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Quarterly Commentary

31 March 2004

ALLANGRAY

LONG TERM INVESTMENT MANAGEMENT

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Front cover: Some of the people that contributed to this issue are, from left to right: Johan de Lange, Zola Lupondwana and Michael Moyle.

ALLAN GRAY

LONG TERM INVESTMENT MANAGEMENT

Greg Fury
Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer

Over the past 12 months global and South African stockmarkets have staged a remarkable recovery, with the JSE rising 44% in rand terms and the FTSE World Index 43% in dollar terms. As a result investors have benefited almost irrespective of where they have been invested. Moreover one of the features of current world equity markets, (including South Africa), is that there is much less disparity of valuation within markets. Therefore not only do markets offer less value overall than they did 12 months ago, but the opportunities for finding relative value within markets that existed over the past several years is somewhat diminished.

This is the focus of Jack Mitchell's article in 'Investment Perspective' where he provides some insight into an investment outlook for 2004 by looking at the international and local stockmarkets. Jack shows, by way of an analysis of the US market since 1925, that current fiscal and monetary stimuli have resulted in a classic bear market rally and that the long-term outlook is likely to be a continuation of the secular bear trend. In our view, the US market trades well above fundamental value and therefore investment risks will far outweigh the rewards as 2004 unfolds. Our optimism regarding the long-term outlook for South Africa is therefore tempered by the global picture, which presents a negative background for the South African stockmarket.

Investment Commentary
Sandy McGregor discusses the nature of gold as an asset through its long history as both a commodity and currency. He explains why, in addition to our positive outlook on gold as a commodity based on supply and demand fundamentals, we are also positive on gold given its use as a currency. Gold is once again fulfilling a monetary role as confidence in the dollar is being eroded by the United States' large accumulated deficits. This increases concerns about the future of the existing economic order, but helps explain why our portfolios are currently overweight gold shares.

Offshore Update
Allan Gray and its global asset management partner, Orbis, have always focused on long-term investing. Rob Dower defines how long 'long-term' actually is and stresses the importance of picking a manager based on the performance track record through several market cycles rather than just the most recent one.

Institutional Update
Michael Moyle discusses investment risk and draws the important distinction of absolute risk (risk of loss) versus relative risk (risk of being different). He provides an update on the successful relative risk portfolio. In a second article in this section, Zola Lupondwana considers the key considerations in appointing a fund manager.

Retail Update
Johan de Lange cautions prospective investors in the Balanced Fund that wealth creation can carry a price in terms of volatility of returns. While volatility is much reduced by the inclusion of asset classes other than equity in balanced mandates, the degree of equity exposure in the Balanced Fund means that this volatility cannot be eliminated. Therefore, investors choosing the Balanced Fund should do so with an investment horizon of at least three years as the risk of loss or poor returns is much reduced by extending one's investment horizon.

Investment Performance
In the light of the strong market performance and the application of our skills, our clients have enjoyed exceptional returns over the past 12 months. Not only have markets delivered strong performance, but each of our funds and client composites has outperformed its respective benchmark. We remain positive that South African and selected global markets continue to offer reasonable long-term prospects and are confident that we will continue to add value through the disciplined application of our investment philosophy. We do however caution our clients to have expectations of absolute returns somewhat lower than have been experienced over the past year. Moreover, while value dispersion remains low, investors should expect relative returns somewhat lower than those our clients have enjoyed over the past five years where markets were very volatile and offered exceptional opportunities for skilled stockpickers.

And finally, about two years ago we informed our clients that our chairman Simon Marais was relocating to join our global asset management partner, Orbis, in London. Despite his move, Simon has remained closely involved in Allan Gray, serving as our non-executive chairman. As of early next year he and his family will be moving again, this time to Sydney where he will start a subsidiary of Orbis managing Australian investments. Simon will continue as non-executive chairman of Allan Gray Limited and will remain a significant shareholder of our company with close and ongoing involvement with this office. Moreover, as part of the Orbis group, Simon will continue to contribute to the Orbis team in London and Bermuda.

Kind regards

Greg Fury

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

Investment Perspective

Investment outlook for 2004

International Stockmarkets

International stockmarkets peaked some four years ago. Subsequently, a strong downtrend took hold, especially in Euroland markets. This initial period of weakness persisted into 2003. More recently a sizeable rally, fuelled by concerted monetary and fiscal stimulus, developed and remains in force at 13 February 2004.

Our perspective is simply as follows:

1. Historically, once a secular bull market is broken (flagged by number 1 on the graph), the subsequent consolidation or bear phase is a long and arduous process.
2. Within these extended bear markets, large but unsustainable rallies invariably occur (indicated by the circles on the graph), leading to the perception that the bull market has returned.
3. Eventually the speculative fever is washed out of the market with shares returning to at least average historical ratings. Unpleasantly, bear markets invariably terminate with share levels well below 'average values' as investors become increasingly despondent (indicated by number 3 at the low points on the graph).
4. Typical bear phases last 25 years before the stockmarket makes new real highs (time length indicated by the horizontal arrows on the graph).

See the **Graph** on the opposite page for an illustration of the above points in relation to the US market.

Given the ongoing commitment of international monetary authorities to keep interest rates at record lows and economies on growth paths, the impetus could remain squarely behind share prices well into 2004. As pointed out previously, these economic stimuli also provide a favourable background for metal prices. This could continue to benefit South African terms of trade, thereby maintaining Rand strength for longer than generally anticipated.

However, while the re-emergent strength in share prices still possesses scope, it appears to carry the hallmark of a bear market rally.

We say this because:

- Share values, particularly in the United States, are poor.
- The US trade and budget deficits are spiralling out of control and have to be reined in or generate an even larger eventual problem. When this occurs, world economic growth will suffer.
- Excessive economic stimulation will lead to inflation, which is already evident in commodity prices. As a result, interest rates are likely to rise in the years ahead.
- Investor sentiment is too bullish. Liquidity levels in equity funds are very low, suggesting that a significant slice of available capital has already been invested.
- Corporate activity and share issues are hotting-up again as investment speculation resumes.

In summary, we believe investment risks far outweigh the rewards as 2004 progresses. This in itself presents a negative background for our own stockmarket, which is remarked upon below.

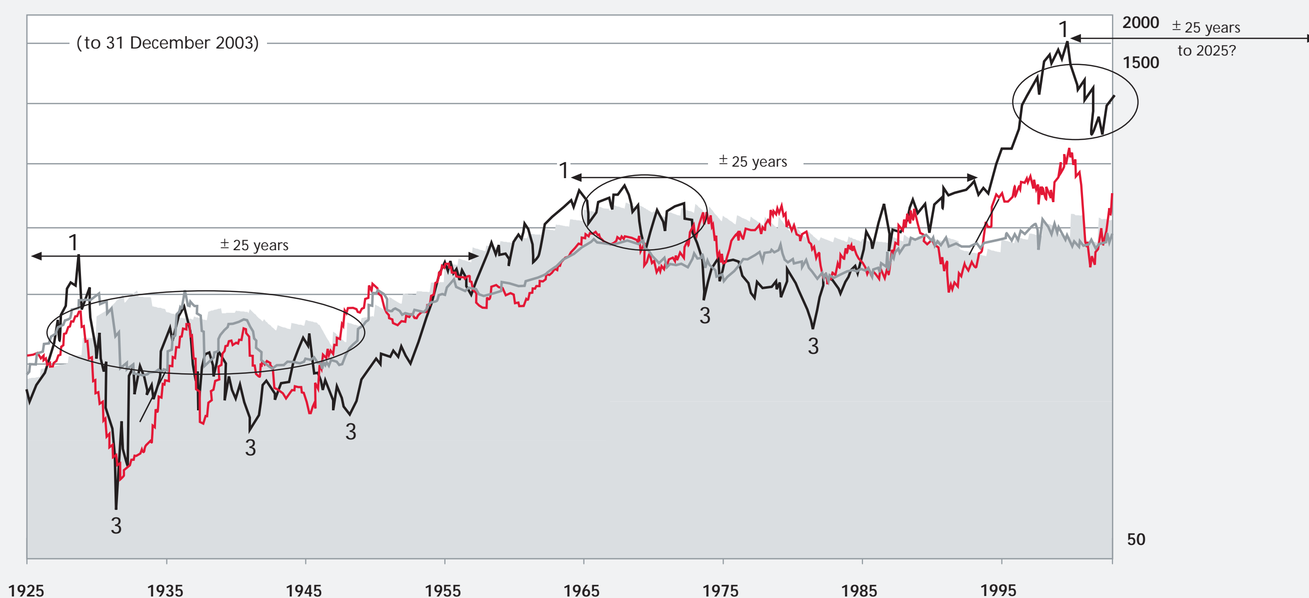
South African Stockmarket

South African shares as represented by the FTSE/JSE All Share Index have risen by 50% since April 2003. In US$ terms, the appreciation has been even larger. Clearly, our shares are significantly more expensive than they were last year. Accordingly, the expected share return from this point is much reduced.

What return from shares should we expect in the years ahead? Using the simple formula: initial yield + growth = total return, and solving the subcategories, the return should be as follows:

		Per annum	Justification
Initial yield	=	3,0 percent	Dividend yield on ALSI as at 13 February 2004
Real growth	=	1,5 percent	Historical real dividend growth (1960-2003)
Expected Inflation	=	5,3 percent	RSA long bond minus inflation linked bond
Generating a total return	=	9,8 percent	

S&P 500 Index and Fundamentals (Real Dollars)



S&P data source: Ned Davis Research Inc

S&P 500 price index - inflation adjusted

The level of the index if trading at an:

Average dividend yield of 4.2%

Average earnings yield of 7.4%; PE of 13.5x

Average price to book value of 1.9x

1 Secular bull market endings

Bear market rallies

3 Index trades well below known values

± 25-year recovery period

While at first glance the anticipated return might seem disappointing, note that, after inflation (5,3 percent), the real return is a handsome 4,5 percent per annum.

Given that the value discrepancies in our market have narrowed significantly in recent times, we would expect a reduction in our relative outperformance. Should we achieve (say) half of our historical annual outperformance in the years ahead, projected real performance will be around 10% per annum. At this rate, one's real wealth doubles every 7,4 years which is not at all 'shabby'.

Compounding real returns remains the solid path to wealth creation.

Sandy McGregor
Director, Allan Gray Limited
Fixed Interest and Private Client Portfolio Manager, Commodity Analyst

Investment Commentary

Focusing on gold

Executive Summary

In its long history, gold has gone from being a commodity for making jewellery to a currency and then, in the aftermath of the inflation shock of the 1970's, reverting largely to a commodity again. Now, it is back in a monetary role as confidence in the dollar is being eroded by the United States' huge accumulated deficit. As this article points out, the rising price of gold reflects increasing concerns about the future of the existing economic order.

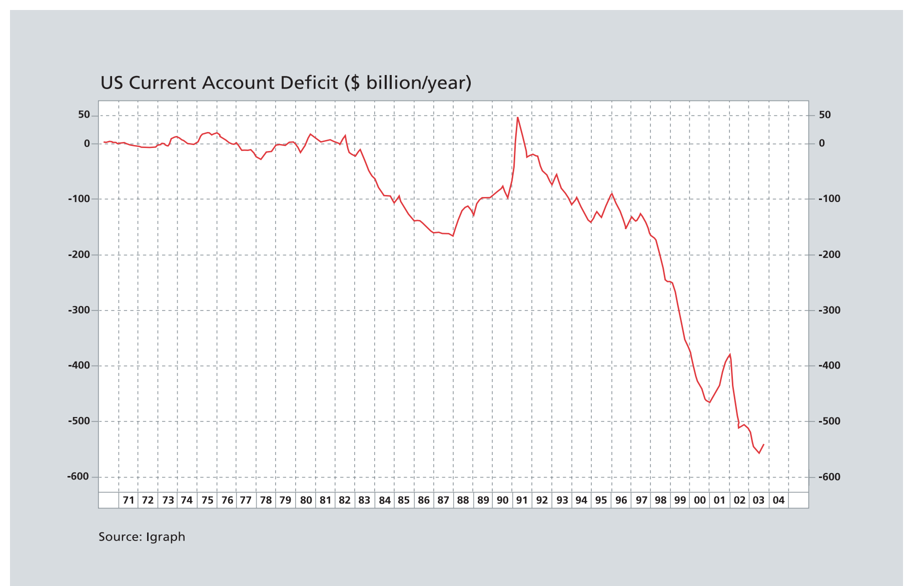
Gold is an unusual asset, having the characteristics of both a commodity and a currency. From the very earliest times, people have used gold to make jewellery and when trade developed, gold became money.

"...gold remains deeply embedded in the human psyche..."

With the development of paper money and the modern banking system, gold's monetary role was largely eliminated, which is why John Maynard Keynes could dismiss it as a barbarous relic. However, despite such derision from the intelligentsia, gold remains deeply embedded in the human psyche and prized by ordinary men and women. There is a sense that ownership of gold bestows security. For women in particular, in countries where women's property rights are not strong, gold jewellery often represents the one asset they can truly call their own.

Prior to 1971, gold was central to the international monetary system. The dollar was exchangeable into gold at a price of $35/ounce and central banks held a large proportion of their foreign reserves in bullion. This system collapsed because investors came to distrust the dollar. Faced with the prospect that they would not be able to meet the demand for gold at $35/oz, central banks had to make the choice of either increasing the official price or demonetising gold altogether. They chose the latter. However, this did not stop gold reaching very high prices during the 1970s, and a peak of $800 in 1980, as investors continued to buy it as a store of value in a world plagued by inflation and political disorder.

In the early 1980s, a new economic paradigm emerged allowing markets to operate more freely, and there was a more prudent conduct of monetary policy.



As a result, inflation was largely eliminated and trust in currencies was restored. Gold reverted to being purely a commodity consumed mainly in jewellery. The central banks, which have a big inventory of gold as a legacy of the fixed exchange rate regime, became major sellers because they no longer regarded the metal as serving any useful purpose. By 1999, continual official selling had had the effect of pushing the price so low that it was no longer possible to develop new gold mines profitably. As is usual in such situations, the market started to correct this mispricing. Under the Washington agreement, European central banks agreed to co-ordinate their sales and gold has been on an upward trend ever since.

Initially the rise in the price was caused by the response of mining companies to the central bank gold agreement. During what seemed to be a perpetual bear market, many producers entered contracts to sell future production, locking in the prevailing price. As it became clear that the bear market was over, pressure from shareholders forced companies to review their marketing strategies. They stopped selling gold forward and embarked on programmes to reduce their hedge books. Whereas previously they were increasing gold supply by bringing forward the sale of future production, now supply contracted as short positions were reduced. Gold responded as any commodity would. Prices increased, reaching $320 by the end of 2002.

" Some people are again buying gold as a store of value."

However, over the past year a new development has totally changed the character of the gold market. There has been renewed interest in gold as a store of value and as a hedge against financial instability. The gold price is no longer driven by the demand for jewellery. Rather it is being determined by speculators and investors who are increasingly worried about the dollar. In many respects, we are back to where we were in the early 1970s. The similarities are uncanny - poorly conducted monetary policy, a crisis in the Middle East, an American president who does not command confidence outside the United States and the emergence of a new economic power in Asia (then Japan, now China).

Confidence in the dollar is being eroded by the United States' huge current account deficit, currently $550 billion annually (see **Graph**). The US has had an adverse balance of payments for the past 22 years, but up to now has been able to finance it by attracting investment funds from the rest of the world. This is becoming more difficult both because the deficit is now so large and because the focus of private sector investment is increasingly on Asia.

Normally, if markets were allowed to operate freely, this would not be a problem. The Asian currencies would rise to a level that restores an equilibrium of trade and capital flows. This is not happening because Asian central banks have been intervening massively to keep their currencies pegged against the dollar. Policy makers are preventing markets from efficiently pricing the exchange rate of the dollar. Where is this going to end? The simple answer is that no one knows. The scale of the imbalance between the US and the rest of the world is huge and the longer intervention prevents necessary adjustments, the greater the dislocation will be when the inevitable correction occurs.

In the face of these uncertainties, some people are again buying gold as a store of value. They do not know what is going to happen but sense great dangers ahead. Some remember that it took more than a decade to correct the policy mistakes of the 1960s. The rising price of gold reflects increasing concerns about the future of the existing economic order.

Rob Dower
Foreign Investments

Offshore Update

How long is long-term?

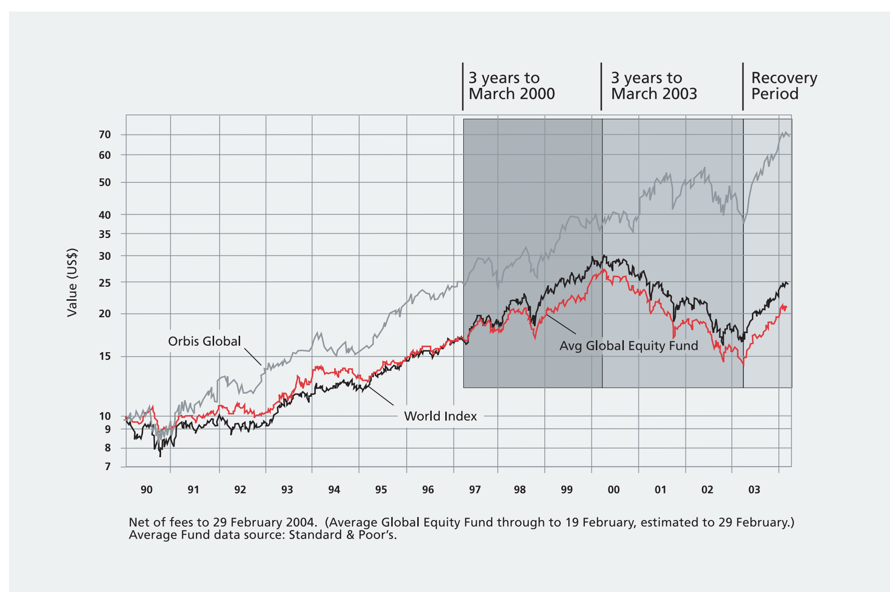
Executive Summary

Do three or even five years represent a sufficiently long-term commitment to an equity fund investment or to a fund manager to be sure of obtaining the appropriate benefit? This article points out that it is difficult to tell what approach the market will favour most in the future. It makes sense therefore to choose a manager or a fund on the basis of performance in different market conditions rather than just the most recent few years. That opportunity exists right now for investors in international equities as they can base their choice on information that includes both 'market peaks' and ' corrections'.

Investment surveys frequently use three to five year returns to compare funds and fund manager performance. Returns over periods longer than five years are hard to come by. In fact, some argue that returns measured over more than five years do not reflect the performance of the most recent manager of a fund or of changes in approach or process. But do three-year or even five-year returns cover a sufficiently long period to judge an equity fund manager's investment approach or the ability to implement it?

Turnover figures from the South African Association of Collective Investments for the last five years show an average churn of between 25% and 50%, implying that the average investor holds the average unit trust for between two and four years. This is dramatically more long-term than the average US mutual fund investor, for instance, who holds the average fund for only 11 months. But do three or even four years represent a sufficiently long-term commitment to an equity fund investment or to a fund manager to be sure of benefiting from the manager's approach or ability to implement it?

It is extremely hard to pick an investment manager. Regardless of skill in execution, the markets tend to favour different investment approaches over different short-run periods. Anyone can tell quite easily what would have been the best time to switch between approaches and managers in the past. The problem is that it is quite difficult to tell what approach the market will favour most in the immediate future. As a result, it makes sense to choose a manager or a fund on the basis of performance through market cycles, not only in the most recent market environment.



Net of fees to 29 February 2004. (Average Global Equity Fund through to 19 February, estimated to 29 February.)
Average Fund data source: Standard & Poor's.

This is easier said than done. The bull market that lasted until March 2000 had been going for 18 years in the US, meaning that a view through cycles would need to have included more than 20 years of history in a fund. Most funds don't survive that long and, of those that do, most change managers several times.

"...choose a manager or a fund on the basis of performance through market cycles, not only in the most recent cycle."

As it happens, however, the current generation of international investors is fortunate enough (or perhaps unfortunate) to have seen at least three distinctly different market characters in the last few years driving world stockmarkets. (These are described in **Figure 1** below.)

As a simple example, **Table 1** is a summary of expected investment performance arising from an approach to investing developed by Ben Graham and David Dodd at Columbia University in New York in the 1950s. Graham and Dodd's approach is simple and well known: use fundamental research to identify and buy shares at less than the estimated fair value of the business to a long-term investor, and to sell these shares when they are priced at, or slightly above, estimated fair value. This is also the approach used by the Orbis and Allan Gray investment teams.

Table 1: Recent expected results for a 'Graham & Dodd' Investor

Period	Likely returns	Risk of Loss
Market Peak	Lower than average: avoids investing in high priced stocks	Lower than average: avoids investing in high priced stocks
Correction	Much higher than average: already invested in 'defensive' stocks	Lower than average: avoids investing in high priced stocks
Recovery	Higher than average: by now, already invested in (out-of-favour) 'growth' stocks	Lower than average: avoids investing in high priced stocks

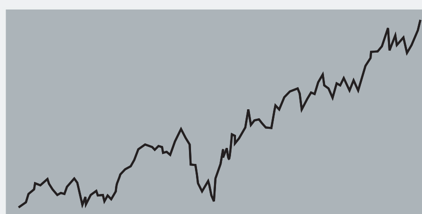
In general, Graham and Dodd's approach minimises risk of loss across market conditions by not investing in more expensive shares. Likely returns from the approach, on the other hand, do depend to some extent on the stockmarket environment. In particular, 'Graham and Dodd' managers tend to underperform in markets reaching irrational peaks, as was the case in global markets in the period running up to March 2000. The question is whether these managers outperform enough in other conditions to compensate for this, or whether the combined impact over different conditions is negative. Further, a rational investor seeking to make an informed choice of fund manager, being unable to predict how the market will behave in the future, would need to examine risk and performance not just over a certain number of years but over a time period that includes a variety of market conditions.

The great opportunity facing investors in international equity funds at this time is that they have recent history that includes a variety of market conditions on which to base their choice of Fund or Manager.

Figure 1: Performance of FTSE World Equity Index since March 1997

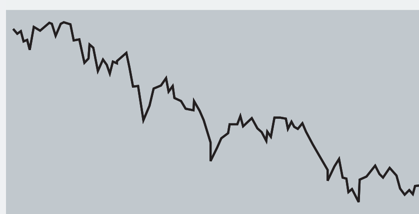
March 1997 to March 2000: Market Peak

During the three years up to March 2000, global markets became increasingly speculative in nature. Many of the shares that drove the increase in markets were priced at very high multiples of their fundamentals, and these shares made up a large portion of the overall capitalization of developed markets. 'Old fashioned' companies (really those without a strong connection to the Internet), and even high quality businesses were down-rated, seemingly without reference to their fundamentals or business performance.



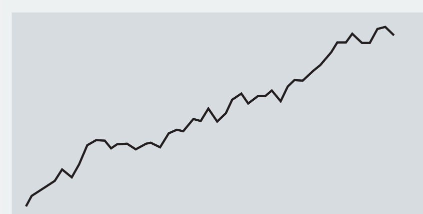
March 2000 to March 2003: Correction

In the three years following the March 2000 high, in the same way that they had outperformed all other stocks before, the technology stocks lost all but a fraction of their market value. At the same time, the cheap, old-fashioned companies retained, and in many cases increased, market value as they returned to favour.



March 2003 to March 2004: Recovery

By the beginning of March 2003, as the US prepared to invade Iraq, the S&P500 Index traded almost 50% down from its heights of three years before. Many of the cheapest stocks were technology and telecomms shares that had driven the peak of the market three years before, now priced very cheaply. During this latest 12-month period, although the whole market has risen dramatically, these shares have risen much more.



Michael Moyle
Manager of Portfolio Construction and Risk Management

Institutional Update

Investment risk: absolute and relative

Investment risk is a term often mentioned, but when discussed in general, often misunderstood. This article attempts to explain the terminology and the circumstances under which investors should focus on absolute or relative risk. Historical returns may be calculated with certainty, but expected returns are uncertain. Investment risk attempts to quantify the uncertainty in expected returns, but is forced to rely upon historical data for guidance.

Absolute risk refers to the risk of losing money while relative risk is the risk of performing differently from a benchmark, such as an index or the average investment manager. Absolute returns are simply the returns earned by the portfolio, while relative returns are the portfolio's returns relative to a benchmark, also known as *alpha*.

A common measure of risk is the volatility of returns, which is calculated by taking the standard deviation of the returns. This calculation may be performed on absolute returns, in which case it measures absolute risk, or it may be based on relative returns in which case it represents relative risk, also known as *tracking error*. The volatility may be combined with returns to produce risk-adjusted returns. The *efficiency* of a portfolio is defined as the absolute return of the portfolio divided by the standard deviation of the returns. The *information ratio* is found by dividing the *alpha* of the portfolio by its *tracking error*.

Allan Gray's traditional philosophy and process focus on absolute risk. The portfolio manager begins with a blank sheet and constructs a portfolio containing the most attractive investments. Absolute maximum limits on the sizes of the holdings control absolute risk.

More recently, Allan Gray launched a relative risk portfolio management service. The starting point for portfolios managed by using this process is the portfolio's benchmark. The portfolio manager then overweights attractive investments and underweights unattractive investments to arrive at a portfolio. Maximum and minimum limits relative to the benchmark are applied so as to limit the risk relative to the benchmark. The same fundamental research into each investment takes place in both processes. The difference occurs at the portfolio construction and risk management levels.

The table below shows historical return and risk statistics for a composite consisting of portfolios managed by Allan Gray under domestic equity mandates with a focus on absolute risk and another composite consisting of portfolios managed under domestic equity relative risk mandates. The types of risk and risk measures discussed above apply to portfolios consisting of any asset class combinations. However, the statistics in the table are for equity-only portfolios.

This table illustrates how the two different processes result in different risk/return characteristics for the two portfolios. The absolute risk portfolio has the lowest absolute risk and the highest risk-adjusted absolute return compared to the other two portfolios. It is interesting to note that the relative risk portfolio has lower absolute risk than the benchmark despite its focus on relative risk. Despite having a lower absolute return and hence a lower alpha than the absolute risk portfolio, the relative risk portfolio has a much higher information ratio than the absolute risk portfolio, due to its significantly lower tracking error. These statistics show that the two processes are resulting in the desired portfolio performance characteristics.

Investors who are primarily concerned about the risk of losing money and who think in an absolute return framework would prefer the absolute risk portfolio. On the other hand, investors who are more concerned about the risk of performing differently from a benchmark would prefer the relative risk portfolio with its higher information ratio, but lower absolute return.

Performance statistics for the period from 19 April 2000 to 31 March 2004

	Absolute Risk Portfolio	Relative Risk Portfolio	Benchmark Portfolio*
Return (annualised)	30.7%	22.5%	10.5%
Absolute risk (annualised)	13.9%	17.4%	19.1%
Return per unit risk (efficiency)	2.2	1.3	0.5
Alpha	20.2%	12.0%	
Tracking error (annualised)	10.4%	3.8%	
Alpha per unit risk (information ratio)	1.9	3.2	

*The benchmark portfolio is a typical downweighted resources index.

Zola Lupondwana
Manager of Institutional Client Services and Business Development

Key considerations in appointing a fund manager

Executive Summary

This article highlights the characteristics on which retirement fund trustees should focus in appointing fund managers. The critical issue is for trustees and the fund manager to agree upfront on an appropriate benchmark which takes particular account of risk and return.

The decision as to which fund manager(s) to appoint remains one of the most important for retirement fund trustees, given the significant disparity in the long-term performance of fund managers.

The areas that we believe trustees should consider in the appointment of fund managers are:

- the investment philosophy;
- the investment process;
- the performance track record;
- the quality of the investment and operations team; and
- the business principles of the fund manager.

Investment Philosophy

The investment philosophy must be clearly articulated, well defined and coherent to offer the potential for long-term value creation. Inherent in having a clearly articulated investment philosophy is to be able to explain why each investment has been made. We believe that investments should be made only because they offer attractive returns and not merely because they are in the benchmark or are held by other fund managers.

The philosophy must be one that has stood the test of time and provided demonstrable results for clients. Most importantly, the fund manager must seek to avoid regular or unjustified changes in the philosophy simply due to factors such as investment trends or themes ('flavour of the month').

Investment Process

The investment process is the means by which the investment philosophy is applied in constructing a portfolio. The traits that the investment process must display are similar to those of the investment philosophy in that the process must be well defined and rigorously applied.

A track record in the disciplined application of the investment philosophy to actual stockpicking is critical.

Performance

The above characteristics of a fund manager must also lead to long-term value creation over and above the benchmark set by trustees.

The critical issue is for the fund manager and trustees to agree upfront on an appropriate benchmark which takes into consideration, amongst other things, risk and return. The fund manager must be able to demonstrate a positive return on a risk-adjusted basis.

There are of course various benchmarks that can be set for the fund manager and various measures of risk. For example, for some clients tracking error is important whilst for others absolute risk is a more important measure. The former measures relative risk - defined as standard deviation of the fund's return against the mean return of the chosen benchmark. On the other hand, absolute risk is a measure of the risk of loss of capital (i.e. the standard deviation of the fund's absolute return). We believe that in most cases absolute risk is more important for retirement funds than relative risk or tracking error and that the fund manager's investment philosophy should be focused on producing lower absolute risk. Michael Moyle's article on the opposite page elaborates on this subject.

Given the investment horizon of the average retirement fund, the critical factor is the long-term performance of the fund manager (a minimum of three, but preferably at least five years and we could argue for even longer time frames). Although past performance is important, the critical issue is seeking to use this information to determine the ability of the fund manager to continue to deliver outperformance going forward. In this respect, has the fund manager maintained a consistent investment philosophy and process?

People

This determinant is vital as, without the right calibre of individuals, even a superior philosophy and process would not achieve desired results for clients. The aspects to be considered are:

- the qualifications and experience of the core team;
- the extent to which the core team has worked together;
- the extent to which the core team is incentivised through long-term remuneration structures to ensure the alignment of their interests with the long-term interests of their clients.

Although over time investment teams may change, trustees must ensure that there is satisfactory depth and experience across the entire team and that the investment philosophy and process outlast the individual team members.

Business Principles

Trustees need to research the reputation of the prospective fund manager thoroughly. Reputation will cover 'softer' issues such as stability of the shareholder base of the fund manager, quality and longevity of client relationships, fee principles and integrity/ethical standards adopted. Other factors pertinent to South Africa would be the extent to which the fund manager has contributed to wealth creation and development of skills amongst historically disadvantaged South Africans.

Johan de Lange
Managing Director, Allan Gray Unit Trust Management Limited

Retail Update

Finding a balance

Executive Summary

Allan Gray's Balanced Fund is ideally suited for those investors seeking long-term wealth creation. The Fund is limited to a maximum equity exposure of 75%, which provides the opportunity for other asset classes to be included. Johan de Lange shows how this broader investment mandate allows the fund manager to reduce the volatility of the portfolio over the medium- to long-term.

Who should invest in the Balanced Fund?

In our marketing documentation we define the target market of the Balanced Fund as those investors seeking long-term wealth creation that have delegated the asset allocation decision to Allan Gray. This allows the fund manager to include asset classes such as bonds, cash and property in addition to equities. The Fund cannot have an equity exposure of more than 75% in order to be compliant with the Pension Fund Investment Regulations.

Due to its potentially high level of equity exposure, the Fund remains a wealth creating fund, like the Equity Fund, and not a wealth-preserving fund such as the Stable Fund. However, in contrast to the Equity Fund, the broader investment mandate allows the manager to reduce the volatility of the portfolio over the medium- to long-term. This is evident when the maximum drawdown (maximum decline over any period) and annualised monthly volatility statistics - both accepted risk measures - of the Balanced Fund are compared to those of the Equity Fund in the table below.

The asset allocation decision is made on a 'bottom up' basis process, starting with our rigorous share selection process. As with the Equity Fund, we aim to find shares that we can buy and hold for a three- to five-year period. Due to this approach, the underlying share portfolios of the two funds are very similar. In instances where equities are expensive in absolute and relative (against other asset classes) terms, the equity exposure will be at its lowest. The opposite is true when we find good value in equities, and the other asset classes are expensive. When there is not a significant difference in the value of the different asset classes, the Fund will tend to be overweight in equities as this asset class allows us to add more value to the investor's portfolio.

" To create wealth, investing for the long-term is probably the most important investment principle to adhere to."

In a previous Quarterly Commentary article, the performance of our equity returns over a 25-year period was analysed on a one-year, three-year and five-year quarterly rolling basis. A comparison of the returns to those of our global balanced mandates over the same period provides a very good indication of the differences in the two. This comparison is illustrated in the graphs opposite and shows the following:

Risk Measures
Since inception based on month end prices:

	Balanced	Equity
Maximum Drawdown (The maximum decline over any period)	-12.5%	-21.0%
Annualised Monthly Volatility	11.2%	20.2%

- As with the equity returns, a one year investment comes with significant volatility. There is a difference of 91.8% in return between our best and worst 12 months over the period. However, the global balanced returns offered the investor some measure of protection. The worst period ending 30 September 1998 resulted in a 12.1% loss for the investor but this was still significantly better than the equity returns of -19.6%.

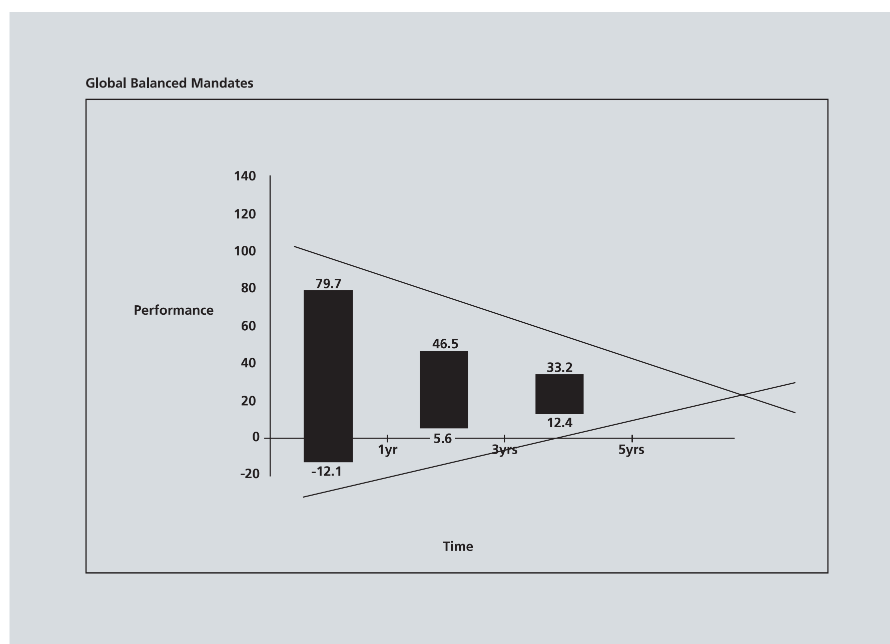
- Investing for three years, which is a much more appropriate term for an investment in the Balanced Fund, resulted in a significant reduction in volatility - a performance difference of 40.9% - but, more important for the investor, the worst three years would have yielded the investor a positive return of 5.6% per annum. The global balanced mandate graph clearly shows how the risk for the investor reduced as the investment term increased.

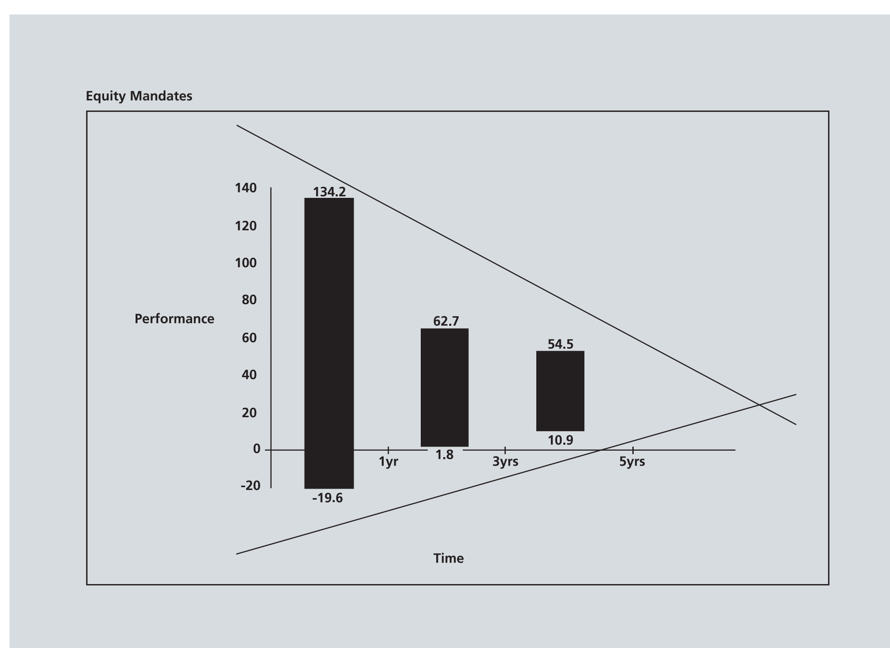
- Investing for a minimum of five years would have yielded our investors a minimum of 12.4% per annum over our worst ever five-year period, with an average performance in excess of 24% per annum. The performance difference between our best and worst five years has come down to 20.8%, less than 50% of that of equity mandates, clearly showing how the volatility is reduced by using a more conservative fund and investing over the longer term.

- The diagonal lines drawn on the global balanced mandate graph are less vertical and therefore less extreme than those on the equity mandate graph highlighting the measure of protection for the investor and the conservative nature of the Balanced Fund.

- There has been a price paid for this reduction in volatility, which is that, as we would expect, average returns on balanced mandates have been lower than on equity mandates.

To create wealth, investing for the long-term is probably the most important investment principle to adhere to. It is a fact of life, however, that not only do different investors have different appetites for risk but the risk profile of an individual investor can change dramatically over his life cycle. Selecting a fund that suits your specific risk profile will allow you to invest with more confidence and understanding.





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	29.4	16.1	13.3
2004 (to 31.3)	4.4	3.7	0.7
Annualised to 31.03.2004			
From 1.4.2003 (1 year)	52.0	43.7	8.3
From 1.4.2001 (3 years)	30.0	13.2	16.8
From 1.4.1999 (5 years)	34.7	14.3	20.4
From 1.4.1994 (10 years)	24.3	11.1	13.2
Since 1.1.78	30.5	20.6	9.9
Since 15.6.74	28.8	17.3	11.5
Average outperformance			11.5
No. of calendar years outperformed			23
No. of calendar years underperformed			6

*Allan Gray commenced managing pension funds on 1.1.78. The returns prior to 1.1.78 are of individuals managed by Allan Gray.
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 R18 794 423 by 31 March 2004. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R1 173 846.

ALLAN GRAY LIMITED BALANCED MANDATE RETURNS vs AVERAGE OF THE CONSULTING ACTUARIES SURVEY (CAS)

Period	Allan Gray	CAS*	Out/(Under) Performance
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-0.6	7.5
1999	79.7	41.2	38.5
2000	21.6	6.6	15.0
2001	43.9	22.3	21.6
2002	13.4	-2.2	15.6
2003	21.5	16.6	4.9
2004 (to 31.3)	3.4	2.5	0.9
Annualised to 31.03.2004			
From 1.4.2003 (1 year)	37.7	29.1	8.6
From 1.4.2001 (3 years)	22.7	13.0	9.7
From 1.4.1999 (5 years)	29.3	13.7	15.6
From 1.4.1994 (10 years)	22.4	13.4	9.0
Since 1.1.78	24.2	17.8	6.4
Average outperformance			6.4
No. of calendar years outperformed			22
No. of calendar years underperformed			4

* The return from 1 January 2004 is an estimate.

An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R2 984 992 by 31 March 2004. The returns generated by the average of the Consulting Actuaries Survey over the same period would have grown a similar investment to R740 092.

ALLAN GRAY LIMITED PERFORMANCE PROFILE
Annualised performance in percent per annum to 31 March 2004

	First quarter (not annualised)	1 year	3 years	5 years	Since inception	Assets under management R millions	Inception Date
SEGREGATED RETIREMENT FUNDS							
Global Balanced Mandate	3.4	37.7	22.7	29.3	24.2	15,742.0	01.01.78
Mean of Consulting Actuaries Fund Survey*	2.5	29.1	13.0	13.7	17.8		
Domestic Balanced Mandate	3.4	40.7	24.3	29.1	24.6	15,234.4	01.01.78
Mean of Alexander Forbes Domestic Manager Watch*	3.2	37.7	15.8	15.5	18.2		
Equity-only Mandate	4.1	50.4	28.4	32.1	21.3	13,822.3	01.01.90
FTSE/JSE All Share Index	3.7	43.7	13.2	14.3	12.7		
Global Namibia Balanced Mandate	3.4	37.0	22.1	27.3	21.3	2,173.5	01.01.94
Mean of Alexander Forbes Namibia Average Manager*	2.5	31.8	12.7	13.4	12.8		
Equity-only Relative Mandate	5.0	50.2	21.1	-	22.5	2,602.4	19.04.00
Resource adjusted FTSE/JSE All Share index	4.6	46.8	10.8	-	10.5		
POOLED RETIREMENT FUNDS							
Allan Gray Life Global Balanced Portfolio	3.1	37.2	21.9	-	24.9	2,837.7	01.09.00
Mean of Alexander Forbes Large Manager Watch*	2.5	32.6	13.2	-	11.1		
Allan Gray Life Domestic Balanced Portfolio	3.3	42.8	-	-	22.3	4,089.0	01.09.01
Mean of Alexander Forbes Domestic Manager Watch*	3.2	37.7	-	-	13.5		
Allan Gray Life Domestic Equity Portfolio	4.4	52.0	-	-	27.1	1,080.2	01.02.01
FTSE/JSE All Share Index	3.7	43.7	-	-	8.9		
Allan Gray Life Domestic Absolute Portfolio	2.4	46.9	-	-	33.2	459.0	06.07.01
Mean of Alexander Forbes Domestic Manager Watch*	3.2	37.7	-	-	12.5		
Allan Gray Life Domestic Stable Portfolio	3.5	21.1	-	-	17.8	173.1	01.12.01
Alexander Forbes Three-Month Deposit Index plus 2%	2.4	12.9	-	-	13.7		
Allan Gray Life Foreign Portfolio	2.5	20.2	-	-	-7.0	43.3	23.01.02
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	-2.6	3.9	-	-	-16.3		
FOREIGN-ONLY (RANDS)							
Orbis Global Equity Fund (Rands)	4.2	45.4	7.3	16.9	22.5	1,233.7	01.01.90
Morgan Stanley Capital Index (Rands)	-2.2	14.7	-5.8	-0.1	13.6		
Orbis Optimal US$ Fund (Rands)	-1.3	-5.2	3.3	16.6	20.6	952.3	01.01.90
US$ Bank Deposits (Rands)	-4.8	-20.4	-6.0	3.9	11.7		
Orbis Japan Equity (US$) Fund (Rands)	10.1	25.0	1.6	12.2	18.0	360.6	12.06.98
Tokyo Stock Price Index (Rands)	8.1	21.0	-7.3	3.7	7.9		
Global Balanced Mandate (Rands) - Foreign Component	2.4	20.0	11.9	24.1	20.0	2,324.2	01.07.96
Mean of Consulting Actuaries Fund Survey (Rands) - Foreign Component*	-2.6	2.7	-1.3	5.5	12.2		
UNIT TRUSTS **					Figures below unannualised		
Equity Fund (AGEF)	***	50.0	26.7	30.5	550.2	5,185.6	01.10.98
FTSE/JSE All Share Index		43.7	13.2	14.3	147.9		
Balanced Fund (AGBF)	***	39.7	22.6	-	179.3	4,636.1	01.10.99
Average Prudential Fund (excl. AGBF)		29.7	12.5	-	67.2		
Stable Fund (AGSF)	***	16.6	14.0	-	71.4	1,928.9	01.07.00
After-tax return of call deposits plus two percentage points		8.4	9.0	-	37.8		
Money Market Fund (AGMF)	***	10.4	-	-	32.8	328.7	03.07.01
Domestic fixed interest money market unit trust sector (excl. AGMF)		10.4	-	-	33.6		
Global Fund of Funds (AGGF)****	***	-	-	-	-	140.9	03.02.04
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		-	-	-	-		
Optimal Fund (AGOF)	***	12.9	-	-	23.1	1,713.7	01.10.02
Daily call rate of FirstRand Bank Ltd		9.1	-	-	15.7		

* The returns for Quarter 1, 2004 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.
**** As of 1 February 2004, the benchmark is as displayed. The benchmark was the Morgan Stanley Capital International Index (in Rands) prior to this date.

Performance data is based on a lump sum investment calculated on a sell-to-sell 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 31 March 2004.

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 of a balanced or asset class specific nature.
Portfolios can be managed on an absolute or relative risk basis.

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

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

NAMIBIAN 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.

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.)

RISK-PROFILED POOLED PORTFOLIOS

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

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

ASSET CLASS POOLED PORTFOLIOS

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

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

OTHER POOLED PORTFOLIOS

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

Products (continued)

FOREIGN MUTUAL FUNDS

	ORBIS GLOBAL EQUITY FUND	ORBIS OPTIMAL US$ FUND	ORBIS JAPAN FUNDS (YEN, EURO AND US$ FUND CLASSES)
Type of fund	US$ denominated Equity Fund which remains fully invested in global equities.	US$ denominated Fund, which invests in selected Orbis Equity Funds, by seeking absolute (i.e. positive) returns regardless of stockmarket trends.	Orbis Japan Equity (Yen) Fund - invests in a relatively focused portfolio of Japanese equities. Orbis Japan Equity (Euro) Fund - invests in the same Japanese equities as the Orbis Japan Equity (Yen) and hedges the resulting Japanese yen exposure into euro with the result that the Fund's returns are managed in euro. Orbis Japan Equity (US$) Fund - invests substantially all of its assets in the Orbis Japan Equity (Yen) and hedges the resulting Japanese yen exposure into US$, with the result that the Fund's returns are managed in US$.
Investment objective	Aims to earn higher returns than world stockmarkets. Its benchmark is the FTSE World Index, including income. The Fund's currency exposure is managed relative to that of the benchmark.	This Fund seeks capital appreciation in its base currency, the US$, 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$.	Orbis Japan Equity (Yen) Fund – seeks higher returns in yen than the Japanese stockmarkets, without greater risk of loss. Orbis Japan Equity (Euro) Fund - seeks higher returns in euro than the Japanese stockmarkets hedged into euro, without greater risk of loss. Orbis Japan Equity (US$) Fund - seeks higher returns in US$ than the Japanese stockmarkets hedged into US$, without greater risk of loss.
Structure	Open-ended Bermuda mutual fund company (similar to unit trust in South Africa).	Open-ended Bermuda mutual fund company (similar to unit trust in South Africa).	Open-ended collective investment schemes.
Dealing costs	None. No front-end fee (initial charge) or transaction charges (compulsory charge). Please note that this is not a Rand-denominated unit trust so a prospective investor is required to have funds offshore.	None. No front- or back-end load. No bid-to-offer spread.	None. No front- or back-end load. No bid-to-offer spread.
Manager's fee	0.5% - 2.5% per annum depending on performance.	0.5% - 3.0% per annum depending on performance.	0.5% - 2.5% per annum depending on performance.
Subscriptions/redemptions	Weekly each Thursday.	Weekly each Thursday.	Weekly each Thursday.
Reporting	Comprehensive reports are distributed to members each quarter.	Comprehensive reports are distributed to members each quarter.	Comprehensive reports are distributed to members each quarter.
Client Service Centre	Allan Gray client service desk on 0860 000 654.	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*
Description	• Enables saving for retirement with pre-tax money. • Contributions can be at regular intervals or as single lump sums. • Ideal for the self-employed or employees who want to make additional contributions to an approved retirement vehicle.	• Preserves the pre-tax status of a cash lump sum that becomes payable from a pension (or provident) fund at termination of employment. • A single cash withdrawal can be made from the Preservation Fund prior to retirement.	• Provides a regular income from the investment proceeds of a cash lump sum that becomes available as a pension benefit at retirement. • A regular income of between 5% and 20% per year of the value of the lump sum can be selected. • Ownership of the annuity goes to the investor's beneficiaries on his/her death.
Investment Options The contribution(s) to any one of these products can be invested in any combination of Allan Gray unit trust funds as indicated.	• Allan Gray Equity Fund • Allan Gray Balanced Fund • Allan Gray Stable Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds	• Allan Gray Equity Fund • Allan Gray Balanced Fund • Allan Gray Stable Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds	• Allan Gray Equity Fund • Allan Gray Balanced Fund • Allan Gray Stable Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds
Minimum Investment Size	R 50 000 lump sum R 1 500 monthly	R 100 000	R 250 000
Initial Fee	None	None	None
Annual Administration Fee	0.4% (VAT included)	0.4% (VAT included)	0.4% (VAT included)
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.	Depends on the combination of unit trusts selected as investment options.
Switching Fee	0.12% (VAT included)	0.12% (VAT included)	0.12% (VAT included)
Financial Adviser Fees (if applicable)	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%	Option A: Initial Fee 0.0% - 3.0% Annual Fee 0.0% - 0.5% OR Option B: Initial Fee 0.0% - 1.5% Annual Fee 0.0% - 1.0%

* The 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 7 of the unit trust application form, which can be downloaded from the website www.allangray.co.za

DISCRETIONARY PRODUCTS - RETAIL

ENDOWMENT POLICY*

Description	• An investment policy ideally suited to investors with medium- to long-term investment objectives who want capital growth with after-tax returns. • Ideal for investors interested in a 5-year savings plan.
Investment Options	• Allan Gray Equity Fund • Allan Gray Balanced Fund • Allan Gray Stable Fund • Allan Gray Optimal Fund • Allan Gray Money Market Fund • Allan Gray Global Fund of Funds
Minimum Investment Size	R 50 000 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%

*The Endowment Policy is underwritten by Allan Gray Life Limited.

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 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 two percentage points.	The daily call rate of FirstRand Bank Limited (for amounts in excess of R1m).	The simple average of the Domestic Fixed Interest Money Market Unit Trust Sector excluding Allan Gray Money Market Fund.	60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global.
Maximum net equity exposure	100%	75%	60%	15%	0%	100%
Portfolio orientation	A share portfolio selected for superior long-term returns.	A share portfolio which can include all asset classes selected for superior long-term returns.	A portfolio which can include all asset classes chosen for its high income yielding potential. The intention is to keep the equity portion significantly below 60%.	A portfolio 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 the Balanced Fund but less than average general equity fund due to Allan Gray's investment style.	Risk will be higher than the Stable Fund but less than the Equity Fund. This is a medium risk fund.	• Low risk. • Limited capital volatility. • Seeks to preserve capital over any two-year period.	• Low risk. • Little or no correlation to stock or bond markets.	• Low risk. • High degree of capital stability.	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 should be comfortable with market fluctuations i.e. short-term volatility. • Typically the investment horizon is five-year plus.	• Investors seeking long-term wealth creation who have delegated the asset allocation decision to Allan Gray. • Investors seeking a three-year plus investment. • Investors who need to comply with Prudential Investment Guidelines of the Pension Fund Act (Reg.28).	• Risk-averse investors e.g. investors in bank deposits or money market funds. • Investors who need to comply with Prudential Investment Guidelines of the Pension Fund Act (Reg.28). • Those investors who require a regular income.	• Risk-averse investors. • Retired investors. • Investors who wish to diversify a portfolio of equities or bonds. • Retirement schemes and Multi Managers who wish to add a product with an alternative investment strategy to their overall portfolio. • Individuals who have lump sum contractual savings (like Living Annuities, Preservation Funds, and Retirement Annuities).	• Highly risk-averse investors. • Investors seeking a short-term parking place for their funds.	Investors: • seeking to invest locally in Rands and benefit from offshore exposure. • wanting to gain exposure to markets and industries that are not available locally. • who desire to hedge their investments against any Rand depreciation.
Income	Low income yield.	Average income yield in the Allan Gray suite of funds.	High income yield.	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 bi-annually.	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 over a two-year rolling period.	Performance fee orientated to outperformance of the average Domestic Prudential Medium Equity Sector Fund over a two-year rolling period.	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

ALLAN GRAY LIMITED

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DIRECTORS

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A A McGregor B Sc BA (Hons) **S C Mildenhall** B Com (Hons) CA (SA) CFA **W J C Mitchell** B Com
S Moodley-Moore BA (Hons) MA PhD **F J van der Merwe** LLB MA (Non-Executive)

Company Secretary: C J Hetherington B Com CA (SA)

ALLAN GRAY UNIT TRUST MANAGEMENT LIMITED

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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. 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 ACI.

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ALLANGRAY

LONG TERM INVESTMENT MANAGEMENT

KINGJAMES rsvp