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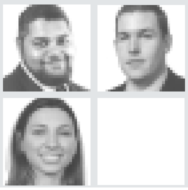

31 December 2006

Quarterly Commentary

ALLAN GRAY

INTELLIGENT INVESTING

Inside this issue

Front cover (top left to right): Abdul Davids, Duncan Artus and Lise Grobbelaar

ALLAN GRAY
INTELLIGENT INVESTING

Allan Gray Limited Registration Number 2005/002576/06 Granger Bay Court Beach Road V&A Waterfront Cape Town 8001
P O Box 51318 V&A Waterfront Cape Town 8002 South Africa Tel 021 415 2300 Fax 021 415 2400
www.allangray.co.za info@allangray.co.za

DIRECTORS **M Cooper** B Bus Sc FIA FASSA **GW Fury** BA LLB MA CFA **DD Govender** B Com CA (SA) CFA
WB Gray B Com MBA CFA (Non-Executive) (Irish) **SC Marais** PhD CFA (Non-Executive)
T Mhlambiso AB MBA JD (Non-Executive) **SC Mildenhall** B Com (Hons) CA (SA) CFA
IN Mkhize BSc MBA (Non-Executive)
COMPANY SECRETARY **CJ Hetherington** B Com CA (SA)

ALLAN GRAY INVESTOR SERVICES
Portswood Square Dock Road V&A Waterfront Cape Town 8001
Client Service Line 0860 000 654 / +27 (0)21 415 2301
Client Service Email info@allangray.co.za
Client/IFA Service Facsimile 0860 000 655 / +27 (0)21 415 2492
IFA Service Line 0860 000 653 / +27 (0)21 415 2690
IFA Email ifa@allangray.co.za

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Greg Fury, Chief Operating Officer

Comments from the Chief Operating Officer

Long-standing clients and readers of our publications would be right in accusing us of undue pessimism. Looking back a year ago, my comment was that 2005 had surprised us by being an exceptional year for South African investors and that investors should be cautious of the year ahead. A year later those who took a similar view on the level of South African assets in general and the JSE in particular may have missed out on the 41.2% return delivered by the JSE over 2006.

This goes to show why we try to avoid making macro predictions and certainly basing our investment decisions on them. Despite our concerns (which continue) about the overall level of asset prices and those of South African shares in particular, we have found that by sticking to what we know and focusing on individual companies, we have been able to identify attractive investment opportunities. Not only have our share selections managed to deliver excellent absolute returns of 49.7% over 2006, but they have also been able to outperform the JSE by a satisfactory margin.

In our asset allocation funds we always compare our selected shares against the alternative asset classes thereby ensuring that we have remained well exposed to shares and as a result our clients' global balanced portfolios have returned 35.6% over the year, well ahead of the average of 31.1%.

Against this backdrop it has been very interesting for us to observe the investment behaviour of our clients and of South African investors. Relatively little information is available on institutional investor behaviour across the market but we have seen in our own clients a general tendency to reduce equity exposure in the face of rising prices – often 'rebalancing' back to some long-term asset allocation, and holding or increasing foreign exposure to the maximum permitted. The transparency of the unit trust industry however gives us much better information as to individual investor behaviour across the market and the analysis in the **RETAIL UPDATE** is interesting in its similarities and differences. Here too we have witnessed investors generally taking a more cautious approach to the equity market and opting for more conservative asset allocation funds. However, in contrast to our own institutional investors and in spite of the relative Rand strength and relative price of domestic equities, few investors have taken advantage of the opportunity to sufficiently diversify their portfolios offshore.

In **INVESTMENT PERSPECTIVE**, Duncan Artus, with specific reference to Edcon and Standard Bank, describes how both banks and retailers have benefited from a background of declining and low interest rates. He shares some insights into how we believe the growth in sales and increase in advances for retailers and banks respectively manifest themselves in future earnings growth and explains why we favour Standard Bank.

At Allan Gray, our research focus is on unearthing those companies that are trading at a discount to the market on a normalised basis and whose earnings currently are substantially below a normal level of earnings. The continued strength of the equity market has, we believe, inflated valuations in general and incorporated unrealistic expectations for future earnings growth.

In **INVESTMENT COMMENTARY** Abdul Davids explains why, even in an expensive market that we can sometimes find attractive opportunities and why we believe that Naspers is one of them.

In a **COMPLIANCE UPDATE** Lise Grobbelaar outlines some of the material changes to be expected when amendments to the Companies Act are signed into law early this year as well as the alignment of South Africa with international accounting practices and the impact these may have on investors.

Allan Gray is the asset manager to the listed fund Allan Gray Property Trust and in the **PROPERTY UPDATE**, John Rainier discusses the results and highlights of the past year for Grayprop and his insights for the year ahead in listed property.

Finally, we have recently made some changes to the Allan Gray group structure and to the board of our main operating company. In this process we have welcomed two new non-executive directors to our board and I would like to introduce them to our clients.

Imogen Mkhize is the former CEO of the 18th World Petroleum Congress, having previously worked at Anglo American, Andersen Consulting, Nedcor and Lucent Technologies South Africa where she was the Managing Director. Imogen is a director of several companies including Sasol Limited, Murray & Roberts Holdings Limited, Illovo Sugar Limited, Datacentrix Holdings Limited and Vodafone Investments (South Africa). Imogen holds a BSc in Information Systems from Rhodes University and an MBA from Harvard. In 2001, the World Economic Forum recognised Imogen as a Global Leader for Tomorrow (GLT).

Thando Mhlambiso is Managing Partner of Seaview Partners. Previously he was Chief Executive Officer of Sanlam Private Equity, Head of Strategy and governance at Sanlam Investment Management, a founding partner of Kagiso Ventures Private Equity Fund, a founding partner of Genesis Capital Partners (a boutique corporate finance and mergers & acquisitions advisory firm based in New York), a mergers & acquisitions associate with JP Morgan, and a corporate finance attorney in New York with the law firm Skadden, Arps, Slate, Meagher & Flom. Thando holds a juris doctorate and MBA from Columbia University, and an AB in Biology from Brown University. He serves as a Trustee, and Chairman of the Investment Committee, of the National Empowerment Fund.

I would like to take this opportunity to thank our investors for their support during 2006, wish you every success for the year ahead and hope that you enjoy this issue of our Quarterly Commentary.

Kind regards

Greg Fury

Duncan Artus, Portfolio Manager

Banks and retailers

EXECUTIVE SUMMARY Allan Gray has over the recent past increased the weighting of financial shares, particularly banks, in clients' portfolios. The purchase of banking shares begs the question why the positions in the retailers (especially the credit retailers) that made up a significant portion of the portfolios from 2001 to 2003 have not been re-established. This commentary sets out some thoughts on why Allan Gray believes that banking shares are currently more attractive than a majority of the retailers.

It has been a great environment for credit-based businesses

Historically, a background of declining and low interest rates has proved very favourable for businesses exposed to credit, particularly consumer credit. A shift to a structurally lower band of interest rates would magnify these benefits. Retailers and banks would have been expected therefore to enjoy significant growth in sales and advances respectively over the past few years. The growth in Standard Bank's advances and Edcon's sales over the past six years highlighted in **Graphs 1** (below) and **2** (on page 3) clearly illustrates this. The growth in the absolute Rand amounts has been remarkable!

Do current levels of profits fully reflect the current environment?

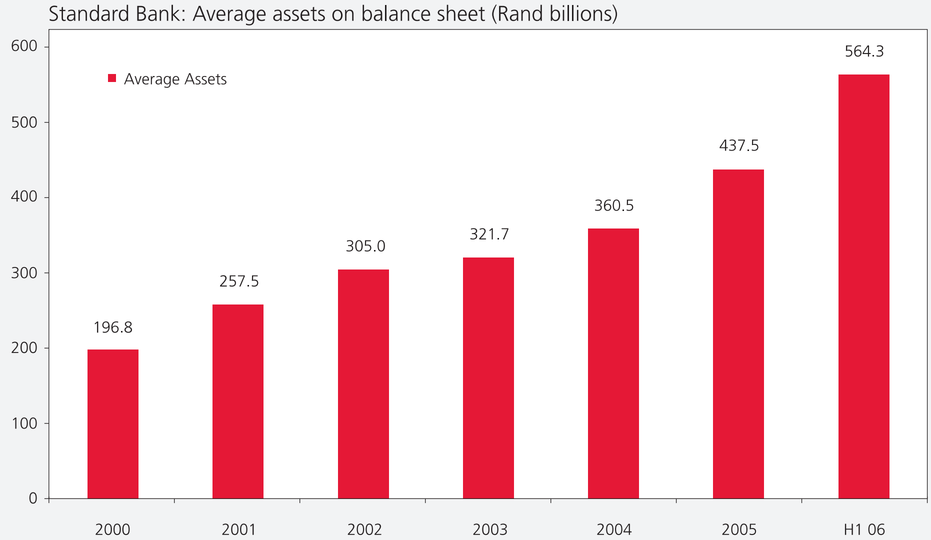
The translation of these sales and advances into reported bottom line profits is quite different for a retailer and a bank however, as illustrated on a basic level below.

When a retailer selling on credit makes a sale, there are two principal forms of income. The first is the gross profit (sales price less the cost of the goods) and the second is the interest received on the outstanding sales amount as compensation for allowing the customer to defer payment for the goods purchased.

The important point is that almost the entire profit from the above transaction is earned in the year the sale is made with the gross profit by far the dominant contributor. Therefore, the income statement of a retailer reflects the benefits of a favourable environment fairly quickly. Of course, the debt (outstanding amount) still has to be collected but more on that to follow.

GRAPH 1

Standard Bank: Average assets on balance sheet (Rand billions)



Source: Company results and Allan Gray research

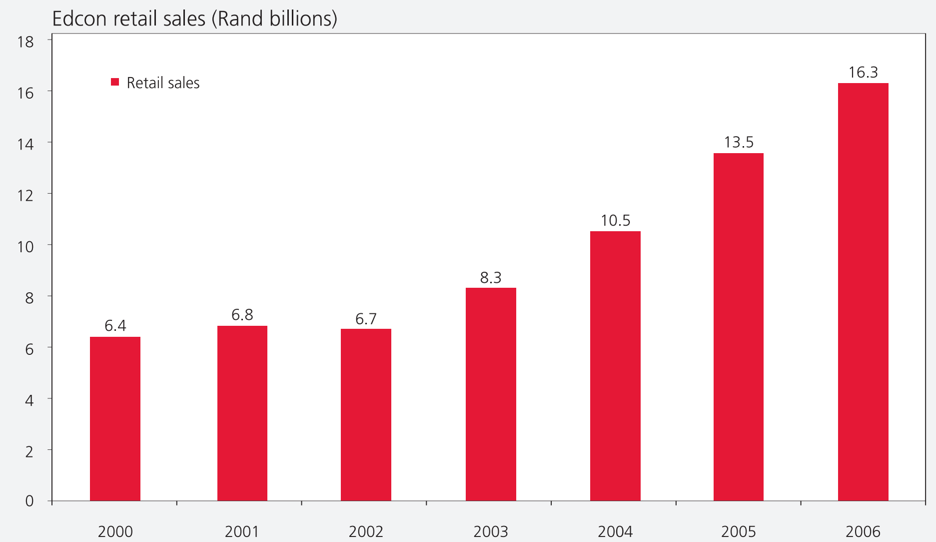
Now contrast this with a bank. Roughly 60% of domestic bank lending is what we could classify as asset backed, such as mortgages (e.g. home loans) and instalment finance (e.g. car loans). These loans tend to remain on the balance sheet of the bank – and contribute to revenue in the form of interest and fees – for between three and seven years. In other words, the bank does not receive in the first year all the benefits from initiating a transaction. The benefits of a favourable environment thus reflect themselves in the income statement over a number of reporting periods. Indeed, banks often make very little profit or even a loss on new loans in the first year they are granted.

As new sales slow down, the focus shifts to successful collection of debtors' balances and advances from customers who may have over-extended themselves. The high proportion of the banks' advances that are asset backed provide the banks with a fair amount of security in case of non-payment. A retailer's debtor's book on the other hand is effectively backed by a customer's disposable income that has many other claims on it. While this higher bad debt risk is compensated to some extent by the higher interest rates charged by retailers, we remain concerned about the cost of collection and administration as a percentage of the average absolute Rand amount outstanding (R1 500 retail debtor versus an average R367 000 home loan debtor). This can result in considerable negative operational leverage for the retailer when costs begin to increase significantly faster than revenue.

Of course, the banks also benefit from fees earned on transactional activity (from higher retail sales) at retailer level and via the wide array of payment methods used by their customers such as ATMs, debit and credit cards as well as the processing and other banking services offered by the banks to the retailers themselves.

Credit retailers typically therefore have a more cyclical profit model than banks. As a result, retailers will tend to be relatively more profitable in good times. **Graph 3** (on page 4) highlights the large underperformance of banks both in terms of earnings (61%) and share price (55%) from their previous peaks to current levels and illustrates that bank earnings are at much lower levels than those of retailers.

GRAPH 2



Source: Company results and Allan Gray research

Investment in new capacity and corporate lending

We believe that as the retail cycle slows, banks' earnings will be underpinned further by a significant increase in corporate lending. The significant growth in activity of many businesses (as anyone travelling around Johannesburg and further afield can testify) has meant that such businesses are operating at close to peak capacity on their current asset base. In our view, domestic businesses will embark on, and indeed many have already announced, significant capital investment programmes to increase their capacity to cope with the high levels of demand and activity. It is reasonable to assume that the banks will fund a material portion of this expansion in capacity. In addition, the increased activity should generate numerous revenue streams for their merchant banking divisions.

"We believe that as the retail cycle slows, banks' earnings will be underpinned further by a significant increase in corporate lending."

The current high level of capacity utilisation implies very efficient use of assets and thus high profitability as illustrated in **Graph 4** (on page 5) which compares historical trends in capacity

GRAPH 3

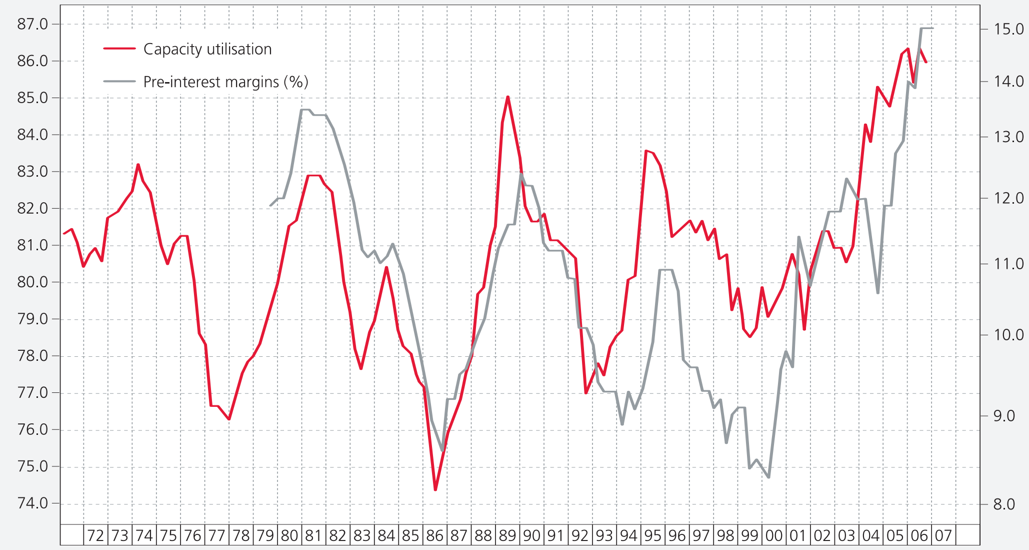
Source: I-Net Bridge and Allan Gray research utilisation and industrial operating margins. The visual correlation makes intuitive sense as demand typically takes time to grow into newly created capacity. We would expect downward pressure on margins therefore as utilisation falls following an increase in capacity. In a worst case scenario, the expansions in capacity are completed simultaneously with a slowdown or decline in demand from peak levels. There is a strong possibility that the expected marked upturn in corporate lending may turn out to be positive for banks and negative for the profitability of many domestic industrial businesses.

Conclusion

We believe that the banks' current relative valuations are attractive and do not reflect our expectation that their earnings should outperform retailers and the market from current levels.

GRAPH 4

Capacity utilisation manufacturing large enterprises, pre-interest margins %



Source: I-Net Bridge

Abdul Davids, Senior Analyst

Naspers: Evolution into a world-class media company

EXECUTIVE SUMMARY Allan Gray has honed in on Naspers; a media company trading at a substantial discount to its intrinsic value. Abdul describes Naspers' range of operations and explains how it has evolved into a world-class media concern and why we find the share attractive.

"The world is changing very fast. Big will not beat small anymore. It will be the fast beating the slow." – *Rupert Murdoch*

The continued bull run in our domestic equity market has resulted in a substantial re-rating of equities to close to 17x historic earnings, compared to a 46-year average rating of 11.6x. In addition, many industrial companies' earnings are at cyclical highs and consequently we believe that these companies' valuations incorporate unrealistic expectations for earnings growth that is unlikely to emerge. At Allan Gray, our research focus is on unearthing those companies that are trading at a discount to the market on a normalised basis and whose earnings currently are substantially below a normal level of earnings. Naspers is a company that is trading at a substantial discount to its intrinsic value and whose earnings are both defensive in nature and below our estimate of a normal level. This article examines Naspers' operations and provides a timeline for its evolution into a world-class media company.

Naspers is a media company that started its operations in a closed local economy and was thus able to build a dominant position in the print media industry. It embarked on its foray into other media ventures 21 years ago with the launch of M-Net in 1986. In that year, newspapers and magazines accounted for 100% of Naspers' turnover and operating profit (see **Table 1** below).

"The early success of M-Net emboldened Naspers management to explore other media platforms and technologies that could be complementary to their print media business."

The early success of M-Net emboldened Naspers management to explore other media platforms and technologies that could be complementary to their print media business. Naspers' active involvement in the establishment of MTN in South Africa in 1993 and the investment in technology company Opentv in 1999 are further examples of this. The group has also simplified its corporate structure over the last four years, resulting in an elimination of the multiple listed entities and the unlocking of value for Naspers shareholders. **Graph 1** (on page 7) highlights the key events in Naspers' recent history that have contributed to the significant value creation for Naspers' shareholders. Naspers' market capitalisation has increased 25x from R1.8bn in 2002 to R45bn currently.

TABLE 1

Division	Profit 1986*	% of total	Profit 2006*	% of total
Print media	R21.1m	100%	R 619m	19%
Pay television			R2 683m	84%
Internet			R 68m	2%
Technology			(R 152m)	(5%)
Total	**R21.1m**	**100%**	**R3 218m**	**100%**

*Operating profit

Source: Allan Gray research, Naspers annual reports

Pay TV dominance

M-Net was the pioneer of satellite pay television broadcasting outside the United States and the forerunner of Multichoice, which now boasts a total subscriber base of 1.7 million subscribers across Africa. Pay TV is both resilient to economic downturns and dominant providers enjoy the benefits of naturally high barriers to entry.

Naspers' Pay TV subscriber base is relatively insensitive to price increases, since access to Pay TV tends to be a lifestyle choice with very little quality in-home entertainment alternatives. The subscription-based revenue model is thus secure and defensive and affected only by severe economic cycles. The Pay TV business is highly cash-generative and requires very little capital expenditure to grow, with the biggest capital item being the leasing of transponders on satellites. The procurement of premium content at a small incremental cost per subscriber in the rest of Africa enables the group to extract substantial economies of scale benefits. Naspers' Pay TV business now accounts for more than 80% of its profits and the bulk of its value. In addition, the many African countries in which it operates still have significant scope to grow subscribers. Naspers' subsidiary Irdeto also successfully developed encryption technology for set-top boxes (decoders) that it now sells to other Pay TV operators as well.

In Greece, Naspers' subsidiary, Netmed, has demonstrated its ability to ward off potential competitors through securing a strong subscriber base. Netmed's competitor adopted a strategy of discounted subscriptions and substantially overpaying for premium content and soccer screening rights in a bid to lure subscribers from the incumbent. However, the

GRAPH 1

TIMELINE

A November 1999 **-** Listing of Opentv in the US

B 2001 **-** TMT meltdown in US

C August 2002 **-** Disposal of Opentv

D December 2002 **-** Take out of minorities in MIH Holdings and MIH Limited

E June 2004 **-** Listing of Tencent on Hong Kong Stock Exchange

Source: Allan Gray research, I-Net Bridge and Naspers annual reports lower subscriptions meant that lower revenues needed to support a substantially higher cost base and as a result the company incurred losses and eventually had to close down its Pay TV operation. The lesson for would-be competitors in the South African market is clear: unless you have secured a critical mass in subscriber numbers, it will not only be difficult to compete with Naspers, but also to deliver an adequate return to shareholders.

"Naspers' Pay TV business now accounts for more than 80% of its profits and the bulk of its value."

Print media dominance

Despite the fact that Naspers has diversified its earnings away from its mature print media business, this business is still generating substantial returns and cashflow. Naspers has spent substantial capital expenditure on its printing infrastructure and continues to dominate that sector. One of the key drivers of profits in the print business is efficient utilisation of printing presses. Thus the launch of new newspaper and magazine titles provides Naspers with an opportunity to utilise spare capacity on its printing presses, resulting in lower unit costs. The launch of the Daily Sun, a daily tabloid published in Johannesburg, Pietermaritzburg, Port Elizabeth and Bloemfontein (but not yet in Cape Town) and that targets the bottom end of the market, significantly contributed to a reduction of the per unit cost base of the printing division. The paper addresses a significant gap in the market and the fact that it is now the biggest-selling daily newspaper in the country is a credit to Naspers management. The recent acquisition of a 30% interest in Abril, Brazil's leading print media company, gives Naspers exposure to this fast-growing emerging market and adds a significant growth vector to the group's print media business.

Internet ventures … now paying off

Naspers owns MWeb, South Africa's second-biggest internet service provider with more than 338 000 subscribers. MWeb was founded in 1997 and is a profitable company with annual revenues in excess of R800m a year. In South Africa, MWeb is poised to benefit from the liberalisation of the telecommunications industry, with the country's PC penetration growth from very low levels being a key catalyst. Naspers used MWeb South Africa as a platform to launch internet services in Thailand, China and very recently India. In China, Naspers owns a 36% interest in Tencent Holdings, the leading provider of instant messaging and interactive services for mobile phones and PC's in China and a 10% interest in Beijing Media, owners of the Beijing Youth Daily newspaper. Both companies are listed on the Hong Kong stock exchange and would be substantial beneficiaries of the fast-growing, Chinese advertising market.

DVB-H (Digital Video Broadcast – Handheld)

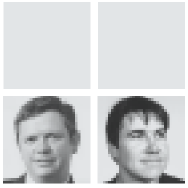
Through its subsidiary Irdeto, Naspers has developed pay television encryption technology for mobile phones and played a significant role in the development of DVB-H, a mobile standard that enables the broadcast of content like live sports, news and movies to mobile phones. DVB-H related services have been launched successfully in Korea and Italy with Naspers conducting trials for its own DVB-H broadcasting in South Africa. Naspers' stated intention of making DVB-H access affordable to the mass market means that this service is set to revolutionise the domestic mobile industry and provide a new source of earnings to the group that could be substantial.

Technology

Naspers' US-based subsidiary, Entriq, successfully developed content protection and subscriber billing and management software for broadband internet usage over mobile phones and PC's. In a nutshell, the software allows content providers like musicians the ability to sell their music through the internet and mobile phones without the fear of piracy. This business is still in its infancy and currently is incurring losses.

Conclusion

We believe that Naspers offers investors a stable and defensive core earnings base that at present is valued at a substantial discount to the domestic market. In addition, investors are not paying for the company's investment in new technologies that could contribute substantially to earnings in the future.



Johan de Lange and Rob Dower

2006: Some caution, some fear, little evidence of greed!

EXECUTIVE SUMMARY At the start of another year it is interesting to take a moment to reflect on past trends. Which unit trusts have been most popular, which unit trust sectors have gained and lost, and which sectors have seen a significant growth in numbers of new funds and why? In the charts and commentary that follow, we aim to highlight some interesting trends and share our general observations about the collective investment scheme industry and where investors have chosen to put their money. In retrospect, have investors' choice of funds been driven by fear or greed? And have they been wise?

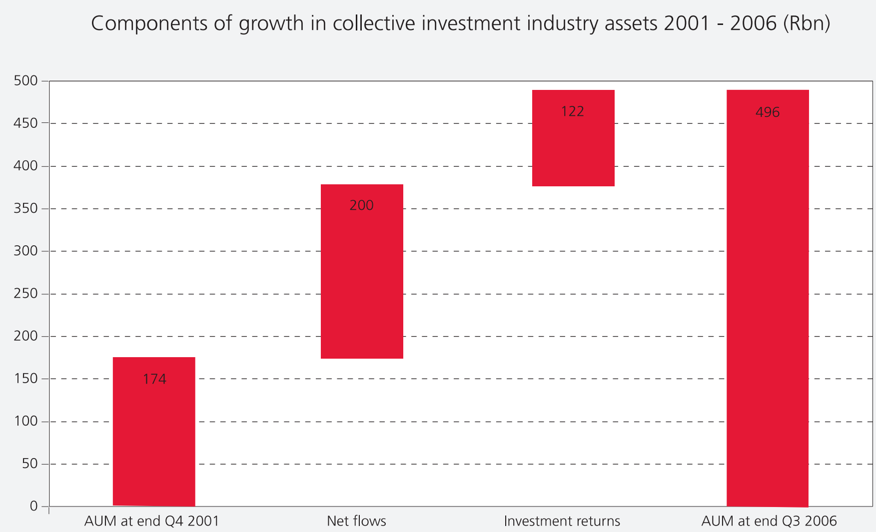
Trend no. 1: Continued growth in flows and assets under management in the unit trust industry

Within the collective investment (unit trust) industry, in the period since December 2001, assets under management have nearly trebled from R174 588m to R496 425m shown in **Graph 1** (below). (Figures and charts are shown up until the latest available data from the ACI at time of printing, i.e. to the end of September 2006). Although investment returns have had a significant impact on total assets invested, especially in the last three years, the bulk of asset growth has been driven by strong net inflows. Hopefully this trend shows educated investors making a choice in favour of simplicity and transparency over more traditional life assurance products, which have been under pressure from the press, from regulators, and as the above flows show, from investors.

Looking forward, there is clearly still substantial room for collective investments to grow at the expense of other savings vehicles - a report released by Barnard Jacobs Mellet titled `Money Flows' in November 2005 stated that the South African contractual savings market had reached the R2 trillion mark by the end of 2004. Analysts agree that the main beneficiary of net inflows over the coming decade will be unit trusts, at the expense of life assurance retail flows, as a result of unit trusts offering more transparent, more flexible and cheaper forms of savings. The recent flow of news regarding future portability / flexibility of retirement annuity transfers supports this view.

We cannot be complacent however about the relative advantages of transparency and flexibility that unit trusts currently enjoy. It is easy to imagine a future in which investors are overwhelmed by the massive choice of unit trust

GRAPH 1



Source: ACI

investments - the recent growth in fund numbers has been extraordinary, with 707 registered schemes to choose from at the end of September 2006 (see **Graph 2** below). It is not inconceivable that in efforts to differentiate their offerings, fund providers could complicate things inadvertently, undermining the trust that investors currently have in the industry. At Allan Gray, we are keenly aware of these issues and you can expect us to zealously guard the simplicity of our product range and the transparency of our business practices.

Trend no. 2: Unit trust investors remain wary of the booming equity market: greed not (yet?) in evidence (see Chart 3 on page 13)

Despite extraordinary equity market returns over each of the last three years, amounting to an annualised three-year compound return of 36% to the end of September 2006. We are encouraged that unit trust investors in general and our own clients in particular have remained cautious about South African shares in the second half of 2006.

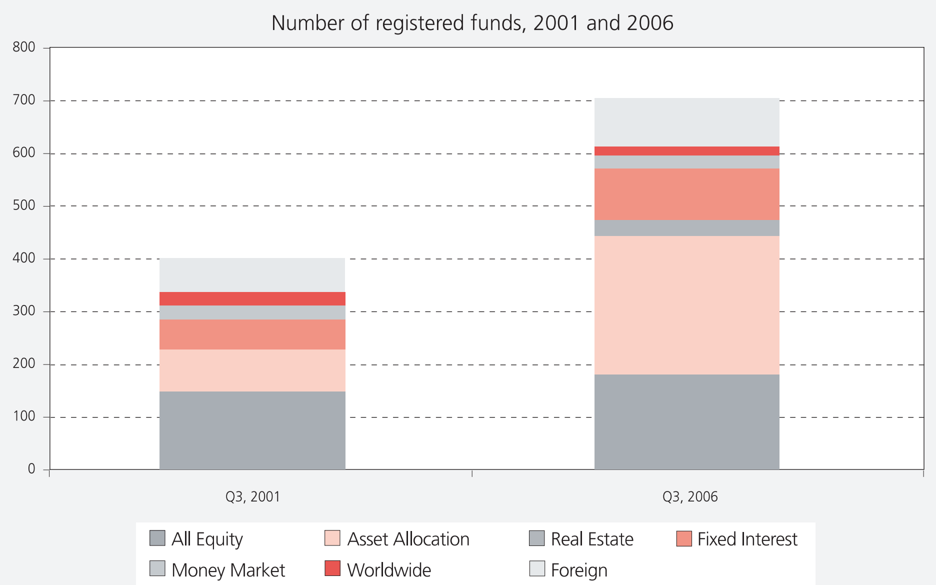
27% of all industry net flows in the last three years (to end of September 2006) were into asset allocation funds, with 46% of these flows into the prudential sectors. Of the flows into the prudential sector, over 100% of the flows were captured by the most conservative low and medium categories, including negative flows from the prudential high category. The explanatory box on page 12 lists the various asset allocation categories within this sector.

The Allan Gray fund taking the greatest flows from investors over this period has been our conservatively managed Stable Fund. In retrospect, relative to investors in the Equity Fund, Stable Fund investors have earned lower absolute returns – but relative to the risk these clients have experienced (and to which they are currently exposed), we would argue, no less attractive returns.

"...we would encourage you to try to reduce the influence of your emotions in your investment decision-making in the year ahead."

Usually market peaks are characterised by strong retail flows into equity funds. As can be seen in **Chart 4** (on page 13), 95%

GRAPH 2



Source: ACI

Asset Allocation Funds

Funds in the asset allocation sectors have a mandate to invest across asset classes (shares, bonds, money market instruments and listed property in some instances). They are called asset allocation funds because the decision about which asset class to invest in is delegated to the fund manager. A closer inspection of the underlying asset allocation within this sector reveals that the proportion of assets invested across the various asset classes has not changed considerably over the last five years and the average equity percentage held by these funds was 55% in both 2001 and 2006. The categories within the asset allocation sectors include:

- Prudential low equity
- Prudential medium equity
- Prudential high equity
- Flexible
- Targeted and absolute real return

of industry net flows have been more cautious or conservative over the last three years: with 27% into asset allocation funds, 42% into fixed interest and 26% into money market funds. One could interpret the weak flows into equity funds as an indication that there are still investors who may be persuaded to buy equities at even higher prices. We prefer to focus on the fundamentals that drive the value of shares, and based on these, and with the market above 25 000 at the time of writing, we think clients should continue to take a cautious approach to equity investments.

"27% of all industry net flows in the last three years (to end of September 2006) were into asset allocation funds, with 46% of these flows into the prudential sectors."

Trend no. 3: Offshore flows still dominated by fear

If the most common pitfall for investors is to invest in assets that have appreciated to the extent that they are over-priced, surely the second most common mistake is to stay away from those that have underperformed sufficiently to offer value.

Various articles in last year's Quarterly Commentaries explained our investment team's (continued) view in favour of offshore diversification. We still hold the view that the Rand is more likely to depreciate in value in coming years than to get stronger, and that in general both fixed interest and equity investments in South Africa are expensive relative to alternatives available internationally.

This is not an unusual view currently amongst South African fund managers, but it seems generally not to have persuaded unit trust investors to act: after negative flows in 2002, 2003 and 2004 the industry has seen only small net investment flows in 2005 and 2006, with an aggregate R2.2bn withdrawn from this segment over the five-year period. It is very encouraging therefore that, in contrast to the prevailing sentiment, our own investors have chosen over the two years since their launch to invest substantially in the two rand-dominated offshore funds in our unit trust range, and in the Orbis funds via our retail investment platform.

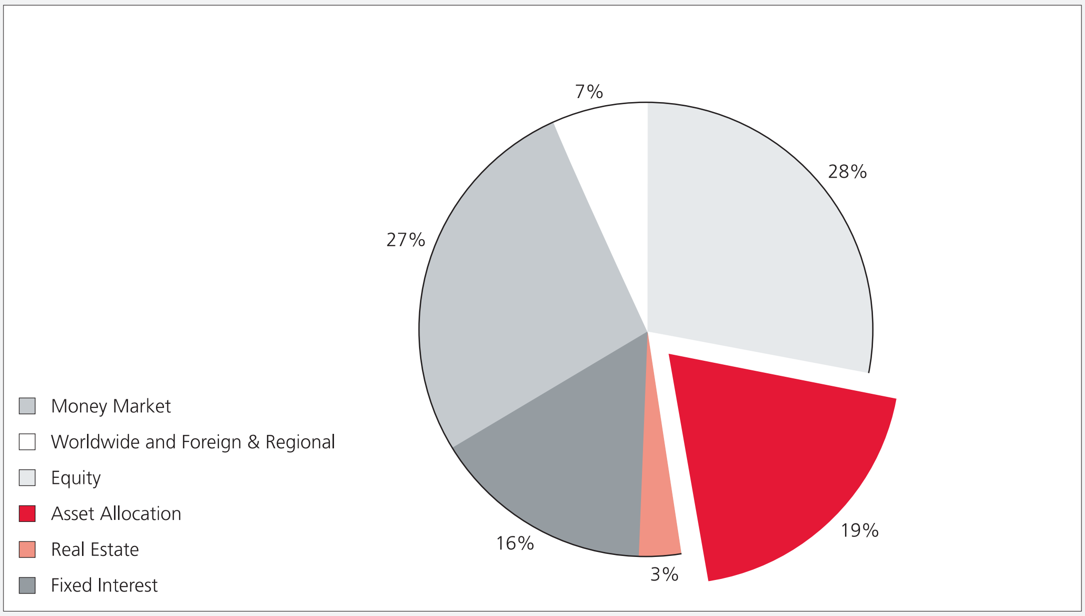
Conclusion

At the start of a new year, we would like to take this opportunity to thank investors and advisers for their support last year and look forward to being of service in the year ahead.

At Allan Gray, we believe that the only way to generate long-term investment performance is to be disciplined, rational, take a long-term view and stick to your clearly defined objectives regardless of the latest investment trend. At different times we may all have been driven by fear or by greed, but we have learnt that our natural psychological biases and emotional reactions can inhibit our ability to make good investment decisions. In line with our investment philosophy, we would encourage you to try to reduce the influence of your emotions on your investment decision-making in the year ahead. We will do our best to help, by keeping our products simple and very transparent.

CHART 3

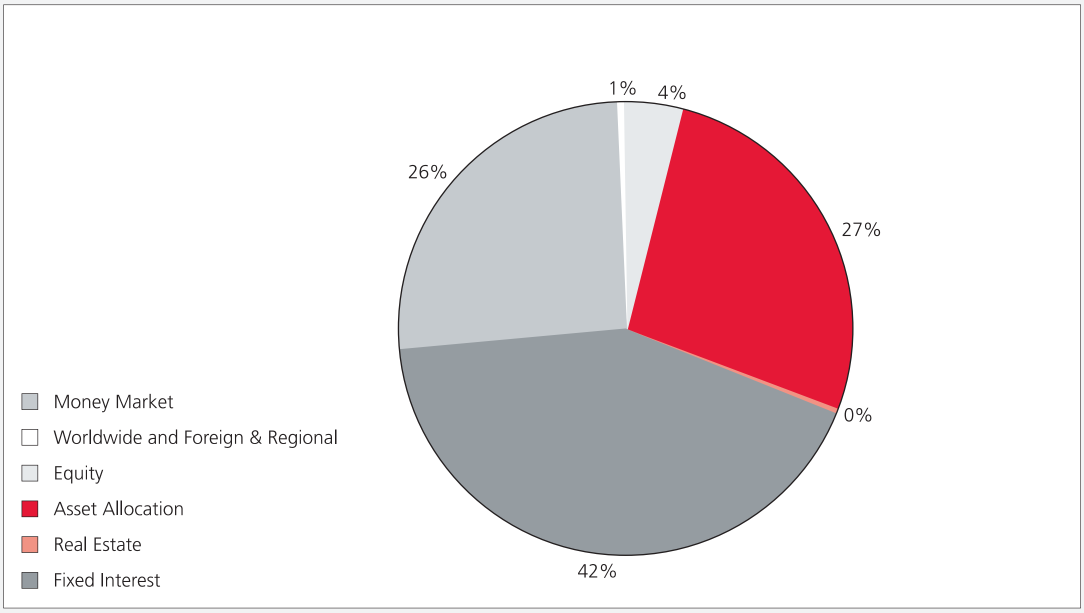
Industry assets under management by sector as at 30 September 2006 – with asset allocation funds up from 6% five years ago



Source: ACI

CHART 4

Industry net flows by sector for the three years to 30 September 2006



Source: ACI

Lise Grobbelaar, Compliance Officer

2007: A new year, a new leaf and a brand new Companies Act?

EXECUTIVE SUMMARY Corporate scandals of the past have not been forgotten as the country's regulators act to tighten governance structures in the auditing profession as well as the financial reporting requirements for companies open to investors. Legislation moving towards promulgation in early 2007 will establish a closer match between South African and International accounting practices, greater protection for minority shareholders and the facilitation of (vendor funded) BEE transactions.

Corporate South Africa and its investors have, for the most part, accepted a heavier hand from our policy makers and regulators, and seemingly scandals such as Leisurenet and Macmed are a thing of the past. We have turned over a new leaf in openly accepting the costs and protection offered by recent legislation such as the Financial Intelligence Centre Act, Prevention of Organised Crime Act, Financial Advisory and Intermediary Services Act and the recent Auditors Profession Act (to name but a few). However, through the Corporate Laws Amendment Bill ('Bill'), the policy makers have indicated that they have not forgotten past corporate scandals and have not forgiven the auditors and directors for their part in them. The purpose of the Bill is to formalise governance structures further in the auditing profession and the financial reporting arrangements of companies in which investors are able to invest.

This has left many investors with a warm feeling, but we must remember that there is no such thing as a free lunch: protection comes at a cost. European surveys have shown us the extent to which an increase in investor protection impacts on admininstrative, compliance and monitoring costs. We should not forget also the possible opportunity cost, i.e. an increase in the regulatory burden could, within the restrictions imposed by Exchange Control, lead to companies turning to countries with less onerous regulatory restrictions. This has happened in the US, where the Sarbanes-Oxley ('SOX') legislation has impacted negatively on the competitive position of US stock exchanges, and seemingly has encouraged companies to look beyond the US for stockmarket listings. Increasingly, Wall Street executives have become concerned that foreign businesses are unwilling to accept the potentially costly disclosure rules and personal executive responsibility imposed on US-listed companies by SOX, which was adopted in 2002 to combat corporate fraud. Russian and Chinese companies in particular have been turning to the London and Hong Kong Stock Exchanges instead.

That said, let us not focus on the negative but rather point out that experience has also shown that, in the main, business is able to deal successfully with these changes and that the benefits of investor protection should outweigh any possible negative impact of increased costs. Another positive spin-off of the proposed legislation, as mentioned in more detail below, is that Black Economic Empowerment ('BEE') transactions are expected to be facilitated in a more efficient manner, due to a relaxation of the section 38 'financial assistance' regulations.

Amendments to the current Companies Act, 1973 were passed by parliament in October and are expected to be signed into law early in 2007. The Bill must not be confused with the concurrent process of corporate law reform in terms of which the entire Act will be repealed and replaced by a new act. The Bill seeks to implement the following important interim changes:

1. **Distinction between 'Widely Held' and 'Limited Interest' companies** for the purpose of imposing stricter corporate governance standards on Widely Held companies (which will include all listed companies). See below for some of the specific consequences.

2. **Financial assistance for the purchase of own shares [section 38]** Currently a company is restricted from providing financial assistance for the purchase of its own shares. The proposed amended section 38 removes these restrictions by permitting a company to help finance the purchase of its own shares where the board of directors is satisfied that the company will remain solvent after the transaction concerned ('solvency test'), and the terms upon which the assistance is to be given have been sanctioned by a special resolution of its shareholders.

   To a large extent, the revised solvency test is similar to the test adopted in 1999 when section 85 of the Act was amended to permit a company to a limited degree to buy back its own shares.

   It is important to mention that, although the explanatory memorandum to the Bill indicates that the amended section 38 is intended to facilitate BEE transactions, the amendments themselves are silent on this issue and the amendments should apply therefore to all financial assistance transactions which meet the solvency test.

3. **Greater protection for minority shareholders [section 228]**
   Currently, section 228 may be used to expropriate the interest of minority shareholders in the event, for example, of a takeover bid, due to it allowing a company to dispose of the whole or the greater part of the assets / undertaking, if sanctioned by an ordinary resolution of its shareholders (50% approval). Bidders may use this relatively low approval level in a manner prejudicial to public shareholders in a listed company as has been attempted in the case of the current bid for the assets of Shoprite, a transaction structure that we have opposed on behalf of our clients. The amended section 228 will make this less likely by raising the required approval level to 75% - a special resolution.

"...the benefits of investor protection should outweigh any possible negative impact of increased costs."

4. **Legal backing to accounting standards used for financial reporting**
   Because investors make financial decisions based on information published by companies, this information must be accurate and reliable. As long as a variety of accounting methods are possible, companies are able to select the mode of accounting that presents their financial position in the most favourable light.

   The amendments will impose a uniform accounting standard (to be developed and maintained by a Financial Reporting Standards Council) to ensure that any financial information published by a company is in accordance with generally accepted accounting practice ('GAAP').

   The standard will have to be comparable with the International Financial Reporting Standards ('IFRS').

   Since the standard to be imposed is primarily for the benefit of investors, and since it is an onerous standard, it is necessary to make provision for Limited Interest Companies (see above), which will be allowed to comply with a less onerous standard than the one imposed on Widely Held Companies.

   Non-compliance with the standards will be considered an offence for which certain office bearers, such as directors, can be held accountable.

   As an aside, while consistency is to be welcomed, so too is simplicity and ease of understanding. A major criticism of IFRS is that the standards are complex, arcane and very difficult for non-auditors and ordinary investors to understand.

5. **Independence of auditors and auditing committees**
   Several measures have been introduced to ensure that auditors will remain independent. The distinction created between Widely Held Companies and Limited Interest Companies for purposes of compliance with accounting standards, as mentioned above, will apply also in relation to audit committees and the rotation of auditors.

   Widely Held Companies will now be obliged to appoint at least two independent non-executive directors to the audit committee. The functions of the audit committee will include the duty to nominate an auditor for appointment by the board, to fix the terms of his/her engagement and to determine which non-audit services the auditor may provide to the company. In terms of the new section 274A, a rotation of auditors will be required. No individual auditor may be appointed to a company for more than five consecutive years.

We at Allan Gray, as service providers to our clients and other stakeholders, pride ourselves on our strong compliance culture. We therefore strongly support the underlying principles of the current corporate law reform, a process 30 years in the making.

John Rainier, Managing Director, Allan Gray Property Trust Management Limited

The South African property market

EXECUTIVE SUMMARY The pricing of listed property has been affected adversely by the recent increases in the repo rate but there are positive indicators for the industrial sector and vacancy rates in the office market have continued to decline. Building completions in the office and shopping sectors have risen sharply in the past year and industrial completions could turn upwards significantly, given the number of building plans passed. Total distributions by Grayprop increased by 11.4% in 2006 over 2005. For 2005, Grayprop's property portfolios total return, as measured by IPD, was 53.9% compared with a benchmark of 33.8%, the second best performance out of 17 participants.

Last year we commented that, in terms of trade, South African imports in US Dollar terms were increasing much faster than exports. The inevitable consequence of this is now being felt with a large current account deficit leading to a substantially weaker rand and mounting inflationary pressures. As a result bond yields were sharply higher in the local market. The monetary authority's response has been to increase the repo rate with the likelihood of more increases to come. This has affected the pricing of listed property adversely and should naturally have the effect of increasing capitalisation rates for direct property as well.

Manufacturing volume is growing faster than a year ago which remains positive for the industrial sector of the property market. Nominal rentals in this sector have achieved superior growth. Vacancy rates in the office market have continued to decline, with Sapoa reporting national decentralised office vacancies at 4.5%, down from 5.7% in the previous quarter. This positive trend is also evident in the industrial market, where, apart from the Cape Peninsula, vacancies are below 5%.

Building completions in the office and shopping sectors have risen strongly over the past year. While industrial building completions have declined substantially, it is evident that this could turn sharply upwards given the level of plans passed. Reportedly, building cost inflation as measured by the BER building cost index is running currently at a meagre 5%, which is difficult to explain given the strength of the market. Our expectation is for this to be revised upwards.

Turning to the retail market, during the year sales grew sustantialy in real terms over the previous year. Given the recent increase in short rates and the prospect of further rate hikes, we would expect retail growth to soften.

Mean escalations in rentals have softened already to around 8% from the 9% to 10% range a year ago.

Grayprop has continued with its programme of selling buildings that have inferior prospects whilst the redevelopment of certain properties continued.

TABLE 1

	2001	2002	2003	2004	2005	2006	6-year compound % p.a.
Allan Gray Property Trust	39.3	1.3	36.9	39.9	57.1	9.7	29.2
Inflation	4.4	11.2	3.7	1.3	4.4	5.3	5.0
Real return	34.9	-9.9	33.2	38.6	52.7	4.4	23.7

Source: I-Net Bridge

TABLE 2

Sector	2006	2005
Retail	8	5
Offices	5	9
Industrial	11	9
Other	0	0
Total	**8**	**6**

Source: Allan Gray

Performance and financial results

Our purpose is the creation of long-term wealth for our unitholders. Over the last six years to September 2006 the total return per annum generated by Allan Gray Property Trust compared with inflation is depicted in **Table 1** (on page 16).

Total distributions for the year to 30 September 2006 were R388,5 million, equivalent to 39.0 cents per unit (2005: 35.0 cents). The total distribution comprised an interim distribution of 19.3 cents (2005: 17.4 cents) and a final distribution of 19.7 cents (2005: 17.6 cents) paid on 27 November 2006. This is an 11.4% increase for the year.

Allan Gray Property Trust participates in the IPD South Africa annual benchmark survey, which measures the performance of its underlying direct property portfolio against other listed funds. For 2005 Allan Gray Property Trust's property portfolios total return, as measured by IPD, was 53.9% compared with the benchmark of 33.8%. This was the second best performance out of 17 participants. In addition, Allan Gray Property Trust won the annual award for the best three-year performance for its office and industrial portfolios, making it the first fund to win in all three categories.

Vacancy levels

Vacancy levels in terms of rentable area at 30 September are depicted in **Table 2** above.

During the past year 14 174m^2 of new leases were signed up in the office portfolio and 31 590m^2 of leases were renewed, a total of 39% of the rentable area of the portfolio. 24 469m^2 of new leases were signed by the industrial portfolio and 41 957m^2 of leases were renewed, a total of 33% of the rentable area of the portfolio.

Properties with a carrying value of R61.4 million were sold. Proceeds from sales totalled R76.5 million.

TABLE 3

Sector	Value (Rm)	Cents/unit	Forward	% of portfolio 2006	% of portfolio 2005
Retail	4 169	419	8.3%	76	76
Office blocks	631	63	10.0%	11	10
Industrial	455	46	10.0%	8	9
Specialised	237	24	9.2%	4	5
Total property	5 492	551	8.7%	100	100
Long-term borrowings	(299)	(30)			
Net current assets	5	1			
	5 198	**522**			

Source: Rode and Associates CC

Valuation

The composition of the Trust's portfolio, as valued by the independent valuer, Rode and Associates CC, is shown in **Table 3** (on page 17).

The net asset value per unit is 24.9% higher than that of last year, as a result of improved valuations. The market rating of the property portfolio in terms of the anticipated forward earnings yield has improved from 9.5% last year to 8.7%.

The portfolio is concentrated significantly in 14 properties with these 14 making up 80% of the portfolio by value.

Exposure to major tenants

Exposure to major tenants is shown in **Table 4** below (proportionate share where appropriate).

Distributions per unit for the year ending 30 September 2007 are anticipated to increase by between 8% and 12% compared with the year ended 30 September 2006.

TABLE 4

Company	Number	% Total Grayprop area	% Total Grayprop rent
Edcon	36	4.1%	4.9%
Foschini	55	1.5%	3.5%
Pick 'n Pay	11	5.9%	3.0%
Mr Price	31	1.6%	2.8%
Shoprite	5	4.3%	2.6%
Standard Bank	20	1.3%	2.5%
Ackermans	23	1.3%	2.3%
Life Healthcare Group	2	1.8%	2.3%
Woolworths	6	2.8%	2.0%
Southern Sun	1	1.9%	1.9%
The Government of South Africa	2	2.2%	1.7%
ABSA	15	0.5%	1.6%
Truworths	15	0.9%	1.5%
First National Bank	15	0.6%	1.4%
Masstores	4	1.7%	1.4%
New Clicks	17	1.0%	1.3%
Nedbank	9	0.4%	0.9%
Total		**33.8%**	**37.7%**

Source: Allan Gray

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	49.7	41.2	8.5
Annualised to 31.12.06			
From 1.01.2004 (3 years)	45.6	37.6	8.0
From 1.01.2002 (5 years)	38.1	22.7	15.4
From 1.01.1997 (10 years)	30.8	17.4	13.4
Since 1.01.78	32.1	22.3	9.8
Since 15.06.74	30.3	19.1	11.2
Average outperformance			11.2
No of Calendar Years outperformed			26
No of Calendar Years underperformed			6

* NOTE: ALLAN GRAY COMMENCED MANAGING PENSION FUNDS ON 1.01.78. THE RETURNS PRIOR TO 1.01.78 ARE OF INDIVIDUALS MANAGED BY ALLAN GRAY, AND THESE RETURNS EXCLUDE INCOME.

NOTE: LISTED PROPERTY INCLUDED FROM 1 JULY 2002.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 15 JUNE 1974 WOULD HAVE GROWN TO **R55 559 672** BY 31 DECEMBER 2006. BY COMPARISON, THE RETURNS GENERATED BY THE FTSE/JSE ALL SHARE INDEX OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R2 954 245**.

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

PERIOD	ALLAN GRAY	AFLMW**	OUT/(UNDER) PERFORMANCE
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.8	8.2
2006	35.6	31.1	4.5
Annualised to 31.12.06			
From 1.01.2004 (3 years)	32.2	30.3	1.9
From 1.01.2002 (5 years)	26.1	20.2	5.9
From 1.01.1997 (10 years)	26.6	18.2	8.4
Since 1.01.78	25.2	19.3	5.9
Average outperformance			5.9
No of Calendar Years outperformed			24
No of Calendar Years underperformed			5

** CONSULTING ACTUARIES SURVEY RETURNS USED UP TO DECEMBER 1997. THE RETURN FOR DECEMBER 2006 IS AN ESTIMATE.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 1 JANUARY 1978 WOULD HAVE GROWN TO **R6 692 614** BY 31 DECEMBER 2006. THE AVERAGE TOTAL PERFORMANCE OF GLOBAL MANDATES OF LARGE MANAGERS OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R1 677 819**.

Annualised performance in percent per annum to 31 December 2006

	FOURTH QUARTER (unannualised)	1 YEAR
SEGREGATED RETIREMENT FUNDS		
GLOBAL BALANCED MANDATE	**12.2**	**35.6**
Mean of Alexander Forbes Global Large Manager Watch #	10.8	31.1
DOMESTIC BALANCED MANDATE	**16.0**	**38.5**
Mean of Alexander Forbes Domestic Manager Watch *	13.8	31.3
EQUITY-ONLY MANDATE	**19.2**	**49.7**
FTSE/JSE All Share Index	11.8	41.2
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN MANDATE	**9.4**	**32.3**
Mean of Alexander Forbes Namibia Average Manager *	10.8	28.9
EQUITY-ONLY RELATIVE MANDATE	**15.9**	**44.6**
Weighted average of client specific benchmarks *	15.2	39.9
POOLED RETIREMENT FUNDS		
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	**12.0**	**35.6**
Mean of Alexander Forbes Global Large Manager Watch *	10.8	31.1
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	**16.0**	**39.2**
Mean of Alexander Forbes Domestic Manager Watch *	13.8	31.3
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	**19.3**	**49.9**
FTSE/JSE All Share Index	11.8	41.2
ALLAN GRAY LIFE RELATIVE DOMESTIC EQUITY PORTFOLIO	**13.1**	**43.8**
FTSE/ JSE CAPI Index	12.3	40.8
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	**13.6**	**37.9**
Mean of Alexander Forbes Domestic Manager Watch *	13.8	31.3
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	**10.4**	**33.8**
Mean of Alexander Forbes Global Large Manager Watch *	10.8	31.1
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	**6.9**	**22.2**
Alexander Forbes Three-Month Deposit Index plus 2%	2.5	9.6
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	**4.5**	**19.9**
Alexander Forbes Three-Month Deposit Index plus 2%	2.5	9.6
ALLAN GRAY LIFE FOREIGN PORTFOLIO	**-5.9**	**20.5**
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	-4.5	26.7
ALLAN GRAY LIFE ORBIS GLOBAL EQUITY PORTFOLIO	**-3.0**	**30.2**
FTSE World Index (Rands)	-2.1	33.7
ALLAN GRAY LIFE MONEY MARKET PORTFOLIO	**2.1**	**7.5**
Alexander Forbes Three-Month Deposit Index	2.0	7.4
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO	**3.0**	**9.4**
Daily Call Rate of Nedcor Bank Limited	1.8	6.3
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	**6.9**	**20.0**
Consumer Price Index plus 3% p.a.	0.8	8.5
FOREIGN-ONLY (RANDS)		
ORBIS GLOBAL EQUITY FUND	**-3.1**	**30.6**
FTSE World Index	-2.2	33.7
ORBIS JAPAN EQUITY (US$) FUND	**-10.1**	**10.0**
Tokyo Stock Price Index	-4.9	19.0
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	**-5.9**	**20.3**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global	-4.5	26.7
UNIT TRUSTS **		
EQUITY FUND (AGEF)	***	**43.5**
FTSE/JSE All Share Index		41.2
BALANCED FUND (AGBF)	***	**29.8**
Average Prudential Fund (excl. AGBF)		27.0
STABLE FUND (AGSF)	***	**18.1**
After-tax return of call deposits plus two percentage points		6.2
MONEY MARKET FUND (AGMF)	***	**7.5**
Domestic fixed interest money market unit trust sector (excl. AGMF)		7.3
GLOBAL FUND OF FUNDS (AGGF)	***	**19.9**
60% of FTSE World Index and 40% of JP Morgan Government Bond Index Global (Rands)		26.6
OPTIMAL FUND	***	**8.4**
Daily call rate of Firstrand Bank Ltd		6.2
BOND FUND	***	**4.9**
BEASSA All Bond Index (total return)		5.5
GLOBAL EQUITY FEEDER FUND (AGOE)	***	**28.1**
FTSE World Index (Rands)		33.5

PERFORMANCE AS CALCULATED BY ALLAN GRAY.
CONSULTING ACTUARIES SURVEY RETURNS USED TO 31 DECEMBER 1997. ALEXANDER FORBES GLOBAL MANAGER WATCH USED FROM 1 JANUARY 2006.
* THE RETURN FOR QUARTER FOUR 2006 IS AN ESTIMATE, AS THE RELEVANT SURVEY RESULTS HAVE NOT YET BEEN RELEASED.
** THE RETURNS FOR THE UNIT TRUSTS AND THEIR RESPECTIVE BENCHMARKS ARE NET OF INVESTMENT MANAGEMENT FEES.
*** UNAVAILABLE DUE TO ACI REGULATIONS.

3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R millions)	INCEPTION DATE
32.2	26.1	25.2	27,110.1	01.01.78
30.3	20.2	19.3		
36.3	31.1	25.6	23,184.6	01.01.78
32.6	24.0	19.7		
45.0	37.1	25.3	46,004.6	01.01.90
37.6	22.7	16.7		
29.9	24.7	23.3	4,804.6	01.01.94
28.6	19.5	16.3		
41.1	29.2	30.6	9,363.5	19.04.00
38.6	23.4	22.0		
32.1	26.2	28.8	10,227.2	01.09.00
30.3	20.2	19.9		
36.9	31.1	30.7	5,892.6	01.09.01
32.6	24.0	23.8		
45.5	37.3	36.5	5,444.5	01.02.01
37.6	22.7	22.3		
39.9	-	45.0	589.2	05.05.03
38.2	-	42.6		
31.6	33.9	33.5	498.2	06.07.01
32.6	24.0	22.9		
-	-	31.1	646.8	01.03.04
-	-	30.9		
21.9	20.4	20.4	504.5	01.12.01
9.5	11.4	11.4		
-	-	22.9	832.2	15.07.04
-	-	9.4		
13.0	-	3.8	1,092.2	23.01.02
12.8	-	0.0		
-	-	23.4	930.5	18.05.04
-	-	21.5		
7.6	9.4	9.6	520.8	21.09.00
7.4	9.2	9.4		
7.9	-	9.6	115.7	04.12.02
6.2	-	7.4		
-	-	20.7	758.4	01.05.04
-	-	7.0		
21.1	5.0	22.3	9,877.1	01.01.90
18.3	-0.3	14.7		
20.8	3.8	18.3	213.8	12.06.98
24.6	2.6	12.8		
13.2	3.4	17.6	3,638.3	23.05.96
12.8	-1.1	12.5		
		Figures below unannualised		
39.6	33.7	1613.8	17,043.6	01.10.98
37.6	22.7	523.7		
29.8	25.9	491.3	18,771.3	01.10.99
27.8	19.3	238.9		
16.5	15.7	166.1	14,407.4	01.07.00
6.1	7.5	61.9		
7.4	9.0	61.4	1,453.7	03.07.01
7.3	9.1	61.8		
-	-	30.1	3,430.2	03.02.04
-	-	33.0		
7.2	-	49.8	863.4	01.10.02
6.0	-	35.8		
-	-	24.6	35.2	01.10.04
-	-	25.9		
-	-	59.1	1,456.6	01.04.05
-	-	53.0		

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 R50 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 benchmark.

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 (cont.)

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.	• Performance fee based on outperformance of the benchmark.	• 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 five-year savings plan.
Investment Options	Can be invested in any combination of unit trusts.
Minimum Investment Size	R 20 000 lump sum R 500 monthly recurring investment
Initial Fee	None
Annual Administration Fee	None
Investment Management Fee**	Depends on the combination of unit trusts selected as investment options.
Switching Fee	None

* 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(s)	Stephen Mildenhall, Arjen Lugtenburg, Duncan Artus, Ian Liddle, Delphine Govender, Orbis Investment Management Limited	Stephen Mildenhall, Arjen Lugtenburg, Duncan Artus, Ian Liddle, Delphine Govender, Orbis Investment Management Limited	Stephen Mildenhall	Sandy McGregor, Andrew Lapping
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 • no intial fee • transparency • alignment of investor interests with our own • any annual fee is performance-based where feasible, and is described in more detail below each fund.	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.
	Delphine Govender	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.

Notes

ALLAN GRAY
INTELLIGENT INVESTING