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Quarterly Commentary
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ALLAN GRAY

America as seen from afar

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COMMENTS FROM THE CHIEF OPERATING OFFICER

Rob Formby

... history has shown that this, too, shall pass.

There seem to be fewer articles in mainstream media this year encouraging people to set goals for the year ahead. With COVID-19 prevailing, it feels less like we've started a new chapter and more like we are stumbling through the appendix. The content that has been produced has a different theme: Absent are the long-term aspirational goals; the messages are focused squarely on getting through the next few months. Perhaps this is because many of our 2020 goals went out the window as the pandemic set in, reminding us that despite our best intentions, something unexpected can land in our path and stop all progress.

Short-term goals unquestionably have their place; they help us set and achieve milestones, make progress, deal with crises and rapid change, and achieve momentum towards more long-term goals. Long-term goals seek to attain more significant, transformational changes; they will take longer to achieve, and can be difficult to quantify in advance.

People often set long-term goals for themselves by envisioning what they want to be doing in the future, and use short-term goals to get there. In the context of the pandemic, it's naturally hard to think about what the long term may look like when the short term is so unclear.

But history has shown that this, too, shall pass. Many have drawn parallels between COVID-19 and the Spanish flu pandemic of 1918, which infected around 500 million people worldwide and killed an estimated 20-50 million. At the time, there were no effective drugs to treat the virus. Much like today, people were ordered to wear masks, and schools, entertainment areas and businesses were shut. By 1920, the pandemic subsided as transmission came under control and populations developed herd immunity. While the virus didn't disappear, it morphed into a seasonal flu, and the roaring '20s kicked into gear.

Current market levels demonstrate how things can and do change, with the FTSE/JSE All Share Index (ALSI) reaching historic highs in January this year. As Duncan Artus, our chief investment officer, points out: Last March or April, if we had said the ALSI would outperform cash and inflation for the calendar year 2020, it probably would have been met with much scepticism.

Market extremes by their very nature do not persist forever, and they do present opportunity. Trading successfully on short-term news flow is incredibly difficult. What ultimately determines long-term returns is valuation, which requires buying cheap assets.

Maximise tax benefits before end-February

It is wise not to let the weight of a COVID-19-affected world detract from your longer-term intentions and abandon your planning for the future, particularly when it comes to your physical and financial health.

If you are looking to make strides in your future financial security, a good starting point is maximising the tax benefits the government offers for investments in retirement products and tax-free investment accounts. Of course, it is also important to understand how these products work and to use them correctly. In our Investing Tutorial this quarter, Tamryn Lamb and Twanji Kalula elaborate on this topic.

Saving for retirement, and preserving your retirement savings along the way, are key to having enough when you eventually decide to retire. Legislation has recently been changed to complete the alignment of provident and provident preservation funds with pension, pension preservation and retirement annuity funds. This is part of the National Treasury's broader retirement reform initiative, which aims to encourage increased saving for retirement and to enhance the preservation of retirement fund benefits so that retirement fund members are able to provide a better income for themselves in retirement. Shaun Duddy discusses.

The impact of the US election

While COVID-19 has dominated conversation, the situation in the US is not far behind, as the world's most established democracy experiences problems. As the largest equity market and economy, the powerhouse of technical progress, and with the US dollar being the world's reserve currency, what happens in the US is highly relevant to all investors. Sandy McGregor shares his view.

Finding value

Staying global, we share the annual letter of William Gray, president and head of investments at our offshore partner, Orbis. Will reflects on a difficult year and reaffirms his conviction in the team's ability to add value for clients. Our and Orbis' shared investment approach struggles when cheap stocks get cheaper and expensive stocks get more expensive, but tends to thrive when share prices converge back towards fundamental value. We have seen some encouraging movement in the right direction over the last couple of months as valuation gaps begin to close.

On the theme of measuring value, Kamal Govan looks at the drivers of holding company discounts, reflecting on the risk and opportunity. We own several holding companies, such as Naspers, Remgro, Reinet, RMI and PSG. These are trading at historically large discounts to their underlying investments and we believe these discounts potentially add to the margin of safety within our portfolios.

Resilience is key

Psychologists define resilience as the process of adapting well in the face of stress and adversity. Yogavelli Nambiar, from the Allan Gray Orbis Foundation, believes resilience is a quality we need as a society, not only to survive a changing global landscape, but also to be able to learn, build and innovate. The Foundation Fellows, and the staff of the Foundation itself, have demonstrated incredible resilience over the past year and have many notable achievements to show for it. Yogavelli discusses these.

Farewell to Ruan Stander

I would like to pay tribute to one of our portfolio managers, Ruan Stander, who will be leaving us at the end of February to focus on personal interests, including personal investments. Ruan joined Allan Gray in 2008, became a portfolio manager in 2012, and started to manage a portion of the Balanced and Equity funds in 2015. He is a natural contrarian thinker, with good insights and has been a valuable member of the investment team. We wish him all the best.

Our investment process relies on multiple portfolio managers, each making individual decisions. A strength of this model is that it facilitates succession and a seamless transition of responsibilities. In this case, Ruan's responsibilities will be allocated across the existing portfolio managers.

I would also like to take this opportunity to express sympathy to those of you who may have lost family members and friends, and to wish those of you who are currently battling the virus a speedy recovery. Thank you for your ongoing support and all the best for the year. Stay healthy and safe.

Kind regards

Rob Formby

AMERICA AS SEEN FROM AFAR

Sandy McGregor

The United States has in the past faced and surmounted many seemingly insuperable challenges. A study of history provides hope that this will happen again.

The United States is of critical importance to all investors regardless of where they are domiciled. It is the world's largest economy, the powerhouse of technical progress, and the dollar is the world's reserve currency. Its equity markets account for 64% of the market value of global equities. Accordingly, the impact its recent election will have on its economy is highly relevant. On politics there are usually as many opinions as there are commentators. What follows is Sandy McGregor's personal view of this important topic.

In the two decades following the Second World War, the Italian journalist Giovanni Guareschi wrote a popular series of books about Don Camillo, the parish priest of a small fictional village in the Po valley. The political control of the village was fiercely contested by the Christian Democrats, effectively under the leadership of Don Camillo, and the Communists led by the mayor Peppone. However, despite their differences, the villagers would unite to oppose what they regarded as unacceptable interference in their affairs by outsiders. As former Speaker of the US House of Representatives Tip O'Neill memorably said: "All politics is local."

However, there is another facet to this truism. As is not uncommon among politicians, Peppone was prone to make speeches laced with mixed metaphors. One of his favourites was "the nemesis of geography". This phrase captures an important feature of any democratic polity: Voters' political attitudes are profoundly influenced by where they live. Most electoral maps of a democracy show great swathes of contiguous territory where the majority supports a particular political party. While in a village such as Don Camillo's people know their neighbours and can make the compromises required to resolve local disputes, this becomes increasingly difficult as issues become more distant, complex and abstract.

A divided United States

Currently this phenomenon is notably visible in the United States, where the nation has divided into a Republican heartland covering 25 states mostly located in the continental interior, and 25 Democratic states on the Pacific and Atlantic coastal peripheries and in the Great Lakes region. National politics has become increasingly fractious. The two preeminent political parties, divided as they are not only by ideology but also by geography, have proved to be increasingly unwilling to make the compromises which a functioning democracy requires.

This is not the first period in which US national politics has been so divisive. There have been many others. The most recent episode was during the Vietnam war, which provoked similar passions, but these were between the youth who faced conscription to fight in an unpopular war and the intelligentsia on the one hand, and mainstream conservatives on the other. The issue of Vietnam transcended national geography. In 1967, Walter Lippmann, who was then America's leading political commentator, found the political climate in Washington DC so poisonous that he abandoned a city in which he had been happily resident for 30 years, saying what America needed was comity. This seldom-used word means respect for the opinions of others. Certainly, the current US political system is seriously deficient of comity.

Donald Trump's achievements

Donald Trump's victory in the 2016 presidential election was partly due to his opponent Hillary Clinton being such an unattractive candidate but was largely a consequence of growing unhappiness about the quality of life of ordinary people within Middle America. While many outside the United States thought President Barack Obama performed well in his representative role as a head of state, this counted little in domestic politics. Once the Democrats lost control of the US Senate in 2010, Obama attempted to implement his agendas using presidential orders. His administration significantly compounded the complexity of doing business with the consequence that less business was done.

Obama's eight years of office followed the severe economic downturn caused by the financial crisis of 2008. During this period, the US economy failed to regain the economic buoyancy that characterised the first decade of this century. In his presidential campaign Trump highlighted this economic failure and promised that he, as a businessman, could fix matters. And indeed, the past four years have seen a more robust economy and, prior to the COVID-19 pandemic, a return to full employment.

Two actions taken by the Trump administration played a significant role in promoting this prosperity. Firstly, by cancelling numerous earlier presidential orders there was substantial deregulation, which facilitated doing business. Secondly, when the Republican Party had a majority in both the Senate and the House of Representatives between 2016 and 2018, it pushed through a significant tax cut. While a reduction in tax collections will have adverse long-term consequences as fiscal deficits accumulate, in the short term these two actions more than compensated for the adverse impact on the economy of Trump's disruptive style of government. Corporate earnings grew strongly. The Trump administration was popular among investors and those who managed and operated businesses.

> Voters' political attitudes are profoundly influenced by where they live.

The 2020 election

Historically an incumbent American president has been vulnerable when running for a second term if economic conditions in the election year are poor. Notable casualties include Jimmy Carter in 1980 and the first George Bush in 1992. Accordingly, Democrats were optimistic about their party's prospects in the aftermath of the deep recession triggered by the COVID-19 pandemic. Their hopes were buoyed by their success in regaining control of the House of Representatives in 2018, Trump's often-bizarre behaviour and a strong lead in the opinion polls. The emotions stirred by events which led to the Black Lives Matter movement promised a large turnout of Black voters who traditionally support Democratic candidates. The prospects for a blue wave, which would sweep the Democrats into control of the presidency, the Senate and the House of Representatives, looked favourable.

For the Democrats, the outcome of the 2020 election was initially disappointing. The Republicans did much better than expected. It seemed that the Republicans would retain control of the Senate by winning at least one and probably both Senate seats in Georgia following a runoff election. Gridlock would continue and Democratic programmes would be blocked. However, following the Georgia election, Democratic fortunes have improved. It seems that President Trump's increasingly desperate attempts to overturn his narrow defeat by Joe Biden in Georgia helped mobilise a large turnout of supporters of the Democratic candidates to vote in the runoffs, which gave them a surprising victory. The congressional blue wave has materialised but by a very slim margin. The US Senate is now split equally between the two parties, each having 50 seats. As the vice president has the casting vote, this gives the Democrats a tenuous majority. After losing 10 seats in the House of Representatives, their majority in that chamber has been reduced to nine.

There was a big turnout with 158.2 million votes cast in the presidential election, 21.5 million more than in 2016, but both parties benefited from this surge in voter commitment. While Biden received 81.3 million votes compared with Hillary Clinton's 65.9 million, those supporting Trump increased from 62.9 million to 74.2 million. Trump broadened his support base, gaining a larger proportion of votes from women and Black and Latino voters than previously.

However, the American president is elected not by a popular vote, but by an electoral college, in which the 50 states and Washington DC have votes proportional to their populations. Every 10 years these are adjusted following a census. Biden replicated Trump's achievement in 2016, winning 306 of the 538 electoral college votes. He won five swing states with a majority of 275 000 votes. In 2016 Trump won these states by 380 000 votes. Although the outcome was different, the 2020 election was remarkably similar to that of 2016. The conservative voting bloc, which made Trump president, remains intact.

Immediately after the November election, Governor Andrew Cuomo of New York blamed his party's poor showing on socialist agendas of leftists such as congresswoman Alexandria Ocasio-Cortez and the failure of New York City's mayor Bill de Blasio to maintain law and order during the race riots of the preceding summer. While there has been pushback from those being blamed, it seems that Cuomo is at least partly correct. The Democratic Party platform did not resonate with the majority of voters.

Another indication of this innate conservatism of much of the electorate was the fate of various propositions put to voters in California. The repeal of a longstanding prohibition of affirmative action by state institutions was rejected, as were rent controls. Voters also overturned legislation requiring Uber and Lyft to make their drivers permanent employees. While California strongly supported Joe Biden for president, it voted on these propositions as would economic conservatives. Nationally Trump's defeat was more a rejection of his many personal failings than an acceptance of his opponent's agendas.

The political consequences of the 2020 election

For the past two years US federal politics has been gridlocked because the Democrats controlled the House and Republicans the Senate. While there have been numerous similar precedents, what has made the recent episode of gridlock different is the noxious political climate, which makes compromise between the two parties so difficult. The remarkable denouement of the Trump administration, with the president refusing to accept the outcome of a democratic election and encouraging a mob of supporters to attack the Capitol to prevent Congress formally approving the election of his successor, was but one manifestation of deep political divisions.

... the outcome of the Georgia election is a game changer in that it will allow at least some of Biden's ambitious agenda to be implemented.

Theoretically, with the Democrats in control of both houses of Congress, President Biden will be able to implement his legislative programme, which includes a substantial increase in spending on the environment, infrastructure and education to be funded by higher taxation of business and of the rich. Majorities in both the Senate and the House will give the Biden administration control of the legislative programme. However, in practice the new president's freedom to act will be constrained by his slim majorities. Senate rules require that legislation which increases the fiscal deficit obtain the support of more than 60% of its members. Not all Democratic members of Congress wholeheartedly support all aspects of the president's agenda and will vote accordingly. In the current situation these renegades can have significant influence disproportionate to their numbers. It will require considerable political skill to manage this Congress, a task made more difficult by the lack of consensus on so many issues.

However, the outcome of the Georgia election is a game changer in that it will allow at least some of Biden's ambitious agenda to be implemented. The share market has reacted positively because there is a widespread expectation that Congress will now increase the recently enacted stimulus cheques payable to individuals from US$600 to US$2 000 and seek to implement other aspects of a US$2.5tn stimulus programme supported by Democrats but blocked by fiscal conservatives in the Senate. As these measures are popular among voters, they will command bipartisan support. In the longer term, increased infrastructural spending may also garner similar support because this is a classic example of all politics being local. Infrastructural programmes tend to be favoured by the representatives of districts which benefit from them.

A significant proportion of the membership of the US Senate can be described as fiscal conservatives, largely Republican but also including a significant number of Democrats. As the pandemic recedes and the world returns to normal, these senators will seek to restore some discipline and traditional prudence to the conduct of the nation's finances. Increasingly this will lead them into conflict with the Biden administration. It is not just a matter of differing political philosophies. Generally Republican-governed states are in a better financial condition than Democratic states. An important reason why the Senate restricted the recently passed stimulus programme to US$900bn and denied more lavish expenditures supported by the Democratic-controlled House was the argument that Federal taxpayers should not bail out states which are financially wasteful and imprudent. Such expenditures were seen as a transfer from those who manage their affairs well to those who do this badly. The divide is both political and geographical.

Among the few issues about which there is political consensus is that big businesses, in particular, large technology companies, have become too powerful and abuse their competitive dominance. Trump's concerns about these companies were personal. He disliked organisations that gave money to his political rivals and censored what he could say on Twitter. The Biden administration concerns involve public interest, and it is likely to take advantage of its control of Congress to promote investigations into companies such as Amazon and Google and will launch antitrust cases.

Trump was an unusual president in that he espoused many causes which were not enthusiastically shared by his party's representatives in Congress. For example, he was a fan of fiscal profligacy which, despite history which suggests otherwise, is hardly a mainstream Republican value. Using the power of the presidency and his popular support among Republican voters, Trump could make his supporters in Congress do things they would not normally do. The outcome of the 2020 election will promote a return by the Republican representatives in Congress to their traditional more conservative stance on national issues.

For the Republican Party, the most alarming consequence of the election is that all signs are that Trump is setting himself up to run again in 2024. At 78, his age will then be the same as Biden's is currently. Probably, of all the candidates who sought the Democratic Party's presidential nomination in 2020, Biden alone could have defeated Trump. The other leading candidates were too closely associated with policies which did not resonate with the majority of voters in the swing states. A plausible Republican candidate in 2024 would have a good chance of winning. However, while Trump commands such a loyal following in his party, it will be difficult for another candidate to emerge. The extent of his support is seen in the surprising statistic that between 50% and 70% of those who voted for Trump believe that he was somehow cheated out of victory. This support may have been dented by his astonishing behaviour in the final weeks of his presidency, but as long as Trump and his future is an all-consuming preoccupation of the Republican Party, American politics will continue to be poisonous.

> … the combination of fiscal deficits, aggressive money-printing by the central bank, and the availability of significant savings accumulated during the pandemic, is a formula for strong economic growth.

Economic consequences

When the results of the November election became known, financial markets responded favourably. Investors welcomed continuing gridlock which protected them against increased taxation and hostile legislation. Following the Georgia election markets again increased, suggesting that investors now think that ending gridlock will promote lavish fiscal spending which will stimulate the economy, and this will have far greater impact than any future tax increases. It is too early to make predictions about American fiscal deficits during the Biden administration. All one knows is the president and his party want to spend more, much more.

In 2019 the US was already running a fiscal deficit of US$1tn per year, equivalent to 5% of GDP. Congress authorised a temporary increase to US$3.1tn during the 2020 fiscal year to provide for income support during the pandemic and in December 2020 authorised a further US$0.9tn for relief measures, which will push the 2021 deficit to about US$2tn, equivalent to 10% of GDP. The Democrats had proposed further expenditures of US$2.5tn which were rejected by the Senate. These unprecedented expenditures have been possible because they have been largely financed by the Federal Reserve Board (the Fed) which printed the money.

Biden wants to spend more, but future deficits will depend on what he can get through Congress and what the Fed is willing to fund. Politicians like spending other people's money but fiscal conservatives in the Senate will resist any attempt to significantly expand the deficit once the current crisis has passed. The funding of these deficits will be facilitated by the Fed's decision to continue almost indefinitely buying about US$1tn of government debt annually but the scale of spending envisaged by the Biden administration will require a much greater monetary intervention. The monetary stimulus, which has so strongly boosted asset prices, will continue for some time to come. In the near term the combination of fiscal deficits, aggressive money-printing by the central bank, and the availability of significant savings accumulated during the pandemic, is a formula for strong economic growth.

The party will come to an end when adverse consequences, probably uncontrollable inflation, force the government to act with more conventional prudence. The restraint imposed by political paralysis would have drawn this process out, extending the longevity of the recovery. Now that the Democrats control the Senate they will spend more and hasten the day when rapidly rising inflation will trigger an awesome financial crisis.

The lesson from Guareschi

Guareschi wrote about a divided community which could come together to resolve critical issues which affected them all. His message was one of hope and a belief in humanity. Currently it is difficult to see how the United States will develop the comity which will be required to resolve the many problems it will face in coming years. The political divisions seem too great. However, it has in the past faced and surmounted many seemingly insuperable challenges. A study of history provides hope that this will happen again.

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

TO HAVE AND TO HOLD?

Kamal Govan

We monitor the level of the holding company discounts, as these discounts potentially add to the margin of safety within our portfolio.

If the value associated with a holding company is less than the sum of its parts, is it a worthwhile investment? Kamal Govan looks at the drivers of holding company discounts, reflecting on the risk and the opportunity.

Most investment-related debates these days are incomplete without a discussion of holding company discounts. Locally, the poster child for this topic is Naspers, with the discount to its underlying investments and the various opinions that investors have about how best to narrow this discount.

Holding company discounts are a common feature within our portfolio. Naspers, Prosus, Remgro and Reinet all trade at substantial discounts to their spot book values per share[1]. **Graph 1** on page 10 shows the level of discount for a few example holding companies as at 31 December 2020. Holding company discounts have widened over the past few years – see **Graph 2** on page 10 for three examples.

This raises the following questions:

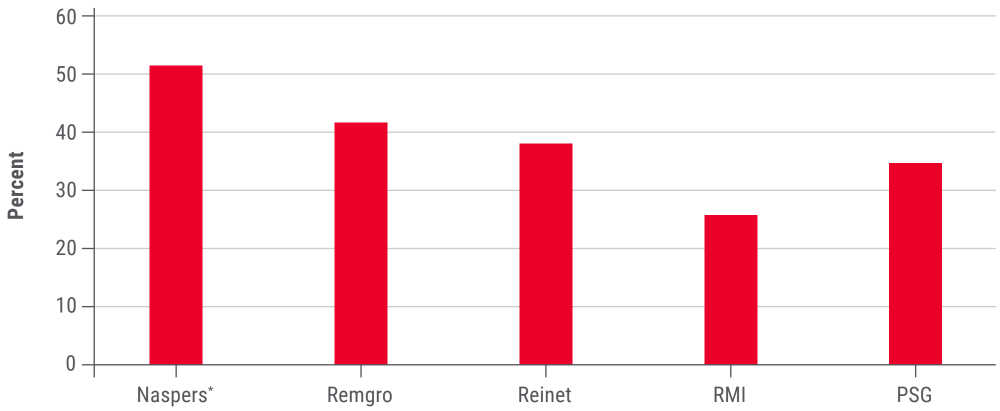
1. What drives holding company discounts?
2. Do wider discounts present attractive investment opportunities, or do they reflect heightened risk of these investment vehicles?

Key drivers of holding company discounts

Pinpointing the exact reasons for holding company discounts is notoriously difficult. Complicating matters is the fact that holding companies come in various forms and sizes. Some are large, others small; some have many underlying investments, others are concentrated; some hold listed investments, others focus on unlisted investments. What applies in one case, does not necessarily apply in the next. Nevertheless, there are several drivers of holding company discounts that may apply in a given situation. These are discussed in the following section.

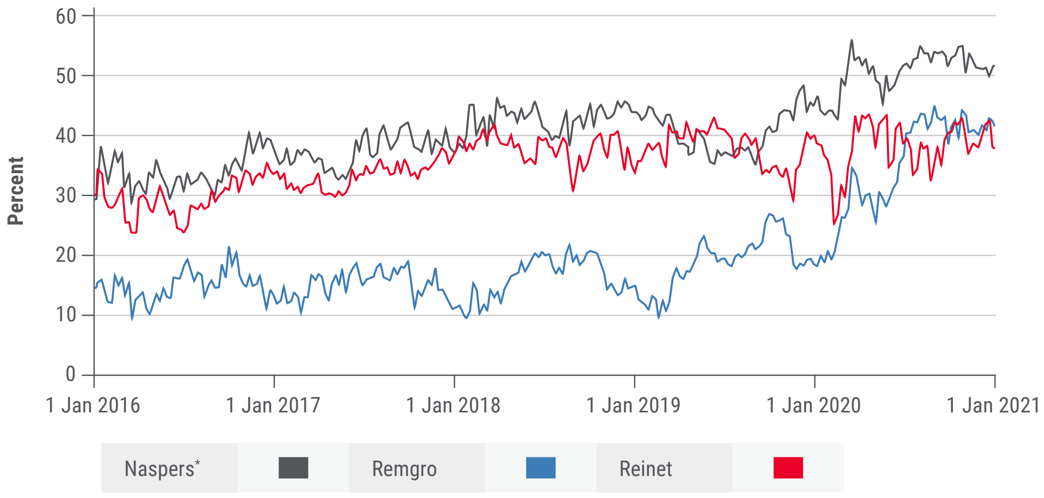
[1] After listed investments have been revalued to prevailing market prices.

Graph 1: Holding company discounts



*For Naspers, this calculation is based on our estimate of intrinsic value.
Source: Allan Gray analysis

Graph 2: Widening holding company discounts



*For Naspers, this calculation is based on our estimate of intrinsic value.
Source: SBG Securities and Allan Gray analysis

Costs

Costs incurred by an investment holding company detract from its value and should be considered by investors. No two holding companies are the same, and the costs of sustaining each therefore vary. There are different types of costs, including:

- **Operating costs:** Examples include management and director remuneration, head office overheads and audit fees. Sometimes these costs are offset by income earned by the holding company from things like the provision of central services or from passive income sources.
- **Management and performance fees:** In some instances, like in that of Reinet, shareholders incur management and performance fees for investing in the company. Management fees are generally a function of the net asset value of the company, recur annually and can be estimated reliably. Performance fees are based on shareholder returns over a period of time and are therefore complex to estimate.
- **Taxes:** The sale or unbundling of investments by holding companies may trigger capital gains tax (CGT) and/or dividend withholding tax (DWT) in South Africa. Tax considerations are unique to each holding company's circumstances and depend on various factors, such as its legal domicile, ownership stakes in investments, and chosen modes of disposal. Tax regulations can be amended, which can change the discount applicable to a holding company.

Remgro provides good tax-related examples: They disclose their estimate of the CGT liability that would be incurred if the company were to restructure in the most tax-efficient manner. Practically, the recent unbundling of their RMH stake was sequenced to maximise tax relief.[2]

- **Other:** Sometimes it is important to consider costs that *might* be incurred in the future. Investors form a view on how holding companies can best unlock value for shareholders and estimate the costs associated with this. Examples include the transaction costs of selling investments or winding up a holding company structure. By their very nature, these costs can be difficult to estimate.

Well-managed holding companies can be wonderful to own for shareholders.

Valuation complications and differences

The starting point for most holding company valuations is a sum-of-the-parts schedule. However, this is probably where the homogeneity ends. Investors need to form an opinion on and assign an intrinsic value to each investment on the schedule.

Valuing listed investments within holding companies is often easier than valuing unlisted investments. Listed companies publish vast amounts of financial and other information that informs investors' valuations. Investors can compare their intrinsic value to the market price or the book value and adjust as required.

For unlisted investments, disclosure is usually very limited and comparable data may not be available. Investors often find it difficult to assign an accurate value to these investments. It is therefore not uncommon for investors to discount management's disclosed values for unlisted investments, especially smaller ones. This is not to say that this is always correct, as sometimes these investments turn out to be multibaggers. Naspers' investment in Tencent in the early 2000s is arguably the best example of this.

Further complications arise with the treatment of control premiums (the amount a buyer is willing to pay above fair market value to gain a controlling ownership interest), and this is another area without a common valuation approach. Examples where control premiums may apply include Remgro's interests in Distell and RCL Foods, RMI's interest in OUTsurance, and potentially even Reinet's 49.5% interest in Pension Insurance Corporation Group (PICG).

Capital allocation

A holding company discount can reflect the market's perception of a steward's capital allocation ability and/or track record. By investing in a holding company, investors are outsourcing the responsibility to invest capital among businesses and sectors. If done poorly, or if investors are doubtful, they will demand a wider discount. Conversely, certain holding companies have traded at a premium to the book value per share (e.g. Brait at its peak), as investors had a positive view on their ability to allocate capital or looked favourably on their track record.

It is not uncommon for the free cash flow generated by valuable investments to be deployed to subsidise inefficient businesses by an investment holding company. Such inefficiencies may arise as management teams fund budding new ventures (e.g. Reinet using British American Tobacco dividends or share sales to fund PICG), or attempt to turn around poorly performing businesses. Shareholders sometimes penalise holding companies for this type of capital allocation as they signal their belief that they can allocate that capital more effectively.

Investors wanting pure-play investments will often demand a discount to invest via a holding company structure.

Illiquidity of underlying investments

Unlisted investments especially are usually illiquid, and investors often apply an illiquidity discount. This is grounded in corporate finance theory, as selling these investments often requires a discounted price, and the process can be complicated, costly and time-consuming. Reinet is explicit in applying an illiquidity discount to its investment in PICG.

Governance

Analysing corporate governance is an important consideration in valuing holding company investments,

[2] Remgro unbundled RMH to its shareholders before RMH unbundled the underlying FirstRand shares to their shareholders.

as some structures are flawed to the detriment of minority shareholders. High-voting right share classes (e.g. Remgro and Reinet) or the extraction of value by related parties may be red flags worth considering.

Another consideration is the natural limits on one management team or board of directors adding value to a large and diverse set of holdings. It can be that managers are too thinly stretched, and this can be detrimental for shareholders.

So how does it all fit together?

Using Reinet as an example, **Table 1** provides a simplified snapshot of its net asset value as at 31 December 2020.

In short, we think a 38% discount for Reinet presents a favourable proposition. We think both British American Tobacco (at its listed price) and PICG (at management's valuation) are attractive opportunities given their fundamentals. We acknowledge that it is difficult to gain comfort on the portfolio of unlisted investments but think that the discount affords a sufficient margin of safety if we are wrong.

Finally, Reinet's underlying fee structure means that some discount is justified, but we think this is more than reflected in the current discount.

Why own investment holding companies?

Well-managed holding companies can be wonderful to own for shareholders. Berkshire Hathaway is a great example.

So, what are some of the characteristics of a good holding company investment?

- A portfolio of sound businesses, the majority of which are good investments in their own right
- Capital allocators who are sound stewards of capital and have a long track record of compounding intrinsic value
- Controlling shareholders or managers who are aligned with minority interests
- Abnormally wide discounts, especially when management is taking actions that may narrow the discount or increase the intrinsic value per share (e.g. through share buybacks)
- The ability to access unique investment opportunities or networks that are otherwise unavailable to investors

We continually assess the risk and return profile of each holding company investment in our portfolio. We monitor the level of the holding company discounts, as these discounts potentially add to the margin of safety within our portfolio.

Table 1: Reinet net asset value

Reinet, EUR millions	
British American Tobacco*	1 760
Pension Insurance Corporation Group	2 024
Other listed investments*	115
Other unlisted investments	819
Cash, debt, other items	(156)
Net asset value	**4 562**
Market capitalisation as at 31 December 2020	2 830
Discount to net asset value	38%

*At 31 December 2020 spot price.
Source: Allan Gray analysis

Kamal joined Allan Gray as an equity analyst in 2016 after working as a management consultant. He was appointed as a portfolio manager in 2020 and manages a portion of the African equity portfolio. He holds a Bachelor of Accounting Science degree and a Higher Diploma in Accountancy, both from the University of the Witwatersrand. Kamal is a qualified Chartered Accountant and a CFA® charterholder.

ORBIS: PRESIDENT'S LETTER 2020

William Gray

... paying substantially less for an asset than it is worth is a timeless recipe for investment success – even if it means waiting an uncomfortably long time.

In his annual president's letter, William Gray, from our offshore partner, Orbis, reflects on a difficult year and reaffirms his conviction in the team's ability to add value for clients.

Our purpose at Orbis is to empower our clients by enhancing their savings and wealth. We are convinced that if we focus on earning and retaining the trust and confidence of our clients by adding value through our investment decisions and aligning our interests with theirs, we can translate our passion for investing into making a meaningful difference for our clients, ourselves and our communities over the long term. By design, we are also careful to ensure that our interests are similarly aligned at times when we fail to deliver on our aspirations.

2020 was another such occasion. On an asset-weighted basis, blending net-of-fee returns across share classes, the Orbis funds returned 12.7% in 2020 versus 15.0% for their benchmarks. We personally share these tough times with you, as substantial co-investors in the funds, through very low firm profitability/small losses due to our performance-based fee structures, and through lower individual remuneration – and that's exactly how it should be.

Falling short of our objective is not unusual, and at times it can last for an extended period. In fact, it's not just normal – it's *necessary*. Investment approaches swing in and out of favour. Any approach that makes sense and works long enough will inevitably become so popular and pervasive that it will stop working long enough to convince many investors that it will never work again.

It's a pattern that we have seen before. Value-oriented investing worked spectacularly well for decades – until it stopped working in the late 1990s and even put some of its best practitioners out of business. The approach came roaring back into fashion in the wake of the dotcom bust, yet now finds itself being similarly tested once again.

We aren't smart enough to predict the timing or duration of these changes, but we do know that they have been cyclical in the past. The familiar saying that "past performance is no guarantee of future returns" isn't just legalese – it is a wise and time-tested warning that the market's favourite stocks can and often do fall out of favour. But paying substantially less for an asset than it is worth is a timeless recipe for investment success – even if it means waiting an uncomfortably long time. The best thing we can do is to ensure that we build a sustainable firm with an aligned client base that can live to fight another day and be prepared to take advantage when the opportunities present themselves.

In thinking about investing, an analogy I've used before is playing a "loser's game", which comes from the work of Dr Simon Ramo, an engineer who studied amateur tennis players and wrote a popular book on the subject in the 1970s. Ramo found that approximately 80% of points are decided by mistakes rather than skilled shot-making. I think of investing the same way. Rather than relying on a "winner's game" consisting of spectacular streaks of brilliance, a better approach is to contain mistakes and invest with controlled conviction. While it may not be the most fun to play, it is a winning strategy for those who have the discipline, patience and humility to stick with it. This also explains why the "loser's game" of low-cost index-based investing beats most active managers over the long term, particularly those with the additional headwind of excessive "heads we win, tails you lose" fee structures.

Interestingly, however, it is now the passive approach that suddenly finds itself playing the winner's game. In recent years, benchmark indices have become abnormally concentrated in a relatively small number of big winners, many of which have online and network-based "winner takes most" business models that are almost tailor-made for a world forced to stay at home. These companies delivered unusually strong fundamental performance in 2020 and investors have been unsurprisingly enthusiastic about their prospects.

As always, we don't know how long it will continue and we can make no promises about the future, but it looks increasingly likely to us that an end to this trend is within sight.

The improvement in our investment performance over the last two months of 2020, coincident with news of several effective COVID-19 vaccines, is encouraging in that regard. Even so, the extent of that move barely registers as a blip on a longer-term chart. It is exciting to think what might be possible if current valuation gaps begin to close in earnest. Personally, I find it an even more compelling indicator that our investment professionals within Orbis are expressing ever greater conviction in the future opportunity for added value – more than I have seen in years, with the possible exception of March of last year.

I thought it might be interesting to share some of the team commitments that we make to each other for our Global Strategy Meetings to ensure that we remain grounded and prepared for the opportunities in front of us:

- I will own my feelings and be vigilant in recognising and countering my unconscious bias.
- I will own my judgements and opinions – they may or may not be true.
- I will aspire to humility, including the humility to change my mind.
- I will listen with openness and curiosity.
- I will view all feedback as an opportunity to grow.
- I will hold myself to a higher standard than I expect of others.
- I will be "all in", especially when times get tough.
- I will do what is best for the whole: clients, firm, team, me.

As a colleague said recently, what defines a winning team is how they conduct themselves when they are behind. While producing outcomes well below one's standards is never any fun, it is a process that we have been through periodically in our history, and we have always emerged stronger and better prepared to deliver on your behalf.

I am enormously grateful that our clients have stayed the course thus far, and I look forward to 2021 with a renewed sense of purpose and determination.

Orbis
Invest Differently

William leads the Orbis Investment team and is a director of Orbis Holdings Limited, Orbis Allan Gray Limited, and Orbis' Bermuda and Luxembourg funds. Prior to joining Orbis Investments in 1993, he had been an analyst with Orbis Investment Advisory Limited and with the Orbis predecessor company in Hong Kong. William holds a Bachelor of Commerce degree from the University of Cape Town, a Master of Business Administration from Harvard University, and is a CFA® charterholder.

UPCOMING CHANGES TO PROVIDENT AND PROVIDENT PRESERVATION FUNDS

Shaun Duddy

We believe harmonisation is a positive step towards improving retirement outcomes.

The latest Taxation Laws Amendment Bill includes changes to the legislation that governs provident and provident preservation funds that will come into effect on 1 March 2021. The changes, which are part of the National Treasury's broader retirement reform initiatives, have been on the cards for some time and are the final planned step in the process of aligning (also referred to as "harmonising") the benefits and rules of provident, provident preservation, pension, pension preservation and retirement annuity funds. Shaun Duddy provides context to the changes and what they will mean for members of provident and provident preservation funds.

With industry surveys consistently indicating that fewer than 10% of South Africans are able to support themselves financially in retirement, the National Treasury, in consultation with the savings and investment industry and other stakeholders, has implemented a number of changes to retirement legislation in the last decade. These have been aimed at encouraging adequate provision for retirement and ensuring that available retirement products meet the needs of South African savers.

Harmonisation of provident, provident preservation, pension, pension preservation and retirement annuity funds has been part of this broader retirement reform process and aims to encourage increased saving for retirement, and preservation in retirement income products (i.e. annuities) at retirement, by making changes to and aligning the benefits and rules of these retirement funds.

Legislative amendments for harmonisation first appeared in 2013 and consisted of three sets of changes:

1. **Aligning and significantly increasing the level of retirement fund contributions that are tax-deductible**
   To encourage increased savings in retirement funds, the tax incentives to do so were significantly increased from 1 March 2016. The level of contributions that are tax-deductible was aligned across retirement funds and increased to up to 27.5% of taxable income or remuneration per year, whichever is higher, subject to a maximum of R350 000 per year. This represented a significant increase from the previous 15% of non-retirement funding income.

2. **Increasing the amount below which retirement fund members can take up to 100% of their benefits in cash at retirement**
   From 1 March 2016, members of pension, pension preservation and retirement annuity funds with benefits of R247 500 or less at retirement have been able to take up to 100% of their benefits in cash, if required. The increase from R75 000 was made in anticipation of the third and final set of changes (see below), and allows certain members to access a greater percentage of their retirement fund benefits in cash at retirement.

3. **Aligning the requirements to purchase an annuity at retirement**
   These are the final changes to provident and provident preservation funds, which will become effective on 1 March 2021. As things stand, a key difference between provident and provident preservation funds and pension, pension preservation and retirement annuity funds is that provident and provident preservation fund members can take up to 100% of their benefits in cash at retirement, if required, while pension, pension preservation and retirement annuity fund members are required to use at least two-thirds of their benefits to purchase an annuity, unless their benefits in a retirement fund are R247 500 or less.

   To complete the harmonisation process, benefits from new contributions made to provident funds from 1 March 2021 onwards will be subject to the same requirements to purchase an annuity at retirement, except if provident fund members are 55 or older on 1 March 2021 and remain members of the same provident fund(s). These changes will start to increase preservation at retirement through the use of annuities, which are intended to provide retirees with an income in retirement. In addition, these changes are being introduced in a way that protects the rights that were applicable to provident and provident preservation fund members' past contributions, as well as defined future contributions for provident fund members close to retirement.

We believe harmonisation is a positive step towards improving retirement outcomes. The combination of increased savings in retirement funds, encouraged by significantly increased tax incentives, and the increased use of annuities to provide an income in retirement, ensured by aligning the requirements to purchase an annuity at retirement, should improve the level of benefits at retirement, as well as the level and sustainability of income in retirement. These improvements have, however, also been introduced in a manner that clearly acknowledges the reasonable need for access to cash at retirement, and the importance of not taking away rights that were previously promised to retirement fund members.

While there have been numerous delays in effecting all the elements of harmonisation, the final step is now around the corner. With 1 March 2021 fast approaching, it is the ideal time for provident and provident preservation fund members to get to grips with what the upcoming changes will mean for them in practice.

> These improvements have … also been introduced in a manner that clearly acknowledges the reasonable need for access to cash at retirement …

What will the changes mean in practical terms for existing members?

For members of provident and provident preservation funds on 1 March 2021, all benefits in these funds as at 28 February 2021, plus any future growth on these benefits, will not be impacted by the changes. These benefits will be given "vested rights", meaning that members will still be able to take up to 100% of these "vested benefits" in cash at retirement, if required. These vested rights will continue to apply even if members transfer these vested benefits to other retirement funds before they retire, including if they transfer these benefits to pension, pension preservation or retirement annuity funds. The changes will also have no impact on the access that provident and provident preservation fund members have to their benefits before retirement.

In addition to the vested rights on existing benefits as at 28 February 2021, if existing provident fund members are 55 or older on 1 March 2021, and remain members of the same provident fund(s), they will also receive vested rights on their benefits from new contributions made to these funds from 1 March 2021 onwards.

For existing members younger than 55 on 1 March 2021, the changes will therefore only impact benefits from new contributions made from 1 March 2021 onwards. For existing members 55 or older on 1 March 2021, the changes will only impact new contributions made to provident funds joined for the first time after 1 March 2021, as these contributions will not receive vested rights. Members will be required to use at least two-thirds of these "unvested benefits" at retirement to purchase an annuity, which will provide them with an income in retirement, unless their unvested benefits in a retirement fund are R247 500 or less, or whatever this amount may be in future as stipulated in the retirement fund laws.

What will the changes mean for new provident fund members?

Members of all ages who start contributing to provident funds for the first time after 1 March 2021 will immediately be subject to the new legislation, i.e. all of their benefits will be unvested and members will be required to use at least two-thirds of their benefits at retirement to purchase an annuity, which will provide them with an income in retirement, unless their benefits in a retirement fund are R247 500 or less, or whatever this amount may be in future as stipulated in the retirement fund laws.

Can members lose their vested rights?

As mentioned, vested rights will be given to existing provident and provident preservation fund members on 1 March 2021 and these vested rights will remain intact until retirement, even if the vested benefits are transferred to a different retirement fund. However, if any benefits are deducted from these members' retirement funds before retirement, their vested benefits will be reduced as part of that.

In summary, from 1 March 2021, provident and provident preservation funds will be "equivalent" to pension, pension preservation and retirement annuity funds at the point of retirement, with the important exception of vested benefits, which will not experience any changes. The "equivalence" of provident, provident preservation, pension and pension preservation funds will also mean that any tax consequences of transferring pension and pension preservation fund benefits to provident and provident preservation funds will be removed.

How will this all work at retirement?

Let's consider a member who is younger than 55 on 1 March 2021 and retires from their retirement annuity fund after 2021 with R3m. R2m is vested benefits, from benefits that were in a provident fund on 28 February 2021 and later transferred, and R1m is unvested benefits, made up of R250 000 from contributions to the provident fund from 1 March 2021 onwards and later transferred, and R750 000 from contributions to the retirement annuity fund. Of the R1m unvested benefits, the member will have to use at least two-thirds to purchase an annuity, which will provide them with an income in retirement[1], while they will still be able to take up to 100% of the R2m vested benefits in cash, if required.

If this member were 55 or older on 1 March 2021, their vested benefits would be R2.25m, R2m from benefits that were in the provident fund on 28 February 2021, and R250 000 from contributions to the provident fund from 1 March 2021 onwards before transferring. In this case, the member would have to use at least two-thirds of their R750 000 unvested benefits to purchase an annuity, which would provide them with an income in retirement[1], while they would be able to take up to 100% of their R2.25m vested benefits in cash, if required.

Which of our clients will be impacted?

These changes will impact the members of the Allan Gray Provident Preservation Fund and Allan Gray Umbrella Provident Fund. We have been taking the necessary steps to effect the changes across all of our retirement funds, especially in relation to allocating vested rights to members, administering the vested benefits over time and reporting on the vested benefits. We will be communicating further details directly to our impacted members, employers and financial advisers in the coming weeks.

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[1] As things stand, members with unvested benefits of R247 500 or less at retirement will be able to take up to 100% of their unvested benefits in cash, if required. This figure could be increased in future. The example assumes that this figure is still below R1m or R750 000 at the point of retirement.

Shaun joined Allan Gray in 2010 as a business analyst in Product Development and is currently a senior manager in this team. He holds a Bachelor of Business Science in Actuarial Science from the University of Cape Town.

ARE YOU MAKING THE MOST OF YOUR TAX-FREE INVESTMENT ACCOUNT?

Tamryn Lamb and Twanji Kalula

Set against a backdrop of lower overall returns, it is important to ensure that you are incorporating tax-efficient strategies in your broader long-term financial plan which make the most of the existing vehicles and products on offer. Tamryn Lamb and Twanji Kalula unpack the pros and cons of using tax-free investment accounts over the long term and explain how they can be used to complement your existing goals.

As long-term investors, we often say that there is no such thing as a free lunch: Performance is seldom delivered in a straight line, get-rich-quick schemes usually end in disappointment, and building long-term wealth takes time. This means that long-term investors must exercise patience, have conviction in their investment strategies, and apply a consistent approach in order to meet their investment objectives. This is also true of tax-free investment products: The real benefits are derived over longer periods of time.

The National Treasury introduced tax-free investment accounts in 2015 to encourage South African households to save. Of course, before we can understand what the concept of a "tax-free" investment is, we must first understand the taxes that are typically levied when we invest. Many of us are no doubt aware of the taxes we pay regularly, such as pay-as-you-earn tax (PAYE) and valued-added tax (VAT), but are probably less familiar with the taxes we pay through investing. In short, in a simple unit trust that is not part of a retirement product, investors are subject to various income and capital gains taxes which will impact the net investment returns that are achievable.

What taxes do we pay on a simple local unit trust investment?

By way of example, let's take a look at the taxes one would pay on the returns generated by a local unit trust investment. The returns generated by a unit trust are generally derived from the capital growth of the unit trust's underlying assets, interest, and dividends. The contribution from each type of return will depend on the type of unit trust that you select. Each of these returns is treated differently for tax purposes.

- **Interest:** Any interest generated by the underlying assets in your unit trust account is taxed at your marginal tax rate. An exemption for local interest of R23 800 applies if you are under the age of 65 and R34 500 if you are 65 or older.

- **Dividends:** Investment managers are required to withhold 20% in tax on any local dividends earned by South African tax resident individuals, while any dividend income from a real estate investment trust is taxed at your marginal tax rate.
- **Capital gains:** When you sell your units, either by switching to another unit trust or realising your investment through making a withdrawal, you may be required to pay capital gains tax (CGT) on the growth of your investment. When calculating CGT, R40 000 of the sum of capital gains or losses for the tax year is excluded in determining the net capital gain. Thereafter, 40% of the net gain is taxed at your marginal tax rate.

These taxes, however, do not apply to tax-free investment accounts as these investments allow investors to invest a limited amount of capital without having to pay any tax on the income or capital gains generated during the life of the investment. This offers investors the opportunity to accelerate their capital growth over time by boosting the rate at which their money compounds.

Understanding how these products work and making sure that you use them optimally in your portfolio can prove rewarding.

The real benefits of tax-free investing are derived over long periods of time.

A building block for long-term investors

Tax-free investments (TFIs) are an appropriate choice for most investors with long investment horizons. As such, many financial planners consider them an essential component of any personal financial plan: TFIs are easy to start, they can be used to achieve a range of financial goals, and they offer investors the flexibility of access to their money if they really need it. However, the amount you are able to invest in TFIs is limited. The current legislation allows taxpayers to contribute a maximum of R36 000 to TFIs each tax year, subject to a maximum lifetime limit of R500 000. Importantly, this is a once-off allowance on contributions. If you withdraw from your TFI and subsequently reinvest, this will be counted as an additional contribution and will impact your annual or lifetime allowance. It therefore makes sense for most investors to place the first R36 000 of long-term savings they have available to invest into TFIs each tax year, and then to view these funds as a long-term investment.

TFIs can be used to complement your existing financial goals in the following ways:

Supplementing your retirement savings

A TFI is not the only product that offers tax incentives; retirement products such as retirement annuity accounts and other forms of pension savings also benefit from various tax savings. These products are typically not restricted in terms of how much you can invest in them, but do have limitations in terms of when you are able to access your savings. TFIs can therefore be used alongside these retirement products to supplement your ongoing savings for retirement. This provides some flexibility, should it be required, and also increases the amount of tax-free cash potentially available to you when you retire. This tax-free lump sum can prove useful as you transition into retirement.

Investing for future educational needs

Many parents and grandparents make use of TFIs to save for their children's long-term educational needs, or to build up a large lump sum that can be used to give their children a financial head start later in life. You can contribute to a TFI at any age – making it possible for you to invest on behalf of a minor from the day they are born. In fact, approximately 15% of Allan Gray's TFI accounts are held by investors under the age of 18. However, it is important to remember that if you contribute to a TFI on behalf of a child, you are making use of their TFI lifetime limits and they will not be able to make any further contributions after they have reached their limits. Of course, the earlier you start, the greater the potential for compounding of your capital and other gains and, by extension, the greater the potential tax saving.

Planning your estate

The Allan Gray Tax-Free Investment is structured as a life policy, which introduces some estate-planning advantages. When you open an Allan Gray Tax-Free Investment, you are required to appoint beneficiaries who will receive the proceeds of your investment in the event of your death.

These proceeds are not paid to your estate but directly to your beneficiaries as soon as we receive confirmation of your death. This means that your beneficiaries have access to some money as the rest of your estate is being wound up.

Understanding how these products work and making sure that you use them optimally in your portfolio can prove rewarding.

The real benefits are realised over the long term

The real benefits of tax-free investing become more pronounced over longer periods of time. For example, a R100 000 investment in the Allan Gray Balanced Fund at the end of 2005 would have grown to R445 149 (a 10.47% p.a. return) by the end of 2020, before taking tax into consideration. This return is reduced to R350 269 (an 8.72% return) after the applicable taxes have been considered.[1] When you factor in that you will not pay any capital gains tax when you realise the value of the TFI, you can see how your net returns have the potential to be meaningfully greater over long periods of time.

It is therefore of some surprise to us that the data suggests that TFI accounts are not always being utilised for long-term investing purposes. Our analysis shows that, on average, the majority of the TFI withdrawal requests we processed between 2018 and 2020 were on behalf of clients who had been invested in these products for less than two years. Interestingly, on average, younger investors who withdrew funds from their TFIs were invested for shorter periods than their older counterparts and failed to make the most of the one long-term investing advantage that comes with youth: time.

Times have been tough and, understandably, many investors have had to dip into their various investments, but this does suggest that some investors may be using TFIs as a short-term parking solution for emergency or other reserves. This is not ideal from a tax perspective as you cannot replace money that you withdraw from a TFI (i.e. your lifetime contribution limit is finite) and you lose out on the longer-term benefits of tax-free investing. Unless the regulations change, a basic unit trust may be a better solution for these goals as they offer the same flexibility of access to savings in emergencies and do not use up your TFI annual and lifetime contribution limits.

Making the most of tax-free investing

There are six things you can do to improve your outcomes and maximise the benefits that TFIs offer:

- **Choose an appropriate investment vehicle:** South Africans have access to a broad range of TFI products, including fixed deposits, savings accounts, retail savings bonds and unit trusts. Each of these products is invested in one or more underlying asset class (e.g. cash, bonds, equities and property). If you are planning to be invested for a long period of time, you should make sure that the underlying assets in your TFI can deliver meaningful growth. You should also ensure that the underlying assets in your TFI product are appropriate for your goal.

- **Maximise your contributions:** If your circumstances allow, you should aim to maximise your TFI contributions each year. This will give your investment a broader base to compound off over time – drastically increasing your potential returns. You can automate your contributions by setting up a debit order. If you aim to contribute your maximum allowance each year, it will take you approximately 14 years to reach your lifetime contribution limit.

- **Stay invested for as long as possible:** The real benefits of tax-free investing are derived over long periods of time. If you may require access to your money in the shorter term, you should consider investing it in a low-risk unit trust investment, as any money that is withdrawn from a TFI cannot be replaced.

- **Stay within the limits:** Your contributions to TFIs are currently limited to R36 000 per tax year and R500 000 during your lifetime. A hefty penalty of 40% is levied on any contribution that exceeds these limits. If you have TFI accounts with various investment managers, it is essential that you monitor your contributions across all these investment accounts to avoid exceeding these limits.

[1] **Source:** Allan Gray research, based on Allan Gray Balanced Fund Returns to December 2020, 2020 tax treatment with a marginal tax rate of 45%. All tax exemptions utilised; all income reinvested.

- **Do not withdraw; transfer:** You can transfer an existing TFI from one investment manager to another. Provided that you follow the correct process, the transfer will not be seen as an additional contribution and will not affect your annual or lifetime contribution limit. Avoid withdrawing from one TFI account with the intention of contributing the proceeds to another TFI account as this transaction may be seen as an additional contribution and impact your annual and lifetime contribution limits.
- **Think about your financial plan:** Your TFI is just one component of your broader financial plan. Whether you are using it as a vehicle to save for your children's tertiary education or to build a nest egg to supplement your retirement savings, you should have clarity around why you are contributing to a TFI product and ensure that it is fit for that purpose. An independent financial adviser can assist you in setting up a holistic plan that takes your future needs and goals into consideration.

Maximising your tax-free contributions for the current tax year

The current tax year ends on Sunday, 28 February 2021. If you would like to top up your existing Allan Gray Tax-Free Investment for the 2020/2021 tax year or start a new one, you will need to submit an instruction by 14:00 on Friday, 26 February 2021. This instruction must be accompanied by the relevant payment. Electronic collections must be processed by Thursday, 25 February 2021.

Tamryn is head of Retail Distribution. She joined Orbis in London in 2006 as an investment analyst, covering European equities. After spending several years in both investment and client-facing roles, she joined Allan Gray in the Institutional Clients team in 2013. Tamryn completed her Bachelor of Business Science degree at the University of Cape Town and is a qualified Chartered Accountant and a CFA® charterholder.

Twanji joined Allan Gray in 2019 and is a communications specialist. He holds a Bachelor of Arts (Honours) degree in Media Theory and Practice from the University of Cape Town and a Master of Science degree in Corporate Communication and Public Affairs from Robert Gordon University.

ALLAN GRAY ORBIS FOUNDATION: FOSTERING RESILIENCE

Yogavelli Nambiar

... any individual or organisation that embraces resilience is better equipped to deal with uncertainty ...

There are many things 2020 will be remembered for – most of them less than pleasant. But for Yogavelli Nambiar, from the Allan Gray Orbis Foundation, the past year will forever stand out as the year of resilience. She explains why in this Foundation update.

Resilience is a quality I continuously espouse as the chief trait we need as a society, not only to survive a rapidly and significantly changing global landscape, but also to be able to learn, build and innovate within it.

We place so much emphasis on resilience as an organisation that it is listed as one of the 14 core competencies the Allan Gray Orbis Foundation considers central to entrepreneurial success. This is frequently borne out by research conducted by us and others. We define this critical quality as "the ability to work through challenges". In practice, it's even more than that. It is the refusal to let those challenges keep you down, even when you feel certain that there is simply no way to rise again.

In 2020, I saw many instances where our entire Foundation – from staff members to programme participants (Scholars, Candidate Fellows and Fellows) – did just that. Our staff members have endured, working, like many others, under circumstances we could never have imagined. Our programme participants, too, have achieved, despite a myriad hardships and difficulties, and in many cases, have proven the values for which they were selected by the Foundation – demonstrating a spirit of significance, courageous commitment, achievement excellence, an intellectual imagination and personal initiative.

Fellows make waves

We haven't merely survived. We have thrived. And proudly, we can point to several Fellows who have sought to contribute to the country in these challenging times – surely one of the highest honours one can achieve.

As Anthony Farr reported in the Quarterly Commentary 2, 2020, CapeBio Technologies, founded by Allan Gray Fellows Daniel Ndima and Dineo Lioma, developed a rapid COVID-19 testing kit that has made it possible to deliver results in just over an hour – a significant improvement on the first tests available. They have truly lived up to our credo that entrepreneurship is a vehicle through which to help others.

They are not the only ones who have shown their mettle and kept the Foundation's flag flying. Denislav Marinov has been appointed as a consultant to the Senegal Smart Cities Board. This smart city, a US$6bn sustainable 2 000-acre futuristic metropolis, will include a luxury resort, condos, offices, a hospital, a stadium, and an artificial intelligence data centre.

Batandwa Bula and Ndabenhle Ntshangase made it through to the national round of the Entrepreneurship Development in Higher Education's Entrepreneurship Intervarsity competition. The Entrepreneurship Intervarsity is aimed at identifying, recognising, supporting and celebrating student entrepreneurs who have been able to establish their own businesses, along with those who have innovative ideas they would like to pursue while studying. Ndabenhle's AirStudent was also awarded a contract for travel from Canoeing South Africa.

Over in the United States, Thandolwethu Dlamini and Mfundo Radebe received their degrees from Duke and Harvard universities respectively. Moreover, Thandolwethu's Knowledge Institute has joined forces with MTN Educare in Eswatini to provide examination preparation and tutorials on the MTN zero-rated website and WhatsApp groups.

We extend congratulations to Sitholile Sithole and Moeketsi Mashibini, the brains behind Pantsula with a Purpose, which is sharing content for workshops, WhatsApp messaging and tutorials with Grade 12 learners throughout its networks.

Then there's Oyama Makubalo, whose start-up, Niki's Ginger Beer, is starting to flourish now that she has a delivery permit. Khensani Hlaise, who runs a business selling poultry, is also doing well, having doubled the stock of her village business, Ti Huku, from 200 to 400 chickens a month.

These achievements are especially noteworthy in light of how the pandemic has ravaged the economy. Small businesses in particular are burdened by the lockdown and the resultant impact on cash flow, and to scale operations at this time is a display of the innovation and tenacity of our young entrepreneurs.

We also give special acknowledgement to Khethiwe Sibanyoni, who took the initiative to tackle the gender-based violence epidemic that has accompanied our COVID-19 crisis by organising "comfort bags" for victims. The comfort bags include toiletries, a notebook and a pen, and represent the first step back to dignity after going through a traumatic experience.

Finally, Xola Mkhize has taken his family business to the next level, managing the family's supermarket throughout lockdown and establishing a takeaway business to run alongside it; Qhawe Bula has created TAQA, an online library offering children's audio books in all official languages, and Musa Maluleka has developed a growing digital presence, alongside the physical store for his company, which designs and makes authentic soccer boots for gravel pitches. Visit disktjie.com.

… the Foundation is able to confidently say that the investment in developing dynamic young entrepreneurial minds is well founded.

With our mission geared towards reducing unemployment, especially among our youth, and our intention of developing high-impact and responsible entrepreneurs, we were encouraged to observe a growth in the number of programme participants engaging in entrepreneurial action and venture development. Our Fellowship Programme experienced an increase in Candidate Fellows participating in the Fellowship Ideation, Validation and Creation (IVC) incubation programme, with 65 Candidate Fellow participants in 2020 (who run businesses on a full-time basis alongside their studies), in comparison to 32 participants in 2019. The Association Programme had over 160 Fellows engaged in entrepreneurial action and venture development, up from 132 who took action in 2019.

A tribute to the team at the Foundation

Having partnered with 1 195 programme participants to date – 178 Scholars, 504 Candidate Fellows and 513 Fellows – who have all shown great resilience, hard work and care for the community in the midst of changing circumstances, the Foundation is able to confidently say that the investment in developing dynamic young entrepreneurial minds is well founded.

It is also worth mentioning that our Fellowship Programme's retention rate (the cohort percentage of the programme participants who meet their respective schooling institutions' pass requirements as well as the Foundation's entrepreneurship education programme requirements) stands at 83%, while our Scholarship Programme's retention rate is at 100% – no small feat in a year that would have tempted all but the most resolute to give up.

This would not have been possible without a strong, competent and committed team at the Foundation. Pivoting became a priority last year and resulted in innovative events to build and inspire the entrepreneurial spirit. One such event was our DigiJam event – a virtual festival of ideas where we provided programme participants with a platform to put their entrepreneurial abilities into action – considered by many participants to be our most informative and exciting event yet. The event featured practising entrepreneurs and industry captains such as Adrian Gore, Prof Thuli Madonsela, Dion Chang, John Sanei and Bonang Mohale, who used their experiences to share insights on how participants could practise entrepreneurship for the common good.

A tonic for uncertainty?

This has proven to me, beyond any doubt, that any individual or organisation that embraces resilience is better equipped to deal with uncertainty and, while we are all hoping for a better and brighter 2021, we have to be realistic about the vagaries the future holds. I am confident that the entrepreneurial changemakers we are identifying, nurturing and supporting are going to be at the forefront of contributing to our communities and country through any future challenges.

It is this mindset that we hope to encourage in children across the country through the Allan Gray Entrepreneurship Challenge, a gamified learning platform that is open to all high school learners in South Africa (and soon, primary school learners too). It takes the form of an annual five-week competition in which learners undergo transformation and entrepreneurial development through their exposure to bite-sized chunks of enriched, digitised skills-based learning content in the domain of entrepreneurship. It creates a safe, fun space for learners to develop the skills that will allow them to respond to our changing world in an appropriate and effective manner, harnessing the power of the digital world and combining it with a game that imparts entrepreneurial lessons.

As we stand ready to take on the new year, we remain committed to our long-term approach of investing in the youth of our country with the vision of creating an entrepreneurial, equitable South Africa that flourishes in meaningful employment.

Allan Gray Orbis Foundation

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

NOTES

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Allan Gray Balanced and Stable Fund asset allocation as at 31 December 2020

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign*	Total	SA	Foreign*
Net equities	68.8	48.6	20.1	34.8	20.9	13.8
Hedged equities	8.4	3.1	5.3	13.8	5.1	8.8
Property	1.1	1.0	0.1	2.3	2.3	0.0
Commodity-linked	3.7	2.9	0.8	3.6	2.6	1.0
Bonds	13.4	9.7	3.7	35.9	27.9	8.0
Money market and bank deposits	4.6	1.9	2.8	9.6	5.3	4.2
Total	**100.0**	**67.3**	**32.7**	**100.0**	**64.2**	**35.8**

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 31 December 2020

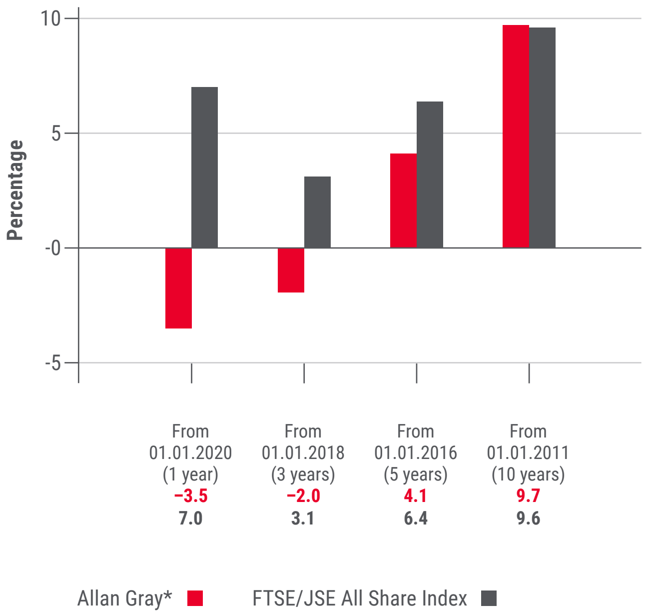
Security (Ranked by sector)	Market value (R million)	% of Fund	FTSE/JSE ALSI weight (%)
South Africa	**22 603**	**67.9**	
South African equities	**21 942**	**65.9**	
Resources	**4 709**	**14.1**	**33.8**
Glencore	1 197	3.6	
Sibanye-Stillwater	605	1.8	
Sasol	559	1.7	
Northam Platinum	346	1.0	
BHP	316	0.9	
Pan African Resources	309	0.9	
Impala Platinum	298	0.9	
Sappi	237	0.7	
Positions less than 1%[1]	843	2.5	
Financials	**7 458**	**22.4**	**18.9**
Standard Bank	1 086	3.3	
FirstRand	924	2.8	
Reinet	793	2.4	
Remgro	773	2.3	
Old Mutual	584	1.8	
Nedbank	536	1.6	
Rand Merchant Investment[2]	413	1.2	
Capitec	392	1.2	
Investec	380	1.1	
Ninety One	225	0.7	
Positions less than 1%[1]	1 352	4.1	
Industrials	**9 775**	**29.3**	**47.3**
Naspers[2]	3 172	9.5	
British American Tobacco	1 608	4.8	
Woolworths	937	2.8	
Life Healthcare	546	1.6	
MultiChoice	509	1.5	
KAP Industrial Holdings	329	1.0	
Super Group	327	1.0	
AB InBev	256	0.8	
Positions less than 1%[1]	2 091	6.3	
Commodity-linked securities	**283**	**0.8**	
Positions less than 1%[1]	283	0.8	
Cash	**378**	**1.1**	
Africa ex-SA	**833**	**2.5**	
Equity funds	**833**	**2.5**	
Allan Gray Africa ex-SA Equity Fund	833	2.5	
Foreign ex-Africa	**9 873**	**29.6**	
Equity funds	**9 809**	**29.4**	
Orbis Global Equity Fund	5 759	17.3	
Orbis SICAV International Equity Fund[3]	2 473	7.4	
Allan Gray Frontier Markets Equity Fund Limited[3]	1 084	3.3	
Orbis SICAV Emerging Markets Equity Fund	494	1.5	
Cash	**64**	**0.2**	
Totals	**33 310**	**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 31.12)	**−3.5**	**7.0**	**−10.5**

Returns annualised to 31.12.2020



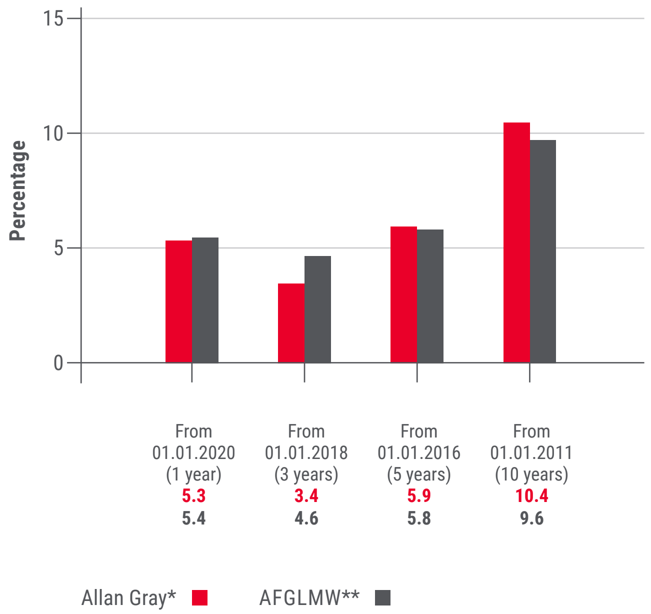
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R217 752 309 by 31 December 2020. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R10 639 292. Returns are before fees.

*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 31.12)	**5.3**	**5.4**	**−0.1**

Returns annualised to 31.12.2020



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R26 276 935 by 31 December 2020. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R5 881 085. 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 December 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 31 December 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]	**33.3**	**01.10.1998**	**19.7** 14.1	**8.6** 7.7	**3.8** 3.3	**−0.9** 0.1	**−0.2** 2.8	**125.8** 73.0	**−24.3** −37.6
Allan Gray SA Equity Fund (AGDE) FTSE/JSE All Share Index including income	**2.8**	**13.03.2015**	**2.4** 5.4	**–** –	**2.7** 6.4	**−3.2** 3.1	**−4.1** 7.0	**17.2** 22.5	**−32.0** −18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	**22.2**	**01.04.2005**	**14.5** 14.3	**17.8** 19.0	**9.7** 11.4	**9.5** 17.4	**20.9** 21.7	**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]	**136.3** **1.3**	**01.10.1999** **01.02.2016**	**15.2** **5.3** 11.5/5.2	**9.3** **–** 8.3	**4.8** **–** 4.6	**2.3** **2.5** 3.8	**3.6** **4.0** 5.7	**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	**14.0**	**03.02.2004**	**10.4** 11.6	**13.9** 16.0	**5.5** 8.4	**6.3** 15.4	**13.9** 19.8	**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%	**43.9**	**01.07.2000**	**11.2** 8.8	**8.3** 7.1	**5.7** 7.5	**4.3** 7.1	**3.4** 5.5	**23.3** 14.6	**−7.4** 5.5
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate of FirstRand Bank Limited	**0.9**	**01.10.2002**	**6.9** 6.2	**5.1** 5.0	**3.8** 5.4	**1.4** 5.0	**−5.5** 3.4	**18.1** 11.9	**−8.2** 3.4
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US$ bank deposits and euro bank deposits	**0.8**	**02.03.2010**	**6.1** 6.2	**8.2** 8.3	**−1.9** 0.4	**−1.0** 7.2	**2.2** 9.7	**39.6** 35.6	**−12.4** −19.1
No equity exposure									
Allan Gray Bond Fund (AGBD) FTSE/JSE All Bond Index (Total return)	**5.2**	**01.10.2004**	**9.1** 8.7	**8.6** 8.2	**10.7** 10.4	**9.0** 8.9	**6.9** 8.7	**18.0** 21.2	**−2.6** −5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[3]	**26.3**	**03.07.2001**	**7.9** 7.7	**6.6** 6.3	**7.4** 7.0	**7.1** 6.6	**5.9** 5.4	**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 31 December 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	1.14%	−0.07%	0.04%	0.10%	1.21%	0.10%	1.31%
Allan Gray SA Equity Fund	1.00%	−0.56%	0.01%	0.07%	0.52%	0.11%	0.63%
Allan Gray Balanced Fund	1.09%	−0.07%	0.03%	0.10%	1.15%	0.09%	1.24%
Allan Gray Tax-Free Balanced Fund	1.36%	N/A	0.04%	0.14%	1.54%	0.12%	1.66%
Allan Gray Stable Fund	1.07%	−0.27%	0.03%	0.07%	0.90%	0.09%	0.99%
Allan Gray Optimal Fund	1.00%	0.00%	0.02%	0.15%	1.17%	0.10%	1.27%
Allan Gray Bond Fund	0.25%	0.29%	0.01%	0.08%	0.63%	0.00%	0.63%
Allan Gray Money Market Fund	0.25%	N/A	0.00%	0.04%	0.29%	0.00%	0.29%
Allan Gray-Orbis Global Equity Feeder Fund	1.49%	−0.11%	0.05%	0.00%	1.43%	0.09%	1.52%
Allan Gray-Orbis Global Fund of Funds	1.44%	−0.10%	0.06%	0.00%	1.40%	0.10%	1.50%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	0.17%	0.08%	0.00%	1.25%	0.13%	1.38%

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 31 December 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 FTSE World Index	**01.01.1990**	**17.9** 13.8	**17.9** 19.0	**9.8** 11.4	**9.8** 17.4	**21.2** 21.7	**87.6** 54.2	**−47.5** −46.2
Orbis SICAV Japan Equity (Yen) Fund Tokyo Stock Price Index	**01.01.1998**	**14.3** 9.8	**16.3** 15.9	**6.8** 7.5	**6.8** 11.5	**8.3** 18.1	**94.9** 91.0	**−40.1** −46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[5] MSCI Emerging Markets Equity (Net) (US$)[5]	**01.01.2006**	**13.8** 14.2	**13.7** 14.3	**5.5** 10.3	**6.9** 12.6	**16.7** 23.8	**58.6** 60.1	**−34.2** −39.7
Allan Gray Africa ex-SA Equity Fund (C class) Standard Bank Africa Total Return Index	**01.01.2012**	**9.8** 7.1	**–** –	**3.5** 7.0	**1.7** 13.3	**7.2** 21.9	**65.6** 33.6	**−24.3** −29.4
Allan Gray Australia Equity Fund S&P/ASX 300 Accumulation Index	**04.05.2006**	**14.2** 12.7	**14.1** 13.4	**10.7** 8.6	**7.2** 12.9	**6.5** 17.4	**99.5** 55.6	**−55.4** −45.1
Medium net equity exposure								
Orbis SICAV Global Balanced Fund 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Bond Index	**01.01.2013**	**14.2** 15.3	**–** –	**5.9** 8.0	**6.9** 15.3	**14.2** 19.5	**54.4** 40.2	**−9.8** −8.4
Allan Gray Australia Balanced Fund The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan GBI Global Bond Index expressed in AUD (16%).	**01.03.2017**	**9.3** 12.0	**–** –	**–** –	**8.7** 14.0	**15.3** 20.3	**16.2** 25.1	**−5.3** −5.8
Low net equity exposure								
Allan Gray Australia Stable Fund Reserve Bank of Australia cash rate	**01.07.2011**	**11.3** 7.0	**–** –	**6.0** 1.1	**9.0** 6.7	**18.8** 15.8	**32.7** 28.8	**−7.4** −12.6
Very low net equity exposure								
Orbis Optimal SA Fund (US$) US$ Bank deposits	**01.01.2005**	**8.4** 7.9	**9.0** 9.1	**−1.6** 0.1	**0.0** 7.8	**1.2** 5.4	**48.6** 57.9	**−15.7** −25.6
Orbis Optimal SA Fund (Euro) Euro Bank deposits	**01.01.2005**	**6.9** 6.4	**7.1** 7.3	**−1.6** 0.7	**−1.7** 6.5	**8.2** 14.0	**44.1** 40.2	**−19.3** −20.9
No equity exposure								
Allan Gray Africa ex-SA Bond Fund (C class) J.P. Morgan GBI EM Global Diversified Index	**27.03.2013**	**14.1** 6.3	**–** –	**11.5** 5.4	**14.1** 9.2	**11.8** 7.5	**28.9** 24.7	**2.4** −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.

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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.

About the paper

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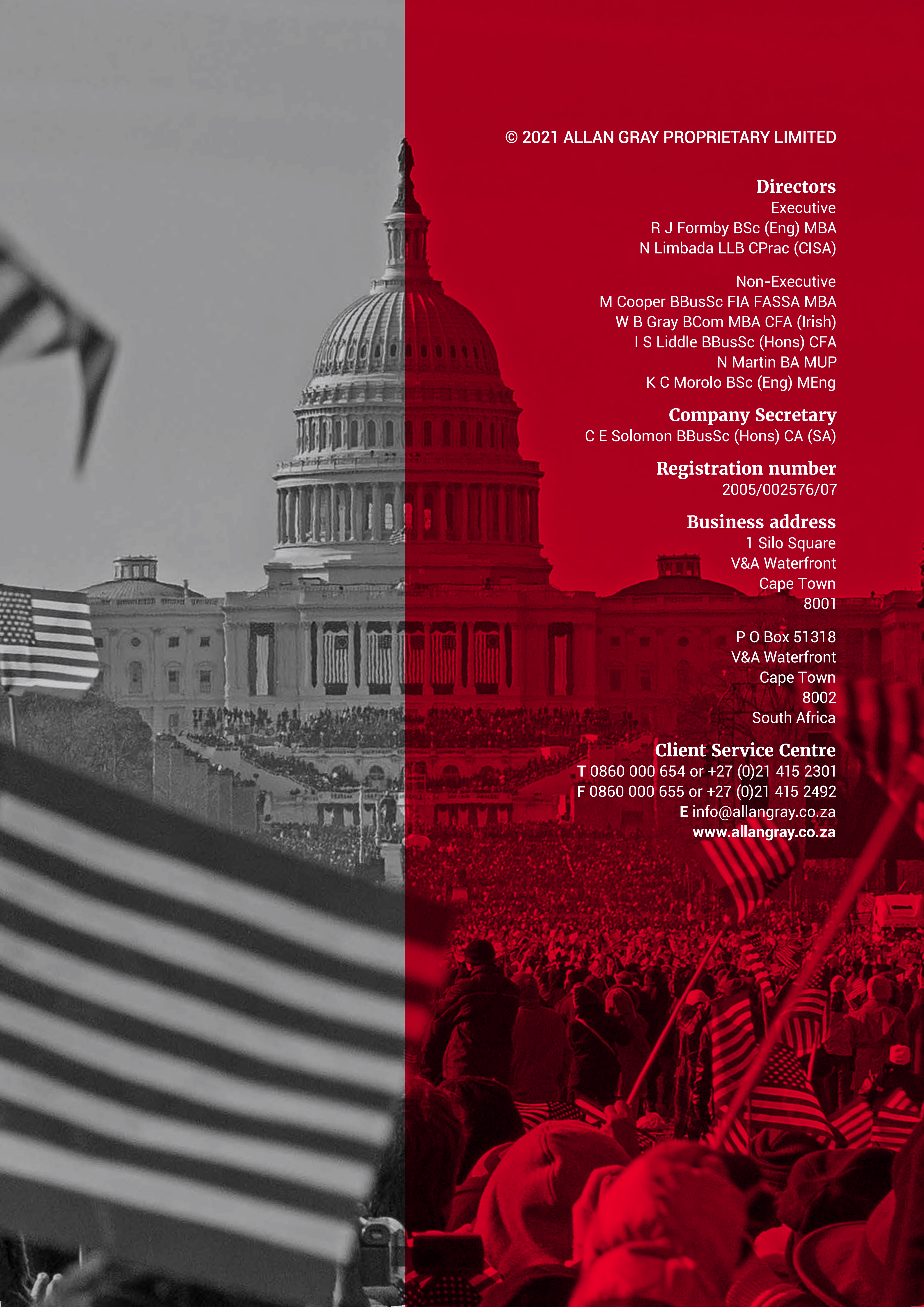

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