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31 MARCH 2007
QUARTERLY
COMMENTARY

Revisiting the
Orbis soft close.

Fostering
excellence in
entrepreneurship.

Globalisation and
its consequences.

Is it time
to get excited
about 'life'?

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Greg Fury

COMMENTS FROM THE CHIEF OPERATING OFFICER

Wednesday, 7 March 2007 will go down as a watershed in Allan Gray's history. On this day two years of work came together, enabling our founder and namesake, Allan Gray, to announce the details of a far-reaching empowerment deal that will change the face of the company and, we hope, have a lasting impact on our community and South Africa. The initiative, as our opening article in this issue explains, will enable E², a trust for the benefit of principally black entrepreneurs, to acquire ±19% ownership of Allan Gray Limited, with the income flow providing subsidised funding for the development of new black-owned businesses. This adds to the efforts of the Allan Gray Orbis Foundation, whose fellowship programme will provide educational funding for literally hundreds of potential black entrepreneurs. For these young people, "the sky," as Mr Gray put it, "is the limit".

Michael Moyle, who has been known to many of you as the manager of the Allan Gray Money Market Fund leaves Allan Gray at the end of March to take up a new opportunity outside the firm. We thank him for his contribution and wish him all the very best in his future career. Andrew Lapping BSc (Eng), B Com, CFA is now responsible for the portfolio management of the Allan Gray Money Market Fund in addition to having been appointed Bond Portfolio Manager in June 2006. A further staff change, I am delighted to announce, is that Lele Mehlomakulu has joined us as Head of Human Resources from Metropolitan Asset Managers where she was head of HR. Previously she held senior positions at New Clicks, FNB, Old Mutual and the South African Police Services. She holds a BSc (Hons) in Psychology and is completing her MBL at UNISA.

The market turbulence of recent weeks has shown yet again how equity markets can, for long periods of time, march to a different drum when compared with underlying economic fundamentals. As Sandy McGregor points out in his article, in good times investors tend to expect too much so shares get overpriced while in bad times they become too pessimistic. But, he reminds us, while shares in the short- to medium-term can be mispriced significantly as sentiment takes over, this is what creates opportunities for patient investors as in the long run, prices always revert to reflect the underlying economic realities.

The South African life insurance industry comes under scrutiny in this issue's piece by analyst Abdul Davids. For many years the dominant vehicle for private sector savings, life insurance policies have had their market share eroded by a plethora of new asset managers (including Allan Gray). Despite this and a negative attitude among investors towards their stock, they remain a significant component of the domestic savings

industry, especially in the contractual savings market. Our analysis suggests that, despite the transformation in the savings industry, the insurance sector still deserves closer scrutiny from contrarian investors such as Allan Gray as it is often when sentiment is worst that opportunity is greatest.

We thought it appropriate to include in this issue a clear explanation of the decision by Orbis Investment Management to implement in March 2006 a temporary 'soft close' of its funds to new direct investors. It seemed to us important to stress that it has remained possible since the 'soft close' for existing and new South African clients to continue to invest in Orbis funds provided this is done through Allan Gray, rather than through other distributors. Also important to emphasise is that the 'soft close' has nothing to do with investment capacity (Orbis' assets are very small in a global context) and everything to do with ensuring that Orbis' operational and client service capacity remained well ahead of future client needs.

Because investors might be feeling more nervous than they did six months ago and confidence in our industry has been damaged by a recent scandal, Johan de Lange and Rob Dower have outlined the safeguards that attach to investments in unit trusts and through LISPS to give investors comfort in the security of their investments with Allan Gray and other similar providers. Many providers of financial products remain worthy of your trust and many vehicles exist where investors are well protected against wrongdoing.

A full investment performance update is provided at the back of the QC. Without going into too much detail, we remain very pleased with absolute and relative performance in all key mandates and funds. Again, however, I am compelled to repeat a note of caution that the outstanding returns enjoyed over the past several years cannot continue indefinitely and, after the returns over this period, risks have obviously increased.

In compiling these commentaries, we try to provide material that not only is of interest to our readers but emphasises our ongoing commitment to ensuring effective long-term returns on your investments.

Kind regards

Greg Fury



Allan W B Gray

FOSTERING EXCELLENCE IN ENTREPRENEURSHIP

EXECUTIVE SUMMARY: On 7 March 2007, Allan Gray, founder of Allan Gray Limited and its global asset management partner Orbis Investment Management Limited, announced the implementation of the empowerment initiative originally introduced in 2005. While implementation took longer than originally anticipated, it occurred only four weeks after the finalisation of the enabling DTI Codes of Good Practice in broad-based black economic empowerment. This has resulted in effective black ownership of just over 20% of Allan Gray Limited, of which a broad-based BEE trust called 'E²' holds 18.9%. Also announced was the imminent issue of further shares to a share ownership plan for black staff that will increase black ownership to over 27%.

E² (which is a broad-based ownership scheme under the DTI Codes) has purchased its 18.9% interest for a purchase price of R1.1 bn and will use the dividends flowing from this shareholding to provide finance to selected, predominantly black, entrepreneurs to enable them to start new businesses. Named by its Chairman Thando Mhlambiso and his co-trustees Imogen Mkhize and Mahesh Cooper, E² stands for 'excellence in entrepreneurship'. E²'s shareholding is represented on the board of the firm by Ms Mkhize and Mr Mhlambiso who were appointed in 2006 in anticipation of the finalisation of this initiative. The board now comprises 50% black people at both an executive and non-executive director level. None of the trustees have any beneficial interest in E².

The over-riding purpose of E² is to foster job creation by providing subsidised financing to graduates of the Allan Gray Fellowship Programme who wish to establish new businesses and who present compelling business plans. As a second purpose, E² will finance the public benefit activities of 'social entrepreneurs' who demonstrate exceptional leadership and creative initiative. 'Social entrepreneurs' are so called because they manifest attributes associated with successful business entrepreneurship, as applied to the activities of public benefit organisations, which achieve significant and sustainable social change. E²'s main focus in its early years will be to repay the debt it has raised from Standard Bank (with the assistance of a guarantee from Allan Gray Limited's shareholders) in order to purchase its interest, whereafter it will be able to allocate its full income flow to its objectives.

E² has been mandated to ensure that not less than 90% of the total funding it extends is in support of black entrepreneurs

and not less than 40% is in support of black women. This requirement exceeds the stipulation of the DTI Codes that at least 85% of all benefits allocated by a broad-based ownership scheme must accrue to black people.

According to E²'s Chairman, Thando Mhlambiso, "What is unique about what we at E², Allan Gray and Orbis are doing is the integrated, long-term approach, recognising the need for job creation in South Africa and the catalytic role played by entrepreneurship. Not only have Allan Gray and Orbis empowered E² to finance South African business and social entrepreneurs, they have also seen the need to invest in educating aspiring entrepreneurs and equipping them with the skills and experience to start their own successful businesses through the Allan Gray Orbis Foundation." It is anticipated that this initiative (the Allan Gray Orbis Foundation) will in due course provide scholarships and

bursaries to approximately 500 university students, to be called 'fellows', at any one time.

Each fellowship is a fully funded scholarship at university covering tuition, board, lodging and subsistence. Graduates of the Allan Gray Fellowship Programme who wish to become entrepreneurs will be eligible to apply to E² for funding, on favourable terms, for their new businesses. But first the Foundation expects that fellows will work for several years to gain practical experience. It is also within the mandate of the Foundation to fund post-graduate studies of those fellows who excel.

According to Professor Jakes Gerwel, Chairman of the Allan Gray Orbis Foundation, which is now in its second year of operation, "Recognising the urgent need for more black South

"What is unique about what we at E², Allan Gray and Orbis are doing is the integrated, long-term approach,"

Africans to do well at Mathematics and Science at the school level, we have recently resolved to extend our support and funding to enable promising pupils who would otherwise not have the means to attend old model C and private schools, the opportunity to do so.”

Anthony Farr, CEO of the Foundation, notes that, while South African universities excel at producing graduates who choose to seek jobs, they are not always successful in fostering their entrepreneurial mindset and thereby supplying the economy with graduates who seek to create businesses and jobs.

Mentors for the fellows are drawn from within Allan Gray Limited as well as from other business leaders and entrepreneurs. The decision to introduce mentoring was driven by the premise that each fellow was unique, complex and under pressure to perform. Mentors are screened and invited to apply for selection - fellows then receive abridged profiles of prospective mentors and make their own selections.

Allan Gray Orbis Foundation is funded annually by the Allan Gray group of companies which have committed to donate at least 7% of their taxed profits in perpetuity representing, in the companies directors’ opinion, the firm’s best conceivable investment, namely in the education of young South Africans. The trustees of the Foundation are Professor Gerwel, Futhi Mthoba and Mahesh Cooper.

The long-term nature of the Allan Gray Orbis Foundation’s commitment is further secured by Mr Gray donating the full proceeds of the sale of his shares in Allan Gray Limited, amounting to over R1.1 bn, to E² to the Allan Gray Orbis Foundation Africa Endowment. This Endowment will invest the funds for the long-term to reinforce support for the Allan Gray Orbis Foundation and related public benefit organisations. Mr Gray will serve as a trustee and initial chairman of the Endowment, which appropriately includes Delphine Govender and Adam Karr, directors with

senior investment responsibilities at Allan Gray and Orbis respectively, as well as Professor Gerwel, William Fairhead and Richard Rosenthal.

Allan Gray also plans empowerment structures in Namibia, Swaziland and Botswana where it has operations and/or clients.

As a token of their appreciation for the outstanding contribution and loyalty of Allan Gray Limited staff, Mr Gray and his wife Gill have undertaken to pay for the education at school and university level of children of staff earning less than R250 000 a year.

Mr Gray commented: “Relative to their needs, this contribution is small, but it comes with the earnest desire to allow those South Africans less fortunate than ourselves to dream, if not for themselves then for their children, of realising through their own efforts and determination, their full potential irrespective of their financial circumstances.

“The sky is their limit. This is evidenced by the long established Allan Gray Orbis Fellowship at the Harvard Business School which will fund the tuition and residence fees of any previously disadvantaged South African in financial need who gains admission to the two-year fulltime MBA programme.”

“Relative to their needs, this contribution is small, but it comes with the earnest desire to allow those South Africans less fortunate than ourselves to dream,”



Sandy McGregor

GLOBALISATION AND ITS CONSEQUENCES

EXECUTIVE SUMMARY: Equity markets in the short-term can be very much out of tune with underlying economic fundamentals but experience suggests – as Sandy McGregor points out in this article – that in the long-term prices revert to reflecting the economic realities. The surging bull phase in global markets since 2002 should be seen in this context. South Africa has enjoyed great prosperity due to the surging commodity boom in this period but the challenging issue now is how sustainable our new prosperity is. This will be determined to a large extent by what happens in Asia.

The market turbulence of recent weeks shows yet again how equity markets can march to a very different drum to underlying economic fundamentals. In good times, investors tend to expect too much and shares get overpriced, while in bad times investors become too pessimistic. Theoretically, the share market should act as a leading indicator of the economy, representing the collective experience of current business conditions. Indeed, there are times when the market can be dramatically perceptive about opportunities or dangers which are not obvious. However, experience suggests that shares in the short- to medium-term can be significantly mispriced but, in the long run, prices revert to norm, reflecting underlying economic realities.

“... the market can be dramatically perceptive about opportunities or dangers which are not obvious.”

We should view in this context the recent bull phase in global markets, which commenced in 2002. The Morgan Stanley World Index rose from a low of 728 in October 2002 to a peak of 1592 on February 26 this year. In every bull market, one sector - and sometimes a particular company - gains pre-eminence as the market leader. In the 1920s it was General Motors and in the 1960s, IBM. Between 1992 and 2000, technological companies, in particular communications, mobile phones, software and the internet set the pace. This time around, growth in Asia, and especially in China, surging world trade and booming commodity prices have been the leaders. Whereas the 1990s were about the

transformation of society by technology, the present decade has seen dramatic consequences arising from globalisation and a surge in world trade.

Between 2002 and 2006 the dollar value of world trade, as measured by the aggregate of all imports, grew 83% or 17% per annum. **Graph 1**, on page 5, shows the foreign trade, being the sum of imports and exports, of Europe, the US and Japan. Note the steep change after 2002. Similar growth rates have been experienced in the past, but the absolute size of the surge in activity dwarfs anything that has happened previously. It is interesting and perhaps

relevant that over the same period the appreciation of the Morgan Stanley World Index was 87% as shown in **Table 1** below. The rise in asset values has been matched and largely caused by rising business activity.

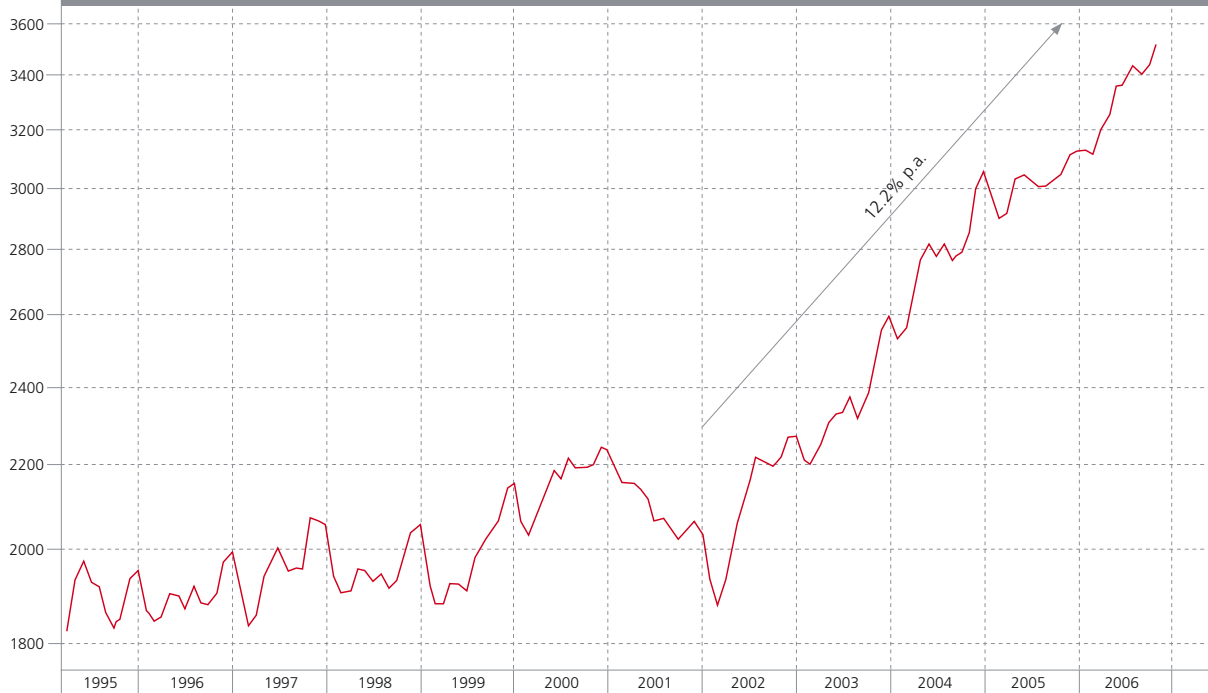
Globalisation and its consequences have been the dominant economic theme of the new millennium. It has generated an abundance of cheap goods, generally improving living standards. It has also helped companies to control costs and has been a significant reason why corporate earnings are at record levels. Surging profits have allowed companies to repay debt, buy back shares and pay bigger dividends, contributing to an abundance of liquidity, which has pushed asset prices to record levels. The increased availability of

TABLE 1

	World Value of Imports \$ Billion	MS World Index at Year End
2002	6,711	792
2006	12,300	1,484
% Increase	83.3	87.4

Source: Allan Gray research

GRAPH 1 Total US, European and Japanese Foreign Trade (\$Bn per year)



Source: Igraph

investable funds is also a direct consequence of the integration of the high saving economies in Asia with Europe and the spendthrift Americans. Surplus savings are flowing out of Japan, China, Russia and the Middle East into the rest of the world, including South Africa.

South Africa is a typical emerging market. How typical can be seen in **Graph 2**, on page 6, which shows the FTSE/JSE All Share Index expressed in dollars and the emerging market index. South Africa has moved almost identically with its emerging market peers since 2002, both in direction and in quantum. The buoyant business conditions we have enjoyed over this period are the direct result of the expansion of world trade and the rise in commodity prices which has

accompanied it. The dollar value of our exports has doubled, allowing imports to triple. Increased investor appetite for emerging market assets has generated large flows into South Africa's debt and equity markets, funding a very large and growing current account deficit.

“Increased investor appetite for emerging market assets has generated large flows into South Africa's debt and equity markets,”

South Africa lacked the skills base to become a major participant in the tech boom of the 1990s, and despite the opportunities presented by re-integration into the world economy after 1993, its economic performance in the decade preceding 2002 was disappointing. Previous periods of strong growth in South Africa all coincided with buoyant commodity markets. Only when the impact of China spilled over into the world economy after 2002 did our fortunes change. It is

GRAPH 2 Emerging Market Index vs FTSE/JSE ALSI expressed in \$



Source: Igraph

not surprising therefore that the great commodity boom of 2002-2006 has witnessed South Africa's period of greatest prosperity, the likes of which we have enjoyed only twice previously in the past 50 years, between 1962 and 1969 and between 1978 and 1981.

The challenging issue now becomes how sustainable our new prosperity is. The biggest danger lies in an unsustainably large current account deficit. Any contraction in world trade will represent a serious risk for South Africa, threatening the stability of the Rand. To a large degree, what happens in Asia will determine what happens in South Africa.



Abdul Davids

IS IT TIME TO GET EXCITED ABOUT 'LIFE'?

EXECUTIVE SUMMARY: The South African life insurance industry, historically the dominant vehicle for private sector savings, has had its market share eroded by a plethora of new asset managers (including Allan Gray) and by a loss of investor confidence in the sector. This is reflected in the underperformance of the share prices of Old Mutual, Sanlam and Liberty compared with the FTSE/JSE All Share Index (ALSI) since 2000. Nevertheless, the life insurance companies remain a significant component of the domestic savings industry and this article argues that the shares could provide contrarian investors with an opportunity.

We have discussed the Allan Gray investment philosophy and process in previous commentaries. Our investment philosophy focuses on individual companies and the key drivers of their earnings and ultimately, we believe, their share price performance. However, despite this bottom-up research focus, our analysts are required to assess the industries in which companies operate and identify key industry issues that will influence the companies' levels of profitability. In addition, to the extent that the companies in a particular industry offer a homogenous product or service, industry issues affect them all, albeit to varying degrees depending on their level of exposure to all or any of those issues. The South African life insurance industry, with its homogenous products and services offering, has been historically the dominant vehicle for private sector savings. However, a plethora of new asset managers (including Allan Gray) has eroded a significant amount of market share previously held by the life insurance companies. Despite this, the life insurance companies remain a significant component of the domestic savings industry, especially the contractual savings market.

The South African savings industry is undergoing a transformation, with significant implications for the life insurance companies in particular. These transformational changes were initiated by the Pension Funds Adjudicator (PFA), who ruled against the life companies' opaque practices in the majority of cases presented before him. The bulk of these rulings related to either: requiring life companies to allow clients to switch to other providers ("portability"); or excessive or non-contractual charges by the life companies for early terminations and surrenders of policies, that

substantially reduced the values of savings policies. The widespread publicity generated by the rulings and subsequent appeals by the life companies prompted the National Treasury to step in and negotiate directly with the Life Offices Association (LOA), culminating in a Statement Of Intent (SOI) agreement with the LOA. In terms of the SOI, the cost to the life industry of limiting early termination penalties was calculated at R2.5 bn - R3 bn.

"The South African savings industry is undergoing a transformation,"

On Friday 23 February 2007, the National Treasury released the draft pension funds amendment bill that, inter alia, provides for increased powers for the PFA and regulates the extent of deductions from pension benefits. In addition, the Ministry of Finance announced the future implementation of a statutory pension scheme as part of a wider social security framework that will see existing retirement and pension funds subjected to certain criteria for inclusion as approved pension funds. Intensified regulatory scrutiny, coupled with greater customer awareness, has resulted in a significant erosion of goodwill between the life companies and their clients.

For life insurance companies, the policy liabilities represent the value of all un-matured policies on the books of the insurers, as determined by the actuaries. As such, the movement in policy liabilities provides a good indication of the operating performance of an insurer.

Old Mutual plc remains South Africa's biggest listed life insurance company as measured by its total policy liabilities book, despite continuing to lose market share to its traditional life insurance competitors and other asset

managers. Old Mutual's focus on its international businesses and its three-legged strategy (South Africa, Europe and the US) have seen its South African market share eroding quite rapidly. Old Mutual's Bellville-based rival, Sanlam, has also seen its life insurance market share decline over the last few years, but it has performed better than its London-listed counterpart. Despite a succession of CEOs since listing in 1998, Sanlam is in better shape now than it was in 2000 (as seen in **Table 1** below).

The table compares the movement in the policyholder's liabilities and embedded value of the three biggest listed life insurance companies in South Africa, between 2000 and 2006. Embedded value can be described as the value of the shareholders' funds, or net asset value plus the value today of all the policies that are un-matured and are generating a profit for the life insurance company. In Old Mutual's case, the analysis has been restricted to the South African Life business only. All three life companies have been able to grow the value of their policy liabilities and their embedded values over the last six years, despite the challenges mentioned above. Old Mutual, with a 9% p.a. growth rate, has not been able to match its two rivals in growing its policy liabilities,

despite a 20% p.a. return from the JSE over the same period that would have boosted the equity returns on the policy liabilities. In addition, Sanlam, with its superior growth rate of 17%, has now overtaken Old Mutual as the biggest South African life insurance company. Despite growing their policy liabilities at 17%, Sanlam and Liberty's embedded value have only grown at 9% p.a. and 11% p.a. respectively - implying a greater conservatism in the calculation of the embedded value.

Share price performance

Since 2000, all three life companies have underperformed the FTSE/JSE All Share Index (as illustrated in **Graph 1** on page 9), with a R100 investment in the FTSE/JSE All Share Index worth R311 today, compared with a value of R224 for Sanlam, R149 for Old Mutual and only R118 in the case of Liberty.

This significant underperformance reflects investors' dissatisfaction and disillusionment with the life insurance sector. In addition, the February edition of the Merrill Lynch fund manager survey shows that the life insurance sector is the least preferred by fund managers.

TABLE 1

R'm	2000		2006		Growth 2000 - 2006	
	Liabilities	EV	Liabilities	EV	Liabilities	EV
Old Mutual SA	168 739	22 098	284 568	38 235	9%	10%
Sanlam	133 952	27 238	335 482	46 811	17%	9%
Liberty	66 173*	11 971*	168 898	21 857	17%	11%

* Excluding Liberty International
EV = Embedded Value.

Source: Companies' financial statements

GRAPH 1 Sanlam Limited, Old Mutual PLC , Liberty Group Limited, all based to 100 at the start



Contrarian Investing

Typically, sentiment towards a particular stock or sector is most negative before the tide turns. True to our investment philosophy of not following the herd, we believe that the

life insurance sector deserves closer scrutiny as it could provide contrarian investors with an opportunity to outperform the market.



Mahesh Cooper

REVISITING THE ORBIS SOFT CLOSE

EXECUTIVE SUMMARY: We have received many questions regarding the Orbis soft close as well as how South Africans can continue to invest in the Orbis funds. Mahesh Cooper discusses how it remains possible for clients to invest in Orbis funds through Allan Gray, and how the 'soft close' contributes to ensuring that Orbis' operational and client service capacity remain exceptional.

Q: What is a 'soft close'?

A: A 'soft close' is a term used to describe the situation whereby an investment manager stops taking on new client flows into its funds but continues to receive flows from existing clients.

Q: When did Orbis implement a 'soft close'?

A: Orbis implemented a 'soft close' on 17 March 2006.

Q: Why did Orbis implement a 'soft close' on all their funds?

A: Orbis has experienced extraordinary growth in the last few years, in both number of new investors as well as their invested assets. The investment process can and was designed to cope with substantially larger assets than they have under management. However, if left unchecked, it was foreseen that should the recent growth continue, it would challenge Orbis' ability to expand their non-investment services in a sustainable manner and to be able to continue to meet and hopefully exceed the service experience of clients.

Orbis' primary responsibility is to ensure that they meet the clients' needs and achieve the goals set for themselves. As a result, Orbis believed that the best way to achieve their goals was to temporarily close the Orbis funds to new clients, whilst remaining open to existing clients only.

Q: Has the 'soft' closure of your funds not cost Orbis market share?

A: Market share is not a concern to Orbis. Orbis' objective is to deliver superior long-term wealth creation on behalf of members. This responsibility remains first and foremost for existing investors. However, investors also demand excellence in non-investment services. Orbis would rather put the best interests of existing members first and then look to take on new members.

Q: Is it correct that Orbis is open to new South African investors?

A: Yes. New South African investors can continue to invest in Orbis, either via:

- the Allan Gray administration platform into specific Orbis funds, or
- the local Rand-based Allan Gray-Orbis unit trusts.

Q: As a new investor, how do I invest in Orbis?

A: New South African investors can continue to invest in the Orbis funds if the investment is made via the Allan Gray platform. This is because the Allan Gray platform performs the administration on behalf of Orbis in South Africa. Orbis only remains closed to any new client who wants to invest directly with Orbis, i.e. not via the platform. Investing via the platform means that the Orbis investments are held on a client's behalf for their benefit via a nominee arrangement. No additional fees are levied, the client can choose which of the Orbis funds to invest in, subscribe via a range of foreign currencies (i.e. the subscription does not need to be in Rands). On redemption the monies are paid out in foreign currencies and can continue to remain offshore as part of the individual's Reserve Bank allowance. Also, the client only needs to complete 'Know your client' information in South Africa under FICA, versus having to complete the Bermuda and Luxembourg 'Know your client' requirements.

Alternatively, investors can use the Rand-based foreign unit trusts, namely the Allan Gray-Orbis Global Fund of Funds or the Allan Gray-Orbis Global Equity Feeder Fund. Whilst these funds provide investors with offshore exposure, such investments do not count towards the Reserve Bank's individual foreign allowance. However, redemptions from these funds are paid out to the investor in Rands. The Allan Gray-Orbis unit trusts are currently open to flows but are subject, as always, to foreign investment capacity being available.

Q: Has Orbis seen an increase in investment by existing investors who may be concerned that Orbis may have to close to all flows in future?

A: Orbis believes that its existing investors have understood that the close is the result of client servicing concerns rather than an investment constraint. Orbis has demonstrated this by continuing to remain open to existing members.

Q: What has Orbis been doing in terms of extra administration capacity?

A: The proactive action to close the funds internationally to new investors is allowing Orbis to make progress in their efforts to substantially improve their client servicing

capabilities, using the time freed from the decline in new client activity to ensure that Orbis' service providers, processes, IT systems and the full depth and breadth of the team remain ahead of the demand.

Q: How long will it be before the funds re-open to new investments?

A: Despite significant progress, Orbis believes considerable work remains to be done before they will be in a position to reopen the funds internationally. Orbis wants to ensure that this action will contribute to maintaining the standards of service that Orbis believes members deserve.

LIKE ALLAN GRAY, WE IGNORE TRENDS,
OPINION AND SPECULATION.
WE JUST IGNORE THEM
IN A FEW MORE LANGUAGES.

The Orbis Global Equity Fund is managed by Allan Gray's global asset management partner. The Fund applies the same philosophy as Allan Gray and follows the same investment process. Not surprising when you consider that we also share the same founder. If you believe in Allan Gray's approach to investing but want to apply it offshore, contact us. **Tel 0860 000 654, visit www.allangray.co.za or speak to your Financial Adviser.**



ALLAN GRAY
INTELLIGENT INVESTING

Allan Gray Limited and Allan Gray Life Limited are authorised Financial Services Providers. Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrued and less any permissible deductions from the portfolio. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from Allan Gray Unit Trust Management Limited. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. A prospectus is available from Allan Gray Unit Trust Management Limited - a member of the ACL.



Johan de Lange



Rob Dower

BACK TO BASICS

EXECUTIVE SUMMARY: It is an odd paradox that, very often when the world of investing feels safer, in reality it is more risky and when it feels risky, it is often less so. That is true both for the risk of poor governance, currently vividly highlighted in the media, and for risk of poor returns, discussed with concern in the business sections of many publications.

Confidence in our industry has been damaged by the recent news revealing suspected breaches of due care, mismanagement and the failure of governance structures. This has left investors wondering whom and what to trust. There is a danger that increasingly sceptical investors might lose faith in the investment management industry and revert to cash savings, or worse, having lost faith, not save at all. The latest South African Savings Institute barometer report (released in November 2006) showed that gross household savings declined by 1.75% in the last quarter. This latest recorded decline took place despite an improvement in the overall economic environment in South Africa: GDP is growing, household income is rising. And against a backdrop of an increase in savings as a percentage of GDP in developing Asia and other emerging markets. 'Spend it' rather than 'invest it' seems to remain the trend for South African consumers.

" 'Spend it' rather than 'invest it' seems to remain the trend for South African consumers."

Every fund has a mandate or legal contract that sets out its investment aims and how it intends to invest to achieve these aims. The trustee ensures that the asset manager adheres to the fund's investment objective and safeguards the unit trust assets.

In addition, in terms of the Collective Investment Schemes Control Act that regulates unit trusts, funds are prohibited from taking certain risks. For example, they may not invest more than 10% of the fund's money in the shares of unlisted companies and they may not invest in any one class of the shares of a listed company more than 5% of the market value of the portfolio, where the market capitalisation of that company is less than R2 bn.

Many providers of financial products remain worthy of your trust, and many investment vehicles still exist where investors are well protected against wrongdoing and corporate governance failures. The risk of suffering losses as a result of market movements or poor investment decisions may be harder to control, but taking a long-term approach and consistently applying a sound fundamental investment process certainly should mitigate against this.

Unit trusts

Every unit trust is compelled by law to appoint an independent trustee who looks after all the cash, shares or bonds that the unit trust owns. The trustee is usually a bank or a financial institution that is not affiliated to the unit trust company or the asset manager.

LISPs

If you are an investor in any of the Allan Gray retirement products, or if you are a client on our fund platform, your investment is administered by our Linked Investment Services Provider (LISP), Allan Gray Investment Services Limited. LISPs are effectively intermediaries between the investor and the provider of the underlying investment product. They never own the money or the investment. They aggregate all the money that is invested with them and invest this in units of the selected funds, in the name of a nominee company (of which the majority of board members must be independent) on behalf of individual investors. Beneficial ownership of the units always remains with the individual investor (and not with either the LISP or with the nominee), thus affording further protection to the individual investor.

In spite of the above and other protective control measures, there is no perfect protection against wilful

fraud and/or negligence. Mentors should thoroughly research any company that will be managing their savings - the sad truth is that the laws to protect investors do not prevent outright fraud.

Portable and flexible retirement savings products

Rejecting investment products in general is not the answer to specific failures, nor is it necessary. On the contrary, as acknowledged by this year's Budget proposals, there is an increasing need for investors to provide for their own retirement and sensible, ethical and transparent retirement products are no longer scarce. The government is actively consulting on elements of a reformed retirement savings environment. The reform proposals are aimed at encouraging individuals who can save for their own retirement, while providing a safety net for those who may not be able to make provision for themselves.

“... sensible, ethical and transparent retirement products are no longer scarce.”

The Allan Gray unit trust-based RA, (and others like it) has far exceeded the Adjudicator's current standards since launch. Unlike traditional RAs, the underlying investment of these products is in unit trusts, with the value of an RA savings account solely and directly linked to the value of the specific unit trusts within it. Investors enjoy all the transparency, flexibility, performance, cost benefits and safeguards associated with unit trusts, and at the same time, the recently announced simplified tax benefits of RAs (see **Table 1** on page 14). In a manner of speaking, the best of both worlds.

With a mooted cap on tax-free savings and now no tax at all on earnings within RA funds, prudent investors and their advisers will choose an RA carefully and make good use of the current allowances.

Fee transparency

We continue to remind investors that although fees are only part of an investment decision-making process, we

believe it's crucial that the fees charged on retail investment products are transparent and that providers' interests are closely aligned with those of investors.

As an investor, you essentially pay for three things, if you choose to use all three:

- investment management
- administration
- financial planning advice

Potential investors should consider each of these discrete parts of the overall cost. It is important to understand and be able to identify exactly what you are paying for in order to know whether you are getting a good deal. This is why we have always been such strong proponents of performance fees - they directly link the value created by investment managers to the fees which they earn, thereby taking away the problem of not

knowing how much to pay for a service offered in the future.

Fundamental analysis

Investor protection and portable, flexible, transparent financial products aside, the last month has seen considerable stockmarket turbulence, both here and overseas. This may have caused some nervousness, especially since the falls were so indiscriminate, both within and across markets. To echo a recent Orbis fact sheet, we have no way of knowing whether these moves in price are a short-term correction or signs that are nearing the end of the bull market, but they do serve to remind us, as they should all investors, of the importance of value. Without a fundamental view of the value of a business or its shares, a move in price in either direction is not very useful information at all. A share trading at R100 and worth R200 is even more attractive after a 10% fall. The same share, were it worth R50, would be no more a buy at R90 than it was at R100.

With a carefully considered view of the value of individual stocks, we are well positioned to take advantage

of short-term swings in their prices. In particular, the buying opportunities normally created with a drop in price often allow us to purchase shares in businesses on your behalf,

at better prices than they may be worth. That has proved to be a good way to preserve investors' capital in the past.

TABLE 1 What is an RA?

A Retirement Annuity (RA) encourages investors to save by offering tax savings. In many modern RAs investors can make single and / or regular investments, and stop or start their contributions at any time without penalty. For specific details about the Allan Gray RA, please see www.allangray.co.za.

Tax benefits of RAs

Investors who are not contributing to a pension fund can contribute up to 15% of their taxable income to an RA tax-free.

1. Further, up to 15% of income that is not taken into account when calculating an investor's pension contribution (such as overtime, bonuses, etc.), can also be contributed to an RA tax-free.
2. By lowering taxable income, contribution to an RA may result in an investor's taxable income falling into a lower tax bracket.

Benefits at retirement

3. RAs allow for retirement at any time from age 55 to age 70, or at an earlier age if disabled.
4. At retirement, a maximum of one third of the capital in the RA can be taken in cash.
5. From 1 October 2007 the tax benefits of RA's have been simplified. Of the one third taken in cash, the first R300 000 is tax-free, the next R300 000 is taxed at 18% and the tax rate applied to amounts thereafter is 36%.
6. The remaining two thirds of the capital must be invested in a pension-providing vehicle such as a living annuity or a guaranteed life annuity. No tax is payable on the transfer of money into a pension product but the annual pension received after retirement is taxed at the investor's marginal tax rate (likely to be lower than that prior to retirement).

Flexibility – New generation RAs (e.g. the Allan Gray RA)

1. Contributions can be discontinued for a period and resumed later, or discontinued permanently at any time prior to retirement without penalty.
2. Investors may make once-off or regular contributions.
3. The Allan Gray RA has always been fully 'portable' so investors can transfer their investment to another RA without penalty, subject only to certain procedural formalities.

Investment Track Record

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 15.06)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007 (to 31.03)	8.8	10.4	-1.6
Annualised to 31.03.07			
From 01.04.2006 (1 year)	42.2	37.6	4.6
From 01.04.2004 (3 years)	47.7	40.6	7.1
From 01.04.2002 (5 years)	40.1	23.8	16.3
From 01.04.1997 (10 years)	31.5	17.8	13.7
Since 01.01.1978	32.1	22.5	9.6
Since 15.06.1974	30.4	19.3	11.1
Average outperformance			11.1
No of Calendar Years outperformed			26
No of Calendar Years underperformed			6
* Note : Allan Gray commenced managing pension funds on 1.01.78. The returns prior to 1.01.78 are of individuals managed by Allan Gray, and these returns exclude income.			
Note: Listed Property included from 1 July 2002.			
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R60 466 020 by 31 March 2007. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R3 272 036 .			

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

Period	Allan Gray	AFLMW**	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	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007 (to 31.03)	7.2	8.3	-1.1
Annualised to 31.03.07			
From 01.04.2006 (1 year)	32.2	29.2	3.0
From 01.04.2004 (3 years)	33.9	32.7	1.2
From 01.04.2002 (5 years)	28.0	22.4	5.6
From 01.04.1997 (10 years)	26.8	18.3	8.5
Since 01.01.1978	25.2	19.5	5.7
Average outperformance			5.7
No of Calendar Years outperformed			24
No of Calendar Years underperformed			5
** Consulting Actuaries Survey returns used up to December 1997. The return for March 2007 is an estimate.			
An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R7 173 648 by 31 March 2007. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R1 825 045 .			

Allan Gray Annualised Performance in percentage per annum to 31 March 2007

	FIRST QUARTER (unannualised)	1 YEAR
SEGREGATED RETIREMENT FUNDS		
GLOBAL BALANCED MANDATE	7.2	32.2
Mean of Alexander Forbes Global Large Manager Watch [#]	8.3	29.2
DOMESTIC BALANCED MANDATE	8.0	34.4
Mean of Alexander Forbes Domestic Manager Watch [*]	8.7	28.8
EQUITY-ONLY MANDATE	10.1	43.6
FTSE/JSE All Share Index	10.4	37.6
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN MANDATE	8.2	31.3
Mean of Alexander Forbes Namibia Average Manager [*]	8.3	27.7
EQUITY-ONLY RELATIVE MANDATE	9.7	39.9
Weighted average of client specific benchmarks [*]	10.6	36.5
POOLED RETIREMENT FUNDS		
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	7.2	32.3
Mean of Alexander Forbes Global Large Manager Watch [*]	8.3	29.2
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	8.1	35.1
Mean of Alexander Forbes Domestic Manager Watch [*]	8.7	28.8
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	10.4	44.2
FTSE/JSE All Share Index	10.4	37.6
ALLAN GRAY LIFE RELATIVE DOMESTIC EQUITY PORTFOLIO	9.3	39.2
FTSE/ JSE CAPI Index	10.2	36.9
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	7.1	32.0
Mean of Alexander Forbes Domestic Manager Watch [*]	8.7	28.8
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	7.6	31.7
Mean of Alexander Forbes Global Large Manager Watch [*]	8.3	29.2
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	6.1	20.2
Alexander Forbes Three-Month Deposit Index plus 2%	2.6	10.0
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	5.0	19.3
Alexander Forbes Three-Month Deposit Index plus 2%	2.6	10.0
ALLAN GRAY LIFE FOREIGN PORTFOLIO	8.2	28.8
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	5.9	32.8
ALLAN GRAY LIFE ORBIS GLOBAL EQUITY PORTFOLIO	9.2	38.7
FTSE World Index (Rands)	6.4	36.9
ALLAN GRAY LIFE MONEY MARKET PORTFOLIO	2.1	8.0
Alexander Forbes Three-Month Deposit Index	2.1	7.8
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO	3.0	10.6
Daily Call Rate of Nedcor Bank Limited	1.9	6.9
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	5.7	19.6
Consumer Price Index plus 3% p.a.	1.4	8.2
FOREIGN-ONLY (RANDS)		
ORBIS GLOBAL EQUITY FUND	9.5	39.2
FTSE World Index	6.4	36.9
ORBIS JAPAN EQUITY (US\$) FUND	9.1	16.1
Tokyo Stock Price Index	7.7	24.0
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	8.2	28.7
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global	5.9	32.8
UNIT TRUSTS**		
EQUITY FUND (AGEF)	***	38.8
FTSE/JSE All Share Index		37.6
BALANCED FUND (AGBF)	***	30.3
Average Prudential Fund (excl. AGBF)		24.0
STABLE FUND (AGSF)	***	18.3
After-tax return of call deposits plus two percentage points		6.6
OPTIMAL FUND	***	9.8
Daily call rate of Firststrand Bank Ltd		6.8
BOND FUND	***	5.2
BEASSA All Bond Index (total return)		5.7
MONEY MARKET FUND (AGMF)	***	8.0
Domestic fixed interest money market unit trust sector (excl. AGMF)		7.8
GLOBAL FUND OF FUNDS (AGGF)	***	28.2
60% of FTSE World Index and 40% of JP Morgan Government Bond Index Global (Rands)		32.3
GLOBAL EQUITY FEEDER FUND (AGOE)	***	36.8
FTSE World Index (Rands)		36.4

PERFORMANCE AS CALCULATED BY ALLAN GRAY.

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

* The return for Quarter One 2007 is an estimate, as the relevant survey results have not yet been released.

** The returns for the unit trusts and their respective benchmarks are net of investment management fees.

*** Unavailable due to ACI regulations.

3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R millions)	INCEPTION DATE
33.9 32.7	28.0 22.4	25.2 19.5	26,342.4	01.01.78
38.4 34.9	33.0 26.1	25.7 19.9	23,293.7	01.01.78
47.8 40.6	39.3 23.8	25.6 17.1	51,970.7	01.01.90
31.9 31.1	26.7 21.8	23.6 16.7	5,288.2	01.01.94
43.3 41.5	30.5 25.2	31.1 23.0	10,543.3	19.04.00
33.8 32.7	28.3 22.4	28.9 20.6	11,292.8	01.09.00
39.0 34.9	33.3 26.1	31.0 24.6	6,180.2	01.09.01
48.3 40.6	39.6 23.8	37.0 23.3	5,950.3	01.02.01
42.3 41.1	- -	45.0 42.9	611.2	05.05.03
33.6 34.9	35.3 26.1	33.4 23.7	520.9	06.07.01
31.7 32.7	- -	31.4 31.7	690.5	01.03.04
23.0 9.6	21.0 11.3	20.7 11.4	518.7	01.12.01
- -	- -	22.8 9.6	995.8	15.07.04
15.1 16.0	5.3 1.3	5.2 1.1	1,172.7	23.01.02
- -	- -	25.0 22.2	1,238.2	18.05.04
7.6 7.5	9.4 9.2	9.6 9.4	569.7	21.09.00
8.5 6.3	- -	9.8 7.4	115.9	04.12.02
- -	- -	21.1 7.0	956.8	01.05.04
23.2 21.6	7.4 2.1	22.6 14.8	12,983.2	01.01.90
20.4 24.5	6.1 4.7	18.8 13.3	233.3	12.06.98
15.3 16.0	5.7 1.3	18.0 12.8	3,755.9	23.05.96
42.5 40.6	35.6 23.8	Figures below unannualised 1779.7 588.5	18,636.3	01.10.98
31.9 29.5	27.4 20.9	540.4 263.1	21,998.5	01.10.99
17.7 6.2	16.3 7.4	179.4 64.8	17,688.6	01.07.00
7.7 6.1	- -	53.6 38.3	926.4	01.10.02
- -	- -	26.7 28.0	36.0	01.10.04
7.5 7.4	9.0 9.0	64.8 65.3	1,539.6	03.07.01
14.2 15.9	- -	40.6 40.9	3,989.7	03.02.04
- -	- -	73.8 62.9	2,375.0	01.04.05

Segregated Portfolios

INVESTMENT MANAGEMENT IN SOUTH AFRICA

Allan Gray manages portfolios on a segregated basis where the minimum portfolio size is R500 million. These mandates are of a balanced or asset class specific nature. Portfolios can be managed on an absolute or relative risk basis.

INVESTMENT MANAGEMENT IN NAMIBIA

Allan Gray Namibia manages large portfolios on a segregated basis.

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 ^{1, 2}	BALANCED PORTFOLIO ¹	ABSOLUTE PORTFOLIO ¹
Investor Profile	<ul style="list-style-type: none"> Risk-averse institutional investors. 	<ul style="list-style-type: none"> Institutional investors with an average risk tolerance. 	<ul style="list-style-type: none"> Institutional investors seeking superior absolute returns (in excess of inflation) over the long-term with a higher than average short-term risk tolerance.
Product Profile	<ul style="list-style-type: none"> Conservatively managed pooled portfolio. Investments selected from all asset classes. Shares selected with limited downside and a low correlation to the stockmarket. Modified duration of the bond portfolio will be conservative. Choice of global or domestic-only mandate. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Investments selected from all asset classes. Represents Allan Gray's 'houseview' for a balanced mandate. Choice of global or domestic-only mandate. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Superior returns to money market investments. Limited capital volatility. Strives for capital preservation over any two-year period. 	<ul style="list-style-type: none"> Superior long-term returns. Risk will be higher than Stable Portfolio but less than the Absolute Portfolio. 	<ul style="list-style-type: none"> Superior absolute returns (in excess of inflation) over the long-term. Risk of higher short-term volatility than the Balanced Portfolio.
Benchmark	<ul style="list-style-type: none"> Alexander Forbes three-month Deposit Index plus 2%. CPI plus 3% 	<ul style="list-style-type: none"> Mean performance of the large managers as surveyed by consulting actuaries. CPI plus 5% 	<ul style="list-style-type: none"> Mean performance of the large managers as surveyed by consulting actuaries. CPI plus 7%
Fee Principles	<ul style="list-style-type: none"> Fixed fee, or performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> Performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> Performance fee 0.5% p.a. plus (or minus) 25% of the out/underperformance of the benchmark.

1. Portfolios comply with the requirements of regulation 28 of the pension funds act.

2. Portfolios comply with the requirements of annexure b of the medical schemes act.

Allan Gray Life Limited does not monitor compliance by retirement funds with section 19(4) of the pension funds act (item 9 of annexure to regulation 28).

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

ASSET CLASS POOLED PORTFOLIOS:

	MONEY MARKET ^{1,2}	BOND MARKET ¹	EQUITY ¹	FOREIGN ¹
Investor Profile	<ul style="list-style-type: none"> Institutional investors requiring management of a specific money market portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific bond market portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific equity portfolio. 	<ul style="list-style-type: none"> Institutional investors requiring management of a specific foreign portfolio.
Product Profile	<ul style="list-style-type: none"> Actively managed pooled portfolio. Investment risk is managed using modified duration and term to maturity of the instruments in the portfolio. Credit risk is controlled by limiting the exposure to individual institutions and investments. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Modified duration will vary according to interest rate outlook and is not restricted. Credit risk is controlled by limiting the exposure to individual institutions and investments. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Represents Allan Gray's 'houseview' for a specialist equity-only mandate. Portfolio risk is controlled by limiting the exposure to individual counters. 	<ul style="list-style-type: none"> Actively managed pooled portfolio. Investments are made in equity and absolute return foreign mutual funds managed by Orbis. Represents Allan Gray's 'houseview' for a foreign balanced mandate.
Return Characteristics/ Risk of Monetary Loss	<ul style="list-style-type: none"> Superior returns to the Alexander Forbes three-month Deposit Index. Low capital risk. High flexibility. Capital preservation. High level of income. 	<ul style="list-style-type: none"> Superior returns to that of the 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Superior returns to that of the benchmark at no greater than average absolute risk of loss.
Benchmark	<ul style="list-style-type: none"> Alexander Forbes three-month Deposit Index. 	<ul style="list-style-type: none"> FTSE/JSE All Bond Index plus coupon payments. 	<ul style="list-style-type: none"> FTSE/JSE All Share Index including dividends. 	<ul style="list-style-type: none"> 60% Morgan Stanley Capital International Index, 40% JP Morgan Global Government Bond Index.
Fee Principles	<ul style="list-style-type: none"> Fixed fee of 0.2% p.a. 	<ul style="list-style-type: none"> Performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> Performance fee based on outperformance of the benchmark. 	<ul style="list-style-type: none"> No fee charged by Allan Gray. Unit prices of underlying mutual funds reflected net of performance fees charged by Orbis.

1. Portfolios comply with the asset class requirements of regulation 28 of the pension funds act.

2. Portfolios comply with the requirements of annexure b of the medical schemes 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Superior returns to bank deposits. Little or no correlation to stock or bond markets. Low risk of capital loss. Low level of income.
Benchmark	<ul style="list-style-type: none"> Daily call rate of Nedcor Bank Limited.
Fee Principles	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> US\$ denominated Equity Fund which remains fully invested in global equities. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Enables saving for retirement with pre-tax money. Contributions can be at regular intervals or as single lump sums. Ideal for the self-employed or employees who want to make additional contributions to an approved retirement vehicle. 	<ul style="list-style-type: none"> Preserves the pre-tax status of a cash lump sum that becomes payable from a pension (or provident) fund at termination of employment. A single cash withdrawal can be made from the Preservation Fund prior to retirement. 	<ul style="list-style-type: none"> Provides a regular income from the investment proceeds of a cash lump sum that becomes available as a pension benefit at retirement. A regular income of between 5% and 20% per year of the value of the lump sum can be selected. Ownership of the annuity goes to the investor's beneficiaries on his/her death.
Investment Options	The contribution(s) to any one of these products can be invested in any combination of 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	
<p>* Allan Gray living annuity is underwritten by Allan Gray Life Limited.</p> <p>** 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.</p>			

Discretionary Products Retail

ENDOWMENT POLICY*

Description	<ul style="list-style-type: none"> 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 five-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
<p>* The endowment policy is underwritten by Allan Gray Life Limited.</p> <p>** 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.</p>	

Allan Gray Unit Trusts - Characteristics & Objectives

	EQUITY FUND	BALANCED FUND	STABLE FUND	OPTIMAL 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%.	Daily call rate of FirstRand Bank Limited (for amounts in excess of R1m).
Maximum Net Equity Exposure	100%	75%	60%	15%
Portfolio Structure	A share portfolio selected for superior long-term returns.	A portfolio (which can include all asset classes) selected for superior long-term returns.	A portfolio (which can include all asset classes) chosen for its high income yielding potential. The intention is to keep the share or equity portion significantly below 60%.	A portfolio of carefully selected shares. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.
Portfolio Manager	Stephen Mildenhall, Arjen Lugtenburg, Duncan Artus, Ian Liddle, Delphine Govender, Orbis Investment Management Limited	Stephen Mildenhall, Arjen Lugtenburg, Duncan Artus, Ian Liddle, Delphine Govender, Orbis Investment Management Limited	Stephen Mildenhall	Delphine Govender
Return Objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns compared to bank deposits.	Superior returns compared to bank deposits.
Risk of Monetary Loss	Risk higher than the Balanced Fund but less than average general equity fund due to Allan Gray's investment style.	Risk higher than the Stable Fund but less than the Equity Fund. This is a medium risk fund.	Seeks to preserve capital over any two-year period with low risk of capital loss.	Low risk and little or no correlation to stock or bond markets.
Target Market	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Investors seeking long-term wealth creation. Investors who wish to substantially comply with the Prudential Investment Guidelines of the Pension Funds Act (Reg. 28). Investors seeking a three-year plus investment. 	<ul style="list-style-type: none"> Risk-averse investors who require a high degree of capital stability. Investors who are retired or nearing retirement. Investors who require a regular income. Investors who seek to preserve capital over any two-year period. 	<ul style="list-style-type: none"> Risk-averse investors. Investors who wish to diversify a portfolio of shares or bonds. Retirement schemes and multi-managers who wish to add a product with an alternative investment strategy to their overall portfolio.
Income Yield	Low income yield.	Average income yield.	High income yield.	Low income yield.
Income Distribution*	Bi-annually.	Bi-annually.	Quarterly.	Bi-annually.
Compliance with Reg.28 of the Pension Funds Act (Prudential Investment Guidelines)**	No.	Yes.	Yes.	No.
Minimum Lump Sum Investment Requirement (Retirement product, endowment and retail investment platform minimums apply)	R10 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R5 000 lump sum and/or R500 per month debit order.	R25 000 lump sum and/or R2 500 per month debit order.

* To the extent that the total expenses exceed the income earned in the form of dividends and interest, the funds will not make a distribution.

** Allan Gray Unit Trust Management Limited does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 9 of annexure to regulation 28). For more detailed information and fee details, please consult the relevant fund fact sheets available on www.allangray.co.za

BOND FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	GLOBAL EQUITY FEEDER FUND
All Bond Index.	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.
0%	0%	100%	100%
A portfolio invested in a combination of South African interest-bearing securities including bonds, loan stock, debentures, fixed deposits, money market instruments and cash.	A portfolio invested in selected money market instruments providing a high income yield and a high degree of capital stability.	A Rand-denominated balanced portfolio invested in selected FSB registered Orbis funds. The Fund will always hold a minimum of 85% of its assets offshore.	A Rand-denominated portfolio feeding directly into the FSB registered Orbis Global Equity Fund.
Sandy McGregor, Andrew Lapping	Michael Moyle	Stephen Mildenhall (William Gray is the Portfolio Manager of the underlying Orbis funds.)	Stephen Mildenhall (William Gray is the Portfolio Manager of the Orbis Global Equity Fund.)
Superior returns compared to the All Bond Index.	Superior money market returns.	Superior long-term returns.	Superior long-term returns.
Risk is higher than the Money Market Fund, but lower than the Balanced Fund.	Low risk of capital loss and high degree of capital stability.	Risk similar to Balanced Fund but less than average foreign balanced mandate.	Risk higher than the Global Fund of Funds.
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Highly risk-averse investors. Investors seeking a short-term 'parking place' for their funds. 	<ul style="list-style-type: none"> Investors who would like to invest in an offshore balanced fund. Those seeking to invest locally in Rands, but benefit from offshore exposure. Investors wanting to gain exposure to markets and industries that are not necessarily available locally. Investors who wish to hedge their investments against any Rand depreciation. 	<ul style="list-style-type: none"> Investors who would like to invest in an offshore global equity fund but do not have the minimum required to invest directly in the Orbis Global Equity Fund. Those seeking to invest locally in Rands, but benefit from offshore exposure. Investors wanting to gain exposure to markets and industries that are not necessarily available locally. Investors who wish to hedge their investments against any Rand depreciation.
High income yield.	High income yield.	Low income yield.	Low income yield.
Quarterly.	Daily and pays out monthly.	Annually.	Annually.
Yes.	Yes.	No.	No.
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.

ALLAN GRAY

INTELLIGENT INVESTING

ALLAN GRAY LIMITED

Registration Number 2005/002576/06

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M Cooper B Bus Sc FIA FASSA **GW Fury** BA LLB MA CFA **DD Govender** B Com CA (SA) CFA

WB Gray B Com MBA CFA (Non-Executive) (Irish) **SC Marais** PhD CFA (Non-Executive)

T Mhlambiso AB MBA JD (Non-Executive) **SC Mildenhall** B Com (Hons) CA (SA) CFA

IN Mkhize BSc MBA (Non-Executive)

COMPANY SECRETARY

CJ Hetherington B Com CA (SA)

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from Allan Gray Unit Trust Management Limited. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. A fund of funds unit trust only invests in other unit trusts, which levy their own charges, which could result in a higher fee structure for these portfolios. A feeder fund portfolio is a portfolio that, apart from assets in liquid form, consists solely of units in a single portfolio of a collective investment scheme. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Allan Gray Unit Trust Management Limited is a member of the Association of Collective Investments (ACI).

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