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30 September 2006

Quarterly Commentary

ALLANGRAY

INTELLIGENT INVESTING

Inside this issue

Front cover (top left to right): Anne Mayers, Delphine Govender and Tabane Mafojane

ALLANGRAY
INTELLIGENT INVESTING

Allan Gray Limited Registration Number 1992/006778/06 Granger Bay Court Beach Road V&A Waterfront Cape Town 8001
P O Box 51318 V&A Waterfront Cape Town 8002 South Africa Tel 021 415 2300 Fax 021 415 2400
www.allangray.co.za info@allangray.co.za

ALLAN GRAY INVESTOR SERVICES
Client Service Line 0860 000 654 / +27 (0)21 415 2301
Client Service Email info@allangray.co.za
Client/IFA Service Facsimile 0860 000 655 / +27 (0)21 415 2492
IFA Service Line 0860 000 653 / +27 (0)21 415 2690
IFA Email ifa@allangray.co.za

Greg Fury, Chief Operating Officer

Comments from the Chief Operating Officer

At Allan Gray we have learnt that we cannot predict the future. Despite this, we do on occasion recognise that we are witness to significant events which may signal the start of a different investment climate. Sandy McGregor, in **INVESTMENT PERSPECTIVE** explains why he believes that this is one of those times and provides an overview of current events in South Africa and abroad. But most importantly he reminds us of the uncertainty of the outcome and the difficulty of predicting it in a way that is useful to investors.

Because of our lack of confidence in predicting the macro trends, we need to focus on areas where we have more confidence: exhaustive fundamental research on individual companies and securities. In doing so we do sometimes find a shared theme or similar characteristics in investments we find attractive. To this end, in **INVESTMENT COMMENTARY**, Delphine Govender explains why we have maintained a large holding of Amplats and Implats shares in our clients' equity portfolios. We believe that these stocks continue to represent good long-term value in an absolute sense and also superior value when comparing them with other shares in the resources sector.

In a similar vein, Orbis Director Alec Cutler explains in this quarter's **OFFSHORE UPDATE** how the shares of companies in Asia (outside Japan) such as Samsung Electronics have been found to be particularly attractive. While disciplined stock-by-stock research is the driver as it is with Allan Gray, common themes are sometimes found and, as now with the overweight position of Asia ex-Japan stocks, reflected in Orbis' global equity portfolios.

The Allan Gray Stable Fund unit trust (and the equivalent portfolios for institutional clients) has proven to be very successful since inception in early 2000 both in terms of risk adjusted performance and support from conservative investors. Mahesh Cooper and Tabane Mafojane provide an update on the Stable Fund, showing the consistency of the Fund's performance in rising, flat and declining markets. The analysis also illustrates this Fund's positioning and role relative to the Allan Gray Balanced Fund and Allan Gray Equity Fund over the same periods.

The past year has been extremely busy on the retail side of our business: in-sourcing the administration of our offshore fund offering, integrating this with our local investment platform, successfully migrating individual life and retirement products onto the platform and most recently launching Allan Gray Online. Along with these developments, we have experienced unprecedented growth. As we have grown to support these volumes, we remain committed to ensuring that our clients have the best possible investment experience at Allan Gray. We are pleased to report that we have seen a meaningful improvement in service levels and a reduction in the number of administration errors and queries. Johan de Lange and Anne Mayers share more about the progress being made on the retail side of our business and explain the benefits of activating an online account at www.allangray.co.za in this quarter's **RETAIL UPDATE**.

Finally, the importance of communicating the characteristics of Allan Gray and our approach to investment is vital in ensuring that investors do indeed benefit from our long-term track record and performance – principally by having the confidence to stick to their convictions when sentiment temporarily goes against them (and us!). In the **MARKETING UPDATE**, Tracy Hirst introduces our new advertising campaigns.

Despite the caution towards global shares and all domestic assets that we have conveyed in our commentaries for some time, stockmarkets worldwide have advanced both in South Africa and abroad. In fact both the US (as measured by the Dow Jones Index) and South African markets are at or close to record highs in local currency terms and the returns enjoyed by South African investors have continued to be remarkable. At the risk of boring readers by repetition this leads us to be even more cautious of long-term returns, particularly from South African assets, from this point forward.

What has changed in the last quarter is that the overall rise has been driven by rand weakness and it has mainly been in shares that benefit from a weak rand. As a result of the same rand weakness, South African shares measured in dollars have been poor performers with our market 20% below its peak achieved back in May of this year – and among the poorest performing stockmarkets worldwide year-to-date.

To turn to our own clients' performance, 2006 has again been a stellar year, with our funds' absolute and relative returns being well above both inflation and their benchmarks – largely as a result of exposure to selected resource counters and other rand hedge stocks. Readers will find our full performance track record by mandate in the back of the QC but as usual we note the rolling 12-month performance of our Global Balanced mandate, 30.5% vs its benchmark of 27.0, and Domestic Equity mandate, 39.6% vs its benchmark of 36.1%

Thank you for your continued support during this past period. I hope that you enjoy this issue of our Quarterly Commentary.

Kind regards

Greg Fury

Sandy McGregor, Head of Private Client Portfolios, Commodities and Bond Portfolio Manager

Focus, still, on asset valuation!

EXECUTIVE SUMMARY Investors who have come to accept long lived benign economic and financial conditions as the norm are warned in this article that recent significant events in South Africa and internationally may signal the start of a different investment climate. Among these is the end of easy money in Japan as a result of which an important source of global liquidity is being turned off. This could have an increasingly negative impact on share prices. Meanwhile, in the US, the end of a period of rising rates is being reached, an important turning point. And turning points elsewhere can become turning points in South Africa where there have been two recent rate hikes with the prospect of more to follow. Which is why, in this period of uncertainty, the focus at Allan Gray continues to be on asset value rather than trying to predict macro-economic outcomes.

Turning points and periods of transition present special challenges to investors. Economic and financial trends often can be sustained for many years. If they are particularly long lived, market participants come to accept them as the norm. Rules and conventions develop which assume that prevailing conditions will continue forever. Then, when conditions do change, we are left struggling to adjust to new, often very different circumstances. To a considerable degree, investors are like generals who are always ready to fight the last war and are ill-prepared for something totally new. A good example of this was the long period of rising inflation between the mid 1960s and 1980 which was followed by more than two decades of declining inflation. It took a long time for people to recognise this was a fundamental change and then to adjust their investment habits to cope with a deflationary rather than inflationary world.

> "… investors are like generals who are always ready to fight the last war and are ill-prepared for something totally new."

Those who recognised the new paradigm early profited greatly because it ushered in the biggest equity bull market in history. Another profound example of a totally new situation has been the emergence of China as the focus of global growth, with its deflationary impact on the prices of manufactured goods and inflationary effect on resources. Initially, the Chinese phenomenon was greeted by a certain scepticism, but some companies recognised its consequences more rapidly than others and have benefited accordingly. Such seminal changes must be recognised in their early stages because it is then that great opportunities exist. One must look beyond the daily newsflow and see what is truly important. Recently, there have been significant events both in South Africa and internationally which, while probably not as profoundly important as what happened in 1979-80 or the rise of China, may signal the start of a different investment climate.

Among these is the end of easy money in Japan. For the past decade the Bank of Japan has responded to the deflationary consequences of the collapse of its property and equity bubbles by creating money on a scale which, when measured relative to the Japanese economy, is unparalleled in history. Interest rates were slashed to 0.5% in 1996 and then to zero in 2001. Japanese banks were almost force-fed a diet of liquidity like fois gras geese. This massive creation of cheap yen has buoyed global asset prices. Rates in Japan are still very low but, now that Japan is firmly back on a growth path, the Bank of Japan has signalled that it wishes to raise rates to sustainably higher levels. When Alan Greenspan was asked what is a 'normal' level of interest rates he said cryptically that we shall know it when we get there. One senses the Japanese are in a similar frame of mind. They know that rates are too low and will gradually increase them, but they have embarked on a path the end of which is uncertain. From an international perspective, the issue is that an important source of global liquidity is being turned off. Since equity markets are driven by liquidity, this could have an increasingly negative impact on share prices.

While Japan is at the start of a rising interest rate cycle, the US is reaching the end of a period of rising rates. In order to prevent a recession in 2001, the Fed pursued a policy of aggressive liquidity creation, cutting rates to 1%. It started to reverse this policy in 2004. Since then, at every Open Market Committee meeting, rates were raised by 0.25% until the recent August meeting, when they were left unchanged. Increasingly, market participants are sensing that we have reached the peak of the US interest rate cycle, an important turning point. Certainly the bond market is signalling an end to monetary tightening. Since early July US 10-year bond yields have declined from 5.2% to 4.8%.

The decline in bond yields probably also reflects increasing unease about the prospects for the US housing market and therefore for the US economy as a whole. The great American housing bubble can be traced back to 1991 but really started to gain momentum following the dramatic monetary easing of 2001. Homeowners' behaviour has become conditioned by 15 years of rising prices. Now they are facing a combination of static prices, rising numbers of houses offered for sale and higher interest rates. Again, it looks as if we are at a turning point where housing no longer adds but rather detracts from economic growth.

From an investor's point of view, perhaps the most important consequence of stimulatory monetary conditions has been the rise in corporate profits to their highest level ever. A deterioration in economic conditions will threaten these profits, undermining global equity valuations. So far, earnings have held up well but any deterioration could have a chilling effect on share prices.

In South Africa we have also witnessed a reversal in the direction of monetary policy, with two rate hikes of 0.5% and further increases probable. It is not the rise in rates itself that is so important but rather that it focuses attention on the sustainability of the South African boom, especially given a shortage of skills and huge current account deficit. The boom cannot continue without foreign capital and skills. It is also dependent on a buoyant global economy. To a very large extent, South Africa's fortunes depend on what is happening in the rest of the world. The turning points elsewhere can become turning points for South Africa.

The extent to which the future is hidden from us is amazing. The outcome of economic and political events is a random walk, and impossible to predict. The babble of economic and financial news is very difficult to interpret. This is why, as investors, we at Allan Gray focus on the value of assets rather than try to predict macro-economic outcomes. However, one can sense that currently we are witnessing changes which will have an enormous impact on investors.

"… currently we are witnessing changes which will have an enormous impact on investors."

The end of cheap oil, the rise of China, conflicts in the Middle East, the end of the US housing boom and the end of cheap money all interact to create new circumstances and a new environment which will probably be very different from, and more challenging than what we have enjoyed in recent years. The historian CV Wedgewood has commented on how different studying history is to living through events because, in the case of the former, one knows the outcome which gives context to what has happened. Probably the best we, as contemporary witnesses to the march of events, can do, is to identify important turning points, thereby gaining some insight into how we should order our affairs.

Delphine Govender, Portfolio Manager and Director

South African platinum companies: a sound long-term investment

EXECUTIVE SUMMARY Despite the very strong performance of platinum producers, driven largely by the appreciation in commodity prices, there is still long-term value to be found in these counters. This view has led Allan Gray Equity Fund to build its platinum holdings to more than 20% of the Fund at 30 June 2006. In this article Delphine Govender provides a detailed analysis of the reasons for the firm's confidence in doing so.

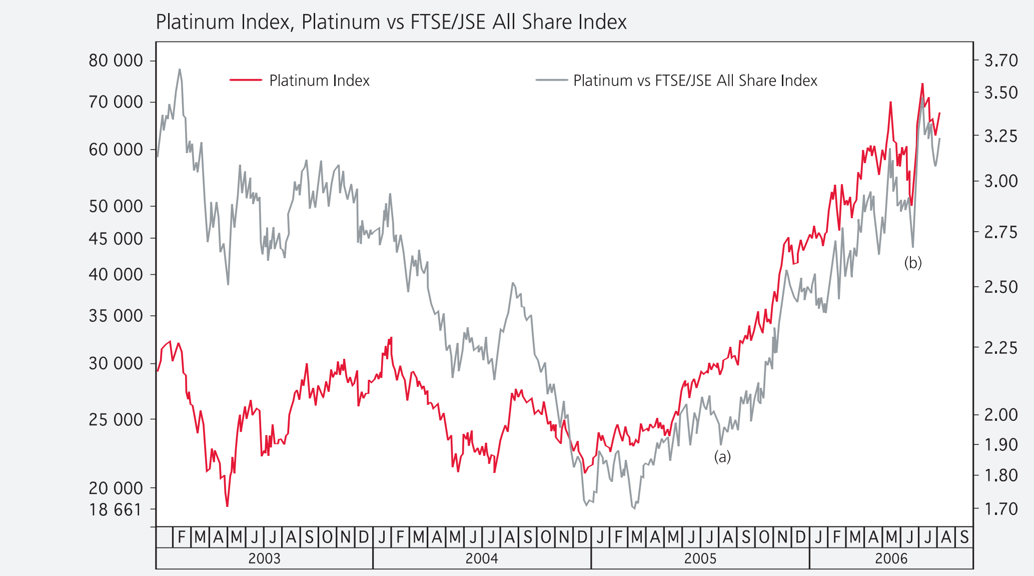
For the year 1 July 2005 (Point (a) on **Graph 1**) to 30 June 2006 (Point (b) on **Graph 1** as shown below), platinum shares (as represented by the Platinum Index), rose 142% and sharply outperformed the FTSE/JSE All Share Index, which rose by 50% over the same period. This made the platinum counters one of the best performing sectors over the past year.

At 1 July 2005, platinum shares collectively accounted for 11% of the Allan Gray Equity Fund while, at 30 June 2006 – 12 months later – they continued to represent one of the largest sectoral exposures in the Fund, being in excess of 20% of the holdings. Clearly, a considerable part of the increase in the holding was as a result of the share price appreciation of the various companies over the period. Despite this price appreciation, we have maintained a large holding in platinum shares as we found that they continue to represent good long-term value in an absolute sense and also superior value when comparing them with other resources shares.

This view is principally based on the following factors:

1. The positive and robust demand fundamentals for the entire platinum group metals (PGM) basket.
2. The highly consolidated supply for the platinum group metals and the state of the supply base.
3. The relative pricing between the PGM basket and other key commodities, in particular base metals.

GRAPH 1



Source: Igraph, United States Geological Survey and Allan Gray research

TABLE 1

Demand Source	Platinum	Palladium
Autocatalysts enable the removal of up to 99% of the pollutants/harmful emission that automobile engines produce.	46%	45%
Jewellery: white metal, pure.	29%	20%
Industrial: platinum is used extensively in the electronics sector as well as in chemicals, refining and glass industries while **palladium** is used specifically in the electronics sector and in the production of dental alloys.	25%	26%
Investment/Other	Not meaningful	9%
	100%	100%

Source: Johnson Matthey

1. Demand fundamentals for the PGM basket

As part of the PGM mining process, the main output is platinum, but the following metals are also produced: palladium, rhodium, nickel, gold and very small amounts of ruthenium, iridium and osmium. Platinum, palladium, rhodium and nickel dominate the PGM basket accounting for almost all the value.

Table 1 above summarises the key sources of demand for platinum and palladium. **Autocatalysts** represent the single biggest demand driver for PGMs. The principal reason for this is the tightening of emission standards across the globe. Ensuring that engine emissions are within these restrictions requires greater use of PGMs in the autocatalyst. Importantly too, the global trend towards increased demand for diesel cars rather than petrol cars (especially in Europe) has created additional demand for platinum as diesel cars use more platinum than palladium in their catalytic convertors.

While the emission standards of less-developed countries are currently less strict than those of developed countries, the generally heightened global emphasis on environmental issues means one should expect developing and emerging countries to impose steadily tighter emission standards going forward.

A point to be borne in mind is that the overall global trend towards tighter emission standards is an autonomous factor in that it is not connected to economic growth or prosperity and hence this trend is likely to continue irrespective of the state of growth of the global economy.

Jewellery demand for platinum and palladium, like the demand for gold jewellery, is price elastic (highly sensitive to changes in price), hence the rally in the platinum price especially has seen some tempering of platinum jewellery demand. An interesting occurrence, however, despite the increase in prices, has been the surge in demand for palladium jewellery, especially in China. Palladium jewellery costs less than platinum jewellery but it is seen by consumers as a superior and purer alternative to white gold rather than an inferior alternative to platinum. In other words, palladium jewellery is particularly popular among less affluent consumers who were not able to afford platinum jewellery in the first place. This phenomenon helps protect against an extended fall in the PGM price as, while platinum jewellery demand growth should remain relatively subdued at current prices, should prices fall the jewellery market should then pick up, creating a renewed support for platinum prices.

To some extent, **Industrial** demand for PGMs is correlated more closely with overall economic activity. However, the spread in the use of PGMs across various industries (some more defensive than others) reduces some of the risk of industrial demand slowing in the face of slowing global growth.

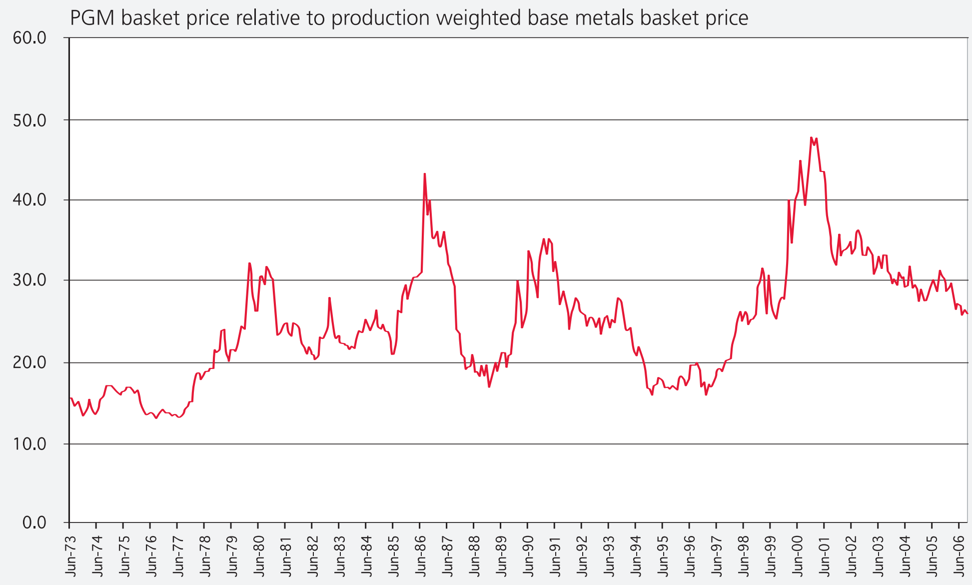
When considering the key PGM demand drivers on balance, we would conclude that the net impact is that of a solid demand underpin. This ensures that one half of the demand/supply equation is firmly in place.

2. Supply fundamentals

From a supply standpoint, PGM production is highly concentrated with the bulk of production in the hands of four suppliers. Furthermore, approximately 75% of the world's known platinum reserves and resources are located in South Africa, with the key producers here being Anglo Platinum and Impala Platinum (the two main platinum companies we have invested in on behalf of our clients). The key benefit to such a concentrated market – both in terms of number of suppliers and location of the commodities themselves – is that it inherently creates a more responsible marketplace. Suppliers are likely to grow production in a predictable and rational manner which reduces the volatility evidence in several other commodity markets where supply is considerably less consolidated.

GRAPH 2

Source: Igraph, United States Geological Survey and Allan Gray research



3. PGM versus other metals

The supply and demand fundamentals of PGM as outlined, are more robust than those of base metals.

> "The supply and demand fundamentals of PGM ... are more robust than those of base metals."

The recent demand for base metals is linked almost entirely to global economic growth, in particular growth in China. While Chinese economic growth is forecasted to remain relatively robust in the medium-term, the base is very high, and a more reasonable expectation is to factor in a slowing growth rate. Accordingly, one should expect the rate of demand growth in base metals to slow down too.

Furthermore, when considering the supply side of base metals, the overall picture is different to that of PGMs. Base metals supply is fragmented across many suppliers and the resources themselves are spread across the globe.

The strong price performance of the platinum companies contained in our clients' portfolios has obviously been mainly caused by the increase in the prices of the PGM basket. However, despite this sharp rise in PGM prices, we have maintained a large holding in the platinum companies largely because we believe the PGM basket price is inherently more robust than the price of a base metals basket. Furthermore these platinum companies are considerable beneficiaries of a weaker US$/Rand exchange rate.

An additional factor to consider is that on a relative basis, despite being at record levels, PGM prices have not risen to the same extent as base metals, as shown in **Graph 2** on page 6, (PGM basket price vs base metals basket price).

Conclusion

The South African listed platinum companies command a unique global competitive advantage in that both the demand and supply fundamentals for their products are particularly sound. While the share prices of these companies have risen to reflect some of this, in our opinion, the full long-term value inherent in these businesses is still to be manifested. We believe that, in the context of investment opportunities available within the South African stockmarket, the platinum shares continue to be attractive long-term investments.

Alec Cutler, Co-Manager and Director, Orbis

Asia ex-Japan impacts on Orbis Global Equity Fund

EXECUTIVE SUMMARY The weighting of Asian stocks excluding those in Japan has increased steadily in the Orbis Global Equity Fund over the past six years. Increasingly, as co-manager and Orbis director Alec Cutler explains, outstanding opportunities with better return prospects than their global peers have been found in those countries. The Fund's largest position is currently in Korea's Samsung Electronics, a global leader in memory chips, LCD TVs and mobile handsets. Stocks such as this have been found through Orbis' bottom-up research to be particularly attractive.

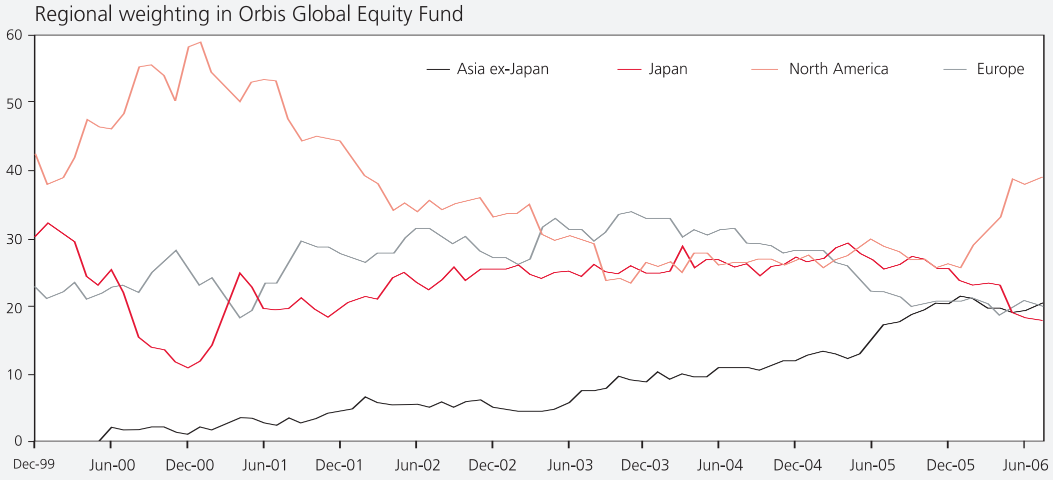
As long-time investors well know, Orbis is not afraid to take positions that differ markedly from its peers or benchmarks. This holds for individual stock positions, industry, country, and regional concentrations, company size and valuation measures. In this context, the growth in the weighting of the Asia ex-Japan region is worthy of comment. As seen on **Graph 1** below, the Asia ex-Japan weighting in the Orbis Global Equity Fund has increased considerably over the past six years as increasingly we have found outstanding ideas with better return prospects than their global peers, after adjusting for risk assumed.

Although we have been observing and investing in Asia for some time, our recent attraction to and the Global Equity Fund's growing participation in companies in Asia ex-Japan are being driven by our bottom-up research on individual stocks - where our analysts have found the shares of many of the region's companies to be more attractive than their global peers based on measures we hold to be important. A select few of these shares have come through our research process and become material holdings in the Global Equity Fund. Examples include Korean giant Samsung Electronics, casino resort Kangwon Land, broker Samsung Securities, Singapore Airlines, Chinese energy company CNOOC, and communications companies China Mobile and China Telecom.

While disciplined stock-by-stock research is clearly the driver, there are some common themes evident in the region's stocks that we find attractive. First, and not surprisingly, we are finding faster growth, both historic and prospective, from these companies relative to their industry peers around the world. Second, and perhaps surprisingly, we are finding less demanding valuations from many of those same companies, again relative to their global comparables. Third, and very importantly, we are finding credible and improving accounting and corporate governance, as well as management teams who appear competent, eager to act in the best interests of their companies, and have incentives in place that properly align them to do this.

As for the economies, we would not be the first to say we find the region to be young, energetic, and capitalist. By and large, these

GRAPH 1



ABOUT ASIA ex-JAPAN: In modern times, Japan has dominated Asia economically. The rest of the region, or Asia ex-Japan, representing primarily Greater China (China, Hong Kong and Taiwan), Korea and India, has been relatively less developed. While Japan is still a dominant economic force, the rest of the region is rapidly growing. The emerging economic power of China, with a GDP now half the size of Japan, has been difficult to ignore as its thirst for materials has been making headlines and significantly impacting the global economy. However, the advances in the economies of Korea and India are arguably as impressive. From a stockmarket standpoint, again Japan still dominates, representing 10% in the World Index, versus 4% for Asia ex-Japan.

Source: Orbis research

TABLE 1

	Valuation		Annual Earnings Growth	
	P/E 2006	EV/EBITDA*	Last 5 years	Next 5 years**
Samsung	14	5	13%	13%
Sony	28	9	1%	6%
Philips	33	12	-4%	flat
Matshushita	25	5	4%	4%
Nokia	16	9	2%	7%
Intel	22	10	3%	flat

* Earnings before interest, tax, dividends amortisation
** Orbis estimates

Source: Orbis research

adjectives apply both to the region's people and their economies. And while the seemingly limitless possibility of economic adolescence comes hand-in-hand with volatility and the potential for major set-backs, what attracts us most is the potential for an emergence of a viable middle class, and the self-generating consumption and internal wealth generation that it foretells. In parallel with the third point above, we find the regions' governments are interested in improving corporate governance, regulations, and their financial infrastructure, thus lubricating their capitalist mechanisms and improving the standard of living of their people.

Korea's Samsung Electronics is the Global Equity Fund's largest position

Samsung Electronics, is a global leader in memory chips, LCD TVs, and mobile handsets. Heavily focused on research and development, Samsung's investment in human capital is impressive. It now has almost 3 000 doctoral degree engineers developing new technology and products. Unlike many leading-edge technology companies, Samsung has been able to convert its high R&D fairly consistently into growth in market share, revenues and, most importantly, profits. Its current 20% return on equity matches the level it has achieved on average over the past 25 years.

Samsung Electronics has been taking increasing advantage of its leading position in semi-conductor chips and other vital components to move successfully up the electronics value chain by introducing premium consumer electronics products like LCD TVs and advanced mobile handsets. As a result of the high quality and successful styling of these consumer products, the Samsung brand power is growing rapidly. It is now positioning itself as a high-end producer, enabling it to move its products up in price point, increasing margin and profitability further.

As a result, we expect revenue and earnings to continue to grow at double-digit rates for the coming years. Yet, at 14 times 2006 earnings, Samsung is selling at a valuation that implies a much lower growth rate. This is seen clearly in **Table 1** above which shows Samsung's valuation in relation to its global consumer electronics peers. Despite the fact that it is likely to continue to grow at the high-end of the range for the group, it has the least demanding valuation.

Asia ex-Japan is not without risk

Many of the aforementioned attributes that continue to attract us to the region can be traced back to the relative youth of the region's economies and capital markets. It must be mentioned then that these attractions also bring specific risks: less-than-mature companies, many of whom have not yet had to compete on a global stage; generally pro-capitalist government policies that, while rational and positive, have not yet stood the tests of time and economic strain; young economies that, while full of potential, are also necessarily more volatile and less predictable.

Although much of the company-specific risk can be ameliorated through portfolio diversification, the political, regulatory and economic risks of specific countries and the region as a whole cannot. In particular, until the region develops its own viable consumer middle class, it is dependent upon the West's consumerism for a significant portion of economic activity and is very sensitive therefore to any sharp deterioration in US and European economic prospects. Further, those that follow the markets closely would know that stockmarkets in Asia ex-Japan have risen significantly already and are therefore more susceptible to exaggerated near-term corrections.

We believe the inherent volatility of the region, and, in particular, its companies' share prices are more than matched by the long-term potential. If true to form, the near- and medium-term increase in volatility and increased potential for abrupt downside that the Global Equity Fund takes on should yield significant positive results over the long-term.

Mahesh Cooper, Director
Tabane Mafojane, Trainee Business Analyst

The Allan Gray Stable Fund through different market conditions

EXECUTIVE SUMMARY The Allan Gray Stable Fund was launched on 1 July 2000 for those investors seeking to preserve capital whilst at the same time looking to grow their investment in real terms. The Stable Fund's conservative profile is more suited for the risk averse investor in search of capital stability. Since inception, the Stable Fund has been able to achieve its objectives in rising, flat and declining markets with an annualised return of 15.9% versus the 7.7% achieved by the benchmark[1].

Bottom-up stock selection and asset allocation

The Stable Fund's success in the past and, we believe, into the future is based on its portfolio construction. It utilises bottom-up stock picking and asset allocation to minimise downside risk whilst capturing upside returns.

The selection of equities is managed conservatively with particular emphasis placed on finding shares with limited risk of capital loss, a low correlation to the stockmarket and high current or prospective dividend yields. Each share is selected through our bottom-up process, after applying rigorous fundamental research in determining the intrinsic value of the underlying business. The share exposure for the Fund is typically between 20% and 40% with the discipline to increase or decrease that exposure based on the attractiveness of individual equities.

Currently, the fixed interest component of the Fund is invested conservatively in low duration (short-term) fixed interest instruments, such as short-term bonds, money market instruments and deposits. Being short-term in nature reduces the risk of capital loss, to which bonds are exposed, should interest rates move upward. The Fund also has a conservative selection of foreign investments maintained at the 15% maximum level to preserve capital in foreign currency terms.

Long-term performance

Since inception, the Stable Fund has been able to deliver an annualised return of 15.9% versus the 7.7% achieved by its benchmark. Contrasting this performance against the Allan Gray Balanced Fund, the Allan Gray Equity Fund, the FTSE/JSE All Share Index (ALSI)[2], the All Bond Index (ALBI), the average prudential unit trust[3] as well as cash[4], from a risk-return perspective, as shown by **Table 1** below, provides insight into the relative performance of the Stable Fund over this period. Whilst the Stable Fund has not matched the Allan Gray Equity Fund, the Allan Gray Balanced Fund or the ALSI in terms of returns, it has outperformed cash and the ALBI whilst marginally underperforming the average prudential unit trust, which would have a higher weighting in equities than the Stable Fund. From a risk perspective, after cash, the Stable Fund has had the lowest level of absolute risk[5]. The Sharpe Ratio measures the excess return achieved by the portfolio relative to a risk-free cash return,

TABLE 1

Annualised since inception risk-return statistics for the Stable Fund

Annualised since inception (01.07.2000 - 31.08.2006)	Allan Gray Stable Fund	Allan Gray Balanced Fund	Allan Gray Equity Fund	FTSE/JSE All Share Index	All Bond Index (ALBI)	Average Prudential Unit Trust	Cash
Return	15.93	26.30	31.30	22.16	12.87	17.53	9.12
Absolute Risk (volatility)	3.93	10.02	14.93	19.26	11.09	10.63	0.68
Sharpe Ratio	1.73	1.71	1.49	0.68	0.34	0.79	-

Source: Allan Gray research and Inet

[1] After tax return on bank deposits plus 2%
[2] The benchmark for the Allan Gray Equity Fund
[3] The benchmark for the Allan Gray Balanced Fund
[4] Within the article, cash refers to the returns of the Short Term Fixed Interest Call Deposit Index
[5] Absolute risk is defined as the annualised volatility (standard deviation) of monthly returns. Absolute risk is the risk of capital loss or the risk of losing money. At Allan Gray we focus on reducing the risk of capital loss and hence strive for a low absolute risk.

per unit of absolute risk taken. The table shows that, against all the portfolios and indices, since inception, the Stable Fund has had the highest Sharpe Ratio, i.e. the Stable Fund has achieved a greater return, in excess of cash, for each unit of absolute risk taken.

Since inception, from a return and risk perspective, the performance of the Stable Fund has been remarkable despite the varying market conditions which South Africa has experienced over the life of the Fund. The remainder of the article contrasts the performance of the Stable Fund in rising, flat and declining markets relative to other portfolios and indices.

Rising markets

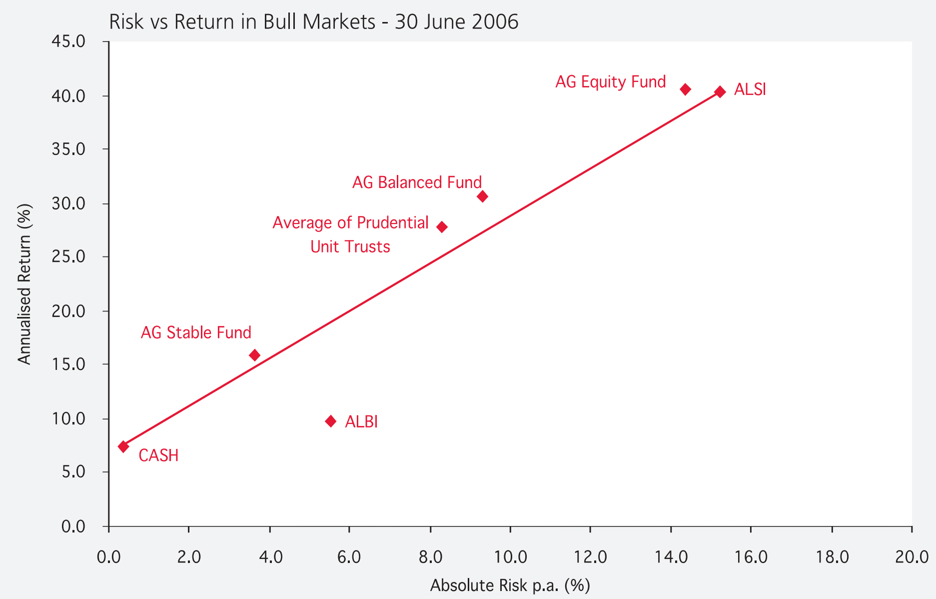
Over the last three years, South African markets have experienced a phenomenal bull run. With equity markets up over 200%, all portfolios containing an equity component have done exceptionally well. **Graph 1** below represents a risk-return scatter plot for the three years ended 30 June 2006. The vertical axis shows the annualised percentage return achieved by different portfolios and indices for three years ended 30 June 2006. The horizontal axis shows the absolute risk (or volatility) over the same period.

Assume the red line represents an efficient frontier between cash (often considered the least risky or volatile asset class) and equities (often considered the most risky or volatile asset class).

For the cash return, we have used call deposit rates and, for the equity return, we have used the ALSI. To this risk-return scatter plot, we have added the risk-return point for the Allan Gray Stable Fund, the Allan Gray Balanced Fund, the Allan Gray Equity Fund, the average prudential unit trust, the ALSI and the ALBI. The graph therefore shows the returns achieved by the respective indices and portfolios as well as the risk taken on in achieving those returns over the period.

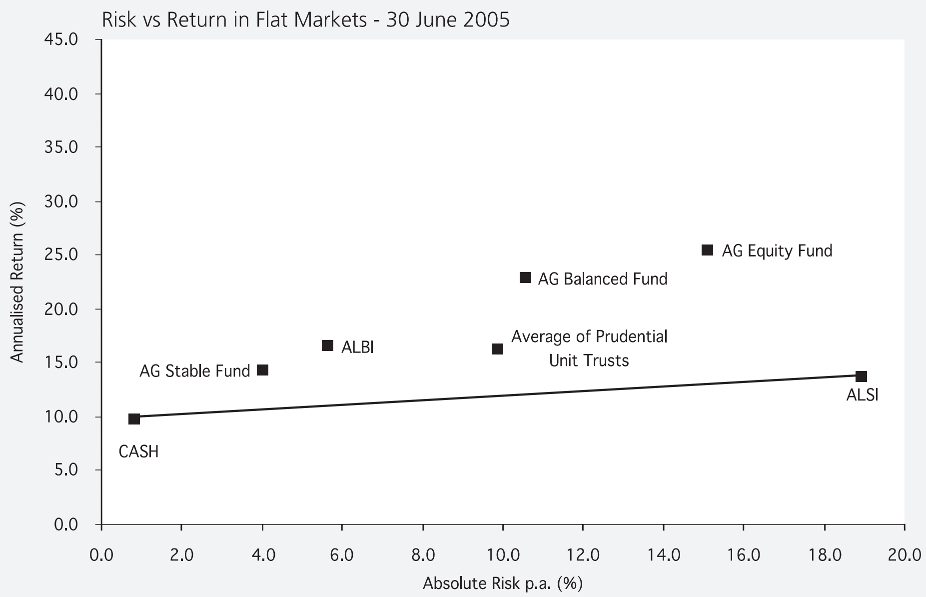
Whilst the Stable Fund has not matched the returns achieved by balanced funds and equity-only funds for the three years to 30 June 2006, the returns achieved by the Stable Fund have been less volatile (lower level of risk) than the balanced funds and equity-only funds. The graph also shows that whilst the Stable Fund has had a higher level of absolute risk than cash, it has compensated for this higher risk through a significantly higher return than cash. It is interesting to note that, over the period, the Stable Fund has delivered a higher return than the ALBI at a lower level of absolute risk.

GRAPH 1



Source: Allan Gray research and Inet

GRAPH 2

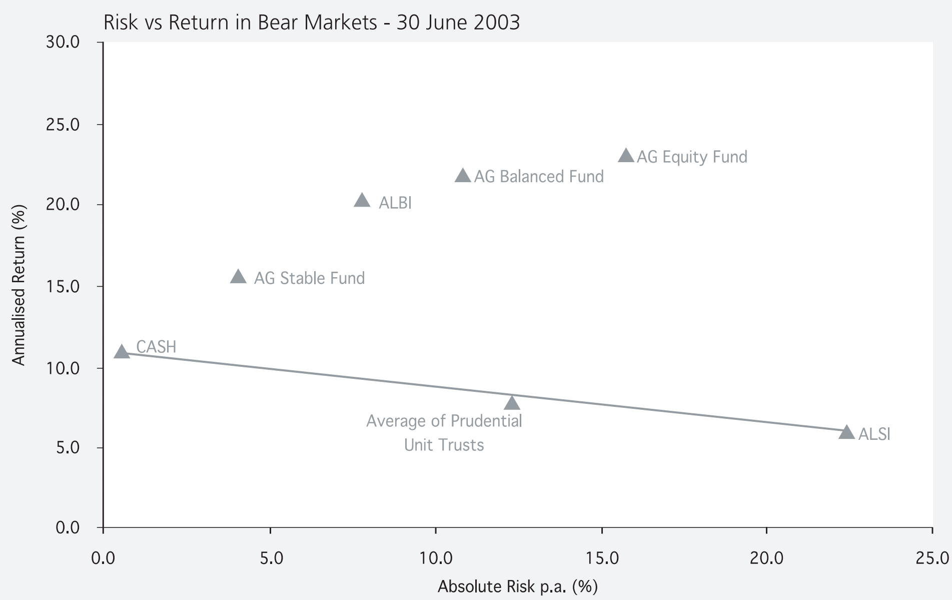


Source: Allan Gray research and Inet

Flat Markets

Whilst we have experienced a rampant bull market of late, one does not need to look that far back for a flat market. **Graph 2** above outlines the risk-return scatter plot for three years to 30 June 2005. One can see clearly an almost flat efficient frontier for this period with the ALSI just barely outperforming cash but with significantly higher levels of absolute risk. During this period, the Stable Fund was able to deliver a similar return to the average prudential unit trust as well as the ALSI but with significantly lower levels of absolute risk. The Stable Fund was also able to deliver a better return than cash, albeit at a slightly higher level of absolute risk.

GRAPH 3



Source: Allan Gray research and Inet

Declining Markets

One needs to go back to the three years ended 30 June 2003 to look at the performance of the indices and portfolios in a declining equity market, as shown in **Graph 3** on page 12. Over this period, both the ALSI and the average prudential unit trust delivered a lower return than cash and bonds with significantly higher levels of absolute risk. In contrast, the Stable Fund, over this period, was still able to deliver a return in excess of cash although lower than the ALBI but with a lower level of absolute risk.

Combining rising, flat and declining markets

Graph 4 below combines the three previous graphs and illustrates how the different portfolios and indices have behaved in the different market conditions. One can see clearly that the bull market we have experienced over the last three years has increased the returns on the ALSI whilst at the same time reducing the absolute risk. Similarly, the average prudential unit trust, with the majority of the assets invested in equities, has also experienced increasing returns with reducing levels of absolute risk. The ALBI has behaved quite differently, with both returns and risk having reduced as the declining interest rate trend has turned around. It is interesting to note that the Stable Fund has been very consistent ('stable') in terms of returns and absolute risk in all market conditions, as shown by the grey circle. Hence the Stable Fund has been successful in delivering superior returns to cash with limited capital volatility.

It is also worth mentioning that the Allan Gray Balanced Fund and the Allan Gray Equity Fund have maintained positions above the frontier through all market conditions. This is in line with our main objectives of not only creating wealth for the client in the long-term in excess of its peers, but also doing so at lower levels of risk of capital loss.

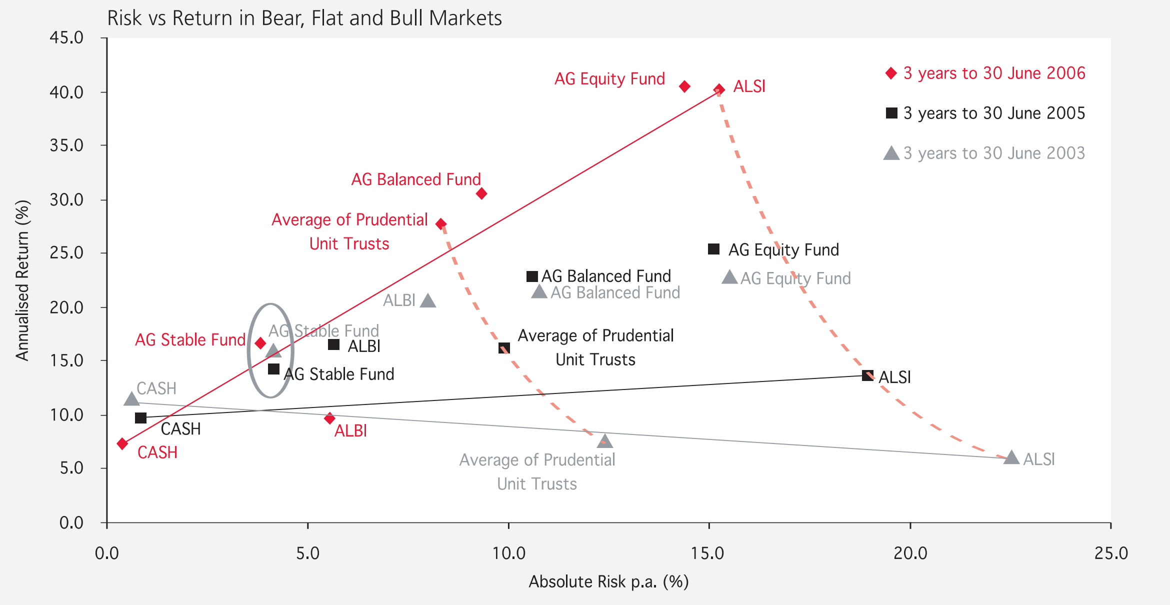
Summary

The important aspect of combining the graphs is to remind oneself that, although we have experienced of late an extraordinary bull market, one should not forget that, whilst riskier assets may perform well in rising markets, they can experience below cash returns in flat or declining markets. Investors need to be aware of the characteristics of the portfolios in which they are invested as well as how these portfolios are likely to perform in different market conditions.

Whilst calculation of risk and return measures are based on historical data and cannot be used to predict future behaviour, it is evident from the above that the Allan Gray Stable Fund has been successful to date in achieving its objective of long-term wealth creation for clients at lower levels of risk of capital loss.

We trust that this portfolio, through its bottom-up stock selection and asset allocation, will meet the ongoing investment needs of clients with a low tolerance for the risk of capital loss in the years ahead.

GRAPH 4



Source: Allan Gray research and Inet

Johan de Lange, Director
Anne Mayers, Head of Retail Client Services

Towards client service excellence

EXECUTIVE SUMMARY As transaction volumes grow, Allan Gray continues to place significant emphasis on maintaining and improving service levels for investors and their advisers. Allan Gray Investor Services, is headed by Johan de Lange and Rob Dower, and within Investor Services the client service team represents a key interface between the company and its investors. This article focuses on how Allan Gray aims to meet and exceed the expectations of clients through service proficiency and explains the benefits of activating an online account at www.allangray.co.za.

The need to align our business practices in order to manage growth as well as meet client expectations remains top of Allan Gray's agenda. Allan Gray Investor Services was established to provide individual clients with a high quality service together with ease of access to investment options. Within this, the Client Service Centre provides an interface between investors, advisers and Allan Gray in striving to meet the expectations of our clients despite ever-increasing transaction and reporting volumes.

Transaction volumes have moved up from an average of 13 000 per month this time last year to the current figure of 22 000 while the number of calls from clients has risen from 10 000 to an average of 15 000 calls per month. Our client base of 33 000 in September 2005 stood at 53 000 by the end of August 2006.

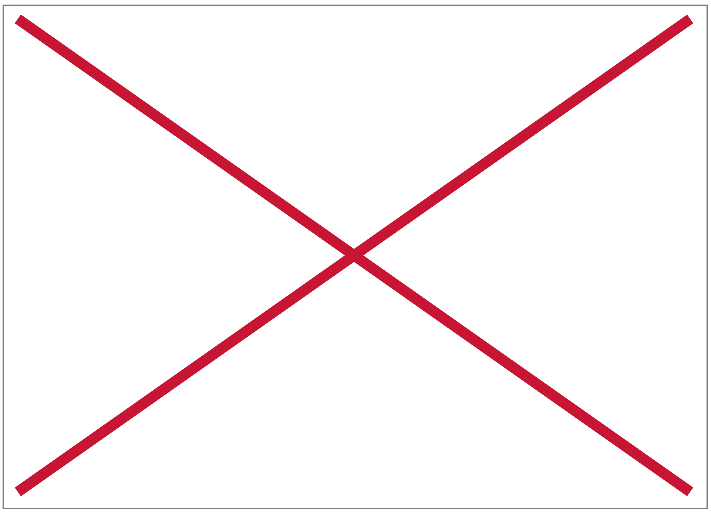
The need for effective client service is emphasised by studies that show that companies lose clients not necessarily because competitors win them, but mainly through indifference or poor attitude (67%) or unsatisfactory handling of complaints (15%). It is important therefore that we continually reinforce our client-centric principles. In practical terms this means having queries dealt with by someone who properly identifies you and the nature of your query, questions appropriately, checks the details in order to eliminate any potential confusion, provides related information and accurate paperwork and offers further services for follow-ups whilst always being responsive.

During the third quarter of 2005, new challenges arose as a result of Allan Gray insourcing the administration of our individual life and retirement fund products. This proved stressful both for our clients and Allan Gray as we encountered a number of system and process issues which had not surfaced throughout the test cycle prior to launch. The number of client queries as a result of errors by Allan Gray reached a peak at the end of June this year. We are pleased to report that this total has declined steadily as we continue to strive for zero error tolerance.

Since April, clients calling the Service Centre have been provided with an option to complete a two-minute telephone survey that allows them to rate four points of contact with Allan Gray. The rating scale is from one (poor) to seven (excellent). We have been greatly encouraged by the results although we recognise that we still have much work to do in meeting the high standards our clients have the right to expect from us. Specifically, in rating the quality of the specific interaction at time of call to the service centre, client response rose from 5.8

Introducing two new key members of staff:
Angelique Scott will fulfil the position of Head of Retail Client Services from 1 November, 2006. Angelique has worked in a number of client-centric roles. Of particular note, she was manager of the National Advisor Contact centre for Macquarie Bank Limited's retail investment products in Australia and New Zealand. In South Africa, she was Divisional Head of Client Services for Innofin, a joint venture between Macquarie Bank and Sanlam. She has a B Econ and an MBA, majoring in Management and Business Consulting, from Stellenbosch University. Her predecessor Anne Mayers, who has been with the company for over 15 years and has a key role in developing a client-centric approach to service at Allan Gray, will be taking up a new challenge within the retail business.

Chris Tisdall joined Allan Gray Investor Services to champion our new online offering. With a degree in B Bus Sc (Hons), Chris started out in the consulting industry with Andersen Consulting, working in the financial services, energy and retail sectors both locally and abroad. Later, he moved into the e-commerce initiative and participated in designing and building local start-up businesses. Chris program-managed the launch of 20twenty Financial Services as South Africa's first stand-alone internet bank. He subsequently joined Standard Chartered Bank where he was responsible for business development of online offerings.



in April to 6.3 out of a total of 7 in August, and there was a slight increase in the rating of service delivery from 5.6 to 5.8. To our delight, our clients recorded a consistent 6.5 out of 7 in stating that they would recommend Allan Gray to other people.

We are pleased to announce the recent launch of Allan Gray Online, a secure website aimed initially at making investment reporting accessible and immediate. Investment reports can be accessed as and when needed. This service provides confidential and controlled access to investment information and offers the flexibility to view investment information online and to download, print and e-mail it as required.

If you are a financial adviser, Allan Gray Online provides immediate access to information that relates to your business. This includes the ability to view assets under administration by product, fund, client and management company as well as providing access to your client information and fee statements.

Since the site was launched, we have acquired 3 877 registered users of whom 3007 are investors and 807 are financial advisers. Approximately 250 users log in each day.

We encourage you to activate your account. Over the next year, we hope to enhance this online interface further and we welcome any feedback via our Client Service Centre.

GETTING STARTED

To register with Allan Gray Online, all you need is:

- Internet access
- An internet browser (Microsoft Internet Explorer or Mozilla Firefox)
- Your Allan Gray IFA / Adviser Code or investment account number
- Your South African ID or passport number

1. Go to www.allangray.co.za and click on the ‘Online Accounts’ menu option at the bottom of the home page.
2. Read the introductory information and click on the Online Account Activation link.
3. Complete the activation process by typing in the required information and submitting.
4. A Client Service Centre consultant will call you back within two working days to verify your details and activate your account.
5. Once activated you will be able to log in and use the account.

Tracy Hirst, Marketing Manager

2006 advertising campaign

BACKGROUND The Allan Gray brand is something that we are very proud of and therefore take very seriously. So any new campaign is a big event!

Our approach continues to be built around communicating the characteristics of the organisation that are designed to produce superior results, and not around the result itself - investment performance. Past campaigns have followed a consistent theme of contrasting Allan Gray with the world around it and showing how we differ in ways that matter and the new campaign is in no way different.

We try to avoid the usual financial service clichés offering reassurance and peace of mind or new and fashionable products. Instead, we focus on the way that we invest our clients' money, given the distinctive investment approach which we have employed for the last 32 years and which has generated our superior investment track record.

The new television advert

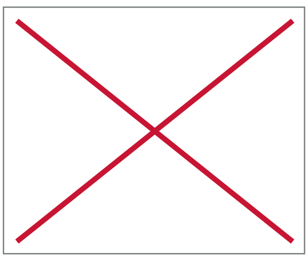
2006 brings our fifth television advertising campaign with even greater expectations. Together with our advertising agency, King James, and production house Velocity, the new TV ad depicts one type of investor: those who chase the 'quick buck' and contrasts them with those who know that patience is handsomely rewarded. This metaphorical tale draws upon a popular and well-known but false piece of folklore: that there is a pot of gold at the end of every rainbow.

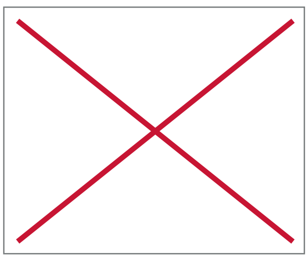
The plot unfolds in a small town in South Africa - the story timeless, the message current. It felt more honest to place our tale in a typical farming town in the Western Cape, for example, where time has stood still. So even though the story could be taking place today, the buildings, the cars, the clothes all feel as if they were built or acquired in the late 50s and 60s and haven't changed since then. It depicts one man's pursuit of the rainbow and, through his eyes, one gets to see and meet others in their common pursuit (everyone wants a piece of the prize and they're trying to get there first). Upon arriving on a mountaintop, he finds a small crowd converged there in their search for the elusive pot of gold. But, by the very nature of rainbows, the end is never where you think it is and it's impossible to pinpoint its whereabouts accurately. It's a strong, simple idea which illustrates that, if one invests like this, all it ultimately leads to is disappointment. You need to be patient to succeed. And that's part of the secret to our clients' success.

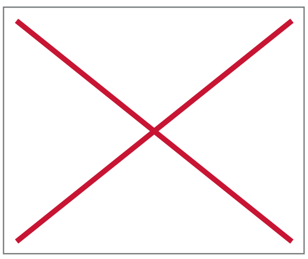
The script demonstrates how the majority of people are easily duped into following the pack and chasing the promise of easy returns that turn out to be elusive. However, unlike this average mass, there are those who resist trends and know that the only intelligent way to true wealth creation is by taking a consistent long-term view. It is these investors who Allan Gray seeks to attract: rational individuals, not fad-chasing masses. The advert encourages all investors to take a look at themselves and question their own investment behaviour.

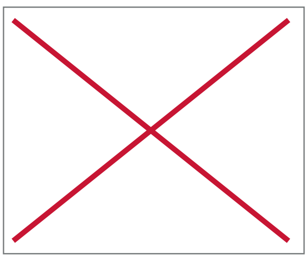
Print and press campaign

In order to educate the market about our approach to investments and business, we chose to focus the new print campaign on the theme of persistence: the persistence in sticking to a goal and the focus needed to succeed, characteristics that are key to the Allan Gray investment and business philosophy. The campaign uses a humourous take on some









famous people like Thomas Edison, Ludwig van Beethoven, Harry Houdini and Sarel van der Merwe and suggests where they would have ended up if they hadn't persevered (see page 18).

Our newspaper ads take on a refreshed look and size after four years whilst still maintaining a clean layout with plentiful use of white space. Each headline continues to address a pertinent trait of Allan Gray.

Retail retirement campaign

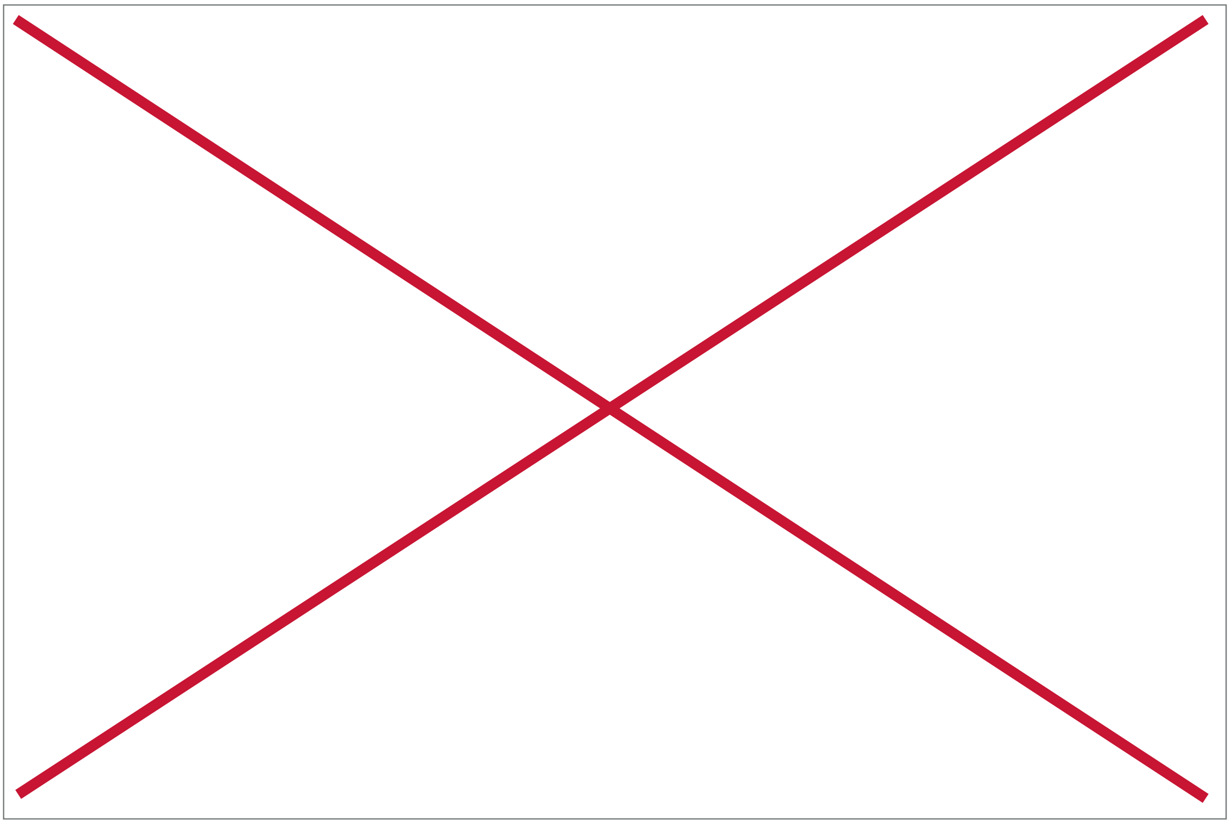
In addition to our investment message, and as a first for Allan Gray, we have launched a campaign focusing on our individual retirement products.

These products were originally launched in October 2001 in order to meet the needs of both those saving for retirement outside of the traditional employer-sponsored pension fund and for those retiring or withdrawing from traditional pension funds and seeking an annuity or pension product.

These products offer a low cost, simple and tax efficient way to access our core product - investment management - but it was felt that there was little awareness about our broader range of products.

Allan Gray was one of the first companies to offer retail retirement products with no initial fees, negotiated adviser fees and annual management fees linked to investment performance. The aim of this campaign therefore is to communicate the fact that Allan Gray's products have been transparent and uncomplicated since their launch, showing that we are different and demonstrate integrity.

Three print executions contrast the complications inherent in various major decisions - buying a house, going on holiday or planning a wedding versus the simplicity of planning your retirement with Allan Gray.




Ludwig van Beethoven
Piano Tuner
91 Luberge Street, Bonn, Germany
Since 1796
Where would we be without persistence?
There are no shortcuts to greatness. If you want to achieve something, you have to believe in something, and stick to it. And we know a thing or two about persistence. For the last 32 years, we've stuck to our investment philosophy, through volatile markets and fluctuating conditions. We've kept our focus. And our results are testament to this. For further information call 0860 000 654, visit www.allangray.co.za or ask your Financial Adviser.
Allan Gray Limited is an authorised Financial Services Provider.
ALLANGRAY
INTELLIGENT INVESTING

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

PERIOD	ALLAN GRAY*	FTSE/JSE ALL SHARE INDEX	OUT/(UNDER) PERFORMANCE
1974 (from 15.6)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006 (to 30.09)	25.6	26.3	-0.7
Annualised to 30.09.06			
From 1.10.2005 (1 year)	39.7	36.1	3.6
From 1.10.2003 (3 years)	44.4	39.8	4.6
From 1.10.2001 (5 years)	36.0	26.4	9.6
From 1.10.1996 (10 years)	28.3	15.8	12.5
Since 1.01.1978	31.6	22.0	9.6
Since 15.06.1974	29.9	18.8	11.1
Average outperformance			11.1
No of calendar years outperformed			25
No of calendar years underperformed			6

* NOTE: ALLAN GRAY COMMENCED MANAGING PENSION FUNDS ON 1.1.1978. THE RETURNS PRIOR TO 1.1.1978 ARE OF INDIVIDUALS MANAGED BY ALLAN GRAY, AND THESE RETURNS EXCLUDE INCOME.

NOTE: LISTED PROPERTY INCLUDED FROM 1 JULY 2002.

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 15 JUNE 1974 WOULD HAVE GROWN TO **R46 605 086** BY 30 SEPTEMBER 2006. BY COMPARISON, THE RETURNS GENERATED BY THE FTSE/JSE ALL SHARE INDEX OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R2 641 512**.

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

PERIOD	ALLAN GRAY	AFLMW**	OUT/(UNDER) PERFORMANCE
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	-0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	-5.5
1992	1.2	7.6	-6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	-1.8	9.5	-11.3
1998	6.9	-1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	-3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	-6.3
2005	40.0	31.8	8.2
2006 (to 30.09)	20.9	18.9	2.0
Annualised to 30.09.06			
From 1.10.2005 (1 year)	30.5	27.0	3.5
From 1.10.2003 (3 years)	31.8	31.4	0.4
From 1.10.2001 (5 years)	26.0	21.8	4.2
From 1.10.1996 (10 years)	25.1	16.9	8.2
Since 1.01.1978	24.9	19.1	5.8
Average outperformance			5.8
No of calendar years outperformed			23
No of calendar years underperformed			5

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

AN INVESTMENT OF R10 000 MADE WITH ALLAN GRAY ON 1 JANUARY 1978 WOULD HAVE GROWN TO **R5 966 149** BY 30 SEPTEMBER 2006. THE AVERAGE TOTAL PERFORMANCE OF GLOBAL MANDATES OF LARGE MANAGERS OVER THE SAME PERIOD WOULD HAVE GROWN A SIMILAR INVESTMENT TO **R1 521 210**.

Annualised performance in percent per annum to 30 September 2006

	THIRD QUARTER (unannualised)	1 YEAR
SEGREGATED RETIREMENT FUNDS		
GLOBAL BALANCED MANDATE	**7.7**	**30.5**
Mean of Alexander Forbes Global Large Manager Watch * #	7.4	27.0
DOMESTIC BALANCED MANDATE	**7.1**	**30.2**
Mean of Alexander Forbes Domestic Manager Watch *	6.7	24.8
EQUITY-ONLY MANDATE	**7.8**	**39.6**
FTSE/JSE All Share Index	6.3	36.1
GLOBAL BALANCED NAMIBIAN HIGH FOREIGN MANDATE	**7.1**	**30.1**
Mean of Alexander Forbes Namibia Average Manager *	7.4	24.6
EQUITY-ONLY RELATIVE MANDATE	**6.6**	**37.3**
Weighted average of client specific benchmarks *	7.3	32.1
POOLED RETIREMENT FUNDS		
ALLAN GRAY LIFE GLOBAL BALANCED PORTFOLIO	**7.6**	**30.5**
Mean of Alexander Forbes Global Large Manager Watch *	7.4	27.0
ALLAN GRAY LIFE DOMESTIC BALANCED PORTFOLIO	**7.2**	**30.3**
Mean of Alexander Forbes Domestic Manager Watch *	6.7	24.8
ALLAN GRAY LIFE DOMESTIC EQUITY PORTFOLIO	**7.7**	**39.5**
FTSE/JSE All Share Index	6.3	36.1
ALLAN GRAY LIFE DOMESTIC ABSOLUTE PORTFOLIO	**6.6**	**33.7**
Mean of Alexander Forbes Domestic Manager Watch *	6.7	24.8
ALLAN GRAY LIFE DOMESTIC STABLE PORTFOLIO	**4.1**	**20.5**
Alexander Forbes Three-Month Deposit Index plus 2%	2.3	9.2
ALLAN GRAY LIFE FOREIGN PORTFOLIO	**11.6**	**31.5**
60% of the MSCI Index and 40% JP Morgan Global Government Bond Index	12.3	34.2
ALLAN GRAY LIFE DOMESTIC OPTIMAL PORTFOLIO	**2.2**	**8.5**
Daily Call Rate of Nedcor Bank Limited	1.6	5.9
ALLAN GRAY LIFE GLOBAL ABSOLUTE PORTFOLIO	**6.6**	**31.4**
Mean of Alexander Forbes Global Large Manager Watch *	7.4	27.0
ALLAN GRAY LIFE DOMESTIC MEDICAL SCHEME PORTFOLIO	**4.2**	**17.2**
Consumer Price Index plus 3% p.a.	3.4	9.1
ALLAN GRAY LIFE GLOBAL STABLE PORTFOLIO	**4.8**	**19.8**
Alexander Forbes Three-Month Deposit Index plus 2%	2.3	9.2
ALLAN GRAY LIFE RELATIVE DOMESTIC EQUITY PORTFOLIO	**5.7**	**39.4**
FTSE/JSE CAPI Index	6.2	35.1
ALLAN GRAY LIFE MONEY MARKET PORTFOLIO	**1.9**	**7.1**
Alexander Forbes Three-Month Deposit Index	1.8	7.1
ALLAN GRAY LIFE ORBIS GLOBAL EQUITY PORTFOLIO	**15.3**	**38.0**
FTSE World Index (Rands)	13.8	40.9
FOREIGN-ONLY (RANDS)		
ORBIS GLOBAL EQUITY FUND (RANDS)	**15.4**	**38.5**
FTSE World Index (Rands)	13.8	40.9
ORBIS JAPAN EQUITY (US$) FUND (RANDS)	**12.2**	**40.8**
Tokyo Stock Price Index (Rands)	12.2	47.5
GLOBAL BALANCED MANDATE (RANDS) - FOREIGN COMPONENT	**11.5**	**31.3**
60% of the MSCI and 40% of the JP Morgan Government Bond Index Global (Rands)	12.3	34.2
UNIT TRUSTS **		
EQUITY FUND (AGEF)	***	**35.8**
FTSE/JSE All Share Index		36.1
BALANCED FUND (AGBF)	***	**25.4**
Average Prudential Fund (excl. AGBF)		23.3
STABLE FUND (AGSF)	***	**17.5**
After-tax return of call deposits plus two percentage points		5.8
MONEY MARKET FUND (AGMF)	***	**7.1**
Domestic fixed interest money market unit trust sector (excl. AGMF)		7.0
GLOBAL FUND OF FUNDS (AGGF) ****	***	**31.2**
60% of FTSE World Index and 40% of JP Morgan Government Bond Index Global (Rands)		34.6
OPTIMAL FUND	***	**7.9**
Daily call rate of Firstrand Bank Ltd		5.7
BOND FUND	***	**4.5**
BEASSA All Bond Index (total return)		5.0
GLOBAL EQUITY FEEDER FUND (AGOE)	***	**38.1**
FTSE World Index (Rands)		41.1

CONSULTING ACTUARIES SURVEY RETURNS USED TO 31 DECEMBER 1997. ALEXANDER FORBES GLOBAL MANAGER WATCH USED FROM 1 JANUARY 2006.
* THE RETURN FOR QUARTER 3 2006 IS AN ESTIMATE, AS THE RELEVANT SURVEY RESULTS HAVE NOT YET BEEN RELEASED.
** THE RETURNS FOR THE UNIT TRUSTS AND THEIR RESPECTIVE BENCHMARKS ARE NET OF INVESTMENT MANAGEMENT FEES.
*** UNAVAILABLE DUE TO ACI REGULATIONS.
**** AS OF 3 FEBRUARY 2004, THE BENCHMARK IS DISPLAYED. THE BENCHMARK WAS THE MORGAN STANLEY CAPITAL INTERNATIONAL INDEX (IN RANDS) PRIOR TO THIS DATE.

3 YEARS	5 YEARS	SINCE INCEPTION	ASSETS UNDER MANAGEMENT (R millions)	INCEPTION DATE
31.8	**26.0**	**24.9**	**24,461.9**	**01.01.78**
31.4	21.8	19.1		
35.1	**28.8**	**25.2**	**21,140.8**	**01.01.78**
33.1	24.0	19.4		
43.9	**34.9**	**24.4**	**38,955.8**	**01.01.90**
39.8	26.4	16.2		
30.5	**25.4**	**23.0**	**3,836.6**	**01.01.94**
29.5	21.1	15.8		
41.7	**30.6**	**29.0**	**8,209.9**	**19.04.00**
39.9	25.0	20.4		
31.8	**25.8**	**27.7**	**9,262.1**	**01.09.00**
31.4	21.8	18.9		
35.9	**29.6**	**28.6**	**5,259.3**	**01.09.01**
33.1	24.0	22.2		
44.5	**35.5**	**34.1**	**4,525.4**	**01.02.01**
39.8	26.4	21.0		
32.2	**32.1**	**32.1**	**534.5**	**06.07.01**
33.1	24.0	21.3		
21.9	**-**	**19.9**	**497.8**	**01.12.01**
9.6	-	11.4		
16.8	**-**	**5.4**	**1,187.6**	**23.01.02**
16.6	-	1.0		
7.9	**-**	**9.4**	**108.7**	**04.12.02**
6.2	-	7.4		
-	**-**	**29.6**	**559.7**	**01.03.04**
-	-	29.5		
-	**-**	**19.8**	**681.9**	**01.05.04**
-	-	7.6		
-	**-**	**23.3**	**591.2**	**15.07.04**
-	-	9.3		
41.3	**-**	**43.8**	**539.6**	**05.05.03**
40.2	-	41.5		
7.8	**9.5**	**9.7**	**520.4**	**21.09.00**
7.5	9.3	9.5		
-	**-**	**27.9**	**934.9**	**18.05.04**
-	-	25.2		
26.6	**15.1**	**22.9**	**10,482.0**	**01.01.90**
22.6	8.1	15.1		
24.2	**11.0**	**20.4**	**237.7**	**12.06.98**
25.9	10.1	13.8		
17.0	**12.2**	**18.7**	**3,782.9**	**23.05.96**
16.6	6.6	13.4		
		Figures below unannualised		
39.1	**31.5**	**1357.8**	**13,643.9**	**01.10.98**
39.8	26.4	457.7		
30.7	**25.8**	**435.7**	**15,982.5**	**01.10.99**
28.6	20.6	209.0		
16.8	**15.5**	**155.0**	**12,386.2**	**01.07.00**
6.1	7.5	59.2		
7.5	**9.0**	**58.1**	**1,285.5**	**03.07.01**
7.4	9.2	58.7		
-	**-**	**38.7**	**3,302.1**	**03.02.04**
-	-	39.9		
7.2	**-**	**45.5**	**860.9**	**01.10.02**
6.0	-	33.4		
-	**-**	**18.3**	**34.2**	**01.10.04**
-	-	19.3		
-	**-**	**65.4**	**1,082.7**	**01.04.05**
-	-	56.6		

Segregated Portfolios

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

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

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

Namibia Pooled Portfolio - Allan Gray Namibia Investment Trust

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

South African Pooled Portfolios - Allan Gray Life Limited

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

Risk-profiled Pooled Portfolios

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

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

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

Asset Class Pooled Portfolios

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

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

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

Other Pooled Portfolios

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

Orbis Mutual Funds*

Offshore Products

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

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

Individual Retirement Products

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

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

Discretionary Products **Retail**

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

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

ALLAN GRAY UNIT TRUSTS - CHARACTERISTICS AND OBJECTIVES

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

* TO THE EXTENT THAT THE TOTAL EXPENSES EXCEED THE INCOME EARNED IN THE FORM OF DIVIDENDS AND INTEREST, THE FUNDS WILL NOT MAKE A DISTRIBUTION.

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

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