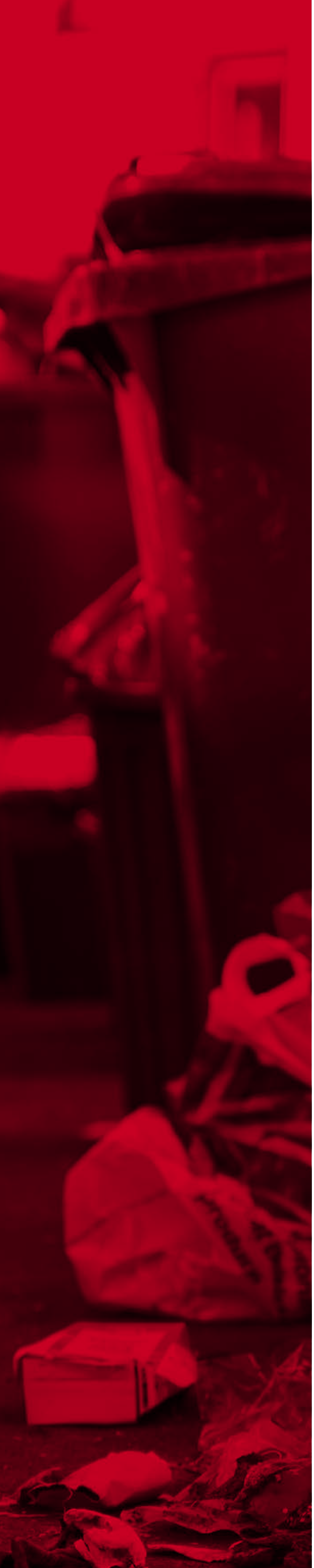
QC
Quarterly Commentary
Vol. 4 31 December 2021

ALLAN GRAY

The trouble with municipalities



CONTENTS

COMMENTS FROM THE CHIEF OPERATING OFFICER

Rob Formby

As we begin to emerge from the pandemic, it is important that we revisit ... critical long-term goals, take stock, and figure out how to get back on track.

I was recently reminded about a project initiated in 2014 by Scottish artist Katie Paterson. Termed "Future Library", the aim is that a famous author will contribute one original piece every year for 100 years. These manuscripts will remain unpublished until the year 2114, at which point they will be printed on paper made from 1 000 trees that have been planted in a forest just outside Oslo specifically for this purpose. The authors are being selected for their outstanding contribution to literature and poetry, and their ability to capture the imagination of future generations.

There are so many questions that spring to mind when thinking about a project of this scale – not least whether it is indeed possible to ensure its longevity. Can the artist rely on others to carry it through? Will the city of Oslo continue to give the project support? Will paper even be a thing in 100 years' time?

As instant gratification defines our lives currently, multigenerational projects may appear irrational and optimistic. But our medieval ancestors approached life differently; there are countless examples of buildings initiated by one generation purely for the benefit of generations to come. In fact, these activities led to the coining of the term "cathedral thinking", which refers to long-term, multigenerational endeavours.

For me, long-term investing is the best current-day example of cathedral thinking. If done successfully, we can build a legacy for future generations. Marise Bester and Daniella Bergman discuss this concept in the context of the effect of short-term decisions on long-term investment returns. They look at the behaviour and outcomes across the broader industry, the Allan Gray Investment Platform and the Allan Gray Balanced Fund.

Of course, before thinking about future generations, we need to consider one of the most important long-term goals for ourselves: being able to support and sustain ourselves when we are no longer able to earn an income. For many, the past two years of COVID-19-induced lockdowns have put serious strain on finances, and saving has understandably taken a back seat.

As we begin to emerge from the pandemic, it is important that we revisit this critical long-term goal, take stock, and figure out how to get back on track. In this quarter's Investing Tutorial, Twanji Kalula offers some pointers on how to better invest for the future. He also reminds us that the end of the tax year is approaching, and now is the time to use or lose the annual tax benefits made available through retirement products and tax-free investments.

Transitioning into a post-COVID world

Last year this time, our naïve expectations that 2021 would bring a clean slate were rapidly kicked into touch by a new wave. Vaccines have given us a renewed sense of hope, but there is still a good dose of caution as we make our way through the first month of 2022.

The global economy is working hard to get back on track. In the major industrial nations there is a lot of spending power that is sustaining the demand side of their economies, but supply chains have been disrupted and there are shortages of various products, and labour, leading to price increases. Sandy McGregor talks us through the complexities of the transition.

Over and above the challenges presented by the global economic environment, we face several issues locally. These are not necessarily COVID-related, but the pandemic has exacerbated some. Luckily the commodity boom has given us some relief, and our equity market returned 29% over the past year.

But on a micro level, things are not so rosy. Many municipalities have failed to meet the basic needs of their constituents, including providing adequate access to water, sanitation, housing and electricity. Rampant corruption and mismanagement at many municipalities have resulted in a lack of funds and increasingly poor service delivery. Londa Nxumalo examines the current situation and looks at what must be done to drive change.

A message from Orbis' President Adam Karr

In the previous issue of our Quarterly Commentary, I communicated upcoming leadership changes at our offshore partner, Orbis. These are now effective. Adam Karr has taken over the day-to-day leadership of the firm, leading the investment team while continuing in his role as portfolio manager, alongside Darren Johnston, who is leading the business team. In Orbis' contribution this quarter, we share Adam's inaugural president's letter, in which he reveals a bit about himself and his background, the path forward for Orbis, the market opportunity Orbis sees and what clients can expect.

Luckily the commodity boom has given us some relief, and our equity market returned 29% over the past year.

As noted previously, William Gray remains closely involved with the business in his role as chairman. While acknowledging dissatisfaction with recent performance, in his December 2021 chairman's letter Will expressed a sentiment of quiet conviction, determination and enthusiasm for the future: "History has shown that investors – just like sports teams and businesses – differentiate themselves not by how they act and respond during times of prosperity, but by how they act and respond during times of adversity. The best individuals and teams take advantage of those moments of pressure and uncertainty by using them as an opportunity to improve and emerge much stronger as a result."

Entrepreneurship for the common good

Allan Gray Fellows continue to demonstrate that they are dynamic, ethical, responsible and impactful changemakers who care about making a positive difference in the country – this in the midst of another pandemic-affected year. Yogavelli Nambiar, CEO of the Allan Gray Orbis Foundation, takes us through the highs and lows of 2021, highlighting some of the Fellows' achievements to date.

As Sandy aptly notes in his piece: "It is remarkable the extent to which the future is hidden from us." Indeed, we have got used to living in a state of heightened uncertainty. But as we dip our toe into the new year, I would like to wish you all a healthy, inspiring and less uncertain 2022.

Kind regards

Rob Formby

THE TRANSITION INTO THE POST-PANDEMIC WORLD

Sandy McGregor

… we are on a journey without a clear vision as to our destination.

It is remarkable the extent to which the future is hidden from us. We all conduct our lives largely in terms of our experiences in the recent past, assuming what has been will be. This attitude coloured expectations regarding the return to normality following the initial outbreak of the COVID-19 pandemic early in 2020. Governments, businesses and investors mostly acted on the assumption that, as was the case with the Chinese SARS epidemic of 2002, the health emergency would end within 12 to 18 months and the global economy would then revert to long-established trade patterns which had been disrupted by the pandemic. Few, if any, expected the transition into the post-pandemic world would be as complex and take as long as has proved to be the case. Sandy McGregor discusses the ongoing impact on global economies.

In the two years since COVID-19 was first identified in China, mutations of the virus have caused successive waves of infection. Speaking about a possible pandemic peak in the US at the end of January as the spread of the Omicron variant loses momentum, President Joe Biden's health adviser, Anthony Fauci, cautioned against placing too much confidence in such forecasts because, "this virus has fooled us before. We thought that with vaccines everything was going to be fine. And along came Delta, which threw a monkey wrench into everything."

Despite widespread vaccination in richer countries, the health emergency is not over, if only because the pace of vaccination in poorer countries has been very slow. There is also the surprising influence of the anti-vaccination movement, which in certain countries has become an impediment to achieving the vaccination coverage required to bring the pandemic under control. It has become increasingly clear that while vaccination reduces the incidence of serious illness and death, it does not necessarily prevent the spread of new variants.

One of the uncertainties we face is whether the pandemic will now peter out or whether we can expect repeated waves of new variants similar to the annual bout of flu infections. In the latter case the medical knowledge needed to manage future COVID-19 waves exists. Currently research is focused on developing more effective vaccines and on treatments for those infected. Effective treatment would provide an important boost to confidence required for a return to normality.

The limiting factor is not knowledge but resources. Provided the resources are available, the public health issues we currently face can be effectively managed. While developed economies have these resources, many poorer nations do not, creating the prospect of repeated waves of new variants originating in the third world, which then spread globally.

The uncertainty as to when the pandemic will end is an impediment to any return to normality.

South Africa is fortunate in that it can use its medical infrastructure developed to control TB and HIV/AIDS to address these challenges. It is no coincidence that the Omicron variant was first identified in South Africa. However, among developing countries South Africa is an exception, and the global health crisis may be with us for some time to come. The uncertainty as to when the pandemic will end is an impediment to any return to normality.

The disruption of supply chains

Governments responded to the pandemic with programmes aimed at sustaining personal incomes. These have been broadly successful. A lack of mobility shifted the focus of consumer spending away from services to manufactured goods and housing. Working from home promoted spending on home improvements and computers. Online shopping boomed. Travel and eating out collapsed. Personal savings soared as the more affluent ceased making what were previously regarded as normal expenditures. Accordingly, in the major industrial nations there is a lot of spending power which is sustaining the demand side of their economies.

The sudden surge in demand for manufactured goods has disrupted supply chains. There has been a big increase in Chinese exports but there are insufficient ships and containers to get these to their final destination. Port congestion has become commonplace as the surge in traffic exceeds capacity. The increased demand for electronic goods has created a shortage of computer chips which has forced auto manufacturers to curtail production. The production of commodities has been disrupted by the pandemic and with demand exceeding supply, the prices of metals and minerals are elevated.

As is normal, the market is responding to shortages by increasing prices, which incentivises growing the supply of goods to match demand. Also a switch back to greater spending on services, such as travel and restaurants, will reduce purchases of items which are currently in short supply. As is often said, what fixes high prices is high prices. It would be surprising if most of these disruptions last for more than another year. However, there are some shortages which could persist for much longer, notably labour and energy.

The labour shortage

A persistent and widespread complaint of businesses trying to get their operations back to normal is that they cannot find the people they need to achieve this. This is not surprising because in 2019 the developed economies were already enjoying the lowest levels of unemployment since the 1960s. Effectively they had achieved full employment and were dependent on a continual flow of migrants to meet their labour requirements. Partly this was due to demographic trends with static or slowly growing populations not providing sufficient replacements for rising numbers of retirees. Some industries, such as agriculture, had become very dependent on seasonal migrant workers.

... the market is responding to shortages by increasing prices, which incentivises growing the supply of goods to match demand.

In recent years, rising popular hostility to immigration and tighter border restrictions have worsened the labour shortage. The pandemic has disrupted what was already a very tight labour market. This has been aggravated by people choosing to stop working either temporarily or permanently, and by those seeking employment which offers more attractive working conditions.

The fastest-growing labour force age cohort has been those over 60, many of whom had chosen to continue working beyond their normal retirement age. While the number in this group continues to grow, during the pandemic there has been an acceleration of retirements as many have responded to new complexities by deciding to call it a day. According to *The Washington Post*, in the United States 1.5 million more were retired in November 2021 than would have been expected from pre-pandemic trends. In many cases buoyant financial markets have elevated the value of retirement assets, making the decision to stop working easier.

Lockdowns and closures of schools have had a big impact on families with children. Schools are not only places of learning, they are also daycare facilities which provide parents and in particular women time needed to do a paying job. When schools closed, parents had to take on the additional task of supervising their children's distance-learning education. It is a social reality that this burden falls largely on women. Consequently, a significant number of women withdrew from the job market to spend time caring for their children.

… a major reason why our economy remains trapped in stagnation is a shortage of skills. South Africa has a propensity to lose skills through emigration.

While the reopening of schools should theoretically reverse this trend, the shortage of labour has made daycare very expensive, and many find that once this cost is considered, it does not make sense to go back to work. There are certain professions in which women predominate, notably health and education, where a decrease in the participation rate of women in the labour force can have a significant adverse impact.

One sector which is finding it difficult to return to where it was before 2020 is the restaurant trade. Many of its previous employees have got jobs elsewhere with more appealing working hours. For example, in France, where food is the backbone of civilisation, restaurants are finding it very difficult to recruit those they need.

These are but three examples of a complex phenomenon. The simple truth is that skills are hard to find and this problem is not going to go away soon. The market response has been to increase wages. There is pressure to do this both from employees, who are already experiencing an increased cost of living, and to meet business imperatives. There is a generation of business managers whose experience has been formed in a world of stable wages. Many are unprepared to operate a business in an environment of spiralling wage costs. They will seek to protect margins by passing on this cost to customers. For most businesses, wages are the largest single cost. A wage cost spiral constitutes the greatest threat to price stability. This risk is most pronounced in the United States but is also growing in Europe.

An energy crisis

The last quarter of 2021 was plagued by high energy prices. These were not caused by the pandemic; rather they are the result of specific industry issues. However, coming coincidently with COVID-19 supply chain shocks, they have significantly aggravated inflationary pressures.

The current energy shortage has its origins in the decarbonisation project. Companies producing oil, gas and coal have come under huge pressure to cut back on any investment which would boost production. A Dutch court has ruled that Shell must comply with Dutch decarbonisation targets. The world's largest asset manager, BlackRock, has launched a crusade against the carbon molecule and is putting huge pressure on managements to comply with its agendas. Pension fund trustees have joined the battle. Banks are being pressured to follow suit. The fallacy in this response to climate change is that it ignores that decarbonisation will require a lot of carbon. The oil and gas companies have reduced investment to completing projects already underway and harvesting other assets by allowing production to decline through normal resource depletion.

The agendas of those preventing the oil industry from meeting energy demand over the next decade are setting the world up for damagingly high energy prices, which will have serious adverse consequences on living standards and economic growth. The present price surge is an example of what we can expect in future years.

The oil production caps agreed by the Organization of the Petroleum Exporting Countries (OPEC) and Russia continue to work effectively. The Brent oil price peaked at US$86 per barrel in October and then retreated. However, this cartel has proved it can manage supply to keep prices at current elevated levels. As the post-pandemic recovery proceeds, they will gradually increase production until demand exceeds 100 million barrels per day. The spare capacity in the system will then be fully utilised, after which a totally new pricing environment will emerge. On present trends this should happen in 2023.

The focus of attention has been on natural gas. Gas is the best transition fuel to facilitate the creation of a totally electric economy. Gas-fired power generation can be used to stabilise an electricity distribution system dependent on intrinsically unstable wind and solar energy. Gas demand in Asia has grown strongly and most US gas exports are now into the Asian market. This has left Europe very dependent on the Russian producer Gazprom. Europe did not take up Gazprom's offer of long-term contracts, believing that it should increase sales through the spot market. This does not suit Gazprom's agendas and it has declined to comply with Europe's wishes. Shortages have pushed European gas prices to record levels, which has severe social consequences as the cost of heating homes in winter has soared. High energy prices are becoming a severe impediment to Europe's competitiveness in global markets.

Coal prices also reached record levels following a Chinese decision to restrict production to meet environmental goals. However, the Chinese government could and did reverse its policy following severe power shortages and coal prices have since retreated. The coal industry's economics are similar to those of oil and gas. Significant demand and little investment in new collieries are a formula for long-term shortages and high prices.

... many problems experienced in 2021 will persist into 2022 so the risk of persistently high inflation is very real.

China's economic growth slows

While China led the world in being the first nation to get its economy back to where it was at the end of 2019 and has enjoyed a record trade surplus as the demand for its exports of manufactured goods soared, its economy has now run into severe headwinds. The key driver of Chinese growth has been the property sector. Serious problems in its housing market are now emerging, with prices unaffordably high, overbuilding and developers in financial distress. As a result, the prospects for Chinese economic growth are far less favourable than they were. Whereas for the past decade China has been the largest single contributor to global growth, its role in the post-pandemic world, while still very important, will be more muted.

The response of central banks and governments to surging inflation

Inflation has far exceeded expectations. In December 2021 consumer price inflation reached 7% in the United States and 5% in Europe.

The party line of the US Federal Reserve (the Fed), European Central Bank (ECB) and Bank of England (BoE) in the first half of 2021 was that inflationary pressures would prove transitory and did not justify higher interest rates or an ending of large-scale asset purchases funded by printing money. As month-by-month inflation continued to increase totally contrary to their expectations, doubts started to develop. In September the Fed announced it would start tapering asset purchases then running at US$120bn per month with the aim to end them in June 2022. In December this schedule was accelerated so that they will cease in March. Fed Chairman Jerome Powell has conceded that with US inflation at 7%, the word "transitory" is inappropriate.

The ECB is also cutting back on asset purchases and the BoE has implemented its first interest rate hike. The simple truth is these central banks have totally misjudged the inflationary outlook. If they had responded promptly to rising inflation by suspending asset purchases and increasing interest rates from zero to between 2% and 3%, inflationary pressures would have naturally abated, but this opportunity has been lost. The leading central banks are now way behind the curve and there is a real threat that self-reinforcing upward spirals in the cost of wages and housing will get out of control and that a higher rate of inflation will prove persistent.

Governments' pandemic spending sprees resulted in a huge expansion of fiscal deficits, facilitated by central bank purchases of government debt. There has long been growing pressure on governments to run larger deficits and to spend more. The most notable supporters of bigger deficits are the proponents of Modern Monetary Theory (MMT), who argue deficits do not matter. For a while the initial success of the stimulus programmes suggested that MMT had arrived and would play a determining role in the post-pandemic world. Surging inflation has changed all that. With central banks ending asset purchases, governments will no longer be able to fund deficits at zero cost. Given massive government indebtedness following the pandemic, even a small increase in cost of borrowing has significant adverse fiscal consequences.

Political resistance to taking on more public debt is growing. In the United States, where the scale of the response to the pandemic exceeded that of any other country, President Biden's US$3tn additional spending programme has run into strong resistance in the Senate and it now increasingly seems that in 2022, US government spending will revert to pre-pandemic trends. In Germany, a new Socialist-led coalition is also committed to continued balanced budgets. An inflationary world imposes fiscal prudence.

2022 as a transitional year

This year should see the world making significant progress in returning to the new normal, whatever that will be. While contracting fiscal deficits and a slowdown in China will have an adverse impact on global growth, business activity will be sustained by continued spending of pent-up savings and the recovery of the hospitality sector. Increasing numbers of vaccine shots are being made available to poorer countries, which hopefully will bring the worst of the pandemic to an end.

Perhaps the biggest risk is inflation. The market economy adjusts to disruptions by adjusting prices. As discussed earlier, many problems experienced in 2021 will persist into 2022 so the risk of persistently high inflation is very real. This would then force central banks to raise interest rates far higher than they currently expect, which in turn would have adverse consequences for the prices of equities and property. The problem is that we still do not know what the post-pandemic world is going to look like, and we are on a journey without a clear vision as to our destination.

With buoyant agricultural and mining exports, South Africa's economy should be well placed to resume its normal growth path. However, a major reason why our economy remains trapped in stagnation is a shortage of skills. South Africa has a propensity to lose skills through emigration. A global shortage of skills will make it easier for those who wish to relocate to find jobs. Over the past two years travel bans have prevented large-scale emigration. As travel normalises, the pace of emigration will increase. The opening up of borders poses a significant threat to our economy.

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.

THE TROUBLE WITH MUNICIPALITIES

Londa Nxumalo

Ethical and accountable leadership is needed to turn these municipalities around.

The extensive infrastructure needs of South African municipalities provide an opportunity for long-term bond investors – such as retirement funds – to help finance these important, long-term assets. However, many municipalities have failed to meet the basic needs of their constituents, including providing adequate access to water, sanitation, housing and electricity. Consequently, faith in the system has been eroded, as reflected by the very low voter turnout in the November local government elections. The municipal sector needs a reboot for the overwhelmingly negative trend to be arrested, and this requires capable and honest leadership. Londa Nxumalo discusses.

The Auditor-General of South Africa minced no words in its latest report on local government audit outcomes, which have deteriorated markedly over the years. Although the downward trend in municipal health has been well documented in the press, the sheer extent of the rot is still alarming: Uncondoned irregular, unauthorised, fruitless and wasteful expenditure amounted to a whopping R189bn.

Only 28% of municipalities submitted quality financials for audit purposes and just 11% received clean audits, as shown in **Graph 1** on page 10. The Free State and North West provinces did not have a single clean audit between them.

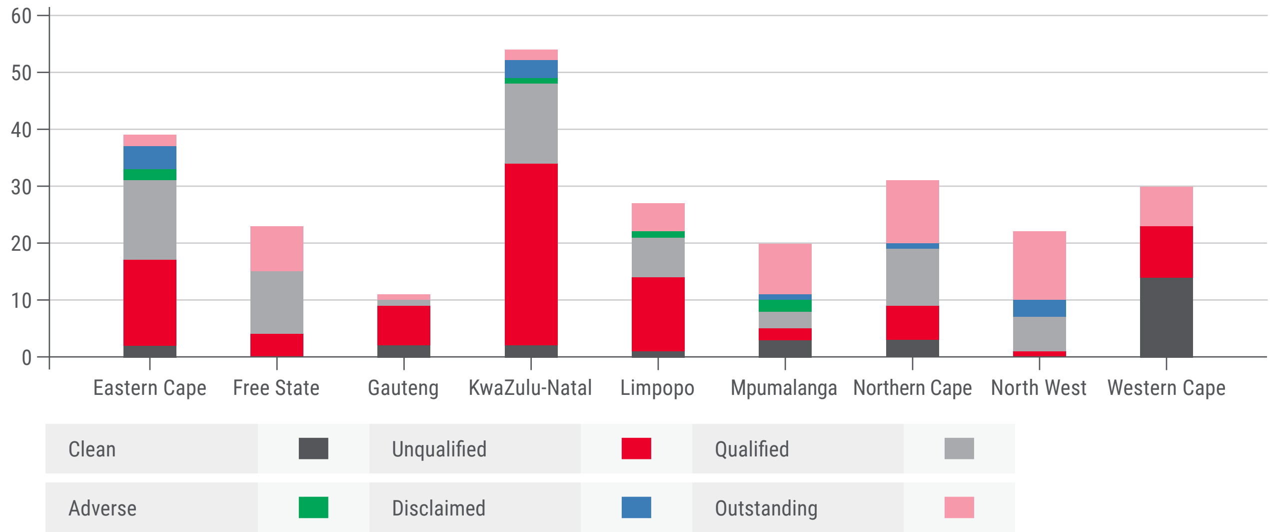
The Auditor-General's report describes a death spiral: Rampant corruption and mismanagement at many municipalities result in a lack of funds and increasingly poor service delivery, the latter of which reinforces a culture of non-payment of municipal rates and service fees which, in turn, exacerbates the financial deterioration of the municipalities and further affects service delivery. **Graph 2** on page 10 reflects the concerning financial health of the sector.

Discouragingly, many of the issues plaguing municipalities have been raised by the Auditor-General in prior years, but the respective mayors and councils have not addressed these. The lack of consequences further reinforces bad behaviour and malfeasance. Ethical and accountable leadership is needed to turn these municipalities around.

Deteriorating credit ratings

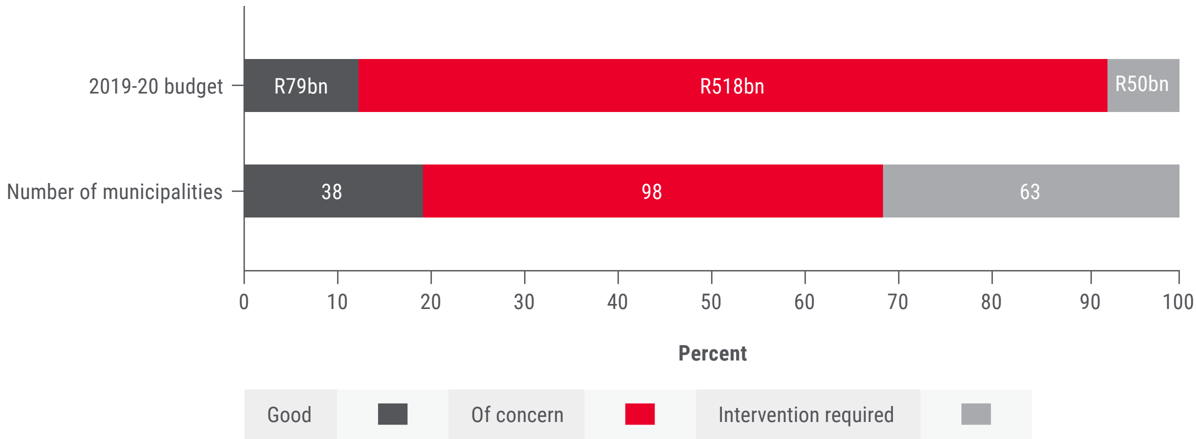
On 16 July 2021, Moody's downgraded five municipalities, including the large metros of Cape Town, Johannesburg,

Graph 1: Audit outcomes per province



Source: Auditor-General of South Africa

Graph 2: Financial health of municipalities in relation to their budget allocations



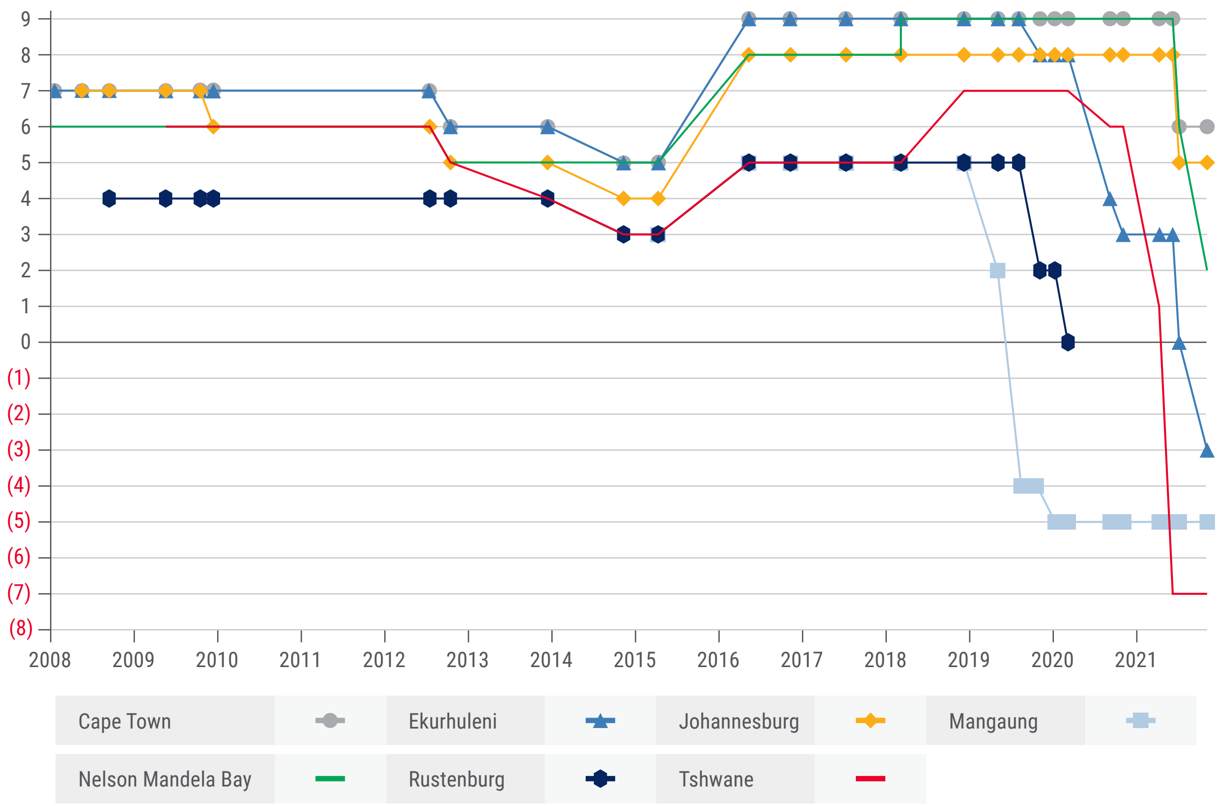
Source: Auditor-General of South Africa

Ekurhuleni and Nelson Mandela Bay. Tshwane had already been downgraded to junk in June. In November, Nelson Mandela Bay and Ekurhuleni were downgraded again, with the latter falling to sub-investment grade. The ratings agency cited material revenue shortfalls and liquidity concerns, which are expected to persist, given the weak economy. The agency has also indicated that further downgrades may be forthcoming.

While the ability of households and businesses to pay their municipal rates and service fees has undoubtedly been impacted by the COVID-19 pandemic, this only partly explains the deterioration in the creditworthiness of local governments. **Graph 3** shows various municipal ratings' distance from the investment grade threshold, being the last notch before junk status (Baa3 or BBB-), which is 0 on the graph. In the case of Mangaung, Rustenburg and Ekurhuleni, credit rating downgrades had already started in 2019.

According to the National Treasury, total municipal borrowings were R68bn in March 2021, of which some 28% consisted of bonds. Lower credit ratings result in higher funding costs and may lead to some municipalities becoming uninvestable for conservative funds, such as retirement funds, whose mandates prohibit junk-rated investments.

Graph 3: Credit ratings (notches above/below investment grade threshold)*



*National scale ratings. Rustenburg is a local municipality, while the rest are metropolitan municipalities.
Sources: Moody's, Allan Gray

The end result is less funding being accessible for municipalities to spend on much-needed infrastructure for service delivery.

Knock-on effect on state-owned enterprises

The fallout from failing municipalities does not only affect residents of that locale; municipal financial distress also has an impact on creditors such as Eskom, the water boards and smaller suppliers. The bearing on small businesses – which rely on prompt payment for their very survival and have been touted as a crucial source of jobs – is particularly egregious.

The amount of municipal debt owed to Eskom, and the debtor days outstanding of two of the large water utilities, are shown in **Graph 4** on page 12. Municipalities make up 42% of Eskom's revenue, and municipal arrears have ballooned to R35bn. This non-payment affects the regular taxpayer directly: Bailouts from the fiscus to Eskom will have amounted to R136.7bn between 2020 and 2022.

The water utilities derive almost all of their income from municipalities. Although the amount of overdue municipal debt to these (R377m to Umgeni Water and R1.9bn to Rand Water) pales in comparison to that due to Eskom, the upward trend in debtor days is not promising, and these entities may eventually need bailouts too.

A vote of no confidence

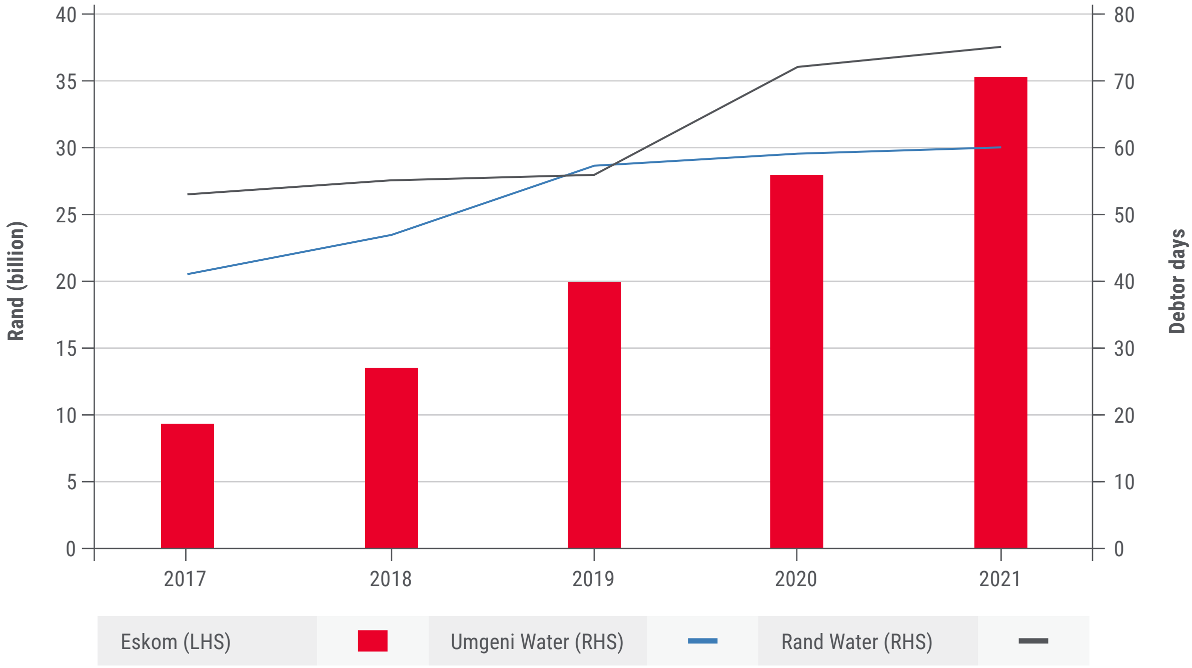
The basic services that municipalities are meant to provide are foundational to improving living standards, yet hardly a day goes by without a headline about municipal fraud, corruption, wastage and infrastructure degradation. Municipalities also often underspend on infrastructure due to poor project management, impacting service delivery.

In his letter to the nation ahead of the 2021 local government elections, President Cyril Ramaphosa wrote that public trust is easily lost and difficult to regain without accountability from public officials. It is therefore unsurprising that many municipalities have lost the trust of their communities.

The lack of public belief in municipal officials arguably shows up in poor collection rates, with the Auditor-General estimating that around 60% of municipal debt is irrecoverable.

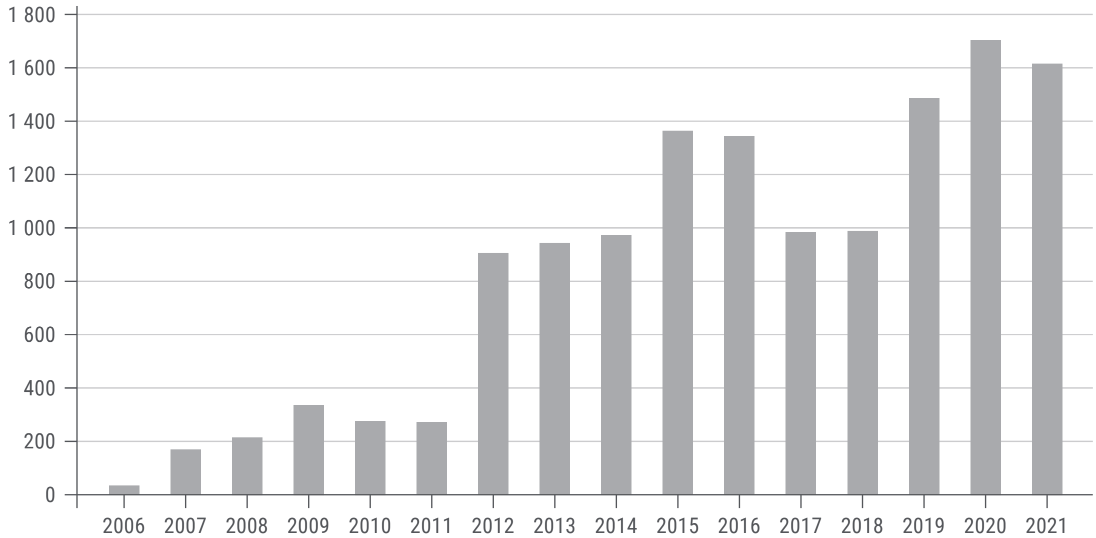
The recent local government elections also saw the lowest voter turnout in the democratic era, at an effective 30% of the voting age population.[1] A low voter turnout points to a loss of public belief in the electoral system, which has profound implications for social cohesion, as evidenced by the escalating number of protests and riots, shown in **Graph 5**. If a population loses faith in the electoral system, people will make their voices heard in other, more destructive ways.

Graph 4: Municipal debtors



Sources: Annual reports of the respective state-owned enterprises

Graph 5: Number of protests and riots



Source: Armed Conflict Location & Event Data Project

[1] Although the effect of COVID-19 cannot be discounted, mobility data shows that the movement of people had, by then, recovered to pre-pandemic levels.

The way forward

Leadership sets the tone at the top of any organisation. If leaders are unethical, have a disregard for sound governance and lack accountability, it filters through to the rest of the organisation and results in a culture of poor performance and impunity.

Many residents do not pay their fair share, while paying residents understandably become disillusioned when their hard-earned money is being wasted or stolen, and are tempted to stop paying their municipal bills. This inevitably results in municipal collapse. Indeed, a number of municipalities are already deemed to be dysfunctional.

Turning the situation around will require a delicate dance between two groups: leaders, who must drive the change, and residents, who must pay their bills. One cannot happen without the other, but the former clearly leads the latter.

Londa joined Allan Gray as a credit analyst in 2017 and was appointed as a portfolio manager in 2019. She manages the bond portfolio, as well as portions of the fixed interest component of the balanced portfolios and the Africa fixed interest portfolio. Londa holds a Bachelor of Accountancy degree from Rhodes University and a Master of Commerce degree in Development Finance from the University of Cape Town Graduate School of Business. She is a qualified Chartered Accountant.

ORBIS: PRESIDENT'S LETTER 2021

Adam Karr

Our firm's success begins and ends with delivering best-in-class investment performance.

In his inaugural president's letter, Adam Karr, from our offshore partner, Orbis, shares some thoughts about himself, the path forward for Orbis, the market opportunity Orbis sees and what clients can expect.

I write to you today with eyes firmly on the opportunities in front of us.

It is humbling to write this letter, my first as the new president of Orbis. When Will asked me almost a year ago to consider taking over his responsibilities leading our investment efforts, I was both energised and uncomfortable. I was excited to have the opportunity to lead our efforts to deliver world-class results for clients. At the same time, I was uncomfortable given the importance of navigating the firm through a transition, while honouring and extending the remarkable legacy of those who built Orbis.

While it rarely feels like it in the moment, I have found in life, and especially in investing, that embracing discomfort is often an important ingredient for success. So, with passion, I embrace this role with a determined spirit. And I do so because I believe in our future, love this firm, and care about all who depend on us: our clients, their beneficiaries, our affiliated philanthropic foundations, and our more than 400 employees and their families.

I am driven by a deep commitment to and respect for Will, Allan, the Gray family, and my colleagues. Orbis was founded on an ethos to compete every day to be among the best in the world at what we do. This is clear not only in our long-term investment track record but also in our results-oriented culture, history of innovation, and industry leadership in areas such as client-aligned, refundable fees. That ethos attracted me to Orbis as a young man and inspires me even more today.

I first met Will and Allan at a formative time in my life 26 years ago when they took a chance on me as a summer intern. It was a contrarian choice at that time. During the tumultuous 1999 dot-com era market cycle, I watched as they were criticised for being stubborn and incapable of appreciating the "New Economy." I was struck by their discipline and resilience – even in the face of significant pressure from clients.

In 2002, I joined Orbis full-time because of my belief in them, their aspirations to excel, and to help make a difference. It's a privilege to be part of something bigger than yourself, and I discovered that first-hand from Will and Allan. I remain deeply committed to the belief and ideal that we can make a substantial contribution to the world as responsible stewards of our clients' capital and by delivering world-class performance.

I want to thank Will and the Gray family for this opportunity. The example they have set and the impact they have had through the Orbis and Allan Gray firms, together with their philanthropic efforts, is inspiring.

The best way I can express gratitude is through my actions going forward.

I have had the opportunity to share some of my thoughts with a few clients in recent months, but I recognise that many of you have not heard from me yet. As we embark on this next chapter, I want to start the conversation by sharing some thoughts about myself, the path forward for Orbis, the market opportunity we see and what you can expect.

I believe now is a uniquely attractive time to be an active, high conviction stockpicker globally.

Who I am

I was born and raised in the south suburbs of Chicago. I have an amazing wife of 20 years. We have three kids and live in San Francisco. During my middle school years, I was mostly raised by my grandparents and spent a lot of time with my grandfather. He had an indelible influence on me. He was a janitor at a local bank and every evening I would go with him to mop floors and dump out wastepaper baskets. It was in those bins that I found treasure – discarded copies of *The Wall Street Journal*. Trying to make sense of the charts and reading that funny-looking newspaper at age 10 inspired an insatiable curiosity about companies and a love of the markets. And I always cherished Friday evenings because we would watch Louis Rukeyser's "Wall $treet Week" together. For those unfamiliar, it was a weekly programme for investors on US public television long before CNBC.

These times with my grandfather instilled in me a tireless work ethic, a passion for investing and the value of being in service to others. That inspiration and fire burns just as strong today.

Our path forward

The last few years have been challenging for Orbis, as they have been for many investors with a value orientation. After sailing into the wind in recent years, we are determined to hit the right angle of attack. To do so, we will execute better and adapt where necessary.

I know from personal experience it can be difficult to get stock selections right. In that spirit, let me start with a story from 2018. It was a particularly painful year for me. I directed Orbis Global's investment in Pacific Gas and Electric (PG&E). Not long after making the investment, one of PG&E's power lines sparked a devastating wildfire, which months later caused the company to file for bankruptcy. Within 48 hours of the fire, we sold the entire position but impaired some of our clients' capital.

In hindsight, I made a mistake in my evaluation of the frequency and severity of wildfire risk. The 2018 fire seemed like an extraordinary event – it was the worst wildfire in California's history. But there have since been three more fires that have been even worse. It's clear something important has changed and so must our approach to assessing these risks.

This is just one example, but it illustrates that we have opportunities in our control as a firm to adapt and improve. We can get better at valuing externalities – including climate change – and their potential impact on the intrinsic value of the companies we invest in for clients. While frustrating looking back, these lessons can be embedded in our process to both mitigate risk and identify compelling opportunities.

Why I am excited about the opportunity set

I believe now is a uniquely attractive time to be an active, high conviction stockpicker globally. Since starting my investing career in the mid-1990s, one pattern has been recurring – periods of extremity plant the inevitable seeds of great opportunity. These leadership turning points in stock markets have been rewarding, though difficult to time and even tougher to endure.

Like the momentum-driven late 1990s that became the dot-com bubble, too many market participants today appear to be investing based on little more than hopes, dreams and memes. Investors' return expectations are high. And once again, investors are being told that valuation doesn't matter. The result is a top-heavy concentration of various indices in (often profitless) glamour growth darlings as well as extreme valuation spreads within and across markets distorted by free money and oceans of central bank liquidity. It's a bubbly time. We hunt for superior value and believe that what you do not own matters as much as what you do. And valuation *always* matters. That is why I am confident about the opportunity in front of us.

What to expect looking forward

In my initial conversations many have asked "what's going to change and/or what are your priorities?" My thinking has been guided by the framework below, adapted from Michael Mauboussin's "success equation" …

Skill x Execution x Luck = Performance

Luck influences much, including the environment in which we operate. While we must be mindful of this, it is not in our control. There's no use dwelling here or nurturing excuses. It is critical that we focus on our skill, inclusive of making sure we play to our strengths and with a clear identity. And in the near term, I will prioritise **execution** because it's our biggest prize and in our control.

Specifically, there are three key priorities and messages that I have been highlighting.

Priority 1: Sharpen the saw

We have talented people who are hungry to win, a promising bench and a rigorous core process. But we must always ensure our portfolios come together as effectively as possible for maximum client impact. This means ensuring that: (1) capital flows with appropriate velocity to the most compelling ideas across the globe; (2) we have the best individuals empowered in the right roles to impact client capital; and (3) we offer resources to support our stockpickers to permit maximum focus on what they love doing.

Priority 2: Lead with responsible investing

We have always led, from our founding, with our core values in making investment decisions. One of those values is to act responsibly. These are not just words on a page – they matter a lot – and they are our compass. Still, the world changes and our clients' needs evolve. We have made some great progress in 2021 with our Statement of Principles on Responsible Investing and Stewardship Report, but we need to do more. We will raise the bar on how we engage in all forms of responsible investing while being independent and differentiated in our approach; in particular, how we evaluate externalities (for instance, climate implications). This includes investing in dedicated expertise and processes, which we will discuss more this year.

Priority 3: Exploit our insights

One of our most distinctive characteristics as a firm is our use of and emphasis on paper portfolios. Analysts have their own simulated portfolios that track the performance

Graph 1: Global equity markets look reminiscent of the late 1990s

Total weight of FTSE World constituents trading at more than 10 times revenue

Sources: Datastream, Worldscope, Orbis. January 1990 to December 2021. Weights are calculated on a market cap basis and price-to-revenue on a 12-month trailing basis.

of their recommendations. The accountability that comes with these paper portfolios – and the performance attribution framework that sits behind – is a strength and compels us to live in the objective data. We will incrementally invest in decision analytics technology (in-house and third party) to continue optimising our investment decisions by examining our patterns and psychological biases. Our chief aim is to use technology to combine our prior knowledge of trading and research process data with common decision-making biases to sharpen our future decisions.

What you can count on from Orbis

It's imperative to also underscore what's NOT GOING TO CHANGE. I believe the core of what we do powers our flywheel. And, thus, it's crucial to affirm that core: 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.

Because the priorities above could be interpreted broadly, it is also critical that we narrow our focus in each area to only the most critical drivers and deliver them with excellence. In leading the firm, Darren Johnston and I will strive to be ruthlessly disciplined day-to-day. Harvard professor Frances Frei said, "you must be bad in the service of good." That is, to achieve excellence, you cannot be all things to all people. Importantly, we will communicate. I am excited for you to hear directly from our team and me going forward.

Our leadership team

I am incredibly grateful to have Darren as my partner leading the firm going forward. We have served on the Orbis board together since he joined in 2017 after a long career at PwC. He is a gifted and seasoned leader and will lead our business efforts, assuming the role of chief operating officer. I am excited by the potential of the "trinity" we have put in place: Will leading our board and focused on key strategic matters, Darren driving our client and operations side, and me all-in leading our investment efforts. The important thing to know is that it is a mutually reinforcing structure that will enable us to fortify our focus, play to our respective strengths, enhance execution, and put us in the best position to succeed on your behalf.

To use a real-estate analogy, our "house" remains first-rate, with a prime location, good bones, and a rock-solid foundation. We also have incredibly well-aligned clients. I have been inspired by your trust and the support you have offered in recent years and through this leadership transition. And most critically, we have extremely talented and dedicated people in our team who are hungry to win.

What you can count on from me

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.

With your continued support, we face the future with confidence.

Yours sincerely,

Adam R. Karr

Orbis
Invest Differently

Adam joined Orbis in 2002 and is Orbis' President and head of the Investment teams. He is one of the portfolio managers who direct client capital in the Orbis Global Equity Strategy. 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.

HOW TO APPLY "CATHEDRAL THINKING" IN YOUR INVESTMENT APPROACH

Marise Bester and Daniella Bergman

The prolonged stress of the pandemic has heightened many investors' focus on the now, interfering with the ability to make sound decisions that improve the potential of achieving long-term personal financial goals and creating generational wealth. This has resulted in a behavioural penalty detracting from returns. It is very hard to remain rational in the face of volatility, but giving in to short-term impulses can be costly. Marise Bester and Daniella Bergman review behaviour and outcomes for the past two years across the broader industry, the Allan Gray Investment Platform and the Allan Gray Balanced Fund with the intention of showing that a longer-term outlook, so-called "cathedral thinking", can help.

Over the past two years, many of us have fallen into the trap of making decisions aimed at alleviating our short-term worries, which as a result may work against our long-term interests. This is understandable – we have been navigating uncharted waters and operating in survival mode. Even as we begin to emerge from the pandemic, many of us are struggling to think more than five or 10 years ahead, putting our long-term needs and aspirations, including being able to retire and leave a legacy, at risk.

According to behavioural scientists, we have a biological inclination to short-termism – making investing decisions to maximise short-term gains or minimise short-term losses without considering long-term financial consequences. While the mathematical side of our brain analyses risk and reward over time, the emotional side of our brain is activated during real-life risk and reward decisions. This more primitive system, driven by greed and fear, is less concerned with long-term consequences.

Short-termism is also reinforced by today's 24-hour news cycle, which encourages immediate action, rather than patience. The information that dominates headlines is not designed to appeal to our rational, long-term thought processes, which are essential for investing. It is incredibly difficult to time market peaks and troughs, and investors who try to do this often end up locking in losses and missing out on the subsequent recovery. They also have to work much harder to get their plans back on track. Through this behaviour, many investors lost return value during the COVID-19-inspired crash of 2020.

So why do we behave like this when we know on a rational level that it is value-destructive? One explanation is that because the future is so unpredictable, we feel more secure when we take control of the near term. Added to this, because technology has fractioned time to an unreasonable degree, we have lost our ability to see time in its fullness. We have become used to and expect speed, convenience and instant gratification – including an immediate return on investment.

Cathedral thinking … can be used to describe activities that require vision, planning, and long-term commitment.

We perhaps need to take a few lessons from our medieval ancestors who initiated ambitious, carefully considered projects purely for the benefit of future generations. These were often grand buildings that would take hundreds of years to complete, such as cathedrals and community gathering spaces, leading to the coining of the term "cathedral thinking", which is used today to describe a time frame that considers multiple generations.

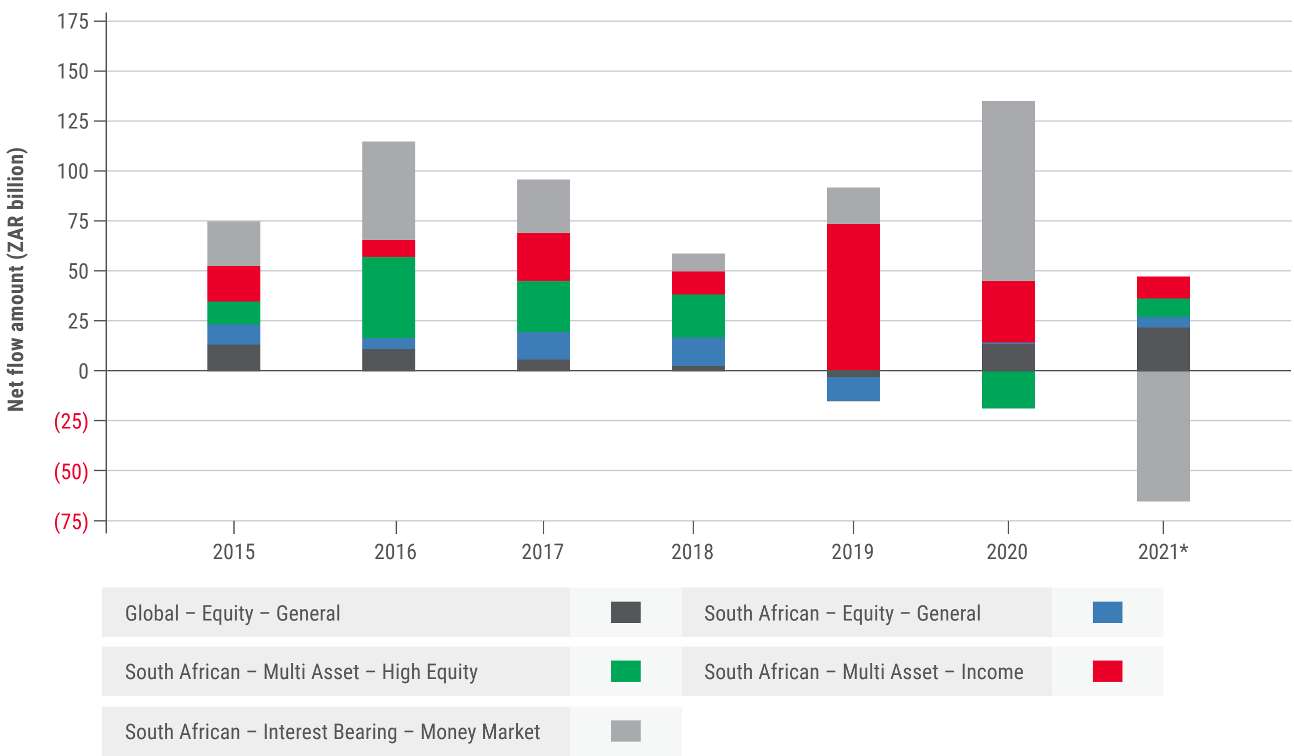
Cathedral thinking is the opposite of short-termism. It can be used to describe activities that require vision, planning, and long-term commitment. Investing is a great example – but a look at recent behaviour of local investors shows just how hard it is to apply.

SA investors pick short-termism

Investment flow statistics from the Association for Savings & Investment South Africa (ASISA), which reveal where investors are placing their money, indicate wide discrepancies across fund categories, as illustrated in **Graph 1**. These statistics suggest that investors are making decisions based on recent past performance.

In 2019, income funds took the lion's share of the money, with a flatlining of equities and risk assets as the local equity market had traded sideways since 2014. In 2020, the appeal of interest-bearing assets kicked in, as equities plummeted, and investors hunted for the relative safety of cash. This trend started to reverse at the end of 2020,

Graph 1: Industry flows



*STANLIB and PSG did not report CIS data for Q3 2021.
Source: ASISA as at the end of Q3 2021

mostly after the market recovered, with flows draining out of the South African – Interest Bearing – Money Market category and making their way to higher-risk categories in 2021.

The trends described were mirrored on the Allan Gray Investment Platform, with sentiment-based switching decisions impacting investor returns. A look at our client data shows there were net outflows from South African Equity & Multi Asset – High Equity funds across the platform in 2019 and 2020. We believe this was largely influenced by the performance of these categories and the lacklustre performance, in particular from SA equities, in the period running up to 2019. From Q3 2020, the trend started to reverse, with a reasonable increase in flows back into the categories, however, the flows lagged the overall recovery in the market.

Investors who stayed invested in the Allan Gray Balanced Fund over the full two years would have earned a cumulative return of 24.6%. As we discussed in an article in October 2020 (see "Has your risk perception changed as a result of the market crisis?"), an investor who invested in the Balanced Fund in January 2020, switched from this high-equity fund to the Allan Gray Money Market Fund in March 2020 (when the FTSE/JSE All Share Index, or ALSI, was at its lowest) and then reinvested in the Balanced Fund in January 2021, would have earned 6.4% by December 2021. While this is a worst-case scenario, it illustrates how over the last two years, short-term decision-making may have resulted in a hefty behavioural penalty of 18.2% in this case.

… making permanent decisions based on temporary emotions … has very real consequences over time.

Appetite for offshore investing also waxes and wanes, and it is sometimes difficult to pinpoint the drivers. We observed an increase in offshore flows – represented by high-equity offshore feeder funds as well as flows on our offshore platform – from the second quarter of 2020. Flows started to decline around a year later. It is not clear if the interest is structural or cyclical. Over the years we have witnessed increased interest in offshore investing when the rand weakens and/or when the local news flow is particularly negative. However, as we have said many times before, it is counter-intuitive to use a weak rand to buy expensive offshore assets. We encourage investors to utilise offshore exposure wisely and consistently for diversification purposes and not in an attempt to time the market.

How do our portfolio managers apply cathedral thinking?

When investing with the long term in mind, it is critical to pick businesses that will endure. Sustainability is therefore a key part of the Allan Gray investment philosophy. Our investment analysts spend the majority of their time trying to work out the sustainable earnings level of the businesses we analyse. We value businesses based on the sustainable or normal earnings level rather than the earnings at any one point in time. By its nature, this approach considers the long term.

To achieve real returns, we need to take on some risk …

We also consider many other factors when determining the sustainability of a business. These include the level of competition, whether capital is entering or leaving the industry, technological obsolescence, and how the business behaves regarding environmental, social and governance (ESG) considerations. Some may consider ESG factors as separate from the investment process, but for us they are integral. If a business does not operate in a sustainable manner, it may find itself in a position where it is unable to operate profitably.

When it comes to constructing portfolios, our investment team carefully considers which assets they believe are priced below their true value and likely to deliver returns over the long term. Sometimes an idea can take years to play out, and it is important that portfolio managers have high conviction so that they can hold firm in the face of short-term market movements that may be contrary to a longer-term thesis.

Allan Gray's philosophy is to not take a top-down view of where markets are heading, but rather conduct bottom-up research on individual companies. As we have discussed previously, prior to the onset of COVID-19, our equity portfolios were positioned to take advantage of what we believed were undervalued South African shares.

COVID-19 hit, and many of these shares fell further. But as things stabilised, many of these share prices rose. We would have missed out on the correction if we had irrationally responded to the dip; instead, we benefited from adding assets we regarded as cheap. As always, it is a question of price: How much am I paying? How large is my margin of safety? And to what degree am I being compensated for the downside risks?

Our investment goals may be more easily achieved if they are deeply rooted in a purpose.

Our approach currently reveals more than enough attractive opportunities, which makes us cautiously optimistic about medium-term returns. Of course, there are many risks from the global and SA macroeconomic environments. One such an example is the overvaluation of the US market and how local assets would perform in a scenario where that overvaluation suddenly corrected. These risks are balanced by the low prices at which many businesses are trading: Locally, overall valuation levels are not high compared to history and we continue to find value in both local equities and bonds.

We are also cognisant of the environment in which we invest so that we can be on the right side of long-term trends, which is why we position our funds to perform well in a variety of scenarios. An example of this is the changing inflationary environment. We continue to tilt our portfolios to protect against the increased probability of higher inflation through exposure to precious metal exchange-traded funds (ETFs) and increased positions in gold-mining companies. A higher inflation and interest rate world should favour SA equities, which are more value-like in nature compared to the large growth technology shares, which dominate the US market.

Cathedral thinking on an individual level

Equity market collapses, such as what we experienced during the early stages of the pandemic, are often relatively short when considering a multidecade investment journey. However, making permanent decisions based on temporary emotions, either because of fear of loss or fear of missing out, has very real consequences over time.

But in an environment in which the default setting is living for the now, applying cathedral thinking is tough. It takes a considered shift in how we view the world, with an emphasis on the future. There are some inspiring examples of projects underway that exemplify this approach. One is the Svalbard Global Seed Vault, a safety deposit of millions of seeds on a Norwegian island in the Arctic Circle, designed to preserve the world's crop diversity for future generations.

The question is: How can we apply this in our own investment journey?

One factor that ensures we focus on the long term is our attitude toward risk. To achieve real returns, we need to take on some risk, which introduces volatility. Over a short period of time, there could be a large variance in return, which can lead to discomfort, as we have experienced recently. However, volatility should smooth out over time. Labourers who worked on cathedrals encountered many setbacks, yet they persevered.

Over a short period of time, there could be a large variance in return, which can lead to discomfort, as we have experienced recently. However, volatility should smooth out over time.

Neha Aggarwal, a member of Orbis' European investment team, phrased it very well in her recent video, "Taming turbulence". She says that the longer your time horizon, the more the impact of volatility and the probability of an extreme outcome diminish. She aptly notes that an hour of turbulence would define the comfort of a flight between London and Paris, for example, but is much less of an issue if you're on your way to Australia.

We have recently written about forming a picture in your mind about your future self in a bid to relate more to the person you are investing for, to make saving for retirement less painful. In his book *The Good Ancestor: How to Think Long Term in a Short-Term World*, Australian-born writer and philosopher Roman Krznaric takes this a step further. He describes the "grandmother effect" – a concept from evolutionary psychology that relates to the way we as human beings are situated in multigenerational groups: A child has parents and grandparents. When that child grows up, they may have their own children and grandchildren, and so on.

Krznaric encourages us to push our thinking of the future beyond our future self, to imagine our children's ageing children, and focus on their potential needs. This should give us a sense of how to apply this cathedral thinking concept to our investments: to be focused on leaving a legacy for generations to come. Our investment goals may be more easily achieved if they are deeply rooted in a purpose.

Marise joined Allan Gray in 2011 as a client service consultant in Retail Client Services and is currently an investment specialist in the Retail Distribution team. She holds a Bachelor of Commerce degree in Law, as well as an Honours degree in Economics, both from Stellenbosch University. Marise is also a CFP® professional.

Daniella joined Allan Gray in 2008 and is the communications manager. Previously, she filled various writing and editing roles in financial services and financial publishing, mainly in the UK. Daniella holds a Bachelor of Journalism degree from Rhodes University.

COULD YOU SURVIVE ON LESS THAN A THIRD OF YOUR INCOME IN RETIREMENT?

Twanji Kalula

... investing for retirement requires us to set specific targets and perform regular reviews ...

Despite taking steps to save, millions of South Africans are at risk of having to make significant lifestyle-related downgrades when they are no longer actively earning an income. Twanji Kalula explains why proactively revisiting your financial plan annually can help you avoid this scenario.

Being able to retire comfortably is one of the most common goals when it comes to long-term financial planning. Most of us will reach a point in our lives where we are no longer generating a regular income to cover our living expenses and will need to draw one from our accumulated savings.

Sadly, many investors face the realisation that they simply do not have the money to maintain the lifestyle they have become accustomed to, even though they took the right steps to save for retirement. Worse, this realisation often occurs when there isn't enough time to do anything about it.

How much money do we need for a comfortable retirement?

One of the reasons we miss the mark is that we don't really understand how much money we will actually need at retirement. Most personal finance experts suggest that you need to be able to replace at least 75% of your final income at retirement age to maintain a similar standard of living. This generally means that we should be saving anything from 12% to 17% of our income from the day we start working.

According to a recent retirement industry survey[1] that explored the retirement saving habits of income-earning South Africans, the average South African retiree can replace just 31% of their income with their retirement savings. In real terms, this means that after working for decades, most of us will be forced to live on less than a third of our preretirement income or face the very real risk of outliving our retirement nest egg.

[1] Alexander Forbes Member Insights™ 2021

The data from the survey also shows that just 9% of retirees are able to replace 80% or more of their income. These stats are supported by the anecdotal feedback from independent financial advisers who say that 90% of their clients are unable to retire comfortably. This means that many retirees will inevitably become reliant on the financial support of loved ones to make ends meet or have to find ways to continue generating an income.

… you need to be able to replace at least 75% of your final income at retirement age to maintain a similar standard of living.

Investing for retirement is not a box-ticking exercise

Many of us get off to a great start: We proactively start a retirement annuity and/or join an employer's pension fund and continue to make regular contributions to these investments and forget about them for many years – on the assumption that we are on track and that our financial needs will be taken care of when retirement comes. And that is where it ends. However, as with any goal, investing for retirement requires us to set specific targets and perform regular reviews to ensure that the actions we are taking will lead to the desired outcomes.

Given that accumulating a nest egg takes decades, investors need to consider the factors that may shift the goal posts over time:

Markets can be volatile

While investing for retirement is a long-term exercise, over shorter periods, the markets can be volatile. Attempting to time the periods of volatility can be detrimental, as switching in and out of funds can lock in losses and negatively impact your final outcomes. There is a lot of truth in the saying that time in the markets is important and not timing the markets.

If you have many years to go until you reach retirement age, these short-term movements are usually inconsequential, but as you near retirement, these movements may have a more significant impact on your final outcomes. To minimise the effects of market volatility on your outcomes, you should make sure that the asset allocation of your investments is appropriate for the amount of risk you can afford to take based on your current life stage.

Inflation will affect your buying power

Inflation is a buzzword around the world at the moment – and for good reason. Following the economic response to COVID-19, we currently find ourselves in a changing inflationary environment. These types of changes are not unique to the pandemic, as economic environments change all the time.

To protect the buying power of your investments, you need to make sure the returns they achieve are greater than inflation. To do this, you should take on sufficient risk by investing in growth assets to achieve real returns. Investors who are too conservative when it comes to investing for their retirement may preserve their capital over the short term, but find that their nest egg has failed to keep up with inflation over the long term.

Lifestyle costs tend to creep higher as we earn more

Over the last few years, consumers have had to absorb rising living costs. We are all spending significantly more on basic needs like electricity, water, food and healthcare than we were just a few years ago. As these costs are directly linked to consumer inflation and have a noticeable impact on our pockets, we are generally cognisant of them.

Lifestyle inflation, or lifestyle creep, is slightly more insidious. Over time, as we earn more money, we tend to gradually increase our discretionary spending. As we progress in our careers, we may spend more on clothing, housing and cars. We may also use our additional income to travel, swap fast food for fine dining and spend more on entertainment.

The real problem with lifestyle creep is that it happens so slowly that we usually don't take note of and account for it. Unless you are keeping track of your living costs by keeping a budget, it becomes easy to lose sight of how much you are really spending to maintain your lifestyle. If you do not factor in the true cost of your lifestyle when planning for your retirement, you will inevitably experience a shortfall when you are solely reliant on your retirement nest egg. One reason for this is that the contributions you made in the early years were based on your income and lifestyle at the time; you may have to account for this discrepancy in your current contributions.

We are living longer
Projections of how much money we need to retire comfortably are often based on the average life expectancies at the time of initiating our retirement investments. According to Statistics South Africa, the life expectancy of South African men increased from 59.9 years to 64.6 years between 2002 and 2020. Over the same period, the life expectancy of South African women increased by 4.1 years to 71.3 years.

Increased longevity means funding a longer period in retirement. In addition to our ordinary living and lifestyle costs, we also need to factor in the additional healthcare and specialised housing costs that often accompany getting older. It is becoming more and more likely that young professionals may need to prepare to fund more than 30 years in retirement.

Account for changing life expectancies to ensure that you remain on track.

It is becoming more and more likely that young professionals may need to prepare to fund more than 30 years in retirement.

Our circumstances change over the course of our lives
Our lives are coloured by important events, like marriage, divorce, births, deaths, illness and injury. These events often have a lasting impact on our financial responsibilities. You may find that you need to stretch your retirement income to support loved ones who remain financially dependent on you, or make provision for your own ongoing medical expenses.

Take action to ensure a dignified retirement

The easiest way to mitigate the risk of not having enough money when you retire is to perform an annual review of your retirement investments to ensure that your projections are accurate and that your contributions are sufficient to meet your end goals. It is reasonable to expect that your goals and responsibilities at the age of 25 will have shifted significantly by the time you are 55. You can also use the opportunity to update the nominated beneficiaries of your retirement investments.

Those of us who save for retirement via our employers often make the mistake of anchoring on the default contributions suggested by our employers' retirement saving schemes when we start working. In most cases, this means that we are not saving nearly enough. You can remedy this by increasing your contributions or supplementing these savings with regular or lump sum contributions to a retirement annuity in your own name. You can also supplement your existing retirement savings with contributions to a long-term investment product, such as a tax-free investment, which can help you increase the amount of cash available to you at retirement.

In addition to regularly reviewing your retirement plan, there are a number of things you can do to improve your financial position at retirement:

- Maintain a realistic monthly budget throughout your life to remain aware of your true lifestyle and living costs. This will help you develop a real understanding of how much income you will need in retirement.
- Preserve your retirement savings when you change jobs. It may be tempting to access this money, but even the smallest withdrawal can have a significant and lasting impact.
- Be mindful of and manage your debt. When you retire, you may still need to pay off a mortgage or settle consumer debt. These obligations will reduce the amount of money you will have available for your other expenses.

The easiest way to mitigate the risk of not having enough money when you retire is to perform an annual review of your retirement investments ...

A professional perspective can drastically improve your outcome

There are a number of general guidelines that can help you determine how much you should be saving towards your retirement, taking your time horizon and age into account. However, when it comes to retirement, it is dangerous to adopt a one-size-fits-all approach.

An annual consultation with an independent financial adviser can be incredibly useful. Financial advisers can help you explore your unique circumstances as they assess your current living costs and help you determine how much you need to save at your current life stage for a comfortable retirement.

Advisers can also provide you with an informed, holistic perspective of your financial position and give you the tools to ensure that you avoid reaching a financial day zero in your retirement years.

Top up your tax-free investment and retirement annuity

The current tax year will come to an end on Monday, 28 February 2022.

If you would like to make additional contributions to your Allan Gray Retirement Annuity or Tax-Free Investment before the end of the current tax year to take advantage of the tax-related benefits these financial products offer, you will need to submit an investment instruction and ensure that the money reflects in our bank account by 14:00 on Friday, 25 February 2022.

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

ALLAN GRAY ORBIS FOUNDATION: ENTREPRENEURSHIP FOR THE COMMON GOOD – DESPITE COVID-19 BARRIERS

Yogavelli Nambiar

Allan Gray Fellows continue to demonstrate that they are dynamic, ethical, responsible and impactful changemakers ...

Tenacity, resilience and perseverance – the very qualities that helped the Allan Gray Orbis Foundation navigate the challenges presented during 2020 – were summoned again in 2021 to help deal with even more turmoil and uncertainty. Yogavelli Nambiar, CEO of the Foundation, takes us through the highs and lows of another pandemic-affected year.

With all that unfolded during 2020, many of us looked forward to the new year with a sense of relief combined with anticipation of better things to come. Unfortunately, it didn't take long to realise that many of the challenges experienced were set to persist, especially those related to COVID-19, which continued to place pressure on our lifestyles and the economy. With the riots during 2021 adding to the distress, it became clear that our difficulties were far from over.

Individuals and organisations around South Africa have been affected in several ways by these challenges, and the Allan Gray Orbis Foundation is no exception – especially since the beneficiaries we serve in our Scholarship (for high school learners) and Fellowship (for university students) have been affected by issues such as school closures, online learning and the impact of job losses within their families. This has meant that we have had to find new and innovative ways to hold up the standard and quality we strive for, while creating different avenues to offer support beyond our usual mandate.

We believe that amid the chaos and continued uncertainty, opportunities have emerged for us to learn and grow our interventions to develop high-impact, responsible entrepreneurs. We have, in fact, mirrored the entrepreneurial mindset that we hope is inspirational to the young people with whom we work.

A focus on inclusion

In addition to the challenges faced, there is an ever-increasing need to ensure that we deliver on our mandate: ensuring that we contribute to an economy that is fully inclusive and that provides opportunities from which all can benefit.

Our organisation is ideally placed to democratise entrepreneurship education to ensure that it is accessible to all, particularly those in lower quintile schools. Through innovation and creativity, the Allan Gray Entrepreneurship Challenge uses gamification to provide schoolgoing learners across the country, at no cost, with access to entrepreneurial thinking and problem-solving, as well as the development of entrepreneurial competencies. Learners have fun while developing critical skills that will help them to begin an entrepreneurship journey that they may never have imagined. That is quite powerful, especially given the global need for disruptive solutions to increasingly complex problems.

209 Scholars	**533** Candidate Fellows
594 Allan Gray Fellows	**15 325** Allan Gray Entrepreneurship Challenge participants

The purpose of this mandate is to ensure that everyone has access to information and the opportunity to participate meaningfully and is not put off by the ever-changing environment. The advent of the Fourth Industrial Revolution has catapulted entrepreneurial thinking and problem-solving, and it is our role to cultivate, nurture and support those who have all the potential to make this a reality.

To do this, we have to go further back in the "pipeline" – in our case, to those in the Scholarship. If we are to ensure greater retention rates, so that the Scholars who join our programmes get selected onto the Fellowship and then graduate into the Association of Allan Gray Fellows (for university graduates), we must equip them with the skills they require to navigate an environment made increasingly complex by the global pandemic, a sluggish economy and rapid technological advancements.

Our academic partners are key to ensuring that our programmes reflect best practice in entrepreneurial education. Furthermore, it is critical to note that in the education process, we are dealing with unique individuals who require much more than academic support. Understanding that mental wellness is a key component of an individual's well-being, we have developed a holistic wellness programme that offers support through our curriculum, as well as supplementary services such as psychosocial assistance for the participants. This is carried through to our Candidate Fellows at universities, for whom these issues become even more real as they grapple with the impending entry into the working world.

Further along the journey, we find that issues such as diversity and inclusion impact Fellows in various environments, and customised support becomes especially crucial. An example is the bespoke interventions created for our female entrepreneurs.

Our programme is premised on selecting high-potential, qualified candidates for whom we can provide entrepreneurship education and training and support, based on best practice and in line with global trends. To this end, we are working to finalise our refreshed strategies and processes: Our Entrepreneurship GPS creates pathways for entrepreneurial success by using predictive modelling to guide the entrepreneurial development and venture-building journeys of participants, while the Foundation Way is an evidence-based approach that determines whom the Foundation selects, how we develop Scholars, Candidate Fellows and Fellows, how we measure that development, how we guide beneficiary journeys from ideation to start-up, and the ecosystem that we build around them to improve their likelihood of success. Furthermore, we are exploring new ways to scale the Allan Gray Entrepreneurship Challenge in all markets (primary and high schools, as well as tertiary institutions).

The advent of the Fourth Industrial Revolution has catapulted entrepreneurial thinking and problem-solving …

A shining light

These are lofty goals, and we have some way to go, but rather than allowing ourselves to be overwhelmed, we would like to look at what we have already achieved through our Fellows. After all, their accomplishments are a clear sign that, while the road ahead of us may still be a long one, we have already travelled a great distance. It is heartening to note that our endeavours have indeed contributed to the establishment of businesses that are changing the business landscape in South Africa and beyond.

Go1, a company co-founded by Allan Gray Fellow Melvyn Lubega, is a fine example. This educational technology (edtech) enterprise achieved unicorn status (a term indicating the rare accomplishment of reaching a valuation of more than US$1bn) this year, raising US$200m to boost its curated enterprise learning programme. An inspiring feat, but more remarkable still because Melvyn has maintained the international company's footprint in South Africa, where it is adding immeasurable value to our communities through job creation, employing over 200 staff.

Daniel Ndima is another one of many Fellows who has done us proud, being named one of this year's Mail & Guardian 200 Young South Africans for his work in COVID-19 testing. The rapid testing kit developed by his company, CapeBio, has recently gained approval from the South African Health Products Regulatory Authority (SAHPRA). This means that many more South Africans will have access to affordable testing – a development which has critical implications for our response to the pandemic.

Payment platform Yoco's advertising campaign speaks of the company's wish to "support the underdog" in any way possible. Co-founded by Allan Gray Fellow Bradley Wattrus, this is a brand, and an ethos, which speak directly to our own aims. Yoco's payment solution for small businesses recently secured US$83m in Series C funding and the company has indicated its intention to bring on board 200 more employees, making it significant not only in terms of job creation, but also as a vehicle that empowers (and powers) small businesses. It is especially exciting to see this business poised to go beyond South Africa's borders.

Congratulations must also go to Khula, co-founded by Allan Gray Fellow Matthew Piper, for obtaining US$1.3m to scale its software-for-agriculture platform. This is a business which supports other enterprises by helping small-scale farmers gain access to markets. Again, this is an outstanding example of the type of entrepreneurship we strive to foster, as envisioned by Mr Allan Gray: entrepreneurship for the common good.

Finally, kudos to Fellow and filmmaker Phumi Morare, the 2021 Student Academy Awards winner, 2021 Academy Awards nominee and BAFTA Student Film Awards nominee, whose film *Lakutshon' Ilanga* has made headlines as a tribute to everyday heroes.

An inspiration to our onward journey

It is always heartening to see our Fellows doing well. While there are many factors that contribute to a successful venture, including the incredible drive and talent of these young entrepreneurs, this adds to our conviction that entrepreneurship education is vital and highly relevant in the current context.

Allan Gray Fellows continue to demonstrate that they are dynamic, ethical, responsible and impactful changemakers who care about making a positive difference in the country. This is the type of entrepreneurship we want to see take root and flourish.

We thank these entrepreneurs for setting a stellar example, despite the harsh social and economic conditions, and serving as ambassadors for what is possible through entrepreneurship education. We look to them to provide inspiration, as their light guides the way. They will encourage us to persevere, no matter the difficulties that lie ahead.

My wish for our programme participants for 2022 is for them to embrace what lies ahead, and to know that they are capable and have the power to drive their own destiny. Indeed, as an integral part of the Foundation, they have the drive, ambition, humility and compassion for humanity to envision a future that will take us forward, building a platform for prosperity, contributing to the growth of the economy, and supporting the individual journeys of those around them.

Allan Gray Orbis Foundation

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

NOTES

Allan Gray Balanced and Stable Fund asset allocation as at 31 December 2021

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign*	Total	SA	Foreign*
Net equities	71.1	51.0	20.1	37.0	26.5	10.6
Hedged equities	6.3	1.7	4.6	10.6	2.6	8.0
Property	1.1	0.8	0.3	1.3	1.1	0.2
Commodity-linked	3.1	2.4	0.7	3.0	2.3	0.7
Bonds	13.1	10.1	3.1	37.9	31.2	6.7
Money market and bank deposits	5.4	2.9	2.5	10.1	4.2	5.9
Total	**100.0**	**68.9**	**31.2**	**100.0**	**67.9**	**32.1**

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

Allan Gray Equity Fund net assets as at 31 December 2021

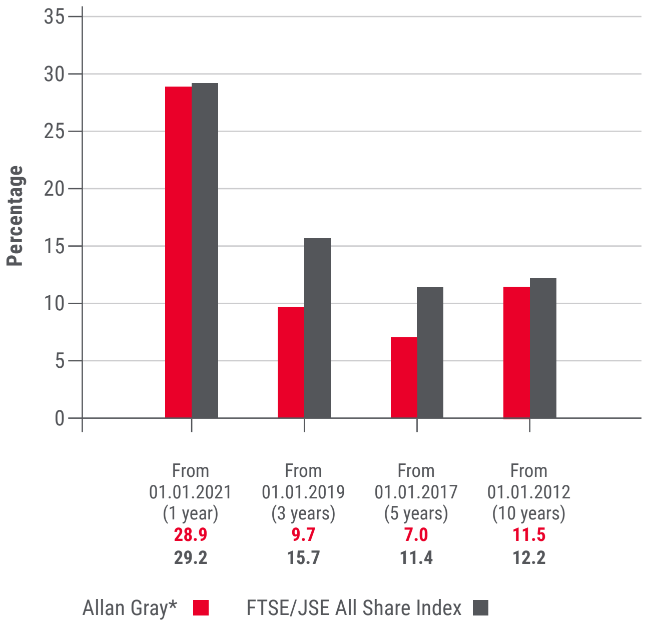
Security (Ranked by sector)	Market value (R million)	% of Fund	FTSE/JSE ALSI weight (%)
South Africa	**27 299**	**69.4**	
South African equities	**26 275**	**66.8**	
Resources	**6 738**	**17.1**	**34.7**
Glencore	2 005	5.1	
Sasol	941	2.4	
Sibanye-Stillwater	915	2.3	
Impala Platinum	518	1.3	
Northam Platinum	489	1.2	
AngloGold Ashanti	372	0.9	
Gold Fields	347	0.9	
Sappi	331	0.8	
Positions less than 1%[1]	820	2.1	
Financials	**8 071**	**20.5**	**19.6**
Standard Bank	1 228	3.1	
Remgro	1 074	2.7	
Nedbank	1 029	2.6	
FirstRand	719	1.8	
Old Mutual	699	1.8	
Reinet	636	1.6	
Investec	514	1.3	
Ninety One	374	1.0	
Rand Merchant Investment[2]	306	0.8	
Positions less than 1%[1]	1 494	3.8	
Industrials	**11 467**	**29.2**	**45.7**
Naspers[2]	2 681	6.8	
British American Tobacco	2 075	5.3	
Woolworths	1 123	2.9	
AB InBev	1 081	2.7	
Life Healthcare	574	1.5	
MultiChoice	375	1.0	
Super Group	372	0.9	
KAP Industrial	337	0.9	
Positions less than 1%[1]	2 849	7.2	
Commodity-linked securities	**226**	**0.6**	
Positions less than 1%[1]	226	0.6	
Bonds	**25**	**0.1**	
Positions less than 1%[1]	25	0.1	
Cash	**773**	**2.0**	
Africa ex-SA	**1 200**	**3.1**	
Equity funds	**1 200**	**3.1**	
Allan Gray Africa ex-SA Equity Fund	1 200	3.1	
Foreign ex-Africa	**10 820**	**27.5**	
Equity funds	**10 751**	**27.3**	
Orbis Global Equity Fund	5 390	13.7	
Orbis SICAV International Equity Fund[3]	3 060	7.8	
Allan Gray Frontier Markets Equity Fund Limited	1 404	3.6	
Orbis SICAV Japan Equity (Yen) Fund	481	1.2	
Orbis SICAV Emerging Markets Equity Fund	415	1.1	
Cash	**69**	**0.2**	
Totals	**39 319**	**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.
[3] This fund is not approved for marketing in South Africa. Reference to this fund is solely for disclosure purposes and is not intended for, nor does it constitute, solicitation for investment. **Note:** There may be slight discrepancies in the totals due to rounding. For other fund-specific information, please refer to the monthly factsheets.

Investment track record – share returns

Allan Gray Proprietary Limited global mandate share returns vs FTSE/JSE All Share Index			
Period	**Allan Gray***	**FTSE/JSE All Share Index**	**Out-/Under-performance**
1974 (from 15.6)	−0.8	−0.8	0.0
1975	23.7	−18.9	42.6
1976	2.7	−10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	−0.3
1979	86.9	94.4	−7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	−4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	−4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	−5.1	9.6
1991	30.0	31.1	−1.1
1992	−13.0	−2.0	−11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	−17.4	−4.5	−12.9
1998	1.5	−10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	−8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	−1.6
2008	−13.7	−23.2	9.5
2009	27.0	32.1	−5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.3
2012	20.6	26.7	−6.1
2013	24.3	21.4	2.9
2014	16.2	10.9	5.3
2015	7.8	5.1	2.7
2016	12.2	2.6	9.6
2017	15.6	21.0	−5.4
2018	−8.0	−8.5	0.5
2019	6.2	12.0	−5.8
2020	−3.5	7.0	−10.5
2021 (to 31.12)	**28.9**	**29.2**	**−0.3**

Returns annualised to 31.12.2021



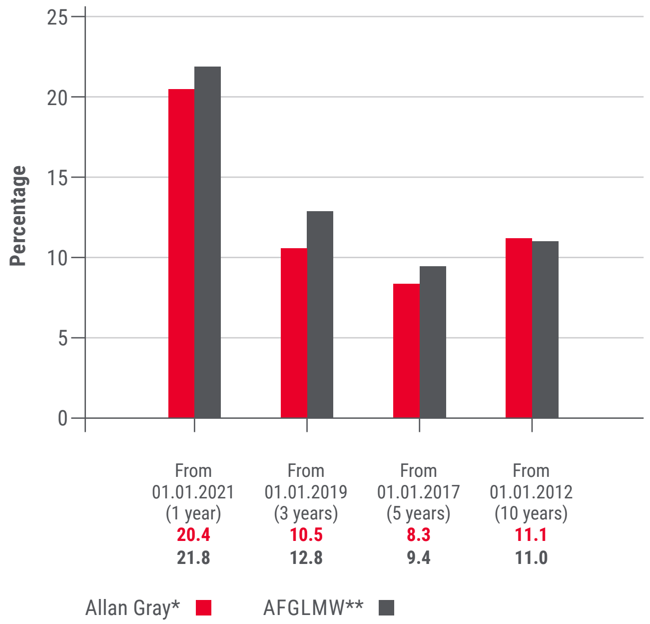
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R280 600 916 by 31 December 2021. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R13 746 610. Returns are before fees.

*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 (to 31.12)	**20.4**	**21.8**	**−1.4**

Returns annualised to 31.12.2021



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R31 645 320 by 31 December 2021. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R7 226 074. 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 2021 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 2021 (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)	**39.3**	**01.10.1998**	**20.0**	**10.1**	**6.9**	**10.0**	**25.7**	**125.8**	**−24.3**
Average of South African - Equity - General category (excl. Allan Gray funds)[1]			14.7	10.2	7.8	12.6	28.4	73.0	−37.6
Allan Gray SA Equity Fund (AGDE)	**3.9**	**13.03.2015**	**5.9**	**–**	**6.0**	**8.7**	**28.7**	**57.3**	**−32.0**
FTSE/JSE All Share Index including income			8.6	–	11.4	15.7	29.2	54.0	−18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE)	**26.7**	**01.04.2005**	**14.7**	**18.6**	**12.4**	**19.1**	**18.0**	**78.2**	**−29.7**
FTSE World Index			15.3	20.7	18.8	25.8	31.3	54.2	−32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF)	**156.2**	**01.10.1999**	**15.4**	**10.1**	**7.4**	**10.0**	**20.3**	**46.1**	**−14.2**
Allan Gray Tax-Free Balanced Fund (AGTB)	**1.7**	**01.02.2016**	**7.5**	**–**	**7.4**	**9.6**	**19.0**	**31.7**	**−13.4**
Average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[2]			11.8/7.6	9.6	8.3	12.0	20.3	41.9/30.7	−16.7/−10.3
Allan Gray-Orbis Global Balanced Feeder Fund (AGGF)[3]	**15.4**	**03.02.2004**	**10.7**	**13.7**	**8.2**	**12.2**	**15.3**	**55.6**	**−13.7**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Index[3]			12.0	15.8	14.0	18.3	19.3	38.8	−17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF)	**47.8**	**01.07.2000**	**11.4**	**8.5**	**7.4**	**8.2**	**15.1**	**23.3**	**−7.4**
Daily interest rate of FirstRand Bank Limited plus 2%			8.6	6.9	6.8	6.0	4.6	14.6	4.6
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF)	**0.8**	**01.10.2002**	**6.9**	**5.3**	**2.8**	**1.6**	**6.7**	**18.1**	**−8.2**
Daily interest rate of FirstRand Bank Limited			6.0	4.8	4.7	3.9	2.5	11.9	2.5
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO)	**0.9**	**02.03.2010**	**6.4**	**7.2**	**1.1**	**1.4**	**9.5**	**39.6**	**−12.4**
Average of US$ bank deposits and euro bank deposits			6.0	6.7	4.3	3.6	4.2	35.6	−19.1
No equity exposure									
Allan Gray Bond Fund (AGBD)	**6.3**	**01.10.2004**	**9.0**	**8.5**	**9.3**	**8.6**	**8.0**	**18.0**	**−2.6**
FTSE/JSE All Bond Index (Total return)			8.7	8.2	9.1	9.1	8.4	21.2	−5.6
Allan Gray Money Market Fund (AGMF)	**23.5**	**03.07.2001**	**7.7**	**6.5**	**6.7**	**6.0**	**4.3**	**12.8**	**4.3**
Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[4]			7.5	6.2	6.2	5.5	3.8	13.3	3.8

1 From inception to 28 February 2015, the benchmark was the FTSE/JSE All Share Index including income (source: IRESS).
2 From inception to 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 2021

	Fee for benchmark performance	Performance fees	Other costs excluding transaction costs	VAT	Total expense ratio	Transaction costs (incl. VAT)	Total investment charge
Allan Gray Equity Fund	1.13%	−0.55%	0.04%	0.05%	0.67%	0.10%	0.77%
Allan Gray SA Equity Fund	1.00%	−1.00%	0.01%	0.00%	0.01%	0.11%	0.12%
Allan Gray Balanced Fund	1.05%	−0.26%	0.04%	0.09%	0.92%	0.08%	1.00%
Allan Gray Tax-Free Balanced Fund	1.33%	N/A	0.04%	0.14%	1.51%	0.10%	1.61%
Allan Gray Stable Fund	1.04%	−0.23%	0.03%	0.09%	0.93%	0.07%	1.00%
Allan Gray Optimal Fund	1.00%	0.00%	0.02%	0.15%	1.17%	0.11%	1.28%
Allan Gray Bond Fund	0.26%	0.16%	0.01%	0.06%	0.49%	0.00%	0.49%
Allan Gray Money Market Fund	0.25%	N/A	0.00%	0.04%	0.29%	0.00%	0.29%
Allan Gray-Orbis Global Equity Feeder Fund	1.49%	−0.61%	0.05%	0.00%	0.93%	0.09%	1.02%
Allan Gray-Orbis Global Balanced Feeder Fund	1.46%	−0.53%	0.06%	0.00%	0.99%	0.08%	1.07%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	−0.01%	0.09%	0.00%	1.08%	0.12%	1.20%

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

Foreign domiciled funds annualised performance (rand) in percentage per annum to 31 December 2021 (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 FTSE World Index	**01.01.1990**	**17.9** 14.4	**18.7** 20.7	**12.7** 18.8	**19.2** 25.8	**18.5** 31.3	**87.6** 54.2	**−47.5** −46.2
Orbis SICAV Japan Equity (Yen) Fund Tokyo Stock Price Index	**01.01.1998**	**14.3** 9.7	**15.8** 16.2	**10.0** 11.6	**12.7** 14.7	**15.4** 9.3	**94.9** 91.0	**−40.1** −46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[6] MSCI Emerging Markets Equity (Net) (US$)[6]	**01.01.2006**	**13.4** 13.6	**13.7** 14.9	**9.3** 13.3	**11.7** 14.7	**7.2** 5.9	**58.6** 60.1	**−34.2** −39.7
Allan Gray Africa ex-SA Equity Fund (C class) Standard Bank Africa Total Return Index	**01.01.2012**	**12.9** 8.6	**12.9** 8.6	**15.9** 13.7	**11.2** 19.3	**44.8** 22.4	**65.6** 41.4	**−24.3** −29.4
Allan Gray Australia Equity Fund S&P/ASX 300 Accumulation Index	**04.05.2006**	**14.3** 13.1	**15.2** 14.6	**10.9** 13.4	**14.1** 19.1	**17.5** 19.8	**99.5** 55.6	**−55.4** −45.1
Allan Gray Frontier Markets Equity Fund (C class) MSCI Frontier Emerging Markets Index	**03.04.2017**	**10.5** 7.1	**–** –	**–** –	**13.5** 8.7	**26.4** 13.2	**26.4** 15.9	**−11.0** −12.0
Medium net equity exposure								
Orbis SICAV Global Balanced Fund 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Index	**01.01.2013**	**14.4** 15.7	**–** –	**8.7** 13.7	**12.8** 18.2	**16.4** 19.2	**54.4** 40.2	**−9.8** −8.4
Allan Gray Australia Balanced Fund The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan GBI Global Index expressed in AUD (16%).	**01.03.2017**	**10.0** 12.4	**–** –	**–** –	**12.9** 16.2	**13.2** 14.1	**29.1** 25.1	**−5.3** −5.8
Low net equity exposure								
Allan Gray Australia Stable Fund Reserve Bank of Australia cash rate	**01.07.2011**	**10.9** 6.6	**9.7** 5.3	**7.5** 4.1	**9.5** 5.0	**6.3** 2.1	**32.7** 28.8	**−8.9** −15.5
Very low net equity exposure								
Orbis Optimal SA Fund (US$) US$ Bank deposits	**01.01.2005**	**8.6** 7.9	**8.3** 7.8	**1.6** 4.4	**2.7** 4.6	**13.4** 8.8	**48.6** 57.9	**−15.7** −25.6
Orbis Optimal SA Fund (Euro) Euro Bank deposits	**01.01.2005**	**6.7** 5.9	**5.8** 5.4	**1.0** 4.1	**0.6** 2.6	**4.5** −0.4	**44.1** 40.2	**−19.3** −20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)[7] FTSE 3-Month US T Bill + 4% Index[7]	**27.03.2013**	**14.0** 7.0	**–** –	**13.0** 8.8	**11.3** 10.3	**13.2** 12.9	**28.9** 24.7	**−7.4** −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

Information and content

The information in and content of this publication are provided by Allan Gray as general information about the company and its products and services. ("Allan Gray" means Allan Gray Proprietary Limited and all of its subsidiaries and associate companies, and "the company" includes all of those entities.) Allan Gray does not guarantee the suitability or potential value of any information or particular investment source. The information provided is not intended to, nor does it constitute financial, tax, legal, investment or other advice. Before making any decision or taking any action regarding your finances, you should consult a qualified financial adviser. Nothing contained in this publication constitutes a solicitation, recommendation, endorsement or offer by Allan Gray; it is merely an invitation to do business.

Allan Gray has taken and will continue to take care that all information provided, in so far as this is under its control, is true and correct. However, Allan Gray shall not be responsible for and therefore disclaims any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance on any information provided.

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

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

Performance

Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Where annualised performance is mentioned, this refers to the average return per year over the period. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes. Movements in exchange rates may also cause the value of underlying international investments to go up or down. Certain unit trusts have more than one class of units and these are subject to different fees and charges. Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the fund, including any income accruals and less any permissible deductions from the fund, divided by the number of units in issue. Forward pricing is used and fund valuations take place at approximately 16:00 each business day. Purchase and redemption requests must be received by the Management Company by 11:00 each business day for the Allan Gray Money Market Fund, and by 14:00 each business day for any other Allan Gray unit trust to receive that day's price. Unit trust prices are available daily on www.allangray.co.za. Permissible deductions may include management fees, brokerage, securities transfer tax, auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray.

Benchmarks

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

The FTSE/JSE 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.

FTSE Russell Index

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2022. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®" "Russell®", "FTSE Russell®", is/are a trade mark(s) of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

J.P. Morgan Index

Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2022, J.P. Morgan Chase & Co. All rights reserved.

MSCI Index

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

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 funds 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 Ltd, a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017. The underlying investment options of the Allan Gray individual life and retirement products are portfolios of collective investment schemes in securities (unit trusts or funds) 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.

About the paper

The Allan Gray Quarterly Commentary is printed on paper made from trees grown specifically for paper manufacturing. The paper is certified by the Forest Stewardship Council (FSC), an organisation which promotes responsible management of the world's forests.

Registration number

2005/002576/07

Business address

1 Silo Square
V&A Waterfront
Cape Town
8001

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

Client Service Centre

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


AllanGray