QC

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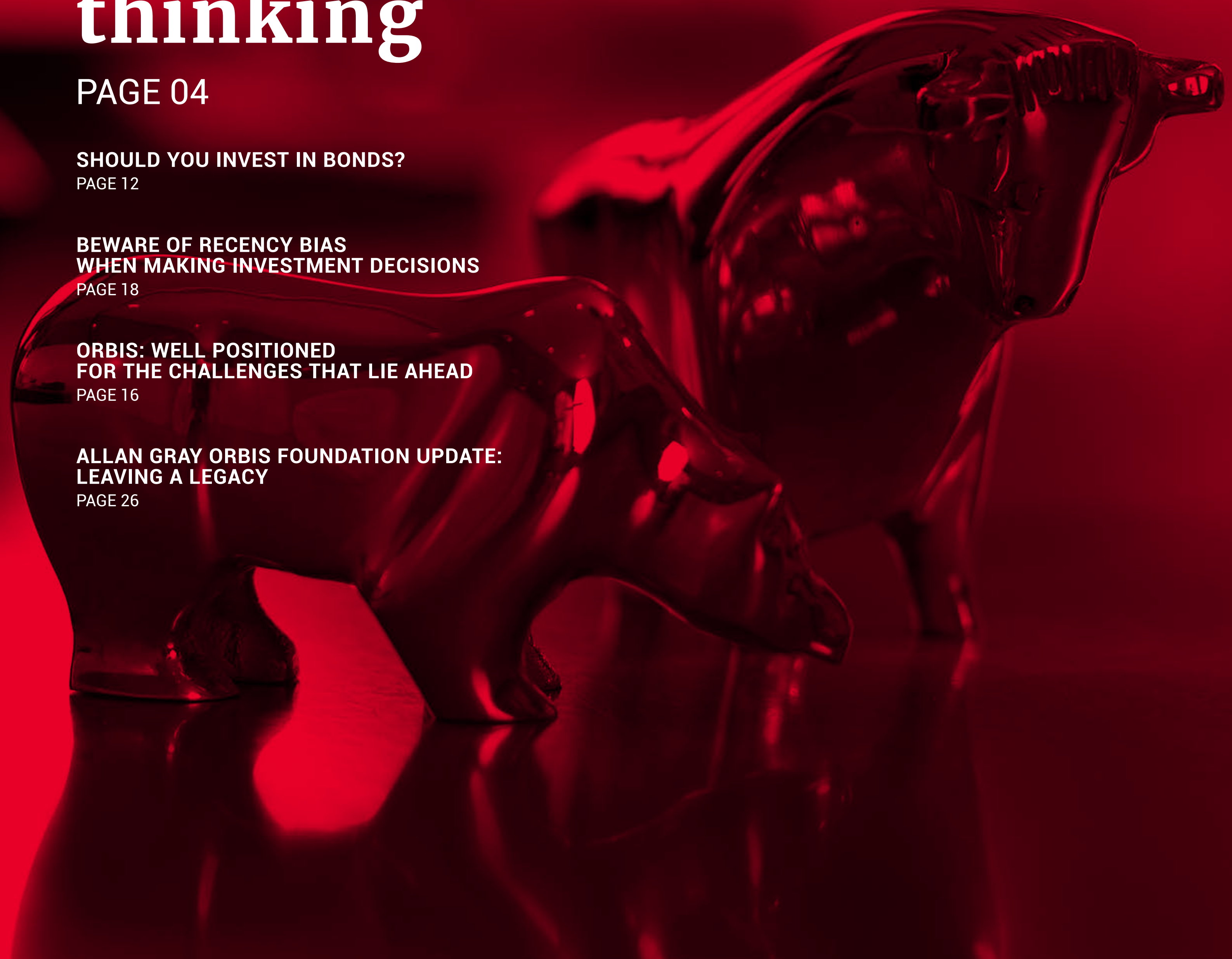
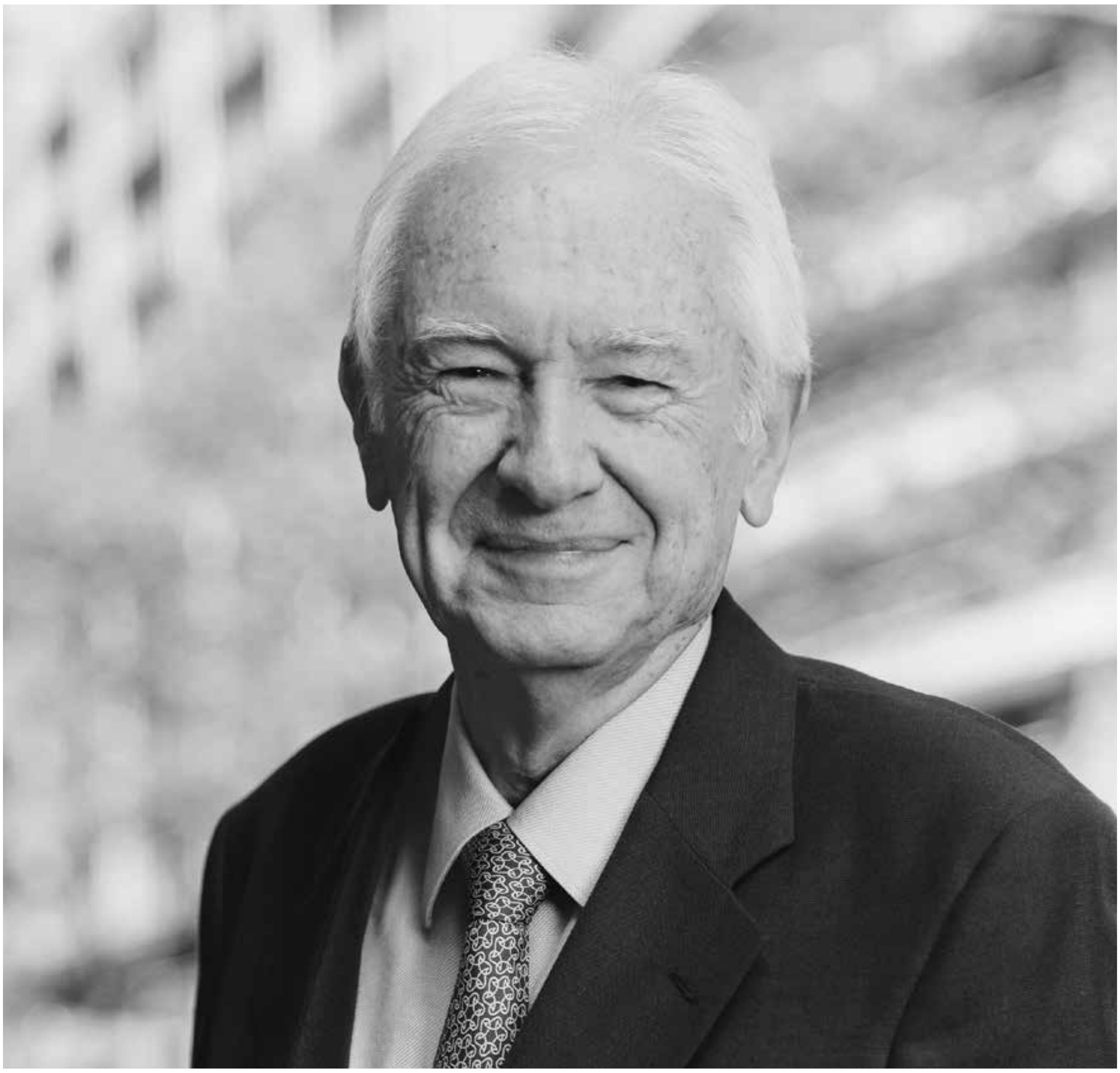




PAYING TRIBUTE TO ALLAN W B GRAY

8 April 1938 – 10 November 2019

It is with deep sadness that we mourn the death of Allan William Buchanan Gray, the founder of Allan Gray and Orbis. He died of natural causes on 10 November 2019 in Bermuda, where he lived since 1997. Allan made an immeasurable impact on many lives as an entrepreneur, investor and philanthropist in South Africa, and globally. He has earned his rest. Jonathan Brodie pays tribute to this extraordinary man.

Allan leaves behind a lasting legacy. He was first known as an exceptional investor, founding the investment firm Allan Gray, and later Orbis. The companies he built had the singular purpose of creating long-term wealth for clients, and successive generations of employees continue to be guided by Allan's strong values and his philosophy and approach to investing.

He saw philanthropy as a natural extension of the impact that the investment business aims to make in people's lives, spending considerable focus and energy later in his career on philanthropic endeavours.

His last years were spent setting up the Allan & Gill Gray Foundation (the Foundation), to which he donated his family's controlling stake in the Orbis and Allan Gray groups. All dividends that the Foundation receives are devoted entirely and exclusively to philanthropy. More recently the Foundation established initiatives around the world through which themed contributions are made to causes wherever Allan Gray and Orbis offices are situated. The current programme theme aims to ensure inclusive and quality education for all, and to promote lifelong learning.

As Allan wrote in his final Chairman's Letter in 2015: "We consider this both the right thing to do and a small but necessary contribution toward a society full of hope for all humanity. The free enterprise system has done so much for so many, and it behoves the few whom it rewards particularly well to help those less fortunate."

Allan was a man of quiet dignity, never seeking the limelight for himself. He was bold in his decisions, but always humble in his approach to learning from others. He had genuine respect for all people, inspiring them to find and bring out the best in themselves. He modelled his view that business decisions were usually uncomplicated when viewed against clear values and principles.

He saw philanthropy as a natural extension of the impact that the investment business aims to make in people's lives ...

Allan always taught that it's not enough to work on important matters – one must focus on the most important. Yet he insisted that one sweat the details, for unpicking apparently small aspects could often unlock full insight. One of his greatest talents lay in keeping both the "important" and the "detail" in mind at the same time.

His work in philanthropy began in 1979, when he and his wife Gill founded the Allan and Gill Gray Charitable Trust. In 2006 he established the Allan Gray Orbis Foundation, to fund bursaries and scholarships for talented Southern African scholars and students, mainly from under-resourced communities, with the specific purpose of developing entrepreneurial talent. He and Gill made donations to fund the Centre for Values-Based Leadership at the University of Cape Town's Graduate School of Business, and the Allan Gray Centre for Leadership Ethics at Rhodes University.

Allan was born in East London, South Africa in 1938. After completing high school at Selborne College, he studied at Rhodes University. He qualified as a chartered accountant and went on to earn an MBA at Harvard Business School in 1965. He then worked at Fidelity Management and Research in Boston, before returning to South Africa in 1973 to found what would become Allan Gray Limited. He set up Orbis in 1989 to focus on global investing, and moved with Gill to Bermuda in 1997.

A meticulous planner, he spent a number of years gradually transferring his responsibilities to others, confident that the firms were in excellent hands. He handed over the presidency of Orbis to his son Will in 2000, resigned from the Allan Gray board in 2010 and stepped away from his remaining investment responsibilities at Orbis in 2012, before retiring officially from Orbis in 2016.

Allan's important legacy is exemplified by the work of the 1 500 employees of the asset management firms he founded, the benefits accruing to their many clients, and the ongoing impact which the philanthropic efforts he founded will continue to have. He made a difference.

Allan leaves behind his wife Gill, their three children Trevor, Jenny and Will together with their spouses Carrie, Buddy and Ali, seven grandchildren and two great-grandchildren.

Jonathan was an early employee of Allan Gray, joining the firm in 1980, and remains a member of the Orbis group. His relationship with Allan was always personal as well as professional. "Find for yourself a teacher; acquire for yourself a friend." (Talmud)

COURTEOUS AND CONTRARIAN,

GENTLEMANLY AND STRONG-WILLED,

PUBLICLY RESERVED AND PRIVATELY PIONEERING,

BEHIND YOUR OLD-SCHOOL FAÇADE

LURKS A FIERCE AND FORWARD-LOOKING INNOVATOR.

WHEN OTHERS EMBRACED THE SHORT TERM,

YOU FOUND FREEDOM IN THE LONG TERM,

WHEN OTHERS SAID MARKETS COULD NOT BE OUTPERFORMED,

YOU HAPPILY PROVED THEM WRONG

AND WHEN OTHERS SAID THAT INJUSTICE

COULD NOT BE CONQUERED,

YOU QUIETLY BATTLED AGAINST IT.

SOME SWIM AGAINST THE TIDE OUT OF PRIDE,

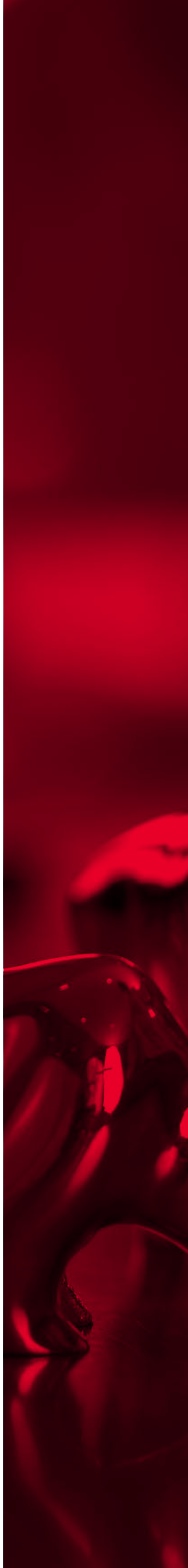
YOU DO SO HUMBLY, ON PRINCIPLE.

ALUMNI ACHIEVEMENT CITATION FOR

ALLAN WB GRAY FROM THE HARVARD BUSINESS SCHOOL.

28 SEPTEMBER 2010.

HARVARD | BUSINESS | SCHOOL



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COMMENTS FROM THE CHIEF OPERATING OFFICER

Rob Formby

Thanks to the structure that Allan put in place … clients can be certain that we will remain true to our philosophy.

This issue of our Quarterly Commentary is dedicated to our founder, Allan William Buchanan Gray, who sadly passed away in November. He lived a life of purpose, and the impact he had on so many lives was eloquently captured by the many who have paid tribute to him. A great number of these messages came from Allan Gray Fellows, who have been the beneficiaries of scholarships and entrepreneurial mentorship from the Allan Gray Orbis Foundation. These young people described Allan as a selfless visionary, a remarkable leader who restored purpose and hope, a person whose incredible generosity changed the lives of generations. Their sentiments were echoed in the tributes that poured in from family, friends, colleagues and industry peers across the globe.

Allan's most enduring legacy for clients may be the steps he took to ensure that the company would remain in excellent hands for many generations to come. A meticulous planner, he spent years gradually transferring his responsibilities to others. He handed over the presidency of Orbis to his son William in 2000, resigned from the Allan Gray board in 2010 and stepped away from his remaining investment responsibilities at Orbis in 2012. Before retiring from Orbis in 2016, Allan established the Allan & Gill Gray Foundation, endowed with his family's controlling stake in the Orbis and Allan Gray groups.

Allan knew that an investment firm's ownership structure is critical to its ability to act in the best interests of clients. The greatest investment opportunities tend to arise at moments of maximum pressure, when clients, the investment team, and even the owners of the firm are all under extreme stress. In particular, having an ownership structure that is supportive during periods of prolonged underperformance ensures that managers don't capitulate at the bottom of the cycle. Thanks to the structure that Allan put in place and his efforts to develop successive generations of disciplined investment decision-makers, clients can be certain that we will remain true to our philosophy.

The inside cover of this issue contains a fitting tribute to Allan by Jonathan Brodie, who was an early employee of Allan Gray and enjoyed a personal as well as professional relationship with him. We have also included a collection of insights and lessons that have resonated most with those who worked closely with Allan over the years (see page 4).

Yogavelli Nambiar, from the Allan Gray Orbis Foundation, discusses how Allan's spirit – one of empowerment, of humanity, of servant leadership – is evident in those who have received the benefits of his endeavours. And most poignantly, in the Orbis update, William Gray talks about his father's unwavering disciplined and focused approach, which forms the basis of our investment philosophy.

Allan made a difference and will be missed.

Investing in the current climate

2019 was a difficult year, with global political tensions weighing on the growth of major economies, and local economic growth expected to have been only 0.5%. Adding to this, Fitch, Moody's and Standard & Poor's have a negative outlook on South Africa.

... as negative sentiment seems to be weighing more heavily on equities than fixed interest, investors are chasing less volatile returns.

As we start the year, investors are naturally feeling a bit nervous as a result and are increasingly turning their backs on stock markets in favour of safer haven assets. But is this sensible? We have often commented that GDP growth and stock market returns are not correlated, but as negative sentiment seems to be weighing more heavily on equities than fixed interest, investors are chasing less volatile returns. Beatri Faul looks at this trend in her article, which tackles what behavioural economists term "recency bias", while Londa Nxumalo discusses bonds and where they should fit into your overall portfolio.

These authors' thoughts should be considered in the context of Sandy McGregor's piece on inflation. Sandy aptly notes that perhaps the best way to escape the tyranny of the prevailing consensus is to study economic history, from which one can gain insights into how we got to where we are now. This can equip us to make better informed decisions today.

Make the most of your tax benefits

There are certain annual tax benefits available for you through your retirement fund and tax-free investment account. You forfeit these if you don't act each year. As we approach the end of the tax year (the end of February), it is worthwhile relooking your finances. If you have cash to spare, consider taking full advantage of the tax incentives. Carla Rossouw discusses the available options in this quarter's Investing Tutorial.

As we begin the new decade, I would like to take this opportunity to wish you all the best for 2020 and to thank you for your continued trust and commitment. We don't take it lightly.

Kind regards

Rob Formby

Our founder, Allan Gray, developed the distinctive investment philosophy that has been in place since Allan Gray and Orbis were founded. He also had an immeasurable impact on several generations of investment professionals at both firms. Here is a small selection of the investment insights that have resonated most with those who worked with Allan over the years.

Sandy McGregor

When Allan started his investment management business in South Africa in 1974, the market was totally dominated by the large mining companies and the rollercoaster of commodity prices. There was only one game in town. He recognised the opportunity presented by non-mining companies which were cheap because they were underresearched and generally neglected. The classic example was Rembrandt. Usually, great investment performance is underpinned by a few great winners and Rembrandt was a great winner. Allan once said to me that the business was built on Rembrandt. He was forever looking for similar opportunities and found them in companies such as Putco and Trencor. Such opportunities are rare, and it requires a combination of contrarian insight and hard work to find them. Allan had those skills.

Andrew Lapping

Allan had already moved on to Orbis when I joined Allan Gray, but I was very fortunate to work with him on one of his many charitable ventures, the Allan Gray Orbis Foundation Endowment. It is interesting for me to hear my colleagues speak about Allan's investing habits and thought process as these are the very same disciplines he brought to his charitable endeavours: the ability to think long term and the patience to wait for ideas to fulfil their promise. This patience came from the confidence that he was doing the right thing, which in turn came from the very careful thought Allan applied to everything he did. As well as looking at the big picture, Allan ensured the details were correct and things were done properly. This attention to detail and never settling is a great lesson. It is incredible what can be achieved when a highly driven person finds something they are passionate about. Despite Allan having been involved in the markets from well before I was born, whenever we chatted about investments his excitement was palpable. The enjoyment and passion Allan brought to what he did was an inspiration.

Tamryn Lamb

During one of my early encounters with Allan when I joined Orbis in 2006, someone asked him: "So Allan, how will you spend your time when you eventually stop working?" He looked surprised and responded: "But, I have never 'worked' a day in my life." That was how he felt about investing. It wasn't work; it was a passion. This was an early and important lesson of some of the key behavioural traits of a great investor: a healthy dose of passion coupled with an ability to strike the right balance between being humble and constantly questioning, yet being confident and convicted when taking a different stance. Allan constantly asked questions, and this philosophy of seeking information and interrogating different viewpoints lives on across Allan Gray and Orbis.

I didn't just learn investment insights from Allan. Perhaps the most important lesson was that it isn't enough to generate superior investment returns, this must translate into wealth creation for clients in order for the firm to thrive. It is this goal that brings meaning and purpose to what we do. If we don't add value through investment performance and deliver on what sometimes seems to be an impossibly high standard of client service, we won't survive, and we shouldn't. I remember these words often, as we continue to work hard to do justice to Allan's legacy.

Ian Liddle

Arguing with Allan was never easy. If you didn't crumble before his sharp wit or sheer force of personality, then you may have wilted under his inexhaustible tenacity. It was tempting to concede and let Allan "win" the debate. But in my experience, Allan was not so much interested in "winning" a debate as in finding insight and truth, and then making good decisions. He was genuinely open-minded and wanted to hear all sides of an argument and test them through thoughtful disagreement. By making me sweat, he pushed me to prepare better and fortify my conviction with evidence.

We have Allan to thank for so much of the culture which still underpins our investment process today. Perhaps most important is that we can disagree in an atmosphere of open-mindedness and civility where participants don't take challenges personally and are more interested in uncovering the truth than in winning an argument. Come to think of it, this is not just an investment lesson from Allan, it's a life lesson.

Ben Preston

Allan loved to be contrarian. He deliberately forced himself to consider the opposite perspective. When a stock was on its knees, he'd encourage me to explore how well things could turn out: "Let your bullish juices flow!" At those times, he'd say, the onus is on the bears to justify the very low price by showing why the company or sector or country will never recover. And when things were going really well, that's when he'd be completely focused on the downside.

Working closely with Allan in the 2000s, he was very excited about Japan, in part because it had been in a bear market for over a decade and all hope had been lost. Allan was a big believer in cycles. All companies and industries go through good and bad times, which follow each other "as night follows day". He taught me that part of the benefit of leaning against the cycle is that not only are you getting a discount because of poor sentiment, you're also putting fundamentals on your side. Ideally, you can find an above-average company at a weak point in its cycle, when sentiment and earnings are near a low ebb and likely to improve. That's something I've worked hard to instil in my team. Of course, you can always be wrong, but Allan was never afraid of that. He knew that the decisions you get right can do really well, more than making up for the smaller losses on the ones you get wrong. That's the magic of being contrarian.

Graeme Forster

Allan was so incredibly immersed in the art of investing. When I first arrived in Bermuda, he used to give me a lift to work and his mind would be on the portfolio while mine was still on breakfast! He told me he rarely yawned at work because it was all so fascinating. He was also a huge believer in the importance of individual decision-making and independent thought.

This hit home to me during a critical point for one of our holdings. The shares were down substantially on negative news and a group of us got together to discuss it. As views were expressed, the uncertainty of the situation felt contagious, spreading around the room just as it had spread around the wider market. A few hours later I asked Allan his view given the concerns raised in the meeting. "It's a helluva buy," he said. He saw opportunity where everyone else saw risk and was proven correct (as he so often was) as time passed and the clouds lifted. I suspect the ability and mental fortitude to tune out the emotion of the crowd and capitalise upon fleeting moments of extreme opportunity is what separates the great from the good. It is the reason we prize individual decision-making so dearly. Few investors possess Allan's calm contrarian conviction and independence of thought, so when you find someone who has those traits, you have to give them the freedom to act.

Adam Karr

Allan was remarkable for his ability to be incredibly granular and to do so in a way that uncovered hidden insight. He would bring a company's annual report to the investment meeting and grill you about the goodwill valuation in footnote 13 on page 154. He would use management's seemingly ancillary accounting decisions to draw inferences about their transparency and integrity.

But he also had an uncanny ability to zoom out and see the big picture. He loved to find "blue sky" that Mr Market wasn't pricing. While Allan always invested on a firm foundation of business value, he got incredibly jazzed when he saw undervalued potential, and his enthusiasm was infectious. One example was in 2002 or 2003 when Allan asked me to look at a Japanese company. They had a solid yet mature core business, but were launching a new initiative of which many were sceptical. Allan handed me some reports and circled back just two hours later full of enthusiasm to press for my view. I responded: "Allan, I think it's interesting but likely rather niche." What was the initiative? Digital cameras embedded in mobile phones! Situations with unpriced potential can be amazing asymmetric investments. Allan often had the vision to see them, and as he liked to say, "you have to go for the jugular" when you see them. And he did.

Alec Cutler

What struck me most about Allan — and not just from an investment perspective — was his ability to be passionate about his views, but hold them very lightly. Even when Allan had high conviction in a particular idea he would continue to poke and prod, and then he'd come in a few days or weeks later espousing a 180-degree different view. That's what truly separated Allan from the average investor. So often investors convince themselves about something and tell everyone about it and end up being stuck with an entrenched stance. Allan never had that problem. He sought out evidence that went against his views. I think he was able to do that because he was both confident and humble — self-assured, but also comfortable enough in his own skin to happily admit being wrong. That's a very rare commodity these days. As an investor, I'd describe Allan as an "omnivore" — it was impossible to put him in any investment style or philosophy bucket. I saw him do deep value and I saw him get excited about pure growth. But he was most excited with stocks that were value-oriented yet also had an exciting growth story that could emerge. That was the sweet spot for Allan.

Stefan Magnusson

Allan was, by way of example, an extraordinary teacher. Having had the good fortune of working closely with him, what are some of my lessons? Allan was focused on the future rather than the past, and was excited by technological progress. He liked to listen to the ideas of young people — always with curiosity and an eagerness to learn. Allan would bring the best out of people, no matter their background. During my years in Bermuda I remember with fondness the beautifully arranged dinners at his home where he would, in his gentle style, thoroughly put me and the analyst team (and often our spouses) through the wringer on various topics. Perhaps contrary to perception, he would focus on understanding “the best” rather than “the cheapest” company in a given sector. Whilst valuations certainly played an essential role, he would be on the lookout for outstanding businesses and entrepreneurs — people who, like him, believed that if something is worth doing, it is worth doing it very (very) well.

Brett Moshal

Allan was very aware of his own confirmation biases, and he would always encourage me to question where I could be wrong. So if I spoke to an analyst, Allan would say, don’t speak to someone who shares your view — rather speak to someone who has a contrary view. Speak to those who are “sells”. And when you speak to them, don’t try to challenge them, but rather hear and listen to their view and see if there’s something to it. Allan was also very big on the concept of having flexibility of mind. He saw absolutely no shame in doing a 180-degree turn if you learnt some information you didn’t like. I recall him once being super fired up about Mabuchi Motor and getting me to work on it the whole weekend. On Sunday, I was driving somewhere with my baby daughter in the back seat and had to stop the car on the side of the road so I could speak to Allan about my report. Although I had recommended we buy, he had changed his mind! That’s just how he was. No sooner had Allan bought a stock, than he’d be phoning you as though we should be selling it. Eventually you learned that he was testing your conviction, and his own conviction. He wanted to be sure that we had explored every possible angle on the stock.

Edward Blain

I joined Orbis in 2010, so Allan and I didn’t overlap a huge amount. But when I’m working on a new investment idea, it’s often his voice that I hear in the back of my mind. That’s how deeply Allan’s thinking is embedded in the Orbis DNA. And I think if you asked the people in our team who never worked with him directly at all, they would say similar things. We do all pass it down. One that stands out is Allan’s frequent advice to “dream a little” — don’t just buy cheap stocks and expect them to go back to normal, look for those that can do extraordinary things in the future if their situation improves. Those were some of his biggest winners — and some of my best ideas have shared that characteristic. Allan also used to say that you can basically ignore half the market because there’s not much point focusing on the areas that are doing well. Instead, your focus should be on the most compelling opportunities. He used to say, “If you’re not excited about an idea, you are wasting your time.” While I never heard him use the term “capital cycle”, he would often say that “the prosperity of good times by definition produces the tough times”. That’s something I’ve seen time and again. It’s better to invest during the tough times and have the wind at your back.

Nick Purser

Allan’s starting assumption about other people was always that they are clever and hard-working. That happens to be a positive way of looking at the world, but it also has important investment implications. It explains why Allan was so adamant about the perishability of ideas. If you are trying to outperform the market, you will be up against very smart people who are also working very hard. That drove Allan to ensure that he was doing everything as well as possible and focusing on the things that really matter. For example, it explains why we track analyst performance in such great detail and have incentives that reward them for long-term thinking. The logic there is that it’s not enough to have smart people who work hard — you also need to have an organisational structure that allows you to capture what your people are capable of achieving. If you build a firm that is focused on short-term performance, that will only incentivise them to focus on the best ideas for the next quarter or year. Instead, Allan created an environment where people can genuinely focus on long-term investing and get on with that job with as little burden as possible.

Jonathan Brodie

One of the first companies Allan asked me to analyse after I started working at Allan Gray Investment Counsel in 1980 was Tiger Oats. One Monday he asked me to “take a look” at the company. Over the course of the next few days I looked at a few annual reports and began outlining the business units. Allan came into my office that Friday and asked me what I thought. I told him that I had a basic framework ready and was going to start filling in some additional information and financial analysis over the coming couple of weeks. He thanked me and got up to leave. As he left the office he paused and said, “This week we invested half a percent of our client funds in Tiger Oats. Can you let me know if we should sell it or make it a 5% position?” I called my fiancée and explained that I would not be home much that weekend. I had a full report and recommendation on Allan’s desk by Monday morning. He had not said so explicitly, but he had communicated a clear lesson: There is nothing as perishable as a good investment idea.

Sandy McGregor

When we think about inflation the question should not be why inflation is so low, but rather why there is any inflation at all.

Inflation is a phenomenon of great importance to investors. It is subject to intense scrutiny but is not well understood. Sandy McGregor offers his perspective on what is a truly complex issue.

In 1924 Alfred Marshall died. Marshall was the pre-eminent economist of his time and his passing prompted John Maynard Keynes to write a memorable biographical essay which was published in the *Economic Journal*. Many regard this as the best piece Keynes ever wrote. In it he mused about economics as an intellectual discipline, saying that it is an easy subject at which few excel. He explained this paradox as being a consequence of the broad diversity and complexity of factors which determine economic outcomes. No one has the detailed knowledge required to fully understand what is going on.

Many contemporary economists retreat into formulating complex mathematical models to achieve this goal. However, the outcome of these endeavours does not inspire confidence. Inevitably the quality of data used is poor, failing to reflect the subtle complexity of reality. Accordingly, there is a tendency to discuss the economy assuming a knowledge which we do not have. Since an admission of ignorance offers little of value to market participants or to academics whose careers depend on formulating new certainties, we discuss economics in terms of widely accepted paradigms, which are seldom questioned. Inflation and interest rates are among the phenomena that receive intense scrutiny yet are poorly understood.

Perhaps the best way to escape the tyranny of the prevailing consensus is to study economic history, from which one can gain some insights on how we got to where we are now and on how the world has worked in practice. However, the dilemma articulated by Keynes remains. It applies not only to economists, but also to investors and those who determine public policy.

Price stability as the norm

With the exception of some grossly mismanaged economies such as Venezuela and Zimbabwe, currently a feature of the global economy is widespread price stability. Despite this, those whose formative years were in a period of high inflation never escape the fear that inflation will return, destroying their savings and living standards. To this day, hyperinflation experienced between 1920 and 1924 is a principle determinant of the German obsession about maintaining price stability through prudent monetary and fiscal policy. Similarly, the great inflation between 1970 and 1981 has shaped the subsequent behaviour of market participants and policymakers.

The benign inflationary environment is at risk.

The frequency of inflationary outbreaks in the past century has created the impression that inflation is the economic norm. However, the broader sweep of economic history suggests that this is not the case. Economic growth is partly, and often largely, the outcome of making things cheaper and is intricately linked to rising productivity. Declining prices allow consumers to increase expenditure on other items, thereby increasing living standards. In the longer run, growing productivity promotes price stability. The historical narrative supports this proposition.

The century between the end of the Napoleonic wars in 1815 and the start of World War One in 1914 witnessed strong economic growth and generally deflationary conditions. After World War Two the productivity benefits arising from economies of scale gave business the resources to substantially increase wages creating a virtuous feedback loop in which rising incomes created greater demand, which generated even greater efficiencies. In most countries this strong growth came with relatively stable prices. This halcyon era came to an end in the 1960s as manufacturers started reaching the limits of the benefits of scale and productivity growth slowed. After 1980 the exceptional inflation of the previous decade was tamed by a combination of globalisation, deregulation and new technologies. In a market economy, inflation is not the norm. When we think about inflation the question should not be why inflation is so low, but rather why there is any inflation at all.

Milton Friedman

From the inflationary decade of the 1970s onwards Milton Friedman had a profound impact on the thinking of key economic policymakers. The initial response of governments to the recession which followed the oil price shock of 1973 was to increase spending. They were applying the remedy Keynes had advocated in the 1930s. However, this did not work. The world became trapped in inflationary stagnation. Friedman had long argued that inflation is and always will be a monetary phenomenon and that the consequence of excessive creation of money is higher prices. After 1979 the US Federal Reserve Board tried to implement Friedman's ideas but rapidly found that it was not possible to manage the money supply as he proposed. Almost by accident it discovered an effective alternative in the form of real interest rates, which promoted an efficient use of money and allocation of resources. The new monetary policy contributed to lower inflation by making the economy more efficient.

> ... it is clear that the relationship between money creation and inflation is far more complex than previously believed ...

Friedman's mantra that inflation is a monetary phenomenon seems to apply in markets which are insufficiently supplied with goods and services. Excessive money creation in a closed economy is likely to cause inflation. Extreme examples were Germany in the early 1920s and more recently Zimbabwe and Venezuela. It is noteworthy that in 1924, Germany rapidly brought inflation under control by managing its money supply as Friedman advocated. However, recent experience suggests that in a market economy open to global trade the outcome of excess money creation can be very different to what Friedman predicted. Japan spent almost two decades trying unsuccessfully to combat deflation with massive money creation. More recently, quantitative easing in Europe and the United States has failed to stimulate economic growth as expected. It boosted asset prices but not business activity. Much of the money created ended back in the central bank because the market had no use for it. As is so often the case in economics, a proposition such as Friedman's sometimes holds and sometimes does not.

Friedman's biggest impact came not from his ideas about money but rather as one of the most articulate advocates of the market economy. The inflationary crisis of the 1970s prompted a rethink about the role of the state in the economy. Friedman's ideas were embraced by Ronald Reagan and Margaret Thatcher. Deregulation, privatisation and globalisation combined to promote economic efficiency and declining inflation. However, 40 years later, these ideas are increasingly under attack. The benign inflationary environment is at risk.

The role of central banks

As a consequence of widespread acceptance during the 1980s of Friedman's ideas about the monetary cause of inflation, attention was focused on the activities of central banks. It was argued that if inflation is a monetary phenomenon, central banks should conduct monetary policy to achieve a desired level of inflation. The idea that central banks can manage inflation became mainstream. Over the following decade it became common practice to task central banks with the responsibility of achieving an inflation target. Initially it seemed that the new paradigm was delivering the required outcome. By promoting financial stability central banks created an environment favouring price stability. The illusion developed that central banks could manage economic outcomes by setting interest rates appropriately and the fact that lower inflation was also due to factors such as globalisation and the complex interrelationship of economic growth and productivity tended to be ignored.

> Worldwide, political agendas are evolving in ways that threaten current price stability.

The first sign that the inflation-targeting model might not work came in Japan, which sank into economic stagnation after its long-running financial and economic boom came to a sudden end in 1990. Its government responded with an ambitious programme of fiscal deficits, zero interest rates and massive money creation to get its economy going again. Astonishingly this failed to create inflation and the deflationary conditions into which Japan had become trapped continued. This was the first warning that the inflation-targeting paradigm was flawed. However, this was largely ignored, with condescending comments that the Japanese did not know how to manage a modern economy.

After the 2008 financial crisis China engineered a resurgence of its economic growth by massive monetary accommodation. It was assumed by those who believed in the efficacy of monetary policy as a tool of economic management that what China could do in its closed economy could be done elsewhere. Accordingly, when the US and European economies failed to resume former growth rates after 2009 their central banks resorted to zero interest rates and quantitative easing, which is a polite term for printing money. The outcome was the same as the Japanese experience. While quantitative easing has done wonders for asset prices, it has done little to promote real economic activity. The proponents of these programmes have had to fall back on the counterfactual that things would have been far worse if they had not done what they did. However, there is an alternative counterfactual that by promoting a misallocation of resources, quantitative easing actually reduced economic growth. Whatever the truth, it is clear that the relationship between money creation and inflation is far more complex than previously believed and that the transmission mechanism between credit creation and economic activity has fundamentally changed.

A new inflationary threat

We are living in an era of astonishing political change. Concerns about global climate change and a sense that the market economy enriches a few rather than many are increasingly determining political agendas. Those seeking political office are increasingly promising to address these concerns with lavish government spending. Given the parlous state of government finances in most countries, and the rising cost of pensions and healthcare, these new spending programmes are simply unaffordable. Increasingly advocates of higher spending are looking to bypass this financial impediment by simply printing the money. They argue that the limited inflationary impact of a decade of extremely low interest rates and quantitative easing constitutes a new permanent reality, which renders unnecessary what was traditionally regarded as financial prudence. There is a real danger that we are inexorably moving into a new political era where the bitter experiences of the 1970s have been forgotten.

Massive spending on decarbonising the world economy may be justified but will come at considerable cost, not only financially but also in terms of economic growth and living standards. In the enthusiasm of the moment these costs are largely being ignored. Countries that embark on large-scale incremental public spending programmes financed by printing money may find that they inexorably move into the situation described by Milton Friedman, where excessive creation of money translates into inflation. There is a prevailing complacency among central banks that they will be able to manage any such inflationary outbreak. However, the experience of the 1970s suggests that once an inflationary spiral develops it is very difficult to control. Inflationary dangers arise not from the normal operation of market economies but rather from imprudent political interventions. Worldwide, political agendas are evolving in ways that threaten current price stability.

The South African Reserve Bank has responded to lower-than-expected inflation with caution.

Why is inflation in South Africa so high?

South African inflation has been persistently higher than in other market economies. This can be regarded as surprising because we have an open economy with a powerful private sector, a well-developed financial system and a central bank which is both competent and prudent. It would be reasonable to expect that our inflation would track global norms. There are three principle reasons for our anomalous situation. Firstly, the government has imposed on the private sector numerous obligations which have increased the cost of doing business and eroded economic efficiency. Secondly, mismanaged public monopolies have imposed huge costs on the rest of the economy. Thirdly, for many years, per capita remuneration has grown at a much faster pace than inflation – in particular, the government has allowed its wage bill to get totally out of control. Given the dire situation in which we now find ourselves it is possible that things will start to change. For some years the private sector has been managing its remuneration costs so that they grow in line with inflation; government is now in a situation that it has no choice but to do likewise. Recently inflation has tended to surprise on the downside and, given that inflation expectations remain elevated at around 5%, this is likely to continue. In November 2019 it was 3.6%.

The South African Reserve Bank has responded to lower-than-expected inflation with caution. Its mandate involves both price and financial stability. There are good reasons why interest rates should be kept unchanged until there is more certainty as to how the government's fiscal challenges are to be resolved. However, there are also strong arguments that, given current inflationary trends, interest rates are too high. The US Federal Reserve Board's Open Market Committee argued that its most recent interest rate cut should be regarded as a recalibration of interest rates to a more appropriate level. Similar language can be used to justify rate cuts in South Africa.

Sandy joined Allan Gray as an investment analyst and economist in October 1991. Previously, he was employed by Gold Fields of South Africa Limited in a variety of management positions for 22 years, where much of his experience was focused on investment-related activities. His current responsibilities include the management of fixed interest portfolios. Sandy was a director of Allan Gray Limited from 1997 to 2006.

SHOULD YOU INVEST IN BONDS?

Londa Nxumalo

… it is a good idea for investors to have at least some allocation to bonds in a diversified portfolio.

The recent performance of South African bonds – which have outperformed cash and equities over three and five years – has prompted investors to ask whether they should consider rotating out of equities into bonds. Furthermore, the bonds versus equities trade-off is unusually difficult at present due to the very high real yields being offered by South African bonds, but at a time when the negative potential effects of a downgrade could affect bond prices. So, what should you make of it all? Londa Nxumalo tackles this question.

When assessing asset classes, it helps to consider your intended time horizon, as results may differ as you move your goalposts out. Unsurprisingly, equities have been the best-performing asset class over the long term. From December 1999 to December 2019, an investment of R100 would have grown to R492 had it been put into cash investments, R732 had it been invested in bonds and R1 244 had it been put into equities. See **Table 1**.

However, equities are more likely to have significant variations year-on-year, and investors must be cognisant of this. While bonds experienced two years of negative returns in the 20-year time period shown in **Graph 1**, equities had three negative years – with much larger losses. Cash returns have proven to be the least variable, while bonds have been more volatile than cash but less volatile than equities.

Volatility, or how much returns vary over time, is a measure that investors should consider based on their tolerance for variability. Equities have offered the best return over the long term, but this has come with higher volatility. Cash has had the least volatility but has also given the lowest returns. Bonds, on the other hand, have been less volatile than equities but have provided better returns than cash. This would indicate that it is a good idea for investors to have at least some allocation to bonds in a diversified portfolio.

How much of one's portfolio should be invested in bonds?

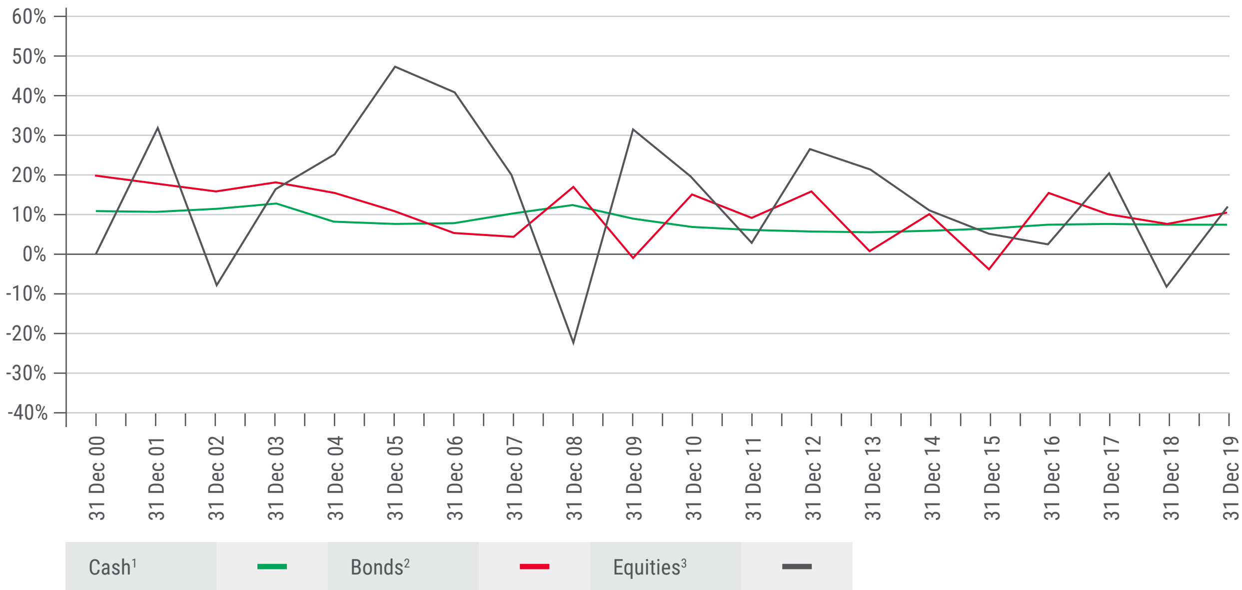
How much of a portfolio to invest in bonds depends on your time horizon and appetite for volatility, which are related.

Table 1: Returns as at 31 December 2019

Annualised returns	Cash[1]	Bonds[2]	Equities[3]
1-year	7.3%	10.3%	12.0%
3-year	7.4%	9.4%	7.4%
5-year	7.2%	7.7%	6.0%
10-year	6.5%	8.9%	10.8%
20-year	8.3%	10.5%	13.4%

Source: [1] Alexander Forbes Money Market Index
[2] JSE All Bond Index
[3] FTSE/JSE All Share Index

Graph 1: Annual returns



Source: [1] Alexander Forbes Money Market Index
[2] JSE All Bond Index
[3] FTSE/JSE All Share Index

An investor with a longer time horizon can arguably tolerate greater variations in year-on-year performance (as long as the overall trend is rising) compared to an investor with a shorter time horizon, where earning a return while minimising variations – especially to the downside – becomes more important.

The efficient frontier, which is a theoretical portfolio optimising returns and volatility and shown by the line in **Graph 2** on page 14, illustrates the trade-offs of various bond/equity portfolio combinations, based on 20-year performance. The y-axis shows the average return, while the x-axis shows each portfolio's volatility as measured by the standard deviation[4].

[4] Standard deviation measures the degree to which actual performance has tended to differ from the average. A higher number indicates greater variations and therefore greater risk.

One thing to note is that, while the efficient frontier considers all historic data, it does not consider the potential trade-offs at specific times given specific circumstances.

What can be seen from the efficient frontier is that having 100% in bonds would have resulted in a sub-optimal outcome, because allocating 20% towards equities (80% bonds) would have generated a better return with lower volatility. From that point onwards, increasing the equity allocation would have increased both volatility and returns. In summary, investors with a lower tolerance for variability should consider a higher allocation to bonds.

... there is life after "junk" status.

What happens if South Africa is downgraded?

It is important to remember that bonds are not entirely risk-free, and with the prospect of credit rating downgrades being a very real risk, investors must understand the potential impact on their portfolios.

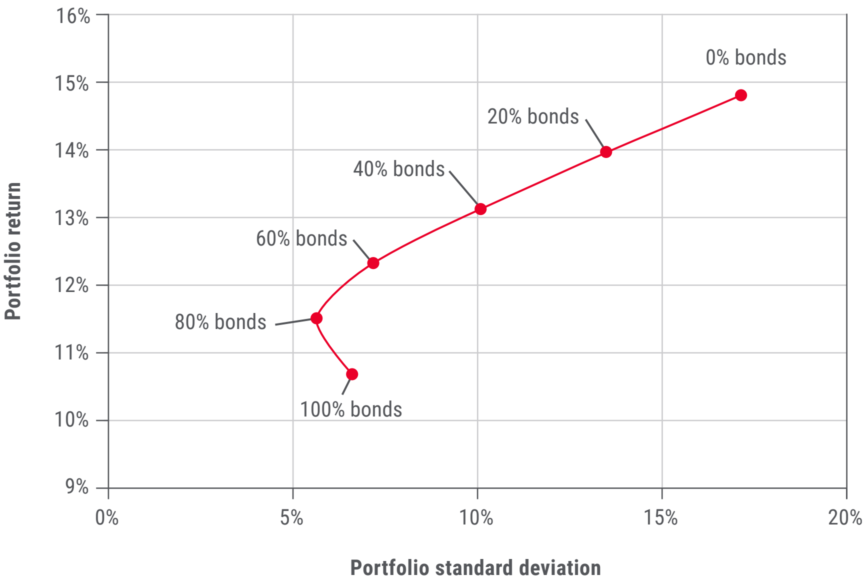
South African government bonds are currently rated sub-investment grade (less generously called "junk") by Fitch and Standard & Poor's, which both rate South Africa BB+.

Moody's is the last major rating agency to rate South Africa investment grade, with a Baa3 rating – equivalent to BBB- at the other two agencies. However, Moody's recently put out a negative outlook, meaning that a downgrade is probable within the next 12 to 18 months.

The significance of the Moody's rating is that a downgrade would result in South African bonds being excluded from the FTSE World Government Bond Index (WGBI), an influential index tracked by many bond investors around the world. WGBI inclusion criteria require an investment grade rating from either Standard & Poor's or Moody's. A Moody's downgrade would, therefore, result in forced sales by index trackers and other investors whose benchmark is the WGBI. The South African Reserve Bank (SARB) estimates that possible outflows emanating from a WGBI exclusion would range from R74bn to R118bn.

If the SARB is correct, a Moody's downgrade would initially cause a sharp bond sell-off due to 3% to 6% of stock being dumped in the market. After the initial sell-off, one would expect bond yields to stabilise at a higher level consistent with a less creditworthy borrower. A simplistic way to guestimate how high is to look at the spread between BBB-rated and BB-rated countries, which is currently 0.75%[5]. See **Graph 3**.

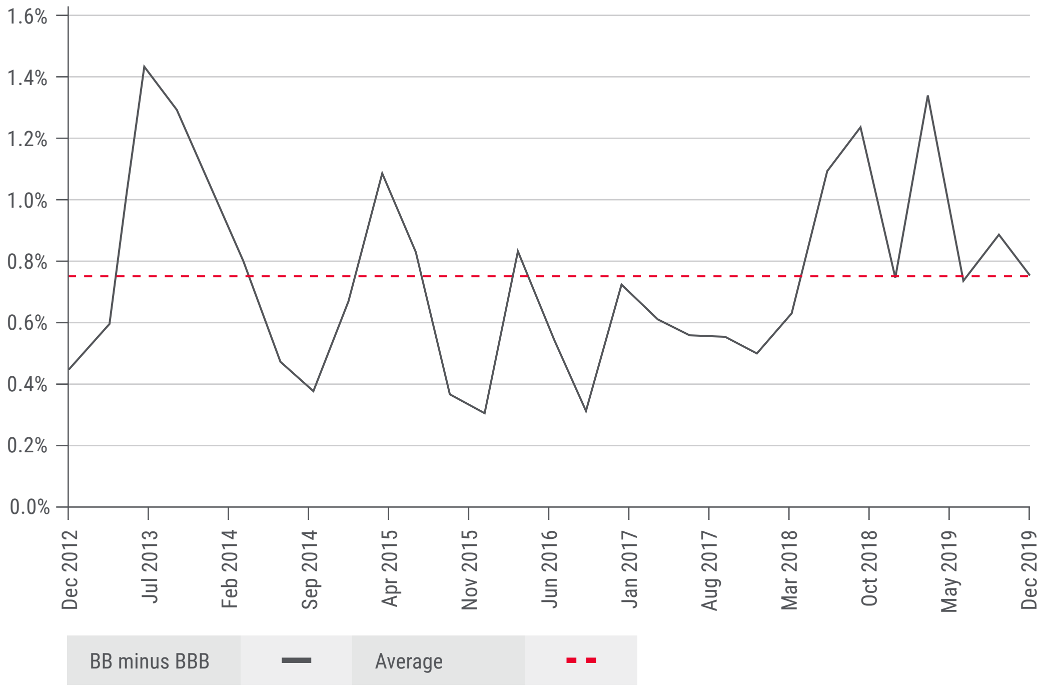
Graph 2: Efficient frontier



Source: IRESS and Allan Gray research

[5] Data based on J.P. Morgan EMBI Global Credit Sovereign Spread sub-indices sourced from Bloomberg

Graph 3: BB vs BBB sovereign spreads



Source: J.P. Morgan, Bloomberg

If the JSE All Bond Index (ALBI) duration is 6.8 years, a 1% increase in yield would result in a 6.8% decline in bond prices. If Moody's downgraded South Africa today, and the ALBI yield rose from 9.2% to 9.95% to reflect the lower rating, this would result in the ALBI losing 5.1%. On the other hand, South African real yields are currently higher than their long-term averages, reflecting elevated tail risks from an unabated deterioration in government finances. An argument may be made that investors have already priced in a downgrade, and therefore bond prices may not move at all after the event.

Conclusion

Bonds offer an opportunity to diversify a portfolio, with the amount allocated towards bonds being inversely proportional to each investor's time horizon and appetite for volatility.

South Africa is facing profound macroeconomic challenges, and the threat of a downgrade by Moody's to sub-investment grade is significant and could negatively affect bond prices. However, this may be priced in already and there is life after "junk" status. South Africa's deep and liquid financial markets and a captive savings pool provide a floor for bond prices, and the foreign investor base would not disappear entirely if global conditions remained conducive for offshore investors to find emerging markets attractive. If inflation remains well-behaved (the SARB's midpoint target is 4.5%), higher bond yields would provide attractive real returns for bond investors. The timing and the uncertainty of a pending downgrade mean that while bonds offer an opportunity to diversify a portfolio and generate real returns, investors should be cautious at this time.

Londa joined Allan Gray in 2017 as a credit analyst and is currently a co-portfolio manager of the Allan Gray Bond Fund. She holds a Master of Commerce degree in Development Finance from the University of Cape Town Graduate School of Business and is a qualified Chartered Accountant.

ORBIS: WELL POSITIONED FOR THE CHALLENGES THAT LIE AHEAD

William Gray

... the passing of Allan Gray, my father and the firm's founder, leaves me with both a heavy heart and a deep sense of determination.

In his annual president's letter, William Gray, from our offshore partner, Orbis, pays tribute to his father and reviews Orbis' performance and prospects.

This year marks Orbis' 30th anniversary. We are proud of the returns we have delivered for our clients since inception and are excited about our potential to add value looking forward. But our performance in recent years has been well below our standards, so we are hardly in the mood to celebrate. More personally, the passing of Allan Gray, my father and the firm's founder, leaves me with both a heavy heart and a deep sense of determination.

From an investment perspective, 2019 was largely a year of more of the same with many now long-standing market trends extending even further. Continuing to lean against those trends was again painful, although mitigated somewhat by robust absolute returns for equities and bonds.

Many of the most rewarding investments in 2019 were those that the market considered "safe" or "predictable". A shining example in this regard is Austria's "century" bond. Owners of this bond entered 2019 with the prospect of a 1.75% annualised return over the next 98 years — particularly poor compensation for taking on such long-dated risk in our view. As it happened, they closed the year with a price return of over 35%, having gained as much as 80% when the price of the bond peaked in August.

... today the premium one must pay for predictability looks excessive.

The Austrian bond is much more than an amusing anecdote. Many of the biggest winners in global equity and bond markets in 2019 fell into this category — those with relatively predictable long-term futures — with their prices also rising sharply. While we have invested in such assets in the past, today the premium one must pay for predictability looks excessive. In contrast, the prices of investments in companies with less predictable and often more volatile cashflow streams, currently much more common in the Orbis funds, performed far less well ... again.

While this has been frustrating, it leaves us more optimistic for future relative returns. Asset prices can only rise faster than their underlying fundamentals for so long. The longer prices outpace fundamentals, the wider valuation gaps become, making risk profiles increasingly asymmetric. While the underlying fundamentals may remain safe and predictable, a rising valuation gap will eventually change any investment into a risky and volatile one as price becomes increasingly sensitive to any change in expectations. Even with an unchanged annual coupon, the price of the Austrian century bond rose by more than 35% in 2019. The converse is, of course, true for companies with valuations that assume less predictable fundamentals, which is what creates the opportunity for attractive relative returns.

All of this may sound obvious, but it never feels that way when the prices of predictable assets have risen as much as they have in recent years. It feels good to own them, and not owning them is extremely uncomfortable. But maintaining a disciplined focus on the relationship between intrinsic value and price is what successful long-term investing is all about. Some even say that value-oriented investing works because it hurts. Extended stretches of underperformance can test the patience of a firm's clients, its investment team and its owners — but that's what makes it so rewarding for those who can stick with it.

Nobody understood that better than Allan. He developed the distinctive investment philosophy that has been in place at Orbis since 1989 and at Allan Gray since 1973. Allan's most enduring legacy might be the investment philosophy and approach he instilled in our investors, and the stable and aligned ownership structure that he put in place before his retirement in 2016.

On page 4 you will find a selection of the investment insights that have resonated most with those who worked closely with Allan over the years. Thanks to Allan, Orbis and Allan Gray are well positioned for the challenges that lie ahead.

Orbis
Invest Differently

William leads the Orbis Investment team and is a director of Orbis Holdings Limited, Orbis Allan Gray Limited, and Orbis' Bermuda and Luxembourg funds. Prior to joining Orbis Investments in 1993, he had been an analyst with Orbis Investment Advisory Limited and with the Orbis predecessor company in Hong Kong. William holds a Bachelor of Commerce degree from the University of Cape Town, a Master of Business Administration from Harvard University, and is a CFA® charterholder.

BEWARE OF RECENCY BIAS WHEN MAKING INVESTMENT DECISIONS

Beatri Faul

Now more than ever, given all the uncertainty, keeping a long-term mindset is key.

Over the past year, we have seen local investments streaming towards bonds and cash – the top-performing asset classes for most of 2019. Are investors chasing performance, or can they expect to get real returns from perceived safer investments over the long term? Beatri Faul investigates.

Recency bias is the tendency to overvalue the most recent information available to us. It can impact our decision-making and cloud our judgement. This common behavioural bias crops up in various aspects of our lives and can have negative consequences. Disregarding long-term trends can be detrimental, particularly when it comes to investing.

A difficult time for local equities

Investing in today's environment is difficult. We are forced to make decisions in the face of uncertainty, including political unrest, slow economic growth, threats of downgrades and massive fiscal debt. Meanwhile, equities, which are expected to give the best real returns over the long term, have disappointed, with the FTSE/JSE All Share Index (ALSI) delivering real returns of 1.1% annualised over the past five years (to end December 2019).

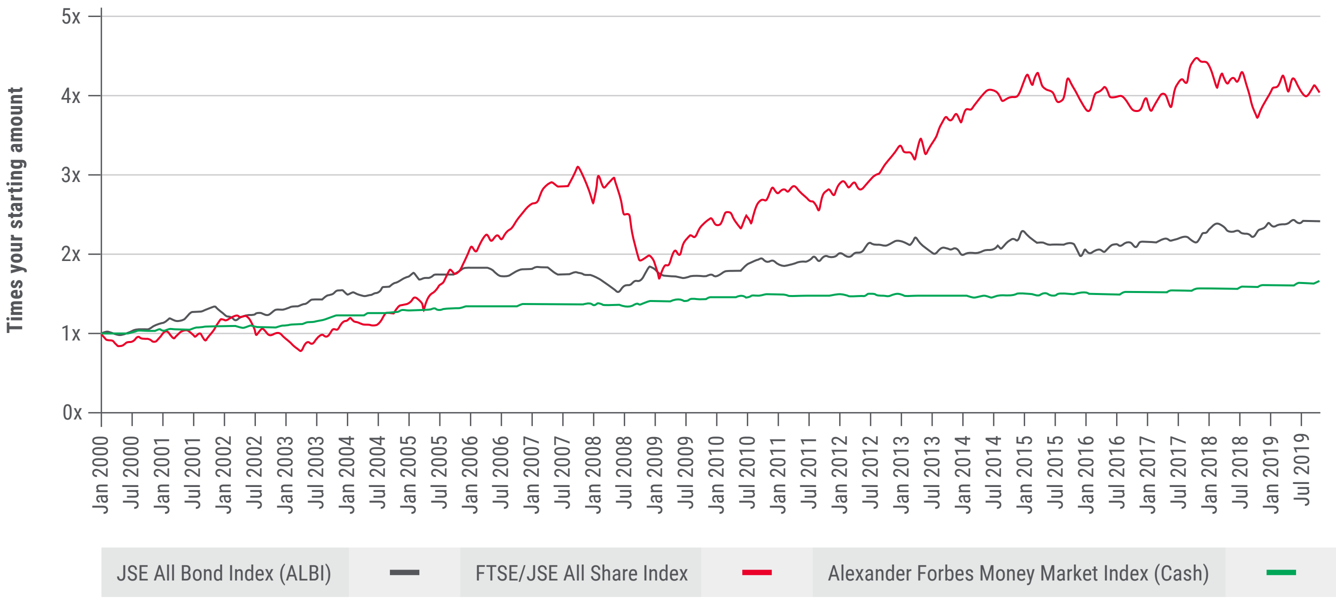
In contrast, cash and bonds have delivered strong real returns of over 2.3% annualised over the same period. Globally, the level of uncertainty isn't much better, with Brexit, trade wars, slowing economic growth and sustained quantitative easing skewing the natural flow of capital in these economies.

All this negative sentiment and uncertainty has driven investors to shun the local equity market. Is this warranted – or is it a perfect case of recency bias?

Graph 1 shows the extent to which equities have outperformed cash and bonds in real terms over 20 years. If you started to invest in January 2000 and invested in cash, you would have 1.6x your money today; if you invested in bonds, 2.4x your money, and if you invested in equities, 4x your money. Having said that, the ride to achieving returns through equities has not been comfortable, as reflected by the bumpiness of the red line.

Put differently, of the 180 monthly rolling five-year periods since January 2000, the ALSI managed to beat bonds 79%

Graph 1: Long-term performance of equities vs cash and bonds



Note: Real returns in rands. Returns shown are up to end November 2019 (due to availability of inflation data).
Source: IRESS, Allan Gray research

of the time, and cash 86% of the time – an overwhelmingly positive result, as shown in **Table 1**. But bear in mind that 21% and 14% of the time respectively, equities underperformed bonds and cash over a five-year period. And in those times, much like today, it may have felt like a mistake to hold equities in your portfolio.

Are South African equities a poor choice?

Many clients today are struggling to reconcile the dim economic outlook for the country with positive returns on local equities in the future. How can a company that operates in such a difficult environment do well? Why should you take the risk?

Firstly, a strong, growing economy does not necessarily mean that you are guaranteed strong performance from all companies on the stock market. This is because a strong economy likely introduces competition, which brings down the prices these companies can charge, and subsequently profits. In a slower growing economy there is less competition, and while there is also less money to spend, goods and services are still needed, therefore there is still opportunity for some companies to thrive.

Secondly, price and value are the most important determinants when it comes to investment returns.

Table 1: ALSI vs bonds and cash

	Equities vs bonds	Equities vs cash
Number of five-year rolling periods since January 2000	180	180
Equities win	142	154
Equities lose	38	26
% win	79%	86%

Source: IRESS, Allan Gray research

Because the South African stock market has been driven down by negative sentiment over the past few years, you are able to pay reasonable prices for attractive opportunities today. This increases your chances of achieving good performance in the future.

Of course, not all stocks are created equal, and some may be trading at low valuations for good reason. But it is our job to do the hard research and pick those shares that we find to trade below their intrinsic value.

Lastly, equities offer diversification benefits, because around 60% of the earnings on the JSE are generated offshore. Equities are therefore more likely to protect the value of your investments in extremely negative South African scenarios.

It's not to say bonds and cash should be entirely avoided: They are an important part of a well-diversified portfolio, as Londa Nxumalo discusses in her piece on page 12. However, changing your strategy out of fear and switching to cash and bonds completely may not be the best long-term strategy. This is because these asset classes are not entirely without risk, especially given the current climate and impact of potential rating downgrades.

... long-term past performance reflects that equities give you the best outcome ...

What risks are you exposed to through cash and bonds?

One common mistake investors make is not considering the real value and/or purchasing power of their capital. Local cash and bonds offer no exchange rate diversification, so if the rand depreciates, in most cases, so does your relative wealth.

Another risk to the real value of your capital is inflation. When buying a vanilla bond, you commit to receiving a certain yield. If inflation increases sharply, this yield may not be enough to keep up and could leave you with negative real returns. Similarly, the return on cash is determined by the prevailing interest rates, which may not keep up with inflation.

Some other more obvious risks include the devaluation of your investment. Increased interest rates would be good for your cash investments, but bad for your bonds. An increase in interest rates will cause the price of your bond to fall. At this point, you won't be able to sell the bond for as much as you bought it for, and you may experience a capital loss.

... today, we are more excited about the opportunities on the stock market than five years ago.

Are investors currently following the herd?

The best way to protect your capital is to construct a well-diversified portfolio that can earn real returns regardless of market conditions. But looking at money movements in the investment industry (flows), it seems that investors are making decisions based on recent performance.

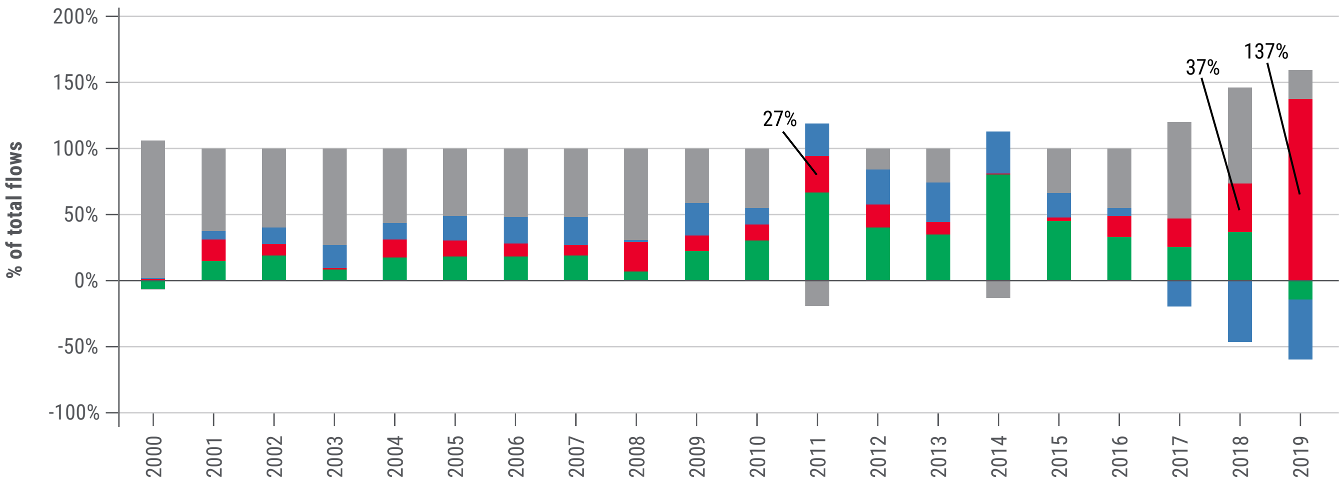
In 2018 and 2019, income funds took a bigger portion of investors' money than they have over the past 20 years, attracting 37% and 137% of total industry flows respectively. **Graph 2** shows what percentage of flows went into various unit trust categories, as classified by the Association for Savings and Investment South Africa (ASISA), from 2000 to 2019. Flows to the Multi-Asset Income (red) category in 2019 were at the expense of the Multi-Asset High Equity (green) and Multi-Asset Low Equity (blue) categories.

Generally, the latter two categories enjoy a bigger portion of flows as they provide investors with a good balance between growth asset exposure (like equities) and more stable asset exposure (like cash and bonds). However, the disappointing real return on equities over the past five years has led investors to increasingly shy away from equity exposure in their portfolios, opting for bonds and cash instead.

Looking at **Graph 3**, apart from 2018 and 2019, the other time that the Income category had a higher five-year rolling return than High-Equity and Low-Equity was in 2011 and 2012. That coincides with the third highest relative share of flows to the category over the entire period. This trend is similar today.

We have seen the same behaviour on the Allan Gray Investment Platform. The average percentage of gross

Graph 2: Where is local money being placed?



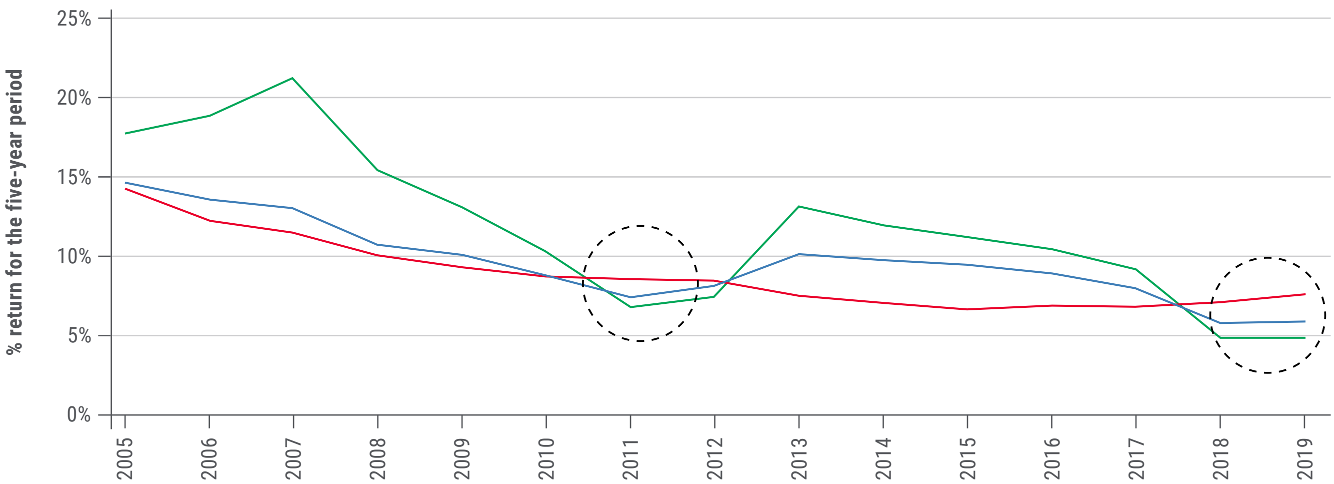
Industry flows by ASISA categories:

Multi-Asset High Equity (green) includes funds like the Allan Gray Balanced Fund. Multi-Asset Income (red) includes income funds. Multi-Asset Low Equity (blue) includes funds like the Allan Gray Stable Fund.

Multi-Asset High Equity | Multi-Asset Income | Multi-Asset Low Equity | Other

Source: Morningstar Data, Allan Gray research

Graph 3: Rolling five-year returns of ASISA unit trust categories



Multi-Asset High Equity | Multi-Asset Income | Multi-Asset Low Equity

Source: Morningstar Data, Allan Gray research

inflows into the Multi-Asset Income category has increased almost four times over the past five years, while it has decreased for the Multi-Asset High and Low Equity categories. Furthermore, the average percentage switched to income funds almost doubled from 2018 to 2019, as shown in **Graph 4** on page 22. As a result, many clients on our platform have a bigger exposure to cash and bonds today than in previous years.

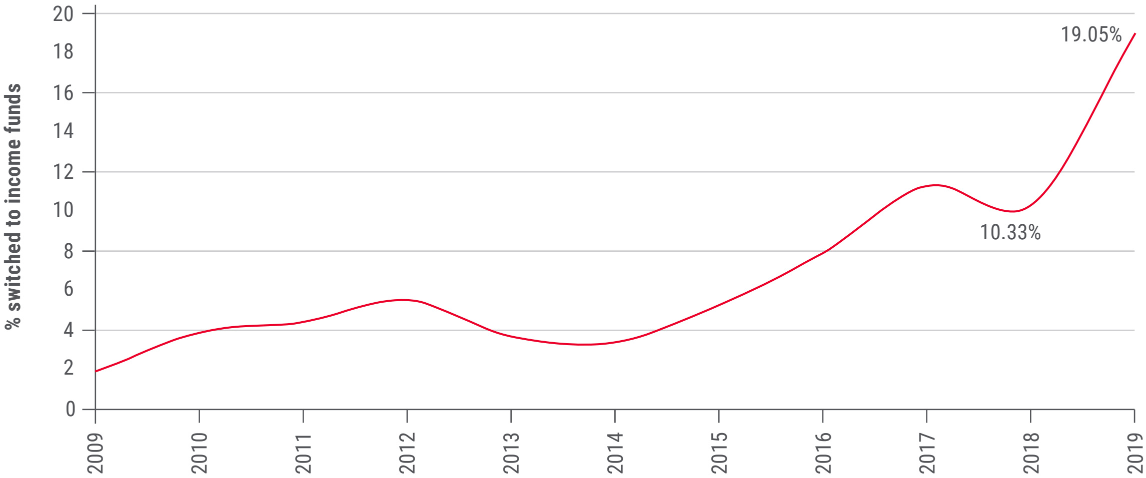
Adopt a long-term mindset

Many investors seem to be basing their decisions on the recent performance of cash and bonds, ignoring the longer-term data, which tells a different story.

Switching to cash and bonds may seem like a good idea now. However, long-term past performance reflects that equities give you the best outcome and, depending on your personal objectives and time frames, are an important part of your portfolio. Furthermore, by the time you have the courage to get back into the equity market, prices may have moved upwards, reducing future returns.

Remember, the most important determinant of future returns is the price you pay for an asset today. And today, we are more excited about the opportunities on the stock market than five years ago. Now more than ever, given all the uncertainty, keeping a long-term mindset is key.

Graph 4: Average percentage switched to income funds on the Allan Gray Investment Platform



Source: Allan Gray research

Beatri joined Allan Gray in 2015 as a business analyst and is currently an investment specialist in the ManCo Distribution team. She holds a Bachelor of Commerce degree in Economics and Risk Management from North-West University and an Honours degree in Economics from the University of Pretoria. Beatri is also a CFP® professional.

MAKE THE MOST OF YOUR TAX BENEFITS

Carla Rossouw

The longer you leave your money invested, the harder compound interest can work for you.

The South African Revenue Service (SARS) has put several tax incentives in place to encourage us to save more for our retirement and other long-term goals. You forfeit these if you do not make use of them each year. With the end of the tax year approaching, Carla Rossouw explains the differences between the available products.

There are tax benefits associated with both retirement annuities (RAs) and tax-free investments (TFIs), but the benefits are structured differently, and the product rules are quite distinct. Depending on your goals and objectives, there may be a place for both products in your investment portfolio.

Understand your options

Table 1 on page 24 summarises the key features of the Allan Gray Retirement Annuity and the Allan Gray Tax-Free Investment. A good, independent financial adviser can help you decide which product is most appropriate for your circumstances.

Let the magic of compound interest work for you

The longer you leave your money invested, the harder compound interest can work for you. **Graph 1** on page 25 shows how much an initial investment of R33 000 (the annual TFI contribution limit) could grow over 20 years. The total growth is shown in nominal terms (i.e. includes inflation) and we have assumed an average annual return of 10%.

Make sure you submit your instruction in time

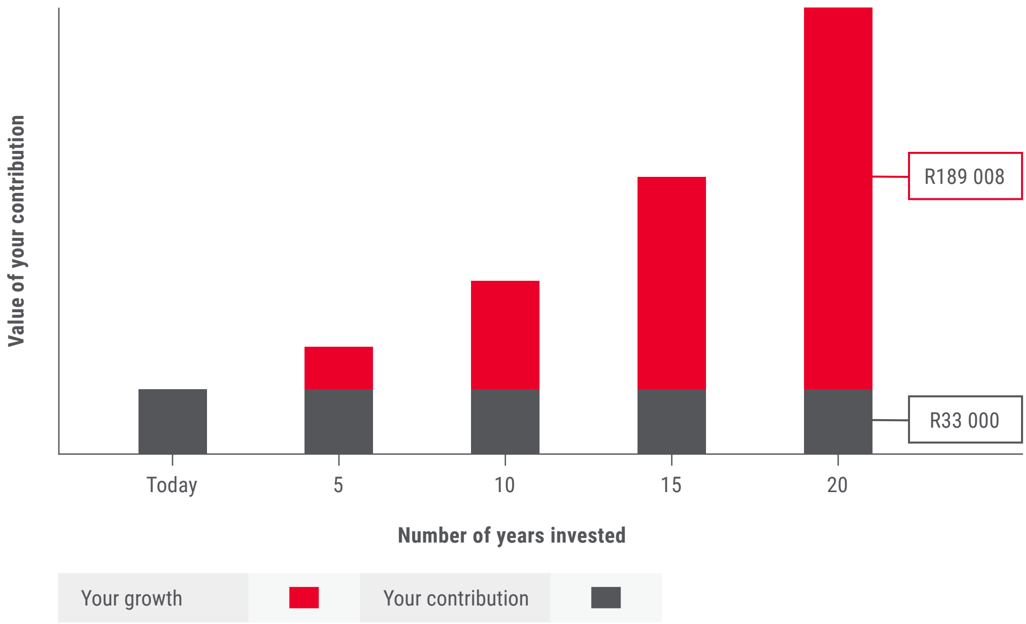
Table 2 on page 25 provides the cut-off dates for instructions for the 2019/2020 tax year. All payments need to be accompanied by the applicable instructions (applications for new investments and additional contributions for existing investments) and must be submitted by 14:00 on the relevant date.

If you would like to contribute to the Allan Gray Retirement Annuity or Allan Gray Tax-Free Investment from your basic unit trust account (i.e. an account number that starts with AGLP or AGUT) instead of from your bank account, you will need to submit two separate instructions – a withdrawal instruction from your AGLP/AGUT account and a new investment or an additional contribution into your RA or TFI account.

Table 1: Product comparison – Allan Gray RA vs Allan Gray TFI

	Allan Gray Retirement Annuity	Allan Gray Tax-Free Investment
Contributions	▪ Your contributions are tax-deductible, which means you pay less tax now. ▪ This deduction is limited to 27.5% of the greater of your taxable income or remuneration, capped at R350 000 per tax year. The tax benefit for contributions in excess of these amounts may roll over to the following tax year.	▪ Your contributions are not tax-deductible, which means you contribute with after-tax income. ▪ You can invest R33 000 per tax year up to a lifetime maximum of R500 000. You will pay a tax penalty of 40% on any amount you invest above these maximums.
Growth in product	▪ You pay no tax on interest, dividends or capital growth while invested.	
Withdrawals	▪ Generally, you can only access your money when you retire (legally from age 55 onwards). When you retire, you can withdraw up to one-third in cash. The remainder of your investment must be put into another product that can provide you with a retirement income, such as a living or guaranteed life annuity. ▪ Cash lump sums taken at retirement are taxed according to SARS's retirement lump sum tax table. ▪ You can only withdraw from your RA before retirement under very specific circumstances, such as if you emigrate.	▪ You can access your money whenever you need to, although you will benefit most from the tax advantages if you stay invested for the long term. ▪ You pay no capital gains tax when you withdraw. ▪ You cannot re-contribute amounts you have withdrawn. For example, if you contribute R33 000 during a tax year and then withdraw R20 000 during the same tax year, you cannot add the R20 000 back again in the same tax year, as you have already reached the annual contribution limit of R33 000.
Choice of underlying investments (unit trusts)	▪ Prescribed legal investment limits (outlined in Regulation 28 of the Pension Funds Act) restrict how much you can invest in certain investments or asset types.	▪ Legislation limits your investment options to unit trusts that charge fixed fees.
What happens on death?	▪ Your RA does not form part of your estate. You can nominate a person(s), trust(s) or legal entity(ies) to receive the death benefit, but the trustees determine the allocation between your dependants and nominees. ▪ If there are no dependants and you have not made any nominations, the death benefit will be paid to your estate and estate duty and executor fees will apply.	▪ You can appoint beneficiaries to receive the death benefit directly – there are no trustees involved. ▪ Your TFI forms part of your estate for the calculation of estate duty, but if you appointed beneficiaries, no executor fees will be payable.

Graph 1: Potential growth of a tax-free investment



Source: Allan Gray research

Table 2: Cut-off dates for instructions for the 2019/2020 tax year

Payment method	Cut-off dates	
	Allan Gray Tax-Free Investment	Allan Gray Retirement Annuity
Electronic collection	27 February 2020	27 February 2020
Electronic funds transfer	Electronic collection only	
Cheque deposit		
Withdrawal from AGLP/AGUT accounts To move your money, you will need to submit two instructions: (1) A withdrawal instruction from your AGLP/AGUT account. (2) A new investment or an additional contribution into your RA or TFI account.	24* February 2020 (AGLP accounts) 26 February 2020 (AGUT accounts)	

*Delayed-priced unit trusts take an extra business day to price. We therefore need to receive payment and instructions for these unit trusts one business day earlier (by 14:00 on 21 February 2020).

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

ALLAN GRAY ORBIS FOUNDATION UPDATE: LEAVING A LEGACY

Yogavelli Nambiar

... this legacy has been created in them and will live on...

American leadership coach Peter Strople once commented: "Legacy is not leaving something for people. It's leaving something in people." This quote resonates with Yogavelli Nambiar, from the Allan Gray Orbis Foundation, as she pays tribute to Mr Allan Gray by celebrating some of the Allan Gray Fellows' successes.

Looking at the activities and achievements of the Allan Gray Orbis Foundation and its beneficiaries over the past year, the spirit of Mr Gray – one of empowerment, of humanity, of servant leadership – is evident in those who have received the benefits of his endeavours. It is this spirit that continues to drive us forward, every day. It is very much alive.

Committed to making a difference

While it is obviously pleasing to know that we are helping to build entrepreneurship in South Africa, it is far more satisfying to observe that we have contributed to the development of values-driven entrepreneurs with a "spirit of significance" who are committed to making a difference to their communities and by extension, their country.

It is equally rewarding to see those entrepreneurs thrive and prosper financially, in turn uplifting their families and paying it forward to others.

Success stories

Allan Gray Orbis Foundation programme participants garnered acclaim at various competitions this year. One of these was the inaugural Entrepreneurship Intervarsity competition, where all four categories of the national student pitching competition were won by our Candidate Fellows. The challenge was initiated by the Entrepreneurship Development in Higher Education programme (a division of Universities South Africa) with the purpose of identifying top student entrepreneurs at each of the country's public universities, showcasing their businesses and inviting investment into their start-ups.

The businesses run by these winning Candidate Fellows are inspiring. Denislav Marinov was named winner of the Existing Tech Business category with his start-up, DVM Designs, which seeks to democratise access to 3D printing throughout Africa. Musa Maluleka won the Existing

General Business category for Disktjie, which provides soccer boots designed to allow players to withstand rough gravel pitches prevalent in most townships. Then there's Penang Shirindza, who took home the prize for Innovative Business Idea for his digital advertising company, Urban Play. Finally, Mvelo Hlope was named the overall winner out of 1 153 participants for creating Zaio – a free platform which teaches users how to code and finds them employment.

Ntandoyenkosi Shezi and Prince Nwadeyi also flew the Foundation's flag high when their market research company, the iSpani Group, was awarded R2.5 million in the Diageo Empowerment Trust's Social Tech Startup Challenge.

In addition, some of our Fellows have proven themselves to be winners in the business environment. African technology company Yoco came into the spotlight when it was announced that the Partech Africa Fund would invest in the company. This was not the first round of investment attracted by the company, which was co-founded by Allan Gray Fellow Bradley Wattrus and provides point-of-sale technology for small businesses, thus helping to support South Africa's entrepreneurs. Melvyn Lubega, director at eLearning platform G01, made his way onto the prestigious Forbes Under 30 list (alongside four other Fellows) and was invited to participate in the Award's Summit, which took place in Detroit.

HouseME, co-founded by Fellow Benjamin Shaw, who was later joined by Fellow Lorne Hallendorff, first made the news when it was established as a property management entity which disrupted the market by charging landlords a much smaller commission than usual. Now it is in the headlines again, having been appointed the managing agent of the Cape Town V&A Waterfront's residential "to let" portfolio, which includes 259 apartments.

Fellows Dineo Lioma and Daniel Ndima also proved themselves newsmakers when their biotechnology company, CapeBio, was reported on in *Forbes Woman Africa*. This African innovation start-up, which was named among the Businesses Of The Future: 20 New Wealth Creators On The African Continent, manufactures reagent enzymes for use in molecular biology research.

The Allan Gray Fellows are changemakers beyond the creation of their own businesses. Suzy Nkambule showed that an entrepreneurial spirit can have important ramifications on business success and job creation within organisations. She purchased Aveng Water, part of the international Aveng Group, in partnership with E Squared, which was set up by Mr Gray in 2007 to offer business support and funding to Allan Gray Fellows and social entrepreneurs. Coming from a small township in Mpumalanga, Suzy's story demonstrates how the Fellows are creating significant socio-economic impact.

Mtha Nzo is also proving that our faith in our high school Scholars is well founded, having set up a radio show in East London that deals with critical issues facing youth.

The future is here

Fourteen years ago, the Foundation, on the back of Mr Allan Gray's grand vision, affirmed: "In the coming years, there will emerge from diverse communities a new generation of high-impact entrepreneurial leaders. Individuals of passion, integrity and innovation who will be at the forefront of the continuing economic and social transformation of this region."

Indeed, the time has come, and the future is here. Our programme participants give us great hope that this legacy has been created in them and will live on as they continue to contribute to building the South Africa we all desire and envision.

Allan Gray Orbis Foundation

Yogavelli joined the Allan Gray Orbis Foundation in October 2017 as chief executive officer. Previously, she was the founding director of the Enterprise Development Academy at the Gordon Institute of Business Science (GIBS), the business school of the University of Pretoria, where she led the school's entrepreneurship efforts. Prior to that she was country director of the Goldman Sachs *10,000 Women* initiative, leading the design and delivery of this successful international women's entrepreneurship programme in South Africa.

NOTES

Allan Gray Balanced and Stable Fund asset allocation as at 31 December 2019

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign*	Total	SA	Foreign*
Net equities	68.6	46.8	21.7	38.0	21.1	16.9
Hedged equities	7.1	1.4	5.7	8.0	2.0	6.1
Property	1.3	1.2	0.1	3.9	3.9	0.0
Commodity-linked	4.2	3.4	0.8	2.9	1.9	1.0
Bonds	13.2	9.5	3.7	29.0	20.8	8.2
Money market and bank deposits	5.6	3.8	1.8	18.1	15.1	3.1
Total	**100.0**	**66.2**	**33.8**	**100.0**	**64.8**	**35.2**

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

Allan Gray Equity Fund net assets as at 31 December 2019

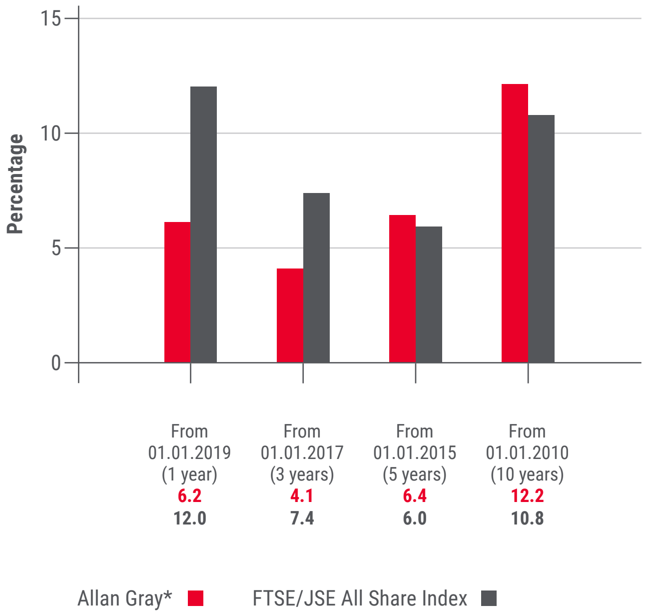
Security (Ranked by sector)	Market value (R million)	% of Fund	FTSE/JSE ALSI weight (%)
South Africa	**24 440**	**65.8**	
South African equities	**23 616**	**63.6**	
Resources	**4 929**	**13.3**	**30.8**
Sasol	1 557	4.2	
Glencore	1 248	3.4	
BHP	501	1.3	
Sappi	333	0.9	
AECI	279	0.8	
Impala Platinum	264	0.7	
Positions less than 1%[1]	748	2.0	
Financials	**8 893**	**23.9**	**25.0**
Standard Bank	1 549	4.2	
Remgro	1 379	3.7	
Investec	1 199	3.2	
Old Mutual	949	2.6	
Reinet	892	2.4	
Nedbank	580	1.6	
Rand Merchant Investment[2]	414	1.1	
Quilter	303	0.8	
Momentum Metropolitan	275	0.7	
Positions less than 1%[1]	1 352	3.6	
Industrials	**9 533**	**25.7**	**44.2**
Naspers[2]	2 572	6.9	
British American Tobacco	1 952	5.3	
Woolworths	832	2.2	
Life Healthcare	755	2.0	
Netcare	458	1.2	
KAP Industrial	429	1.2	
Super Group	404	1.1	
MultiChoice	281	0.8	
Positions less than 1%[1]	1 850	5.0	
Other securities	**261**	**0.7**	
Positions less than 1%[1]	261	0.7	
Commodity-linked securities	**357**	**1.0**	
New Gold Platinum ETF	264	0.7	
Positions less than 1%[1]	92	0.2	
Cash	**467**	**1.3**	
Africa ex-SA	**727**	**2.0**	
Equity funds	**727**	**2.0**	
Allan Gray Africa ex-SA Equity Fund	727	2.0	
Foreign ex-Africa	**11 986**	**32.3**	
Equity funds	**11 873**	**32.0**	
Orbis Global Equity Fund	7 473	20.1	
Orbis SICAV International Equity Fund[3]	2 937	7.9	
Orbis SICAV Emerging Markets Equity Fund	733	2.0	
Allan Gray Frontier Markets Equity Fund[3]	730	2.0	
Cash	**113**	**0.3**	
Totals	**37 153**	**100.0**	

[1] JSE-listed securities include equities, property and commodity-linked instruments.
[2] Including stub certificates and Prosus NV.
[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 (to 31.12)	**6.2**	**12.0**	**−5.8**

Returns annualised to 31.12.2019



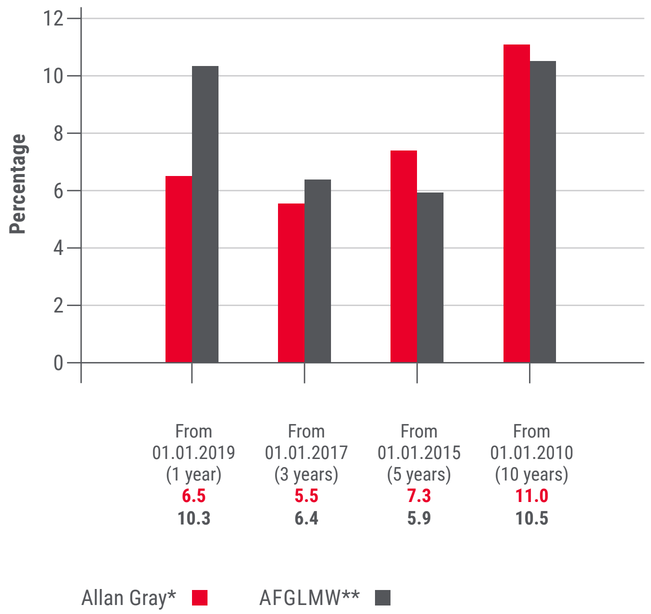
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R225 624 071 by 31 December 2019. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R9 943 265. Returns are before fees.

*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 (to 31.12)	**6.5**	**10.3**	**−3.8**

Returns annualised to 31.12.2019



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R24 959 851 by 31 December 2019. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R5 549 920. Returns are before fees.

*Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
**Consulting Actuaries Survey returns used up to December 1997. The return for December 2019 is an estimate. The return from 1 April 2010 is the average of the non-investable Alexander Forbes Global Large Manager Watch.
Note: Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

Allan Gray South African unit trusts annualised performance (rand) in percentage per annum to 31 December 2019 (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]	**37.2**	**01.10.1998**	**20.8** 14.7	**10.4** 9.3	**5.2** 3.2	**3.6** 3.3	**6.0** 8.3	**125.8** 73.0	**−20.7** −37.6
Allan Gray SA Equity Fund (AGDE) FTSE/JSE All Share Index including income	**2.9**	**13.03.2015**	**3.8** 5.1	**–** –	**–** –	**2.8** 7.4	**4.0** 12.0	**17.2** 22.5	**−11.5** −12.6
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	**19.0**	**01.04.2005**	**14.0** 13.9	**15.0** 16.8	**11.2** 13.4	**7.9** 14.0	**18.4** 24.5	**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]	**147.7** **1.1**	**01.10.1999** **01.02.2016**	**15.8** **5.6** 11.7/5.1	**10.0** **–** 9.0	**6.5** **–** 5.1	**4.7** **4.8** 5.4	**6.7** **6.4** 10.5	**46.1** **13.3** 41.9/13.7	**−8.3** **−5.4** −16.7/−6.0
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	**12.8**	**03.02.2004**	**10.2** 11.1	**11.3** 13.9	**8.5** 10.7	**4.1** 10.5	**7.5** 15.9	**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%	**49.1**	**01.07.2000**	**11.7** 8.9	**8.4** 7.3	**7.7** 7.9	**6.3** 8.0	**6.5** 7.9	**23.3** 14.6	**0.1** 6.2
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate of FirstRand Bank Limited	**1.1**	**01.10.2002**	**7.7** 6.4	**6.2** 5.2	**6.4** 5.7	**4.4** 5.9	**4.0** 5.8	**18.1** 11.9	**−1.5** 4.1
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US$ bank deposits and euro bank deposits	**1.0**	**02.03.2010**	**6.5** 5.8	**–** –	**3.3** 3.6	**−1.9** 2.6	**−7.0** −2.6	**39.6** 35.6	**−12.4** −19.1
No equity exposure									
Allan Gray Bond Fund (AGBD) JSE All Bond Index (Total return)	**2.8**	**01.10.2004**	**9.2** 8.7	**9.3** 8.9	**9.0** 7.8	**10.6** 9.4	**10.8** 10.3	**18.0** 21.2	**−2.6** −5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[3]	**22.3**	**03.07.2001**	**8.0** 7.9	**6.7** 6.5	**7.6** 7.2	**7.8** 7.4	**7.8** 7.3	**12.8** 13.3	**5.2** 5.2

[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 December 2019

	Fee for benchmark performance	Performance fees	Other costs excluding transaction costs	VAT	Total expense ratio	Transaction costs (incl. VAT)	Total investment charge
Allan Gray Equity Fund	1.13%	0.14%	0.03%	0.12%	1.42%	0.09%	1.51%
Allan Gray SA Equity Fund	1.00%	−0.51%	0.01%	0.07%	0.57%	0.09%	0.66%
Allan Gray Balanced Fund	1.11%	0.23%	0.03%	0.13%	1.50%	0.09%	1.59%
Allan Gray Tax-Free Balanced Fund	1.37%	N/A	0.05%	0.14%	1.56%	0.14%	1.70%
Allan Gray Stable Fund	1.09%	0.04%	0.03%	0.10%	1.26%	0.09%	1.35%
Allan Gray Optimal Fund	1.00%	0.01%	0.02%	0.15%	1.18%	0.10%	1.28%
Allan Gray Bond Fund	0.25%	0.35%	0.01%	0.09%	0.70%	0.00%	0.70%
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%	0.21%	0.05%	0.00%	1.75%	0.12%	1.87%
Allan Gray-Orbis Global Fund of Funds	1.44%	0.29%	0.07%	0.00%	1.80%	0.10%	1.90%
Allan Gray-Orbis Global Optimal Fund of Funds	0.99%	0.49%	0.07%	0.00%	1.55%	0.12%	1.67%

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 (STT), STRATE and Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost 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.

Foreign domiciled funds annualised performance (rand) in percentage per annum to 31 December 2019 (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 FTSE World Index	**01.01.1990**	**17.8** 13.5	**15.0** 16.8	**11.3** 13.4	**8.2** 14.0	**18.1** 24.5	**87.6** 54.2	**−47.5** −46.2
Orbis SICAV Japan Equity (Yen) Fund Tokyo Stock Price Index	**01.01.1998**	**14.5** 9.4	**15.8** 14.2	**14.1** 12.7	**8.9** 10.2	**14.4** 16.7	**94.9** 91.0	**−40.1** −46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[5] MSCI Emerging Markets Equity (Net) (US$)[5]	**01.01.2006**	**13.6** 13.5	**11.4** 12.7	**7.3** 10.1	**7.6** 12.5	**11.6** 15.4	**58.6** 60.1	**−34.2** −39.7
Allan Gray Africa ex-SA Equity Fund Standard Bank Africa Total Return Index	**01.01.2012**	**10.2** 5.4	**–** –	**0.2** 1.2	**10.5** 8.4	**−11.4** 14.1	**65.6** 33.6	**−24.3** −29.4
Allan Gray Australia Equity Fund S&P/ASX 300 Accumulation Index	**04.05.2006**	**14.7** 12.4	**14.6** 12.1	**12.3** 9.9	**10.4** 10.1	**18.6** 20.0	**99.5** 55.6	**−55.4** −45.1
Medium net equity exposure								
Orbis SICAV Global Balanced Fund 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan GBI Global Bond Index	**01.01.2013**	**14.2** 14.7	**–** –	**8.8** 10.4	**4.5** 10.2	**7.9** 15.8	**54.4** 40.2	**−9.8** −8.4
Allan Gray Australia Balanced Fund The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan GBI Global Bond Index expressed in AUD (16%).	**01.03.2017**	**7.1** 9.2	**–** –	**–** –	**–** –	**10.4** 14.4	**16.2** 24.8	**−5.3** −5.8
Low net equity exposure								
Allan Gray Australia Stable Fund Reserve Bank of Australia cash rate	**01.07.2011**	**10.5** 6.1	**–** –	**6.7** 2.3	**4.5** 1.2	**4.1** −1.9	**32.7** 28.8	**−7.4** −12.6
Very low net equity exposure								
Orbis Optimal SA Fund (US$) US$ Bank deposits	**01.01.2005**	**9.0** 8.1	**7.2** 7.3	**4.4** 5.3	**−1.8** 2.6	**−5.4** −0.2	**48.6** 57.9	**−15.7** −25.6
Orbis Optimal SA Fund (Euro) Euro Bank deposits	**01.01.2005**	**6.8** 5.9	**4.0** 4.0	**1.2** 2.0	**−2.3** 2.5	**−9.9** −4.9	**44.1** 40.2	**−19.3** −20.9
No equity exposure								
Allan Gray Africa ex-SA Bond Fund J.P. Morgan GBI EM Global Diversified Index	**27.03.2013**	**14.4** 6.1	**–** –	**13.3** 6.8	**13.4** 7.9	**9.1** 10.7	**28.9** 23.5	**2.4** −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.

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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 fee in its feeder fund or fund of funds.

The Allan Gray Money Market Fund is not a bank deposit account. The Fund aims to maintain a constant price of 100 cents per unit. The total return an investor receives is made up of interest received and any gain or loss made on instruments held by the Fund. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument defaults. In this event, investors may lose some of their capital. To maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. The yield is calculated according to the 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

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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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NOTES

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