QC

Quarterly Commentary
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ALLAN GRAY

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COMMENTS FROM THE CHIEF OPERATING OFFICER

Rob Formby

... South Africans have shown hope and solidarity ...

I write this during a devastating week for South Africa, with looting and riots in KZN and Gauteng destroying businesses and livelihoods. The rule of law and respect for property and property rights are fundamentally important for our country to function, and these have been sorely tested. The riots and needless destruction of property have tragically already cost lives and will increase suffering in the future. Our thoughts are with all of our clients, advisers and fellow South Africans who live in the regions and have been affected by this unrest.

As is so often the case, South Africans have shown hope and solidarity, with communities coming together to help re-establish control. While the immediate situation has calmed, the damage to infrastructure and supply chains has been extensive and the following days and weeks are going to be testing.

Despite the events in KZN and Gauteng looming large, it is also worth remembering that July is Savings Month in South Africa. In these pandemic times, many people have been financially impacted by the lockdowns, and perhaps this is an opportune time to start talking about managing finances, savings and investments with our families. These are often not easy discussions to have, but with money conversations still taboo in many circles, getting comfortable with this subject at home is an important starting point. In this quarter's Investing Tutorial, client-facing people in our business offer a range of personal finance suggestions to share with those in your inner circle. Adding to that, the following are three tips of my own, which I package in different ways for my family members:

Money isn't everything, but it is an enabler; it gives you options. Having an investment can ultimately empower you to do the things that matter to you and prevent you from being dependent on others. Starting to invest, and then carefully managing your investment, will allow your money to grow. While it may not be a priority to account for future wants, needs or opportunities, your "future you" will thank you.

Avoid dipping into your investments. Make your investments more difficult to access; this will lessen the temptation to use them to fund spending. If you do need to access an investment, make sure it is for an important reason and, if possible, use only the income, not the capital.

Time is valuable – make it count. As your investment begins to earn returns, the base from which it will earn future returns grows exponentially; this is referred to as compound growth. The longer you leave your investment to grow, the more time it has to benefit from this incredible phenomenon. It therefore pays off to start investing as soon as you can and adopt a long-term approach.

… with money conversations still taboo in many circles, getting comfortable with this subject at home is an important starting point.

Where to from here for inflation?

One of the reasons we want our investments to grow is to account for inflation, which erodes the real value of our money. Although we experienced very low inflation last year – 2%, compared to the Reserve Bank's 3-6% target as economic activity plummeted due to COVID-19 restrictions – as activity begins to pick up globally, demand is rapidly rising, taking prices with it. The question is, is inflation going to be a feature for the foreseeable future? Sandy McGregor interrogates this topical question.

While we are bottom-up investors who make investment decisions based on fundamental research, rather than top-down investors, who focus on macroeconomic factors, we must still be cognisant of the environment in which we invest. Understanding the inflationary backdrop is important, particularly when it comes to managing fixed interest. However, this is only one of several factors we consider when managing our Bond Fund, Money Market Fund and the fixed-income components of our asset allocation funds. Thalia Petousis elaborates on our approach.

Investment opportunities

Several high-profile delistings from the JSE have resulted in questions about whether South Africa is still an attractive investment destination. Although the number of delistings has indeed exceeded that of new listings since 2016, the market capitalisation of new listings has exceeded that of delistings every year since as far back as 2008, and the JSE remains one of the world's 20 largest exchanges by market capitalisation. Nadia van der Merwe and Stephan Bernard examine the delistings trend and delve into the local opportunity set.

On the subject of opportunities, you may find it interesting that, despite the fact that they have a much larger pool of shares to pick from than we do, Naspers features in the top 10 equity holdings of our offshore partner, Orbis. This is testament to the compelling investment opportunity the company presents, even within the broader context. The investment is also a vivid illustration of Orbis' global research capability, the collaboration between our investment teams, and the benefit of adopting a global viewpoint to fully understand a company. Our colleagues at Orbis, Stefan Magnusson, from the Emerging Markets Investment team, and Edward Blain, from the Europe Investment team, provide their perspective on the company.

Making an impact

The Allan Gray Orbis Foundation is working exceptionally hard to ensure it achieves its intended impact, despite the immense challenges COVID-19 has presented. They have sharpened their programme delivery to be as effective as possible – and are achieving commendable results. Yogavelli Nambiar explains their approach and provides us with an update.

Thank you for your continued support during these uncertain times. Please stay safe and healthy.

Kind regards

Rob Formby

INFLATION RETURNS

Sandy McGregor

Only time will tell who in the great debate about inflation is correct. ... we are on a journey not knowing where we are going, and when we get there, we shall not know where we are.

Prices are on the up in the wake of the COVID-19 pandemic. The question is, will deflationary conditions resume as global economic conditions normalise or is inflation going to be a feature for the foreseeable future? Sandy McGregor interrogates this conundrum.

In an article in our Quarterly Commentary of December 2019, I wrote about inflation being historically an abnormal phenomenon. The normal workings of a market economy favour price stability. Inflationary periods have been associated with disruptions caused by wars, natural disasters such as pandemics and the flawed conduct of monetary and fiscal policies by governments, which prevent markets from playing their normal stabilising role.

The economic recovery following the COVID-19 pandemic has been accompanied by a widespread surge in prices. The critical question for investors is whether this is a one-off adjustment, which will be followed by price stability as things return to normal, or whether, as a result of the response of governments to the pandemic, inflation is going to become a more enduring problem.

Of particular importance is price stability in the United States. The dollar is the world's reserve currency and anything that affects its value has important consequences for the entire global economy.

The initial response to the pandemic

In March last year, as the magnitude of the COVID-19 crisis became apparent, widespread government-imposed lockdowns caused global economic activity to collapse. Investors dumped financial assets in a desperate scramble to raise cash. The global financial system is dollar-based, so the eye of the storm was in American markets. In the four weeks to 23 March 2020, the S&P 500 Index declined 33.4%. The US Federal Reserve (the Fed) responded aggressively, slashing short-term interest rates to zero, spending US$3tn on asset purchases and opening up its dollar-swap facilities to provide liquidity to other central banks.

The prompt actions of the Fed averted a damaging implosion of the global financial system. Other central banks also acted decisively. Since the onset of the

pandemic, the combined balance sheets of the Fed, the European Central Bank and the Bank of Japan have grown by US$9tn, equivalent to 10% of the world's annual GDP.

Governments responded to the pandemic with massive expenditures aimed at sustaining personal incomes. The scale and speed of the financial response to the pandemic by the United States far exceeded that of any other nation. In April 2020, Congress approved a US$2.5tn spending programme. This was followed by a further US$0.9tn in December 2020. Together, these two packages were equivalent to about 17% of GDP.

While the Fed's initial response was prompted by concerns regarding financial stability, it also has a full employment mandate. To promote an economic recovery, it has continued to grow its balance sheet by US$120bn per month and ended the year with assets worth US$7.3tn, an increase over 12 months of US$3.2tn. This massive response to the pandemic was possible because the dollar is the world's reserve currency: The Fed can print currency with impunity. No other country enjoys the inordinate privilege the dollar gives the United States.

The November US election

The outcome of the US election in November last year was that the Republicans held 50 Senate seats and the Democrats 48. Two seats in Georgia were subject to a run-off election early in January, but as Georgia had long been a Republican state it was widely expected that the Republican Party would hold at least one and probably two of these seats. Congress would then be deadlocked with a Republican-controlled Senate and a Democratic House of Representatives. The financial markets were comfortable with this outcome because a conservative majority in the Senate would impose fiscal discipline on the incoming Biden administration. The most prominent Republican proponent of financial imprudence was Donald Trump and he was about to depart the scene.

Accordingly, the outcome of the Georgia run-offs early in January was a surprise. The combination of a big turnout by African American voters and Trump's bizarre attempt to overthrow the result of an election he clearly lost, gave both seats and, with the vice president's casting vote, control of the Senate to the Democrats. American politics suddenly lurched leftwards.

Biden's agenda

The Biden administration's agenda is the most radical since Roosevelt's New Deal in the 1930s. The new president has embraced the view of many Democrats that Obama failed to take advantage of the financial crisis of 2007/8 to substantially increase fiscal spending to promote social change. Obama was fiscally cautious and refused to expand what was then regarded as a bloated deficit.

> What makes the present surge in inflation unique, is that central banks in developed economies are continuing to keep short-term interest rates at or below zero.

Now, following a year in which Congress authorised the unfunded spending of US$3.4tn on pandemic relief without apparent adverse financial consequences, there are far fewer proponents of the conventional wisdom that spending should be matched with revenues. The political system is reacting to the favourable response of voters to the COVID-19 relief payments they received. The senior leadership of the Biden administration is concerned that if they do not deliver a strong economy over the next 15 months, their party may lose its tenuous majority in Congress in the 2022 midterm elections. As a result, Biden's first legislative initiative was the American Rescue Plan, which provided a further US$1.9tn of welfare payments. Those, such as former Secretary of the Treasury Larry Summers, who argued that the economy was recovering strongly and did not need this stimulus, were ignored.

The ease with which the American Rescue Plan passed through Congress encouraged Biden to seek Congressional support for other items on his agenda. He has proposed an American Jobs Plan, which involves spending US$2.3tn over 10 years on infrastructure and education, and a similarly ambitious American Family Plan, to give financial support to poorer households. He has submitted his 2021/22 budget which envisages a permanent increase in spending from US$4.5tn to US$6.0tn annually. This would be partially funded by increased taxation to be paid by business and the wealthy. However, once the exceptional pandemic expenditures end, the budgeted annual fiscal deficit,

which in 2019 was US$1tn, increases by 50% to about US$1.5tn. The political pressures to increase fiscal deficits seem inexorable. Under the Republican administration of Donald Trump, tax cuts increased the deficit from 3% to 5% of GDP. Now Biden seeks to permanently increase this to between 6% and 7%.

As a consequence of razor-thin majorities in Congress, Biden is finding it increasingly difficult to obtain legislative support for his agenda. However, there are aspects of his proposals, notably regarding infrastructure, which command widespread support. While these will be enacted, a majority of the Senate are hostile to the way Biden proposes to pay for them.

Politics is like water: It flows downhill by the easiest path. Biden will be forced to accept a reduced expansion of expenditures but also a reduced increase in taxation. The easy path is to expand the fiscal deficit. For those who do not accept the arguments of the proponents of Modern Monetary Theory, who say deficits do not matter, the ever-increasing fiscal deficit is concerning.

The difficulty we all face is that we do not know the extent to which the post-pandemic world will differ from the past.

A surge in prices

The major industrial blocs in the Northern Hemisphere have made good progress in vaccinating their populations and are rapidly recovering economically from the pandemic. Initially China took the lead and by the end of 2020 its GDP had returned to pre-COVID-19 levels. However, this year it is the United States which has made the largest contribution to global growth. During the northern summer, its economy will surpass where it was at the end of 2019. Europe is recovering more slowly but is clearly on the mend. The momentum of the recovery is strong. Household balance sheets have been protected by government grants and personal savings have soared. Consumers have the resources to spend.

The pandemic has severely dislocated global supply chains, with the consequence that inventories have been run down to unprecedently low peacetime levels. Companies are investing to meet growing demand and order books for capital goods are strong. The combination of strong demand and restocking inventories has triggered a wave of shortages, which continue to disrupt supply chains. Most notable are a shortage of silicon chips, which is adversely affecting the manufacture of computers, and a shortage of containers which has disrupted shipping. Mining companies have underinvested in recent years and lack the surplus capacity required to compensate for supply disruptions. With strong demand, commodity prices are at record levels. This is not restricted solely to metals and minerals. The Economist dollar-based food index is up 40% since June last year and world food prices are at risk from serious droughts in Brazil and the western United States.

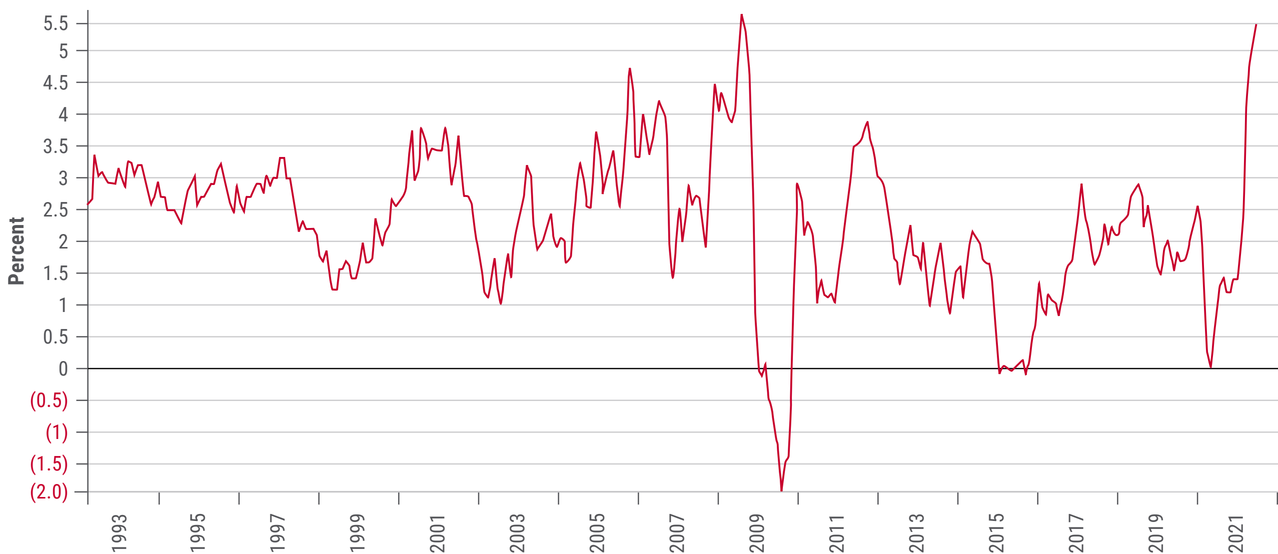
A constant refrain of businesses seeking to ramp up operations is their inability to recruit the employees they require. There seem to be a variety of reasons for this. The closure of schools has forced some parents to remain at home to look after their children. Older people who were still working may have decided to retire. Government grants may have acted as a disincentive to return to work. However, even before the pandemic, labour markets in the major industrial countries were heading towards full employment. It would not be surprising that a resurgence of growth triggers a labour shortage.

As is normal in a market economy, the business sector is responding to a labour shortage by increasing wages. Given strong final demand, business is able to pass on rising costs to the final consumer. Prices are going up. As shown in **Graph 1**, in June 2021 the US inflation print was 5.4%. Apart from a brief oil price-related blip in 2008, this is the highest level since 1991. Unlike in 2008, current inflationary pressures are diverse and widespread.

The Fed remains unconcerned

What makes the present surge in inflation unique, is that central banks in developed economies are continuing to keep short-term rates at or below zero. Never before have they regarded a widespread rise in prices with such complacency. After the inflationary shocks of the 1970s, the basic rule determining monetary policy was that interest rates should not be less than the inflation rate, as monetary policy itself would then not be inflationary

Graph 1: US consumer price inflation



Source: IRESS

and the normal operation of market forces would ensure price stability.

After the financial crisis of 2008, central banks in developed economies responded to what they regarded as deflationary conditions by reducing interest rates to zero, or even less than zero. They are now unable to raise rates because they are trapped by their former decisions. By going to zero, they have gone to a place where they never should have gone and from which they fear to escape, because higher interest rates will have an adverse impact on asset prices, possibly precipitating a financial crisis, and will hugely complicate the funding of bloated fiscal deficits.

They justify sticking to their present position by arguing that the inflationary spike will be transitory and deflationary conditions will resume as global economic conditions normalise. However, some doubts are emerging. Whereas the Fed's previous communications with the markets could be interpreted as meaning that the monthly purchase of US$120bn of assets and zero rates may continue almost indefinitely, its guidance is now that it will taper asset purchases in 2022 and that interest rates could increase slightly in 2023. Policies will be fine-tuned but not changed dramatically. Perhaps the biggest flaw in their thinking is the inflation outcome they expect requires the economic challenges of the present decade to be the same as in the decade following the financial crisis of 2008. It is uncertain whether this will be the case.

Increasing market concerns regarding inflation

What worries inflation pessimists is the explosive cocktail in the United States of an overheated economy, zero interest rates and growing fiscal deficits funded by the printing of money. They fear that market forces may be able to promote price stability if one or even two components of this toxic mix are present – but not when all three come together. These concerns are reflected in the price of US government bonds. As shown in **Graph 2** on page 8, the 10-year yield reached a pandemic low of 0.55% early in August 2020. It then gradually increased to end the year at 0.91%. Following the Democratic victory in Georgia, it spiked to 1.14% and continued upwards to peak at 1.74% at the end of March before retreating again. These yields are substantially below the inflation rate because the Fed is suppressing the yield curve by setting short-term rates at zero and pumping liquidity into the market through monthly purchases of US$120bn of bonds.

However, in the long run, investors seek a real return on bonds and, should inflation expectations increase substantially, the Fed will ultimately be forced to abandon its asset purchases and increase short-term rates. It cannot stand aside and allow inflation to get out of control as it did in the late 1970s. This would be a profound change from its present stance and the journey back to what previously was regarded as normal monetary policy could be turbulent. The current edifice of high asset prices, which is the direct consequence of current monetary policy, would be under threat.

Graph 2: US 10-year bond yield

Source: IRESS

There are articulate and knowledgeable proponents of opposing views. Some agree with the central banks that the present spike in prices will prove transitory; others maintain that inflation is going to be more entrenched. The difficulty we all face is that we do not know the extent to which the post-pandemic world will differ from the past. Expectations regarding the future are usually an extrapolation of the recent past. The market economy operates efficiently because it is an information system signalling opportunities and risks. However, central banks have so aggressively manipulated asset prices, seeking stability at any cost, that the way the economy is changing is more hidden than normal. Only time will tell who in the great debate about inflation is correct. Like Columbus setting out for the New World, we are on a journey not knowing where we are going, and when we get there, we shall not know where we are.

Even if the optimists prove right in the short term, there are worrying longer-term issues. There has been a widespread political shift favouring increased intervention by governments in the economy. Most such interventions increase the cost of doing business, which is passed on to the consumer and is inevitably inflationary. In particular, decarbonising the global economy poses a huge risk to the cost of living. Little effort has been made to quantify the costs of this project. The modern economy is energy-based. Replacing an existing system, which has developed over more than two centuries, with new technologies, many of which are less efficient, will involve massive capital expenditures which will consume global savings at a time when retirement and health costs are also soaring.

Inflation arises when the demand for resources exceeds the available supply. Over the past 40 years, globalisation and technology have created an abundance, which tamed inflation. It is not clear that this is going to last.

Sandy joined Allan Gray as an investment analyst and economist in October 1991. Previously, he was employed by Gold Fields of South Africa Limited in a variety of management positions for 22 years, where much of his experience was focused on investment-related activities. His current responsibilities include the management of the balanced fixed interest portfolios. Sandy was a director of Allan Gray Limited from 1997 to 2006.

HOW WE APPROACH FIXED INTEREST

Thalia Petousis

… we invest in fixed interest in the same way we invest in all asset classes: with long-term wealth generation, value, and risk diversification always top of mind.

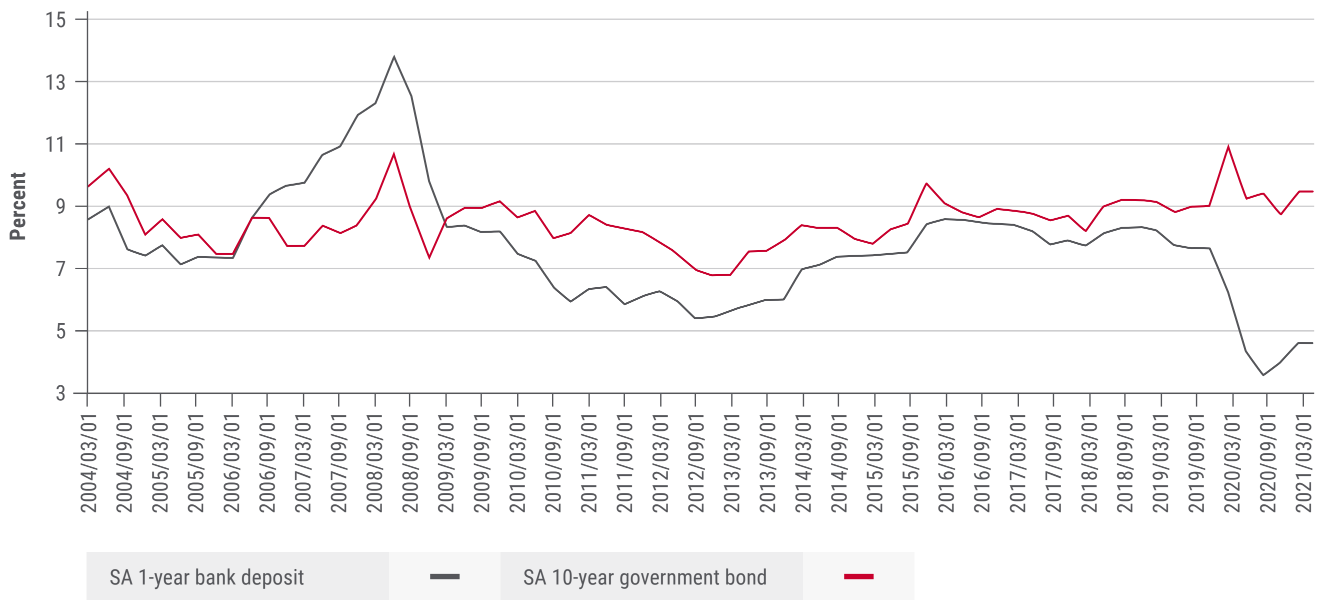
Aside from our dedicated local fixed interest funds, being the Allan Gray Money Market Fund and the Allan Gray Bond Fund, we also invest in fixed interest across our multi-asset mandates. Notably, 32% of the Allan Gray Stable Fund and 12% of the Allan Gray Balanced Fund is currently invested in South African fixed interest. In total, across the business, our fixed interest portfolio managers, Thalia Petousis, Londa Nxumalo and Sandy McGregor, look after R87bn of SA fixed interest. Thalia Petousis discusses our approach to fixed interest and looks at our current positioning.

For the last 15 years, our fixed interest strategy could be forgivably oversimplified as the tactic of maintaining a higher yield, but having lower duration risk, compared to the benchmark and our peers. This made enormous sense to us. Over this era, the rolling interest rate on short-term bank deposits at 8% was only a hair's breadth away from the 10-year South African government bond at 8.4% yield. Short-term deposit rates were kept high in South Africa to do lethal combat with our ever-elevated inflation – which, incidentally, explains why our Money Market Fund was able to return inflation plus 2% for most of its life. There was simply no yield incentive for us as investors to cast our eyes further afield and take *too much* long-bond duration risk on board.

In 2020, COVID-19 grasped that perennial SA market dynamic and turned it neatly on its head. Bank deposits took a spectacular swan dive to 3.5% yield, while the 10-year bond yield soared north of 12%, as illustrated in **Graph 1** on page 10. The South African Reserve Bank (SARB) likes to say that these interest rate cuts were their contribution to economic recovery in a post-pandemic world. For us as fixed interest investors, suddenly the adage "higher risk, higher return" had bearing.

Herein lies the beauty of a multi-asset mandate: flexibility. The fixed interest positioning in our Stable and Balanced portfolios reflects our swift response to the unfolding post-pandemic phenomenon. In short, we ran down our healthy SA cash and money market holdings and invested them in part in bonds. Our positioning of the portfolios over time is reflected in **Graphs 2** and **3** on page 11.

Graph 1: SA 1-year bank deposit vs. SA 10-year government bond yield



Sources: Bloomberg, Allan Gray research

What type of bonds do we buy?

Not all bonds are created equal; there are numerous varieties, and some carry vastly more risk than others. As discerning investors, we look to weigh, measure, dissect and decisively balance these risks.

In the Stable Fund, caution predicates that we currently have 30% of our bonds invested in inflation-linked debt. These can be seen as a type of "insurance" should we see the developed world's extraordinarily loose global monetary policy spill over into South Africa and wreak havoc on the prices of goods. These bonds have a coupon that pays a spread above inflation, and therefore one's real income cannot be eroded. That is not to say that inflation-linked bonds are the holy grail of bond investing; if inflation disappoints, or the supply of bonds exceeds investor demand, these instruments can suffer price declines to the extent that they deliver negative returns.

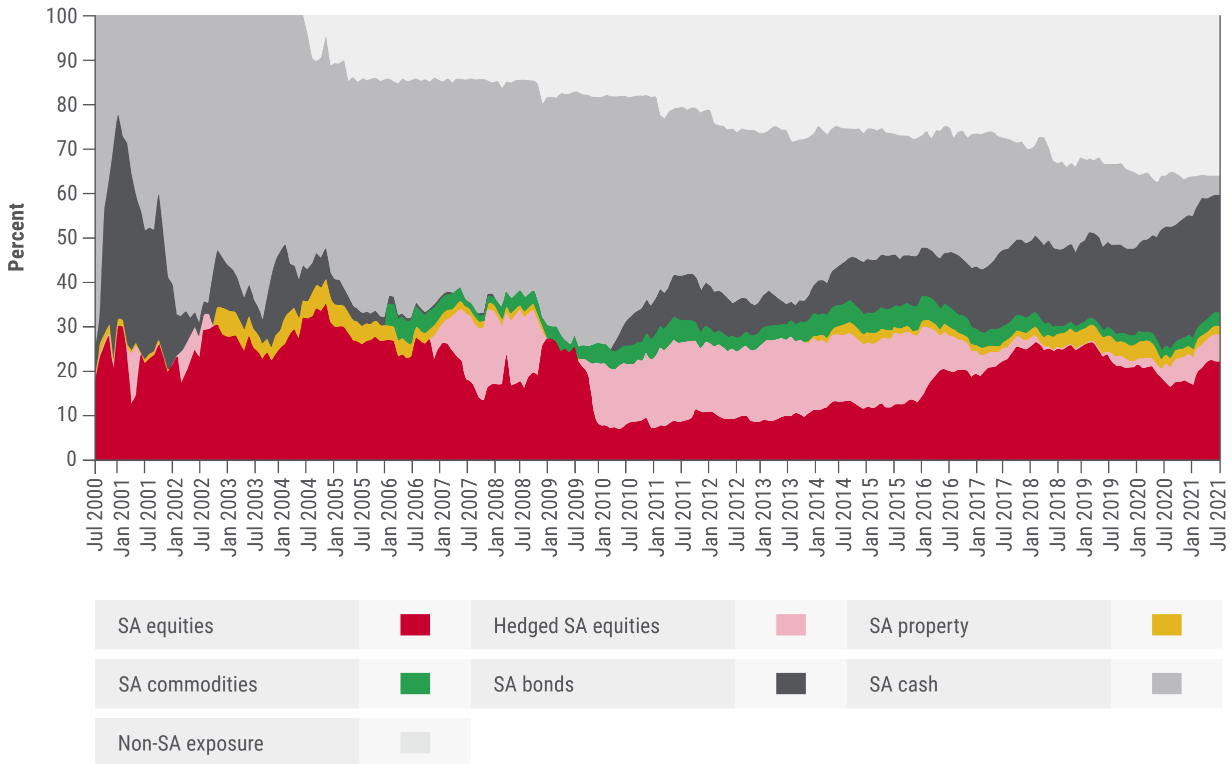
We also have 25% of our Stable fixed interest in floating-rate debt – which is not even "fixed" in interest at all. It pays a coupon that naturally rises with interest rates and carries virtually zero duration risk. This defensive bond offers a trade-off as the yield you earn at inception will likely be lower than that of the equivalent maturity fixed-rate bond. That said, it has the potential to outperform over its life should the SARB raise rates by more than what is priced into the market.

Graph 4 on page 12 shows that our traditional fixed-rate bonds still make up the core of our Stable holdings and have an even higher representation in our Balanced Fund, which is a less cautious product. Bought at attractive yields of 10-12%, the valuations on these are compelling. Even if these long fixed-rate bonds sell off in the short term and underperform the 4.5% return on money market, it will be difficult for them to repeatedly underperform cash and money market.

> The input of the entire investment team … is … invaluable in the fixed interest investment process.

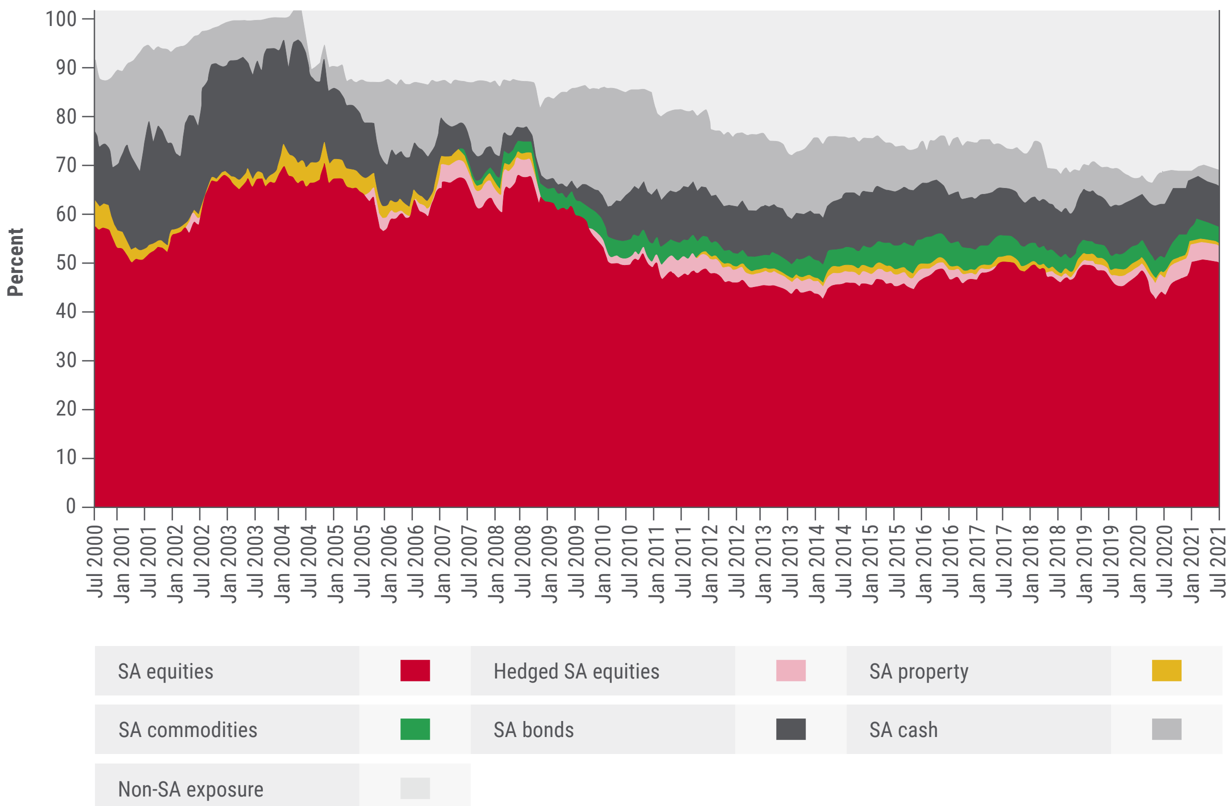
A 15-year bond bought at 11% yield would break even with money market repeatedly over the ensuing five-year period if its yield rose closer to 17% (i.e. the bond's price fell markedly from current levels, by more than 20%). Keep in mind that, by then, you would be left sitting with a 10-year bond in your portfolio that prices at a 17% yield. This is a yield we have not seen since the SARB started explicitly targeting inflation in February 2000. It took extreme risk spill-over from the 1997 East Asian crisis for

Graph 2: Allan Gray Stable Fund asset allocation, 2000 – 2021



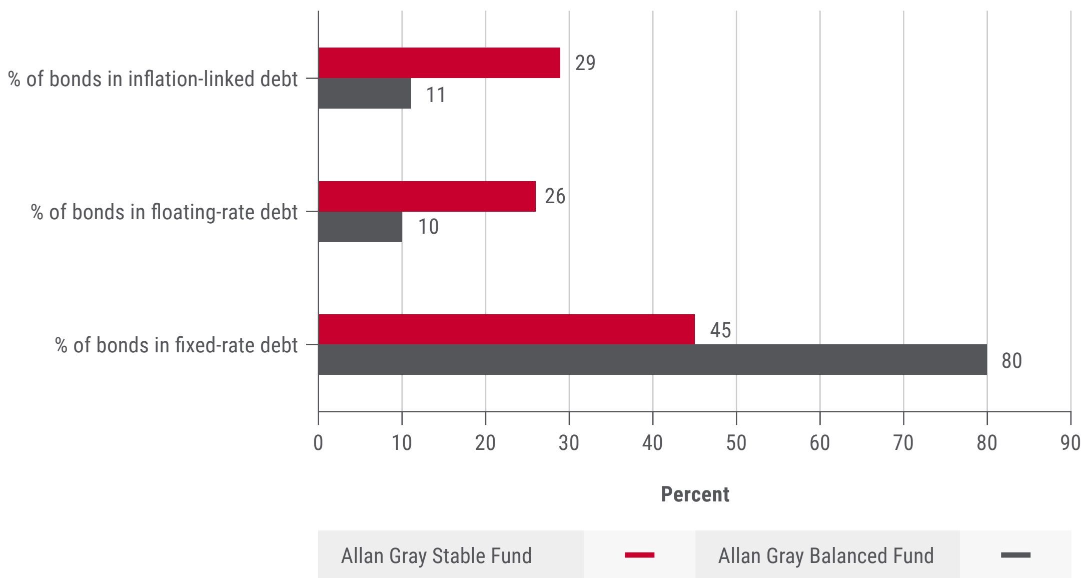
Source: Allan Gray

Graph 3: Allan Gray Balanced Fund asset allocation, 2000 – 2021



Source: Allan Gray

Graph 4: Debt exposure in Allan Gray Balanced and Stable funds



Source: Allan Gray

our yields to get to 20%, a time also marked by the collapse of several emerging market currencies, such as those of Brazil and Russia, and their accompanying (primarily dollar) debt defaults. Therefore, while it is not an inconceivable yield to reach, there is substantial negativity already priced into the SA bond market at current levels. In the long run, investors can earn the long-run yield.

At this point, some of our readers might be wondering: But what if South Africa defaults on its debt? Local currency debt defaults are quite rare, accounting for only 3.5% of all sovereign debt defaulted on since 1961. This is because sovereigns have access to the proverbial printing press when raising funding in their own local currency. Via this mechanism, they could simply print their way through their debt repayments. Such irresponsible behaviour should lead to rampant inflation, meaning that investors might suffer through a different and less direct mechanism than default. In some ways, it is this type of inflationary buffer that is already priced into our current bond market via the high yields on offer.

How long are the bonds that we buy?

Our fixed interest maturity profile is more nuanced in its risk considerations compared to the FTSE/JSE All Bond Index (ALBI), which is 100% invested in fixed-rate bonds, with the majority allocated to long-term tenors. The case of the 15-year fixed-rate government bond at 11% yield is very compelling to us given the steepness of the fixed interest yield curve. However, that is not to say we would fill all the bonds in our basket with such long-dated tenors. Our portfolios are layered with what we feel are the most attractive bonds in each time-to-maturity bucket. **Graphs 5** and **6** display our fixed interest exposure by maturity profile.

We have avoided too many short fixed-rate bonds, given that these are more anchored to near-term interest rate risks. These bonds have already underperformed in 2021 due to a rise in inflation and should continue to sell off with the commencement of interest rate hikes. We have instead focused our one- to seven-year bond buckets by skewing them towards inflation-linked and floating-rate debt at more attractive relative valuations.

The fixed interest team also manages the money market, or "cash", component of our Balanced and Stable portfolios, which can be a valuable buffer for liquidity as it protects against price shocks associated with longer-duration risk.

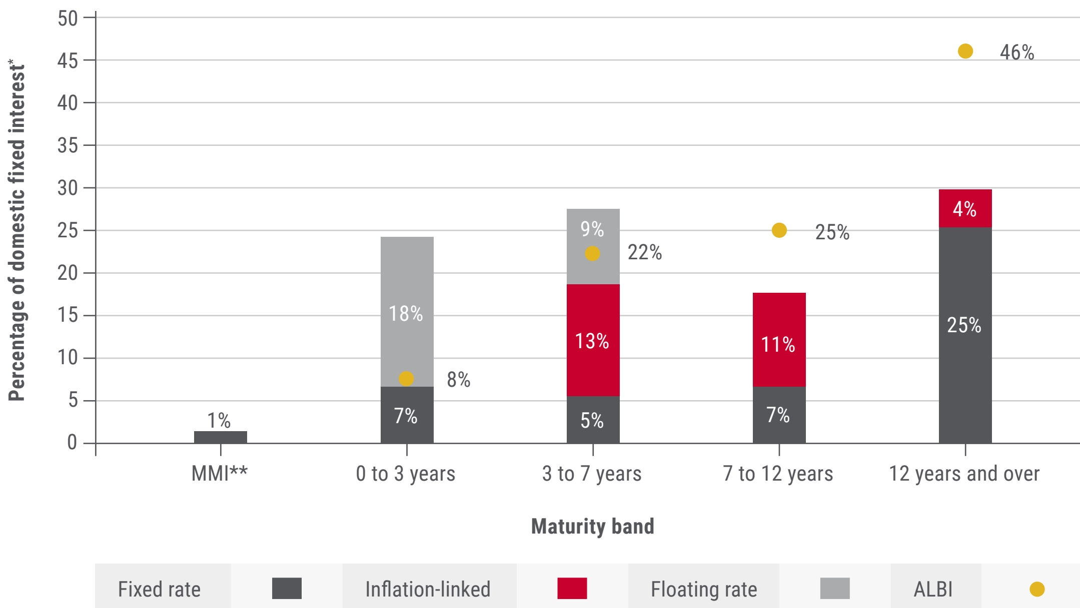
Whose bonds do we buy?

The ALBI is 95% weighted towards RSA government debt and 5% towards the state-owned entities Eskom and Transnet. Our weightings are far more diversified, as shown in **Graph 7** on page 14, with the notable addition of the debt of the large South African banks, which are well-capitalised financial institutions with mostly strong balance sheets.

We also buy the debt of corporates we like who have solid creditworthiness. One example is Northam Platinum, which has an excellent operational track record and good management. Its bonds offer sufficient credit spread to compensate for the cyclical nature of both platinum pricing and its cash flow generation capacity. This is one of many examples of a corporate that we are highly familiar with on both the equities and debt sides of the spectrum.

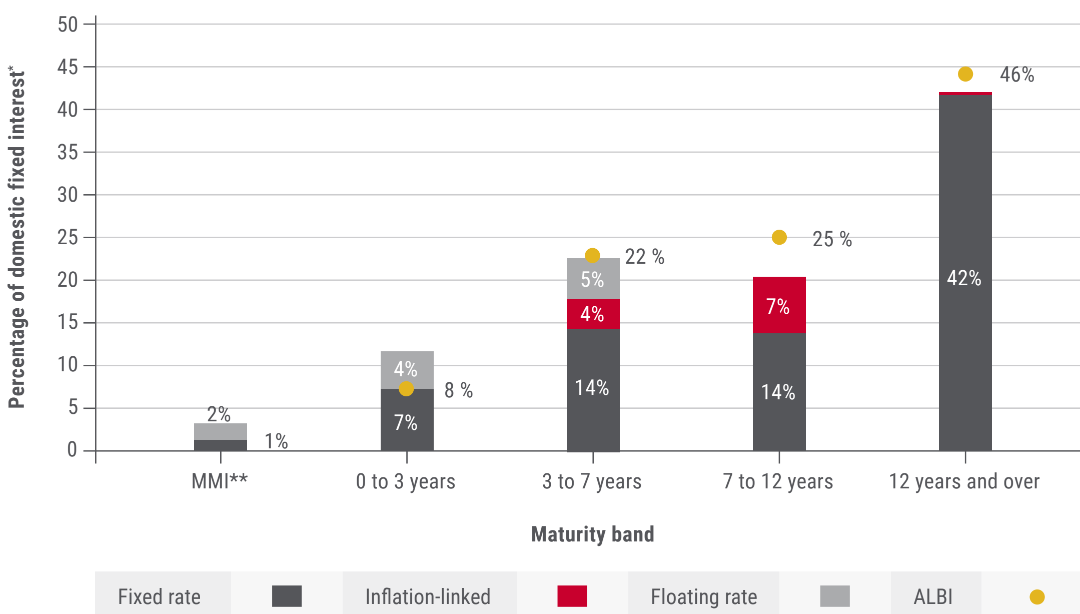
The input of the entire investment team, including the equity portfolio managers, is therefore invaluable in the fixed interest investment process. Aside from our

Graph 5: Allan Gray Stable Fund domestic fixed interest exposure by maturity profile



*Excludes domestic cash. **Money market instruments.
Source: Allan Gray

Graph 6: Allan Gray Balanced Fund domestic fixed interest exposure by maturity profile

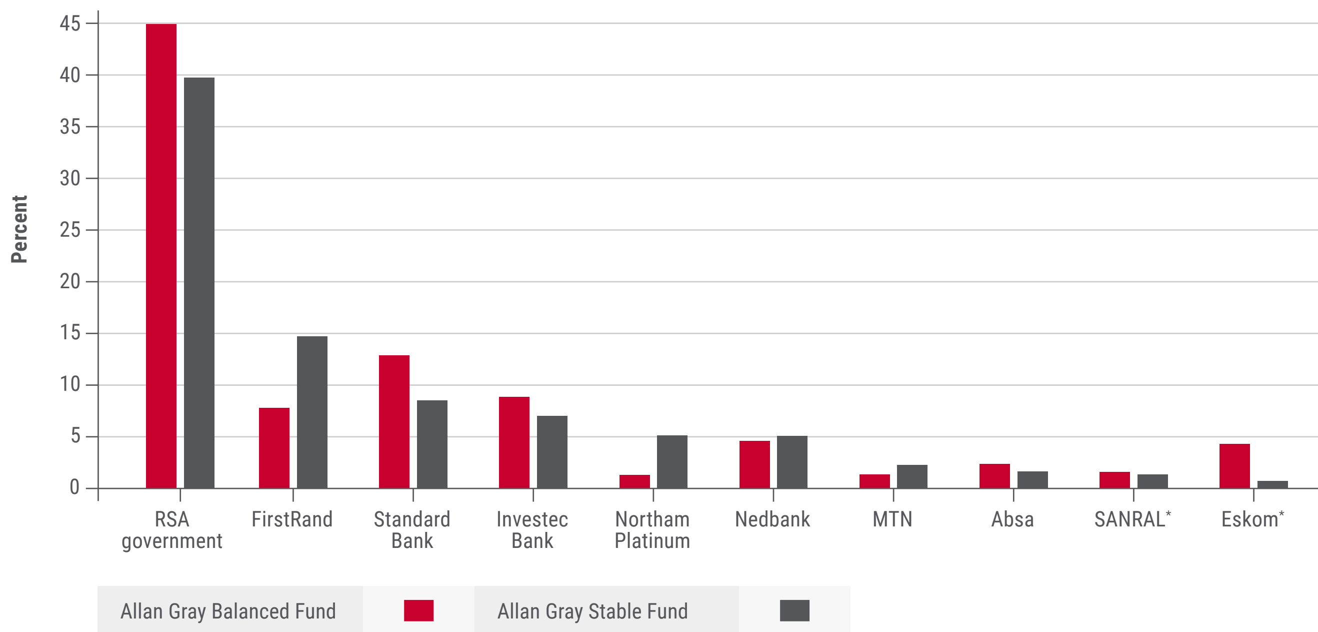


*Excludes domestic cash. **Money market instruments.
Source: Allan Gray

ongoing discourse around key macroeconomic issues like inflation, group insights into SA corporate issuers of both equity and debt form the backbone of investment committee meetings.

If I can impart just one message, it is quite simply that we invest in fixed interest in the same way we invest in all asset classes: with long-term wealth generation, value, and risk diversification always top of mind.

Graph 7: Domestic fixed interest exposure by issuer as a % of fixed interest



*With government guarantee

Source: Allan Gray

Terminology

Yield: The annualised rate of return that an investor earns on a bond. This yield can be known upfront if the bond is fixed-rate in nature, if the position is held to maturity, and in the absence of an event of default.

Coupon amount: The coupon amount represents interest paid to bondholders, often semi-annually or quarterly.

Duration: Duration can be thought of as the weighted average of the time until all fixed cash flows are received. Duration is also a measure of the sensitivity of the price of a bond to a change in interest rates.

Maturity: This is the date when the principal of the bond is repaid to investors, ending the bond's life.

Sources: Investopedia, Allan Gray

Thalia joined Allan Gray as a fixed interest trader in 2015. She was appointed as a portfolio manager in 2019, and currently manages the money market portfolio as well as a portion of the balanced fixed interest portfolios. Thalia holds a Master of Commerce degree in Mathematical Statistics from the University of Cape Town and is a CFA® charterholder.

ORBIS: GLOBAL PERSPECTIVES ON NASPERS

Stefan Magnusson and Edward Blain

One of the largest positions in the Orbis Global Equity Fund is Naspers, whose key underlying asset is a 29% stake in the Chinese internet juggernaut Tencent. Over Orbis' history, there have been opportunities for a global investor to own shares which are also listed in South Africa. Indeed, we as Allan Gray have also communicated to our clients about the attractiveness of South African equities relative to global equities given starting valuations today. Naspers is an especially vivid illustration of the global research capability of our offshore partner, Orbis, and the benefit of adopting a global viewpoint to fully understand a company. Our colleagues at Orbis, Stefan Magnusson, from the Emerging Markets Investment team, and Edward Blain, from the Europe Investment team, provide their perspective on why Naspers represents a compelling opportunity for a global investor today.

Investing globally has its advantages. Our global investment universe lets us look anywhere for opportunities, our global research capability lets us analyse individual companies across the world in depth, and our unconstrained global mandate lets us invest behind our research rather than hugging an index.

Last quarter, we discussed a particularly prominent result of this approach: While the US is home to some of our highest-conviction ideas, just one-third of the Orbis Global Equity Fund is invested in the US, which accounts for two-thirds of the MSCI World Index. To be so heavily underweight the US, we must be heavily overweight somewhere else, and roughly a quarter of the portfolio today is invested in emerging market (EM) shares. True to our bottom-up approach, almost all of that EM exposure comes from just eight positions, including Naspers.

The view from our EMs team

Between ourselves and Allan Gray, we have known Naspers well for a very long time.

Allan Gray held Naspers at the inception of its first unit trust in 1998. At Orbis, our funds have owned Naspers on and off since 1998 – our initial research predating both the US$34m investment in Tencent, that would come to define Naspers' value, and the formation of our dedicated EMs research team. In the EMs team, we have followed Tencent closely since 2008, during the initial work on the

Chinese online game industry that led to our long-standing investment in NetEase. We have returned to analyse Tencent repeatedly over that time, joined in recent years by our colleagues in the Global Sector and Europe teams, and we discuss Naspers frequently with the team at Allan Gray. Across the Orbis funds, we have owned Naspers continuously since 2016, and we have also owned Tencent in some funds.

> … owning an excellent collection of businesses at a large discount strikes us as a compelling opportunity.

Years of research has given us a deep appreciation of the strength of Tencent. Sitting in our EMs team in Hong Kong, it is challenging to appropriately convey Tencent's scale to people outside China, but the business can be thought of in four main parts: social media, online games, payments, and stakes in other firms.

"Social media" is too small a term to describe WeChat, Tencent's messaging-based super-app that is indispensable to daily life in China. WeChat is not like WhatsApp; it is like WhatsApp, Facebook, Apple News, PayPal, Spotify, Uber, Deliveroo, and the App Store all rolled into one. China's near-billion internet users spend roughly four hours a day – over 40% of their internet time – on Tencent's apps.

Tencent is also the largest online game operator in China, and a formidable competitor for NetEase. As it is for NetEase, running popular online games is incredibly lucrative for Tencent – the company's self-developed arena battle game, Honor of Kings, is the highest grossing game of all time, both in China and globally.

In payments, Tencent's WeChat Pay operates in a duopoly with Alibaba's Ant Group. The two platforms dominate online and offline transactions, with Chinese consumers using QR codes rather than credit cards for everyday purchases.

On top of its operating units, Tencent holds an enviable portfolio of stakes in Chinese internet businesses and global gaming businesses. For Chinese businesses like Pinduoduo, Meituan, JD.com and Didi, Tencent is an attractive partner, as it can take a stake and use WeChat to help investee companies advertise and grow. And for game studios like Epic (developer of Fortnite) and Riot (League of Legends), Tencent ownership comes with the leading game distribution platform in China.

None of these businesses is without risk. China's regulators have recently clamped down on fintech companies including Ant and Tencent, scuppering Ant's planned initial public offering (IPO) and imposing capital requirements on digital lenders. The government is casting a more sceptical eye over potentially anticompetitive practices from dominant tech platforms. Exclusivity deals and preferential advertising practices have already come under fire, and closed ecosystems such as Tencent's could be prised open, with wide-ranging implications. (Imagine Apple having to open up the App Store.) Game regulators have halted approvals in the past and could do so again. And, finally, China-US tensions could paint a target on Tencent's back.

Yet we must weigh those risks in the context of Tencent's cash generation, growth potential, and valuation. The company generated US$16bn of free cash flow last year and should be able to grow that number at a near-20% annual rate. Stripping out the value of its stakes in other firms, that leaves Tencent trading at 33 times free cash flow – not optically cheap, but not unreasonable given the fundamentals.

> Through Naspers, we can gain exposure to Tencent and these other … technology businesses at a 50% discount.

And Tencent is not the only great company in the Naspers stable. Naspers also offers exposure to a range of interesting EM tech businesses such as Delivery Hero, Mail.ru, takealot.com, and PayU, to name just a few.

Through Naspers, we can gain exposure to Tencent and these other EM technology businesses at a 50% discount. This looks attractive, even when applying an appropriate holding company haircut. As Ed discusses in the next section, that comes with complexity, but owning an excellent collection of businesses at a large discount strikes us as a compelling opportunity.

The view from our Europe team

How does a stockpicker in Europe end up investing in Naspers?

Our work in the Europe team started more than a year ago when Naspers created a company called Prosus to hold its stakes in Tencent and other international internet companies. The move was intended to narrow the discount between Naspers and the value of its underlying assets. Naspers listed Prosus in Amsterdam, which overnight created one of the biggest tech businesses in our backyard.

Researching Tencent, Prosus, and Naspers has been fascinating, both in qualitative terms and, at the holding company level, in terms of price paid relative to value received. Starting with Tencent's operating businesses, the discounts stack up as we move through the holding companies.

Tencent is one of the world's greatest businesses; perhaps it isn't too much of a stretch to say it could be the greatest. While regulation could weaken Tencent's position in the future, the company's competitive moats are formidable today. WeChat gives it both a powerful distributive capability for its current businesses and something to offer potential investees that other suitors cannot match.

Tencent is one of the world's greatest businesses; perhaps it isn't too much of a stretch to say it could be the greatest.

Tencent's business is both better quality and better value than it appears because the accounting is conservative on both the income statement and balance sheet. On the income statement, most growth investments are either expensed or are off the statement altogether in the form of foregone revenues. On the balance sheet, Tencent is itself a holding company, and lots of investments in associates are held well below current value.

One level up is Prosus, a holding company which holds a 29% stake in Tencent as well as a cash pile and a range of international internet companies. In addition to those Stefan mentions, Prosus holds a range of leading online classified businesses in verticals such as real estate and autos. Here, our research on Auto Trader and Rightmove in the UK has helped us understand the outstanding economics of leading classified businesses, with the number-one player often earning operating margins of 60% or higher. Prosus' classified businesses are ranked number one in dozens of countries globally. If we roll these assets in together with the Tencent stake, Prosus appears to trade at roughly a 40% discount to the value of its underlying parts.

Naspers listed Prosus in Amsterdam, which overnight created one of the biggest tech businesses in our backyard.

Another level up is Naspers, which owns 73% of Prosus. Naspers trades at a roughly 20% discount to its Prosus stake, and at a roughly 50% discount to its net asset value. By the time we've worked our way up the capital structure via Prosus to Naspers, we appear to be paying less than 20 times core earnings for Tencent. But this discount comes with significant risks and complexity.

The complexity comes from several sources. Naspers' ownership structure is atypical for a start, and while the company previously trimmed its Tencent stake and then created Prosus without negative tax consequences, tax concerns do somewhat limit the company's restructuring options. Management also frets about Naspers' very large weight in South African stock market indices. Listing Prosus was intended to help by moving some of this market value from South Africa to Europe, but the discount persists.

Recently, Naspers announced a voluntary exchange where Prosus will offer to buy Naspers shares from existing shareholders in exchange for shares of Prosus. The transaction is meant to narrow the discount, but it is complex and will result in a large cross-shareholding, neither of which is typically rewarded by the market. In addition, the proposed exchange ratio is more favourable to existing Prosus shareholders.

We are assessing the deal, and we and our counterparts at Allan Gray have engaged with the company to understand their reasoning and express our views. This share exchange is not likely to be the end destination for Naspers.

Looking ahead, we favour actions that simplify Naspers' structure to unlock the value of its underlying assets.

While the transaction is a reminder that the Naspers discount has strings attached, we ultimately come back to valuation, and the discount remains appealingly large.

Once one strips out the various investments at each level, the multiple paid for core Tencent's free cash flow at the Naspers level is very probably below the global market average, even with valuation haircuts on the investments. That feels like compelling value indeed.

Stefan joined Orbis in 2003. Based in Hong Kong, he leads the Emerging Markets Investment team and is one of the stockpickers who direct client capital in the Orbis Global Equity Strategy. Stefan completed his graduate studies at the University of St. Gallen and the University of Melbourne. He also holds a Master of Science degree in Business and Economics from the Stockholm School of Economics and completed the Advanced Management Program at Harvard Business School. Stefan is a CFA® charterholder.

Edward joined Orbis in 2010. Based in London, he is a member of the Europe Investment team and one of the stockpickers who direct client capital in the Orbis Global Equity Strategy. He previously worked as a political adviser to senior members of the Conservative Party. Edward holds a Master of Arts (Honours) in History from the University of Cambridge and is a CFA® charterholder.

OUR TAKE ON THE "SHRINKING" JSE

Nadia van der Merwe and Stephan Bernard

Several high-profile delistings over the recent past have spurred market commentators to discuss the JSE's "slow death" in the context of a struggling local economy. Many view this as a sign of the times, arguing that investors should take their money and run. This narrative prompted Nadia van der Merwe and Stephan Bernard to unpack the trend. Is it fair to extrapolate the recent delistings uptick? Are things as bad as they seem, or is the JSE an attractive investment destination? A deeper dive reveals several forces at play.

The JSE was established during the Witwatersrand Gold Rush. Strong demand for capital, coupled with a simple, cheap, and permissive listings process resulted in its initial rapid growth, with over 300 companies listing within three years.

The JSE played a massively important role in South Africa's development as a market of financiers and miners – facilitating the expansion of the mining industry into a cornerstone of modern South Africa. The mining sector would continue to dominate the exchange for decades to come. Over time, structural changes in the economy resulted in the market composition changing as the secondary and tertiary sectors of the economy expanded.

Public equity gives investors access to investment opportunities within a regulated environment, typically with greater accessibility and opportunity for diversification relative to private equity. It also creates liquidity through a secondary market which, if sufficient, gives investors confidence in their ability to sell. On the other side of the equation, it offers growing businesses the opportunity to raise capital.

The JSE continues to play these important roles in South Africa today. Local investors, especially those constrained by foreign investment limits such as retirement funds, can access a reasonably wide range of investments across asset classes in an efficient manner. Private equity (including venture capital) is still small and the JSE remains the main facilitator of large-scale funding to businesses. It is also well positioned to support much-needed infrastructure development through its funding mechanism.

Unpacking the delistings trend

The number of companies listed on the JSE has decreased from 776 to 331 over the past 30 years, with over 14 companies delisting every year on a net average basis. The nature of markets is to reward success and eliminate what is not sustainable. As such, companies list and delist from exchanges as the business life cycle plays out. There is cause for concern when a net delistings trend emerges over time. This could be symptomatic of a faltering economy and persistent negative business sentiment, but there are a number of other factors to consider. It is important to drill a bit deeper to understand the drivers of the trend.

Structural and cyclical factors

South Africa's challenges are well known and there is concern that the current delistings trend is a structural one reflecting the state of the struggling local economy. Indeed, markets with high new listings activity typically have supportive economic growth and accommodating policy.

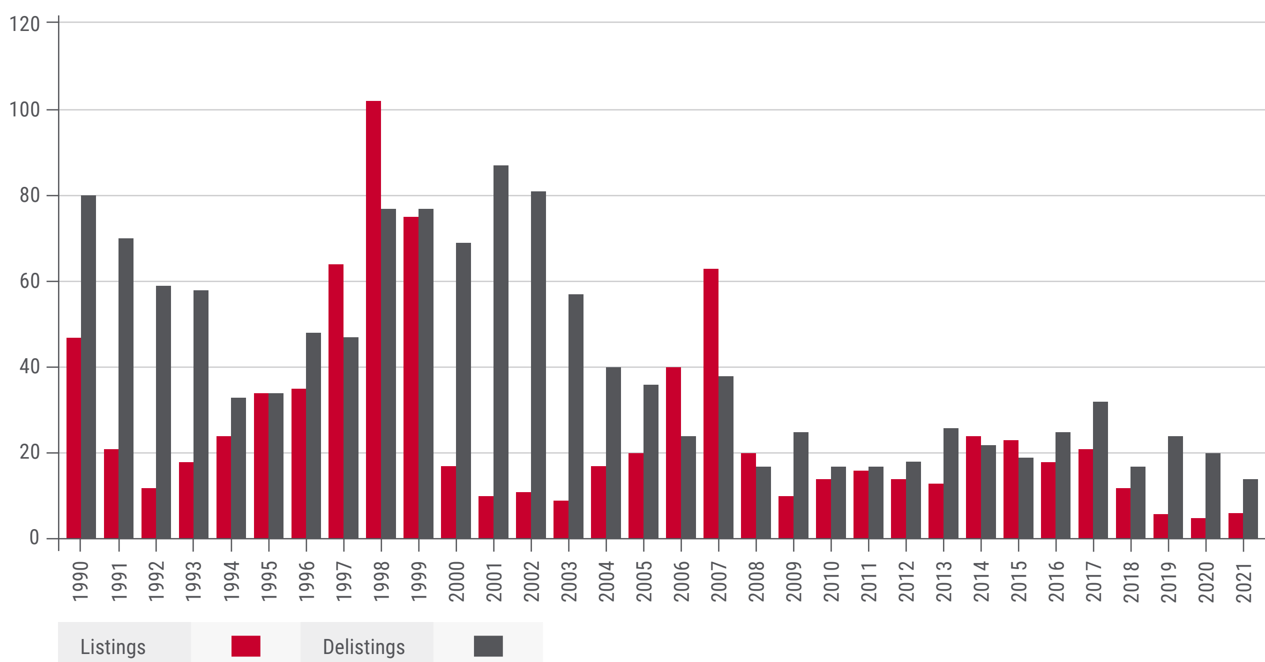
However, there is a cyclical element too, driven by sentiment, as well as the relative attractiveness of raising capital through equity or debt, where the level of interest rates plays a role. Broadly speaking, the number of initial public offerings (IPOs) typically increases during late-stage bull markets. When sentiment is elevated, investors are willing to pay higher prices and there is more capital searching for promising opportunities.

This is a global phenomenon. For example, the number of US listings has been decreasing steadily over time, with bouts of new listings correlated to market performance. Recent strong returns in the technology sector have spurred 28 new technology-related IPOs in the US so far this year. The healthcare space has been similarly active. The amount of capital raised from IPOs in the US during 2020 was more than three times the average over the prior 17 years. This continued into 2021, with total funds raised in the first quarter not far behind the total raised for the entire 2020.

Similarly, delistings typically increase when sentiment is poor (making companies attractive takeover targets) or when challenging economic conditions highlight companies' unsustainable fundamentals (and businesses fail). This is particularly pronounced following market crashes, when delistings are typically plentiful. A plot of global delistings reveals two major peaks over the past 30 years: one after the 1998 emerging markets crisis and the end of the dotcom bubble, and another following the global financial crisis (GFC) of 2007/2008.

In the South African market, the cyclicality of new listings over time evidently follows market levels, as shown by the red bars in **Graph 1**. Previous peaks occurred at the height of the tech bubble and prior to the GFC. During market weakness, the opposite is generally true – there are fewer

Graph 1: JSE: Number of new listings and delistings



Sources: JSE Limited, Allan Gray research

new listings. Considering the total number of listings on the JSE, much of the decline over the last 20 years occurred during the early 2000s, driven by a high number of delistings combined with few new companies coming to market. Following the tech crash, sentiment was severely depressed, and many companies struggled. Some of them failed, several were taken over. The number of listings subsequently stabilised and remained broadly constant from 2004 to 2016. Since then, fewer new companies have come to market, while delistings remain at broadly similar levels.

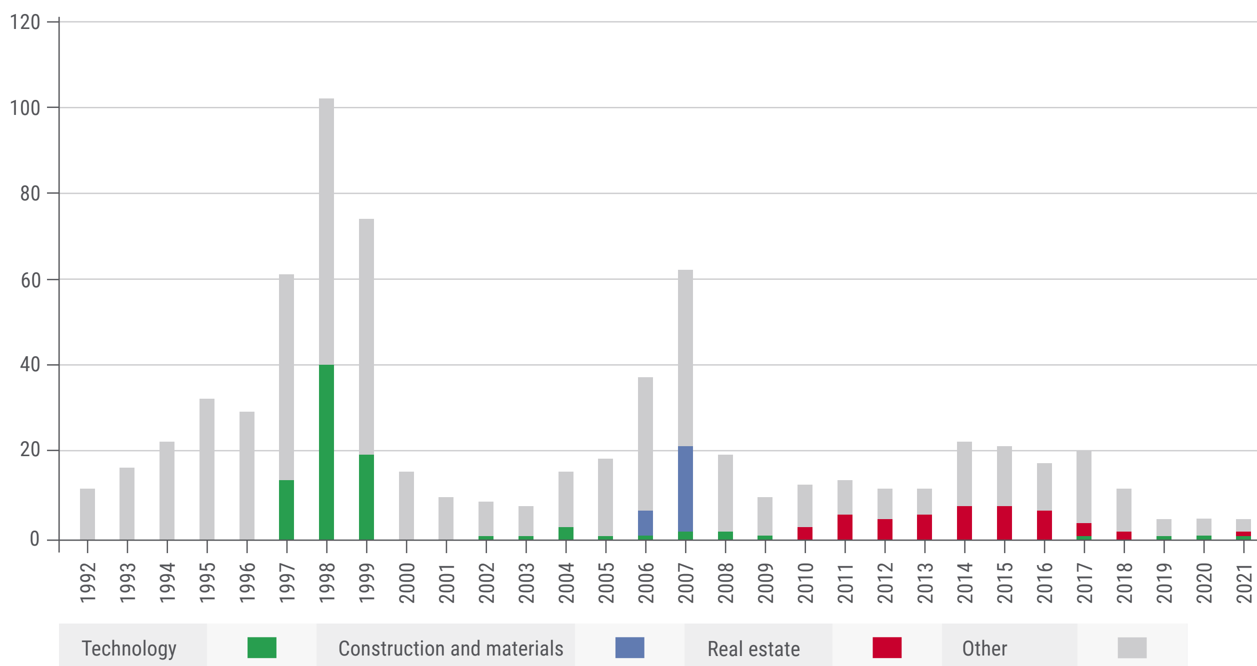
Prominent recent delistings seem to support the view that local shares are trading on attractive valuations. We think there is upside from here.

A sectoral split of new listings over time confirms the sentiment-driven nature of listings' cyclicality, as shown in **Graph 2**. Over the past 30 years, we have experienced three major cycles of new listings, each driven by a specific sector. While elevated markets should generally boost listings across sectors, there are often specific sectors characterised by conspicuous optimism. It is unsurprising that in the late 1990s, at the height of the tech boom, technology companies comprised a significant portion of new listings. During 2006 and 2007, in the build-up to South Africa hosting the 2010 FIFA World Cup, it was the construction sector. For most of the 2010s – the glory days of listed property – real estate listings were plentiful.

Consolidation of companies into larger listed corporations

There is consolidation of companies into larger listed corporations. This is a long-term global trend seen in the US, UK, Germany and other major markets, which is in line with what we see on the JSE. **Graph 3** on page 22 contrasts the number of JSE-listed companies with the inflation-adjusted average market capitalisation per listing: The number of listings may have declined, but the average listed company is significantly larger today than it was 10, 20 or 30 years ago, even after adjusting for inflation. The total market capitalisation has increased significantly over time, and it is fair to say that the decreasing number of listings does not necessarily signify a weaker market. To illustrate the consolidation point, in 1982, there were 93 companies listed in the mining sector, 45 of which were individually listed

Graph 2: JSE: Number of new listings by sector



Sources: JSE Limited, Allan Gray research

gold mines. Today, we have only seven locally listed gold miners – all owners of a portfolio of mines.

Smaller companies delisting

The downward trend in the number of company listings over the past decade is mostly a result of delistings among small businesses that fall outside the acceptable size and liquidity range of the average asset manager. During 2020, there were 19 company delistings, 16 of which were smaller than mid-cap. In 2021 to date, there have been 11 company delistings, with 10 smaller than mid-cap. Although the number of delistings has exceeded that of new listings since 2016, the market capitalisation of new listings has exceeded that of delistings every year since as far back as 2008.

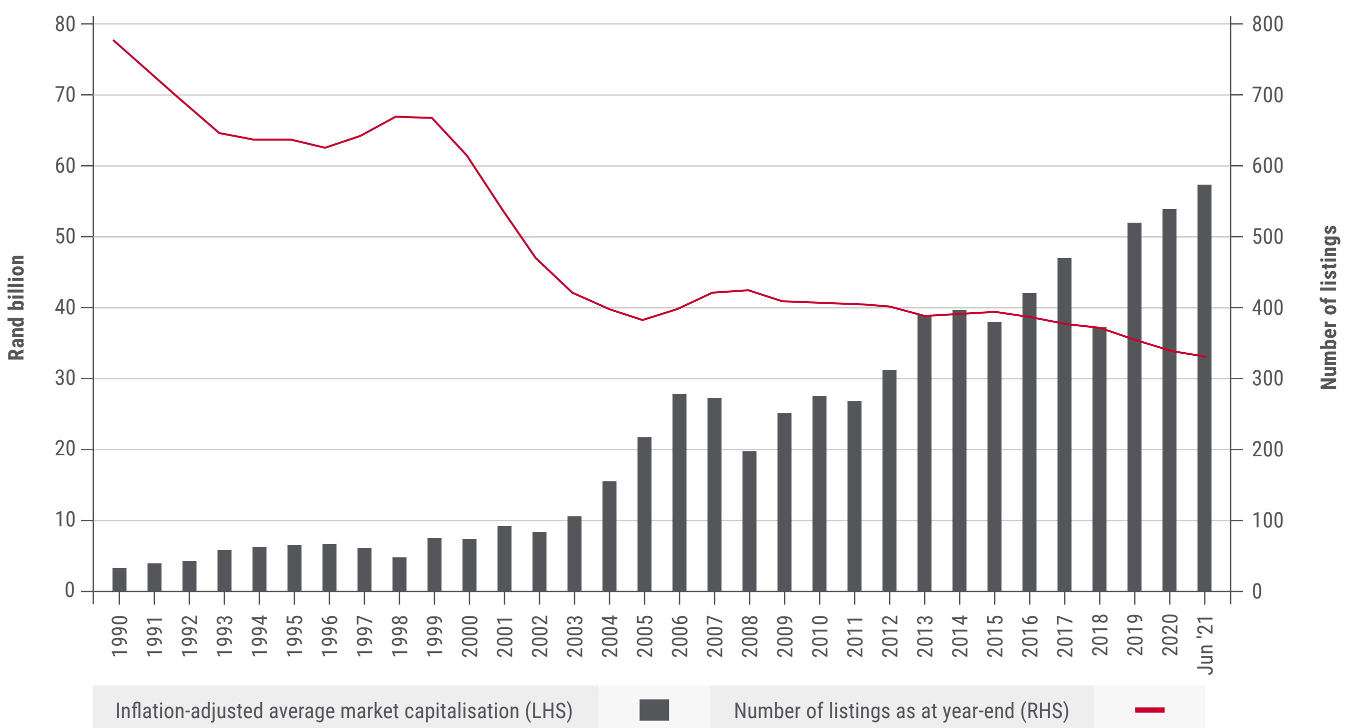
The number of companies with market capitalisations above R5bn (in 2021 rand value) has increased over time – from 83 in 2000 to 113 in 2010, and 121 in 2021. This suggests that the investment universe for larger investors has actually expanded over time. Drilling down one further layer, it is interesting to note that many of the more prominent delistings of recent years have been for reasons that suggest value and confidence in future returns, rather than because of businesses failing. Delistings include Clover, Pioneer Foods, Assore and Comair. All but Comair were takeovers or management buyouts, indicative of the attractive levels at which many of the shares on our market trade. News that Heineken is considering the acquisition of Distell and Standard Bank's intent to buy out Liberty are further supporting examples.

> ... it is fair to say that the decreasing number of listings does not necessarily signify a weaker market.

Companies staying private for longer

Globally it appears that companies are staying private for longer, partly driven by the growing availability of private equity, which offers an alternative source of funding. For example, Airbnb raised US$5.4bn in private funding to grow the business ahead of its US$3.5bn IPO in 2020. It was valued at over US$86bn after its first day of trade – a sizeable business for a new listing.

Graph 3: JSE: Number of listings and inflation-adjusted average market capitalisation



Sources: IRESS, JSE Limited, Allan Gray research

The greater availability of private capital could mean that companies that would otherwise have listed for funding fail before they reach that point. The other observation is the tendency of some large growth companies, such as Naspers and Amazon, to have a portfolio of "start-up" ventures. In this manner, these companies are providers of early-stage funding, with the potential of spinning off successful businesses as they reach scale.

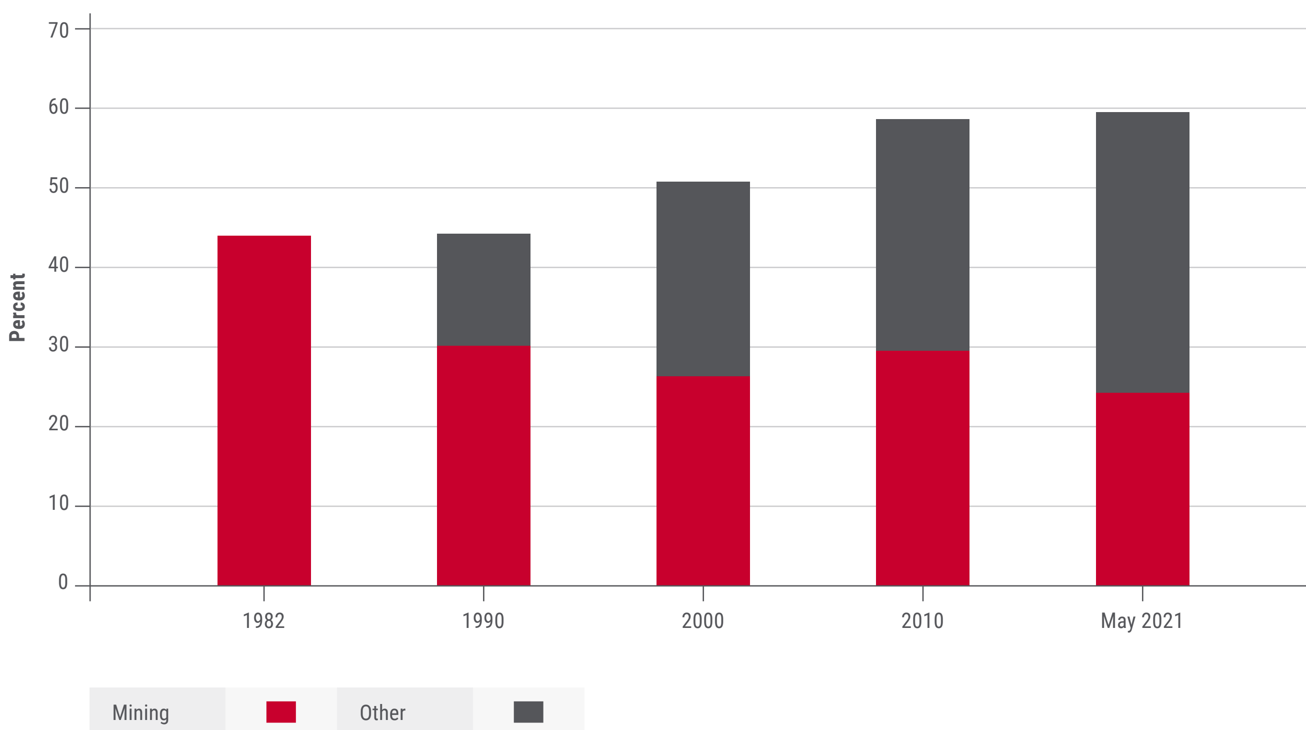
Another factor driving delayed listing is the increased compliance cost and growing regulatory burden associated with doing so in a post-GFC world. In South Africa, the private equity market is still small, but a heavy regulatory burden is a listings deterrent – and a driver of delistings. This impacts especially smaller players, and has been evident in our engagements with them. Having an accessible, effectively regulated exchange is key to South Africa's continued development. However, a fine balance must be struck in terms of regulation, such that requirements are not overly burdensome or costly.

Market composition has changed

The concentrated nature of the JSE is often cited as a concern. We recognise this as a challenge, but this is not a new issue – it has been true for the past 40 years (the full history for which we have data). **Graph 4** illustrates the change over time. In December 1982, the top 10 shares comprised 44% of the market index. Concentration has increased since then – as has been the case across most major markets – with the top 10 currently comprising 60% of the FTSE/JSE All Share Index (ALSI), but the sectoral composition has become markedly more diversified. In 1982, mining shares represented the entire top 10 (and two-thirds of the full index), and today represent 41% of the top 10 (one-third of the full index). The current figure arguably overstates mining's through-the-cycle weight owing to the strong rally in commodity prices since the beginning of 2020.

In addition, the consolidation trend discussed earlier has resulted in companies that are very different. Today's top 10 counters represent far more diversified businesses than was the case in the early 1980s, when many were individually listed mines. For example, Naspers is a single counter, but gives investors exposure to a vast portfolio of new economy ventures, most of which are based outside South Africa. Several listings offer exposure to international opportunities. These include companies like AB InBev and British American Tobacco, which may be listed on the JSE, but have very little exposure to the South African economy.

Graph 4: The top 10's market index weight, split by mining and other shares



Sources: JSE Actuaries Index, FTSE International Limited, JSE Limited, Allan Gray research

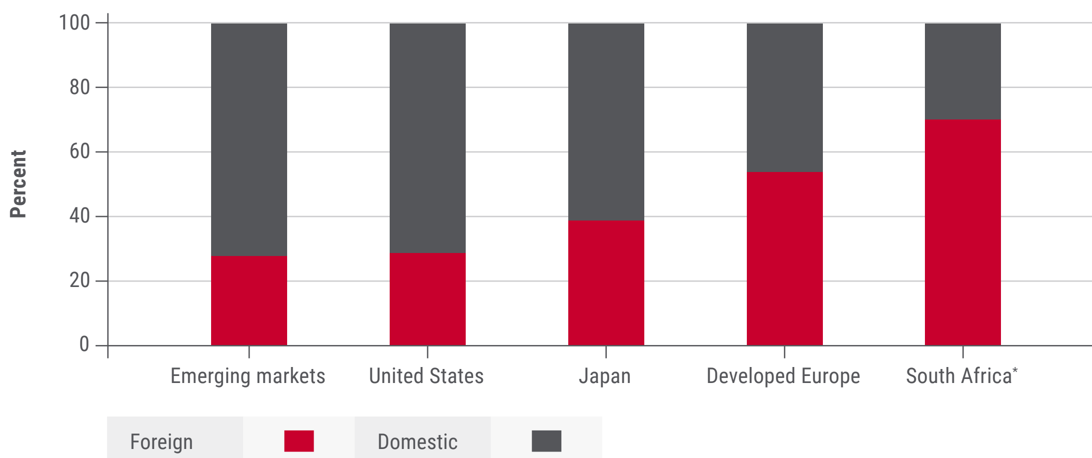
In fact, foreign revenue comprises approximately 70% of the total generated by JSE-listed companies. This means that the JSE is much less domestically focused than most other exchanges, as illustrated in **Graph 5**, and therefore not as exposed to South Africa's economic woes as one might expect.

How this reflects in your portfolios

We cannot ignore the impact of South Africa's macroeconomic challenges on the listed equity market. Without efforts to address these, it will be difficult to significantly grow the breadth and depth of the market. However, notwithstanding the challenges, the JSE remains one of the world's 20 largest exchanges by market capitalisation. Many of our market's challenges are not new, yet South Africa has been a great place to invest over the very long term. We remain confident in our ability to construct diversified portfolios given the size of our opportunity set, the composition of the market, and the nature of the underlying businesses. Based on our fundamental research, we are finding many attractive opportunities, and this is reflected in the positioning of our clients' portfolios: The local net equity weighting in the Allan Gray Balanced Fund is currently close to the highest it has been in a decade.

Prominent recent delistings seem to support the view that local shares are trading on attractive valuations. We think there is upside from here. And should sentiment turn, we may well see a reversal in the delistings trend too.

Graph 5: Revenue split of listed companies by region



Sources: Morgan Stanley Research. Data based on Morgan Stanley analysts' estimates for 2021. *Allan Gray research, Bloomberg. Approximate split based on the FTSE/JSE Top 40 Index and 2020 financial results.

Nadia joined Allan Gray as a business analyst in 2010 and is currently a senior manager in the Institutional Clients team. She holds a Bachelor of Commerce (Honours) degree in Actuarial Science from Stellenbosch University and is a qualified actuary.

Stephan joined Allan Gray in 2013 and is a manager in the Institutional Clients team. He holds a Bachelor of Commerce (Honours) degree in Actuarial Science from Stellenbosch University and is a qualified actuary.

INVESTMENT LESSONS FOR SHARING

Daniella Bergman

... start breaking the money taboo and turn money, saving and investing from being a source of stress into a more inclusive conversation.

Money is a polarising topic, yet it is an important subject that greatly influences all of our lives. Opening up the space for money conversations can ultimately give more people the opportunity to achieve long-term financial security – a goal that may seem out of reach to many in the wake of the COVID-19 pandemic and the financial devastation wrought by lockdowns. Sometimes you, or those around you, have valuable lessons to share or learn, and a conversation around the dinner table with your family, or over a coffee with a friend, can be life-changing.

In the spirit of Savings Month, Daniella Bergman reached out to client-facing people across the business for investment lessons that they would be willing to impart to get money conversations started. These short pieces provide a range of insights and hard-learned lessons, along with some strategies to consider implementing.

Despite the fact that it has become socially acceptable to talk about various personal topics, money conversations continue to be taboo. A survey of Americans compiled by US fund manager Capital Group found that people are more comfortable talking about a range of subjects from marriage problems, mental illness and drug addiction to race, sex, politics and religion than they are talking about money. Meanwhile, a study conducted in the UK by financial services group Lowell found that 25% of the respondents consider conversations about personal finances to be a no go, as they make them feel highly anxious. Interestingly, the majority of those polled by Lowell expressed the wish that society would make it easier and more acceptable to discuss personal finances more openly.

According to Prof. Viviana Zelizer, a sociologist at Princeton, taboos can be broken during times of crisis. Perhaps this global crisis of COVID-19 can inspire some changes in our approach to money conversations – especially in light of changes in spending patterns as a result of the pandemic. Dr. Sabine Krajewski, a senior lecturer and taboos researcher at Macquarie University, notes that once you talk about a taboo, it is the start of lifting it, and dealing with it.

Interestingly, Capital Group's research went on to reveal that people are willing to have conversations about money

with financial advisers, their spouses and, particularly for millennials, their parents, other family members and friends. The stories below offer the opportunity to start breaking the money taboo and turn money, saving and investing from being a source of stress into a more inclusive conversation.

Yesterday, today or tomorrow

Each rand that flows into our lives (be that into a bank account or as cash into our pocket) offers us a financial choice: how to put it to best use. We can use it to pay off yesterday's debts, to cover today's expenses, responsibilities and luxuries, or save it for tomorrow.

It is useful to reflect from time to time on what proportion of our income we are allocating in these three directions. This exercise reveals as much about what we value as individuals as it does about the financial pressures we face. If we truly value something, then, over time, it should show up in our actions and behaviours. The paradox, of course, is that, if asked, we would all say that our futures are incredibly important to us, but for many, the proportion of our income directed to tomorrow simply does not align with this stated value.

We know that reducing pain and increasing immediate gratification are powerful behavioural drivers, but they keep our money tied up in yesterday and today. To overcome these, we need to do three things: We need to create and keep awareness of where our money is going, decide just how committed we are to our future, and put in place what is required to ensure that a value-aligned proportion of our income is directed there. That is to say, it starts with commitment and is followed by process.

In addition to containing our lifestyle, a process that reveals commitment includes debit orders, contributions to savings accounts for emergencies and short-term goals, and contributions to investment accounts – where our money has the time to grow faster than inflation – for medium- to longer-term goals. **– Chris Tisdall, Head of Direct and Private Clients**

Put a system in place for long-term goals

What makes it difficult to prioritise our future is that it is very hard for us to relate to it. Research shows that when we think about our future selves, the activity in our brains displays similar patterns as when we think about complete strangers. So not only does long-term investing success require enduring short-term sacrifice, but you must do so for what seems like a complete stranger!

One of the best defences against our tendency towards immediate gratification and "present bias" is to make sure you have a system in place that makes it easier to prioritise long-term goals. Some practical ways you can create such a system include the following:

1. **Establish a plan.** Armed with defined goals and an investment plan, you are more likely to stay the course. It is also useful to try and identify the obstacles that could derail your intentions, and how you will manage each one.

2. **Automate actions that align with your plan.** Schedule automated investments in the form of debit orders and set up annual escalations in advance. Review your progress and your plan on a defined schedule, and avoid making decisions that are not triggered by your deliberate review or a change in circumstances.

3. **Commit to giving your decisions time and space.** Be deliberate about distancing yourself from your emotions, or external triggers, when making decisions that impact your long-term plan. Always make sure to consult investment truths and trusted sources of relevant information.

4. **Seek expert advice.** A good independent financial adviser can play the role of behavioural coach, guiding your decision-making and actions, and saving you from making costly mistakes. They can offer a rational, holistic perspective on your unique circumstances, and have the expertise and objectivity to help you make appropriate financial decisions that address your needs, without jeopardising your ability to cross the finishing line. **– Nomi Bodlani, Head of Strategic Markets**

Doing nothing is sometimes the best course of action

During the COVID-19 pandemic, many investors who perhaps had only been investing or saving for the prior five to 10 years, had their first experience of market extremes and investor panic. At the end of March 2020, looking at one's investment portfolio balance could have been quite sobering. As with all things, there are going to be ups and downs – but understandably, seeing the value of your own portfolio fluctuate stirs up emotions. It is only natural to want to do something, anything, to improve your position. However, these decisions can prove costly.

It is during these periods that precisely the opposite can be more rewarding. If you remained calm and did nothing when markets fell last year, you may be finding that you are in a better position today.

While markets will not stop being volatile, the long-term decision to stay the course has an important role to play in mitigating impulses to act. It is obviously easier to say this in hindsight, but nonetheless important to remember going forward. **– Radhesen Naidoo, Head of Orbis Client Servicing in South Africa**

Stick to your long-term strategy

Having worked at Allan Gray for more than 12 years, I am quite familiar with the negative effect behaviour can have on investment returns. This includes changing your investment at the wrong time rather than sticking to your long-term strategy.

During the COVID-19 sell-off of March 2020, conviction would have been tested with the sharp drop in asset prices. Trying to de-risk one's investment by "temporarily" switching to money market funds may have sounded appealing, but the future is always difficult to predict. The rebound in asset prices proved to be stronger than anticipated and followed a V-shaped and not W-shaped recovery pattern despite a low probability of vaccines at the time.

In addition, once you de-risk a long-term investment, psychologically it becomes increasingly difficult to reinvest in the appropriate long-term strategy – particularly if the market doesn't behave how you expect it to. It reiterated the message for me to stick to your long-term investment strategy. **– Grant Pitt, Joint Head of Institutional Clients**

Understand the true cost of short-term debt

When I was younger, I was fascinated by the furniture stores' printed advertisements. I would spend time going through the documents. The stores would advertise their entire inventory, and what stood out the most for me was the instalment payment plans. It almost made the items seem cheap, so I would spend time with my calculator adding up all the planned payments and would be shocked every time as the total payable was double, if not triple, the quoted cash price.

A few years later, our village got electricity and my grandmother decided to buy us a television. This was an exciting day; we didn't sleep that night – we watched all the shows. Two years later, my grandmother was still paying for the same television, and I recall her fighting with the furniture shop about paying too much: She had paid more than R2 000 for this television, which had a cash price of R700 when she bought it. My grandmother just wanted to get her family a television and did not pay too much attention to the quoted interest rate and payment term.

This taught me a very important lesson: For most of us, debt is part of life and, when used to our advantage – like to buy a home – it can be an enabler. However, it costs money to have short-term debt like retail store account and credit card debt; it is cheaper to be patient, save, and buy goods with cash. **– Mthobisi Mthimkhulu, Manager of Private Clients**

> ... make sure you have a system in place that makes it easier to prioritise long-term goals.

How to spend

Money lessons are typically about how not to spend your money, focusing on ways to maximise savings for "rainy days" and curb bad spending habits. I do not think there is anything wrong with this – bad money behaviour gets more people in trouble than should be normal. However, I also think it is important to indulge oneself somewhat, to derive some pleasure from the effort of earning money. My money lesson is about how to spend.

If you must spend, try not to be impulsive; emotional spending can be destructive. When you do spend, be an active consumer – don't accept the first price you see. Also, spend within your means and avoid utilising capital to spend for consumption.

That desired purchase is far more fulfilling when you know it will not follow you around letting you know how much less it could have cost you if you were smarter, and if it doesn't place an additional burden on your long-term finances.
– Vuyo Nogantshi, Joint Head of Institutional Clients

Don't succumb to lifestyle inflation

Raise your standard of living at a slower rate than your increase in earnings. Redirect the difference each year to

your investments, thereby growing the rate at which you invest. This is a great way to increase your rate of saving, without experiencing the impact on your everyday life.

If you grow your investment with a portion of your increased earnings before you absorb it into your budget, you are not really "giving up" anything and you won't feel the sacrifice. **– Faizil Jakoet, Head of Retail Client Services**

Look for positive financial role models for your children

Growing up in a large family from India, my great-grandfather was only able to afford for one of my uncles to receive a formal tertiary education at a reputable, albeit expensive, overseas medical school. Everyone in the family was expected to contribute financially to his education. He would return home every semester and speak to us about his experience. He would also check in with us as kids to make sure we were attending school. He was the genesis for me to be diligent at school so that I would qualify for a formal education.

This was an important lesson and reminds me that children look for people who embody the things they see as successful and important, and often emulate their behaviour. The power of good financial habits of role models for your children cannot be overestimated.
– Saleem Sonday, Head of Group Savings and Investments

Invest offshore consistently

It is hard not to let emotion influence your thinking about your own country. As South Africans, we tend to shift quickly between pride and despair – feeling both in equal measure. Decisions regarding how much to invest offshore versus onshore tend to get swept up in this rollercoaster, so it is perhaps no wonder that investors struggle to adopt and stick to long-term strategies.

I tell my kids that when it comes to investing, you should make sure you aren't buying two houses on the same street and that your portfolio is "travelling" more frequently than you are. Of course, while we all know the reasons why it makes sense to diversify by investing offshore, we tend to get tripped up by timing, with the most frequently asked question being: When is a good time?

The standard answer to that question is simple: Now. There are so many factors that need to be in place for there to be perfect alignment, so it makes much more sense to just get started on a long-term plan when your circumstances allow. Begin by determining what mix of offshore and local assets is right for you – which is a conversation best had with a great independent financial adviser. Then investing offshore in a regular pattern helps to smooth out currency volatility, reduce timing risk and make the question of "when" less important.

Most of all, don't let your long-term plan get impacted by short-term swings in sentiment about the country. In 2020, the rand fluctuated from R14 per US dollar at the beginning of the year to around R19 during the peak of the pandemic, and then back down to R14.60 by the end of the year.
A number of investors panicked, making big shifts offshore following sharp periods of rand depreciation, incurring losses by using a weak rand to buy more expensive global assets. Sometimes it is better to ignore the noise around you; no reaction can be the best course of action.
– Tamryn Lamb, Head of Retail Distribution

Daniella joined Allan Gray in 2008 and is the communications manager. Previously, she filled various writing and editing roles in financial services and financial publishing, mainly in the UK. Daniella has a Bachelor of Journalism from Rhodes University.

ALLAN GRAY ORBIS FOUNDATION: FOCUSED ON ENDURING CHANGE

Yogavelli Nambiar

We are intent on creating a real and lasting shift; in essence, breaking the hold of the generational cycle of poverty.

It is heartening to note that the Allan Gray Orbis Foundation is continuing to achieve its intended impact, despite the challenges faced in these pandemic times. Yogavelli Nambiar, from the Foundation, explains their approach and provides us with an update.

The Foundation aims to contribute to addressing the inequalities that remain as a result of the country's history, which created massive socioeconomic fractures, including high rates of inequality and unemployment, lack of access to quality education and economic participation skewed by racial and gender demographics. These disparities need to be tackled sustainably with holistic and long-term solutions. Our response of developing entrepreneurial mindsets, while providing a strong grounding in education, is one we believe will fundamentally shift the dial on the above national metrics.

We measure this impact against our "Theory of change", a methodology for planning, participation, and evaluation that is used to define, create and measure the change we seek to enable in our programme participants. It defines our programmes' long-term goals and then maps these outcomes backward to identify necessary preconditions that must be observed and enabled to attain them.

Our programmatic offerings are comprehensive: We start by identifying, assessing and selecting programme participants. We then provide entrepreneurship education, tuition and psychosocial support, as well as personal mastery development, career support, coaching and mentorship.

These interventions enable us to develop responsible and ethical entrepreneurs who support others in their journey and contribute to household incomes. It is our hope that many of these dynamic young changemakers will start their own businesses or social enterprises, enabling them to contribute to job creation and create societal value. Those who do not develop their own ventures will be equipped with the entrepreneurial mindset to add greater value in their respective environments, and to be the ethical and innovative leaders we need.

Long-term commitment

While it is important that we observe and measure our outputs to gauge whether we are on track to achieve these intended outcomes, we have realised that there are many peripheral types of impact that should also be tracked. Key among these is a heightened awareness of programme participants' own ability to contribute to society, starting with contributions to their own community of Allan Gray programme participants and extending to others who could benefit from the social initiatives they create.

Often the Allan Gray Fellow (an individual who has completed the Fellowship programme) is the first person in the family to have an academic degree, and that in itself has a substantive impact on the household. It not only changes the trajectory of their own life – it presents new possibilities for their family and even, potentially, their community.

Consequently, this work requires long-term commitment. Far from a quick fix, we understand that to create real change, our approach needs to start early and be enduring. We are intent on creating a real and lasting shift; in essence, breaking the hold of the generational cycle of poverty.

While the mission is clear, the route to achieving it is complex. The nuances of a Scholarship for high school learners, a Fellowship for those at university, an Alumni Association of Allan Gray Fellows – with varying layers and intensities of support over the long term – mean that at any given point, we are attending to the needs of more than 1 000 programme participants. What is more, each of these individuals follows a different journey, which requires an additional level of customisation.

Easing the journey for our programme participants

The participation of women in entrepreneurship continues to be a concern in this country. We are intentionally addressing this issue with a renewed focus on including more young women in our selection process. Inclusiveness is also driving our efforts to amplify the reach of our programmes to all provinces, instead of only concentrating on Gauteng and the Western Cape.

We are seeing some positive results in this regard: Following a decline in the number of females joining the Association, as interest in entrepreneurship tends to be lower among women, in addition to a higher number of women experiencing psychosocial issues and societal barriers, the support put in place by the Foundation to mitigate these challenges has seen 57% of the Alumni community now being represented by women.

Entrepreneurial intent

It is also worth noting that the Foundation does not position itself as an incubator, where would-be entrepreneurs are able to hone their ideas; instead, we are hoping to nurture an entrepreneurial spark that we have identified within a specific individual who may not necessarily have considered entrepreneurship as a career option were it not for our intervention.

Viewed from a different perspective, our goal is to unleash the potential and energy of many entrepreneurs and entrepreneurial leaders. Currently, 33% of our Fellows are pursuing entrepreneurship as a career, with 21% of our Candidate Fellows (university beneficiaries) also having set up business ventures that are in operation. **Figure 1** shows the entrepreneurship rates of all our programme participants. The entrepreneurship rate tracks the entrepreneurial activity of programme participants across the different year groups. That is, it measures the actual number of individuals who have either set up a business or identified a business idea they would like to pursue within the next seven years.

Graduation rate

We are proud to note that the graduation rate of Foundation participants stands at 84%, compared to the 54% national graduation rate. Of course, our participants have several advantages: Not only do we select individuals who are academically brilliant – we also ensure that they are placed at excellent schools where this brilliance can be nurtured.

In addition, having observed some of the challenges our programme participants face, including mental wellness and adapting to remote learning, we believe that our influence makes it possible for them to achieve even better pass rates, and empowers them to step into the world of entrepreneurship and work with greater confidence.

Fast-tracking the journey to entrepreneurship

The number of participants in our Ideation, Validation and Creation (IVC) programme has increased to 116 from 65 in 2020. This is a solid indication that we are well on our way to reach our goal of fast-tracking the entrepreneurial journey.

The IVC programme is also an important predictor of success, because the increase in the Fellowship pipeline inevitably impacts the Association. This, in turn, is significant because of the potential impact of our Fellows' actions – as demonstrated by the 573 jobs created by our Fellow entrepreneurs.

The way forward

Achieving our desired impact during these uncertain times requires that we sharpen our programme delivery to ensure that we are as effective as possible. This, in turn, means that we have to use the resources at our disposal optimally.

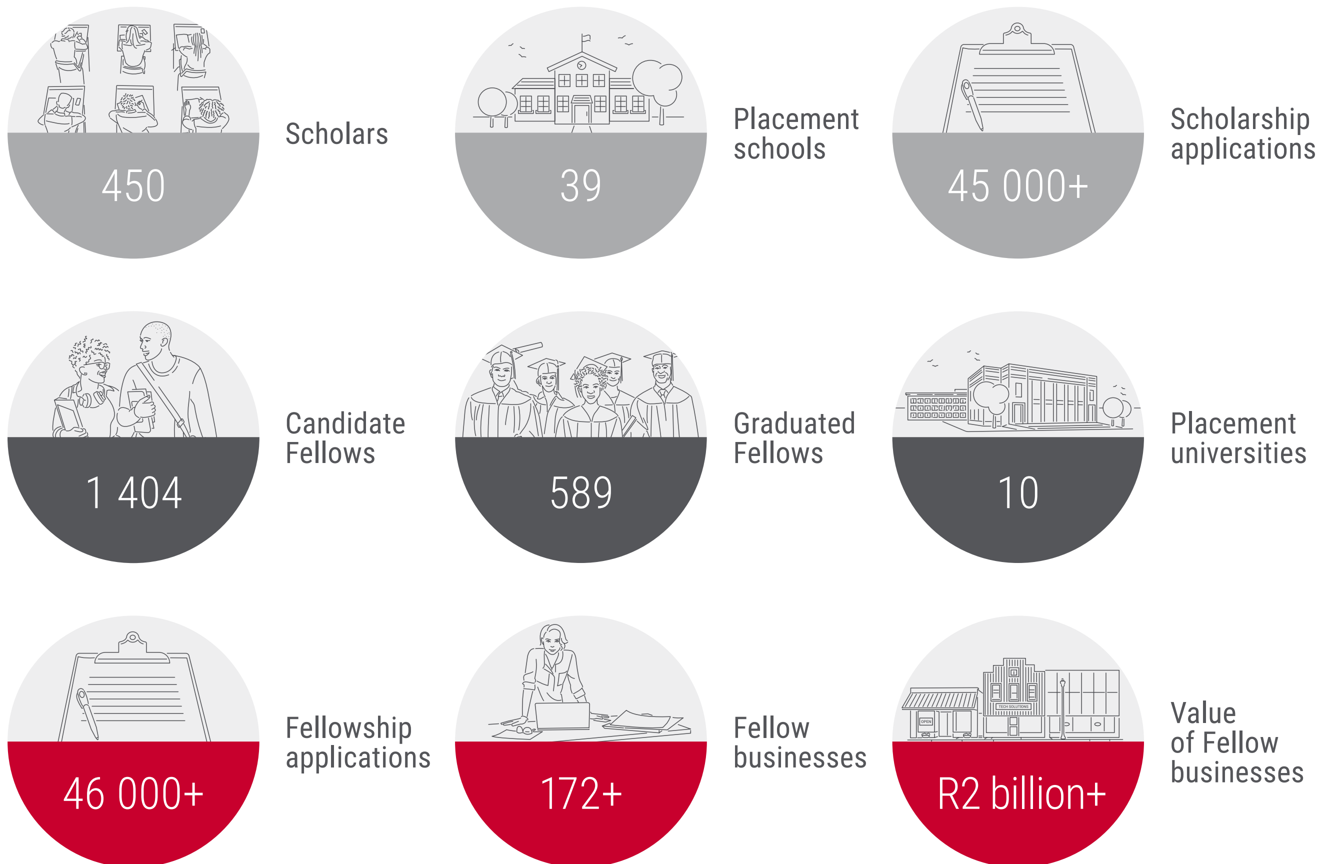
We need to guard against wastage in this beleaguered economy and ensure that our model is the very best to help us reach our goals. If we are to future-proof our organisation and remain sustainable, we have to keep interrogating ourselves, finding where we can hone our model, and uncovering better ways of using those resources.

That said, we are proud of our achievements to date, as illustrated in **Figure 2** on page 32. We have come a long way since inception.

Figure 1: Entrepreneurship rates

Figure 2: Allan Gray Orbis Foundation reach and impact since inception

Operational in South Africa, Namibia, Eswatini and Botswana since 2005



Yogavelli joined the Allan Gray Orbis Foundation in October 2017 as chief executive officer. Previously, she was the founding director of the Enterprise Development Academy at the Gordon Institute of Business Science (GIBS). Prior to that, she was country director of the Goldman Sachs *10,000 Women* initiative.

Allan Gray Balanced and Stable Fund asset allocation as at 30 June 2021

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign*	Total	SA	Foreign*
Net equities	71.9	51.2	20.7	36.8	23.8	13.0
Hedged equities	6.3	1.1	5.2	13.8	4.3	9.5
Property	1.1	0.8	0.3	2.2	2.0	0.2
Commodity-linked	3.1	2.4	0.7	3.1	2.3	0.8
Bonds	12.4	8.9	3.6	34.5	26.9	7.7
Money market and bank deposits	5.2	2.7	2.4	9.5	4.8	4.8
Total	**100.0**	**67.1**	**32.9**	**100.0**	**64.1**	**35.9**

Note: There might be slight discrepancies in the totals due to rounding. *This includes African ex-SA assets.

Allan Gray Equity Fund net assets as at 30 June 2021

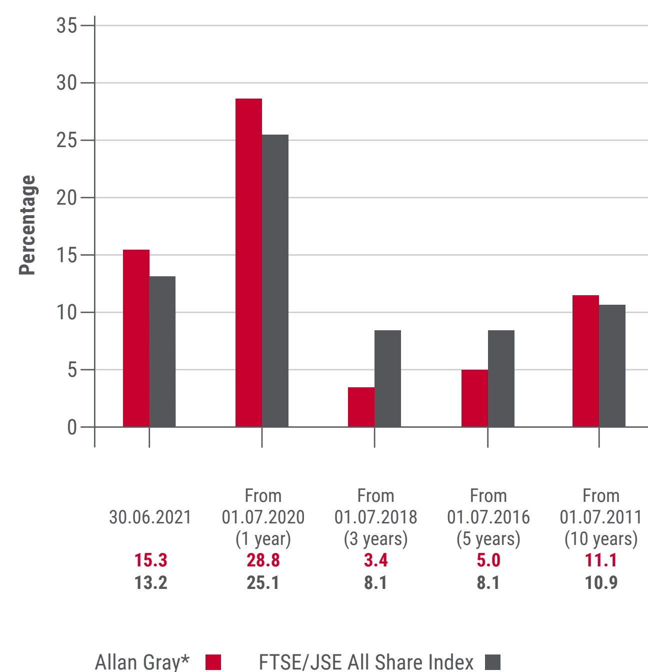
Security (Ranked by sector)	Market value (R million)	% of Fund	FTSE/JSE ALSI weight (%)
South Africa	**24 513**	**67.5**	
South African equities	**23 635**	**65.0**	
Resources	**5 620**	**15.5**	**33.8**
Glencore	1 544	4.2	
Sibanye-Stillwater	832	2.3	
Sasol	737	2.0	
Northam Platinum	417	1.1	
Impala Platinum	339	0.9	
Sappi	280	0.8	
BHP	280	0.8	
Positions less than 1%[1]	1 192	3.3	
Financials	**7 490**	**20.6**	**18.7**
Standard Bank	1 002	2.8	
Remgro	940	2.6	
FirstRand	828	2.3	
Nedbank	797	2.2	
Old Mutual	757	2.1	
Reinet	750	2.1	
Investec	366	1.0	
Rand Merchant Investment[2]	353	1.0	
Ninety One	258	0.7	
Positions less than 1%[1]	1 440	4.0	
Industrials	**10 525**	**29.0**	**47.5**
Naspers[2]	2 950	8.1	
British American Tobacco	1 878	5.2	
Woolworths	1 220	3.4	
Life Healthcare	661	1.8	
AB InBev	578	1.6	
Super Group	378	1.0	
KAP Industrial Holdings	363	1.0	
MultiChoice	297	0.8	
Positions less than 1%[1]	2 198	6.0	
Commodity-linked securities	**223**	**0.6**	
Positions less than 1%[1]	223	0.6	
Cash	**654**	**1.8**	
Africa ex-SA	**1 060**	**2.9**	
Equity funds	**1 060**	**2.9**	
Allan Gray Africa ex-SA Equity Fund	1 060	2.9	
Foreign ex-Africa	**10 767**	**29.6**	
Equity funds	**10 706**	**29.5**	
Orbis Global Equity Fund	5 870	16.2	
Orbis SICAV International Equity Fund[3]	2 999	8.3	
Allan Gray Frontier Markets Equity Fund Limited	1 190	3.3	
Orbis SICAV Emerging Markets Equity Fund	482	1.3	
Orbis SICAV Japan Equity (Yen) Fund	164	0.5	
Cash	**62**	**0.2**	
Totals	**36 341**	**100.0**	

[1] JSE-listed securities include equities, property and commodity-linked instruments.
[2] Includes holding in stub certificates or Prosus NV, if applicable.
[3] This fund is not approved for marketing in South Africa. Reference to this fund is solely for disclosure purposes and is not intended for, nor does it constitute, solicitation for investment. **Note:** There may be slight discrepancies in the totals due to rounding.
For other fund-specific information, please refer to the monthly factsheets.

Investment track record – share returns

Allan Gray Proprietary Limited global mandate share returns vs FTSE/JSE All Share Index			
Period	**Allan Gray***	**FTSE/JSE All Share Index**	**Out-/Under-performance**
1974 (from 15.6)	−0.8	−0.8	0.0
1975	23.7	−18.9	42.6
1976	2.7	−10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	−0.3
1979	86.9	94.4	−7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	−4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	−4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	−5.1	9.6
1991	30.0	31.1	−1.1
1992	−13.0	−2.0	−11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	−17.4	−4.5	−12.9
1998	1.5	−10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	−8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	−1.6
2008	−13.7	−23.2	9.5
2009	27.0	32.1	−5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.3
2012	20.6	26.7	−6.1
2013	24.3	21.4	2.9
2014	16.2	10.9	5.3
2015	7.8	5.1	2.7
2016	12.2	2.6	9.6
2017	15.6	21.0	−5.4
2018	−8.0	−8.5	0.5
2019	6.2	12.0	−5.8
2020	−3.5	7.0	−10.5
2021 (to 30.06)	**15.3**	**13.2**	**2.1**

Returns annualised to 30.06.2021



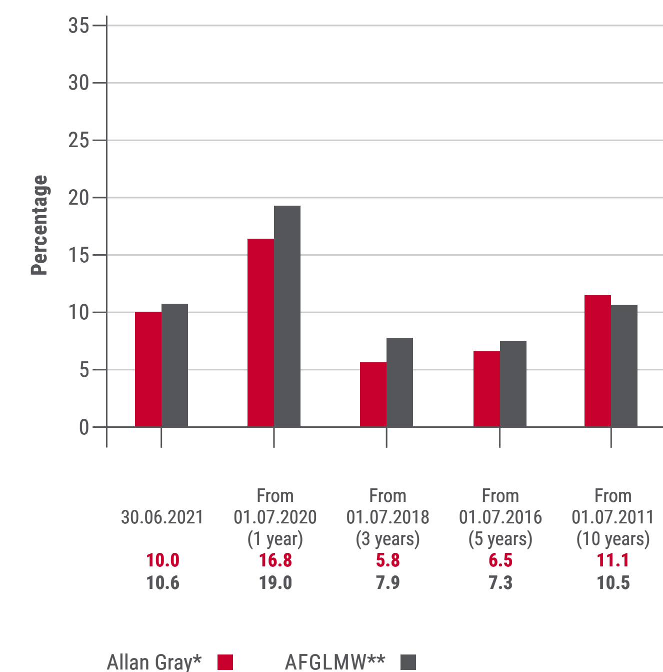
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R251 029 437 by 30 June 2021. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R12 044 318. Returns are before fees.

*Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
Note: Listed property included form 1 July 2002. Inward listed included from November 2008 to November 2011.

Investment track record – balanced returns

Allan Gray Proprietary Limited global mandate total returns vs Alexander Forbes Global Large Manager Watch			
Period	**Allan Gray***	**AFGLMW****	**Out-/Under-performance**
1974	–	–	–
1975	–	–	–
1976	–	–	–
1977	–	–	–
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	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	−0.6
2008	−1.1	−12.3	11.2
2009	15.6	20.3	−4.7
2010	11.7	14.5	−2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	−4.9
2013	25.0	23.3	1.7
2014	10.3	10.3	0.0
2015	12.8	6.9	5.9
2016	7.5	3.7	3.8
2017	11.9	11.5	0.4
2018	−1.4	−2.1	0.7
2019	6.5	10.9	−4.4
2020	5.3	6.3	−1.0
2021 (to 30.06)	**10.0**	**10.6**	**−0.6**

Returns annualised to 30.06.2021



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R28 903 801 by 30 June 2021. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R6 558 706. Returns are before fees.

*Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
**Consulting Actuaries Survey returns used up to December 1997. The return for June 2021 is an estimate. The return from 1 April 2010 is the average of the non-investable Alexander Forbes Global Large Manager Watch.
Note: Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

Allan Gray South African unit trusts annualised performance (rand) in percentage per annum to 30 June 2021 (net of fees)

	Assets under management (R billion)	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[5]	Lowest annual return[5]
High net equity exposure (100%)									
Allan Gray Equity Fund (AGEF) Average of South African - Equity - General category (excl. Allan Gray funds)[1]	**36.3**	**01.10.1998**	**19.9** 14.4	**9.8** 9.1	**4.9** 4.8	**3.5** 5.9	**25.4** 27.8	**125.8** 73.0	**−24.3** −37.6
Allan Gray SA Equity Fund (AGDE) FTSE/JSE All Share Index including income	**3.6**	**13.03.2015**	**4.4** 7.1	**–** –	**3.7** 8.1	**2.3** 8.1	**30.2** 25.1	**57.3** 54.0	**−32.0** −18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	**24.8**	**01.04.2005**	**14.6** 14.5	**18.1** 19.3	**11.9** 14.5	**10.6** 16.5	**15.3** 14.8	**78.2** 54.2	**−29.7** −32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF) **Allan Gray Tax-Free Balanced Fund (AGTB)** Average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[2]	**145.5** **1.5**	**01.10.1999** **01.02.2016**	**15.3** **6.5** 11.6/6.5	**10.0** **–** 9.1	**5.6** **5.8** 6.0	**4.9** **4.8** 6.8	**17.1** **16.1** 17.6	**46.1** **31.7** 41.9/30.7	**−14.2** **−13.4** −16.7/−10.3
Allan Gray-Orbis Global Balanced Feeder Fund (AGGF)[3] 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Index[3]	**14.5**	**03.02.2004**	**10.4** 11.4	**13.9** 15.5	**6.4** 9.2	**5.4** 12.1	**6.4** 0.7	**55.6** 38.8	**−13.7** −17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF) Daily interest rate of FirstRand Bank Limited plus 2%	**45.2**	**01.07.2000**	**11.3** 8.7	**8.6** 7.0	**6.3** 7.2	**5.0** 6.5	**11.0** 4.6	**23.3** 14.6	**−7.4** 4.6
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate of FirstRand Bank Limited	**0.8**	**01.10.2002**	**6.8** 6.1	**5.2** 4.9	**2.5** 5.1	**1.5** 4.4	**1.8** 2.5	**18.1** 11.9	**−8.2** 2.5
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US$ bank deposits and euro bank deposits	**0.7**	**02.03.2010**	**5.7** 5.5	**7.5** 7.1	**−1.7** 0.5	**−3.3** 1.9	**−9.0** −15.8	**39.6** 35.6	**−12.4** −19.1
No equity exposure									
Allan Gray Bond Fund (AGBD) FTSE/JSE All Bond Index (Total return)	**5.5**	**01.10.2004**	**9.0** 8.7	**8.7** 8.5	**9.4** 9.2	**8.6** 9.2	**10.8** 13.7	**18.0** 21.2	**−2.6** −5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[4]	**24.3**	**03.07.2001**	**7.8** 7.6	**6.5** 6.2	**7.1** 6.6	**6.5** 6.0	**4.5** 4.0	**12.8** 13.3	**4.5** 4.0

[1] From inception to 28 February 2015, the benchmark was the FTSE/JSE All Share Index including income (source: IRESS).

[2] From inception to 31 January 2013, the benchmark of the Allan Gray Balanced Fund was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund.

[3] From inception to 31 May 2021, this Fund was called the Allan Gray-Orbis Global Fund of Funds and its benchmark was 60% of the FTSE World Index and 40% of the J.P. Morgan GBI Global Index. From 1 June 2021, the Fund's investment mandate was changed from a fund of funds structure to a feeder fund structure investing solely into the Orbis SICAV Global Balanced Fund. To reflect this, the Fund was renamed and the benchmark was changed.

[4] From inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011, the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund.

[5] This is the highest or lowest consecutive 12-month return since inception. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

Allan Gray total expense ratios and transaction costs for the 3-year period ending 30 June 2021

	Fee for benchmark performance	Performance fees	Other costs excluding transaction costs	VAT	Total expense ratio	Transaction costs (incl. VAT)	Total investment charge
Allan Gray Equity Fund	1.13%	−0.44%	0.04%	0.06%	0.79%	0.10%	0.89%
Allan Gray SA Equity Fund	1.00%	−0.66%	0.01%	0.05%	0.40%	0.11%	0.51%
Allan Gray Balanced Fund	1.07%	−0.18%	0.03%	0.09%	1.01%	0.09%	1.10%
Allan Gray Tax-Free Balanced Fund	1.34%	N/A	0.04%	0.14%	1.52%	0.11%	1.63%
Allan Gray Stable Fund	1.06%	−0.27%	0.03%	0.08%	0.90%	0.07%	0.97%
Allan Gray Optimal Fund	1.00%	0.00%	0.02%	0.15%	1.17%	0.11%	1.28%
Allan Gray Bond Fund	0.25%	0.24%	0.01%	0.07%	0.57%	0.00%	0.57%
Allan Gray Money Market Fund	0.25%	N/A	0.00%	0.04%	0.29%	0.00%	0.29%
Allan Gray-Orbis Global Equity Feeder Fund	1.49%	−0.40%	0.05%	0.00%	1.14%	0.09%	1.23%
Allan Gray-Orbis Global Balanced Feeder Fund	1.45%	−0.33%	0.06%	0.00%	1.18%	0.09%	1.27%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	−0.01%	0.08%	0.00%	1.07%	0.13%	1.20%

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past three years. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), VAT and other expenses like audit and trustee fees. Transaction costs (including brokerage, securities transfer tax, Share Transactions Totally Electronic (STRATE) and FSCA Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are necessary costs in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time, including market returns, the type of financial product, the investment decisions of the investment manager, and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and transaction costs should not be deducted again from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and transaction costs is shown as the total investment charge (TIC).

Foreign domiciled funds annualised performance (rand) in percentage per annum to 30 June 2021 (net of fees)

	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[5]	Lowest annual return[5]
High net equity exposure								
Orbis Global Equity Fund FTSE World Index	**01.01.1990**	**17.8** 13.9	**18.2** 19.3	**11.9** 14.7	**11.2** 16.9	**15.5** 15.3	**87.6** 54.2	**−47.5** −46.2
Orbis SICAV Japan Equity (Yen) Fund Tokyo Stock Price Index	**01.01.1998**	**14.3** 9.5	**16.9** 15.8	**9.7** 9.4	**6.6** 7.7	**4.8** 1.4	**94.9** 91.0	**−40.1** −46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[6] MSCI Emerging Markets Equity (Net) (US$)[6]	**01.01.2006**	**13.8** 14.0	**13.7** 14.5	**8.0** 12.3	**8.4** 12.8	**3.8** 15.8	**58.6** 60.1	**−34.2** −39.7
Allan Gray Africa ex-SA Equity Fund (C class) Standard Bank Africa Total Return Index	**01.01.2012**	**11.8** 7.6	**–** –	**10.9** 9.0	**2.4** 11.8	**24.6** 16.8	**65.6** 41.4	**−24.3** −29.4
Allan Gray Australia Equity Fund S&P/ASX 300 Accumulation Index	**04.05.2006**	**13.8** 12.8	**13.9** 13.6	**9.1** 10.9	**5.6** 11.9	**13.7** 15.2	**99.5** 55.6	**−55.4** −45.1
Medium net equity exposure								
Orbis SICAV Global Balanced Fund 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Index	**01.01.2013**	**14.0** 14.8	**–** –	**6.9** 9.0	**6.2** 12.3	**7.8** 0.5	**54.4** 40.2	**−9.8** −8.4
Allan Gray Australia Balanced Fund The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan GBI Global Index expressed in AUD (16%).	**01.03.2017**	**8.6** 10.9	**–** –	**–** –	**6.8** 11.1	**7.2** 2.3	**29.1** 25.1	**−5.3** −5.8
Low net equity exposure								
Allan Gray Australia Stable Fund Reserve Bank of Australia cash rate	**01.07.2011**	**10.3** 6.1	**–** –	**4.7** 0.7	**5.4** 2.7	**−3.7** −10.2	**32.7** 28.8	**−7.4** −12.6
Very low net equity exposure								
Orbis Optimal SA Fund (US$) US$ Bank deposits	**01.01.2005**	**8.2** 7.5	**8.7** 8.6	**−0.9** 0.8	**−1.9** 2.8	**−9.3** −17.6	**48.6** 57.9	**−15.7** −25.6
Orbis Optimal SA Fund (Euro) Euro Bank deposits	**01.01.2005**	**6.5** 5.8	**5.7** 5.5	**−1.7** 0.4	**−3.5** 1.4	**−5.6** −13.7	**44.1** 40.2	**−19.3** −20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)[7] FTSE 3-Month US T Bill + 4% Index[7]	**27.03.2013**	**13.6** 5.8	**–** –	**12.0** 3.9	**10.5** 7.4	**−5.6** −7.5	**28.9** 24.7	**−7.4** −12.3

Performance as calculated by Allan Gray

[5] This is the highest or lowest consecutive 12-month return since inception. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

[6] From inception to 31 October 2016, this Fund was called the Orbis SICAV Asia ex-Japan Equity Fund and its benchmark was the MSCI Asia ex-Japan Index. From 1 November 2016, the Fund's investment mandate was broadened to include all emerging markets. To reflect this, the Fund was renamed and the benchmark was changed.

[7] From inception to 31 December 2020, this Fund was called the Allan Gray Africa ex-SA Bond Fund and its benchmark was the J.P. Morgan GBI-EM Global Diversified Index. From 1 January 2021, the Fund's investment mandate was broadened to include South African investments. To reflect this, the Fund was renamed and the benchmark was changed.

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Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Where annualised performance is mentioned, this refers to the average return per year over the period. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes. Movements in exchange rates may also cause the value of underlying international investments to go up or down. Certain unit trusts have more than one class of units and these are subject to different fees and charges. Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the fund, including any income accruals and less any permissible deductions from the fund, divided by the number of units in issue. Forward pricing is used and fund valuations take place at approximately 16:00 each business day. Purchase and redemption requests must be received by the Management Company by 11:00 each business day for the Allan Gray Money Market Fund, and by 14:00 each business day for any other Allan Gray unit trust to receive that day's price. Unit trust prices are available daily on www.allangray.co.za. Permissible deductions may include management fees, brokerage, securities transfer tax, auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray.

Benchmarks

FTSE/JSE All Share Index and FTSE/JSE All Bond Index

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Understanding the funds

Investors must make sure that they understand the nature of their choice of funds and that their investment objectives are aligned with those of the fund(s) they select. The Allan Gray Equity, Balanced, Stable and rand-denominated offshore funds may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

A feeder fund is a unit trust that invests in another single unit trust, which charges its own fees. A fund of funds is a unit trust that invests in other unit trusts, which charge their own fees. Allan Gray does not charge any additional fees in its feeder funds or funds of funds.

The Allan Gray Money Market Fund is not a bank deposit account. The Fund aims to maintain a constant price of 100 cents per unit. The total return an investor receives is made up of interest received and any gain or loss made on instruments held by the Fund. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument defaults. In this event, investors may lose some of their capital. To maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. The yield is calculated according to applicable ASISA standards. Excessive withdrawals from the Fund may place it under liquidity pressure; if this happens, withdrawals may be ring-fenced and managed over a period of time.

Additional information for retirement fund members and investors in the tax-free investment account, living annuity and endowment

The Allan Gray Retirement Annuity Fund, Allan Gray Pension Preservation Fund, Allan Gray Provident Preservation Fund and Allan Gray Umbrella Retirement Fund (comprising the Allan Gray Umbrella Pension Fund and Allan Gray Umbrella Provident Fund) are all administered by Allan Gray Investment Services (Pty) Ltd, an authorised administrative financial services provider and approved pension funds administrator under section 13B of the Pension Funds Act 24 of 1956. Allan Gray (Pty) Ltd, also an authorised financial services provider, is the sponsor of the Allan Gray retirement funds. The Allan Gray Tax-Free Investment Account, Allan Gray Living Annuity

and Allan Gray Endowment are administered by Allan Gray Investment Services (Pty) Ltd, an authorised administrative financial services provider, and underwritten by Allan Gray Life Ltd, also an authorised financial services provider and a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017. The underlying investment options of the Allan Gray individual life and retirement products are portfolios of collective investment schemes in securities (unit trusts or funds) and life-pooled investments.

Tax note

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