Q1

31 March 2006

Quarterly Commentary

ALLAN GRAY

INTELLIGENT INVESTING

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Greg Fury, Chief Operating Officer, Allan Gray Limited

Comments from the Chief Operating Officer

For some time we have been urging caution to investors, yet to date we appear to have been too cautious as the momentum in the South African stockmarket (and in other asset prices) remains very strong. We have witnessed a number of new investment highs this quarter. Most significantly the All Share Index has breached 21000 points and property, bonds and commodities remain at or near multi-year highs. Significantly for South African equities, the gold price has risen to over $600 per ounce (its highest level in 26 years) and the platinum price to nearly $1100 per ounce.

This has been a remarkably good period to have been invested in South African assets and in our funds. The full performance detail appears at the back of the Quarterly Commentary, but the summary is that over the last year our key composites have enjoyed excellent performance in absolute and relative terms. Our clients' global balanced portfolios have delivered a 46.6% return and their domestic equity portfolios, 70.9%, both well ahead of their benchmarks and our long-term track record. Recognising that our message of caution appears to have been premature, the returns enjoyed over the past three years cannot continue indefinitely and increased prices must increase the risk of a correction or at a minimum depress expected future returns.

So where you may ask should investors look for superior returns? Despite the levels of local asset prices, Stephen Mildenhall explains in **INVESTMENT PERSPECTIVE** where we believe one may still find value both as a general theme and using some examples. In addition, we always try to illustrate our approach to investing using a more detailed analysis of an individual share and so in **INVESTMENT COMMENTARY** Duncan Artus explains why we continue to believe that Sun International offers the prospect of rewarding returns and why it remains a significant holding in our clients' portfolios.

A factor that should be of concern to all South Africans, and certainly has an impact on our firm, is that despite the increase in disposable income for many South Africans there is little evidence that any of this is being invested but rather that it continues to fuel a consumption binge. We therefore find ourselves in an environment of outflows from traditional retirement funds which is not being made up by personal savings, resulting in negative net flows. Moreover it seems that those who do invest are not sufficiently disciplined in their investment behaviour to reap the full benefit of their efforts. In this quarter's **RETAIL UPDATE**, Rob Dower and Johan de Lange explain how investors are actively reducing their returns through frequent switching of investments, a manifestion of short-term thinking.

The retirement fund landscape continues to evolve and this will continue with the National Treasury's ongoing reform efforts. Part of this evolution has meant an increased need for unitised pooled investment vehicles. In the **INSTITUTIONAL UPDATE**, Christo Terblanche describes some of the advantages of our pooled unitised life vehicles, the support for which from smaller retirement funds and "member choice" funds has been very pleasing. The majority of our retirement fund clients are now invested via the pooled life vehicles rather than segregated accounts.

We tend to think we don't change very much. However, the first quarter of 2006 has brought a number of changes to our business.

With effect from the 17 March 2006, Orbis implemented a 'soft close' on their funds for all new clients other than those investing via Allan Gray. This is in response to the extraordinary growth that Orbis has experienced in the last few years, both in terms of the number of clients and their invested assets. While Orbis' investment process can cope with substantially larger assets under management than the company has at present, their ability to deliver an excellent client experience would be challenged if the current growth rate were left unchecked. Fortunately this move has little impact on Southern African investors in Orbis funds, but please do read more about this in the **ORBIS STOP PRESS**. In a further **ORBIS UPDATE**, Nick Purser revisits the issue of currency management, and explains how the Orbis approach has resulted in the current currency exposure.

Allan Gray Limited has also announced that it has appointed two new directors to its board. They are Delphine Govender and Mahesh Cooper. Delphine joined Allan Gray as an equity analyst in July 2001 and was promoted to Portfolio Manager in January 2005, in which position she is responsible for managing Allan Gray's relative and 'Optimal' portfolios. Mahesh joined the firm in April 2003 and has been co-heading its institutional business as well as managing the South African business of Orbis. At the same time, two current directors, Sandy McGregor and Sibs Moodley-Moore, have stepped down from the board. Sandy, a director since 1997, has taken the decision in the interests of furthering transformation at Allan Gray. His existing responsibilities at Allan Gray as portfolio manager and the firm's economist will remain unchanged. Sibs has been in charge of human resources at Allan Gray since 1998 and joined the board in 2000. She wishes to spend more time with her family but we will retain her services on a reduced basis. We thank Sandy and Sibs for their valuable contributions over many years and welcome Mahesh and Delphine. Their track records with Allan Gray give us every confidence that they will deliver beyond our already high expectations and add enormous value to the board.

I hope you enjoy this issue of our Quarterly Commentary.

Kind regards

Greg Fury

Greg Fury

Stephen Mildenhall, Chief Investment Officer

Where is the value?

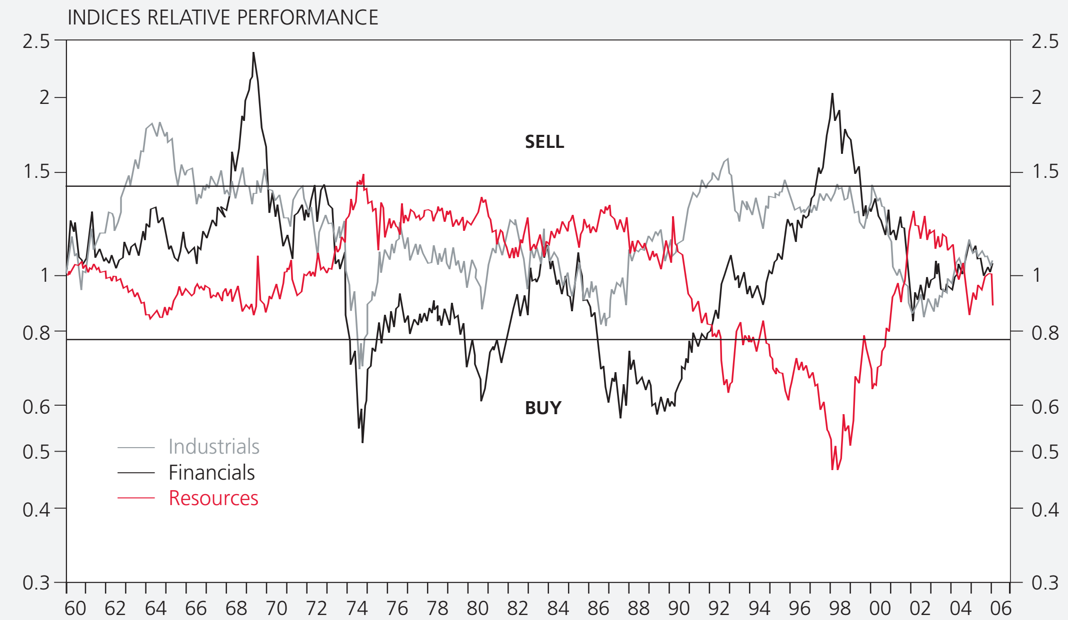
EXECUTIVE SUMMARY Stephen Mildenhall finds it reassuring that it is still possible – as he illustrates in this article - to find attractive long-term investment opportunities amongst South African equities. The opportunity is particularly in high quality companies trading at reasonable prices and in this context, he names MTN and Remgro in particular.

Given the significant rise in the South African equity, bond and property markets over the last few years, we have been cautioning investors that expectations of future returns need to be tempered. Asset prices have risen even further and we would reiterate our cautious view of future return prospects. Within equities, not only has the rise been very broad-based but, after the outperformance in 2005 by resource shares, the disparity between sectors within the market has narrowed. **Graph 1** updates a chart we have shown before. It compares the relative price of the major components of our market (Resources, Industrials and Financials) with the overall market (represented by the FTSE-JSE All Share Index) over the last 45 years. Over long periods of time, no one sector has outperformed any of the others. There are times, however, when the market is willing to pay very high (or low) prices for one part of the market. As can be seen, there is currently not much disparity in value between the average resource, financial and industrial share. So, where is the value?

Despite the lower disparity that exists between sectors, as bottom-up stock pickers we are currently finding opportunities within sectors. Within resource shares, we continue to favour selected South African focused resource shares (such as gold and platinum shares) relative to those resource companies that have most of their operations outside South Africa. This view is based on our estimates of normal earnings for these companies, using normalised rand commodity prices. However, perhaps the largest area where we are finding value though is in companies (typically industrial or investment companies) that have excellent long-term earnings growth prospects.

We see ourselves as business analysts. We value businesses based on their underlying fundamentals. If we can buy a share at a margin of safety discount to underlying value, we will do so. When the share price reaches our estimate of fair value, we sell. We tend to sell early but, in so doing, hopefully avoid the permanent capital loss that can come from owning expensive

GRAPH 1



Source: Igraph - done on 02/03/2006 data to 28/02/2006

TABLE 1

	EPS Growth Rates			PE Ratio	DY
	17 years*	10 years	5 years		
Remgro (1)	15.9%	17.6%	13.7%	12.4	2.5%
Remgro (2)			15.2%		
FTSE/JSE All Share	10.5%	12.9%	12.4%	16.1	2.3%

* Since Richemont separation
(1) Adjusted to include Venfin which was unbundled on 1 April 2000
(2) Remgro's EPS growth for the last five years excluding Venfin

Source: Allan Gray research

shares in the hope that they will go higher. In an ideal world we, like any investor, would like to buy great quality companies, with excellent management, at a substantial discount to fair value. Unfortunately, this is not always possible. The market often recognises these qualities and they are reflected in the share price. While the rise in share prices in recent years has been broad based and the margin of safety for all shares has narrowed, it is pleasing that one of the main areas where we are finding value currently is within great quality companies, with good management and whose earnings are likely to outpace the general market going forward.

Why would this be the case? The market tends to place a lot of emphasis on a company's recent historic earnings growth and extrapolates that historic growth into the future. Many average companies, which are cyclical, have increased their earnings substantially over the last five years from very depressed levels to levels which we believe to be unsustainable. Given the recent earnings growth, the market has accorded generous ratings to these companies relative to those companies whose earnings are not only sustainable but likely to grow substantially in real terms from these levels. We don't believe that this is justified. Therefore, over the last couple of years, we have reduced our holdings in many cyclical industrial companies and increased our holdings in these typically large, high quality companies with good long-term growth prospects. MTN and Remgro, as two of the largest holdings in our clients' portfolios, are typical examples of this. **Table 1** above illustrates the long-term growth in earnings per share of Remgro versus the FTSE-JSE All Share Index over the long-term together with the rating applied to the company's earnings by the market.

Remgro has consistently grown its earnings faster than the market over an extended period of time. With the earnings of the market at very high levels relative to history (as indicated in last quarter's commentary) and given Remgro's portfolio of high quality, conservative assets, and offshore exposure, we believe that Remgro is likely to continue growing its earnings and dividends faster than the market over the next five years. Despite this, one can acquire the company on a higher dividend yield and at a substantial discount rating to the market.

MTN does not have the long history that Remgro has, and its phenomenal earnings growth record of 48.5% p.a. over the last five years is clearly not sustainable as it reflects the growth of a new industry in its early years. Nevertheless, we believe that MTN is a substantially better than average business. Vodafone obviously believes that of MTN's competitor Vodacom, given its recent purchase of an increased holding in Vodacom on an effective historic PE of 22.4. We believe that MTN's growth prospects in South Africa remain good in a market that many have believed should have matured years ago. Furthermore, the Nigerian market (where MTN is the strong number one player) still holds substantial growth potential. Despite these excellent long-term growth prospects, MTN can still be acquired at a substantial discount rating to the market.

In an environment of greater risk arising from generally higher asset prices, it is comforting that we can still find attractive long-term investment opportunities for our clients' portfolios amongst high quality South African equities.

Duncan Artus, Portfolio Manager

Sun International

EXECUTIVE SUMMARY Sun International has been a long held and rewarding investment in our clients' portfolios. Whilst the share price is up significantly, it continues to be one of our clients' largest holdings. This article reflects on the group's history and why we continue to find it one of the most attractive shares on the market.

Brief History

Sun International is an owner and manager of casinos and resorts. Casinos are great businesses, resorts less so. In the early 1990's Sun International had a monopoly on gaming in South Africa as a result of its operations (Carousel, Sun City etc) in the former homelands. The introduction of new gaming legislation ended that monopoly and the new, more conveniently located metropolitan casinos devastated the profitability of the old casinos. Sun International, however, was remarkably successful in winning new licences and emerged from the bidding process as the dominant local casino owner. It also owns a number of prominent resorts such as Sun City, plus the Table Bay Hotel and the Royal Livingstone. **Table 1** below details the six new casinos that contribute the bulk of group profit.

At the time the new casinos opened in 2001/2002, many domestic industrial businesses suffered as consumers came under pressure. In addition new smoking legislation required that some of the casinos had to be reconfigured. The net result was that actual gaming revenues came in at levels well below the forecasts used when bidding for the casino licences. Furthermore, Sun International had borrowed heavily to fund the large upfront investment required to build the casinos, which increased the (negative) gearing of profits to the slowdown in revenue.

The prevailing negativity surrounding Sun International and indeed consumer companies in general at the time created an excellent opportunity for investors willing to look beyond the perception that the poor circumstances of the consumer would continue indefinitely and for those who recognised that accounting earnings understated the profitability of casinos.

Recovery in gaming revenues

The level of gaming revenues and consumer spend in 2001/ 2002 did indeed turn out to be abnormally low. The growth in gaming revenue from those levels was impressive as it normalised and benefited from the current buoyant economy. **Graph 1** highlights just how strong this growth has been by comparing the level of gaming revenue in 2005 to 2002 for the three major markets: Gauteng, Western Cape and KwaZulu-Natal.

Cash flows a better measure of casino profitability

Sun International's upfront investment in its new casinos is being amortised over a period of time as an expense through its income statement. These amortisation levels are well above the expenditure needed to maintain the operations in a competitive position. In addition, casinos need to invest very little in working capital in order to grow. We estimate cash flow after maintenance capex to be 15% - 20% higher than current reported accounting earnings. Therefore, particularly in the early years, the reported accounting earnings understated Sun International's profitability. Cash flow was and is a better measure on which to value a casino.

Where are we now?

Sun International has effectively completed its expansionary investment phase. During this period it built six new urban casino

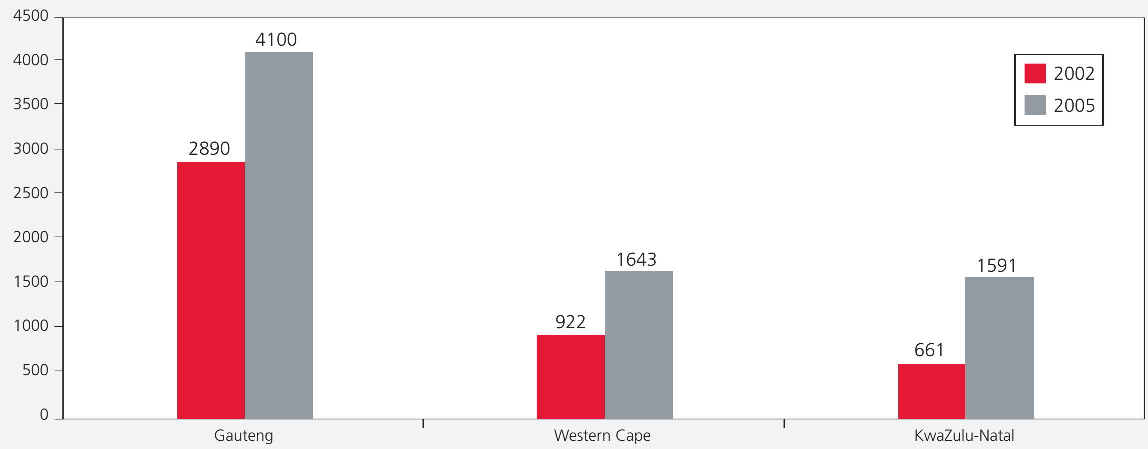
TABLE 1

Asset	Location	Investment (Rm)	2006E Revenue (Rm)*
Grand West Casino	Cape Town	1450	1370
Sibaya Casino	KwaZulu-Natal	977	560
Boardwalk Casino	Port Elizabeth	444	383
Carnival City Casino	Gauteng	873	769
Meropa Casino	Polokwane	128	162
Flamingo Casino	Kimberley	125	101

* Allan Gray forecast to June 2006

Source: Allan Gray research

GRAPH 1



Source: Provincial Gaming Boards, Allan Gray Research

projects, investing roughly R4.3 billion. The group owns and manages 19 casinos across Southern Africa and has a 43% share of the local gaming market. The number of casino licences that can be issued is effectively capped and only one more licence of substance – on the West Rand in Gauteng - remains to be issued. This is clearly a very effective barrier to entry. The geographically diversified nature of Sun International's casinos sets it apart from its competitors who tend to be over-reliant on one or two regions for a majority of their profit. With the capital-intensive investment period behind it and only the R425 million expansion at Grandwest forecast, Sun International should be in a net cash position by 2009.

Sun International undertook a wide ranging restructuring which simplified its historically complex group structure. The net result of a number of transactions over a two-year period was increased stakes in the underlying subsidiaries, gaining full control of the casino management company and full access to the wider group's cash flows. The investments were done at attractive valuations, as they were businesses that management knew well. In addition the timing was good, given the resurgence in gaming revenues. Managing the group is now simpler and returns are better with a far higher proportion of the group's capital invested in its core profitable operations.

Conclusion

We believe that Sun International will be able to grow earnings faster than the majority of local industrial companies whose earnings level (as we have pointed out in previous commentaries) we believe to be high. Sun International should also grow dividends faster than earnings due to its strong cash flows. Indeed, we see no reason why Sun International should not soon be paying out all its earnings as dividends. Management has significant industry experience and the business will also continue to reflect the benefits from the extensive restructuring undertaken over the past few years. At a share price of R90 Sun International is trading on 13x forecast cash flow and yielding over 4% on dividends to June 2006. It therefore remains an attractive investment in a market characterised by fewer opportunities.

* The author and Allan Gray Limited have a beneficial interest in Sun International

Nick Purser, Director, Orbis Investment Advisory Limited

Currency management at Orbis

EXECUTIVE SUMMARY Nick Purser of Orbis returns to the subject of currency management because the Orbis Global Equity Fund's currency positions have become larger than in the recent past and he explains why Orbis holds fewer US dollars than Yen in its present currency allocations compared with the World Index benchmark.

I last wrote about currency management at Orbis in the second quarter of 2004. I am somewhat reluctant therefore to discuss this topic again after a relatively short period of time as it could create an incorrect impression of how Orbis seeks to generate wealth for our investors. Orbis' core business is implementing the investment methodology we share with Allan Gray Limited in global markets. Identifying and investing in undervalued equities has accounted for almost all of Orbis Global Equity Fund's historical performance, and we hope and expect this will be the case for the foreseeable future. My motivation for addressing the fund's currency positions is because they are often difficult to understand and have become larger than has been typical in the recent past and I would like to explain to you why we believe this to be appropriate, and, in fact, risk reducing.

Our approach to managing currency exposure is driven by the way we select stocks. We invest in companies when we can buy them at a substantial discount to their intrinsic value. Our analysts spend the vast majority of their time estimating the intrinsic value of the companies we find attractive. We generally assess a company's intrinsic value in the currency of the region in which it operates. This is a simplification of real world complexity but it allows our analysts to focus on the key determinants of value; the company's competitive position and the outlook for the industry in which it operates.

Assuming we make our assessment of intrinsic value correctly, the stock price of the company will rise over time in its operating currency. If we simply held the stock for this gain to translate into a real return in an investor's own currency we require that the company's operating currency also hold its value. Buying an undervalued stock in the UK does nothing for you if the gain on the stock is offset by a fall in the value of Sterling.

Instead of hoping that the operating currency will hold its value, we use foreign exchange forward contracts to hedge the currency exposure of the equities in the Orbis Global Equity Fund. We target a mix of currencies that we expect to preserve investor purchasing power. Historically we have felt that the currency allocation of the fund's FT World Index benchmark is sufficiently well diversified to serve as a base against which we can deliver returns. The allocation of this benchmark is shown in **Table 1** (below), along with Orbis Global Equity Fund's present currency allocation.

Recently we have become concerned about the ability of the Fund's currency benchmark to act as a good store of value. This

TABLE 1

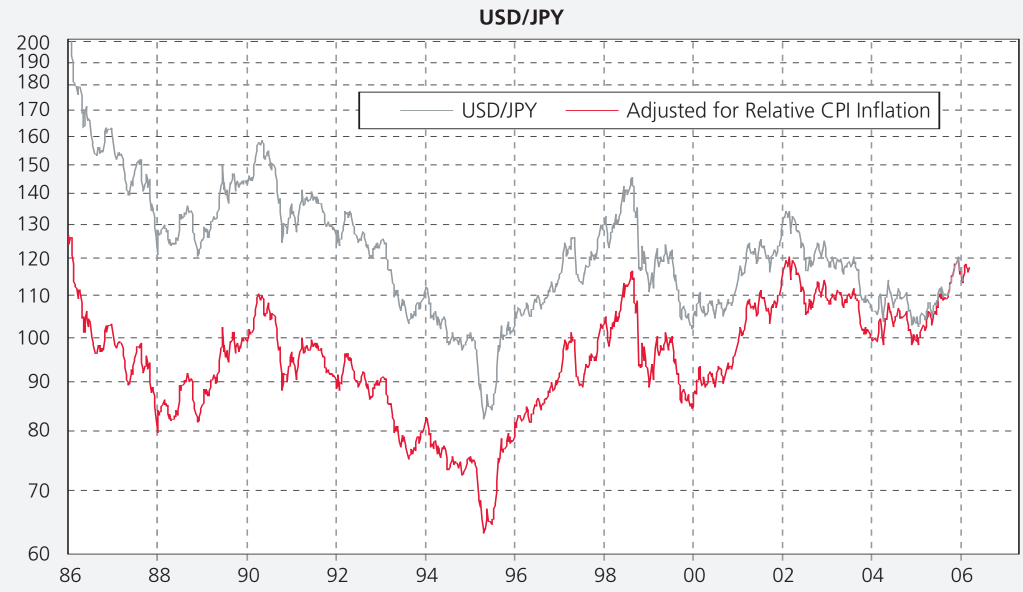
CURRENCY EXPOSURE*

Currency	% of World Index	% of Orbis Global Equity
US Dollar	48	33
Japanese Yen	10	40
Euro	15	9
British Pound	10	5
Korean Won	2	2
Hong Kong Dollar & Chinese Renminbi	1	9
Other	14	2
TOTAL	100	100

* As at 28 February 2006

Source: Allan Gray research

GRAPH 1



Source: Datastream, Orbis calcs

concern comes from our experience in managing its equity investments. We build the Fund's portfolio of equities by investing in the best individual opportunities we can find. Often this has led us to hold a portfolio very different to the World Index, and this has been very important in avoiding localised asset bubbles that have taken place during the Fund's history. During these bubbles the overpriced equities came to make up a large part of the Fund's benchmark but our bottom-up stock selection directed us to opportunities in other areas and led us to hold few, if any, of the bubble equities. Avoiding the declines associated with the bursting of these bubbles has contributed to the Fund having an unusually stable return pattern for an equity fund. We are keenly aware that buying overvalued assets purely because they have a high weight in a benchmark has been a poor strategy for generating wealth.

The Fund's World Index benchmark suggests that 48% of your assets should be denominated in the US dollar. In practice, our normal allocation to the US dollar would be around 60% as there are a number of low weight currencies in the benchmark, such as the Australian and Canadian dollars. Unless these currencies appear unusually attractive, holding them to their benchmark weight delivers no benefit to the portfolio whilst incurring additional costs. We generally hold US dollars in place of these currencies.

"We are keenly aware that buying overvalued assets purely because they have a high weight in a benchmark has been a poor strategy for generating wealth."

We are presently concerned that the US dollar could lose a substantial part of its value, particularly against the Yen. Our starting point for assessing the value of currencies is purchasing power parity (PPP). PPP holds that exchange rates should move to reflect changes in relative price levels. If a country experiences 10% inflation over its peers, its currency should weaken by 10% so that, in terms of a foreign currency, the price level remains the same. PPP is an inaccurate method and obviously neglects many factors that influence exchange rates, but it is useful when deviations from fair value become extreme. **Graph 1** (above) shows the historical exchange rate of the US dollar against the Yen, and this exchange rate adjusted for relative inflation between the US and Japan. On this PPP basis the Yen now is as weak against the US dollar as it has been in the last 20 years. It has approached similar valuations only rarely over this period, and has not stayed at these levels for long. We see this as a red flag that the US dollar may be overvalued against the Yen.

Examining the US economy suggests a reason to heed the warning from the PPP analysis. The visible US trade deficit, namely the excess of imports over exports, is now over 6% of gross domestic product (GDP). Imports are nearly double exports, indicating that it is likely to be difficult to close this gap. The deficit is funded by foreign investment into the US. This deficit appears consistent with an overvalued US dollar, indicating US consumers find imported goods priced competitively relative to domestic alternatives.

Another concern is the motivation of the current buyers of the US dollar. The dollar cannot have become overvalued without purchasers to bid its price up. There is evidence that those benefiting from the rising oil price have favoured US assets as an initial home for their unanticipated revenues. One-off tax related inflows have also assisted the US dollar but probably the most important group of buyers has been those motivated by rising US short-term interest rates and the near 5% yield differential between the US and Japan. None of these participants is likely to be motivated by the valuation of the US dollar and, consequently, they are exactly the type of buyers we would expect, were the dollar overvalued. In particular, it is difficult to see the support from yield motivated buyers lasting into the next cycle of interest rates cuts in the US.

I am concerned that there is a clear path which could result in extreme dollar weakness. The US dollar appears expensive and reliant on buyers unconcerned by its valuation. Were the dollar to begin to weaken, there is potential for this to lead to a spiralling loss of confidence and unwillingness by foreign investors to add to their US dollar assets. Given the size of the trade deficit, the dollar would need to fall by a very large amount for the foreign exchange market to balance without foreign investment inflows.

It is probable that we shall experience a much less extreme event than envisaged above, and that I have fallen into the economist's trap of predicting eight recessions out of every two that actually occur. But given the clear path that could lead to US dollar weakness, it is hard to see it as an appropriate store of value for 50% or more of your assets. This concern has led us to hold Yen in place of a portion of our benchmark US dollar exposure. In the short term, this illustrates how persuasive the yield argument can be. Our decision to hold Yen where we would normally hold dollars costs the fund almost 1% per year in forgone interest. I am confident that our equity analysts can cover the cost of this interest forgone through their skills, and it seems a reasonable price to pay to ensure the returns they generate are delivered in a currency worth having.

"Given the clear path that could lead to US dollar weakness, it is hard to see it as an appropriate store of value for 50% or more of your assets."

The Fund still holds a third of its assets in US dollars, a level above both the US' share of global exports and economic activity. The actions we have taken so far will help protect your investment from the damage to its purchasing power that would result if the US dollar suffers a substantial decline. Although, by our usual standards the position compared to the benchmark is large, the absolute exposure to the US dollar is also large and this could lead us to reduce the exposure further, were the risks to the dollar to increase. We would also encourage investors, as ever, to assess the appropriate currency exposure of their assets. In this context, we highlight the account management facility recently added to our website at www.orbisfunds.com. This allows you, amongst other things, to easily track the aggregate market and currency exposure of your investments with Orbis.

Orbis Investment Advisory Limited is authorised and regulated by the Financial Services Authority.

Mahesh Cooper, Head of Orbis South Africa

Information regarding the temporary closure of Orbis funds to new investors

With effect from the 17 March 2006, Orbis implemented a 'soft close' on their funds. The soft close is in response to the extraordinary growth that Orbis has experienced in the last few years, both in terms of the number of clients and their invested assets. While Orbis' investment process can cope with substantially larger assets under management than the company has at present, Orbis' ability to expand the non-investment side of its services might be challenged if the current growth rate is left unchecked.

For South African clients investing in Orbis, the impact is as follows:

A: Existing South African Orbis Investors

Existing Orbis clients (as at 17th March 2006) may continue to make additional contributions and switches to their investment accounts.

Those clients invested in Orbis through linked investment service providers (LISPS) or nominee companies other than the Allan Gray Investor Services platform who were existing investors as at 17th March 2006 will be able to make additional contributions subject to the nominee warranting that they were existing investors. Orbis will not however accept any contributions from nominee companies or platforms on behalf of new investors other than via Allan Gray.

B: New South African Orbis Investors

- New South African investors may continue to invest in Orbis via Allan Gray only. All new investments will be made via the Allan Gray Investor Services / Allan Gray Nominees. Orbis is not accepting any new clients into their Primary Register or into the Wilson and Co. Sub-Register.

- The Allan Gray-Orbis unit trusts remain open (subject, as always, to foreign investment capacity being available).

Individual investors utilising their foreign allowance will be allowed to invest in the Orbis funds with a new minimum investment per Orbis fund of R100 000 and a new minimum additional contribution of R10 000 per fund via Allan Gray Nominees.

While Allan Gray regrets any inconvenience caused by the above limitations to new and existing investors, we believe that the 'soft close' is in the best long-term interests of all Orbis investors.

Please refer to the letter from William Gray, President of Orbis, available on www.orbisfunds.com for a more detailed explanation.

Christo Terblanche, Institutional Business

Segregated or unitised investment portfolios - which is best?

EXECUTIVE SUMMARY This article explains the differences between segregated accounts and pooled (or unitised) portfolios and why Allan Gray believes that pooling is the more attractive option for most clients.

For some time now Allan Gray has been offering institutional investors three types of portfolios in which to invest, namely segregated accounts, and two unitised investment options in the form of pooled life portfolios or unit trusts.

Often the question is asked whether any one of these vehicles, and more specifically segregated accounts compared to unitised portfolios, offer more advantages than the others.

Whilst it ultimately remains the investor's individual situation that determines the option that is best suited, we are of the opinion that the scale is tipped in favour of unitisation over segregated accounts. Focusing mainly on institutional investments in segregated and pooled portfolios, this article aims to explain briefly the differences between them and why we believe pooling is more attractive.

Segregated accounts

In a segregated or discrete account, the underlying investments are registered in the investor's own name. The investments are held in a separate set of bank and scrip accounts with a custodian bank, typically one of the four large commercial banks, as selected by the investor.

The mandate by which the portfolio manager is to manage the investment is flexible and can allow for specific restrictions that the investor may wish to impose.

Pooled portfolios

Typically pooled portfolios are set up within a pooling vehicle such as a long-term insurance company, or a unit trust. In Allan Gray's case, pooled portfolios are offered within Allan Gray Life Limited, a wholly-owned subsidiary of Allan Gray Limited.

As with a segregated portfolio, the underlying investments are held in an account with a custodian bank, as selected by the management of the pooling vehicle. Allan Gray Life has appointed Nedbank as custodian.

Generally, a range of pooled portfolios is established, each with a specified mandate and objective as required. The underlying assets are held in the name of the pooling vehicle, Allan Gray Life, and not in the name of the client. Instead, the portfolios are unitised, and clients invest in the portfolios by purchasing and owning units to the value of the amount invested.

Why do we think that pooled vehicles offer advantages over segregated accounts?

Firstly, the initial investment process is less onerous. The bank and scrip accounts are already established, so there is no need to enter into discussions and additional arrangements with banking institutions.

Secondly, in general, pooled portfolios are valued and priced more frequently (typically daily) than segregated accounts (monthly in the case of Allan Gray). This means that retirement funds are able to determine the market values of their pooled investments with greater frequency than those in segregated accounts. Daily pricing is attractive to those funds which offer a high level of member flexibility, such as member choice, where the member can execute investment transactions on his/her retirement savings on a frequent, even daily basis. By owning a number of units in a portfolio, the fund can allocate such units to the various underlying members and value their portfolios as and when transactions are done.

Pooled portfolios also offer greater flexibility through generally smaller minimum investment requirements than segregated accounts. This is ideally suited to member choice arrangements where a greater level of split-funding to meet the various risk-profiles of members results in a larger number of smaller portfolios that are generally lower than the minimum requirements for a segregated account.

As all the investors in a pooled portfolio have equal exposure to the underlying investments, they all experience uniform investment returns over a given period of time. This is attractive to those employers who offer more than one retirement arrangement towards which members are contributing at the same time. The employer can offer the same pooled portfolio in both funds, which will allow members to achieve exactly the same returns on both investments.

This is also an advantage for investment consultants who, with a number of clients invested in the same pooled portfolio, have only to monitor, review and report on one set of investments and returns over a given period, which is exactly the same for all the underlying clients.

Segregated accounts, even those with identical mandates, will always have minor differences in the underlying investment portfolios held due to differences in cashflows. Not only does this lead to differences in the returns produced, but also a more time-consuming process of individually monitoring and reviewing each client's portfolio.

Some investors feel more comfortable owning the physical investments in a segregated account than owning units in a portfolio that is exposed to those investments, as the direct ownership allows them greater control over the investments. This speaks to the security offered within the pooling vehicle. In recent years we have seen the establishment of a number of "linked-only" insurers, like Allan Gray Life, who offer no risk-based or guaranteed products that could jeopardise the security of the investments held underlying the pooled portfolios. Within Allan Gray's pooled portfolios we are also able to accept and transfer scrip and other physical investments in lieu of cash investments and withdrawals, making it more akin to a segregated account.

"With the challenges brought about by increased fund complexity...the nature and structure of pooled investment vehicles make them an attractive solution."

In conclusion, with the challenges brought about by increased fund complexity, driven by the introduction of more advanced administration systems, the large scale conversion from defined benefit to defined contribution arrangements, individual member choice and increased split-funding, the nature and structure of pooled investment vehicles make them an attractive solution.

Johan de Lange and Rob Dower, Directors, Allan Gray Investor Services

Investment discipline crucial for investment success

EXECUTIVE SUMMARY It is well known that South Africans are spending more and saving less. Low interest rates and tax relief from the recent Budget lead to more disposable income and should act as incentives to save. Instead, they drive further consumption.

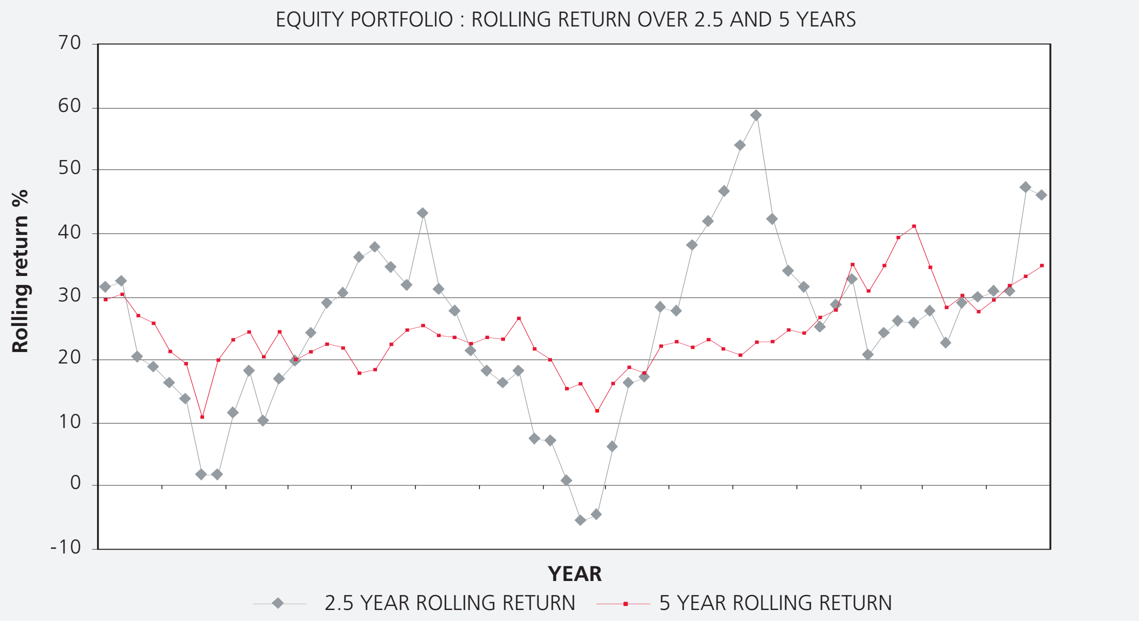
According to the latest Reserve Bank quarterly bulletin, household debt as a percentage of disposable income increased to a record 65.5% from 63.5% in the third quarter of last year, and personal savings measures are at their lowest level ever at 0.1% of disposable income.

Equally concerning is the fact that those who are saving, through unit trusts for example, lack the discipline to stay invested long enough to reap the benefits of our efforts. An analysis of investment statistics by the Association of Collective Investments shows that in 2005, despite net inflows of R58bn, total outflows as a percentage of average assets under management was a staggering 80.3%. The statistics also show that the average holding period for non-money market funds is less than 2.5 years despite these being medium to long-term investments.

Graph 1 below shows a 2.5-year rolling return and a 5-year rolling return for the Allan Gray Equity Fund. While the 2.5-year return is sometimes higher than the 5-year return, it is clear that this comes with a price tag attached – much higher volatility. Or, put differently, greater extremes in the variability of returns.

Investors are no doubt tempted by this volatility, hoping to switch out of underperforming funds and into funds that will outperform. Unfortunately, while the gains promised by successfully timing fund performance in this way are substantial (as by the way are those promised by timing markets), successful timing is extraordinarily difficult to achieve and studies in both South Africa and the US have shown that, partly because of attempts to chase short-term performance, the average investor's experience is much worse than the average fund performance. This means that most investors will not have benefited from the rewarding performance that the Allan Gray Funds (and others) have delivered over the long-term. Frequent emotive switching has also been shown to harm returns for the overwhelming majority of investors.

GRAPH 1



Source: Allan Gray research

The graph shows that the chances of timing the market incorrectly are much higher over the shorter period - and for little increased reward. The peaks and troughs of the 5-year return are much less volatile.

Even more surprising, the research house Dalbar reports that in the U.S, although the average equity fund has delivered much higher returns than the average balanced fund over the long-term, the average investor in a balanced fund has enjoyed superior returns to those invested in equity funds. This is because investors in balanced funds tend to be more disciplined and remain invested for longer. As Dalbar says "Asset allocation funds don't perform better, they make investors perform better." While the data is less clear for South Africa, we suspect the same may well be true.

Adding to the situation sketched above is the ever-growing number of funds to choose from. There are 617 unit trusts available today whereas in 2001 the figure was 348. To put this in perspective, 617 is almost double the number of companies listed on the JSE. Then there is the fact that collective investment schemes have become increasingly specialised in terms of their mandates and sophisticated in respect of the investment instruments they employ. These very specialised funds are often not long-term savings vehicles, but tend to proliferate as a reaction to shorter-term trends. Having such a variety of funds to choose from and a selection of interesting investment strategies increases the temptation to chop and change.

We take pride in the fact that it has always been our strategy to offer a carefully considered, uncomplicated range of unit trusts. Each of our funds is specifically designed to cater for the needs of long-term investors. Our intention is to keep the range, and thus the choices, manageable for investors.

Long ago, Sir Isaac Newton gave us the three laws of motion – but lost a fortune in the South Sea Bubble. Explaining this, Newton said, "I can calculate the movement of the stars, but not the madness of men." Warren Buffett recently commented that Sir Isaac could have added a fourth law of motion – which is that "for investors as a whole, returns decrease as motion increases."

At Allan Gray, we encourage our investors to take a long-term view. Losses are less likely when investors select a unit trust carefully and are prepared to be disciplined rather than trying to time the market or follow the latest investment fad.

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

PERIOD	ALLAN GRAY*	FTSE/JSE ALL SHARE INDEX	OUT/(UNDER) PERFORMANCE
1974 (from 15.6)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006 (to 31.03)	14.6	13.3	1.3
Ann'd to 31.3.06			
From 1.4.2005 (1 year)	70.7	57.4	13.3
From 1.4.2003 (3 years)	50.9	42.6	8.3
From 1.4.2001 (5 years)	37.8	23.9	13.9
From 1.4.1996 (10 years)	27.9	14.9	13.0
Since 1.1.78	31.8	22.0	9.8
Since 15.6.74	30.1	18.8	11.3
Average outperformance			11.3
No of calendar years outperformed			25
No of calendar years underperformed			6

*NOTE : ALLAN GRAY COMMENCED MANAGING PENSION FUNDS ON 1.1.78.
THE RETURNS PRIOR TO 1.1.78 ARE OF INDIVIDUALS MANAGED BY ALLAN GRAY, AND THESE RETURNS EXCLUDE INCOME.

NOTE: LISTED PROPERTY INCLUDED FROM 1 JULY 2002.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 15 JUNE 1974 WOULD HAVE GROWN TO **R42 541 384** BY 31 MARCH 2006. BY COMPARISON, THE RETURNS GENERATED BY THE JSE ALL SHARE INDEX OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R2 368 946**.

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

PERIOD	ALLAN GRAY	CAS*	OUT/(UNDER) PERFORMANCE
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-0.6	7.5
1999	80.0	41.2	38.8
2000	21.7	6.6	15.1
2001	44.0	22.3	21.7
2002	13.4	-2.2	15.6
2003	21.5	16.6	4.9
2004	21.8	22.2	-0.4
2005	40.0	26.9	13.1
2006 (to 31.03)	9.9	10.2	-0.3
Ann'd to 31.3.06			
From 1.4.2005 (1 year)	46.5	35.9	10.6
From 1.4.2003 (3 years)	35.7	29.1	6.6
From 1.4.2001 (5 years)	27.3	19.2	8.1
From 1.4.1996 (10 years)	24.7	15.2	9.5
Since 1.1.78	25.0	18.6	6.4
Average outperformance			6.4
No of calendar years outperformed			23
No of calendar years underperformed			5

*THE RETURN FROM 1 JANUARY 2006 IS AN ESTIMATE.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 1 JANUARY 1978 WOULD HAVE GROWN TO **R5 426 481** BY 31 MARCH 2006. THE RETURNS GENERATED BY THE AVERAGE OF THE CONSULTING ACTUARIES SURVEY OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R1 233 862**.

Annualised performance in percent per annum to 31 March 2006

	FIRST QUARTER (unannualised)	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT R millions	INCEPTION DATE
SEGREGATED RETIREMENT FUNDS							
GLOBAL BALANCED MANDATE	9.9	46.6	35.7	27.3	25.0	23,768.7	01.01.78
Mean of Consulting Actuaries Fund Survey *	10.2	35.9	29.1	19.2	18.6		
DOMESTIC BALANCED MANDATE	11.4	53.4	40.5	30.5	25.4	21,836.6	01.01.78
Mean of Alexander Forbes Domestic Manager Watch *	11.4	45.6	38.1	24.3	19.6		
EQUITY-ONLY MANDATE	14.8	70.9	50.1	36.6	24.5	36,389.2	01.01.90
FTSE/JSE All Share Index	13.3	57.4	42.6	23.9	15.9		
GLOBAL NAMIBIA BALANCED MANDATE	9.1	42.4	33.8	26.1	23.0	3,925.7	01.01.94
Mean of Alexander Forbes Namibia Average Manager *	10.2	39.9	32.7	20.5	15.9		
EQUITY-ONLY RELATIVE MANDATE	13.5	62.1	46.7	30.1	29.7	5,427.0	19.04.00
Resource adjusted FTSE/JSE All Share Index	14.0	57.7	45.0	23.1	20.9		
POOLED RETIREMENT FUNDS							
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	9.9	46.5	35.5	26.8	28.3	8,840.6	01.09.00
Mean of Alexander Forbes Large Manager Watch *	10.2	41.1	34.1	21.4	19.1		
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	11.4	53.2	41.5	-	30.1	5,695.2	01.09.01
Mean of Alexander Forbes Domestic Manager Watch *	11.4	45.6	38.1	-	23.7		
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	14.7	71.1	50.8	37.4	35.6	4,320.1	01.02.01
FTSE/JSE All Share Index	13.3	57.4	42.6	23.9	20.7		
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	11.9	52.2	38.4	-	33.7	515.6	06.07.01
Mean of Alexander Forbes Domestic Manager Watch *	11.4	45.6	38.1	-	22.7		
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	7.8	29.3	23.3	-	20.8	273.4	01.12.01
Alexander Forbes Three-Month Deposit Index plus 2%	2.2	9.1	10.6	-	11.7		
ALLAN GRAY LIFE FOREIGN PORTFOLIO	1.1	14.7	12.5	-	0.2	803.2	23.01.02
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	1.0	8.8	6.9	-	-5.3		
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO	1.9	10.1	9.7	-	9.5	89.1	04.12.02
Daily Call Rate of NEDCOR Bank Limited	1.4	5.7	7.1	-	7.6		
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	9.4	48.7	-	-	31.3	506.9	01.03.04
Mean of Alexander Forbes Large Manager Watch *	10.2	41.1	-	-	32.8		
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	6.0	23.9	-	-	21.8	731.3	01.05.04
Consumer Price Index plus 3% p.a.	1.6	6.0	-	-	6.1		
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	5.6	25.0	-	-	24.9	256.8	15.07.04
Alexander Forbes Three-Month Deposit Index plus 2%	2.2	9.1	-	-	9.3		
FOREIGN-ONLY (RANDS)							
ORBIS GLOBAL EQUITY FUND (RANDS)	2.6	24.4	24.9	10.7	21.7	6,073.5	01.01.90
FTSE World Index (Rands)	3.9	19.0	14.5	2.1	13.6		
ORBIS JAPAN EQUITY (US$) FUND (RANDS)	3.4	45.5	23.3	9.6	19.3	201.0	12.06.98
Tokyo Stock Price Index (Rands)	3.4	52.1	23.4	4.4	12.1		
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	1.0	14.7	12.6	10.8	17.0	3,021.5	23.5.96
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	1.0	8.8	6.9	2.2	11.0		
UNIT TRUSTS **					Figures below unannualised		
EQUITY FUND (AGEF)	***	64.9	46.2	33.5	1254.7	13,362.5	01.10.98
FTSE/JSE All Share Index		57.4	42.6	23.9	400.2		
BALANCED FUND (AGBF)	***	41.5	35.0	26.5	391.6	13,600.7	01.10.99
Average Prudential Fund (excl. AGBF)		37.6	31.5	20.1	193.0		
STABLE FUND (AGSF)	***	20.1	17.1	15.4	136.2	8,127.2	01.07.00
After-tax return of call deposits plus two percentage points		5.6	6.7	7.8	54.5		
MONEY MARKET FUND (AGMF)	***	7.0	8.3	-	52.7	841.5	03.07.01
Domestic fixed interest money market unit trust sector (excl. AGMF)		6.8	8.2	-	53.3		
Orbis Global Fund of Funds (AGGF) ****	***	14.4	-	-	4.3	1,777.0	3.02.04
60% of the FTSE World Index and 40% of the JP Morgan Government Bond Index Global (Rands)		8.7	-	-	2.8		
OPTIMAL FUND	***	8.8	8.7	-	39.9	927.5	01.10.02
Daily call rate of Firstrand Bank Ltd		5.4	6.9	-	29.6		
BOND FUND	***	13.0	-	-	20.3	37.1	01.10.04
BEASSA All Bond Index (total return)		12.9	-	-	21.2		
ORBIS GLOBAL EQUITY FEEDER FUND (AGOE)	***	27.1	-	-	27.1	507.3	01.04.05
FTSE World Index (Rands)		19.0	-	-	19.0		

* THE RETURNS FROM 1 JANUARY 2006 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 DISPLAYED. THE BENCHMARK WAS THE MORGAN STANLEY CAPITAL INTERNATIONAL INDEX (IN RANDS) PRIOR TO THIS DATE.

Segregated Portfolios

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

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

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

Namibia Pooled Portfolio - Allan Gray Namibia Investment Trust

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

South African Pooled Portfolios - Allan Gray Life Limited

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

Risk-profiled Pooled Portfolios

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

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

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

Asset Class Pooled Portfolios

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

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

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

Other Pooled Portfolios

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

Orbis Mutual Funds*

Offshore Products

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

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

Individual Retirement Products

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

* ALLAN GRAY LIVING ANNUITY IS UNDERWRITTEN BY ALLAN GRAY LIFE LIMITED.
** FOR ANNUAL INVESTMENT MANAGEMENT FEES OF ALLAN GRAY UNIT TRUSTS, PLEASE REFER TO THE UNIT TRUST APPLICATION FORM, WHICH CAN BE DOWNLOADED FROM THE WEBSITE WWW.ALLANGRAY.CO.ZA.

Discretionary Products **Retail**

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

* THE ENDOWMENT POLICY IS UNDERWRITTEN BY ALLAN GRAY LIFE LIMITED.
** FOR ANNUAL INVESTMENT MANAGEMENT FEES OF ALLAN GRAY UNIT TRUSTS, PLEASE REFER TO THE UNIT TRUST APPLICATION FORM, WHICH CAN BE DOWNLOADED FROM THE WEBSITE WWW.ALLANGRAY.CO.ZA.

ALLAN GRAY UNIT TRUSTS - CHARACTERISTICS AND OBJECTIVES

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

* TO THE EXTENT THAT THE TOTAL EXPENSES EXCEED THE INCOME EARNED IN THE FORM OF DIVIDENDS AND INTEREST, THE FUNDS WILL NOT MAKE A DISTRIBUTION.
** ALLAN GRAY UNIT TRUST MANAGEMENT LIMITED DOES NOT MONITOR COMPLIANCE BY RETIREMENT FUNDS WITH SECTION 19(4) OF THE PENSION FUNDS ACT (ITEM 9 OF ANNEXURE TO REGULATION 28).

	OPTIMAL FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	GLOBAL EQUITY FEEDER FUND
	Daily call rate of FirstRand Bank Limited. (for amounts in excess of R1m).	Simple average of the Domestic Fixed Unit Trust Sector excluding Allan Gray Money Market Fund.	60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index.	FTSE World Index.
	15%	0%	100%	100%
	A portfolio of carefully selected shares. The stockmarket risk inherent in these share investments will be substantially reduced by using equity derivatives.	A portfolio invested in selected money market instruments providing a high income yield and a high degree of capital stability.	A Rand-denominated balanced portfolio invested in selected FSB registered Orbis funds. The Fund will always hold a minimum 85% of its assets offshore.	A Rand-denominated portfolio feeding directly into the FSB registered Orbis Global Equity Fund.
	Stephen Mildenhall	Michael Moyle	Stephen Mildenhall (William Gray is the Portfolio Manager of the underlying Orbis funds.)	Stephen Mildenhall (William Gray is the Portfolio Manager of the Orbis Global Equity Fund.)
	Superior returns compared to bank deposits.	Superior money market returns.	Superior long-term returns.	Superior long-term returns.
	Low risk and little or no correlation to stock or bond markets.	Low risk of capital loss and high degree of capital stability.	Risk similar to Balanced Fund but less than average foreign balanced mandate.	Risk higher than the Global Fund of Funds.
	• Risk-averse investors. • Investors who wish to diversify a portfolio of shares or bonds. • Retirement schemes and multi-managers who wish to add a product with an alternative investment strategy to their overall portfolio.	• Highly risk-averse investors. • Investors seeking a short-term "parking place" for their funds.	• Investors who would like to invest in an offshore balanced fund. • Those seeking to invest locally in Rands, but benefit from offshore exposure. • Investors wanting to gain exposure to markets and industries that are not necessarily available locally. • Investors who wish to hedge their investments against any Rand depreciation.	• Investors who would like to invest in an offshore global equity fund but do not have the minimum required to invest directly in the Orbis Global Equity Fund. • Those seeking to invest locally in Rands, but benefit from offshore exposure. • Investors wanting to gain exposure to markets and industries that are not necessarily available locally. • Investors who wish to hedge their investments against any Rand depreciation.
	Low income yield.	High income yield.	Low income yield.	Low income yield.
	Distributes bi-annually.	Distributes daily and pays out monthly.	Distributes annually.	Distributes annually.
	Does not comply.	Complies.	Does not comply.	Does not comply.
	Fixed fee of 1.0% (excl. VAT) p.a, plus performance fee of 20% of the daily outperformance of the benchmark. In times of underperformance no performance fees are charged until the underperformance is recovered.	Fixed fee of 0.25% (excluding VAT) per annum.	No fee. The underlying funds, however, have their own fee structure.	No fee. The underlying fund, however, has its own fee structure.
	R25 000 lump sum and/or R2 500 per month debit order.	R50 000 lump sum and/or R5 000 per month debit order.	R25 000 lump sum. No debit orders are permitted.	R25 000 lump sum. No debit orders are permitted.