QC
Quarterly Commentary
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ALLAN GRAY

Eskom: Are brighter days ahead?

CONTENTS

COMMENTS FROM THE CHIEF OPERATING OFFICER

Mahesh Cooper

We are thankful for the trust placed in us by our clients over the decades, and we continue to work hard to maintain that trust.

It is hard to believe that almost four years have passed since the COVID-19 pandemic and the first lockdown, which began in mid-March 2020. While time seemed to slow down over that period, it feels like the pace has picked up rapidly over the ensuing years, with markets and economies responding and reacting in often unpredictable ways – making volatility a prevalent term.

Why does time seem to pass faster as we age? One common explanation is that time is a relative concept, and our perception of how quickly it moves is linked to how long we have lived, and our longevity. How long a year feels is inextricably linked to what percentage of your life it comprises. A single year is 20% of a five-year-old's life, so it will feel longer than a year feels for their parents.

With that in mind, perhaps I shouldn't be surprised at the speed at which 2023 went by. It was a memorable year for the business, with our 50th anniversary providing a lens for reviewing our past and planning for the years to come. We are thankful for the trust placed in us by our clients over the decades, and we continue to work hard to maintain that trust.

We are a business focused on long-term wealth creation, and time is a determining factor in all we do – from the way we invest, to influencing the stories we tell in our advertising. This theme forms a golden thread through the articles in this issue.

Performance review and investment context

With long-term wealth creation top of mind, our Balanced, Stable and Equity funds experienced strong absolute performance in 2023 and satisfactory relative performance, with the Balanced Fund returning 13.0%, underperforming its benchmark by 0.3%, the Stable Fund returning 11.2%, outperforming its absolute benchmark by 1.9%, and the Equity Fund returning 13.9%, outperforming its benchmark by 7.4%.

In his latest investment update video, available on our website, our chief investment officer, Duncan Artus, talks about some of the trends that influenced the market movements in the last year, and what to look out for in 2024 – an election year for roughly 45% of the global population, representing the highest percentage in a single year in modern history. It's anyone's guess what the political landscape will look like a year from now.

Election outcomes, and their impact on policy and spending, are uncertain. Luckily, as bottom-up investors, our investment approach doesn't hinge on macroeconomic or political outcomes; our philosophy is firmly grounded in deep research and analysis of the worth of companies. However, paying attention to the context is important for portfolio construction as political, monetary and fiscal policies can impact asset valuations.

Looking at the local investment context, it is probably stating the obvious to say disillusionment is pronounced in South Africa at the moment. Increasingly, there is realisation that the South African economy is not growing fast enough to support the size of the state or the size of our debt. It will be interesting to see how this is accommodated for in the national budget in February, balancing the need to cut costs while avoiding reducing the budget for infrastructure maintenance and expansion. Allowing the private sector to play a greater role in the energy, road, rail and water spaces means we can potentially mitigate such risks.

An example of successful private sector intervention is playing out in the energy domain. The government recently estimated that 5.6 gigawatt (GW) of new private capacity should be online by 2025. This is more than either Kusile or Medupi generates, each of which has a capacity of 4.8 GW. The building of Medupi and Kusile began back in 2007 and 2008 respectively, and their combined 9.6 GW is expected to be fully online for the first time in 2025.

Between rooftop solar and larger private generation projects, the private sector will ultimately bring over 8 GW onto the grid in under four years (despite significant constraints). After experiencing 335 days (!) of loadshedding during 2023, resulting in a severe contraction in economic growth, this light at the end of the tunnel is something to celebrate. In her piece this quarter, Raine Adams assesses the current situation and looks at what is being done to improve the stability of our electricity supply.

Our investment philosophy in action

Negative sentiment is contagious and seems to take the sheen off assets indiscriminately. This presents opportunities for us as long-term investors, who look to buy shares that are priced well below our estimate of their long-term value and sell them when they reach their true worth. Standard Bank is one example. Ghiete van Zyl discusses the investment case.

Our offshore partner, Orbis, shares our investment approach. In his article, Orbis President Adam R. Karr notes that the true magic of generating returns for clients not only comes from the returns achieved, but also time. The longer the investment holding period, the greater the compound effect. Adam also unpacks the returns over the last year, and applies past experience to what the future may bring.

Everything comes around, and all that jazz

In her piece, Zwelethu Nkosi discusses our approach to advertising, homing in on the key messages from our latest advert, aptly titled "Everything comes around". The advert is about how true skill and craft, underpinned by commitment and perseverance, can withstand fads and stand the test of time. When investing, one needs commitment, patience and, most importantly, time. It can be incredibly difficult to stay the course through volatility and periods of underperformance, but over the last five decades, we have learnt that conviction and perseverance are rewarded when it comes to building long-term wealth.

Maximise tax benefits before the end of the tax year

In this quarter's Investing Tutorial, Carla Rossouw explains the benefits associated with retirement annuities and tax-free investments, looks at how much to contribute, and discusses the trade-offs to consider. Her piece is timely, as the annual tax benefits associated with these products are forfeited if you don't make use of them before the end of the tax year on 29 February 2024.

Allan Gray Orbis Foundation update

At its core, the Allan Gray Orbis Foundation invests in the education and development of individuals with entrepreneurial potential within Southern Africa. We share the belief of our founder, Allan W B Gray, that it takes only a few high-impact entrepreneurs to make a difference in South Africa. We are proud of the Foundation's significant achievements over the years. Its successes are well articulated in Nontobeko Mabizela's article.

On that inspiring note, I would like to take this opportunity to thank you for your ongoing trust, and wish you all the best for 2024.

Kind regards

Mahesh Cooper

ESKOM: ARE BRIGHTER DAYS AHEAD?

Raine Adams

While the short-term government-led generation pipeline has been underwhelming, the private sector is showing promise.

What does 2024 have in store for loadshedding? Raine Adams investigates whether there is any light at the end of the dark tunnel.

The past year was a particularly tough one for South Africans as we plunged deeper into an electricity crisis: Loadshedding took place on 335 days in 2023. The resultant economic destruction has been substantial – it is estimated to have subtracted 1.8% from real GDP growth, resulting in a tepid 0.8% growth for the year.

The impact is clear when we look at examples at a company level: Shoprite spent R1.3bn on diesel for its generators during the financial year[1], while Astral suffered its first ever loss on the back of R1.7bn in loadshedding-related expenses[2]. The SMME sector also came under significant strain. From contractors and galvanisers to bakers and ceramicists, loadshedding has hampered productivity, increased losses, and highlighted how essential reliable energy supply is to modern economies.

Securing our energy supply is key.

Eskom's power generation fleet

South Africans may have become familiar with the term "energy availability factor" (EAF), which is the percentage of Eskom's generation fleet that is available for operation, out of roughly 47 gigawatt (GW) of nominal capacity[3]. As demonstrated in **Table 1**, this 47 GW excludes generation capacity from the renewable energy and open-cycle gas turbine (OCGT) independent power producers (IPPs), as well as international imports, which account for another ±8 GW. Two key factors reduce the EAF: unplanned outages (both partial and full load losses) and planned outages, the latter being when units are taken offline for planned repairs and maintenance.

[1] In the 52 weeks to 2 July 2023.

[2] For financial year-end 30 September 2023.

[3] Nominal capacity is installed capacity less the electricity used internally by power plants to run pumps, fans, etc.

Table 1: A snapshot of South Africa's current generation landscape

Current generation	Capacity (MW)	Notes
Eskom: Coal-fired power fleet	39 098	Nominal capacity. Installed 44.6 GW.
Eskom: Nuclear	1 854	
Eskom: Peaking (OCGTs, pumped storage schemes, hydro) and wind	5 835	Pumped storage schemes 2.7 GW, OCGTs 2.4 GW.
Eskom-owned: Total	**46 787**	
IPPs: OCGTs	1 005	Avon and Dedisa
IPPs: Renewable energy	6 280	>90 IPPs. Bid Windows 1 - 4b.
Imports	1 100	Mostly Cahora Bassa
Available capacity	**55 173**	

Sources: Eskom Annual Report 2023, Allan Gray research

Graph 1 on page 6 shows Eskom's EAF over the past three years, highlighting the deterioration in performance. The decline is even more stark over a longer period, as demonstrated by the downward trend in **Graph 2** on page 6 from the recently published draft Integrated Resource Plan, 2023. In the last week of 2023, only 50% of Eskom's generating capacity was operating, with unplanned losses at 31% and planned outages at 19% of nominal capacity respectively.

As Graph 1 shows, there is some seasonality in the EAF, with planned maintenance ramping up from lows of 5% in winter (when peak demand is higher and requires more available supply) to 20% in summer.

Recent announcements from Eskom offered some cause for optimism that unplanned outages may decline. From September to November 2023, Eskom returned three Kusile units to service, each at 720 megawatt (MW) of nominal capacity. These had been taken offline in 2022 following a major flue duct collapse at Unit 1, which compromised all three units. However, subsequent unplanned outages have been erratic rather than showing a distinct improvement (see **Graph 3** on page 7), owing to Eskom's dry-cooled power stations struggling with a heat wave, among other issues. One could argue that there was an improvement over the full year: Unplanned losses declined from 17 GW to 14.5 GW.

At the same time, Graph 3 demonstrates the volatility of unplanned outages. Eskom's generation capacity is still dominated by coal power, and the coal fleet is ageing. The median age of Eskom's 14 coal power plants is 39 years, while the capacity-weighted average is 33 years, owing to the size of Kusile and Medupi at 4.8 GW each.

Eskom's troubles have not arisen overnight. For over a decade, Eskom's failure to build new generation capacity timeously meant that it had to create "virtual capacity" by running its ageing coal units much harder than it should. Eskom also significantly underinvested in performing the necessary maintenance, creating a vicious cycle in which unplanned losses shot up.

... Eskom continues to forecast an unchanged 16 GW of unplanned outages for the duration of 2024 ...

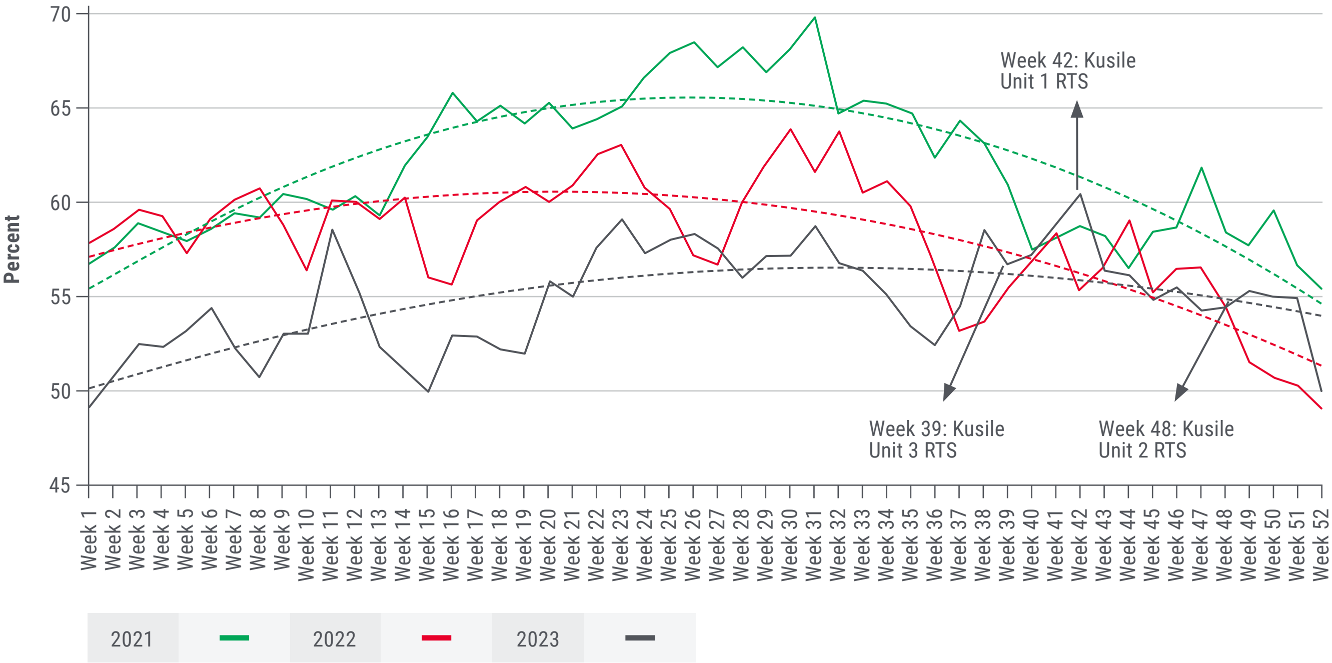
Keen observers may have noticed that Eskom continues to forecast an unchanged 16 GW of unplanned outages for the duration of 2024, despite multiple units' return to service. Management's reason for this is that the fleet's age and wear and tear mean that it remains unreliable and unpredictable, and they prefer to plan conservatively.

In December 2023, Eskom synchronised Kusile Unit 5 to the grid for the first time. It will supply electricity intermittently over the next six months while Eskom performs testing and optimisation, after which full commercial operation will be achieved. In turn, Kusile Unit 6 will synchronise in August 2024 and should reach commercial operation by early 2025. Finally, Medupi Unit 4, which was damaged in an explosion in 2021, will be returned to service by

August 2024. Each of these units contributes 720 MW of additional nominal capacity. This is something of a milestone: Medupi and Kusile were scheduled to be completed in 2014[4]. Instead, their 12 generating units (six at each plant) should be online simultaneously for the first time in 2025. Even more staggering is their cost, estimated at over R470bn and nearly three times the initial budget when including capitalised interest during construction.

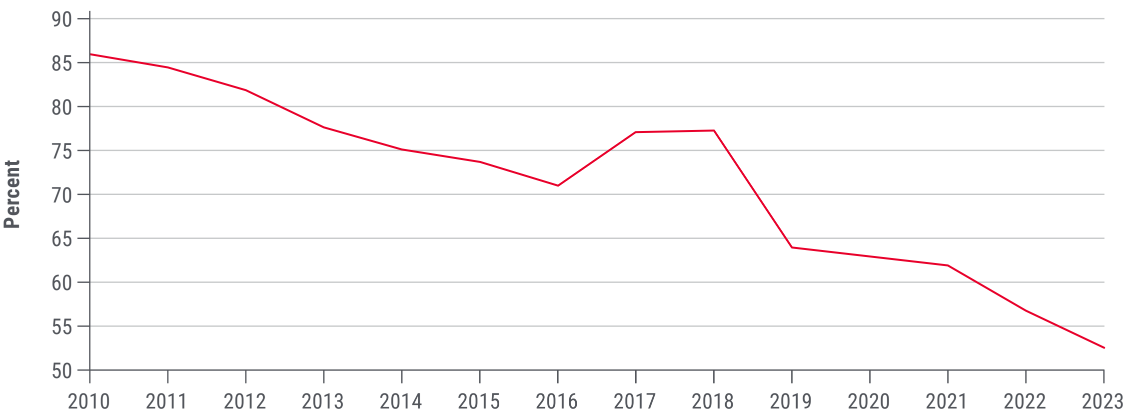
South Africans ultimately bear the cost of these and other failures. Eskom's average selling price per kilowatt-hour (kWh) of electricity was R1.79 for the six months to 30 September 2023. An 18.5% tariff increase was implemented in April 2023, with another 13% escalation planned for April 2024. In 2008, the average selling price was 19.5 c/kWh, highlighting how tariff escalations since have substantially exceeded inflation. In addition, individuals

Graph 1: Eskom's weekly EAF from 2021 to 2023



RTS = returned to service. 800 MW of installed capacity (720 MW nominal capacity) per unit.
Sources: Eskom's weekly system status reports, Allan Gray research

Graph 2: Eskom EAF trend from 2010 to 2023



Sources: Draft Integrated Resource Plan, 2023; *Government Gazette*, 4 January 2024

[4] Construction commenced in 2007 and 2008 respectively.

have incurred further expenses to install alternative power sources, as well as due to losses as a result of food spoilage, damage to appliances and more. To be fair, historically the cost of electricity in South Africa was too cheap, as the real costs (such as proper maintenance and expansion capital expenditure) were not appropriately factored in.

The pipeline of new generation capacity

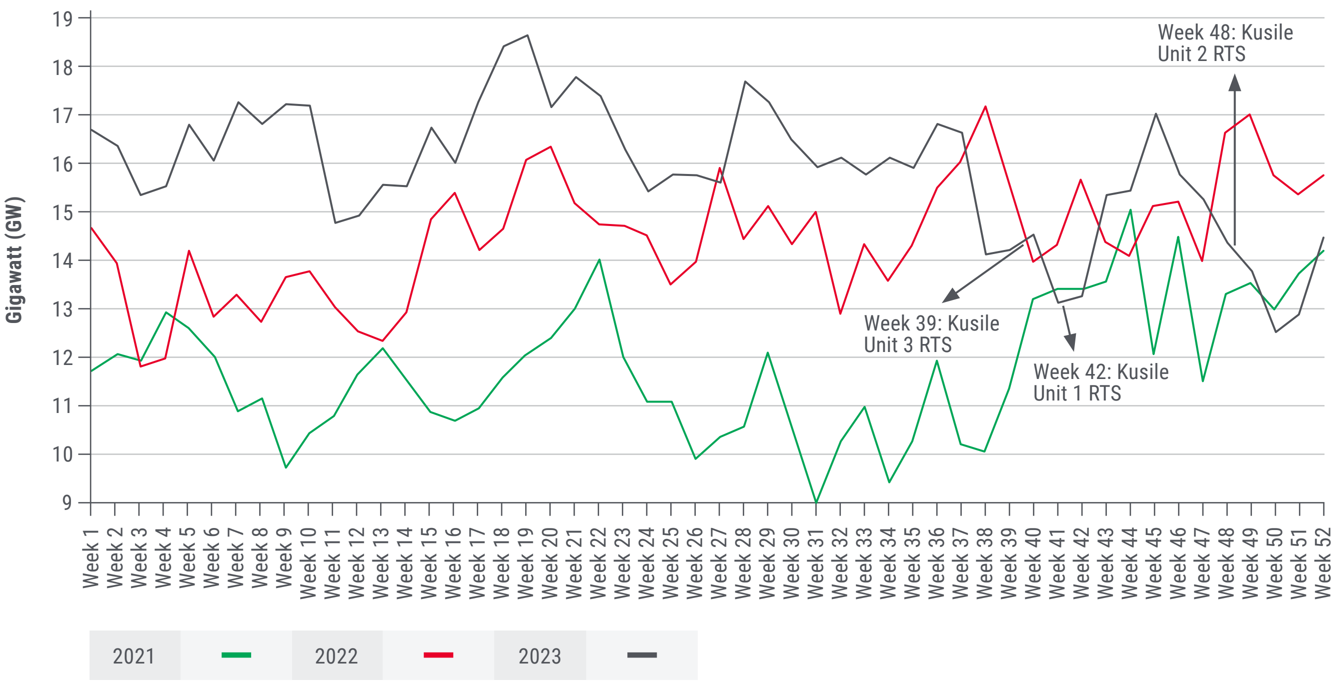
Graph 4 on page 8 shows how South Africa's electricity supply has largely failed to meet demand since mid-2022. That said, the red line (versus the grey line) shows the important contribution that 6.3 GW of operational renewable energy, procured via the Renewable Energy Independent Power Producer Procurement Programme (REI4P), has made to reduce the deficit.

Each stage of loadshedding corresponds to an additional ±1 GW shortfall in available supply. Eskom typically sees a ±2 GW variance in unplanned losses within a one-week period, and an operating reserve of 2.2 GW is maintained to avoid a blackout scenario. If the system is already in deficit, Eskom will initiate two further stages of loadshedding to create this reserve. Frequent Stage 6 loadshedding in the first half of 2023 demonstrates that South Africa urgently needs 6 GW of additional generation capacity.

So what is in the pipeline?

From a government perspective, very little in the short term. For example, the 2 GW Risk Mitigation Independent Power Producer Procurement Programme (RMI4P), intended to get megawatts onto the grid urgently from 2020 through public-private partnerships, has seen only 150 MW commence operations. The three awarded Karpowership projects, floating gas to power plants that accounted for 1.2 GW, were mired in controversy from the start, and had their allocated grid access from Eskom revoked in January 2024.

Graph 3: Eskom's unplanned capacity losses (GW) from 2021 to 2023



RTS = returned to service
Sources: Eskom's weekly system status reports, Allan Gray research

Unplanned outages (GW)	2020	2021	2022	2023
Average		11.8	14.5	15.9
Average week 1 - 10	No data	11.6	13.3	16.5
Average week 11 - 20	No data	11.5	14.2	16.5
Average week 21 - 30	No data	11.5	14.7	16.6
Average week 31 - 40	No data	10.7	14.9	15.6
Average week 41 - 52	9.1	13.4	15.3	14.4

A combined 3.5 GW was awarded following REI4P Bid Windows (BWs) 5 and 6, yet only 1.2 GW is under construction and will start coming online in the second half of 2024 (bear in mind that South Africa's operating renewable energy has a ±30% average load factor versus its capacity). Macroeconomic changes rendered many of the REI4P projects awarded unviable at the tariffs bid and some developers are pivoting to the private sector, where tariffs can be negotiated bilaterally.

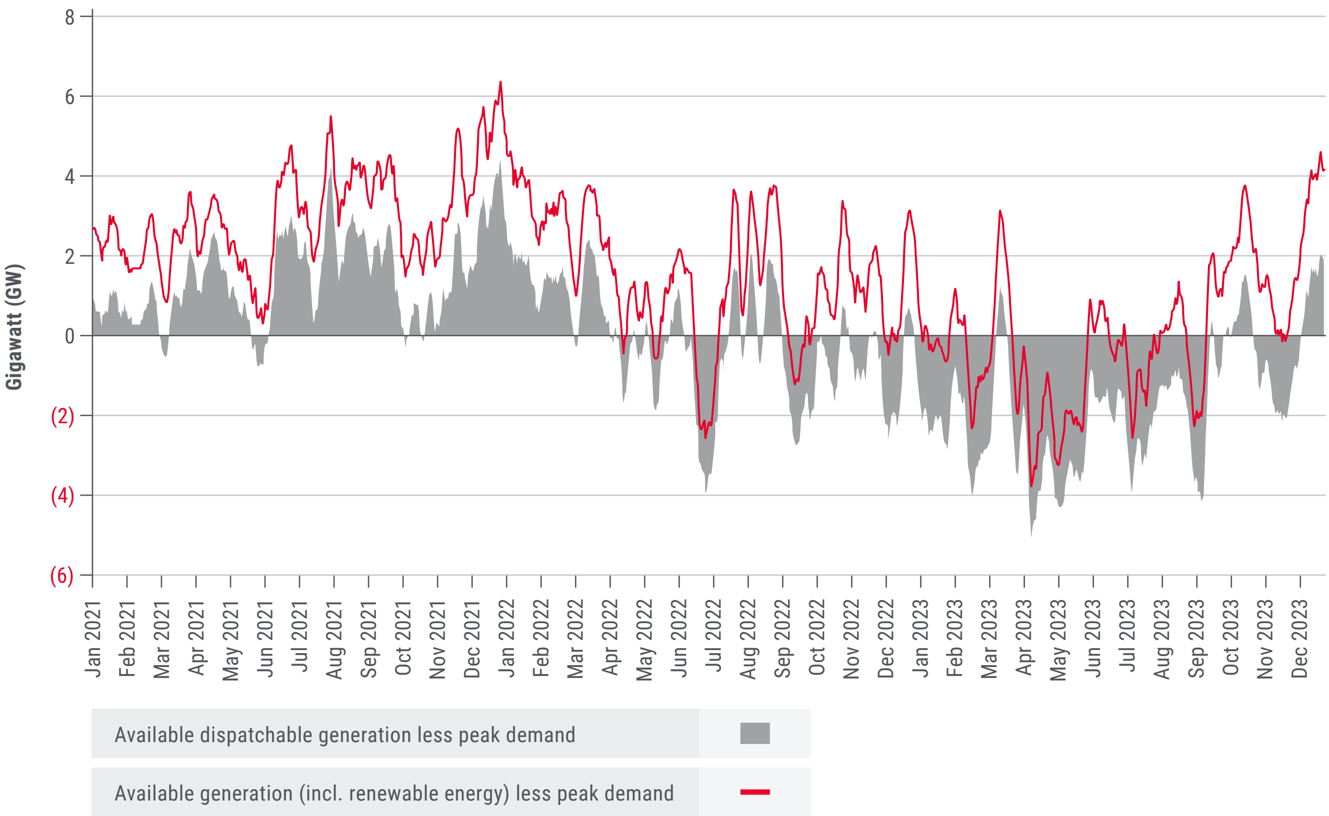
... the private sector will ultimately bring over 8 GW onto the grid in under four years ...

BW7 was finally launched in December 2023, with bid submissions due by April 2024 and the intention to award up to 5 GW of projects. The Independent Power Producers Office will be more selective by only awarding projects that can be connected to the grid speedily (accounting for grid constraints), but no later than 24 months after commercial close, i.e. these will likely come online from 2026. Eskom has also launched standard offer programmes for local and cross-border purchases.

Eskom's Just Energy Transition (JET) pitch under the JET Partnership was that it would retire up to six coal plants by the end of 2030 and another two in the early 2030s. Given South Africa's current position, Eskom needs to extend the life of plants where feasible. However, these old power plants are also major polluters, as Eskom has not had the funds for necessary retrofits. Minimum emission standard (MES) compliance postponements were obtained for some, provided they shut down by specified dates, while civil society organisations are taking Eskom to court over various MES violations.

On the other hand, the National Union of Mineworkers, the largest trade union at Eskom, recently called for a suspension of the JET plan until there was further consultation with labour, given the imminent risks to jobs.

Graph 4: Available generation surplus/shortfall vs. demand (GW) to 31 December 2023



Sources: Eskom's weekly system status reports, Allan Gray research

Eskom is stuck between a rock and a hard place. Finally, the National Nuclear Regulator is reviewing the safety of Eskom's requested 20-year life extension of Koeberg Nuclear Power Station, the result of which will be announced in July 2024. Related work means that only one of the two Koeberg units will be operational at a time to mid-2025, with a possibility of both units being offline simultaneously for some of this time.

While the short-term government-led generation pipeline has been underwhelming, the private sector is showing promise. South Africa has seen rapid growth in rooftop solar – from 2.3 GW in July 2022 to 5 GW in December 2023, as well as a boom in private generation plans since lifting the embedded generation cap from 1 MW to 100 MW in 2021, and subsequently removing it altogether. For example, members of Minerals Council South Africa have 6.5 GW of projects (89 projects by 29 mining companies, worth >R100bn) at various stages. The government recently estimated that 5.6 GW of new private capacity should be online by 2025.

Eskom's recent base case forecasts Stage 3 loadshedding every month into 2025 ...

Between rooftop solar and these larger generation projects, the private sector will ultimately bring over 8 GW onto the grid in under four years (despite significant constraints), highlighting the remarkable resilience and innovation that South African companies and individuals continue to demonstrate in the face of government service failures.

Eskom surveyed renewable energy project developers in Q1 2023: 66 GW of wind and solar is at various stages of development in South Africa, with 18 GW at an advanced stage, i.e. it could reach commercial operation within three years. Currently there is no grid capacity left in the best resource provinces – the Western, Eastern and Northern Cape – although initiatives are underway to "free up" some capacity. Insufficient transmission infrastructure is a longer-term impediment to a large renewable energy roll-out if the execution of transmission expansion plans disappoints.

Longer term (to 2030), the recent draft Integrated Resource Plan (IRP) suggests that the government is pinning its hopes on gas, with the proposed build-out increasing from 3 GW in the 2019 IRP to 7.2 GW in the latest publication. The new IRP has also forecast confusingly low solar photovoltaics (PV) and wind additions versus other commentaries. Clearer, more consistent planning and execution are needed.

Leadership, culture and corruption

"Sabotage at Eskom is of grave concern and catastrophic proportions with highly organised attempts at undermining the country's electricity supply." – Electricity Minister Kgosientsho Ramokgopa, June 2023

Eskom has suffered a leadership crisis, with 13 CEOs in the last 16 years and 10 chairs of the board since 2005. The head of generation role has also seen a high turnover. Sweeping changes were made to the board in late 2022, with all 13 non-executive director positions being filled for the first time in three years. Eskom had been operating with five non-executive directors, four of whom were replaced.

Criminality and sabotage at Eskom power plants range from low-level opportunistic crimes to highly sophisticated criminal networks and syndicates. Theft of fuel oil and diesel seems widespread, while examples of sabotage include "mysterious" failures (to secure further work for contractors and procurement companies), oil leakages, attempts to cut off conveyor belts feeding coal to power stations and other equipment being knocked out. Corruption relating to coal quality has also been a key cause of Eskom's troubles by leading to more breakdowns, such as boiler tube leaks. Many employees are implicated in criminality and corruption, while a number of those not involved have been threatened.

The reality is that many good employees and candidates do not want to put themselves and their families at risk by remaining in or taking on these roles, given the known security threats, and this may continue to weigh on Eskom's ability to resolve the problem so long as anticorruption efforts remain inadequate. It is also important to emphasise that there are still many smart, good people working at Eskom, and we should be grateful for their hard work.

On a positive note, the unbundling of Eskom into three units, namely Generation, Transmission and Distribution, first announced in 2019, took a step forward in January 2024 with the Eskom board announcing the appointment of a board of directors for the National Transmission Company of South Africa. The Transmission unit is the first of Eskom's divisions to achieve legal separation, and we believe this unbundling is important to foster a competitive generation landscape in South Africa.

Forecasting loadshedding

Our own modelling of Eskom's supply versus forecast demand for the year ahead suggests that 2024 loadshedding will range from Stage 1 to Stage 3 – if gains from Kusile and Medupi units can be sustained, and the rest of the fleet's performance remains roughly the same. However, this is, of course, unlikely. As Eskom has stated, the coal fleet is unreliable and unpredictable. While there are various initiatives underway to augment skills and the control environment within Eskom, the risk of further large-scale negative events and issues associated with an ageing, poorly maintained coal fleet remains. Leadership instability and corruption weigh on this outlook. Eskom's recent base case forecasts Stage 3 loadshedding every month into 2025 (still an improvement from frequent Stage 6 in 2023), while the latest IRP models unserved energy of approximately 13.5 terawatt-hours (TWh) in 2024 versus 17.3 TWh in 2023.

Finally, Eskom's loadshedding forecasts budget for unplanned outages that may occur due to technical issues, but do not cater for power station disruptions that could arise due to industrial action or other employee protests. This, together with an escalation in sabotage attempts, is a risk during an election year. In our view, private sector projects are most likely to reduce pressure on the grid up to 2026, but loadshedding over this period can only be solved by a sustained improvement in the existing coal fleet's EAF.

We are hopeful that peak loadshedding is behind us, but, unfortunately, we are not out of the woods yet.

Raine first joined Allan Gray in 2011 as a CA trainee and is currently an ESG analyst in the Investment team. She holds a Bachelor of Business Science (Honours) degree in Finance and a Postgraduate Diploma in Accounting, both from the University of Cape Town. Raine is a qualified Chartered Accountant.

SEEING THE POTENTIAL IN STANDARD BANK

Ghiete van Zyl

… the combination of continued market share gains and superior risk management in Standard Bank's global markets business should drive strong sustained growth over the long term.

On various metrics, the valuations of South African banks have not recovered to pre-COVID-19 levels, suggesting there is value to be found. Of the Big 4, our clients currently own Standard Bank, FirstRand and Nedbank. Ghiete van Zyl discusses why Standard Bank is currently our favourite.

When we wrote about the banking sector in June 2020, in the depths of COVID-19, the combined market capitalisation for South Africa's Big 4 banks, namely Standard Bank, FirstRand, Nedbank and Absa, had roughly halved, as investors feared a prolonged recovery with years of lost earnings or, even worse, a permanent decline in the sector's earnings power. Instead, earnings rebounded swiftly post 2020, supported by healthy loan growth, unexpectedly low credit losses, and higher interest margins resulting from steep interest rate hikes both locally and internationally. The Big 4's aggregate trailing 12-month earnings are now 22% above pre-pandemic levels.

While we expect earnings growth to moderate following the post-COVID-19 recovery, we still see long-term value in the sector, with Standard Bank currently appearing among the top five holdings in the Allan Gray Equity Fund.

Understanding the investment case for Standard Bank

To understand our conviction in Standard Bank's future, it is worth first looking at FirstRand's past. **Graph 1** on page 12 shows Standard Bank's market cap relative to that of FirstRand. Assuming shares in issue remain constant, an increase in the ratio indicates that Standard Bank's share price has strengthened and/or FirstRand's share price has weakened. Conversely, a downward slope in the ratio indicates a weakening of Standard Bank's share price and/or a strengthening of FirstRand's share price.

As shown in the graph, leading into the global financial crisis (GFC), FirstRand's market cap was similar to that of Standard Bank, despite Standard Bank's book value being 1.6 times that of FirstRand at the time. That is, FirstRand was trading at a premium to Standard Bank – the result of FirstRand's history of superior returns compared to its peer.

FirstRand's superior returns were, in part, achieved by risking a meaningful portion of the bank's capital in proprietary trading and investment activities. These activities generated higher returns compared to client-centric activities, but at a higher risk. Following the onset of the GFC, these risks started to crystallise, and FirstRand suffered numerous large one-off losses, largely concentrated in its equity trading division and offshore debt and investment portfolios. These losses detracted almost 17% from the FirstRand Group's aggregate headline earnings for the 2008 and 2009 financial years.

Understandably, investor sentiment soured. FirstRand's market cap fell more than 50%, which, coupled with better-than-expected performance of Standard Bank's loan book, resulted in Standard Bank's market cap increasing to 1.8 times that of FirstRand at the peak. Importantly, these failings provided the push FirstRand needed to re-evaluate its strategy and enact the necessary changes.

Has Standard Bank felt that same push?

We believe so. The pre-pandemic years saw Standard Bank struggle with an expensive and protracted overhaul of its core banking systems, a decline in its South African retail client base, and intense pressure on retail banking fees owing to Capitec disrupting the market. At the same time, Standard Bank bore its share of large losses suffered in ICBCS[1] and, as the majority shareholder of Liberty, saw the Standard Bank Group's returns dragged down by a marked deterioration in Liberty's profitability.

Standard Bank has responded by leveraging its now-modernised banking systems to improve its offering to clients. This contributed to the more than 20% growth in its South African active client base over the past three years. In addition, Standard Bank has rationalised its costly branch and ATM networks by expanding its online banking capabilities and rolling out in-store kiosks, which can be run at a significantly lower cost, while still providing a touchpoint for clients.

Standard Bank addressed the deterioration of Liberty's profitability by buying out minority shareholders in 2022. This allowed for the integration of the insurer into the Group, which bore significant capital optimisation benefits and should allow for more efficient scaling of the business,

Graph 1: Standard Bank market cap vs. FirstRand market cap

Sources: IRESS, Allan Gray research

[1] ICBC Standard Bank Plc (ICBCS) is a global markets partnership between ICBC and the Standard Bank Group specialising in commodities and emerging markets. Standard Bank owns 40%.

while also allowing it to offer customers a more valuable integrated service.

The biggest bank in Africa

In addition to addressing these challenges, Standard Bank continued to invest where it is strongest – in Africa. By the end of 2023, it had expanded its footprint to 540 branches spanning 19 sub-Saharan countries, excluding South Africa (ex-SA). In the majority of these countries, its local presence and pan-African capabilities have made Standard Bank the partner of choice for regional corporates and global multinationals alike, as evidenced by its spot among the top three banks (by deposit market share) in 10 out of the 19 Africa ex-SA markets in which it operates.

Its continued investment in Africa, coupled with the faster economic growth seen in many of these nations compared to South Africa, contributed to earnings from Standard Bank's Africa operations growing at a compound annual rate of 19% over the past decade. Consequently, the Africa franchises' contribution to the Group's earnings grew from only 20% in 2013 to 44% in the first half of 2023.

Importantly, banks often face greater risk in these faster-growing African economies – recently demonstrated by the devaluation of the Nigerian naira and three African sovereign defaults in as many years. This creates a valuable competitive moat for Standard Bank. While the diversity of Standard Bank's portfolio allows it to absorb such shocks, the volatility of earnings in any one country would make it incredibly expensive for a competitor to try and replicate Standard Bank's Africa footprint. Standard Bank's established relationships and dominant market share in these countries would make it near impossible.

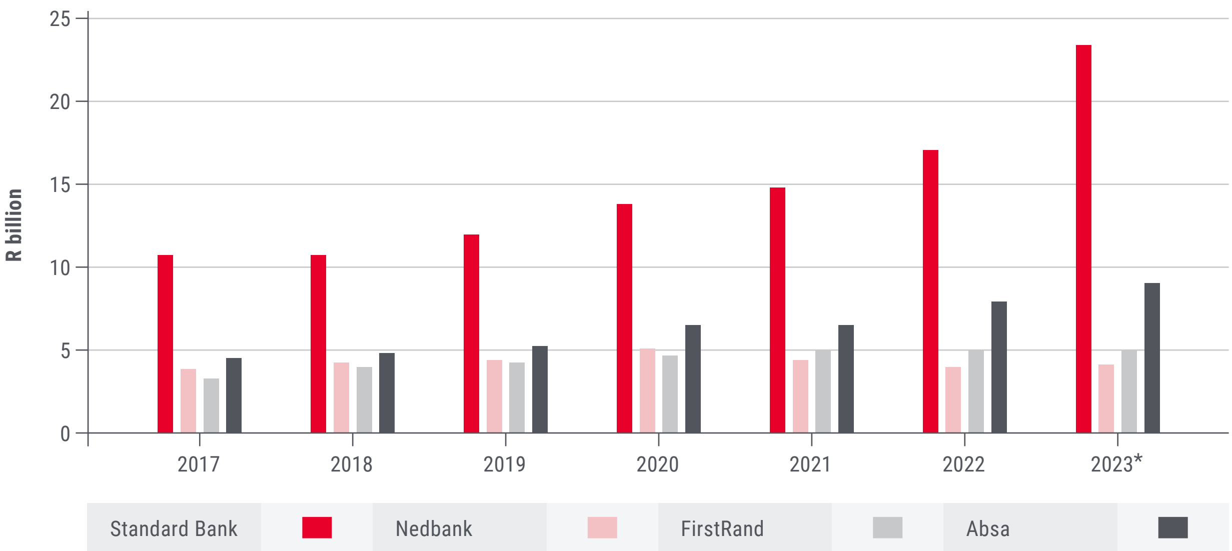
As such, we believe Standard Bank's Africa operations will be a key differentiator over the long term despite the possibility of peaking interest margins, slower loan growth and currency devaluations presenting risks of a slowdown in Africa earnings growth over the short term.

Leading the pack in global markets

Standard Bank's pan-African presence has also helped it build the largest global markets business on the continent. Since 2017, Standard Bank's trading revenues have grown at a compound annual rate of 14% – double the average growth rate achieved by its peers – and as of June 2023, its trading revenues exceed those of Nedbank, FirstRand and Absa combined, as shown in **Graph 2**.

Despite this impressive growth, the market has been hesitant to place significant value on these revenues owing to fears surrounding their sustainability. These fears largely stem from 1) the risk arising from trading activities where the bank puts its own capital at risk, and 2) the fact that revenues generated on the back of clients' trading activities tend to be strong in times of market volatility, but come down when volatility dissipates. While these fears are somewhat justified, they are arguably less so compared to those concerning Standard Bank's peers.

Graph 2: Trading income of South Africa's Big 4 banks



*Using H1 2023 trading revenues annualised for Standard Bank, Nedbank and Absa.
Sources: Company reports, Allan Gray research

Graph 3 shows the number of days on which Standard Bank incurred trading losses compared to the average for its peers. Over the past five years, Standard Bank has experienced an average of 80% fewer loss days per year compared to the average for its peer group. This reflects the superior risk management in Standard Bank's global markets business, enabled by the scale and diversity of its operations.

Standard Bank's pan-African presence has ... helped it build the largest global markets business on the continent.

The franchises' scale and diversity also support the longer-term sustainability of client-driven trading revenues by means of a virtuous cycle, since it enables Standard Bank to show better liquidity and pricing compared to its peers, thereby attracting more clients. Growing its market share further increases its scale and the competitive advantages that scale brings, which, in turn, supports additional market share gains.

This virtuous cycle is also supported by the fact that its peer-leading market share makes Standard Bank an employer of choice. The ability to attract top skills not only enables Standard Bank to offer clients a superior product, but also supports its superior risk management compared to its peers.

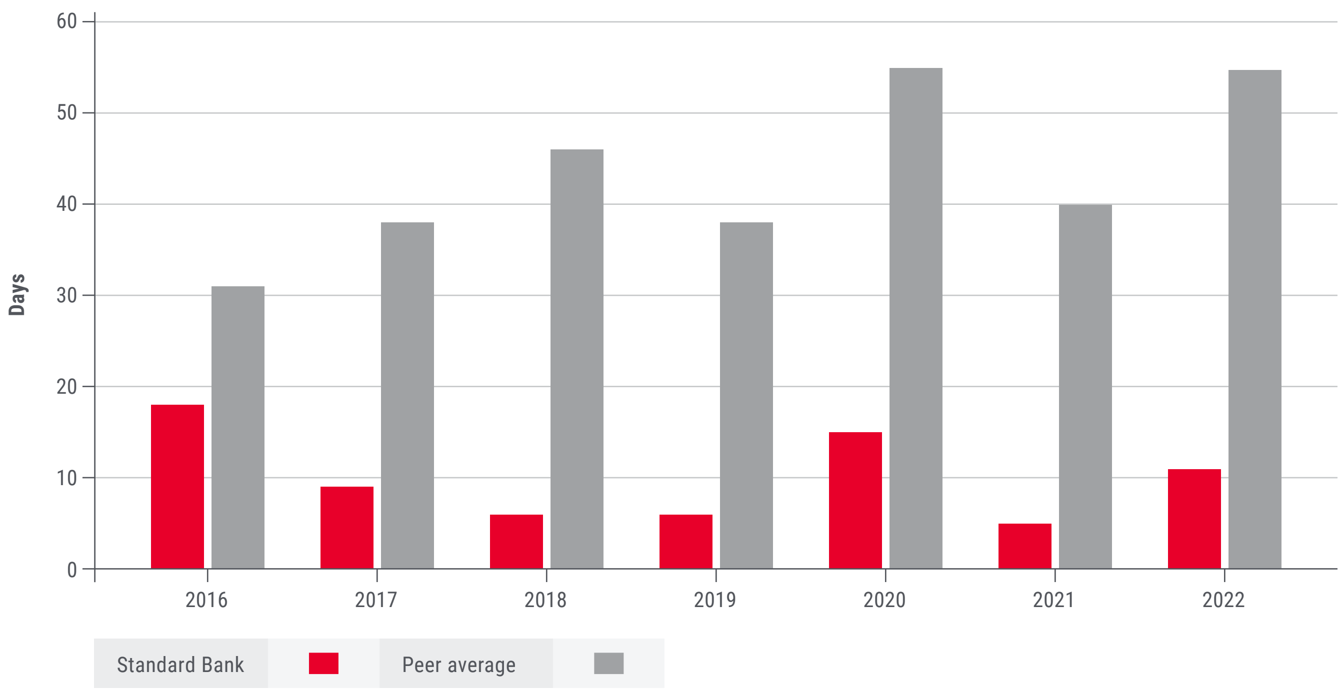
Despite the likelihood of a short-term decline in trading revenues if market volatility eases, the combination of continued market share gains and superior risk management in Standard Bank's global markets business should drive strong sustained growth over the long term.

Standard Bank's prospects

As value investors, we look for companies where market expectations mirror historic trends despite signs that the future may look different. We see these signs both in the progress Standard Bank has made in addressing the aforementioned challenges and the fact that the businesses in which it has superior growth prospects compared to its peers, including the Africa and global markets franchises, are making up an ever-larger part of the overall Group.

Standard Bank is trading on less than nine times our assessment of its normal earnings – well below its historic average. It is currently our top bank holding given the significant potential for outsized returns should our thesis prove correct.

Graph 3: Number of days on which trading losses were incurred



Sources: Company reports, Allan Gray research

Our other bank holdings

Our clients are also invested in FirstRand and Nedbank.

Nedbank trades at a discount to both Standard Bank and FirstRand owing to its lower return on equity (ROE), concerns surrounding struggles in its retail franchise, above-average credit losses, and greater exposure to the impact of interest rate cuts compared to its peers. Trading on only 7.3 times trailing earnings and an 8.2% dividend yield, Nedbank's current valuation more than compensates for these risks. Moreover, it ignores the likely upside to its current ROE from continued momentum in non-interest revenue growth and ongoing cost-efficiency gains in the retail franchise. Nedbank's ROE should also benefit from a normalisation of credit losses should interest rates come down.

Conversely, FirstRand trades at a premium to the rest of the Big 4 owing to its peer-leading ROEs. The strength of its client franchises, coupled with its conservative management and accounting, gives us confidence that it should be able to sustain these ROEs even in a tough economic climate. The defensiveness of FirstRand's earnings is also supported by its more limited exposure to the impact of interest rate cuts compared to its peers.

The only Big 4 bank not owned by our clients is Absa, where we see signs of an ongoing deterioration in its retail franchise. With limited self-help opportunities, we expect this trend to continue. The combination of a deteriorating retail franchise and higher credit losses stemming from Absa's above-average risk appetite will weigh on Absa's ability to generate investor returns.

Ghiete joined Allan Gray in 2021 and is an equity analyst in the Investment team. She holds a Bachelor of Engineering degree in Industrial Engineering and a Doctor of Philosophy degree in Industrial Engineering, both from Stellenbosch University.

ORBIS: PRESIDENT'S LETTER 2023

Adam R. Karr

More important than the short term is a resolute focus on our North Star, which is to deliver world-class client alpha for you over the long term.

In his annual president's letter, Adam R. Karr, from our offshore partner, Orbis, discusses the performance of the Orbis Strategies during 2023, looks back at the investment backdrop over the same period, and glances ahead to what the future may hold.

"It is never intuitive how big something can grow with compounding over time from a small beginning."
– Morgan Housel

Our founder, Allan Gray, set out to "invest differently" 50 years ago. In an industry dominated by salespeople, Allan took a contrarian approach. He built Allan Gray Investment Counsel on a philosophy of fundamental, in-depth research. And rather than charge commissions, in sharp contrast to industry convention, he charged fees based on the value added or alpha delivered. Allan's mantra was that investment services should be "*bought, not sold*" – and he believed that the firm should *always* put clients first.

The results have been astonishing – a $1 000 investment with Allan Gray Investment Counsel in 1974 would be worth $1.2 million today. In November, I was in Cape Town to celebrate the firm's 50th anniversary and had tears in my eyes at dinner reflecting on the tremendous impact of what Allan made possible. It is a testament to his enduring investment philosophy, but also to the power of alignment, patience, and a long-term perspective.

In recent client presentations, I have been speaking about the "Power of n":

Returns to client = Invested capital x R^n

In managing your capital, we obsess over maximising your returns, or "R" in the equation above, without assuming greater risk than the market. Although good returns are critical, the true magic comes as "n" – the investment holding period – gets larger and returns compound over time. Our hypothetical investor, who started in 1974, had $28 000 in 1989 when Allan departed to launch Orbis – an impressive 28-fold return. The vast majority of their $1.2 million in wealth today, however, was compounded after Allan was no longer managing their savings. It is impressive to build a track record of excellent performance for a period, it is quite another feat to build a firm that can endure and deliver world-class results over generations.

We have big shoes to fill.

Looking back at performance

In 2023, client capital appreciated a robust 18.7% on a firm asset-weighted basis. On a relative basis, the Orbis Strategies slightly outperformed their respective benchmarks by 0.1% after fees and expenses, also on an asset-weighted basis. Over the past three years, we have generated 1.7% of annualised alpha on a firm asset-weighted basis and all our Strategies have outperformed their respective peer group averages over this time.

More important than the short term is a resolute focus on our North Star, which is to deliver world-class client alpha for you over the *long term*. And here we have more work to do, but looking more deeply at our recent results, I am encouraged by our progress and believe it will compound over time.

First, our regional Strategies delivered world-class performance. Indeed, the big story in 2023 was the performance of our Japan and Emerging Market Strategies, which both delivered more than 5% alpha while also contributing several big winners to our various Orbis Strategies. It has been gratifying to see our regional teams amp up the focus in their respective areas and harvest the compelling opportunities we have identified in the regions. Our Optimal (US$) Strategy, which hedges out stock market exposure, delivered a 5.7% absolute return after fees, demonstrating the value to be derived from superior stock selection as well as offering a compelling alternative to cash and bonds.

Second, it is important to examine the context in which these results were delivered, particularly for our flagship Global Equity Strategy, which delivered a 20.8% return in 2023 but lagged the MSCI All Country World Index return by 1.2%. In Global, several stiff headwinds worked against us. We owned just one of the so-called "Magnificent Seven" stocks – Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla – that propelled nearly all the benchmark's concentrated gains. We were underweight the US market and US dollar, while overweight the dirt-cheap Japanese yen. And we had near our highest exposure to "value" shares since inception. The latter was especially painful with the MSCI Growth Index outperforming the MSCI Value Index by a staggering 22% in 2023.

Despite limited exposure to the heady drivers of 2023 – the "Magnificent Seven", the US market and growth stocks – we delivered a strong 20.8% return in Global through superior idiosyncratic stock selection. Our internal performance attribution team notes that the realised results in the Strategy were well above average compared to the distribution of outcomes and opportunity set of simulated portfolios. In other words, Global's performance in an adverse context gives me confidence in the actions taken over the past two years and our ability to deliver. With this foundation, we remain laser-focused on compounding this progress.

Looking back

I stated last year that markets were at an "awkward juncture" – no longer a bubble, but nowhere near a bottom. This remains the case today. A few weeks ago, all our senior investors at Orbis came together to reflect on the year and to identify where we can improve. One exercise we did was to identify surprises and then suggest potential lessons and actions. Looking back, beyond the world's obsession with Taylor Swift, 2023 contained several meaningful surprises:

- The "most anticipated recession in history" did not materialise. The goldilocks US economy held up much better than most were expecting, shrugged off a banking crisis earlier in the year, and markets ended quite optimistic about a soft landing.

- The "Everything Bubble" did not burst. Instead, we got a massive stimulus catalysed by the ascendance of generative artificial intelligence. And as we closed the year, the US market was getting another boost from the Federal Reserve, which appears to be signalling an end to their interest rate tightening cycle. Growth stocks soared and the "Magnificent Seven" almost single-handedly propelled the benchmark to its previous peak.

- We did not repeat the pattern of the 1970s – at least not yet. The market largely absorbed and looked through higher interest rates and inflation. The sharp rise in the cost of money and its impact on valuation multiples has been more muted than many feared, although it did have a severe impact on the renewables sector (including our holdings in AES and Sunrun).

Importantly, history shows that this non-linear pattern of an unwinding bubble, like we saw in 2023, is not unusual. Markets **never** move from peak to trough in a straight line. Often there are sharp counter-trend rallies along the way, and the process can take several years. See **Graph 1** on page 18.

One lesson, in the words of beloved New York Yankees legend Yogi Berra, is that "it's tough to make predictions, especially about the future". As such, we focus on what we can control and emphasise playing to our strength, which is in-depth, fundamental company research. We seek to understand the intrinsic value of a business and its drivers better than most, and then buy at a discount. This helps us to look through the macro noise and end up with a portfolio that has a margin of safety no matter what fortune throws our way. Some notable examples from 2023 were positions in Intel, Westlake and Constellation Energy that delivered idiosyncratic alpha despite a surprising and tumultuous macro environment. This focus on differentiated insights is the heart and soul of our investment process.

At the same time, we must be open-minded and adaptive. We must constantly question our assumptions and be mindful of the environment in which we operate to adapt the portfolio as appropriate. Our research always starts with bottom-up analysis, then we cross-check against the bigger picture. In that spirit, one hazard area where we have increasingly dedicated efforts is on the geopolitical front. It looks to us like we are seeing a fundamental change in the world order – in Europe, the Middle East and Asia – and we are dedicating efforts to sharpen our understanding. And on the economic side, should the Federal Reserve fail to stick the coveted "soft landing" and be forced back into a period of unparalleled monetary intervention, we must understand the implications and be ready to act accordingly.

Looking ahead

History rarely repeats but often rhymes. And the concentration we see in today's stock market indices is reminiscent of the "nifty fifty" bubble that was collapsing 50 years ago when Allan started in South Africa. Like then, valuation spreads are wide versus history and, thus, we believe it will be a rewarding time for active, value-oriented stockpicking.

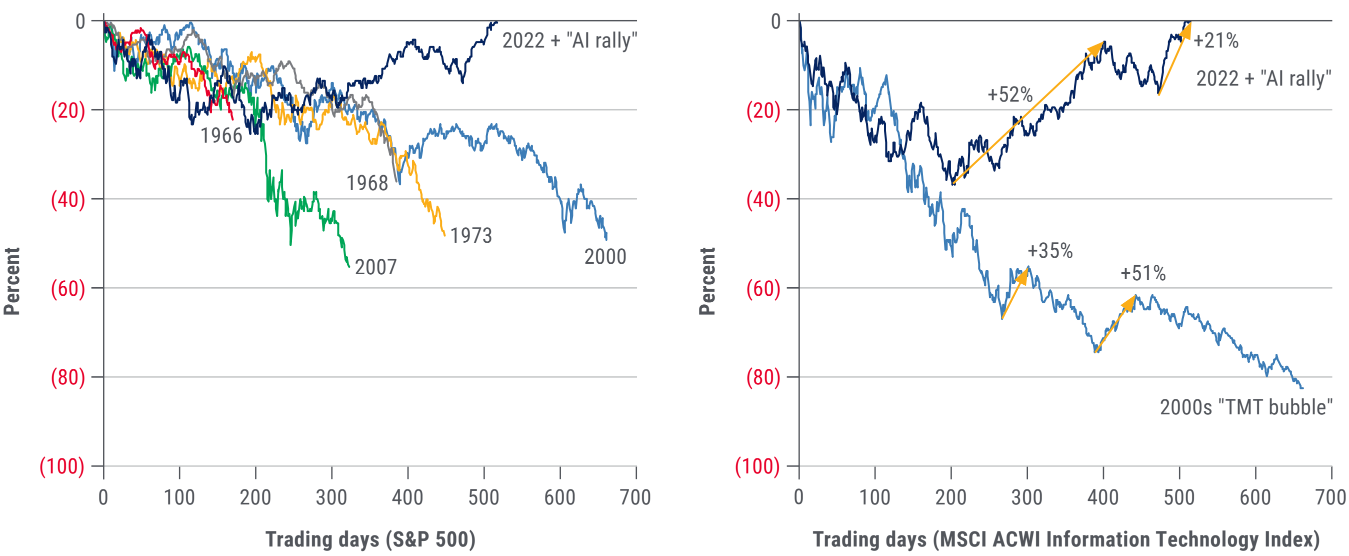
> Despite limited exposure to the heady drivers of 2023 … we delivered a strong 20.8% return in Global through superior idiosyncratic stock selection.

We also think it is a critical time – in the words of the late Charlie Munger – to simply avoid the stupid mistakes. One of the easiest ways to lose money is to buy something for more than it is worth. In this case, that is the above-average downside risk embedded in owning an index full of market darlings with high expectations.

Let's consider the "Magnificent Seven" more deeply as their massive appreciation this past year in percentage terms

Graph 1: Bubbles take time to deflate, and tech can rally before bottoming

Cumulative price change of past drawdowns and since 1 January 2022 (US$)



AI = Artificial Intelligence. TMT = Technology, Media, Telecoms.
Sources: Refinitiv, Orbis. Years represent the peak dates.

does not tell the whole story. Given the sheer size of their market capitalisations at the start of 2023, the incremental market cap added in the year was astonishing. Collectively, the "Magnificent Seven" added about $5 trillion in market capitalisation over the past year – roughly equivalent to the entire Japanese stock market. (See **Graph 2**.) Some of these gains are justified by the superior fundamentals that these companies have produced – but there is a natural limit to how long it can continue at this staggering pace. And to continue delivering attractive returns, they will need to add many more "Japans" worth of market value in the years to come. Possible, but the odds don't strike us as compelling.

Historically, similar periods have ended badly. Expensive stocks lost 40% of their value following the Japan bubble in the late 1980s and 50% of their value following the dot-com implosion. Investors can look foolish for not owning the winners in the short term – and "FOMO" can be overwhelming. But paying too much for an asset with high expectations can be a recipe for disaster. We would rather own first-rate companies like Fleetcor at 16 times earnings and avoid those like Tesla at a frothy multiple of 80 times earnings. That is just one example, but it is exactly what we are doing across the portfolio in Global today. See **Image 1** on page 20 for more examples.

Our founding philosophy is contrarian-minded – that is to "invest differently". There are times when these differences are more extreme than others, and today is one of those times. We own a portfolio of stocks that looks quite different to our peers and to an expensive index. We think our companies offer an attractive set of fundamentals and trade at a sizeable discount to the index. And we are excited by the opportunity this offers.

"A lack of patience changes the outcome." – Shane Parrish

Our task is to remain patient and "stay on the bus". I have said to our younger analysts that "the magic" is often found in the tail or last 10% of the research – that is pushing the work hard enough and far enough that you get to a variant insight. The same premise holds with investment compounding. The power of small gains compounded over time is dramatic. The longer the time horizon, the larger the success.

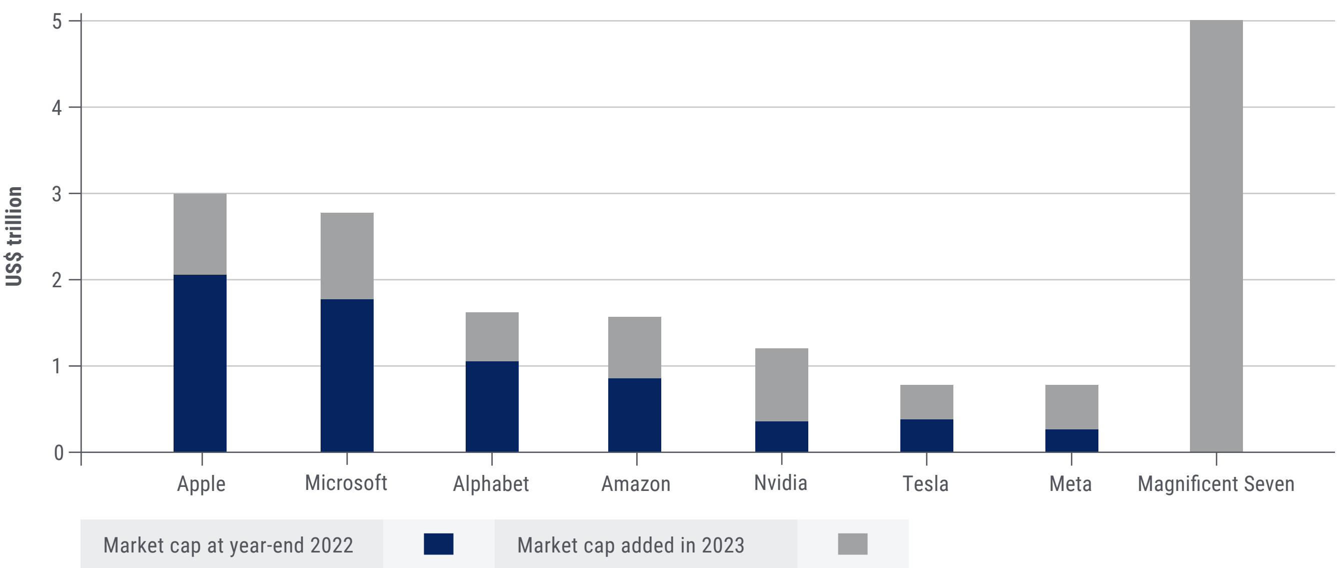
Always traveling

One of my favourite mantras from Allan was "always traveling" – a mindset that I interpreted as being curious, constantly learning and always striving to improve.

Importantly, our focus on patience and "staying on the bus" does not mean being complacent or stubborn. We are compulsive about continuous improvement. This DNA is from Allan and Will, who pioneered many of the structures and tools that we use today. Allan started with paper, pencil and rudimentary quant methods; today we are investing to stay on our front foot. Specifically, we are developing new portfolio construction and risk tools as well as using

Graph 2: "Magnificent Seven", magnificent gains

Market capitalisation of the largest seven companies in the S&P 500 Index



Source: Refinitiv

Image 1: Orbis Global Equity Strategy looks different than the index

Top 10 shares of the MSCI ACWI vs. the Orbis Global Equity Strategy and their P/E ratios

P/E = Price/Earnings.
Sources: Company websites, MSCI, IBES, Refinitiv, Orbis. Data is based on a representative account for the Orbis Global Equity Strategy. The price/earnings (forward 1 year) metric is, in each case, calculated first at the stock level and then aggregated using a weighted median. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning.

AI-enabled technologies to exploit our rich set of proprietary data from over 30 years of investment decisions tracked by our paper portfolio system. We also hired our first Chief Technology Officer and a new head of Quant and Data Insights; and we aim to accelerate our technology initiatives.

We continue to make progress simplifying and building for the future with a relentless focus on the initiatives I outlined in previous letters. First, we demonstrated more agility and accelerated the velocity of capital movement in Global. This includes directing capital to Japanese and Korean banks, which trade at a fraction of book value and are benefiting from an improving rate and capital cycle. We also did a better job seeing the whole, shifting capital away from areas of concern such as China. Second, we have aligned and re-organised the structure of our global research team in London, which intensifies our sector focus, and we introduced process enhancements including a new and more robust framework for assessing risk when recommendations are formally debated. It has also been inspiring to see such a strong bench of talent stepping up, embracing new responsibilities, and making a difference for clients.

Most of our efforts are less transparent and part of the daily grind. It is these small, almost imperceptible efforts that add up to a real difference over time when executed consistently. My colleague at Allan Gray Limited, Radhesen Naidoo, wrote about the power of 1% in the Q1 2023 Allan Gray Quarterly Commentary, which captures this well. Fascinatingly, he noted that achieving a long-term track record in investing has much in common with success in professional tennis. Both disciplines are about patience, hard work, and a commitment to refining your unique skill, as well as resisting the urge to make impulsive decisions.

> … we focus on what we can control and emphasise playing to our strength, which is in-depth, fundamental company research.

Radhesen crunched the numbers of Roger Federer's success on the tennis court. An interesting aspect of professional tennis, like investing, is that you can compound substantial advantages over time by simply being marginally better. There are many ways to analyse professional tennis players, but one that stands out and is easy to interpret is the percentage of points won compared to the percentage of matches won.

Federer started in 1999 ranked outside the Top 100. He won 49% of all points played, and 43% of all his matches in that year. In 2001, he was winning 52% of all points, and 70% of his matches. By 2005, he was dominating the game, winning an incredible 95% of his matches, despite winning only 55% of all points. Put differently, the improvement in points won from 49% to 55% catapulted him to world #1. He still lost 45% of the points played, but the marginal improvement in points won had an exponential impact on the number of matches won. More remarkable is that Federer continued to play at a high level for the rest of his career, which means he consistently improved and adapted as his competition evolved as well.

This is our charge at Orbis – compounding small incremental improvements over time into world-class results.

Our leadership and team

The pace of change across the firm over the past two years has accelerated. On the client and operating side, under Darren Johnston's leadership, we undertook an intensive review of our processes, key operating systems, and alignment. The review affirmed the quality of our systems and people, but also highlighted opportunities to advance that we are actively seizing. Our investment in people is progressing as well. We implemented a new career pathways framework for our investment analysts and welcomed important new technology leaders as noted earlier.

As we look back on this year, Will, Darren and I want to share a full-throated "shout-out" to the team. Particularly, we want to deeply thank and acknowledge our general counsel, James Dorr, who retired from Orbis this year after 26 years of incredible service. We will miss his razor-sharp intellect, keen business acumen and passion for Orbis. James leaves the firm in steady hands, with a strong legal team led by David Gasperow.

Our team and individuals like James are what propels our flywheel. It is energising to lead such talented and committed colleagues. I am grateful.

Conclusion

As always, I will close by reaffirming my commitment to you:

Our firm's success begins and ends with delivering best-in-class investment performance. As it was on day one, I am certain that what we aspire to achieve will not be easy. But how we show up is in our control and we are determined to deliver. Here is my commitment to you: relentless focus; transparent and direct engagement; entrusting others; a culture of inclusion; the courage to be different; an appetite for feedback; and a willingness to change what isn't working. You can expect me to do my part and to ensure that others do theirs. And we will keep showing up every day for you.

Thank you for entrusting us. With your support, we will harness the power of n.

Orbis
Invest Differently

Adam joined Orbis in 2002 and is Orbis' President and head of the Investment teams. He directs client capital in the Orbis Global Equity and Orbis US Equity Strategies and has overall accountability for both. He is a director of Orbis Holdings Limited and Orbis Allan Gray Limited. Adam holds a Bachelor of Arts degree in Economics from Northwestern University and a Master of Business Administration from Harvard University. He is also a trustee at Northwestern University and the founder and chair of SEO Scholars San Francisco.

TIME: THE GREATEST GIFT OF ALL

Zwelethu Nkosi

... we believe time is an essential ingredient in the recipe for long-term wealth creation.

Our advertising has always been, and continues to be focused on informing our clients and prospective clients about who we are, our investment philosophy, beliefs and approach. This strategy supports our purpose, which is building long-term wealth for our clients. Zwelethu Nkosi elaborates.

Our latest advertising campaign acknowledges the value of time in both life and investing. Despite technological advancements, and unlike most things in life, we cannot create more time; once it has passed, we cannot get it back. We cannot buy more time, bank it, or wish it away. Time simply goes on, used or unused. In investing, as in life, time is no good if one does not make the most of it. This makes time a truly rare and precious commodity.

Our new campaign is the latest in a series of time-themed campaigns we started back in 2009. We have repeatedly revisited this theme due to its depth, nuances and unique ability to be experienced on both a personal and universal level. Time means something different to each one of us, and yet we collectively have the same hours in a day.

The concept of time is a rich territory underscored by qualities such as focus, patience, commitment, conviction, perseverance and persistence. It is these underlying qualities that give time its texture and substance.

As Miles Davis, the jazz icon, once said: "Time isn't the main thing. It's the only thing." This is something we live by at Allan Gray. It is the foundation on which our brand is built: long-term investing.

Over the past five decades, we have repeatedly stated that we believe time is an essential ingredient in the recipe for long-term wealth creation. This campaign reinforces the notion that time is indeed the most valuable currency of all.

Our television commercial

"Everything comes around", which launched in November 2023, relays the story of our investment philosophy and approach over time. Through the narrative, we reflect on our 50-year journey, while painting a picture of the highs and lows and how we have navigated the investment landscape.

We gravitated towards music as the vehicle through which to tell our tale, given its versatility, universality and undisputed place in celebrations across demographics and cultures – appropriate as we marked our 50-year milestone. We used music trends as a metaphor by tapping into their fickle, transient and cyclical nature. The same can be said about the various styles of managing money that have come and gone over the past five decades.

Within the ever-changing world, we have stayed true to our values. Despite the cyclical nature of the markets over the last 50 years, we have resisted the urge to change how we invest based on short-term trends. We have remained comfortable with who we are and what we are about. We are steadfast in our conviction and belief in our contrarian way of managing money, as reflected in the consistent application of our investment philosophy and approach.

With the end title "Give it time", our latest commercial joins a long history of advertising built on emotive storytelling through a human lens, beautifully crafted in our signature black-and-white filmic language – the hallmark of our advertising. The advert has rich undertones of how skill that is crafted and refined against a backdrop of trials and tribulations can withstand the test of time.

The story

Set in New York, the story follows the life of a jazz musician, spanning several decades, from the late '50s to the present day. It opens backstage, in a jazz club dressing room, in the heyday of jazz. With a somewhat pensive look on his face, we are introduced to our protagonist, a trumpet player, as he goes through a series of gestures that we later come to know as his pre-performance ritual.

The pounding, upbeat, energetic tempo reverberating through the ceiling gives us a sense of the exhilarating mood that awaits him as we are instantly transported to one of New York's popular downtown jazz clubs. His manner and attire give us a sneak peek into his character. He is clean-shaven, without a single hair out of place, clad in an immaculately tailored white jacket, a pinkie ring alluding to his social status, with a confident and suave rhythmic walk.

He takes to the stage, encased in the spotlight, minimising all distractions. It is pandemonium as the adoring fans lose their minds on the dance floor. It is undeniable that he is at the height of his stardom. He later exits the club, a big wad of cash clasped in his hand, into a sea of photographers hoping to capture a glimpse of the star.

In the decades that follow, his music career takes a sharp downturn. You can sense the change in the air. The fashion is different. He is now playing in sparse-looking clubs to uncaring, smaller crowds engaged in their own conversations, paying him no attention. The once packed dance floor is now deserted, yet he continues to play.

We see him busking in the streets as his music career takes a turn for the worse. Through it all, our jazzman diligently continues to refine his craft, despite its waning popularity. He keeps returning to his signature riff, consistently and passionately, which speaks to his commitment. We see him at home, honing his skill to the beat of a metronome. His distinctive style remains the same throughout. His character is never swayed by the music trends around him, from rock and roll, Motown, disco, hip-hop and electronic music to the live DJ. The jazzman holds true to his values.

> This campaign reinforces the notion that time is indeed the most valuable currency of all.

In his twilight years, the jazzman is rediscovered by a contemporary artist. His music has transcended generations. His sound is now appreciated by the younger generation. In a full-circle moment, reminiscent of the beginning of his story, he takes centre stage, once again in the spotlight. Even in his later years he remains clean-shaven and elegantly dressed. Through his visibly shaken face, a sea of adoring fans is revealed, cheering him on in anticipation, eagerly waiting for him to play. With all the composure he can muster, he plays to a roaring young crowd. His signature riff has stood the test of time. His devotion and commitment have finally paid off.

Parallels to our approach

Most seasoned investment managers would attest to the fact that investment track records are not linear. Like most managers, we have had our fair share of trials. Our investment philosophy and approach have been put to the test, sometimes resulting in severe underperformance relative to our peers, as the stocks we held continued to fall, and those we did not hold, rose in value.

We have seen many investment trends and fads over the past 50 years and have remained true to our style of managing money, even in the face of a rapidly changing world. We have consistently applied our investment philosophy, continuously refining and applying our process across multiple generations of investment teams since 1973. Our investment team continues to invest in shares when we believe a margin of safety exists, i.e. when they are trading at a discount to their intrinsic value, and we sell once they reach our assessment of their true worth.

Our investment philosophy is our signature riff. It is not a tool that we simply abandon when short-term results are disappointing. We have remained committed to it over the past 50 years, and we will remain committed to it in the future.

Supporting mediums

In support of our television commercial, our digital, newspaper, magazine, radio and out-of-home advertising comprises single-minded and thought-provoking brand messages about the value of time in the investing process. The adverts explore the relationship between time and money and encourage us, as investors, to consider how we make use of our time when investing.

The messages challenge us to think deeply about why we work. Do we work for money? Or are we working to ensure that we own more of our time, to be able to choose what we do with our time, what we spend it on and who we spend it with?

Our brand adverts explore this symbiotic relationship and suggest that, while for many, more money may be the ultimate goal, at the heart of it, we invest to earn more time to spend on what truly matters to us. In the long term, investing money wisely frees up time. And while lost money can be replaced, lost time cannot.

It is often the simplest things that can prove the hardest to put into practice, like the age-old advice of starting the investing journey early. Life will always provide good reason to hold off investing. We are often left wondering where all the time went.

It is generally accepted wisdom that the sooner you start investing, the better off you will be in the long run due to the compounding effect of returns. As one of the newspaper headlines from our press campaign asserts: “Money grows on time.” It turns out that our parents were right all along: Money does not grow on trees. It grows on time. Spend yours wisely.

Above: Brand campaign press adverts.

Our commercial "Everything comes around" is available for viewing on multiple platforms, such as YouTube, in cinemas, on linear television stations on both DStv and free-to-air stations and on DStv streaming. The commercial is supported by advertising messages across magazines, newspapers, digital and social platforms and at O R Tambo International Airport. The home page of our website, www.allangray.co.za, leads with the commercial, and is supported by a microsite, www.allangray.co.za/gift-of-time/, which houses all the campaign elements across the aforementioned traditional and digital media channels.

Above: Stills from our brand campaign television commercial.

Above: Brand campaign print advert.

Above: Brand campaign print advert.

Zwelethu was appointed head of Marketing in 2021. She joined Allan Gray in 2010 and was promoted to head of Brand and Advertising in 2018. Before that, she fulfilled Marketing and Brand manager roles, responsible for the management of the brand, including advertising and media. She has experience across multiple marketing disciplines, including business development, trade, consumer and relationship marketing. Zwelethu holds a Bachelor of Commerce degree and a Postgraduate Diploma in Management: Marketing, both from the University of Cape Town.

TAP INTO TAX BENEFITS THIS FEBRUARY

Carla Rossouw

Remember, annual tax benefits are forfeited if you don't make use of them before the deadline.

The end of the tax year in February presents an opportunity to evaluate the tax efficiency of your financial plan. With many competing financial priorities in the current economic climate, as well as the pending changes to the retirement fund system, you may be wondering whether maximising the annual tax incentives still makes sense. Carla Rossouw unpacks the benefits of retirement annuities and tax-free investments, looks at how much to contribute, and discusses the trade-offs to consider when choosing a product.

Incorporating retirement funds (pension funds, provident funds and retirement annuities (RAs)) and tax-free investments (TFIs) into your long-term investment strategy can improve your chances of retiring comfortably and increases the amount of financial flexibility you have before and at the point of retirement.

For the purposes of this discussion, we look at RAs and TFIs. While there are tax benefits associated with both, the benefits are structured differently, and the product rules and restrictions are quite distinct. Depending on your goals and objectives, there may be a place for both products in your investment portfolio. A good, independent financial adviser can help you understand the benefits and trade-offs and decide which products are best for your circumstances.

Focusing on retirement annuities

While pension and provident funds are made available through an employer, either in the form of their own fund or an umbrella fund, an RA is a retirement savings product that investors can hold in their personal capacity. RAs are not linked to employment, and are a good mechanism for saving for retirement for those who are self-employed or those looking to supplement their employer's arrangement.

Tax benefits

RAs offer tax savings now, i.e. you pay less tax now because you make contributions with earnings on which you have not paid tax. However, you will pay tax when you retire and draw an income (although this will likely be at a lower rate than your current tax rate). Your tax saving now directly correlates with your marginal tax rate, therefore the higher your marginal tax rate, the greater the tax saving on your RA contributions before retirement.

You can claim a tax deduction for contributions to all retirement funds, subject to a legislated maximum of the greater of 27.5% of taxable income or remuneration, capped at R350 000 per tax year (although there are benefits, rather than penalties, if you exceed this maximum, as discussed in the "Excess contributions are beneficial" section). While you naturally come out with less take-home pay per month if you increase your RA contributions to enjoy the maximum tax benefit, a smaller portion of your salary goes to the tax man.

Graph 1 illustrates this principle through an example of an individual earning R480 000 per year making contributions to an RA at different levels. The graph shows that the amount of tax you pay decreases as your contribution increases: If the individual in the example contributes nothing to an RA, they pay 23% of their gross monthly salary in tax, which goes down to 19% when they make a 15% contribution, and to as low as 15% when they contribute 27.5% of their salary.

Taxpayers also have the option to make once-off additional contributions to an RA within a particular tax year. You can consider this approach if you prefer to maintain a certain level of disposable income throughout the year by keeping your monthly RA contributions at a minimum. An additional contribution can further decrease your taxable income and may result in a tax refund, as shown in **Graph 2** on page 30.

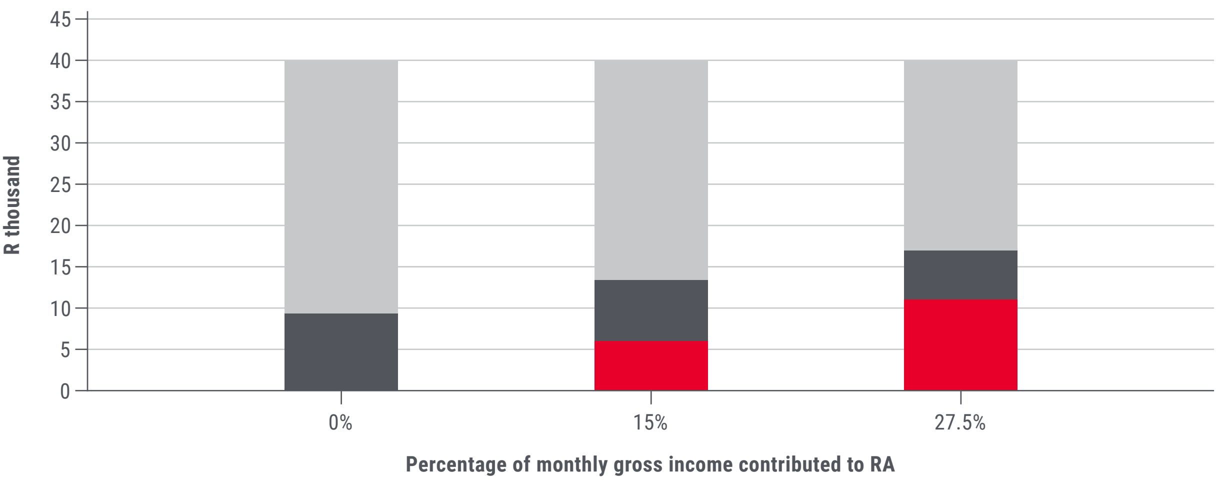
Using the same inputs as in Graph 1, Graph 2 illustrates the tax benefits of making an additional contribution of R50 000 at the end of the tax year. The graph shows that this will result in a tax refund, as the taxpayer has effectively overpaid pay-as-you-earn (PAYE) tax. It also shows that if no contribution was made during the year, and a R50 000 once-off contribution was made at tax year-end, the taxpayer would be due a R15 500 refund. The refund is lower for those who contribute from their salaries during the year, as they have already received the tax benefit (contributions are made before tax is calculated).

If a taxpayer is already contributing a significant portion of their monthly salary – 20% or higher – to an RA, the legislated limits are applied. At this point, any contribution in excess of 27.5% will be treated as an "excess contribution" and carried over to future tax periods (as discussed on page 30).

Like many countries, South Africa has a progressive personal income tax regime, with our tax rates placing a heavier tax burden on the highest earners. If you earn above the highest tax bracket, you will save 45% in tax on every extra rand saved in an RA if it is under the annual rand cap on deductions. Not everyone can afford to save 27.5% of their income towards retirement, but the more you save, the better your position will be in retirement.

Graph 1: Tax benefits of monthly contributions to a retirement annuity

Monthly income composition, assuming earnings of R480 000 per year



	0%	15%	27.5%
Take-home pay	R30 724	R26 584	R23 041
Tax	R9 276	R7 416	R5 959
RA contribution	R0	R6 000	R11 000

Note: These are simplistic examples for illustrative purposes only; medical aid and other rebates have not been taken into consideration.
Source: Allan Gray research

In addition to the tax break on contributions, you pay no tax on the interest, capital gains or dividends you earn while invested. Meanwhile, the first R550 000 lump sum you take at retirement is currently tax-free (importantly, this amount includes all previous taxable lump sums received from any other retirement fund or an employer as a severance benefit).

… your extra … contributions … can benefit you throughout your lifetime …

An RA also provides estate duty advantages: When you die, an RA doesn't form part of your estate, which means it will not attract estate duty. However, excess contributions that have been allowed as a deduction to determine the taxable portion of the cash lump sum benefit on death are included in the value of property of the deceased for the purposes of determining estate duty.

Excess contributions are beneficial

If you contribute more than the annual limit, your extra, after-tax (non-deductible) contributions (excess contributions) can benefit you throughout your lifetime: They can be carried over and deducted in the next year, and they continue to be carried over until they are fully utilised – so the benefit is never lost.

Excess contributions can be used to:

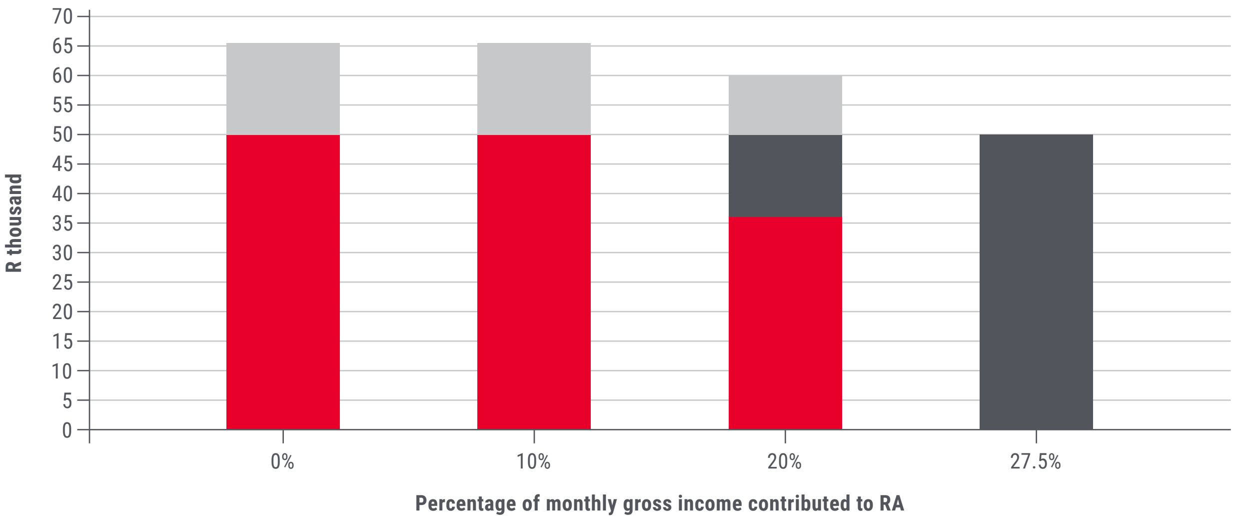
- Increase the value of any tax-free lump sum you take before or at retirement
- Reduce the taxable portion of your living annuity income in retirement
- Reduce the taxable portion of any lump sum your beneficiaries choose to take as cash on your death

Calculation 1 illustrates how the South African Revenue Service (SARS) calculates your tax liability on the cash lump sum at retirement, and how excess contributions can save you tax.

The calculation assumes that:

- You have not taken any previous taxable lump sums, therefore the R550 000 that is made available to you during your lifetime at 0% tax is still available
- You have R200 000 of excess contributions on record with SARS

Graph 2: Tax benefits of a once-off additional contribution to a retirement annuity



	0%	10%	20%	27.5%
Tax refund	R15 500	R15 500	R10 035	R0
Excess contribution	R0	R0	R14 000	R50 000
Once-off deductible contribution	R50 000	R50 000	R36 000	R0

Note: These are simplistic examples for illustrative purposes only; medical aid and other rebates have not been taken into consideration.
Source: Allan Gray research

- The market value of your RA is R2.4m and you choose to take one-third (R800 000) as cash

Calculation 1: How excess contributions can save you tax

Step one: Your cash amount to be taxed is first reduced by your excess contributions: R800 000 – R200 000 = R600 000

Step two: Apply the retirement tax table to the reduced cash amount: (R600 000 – R550 000) x 18% = R9 000

Result: Your final tax bill is R9 000.

Without your excess contributions, you would have paid significantly more as you would have paid tax on a larger amount:

Calculation 2: No excess contributions, therefore no additional tax saving

Step one: No excess contributions, therefore no reduction.

Step two: Apply the retirement tax table to the lump sum of R800 000: (R800 000 – R770 000) x 27% + R39 600 = R47 700

Result: Your final tax bill is R47 700.

Restrictions to be aware of

As with most things in life, there are trade-offs. Some argue that the restrictions discussed below outweigh the various benefits of RAs:

Investment limits: Regulation 28 of the Pension Funds Act limits an investor's exposure to certain asset classes. You can currently have a maximum of 75% exposure to equities and a 45% allocation offshore. These restrictions may not work for you. However, they are intended as a safeguard against asset allocation that may lead to volatile portfolio performance (which is often accompanied by poor investor behaviour).

Liquidity limits: To ensure that retirement fund investments are used for their intended purpose, there are rules that govern when and how you can access your nest egg. Except under certain circumstances, your RA cannot be withdrawn before retirement, and at retirement, your access to cash is limited.

Changes are imminent, with the implementation of the so-called two-pot system scheduled for 1 September 2024. From this date, all *future* contributions to pension funds, provident funds and RAs, including the Allan Gray Umbrella Retirement Fund and Allan Gray Retirement Annuity Fund, will be split into two components: One-third of the contributions will be credited to a savings component, and the remaining two-thirds will be credited to a retirement component.

At any point prior to retirement, members will be entitled to access a withdrawal of up to 100% of the amount that has been accumulated in the savings component, subject to a minimum withdrawal of R2 000. The retirement component will be inaccessible before you retire and, as per the current rules, must be used to purchase an income-bearing product in retirement, such as a living or guaranteed life annuity, which will provide you with an income after you retire.

It is also important to be aware that if you are ceasing tax residency in South Africa, you will only be able to access your RA or preservation fund benefits if you have not been a South African tax resident for an uninterrupted period of three years on or after 1 March 2021. Note that if you have not accessed your pre-retirement withdrawal benefit from your preservation fund, you will have immediate access to your benefit, as has always been the case.

Estate-planning limitations: RAs do not form part of your estate. Although you are encouraged to nominate beneficiaries to receive your benefit if you die while you are still invested in the product, the trustees of the fund are ultimately responsible for allocating your benefit.

Where do tax-free investments fit in?

A TFI is a great way to boost your savings and invest for the long term. Although you invest with after-tax money, you pay no tax on the interest, capital gains or dividends you earn, or on any withdrawals you make. The true benefit of a TFI is felt over the long term as tax-free returns compound.

There are, however, restrictions in terms of how much you can contribute, and the maximum amounts may not be enough for retirement. SARS allows taxpayers to save a maximum of R36 000 per tax year and R500 000 in your lifetime tax-free, and there are tax implications for overcontributing. Unlike the excess contribution treatment in RAs, you will incur a tax penalty of 40% on any amount over the contribution limits. This applies when you file your tax return, so you need to keep track of how much you're contributing each year to your TFIs (across various service providers).

Many investors like TFIs because of their flexibility: Unlike in the case of RAs, there are no asset class restrictions, and you can access your investment at any point in time. However, any amount that you withdraw cannot be recontributed. While your TFI forms part of your estate, if it is structured as a life policy, as is the case with the Allan Gray Tax-Free Investment, the investment can be paid to your beneficiaries immediately, and there are no executor fees.

Product choices

Different products have different advantages and disadvantages, as we discussed in our Q2 2023 Allan Gray Quarterly Commentary, and tax efficiency cannot be looked at in isolation – you also need to consider each product's suitability and flexibility. **Table 1** summarises the role of RAs,

Table 1: Flexibility and tax in investment products

Tax	Most tax benefits	Flexibility	Most flexible	What's the point?
Retirement funds ▪ You pay no tax on interest, dividends or capital gains while invested in the product. ▪ Contributions, including those made by your employer, are tax-deductible. This deduction is limited to 27.5% of the greater of your taxable income or remuneration, capped at R350 000 per tax year. The tax benefits for contributions in excess of these amounts may roll over to the following tax year.		**Retirement funds** ▪ You cannot withdraw from your pension/provident fund unless you resign, but this is set to change with the implementation of the so-called two-pot system scheduled for 1 September 2024. ▪ You cannot withdraw from your retirement annuity (except in specific circumstances), but this is set to change with the implementation of the so-called two-pot system scheduled for 1 September 2024. ▪ When you retire from your retirement annuity, pension fund or provident fund, you can withdraw up to one-third of your investment as cash. The rest must be transferred to a product that can provide you with a retirement income, such as a living or guaranteed life annuity. A higher proportion may be available as cash but only if your investment is below a specified legislated amount or if a portion of your investment has vested rights. Vested rights were given to members of provident funds when the legislation governing these funds changed. Investments with vested rights can be transferred between retirement funds, and up to 100% of these investments can be taken as cash at retirement.		**Retirement funds** provide great tax savings and the restrictions could be beneficial if you are saving for your retirement and don't want to access the money before that time.
Tax-free investments ▪ You pay no tax on interest, dividends or capital gains. ▪ There is a tax penalty if you contribute more than the limits.		**Tax-free investments** ▪ You will pay a penalty if you add more than the annual or lifetime contribution limits. You can withdraw from your investment as you wish. ▪ Amounts withdrawn do not get subtracted from contribution limits.		**Tax-free investments** offer a good combination of tax savings and flexibility. It makes sense to invest up to the maximum and then use other products for additional investments.
Basic unit trust investments ▪ The taxable portions of interest, capital gains and foreign dividends are subject to tax at your marginal tax rate. Gross local dividends may be subject to withholding tax at 20%.		**Basic unit trust investments** ▪ You can add to and withdraw from your investment as you wish.		**A basic unit trust investment** is ideal if you need a very flexible investment. There are no access restrictions and you only start to pay tax once you reach the taxable thresholds.

Source: Allan Gray research

TFIs and basic unit trust investments, along with their flexibility and tax rules.

It is not necessarily an either/or decision; combining an RA with a TFI might provide the best outcome from a liquidity and tax-saving perspective, since one may argue that it offers the best of both worlds. TFI accounts offer less tax savings and are capped at a lower amount, but are less restrictive.

From a retirement savings perspective considering the income provided in retirement, in most cases, RAs offer the best deal. However, you need to be able to live with the restrictions.

Maximise the benefits before the end of February

Remember, annual tax benefits are forfeited if you don't make use of them before the deadline. The current tax year will come to an end on 29 February 2024.

If you are planning to make use of the tax concessions for the 2023/2024 tax year by starting a new RA or TFI, or by making an additional contribution to an existing account, please make sure we receive your instruction, supporting documents and payment well in advance of the deadlines shown in **Table 2**.

Table 2: Instruction cut-off dates for the different payment methods

<table>
<tr><th rowspan="2">Payment method</th><th colspan="2">Cut-off dates</th><th rowspan="2">Instruction submission</th></tr>
<tr><th>Allan Gray Tax-Free Investment</th><th>Allan Gray Retirement Annuity Fund</th></tr>
<tr><td>Electronic collection</td><td>28 February 2024</td><td rowspan="2">28 February 2024*</td><td rowspan="2">Use your secure Allan Gray Online account to submit these contribution instructions.</td></tr>
<tr><td>Electronic funds transfer</td><td>Electronic collection only</td></tr>
<tr><td>Withdrawal from AGUT account</td><td colspan="2">27 February 2024</td><td rowspan="2">Use our "Interproduct withdrawal" form, which streamlines the process of submitting these types of instructions.</td></tr>
<tr><td>Withdrawal from AGLP account</td><td colspan="2">26 February 2024</td></tr>
</table>

*As banks have different processing timelines, electronic funds transfers may need to be made earlier than this date to ensure the money reflects in the RA bank account by 29 February.

Carla joined Allan Gray in 2006 and is head of the Tax team. She has an Honours degree in Management Accounting, a Higher Diploma in Tax Law and a Postgraduate Diploma in Financial Planning, all from Stellenbosch University.

ALLAN GRAY ORBIS FOUNDATION UPDATE: RISING TOGETHER

Nontobeko Mabizela

At its core, the Foundation invests in the education and development of individuals with entrepreneurial potential …

The Allan Gray Orbis Foundation was established in 2005 as part of Allan W B Gray's vision of making a sustainable, long-term contribution to Southern Africa by nurturing the entrepreneurial potential in the region. It is funded by an arrangement that Mr. Gray put in place for Allan Gray to annually donate 5% of its pre-tax profits. Dr. Nontobeko Mabizela, CEO of the Foundation, reflects on the past year, acknowledging growth and celebrating achievements, and offers some insight into the Foundation's vision for the future.

The Foundation's vision of an empowered, prosperous, productively engaged African citizenry, thriving in ethical societies with dignity and hope, stands tall – a testament to our commitment to make a lasting impact. Our ambitious Big Hairy Audacious Goals (BHAGs) resonate as beacons guiding our mission. One of these goals is to empower the participants in our programmes to establish 500 ventures by 2030, 10 of which should be valued at R1bn, and together creating 30 000 jobs. The goal is for these ventures to be financially stable, and sustainable. In the tapestry of our vision, each thread is meticulously woven with the collective determination to make a difference.

Our commitment to preparing the next generation of entrepreneurs is unwavering. We empower young minds with the skills and mindset needed for success through a revamped curriculum and online learning platforms for our Scholarship Programme (for high school learners), Fellowship Programme (for university students, known as Candidate Fellows) and mentorship programmes, including for programme alumni who become fully fledged Allan Gray Fellows and join the Association of Allan Gray Fellows.

A glimpse of our impact: Nurturing excellence

At its core, the Foundation invests in the education and development of individuals with entrepreneurial potential within Southern Africa. We believe that it takes one responsible, high-impact entrepreneur to change the reality of a city, or even a country, by creating long-term, meaningful job opportunities. We are proud of our current participant numbers, summarised in the image on page 35, and of the strides made in the various programmes and initiatives described in the following sections.

Our thriving participant community

217 Scholars High school learners	**434** Candidate Fellows University students
797 Fellows Alumni	**16 000** Learners Participants in the Allan Gray Entrepreneurship Challenge

Scholarship Programme

Our Scholarship Programme aims to develop a community of young leaders (high school learners) with an entrepreneurial outlook. Over and above funding their education (which includes Scholar tuition, boarding, uniforms, textbooks and a living stipend), it fosters the curiosity and potential already exhibited by these learners through a combination of face-to-face, online and peer learning, as well as one-on-one interventions. The curricula of placement partner high schools are supplemented by mentorship provided by a dedicated Programme Officer for each Scholar. Scholars complete the Programme with an understanding of entrepreneurship and an appreciation of the culture of community and collaboration.

We are proud to report that our Grade 12 Scholars achieved a 100% pass rate, with over 98% of them achieving a bachelor's degree pass.

Fellowship Programme

Our Fellowship Programme equips university students with the necessary tools to flourish in their industry and an entrepreneurial lens to view opportunities differently. The Programme aims to develop Southern Africa's future business owners by helping students prepare for life as high-impact, responsible entrepreneurs.

Participants, known as Candidate Fellows, receive entrepreneurship education, personal development and differentiated financial support according to their needs for their education (which includes tuition, residence, textbooks and a living stipend). They are supported holistically in their transition to university and throughout their journey.

In 2023, the Foundation retained 86% of its Candidate Fellows, falling marginally short of its retention target of 90%. In terms of its throughput target, the Foundation admitted 92 Candidate Fellows (79.3%) into the Association in 2023, exceeding its 70% target.

Association of Allan Gray Fellows

Celebrating 15 years, with 797 Allan Gray Fellows part of the alumni community, the Association of Allan Gray Fellows provides a platform for Fellows to test their entrepreneurial ideas, receive feedback, hone various skills and develop mutually beneficial relationships as part of a community that includes other Fellows and partners.

As the Association marks this milestone, we pay homage to Mr. Gray's visionary philanthropy, inspired by the same principles that fuelled the success of his companies: a belief in the power of individuals and a steadfast long-term orientation. Mr. Gray envisioned a new generation of high-impact, responsible entrepreneurial leaders emerging from diverse communities. The Fellows have embraced this vision, becoming ambassadors of change, embodying passion and innovation. They stand at the forefront of economic and social transformation, inspiring others to follow in their pioneering footsteps and reinforcing the Foundation's commitment to nurturing responsible entrepreneurs.

In the tapestry of our vision, each thread is meticulously woven with the collective determination to make a difference.

Allan Gray Entrepreneurship Challenge

Now in its seventh year, the Allan Gray Entrepreneurship Challenge (AGEC), which uses gamification to provide learners across the country with entrepreneurial thinking and problem-solving challenges, as well as the development of entrepreneurial competencies, has been launched in high schools and technical and vocational education and training (TVET) colleges, while the Primary Champions Young Business Minds (the primary school version of AGEC) has been launched in primary schools. Our emphasis on adopting an inclusive roll-out strategy has yielded success, reaching diverse target groups across all nine provinces.

Strategic measures, such as removing barriers and restructuring the game, contributed to exceptional participation and engagement. Notably, the integration of an automated marking feature into the game, which eliminates the need for manual marking of learner submissions, significantly improved the overall gaming experience. Additionally, mobile apps facilitated flexible participation, resulting in a total of 16 000 registrations by learners for the AGEC's 2023 gaming season.

Many of our beneficiaries have emerged as shining examples of innovation and leadership.

Furthermore, the AGEC Gaming Network – a social platform enabling players to connect, engage and collaborate with diverse stakeholders in real time, fostering access to additional support for unpacking entrepreneurial concepts – grew by a phenomenal 156% since the previous campaign, with 27 693 members from various segments, including learners, teachers, TVET students, businesses, mentors and parents. With representation from 2 251 schools, 3 222 registered parents and 1 519 registered businesses, the AGEC's impact has extended.

Celebrating success stories and community engagement

Many of our beneficiaries have emerged as shining examples of innovation and leadership. Daniel Ndima, founder of innovative healthcare company CapeBio, and Melvyn Lubega of Go1, an educational platform, were lauded at the 11th All Africa Business Leaders Awards. Meanwhile, Matthew Piper and Karidas Tshintsholo, founders of Khula!, which provides software tools to grow agriculture and food businesses, have secured a minority equity deal with the Absa Group, which will empower them to further grow their business and potentially expand into other African markets.

Candidate Fellows are also making waves. Adam Gear's efforts raised US$15 000 for effective charities through the Effective Altruism Hong Kong community. Mhlengi Shange tutored Grade 11 and 12 learners, sharing university insights and entrepreneurship tips. Zewande Phiri successfully launched a meal service for students, meeting the demand for home-cooked food, especially during exam season, with collaborative support from friends.

We are humbled by the national and international acknowledgement the Foundation has received. From recognition by the South African presidency and the Department of Small Business Development to honours at the Africa Startup Ecosystem Builders Summit and Awards in Kenya, these achievements solidify our commitment to shaping the future of entrepreneurship education.

Guided by the spirit of unity, collaboration with the other entities within the Allan & Gill Gray Philanthropies group and an unwavering commitment to a better, more prosperous future, we stand ready to navigate the path to Vision 2030, where our Fellows create sustainable, high-growth businesses, facilitating meaningful job creation, and the Foundation becomes a centre of excellence in identifying and developing entrepreneurial potential.

Allan Gray Orbis Foundation

Nontobeko is the CEO of the Allan Gray Orbis Foundation. Previously, she led the Foundation's Impact Assurance Function and was responsible for measuring and reporting on the impact of the Foundation's goals. Nontobeko joined the Foundation in 2007.

NOTES

Allan Gray Balanced and Stable Fund asset allocation as at 31 December 2023[1]

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign[2]	Total	SA	Foreign[2]
Net equities	66.3	42.1	24.2	25.5	13.7	11.7
Hedged equities	8.5	2.4	6.1	20.2	9.4	10.9
Property	0.9	0.6	0.3	1.0	0.8	0.2
Commodity-linked	3.2	2.6	0.6	2.3	1.9	0.4
Bonds	13.4	8.3	5.0	32.9	24.9	8.0
Money market and bank deposits[3]	7.8	7.1	0.7	18.1	20.0	−1.9
Total	**100.0**	**63.1**	**36.9**	**100.0**	**70.6**	**29.4**

Note: There may be slight discrepancies in the totals due to rounding.
[1] Underlying holdings of foreign funds are included on a look-through basis.
[2] This includes African ex-SA assets.
[3] Including currency hedges.

Allan Gray Equity Fund net assets as at 31 December 2023

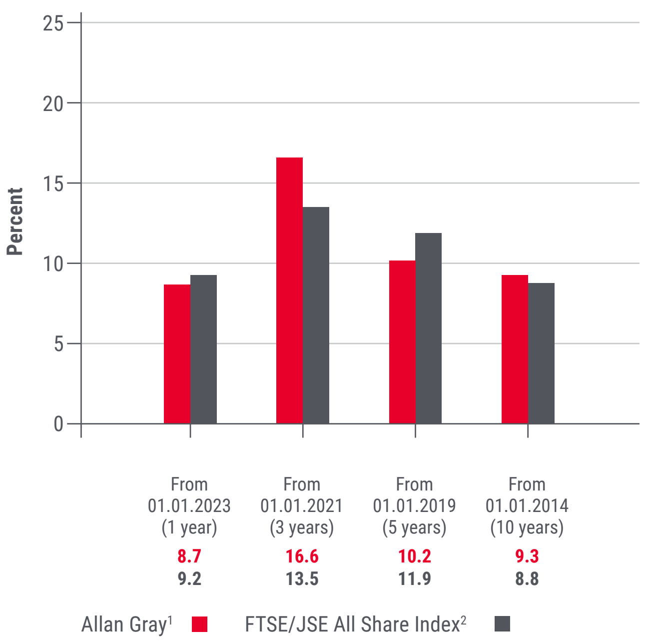
Security	Market value (R million)	% of Fund
South Africa	**25 401**	**57.8**
Equities	**24 814**	**56.5**
Resources	**5 577**	**12.7**
Glencore	1 594	3.6
Sasol	759	1.7
Gold Fields	602	1.4
Sappi	563	1.3
Sibanye-Stillwater	480	1.1
Positions individually less than 1% of the Fund	1 579	3.6
Financials	**7 431**	**16.9**
Standard Bank	1 444	3.3
Nedbank	1 109	2.5
Remgro	1 097	2.5
FirstRand	687	1.6
Investec	450	1.0
Positions individually less than 1% of the Fund	2 644	6.0
Industrials	**11 806**	**26.9**
AB InBev	2 072	4.7
British American Tobacco	1 946	4.4
Naspers & Prosus	1 476	3.4
Mondi	1 294	2.9
Woolworths	1 165	2.7
Tiger Brands	476	1.1
Positions individually less than 1% of the Fund	3 378	7.7
Commodity-linked securities	**276**	**0.6**
Positions individually less than 1% of the Fund	276	0.6
Bonds	**11**	**0.0**
Positions individually less than 1% of the Fund	11	0.0
Cash	**300**	**0.7**
Foreign	**18 505**	**42.1**
Equities	**1 899**	**4.3**
Booking Holdings Inc	803	1.8
Walt Disney Company	760	1.7
Positions individually less than 1% of the Fund	336	0.8
Equity funds	**16 494**	**37.6**
Orbis Global Equity Fund	7 388	16.8
Orbis SICAV International Equity Fund	4 511	10.3
Allan Gray Frontier Markets Equity Fund	2 400	5.5
Allan Gray Africa ex-SA Equity Fund	977	2.2
Orbis SICAV Japan Equity (Yen) Fund	828	1.9
Orbis SICAV Emerging Markets Equity Fund	389	0.9
Cash	**112**	**0.3**
Totals	**43 906**	**100.0**

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[1]	FTSE/JSE All Share Index[2]	Out-/Under-performance
	Allan Gray global mandate share returns vs. FTSE/JSE All Share Index before fees		
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	13.1	3.6	9.5
2023 (to 31.12)	**8.7**	**9.2**	**−0.5**

Returns annualised to 31.12.2023



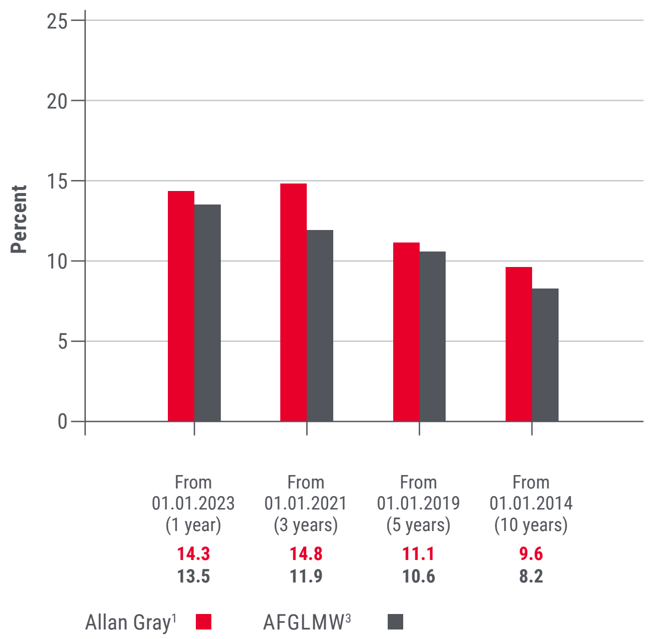
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R345.0 million by 31 December 2023. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R15.6 million. Returns are before fees.

[1] Allan Gray commenced managing pension funds on 1 April 1977, with performance measurement starting 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.
[2] Prior to July 1995, an internally derived JSE All Share benchmark was used.
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[1]	AFGLMW[3]	Out-/Under-performance
	Allan Gray global mandate total returns vs. Alexander Forbes Global Large Manager Watch before fees		
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	9.9	1.2	8.7
2023 (to 31.12)	**14.3**	**13.5**	**0.8**

Returns annualised to 31.12.2023



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R39.7 million by 31 December 2023. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R8.3 million. Returns are before fees.

[1] Allan Gray commenced managing pension funds on 1 April 1977, with performance measurement starting 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.
[3] Consulting Actuaries Survey returns used up to December 1997. The return for December 2023 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 31 December 2023 (net of fees)

	Assets under management (R billion)	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[6]	Lowest annual return[6]
High net equity exposure (100%)									
Allan Gray Equity Fund (AGEF)	**43.9**	**01.10.1998**	**19.2**	**8.5**	**10.3**	**15.6**	**13.9**	**125.8**	**−24.3**
Average of South African - Equity - General category (excl. Allan Gray funds)[1]			14.0	6.8	9.9	13.0	6.6	73.0	−37.6
Allan Gray SA Equity Fund (AGDE)	**4.0**	**13.03.2015**	**6.7**	**–**	**9.0**	**15.6**	**8.9**	**57.3**	**−32.0**
FTSE/JSE All Share Index, including income			8.1	–	11.9	13.5	9.2	54.0	−18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE)	**28.9**	**01.04.2005**	**14.3**	**12.2**	**15.9**	**13.5**	**30.9**	**78.2**	**−29.7**
MSCI World Index, including income, after withholding taxes[2]			14.6	15.2	18.8	15.9	35.0	54.2	−32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF)	**184.5**	**01.10.1999**	**15.0**	**8.6**	**10.2**	**13.7**	**13.0**	**46.1**	**−14.2**
Allan Gray Tax-Free Balanced Fund (AGTB)	**2.8**	**01.02.2016**	**8.4**	**–**	**10.2**	**13.6**	**13.3**	**31.7**	**−13.4**
Average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[3]			11.4/7.3	7.3	9.8	10.9	13.3	41.9/30.7	−16.7/−10.3
Allan Gray-Orbis Global Balanced Feeder Fund (AGGF)[4]	**17.2**	**03.02.2004**	**11.2**	**10.7**	**13.6**	**15.6**	**24.2**	**55.6**	**−13.7**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index[4]			11.3	11.6	12.9	9.8	26.0	38.8	−17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF)	**51.8**	**01.07.2000**	**11.2**	**8.1**	**8.4**	**10.8**	**11.2**	**23.3**	**−7.4**
Daily interest rate of FirstRand Bank Limited plus 2%			8.5	7.2	6.7	6.7	9.3	14.6	4.6
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF)	**0.8**	**01.10.2002**	**6.7**	**5.4**	**2.7**	**5.2**	**2.7**	**18.1**	**−8.2**
Daily interest rate of FirstRand Bank Limited			6.0	5.1	4.6	4.6	7.2	11.9	2.5
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO)	**1.2**	**02.03.2010**	**7.9**	**6.3**	**7.6**	**14.9**	**15.9**	**39.6**	**−12.4**
Average of US$ bank deposits and euro bank deposits			6.6	5.6	6.2	8.1	15.9	35.6	−19.1
No equity exposure									
Allan Gray Bond Fund (AGBD)	**7.7**	**01.10.2004**	**8.7**	**8.2**	**7.7**	**7.0**	**9.5**	**18.0**	**−2.6**
FTSE/JSE All Bond Index (Total return)			8.5	8.0	8.2	7.4	9.7	21.2	−5.6
Allan Gray Money Market Fund (AGMF)	**28.3**	**01.07.2001**	**7.7**	**6.8**	**6.4**	**6.1**	**8.4**	**12.8**	**4.3**
Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[5]			7.5	6.4	5.9	5.7	8.1	13.3	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 15 May 2023, the benchmark was the FTSE World Index, including income.
[3] 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.
[4] 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 Global Government Bond 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.
[5] 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.
[6] 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 31 December 2023

	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	1.09%	0.27%	0.04%	0.15%	1.55%	0.09%	1.64%
Allan Gray SA Equity Fund	1.00%	−0.39%	0.01%	0.09%	0.71%	0.11%	0.82%
Allan Gray Balanced Fund	1.02%	0.27%	0.03%	0.14%	1.46%	0.07%	1.53%
Allan Gray Tax-Free Balanced Fund	1.30%	N/A	0.03%	0.14%	1.47%	0.08%	1.55%
Allan Gray Stable Fund	1.01%	0.37%	0.03%	0.17%	1.58%	0.04%	1.62%
Allan Gray Optimal Fund	1.00%	0.00%	0.03%	0.15%	1.18%	0.12%	1.30%
Allan Gray Bond Fund	0.42%	0.00%	0.01%	0.06%	0.49%	0.00%	0.49%
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	1.41%	−0.31%	0.05%	0.00%	1.15%	0.10%	1.25%
Allan Gray-Orbis Global Balanced Feeder Fund	1.32%	0.36%	0.06%	0.00%	1.74%	0.08%	1.82%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	−0.01%	0.08%	0.00%	1.07%	0.13%	1.20%

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

Foreign domiciled funds annualised performance (rand) in percentage per annum to 31 December 2023 (net of fees)

	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[6]	Lowest annual return[6]
High net equity exposure								
Orbis Global Equity Fund MSCI World Index, including income, after withholding taxes[7]	**01.01.1990**	**17.4** 14.1	**12.3** 15.1	**16.0** 18.8	**13.8** 16.0	**31.2** 35.0	**87.6** 54.2	**−47.5** −46.2
Orbis SICAV Japan Equity (Yen) Fund Tokyo Stock Price Index	**01.01.1998**	**14.3** 9.6	**12.4** 11.3	**13.7** 12.1	**15.3** 8.6	**36.5** 29.7	**94.9** 91.0	**−40.1** −46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[8] MSCI Emerging Markets (Net) (US$) Index[8]	**01.01.2006**	**12.9** 12.1	**8.5** 9.6	**10.8** 9.1	**8.5** 2.6	**26.3** 19.7	**58.6** 60.1	**−34.2** −39.7
Allan Gray Africa ex-SA Equity Fund (C class) Standard Bank Africa Total Return Index	**01.01.2012**	**11.8** 8.4	**6.1** 5.3	**9.4** 14.4	**18.2** 12.2	**21.5** 8.4	**65.6** 42.2	**−24.3** −29.4
Allan Gray Australia Equity Fund S&P/ASX 300 Accumulation Index	**04.05.2006**	**14.1** 12.7	**12.3** 11.3	**13.4** 15.2	**14.0** 12.9	**13.7** 22.3	**99.5** 55.6	**−55.4** −45.1
Allan Gray Frontier Markets Equity Fund (C class) MSCI Frontier Emerging Markets Index	**03.04.2017**	**11.8** 5.9	**–** –	**14.1** 6.4	**18.7** 6.4	**31.1** 21.9	**45.2** 21.9	**−11.0** −12.8
Medium net equity exposure								
Orbis SICAV Global Balanced Fund 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index	**01.01.2013**	**14.6** 13.7	**11.3** 11.4	**14.0** 12.9	**16.1** 9.7	**24.5** 26.0	**54.4** 40.2	**−9.8** −12.1
Allan Gray Australia Balanced Fund The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan Global Government Bond Index expressed in AUD (16%).	**01.03.2017**	**10.5** 10.4	**–** –	**12.4** 11.8	**12.1** 8.4	**16.5** 21.8	**29.1** 25.1	**−5.3** −8.3
Low net equity exposure								
Allan Gray Australia Stable Fund Reserve Bank of Australia cash rate	**01.07.2011**	**10.5** 6.6	**8.5** 4.8	**9.2** 5.9	**8.0** 5.4	**13.5** 13.5	**32.7** 28.8	**−8.9** −15.5
Very low net equity exposure								
Orbis Optimal SA Fund (US$) US$ Bank deposits	**01.01.2005**	**9.8** 8.3	**7.7** 7.4	**9.1** 7.4	**17.4** 10.8	**15.5** 14.9	**48.6** 57.9	**−15.7** −25.6
Orbis Optimal SA Fund (Euro) Euro Bank deposits	**01.01.2005**	**7.6** 6.2	**4.2** 3.6	**6.5** 4.9	**12.0** 5.3	**17.2** 16.9	**44.1** 40.2	**−19.3** −20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)[9] FTSE 3-Month US T Bill + 4% Index[9]	**27.03.2013**	**13.2** 8.6	**12.4** 8.9	**10.8** 12.4	**11.0** 14.9	**26.5** 19.1	**28.9** 36.5	**−7.4** −12.3

Performance as calculated by Allan Gray

[6] 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.

[7] From inception to 15 May 2023, the benchmark was the FTSE World Index, including income.

[8] 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.

[9] 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 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. For more information about our annual management fees, see the frequently asked questions, available on our website.

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.

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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.

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.

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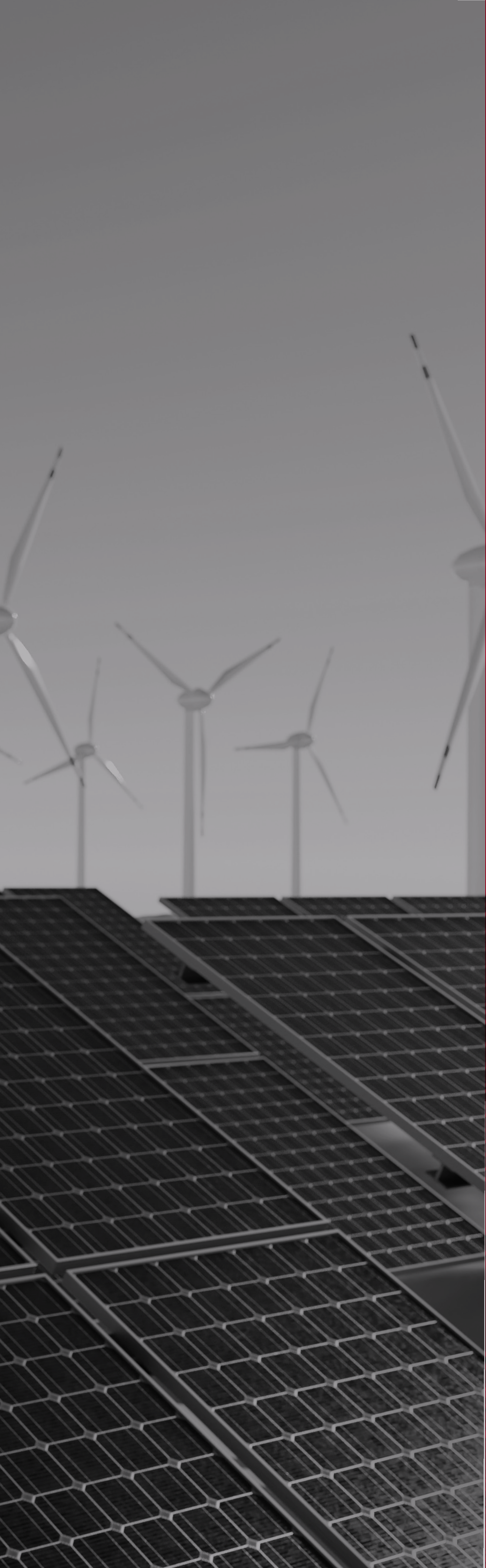

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