QC

Quarterly Commentary
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ALLAN GRAY

Tariffs: The stealth tax

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COMMENTS FROM THE CHIEF OPERATING OFFICER

Mahesh Cooper

Usually during turbulent times, if you have done the upfront hard work of setting your long-term investment goals, the best thing to do is nothing.

"There's absolutely no place for certainty in the world of investing, and that's particularly true at turning points and during upheavals." – Howard Marks, Nobody Knows (Yet Again)

The last few months have felt like a turning point alongside a period of upheaval. Markets are reacting to social media posts, and volatility is a persistent theme. It is hard not to be focused on the short term, given all the uncertainty, and it is easy to lose sight of our long-term investment goals as we seek to minimise short-term pain from the markets.

Emotionally charged decision-making is never a good idea; neither is trying to time the market. Most investors struggle to get their timing right, exiting at lows and reinvesting when things improve, ultimately locking in losses.

So, what is to be done? Usually during turbulent times, if you have done the upfront hard work of setting your long-term investment goals, the best thing to do is nothing.

History gives us much-needed perspective

As we are dealing with unpredictable news headlines, the many unknowns of what will happen following Trump's 90-day pause, and feeling like we are holding our breath for the next market reaction, we thought we would take a step back and work to understand context while learning from the past. I find that this helps immensely in times of uncertainty. A calm and rational perspective amid hysteria is refreshing, and Sandy McGregor does exactly this by looking at the history of tariffs in a bid to make sense of Trump's moves. I encourage you to read his piece, which fills in many gaps.

It is also opportune to head back in time and look at market downturns and subsequent recoveries. Stephan Bernard reflects on events gone by and offers investors some context for investing through volatility, given our bumpy ride is likely far from over. He also looks at how the Allan Gray Balanced Fund has performed since inception, which includes many unsettling periods, reminding investors that part of the reason to pick the Balanced Fund is to outsource your asset allocation decisions (and hopefully some of your anxiety).

Beyond the US

Trump's tariffs, in whichever guise they are implemented, are likely to impact many industries – including auto manufacturers and related sectors – and may affect the transition to electric vehicles (EVs), which has been picking up pace. EVs are growing in popularity, as evidenced by the take-up in China, where nearly every second car sold in 2024 was electric. As Raine Adams discusses, China's automakers have managed to produce a far greater range of affordable EVs than has been the case in Western countries, thereby appealing more to the mass market. These vehicles are spilling over into other countries, including large emerging car markets such as Brazil and Southeast Asia, and even our own market, with investment opportunities emerging.

With the US dominating conversation, it perhaps won't surprise you that our offshore partner, Orbis, continues to shy away from the US stock market, with the Orbis Global Balanced Fund only about 10% exposed to this market. Orbis is positioned against the consensus narrative of American exceptionalism and continues to find compelling prospects elsewhere. Although their piece was written at quarter-end, before the tariff-induced upheaval and subsequent recovery, Alec Cutler and Rob Perrone's discussion of the evolving landscape reflects Orbis' long-term views.

> ... part of the reason to pick the Allan Gray Balanced Fund is to outsource your asset allocation decisions (and hopefully some of your anxiety).

Investing for retirement

For most of us, retirement planning represents the longest and most important personal investment project we will undertake; one in which deliberate decisions and actions are essential. Irrespective of where you are in your journey, there are established methodologies to guide you through. Preparing holistically is key, as Nshalati Hlungwane explains in this quarter's Investing Tutorial.

Allan Gray Orbis Foundation celebrates 20 years

This issue of our Quarterly Commentary kicks off on a high and inspiring note, paying special tribute to the Allan Gray Orbis Foundation (AGOF) as it celebrates its 20th anniversary. AGOF falls under the broader Allan & Gill Gray Foundation, which was established as a continuation of the philanthropic pursuits of the Gray family. Chief executive officer Nontobeko Mabizela describes AGOF's incredible journey and mission since its inception in 2005 through the power of purpose-driven entrepreneurship in driving long-term, sustainable change. She also shares inspiring success stories that bring our founder's bold vision to life.

In these times of ongoing uncertainty, I thank you for your continued trust in us.

Kind regards

Mahesh Cooper

ALLAN GRAY ORBIS FOUNDATION: 20 YEARS OF PURPOSE-DRIVEN IMPACT

Nontobeko Mabizela

Our incredible 20-year milestone is testimony to the power of responsible entrepreneurship to drive long-term, sustainable change and create opportunities for communities.

As the Allan Gray Orbis Foundation (AGOF) celebrates its 20th anniversary, Nontobeko Mabizela, chief executive officer, shares some of the philanthropy history and describes AGOF's programmes and reach. With over one million lives positively impacted by AGOF's mission since inception in 2005, she shares some inspiring stories that bring its purpose and vision to life.

In 1984, Mr. Allan Gray penned a letter to the South African government with a bold vision: to use the skills and resources of Allan Gray Investment Counsel to catalyse small, labour-intensive businesses and foster job creation, particularly within disadvantaged communities (see alongside). Although his proposal was not realised at the time, the seed of that vision was planted. In 2005, it blossomed into the Allan Gray Orbis Foundation (AGOF), dedicated to nurturing high-impact, responsible entrepreneurs who would go on to uplift their communities and drive economic transformation.

In 2015, Allan & Gill Gray Foundation was established as a continuation of the philanthropic pursuits of the Gray family. This foundation, which was endowed with the Gray family's controlling interests in both the Allan Gray and Orbis groups of asset managers, is designed to ensure the asset management groups exist in perpetuity and creates a platform for significant philanthropic impact. AGOF is part of this broader philanthropy ecosystem.

A comprehensive model for impact

Over the past two decades, AGOF has built a structured pipeline that supports entrepreneurial development from high school to post-tertiary level and beyond. Our programmes, which are outlined below, work in harmony to nurture individuals with entrepreneurial potential and equip them with the necessary skills, mindset and support to launch ventures that create lasting change.

The Allan Gray Scholarship Programme

The Allan Gray Scholarship Programme (the Scholarship) cultivates an entrepreneurial mindset, personal mastery and academic excellence in selected high school learners to enable future generations to address the inequalities of the past, and to continue the economic and social transformation of Southern Africa.

Allan Gray Investment Counsel, a partnership, is a firm of investment

For several years thought has been given to donating part of the firm to a non-profit Trust so as to provide a vehicle for a wider sector of South African society to participate directly in the firm's progress.

It is felt that simply donating the funds

For several years thought has been given to donating **to established educational, ecclesiastical and charitable institutions, would fall short of optimising the contribution we could make to society.** firm's progress.

It is felt that simply donating the funds flowing to such Trust from its participation in Allan Gray Investment Counsel to established educational, ecclesiastical and charitable institutions, would fall short of optimising the

provide a catalyst for the creation of small labour intensive businesses such as cottage industries, firms in the service industry etc. amongst the less privileged of South African society. money which would accrue to the Trust, but also our skills in investment, accounting, finance and general management to

The objective would be to create job opportunities, to encourage enterprise and sow the seeds of capitalism, in society.

The urgent need to create a stronger middle class in South Africa demands affirmative action by the Trust by confining its loans to non-whites. untry's new dispensation in the political arena with new opportunities in the economic sphere. The urgent need to create a stronger middle class in South Africa demands affirmative action by the Trust by confining its loans to non-whites.

While **its effort should be so structured as to have a cumulative and compounding effect.** would not be inconsequential, if the Trust is to achieve its goals, its effort should be so structured as to have a cumulative and compounding effect.

Preferably, therefore, financial assistance granted to create or further develop small firms would be repayable - or if an equity interest would be sold - and these funds would in turn become available to finance yet more new firms. The skills within Allan Gray Investment Counsel should prove valuable in determining areas within the economy where new businesses could be viable, in selecting potential entrepeneurs to head the businesses and in anticipating the varied demands that will be made on such businesses. Allan Gray Development Trust would clearly have to develop its own staff some of whom would have to be paid economic salaries, while at the same time, it expects to be able to enlist the assistance of many others, such as non-working wives, on a voluntary basis.

Specifically, **the proposal is to donate 20% of Allan Gray Investment Counsel to the Allan Gray Development Trust.** The trust would receive about R 500 000 in calendar 1985 and, in keeping with the internal revenue code, at least 75% of this would be disbursed. As the proposed trust would be a partner in Allan Gray Investment Counsel it would participate directly in the firm's profitability and any futur **it would participate directly in the firm's profitability and any future growth of the firm would be reflected in increased amounts becoming available to the trust.**

a) the formation of the Allan Gray Development Trust by the donation by Allan Gray/the partners of a 20% partnership interest in Allan Gray Investment Counsel, and

b) approval by the authorities of the Allan Gray Development Trust as a non-profit, untaxed body, in terms of section (?) of the income tax act.

The formation of this trust has been under consideration for some years.

However, both because of the favourable developments within Allan Gray Investment Counsel and our resultant capacity to be of service, and the demands of our evolving society, we believe the time for planning is past and that of commitment and action is now.

The necessary support of the authorities is hereby enlisted so that we at Allan Gray Investment Counsel can make our contribution to an even better way of life in South Africa.

High-potential learners from disadvantaged backgrounds are identified and provided with full funding to attend one of our 33 partner schools. The learners who receive a scholarship from AGOF are called Allan Gray Scholars (Scholars). Alongside their academic studies, Scholars participate in entrepreneurial development activities that cultivate essential skills, such as a growth mindset, self-efficacy, leadership, opportunity assessment, resilience, and creative problem-solving.

Since inception, the Scholarship has supported more than 600 Scholars, selected from over 72 000 applicants. Many Scholars go on to join the Allan Gray Fellowship Programme – AGOF's university programme (see below). As one Grade 10 Scholar reflected: "AGOF has opened up a world of experiences I never knew were attainable. It has opened my eyes to the possibilities the world has to offer and how I can make a difference."

The Scholarship has not only opened educational and entrepreneurial opportunities, but also eased families' financial burdens, inspiring younger siblings and communities to dream bigger.

We are proud to report that 100% of our 2024 Grade 12 Scholars achieved a bachelor's degree pass. There are currently 215 Scholars in the programme.

The Allan Gray Fellowship Programme

The Allan Gray Fellowship Programme (the Fellowship) is the cornerstone of our model, providing university students with comprehensive support, including tuition funding, personal development, and entrepreneurial education. University students who are invited to join the Fellowship are called Candidate Allan Gray Fellows (Candidate Fellows).

Since its inception, the Fellowship has nurtured over 1 800 Candidate Fellows from a pool of over 68 000 applicants. The programme equips participants with critical entrepreneurial skills and an ethical mindset.

One Candidate Fellow described the experience as transformative: "The programme has equipped me with critical skills in problem-solving, strategic thinking, and leadership, enabling me to take a proactive approach to addressing real-world issues."

In 2024, AGOF achieved its target of retaining 90% of its Candidate Fellows. There are currently 450 Candidate Fellows across 10 placement universities.

The Postgraduate Allan Gray Fellowship Programme

The Postgraduate Allan Gray Fellowship Programme, a pilot programme launched this year, has been designed to accelerate entrepreneurial development by offering postgraduate students a fast-tracked version of the Fellowship. With 30 participants selected from six major universities and drawn from a pool of 2 338 applicants, the programme has attracted a diverse cohort, with 53% being women, and strong representation from Humanities, Business and STEM faculties.

This pilot programme reflects our commitment to expanding entrepreneurial access and deepening our impact, ensuring that more graduates are equipped to launch high-impact ventures.

In 2005, Mr. Gray's vision blossomed into the Allan Gray Orbis Foundation, dedicated to nurturing high-impact, responsible entrepreneurs who would go on to ... drive economic transformation.

The Association of Allan Gray Fellows

Our support doesn't end at graduation. When Candidate Fellows graduate, they may be invited to join the Association of Allan Gray Fellows (the Association) and become fully fledged Allan Gray Fellows (Fellows). The Association 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. Through the Association, AGOF provides lifelong development opportunities, mentorship, and funding to alumni (through our sister entity, E Squared), helping them launch and grow ventures that address societal challenges.

In terms of its throughput target, AGOF admitted 97 Candidate Fellows (88%) to the Association in 2024, exceeding its 70% target.

Over the past 20 years, the Association has supported just under 1 000 Fellows. The Fellow communities have worked on approximately 280 prelaunch ideas/ventures and launched more than 300 ventures. These businesses have created thousands of jobs and achieved significant economic impact, improving over one million lives across the region – demonstrating the power of responsible entrepreneurship.

Currently, 37% of Fellows are active entrepreneurs.

Our thriving participant community

215 Scholars High school learners	**450** Candidate Fellows University students
975 Fellows Alumni	**21 000** Participants in the Allan Gray Entrepreneurship Challenge

The Allan Gray Entrepreneurship Challenge

The Allan Gray Entrepreneurship Challenge (AGEC) makes entrepreneurship education accessible to high school learners across Southern Africa through numerous entrepreneurship games and learning opportunities, such as an online game, printed-to-play games and business pitches. Since its pilot in 2015 and official launch in 2017, the AGEC online game has engaged over 80 000 participants through more than 224 000 plays, accumulating 75 000 hours of play and involving over 2 000 teachers.

The AGEC's teacher training initiative, recently accredited by the South African Council for Educators, ensures that educators receive professional development and are equipped to inspire entrepreneurial thinking in their classrooms. Through this programme, we are fostering a culture of innovation and creativity from an early age, building a foundation for future entrepreneurial leaders.

The 2025 game kicked off on 1 April. You can find more information at https://theentrepreneurshipchallenge.com/.

Real-world impact and stories of change

Fellow-led businesses have created jobs, delivered innovative solutions, and driven sustainable change, leaving an indelible mark on communities. Our incredible 20-year milestone is testimony to the power of responsible entrepreneurship to drive long-term, sustainable change and create opportunities for communities.

The true impact of our efforts is best understood through the stories of our participants. Their journeys reflect the transformative power of AGOF's support – fostering resilience, unlocking potential and shaping entrepreneurial leaders.

A Grade 11 Scholar shared: "The Scholarship has been a source of pride and relief for my family. It has lightened financial pressure and created a ripple effect of hope and motivation among my siblings and relatives."

An Allan Gray Fellow echoed this sentiment, stating: "The Allan Gray Orbis Foundation equipped me with the skills and resources to start my first few ventures. The support I've received has shaped my entrepreneurial journey and helped me create meaningful impact."

Beyond personal growth, our participants are driving change in industries and communities.

Transforming legal access through purpose-driven innovation

Keitumetse Pule's entrepreneurial journey is a powerful testament to perseverance, vision, and the long-term impact of structured entrepreneurial support. As someone who has navigated every stage of AGOF's pipeline – starting as an Allan Gray Scholar and eventually becoming a fully engaged member of the Association of Allan Gray Fellows – her path exemplifies the transformative power of nurturing high-potential entrepreneurs from a young age.

Motivated by the everyday struggles that South Africans face when accessing legal services, Keitumetse founded Legal Standpoint, an award-winning legal tech start-up based in Johannesburg. Through innovative, multilingual, and gamified legal education, the platform demystifies the law, empowers individuals with essential knowledge, and connects users with affordable legal professionals and documents. By breaking down barriers to legal access, Legal Standpoint is not just offering a service – it is reshaping an entire industry.

Keitumetse's impact extends beyond her business; she is a living example of AGOF's mission to cultivate responsible entrepreneurs who drive meaningful change. By leveraging technology to make legal services more accessible and inclusive, she is proving that entrepreneurship is not just about building successful ventures – it is about solving real-world problems that uplift communities. Her journey underscores the power of purpose-driven entrepreneurship, demonstrating that with the right support, young entrepreneurs can build solutions that transform lives, industries, and society at large.

A partnership for the common good

None of this would be possible without an initial R1bn endowment from Mr. Allan Gray and the enduring support of Allan Gray Proprietary Limited, which funds AGOF through a donation of 5% of its taxable profits. This powerful relationship between business and philanthropy underscores our belief that business can and should be a force for the common good.

As we reflect on 20 years of impact, we recognise that our journey has been shaped by valuable lessons that will guide us into the future.

First, we have seen that entrepreneurship, when nurtured with the right values and support, is a powerful force for change. The individuals we have supported are proving that responsible entrepreneurship not only drives economic growth, but also fosters inclusive development.

Second, long-term investment in human potential yields generational benefits. The young people we empower today will become tomorrow's leaders, mentors, and changemakers, ensuring that the cycle of opportunity continues beyond our direct reach.

Third, collaboration is essential. We have learnt that our vision can only be fully realised through strong partnerships – within the private sector, government and civil society. By working together, we can amplify our impact and create an ecosystem that sustains entrepreneurial success.

Finally, our founder's unwavering belief in people remains our greatest guiding principle. As we step into the next chapter of our journey, we reaffirm our commitment to unlocking human potential, advancing economic transformation, and championing a future where every aspiring entrepreneur has the opportunity to thrive.

With gratitude for the past and determination for the future, we invite you to join us as we continue this vital work.

Programme application deadlines

Please consult the Allan Gray Orbis Foundation's website for information about the various programmes and future application deadlines. For the 2026 intake, the deadlines for applications are:

The Allan Gray Scholarship: 30 September 2025
The Allan Gray Fellowship: 30 April 2025
The Postgraduate Allan Gray Fellowship Programme: 30 November 2025

Graduating Candidate Fellows are invited to apply for admittance to the Association of Allan Gray Fellows.

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.

TARIFFS: THE STEALTH TAX

Sandy McGregor

Given the magnitude of what Trump is proposing, it may take a while for the necessary changes to be implemented. However, in time they will be made, and a new normality will be established.

On 2 April, President Donald Trump took the market by surprise with the size and extent of the tariffs on US imports he implemented via a presidential order. Global share markets sold off massively. Clearly, investors are concerned by what many regard as a totally irrational policy initiative. Such an emotive topic is best understood through the history of tariffs, expounded by Sandy McGregor, who touches on why they were discarded as an economic tool and why Trump wishes to reinstate them.

Tariffs have a very long history. In Europe they originated in the Middle Ages as a form of taxation to fund state institutions and as a tool to protect domestic production from foreign competition. They act as a stealth tax, which is always more politically acceptable than more visible levies. Tariffs are paid by the importer, who then recovers this cost through higher prices paid by the ultimate consumer. Our modern, brutally efficient tax-collection system is a relatively recent phenomenon. Prior to the 20th century, tariffs played an important role in financing the state because they could be more efficiently collected than other taxes.

Classical economists argue tariffs are economically irrational

Before the end of the 18th century, a mercantilist paradigm prevailed. Gold and silver played the role of what we now call reserve currencies. They were seen as the ultimate store of value. The purpose of trade was to acquire wealth in the form of these metals. Mercantilists believed that tariffs promoted this agenda by reducing imports of goods that could be made domestically.

This thinking was challenged by classical economists, such as Adam Smith and David Ricardo, who claimed that far from making a nation wealthier, tariffs had the opposite effect. In 1817, Ricardo published his ideas about comparative advantage between nations. He argued that if each nation applied its scarce capital resources to the activities where they had a competitive advantage, through trade all countries could become wealthier. Consumers would benefit by sourcing their purchases from the lowest-cost producer, and the benefit from buying cheaper would enable other purchases. These ideas gradually gained acceptance, first in England

and then elsewhere. In 1842, the British Prime Minister Sir Robert Peel tabled a famous budget which embraced the idea of free trade.

Tariffs are replaced by income tax

Other countries embraced free trade more slowly. The size and activities of government were limited compared to what prevails now. Tariffs met their revenue requirements and were easier to collect than other forms of taxation. However, with the outbreak of the First World War in 1914, government spending ballooned, and new sources of taxation were required. Income taxes and value-added tax (VAT), which have a much larger base than imports on which tariffs can be levied, became the principal source of fiscal revenue worldwide. The United States is an exception in that it does not have a national sales tax and cannot implement VAT for political and constitutional reasons. Accordingly, the US federal government is largely funded by taxes on incomes and profits. In 2024, tariffs accounted for only 1.8% of its revenues.

The end of American isolationism

The concept that America is a fortress protected by two oceans that is a safe and secure haven in a turbulent world has long resonated among the majority of Americans. Disillusion caused by America's participation in the First World War reinforced this isolationist constituency, a grouping similar to those who have now elected Trump for a second time. In 1930, these isolationists successfully passed through Congress the Smoot-Hawley Tariff Act, which imposed the highest level of tariffs since 1828, when there was an attempt to impose such high tariffs, which became known as the Tariff of Abominations. The proponents of Smoot-Hawley claimed it would make America richer and boost employment by replacing imports with domestic production. The outcome was very different. By 1933, tariffs averaged 19.8%. The world was plunged into a tariff war, which decimated global trade and contributed to turning a serious economic downturn into the worst global depression in modern economic history. American exports and imports declined by 67%.

American isolationism continued to be a powerful political force until 1941, when Japan attacked Pearl Harbor. This united the nation in support of the war against Germany and Japan and subsequently in support for America's global leadership. After the disastrous sequence of events following the Smoot-Hawley Tariff Act, tariffs were regarded as flawed economically and America actively promoted global free trade. Initially, lower tariffs supported American interests because it was the leading industrial power but, in time, the major beneficiaries became Europe, Japan, East Asia and most recently, China, which achieved prosperity through growing exports. Globalisation lifted billions of people out of poverty. The American consumer also benefited through a plethora of cheaper and better-quality imports, which reduced the cost of living.

Globalisation's critics

Globalisation has always had its critics. More recently, a new group of critics has emerged who see the issue from a purely American standpoint. Prior to 1982, the US was largely self-sufficient, running a balanced current account. Before 1966, imports were less than 3% of GDP and while they grew to be 8% of GDP in 1982, there was a compensating expansion of US exports.

After the disastrous sequence of events following the Smoot-Hawley Tariff Act, tariffs were regarded as flawed economically and America actively promoted global free trade.

It was in the 1980s that globalisation as we now know it really took off. A critical catalyst was the widespread abolition of exchange controls, which allowed capital to flow freely across borders. In this environment, the US has a unique privilege. The dollar is the world's reserve currency. Excess savings tend to be held in dollars. For the past 40 years, access to these savings has allowed the US to consume more than it produces. Economic policy is like water: It flows downhill by the easiest path. Without recourse to VAT, the US federal government is totally dependent on personal income tax. Voters are hostile to tax increases, so it has become almost impossible politically to significantly increase taxation needed to fund a growing financial burden of welfare and healthcare obligations. As the world was willing to finance US fiscal deficits, it was inevitable that US politicians would take the easy path and condone ever-growing fiscal deficits which the market would never have tolerated elsewhere.

Annually this deficit is now running at US$2tn, equal to 6% of GDP. Half of this is financed from abroad with a current account deficit running at US$1tn.

Excess US demand is being supplied by the import of goods running at US$3.4tn annually, equal to 11% of GDP. This is offset by US$2.1tn of export of items, where the US has a competitive advantage and a US$300bn surplus on the service account. The US is now a net importer of many items where it was previously self-sufficient. This includes about half its motor vehicles and 30% of its steel.

Trump ... does not accept the widely held paradigm that tariffs are economically damaging.

The American critics of globalisation argue that it benefits other countries at the expense of the United States, allowing foreign competition to erode its industrial base and eliminate well-paid jobs. Accordingly, they demand tariff protection that will promote domestic production and boost employment. This view has started to resonate among middle-class Americans who are struggling to make ends meet. While top earners are doing very well, this is not true of the majority. The post-pandemic inflation has had a devastating impact on this middle-income group who collectively are no better off than they were five years ago. It is here that the majority who voted for Trump in the 2024 election are to be found.

Trump's tariff agenda

Long before he first became president, Trump was a proponent of tariffs and argued that they could be used to recover America's leading position in industries such as autos and steel. Tariffs would make America great again. He is a mercantilist who believes trade deficits are evil and does not accept the widely held paradigm that tariffs are economically damaging.

He is not alone in this regard. Scott Bessent, his secretary of the Treasury, is the member of his administration who is most rationally articulate about why tariffs are a good idea. He says they offer three benefits. Firstly, they can be used as a bargaining chip in negotiations. Secondly, they will generate revenues which will help reduce the fiscal deficit. Thirdly, they encourage domestic production, which will reduce the trade deficit. For Trump, who wants everything to be transactional, the first benefit is extremely important. However, for the United States, reducing the fiscal deficit is the strongest argument in their favour. Tariffs can be imposed by presidential order, avoiding the congressional paralysis which blocks tax increases. Currently, tariffs are probably the only way the US can significantly increase fiscal revenues, which, given America's bloated fiscal deficit, is desperately needed.

Trump initially used tariffs in his first term as president to conduct a trade war against China, on which a tariff of 20% was imposed. However, China only accounts for 14% of American imports. In 2018, the average tariff charged was 1.6%. In 2021, the year after Trump left office, this had increased to 3.3%. Such a marginal increase did not have a significant impact on the US economy and its trade deficit continued to grow. Perhaps the most important consequence of Trump's trade policy in his first term was China's response. It embarked on a massive investment programme to expand and modernise its manufacturing capacity so that it could reduce its dependence on America. China is now the world's manufacturing superpower and is flooding the world outside America with goods.

Trump encountered resistance in his first administration to his ideas about tariffs. During his four years in exile, he has had time to brood about this issue and has concluded he should now pursue their implementation far more aggressively. He has appointed a cadre of public officials who are totally loyal to him and will do whatever he asks, and is culling public servants who might resist his programme. Bureaucratic opposition has been swept away. Trump is now in a position to move aggressively to implement his tariff agenda.

Liberation Day

Trump revealed his full tariff programme on 2 April, which in his bombastic style he called Liberation Day, so named because he claims the rest of the world has been exploiting American goodwill and that this must now cease. This programme includes:

- A previously announced 25% tariff on imports of motor vehicles, steel and aluminium.
- A standard 10% tariff on all other imports.
- Additional "reciprocal" tariffs on exports from countries which have trade surpluses with the US. These tariffs are

not actually reciprocal; they are calculated pro rata to the size of each country's trade surplus relative to its exports to the US, reflecting Trump's extreme mercantilist attitude to trade.

- A decision to continue the United States-Mexico-Canada Agreement negotiated in his first term, with the exception of vehicle imports. This takes some pressure off America's neighbours.

The biggest surprise was the scale of the reciprocal tariffs, as a consequence of which tariffs on imports from China were to be 54% (later increased to 104%), from the European Union 20%, from Japan 24%, from India 26% and from Vietnam 46%. It was proposed that South Africa, which has mismanaged its relationship with the US, be subject to a 30% duty. The proposed average tariff was about 23%, slightly higher than the notorious Smoot-Hawley Tariff of 1930 discussed earlier.

> Prices will rise not only due to the direct impact of tariffs, but also because long-established supply chains are being disrupted.

Given the erratic way Trump conducts public affairs, it was unclear to what extent the new tariffs could be changed. He has said that "they give us great power to negotiate" and that he was willing to reduce tariffs if other nations offer something "phenomenal". In this regard, he mentioned China selling TikTok to a US buyer. The problem is that few nations apart from China have anything phenomenal to offer and the Chinese will not make such an offer.

Trump blinks

Investors were taken by surprise by the scale of the tariffs announced on 2 April. There was widespread consensus that they would push the US into recession and significantly damage global growth. Investors reacted by selling shares. Share prices declined everywhere. The S&P 500 index fell 12%. Initially this did not concern senior officials in the Trump administration, who argued that share prices were high, and their decline would not damage the economy. Their attitude changed rapidly when the panic spread to the bond market. The benchmark US 10-year bond, which had initially strengthened slightly to 3.9%, rapidly sold off to 4.5%. This put at risk one of Trump's major policy objectives: reducing interest rates. Simultaneously, the administration came under increasing pressure from business to reconsider its proposals. Accordingly, Trump announced on 9 April that the implementation of reciprocal tariffs would be postponed for 90 days to allow bilateral negotiations with various countries. The other tariffs on steel, aluminium and motor vehicles would continue. There would be no change to proposals regarding Canada, Mexico and China. In the case of the latter, tariffs in excess of 100% would continue. The method used to calculate the proposed reciprocal tariffs is so flawed that it is probable it will be replaced by something else. This will depend on the outcome of negotiations. Abandoning reciprocal tariffs means that all goods imported into the United States are subject to a general 10% tariff. However, given Trump's obsession that the process must be transactional and subject to his personal control, it is difficult to predict the outcome of negotiations with individual countries. As the costs of the tariff war become more visible, the pressures favouring more rational outcomes are mounting.

The economic impact of the tariff shock

Given the current value of imports, the initial tariff proposal would have generated about US$600bn of additional tax revenues annually. If reciprocal tariffs are abandoned, this declines to about US$400bn. The US$2tn fiscal deficit would be reduced accordingly. This will be an important step towards stabilising the finances of the US government. The cost will be paid by the consumer through higher prices. Tariffs will be a fiscal tightening equal to 1.5% of GDP. The increased burden on the consumer will be further exacerbated as domestic producers take advantage of the increased cost of competing imports to increase their own prices. The inflationary shock could be more than 2%. As mentioned, Trump's trip down this road in his first term saw tariffs increase by only 1.6%, which had a marginal impact on prices. The present increase is a very different story.

When Trump announced his new tariffs, US economic growth was already slowing, and the disruption caused by the new tariffs will exacerbate this decline. Prices will rise not only due to the direct impact of tariffs, but also because long-established supply chains are being disrupted. Such disruptions were an important contributor to the inflationary shock following the pandemic. Higher prices force consumers to spend more on essentials, reducing funds available for other purchases and the total volume of sales. Motor vehicle sales are particularly vulnerable because about half the cars sold in the United States are imported and are now subject to a 25% tariff. An extremely efficient production system integrating vehicle manufacturing in the US, Mexico and Canada is being shattered. The average car buyer is particularly price-sensitive, so higher prices can have a dramatic effect on vehicle sales.

In a mature economy such as the United States, economic growth is driven by innovation and increasing productivity. Essentially, economic growth is making things cheaper by generating savings, which allow the consumer to make additional purchases of other items. Trump's tariff policy is going to have the opposite effect and in the longer run its cost will be paid in slower growth and reduced incomes. It is a recipe for stagflation. However, while this is damaging, it is ameliorated by the fact that the US is largely a services economy. Services account for 68% of household expenditures. Purchases of durable and non-durable goods are only 23% of GDP. However, adjustments required to accommodate the impact of the tariff shock will still be disruptive. Tariffs will not make Americans wealthier, as Trump claims. Reducing the toxic twin fiscal and trade deficits must inevitably inflict economic hardship.

Europe now recognises it must shake off its American dependence. China is also focused on decoupling from America.

The proponents of higher tariffs believe that they will promote the reindustrialisation of the US. However, domestic production is likely to require higher prices than the imports being replaced, otherwise tariffs would not have been needed in the first place. While there may be some creation of new jobs, modern manufacturing is highly automated, so the impact on employment may be limited. If general tariffs remain at 10%, it is uncertain whether there will be significant impact on industrial production, but higher tariffs, which have greater impact, are damaging in other ways. The impact on the rest of the world will be transmitted by a reduction in American imports, which are currently running at US$3.4tn per year. During previous economic meltdowns in 2001, 2009 and 2020, US imports contracted by about 10%. If the tariff shock is equally damaging, we should think in terms of a US$400bn reduction in US imports, equivalent to 0.5% of global GDP, excluding the US. This burden will disproportionately impact eastern Asia. Global growth will slow with markets awash with goods previously destined for the US. The US will experience inflation, but elsewhere deflation will become the norm.

Political consequences

A persistent theme in American history is that the architects of major tariff hikes stir up popular indignation, as a result of which they lose the next election. This happened following big tariff hikes in 1828, 1889 and 1930. The Republican Party again faces this danger. The primary concern of voters who gave Trump a majority in 2024 was the high cost of living. He was elected to stop inflation. *The Wall Street Journal* reports on recent polls which find that 64% of Americans now believe Trump is not focused enough on "lowering prices" and 55% say he is too focused on tariffs. A massive price shock could severely damage Republicans in the 2026 midterm elections, in which they could lose control of the House of Representatives, where they have a slim seven-seat majority. An inflationary recession would transform Trump from a hero to a villain and destroy his political credibility. However, it must be recognised that any attempt to resolve America's deficit problem will inevitably be unpopular.

When viewed from outside America, these events must be seen as a manifestation of the retreat of American power. The world is splitting into three zones: fortress America, Europe and the rest, which China will dominate. Trump has accelerated this trend. He has galvanised Europe to embark on a significant increase in spending on defence and infrastructure. Europe now recognises it must shake off its American dependence. China is also focused on decoupling from America. These events will accelerate the process by which China is becoming the hegemon dominating the non-American world, which it needs as a source of raw materials and as a market for its growing surplus of manufacturing goods. It is seeking to dethrone the dollar as the world's reserve currency. The trade wars would support this agenda.

What of South Africa?

Assuming South Africa manages to negotiate away its reciprocal tariff, it would be subject to the standard 10%. However, there is a danger it will not achieve this.

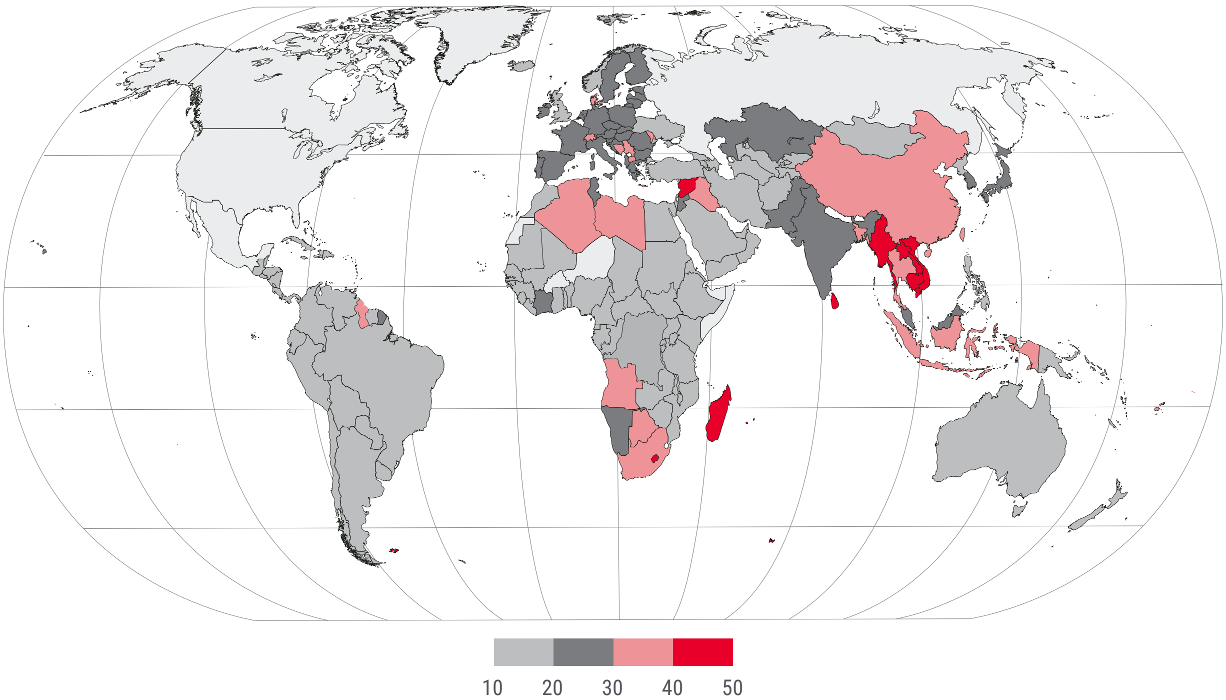
It has long conducted its foreign policy in ways that the US disapproves of, most recently by taking Israel to the International Criminal Court. As the African National Congress is unlikely to change its foreign policy to address American concerns, it will be difficult to negotiate a more favourable trade dispensation. The concessions provided by the African Growth and Opportunity Act are unlikely to survive.

If we are subject to the standard 10% tariff, the new tariff regime should not be damaging. Our exports to the US are mainly metals, minerals and agricultural products, which the US requires. The US consumer will have to pay the cost of any tariff. However, if we are subject to a punitive tariff, our fruit exports will be in danger because we would no longer be competitive. Our vehicle exports to the US will be subject to similar tariffs applicable to other countries. However, the future of these exports will be determined by how international car companies restructure their supply chains. In aggregate, SA will lose some of its US export markets, but this should be manageable.

Time to adjust

Although Trump had signalled that he intended to impose draconian tariffs, he seems to be moderating his stance. The market is discounting a significant slowdown in global growth and rising inflation as supply chains are disrupted. Market economies are robust because they adjust to accommodate new circumstances. Given the magnitude of what Trump is proposing, it may take a while for the necessary changes to be implemented. However, in time they will be made, and a new normality will be established.

Tariff rate by country announced 2 April



Source: White House

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

A GEAR SHIFT IN ELECTRIC VEHICLES?

Raine Adams

... with ongoing EV charging and battery innovations ... and significant investments already made in EV manufacturing globally, we do not foresee a fundamental U-turn in the global EV transition.

Nearly 18 million passenger electric vehicles were sold globally in 2024, up from just 2 million in 2019, and rising from 2.4% to 21% of market share. Can the electric vehicle transition continue unabated, or does a deep dive into the world's largest car markets – and recent shake-ups within them – present a more nuanced picture? Raine Adams investigates.

Our thematic research into the pace of electric vehicle (EV) adoption globally feeds into our investment research for multiple affected sectors, including the platinum group metals (PGMs), oil and gas, and automakers themselves. While the headline growth in global EV sales to date has been impressive, regional disparities also came to the fore in 2024.

China is in a league of its own

China is dominating the EV transition, accounting for 66% of global EV sales in 2024. Nearly every second car sold in China in 2024 was electric, meaning it was either a battery electric vehicle (BEV), also known as a fully electric vehicle, or a plug-in hybrid electric vehicle (PHEV). The latter should not be confused with a traditional hybrid vehicle. While both have internal combustion engines (ICEs), a hybrid vehicle has a small battery and relies on regenerative braking to charge, whereas a PHEV has a larger battery that can be plugged into an external power source. China's EV penetration is remarkable considering that they accounted for just 5% of domestic passenger vehicle sales in 2019.

In Norway, the world's EV front runner, BEVs have reached 90% of annual passenger vehicle sales. Many believed its speed of transition was something of an anomaly owing to its wealth (ironically, built on oil and gas) and the government's significant incentive schemes for EV purchases. However, the Chinese government followed suit with strong subsidies and other supportive measures[1], and to date, EV sales in China are keeping pace with the Norwegian experience, as shown in **Graph 1** on page 16, despite a much lower GDP per capita.

[1] These have reduced over time as the EV market developed.

China's strategic thrust into clean energy technologies, meaning complete vertical integration in the EV supply chain, and the benefits provided by its sheer scale have changed the game. Its automakers have managed to produce a far greater range of affordable EVs than has been the case in Western countries, thereby appealing more to the mass market. These are spilling over into other countries, including large emerging car markets such as Brazil and Southeast Asia, and smaller markets like South Africa, which is discussed in more detail further on.

As part of the Chinese central government's efforts to revitalise economic growth and reduce dependence on oil imports, it continues to support fuel-efficient vehicle sales, including via the recent extension of a 2024 trade-in scheme that offers up to RMB20 000 (US$2 730) when scrapping an old vehicle and purchasing a new EV. This is material considering the average RMB225 000 now paid for an EV in China, and should support domestic EV sales in 2025.

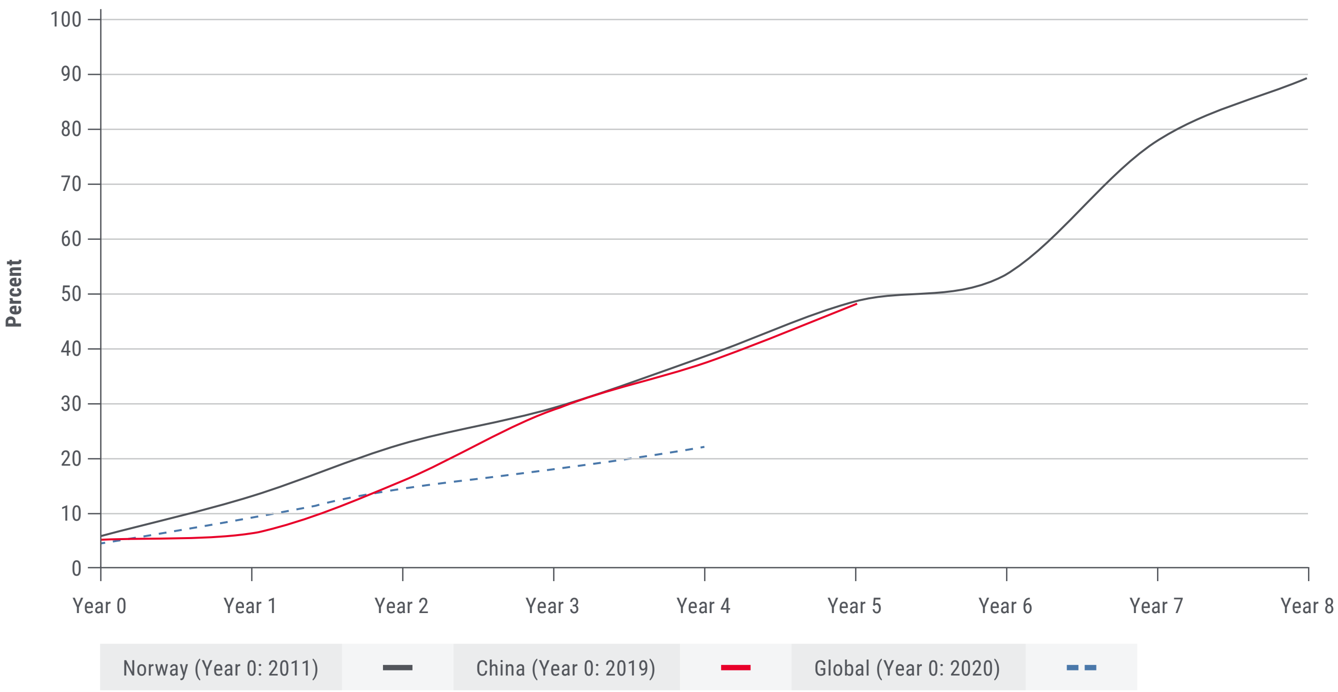
One cannot write about China's EV market today without mentioning its champion manufacturer, BYD. BYD listed on the Hong Kong Stock Exchange as a battery manufacturer in 2002, but subsequently moved into auto manufacturing. It launched its first PHEV and BEV models in 2008 and 2009 respectively, and discontinued its production of ICE vehicles in 2022 to focus purely on EVs.

China's strategic thrust into clean energy technologies … and the benefits provided by its sheer scale have changed the game.

While much of the world's attention has been on US-listed Tesla, whose performance is increasingly challenged by peers, BYD has quietly grown into a formidable contender – if not the market leader. In 2024, it surpassed Tesla's reported *group revenue*[2] of US$98bn and the US$100bn mark for the first time, with reported sales of US$107bn.

Graph 1: Pace of EV adoption

This plots the trajectory of each region's EV share of annual sales from the year EVs approximated 5% of sales.

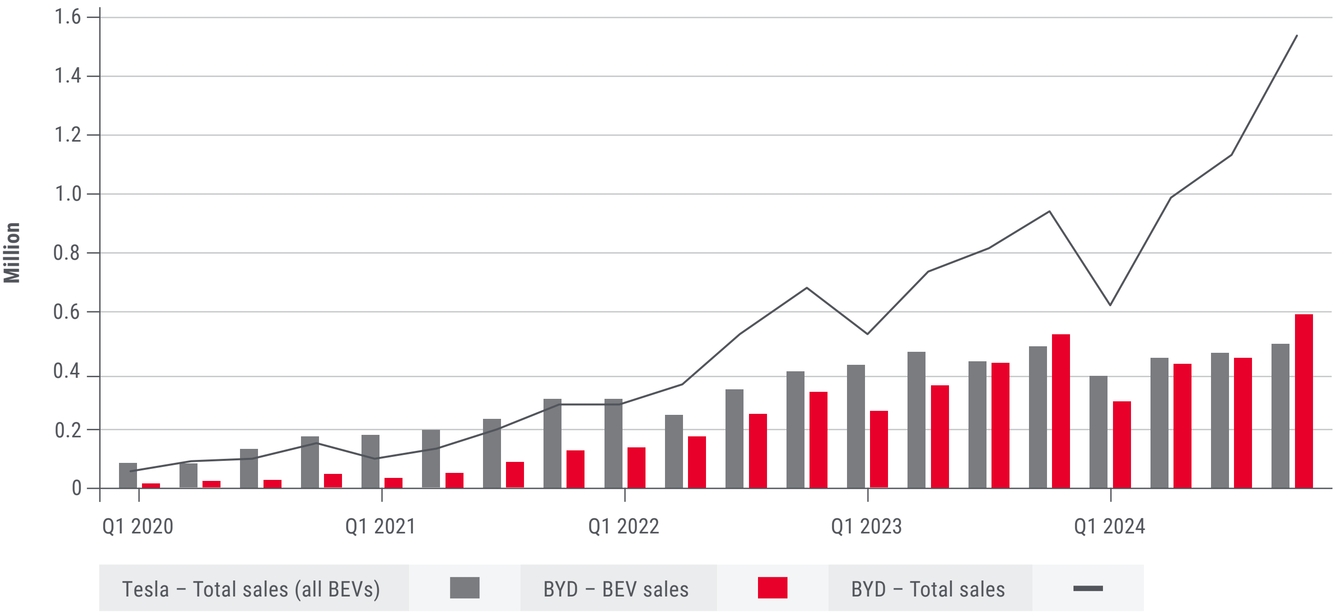


Sources: Statistics Norway (SSB), BloombergNEF, European Automobile Manufacturers Association, Allan Gray research

[2] This comprised US$77.1bn in automotive, US$10.1bn in energy generation and storage, and US$10.5bn in services and other revenue. Source: Tesla Q4 and FY2024 update

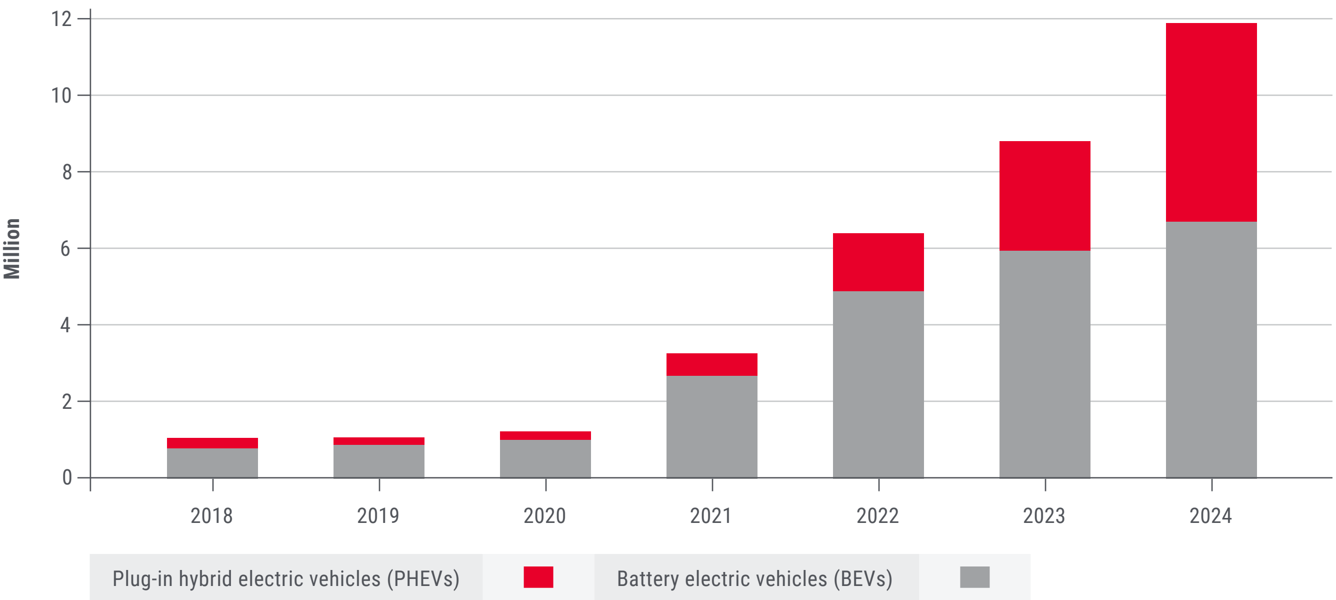
While Tesla sold 1.8 million BEVs, BYD sold 1.8 million BEVs and a further 2.5 million PHEVs and other commercial vehicles, as can be seen in **Graph 2**, indicative of its lower average price tag per vehicle. BYD has been instrumental in the rise of PHEVs in China, with these vehicles growing in popularity from 18% of EV sales in 2019 to 44% today (see **Graph 3**). The rise in demand for extended-range electric vehicles[3] has also played a role – and is something to watch – but these are yet to work their way meaningfully into Western markets.

Graph 2: Tesla vs. BYD – quarterly auto sales



Sources: Tesla, BYD, Allan Gray research

Graph 3: Number of EVs sold per annum in China



Sources: BloombergNEF, Allan Gray research

[3] Extended-range electric vehicles (EREVs), also known as range-extended electric vehicles (REEVs), are EVs that use a small ICE as a generator to extend their driving range when the battery runs low, but the ICE does not directly power the wheels.

As reflected in **Graph 4**, while China forged ahead in 2024, the world's second- and third-largest car markets, the US and Europe, slowed or even declined due to various factors denting consumer demand. These included subsidy changes in several countries, price consciousness considering the higher price points of Western EVs versus ICE vehicles, charging infrastructure accessibility, range anxiety, and residual value concerns. Policy risk was highlighted in Germany, where EV sales plunged 27% in 2024 after government subsidies were abruptly ended due to budget constraints. The key question is whether these are temporary blips in an inevitably fast-paced transition, or indicative of a structural slowdown.

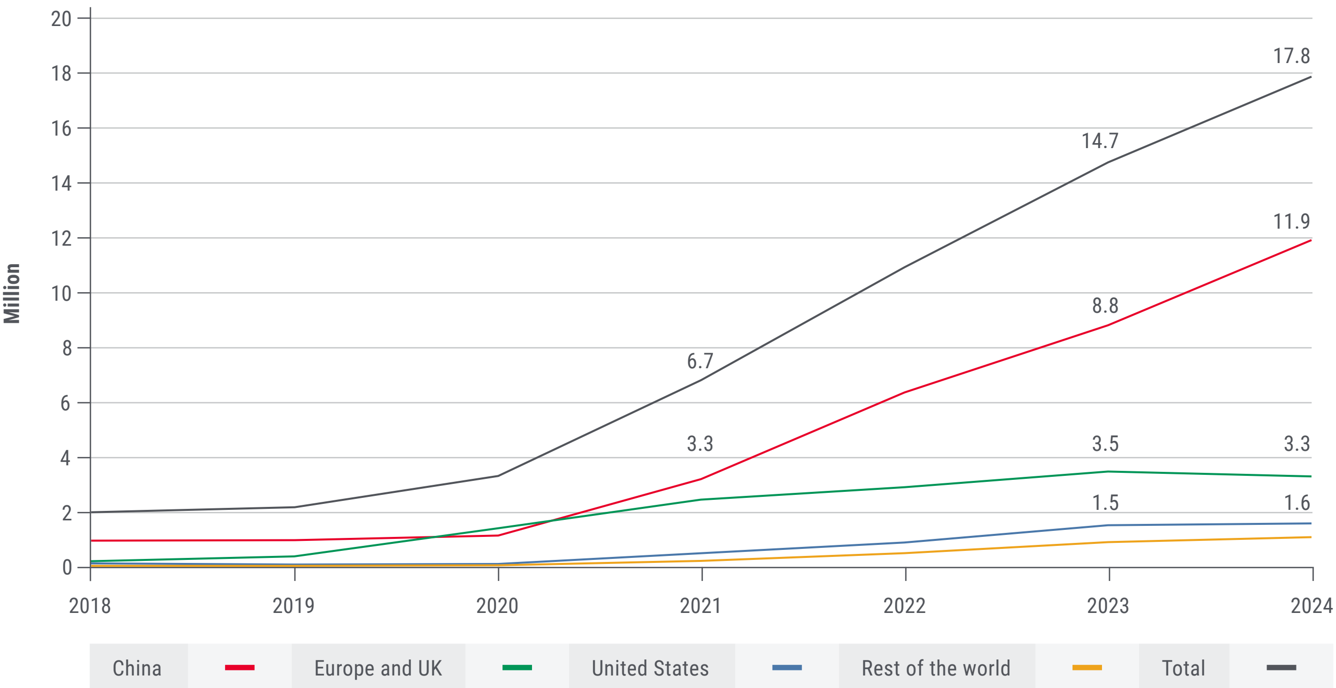
The United States is experiencing a historic disruption

President Donald Trump's return to the Oval Office promised a global shake-up in 2025, but even so has been surprising in its magnitude. In March, Trump announced imminent 25% tariffs on all cars and car parts shipped to the United States. While Trump's longer-term goal is to shift more auto production to the US, this is a material disruption for the sector that will increase US vehicle prices and likely dampen new vehicle purchases (despite a short-term spike in sales ahead of the tariffs coming into effect).

Adding to this, Trump's subsequently announced tariff plans on "Liberation Day" saw trade tensions reach boiling point and have stoked fears of a global recession. While the US "reciprocal" tariffs were not intended to be added to the auto sector's 25% tariff, the broader impacts of such tariffs could fundamentally reshape the global auto industry and the trajectory of global sales. At the time of writing, Trump had announced a 90-day pause on reciprocal tariffs for all countries except China, for which tariffs were instead significantly hiked – in turn triggering retaliatory duties from the Chinese government. The global macroeconomic outlook remains highly uncertain as the world's two biggest powers escalate into a trade war (see Sandy McGregor's piece on page 9 for a deep dive into tariffs).

On EVs specifically, Trump has revoked an executive order signed by former president Biden to target 50% EV sales in the US by 2030, is considering a revocation of EV tax credits approved under the Biden administration's Inflation Reduction Act (IRA), and has instructed the Environmental Protection Agency to reconsider rules on greenhouse gas emissions, including those passed in 2024 that would require two-thirds of US car sales in 2032 to be EVs or face heavy penalties. It is reasonable to predict a slowdown in EV adoption as the US policy environment shifts. Notably, however, many Republican states have benefited

Graph 4: EV sales by key market



Sources: BloombergNEF, Allan Gray research. Sales volume data differs widely by source; consequently this chart uses BloombergNEF data throughout to ensure consistency.

from EV factory investments, and a recent survey showed that most Republicans now support IRA-based EV incentives, so an abandonment of the EV transition is unlikely.

Europe reckons with its embattled auto sector

In Europe, 2025 was anticipated to be a strong rebound year for EV sales as vehicle emission standards tightened significantly. However, the domestic automotive industry has come under severe pressure due to the growing cost of doing business as a result of rising energy and regulatory costs, a slow roll-out of EV charging infrastructure dampening consumer EV demand despite automaker investments therein, and fewer mass-market EV options, meaning that they have lost ground to Chinese EVs both locally and abroad.

In the pickup truck segment, which is very popular in South Africa, the recently launched BYD Shark became our first PHEV bakkie, with other launches imminent.

In the second quarter of 2024, Chinese brands' share of EV sales in the EU had risen to 14% from just 2% in 2020. The auto sector received last-minute, albeit temporary, breathing room in March as the EU permitted an extension of the compliance period for vehicle emission targets from a one-year to a three-year average from 2025 to 2027. This is likely to slow short-term EV sales, but currently, the broad policy direction for the EV transition remains intact.

Chinese imports remain the key channel to watch, particularly as price wars have intensified competition and should lead to industry consolidation. Increasingly protectionist stances in the West, however, mean that, in the short term at least, Chinese EV imports are less likely to accelerate their transitions. In 2024, the US quadrupled the tariff rate on Chinese EVs to 100%, a move that was followed by Canada to protect their domestic industries.

The EU has imposed tariffs on China-made BEVs ranging from 8% to 35%, on top of its standard car import duty of 10%, after an investigation found that China's heavy state support for EV manufacturing created an unfair playing field. Chinese automakers responded by exporting more PHEVs to the region (which are not currently included under the scheme), leading to the EU and Chinese government recently agreeing to reopen tariff negotiations.

South Africa: What is happening at home?

As developed markets seek to curtail Chinese EV imports, emerging markets with less onerous regulations become the next growth avenue for Chinese automakers. South Africa is a much smaller vehicle market than those above, accounting for around 0.6% of global sales. Of the 515 712 new vehicles sold in 2024, just 0.4% were BEVs or PHEVs[4], while hybrids accounted for a more sizeable 2.6% (dominated by Toyota's Corolla Cross) and ICE vehicles[5] for the remaining 97%. Nevertheless, the EV market is growing, with BEVs up 35% year-on-year to 1 257 vehicles sold, and PHEVs doubling to reach 728 – potentially indicative of a similar trend to that seen in China.

BMW and Volvo[6] currently dominate EV sales, which have focused on the premium market, but Chinese EV launches are growing and opening competition at the lower end. In the pickup truck segment, which is very popular in South Africa, the recently launched BYD Shark became our first PHEV bakkie, with other launches imminent.

EVs and sectoral impacts

2025 is set to be a noisy and disruptive year. Our view is that Western developed market EV sales growth will likely be challenged in the shorter term, particularly depending on how trade wars play out. Slow supporting infrastructure roll-out may also see slower growth in emerging markets outside China. However, with ongoing EV charging and battery innovations (particularly from China) and significant investments already made in EV manufacturing globally, we do not foresee a fundamental U-turn in the global EV transition. We have long believed that, rather than a winner-takes-all environment where BEVs dominate, the transition will take the shape of a multiproduct portfolio, including PHEVs and hybrids. This is starting to play out as Western policymakers shift to a transition approach of "pragmatism and flexibility".

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[4] Please note that the actual percentage is expected to be slightly higher, as BYD does not currently report to the National Association of Automobile Manufacturers of South Africa (NAAMSA).
[5] These include mild hybrids.
[6] Volvo Cars is a Swedish company, but is in fact owned by the Zhejiang Geely Holding Group (Geely).

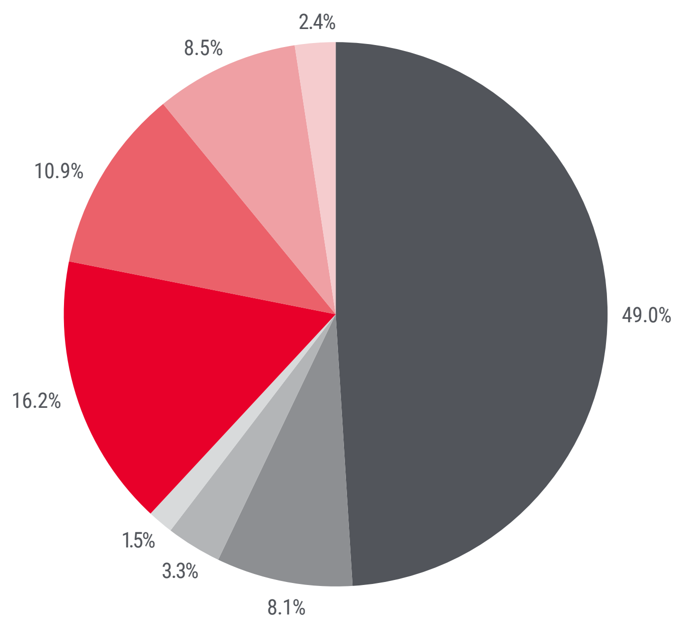
From a sectoral perspective, the impact of the transition on PGMs and PGM miners is likely front of mind for South Africans, being close to home. Catalytic converters in ICE vehicles consume around 85% of palladium, 90% of rhodium and 45% of platinum demand, meaning that PGM miners are directly negatively impacted by declining ICE sales. While this is an undisputed risk and important consideration in our investment research, again there are nuances. For example, hybrids and PHEVs have similar or slightly higher PGM loadings than ICE vehicles and are on the rise. On the supply side, the weak PGM price environment and future demand uncertainty are curbing investment in production in South Africa, which accounts for over 50% of global primary (i.e. mined) supply, and prompting restructuring considerations. These mines also remain vulnerable to a constrained energy environment and decaying water infrastructure.

Oil demand is better supported than PGM demand, given the number of ICE vehicles actively on the road. This will take time to roll over. There are about 1.4 billion passenger vehicles on the roads globally today, of which EVs are roughly 4% (and BEVs even less). As **Graph 5** shows, road transport, and within this, passenger vehicles, account for 49% and 30% of annual global oil demand respectively. The heavy commercial vehicle segment consumes disproportionately more fuel versus its fleet size and will be slower to decarbonise.

As the country furthest along in its EV transition, Norway offers a glimpse into the future. From 2016, when EVs accounted for 5% of Norway's passenger vehicle fleet, to 2023, when they had grown to 28% of the fleet, road fuel demand declined by just 16% (on account of PHEVs still consuming fuel). Over this same period, Norway's total oil demand declined by only 1% *cumulatively*. As Graph 1 on page 16 shows, global EV penetration is on a significantly slower trajectory than Norway, and oil demand this decade is likely to be – excuse the pun – sticky. From 2002 to 2012, oil demand growth averaged 1.2% per annum. From 2013 to 2023, this slowed to 0.9%, and in 2024, demand grew by 0.8%. In the next decade, this will likely be lower, but is unlikely to be sharply negative.

Notably, China's large refiners are calling the country's peak oil demand in the next few years, meaning that

Graph 5: Oil consumption by sector



Road transport	Aviation	Marine bunkers
Rail and domestic waterways	Petrochemicals	Other
Residential/Commercial/Agriculture	Electricity generation	

Sources: Statista, based on OECD countries; Allan Gray research global demand destruction may intensify post 2030. For the decade to 2023, China accounted for more than 60% of global oil demand growth, while in 2024, this declined to 20%. From an offset perspective, the petrochemicals sector and India are oil's two biggest growth drivers to watch.

The bottom line

Despite the direction of travel for negatively impacted sectors such as PGM miners and oil and gas companies, as bottom-up stockpickers, a company in a "sunset" industry can still be a great investment if the entry price has more than discounted those risks. Meanwhile, a future-facing company that is priced for perfection – much like Tesla – may well be a poor long-term investment if that perfect scenario doesn't play out.

In 2024, the *combined* market capitalisation of the world's top 11 traditional vehicle manufacturers ex-China was not much greater than Tesla's market capitalisation alone, yet collectively they sold 30 times the number of vehicles and generated 20 times as much revenue. Of course, relative valuations are never this simple, but it highlights how sentiment can drive excessive disparities between the perceived winners and losers – and how bottom-up stockpickers stand to gain from doing their homework.

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.

ORBIS GLOBAL BALANCED: DEFENSIVELY POSITIONED TO DELIVER LONG-TERM RETURNS

Alec Cutler and Rob Perrone

The Orbis SICAV Global Balanced Fund remains cautiously positioned with severe underweight exposure to the US dollar compared to its benchmark. Alec Cutler and Rob Perrone from our offshore partner, Orbis, discuss how the landscape is evolving and how Orbis is thinking about the portfolio.[1]

Uncertainty is the order of the day in the US, and that is not what markets were expecting in January. Coming into the year, the US stock market traded at sky-high valuations, having notched two consecutive years of 20% plus returns. Strong equity returns, strong profit growth, strong economic growth and a market-friendly Trump were all priced as virtual certainties. With investors bullish on America's stock market and economy, Treasury yields rose and the dollar strengthened.

That made us cautious. When prices are high, expectations are high, and when expectations are high, so is risk. Fortunately, those high expectations were concentrated in the US, as markets elsewhere were roundly neglected.

We were positioned against the consensus narrative of American exceptionalism. Only about 10% of the Orbis SICAV Global Balanced Fund (the Fund) was exposed to the US stock market. We were steeply underweight the dollar, which to us looked breathtakingly expensive versus other currencies, especially the cheap Japanese yen and Norwegian krone. We held substantial exposure to gold – a guardian against stagflation, a hedge against geopolitical risk, and the original anti-dollar asset. And with companies elsewhere broadly ignored, we found compelling stockpicking opportunities all over the globe.

We remain defensively positioned

We are still positioned that way, because prices haven't changed all that much. For all the headlines about its decline since late February, the S&P 500 is down less than 5% year

[1] This commentary was compiled at quarter-end (31 March 2025).

to date. It still trades at valuations rarely seen outside of market bubbles, it still carries a steep premium to markets elsewhere, and it still commands a near-70% share of world stock markets. While there are increasing signs that the US economy is rolling over, Treasury bonds offer roughly the same yields now as they did on election day. The dollar has weakened a little, but still looks richly overvalued versus other major currencies.

As a result, we have continued to shift the portfolio in a defensive direction. Net of hedging, we have less exposure to stock market risk than the 60/40 index benchmark, and our fixed income holdings are longer-term than they have ever been. In addition to valuations, we have concerns about the US cycle. Its economy is vulnerable to any weakness in the stock market, and neither the White House nor the Federal Reserve (the Fed) seems inclined to help.

Witnessing the "wealth effect" in the US economy

Two-thirds of US gross domestic product (GDP) is consumer spending. Over half of that spending, and all of the spending growth over the last two years, has been driven by the top 20% of households by income. While those on lower incomes are feeling stretched, wealthy people have been happy to keep splurging, because the stock market has been up so much. By the end of last year, the value of US households' equity holdings had swelled to US$47tn, and high earners owned 87% of that. As the stock market has soared, it has grown larger versus the US economy. Today, the S&P 500 is valued at about 160% of US GDP, versus an average of 95% over the last 30 years.

Said another way, the US economy has become more financialised, and thus more dependent on the stock market. Researchers from Moody's, among others, have tried to put numbers on this "wealth effect". They estimate that for every extra dollar in household wealth, households spend an extra two or three cents. Over the past few years, this has been a boon for the economy. But now, the economy depends on consumer spending, the only consumers spending are the rich ones, and their spending depends on rising stock markets.

The market, for the moment, anyway, has stopped going up. What does that spell for the economy? It's easy to see how downward trends could feed on each other. A slumping market makes wealthy people rein in spending. That pullback weakens the economy, prompting fears of a recession. Those fears rattle investors, weighing on the stock market. Feeling less flush, consumers pull back some more, and so on.

Is it time to buy?

At most points over the last 15 years, this would look like a time to buy the market dip, because the government and central bank would pump money into the economy at the first sign of trouble. This time, that looks unlikely.

Consider the government's side first. The American poet Maya Angelou said, "When someone shows you who they are, believe them the first time." Investors would do well to heed that advice, particularly regarding President Trump and Treasury Secretary Bessent. A selection of quotes from Trump:

"There is a period of transition."
"I hate to predict things like that [recessions]."
"Look, we're going to have disruption, but we're okay with that."
"There'll always be a little short-term interruption."
"I'm not even looking at the stock market."

And from Bessent:

"There is no [Trump] put."
"There's going to be a detox period."
"We'll see whether there's pain."
"Could we be seeing this economy that we inherited starting to roll a bit? Sure."
"Can you guarantee there is not going to be a recession? I can't guarantee anything."

If the president and Treasury secretary are willing to stomach a recession in pursuit of their longer-term policy goals, who are we to argue? Both are explicit in their desire to bring down the 10-year US Treasury yield, and allowing a short-term recession would be one way to do that.

The Fed is stuck between a rock and a hard place

Normally, it would then fall to the central bank to support the economy, but the Fed is stuck between its dual goals of limiting inflation and limiting unemployment. Low- and middle-income households are stretched, hiring and wage growth are slowing, and small businesses are in a dour mood. That might suggest lower interest rates, but inflation is proving sticky, and inflation expectations are rising, with both consumers and businesses worrying about tariffs. A central bank can look through "transitory" inflation from tariffs, but if enough people fear inflation, those fears can become self-fulfilling. Faced with this uncertainty, the Fed has admitted that it doesn't even know which of its two goals to prioritise. If the Fed raises interest rates to fight inflation, it risks crushing the economy, but if it cuts rates to support the economy, inflation expectations could rise rapidly.

Both scenarios would be reasonable for US Treasury Inflation Protected Securities (TIPS). As a reminder, TIPS are Treasury bonds where the repayment amount is adjusted for inflation. If interest rates and bond yields decline, TIPS should benefit, as bond prices go up when bond yields go down. If rates stay high or rise, the most likely reason would be high inflation, and TIPS should benefit from adjustments to their repayment amount.

Over the past quarter, we have meaningfully increased our positions in long-term TIPS, and they are now among the Fund's top holdings. Long-term TIPS offer higher inflation-protected yields with lower inflation expectations than their shorter-term cousins. In other words, they offer higher returns and cheaper inflation insurance.

Longer-term, the 2.3% inflation-protected yield on 30-year TIPS is both above average versus historical bond returns and, in our view, unsustainably high given America's government debt problem. If your economy grows by 2% per year above inflation, but your debt costs 2% above inflation, it is fiendishly difficult to reduce your debt-to-GDP ratio, even if you run minimal budget deficits. In time, US policymakers may look for ways to bring these yields down.

If we can lock in a 2.3% real return on a fairly safe asset, this raises the bar for everything else in the portfolio. With equity valuations still reasonable outside the US, we've found plenty of opportunities, but the biggest competition for capital in the Fund today is between TIPS and hedged equity.

Hedged equities are also competing for our attention

Hedged equity lets us buy stocks we like in markets we don't – we buy individual stocks that we believe are undervalued, then hedge out some of the associated stock market risk. This leaves us with the difference between the return of our stock and the return of its local market, plus a cash-like return.

Today, the market where we are most concerned about broad valuations – the US – is also the market with the highest interest rates, so US hedged equity offers a cash return of about 4%, plus the relative return of our stock selections. With pockets of undervalued equities still available in the US, that makes hedged equity a very competitive option for the lower-risk part of the Fund.

Dual purpose

Nobody rings a bell when the market turns, and trying to time these moves in advance is a fool's errand. We would rather respond to prices. In the US, prices continue to embed high expectations – perhaps too high. The past weeks suggest those expectations may be starting their descent to more reasonable levels.

With little exposure to the US stock market and dollar, defensive positioning in TIPS and hedged equity, and a collection of attractively valued shares, we believe the Fund is well positioned to both handle market volatility and deliver pleasing long-term returns.

Orbis
Invest Differently

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

Rob joined Orbis in 2011 following the completion of his degrees. He is a member of the team of Investment Counsellors, which is responsible for servicing Orbis' institutional clients and investment consultants. His responsibilities include investment communications, with a focus on the Orbis Global Balanced and Japan Equity Strategies. Rob holds a Bachelor of Arts (Honours) degree in Professional Writing and Philosophy and a Master of Arts in Professional Writing, both from Carnegie Mellon University. He is also a CFA® charterholder.

HOW TO INVEST IN A VOLATILE MARKET

Stephan Bernard

While severe downturns naturally evoke fears of permanent damage, history shows that markets eventually rebound, often robustly.

The recent sharp declines in global stock markets following US President Donald Trump's declaration of "Liberation Day", and the volatility that ensued, have rekindled investor anxieties reminiscent of past crises, such as the global financial crisis and the COVID-19 pandemic. Stephan Bernard reflects on past events and offers investors some context for investing through volatility, given this period of heightened uncertainty is likely far from over.

In unpredictable times, history offers valuable perspectives. During the global disruption caused by COVID-19 in early 2020, investors questioned the wisdom of drawing lessons from past downturns, given the novel nature of the crisis. At that time, market declines were rapid and severe, comparable only to the Great Depression in their immediacy. Asset classes moved in unison, providing few safe havens. Investors wanted out of equities, but there were few places to go.

Yet, despite genuine fears of systemic economic breakdown, markets eventually stabilised, rewarding those who stayed the course.

Avoid making fear-driven decisions

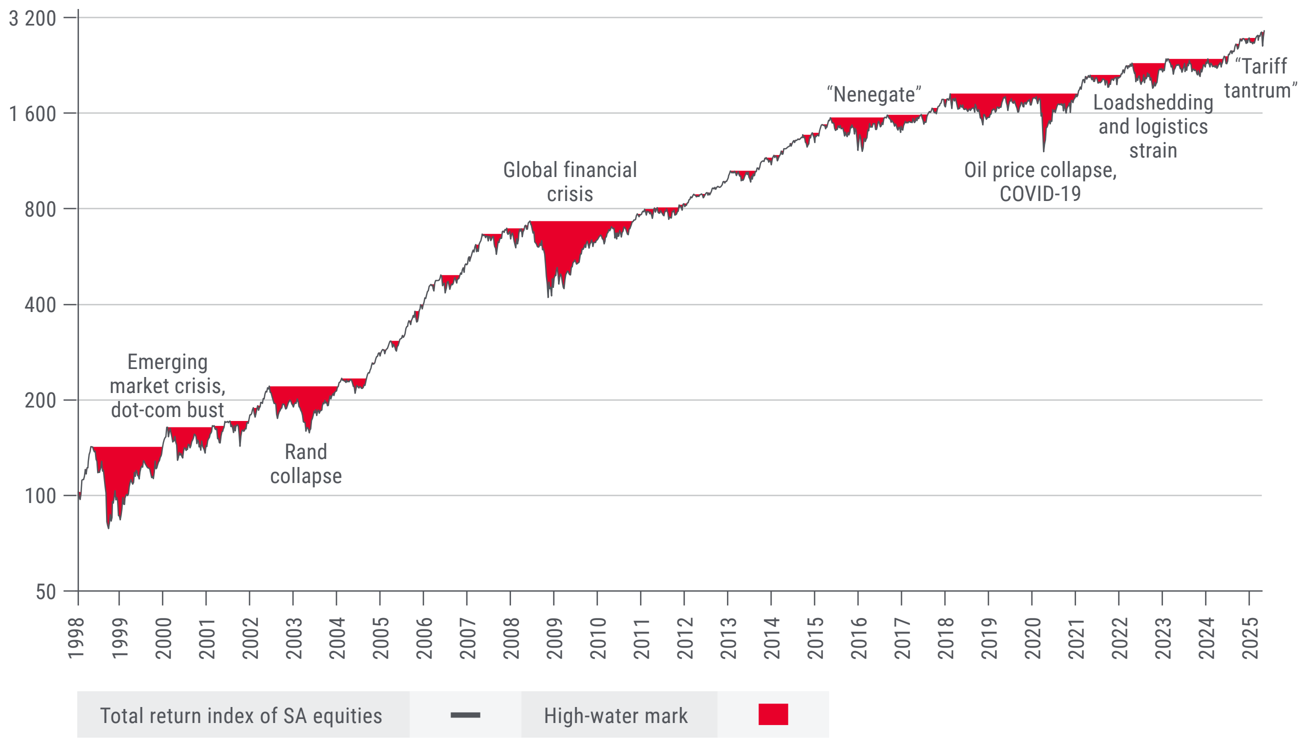
Reflecting on 2008's global financial crisis, veteran investor Howard Marks highlighted a critical investment insight in his investment memo of 9 April 2025. To paraphrase: Predicting an end-of-world scenario is inherently speculative and, ultimately, counterproductive. While severe downturns naturally evoke fears of permanent damage, history shows that markets eventually rebound, often robustly. This doesn't imply that disruption requires no response, but rather that investors should avoid making fear-driven decisions.

Graph 1 on page 26 shows the total return index of South African equities, highlighting market drawdowns since the dot-com bubble of the late 1990s. During every crisis, the prevailing pessimism following significant market declines makes attractive prospective returns feel highly unlikely. And yet, over time, the market rises to surpass the previous high-water mark (the red areas). Hard as it may feel, remaining invested through periods of volatility and uncertainty, and not giving in to the temptation to follow the herd to perceived safety, ensures participation in recoveries, which are important drivers of long-term returns.

The sell-off in April 2025, as reflected by the 11% drawdown in the South African equity market, was not particularly severe, considering the high base established by the strong performance of local equities throughout 2024 and the first quarter of 2025. While news flow might suggest otherwise, the drawdown was also not exceptionally large relative to history, as shown in **Graph 2**, and a reasonably swift recovery occurred. However, considerable uncertainty remains.

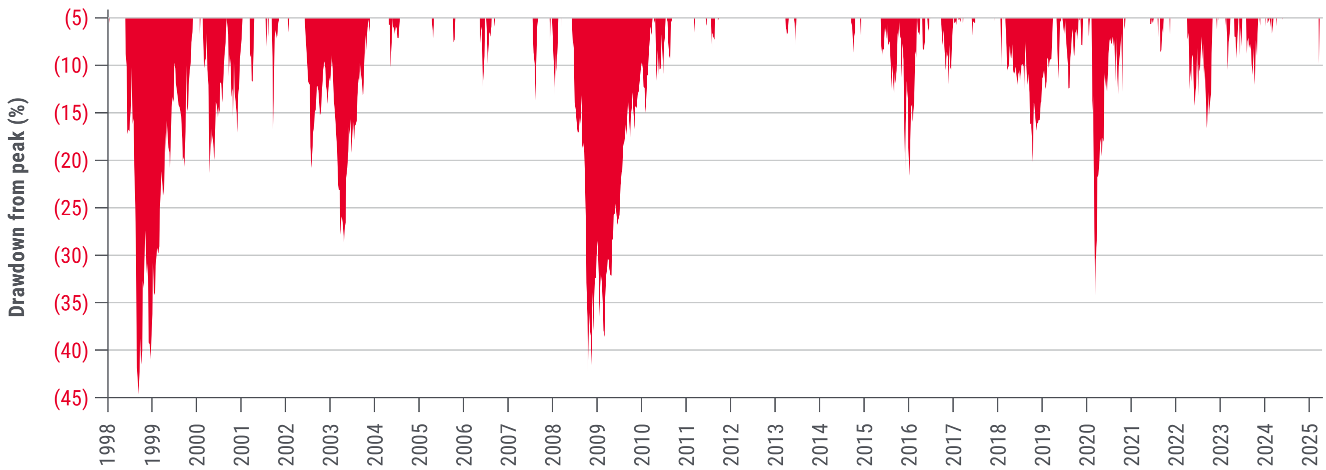
The risk of a potential trade war raises concerns that significant market disruption, muted global growth and elevated inflation may still lie ahead. We are likely still in for a bumpy ride.

Graph 1: Total return index of South African equities with high-water mark



Note: A high-water mark is the maximum recorded level.
Sources: Allan Gray research, LSEG Datastream, weekly data points from 1 January 1998 to 18 April 2025, rebased to 100, log scale

Graph 2: Major South African market drawdowns



Sources: Allan Gray research, LSEG Datastream, weekly data points from 1 January 1998 to 18 April 2025

Key objective: Protecting your capital

Overestimating the probability or the extent of losses during market turbulence can lead you astray. To obtain a realistic view, put current events, and your associated discomfort, into perspective by looking at how your investments have responded to similar events over time.

Although past performance is no guarantee of future performance, the Allan Gray funds have typically held up well during weaker market periods, outperforming peers in down months on average, while delivering returns broadly in line with peers during strong months. This is consistent with our approach of avoiding permanent capital loss through disciplined, valuation-based investing.

Over time, the benefit of limiting losses in weaker markets (down months) compounds meaningfully, as illustrated in **Graph 3**. Viewed across all months since inception in 1999, the Allan Gray Balanced Fund outperformed the average of its peers and achieved returns in line with equities, as represented by the FTSE/JSE All Share Index, despite taking on significantly less risk through diversification across asset classes.

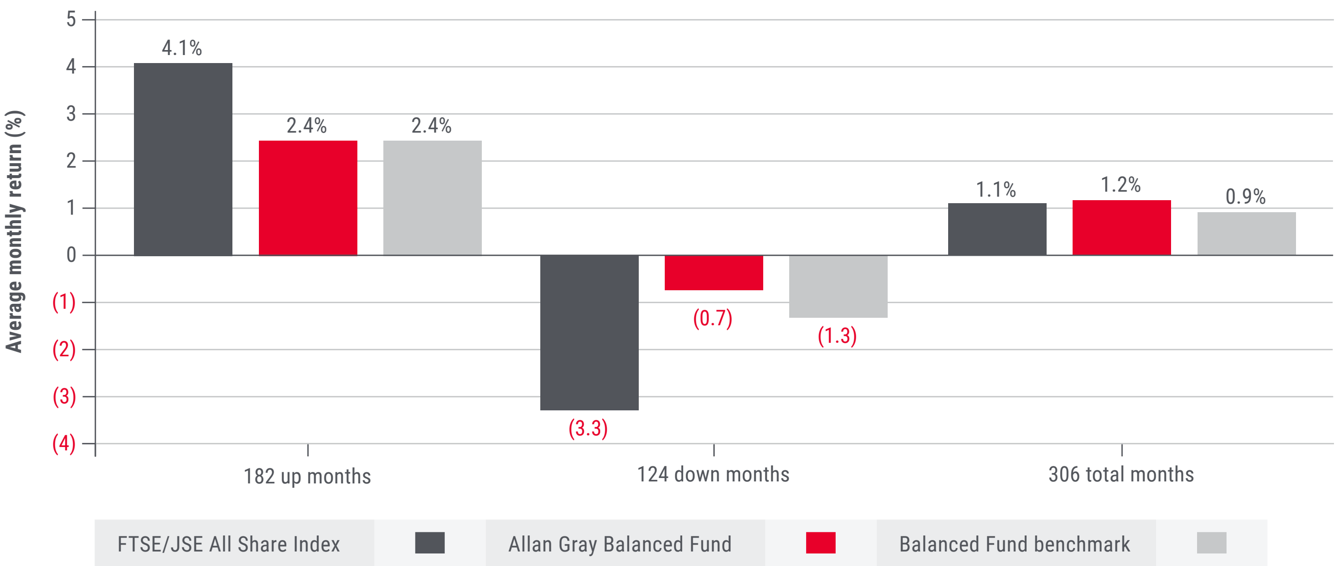
As Nick Curtin explained in his article in our previous Quarterly Commentary, "In safe hands with the Allan Gray Balanced Fund", our investment philosophy of only investing in assets where there is a significant margin of safety built into the valuation – i.e. a significant gap between the share price and what we believe the share is worth – and our obsession with trying to avoid the risk of permanent capital loss entirely mean that there is a built-in risk-management anchor to everything we do. It is endemic to how we think about investing.

... the Allan Gray funds have typically held up well during weaker market periods, outperforming peers in down months on average ...

What to do with this information

As markets continue to be rattled by tariff disputes and compounded by local political uncertainty, you may be confronted with the temptation to switch into lower-risk assets, or to disinvest. If you find yourself on the verge of making a panicked decision to safeguard your investment, reflect on whether your personal circumstances, investment goals or time horizon has changed. If not, it may be better not to react. History continues to reinforce the lesson that long-term value is created by investing into uncertainty and remaining invested through it.

Graph 3: Allan Gray Balanced Fund monthly performance in up and down equity markets



Source: Allan Gray research, FTSE/JSE. Returns since inception of the Allan Gray Balanced Fund in October 1999.

It is important to remain focused on your long-term investment strategy. If you have outsourced your asset allocation decisions to us by investing in the Allan Gray Balanced Fund, you can sleep a little easier during periods of volatility, like we are currently living through, knowing we are carefully thinking about the relative attractiveness across all asset classes in the Fund, on your behalf. Allan Gray and Orbis' investment teams are committed to navigating this environment on your behalf by seeking opportunities that are attractively priced, yet underpinned by sound fundamentals.

Stephan joined Allan Gray in 2013 and is an analyst in the Investment team focused on ESG research. Prior to his current role, he was a manager in the Institutional Clients team. Stephan holds a Bachelor of Commerce (Honours) in Actuarial Science from Stellenbosch University and is a qualified actuary.

A PHASED APPROACH TO YOUR RETIREMENT JOURNEY

Nshalati Hlungwane

As with any worthwhile journey, starting late ... is better than not starting at all.

For most of us, retirement planning represents the longest and most important personal finance project we will undertake. This has become more pronounced in recent decades as the primary responsibility for funding retirement has shifted from employers to employees. Although planning for retirement can be daunting, there are established methodologies to guide us through this journey, and even make us look forward to retirement, writes Nshalati Hlungwane.

After decades of work, the goal of most investors is to be able to draw a sustainable income that will see them through a comfortable retirement. However, the sad reality is that the majority of South Africans fail to accumulate enough wealth during their working years to adequately replace their income.

Some of the key reasons people do not build a large enough nest egg are waiting too long to start saving for retirement, not contributing enough to retirement investments consistently, and being overwhelmed by conflicting financial demands and the numerous, often complex decisions that need to be made along the way.

Speaking at Allan Gray's annual "Through the noise" retirement benefits conference, renowned retirement industry veteran Don Ezra suggested that thinking about retirement in three age-related, purpose-driven phases could simplify the process and help investors confidently navigate many of the potential pitfalls along the way. From around age 20 until our early 40s, he says the main aim is to *get started*. Then, from this point onwards, when we have typically settled into our careers and relationships, we need to *get serious*. Finally, as we transition into retirement – which he argues is the happiest stage of life – we need to *enjoy* the benefits of accounting for this period financially and emotionally.

While getting to the enjoy phase is the ultimate goal, Ezra emphasises the real danger that inaction poses to retirement outcomes and the importance of overcoming the psychological barriers in each phase: "During every stage, we're likely to say, 'I'm too busy now, I'll look at that tomorrow, or next month, or whenever.' And then, at the end of that stage, as you realise you're now actually in the next stage, you regret that you didn't take the time to make it today's focal point rather than next month's."

Another way to think about a staged approach to retirement is to regard it as a journey. If we fail to get started timeously, we will need to increase our efforts to get there on time, or worse, not reach the destination at all.

Leg 1: Start the journey

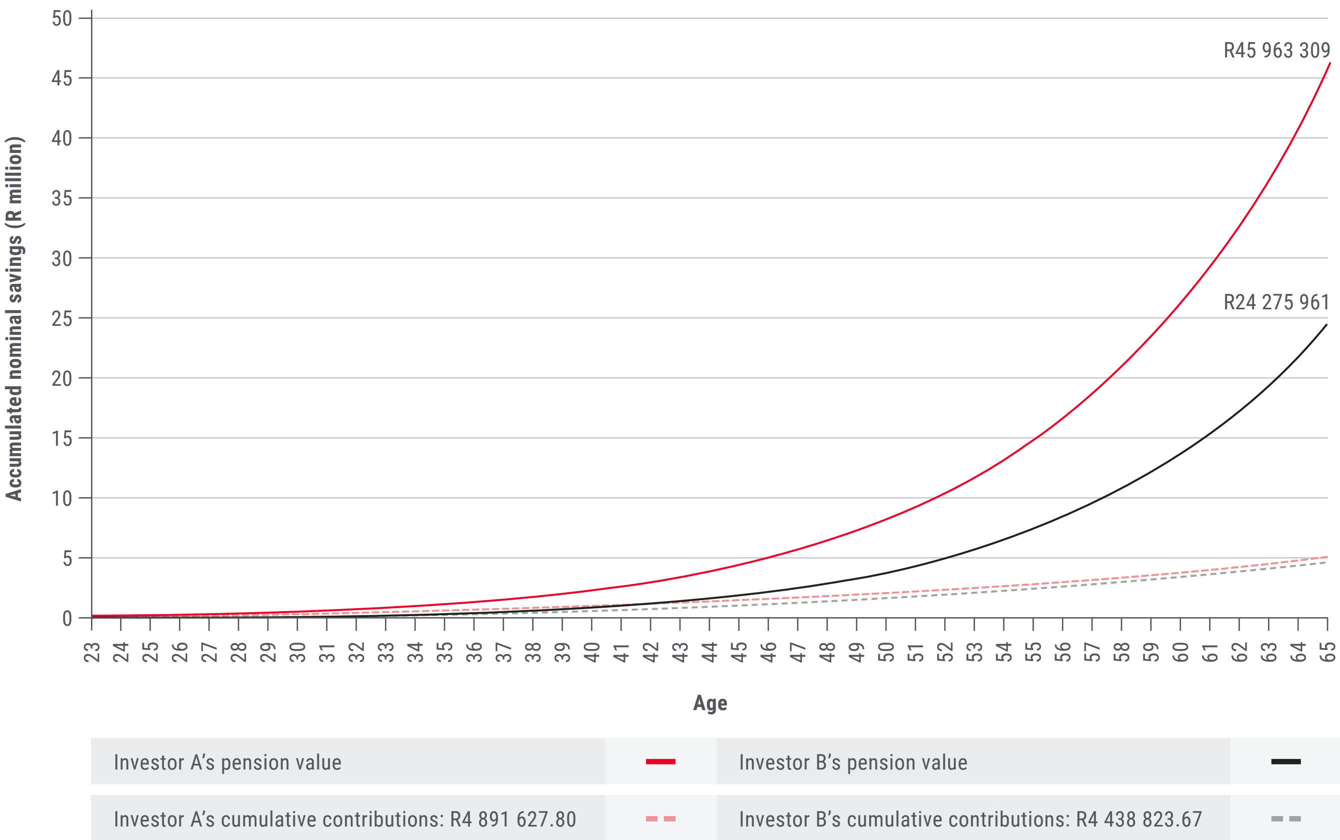
Entering full-time employment in our 20s typically kick-starts retirement planning. Time plays a critical role when it comes to investing for retirement; the more time we have to invest, the better our outcomes. At the beginning of our careers, we are likely to feel that we have all the time in the world. Overcoming this psychological hurdle early on is highly beneficial, as it allows us more time to take advantage of the benefits of compound interest, as seen in **Graph 1**, which shows two individuals' contributions and their subsequent growth, and reflects the cost of delaying getting started.

Investor A, represented by the red line, began saving 15% of their R20 000 monthly salary from their first paycheque at age 23, and increased their contributions annually in line with inflation (assumed to be 5%). Investor B, shown by the grey line, earned the same salary but only began saving after 10 years of working. Assuming a nominal annualised investment return of 11%, after 42 years, Investor A ended up with 1.9 times (or 89%) more than Investor B at retirement; put differently, Investor B had a pension half the size of Investor A. Most of this difference came from compound growth – earning returns today on returns earned yesterday – illustrating the magic of this phenomenon.

For most retirement savers, Leg 1 is initiated by compulsory contribution to their employer's retirement fund. If you are not offered a solution by your employer, or wish to supplement your retirement investments, you can invest in a retirement annuity, which is held in your name. You can also consider ordinary (discretionary) investments, such as a unit trust or tax-free investment, although these do not come with the retirement funding tax incentive.

As we get started, we must be mindful of the growth we will need to achieve our investment goals, and the amount of risk we will need to take on in pursuit of these goals. A higher allocation to more volatile asset classes – such as equities – at the start of the journey makes sense, as they are likely to deliver better returns over time, however, it is important to be willing to stomach the bumpy ride that comes along with

Graph 1: The benefits of compounding



Source: Allan Gray

investing in these asset classes. Market fluctuations do tend to smooth out over the course of the retirement investment journey; losses are only on paper – unless we get fearful and disinvest at the wrong time.

The Allan Gray Balanced Fund complies with the legal investment limits for retirement funds, and given its 25-year track record and objective – to create steady, long-term wealth for investors by balancing income generation, capital growth and risk of loss using a mixed selection of assets – it is a great choice for retirement fund investors.

Irrespective of where you are in your retirement planning journey, it is important to be deliberate in your decisions and actions.

Leg 1 is also an opportune time to start accumulating an emergency fund. This fund should eventually be large enough to cover three to six months of your monthly expenses, and be invested in a low-risk unit trust, such as the Allan Gray Interest or Money Market Fund. Having an emergency fund helps prevent dipping into your retirement investments when life happens and you need money unexpectedly.

Leg 2: Activate cruise control

As you settle into contributing regularly to your retirement nest egg, automating aspects of the retirement planning process can make it easier to stay on track and minimise the number of decisions that need to be made further down the line. Consider making additional contributions to your retirement investments when you receive an unexpected windfall, such as a year-end bonus, and ask your investment manager to automatically increase your contributions each year by a defined percentage so that you don't need to remember to do so (or grapple with the decision annually).

Leg 3: Accelerate your efforts

From our early 40s until about five years before we reach retirement is the time to hit the gas. As we mature in our careers, and our salaries rise, we typically enter the peak of our accumulation phase. This presents an opportunity to make up for lost time by rectifying any mistakes we made, or accounting for any disruptions to our contributions in the first phase of our retirement planning.

To make the most of this phase, we need to ensure that we are maximising our retirement contributions through our employer's scheme and/or in our personal capacity. Remember to account for any lifestyle creep, which occurs as we earn more and enhance our personal definition of a comfortable lifestyle. Our definition of a "comfortable lifestyle" is likely to change during the journey and therefore to increase our retirement income needs.

During this phase, we should develop an "income mindset" by looking at our accumulated investments and calculating how much we would be able to draw as a sustainable monthly income in retirement. This exercise gives us an understanding of whether the amount we have accumulated is sufficient to live on in retirement. It can also help us to correct our course if we have not saved enough. An independent financial adviser or an online retirement calculator can help with these projections.

Leg 4: Take the scenic route

Successful retirement will require you to manage two things carefully: your finances and your time. The five years leading up to retirement is the time to change gears and start thinking about dreams and goals for retirement. We should envision what we would like to do with our new-found free time and evaluate whether we are, in fact, ready to retire.

For many, the outcome of this process may mean considering deferring retirement, or looking at alternative ways to earn an income. For others, it may be an opportunity to shift their focus and pursue passion projects, give back to the community, or try something completely new.

These decisions are personal – and require us to balance our financial circumstances and our vision for meaningful retirement years. Failing to take the time to think about these aspects of retirement can make the transition difficult when the time comes.

Leg 5: Ease into the enjoy phase

Retiring is one of the most significant transitions we make in our adult lives; it is therefore critical to engage with the psychological requirements of retirement planning through each phase, and especially as we prepare to leave full-time work. Your sound financial health could be wasted if you neglect your physical and mental well-being.

Counselling psychologist Dr. Hannetjie van Zyl-Edeling emphasises the importance of not only developing your financial portfolio for retirement, but also focusing on your psychological, health and social portfolios. In other words, it is crucial to think about your needs holistically as you plan for the years to come.

Preparing for retirement holistically ensures that it truly will be the *enjoy* phase of your life.

Remember that retirement is not the end of your investment journey, but the beginning of the next stage. The risks to manage closely at this time are the risk of capital loss, the risk of an investment not keeping up with inflation, and the risk of outliving your income.

Investors who are nearing retirement tend to start switching to lower-risk investments to protect their portfolios against market volatility. This process of derisking should happen gradually. Some exposure to growth assets like equities is key to make sure your portfolio keeps up with inflation and can continue to grow over time. The Allan Gray Stable Fund, which can invest up to 40% in equities (versus the Balanced Fund's mandated 75%), is a popular choice for those at this stage looking to derisk, but maintain some market exposure.

Perhaps most feared is the risk of outliving your accumulated savings. Estimating longevity is complex and best tackled with professional assistance. An independent financial adviser can help with managing risk and implementing an appropriate post-retirement investment drawdown strategy.

Intentional retirement planning increases your likelihood of success

Irrespective of where you are in your retirement planning journey, it is important to be deliberate in your decisions and actions. This is not limited to getting good advice, but also means overcoming the various psychological shifts in each stage.

As with any worthwhile journey, starting late – even though it means needing to accelerate harder – is better than not starting at all. Preparing for retirement holistically ensures that it truly will be the *enjoy* phase of your life.

Nshalati joined Allan Gray as a manager in the Retail Client Service Centre in 2016. She is currently a manager in the Institutional Clients team. Nshalati holds a Bachelor of Commerce (Honours) degree in Economics from Rhodes University and a Master of Arts degree in Development Studies from the University of Sussex. She is a CFA® charterholder.

Allan Gray Balanced and Stable Fund asset allocation as at 31 March 2025[1]

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign	Total	SA	Foreign
Net equities	63.6	37.0	26.5	25.1	12.0	13.1
Hedged equities	8.8	3.0	5.8	21.7	11.6	10.1
Property	0.9	0.2	0.8	0.8	0.1	0.7
Commodity-linked	3.3	2.6	0.7	2.0	1.4	0.6
Bonds	16.3	11.2	5.1	34.5	26.8	7.7
Money market and cash[2]	7.1	8.4	−1.3	15.8	18.5	−2.7
Total	**100.0**	**62.4**	**37.6[3]**	**100.0**	**70.4**	**29.6[3]**

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] Including currency hedges.
[3] The Fund can invest a maximum of 45% offshore. Market movements may periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

Allan Gray Equity Fund net assets as at 31 March 2025

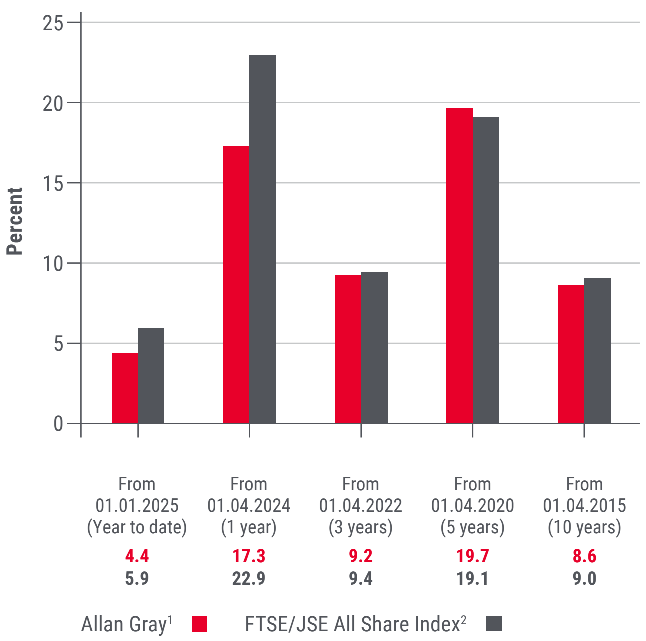
Security	Market value (R million)	% of Fund
South Africa	**27 025**	**56.8**
Equities	**25 588**	**53.8**
Resources	**5 814**	**12.2**
AngloGold Ashanti	1 121	2.4
Glencore	803	1.7
Gold Fields	770	1.6
Positions individually less than 1% of the Fund	3 120	6.6
Financials	**6 698**	**14.1**
Standard Bank	1 505	3.2
Remgro	1 060	2.2
Nedbank	1 024	2.2
FirstRand	630	1.3
Momentum	481	1.0
Positions individually less than 1% of the Fund	1 997	4.2
Industrials	**13 076**	**27.5**
Naspers & Prosus	2 531	5.3
AB InBev	2 514	5.3
British American Tobacco	2 095	4.4
Woolworths	1 044	2.2
Mondi	959	2.0
Positions individually less than 1% of the Fund	3 934	8.3
Commodity-linked securities	**197**	**0.4**
Positions individually less than 1% of the Fund	197	0.4
Cash	**917**	**1.9**
Currency hedges	**323**	**0.7**
Foreign	**20 558**	**43.2**
Equities	**2 690**	**5.7**
Walt Disney Company	1 182	2.5
Booking Holdings Inc	586	1.2
Positions individually less than 1% of the Fund	922	1.9
Equity funds	**18 052**	**37.9**
Orbis Global Equity Fund	7 528	15.8
Orbis SICAV International Equity Fund	5 449	11.5
Allan Gray Frontier Markets Equity Fund	2 853	6.0
Orbis SICAV Japan Equity (Yen) Fund	1 359	2.9
Allan Gray Africa ex-SA Equity Fund	749	1.6
Orbis SICAV Emerging Markets Equity Fund	115	0.2
Bonds	**18**	**0.0**
Positions individually less than 1% of the Fund	18	0.0
Cash	**120**	**0.3**
Currency-linked futures	**−323**	**−0.7**
Totals	**47 582**	**100.0**

Note: There may be slight discrepancies in the totals due to rounding. For other fund-specific information, please see the monthly factsheets.

Investment track record – share returns

Allan Gray global mandate share returns vs. FTSE/JSE All Share Index before fees			
Period	**Allan Gray[1]**	**FTSE/JSE All Share Index[2]**	**Out-/Under-performance**
1974 (from 15.6)	−0.8	−0.8	0.0
1975	23.7	−18.9	42.6
1976	2.7	−10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	−0.3
1979	86.9	94.4	−7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	−4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	−4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	−5.1	9.6
1991	30.0	31.1	−1.1
1992	−13.0	−2.0	−11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	−17.4	−4.5	−12.9
1998	1.5	−10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	−8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.3
2005	56.5	47.3	9.3
2006	49.7	41.2	8.5
2007	17.6	19.2	−1.5
2008	−13.7	−23.2	9.6
2009	27.0	32.1	−5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.4
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	9.6
2023	8.7	9.3	−0.6
2024	9.3	13.4	−4.1
2025	**4.4**	**5.9**	**−1.6**

Returns annualised to 31.03.25



An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R393.6 million by 31 March 2025. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R18.7 million. Returns are before fees.

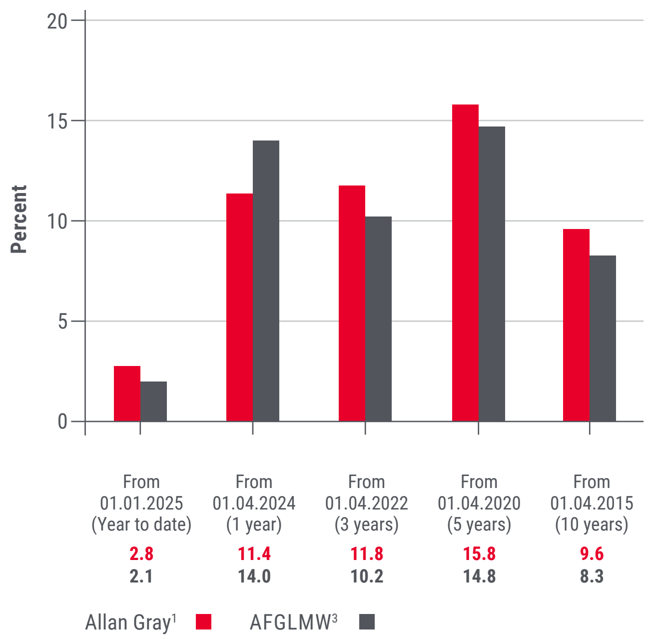
[1] Allan Gray commenced managing pension funds on 1 April 1977, with performance measurement starting on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
[2] Prior to July 1995, an internally derived JSE All Share benchmark was used.

Note: Listed property included from 1 July 2002. Inward listed securities included from November 2008 to November 2011.

Investment track record – balanced returns

Allan Gray global mandate total returns vs. Alexander Forbes Global Large Manager Watch before fees			
Period	**Allan Gray[1]**	**AFGLMW[3]**	**Out-/Under-performance**
1974	–	–	–
1975	–	–	–
1976	–	–	–
1977	–	–	–
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	−0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	−5.5
1992	1.2	7.6	−6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	−1.8	9.5	−11.3
1998	6.9	−1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	−3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	−6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	−0.6
2008	−1.1	−12.3	11.2
2009	15.6	20.3	−4.7
2010	11.7	14.5	−2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	−4.8
2013	25.0	23.3	1.8
2014	10.3	10.3	0.0
2015	12.8	6.9	5.8
2016	7.5	3.7	3.8
2017	11.9	11.5	0.5
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	14.3	13.1	1.3
2024	10.9	13.8	−3.0
2025	**2.8**	**2.1**	**0.7**

Returns annualised to 31.03.2025



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R45.3 million by 31 March 2025. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R9.6 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.
[3] Consulting Actuaries Survey returns used up to December 1997. The return for March 2025 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 securities included from November 2008 to November 2011.

Allan Gray South African unit trusts annualised performance (rand) in percentage per annum to 31 March 2025 (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 (Up to 100%)									
Allan Gray Equity Fund (AGEF)	**47.6**	**01.10.1998**	**18.9**	**8.2**	**18.6**	**11.7**	**13.0**	**125.8**	**−24.3**
Market value-weighted average of South African - Equity - General category (excl. Allan Gray funds)[1]			14.0	6.9	18.4	8.6	20.2	73.0	−37.6
Allan Gray SA Equity Fund (AGDE)	**4.2**	**13.03.2015**	**7.3**	**7.3**	**19.7**	**8.8**	**18.3**	**57.3**	**−32.0**
FTSE/JSE All Share Index, including income			9.0	9.0	19.1	9.4	22.9	54.0	−18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE)	**31.6**	**01.04.2005**	**14.1**	**12.5**	**16.1**	**17.5**	**2.1**	**78.2**	**−29.7**
MSCI World Index, including income, after withholding taxes[2]			14.5	14.4	17.1	16.4	3.9	54.2	−32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF)	**206.5**	**01.10.1999**	**14.8**	**8.8**	**15.5**	**11.3**	**12.7**	**46.1**	**−14.2**
Allan Gray Tax-Free Balanced Fund (AGTB)	**3.7**	**01.02.2016**	**8.8**	**–**	**15.3**	**11.5**	**12.6**	**31.7**	**−13.4**
Market value-weighted average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[3]			11.4/7.9	7.3	13.7	9.5	12.1	41.9/30.7	−16.7/−10.3
Allan Gray-Orbis Global Balanced Feeder Fund (AGGF)[4]	**19.3**	**03.02.2004**	**11.5**	**11.8**	**15.8**	**17.6**	**10.5**	**55.6**	**−13.7**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index[4]			11.1	10.5	9.1	11.7	2.0	38.8	−17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF)	**54.5**	**01.07.2000**	**11.2**	**8.6**	**12.1**	**10.1**	**11.4**	**23.3**	**−7.4**
Daily interest rate, as supplied by FirstRand Bank, plus 2%			8.5	7.5	7.1	8.7	9.4	14.6	4.6
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF)	**0.8**	**01.10.2002**	**6.8**	**4.9**	**5.1**	**3.9**	**6.5**	**18.1**	**−8.2**
Daily interest rate as supplied by FirstRand Bank			6.1	5.4	5.0	6.6	7.2	11.9	2.5
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO)	**1.0**	**02.03.2010**	**7.7**	**6.9**	**8.4**	**14.6**	**4.5**	**39.6**	**−12.4**
The simple average of the benchmarks of the underlying funds			6.3	5.7	2.7	11.6	1.3	35.6	−19.1
No to very low net equity exposure (0% - 10%)									
Allan Gray Income Fund (AGIN)	**1.3**	**01.05.2024**	**11.2**	**–**	**–**	**–**	**–**	**–**	**–**
Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index			7.6	–	–	–	–	–	–
No equity exposure									
Allan Gray Bond Fund (AGBD)	**9.3**	**01.10.2004**	**9.0**	**8.6**	**10.7**	**9.3**	**17.9**	**22.0**	**−2.6**
FTSE/JSE All Bond Index (total return)			8.8	8.4	11.7	9.8	20.2	26.1	−5.6
Allan Gray Money Market Fund (AGMF)	**28.4**	**01.07.2001**	**7.7**	**7.1**	**6.7**	**8.0**	**8.7**	**12.8**	**4.3**
Alexander Forbes Short-Term Fixed Interest (STeFI) 3-month Index[5]			7.5	6.7	6.2	7.5	8.1	13.3	3.8
Allan Gray Interest Fund (AGIF)	**1.6**	**01.05.2024**	**9.5**	**–**	**–**	**–**	**–**	**–**	**–**
Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index			7.6	–	–	–	–	–	–

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 (source: Morningstar).
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 (source: Bloomberg). 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. From 1 November 2011 to 19 August 2024, the benchmark was the Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index.
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 March 2025

	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	1.05%	0.57%	0.04%	0.16%	1.82%	0.08%	1.90%
Allan Gray SA Equity Fund	1.00%	−0.23%	0.01%	0.12%	0.90%	0.10%	1.00%
Allan Gray Balanced Fund	1.02%	0.46%	0.04%	0.15%	1.67%	0.06%	1.73%
Allan Gray Tax-Free Balanced Fund	1.31%	N/A	0.04%	0.14%	1.49%	0.07%	1.56%
Allan Gray Stable Fund	1.01%	0.40%	0.03%	0.16%	1.60%	0.04%	1.64%
Allan Gray Optimal Fund	1.00%	0.00%	0.02%	0.15%	1.17%	0.11%	1.28%
Allan Gray Bond Fund	0.50%	N/A	0.01%	0.08%	0.59%	0.00%	0.59%
Allan Gray Income Fund[1]	0.75%	N/A	0.01%	0.11%	0.87%	0.00%	0.87%
Allan Gray Interest Fund[1]	0.65%	N/A	0.01%	0.10%	0.76%	0.00%	0.76%
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	1.25%	−0.05%	0.06%	0.00%	1.26%	0.10%	1.36%
Allan Gray-Orbis Global Balanced Feeder Fund	1.15%	1.72%	0.07%	0.00%	2.94%	0.07%	3.01%
Allan Gray-Orbis Global Optimal Fund of Funds	0.99%	−0.01%	0.08%	0.00%	1.06%	0.12%	1.18%

[1] Since this unit trust has not yet been in existence for three years, the TER and transaction costs are based on actual data, where available, and best estimates.

Note: 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 March 2025 (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	**01.01.1990**	**17.3**	**12.8**	**16.5**	**18.5**	**3.0**	**87.6**	**−47.5**
MSCI World Index, including income, after withholding taxes[1]		13.9	14.5	17.1	16.3	3.8	54.2	−46.2
Orbis SICAV Japan Equity (Yen) Fund	**01.01.1998**	**14.1**	**12.0**	**12.4**	**18.6**	**−0.8**	**94.9**	**−40.1**
Tokyo Stock Price Index, including income, after withholding taxes		9.5	10.0	9.3	14.1	−3.8	91.0	−46.4
Orbis SICAV Emerging Markets Equity Fund[2]	**01.01.2006**	**12.9**	**8.8**	**12.2**	**17.3**	**10.5**	**58.6**	**−34.2**
MSCI Emerging Markets Index, including income, after withholding taxes[2]		11.9	8.0	8.6	9.5	4.8	60.1	−39.7
Allan Gray Africa ex-SA Equity Fund (C class)	**01.01.2012**	**11.2**	**7.1**	**13.6**	**8.4**	**7.2**	**65.6**	**−24.3**
MSCI Emerging Frontier Markets Africa ex-SA Index[3]		8.6	7.8	18.0	10.5	27.1	42.2	−29.4
Allan Gray Australia Equity Fund	**04.05.2006**	**13.3**	**11.3**	**17.3**	**6.8**	**−1.8**	**99.5**	**−55.4**
S&P/ASX 300 Accumulation Index		11.7	9.4	14.3	6.9	−4.9	55.6	−45.1
Allan Gray Frontier Markets Equity Fund (C class)	**03.04.2017**	**12.9**	**–**	**20.2**	**25.4**	**16.0**	**45.2**	**−11.0**
MSCI Frontier Emerging Markets Index		6.5	–	9.7	9.2	4.3	23.2	−12.8
Medium net equity exposure								
Orbis SICAV Global Balanced Fund	**01.01.2013**	**14.8**	**12.0**	**16.5**	**18.2**	**11.0**	**54.4**	**−9.8**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index		13.0	10.3	8.9	11.6	1.8	40.2	−12.1
Allan Gray Australia Balanced Fund	**01.03.2017**	**10.0**	**–**	**13.9**	**10.4**	**4.0**	**29.1**	**−5.3**
The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan Global Government Bond Index expressed in AUD (16%). All performance returns shown are net of fees and assume reinvestment of distributions.		8.9	–	8.5	7.7	−2.2	25.1	−8.3
Low net equity exposure								
Orbis SICAV Global Cautious Fund[4]	**01.01.2019**	**9.3**	**–**	**9.3**	**14.2**	**8.1**	**26.6**	**−8.0**
US$ bank deposits + 2%		9.0	–	5.5	15.2	4.1	34.6	−20.4
Allan Gray Australia Stable Fund	**01.07.2011**	**9.4**	**7.5**	**7.2**	**5.4**	**−2.8**	**32.7**	**−8.9**
Reserve Bank of Australia cash rate		5.7	4.1	3.2	5.1	−3.2	28.8	−15.5
Very low net equity exposure								
Orbis Optimal SA Fund (US$)	**01.01.2005**	**9.5**	**7.9**	**9.4**	**15.9**	**4.5**	**48.6**	**−15.7**
US$ bank deposits		8.0	6.5	3.4	13.0	2.0	57.9	−25.6
Orbis Optimal SA Fund (Euro)	**01.01.2005**	**7.3**	**6.1**	**7.5**	**12.7**	**2.8**	**44.1**	**−19.3**
Euro bank deposits		6.0	4.9	1.7	9.8	0.4	40.2	−20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)[5]	**27.03.2013**	**12.9**	**12.3**	**10.3**	**14.7**	**5.8**	**31.4**	**−7.4**
FTSE 3-Month US T Bill + 4% Index[5]		8.7	9.6	10.9	17.1	5.9	36.5	−12.3

Performance as calculated by Allan Gray

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

2 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.

3 From inception to 31 October 2023, the benchmark was the Standard Bank Africa Total Return Index.

4 Return information through to the class inception date on 29 February 2024 is based on the returns that would have resulted from an investment in the Shared Investor RRF Class (C) at Fund inception with no subsequent transactions, if this class of the Fund had existed then. Returns from that date are actual returns of this class of the Fund (Class RRFC).

5 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.

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.

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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

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