on Life



“Allan Gray Life was established with the primary objective of offering pooled portfolios that would allow a wider range of clients access to Allan Gray’s investment management services.”

In our Quarter Three, 2000 Commentary we wrote about our life insurance company, Allan Gray Life, which was established on 30 August 2000. Almost two years later, we can now reflect on how successful we have been in meeting the objectives we initially set out to achieve.

Allan Gray Life was established with the primary objective of offering pooled portfolios that would allow a wider range of clients access to Allan Gray’s investment management services.

Allan Gray Limited has in the past been criticised as having high barriers to entry. This was a perception that resulted from our offering investment management services on a segregated account basis only, with account sizes of at least R100 million. However, the pooled portfolios offered by Allan Gray Life have been designed with

a minimum account size of R10 million per client, and therefore accommodate smaller investment sizes relative to our segregated accounts.

This makes them a suitable investment medium for smaller and medium sized retirement funds, a market to which Allan Gray had, prior to the establishment of the Life Company, only limited exposure to via Allan Gray’s unit trusts.

However, the pooled portfolios were not established exclusively for smaller and medium-sized retirement funds. We are seeing an ever-increasing interest in the pooled portfolios from previously segregated managed funds. This is spurred on by global trends, where demand to invest via commingled (pooled) vehicles has increased substantially. This is not completely unexpected, as they offer a number of advantages over the more traditional segregated portfolios.

Not only are pooled portfolios typically valued and priced on a daily basis as opposed to segregated accounts which are valued monthly, but they also offer the opportunity of greater investment flexibility, liquidity and diversification at lower costs, compared to the segregated management of the same underlying investment. An example of this is the use of a property unit trust or property company (pooled investment vehicle) to gain

exposure to the property market as opposed to holding the property directly.

As a result of enhanced financial awareness brought about by education through various media, members of retirement funds are increasingly demanding that they be given the opportunity to make their own investment decisions with their retirement fund savings. This is more commonly termed “Individual Member Choice”. The unitised nature of pooled vehicles facilitates the effective accounting and administration of a retirement fund’s investment holdings on a detailed individual member level.

Allan Gray’s pooled portfolios also offer a flexible charging structure, similar to what is available on segregated accounts. As with segregated clients, pooled portfolio clients also receive monthly investment accounts and quarterly reports.

Since inception, Allan Gray Life has issued investment policies to no fewer than 85 retirement funds, and we have seen the assets under management in respect of the pooled portfolios grow to just over R3.1 billion. Our clients are the retirement funds of a number of distinguished companies across the whole spectrum of industries in South Africa including, amongst others, financial services, foods and beverages, packaging, electronics, information technology and construction.

“Since inception, Allan Gray Life has issued investment policies to no fewer than 85 retirement funds.”

Approximately half of the clients offer their members some form of individual investment choice. To this end we currently provide unit prices to a number of retirement fund administrators on a daily basis.

Another objective for the establishment of Allan Gray Life was to enhance Allan Gray's product offering.

Allan Gray Limited has since its establishment in 1974 focused on the provision of investment management services to institutions and high net worth individuals. With the establishment of Allan Gray's unit trusts in 1998, the product offering was extended to the general retail market. The establishment of Allan Gray Life has provided us with further opportunities to provide our investment management services to the retail investment client.

During the course of last year, the Financial Services Board approved our application to extend our insurance license to include life policies. This resulted in the launch of our investment linked compulsory annuity on 1 October 2001, the Allan Gray Living Annuity, which was covered in our Quarter Three, 2001 Commentary.

To date, (end of June) we have issued 90 annuity policies, with a current value of some R59 million.

We have not yet exhausted the whole range of products that can be offered by a long-term insurance company. However, for us it is not of paramount importance that

we become the biggest life insurance company in the industry. We also do not believe in the proliferation of products. For us it is more important that all the products developed are of an enduring nature and provide investors with a means to benefit from Allan Gray's investment management expertise. Furthermore, the products should offer investors completely transparent, value-for-money solutions.

We will continue to research and analyse the whole range of insurance products, but only develop and launch those which we believe meet the above criteria. An aspect of great importance to investors in a life insurance company is the financial strength of the company and its ability to remain solvent and honour its obligations during periods of adverse trading conditions. Allan Gray Life does not offer any products with guarantees, either in the form of investment returns or in the form of payments of guaranteed amounts contingent on certain events. All products are of a market-related nature, in other words, the benefits payable under the contracts are subject to the performance of the underlying investments, and these investment holdings are disclosed to investors on a regular basis. The only fixed obligations are in respect of expenses, for which Allan Gray Life is currently covered approximately 200 times by way of its shareholder capital. Allan Gray Life therefore has negligible risk of insolvency due to adverse trading conditions.

As part of its standard due diligence on newly established life companies, the Financial Services Board (FSB) recently visited Allan Gray Life in order to investigate our policies and procedures and the soundness of our administration systems. Not only did the FSB find everything to be in a sound operational order and in compliance with the Long-term Insurance Act and its regulations,



Christo Terblanche

but they were also bemused at the simplicity, efficiency and 'cleanliness' with which the business is run. We have always demanded these principals and standards in all the businesses in which we participate.

In conclusion, we believe that we have thus far met the objectives that we initially set out to achieve. Furthermore, we strongly believe that by the continued application of our long-established, deep-rooted business principles we will continue to do so in the future.

Introducing Compliance

Helena Swart

Compliance Officer, Allan Gray Limited

Gray Matters



Ensuring that transactions adhere to procedures, regulatory conditions, client mandates and internal investment controls, and the prevention of non-compliant actions is something that Allan Gray takes very seriously.

Helena Swart, Allan Gray's Compliance Officer and Public Officer of Allan Gray Life, completed her B. Comm LLB at Stellenbosch University. In 1998 she joined Old Mutual in the Individual Life and Client Services Division as legal advisor, transferring 2 years later to Unit Trusts as Senior Legal Advisor for a period of 18 months. During her time at Old Mutual, she acted as Trustee for three types of funds, namely a provident fund, a benefit fund and an equity-linked retirement annuity fund. She is currently a member of the Compliance Institute of South Africa, the Pension Lawyers Association, the Western Cape Anti-Money Laundering Forum and the Financial Planning Institute.

Internally, Allan Gray's portfolio management and accounting system prevents the entry of investment transactions on a client's portfolio that will result in the transgression of the client's investment mandate, the applicable regulatory conditions, or our own internal conditions.

A compliance exception report is generated following the end of each trading day. This report highlights transgressions of regulatory conditions, client mandates and internal investment controls, which may have occurred, for example, as a result of market value movements. This report is monitored, ensuring that the correct course of action is taken to resolve each transgression.

A personal transaction system allows the requests for permission to trade for own accounts, tracking approval status and communicating discrepancies to the affected parties. In the event of conflict, our system automatically withdraws the approvals and informs the affected parties.

Over and above the internal systems in place to ensure compliance, Allan Gray periodically reports to the Audit Committee and is audited by our external auditors on a number of levels. The computerised systems themselves are periodically reviewed to assess accuracy and completeness of compliance monitoring. Allan Gray has been given a clean bill of health by the Financial Services Board (FSB) in all these regards.

Helena is responsible for keeping Allan Gray up to date with the possible implications of draft legislation such as the Financial Advisory and Intermediary Services Bill (FAIS), as well as implementing the procedures and drafting the policies to ensure compliance with new legislation such as the Financial Intelligence Centre Act. In addition, she liaises with regulatory authorities such as the AUT and FSB to obtain approvals, licenses or exemptions, where applicable.

Another key responsibility is ensuring that employees avoid conflicts of interest. These may arise where employees make personal investment transactions, where employees already have a material beneficial ownership, or where there are other factors that may interfere

with the employee's ability to make unbiased and objective recommendations. Since the interests of our clients always come before the interest of the company and employees, investment transactions for the company's clients have priority over personal transactions. Investment staff must disclose material beneficial ownership by themselves or members of their immediate families in shares under consideration by them or by the policy group of which they are voting members.

Similarly, another task is to ensure that complete confidentiality of any and all information, which is proprietary to the company or its clients, is maintained. There are procedures in place to closely monitor this. It is important to ensure that there is no trading that contravenes the AIMR (Association for Investment Management and Research) Standard of Professional Conduct and that the company and all employees comply with the laws regarding inside information and insider trading. There should be an immediate isolation of any inside information, which may come into possession of anyone connected with the company.

Allan Gray subscribes to the Code of Ethics and Standards of Professional Conduct of the AIMR. (Currently there are 9 chartered financial analysts at Allan Gray who, through their chartership, are bound to the principles of the AIMR). It is vital that all employees understand and comply with the Code and Standards. This is particularly relevant with regard to staff trading for their own accounts.

Up to date with Allan Gray Retail

Johan de Lange

Director, Allan Gray Unit Trust Management Limited
Head of Retail Marketing and Distribution

The second quarter of 2002 has been a consolidation period for Allan Gray Retail. During the previous three quarters, a number of new products and administrative enhancements were introduced, and we have now managed to incorporate them for the benefit of all our clients.

In order to maintain and enhance the current service levels to our clients, we have acquired new technology, which will increase our capacity to respond to queries in a manner that is timeous and consistently accurate. We have also taken this opportunity to rationalise our databases, allowing us to segment our client base in more detail. This will result in a more efficient communication process where relevant information may be sent to our different types of investors. I use this opportunity to thank all our clients for the constructive feedback and innovative ideas we continue to receive at the end of each quarter.

In addition to the 'GrayIssue', our monthly electronic newsletter, we have introduced more detailed fund fact sheets for the Equity, Balanced and Stable Funds. The fund fact sheets include information pertaining to the top 10 holdings of each Fund, a short commentary from the Fund Manager, underlying asset allocation, performance of the Fund against its benchmark, and all the other relevant Fund details. The fund fact sheets are available on our website from the 10th of each month.

In terms of the Policy Protection Rules, Allan Gray is obliged to accredit all intermediaries who market their products. We recently completed this procedure for the benefit of those clients who wish to invest via an Independent Financial Adviser.

We have three distinct product lines available to retail investors: the five local Allan Gray Unit Trusts, the Orbis Global Equity Fund

for international investments and the Retail Retirement Products. The product range continues to be limited and focused, in line with our investment and business strategy. Investments made in all of the products increased substantially, showing our clients support of this approach.

Assets under management for Unit Trusts grew significantly during the quarter. The total surpassed R3 billion and the Balanced Fund became our second fund to pass the R1 billion mark. Even though this represents significant growth, it is still less than 10% of Allan Gray Limited's total assets under management. We are confident that the size of our funds will not detract from our performance, as illustrated in the Equity Fund results.

Interest in the Orbis Global Equity Fund has increased tremendously on the back of the Fund's continued outperformance of its peers and the benchmark. The fund is available to investors on the platforms of various Linked Investment Service Providers (LISPS), via Independent Financial Advisers as well as directly from our offices.

Investments in the Retail Retirement Products have exceeded our expectations and have grown to more than R100 million in a very short time. The Living Annuity and Pension/Provident Preservation Funds have been the most popular products. It seems that the benefits of investing in an Equity (or Balanced) Fund through a Retirement Annuity is not yet fully understood by potential investors. Not only does it have Income Tax advantages for investors but it also has the benefit of Rand cost averaging. In future communications, we will focus more on these benefits and the other advantages of investing in Retirement Annuities.

Most of our time and effort for the remainder of the year will be spent on



Johan de Lange

enhancing our service levels to our clients by increasing our knowledge of our clients' needs. It is important to us to ensure that we continue to give responsive and personal attention in support of our business principles.

Performance

ALLAN GRAY LIMITED SHARE RETURNS vs ALL SHARE INDEX

Period	Allan Gray*	All Share Index	Out/(Under) Performance
1974 (from 15.6)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002 (to 30.6)	12.0	3.8	8.2
ANNUALISED TO 30.6.2002			
3 years	32.8	18.1	14.7
5 years	25.8	10.5	15.3
10 years	23.9	14.3	9.6
Since 15.6.74	28.9	18.3	10.6
AVERAGE OUTPERFORMANCE			10.6
Number of years outperformed			22
Number of years underperformed			6

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

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R12 402 507 by 30 June 2002. By comparison, the returns generated by the JSE All Share Index over the same period would have grown a similar investment to R1 101 563.

ALLAN GRAY LIMITED PERFORMANCE PROFILE
Annualised performance in percent per annum to 30 June 2002

	Second quarter (not annualised)	1 year	3 years	5 years	Since inception	Assets under management R millions
RETIREMENT FUNDS						
Global Balanced Mandate Mean of Consulting Actuaries Fund Survey*	7.7 1.2	23.0 12.4	32.2 15.5	27.1 11.9	24.7 18.5	13,205.9¹
Domestic Balanced Mandate Mean of Alexander Forbes Domestic Manager Watch*	9.3 3.4	18.1 10.2	28.5 15.7	26.8 12.0	24.7 18.5	7,208.8¹
Equity-only Mandate All Share Index	10.0 -1.8	22.5 19.4	30.1 18.1	24.1 10.5	20.8 14.0	6,437.7²
Namibia Balanced Mandate Mean of Alexander Forbes Namibia Average Manager*	6.9 1.2	22.5 11.0	30.8 15.4	24.0 11.0	22.0 13.5	1,374.8³
POOLED RETIREMENT FUNDS						
Global Balanced Portfolio Mean of Alexander Forbes Large Manager Watch*	8.0 1.2	19.5 12.7	- -	- -	31.5 13.4	1,468.2⁴
Domestic Equity Portfolio All Share Index	10.6 -1.8	24.5 19.4	- -	- -	30.1 15.6	404.0⁵
Domestic Absolute Portfolio Mean of Alexander Forbes Domestic Manager Watch*	18.1 3.4	- -	- -	- -	36.2 10.2	120.6⁶
RELATIVE RISK						
Equity-only Mandate Resource adjusted All Share Index	4.2 -0.6	22.4 9.7	- -	- -	30.8 14.8	1,208.5⁷
FOREIGN-ONLY (RANDS)						
Global Balanced Mandate (Rands) - Foreign Component Mean of Consulting Actuaries Survey (Rands) - Foreign Component*	-0.7 -9.4	47.1 24.9	44.7 20.3	34.6 22.2	29.7 21.9	2,875.0⁸
Equity-only Mandate (Rands) Morgan Stanley Capital Index (Rands)	-11.1 -16.7	27.3 9.8	31.0 9.6	- -	38.1 19.3	1,138.2⁹
UNIT TRUSTS **						
Equity Fund All Share Index	- ***	20.3 19.4	25.8 18.1	- -	348.4 132.6	1,499.9¹⁰
Balanced Fund Average Prudential Fund	- ***	18.8 10.3	- -	- -	101.5 42.7	1,391.8¹¹
Stable Fund Benchmark ***	- ***	13.0 8.4	- -	- -	36.9 17.8	231.9¹²

* The returns for Quarter 2, 2002 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.

*** After tax return of call deposits plus two percentage points.

**** Unavailable due to AUT Regulations.

Inception Date: ¹1.1.78 ²1.1.90 ³1.1.94 ⁴1.9.00 ⁵1.2.01 ⁶6.7.01 ⁷19.4.00 ⁸1.7.96 ⁹1.1.98 ¹⁰1.10.98 ¹¹1.10.99 ¹²1.7.00

Unit Trusts should be considered medium- to long-term investments. Unit Trusts are sold at the ruling prices of the day. This price is calculated on a forward pricing basis. Unit prices may fluctuate relative to the market value of securities comprising the fund's portfolio. Past performance is no indication of future returns. A schedule of fees and charges is available on request from Allan Gray Unit Trusts. Commission and incentives may be paid and are included in the overall costs. Except for the three-year performance figure which is based on a buy to sell basis, all other performance data is based on a lump sum investment calculated on a sell to sell basis with distributions reinvested. The source of the figures quoted is the University of Pretoria's Unit Trust Survey for the period ending 30 June 2002.

Products

SEGREGATED PORTFOLIOS

RETIREMENT FUND INVESTMENT MANAGEMENT IN SOUTH AFRICA
Allan Gray manages large retirement funds on a segregated basis where the minimum portfolio size is R100 million. These mandates are exclusively of a balanced or asset class specific nature. Portfolios can be managed on the preference of 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.

UNIT TRUSTS

Comparison of characteristics and objectives of Allan Gray Unit Trusts

	MONEY MARKET FUND	STABLE FUND	BALANCED FUND	EQUITY FUND	GLOBAL EQUITY FUND OF FUNDS
Benchmark	The Alexander Forbes 3-month deposit index.	After tax return of call deposits with one of the large banks plus two percentage points.	The average (market value-weighted) of the Domestic Prudential Unit Trust Sector excluding the Allan Gray Balanced Fund.	All Share Index including income.	Morgan Stanley Capital International Index.
Maximum equity exposure	0%	60%	75%	95%	95%
Portfolio orientation	Invested in selected money market instruments providing a high income yield.	A portfolio which can include all asset classes chosen for its high income yielding potential.	A portfolio which can include all asset classes selected for superior long-term returns.	A portfolio selected for superior long-term returns.	Invested in the Orbis Global Equity Fund and the Allan Gray Money Market Fund. The Fund will always hold 85% offshore.
Return objectives	Superior money market returns.	Superior after-tax returns to bank deposits.	Superior long-term returns.	Superior long-term returns.	Superior long-term returns.
Risk of monetary loss	<ul style="list-style-type: none"> Low risk High degree of capital stability. 	<ul style="list-style-type: none"> Limited capital volatility Seeks to preserve capital over any 2-year period. 	Risk will be higher than the Stable Fund but less than the Equity Fund.	Risk higher than Balanced Fund but less than average General Equity Fund due to low risk investment style.	Risk higher than Balanced Fund but less than average foreign fund.
Target market	<ul style="list-style-type: none"> Highly risk-averse investors Investors seeking a short-term parking place for their funds. 	Risk-averse investors e.g. investors in bank deposits or money market funds.	Investors seeking long-term wealth-creation who have delegated the asset allocation decision to Allan Gray.	Investors seeking long-term wealth creation who have delegated only the equity selection function to Allan Gray.	<ul style="list-style-type: none"> Investors seeking to invest locally in Rands and benefit from offshore exposure. wanting to gain exposure to markets and industries that are not available locally. who desire to hedge their investments against any rand depreciation.
Income	Highest income yield in the Allan Gray suite of funds.	Higher income yield than the Balanced Fund in the Allan Gray suite of funds.	Average income yield in the Allan Gray suite of funds.	Lowest income yield in the Allan Gray suite of funds.	Low income yield.
Income distribution	Distributed monthly.	Distributed quarterly.	Distributed bi-annually.	Distributed bi-annually.	None.
Compliance with Pension Fund Investment Regulations	Complies.	Complies.	Complies.	Does not comply.	Does not comply.
Fee principles	Fixed fee of 0.5% (excluding VAT) per annum.	Performance-fee oriented to out-performance of taxed bank deposits. No fees if there is a negative return experienced over a 2-year rolling period.	Performance-fee oriented to out-performance of the average Prudential Sector Fund.	Performance-fee oriented to out-performance of the JSE All Share Index.	Fixed fee of 1.25% (excluding VAT) per annum. The underlying funds also have their own fee structure.
Minimum lump sum investment requirement	R50,000.	R5,000.	R5,000.	R10,000.	R25,000.

POOLED PORTFOLIOS - LIFE COMPANY
(The minimum investment per Life Company client is R10 million)
Characteristics and objectives of Allan Gray's Pooled Portfolios

RISK-PROFILED PORTFOLIOS

	STABLE PORTFOLIO	BALANCED PORTFOLIO	ABSOLUTE PORTFOLIO
Investor Profile	<ul style="list-style-type: none"> Highly risk-averse institutional investors, e.g. investors in money market funds. 	<ul style="list-style-type: none"> Institutional investors with an average risk tolerance. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Aggressively managed pooled portfolio. Investments selected from all asset classes. Will fully reflect the manager's strong investment convictions and could deviate considerably in both asset allocation and stock selection from the average retirement portfolio. Choice of global or domestic-only mandate.
Return Characteristics/ Risk of Monetary Loss	<ul style="list-style-type: none"> Superior returns to money market investments. Limited capital volatility. Strives for capital preservation over any two-year period. 	<ul style="list-style-type: none"> Superior long-term returns. Risk will be higher than Stable Portfolio but less than the Absolute Portfolio. 	<ul style="list-style-type: none"> Superior absolute returns (in excess of inflation) over the long-term. Risk of higher short-term volatility than the Balanced Portfolio.
Benchmark	<ul style="list-style-type: none"> Alexander Forbes three month Deposit Index plus 2%. 	<ul style="list-style-type: none"> Mean performance of the large managers as surveyed by consulting actuaries. 	<ul style="list-style-type: none"> Mean performance of the large managers as surveyed by consulting actuaries.
Fee Principles	<ul style="list-style-type: none"> Fixed fee, or performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> Fixed fee, or performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> Performance fee based on outperformance of the benchmark.

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

ASSET CLASS PORTFOLIOS

	MONEY MARKET	BOND MARKET	LISTED PROPERTY	EQUITY	FOREIGN
Investor Profile	<ul style="list-style-type: none"> Institutional investors requiring management of a specific money market portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific bond market portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific listed property portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific equity portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific foreign portfolio.
Product Profile	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Portfolio risk is controlled by limiting the exposure to individual counters. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Superior returns to the Alexander Forbes 3-month Deposit Index. Low capital risk. High flexibility. Capital preservation. High level of income. 	<ul style="list-style-type: none"> Superior returns to that of the JSE All Bond Index plus coupon payments. Risk will be higher than the Money Market Portfolio but less than the Equity Portfolio. High level of income. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Superior returns to that of the JSE All Share Index including dividends. Risk will be no greater than that of the benchmark. 	<ul style="list-style-type: none"> Superior returns to that of the benchmark at no greater than average absolute risk.
Benchmark	<ul style="list-style-type: none"> Alexander Forbes 3-month Deposit Index. 	<ul style="list-style-type: none"> JSE All Bond Index plus coupon payments. 	<ul style="list-style-type: none"> Alexander Forbes Listed Property Index (adjusted). 	<ul style="list-style-type: none"> JSE All Share Index including dividends. 	<ul style="list-style-type: none"> 60% Morgan Stanley Capital International Index, 40% JP Morgan Global Government Bond Index.
Fee Principles	<ul style="list-style-type: none"> Fixed fee. 	<ul style="list-style-type: none"> Fixed fee. 	<ul style="list-style-type: none"> Fixed fee. 	<ul style="list-style-type: none"> Fixed fee, or performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> No fee charged by Allan Gray. Unit prices of underlying mutual funds reflected net of performance fees charged by foreign manager.

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

Products (continued)

POOLED PORTFOLIOS - INTERNATIONAL ORBIS GLOBAL EQUITY FUND

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

NAMIBIAN POOLED PORTFOLIO - ALLAN GRAY NAMIBIA INVESTMENT TRUST

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

INDIVIDUAL RETIREMENT PRODUCTS

	RETIREMENT ANNUITY	PENSION OR PROVIDENT PRESERVATION FUND	LIVING ANNUITY
Description	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Provides a regular income from the investment proceeds of a cash lump-sum that becomes available as a pension benefit at retirement. A regular income of between 5% and 20% per year of the value of the lump-sum can be selected. Ownership of the annuity goes to the investor's beneficiaries on his/her death.
Investment Options The contribution(s) to any one of these products can be invested in any combination of Allan Gray unit trust funds as indicated.	<ul style="list-style-type: none"> Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds 	<ul style="list-style-type: none"> Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds 	<ul style="list-style-type: none"> Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds
Minimum Investment Size	R50 000 lump-sum R2 500 monthly	R 100 000	R 250 000
Initial Fee	None	None	None
Annual Administration Fee	0.4% (VAT included)	0.4% (VAT included)	0.4% (VAT included)
Investment Management Fee*	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.
Switching Fee	0.12% (VAT included)	0.12% (VAT included)	0.12% (VAT included)
Financial Adviser Fees (if applicable)	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%

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

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ALLAN GRAY

LONG TERM INVESTMENT MANAGEMENT

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