

## Optimise your returns in uncertain times

Current volatile world markets may be tempting you to hide your money under your mattress, but Allan Gray's Optimal Fund offers a solid alternative. Irrespective of market fluctuations over the long term, this absolute return fund focuses on reducing stockmarket risk, while still aiming to provide long-term positive returns.

### Allan Gray Optimal Fund: not only for the faint-hearted

Launched more than five years ago, the Allan Gray Optimal Fund is targeted at risk-averse investors who are seeking to minimise exposure to the inherent volatility of the stockmarket. The Fund aims to capture a portion of the returns generated by Allan Gray's stock selection without exposing investors to the level of volatility they would typically experience in a pure equity fund. The Optimal Fund may also be an appropriate addition to the overall portfolio of an individual with an appetite for more risk but who requires increased diversification.

### Optimal Fund outperforms its benchmark

In essence, the Optimal Fund delivers a return equal to that of interest on cash deposits plus or minus the percentage by which Allan Gray's equity portfolio out- or underperforms the market. Since its launch in 2002, the Optimal Fund has produced a cumulative return of 64%, outperforming its benchmark by 16.7%. For the 2007 calendar year it returned 9.5%, compared with the benchmark return of 8.5%.

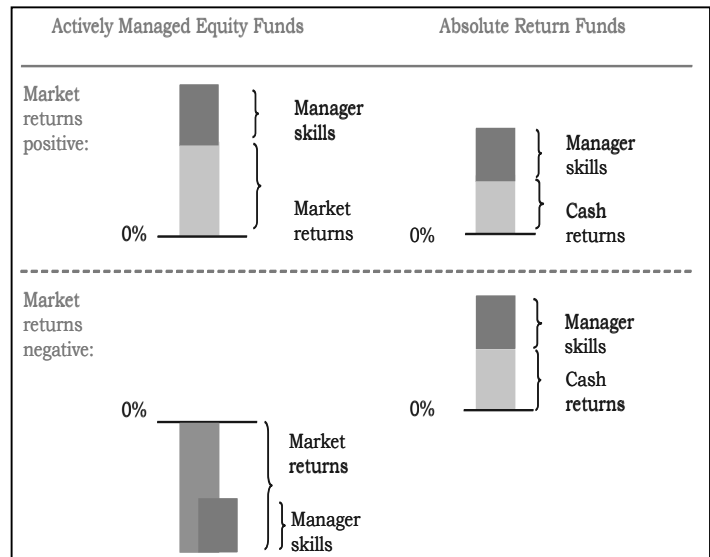
### Returns uncorrelated with overall equity markets

Following an exceptional run in equities since early 2003, we have been cautioning our clients to temper their return expectations from the market as a whole. In particular, we consider the overall level of company earnings and profitability to be very high. While we see pockets of value on a stock specific basis, we continue to believe there is substantial risk of capital loss from the overall market in the short- to medium term. As such, the Optimal Fund's very low net equity exposure and corresponding potential to deliver long-term absolute returns, uncorrelated with overall equity markets, makes it a compelling choice, in our view.

The Optimal Fund is constructed by first investing in a broad basket of shares, with specific overweight positions in those shares we believe are particularly attractive versus the market. Then, overall equity exposure in the Fund is substantially reduced using stock index futures to hedge the portfolio. By using hedging, an implied cash yield on the hedged position is earned. In addition, a further component of returns would be the difference in performance between the Fund's shares and that of the stockmarket index.

In times of strong equity markets, the Optimal Fund will naturally produce an overall absolute return far lower than the overall stockmarket or a pure equity fund. However, when equity markets are looking less promising, and the possibility of negative returns from shares is high, the Optimal Fund should continue to deliver an absolute return – thereby outperforming equities overall. This is because the Fund is designed to deliver a return that is not linked to stockmarket performance (refer to graphic above).

### Stockmarket hedging



### How Allan Gray uses hedging in the Optimal Fund

Hedging can be applied to physical commodities and financial instruments. One of the most common ways to hedge in financial markets is through a futures contract, also known as a derivative, because it 'derives' its value from the underlying asset – for example, a share. A 'future' is a contract between two parties to buy or sell something at a specified future date for a set price. It is a financial instrument bought and sold through the SA Futures Exchange (Safex), which is part of the JSE.

Allan Gray currently uses futures in its Optimal, Balanced and Stable funds. These funds sell futures on the basket of shares that make up the All-Share Index 40 (ALSI 40) to reduce share exposure, as opposed to selling actual shares. The price of a futures contract changes on a daily basis, as it is linked to the price of the underlying share or basket of shares represented by an index. The profit or loss from any change in price of a futures contract is deducted or credited to the investor's account each day.

*Commentary by Delphine Govender, Portfolio Manager and Director, Allan Gray Limited*

Allan Gray Limited is an authorised Financial Services Provider. Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to the future. Unit trust prices are calculated on a net asset value basis, which is the total value of all assets in the portfolio including any income accrual and less any permissible deductions from the portfolio. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from Allan Gray Unit Trust Management Limited. Commission and incentives may be paid and if so, would be included in the overall costs. Forward pricing is used. The FTSE/JSE Africa Index Series is calculated by FTSE International Limited ("FTSE") in conjunction with the JSE Limited ("JSE") in accordance with standard criteria. The FTSE/JSE Africa Index Series is the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE Africa Index Series index values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved. A prospectus is available from Allan Gray Unit Trust Management Limited - a member of the ACI. On the Allan Gray Optimal Fund a fixed fee of 1.14% (1% plus VAT) for class A units and 2.39% (2.10% plus VAT) for the class B units per annum is levied daily on the daily value of the Fund. In addition, a performance-fee of 20% (excluding VAT) of the daily outperformance to the benchmark is also levied. However, a high watermark principle applies in that no fees are charged in times of underperformance, until such time as the underperformance is recovered. Declarations of income accruals are made bi-annually.