QC

Quarterly Commentary
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ALLAN GRAY

Executive remuneration in times of uncertainty

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COMMENTS FROM THE CHIEF OPERATING OFFICER

Rob Formby

... the pandemic has reinforced the importance of building well-diversified and resilient investment portfolios, which include adequate offshore exposure.

A lot can happen in a year. Twelve months ago, we put the Quarterly Commentary together under Level 5 lockdown. Most of our employees were working from home, non-essential services were shut, and markets around the world were testing lows. Nervous investors were exiting equities in droves.

Since then, the country has exited the first wave of infections and been through the second wave. The path of the pandemic has remained difficult to predict, as have effects and reactions across the world. Uncertain outcomes extended to the markets, which recovered strongly from their lows in March 2020, and remarkably, the FTSE/JSE All Share Index (ALSI) closed off 2020 up 7%.

The strong rebound again supported the notion of resisting emotional decisions and, where possible, focusing on a long-term view. Those who stayed invested, or were fortunate enough to have capital to deploy, have been healthily rewarded. From the end of March 2020 to end-March 2021, the ALSI has returned 54% including dividends reinvested. In US dollars, those returns are even greater, at over 80%, as the rand has strengthened from R17.86/US$ to below R15/US$ over this same period.

Of course, many investors may have needed to liquidate investments to sustain families and businesses, but those who left willingly may have been reminded that trying to time the market seldom produces results. Resisting this is often easier said than done, as buckling in for the ride can take nerves of steel, and, of course, it is easy to recognise what we could have done differently with the benefit of hindsight.

Time to reflect

An article published in *The European Business Review* in April 2020 noted that during "normal" life, we are so busy with our routines that we have very little time to stop and think about whether we are doing the right things. Real reflection happens when we are in crisis, with COVID-19 giving us an opportunity to look at various aspects of our lives and make adjustments, if necessary.

Reflection, when done at an individual level, is a very personal pursuit. For many, it is an informal practice.

However, various models have been developed over the years to help us think more intentionally and deeply about an experience, including how we may have responded, what we could and couldn't control, and what we could have done differently.

The "Gibbs reflective cycle" provides a useful format. Developed by Professor Graham Gibbs, former director of the Oxford Learning Institute at the University of Oxford, it offers a framework for examining experiences, suggesting six stages: Describe your experience, note your feelings, weigh up the positives and negatives, look closely at the detail, consider what you learnt and could have done differently, and finally, decide what changes you can put in place now that would help you deal with similar situations. This approach can neatly be applied to the financial and investment decisions you have made over the past year, and potentially help you manage difficult situations in the future.

In the spirit of reflection, this Quarterly Commentary includes some investment lessons in hindsight of the past year, provided by our portfolio managers.

COVID-19 and investment decision-making

Over the last year, dealing with the impact of COVID-19 has naturally been at the top of board agendas. With remuneration being one of our key engagement points with companies when we discuss governance issues, we have spent a lot of time engaging with remuneration committees on how they have been incentivising, compensating and retaining key talent during this time. In her piece, Vuyo Mroxiso details some of our views.

Meanwhile, governments desperate to break the recessionary cycle are focusing on infrastructure programmes, with an expected uptick in demand for commodities. This has led to renewed interest in commodity investments. At the same time, these regimes are more focused on a move towards clean energy, with 2020 seeing an acceleration of climate change commitments around the world. If global decarbonisation goals are to be realised, significant new sources of metals will be needed to meet demand. Sean Munsie and Raine Naudé explain why they believe Glencore, with a bias towards base metals, is well positioned in a decarbonising world – despite its thermal coal assets.

Stocks in focus

Large exogenous shocks have a way of changing the prevailing regime in unexpected but enduring ways. It is quite possible that the consequences of the pandemic will produce a very different market regime, with different winners and losers, over the next decade. However, regardless of this possibility, the United States will play an influential role. Matthew Adams and Eric Marais, from our offshore partner, Orbis, discuss the Orbis Global Equity Fund's current positioning with its underweight to the US market the largest in its history, and why, within this market, they are optimistic about the relative return potential of transportation and logistics company XPO, and the other cyclical shares.

While XPO may not be a household name among South Africans, Woolworths most certainly is, and most of you will be more than familiar with their fashion, beauty, home and food offering. Woolies is also one of the top 10 holdings in our Equity, Balanced and Stable funds. Jithen Pillay examines the investment case for the business.

… trying to time the market seldom produces results.

Simplifying offshore investing

Although COVID-19 may have curtailed our offshore travel, it has not dampened our appetite for offshore investment. In fact, the pandemic has reinforced the importance of building well-diversified and resilient investment portfolios, which include adequate offshore exposure.

Many investors are intimidated by the prospect of investing offshore. While investing directly with a foreign manager can be administratively demanding, investing offshore via a platform streamlines this process and makes accessing different markets and managers easier. In this quarter's Investing Tutorial, Radhesen Naidoo and Thandi Skade outline how you can invest offshore.

With the vaccine roll-out gathering pace across the world, we look forward to an improved year ahead. Thank you for your ongoing trust. Stay safe and well.

Kind regards

Rob Formby

INVESTMENT LESSONS FROM A PANDEMIC YEAR

A year on from our stringent Level 5 lockdown, much of 2020 seems surreal. While there are many aspects we may prefer to forget, reflection reveals valuable lessons, particularly when it comes to how we react and handle ourselves and our investments in times of crisis. In this article, our portfolio managers share some learnings from the year that will always be synonymous with COVID-19.

Maintain a targeted asset allocation

Liquidity gives one optionality in times of crisis. In early 2020, as all asset prices fell due to COVID-19, cash was very valuable as it could be invested in the market. When the market is crashing, there is usually very high uncertainty. During 2020 it was hard to know how much further markets could fall, and it was easy to find reasons why they could fall a lot more. This made it hard to know when to "pull the trigger" on moving more cash to equities.

In most cases it is better, and less stressful, to have a targeted asset allocation, rather than trying to time the market. Combining this with periodic rebalancing adds the advantage that one is automatically buying when prices are low and selling when prices are high.
Tim Acker

Skate to where the puck is going

Bull markets are normally born out of pessimism and do not want to take investors along at the start. It is difficult to envisage a more pessimistic scenario than 2020. As the market was collapsing in March, not many would have foreseen that, a year later, it would be making new highs.

Successful investors must skate to where the puck is going, not where it has been. In this case, it was to correctly appreciate that the extraordinary monetary and fiscal response would remove a significant part of the extreme downside risk in asset prices. Missing the puck because you ideologically oppose these measures was a mistake.

I like to step back and ask myself: If books about 2020 are written in five years' time, what will they say about investors' behaviour with the cold eye of history? I think they will say that many assets were selling at great prices.

While there will be long-term consequences (perhaps much higher global inflation) of the actions authorities have taken, I believe we still own several cheap local shares.
Duncan Artus

Distinguish between the facts and the noise

Market conditions like those in 2020 really test your firmest convictions. Substantial returns were on offer for those who could distinguish between the facts and the noise – and were right with their high-conviction beliefs. My first takeaway from 2020 was that this is easier said than done. The over-abundance of information plays havoc with our emotions and our behaviour.

The second lesson for me was that having liquidity to capitalise on high-conviction opportunities is crucial.
Kamal Govan

Even in times of crisis, focus on your long-term view

The commitment to a disciplined, long-term-oriented investment strategy is key – even more so during times of crisis, when irrationality dominates.

Our approach to the Nigerian stocks we own is a case in point. As COVID-19 struck and the oil price collapsed, the share prices of our main holdings in Nigeria, particularly the banks, halved in naira terms. The correlation between Nigeria's stock returns and the oil price is very high: Besides being a large direct contributor to economic activity, oil represents near two-thirds of government revenue and almost 90% of Nigeria's foreign exchange income. Close to 50% of banks' loan books are exposed to oil (directly or through funding the supply chain). Furthermore, a high oil price increases the supply of foreign exchange, supporting the sustainability of other non-oil sectors that rely on imports to operate, and also prevents the currency from blowing out.

As the oil price collapsed to a multi-year low, many investors dismissed the Nigeria investment case, causing the share prices of Nigerian stocks, and banks in particular, to collapse. For us, this presented opportunity. A year on, this thesis has played out: The weighted average return on our Nigerian bank holdings is up 77% in US dollar terms since the March 2020 lows.

The lesson may seem banal, but it holds true: Even in the worst of times, stick to your long-term view.
Rami Hajjar

Be greedy when others are fearful

In his 1986 letter to shareholders, Warren Buffett famously spoke of being fearful when others are greedy, and greedy when others are fearful. These words are as true today as they were then, and for the same reason: human emotion. Much like a contagious disease, greed and fear can rapidly spread through the investment community, coming to dominate our decisions irrespective of the underlying value on offer. The last year provides an apt example:

Just over a year ago, at midnight on March 26, 2020, South Africa went under our first COVID-19-related lockdown. At that point in time, no one had a clear idea of how long the virus would be with us, nor of the social, human or economic impact. Fear and uncertainty were heightened, and this reflected in our equity markets. The JSE began 2020 offering what appeared to be attractive valuations, and yet by the end of March 2020, it had declined a further 21.4% as fear spread. In many respects we are no closer today to knowing when life will return to normal (if ever), but sentiment in markets has changed materially.

Those who stayed invested, or were fortunate enough to have capital to deploy and be greedy, have been healthily rewarded. From the end of March 2020 to today, the JSE has returned 54% including dividends reinvested. In dollars, those returns are even greater at over 80%, as the rand has strengthened from R17.86/US$ to below R15/US$ over this same time.

Be greedy when others are fearful.
Rory Kutisker-Jacobson

Stay the course

The lessons from 2020 that most resonate for me are that sentiment is fickle, many things seem obvious in hindsight, and the importance of sticking to your process. By the end of the first quarter of 2020, many markets had declined over 30% year to date, there was a lot of uncertainty, and investors could find many reasons not to invest at the time. Many frontier equities looked cheap relative to their long-term histories and to our normal earnings estimates. A year on, and investments made at the time have returned handsome returns.

Incepto ne desistam – "may I not shrink from my purpose", or more colloquially: "Stay the course."
Varshan Maharaj

Don't be afraid to sell too soon

One of the most joyful experiences is to be on the right side of an investment mania or bubble in its early stages. The last 12 months offered great opportunities in this respect. Governments and central banks have abandoned all sense of traditional financial prudence and are spending and printing money as if there is no tomorrow. Almost by accident Modern Monetary Theory has become the new orthodoxy. Private savings have soared during the pandemic and in a world of low and even negative interest rates, money is flowing into equities and property. The green and IT revolutions are dramatically disrupting a long-established economic order and much of these investment flows are heading their way. Tesla and Bitcoin are the poster children of this new era. Their prices have moved upwards without regard to rational investment metrics. Generally, the tech sector of the market is priced for perfection.

We are in the middle of an investment bubble. Sooner or later bubbles burst, but great fortunes can be made by selling at the top. So one's instinct is to hang on for a bit longer. The danger is that bubbles pop when you least expect them to do so. Already we have seen a sudden reversal in US bond markets, which took most investors by surprise. Even the pessimists thought we could wait until the northern summer before selling. The most difficult decision is to sell too soon, but many great fortunes are based on the application of this precept.
Sandy McGregor

Look for quality assets at bargain prices

At times, 2020 felt like an investment rollercoaster. The indiscriminate selling of February and March gave way to a violent rebound, with many markets now setting all-time highs. Even if, in the early days of the pandemic, you had correctly called the economic fallout, ultimately you would have been on the wrong side of the trade – so much so that in some areas, asset prices now seem increasingly detached from the reality on the ground.

The recovery has been uneven, though, with the financial impact set to be more longer lasting on some businesses, industries and countries than others. A crucial decision that had to be made last year as markets fell was whether an asset was just caught up in the selling pressure, or whether it was cheap for a reason. Investors may only have a few opportunities in their careers to buy quality assets at bargain prices. This is when the value of a thorough investment process, when married with conviction, can become evident.
Sean Munsie

Sometimes, the best thing to do is nothing

South African bonds had a tumultuous time in 2020: starting off with pre-budget jitters, escalating into a complete meltdown due to COVID-19 and the Moody's downgrade, getting rescued by the South African Reserve Bank, and finally screeching into green territory at the end of the year as the Biden victory in the US and vaccine approvals breathed some optimism back into the markets. This enormous amount of volatility presented opportunities for those who could hold their nerve.

What I did right was buying bonds throughout the first half of the year at extremely cheap levels. With the benefit

of hindsight, I exited too early: It would have paid off to be a little less risk-averse. Given the excellent entry levels, I would have benefited from bonds continuing that strong run right up until February this year. Therefore, I have learnt that sometimes, the best thing to do is nothing.
Londa Nxumalo

Keep a clear head when there is panic

The first time that COVID-19 was mentioned in the overnight Asian markets, we discussed it in the investment team morning meeting that very day. At the time, shocking as it may seem now, it appeared as though it could have been a benign story that would have limited impact on the markets.

I remember very clearly what Sandy McGregor told me later that day: "Stop all of my buy orders. I won't invest in anything until we know what this thing is."

Given the extreme market sell-off that was to follow, that was the right call, and speaks to Sandy's years of experience in the industry and his expert judgement.

For me, what 2020 reaffirmed was the investment philosophy of Allan Gray and of value investment management: Keep a clear head when there is panic, buy assets when they are undervalued, and have the courage to stay the course. Irrationality will not prevail forever.
Thalia Petousis

Admit when you are wrong

Any good investor must have the ability to change their mind. Allan Gray started buying Naspers shares in 2013, after telling clients for years that we thought the share was overvalued, and after the price had increased from R150 to R600. In this case, we had been too dogmatic about not buying a share on a high price-to-earnings (PE) multiple. We had also underestimated the growth potential of Tencent, and our assessment of Naspers' management was too pessimistic.

Changing your mind means admitting that you were wrong. This is difficult, but investors should make a habit of admitting mistakes. Of course, there is a balance between changing your mind and sticking to your guns when the price of a share moves against you. Changing your mind based on new evidence is healthy, but changing your mind because the share price has influenced your mood can be fatal.
Jacques Plaut

WOOLWORTHS: NOT SO DOWN UNDER

Jithen Pillay

We believe WHL Food is one of the best food businesses globally …

Most of you will be more than familiar with the fashion, beauty, home and food offering of retailer Woolworths, affectionately referred to as Woolies, and one of the top 10 holdings in our Equity, Balanced and Stable funds. Jithen Pillay examines the investment case for the business, which also owns Country Road Group (speciality fashion retailer) and David Jones (higher-end department stores), operating predominately in Australia.

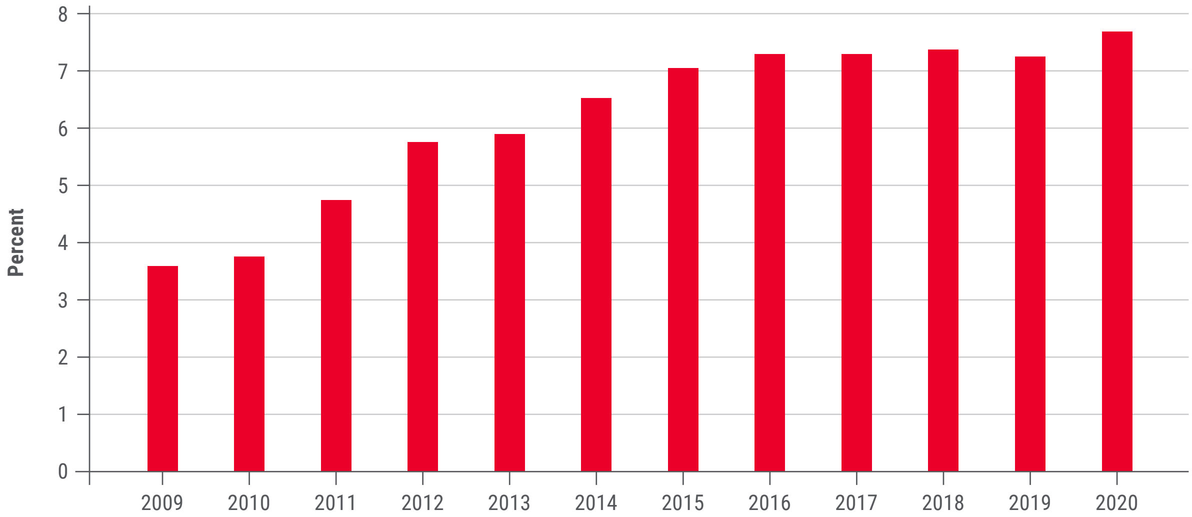
We have a long history of buying and selling Woolworths Holdings Limited (WHL). In the early 2000s, our clients owned approximately 30% of the company. At the time, earnings were low, and investors were only willing to pay about 10 times these depressed earnings. We were buyers, believing WHL had a strong position in the South African retail market, which management could leverage to improve WHL's economics. As the stock approached our estimate of its fair value, we began selling, and sold out completely in 2006. And so it remained for the next decade, until the opportunity presented itself again.

South African Food

Successful food retailers master the retail "virtuous circle". By building scale from both existing and new stores, a retailer can use its increased bargaining power to negotiate lower prices from suppliers, allowing lower prices to filter through to customers, which further grows volumes. As this flywheel reinforces itself, margins grow, further aided by improved utilisation of fixed-cost infrastructure (stores, distribution centres, etc.). WHL has followed this successfully with Food, growing its operating margin from 3.6% in 2009 to 7.7% in 2020, as shown in **Graph 1**.

WHL's superior product quality and innovation (in partnership with key suppliers) have entrenched it as the premier premium food retailer in SA. This position is extremely difficult to replicate, particularly with fresh/prepared food that requires specialised supply chains. WHL management is also protecting against a weak South African consumer environment through price competitiveness in key product ambassadors (e.g. meat), which influences overall shopper value perceptions.

Graph 1: WHL Food's operating margin



Sources: Company reports, Allan Gray research

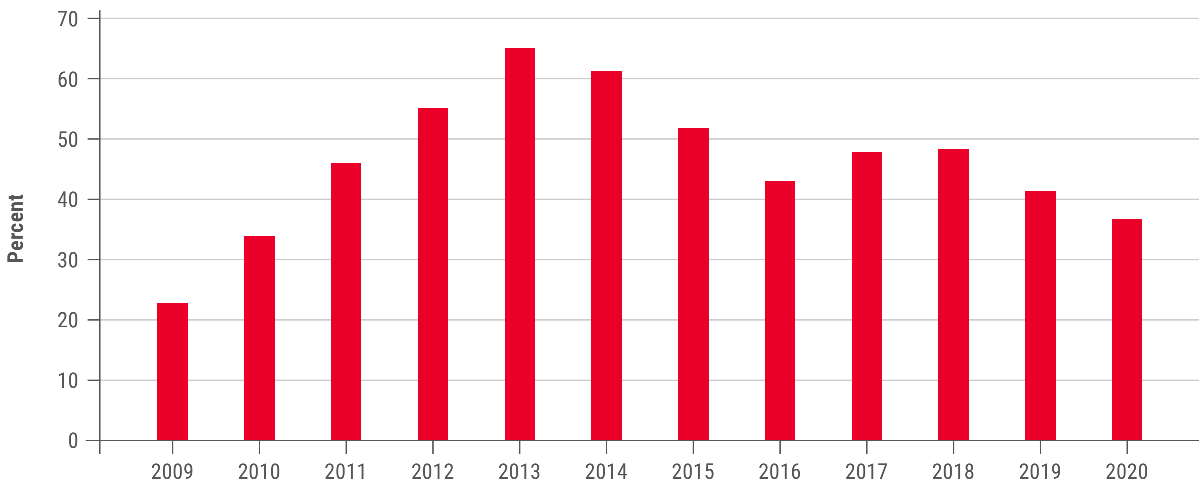
These initiatives, coupled with WHL's low market share, provide adequate runway to grow in future. We believe WHL Food is one of the best food businesses globally, earning high returns with a moat to protect its economics.

South African Fashion, Beauty & Home (FBH)

Apparel retail introduces an additional component to the retail virtuous circle. Given a lack of homogenous inventory, product curation becomes very important in attracting customers. Unfortunately, supply chain efficiencies have hidden WHL's poor relative volume growth compared to key peers since 2008 (particularly in womenswear). New management heads at both group and divisional levels have brought fresh perspectives and they are taking sensible steps to address the shortcomings. While execution risk is high, the WHL brand still resonates strongly with the South African consumer.

Although FBH's 2020 operating profit is down 70% from its 2016 peak, its sales are only 9% lower. A large revenue base (R12.4bn in 2020) provides material upside if management's actions are successful in normalising margins towards historic levels. FBH should also be able to apply key learnings from Country Road Group (CRG) as it has successfully navigated similar challenges in recent years. Importantly, while WHL's SA returns have trended lower owing to FBH's underperformance, its return on capital employed (ROCE) is still high in absolute terms. See **Graph 2**.

Graph 2: WHL SA's return on capital employed



Sources: Company reports, Allan Gray research

Australasia

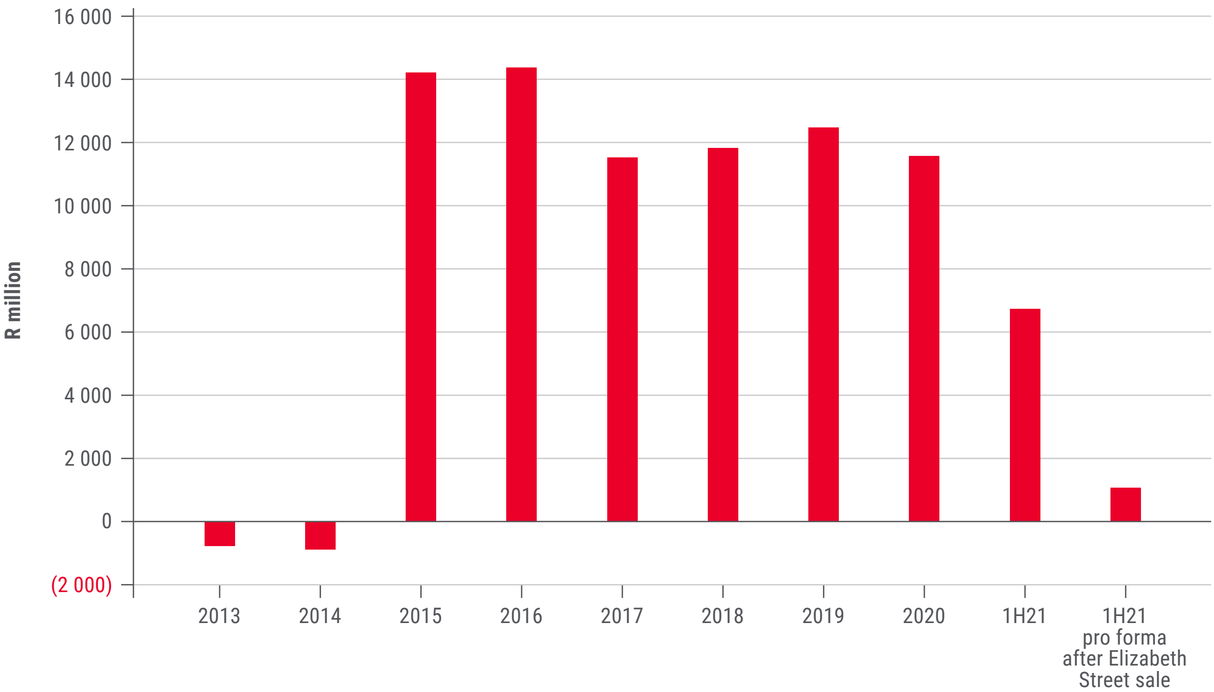
Retailers are inherently indebted given large lease liabilities to landlords; it is therefore not a good idea to add a lot of financial debt to this. WHL bought David Jones (DJS) in August 2014 for AUD2.1bn (R21.4bn). The company overpaid for the acquisition, overestimating the potential of private label products, and underestimating the complexity of overhauling operating practices and closing underperforming store space. As a result of the deal (including R10bn new equity raised), WHL moved from a net cash position on its balance sheet in 2014 to being R14bn in net debt by its 2015 year-end.

Since its 2019 year-end, management has made significant progress in reducing WHL's net debt through strict working capital management, cutting the dividend and selling two DJS-owned properties, with the latter raising R7.4bn in proceeds alone (see **Graph 3**). Importantly, the debt reduction allows the separation of DJS and CRG's funding requirements, allowing management flexibility to trade each business independently without risking CRG's balance sheet to support DJS.

On CRG and DJS's trading more broadly, management is responding to a shift towards online and speciality retail in Australia. CRG launched its online store in 2010; the channel contributed 32% of CRG's revenue for the six months to end-December 2020. Relatively short CRG leases allow management to close unproductive space as its digital channels grow. CRG's brand equity with customers also remains high. As Australia is far ahead of South Africa in online retail penetration, WHL's experience with CRG and DJS should also position it favourably in applying learnings to its SA business to scale its online operations profitably.

DJS's prognosis is more uncertain. We believe there could be a sustainable future for DJS as a smaller but more productive retailer, providing a unique customer experience with exclusive premium brands and offering omnichannel sales capability (online sales contributed 18% of its total for the six months to end-December 2020). Importantly, DJS now has the balance sheet to trade itself into a better position, and greater flexibility with landlords in reducing underperforming space. While execution risk is again high, we believe at current levels, one is not paying for this upside optionality. For context, DJS made AUD170m in operating profit in 2016 compared to an operating loss of AUD33m in 2020. Notably, downside risk is limited given DJS's requirement to fund itself as a stand-alone business.

Graph 3: WHL's net debt/(cash) excluding leases



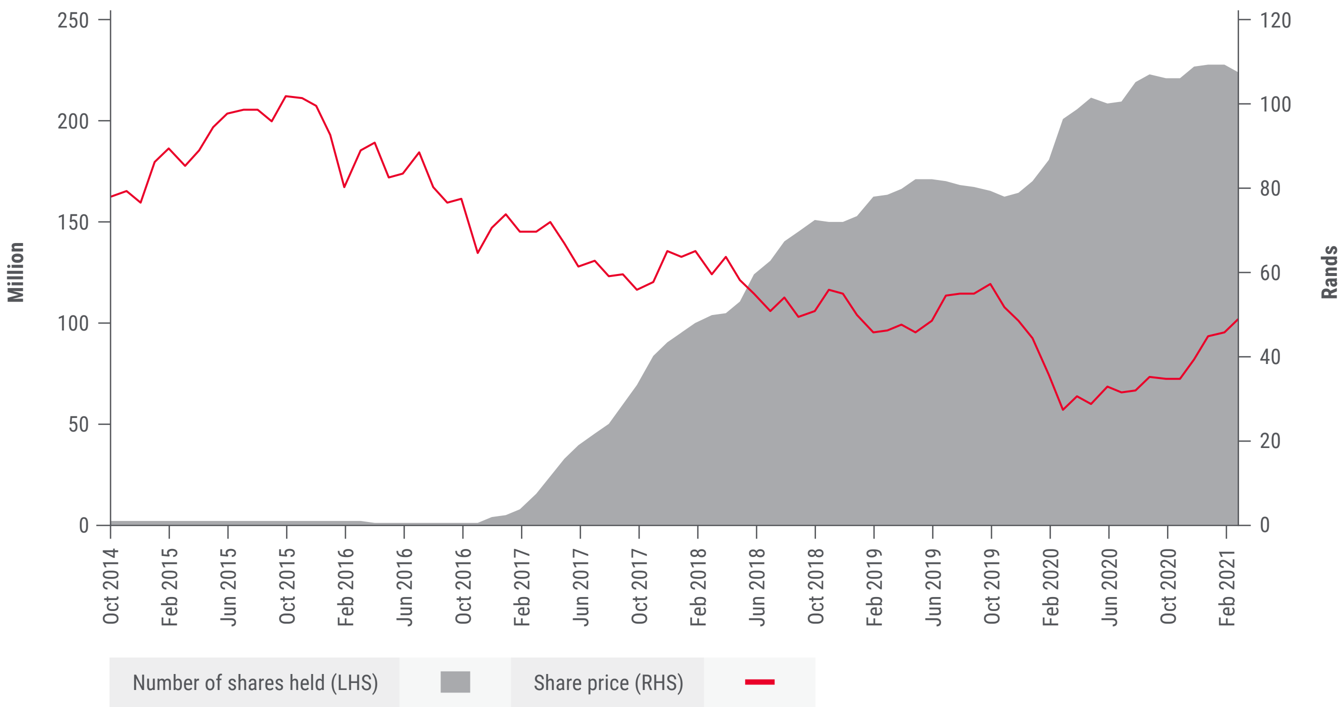
Sources: Company reports, Allan Gray research

Allan Gray client holdings

Our clients were not material shareholders in WHL following its purchase of DJS and leading up to the 2015 peak as we believed the market was overly optimistic about the company's prospects. As weak trading in FBH and DJS caused this sentiment to change, the share traded below our estimate of its intrinsic value and allowed our clients to once again build a meaningful stake, as shown in **Graph 4**. Despite the share price having almost doubled from the March 2020 trough (versus the FTSE/JSE All Share Index, which is up 74%), WHL trades on less than 12 times our estimate of its through-the-cycle earnings.

The most important determinant of future returns is the price you pay for an investment today. Balancing the risks and rewards, at current valuations, we believe WHL is still an attractive investment proposition.

Graph 4: WHL holdings vs. price



Sources: IRESS, Allan Gray research

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

GLENCORE: INVESTIGATING THE DECARBONISATION OPPORTUNITY

Sean Munsie and Raine Naudé

In the midst of COVID-19, governments desperate to break the recessionary cycle are focusing on infrastructure programmes, with an expected uptick in demand for commodities. This has led to renewed interest in commodity investments. At the same time, governments are more focused on decarbonisation and a move towards clean energy. If global decarbonisation goals are to be realised, significant new sources of metals will be needed to meet expected demand over the coming decades, which should benefit current producers and resource owners.

With a bias towards base metals, and no iron ore, Glencore's commodity basket is unique compared to those of its peers. Sean Munsie and Raine Naudé explain why they believe Glencore, despite its thermal coal assets, is well positioned in a decarbonising world.

Decarbonisation has become a major theme for governments and companies throughout the world. This has been supported by rapid declines in the cost of clean energy technologies and, increasingly, climate-conscious policies aiming for carbon-neutral economies by 2050.

Despite the impact of the COVID-19 pandemic, 2020 proved to be a standout year for climate commitments, and numerous governments are incorporating a green energy transition into their recovery strategies, as shown in **Table 1**. We can expect to hear more as the world prepares for the 2021 UN Climate Change Conference, COP26, in November this year.

The commitments being made today require a complete rewiring of the global economy, which will be underpinned by electrification. It is also important that they continue to be weighed against what is happening on the ground. In the power sector, enormous amounts of renewable energy and battery storage will have to displace fossil fuel-based power, while in the transport sector, electric vehicle (EV) adoption is likely to accelerate as EVs move towards cost parity with internal combustion engine (ICE) vehicles, governments set ICE phase-out dates, and automakers set ambitious EV sales penetration targets. We will also see significant changes in the industrial and building sectors.

Table 1: Accelerating climate ambition

Net-zero economy: Requires substantial absolute reductions in human-caused greenhouse gas (GHG) emissions. Any remaining human-caused GHG emissions are balanced out by removing GHGs from the atmosphere.[1]

Net zero 2070: According to scientific modelling, aiming for net-zero carbon dioxide (CO_2) emissions by 2070 has the best chance of limiting global warming to 2 °C.[1]

Net zero 2050: According to scientific modelling, aiming for net-zero CO_2 emissions by 2050 has the best chance of limiting global warming to 1.5 °C.[1]

Key government commitments to net-zero emissions announced or enhanced during 2020

China: 27% of global CO_2 emissions Emissions peak pre-2030 Net zero by 2060	**US: 15% of global CO_2 emissions** Power sector by 2035 Net zero by 2050
EU member states: 9% of global CO_2 emissions 55% emissions reduction by 2030 (on 1990 levels) Net zero by 2050	**Japan and South Korea: 5% of global CO_2 emissions** Net zero by 2050

56% of global CO_2 emissions

Some governments are linking stimulus packages to a green energy transition

US

Joe Biden winning the presidency, followed by Democrats winning the senate, marked a turning point for climate action.

Biden's recently announced plan for a US$2tn clean energy-focused infrastructure package demonstrates this political will, although it still requires Republican buy-in.

EU

In late 2020, the European parliament and member states agreed to set aside 37% of their ~EUR670bn COVID-19 recovery package for green investments.

The remaining funding will still have to adhere to strict environmental criteria, ruling out most fossil fuel projects.

Some of the largest companies in the world are committing to net zero

US S&P 100 net-zero commitments[2] 2020: 26% / 2019: 6%	**UK FTSE 100 net-zero commitments[3]** 2020: Over 45% / 2019: 26%

Companies announcing net-zero commitments during 2020 included miner Glencore, oil majors BP, Shell and Total, steel manufacturer ArcelorMittal and buildings material producer LafargeHolcim, representing some of the highest-emitting and hardest-to-abate sectors.

[1] World Resources Institute, *What Does "Net-Zero Emissions" Mean? 6 Common Questions, Answered*, September 2019
[2] Yale Center for Business and the Environment, *Net Zero: The Next Frontier for Corporate Sustainability*, December 2020
[3] EcoAct, *The Sustainability Reporting Performance of the FTSE 100*, September 2020

Clean energy and commodities demand

Low-carbon technologies are more mineral-intensive than their conventional energy counterparts. While the trajectory that the energy transition will take is still highly uncertain and may well fall short of a net-zero-emissions world by 2050, in all likely scenarios, global demand for metals will increase. Copper, cobalt, nickel, lithium, aluminium and zinc will be some of the winners, given their use in electrification and/or clean energy applications, as shown in **Table 2**.

Potential impact on our investment universe

The acceleration of decarbonisation initiatives will have differing impacts on commodity producers – some positive, as discussed earlier, and some negative. If these ambitious decarbonisation goals are to be realised, significant new sources of supply will be needed to meet expected demand, which should benefit current producers and resource owners.

However, if a bullish demand outlook is widely held for a resource that is relatively abundant and new projects are commissioned, this may well lead to depressed prices in time and disappointing returns. By the same token, producers of less-favoured commodities, where decarbonisation may pose a headwind for demand, could still provide a good investment opportunity if production costs are sustainably competitive, or valuations of the assets are low enough. We prefer a layered approach to commodities, investing based on company and industry fundamentals, which incorporates the impacts of decarbonisation, among other factors.

If these … decarbonisation goals are to be realised, significant new sources of supply will be needed to meet expected demand, which should benefit current producers and resource owners.

Graph 1 shows the revenue composition of the five largest diversified miners, the first three of which are available

Table 2: Demand drivers for energy transition metals

	Copper	Cobalt	Nickel	Lithium	Aluminium	Zinc
Electric vehicles	++	++++	+++	++++	++	+
Grid transmission and distribution	++				+	
Energy storage		+++	++	+++		+
Renewable energy	+				++	++

Note: + refers to strength of demand from its use in each application. Strongest demand = ++++.
Sources: Allan Gray research, Wood Mackenzie, World Bank, Glencore, UBS

Table 3: Demand forecasts for base metals in a rapid energy transition scenario

	Copper	Cobalt	Nickel	Zinc
2019 demand	29.6 mt	129 kt	2.5 mt	13.9 mt
2050 **forecast** demand in a rapid energy transition scenario*	60.1 mt	507 kt	9.2 mt	28.8 mt
2010-2019 annual average demand growth	0.5 mtpa	7 ktpa	111 ktpa	262 ktpa
2020-2050 **forecast** annual average demand growth	1.0 mtpa	13 ktpa	225 ktpa	523 ktpa

*This analysis is based on the International Energy Agency's Sustainable Development Scenario.
Note: mt = million tons; mtpa = million tons per annum; kt = kilotons; ktpa = kilotons per annum
Source: Glencore 2020 Investor Update

to investors on the local market. While we hold BHP and Anglo American on behalf of our clients, our principal exposure is to Glencore. With a bias towards base metals (copper, cobalt, zinc and nickel) and no iron ore, its commodity basket is unique compared to those of its peers and well positioned to benefit from the energy transition.

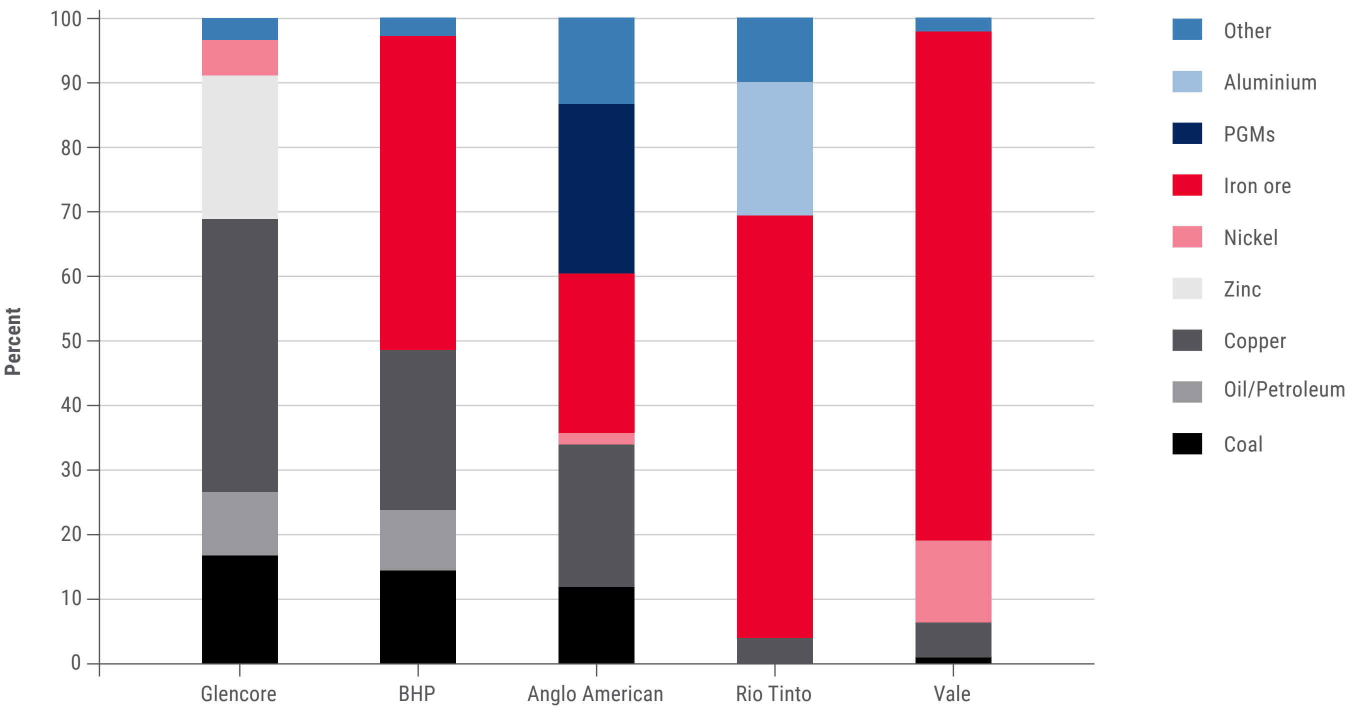
The investment case for Glencore

Table 3 provides demand forecasts to 2050 for the base metals relevant to Glencore's commodity basket in a rapid energy transition scenario. Of course, all such models rely on numerous assumptions, which include the penetration of various clean energy technologies to 2050, their estimated useful lives, material intensity, commodity recycling rates, and the composition of sub-technologies per clean energy category. They should therefore be considered as indicative, rather than an exact science. Much can and will still change, and commodities used in only one or two clean energy technologies, such as cobalt, as opposed to in all, such as copper, remain more vulnerable to substitution risk.

It is an almost consensus view among miners that copper is one of the most promising commodities. This is based on a demand profile that follows global economic growth, boosted by decarbonisation initiatives. Despite this, the pipeline of mine projects likely to be commissioned is low by historical standards, owing to limited exploration and new resource discoveries since the end of the last super-cycle. Projects with lower grades, small in scale, or located in more difficult-to-operate locations often lacking infrastructure, all require a higher price (i.e. the incentive price) to be economically viable. To compound matters, existing mine supply is also declining at around 3% per annum as resources are exhausted. While thrifting, substitution, and technology advancements that lower production costs will help, new investment will be required in time to fill the supply deficit.

Glencore's copper business is well positioned to maintain and, if necessary, grow production over the next few decades. The bulk of production comes from its South American mines, which are large, mostly long-life, and low-cost. And after several delays, its relatively newer mine in the Democratic Republic of the Congo, Katanga, is now on track to meet initial production targets. Glencore also benefits from the by-product cobalt at mainly its African mines, another commodity with a favourable demand outlook.

Graph 1: Diversified miners' revenue composition in 2020



Note: Glencore revenue is its industrial segment revenue only, i.e. excludes the marketing division.
Source: Allan Gray research based on company annual reporting

Similarly, zinc and nickel demand is also geared to global growth, with nickel in particular a beneficiary of increasing EV penetration, given its key role in battery chemistry.

On the other side of the spectrum is thermal coal, to which Glencore is also exposed. Under the most ambitious climate commitments, thermal coal-burning would all but disappear by 2050. While the very long-term demand prospects are bleak, for an existing producer with well-located, low-cost mines, such as Glencore, the picture is more mixed. Industry demand is only expected to begin declining from the mid-2020s onward, with seaborne demand, particularly from Asian countries, still remaining robust for some time. Existing industry supply is likely to disappoint owing to chronic underinvestment, and the possibility of new mines opening is slim.

The combination of these factors could lead to periods of elevated prices as it will take time to transition away from coal. According to Glencore management, cash flows generated from coal will be directed to more future-facing commodities, with production coming down in line with demand as mines reach the end of their lives.

Iron ore, the main input in the steelmaking process, is the commodity most exposed to Chinese property construction and infrastructure build. After a two-decade period of phenomenal growth, Chinese steel production is now in a plateau phase, with peak production likely in the next few years. Thereafter, a gradual decline in usage is expected, similar to the experience in other industrialised nations.

As a major carbon emitter, the steel industry is not immune to the heightened focus on environmental issues in China, with the state targeting production cuts to reduce air pollution and encouraging greater use of cleaner scrap steel, which remains low compared to that in other countries. These factors help inform our bearish long-term view on iron ore, but we recognise that, in the shorter term, supply disruptions and stimulus measures contribute to high prices, as is currently the case.

> … Glencore is more attractive when … longer-term pricing is taken into consideration.

Weighing up risks and opportunities

Whereas the market tends to project prevailing commodity prices into the future and then mark companies accordingly, we prefer to use our own estimates of mid-cycle, long-term sustainable prices in our valuations. During periods of elevated prices, which is the case at present in some areas, we may factor in a near-term boost to earnings in the valuation. While most diversified miners look appealing based on spot prices, in our view, Glencore is more attractive when more normal, longer-term pricing is taken into consideration.

Sean joined Allan Gray as an equity analyst in 2013 after working for various investment banks in the United Kingdom. He was appointed as a portfolio manager in 2020 and manages a portion of the stable portfolios. He is also the manager of the optimal portfolios. Sean holds a Bachelor of Commerce (Honours) degree in Accounting from Stellenbosch University. He is a qualified Chartered Accountant and has passed all three levels of the CFA® examinations.

Raine first joined Allan Gray in 2011 as a CA trainee and is currently an ESG analyst in the Investment team. She holds a Bachelor of Business Science (Honours) degree in Finance and a Postgraduate Diploma in Accounting, both from the University of Cape Town. Raine is a qualified Chartered Accountant.

EXECUTIVE REMUNERATION IN TIMES OF UNCERTAINTY

Vuyo Mroxiso

… our views are solely driven by what we believe to be in the best interests of our clients …

We believe that a company's remuneration policy should aim to attract, reward and retain competent executives, while incentivising alignment between these executives' and shareholder interests. We realise that this is easily said, but can be difficult to implement. We aim to play a constructive role in this regard and frequently engage with company boards, particularly remuneration committee (remco) members, to encourage the adoption of executive incentive schemes that are aligned with shareholder interests and best practice standards.

Over the last year, dealing with the impact of COVID-19 has naturally been at the top of board agendas. For remcos, the focus has been on incentivising, compensating and retaining key talent in these turbulent times. We have spent a lot of time engaging on this matter, both internally and with company boards. Vuyo Mroxiso discusses the most prevalent engagement points and details some of our views, as shared with several boards and management teams of our investee companies.

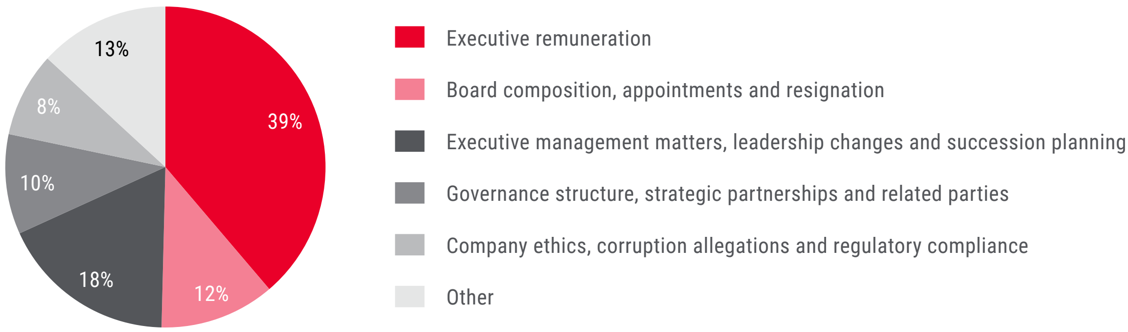
While the pandemic brought about some unique discussion points, executive remuneration remained our top corporate governance engagement theme in 2020, as shown in **Graph 1** on page 18. Many of our engagements centred around the impact of the pandemic on executive incentive schemes. Of specific focus was how boards should go about retaining and motivating key employees with long-term incentives (LTIs), having lost a significant portion of their value because of the pandemic; the use of discretion in adjusting performance targets that were set in a pre-COVID-19 world, and what remcos should consider in setting forward-looking performance targets when the future remains so uncertain.

Our overarching beliefs on executive remuneration remain unchanged: We advocate remuneration schemes that are closely aligned with shareholder interests, clearly linked to the strategic objectives and long-term performance of a company, and in line with best practice standards. However, we have aimed to be constructive during these extraordinary times and this has meant we have had to be reasonably flexible when evaluating remuneration schemes.

Retention of key talent

The pandemic resulted in many LTI awards being either

Graph 1: Governance engagements by theme



Source: Allan Gray

underwater due to the COVID-19-induced sell-off in the first quarter of 2020, or highly unlikely to vest due to having unattainable targets (set pre COVID-19) attached to them. The prospect of LTIs not vesting for the next 12 to 24 months, or even longer, depending on how long it takes economies to recover, solely as a result of exogenous factors, has been cited as a significant retention risk by a number of boards and reward teams. We appreciate that this is a real risk and understand the importance of retaining key talent during these unprecedented times, yet we believe remcos should follow a pragmatic approach and only consider the introduction of retention schemes when it is deemed necessary. In our view, there is no "one size fits all" solution; rather, companies should consider the merits of introducing retention schemes in the context of their current remuneration structures.

The two scenarios on page 20 highlight some of the factors we typically consider when evaluating the merits of a retention scheme.

Use of remco discretion

In principle, we are not opposed to the application of remco discretion. We understand that setting performance targets and evaluating outcomes in an uncertain environment are not easy tasks. However, discretion can be misused as a tool to inappropriately reward executives in periods of underperformance, a practice we think undermines the concept of "pay for performance". As a result, we usually discourage the use of discretion and instead encourage companies to provide clear disclosure of how executives performed against preset performance targets. This level of transparency enables us to assess whether executives are being incentivised to act in shareholders' best interests, and to determine whether a reasonable relationship exists between executive pay and company performance.

However, we also realise that a completely formulaic approach to determining pay outcomes might not be the right solution for incentivising and retaining competent executives in this climate: Management teams may have been working hard, but their efforts are not being reflected in financial results due to the impact of COVID-19. With this in mind, we do not oppose remcos using their discretion to adjust performance targets to ensure that incentives adequately motivate and fairly reward executives, however, this discretion should be exercised in a manner that is consistent with management's performance and aligned with the best interests of shareholders. We think the remuneration outcomes of the next few years will truly highlight good versus "average" remcos.

… [we] encourage companies to provide clear disclosure of how executives performed against preset performance targets.

Limiting the upside of executive remuneration

We recognise that there will probably always be some element of chance in share-based remuneration. We encourage companies to attempt to control this where possible. In line with best practice standards, we advocate regular and consistent granting of share-linked awards, as opposed to large ad hoc/once-off awards. We believe this reduces the risk of unjustified windfalls. Even with all our attempts at being forward-looking, the COVID-19 crisis and the magnitude of its impact on stock markets and economies worldwide have shown that not everything can be foreseen. And, while we still believe that there is merit in regular and consistent awards, we realise that this might result in undue windfalls if awards were allocated when share prices were at historic lows.

We therefore urge remcos to follow a pragmatic approach and put measures in place to ensure that awards which eventually vest are reasonable. This can be done either at the time of granting the awards or at the end of the performance/vesting periods. Examples of measures that can be taken include introducing a cap to the value of LTI awards that stand to vest, reducing the quantum of allocations at grant date, or applying remco discretion to reduce the value of the vested awards if they are unreasonable.

Transparency is key

Where discretion is applied to either allow for the vesting of awards where performance targets are not met, or adjust the value of vested awards, we encourage remcos to provide a clear indication and adequate justification of how they arrived at the adjusted outcomes. This disclosure should be made available to all shareholders via annual reports. This level of transparency enables shareholders to adequately assess the appropriateness of the discretion and to determine whether it has been duly exercised.

Our stewardship activities include proxy voting

In addition to engaging on issues such as executive remuneration, we think critically about how we recommend our clients vote their shares at company meetings. The JSE Listings Requirements make it mandatory for a company with a primary listing on the JSE to table separate non-binding advisory votes on the executive remuneration policy and implementation report at the company AGM. These are important resolutions as they provide shareholders with a direct say on pay.

The key factors we consider when evaluating remuneration schemes include quantum of pay, how well aligned the remuneration scheme is with shareholder interests, the strength of the pay-performance correlation, the extent to which executives, in their personal capacity, are invested in the companies they manage (“skin in the game”), and whether the remuneration policy and implementation report are transparent enough to enable shareholders to make adequate assessments of the scheme.

By recommending a vote against a company’s remuneration policy and/or its implementation report, we are not necessarily suggesting that we lack confidence in the company’s executive directors; our views are solely driven by what we believe to be in the best interests of our clients, and we recognise that these may differ from those of other shareholders.

Scenario 1

Companies A and B are comparable peers. They operate in the same industry and have a similar size, geographic footprint, scope and level of operational complexity. The remcos of companies A and B have proposed the same retention scheme: a restricted share plan (RSP) subject to a five-year continued employment condition, with cliff-vesting thereafter. There are no performance conditions attached to the award other than continued employment during the five-year period. The weighting of the RSP will be 30% of the total annual LTI award. The remaining 70% is a conditional share plan (CSP) that is subject to performance conditions at both company A and B.

In each case, how do we consider whether or not to support the retention scheme?

Company A

- Quantum of executive remuneration: Median of peer group
- History of pay-performance correlation: Strong positive relationship between executive pay and company performance
- Remuneration scheme structure: Pay mix is geared towards the long term; targets are sufficiently stretching
- Overall assessment: Good remuneration policy and implementation thereof; well aligned with shareholder interests
- Likelihood of us supporting the retention scheme: High

Company B

- Quantum of executive remuneration: Upper quartile of peer group
- History of pay-performance correlation: Weak positive relationship between executive pay and company performance
- Remuneration scheme structure: Pay mix is short-term-focused; targets are soft
- Overall assessment: Subpar remuneration policy; poorly aligned with shareholder interests
- Likelihood of us supporting the retention scheme: Low

Scenario 2

Companies X and Y are comparable peers. They operate in the same industry and have a similar size, geographic footprint, scope and level of operational complexity. Our overall assessment is that both companies have fair remuneration policies. However, we are generally concerned about the high quantum of executive remuneration in this industry. This is not a company-specific concern, but an industry-wide one.

In each case, how do we consider whether or not to support the retention scheme?

Company X

- Proposes a once-off retention award equivalent to 150% of total guaranteed pay for executives, vesting in equal tranches over three years following the grant date. This award is in addition to the normal LTI.
- Likelihood of us supporting the retention scheme: Low. Quantum of total pay is already high in absolute terms; we are therefore unlikely to support additional awards, especially when these awards are not subject to sufficiently stretching financial and strategic performance conditions.

Company Y

- Proposes a once-off retention award equivalent to 150% of total guaranteed pay for executives, vesting in equal tranches over three years following the grant date. This award will only kick in if Company Y's in-flight LTI awards do not vest due to COVID-19-related impacts.
- Likelihood of us supporting the retention scheme: Medium. Quantum of total pay is already high in absolute terms, so even though these aren't "additional awards" per se, we would strictly assess whether the COVID-19 retention award is warranted. This assessment would primarily be done as the retention/in-flight award vests over the three years under review.

Vuyo joined Allan Gray in 2018 and is a governance analyst in the Investment team. She holds a Bachelor of Accounting degree from Stellenbosch University, an Honours in Accounting from Nelson Mandela Metropolitan University and a Master's in Development Finance, also from Stellenbosch University. Vuyo is a qualified Chartered Accountant.

ORBIS: ARE THERE REAL LONG-TERM OPPORTUNITIES IN THE US?

Matthew Adams and Eric Marais

With just 30% of assets invested in US shares versus 66% for the MSCI World Index, the Orbis Global Equity Fund's current underweight to the US market is the largest in its history. Matthew Adams and Eric Marais, from our offshore partner, Orbis, explore the Fund's largest US holding and discuss how the investment landscape may change in the wake of the pandemic.

The Orbis Global Equity Fund's current underweight to the US market is reminiscent of two similar occasions when its positioning differed substantially from its benchmark. One was at inception, when the Orbis Global Equity Fund ("the Fund") had a 0% weight in Japan when that market was near its all-time peak and accounted for more than 40% of the benchmark, and the other was in 2000, when the Fund owned very few of the so-called TMT (technology, media and telecommunications) shares despite their 40% weight in the benchmark. As always, our portfolio positioning is driven by bottom-up decisions about individual businesses. But those decisions don't take place in a vacuum; they are influenced by the hand we are dealt by the market, and we naturally gravitate to areas where the attractive opportunities appear most abundant.

In recent years – as in the two episodes mentioned previously – the stockpicking environment in the US has been characterised by rising aggregate valuations, surging liquidity, dwindling concern for risk, and increasing speculation. Some of the biggest winners in this environment have been disruptive technology platforms that offer a unique combination of rapid growth, high profitability, and near-immunity to the economic cycle. While we find these characteristics appealing – and we have owned some of these businesses at times – we have been increasingly uncomfortable with their valuations.

Yet despite stiff valuation headwinds at the broader market level, some of our highest-conviction ideas have come from the US market, where we continue to own a number of businesses that we believe offer attractive long-term risk-adjusted returns. In particular, we have uncovered shares of businesses that are cyclical, but also competitively advantaged.

XPO: A cyclical business with attractive long-term growth prospects

XPO Logistics, a transportation and logistics company with operations in the US and Europe, has been one of the Fund's largest holdings for many years. The business is run by chairman and CEO Bradley Jacobs, who effectively founded the company and built it into its current form through a series of acquisitions between 2011 and 2015. Jacobs owns approximately 18% of the company's shares.

... we remain enthusiastic about the stockpicking potential within the US market.

Over the years, we've gotten to know Jacobs well and have developed deep conviction in his strategic vision, operational skill, and capital allocation acumen. The most tangible evidence is XPO's outperformance of 14% per annum versus the S&P 500 since Jacobs took the helm in 2011, not to mention his track record of success as the founder of several other businesses prior to XPO.

Despite the tremendous results that Jacobs and his team have delivered, in our view, XPO shares have often been significantly undervalued during our holding period. We believe the source of this persistent discount is primarily related to three interrelated factors: The company is complex, it carries a lot of debt, and – as long-standing Orbis clients will know – its share price has been volatile.

It was therefore welcome news at the end of 2020 when XPO announced its intent to spin off its contract logistics business into an independent public company called GXO Logistics, and to seek investment-grade credit ratings at both companies. We believe the implementation of this spin-off plan and subsequent deleveraging, in conjunction with steady execution and an attractive long-term earnings growth trajectory, creates a compelling long-term risk-adjusted return profile for our holding today in XPO. It can take time for spin-offs to ultimately influence a company's valuation, but they can be an effective way to unlock hidden or underappreciated value.

After the spin-off, XPO will comprise the company's transportation business, which is primarily focused on less-than-truckload (LTL) shipments in the US. That business accounts for about two-thirds of earnings before interest, taxes, depreciation and amortisation (EBITDA), with the remainder coming mostly from freight brokerage. As a simpler, pure-play transportation business – and one on its way to an investment-grade balance sheet – we believe XPO should be valued closer to its listed peers, which trade between approximately 14 and 16 times consensus estimates of 2022 EBITDA.

To put this in perspective, if we apply an even more conservative range of multiples – say 11-13 times EBITDA – to our range of estimates of what we think the business can earn next year, it would imply about US$100-US$120 per share in equity value if we assume XPO keeps all of the company's current debt. The upper end of this range is in line with the share price as of March 31 – essentially giving XPO shareholders the GXO spin-off for free.

What will the GXO spin-off be worth? Despite a lack of comparable publicly traded peers, there is a long record of private market transactions for logistics assets in the 10-14 times EBITDA range. While such private transactions likely embed a degree of control premium, we believe GXO should command a premium, and both industry fundamentals and market conditions have developed favourably in recent years. In our view, GXO is a premier asset with attractive secular growth stemming from leading positions in areas like e-commerce and "reverse logistics", i.e. processing merchandise returns. It is a high-return-on-capital business, aided by recurring revenue from long-term contracts with high renewal rates.

Applying the low end of the private valuation range to a conservative EBITDA estimate for GXO suggests that there could be additional value of approximately US$50-US$55 per share to be unlocked through the spin-off. Of course, GXO will face more uncertainty given the market's lack of familiarity with contract logistics and fewer pure-play public peers, but we are enthusiastic about the business and pleased that we are able to remain long-term shareholders.

US investment landscape: Regime change?

While our conviction in XPO is driven by our bottom-up research, we also see reason for optimism about the relative return potential of XPO – and our other cyclical shares – when we consider the broader market and economic context. Large exogenous shocks have a way of changing the prevailing regime in unexpected but enduring ways, and the COVID-19 pandemic was nothing if not a shock to the global economy. The consequences of the global financial crisis (GFC) produced the low-growth, low-interest-rate environment of the last decade. It's quite possible that the consequences of the pandemic will produce a very different market regime with different winners and losers over the next decade.

The market regime of the last decade in the US was a near-perfect confluence of conditions for the shares of the defensive growth businesses that we have largely avoided in recent years. Below-trend economic growth in the aftermath of the GFC created an earnings headwind for economically sensitive businesses which made the relative earnings growth of many disruptive growth businesses look unusually attractive by comparison; with real growth scarce, investors were willing to pay a large premium for it. At the same time, technology-driven productivity gains and the deflationary impact of globalisation, coupled with low economic growth, helped to keep inflation subdued. Finally, with low growth, low inflation, and aggressive central bank intervention, long-term interest rates were depressed to historically low levels, disproportionately benefiting long-duration assets such as the shares of richly priced growth companies.

As this regime became entrenched, relative valuations for such businesses, which started low, were steadily amplified by the circularity of the capital cycle. Growth managers outperformed, attracting new assets, spurring further buying of the same growth shares, pushing such shares ever higher. Conversely, value managers underperformed, leading to redemptions, additional selling, and further value share underperformance. This cycle was magnified by the steady movement of capital from active managers (disproportionately value managers) to passive managers, who in turn were required to buy more growth shares at inflated index weights.

Yet developments since the start of the pandemic offer the tantalising possibility that this regime may be changing. Consider, for example, that the pandemic unleashed the most extreme increase in US government spending since the Second World War – US$6tn of stimulus – with more likely on the way, given the prevailing political environment in Washington DC. The magnitude of this fiscal response is difficult to overstate and may well produce a period of unusually high economic growth in the coming years.

Even without these extraordinary measures, the "real" economy stands to benefit from accelerated vaccine deployment and the end of lockdowns, combined with enormous pent-up demand and the highest individual savings rate in decades.

Additionally, the combination of surging demand, limited supply of both labour and goods (labour shortages, tight inventories, and supply chain disruptions are already nearly universal themes among US companies), ongoing deglobalisation, and exceptionally loose monetary policy potentially sets the conditions for much higher inflation and interest rates. Such a development would be a significant headwind for richly priced growth shares.

To be sure, we are less enthusiastic about the long-term consequences of this debt-funded, central bank-monetised spending binge, but the medium-term consequence is likely to be a period of increased economic activity – possibly the strongest in decades. **Table 1** on page 24 paints a picture of some of the ways in which the investment landscape in a post-pandemic world may differ from the one we've been accustomed to in the past 10 years or so.

While none of this is guaranteed to happen – and this is by no means a "forecast" on our part – it aligns well with developments in recent months. Some of the more encouraging data points include the recent rise in inflation expectations and real yields, and corresponding underperformance of growth shares relative to their value counterparts. This shift has also been a welcome development for the Fund's performance.

Finding attractive opportunities in an expensive market

By owning individually attractive companies like XPO, we don't need to bet on a regime change to find favourable risk-adjusted returns. But it is striking to consider how heavily many other investors appear to be betting on the current regime continuing indefinitely. For instance, approximately one-third of the S&P 500 by market cap now trade above 50 times normalised earnings, a level not seen outside of the TMT bubble.

If the developments just discussed indeed presage a regime shift, then the most highly valued shares would be particularly vulnerable. Globally, relative value spreads remain near historical extremes, and, despite the recent rise in yields, real yields remain significantly negative. From this starting point, even a modest increase in real interest rates could be devastating to the relative multiples of some defensive growth shares. A higher discount rate *slightly* reduces the present value of profits next year, but *greatly* reduces the value of profits next decade.

A clear lesson from history is that big shifts can unfold dramatically, and it's critical to avoid areas of the market that look most overvalued. At this stage of the cycle, we believe it's less about trying to find the next Amazon and more about trying to avoid being left holding the next Pets.com. With wide valuation gaps, a potential shift away from the low-growth, low-inflation, low-yield, low-dispersion regime of the last decade, and with high-conviction ideas like XPO, we remain enthusiastic about the stockpicking potential within the US market.

US stocks may currently represent a relatively small portion of the Fund – a far cry from their weight in the World Index – but in our view, the handful of ideas that make up our allocation to the US are among our highest-conviction holdings anywhere in the world.

Table 1: Regime change?

Post-GFC regime (2009-2020)	Potential post-COVID-19 regime (2021-?)
Economic growth below long-term trend	Above-trend growth driven by fiscal stimulus, reopening and pent-up demand
Aggressive central bank intervention, but limited fiscal stimulus	Sustained monetary expansion plus massive fiscal stimulus
Loose regulatory and antitrust environment	Aggressive regulation and antitrust litigation
Weak earnings growth for cyclical/economically sensitive businesses	Attractive set-up for cyclical/economically sensitive earnings growth
Historically low inflation and zero/negative interest rates	Inflation and interest rates both starting to rise
Attractive starting relative valuations for growth shares	Attractive starting relative valuations for value shares
Unusually good environment for "growth" stocks, unusually bad for "value"	Growth opportunities less "scarce", premium over value harder to justify
Virtuous performance-inflow cycle for growth-oriented managers	Virtuous performance-inflow cycle for value-oriented managers
Vicious performance-outflow cycle for value-oriented managers	Vicious performance-outflow cycle for growth-oriented managers
Low dispersions within markets, ideal for passive investors	Increasing dispersions, favouring active stock selection

Source: Orbis

Orbis
Invest Differently

Matt joined Orbis in 2010. Based in San Francisco, he is a member of the US Investment team and his responsibilities include leading the team's investment process and researching US equities. Matt shares responsibility for managing the Orbis US Equity Strategy and is a member of the firm's US board of directors. He holds a Bachelor of Science degree in Electrical Engineering from the United States Military Academy, a Master of Philosophy in Engineering from the University of Cambridge, a Master of Science in Electrical Engineering from the University of Washington, and a Master of Business Administration from the Stanford Graduate School of Business.

Eric joined Orbis in 2013 and is a member of the Institutional Client Servicing team, where he is primarily responsible for servicing institutional clients and consultants in the US market. He previously spent eight years in Orbis' Investment team analysing US stocks across all sectors, and retains some responsibilities, including stock coverage in the Investment team. Before that, he worked as an investment analyst at Allan Gray Proprietary Limited. Eric holds a Bachelor of Science (Honours) degree in Engineering from the University of Cape Town and is a CFA® charterholder.

HOW TO INVEST OFFSHORE

Radhesen Naidoo and Thandi Skade

It is said that home is where the heart is, and for many investors, it is a sentiment reflected in the composition of investment portfolios, often skewed in favour of domestic equities. By doing so, however, long-term investors restrict their access to the diverse opportunity set that investing offshore offers. Radhesen Naidoo and Thandi Skade touch on the three ways investors can get offshore exposure, with a focus on how the Allan Gray offshore platform aids accessibility.

The South African rand is often referred to as one of the most volatile currencies in the world, and its unpredictable nature will typically come up in conversations about investments. Diversifying your investment portfolio with offshore exposure can be an effective way to mitigate rand weakness and foreign currency fluctuations, which heavily influence the price of food, petrol and other goods and services.

More importantly, it helps investors tolerate periods when markets can be turbulent as you spread your investment risk across different currencies, regions, and economies. This means you can maximise the potential to earn long-term returns under different market conditions, while still protecting your capital in real terms.

If you consider that, by market capitalisation, the FTSE/JSE All Share Index (ALSI) represents around 1% of the total global listed equity market, investors holding a heavy weighting in local stocks, or those with little to no offshore exposure, risk missing out on the opportunities that are either underrepresented or unavailable in South Africa.

There are three ways to get offshore exposure

1. **You can get some offshore exposure through local unit trusts**
   Most South African investors have some offshore exposure through their local unit trusts, which are allowed to invest up to 30% offshore and an additional 10% in other African countries. This is in addition to their exposure to locally listed companies that have offshore operations. As an Allan Gray investor, you would get exposure via your Equity, Balanced and Stable Fund investments.

2. **You can invest in rand-denominated offshore unit trusts**
   You can achieve further diversification by investing in rand-denominated offshore unit trusts, such as the Allan Gray-Orbis Global Equity Feeder Fund, Global Fund of Funds and Global Optimal Fund of Funds, or other rand-denominated offshore funds available via our local investment platform.

   If you go this route, you invest in rands, but your investment is fully invested in offshore assets. You use your asset manager's offshore investment allowance, rather than your own (see text box). While this route saves you on the admin, the possibility remains that these funds may be closed to new investments from time to time when your asset manager reaches their South African Reserve Bank-prescribed foreign currency limits.

3. **You can invest with offshore managers**
   You can use your annual offshore investment allowance (see text box) and invest with offshore managers. However, navigating the world of offshore investing can feel overwhelming because of the sheer volume of global unit trusts available to choose from. In addition, the process of investing with different foreign managers can be administratively demanding owing to the complexities of investing in multiple jurisdictions that may carry different regulatory requirements governing how you can access your funds.

   Using an offshore investment platform can help when it comes to narrowing down the options and dealing with the associated administration. Furthermore, the minimum investment required is typically lower, and there are benefits from an estate-planning and capital gains tax perspective. These benefits are discussed in further detail below.

The benefits of offshore platform investing

Simplified administration

Domiciled and regulated in South Africa, the Allan Gray Offshore Investment Platform gives you access to an array of carefully selected offshore unit trusts, including a selection from Orbis, our offshore investment partner, with the benefit of a single point of contact for the administration and management of your investments. As with your local investments, you get to interact with our Client Service Centre, and you can view and transact on your offshore investments through Allan Gray Online.

You do not need an offshore bank account to invest via our offshore platform. For amounts under R1m per year, you can simply deposit rands, which are then converted to the foreign currency of the funds you choose to invest in, through an authorised dealer at a preferentially negotiated markup. Furthermore, the conversion does not carry any additional administration fees. For amounts greater than R1m, you will need to apply for tax clearance (see text box). Of course, you can also invest in foreign currency from an offshore bank account if you prefer.

If you wish to withdraw money, the funds can be transferred to your local bank account, in foreign currency, which is then converted locally to rands. If you have an offshore bank account registered in your name, the money can be transferred into this account.

Lower minimum investments

Because investment platforms aggregate multiple clients' underlying assets, investing via a platform provides lower minimum investments than those typically required for investing directly with an offshore manager.

On the Allan Gray Offshore Investment Platform, for instance, you can access an offshore fund with a minimum lump sum investment of R20 000 (R5 000 per unit trust) and a minimum of R5 000 for additional contributions, or a US$1 500 minimum lump sum investment (US$400 per unit trust) and a minimum of US$400 for additional contributions.

Estate-planning and tax benefits

If your offshore platform is locally domiciled, as is the case with Allan Gray's platform, there are estate-planning benefits for South African tax residents if you die while invested. Your offshore assets will form part of your South African estate and be processed by a local executor. Tax, for South African tax residents, is calculated on worldwide assets, so this will not increase the tax paid, however, it will reduce the administration in managing probate issues in multiple jurisdictions.

From a capital gains tax (CGT) perspective, there are benefits to investing via the offshore platform or directly with an offshore manager, compared to investing in rand-denominated offshore unit trusts. If you invest in rand-denominated offshore unit trusts, when you sell your investment, you will pay CGT on all gains, including capital growth and currency fluctuations, on your original investment (i.e. both the base cost and the sale value are calculated in rands).

If you invest in foreign currency, when you sell assets, you only pay CGT on the capital growth earned in foreign currency. In other words, the growth in capital is in foreign currency and converted to calculate CGT using the exchange rate at the date of sale.

This means that if the rand weakens, it is more tax-efficient to be invested via the offshore platform or directly with an offshore manager, while if the rand strengthens, it is more tax-efficient to be invested in a rand-denominated unit trust.

Need help?

As with local investing, there are many decisions you need to make before investing offshore. The most suitable avenue is one of them. You will also need to carefully consider how much exposure you need, how to manage your asset allocation, and which investment manager has a philosophy that resonates with you and funds that match your objectives. An independent financial adviser can guide you in making these decisions and help you achieve your long-term investment goals.

Remember, the decision to invest offshore should never be taken in reaction to movements in the market. Rather, it should form part of a diversified approach to constructing a well-balanced investment portfolio.

How much can individuals and fund managers invest offshore?

Individuals

The South African Reserve Bank (SARB) allows residents to invest up to R11m in foreign currency per calendar year. This allocation is split into two allowances: a R1m single discretionary allowance (SDA), which you are permitted to spend without having to obtain a tax clearance certificate from the South African Revenue Service (SARS), and an additional R10m foreign investment allowance for taxpayers in good standing with SARS, on condition that you apply for and obtain a tax clearance certificate.

It is your responsibility to ensure that you do not exceed your R1m SDA limit across all your foreign spend, which includes monetary gifts, loans, foreign travel expenses, maintenance and offshore credit.

If your money is already offshore, SARS and SARB approval is not required before you invest. However, you must inform the SARB of any offshore investments.

Fund managers

Like discretionary investors, the SARB has also placed restrictions on the total amount of foreign assets local fund managers are allowed to invest in. Local fund managers are currently mandated to invest up to 35% of their retail assets offshore using what is known as a manager's foreign capacity. This option, however, may not always be available and is subject to be closed at a moment's notice once a manager's foreign capacity reaches its limit.

Radhesen is head of Orbis Client Servicing in South Africa. He joined Allan Gray in 2012 as a business analyst in the Institutional Clients team. Radhesen holds a Bachelor of Science (Honours) degree in Actuarial Science from the University of the Witwatersrand.

Thandi joined Allan Gray in 2020 as a specialist in the Marketing team. She holds a Bachelor of Social Science degree in Media & Writing and Politics from the University of Cape Town.

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

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign*	Total	SA	Foreign*
Net equities	71.3	51.3	19.9	35.6	22.5	13.1
Hedged equities	6.9	1.7	5.2	16.0	6.0	10.0
Property	1.0	0.9	0.1	2.2	2.1	0.1
Commodity-linked	3.4	2.7	0.7	3.6	2.8	0.8
Bonds	12.2	8.7	3.5	33.8	26.4	7.4
Money market and bank deposits	5.2	2.8	2.3	8.8	4.2	4.5
Total	**100.0**	**68.2**	**31.9**	**100.0**	**64.0**	**36.0**

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

Allan Gray Equity Fund net assets as at 31 March 2021

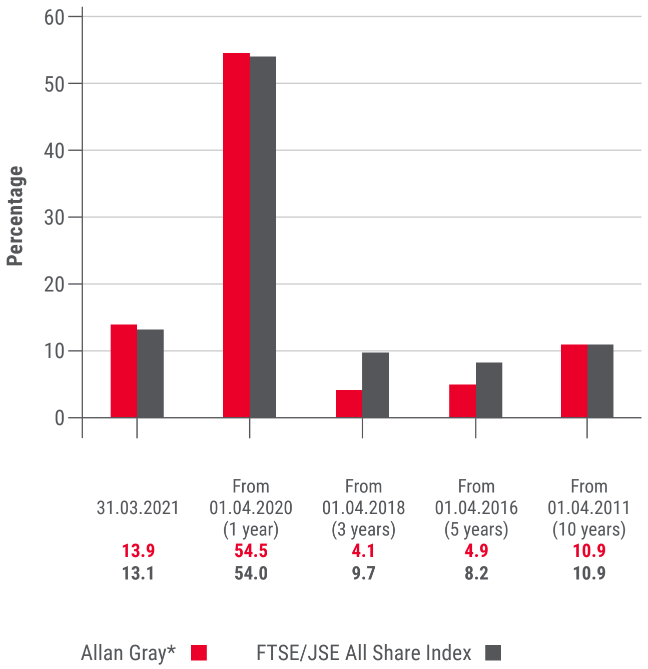
Security (Ranked by sector)	Market value (R million)	% of Fund	FTSE/JSE ALSI weight (%)
South Africa	**24 949**	**68.1**	
South African equities	**24 066**	**65.7**	
Resources	**5 952**	**16.3**	**35.1**
Glencore	1 508	4.1	
Sibanye-Stillwater	843	2.3	
Sasol	746	2.0	
Northam Platinum	471	1.3	
Impala Platinum	405	1.1	
BHP	322	0.9	
Sappi	310	0.8	
Positions less than 1%[1]	1 347	3.7	
Financials	**7 390**	**20.2**	**17.4**
Standard Bank	939	2.6	
FirstRand	919	2.5	
Reinet	843	2.3	
Remgro	833	2.3	
Old Mutual	724	2.0	
Nedbank	634	1.7	
Rand Merchant Investment[2]	383	1.0	
Investec	366	1.0	
Positions less than 1%[1]	1 750	4.8	
Industrials	**10 723**	**29.3**	**47.5**
Naspers	3 287	9.0	
British American Tobacco	1 868	5.1	
Woolworths	1 214	3.3	
Life Healthcare	584	1.6	
AB InBev	479	1.3	
KAP Industrial Holdings	378	1.0	
Super Group	370	1.0	
MultiChoice	341	0.9	
Positions less than 1%[1]	2 202	6.0	
Commodity-linked securities	**306**	**0.8**	
Positions less than 1%[1]	306	0.8	
Cash	**577**	**1.6**	
Africa ex-SA	**978**	**2.7**	
Equity funds	**978**	**2.7**	
Allan Gray Africa ex-SA Equity Fund	978	2.7	
Foreign ex-Africa	**10 699**	**29.2**	
Equity funds	**10 635**	**29.0**	
Orbis Global Equity Fund	6 129	16.7	
Orbis SICAV International Equity Fund[3]	2 773	7.6	
Allan Gray Frontier Markets Equity Fund Limited	1 139	3.1	
Orbis SICAV Emerging Markets Equity Fund	424	1.2	
Orbis SICAV Japan Equity (Yen) Fund	169	0.5	
Cash	**64**	**0.2**	
Totals	**36 626**	**100.0**	

[1] JSE-listed securities include equities, property and commodity-linked instruments.
[2] Including stub certificates.
[3] This fund is not approved for marketing in South Africa. Reference to this fund is solely for disclosure purposes and is not intended for, nor does it constitute, solicitation for investment. **Note:** There may be slight discrepancies in the totals due to rounding. For other fund-specific information, please refer to the monthly factsheets.

Investment track record – share returns

Allan Gray Proprietary Limited global mandate share returns vs FTSE/JSE All Share Index			
Period	**Allan Gray***	**FTSE/JSE All Share Index**	**Out-/Under-performance**
1974 (from 15.6)	−0.8	−0.8	0.0
1975	23.7	−18.9	42.6
1976	2.7	−10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	−0.3
1979	86.9	94.4	−7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	−4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	−4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	−5.1	9.6
1991	30.0	31.1	−1.1
1992	−13.0	−2.0	−11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	−17.4	−4.5	−12.9
1998	1.5	−10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	−8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	−1.6
2008	−13.7	−23.2	9.5
2009	27.0	32.1	−5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.3
2012	20.6	26.7	−6.1
2013	24.3	21.4	2.9
2014	16.2	10.9	5.3
2015	7.8	5.1	2.7
2016	12.2	2.6	9.6
2017	15.6	21.0	−5.4
2018	−8.0	−8.5	0.5
2019	6.2	12.0	−5.8
2020	−3.5	7.0	−10.5
2021 (to 31.03)	**13.9**	**13.1**	**0.8**

Returns annualised to 31.03.2021



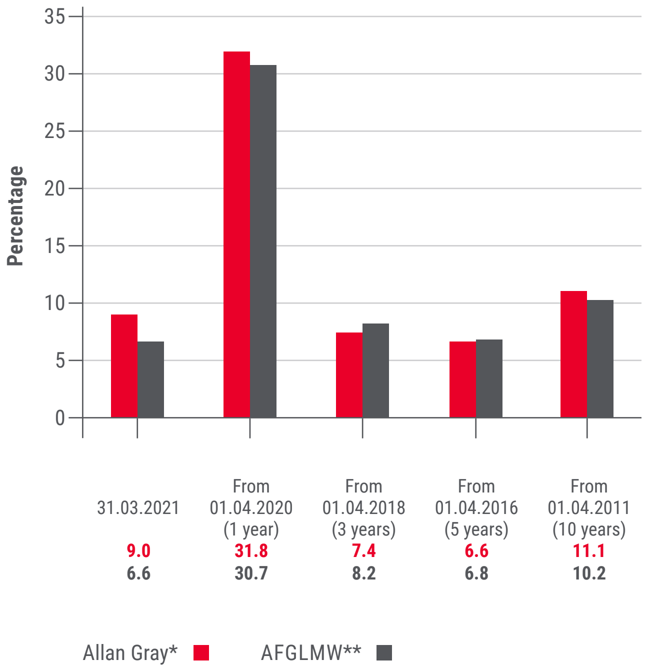
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R248 036 411 by 31 March 2021. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R12 037 904. Returns are before fees.

*Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
Note: Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

Investment track record – balanced returns

Allan Gray Proprietary Limited global mandate total returns vs Alexander Forbes Global Large Manager Watch			
Period	**Allan Gray***	**AFGLMW****	**Out-/Under-performance**
1974	–	–	–
1975	–	–	–
1976	–	–	–
1977	–	–	–
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	−0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	−5.5
1992	1.2	7.6	−6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	−1.8	9.5	−11.3
1998	6.9	−1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	−3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	−6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	−0.6
2008	−1.1	−12.3	11.2
2009	15.6	20.3	−4.7
2010	11.7	14.5	−2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	−4.9
2013	25.0	23.3	1.7
2014	10.3	10.3	0.0
2015	12.8	6.9	5.9
2016	7.5	3.7	3.8
2017	11.9	11.5	0.4
2018	−1.4	−2.1	0.7
2019	6.5	10.9	−4.4
2020	5.3	6.3	−1.0
2021 (to 31.03)	**9.0**	**6.6**	**2.4**

Returns annualised to 31.03.2021



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R28 631 744 by 31 March 2021. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R6 323 637. Returns are before fees.

*Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
**Consulting Actuaries Survey returns used up to December 1997. The return for March 2021 is an estimate. The return from 1 April 2010 is the average of the non-investable Alexander Forbes Global Large Manager Watch.
Note: Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

Allan Gray South African unit trusts annualised performance (rand) in percentage per annum to 31 March 2021 (net of fees)

	Assets under management (R billion)	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[4]	Lowest annual return[4]
High net equity exposure (100%)									
Allan Gray Equity Fund (AGEF) Average of South African - Equity - General category (excl. Allan Gray funds)[1]	**36.6**	**01.10.1998**	**20.1** 14.6	**9.6** 9.0	**4.8** 4.9	**4.6** 6.3	**47.5** 54.4	**125.8** 73.0	**−24.3** −37.6
Allan Gray SA Equity Fund (AGDE) FTSE/JSE All Share Index including income	**3.3**	**13.03.2015**	**4.4** 7.4	**–** –	**3.7** 8.2	**2.7** 9.7	**57.3** 54.0	**57.3** 54.0	**−32.0** −18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	**24.3**	**01.04.2005**	**14.8** 14.5	**17.7** 18.9	**12.0** 13.9	**14.7** 21.3	**36.0** 29.1	**78.2** 54.2	**−29.7** −32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF) **Allan Gray Tax-Free Balanced Fund (AGTB)** Average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[2]	**146.4** **1.5**	**01.10.1999** **01.02.2016**	**15.4** **6.7** 11.7/6.4	**9.9** **–** 8.9	**5.7** **5.9** 5.7	**6.5** **6.4** 7.4	**33.1** **31.7** 30.7	**46.1** **31.7** 41.9/30.7	**−14.2** **−13.4** −16.7/−10.3
Allan Gray-Orbis Global Fund of Funds (AGGF) 60% of the FTSE World Index and 40% of the J.P. Morgan GBI Global Bond Index	**14.7**	**03.02.2004**	**10.7** 11.5	**13.9** 15.6	**7.0** 9.4	**10.2** 17.1	**19.2** 8.8	**55.6** 38.8	**−13.7** −17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF) Daily interest rate of FirstRand Bank Limited plus 2%	**45.1**	**01.07.2000**	**11.4** 8.7	**8.6** 7.0	**6.3** 7.4	**6.3** 6.8	**20.6** 4.8	**23.3** 14.6	**−7.4** 4.8
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate of FirstRand Bank Limited	**0.8**	**01.10.2002**	**6.9** 6.2	**5.2** 4.9	**2.9** 5.2	**2.6** 4.7	**0.5** 2.7	**18.1** 11.9	**−8.2** 2.7
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US$ bank deposits and euro bank deposits	**0.8**	**02.03.2010**	**6.2** 5.9	**7.8** 7.5	**−1.1** 0.9	**1.1** 7.3	**−5.2** −14.2	**39.6** 35.6	**−12.4** −19.1
No equity exposure									
Allan Gray Bond Fund (AGBD) FTSE/JSE All Bond Index (Total return)	**5.0**	**01.10.2004**	**8.8** 8.4	**8.5** 8.2	**9.1** 8.7	**6.3** 5.5	**14.4** 17.0	**18.0** 21.2	**−2.6** −5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[3]	**25.4**	**03.07.2001**	**7.8** 7.7	**6.6** 6.3	**7.3** 6.8	**6.8** 6.3	**5.1** 4.6	**12.8** 13.3	**5.1** 4.6

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

[2] From inception to 31 January 2013, the benchmark of the Allan Gray Balanced Fund was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund.

[3] From inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011, the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund.

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

Allan Gray total expense ratios and transaction costs for the 3-year period ending 31 March 2021

	Fee for benchmark performance	Performance fees	Other costs excluding transaction costs	VAT	Total expense ratio	Transaction costs (incl. VAT)	Total investment charge
Allan Gray Equity Fund	1.14%	−0.17%	0.04%	0.09%	1.10%	0.10%	1.20%
Allan Gray SA Equity Fund	1.00%	−0.59%	0.01%	0.06%	0.48%	0.11%	0.59%
Allan Gray Balanced Fund	1.08%	−0.14%	0.03%	0.09%	1.06%	0.09%	1.15%
Allan Gray Tax-Free Balanced Fund	1.35%	N/A	0.04%	0.14%	1.53%	0.11%	1.64%
Allan Gray Stable Fund	1.06%	−0.28%	0.03%	0.08%	0.89%	0.08%	0.97%
Allan Gray Optimal Fund	1.00%	0.00%	0.02%	0.15%	1.17%	0.11%	1.28%
Allan Gray Bond Fund	0.25%	0.26%	0.01%	0.08%	0.60%	0.00%	0.60%
Allan Gray Money Market Fund	0.25%	N/A	0.00%	0.04%	0.29%	0.00%	0.29%
Allan Gray-Orbis Global Equity Feeder Fund	1.49%	−0.28%	0.05%	0.00%	1.26%	0.09%	1.35%
Allan Gray-Orbis Global Fund of Funds	1.44%	−0.24%	0.06%	0.00%	1.26%	0.09%	1.35%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	−0.01%	0.08%	0.00%	1.07%	0.13%	1.20%

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

Foreign domiciled funds annualised performance (rand) in percentage per annum to 31 March 2021 (net of fees)

	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[4]	Lowest annual return[4]
High net equity exposure								
Orbis Global Equity Fund	**01.01.1990**	**18.0**	**17.8**	**12.2**	**14.5**	**35.3**	**87.6**	**−47.5**
FTSE World Index		13.9	18.9	13.9	21.5	28.8	54.2	−46.2
Orbis SICAV Japan Equity (Yen) Fund	**01.01.1998**	**14.5**	**17.5**	**10.8**	**11.2**	**15.4**	**94.9**	**−40.1**
Tokyo Stock Price Index		9.7	16.4	10.5	13.5	14.6	91.0	−46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[5]	**01.01.2006**	**14.1**	**13.6**	**8.0**	**11.8**	**27.2**	**58.6**	**−34.2**
MSCI Emerging Markets Equity (Net) (US$)[5]		14.2	14.3	11.9	14.6	31.1	60.1	−39.7
Allan Gray Africa ex-SA Equity Fund (C class)	**01.01.2012**	**11.8**	**–**	**9.6**	**5.7**	**29.6**	**65.6**	**−24.3**
Standard Bank Africa Total Return Index		6.9	–	7.3	13.2	41.3	41.4	−29.4
Allan Gray Australia Equity Fund	**04.05.2006**	**14.4**	**14.5**	**11.1**	**13.8**	**53.7**	**99.5**	**−55.4**
S&P/ASX 300 Accumulation Index		12.7	13.2	10.2	17.8	42.4	55.6	−45.1
Medium net equity exposure								
Orbis SICAV Global Balanced Fund	**01.01.2013**	**14.5**	**–**	**7.6**	**10.9**	**20.3**	**54.4**	**−9.8**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Bond Index		15.0	–	9.1	17.2	7.8	40.2	−8.4
Allan Gray Australia Balanced Fund	**01.03.2017**	**9.8**	**–**	**–**	**13.0**	**29.1**	**29.1**	**−5.3**
The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan GBI Global Bond Index expressed in AUD (16%).		11.3	–	–	16.5	17.0	25.1	−5.8
Low net equity exposure								
Allan Gray Australia Stable Fund	**01.07.2011**	**11.1**	**–**	**5.7**	**12.0**	**16.3**	**32.7**	**−7.4**
Reserve Bank of Australia cash rate		6.7	–	1.1	8.3	3.2	28.8	−12.6
Very low net equity exposure								
Orbis Optimal SA Fund (US$)	**01.01.2005**	**8.5**	**9.0**	**−0.1**	**3.0**	**−6.8**	**48.6**	**−15.7**
US$ Bank deposits		7.8	9.0	1.4	9.4	−17.0	57.9	−25.6
Orbis Optimal SA Fund (Euro)	**01.01.2005**	**6.7**	**6.1**	**−1.6**	**−0.7**	**−1.7**	**44.1**	**−19.3**
Euro Bank deposits		6.0	6.0	0.3	5.5	−11.8	40.2	−20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)[6]	**27.03.2013**	**13.7**	**–**	**12.4**	**14.6**	**5.8**	**28.9**	**2.4**
FTSE 3-Month US T Bill + 4% Index[6]		6.3	–	4.8	9.7	1.2	24.7	−7.7

Performance as calculated by Allan Gray

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

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

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

IMPORTANT INFORMATION FOR INVESTORS

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Understanding the funds

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

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

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

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

The Allan Gray Retirement Annuity Fund, Allan Gray Pension Preservation Fund, Allan Gray Provident Preservation Fund and Allan Gray Umbrella Retirement Fund (comprising the Allan Gray Umbrella Pension Fund and Allan Gray Umbrella Provident Fund) are all administered by Allan Gray Investment Services (Pty) Ltd, an authorised administrative financial services provider and approved pension funds administrator under section 13B of the Pension Funds Act 24 of 1956. Allan Gray (Pty) Ltd, also an authorised financial services provider, is the sponsor of the Allan Gray retirement funds. The Allan Gray Tax-Free Investment Account, Allan Gray Living Annuity and Allan Gray Endowment are administered by Allan Gray Investment Services (Pty) Ltd, an authorised administrative financial services provider, and underwritten by Allan Gray Life Ltd, also an authorised financial services provider and a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017. The underlying investment options of the Allan Gray individual life and retirement products are portfolios of collective investment schemes in securities (unit trusts or funds) and life-pooled investments.

Tax note

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

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