

Q3



## Quarterly Commentary

30 September 2003

**ALLAN GRAY**  
LONG TERM INVESTMENT MANAGEMENT

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Front cover: Some of the people that contributed to or who are profiled in this issue are, from left to right: Mark Herdman, Greg Fury and William Gray.

Mark Herdman  
Chief Operating Officer, Allan Gray Limited

## Comments from the Chief Operating Officer



The investment philosophy of both Allan Gray and Orbis, our global asset management partner, focuses on investing in companies that are priced well below our estimate of fair value thus providing a reasonable margin of safety. In the first three articles in this edition of the Quarterly Commentary, all three contributors' articles, which were written independently of each other, arrive at this same conclusion and give different examples.

In 'Investment Perspective' Jack Mitchell, our equity strategist, recalls from personal experience the booms of the sixties and the nineties, and the burnt fingers that followed in each period. The lesson learnt is to search for investment opportunities that are out of favour and that are trading at below their fair value. Currently, a good example is metal prices that are well below their norm. He concludes that a combination of circumstances is now in place that favours significantly higher prices.

#### Investment Commentary

Duncan Artus, a trainee portfolio manager and equity analyst, makes the point that when analysing shares that are trading at new lows, it is crucial to be able to separate those that don't deserve to be there from those that have suffered a permanent decline in their fundamentals. He then uses Edcon and MTN as examples of how we apply our investment approach to two very different companies.

In a second article under 'Investment Commentary', Craig Bodestab, Head of Global Trading at Orbis, provides insight into the Orbis approach to buying shares. He reiterates our belief that owning shares whose price is below their intrinsic value

provides an investor with a margin of safety. He makes use of Honda Motor Co. as an illustration of a company that is attractively priced and that offers prospects of sound returns and a margin of safety.

#### Retail Update

Johan de Lange, a Director of our Unit Trust Management Company, warns prospective investors in the Equity Fund, who have an investment horizon of less than three to five years, that they could face volatility as this is the nature of the stockmarket. He then indicates this by analysing Allan Gray's share performance over the past 25 years on a one-year, three-year and five-year basis.

The features and benefits of the Allan Gray Endowment Policy, launched 1 August 2003, are shown in the following article.

#### Gray Matters

This quarter, in an article entitled 'Recent senior staff moves, appointments and promotions', we profile our Deputy Chief Operating Officer, Greg Fury. The appointment of William Gray to the Allan Gray board as Non-Executive Director, effective March 2003 is also mentioned. Christo Terblanche and Julie Campbell were promoted to the Board of Directors of Allan Gray Life in mid 2002 and March 2003 respectively.

Soon after we began filming our television advert, we won Ad of the Week on an SABC3 programme called Newcomers and more recently, it was acknowledged in an article in the Business Day newspaper and the Weekend Argus: Media & Marketing section. In a brief 'Marketing Update', we discuss our new supporting advertising campaign and the launch of our new-and-improved website.

#### Investment Performance

Quarter 3 2003 saw a continued rise in the prices of local and international shares. Pleasingly, Allan Gray continued to deliver superior performance across all of its various client investment mandates.

For the year to 30 September 2003, our global balanced mandate segregated institutional clients (our largest client composite which includes all asset classes) earned 14.3% versus our estimate of the average pension fund of 5.1%. Our clients with equity-only mandates, over the same period, received 19.9% versus -2.0% for the FTSE/JSE All Share Index. These returns were also reflected in our Life Company and unit trust portfolios.

With both the local and world stockmarkets having experienced a significant rise since their lows earlier this year, we have become more cautious about prospective returns from stockmarkets as a whole. Despite this, within these markets we continue to find attractive investment opportunities.

I hope that you enjoy this, my last, issue of our Quarterly Commentary.

With kind regards

Mark Herdman  
Chief Operating Officer

## Jack Mitchell

Director, Allan Gray Limited

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

# Investment Perspective

## Promising prospects for metals



### Executive Summary

**Broad investment cycles often span as many as 30 years, reaching high and low extremes in the process. Jack Mitchell recalls from personal experience the booms of the sixties and the nineties, and the burnt fingers that followed in each period. From such experiences, Allan Gray has learnt to search for investment opportunities that have been out of favour for decades. This has led to a focus on metal prices that are well below their norm. The conclusion is that the prospects for metals are rosier than they have been for many years.**

At Allan Gray our investment perspective has always been long-term. We are conscious that broad investment cycles are often extremely lengthy in nature and periods that span a generation (about 30 years) often seem fitting. Why is this the case?

Each generation seems to encompass a period that includes an extreme in both economic optimism and pessimism. Of course, reality lies somewhere in the middle, so some very hard lessons are learnt which are not readily forgotten. For instance, speculators on Wall Street in the late 1920's were not easily enticed back into the stockmarket. It took a new generation (those born in the depression) to propel the stockmarket to new highs in the 1960's. Similarly, after the burnt fingers suffered in

the seventies, it took the next generation to light a fire under shares in the 1990's. In the sixties, I was lucky enough to be on the outside looking in and, in the nineties, on the inside looking out. If you are privileged enough to experience two booms, and subsequent busts, the experience learned in the first is invaluable in dealing with the latter event.

Being acutely conscious of these broad cycles, we continually search for situations that have fallen increasingly out of favour for decades. When prices are well below their norm, the risk/reward spread is attractive and vice versa. Metal prices currently appear underpriced. In the graphs that follow, the Economists Metal Price

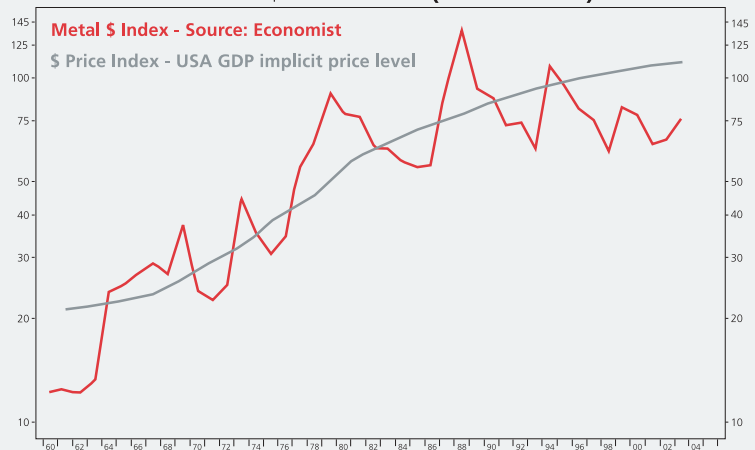
Index expressed in US\$ is used. This index comprises base metals, with aluminium and copper most dominant.

**Graph 1** shows \$ metal prices vs the \$ price index depicting inflation over the past four decades. Notice how the small cycles take prices both above and below the level implied by the index. In the nineties, prices, barring one incident, held well below the index and metals in general have remained out of favour.

**Graph 2** shows metal prices in real terms i.e. divided by the price index. Note metal prices appear to be bottoming at the 0.60 level, which historically was last seen in the early sixties when co-incidentally inflation was very low.

**Graph 1**

### Metal Prices and US\$ Price Levels (1960 to date)



Source: Igraph

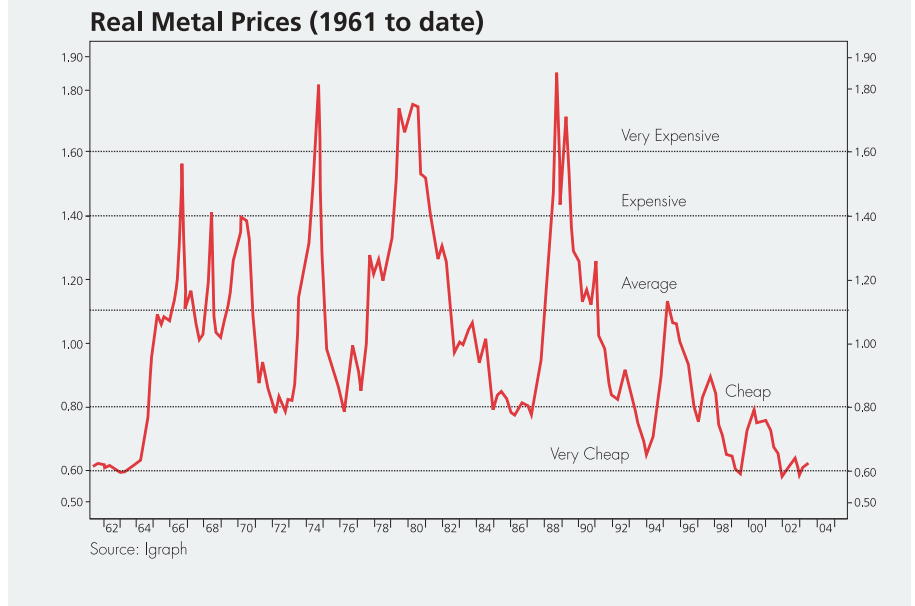
**Graph 3** shows real metal prices and the US yield curve (cost of long-term finance minus cost of short-term finance) smoothed and projected forward two years. Monetary policy in large world economies has been very stimulative recently and typically this has led to rising metal prices. Metal prices are very low in real terms and reason exists for them to return to more normal levels. This outlook is also positive for South African terms of trade in the years ahead.

*"A combination of circumstances is now in place that favours significantly higher metal prices."*

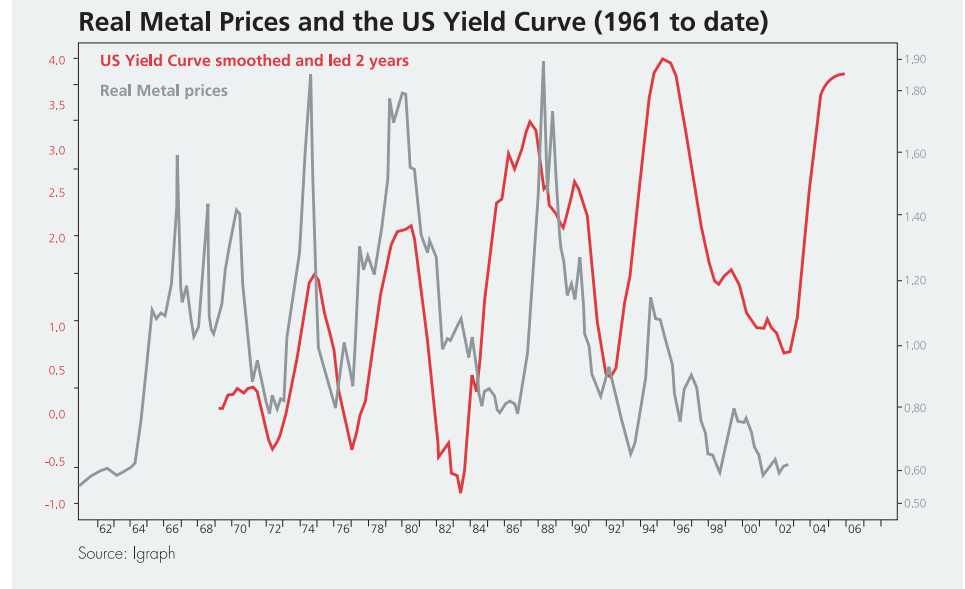
From a fundamental point of view, the outlook for metal prices is also favourable. The sustainability of mineral production requires the replacement of ore reserves as they are depleted. Resource companies must continually look for new ore bodies and invest in new mines. The time horizon of this process is long, requiring up to ten years from the start of exploration to the point where a mine reaches full production. Since 1997, low metal prices have discouraged new investment and mining companies have spent annually less than half of what they did in the previous decade. In order to reduce the cost of production, they have focused rather on mergers and acquisitions. This has created a concentration of ownership that now gives the larger companies much greater pricing power than they had previously.

A combination of circumstances is now in place that favours significantly higher metal prices. World economic activity is accelerating, especially in resource hungry China, which will boost the demand for metals. However, there is the legacy of the long period of underinvestment, which will make it difficult to meet this demand. Shortages will create an environment that favours higher prices. The prospects for metals look more favourable than they have for many years.

**Graph 2**



**Graph 3**



## Duncan Artus

Trainee Portfolio Manager and Equity Analyst, Allan Gray Limited

# Investment Commentary

## Investing with a margin of safety



### Executive Summary

Shares that are trading at new lows often deserve to be there, writes equity analyst Duncan Artus. The crucial issue is to separate those that don't deserve to be there from those that have suffered a permanent decline in their fundamentals. Allan Gray's investment philosophy involves estimating a company's intrinsic value and assessing it relative to the probability and extent of a permanent decline occurring. To illustrate the point, we examine how the same principles can be applied to the investment case for two very different companies at different stages of their growth cycle, Edcon and MTN, both of which we hold in our clients' portfolios.

Allan Gray is usually classified as a value investor.

However, Allan Gray prefers not to be labelled. We strongly believe our investment philosophy can be applied to a diverse range of companies at any stage of their growth cycle. We don't purchase shares on behalf of our clients simply because their prices have fallen significantly, although often it can be a good place to start.

Shares that are trading at new lows often deserve to be there. The crucial issue is to

separate those that don't deserve to be there from those that have suffered a permanent decline in their fundamentals. Our investment philosophy involves estimating a company's intrinsic value and assessing it relative to the probability and extent of a permanent decline in value occurring.

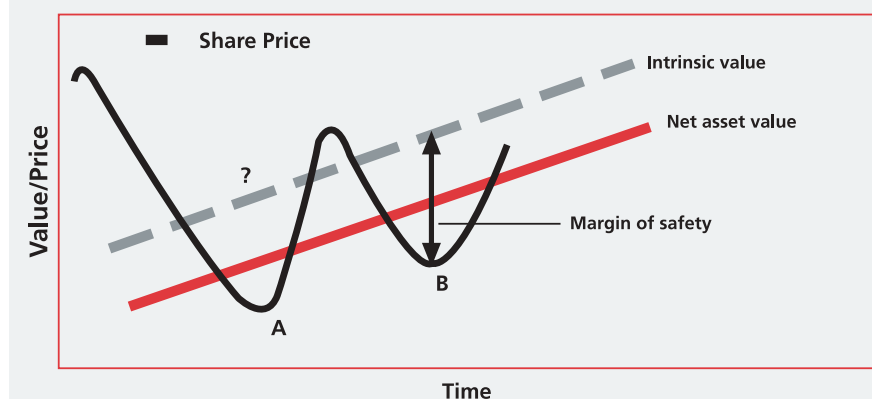
In order to illustrate this point, we examine how the same principles can be applied to the investment case for two very different companies at different stages of their growth cycle, Edcon and MTN, both of which we hold in our clients' portfolios.

Edcon is one of South Africa's largest

retailers with well-known brands such as Edgars and Jet. Edcon's recent history is highlighted in **graph 1** below.

At **Point A**, Edcon, whose return on equity was very low, was trading at half its net asset value, which is made up largely of its debtors' book (which is simply the money owed to it by its customers). Thus the market was effectively either attaching a significant negative value to the underlying businesses of Edcon or implying that most of the debtors' book was non-collectable. At the time we were unable to establish whether there had been a permanent decline in Edcon's fundamentals.

Graph 1



After rising more than five times, Edcon's price fell back to **Point B**, all within the space of two years, as similar concerns to those detailed above resurfaced. This time round however, we were able to gain a far greater understanding of the debtors' book due to Edcon's vastly improved disclosure. This allowed us to establish that the problems in the book were likely to be of a temporary nature. There was thus a high probability that the downside was limited.

**Upside:** Valuing Edcon at net asset value places very little value on the going concern status of its underlying businesses. We would expect a company such as Edcon to earn a far higher return on equity than the 6% it was achieving at Point B. In fact, its long-term average return on equity is 22%. Edcon's large market share and excess store base provided plenty of opportunity for a good management team to improve returns to a normalised level. The higher return on equity should be reflected in the share trading at a significant premium to its net asset value, effectively recognising the goodwill inherent in Edcon's retail brands.

**MTN** is South Africa's second and Nigeria's largest cellular network operator. It also runs networks in four other

African countries. MTN's recent history is highlighted below in **graph 2**.

MTN fell nearly 80% from its peak to **Point A** at which stage it had certainly appeared on our radar screen. We felt reasonably confident of our valuation of the South African cellular operations that generate significant cash flow. In fact, our valuation had changed very little over time. However, MTN's entry into Nigeria involved the funding of a large upfront licence fee and capital expenditure to establish its network with dollar denominated debt. This introduced uncertainty into our valuation in that the Nigerian operations could have reduced the value of the South African operations. With very little historic information available, we were unable to assess the downside risk with confidence and thus could not establish a margin of safety.

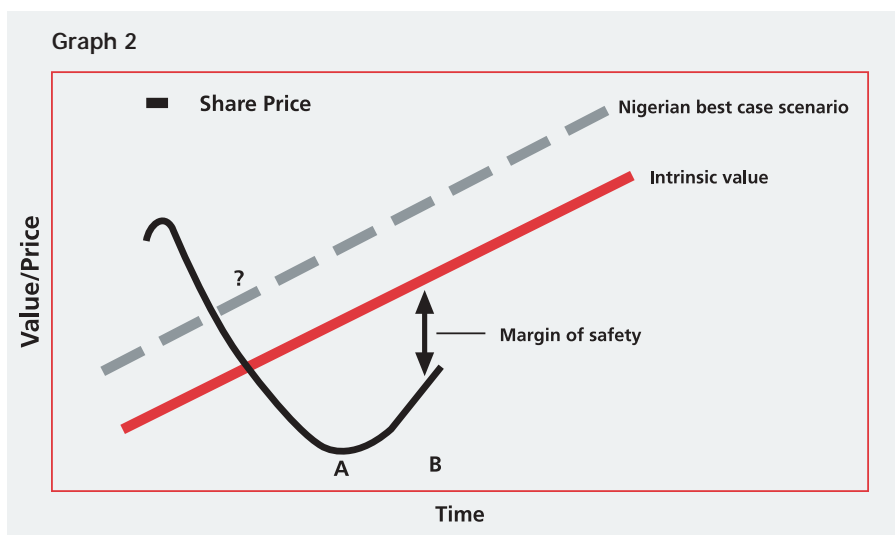
At **Point B**, MTN Nigeria's growth in subscribers had been much stronger than expected and its network now covered 38% of the Nigerian population base. MTN secured 1.3 million subscribers, which translated into 60% market share. This new information enabled us to calculate with far greater confidence a fair value for the

Nigerian operation. In addition, a change in foreign exchange rules allowed the group to transfer excess South African cash to Nigeria, alleviating our concerns over the dollar debt. While there is still risk inherent in Nigeria, we were now in the position to incorporate it into our calculation of intrinsic value and establish that a margin of safety existed.

**Upside:** In our opinion, the young Nigerian cellular market has many similarities to that of South Africa a number of years ago where the original number of total subscribers forecast proved to be very conservative. In addition, there are approximately 500 000 fixed lines in Nigeria for a population of 128 million people. MTN, as market leader, could lock in a first mover advantage similar to that which its rival Vodacom has in South Africa. The probability of this occurring is not clear but at current prices one is paying very little for this potential upside.

*"We seek to purchase companies trading below our estimate of intrinsic value which thus provide a reasonable margin of safety."*

In summary, we believe that similar investment principles can be applied in identifying rewarding investments in very different situations, including high growth companies. We seek to purchase companies trading below our estimate of intrinsic value which thus provide a reasonable margin of safety. In addition, from positions of undervaluation, one can often pay nothing or very little for potential upside which may result from a permanent improvement in a company's fundamentals.





Craig Bodenstab  
Head of Global Trading, Orbis



# Investment Commentary (continued)

## The Orbis approach to buying shares



### Executive Summary

**Does investing a higher proportion of a portfolio in Japanese equities make a fund riskier than those that don't? Not necessarily provided those shares are trading below their intrinsic worth, believes Craig Bodenstab of Orbis Investment Management, Allan Gray's global asset management partner. Owning shares whose price is below their intrinsic value provides an investor with a margin of safety against future deteriorating fundamentals or the risk of simply being wrong. A margin of safety implies that there is underlying value for which the investor has not had to pay.**

A client recently asked me whether the shares that the Orbis funds owned in Japan make them more risky compared with other funds, most of which own less of these shares.

Orbis, like Allan Gray Limited, looks to buy shares of companies trading significantly below its assessment of their intrinsic worth because, over the long-term, these shares are capable of providing our funds with not only higher than average returns but also a lower risk of permanent loss. This does not mean that our funds can't lose money, since owning any share is risky. Rather, we believe

our approach lends itself to losing less than would otherwise be the case.

We don't know where markets or shares are headed in the short- to medium-term so we can't rely on predicting short- to medium-term share price or market movements to make money for our clients. Instead, we strive to ensure that the shares we purchase for our funds from around the world contain a margin of safety. A margin of safety implies that there is underlying worth in the investment for which we have not paid. The benefit is that should our analysis about the worth of the shares be incorrect, as is sometimes the case, the Orbis funds should not lose as much money as if they bought shares at no discount or a premium to fair value. If our analysis is correct, our funds and their members should benefit from higher returns because other investors will pay a higher price for those shares in the future. Historically, our assessments of share values have been correct more often than not and as such we have been able to provide our clients with higher returns than those provided by overall markets with correspondingly lower risk of loss of capital.

Academic theories on investing state that the only way to earn higher returns is to take on more risk. In the case of buying shares of companies that trade at discounts to their intrinsic value, the reverse is most

often the case. Acquiring shares for 70 cents in a company with an estimated worth of, say, \$1.00 contains less risk than buying those same shares for 80 cents, while the future return is higher when paying only 70 cents. This is the key to our bottom up investment approach - the higher the margin of safety and the bigger the discount to intrinsic value, the lower the risk of long-term loss and the correspondingly higher potential for above average future returns.

The Japanese stockmarket peaked in early 1990 and, with the exception of a few comparatively short rallies, has declined by over 70% from its highs. The outcome of this precipitous lengthy decline is that there are a number of shares of high quality companies containing what we believe to be an acceptable margin of safety. It is important to distinguish between no risk and simply being compensated adequately for taking risk. Buying shares that contain a margin of safety still entails risk; we just believe it is less risky than paying full price for the shares.

Honda Motor Co. is an illustration of a company that we believe our funds are being adequately compensated for the risk that they are taking, foremost of which is a substantial appreciation of the Japanese Yen and a slow-down in the US economy.



*“ ... the higher the margin of safety and the bigger the discount to intrinsic value, the lower the risk of long-term loss and the correspondingly higher potential for above average future returns.”*

Founded in 1948, Honda is one of the most recognized consumer brands in the world for automobiles and motorcycles. The company makes other products but is most recognized for those two. Honda's business operations and products are world class with an average historical return on equity of around 14% per annum over the last 30 years. The past year, which has proved to be a challenging market for global automotive companies, saw Honda returning around 16% on its equity. Strong demand has kept Honda's US factories operating at near full capacity and allowed it to avoid discounting its automobile prices in the US as heavily as other manufacturers. The addition of a new light truck facility in the US will increase Honda's global production capacity by over 5%, giving it the scope to grow sales volumes and also improve operating profit margins. With its largely non-unionized labour

force and state-of-the-art manufacturing facilities, Honda has a significantly quicker turnaround production time and far greater flexibility in getting new products to market compared with most of its competitors, which is crucial for success in the automotive business.

At current prices, Honda's shares trade at 1.7 times book value and 10 times current earnings. The company continues to gain US market share, is appropriately financed and is in our estimation making respectable inroads into the Chinese market through its Chinese joint ventures, where Honda leads key rivals Toyota and Nissan in terms of market share. With its more than 9% p.a. current earnings yield, we are enthusiastic about owning Honda compared to long-term Japanese and US government bonds that yield between 1% and 4% p.a.

A basic premise of successful investing is to own more when prices are low and less when prices are high. As a result of the lengthy bear market in Japan, Japanese equities now represent 9% of the FTSE World Index (a weighted average of the stockmarket capitalisations of various countries around the world), well below their 18-year average weighting of 24%. The opposite is true for US equities, whose current 54% weighting is well above their 18-year average of 43%.



Craig Bodenstab

In closing, we remain cautiously optimistic about our equity selections from around the world including Japan, but are reminded that the Japanese stockmarket has already risen almost 40% from its lows this year.

Johan de Lange

Director, Allan Gray Unit Trust Management Limited

# Retail Update

Invest for the long-term



## Executive Summary

The Allan Gray Equity Fund focuses on finding shares that it can buy and hold for a period of three to five years. In this article, Johan de Lange warns prospective investors in the Fund, who have an investment horizon of less than three to five years, that they could expose themselves to considerable volatility. He indicates this with an analysis of the company's performance over the past 25 years on a one-year, three-year and five-year basis.

## Who should invest in the Allan Gray Equity Fund?

In our marketing documentation, we define the Equity Fund's target market as investors seeking long-term wealth creation and who have delegated the equity selection function to Allan Gray. Although this is a very broad description, the Fund's objective of seeking long-term wealth creation is quite clear. The Fund will always be fully invested in equities and is therefore a wealth 'creating' unit trust in contrast with a fund like the Allan Gray Stable Fund, which can be categorised as a wealth 'preserving' unit trust. This leaves us to answer the following questions:

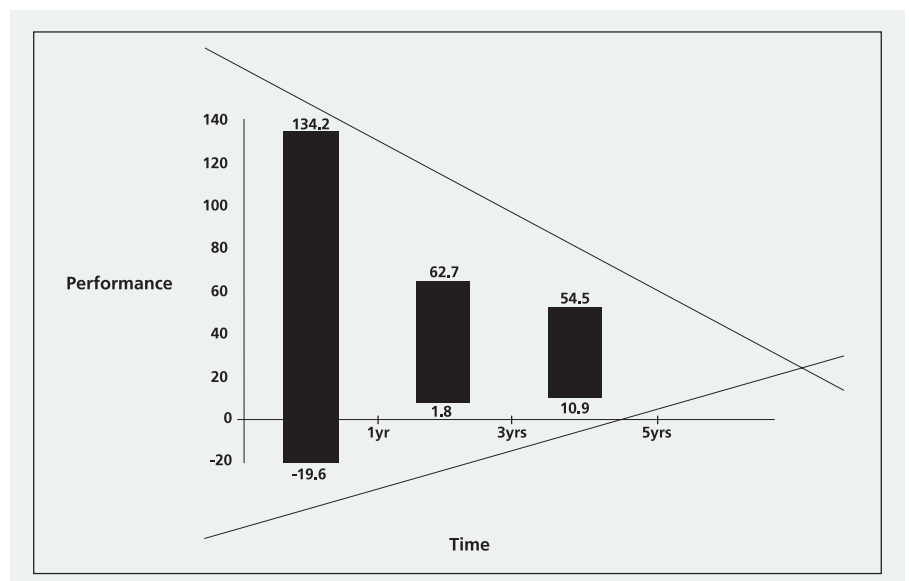
- What do we regard as long-term?
- Why is this a Fund that requires a long-term investment horizon?

The answers lie both in our investment philosophy as well as the volatility of the Equity Fund over a specific term. As our philosophy is discussed on a regular basis by our investment team, I will focus instead on the volatility of the Fund with only a brief comment about our philosophy.

*"The art of wealth creation centres on patience."*

In our process of analysing shares, we focus on finding those that we can buy and hold for a three- to five-year period. This makes it clear that any investor in the Equity Fund with an investment horizon of less than three to five years will not get the true benefit of our long-term philosophy.

This statement is supported when the performance of our equity mandate returns over the last 25 years is analysed on a one-year, three-year and five-year quarterly rolling basis. This comparison illustrated in the graph below clearly shows:



- A one-year investment comes with significant volatility. There is a difference in return of 153.8% between our best and worst 12 months over this period. Although Allan Gray managed to reduce the downside risk significantly for the investor through our method of selecting shares that trade at a discount to the intrinsic value of the company, a potential investor could have lost 19.6% of the original capital in the 12 months ending 30 September 1998. (Over this period, the FTSE/JSE All Share Index delivered a return of -26.6%)
- Investing for three years still comes with significant volatility - a performance difference of 60.9% - but, more importantly for the investor, the worst three years would have yielded a positive return of 1.8% per annum (compared to the -2.0% for the FTSE/JSE All Share Index). The graph shows how the risk for the investor reduces as the investment term is lengthened.

*“ Seeking short-term gains will result only in speculation. Very simply, Allan Gray’s objective is, and always has been, to make money over the long-term for our clients.”*

- Investing for a minimum of five years would have yielded a minimum of 10.9% per annum over our worst ever five-year period with an average performance in excess of 29% per annum. The performance difference between our best and worst five years has come down to 43.6%, showing how the volatility has reduced for the investor who is prepared to invest for the long-term.

The art of wealth creation centres on patience. Seeking short-term gains will result only in speculation. Very simply, Allan Gray’s objective is, and always has been, to make money over the long-term for our clients. To do that properly and for our investors to reap maximum rewards, we need time. Time allows us to stick to our investment philosophy – the same 29-year old investment philosophy that holds true for all our investors across all our products.

## The Allan Gray Endowment Policy

The Allan Gray Endowment Policy, launched on 1 August 2003 and underwritten by Allan Gray Life Limited, is an investment policy ideally suited to investors with medium- to long-term investment objectives who want capital growth with after-tax returns. Investors may invest a lump sum of minimum R50 000 or may make successive minimum contributions of R1 500 during the 5-year investment period.

Features and benefits include:

- Superior after-tax returns
- Comprehensive reporting
- No initial or cancellation fee
- Low administration charges
- Performance-based investment fees

Investors can select, and switch between, their underlying investment options from Allan Gray’s suite of risk-profiled unit trust funds to best suit their personal investment approach.

While premiums paid by the investor are not deductible for income tax purposes, the proceeds from the policy are tax-free once they are in the investor’s hands. This is considered tax efficient because the taxable

portion of the investment return (interest, rental income and foreign dividends) is taxed at 30% in the assessor’s hands, as opposed to the maximum marginal tax rate for individuals, which is currently 40%.

The life assessor pays tax on any capital gains that may arise in the fund at the current rate of 7.5%. This allows taxpayers to house wealth in endowment policies when their own personal Capital Gains Tax (CGT) bracket exceeds 7.5%. The current maximum rate for individuals is 10%.

After five years, upon maturity of the policy, the investment may be rolled over for an extended term or the investor may choose to receive the proceeds as a tax-free lump sum or as subsequent tax-free withdrawals.

One withdrawal, in part or in full, will be allowed during the first five years, or any extended restriction period of the policy.

Investors may nominate beneficiaries for proceeds of the investment such that upon the death of the life assured, proceeds are paid directly to the nominated beneficiary. These proceeds thus avoid executor’s fees resulting in a net saving to the beneficiary of 3.5% plus VAT. The proceeds will however form part of the investor’s estate and will be subject to Estate Duty.

Ownership of the investment may be transferred to another person or legal entity at any time. The policy may also be ceded as collateral or as security.

For more information on the Endowment, turn to page 17, call the Customer Service Centre on 0860 000 654, visit [www.allangray.co.za](http://www.allangray.co.za) or ask your Financial Adviser.

Mark Herdman

Chief Operating Officer, Allan Gray Limited

# Gray Matters

Recent senior staff moves, appointments and promotions



In last quarter's 'Comments from the Chief Operating Officer', I wrote about my relocation to Sydney, Australia, early in January 2004. Although I shall be leaving Allan Gray at the end of December this year, I will keep a close connection, as I join the newly established Orbis office. **Greg Fury** joined Allan Gray on 1 August this year as Deputy Chief Operating Officer and it is intended that he will replace me when I leave.

Greg was a Senior Manager in the corporate finance division at Investec Bank Limited, where he was employed for eight years. He has wide-ranging experience in leading and co-ordinating teams that give advice to large listed companies on their financial and business structures and on equity capital market transactions. Greg was part of the divisional management committee that directed business development, recruitment and operations. Over the years, we had dealings with Greg and were always impressed with his business acumen, high energy levels and the congruence between his business principles and the ones we promote at Allan Gray.

Prior to joining Investec, Greg was an articulated clerk at Findlay & Tait Attorneys in Cape Town. He has a BA LLB degree from UCT, an MA - Economics and Finance from Cambridge University and is a CFA Charterholder. Among his other

achievements, Greg was Head of School at St John's College, played rugby for UCT and Cambridge 1st Teams and was on the Dean's Merit List at UCT.

Greg's strategic and business analysis skills, together with his legal training and leadership qualities, will complement our existing management team and ensure that Allan Gray continues to meet its own high standard on behalf of its clients.

**William Gray** was appointed Non-Executive Director of Allan Gray Limited effective March 2003. Qualified with a B Com, MBA and holder of a CFA, he is the President and a Director of the Orbis funds and Orbis Investment Management Limited. He is also Portfolio Manager of the Orbis funds. Prior to joining the office in Bermuda in 1993, he had been an analyst with Orbis Investment Advisory Limited and with the Orbis predecessor company in Hong Kong.

**Christo Terblanche** and **Julie Campbell** were promoted to the Board of Directors of Allan Gray Life in mid 2002 and March 2003 respectively. Christo is responsible for running the Life Company and plays a major role in servicing our pooled institutional clients. After graduating with Honours in Commerce, he has concentrated on actuarial studies and employee benefits. Christo has been with Allan Gray for three years, developing and servicing our pooled

retirement fund business since its inception. Julie is responsible for the Group client performance measurement department as well as the administration of the Life Company. She graduated from the University of Cape Town with a B Sc (Hons) degree in Mathematical Statistics and joined Allan Gray in June 1992 as Client Performance Analyst. In 1995, she assumed responsibility for portfolio accounting and performance measurement for the investment managers, and in 1998 was promoted to Manager of Portfolio Performance and Accounting.

After 16 years at Allan Gray and having been privileged to play a role in the considerable development of the firm over the last six years, I leave with a deep sense of gratitude and fulfillment. Seldom are people lucky enough to join a firm with such a morally appealing culture, uncompromisingly ethical business principles and high quality employees. I have 'eaten, slept and drank' Allan Gray for 16 years and enjoyed myself immensely. I leave the firm in the hands of, and staffed by, amongst the most competent and smartest people you will find in any investment business anywhere in the world.

Thank you to our clients for your loyal support.

## Marketing Update

Tracy Hirst

Marketing Manager, Allan Gray Limited

### Giving Allan Gray a heart and soul

The first Allan Gray advertising campaign (discussed in our third quarter, 2002, Quarterly Commentary) was as single-minded in its execution as it was in its message. Across all media, the advertising message was simple: stay focused, stay committed, never waiver, be single-minded. In a world where so many of these qualities are lacking, Allan Gray has persisted with a distinctive investment philosophy.

### Evolution

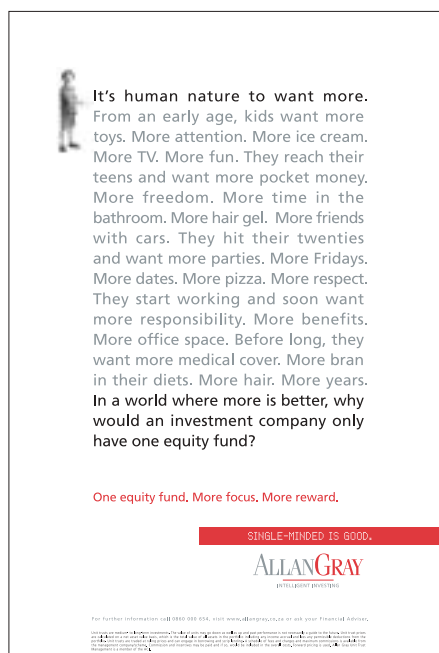
As with all things in life, brands - and their advertising - must evolve. The objective of 'Campaign Two' has been to take the advertising platform that has been set and to build on it, adding layers that make the advertising message richer and more rewarding. In doing so, the image of Allan Gray and what the company stands for also develops and grows in people's minds.

### Advertising objective

It has always been the strong opinion of the marketing team, in partnership with our agency King James, that our advertising should be built around the character of Allan Gray, not around its performance.

Each new advertisement, be it in newspaper or television, deals with one idea. It takes one Allan Gray feature and uses human subject matter to bring it to life e.g. the television advert uses Allan Gray's 'commitment' as its theme. Each advertisement observes human behaviour in a non-judgmental way and uses these observations to illustrate Allan Gray's uniqueness. It digs beneath the skin and openly and honestly unveils all that is real and inherently human. In doing so, it gives Allan Gray a heart and soul. Whilst human nature is the subject matter, the single minded benefit in each advertisement is clear. It has simply involved the reader, maybe even touched him or her in the process, inciting a smile or even a nod of recognition.

*" ... stay focused,  
stay committed, never  
waiver, be single-minded."*



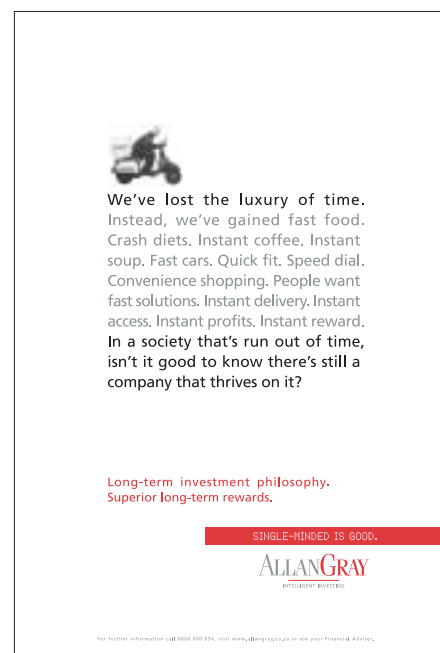
**It's human nature to want more.**  
From an early age, kids want more toys. More attention. More ice cream. More TV. More fun. They reach their teens and want more pocket money. More freedom. More time in the bathroom. More hair gel. More friends with cars. They hit their twenties and want more parties. More Fridays. More dates. More pizza. More respect. They start working and soon want more responsibility. More benefits. More office space. Before long, they want more medical cover. More bran in their diets. More hair. More years. **In a world where more is better, why would an investment company only have one equity fund?**

One equity fund. More focus. More reward.

SINGLE-MINDED IS GOOD.

**ALLAN GRAY**  
INTELLIGENT INVESTING

For further information call 0800 000 004, visit [www.allangray.co.uk](http://www.allangray.co.uk) or ask your Financial Adviser.



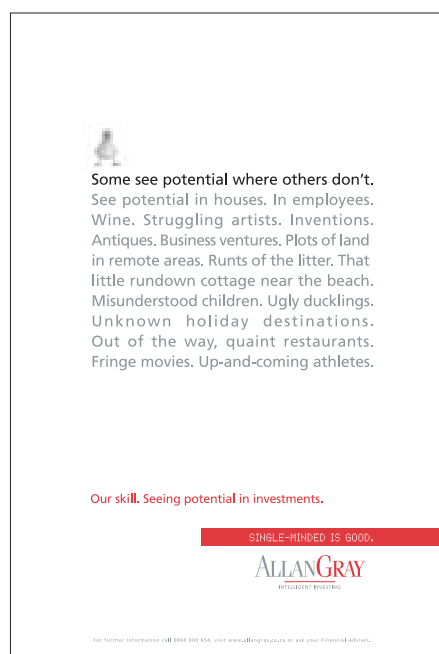
**We've lost the luxury of time.**  
Instead, we've gained fast food. Crash diets. Instant coffee. Instant soup. Fast cars. Quick fit. Speed dial. Convenience shopping. People want fast solutions. Instant delivery. Instant access. Instant reward. **In a society that's run out of time, isn't it good to know there's still a company that thrives on it?**

Long-term investment philosophy. Superior long-term rewards.

SINGLE-MINDED IS GOOD.

**ALLAN GRAY**  
INTELLIGENT INVESTING

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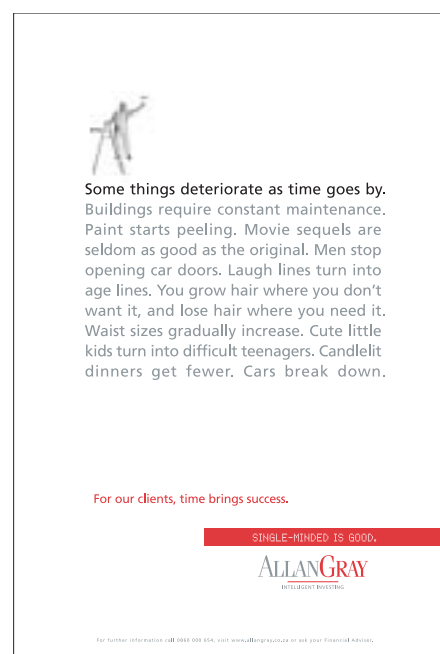
**Some see potential where others don't.**  
See potential in houses. In employees. Wine. Struggling artists. Inventions. Antiques. Business ventures. Plots of land in remote areas. Runts of the litter. That little rundown cottage near the beach. Misunderstood children. Ugly ducklings. Unknown holiday destinations. Out of the way, quaint restaurants. Fringe movies. Up-and-coming athletes.

Our skill. Seeing potential in investments.

SINGLE-MINDED IS GOOD.

**ALLAN GRAY**  
INTELLIGENT INVESTING

For further information call 0800 000 004, visit [www.allangray.co.uk](http://www.allangray.co.uk) or ask your Financial Adviser.



**Some things deteriorate as time goes by.**  
Buildings require constant maintenance. Paint starts peeling. Movie sequels are seldom as good as the original. Men stop opening car doors. Laugh lines turn into age lines. You grow hair where you don't want it, and lose hair where you need it. Waist sizes gradually increase. Cute little kids turn into difficult teenagers. Candlelit dinners get fewer. Cars break down.

For our clients, time brings success.

SINGLE-MINDED IS GOOD.

**ALLAN GRAY**  
INTELLIGENT INVESTING

For further information call 0800 000 004, visit [www.allangray.co.uk](http://www.allangray.co.uk) or ask your Financial Adviser.

### New website

Just as an advertising campaign represents who Allan Gray is and what we stand for, so does the online equivalent, a corporate website. With the evolution of our marketing material, advertising campaign and investment forms all adopting a consistently simplistic and cleanly professional approach, our website required a revamp.

Prices and performance statistics will be available on a daily and monthly basis

respectively, the navigation is simple and user-friendly, the content is vast, and browsers will be able to gain insight into all aspects of our business, or simply have a client services consultant contact them to answer their questions. A management tool enables us to keep the large amount of downloadable options current and a 'subscribe' option allows prospective clients to request our corporate literature on a regular basis. We look forward to your visit after the launch!

# Performance

## ALLAN GRAY LIMITED SHARE RETURNS vs FTSE/JSE ALL SHARE INDEX

Period	Allan Gray*	FTSE/JSE All Share Index	Out/(Under) Performance
1974 (from 15.6)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003 (to 30.9)	11.2	-0.9	12.1
<b>ANNUALISED TO 30.09.2003</b>			
From 1.10.2002 (1 year)	22.3	-2.0	24.3
From 1.10.2000 (3 years)	25.9	6.1	19.8
From 1.10.1998 (5 years)	39.0	15.3	23.7
From 1.10.1993 (10 years)	26.2	12.0	14.2
Since 1.1.78	30.2	20.1	10.1
Since 15.6.74	28.5	16.9	11.6
<b>AVERAGE OUTPERFORMANCE</b>			11.6
Number of years outperformed			23
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.

Note: Listed Property returns included from 1 July 2002.

An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R15 462 825 by 30 September 2003. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R966 685.



**ALLAN GRAY LIMITED PERFORMANCE PROFILE**  
Annualised performance in percent per annum to 30 September 2003

	Third quarter (not annualised)	1 year	3 years	5 years	Since inception	Assets under management R millions
<b>RETIREMENT FUNDS</b>						
<b>Global Balanced Mandate</b> Mean of Consulting Actuaries Fund Survey*	8.2 4.1	14.3 5.1	24.6 8.7	34.0 15.3	24.1 17.6	13,125.7 <sup>1</sup>
<b>Domestic Balanced Mandate</b> Mean of Alexander Forbes Domestic Manager Watch*	8.6 5.4	20.8 10.1	22.6 10.0	35.1 16.4	24.4 17.8	12,421.9 <sup>1</sup>
<b>Equity-only Mandate</b> FTSE/JSE All Share Index	10.6 7.9	19.9 -2.0	24.4 6.1	36.0 15.3	20.5 11.6	11,096.0 <sup>2</sup>
<b>Global Namibia Balanced Mandate</b> Mean of Alexander Forbes Namibia Average Manager*	7.3 4.1	15.6 5.8	24.5 8.6	32.0 14.0	20.7 11.8	1,831.4 <sup>3</sup>
<b>POOLED RETIREMENT FUNDS</b>						
<b>Allan Gray Life Global Balanced Portfolio</b> Mean of Alexander Forbes Large Manager Watch*	8.0 4.1	15.7 4.2	24.1 8.2	- -	23.9 7.6	1,586.0 <sup>4</sup>
<b>Allan Gray Life Domestic Balanced Portfolio</b> Mean of Alexander Forbes Domestic Manager Watch*	8.7 5.4	20.4 10.1	- -	- -	18.8 8.1	3,152.6 <sup>5</sup>
<b>Allan Gray Life Domestic Equity Portfolio</b> FTSE/JSE All Share Index	10.6 7.9	19.9 -2.0	- -	- -	23.4 2.9	798.0 <sup>6</sup>
<b>Allan Gray Life Domestic Absolute Portfolio</b> Mean of Alexander Forbes Domestic Manager Watch*	10.4 5.4	29.0 10.1	- -	- -	32.0 7.2	361.7 <sup>7</sup>
<b>Allan Gray Life Domestic Stable Portfolio</b> Alexander Forbes Three Month Deposit Index plus 2%	4.3 3.4	16.6 15.6	- -	- -	16.8 14.5	101.3 <sup>8</sup>
<b>RELATIVE RISK</b>						
<b>Equity-only Mandate</b> Resource adjusted FTSE/JSE All Share Index	9.6 6.9	7.3 -0.4	13.7 1.3	- -	18.8 5.5	1,911.0 <sup>9</sup>
<b>FOREIGN-ONLY (RANDS)</b>						
<b>Orbis Global Equity Fund (Rands)</b> Morgan Stanley Capital Index (Rands)	1.6 -1.9	-11.5 -16.8	11.6 -10.8	19.4 4.2	22.1 13.6	947.8 <sup>2</sup>
<b>Global Balanced Mandate (Rands) - Foreign Component</b> Mean of Consulting Actuaries Fund Survey (Rands) - Foreign Component*	2.1 -3.2	-15.1 -22.5	31.2 -0.3	26.8 8.6	20.5 12.9	2,116.8 <sup>10</sup>
<b>UNIT TRUSTS **</b>						
<b>Equity Fund (AGEF)</b> FTSE/JSE All Share Index	***	18.5 -2.0	22.7 6.1	40.2 15.3	441.0 104.2	3,456.1 <sup>11</sup>
<b>Balanced Fund (AGBF)</b> Average Prudential Fund (excl. AGBF)	***	17.1 5.1	20.9 7.0	- -	139.8 45.4	2,887.2 <sup>12</sup>
<b>Stable Fund (AGSF)</b> After-tax return of call deposits plus two percentage points	***	13.6 10.5	14.1 9.3	- -	60.1 33.4	957.4 <sup>13</sup>
<b>Money Market Fund (AGMF)</b> Domestic fixed interest money market unit trust sector (excl. AGMF)	***	12.7 13.1	- -	- -	27.4 28.3	242.5 <sup>14</sup>
<b>Global Fund of Funds (AGGF)</b> Morgan Stanley Capital International Index (Rands)	***	-11.8 -16.8	- -	- -	-25.9 -35.7	12.6 <sup>8</sup>
<b>Optimal Fund</b> Daily Call rate of Nedcor Bank Ltd	***	18.1 11.9	- -	- -	18.1 11.9	958.9 <sup>15</sup>

\* The returns for Quarter 3, 2003 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.

\*\*\* Unavailable due to ACI Regulations.

Inception Date: <sup>1</sup>1.1.78 <sup>2</sup>1.1.90 <sup>3</sup>1.1.94 <sup>4</sup>1.9.00 <sup>5</sup>1.9.01 <sup>6</sup>1.2.01 <sup>7</sup>6.7.01 <sup>8</sup>1.12.01 <sup>9</sup>19.4.00 <sup>10</sup>1.7.96 <sup>11</sup>1.10.98 <sup>12</sup>1.10.99 <sup>13</sup>1.7.00 <sup>14</sup>3.7.01 <sup>15</sup>1.10.02

Unit trusts are medium- to long-term investments. The value of 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 from the management company/scheme. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. Allan Gray Unit Trust Management Limited is a member of the ACI. Performance data is based on a lump sum investment calculated on a sell-to-basis with distributions reinvested for the Class A units. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. The source of the figures quoted is the University of Pretoria's Unit Trust Survey for the period ending 30 September 2003.

The FTSE/JSE Africa Index Series is calculated by FTSE International Limited ('FTSE') in conjunction with the JSE Securities Exchange South Africa ('JSE') in accordance with standard criteria. The FTSE/JSE Africa Index Series is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE Africa Index Series index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved.



# 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 R200 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.

## 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.

## POOLED PORTFOLIOS - LIFE COMPANY

(The minimum investment per Life Company client is R20 million.  
Institutional clients below R20 million are accommodated by our Regulation 28 Compliant Unit Trusts.)  
Characteristics and objectives of Allan Gray's Pooled Portfolios

### RISK-PROFILED PORTFOLIOS

	STABLE PORTFOLIO	BALANCED PORTFOLIO	ABSOLUTE PORTFOLIO
<b>Investor Profile</b>	<ul style="list-style-type: none"> <li>Highly risk-averse institutional investors, e.g. investors in money market funds.</li> </ul>	<ul style="list-style-type: none"> <li>Institutional investors with an average risk tolerance.</li> </ul>	<ul style="list-style-type: none"> <li>Institutional investors seeking superior absolute returns (in excess of inflation) over the long-term with a higher than average short-term risk tolerance.</li> </ul>
<b>Product Profile</b>	<ul style="list-style-type: none"> <li>Conservatively managed pooled portfolio.</li> <li>Investments selected from all asset classes.</li> <li>Shares selected with limited downside and a low correlation to the stockmarket.</li> <li>Modified duration of the bond portfolio will be conservative.</li> <li>Choice of global or domestic-only mandate.</li> </ul>	<ul style="list-style-type: none"> <li>Actively managed pooled portfolio.</li> <li>Investments selected from all asset classes.</li> <li>Represents Allan Gray's houseview for a balanced mandate.</li> <li>Choice of global or domestic-only mandate.</li> </ul>	<ul style="list-style-type: none"> <li>Aggressively managed pooled portfolio.</li> <li>Investments selected from all asset classes.</li> <li>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.</li> <li>Choice of global or domestic-only mandate.</li> </ul>
<b>Return Characteristics/ Risk of Monetary Loss</b>	<ul style="list-style-type: none"> <li>Superior returns to money market investments.</li> <li>Limited capital volatility.</li> <li>Strives for capital preservation over any two-year period.</li> </ul>	<ul style="list-style-type: none"> <li>Superior long-term returns.</li> <li>Risk will be higher than Stable Portfolio but less than the Absolute Portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>Superior absolute returns (in excess of inflation) over the long-term.</li> <li>Risk of higher short-term volatility than the Balanced Portfolio.</li> </ul>
<b>Benchmark</b>	<ul style="list-style-type: none"> <li>Alexander Forbes three-month Deposit Index plus 2%.</li> </ul>	<ul style="list-style-type: none"> <li>Mean performance of the large managers as surveyed by consulting actuaries.</li> </ul>	<ul style="list-style-type: none"> <li>Mean performance of the large managers as surveyed by consulting actuaries.</li> </ul>
<b>Fee Principles</b>	<ul style="list-style-type: none"> <li>Fixed fee, or performance fee based on outperformance of the benchmark and the sliding asset size scale.</li> </ul>	<ul style="list-style-type: none"> <li>Fixed fee, or performance fee based on outperformance of the benchmark.</li> </ul>	<ul style="list-style-type: none"> <li>Performance fee based on outperformance of the benchmark, 0.5% p.a. plus (or minus) 25% of the out/underperformance of the portfolio relative to the benchmark, subject to an overall minimum of 0% p.a.</li> </ul>

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

## ASSET CLASS PORTFOLIOS

	MONEY MARKET	BOND MARKET	LISTED PROPERTY	EQUITY	FOREIGN
<b>Investor Profile</b>	<ul style="list-style-type: none"> <li>Institutional investors requiring management of a specific money market portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>Institutional investors requiring management of a specific bond market portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>Institutional investors requiring management of a specific listed property portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>Institutional investors requiring management of a specific equity portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>Institutional investors requiring management of a specific foreign portfolio.</li> </ul>
<b>Product Profile</b>	<ul style="list-style-type: none"> <li>Actively managed pooled portfolio.</li> <li>Investment risk is managed using modified duration and term to maturity of the instruments in the portfolio.</li> <li>Credit risk is controlled by limiting the exposure to individual institutions and investments.</li> </ul>	<ul style="list-style-type: none"> <li>Actively managed pooled portfolio.</li> <li>Modified duration will vary according to interest rate outlook and is not restricted.</li> <li>Credit risk is controlled by limiting the exposure to individual institutions and investments.</li> </ul>	<ul style="list-style-type: none"> <li>Actively managed pooled portfolio.</li> <li>Portfolio risk is controlled by limiting the exposure to individual counters.</li> </ul>	<ul style="list-style-type: none"> <li>Actively managed pooled portfolio.</li> <li>Represents Allan Gray's houseview for a specialist equity-only mandate.</li> <li>Portfolio risk is controlled by limiting the exposure to individual counters.</li> </ul>	<ul style="list-style-type: none"> <li>Actively managed pooled portfolio.</li> <li>Investments are made in equity and absolute return foreign mutual funds managed by Orbis.</li> <li>Represents Allan Gray's houseview for a foreign balanced mandate.</li> </ul>
<b>Return Characteristics/ Risk of Monetary Loss</b>	<ul style="list-style-type: none"> <li>Superior returns to the Alexander Forbes three-month Deposit Index.</li> <li>Low capital risk.</li> <li>High flexibility.</li> <li>Capital preservation.</li> <li>High level of income.</li> </ul>	<ul style="list-style-type: none"> <li>Superior returns to that of the JSE All Bond Index plus coupon payments.</li> <li>Risk will be higher than the Money Market Portfolio but less than the Equity Portfolio.</li> <li>High level of income.</li> </ul>	<ul style="list-style-type: none"> <li>Superior returns to that of the Alexander Forbes Listed Property Index (adjusted).</li> <li>Risk will be no greater than that of the benchmark and will be lower than the Equity Portfolio.</li> <li>High level of income.</li> </ul>	<ul style="list-style-type: none"> <li>Superior returns to that of the JSE All Share Index including dividends.</li> <li>Risk will be no greater than that of the benchmark.</li> <li>Higher than average returns at no greater than average risk for an equity portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>Superior returns to that of the benchmark at no greater than average absolute risk of loss.</li> </ul>
<b>Benchmark</b>	<ul style="list-style-type: none"> <li>Alexander Forbes three-month Deposit Index.</li> </ul>	<ul style="list-style-type: none"> <li>JSE All Bond Index plus coupon payments.</li> </ul>	<ul style="list-style-type: none"> <li>Alexander Forbes Listed Property Index (adjusted).</li> </ul>	<ul style="list-style-type: none"> <li>JSE All Share Index including dividends.</li> </ul>	<ul style="list-style-type: none"> <li>60% Morgan Stanley Capital International Index, 40% JP Morgan Global Government Bond Index.</li> </ul>
<b>Fee Principles</b>	<ul style="list-style-type: none"> <li>Fixed fee of 0.2% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>Fixed fee of 0.35% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>Fixed fee of 0.75% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>Performance fee based on outperformance of the benchmark.</li> </ul>	<ul style="list-style-type: none"> <li>No fee charged by Allan Gray. Unit prices of underlying mutual funds reflected net of performance fees charged by foreign manager.</li> </ul>

**Note** The above asset class portfolios comply with the asset class requirements of Regulation 28 of the Pension Funds Act.

## OTHER PORTFOLIOS

## OPTIMAL PORTFOLIO

<b>Investor Profile</b>	<ul style="list-style-type: none"> <li>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.</li> <li>Institutional investors with a high aversion to the risk of capital loss.</li> </ul>
<b>Product Profile</b>	<ul style="list-style-type: none"> <li>Seeks absolute returns.</li> <li>Actively managed pooled portfolio consisting of shares and derivative instruments.</li> <li>Shares selected that offer superior fundamental value.</li> <li>Risk of shares underperforming the market is carefully managed.</li> <li>Stockmarket risk reduced by using derivative instruments.</li> </ul>
<b>Return Characteristics/ Risk of Monetary Loss</b>	<ul style="list-style-type: none"> <li>Superior returns to bank deposits.</li> <li>Little or no correlation to stock or bond markets.</li> <li>Low risk of capital loss.</li> <li>Low level of income.</li> </ul>
<b>Benchmark</b>	<ul style="list-style-type: none"> <li>Daily call rate of Nedcor Bank Limited.</li> </ul>
<b>Fee Principles</b>	<ul style="list-style-type: none"> <li>Fixed fee of 0.5% plus 20% of the outperformance of the benchmark.</li> </ul>

# Products (continued)

POOLED PORTFOLIOS - INTERNATIONAL		
	ORBIS GLOBAL EQUITY FUND	ORBIS OPTIMAL US\$ FUND
<b>Type of Fund</b>	U.S. dollar denominated Equity Fund which remains fully invested in global equities.	U.S dollar denominated Fund, which invests in selected Orbis Equity Funds, by seeking absolute (i.e. positive) returns regardless of stockmarket trends.
<b>Investment objective</b>	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.	This Fund seeks capital appreciation in its base currency, the US dollar, while offering a low risk global portfolio. The risk of loss of the Fund is reduced with stockmarket hedging. The Fund's currency benchmark is 100% US dollars.
<b>Structure</b>	Open-ended Bermuda mutual fund company (similar to unit trusts in South Africa).	Open-ended Bermuda mutual fund company (similar to unit trusts in South Africa).
<b>Dealing costs</b>	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.	None. No front or back end load. No bid to offer spread.
<b>Manager's fee</b>	0.5% - 2.5% per annum depending on performance.	0.5% - 2.5% per annum depending on performance.
<b>Subscriptions/redemptions</b>	Weekly each Thursday.	Weekly each Thursday
<b>Reporting</b>	Comprehensive reports are distributed to members each quarter.	Comprehensive reports are distributed to members each quarter
<b>Client Service Centre</b>	Allan Gray Client Service Desk on 0860 000 654.	Allan Gray Client Service Desk on 0860 000 654

INDIVIDUAL RETIREMENT PRODUCTS			
	RETIREMENT ANNUITY	PENSION OR PROVIDENT PRESERVATION FUND	LIVING ANNUITY*
<b>Description</b>	<ul style="list-style-type: none"> <li>Enables saving for retirement with pre-tax money.</li> <li>Contributions can be at regular intervals or as single lump sums</li> <li>Ideal for the self-employed or employees who want to make additional contributions to an approved retirement vehicle.</li> </ul>	<ul style="list-style-type: none"> <li>Preserves the pre-tax status of a cash lump sum that becomes payable from a pension (or provident) fund at termination of employment.</li> <li>A single cash withdrawal can be made from the Preservation Fund prior to retirement.</li> </ul>	<ul style="list-style-type: none"> <li>Provides a regular income from the investment proceeds of a cash lump sum that becomes available as a pension benefit at retirement.</li> <li>A regular income of between 5% and 20% per year of the value of the lump sum can be selected.</li> <li>Ownership of the annuity goes to the investor's beneficiaries on his/her death.</li> </ul>
<b>Investment Options</b> The contribution(s) to any one of these products can be invested in any combination of Allan Gray unit trust funds as indicated.	<ul style="list-style-type: none"> <li>Allan Gray Equity Fund</li> <li>Allan Gray Balanced Fund</li> <li>Allan Gray Stable Fund</li> <li>Allan Gray Optimal Fund</li> <li>Allan Gray Money Market Fund</li> <li>Allan Gray Global Fund of Funds</li> </ul>	<ul style="list-style-type: none"> <li>Allan Gray Equity Fund</li> <li>Allan Gray Balanced Fund</li> <li>Allan Gray Stable Fund</li> <li>Allan Gray Optimal Fund</li> <li>Allan Gray Money Market Fund</li> <li>Allan Gray Global Fund of Funds</li> </ul>	<ul style="list-style-type: none"> <li>Allan Gray Equity Fund</li> <li>Allan Gray Balanced Fund</li> <li>Allan Gray Stable Fund</li> <li>Allan Gray Optimal Fund</li> <li>Allan Gray Money Market Fund</li> <li>Allan Gray Global Fund of Funds</li> </ul>
<b>Minimum Investment Size</b>	R50 000 lump sum R 1 500 monthly	R 100 000	R 250 000
<b>Initial Fee</b>	None	None	None
<b>Annual Administration Fee</b>	0.4% (VAT included)	0.4% (VAT included)	0.4% (VAT included)
<b>Investment Management Fee**</b>	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.
<b>Switching Fee</b>	0.12% (VAT included)	0.12% (VAT included)	0.12% (VAT included)
<b>Financial Adviser Fees (if applicable)</b>	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%

\* Allan Gray Living Annuity is underwritten by Allan Gray Life Limited.

\*\* For annual investment management fees of Allan Gray unit trusts, please refer to page 5 of the unit trust application form, which can be downloaded from the website [www.allangray.co.za](http://www.allangray.co.za)

## DISCRETIONARY PRODUCTS - RETAIL

## ENDOWMENT POLICY

Description	<ul style="list-style-type: none"> <li>An investment policy ideally suited to investors with medium- to long-term investment objectives who want capital growth with after-tax returns.</li> <li>Ideal for investors interested in a 5-year savings plan.</li> </ul>	
Investment Options	<ul style="list-style-type: none"> <li>Allan Gray Equity Fund</li> <li>Allan Gray Balanced Fund</li> <li>Allan Gray Stable Fund</li> <li>Allan Gray Optimal Fund</li> <li>Allan Gray Money Market Fund</li> <li>Allan Gray Global Fund of Funds</li> </ul>	
Minimum Investment Size	R50 000 lump sum R 1 500 monthly recurring investment	
Initial Fee	None	
Annual Administration Fee	0.4% (VAT Included)	
Investment Management Fee	Depends on the combination of unit trusts selected as investment options.	
Switching Fee	0.12% (VAT included)	
Financial Adviser Fees (if applicable)	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5%	Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%

## UNIT TRUSTS

	EQUITY FUND	BALANCED FUND	STABLE FUND	OPTIMAL FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS
Benchmark	FTSE/JSE All Share Index including income.	The average (market value-weighted) of the Domestic Prudential Unit Trust Sector excluding the Allan Gray Balanced Fund.	After tax return of call deposits with one of the large banks plus two percentage points.	The daily call rate of Firststrand Bank Limited.	The simple average of the Domestic Fixed Interest Money Market Unit Trust sector excluding Allan Gray Money Market Fund.	Morgan Stanley Capital International World Index.
Maximum equity exposure	100%	75%	60%	15%	0%	100%
Portfolio orientation	A 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.	A portfolio of carefully selected equities. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.	Invested in selected money market instruments providing a high income yield.	Invested in the Orbis funds and the Allan Gray Money Market Fund. The Fund will always hold 85% offshore.
Return objectives	Superior long-term returns.	Superior long-term returns.	Superior after-tax returns to bank deposits.	Superior returns to bank deposits.	Superior money market returns.	Superior long-term returns.
Risk of monetary loss	Risk higher than Balanced Fund but less than average General Equity Fund due to low risk investment style.	Risk will be higher than the Stable Fund but less than the Equity Fund.	<ul style="list-style-type: none"> <li>Limited capital volatility.</li> <li>Seeks to preserve capital over any two-year period.</li> </ul>	<ul style="list-style-type: none"> <li>Low risk.</li> <li>Little or no correlation to stock or bond markets.</li> </ul>	<ul style="list-style-type: none"> <li>Low risk.</li> <li>High degree of capital stability.</li> </ul>	Risk higher than Balanced Fund but less than average foreign fund.
Target market	Investors seeking long-term wealth-creation who have delegated the equity selection function to Allan Gray.	Investors seeking long-term wealth-creation who have delegated the asset allocation decision to Allan Gray.	Risk-averse investors eg. investors in bank deposits or money market funds.	<ul style="list-style-type: none"> <li>Risk averse investors.</li> <li>Retired investors.</li> <li>Investors who wish to diversify a portfolio of equities or bonds.</li> <li>Retirement schemes and Multi-Managers who wish to add a product with an alternative investment strategy to their overall portfolio.</li> <li>Individuals who have lump sum contractual savings (like Living Annuities, Preservation Funds, and Retirement Annuities).</li> </ul>	<ul style="list-style-type: none"> <li>Highly risk-averse investors.</li> <li>Investors seeking a short-term parking place for their funds.</li> </ul>	<ul style="list-style-type: none"> <li>Investors seeking to invest locally in Rands and benefit from offshore exposure.</li> <li>wanting to gain exposure to markets and industries that are not available locally.</li> <li>who desire to hedge their investments against any Rand depreciation.</li> </ul>
Income	Lowest income yield in the Allan Gray suite of funds.	Average income yield in the Allan Gray suite of funds.	Higher income yield than the Allan Gray Balanced Fund.	Low income yield.	Highest income yield in the Allan Gray suite of funds.	Low income yield.
Income distribution	Distributed bi-annually.	Distributed bi-annually.	Distributed quarterly.	Distributed bi-annually.	Distributed monthly.	None.
Compliance with Pension Fund Investment Regulations	Does not comply.	Complies.	Complies.	Does not comply.	Complies.	Does not comply.
Pricing	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.	Prices are calculated on a net asset value basis.
Fee principles	Performance-fee orientated to outperformance of the FTSE/JSE All Share Index.	Performance-fee orientated to outperformance of the average Prudential Sector Fund.	Performance-fee orientated to outperformance of taxed bank deposits. No fees if there is a negative return experienced over a two-year rolling period.	Fixed fee of 1.0% (excl VAT) per annum. Performance-fee of 20% of the daily outperformance of the benchmark. In times of underperformance no performance fees are charged until the underperformance is recovered.	Fixed fee of 0.5% (excluding VAT) per annum.	Fixed fee of 1.25% (excluding VAT) per annum. The underlying funds also have their own fee structure.
Minimum lump sum investment requirement	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.	R50 000 lump sum and/or R5 000 per month debit order.	R25 000 lump sum. No debit orders are permitted.
Portfolio Manager	Stephen Mildenhall	Arjen Lugtenburg	Stephen Mildenhall	Stephen Mildenhall	Michael Moyle	Stephen Mildenhall