Q4

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Quarterly Commentary

ALLAN GRAY

INTELLIGENT INVESTING

Inside this issue

Front cover: Mahesh Cooper, Arjen Lugtenburg and John Rainier

ALLANGRAY
INTELLIGENT INVESTING

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Greg Fury, Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer

2005 has been an exceptional year for South African investors, particularly those invested in the JSE, which delivered a total return of 47% in the year. From its lows in April 2003 the JSE has delivered a total return of nearly 167% or 44% annualised. While some of this has come from strong earnings growth fuelled by the booming domestic economy, most has come from re-rating to a level well above historical norms, and leaves much less room for continued expansion over the long-term. We must admit to being surprised, if happily so, by the extent of the growth and, as regular readers will know, have been cautioning investors to lower their expectations for future returns for some time. The current level of markets we think gives us even more cause to repeat this message as recent experience has a strong impact on investor behaviour; happy investors are optimistic investors, and during the good times, little thought is given to negative markets.

We tend to look at the lessons of longer term history to help inform our investment decisions and so, in **INVESTMENT PERSPECTIVE**, Arjen Lugtenburg shares some of these lessons, puts the current market valuations in historical context and identifies industries that from a bottom up analysis may still yield value and therefore some potential opportunities going forward.

Our client portfolios' holding in Sasol has been the largest single holding and the greatest contributor to performance in 2005. We therefore frequently answer questions about Sasol from investors. This quarter, in **INVESTMENT COMMENTARY** Andrew Lapping provides us with some insights about Sasol's past performance: the short- and long-term reasons for the strong increase in Sasol's share price over the last two years. He also explains why we believe in Sasol's ability to continue to generate superior returns for shareholders over the long-term.

In **INSTITUTIONAL UPDATE**, Keshni Naidoo and Mahesh Cooper provide us with an in-depth analysis of the Allan Gray Life Domestic Stable Portfolio. Launched in December 2001, it was designed for investors with a low risk tolerance that seek capital protection with limited short-term volatility in returns, without sacrificing inflation beating returns over the long-term. In the analysis, we learn how bottom up stockpicking and asset allocation have been used to meet and exceed these objectives in the past. Notwithstanding the current pricing of most domestic assets, we have confidence that the portfolio will continue to meet our objectives.

The value of property as measured by capitalisation rates has increased significantly against the backdrop of a growing economy, positive business confidence and lower interest rates. In the **PROPERTY UPDATE**, John Rainier discusses the results and highlights of the past year for Allan Gray Property Trust and his insights for the year ahead in listed property.

INVESTMENT PERFORMANCE The final quarter of 2005 capped a remarkable year in returns for investors in South African assets in general. On top of this, our clients were able to benefit from substantial outperformance of benchmarks in all key portfolios. While we prefer to be measured over a much longer time frame, the 40% return achieved by our clients in global balanced portfolios and 55% return on domestic equity portfolios, being 11.4 and 8.0% respectively ahead of their peer benchmarks, is gratifying (particularly after slight underperformance of benchmarks in 2004). As can be seen in the detailed performance section at the back of the QC, longer term absolute returns and value-add relative to benchmarks have also been very pleasing.

A notable milestone is that those who invested in the Allan Gray Equity Fund at the launch of our unit trust business in October 1998 have now enjoyed a cumulative return of over 1 000%. Our objective remains to create wealth for our clients by compounding real returns and the nearly 12-fold return achieved has meant that loyal clients have more than three times the assets they would have had if invested in the FTSE/JSE ALSI over the same 8-year period.

I will however once again repeat the caution expressed in Arjen's article that returns, both since inception and particularly over the past year, are well above historical averages and investors would be well advised to temper their expectations for future returns.

I would like to take this opportunity to thank our investors for their support during 2005, wish you every success for the year ahead and hope that you enjoy this issue of our Quarterly Commentary.

Kind regards

Greg Fury

Arjen Lugtenburg, Director, Allan Gray Limited

Expected returns from the JSE: What history can teach us

EXECUTIVE SUMMARY The strong appreciation in the FTSE/JSE All Share Index (ALSI) – now standing at a cumulative total return of 167% since its low point in April 2003 – makes it appropriate to examine future expectations from this market. Drawing on the lessons of history, and adjusting these lessons to accommodate the sustained period of higher economic growth and low inflation South Africa has now entered, Arjen Lugtenburg concludes that returns from the ALSI going forward are unlikely to be exciting, and could easily disappoint, should the higher growth rates widely expected fail to materialise. This will be especially true for domestically focused industrial companies where earnings are particularly high. However, reasonable value among resource and financial companies, and companies with offshore operations can still be identified.

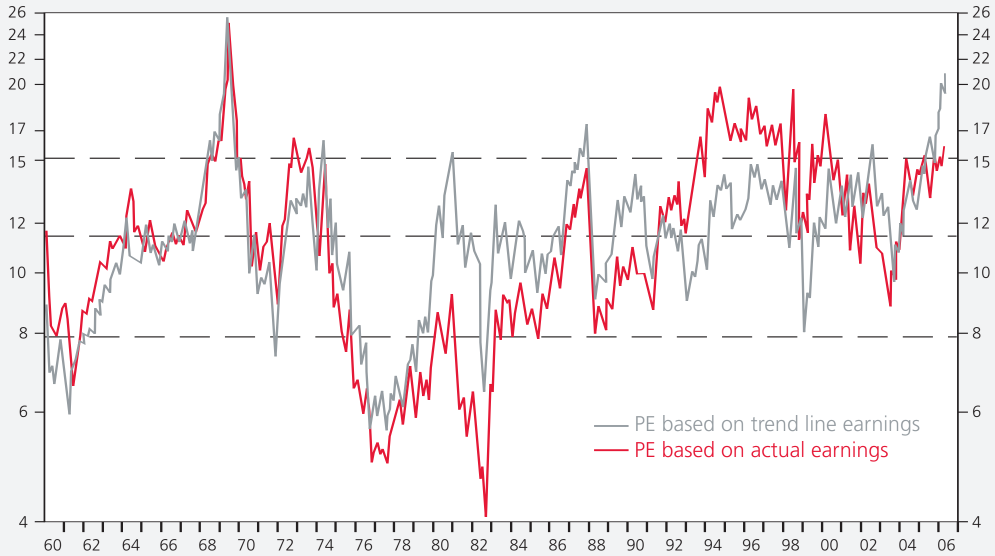
2005 has again been an exceptional year for the FTSE/JSE All Share Index (ALSI) with a return of 47.3%. This brings the cumulative total return from this market since its low point in April 2003 to 167%. After such strong appreciation, it is appropriate to re-examine our future return expectations from this market.

The red line in **Graph 1** depicts the Price Earnings (PE) ratio of the ALSI since 1960. Over this period this ratio has averaged 11.5 and has vacillated between eight and 15 times earnings. There have been three periods where this ratio was outside these two bands for any period of time i.e. the late 1960s and early 90s, when it was above 15 times and the late 70s, when it was lower than eight times. We know today that investing in the stockmarket in the late 70s resulted in excellent returns, in the early 90s in mediocre returns, and in the late 60s in massive losses. Simply based on this historical knowledge, it is probably prudent to avoid the stockmarket when its PE ratio approaches 15 times and increase one's exposure to the market when its PE ratio is in single digits. With the latest bull run in the market, its PE ratio has moved from 9.0 times earnings in April 2003 to its current level of 16.0 times.

The red dots in **Graph 2** on page 3 depict the monthly rolling five-year returns that the ALSI has generated since 1960 at various starting PE ratios. From this graph it is clear that one of the largest factors influencing returns is the price paid relative to the underlying earnings (PE ratio), and that generally the higher the PE ratio at the starting point, the lower the real return experienced.

GRAPH 1

ALSI PE - Based on actual and trend line earnings



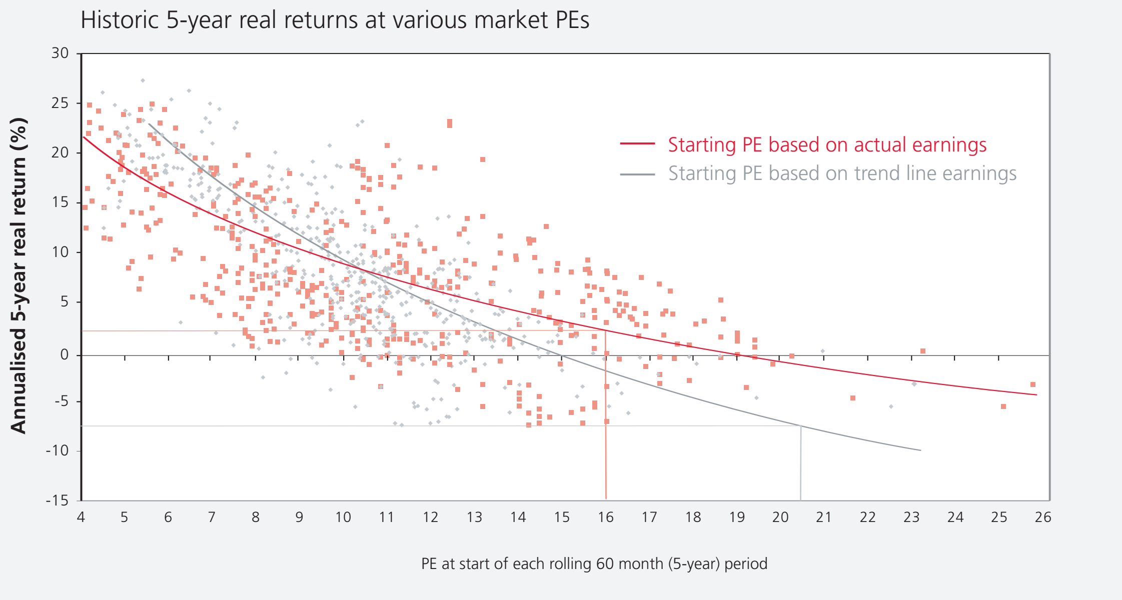
Source: Igraph and Allan Gray research

However, it is important to remember that the PE ratio is made up of two components: the price (which we are trying to evaluate) divided by the underlying earnings. Therefore the level of the underlying earnings can have a profound impact on the quality of the information we get from a PE ratio. It is for this reason that, when we analyse a company at Allan Gray Limited, we try to normalise its earnings. In other words, we try to evaluate the company as if it is operating in business conditions that are likely to be sustained over the long-term or cycle average conditions. This is important because a prudent investor would be prepared to pay a higher price per unit of earnings (PE ratio) for a company whose earnings are depressed, and are likely therefore to be higher into the future, and a lower price per unit of earnings (PE) for a company whose earnings are high, and therefore likely to be lower into the future.

In **Graph 3** on page 4 we depict the underlying earnings of the ALSI since 1960. As this period covers eras where the levels of inflation varied greatly, we have eliminated the effects of inflation from the earnings series and have shown the series in real terms. It should also be noted that this period covers both periods of high (1960-1975: average 5.2%) and low (1980-1995: average 1.4%) economic growth. A further observation is the very cyclical nature of the earnings series. It is clear that a number of different variables tend to impact on company earnings at any point in time such as the business cycle, commodity prices, the exchange rate of the Rand and monetary and fiscal policy. However, over the longer term, the underlying trend tends to endure. It is exactly due to this volatility in earnings that a PE ratio cannot be evaluated at face value. Therefore, in order to interpret these earnings, we have fitted a trend line statistically through the earnings series that we believe more accurately reflects the underlying normal earnings of the index. We have also fitted two outer boundaries around the trend line, each moved by one standard deviation of the actual earnings variance to the trend line.

Over the previous 18 months, the earnings of the average company in the ALSI has grown by 34% p.a. This is well above the long-term sustainable growth rate and has pushed the earnings series past the historical upper boundary. Even though strong earnings growth is expected to continue for at least the

GRAPH 2



Source: Allan Gray research

next six to 12 months, it is clear from the graph that company profitability is now very extended. Our bottom up analysis, especially in the case of domestic industrial companies, confirms this. These companies have benefited from both very strong volume growth and an expansion in operating margins as they have not passed the full cost benefits they have realized from the stronger Rand onto their customers. From our company database, it is apparent that domestic industrial companies have never before been as profitable as they are today. In **Table 1** on page 5 we summarize the profitability of a few domestic South African companies as depicted by their return on equity (ROE) and compare it with their longer term historical averages.

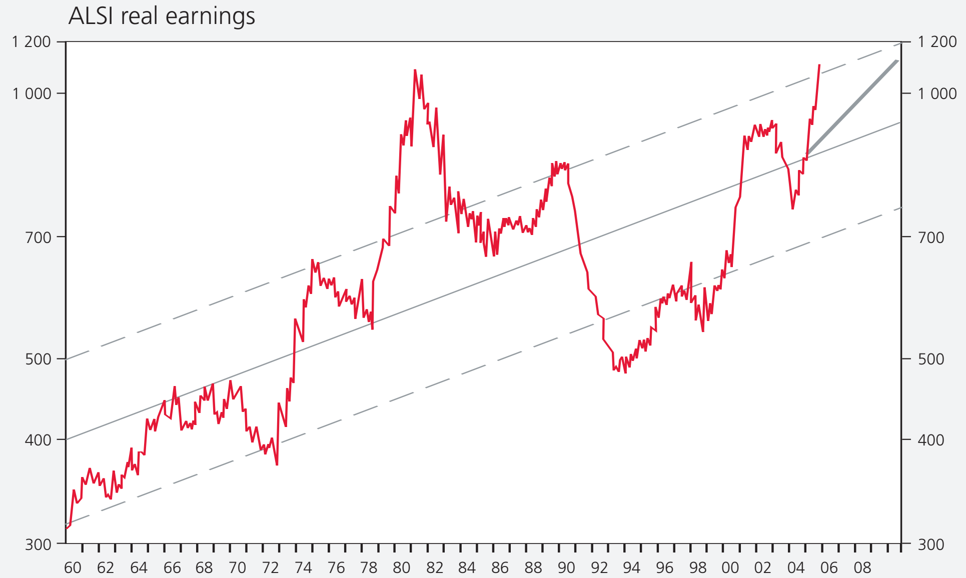
"Even though strong earnings growth is expected to continue for at least the next six to 12 months, it is clear from the graph that company profitability is now very extended."

The average current ROE for the five industrial companies listed is 42.6%, almost double the levels of profitability (23.7%) these companies have sustained historically. Relative to 3.4% inflation and a risk free bond rate of 7.4%, profitability is at an extreme. In a free market economy, profitability levels like these are unlikely to be sustained, and will be eroded over time by competition. Therefore earnings growth going forward is very likely to disappoint.

In order to interpret the ALSI relative to normal earnings we have graphed the price of the ALSI relative to the earnings trend line (**grey line in Graph 1**) i.e. a trend line PE ratio. We have also recreated the five-year rolling return graph now using the trend line PE ratios at the starting points (**grey dots on Graph 2**). The major difference is that the current ALSI PE ratio on trend line earnings is 20.5, due to the current high level of company earnings. Historically, investing at the ALSI when it was trading at 20.5 times trend line earnings has resulted in a negative five-year real return of 7.0%.

It would appear however as if South Africa has entered a sustained period of higher economic growth and low inflation. The average economic growth over the period covered by the graphs was 3.2% and the average inflation rate 8.5%. If we assume that, going forward, the South African economy achieves government's targeted economic growth rate of 6% at 4.5% inflation, the trendline earnings growth is likely to be somewhat

GRAPH 3



Source: Igraph

higher in the future (**grey extension to Graph 3**). Given the higher growth rate, the sustainable PE ratio is also likely to expand to 14 times. The expected returns would then increase by 3% due to the stronger earnings growth and 4% due to the rerating, increasing the expected five-year real return to zero percent.

It would appear therefore that the ALSI already discounts government's fairly aggressive growth targets. Returns from the ALSI going forward are unlikely to be exciting, and could easily disappoint, should the higher growth rates fail to materialise. These arguments are confirmed by our bottom up analysis of companies where we increasingly struggle to identify shares that are likely to generate competitive returns. This is especially true for domestically focused industrial companies where earnings are particularly high, while we are still able to identify reasonable value among resource and financial companies, and companies with offshore operations.

TABLE 1

Company	ROE achieved over latest financial year	Historic average ROE	Years of history
Edgars	41.9	22.5	46
Foschini	31.0	23.9	33
Tigerbrands	41.1	20.2	51
PPC	42.9	17.6	46
Pick 'n Pay	56.0	34.6	36
Standard Bank	24.5	18.6	34

Source: Allan Gray research

Andrew Lapping, Equity Analyst, Allan Gray Limited

Sasol

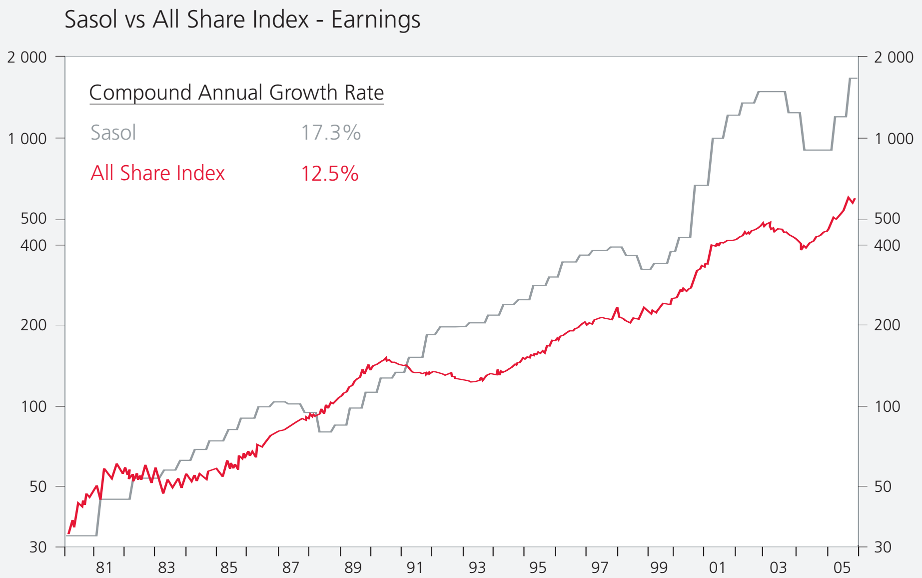
EXECUTIVE SUMMARY Equity analyst Andrew Lapping provides the short- and long-term reasons for the strong increase in Sasol's share price over the last two years and the reason why we believe it still offers value. Its lead in gas to liquids (GTL) technology, coupled with a sound management team and excellent cash flows, plus the ability to invest these cash flows at high rates of return, all give Sasol the potential to generate superior returns for shareholders over the long-term.

Sasol is our clients' largest holding and the share price has performed very strongly over the last two years, both on an absolute and relative basis. The share price increase is attributable to short- as well as long-term issues. The short-term issues include the current high oil and chemical prices and a re-rating of emerging market equities in general. The key long-term issue is the realisation that future oil prices will need to be higher than those of the previous decade to stimulate the investment required to meet the growing oil demand from emerging economies. This goes hand in hand with the fact that some of the supply growth will have to come from alternative sources such as gas to liquids technology and the Canadian tar sands.

HISTORICALLY A SUPERIOR COMPANY Since listing in 1980 Sasol has grown its earnings at a compound annual growth rate of 17.3% compared to the market's growth rate of 12.5%. Over this period Sasol has traded at a PE relative to the market of 0.8; which would normally indicate a company with inferior growth prospects. It is our belief that Sasol will continue to grow its earnings faster than the average company and hence should trade at a premium rating to the market on mid cycle earnings. In the following paragraphs I will explain why we believe this to be the case and why some investors take the contrary view and believe Sasol should trade at a discount to the market.

The main reason investors believe Sasol should trade on a below market rating is that they focus on the historic relative PE rating of the share which ranges from 0.6 to 0.8 depending on the time period chosen. We at Allan Gray focus on the underlying business fundamentals. Many investors believe Sasol should trade in line with international oil companies while it currently trades at a premium in comparison to its international peers on most valuation methods. We believe that there are a number of reasons for this. Firstly, Sasol has sufficient coal and gas reserves to supply its plants for more than 25 years. The average oil company has only 12 years of reserves and needs to spend ever-increasing sums of money to acquire and develop oil fields to maintain, let alone grow production. In addition, Sasol attracts standard company tax in South Africa while most countries tax oil companies at progressive rates, which are higher than the standard company tax rates so the full benefit of higher oil prices does not accrue to shareholders. A further factor to consider is

GRAPH 1



Source: Igraph

the Rand; Sasol is more geared to the Rand than the oil price. We believe the long-term equilibrium level of the Rand is weaker than the current level and that this will have a favourable impact on Sasol's relative valuation. Finally, Sasol is able to invest and grow its earnings at well above market rates by virtue of its world leading gas to liquid (GTL) technology.

"... Sasol has sufficient coal and gas reserves to supply its plants for more than 25 years."

SUBSTANTIAL INVESTMENTS Between 2001 and 2006 Sasol will invest R36bn in growing its business. The capital required for these investments has been tied up but the benefits have not yet been realised. These projects include the Oryx GTL plant in Qatar, the Arya polymer plant in Iran, the Mozambique gas pipeline and Project Turbo. Project Turbo will enable Sasol to produce unleaded fuel and increase polymer capacity by 80%. About R5.7bn of the R13.4bn spent on Project Turbo will yield no return but is required for Sasol to meet South Africa's changing fuel specifications. The gas pipeline was commissioned in 2004 while the remaining projects will come into production through calendar year 2006. The returns generated by the Arya and Oryx plants are expected to be particularly good.

GAS TO LIQUIDS As mentioned earlier, the world is looking for alternative technologies to satisfy the growing demand for oil. One of these technologies is gas to liquids (GTL) where Sasol is the world leader. The world's proven gas reserves are only slightly lower than proven oil reserves on a barrel of oil equivalent basis. A significant portion of these reserves are stranded and can only be monetised through converting the gas to Liquefied Natural Gas, liquid fuel through GTL technology or by building pipelines. On a net present value basis GTL compares favourably with the two alternatives and the liquid fuels market is far larger than the gas market so countries with stranded gas reserves are understandably keen to develop GTL facilities.

Sasol has been operating coal to liquids plants in South Africa for 50 years using Fischer-Tropsch technology to convert coal into liquid fuels. The coal to liquids process involves three basis steps: coal is gasified into syngas, the syngas is then put through a Fischer-Tropsch reactor to produce a mixture of fuel and chemical components, this mixture is then separated and refined into saleable fuel and chemical products. The GTL process is essentially the same, except rather than gasifying coal to produce syngas, natural gas is put through a reformer to produce syngas, which is a simpler process. So in effect Sasol has been operating GTL plants for 50 years. This is important as the design and operation of these plants require considerable experience and operational expertise. The plants under construction will use Sasol's unique slurry phase technology, which is a step ahead of competing technologies and benefits from lower operating and capital costs.

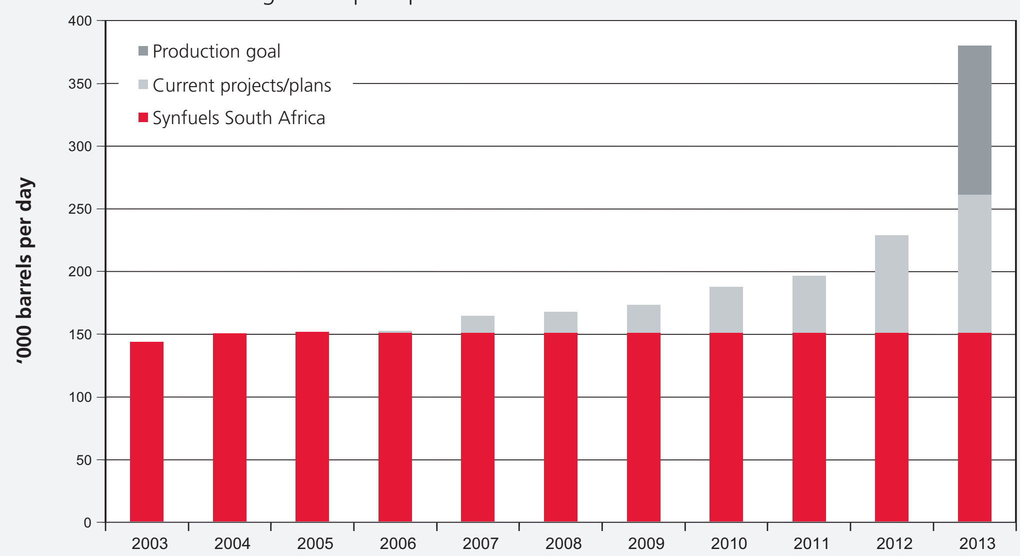
Shell, Exxon Mobil and Conoco-Philips have all spoken about building GTL plants in Qatar but as yet none have commenced construction. Sasol's Oryx GTL plant is scheduled to start production in the second quarter of calendar year 2006. Once Oryx is in production it should become easier for Sasol to secure additional gas reserves and thus grow production. Unfortunately, due to the shortage of international construction and contracting skills, future plants are likely to cost more and take longer to construct.

Sasol currently produces 150k barrels per day (bpd) of liquids from coal and hopes to grow attributable GTL production from zero to 230k bpd by 2014. This is an ambitious target that is unlikely to be achieved but nonetheless it gives a sense of the GTL growth potential. If global GTL production is one million bpd by 2014 it will only make up about 1% of the oil market.

LONG-TERM GROWTH Sasol is a business with a sustainable competitive advantage and a strong management team. It generates excellent cash flows and has the ability to invest these cash flows at rates of return well above the average South African business. This is something it has done very successfully in the past and we believe it will continue to do in future, generating superior returns for shareholders over the long-term. Even if the GTL growth plans do not live up to expectations we find the share attractive; hence there is a substantial margin of safety.

GRAPH 2

Sasol coal and gas to liquids production



Source: Allan Gray research and Company information


Keshni Naidoo and Mahesh Cooper, Allan Gray Limited

Allan Gray Life Domestic Stable Portfolio

EXECUTIVE SUMMARY This in-depth analysis of the profile and performance of the Allan Gray Life Domestic Stable Portfolio since inception reveals the remarkable extent to which it has realised its objectives. In essence, these have been to provide investors who have a low risk tolerance with capital protection while still achieving real capital growth over the long-term.

The Allan Gray Life Domestic Stable Portfolio was launched in December 2001 and is designed for investors with a low risk tolerance, who seek capital protection with limited short-term volatility in returns, without sacrificing real capital growth over the long-term. The Portfolio is a Regulation 28-compliant balanced portfolio that forms part of the Allan Gray risk-profiled pooled portfolio range. It seeks to outperform SteFI[1] +2% and CPI+3%.

The Stable Portfolio's success over the past four years, and we believe into the future, is based on its portfolio construction. It utilises bottom-up stockpicking and asset allocation to minimise risk whilst capturing upside returns.

BOTTOM-UP STOCKPICKING The selection of equities is conservatively managed with particular emphasis placed on finding shares with limited risk of capital loss, a low correlation to the stockmarket and high current or prospective dividend yields. Each share is selected after applying rigorous research in determining the intrinsic value of the underlying business. The share exposure for the Portfolio is typically between 20 and 40%.

The fixed interest component of the Portfolio is currently invested in low duration (short-term) fixed interest instruments, such as short-term bonds, money market instruments and deposits. Being short-term in nature reduces the risk of capital loss, which bonds are exposed to, should interest rates move upward.

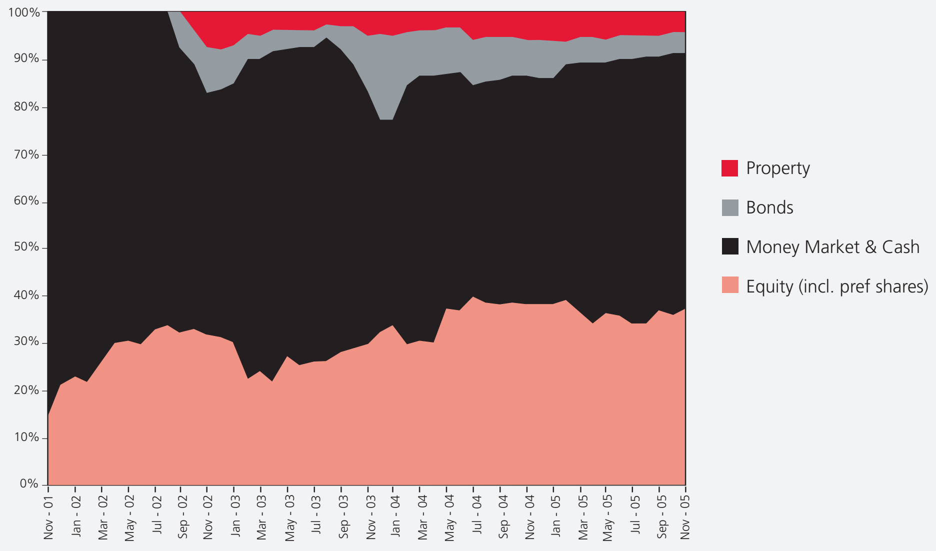
ASSET ALLOCATION The asset allocation for the Domestic Stable Portfolio since inception is illustrated in **Graph 1**. The equity exposure for the Domestic Stable Portfolio is structurally lower than that of the Allan Gray Life Balanced Portfolio and has never been above 40%. The remaining assets are invested in fixed interest instruments and listed property.

In July 2004 the Allan Gray Life Global Stable Portfolio was launched, based on the Domestic Stable Portfolio but with 15% exposure to foreign assets. **Table 1** on page 9 outlines the composition of the Global Stable Portfolio versus the Domestic Stable Portfolio.

The foreign component of the Global Stable Portfolio shown in **Table 2** comprises a conservative mix of Orbis funds. Only one third of the foreign exposure is to equities, and this is to Japanese equities only. This is because we believe that Orbis' selection of Japanese equities represents an attractive opportunity from a

GRAPH 1

Asset allocation - Allan Gray Life Domestic Stable Portfolio



Source: Allan Gray research

[1] STeFI benchmark refers to the Short-term Fixed Interest 3-month deposit index.

return and risk of loss perspective. The remaining two thirds of the foreign assets are invested in Orbis' Optimal funds that provide diversification away from world stock and bond markets and aim to generate real returns over time.

TABLE 1

Asset Allocation as at 30 November 2005 - Domestic Stable versus Global Stable

Asset Class	Domestic Stable (%)	Global Stable (%)
Domestic Equities	37.2	30.9
Property	4.4	2.6
Bonds	4.4	0.7
Money Market & Cash	54.0	51.5
Foreign	-	14.3
Total	**100.0**	**100.0**

PROTECTION AGAINST THE RISK OF CAPITAL LOSS Because the Stable Portfolio does not have any structures or guarantees (nor their associated costs) but still aims for capital preservation and growth in real terms, it makes use of portfolio construction and stock selection to reduce the risk of capital loss. The fixed interest component effectively acts as a buffer against volatile equity returns. This means that, under conservative assumptions of the fixed interest component yielding 7% p.a. and a dividend yield on the equity component of 3%, the equity component of the Portfolio can fall by some 16% before, on a twelve-month basis, the Stable Portfolio will deliver a negative twelve-month return.

TABLE 2

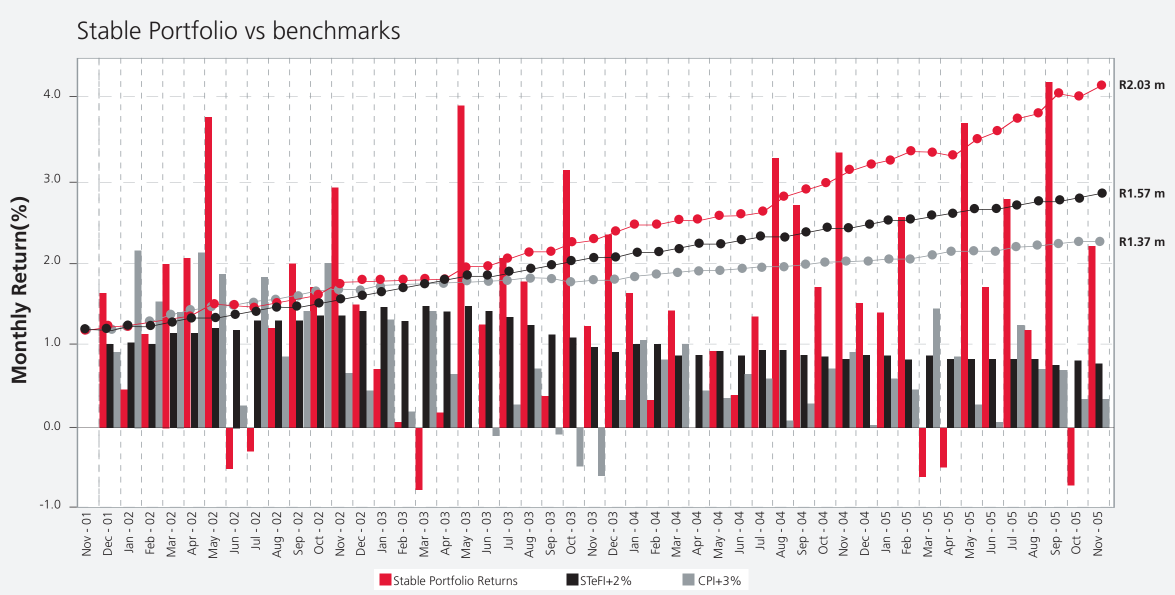
Global Stable Portfolio foreign composition as at 30 November 2005

Orbis Fund	% Foreign
Orbis Japan Equity (Yen) Fund	35.3
Orbis Optimal funds	64.7
Total	**100.0**

PERFORMANCE HISTORY The monthly returns and the cumulative performance achieved by the Stable Portfolio in relation to its benchmarks is shown in **Graph 2**. The bars (on the left scale) show the monthly returns achieved by the Portfolio versus that of the benchmarks. The cumulative return (on the right scale) shows that R1 million invested in the Stable Portfolio in December 2001 would have grown to R2.0 million by November 2005 versus R1.6 million and R1.4 million in the cash and inflation benchmarks. The graph shows that, over the four years since inception, the Allan Gray Stable Portfolio has experienced negative returns in only seven months out of 48, with a maximum monthly loss of 0.64%. The returns from the equity market (ALSI) were negative during 20 of the 48 months. This shows that the Stable Portfolio has been able to deliver real returns with limited capital loss over time.

Table 3 on page 10 shows that the Stable Portfolio has been successful in outperforming both its absolute return benchmarks since inception, and particularly over the more recent periods during the strong equity bull market.

GRAPH 2



Source: Allan Gray research

We are mindful of the contribution to returns from the very strong equity market since April 2003, and would expect the Stable Portfolio to deliver returns more in line with its benchmark over the longer term.

TABLE 3

Performance summary for the Stable Portfolio versus benchmarks

To 30.11.2005	Stable Portfolio	SteFI+2%	Out/Under
3 months	5.9%	2.2%	3.7%
6 months	11.8%	4.4%	7.4%
1 year	20.8%	9.2%	11.6%
3 years	19.3%	11.3%	8.0%
Since inception (01.12.2001)	19.3%	11.9%	7.4%
	Stable Portfolio	**CPI+3%**	**Out/Under**
3 months	5.9%	1.3%	4.6%
6 months	11.8%	3.2%	8.6%
1 year	20.8%	6.6%	14.2%
3 years	19.3%	5.6%	13.7%
Since inception (01.12.2001)	19.3%	8.2%	11.1%

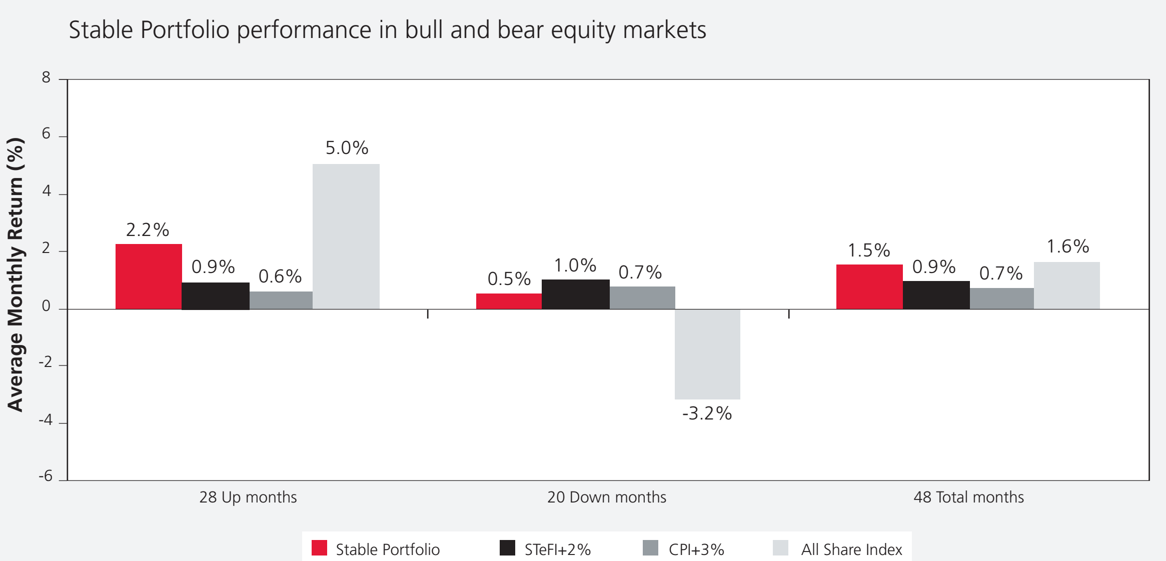
RETURNS DURING BULL AND BEAR MARKETS The primary driver of the volatility in the returns of the Stable Portfolio is the volatility of the returns of the equity component. We therefore analysed the returns achieved by the Stable Portfolio in relation to its benchmarks during periods when the ALSI was either up or down. This highlights the extent to which the Stable Portfolio provides capital stability and protects clients from downturns in the equity markets whilst allowing them to participate in the upside potential inherent in equity markets.

The Stable Portfolio's performance since inception during months when the ALSI delivered a positive return (28 up months) and during months when the ALSI delivered a negative return (20 down months) is illustrated in **Graph 3**. We then looked at the average returns achieved by the Stable Portfolio versus its benchmarks and the ALSI during the up and down months.

The left section of the graph shows that during the up months, the average return of the ALSI was 5.0%. In contrast, the average monthly return generated by the Stable Portfolio was 2.2%, outperforming both its benchmarks, but more importantly capturing over 40% of the average monthly return of the ALSI. The middle section of the graph shows that during the down months the ALSI delivered an average monthly return of -3.2%. However, the average monthly return generated by the Stable Portfolio was 0.5%.

Whilst, during the negative equity market, the Stable Portfolio underperformed its benchmarks, it was still able to deliver a positive return. This shows that, although the Stable Portfolio shared in the performance of the equity markets in the up months, it was protected against the fall in the equity markets in the down months. Combining both up and down months for the full 48-month period, the ALSI delivered an average monthly return of 1.6%. In contrast the Stable Portfolio was able to deliver an average monthly return of 1.5% with significantly lower volatility in returns and risk of capital loss.

GRAPH 3



Source: Allan Gray research

TABLE 4

Since inception risk and return statistics: Stable Portfolio versus comparative benchmarks

Since inception (01.12.2001) to 30.11.2005	Stable Portfolio	Average Balanced Fund	All Share Index	All Bond Index
Absolute risk (volatility)	4.49	11.08	18.36	7.09
Correlation with the ALSI				
Months when the ALSI was up (28)	0.64	0.81	1.00	- 0.24
Months when the ALSI was down (20)	0.50	0.83	1.00	- 0.52
Beta	0.19	0.54	1.00	- 0.07
Sharpe Ratio	2.17	1.06	0.53	0.54
Annualised return (%)	19.29	21.31	19.25	13.34

RISK ANALYSIS It is very important, when analysing historical performance, to consider the risk associated with delivering that performance. (See definitions in box)

Various risk measures of the Stable Portfolio in relation to the average manager's domestic balanced portfolio[2], the ALSI and the All Bond Index (ALBI) are contrasted in **Table 4**. The Stable Portfolio displayed the lowest absolute risk, relative to the average manager, All Share Index and All Bond Index. This means that the Stable Portfolio had the lowest risk of losing capital over the period measured.

Correlation was analysed in relation to the returns of ALSI during months when the ALSI was up or down. When the ALSI was up, the correlation between the monthly returns of the Stable Portfolio and the ALSI was 0.64. This was lower than the correlation of 0.81 between the average manager and the ALSI. However, when the ALSI was down, the correlation between the returns of the Stable Portfolio and the ALSI was 0.50. This contrasts with the correlation between the average manager and the ALSI of 0.83 when the ALSI was down. This shows that the Stable Portfolio has a high correlation to the ALSI when the ALSI has positive returns but is less correlated to the ALSI when the ALSI delivers negative returns.

Typically, an equity-only portfolio will have a beta value close to one. The Stable Portfolio has a beta of 0.19. This is low, as expected, due to the low equity exposure of the Stable Portfolio. This contrasts with the higher beta of 0.54 between the average manager and the ALSI. The beta values imply that the Stable Portfolio generally moves in the same direction as the ALSI and the average manager, but the magnitude of the Portfolio movements is smaller than the magnitude of the movements of the ALSI and the average manager.

The analysis of the Sharpe ratios reveals that the Stable Portfolio generated the highest Sharpe ratio relative to the average manager, All Share Index and All Bond Index. This means that, for each unit of absolute risk, the Stable Portfolio generated the highest excess return over cash, in comparison to the benchmarks.

CONCLUSION Whilst risk measures are calculated based on historical data and cannot be used to predict future behaviour, it is evident from the above that the Allan Gray Life Domestic Stable Portfolio has been successful in achieving its objective of long-term wealth creation for clients at lower levels of risk of capital loss.

We trust that the Stable Portfolio, through its bottom-up stockpicking and asset allocation, will meet the ongoing investment needs of clients with a low tolerance for the risk of capital loss in the years ahead, notwithstanding the current pricing of equity, property and bond instruments.

ABSOLUTE RISK is defined as the annualised volatility (standard deviation) of monthly returns. Absolute risk is the risk of capital loss or the risk of losing money. At Allan Gray we focus on reducing the risk of capital loss and hence strive for a low absolute risk.

CORRELATION shows the extent to which a relationship exists between the returns of two investments. If the correlation is close to zero, it means there is no relationship between returns of the investments. If the correlation is positive, it means that as the returns from one of the investments increases, the other increases. If the correlation is negative it means that as one increases, the other decreases.

The **BETA** of a portfolio measures the volatility of the portfolio in relation to the stockmarket. If a portfolio has a beta greater than one, it means that the portfolio returns are more volatile than the market returns. A beta value less than one indicates that the portfolio returns are less volatile than the market returns. Beta values close to zero imply that the portfolio and market returns are uncorrelated.

The **SHARPE RATIO** measures the excess return achieved by the portfolio relative to a risk-free cash return[3], per unit of absolute risk taken. A higher Sharpe ratio indicates that the portfolio earns a greater return, in excess of cash, for each unit of absolute risk taken.

[2] As measured by the Alexander Forbes Large Manager Watch.
[3] The cash benchmark used is the STeFI Call Deposit Index.

John Rainier, Managing Director, Allan Gray Property Trust Management Limited

Grayprop and the South African property market

EXECUTIVE SUMMARY Against a backdrop of healthy growth, positive business confidence and lower interest rates, the value of property as measured by capitalisation rates has increased significantly. Once again, the total return for the year from property has been most rewarding, reinforcing the view that investors should diversify from residential to listed property. Vacancy rates in the office market have continued to decline while the buoyant retail market looks set to continue into 2006. Total distributions by the Allan Gray Property Trust for the year to September 2005 were equivalent to 35.0 cents per unit, 9% up on 2004. An increase of between 10 and 12% in distributions for the year ending September 30, 2006 is anticipated.

BACKGROUND The South African economy continues to perform well on the back of good consumer demand and strong commodity prices. In terms of trade, South African exports in US dollar terms have increased at above 20% this year, whereas imports have grown even faster. Manufacturing volumes have also been robust. Meanwhile, retail sales, although strong, are growing at a slower rate due to a higher base. Overall, business confidence remains positive.

The environment of falling interest rates has been maintained with long bond rates declining from 9.0% a year ago to 8.1% as at the end of September 2005. Once again this has contributed significantly to the increase in the value of property as measured by capitalisation rates.

REWARDING RETURNS The 2005:4 report of independent valuers Rode & Associates CC shows the percentage increases resulting from a change in capitalisation rates compared to a year ago. (See **Table 1** below.)

If the running yield is added to these price increases, the total return for the year from non-residential property has been most rewarding in real terms once again.

Unfortunately, many investors continue to focus on residential property while overlooking the many benefits of investing in listed property instead. Many people own their homes so buying a second or third residential property offers no diversification among asset classes. In addition to providing a widely diversified portfolio, listed property gives investors a level of liquidity and low dealing costs that residential property does not. The rate of growth in house prices peaked at 34.5% in October 2004. On the other hand, the listed property market has consistently outperformed virtually all other asset classes for the past two years.

Vacancy rates in the office market have continued to decline, with Rode reporting a net take up of 5% of the available stock in the year to July. This positive trend is also evident in the industrial market.

Building completions have risen at a slower pace in the past six months. This should bring a measure of stability to the property market and bodes well for existing landlords. In addition, building cost inflation as measured by the Bureau for Economic Research (BER) building cost index is currently running at over 17%, which makes it economically difficult to justify new developments without steeply increasing nominal rentals. Our expectations are for these sizable increases in building costs to continue due to supply bottlenecks.

Turning to the retail market, sales in July grew 3.2% in real terms over the previous year and the buoyant retail market looks set to continue into 2006. This remains positive for our portfolio, which is focused on this sector.

The effective decline in real rentals that the office market has experienced over the past few years appears to be slowing. The seven-year decline in the industrial market now seems to be over. While this will eventually stimulate development, the immediate outlook for these sectors is positive.

Mean escalations in rentals remain in the nine to 10% per annum range for the above sectors.

TABLE 1

Increases in valuation as a result of changes in capitalisation rates

A Grade Multi Offices	(%)	Prime Industrial Parks	(%)	Regional Shopping Centres	(%)
Sandton CBD	15	Central Witwatersrand	6	Witwatersrand	13
Brooklyn/Waterkloof	2	East Rand	8	Pretoria	10
La Lucia Ridge	16	Cape Peninsula	16	Durban	3
Tyger Valley	10	Durban Metro	11	Cape Town	12
		Pretoria Metro	8		

Source: Rode

INITIATIVES DURING 2005 We continued with our programme of selling buildings that have inferior prospects while continuing to redevelop certain properties.

The Trust was included in the Morgan Stanley Capital International (MSCI) South Africa Index with effect from 1 June 2005. This has led to a 2% holding in its units at year-end by international investors. The inclusion in the index is significant in the current environment where fund managers globally are seeking exposure to emerging market counters. Grayprop is the only property share in the index.

PERFORMANCE AND FINANCIAL RESULTS Our purpose is to create long-term wealth for our unitholders. Over the last five years to September 2005 total return per annum generated by the Allan Gray Property Trust compared with inflation is shown in **Table 2** below.

Total distributions for the year to 30 September 2005 were R348.6 million, equivalent to 35.0 cents per unit (2004: 32.2 cents). The total distribution comprised an interim distribution of 17.4 cents (2003: 15.6 cents) and a final distribution of 17.6 cents (2003: 16.6 cents), paid on 28 November 2005.

The net asset value per unit is 40.3% higher than that of last year as a result of improved valuations. The market rating of the property portfolio in terms of the anticipated forward earnings yield has improved from 12.2% last year to 9.5%.

The portfolio is concentrated significantly in 14 properties making up 80% of the portfolio by value (last year 16 and 75% respectively) with the largest properties being Centurion Mall, Westgate Shopping Centre and Blue Route Mall.

TRADING FORECAST The Board anticipates that distributions per unit for the year ending 30 September 2006 will increase between 10 and 12% compared with the year ended 30 September 2005.

TABLE 2

Total returns

	2001	2002	2003	2004	2005	5-year compound % p.a.
Allan Gray Property Trust	39.3	1.3	36.9	39.9	57.1	33.5
Inflation	4.4	11.2	3.7	1.3	4.4	4.9
Real Return	34.9	-9.9	33.2	38.6	52.7	28.6

Source: I-Net Bridge

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

PERIOD	ALLAN GRAY*	FTSE/JSE ALL SHARE INDEX	OUT/(UNDER) PERFORMANCE
1974 (from 15.6)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
Annualised to 31.12.2005			
From 1.1.2003 (3 years)	38.7	28.9	9.8
From 1.1.2001 (5 years)	35.9	20.6	15.3
From 1.10.1996 (10 years)	27.7	14.5	13.2
Since 1.1.1978	31.5	21.7	9.8
Since 15.6.1974	29.8	18.5	11.3
Average outperformance			11.3
No. of calendar years outperformed			25
No. of calendar years underperformed			6

*NOTE: ALLAN GRAY COMMENCED MANAGING PENSION FUNDS ON 1.1.1978. THE RETURNS PRIOR TO 1.1.1978 ARE OF INDIVIDUALS MANAGED BY ALLAN GRAY, AND THESE RETURNS EXCLUDE INCOME.

NOTE: LISTED PROPERTY IS INCLUDED FROM 1 JULY 2002.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 15 JUNE 1974 WOULD HAVE GROWN TO **R37 117 391** BY 31 DECEMBER 2005. BY COMPARISON, THE RETURNS GENERATED BY THE FTSE/JSE ALL SHARE INDEX OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R2 091 591.**

Allan Gray Limited Global Mandate Total Returns vs Consulting Actuaries Survey (CAS)

PERIOD	ALLAN GRAY	CAS*	OUT/(UNDER) PERFORMANCE
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-0.6	7.5
1999	80.0	41.2	38.8
2000	21.7	6.6	15.1
2001	44.0	22.3	21.7
2002	13.4	-2.2	15.6
2003	21.5	16.6	4.9
2004	21.8	22.2	-0.4
2005	40.0	28.1	11.9
Annualised to 31.12.2005			
From 1.1.2003 (3 years)	27.5	22.2	5.3
From 1.1.2001 (5 years)	27.6	16.9	10.7
From 1.10.1996 (10 years)	24.3	14.7	9.6
Since 1.1.1978	24.8	18.4	6.4
Average outperformance			6.4
No. of calendar years outperformed			23
No. of calendar years underperformed			5

*THE RETURN FROM 1 OCTOBER 2005 IS AN ESTIMATE.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 1 JANUARY 1978 WOULD HAVE GROWN TO **R4 936 334** BY 31 DECEMBER 2005. THE RETURNS GENERATED BY THE AVERAGE OF THE CONSULTING ACTUARIES SURVEY OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R1 154 700**.

Annualised performance in percent per annum to 31 December 2005

	FOURTH QUARTER (unannualised)	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT R millions	INCEPTION DATE
SEGREGATED RETIREMENT FUNDS							
GLOBAL BALANCED MANDATE	**8.0**	**40.0**	**27.5**	**27.6**	**24.8**	**27,135.6**	**01.01.78**
Mean of Consulting Actuaries Fund Survey *	6.5	28.6	22.3	17.0	18.4		
DOMESTIC BALANCED MANDATE	**9.0**	**43.3**	**31.6**	**29.3**	**25.2**	**15,435.9**	**01.01.78**
Mean of Alexander Forbes Domestic Manager Watch *	7.4	33.5	29.3	21.3	19.3		
EQUITY-ONLY MANDATE	**11.2**	**55.3**	**37.4**	**34.5**	**23.9**	**32,652.9**	**01.01.90**
FTSE/JSE All Share Index	7.7	47.3	28.9	20.6	15.3		
GLOBAL NAMIBIA BALANCED MANDATE	**7.6**	**36.2**	**26.8**	**26.8**	**22.6**	**3,608.9**	**01.01.94**
Mean of Alexander Forbes Namibia Average Manager *	6.5	30.3	25.1	18.4	15.3		
EQUITY-ONLY RELATIVE MANDATE	**10.0**	**48.8**	**33.0**	**26.5**	**28.3**	**4,882.2**	**19.04.00**
Resource adjusted FTSE/JSE All Share Index	8.2	44.5	30.8	18.6	19.1		
POOLED RETIREMENT FUNDS							
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	**7.7**	**39.8**	**27.5**	**27.1**	**27.5**	**8,195.1**	**01.09.00**
Mean of Alexander Forbes Large Manager Watch *	6.5	31.5	25.6	18.7	17.8		
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	**8.6**	**43.3**	**32.1**	-	**28.8**	**5,219.5**	**01.09.01**
Mean of Alexander Forbes Domestic Manager Watch *	7.4	33.5	29.3	-	22.2		
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	**11.0**	**55.9**	**37.8**	-	**33.9**	**3,541.1**	**01.02.01**
FTSE/JSE All Share Index	7.7	47.3	28.9	-	18.8		
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	**10.1**	**39.0**	**29.2**	-	**32.5**	**476.8**	**06.07.01**
Mean of Alexander Forbes Domestic Manager Watch *	7.4	33.5	29.3	-	21.2		
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	**5.4**	**23.8**	**20.2**	-	**20.0**	**256.2**	**01.12.01**
Alexander Forbes Three-Month Deposit Index plus 2%	2.2	9.2	11.1	-	11.8		
ALLAN GRAY LIFE FOREIGN PORTFOLIO	**2.7**	**26.6**	**7.1**	-	**-0.1**	**672.6**	**23.01.02**
60% of the MSCI and 40% of the JP Morgan Global Government Bond Index	1.1	17.2	3.2	-	-5.9		
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO	**2.1**	**10.0**	**9.1**	-	**9.7**	**224.1**	**04.12.02**
Daily Call Rate of Nedcor Bank Limited	1.4	5.8	7.6	-	7.7		
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	**8.4**	**40.8**	-	-	**29.7**	**466.5**	**01.03.04**
Mean of Alexander Forbes Large Manager Watch *	6.5	31.5	-	-	30.7		
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	**4.3**	**20.1**	-	-	**21.1**	**659.5**	**01.05.04**
Consumer Price Index plus 3% p.a.	0.7	6.7	-	-	6.0		
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	**4.4**	**23.3**	-	-	**24.9**	**203.3**	**15.07.04**
Alexander Forbes Three-Month Deposit Index plus 2%	2.2	9.2	-	-	9.3		
FOREIGN-ONLY (RANDS) **							
ORBIS GLOBAL EQUITY FUND (RANDS)	**2.9**	**37.3**	**15.2**	**12.9**	**21.9**	**6,277.6**	**01.01.90**
FTSE World Index (Rands)	3.3	25.4	8.5	-0.3	13.6		
ORBIS JAPAN EQUITY (US$) FUND (RANDS)	**15.2**	**66.1**	**17.1**	**11.8**	**19.4**	**194.4**	**12.06.98**
Tokyo Stock Price Index (Rands)	17.9	69.2	16.9	5.0	11.9		
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	**2.7**	**26.8**	**7.3**	**16.6**	**17.3**	**3,345.9**	**23.05.96**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	1.1	17.2	3.2	1.3	11.1		
UNIT TRUSTS **					Figures below unannualised		
EQUITY FUND (AGEF)	***	**50.0**	**33.8**	**31.6**	**1094.6**	**11,576.1**	**01.10.98**
FTSE/JSE All Share Index		47.3	28.9	20.6	341.7		
BALANCED FUND (AGBF)	***	**36.5**	**27.6**	**26.2**	**355.4**	**11,956.3**	**01.10.99**
Average Prudential Fund (excl. AGBF)		28.0	24.1	17.3	167.0		
STABLE FUND (AGSF) applying a 25% tax charge	***	**17.9**	**14.9**	**15.3**	**125.4**	**6,839.5**	**01.07.00**
After-tax return of call deposits plus two percentage points		5.7	7.2	7.9	52.5		
MONEY MARKET FUND (AGMF)	***	**7.1**	**8.8**	-	**50.2**	**817.7**	**03.07.01**
Domestic fixed interest money market unit trust sector (excl. AGMF)		6.9	8.8	-	50.8		
GLOBAL FUND OF FUNDS (AGGF) ****	***	**24.8**	-	-	**8.5**	**1,549.0**	**03.02.04**
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		17.1	-	-	5.1		
OPTIMAL FUND (AGOF)	***	**9.0**	**8.6**	-	**38.2**	**982.8**	**01.10.02**
Daily call rate of FirstRand Bank Ltd		5.5	7.5	-	27.9		
BOND FUND (AGBD)	***	**10.7**	-	-	**18.8**	**23.8**	**01.10.04**
JSE/All Bond Index (total return)		10.8	-	-	19.4		

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

Segregated Portfolios

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

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

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

Namibia Pooled Portfolio - Allan Gray Namibia Investment Trust

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

South African Pooled Portfolios - Allan Gray Life Limited

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

Risk-profiled Pooled Portfolios

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

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

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

Asset Class Pooled Portfolios

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

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

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

Other Pooled Portfolios

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

Orbis Mutual Funds*

Offshore Products

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

* PLEASE NOTE THAT THESE ARE NOT RAND-DENOMINATED UNIT TRUSTS SO A SOUTH AFRICAN INVESTOR IS REQUIRED TO HAVE EXCHANGE CONTROL APPROVAL IN ORDER TO INVEST.

Individual Retirement Products

	Pre-retirement		Post-retirement
	RETIREMENT ANNUITY	PENSION OR PROVIDENT PRESERVATION FUND	LIVING ANNUITY*
Description	• Enables saving for retirement with pre-tax money. • Contributions can be at regular intervals or as single lump sums. • Ideal for the self-employed or employees who want to make additional contributions to an approved retirement vehicle.	• Preserves the pre-tax status of a cash lump sum that becomes payable from a pension (or provident) fund at termination of employment. • A single cash withdrawal can be made from the Preservation Fund prior to retirement.	• Provides a regular income from the investment proceeds of a cash lump sum that becomes available as a pension benefit at retirement. • A regular income of between 5% and 20% per year of the value of the lump sum can be selected. • Ownership of the annuity goes to the investor's beneficiaries on his/her death.
Investment Options	The contribution(s) to any one of these products can be invested in any combination of unit trusts.		
Minimum Investment Size	R 20 000 lump sum R 500 monthly	R 50 000 lump sum	R 100 000 lump sum
Initial Fee		None	
Annual Administration Fee		None	
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.
Switching Fee		None	

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

Discretionary Products **Retail**

Endowment Policy*	
Description	• An investment policy ideally suited to investors with medium- to long-term investment objectives who want capital growth with after-tax returns. • Ideal for investors interested in a 5-year savings plan.
Investment Options	Can be invested in any combination of unit trusts.
Minimum Investment Size	R 20 000 lump sum R 500 monthly recurring investment
Initial Fee	None
Annual Administration Fee	None
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.
Switching Fee	None

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	EQUITY FUND	BALANCED FUND	STABLE FUND	BOND FUND
Benchmark	FTSE/JSE All Share Index including income.	Average (market value-weighted) of the Domestic Prudential Medium Equity Sector excluding the Allan Gray Balanced Fund.	After-tax return of call deposits (for amounts in excess of R1m) with FirstRand Bank Limited plus 2%.	All Bond Index.
Maximum Net Equity Exposure	100%	75%	60%	0%
Portfolio Orientation	A share portfolio selected for superior long-term returns.	A portfolio (which can include all asset classes) selected for superior long-term returns.	A portfolio (which can include all asset classes) chosen for its high income yielding potential. The intention is to keep the equity portion significantly below 60%.	A portfolio invested in a combination of South African interest-bearing securities including bonds, loan stock, debentures, fixed deposits, money market instruments and cash.
Return Objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns compared to bank deposits.	Superior returns compared to the All Bond Index.
Risk of Monetary Loss	Risk higher than the Balanced Fund but less than average general equity fund due to Allan Gray's investment style.	Risk higher than the Stable Fund but less than the Equity Fund. This is a medium risk fund.	• Low risk. • Limited capital volatility. • Seeks to preserve capital over any two-year period.	Low risk, higher than the Money Market Fund, but lower than the Balanced Fund.
Target Market	• Investors seeking long-term wealth creation. • Investors should be comfortable with market fluctuations i.e. short-term volatility. • Typically the investment horizon is five-year plus.	• Investors seeking long-term wealth creation. • Investors seeking a three-year plus investment. • Investors who wish to substantially comply with the Prudential Investment Guidelines of the Pension Funds Act (Reg. 28).	• Risk-averse investors. • Investors who wish to substantially comply with the Prudential Investment Guidelines of the Pension Funds Act (Reg. 28). • Investors who require a regular income.	• Investors seeking returns in excess of that provided by income funds, the money market funds or cash. • Investors who are prepared to accept some risk of capital loss in exchange for the prospect of increased returns. • Investors who want to draw a regular income stream without consuming capital.
Income Yield	Low income yield.	Average income yield.	High income yield.	High income yield.
Income Distribution	Distribute bi-annually.	Distribute bi-annually.	Distribute quarterly.	Distribute quarterly.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)*	Does not comply.	Complies.	Complies.	Complies.
Fee Principles (Financial Adviser fees are agreed between the client and IFA)	Performance fee for outperformance of the FTSE/JSE All Share Index over a two-year rolling period.	Performance fee for outperformance of the average Domestic Prudential Medium Equity Sector Fund over a two-year rolling period.	Performance fee for outperformance of taxed bank deposits. No fees if there is a negative return experienced over a two-year rolling period.	Performance fee for outperformance of the All Bond Index over a one-year rolling period.
Minimum Lump Sum Investment Requirement (Retirement product and endowment minimums apply)	R10 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R25 000 lump sum and/or R2 500 per month debit order.
Portfolio Manager	Stephen Mildenhall	Arjen Lugtenburg	Stephen Mildenhall	Jack Mitchell and Sandy McGregor

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

OPTIMAL FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	GLOBAL EQUITY FEEDER FUND
Daily call rate of FirstRand Bank Limited. (for amounts in excess of R1m).	Simple average of the Domestic Fixed Unit Trust Sector excluding Allan Gray Money Market Fund.	60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index.	FTSE World Index.
15%	0%	100%	100%
A portfolio of carefully selected equities. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.	Invested in selected money market instruments providing a high income yield.	Invested in selected Orbis funds. The Fund will always hold minimum 85% of its assets offshore.	A Rand-denominated fund feeding directly into the FSB registered Orbis Global Equity Fund.
Superior returns compared to bank deposits.	Superior money market returns.	Superior long-term returns.	Superior long-term returns.
• Low risk. • Little or no correlation to stock or bond markets.	• Low risk. • High degree of capital stability.	Risk similar to Balanced Fund but less than average foreign balanced mandate.	Risk higher than the Global Fund of Funds.
• Risk-averse investors. • Investors who wish to diversify a portfolio of equities or bonds. • Retirement schemes and multi-managers who wish to add a product with an alternative investment strategy to their overall portfolio.	• Highly risk-averse investors. • Investors seeking a short-term "parking place" for their funds.	Investors: • seeking to invest locally in Rands and benefit from offshore exposure. • wanting to gain exposure to markets and industries that are not available locally. • who desire to hedge their investments against any Rand depreciation.	Investors: • seeking to invest in global equities in Rands and benefit from offshore exposure. • wanting to gain exposure to markets and industries that are not available locally. • who desire to hedge their investments against any Rand depreciation. • that do not have the minimum required to invest directly in the Orbis Global Equity Fund.
Low income yield.	High income yield.	Low income yield.	Low income yield.
Distribute bi-annually.	Distribute monthly.	None.	Annually if applicable.
Does not comply.	Complies.	Does not comply.	Does not comply.
Fixed fee of 1.0% (excl. VAT) per annum, plus performance fee of 20% of the daily outperformance of the benchmark. In times of underperformance no performance fees are charged until the underperformance is recovered.	Fixed fee of 0.25% (excluding VAT) per annum.	No fee. The underlying funds, however, have their own fee structure.	No fee. The underlying fund, however, has its own fee structure.
R25 000 lump sum and/or R2 500 per month debit order.	R50 000 lump sum and/or R5 000 per month debit order.	R25 000 lump sum. No debit orders are permitted.	R25 000 lump sum. No debit orders are permitted.
Stephen Mildenhall	Michael Moyle	Stephen Mildenhall (William Gray is the Portfolio Manager of the underlying Orbis funds.)	Stephen Mildenhall (William Gray is the Portfolio Manager of the Orbis Global Equity Fund.)

ALLAN GRAY

INTELLIGENT INVESTING