QC

Quarterly Commentary

Vol. 3 30 September 2022

ALLANGRAY

Beware the Great and Powerful Dollar

CONTENTS

COMMENTS FROM THE CHIEF OPERATING OFFICER

Mahesh Cooper

The risk of losing money is the main risk that we are concerned about and that we actively manage when it comes to investing your money ...

The rising cost of living and doing business around the world as a result of escalating energy prices and interest rate hikes is creating unease. Investors are on edge, wondering what will happen and how they should position their portfolios, given the level of uncertainty economically as well as politically.

As investment managers, we do not have any special power to determine what the future holds – we don't know whether inflation will settle or what GDP growth will look like. What we do know, however, is that in times of negativity, investment opportunities typically emerge. It is up to us to maintain focus and, through our rigorous investment research, find such opportunities.

Understand the investment context

In her piece this quarter, Thalia Petousis examines the consequences of the extended periods of low interest rates and the resultant mispricing of money. She explains the link between inflation and rising interest rates, coupled with global supply chain disruptions and energy shortages.

Thalia's piece may leave you wondering how the global economy, built on a foundation of cheap money, endured for so long.

Face up to the risks in investing

The risk of losing money is the main risk that we are concerned about and that we actively manage when it comes to investing your money – we care about helping you create and preserve wealth over the long term. As your investment manager, we manage our unit trusts according to our investment philosophy and in line with their respective mandates.

As the investor, it is important to understand the unit trust you are invested in and to ensure your choice matches your risk profile and investment objectives. In this quarter's Investing Tutorial, Lydia Fourie guides us through some of these considerations, and explains how the ups and downs of investing smooth out over time.

Alignment matters

While it is important to ensure that your expectations and investment objectives are aligned with the unit trusts you are invested in, it is also critical to ensure that we, as a business, are aligned with growing your wealth over the long term. Saleem Sonday unpacks the principles behind how we are structured as a business. He explains our obsession with aligning your interests as a client with our own, and how this guides our preference for performance-based fees, which reward us when we deliver on our commitment to you, but also ensure we share in the pain through lower fees when we do not.

One of the best ways not to lose money when it comes to investing is to make sure you don't pay too much for an asset.

Guard against overpaying

One of the best ways not to lose money when it comes to investing is to make sure you don't pay too much for an asset. At Allan Gray, we follow a valuation-based investment approach, which means that we invest in companies that trade at a discount to our assessment of their intrinsic value. We sell these companies when they reach our assessment of their true worth. This doesn't stop us from investing in growth companies, but we are conscious of overpaying for "blue sky" potential, which is often baked into the valuations of companies that are growing very quickly. History is littered with fast-growing companies that were overpriced and subsequently delivered poor shareholder returns when they failed to live up to the market's expectations. However, sometimes, these high valuations are warranted as the company meets and sometimes exceeds these lofty expectations. Capitec is one such incredible story for us to learn from, as Pieter Koornhof discusses.

The raging dollar

We have experienced the rand weakening by almost 11% against the US dollar this year. However, such weakness has not been unique to our local currency – the dollar has been incredibly strong against almost all currencies. The British pound has lost almost 18%, the euro almost 14% and the Japanese yen 20% against the dollar this year.

Currency movements are notoriously difficult to predict over the short term, and currency cycles are generally long and noisy. Over the long term, our offshore partner, Orbis, believes that exchange rates should tend towards purchasing power parity. It is therefore no surprise that, given the rally experienced by the US dollar this year, Orbis' view is that it is looking highly overvalued. Alec Cutler unpacks the reasons behind the dollar's strength and explains why the Orbis SICAV Global Balanced Fund has an underweight exposure to the dollar when compared to its benchmark.

Retirement reform update

For many South Africans, their retirement savings are their biggest asset. However, South Africans have generally not been good at preserving this asset, which has a direct impact on the quality of their retirement. Richard Carter discusses the proposed changes to South Africa's retirement fund system stemming from the National Treasury's announcement in February last year of its intention to allow limited access to retirement savings to help savers cope with short-term emergencies. We believe the planned "two-pot retirement system" is a positive step towards meeting short-term needs and enhancing the long-term accumulation of benefits for retirement.

Thank you for your trust.

Kind regards

Mahesh Cooper

THE PRICE OF MONEY, THE SHORTAGE OF ENERGY, AND THE MONSTER OF INFLATION

Thalia Petousis

... with a helping hand from global supply chain disruption and the outbreak of war, the rising price tide ... turned into a tidal wave.

What happens when the price of money and time gets set to nil? Over the past 40 years, we have been living through one of the greatest financial experiments of our time. Thalia Petousis discusses its impact on financial markets, global trade financing and the energy sector, as well as how central banks are now waging a war against a monster of their own creation.

A compelling definition of an interest rate is "the price of money", and it is surely the basis of the entire financial system. As the brilliant author Edward Chancellor writes, another important definition of interest is "the price of time"[1] – which captures its temporal nature and the opportunity cost of making a loan. My personal favourite of the definitions is "the price of my anxiety", which reflects the lender's apprehension that the borrower may abscond with their money.

Some of the earliest recorded examples of loans in human civilisation were agricultural in nature, and in Ancient Greece, the word for interest was "tocos" (a calf). When a calf was loaned out, the loan was repaid with many calves. Why? Because interest reflected nature's ability to reproduce and to be productive.

With that notion in mind, for the past 40 years we have been living in a world where productive growth was flatlining (or trending sideways), but interest rates were simply falling, as seen in **Graph 1**.

While "falling" imparts the notion that there was some natural tide carrying interest lower, the truth is that an aggressive regime of interest rate cuts was enacted by central bankers for several decades. This baton of interest rate cutting was passed forward until we arrived at a point in 2020 when the US overnight rate reached 0%. "The price of time" was zero, ceasing to exist. The intertemporal bridge of interest linking "now" to the future had been dismantled. This meant that all future earnings could be realised today, and all consumption could take place immediately.

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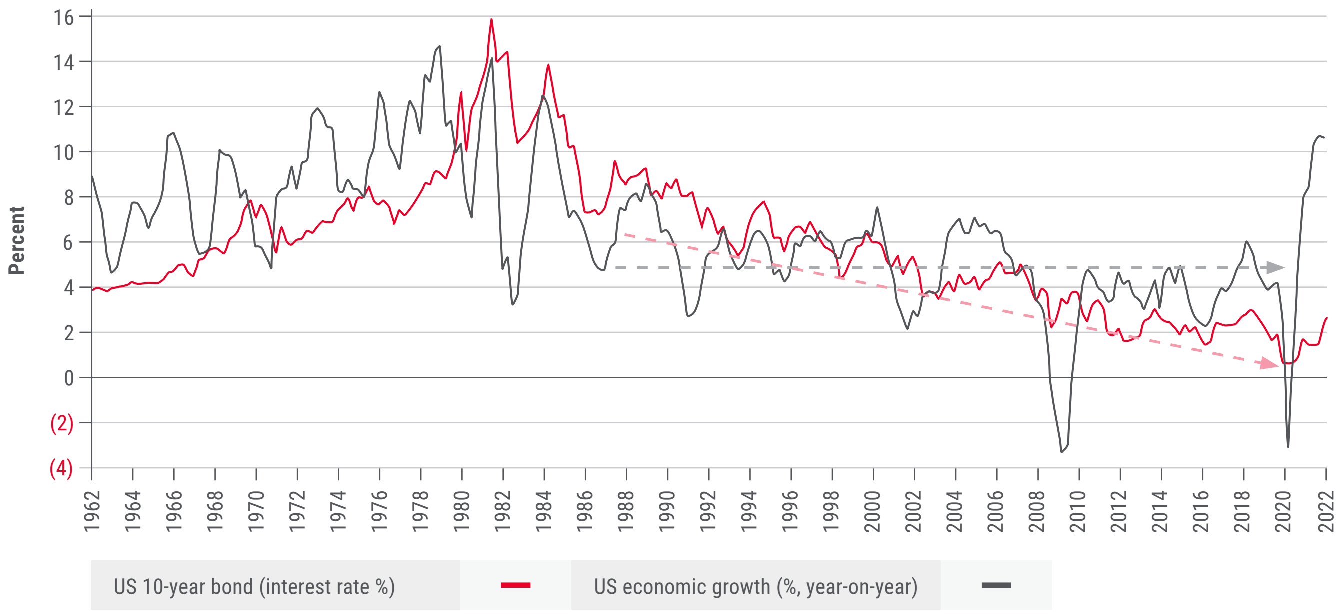
[1] For readers interested in the topic of interest rates, I strongly recommend Edward Chancellor's latest book, *The Price of Time: The Real Story of Interest* (2022).

Graph 1: The price of money – what happens when interest rates are "too low"?



Source: Bloomberg

Under such financial conditions, there has been enormous incentive to borrow excessively, to indulge in overzealous asset and stock market valuations, and to buy into such financially engineered products as cryptocurrencies to earn a rate of return greater than nil. These activities cannot continue on such a grand scale except under the artificial conditions of free money that have given birth to them.

As a result of mispriced money, central banks' inflationary price "targets" were finally reached. Following this, with a helping hand from global supply chain disruption and the outbreak of war, the rising price tide then turned into a tidal wave.

Will rate hikes work?

During a brief 48-hour window in late September 2022, a slew of central bankers across the world hiked rates by a cumulative 600 basis points (6%). Central banks are now raising rates to kill the monster of inflation – one that they ironically created.

Will the rate hikes work? One concern is that pricing feedback loops can run amok once given life, leading inflation to become deeply entrenched in the global economy. Simply put, high prices beget higher prices.

By way of example, the cost of war and geopolitical tensions is often paid for with inflation, but inflation in and of itself has the knock-on impact of (circularly) creating great public and political upheaval. Similarly, what can start as a supply-side energy shock and a rise in fuel prices can also (circularly) be fed by the resulting worker outcry for higher wages. Wage growth has already risen to the realm of 5-7% year-on-year across the US and Europe with anecdotal evidence of a shortage of skilled workers. This is known as the wage-price spiral – a feared "second-round effect" of an initial shock to prices.

Given such circular relationships, to attempt to label inflation as "transitory" and limited only to the realm of an isolated energy shock is to fail to learn from the lessons of Federal Reserve Chair Arthur Burns in the 1970s. Burns branded inflation as "outside of the control of the central bank" for so long that price increases were left unchecked, leading them to ultimately become as sticky as the hot summer's day in New York City when he completed his education as an economist.

The shortage of energy

When the price of money is too low, there is vast incentive to extend one's supply chain by several weeks and across several continents – the money is free, after all. The now-rising interest rates and elevated costs of supply chain financing pose a threat to global trade, which has already been disrupted by war and post-pandemic consumer demand.

Much of the European continent faces an energy shortage, heightening the risks of recession. As a tough winter looms, energy conservation measures are observable in parts of Europe and the UK, such as dimmed streetlights and national consumer campaigns to take shorter showers – as seen in the alarming news headlines in **Image 1**.

These energy reforms, although very welcome, are arriving extremely late. They must bear fruit for South Africa to alter its path ...

The catalyst for this European energy crunch has almost certainly been an overreliance on Russia for oil and gas. Beyond this, the crisis has been exacerbated by inopportune recent weather conditions for wind power generation and a mixed ability for solar (almost anyone who has toured Northern Europe will attest to the latter!). The gasoline to this fire has been a dramatic global underinvestment in traditional energy infrastructure owing to boardroom pressure for decarbonisation. The cost of gas in Europe is expected to rise by EUR1.7tn in 2022 versus the 2019 cost base (equivalent to a 10-fold increase, or 9% of European GDP).

An unanswered question remains how this additional cost burden will be shared across the balance sheets of governments, business, and the consumer. Germany's producer price inflation (PPI) – the cost of manufacturing and producing goods – rose at 45.8% year-on-year in August, as seen in **Graph 2**. This is astounding for many reasons, not least of which is that it is equivalent to the August PPI in Ghana – a country whose currency (the Ghanaian cedi) has lost 40% of its value against the US dollar in the last year and that sits on the brink of debt distress.

Events might not unfold in such a dramatic way as "South African-style loadshedding", because the destruction of European energy demand is already being accomplished by a hollowing out of heavy industry. Several EU manufacturers are shutting down production as they struggle to cover their input costs and fail to remain globally competitive.

It is tempting to ask whether EU policymakers who have dragged their feet in signing new domestic energy production deals are not underestimating the scale of the problem. The euro, British pound and South African rand each lost 15-17% of their value against the US dollar in the 12 months to 30 September 2022. Either inflation is the "great equaliser", or many developed countries are doing their best this year to enact policies that will allow them to join the ranks of the developing economies (or as our chief investment officer, Duncan Artus, likes to cheekily ask our Orbis colleagues in the UK: "How does it feel to be living in an emerging market?").

As South African citizens are painfully aware, energy markets are *highly* inelastic in terms of demand. The rationing of energy supply results in a major contraction of economic growth and a rising cost of doing business. In terms of bringing new energy supply online, these markets function as huge, costly and laborious battleships to turn. A faster pace of structural and energy reform is being enacted in South Africa after the ANC's devastating 2021

Image 1: Dramatic EU and UK news headlines warn of looming energy crisis

"Starting next month, schools and public buildings in Italy will be banned from setting the air conditioning to below 25°C"
(*Politico Europe*, April 2022)

"Dimmed streetlights: Should the UK mirror the 'Germany-style' street blackout?"
(The BBC, July 2022)

"Lights to go out early on Eiffel Tower to conserve energy"
(Sky News, September 2022)

"Germans should use washcloths instead of taking showers so often"
(Green Party member MP Winfried Kretschmann, August 2022)

"Britain threatened with South African-style 'load shedding' as electricity rationing looms"
(*The Telegraph*, August 2022)

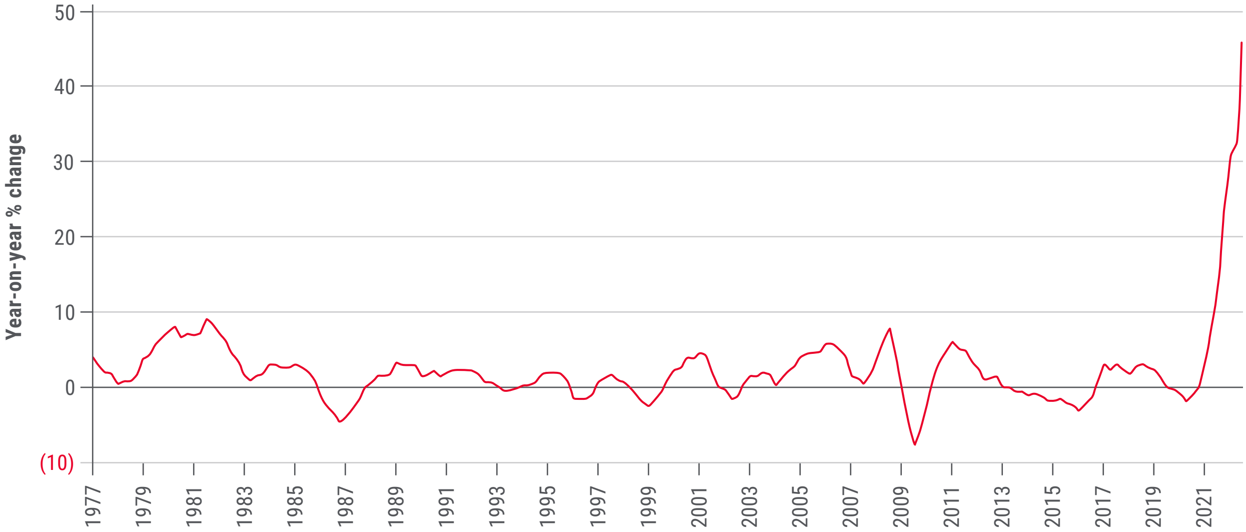
local government election results and the public outcry in response to Stage 6 loadshedding. A feed-in tariff for rooftop solar power has been approved, as well as the issuance of larger energy licences for private sector renewable energy generation. It remains unclear how the R1.2tn energy investment needed by 2030 will be funded.

These energy reforms, although very welcome, are arriving extremely late. They must bear fruit for South Africa to alter its path – a path which my colleague Sandy McGregor points out has largely been to plod along per the economic stagnation of the Zuma years.

Pay heed to the lessons

As global central banks embark on a brave new journey to restore price stability, one can only hope that their future ranks will pay heed to the lessons of the last four decades and the mispricing of money. If interest rates are marked too low or cease to exist, order will be lost; a country will perpetually exist on the edge of an abyss.

Graph 2: German producer price inflation



Source: Bloomberg

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.

CAPITEC: THE WAY TO BUILD A BANK

Pieter Koornhof

... it is only on rare occasions that we would assess it prudent to pay a high multiple for a fast-growing company.

Capitec has been an incredible South African success story in improving access to affordable banking services, and in delivering value for its investors. Pieter Koornhof unpacks the key lessons from Capitec's achievements over the decades and explains how high-growth, highly valued companies fit into Allan Gray's valuation-based investment philosophy.

Capitec's first slogan was "The way to bank", but it could just as well have been "The way to build a bank", given its phenomenal success. Since its founding in 2001, Capitec has grown to over 18 million clients, R8bn in annual profits, and a market capitalisation of R237bn, the third largest of the JSE-listed banks. This is astounding considering that it was founded more than a century after its main competitors.

Since listing in 2002, Capitec has delivered a total shareholder return of 46% per annum (p.a.), dwarfing the 13% p.a. from the FTSE/JSE All Share Index (ALSI) and the 32% p.a. achieved by Naspers, the second-best performing share over the period.

For context, if you had invested R1 000 in the ALSI on the day Capitec listed and reinvested all your dividends since, your investment would be worth R11 457 today – a very respectable return that exceeded inflation by more than R8 000. A similar investment of R1 000 in Naspers would have grown to an impressive R287 378. However, as shown in **Table 1**, R1 000 investment in Capitec would be worth a staggering R2.3m!

Capitec's share price performance reflects its fast and furious growth, which it has sustained for a remarkably long period. **Graph 1** shows that the bank has grown its earnings over the last 20 years at a compound annual growth rate of 25% (at this rate of growth, its earnings double every three years), while maintaining an average return on equity (ROE) of 23% and paying out 41% of earnings as dividends. Unsurprisingly, given this long-term track record, Capitec trades at a premium multiple of 28 times historic earnings, compared to the ALSI's average price-to-earnings multiple of 11 times.

Lessons from Capitec's success

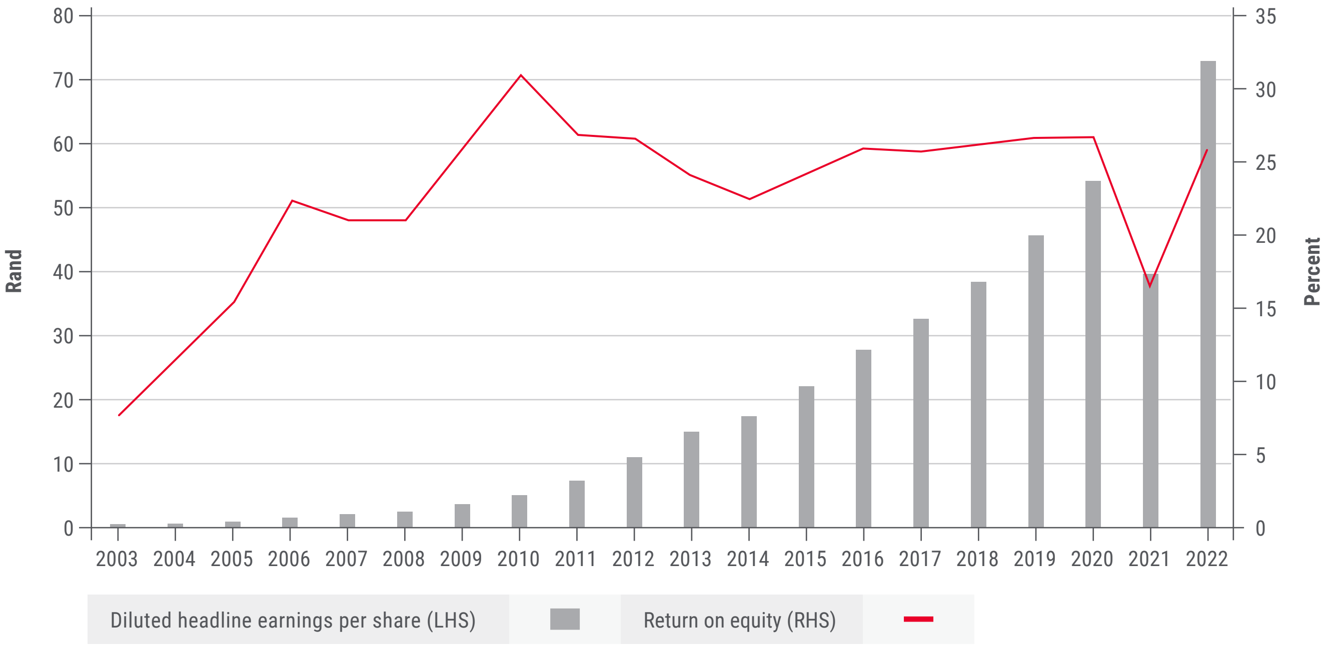
There are important lessons to be learnt from analysing the key drivers of Capitec's spectacular growth.

Table 1: Value Capitec has delivered to shareholders since listing

	Total shareholder return per annum	Value today of R1 000 invested in 2002
Capitec	46%	2 261 418
Naspers	32%	287 378
FTSE/JSE All Share Index	13%	11 457
Inflation	6%	3 037

Sources: Refinitiv, Allan Gray research

Graph 1: Capitec's financial performance since listing



Sources: Capitec annual financial statements, Allan Gray research

Find a gap in the market

Capitec's founders intentionally targeted the banking industry due to its high barriers to entry and large market size. Banking has onerous regulatory, technological and capital requirements, which reduce the likelihood of new competitors entering the market and competing away profitability. The banking profit pool in South Africa is also very large at over R90bn p.a., and millions of individuals and businesses use banking services every day. This afforded Capitec ample runway for growth. At the time, the other South African banks were earning high ROEs compared to their cost of capital and to the ROEs of international peers. The industry was also not doing a great job for clients, with opaque and high fees compared to other countries.

Follow a client-centric approach

"Culture eats strategy for breakfast." – Peter Drucker

From the beginning, Capitec aimed to disrupt the industry. At the heart of the business was (and still is) its strong client-centric and innovative culture. The company aims to provide simple and accessible financial services. This includes high-quality client service and fees that are simple, transparent and affordable, often priced much cheaper than competitors'. It has also been innovative in finding ways to better serve clients, including keeping branches open on weekends, running a 24-hour call centre, and paying interest at high rates on savings accounts.

Capitec started off primarily as a lending business focused on unsecured loans to lower-income clients. It adroitly consolidated this fragmented part of the market and used its greater economies of scale to offer clients lower rates than competitors, which in turn spurred further growth. The lending business was highly profitable, and Capitec reinvested these profits to grow other lines of business, including a retail transactional bank, which today accounts for most of its profits. Over the years, it has branched out into adjacent products and services, including credit cards and funeral policies.

… we invest in companies that trade at a discount to our assessment of their intrinsic value, regardless of whether they are categorised as "value" or "growth".

Maintain focus and discipline

Despite this growing range of products, its management team has been disciplined and discerning in pursuing new areas of growth. They eschewed big acquisitions and following fads, like growing into Africa, which often proved to be the undoing of other South African companies. Instead, they stuck to their circle of competence, namely retail financial services, and kept their product range small. For example, they only offer one type of bank account, and there are no complicated point systems or tiers that determine service quality. This reduces operational complexity and costs, while simplifying the client experience.

A key part of Capitec's advantage is its ability to offer competitive products at low prices. This is made possible by its very low cost base. One way of measuring a bank's cost-effectiveness is its cost-to-income ratio, which is calculated as total operating costs (excluding bad debt charges) divided by total income. Over the last decade, the cost-to-income ratios of the other South African banks averaged 56%, while Capitec's averaged 38%. This means that for each rand in revenue, Capitec incurs one-third less costs. This is even more impressive considering that Capitec charges considerably lower fees than competitors for comparable products and services.

Adopt an agile structure that reduces complexity and allows for iterative improvement

This low cost base is attributable to several factors, including Capitec's small product range, and large scale in each of those products. For example, Capitec's management team deliberately focused on retail lending and banking as these entail millions of similar transactions. Because of this characteristic, Capitec could automate and optimise its processes and systems for handling such transactions and, as their volumes grew, it became extremely cost-efficient at processing them.

In addition, Capitec's management refrained from going into secured lending and investment banking. Even though these are highly profitable segments for the other banks, they are not a good fit for Capitec's business model: Despite having higher transaction values, the transactions are more differentiated and have lower volumes, thereby limiting the potential to extract economies of scale in processing. By not offering a wide range of complicated products, Capitec avoided adding complexity (and the resultant costs) to its operations and IT systems.

This business model built on large volumes of small and relatively short-duration transactions had a second-order benefit: Capitec could quickly receive feedback and learn from what was working and what was not, and no individual mistake was big enough to put the company at risk. Over time, this allowed it to follow an iterative approach to incrementally improve its products and processes, and made it nimble. It could quickly change course by adjusting its credit pricing and risk appetite. Contrast this with building a new mine, where you have to make the decision to invest billions of rands upfront, and it takes a decade before it becomes clear whether the call was right or not. Given the large size of the investment, a wrong call could potentially bankrupt the company and the long lag also means circumstances can change materially in the meantime.

Think outside the box

The low cost base is also a product of Capitec's innovative culture and approach to problem-solving. As a practical example, it was the norm at the other banks that each branch would include its own back office (i.e. a team of non-client-facing staff doing settlements, compliance, accounting, etc.). Capitec adopted a revolutionary strategy by opening branches with no back offices, and instead performed these functions centrally. This allowed it to have smaller branches and thereby save on rental costs, while also avoiding the usual duplication of costs from employing (highly paid) back-office staff at each branch. Centralising the back-office function had the additional benefit of giving them a real-time, holistic view of what was happening across all branches, enabling them to adjust their risk appetite and pricing accordingly as conditions changed.

On the technology front, Capitec initially had an advantage over its competitors as it could use off-the-shelf, modern IT systems, while its competitors were stuck with heavily customised legacy systems that offered limited functionality and were difficult and costly to maintain. The significance of this initial edge waned over time as Capitec's original IT systems also became dated and had to be replaced or modernised. However, Capitec's management teams have over the years proven adept at managing IT in a cost-effective yet progressive manner as clients migrated from branches to mobile, online and app-based banking. Key to this was Capitec's prioritisation of keeping the client experience very simple and intuitive. Management recognised early on that IT was not just a necessary cost of doing business, but could be a potent competitive advantage. For example, they were early to capitalise on digital banking as a new distribution channel for products and services.

Luck plays a role

Lastly, it is important to note that luck has also played a role in Capitec's success. For example, the business was founded when South Africa's economy was growing strongly and social grants were expanding. These provided tailwinds for the high initial growth and returns that laid the foundation for Capitec's later success. It would be more difficult to get off to such a good start in today's anaemic economy.

> Doing in-depth fundamental research to analyse the key drivers of a company's competitive advantage can inform one's conviction …

When should you pay up for growth?

Capitec's story, and similar ones from other fast-growing companies, can make investing in such businesses seem like a sound investment strategy, and it certainly is possible to achieve high returns this way; however, this is easier said than done. Part of the difficulty is that when a company has a couple of years of rapid growth, the market often values the share as if such growth will continue for decades. While companies can sometimes achieve this feat – Capitec is an important example of one that did so – it does not typically turn out that way. Indeed, history is littered with fast-growing companies that overreached in pursuit of growth and subsequently blew up, or delivered poor shareholder returns when they failed to live up to the market's lofty expectations of them.

When, if ever, is it prudent to pay a high multiple for a fast-growing company? At Allan Gray, we are not "value" or "growth" investors. Instead, we follow a valuation-based investment approach, which means that we invest in companies that trade at a discount to our assessment of their intrinsic value, regardless of whether they are categorised as "value" or "growth".

When analysing a fast-growing company that trades on a high multiple, we consider the following:

- Buying a fast-growing company on a high multiple means that the **company must continue to grow its earnings at a high rate** for it to be a good investment over the long term.

- **The higher the multiple one pays, the smaller the margin of safety** for avoiding permanent loss of capital if the company's performance falls short of expectations. In a similar vein, the higher the multiple one pays, the faster and longer the company has to grow at a high rate in order to justify its starting valuation. The duration and rate of growth implied by the valuation multiple can be calculated with fairly simple maths, allowing one to assess the likelihood of this materialising.

- Paying a **high multiple does not necessarily mean a company is expensive**, just as paying a low multiple does not necessarily mean a company is cheap. The key consideration is how the intrinsic value of the company (which incorporates its fundamental quality and growth prospects) compares to its share price. As Benjamin Graham taught: "Price is what you pay; value is what you get."

- **As one looks further into the future, the uncertainty increases exponentially** as the range of possible outcomes broadens. A myriad of events can affect the company: Macroeconomic conditions may deteriorate, regulations could change to its detriment, an excellent CEO could leave, its strategy may be replicated by competitors and lose its potency, technological disruption could render it less competitive or obsolete, it can run out of growth opportunities as its market share increases, etc. While competent management teams may adapt to such changes in circumstances, it remains hard to predict beforehand how this will play out.

All these considerations make it difficult to determine whether a company can sustain a very high growth rate for a long period of time. Doing in-depth fundamental research to analyse the key drivers of a company's competitive advantage can inform one's conviction in this regard. Even then, it remains a tall order to do this with the necessary accuracy to make it a successful investment strategy.

Discovery is a useful example of why this is tricky. Discovery has built the biggest and most profitable health insurance business in South Africa. It has also achieved further profit growth by cross-selling additional types of insurance and investment products to its captive customer base. In 2018, it entered banking with the launch of Discovery Bank.

Given Discovery's track record and loyal customer base, many analysts believed that it would make a similar success of its banking effort. Discovery took a very different approach to Capitec by offering a complicated product range with various pricing tiers and complex point systems that determine the level of service and rewards. This is similar to its winning strategy in health insurance. It has made considerable progress by growing to 510 000 clients and R11bn in deposits. However, Discovery Bank remains loss-making despite several billion rand of investment, it has had multiple cost overruns, and its expected breakeven date has been pushed out multiple times.

In light of the above, it is only on rare occasions that we would assess it prudent to pay a high multiple for a fast-growing company. As such, we currently have limited positions in a small number of high-growth companies, including Capitec, Transaction Capital and PSG Konsult.

Pieter joined Allan Gray in 2013 and is an analyst in the Investment team. He holds a Master of Business Administration from the University of Oxford, is a Chartered Accountant (SA) and a CFA® charterholder.

ORBIS GLOBAL BALANCED: BEWARE THE GREAT AND POWERFUL DOLLAR

Alec Cutler

Long-time clients will not be surprised to find that the richer the overvaluation gets, the fewer dollars we are likely to hold.

The US dollar has rallied significantly over the course of this year, leaving other currencies in its wake. Alec Cutler, from our offshore partner, Orbis, unpacks the reasons behind the currency's strength and explains why the Orbis SICAV Global Balanced Fund has an underweight exposure to the dollar when compared to its benchmark.

Do not arouse the wrath of the Great and Powerful Dollar! We have, and it has been by far the biggest drag on relative returns so far this year.

The Orbis SICAV Global Balanced Fund ("the Fund") entered 2022 with its dollar exposure greatly below that of its 60/40 benchmark on an accounting basis. We much prefer to look at currency exposures on a fundamental basis – one that considers the location of a company's assets, sales and expenses, not just where its shares are listed. On a fundamental basis, the Fund was still substantially underweight the dollar coming into this year.

That has been painful. As shown in **Graph 1** on page 14, compared to the currencies of its major trading partners, the dollar has strengthened by 17% since the beginning of this year. For the first time in two decades, a dollar buys more than one euro. For the first time in 24 years, a dollar buys more than 140 Japanese yen. For the first time ever, a pound bought less than US$1.04. And the dollar's strength extends beyond its traditional peers – it has also hit a record high against the offshore Chinese renminbi, and has even strengthened against the currencies of commodity-rich countries like Norway.

"Our currency, but your problem"

It is easy to see why the dollar has strengthened so significantly. Higher interest rates attract investors, who must first buy the currency to buy high-yielding assets priced in that currency. So far this year, the gap between interest rates in the US and elsewhere has risen dramatically as the Federal Reserve (the Fed) belatedly wakes up to the risk of persistent inflation.

At the start of the year, US interest rates were at zero, and they are now above 3%. Other central banks have not hiked rates as quickly, so the so-called "rate differential" between the US and other countries has widened. That makes dollar

Graph 1: The Great and Powerful Dollar

Trade-weighted index of dollar strength against developed market currencies

Sources: Refinitiv, Federal Reserve

assets more attractive to investors, boosting demand for dollars at the expense of other currencies. So while the Fed shuns the legacy of Richard Nixon's Fed Chairman, Arthur Burns, they appear to be taking a line from his Treasury secretary, who told fellow finance ministers that the dollar is "our currency, but your problem".

Our purchasing power parity models suggest the dollar is overvalued by 33% against the euro, by 37% against the pound and by a whopping 70% against the yen.

The dollar has other broad strengths. The US economy looks stronger than most others, and as the global reserve currency, the dollar benefits as a "safe haven" when investors are fearful about other assets.

Crucially, the US also produces plenty of its own oil and gas, at a time when Russia's invasion of Ukraine has led to skyrocketing gas prices elsewhere. That hurts the so-called "current account" balance of commodity importers, who must spend more of their own currency buying commodities that are often priced in dollars and may even come from the US. Diverting money towards gas also drains money from other parts of their economies, increasing the risk of a recession. To cushion the blow to households and industry, governments in continental Europe, the UK and Japan have unveiled a raft of energy subsidies. These have the benefit of reducing reported inflation, but they are costly, leading to unusually large fiscal deficits. In the UK, the government's energy support scheme may require additional borrowing worth up to 4% of gross domestic product. Widening deficits do not a strong currency make.

To the dollar's strength, the other major currencies add their own weaknesses. The eurozone is most dependent on Russian gas, struggles to reach consensus on how to address energy shortages and faces political uncertainty from far-right governments, most recently in Italy. European bidders are pushing up the price of liquefied natural gas in Asia, which is also affecting Japan.

The Bank of Japan, unique among its peers, refuses to raise interest rates or abandon its cap on long-term bond yields. Instead, it has turned to direct currency intervention for the first time since 1998. As long as bond yields remain suppressed, that should be about as successful as ice skating uphill.

The Bank of England has also intervened (in the bond market), after the tax-cutting "mini budget" from Liz Truss' government sent the pound to a record low and gilt yields to 15-year highs.

Protect your purchasing power

All that calls to mind a 2016 cover of *The Economist* of a greenish George Washington with the biceps of Arnold Schwarzenegger. But we're also mindful of a different cover, from late 2020, showing a terrified Benjamin Franklin watching nervously as inflation caterpillars chew through his US$100 bill.

The US has an inflation problem. Though the market believes inflation has peaked in the US and is yet to peak in the UK, Europe and Japan, the breadth of inflation matters too. While the Biden administration was quick to celebrate month-on-month inflation readings of zero for July and August, measures of "underlying" inflation persisted at a 7-9% annualised rate. Inflation pressure is broader in the US, and more closely tied to sticky drivers like wage growth – good news for workers, but bad news for the currency.

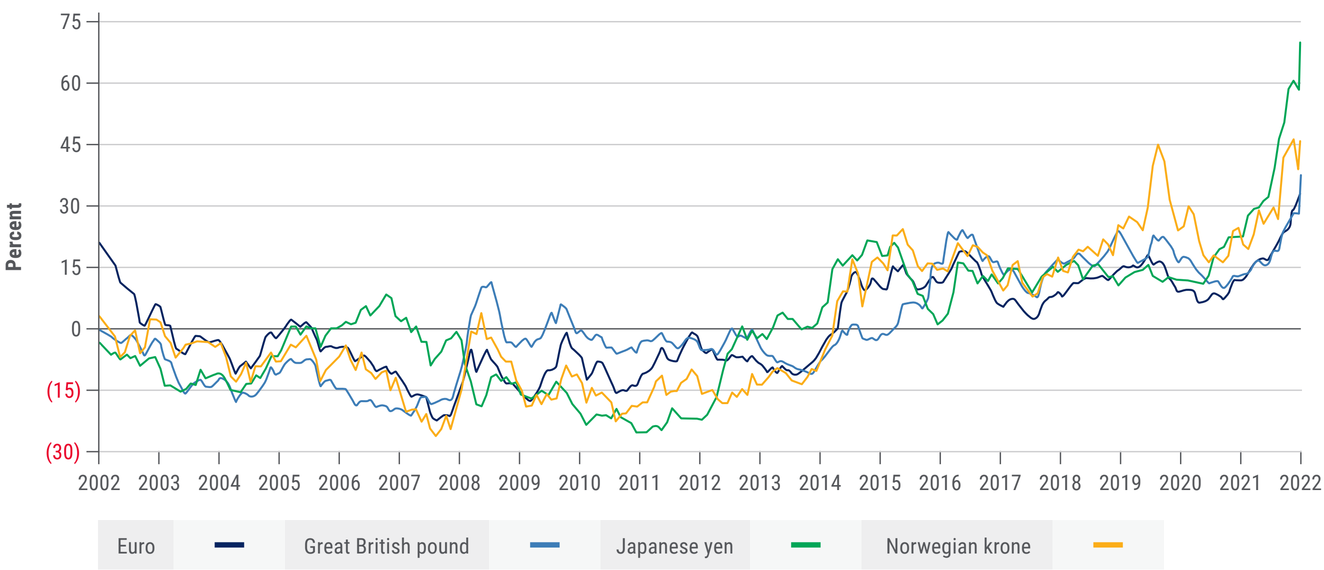
Which brings us to the most important case against the dollar, and the key reason we remain so underweight: valuation. As a starting point, we look at currency valuations on a purchasing power basis (see **Graph 2**). Intuitively, if a shopping basket costs US$120 in the US and GBP100 in the UK, one pound should buy US$1.20. Currency cycles are long and noisy, but in time, exchange rates show a strong tendency to revert towards purchasing power parity. On that basis, the dollar is expensive against every tradable currency we track, and breathtakingly so against the major alternatives. Our purchasing power parity models suggest the dollar is overvalued by 33% against the euro, by 37% against the pound and by a whopping 70% against the yen.

… when a currency is more than 20% overvalued, it suggests to us that it may be a poor store of purchasing power.

That quantitative metric is our starting point, not our ending point – it is important to analyse the buyers and sellers of a currency and how they could change over time. But when a currency is more than 20% overvalued, it suggests to us that it may be a poor store of purchasing power. This is largely why we actively manage our currency exposures.

Graph 2: The dollar has not been this expensive in decades

Deviation from purchasing power parity value, US dollar vs. selected currencies



Lines show the deviation of each exchange rate from its fair value as implied by Orbis' purchasing power parity models.
Sources: Refinitiv, Orbis

What could shake the dollar's strength?

It is hard to imagine now, with everything going right for the dollar, that anything could shake its strength. But things could change. They always do. Resolution of the Ukraine conflict could ease energy pressures in Europe. Japan has just reopened its doors to tourism, and it hosted 31 million yen-purchasing tourists in 2019. Central banks elsewhere could catch up with the Fed's interest rate hikes.

As contrarians, we like to point out that the path from "completely terrible" to "merely bad" can be an extremely rewarding one. The same is true in the other direction: The path from "completely perfect" to "merely excellent" can be an extremely painful one. With currency valuations where they are, we think that is a great risk for the dollar, and a risk worth mitigating for our clients. Long-time clients will not be surprised to find that the richer the overvaluation gets, the fewer dollars we are likely to hold.

Orbis
Invest Differently

Alec joined Orbis in 2004. He is a member of the Bermuda-based Multi-Asset Investment team and is responsible for the Orbis Global Balanced Strategy. Alec holds a Bachelor of Science (Honours) degree in Naval Architecture from the United States Naval Academy and a Master of Business Administration from The Wharton School of the University of Pennsylvania. He is also a CFA® charterholder.

THE IMPORTANCE OF ALIGNMENT

Saleem Sonday

Alignment with clients is a key business principle and influences all aspects of how we operate.

We believe that the price you pay an investment manager for managing your money should be aligned with the value they create for you over the long term. Saleem Sonday explains our view on investment management fees and why we believe that alignment is essential.

Next year, Allan Gray will mark 50 years of building long-term wealth for clients. Looking at the next five decades, we aim to continue to provide our clients with benchmark-beating long-term returns. If we succeed, then we would have done a great job for our clients for a century. This is no trivial goal.

Alignment is key to who we are

As a business focused on active investment management, building long-term wealth on behalf of our clients is our core focus. We do this through the consistent application of our investment philosophy and process. We take a contrarian approach, which means we often look different from our peers and the market. It can take time for our investment decisions to yield results, which can test clients' patience; it is therefore important to us that our clients understand how we invest so that they remain invested long enough to enjoy the rewards when they come. If our funds do well, but only after clients have already disinvested, we have failed. Because our returns can look very different from the market, we believe that performance fees are appropriate for the way we operate. A fee that adjusts in response to performance creates an alignment of interests.

> We constantly review our fee structures to ensure they remain fair and competitive.

Alignment with clients is a key business principle and influences all aspects of how we operate. Since our inception in 1973, we have subscribed to the idea that client outcomes are the number-one priority. This approach is critical to building and sustaining our clients' confidence and trust. The business has been structured to make sure that we do well when we deliver on our goals and commitments to clients, and we feel the pain with clients when we do not. Senior decision-makers are not remunerated through short-term incentives, like bonuses, but primarily through longer-term incentive structures directly linked to the client value-add over time.

Fee levels should correlate with performance

In our view, clients should only ever pay an above-average fee when they have benefited from above-average performance, and they should pay less when performance fails to meet the required expectations. In essence, we are joined at the hip with our clients.

Of course, all active managers aim to deliver outperformance, but we believe this focus is heightened when a performance fee is charged. Fixed fees, while simpler to understand, are earned regardless of whether a manager has delivered on their commitments.

Delivering value for money

In our view, a fair performance fee should reflect the value that an active fund manager has added for clients compared to a fair benchmark, and adjust appropriately during periods of under- and outperformance. We constantly review our fee structures to ensure they remain fair and competitive. Rather than aiming to be the cheapest in the market, we firmly believe that our fees should represent good value for money.

Actively adding value

As a proudly active manager, we perform investment research to come to our assessment of what we believe is the true worth of an asset. Any estimate of value tries to forecast the future profitability and growth of a company and is therefore inherently inaccurate, which is why we include a "margin of safety" in our estimates.

Every asset to be included or excluded from our portfolio is carefully considered in light of our findings. This is different from passive managers, who don't make active choices about what to own and aim to deliver results in line with the market return. Investing with a margin of safety allows us to preserve clients' capital while seeking long-term outperformance.

Our approach links our success to our clients' success: If we do not succeed for our clients, we think that they should vote with their feet. This view keeps our system on edge, but it also drives accountability and requires ongoing diligence on our part.

> Investing with a margin of safety allows us to preserve clients' capital while seeking long-term outperformance.

Our structure supports our philosophy and approach

We are privately owned into perpetuity. Our majority shareholder, Allan & Gill Gray Foundation[1], shares our long-term orientation and purpose – which enable us to stick to decisions we believe are in the long-term best interests of clients, and to withstand the short-term pressures often faced by listed entities.

Our founder, Allan Gray, believed that fees should encourage the firm and its personnel to act in the best interest of clients and to generate real, sustainable, long-term returns. Given that performance fees mean that investment managers are remunerated for what they deliver, a well-designed performance fee should lead to better outcomes and deliver what matters most to clients – long-term wealth creation.

[1] Allan & Gill Gray Foundation, which has no owners in the traditional sense, is instead designed to exist in perpetuity and to serve two equally important purposes: (1) to promote the commercial success, continuity and independence of the Allan Gray and Orbis groups, and (2) to ensure that the distributable profits the Foundation receives from these firms are ultimately devoted exclusively to philanthropy.

Saleem is the head of Retail Distribution. He joined Allan Gray as the head of Infrastructure and Support Services in 2006, became the head of the ManCo Distribution team in 2010, and then the head of the Group Savings and Investments team in 2016. Saleem holds a Master of Business Administration from the University of Cape Town. He also completed the Program for Executive Development at the International Institute for Management Development, Switzerland.

MAKING SENSE OF THE PROPOSED TWO-POT RETIREMENT SYSTEM

Richard Carter

… we believe that the proposed changes are a positive step towards meeting short-term needs and enhancing benefits at retirement.

In February 2021, the National Treasury announced its intention to amend the retirement fund system in South Africa with the dual aim of creating limited access to retirement fund assets to help savers cope with short-term emergencies, and improving the preservation of retirement savings. The proposed new structure is called the "two-pot retirement system". The goal of the new system is to allow access for those who need money to survive and to improve outcomes for pensioners. Richard Carter discusses the issues in the current system and explains how the proposed changes will aim to address these.

Under the current regime, if a member of an occupational pension or provident fund leaves their job, they are able to withdraw the full balance of their savings in the fund, subject to tax. Sometimes this money is desperately needed, especially when an employee is dismissed or retrenched and has no other source of income. However, even when changing jobs with no reduction in income, the vast majority of South Africans choose to cash out their pension or provident fund savings. While the funds may be going towards pressing and valid needs, the result is that most South Africans get to retirement with woefully little capital built up in their retirement funds and not much to fall back on in terms of other savings or assets.

COVID-19 highlighted the existing issues

The COVID-19 pandemic and associated lockdowns forced many around the world into economic hardship. Several countries responded with measures to supplement incomes so that people who were out of work could continue to provide for themselves and their families. In some instances, this included allowing people some form of access to their accumulated savings in their retirement fund accounts. Importantly, in most cases, these countries did not historically allow access to these funds prior to retirement, on retrenchment or resignation. This meant that there were meaningful assets accumulated and the exceptional access could be justified.

There were calls in South Africa to allow similar relief, but this didn't make sense with full access already being available to pension and provident fund members on retrenchment or resignation.

This situation highlighted a twin problem: Retirement savings are inadequate, and access is skewed only to loss of employment; no access is available for other emergencies.

Every past attempt to fix this problem by enforcing preservation of retirement savings has been met with resistance. The two-pot system is a bold attempt to address these issues.

So, what's changing?

While some details are still in flux, from the implementation date of the new system (currently set for 2024), it will be compulsory for all retirement funds to split contributions received between two notional "pots". One-third of contributions will be allocated to a pot that allows early access, currently called the "savings pot" (see **Graph 1**). The money in this savings pot will be available at any time, subject to some limitations (for example, a minimum amount which will need to be withdrawn and a maximum of one allowable withdrawal per rolling 12-month period). At retirement, whatever is left in this pot will be available as a cash lump sum. This means that, effectively, every withdrawal taken before retirement can be seen as an acceleration of the cash benefit available at retirement.

The other two-thirds of contributions will be allocated to a "retirement pot". This portion will have to be used to purchase an annuity at retirement.

These changes will only apply to contributions made from the implementation date. Contributions made up until the implementation date, plus all growth on those contributions, will remain in the existing or "vested pot" and will still be subject to all the rules and entitlements that apply today.

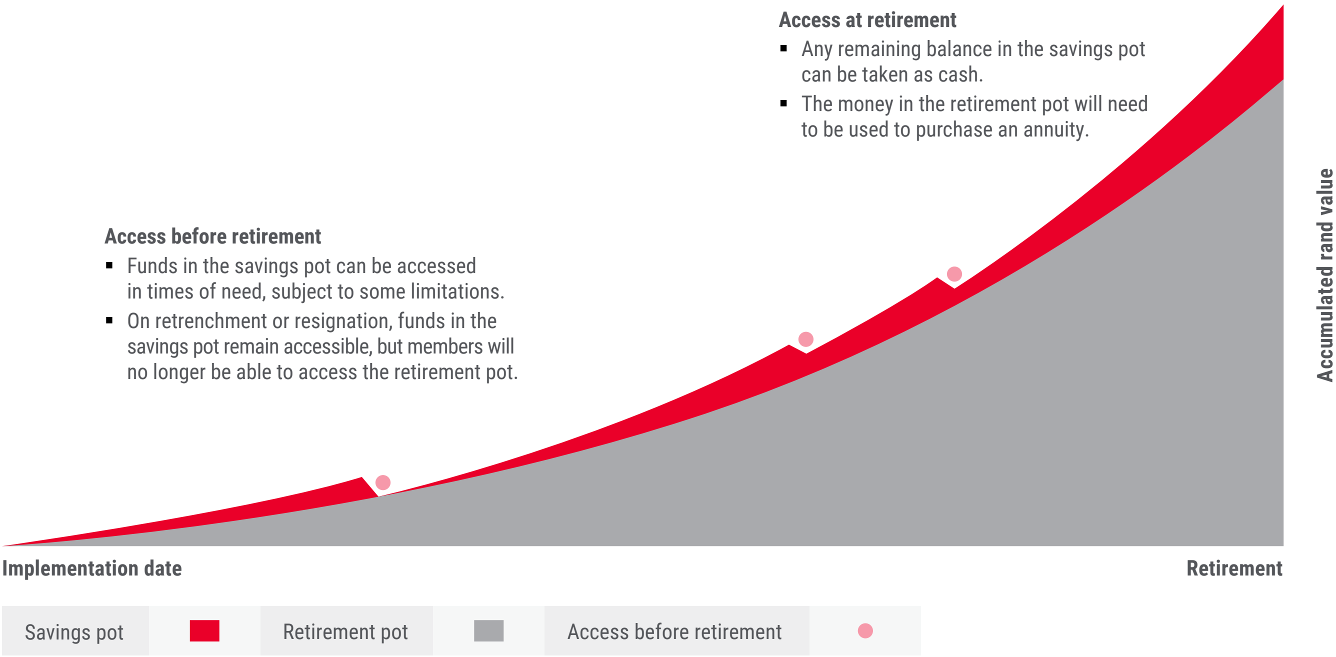
Current rules that allow small balances to be taken in cash at retirement, rather than as an annuity, will continue to apply to the amounts that are subject to annuitisation, i.e. the new retirement pot and two-thirds of the vested pot.

> … if a member contributes to a retirement fund and then withdraws the money again, it will be tax-neutral … This should be a fairer system.

How will retirement annuities be treated?

Because there is no employer relationship in a retirement annuity (RA), the member does not exit the fund when they lose or change their job. RAs currently provide no early access to funds. The changes contemplated will apply

Graph 1: Two-pot split for future retirement fund contributions



Source: Allan Gray

to RAs as well. This means that, in future, RA members will receive the same treatment as occupational fund members, including the envisaged rights of early access.

What about the tax?

We all know that one of the main reasons people use retirement savings vehicles is the tax break available on contributions. There is a genuine tax incentive, as all investment returns in a retirement fund are earned tax-free and, for most members, the tax rate paid on and in retirement is lower than the tax break received on contributions.

Currently, when a member withdraws funds before retirement, these are taxed according to a withdrawal tax table. When a member retires, the cumulative value of previous withdrawals is taken into account in working out the tax they will pay on any cash lump sum taken. With the new two-pot system, this will change. The current tax regime will still apply to the vested pot, but withdrawals from the new savings pot will instead be treated as additional income. This means that if a member contributes to a retirement fund and then withdraws the money again, it will be tax-neutral – the tax deduction received on the contribution will equal the tax paid on the withdrawal. This should be a fairer system.

While a robust savings pool should contribute to economic growth, it doesn't by itself solve the unemployment problem: If people don't even have jobs, how can they save for retirement?

What will the changes mean for the retirement landscape?

At first, very little – all accrued savings and rights up until the date of implementation will remain intact. For example, six months after implementation, a member will have six months' worth of their contributions split into the two new pots. The smaller, one-third savings pot will start to build up gradually and a member can withdraw from this pot at any point. Over time, the amount in the two-thirds retirement pot will build up. For most people, for the first few years after the change, the bulk of their retirement savings will still be in the vested pot. As mentioned, this pot will continue to operate under the current rules.

As time passes, the amounts in the two new pots will grow and, slowly, the characteristics of the entire system will change. What will this look like? There will potentially be more frequent, but smaller withdrawals, i.e. less clearing out of all the member's retirement fund savings. Gradually, there will be bigger overall balances at retirement, with smaller cash lump sums at retirement. In time, if the system is implemented as envisaged, average replacement ratios (the ratio of post-retirement income to preretirement income) for people retiring could double, resulting in better retirement outcomes for pensioners.

What are the risks?

The obvious drawback is the increased complexity in the system. Every set of changes is a layer on top of an already complex system. Increased complexity increases costs and risks, but also makes it harder for people to understand how everything works and do their own planning.

While we believe the changes will be an improvement, the test will be in how the system withstands another crisis. Will the requirement to preserve a minimum of two-thirds of what is saved make it through good times and bad?

Changing the rules around preservation and access to cash will not be a panacea; the retirement fund system cannot solve many of society's pressing needs. While a robust savings pool should contribute to economic growth, it doesn't by itself solve the unemployment problem: If people don't even have jobs, how can they save for retirement?

What is still up in the air?

These proposals have been introduced in parliament and approved in principle; however, the legislation is still being considered and still needs to be finalised, taking into account the responses received during a period of public consultation. One of the most contentious issues is that of "seeding". Seeding would involve allowing people to take some of the funds that have accumulated in their vested pot prior to the new system being implemented and to transfer those funds to the new two-pot system, thereby allowing some immediate access to historic funds.

While there could be merit in allowing this, if the seeding is too generous, the cost in terms of leakage from what has been saved to date could be material.

With the previous round of changes, implemented on 1 March 2021, when the rules applying to pension and provident fund members were aligned, people over the age of 55 were excluded. The rules applying to this age group's retirement savings remained in place, meaning that provident fund members who were over 55 on 1 March 2022 do not have to annuitise when they retire (see "Upcoming changes to provident and provident preservation funds" in our Quarterly Commentary of December 2020). It would make little sense for this group of people to now have to allocate two-thirds of their contributions to a pot which has to be annuitised at retirement, and so the intention is that this group will be excluded again, while being given the choice to opt in to the new system should they so wish.

Perhaps the most obvious thing still to be finalised is when it will all be implemented. As things stand, we are fairly certain that implementation will not be before 1 March 2024, but even that is ambitious, given the pending decisions and approvals.

Overall, we believe that the proposed changes are a positive step towards meeting short-term needs and enhancing benefits at retirement.

Richard joined Allan Gray in 2007. He is head of Assurance and is responsible for Compliance, Risk, Internal Audit and Group Legal. He is also a director of Allan Gray Life and Allan Gray Investment Services. He was previously jointly responsible for the Retail business, heading up Product Development. Richard holds a Bachelor of Business Science degree in Actuarial Science from the University of Cape Town and is a qualified actuary.

INVESTING – RISKY BUSINESS?

Lydia Fourie

Losing money is the main risk that we are concerned about and that we actively manage; we care about helping our clients preserve and create wealth over the long term.

Understanding your investments, and the risks you may face when investing, can go a long way towards helping you successfully navigate trying times. Lydia Fourie explains.

The current economic environment is enough to tempt us to just keep our money under the mattress. Risk abounds: Inflation keeps landing on the wrong side of the South African Reserve Bank's (SARB's) target range; in turn, the SARB's Monetary Policy Committee continues to hike interest rates to try and curb inflation, and the market doesn't seem to know what to make of it all, with volatility being the only certainty. Who knows what the future holds? However, as risky as things may seem, now is probably the worst time to abandon your investment plans.

Inflation is the rate at which the cost of goods and services increases over time. As things become more expensive, you are able to buy less with the same amount of rands. In a rising inflationary environment, like we are currently experiencing, this effect is even more pronounced. If the return you earn from an investment doesn't keep up with inflation, you are effectively losing ground.

Considering the lack of return, storing money "under the mattress" or in a regular bank account won't provide you with enough protection against rising inflation – history has shown that you need exposure to risk assets, such as shares, to meaningfully beat inflation over the long term. This is because these assets have historically appreciated in value by significantly more than the inflation rate when measured over long investment horizons.

Given the need for exposure to risk assets, it's important to get your head around different types of investment risk and to form an understanding of how much risk you can take on.

How does Allan Gray view investment risk?

There are different definitions of investment risk. At Allan Gray, we define risk as the likelihood of permanently losing money from an investment.

Losing money is the main risk that we are concerned about and that we actively manage; we care about helping our clients preserve and create wealth over the long term. This is engrained in our investment philosophy. We buy shares we think are undervalued – with a margin of safety, as shown in **Graph 1** – and sell them when we think they have reached their worth, regardless of popular opinion. This approach ensures that we don't overpay for an investment. We also don't get greedy when it comes to deciding when to sell; there is additional risk in hoping that a rising share price will continue past the share's true value, which is why we are very disciplined about selling when it has reached our estimate of its true worth.

What are some other definitions of investment risk?

While the risk of capital loss is our primary concern, we acknowledge that not everyone views risk the same way. Investment risk is often defined more generally as the possibility that the actual return from an investment differs from the expected return or the benchmark's return.

Another common definition is volatility. Volatility – or variability – is how much the value of an investment has fluctuated over time and is often used to suggest how volatile returns may be in the future. The more the historic value of an investment has varied, the higher its level of volatility, and vice versa. While we do not focus on these kinds of risks, we acknowledge that they introduce the biggest risk of all: behavioural risk.

If an investment performs differently from what you expected, you may be tempted to make changes to it or to withdraw. However, such decisions should always be well considered and aligned with your needs and objectives. Knee-jerk reactions may derail your plans and result in losses.

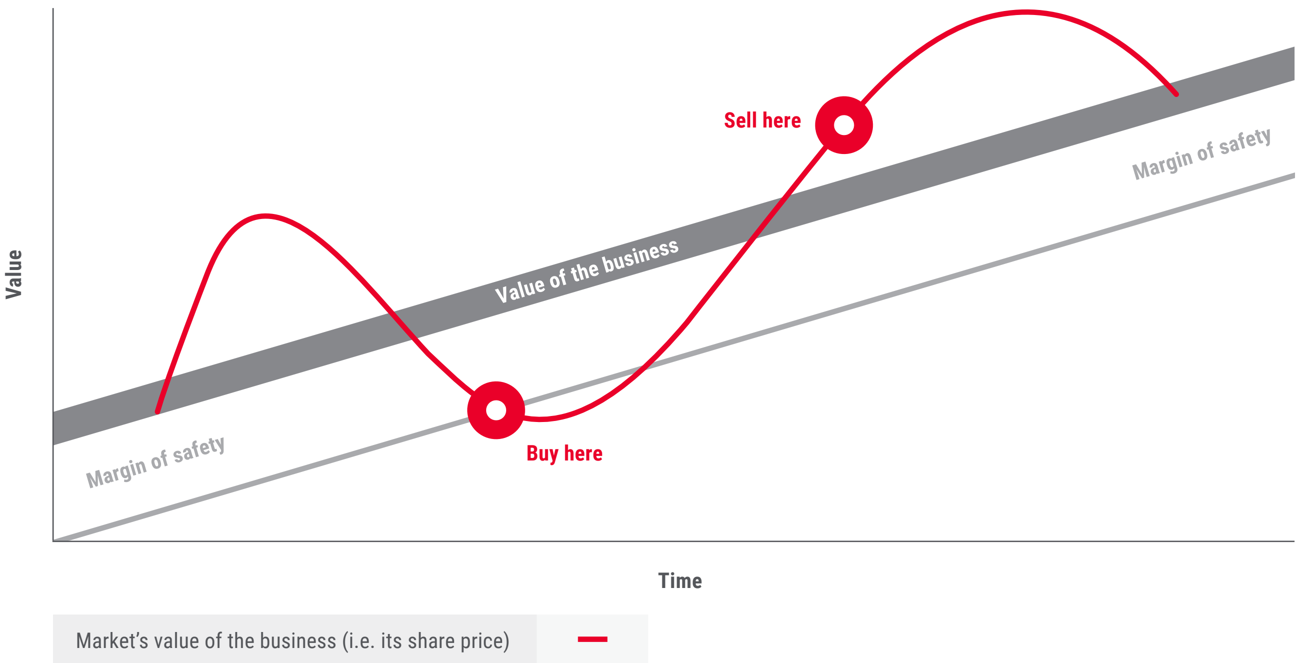
Similarly, if you find yourself unable to stomach the inevitable ups and downs associated with many investments, you may end up selling at the worst possible moment (i.e. after a big drop), thereby locking in a loss. This is why it is so important to understand the reasons why you are investing, and to ensure that your choices are appropriate.

How to compare unit trusts

Before selecting a unit trust, you must choose an investment manager. The right manager is one whose investment philosophy and process resonate with you. A philosophy indicates how the manager thinks about investments and informs the way that they invest.

The process refers to how the philosophy is implemented practically when managing client portfolios. If you understand the manager's philosophy and process, it should be easier to make sense of their investment decisions, leading to better alignment between their actions and your expectations.

Graph 1: Our investment philosophy



Source: Allan Gray research

Once you have chosen an investment manager, you can focus your attention on their range of unit trusts. The selection process can seem overwhelming, but there is a lot of information available to aid your decision-making. All investment managers are required to publish minimum disclosure documents for the unit trusts that they manage. These are often called factsheets, and they contain important information about the characteristics of the unit trusts.

When comparing unit trusts, look at things like the funds' objectives, suggested time horizons for investing, volatility and fees. This information should be available on the factsheets or directly from the investment manager.

It is important to choose a unit trust that matches your risk profile. Your risk profile reflects how much risk you are comfortable with. While we all have inherent preferences regarding risk, it is important to approach it rationally when it comes to your investments. Your investment horizon (how long you intend to invest for) is the biggest determinant of the level of risk you can afford to take, and you should make sure that it aligns with the investment horizon of your chosen unit trust. The more time you have, the more risk you should be able to tolerate, and the greater your chances of achieving your long-term expectations. This is because returns compound, and volatility tends to even out over time. The possibility to regain lost money is therefore linked to how long you can remain invested. If you invest in a more volatile unit trust (usually one with more share exposure), you need to be able to endure the fluctuations in the short term to reap the return benefits over the long term.

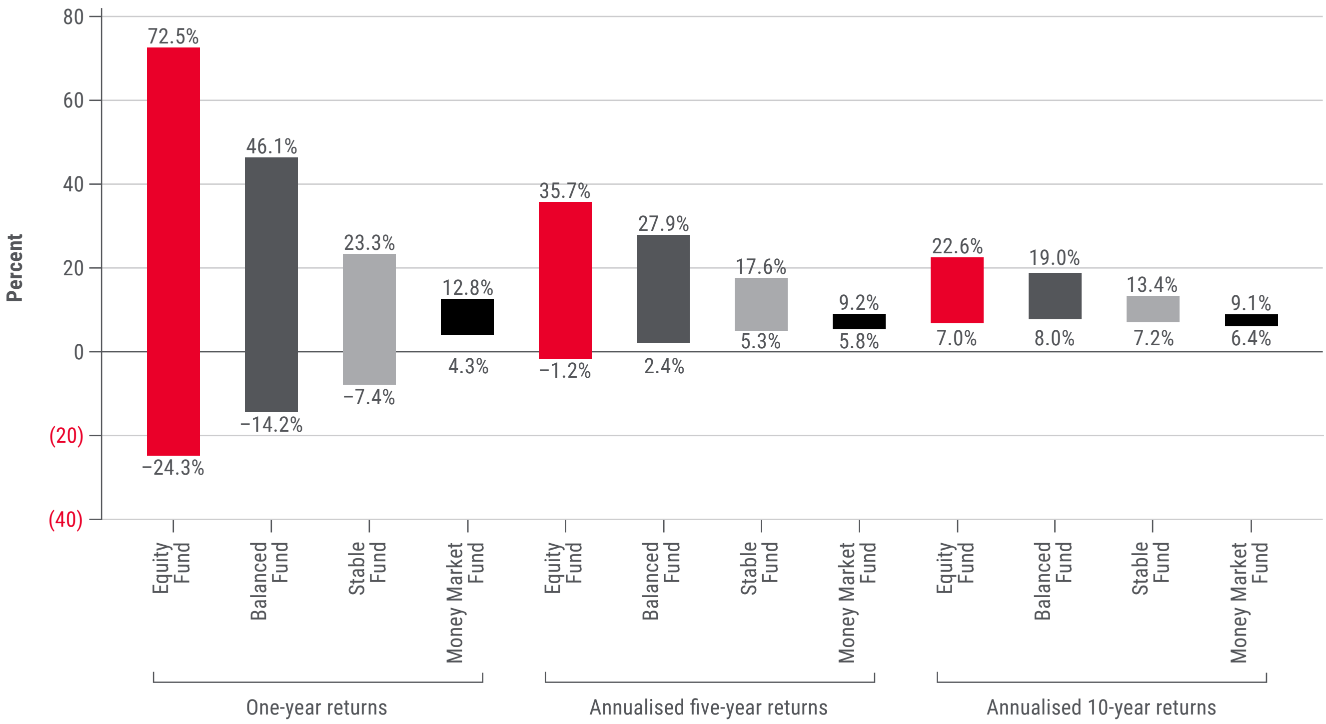
Choosing a unit trust that is aligned with your risk profile can help ensure that you stay the course and enjoy investment success, as you will have a better idea of what to expect from the investing journey.

How do these concepts play out in our unit trusts?

While we encourage a long-term approach to investing, we realise that the experience of investing doesn't only happen at five- or 10-year intervals – you have to live through the short-term ups and downs and be disciplined enough not to jump ship at the wrong time. This is easier said than done, but looking at the longer-term picture can help to put things into perspective.

Graph 2 shows a range of past returns for the Allan Gray Equity, Balanced, Stable and Money Market funds using data for the period since inception of the Money Market Fund

Graph 2: Allan Gray Equity, Balanced, Stable and Money Market funds – range of one-year, five-year and 10-year annualised rolling returns



Source: Allan Gray research, data to 30 September 2022 (the youngest of the four funds) until 30 September 2022. The graph contrasts the difference between the minimum and maximum one-year returns for each fund over this period with the corresponding difference for its annualised[1] five- and 10-year rolling returns for all five- and 10-year periods included in the dataset.

The graph shows us two things: Firstly, the range of past returns is widest over the one-year time horizon for each of the four funds, i.e. the variability of returns is higher, as can be seen by the maximum and minimum returns being more extreme. Secondly, the range of past returns (the variability of returns) narrows when you move from the Equity Fund to the Balanced Fund, from the Balanced Fund to the Stable Fund, and from the Stable Fund to the Money Market Fund. This is in line with the characteristics and objectives of the funds.

The main takeaway here is that returns can be very volatile and extreme over the short term, especially in a unit trust with more share exposure. However, as the time period increases, the volatility of a fund's returns tends to smooth out. Bearing this in mind can help you to endure the short-term fluctuations in performance.

Understanding is the first step towards better investment outcomes

It is important to take advantage of the information that is made available to you when choosing a unit trust, and to ensure that the characteristics of your chosen unit trust match your needs and objectives. Understanding the nature of your investment and what to expect while invested will ultimately lead to better long-term outcomes if you can remain invested through any short-term fluctuations.

If you do not have the resources, or lack the appetite to do your own investment research, it is a good idea to consult an independent financial adviser (IFA). An IFA can help you determine your risk profile and take a holistic look at your finances to recommend the best solution for your specific needs.

[1] Annualised return is a way of reporting the return earned over a period as a percentage per year. Although the reported figure implies that the same percentage return was delivered every year during that period, the actual return in each year may have been higher or lower, depending on the unit trust's volatility. Annualised performance reporting simplifies comparison across different time periods.

Lydia is a communications specialist in the Marketing team. She rejoined Allan Gray in 2019, having held roles in the Retail Client Services, Product Development, and Investor Education and Behaviour teams between 2010 and 2016. Lydia holds a Bachelor of Commerce (Honours) degree in Actuarial Science from Stellenbosch University.

NOTES

Allan Gray Balanced and Stable Fund asset allocation as at 30 September 2022

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign*	Total	SA	Foreign*
Net equities	66.2	46.5	19.7	28.2	19.5	8.6
Hedged equities	8.9	3.5	5.4	16.8	7.2	9.7
Property	1.1	0.9	0.2	0.9	0.8	0.1
Commodity-linked	3.1	2.5	0.6	2.9	2.5	0.4
Bonds	13.6	9.0	4.5	32.7	24.3	8.3
Money market and bank deposits	7.1	4.3	2.8	18.5	12.9	5.6
Total	**100.0**	**66.7**	**33.3**	**100.0**	**67.2**	**32.7**

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 September 2022

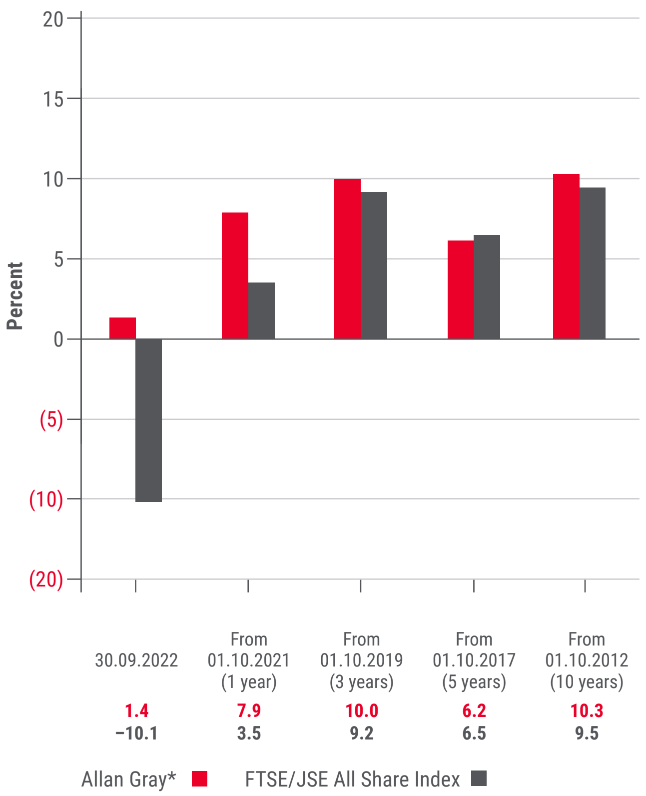
Security (Ranked by sector)	Market value (R million)	% of Fund	FTSE/JSE ALSI weight (%)
South Africa	**25 069**	**67.8**	
South African equities	**24 196**	**65.4**	
Resources	**6 570**	**17.8**	**28.2**
Glencore	1 949	5.3	
Sibanye-Stillwater	957	2.6	
Sasol	903	2.4	
Gold Fields	495	1.3	
Sappi	416	1.1	
AngloGold Ashanti	358	1.0	
BHP	285	0.8	
Impala Platinum	267	0.7	
African Rainbow Minerals	254	0.7	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	687	1.9	
Financials	**6 564**	**17.7**	**20.4**
Nedbank	1 076	2.9	
Standard Bank	987	2.7	
Remgro	963	2.6	
FirstRand	579	1.6	
Reinet	487	1.3	
Investec	370	1.0	
Old Mutual	301	0.8	
Ninety One	291	0.8	
Hyprop Investments	259	0.7	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	1 250	3.4	
Industrials	**11 062**	**29.9**	**51.4**
British American Tobacco	2 067	5.6	
Naspers[2]	1 988	5.4	
Woolworths	1 348	3.6	
AB InBev	1 133	3.1	
Mondi Plc	801	2.2	
Tiger Brands	414	1.1	
AVI Limited	348	0.9	
Life Healthcare	337	0.9	
KAP Industrial	301	0.8	
Super Group	276	0.7	
MultiChoice	276	0.7	
Pick n Pay	249	0.7	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	1 523	4.1	
Commodity-linked securities	**227**	**0.6**	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	227	0.6	
Bonds	**25**	**0.1**	
Positions individually less than 1% of the Fund	25	0.1	
Cash	**620**	**1.7**	
Africa ex-SA	**956**	**2.6**	
Equity funds	**956**	**2.6**	
Allan Gray Africa ex-SA Equity Fund	956	2.6	
Foreign ex-Africa	**10 976**	**29.7**	
Equities	**33**	**0.1**	
Resources	**33**	**0.1**	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	33	0.1	
Equity funds	**10 845**	**29.3**	
Orbis Global Equity Fund	5 157	13.9	
Orbis SICAV International Equity Fund	3 289	8.9	
Allan Gray Frontier Markets Equity Fund	1 617	4.4	
Orbis SICAV Japan Equity (Yen) Fund	432	1.2	
Orbis SICAV Emerging Markets Equity Fund	349	0.9	
Cash	**98**	**0.3**	
Totals	**37 000**	**100.0**	

[1] JSE-listed securities include equities, property and commodity-linked instruments. [2] Includes holding in stub certificates or Prosus N.V., if applicable. **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

Period	Allan Gray*	FTSE/JSE All Share Index	Out-/Under-performance
Allan Gray Proprietary Limited global mandate share returns vs FTSE/JSE All Share Index			
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	28.9	29.2	–0.3
2022 (to 30.09)	**1.4**	**–10.1**	**11.5**

Returns annualised to 30.09.2022



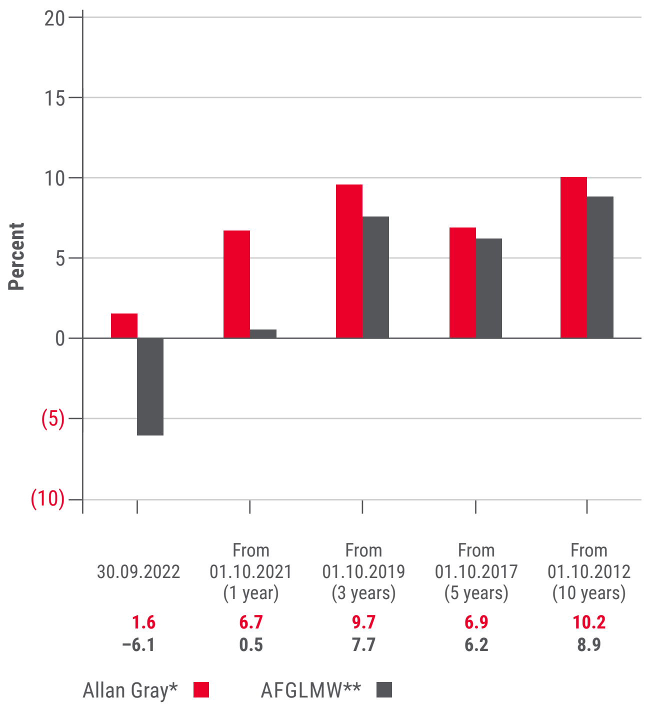
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R284 514 280 by 30 September 2022. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R12 354 827. Returns are before fees.

*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 from 1 July 2002. Inward listed included from November 2008 to November 2011.

Investment track record – balanced returns

Period	Allan Gray*	AFGLMW**	Out-/Under-performance
Allan Gray Proprietary Limited global mandate total returns vs Alexander Forbes Global Large Manager Watch			
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	20.4	21.9	–1.5
2022 (to 30.09)	**1.6**	**–6.1**	**7.7**

Returns annualised to 30.09.2022



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R32 130 050 by 30 September 2022. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R6 791 421. 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 September 2022 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 September 2022 (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]	**37.0**	**01.10.1998**	**19.2** 13.9	**8.8** 8.0	**4.9** 5.0	**8.3** 9.4	**3.3** 2.8	**125.8** 73.0	**−24.3** −37.6
Allan Gray SA Equity Fund (AGDE) FTSE/JSE All Share Index including income	**4.1**	**13.03.2015**	**5.2** 6.2	**–** –	**4.8** 6.5	**8.7** 9.2	**6.0** 3.5	**57.3** 54.0	**−32.0** −18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	**22.3**	**01.04.2005**	**13.1** 13.5	**15.3** 16.9	**6.1** 11.5	**9.0** 10.8	**−7.3** −4.4	**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]	**152.7** **2.0**	**01.10.1999** **01.02.2016**	**14.9** **6.7** 11.1/5.7	**9.1** **–** 7.8	**5.8** **5.9** 5.1	**8.5** **8.4** 6.8	**5.0** **5.2** 0.0	**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]	**14.9**	**03.02.2004**	**10.3** 10.7	**12.7** 12.9	**5.8** 8.5	**9.7** 6.4	**5.9** −4.7	**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%	**47.5**	**01.07.2000**	**11.1** 8.5	**8.2** 6.8	**6.4** 6.4	**7.2** 5.5	**6.1** 5.5	**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	**0.9**	**01.10.2002**	**7.1** 6.0	**5.9** 4.7	**4.5** 4.3	**2.9** 3.4	**7.2** 3.4	**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	**1.2**	**02.03.2010**	**7.4** 6.1	**8.3** 6.9	**3.2** 4.4	**7.8** 4.2	**22.3** 9.7	**39.6** 35.6	**−12.4** −19.1
No equity exposure									
Allan Gray Bond Fund (AGBD) FTSE/JSE All Bond Index (Total return)	**6.6**	**01.10.2004**	**8.5** 8.2	**7.3** 6.7	**7.4** 7.1	**5.3** 5.7	**2.0** 1.5	**18.0** 21.2	**−2.6** −5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[4]	**25.3**	**03.07.2001**	**7.6** 7.4	**6.4** 6.1	**6.3** 5.8	**5.3** 4.9	**5.1** 4.6	**12.8** 13.3	**4.3** 3.8

[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 September 2022

	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	1.12%	−0.27%	0.04%	0.09%	0.98%	0.10%	1.08%
Allan Gray SA Equity Fund	1.00%	−0.60%	0.01%	0.06%	0.47%	0.12%	0.59%
Allan Gray Balanced Fund	1.03%	−0.14%	0.03%	0.10%	1.02%	0.08%	1.10%
Allan Gray Tax-Free Balanced Fund	1.31%	N/A	0.04%	0.15%	1.50%	0.10%	1.60%
Allan Gray Stable Fund	1.02%	−0.02%	0.03%	0.12%	1.15%	0.06%	1.21%
Allan Gray Optimal Fund	1.00%	0.00%	0.03%	0.15%	1.18%	0.12%	1.30%
Allan Gray Bond Fund	0.32%	0.07%	0.01%	0.06%	0.46%	0.00%	0.46%
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%	−0.63%	0.05%	0.00%	0.91%	0.10%	1.01%
Allan Gray-Orbis Global Balanced Feeder Fund	1.46%	−0.35%	0.06%	0.00%	1.17%	0.08%	1.25%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	−0.01%	0.08%	0.00%	1.07%	0.14%	1.21%

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 September 2022 (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[5]	**01.01.1990**	**16.9**	**15.5**	**6.2**	**9.1**	**−6.5**	**87.6**	**−47.5**
MSCI World Index		13.3	17.0	11.5	10.8	−4.1	54.2	−46.2
Orbis SICAV Japan Equity (Yen) Fund	**01.01.1998**	**13.4**	**13.6**	**4.8**	**4.0**	**−11.5**	**94.9**	**−40.1**
Tokyo Stock Price Index		8.7	13.7	4.8	2.9	−14.8	91.0	−46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[6]	**01.01.2006**	**11.6**	**9.6**	**1.8**	**2.5**	**−9.6**	**58.6**	**−34.2**
MSCI Emerging Markets Equity (Net) (US$)[6]		11.7	10.8	4.0	3.6	−14.1	60.1	−39.7
Allan Gray Africa ex-SA Equity Fund (C class)	**01.01.2012**	**11.0**	**9.0**	**6.7**	**11.0**	**−1.3**	**65.6**	**−24.3**
Standard Bank Africa Total Return Index		6.6	4.6	8.7	9.6	−1.2	41.4	−29.4
Allan Gray Australia Equity Fund	**04.05.2006**	**13.4**	**13.2**	**7.3**	**5.3**	**4.7**	**99.5**	**−55.4**
S&P/ASX 300 Accumulation Index		11.7	11.6	8.7	7.0	−2.2	55.6	−45.1
Allan Gray Frontier Markets Equity Fund (AGFEF)	**03.04.2017**	**7.4**	**–**	**5.5**	**9.1**	**−0.1**	**26.4**	**−11.0**
MSCI Frontier Emerging Markets Index		3.0	–	0.7	−1.2	−8.7	15.9	−12.0
Medium net equity exposure								
Orbis SICAV Global Balanced Fund	**01.01.2013**	**13.3**	**–**	**6.2**	**10.2**	**6.5**	**54.4**	**−9.8**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Index		12.8	–	8.3	6.2	−4.4	40.2	−8.4
Allan Gray Australia Balanced Fund	**01.03.2017**	**8.1**	**–**	**6.4**	**7.5**	**4.0**	**29.1**	**−5.3**
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%).		8.2	–	7.2	5.2	−4.2	25.1	−5.8
Low net equity exposure								
Allan Gray Australia Stable Fund	**01.07.2011**	**10.0**	**8.5**	**5.2**	**6.9**	**6.4**	**32.7**	**−8.9**
Reserve Bank of Australia cash rate		6.1	4.5	2.6	4.6	6.9	28.8	−15.5
Very low net equity exposure								
Orbis Optimal SA Fund (US$)	**01.01.2005**	**9.8**	**10.2**	**5.9**	**10.7**	**31.9**	**48.6**	**−15.7**
US$ Bank deposits		8.4	9.1	7.3	6.7	20.5	57.9	−25.6
Orbis Optimal SA Fund (Euro)	**01.01.2005**	**6.9**	**6.1**	**0.2**	**5.5**	**10.9**	**44.1**	**−19.3**
Euro Bank deposits		5.6	4.9	1.5	1.6	0.5	40.2	−20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)[7]	**27.03.2013**	**11.5**	**–**	**7.3**	**1.8**	**−6.8**	**28.9**	**−7.4**
FTSE 3-Month US T Bill + 4% Index[7]		8.2	–	9.6	11.4	25.0	25.0	−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.

IMPORTANT INFORMATION FOR INVESTORS

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Performance

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, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index

The FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index, and FTSE/JSE All Bond Index (the FTSE/JSE indices) are calculated by FTSE International Limited ("FTSE") in conjunction with the JSE Limited ("JSE") in accordance with standard criteria. The FTSE/JSE indices are the proprietary information of FTSE and the JSE. All copyright subsisting in the FTSE/JSE indices' values and constituent lists vests in FTSE and the JSE jointly. All their rights are reserved.

FTSE Russell Index

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J.P. Morgan Index

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MSCI 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 fund 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 Limited, an insurer licensed to conduct investment-linked life insurance business 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

In accordance with section 11(i) of the Botswana Income Tax Act (Chapter 52;01), an amount accrued to any person shall be deemed to have accrued from a source situated in Botswana where it has accrued to such person in respect of any investment made outside Botswana by a resident of Botswana, provided that section 11(i) shall not apply to foreign investment income of non-citizens resident in Botswana. Botswana residents who have invested in the shares of the Fund are therefore requested to declare income earned from this Fund when preparing their annual tax returns. The Facilities Agent for the Fund in Botswana is Allan Gray Botswana (Pty) Ltd at 2nd Floor, Building 2, Central Square, New CBD, Gaborone, where investors can obtain a prospectus and financial reports.

About the paper

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