2008

ANNUAL REPORT
UNIT TRUSTS

ALLAN GRAY

Contents

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Chairman's Report

MARKET COMMENTARY 2008

Following five years of almost uninterrupted growth in world asset markets, 2008 was a landmark year in global stock market history. The FTSE World Index recorded its largest-ever calendar year decline, losing 40.9% in US dollar terms. The FTSE/JSE All Share Index ('ALSI') followed the trend of emerging markets around the world and was down 45.1% in US dollar terms for the year. Increasing global risk aversion and collapsing commodity prices resulted in big withdrawals of capital from emerging markets, including South Africa. This caused the US dollar to strengthen by 28.5% against the rand and somewhat softened the declines of our stock market for local investors.

Recession becomes a global phenomenon

Following the collapse of Lehman Brothers on 15 September 2008 the recession that started in Europe and the United States caused by the sub-prime crisis has become a global phenomenon. Between August and November there was a massive contraction in world trade, in the case of some countries by as much as 30%. It looks as if the world is entering a severe and prolonged recession.

The rapid deterioration in business conditions is almost without precedent and has taken most people by surprise. In response central banks have aggressively slashed interest rates, with Japanese and US rates now almost at zero. The US Federal Reserve ('Fed') and the Bank of Japan have embarked on a programme of quantitative easing or printing money. Fiscal discipline has been abandoned and most governments have embarked on major spending programmes with little thought as to how this will be financed, in the hope that government spending will help improve the adverse consequences of the serious economic contraction.

A collapse in commodity prices, most notably oil, and rising unemployment has dramatically reversed the inflation outlook. Markets are now worried about deflation, and this, together with the dramatic decline in central bank lending rates, has triggered a major rally in global bond markets. Initially the financial crisis strengthened the dollar as investors repaid debt and repatriated foreign investments. However, more recently the dollar has weakened as concerns mount about the massive printing of money by the Fed.

An open economy such as South Africa's is extremely vulnerable to the collapse of world trade and we can expect a significant deterioration in business conditions in the first half of 2009. In fact, this has already started: the dollar value of our exports declined by about one-third between August and November 2008 due to falling commodity prices and a contraction in volumes. Consumer spending is subdued and private sector capital spending is expected to decline as projects are postponed or cancelled. This is a hostile environment for corporate earnings. Company profits and dividends will be under pressure.

In common with the rest of the world, South Africa's inflation prospects have improved dramatically. The South African Reserve Bank has been out of step with its peers elsewhere, having only cut rates by 0.5% in 2008. This will change as inflation is likely to head towards the 6% target in the first half of 2009. However, consumer price inflation ('CPI') remains vulnerable to the rand exchange rate. The collapse in South Africa's exports is a serious threat to the country's economic stability.

Allan Gray Unit Trusts performed well relative to their benchmarks

The Allan Gray unit trust funds ('the Funds') performed well during 2008, if not in absolute terms, certainly relative to their benchmarks. The underweight position in resources shares that resulted in relative underperformance against our peers and the index in 2007 was the primary driver of the outperformance of our Equity, Balanced and Stable Funds in 2008.

Locally, the ALSI has fallen to a single digit Price Earnings ('PE') Ratio. However we continue to be concerned about the level of current earnings for many South African companies. Although the market seems to be discounting a correction in these earnings, we continue to believe that the potential earnings declines are not being fully discounted by the current share prices. Based on these concerns, our equity exposure continues to be concentrated in high-quality companies with relatively stable and defensive earnings and companies whose earnings are below normal. These include SABMiller, British American Tobacco, MTN, Remgro, Richemont, Anglogold Ashanti, Harmony and Sappi.

The recent market correction has afforded us the opportunity to increase our holdings in such companies as we believe that at current share prices they should outperform cash and bonds over a four-year investment horizon. However, we continue to caution investors that they should not expect future real returns similar to those achieved in the extraordinary 2003 to 2007 period. We would not be surprised if 2009 is another tough year for the economy and world markets.

OVERVIEW OF FUNDS

Net flows into our funds were R4.55 billion in 2008. Assets under management as at 31 December 2008 were R76 billion.

We are pleased to report that the number of unitholders who entrust us with their investments continues to increase.

Specific information on each of our Funds follows in order of Fund inception. All rankings are calculated by Morningstar.

Allan Gray Equity Fund

CATEGORY

Domestic – Equity – General

PORTFOLIO MANAGERS

Ian Liddle, Duncan Artus, Delphine Govender, Andrew Lapping, Simon Raubenheimer

LONG-TERM INVESTMENT OBJECTIVE

We aim to earn a higher total rate of return than the average return of the South African equity market as represented by the FTSE/JSE All Share Index, including income, without assuming greater risk.

FUND CHARACTERISTICS

Our Equity Fund is for investors who have decided to invest in the South African stock market through the Allan Gray equity selection process. Our mandate is to invest across the broad range of shares on the FTSE/JSE, selecting the most attractive shares, without assuming greater risk than the FTSE/JSE All Share Index.

To achieve this objective, the Fund is virtually fully invested in shares at all times. As a result, returns are likely to be volatile. However, history shows that returns from long-term equity investments are superior to those derived from interest-earning or property assets.

MAXIMUM NET EQUITY EXPOSURE

100%

INCOME YIELD AND INCOME DISTRIBUTION

The Fund has a low income yield and distributes income bi-annually. To the extent that the total expenses exceed the income earned in the form of dividends and interest, the Fund will not make a distribution.

The Equity Fund is suitable for those investors who:

- Seek long-term wealth creation.
- Are comfortable with market fluctuation i.e. short-term volatility.
- Typically have an investment horizon of five years plus.
- Seek an equity 'building block' for a diversified multi-asset class portfolio.

Annual management fee (excluding VAT)	
Performance fee on the under/outperformance of the benchmark (adjusted for fund expenses and cash flows) over a two-year rolling period.	
Minimum fee:	0.00%
Fee at benchmark:	1.50%
Sharing rate:	10.00%
Maximum fee:	3.00%

Total Expense Ratio for the year ended 31 December 2008[1]

Total Expense Ratio		Included in Total Expense Ratio			
		Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	2.32%	0.10%	0.50%	1.71%	0.01%
Class B units	3.54%	0.10%	0.47%	2.96%	0.01%

[1] A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of December 2008. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, STT, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. The information provided is applicable to Class A units and Class B units.

Retirement funds:

Regulation 28 refers generally to limits imposed on exposure to certain asset classes and individual shares and instruments.

The Fund is managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act, except for the overall/total equity distribution limit, due to it being an equity portfolio.

Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals, in which case they will be corrected within a reasonable time period. 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 A to Regulation 28). It is the responsibility of each retirement fund to monitor this exposure.

Performance to 31 December 2008	Since inception 1 October 1998 Unannualised (%)	Since inception 1 October 1998 Annualised (%)	1-year performance 31 December 2008 Annualised (%)
Allan Gray Equity Fund[1]	1 584.5	31.7	-14.4
Benchmark[2]	470.7	18.5	-23.2
Sector median[3]	471.27	18.53	-22.93
Outperformance of benchmark	1 113.8	13.2	8.8

[1] Fund performance to 31 December 2008 shown net of all management fees and expenses as per the TER disclosure.
[2] FTSE/JSE All Share Index including income (Source: I-Net Bridge). Benchmark performance calculated by Allan Gray as at 31 December 2008.
[3] Domestic Equity General Sector

FUND PERFORMANCE COMMENTARY

While it is never comfortable to report negative returns to investors, when one considers the objective of the Fund and its characteristics, the Fund's performance over the last year has been very good. It has outperformed its benchmark by 8.8%. Relative to its peers, the Equity Fund ranked 7th out of 71 funds in 2008.

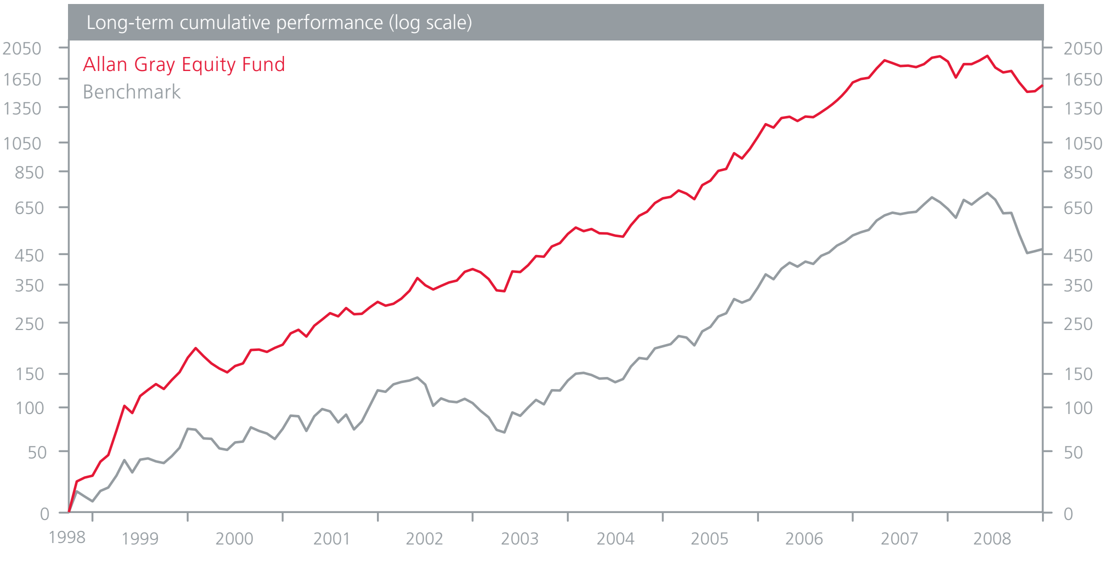
More importantly, since inception on 1 October 1998 the Fund has measurably outperformed its benchmark and is placed 1st out of 19 funds. The margin of outperformance since inception should be regarded as exceptional.

In October this year, the Fund achieved a significant milestone of its 10th anniversary. In the 10 years, original investors in the Fund have grown an initial investment of R1 000 into R17 149, in spite of more recent negative returns. By comparison, if they had invested the same R1 000 in the benchmark FTSE/JSE All Share Index, it would have grown to R6 283.

The South African stock market, although sheltered, is not immune nor an exception to the global market volatility. In this context, we continue to apply our philosophy of buying shares when they are trading at a discount to our assessment of their intrinsic value. Our assessment of the intrinsic value of a company will tend to be much more stable than the company's share price, as we try and look through economic cycles and take a long-term view when valuing the company.

Investors in the Fund hopefully take a similar long-term view on the value of the Fund's holdings. If this is the case, they should hopefully be able to reap the rewards of enduring the current stock market volatility in the fullness of time.

As we reported last year, in terms of our investment philosophy, we are willing to accept short-term underperformance by being different from the benchmark and by not buying shares that are trading above their underlying intrinsic value, even if they could rise further in the short term. This philosophy reduces the risk of capital loss and enables the Equity Fund to take advantage of the opportunities for long-term outperformance that arise during these times. The returns delivered by the Equity Fund this year relative to both the market and its peers show that this approach has reduced the extent of investor's potential capital losses. Given the uncertainty of the year ahead, we hope that our philosophy of focusing on the risk of capital loss (as well as long-term opportunities for outperformance) is reassuring for our equity investors.



Allan Gray Balanced Fund

CATEGORY

Domestic – Asset Allocation – Prudential Variable Equity

PORTFOLIO MANAGERS

Ian Liddle, Duncan Artus, Delphine Govender, Andrew Lapping and Simon Raubenheimer (Foreign assets are invested in Orbis funds.)

LONG-TERM INVESTMENT OBJECTIVE

The Fund aims to earn a higher rate of return than the market value-weighted average of funds in both the Prudential Medium Equity sector and the Prudential Variable Equity sector excluding the Allan Gray Balanced Fund, without assuming greater risk.

FUND CHARACTERISTICS

The Balanced Fund invests in a portfolio that can include shares, interest-bearing securities, listed property and international assets. As such, the Balanced Fund is suitable for investors who wish to delegate both the equity selection and asset allocation decisions to Allan Gray.

Given the spread of investments, we expect returns to be less volatile than those of the Equity Fund, but somewhat lower over the long term.

MAXIMUM NET EQUITY EXPOSURE

75%

INCOME YIELD AND INCOME DISTRIBUTION

The Fund has an average income yield and distributes income bi-annually. To the extent that the total expenses exceed the income earned in the form of dividends and interest, the Fund will not make a distribution.

The Balanced Fund is suitable for those investors who:

- Seek long-term wealth creation.
- Have an appetite for risk similar to the average person investing in pension funds.
- Typically have an investment horizon of three years plus.
- Wish to delegate the asset allocation decision to Allan Gray.

Annual management fee (excluding VAT)[1]	
Performance fee on the under/outperformance of the benchmark over a two-year rolling period.	
Minimum fee:	0.50%
Fee at benchmark:	1.00%
Sharing rate:	10.00%
Maximum fee:	1.50%

[1] The annual management fee is calculated on the daily value of the Fund excluding any assets invested in the Orbis funds. Assets invested in the Orbis funds incur a management fee. These, along with other expenses are included in the Total Expense Ratio.

Total Expense Ratio for the year ended 31 December 2008[1]

	Total Expense Ratio	Included in Total Expense Ratio			
		Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	1.82%	0.10%	0.50%	1.15%	0.07%
Class B units	3.08%	0.10%	0.50%	2.41%	0.07%

[1] A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of December 2008. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, STT, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. The information provided is applicable to Class A units and Class B units.

Retirement funds:

Regulation 28 refers generally to limits imposed on exposure to certain asset classes and individual shares and instruments.

The Fund is managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act, except for total foreign exposure limit which is 20% (FSB Circular 3 of 2008) and which excludes the British American Tobacco shares received from unbundling of Richemont and Remgro (FSB Circular 9 of 2008). ASISA regards a prudential collective investment scheme portfolio with foreign exposure of up to 20%, as conforming to Regulation 28 for fund classification purposes.

Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals, in which case they will be corrected within a reasonable time period. 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 A to Regulation 28). It is the responsibility of each retirement fund to monitor this exposure.

Performance to 31 December 2008	Since inception 1 October 1999 Unannualised (%)	Since inception 1 October 1999 Annualised (%)	1-year performance 31 December 2008 Annualised (%)
Allan Gray Balanced Fund[1]	557.2	22.6	-1.8
Benchmark[2]	244.3	14.3	-9.8
Outperformance of benchmark	312.9	8.3	8.0

[1] Fund performance to 31 December 2008 shown net of all management fees and expenses as per the TER disclosure.
[2] The daily average return weighted by market value of funds in both the Domestic Asset Allocation Prudential Medium and Prudential Variable Equity categories excluding the Allan Gray Balanced Fund (Source: Morningstar). Benchmark performance calculated by Allan Gray as at 31 December 2008.

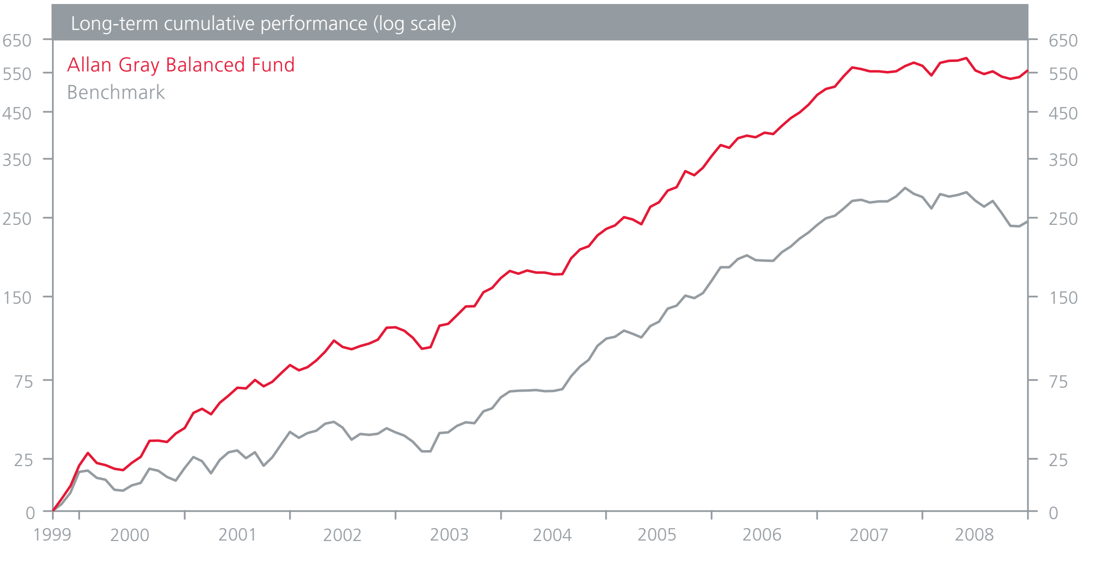
FUND PERFORMANCE COMMENTARY

The negative return for the year of 1.8% is disappointing. However, the Fund did outperform its benchmark by 8% in 2008 and was placed 9th out of 36 of its peers. Its performance since inception on 1 October 1999 has been exceptional and the Balanced Fund is ranked 1st out of 10 funds for this period.

The Fund's outperformance in 2008 can mainly be attributed to its defensive positioning over the last year. An important element of this defensive positioning was the Fund's investment in companies with relatively stable demand patterns and strong franchises. The Fund's relatively defensive asset allocation and use of stock market index futures to hedge against the risk of declining stock markets further contributed to the Fund's outperformance.

While the Fund continues to be defensively positioned in terms of its stock selection, the stock index futures have been closed out and the net equity exposure of the Fund increased.

One of the risks that investors face is that the world's central bankers and politicians may not call a halt to their very aggressive fiscal and monetary policies in time to prevent a new era of higher inflation. Equities, being real assets, tend to provide superior protection from inflation than do bonds or the money markets. The Balanced Fund is invested with these risks in mind.



Allan Gray Stable Fund

CATEGORY

Domestic – Asset Allocation – Prudential Low Equity

PORTFOLIO MANAGER

Ian Liddle (Foreign assets are invested in Orbis funds.)

LONG-TERM INVESTMENT OBJECTIVE

The Fund aims to provide a return that exceeds the return on call deposits plus 2%, on an after-tax basis at an assumed rate of 25%. It also seeks to provide a high level of capital stability and to minimise the risk of loss over any two-year period.

MAXIMUM NET EQUITY EXPOSURE

40%

INCOME YIELD AND INCOME DISTRIBUTION

The Fund has a high income yield and distributes income quarterly. To the extent that the total expenses exceed the income earned in the form of dividends and interest, the Fund will not make a distribution.

FUND CHARACTERISTICS

With the risk-averse and yield-conscious investor in mind, the Allan Gray Stable Fund was introduced to complement the existing Allan Gray Equity Fund and Allan Gray Balanced Fund. The Fund consists of a portfolio of bonds, cash and shares, with the basis for share selection being the provision of a high income yield with a low probability of negative performance.

In line with the Allan Gray Balanced Fund, the asset allocation of the Fund is subject to Regulation 28, as laid down in the Pension Funds Act (see below). In terms of the Fund's industry classification, the maximum equity exposure is limited to 40%. However, unless the stock market offers exceptional value, the Portfolio's share exposure is likely to be lower.

Through our proprietary analysis, shares in sound companies with good prospects are periodically uncovered which, surprisingly, generate dividend yields that approach bank deposit returns – especially on an after-tax basis. Such shares are selected not only for the high level of tax-free income, but also because they tend to behave quite differently from the rest of the stock market. If the overall stock market rises or declines, these shares tend to move less in percentage terms. They therefore provide an element of capital stability together with a better yield. This Fund therefore offers a higher income stream with a low risk of permanent capital loss.

The Stable Fund is suitable for those investors who:

- Are risk-averse and require a high degree of capital stability.
- Require a reasonable income but also some capital growth.
- Are retired or nearing retirement.
- Seek to preserve capital over any two-year period.

Annual management fee (excluding VAT)[1]	
Performance fee on the under/outperformance of the benchmark over a two-year rolling period.	
Minimum fee:	0.50%
Fee at benchmark:	1.00%
Sharing rate:	10.00%
Maximum fee:	1.50%

No fee is charged if the Fund's cumulative return over a two-year period is equal to or less than 0%.

[1] The annual management fee is calculated on the daily value of the Fund excluding any assets invested in the Orbis funds. Assets invested in the Orbis funds incur a management fee. These, along with other expenses are included in the Total Expense Ratio.

Total Expense Ratio for the year ended 31 December 2008[1]

		Included in Total Expense Ratio			
	Total Expense Ratio	Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	1.78%	0.08%	0.48%	1.14%	0.08%
Class B units	3.03%	0.08%	0.48%	2.39%	0.08%

[1] A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of December 2008. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, STT, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. The information provided is applicable to Class A units and Class B units.

Retirement funds:

Regulation 28 refers generally to limits imposed on exposure to certain asset classes and individual shares and instruments.

The Fund is managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act, except for total foreign exposure limit which is 20% (FSB Circular 3 of 2008) and which excludes the British American Tobacco shares received from unbundling of Richemont and Remgro (FSB Circular 9 of 2008). ASISA regards a prudential collective investment scheme portfolio with foreign exposure of up to 20%, as conforming to Regulation 28 for fund classification purposes.

Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals, in which case they will be corrected within a reasonable time period. 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 A to Regulation 28). It is the responsibility of each retirement fund to monitor this exposure.

Performance to 31 December 2008	Since inception 1 July 2000 Unannualised (%)	Since inception 1 July 2000 Annualised (%)	1-year performance 31 December 2008 Annualised (%)
Allan Gray Stable Fund[1]	225.3	14.9	11.2
Benchmark[2]	91.7	8.0	9.7
Outperformance of benchmark	133.6	6.9	1.5

[1] Fund and benchmark performance adjusted for income tax at a rate of 25%. Fund performance to 31 December 2008 shown net of all fees and expenses as per the TER disclosure.
[2] Return of call deposits (for amounts in excess of R5 million) with FirstRand Bank Limited plus 2%; on an after-tax basis at a tax rate of 25% (Source: FirstRand Bank). Benchmark performance calculated by Allan Gray as at 31 December 2008.

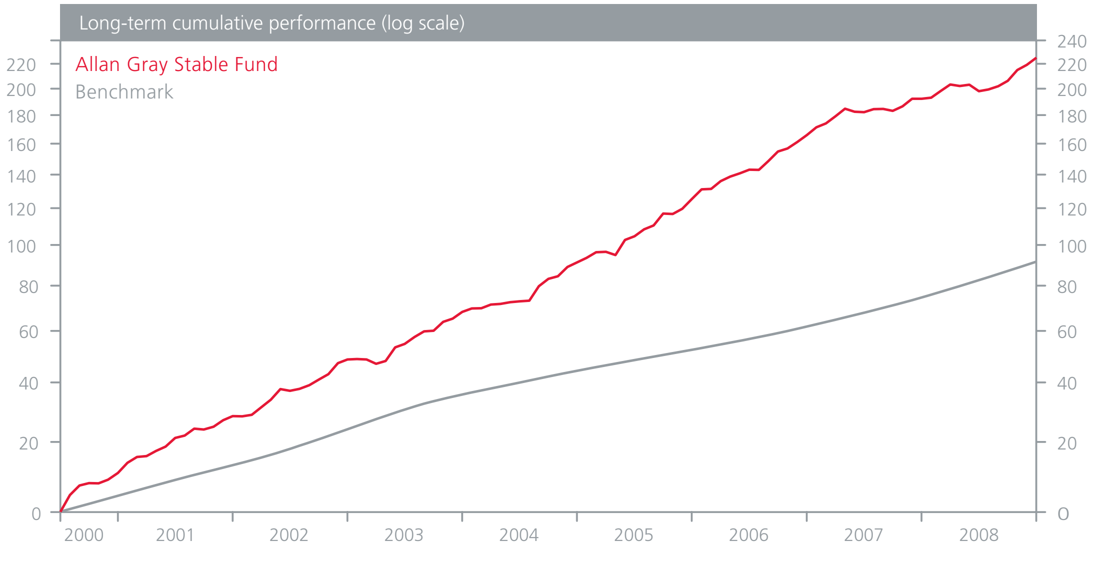
FUND PERFORMANCE COMMENTARY

In 2008 the Fund enjoyed returns of 11.2% versus the benchmark return of 9.7%. Since inception on 1 July 2000, the level of outperformance of the Fund should be seen as exceptional. In its category it was placed 1st out of 38 funds in 2008 and is also 1st in its category since inception. We note that, when making comparisons, funds in this sector could have widely diverse risk and reward profiles, primarily due to differences in share exposure.

We are very pleased that the Fund has been able to capture some of the upside from this decade's equity bull market, but avoid most of the losses arising from 2008's bear market so that it could still report better-than-cash returns at the end of a difficult year for stock market investors.

While the Fund continues to be defensively positioned in terms of its stock selection, its stock index futures position has been closed out and the net equity exposure of the Fund has increased. The protection provided by equities against inflation risk tends to be superior to that provided by bonds or money markets.

The Fund's aims are currently best served by an increased equity exposure, a large weighting in cash holdings and a substantial yet conservative offshore portfolio.



Allan Gray Money Market Fund

CATEGORY

Domestic – Fixed Interest – Money Market

PORTFOLIO MANAGER

Andrew Lapping

LONG-TERM INVESTMENT OBJECTIVE

The Fund aims to provide a return that exceeds the simple average of the Domestic Fixed Interest Money Market Unit Trust sector, excluding the Allan Gray Money Market Fund. It also aims to provide a high degree of capital stability with minimal risk of loss.

FUND CHARACTERISTICS

The Fund aims to preserve capital, maintain liquidity and generate a high level of income. The Fund invests in selected South African Money Market instruments providing a high income yield and a high degree of capital stability.

While capital losses are unlikely, they can occur if, for example, one of the issuers of the assets underlying the fund defaults. In this event, losses will be borne by the Fund and its investors. The Fund is managed to comply with Regulation 28 of the Pension Funds Act (see below).

MAXIMUM NET EQUITY EXPOSURE

0%

INCOME YIELD AND INCOME DISTRIBUTION

The Fund has a high income yield and distributes income daily and pays monthly.

The Money Market Fund is suitable for those investors who:

- Want to find a short-term safe haven for funds during times of market volatility.
- Are highly risk-averse.
- Require monthly income distributions.
- Have retired and have invested in a living annuity product. Underlying growth in the fund and distributions are not taxed in a living annuity.

Annual management fee (excluding VAT)	
Fixed fee	0.25%

Total Expense Ratio for the year ended 31 December 2008[1]

	Total Expense Ratio	Included in Total Expense Ratio: Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	0.3%	0.00%	0.00%	0.29%	0.01%

[1] A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of December 2008. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, STT, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. The information provided is applicable to Class A units.

Retirement funds:

Regulation 28 refers generally to limits imposed on exposure to certain asset classes and individual shares and instruments.

The Fund is managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act.

Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals, in which case they will be corrected within a reasonable time period. 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 A to Regulation 28). It is the responsibility of each retirement fund to monitor this exposure.

Performance to 31 December 2008	Since inception 1 July 2001 Unannualised (%)	Since inception 1 July 2001 Annualised (%)	1-year performance 31 December 2008 Annualised (%)
Allan Gray Money Market Fund[1]	98.3	9.6	12.1
Benchmark[2]	98.1	9.5	11.9
Outperformance of benchmark	0.2	0.1	0.2

[1] Fund performance to 31 December 2008 shown net of all fees and expenses as per the TER disclosure.

[2] Since inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. The current benchmark is the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund (Source: Morningstar). Benchmark performance calculated by Allan Gray as at 31 December 2008.

FUND PERFORMANCE COMMENTARY

In this category the difference in performance between funds is typically minimal. The Fund outperformed its benchmark in 2008 by a small margin, but still achieved 3rd position out of 22 funds. Since inception on 1 July 2001 it is ranked 6th out of 14 funds.

When managing the Money Market Fund, we have a very low risk tolerance as we are mindful that the objectives of capital preservation and liquidity are paramount for investors in the Fund. Although the Fund avoids stock market risk, it carries its own unique set of risks, which in an extreme scenario could result in losses for investors.

The Fund did a good job last year of protecting its investors from the ravages of falling stock markets – not too surprisingly since its mandate does not allow stock market investments – but this does not mean that it is a risk-free investment. On the contrary, investors in the Money Market Fund are exposed to a number of risks, which can result in real (and, in extreme situations, even nominal) capital losses. The three major risks to which investors in the Money Market Fund are exposed include:

1. Negative real interest rates

If the rate of inflation exceeds after-tax interest rates, then the spending power of an investor's capital in the Money Market Fund will decline over time even if he or she re-invests all of the after-tax income distributed from the Fund. The Allan Gray Money Market Fund provides great protection from falling stock markets, but it cannot provide any protection from the erosion of real capital should South Africa's policymakers choose to administer negative real interest rates.

2. Credit risk

The Allan Gray Money Market Fund invests in debt instruments (or 'IOUs') which oblige the issuer of the IOU to repay a fixed money amount on a specified date within the next year. If the issuer were to go 'bankrupt' and default (in other words, not be able to pay the full amount due when it is due) the Fund and its investors would bear a loss.

One way in which we try to address credit risk is to invest the Fund in a diversified portfolio of debt instruments issued by a range of issuers, so that any potential losses arising from the default of any one issuer will be constrained to a limited portion of the Fund's portfolio.

3. Liquidity risk

In extreme circumstances (such as were experienced in the US money markets in 2008), withdrawals can be unexpectedly large, and this may force the Money Market Fund to sell its longer-dated paper in order to fund the withdrawals.

If this paper is sold at a loss (as there may be other money market funds all trying to sell the same paper at the same time), then that loss will be borne by the Fund and its investors. We have several measures in place to mitigate liquidity risk:

- We structure the Fund's investments so that there is a relatively smooth flow of maturities for funding withdrawals in the ordinary course.
- We have the right to borrow up to 10% of the assets of the portfolio in order to fund withdrawals and have banking facilities in place should this be necessary.
- We have the right to 'ring-fence' large withdrawals.

Allan Gray Optimal Fund

CATEGORY

Domestic – Asset Allocation – Targeted Absolute Return

PORTFOLIO MANAGER

Delphine Govender

LONG-TERM INVESTMENT OBJECTIVE

The Fund aims to exceed the return of the Daily Call Rate of FirstRand Bank Limited.

MAXIMUM NET EQUITY EXPOSURE

20%

INCOME YIELD AND INCOME DISTRIBUTION

The Fund has a low income yield and distributes income bi-annually. To the extent that the total expenses exceed the income earned in the form of dividends and interest, the Fund will not make a distribution.

FUND CHARACTERISTICS

The objective of the Fund is to provide investors with long-term absolute (i.e. positive) returns higher than that available in the money market sector, but with less risk of loss than a share portfolio. In order to achieve this objective, the Allan Gray Optimal Fund will invest in a portfolio of select shares and reduce the stock market exposure inherent in these shares by hedging (i.e. using equity derivative instruments).

The Optimal Fund may be appropriate for the investor who wishes to avoid the volatility generally associated with stock and bond markets, but still wants exposure to specialist stockpicking skills and seeks a positive rate of return which is higher than that of cash.

This unique Fund is designed to carry a low risk of capital loss. The Fund's return should not be correlated with equity markets, being dependent instead on the ability of the Fund's equity portfolio to outperform the underlying equity index (ALSI 40) against which the portfolio is constructed.

The Optimal Fund is suitable for those investors who:

- Seek absolute (i.e. positive) returns regardless of stock market trends.
- Are risk-averse and require a high degree of capital stability.
- Are retired or nearing retirement.
- Seek the diversification benefits of uncorrelated returns relative to shares or bonds.
- Wish to diversify a portfolio of shares or bonds.
- Wish to add a product with an alternative investment strategy to their overall portfolio.

Annual management fee (excluding VAT)	
Performance fee on the outperformance of the benchmark. A high watermark structure applies.	
Minimum fee:	1.00%
Fee at benchmark:	1.00%
Sharing rate:	20.00%
Maximum fee:	uncapped

Total Expense Ratio for the year ended 31 December 2008[1]

	Total Expense Ratio	Included in Total Expense Ratio			
		Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	1.98%	0.28%	0.54%	1.14%	0.02%
Class B units	3.16%	0.28%	0.47%	2.39%	0.02%

[1] A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of December 2008. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, STT, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. The information provided is applicable to Class A units and Class B units.

Performance to 31 December 2008	Since inception 1 October 2002 Unannualised (%)	Since inception 1 October 2002 Annualised (%)	1-year performance 31 December 2008 Annualised (%)
Allan Gray Optimal Fund[1]	84.3	10.3	12.3
Benchmark[2]	63.4	8.2	11.0
Outperformance of benchmark	20.9	2.1	1.3

[1] Fund performance to 31 December 2008 shown net of all fees and expenses as per the TER disclosure.
[2] The return on call deposits with FirstRand Bank Limited (for amounts in excess of R5 million) (Source: FirstRand Bank). Benchmark performance calculated by Allan Gray as at 31 December 2008.

FUND PERFORMANCE COMMENTARY

The Fund invests in a portfolio of equities and substantially reduces stock market risk and exposure by selling equity derivatives against the equity portfolio. As a result, the Fund's return should not be correlated with equity markets, but it is dependent rather on the level of short-term interest rates and the ability of the Fund's equity portfolio to outperform the underlying equity index against which the portfolio is constructed.

In essence, therefore, the Fund's return comprises two components:

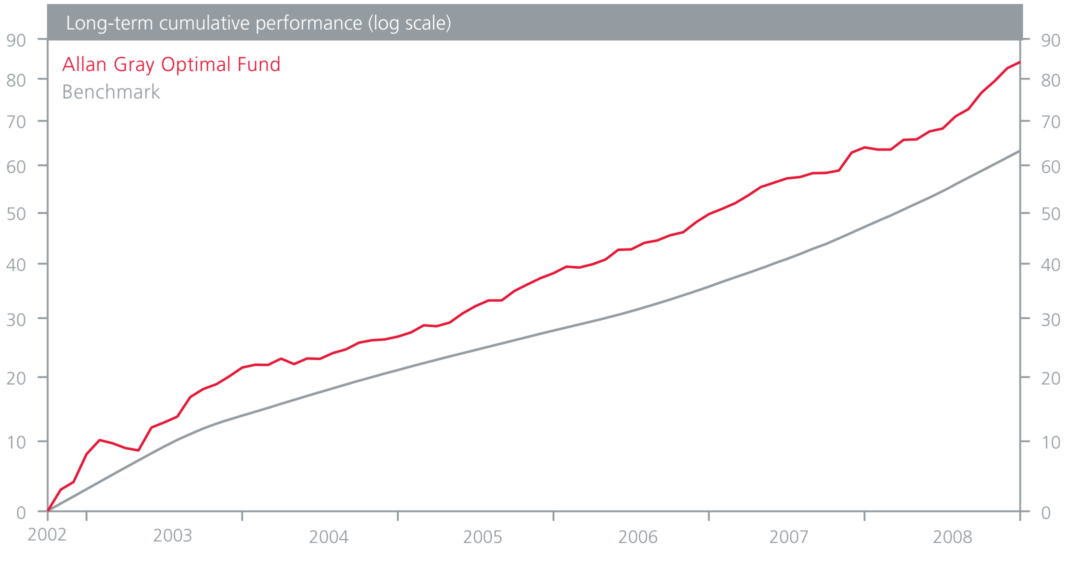
1. The cash return implicit in the pricing of the sold derivatives contracts +/-
2. The out/underperformance of the equity portfolio versus the ALSI 40 (i.e. the alpha).

Since inception the Fund has returned 84.3%, outperforming the benchmark return of 63.4%.

For the 2008 calendar year, the Fund has delivered a pleasing 12.3%, outperforming the benchmark return of 11% and versus a return of -23.2% from the ALSI.

Over the past 12 months, the Fund has therefore considerably outperformed South African equities (as measured by the ALSI), by over 35%. This clearly demonstrates the core objective of the Fund, which is to deliver absolute and uncorrelated returns irrespective of the level of equity markets. The portfolios in this sector are not ranked because they are so different from each other. This makes direct comparison inappropriate.

There was considerable capital loss from the market as a whole for 2008, and while share valuations are starting to look broadly attractive, given considerably weaker economic growth prospects for the year ahead, we believe there will be few positive catalysts for a substantial re-rating of South African equities in the near term.



Allan Gray-Orbis Global Fund of Funds

CATEGORY

Foreign – Asset Allocation – Flexible

PORTFOLIO MANAGERS

Ian Liddle (The underlying Orbis funds are managed by Orbis.)

LONG-TERM INVESTMENT OBJECTIVE

The Fund aims to earn a higher rate of return than the benchmark of 60% of the FTSE World Index and 40% of the JP Morgan Government Bond Global Index, at no greater than average risk of loss in its sector.

FUND CHARACTERISTICS

This is a rand-denominated balanced offshore fund investing in selected Orbis funds. Orbis is Allan Gray's global asset management partner.

The Fund was launched to cater for rand investors wishing to gain exposure to international investments. The Fund allows them access to some investments that are not available locally. The Fund will always hold at least 85% of its assets offshore. Given the spread of investments, we expect that returns will be less volatile than those of the Allan Gray-Orbis Global Equity Feeder Fund, but somewhat lower over the long term.

MAXIMUM NET EQUITY EXPOSURE

100%

INCOME YIELD AND INCOME DISTRIBUTION

The Fund has a low income yield and distributes income annually. To the extent that the total expenses exceed the income earned in the form of dividends and interest, the Fund will not make a distribution.

The Global Fund of Funds is suitable for those investors who:

- Wish to hedge their investments against any rand depreciation.
- Want to gain exposure to markets and industries that are not necessarily available locally.
- Wish to invest in rands but benefit from offshore exposure.
- Would like to invest in an offshore balanced fund.

Annual management fee (excluding VAT)
No annual management fee. The underlying funds, however, have their own fee structure.

Total Expense Ratio for the year ended 31 December 2008[1]

	Total Expense Ratio	Included in Total Expense Ratio			
		Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	2.27%	0.21%	0.39%	1.24%	0.43%

[1] A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of December 2008. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, STT, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. The information provided is applicable to Class A units.

Performance to 31 December 2008 in US dollars	Since 3 February 2004 Unannualised (%)	Since 3 February 2004 Annualised (%)	1-year performance 31 December 2008 Annualised (%)
Fund return in US dollars[1]	25.7	4.7	-14.3
Benchmark return in US dollars[2]	15.0	2.8	-22.8
Outperformance of benchmark	10.7	1.9	8.5

Performance to 31 December 2008 in rands	Since 3 February 2004 Unannualised (%)	Since 3 February 2004 Annualised (%)	1-year performance 31 December 2008 Annualised (%)
Fund return in rands[1]	68.0	11.1	18.1
Benchmark return in rands[2]	53.7	9.1	6.4
Outperformance of benchmark	14.3	2.0	11.7

[1] Fund performance shown to 31 December 2008 in US dollars or rands as indicated net of all fees and expenses as per the TER disclosure.

[2] 60% of the FTSE World Index and 40% of the JP Morgan Government Global Bond Index (Source: Bloomberg). Benchmark performance calculated by Allan Gray as at 31 December 2008.

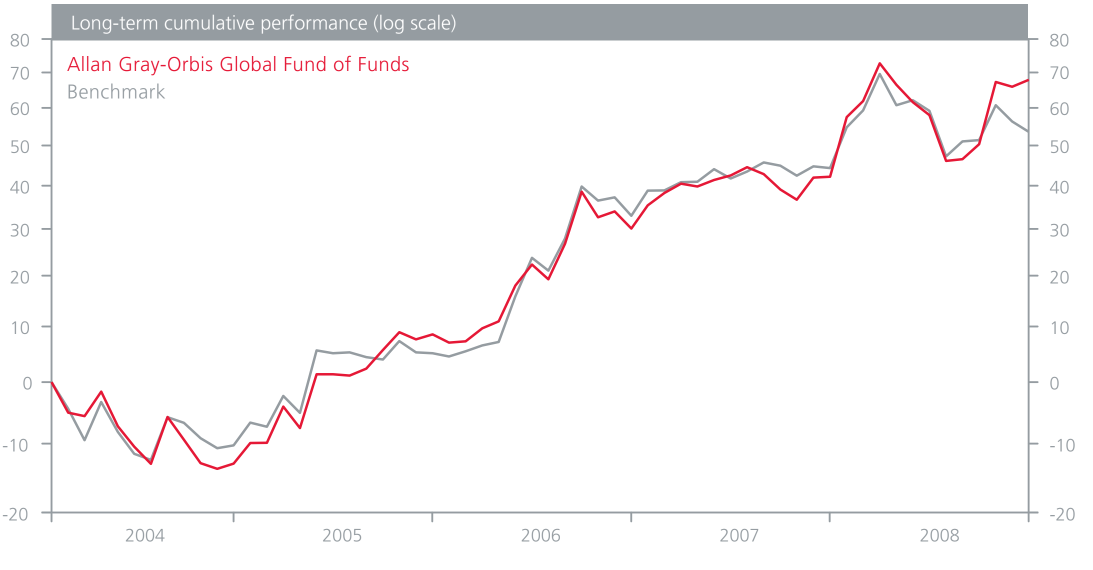
FUND PERFORMANCE COMMENTARY

The Allan Gray-Orbis Global Fund of Funds changed from an equity-only fund to an asset allocation fund on 3 February 2004. Historical performance commentary is restricted to this date. The Fund invests in a selection of Orbis equity and absolute return funds. Performance relative to the benchmark since 3 February 2004 has been good, attaining 1st place out of 10 funds in its category and in 2008 2nd place out of 25 funds.

The Fund remains overweight in selected Japanese companies, specifically domestically oriented companies which have of late benefited the Fund on a relative basis.

The Fund has avoided the Japanese exporters and international conglomerates, which have not only been hurt by the global slowdown but also the strengthening yen.

The Fund remains overweight the yen and underweight the US dollar, pound and euro. The yen position has contributed significantly to performance over the year, and while we remain overweight the yen in the Fund, the position has been reduced given the recent strength of the yen versus Western currencies. Due to foreign exchange control regulations, the Fund was closed for part of the year.



Allan Gray Bond Fund

CATEGORY

Domestic – Fixed Interest – Bond

PORTFOLIO MANAGERS

Sandy McGregor, Andrew Lapping

LONG-TERM INVESTMENT OBJECTIVE

The Fund aims to provide investors with a return superior to the All Bond Index, at no greater risk, over an interest-rate cycle. The Fund seeks to preserve at least the nominal value of investors' capital.

FUND CHARACTERISTICS

The Allan Gray Bond Fund invests in a combination of South African interest-bearing securities including public, parastatal, corporate and inflation-linked bonds, fixed deposits, money market instruments and cash.

This Fund was launched to enhance the Allan Gray product offering for savers seeking longer-term security of income and capital. The Fund is managed to comply with Regulation 28 of the Pension Funds Act (see below).

MAXIMUM NET EQUITY EXPOSURE

0%

INCOME YIELD AND INCOME DISTRIBUTION

The Fund has a high income yield and distributes income quarterly.

The Bond Fund is suitable for those investors who:

- Are looking for returns in excess of that provided by money market or cash investments.
- Seek a bond 'building block' for a diversified multi-asset class portfolio.
- Are prepared to accept some risk of capital depreciation in exchange for the prospect of earning increased returns.
- Want to draw a regular income stream without consuming capital.

Annual management fee (excluding VAT)	
Performance fee on the outperformance of the benchmark (adjusted for fund expenses and cash flows) over a one-year rolling period.	
Minimum fee:	0.25%
Fee at benchmark:	0.25%
Sharing rate:	25.00%
Maximum fee:	0.75%

Total Expense Ratio for the year ended 31 December 2008[1]

Total Expense Ratio		Included in Total Expense Ratio			
		Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	0.89%	0.00%	0.50%	0.29%	0.10%

[1] A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of December 2008. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, STT, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. The information provided is applicable to Class A units.

Retirement funds:

Regulation 28 refers generally to limits imposed on exposure to certain asset classes and individual shares and instruments.

The Fund is managed to comply with the limits of Annexure A to Regulation 28 of the Pension Funds Act.

Exposures in excess of the limits will be corrected immediately except where due to market value fluctuations or capital withdrawals, in which case they will be corrected within a reasonable time period. 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 A to Regulation 28). It is the responsibility of each retirement fund to monitor this exposure.

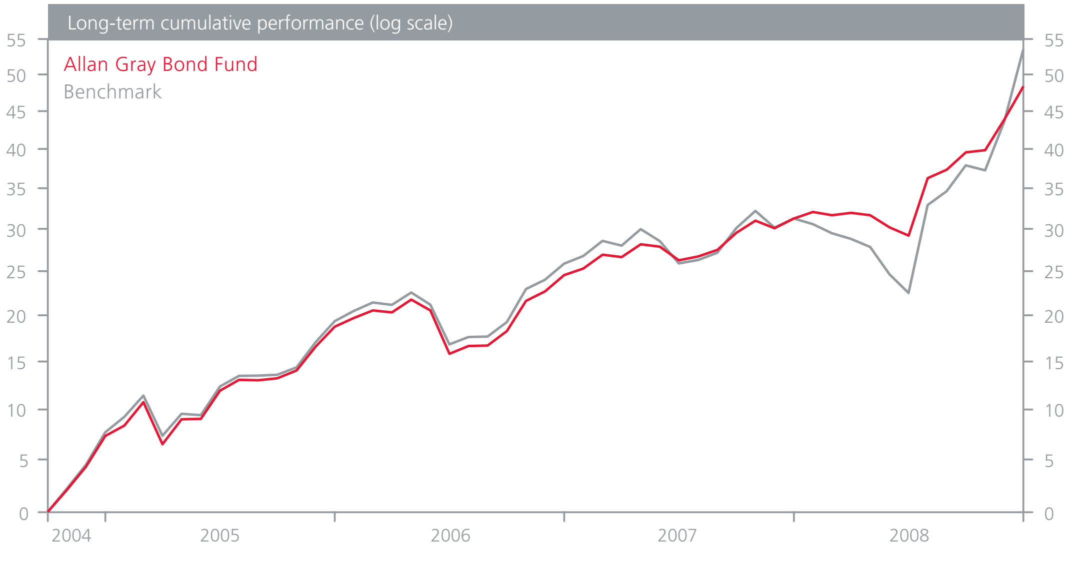
Performance to 31 December 2008	Since inception 1 October 2004 Unannualised (%)	Since inception 1 October 2004 Annualised (%)	**1-year performance 31 December 2008 Annualised (%)**
Allan Gray Bond Fund[1]	48.4	9.7	**13.0**
Benchmark[2]	53.6	10.6	**17.0**
Outperformance of benchmark	-5.2	-0.9	**-4.0**

[1] Fund performance to 31 December 2008 shown net of all fees and expenses as per the TER disclosure.
[2] All Bond Index (Source: I-Net Bridge). Benchmark performance calculated by Allan Gray as at 31 December 2008.

FUND PERFORMANCE COMMENTARY

In this category, the performance difference between funds tend to be limited. Nonetheless, since inception and over the last one-year period, the Fund's performance has been disappointing. It has underperformed its benchmark since inception and over one year. It is ranked 15th out of 17 funds since inception and in 2008 it was ranked 17th out of 18 funds.

Inflation will fall significantly in 2009, in our view, as a result of a collapse in commodity prices and recessionary conditions in South Africa. We also expect short-term interest rates will decline. The bond market is already aggressively discounting a big cut in rates. We believe there is more value in short-dated assets than in long bonds. Also there are significant risks to long bonds due to an increasing fiscal deficit. The Fund's portfolio remains concentrated in shorter duration assets which offer higher yields, but less risk.



Allan Gray-Orbis Global Equity Feeder Fund

CATEGORY
Foreign – Equity – General

PORTFOLIO MANAGERS
Ian Liddle (The underlying Orbis funds are managed by Orbis.)

LONG-TERM INVESTMENT OBJECTIVE
The Fund aims to outperform the FTSE World Index at no greater than average risk of loss in its sector.

FUND CHARACTERISTICS
The Fund invests directly into the Orbis Global Equity Fund. It caters for rand investors wishing to invest in an Orbis selection of international shares. It provides access to investments that might not be available locally. Returns are likely to be volatile.

MAXIMUM NET EQUITY EXPOSURE
100%

INCOME YIELD AND INCOME DISTRIBUTION
The Fund has a low income yield and distributes income annually. To the extent that the total expenses exceeded the income earned in the form of dividends and interest, the Fund will not make a distribution.

The Global Equity Feeder Fund is suitable for those investors who:

- Would like to invest in global shares and benefit from offshore exposure.
- Want to gain exposure to markets and industries that are not necessarily available locally.
- Would like to hedge their investments against any rand depreciation.

Annual management fee
No annual management fee. The underlying funds, however, have their own fee structure.

Total Expense Ratio for the year ended 31 December 2008[1]

	Total Expense Ratio	Included in Total Expense Ratio			
		Trading costs	Performance component	Fee at benchmark	Other expenses
Class A units	2.78%	0.20%	0.72%	1.49%	0.37%

[1] A Total Expense Ratio (TER) is a measure of a portfolio's assets that are relinquished as operating expenses. The total operating expenses are expressed as a percentage of the average value of the portfolio, calculated for the year to the end of December 2008. Included in the TER is the proportion of costs that are incurred by the performance component, fee at benchmark, trading costs (including brokerage, VAT, STT, STRATE and insider trading levy) and other expenses. These are disclosed separately as percentages of the net asset value. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs. The information provided is applicable to Class A units.

Performance to 31 December 2008 in US dollars	Since inception 1 April 2005 Unannualised (%)	Since inception 1 April 2005 Annualised (%)	1-year performance 31 December 2008 Annualised (%)
Fund return in US dollars[1]	1.7	0.4	-36.0
Benchmark return in US dollars[2]	-10.4	-2.9	-40.9
Outperformance of benchmark	12.1	3.3	4.9

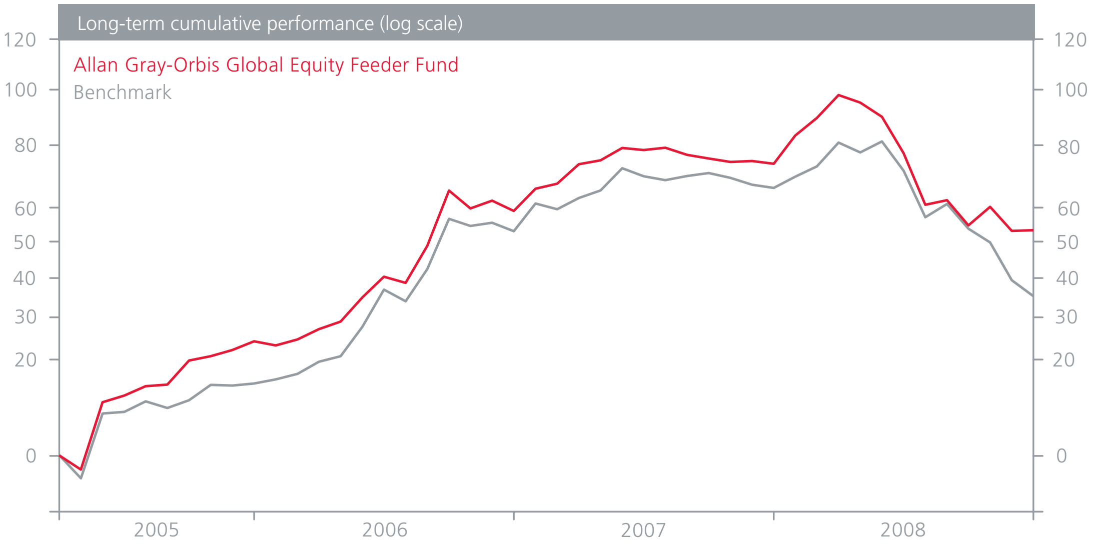
Performance to 31 December 2008 in rands	Since inception 1 April 2005 Unannualised (%)	Since inception 1 April 2005 Annualised (%)	1-year performance 31 December 2008 Annualised (%)
Fund return in rands[1]	53.4	12.1	-11.8
Benchmark return in rands[2]	35.2	8.4	-18.6
Outperformance of benchmark	18.2	3.7	6.8

[1] Fund performance to 31 December 2008 in US dollars or rands as indicated shown net of all fees and expenses as per the TER disclosure.
[2] FTSE World Index (Source: Bloomberg). Benchmark performance calculated by Allan Gray as at 31 December 2008.

FUND PERFORMANCE COMMENTARY

Since inception on 1 April 2005, the Allan Gray-Orbis Global Equity Feeder Fund has outperformed the benchmark and was positioned 1st out of 21 funds in its category. It was ranked 1st out of 24 funds for the year to end of December 2008.

Global stock markets had a positive return in December, but this nonetheless completes the worst year ever for the benchmark FTSE World Index. The Orbis Global Equity Fund's recent good relative performance has been driven by its significant overweighting in the strengthening yen and by the overweight position in, and outperformance of, the Japanese stock positions in the Fund. We continue to look for well-managed, excellent businesses at attractive valuations, and find many such opportunities in Japan today. Due to foreign exchange control regulations, the Fund was closed for some of the year.



Corporate Governance Report

The directors endorse the Code of Corporate Practices and Conduct (the 'Code') as set out in the King II Report issued in March 2003. By supporting the Code, the directors recognise the need to conduct the affairs of the company with openness, integrity and accountability.

Where appropriate, the principles advocated by the Code are dealt with at group level by the Company's ultimate holding company, Allan Gray Group Limited ('Allan Gray'). As a subsidiary of Allan Gray, the Company is subject to their corporate governance measures.

BOARD OF DIRECTORS

The board of directors' role is to direct, control and monitor the business affairs of the company while at the same time protecting the interests of all investors. The board is responsible for risk management.

In fulfilling this responsibility, the board, amongst other functions:

- provides strategic direction and in so doing reviews, evaluates and gives guidance on strategies, policies and business plans;
- reviews management reports and monitors ongoing performance against plans, budgets and targets;
- monitors development of the process to identify key risk areas and key performance indicators;
- monitors compliance with sound business practice and management of those non-financial aspects which are relevant to its business; and
- ensures that there is open and timeous communication with the shareholders.

The board of directors consist of four executive directors and two non-executive directors. The roles of chairman and chief operating officer are separate.

All directors have access to the advice and services of the company secretary.

AUDIT COMMITTEE

The board of directors meets at least twice a year and is assisted by Allan Gray's audit committee. The audit committee, chaired by a non-executive Allan Gray director, meets at least four times per annum.

The audit committee is responsible for ensuring compliance with relevant laws and regulations as well as the Code.

STAFF TRAINING AND EMPLOYMENT EQUITY

The Company is dedicated to providing exceptionally good training and development for all employees. The Company will continue to contribute to the broader Southern African community in a meaningful way. In particular, the Company recognises that positive action is needed by the business community to address the skills shortage in Southern Africa.

The Company promotes equal opportunity in the workplace and is committed to eliminate unfair discrimination in any employment policy or practice.

The Company recognises that additional corrective steps need to be taken in order that those who have been historically disadvantaged by unfair discrimination are able to derive full benefit from an equitable employment environment.

CODE OF ETHICS

Allan Gray subscribes to certain main themes of the CFA Institute's Code of Ethics and Standards of Professional Conduct. The themes have been incorporated into existing policies. Adherence to these policies by all Allan Gray employees is monitored by the compliance department.

Allan Gray directors and employees are required to maintain the highest ethical standards.

Trustee Report on the Allan Gray Unit Trust Scheme

As trustees to the Allan Gray Unit Trust Scheme ('the Scheme'), we are required in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002) ('CISCA') to report to unitholders on the administration of the Scheme during each annual accounting period.

We therefore confirm that for the period 1 January 2008 to 31 December 2008 the Scheme has been administered:

(i) in accordance with the limitations imposed on the investment and borrowing powers of the manager by CISCA; and

(ii) in accordance with the provisions of CISCA and the relevant deeds.

There were no material instances of compliance contraventions, and no losses incurred by any funds as a result thereof, during the year.

Nelia de Beer
Trustee Manager: Unit Trusts
FNB Custody Services
First National Bank, a division of FirstRand Bank Limited

Johannesburg
16 January 2009

Approval of the Annual Financial Statements

For the year ended 31 December 2008

The directors of Allan Gray Unit Trust Management Limited are responsible for the preparation of the annual financial statements and related financial information included in this report.

The annual financial statements for the year ended 31 December 2008 set out on pages 22 to 53 have been approved by the board of directors of Allan Gray Unit Trust Management Limited and are signed on its behalf by:

ED Loxton
Chairman

Cape Town
13 March 2009

GW Fury
Director

Cape Town
13 March 2009

Independent Auditor's Report to the Unitholders of

Allan Gray Equity Fund
Allan Gray Balanced Fund
Allan Gray Stable Fund
Allan Gray Money Market Fund
Allan Gray-Orbis Global Fund of Funds
Allan Gray Optimal Fund
Allan Gray Bond Fund
Allan Gray-Orbis Global Equity Feeder Fund
(the 'Allan Gray Unit Trust Funds' or the 'Funds')

Report on the financial statements

We have audited the annual financial statements of the Allan Gray Unit Trust Funds, which comprise the chairman's report, the balance sheets as at 31 December 2008, the income statements, the statements of changes in net assets attributable to unitholders and cash flow statements for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 53.

Directors' responsibility for the financial statements

The directors of Allan Gray Unit Trust Management Limited are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Deeds. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Allan Gray Unit Trust Funds as at 31 December 2008, and of the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Deeds.

Ernst + Young

Ernst & Young Inc.
Registered Auditor

Cape Town
13 March 2009

Income Statements

For the year ended 31 December 2008

	NOTES	EQUITY FUND		BALANCED FUND		STABLE FUND	
		2008 R	2007 R	2008 R	2007 R	2008 R	2007 R
REVENUE	1.3.1	1 872 095 087	503 426 939	2 345 900 687	804 565 906	2 131 189 152	1 087 173 206
Dividends		1 854 682 702	494 003 668	1 927 285 304	420 008 652	922 222 777	167 707 439
Interest – Local		17 412 385	9 423 271	418 473 147	384 420 824	1 208 848 354	919 319 945
Interest – Foreign		–	–	142 236	136 430	118 021	145 822
OPERATING EXPENSES		373 878 373	599 858 612	367 193 885	361 052 120	330 763 693	333 867 618
Audit fee		63 937	63 156	74 270	73 360	65 508	64 705
Bank charges		101 114	83 807	172 030	179 528	174 879	108 775
Trustees' fees		933 189	1 626 746	1 379 262	1 985 145	1 195 924	1 594 183
Management fee		372 780 133	598 084 903	365 568 323	358 814 087	329 327 382	332 099 955
PROFIT/(LOSS) before income adjustments		1 498 216 714	(96 431 673)	1 978 706 802	443 513 786	1 800 425 459	753 305 588
Income adjustments on creation and cancellation of units	1.3.1	2 832 637	1 711 971	295 117	16 075 938	(3 952 143)	23 658 587
PROFIT/(LOSS) before undistributable income items		1 501 049 351	(94 719 702)	1 979 001 919	459 589 724	1 796 473 316	776 964 175
Shortfalls of income funded by net assets attributable to unitholders	2; 3	–	94 719 702	–	–	–	–
Investments transaction costs on investments at fair value through profit or loss		–	–	(126 511)	(128 018)	(171 504)	(187 995)
Realised gains/(losses) on disposal of available-for-sale investments	1.3.4	1 706 357 026	3 966 267 765	1 163 175 481	3 307 740 909	595 361 068	1 017 663 710
Gains/(losses) on investments at fair value through profit or loss	1.3.4	–	–	849 685 649	(85 853 584)	1 363 454 783	(119 817 641)
Foreign exchange gain/(loss) on monetary assets	1.3.5	–	–	156 265 867	(664)	142 246 724	494 360
PROFIT for the year		3 207 406 377	3 966 267 765	4 148 002 405	3 681 348 367	3 897 364 387	1 675 116 609
Distributions to unitholders		(1 501 049 351)	–	(1 979 001 919)	(459 589 724)	(1 796 473 316)	(776 964 175)
UNDISTRIBUTED PROFIT/(LOSS) for the year		1 706 357 026	3 966 267 765	2 169 000 486	3 221 758 643	2 100 891 071	898 152 434

MONEY MARKET FUND		GLOBAL FUND OF FUNDS		OPTIMAL FUND		BOND FUND		GLOBAL EQUITY FEEDER FUND	
2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
R	R	R	R	R	R	R	R	R	R
810 889 953	218 368 638	8 044 965	4 246 143	98 877 784	31 658 725	7 045 917	4 299 438	940 657	1 933 394
–	–	6 136 830	169 014	75 972 865	20 700 115	–	–	–	–
810 889 953	218 368 638	1 826 322	3 647 255	22 904 919	10 958 610	7 045 917	4 299 438	924 076	1 816 479
–	–	81 813	429 874	–	–	–	–	16 581	116 915
19 964 053	6 697 777	377 110	385 669	18 453 959	15 032 165	623 231	353 143	188 768	253 030
54 521	53 779	26 280	25 959	64 148	63 362	46 594	46 022	25 360	25 050
91 784	36 710	14 230	19 627	75 310	47 801	20 508	8 791	6 145	10 169
401 971	183 329	336 600	340 083	59 778	100 488	4 122	14 053	157 263	217 811
19 415 777	6 423 959	–	–	18 254 723	14 820 514	552 007	284 277	–	–
790 925 900	211 670 861	7 667 855	3 860 474	80 423 825	16 626 560	6 422 686	3 946 295	751 889	1 680 364
–	–	(606 042)	491 922	5 306 416	577 993	620 000	305 368	34 252	173 232
790 925 900	211 670 861	7 061 813	4 352 396	85 730 241	17 204 553	7 042 686	4 251 663	786 141	1 853 596
–	–	–	–	–	–	–	–	–	–
–	–	–	–	(59 890)	(55 294)	–	–	–	–
–	–	506 986 012	345 665 742	119 913 631	176 197 988	(2 976 945)	(324 740)	17 970 879	17 275 676
–	–	–	–	198 997 169	(75 612 953)	–	–	–	–
–	–	646 427	(841 817)	–	–	–	–	2 455 072	37 116
790 925 900	211 670 861	514 694 252	349 176 321	404 581 151	117 734 294	4 065 741	3 926 923	21 212 092	19 166 388
(790 925 900)	(211 670 861)	(7 061 813)	(4 352 396)	(85 730 241)	(17 204 553)	(7 042 686)	(4 251 663)	(786 141)	(1 853 596)
–	–	507 632 439	344 823 925	318 850 910	100 529 741	(2 976 945)	(324 740)	20 425 951	17 312 792

Balance Sheets

As at 31 December 2008

	NOTES	EQUITY FUND		BALANCED FUND		STABLE FUND	
		2008 R	2007 R	2008 R	2007 R	2008 R	2007 R
ASSETS							
Investments	1.3.4; 8	15 102 382 087	18 666 181 650	23 953 838 375	25 311 676 233	21 961 440 788	20 867 357 831
Available-for-sale investments		14 632 382 087	18 591 181 650	19 911 425 186	21 487 710 568	10 658 333 747	10 643 718 437
Money market investments classified as loans and receivables		–	–	3 305 413 189	3 292 843 776	10 607 107 041	9 759 931 752
Cash and cash equivalents held for investment purposes		470 000 000	75 000 000	737 000 000	531 121 889	696 000 000	463 707 642
Accounts receivable*		15 332 805	24 495 173	83 365 152	94 914 431	130 642 005	48 465 859
Cash and cash equivalents		12 901 667	16 203 967	11 785 729	8 741 929	14 049 753	14 156 343
TOTAL ASSETS		15 130 616 559	18 706 880 790	24 048 989 256	25 415 332 593	22 106 132 546	20 929 980 033
LIABILITIES							
Accounts payable*		64 104 451	44 896 592	96 944 111	80 228 748	152 515 978	70 417 669
Distribution payable to investors		1 465 419 233	–	1 789 691 312	279 892 504	992 666 191	215 260 822
TOTAL LIABILITIES, excluding net assets attributable to unitholders		1 529 523 684	44 896 592	1 886 635 423	360 121 252	1 145 182 169	285 678 491
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	1.3.9	13 601 092 875	18 661 984 198	22 162 353 833	25 055 211 341	20 960 950 377	20 644 301 542

* Accounts receivable and accounts payable are interest free and are settled within 30 days

MONEY MARKET FUND		GLOBAL FUND OF FUNDS		OPTIMAL FUND		BOND FUND		GLOBAL EQUITY FEEDER FUND	
2008 R	2007 R	2008 R	2007 R	2008 R	2007 R	2008 R	2007 R	2008 R	2007 R
9 561 064 057	3 565 798 815	5 829 922 548	4 957 229 499	1 291 329 192	1 025 964 418	110 223 065	74 812 925	2 584 045 964	2 730 363 697
257 930 066	–	5 829 922 548	4 957 229 499	1 001 667 095	903 859 600	60 407 955	56 247 004	2 584 045 964	2 730 363 697
9 241 133 991	3 352 798 815	–	–	–	–	44 815 110	18 565 921	–	–
62 000 000	213 000 000	–	–	289 662 097	122 104 818	5 000 000	–	–	–
216 550 734	13 868 145	71 930	3 820 554	5 672 178	14 133 465	256 940	30 586	76 671	515 416
6 446 528	7 175 724	15 264 367	20 198 088	10 466 714	14 768 954	769 718	549 317	4 404 599	23 772 062
9 784 061 319	3 586 842 684	5 845 258 845	4 981 248 141	1 307 468 084	1 054 866 837	111 249 723	75 392 828	2 588 527 234	2 754 651 175
215 439 714	14 886 601	648 292	39 942	8 293 401	9 775 845	1 709 975	1 065 406	740 617	28 387
93 510 091	30 532 064	7 061 813	4 352 396	77 994 743	11 441 333	2 565 642	1 600 675	786 141	1 853 596
308 949 805	45 418 665	7 710 105	4 392 338	86 288 144	21 217 178	4 275 617	2 666 081	1 526 758	1 881 983
9 475 111 514	3 541 424 019	5 837 548 740	4 976 855 803	1 221 179 940	1 033 649 659	106 974 106	72 726 747	2 587 000 476	2 752 769 192

Statements of Changes in Net Assets Attributable to Unitholders

For the year ended 31 December 2008

	NOTES	EQUITY FUND		BALANCED FUND		STABLE FUND	
		2008 R	2007 R	2008 R	2007 R	2008 R	2007 R
Opening balance		18 661 984 198	17 031 655 904	25 055 211 341	18 771 282 011	20 644 301 542	14 407 360 966
Shortfalls of unitholder income funded by net assets attributable to unitholders	2; 3	(3 509 845)	(94 719 702)	–	–	–	–
Undistributed profit/(loss) for the year		1 706 357 026	3 966 267 765	2 169 000 486	3 221 758 643	2 100 891 071	898 152 434
Net fair value adjustment on available-for-sale investments		(5 758 360 651)	(1 423 948 105)	(4 639 338 705)	(1 023 858 502)	(1 489 511 878)	154 794 172
Unrealised fair value adjustment on available-for-sale investments		(4 052 003 625)	2 542 319 660	(3 476 163 224)	2 283 882 407	(894 150 810)	1 172 457 882
Realised gains on available-for-sale investments		(1 706 357 026)	(3 966 267 765)	(1 163 175 481)	(3 307 740 909)	(595 361 068)	(1 017 663 710)
Value of net (cancellations)/creations during the year		(1 005 377 853)	(817 271 664)	(422 519 289)	4 086 029 189	(294 730 358)	5 183 993 970
Closing balance		13 601 092 875	18 661 984 198	22 162 353 833	25 055 211 341	20 960 950 377	20 644 301 542
Represented by the following:							
Unrealised fair value adjustments to available-for-sale investments		673 454 470	6 431 815 121	456 827 867	5 107 886 522	760 778 395	2 250 757 405
Book value of available-for-sale investments		12 927 638 405	12 230 169 077	21 705 525 966	19 947 324 819	20 200 171 982	18 393 544 137
		13 601 092 875	18 661 984 198	22 162 353 833	25 055 211 341	20 960 950 377	20 644 301 542

MONEY MARKET FUND		GLOBAL FUND OF FUNDS		OPTIMAL FUND		BOND FUND		GLOBAL EQUITY FEEDER FUND	
2008 R	2007 R	2008 R	2007 R	2008 R	2007 R	2008 R	2007 R	2008 R	2007 R
3 541 424 019	1 453 712 648	4 976 855 803	3 430 176 065	1 033 649 659	863 397 745	72 726 747	35 194 380	2 752 769 192	1 456 643 219
–	–	–	–	–	–	–	–	–	–
–	–	507 632 439	344 823 925	318 850 910	100 529 741	(2 976 945)	(324 740)	20 425 951	17 312 792
–	–	395 629 390	(31 262 239)	(280 954 147)	(30 295 084)	3 774 114	(753 083)	(374 178 427)	127 896 031
–	–	902 615 402	313 561 686	(161 040 516)	145 902 904	797 169	(1 077 823)	(356 207 548)	145 171 707
–	–	(506 986 012)	(344 823 925)	(119 913 631)	(176 197 988)	2 976 945	324 740	(17 970 879)	(17 275 676)
5 933 687 495	2 087 711 371	(42 568 892)	1 233 118 052	149 633 518	100 017 257	33 450 190	38 610 190	187 983 760	1 150 917 150
9 475 111 514	3 541 424 019	5 837 548 740	4 976 855 803	1 221 179 940	1 033 649 659	106 974 106	72 726 747	2 587 000 476	2 752 769 192
–	–	930 352 863	534 723 473	41 478 402	322 432 549	2 111 632	(1 335 653)	(44 019 985)	330 158 442
9 475 111 514	3 541 424 019	4 907 195 877	4 442 132 330	1 179 701 538	711 217 110	104 862 474	74 062 400	2 631 020 461	2 422 610 750
9 475 111 514	3 541 424 019	5 837 548 740	4 976 855 803	1 221 179 940	1 033 649 659	106 974 106	72 726 747	2 587 000 476	2 752 769 192

Cash Flow Statements

For the year ended 31 December 2008

	NOTES	EQUITY FUND		BALANCED FUND		STABLE FUND	
		2008 R	2007 R	2008 R	2007 R	2008 R	2007 R
CASH FLOWS FROM OPERATING ACTIVITIES							
Interest received		13 293 927	9 647 002	416 980 070	375 068 616	1 157 870 192	768 197 634
Dividends received		1 872 938 793	485 067 628	1 946 109 791	409 497 815	923 480 990	167 282 556
Distributions paid		(39 139 959)	–	(469 203 111)	(373 349 522)	(1 019 067 947)	(671 986 348)
Cash (used)/generated by operations before working capital changes	4	(371 045 736)	(598 146 641)	(210 632 901)	(344 976 846)	(192 469 112)	(309 714 671)
Working capital changes	4	14 232 592	(30 619 515)	12 064 725	(31 042 715)	(183 341)	(23 187 005)
NET CASH (OUTFLOW)/INFLOW from operating activities		1 490 279 617	(134 051 526)	1 695 318 574	35 197 348	869 630 782	(69 407 834)
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchase of investments		(7 047 137 055)	(8 561 582 403)	(28 087 465 781)	(29 982 550 498)	(54 480 088 506)	(53 906 090 125)
Proceeds on disposal of investments		6 558 932 991	9 492 978 159	26 973 976 163	25 843 520 214	54 047 328 216	48 782 366 770
NET CASH (OUTFLOW)/INFLOW from investing activities		(488 204 064)	931 395 756	(1 113 489 618)	(4 139 030 284)	(432 760 290)	(5 123 723 355)
CASH FLOWS FROM FINANCING ACTIVITIES							
Net (payments)/proceeds from creation and cancellation of units		(1 005 377 853)	(817 271 664)	(422 519 289)	4 086 029 189	(294 730 358)	5 183 993 970
NET CASH (OUTFLOW)/INFLOW from financing activities		(1 005 377 853)	(817 271 664)	(422 519 289)	4 086 029 189	(294 730 358)	5 183 993 970
NET (DECREASE)/INCREASE in cash and cash equivalents		(3 302 300)	(19 927 434)	159 309 667	(17 803 747)	142 140 134	(9 137 219)
CASH AND CASH EQUIVALENTS at the beginning of the year		16 203 967	36 131 401	8 741 929	26 545 012	14 156 343	23 787 922
Foreign exchange loss/(gain) on monetary assets		–	–	(156 265 867)	664	(142 246 724)	(494 360)
CASH AND CASH EQUIVALENTS at the end of the year		12 901 667	16 203 967	11 785 729	8 741 929	14 049 753	14 156 343

MONEY MARKET FUND		GLOBAL FUND OF FUNDS		OPTIMAL FUND		BOND FUND		GLOBAL EQUITY FEEDER FUND	
2008 R	2007 R	2008 R	2007 R	2008 R	2007 R	2008 R	2007 R	2008 R	2007 R
632 462 055	179 460 514	2 047 168	4 091 454	21 153 262	10 357 170	7 112 009	3 734 569	957 251	1 956 677
–	–	6 136 830	169 014	76 438 239	20 582 002	–	–	–	–
(727 947 873)	(191 206 485)	(4 352 396)	(2 806 570)	(19 176 831)	(15 607 174)	(6 077 719)	(3 343 172)	(1 853 596)	(1 827 969)
(19 964 053)	(6 697 777)	(336 725)	(735 564)	(13 147 543)	(14 454 172)	(3 231)	(47 775)	2 300 556	(42 682)
(1 495 131)	(11 073 395)	4 217 942	(3 592 835)	8 265 126	6 402 037	476 755	990 168	1 134 381	(416 132)
(116 945 002)	(29 517 143)	7 712 819	(2 874 501)	73 532 253	7 279 863	1 507 814	1 333 790	2 538 592	(330 106)
(32 639 955 891)	(14 277 319 012)	(2 865 261 660)	(4 172 782 700)	(4 320 302 818)	(2 480 964 463)	(182 449 729)	(93 706 995)	(549 116 095)	(2 273 476 696)
26 822 484 202	12 207 872 447	2 651 594 061	2 810 642 444	4 092 834 807	2 376 391 450	147 712 126	53 628 980	591 681 352	1 475 015 857
(5 817 471 689)	(2 069 446 565)	(213 667 599)	(1 362 140 256)	(227 468 011)	(104 573 013)	(34 737 603)	(40 078 015)	42 565 257	(798 460 839)
5 933 687 495	2 087 711 371	201 667 486	1 353 762 379	149 633 518	100 017 257	33 450 190	38 610 190	(62 016 240)	807 288 327
5 933 687 495	2 087 711 371	201 667 486	1 353 762 379	149 633 518	100 017 257	33 450 190	38 610 190	(62 016 240)	807 288 327
(729 196)	(11 252 337)	(4 287 294)	(11 252 378)	(4 302 240)	2 724 107	220 401	(134 035)	(16 912 391)	8 497 382
7 175 724	18 428 061	20 198 088	30 608 649	14 768 954	12 044 847	549 317	683 352	23 772 062	15 311 796
–	–	(646 427)	841 817	–	–	–	–	(2 455 072)	(37 116)
6 446 528	7 175 724	15 264 367	20 198 088	10 466 714	14 768 954	769 718	549 317	4 404 599	23 772 062

Notes to the Annual Financial Statements

For the year ended 31 December 2008

1. ACCOUNTING STANDARDS AND POLICIES

1.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at either fair value or amortised cost, in accordance with International Financial Reporting Standards ('IFRS'). These financial statements are presented in South African rands. The accounting policies have been applied consistently in the current and prior years.

1.2 IFRS

The Funds have not adopted any new or revised Standards and Interpretations issued by the International Accounting Standards Board (the 'IASB') and the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB that are relevant to their operations and effective for annual accounting periods ended 31 December 2008.

The significant accounting policies adopted in the preparation of the financial statements are set out below and are in accordance with and comply with IFRS.

The following new or revised IFRS statements, interpretations and amendments applicable to the Funds have been issued with effective dates applicable to future annual financial statements of the Funds:

Statement/ interpretations/ amendments		Effective date Years beginning on/after	Expected impact
IAS 1	Presentation of Financial Statements	1 Jan 2009	Changes to the presentation and layout of financial statements
IAS 32 & IAS 1 Amendments	Financial Instruments: Presentation and Presentation of Financial Instruments – Puttable Financial Instruments and Obligations Arising on Liquidation	1 Jan 2009	Changes to the presentation and layout of financial statements
IAS 23	Borrowing Costs	1 Jan 2009	No material impact

Notes to the Annual Financial Statements

For the year ended 31 December 2008

1. ACCOUNTING STANDARDS AND POLICIES (Continued)

1.3 Accounting policies

The Funds have identified the accounting policies that are most significant to their business operations and the understanding of their results. These accounting policies are set out below and have been consistently applied.

1.3.1 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Funds and revenue can be reliably measured.

Dividend income comprises dividends accrued on investments for which the last date to register falls within the accounting period.

Interest income is accrued on a daily basis using the effective interest rate method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its carrying value.

Income adjustments on creation/cancellation of units represents the income portion of the price received or paid when units are created or cancelled. The income portion of the price received by the Fund on creation of units is a payment by unitholders for entitlement to a distribution of income that was earned by the Fund before they joined. The income portion of the price paid to unitholders when units are cancelled is compensation for the income distribution they will forfeit when exiting the Fund before the distribution declaration date. The income adjustment on creation or cancellation of units is recognised when units on which it arises are either purchased or sold.

1.3.2 Taxation and deferred taxation

Taxation and deferred taxation are not recorded in the financial statements of the Funds as the Funds are all exempt from tax.

1.3.3 Expenses

Any interest expense is recognised on an accrual basis using the effective interest rate method.

All other expenses are recognised in the income statement on an accrual basis.

1.3.4 Financial instruments

Financial assets and liabilities

Financial instruments are classified as either *at fair value through profit or loss, loans and receivables* or *available-for-sale financial assets.* Fair value is determined as being the quoted market value of the investments. Financial instruments are recognised on the trade date at fair value, plus, in the case of assets not *at fair value through profit or loss*, directly attributable transaction costs. The Funds determine the classification of their financial instruments on initial recognition, when the Fund becomes a party to the contract governing the instrument.

A 'regular way' contract is one that requires the delivery of an asset within the time frame established, generally by regulation or convention within the market-place concerned. Regular way purchases and sales of financial assets are recognised using trade date accounting. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. The trade date is the date that an entity commits itself to purchase or sell an asset.

Financial instruments at fair value through profit or loss

Derivatives are classified as held for trading. Gains or losses on investments held as *fair value through profit or loss* are recognised in the income statements.

All assets at fair value through profit or loss are measured at quoted market values. Gains and losses on investments *at fair value through profit or loss* are determined by reference to the quoted market prices, excluding any interest and dividends.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such. After initial

Notes to the Annual Financial Statements

For the year ended 31 December 2008

1. ACCOUNTING STANDARDS AND POLICIES (Continued)

1.3.4 Financial instruments (Continued)

recognition, *available-for-sale* financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at the close of business on the balance sheet date and the associated gains and losses are determined excluding any interest and dividends.

Listed investments, unit trusts and bonds

Investments in shares, unit trusts and bonds are classified as available-for-sale investments and are subsequently measured at fair value. Fair value of available-for-sale investments is determined as the quoted price at the balance sheet date. Trading costs are capitalised to the cost of the investment upon initial recognition. Any gains or losses arising on subsequent measurement of available-for-sale investments are recognised directly in net assets attributable to unitholders and presented in the statement of changes in net assets attributable to unitholders. Unrealised gains and losses previously charged to net assets attributable to unitholders are released to operating income on derecognition of these investments or when investments are determined to be impaired.

Gains and losses arising from changes in fair value are recognised directly in net assets attributable to unitholders with the exception of foreign exchange gains and losses which are recognised directly in profit or loss, except for where these arose on *available-for-sale* financial assets.

Derivatives are used for hedging purposes in accordance with the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002) ('CISCA'). Derivatives are not designated as effective hedging instruments in terms of IAS 39 and are classified as investments at fair value through profit or loss. Subsequent to initial recognition, investments at fair value through profit or loss are marked to market on a daily basis with changes in fair value taken through the income statement as gains and losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in value. Balances held for the purposes of meeting short-term cash commitments rather than for investment or other purposes are current assets and disclosed separately on the face of the balance sheet. Margin deposits are aggregated with cash balances held for investment purposes and are disclosed as cash and cash equivalents held for investment purposes on the face of the balance sheet. Margin deposits are not readily available for use by the Funds as they are held as collateral to cover losses that the Funds may incur from their derivative trades. Details on margin deposits may be found in note 8.3.

Subsequent to initial recognition cash and cash equivalents, accounts receivable, accounts payable and distributions payable to unitholders are measured at amortised cost using the effective interest rate method.

Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest rate method and include accounts payable.

Money market instruments

Money market instruments are classified as loans and receivables and are subsequently measured at amortised cost using the effective interest rate method. Gains and

Notes to the Annual Financial Statements

For the year ended 31 December 2008

1. ACCOUNTING STANDARDS AND POLICIES (Continued)

1.3.4 Financial instruments (Continued)

losses are recognised in income when loans and receivables are derecognised or impaired, as well as through the amortisation process.

Accounts receivable and accounts payable

Accounts receivable and accounts payable are interest free and settled within 30 days.

Derecognition of financial assets and liabilities

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Funds retain the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Funds have transferred their rights to receive cash flows from the asset and either (a) have transferred substantially all the risks and rewards of the asset, or (b) have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

A financial liability is derecognised when the obligation under the liability expires, is discharged or cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in profit or loss.

A financial asset and a financial liability are off-set, and the net amount presented in the balance sheet when, and only when, the Funds currently have a legally enforceable right to set off the recognised amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

The Funds assess at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly. The amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its original amortised cost at the reversal date.

Available-for-sale financial investments

If an *available-for-sale* asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as *available-for-sale* are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

1.3.5 Foreign currencies

Foreign currency items are recorded at the exchange rate ruling on the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the

Notes to the Annual Financial Statements

For the year ended 31 December 2008

1. ACCOUNTING STANDARDS AND POLICIES (Continued)

1.3.5 Foreign currencies (Continued)

balance sheet date or when settled. Gains and losses arising from the translation of these monetary assets and liabilities are credited and debited respectively to the income statement.

Available-for-sale investments are also translated at rates of exchange ruling at the balance sheet date. Unrealised gains and losses arising from the translation of these assets are, however, credited and debited respectively to a revaluation reserve and presented in the statement of changes in net assets attributable to unitholders as part of unrealised gains and losses on *available-for-sale* investments. Realised foreign exchange gains and losses are aggregated with realised gains and losses on disposal of *available-for-sale* investments in the income statement.

1.3.6 Realised gains and losses on investments

Realised gains and losses on investments are calculated as the difference between sales proceeds and original purchase price on a weighted average basis.

1.3.7 Management fee

The management fee is the fee paid by each fund to Allan Gray Unit Trust Management Limited (the 'Manager') for the management of the Funds and the administration of unitholder transactions. Management fees are either performance-based or fixed and are calculated and accrued based on the daily market value of the portfolios.

1.3.8 Distributions paid

Distributions paid represent profits paid to unitholders at each distribution date. Distributable profits are determined by deducting operating expenses incurred from the revenue earned by the fund since the last distribution.

Where Fund operating expenses exceed revenue earned during the distribution period, the shortfall is funded by reducing the undistributable portion of the Funds' net assets attributable to unitholders.

1.3.9 Net assets attributable to unitholders

The value of net assets attributable to unitholders is what is commonly known as the capital value of the fund. This terminology used in the financial statements was necessitated by the adoption of International Financial Reporting Standards. This reclassification, however, has no impact on the value that the unitholder is entitled to on liquidation of units. This financial liability (as defined by IAS 32) is carried at fair value, being the redemption amount representing the unitholders' right to a residual interest in the Funds' assets.

1.3.10 Financial results

The results of operations for the year are prepared in terms of IFRS and are set out in the accompanying income statements and cash flow statements for the year ended 31 December 2008 and the balance sheet as at 31 December 2008.

1.3.11 Events subsequent to year-end

There were no significant events subsequent to year-end.

1.3.12 Year-end income distributions

In October 2008 the Allan Gray Equity, Balanced, Optimal and Stable Funds were all large investors in Remgro and Richemont, and therefore received British American Tobacco (BAT) shares when the companies unbundled. Most of the BAT shares were distributed to the Funds as a dividend, and therefore their value on the date of unbundling is reflected in the Funds' income accounts. The Funds are required to distribute any income that exceeds expenses in each Fund to investors as a distribution. This is why the distributions at 31 December 2008 were larger than normal.

Notes to the Annual Financial Statements

For the year ended 31 December 2008

2. DISTRIBUTIONS SCHEDULES

	Notes	2008	2007
Distributions paid are calculated to the fourth decimal place.			
Allan Gray Equity Fund			
30 June			
Class A			
Cents per unit		40.4359	–
Distribution paid – R		39 139 963	–
31 December			
Class A			
Cents per unit		1424.8102	–
Distribution paid – R	1.3.12	1 392 163 061	–
Class B			
Cents per unit		1342.6356	–
Distribution paid – R	1.3.12	73 256 172	–
Total distribution for the year		1 504 559 196	–
Class B			
Shortfall of income funded by net assets attributed to unitholders	3	(3 509 845)	(94 719 702)
Distributable profit/(deficit) for the year		1 501 049 351	(94 719 702)
Allan Gray Balanced Fund			
30 June			
Class A			
Cents per unit		41.5056	40.9650
Distribution paid – R		185 402 233	175 346 497
Class B			
Cents per unit		9.8249	10.5475
Distribution paid – R		3 908 374	4 350 724
31 December			
Class A			
Cents per unit		371.0489	59.4877
Distribution paid – R	1.3.12	1 661 657 842	267 788 397
Class B			
Cents per unit		340.9437	27.5872
Distribution paid – R	1.3.12	128 033 470	12 104 107
Total distribution for the year		1 979 001 919	459 589 725
Allan Gray Stable Fund			
31 March			
Class A			
Cents per unit		23.7892	18.9619
Distribution paid – R		198 645 077	137 483 982
Class B			
Cents per unit		17.2128	12.6965
Distribution paid – R		24 811 117	16 756 680
30 June			
Class A			
Cents per unit		28.0418	19.4118
Distribution paid – R		239 329 385	155 133 599
Class B			
Cents per unit		21.3525	12.9457
Distribution paid – R		28 983 960	19 655 288

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For the year ended 31 December 2008

2. DISTRIBUTIONS PAID (Continued)

	Notes	2008	2007
Allan Gray Stable Fund (Continued)			
30 September			
Class A			
Cents per unit		33.5906	23.7797
Distribution paid – R		278 246 396	203 456 066
Class B			
Cents per unit		26.9254	17.3336
Distribution paid – R		33 791 189	29 217 737
31 December			
Class A			
Cents per unit		102.9300	22.8800
Distribution paid – R	1.3.12	875 438 297	189 890 236
Class B			
Cents per unit		96.0373	16.1637
Distribution paid – R	1.3.12	117 227 895	25 370 587
Total distribution for the year		1 796 473 316	776 964 175
Allan Gray-Orbis Global Fund of Funds			
31 December			
Class A			
Cents per unit		1.7241	1.0564
Total distribution for the year		7 061 813	4 352 396
Allan Gray Optimal Fund			
30 June			
Class A			
Cents per unit		12.8814	8.9396
Distribution paid – R		7 512 921	5 740 077
Class B			
Cents per unit		3.8571	0.4080
Distribution paid – R		222 577	23 142
31 December			
Class A			
Cents per unit		96.9916	16.7415
Distribution paid – R	1.3.12	73 242 927	10 960 909
Class B			
Cents per unit		87.2913	7.7815
Distribution paid – R	1.3.12	4 751 816	480 425
Total distribution for the year		85 730 241	17 204 553
Allan Gray Bond Fund			
31 March			
Class A			
Cents per unit		21.7428	20.7116
Distribution paid – R		2 039 924	695 547
30 June			
Class A			
Cents per unit		22.5212	20.7923
Distribution paid – R		1 109 368	707 140
30 September			
Class A			
Cents per unit		24.1014	20.3724
Distribution paid – R		1 327 752	1 248 299

Notes to the Annual Financial Statements

For the year ended 31 December 2008

2. DISTRIBUTIONS PAID (Continued)

	Notes	2008	2007
Allan Gray Bond Fund (Continued)			
31 December			
Class A			
Cents per unit		25.3175	22.5301
Distribution paid – R		2 565 642	1 600 677
Total distribution for the year		7 042 686	4 251 663
Allan Gray-Orbis Global Equity Feeder Fund			
31 December			
Class A			
Cents per unit		0.4646	1.1684
Total distribution for the year		786 141	1 853 596

Allan Gray Money Market Fund

The Allan Gray Money Market Fund distributes on a daily basis. This distribution is paid over to unitholders on a monthly basis. These daily distribution details have not been disclosed on this note because of the frequency of the distributions.

Year-end income distributions

In October 2008 the Allan Gray Equity, Balanced, Optimal and Stable Funds were all large investors in Remgro and Richemont, and therefore received British American Tobacco (BAT) shares when the companies unbundled. Most of the BAT shares were distributed to the Funds as a dividend, and therefore their value on the date of the unbundling is reflected in the Funds' income accounts. The Funds are required to distribute any income that exceeds expenses in each Fund to investors as a distribution. The distributions for these funds at 31 December 2008 are therefore larger than normal. Most investors have elected to reinvest their distributions by purchasing more units in the fund concerned. For such investors the additional unit purchase is effected after year-end (i.e. in early 2009).

Investments applied to the funding of distribution payable to unitholders

In the event of a cash shortfall to fund distributions, the Funds have access to liquid assets classified as cash and cash equivalents held for investment purposes to honour its obligations to unitholders. The following Funds were in this position at balance sheet date:

2008 R'000	EQUITY FUND	BALANCED FUND	STABLE FUND
Distribution payable to unitholders	1 465 419	1 789 691	992 666
Distribution to be reinvested	(1 342 859)	(1 644 169)	(903 268)
Distribution expected to be paid in cash	122 560	145 522	89 398
Less: Current account cash balance	(12 902)	(11 786)	(14 050)
Cash and cash equivalents held for investment purposes ring-fenced in the event of a cash shortfall at distribution date	109 658	133 736	75 348

2007 R'000	EQUITY FUND	BALANCED FUND	STABLE FUND
Distribution payable to unitholders	–	279 893	215 261
Distribution to be reinvested	–	(255 915)	(195 051)
Distribution expected to be paid in cash	–	23 978	20 210
Less: Current account cash balance	–	(8 742)	(14 156)
Cash and cash equivalents held for investment purposes ring-fenced in the event of a cash shortfall at distribution date	–	15 236	6 054

Notes to the Annual Financial Statements

For the year ended 31 December 2008

3. SHORTFALLS OF INCOME FUNDED BY NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

The following amounts have been transferred from the net assets attributable to unitholders to fund shortfalls in distributable profits in terms of section 51.2 of the Deed.

	EQUITY FUND	
	2008 R	2007 R
Allan Gray Equity Fund B Class (2007: A & B Class) (June)	3 509 845[1]	86 272 823
Allan Gray Equity Fund A & B Class (December)	–	8 446 879
Total shortfalls for the year	3 509 845	94 719 702

[1] This temporary shortfall of income in the Allan Gray Equity Fund B Class reversed before year-end.

4. NOTES TO THE CASH FLOW STATEMENTS

	EQUITY FUND		BALANCED FUND		STABLE FUND	
	2008 R	2007 R	2008 R	2007 R	2008 R	2007 R
CASH GENERATED BY OPERATIONS						
Profit for the year	3 207 406 377	3 966 267 765	4 148 002 405	3 681 348 367	3 897 364 387	1 675 116 609
Adjusted for:						
Shortfalls of unitholder income funded by net assets attributable to unitholders	–	(94 719 702)	–	–	–	–
Investment transaction costs on investments at fair value through profit and loss	–	–	126 511	128 018	171 504	187 995
Interest income	(17 412 385)	(9 423 271)	(418 615 383)	(384 557 254)	(1 208 966 375)	(919 465 767)
Dividend income	(1 854 682 702)	(494 003 668)	(1 927 285 304)	(420 008 652)	(922 222 777)	(167 707 439)
Realised (losses)/gains on disposal of available-for-sale investments	(1 706 357 026)	(3 966 267 765)	(1 163 175 481)	(3 307 740 909)	(595 361 068)	(1 017 663 710)
Losses/(gains) on investments at fair value through profit or loss	–	–	(849 685 649)	85 853 584	(1 363 454 783)	119 817 641
Cash used by operations before working capital changes	(371 045 736)	(598 146 641)	(210 632 901)	(344 976 846)	(192 469 112)	(309 714 671)
WORKING CAPITAL CHANGES						
(Increase)/decrease in accounts receivable	(4 975 267)	12 585 117	(4 650 638)	31 879 298	(82 281 650)	2 206 055
Increase/(decrease) in accounts payable	19 207 859	(43 204 632)	16 715 363	(62 922 013)	82 098 309	(25 393 060)
Working capital changes	14 232 592	(30 619 515)	12 064 725	(31 042 715)	(183 341)	(23 187 005)

Notes to the Annual Financial Statements

For the year ended 31 December 2008

MONEY MARKET FUND		GLOBAL FUND OF FUNDS		OPTIMAL FUND		BOND FUND		GLOBAL EQUITY FEEDER FUND	
2008 R	2007 R	2008 R	2007 R	2008 R	2007 R	2008 R	2007 R	2008 R	2007 R
790 925 900	211 670 861	514 694 252	349 176 321	404 581 151	117 734 294	4 065 741	3 926 923	21 212 092	19 166 388
–	–	–	–	–	–	–	–	–	–
–	–	–	–	59 890	55 294	–	–	–	–
(810 889 953)	(218 368 638)	(1 908 135)	(4 077 129)	(22 904 919)	(10 958 610)	(7 045 917)	(4 299 438)	(940 657)	(1 933 394)
–	–	(6 136 830)	(169 014)	(75 972 865)	(20 700 115)	–		–	–
–	–	(506 986 012)	(345 665 742)	(119 913 631)	(176 197 988)	2 976 945	324 740	(17 970 879)	(17 275 676)
–	–	–	–	(198 997 169)	75 612 953	–	–	–	–
(19 964 053)	(6 697 777)	(336 725)	(735 564)	(13 147 543)	(14 454 172)	(3 231)	(47 775)	2 300 556	(42 682)
(202 048 244)	(13 548 891)	3 609 592	(3 609 600)	9 747 570	2 795 431	(167 814)	(25 589)	422 151	(422 152)
200 553 113	2 475 496	608 350	16 765	(1 482 444)	3 606 606	644 569	1 015 757	712 230	6 020
(1 495 131)	(11 073 395)	4 217 942	(3 592 835)	8 265 126	6 402 037	476 755	990 168	1 134 381	(416 132)

Notes to the Annual Financial Statements

For the year ended 31 December 2008

5. RECONCILIATION OF UNITS

	EQUITY FUND	BALANCED FUND	STABLE FUND
2008			
Opening balance	**108 998 716**	**493 849 841**	**986 801 186**
Net units (cancelled)/created during the year	**(5 875 546)**	**(8 642 202)**	**(14 920 477)**
Closing balance	**103 123 170**	**485 207 639**	**971 880 709**
2007			
Opening balance	114 190 882	410 713 351	732 637 779
Net units (cancelled)/created during the year	(5 192 166)	83 136 490	254 163 407
Closing balance	108 998 716	493 849 841	986 801 186

6. REVIEW OF FLUCTUATIONS OF UNIT PRICES

Cents	EQUITY FUND	BALANCED FUND	STABLE FUND
2008			
Class A			
Lowest	**12 557.99**	**4 497.31**	**2 070.17**
Highest	**18 313.01**	**5 360.56**	**2 278.32**
Class B			
Lowest	**12 002.69**	**4 477.72**	**2 068.45**
Highest	**17 795.99**	**5 336.06**	**2 272.66**
2007			
Class A			
Lowest	14 432.86	4 510.36	1 961.57
Highest	17 766.88	5 208.08	2 119.32
Class B			
Lowest	14 184.50	4 509.27	1 961.16
Highest	17 343.23	5 181.59	2 114.55

n/a denotes funds without B-Class units

The prices of units fluctuate in accordance with the changes in the market values of the investments included in the portfolio.

Notes to the Annual Financial Statements

For the year ended 31 December 2008

MONEY MARKET FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	BOND FUND	GLOBAL EQUITY FEEDER FUND
3 541 424 017	412 025 596	71 645 512	7 104 620	158 654 195
5 933 687 496	(2 334 803)	9 251 345	3 028 742	10 505 121
9 475 111 513	409 690 793	80 896 857	10 133 362	169 159 316
1 453 712 645	310 136 362	64 364 988	3 341 857	91 771 601
2 087 711 372	101 889 234	7 280 524	3 762 763	66 882 594
3 541 424 017	412 025 596	71 645 512	7 104 620	158 654 195

MONEY MARKET FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	BOND FUND	GLOBAL EQUITY FEEDER FUND
100.00	1 193.98	1 429.24	958.54	1 425.63
100.00	1 610.88	1 618.39	1 081.68	2 000.80
n/a	n/a	1 426.98	n/a	n/a
n/a	n/a	1 609.55	n/a	n/a
100.00	1 104.90	1 338.36	1 028.18	1 579.85
100.00	1 257.57	1 462.64	1 078.05	1 852.28
n/a	n/a	1 337.85	n/a	n/a
n/a	n/a	1 454.22	n/a	n/a

Notes to the Annual Financial Statements

For the year ended 31 December 2008

7. RELATED PARTY TRANSACTIONS

All transactions with related parties are conducted at arm's length. Outstanding balances bear no interest, are unsecured and are settled within 30 days of invoice date.

The Manager earns a management fee for managing and administering the Funds. Management fees per fund are either performance-based or fixed. As a consequence of the performance fee orientation, management fees will typically be higher following periods where the Funds' total investment performance (income plus capital appreciation) have outperformed their respective benchmarks and lower in the case of underperformance. This ensures that the Manager's interests are aligned with those of investors.

During the year, the Funds collectively paid management fees of R1 105.9 million, including VAT, to the Manager (2007: R1 310.6 million). At 31 December 2008, the balance due to the Manager is detailed as follows:

	VAT inclusive	VAT inclusive
	2008	2007
	R	R
Allan Gray Equity Fund	41 318 966	41 628 345
Allan Gray Balanced Fund	31 737 584	31 269 633
Allan Gray Stable Fund	28 612 323	29 273 168
Allan Gray Optimal Fund	3 404 440	1 475 912
Allan Gray Bond Fund	27 226	49 432
Allan Gray Money Market Fund	2 278 374	833 668
	107 378 913	104 530 158

The directors of the Manager have acquired and hold units in the Funds. These units were valued at R72 608 657 at 31 December 2008 (2007: R44 504 488). During the year, the directors' share of distributions paid by the Funds on their attributable unit holdings amounted to R129 074 (2007: R69 594).

The Manager holds discretionary investments in the Funds. These units were valued at R27 739 557 at 31 December 2008 (2007: R26 103 126). During the year, the Manager's share of distributions paid by the Funds on their attributable unit holdings amounted to R287 101 (2007: R255 632).

8. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the annual financial statements.

8.1 Financial risk management policies and objectives

The Funds maintain positions in a variety of derivative and non-derivative financial instruments as dictated by each Fund's specific investment management strategy. The Funds' investment portfolios may comprise listed equity and debt investments, investments in other funds, unlisted money market instruments and short-term cash deposits. Asset allocation is determined by the Funds' Manager who manages the distribution of the assets to achieve the Funds' investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored daily by the Manager's compliance department.

Market risk

The Funds' investing activities expose unitholders to various types of risk that are associated with the financial instruments and markets in which the Funds invest. Market risk is defined as 'the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices' and includes interest rate, foreign currency and other price risks.

The table on page 43 shows the Funds' exposure to price and interest rate risks, split into the different types of financial instruments held by the Funds at balance sheet date. The analysis only relate to instruments subject to those specific risks.

Notes to the Annual Financial Statements

For the year ended 31 December 2008

2008 – R'000	EQUITY FUND	BALANCED FUND	STABLE FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	BOND FUND	GLOBAL EQUITY FEEDER FUND
Investments subject to price risk	14 632 382	19 445 421	10 656 172	–	5 829 923	1 001 667	–	2 584 046
Local equities	12 987 256	13 217 758	5 405 765	–	–	992 060	–	–
Foreign equities	1 645 126	5 592 503	4 615 247	–	5 829 923	9 607	–	2 584 046
Commodities	–	635 160	635 160	–	–	–	–	–
Subject to interest rate risk	470 000	4 508 417	11 305 269	9 561 064	–	289 662	110 223	–
Money market investments	470 000	4 042 413	11 303 108	9 303 134	–	289 662	49 815	–
Bonds	–	466 004	2 161	257 930	–	–	60 408	–
Total investments	15 102 382	23 953 838	21 961 441	9 561 064	5 829 923	1 291 329	110 223	2 584 046

2007 – R'000	EQUITY FUND	BALANCED FUND	STABLE FUND	MONEY MARKET FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	BOND FUND	GLOBAL EQUITY FEEDER FUND
Investments subject to price risk	18 591 182	20 370 897	10 537 072	–	4 919 071	903 860	–	2 730 364
Local equities	18 577 694	16 337 742	7 103 393	–	–	903 860	–	–
Foreign equities	13 488	3 655 767	3 056 291	–	4 919 071	–	–	2 730 364
Commodities	–	377 388	377 388	–	–	–	–	–
Subject to interest rate risk	75 000	4 940 779	10 330 286	3 565 799	38 158	122 105	74 813	–
Money market investments	75 000	3 823 971	10 223 642	3 565 799	38 158	122 105	18 566	–
Bonds	–	1 116 808	106 644	–	–	–	56 247	–
Total investments	18 666 182	25 311 676	20 867 358	3 565 799	4 957 229	1 025 965	74 813	2 730 364

Notes to the Annual Financial Statements

For the year ended 31 December 2008

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether the changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

Unitholders are exposed to changes in the market values of the individual investments underlying each Fund. The security selection and asset allocation within each of the Funds is monitored daily by the Manager in terms of each individual Fund's stated investment objectives. The compliance department monitors compliance with applicable regulations (for example Regulation 28 of the Pension Funds Act, No. 24 of 1956 where applicable ('Regulation 28') and CISCA, as amended from time to time) and the investment mandate on a daily basis. In addition price risk may be hedged using derivative financial instruments such as futures contracts.

Exposure to price risk is mainly through listed instruments.

There has been no change to the Funds' exposure to price risk or the manner in which it manages and measures the risk. The analysis indicates possible impact on net assets attributable to unitholders until such time as the investments are sold. The table also illustrates the effect of reasonably possible changes in fair value of investments for price risk, assuming that all other variables remain constant. It follows that the actual results may differ from the sensitivity analysis below and the difference could be material. The disclosure provides information on the risks to which unitholders are exposed and is not indicative of future performance.

Notes to the Annual Financial Statements

For the year ended 31 December 2008

2008 – R'000	EQUITY FUND	BALANCED FUND	STABLE FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	GLOBAL EQUITY FEEDER FUND
Investments subject to price risk	14 632 382	19 445 421	10 656 172	5 829 923	1 001 667	2 584 046
Analysed as follows:						
Local Equities						
Net equity exposure	12 987 256	13 217 758	5 405 765	–	82 335	–
Gross equities	12 987 256	13 217 758	5 405 765	–	992 060	–
Hedged equities	–	–	–	–	(909 725)	–
+ or - 5%	649 363	660 888	270 288	–	4 117	–
+ or - 10%	1 298 726	1 321 776	540 577	–	8 233	–
+ or - 20%	2 597 451	2 643 551	1 081 153	–	16 467	–
Foreign Equities						
Net equity exposure	1 645 126[1]	4 166 338	2 464 944	3 879 664	9 607	2 584 046
Gross foreign equities	1 645 126	5 592 503	4 615 247	5 829 923	9 607	2 584 046
Hedged equities	–	(1 426 165)	(2 150 303)	(1 950 259)	–	–
+ or - 5%	82 256	208 317	123 247	193 983	480	129 202
+ or - 10%	164 513	416 634	246 494	387 966	961	258 405
+ or - 20%	329 025	833 268	492 989	775 933	1 921	516 809
Commodities						
Exposure	–	635 160	635 160	–	–	–
+ or - 5%	–	31 758	31 758	–	–	–
+ or - 10%	–	63 516	63 516	–	–	–
+ or - 20%	–	127 032	127 032	–	–	–

[1] Foreign equity exposure in the Allan Gray Equity Fund due to the classification of a JSE-listed instrument classified as 'inward listed foreign'.

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2007 – R'000	EQUITY FUND	BALANCED FUND	STABLE FUND	GLOBAL FUND OF FUNDS	OPTIMAL FUND	GLOBAL EQUITY FEEDER FUND
Investments subject to price risk	18 591 182	20 370 897	10 537 072	4 919 071	903 860	2 730 364
Analysed as follows:						
Local Equities						
Net equity exposure	18 577 694	13 907 203	3 879 629	–	24 165	–
Gross equities	18 577 694	16 337 742	7 103 393	–	903 860	–
Hedged equities	–	(2 430 539)	(3 223 764)	–	(879 695)	–
+ or - 5%	928 885	695 360	193 981	–	1 208	–
+ or - 10%	1 857 769	1 390 720	387 963	–	2 416	–
+ or - 20%	3 715 539	2 781 441	775 926	–	4 833	–
Foreign Equities						
Net equity exposure	13 488	2 003 505	1 276 642	2 657 765	–	2 730 364
Gross foreign equities	13 488	3 655 767	3 056 291	4 919 071	–	2 730 364
Hedged equities	–	(1 652 262)	(1 779 649)	(2 261 306)	–	–
+ or - 5%	674	100 175	63 832	132 888	–	136 518
+ or - 10%	1 349	200 350	127 664	265 777	–	273 036
+ or - 20%	2 698	400 701	255 328	531 553	–	546 073
Commodities						
Exposure	–	377 388	377 388	–	–	–
+ or - 5%	–	18 869	18 869	–	–	–
+ or - 10%	–	37 739	37 739	–	–	–
+ or - 20%	–	75 478	75 478	–	–	–

Interest rate risk

The value of the Funds' holding in listed interest-bearing investments varies in accordance with changes in the prevailing market interest rates. The risk of loss due to adverse interest rate movements is monitored daily by the Manager. The Funds that are exposed to interest rate risk are those that invest in bonds (the Allan Gray Balanced Fund, the Allan Gray Bond Fund and the Allan Gray Stable Fund) and money market instruments (the Allan Gray Equity Fund, the Allan Gray Balanced Fund, the Allan Gray Stable Fund, the Allan Gray Money Market Fund and the Allan Gray Optimal Fund). See note 8.4 for maturity profiles of interest-bearing investments.

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The table below illustrates the effect of reasonably possible changes in prevailing interest rates, with all other variables held constant. The effect on initial margin deposits on derivative investments, income and expense accruals and the operating bank accounts are all factored into the calculation. This analysis ignores cash holdings in the underlying funds. The actual results may differ from the sensitivity analysis and the difference could be material. The disclosure provides information on the risks to which unitholders are exposed and is not indicative of future performance.

R'000	2008			2007		
Sensitivity to changes in interest rates	Investment value	+ or - 0.50%	+ or - 1.00%	Investment value	+ or - 0.50%	+ or - 1.00%
Allan Gray Stable Fund	11 305 269	10 774	21 548	10 330 286	8 684	17 369
Allan Gray Balanced Fund	4 508 417	16 755	33 509	4 940 779	15 461	30 922
Allan Gray Bond Fund	110 223	1 337	2 674	74 813	1 047	2 095

The Allan Gray Money Market Fund investments do not change as a result of a change in interest rates. The Allan Gray Equity Fund, the Allan Gray-Orbis Global Fund of Funds, the Allan Gray Optimal Fund and the Allan Gray-Orbis Global Equity Feeder Fund all have cash balances that attract variable interest rates. Fluctuations in prevailing interest rates would therefore have no effect on those cash balances. However, there would be changes to the interest income of the Funds and due to the temporary nature of these balances the effect of any such changes would be immaterial.

The Manager's compliance department monitors compliance with applicable regulations (for example Regulation 28 and CISCA) and the investment mandate on a daily basis.

Foreign currency risk

The Allan Gray Balanced Fund, the Allan Gray Stable Fund, the Allan Gray-Orbis Global Fund of Funds and the Allan Gray-Orbis Global Equity Feeder Fund invest in foreign mutual funds. To the extent that these funds hold cash in foreign currencies, they expose unitholders to risk in respect of changes in foreign exchange rates. The risk of loss due to adverse foreign exchange rate movements is monitored daily by the Manager. The Manager's compliance department monitors compliance with applicable regulations (for example Regulation 28 and CISCA) and the investment mandate on a daily basis.

The following funds hold cash denominated in foreign currency. The table on page 48 illustrates the effect of reasonably possible changes in exchange rates, with all other variables held constant. The actual results may differ from the sensitivity analysis and the difference could be material. The disclosure provides information on the risks to which unitholders are exposed and is not indicative of future performance.

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R'000	2008 Dollar-denominated	2008 Euro-denominated	2007 Dollar-denominated	2007 Euro-denominated
Allan Gray Stable Fund	–	–	3	–
+ or - 5%	–	–	–	–
+ or - 10%	–	–	–	–
+ or - 20%	–	–	1	–
Allan Gray-Orbis Equity Feeder Fund	14 549	–	–	–
+ or - 5%	727	–	–	–
+ or - 10%	1 455	–	–	–
+ or - 20%	2 910	–	–	–
Allan Gray-Orbis Global Fund of Funds	–	–	31 128	7 030
+ or - 5%	–	–	1 556	351
+ or - 10%	–	–	3 113	703
+ or - 20%	–	–	6 226	1 406

The Allan Gray Balanced Fund, Allan Gray Stable Fund, Allan Gray-Orbis Equity Feeder Fund and Allan Gray-Orbis Global Fund of Funds use foreign currency to purchase investments in foreign mutual funds. During the year these four Funds were exposed to unusually high exchange rate fluctuations and as such realised greater than normal foreign exchange gains and losses on monetary assets. These are shown separately in the income statements.

Liquidity risk

Liquidity risk is the risk that the Funds will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk management rests with the Manager which has built an appropriate liquidity risk management framework for the management of each of the Funds' short-, medium- and long-term funding and liquidity management requirements. The Funds manage their liquidity risk by investing in marketable securities listed on recognised exchanges which may be sold in an active market at any point in time.

The Funds have access to overdraft facilities with one of the major banks. CISCA allows the Funds to utilise these facilities in cases where insufficient liquidity exists in a portfolio or where assets cannot be realised to repurchase participatory interests. Borrowings may not exceed 10% of the market value of such a portfolio at the time of borrowing. The compliance department monitors compliance with the applicable regulations. The contractual value of accounts payable and net assets attributable to unitholders is carrying value. The maturity for accounts payable and net assets attributable to unitholders are less than 30 days and on demand respectively.

In aggregate the Funds have an overdraft facility of R400 000 000 with First National Bank. This is limited to 10% of the market value of the borrowing Fund. None of the Funds were in overdraft at 31 December 2008.

The Funds' main concentration of liquidity risk lies with the net assets attributable to unitholders and distributions payable to unitholders, as disclosed on the face of the balance sheets and note 2.

Notes to the Annual Financial Statements

For the year ended 31 December 2008

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds.

The Funds expose unitholders to credit risk as a result of transacting with various institutions. Risk is mitigated by transacting on recognised exchanges where it is possible and practical. An interest rate policy committee manages credit risk by setting exposure limits for counterparties, issuers and financial instruments.

The Manager's compliance department monitors compliance with applicable regulations (for example Regulation 28 and CISCA) and the investment mandate on a daily basis. Maximum exposure to individual instruments does not exceed those set out by the regulations mentioned above.

The carrying amount of financial assets recorded in the financial statements represents unitholders' maximum exposure to credit risk.

At 31 December 2008 the Funds did not consider there to be any significant concentration of credit risk which needed to be provided for.

Accounts receivable are considered to be of a high credit quality.

The table on page 50 provides an analysis of the credit quality of interest-bearing investments at balance sheet date. Fitch ratings are used to describe the credit quality. Ratings are presented in ascending order of credit risk.

Notes to the Annual Financial Statements

For the year ended 31 December 2008

2008	EQUITY FUND	BALANCED FUND	STABLE FUND	MONEY MARKET FUND	OPTIMAL FUND	BOND FUND
National long-term credit ratings						
AAA	–	2%	–	–	–	37%
AA+	–	1%	–	–	–	0%
AA	–	2%	–	–	–	10%
AA-	–	5%	–	–	–	6%
A+	–	–	–	–	–	–
A	–	–	–	–	–	–
A-	–	–	–	–	–	1%
National short-term credit ratings						
F1+	88%	83%	91%	95%	47%	44%
F1	12%	7%	9%	5%	53%	2%
F2	–	–	–	–	–	–
	100%	100%	100%	100%	100%	100%

2007	EQUITY FUND	BALANCED FUND	STABLE FUND	MONEY MARKET FUND	OPTIMAL FUND	BOND FUND
National long-term credit ratings						
AAA	–	15%	–	–	–	52%
AA+	–	3%	–	–	–	2%
AA	–	1%	–	–	–	4%
AA-	–	1%	–	–	–	7%
A+	–	2%	–	–	–	5%
A	–	1%	–	–	–	3%
A-	–	–	1%	–	–	2%
National short-term credit ratings						
F1+	100%	74%	95%	95%	100%	25%
F1	–	2%	3%	4%	–	–
F2	–	1%	1%	1%	–	–
	100%	100%	100%	100%	100%	100%

Notes to the Annual Financial Statements

For the year ended 31 December 2008

8.2 Fair value

The fair values of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices. Loans and receivables are usually held for the instruments' entire life, for periods not exceeding a year. The fair value of these instruments closely approximates the carrying amount.

The directors are of the opinion that the fair value of all remaining financial instruments approximates the carrying amount in the balance sheet as these balances are due within 30 days.

8.3 Derivative instruments

Derivatives are used for hedging purposes in accordance with CISCA. Derivatives are not designated as effective hedging instruments in terms of IAS 39 and are classified as investments at fair value through profit or loss.

Investments in derivatives are regulated by the Financial Services Board. Submissions were made to the Financial Services Board at the end of each quarter during the period under review in terms of CISCA Notice 1503 of 2005.

The fair value of derivative instruments are calculated using quoted prices.

In terms of the South Africa Futures Exchange ('SAFEX') requirements, margin deposits are pledged as collateral for derivatives held. Margin deposits are included in cash and cash equivalents for investment purposes.

Short exposure is the value of the Funds' commitment to sell a derivative instrument at contract maturity. Short exposures and margin deposits at 31 December were:

	Margin deposit 2008 R'000	Short exposure 2008 R'000	Margin deposit 2007 R'000	Short exposure 2007 R'000
Allan Gray Stable Fund	–	–	278 708	3 223 764
Allan Gray Balanced Fund	–	–	210 122	2 430 539
Allan Gray Optimal Fund	75 662	909 725	76 105	879 695

Notes to the Annual Financial Statements

For the year ended 31 December 2008

8.4 Interest-bearing instruments
Allan Gray Balanced Fund

Maturities	Bonds R'000	Money Market Instruments R'000	Money at call R'000	Total R'000
Less than 1 year	57 012	3 305 413	737 000	4 099 425
1 to 3 years	128 623	–	–	128 623
3 to 7 years	280 369	–	–	280 369
More than 7 years	–	–	–	–
	466 004	3 305 413	737 000	4 508 417
Non-interest-bearing equity investments				19 445 421
Total investments per the balance sheet				23 953 838

Accounts payable and accounts receivable are not interest-bearing.

Coupon rates on bonds are fixed and range between 8.10% and 16.00%. Yields on the money market instruments are fixed and range between 9.95% and 12.18% and money at call earns variable interest at rates ranging between 11.20% and 11.30%.

Allan Gray Stable Fund

Maturities	Bonds R'000	Money Market instruments R'000	Money at call R'000	Total R'000
Less than 1 year	–	10 607 107	696 000	11 303 107
1 to 3 years	2 162	–	–	2 162
	2 162	10 607 107	696 000	11 305 269
Non-interest-bearing equity investments				10 656 172
Total investments per the balance sheet				21 961 441

Accounts payable and accounts receivable are not interest-bearing.

Coupon rates on bonds are fixed at 13.62%. Yields on the money market investments are fixed and range between 9.95% and 12.73% and money at call attracts variable interest at rates ranging between 11.20% and 11.35%.

Notes to the Annual Financial Statements

For the year ended 31 December 2008

Allan Gray Money Market Fund

Maturities	Bonds R'000	Money Market instruments R'000	Money at call R'000	Total R'000
Less than 1 year	257 930	9 241 134	62 000	9 561 064
Total investments per the balance sheet	257 930	9 241 134	62 000	9 561 064

Accounts payable and accounts receivable are not interest-bearing.

Coupon rates on bonds are fixed at 10.00%. Yields on the money market instruments are fixed and range between 9.75% and 12.1% and money at call earns a variable interest rate of 11.30%.

Allan Gray Bond Fund

Maturities	Bonds R'000	Money Market Instruments R'000	Money at call R'000	Total R'000
Less than 1 year	–	44 815	5 000	49 815
1 to 3 years	6 801	–	–	6 801
3 to 7 years	51 508	–	–	51 508
More than 7 years	2 099	–	–	2 099
Total investments per the balance sheet	60 408	44 815	5 000	110 223

Accounts payable and accounts receivable are not interest-bearing.

Coupon rates on bonds are fixed and range between 8.38% and 16.00%. Yields on the money market instruments are fixed and range between 9.95% and 11.43% and money at call earns variable interest at rates ranging between 11.30% and 11.35%.

Other funds

The Allan Gray Equity Fund had money at call amounting to R470 000 000 at 31 December 2008, earning variable interest at rates ranging between 11.20% and 11.35%.

The Allan Gray Optimal Fund had R289 662 097 at call at 31 December 2008, earning variable interest at rates ranging between 11.20% and 11.35%.

Approval of the Annual Financial Statements

For the year ended 31 December 2008

The directors of the Allan Gray Unit Trust Management Limited (the 'Company') are responsible for the preparation of the annual financial statements and related financial information included in this report.

The annual financial statements for the year ended 31 December 2008 set out on pages 57 to 74 have been approved by the board of directors and are signed on its behalf by:

E D Loxton	G W Fury
Chairman	Director and Public Officer
Cape Town	Cape Town
13 March 2009	13 March 2009

Certification by the Company Secretary

For the year ended 31 December 2008

I hereby confirm, in terms of the Companies Act, 1973, that for the year ended 31 December 2008 the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

A V Rust
Company Secretary

Cape Town
13 March 2009

Independent Auditor's Report to the Members of Allan Gray Unit Trust Management Limited

Report on the financial statements

We have audited the annual financial statements of Allan Gray Unit Trust Management Limited ('the Company'), which comprise the directors' report, the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 57 to 74.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, No. 61 of 1973 as amended, in South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2008, and of the financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Ernst + Young

Ernst & Young Inc.
Registered Auditor

Cape Town
13 March 2009

Report of the Directors

For the year ended 31 December 2008

The directors of the Company have pleasure in presenting their report for the year ended 31 December 2008.

Nature of the Company's business

The principal business of the Company is to manage Funds ('the Funds') registered under the Allan Gray Unit Trust Scheme ('the Scheme') in accordance with the Collective Investment Schemes Control Act No. 45 of 2002 ('CISCA').

Name of Fund	Fund Launch Date
Allan Gray Equity Fund	1 October 1998
Allan Gray Balanced Fund	1 October 1999
Allan Gray Stable Fund	1 July 2000
Allan Gray Money Market Fund	1 July 2001
Allan Gray Optimal Fund	1 October 2002
Allan Gray Bond Fund	1 October 2004
Allan Gray-Orbis Global Fund of Funds	3 February 2004
Allan Gray-Orbis Global Equity Feeder Fund	1 April 2005

Results of the Company

The results of the Company are set out in the accompanying Income Statement, Cash Flow Statement and Statement of Changes in Equity for the year ended 31 December 2008 and the Balance Sheet as at 31 December 2008.

Dividends

Declaration date	Rands per share
10 April 2008	199.99
6 October 2008	118.49

In 2008 the Company declared total dividends of R318.5 million (2007: R598.1 million).

Directors

There was no change in the board of directors during the year.

Full details of the current directors are given on the back page.

Events subsequent to the year-end

No material fact or circumstance has occurred between the accounting date and the date of this report.

The Company's investment in unit trust funds

Investment in units	2008		2007	
	Units	Fair value	Units	Fair value
Allan Gray Balanced Fund	**273 855**	**13 524 757**	273 855	14 056 830
Allan Gray-Orbis Global Fund of Funds	**996 418**	**14 214 800**	996 418	12 046 296

Income Statement

For the year ended 31 December 2008

	Notes	2008 R	2007 R
REVENUE	3.1	1 075 729 248	1 235 223 161
Management fees	14	970 065 083	1 149 646 822
Income from the company's investment in unit trust funds:			
– Dividends		130 274	130 637
– Interest		156 827	124 995
Interest received		22 552 948	22 470 453
Service charges	14	82 824 116	62 850 254
OTHER INCOME		11 915 107	405 837
Exchange gain		11 915 107	405 837
OPERATING EXPENSES		526 408 017	379 733 756
Linked investment service provider costs		217 684 438	211 246 991
Audit fees			
– Fees for audit		376 728	309 910
– Prior year under-provision		33 539	–
– Other services		–	38 704
Related party payments	14	289 876 058	156 287 476
Other operating expenses		18 437 254	11 850 675
FINANCE COSTS		96 285	–
DONATIONS PAID	14	28 427 191	42 724 173
PROFIT before taxation		532 712 862	813 171 069
Taxation expense	4	180 998 024	264 016 408
PROFIT for the year		351 714 838	549 154 661

Balance Sheet

As at 31 December 2008

	Notes	2008 R	2007 R
ASSETS			
Non-current assets			
Available-for-sale investments	5	27 739 557	26 103 126
Current assets		364 508 491	248 843 468
Trade and other receivables	6	179 881 224	144 044 931
Cash and cash equivalents	7	157 438 115	103 118 464
Taxation receivable		27 189 152	1 680 073
TOTAL ASSETS		392 248 048	274 946 594
EQUITY AND LIABILITIES			
Share capital	8	1 000 060	1 000 060
Share premium	8	2 000 000	2 000 000
Revaluation reserve		11 002 648	9 544 228
Retained earnings		234 198 373	200 983 535
Total equity		248 201 081	213 527 823
Non-current liabilities			
Deferred taxation liability	9	1 659 583	1 481 572
Trade and other payables	10	142 387 384	59 937 199
TOTAL EQUITY AND LIABILITIES		392 248 048	274 946 594

Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital R	Share premium R	Revaluation reserve R	Retained earnings R	Total R
Balance at 31 December 2006	1 000 060	2 000 000	7 473 132	249 981 309	260 454 501
Fair value adjustment on available-for-sale investments	–	–	2 422 335	–	2 422 335
Deferred tax arising on fair value adjustments recognised in equity	–	–	(351 239)	–	(351 239)
Profit for the year	–	–	–	549 154 661	549 154 661
Subtotal	–	–	2 071 096	549 154 661	551 225 757
Ordinary dividend	–	–	–	(598 152 435)	(598 152 435)
Balance as at 31 December 2007	**1 000 060**	**2 000 000**	**9 544 228**	**200 983 535**	**213 527 823**
Fair value adjustment on available-for-sale investments	–	–	1 636 431	–	1 636 431
Deferred tax arising on fair value adjustments recognised in equity	–	–	(178 011)	–	(178 011)
Profit for the year	–	–	–	351 714 838	351 714 838
Subtotal	–	–	1 458 420	351 714 838	353 173 258
Ordinary dividend	–	–	–	(318 500 000)	(318 500 000)
Balance as at 31 December 2008	**1 000 060**	**2 000 000**	**11 002 648**	**234 198 373**	**248 201 081**

Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 R	2007 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated by operations before working capital changes	15.1	509 872 813	790 444 984
Working capital changes	15.2	46 613 892	17 216 687
Cash generated from operations		556 486 705	807 661 671
Interest received		22 709 775	22 595 448
Dividends received		130 274	130 637
Taxation paid	15.3	(206 507 103)	(265 768 437)
NET CASH INFLOW FROM OPERATING ACTIVITIES		372 819 651	564 619 319
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(318 500 000)	(598 152 435)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(318 500 000)	(598 152 435)
NET INCREASE/(DECREASE) in cash and cash equivalents		54 319 651	(33 533 116)
CASH AND CASH EQUIVALENTS at beginning of year		103 118 464	136 651 580
CASH AND CASH EQUIVALENTS at end of year	7	157 438 115	103 118 464

Notes to the Financial Statements

For the year ended 31 December 2008

1. COMPANY DETAILS

Allan Gray Unit Trust Management Limited is a public unlisted company incorporated and domiciled in South Africa. The address of its registered office is disclosed on the back cover page of the financial statements. The principal business activities of the Company are described in the report of the directors.

2. ACCOUNTING STANDARDS

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value, in accordance with International Financial Reporting Standards ('IFRS') and the Companies Act, No. 61 of 1973 as amended, in South Africa. These financial statements are presented in South African rands. The accounting policies have been applied consistently in the current and prior years unless specifically stated.

2.2 IFRS

The Company has adopted all new and revised Standards and Interpretations issued by the International Accounting Standards Board (the 'IASB') and the International Financial Reporting Interpretations Committee ('IFRIC') of the IASB that are relevant to its operations and effective for annual accounting periods ended 31 December 2008.

The significant accounting policies adopted in the preparation of the financial statements are set out below and are in accordance with and comply with IFRS.

No new or revised IFRS statements, interpretations or amendments applicable to the Company were adopted during the year.

The following new or revised IFRS statements, interpretations and amendments applicable to the Company have been issued with effective dates applicable to future annual financial statements of the Company:

Statement/ interpretations/ amendments		Effective date: Years beginning on or after	Expected impact
IAS 1	Presentation of Financial Statements	1 Jan 2009	Changes to the presentation and layout of financial statements
IAS 32 & IAS 1 Amendments	Financial Instruments: Presentation and Presentation of Financial Instruments – Puttable Financial Instruments and Obligations Arising on Liquidation	1 Jan 2009	No material impact
IAS 23	Borrowing Costs	1 Jan 2009	No material impact

Notes to the Financial Statements

For the year ended 31 December 2008

2. ACCOUNTING STANDARDS (Continued)

2.3 Use of estimates, assumptions and judgements

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates and assumptions affect the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date as well as the reported income and expenses for the year. Although estimates are based on management's best knowledge and judgement of current facts as at the balance sheet date, the actual outcome may differ from these estimates.

No critical estimates and judgements were applied in preparing these financial statements.

3. ACCOUNTING POLICIES

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results. These accounting policies are set out below and have been consistently applied.

There are no accounting policies involving complex or subjective decisions or assessments which require management to make judgements based on information and financial data that may change in future periods.

3.1 Revenue

Revenue excludes any value added taxation ('VAT') and includes management fees from managing and administering the unit trust portfolios, service fees for marketing of Orbis Investment Management Limited's products, interest income, and income distributions from investments in unit trusts.

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company, the revenue can be reliably measured, stage of completion of the transaction at the balance sheet date can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably. All transactions with related parties are conducted at arm's length.

Management fees accrue on a daily basis and are based on the daily market values of the Fund portfolios.

Management fees from Orbis Investment Management Limited are recognised quarterly on an accrual basis based on the average market value of assets invested in Orbis funds through the agency of the Company.

Interest income is recognised on an accrual basis using the effective interest rate.

Income from unit trust investments is recognised when the declaration date has passed.

3.2 Taxation

Current taxation assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes permanent differences.

Secondary tax on companies ('STC') is recognised as part of the current tax charge in the income statement when the related dividend is declared. To the extent that it is probable that dividends will be declared against which any unused STC credits can be utilised, a deferred tax asset is recognised for STC credits.

3.3 Deferred taxation

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, based on the expected manner of recovery or settlement. Deferred tax is accounted for using the liability method. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance

Notes to the Financial Statements

For the year ended 31 December 2008

3. ACCOUNTING POLICIES (Continued)

3.3 Deferred taxation (Continued)

sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are off-set when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and there is an intention to settle current tax assets and liabilities on a net basis.

3.4 Expenses

All expenses are recognised in the income statement on an accrual basis. Any interest expense is recognised on an accrual basis using the effective interest rate method. All transactions with related parties are conducted at arm's length.

3.5 Impairment of tangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Impairment losses of continuing operations are recognised in the income statement in the related expense category.

3.6 Financial instruments

Financial assets and liabilities

Financial instruments are classified as either *at fair value through profit or loss, available-for-sale financial assets* or *loans and receivables*. Fair value is determined as being the quoted market value of the investments. Financial instruments are recognised on the trade date at fair value, plus, in the case of assets not *at fair value through profit or loss*, directly attributable transaction costs. Detail on how fair value is determined may be found in note 12.7. The Company determines the classification of its financial instruments on initial recognition, when the entity becomes a party to the contract governing the instrument.

A 'regular way' contract is one that requires the delivery of an asset within the time frame established, generally by regulation or convention within the market-place concerned. The Company accounts for its purchases and sales of financial assets (including regular way transactions) using trade date accounting. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. The trade date is the date that an entity commits itself to purchase or sell an asset.

A financial asset and a financial liability shall be off-set and the net amount presented in the balance sheet when the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial instruments at fair value through profit or loss

Financial assets classified as *'financial assets at fair value through profit or loss'* are designated as such upon initial recognition. This designation is based on the Company's intention to hold and sell such financial assets for client and third party benefit. Gains or losses on investments held as *fair value through profit or loss* are recognised in income.

All assets *at fair value through profit or loss* are measured at quoted market values. Gains and losses on investments *at fair value through profit or loss* are determined by reference to the quoted market prices, excluding any interest and dividends.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such. After initial

Notes to the Financial Statements

For the year ended 31 December 2008

3. ACCOUNTING POLICIES (Continued)

3.6 Financial instruments (Continued)

recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Available-for-sale investments consist of discretionary holdings in the Allan Gray suite of unit trust funds.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at the close of business on the balance sheet date and the associated gains and losses are determined excluding any interest and dividends.

All investments are designated as *available-for-sale*.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade and other receivables

Trade and other receivables, which are interest free, are classified as loans and receivables and generally have terms of 30 to 90 days. Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made where there is objective evidence, at year-end, that the Company will not be able to collect the debts. Any bad debts are written off when identified. Losses are recognised in income when the loans and receivables are derecognised or impaired.

Cash and cash equivalents

Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, and are subject to insignificant risk of changes in value, and are held for the purposes of meeting short-term cash commitments rather than for investment or other purposes. Subsequent to initial recognition, cash and cash equivalents are measured at amortised cost, which is the same as face value in this case.

Financial liabilities held at amortised cost

Trade and other payables

Trade and other payables are initially recognised at original invoice amount and are subsequently stated at amortised cost by applying the effective interest rate method. Trade and other payables are settled within 30 days and are interest free. Any gains on derecognition are recognised in income.

Derecognition of financial assets and liabilities

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in profit or loss.

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Notes to the Financial Statements

For the year ended 31 December 2008

3. ACCOUNTING POLICIES (Continued)

3.6 Financial instruments (Continued)

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly. The amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its original amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

3.7 Foreign currencies

Foreign currency income and expense amounts are translated at the rate of exchange ruling on the transaction date.

Initially, when monetary assets and liabilities denominated in foreign currencies are recognised, they are translated at the rate of exchange ruling on transaction date. Subsequent to initial recognition, they are translated at rates of exchange ruling at the balance sheet date or when settled. Gains and losses arising from this translation of monetary assets and liabilities are credited and debited respectively to the income statement.

3.8 Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

3.9 Contingencies

In the event that there may ever be (1) possible obligations that arise from past events the existence of which will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Company or (2) present obligations of the Company that arise from past events where it is not probable that an outflow of economic benefits will be required to settle the obligation that arises from past events or where the amount of the obligation cannot be measured reliably, then a liability is not recognised in the balance sheet but rather disclosed in the notes to the financial statements.

Possible assets of the Company whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Company are not recognised in the Company balance sheet and are only disclosed in the notes to the financial statements where an inflow of economic benefits is probable.

Notes to the Financial Statements

For the year ended 31 December 2008

4. TAXATION EXPENSE

	2008 R	2007 R
SA normal taxation		
– current year	**149 167 585**	235 914 141
– prior year	**–**	(184 669)
	149 167 585	235 729 472
Secondary tax on companies	**31 830 439**	28 286 936
	180 998 024	264 016 408
Reconciliation of tax rate:	**%**	%
Standard tax rate	**28.00**	29.00
Adjusted for:		
Exempt income	**(0.01)**	–
Reversal of prior year income tax overprovision	**–**	(0.02)
Non-deductible expenses	**0.01**	–
Items not included in the income statement	**–**	0.01
Secondary tax on companies	**5.98**	3.48
Effective tax rate	**33.98**	32.47

During the year the tax rate changed from 29% to 28%.

5. INVESTMENTS

It is not the policy of the Manager to maintain a trading stock of units. Units are created as and when required.

	2008		2007	
	Cost R	Fair value R	Cost R	Fair value R
Available-for-sale investments				
Allan Gray Balanced Fund				
– 273 855 units (2007: 273 855)	**5 721 649**	**13 524 757**	5 721 649	14 056 830
Allan Gray-Orbis Global Fund of Funds				
– 996 418 units (2007: 996 418)	**9 355 677**	**14 214 800**	9 355 677	12 046 296
	15 077 326	**27 739 557**	15 077 326	26 103 126

Available-for-sale investments consist entirely of investments in unit trust funds, and therefore have no fixed maturity date or coupon rate. These are discretionary investments held by the Company to optimise the long-term return of the investment and may be redeemed at any point in time.

6. TRADE AND OTHER RECEIVABLES

	2008 R	2007 R
Investment income due	**1 271 555**	426 703
Receivables from related parties	**173 128 680**	139 791 545
Other receivables	**5 480 989**	3 826 683
	179 881 224	144 044 931

Receivables are interest free and they are settled within 30 days.

Notes to the Financial Statements

For the year ended 31 December 2008

7. CASH AND CASH EQUIVALENTS

	2008 R	2007 R
Operating cash in the current account	**252 570**	368 464
First National Bank call account – refer note 12	**157 185 545**	102 750 000
	157 438 115	103 118 464

In terms of section 105 of CISCA, investments into and out of unit trust funds managed by the management company must be processed through trust bank accounts. These bank accounts are treated as belonging to unitholders and therefore are not reflected in the balance sheet of the management company. Unitholder cash awaiting investment at 31 December 2008 amounted to R18 000 667 (2007: R32 097 625).

8. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

	2008 R	2007 R
Authorised		
3 000 000 ordinary shares of R1 each	**3 000 000**	3 000 000
Issued and fully paid		
1 000 060 ordinary shares of R1 each	**1 000 060**	1 000 060
Share Premium Account		
Arising on the issue of ordinary shares	**2 000 000**	2 000 000

9. DEFERRED TAXATION

	2008 R	2007 R
A deferred tax liability arises on revaluation of the Manager's investments in units based on capital gains since 1 October 2001. Deferred tax has been calculated using an inclusion rate of 50% and a tax rate of 28% (resulting in an effective rate of 14%).		
Opening balance	**1 481 572**	1 130 333
Charged directly to equity	**178 011**	351 239
Closing balance	**1 659 583**	1 481 572

10. TRADE AND OTHER PAYABLES

	2008 R	2007 R
Payables to related parties – refer note 14	**118 556 883**	35 253 127
Accruals and other payables	**23 830 501**	24 684 072
	142 387 384	59 937 199

Payables are interest free and are settled within 30 days.

Notes to the Financial Statements

For the year ended 31 December 2008

11. CANCELLATION OF UNITS

The Company undertakes to repurchase units in accordance with the requirements of CISCA, and on terms and conditions set out in the Funds' trust deeds.

12. FINANCIAL RISK MANAGEMENT

The Company's principal financial instruments comprise:

- Available-for-sale investments: These investments are holdings in the Allan Gray suite of unit trust funds.
- Cash and cash equivalents: Cash arises from operating activities and is used to fund working capital requirements and distributions to equity participants.
- Trade and other receivables: These arise from daily operations.
- Trade and other payables: These arise from daily operations.

Available-for-sale investments are reviewed by the board periodically to ensure that they comply with the Company's risk strategy. Cash and cash equivalents are reviewed weekly and are invested to earn the most favourable interest rate. Trade and other payables and trade and other receivables arise from daily operations and are managed to achieve an operating cycle of not more than 30 days.

12.1 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company.

At the balance sheet date, credit risk consisted principally of investments in the Funds, service fees due from the Funds, management fees due from Orbis Investment Management Limited and short-term cash deposits. Maximum credit exposure for these financial instruments is the carrying value per the balance sheet since all the balances are unsecured. The Funds and Orbis Investment Management Limited are related parties (see note 14 for details). During the year, the Company deposited short-term cash surpluses with one of the major banks in the country and this institution is of high quality credit standing.

At 31 December 2008 the Company did not consider there to be any significant concentration of credit risk which needed to be provided for. All assets are considered to be of good credit quality. All financial assets disclosed in the financial statements are neither past due nor impaired.

12.2 Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether the changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market.

Available-for-sale investments consist of discretionary holdings in the Funds. These investments are considered most appropriate for preserving and enhancing the Company's long-term capital. The investments' actual risk and return profile are monitored and reviewed from time to time to ensure that they remain in line with the Company's profile and long-term capital management framework.

At 31 December 2008 the Company did not consider there to be any significant concentration of price risk.

12.3 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Money on call earns interest at fixed rates ranging between 11.0% and 11.6%. Money on call matures within one week of 31 December 2008. Money in the current account earns a variable interest rate of 10.5% at 31 December 2008.

Interest rate risk analysis

All interest-bearing instruments attributable to shareholders are subject to variable interest at the South African prime interest rate.

Notes to the Financial Statements

For the year ended 31 December 2008

12. FINANCIAL RISK MANAGEMENT (Continued)

12.3 Interest rate risk (Continued)

No sensitivity analysis has been prepared for the Company in respect of interest earned on cash and cash equivalents as any reasonable variation is not expected to have a material impact on the financial results as any significant cash balances held at year-end are distributed as a dividend.

12.4 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to currency risk to the extent that it earns management fees (invoiced in US dollars) that are subject to fluctuating assets under management.

Monitoring of the exchange rate takes place in order to ensure that currency risk is in line with Group policy. Trade and other receivables include balances of US$7 453 022 (2007: US$6 700 129). Of this balance, US$5 217 563 (2007: US$3 291 235) is held in a local US dollar bank account; and US$2 235 459 (2007: US$3 408 894) was receivable directly from Orbis Investment Management Limited.

At 31 December 2008 the Company did not consider there to be any significant concentration of currency risk.

The following table illustrates the effect of reasonable possible changes in exchange rates, with all other variables held constant. The actual results may differ from the sensitivity analysis and the difference could be material.

Rm	2008	2007
+-5%	3.5	2.3
+-10%	7.0	4.6
+-20%	14.0	9.2

12.5 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company actively manages its liquidity risk by continuously assessing its projected cash outflows and considering the level of liquid assets necessary in relation thereto. The Allan Gray group of companies minimised liquidity risk as it had a favourable cash position and capacity for substantial banking facilities at the balance sheet date.

The undertaking of the Company to repurchase units in accordance with the requirements of CISCA and on terms and conditions set out in the Funds' trust deeds exposes the Company to liquidity risk. This risk is mitigated by stringent cash management and capacity for substantial banking facilities at balance sheet date. The Funds in aggregate have an overdraft facility of R400 million with First National Bank. This facility is subject to regulatory limits on the borrowing of collective investments schemes in terms of CISCA. None of the funds was in overdraft at 31 December 2008.

12.6 Capital adequacy risk

CISCA requires that a manager must, on an ongoing basis, maintain in liquid form the capital for the matters and risks determined by the Registrar of Collective Investment Schemes (the 'Registrar'). Notice 2072 of 2003 prescribes the calculation of the capital required and requires that a calculation of the capital position as at the last business day of each calendar month, be submitted to the Registrar within 14 business days after the end of such calendar month.

The required capital, as defined by Notice 2072 of 2003, consists of three components: basic capital, seed capital and position risk capital.

The basic capital component is the greater of R600 000 or a sum equivalent of 13 weeks of the Manager's fixed cost calculated as the previous financial year's fixed costs divided by four. At 31 December 2008 this capital requirement was R27 385 459.

The requirement that seed capital of R1 million be invested by the Manager does not apply as the prescribed amount of R1 million may be reduced by 10 per cent for every R1 million invested by investors (independent from the Manager) in a portfolio. At 31 December 2008 the Manager did not have any investments held as seed capital.

Notes to the Financial Statements

For the year ended 31 December 2008

12. FINANCIAL RISK MANAGEMENT (Continued)

12.6 Capital adequacy risk (Continued)

Position risk capital is a sum equivalent to a percentage (10% for a money market portfolio, 15% for an income portfolio and 25% for all other portfolios) of the amount paid by the Manager for units in a portfolio administered by itself.

The Company satisfied the capital requirements and its reporting obligations under Notice 2072 of 2003. The quantum of dividends declared during the year was limited to the liquid resources of the Company as calculated in accordance with the capital adequacy requirements stipulated by Notice 2072 of 2003.

12.7 Fair value

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices. Loans and receivables are held for periods not exceeding a year and these are usually held for the instruments' entire life, meaning that the fair value of these instruments closely approximates the carrying amount.

The directors are of the opinion that the fair value of all remaining financial instruments approximates the carrying amount in the balance sheet as these balances are due within 30 days.

13. CAPITAL MANAGEMENT STRATEGY

The Company capital structure comprises its share capital and share premium. The Company's capital strategy is based on changing economic conditions in order to provide maximum benefit to equity participants.

The Company does not have any target gearing ratio and instead focuses on determining the most efficient use of surplus funds. Changes in operations are traditionally funded from the Company's retained earnings.

14. RELATED PARTIES

Relationships exist between Allan Gray Unit Trust Management Limited, its holding company Allan Gray Limited, fellow subsidiaries Allan Gray Investment Services Limited and Allan Gray Life Limited, the Funds, the Allan Gray Orbis Foundation and Orbis Investment Management Limited. All transactions with related parties are conducted at arm's length and settlement terms are not more favourable than those arranged with third parties. Settlement terms are within two weeks of receipt of the invoice.

Transactions with the holding company

The Company has appointed its holding company as investment manager of the Funds and to undertake certain company administrative and marketing functions and the day-to-day administration of local unit trusts.

Fees paid to Allan Gray Limited for all services rendered during the year amounted to R289.9 million (2007: R156.3 million). The balance owed by Allan Gray Unit Trust Management Limited to Allan Gray Limited as at 31 December 2008 is R110.9 million (2007: R9.0 million).

Dividends paid to Allan Gray Limited amounted to R318.5 million during the year (2007: R598.1 million).

Payments to Allan Gray Investment Services Limited

In May 2005, Allan Gray Investment Services Limited ('AGIS') launched a retail investment platform with the aim of giving investors direct access to a range of investment funds. This platform supports a focused range of funds, including the Allan Gray suite of unit trust funds. In October 2005, the Allan Gray endowment and retirement products were also migrated onto the platform.

The Company pays AGIS a monthly fee, based on funds invested in bulk by direct clients and those investing via the endowment and retirement products administered by the AGIS platform. Total fees paid to AGIS during the year amounted to R82.0 million (2007: R62.5 million). The balance owed by the Company to AGIS at 31 December 2008 is R7.7 million (2007: R26.3 million).

Allan Gray Orbis Foundation

The Company has, as part of the Group's initiative to social upliftment and black empowerment, made a commitment to donate 5% of its annual pre-tax income to deserving social causes. To this end the Company made a contribution of R28.4 million (2007: R42.7 million) to the Allan Gray Orbis Foundation in 2008.

Mahesh Cooper, a director of the Company, also serves as Trustee of the Allan Gray Orbis Foundation.

Notes to the Financial Statements

For the year ended 31 December 2008

14. RELATED PARTIES (Continued)

Allan Gray Unit Trust Funds

The Company earns a management fee for managing and administering the Funds. Management fees per fund are either performance-based or fixed. As a consequence of the performance fee orientation, management fees will typically be higher following periods where the Funds' total investment performance (income plus capital appreciation) has outperformed their respective benchmarks and lower in the case of underperformance.

The Company received total management fees of R970.1 million (2007: R1 149.6 million) from the Funds. The balance owed by the Funds to the Company at 31 December 2008 is R94.2 million (2007: R91.8 million) and is detailed as follows:

	VAT exclusive balances			
	Management fees earned		Amounts receivable from the unit trust funds	
	2008 R	2007 R	2008 R	2007 R
Allan Gray Equity Fund	**326 964 238**	524 691 454	**36 264 403**	36 571 668
Allan Gray Balanced Fund	**320 671 786**	314 751 979	**27 839 842**	27 432 241
Allan Gray Stable Fund	**288 900 138**	291 318 881	**25 118 094**	25 681 312
Allan Gray Optimal Fund	**16 013 085**	13 000 281	**2 986 349**	1 294 489
Allan Gray Bond Fund	**484 434**	249 173	**23 882**	43 144
Allan Gray Money Market Fund	**17 031 402**	5 635 054	**1 998 574**	731 288
	970 065 083	1 149 646 822	**94 231 144**	91 754 142

Allan Gray Life Limited

Living Annuity and Endowment policies issued by Allan Gray Life Limited invest in the unit trust funds at arm's length.

Orbis Investment Management Limited ('Orbis')

A related party relationship exists between the Allan Gray group and Orbis by virtue of a common shareholder with significant influence. Allan Gray Unit Trust Management Limited earns management fees in respect of the marketing of Orbis products as approved in terms of section 65 of CISCA.

Service fees of R82.8 million (2007: R62.9 million) were earned during the year from Orbis of which R70.0 million (2007: R46.0 million) was outstanding at 31 December 2008. These fees are received by Allan Gray Group Limited on behalf of the Company in a local US dollar bank account. At 31 December 2008 the outstanding balance due from Allan Gray Group Limited was R21.1 million (2007: R22.6 million); and the balance due from Orbis is R48.9 million (2007: R23.4 million).

Notes to the Financial Statements

For the year ended 31 December 2008

14. RELATED PARTIES (Continued)

Directors' fees

As mentioned above, the Company has appointed its holding company as investment manager of the Funds and to undertake certain company administrative and marketing functions and the day-to-day administration of the local unit trusts. This service entails having certain of the holding company's employees serving on the board of directors from time to time. Messrs E D Loxton, J C de Lange, R W Dower, G W Fury (executive directors), M Cooper and I S Liddle (non-executive directors) are all employed by the holding company and they were directors of the Company during the year. Below is an analysis of attributable amounts paid in exchange for services rendered as directors of Allan Gray Unit Trust Management Limited as distinct from services rendered as managers employed by Allan Gray Limited.

	2008 R	2007 R
Payments to executive directors:		
Cash salary	1 938 947	1 551 721
Medical aid contributions	71 412	71 788
Group life and disability benefit	10 303	14 639
Retirement annuity contribution	38 450	40 577
Share-based payment	2 630 639	5 487 644
	4 689 751	7 166 369
Payments to non-executive directors:		
Cash salary	36 585	246 098
Medical aid contributions	793	9 573
Group life and disability benefit	131	1 747
Retirement annuity contribution	801	12 548
Share-based payment	77 507	2 493 177
	115 817	2 763 143
	4 805 568	9 929 512
IAS 24 disclosure		
Short-term employee benefits	4 766 317	9 876 387
Post-employment benefits	39 251	53 125
	4 805 568	9 929 512

The listing of the members of the board of directors is shown on the outside back cover.

Notes to the Financial Statements

For the year ended 31 December 2008

15. NOTES TO THE CASH FLOW STATEMENT

	2008 R	2007 R
15.1 Operating profit before working capital changes		
Profit before taxation	532 712 862	813 171 069
Adjustments for:		
Interest income	(22 709 775)	(22 595 448)
Dividend income	(130 274)	(130 637)
	509 872 813	790 444 984
15.2 Working capital changes		
Increase in trade and other receivables	(35 836 293)	(13 211 553)
Increase in trade and other payables	82 450 185	30 428 240
	46 613 892	17 216 687
15.3 Taxation paid		
Amount (receivable)/owing at the beginning of the year	(1 680 073)	71 956
Amount charged per the income statement	180 998 024	264 016 408
Amount receivable at the end of the year	27 189 152	1 680 073
Amount paid	206 507 103	265 768 437

Legal Notes

Collective Investment Schemes (unit trusts) are generally medium- to long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down.

Performance data is based on a lump sum investment calculated on a net asset value (NAV) to NAV basis where distributions may be reinvested for certain classes of funds.

Collective Investment Schemes may borrow up to 10% of the market value of the portfolio where insufficient liquidity exists in a portfolio, or where assets cannot be realised to repurchase, or cancel participatory interests.

Minimum investment amounts may be raised in the future at the discretion of the Manager.

Money market funds are not risk-free investments

Unit trust prices are calculated on a NAV basis, which, for money market funds, is the total book value of all assets in the portfolio divided by the number of units in issue. The Allan Gray Money Market Fund aims to maintain a constant price of 100 cents per unit. The total return to the investor is primarily made up of interest received but may also include any gain or loss made on any particular instrument held. In most cases this will have the effect of increasing or decreasing the daily yield, but in some cases, for example in the event of a default on the part of an issuer of any instrument held by the Fund, it can have the effect of a capital loss. Such losses will be borne by the Allan Gray Money Market Fund and its investors and in order to maintain a constant price of 100 cents per unit, investors' unitholdings will be reduced to the extent of such losses.

Units are priced using the forward pricing method

Investment, withdrawals and switching instructions received after 14:00 on any day shall be processed on the following day (excluding weekends and public holidays) at the value of the units on the day that the instruction is processed. Please refer to the relevant Terms and Conditions on the relevant application form. Collective Investment Schemes valuations take place at approximately 16:00 each business day.

Units will be repurchased by the Manager at the ruling price, according to the requirements of the Collective Investment Schemes Control Act and in line with the Terms and Conditions set out in the relevant deed, and paid to the investor.

Different classes of units are subject to different fees and charges

Commissions may be paid and if so, would be included in the overall costs. Different classes of units apply to the Allan Gray Equity, Balanced, Stable and Optimal Funds only and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commissions is available on request from the management company. A fund of funds unit trust may only invest in other unit trusts, which levy their own charges. This could result in a higher fee structure for these Funds. Permissible deductions from the total portfolio may include bank charges, trustee/custodian fees, auditor's fees, manager's annual management fee, securities transfer tax (STT) and brokerage fees.

Unit trusts may be capped to allow them to stick to their mandates

All of the unit trusts except the Allan Gray Money Market Fund may be closed at any time. This is to allow them to be managed according to their mandates. Allan Gray Unit Trust Management Limited is a member of the Association for Savings and Investment SA (ASISA).

Initial adviser fees

The buying price of units may include an initial adviser fee of up to a maximum of 3.42% (3% plus VAT) of the investment amount. This fee is not compulsory and is negotiated independently between the unitholder and the financial adviser.

Allan Gray charges a performance-based fee for the Equity Fund

On the Allan Gray Equity Fund a performance-based fee is levied daily on the Class A units which varies between a minimum of 0.0% per annum and a maximum of 3.42% (3.0% plus VAT) per annum of the daily value of the Fund. For the Class B units the above fees vary between 1.71% (1.5% plus VAT) and 4.67% (4.1% plus VAT). Declarations of net income accruals are made bi-annually.

Allan Gray charges a performance-based fee for the Balanced Fund

On the Allan Gray Balanced Fund a performance-based fee is levied daily on the Class A units, which varies between a minimum of 0.57% (0.5% plus VAT) per annum and a maximum of 1.71% (1.5% plus VAT) per annum of the daily value of the Fund excluding any assets invested in the Orbis funds. Assets invested in the Orbis Funds incur a management fee in the underlying funds only. These, along with other expenses, are included in the Total Expense Ratio. For the Class B units the above fees vary between 1.82% (1.6% plus VAT) and 2.96% (2.6% plus VAT). Declarations of net income accruals are made bi-annually.

Legal Notes

Allan Gray charges a performance-based fee for the Stable Fund

On the Allan Gray Stable Fund a performance-based fee is levied daily on the Class A units, which varies between a minimum of 0.57% (0.5% plus VAT) per annum and a maximum of 1.71% (1.5% plus VAT) per annum of the daily value of the Fund, excluding any assets invested in the underlying Orbis funds only. Assets invested in the Orbis funds incur a management fee. These, along with other expenses, are included in the Total Expense Ratio. For the Class B units the above fees vary between 1.82% (1.6% plus VAT) and 2.96% (2.6% plus VAT). Declarations of net income accruals are made quarterly.

Allan Gray charges a performance-based fee for the Bond Fund

On the Allan Gray Bond Fund a performance-based fee is levied daily which varies between a minimum of 0.285% (0.25% plus VAT) per annum and a maximum of 0.855% (0.75% plus VAT) per annum of the daily value of the Fund. Declarations of net income accruals are made quarterly.

Allan Gray charges a fixed fee for the Money Market Fund

On the Allan Gray Money Market Fund a fixed fee of 0.285% (0.25% plus VAT) per annum is levied daily on the daily value of the Fund. Declarations of net income accruals are made daily and paid out monthly.

The Allan Gray-Orbis Global Fund of Funds charges no fee but the underlying Orbis funds charge their own fees

On the Allan Gray-Orbis Global Fund of Funds no fee is levied by Allan Gray. The Allan Gray-Orbis Global Fund of Funds, being a fund of funds, only invests in other Orbis funds. The underlying Orbis funds levy their own charges, and these along with other expenses are included in the Total Expense Ratio. Declarations of net income accruals are made annually.

The Orbis Global Equity Feeder Fund charges no fee, but the underlying fund, the Orbis Global Equity Fund, charges its own fees

On the Allan Gray-Orbis Global Equity Feeder Fund no fee is levied by Allan Gray. The Allan Gray-Orbis Global Equity Feeder Fund, being a feeder fund, only invests in the Orbis Global Equity Fund. The Orbis Global Equity Fund levies its own charges, and these along with other expenses are included in the Total Expense Ratio. Declarations of net income accruals are made annually.

Allan Gray charges a combination of fixed and performance-based fees for the Optimal Fund

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 based on 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 net income accruals are made bi-annually.

Tax notes

Institutional investors should note that, compared to retirement funds, unit trusts operate under different tax rules. While unit trusts are in practice not taxed, they do not enjoy automatic tax exemption, and any taxable income earned is taxable in the hands of investors.

A transfer of units to another legal entity or natural person may result in a payment of Capital Gains Tax (excluding transfers from the Allan Gray Money Market Fund).

Communication with investors

Statements are sent to all unitholders on a quarterly basis. In addition, advices are sent on a transaction basis (excluding debit orders).

Copies of the audited annual financial statements of the Manager and of the unit trusts it manages, are available, free of charge, on request by any investor.

FTSE/JSE disclaimer

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IFA Service Centre
0860 000 653 / +27 (0)21 415 2690
info@allangray.co.za / ifa@allangray.co.za
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DIRECTORS
Executive Directors

J C de Lange	B Proc CFP
R W Dower	B Sc (Eng) MBA
G W Fury	BA LLB MA CFA
E D Loxton	B Com (Hons) MBA (Chairman)

Non-executive Directors

M Cooper	B Bus Sc FIA FASSA
I S Liddle	B Bus Sc (Hons) CFA

COMPANY SECRETARY

A V Rust	B Bus Sc CA (SA)

INVESTMENT MANAGER
Allan Gray Limited is an authorised Financial Services Provider.

TRUSTEE
First National Bank, a division of FirstRand Bank Limited
PO Box 7713 Johannesburg 2000
South Africa

AUDITORS
Ernst & Young Inc.

Allan Gray Unit Trust Management Limited is a member of the Association for Savings & Investment SA (ASISA)