Q1

ALLAN GRAY

LONG TERM INVESTMENT MANAGEMENT

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Quarterly Commentary

Q1

31 March 2002

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LONG TERM INVESTMENT MANAGEMENT

Q1

Inside this issue

Front cover: Some of the contributors to this issue are from left to right: El-Rina du Preez, Dr Sibs Moodley-Moore, Heather McCulloch

ALLAN GRAY
LONG TERM INVESTMENT MANAGEMENT

Mark Herdman
Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer

"We are confident that we can deliver superior returns over the next few years".

We recently announced that our Chairman, Simon Marais, is to relocate in late 2002 to the London office of our global asset management partner, Orbis Investment Management Limited. In 'Investment Perspective' Stephen Mildenhall, our Chief Investment Officer, gives an insight into this decision, which forms part of a long held vision of building an internationally competitive global investment management firm. He concludes that considerable value should be added to our domestic investment process by introducing a more global perspective to the valuation of companies and by identifying emerging global trends.

Investment Commentary

We include two articles in 'Investment Commentary'. The first, written by our equity strategist, Jack Mitchell, takes a closer look at the investment choices faced by an individual. He shows that debt repayment should be a priority and suggests that after this investors should look to the stockmarket to provide long-term returns in excess of those currently available from bonds.

In the second article, Simon Marais addresses the difficulties faced by investors who wish to make money by investing in the stockmarket. He includes the damaging effects of investors' overreactions resulting in extremes of optimism and pessimism. He further shows an analysis of the three major local share indices' historic performance, which reveals that no index enjoys a permanent advantage. However, by capitalising on these investors' overreactions, Allan Gray lays the foundation for future periods of outperformance.

From the Human Resources Desk

It is very pleasing that we have been able to achieve a more equitable working environment since the Employment Equity Act was passed in 2001. Our Human Resources Director, Sibs Moodley-Moore, highlights that 70% of our current staff are from the designated groups. The primary focus of our social investment programme is to empower through education and she identifies the academic institutions that we support.

Gray Matters

In 'Gray Matters' we feature the Trading and Allocations team. We explain our belief that our portfolio management process is unique in the industry and profile the individuals. In 'Servicing the retail market', we introduce our Business Development Managers, noting the importance of the relationship between the Unit Trust Management Company and the Independent Financial Adviser in the retail industry, and our commitment to it.

Investment Performance

After the fourth quarter 2001's poor relative performance for our clients, it is satisfying to note that our segregated balanced mandate clients (which by value are the largest component of our client base) once again outperformed our estimate of the mean of the Consulting Actuaries Survey in the first Quarter of 2002. Our global balanced clients earned a slightly negative -0.5% versus -1% for the mean of the Consulting Actuaries Survey. Our domestic balanced clients earned 0.5% versus the mean of the Alexander Forbes Domestic Manager Watch of 0.2%. Our global balanced clients' foreign investments proved particularly defensive with a return of -2.8% in Rands versus our estimate of the average at -6.2%.

We are confident that we can deliver superior returns over the next few years as we are currently finding more undervalued investment opportunities in the local stockmarket than we have for some time.

I hope that you enjoy this issue of 'Quarterly Commentary'.

Mark Herdman

Mark Herdman
Chief Operating Officer

Towards our global vision

Stephen Mildenhall

Chief Investment Officer, Allan Gray Limited
Equity Portfolio Manager and Analyst

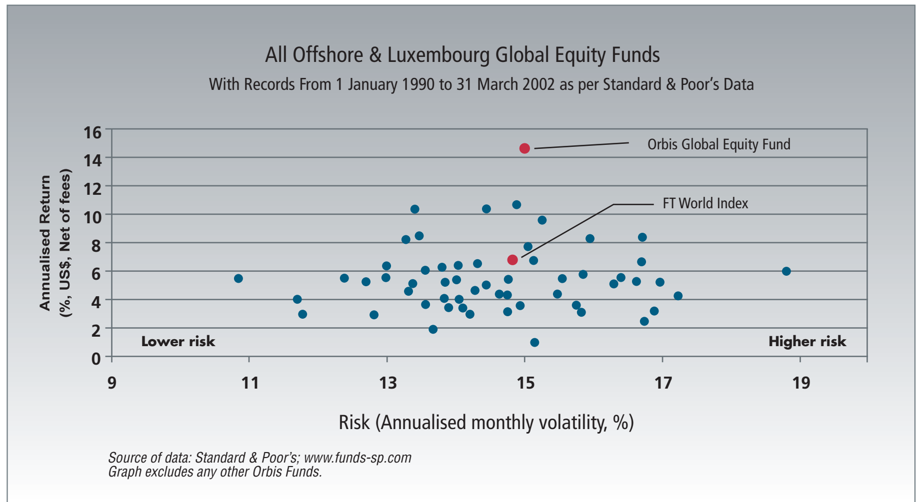
Investment Perspective

We recently announced that Simon Marais is to relocate in late 2002 to the London advisory office of our global asset management partner, Orbis Investment Management Limited. He will remain the Chairman of Allan Gray and through Orbis will maintain significant input into the local management of our clients' assets. This decision forms part of the fulfillment of a broader vision, which was formulated a number of years ago.

Our focus at Allan Gray Limited has always been to offer our clients a comprehensive and exceptional investment service over the long-term. In the early 1980's it became clear to us that our clients would, in the fullness of time, require access to not only local but also international investment expertise. It was in their best interests to invest globally and we believed that exchange controls would inevitably be relaxed over time, at least to some extent.

In line with that, in 1988 Dr. Allan Gray relocated to London with the express purpose of building an internationally competitive global investment capability based on the Allan Gray investment philosophy and ethos. The results of that effort - the return that Orbis has managed to achieve on behalf of its clients - speak for themselves.

The Orbis Global Equity Fund, which invests in shares throughout the world, recently earned the 2002 Standard and Poor's Offshore Global Equity Fund Sector performance awards, being placed first in each of the last 10, 5 and 1-year periods to the end of December 2001. To quote Standard and Poor's, as the winner Orbis Global has delivered "the most consistent outperformance over each time period using relative risk adjusted methodology which not only takes into account the superior returns of Orbis Global relative to its peers, but also the consistency of the fund's relative performance". The graph (below left) shows the return and risk statistics for all of Standard & Poor's Offshore Global Equity Funds and those funds registered in Luxembourg, with records from 1 January 1990 (the inception date of Orbis Global Equity Fund) to 31 March 2002. Further details are available on their website www. funds-sp.com in the Offshore Funds Global Equity Sector. The Orbis Global Equity Fund has grown to over US$1 billion in size.



Stephen Mildenhall

Orbis Global's returns have exceeded that of the average global equity fund by 9.2% p.a. since 1 January 1990 (up to 31st March 2002). Over Allan Gray's 28-year history, we have managed to outperform the All Share Index by 10.2% p.a. (15 June 1974 up to 31 March 2002). The fact that the long-term performance track records are so similar is due to the very similar way in which Orbis and Allan Gray select attractive investments.

Both companies employ exactly the same investment philosophy. This philosophy, which we have discussed on many previous occasions, focuses on the true underlying economic value of a company rather than on short-term share price fluctuations, which are driven largely by sentiment. In both companies we thus employ highly skilled analysts who spend their days calculating the true value of potential investments by poring over annual reports, interviewing management and looking at long-term data series. The only significant difference between the modus operandi of the two groups is in the investment process. Given the massive size of the investment universe in world markets, Orbis cannot analyse all companies of a significant size, like we do in South Africa. They have thus developed tools to screen world markets for those investments which show the most potential.

Analysing shares on a global basis often brings perspectives that are very different to those gained by only focusing on the domestic market. For example; to determine the value of a company like Sasol (one of our clients' largest investments) significant value can be added by an analyst who has studied the world's major oil companies and how they are valued by the various markets. In addition, investment trends often occur elsewhere in the world before they happen in South Africa. To be aware of these trends before other investors is a major competitive advantage.

Foreign investors who constantly search the world for new opportunities are increasingly determining the value of South African shares. Simon's move to London and his focus on the foreign listed, globally orientated stocks that now dominate the All Share Index is anticipated to add significantly in this regard. As such it is just another step we are taking in working to achieve our vision of delivering a truly excellent global investment service to our clients.

Annualised % returns from inception on 1 January 1990 to 31 March 2002

	Currency	From Inception	Last 10 years	Last 5 years	Last 1 year
FTSE World Index	US$	6.7	9.4	6.0	(3.1)
Average Global Equity Fund	US$	5.4	6.6	2.5	(5.9)
Orbis Global Equity Fund	**US$**	**14.6**	**15.1**	**15.7**	**14.7**
Ranking (Orbis Global's rank / total funds for that period)		1/62	1/95	3/230	8/577

Ranking based on returns in US$ net of fees, to 31 March 2002; Source: Standard & Poor's Micropal

1-year period

5-year period

10-year period

ALLAN GRAY QUARTERLY COMMENTARY 31 MARCH 2002

Horses for courses

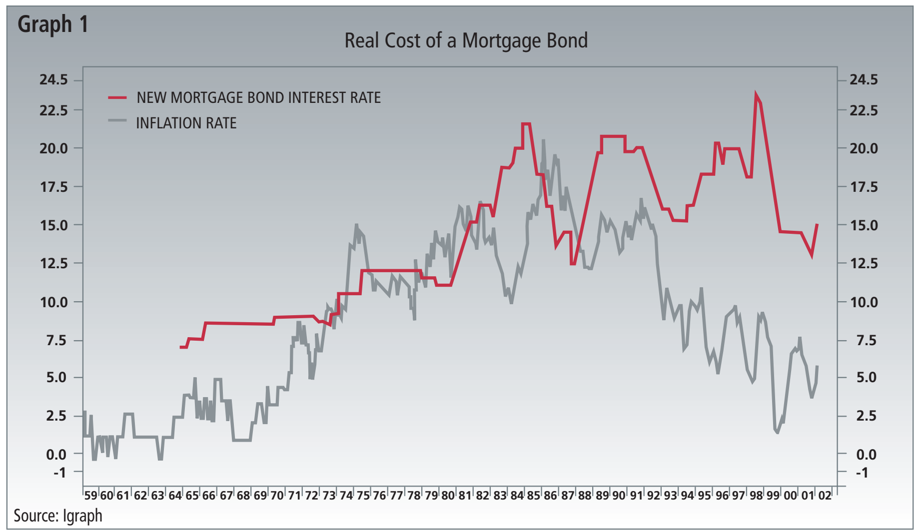
Jack Mitchell
Director, Allan Gray Limited
Chairman, Allan Gray Unit Trusts and Allan Gray Property Trust Management Limited

Investment Commentary

When one is faced with investment choice, expected returns should be carefully compared before committing capital.

For instance, one's first major investment is invariably the purchase of a home. Typically financial assistance, in the form of a mortgage bond, is required for such a large initial capital outlay. Subsequently if funds become available, should one make an investment or repay the bond?

In this respect, consider the following: **Graph 1** shows the cost of a mortgage bond compared to the inflation rate. The difference between the two lines represents the real cost of the bond. Note how onerous the real cost of a bond has been over the past decade. On the other hand, **graph 2** shows



Graph 1
Real Cost of a Mortgage Bond
Source: Igraph

the net interest rate earned from a 12-month deposit, subject to tax in the hands of the recipient at 25% (the rate applied to retirement schemes for interest earned). Note that the difference between the net yield and inflation is not very large and was negative prior to 1995. In light of the above, anyone choosing between a 12-month deposit and repaying their bond should consider the following example:

Interest earned	R1055.00*
Tax @ 25 %	R263.75
Net earnings	R791.25 per annum

*Yield on 12-month deposit 10.55% on 12/03/02.

If these net earnings are used to pay the outstanding mortgage bond interest the investor is 'out of pocket' as follows:

Interest paid	R1 400.00*
Net earnings from deposit above	R791.25
'Out of Pocket'	R608.75

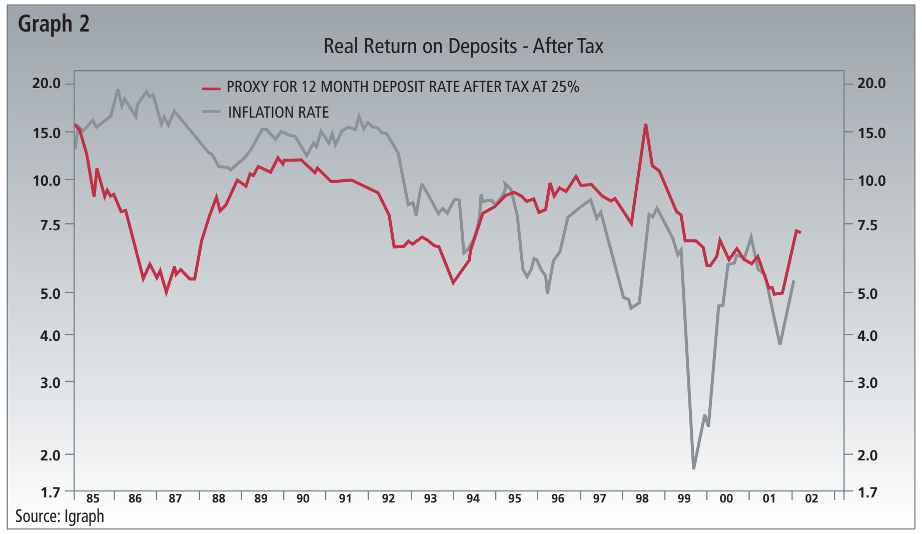
*Mortgage bond rate 14% on 12/03/02.

Clearly the R10 000 repayment of the mortgage bond earns the investor an extra R608.75 which increases the net return from 7.9% on the 12-month deposit to the cost of the bond namely 14%. Insofar as mortgage bond costs are usually the cheapest form of finance, the return generated by repaying other debt will rise commensurately.

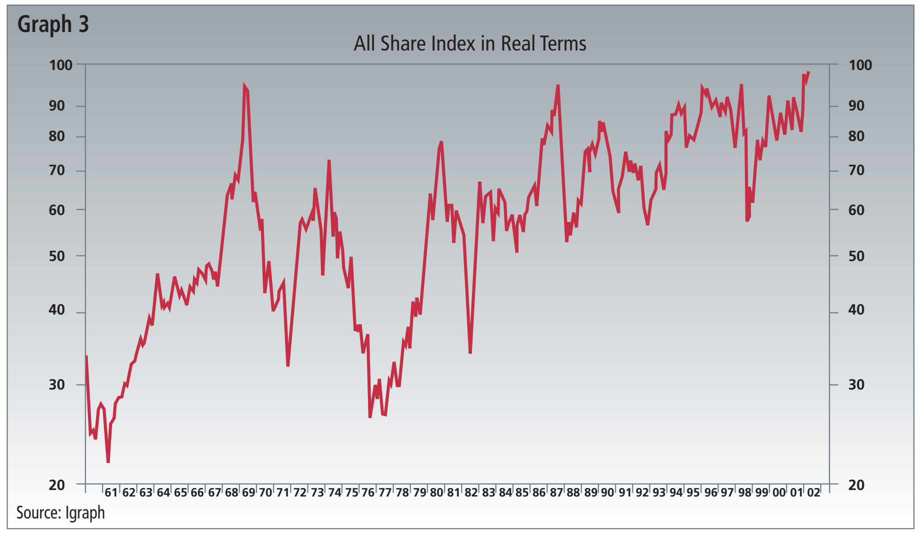
Turning to the stockmarket, for investors who carry debt, it can be seen that the real growth in capital appreciation represented by the All Share Index (see **graph 3**) has been very slow. In addition the returns have been volatile, which represents risk. Even adding the dividend yield, currently 2.8%, and Allan Gray's historically superior share selection would not in our opinion justify this extra risk, given the confident real return achieved by the bond repayment.

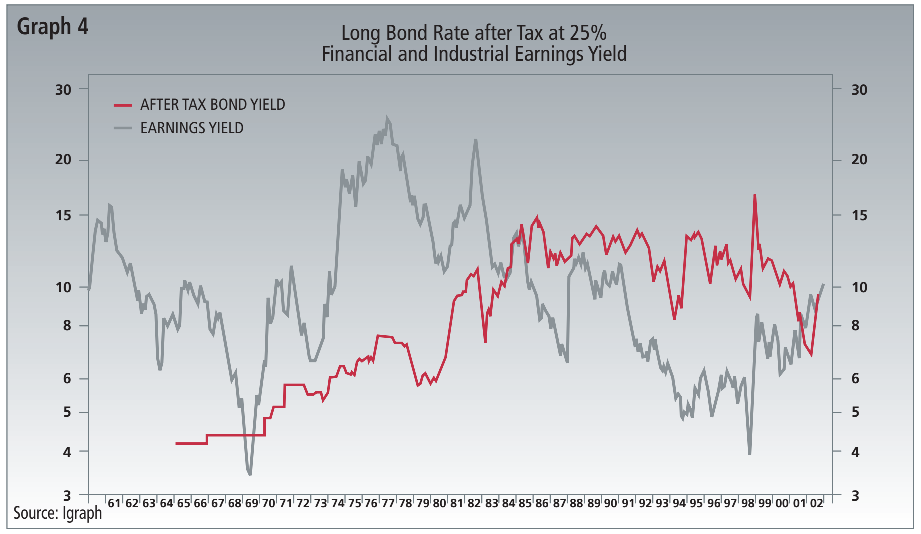
Debt free investors, while being in a preferable personal situation are faced with more complex and risky investment decisions as they don't have the option of the high real return generated by paying off debt, as illustrated above.

Their broadest long term investment choices are bonds or equities. **Graph 4** compares the



Graph 2
Real Return on Deposits - After Tax
Source: Igraph


Graph 3
All Share Index in Real Terms
Source: Igraph



Graph 4
Long Bond Rate after Tax at 25%
Financial and Industrial Earnings Yield
Source: Igraph


Jack Mitchell

after tax (again 25%) yield on long term RSA Bonds with the earnings yield on the Financial and Industrial Index (currently we believe this index offers better value yielding 9.4% on earnings as opposed to 7.6% for the All Share Index).

Note, in **graph 4**, how the earnings yield on shares vis-à-vis bonds widened dramatically in the 1970's, peaking around 1977. This underlined how cheap shares were relative to bonds in that decade. Thereafter the yield gap closed as shares became increasingly expensive while bond rates continued to move higher. After crossing in 1984 the yield on shares continued to contract (besides the 1987 worldwide share slump) until they returned only 4% in 1998. At that time shares were as expensive as they have ever been relative to bonds. Subsequently the gap has closed again and shares and bonds currently return the same yield.

In terms of competition for capital, shares have not been this cheap since 1984/5. Insofar as earnings should at least keep up with inflation, shares deliver the same initial yield as bonds together with a considerable growth factor. Add to this our historically superior share selection and we have little doubt that the return from shares will beat bonds 'hands down' in the years ahead.

In conclusion, we suggest investors prioritise debt repayments. Thereafter we recommend they look to the stockmarket to provide long-term returns well in excess of those available from bonds at present interest rates.

Making money from the stockmarket

Simon C. Marais

Chairman, Allan Gray Limited
Equity Portfolio Manager and Analyst

Investment Commentary

It is not easy to make money in the stockmarket. Even amongst professional firms, there are only a few in the world that have consistently outperformed over extended periods of time.

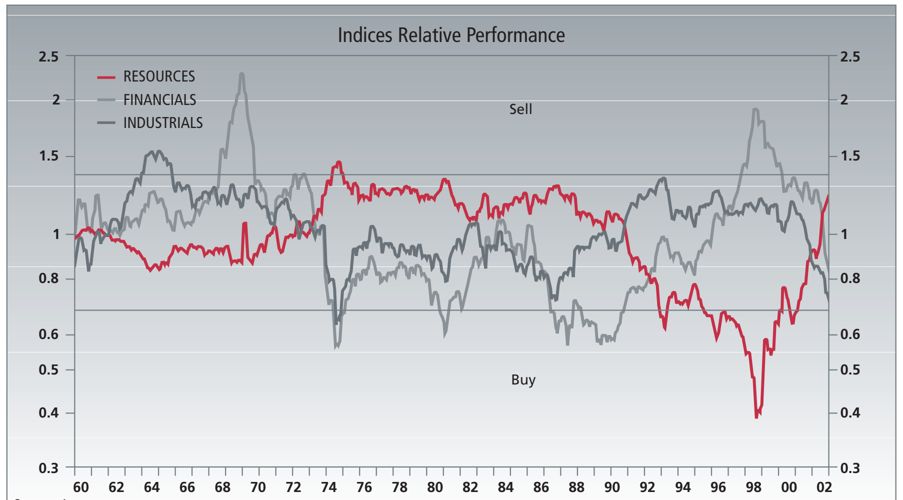
This is a great pity, because if it were easy it would allow all of us to be surfing rather than working! In fact, it is the expectation of making easy money through the stockmarket, rather than through more conventional means, that results in the powerful forces that affect the stockmarket thereby making it so tough to beat.

Let us have a look at these forces. Over short periods of time, sentiment and the flow of money from investors drive share prices. Often these factors can feed on themselves. As share prices go up, sentiment improves and even more money is attracted towards these shares. More buyers mean ever higher share prices, which result in ever more buyers. This cycle can become very strong as we experienced locally in South Africa with the boom in small shares in 1997/98 or the .com boom in the US culminating in the NASDAQ peaking at over 5000 in March of 2000.

However, this prospect of a 'free lunch' for participants in the boom resulted in the forces that proved its undoing. The high share values attracted large numbers of new companies into the market. Lured by constant stories about people who become instant millionaires after listing their companies, entrepreneurs (and existing companies) entered the new area en masse. In South Africa, 101 companies listed in 1998 alone (compared to an average of 33 over the previous 4 years), while in the US in 1999 the majority of graduates when questioned, said that they planned to start their own IT company.

However, new entrants meant more competition that eventually eroded profit margins as the multitude of businesses fought viciously for the same pool of opportunities. This slashed profits for all players. In addition, shares usually have a high rating during boom times, which can evaporate at the first sign of earnings disappointment. This double whammy of weaker profits and a contraction in PE multiples resulted in huge losses. Our local IT index has lost over 70% of its value over the past 4 years.

The inverse of the above scenario is also true. If business conditions are tough, weak competitors are forced out of business (recent examples being Regal, Saambou and Unifer in the financial services sector). The remaining industry afterward consolidates in a wave of buy-outs and mergers, for example, in the tough times for commodities in 1998 the number of listed shares in the resources index dropped from 107 to 82. This reduced competition while all the excess costs, typically introduced during boom times, were squeezed out by the recession. This laid a great foundation for an upturn as margins expanded with higher prices due to the reduced competition and better cost control. At the same time the market rewarded these companies with higher ratings due to the better prospects. The results can often exceed investors' wildest expectations. In past documentation we remarked that the Nedcor share price, at seven times that of Sappi, was excessive given historical norms. Currently Sappi trades above R150 per share whilst a Nedcor share is worth R120.



Source: Inet

This perspective, of a reversion to the long-term average in the stockmarket, is one of the most important tools a successful investor can employ. One should be especially careful to pay high prices for stocks where recent newsflow has been great and optimism is high. At the same time great bargains are probably hiding in areas of the stockmarket, which are shunned by investors as conditions are tough.

The graph on the left gives a valuable overview of the SA market since the inception of the JSE indices in 1960. The 42-year history shows the performance of the three major indices performance relative to the overall stockmarket as defined by the All Share Index.

Note that no index has managed to gain a permanent advantage even over such a long period. This is ample demonstration of the powerful forces of reversion to the average, as discussed above.

It is also clear that financials do very well in stockmarket booms such as 1969 and 1997/8. Thereafter, they often go well below average. In 2001 there was general consensus in the stockmarket that financials were cheap after weak performance. However, the graph shows that they were simply high after a very expensive peak.

Commodities gave investors a once in 40-year buying opportunity in 1998. In fact, the largest single contributor to Allan Gray's excellent performance over the past three and a half years was our recognition of this great value. We profiled Sappi and De Beers in two of our 1998/99 reports. At the same time we avoided the highly priced financials when virtually every other fund was overweight.

Currently one would expect research to uncover great value among industrial shares, which are at their lowest relative levels since 1974. If Richemont, which accounts for 28% of the index, is excluded, the index may well be at an all time relative low. We do indeed find great value in a number of industrial shares. We have recently invested in retailers, Tigerbrands, Nampak, Aplitec and Adcorp. Financials are also starting to offer fundamental value for the first time in more than five years and we have therefore invested in selected shares. Conversely, resources now appear to offer relatively little value and we have therefore reduced our exposure to a number of resource stocks.

One may ask the question why so few investors are successful if a simple graph such as the one on the left can offer so much insight. We highlight a number of reasons:

1. The process takes time to yield results. Early in 1997 our analysis indicated better value in resources than financials. However, while this was proved to be the correct analysis in the fullness of time, our clients had to live through the massive speculative period over the next 15 months where financials outperformed resources by 162%. Given the great emphasis on short-term performance and the high risk severe underperformance entails for an asset management company, very few managers have the courage to act in the best long-term interest of their clients even if they can perceive the value.

2. Near the bottom of a cycle in a specific sector, commentary on the sector is terrible and all the 'experts' advise against investing in the depressed shares. In 1998 very few commentators advocated an investment in resources, while financial funds mushroomed. Only a strong conviction, gained from in-depth fundamental analysis, can lead a manager to maintaining his investments through such tough times.

3. Even though sectors may be down, a strong focus on detailed research remains essential to separate the wheat from the chaff, and to identify those companies which will not recover even if business conditions improve.

Simon C. Marais

In conclusion, while our more recent performance has been disappointing, we are confident that it is once again strongly influenced by the stockmarket being driven to extremes (as in 1997/8). However, it is these extremes that give us the opportunities to lay the foundation for future periods of outperformance. At the moment we find exceptionally good value in certain sectors of the stockmaket. We are therefore more confident than normal of maintaining our historically superior relative returns, achieved on behalf of our clients, over the next five years.

Investing in the future generation

Dr. Sibs Moodley-Moore
Director, Allan Gray Limited

From the Human Resources Desk

"Empowerment begins with better education and well-trained skills and these are the pre-requisites for improved access to economic opportunities."

Employment Equity in South Africa arose from the recognition that the legacy of legal discrimination under apartheid continues to define the workplace and influence the labour market. It is also based on the recognition that social discrimination against women and people with disabilities continues to pervade the workplace despite the removal of discriminatory legislation.

Our recruitment initiatives have concentrated on expanding the pool of candidates available to create equal employment opportunity, using good faith efforts to hire on potential, and utilising the Government's training and skills development programme. We are conscious about conforming to our Employment Equity targets to reach a more equitable outcome and currently out of our total 88 employees, 70% are from the designated groups.

We are pleased that we have been able to achieve a more equitable working environment in such a short period of time, but equitable representation alone is not the solution to achieving employment equity in South Africa. Empowerment begins with better education and well-trained skills and these are the pre-requisites for improved access to economic opportunities. The primary focus of our social investment programme is therefore to empower previously disadvantaged communities through education. In this way we contribute to addressing the skills shortages and are creating the potential for future economic growth.

We believe it critically necessary to assist previously disadvantaged students to obtain access to quality education at three different levels: high school, undergraduate and postgraduate levels. Entrance to tertiary education is supported by upgrading previously disadvantaged students' matric results in English, Mathematics and Science at Headstart College based in Salt River, Cape Town. We further provide selected students with work experience and job shadow possibilities in their school vacations. Through scholarships, Allan Gray finances students pursuing undergraduate degrees in selected disciplines at Rhodes University and the University of Namibia. We also support the Graduate School of Business (GSB) at the University of Cape Town in two primary areas: funding of bursaries for disadvantaged students to participate in the MBA programme, and the sponsorship of the Allan Gray Chair of Strategy Award. This is presented to the student with the highest mark in the Strategy course.

We apply the same philosophy of our investment style to our social investment programme - for best rewards investment needs to hold a long-term perspective. Our enduring commitment to our chosen institutions has been extremely successful, and we have advanced a number of students to matriculate so that they can enter tertiary institutions and thereby improve their life choices. Our bursary/scholarship scheme at Rhodes University, Graduate School of Business and the University of Namibia has helped students to complete their degrees.

In 2002 we have expanded our social investment programme to include sponsorships of educational workshops and seminars targeting maths and science. It is recognised that proficiency in these subjects is the main prerequisite for success in professions such as Chartered Accountancy and Actuarial Science, which feed the investment industry. It is in this area that members of the designated groups are most under-represented.

Dr. Sibs Moodley-Moore

Headstart College (registered as Gqwesa College) in Salt River aims to provide a year's first class education for previously disadvantaged students, offering post-matric bridging, engineering access, marketing and achievement courses. The last is a new course focussing on skilling students who have not passed Grade 12. The students study Travel & Tourism and Business Management and are able to obtain a Grade 12 pass. All students at the college study Communication and Lifeskills as well as Computer Practice.

Renee Austen, Principal & Managing Director Headstart College, Dr Sibs Moodley-Moore

The Allan Gray senior scholarships for study at the 3rd year, Honours and Masters levels, are given to previously disadvantaged students based on academic merit. Siyanda Ngcaba is studying for his Masters in Rural Development, Mbekezeli Buthelezi for his Masters in Geography and Zanethemba Mkalipi has completed a Masters in Politics at Rhodes University.

Professor J Duncan, Dean of Research; Allan Gray scholarship recipients Mr S V Ngcaba, Mr M Buthelezi and Mr Z L Mkalipi; Dr. D Woods, Vice Chancellor of Rhodes University

The Allan Gray Bursary Fund at UCT's Graduate School of Business sponsors previously disadvantaged students requiring financial assistance. In 2001 these bursaries were granted to Ameen Amod and Sam Khanye who both graduated with an MBA. Sam also received our Allan Gray Strategy Prize for receiving the highest mark in the Strategy course.

Allan Gray bursary holders at Graduate School of Business, UCT, Ameen Amod and Sam Khanye

Introducing Trading and Allocations

Gray Matters

El-Rina Du Preez, Andrew Lapping, Marlene Stofberg

"We believe that our portfolio management process is unique to the industry."

We do not have dedicated portfolio managers for each client, nor do we operate on a house-view/model portfolio basis. Instead we have a form of internal split funding where the client gets a spread of investment ideas from a number of specialist portfolio managers.

This is done by pooling all our clients' funds internally into a consolidated portfolio, which is then split amongst specialist asset class portfolio managers. (Note that this is an internal procedure and that the clients' assets remain registered in their own or nominee name). We have three equity managers and two fixed interest managers. These portfolio managers typically manage only one or two basic 'manager' portfolios, which allows them to focus on what they do best i.e. selecting superior investments.

The portfolio managers effect changes in their 'manager' portfolios by placing orders with the Trading Team whom in turn execute these orders in the investment markets. This they do by placing orders with stockbrokers, banks and other market-making institutions. El-Rina Du Preez who is also the manager of the Trading Team handles equity trading. Andrew Lapping handles fixed interest and derivatives trading.

El-Rina studied at Stellenbosch and has a BSc degree majoring in Mathematical Statistics and Applied Mathematics. At Allan Gray since 1995, she started as an allocator and became an equity trader in 1997. She is a level 3 candidate in the CFA programme. Offering a vital link on a day-to-day basis between brokers and the portfolio managers, El-Rina offers feedback each morning to the investment team regarding world markets.

Andrew Lapping studied electrical engineering at UCT. He then did the BCom conversion course. He has been with Allan Gray since February 2001 and is a level 1 candidate in the CFA programme. He fulfills the role of the fixed interest and derivatives trader.

The Allocations Team consists of an allocator Marlene Stofberg, an Allocations Manager Michael Moyle and an Allocations Director Arjen Lugtenburg. Marlene Stofberg has been with Allan Gray since 1994. From a secretarial position to managing the in-house database (capturing financial data and keeping information up to date), she started in Trading as an allocator in 1997.

The Allocations Team allocates the transactions of the various managers to clients everyday. Their job is to ensure that clients with the same mandate get the same performance. This is done by trying to equate their portfolios. Due to the timing of cash flows and other unique constraints associated with the market, including the nature of particular investments, all clients cannot participate identically in every investment idea. The Allocations Team and process therefore seek to expose all clients equally to all investment variables represented and shared by the individual investment ideas generated. This they do within the boundaries of client specific mandates, internal business rules and legal requirements such as Regulation 28 of the Pension Funds Act.

Rather than apply a purely mechanical process, we believe that a rational human overlay is important. As portfolios are dynamic and contain investments of different maturity, it would not be sensible for example to allocate old ideas (which are in the process of being sold) to new clients.

Servicing the retail market

"We have embarked on an educational drive to explain and promote our distinctive investment philosophy."

We continually strive to improve and enhance our service levels to our retail clients. In order to do this and to ensure that the quality of our business remains of the highest standard, we have to focus more on our relationships with Independent Financial Advisers (IFA's). Retail investments made with Allan Gray are most often based on personal advice by an IFA to the client; either through a linked Investment Service Provider (LISP) or a direct contract.

It is our responsibility that this advice is well-informed, relevant and appropriate to the client if it involves an Allan Gray product. In an attempt to improve the IFA's understanding of Allan Gray and to assist them in their selection of an investment manager, we have embarked on an educational drive to explain and promote our distinctive investment philosophy.

In our June 2001 Quarterly Commentary, we commented on the new position titled Head of Retail Marketing and Distribution, and profiled Johan de Lange. The second step was to employ two Business Development Managers, Heather McCulloch and Carl Lategan. They have been tasked with the responsibility to drive the education and promotion of our product range via presentations on a one-to-one or group basis.

Carl and Heather joined Allan Gray mid-2001 as Business Development Managers of the Gauteng/Free State/Northern Province/Mpumalanga area and the Western/Eastern Cape/Natal area respectively. Carl has 13 years experience in the industry and has recently been accepted as an Associate of the Financial Planning Institute. He joined us from Innofin Management and prior to that was at Momentum for 11 years.

Heather has over 7 years business development experience in a linked product and unit trust environment. After her position at Southern Life and 4 years at TMA Investment Product Services, she spent a year at Sanlam Unit Trusts.

Allison Harrison, based in the Cape Town office, has been with Allan Gray since 1991. She fulfils the role of Internal Business Consultant.

At Allan Gray we have always encouraged and enjoyed regular and frank interaction with our clients and their advisers. This is no different in the IFA market, and through both new relationships and enhancing those current, we will continue to build on this reputation.

Heather McCulloch

Carl Lategan

Allison Harrison

Performance

ALLAN GRAY LIMITED PERFORMANCE PROFILE

Annualised performance in percent per annum to 31 March 2002

	First quarter (not annualised)	1 year	3 years	5 years	Since inception	Assets under management R millions	Inception Date
RETIREMENT FUNDS							
Global Balanced Mandate	**-0.5**	**28.9**	**36.2**	**25.7**	**24.6**	**12,463.2**	**1.1.78**
Mean of Consulting Actuaries Fund Survey*	-1.0	22.2	17.1	13.0	18.6		
Domestic Balanced Mandate	**0.5**	**21.8**	**31.6**	**25.0**	**24.5**	**6,019.7**	**1.1.78**
Mean of Alexander Forbes Domestic Manager Watch *	0.2	19.4	16.5	12.7	18.5		
Equity-only Mandate	**1.7**	**30.5**	**35.3**	**22.7**	**20.4**	**5,819.7**	**1.1.90**
All Share Index	5.7	38.4	23.0	12.1	14.5		
Namibia Balanced Mandate	**-0.2**	**27.8**	**32.9**	**23.1**	**21.7**	**1,279.7**	**1.1.94**
Mean of Alexander Forbes Namibia Average Manager*	-1.0	20.6	16.6	12.1	13.7		
POOLED RETIREMENT FUNDS							
Global Balanced Mandate	**-1.4**	**24.8**	**-**	**-**	**30.8**	**1,334.9**	**1.9.00**
Mean of Alexander Forbes Large Manager Watch*	-1.0	23.4	-	-	14.5		
RELATIVE RISK							
Equity-only Mandate	**4.1**	**37.7**	**-**	**-**	**32.5**	**1,166.8**	**19.4.00**
Resource adjusted All Share Index	3.0	24.9	-	-	17.2		
FOREIGN-ONLY (RANDS)							
Equity-only Mandate (Rands)	**-1.8**	**62.0**	**42.1**	**-**	**44.7**	**1,279.9**	**1.1.98**
Morgan Stanley Capital Index (Rands)	-5.5	35.7	17.3	-	25.9		
Global Balanced Mandate (Rands) - Foreign Component	**-2.8**	**63.1**	**50.6**	**34.8**	**31.3**	**2,867.1**	**1.7.96**
Mean of Consulting Actuaries Survey (Rands) Foreign Component *	-6.2	41.2	24.3	26.4	24.9		
UNIT TRUSTS **					Figures below unannualised		
Stable Fund		**13.5**	**-**	**-**	**31.2**	**161.2**	**1.7.00**
Benchmark ***		8.2	-	-	15.1		
Balanced Fund		**25.6**	**-**	**-**	**90.1**	**1,086.3**	**1.10.99**
Average Prudential Fund		20.0	-	-	40.8		
Equity Fund		**28.5**	**31.8**	**-**	**310.4**	**1,132.8**	**1.10.98**
All Share Index		38.1	22.9	-	136.9		

* The returns for Quarter 1, 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.

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 31.3)	1.4	5.7	-4.3
Annualised to 31.12.2001			
3 years	38.4	23.0	15.4
5 years	23.4	12.1	11.3
10 years	22.9	15.0	7.9
Since 15.6.74	28.7	18.5	10.2
Average outperformance			10.2
Number of years outperformed			21
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 R11 224 106 by 31 March 2002. By comparison, the returns generated by the JSE All Share Index over the same period would have grown a similar investment to R1 121 352.

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.

POOLED PORTFOLIOS - 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	• Low risk • High degree of capital stability.	• 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	• 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.	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 outperformance of the average Prudential Sector Fund.	Performance-fee oriented to outperformance 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			ASSET CLASS PORTFOLIOS				
	STABLE	BALANCED	ABSOLUTE	MONEY MARKET	BOND MARKET	LISTED PROPERTY	EQUITY	FOREIGN
Investor Profile	• Highly risk-averse institutional investors, eg 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.	• 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	• 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.	• 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.	• 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 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.	• Superior returns to the Alexander Forbes 3 month deposit Index. • Low capital risk. • High flexibility. • Capital preservation. • High level of income.	• 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.	• 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 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.
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.	Alexander Forbes 3 month Deposit Index.	JSE All Bond Index plus coupon payments.	Alexander Forbes Listed Property Index (adjusted).	JSE All Share Index including dividends.	60% Morgan Stanley Capital International Index, 40% JP Morgan Global Government Bond Index.
Fee Principles	Fixed fee, or performance fee based on out-performance of the benchmark.	Fixed fee, or performance fee based on out-performance of the benchmark.	Performance fee based on out-performance of the benchmark.	Fixed fee.	Fixed fee.	Fixed fee.	Fixed fee, or performance fee based on out-performance of the benchmark.	No fee charged by Allan Gray. Unit prices of underlying mutual funds reflected net of performance fees charged by foreign manager.

Note 1 The above risk-profiled portfolios comply with Regulation 28 of the Pension Funds Act.
2 The above asset class portfolios comply with the asset class requirements of Regulation 28.

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.

Products (continued)

INTERNATIONAL POOLED PORTFOLIOS 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.

Summary of Allan Gray Individual Retirement Products

	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 Allan Gray unit trust funds as indicated.	Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds	Allan Gray Equity Fund Allan Gray Balanced Fund Allan Gray Stable Fund Allan Gray Money Market Fund Allan Gray Global Equity Fund of Funds	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