ALLANGRAY

**Fund managers:** Duncan Artus, Jacques Plaut, Rory Kutisker-Jacobson, Tim Acker
(Most foreign assets are invested in Orbis funds) **Inception date:** 1 October 1998

# Allan Gray Equity Fund

**31 December 2021**

## Fund description and summary of investment policy

The Fund invests primarily in shares listed on the Johannesburg Stock Exchange (JSE). The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. The Fund invests the bulk of its foreign allowance in equity funds managed by Orbis Investment Management Limited, our offshore investment partner. The Fund is typically fully invested in shares. Returns are likely to be volatile, especially over short- and medium-term periods.

**ASISA unit trust category:** South African – Equity – General

## Fund objective and benchmark

The Fund aims to create long-term wealth for investors. It aims to outperform the average return of South African General Equity Funds over the long term, without taking on greater risk of loss. To pursue its objective the Fund's portfolio may differ materially from those of its peers. This will result in the Fund underperforming its benchmark materially at times. The Fund aims to compensate for these periods of underperformance by delivering outperformance over the long term. The Fund's benchmark is the market value-weighted average return of funds in the South African – Equity – General category (excluding Allan Gray funds).

## How we aim to achieve the Fund's objective

We seek to buy shares offering the best relative value while maintaining a diversified portfolio. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares from sellers who over-react to short-term difficulties or undervalue long-term potential. We invest in a selection of shares across all sectors of the stock market, and across the range of large, mid and smaller cap shares.

## Suitable for those investors who

- Seek exposure to listed equities to provide long-term capital growth
- Are comfortable with stock market fluctuation, i.e. short- to medium-term volatility
- Are prepared to accept the risk of capital loss
- Typically have an investment horizon of more than five years
- Wish to use the Fund as an equity 'building block' in a diversified multi-asset class portfolio

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R50 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

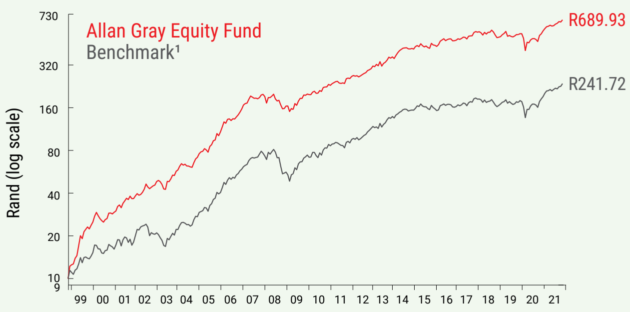
**Only available to investors with a South African bank account.

## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R39.3bn |
| Number of units | 47 470 421 |
| Price (net asset value per unit) | R465.78 |
| Class | A |

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | Benchmark[1] | CPI inflation[2] |
|---|---|---|---|
| **Cumulative:** | | | |
| Since inception (1 October 1998) | 6799.3 | 2317.2 | 231.1 |
| **Annualised:** | | | |
| Since inception (1 October 1998) | 20.0 | 14.7 | 5.3 |
| Latest 10 years | 10.1 | 10.2 | 5.0 |
| Latest 5 years | 6.9 | 7.8 | 4.4 |
| Latest 3 years | 10.0 | 12.6 | 4.1 |
| Latest 2 years | 12.0 | 14.8 | 4.3 |
| Latest 1 year | 25.7 | 28.4 | 5.5 |
| Year-to-date (not annualised) | 25.7 | 28.4 | 5.5 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | -37.0 | -45.4 | n/a |
| Percentage positive months[4] | 65.6 | 59.5 | n/a |
| Annualised monthly volatility[5] | 15.6 | 16.8 | n/a |
| Highest annual return[6] | 125.8 | 73.0 | n/a |
| Lowest annual return[6] | -24.3 | -37.6 | n/a |

1. The market value-weighted average return of funds in the South African – Equity – General category (excluding Allan Gray funds). Source: Morningstar, performance as calculated by Allan Gray as at 31 December 2021. From inception to 28 February 2015 the benchmark was the FTSE/JSE All Share Index including income. Source: IRESS.
2. This is based on the latest available numbers published by IRESS as at 30 November 2021.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 3 September 2018 to 23 March 2020 and maximum benchmark drawdown occurred from 22 May 2008 to 20 November 2008. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 September 1999 and the benchmark's occurred during the 12 months ended 30 April 2006. The Fund's lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark's occurred during the 12 months ended 28 February 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.



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## Meeting the Fund objective

The Fund has created wealth for its long-term investors. Since inception the Fund has outperformed its benchmark. Over the latest 10- and five-year periods the Fund has underperformed its benchmark. The Fund experiences periods of underperformance in pursuit of its objective of creating long-term wealth for investors, without taking on greater risk of loss than the average equity fund. The maximum drawdown and lowest annual return numbers, in the 'Performance net of all fees and expenses' table, show that the Fund has successfully reduced downside risk in periods of negative market returns.

## Income distributions for the last 12 months

| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually. | 30 Jun 2021 | 31 Dec 2021 |
|---|---|---|
| **Cents per unit** | 330.8930 | 448.7288 |

## Annual management fee

Allan Gray charges a fee based on the net asset value of the Fund excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Fund's total performance for the day to that of the benchmark.

**Fee for performance equal to the Fund's benchmark:** 1.00% p.a. excl. VAT

For each annualised percentage point above or below the benchmark we add or deduct 0.2%. The maximum fee is uncapped and if the fee would have been negative, 0% will be charged for the day and the negative fee will be carried forward to reduce the next day's fee (and all subsequent days until the underperformance is recovered).

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark.

A portion of the Fund may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark. Orbis pays a marketing and distribution fee to Allan Gray.

## Total expense ratio (TER) and Transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

## Top 10 share holdings on 31 December 2021 (SA and Foreign) (updated quarterly)[7]

| Company | % of portfolio |
|---|---|
| Naspers[8] | 7.5 |
| British American Tobacco | 6.7 |
| Glencore | 5.3 |
| Standard Bank | 3.1 |
| Woolworths | 2.9 |
| Remgro | 2.8 |
| AB InBev | 2.7 |
| Nedbank | 2.6 |
| Sasol | 2.4 |
| Sibanye-Stillwater | 2.3 |
| **Total (%)** | **38.3** |

7. Underlying holdings of Orbis funds are included on a look-through basis.
8. Includes holding in stub certificates or Prosus N.V., if applicable.
9. FTSE/JSE All Share Index.

## Total expense ratio (TER) and Transaction costs

| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **0.67** | **0.67** |
| Fee for benchmark performance | 1.12 | 1.13 |
| Performance fees | -0.54 | -0.55 |
| Other costs excluding transaction costs | 0.03 | 0.04 |
| VAT | 0.06 | 0.05 |
| **Transaction costs (including VAT)** | **0.10** | **0.10** |
| **Total investment charge** | **0.77** | **0.77** |

## Sector allocation on 31 December 2021 (updated quarterly)[7]

| Sector | % of Fund | % of ALSI[9] |
|---|---|---|
| Energy | 2.4 | 0.7 |
| Basic materials | 19.4 | 34.0 |
| Industrials | 6.7 | 4.2 |
| Consumer staples | 15.1 | 7.1 |
| Healthcare | 3.5 | 2.0 |
| Consumer discretionary | 9.7 | 17.3 |
| Telecommunications | 2.3 | 5.1 |
| Utilities | 0.5 | 0.0 |
| Financials | 26.8 | 16.4 |
| Technology | 9.1 | 10.0 |
| Commodity-linked | 0.6 | 0.0 |
| Real estate | 1.0 | 3.2 |
| Money market and bank deposits | 2.9 | 0.0 |
| Bonds | 0.1 | 0.0 |
| **Total (%)** | **100.0** | **100.0** |

## Asset allocation on 31 December 2021[7]

| Asset class | Total | South Africa | Africa ex-SA | Foreign ex-Africa |
|---|---|---|---|---|
| Net equities | 95.5 | 66.6 | 4.0 | 24.9 |
| Hedged equities | 0.0 | 0.0 | 0.0 | 0.0 |
| Property | 1.0 | 0.9 | 0.0 | 0.1 |
| Commodity-linked | 0.6 | 0.6 | 0.0 | 0.0 |
| Bonds | 0.2 | 0.1 | 0.0 | 0.2 |
| Money market and bank deposits | 2.8 | 2.0 | -0.1 | 1.0 |
| **Total (%)** | **100.0** | **70.0** | **3.8** | **26.1[10]** |

10. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

Note: There may be slight discrepancies in the totals due to rounding.



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## Fund manager quarterly commentary as at 31 December 2021

The Fund returned 5.8% for the quarter and 25.7% for the year. During the fourth quarter, the largest contributors to returns were the basic materials and consumer staples sectors. The local equity market rallied strongly into the end of 2021, but this followed a third quarter in which the market was down.

Returns from the JSE in 2021 were 29.2% as measured by the FTSE/JSE All Share Index (ALSI) and 27.1% as measured by the Capped SWIX. These numbers are of course reasonably high by historical standards. For context, over the last 40 years the ALSI has returned 16.3% p.a.

There is a seeming contradiction between strong equity market returns on the one hand and a weak South African economy on the other hand. How should we interpret this divergence? Firstly, it is very common for the performance of stock markets to diverge from economic performance, especially in the short term. Markets take a forward-looking view and often look through the short-term impact of issues like COVID-19. Secondly, the fortunes of many JSE-listed companies are not really linked to South African economic growth. This would include international businesses like Richemont and commodity exporters like Impala Platinum. On a rough analysis, earnings for about half the JSE are not directly linked to the SA economy.

Following this strong performance, the ALSI closed 2021 29% higher than it was at the start of 2020, i.e. before the onset of the pandemic. Does this mean that the JSE is now expensive? Not necessarily. Overall valuation levels are not high compared to history. The Capped SWIX has also returned only 7% p.a. over the last five years, despite this recent strong performance. Allan Gray's philosophy is to not take a top-down view of where markets are heading, but rather to do bottom-up research on individual companies. Our fundamental research 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 environment, but these are balanced by the low prices at which many businesses are trading.

The South African banking sector is an example of where we are finding attractive valuations. Large banks like Standard Bank and Nedbank can be bought at around seven times 2022's earnings. This is very cheap by historical standards and compensates for issues such as increasing competition and a tough economic outlook. Current earnings are also still depressed but should recover to pre-COVID-19 levels in the next year or two. Bad debts have been lower than many investors had feared. Lower participation from foreign investors in the SA market has contributed to depressed valuations of SA financial stocks.

Remgro is another example of an undervalued business. Remgro owns a portfolio of quality South African businesses, many of which are listed. These businesses themselves trade on reasonable valuations. On top of this, Remgro trades at a nearly 40% discount to its underlying portfolio – a large, and we think undeserved, discount compared to history and other holding companies globally. Management is taking several actions to unlock value within this portfolio. Examples include the recently announced transactions between beverage businesses Distell and Heineken and between fibre holding company CIVH and Vodacom, as well as the planned unbundling of some insurance assets by Rand Merchant Investment Holdings.

During the quarter the Fund bought Gold Fields, Mondi and Anheuser-Busch and sold Standard Bank and RMI.

Commentary contributed by Tim Acker

## Information and content

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Allan Gray is an authorised financial services provider.

## Management Company

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). The Management Company is incorporated under the laws of South Africa and has been approved by the regulatory authority of Botswana to market its unit trusts in Botswana, however, it is not supervised or licensed in Botswana. 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).

The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or www.rmb.co.za.

## Performance

Collective investment schemes in securities (unit trusts or funds) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may also cause the value of underlying international investments to go up or down. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

## Fund mandate

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. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

## Unit price

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 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

## Fees

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.

## Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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 exposure

This fund may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

## FTSE/JSE All Share Index and FTSE/JSE Capped Shareholder Weighted All Share Index

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

## Important information for investors

**Need more information?**
You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**

ALLANGRAY

**Fund managers:** Duncan Artus, Jacques Plaut, Rory Kutisker-Jacobson, Tim Acker
(Most foreign assets are invested in Orbis funds) **Inception date:** 1 October 1999

# Allan Gray Balanced Fund

**31 December 2021**

## Fund description and summary of investment policy

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 75% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund.

ASISA unit trust category: South African – Multi Asset – High Equity

## Fund objective and benchmark

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund's benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds).

## How we aim to achieve the Fund's objective

We seek to buy shares at a discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares we may increase the Fund's weighting to alternative assets such as bonds, property, commodities and cash, or we may partially hedge the Fund's stock market exposure. By varying the Fund's exposure to these different asset classes over time, we seek to enhance the Fund's long-term returns and to manage its risk. The Fund's bond and money market investments are actively managed.

## Suitable for those investors who

- Seek steady long-term capital growth
- Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund
- Wish to invest in a unit trust that complies with retirement fund investment limits
- Typically have an investment horizon of more than three years

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R50 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

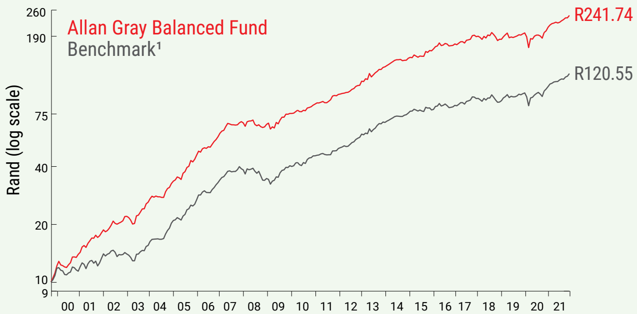
## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R156.2bn |
| Number of units | 548 436 138 |
| Price (net asset value per unit) | R126.51 |
| Class | A |

1. The market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds). Source: Morningstar, performance as calculated by Allan Gray as at 31 December 2021. From inception to 31 January 2013 the benchmark was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund. Source: Micropal.
2. This is based on the latest available numbers published by IRESS as at 30 November 2021.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 January 2020 to 23 March 2020 and maximum benchmark drawdown occurred from 20 January 2020 to 23 March 2020. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 April 2006 and the benchmark's occurred during the 12 months ended 30 April 2006. The Fund's lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark's occurred during the 12 months ended 28 February 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | Benchmark[1] | CPI inflation[2] |
|---|---|---|---|
| **Cumulative:** | | | |
| Since inception (1 October 1999) | 2317.4 | 1105.5 | 226.7 |
| **Annualised:** | | | |
| Since inception (1 October 1999) | 15.4 | 11.8 | 5.5 |
| Latest 10 years | 10.1 | 9.6 | 5.0 |
| Latest 5 years | 7.4 | 8.3 | 4.4 |
| Latest 3 years | 10.0 | 12.0 | 4.1 |
| Latest 2 years | 11.6 | 12.8 | 4.3 |
| Latest 1 year | 20.3 | 20.3 | 5.5 |
| Year-to-date (not annualised) | 20.3 | 20.3 | 5.5 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | -25.4 | -23.3 | n/a |
| Percentage positive months[4] | 69.7 | 68.5 | n/a |
| Annualised monthly volatility[5] | 9.5 | 9.3 | n/a |
| Highest annual return[6] | 46.1 | 41.9 | n/a |
| Lowest annual return[6] | -14.2 | -16.7 | n/a |

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## Meeting the Fund objective

The Fund has created wealth for its long-term investors. Since inception and over the latest 10-year period, the Fund has outperformed its benchmark. Over the latest five-year period the Fund has underperformed its benchmark. The Fund experiences periods of underperformance in pursuit of its objective of creating long-term wealth for investors, without taking on greater risk of loss than the average balanced fund.

## Income distributions for the last 12 months

| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually. | 30 Jun 2021 | 31 Dec 2021 |
|---|---|---|
| **Cents per unit** | **93.3008** | **159.5677** |

## Annual management fee

Allan Gray charges a fee based on the net asset value of the Fund excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark.

Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT

For each percentage of two-year performance above or below the benchmark we add or deduct 0.1%, subject to the following limits:

Maximum fee: 1.50% p.a. excl. VAT
Minimum fee: 0.50% p.a. excl. VAT

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark.

A portion of the Fund may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark. Orbis pays a marketing and distribution fee to Allan Gray.

## Total expense ratio (TER) and Transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

## Top 10 share holdings on 31 December 2021 (SA and Foreign) (updated quarterly)[7]

| Company | % of portfolio |
|---|---|
| British American Tobacco | 6.0 |
| Naspers[8] | 5.7 |
| Glencore | 4.7 |
| Woolworths | 2.3 |
| Nedbank | 2.2 |
| Remgro | 2.1 |
| Sasol | 2.1 |
| Standard Bank | 2.0 |
| AB Inbev | 2.0 |
| Sibanye-Stillwater | 1.8 |
| **Total (%)** | **30.9** |

## Asset allocation on 31 December 2021[7]

| Asset class | Total | South Africa | Africa ex-SA | Foreign ex-Africa |
|---|---|---|---|---|
| Net equities | 71.1 | 51.0 | 3.2 | 16.9 |
| Hedged equities | 6.3 | 1.7 | 0.0 | 4.6 |
| Property | 1.1 | 0.8 | 0.0 | 0.3 |
| Commodity-linked | 3.1 | 2.4 | 0.0 | 0.7 |
| Bonds | 13.1 | 10.1 | 1.5 | 1.6 |
| Money market and bank deposits | 5.4 | 2.9 | 0.0 | 2.5 |
| **Total (%)** | **100.0** | **68.9** | **4.7** | **26.5[9]** |

7. Underlying holdings of Orbis funds are included on a look-through basis.
8. Includes holding in stub certificates or Prosus N.V., if applicable.
9. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

## Total expense ratio (TER) and Transaction costs

| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| Total expense ratio | 0.90 | 0.92 |
| Fee for benchmark performance | 1.02 | 1.05 |
| Performance fees | -0.24 | -0.26 |
| Other costs excluding transaction costs | 0.03 | 0.04 |
| VAT | 0.09 | 0.09 |
| Transaction costs (including VAT) | 0.08 | 0.08 |
| **Total investment charge** | **0.98** | **1.00** |

## Since inception, the Fund's month-end net equity exposure has varied as follows:

| | |
|---|---|
| Minimum | (February 2000) 49.3% |
| Average | 62.8% |
| Maximum | (May 2021) 72.9% |

Note: There may be slight discrepancies in the totals due to rounding.



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## Fund manager quarterly commentary as at 31 December 2021

The Fund returned 5.1% for the quarter and 20.3% for the 2021 calendar year. While absolute returns have been strong in real terms, we are not where we want to be versus the best of our peers over the recent past.

We remain significantly underweight US equities, which make up over 60% of the MSCI World Index. Instead, we find depressed European, UK, and emerging market equities more attractive. Although this has hurt relative returns in the short term, we find the valuation disparity compelling. We continue to own no long-dated developed world sovereign bonds and rather have a position in gold. The portfolio has been increasingly tilted towards managing the risks that may arise from higher realised global inflation and interest rates.

As noted in previous factsheets, we have been finding value in both local equities and bonds. This has been reflected in an equity and bond weighting that is higher than usual. The major risk we see is the overvaluation of the US market and how local assets would perform in a scenario where that overvaluation suddenly corrected.

Nonetheless we remain optimistic about the long-term value inherent in our chosen local equities. Sometimes it takes patience for that value to be realised. For example, Rand Merchant Insurance (RMI), which traded at a deep discount to its underlying holdings, announced the unbundling of its shares in Discovery and Momentum, and sold its holding in UK insurer Hastings, resulting in a large rerating of the share. This is not just a positive for RMI, but also for its largest shareholder, Remgro, which itself trades at a large discount to its underlying investments. Indeed, the discount climbed as high as 38% during 2021.

Remgro owns an attractive portfolio of assets and the actions of management over the last period have highlighted its value. In addition to RMI, Remgro is the largest shareholder in Distell, which is in the process of being bought by Heineken, and its fibre operations (Dark Fibre and Vumatel) housed in CIVH merged with those of Vodacom at an attractive valuation. We continue to find Remgro attractive.

More broadly, we continue to be underweight iron ore and Glencore is still our preferred commodity exposure. We continue to own Sasol and have been increasing our exposure to gold shares such as AngloGold and Gold Fields. Given the increased risks in China from the policies announced by the government, coupled with the very high exposure of South African equities both directly and indirectly to China, we have been focused on reducing this risk to the Fund. The positions in British American Tobacco and AB InBev should be considered within this context.

We remain as focused on thinking about and managing risk in the Fund as we are on generating real long-term returns.

During the quarter the Fund bought gold miners AngloGold and Gold Fields and sold Prosus to buy Naspers.

Commentary contributed by Duncan Artus



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## Management Company

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The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or www.rmb.co.za.

## Performance

Collective investment schemes in securities (unit trusts or funds) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may also cause the value of underlying international investments to go up or down. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

## Fund mandate

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. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

## Unit price

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 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

## Fees

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.

## Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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).

## Compliance with Regulation 28

The Fund is managed to comply with Regulation 28 of the Pension Funds Act 24 of 1956. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

## Foreign exposure

This fund may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

## FTSE/JSE All Share Index

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

## MSCI Index

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## Important information for investors

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**Fund managers:** Duncan Artus, Sean Munsie, Tim Acker
(Most foreign assets are invested in Orbis funds) **Inception date:** 1 July 2000

# Allan Gray Stable Fund

**31 December 2021**

## Fund description and summary of investment policy

The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 40%. The Fund's net equity exposure may be reduced from time to time using exchange-traded derivative contracts on stock market indices. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund or a balanced fund.

ASISA unit trust category: South African – Multi Asset – Low Equity

## Fund objective and benchmark

The Fund aims to provide a high degree of capital stability and to minimise the risk of loss over any two-year period, while producing long-term returns that are superior to bank deposits. The Fund's benchmark is the daily interest rate, as supplied by FirstRand Bank Limited, plus 2%.

## How we aim to achieve the Fund's objective

A major portion of the Fund is typically invested in money market instruments. We seek to deploy the Fund's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares, we may allocate a low weight to shares or partially hedge the Fund's stock market exposure in consideration of the Fund's capital preservation objectives. The Fund may also invest in bonds, property and commodities. The Fund's bond and money market investments are actively managed.

## Suitable for those investors who

- Are risk-averse and require a high degree of capital stability
- Seek both above-inflation returns over the long term, and capital preservation over any two-year period
- Require some income but also some capital growth
- Wish to invest in a unit trust that complies with retirement fund investment limits

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R50 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

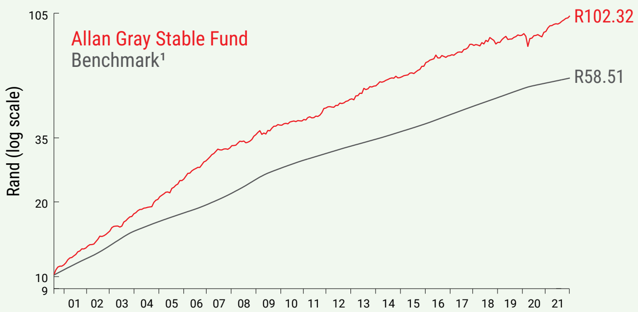
## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R47.8bn |
| Number of units | 557 281 744 |
| Price (net asset value per unit) | R40.11 |
| Class | A |

1. The Fund's benchmark is the daily interest rate, as supplied by FirstRand Bank Limited plus 2%, performance as calculated by Allan Gray as at 31 December 2021.
2. This is based on the latest available numbers published by IRESS as at 30 November 2021.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 January 2020 to 23 March 2020. Drawdown is calculated on the total return of the Fund (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 April 2006 and the benchmark's occurred during the 12 months ended 30 June 2003. The Fund's lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark's occurred during the 12 months ended 31 August 2021. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | Benchmark[1] | CPI inflation[2] |
|---|---|---|---|
| **Cumulative:** | | | |
| Since inception (1 July 2000) | 923.2 | 485.1 | 210.3 |
| **Annualised:** | | | |
| Since inception (1 July 2000) | 11.4 | 8.6 | 5.4 |
| Latest 10 years | 8.5 | 6.9 | 5.0 |
| Latest 5 years | 7.4 | 6.8 | 4.4 |
| Latest 3 years | 8.2 | 6.0 | 4.1 |
| Latest 2 years | 9.1 | 5.0 | 4.3 |
| Latest 1 year | 15.1 | 4.6 | 5.5 |
| Year-to-date (not annualised) | 15.1 | 4.6 | 5.5 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | -16.7 | n/a | n/a |
| Percentage positive months[4] | 77.9 | 100.0 | n/a |
| Annualised monthly volatility[5] | 5.2 | 0.7 | n/a |
| Highest annual return[6] | 23.3 | 14.6 | n/a |
| Lowest annual return[6] | -7.4 | 4.6 | n/a |



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## Meeting the Fund objective

Since inception and over the latest 10- and five-year periods, the Fund has outperformed its benchmark. The Fund has provided returns in excess of CPI inflation for all three periods. The Fund aims to minimise the risk of loss over any two-year period.

## Income distributions for the last 12 months

| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus quarterly. | 31 Mar 2021 | 30 Jun 2021 | 30 Sep 2021 | 31 Dec 2021 |
|---|---|---|---|---|
| **Cents per unit** | **22.9897** | **23.6459** | **36.4990** | **25.2260** |

## Annual management fee

Allan Gray charges a fee based on the net asset value of the Fund excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Fund's total performance over the last two years, to that of the benchmark. If the Fund's return over two years is equal to or less than 0%, Allan Gray will not charge a fee.

Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT

For each percentage of two-year performance above or below the benchmark we add or deduct 0.1%, subject to the following limits:

Maximum fee: 1.50% p.a. excl. VAT
Minimum fee: 0.50% p.a. excl. VAT

This means that Allan Gray shares in approximately 20% of annualised performance relative to the benchmark.

A portion of the Fund may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark. Orbis pays a marketing and distribution fee to Allan Gray.

## Total expense ratio (TER) and Transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

## Top 10 share holdings on 31 December 2021 (SA and Foreign) (updated quarterly)[8]

| Company | % of portfolio |
|---|---|
| British American Tobacco | 2.6 |
| Glencore | 2.4 |
| Naspers[9] | 2.3 |
| Nedbank | 1.4 |
| Standard Bank | 1.4 |
| Sibanye-Stillwater | 1.3 |
| AngloGold Ashanti | 1.3 |
| Sasol | 1.2 |
| Woolworths | 1.2 |
| Remgro | 1.1 |
| **Total (%)** | **16.3** |

7. All credit exposure 1% or more of portfolio.
8. Underlying holdings of Orbis funds are included on a look-through basis.
9. Includes holding in stub certificates or Prosus N.V., if applicable.

## Total expense ratio (TER) and Transaction costs

| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **1.32** | **0.93** |
| Fee for benchmark performance | 1.01 | 1.04 |
| Performance fees | 0.13 | -0.23 |
| Other costs excluding transaction costs | 0.03 | 0.03 |
| VAT | 0.15 | 0.09 |
| **Transaction costs (including VAT)** | **0.06** | **0.07** |
| **Total investment charge** | **1.38** | **1.00** |

## Top credit exposures on 31 December 2021 (SA and Foreign) (updated quarterly)[7,8]

| Issuer | % of portfolio |
|---|---|
| Republic of South Africa | 19.8 |
| FirstRand Bank | 6.3 |
| Citibank London | 2.8 |
| Investec Bank | 2.3 |
| Northam Platinum | 2.1 |
| Standard Bank (SA) | 1.9 |
| Nedbank | 1.7 |
| Standard Bank Group | 1.1 |
| **Total (%)** | **38.1** |

## Asset allocation on 31 December 2021[8]

| Asset class | Total | South Africa | Africa ex-SA | Foreign ex-Africa |
|---|---|---|---|---|
| Net equities | 37.0 | 26.5 | 2.4 | 8.2 |
| Hedged equities | 10.6 | 2.6 | 0.0 | 8.0 |
| Property | 1.3 | 1.1 | 0.0 | 0.2 |
| Commodity-linked | 3.0 | 2.3 | 0.0 | 0.7 |
| Bonds | 37.9 | 31.2 | 3.1 | 3.6 |
| Money market and bank deposits | 10.1 | 4.2 | 0.0 | 5.9 |
| **Total (%)** | **100.0** | **67.9** | **5.6** | **26.5[10]** |

10. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

## Since inception, the Fund's month-end net equity exposure has varied as follows:

| | |
|---|---|
| Minimum | (January 2010) 12.4%[8] |
| Average | 26.3% |
| Maximum | (December 2018) 39.6% |

Note: There may be slight discrepancies in the totals due to rounding.



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## Fund manager quarterly commentary as at 31 December 2021

The Fund returned 3.8% in the last quarter of 2021, taking the annual return to 15.1%. Over longer periods, such as the last three and five years, the Fund has generated 8.2% and 7.4% per annum respectively, ahead of its cash plus 2% benchmark and above inflation, in line with the Fund's objective. While the Fund is managed in a cautious manner, with a major portion of assets invested in cash and bonds, some allocation to equities (subject to the 40% limit) is required to generate a sustained real return ahead of the benchmark. Our view on the attractiveness of equities, based on our bottom-up research process, together with the potential returns available in competing asset classes, informs the overall level of equity allocation.

Going into 2021, we believed the opportunities available to the Fund were attractive, with both local shares and bonds offering good value. In comparison, holding cash at rates similar to that of prevailing inflation looked unattractive, putting an investor at risk of losing purchasing power in inflation-adjusted terms. The high weighting to local equities and bonds, relative to the Fund's history, has served it well in 2021. The FTSE/JSE All Share Index (ALSI) returned 29.2% for the year with a new all-time high being set in December. The FTSE/JSE All Bond Index (ALBI) returned 8.4%, outperforming cash by 5.9%.

Importantly, we do not buy the index, but rather invest in assets that 1) trade below our assessment of intrinsic value; 2) attempt to balance potential reward with the risk taken on; and 3) position the Fund to perform adequately in a variety of scenarios. This process has added value over the last year, with both equity and bond selection contributing positively to the Fund's return.

Within local equities, Glencore, Aspen Pharmacare and Pepkor were among the largest contributors to performance. We have written about Glencore in past commentaries, highlighting our preference for its commodity mix over that of its diversified mining peers, which remains the case. Both Aspen and Pepkor staged strong recoveries during 2021 from overly depressed levels. When these shares, among others, have gone ahead of our fair value estimates, we trimmed our holdings and reinvested the proceeds in more attractive opportunities. Disappointingly, two of the larger Fund positions, Sibanye-Stillwater and British American Tobacco, detracted from returns. At current prices, both offer high potential future returns and, in the case of Sibanye-Stillwater, we have added to the Fund's holding.

In local fixed income, the Fund benefited from its exposure to inflation-linked bonds and longer-dated nominal bonds. Inflation linkers have outperformed nominal bonds by a wide margin in 2021 as inflation increased off a low base. While the longer-dated implied break-even inflation rates are now ahead of the Reserve Bank's target range, these instruments should remain in favour, as long as concerns about global inflation abound. Fiscal spending pressures have unfortunately extinguished the bulk of the commodity-driven tax revenue tailwind, negating any material change in sentiment towards South African government bonds. However, current yields do compensate investors for bearing this risk, with the Fund continuing to prefer bonds over cash.

Our offshore investment partner, Orbis, had a mixed year with its large underweight to the US technology sector weighing on relative performance. We share their concerns over absolute valuation levels in the US where the longer duration technology companies, which have increasingly driven index performance, are materially exposed to changes in the interest rate environment. The collection of shares that Orbis is invested in looks very different from the headline stock indices. Rand weakness in the latter part of 2021 was a tailwind for Fund performance.

During the quarter we sold Aspen Pharmacare, Glencore and select property stocks, while we added to precious metal miners and Remgro.

Commentary contributed by Sean Munsie


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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. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

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

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# Allan Gray Optimal Fund

**31 December 2021**

## Fund description and summary of investment policy

The Fund invests mainly in selected shares and it uses exchange-traded derivative contracts on stock market indices to substantially reduce its net equity exposure to within a range of 0-20%. As a result, the Fund's return depends on the level of short-term interest rates (implicit in the pricing of the sold futures contracts) and the performance of the Fund's selected shares relative to the stock market index. The Fund's return is therefore unlikely to be correlated with equity market returns. In addition, a portion of the Fund is typically invested in cash and margin deposits.

ASISA unit trust category: South African – Multi Asset – Low Equity

## Fund objective and benchmark

The Fund aims to provide investors with long-term positive returns higher than those available in the money market sector, irrespective of stock market returns. The Fund's benchmark is the daily interest rate as supplied by FirstRand Bank Limited.

## How we aim to achieve the Fund's objective

The Fund invests in selected shares and seeks to substantially reduce stock market risk by selling exchange-traded equity index derivatives. The selected share portfolio is derived from our thorough research process, but the selection of equities in this Fund may differ from that in the other Allan Gray funds. The deviation of the Fund's selected share portfolio from the composition of the underlying benchmark indices (on which the derivative contracts are based) is restricted and closely monitored. This does not eliminate the risk of capital loss should the selected equities underperform.

## Suitable for those investors who

- Seek absolute (i.e. positive) returns regardless of stock market trends
- Require a high degree of capital stability over a 3-year time horizon
- Wish to invest in a product that offers uncorrelated returns relative to shares or bonds as a 'building block' in a diversified multi-asset class portfolio

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R50 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

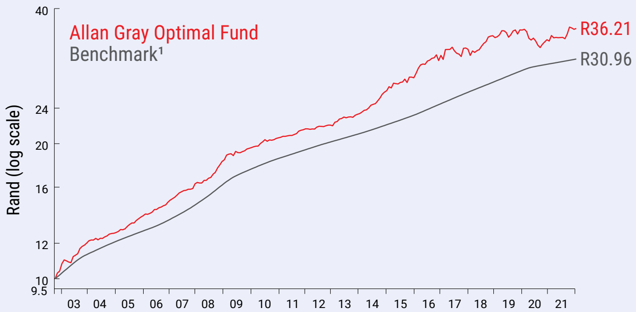
## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R0.8bn |
| Number of units | 22 601 421 |
| Price (net asset value per unit) | R22.88 |
| Class | A |

1. The daily interest rate as supplied by FirstRand Bank Limited (source: FirstRand Bank), performance as calculated by Allan Gray as at 31 December 2021.
2. This is based on the latest available numbers published by IRESS as at 30 November 2021.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 6 February 2020 to 15 September 2020. Drawdown is calculated on the total return of the Fund (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 30 September 2003 and the benchmark's occurred during the 12 months ended 30 September 2003. The Fund's lowest annual return occurred during the 12 months ended 31 August 2020 and the benchmark's occurred during the 12 months ended 30 November 2021. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | Benchmark[1] | CPI inflation[2] |
|---|---|---|---|
| **Cumulative:** | | | |
| Since inception (1 October 2002) | 262.1 | 209.6 | 162.8 |
| **Annualised:** | | | |
| Since inception (1 October 2002) | 6.9 | 6.0 | 5.2 |
| Latest 10 years | 5.3 | 4.8 | 5.0 |
| Latest 5 years | 2.8 | 4.7 | 4.4 |
| Latest 3 years | 1.6 | 3.9 | 4.1 |
| Latest 2 years | 0.4 | 3.0 | 4.3 |
| Latest 1 year | 6.7 | 2.5 | 5.5 |
| Year-to-date (not annualised) | 6.7 | 2.5 | 5.5 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | -10.2 | n/a | n/a |
| Percentage positive months[4] | 75.3 | 100.0 | n/a |
| Annualised monthly volatility[5] | 4.0 | 0.6 | n/a |
| Highest annual return[6] | 18.1 | 11.9 | n/a |
| Lowest annual return[6] | -8.2 | 2.5 | n/a |

## Meeting the Fund objective

Since inception and over the latest 10-year period, the Fund has outperformed its benchmark, which is the daily interest rate supplied by FirstRand Bank Limited. Over the latest five-year period the Fund has underperformed its benchmark. The Fund aims to deliver long-term positive returns, irrespective of stock market returns.

## Income distributions for the last 12 months

| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually. | 30 Jun 2021 | 31 Dec 2021 |
|---|---|---|
| **Cents per unit** | **15.6876** | **35.9602** |

## Annual management fee

The fee rate is calculated daily by comparing the Fund's total performance to that of the benchmark.

**Fee for performance equal to the Fund's benchmark:** 1.00% p.a. excl. VAT

The Fund is first required to recover any underperformance before a fee higher than the fee for performance equal to the benchmark can be charged. This is known as a high watermark. If the Fund's performance is above its previous high watermark, we add 0.2% to the fee for each percentage of performance above the high watermark. The fee is uncapped.

## Total expense ratio (TER) and Transaction costs

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

## Top 10 share holdings on 31 December 2021 (updated quarterly)

| Company | % of portfolio |
|---|---|
| MTN | 6.7 |
| Glencore | 5.9 |
| Naspers[7] | 5.8 |
| Standard Bank | 5.7 |
| Sasol | 5.7 |
| Sibanye-Stillwater | 5.0 |
| Impala Platinum | 4.3 |
| Nedbank | 4.2 |
| AngloGold Ashanti | 3.7 |
| Anglo American Platinum | 3.4 |
| **Total (%)** | **50.5** |

7. Includes holding in stub certificates or Prosus N.V., if applicable.

## Asset allocation on 31 December 2021

| Asset class | Total |
|---|---|
| Net equities | 3.6 |
| Hedged equities | 81.7 |
| Property | 1.8 |
| Commodity-linked | 0.0 |
| Bonds | 0.0 |
| Money market and bank deposits | 12.9 |
| **Total (%)** | **100.0** |

## Total expense ratio (TER) and Transaction costs

| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **1.18** | **1.17** |
| Fee for benchmark performance | 1.00 | 1.00 |
| Performance fees | 0.00 | 0.00 |
| Other costs excluding transaction costs | 0.03 | 0.02 |
| VAT | 0.15 | 0.15 |
| **Transaction costs (including VAT)** | **0.14** | **0.11** |
| **Total investment charge** | **1.32** | **1.28** |

## Since inception, the Fund's month-end net equity exposure has varied as follows:

| | |
|---|---|
| Minimum | (September 2016) -3.6%[8] |
| Average | 4.9% |
| Maximum | (November 2018) 15.4% |

8. The negative net equity exposure as at 30 September 2016 is due to the cash acquisition of SABMiller by Anheuser-Busch In-Bev. This was corrected and the Fund had a positive net equity exposure by 4 October 2016.

Note: There may be slight discrepancies in the totals due to rounding.

## Fund manager quarterly commentary as at 31 December 2021

The Fund returned -0.7% in the final quarter of 2021 and 6.7% for the full year. The FTSE/JSE All Share Index (ALSI) performed strongly, returning 29.2% for the year and setting an all-time high in December. While the rally has been a welcome boost for local equity investors after years of lacklustre returns, it does not necessarily imply greater returns for the Fund; rather, it is the performance of the Fund's underlying shares relative to the stock market index, together with the level of short-term interest rates, that determines the performance. Stock selection has contributed positively to the Fund's return for 2021.

The rally in 2021 was more broad-based than was the case in 2020, when good gains for resource counters post the COVID-19 market correction were largely offset by weak performance from financials. In 2021 the gap in returns was substantially narrower, so while resources still performed best (+32.3%), financials were not far off (+29.6%), with industrials lagging (+26.5%). At a level down the disparities widen, for example, diversified miners significantly outperformed their precious metal peers and an exceptionally strong Richemont more than offset the struggling Naspers/Prosus within industrials. Our local banks fared better than the insurers, as they recovered off a lower base and reported credit losses over the course of the pandemic that were appreciably better than what the market initially feared.

Overweight positions in Glencore and Sasol were among the largest contributors to the Fund's return and both remain large holdings. The iron ore price has recovered somewhat from its November 2021 lows and still remains substantially higher than our estimated long-term level, hence our preference for Glencore's commodity mix over that of iron-ore exposed BHP and Anglo American (both material underweight positions). A key feature of the Fund's design is its ability to benefit from both up and down markets, for which platinum group metal (PGM) miners were a case in point during 2021. Prevailing commodity prices tend to dictate the direction in which the miners move, so when there was evidence of PGM prices potentially bottoming in September on news of the vehicle semiconductor chip shortage easing, we increased our exposure to the sector, reversing a previous large underweight position.

The strong performance of Richemont, to which the Fund has no exposure, continues to be a drag on the Fund's return. This was particularly hard felt in the last quarter of 2021 after the company reported better-than-expected results and the share price surged to a record high. While in hindsight it was a mistake not to own it, or at the least not to minimise the underweight, such a move is harder to justify at its current level, with the share trading on an elevated multiple of earnings that have been boosted by increased lockdown-induced consumer spending.

During the quarter the Fund added Anglo American Platinum, Impala Platinum and Spar and sold Shoprite, Capitec and RMI.

Commentary contributed by Sean Munsie



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Collective investment schemes in securities (unit trusts or funds) are generally medium- to long-term investments. The value of units may go down as well as up and 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 the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

## Fund mandate

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. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

## Unit price

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 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

## Fees

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.

## Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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).

## FTSE/JSE All Share Index

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

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You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**

ALLAN GRAY

Fund manager: Londa Nxumalo Inception date: 1 October 2004

# Allan Gray Bond Fund

31 December 2021

## Fund description and summary of investment policy

The Fund invests in South African interest bearing securities. Securities include national government, parastatal, municipal, corporate bonds and money market instruments. The Fund price is sensitive to interest rate movements because of the long-term nature of the Fund's investments. The duration of the Fund may differ materially from the benchmark. The Fund is managed to comply with investment limits governing retirement funds.

ASISA unit trust category: South African – Interest Bearing – Variable Term

## Fund objective and benchmark

The Bond Fund's goal is to deliver returns that exceed inflation and cash over the long term, without taking on undue risk. The Fund's benchmark is the FTSE/JSE All Bond Index.

## How we aim to achieve the Fund's objective

We try to balance credit risk, duration risk and liquidity risk when selecting investments. We target total returns for investors rather than trying to mirror the returns of the FTSE/JSE All Bond Index. When we cannot find value in the bond markets, our portfolio will be weighted towards cash to get better returns.

## Suitable for those investors who

- Seek a bond 'building block' for a diversified multi-asset class portfolio
- Are looking for returns in excess of those provided by money market or cash investments
- Are prepared to accept more risk of capital depreciation than in a money market or cash investment

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R50 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

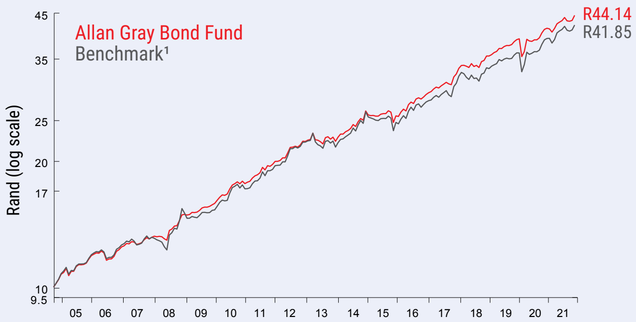
## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R6.3bn |
| Number of units | 536 034 773 |
| Price (net asset value per unit) | R11.17 |
| Modified duration | 5.8 |
| Gross yield (before fees) | 9.1 |
| Class | A |

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 31 December 2021.
2. This is based on the latest available numbers published by IRESS as at 30 November 2021.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 27 February 2020 to 24 March 2020 and maximum benchmark drawdown occurred from 26 February 2020 to 23 March 2020. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 January 2015 and the benchmark's occurred during the 12 months ended 31 January 2015. The Fund's lowest annual return occurred during the 12 months ended 31 January 2016 and the benchmark's occurred during the 12 months ended 31 January 2016. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | Benchmark[1] | CPI inflation[2] |
|---|---|---|---|
| **Cumulative:** | | | |
| Since inception (1 October 2004) | 341.4 | 318.5 | 150.0 |
| **Annualised:** | | | |
| Since inception (1 October 2004) | 9.0 | 8.7 | 5.5 |
| Latest 10 years | 8.5 | 8.2 | 5.0 |
| Latest 5 years | 9.3 | 9.1 | 4.4 |
| Latest 3 years | 8.6 | 9.1 | 4.1 |
| Latest 2 years | 7.4 | 8.5 | 4.3 |
| Latest 1 year | 8.0 | 8.4 | 5.5 |
| Year-to-date (not annualised) | 8.0 | 8.4 | 5.5 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | -18.9 | -19.3 | n/a |
| Percentage positive months[4] | 72.0 | 68.6 | n/a |
| Annualised monthly volatility[5] | 5.9 | 7.5 | n/a |
| Highest annual return[6] | 18.0 | 21.2 | n/a |
| Lowest annual return[6] | -2.6 | -5.6 | n/a |

## Meeting the Fund objective

Since inception and over the latest 10- and five-year periods, the Fund has outperformed its benchmark. The Fund has provided returns in excess of CPI inflation for all three periods. The Fund aims to take no greater risk than its benchmark. The maximum drawdown and lowest annual return numbers, in the 'Performance net of all fees and expenses' table, show that the Fund has successfully reduced downside risk in periods of negative market returns.

## Income distributions for the last 12 months

| Actual payout, the Fund distributes quarterly | 31 Mar 2021 | 30 Jun 2021 | 30 Sep 2021 | 31 Dec 2021 |
|---|---|---|---|---|
| **Cents per unit** | 22.5561 | 22.9999 | 23.8985 | 24.6430 |

## Annual management fee

A fixed fee of 0.5% p.a. excl. VAT

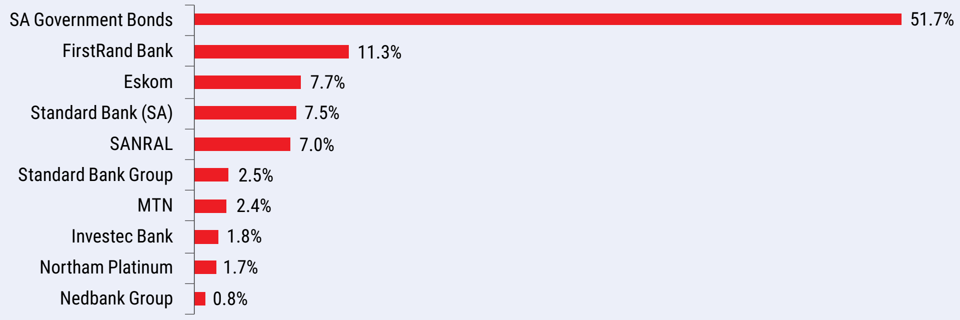
## Total expense ratio (TER) and Transaction costs

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

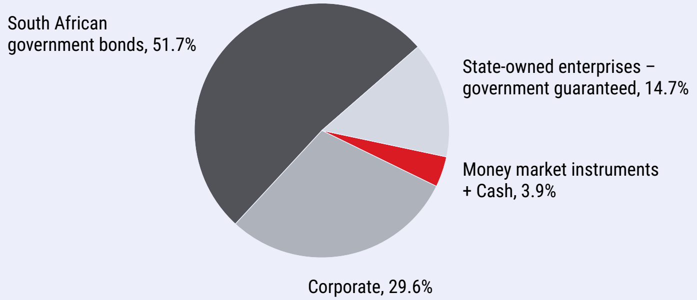
| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **0.32** | **0.49** |
| Fee for benchmark performance* | 0.27 | 0.26 |
| Performance fees* | 0.00 | 0.16 |
| Other costs excluding transaction costs | 0.01 | 0.01 |
| VAT | 0.04 | 0.06 |
| **Transaction costs (including VAT)** | **0.00** | **0.00** |
| **Total investment charge** | **0.32** | **0.49** |

*On 1 December 2021, the Fund's annual management fee changed from the previous performance-based fee to the current fixed fee of 0.5% p.a. excl. VAT.

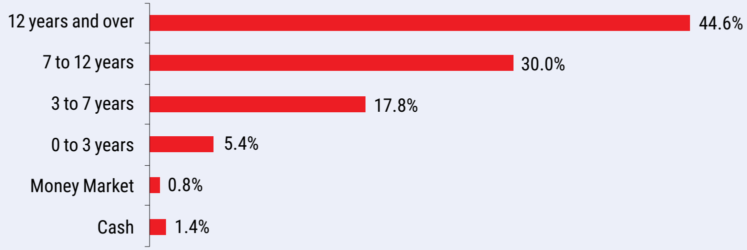
## Top 10 credit exposures on 31 December 2021




## Asset allocation on 31 December 2021




## Maturity profile on 31 December 2021




Note: There may be slight discrepancies in the totals due to rounding.



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## Fund manager quarterly commentary as at 31 December 2021

The year 2021 started off on a strong note, given the low base set by the previous year. Economies bounced back strongly after a non-repetition of the stringent lockdowns of 2020. This also led to rising commodity prices due to recovering demand, which was a boon for commodity-exporting countries, including those in emerging markets (EMs). The broad increase in asset prices – termed "reflation" – was seen as the inevitable effect of a growing, more prosperous economy. Any sign of *inflation* (the malignant kind that results from too much money chasing too few goods) was seen as merely "transitory", to quote the storied US Federal Reserve (the Fed).

However, fears soon began to surface that increasingly pervasive *inflation* would, in fact, be more persistent than the markets had been led to believe. This rude awakening was preluded by rising global food and energy prices, supply chain disruptions and bottlenecks against a backdrop of heightened reopening demand, and worker shortages creating fears of a wage spiral. Aside from the effects of latent demand coming back online as economies reopened, this resurgent inflation was the inevitable result of loose fiscal *and* monetary policy; the US is a prime example of this kind of profligacy. US inflation printed at 6.8% in November – the highest in a generation.

Central banks around the world began to act against rising inflation. Not wanting to be caught behind the curve, major EM central banks – such as those in Brazil, Russia, Mexico and Poland – led the charge. The South African Reserve Bank, warily watching inflation while still desiring to support the economy, joined the fray in November by hiking its repo rate from 3.5% to 3.75%. Credibility is all the more important for EM central bankers, given these countries' dependence on global capital flows. Meanwhile, only *some* developed market (DM) central banks started withdrawing their monetary stimulus – such as Norway, New Zealand and Canada – while major DM central banks, i.e. the Fed, European Central Bank and Bank of England, remained laggards, although the Fed finally announced the beginning of its bond purchase tapering programme in early November. However, the Omicron variant threw a spanner in the works in late November, resulting in rapid border closures and travel restrictions across many countries, with implications for further global supply chain disruptions and dire effects for tourism industries, especially in EMs.

South Africa experienced its own economic recovery due to less stringent lockdown restrictions, although growth in the third quarter was negatively affected by the July unrest. The high commodity prices gave a positive boost to the country's terms of trade, as well as government revenues. However, the strong revenue overrun came against the backdrop of pressing and conflicting fiscal priorities. On the one side, escalating spending pressures in the form of a bloated civil service wage bill, troubled state-owned entities (SOEs), and a proposed basic income grant. On the other side, arresting South Africa's debt accumulation, which is unsustainable in the absence of markedly higher economic growth. Positively, the National Treasury reduced its bond auction sizes twice during the year, with a total 40% reduction.

Credit issuance during 2021 surpassed the total amount issued in 2020, but is yet to return to pre-pandemic levels. Nonetheless, issuances were more consistent throughout the year than the long dry spell experienced in the middle of 2020. Credit spreads continued to tighten due to strong investor demand, with the exception of the parastatal sector (municipalities and SOEs), which continues to be largely unloved due to heightened risks and poor transparency. Bonds that reference environmental and social parameters are becoming a regular theme in the domestic market, with over R10 billion of these types of instruments issued in 2020 – a record. Sizeable issuers in this space during the year were Netcare, Rand Water, Redefine Properties and Standard Bank.

The Allan Gray Bond Fund seeks to strike a reasonable balance between liquidity, credit and duration risk. Currently, the Fund is more or less evenly split between government bonds and credit, which mostly comprises the big South African banks and government guaranteed SOE bonds. During the fourth quarter, we added Northam Platinum and switched into longer-dated Standard Bank senior debt. We also added FirstRand and government inflation-linked bonds due to their attractive real rates. The duration of the Fund is 0.6 years lower than that of the FTSE/JSE All Bond Index.

Commentary contributed by Londa Nxumalo



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## Yield

The Allan Gray Bond Fund yield is current, calculated as at month-end.

## Fees

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.

## Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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).

## Compliance with Regulation 28

The Fund is managed to comply with Regulation 28 of the Pension Funds Act 24 of 1956. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

## FTSE/JSE All Bond Index

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

## Important information for investors

**Need more information?**
You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**

## Fund description and summary of investment policy

The Fund invests in South African money market instruments with a term shorter than 13 months. These instruments can be issued by government, parastatals, corporates and banks. The Fund is managed to comply with regulations governing retirement funds.

While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument held by the Fund defaults. In this event losses will be borne by the Fund and its investors.

**ASISA unit trust category:** South African – Interest Bearing – Money Market

## Fund objective and benchmark

The Fund aims to preserve capital, maintain liquidity and generate a sound level of income. The Fund's benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index.

## How we aim to achieve the Fund's objective

The Fund invests in selected money market instruments providing an income yield and a high degree of capital stability. We formulate an interest rate outlook, which is influenced by our inflation outlook and expectations of the resulting Reserve Bank policy response. Based on this analysis, we select investments for the Fund. These assets are typically held to maturity. We take a conservative approach to credit risk.

## Suitable for those investors who

- Require monthly income distributions
- Are highly risk-averse but seek returns higher than bank deposits
- Need a short-term investment account

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R50 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R23.5bn |
| Number of units | 22 522 268 565 |
| Price (net asset value per unit) | R1.00 |
| Monthly yield at month end | 0.38 |
| Fund weighted average coupon (days) | 86.79 |
| Fund weighted average maturity (days) | 114.14 |
| Class | A |

1. The current benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index. Since 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, performance as calculated by Allan Gray as at 31 December 2021.
2. This is based on the latest available numbers published by IRESS as at 30 November 2021.
3. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 July 2003 and the benchmark's occurred during the 12 months ended 31 July 2003. The Fund's lowest annual return occurred during the 12 months ended 31 October 2021 and the benchmark's occurred during the 12 months ended 31 October 2021. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Income distribution for the last 12 months

Actual payout (cents per unit), the Fund distributes monthly

| Jan 2021 | Feb 2021 | Mar 2021 | Apr 2021 |
|---|---|---|---|
| 0.36 | 0.32 | 0.35 | 0.34 |
| **May 2021** | **June 2021** | **July 2021** | **Aug 2021** |
| 0.35 | 0.34 | 0.35 | 0.36 |
| **Sept 2021** | **Oct 2021** | **Nov 2021** | **Dec 2021** |
| 0.35 | 0.36 | 0.36 | 0.38 |

## Performance net of all fees and expenses

| % Returns | Fund | Benchmark[1] | CPI inflation[2] |
|---|---|---|---|
| **Cumulative:** | | | |
| Since inception (1 July 2001) | 358.6 | 343.5 | 192.7 |
| **Annualised:** | | | |
| Since inception (1 July 2001) | 7.7 | 7.5 | 5.4 |
| Latest 10 years | 6.5 | 6.2 | 5.0 |
| Latest 5 years | 6.7 | 6.2 | 4.4 |
| Latest 3 years | 6.0 | 5.5 | 4.1 |
| Latest 2 years | 5.1 | 4.6 | 4.3 |
| Latest 1 year | 4.3 | 3.8 | 5.5 |
| Year-to-date (not annualised) | 4.3 | 3.8 | 5.5 |
| **Risk measures (since inception)** | | | |
| Percentage positive months | 100.0 | 100.0 | n/a |
| Annualised monthly volatility | 0.6 | 0.6 | n/a |
| Highest annual return[3] | 12.8 | 13.3 | n/a |
| Lowest annual return[3] | 4.3 | 3.8 | n/a |



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## Meeting the Fund objective

The Fund has preserved capital, maintained liquidity and generated a sound level of income.

## Annual management fee

A fixed fee of 0.25% p.a. excl. VAT

## Total expense ratio (TER) and Transaction costs

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **0.29** | **0.29** |
| Fee for benchmark performance | 0.25 | 0.25 |
| Performance fees | 0.00 | 0.00 |
| Other costs excluding transaction costs | 0.00 | 0.00 |
| VAT | 0.04 | 0.04 |
| **Transaction costs (including VAT)** | **0.00** | **0.00** |
| **Total investment charge** | **0.29** | **0.29** |

## Exposure by issuer on 31 December 2021

| | % of portfolio |
|---|---|
| **Corporates** | **10.8** |
| Pick 'n Pay | 2.9 |
| Shoprite | 2.8 |
| Sanlam | 2.5 |
| AVI | 1.7 |
| MTN | 0.5 |
| Mercedes-Benz | 0.4 |
| **Banks[4]** | **56.1** |
| Nedbank | 15.7 |
| Standard Bank | 13.5 |
| Absa Bank | 12.0 |
| Investec Bank | 10.0 |
| FirstRand Bank | 4.9 |
| **Government** | **33.1** |
| Republic of South Africa | 33.1 |
| **Total (%)** | **100.0** |

4. Banks include negotiable certificates of deposit (NCDs), fixed deposits and call deposits.

Note: There may be slight discrepancies in the totals due to rounding.

## Fund manager quarterly commentary as at 31 December 2021

We are in a difficult period of transition in the world. 2021 saw us attempt to emerge from the COVID-19 pandemic into recovery. Inevitably, parallels have been drawn with the post-World War II period of reconstruction, the errors in monetary policy of the 1960s and 70s, and the great inflation that followed. The persistence and severity of inflation became an intense source of global contention last year. After spending much of 2021 defending their stance that current inflation is "transitory", the US Federal Reserve (the Fed) eventually acknowledged that it is time to retire the word.

Every bull market contains the embryo of the next bear market, and this time is no different. The rise of money supply and sovereign debt are now structural factors of developed markets, the seeds of which were planted long before the pandemic came to be. During the recent decade-long bull market, the Fed sought to offer low interest rates to borrowers to solve issues of corporate solvency with liquidity, leading to leveraged balance sheets and *asset price* inflation. This was not a noticeable problem for consumers as it was not hitting the real-world economy and *consumer price* inflation. During the pandemic, easy money and Federal asset purchases picked up enormous speed. The Fed also began to move into the realm of commercial banking by guaranteeing private sector loans. Finally, the smouldering situation was doused in lighter fluid when fiscal policy began to push COVID-19 stimulus cheques directly into the hands of US consumers.

For the first time in many years, US inflation – which fired up to 6.8% year-on-year in November – is well above South Africa's at 5.5%, where credit lending has remained weak alongside our consumer. Vulnerability has nonetheless crept in via our failure to use improved commodity prices to drastically reduce our imprudent SA government debt levels. Even against this frail local backdrop, the South African Reserve Bank raised our overnight interest rate from 3.50% to 3.75% at the November 2021 Monetary Policy Committee (MPC) meeting. They cannot ignore the global dynamics at play.

SA money market investors entered 2021 earning the lowest level of overnight interest rates on record; the MPC's move signalled a change in direction. The Reserve Bank's quarterly projection model suggests that the SA repo rate should rise to 6.75% in 2024, which is still some time away. Will the actual path of interest rate normalisation be gradual or rapid? The MPC prefers the former, but they are, as ever, dependent on the data. This is the conundrum of monetary policy – to be forward-looking and data-dependent simultaneously. One cannot wait to see the whites of the eyes of inflation before making a move.

In 2021 the Fund was able to raise its weighted-average yield from all-time lows by investing cash at opportune times when inflationary fears fuelled a spike in market yields. At select times in the year, SA bank one-year fixed deposit rates rose to 5.5% and Government Treasury bills peaked at rates of 5.6% to 5.9% during a particularly weak auction. The Fund's annualised yield before fees peaked at 4.98% in late November but settled a bit lower. We continue to look for opportunities to raise it further so that our investors might enjoy above-inflation returns.

Commentary contributed by Thalia Petousis



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Allan Gray is an authorised financial services provider.

## Management Company

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). The Management Company is incorporated under the laws of South Africa and has been approved by the regulatory authority of Botswana to market its unit trusts in Botswana, however, it is not supervised or licensed in Botswana. 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).

The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or www.rmb.co.za.

## Performance

Collective investment schemes in securities (unit trusts or funds) are generally medium- to long-term investments. The value of units may go down as well as up and 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 the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes.

## Fund mandate

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. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

## 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.

Purchase and redemption requests must be received by the Management Company by 11:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

## Fees

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.

## Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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).

## Compliance with Regulation 28

The Fund is managed to comply with Regulation 28 of the Pension Funds Act 24 of 1956. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

## Important information for investors

**Need more information?**
You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**

**Fund managers:** This Fund invests solely into the Orbis Global Equity Fund, managed by Orbis Investment Management Limited **Inception date:** 1 April 2005

# Allan Gray-Orbis Global Equity Feeder Fund

**31 December 2021**

## Fund description and summary of investment policy

The Fund is a feeder fund and invests only in the Orbis Global Equity Fund, managed by Allan Gray's offshore investment partner, Orbis Investment Management Limited. The Orbis Global Equity Fund is designed to be exposed to all of the risks and rewards of selected global shares. Returns are likely to be volatile, especially over short- and medium-term periods. Although the Fund's investment universe is global, the units in the Fund are priced and traded daily in rands.

ASISA unit trust category: Global – Equity – General

## Fund objective and benchmark

The Fund aims to outperform global stock markets over the long term, without taking on greater risk. Its benchmark is the FTSE World Index, including income.

## How we aim to achieve the Fund's objective

The Fund invests only in the Orbis Global Equity Fund. The Orbis Global Equity Fund is designed to be exposed to all of the risks and rewards of selected global shares. Orbis uses in-house research to identify companies around the world whose shares can be purchased for less than Orbis' assessment of their long-term intrinsic value. This long-term perspective enables Orbis to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. This is the same approach as that used by Allan Gray to invest in South African equities, except that Orbis is able to choose from many more shares, listed internationally.

## Suitable for those investors who

- Seek exposure to diversified international equities to provide long-term capital growth
- Wish to invest in international assets without having to personally expatriate rands
- Are comfortable with global stock market and currency fluctuation and risk of capital loss
- Typically have an investment horizon of more than five years
- Wish to use the Fund as a global equity 'building block' in a diversified multi-asset class portfolio

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R50 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

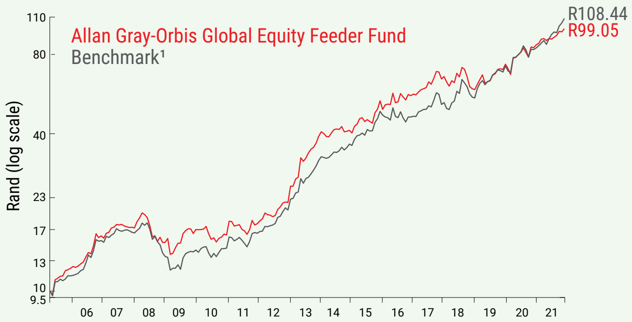
## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R26.7bn |
| Number of units | 270 412 598 |
| Price (net asset value per unit) | R98.60 |
| Class | A |

1. FTSE World Index including income (source: Bloomberg), performance as calculated by Allan Gray as at 31 December 2021. Effective 14 May 2020, the Orbis Global Equity Fund's benchmark changed from the FTSE World Index, including income (FTSE World Index), to the MSCI World Index, including income, after withholding taxes (MSCI World Index). For an initial period of time, the Orbis Global Equity Fund will continue to charge its fee with reference to the FTSE World Index. After this period, the benchmark of the Allan Gray-Orbis Global Equity Feeder Fund will change to the MSCI World Index. Please see the Orbis Global Equity Fund's factsheet for more information on this fee transitional period.
2. This is based on the latest available numbers published by IRESS as at 30 November 2021.
3. Maximum percentage decline over any period. The maximum rand drawdown occurred from 6 June 2008 to 10 March 2009 and maximum benchmark drawdown occurred from 5 June 2008 to 6 March 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 December 2013 and the benchmark's occurred during the 12 months ended 31 December 2013. The Fund's lowest annual return occurred during the 12 months ended 31 March 2009 and the benchmark's occurred during the 12 months ended 31 March 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | | Benchmark[1] | | CPI inflation[2] | |
|---|---|---|---|---|---|---|
| **Cumulative:** | ZAR | US$ | ZAR | US$ | ZAR | US$ |
| Since inception (1 April 2005) | 890.5 | 287.1 | 984.4 | 323.8 | 145.0 | 44.4 |
| **Annualised:** | | | | | | |
| Since inception (1 April 2005) | 14.7 | 8.4 | 15.3 | 9.0 | 5.5 | 2.2 |
| Latest 10 years | 18.6 | 10.8 | 20.7 | 12.8 | 5.0 | 2.1 |
| Latest 5 years | 12.4 | 9.0 | 18.8 | 15.2 | 4.4 | 2.9 |
| Latest 3 years | 19.1 | 15.1 | 25.8 | 21.5 | 4.1 | 3.3 |
| Latest 2 years | 19.4 | 12.0 | 26.4 | 18.6 | 4.3 | 4.0 |
| Latest 1 year | 18.0 | 8.7 | 31.3 | 20.9 | 5.5 | 6.9 |
| Year-to-date (not annualised) | 18.0 | 8.7 | 31.3 | 20.9 | 5.5 | 6.9 |
| **Risk measures (since inception)** | | | | | | |
| Maximum drawdown[3] | -34.1 | -52.8 | -38.0 | -57.6 | n/a | n/a |
| Percentage positive months[4] | 63.7 | 60.2 | 63.2 | 64.7 | n/a | n/a |
| Annualised monthly volatility[5] | 15.1 | 17.2 | 13.9 | 15.6 | n/a | n/a |
| Highest annual return[6] | 78.2 | 64.1 | 54.2 | 58.4 | n/a | n/a |
| Lowest annual return[6] | -29.7 | -44.8 | -32.7 | -47.3 | n/a | n/a |



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# Allan Gray-Orbis Global Equity Feeder Fund

31 December 2021

## Meeting the Fund objective

Since inception and over the latest 10- and five-year periods, the Fund has underperformed its benchmark. The Fund has provided returns in excess of CPI inflation for all three periods. The Fund experiences periods of underperformance in pursuit of its objective of creating long-term wealth for investors, without taking on greater risk of loss than the global stock market. The maximum drawdown and lowest annual return numbers, in the 'Performance net of all fees and expenses' table, show that the Fund has successfully reduced downside risk in periods of negative market returns.

## Income distributions for the last 12 months

| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus annually. | 31 Dec 2021 |
|---|---|
| **Cents per unit** | **1.5476** |

## Annual management fee

Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis.

Orbis charges an annual management fee within the underlying Orbis Global Equity Fund. The fee rate is calculated based on the Orbis fund's performance relative to its benchmark. For more information please refer to the Orbis Global Equity Fund factsheet and prospectus, which can be found at www.orbis.com.

## Total expense ratio (TER) and Transaction costs

The annual management fee charged by Orbis is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **0.78** | **0.93** |
| Fee for benchmark performance | 1.48 | 1.49 |
| Performance fees | -0.75 | -0.61 |
| Other costs excluding transaction costs | 0.05 | 0.05 |
| VAT | 0.00 | 0.00 |
| **Transaction costs (including VAT)** | **0.10** | **0.09** |
| **Total investment charge** | **0.88** | **1.02** |

## Top 10 share holdings on 31 December 2021

| Company | % of portfolio |
|---|---|
| British American Tobacco | 5.9 |
| GXO Logistics | 3.5 |
| XPO Logistics | 3.4 |
| UnitedHealth Group | 3.2 |
| Naspers[7] | 3.2 |
| Anthem | 3.0 |
| ING Groep | 2.8 |
| Global Payments | 2.8 |
| FLEETCOR Technologies | 2.7 |
| Comcast | 2.5 |
| **Total** | **33.0** |

7. Includes holding in stub certificates or Prosus N.V., if applicable.

## Asset allocation on 31 December 2021

This fund invests solely into the Orbis Global Equity Fund

| | Total | North America | Europe and UK | Japan | Asia ex-Japan | Other |
|---|---|---|---|---|---|---|
| Net equities | 99.0 | 40.2 | 26.8 | 10.7 | 14.2 | 7.2 |
| Hedged equities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fixed interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commodity-linked | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net current assets | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| **TOTAL** | **100.0** | **40.2** | **26.8** | **10.7** | **14.2** | **8.1** |
| **Currency exposure of the Orbis Global Equity Fund** | | | | | | |
| Funds | 100.0 | 44.1 | 28.0 | 10.8 | 10.0 | 7.2 |
| Index | 100.0 | 67.0 | 17.9 | 6.7 | 5.1 | 3.3 |

Note: There may be slight discrepancies in the totals due to rounding.



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## Fund manager quarterly commentary as at 31 December 2021

As 2021 draws to a close, we are as frustrated about the performance of the Fund as we are confident about the opportunities in it.

The market environment has been shaped by investor psychology around COVID-19. At times, it's felt like the market is valuing companies for the next 10 years based on the COVID-19 outlook for the next 10 weeks. From November 2020 through May 2021, vaccine optimism was a tailwind for our relative performance, but since then, variant pessimism has been a headwind.

While we naturally cannot control the environment, what we can control is which companies we choose to own in the Fund.

Some stocks that we haven't owned in the Fund, or haven't owned as large positions, such as Apple, Microsoft, and Google, performed fantastically well in 2021, especially from May through November. In fact, just five stocks accounted for almost all of the return of the FTSE World Index over that period.

But many of the highest-flying stocks in 2021 do not have anything like the entrenched dominance or firehose-like cash generation of the tech giants. Some 70 shares in the US trade for more than 10 times revenues, or 10 times money coming in the door *before* any expenses. With such sky-high valuations, in our view many of today's glamour darlings are likely to leave investors nursing losses. We remain happy to avoid the froth. Closer to home, some stocks we have owned have performed poorly, with a nearly eight percentage point drag on the Fund's returns from the 10 largest detractors.

We still hold nine of those 10. We think the value of our companies is little changed, but the market has reassessed them far more negatively. As a result, we think the discount to intrinsic value is wider – in some cases *much* wider – than it was six months ago. The same is true for many other holdings. That has been a frustrating experience to date, but it leaves us more enthusiastic about the portfolio today.

The best way to understand that enthusiasm is to look at the portfolio as we do – from the bottom up, company by company. The following positions, which together represent over a quarter of the portfolio, exemplify the value we see.

**Growth cyclicals**

Investors have grown accustomed to thinking of growth as synonymous with tech – virtual businesses that can deliver growth regardless of the economic cycle. Yet companies with exposure to the economic cycle can offer attractive growth potential, too. We believe we've found five such opportunities in the US: XPO and GXO Logistics, which we discussed in March, as well as Howmet Aerospace and two specialised payments companies.

Howmet Aerospace makes precision aerospace parts. That is a good business – specifications are demanding, reliability is paramount, and customers insist on proven suppliers. The parts Howmet makes are so specialised that in some cases it is the only company on earth capable of producing them. The company has faced headwinds as COVID-19 took an axe to commercial air travel, but cut costs substantially and raised prices, managing to keep margins relatively flat and free cash flow positive despite a substantial hit to revenues. In a more normal demand environment, we believe Howmet can eventually earn US$3 a share – roughly triple its 2019 earnings – making its current US$32 share price a bargain for long-term investors prepared to wait out the recovery in air travel.

Fleetcor and Global Payments are payments businesses focused on small business niches. The two shares were roundly thrashed over the past few months following disappointing spending data from Visa and weak trading among many small businesses. In our view, the sell-off is a clear overreaction to short-term concerns, and over the long term, both businesses offer outstanding growth potential. By focusing on their customer niches, we believe both Fleetcor and Global Payments can grow earnings by roughly 20% p.a. over the long term, a far faster rate than the average stock, yet today both trade at just 15 times our estimate of forward earnings, a substantial discount to the wider market.

**The boring middle**

We've never found the distinction between "growth" and "value" to be all that useful. Yet investors often rush to bucket stocks into one or the other camp, focusing on expensive, fast-growing upstarts or cheap, slow-growing dinosaurs. That neglects plenty of stocks in the "boring" middle – letting us find several compelling ideas there. In addition to US health management organisation UnitedHealth Group, which we discussed last quarter, this group also includes Comcast and Dollar General.

Comcast is the leading cable and broadband provider in the US, and it also owns NBC Universal, and Sky in the UK. We got an exceptional opportunity to buy Comcast in 2020, when investors punished the stock as COVID-19 hurt the film, theme park, and sports broadcasting businesses. A year on, we believe the stock is still underappreciated due to worries about COVID-19 and cord cutting (when a customer drops TV in favour of streaming services). COVID-19 challenges will recede in time, and cord cutting is actually *beneficial* for Comcast's margins – as customers tend to purchase more bandwidth when switching to streaming services. Our proprietary data analysis suggests that Comcast should be able to out-compete slower service from competitors. We believe Comcast can grow earnings at a double-digit rate over our investment horizon, yet it trades at a steep discount to the wider market.

Dollar General is the original dollar store and still the leader, with over 17 000 stores in the US. Over the long term, the company has steadily grown earnings by 16% p.a. while generating above-average returns on capital. By focusing on smaller stores, building those stores more cheaply, staffing them more efficiently, and filling them with only essential goods, Dollar General generates much higher returns than its peers on each store it opens. While Amazon offers cheap goods too, delivery is slower and more costly in rural areas, often making Dollar General a more convenient choice for rural customers. And because it focuses on lower-cost goods, Dollar General's sales are often counter-cyclical, *benefiting* as consumers become more price-conscious in recessions. Yet today, we do not have to pay up for these attractive fundamental strengths – we see Dollar General as a much-better-than-average business trading at an average price.

**Chinese internet**

We remain enthusiastic holders of NetEase and Naspers (whose key asset is a stake in Chinese internet goliath Tencent) despite the turbulence of 2021. As we wrote last quarter, we believe both shares trade at larger discounts to intrinsic value following their recent share price weakness, though the position sizes are tempered by our sober assessment of the potential regulatory risks.

**The whole portfolio**

The stocks above show a pattern that is common to the wider portfolio: getting much better quality than we are paying for. In aggregate, the companies in the Fund have grown revenues more quickly than the average business over the long term, while generating similar returns on equity. Yet today our shares trade at a 35% discount to the average stock. Getting similar or better quality at a 35% discount strikes us as exceptionally good value – value that leaves us both excited and confident about the opportunities ahead.

Over the quarter, we continued to add to the recently established positions in Fleetcor Technologies, Global Payments and a US-based discount retailer. We funded these purchases by trimming or selling out of some China-related holdings, and by eliminating the positions in AbbVie and Amazon.

Adapted from a commentary contributed by Rob Perrone, Orbis Investment Advisory Limited, London

## Important information for investors

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### Performance

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### Fund mandate

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. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

### Unit price

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 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

### Fees

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.

### Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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).

### Feeder fund

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

### Foreign exposure

This fund invests in a foreign fund managed by Orbis Investment Management Limited, our offshore investment partner.

### FTSE Russell Index

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### MSCI Index

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You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**

ALLANGRAY

**Fund managers:** This Fund invests solely into the Orbis SICAV Global Balanced Fund, managed by Orbis Investment Management Limited. **Inception date:** 3 February 2004

# Allan Gray-Orbis Global Balanced Feeder Fund

**31 December 2021**

## Fund description and summary of investment policy[1]

The Fund is a feeder fund and invests only in the Orbis SICAV Global Balanced Fund ('Orbis Global Balanced'), managed by Allan Gray's offshore investment partner, Orbis Investment Management Limited. Orbis Global Balanced invests in a diversified global portfolio of equities, fixed income, and commodity-linked instruments. The typical net equity exposure of Orbis Global Balanced is between 40% and 75%. Orbis Global Balanced aims to balance investment returns and risk of loss. Returns are likely to be less volatile than those of a global equity-only fund. Although Orbis Global Balanced's investment universe is global, the units of the Fund are priced and traded daily in rands.

ASISA unit trust category: Global – Multi Asset – High Equity

## Fund objective and benchmark[1]

The Fund aims to create long-term wealth for investors and to outperform its designated combined equity and bond performance benchmark, which comprises 60% the MSCI World Index with net dividends reinvested and 40% the J.P. Morgan GBI Global Index.

## How we aim to achieve the Fund's objective

The Fund invests only in Orbis Global Balanced. Orbis Global Balanced is actively managed and invests in a diversified global portfolio of equities, fixed income, and commodity-linked instruments. Orbis Global Balanced targets an exposure of 40% to 90% of net asset value ('NAV') in equities, 10% to 50% in fixed income and 0% to 10% in commodity-linked instruments. The overall exposure to equities after hedging is intended to be limited to 75% of NAV. The weighting among the asset classes is driven by Orbis' bottom-up approach in selecting securities across asset classes and therefore may deviate substantially compared to the benchmark.

Like Allan Gray, Orbis uses in-house research to identify companies whose shares can be purchased for less than Orbis' assessment of their long-term intrinsic value. This long-term perspective enables them to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. A similar approach is applied in selecting fixed income instruments, which may consist of cash, cash equivalents, government bonds and investment-grade and high-yield corporate bonds and, at times, distressed corporate bonds. They are selected with the aim of increasing the overall risk-adjusted return.

When Orbis' research suggests that stock or bond markets are overvalued, Orbis may reduce exposure to those asset classes or hedge market risk using exchange-traded derivatives. Hedged equities may also be used as an alternative to holding fixed-income instruments and reduce overall portfolio risks. Commodity-linked instruments are included if Orbis' research identifies certain commodities as being more attractive on a risk-adjusted basis than overall equity or fixed-income opportunities. Currency exposure is actively managed to control exposure to currencies less likely to hold their long-term value in US dollars.

## Suitable for those investors who

- Seek to balance investment returns and risk of loss, by investing in a diversified global multi-asset class portfolio
- Wish to invest in international assets without having to personally expatriate rands
- Are comfortable that the investment approach is likely to result in volatility and potential capital loss, but typically less volatility than that of a global equity-only fund
- Typically have an investment horizon of at least three to five years

## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R15.4bn |
| Number of units | 294 532 410 |
| Price (net asset value per unit) | R52.37 |
| Class | A |

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R50 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

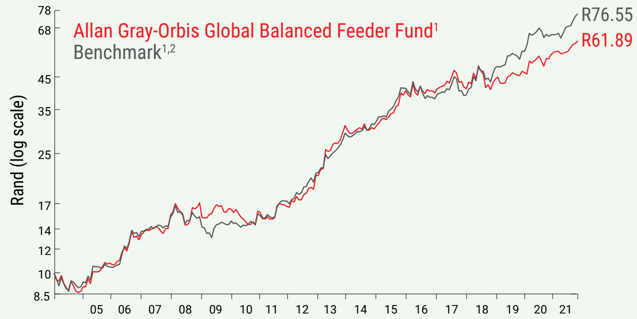
*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

1. The Fund was converted from a fund of funds structure to a feeder fund structure and its name and benchmark were amended on 1 June 2021. For more information, please read 'Ballot underway for Allan Gray-Orbis Global Fund of Funds', available via the Latest insights section of our website.
2. 60% of the MSCI World Index with net dividends reinvested and 40% of the J.P. Morgan GBI Global Index (source: Bloomberg), performance as calculated by Allan Gray as at 31 December 2021. From inception to 31 May 2021, the benchmark was 60% of the FTSE World Index including income and 40% of the J.P. Morgan GBI Global Index.
3. This is based on the latest available numbers published by IRESS as at 30 November 2021.
4. Maximum percentage decline over any period. The maximum rand drawdown occurred from 23 October 2008 to 14 October 2010 and maximum benchmark drawdown ccurred from 23 October 2008 to 30 June 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
5. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
6. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
7. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 December 2013 and the benchmark's occurred during the 12 months ended 31 December 2013. The Fund's lowest annual return occurred during the 12 months ended 31 October 2010 and the benchmark's occurred during the 12 months ended 30 June 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | | Benchmark[1,2] | | CPI inflation[3] | |
|---|---|---|---|---|---|---|
| **Cumulative:** | ZAR | US$ | ZAR | US$ | ZAR | US$ |
| Since inception (3 February 2004) | 518.9 | 173.1 | 665.5 | 237.8 | 155.2 | 49.7 |
| **Annualised:** | | | | | | |
| Since inception (3 February 2004) | 10.7 | 5.7 | 12.0 | 7.0 | 5.4 | 2.3 |
| Latest 10 years | 13.7 | 6.3 | 15.8 | 8.2 | 5.0 | 2.1 |
| Latest 5 years | 8.2 | 4.9 | 14.0 | 10.6 | 4.4 | 2.9 |
| Latest 3 years | 12.2 | 8.4 | 18.3 | 14.3 | 4.1 | 3.3 |
| Latest 2 years | 14.6 | 7.5 | 19.6 | 12.2 | 4.3 | 4.0 |
| Latest 1 year | 15.3 | 6.2 | 19.3 | 9.9 | 5.5 | 6.9 |
| Year-to-date (not annualised) | 15.3 | 6.2 | 19.3 | 9.9 | 5.5 | 6.9 |
| **Risk measures (since inception)** | | | | | | |
| Maximum drawdown[4] | -24.0 | -37.0 | -25.1 | -37.5 | n/a | n/a |
| Percentage positive months[5] | 58.6 | 60.0 | 59.5 | 64.2 | n/a | n/a |
| Annualised monthly volatility[6] | 13.6 | 11.5 | 12.7 | 9.9 | n/a | n/a |
| Highest annual return[7] | 55.6 | 43.8 | 38.8 | 37.6 | n/a | n/a |
| Lowest annual return[7] | -13.7 | -27.3 | -17.0 | -31.7 | n/a | n/a |



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# Allan Gray-Orbis Global Balanced Feeder Fund

**31 December 2021**

## Meeting the Fund objective

Since inception and over the latest 10- and five-year periods, the Fund has underperformed its benchmark. The Fund has provided returns in excess of CPI inflation for all three periods. The Fund experiences periods of underperformance in pursuit of its objective of creating long-term wealth for investors, without taking on greater risk of loss than similar funds in the Global – Multi Asset – High Equity sector.

## Income distributions for the last 12 months

| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus annually. | 31 Dec 2021 |
|---|---|
| **Cents per unit** | **0.1143** |

## Annual management fee

Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis.

Orbis charges an annual management fee within the underlying Orbis SICAV Global Balanced Fund. The fee rate is calculated based on the Orbis fund's performance relative to its benchmark. For more information please refer to the Orbis SICAV Global Balanced Fund factsheet and prospectus, which can be found at www.orbis.com.

## Total expense ratio (TER) and Transaction costs

The annual management fee charged by Orbis is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **0.89** | **0.99** |
| Fee for benchmark performance | 1.48 | 1.46 |
| Performance fees | -0.66 | -0.53 |
| Other costs excluding transaction costs | 0.07 | 0.06 |
| VAT | 0.00 | 0.00 |
| **Transaction costs (including VAT)** | **0.09** | **0.08** |
| **Total investment charge** | **0.98** | **1.07** |

## Top 10 holdings on 31 December 2021

| Company | % of portfolio |
|---|---|
| SPDR Gold Trust | 6.7 |
| Samsung Electronics | 5.9 |
| BP | 3.0 |
| Royal Dutch Shell | 2.7 |
| Taiwan Semiconductor Mfg. | 2.5 |
| Drax Group | 2.4 |
| UnitedHealth Group | 2.3 |
| Schlumberger | 2.2 |
| ING Groep | 2.0 |
| Mitsubishi | 1.9 |
| **Total (%)** | **31.6** |

## Asset allocation on 31 December 2021

**This fund invests solely into the Orbis SICAV Global Balanced Fund**

| | Total | North America | Europe and UK | Japan | Asia ex-Japan | Other |
|---|---|---|---|---|---|---|
| Net equities | 62.0 | 15.4 | 25.0 | 8.6 | 10.4 | 2.5 |
| Hedged equities | 19.8 | 9.9 | 5.6 | 1.3 | 1.5 | 1.5 |
| Fixed interest | 11.5 | 8.8 | 0.5 | 0.1 | 0.3 | 1.8 |
| Commodity-linked | 6.7 | 0.0 | 0.0 | 0.0 | 0.0 | 6.7 |
| Net current assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **100.0** | **34.1** | **31.1** | **10.0** | **12.2** | **12.6** |
| **Currency exposure of the Orbis SICAV Global Balanced Fund** | | | | | | |
| Funds | 100.0 | 37.2 | 36.1 | 13.4 | 10.3 | 3.1 |
| Index | 100.0 | 62.8 | 23.4 | 11.1 | 0.7 | 2.0 |

Note: There may be slight discrepancies in the totals due to rounding.

## Fund manager quarterly commentary as at 31 December 2021

It has been quite a ride. Coming into COVID-19, the Fund was positioned well for continued economic activity. That, of course, is the opposite of what happened, and the Fund suffered along with the market in the initial crash. At that time, the best thing we could do was dedicate ourselves to taking advantage of the opportunities to upgrade the Fund's upside and quality so that it could outperform in the recovery.

That's what we did, and the Fund outperformed significantly from the March 2020 lows. By the end of May 2021, when the Delta variant was first named, the Fund had recovered all of its underperformance from the initial COVID-19 crash and then some.

With the emergence of new variants since then, popular trends of the past decade have re-emerged – low bond yields, a preference for virtual businesses, and a strong US dollar and stock market. Those have weighed on performance, undoing the Fund's outperformance in the first half of 2021.

As a competitor, I am frustrated by the performance, but as an analyst, I'm more excited about the portfolio than I was a year ago. The businesses we invest in are performing well for us, but for many, their stock prices are not. While in other parts of the market, less profitable or outright money-losing businesses are attracting increasingly bubbly prices.

As a result, the gradient between the bubbly stocks and the other three-quarters or so of the market is the most extreme I've seen in my 35 years of professional investing. That is nirvana for a valuation-focused stockpicker. So as managers of meme-friendly funds feel emboldened to dismiss contrarians as dinosaurs and valuations as a chump's pursuit, we remain committed to and excited about our approach. The most difficult times, as a contrarian, are created when market momentum around a certain group of stocks goes far enough for long enough that we eventually rotate out of the things that have done well into opportunities that are fundamentally more attractive. This usually works well, as momentum typically has a short shelf life, but every once in a while, trends persist to the point of notable extremes. One feature of the recent market momentum regime has been the seeking out of companies that don't have to invest much in physical plant and equipment to produce earnings. An Apple or a Microsoft or a Google doesn't have to buy a lot of plant and equipment to run their business. They've been called virtual companies.

Because virtual companies have so captivated investors, it's become almost religion that you don't own the opposite – you don't own companies that have to invest a lot in capital expenditures to maintain their business. Something like a semiconductor manufacturer sits at this undesirable end of the spectrum, where each plant costs US$15-20 billion and takes five to six years to build, during which time the plant produces no revenues. Similarly, building a copper mine will cost money for years before producing any copper. Same for a polyethylene plant, or a refinery, or a cardboard factory.

These "maker" businesses are perceived as very unattractive and have been punished with very low valuations. Said another way, investors are supplying less capital to businesses that make physical things. The wonderful irony (for us anyway) is that demand for those things is exploding – including from the "virtual" businesses.

We are seeing the results. Supply chains are roiled, and many don't have enough capacity of the basic inputs that these makers make. That's been caused, in part, by years of shareholders yelling at these companies to stop investing.

So we've been able to buy lots of makers, many of which provide support critical to the success of more glamorous companies, at very low prices.

The best example is also the largest equity holding in the Fund – Samsung Electronics, the world's largest maker of memory semiconductors. The company invests a great deal – nearly US$40 billion in the last 12 months alone. But with a long-term return on equity close to 20%, Samsung does make a lot of money on what they invest.

That is the key for us. We share others' dislike for companies that invest heavily in low-return pursuits, but for Samsung that's not the case. The latest manufacturing method employed by Samsung, called extreme ultraviolet lithography, manipulates light with a precision akin to shooting an arrow at the moon and hitting an apple off a person's head. Samsung memory enables everyone from Apple to Microsoft to offer their products. Yet, after accounting for the cash on its balance sheet, Samsung trades at just 10 times earnings. We strongly believe that Samsung's remarkable skill is worth something much closer to 20 times earnings, similar to the multiple afforded the wider stock market today.

We think that kind of perception against makers is going to change, and not just for Samsung. The Fund is now dominated by companies that make things that are important to everyday life, including six of the top 10 positions.

The world is coming to realise that it needs Samsung to produce memory chips, and BP and Schlumberger to produce oil and gas. The UK needs Drax to produce electricity, and Japan needs Mitsubishi to produce and import metals, food, and energy. A third of all natural gas in the world is touched by Royal Dutch Shell, and TSMC is probably the most important company on earth, responsible for producing the brains for most of the world's computers. As that realisation continues to become clearer, we believe each of these companies should be rewarded with materially higher valuations.

Over half of the Orbis SICAV Global Balanced Fund today is invested in the equity or debt of companies that we consider "makers".

Those makers contribute to a portfolio that looks very different from the market as a whole. In aggregate, the equities in the Fund have lower returns on equity and revenue growth than the wider market – but the Fund is fully 45% cheaper than the market on a forward price-earnings basis, and on a free cash flow basis, the discount to the broader market has never been wider.

We tend to feel best about the portfolio just when we feel worst about performance. That is a feature, not a bug, of our approach. We intend to stick with it. Being a contrarian is difficult – until it becomes wonderful.

The largest addition to the Fund during the quarter was a new position in a US energy infrastructure company, which we believe is trading at a deep discount having weathered the headwinds that have plagued the oil & gas industry in recent years. Conversely, the largest sale was a reduction in US pharmaceutical company AbbVie, following a period of outperformance.

Adapted from a commentary contributed by Alec Cutler, Orbis Investment Management Limited, Bermuda



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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. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

## Unit price

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 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

## Fees

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.

## Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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).

## Feeder fund

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

## Foreign exposure

This fund invests in a foreign fund managed by Orbis Investment Management Limited, our offshore investment partner.

## MSCI Index

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## FTSE Russell Index

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## J.P. Morgan Index

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## Important information for investors

**Need more information?**
You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**

ALLANGRAY

**Fund manager:** Duncan Artus (The underlying Orbis funds are managed by Orbis)
**Inception date:** 2 March 2010

# Allan Gray-Orbis Global Optimal Fund of Funds

**31 December 2021**

## Fund description and summary of investment policy

The Fund invests in a mix of absolute return funds managed by Allan Gray's offshore investment partner, Orbis Investment Management Limited. The typical net equity exposure of the Fund is between 0% and 20%. The Orbis Optimal SA funds included in the Fund use exchange-traded derivative contracts on stock market indices to reduce net equity exposure. In these funds, the market exposure of equity portfolios is effectively replaced with cash-like exposure, plus or minus Orbis' skills in delivering returns above or below the market. Returns are likely to be less volatile than those of a foreign equity or balanced fund. Although the Fund's investment universe is global, the units in the Fund are priced and traded daily in rands. When considered in rands, returns of this foreign fund are likely to be more volatile than domestic funds with similar equity constraints.

ASISA unit trust category: Global – Multi Asset – Low Equity

## Fund objective and benchmark

The Fund aims to provide a high degree of capital stability (when measured in the foreign currency denominations of the underlying Orbis Funds), while producing long-term returns that are superior to foreign currency bank deposits. The Fund's benchmark is the simple average of the benchmarks of the underlying Orbis funds.

## How we aim to achieve the Fund's objective

The Fund invests only in the Optimal SA absolute return funds managed by our offshore investment partner, Orbis Investment Management Limited. Within the Optimal funds, Orbis uses in-house research to identify companies around the world whose shares can be purchased for less than Orbis' assessment of their long-term intrinsic value. This long-term perspective enables them to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. This is the same approach as that used by Allan Gray to invest in South African equities, except that Orbis is able to choose from many more shares, listed internationally. The Orbis Optimal SA funds reduce most of their stock market risk by the use of exchange-traded derivative futures contracts. The Orbis Optimal SA funds will typically retain a small portion of their exposure to equity markets, but the level of exposure may be varied depending on Orbis' assessment of the potential returns on global stock markets relative to their risk of capital loss. The underlying funds' returns are therefore derived partly from their relatively low exposure to stock markets, partly from Orbis' selected share returns relative to those markets, and partly from foreign currency cash-equivalent returns. The Fund's currency exposure is actively managed both within the underlying Orbis funds and through our selection of Orbis funds.

## Suitable for those investors who

- Seek steady absolute returns ahead of those of cash measured in global currencies
- Wish to invest in international assets without having to personally expatriate rands
- Are comfortable with taking on the risk of currency fluctuation, but prefer little exposure to stock market risk
- Wish to use the Fund as a foreign absolute return 'building block' in a diversified multi-asset class portfolio

## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R0.9bn |
| Number of units | 44 959 266 |
| Price (net asset value per unit) | R20.71 |
| Class | A |

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R50 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

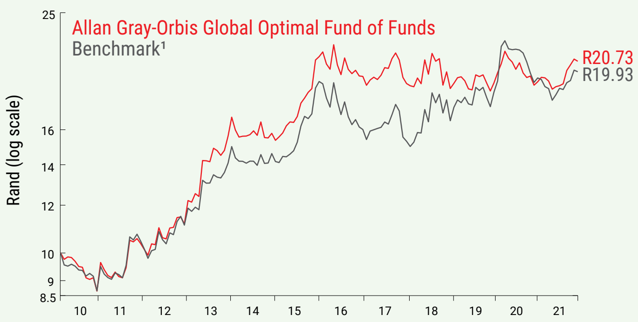
*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

1. The simple average of the benchmarks of the underlying funds, performance as calculated by Allan Gray as at 31 December 2021.
2. This is based on the latest available numbers published by IRESS as at 30 November 2021.
3. Maximum percentage decline over any period. The maximum rand drawdown occurred from 18 May 2016 to 24 March 2017 and maximum benchmark drawdown occurred from 18 January 2016 to 23 February 2018. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 December 2013 and the benchmark's occurred during the 12 months ended 31 January 2016. The Fund's lowest annual return occurred during the 12 months ended 31 May 2017 and the benchmark's occurred during the 12 months ended 28 February 2017. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | | Benchmark[1] | | CPI inflation[2] | |
|---|---|---|---|---|---|---|
| **Cumulative:** | ZAR | US$ | ZAR | US$ | ZAR | US$ |
| Since inception (2 March 2010) | 107.3 | 0.0 | 99.3 | -3.9 | 76.9 | 28.3 |
| **Annualised:** | | | | | | |
| Since inception (2 March 2010) | 6.4 | 0.0 | 6.0 | -0.4 | 5.0 | 2.1 |
| Latest 10 years | 7.2 | 0.2 | 6.7 | -0.3 | 5.0 | 2.1 |
| Latest 5 years | 1.1 | -1.9 | 4.3 | 1.2 | 4.4 | 2.9 |
| Latest 3 years | 1.4 | -2.0 | 3.6 | 0.1 | 4.1 | 3.3 |
| Latest 2 years | 5.8 | -0.8 | 6.9 | 0.3 | 4.3 | 4.0 |
| Latest 1 year | 9.5 | 0.8 | 4.2 | -4.1 | 5.5 | 6.9 |
| Year-to-date (not annualised) | 9.5 | 0.8 | 4.2 | -4.1 | 5.5 | 6.9 |
| **Risk measures (since inception)** | | | | | | |
| Maximum drawdown[3] | -18.9 | -31.3 | -26.6 | -15.1 | n/a | n/a |
| Percentage positive months[4] | 50.0 | 52.1 | 46.5 | 47.9 | n/a | n/a |
| Annualised monthly volatility[5] | 13.5 | 7.4 | 14.1 | 4.3 | n/a | n/a |
| Highest annual return[6] | 39.6 | 14.4 | 35.6 | 9.4 | n/a | n/a |
| Lowest annual return[6] | -12.4 | -15.3 | -19.1 | -11.6 | n/a | n/a |

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## Meeting the Fund objective

Since inception and over the latest 10-year period, the Fund has outperformed its benchmark. Over the latest five-year period the Fund has underperformed its benchmark. It should be noted that the returns on dollar and euro cash have been low over this period. There has been some volatility in the Fund's returns. The underlying funds' maximum drawdowns to date, in their reporting currencies, are 23% for the Orbis Optimal SA Dollar class and 28% for the Orbis Optimal SA Euro class.

## Income distributions for the last 12 months

| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus annually. | 31 Dec 2021 |
|---|---|
| **Cents per unit** | **0.0000** |

## Annual management fee

Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis.

Orbis charges annual management fees within the underlying Orbis funds. Each fund's fee rate is calculated based on the fund's performance relative to its own benchmark. For more information please refer to the Orbis Optimal SA Fund factsheets and prospectus, which can be found at www.orbis.com.

## Total expense ratio (TER) and Transaction costs

The annual management fees charged by Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **1.07** | **1.08** |
| Fee for benchmark performance | 1.00 | 1.00 |
| Performance fees | -0.01 | -0.01 |
| Other costs excluding transaction costs | 0.08 | 0.09 |
| VAT | 0.00 | 0.00 |
| **Transaction costs (including VAT)** | **0.11** | **0.12** |
| **Total investment charge** | **1.18** | **1.20** |

## Top 10 share holdings on 31 December 2021

| Company | % of portfolio |
|---|---|
| British American Tobacco | 4.4 |
| UnitedHealth Group | 4.2 |
| Drax Group | 3.6 |
| Mitsubishi | 3.0 |
| Woodside Petroleum | 2.9 |
| NetEase | 2.5 |
| Korea Investment Holdings | 2.1 |
| Olam International | 2.0 |
| Sberbank of Russia | 2.0 |
| KB Financial Group | 2.0 |
| **Total (%)** | **28.6** |

## Fund allocation on 31 December 2021

| Foreign absolute return funds | % |
|---|---|
| Orbis Optimal SA (US$) | 63.5 |
| Orbis Optimal SA (Euro) | 36.5 |
| **Total (%)** | **100.0** |

## Asset allocation on 31 December 2021

| | Total | North America | Europe and UK | Japan | Asia ex-Japan | Other |
|---|---|---|---|---|---|---|
| Net equities | 5.5 | -1.4 | 2.3 | 2.2 | 2.4 | 0.0 |
| Hedged equities | 83.9 | 27.0 | 22.2 | 15.1 | 14.9 | 4.7 |
| Fixed interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commodity-linked | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net current assets | 10.6 | 0.0 | 0.0 | 0.0 | 0.0 | 10.6 |
| **Total** | **100.0** | **25.7** | **24.5** | **17.2** | **17.3** | **15.3** |
| **Currency exposure of the Orbis funds** | | | | | | |
| Funds | 100.0 | 57.3 | 36.2 | 0.2 | 6.3 | 0.0 |

Note: There may be slight discrepancies in the totals due to rounding.



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## Fund manager quarterly commentary as at 31 December 2021

In November, a luxury yacht was sold for US$650 000. This would be unremarkable if not for the fact that the Metaflower Super Mega Yacht exists only in code. It may be useful for navigating the metaverse, but won't help you get around the Mediterranean.

While paying US$650 000 for a digital boat feels bubbly, you can at least make an argument for some of the underlying concepts and technologies. Yet when one considers additional evidence from more mundane "old world" areas like Barbie dolls, Star Wars toys and Pokémon cards, it becomes more obvious that the investment environment can be safely characterised as speculative.

It is easy to say "this can't end well", but much harder to say how, when or why it will unwind. One trigger for a reversal could be inflation.

The burning question is how much of the current uptick in inflation is "transitory", to use the US Federal Reserve's term, or "hump"-shaped as the European Central Bank described it. Our view on this: who knows? What we do know, however, is that the market seems to be pricing in the "transitory" scenario with some certainty. This can be seen in the historically wide valuation gap between longer duration equities – meaning those generating little free cash flow today but with the potential to generate substantial excess cash in the distant future – and their shorter duration counterparts.

Optimal seeks to own the most undervalued shares we can find, while taking short positions in stock market indices. The return of Optimal is therefore mainly comprised of the relative performance between these two. Dislocations such as the above are therefore extremely valuable to Optimal, as they signal wide divergence between the prospective returns of our favoured shares – many of which currently fall into the short-duration, high-yielding bucket – and the broader indices. Indeed, the bulk of the speculative activity we see in markets right now can be found in zero-yielding longer duration assets, with Pokémon cards et al being the ultimate example. As longer duration stocks have appreciated in price, they have come to dominate the indices, driving index duration ever higher. This is what makes broader asset prices so vulnerable at the moment, and why Optimal currently offers an unusually attractive way to diversify.

To bring this to life with an example, the valuation gap can be observed in the electricity generation sector. Longer duration businesses such as those involved in the renewables space are trading at particularly elevated valuations, while more traditional and shorter duration companies languish at unusually depressed levels.

The simplistic explanation is that renewables represent the future while the incumbents are facing extinction. But the reality is a great deal more complicated. As a society, we are asking an awful lot: we want to move away from carbon-based energy sources; we want to consume more energy through the electric grid; we want to complicate the grid by adding distributed generation such as solar panels on homes; and we want to extend the grid by moving renewable power plants away from cities to areas where they will catch the most sun or wind. There's simply no way to achieve all of this without relying on both existing energy infrastructure as well as new alternatives.

The transition will need to be facilitated by a mixture of clean base generation, such as existing natural gas infrastructure combined with carbon capture, as well as the development of scalable ways to store energy such as hydrogen.

The growth opportunity is substantial, but not without challenges. Competition is intensifying and persistent cost inflation is a real risk. We believe that investing at today's lofty equity valuations comes with considerable room for disappointment.

Compare this to a more traditional, short-duration business such as natural gas production. The world still produces about 40% of its electricity from oil and coal, and many investors have assumed that a lot of this will ultimately get replaced by "green" solutions rather than gas.

Yet even some climate-focused policymakers recognise that dependence on gas power generation is expected to increase out to 2050. We believe most countries will have to balance intermittent green solutions with reliable baseload generation as electric vehicles and homes draw more power. This is becoming ever more apparent given rising instances of grid instability in areas where renewables have ballooned beyond any reasonable ability to store excess energy. Gas is likely the cheapest and cleanest solution, especially when paired with new technologies that can further reduce carbon emissions.

As it stands, however, we risk wide-scale shortages in one of the cleanest facilitators of the global energy transition. Layer on cost increases from the necessary reduction in methane leakages and development of carbon capture technologies, and you end up with a market that will require structurally higher gas prices to incentivise necessary supply. A number of holdings in the Fund have exposure to natural gas and stand to benefit from this tailwind. These include established positions such as Woodside Petroleum, INPEX and Golar LNG, as well as a basket of more recent holdings such as Tourmaline Oil and Siemens Energy.

The Fund's current positioning provides an element of protection against inflation, which we see as a central risk to asset prices at this stage. While we have no idea whether the current consumer price environment will endure, energy prices could play a key role. It's important to recognise that our existing global energy system has historically been optimised for one task — to provide energy as cheaply and efficiently as possible. As we go about the critical task of removing the carbon externality, we start optimising for something else. This is necessary, but extremely expensive. These costs will naturally flow through into energy prices.

This is all to say that despite what appears to be a highly speculative environment, there are still ways that one can protect capital while seeking attractive returns. In Optimal, this means identifying cash-generative businesses that are attractive on their own idiosyncratic merits and all the more so when compared to their respective local stock markets. When coupled with the Fund's hedging strategy, this should produce a differentiated stream of returns that is uncorrelated with that of Pokémon cards, digital yachts, Treasury bonds and the stock market alike.

The Fund's overall net equity exposure decreased over the quarter. Among individual positions, the largest addition was to a US-based payments technology company, and the largest reduction was to Meta Platforms, the parent organisation of Facebook.

Adapted from a commentary contributed by Graeme Forster, Orbis Investment Management Limited, Bermuda

## Important information for investors

The availability of the Fund is subject to offshore capacity constraints. Please contact our Client Service Centre for further information about any constraints that may apply.



### 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 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.

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Allan Gray is an authorised financial services provider.

### Management Company

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). The Management Company is incorporated under the laws of South Africa and has been approved by the regulatory authority of Botswana to market its unit trusts in Botswana, however, it is not supervised or licensed in Botswana. 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).

The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or www.rmb.co.za.

### Performance

Collective investment schemes in securities (unit trusts or funds) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may also cause the value of underlying international investments to go up or down. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

### Fund mandate

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. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

### Unit price

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 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

### Fees

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.

### Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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).

### Fund of funds

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 funds of funds.

### Foreign exposure

This fund invests in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

### FTSE Russell Index

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**Fund managers:** Duncan Artus, Jacques Plaut, Rory Kutisker-Jacobson, Tim Acker
(Most foreign assets are invested in Orbis funds) **Inception date:** 1 February 2016
**Only available through tax-free investment accounts.**

# Allan Gray Tax-Free Balanced Fund

**31 December 2021**

## Fund description and summary of investment policy

The Fund is managed in broadly the same way as the Allan Gray Balanced Fund. It was created specifically for use in tax-free accounts and can only be accessed through these products. The Fund invests in a mix of shares, bonds, property, commodities and cash. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. The Fund typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investment Management Limited, our offshore investment partner. The maximum net equity exposure of the Fund is 75% and we may use exchange-traded derivative contracts on stock market indices to reduce net equity exposure from time to time. The Fund is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only fund.

ASISA unit trust category: South African – Multi Asset – High Equity

## Fund objective and benchmark

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund's benchmark is the market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds).

## How we aim to achieve the Fund's objective

We seek to buy shares at a discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares we may increase the Fund's weighting to alternative assets such as bonds, property, commodities and cash, or we may partially hedge the Fund's stock market exposure. By varying the Fund's exposure to these different asset classes over time, we seek to enhance the Fund's long-term returns and to manage its risk. The Fund's bond and money market investments are actively managed.

## Suitable for those investors who

- Seek steady long-term capital growth
- Are comfortable with taking on some risk of market fluctuation and potential capital loss, but typically less than that of an equity fund
- Wish to invest in a tax-free investment account
- Typically have an investment horizon of at least three years

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R36 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

## Maximum investment amounts

| | |
|---|---|
| Maximum lump sum per investor account | R36 000 |
| Lifetime maximum | R500 000 |
| Maximum debit order** | R3 000 |

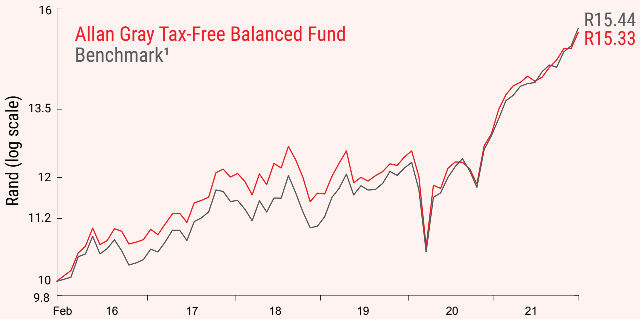
## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R1.7bn |
| Number of units | 111 519 262 |
| Price (net asset value per unit) | R13.49 |
| Class | A |

1. The market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds). Source: Morningstar, performance as calculated by Allan Gray as at 31 December 2021.
2. This is based on the latest available numbers published by IRESS as at 30 November 2021.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 January 2020 to 23 March 2020 and maximum benchmark drawdown occurred from 20 January 2020 to 23 March 2020. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 March 2021 and the benchmark's occurred during the 12 months ended 31 March 2021. The Fund's lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark's occurred during the 12 months ended 31 March 2020. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | Benchmark[1] | CPI inflation[2] |
|---|---|---|---|
| **Cumulative:** | | | |
| Since inception (1 February 2016) | 53.3 | 54.4 | 30.8 |
| **Annualised:** | | | |
| Since inception (1 February 2016) | 7.5 | 7.6 | 4.7 |
| Latest 5 years | 7.4 | 8.3 | 4.4 |
| Latest 3 years | 9.6 | 12.0 | 4.1 |
| Latest 2 years | 11.3 | 12.8 | 4.3 |
| Latest 1 year | 19.0 | 20.3 | 5.5 |
| Year-to-date (not annualised) | 19.0 | 20.3 | 5.5 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | -24.6 | -23.3 | n/a |
| Percentage positive months[4] | 64.8 | 67.6 | n/a |
| Annualised monthly volatility[5] | 10.0 | 9.4 | n/a |
| Highest annual return[6] | 31.7 | 30.7 | n/a |
| Lowest annual return[6] | -13.4 | -10.3 | n/a |



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## Fund history

This Fund is managed in broadly the same way as the Allan Gray Balanced Fund. It was created specifically for use in tax-free accounts. Refer to the Allan Gray Balanced Fund factsheet for a history of the Allan Gray Balanced Fund since its inception on 1 October 1999.

## Meeting the Fund objective

The Fund aims to create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the average return of similar funds without assuming any more risk. The Fund experiences periods of underperformance in pursuit of this objective. Since inception and over the latest five-year period, the Fund has underperformed its benchmark.

## Income distributions for the last 12 months

| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually. | 30 Jun 2021 | 31 Dec 2021 |
|---|---|---|
| **Cents per unit** | **8.1043** | **14.8998** |

## Annual management fee

The fee we charge is fixed at 1.25% excluding VAT.

This fee only applies to the portion of the unit trusts that we manage. The offshore portion of the unit trust is managed by Orbis. Orbis charges fixed fees within these funds. Orbis pays a marketing and distribution fee to Allan Gray.

## Total expense ratio (TER) and Transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

## Top 10 share holdings on 31 December 2021 (SA and Foreign) (updated quarterly)[7]

| Company | % of portfolio |
|---|---|
| British American Tobacco | 6.0 |
| Naspers[8] | 5.7 |
| Glencore | 4.6 |
| Woolworths | 2.3 |
| Nedbank | 2.2 |
| Sasol | 2.1 |
| Remgro | 2.1 |
| Standard Bank | 2.1 |
| AB InBev | 2.0 |
| Sibanye-Stillwater | 1.8 |
| **Total (%)** | **31.0** |

## Asset allocation on 31 December 2021[7]

| Asset class | Total | South Africa | Africa ex-SA | Foreign ex-Africa |
|---|---|---|---|---|
| Net equities | 70.5 | 50.8 | 3.0 | 16.7 |
| Hedged equities | 6.3 | 1.7 | 0.0 | 4.6 |
| Property | 1.1 | 0.8 | 0.0 | 0.4 |
| Commodity-linked | 3.1 | 2.4 | 0.0 | 0.7 |
| Bonds | 13.2 | 10.4 | 1.4 | 1.4 |
| Money market and bank deposits | 5.7 | 3.7 | 0.0 | 1.9 |
| **Total (%)** | **100.0** | **69.8** | **4.4** | **25.8[9]** |

7. Underlying holdings of Orbis funds are included on a look-through basis.
8. Includes holding in stub certificates or Prosus N.V., if applicable.
9. The Fund can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. Market movements periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

Note: There may be slight discrepancies in the totals due to rounding.

## Total expense ratio (TER) and Transaction costs

| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **1.50** | **1.51** |
| Fee for benchmark performance | 1.31 | 1.33 |
| Performance fees | 0.00 | 0.00 |
| Other costs excluding transaction costs | 0.04 | 0.04 |
| VAT | 0.15 | 0.14 |
| **Transaction costs (including VAT)** | **0.09** | **0.10** |
| **Total investment charge** | **1.59** | **1.61** |

## Since inception, the Fund's month-end net equity exposure has varied as follows:

| | |
|---|---|
| Minimum | (February 2016) 57.5% |
| Average | 63.7% |
| Maximum | (May 2021) 72.5% |



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## Fund manager quarterly commentary as at 31 December 2021

The Fund returned 4.9% for the quarter and 19.0% for the 2021 calendar year. While absolute returns have been strong in real terms, we are not where we want to be versus the best of our peers over the recent past.

We remain significantly underweight US equities, which make up over 60% of the MSCI World Index. Instead, we find depressed European, UK, and emerging market equities more attractive. Although this has hurt relative returns in the short term, we find the valuation disparity compelling. We continue to own no long-dated developed world sovereign bonds and rather have a position in gold. The portfolio has been increasingly tilted towards managing the risks that may arise from higher realised global inflation and interest rates.

As noted in previous factsheets, we have been finding value in both local equities and bonds. This has been reflected in an equity and bond weighting that is higher than usual. The major risk we see is the overvaluation of the US market and how local assets would perform in a scenario where that overvaluation suddenly corrected.

Nonetheless we remain optimistic about the long-term value inherent in our chosen local equities. Sometimes it takes patience for that value to be realised. For example, Rand Merchant Insurance (RMI), which traded at a deep discount to its underlying holdings, announced the unbundling of its shares in Discovery and Momentum, and sold its holding in UK insurer Hastings, resulting in a large rerating of the share. This is not just a positive for RMI, but also for its largest shareholder, Remgro, which itself trades at a large discount to its underlying investments. Indeed, the discount climbed as high as 38% during 2021. Remgro owns an attractive portfolio of assets and the actions of management over the last period have highlighted its value. In addition to RMI, Remgro is the largest shareholder in Distell, which is in the process of being bought by Heineken, and its fibre operations (Dark Fibre and Vumatel) housed in CIVH merged with those of Vodacom at an attractive valuation. We continue to find Remgro attractive.

More broadly, we continue to be underweight iron ore and Glencore is still our preferred commodity exposure. We continue to own Sasol and have been increasing our exposure to gold shares such as AngloGold and Gold Fields. Given the increased risks in China from the policies announced by the government, coupled with the very high exposure of South African equities both directly and indirectly to China, we have been focused on reducing this risk to the Fund. The positions in British American Tobacco and AB InBev should be considered within this context.

We remain as focused on thinking about and managing risk in the Fund as we are on generating real long-term returns.

During the quarter the Fund bought gold miners AngloGold and Gold Fields and sold Prosus to buy Naspers.

Commentary contributed by Duncan Artus



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## Information and content

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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 is an authorised financial services provider.

## Management Company

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). The Management Company is incorporated under the laws of South Africa and has been approved by the regulatory authority of Botswana to market its unit trusts in Botswana, however, it is not supervised or licensed in Botswana. 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).

The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or www.rmb.co.za.

## Performance

Collective investment schemes in securities (unit trusts or funds) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may also cause the value of underlying international investments to go up or down. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

## Fund mandate

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. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

## Unit price

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 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

## Fees

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.

## Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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).

## Compliance with Regulation 28

The Fund is managed to comply with Regulation 28 of the Pension Funds Act 24 of 1956. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period. The Management Company does not monitor compliance by retirement funds with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28).

## Foreign exposure

This fund may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

## Information for investors in the tax-free investment account

The Allan Gray Tax-Free Investment Account is administered by Allan Gray Investment Services (Pty) Ltd, an authorised administrative financial services provider, and underwritten by Allan Gray Life Ltd, also an authorised financial services provider and a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017. The underlying investment options of the Allan Gray individual products are portfolios of collective investment schemes in securities (unit trusts or funds).

## FTSE/JSE All Share Index

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

## Important information for investors

**Need more information?**
You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**

## Fund description and summary of investment policy

The Fund invests in shares listed on the Johannesburg Stock Exchange (JSE). The Fund is typically fully invested in shares. Returns are likely to be volatile, especially over short- and medium-term periods.

ASISA unit trust category: South African – Equity – General

## Fund objective and benchmark

The Fund aims to create long-term wealth for investors. It aims to outperform the South African equity market over the long term, without taking on greater risk. To pursue its objective the Fund's portfolio may differ materially from its benchmark. This will result in the Fund underperforming its benchmark materially at times. The Fund aims to compensate for these periods of underperformance by delivering outperformance over the long term. The Fund's benchmark is the FTSE/JSE All Share Index including income.

## How we aim to achieve the Fund's objective

We seek to buy shares offering the best relative value while maintaining a diversified portfolio. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. We invest in a selection of shares across all sectors of the JSE, and across the range of large, mid and smaller cap shares.

## Suitable for those investors who

- Seek exposure to JSE-listed equities to provide long-term capital growth
- Are comfortable with stock market fluctuation, i.e. short- to medium-term volatility
- Are prepared to accept the risk of capital loss
- Typically have an investment horizon of more than five years
- Wish to use the Fund as an equity 'building block' in a diversified multi asset class portfolio

## Minimum investment amounts*

| | |
|---|---|
| Initial lump sum per investor account | R50 000 |
| Additional lump sum | R1 000 |
| Debit order** | R1 000 |

*Lower minimum investment amounts apply for investments in the name of an investor younger than 18. Please refer to our website for more information.

**Only available to investors with a South African bank account.

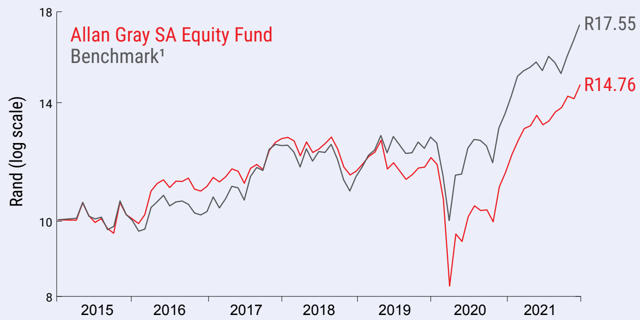
## Fund information on 31 December 2021

| | |
|---|---|
| Fund size | R3.9bn |
| Number of units | 3 507 859 |
| Price (net asset value per unit) | R410.04 |
| Class | A |

1. FTSE/JSE All Share Index including income (source: IRESS), performance as calculated by Allan Gray as at 31 December 2021.
2. This is based on the latest available numbers published by IRESS as at 30 November 2021.
3. Maximum percentage decline over any period. The maximum drawdown for the Fund occurred from 25 January 2018 to 23 March 2020 and maximum benchmark drawdown occurred from 17 January 2020 to 19 March 2020. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception of the Fund. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 March 2021 and the benchmark's occurred during the 12 months ended 31 March 2021. The Fund's lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark's occurred during the 12 months ended 31 March 2020. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | Benchmark[1] | CPI inflation[2] |
|---|---|---|---|
| **Cumulative:** | | | |
| Since inception (13 March 2015) | 47.6 | 75.5 | 38.1 |
| **Annualised:** | | | |
| Since inception (13 March 2015) | 5.9 | 8.6 | 4.9 |
| Latest 5 years | 6.0 | 11.4 | 4.4 |
| Latest 3 years | 8.7 | 15.7 | 4.1 |
| Latest 2 years | 11.1 | 17.6 | 4.3 |
| Latest 1 year | 28.7 | 29.2 | 5.5 |
| Year-to-date (not annualised) | 28.7 | 29.2 | 5.5 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | -44.3 | -35.2 | n/a |
| Percentage positive months[4] | 59.8 | 57.3 | n/a |
| Annualised monthly volatility[5] | 15.8 | 14.5 | n/a |
| Highest annual return[6] | 57.3 | 54.0 | n/a |
| Lowest annual return[6] | -32.0 | -18.4 | n/a |



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## Fund history

The Allan Gray Equity Fund was managed in exactly the same way as this Fund from the inception of the Allan Gray Equity Fund on 1 October 1998, until March 2015, when the Allan Gray Equity Fund changed its mandate to include the ability to invest offshore. A combined history of the two funds since inception of the Allan Gray Equity Fund can be viewed here.

## Meeting the Fund objective

The Fund aims to outperform the South African equity market over the long term, without taking on greater risk. The Fund experiences periods of underperformance in pursuit of this objective. Since inception and over the latest five-year period, the Fund has underperformed its benchmark.

## Income distributions for the last 12 months

| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus biannually. | 30 Jun 2021 | 31 Dec 2021 |
|---|---|---|
| **Cents per unit** | 451.9763 | 813.8448 |

## Annual management fee

Allan Gray charges a fee based on the net asset value of the Fund. The fee rate is calculated daily by comparing the Fund's total performance for the day to that of the benchmark.

Fee for performance equal to the Fund's benchmark: 1.00% p.a. excl. VAT

For each annualised percentage point above or below the benchmark we add or deduct 0.2%. The maximum fee is uncapped and if the fee would have been negative, 0% will be charged for the day and the negative fee will be carried forward to reduce the next day's fee (and all subsequent days until the underperformance is recovered).

This means that Allan Gray shares in 20% of annualised performance relative to the benchmark.

## Total expense ratio (TER) and Transaction costs

The annual management fee is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

## Top 10 share holdings on 31 December 2021 (updated quarterly)

| Company | % of portfolio |
|---|---|
| Naspers[7] | 9.0 |
| British American Tobacco | 8.4 |
| Glencore | 7.7 |
| Woolworths | 4.0 |
| Standard Bank | 3.9 |
| AB InBev | 3.6 |
| Nedbank | 3.5 |
| Remgro | 3.4 |
| Sasol | 3.2 |
| Sibanye-Stillwater | 2.9 |
| **Total (%)** | **49.7** |

7. Includes holding in stub certificates or Prosus N.V., if applicable.

## Total expense ratio (TER) and Transaction costs

| TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2021 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **0.01** | **0.01** |
| Fee for benchmark performance | 1.00 | 1.00 |
| Performance fees | -1.00 | -1.00 |
| Other costs excluding transaction costs | 0.01 | 0.01 |
| VAT | 0.00 | 0.00 |
| **Transaction costs (including VAT)** | **0.11** | **0.11** |
| **Total investment charge** | **0.12** | **0.12** |

## Sector allocation on 31 December 2021 (updated quarterly)

| Sector | % of Fund | % of ALSI[8] |
|---|---|---|
| Energy | 0.1 | 0.7 |
| Basic materials | 26.8 | 34.0 |
| Industrials | 3.9 | 4.2 |
| Consumer staples | 15.5 | 7.1 |
| Healthcare | 3.9 | 2.0 |
| Consumer discretionary | 8.6 | 17.3 |
| Telecommunications | 1.7 | 5.1 |
| Financials | 27.5 | 16.4 |
| Technology | 9.4 | 10.0 |
| Real estate | 1.5 | 3.2 |
| Bonds | 0.1 | 0.0 |
| Money market & bank deposits | 0.9 | 0.0 |
| **Total (%)** | **100.0** | **100.0** |

8. FTSE/JSE All Share Index.

## Asset allocation on 31 December 2021

| Asset class | Total |
|---|---|
| Net equities | 97.5 |
| Property | 1.5 |
| Bonds | 0.1 |
| Money market & bank deposits | 0.9 |
| **Total (%)** | **100.0** |

Note: There may be slight discrepancies in the totals due to rounding.

## Fund manager quarterly commentary as at 31 December 2021

The Fund returned 6.9% for the quarter and 28.7% for the year. During the fourth quarter, the largest contributors to returns were the basic materials and consumer staples sectors. The local equity market rallied strongly into the end of 2021, but this followed a third quarter in which the market was down.

Returns from the JSE in 2021 were 29.2% as measured by the FTSE/JSE All Share Index (ALSI) and 27.1% as measured by the Capped SWIX. These numbers are of course reasonably high by historical standards. For context, over the last 40 years the ALSI has returned 16.3% p.a.

There is a seeming contradiction between strong equity market returns on the one hand and a weak South African economy on the other hand. How should we interpret this divergence? Firstly, it is very common for the performance of stock markets to diverge from economic performance, especially in the short term. Markets take a forward-looking view and often look through the short-term impact of issues like COVID-19. Secondly, the fortunes of many JSE-listed companies are not really linked to South African economic growth. This would include international businesses like Richemont and commodity exporters like Impala Platinum. On a rough analysis, earnings for about half the JSE are not directly linked to the SA economy.

Following this strong performance, the ALSI closed 2021 29% higher than it was at the start of 2020, i.e. before the onset of the pandemic. Does this mean that the JSE is now expensive? Not necessarily. Overall valuation levels are not high compared to history. The Capped SWIX has also returned only 7% p.a. over the last five years, despite this recent strong performance. Allan Gray's philosophy is to not take a top-down view of where markets are heading, but rather to do bottom-up research on individual companies. Our fundamental research 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 environment, but these are balanced by the low prices at which many businesses are trading.

The South African banking sector is an example of where we are finding attractive valuations. Large banks like Standard Bank and Nedbank can be bought at around seven times 2022's earnings. This is very cheap by historical standards and compensates for issues such as increasing competition and a tough economic outlook. Current earnings are also still depressed but should recover to pre-COVID-19 levels in the next year or two. Bad debts have been lower than many investors had feared. Lower participation from foreign investors in the SA market has contributed to depressed valuations of SA financial stocks.

Remgro is another example of an undervalued business. Remgro owns a portfolio of quality South African businesses, many of which are listed. These businesses themselves trade on reasonable valuations. On top of this, Remgro trades at a nearly 40% discount to its underlying portfolio – a large, and we think undeserved, discount compared to history and other holding companies globally. Management is taking several actions to unlock value within this portfolio. Examples include the recently announced transactions between beverage businesses Distell and Heineken and between fibre holding company CIVH and Vodacom, as well as the planned unbundling of some insurance assets by Rand Merchant Investment Holdings.

During the quarter the Fund bought Gold Fields, Mondi and Anheuser-Busch and sold Standard Bank and RMI.

Commentary contributed by Tim Acker

## Information and content

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## Unit price

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 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

## Fees

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.

## Total expense ratio (TER) and transaction costs

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 one- and three-year periods. 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).

## FTSE/JSE All Share Index and FTSE/JSE Capped Shareholder Weighted All Share Index

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

## Important information for investors

**Need more information?**
You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**