

Allan Gray launches a Bond Fund

With effect 1 October 2004, Allan Gray will have launched a new bond unit trust fund. The main objective of the Fund is to provide investors with the maximum returns, both in terms of income and capital growth, available from South African interest bearing securities.

Currently the Allan Gray range of unit trusts addresses the needs of long-term investors with differing risk profiles in equity, money market and asset allocation funds, but has not catered for the needs of those who have high income requirements and wish to invest in interest bearing securities only. Consequently, it was decided to add to our existing suite of funds by launching an Allan Gray Bond Fund.

While the launch of a bond fund in the unit trust market is a first for Allan Gray, we are certainly no stranger to managing interest bearing assets, including bonds. We have managed the fixed interest component of our retirement fund portfolios since January 1978. Since then, our clients' portfolios have outperformed the fixed interest component of the Consulting Actuaries Survey by more than 1% per year - quite commendable for such a low risk asset class.

The All Bond Index will serve as the benchmark of the Fund. In line with Allan Gray's policy of basing fees on performance, fees will depend on the relative performance of the Fund against the Index over the preceding rolling 12 months. A performance-based fee ranging between 0.25% and 0.75% per annum (excluding VAT) of the market value of the Fund will be levied. In situations where the performance of the Fund is equal to or worse than the benchmark over the preceding 12 months, the fee will be 0.25% per annum. A positive difference in performance between the Fund and the All Bond Index of 2% per annum will be required to reach the maximum fee of 0.75% per annum.

A minimum lump sum size of R25 000 and a minimum debit order of R2 500 per month will apply.

Jack Mitchell and Sandy McGregor, both Directors of Allan Gray Limited and with extensive experience in the management of interest bearing securities, will manage the Fund jointly. Jack Mitchell is also the Chairman of Allan Gray Unit Trust Management Limited.

The Fund intends to achieve its objectives by investing in a combination of South African interest bearing securities including public, parastatal, municipal and corporate bonds, inflation linked bonds, loan stock, debentures, fixed deposits, money market instruments and cash, and will seek to preserve at least the nominal value of investors' capital.

The Fund will suit investors who are looking for returns in excess of those provided by income funds, money market instruments or cash investments and who are prepared to accept some risk of capital loss in exchange for the prospect of earning increased returns. It will also cater for those investors who want to draw a regular income-stream without consuming capital.

In conclusion, although Allan Gray is typically very conservative when it comes to launching new products, as it does not believe it is in investors' best interests to offer a wide range of 'flavour of the month' funds, we do recognise our clients' needs. Given a superior fixed interest track record, the launch of the Allan Gray Bond Fund was a logical decision.

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

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. All of the unit trusts may be capped at any time in order for them to be managed in accordance with their mandates. Allan Gray Unit Trust Management Limited is a member of the Association of Collective Investments.