QC

Quarterly Commentary
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ALLAN GRAY

The framing fallacy

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COMMENTS FROM THE CHIEF OPERATING OFFICER

Rob Formby

Not knowing what the future holds requires us to consider a number of potential outcomes and opposing risks.

When I wrote my comments in mid-April, we were just about one month into lockdown. We have now passed 100 days, with the health and economic crises leaving an indelible impression on us all. My deepest sympathies go to all those who have lost friends and family members to this virulent virus.

We are now on Advanced Level 3 of lockdown. There is an increased sense of normality to our daily lives from a reduction in the restrictions – as opposed to the resolution of the coronavirus. In South Africa, we are still approaching our peak of infections, so it remains a time of caution. I used to do some canoeing, and invariably when you are most tired, you are likely to make mistakes and fall out your canoe, which then compounds the tiredness. So, a golden rule is to force yourself to be extra vigilant when you least feel like it. While we feel like things are returning to normal, they are not yet there, and we should continue to be careful.

A full perspective is essential

Keeping ourselves informed is critical, but it can be very hard to figure out what to focus on – and it's important not to anchor in one piece of data, or one opinion, which is what seems to be happening. In his article, Rory Kutisker-Jacobson looks at how our perspectives might change if dashboards and commentary reported different COVID-19 statistics, including related impacts and the cost of lockdown on society at large.

While Rory is not an epidemiologist, he is skilled in researching and analysing data, and uses this example to illustrate how risk and perception are managed in the investment process. Not knowing what the future holds requires us to consider a number of potential outcomes and opposing risks. This requires us to be rational, seek out dissenting opinions, and consider incomplete and often conflicting information. We acknowledge that we do not know what the future holds, and so we seek to buy companies trading at a significant discount to our estimate of fair value to account for a variety of outcomes.

Our approach is illustrated in two pieces from other members of our local investment team as well as a piece from our offshore partner, Orbis. Tim Acker evaluates the

South African banking sector's outlook as our banks re-evaluate their models to deal with the potential implications of the coronavirus pandemic and take proactive steps to minimise the fallout. Meanwhile, Varshan Maharaj looks at the telecommunications sector, investigating whether mobile network operators present an investment opportunity.

Turning to global markets, John Christy, from the Orbis office in Vancouver, and Stanley Lu, from Hong Kong, contrast the opportunities emerging from the US and Asian tech spaces. While Orbis has not entirely shied away from the popular so-called FANGAM stocks (Facebook, Amazon, Netflix, Google (Alphabet), Apple and Microsoft), owning some Facebook and Alphabet stocks today, they are seeing greater opportunity to the East, in Chinese technology companies such as NetEase, Tencent and Alibaba.

It is useful for every long-term investor to have a safety net in the form of an emergency fund ...

Invest for the long term, but maintain some liquidity

Life does not always go according to plan – as we can all attest to from the current crisis – and we may need to access our investments to see us through these times. However, withdrawing from markets in a downturn is not ideal: Not only do we land up locking in losses, but we can also compromise our long-term goals.

It is useful for every long-term investor to have a safety net in the form of an emergency fund, which is easily accessible and reduces the temptation to access your hard-earned investments. Noluyolo Betela discusses the ins and outs of putting an emergency fund in place in this quarter's Investing Tutorial.

Philanthropic efforts

The COVID-19 crisis has resulted in an urgent and massive need for humanitarian and economic support for communities and enterprises. Last quarter I reported that the various Allan Gray entities had all made donations. In his piece this quarter, Anthony Farr, chief executive officer of Allan & Gill Gray Philanthropy in Africa, describes the principles adhered to and the response of the different entities.

Investment team update

I take this opportunity to bid farewell to some of our investment team colleagues and announce a number of resultant promotions.

Chief Investment Officer Andrew Lapping will be leaving Allan Gray towards the end of this year, as his 20th year at the firm comes to a close. Andrew has decided to take a well-deserved break with the intention of exploring opportunities outside investment management.

I am pleased to announce that Duncan Artus will take over the reins as chief investment officer from Andrew, effective 1 September 2020. Duncan is well known to those familiar with Allan Gray – enjoying the respect and trust of his colleagues and our clients. Duncan joined the firm in March 2001 and has been managing a portion of client equity and balanced portfolios since January 2005. With 20 years' experience – 15 of those as portfolio manager at Allan Gray – Duncan is a well-versed and worthy successor.

Mark Dunley-Owen, who manages a portion of our clients' stable and fixed interest portfolios, will hand over some of his responsibilities as he joins the team managing the Orbis Global Balanced Strategy at our sister company, Orbis.

We say goodbye to Leonard Krüger, who manages a portion of the stable portfolios, as he pursues opportunities outside Allan Gray.

Structured for succession

Departures create exciting opportunities for other investment team members. Our approach to succession planning ensures depth in the team, and we have a strong bench to draw from.

In addition to Duncan's promotion, we have expanded the portfolio management responsibilities of others in the team. In our equity, balanced and stable portfolios, we have appointed three new portfolio managers: Rory Kutisker-Jacobson, Tim Acker and Sean Munsie. Varshan Maharaj, Rami Hajjar and Kamal Govan have also been promoted to portfolio managers and will focus on African and frontier market equities.

Andrew and Mark's South African fixed interest portion of the balanced portfolios will be split between existing bond and money market portfolio managers Londa Nxumalo and Thalia Petousis, while Sandy McGregor will retain his existing responsibilities. Londa and Thalia will assume full responsibility for the Allan Gray Bond Fund and the Allan Gray Money Market Fund respectively, which they currently co-manage with Mark.

The newly appointed portfolio managers have all been with Allan Gray for a number of years. Their demonstrated skill, dedication and passion for investments will be a benefit to our clients.

Primed for the future

Developing strong succession within our investment team has been a hallmark of our firm since its founding in 1973, and we congratulate our new portfolio managers on their promotions. We have every confidence that under Duncan's leadership, our investment team will continue to excel. We remain committed to delivering strong investment performance and building your trust and confidence in us.

We thank Andrew, Mark and Leonard for their exemplary service and dedication and wish them well in their future endeavours.

Change is a necessary and expected part of life and brings with it opportunity. We thank you for your continued trust and support. Keep safe and well.

Kind regards

Rob Formby

THE FRAMING FALLACY

Rory Kutisker-Jacobson

Poor framing can result in far from optimal decision-making.

We humans are fallible creatures who suffer from several cognitive biases. Using the COVID-19 pandemic as an example, Rory Kutisker-Jacobson highlights how hard it is to make a considered, unbiased assessment of what the risks are, and how dangerous it can be to allow framing and other cognitive biases to dominate our decision-making.

In a highly uncertain world, we crave certainty. We have a natural tendency to avoid situations that threaten our wellbeing, and we prefer choices that allow us to avoid pain. When a risk seems benign, we may overlook or underestimate it, but when a risk becomes front and centre, we will often prioritise minimising that risk at the expense of all other action – more so if the risk is vivid and visceral. Depending on how we have framed the problem, there is little or no consideration of the consequences of one action over another. Poor framing can result in far from optimal decision-making.

The current COVID-19 crisis provides a classic example

At first, most countries underestimated the risk of COVID-19, but once the vivid and very real images of overwhelmed hospitals in Northern Italy emerged on our TV screens, the pendulum swung in the opposite direction. Faced with the real and imminent threat from the pandemic, governments around the world responded by making minimising COVID-19 deaths the singular focus of all subsequent decisions.

When President Cyril Ramaphosa announced a national lockdown on 23 March, he spoke of this decision as "a decisive measure to save millions of South Africans from infection and save the lives of hundreds of thousands of people". While acknowledging that sacrifices would need to be made, and that these measures would have a considerable impact on people's livelihoods, he stated with a certainty that he could not have, that "the human cost of delaying this action would be far, far greater".

While our knowledge of the virus was highly limited then (and still is today), we sought certainty in uncertain epidemiological forecasts that framed the pandemic solely in potential COVID-19 deaths, which created panic from governments and society at large. We sought social proof from other countries, and instinctively replicated actions undertaken elsewhere, seemingly without due consideration of whether lockdowns would be effective in our respective countries, given our existing socio-economic structures. This risk became the frame for every decision, be it minimising the spread, flattening the curve, or increasing hospital capacity. There appeared to be much less consideration of the cost of these actions, or what the repercussions would be if the forecasts were wrong.

As countries around the world went into lockdown, everyone created dashboards that focused solely on statistics pertaining to COVID-19: daily tests conducted, confirmed cases, active cases, hospitalisation rates, patients in ICU, and deaths. CNN went so far as to permanently have a case and mortality counter on their news broadcasts.

There was no mention of the lives that we anticipated losing due to increases in domestic abuse, or mental health or medical treatment foregone due to lockdown restrictions. No mention of the economic cost and the subsequent lives we anticipated losing due to increases in job loss, poverty, and food insecurity. No discussion about how we would measure whether lockdown was actually being effective in reducing or eliminating the spread, or simply delaying the inevitable. No open assessment of whether the lives saved in the short term were worth the potential long-term cost of lives lost.

Reframing the risks

How different would our perspective be if these daily dashboards reported all the related impacts and the cost of lockdown on society at large? Examples of measures against which the potential benefits of lockdown could be measured in South Africa are described below, while **Figure 1** on page 8 is our attempt at displaying a more comprehensive dashboard to capture a range of elements; there are several more.

Overall health and wellbeing

As at 30 June, 2 657 South Africans have lost their lives to COVID-19, and this number is likely to climb materially. Current studies estimate that the final range of deaths is likely to be anything between 20 000 and 48 000.

As a comparison, on average, over 31 000 South Africans die from tuberculosis (TB) each year. TB is one of the top 10 causes of death in children, and each year, approximately 17 500 children are treated for TB. TB deaths are highly preventable if diagnosed early and treated appropriately, yet under lockdown, overall TB testing has declined by 50% at a national level. How many additional child deaths are we potentially going to experience as a result? How might we evaluate lockdown measures differently if government reported COVID-19 cases alongside TB tests not conducted and additional lives lost to TB?

Over the last five years, an average of 19 370 South Africans have been murdered each year. In total, over 51 000 South Africans die from non-natural causes each year. All deaths are tragic, but these are arguably more so as almost all non-natural deaths are preventable.

How different would our perspective be if these daily dashboards reported all the related impacts and the cost of lockdown on society at large?

Household income and education

The correlation between poverty and increased mortality is well known. There are a number of studies that indicate a decline in economic wellbeing materially reduces one's life expectancy. In turn, the primary determinants of economic wellbeing are household income and education.

Over two million South Africans have already claimed from the Unemployment Insurance Fund (UIF) since South Africa went into lockdown, and over 160 000 companies have reported being in financial distress. Many of these companies and jobs will never return: National Treasury now estimates that permanent job losses will be anything between 690 000 and 1.79 million. For a country that employed 16.4 million people and had a 29% unemployment rate prior to lockdown, this is material. Taking into consideration the dependants of those with an income, millions of South Africans will permanently move further into poverty, with the pain likely to be felt more acutely in the already marginalised parts of our society.

As schools begin to open, many parents are concerned about sending their children back into the classroom, but the morbidity risk from COVID-19 for children under the age of 19 is very low. In any one year, a South African child has a one in 1 000 chance of dying. Based on what we now know about COVID-19 and how it disproportionately affects older people, one study estimates that the risk of those under 19 dying from COVID-19 is one in 76 878. A child is more likely to die en route to school than from a communicable disease picked up at school.

At the same time, keeping our schools closed is having a permanent impact on many of our children in South Africa, and it is disproportionately impacting the poor. The National School Nutrition Programme supports over 19 000 schools, feeding over nine million children each day. An estimated one in five South African learners do not eat breakfast at home. Under lockdown, many of these meals are not finding their way to the children most in need.

Similarly, depending on how consistently schools can go back to teaching for the rest of this year, children will have lost between 14% and 33% of the regular academic year. Children from wealthy households have been able to substitute school learning with online classes in the convenience of their own homes, but these facilities are not available to many of the poorest in our country. As a result, one study indicates that the education gap between the wealthiest and poorest is likely to widen by between 11% and 75% this year. This gap is unlikely to ever be closed, further exacerbating inequality for these learners.

It is important to consider risk from multiple perspectives.

Framing in investment decision-making

Understanding and avoiding these cognitive biases has several parallels in investment decision-making. It is important to consider risk from multiple perspectives.

The most obvious risk is likely to be the most recently experienced, but it is unlikely to be the only risk. The single largest determinant of future investment returns is the price you pay today. Irrespective of the underlying quality of a company, pay too high a price at inception and the subsequent investment returns will be disappointing.

Similarly, when a company is undergoing difficulties, investors tend to only see risks and price the company as if the current turmoil is permanent. At times they will be willing to sell at almost any price. This creates opportunities for long-term investors like us, who are happy to buy such shares if we are adequately compensated for the risks. All too often, the future only has to turn out marginally better than what is currently expected for the subsequent returns to be excellent. As an example of this, consider our view on South African banks in Tim Acker's piece.

Be careful about making decisions based on expert models

In highly uncertain environments like today, we gravitate towards people who speak with confidence and provide us with assurance based on models or other compelling forecasts. But forecasting is an inexact science and it is important not to place excess confidence in the predictive ability of models. The future is inherently uncertain, and risk means that more things can happen than will happen. As US economist John Kenneth Galbraith once said: "We have two classes of forecaster: Those who don't know – and those who don't know they don't know."

So how do we get around this?

We invest with a multidisciplinary view and a margin of safety. Not knowing what the future holds requires us to consider a number of potential outcomes and opposing risks. This requires us to be rational, seek out dissenting opinions, and consider incomplete and often conflicting information. We acknowledge that we don't know what the future holds, and so we seek to buy companies trading at a significant discount to our estimate of fair value to account for a variety of outcomes.

Frame and reframe

All too often, our choices involve trade-offs. The world is complex, and our instinctive reactions fail to adequately account for the interplay between various elements. You cannot eliminate all risks. Overestimating the risk in one area may result in us materially underestimating the risk and costs in others.

As investors, we constantly need to balance the risk of loss against the risk of losing out. We need to be as conscious of the limits of our knowledge as we are of what we know. We need to approach problems from multiple angles, and be comfortable making sometimes counter-intuitive and uncomfortable decisions.

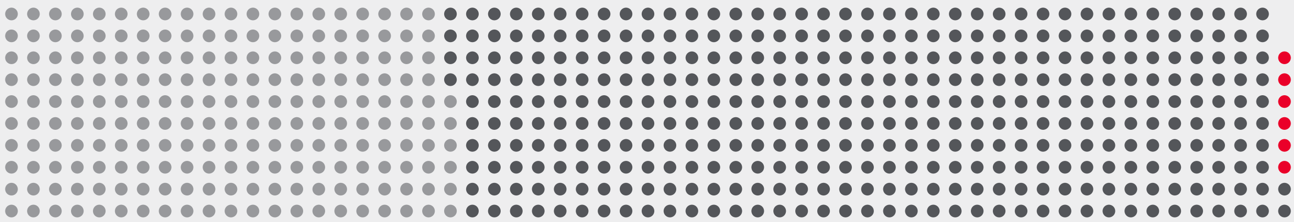
Figure 1: Dashboard – South Africa 2020

COVID-19 statistics as at 30 June

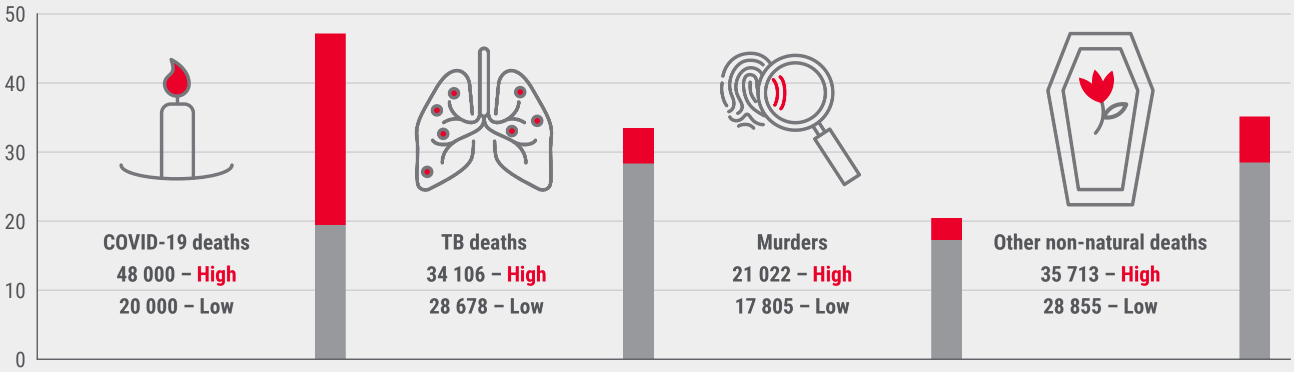
1 630 008	151 209	75 009	4 418	2 657
Tests conducted	Total cases	Active cases	Hospitalisations	Deaths

South African population

58.8 m	21.6 m	603 k
Total population	Under 19 years	80+ years



Estimated full-year mortality – 2020 ('000s)



Companies in distress

> 160 k

UIF claims

CLAIM

> 2 m

Revenue impact

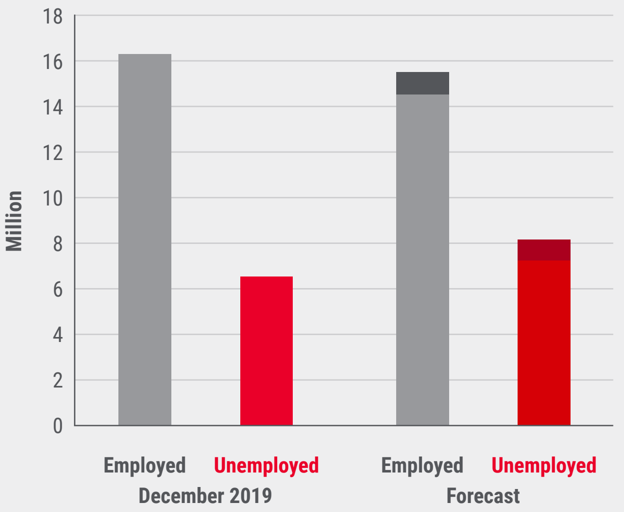
Forecast budget deficit

R761bn

Forecast deficit per assessed taxpayer

R150 768

Employment forecast – 2020



Permanent job losses forecast between

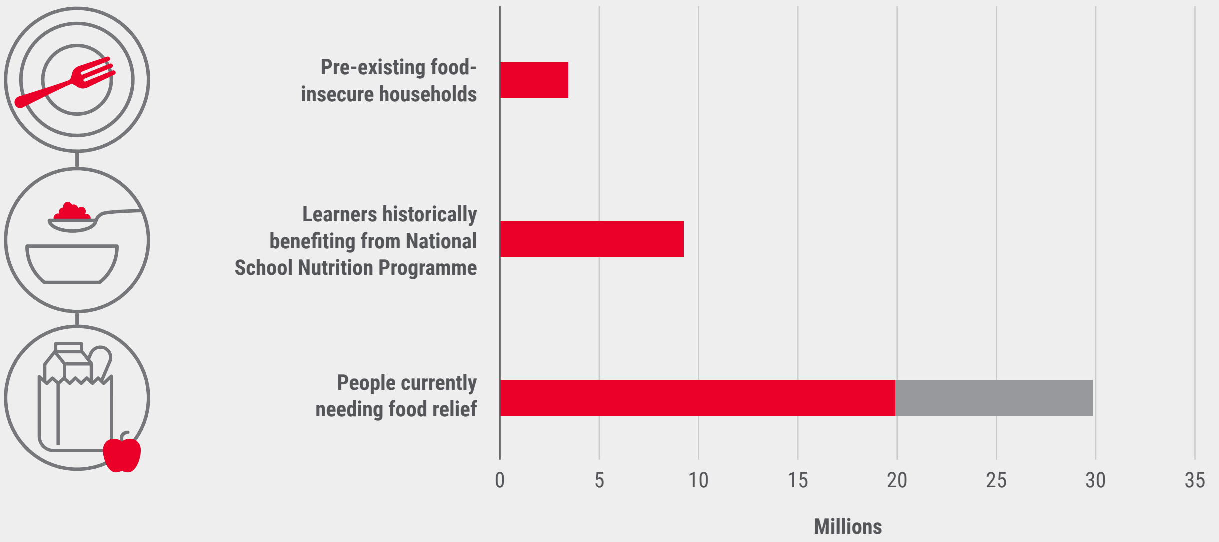
690 k and **1.79 m**

Average number of dependants per worker is between

3 and **4**

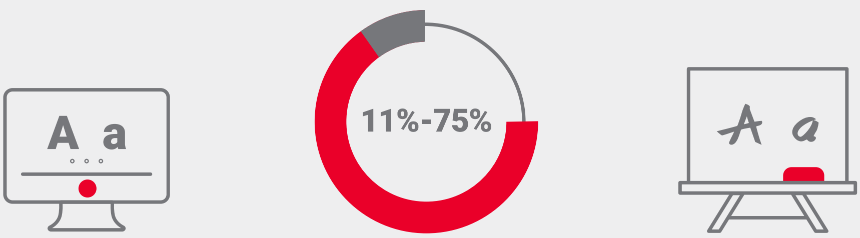
Unemployment forecast to grow to between

Impact on food security

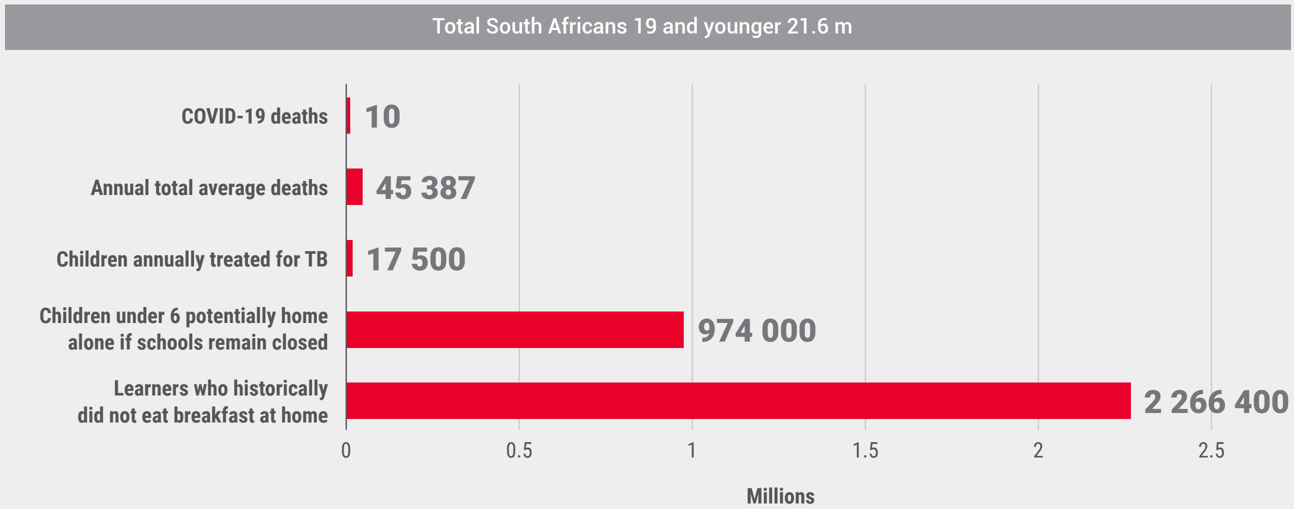


Education gap

Forecast growth in education gap between the best and worst schools as a result of school closures during COVID-19



Youth dashboard (19 years and younger)



"Counting the cost" (Van der Berg & Spaull): estimates on the annualised mortality risk

Source: Department of Health, Stats SA, National Institute for Communicable Diseases, National Treasury, South African Revenue Service, South African Police Service, Quarterly Labour Force Survey, Daily Maverick, Department of Basic Education, Education Endowment Foundation, Servaas van der Berg & Nic Spaull, Allan Gray research

Rory joined Allan Gray as an equity analyst in 2008 and was appointed as a portfolio manager in 2017. He holds a Bachelor of Business Science degree in Economics and Finance from the University of Cape Town and is a CFA® charterholder.

DIALLING IN TO THE MOBILE NETWORK OPERATORS

Varshan Maharaj

An ideal investment generates a lot of free cash flow and earns high returns on reinvestment.

MTN has underperformed the FTSE/JSE All Share Index significantly over the last five years. It has been one of our largest underweights compared to our peers over much of this period. The new management team has made several positive changes to the business and their mobile money business is widely seen as a promising avenue for growth. Does MTN offer an attractive investment opportunity after the recent underperformance, or are African telecommunication markets saturated and fraught with regulatory issues? Varshan Maharaj investigates.

When analysing a business, a key aspect of our research focuses on estimating how much free cash flow[1] it generates and what returns it can earn on reinvestment of that cash. An ideal investment generates a lot of free cash flow and earns high returns on reinvestment. We also consider the prospects of the business – simply put, how its future might differ from its past.

When we assess the local telecommunications sector from this perspective, we deduce the following:

Mobile operators have been good businesses to own during periods of high subscriber growth, provided that licences were obtained at reasonable prices, and coverage requirements were satisfied at a reasonable capital cost. Once subscriber growth slows, free cash flow generation and returns are significantly lower.

Furthermore, for mobile operators to earn decent returns, regulators need to price licences fairly, promote fair competition, and administer fines and capital expenditure requirements sensibly.

Changing fortunes

The local telecommunications industry tells a story of shifting fortunes over time. The FTSE/JSE

[1]Free cash flow is the cash from operations less the investment to sustain operations. It represents the amount available to be distributed to the owners and lenders of the company.

Telecommunications Index outperformed the FTSE/JSE All Share Index (ALSI) from 2002 to 2009, and has underperformed the ALSI since 2015, as shown in **Graph 1**.

What factors contributed to this picture?

Diminishing return on investment

Initially, the number of subscribers in South Africa grew rapidly. This generated lots of free cash flow, which was used to expand the South African network and fund the acquisition of licences in new markets, which were attractively priced and experienced good subsequent subscriber growth. Returns on reinvestment were very attractive.

Mobile network revenue follows the Pareto principle, with 70% of revenue generated by 20% of subscribers. As subscriber growth slows and the mix of infrastructure changes to service areas with lower population density, the return on investment decreases. The release of spectrum has also been slower than expected in some markets, increasing the need for a greater density of network points and lowering return on investment.

Furthermore, revenue growth has come under pressure as pricing per minute and per megabyte is deflationary. Therefore, revenue growth depends on adding users and increasing usage per user, which cannot continue indefinitely. As can be seen in **Graphs 2** and **3**, return on equity has declined as capital expenditure is less efficient and subscriber growth has slowed.

Contracting margins

Mobile operators are among the most taxed sectors. In addition, over time, the cost of compliance has also been increasing, most notably evidenced by the following:

- Fines have been levied for failure to meet subscriber registration requirements, with particular reference to MTN Nigeria in 2015.
- Disputes have been lodged relating to tax compliance, such as against Airtel in Tanzania and Niger in 2018, as well as Orange in Niger in 2018.
- The cost of frequency fees has increased materially, as with MTN Bénin in 2017.
- Mobile operators must satisfy local ownership and dominance restrictions in some markets.

Currency movements can also have a significant impact on valuations if a material portion of earnings originates outside South Africa and a portion of operating and capital costs is denominated in US dollars. All else being equal, one can expect margins to contract as the operating currencies depreciate against the US dollar and the rand, resulting in lower growth in rands. In addition, mobile operators have occasionally had difficulty in repatriating funds to South Africa from some regions, permanently reducing the intrinsic value of these subsidiaries.

Graph 1: Relative performance of the FTSE/JSE Telecommunications Index vs the FTSE/JSE All Share Index

Source: IRESS

Prospects

In considering the prospects of investing in mobile operators, we think about:

1. The growth opportunity in new markets

Few opportunities remain to obtain licences in new markets. Our assessment is that these opportunities – in Ethiopia, for example – would likely carry a high licence cost and already have relatively high mobile penetrations, lowering prospective returns.

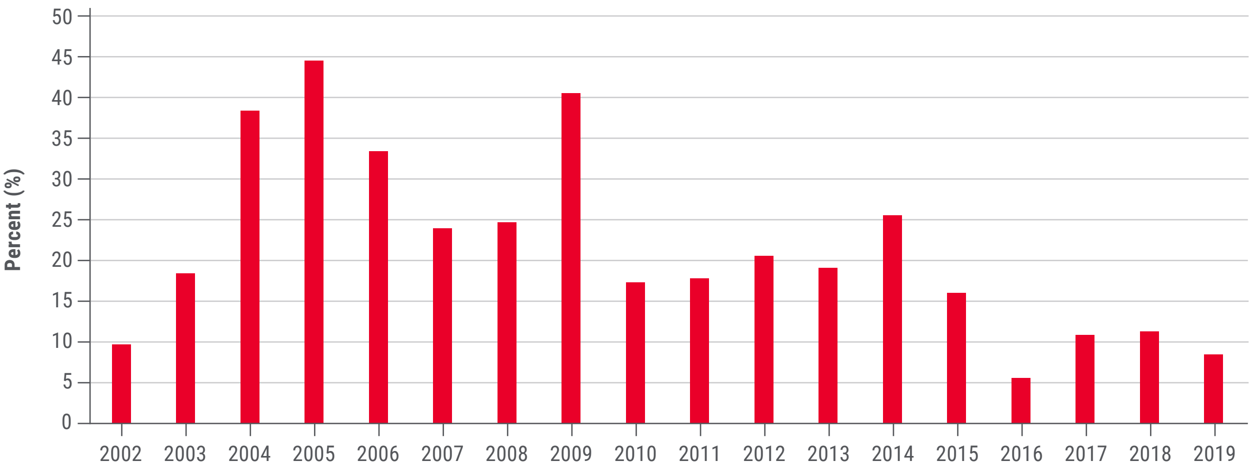
2. The potential value-unlock from asset sales

Proceeds from asset sales are estimated based on multiples of attributable earnings. Observable valuations for comparable transactions have a wide range, with some deals being concluded at attractive multiples. While asset sales at high multiples are possible, most transactions do not indicate significant value-unlock potential.

3. The growth potential of mobile money businesses

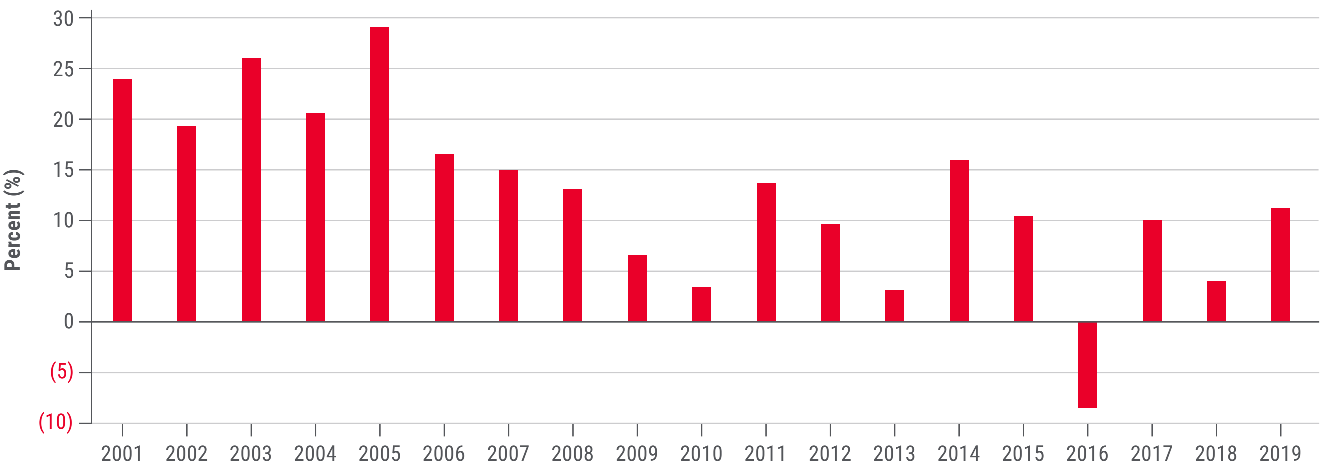
Mobile money provides material upside potential, but has only been successful in a few nations. Markets where mobile money has grown rapidly have several common characteristics, such as being mobile operator-led (which allows the mobile operators to share in the interest on the float) and a large unbanked population. We assess each mobile operator's prospects against these characteristics and make estimates of the potential number of users and revenue per user to estimate the value of the addressable market.

Graph 2: FTSE/JSE Telecommunications Index – return on equity



Source: Bloomberg

Graph 3: Year-on-year growth of South African mobile subscribers



Source: Company data, Allan Gray estimates

We also consider the risks, including competition from fintechs, and execution risk, as many nations have seemingly conducive conditions for mobile money, but have failed to exhibit significant growth. We then discount attainable profits for the time value of money as these businesses generally take five to 10 years to scale. There are also significant regulatory risks that weigh down on the fair multiple of these businesses.

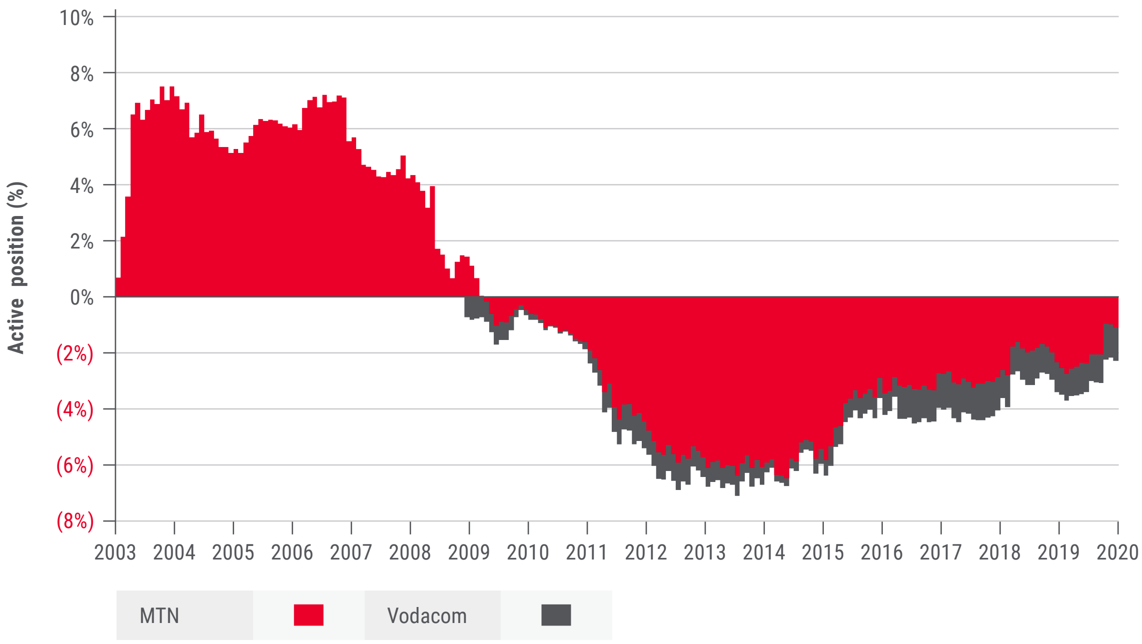
Positioning

MTN and Vodacom are the largest shares in the sector. **Graph 4** illustrates the holdings of these shares in our Equity Fund relative to their weights in the ALSI over time. We were overweight MTN during most of the high subscriber growth phase. We subsequently moved underweight MTN and we have been underweight Vodacom since it listed in 2009 as revenue growth and returns on reinvestment decelerated and the shares traded above our estimates of intrinsic value.

Graph 5 compares these companies using key operating metrics, while **Table 1** shows valuation metrics. Our analysis suggests that relative to Vodacom, MTN has overpaid for assets, evidenced by their lower return on equity, and used them less efficiently, shown by their lower asset turnover[2]. A few poorly performing operating companies and fines have also lowered MTN's return on equity.

Despite these observations, MTN currently trades at a more attractive price relative to our assessment of intrinsic value, and within the sector is our clients' larger holding. However, we remain underweight MTN as revenue growth and return on equity have been declining. It is a cyclical business with considerable debt, it is vulnerable to devaluation of the Nigerian naira, and there is uncertainty regarding succession of the chief executive officer.

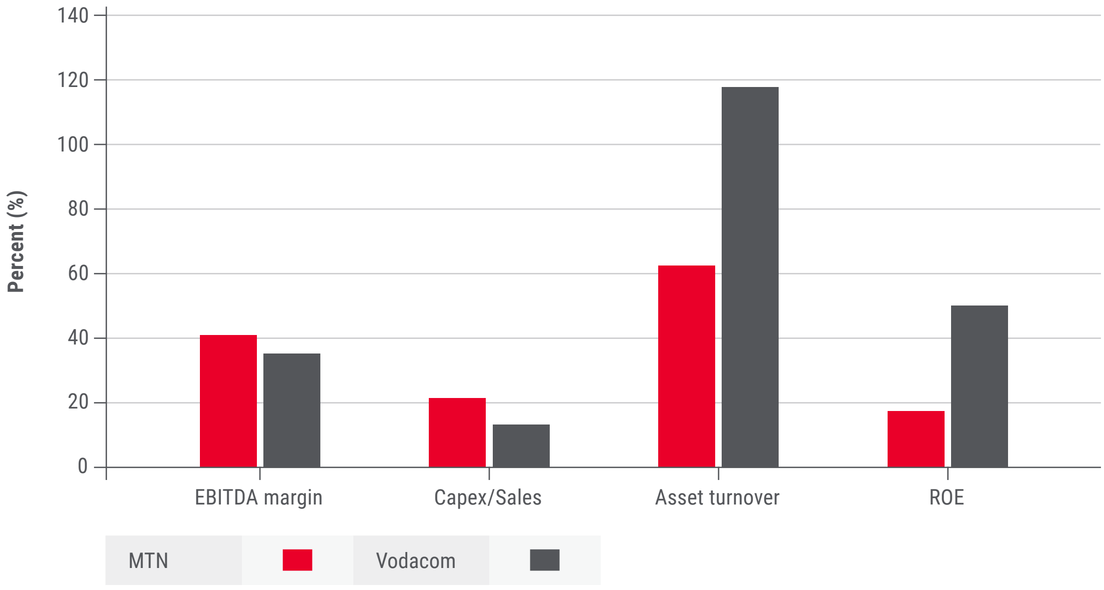
Graph 4: Overweight/(Underweight) of MTN and Vodacom in the Allan Gray Equity Fund vs the ALSI



Source: IRESS, Allan Gray

[2]Asset turnover is the ratio of total sales to average assets. It is a measure of how efficiently a company is using its assets.

Graph 5: Operating metrics (averages since 2007)



Source: Bloomberg, Allan Gray estimates

Table 1: Valuation metrics

Valuation metrics	MTN	Vodacom
Price-to-earnings ratio	12.1	13.1
Price-to-net-asset-value ratio	121%	243%
Dividend yield	9.9%	6.5%
Spot price/Analyst intrinsic value estimate	82%	97%

Using closing prices as at 25 June 2020.
Source: IRESS

Varshan joined Allan Gray as an equity analyst in October 2014 and was appointed as a portfolio manager for frontier markets in 2020. He holds a Bachelor of Business Science degree from the University of Cape Town. He is a qualified Chartered Accountant and a CFA® charterholder.

DO SOUTH AFRICAN BANKS OFFER VALUE IN A COVID-19-BATTERED WORLD?

Tim Acker

Excessive concern over the short-term impact of COVID-19 has created an opportunity for patient, long-term investors.

As South African banks re-evaluate their models to deal with the potential implications of the coronavirus pandemic and take proactive steps to minimise the fallout, Tim Acker evaluates the local banking sector's outlook and opportunities.

COVID-19 has disrupted the lives of most people around the world, with tragic consequences for some. There is still debate around the lockdown strategies adopted, with no shortage of vocal armchair experts on social media. Regardless of what will be seen as the correct policy response in hindsight, we already know that the economic consequences of COVID-19 will be catastrophic.

In the US, the unemployment rate has jumped to 15%, the highest since the Great Depression. The weekly rate of Americans filing for unemployment insurance benefits has reached multiples of the previous highest reading. In South Africa, estimates suggest that roughly one in 10 people had lost their jobs by the start of May. The South African Reserve Bank (SARB) estimates that GDP will contract 7% in 2020. The local economy entered the pandemic already in a sickly state, making the impact all the more severe.

Many businesses, especially smaller ones, will sadly not survive the economic slowdown.

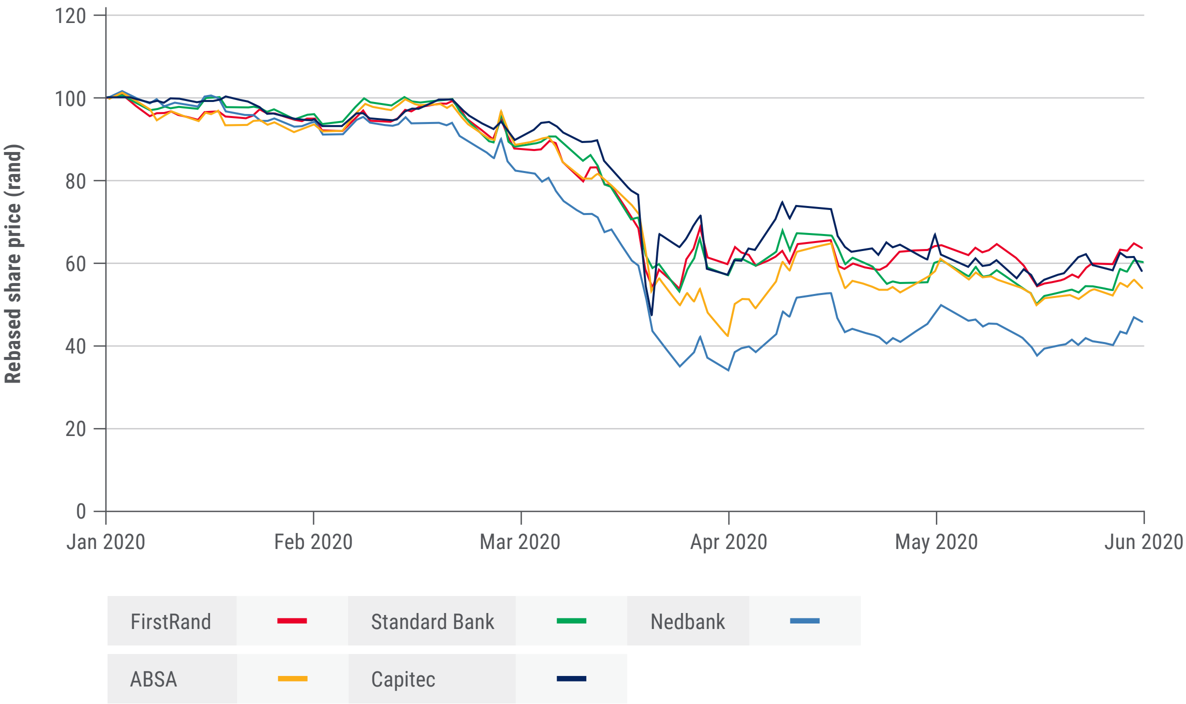
What are the implications for the South African banking sector?

Banks are generally geared to economic activity. Both consumers and businesses have experienced a loss of income, so some borrowers will be unable to meet their debt obligations. The resulting bad debts will cause earnings for banks to decline this year. As the stock market is forward-looking, this negative economic picture has been priced in. The share prices of South African banks have halved year to date, as shown in **Graph 1**.

Does this decline present an opportunity, or should investors get out before things get even worse?

The immediate future looks bleak. South African banks are unlikely to pay dividends this year, as requested by the regulator. But valuations of banking shares are also at an extreme. On various metrics, the valuation of the local banking sector is now the lowest it has been since the 1980s, as reflected by the history of the price-to-earnings (PE) ratio of the sector in **Graph 2**. In hindsight, previous times with similar valuations (such as the 2007-2008 global financial crisis) were phenomenal buying opportunities. It is, of course, possible that this time is different and that earnings won't recover.

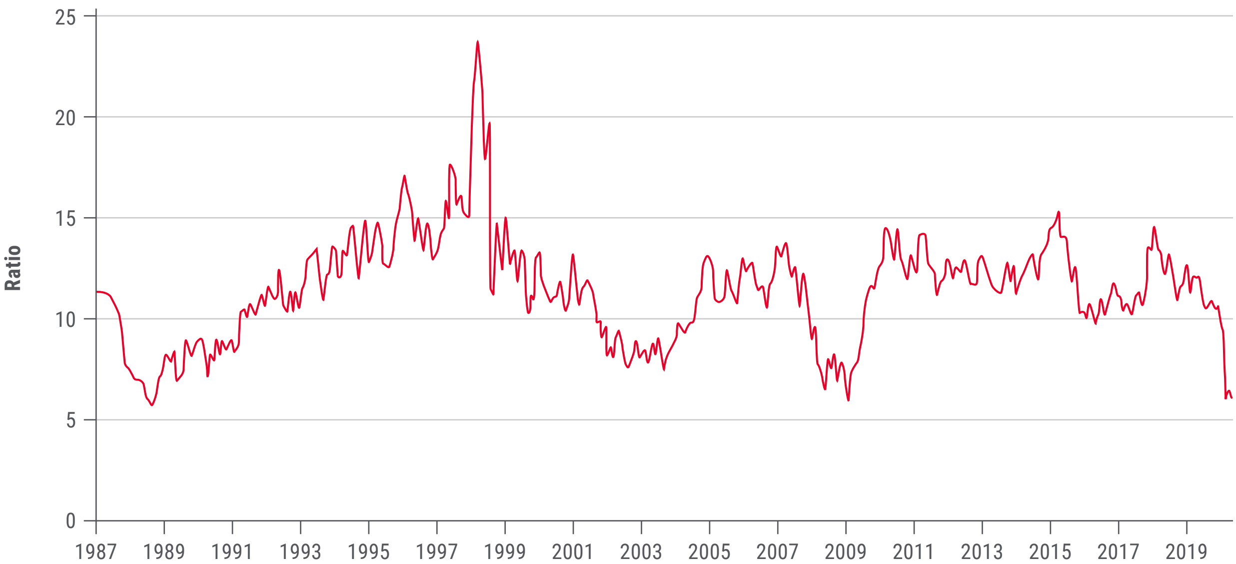
Graph 1: Banks' share prices, 1 January to 31 May 2020, rebased



Source: IRESS, Allan Gray research

Graph 2: Price-to-earnings multiple of the South African banking sector

FTSE/JSE Banks Index June 1995 to May 2020, median PE of large banks before that



Source: IRESS, Allan Gray research

Stress test

Banks will experience a drop in earnings as fee income falls and bad debts rise. Of importance for long-term investors is whether this will translate into a permanent decline in earnings power.

Another risk is financial distress in the short term. The simplified stress test below (**Graph 3**) shows that bad debts would have to increase to approximately double the highest levels experienced during the 2007-2008 crisis to reduce earnings to a breakeven position. A further doubling of bad debts would be needed to reduce banks' capital levels to the minimum position normally required by the regulator. At this level, losses from credit impairments would be seven to 14 times higher than the most recently reported numbers.

While it is likely that the economic impact of COVID-19 will be greater for South Africa than the 2007-2008 financial crisis, South African banks are also in a better position to weather the storm. For example, bank capital levels have increased over the past decade and banks have created bigger provisions for future credit losses.

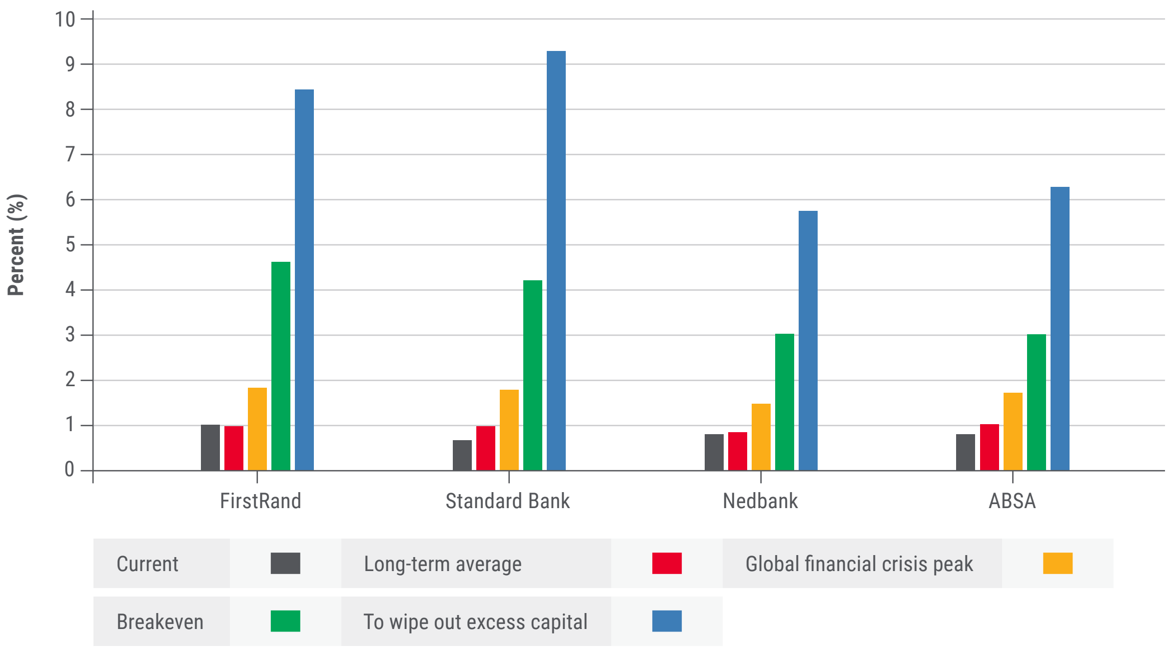
There are also key differences in the South African credit market. The 2007-2008 crisis followed years of high credit growth and a boom in property prices that was vulnerable to a bust, meaning banks went into that crisis with artificially high earnings. Contrast that with conditions today, where credit growth has been benign and economic growth has been meagre. The starting point for earnings is therefore not excessively high.

... South African banks are likely to be fine in most scenarios.

In most developed countries, governments have responded to the crisis with massive spending programmes. For example, the US and UK are estimated to run fiscal deficits equal to 15-20% of GDP this year.

South Africa, like many emerging markets, unfortunately lacks the resources for such a large stimulus response. The South African government has still announced various measures, such as the R500 billion COVID-19 response package, which includes a R200 billion loan guarantee scheme. The latter is positive for banks, as it will help otherwise sound businesses with the liquidity needed to get through the crisis.

Graph 3: Bad debts



Source: Allan Gray research, company financials

Also of importance to banks are the various assistance measures announced by the banking regulator, such as the temporary relaxation of capital and liquidity requirements, and favourable guidance on the need to raise provisions on restructured loans.

Evaluating the opportunity

Shares of South African banks are attractively priced, even if the companies lose a year's earnings and a full recovery takes several years. Excessive concern over the short-term impact of COVID-19 has created an opportunity for patient, long-term investors.

It is hard to predict with certainty at this stage how credit losses will play out and how deep the coming recession will be, but South African banks are likely to be fine in most scenarios. Capital levels are sufficient to absorb potential losses from even a severe economic slowdown.

As investors, we have to weigh the attractive upside potential against the risks and unknown factors (such as a potential second wave of infections and lockdowns) in deciding on an appropriate position size.

Allan Gray client portfolios have the largest exposure to Standard Bank and FirstRand.

Tim joined Allan Gray as an equity analyst in 2013 and was appointed as a portfolio manager in 2020. He holds a Master of Accounting degree, specialising in Taxation, from Stellenbosch University and is a qualified Chartered Accountant.

ORBIS: TECH OPPORTUNITIES RISE IN THE EAST

John Christy and Stanley Lu

Technology stocks have performed remarkably well in recent years and particularly so amid the COVID-19 pandemic. John Christy and Stanley Lu, from our offshore partner, Orbis, compare and contrast the opportunity offered by the well-known US tech stocks with their peers elsewhere.

The largest US technology shares, known by the "FANGAM" moniker, are six rapidly growing and highly profitable businesses: Facebook, Amazon, Netflix, Google (Alphabet), Apple and Microsoft. As a group, they have outperformed the US market by 19 percentage points per annum over the past five years and now account for more than 20% of the S&P 500's market capitalisation.

There is often very little room for nuance when it comes to the FANGAM stocks. You either look brilliant if you own them or foolish if you do not. One side will argue forcefully that the world has changed and they are "must-own" stocks, while the other will claim with equal fervour that they are overvalued and reminiscent of the dotcom bubble of the late 1990s.

As contrarians, we might be expected to fall into the latter camp. Instead, we would argue that being a contrarian does not mean mindlessly betting against the majority's opinion, but rather following our own independent research and analysis. This often means we are going against the grain, but sometimes our analysis agrees with the market's assessment. Similarly, we are quick to remind clients that we are "value-oriented" investors in the sense that we select stocks which trade well below our assessment of their intrinsic value. But we are not "value" investors in the naïve sense of limiting our search to companies trading at low multiples of earnings or book value. Indeed, we often invest in businesses that would traditionally be considered "growth" stocks, but only if we believe their growth potential is available at a compelling price.

We have, at times, found the FANGAM stocks attractive and we own Facebook and Alphabet today. Their valuations look undemanding given their growth prospects. While both have been positive contributors to the relative performance of the Orbis Global Equity Fund (the Fund), with hindsight, we would have been better off owning much larger positions.

We have owned Apple, Amazon, and Microsoft in the past, and it is now clear that we sold them too early. As painful as it has been to watch them continue to outperform, it is far more important to stay disciplined and focus on identifying the stocks that offer the most compelling value at current prices.

Looking further afield

With a broad global research capability, we are able to compare and contrast the FANGAMs with their technology peers elsewhere. For example, China's Alibaba has much in common with Amazon, yet it is growing faster and trades at around half Amazon's valuation. Both are exceptional businesses, but at the valuations on offer today, we prefer Alibaba.

> We are confident that the shares held in the portfolio represent compelling value ...

When we stack up the individual stocks in this way, a small number of companies exposed to the Chinese internet sector look like the more attractive investments and – most importantly of all – each trades at a significant discount to our assessment of intrinsic value. Collectively, these companies account for more than 15% of the Fund.

NetEase: Custom-made for a quarantined world

The largest position – at 10% of the portfolio – is NetEase. Long-standing clients need little introduction to the company, which we first bought in 2008. As a provider of online games, education and entertainment, NetEase is almost custom-made for a quarantined world and has been the largest contributor to the Fund's relative performance since the start of the year. Its core online game business, which accounts for nearly 80% of revenues, is highly cash generative even after significant research and development spending to retain its competitive advantage. NetEase produces some of the highest quality mobile games in China, and the company is now expanding globally with some initial success, which should also extend its long-term growth potential.

Besides the core business, NetEase has some exciting new ventures that are currently loss-making, but which we believe offer substantial long-term upside potential. Perhaps the two best examples are Youdao and NetEase Cloud Music. Youdao operates a variety of popular learning apps, such as the most widely used dictionary and translation apps in China, and a leading K-12 online education business. The enormous after-school education market in China offers growth potential and should be a tailwind for the company. Youdao was listed separately in October 2019 and the Fund bought shares at the time. NetEase Cloud Music is one of the most popular music streaming apps in China, with its online music community creating particularly high engagement amongst younger listeners.

While the returns from NetEase's investment in Kaola, the cross-border e-commerce business that it sold to Alibaba last year, ultimately fell short of our expectations, we were still encouraged that NetEase realised a US$1.2 billion gain from this investment. This indicates that NetEase's management has a good eye for identifying investments which add value.

NetEase trades at about 24 times our estimate of 2020 earnings if we adjust for the value of its incubated businesses and Youdao. We believe this is a reasonable multiple in light of the growth it has delivered over the past 10 years. During this period, its revenue has compounded at 32% per annum and operating profits at a rate of 21%. It also has a pristine balance sheet with net cash equivalent to about 20% of its market value. To put the valuation in context, Activision Blizzard – a key partner for NetEase (and Tencent) in China – trades at close to 30 times earnings on a comparable basis, with less net cash, and we are more excited about NetEase's long-term growth potential.

Tencent: Unparalleled user engagement

We are also enthusiastic about the Fund's holding in Naspers, whose stake in Tencent is by some distance its largest underlying asset. Tencent arguably has the greatest competitive "moat" of any company in China. It owns a portfolio of internet businesses that surround its ubiquitous WeChat app, which encompasses a wide range of daily needs, including messaging, payments, entertainment, news, music and shopping.

Tencent's user-engagement level is unmatched globally. China's 900 million internet users collectively spend about 45% of their internet-usage time on Tencent's many properties, which it monetises through various mega-scale services such as online games (largest in China, with global success), payments (highest market share in offline usage in China), and cloud computing (second largest in China behind Alibaba). Its market share in online ad spending in China, where "eyeballs" are most relevant, is still below 15%, suggesting ample room for future growth.

Tencent produces an enormous amount of annual free cash flow – US$16 billion over the past 12 months – and invests aggressively in future growth. As with NetEase, an investment in Tencent also comes with newer ventures that have exciting potential. These include its 40% stake in the maker of the wildly successful Fortnite game franchise and promising companies in areas such as e-commerce and food delivery in China.

> … owning an excellent business at a discount still strikes us as an attractive long-term proposition.

In addition, Tencent has a portfolio of hundreds of additional investments in opportunities that would otherwise only be accessible in private markets. After assigning fair value to its investment portfolio, Tencent trades at around 33 times its free cash flow, which we consider reasonable given its growth potential. However, the Fund is able to have exposure to Tencent via Naspers, which is trading at around a 50% discount to its underlying assets. That discount has never been zero, so we aren't counting on it narrowing swiftly or entirely, but owning an excellent business at a discount still strikes us as an attractive long-term proposition.

Alibaba: Innovative and agile

Our most recent technology purchase in China, Alibaba, is most similar to Amazon. Alibaba operates an unparalleled e-commerce marketplace, with a suite of infrastructure and features around online and offline retail to serve its online shopping customers. Its market share of retail e-commerce in China is over 50%, yet there is upside to its monetisation level when compared to Western peers.

Alibaba has also been ahead of its competitors in strategic new businesses such as cloud computing, fintech and omnichannel retail. We believe its history of innovation and agility, combined with financial resources from the core business and a deep bench of management talent, bode well for future growth over our investment horizon. At a valuation that is very similar to Tencent, we believe Alibaba is not only attractive in its own right but also compares favourably to Amazon, as described earlier.

What about China risk?

Corporate governance and the treatment of minority shareholders is often a concern in China as well as other emerging markets. We feel this risk is acceptably low for our holdings, some of which stand out as clear exceptions in this regard. Using NetEase as an illustration, the founder and chief executive, William Ding, owns 42% of the company. NetEase also has a history of being shareholder-friendly. In 2013, it became the first and only major, primarily US-listed Chinese company to pay a regular dividend. Including share repurchases, it has since returned over US$5 billion to shareholders – a return of over 70% of its 2012 average market value, to say nothing of its nearly 10-fold share price appreciation over the same period.

US-China tensions have also been a concern of late and US-listed Chinese firms are under intense scrutiny. We remain of the view that the business fundamentals of our technology holdings are generally less exposed because they provide domestically oriented services. Still, their extensive presence in daily life and access to customer data may expose them to geopolitical risks. While we recognise that the range of possible outcomes includes unknowable tail risks, we have found mitigating factors for some of them. For instance, the potential risk of a forced delisting from a US stock exchange can be alleviated by dual listings in Hong Kong, a process both NetEase and Alibaba have recently undertaken, and Tencent's primary listing is already in Hong Kong.

> … we believe Alibaba is not only attractive in its own right but also compares favourably to Amazon …

Excited about future prospects

When we step back and look at the shares that we own today – in the technology space and throughout the Global Equity portfolio – we are excited about their prospective relative returns. As noted earlier, we are neither "value" nor "growth" investors in the naïve sense, but our bottom-up stock selections currently provide more exposure to the broad performance of value rather than growth. This has been a headwind at a time when the value style has been deeply out of favour, but our willingness to look beyond headline valuation metrics has helped us avoid even more substantial underperformance during a time when growth shares – notably the FANGAM group – have been unusually strong. Indeed, the positive contribution to performance from our holdings in Asian technology shares has more than offset our relative lack of FANGAM exposure.

The lesson here is that we can still find value in shares that may appear expensive on traditional valuation metrics. But we are mindful that the bar is very high. The more we pay, the more certain we need to be about their ability to deliver outstanding results, particularly in an environment that is as uncertain as the one we are navigating today. We are confident that the shares held in the portfolio represent compelling value – without requiring heroic assumptions.

Orbis
Invest Differently

John joined Orbis in 2010 and is a member of the team of Investment Counsellors, which is responsible for servicing Orbis' institutional clients and investment consultants. His responsibilities include oversight of the firm's strategic and investment communications. John holds a Bachelor of Arts degree in Economics from Fordham University and a Master of Business Administration from Carnegie Mellon University. He is also a CFA® charterholder.

Stanley joined Orbis in 2009. Based in Hong Kong, he is a member of the Emerging Markets Investment team, with primary responsibility for researching Greater China equities. Stanley holds a Bachelor of Business Administration degree from the National Taiwan University and a Master of Business Administration from The Wharton School of the University of Pennsylvania. He is also a CFA® charterholder.

DO YOU HAVE AN EMERGENCY FUND?

Noluyolo Betela

... your emergency fund should buy you enough time to manage and recover from a crisis.

By proactively building emergency reserves, you will be able to respond to life's crises without compromising your financial standing, or taking on expensive debt. Noluyolo Betela discusses the ins and outs of putting an emergency fund in place.

In a bid to build portfolios that outperform the markets over the long term, serious investors can attest to regularly sourcing the latest expert analysis, insights, and commentary. While this information is beneficial and undoubtedly helps investors make more informed decisions, we often fail to take heed of one of the most basic money lessons from those who have lived long enough to experience various booms and busts: Make sure you save something for a rainy day.

The coronavirus pandemic has demonstrated how unpredictable life is. Over the last quarter, we have all been reminded how quickly our circumstances can change. If we think back to what was keeping us up at night six months ago, very few of us were even remotely concerned about the impact that a new communicable disease would have on life as we know it. Yet, millions of people have been infected with the virus, and hundreds of thousands have died. In addition, these numbers are set to increase.

Beyond the tragic toll that the pandemic has exacted on our health and wellbeing, the virus has had a devastating economic effect around the world – decimating economic activity and forcing many aspects of global trade to grind to a halt.

Calling it "the worst economic downturn since the Great Depression", the International Monetary Fund has projected that global growth will fall by 3% this year due to the pandemic. The International Labour Organization estimates that the COVID-19 crisis has wiped out 6.7% of the world's working hours in the second quarter of 2020, which translates to approximately 195 million full-time jobs. A TransUnion study conducted in May revealed that 82% of the South African residents surveyed reported that their household income had been negatively impacted by the response to the pandemic.

These movements have brought households around the world to their knees, as thousands of businesses have been forced to close, and millions have been forced into unemployment and ultimately bankruptcy.

The role of an emergency fund

We often hear that failing to plan is planning to fail. This is particularly true when it comes to our finances. As humans, we tend to feel optimistic about the future and, as a result, most of us don't start each year anticipating fender benders, job losses, geysers bursting and medical emergencies – or pandemics, for that matter. However, these rainy days are unfortunately an inevitable part of life. A robust financial plan should make provision for the unplanned expenses that catch us off guard and place pressure on our budgets.

All investors should ensure that they have a sufficient emergency fund in place. In fact, it is a good idea to consider this as a starting point for your portfolio, although it is never too late to start one.

It may be helpful to think of an emergency fund as a form of personal insurance for your long-term investments. An emergency fund will provide you with access to money and prevent you from abandoning your long-term financial plans when unexpected expenses or emergencies threaten to compromise your financial health.

Long-term investment products, including retirement annuities and tax-free investments, are designed to help you grow your capital over long periods of time. These products have several benefits and restrictions to assist you in achieving your goals. You cannot usually access the funds in your retirement annuity before you reach retirement age, and you lose out on the long-term benefits of tax-free investments when you make premature withdrawals.

With long-term goals in mind, many investors pick underlying investments with higher equity exposure for these products. This is usually appropriate, as long time frames iron out the ups and downs of the market, allowing investors to benefit from greater growth over time than with lower-risk investments.

Think about liquidity

Cashing in any of your long-term investments to get you through a crisis during a market downturn could mean selling at a low and even walking away with less money than you contributed. Having an emergency fund in place will help you to avoid this worst-case scenario.

Ideally, you should consider placing your emergency fund in an investment vehicle that aims to preserve your capital over the short term. Your investment should also be easily accessible. Many products, such as fixed deposits and other notice accounts, may offer slightly higher interest rates than a traditional savings account, but prove impractical when you need to access the funds immediately.

As most of us lack the discipline required to keep our hands off our emergency savings, it is also better to keep your emergency fund separate from your day-to-day accounts, to avoid dipping into it.

Consider parking your emergency fund in a low-risk investment, such as a money market fund, which aims to deliver higher returns than a bank deposit, and can be accessed in a short space of time if disaster strikes.

> ... think of an emergency fund as a form of personal insurance for your long-term investments.

Setting a target

As with all elements of personal finance, setting a target for your emergency fund should be shaped around your personal circumstances. There are no hard and fast rules, but financial advisers generally encourage their clients to build an emergency reserve that is large enough to cover at least three to six months' monthly expenses.

If you are self-employed or engaged in a seasonal vocation, you may want to consider saving even more. Amid the uncertainty of the global financial crisis of 2007-2008, many financial experts encouraged investors to increase their emergency savings to up to eight months' monthly expenses.

Ultimately, the idea is that your emergency fund should buy you enough time to manage and recover from a crisis.

It is also critical to understand what your emergency fund is *not* for. The money in your emergency fund should not be used to fund a holiday, treat your loved ones over the festive season, or supplement the deposit on a new home.

If you need to tap into your emergency fund to make essential repairs to your home or vehicle, that would be appropriate, but it should not be used to fund medium- or long-term goals. In fact, when taking on debt for a home or a vehicle, you should aim to have an appropriate emergency fund in place before you make the purchase.

If you do make use of a portion of your emergency fund, you should aim to replenish it as soon as you are able to do so.

Review your fund regularly

You should think of your emergency fund as a moving target, as your income and expenses are likely to change over time. Your emergency fund should be regularly re-evaluated alongside your broader financial plan to ensure that it remains sufficient for your needs.

When reviewing the status of your emergency fund, you will need to take factors such as inflation and lifestyle creep into account to accommodate your changing circumstances. In short, make sure your emergency fund can fund your current lifestyle, otherwise you may be left out of pocket.

Breaking the barriers and getting started

Saving more than three months' monthly expenses can be daunting, particularly when you are already under financial pressure, but this should not deter you from getting started.

Many financial advisers encourage those paying off large amounts of debt to start building their emergency funds as they pay off their debts. This can help prevent turning to even more debt in times of crisis.

Another reason many of us fail to get started is that we have taken out comprehensive insurance to cover the most common emergencies. This can give us a false sense of security. While income protection and short-term insurance policies have an important role to play as part of a well-thought-out financial plan, an emergency fund is invaluable when an insurance claim is delayed or disputed, or when your emergency falls outside the scope of what you are covered for.

An independent financial adviser can prove invaluable as you build your emergency fund by helping you set an appropriate target and holding you accountable to ensure that you stay the course.

If you have not started building your emergency fund, the best time to do so is right now. Evaluate your current expenses and explore ways to cut back until you reach your target. Every little bit counts.

Noluyolo joined Allan Gray in 2015 and is currently a client relationship manager in the Strategic Markets team, having previously worked in Client and Adviser Services within the Retail business. She holds a Bachelor of Commerce and an Economics Honours degree, both from Rhodes University, and a Postgraduate Diploma in Financial Planning from the University of the Free State.

PHILANTHROPY RESPONSE TO COVID-19

Anthony Farr

The response … seeks to address both the welfare and economic dimensions of the challenge.

The COVID-19 crisis has resulted in an urgent and massive need for humanitarian and economic support for communities and enterprises, and the philanthropic sector in South Africa has been called into action at a scale seldom, if ever, seen before. Anthony Farr, chief executive officer of Allan & Gill Gray Philanthropy in Africa, describes the principles adhered to and the response of the Allan Gray entities.

The reality of the COVID-19 crisis catalysed Allan & Gill Gray Philanthropy into action, with a commitment of R100m to fight the pandemic. The speed of this response triggered the rest of the Allan Gray philanthropy entities in Southern Africa to follow suit, resulting in a combined effort that made R180m of funding available to assist with the economic and humanitarian crises.

This collaborative effort included Allan & Gill Gray Philanthropy, Allan Gray Orbis Foundation Endowment, E Squared and Allan Gray Orbis Foundation.* This contribution was supplemented by funds raised through an internal campaign at Allan Gray Proprietary Limited to encourage executives and employees to contribute individually, which amounted to nearly R2m.

Charity begins at home

To us, it was very important to begin our efforts by considering the support existing programmes and grantees might need. Across the Southern African Allan Gray philanthropy ecosystem, entities responded quickly and appropriately, ensuring that participants such as Allan Gray Scholars and Fellows were properly supported. Necessary adjustments for investee companies were made by E Squared, and small emergency relief grants were offered to grantees of the Philanthropy Initiative and Allan Gray Orbis Foundation Endowment.

Having covered this home base with existing resources, attention was then given to the broader COVID-19 response.

*For more information about these entities, please read the Business Sustainability section at the end of our Stewardship Report, available via the ESG section of the "Latest insights" page on our website.

Allocation principles

In deciding how to allocate funds, the following principles were incorporated:

Orientated towards the immediate rather than the longer term

The focus was on taking immediate action, acknowledging that there was a critical need to reduce the hardship now. However, bearing in mind that the impact of this crisis would remain with us, we also wanted to devote attention to the longer-term process of recovering and rebuilding, with more strategic action beyond the first wave of immediate humanitarian responses. Around 20% of the funding has therefore been held back for a second phase of support.

Holistic rather than one-dimensional

The challenge of this crisis is that it has had an impact on so many different levels of society. While Allan Gray-related endeavours have always been guided by the principle of focus, in this unique context, there has been a need to broaden the scope in recognition of the breadth of the crisis. The response therefore seeks to address both the welfare and economic dimensions of the challenge.

Balance of grant-making and catalytic philanthropy

Given the urgency and scale of the crisis, it was decided that the bulk of the allocation should be in grants to a few organisations that have been set up to have an immediate impact. While this would be the central thrust, Allan Gray entities have built up significant philanthropic capacity in South Africa over the years and so in each of the broad areas (welfare and economic), a smaller, more catalytic and strategic response has also been initiated.

Based on the above principles, the first phase of support was structured as follows:

- R50m to the Solidarity Fund.
- R50m to the South African Future Trust (SAFT) to support small businesses dealing with the fallout of COVID-19. Through the SAFT mechanism, this contribution has kept nearly 5 000 individuals employed over this time, with the likely multiplier effect benefiting a total of 25 000 people.
- R20m to the COVID-19 Innovation & Response Fund, an initiative established through E Squared to fund businesses and start-ups providing products and services that are either highly innovative or essential in the fight against the pandemic. This fund has identified 10 potentially catalytic businesses covering the COVID-19 areas of prevention, detection, care and support.
- R10m to fund the Coronavirus Rapid Mobile Survey (CRAM), a research project involving a nationally representative sample of 10 000 South African individuals over a period of six months to track changes in social and economic outcomes over the period. Already some of the preliminary data is showing the significant impact that the pandemic has had on hunger in South Africa.
- R10m towards additional support in Namibia (R5m), Botswana (R3.5m) as well as Eswatini (R1.5m) in accordance with the Allan Gray philanthropic footprint in the Southern African Development Community.

Through this funding, the Allan Gray philanthropy ecosystem is striving to ensure we bring to life the core beliefs of our founders, Allan and Gill Gray, for whom philanthropy and business are inescapably entwined. It is about making our own small contribution to heed the call of our government and stand in unity with South Africans in the fight against the pandemic.

Allan Gray Fellows on the front line of South Africa's fight against COVID-19

Testing is critical in the fight against the spread of the current coronavirus. Led by Allan Gray Fellows Daniel Ndima and Dineo Lioma, CapeBio Technologies (www.capebiosa.com) has answered the challenge with a kit that provides results in just 65 minutes.

These qPCR kits, developed by CapeBio, are hailed as a massive breakthrough, with critical implications for the country's ability to weather the crisis. Ndima, CEO and co-founder of CapeBio, explains that the ability to obtain rapid test results makes it possible to gain a clearer picture of viral infections so that interventions can be introduced with greater effectiveness.

According to Ndima, CapeBio's innovation was a response to the massive disruptions created by the virus in South Africa and the desperate need for locally produced testing kits. He notes that most countries are currently experiencing issues with supply and demand, which their respective governments are controlling with newly introduced trade regulations. This has caused delays in the delivery of imported testing kits and protective gear, and may also impact the delivery of a vaccine once it has passed clinical trials.

A scientist with a special interest in structural biology, Ndima says that the development of the kit represents a spin-off from the work to which he has dedicated the past 12 years of his life. CapeBio already has an established reputation in this field as it has created a number of test kits and is known to be reliable.

As a locally manufactured product, the qPCR kit could mitigate reliance on overseas imports, ensuring that testing reagents could be accessed quickly. These kits are also more affordable than international products. Perhaps most important, however, is the fact that CapeBio's product makes it possible to obtain test results in just 65 minutes, compared to the usual three hours.

Anthony is the chief executive officer of Allan & Gill Gray Philanthropy in Africa. Prior to this, he was the founding chief executive officer of the Allan Gray Orbis Foundation from 2005 to 2017. Anthony is a qualified Chartered Accountant.

NOTES

Allan Gray Balanced and Stable Fund asset allocation as at 30 June 2020

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign*	Total	SA	Foreign*
Net equities	64.3	43.4	21.0	33.3	17.7	15.5
Hedged equities	9.0	3.8	5.2	11.6	4.7	6.9
Property	0.9	0.8	0.1	2.4	2.4	0.0
Commodity-linked	4.1	3.2	0.9	2.8	1.7	1.2
Bonds	14.7	11.0	3.6	33.2	26.3	6.9
Money market and bank deposits	7.1	4.7	2.4	16.6	11.7	4.9
Total	**100.0**	**66.8**	**33.1**	**100.0**	**64.5**	**35.4**

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

Allan Gray Equity Fund net assets as at 30 June 2020

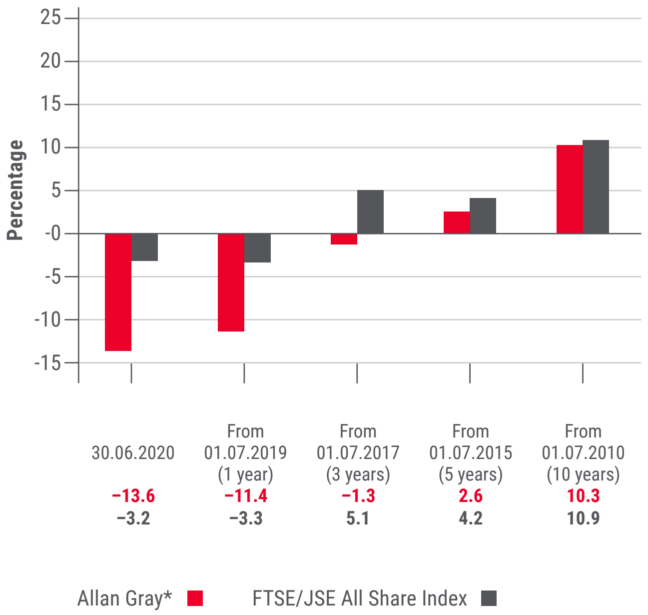
Security (Ranked by sector)	Market value (R million)	% of Fund	FTSE/JSE ALSI weight (%)
South Africa	**21 157**	**66.6**	
South African equities	**19 737**	**62.2**	
Resources	**3 802**	**12.0**	**34.4**
Glencore	1 116	3.5	
Sasol	548	1.7	
BHP	533	1.7	
Pan African Resources	319	1.0	
Sappi	226	0.7	
AECI	222	0.7	
Positions less than 1%[1]	838	2.6	
Financials	**7 054**	**22.2**	**17.3**
Standard Bank	1 198	3.8	
Reinet	960	3.0	
Remgro	732	2.3	
Old Mutual	608	1.9	
FirstRand	558	1.8	
Nedbank	504	1.6	
Rand Merchant Investment[2]	430	1.4	
Investec	362	1.1	
Ninety One	259	0.8	
Capitec	239	0.8	
Momentum Metropolitan	211	0.7	
Positions less than 1%[1]	994	3.1	
Industrials	**8 632**	**27.2**	**48.3**
Naspers[2]	3 388	10.7	
British American Tobacco	1 642	5.2	
Woolworths	639	2.0	
Life Healthcare	491	1.5	
MultiChoice	350	1.1	
KAP Industrial Holdings	250	0.8	
Super Group	227	0.7	
Positions less than 1%[1]	1 644	5.2	
Other securities	**250**	**0.8**	
Zambezi Platinum	250	0.8	
Commodity-linked securities	**291**	**0.9**	
Positions less than 1%[1]	291	0.9	
Cash	**1 129**	**3.6**	
Africa ex-SA	**868**	**2.7**	
Equity funds	**868**	**2.7**	
Allan Gray Africa ex-SA Equity Fund	868	2.7	
Foreign ex-Africa	**9 720**	**30.6**	
Equity funds	**9 651**	**30.4**	
Orbis Global Equity Fund	5 673	17.9	
Orbis SICAV International Equity Fund[3]	2 546	8.0	
Allan Gray Frontier Markets Equity Fund Limited[3]	938	3.0	
Orbis SICAV Emerging Markets Equity Fund	494	1.6	
Cash	**69**	**0.2**	
Totals	**31 745**	**100.0**	

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

Investment track record – share returns

Allan Gray Proprietary Limited global mandate share returns vs FTSE/JSE All Share Index			
Period	**Allan Gray***	**FTSE/JSE All Share Index**	**Out-/Under-performance**
1974 (from 15.6)	−0.8	−0.8	0.0
1975	23.7	−18.9	42.6
1976	2.7	−10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	−0.3
1979	86.9	94.4	−7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	−4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	−4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	−5.1	9.6
1991	30.0	31.1	−1.1
1992	−13.0	−2.0	−11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	−17.4	−4.5	−12.9
1998	1.5	−10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	−8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	−1.6
2008	−13.7	−23.2	9.5
2009	27.0	32.1	−5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.3
2012	20.6	26.7	−6.1
2013	24.3	21.4	2.9
2014	16.2	10.9	5.3
2015	7.8	5.1	2.7
2016	12.2	2.6	9.6
2017	15.6	21.0	−5.4
2018	−8.0	−8.5	0.5
2019	6.2	12.0	−5.8
2020 (to 30.06)	**−13.6**	**−3.2**	**−10.4**

Returns annualised to 30.06.2020



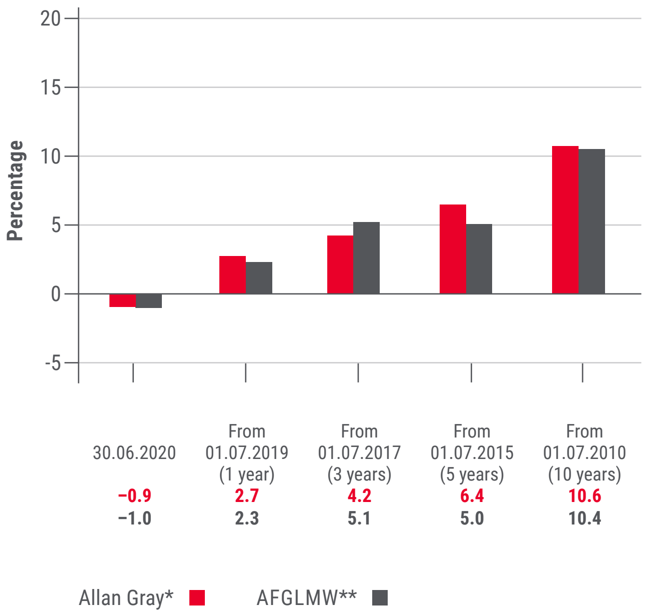
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R194 895 314 by 30 June 2020. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R9 629 557. Returns are before fees.

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

Investment track record – balanced returns

Allan Gray Proprietary Limited global mandate total returns vs Alexander Forbes Global Large Manager Watch			
Period	**Allan Gray***	**AFGLMW****	**Out-/Under-performance**
1974	–	–	–
1975	–	–	–
1976	–	–	–
1977	–	–	–
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	−0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	−5.5
1992	1.2	7.6	−6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	−1.8	9.5	−11.3
1998	6.9	−1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	−3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	−6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	−0.6
2008	−1.1	−12.3	11.2
2009	15.6	20.3	−4.7
2010	11.7	14.5	−2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	−4.9
2013	25.0	23.3	1.7
2014	10.3	10.3	0.0
2015	12.8	6.9	5.9
2016	7.5	3.7	3.8
2017	11.9	11.5	0.4
2018	−1.4	−2.1	0.7
2019	6.5	10.9	−4.4
2020 (to 30.06)	**−0.9**	**−1.0**	**0.1**

Returns annualised to 30.06.2020



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R24 733 377 by 30 June 2020. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R5 522 878. Returns are before fees.

*Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
**Consulting Actuaries Survey returns used up to December 1997. The return for June 2020 is an estimate. The return from 1 April 2010 is the average of the non-investable Alexander Forbes Global Large Manager Watch.
Note: Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

Allan Gray South African unit trusts annualised performance (rand) in percentage per annum to 30 June 2020 (net of fees)

	Assets under management (R billion)	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[4]	Lowest annual return[4]
High net equity exposure (100%)									
Allan Gray Equity Fund (AGEF) Average of South African - Equity - General category (excl. Allan Gray funds)[1]	**31.7**	**01.10.1998**	**19.7** 13.8	**9.1** 8.8	**2.3** 0.3	**−0.5** −0.1	**−7.0** −6.8	**125.8** 73.0	**−24.3** −37.6
Allan Gray SA Equity Fund (AGDE) FTSE/JSE All Share Index including income	**2.2**	**13.03.2015**	**0.2** 4.0	**–** –	**0.3** 4.2	**−3.1** 5.1	**−14.3** −3.3	**17.2** 22.5	**−32.0** −18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	**20.4**	**01.04.2005**	**14.5** 14.5	**17.5** 19.4	**12.4** 15.1	**10.0** 17.3	**26.6** 26.4	**78.2** 54.2	**−29.7** −32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF) **Allan Gray Tax-Free Balanced Fund (AGTB)** Average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[2]	**136.5** **1.2**	**01.10.1999** **01.02.2016**	**15.2** **4.5** 11.4/4.1	**9.4** **–** 8.8	**5.2** **–** 3.9	**2.8** **3.1** 3.7	**1.0** **1.6** 1.4	**46.1** **13.3** 41.9/13.7	**−14.2** **−13.4** −16.7/−10.3
Allan Gray-Orbis Global Fund of Funds (AGGF) 60% of the FTSE World Index and 40% of the J.P. Morgan GBI Global Bond Index	**13.5**	**03.02.2004**	**10.7** 12.1	**13.0** 16.4	**9.6** 14.0	**6.6** 16.6	**19.2** 28.4	**55.6** 38.8	**−13.7** −17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF) Daily interest rate of FirstRand Bank Limited plus 2%	**45.9**	**01.07.2000**	**11.3** 8.9	**8.0** 7.2	**7.0** 7.8	**5.1** 7.7	**3.1** 7.1	**23.3** 14.6	**−7.4** 6.2
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate of FirstRand Bank Limited	**1.0**	**01.10.2002**	**7.1** 6.3	**5.2** 5.1	**4.4** 5.7	**1.7** 5.6	**−1.9** 5.0	**18.1** 11.9	**−4.6** 4.1
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US$ bank deposits and euro bank deposits	**0.9**	**02.03.2010**	**7.3** 7.8	**7.9** 8.6	**4.7** 8.0	**1.7** 10.3	**10.8** 22.9	**39.6** 35.6	**−12.4** −19.1
No equity exposure									
Allan Gray Bond Fund (AGBD) FTSE/JSE All Bond Index (Total return)	**4.9**	**01.10.2004**	**8.9** 8.4	**8.7** 8.3	**8.6** 7.5	**8.9** 8.1	**4.2** 2.9	**18.0** 21.2	**−2.6** −5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[3]	**26.6**	**03.07.2001**	**8.0** 7.8	**6.7** 6.5	**7.6** 7.2	**7.7** 7.2	**7.3** 6.9	**12.8** 13.3	**5.2** 5.2

[1] From inception to 28 February 2015, the benchmark was the FTSE/JSE All Share Index including income (source: IRESS).
[2] From inception to 31 January 2013, the benchmark of the Allan Gray Balanced Fund was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund.
[3] From inception to 31 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.
[4] This is the highest or lowest consecutive 12-month return since inception. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

Allan Gray total expense ratios and transaction costs for the 3-year period ending 30 June 2020

	Fee for benchmark performance	Performance fees	Other costs excluding transaction costs	VAT	Total expense ratio	Transaction costs (incl. VAT)	Total investment charge
Allan Gray Equity Fund	1.13%	0.17%	0.04%	0.13%	1.47%	0.09%	1.56%
Allan Gray SA Equity Fund	1.00%	−0.56%	0.01%	0.07%	0.52%	0.09%	0.61%
Allan Gray Balanced Fund	1.10%	0.10%	0.03%	0.11%	1.34%	0.09%	1.43%
Allan Gray Tax-Free Balanced Fund	1.36%	0.00%	0.05%	0.14%	1.55%	0.12%	1.67%
Allan Gray Stable Fund	1.08%	−0.11%	0.03%	0.09%	1.09%	0.09%	1.18%
Allan Gray Optimal Fund	1.00%	0.00%	0.02%	0.15%	1.17%	0.11%	1.28%
Allan Gray Bond Fund	0.25%	0.37%	0.01%	0.09%	0.72%	0.00%	0.72%
Allan Gray Money Market Fund	0.25%	0.00%	0.00%	0.04%	0.29%	0.00%	0.29%
Allan Gray-Orbis Global Equity Feeder Fund	1.49%	0.11%	0.05%	0.00%	1.65%	0.10%	1.75%
Allan Gray-Orbis Global Fund of Funds	1.44%	0.13%	0.06%	0.00%	1.63%	0.11%	1.74%
Allan Gray-Orbis Global Optimal Fund of Funds	0.99%	0.43%	0.07%	0.00%	1.49%	0.13%	1.62%

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 (STT), STRATE and Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost 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.

Foreign domiciled funds annualised performance (rand) in percentage per annum to 30 June 2020 (net of fees)

	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[4]	Lowest annual return[4]
High net equity exposure								
Orbis Global Equity Fund	**01.01.1990**	**18.0**	**17.6**	**12.6**	**10.3**	**27.2**	**87.6**	**−47.5**
FTSE World Index		14.0	19.4	15.1	17.2	26.5	54.2	−46.2
Orbis SICAV Japan Equity (Yen) Fund	**01.01.1998**	**14.7**	**16.4**	**11.5**	**11.7**	**23.5**	**94.9**	**−40.1**
Tokyo Stock Price Index		9.8	15.6	11.7	12.7	26.8	91.0	−46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[5]	**01.01.2006**	**14.5**	**14.4**	**9.1**	**8.5**	**23.1**	**58.6**	**−34.2**
MSCI Emerging Markets Equity (Net) (US$)[5]		14.0	14.1	10.3	11.9	18.9	60.1	−39.7
Allan Gray Africa ex-SA Equity Fund (C class)	**01.01.2012**	**10.5**	**–**	**2.7**	**4.7**	**0.5**	**65.6**	**−24.3**
Standard Bank Africa Total Return Index		6.7	–	4.9	12.3	18.4	33.6	−29.4
Allan Gray Australia Equity Fund	**04.05.2006**	**13.7**	**15.7**	**12.2**	**6.5**	**−1.3**	**99.5**	**−55.4**
S&P/ASX 300 Accumulation Index		12.6	14.6	11.4	11.5	11.7	55.6	−45.1
Medium net equity exposure								
Orbis SICAV Global Balanced Fund	**01.01.2013**	**14.8**	**–**	**9.7**	**7.0**	**19.7**	**54.4**	**−9.8**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Bond Index		16.8	–	13.9	16.5	28.5	40.2	−8.4
Allan Gray Australia Balanced Fund	**01.03.2017**	**9.0**	**–**	**–**	**8.2**	**14.3**	**16.2**	**−5.3**
The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan GBI Global Bond Index expressed in AUD (16%).		13.6	–	–	14.1	22.5	25.1	−5.8
Low net equity exposure								
Allan Gray Australia Stable Fund	**01.07.2011**	**11.9**	**–**	**10.8**	**9.1**	**20.2**	**32.7**	**−7.4**
Reserve Bank of Australia cash rate		8.0	–	6.6	7.2	21.7	28.8	−12.6
Very low net equity exposure								
Orbis Optimal SA Fund (US$)	**01.01.2005**	**9.4**	**8.5**	**5.7**	**3.0**	**13.3**	**48.6**	**−15.7**
US$ Bank deposits		9.2	9.4	8.9	11.9	25.2	57.9	−25.6
Orbis Optimal SA Fund (Euro)	**01.01.2005**	**7.3**	**6.6**	**3.7**	**0.1**	**9.1**	**44.1**	**−19.3**
Euro Bank deposits		7.3	7.6	7.2	8.8	21.0	40.2	−20.9
No equity exposure								
Allan Gray Africa ex-SA Bond Fund (C class)	**27.03.2013**	**16.4**	**–**	**16.9**	**18.2**	**25.7**	**28.9**	**2.4**
J.P. Morgan GBI EM Global Diversified Index		7.7	–	9.9	11.1	19.7	24.7	−7.7

Performance as calculated by Allan Gray

[4] 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.

[5] 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.

IMPORTANT INFORMATION FOR INVESTORS

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Allan Gray Unit Trust Management (RF) Proprietary Limited (the "Management Company") is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Sector Conduct Authority (FSCA). Allan Gray Proprietary Limited (the "Investment Manager"), an authorised financial services provider, is the appointed investment manager of the Management Company and is a member of the Association for Savings & Investment South Africa (ASISA). Collective investment schemes in securities (unit trusts or funds) are generally medium- to long-term investments. Except for the Allan Gray Money Market Fund, where the Investment Manager aims to maintain a constant unit price, the value of units may go down as well as up.

Past performance is not necessarily a guide to future performance. The Management Company does not provide any guarantee regarding the capital or the performance of its unit trusts. Funds may be closed to new investments at any time in order for them to be managed according to their mandates. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending.

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

Benchmarks

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

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Understanding the funds

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

A feeder fund is a unit trust that invests in another single unit trust which charges its own fees. A fund of funds is a unit trust that invests in other unit trusts, which charge their own fees. Allan Gray does not charge any additional fee in its feeder fund 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 the applicable ASISA standards. Excessive withdrawals from the Fund may place it under liquidity pressure. If this happens, withdrawals may be ring-fenced and managed over a period of time.

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

The Allan Gray Retirement Annuity Fund, Allan Gray Pension Preservation Fund, Allan Gray Provident Preservation Fund and Allan Gray Umbrella Retirement Fund (comprising the Allan Gray Umbrella Pension Fund and Allan Gray Umbrella

Provident Fund) are all administered by Allan Gray Investment Services Proprietary Limited, an authorised administrative financial services provider and approved under section 13B of the Pension Funds Act as a benefits administrator. Allan Gray Proprietary Limited, also an authorised financial services provider, is the sponsor of the Allan Gray Umbrella Retirement Fund. The Allan Gray Tax-Free Investment Account, Allan Gray Living Annuity and Allan Gray Endowment are underwritten by Allan Gray Life Limited, also an authorised financial services provider and a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017. The underlying investment options of the Allan Gray individual life and retirement products are portfolios of collective investment schemes in securities (unit trusts or funds).

Tax note

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

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Directors

Executive
R J Formby BSc (Eng) MBA
A R Lapping BSc (Eng) BCom CFA
N Limbada LLB CPrac (CISA)

Non-Executive
M Cooper BBusSc FIA FASSA MBA
W B Gray BCom MBA CFA (Irish)
I S Liddle BBusSc (Hons) CFA
N Martin BA MUP
K C Morolo BSc (Eng) MEng

Company Secretary

C E Solomon BBusSc (Hons) CA (SA)

Registration number

2005/002576/07

Business address

1 Silo Square
V&A Waterfront
Cape Town
8001

P O Box 51318
V&A Waterfront
Cape Town
8002
South Africa

Client Service Centre

T 0860 000 654 or +27 (0)21 415 2301
F 0860 000 655 or +27 (0)21 415 2492
E info@allangray.co.za
www.allangray.co.za


ALLANGRAY