QC

Quarterly Commentary
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ALLAN GRAY

AB InBev: The king of beer

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COMMENTS FROM THE CHIEF OPERATING OFFICER

Mahesh Cooper

... the road ahead remains mired in uncertainty. As your investment manager, we undertake to use our decades of experience to see you through this cycle.

Instability hit the world with renewed force in 2022. All this uncertainty reminds me of Hyman Minsky's quote: "Stability leads to instability. The more stable things become and the longer things are stable, the more unstable they will be when the crisis hits."

The year saw big technology stocks, which had been the easy winners of the previous few years, suffer substantial declines, as well as interest rates, which were kept artificially low for over a decade, suddenly being ratcheted up by central banks in an effort to tame inflation. Inflation has been fuelled by the Ukraine war, resulting in higher energy and food prices and ongoing supply chain disruptions. The outcome for global markets was equities and bonds falling in tandem in 2022 – a phenomenon not often experienced – calling into question the value of the typical balanced portfolio 60% equities and 40% bonds mindset. Cash proved to be king, outperforming most asset classes, with the exception of commodities.

Political and economic risks continue to form a cloudy backdrop in South Africa, with Eskom's woes and the global energy crisis adding to the gloom. February will be a telling month as we await the national budget, which gives us a true sense of the state of our finances.

Increasing the angst is the risk of South Africa being greylisted by the Financial Action Task Force (FATF), a global organisation combating money laundering internationally. While there is no ban on doing business with countries on the greylist, it could impede inward capital flows and impose heavier compliance requirements – and therefore costs – on doing business with South Africa. Sandy McGregor discusses greylisting in his piece this quarter, looking at whether South Africa will be greylisted, and what the consequences would be.

Negativity can present opportunity

While not a calm and comfortable setting for a story, negativity tends to present opportunity if one can focus beyond the short-term noise. It is not always comfortable to follow this approach, but patience can pay off. Some of our investment theses have started to play out, resulting in improved relative performance across most of our unit trusts in 2022.

The improved shorter-term performance is starting to feed through into the longer-term numbers for many of our funds, as reflected in the performance tables on page 32. Of course, there is further work to be done, as our chief investment officer, Duncan Artus, discusses in his first investment update video of the year, available via our website.

Adding to performance was a strong contribution from our offshore partner, Orbis, despite the World Index and Global Bond Index being down significantly. In his president's letter, Adam Karr provides a performance review, reflecting on the goals he set when he was appointed and measuring the success of Orbis' efforts over the past 12 months. He also looks back at the factors that drove the markets in 2022 and discusses what you can expect in the year ahead.

As suggested above, in times like these, we try not to be distracted by the negative news flow and macroeconomic woes; rather, we focus our efforts on using our investment philosophy to assess the true value of companies and uncover long-term investment opportunities.

One of these is Anheuser-Busch InBev (AB InBev), the world's largest and most profitable brewer, with more than 500 beer brands and operations in nearly 50 countries. The market has several concerns about the company which are currently weighing on its share price. Jithen Pillay explains why we believe its fundamentals are robust and why it presents an attractive opportunity for our clients.

Balancing risk and return

Our Balanced Fund invests across asset classes in line with investment limits prescribed by the retirement fund regulations. It not only invests in companies that we believe are undervalued and trading at a margin of safety discount to our estimate of their intrinsic value, but also contrasts the attractiveness of these shares to cash and bonds, locally and globally. We build the Fund in this bottom-up manner not only to try to protect your investments against the risk of capital loss, but also to try and find the most attractive assets to invest in, while managing the asset allocation and diversification in the Fund.

Given the regulator's announcement last year of increased flexibility for balanced funds to invest more offshore, Tamryn Lamb looks at the role balanced funds have played in your portfolio over time and how this may evolve going forward. Tamryn also discusses why, given our relationship with Orbis, we are well placed to take advantage of this relaxation in exchange controls and offer a compelling investment proposition.

Maximise tax benefits this February

Circling back to February and the end of the tax year, we would like to take the opportunity to remind you to maximise the annual tax benefits of retirement products and tax-free investments (TFIs) – if you have not already done so. While you are in this mode, it also makes sense to take some time to get your tax affairs in order. In this quarter's Investing Tutorial, Carla Rossouw offers some practical tips.

Remember, if you are planning to make use of the tax concessions for this tax year by starting a new retirement annuity or TFI, or by making an additional contribution to an existing account, please make sure we receive your instruction, supporting documents and payment well in advance of the end-February deadlines, specified in Carla's piece.

Reflections

In November, the Allan Gray Orbis Foundation bid farewell to their CEO, Yogavelli Nambiar, after five years at the helm. Acting CEO, Dr Nontobeko Mabizela, shares some highlights of the Foundation's activities over the course of 2022 and looks towards the challenges and opportunities 2023 presents.

While we may have been hoping for a calmer ride this year, the road ahead remains mired in uncertainty. As your investment manager, we undertake to use our decades of experience to see you through this cycle.

Thank you for your ongoing trust, and I wish you all the best for the year ahead.

Kind regards

Mahesh Cooper

Mahesh Cooper

THE THREAT OF GREYLISTING

Sandy McGregor

Perhaps the greatest danger of greylisting … is that it will erode our existing international relationships … This is why a national commitment to remain off the greylist … or to get off the list if we are on it, is so important.

The Financial Action Task Force (FATF) was established in 1989 to coordinate an international effort to combat money laundering. As South Africa's economy is deeply integrated with the global financial system, the threat that it may be greylisted by the FATF at its annual meeting in February 2023 for failing to comply with its norms must be taken seriously. Sandy McGregor discusses this threat.

The past 40 years have seen a widespread improvement in living standards as a consequence of economic globalisation. However, globalisation has its negative aspects, one of which is that it facilitates crime by making it easier for criminals to hide the proceeds of their activities. Money leaves one jurisdiction and turns up in another, hidden by a seemingly legitimate façade. While money laundering to hide illegally acquired money is largely a domestic activity, major criminal syndicates increasingly operate internationally. In most countries, the fastest-growing and most profitable criminal enterprise is the sale of illegal drugs. The pernicious impact of drug abuse is one of the greatest social problems of our times, which governments struggle to combat.

What is the Financial Action Task Force?

As part of the war against drugs, at a meeting of the G7 government leaders in 1989 it was agreed to establish a Financial Action Task Force (FATF) based in Paris to combat money laundering internationally. The FATF now has 37 member countries, including South Africa, which joined in 2003. All the G20 nations, except Indonesia, are members. The 37 members account for over 90% of global GDP.

The FATF implements the requirements of the United Nations Conference for the Adoption of a Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, which became operable in 1990. This Convention criminalises money laundering and allows the confiscation of the proceeds of money laundering. The FATF set up a framework of 40 recommendations, which constitute the best practice to combat money laundering and promote international cooperation to achieve this objective.

In 2001, the FATF's mandate was expanded to include money laundering to finance terrorism and later to finance the development of weapons of mass destruction. While this expansion of the mandate reflected US concerns, it was supported by other nations which shared these concerns. Seven additional recommendations were added to the FATF framework for this purpose.

The mutual evaluation of South Africa

The FATF conducts regular peer reviews of each member to assess their implementation of its recommendations. South Africa was assessed in 2009 and found to be acceptably compliant. The next review was conducted in November 2019. The publication of the report on this review was delayed by the pandemic until October 2021. South Africa's technical compliance was very low. It failed to meet 20 of the 40 FATF recommendations. More important, since the 2009 report, greater emphasis is now placed on the effectiveness of the implementation of FATF recommendations. South Africa failed in all 11 effectiveness measures. While some regulatory and legislation changes are required, the big problem is an implementation failure. South Africa has good laws but fails to enforce them.

Corruption

In its guidance on best practice the FATF states it "attaches great importance to the fight against corruption: corruption has the potential to bring catastrophic harm to economic development, the fight against organised crime and respect for the law and effective governance". It goes on to say that "corruption and money laundering are intrinsically linked. Corruption offences such as bribery or theft of public funds are generally committed for the purpose of obtaining private gain."

This is an accurate description of the consequences of the blatant corruption which became so manifest in South Africa in the Zuma years and remains among the greatest impediments to effective government. South Africa is trapped in economic stagnation by a service delivery crisis in all institutions of government, with the notable exceptions of the Treasury, the Reserve Bank and local and provincial government in the Western Cape. At the heart of the problem is a severe shortage of skills as well as the level of corruption.

In February 2018 President Jacob Zuma was forced to resign and was replaced by President Cyril Ramaphosa. An administration which was actively supporting the blatant state capture project was replaced by one committed to fighting corruption. Tom Moyane, who had done so much to cripple the effectiveness of the South African Revenue Service (SARS), was removed, as were some of the more active supporters in government of the Gupta family. New appointments were made to the National Prosecuting Authority and the lengthy process of prosecuting those guilty of theft from the state commenced. These were important steps in the right direction – but not enough.

When the FATF's mutual evaluation of South Africa was performed in November 2019, only 21 months had passed since President Zuma's resignation. It was too soon for those conducting the peer review to come to any other conclusion but that South Africa has a serious corruption problem. Unfortunately, now three years later, progress in the war against corruption remains disappointingly meagre. Eskom and Transnet are being held hostage by mafia-like organisations who wish to benefit from extortionate procurement agreements. Construction companies are prevented from operating by extortion rackets and the mining industry is under constant attack. The police seem to be visibly absent. Procurement scandals in local government remain endemic.

… perhaps our biggest vulnerability is the financing of terrorism.

Financing terrorism

The mutual evaluation report notes that given South Africa's role as a financial hub in Africa, it is probable that it is a source of finance for terrorist activities. The United States, which monitors terrorist activities globally, believes South Africa has become a conduit for the financing of terrorism, especially in Africa. The FATF finds it surprising that, in the past decade, South Africa has achieved only one successful antiterrorism prosecution. While South Africa responds positively to requests for assistance in terrorism investigations, it does so with lengthy delays.

This is seen as an example of implementation failure. This failure will be an important consideration when certain FATF members, such as the United States, consider the appropriate response to the mutual evaluation report on South Africa.

Greylisting

The FATF identifies countries which have what it calls "strategic deficiencies" in controlling money laundering. It has a blacklist of countries which are making no effort to comply with its guidelines and whose behaviour is such that it recommends countermeasures to protect the integrity of the international system. There are two countries on this list, North Korea and Iran, and it is possible that Myanmar will join them.

These countries are the exception. Most wish to benefit from participation in the global economic system and therefore need to avoid offending the members of the FATF. Those which are actively cooperating with the FATF to eliminate identified deficiencies constitute the greylist. There is no ban on doing business with members of the greylist. Rather, all jurisdictions are encouraged to apply enhanced diligence in financial transactions with greylisted countries to ensure that the guidelines of the FATF are not breached. However, in practice, given the box-ticking methodologies characteristic of compliance systems, greylisting does impede inward capital flows and imposes increased compliance costs on the financial institutions within the country subject to enhanced diligence.

At present there are 23 countries on the greylist. Notably only one member of the FATF, Turkey, is currently included, mainly due to deficiencies in its control of the financing of terrorism. If South Africa is listed, it will be the second FATF member to be included. Also on the list are the United Arab Emirates, Panama and the Cayman Islands, which are financial centres with lax controls. Nine of the 23 listed countries are in Africa. Membership of the list need not be permanent. Recently Nicaragua, Pakistan and Mauritius have been removed from the greylist after demonstrating a sufficient commitment to compliance.

Will South Africa be greylisted?

Initially the South African government did not treat the peer review published in October 2021 as seriously as it should have. The political leadership failed to appreciate the complexities involved in responding to the report within the given time frame – ahead of the meeting scheduled to review the matter in February 2023. Only after leaders of the banking industry went public with their concerns were the National Treasury and Police ministry given the support needed to introduce appropriate amendments to legislation. These include measures to identify and disclose the beneficial ownership of companies, trusts and non-profit organisations. However, because these had to be rushed through the legislative process, parliament is unhappy about the short time it was given to review the legislation and non-profit organisations believe that the legislation will submit them to burdensome compliance processes. The legislation may be taken on judicial review. Such indignation is not restricted to South Africa; the European Court of Justice has recently overturned similar legislation in the European Union.

South Africa's case to avoid greylisting will be that it has made the required changes to legislation and that since the review was performed in November 2019 it has made progress in combating corruption and will continue to do so. President Ramaphosa emphasised the need to fight corruption in his speech following his re-election as president of the ANC at the December party conference. The report was complimentary about our banking system, which has state-of-the-art systems better than those of many developed countries and strong management competent to implement and operate the systems required to prevent money laundering. As the banking system is on the frontline of the battle to combat money laundering, this is of particular importance. The South African delegation meeting the FATF to report on our progress and plans to address the issues it has raised is being led by Ismail Momoniat, the acting director general of the Treasury, who is one of South Africa's most able public servants. If there is anyone to successfully present the case against greylisting, he is the one.

Despite this progress, many of those close to the process believe South Africa will be greylisted. The weakness of our law enforcement institutions is a serious problem. However, perhaps our biggest vulnerability is the financing of terrorism. This is what got Turkey into trouble. Furthermore, the cosmetics of South Africa's behaviour are poor. Since 1994 it has a history of siding in international forums with nations which have a poor human rights record. Russia is playing an increasing role in African civil wars through its proxy, the Wagner Group, a paramilitary organisation closely linked to the Kremlin. Despite specious explanations of South Africa's stance regarding the invasion of Ukraine, it is difficult to come to any other conclusion but that South Africa is supporting Russia. When a Russian ship subject to US sanctions is welcomed at the Simonstown naval base and allowed to unload a mysterious cargo of what can only be presumed to be armaments, but about which the Minister of Defence claims ignorance, member countries of the FATF have strong grounds to be concerned.

The consequences of greylisting

Greylisting should not seriously impede foreign investment in South Africa. Private sector companies in South Africa are well regarded and have long-established financial links, which will continue to operate. Trade between South Africa and the rest of the world will continue, especially as the world needs South African raw materials. Legitimate investment abroad by South Africans will continue.

However, capital flows will be subject to more complex due diligence procedures, which could have a cost. Also, domestic interest rates could be somewhat higher because capital from certain foreign institutional investors will no longer be available. The cost of funding government debt will increase and accessing green finance for the energy transition will become more complicated. The total impact of these costs is difficult to quantify but should be manageable.

Anything which reduces inward capital flows has an adverse impact on the rand exchange rate. However, the market does not depend on rating agencies or FATF greylisting to decide whether a country is investable; it makes its own judgement long before these institutions make their pronouncements. For example, the market downgraded South Africa to sub-investment grade prior to the rating agencies. The impact of greylisting arises because certain institutional investors are precluded by internal rules or by rules imposed by regulators from investing in greylisted institutions. However, this will be of less importance than the principal determinants of the exchange rate, such as trade flows, international monetary policy and the behaviour of the South African government.

The key to reducing the adverse impact of greylisting is a convincing commitment by government to continue to work with the FATF to address the issues that have been raised. An improving situation will be condoned. Mauritius got off the greylist within 18 months by displaying the necessary commitment.

Greylisting in a bipolar world

The FATF was founded in 1989 just when the communist regimes in Eastern Europe and Russia were imploding and China was at the start of its journey to becoming an economic superpower. Following the collapse of European communism, the global economy became centred in the Western financial system. To take advantage of the opportunities of globalisation, China and Russia had to conform with the rules governing the operation of this system. One of these requirements was compliance with the guidelines of the FATF, of which both became members. However, in recent years this global consensus has started to break down. China and Russia have become increasingly hostile to what they regard as the imposition of an American hegemony and the world is again dividing into two hostile camps, led respectively by the United States and China. As the ANC is instinctively anti-Western, South Africa is drifting into the latter. The danger is that if South Africa is greylisted, it may regard this as a Western interference in its political independence and may not sustain the current political commitment to get off the list.

This is no time to weaken our links with the West.

Accordingly, it is possible that, given its incapacitated state and the ruling party's hostility to the West, South Africa could remain permanently on the greylist. While we have major trade links with China, our economy remains firmly integrated with the Western economic system. Companies and financial institutions domiciled in Europe, the US and Japan account for almost all foreign investment in our economy and the majority of our trade. This will be the case for a long time yet. China faces serious economic problems and is becoming obsessed with self-sufficiency. Russia has become an international pariah.

This is no time to weaken our links with the West. Perhaps the greatest danger of greylisting for South Africa is that it will erode our existing international relationships at a time when alternative opportunities are becoming less rewarding. It could become yet another contributor to our economic stagnation. This is why a national commitment to remain off the greylist, if we are not on it, or to get off the list if we are on it, is so important.

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.

AB INBEV: THE KING OF BEER

Jithen Pillay

... we believe AB InBev is a useful addition to our clients' portfolios, particularly given a local market that is heavily exposed to South Africa- and China-specific risks ...

The market has several concerns about brewer Anheuser-Busch InBev which are currently weighing on its share price. We believe the company's fundamentals are robust, and have used the opportunity to build a material position for our clients. Jithen Pillay explains why investors could be missing out on a cheap round.

"Without question, the greatest invention in the history of mankind is beer. Oh, I grant you that the wheel was also a fine invention, but the wheel does not go nearly as well with pizza." – Dave Barry, American author

Anheuser-Busch InBev (AB InBev or ANH) is the world's largest and most profitable brewer, with more than 500 beer brands and operations in nearly 50 countries. ANH brews one in four beers globally – more than twice that of its nearest rival, Heineken.

Local consumers will be very familiar with South African Breweries (SAB), which ANH acquired in October 2016 for US$103bn. Since the acquisition, ANH has been a poor investment in both absolute and relative terms, as shown in **Graphs 1** and **2**: The share is down 34% cumulatively in rands versus the FTSE/JSE All Share Index (ALSI), which is up 44% over the same period. The picture is even worse in US dollars: ANH is down 48% for the period, in contrast to the S&P 500, which is up 81%.

Our clients were material SAB shareholders at the time of acquisition by ANH. However, we did not reinstate a position in ANH immediately. At the time, it was our view that ANH paid a full price for SAB (taking on substantial debt to do this) and ANH's valuation appeared expensive relative to its fundamentals. Notwithstanding this, we recognised ANH as a world-class brewer. As a result, we used the March 2020 COVID-19 sell-off to build a position for our clients.

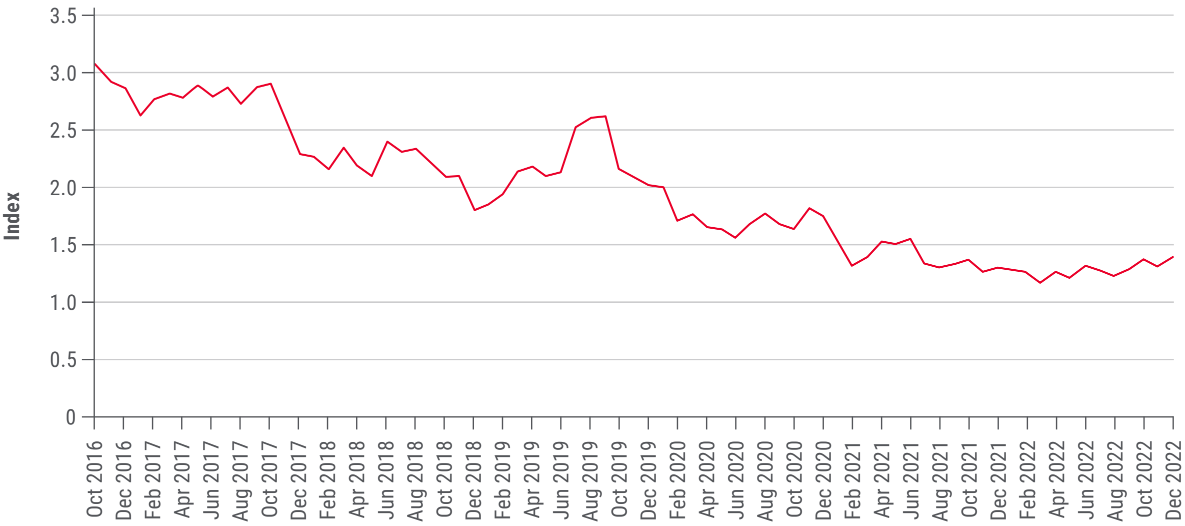
Dispelling the market's unease

Below we outline three of the market's main concerns, and why we believe these risks are too severely discounted in ANH's current share price.

Concern 1: Slim growth prospects for ANH's beer volumes

Graph 3 on page 10 shows ANH's rolling 12-month organic

Graph 1: ANH vs. FTSE/JSE All Share Index (rand)



Sources: IRESS, Allan Gray research

Graph 2: ANH vs. S&P 500 (US dollar)

Sources: IRESS, Allan Gray research

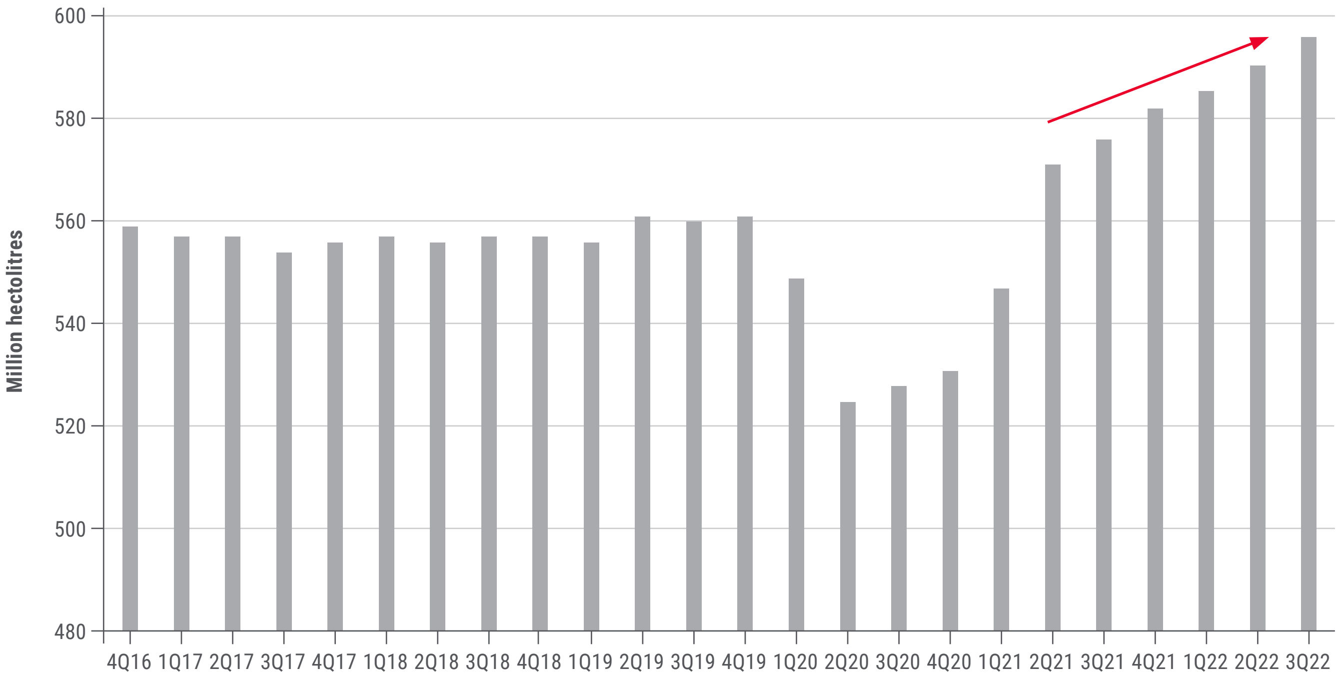
sales volumes (per quarter). Volumes were flat in the three years following the SAB acquisition – a poor outcome given ANH's mostly emerging market focus. However, there has been a step change since Michel Doukeris took over as chief executive officer in July 2021.

There are two main reasons for the change in trajectory:

- **Mindset change:** The new management team is focused on organically growing ANH's share of throat (both with new innovative beverages and promoting beer consumption in previously underserved areas). Colombia is a good example of this: ANH dominates the market and beer consumption per capita is high by emerging market standards. Despite this dominance, the company continues to grow volumes strongly, recently achieving the highest beer per capita consumption in 25 years.

- **E-commerce and marketplace platform:** ANH launched its e-commerce app (called BEES) in 2019. Beer sales to customers still occur largely via physical channels, with salespeople visiting retailers regularly to take orders. The BEES app removes the administrative burden

Graph 3: ANH rolling 12-month volumes



Sources: Company reports, Allan Gray research

from the interaction and allows salespeople to focus on sales development. The main volume benefits are better retention (customers can be targeted with specific offers) and the ability to upsell (both new products and larger order sizes). Shifting customers onto BEES also lowers the cost to service. BEES is live in 19 markets, comprising 57% of ANH's revenue. There is material runway for BEES to further grow ANH's volumes.

While it is true that spirits took volume share of throat globally from beer in the decade to 2016, in the five years thereafter, beer grew its volume share ahead of both spirits and wine (driven by new innovations such as hard seltzer).

Concern 2: High input cost inflation will squeeze ANH's margins

Barley and aluminium are material inputs in producing a can of beer. From their closing 2020 prices to their 2022 peaks, the barley and aluminium prices rose 134% and 77% respectively in US dollars. ANH also sells its beer mostly in emerging markets, whose currencies have been weak relative to the US dollar.

The above were headwinds for ANH: Its gross profit margin for the nine months to September 2022 was 7% lower than 2019 (a period not impacted by COVID-19). However, we believe ANH is better positioned to weather high input cost inflation (that all consumer packaged goods companies are faced with) for the following reasons:

- **Price/mix:** Owing to strong brands and disciplined pricing, in most years, ANH achieved price/mix increases ahead of realised cost inflation. A tiered-price portfolio of beer brands has resulted in a limited impact on volumes thus far.

  Table 1 shows retail prices of single-serve ANH beers from a sample South African retailer. On the lower end, a variety of brands and pack sizes allows a consumer to trade down within the ANH portfolio in tough times (e.g. from a 750 ml Lion Lager to a 340 ml Castle Lager), rather than switching into home-brews. Middle- to higher-income consumers are migrating up ANH's pricing ladder to its global brands, such as Corona (a trend referred to as "premiumisation"). All else being equal, a shift to premium beer earns ANH a higher dollar profit per litre.

- **Costs:** From their peaks earlier in 2022, the barley and aluminium prices are each down more than 30% at the time of writing. As supply tensions ease, so too will ANH's input cost pressures. Given beer price increases tend not to reverse, longer term this is favourable for ANH's margins. ANH is also relatively insulated from Europe (where cost pressures may continue) versus peers:

Table 1: Retail prices per serving of ANH brands

Brand	Bottle size	Price index (Castle Lager 340 ml = 100)
Corona	355 ml	154
Stella Artois	330 ml	131
Budweiser	330 ml	123
Flying Fish	330 ml	123
Lion Lager	750 ml	115
Hansa	330 ml	108
Castle Lite	250 ml	100
Castle Lager	340 ml	100

Source: Allan Gray research. Prices as at December 2022.

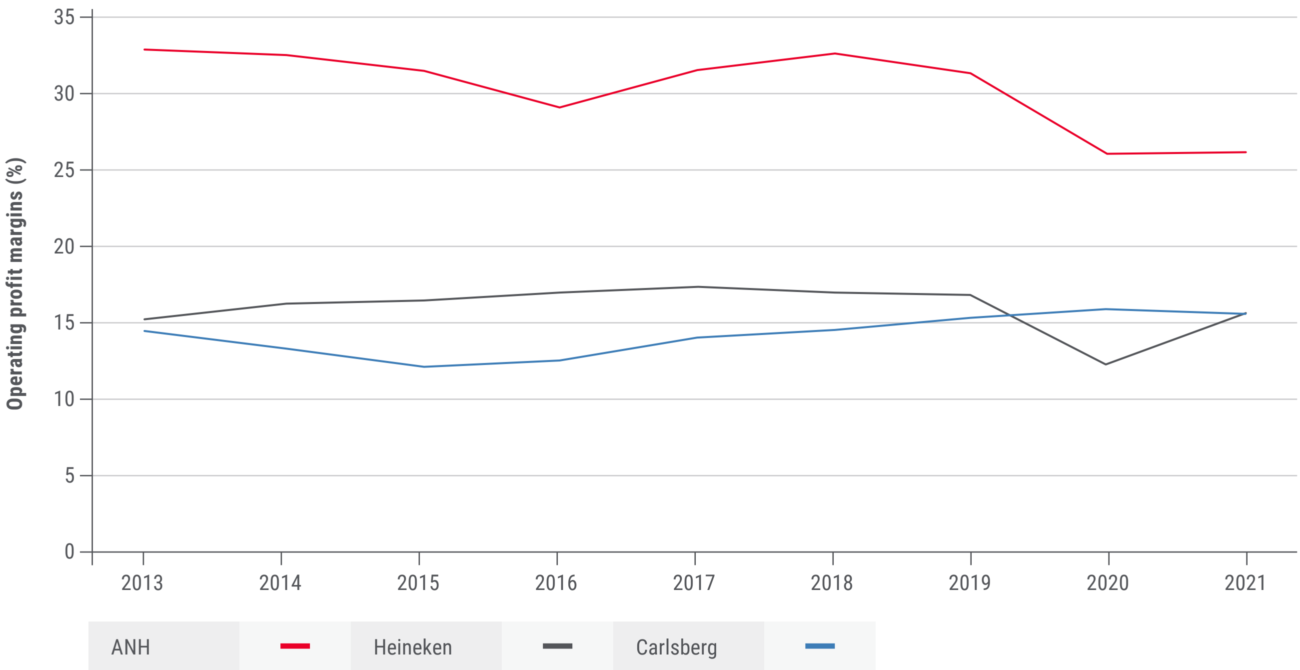
ANH derives approximately 5% of operating profit from Europe versus 33% for Heineken and 58% for Carlsberg. ANH also earns much higher operating profit margins compared to its main rivals, as shown in **Graph 4**.

Concern 3: ANH has too much debt

ANH's net debt is high (US$76bn at end-June 2022) following its purchase of SAB. However, the terms of its debt are extremely favourable. It is low-cost (4% coupon) and almost fully fixed-rate. The debt is also long-dated (16-year weighted average maturity) with negligible near-term expiries. Lastly, the debt has no financial covenants attached to it.

We believe ANH could reduce its debt quickly if desired, given the company converts more than 100% of its earnings into cash flow (ANH only needs to pay suppliers after it receives payment from its customers). It is less likely that this cash flow would be wasted on expensive acquisitions going forward, given the company's stated focus on organic growth. Emerging market currencies

Graph 4: Brewer operating margins



Sources: Company reports, Allan Gray research look overly weak compared to the US dollar; if this reverses, it will also be a tailwind for ANH, given most of its debt is US dollar- and euro-denominated.

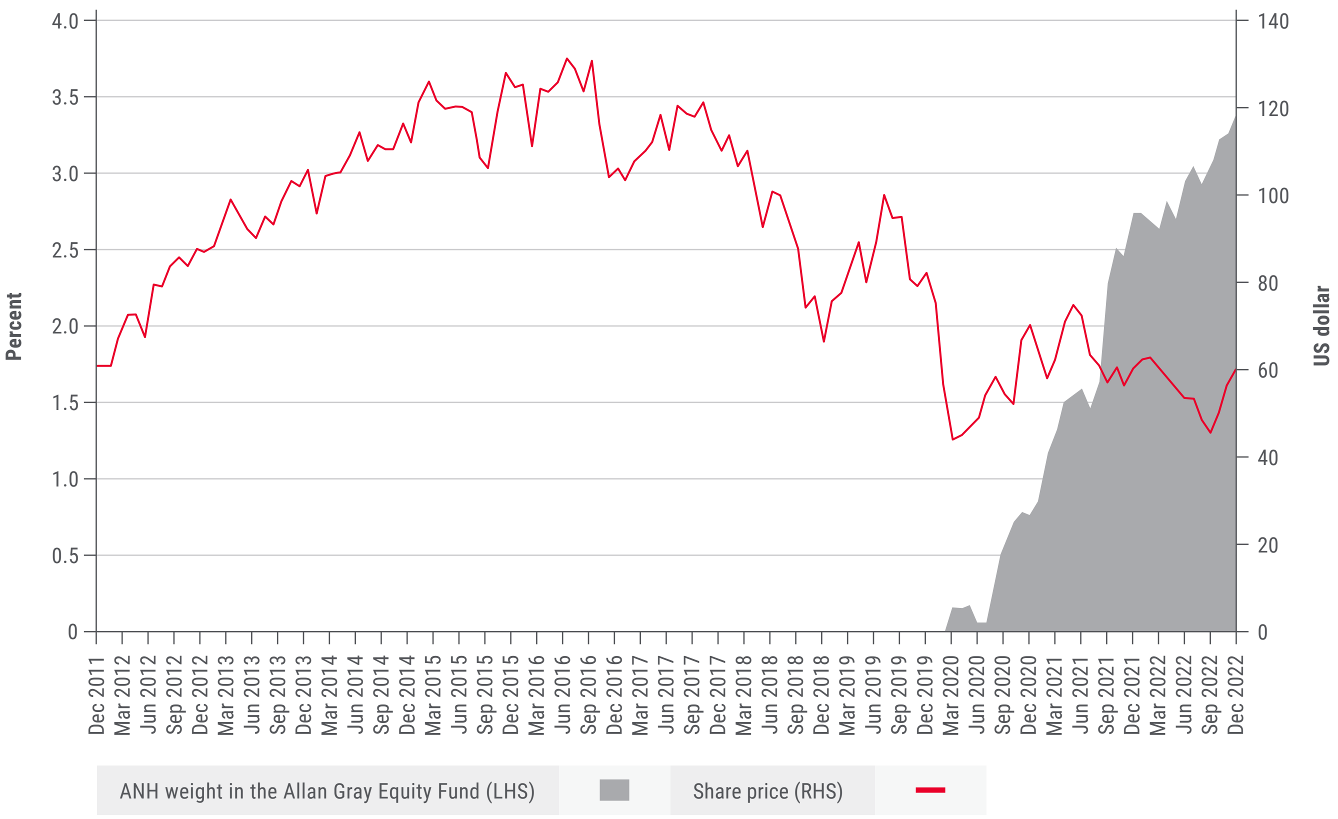
In a high-inflation and rising interest rate world, a large quantum of cheap, fixed-rate and far-dated debt could be an advantage for ANH rather than a hindrance.

ANH's prospects

On balance, we believe the market is overly pessimistic about ANH's prospects. Current earnings are not high, and ANH can generate strong organic cash flows (which are more uncertain in other industries). Trading on less than 15 times our assessment of the company's normal earnings, we believe ANH is a useful addition to our clients' portfolios, particularly given a local market that is heavily exposed to South Africa- and China-specific risks (ANH earns 4% and 9% of its revenue in South Africa and China respectively).

ANH's share price (measured in US dollar) is the same today as it was in 2012, as shown in **Graph 5**. We took advantage of the share's underperformance to build a material position for our clients, such that ANH is now a top 10 equity holding.

Graph 5: Allan Gray ANH equity holdings vs. price



Sources: IRESS, Allan Gray research

Jithen joined Allan Gray in 2013 as a CA trainee and is currently an analyst in the Investment team. He is a director of Allan Gray Proprietary Limited. Jithen holds a Bachelor of Business Science degree in Finance and Accounting and a Postgraduate Diploma in Accounting, both from the University of Cape Town. He is a qualified Chartered Accountant (SA) and a CFA® charterholder.

ORBIS: PRESIDENT'S LETTER 2022

Adam R. Karr

Extraordinary people, relentless alignment, and a culture of high standards are what propel our flywheel.

In his president's letter, Adam R. Karr, from our offshore partner, Orbis, reflects on the actions that he and the team took during 2022 to ensure they delivered on their priorities. He also touches on how the markets and the Orbis funds fared over the past 12 months and what investors can expect in the year ahead.

What a year! 2022 was a time of pivotal change – in markets, geopolitics, and our firm.

We made measured and decisive changes. I believe the results have been encouraging and we were pleased to deliver capital preservation during turbulent markets and a period of transition. On an asset-weighted basis, relative outperformance across the Orbis Strategies was +10.6% in 2022 after fees and expenses.

It's a step in the right direction, but more work remains. Except for the Orbis Optimal Strategy, which achieved an absolute return of 12% after fees, the outperformance above is in the context of negative absolute returns and is flattered by exceptional performance in a few strategies.

In our flagship Global Equity Strategy, we delivered strong relative outperformance of 9% after fees in 2022 vs. the MSCI World Index, which declined 18%. It was gratifying to deliver this alpha for clients, but we are not complacent. Our Global Equity Strategy has more ground to recover, and there is still much potential to achieve as a team.

Looking back at markets

2022 was dramatic – global equities fell 18% and global bonds were down 17%, their worst decline in the past 100 years. During 2021, the world was awash in liquidity and in the throes of an epic "Everything Bubble" across asset classes. Fast-forward just 12 months and we now find ourselves striving to understand the implications of high inflation, an ongoing war in Ukraine, an energy crisis in Europe, a probable recession in 2023, and a cold war with China.

And, critically, the most dominant factor in markets – massive and unprecedented monetary stimulus – has reversed. The cost of money is soaring, and many prevailing trends of the past decade have broken. Real rates have spiked

Table 1: Signs of sea change in the market environment

Post-GFC (2009-2021)		Post-COVID-19 (2022-?)
✓	Massive central bank stimulus	X
✓	Low inflation rates	X
✓	Low/Negative risk-free rates	X
✓	Globalisation and synchronised supply chains	X
✓	Low energy and commodity prices	?
✓	Low/Modest currency volatility	?

over 200 bps and equity risk premiums are up sharply. With this sea change, we sit at an awkward juncture with many uncertainties; the bubble has burst but has not fully deflated.

… there have been few better times for active, high-conviction, alpha-generating managers.

Why I am excited

This is a fertile environment for stockpickers. As I've experienced several times over my career, change and uncertainty bring opportunity. It reminds me of a favourite Ayrton Senna quote – *"You cannot overtake 15 cars in sunny weather … but you can when it's raining."* Today's uncertain environment is one that suits Orbis and our approach well. Indeed, despite many challenging crosscurrents across markets and the geopolitical landscape, I expect that the ability to generate alpha with a disciplined approach concentrated on fundamental intrinsic value will be richly rewarded.

I believe there have been few better times for active, high-conviction, alpha-generating managers. As was the case in the late 1990s, it was a challenging time to be a value-oriented investor as the bubble inflated – but also an incredibly rewarding period in its aftermath as valuations normalised.

We are seeing similar dynamics at play today. I am thrilled to see that *price matters* once again and the fundamental laws of financial gravity re-assert. Although this market cycle is beyond our control, we are keen to execute and laser-focused on what we *can* control.

Looking back at our actions

Our relentless focus over the past year has been to improve. You may recall that last year this time I established three clear, tangible investment priorities.

Priority 1 was what I called "Sharpen the saw." This was about prioritising focus and ensuring our portfolios come together as effectively as possible. In 2022, we re-shaped Global's portfolio construction to simplify our decision-making process, empower our best people to focus on their unique strengths, and ensure that the three individuals responsible for managing our Global Equity Strategy – Ben Preston, Graeme Forster and myself – all have a common global remit. Today, we are seeing the whole from a lens of risk and opportunity, capital is moving with appropriate velocity and Global's portfolio has a sharper "identity", with concentrated exposures in areas we find most compelling.

Last year's Priority 2 ("Lead with responsible investing") also progressed well. We raised the bar and did so in a differentiated manner that adds value to our research. Our new "Reject Judiciously" principle was put to its first test in March, following the invasion of Ukraine and our subsequent decision to suspend all investments in Russia. We also formed a dedicated team of responsible investing analysts and improved our capabilities, data, and technology. Most importantly, at a time when "ESG" has become a polarising buzzword, I am even more convinced of our approach of thoughtful *engagement* to help companies improve, be sustainable and drive returns.

Finally, in 2022, we amplified investment in our decision analytics efforts to exploit the insights of the extensive data we collect on our stockpickers (Priority 3 last year). Leveraging third-party decision analytics technology, we cultivated insights to help mitigate behavioural biases. We are embedding these tools in our processes and with our decision-makers. I am impressed with our team's progress here and now consider this a part of our core "stockpicking engine."

None of the above is to suggest that our work is done. I am keenly aware that Global's longer-term performance remains frustrating for many clients – ourselves included. That said, we made considerable progress during 2022 and I am hungry to do more.

… we've taken decisive steps, which position our clients to win.

Looking forward – what to expect

Kobe Bryant was famous for arriving at the gym at 4 am – hours before most competitors – and logging as many as four workouts per *day*. The message here is not that hard work guarantees success. To me, it's about sacrifice, obsessive focus and commitment to one's dream or chosen craft. When leading our US team, I would often ask – *"what is your 4 am?"* – what actions are you taking in pursuit of excellence? The answer is unique to each person in our team but taken together those individual efforts can add up and compound to world-class results *over time*.

Looking ahead, we will further prioritise and relentlessly execute on what we can control – our skill and execution – to drive performance. In 2023, I plan to narrow our investment priorities to just one thing – continuing to "Sharpen the saw." That means constantly enhancing how we leverage our "stockpicking engine", concentrate capital in the areas at the greatest discounts to intrinsic value, demonstrate agility, prioritise velocity of capital movement in Global and manage risk. We will also continue to advance career pathways for our most promising talent – many of whom are energised by new responsibilities – while at the same time putting in place the human capital resources, tools and simplified structures they need to excel on your behalf.

Our "North Star" is an obsessive focus on what matters most to you – earning your trust and confidence and delivering world-class performance over time. Today's opportunity set is uniquely well-suited to our fundamental, risk-adjusted approach. I have confidence that we have all we need in place to capitalise on it. As one of my colleagues put it recently, *"the past 10 years were great for markets but tough for stockpickers; the next 10 may be tough for markets but great for stockpickers"*. I share this view – and we're showing up at 4 am to ensure we execute on it.

Embracing change

I was often asked in my first year as President what's going to change at Orbis looking forward.

On the investment side, we've taken decisive steps, which position our clients to win. From here, it's about the team relentlessly executing our process. On the business side, our Chief Operating Officer, Darren Johnston, is pleased with the foundations we have laid during 2022. We are simplifying our operational and regulatory footprint, empowering our people, and improving our operating structure with our partner, Allan Gray Proprietary Limited, to extract the benefits for our clients from changes in exchange control regulations in South Africa. Looking forward, as always, we will focus on how to enhance the value-for-money we deliver for clients across our key markets.

It's also worth taking a moment to underscore what's NOT GOING TO CHANGE. As before, the core of what we do remains unchanged. That is our values; putting clients first; alignment; a results-oriented, long-term approach; independent and contrarian thinking; and the discipline of our fundamentals-driven investment process.

I am excited to build on the momentum we have generated over the past year.

Our leadership and our team

I am encouraged by the leadership "trinity" we put in place and our progress over the past year. The structure was designed to amplify our capacity and, thus, enhance our execution. It has delivered on that promise. Our Chairman, Will Gray, is guiding our board and focused on select strategic initiatives, Darren is driving our client and business efforts, and I'm all in leading our investment efforts.

As we reflect on the past year, I want to give a "shout-out" and thank my colleagues for showing up to deliver for our clients in a remarkable way. Extraordinary people, relentless alignment, and a culture of high standards are what propel our flywheel. It has been energising and gratifying to get up early every morning and go after it with them to make a difference. Much gratitude.

Conclusion

I am excited to build on the momentum we have generated over the past year.

In the spirit of Jeff Bezos' "Day One" letter to his shareholders, I will close by reaffirming my commitment to you:

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

Thank you for entrusting us to manage your assets. With your support, we face the future with confidence.

Orbis
Invest Differently

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

THE EVOLVING ROLE OF BALANCED FUNDS

Tamryn Lamb

As investors, we prize flexibility and welcome the additional opportunity to diversify on our clients' behalf.

Tamryn Lamb looks at the important role balanced funds have played in your portfolio over time, the returns they have generated and the variability of these returns. Given the flexibility granted to invest a greater percentage offshore, she investigates how their role may evolve. Tamryn also discusses how Allan Gray and our offshore partner, Orbis, are set up to navigate this change, and how the Allan Gray Balanced Fund is positioned in this highly uncertain environment.

Balanced funds have been an important part of the South African savings landscape for many years. When we launched the Allan Gray Balanced Fund in 1999, multi-asset equity funds represented approximately 6% of the overall unit trust industry, but grew steadily over the next 10 years to reach around 25% in 2010, and just under 40% at the end of 2022. Multi-asset high-equity funds, or balanced funds, represent over half of this category and were a key part of this growth.

These funds have become a highly effective way to access growth assets through investing in a diversified portfolio, managed to comply with the retirement regulations laid down by the Pension Funds Act. This has solidified their role as a critical building block in retirement saving solutions.

How have balanced funds, including the Allan Gray Balanced Fund, delivered for clients over time?

Real returns from balanced funds have averaged approximately 3% over the last 10 years, and 5% over the last 20. However, despite the growth in the category, there are few funds with very long-term track records. Morningstar tracks the performance of over 200 funds, but there are only 12 funds with a 20-year track record.

The Allan Gray Balanced Fund ("the Fund") has delivered real returns of 4.4% and 7.9% over a 10- and 20-year period. Over the last year, the Fund returned 8.1% relative to a sector average of 0.1% – which was pleasing, given 2022 was a year when real returns were very difficult to achieve.

Since its inception and when measured using five-year rolling returns (shifted monthly), the Fund has performed better than its peer benchmark 93% of the time. While this represents a good outcome for clients who have remained invested, it does not adequately convey the bumpiness of the ride. We view this volatility in performance as an expected and natural outcome when your approach is to invest differently from the benchmark.

... we believe our organisational structure and the fact that we are privately owned are key to sustaining our ability to generate outperformance for clients over the long term.

Graph 1 is a useful illustration of this feature. It shows the range of absolute annualised returns achieved over different rolling periods (shifted monthly). Over one year, the best-performing period has been 46.1% and the worst -14.2%. This can be uncomfortable, as was experienced in 2020. However, as you extend your time horizon by remaining invested in the Fund, unsurprisingly, the range of returns you experience narrows. Over all one-year periods, the Fund has delivered positive returns 91% of the time. Over five-year and longer periods, it has always delivered positive returns. We believe this illustrates the benefit of our investment approach, which aims to limit the impact of losses while focusing on generating good long-term returns.

Foundation for ensuring we can deliver sustainable performance

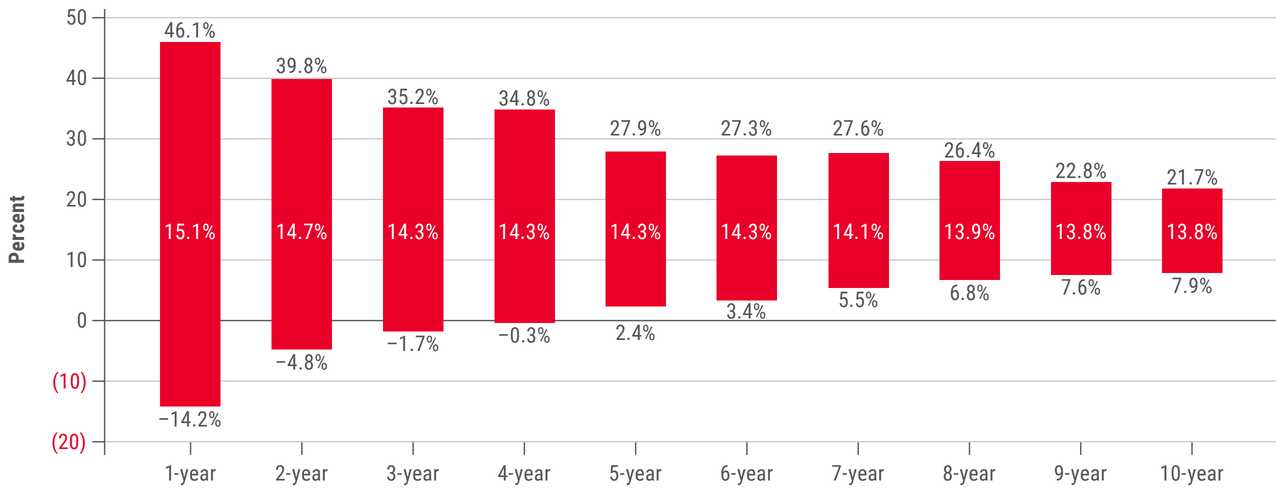
When reflecting on a manager's track record, two questions clients should ask are whether this performance is sustainable, and what has changed relative to the past.

At Allan Gray, we believe our organisational structure and the fact that we are privately owned are key to sustaining our ability to generate outperformance for clients over the long term. Fundamental to this structure is the concept of aligning our interests with those of our clients.

In a world where incentives matter, one way to achieve alignment is through well-designed performance fees. A well-designed performance fee is one that varies **up and down** with performance, i.e. the performance component is both a positive and a negative. This way, the risk that clients pay fees for a service they don't receive (the "fee risk") is minimised. Conversely, if we don't deliver long-term performance for clients, it materially affects the profits of the firm and, by extension, senior decision-makers who share in the profits.

A performance fee that adjusts to the downside also helps cushion the impact of any underperformance clients experience and helps ensure that fees paid over the lifetime of their investments correspond to the value they receive. Importantly, while we favour well-designed performance fees, this is not intended as a defence of all performance fee structures, nor as an indictment of all fixed-fee structures. Both structures can make sense under different circumstances.

Graph 1: Allan Gray Balanced Fund annualised returns over different rolling periods



Source: Allan Gray

How might the future be different? Navigating the additional flexibility to invest offshore

One way the future will be different from the past relates to the changes to the limits governing how much can be invested in foreign assets. In February 2022, balanced funds were given an injection of flexibility when the South African Reserve Bank changed the offshore investment limits from the previous 30% in foreign securities and an additional 10% in Africa ex-South Africa, to a combined 45% for all foreign investments outside South Africa. While technically this represents an increase of only five percentage points – from 40% to 45% – most funds had a relatively small exposure to Africa, given the liquidity constraints in the region, so this is a bigger relaxation than it may at first seem. Naturally, this has prompted questions about how funds will navigate these changes.

As investors, we prize flexibility and welcome the additional opportunity to diversify on our clients' behalf. Greater flexibility should also mean more opportunities to be different from the peer group, which is likely to mean a higher dispersion in returns across funds in the industry.

Like with any tool in a portfolio manager's toolkit, it is important to ensure that it is seamlessly integrated into a tried-and-tested process, and to remain disciplined in execution. Allan Gray and Orbis have deep local and global investment capabilities, with long-term proven track records in each, as well as in combining these capabilities effectively to deliver global multi-asset solutions for South African clients (see **Image 1**).

2023 marks the 50th year since Allan Gray began in South Africa, and Orbis has been managing global securities since 1990. These independently run investment capabilities are joined by a common founder and ultimate owner, and a shared investment philosophy and approach.

Over our history, several generations of portfolio managers have been responsible for managing our clients' capital; investing in our people is therefore also important to our long-term success. With just over 60 investment professionals globally and 30 in South Africa, we are well placed to cover the global universe and continue to develop the next generation of stockpickers. This research engine has helped us build a competitive advantage over time. By way of example, over the last 10 years, the Allan Gray and Orbis investment teams have written approximately 4 200 reports on South African, African and global businesses.

> We are proud of our history, but acutely conscious of not resting on the laurels of those who came before us.

We believe our bottom-up investment approach is ideally suited to navigating these latest changes, given our ability to have a holistic view across asset classes and exposures, and the importance we place on managing the

Image 1: Allan Gray and Orbis' competitive edge and track record

Source: Allan Gray research. Outperformance (gross alpha) quoted since inception of Balanced composite in 1973 and inception of Global Equity Strategy in 1990.

risk of permanent capital loss in our funds. Rather than a top-down view on whether we should invest in equities or bonds, we focus on assessing the relative attractiveness – from both a risk and reward perspective – of the underlying security exposures. Should you own banking shares or SA bonds? Will Glencore outperform cash?

We do not take our responsibilities of investing your savings lightly, and we will continue to work tirelessly to ensure that your trust is well placed.

With a greater ability to invest offshore, we have more opportunities to compare against and diversify from the idiosyncratic risks that are ever-present in a market like South Africa.

Of course, as many of you know, the South African market is not as local as one might think: Over 70% of the earnings from South African-listed businesses are derived offshore. Therefore, deciding to invest in Philip Morris instead of British American Tobacco (BAT), or Vale instead of BHP Billiton, will not materially improve the diversification of the portfolio as the companies have similar risk and earnings profiles. It may improve the return prospects of the portfolio, of course, if one of these businesses were to trade on an undeservedly cheap multiple relative to the other. The JSE is also under-represented in sectors like technology, pharmaceuticals and certain consumer goods and services, and having increased offshore exposure allows us to include such companies, should we believe they are attractive relative to other opportunities.

Finally, we know that the world today looks like an uncertain place – locally and globally. Our response to concerns about this would be that the future always looks uncertain. As Rory Kutisker-Jacobson notes in our December Balanced Fund factsheet commentary, history has shown that trying to predict the exact path the future will take is not a great investment approach. Rather, we view the future as a range of possible outcomes, and the greater the uncertainty or risk, the wider that range will be. We spend our time ensuring the portfolio is positioned to do well within this range, focusing on the balance between the price we pay, investor expectations and ensuring we don't get whipsawed by extreme events, big dislocations in asset prices or tail risks.

We don't know what tomorrow's headlines will be, but we have conviction that today's positioning helps us protect against risks (local and foreign) and inflationary concerns and should enable our clients to capture the upside in the assets we think are undervalued.

Building and maintaining trust and confidence

As we enter our 50th year, we are reminded that complacency in our industry is a killer. Our founder, Allan W B Gray, was often heard saying: "We recognise that we must earn our clients' trust and confidence, for without that our firm cannot, and should not, survive."

We are proud of our history, but acutely conscious of not resting on the laurels of those who came before us. Trust in this business can be hard won, and easily lost. We do not take our responsibilities of investing your savings lightly, and we will continue to work tirelessly to ensure that your trust is well placed.

Tamryn is the head of Retail. 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 and became the head of Retail Distribution in 2018. Tamryn holds a Bachelor of Business Science degree from the University of Cape Town and is a qualified Chartered Accountant and CFA® charterholder.

TAX TIPS AS WE HEAD INTO THE 2023 TAX SEASON

Carla Rossouw

Tax has a significant impact on your investment return. … it is important to understand the tax advantages on offer and to make strategic choices …

The end of February sees the tax year draw to a close – an opportune time to ensure that your tax affairs, and tax details, are up to date, and to consider taking full advantage of the government's tax incentives, which encourage us to save. Carla Rossouw offers some practical tips.

Tax efficiency is a key aspect of a healthy financial plan. By making sure your tax affairs are in order, considering the tax implications of your investment decisions, and maximising the tax benefits on offer, you can improve your financial flexibility.

Make sure your tax affairs are in order

When you earn above a certain threshold, whether from an employer or through other sources of income, including your investments, you are required to register with the South African Revenue Service (SARS) and complete a tax return to report on your activities. However, SARS does not only get your information through your disclosures – your investment manager and other third parties are also obligated to share information with SARS, so that all your income is accounted for.

It is important to be aware that as of October 2022, SARS can automatically register you for personal income tax if they detect economic activity on your profile from the data third parties submitted to them.

If your tax affairs are considered not to be in order, SARS may view you as being non-compliant, which means you may be subject to administrative penalties until the issues are resolved. SARS currently only charges administrative penalties when you fail to submit a tax return on time, but other acts of non-compliance may also be subject to penalties in the future.

Make sure your tax affairs are in order by following these four tips:

1. Check your tax status with SARS

From 1 December 2022, administrative penalties are charged if you have one or more outstanding tax returns from the 2007 tax year. SARS may collect these administrative penalties from appointed third parties, such as your employer and investment manager. Check your tax status with SARS as your first step to getting your house in order.

2. Update your tax details with product providers
Supply your tax details, such as your income tax number and country of tax residence, to your investment manager and other product providers – and make sure to update them if anything changes. This enables these parties to apply the correct interest and dividend withholding taxes to your investments, and ensures that they submit accurate information to SARS. This, in turn, will ensure that your tax return is prepopulated with the correct data for tax filing. As a taxpayer, you can now view third-party data certificates on your e-filing profile that financial services providers submitted to SARS.

SARS also needs to know whether you are a South African or non-South African tax resident as this impacts your tax liability in South Africa. See the "Cease to be a Resident" page on the SARS website for more information on how to inform SARS of changes to your tax residency status and the supporting documents that may be required. A registered tax practitioner or financial adviser can guide you through the implications of changes to your tax residency.

3. Monitor your annual capital gains tax exclusion
As an individual taxpayer you are required to submit a tax return for the tax year if your aggregate capital gains or losses exceed R40 000 for the tax year. The purpose of this R40 000 annual exclusion is to reduce compliance costs and simplify tax administration by keeping small gains and losses out of the tax system.

If you plan to withdraw from a long-term investment, it is useful to be aware of your aggregate capital gain and loss amount for the period, and to remember your reporting obligations.

4. Diarise important dates on the tax calendar

- 23 January 2023 was the deadline for provisional taxpayers to submit their tax returns. If you missed this deadline, submit your return as soon as possible to avoid penalties.
- 28 February is the end of the 2023 tax year. This is your deadline for maximising the tax benefits made available by the government to encourage us to save.
- July 2023 (the exact date is to be confirmed by SARS) is when the tax reporting season opens for non-provisional taxpayers.

Consider the tax implications of your investment decisions

Tax has a significant impact on your investment return. With so many products to choose from, it is important to understand the tax advantages on offer and to make strategic choices best suited to your needs and circumstances, either on your own, or with the help of a good, independent financial adviser.

Of course, tax efficiency cannot be looked at in isolation – you also need to consider each product's suitability and flexibility. **Table 1** summarises the role of various investment products, along with their flexibility and tax rules.

Maximise tax benefits available through retirement funds and tax-free investments

While making your product choices, it is useful to hone in on the annual tax benefits available to you through your retirement fund and tax-free investment (TFI) account. These are outlined below, along with some answers to frequently asked questions related to these benefits.

1. Retirement funds
As shown in Table 1, a key benefit of investing for retirement using a retirement fund, such as a retirement annuity or an employer's pension or provident fund, is the generous tax deduction the government provides for contributions, subject to a maximum of 27.5% of the greater of your taxable income or remuneration, with an annual ceiling of R350 000.

What happens if you overcontribute?
If you contribute more than the annual limit, your excess (non-deductible) contributions can benefit you in many ways throughout your lifetime. They can be used to increase the value of any tax-free lump sum you take from a retirement fund before or at retirement, or even on your death, if your beneficiaries choose to take their benefit as cash. They can also be used to reduce the taxable portion of the income you receive from your living annuity.

These excess contributions are carried over to the following tax years and are added to any contributions you make in those tax years, and they continue to be carried over until they are used – so the benefit is never lost.

As retirement fund contributions can reduce the amount of your taxable income for the tax year, contributing to a retirement fund may mean that you do not need to register as a provisional taxpayer, where you otherwise may have been required to do so. You are not required to register for provisional tax if you do not carry on a trade, or earn taxable income from interest or foreign dividends, or rental income from the letting of fixed property, or remuneration from an unregistered employer, which is in total less than R30 000 in a tax year.

Can you contribute to more than one retirement fund?
Yes. Even if you are a member of an employer's pension or provident fund, you can still set up a retirement annuity (RA) to supplement your existing contributions. If it is a modern RA, like Allan Gray's, you can stop and start your retirement annuity contributions whenever you want to, and the investment is held in your name (even if you get it through an employer).

How do you ensure you benefit from excess contributions?
To ensure you obtain the benefit from excess retirement

Table 1: Flexibility and tax in investment products

Tax		Flexibility		What's the point?
Retirement funds ▪ You pay no tax on interest, dividends or capital gains while invested in the product. ▪ Contributions, including those made by your employer, are tax-deductible. This deduction is limited to 27.5% of the greater of your taxable income or remuneration, capped at R350 000 per tax year. The tax benefits for contributions in excess of these amounts may roll over to the following tax year.	**Most tax benefits**	**Retirement funds** ▪ You cannot withdraw from your pension/provident fund unless you resign. ▪ You cannot withdraw from your retirement annuity (except in specific circumstances). ▪ When you retire from your retirement annuity (RA), pension fund or provident fund, you can withdraw up to one-third of your investment as cash. The rest must be transferred to a product that can provide you with a retirement income, such as a living or guaranteed life annuity. A higher proportion may be available as cash but only if your investment is below a specified legislated amount or if a portion of your investment has vested rights. Vested rights were given to members of provident funds when the legislation governing these funds changed. Investments with vested rights can be transferred between retirement funds, and up to 100% of these investments can be taken as cash at retirement.		Retirement funds provide great tax savings and the restrictions could be beneficial if you are saving for your retirement and don't want to access the money before that time.
Tax-free investments ▪ You pay no tax on interest, dividends or capital gains. ▪ There is a tax penalty if you contribute more than the limits.		**Endowments** ▪ There are restrictions on how much you can add to and withdraw from your investment in the first five years. ▪ You can add to and withdraw from your investment as soon as the lock-in period has ended.		**Tax-free investments** offer a good combination of tax savings and flexibility. It makes sense to invest up to the maximum and then use other products for additional investments.
Endowments ▪ You pay tax on all interest and capital gains, but at the standard rate of 30% (effective rate of 12% for capital gains) rather than your marginal tax rate. Dividends are taxed at 20%.		**Tax-free investments** ▪ You will pay a penalty if you add more than the annual or lifetime contribution limits. You can withdraw from your investment as you wish. ▪ Amounts withdrawn do not get subtracted from contribution limits.		**Endowments** are relatively complicated products but offer tax savings for high-income earners, and some flexibility if used appropriately.
Basic unit trust investments ▪ The taxable portions of interest, capital gains and foreign dividends are subject to tax at your marginal tax rate. Gross local dividends may be subject to withholding tax at 20%.		**Basic unit trust investments** ▪ You can add to and withdraw from your investment as you wish.	**Most flexible**	**A basic unit trust investment** is ideal if you need a very flexible investment. There are no access restrictions and you only start to pay tax once you reach the taxable thresholds.

Source: Allan Gray research

fund contributions, you must declare all contributions in your income tax return each year. This means that you should submit a tax return if you made any retirement fund contributions, even if you otherwise may not have been required to submit a return (for example, if you earned below the tax threshold for the period). Retirement fund contributions made via your employer during the year will reflect on an IRP5 tax certificate, but if you contribute to an RA in your personal capacity, be sure to enter this amount in your return too.

After your tax return has been finalised, SARS issues you with a Notice of Assessment (ITA34) document, which contains a summary of your tax assessment for the tax year and includes the excess amount of contributions that SARS has on record for you at the time of filing. It is important that you compare this value with what you have on record. The total of your retirement fund contributions (to a retirement annuity, provident fund and/or pension fund) that is carried over will reflect next to the source code 4029 on your ITA34. If there is any discrepancy, you will need to engage with SARS.

2. Tax-free investment products

SARS allows individuals to invest a maximum of R36 000 per tax year and R500 000 per lifetime tax-free in a TFI. This is the total amount you can invest across product providers. You will incur a tax penalty of 40% on any amount over these contribution limits, so you need to keep track of how much you're contributing to your tax-free investments each year. It is also important to note that any amount you withdraw can't be recontributed, so you should avoid withdrawing from this product unless it is an emergency.

What happens if you move between product providers?

If you transferred between product providers during the tax year, both providers should issue you with a tax-free investment tax certificate (IT3(s)) reflecting the transferred amount. This is to ensure that SARS does not incorrectly recognise the transfer-in amount as a contribution, which may be subject to penalties if you made additional contributions during the tax year.

Deadlines for instructions

If you are planning to make use of the tax incentives for this tax year by starting a new RA or TFI, or by making an additional contribution to an existing account, please ensure we receive your instruction, supporting documents and payment well in advance of the 28 February 2023 deadline. The deadlines for payments are set out in **Table 2**.

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

Payment method	Cut-off dates	
	Allan Gray Tax-Free Investment	Allan Gray Retirement Annuity Fund
Electronic collection	27 February 2023	27 February 2023
Electronic funds transfer	Electronic collection only	
Withdrawal* from existing Allan Gray Unit Trust (AGUT) account	24 February 2023	
Withdrawal* from existing Allan Gray Investment Platform (AGLP) account	23 February 2023**	

*You can use money from your existing Allan Gray unit trust account to add to your RA or TFI. Note that these withdrawals may trigger capital gains tax.
**Delayed-priced funds take an additional business day to price, therefore instructions and payment for these funds must be received one business day earlier, on 22 February 2023.

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

ALLAN GRAY ORBIS FOUNDATION: A TIME FOR REFLECTION

Nontobeko Mabizela

The dedication, passion and commitment demonstrated by our employees have helped propel the Allan Gray Orbis Foundation to new heights …

As we start a new year, Dr Nontobeko Mabizela, acting CEO of the Allan Gray Orbis Foundation, shares some highlights of the Foundation's activities over the course of 2022.

The end of the year brought with it great reflection on the journey that we have embarked on as an organisation, especially as we bid farewell to our esteemed CEO, Yogavelli Nambiar, in November. It is a great honour and privilege for me to step into her shoes as acting CEO.

While 2022 was a tough year, as a collective, we at the Foundation achieved the majority of the milestones that we had set for ourselves. And we did this in an extremely challenging economic environment. The dedication, passion and commitment demonstrated by our employees have helped propel the Allan Gray Orbis Foundation to new heights, and brought us that much closer to achieving our Vision 2030: nurturing entrepreneurial leaders who will create sustainable, high-growth businesses that contribute towards meaningful job creation, in addition to the Foundation becoming a centre of excellence in identifying and developing entrepreneurial potential.

Today, more than 60% of Africa's population is younger than 25, and by 2030, the continent is expected to be home to 42% of the world's youth. Numbers like these inform our Big Hairy Audacious Goals (BHAGs) and keep us pushing towards our ultimate goal of helping to establish 500 businesses, 10 of which valued at R1bn, and creating one million jobs by 2030.

Following are some of the highlights of 2022 from our various initiatives.

A thriving participant community

216 Scholars	**476** Candidate Fellows
698 Allan Gray Fellows	**11 800** Allan Gray Entrepreneurship Challenge learner participants

The Allan Gray Entrepreneurship Challenge

The Allan Gray Entrepreneurship Challenge (AGEC), a two-dimensional game aimed at primary and high school learners, has long played a crucial role in developing an entrepreneurial mindset among young South Africans. In 2022, we introduced a year-long series of mini challenges instead of the usual five-week game. This ensured that entrepreneurship education took place throughout the year, rather than being concentrated in a specific period.

As a result of these adjustments to the programme, we saw 15 000 people sign up to take part in the AGEC, 2 000 of whom were primary school learners, while 9 800 were high school learners. The remaining participants were parents and teachers, who provided mentorship and assisted learners in unpacking some of the entrepreneurial concepts.

The Scholarship programme

The Scholarship programme serves as a platform for cultivating an entrepreneurial mindset, personal mastery and academic excellence in high school learners. It is pleasing to note that all our Scholars are on track to complete their Grade 12 examinations with a bachelor's degree pass.

A highly successful 2023 intake process has recently been completed, together with the hosting of various selection camps. Our employees also undertook home visits across the country, welcoming each and every incoming Scholar and their family. It is so important to include the families in the Scholarship programme process so as to build their commitment and buy-in, as this ensures the Scholars are offered holistic support throughout their participation in the programme.

We have taken some solid steps towards ensuring that all our programme participants are on track to help us attain our BHAGs. For example, it is encouraging to note that 13% of our Scholars have already started their own side businesses – many small-scale, of course, but a promising start nonetheless, and a sign that they are already embracing an entrepreneurial mindset. With 216 Scholars currently in the programme, we look forward to improving on the 70% Fellowship throughput rate in 2022, i.e. the percentage of Scholars who advanced to our Fellowship programme.

The Fellowship programme

The Fellowship programme helps university students prepare for life as high-impact, responsible entrepreneurs through entrepreneurship education, self-development and academic support. The performance of Candidate Fellows (beneficiaries of the Fellowship) in our Fellowship programme is equally encouraging. During 2022, the programme retained 95% of its participants from the previous year. We have also seen an impressive number of Fellowship alumni return to the programme to mentor new beneficiaries.

The programme had also set itself the target of seeing 100 Candidate Fellows participate in our business Ideation, Validation and Creation (IVC) programme. I am pleased to report that we exceeded that target, with 165 Candidate Fellows taking part. More impressive still is the fact that, after several years of focusing on encouraging the participation of female Candidate Fellows, our efforts have paid off: 59% of the IVC programme participants in 2022 were female.

Our work is a tribute to Mr Allan Gray, whose vision lies at the heart of the Foundation.

The Association of Allan Gray Fellows

The Association aims to foster a culture of lifelong learning, create opportunities for world-class entrepreneurial development and equip Fellows to establish sustainable enterprises. The Association comprises those Candidate Fellows who have successfully completed their degrees and met the requirements of the Fellowship programme, thereby earning the title of Allan Gray Fellow.

Our Association programme continues to showcase the entrepreneurial impact of our Fellows. The current cohort consists of 698 Fellows, 56% of whom are female, evidencing our commitment to promoting and supporting female entrepreneurship.

It is gratifying to see that so many of our Fellows are leaving their mark on South Africa's business world. Companies such as Yoco and Go1 have become household names, but the smaller enterprises that keep up their daily operations, despite the tumultuous economic times, are equally deserving of applause. Kudos to those who continue to build their businesses. Lipa Payments (a black-owned business), which recently sourced R10m in funding to facilitate its expansion, is a case in point, and demonstrates the tenacity, perseverance and resilience of our Fellows.

Additional flagship entrepreneurship events

One of the highlights of our 2022 National Jamboree – our annual Festival of Ideas, which includes a range of interactive speaker sessions, masterclasses and community networking activities to inspire entrepreneurial action – was seeing entrepreneurship education activated in a manner that makes it tangible for our beneficiaries. The principle was celebrated in our Entrepreneurship Village, which offered an exciting and dynamic platform for celebrating and sharing ideas and innovations.

This initiative was hugely successful, not only in terms of the number of programme participants, but also from the perspective of ecosystem involvement: It was heartening to see so many key stakeholders in the entrepreneurship ecosystem partnering with and supporting us to expand our impact.

We also hosted the second Ignite Africa event, an official event of Global Entrepreneurship Week, which aims to bring like-minded individuals, organisations and countries in the entrepreneurship mindset development space together to discuss and share best practices and research knowledge. What made this occasion particularly significant was the fact that it was a gathering that not only saluted our entrepreneurs, but also sparked engagement at policymaking level. I am pleased to note that many of the recommendations put forward have been collated and will be presented to the Minister of Small Business Development for consideration in advancing entrepreneurship in South Africa.

Persevering through partnerships

Despite the enormous challenges faced in 2022 as a result of the economic downturn, we are still here, supporting and nurturing entrepreneurial South African youth to become high-impact entrepreneurial leaders.

It is important to note that the Foundation does not operate in a vacuum – we are part of an ecosystem in which partnerships are key. "Partnering for impact" underpins all that we do. Our stakeholders are aligned with our vision of scalability, impact and sustainability, not only in South Africa, but also further into the African continent, as we constantly strive for more equitable opportunities for the African citizenry.

Hosting events such as Ignite Africa demonstrates the vast stakeholder network we have built, all working towards supporting an entrepreneurship revolution on the continent. We have the capability and expertise to influence policy, therefore working with the government, as a critical partner in this ecosystem, is paramount.

I look forward to seeing us better our achievements in 2023. It will not be an easy task, as we are moving forward in an environment characterised by various challenges – a fact which necessitates that we continue to operate in an innovative, efficient and agile manner to be able to face those challenges head-on. I have no doubt that through the efforts of our employees, who are committed to the vision of the Foundation, we will go on to reach more programme participants, laying the foundation for more high-impact businesses.

Our work is a tribute to Mr Allan Gray, whose vision lies at the heart of the Foundation. And what a vision it was. Mr Gray personified an observation made by Warren Buffett: "Someone is sitting in the shade today because someone planted a tree a long time ago."

There are so many South Africans sitting in the shade of Mr Gray's tree, our programme participants among them. And so, too, will the people be whom they will go on to help through their fine ideas, perseverance, foresight and sheer determination to make this country a far better one than it is now.

Allan Gray Orbis Foundation

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

Allan Gray Balanced and Stable Fund asset allocation as at 31 December 2022

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	**SA**	**Foreign***	**Total**	**SA**	**Foreign***
Net equities	66.4	45.5	21.0	25.3	16.3	9.0
Hedged equities	9.8	4.6	5.2	20.3	10.9	9.4
Property	1.2	1.0	0.2	1.0	0.9	0.1
Commodity-linked	3.1	2.5	0.6	2.9	2.5	0.4
Bonds	12.6	8.3	4.4	32.7	24.9	7.8
Money market and bank deposits	6.9	4.6	2.3	17.8	12.2	5.5
Total	**100.0**	**66.4**	**33.6**	**100.0**	**67.7**	**32.3**

Note: There may 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 2022

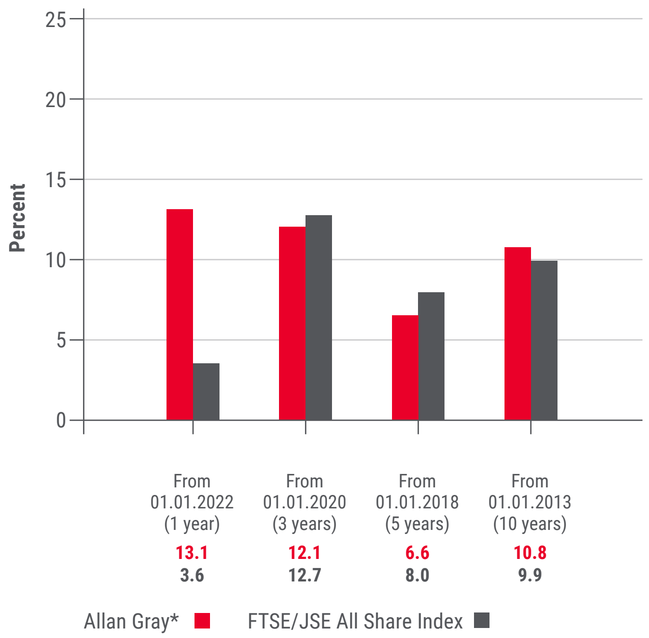
Security (Ranked by sector)	Market value (R million)	% of Fund	FTSE/JSE ALSI weight (%)
South Africa	**27 290**	**67.7**	
South African equities	**26 443**	**65.6**	
Resources	**7 179**	**17.8**	**28.6**
Glencore	2 100	5.2	
Sibanye-Stillwater	1 004	2.5	
Sasol	959	2.4	
Gold Fields	608	1.5	
AngloGold Ashanti	493	1.2	
Sappi	474	1.2	
BHP	324	0.8	
Impala Platinum	301	0.7	
African Rainbow Minerals	279	0.7	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	637	1.6	
Financials	**7 284**	**18.1**	**19.6**
Nedbank	1 183	2.9	
Standard Bank	1 095	2.7	
Remgro	898	2.2	
FirstRand	663	1.6	
Reinet	582	1.4	
Investec	553	1.4	
Old Mutual	335	0.8	
Ninety One	313	0.8	
Hyprop Investments	269	0.7	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	1 392	3.5	
Industrials	**11 980**	**29.7**	**51.8**
Naspers[2]	2 210	5.5	
British American Tobacco	2 171	5.4	
Woolworths	1 486	3.7	
AB InBev	1 368	3.4	
Mondi Plc	912	2.3	
Tiger Brands	497	1.2	
KAP Industrial	342	0.8	
Life Healthcare	330	0.8	
AVI Limited	288	0.7	
Super Group	287	0.7	
MultiChoice	268	0.7	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	1 821	4.5	
Commodity-linked securities	**262**	**0.7**	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	262	0.7	
Bonds	**23**	**0.1**	
Positions individually less than 1% of the Fund	23	0.1	
Cash	**562**	**1.4**	
Africa ex-SA	**955**	**2.4**	
Equity funds	**955**	**2.4**	
Allan Gray Africa ex-SA Equity Fund	955	2.4	
Foreign ex-Africa	**12 074**	**29.9**	
Equities	**36**	**0.1**	
Resources	**36**	**0.1**	
Positions individually less than 1% of total JSE-listed securities held by the Fund[1]	36	0.1	
Equity funds	**11 929**	**29.6**	
Orbis Global Equity Fund	5 592	13.9	
Orbis SICAV International Equity Fund	3 679	9.1	
Allan Gray Frontier Markets Equity Fund	1 799	4.5	
Orbis SICAV Japan Equity (Yen) Fund	467	1.2	
Orbis SICAV Emerging Markets Equity Fund	392	1.0	
Cash	**109**	**0.3**	
Totals	**40 320**	**100.0**	

[1] JSE-listed securities include equities, property and commodity-linked instruments. [2] Includes holding in stub certificates or Prosus N.V., if applicable. **Note:** There may be slight discrepancies in the totals due to rounding. For other fund-specific information, please refer to the monthly factsheets.

Investment track record – share returns

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	–3.5	7.0	–10.5
2021	28.9	29.2	–0.3
2022 (to 31.12)	**13.1**	**3.6**	**9.5**

Returns annualised to 31.12.2022



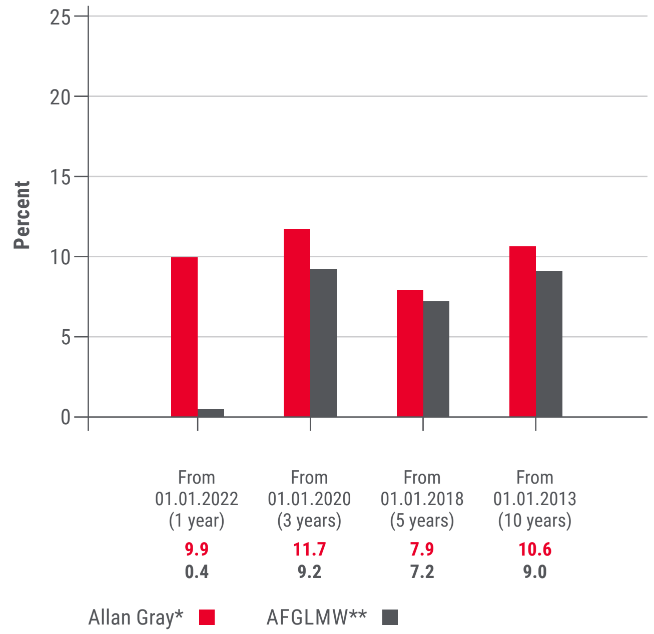
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R317 531 417 by 31 December 2022. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R14 239 666. Returns are before fees.

*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	5.3	6.3	–1.0
2021	20.4	21.9	–1.5
2022 (to 31.12)	**9.9**	**0.4**	**9.5**

Returns annualised to 31.12.2022



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R34 761 772 by 31 December 2022. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R7 259 843. 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 2022 is an estimate. The return from 1 April 2010 is the average of the non-investable Alexander Forbes Global Large Manager Watch.
Note: Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

Allan Gray South African unit trusts annualised performance (rand) in percentage per annum to 31 December 2022 (net of fees)

	Assets under management (R billion)	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[5]	Lowest annual return[5]
High net equity exposure (100%)									
Allan Gray Equity Fund (AGEF) Average of South African - Equity - General category (excl. Allan Gray funds)[1]	**40.3**	**01.10.1998**	**19.4** 14.3	**9.1** 8.2	**5.7** 6.3	**10.6** 11.6	**7.8** 5.4	**125.8** 73.0	**−24.3** −37.6
Allan Gray SA Equity Fund (AGDE) FTSE/JSE All Share Index including income	**4.9**	**13.03.2015**	**6.4** 8.0	**–** –	**5.2** 8.0	**10.7** 12.7	**10.0** 3.6	**57.3** 54.0	**−32.0** −18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	**23.8**	**01.04.2005**	**13.4** 13.5	**15.8** 16.7	**8.0** 13.3	**10.5** 12.0	**−5.3** −12.1	**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]	**164.6** **2.2**	**01.10.1999** **01.02.2016**	**15.1** **7.7** 11.3/6.5	**9.6** **–** 7.9	**6.9** **6.8** 6.1	**10.5** **10.4** 8.4	**8.1** **8.6** 0.1	**46.1** **31.7** 41.9/30.7	**−14.2** **−13.4** −16.7/−10.3
Allan Gray-Orbis Global Balanced Feeder Fund (AGGF)[3] 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Index[3]	**15.7**	**03.02.2004**	**10.6** 10.6	**13.2** 12.7	**8.4** 10.0	**12.4** 7.9	**8.0** −12.1	**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%	**48.8**	**01.07.2000**	**11.2** 8.5	**8.5** 6.9	**6.8** 6.4	**8.2** 5.5	**6.3** 6.3	**23.3** 14.6	**−7.4** 4.6
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate of FirstRand Bank Limited	**0.9**	**01.10.2002**	**6.9** 6.0	**5.8** 4.8	**3.4** 4.3	**2.3** 3.4	**6.3** 4.2	**18.1** 11.9	**−8.2** 2.5
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US$ bank deposits and euro bank deposits	**1.3**	**02.03.2010**	**7.3** 5.9	**8.3** 6.5	**4.9** 6.1	**10.2** 6.1	**19.5** 4.6	**39.6** 35.6	**−12.4** −19.1
No equity exposure									
Allan Gray Bond Fund (AGBD) FTSE/JSE All Bond Index (Total return)	**7.1**	**01.10.2004**	**8.7** 8.4	**7.5** 7.1	**7.7** 7.8	**6.1** 7.1	**3.5** 4.3	**18.0** 21.2	**−2.6** −5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[4]	**25.4**	**03.07.2001**	**7.6** 7.4	**6.5** 6.1	**6.3** 5.8	**5.3** 4.8	**5.6** 5.2	**12.8** 13.3	**4.3** 3.8

[1] From inception to 28 February 2015, the benchmark was the FTSE/JSE All Share Index including income (source: IRESS).
[2] From inception to 31 January 2013, the benchmark of the Allan Gray Balanced Fund was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund.
[3] From inception to 31 May 2021, this Fund was called the Allan Gray-Orbis Global Fund of Funds and its benchmark was 60% of the FTSE World Index and 40% of the J.P. Morgan GBI Global Index. From 1 June 2021, the Fund's investment mandate was changed from a fund of funds structure to a feeder fund structure investing solely into the Orbis SICAV Global Balanced Fund. To reflect this, the Fund was renamed and the benchmark was changed.
[4] From inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011, the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund.
[5] This is the highest or lowest consecutive 12-month return since inception. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

Allan Gray total expense ratios and transaction costs for the 3-year period ending 31 December 2022

	Fee for benchmark performance	Performance fees	Other costs excluding transaction costs	VAT	Total expense ratio	Transaction costs (incl. VAT)	Total investment charge
Allan Gray Equity Fund	1.11%	−0.17%	0.04%	0.10%	1.08%	0.10%	1.18%
Allan Gray SA Equity Fund	1.00%	−0.47%	0.01%	0.08%	0.62%	0.12%	0.74%
Allan Gray Balanced Fund	1.02%	−0.07%	0.03%	0.11%	1.09%	0.08%	1.17%
Allan Gray Tax-Free Balanced Fund	1.31%	N/A	0.04%	0.15%	1.50%	0.10%	1.60%
Allan Gray Stable Fund	1.01%	0.07%	0.03%	0.13%	1.24%	0.05%	1.29%
Allan Gray Optimal Fund	1.00%	0.00%	0.02%	0.15%	1.17%	0.12%	1.29%
Allan Gray Bond Fund	0.34%	0.05%	0.01%	0.06%	0.46%	0.00%	0.46%
Allan Gray Money Market Fund	0.25%	N/A	0.00%	0.04%	0.29%	0.00%	0.29%
Allan Gray-Orbis Global Equity Feeder Fund	1.49%	−0.59%	0.05%	0.00%	0.95%	0.11%	1.06%
Allan Gray-Orbis Global Balanced Feeder Fund	1.44%	0.32%	0.06%	0.00%	1.82%	0.09%	1.91%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	−0.01%	0.08%	0.00%	1.07%	0.14%	1.21%

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

Foreign domiciled funds annualised performance (rand) in percentage per annum to 31 December 2022 (net of fees)

	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[5]	Lowest annual return[5]
High net equity exposure								
Orbis Global Equity Fund	**01.01.1990**	**17.1**	**15.8**	**8.3**	**10.8**	**−5.2**	**87.6**	**−47.5**
FTSE World Index		13.4	16.7	13.3	12.0	−12.0	54.2	−46.2
Orbis SICAV Japan Equity (Yen) Fund	**01.01.1998**	**13.6**	**14.1**	**6.4**	**6.7**	**−2.9**	**94.9**	**−40.1**
Tokyo Stock Price Index		8.9	13.5	6.4	5.3	−9.6	91.0	−46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[6]	**01.01.2006**	**12.3**	**10.2**	**4.3**	**5.8**	**−5.5**	**58.6**	**−34.2**
MSCI Emerging Markets Equity (Net) (US$)[6]		11.8	10.3	5.2	3.7	−14.8	60.1	−39.7
Allan Gray Africa ex-SA Equity Fund (C class)	**01.01.2012**	**11.1**	**8.3**	**7.4**	**13.3**	**−6.2**	**65.6**	**−24.3**
Standard Bank Africa Total Return Index		7.1	5.1	10.6	11.5	−6.9	41.4	−29.4
Allan Gray Australia Equity Fund	**04.05.2006**	**14.0**	**13.7**	**9.9**	**11.5**	**10.9**	**99.5**	**−55.4**
S&P/ASX 300 Accumulation Index		12.1	11.7	11.1	11.3	−2.0	55.6	−45.1
Allan Gray Frontier Markets Equity Fund (AGFEF)	**03.04.2017**	**8.8**	**–**	**9.5**	**11.9**	**0.9**	**26.4**	**−11.0**
MSCI Frontier Emerging Markets Index		3.4	–	2.3	0.2	−12.8	15.9	−12.8
Medium net equity exposure								
Orbis SICAV Global Balanced Fund	**01.01.2013**	**13.7**	**13.7**	**9.0**	**12.8**	**8.0**	**54.4**	**−9.8**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Index		12.7	12.7	10.0	7.8	−12.1	40.2	−12.1
Allan Gray Australia Balanced Fund	**01.03.2017**	**9.5**	**–**	**9.3**	**11.7**	**7.0**	**29.1**	**−5.3**
The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan GBI Global Index expressed in AUD (16%).		8.5	–	9.2	7.9	−8.3	25.1	−8.3
Low net equity exposure								
Allan Gray Australia Stable Fund	**01.07.2011**	**10.2**	**8.6**	**7.5**	**9.6**	**4.3**	**32.7**	**−8.9**
Reserve Bank of Australia cash rate		6.0	4.4	4.6	6.1	1.0	28.8	−15.5
Very low net equity exposure								
Orbis Optimal SA Fund (US$)	**01.01.2005**	**9.4**	**9.8**	**7.0**	**12.3**	**23.4**	**48.6**	**−15.7**
US$ Bank deposits		7.9	8.3	8.2	7.6	8.7	57.9	−25.6
Orbis Optimal SA Fund (Euro)	**01.01.2005**	**7.1**	**6.4**	**2.6**	**9.0**	**14.7**	**44.1**	**−19.3**
Euro Bank deposits		5.7	4.7	3.8	4.5	0.5	40.2	−20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)[7]	**27.03.2013**	**11.8**	**–**	**9.9**	**6.5**	**−4.7**	**28.9**	**−7.4**
FTSE 3-Month US T Bill + 4% Index[7]		7.6	–	10.6	11.0	25.0	26.6	−12.3

Performance as calculated by Allan Gray

[5] This is the highest or lowest consecutive 12-month return since inception. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

[6] From inception to 31 October 2016, this Fund was called the Orbis SICAV Asia ex-Japan Equity Fund and its benchmark was the MSCI Asia ex-Japan Index. From 1 November 2016, the Fund's investment mandate was broadened to include all emerging markets. To reflect this, the Fund was renamed and the benchmark was changed.

[7] From inception to 31 December 2020, this Fund was called the Allan Gray Africa ex-SA Bond Fund and its benchmark was the J.P. Morgan GBI-EM Global Diversified Index. From 1 January 2021, the Fund's investment mandate was broadened to include South African investments. To reflect this, the Fund was renamed and the benchmark was changed.

IMPORTANT INFORMATION FOR INVESTORS

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Benchmarks

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

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

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Understanding the funds

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

A feeder fund is a unit trust that invests in another single unit trust, which charges its own fees. A fund of funds is a unit trust that invests in other unit trusts, which charge their own fees. Allan Gray does not charge any additional fees in its feeder funds or fund of funds.

The Allan Gray Money Market Fund is not a bank deposit account. The Fund aims to maintain a constant price of 100 cents per unit. The total return an investor receives is made up of interest received and any gain or loss made on instruments held by the Fund. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument defaults. In this event, investors may lose some of their capital. To maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. The yield is calculated according to applicable ASISA standards. Excessive withdrawals from the Fund may place it under liquidity pressure; if this happens, withdrawals may be ring-fenced and managed over a period of time.

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

The Allan Gray Retirement Annuity Fund, Allan Gray Pension Preservation Fund, Allan Gray Provident Preservation Fund and Allan Gray Umbrella Retirement Fund (comprising the Allan Gray Umbrella Pension Fund and Allan Gray Umbrella Provident Fund) are all administered by Allan Gray Investment Services (Pty) Ltd, an authorised administrative financial services provider and approved pension funds administrator under section 13B of the Pension Funds Act 24 of 1956. Allan Gray (Pty) Ltd, also an authorised financial services provider, is the sponsor of the Allan Gray retirement funds. The Allan Gray Tax-Free

Investment Account, Allan Gray Living Annuity and Allan Gray Endowment are administered by Allan Gray Investment Services (Pty) Ltd, an authorised administrative financial services provider, and underwritten by Allan Gray Life Limited, an insurer licensed to conduct investment-linked life insurance business as defined in the Insurance Act 18 of 2017. The underlying investment options of the Allan Gray individual life and retirement products are portfolios of collective investment schemes in securities (unit trusts or funds) and life-pooled investments.

Tax note

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

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