ALLANGRAY

**Fund managers:** Duncan Artus, Pieter Koornhof, Rory Kutisker-Jacobson, Siphesihle Zwane, Tim Acker
**Inception date:** 13 March 2015

# Allan Gray SA Equity Fund

30 September 2024

## 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 – SA 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

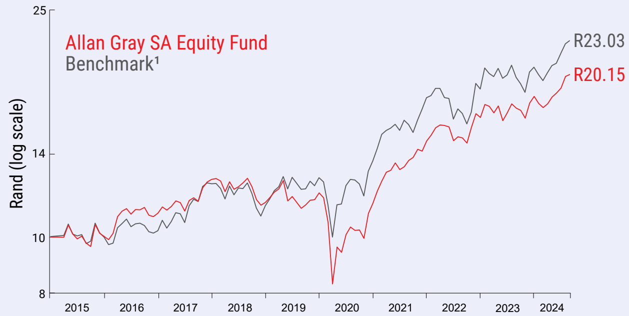
## Fund information on 30 September 2024

| | |
|---|---|
| Fund size | R4.1bn |
| Number of units | 1 002 195 |
| Price (net asset value per unit) | R498.39 |
| Class | A |

1. FTSE/JSE All Share Index including income (source: IRESS), performance as calculated by Allan Gray as at 30 September 2024.
2. This is based on the latest available numbers published by IRESS as at 31 August 2024.
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) | 101.5 | 130.3 | 61.1 |
| **Annualised:** | | | |
| Since inception (13 March 2015) | 7.6 | 9.1 | 5.2 |
| Latest 5 years | 12.1 | 13.7 | 4.9 |
| Latest 3 years | 13.4 | 14.7 | 5.6 |
| Latest 2 years | 17.3 | 20.7 | 4.6 |
| Latest 1 year | 20.5 | 23.9 | 4.4 |
| Year-to-date (not annualised) | 13.9 | 15.9 | 2.9 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | -44.3 | -35.2 | n/a |
| Percentage positive months[4] | 59.1 | 57.4 | n/a |
| Annualised monthly volatility[5] | 14.5 | 14.6 | n/a |
| Highest annual return[6] | 57.3 | 54.0 | n/a |
| Lowest annual return[6] | -32.0 | -18.4 | n/a |

## 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. | 31 Dec 2023 | 30 Jun 2024 |
|---|---|---|
| **Cents per unit** | 949.678 | 1187.0242 |

## 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 30 September 2024 (updated quarterly)

| Company | % of portfolio |
|---|---|
| Naspers & Prosus | 8.6 |
| AB InBev | 7.6 |
| British American Tobacco | 7.2 |
| Standard Bank | 5.2 |
| Nedbank | 4.3 |
| Woolworths | 4.2 |
| Mondi | 4.1 |
| Glencore | 4.0 |
| FirstRand Bank | 3.1 |
| Remgro | 2.8 |
| **Total (%)** | **51.2** |

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

| TER and transaction costs breakdown for the 1- and 3-year period ending 30 September 2024 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **0.82** | **0.90** |
| Fee for benchmark performance | 1.00 | 1.00 |
| Performance fees | -0.30 | -0.23 |
| Other costs excluding transaction costs | 0.01 | 0.01 |
| VAT | 0.11 | 0.12 |
| **Transaction costs (including VAT)** | **0.09** | **0.10** |
| **Total investment charge** | **0.91** | **1.00** |

## Sector allocation on 30 September 2024 (updated quarterly)

| Sector | % of equities[7] | % of ALSI[8] |
|---|---|---|
| Financials | 26.8 | 30.6 |
| Basic materials | 21.1 | 19.3 |
| Consumer staples | 21.0 | 11.9 |
| Consumer discretionary | 10.2 | 7.9 |
| Technology | 8.9 | 14.7 |
| Industrials | 6.2 | 3.7 |
| Telecommunications | 1.8 | 4.1 |
| Energy | 1.7 | 0.9 |
| Healthcare | 1.2 | 1.9 |
| Real estate | 1.0 | 5.0 |
| **Total (%)** | **100.0** | **100.0** |

7. Includes listed property.
8. FTSE/JSE All Share Index.

## Asset allocation on 30 September 2024

| Asset class | Total |
|---|---|
| Net equity | 96.0 |
| Hedged equity | 0.0 |
| Property | 1.0 |
| Commodity-linked | 0.7 |
| Bonds | 0.0 |
| Money market and cash | 2.3 |
| **Total (%)** | **100.0** |

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

## Fund manager quarterly commentary as at 30 September 2024

Volatility was a key characteristic of equity returns this quarter. Despite the MSCI World Index recording new highs at quarter end, this performance did not come in a straight line. The US, which accounts for more than 70% of the MSCI World Index, was largely responsible for the rocky ride. The S&P 500 rose by 4% in the two weeks to mid-July, before falling by 8% over the next three weeks on weaker-than-expected July US employment data, which triggered fears of a looming recession. Thereafter, it rose by 9% over the next month on strong US GDP growth and weaker inflation versus expectations, before falling by 4% over the next week on another US employment data release. The US Federal Reserve (the Fed) cut interest rates by 50 basis points (bps) in late September (for the first time since the COVID-19 pandemic), serving as the quarter's defining gambit. Investors cheered the prospects of easing US inflation into a soft economic landing, resulting in the S&P 500 rising 6% overall for the quarter and bringing 2024 year-to-date gains to 22%.

The outsized moves above highlight an adage by the pioneer of value investing, Benjamin Graham, who said that the stock market is a voting machine over the short term. In a period of heightened uncertainty and low visibility, investors are severely punishing asset prices where outcomes miss expectations even slightly and, conversely, are excessively rewarding stocks that slightly beat consensus estimates. The current "vote" is that US inflation is structurally heading back to the 2% average it enjoyed in the 20 years to 2021, with a terminal interest rate 2% lower than current levels, and without the US falling into a deep recession. However, we take a more conservative view, acknowledging that we have little edge in predicting macroeconomic outcomes. If indeed the US consumer remains robust, which is likely given still-low unemployment and still-strong wage growth, then cutting interest rates prematurely should see another rise in inflation down the road and the need to tighten conditions once more. On the other hand, deep interest rate cuts may be a leading indicator of a weak US economy. Either scenario will be bad for global stock prices.

Benefiting from positive global sentiment, local stocks were further buoyed by improving investor confidence in South Africa following the formation of the government of national unity. The FTSE/JSE All Share Index returned 10% for the quarter and 16% year to date. Companies that predominantly face the South African economy boosted performance: Over the quarter, local retailers rallied 23%, property 19%, life insurers 16%, food producers 14% and banks 13%. The rand also strengthened by 9% versus the US dollar from its post-election trough in early June to quarter end.

Short-term prospects for the South African consumer are looking better than a year ago. Following the Fed's lead, the South African Reserve Bank cut interest rates by 25 bps during the quarter, with more cuts likely. Lower oil prices and proceeds from the two-pot retirement reform will also put more money into the hands of consumers. A reprieve in loadshedding will reduce non-productive expenditure and improve revenue opportunities for local companies. However, we remain concerned about growth prospects beyond these temporary tailwinds. South African capital investment is contracting, policy reform is painfully slow and state-owned enterprise performance remains broadly woeful. South Africa's position as a resource economy is also precarious given a slowdown in China, which consumes more than 50% of most industrial commodities. The impact of the recently announced Chinese policy stimulus is still untested.

A useful rule of thumb is that good equity returns follow periods when expectations are low and outcomes are better than anticipated. Expectations, as represented by equity valuations, are currently elevated versus history, and we would contend that outcomes, represented by company earnings, could be worse for the reasons discussed earlier. As such, the Fund is positioned to minimise downside risk and protect absolute returns. The Fund is tilted towards rand-hedged local shares, particularly those with relatively defensive economics, such as British American Tobacco and Anheuser-Busch InBev (AB InBev). The Fund also has a healthy allocation to precious metal miners, which tend to outperform in times of global chaos. Lastly, the Fund's stock exposure is also skewed to those companies with self-help levers to grow their earnings, even if the South African economy is weaker than we would have hoped.

During the quarter, the Fund added to its positions in AB InBev and select miners, and reduced its holdings in several banking shares.

Commentary contributed by Jithen Pillay



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### 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)11 301 6335 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. For more information about our annual management fees, refer to the frequently asked questions, available via the Allan Gray website.

### 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, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE Mid Cap Index

The FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE Mid Cap 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, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE Mid Cap 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, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE Mid Cap Index 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.

### FTSE Russell Index

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2024. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®" "Russell®", "FTSE Russell®", is/are a trade mark(s) of the relevant LSE Group companies and is/ are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

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# Allan Gray Optimal Fund

**30 September 2024**

## 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

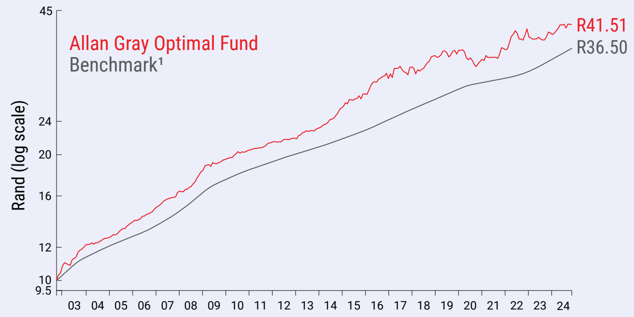
## Fund information on 30 September 2024

| | |
|---|---|
| Fund size | R0.8bn |
| Number of units | 22 427 813 |
| Price (net asset value per unit) | R23.29 |
| Class | A |

1. The Fund's benchmark is the daily interest rate, as supplied by FirstRand Bank, performance as calculated by Allan Gray as at 30 September 2024.
2. This is based on the latest available numbers published by IRESS as at 31 August 2024.
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) | 315.1 | 265.0 | 206.9 |
| **Annualised:** | | | |
| Since inception (1 October 2002) | 6.7 | 6.1 | 5.2 |
| Latest 10 years | 5.1 | 5.3 | 4.9 |
| Latest 5 years | 2.9 | 4.9 | 4.9 |
| Latest 3 years | 4.4 | 5.9 | 5.6 |
| Latest 2 years | 3.0 | 7.1 | 4.6 |
| Latest 1 year | 4.4 | 7.5 | 4.4 |
| Year-to-date (not annualised) | 5.1 | 5.6 | 2.9 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | -10.2 | n/a | n/a |
| Percentage positive months[4] | 72.7 | 100.0 | n/a |
| Annualised monthly volatility[5] | 4.4 | 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 the Fund has outperformed its benchmark. Over the latest 10- and five-year periods, the Fund has underperformed its benchmark which is the daily interest rate supplied by FirstRand Bank Limited. 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. | 31 Dec 2023 | 30 Jun 2024 |
|---|---|---|
| **Cents per unit** | **48.3060** | **59.0784** |

## 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 30 September 2024 (updated quarterly)

| Company | % of portfolio |
|---|---|
| Naspers & Prosus | 8.6 |
| British American Tobacco | 8.5 |
| AB InBev | 6.7 |
| Gold Fields | 5.2 |
| Absa Group | 5.0 |
| FirstRand | 4.7 |
| AngloGold Ashanti | 4.5 |
| Sasol | 4.4 |
| Mondi | 3.8 |
| Sappi | 3.6 |
| **Total (%)** | **55.0** |

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

| TER and transaction costs breakdown for the 1- and 3-year period ending 30 September 2024 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **1.18** | **1.18** |
| Fee for benchmark performance | 1.00 | 1.00 |
| Performance fees | 0.00 | 0.00 |
| Other costs excluding transaction costs | 0.03 | 0.03 |
| VAT | 0.15 | 0.15 |
| **Transaction costs (including VAT)** | **0.15** | **0.13** |
| **Total investment charge** | **1.33** | **1.31** |

## Asset allocation on 30 September 2024

| Asset class | Total |
|---|---|
| Net equities | 1.2 |
| Hedged equities | 84.1 |
| Property | 1.1 |
| Commodity-linked | 0.0 |
| Bonds | 0.0 |
| Money market and cash | 13.6 |
| **Total (%)** | **100.0** |

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

| | |
|---|---|
| Minimum | (September 2016) -3.6%[7] |
| Average | 4.6% |
| Maximum | (November 2018) 15.4% |

7. 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 30 September 2024

The tide of positive sentiment that followed the outcome of South Africa's national elections and the formation of the coalition government flowed into the third quarter with the FTSE/JSE All Share Index reaching new all-time highs. The index added 9.6% for the period, taking the year-to-date return to 15.9%. Returns at a sub-index level further illustrate the strength of shares exposed to the domestic economy with the FTSE/JSE Financials Index, comprising mostly banks and insurers, adding 23.8% so far this year. In comparison, the FTSE/JSE Resources Index, containing the traditional "rand hedge" shares, posted a mere 0.4%. This return would have been substantially lower were it not for a raft of stimulus measures announced by the Chinese government near the end of the quarter, which buoyed both commodity prices and those of the miners. Other large China-exposed counters on our market, such as Naspers and Richemont, also experienced a sharp bounce on the announcement, aiding overall index returns.

While the rally has been a welcome boost for local equity investors after two years of lacklustre returns, it does not necessarily imply greater returns for the Fund. Rather, it is the return of the Fund's underlying shares relative to the stock market index, together with the level of short-term interest rates, that determines performance. For the quarter, the Fund returned 2.0%, in line with its benchmark, with stock selection having a neutral impact on performance.

Of the positions where the Fund has overweight exposure, Premier Group, Hyprop and British American Tobacco were among the largest contributors while Sasol and Mondi detracted from relative performance.

Premier Group is one of the oldest companies in South Africa. The company produces a range of staple foods and consumer goods, with established brands such as Blue Ribbon bread, Snowflake flour and Iwisa maize meal. The company was delisted and taken private in 2005 but returned to the JSE in March 2023. The Fund participated in its relisting. While the company was in private hands, it invested in modernising and expanding its bakery portfolio and diversifying into fast-moving consumer goods categories such as "sugar confectionary" and "home and personal care" via acquisitions. Its more recent focus has been on consolidating its bakery footprint in the large inland market into two new, more efficient operations that have contributed and should continue to contribute to higher volumes at improved margins. Despite the share price nearly doubling since the relisting, the valuation remains attractive on both an absolute and relative basis versus peers, given its growth prospects.

This quarter, we initiated new positions in Spar and Woolworths, added to the Fund's existing Absa and Nedbank holdings, and trimmed its exposure to Anglo American and MultiChoice.

Commentary contributed by Sean Munsie

### Information and content

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### 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)11 301 6335 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.

### 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. For more information about our annual management fees, refer to the frequently asked questions, available via the Allan Gray website.

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

The FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index, FTSE/JSE All Bond Index, FTSE/JSE Financials Index and FTSE/JSE Resources 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, FTSE/JSE Capped Shareholder Weighted All Share Index, FTSE/JSE All Bond Index, FTSE/JSE Financials Index and FTSE/JSE Resources 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, FTSE/JSE Capped Shareholder Weighted All Share Index, FTSE/JSE All Bond Index, FTSE/JSE Financials Index and FTSE/JSE Resources Index vests in FTSE and the JSE jointly. All their rights are reserved.

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# Allan Gray Bond Fund

**30 September 2024**

## 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 achieve 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

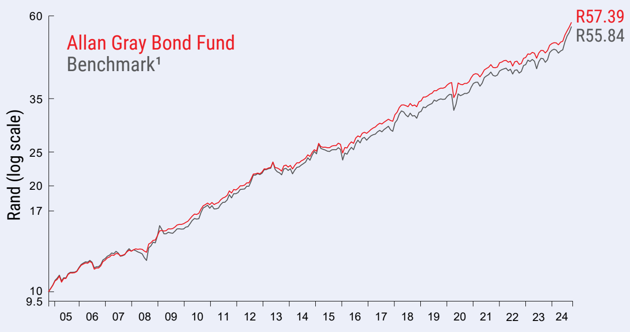
## Fund information on 30 September 2024

| | |
|---|---|
| Fund size | R8.7bn |
| Number of units | 624 451 635 |
| Price (net asset value per unit) | R11.08 |
| Modified duration | 4.4 |
| Gross yield (before fees) | 10.2 |
| Class | A |

1. FTSE/JSE All Bond Index (source: IRESS), performance as calculated by Allan Gray as at 30 September 2024.
2. This is based on the latest available numbers published by IRESS as at 31 August 2024.
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 30 September 2024 and the benchmark's occurred during the 12 months ended 30 September 2024. 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) | 473.9 | 458.4 | 191.5 |
| **Annualised:** | | | |
| Since inception (1 October 2004) | 9.1 | 9.0 | 5.5 |
| Latest 10 years | 9.1 | 9.1 | 4.9 |
| Latest 5 years | 8.9 | 9.8 | 4.9 |
| Latest 3 years | 10.2 | 11.1 | 5.6 |
| Latest 2 years | 14.6 | 16.3 | 4.6 |
| Latest 1 year | 22.0 | 26.1 | 4.4 |
| Year-to-date (not annualised) | 14.7 | 16.7 | 2.9 |
| **Risk measures (since inception)** | | | |
| Maximum drawdown[3] | -18.9 | -19.3 | n/a |
| Percentage positive months[4] | 71.7 | 68.8 | n/a |
| Annualised monthly volatility[5] | 5.9 | 7.6 | n/a |
| Highest annual return[6] | 22.0 | 26.1 | n/a |
| Lowest annual return[6] | -2.6 | -5.6 | n/a |

## Meeting the Fund objective

Since inception, the Fund has outperformed its benchmark. Over the latest 10-year period, the Fund has performed inline with its benchmark. Over the latest five-year period, the Fund has underperformed 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 Dec 2023 | 31 Mar 2024 | 30 Jun 2024 | 30 Sep 2024 |
|---|---|---|---|---|
| **Cents per unit** | **26.6398** | **25.8263** | **27.2485** | **26.5758** |

## Annual management fee

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

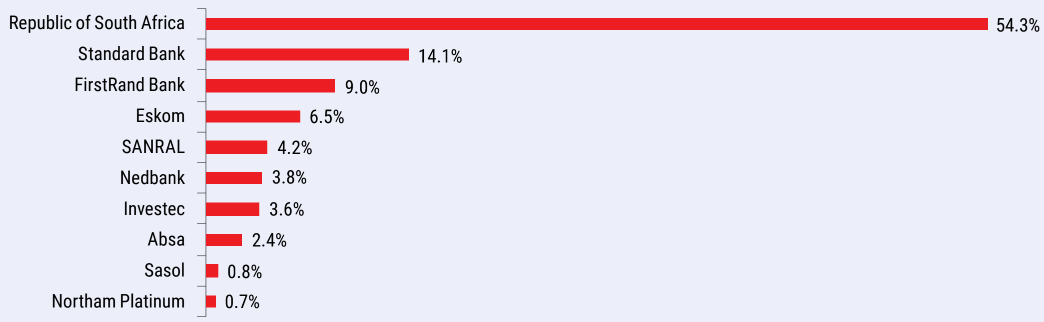
## Total expense ratio (TER) and transaction costs (updated quarterly)

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.

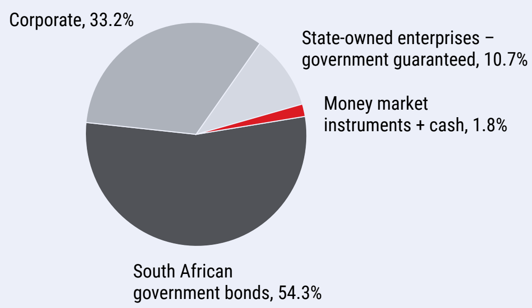
| TER and transaction costs breakdown for the 1- and 3-year period ending 30 September 2024 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **0.59** | **0.55** |
| Fee for benchmark performance* | 0.50 | 0.47 |
| Performance fees* | 0.00 | 0.00 |
| Other costs excluding transaction costs | 0.01 | 0.01 |
| VAT | 0.08 | 0.07 |
| **Transaction costs (including VAT)** | **0.00** | **0.00** |
| **Total investment charge** | **0.59** | **0.55** |

*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.

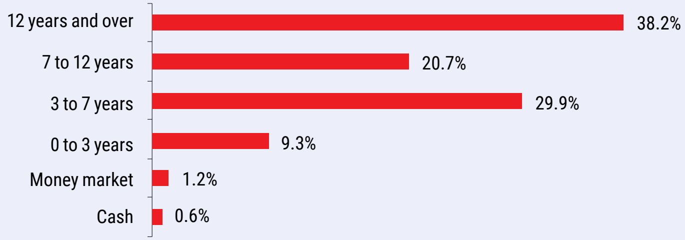
## Top 10 credit exposures on 30 September 2024




## Asset allocation on 30 September 2024




## Maturity profile on 30 September 2024




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

## Fund manager quarterly commentary as at 30 September 2024

The FTSE/JSE All Bond Index (ALBI) has returned a staggering 26.1% year-on-year to the end of September 2024. As much as the positive post-election market sentiment following the formation of the government of national unity (GNU) has led to this bond rally, the expectation of a pronounced US rate-cutting cycle has also played a role. Most importantly, however, monetising South Africa's Gold and Foreign Exchange Contingency Reserve Account (GFECRA) has to some degree bailed out the fiscus. Without this, or the printing of rands against the profits implied in South Africa's foreign exchange reserve balances, the South African government would almost certainly have had to increase the size of its bond auctions this year. By August 2024, the South African Reserve Bank had created and transferred R100bn of GFECRA cash to the government, which subsequently ended the month with only R142bn cash. This means that without GFECRA, the South African government would be running a R7tn economy with only R42bn of spare cash – or the lowest nominal cash balance on record in over 50 years. To contextualise this, R42bn equates to six days' worth of the government's annual FY24 spending of R2.37tn. Put differently, R42bn equates to 40 days' worth of the South African government's debt-servicing costs (which are estimated at R382bn for FY24).

Without GFECRA, we would have been staring into the abyss, and the supply of government debt would have had to increase materially. The question then remains, with only R25bn of GFECRA left to be monetised in each of 2025 and 2026, will the government be able to live within its means and implement the fiscal reform required to contain the budget deficit? Alternatively, will a South African super-growth cycle materialise? It would appear that year-to-date tax collection has disappointed versus the February 2024 Budget estimates, although some of this under-collection might be offset partially by the tax levied against two-pot retirement fund realisations. We await the Medium-Term Budget Policy Statement for further details on this.

At the end of September, the South African 20-year bond had rallied by a cumulative 260 basis points (bps) from its year-to-date yield high of 13.3% in April down to an intraday yield low print of 10.7% on 30 September. By perusing the JSE's trade statistics, it appears that local investor participation in South Africa's government bond auctions in the last quarter has been very low. Most of the fresh cash in the bond market appears to have come from foreigners, but they have not participated in any meaningful size in South African equities yet. The recent yield of 10.7% on the South African 20-year bond is just 50 bps wider than the 10.2% yield recorded at end-February 2020.

One could thus argue that the market is now overvalued when one considers that the South African government's debt pre-COVID was 56% of GDP versus 75% at present. In the same vein, we were spending as little as 14 cents on every tax rand towards servicing pre-pandemic debt versus 21 cents now – and, in fact, even higher if one includes the Eskom debt relief programme in these debt-servicing costs. When comparing the South African 10-year bond to the US 10-year bond, the spread differential is less than 620 bps, which is the tightest spread on record since 2018 when the South African government's debt burden was significantly lower than present (and lower than any year in the Budget forecast for 2025-2028).

That said, even if one buys into this argument, it is perhaps important to consider that the market can trade away from fundamentals for extended periods and that optimism around the GNU and higher South African GDP growth may spur foreigners to sink more capital into the market regardless. Fixed capital investment in South Africa, which is a necessary precondition for higher growth, has been contracting for four consecutive quarters. While there are investment projects in the pipeline that should see this rise, their size and pace remain unclear and rest on the speed at which certain reforms can be put through – including those for private concessions along Transnet's rail and the requisite tariffs and funding for reform to be enacted.

Over the last quarter, the ALBI's weighted average yield fell to 9.7% while the Fund's weighted average yield to maturity (gross of fees) stands wider at 10.2%. The Fund reduced its exposure to South African government 20-year bonds as their yield fell below our estimates of fair value.

Commentary contributed by Thalia Petousis

## Important information for investors



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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.

### Yield

The Allan Gray Bond Fund's gross yield is the estimated weighted average yield-to-maturity of all underlying interest-bearing instruments as at the last day of the month. Actual returns may differ, based on changes in market values, interest rates and market factors during the investment period.

### 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

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### Compliance with Regulation 28

The Fund is managed to comply with Regulation 28 of the Pension Funds Act 24 of 1956 (the "Pension Funds Act"). 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 the prescribed regulatory 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

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# Allan Gray Income Fund

**30 September 2024**

ALLANGRAY

**Fund managers:** Sean Munsie, Thalia Petousis **Inception date:** 1 May 2024

## Fund description and summary of investment policy

The Fund invests primarily in a mix of South African interest-bearing securities, with limited exposure to offshore interest-bearing securities. Returns are likely to be less volatile than those of a bond-only fund. The Fund is managed to comply with the investment limits governing retirement funds.

**ASISA unit trust category:** South African – Multi Asset – Income

## Fund objective and benchmark

The Fund aims to generate income and produce returns that are superior to traditional money market funds, while preserving capital and minimising the risk of loss over any one- to two-year period. 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 a broad range of South African interest-bearing securities, such as floating-rate notes, inflation-linked bonds, fixed-rate instruments and money market securities, with limited exposure to offshore interest-bearing securities. It provides investors with income 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 securities for the Fund. While the Fund can have limited exposure to equities and property, we expect this to occur infrequently and to typically coincide with unusual or extreme points in the valuation cycle. We take a conservative approach to managing the Fund, balancing credit risk, duration risk and liquidity risk when selecting securities.

## Suitable for those investors who

- Are risk-averse and require capital preservation over any one- to two-year period
- Seek returns higher than traditional money market funds
- Seek a unit trust that provides an income
- Seek a prudently managed income 'building block'
- Wish to invest in a unit trust that complies with retirement fund investment limits

## Income distributions for the last 12 months

| Actual payout, the Fund distributes quarterly | 30 Jun 2024 | 30 Sep 2024 |
|---|---|---|
| **Cents per unit** | **13.7849** | **24.6096** |

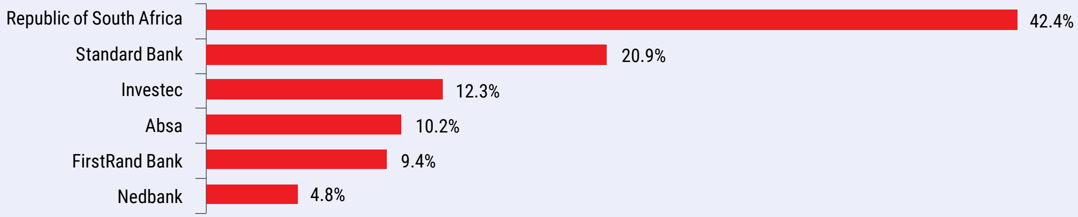
## Fund information on 30 September 2024

| | |
|---|---|
| Fund size | R0.6bn |
| Number of units | 14 909 757 |
| Price (net asset value per unit) | R10.55 |
| Modified duration | 0.8 |
| Gross yield (i.e. before fees) | 9.9 |
| Net yield (i.e. after fees) | 9.0 |
| Fund weighted average maturity (years) | 4.9 |
| Class | A |

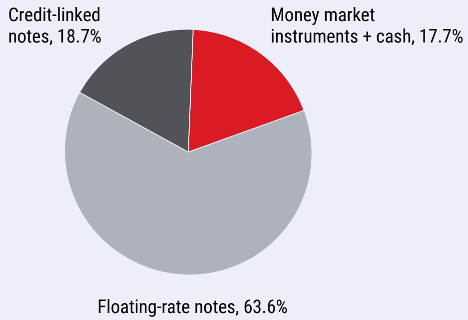
## Fund performance

The Fund was launched on 1 May 2024. We will report its performance information from 31 October 2024.

## Top credit exposures on 30 September 2024




## Asset allocation on 30 September 2024[1]




1. Foreign exposure on 30 September 2024: 0.0% is invested in foreign investments.

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

## Annual management fee

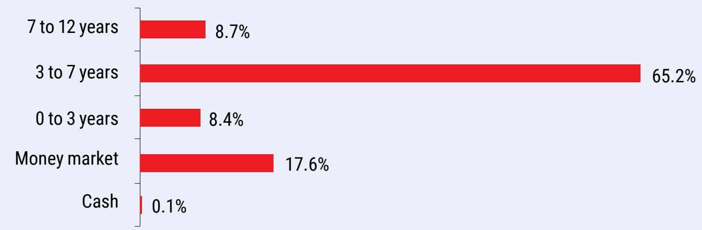
A fixed fee of 0.75% p.a. excl. VAT

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

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). Transaction costs are disclosed separately. Complete and accurate data is only available after 12 months. The TER and transaction costs are therefore based on actual data, where available, and best estimates.

| TER and transaction costs breakdown for the 1- and 3-year period ending 30 September 2024 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **0.87** | **0.87** |
| Fee for benchmark performance | 0.75 | 0.75 |
| Performance fees | 0.00 | 0.00 |
| Other costs excluding transaction costs | 0.01 | 0.01 |
| VAT | 0.11 | 0.11 |
| **Transaction costs (including VAT)** | **0.00** | **0.00** |
| **Total investment charge** | **0.87** | **0.87** |

## Maturity profile on 30 September 2024




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

## Fund manager commentary as at 30 September 2024

One of the most frequently asked questions we get about our new interest-bearing funds is how they will perform through a rate-cutting cycle. On the day before South Africa's September 2024 rate cut was announced, the Fund's weighted average yield gross of fees was 10.06%. It subsequently declined by 15 basis points (bps) following the 25 bps rate cut to reach a yield of 9.91%. This was still higher than the FTSE/JSE All Bond Index (ALBI) yield of 9.77% on the same day. What is important to keep in mind when performing point-in-time yield comparisons is that a low duration and predominantly floating-rate or "cash-plus" fund will naturally offer lower yields as rates decline, whereas one can expect a long-dated fixed-rate bond, such as that found in the ALBI, to already price for rate cuts via the forward curve. The good news for savers is that the current expected terminal repo rate at the end of the cutting cycle is still projected to be higher than its pre-COVID level. Thus, if an investor felt it was attractive to be in an income fund back then, the environment going forward should be at *least* as attractive as it was, and likely slightly more.

In September, the South African Reserve Bank (SARB) cut interest rates for the first time in four years – lowering the overnight rate of interest from 8.25% to 8.00% in a unanimous vote. The SARB outlined the case for caution when lowering rates and cited risks to inflation via potential offshore trade tariffs which raise the price of imported goods. In this regard, the outcome of the US election in November has the potential to rock the trade tariff boat with Republican presidential candidate Donald Trump proposing a blanket increase in import tariffs to 10%, and a more punitive 60% applied to Chinese goods, if he were to be elected.

Much of the disinflationary trend of the decade preceding the COVID-19 pandemic was undoubtedly aided by the flood of cheap Chinese goods into international markets, with many countries now complaining that Chinese overproduction and dumping practices make it tough for local industry to compete in a wide range of sectors, including car and steel production. As a general observation, the US invents, China builds and the EU regulates. For example, China's bloated industrial base, fuelled by ultracheap government financing and subsidies, produces more solar panels than the world can absorb. Such production continues to take place even when goods are ultimately dumped into international markets at loss-making sale prices that require these producers to later be bailed out by the Chinese state.

The SARB also touched on global risks to inflation via renewed supply chain disruptions that could result from escalating geopolitical tension and war, as we are seeing in the Middle East at present. When debating local risks to the inflation outlook, the SARB lamented that the stronger rand, lower oil prices and well-behaved South African food price inflation might be partially offset by higher local administered, municipal and electricity prices. Earlier in the year, a leaked document showed that Eskom planned to apply to increase the electricity tariffs it charges municipalities by up to 44% in 2025. Rising electricity and water tariffs naturally bleed into the cost of production and raise the prices of local goods and services.

Despite all these risks, South Africa's current inflation prints have been coming down, with a stronger rand allowing August's CPI print to moderate to 4.4% and the SARB modelling for sub-4% throughout the first half of 2025. Given that inflation is by nature a year-on-year calculation and can almost always be expected to disinflate in the short term when base prices are high, the SARB has stated that it will "look through" a temporary inflation breach on the downside of its target. Although the SARB's quarterly projection model is just a loose policy guide and is not strictly implemented, the model currently suggests that the appropriate terminal rate of interest at the end of the South African rate-cutting cycle is an overnight rate of 7%, which implies a further 1% worth of rate cuts.

In the last quarter, the Fund lowered its modified duration by reducing exposure to five-year fixed-rate instruments as the market rallied following the formation of South Africa's government of national unity, the anticipation of a global rate-cutting cycle and the monetisation of R100bn from South Africa's Gold and Foreign Exchange Contingency Reserve Account (GFECRA). Monetising the GFECRA has to some degree bailed out the fiscus such that bond auction sizes can remain unchanged.

Most of the Fund has exposure to floating-rate instruments that return cash rates plus a spread and have low modified duration. At the end of September, the lowest yielding of these floating-rate notes held in the Fund was earning cash plus 1.3%, and the highest yielding was earning cash plus 3.5%. While the future remains uncertain, we aim to construct portfolios that can do well across a range of possible scenarios. In the event of rate cuts, the Fund's weighted average yield (gross of fees) of 9.9% as at 30 September 2024 should further decline but still offers a rate of interest that is 1.9% higher than that of overnight cash.

Commentary contributed by Thalia Petousis

### 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.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)11 301 6335 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 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.

### Yield

The Fund's gross yield is the estimated weighted average yield-to-maturity of all underlying interest-bearing instruments as at the last day of the month. The one-year TER is deducted from the gross yield to derive a yield net of fund expenses. Actual returns may differ based on changes in market values, interest rates and market factors during the investment period.

### 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 (the "Pension Funds Act"). 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 the prescribed regulatory 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 Share Index, FTSE/JSE All Bond Index

The FTSE/JSE All Share Index and FTSE/JSE All Bond 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 All Bond 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 All Bond 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.**

## 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 – SA 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) 3-month 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

## Fund information on 30 September 2024

| | |
|---|---|
| Fund size | R28.6bn |
| Number of units | 25 617 855 166 |
| Price (net asset value per unit) | R1.00 |
| Monthly yield at month end | 0.71 |
| Fund weighted average coupon (days) | 76.41 |
| Fund weighted average maturity (days) | 109.21 |
| Class | A |

1. The current benchmark is the Alexander Forbes Short Term Fixed Interest (STeFI) 3-month Index. From inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011, the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund. From 1 November 2011 to 19 August 2024, the benchmark was the Alexander Forbes Short Term Fixed Interest (STeFI) Composite Index. Performance as calculated by Allan Gray as at 30 September 2024.
2. This is based on the latest available numbers published by IRESS as at 31 August 2024.
3. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
4. 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.
5. 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

| Oct 2023 | Nov 2023 | Dec 2023 | Jan 2024 |
|---|---|---|---|
| 0.73 | 0.71 | 0.74 | 0.75 |
| Feb 2024 | Mar 2024 | Apr 2024 | May 2024 |
| 0.69 | 0.74 | 0.72 | 0.74 |
| Jun 2024 | Jul 2024 | Aug 2024 | Sep 2024 |
| 0.72 | 0.74 | 0.73 | 0.71 |

## Performance net of all fees and expenses

| % Returns | Fund | Benchmark[1] | CPI inflation[2] |
|---|---|---|---|
| **Cumulative:** | | | |
| Since inception (1 July 2001) | 460.7 | 436.1 | 241.2 |
| **Annualised:** | | | |
| Since inception (1 July 2001) | 7.7 | 7.5 | 5.4 |
| Latest 10 years | 7.0 | 6.6 | 4.9 |
| Latest 5 years | 6.6 | 6.1 | 4.9 |
| Latest 3 years | 7.3 | 6.9 | 5.6 |
| Latest 2 years | 8.5 | 8.0 | 4.6 |
| Latest 1 year | 9.1 | 8.5 | 4.4 |
| Year-to-date (not annualised) | 6.7 | 6.3 | 2.9 |
| **Risk measures (since inception)** | | | |
| Percentage positive months[3] | 100.0 | 100.0 | n/a |
| Annualised monthly volatility[4] | 0.6 | 0.6 | n/a |
| Highest annual return[5] | 12.8 | 13.3 | n/a |
| Lowest annual return[5] | 4.3 | 3.8 | n/a |

## 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 (updated quarterly)

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 30 September 2024 | 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 30 September 2024

| | % of portfolio |
|---|---|
| **Governments** | **38.1** |
| Republic of South Africa | 38.1 |
| **Banks**[6] | **55.6** |
| Nedbank | 18.2 |
| Standard Bank | 15.7 |
| FirstRand Bank | 9.4 |
| Investec Bank | 6.5 |
| Absa Bank | 5.8 |
| **Corporates** | **6.3** |
| Shoprite | 2.6 |
| Sanlam | 2.0 |
| Mercedes-Benz Group | 1.8 |
| **Total (%)** | **100.0** |

6. Banks include negotiable certificates of deposit (NCDs), floating-rate notes, fixed deposits and call deposits.

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

## Fund manager quarterly commentary as at 30 September 2024

On 19 September, the South African Reserve Bank (SARB) cut interest rates for the first time in four years – lowering the overnight rate of interest from 8.25% to 8.00% in a unanimous vote. The SARB outlined the case for caution when lowering rates and cited risks to inflation via potential offshore trade tariffs which raise the price of imported goods. In this regard, the outcome of the US presidential election in November has the potential to rock the trade tariff boat with Republican candidate Donald Trump proposing a blanket increase in import tariffs to 10%, and a more punitive 60% applied to Chinese goods, if he were to be elected.

Much of the disinflationary trend of the decade preceding the COVID-19 pandemic was undoubtedly aided by the flood of cheap Chinese goods into international markets, with many countries now complaining that Chinese overproduction and dumping practices make it tough for local industry to compete in a wide range of sectors, including car and steel production. As a general observation, the US invents, China builds and the EU regulates. For example, China's bloated industrial base, fuelled by ultracheap government financing and subsidies, produces more solar panels than the world can absorb. Such production continues to take place even when goods are ultimately dumped into international markets at loss-making sale prices that require these producers to later be bailed out by the Chinese state.

The SARB also touched on global risks to inflation via renewed supply chain disruptions that could result from escalating geopolitical tension and war, as we are seeing in the Middle East at present. When debating local risks to the inflation outlook, the SARB lamented that the stronger rand, lower oil prices and well-behaved South African food price inflation might be partially offset by higher local administered, municipal and electricity prices. Earlier in the year, a leaked document showed that Eskom planned to apply to increase the electricity tariffs it charged municipalities by up to 44% in 2025. Rising electricity and water tariffs naturally bleed into the cost of production and raise the prices of local goods and services.

Despite all these risks, South Africa's current inflation prints have been coming down, with a stronger rand allowing August's CPI print to moderate to 4.4% and the SARB modelling for sub-4% throughout the first half of 2025. Given that inflation is by its nature a year-on-year calculation and can almost always be expected to disinflate in the short term when base prices are high, the SARB has stated that it will "look through" a temporary inflation breach on the downside of their target. Although the SARB's quarterly projection model is just a loose policy guide and is not strictly implemented, the model currently suggests that the appropriate terminal rate of interest at the end of the South African rate-cutting cycle is an overnight rate of 7%, which implies a further 1% worth of rate cuts.

Over the past quarter, the Fund raised its exposure to short-dated inflation-linked bonds which are attractively priced to deliver returns of inflation plus 5.3%. The Fund's effective yield (gross of fees) declined over the quarter from 9.40% to 9.31% as the Fund continues to reinvest deposit maturities at lower prevailing term interest rates.

Commentary contributed by Thalia Petousis

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### Management Company

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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.

### 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 (the "Pension Funds Act"). 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 the prescribed regulatory 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

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# Allan Gray-Orbis Global Equity Feeder Fund

**30 September 2024**

ALLANGRAY

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

## 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 MSCI World Index, including income, after withholding taxes.

## 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 through a rand-denominated fund
- 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

**Fund availability:** Subject to offshore capacity constraints. Please visit our website or contact our Client Service Centre for further information about any constraints that may apply.

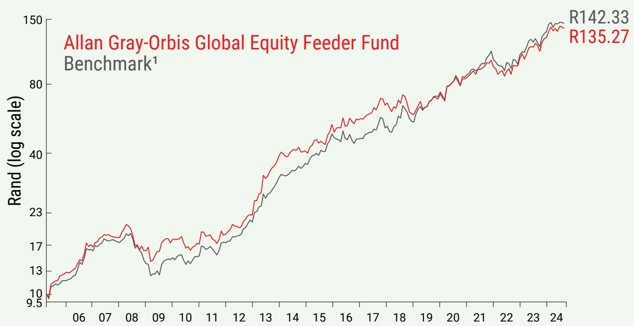
## Fund information on 30 September 2024

| | |
|---|---|
| Fund size | R31.0bn |
| Number of units | 230 475 540 |
| Price (net asset value per unit) | R134.59 |
| Class | A |

1. MSCI World Index, including income, after withholding taxes (source: Bloomberg), performance as calculated by Allan Gray as at 30 September 2024. From inception to 15 May 2023, the benchmark was the FTSE World Index, including income.
2. This data reflects the latest available inflation numbers for South Africa and the United States of America, as published by IRESS as of 31 August 2024.
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) | 1252.7 | 388.8 | 1323.3 | 414.3 | 185.7 | 62.7 |
| Annualised: | | | | | | |
| Since inception (1 April 2005) | 14.3 | 8.5 | 14.6 | 8.8 | 5.6 | 2.5 |
| Latest 10 years | 12.4 | 7.7 | 15.0 | 10.3 | 4.9 | 2.8 |
| Latest 5 years | 15.1 | 12.2 | 16.2 | 13.2 | 4.9 | 4.2 |
| Latest 3 years | 13.1 | 8.3 | 14.1 | 9.2 | 5.6 | 4.8 |
| Latest 2 years | 25.0 | 27.7 | 24.7 | 27.4 | 4.6 | 3.2 |
| Latest 1 year | 18.1 | 29.1 | 21.1 | 32.4 | 4.4 | 2.6 |
| Year-to-date (not annualised) | 10.2 | 18.4 | 10.6 | 18.9 | 2.9 | 2.0 |
| Risk measures (since inception) | | | | | | |
| Maximum drawdown[3] | -34.1 | -52.8 | -38.0 | -57.6 | n/a | n/a |
| Percentage positive months[4] | 62.8 | 59.0 | 60.7 | 64.1 | n/a | n/a |
| Annualised monthly volatility[5] | 15.1 | 17.0 | 14.2 | 15.8 | 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 |



**Tel** 0860 000 654 or +27 (0)21 415 2301 **Email** info@allangray.co.za **www.allangray.co.za**

## 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 2023 |
|---|---|
| **Cents per unit** | **1.3302** |

## 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 (updated quarterly)

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 30 September 2024 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **0.63** | **1.25** |
| Fee for benchmark performance | 1.10 | 1.31 |
| Performance fees | -0.53 | -0.11 |
| Other costs excluding transaction costs | 0.06 | 0.05 |
| VAT | 0.00 | 0.00 |
| **Transaction costs (including VAT)** | **0.09** | **0.10** |
| **Total investment charge** | **0.72** | **1.35** |

## Top 10 share holdings on 30 September 2024

| Company | % of portfolio |
|---|---|
| QXO | 6.7 |
| Corpay (was FLEETCOR) | 5.2 |
| UnitedHealth Group | 5.1 |
| Interactive Brokers Group | 3.8 |
| RXO | 3.1 |
| GXO Logistics | 3.0 |
| Global Payments | 2.8 |
| Alphabet | 2.8 |
| KB Financial Group | 2.6 |
| Shinhan Financial Group | 2.6 |
| **Total (%)** | **37.6** |

## Asset allocation on 30 September 2024

**This fund invests solely into the Orbis Global Equity Fund**

| | Total | United States | UK | Europe ex-UK[7] | Japan | Other[7] | Emerging markets |
|---|---|---|---|---|---|---|---|
| Net equities | 96.1 | 53.2 | 13.0 | 8.1 | 3.1 | 2.8 | 16.0 |
| Property | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Money market and cash | 3.9 | 3.9 | -0.1 | -0.1 | 0.0 | 0.0 | 0.1 |
| **Total (%)** | **100.0** | **57.2** | **12.9** | **8.0** | **3.1** | **2.8** | **16.1** |
| Currency exposure | 100.0 | 51.0 | 8.5 | 12.6 | 12.9 | 7.8 | 7.2 |
| Benchmark | 100.0 | 71.8 | 3.7 | 12.7 | 5.6 | 6.1 | 0.0 |

7. Refers to developed markets only.

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

## Fund manager quarterly commentary as at 30 September 2024

Our investment approach is designed to capitalise on gaps between stock prices and the intrinsic value of the businesses they represent. The bigger the gap, the more attractive the opportunity. Normally, the stock market sets the price while we focus on analysing the fundamentals of the business.

This makes our investment in QXO unusual. There was no public market price, as we invested through a private placement, and there was no business yet to analyse – just a US$5bn cash pile waiting to be deployed. Yet, QXO has become the largest position in the Orbis Global Equity Fund, making up nearly 7% of the Fund.

Why? Because in a deeper sense, QXO is a great example of what we do. In fact, it is remarkably similar to another investment we made almost 12 years ago – one which became the second-biggest contributor to the Fund's performance over the past decade. At the time, the analyst recommending the stock wrote that it was "… a bit venture capital-like in that we are betting on an entrepreneur, a business plan, and a pile of cash".

That investment was XPO Logistics, with a market value of just US$468m when the line above was written in 2012. Since then, XPO has evolved into three separate companies that are collectively worth more than US$20bn. Its shares returned 17 times over the last 14 years, tripling the S&P 500's tech-fuelled boom.

The entrepreneur behind both XPO and QXO is Brad Jacobs. Although we were just getting to know Brad in 2012, XPO was his third rodeo. Prior to XPO, he founded and ran United Rentals, and prior to that United Waste Systems. All three stocks handily beat the S&P 500 during (and after) Brad's tenure as CEO.

Over the years, Brad has consistently created shareholder value with a repeatable "playbook" for capital allocation and operational excellence. He also has a knack for building enduring teams that can continue to add value long after he has stepped down from day-to-day involvement. And perhaps most importantly, he always puts his own money on the line – US$900m in the case of QXO – which creates an unusually strong alignment of interests with fellow shareholders.

That said, it would be too simplistic to say that our investment in QXO is merely a bet on Brad. There are many great companies run by great CEOs that we don't own because the price isn't right. We invested in QXO via a private placement in July 2024 at a smaller premium than we paid for access to XPO's cash pile back in 2012, so this time we are getting a better deal.

It would also be too simplistic to say we are giving Brad a blank cheque. We would not have invested if we didn't share his enthusiasm for the specific opportunity that QXO is targeting – the building products distribution industry. It may not sound exciting – neither did XPO's trucking business – but that is often precisely what creates the opportunity. The industry is highly fragmented, with thousands of sub-scale distributors lacking a national footprint and leveraging antiquated technology (if any). In many ways, it is reminiscent of the early days of XPO.

Building products distribution is also large (roughly US$800bn across the US and Europe) and fast-growing (7% per annum over the last five years). Fragmented competition should yield ample M&A opportunities, where QXO can create substantial value by improving the operations of acquired businesses. Disruption risk is also low, and it fits the playbook perfectly.

The obvious challenge with analysing QXO is that it is mostly just a pile of cash and we don't know exactly what the company intends to buy.

Based on our assessment of the opportunity, we think QXO could be worth 2-5 times book value, well above the 1.4 times we paid. We get there by exploring a range of scenarios, where two critical variables are how much capital the company can deploy and what rate of return it earns on that capital.

If we assume that 80-90% of profits are reinvested and the business can earn 15-20% returns over the longer term, QXO should be able to command a premium multiple.

To be clear, our investment in XPO didn't deliver value in a straight line, and we don't expect that QXO will be any different. As with the logistics business, there is a substantial cyclical element to building products and a severe recession would be negative for the business. Over the long term, however, it could present an opportunity if the downturn allows us to scoop up acquisitions at favourable prices.

The range of outcomes is wide, but we believe that risk is mitigated by the attractive price we paid, our extensive understanding of Brad's playbook, the attractive attributes of the industry, and Brad's intention to run the company with modest leverage.

While our focus here has been on the newest "XO" in the Fund, we would emphasise that we remain just as enthusiastic about the others, which together account for almost another 8% of the Fund. Brad continues to have substantial interests in XPO, RXO and GXO Logistics – collectively worth about US$500m. Despite their strong performance over the years, we believe that each of these three companies continues to offer a compelling and asymmetric investment opportunity over our investment horizon.

Our founder, Allan Gray, often used a colourful expression to underscore the importance of acting with conviction when you believe you have an edge – "Go for the jugular". The XO companies look unusually attractive to us, we know them unusually well and we believe they deserve an unusually large position.

Over the quarter, we initiated our position in QXO and exited our position in Sumitomo Mitsui Financial Group, a Japanese bank, into relative share price strength.

**Adapted from a commentary contributed by John Christy, Orbis Investments (Canada) Ltd., Vancouver and Eric Marais, Orbis Investment Advisory Pty Limited, Sydney**

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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. For more information about our annual management fees, refer to the frequently asked questions, available via the Allan Gray website.

## 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).

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