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ALLAN GRAY

The Allan Gray Stable Fund at 20

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COMMENTS FROM THE CHIEF OPERATING OFFICER

Rob Formby

... periods of underperformance are a normal and expected part of the cycle ...

As the economy opens under lockdown Level 1, we are starting to see a return to normality, while keeping a close watch on what is happening around the globe. We proceed, cautiously optimistic, as we reacquaint ourselves with the activities that we enjoy. Lockdown has been a time of forced reflection and the question is, will we use this to drive changes or will we procrastinate?

A lesson from Ancient Greece

Human beings have been procrastinating for centuries. While current thinking attributes this to laziness and lethargy, the ancient Greek philosophers believed the problem ran much deeper – blaming it on human nature. They coined the term for this "akrasia", which comes from words meaning "lack of" and "power". Akrasia is the state of acting against your better judgement; it is what prevents you from following through on what you set out to do.

But before you feel better about procrastinating knowing that people have fallen victim to this habit for hundreds of years, perhaps it's worth mentioning that the philosophers came up with another term as the antonym of akrasia: "enkrateia", which means "power over oneself". According to author James Clear, one of the steps towards living a life of enkrateia, rather than one of akrasia, is learning how to delay gratification. He says this will help you bridge the gap between where you are and where you want to be.

This is very true for most things in life, but particularly in investing. Enkrateia can help you resist the temptation to spend when you planned to save. It can also help you resist the urge to make changes to your investment when perhaps it would do you better to sit tight – hard as it may be, as we have learnt over the last few months.

Sitting tight has not been easy. Many investors faced with a highly uncertain environment have dumped volatile equity investments in search of the stability of fixed-income assets, even as interest rates head south. And while locking in losses may seem irrational, acting in the moment gives us a sense of control and makes us feel better. Some have claimed they simply can no longer tolerate the risk. Marise Bester discusses the concepts of risk tolerance and risk perception as she seeks an explanation for why we act the way we do. She also offers some tips to help us improve our behaviour so that our response to perceived risk does not have a detrimental impact on our investment outcomes.

It is understandable that investors are questioning their equity investments as lower-risk investments, like bonds and money market funds, have outperformed over the last few years. But the evidence over longer periods shows that equity real returns are rarely negative, while fixed income can produce negative real returns during times of increasing inflation. It is therefore important for risk-averse investors to balance the protection provided by the majority of assets being invested in cash and bonds with an appropriate amount invested in equities to generate potential higher real returns. The Allan Gray Stable Fund was launched 20 years ago to fulfil this exact need. Sean Munsie looks at the Fund's positioning, performance and prospects.

> ... over longer periods ... equity real returns are rarely negative ...

Money-printing in overdrive

Akrasia is not just a problem at the investor level; central banks across the globe could perhaps benefit from strengthening their enkrateia muscle. The United States, Europe and Japan seem to have abandoned any sense of traditional financial prudence, increasing their balance sheets at a rapid rate to cope with the COVID-19 pandemic and the consequences of lockdown measures. In his piece this quarter, Sandy McGregor discusses modern monetary theory and its longer-term unintended consequences, which he believes pose a grave risk to the financial stability of the global economy.

Investment ideas

We have two interesting pieces this quarter that illustrate our investment philosophy and process, which we share with our offshore partner, Orbis. One of these pieces looks at the investment case for Naspers, a key holding in many of our, and Orbis', portfolios. While Naspers is a South African company, its largest underlying asset is Chinese technology giant Tencent. It helps to have a global perspective when getting into the detail of the opportunity. Ruan Stander, from Allan Gray, and Stefan Magnusson, from Orbis, collaborate to share their insights.

Sticking with technology, and the world's voracious appetite for connectivity and computational power, Alec Cutler unpacks Orbis' enthusiasm for Samsung and Taiwan Semiconductor Manufacturing Company. Orbis is very keen to tap into society's ever-increasing need for connectivity, but in their hunt for opportunities at the right prices, they prefer to avoid the lofty valuations of the US tech giants.

Thank you for your ongoing trust

You have trusted us with your hard-earned savings, and we recognise that at times like these, when our performance is disappointing, trust can easily be eroded. Many of you may be wondering how to assess whether your trust is wisely placed. In this quarter's Investing Tutorial, Nomi Bodlani and Tamryn Lamb suggest some questions you can ask to check your thinking.

While periods of underperformance are a normal and expected part of the cycle, knowing this doesn't make them any easier to endure. Global trust expert Rachel Botsman notes: "Whom we choose to trust is one of the most important issues of our time." We do not take your trust lightly.

Keep safe and well.

Kind regards

Rob Formby

THE DANGERS OF PRINTING MONEY

Sandy McGregor

For centuries, a golden rule of public finance has been that a state should live within its means.

Modern Monetary Theory, or MMT as it is often called, is a new term for an old idea. Its proponents argue that a state which issues fiat money does not have to resort to taxation and borrowing to pay its bills. It can fund itself simply by printing money. While there are numerous historical examples of unfunded fiscal spending being followed by hyperinflation and economic collapse, the modern supporters of what would previously have been regarded as economic heresy say this time it is different, and that inflation can be controlled by using the tax system to manage private consumption. But can it really work in the longer term, and is it a solution for South Africa? Sandy McGregor provides background, analysis and insights.*

The simple truth is that central banks in the United States, Europe and Japan have been applying the precepts of MMT for the past decade and, in responding to the COVID-19 crisis, have abandoned any sense of traditional financial prudence. The US Federal Reserve Board (the Fed) has been the most aggressive, increasing its balance sheet from US$4tn to US$7tn over the three months following the market meltdown in March. Most of this US$3tn of new money has been used to fund an exploding federal fiscal deficit. The balance sheets of the Fed, European Central Bank (ECB) and Bank of Japan have collectively increased by US$6.3tn this year. MMT has arrived almost by accident. Its longer-term unintended consequences pose a grave risk to the financial stability of the global economy.

The political allure of unconstrained government spending

For centuries, a golden rule of public finance has been that a state should live within its means. Fiscal spending should not exceed sustainable tax revenues and prudent borrowing. The wisdom of this precept was confirmed when governments tried to sustain economic growth by Keynesian deficit spending into the recession triggered

* Fiat money is a currency which is backed solely by the credit and good faith of the nation which issues it.

by the first oil price shock in 1973. The consequence was damaging inflation, which was only brought under control in the early 1980s when the Fed raised dollar interest rates to levels which caused a serious recession. Following this bad experience, financial prudence again became the guiding principle of public finance.

In recent years, in many countries, political leadership has become increasingly restive about the constraint on government spending imposed by what generally have been regarded as prudent targets for fiscal deficits and the appropriate stock of government debt relative to GDP. This is not restricted to the political left, which usually favours increased expenditures. In the United States, the Republican party has pushed through major tax cuts, and in the United Kingdom, Prime Minister Boris Johnson has abandoned Margaret Thatcher's legacy of fiscal conservatism. Usually the justification offered is pressing need, for example to combat climate change, to meet the growing cost of healthcare as the population ages, renovating ageing infrastructure and expenditures to address poverty.

MMT is a dangerous drug to which political elites can easily become addicted.

The argument against these expenditures has been that, however desirable, they are unaffordable. The present orgy of spending financed by printing money sets an alarming precedent. It seems to give the lie to the idea that public spending must not exceed available resources. Politics is like water. It flows downhill by the easiest path. The rapidly developing habit of using central banks to finance governments is going to be difficult to break. MMT is a dangerous drug to which political elites can easily become addicted.

The inflation risk

Historically, financing the state by printing money has almost always ended badly. An early example occurred in France following the revolution of 1789, when the new government funded itself by issuing bonds called "assignats" which evolved into a currency. By 1793 these had lost 65% of their value and by 1796 were worth nothing. Perhaps the most notorious inflation occurred in Germany immediately after the First World War when massive money creation destroyed the savings of the middle class. More recently there has been disastrous hyperinflation in Venezuela and Zimbabwe.

To embrace MMT one has to be phlegmatic about inflation risks. One reason it has gained adherents over the past decade has been the failure of central banks in developed economies to counteract deflation. They tried to generate inflation using quantitative easing (QE), which is a euphemism for printing money. The money created had little impact on the prices of goods and services, although it dramatically increased asset prices. These powerful deflationary forces have made central banks increasingly complacent about inflationary risks and given them the confidence to act aggressively in response to the economic turmoil caused by the current pandemic. The failure of QE to ignite inflation is offered by proponents of MMT as justification for the statement that things are different now.

But are they? Aggressive expansion of the monetary base following the March crisis had an instant impact on equity and currency markets. One of the justifications advanced for increased buying of equities was the fear of future inflation. The share market has recovered to its old highs and the dollar has depreciated by 8%. Printing money always affects something.

Our attention should be focused on the United States. Its response to the COVID-19 economic crisis has exceeded that of other countries both relatively and absolutely. It has a freedom to act that others are denied because the dollar is the world's reserve currency. Spending to sustain household incomes and support business has been funded by printing money. However, a deficit of US$3tn, equivalent to 14% of GDP, has not satiated political demands for greater spending. The ease with which the spending taps have been turned on has prompted calls for more. The Republicans want to spend an additional US$1tn and the Democrats a further US$3tn. Given the toxic political climate they could not agree on the lowest common denominator before going into recess, but now the congressional session has resumed, greater spending is likely to be approved.

Regardless of who wins the November elections, the US looks set on a path of increasing fiscal deficits, which cannot be financed by normal taxation and borrowing. Increased government spending will rapidly take up any slack in the domestic economy. While this may be regarded as desirable, it will have a cost in the form of rising prices. Inflation is a manifestation of an inefficient use of resources within an economy. As government spending is notoriously inefficient, expanding its share of GDP is inherently inflationary. When government programmes get going, they are difficult to stop. There is a danger that inflation becomes hardwired into the system.

> Historically, financing the state by printing money has almost always ended badly.

The Fed is committed to injecting US$80bn per month into financial markets seemingly ad infinitum. In his recent speech at the Jackson Hole conference of central bankers, Chairman Jerome Powell said that the Fed will adopt a symmetrical inflation target, which is newspeak for condoning higher inflation than was previously regarded as appropriate. Interest rates will be kept close to zero for a long time to come. Theoretically, the Fed is independent of Congress. In practice, it requires a clear and present danger to aggressively increase interest rates. Until then, it is likely to be slow to respond to a growing inflationary threat and will facilitate excessive fiscal spending by expanding the money supply. Many public officials regard inflation as a good thing, being a form of financial repression which facilitates other agendas. Given the crucial role the dollar plays in international finance and trade, rising inflation in America will have adverse consequences throughout the global economy. It is too soon to ignore historical experience that funding governments by printing money produces inflation, which is difficult to control.

Using the tax system to control inflation

The advocates of MMT dismiss the inflationary threat, claiming that the tax system can be used to control domestic expenditure to eliminate excess demand. This is a flawed Keynesian macroeconomic view, which ignores how the tax system actually operates. Increased taxes are politically unpopular and even necessary changes face considerable resistance. It is not a system which can be switched on and off at will. As a result of the workings of the Laffer curve, the outcome of increasing tax rates can be lower collections. Business needs a tax system which provides long-term certainty. Increased taxation can lead to reduced investment, leading to shortages which push up prices.

Taxation should be focused solely on efficiently raising revenue. Imposing other agendas introduces complexity, which erodes collections and can have unintended adverse consequences. Taxation is not an effective tool for short- or medium-term macroeconomic management. It cannot be used to meet an inflation target. This lesson was learnt during the 1970s, after which the tax system was widely simplified, which greatly enhanced collections. It is remarkable how short the collective memory is.

Can South Africa fund its fiscal deficit by printing money?

The developed economies of the northern hemisphere can pursue imprudent fiscal policies because in the short term they can get away with this. They have large, diverse and robust economies. In the case of Europe and Japan, they have external surpluses, so are less vulnerable to capital flight. The United States enjoys the inordinate privilege of the dollar being the world's reserve currency. Even though in all likelihood these nations are creating serious problems for the future, they have the freedom to be irresponsible without immediate adverse consequences. The same does not apply to emerging markets and, in particular, does not apply to South Africa.

> Among the warning signals which would prompt instant capital flight, is funding the government by printing money.

South Africa's immediate problem is a paucity of domestic savings. In recent years we have been trapped in economic stagnation. There is widespread agreement that escaping from this unhappy situation will require increased investment by productive enterprises. Unfortunately, our fiscal deficit has grown so large it is currently consuming our national savings in their entirety and, even on the most optimistic projections, threatens to crowd the private sector out of domestic capital markets for years to come.

To fund a growing economy, South Africa requires foreign capital. Historically we have been an attractive destination for international bond investors, which at the peak owned 40% of outstanding domestic government bonds.

These have been sold down to less than 30% during the COVID-19 crisis but, providing the confidence of these investors is retained, South Africa should be able to attract its normal share of international capital flows into emerging markets. We also benefit from short-term flows taking advantage of our higher interest rates.

Foreigners who invest in emerging markets are particularly neurotic about governments that are unconventionally imprudent. They wish to avoid investing in a country that will become the next Zimbabwe, Venezuela or Argentina. Among the warning signals which would prompt instant capital flight, is funding the government by printing money.

A central bank acts as a lender of last resort. The SA Reserve Bank performed this role in the March financial crisis and its aftermath. In the process of restoring financial stability, it bought R30bn of government bonds. Such purchases were totally appropriate. They were what Italians would call a "piccolo peccato", a small sin.

What market participants would regard as totally unacceptable would be continuing purchases to facilitate the funding of the fiscal deficit. This would prompt immediate capital flight, which would make financing the government more difficult and more expensive. Even the dollar has weakened 8% following the Fed's massive creation of money earlier this year.

The rand would be much more vulnerable. There is a lot of foreign money in South Africa, including about R500bn in government bonds, the owners of which could panic. The rand would weaken with inflationary consequences, which would force the Reserve Bank to increase interest rates. While there would be immediate short-term costs, even more damaging would be the long-term consequences of exclusion from international capital markets. Who in their right mind would invest in a country which is adopting the policies which bankrupted Zimbabwe?

While funding South Africa's fiscal deficit is a formidable challenge, it does not have the freedom to copy developed economies and print the money. To do so would make matters even worse. MMT is not for us.

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

THE STABLE FUND AT 20

Sean Munsie

... we remain excited about the prospects, and believe that the initial premise and the structure of the Stable Fund remain as relevant now as they have been over the last 20 years.

With an allocation to assets such as equities being key to long-term growth, even for more conservative investors, we believe the Allan Gray Stable Fund remains as relevant now as it has been over the last 20 years. Sean Munsie discusses why we are excited about the Fund's future return prospects.

The Allan Gray Stable Fund (the Fund) turned 20 in the last quarter. When the Fund was launched in July 2000, we felt there was a need for a portfolio that was suitable for more risk-averse investors who required a high level of capital stability, but wanted to achieve a return higher than inflation. At the time, cautious investors favoured bonds and cash over equities, and with good reason. In the early 2000s, equities had meaningfully underperformed cash over the prior decade with higher volatility.

This outcome was counter to that of longer-term asset class returns, as shown in **Graph 1**. Adjusting for inflation, equities have returned 9.1% per year versus bonds at 2.3% and cash at 1.2% over the last century. The Stable Fund introduced a novel portfolio construction, which was a large weighting towards cash and bonds for downside protection, together with a modest allocation to equities to capture the equity risk premium[1] and generate real returns.

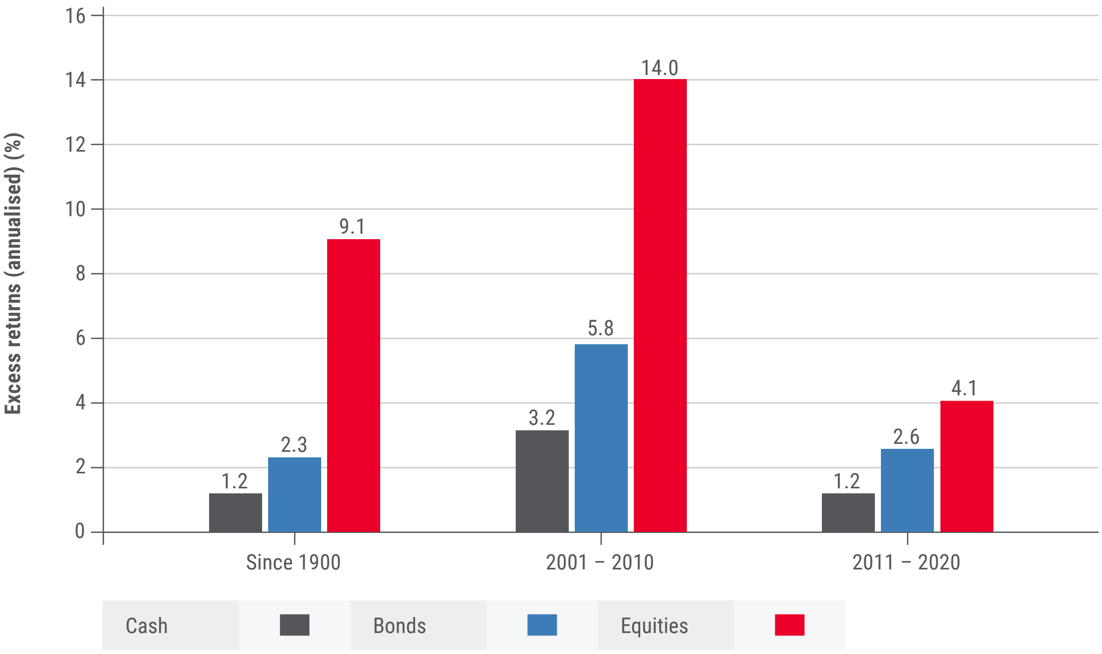
Fixed income is managed on an active but conservative basis, while share selection is based on our bottom-up stockpicking process. Equity weight is capped at 40% of Fund, with the allocation varying based on the attractiveness of shares at any given point. **Table 1** shows that the real return on such a fund using historical returns (equity return is reset downwards to a more sustainable 6%) would be approximately 3%.

Viewed in an alternate manner, **Graph 2** on page 10 shows the theoretical 3% long-term real return of a passively constructed low-equity fund equally weighted in cash, bonds and equities. The rolling 10-year real return moves

[1] The equity risk premium is the return an investor receives over and above the risk-free rate for taking on additional risk.

Graph 1: Long-term real premiums per asset class

Average annual return generated above inflation



Data to 12 July 2020.
Source: Allan Gray research, Global Investment Sourcebook 2013, Credit Suisse, IRESS

Table 1: Theoretical structure of a low-equity fund through a cycle

Asset class	Weight	Real return	Contribution
Cash	40.0%	1.2%	0.5%
Bonds	30.0%	2.3%	0.7%
Fixed income	70.0%	–	1.2%
Equities	30.0%	6.0%	1.8%
Total	100.0%	–	3.0%
Offshore	35.0%	2.0%	–
Commodities	5.0%	0.0%	–

There may be some discrepancies in figures due to rounding.
Source: Allan Gray research

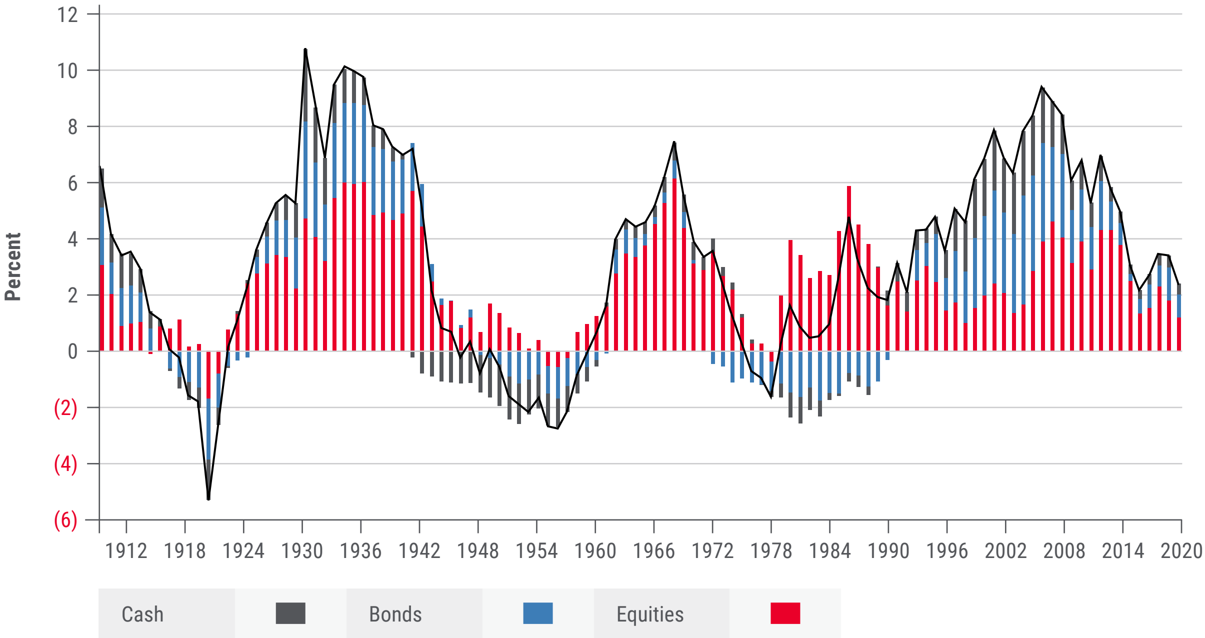
higher when assets are cheap and rerate[2] to higher levels. These periods are typically followed by lower returns as asset prices revert to fair value or lower.

Other takeaways include that 1) 10-year equity real returns are rarely negative, and 2) fixed income is the asset class that produces most of the negative real returns, coinciding with periods of increasing inflation. It is therefore important to balance the protection provided by the majority of assets being invested in cash and bonds with an appropriate amount invested in equities to generate potentially higher real returns.

[2] Rerating refers to a change in investor sentiment which impacts the price of an asset. For example, an out-of-favour asset's price may move higher as long-run prospects improve and investors reset their future return expectations. In equities, this is commonly seen in a change in price-earnings multiples an investor is willing to pay.

Graph 2: Long-term real returns from a low-equity strategy

10-year rolling annual returns



Data to 12 July 2020.
Source: Allan Gray research, Global Investment Sourcebook 2013, Credit Suisse, IRESS

Theory in practice

The above talks to the theoretical returns that can be achieved using the asset class building blocks at our disposal to construct the Fund, and informs the Fund objective of cash + 2% (alternatively viewed as a 3% real return). Meeting and exceeding this target depends on successful active asset allocation and our ability to generate outperformance on both the equity and fixed-income selections.

Over time, we have expanded the potential asset classes to include exposure to offshore assets via Orbis funds, commodities and African assets, providing more tools to achieve the Fund objective. The return on these components is derived from both the underlying asset performance denominated in foreign currencies and fluctuations in the rand.

In hindsight, the launch of the Fund was well timed, as South African equities were depressed in the early 2000s and enjoyed a subsequent multi-year bull market that produced double-digit real returns (as shown in Graph 1). This resulted in much higher returns for the Fund in the years before the global financial crisis than we would expect through the cycle.

If we look at the history of the assets making up the portfolio, and which types of market conditions provide tailwinds for the Fund, we find that the ideal scenario would be a combination of high real short-term interest rates and cheap equities. In this setting, the Fund would be weighted to cash over bonds, limiting credit and duration risk, together with a higher allocation to equities.

The counter is also true, and there have been periods when investors have had to be patient when faced with low or negative real interest rates and expensive equities. It is in these periods when active asset allocation and investment discipline add value.

The more recent environment has fallen somewhere between these two scenarios, with high real interest rates accompanied by disappointing equity returns. **Graph 3** shows the annual excess return of equities over cash since 2010 which, on average, has been well below the long-run level. Unfortunately, this has been compounded by poor stock selection, both locally and offshore, over the last three years.

More recent performance

Financial markets saw a rapid broad-based sell-off in the first quarter of this year as investors, faced with the uncertainty brought by COVID-19, sought the safety of cash. The peak-to-trough drawdown in the quarter for the FTSE/JSE All Share Index (ALSI) was 35%.

The local bond market, historically a relative safe haven, lost 10% in March. Rand weakness helped offset the decline in the Fund's offshore assets. The resultant Fund return for the month was -9.0% which, for context, was well in excess of the previous largest drawdown of -3.3% in February 2009, during the global financial crisis. At the end of March this year, the Fund disappointingly produced its first negative two-year rolling return of -0.2% p.a.

Our view at the beginning of the year was that local equities were reasonably priced, which informed the limited hedged equity position in the Fund. While the damage inflicted by the lockdown has had a significant impact on the government's finances as well as the near-term performance of domestically focused companies, many local assets were trading at very depressed levels in March and April and we used the opportunity to purchase both nominal and inflation-linked bonds and selected equities. Asset prices subsequently rebounded aggressively, and the Fund has returned 9.9% since March versus the benchmark of 2.5%. This has resulted in the two-year return increasing to 1.4% p.a. at the end of September.

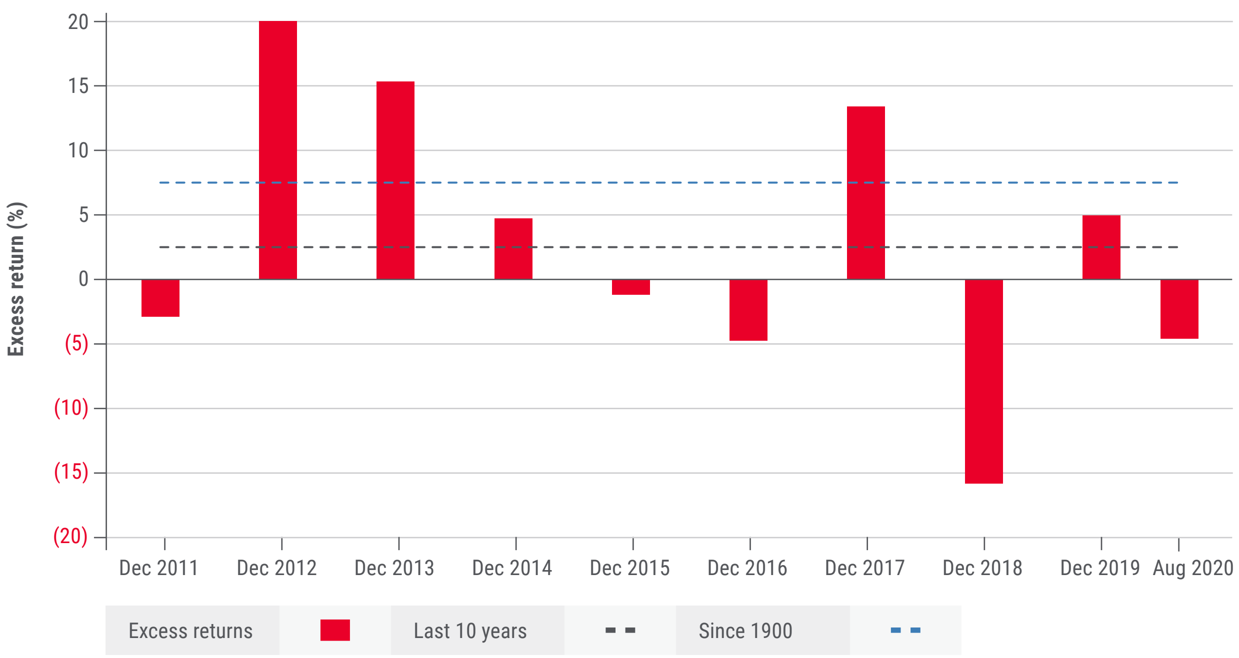
Although this is an extreme example, it does speak to the risk of investors increasing their allocation to cash when sentiment is at its most negative.

> We continue to believe that real assets, such as equities, have a place … in conservative portfolios …

The high real short-term interest rates in recent years gave South African investors the opportunity to earn returns in excess of that offered by bonds and equities, while taking on very little risk. The aggressive interest rate cuts by the South African Reserve Bank in response to the economic contraction mean this opportunity may be coming to an end. Yields on money market funds should trend closer to the 3.5% repo rate as existing investments mature. Relative to the most recent 3.2% inflation print, this leaves a real return closer to the long-term history. If inflation rises in time, which we view as likely, this would further erode cash real returns.

Graph 3: Equity risk premium has been low in the last five years

Annual excess return of equities over cash



2020 data unannualised.
Source: Allan Gray research, Global Investment Sourcebook 2013, Credit Suisse, IRESS

We continue to believe that real assets, such as equities, have a place – alongside fixed income – in conservative portfolios, as evidenced by history. While the current valuations of local assets are not as low as they were in the early 2000s, we think it is important to consider whether investors find themselves at a similar juncture today.

Currently, the Fund has a higher weighting to local bonds versus its history, owing to the attractiveness of relative returns on offer compared to cash. The net equity weight is broadly similar, with approximately half of the local equity component invested in diversified global companies, with minimal exposure to South Africa. The remainder of the local equity sits in domestically focused companies, some of which we think are unusually cheap. The Fund's offshore asset exposure, at 36%, is in line with the limit allowed by the retirement fund regulations.

Why choose the Allan Gray Stable Fund?

So why should risk-averse investors, or those requiring a portfolio from which to draw down an income, choose the Fund?

We believe for a combination of factors: Firstly, the ability to invest across asset classes, including equities, within predetermined limits, provides us with the necessary flexibility to both generate real returns and focus on capital preservation, which is particularly relevant in periods where any one asset class generates negative real returns, as fixed income has done over many historic periods. Secondly, the way we manage fixed income in the Fund focuses on generating both income and capital gains. And finally, our active asset allocation and investment outperformance have added to returns and reduced volatility over the past two decades.

As such, we remain excited about the prospects, and believe that the initial premise and the structure of the Fund remain as relevant now as they have been over the last 20 years.

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

NASPERS: IT SIMPLY DOESN'T ADD UP

Ruan Stander and Stefan Magnusson

The discount between Naspers' share price and the value of its underlying assets has widened further and now looks quite extreme. Being a large holding in both the Allan Gray and Orbis portfolios, Ruan Stander from Allan Gray and Stefan Magnusson from Orbis examine this interesting and critical dynamic.

Founded in 1915 in South Africa to publish newspapers, Naspers is one of the largest technology investors in the world today. It derives essentially all of its intrinsic value from a collection of internet assets outside South Africa comprising not just its investment in Tencent, but also those in online classifieds, food delivery and online payments businesses.

The company has delivered exceptional returns for long-term shareholders. We estimate that a Naspers shareholder in 1980 earned 21% per year in real US dollar terms to today. This may not sound particularly impressive given the recent strong performance of many technology stocks, but to put it into context, only one US-listed share returned more than 20% per annum in real terms over the same period. The corresponding return for the US stock market has been 9.1% per annum and, interestingly, the 100 most profitable US-listed companies in 1980 that remain listed today, delivered a return of just 5.5% per annum. Compounding at that rate for just over 40 years would have turned US$1 into US$9 compared with US$2 350 from an equivalent investment in Naspers. This last comparison is particularly striking and illustrates that many companies struggle to adapt and thrive as they grow and age.

So how has Naspers been able to buck the trend?

At first glance, it's hard to see what its past successes in businesses such as newspapers, magazines, pay TV, and online classifieds have in common. On closer inspection, their economic characteristics are remarkably similar: The cost and quality of these products and services improve significantly as they add more customers. As a result, these businesses tend to lose money for several years before becoming unusually, and sustainably, profitable for the providers that serve the most customers. Notably, Naspers' newer businesses have disrupted its older ones, reflecting a culture that is willing to adapt. However, a willingness to adapt does not guarantee success. Naspers has therefore chosen to partner with entrepreneurs who have a record of strong execution.

A similar question can be asked – and is being asked by investors today – of Naspers' own management team. Does it have the same acumen as previous generations? We think the answer is a resounding yes, based on our view that seven of its eight most recent significant buy and sell decisions were good ones. Overall, and as shown in **Table 1**, we estimate that management's decisions since 2013 to invest in the classifieds, food delivery and payments segments have each returned around 20-40% per annum.

Delivery Hero, a listed company that represents the majority of Naspers' food delivery portfolio, serves as a good proxy for its investments in this segment. Since its listing in 2017, its share price has grown at around 50% per annum, as the company's fundamentals have grown organically at a similar rate.

The market's positive view of Naspers' investments like Delivery Hero has not been reflected in its own share price. Instead, shares in Naspers have traded at an ever-widening discount to its underlying assets, as shown in **Graph 1**.

Why this apparent disconnect? One explanation is that South African investors are more sceptical of new ventures that are currently loss-making – similar to magazines, pay TV and classifieds in their early years. Another is that, as Naspers increases in size as a proportion of the South African stock market, investment mandate limits force local institutional shareholders to reduce their holdings. Alternatively, many investors may simply prefer direct

Table 1: Naspers' post-2013 investments generated strong returns

Business segments	Estimated valuation (US$, bn)	Annualised return (US$, nominal)
Classifieds	12	22%
Food delivery	8	38%
Payments	3	19%

Source: Orbis, Company reports, Refinitiv, Allan Gray Proprietary Limited estimates. Post-2013 investments comprise OLX, Avito, Dubizzle and Letgo (classifieds), Delivery Hero, iFood and Swiggy (food delivery) and PayU (payments).

Graph 1: Naspers' holding company discount exceeds 50%

Discount of Naspers' share price relative to the value of its underlying assets

Source: Orbis, Company reports, Refinitiv, Allan Gray Proprietary Limited estimates. The value of Naspers' underlying assets is the market value of its listed investments plus the estimated intrinsic value of its unlisted investments.

access to the underlying portfolio of investments. While we recognise that each of these factors is unlikely to change any time soon, we do not see why the current discount should persist over the longer term.

Naspers' leaders are acutely aware of the holding company discount and, as substantial shareholders in the company, have a strong incentive to reduce it. Last year, Naspers separately listed all of its internet assets outside of South Africa – via a new entity, Prosus, that has a primary listing on Euronext Amsterdam. Management recently commented that it is exploring a number of other ideas to unlock value for shareholders.

Regardless of one's views of these plans, if Naspers continues to invest wisely, it should attract investors who recognise the scarcity value of such a good long-term investment record.

Balancing risk and return

Both Naspers and Prosus have two classes of share, giving voting power to a small number of shareholders. This governance concern has not destroyed value for ordinary shareholders in the past, but could inhibit their ability to effect change if future management teams are less competent.

Another risk is that its existing investments generate poor returns from here, either due to deteriorating fundamentals or lofty starting valuations, but our bottom-up work leads us to conclude that they remain reasonably valued in aggregate.

Recent events also show how Chinese technology firms, including Tencent, face geopolitical risks that are hard to handicap. Still, with the combination of Naspers' assets outside Tencent and its proportionate share of Tencent's own investment portfolio (where stakes in listed companies make up the majority of the value) representing nearly 80% of its current market price, the implied value of Tencent's operations is just six times its free cash flow.

In our view, the recent widening of the holding company discount has made the investment case for Naspers more attractive from a risk and return perspective. While it is realistic to expect some discount, if it were to narrow from 53% to 25% in the next four years, shares in Naspers would outperform its underlying investments by more than 12% per annum in that time.

We continue to hold a large position in Naspers, despite its significant outperformance of the South African stock market, but will continually adjust the position size as our assessment of the risk and return takes into account new evidence and changes in the valuation.

Ruan joined Allan Gray as an equity and quantitative analyst in 2008. He began managing a portion of the equity and balanced portfolios earmarked for associate portfolio managers in 2013 and was appointed as portfolio manager in 2015. He is also the manager of the optimal portfolios. Ruan holds a Bachelor of Science (Honours) degree in Actuarial Mathematics from the University of Pretoria. He is an FRM® and a qualified actuary.

Stefan joined Orbis in 2003. Based in Hong Kong, he leads the Emerging Markets Investment team and is one of the stockpickers who direct client capital in the Orbis Global Equity Strategy. Stefan completed his graduate studies at the University of St. Gallen and the University of Melbourne. He also holds a Master of Science degree in Business and Economics from the Stockholm School of Economics and completed the Advanced Management Program at Harvard Business School. Stefan is a CFA® charterholder.

ORBIS: FINDING AN EDGE IN TECH

Alec Cutler

Semiconductorification is our future, and with Taiwan Semiconductor Manufacturing Company and Samsung, we can invest in that future …

The future of society and technology requires ever-increasing connectivity, data speeds, and computational power, and those improvements depend on ever more powerful, efficient, and compact semiconductors. That is the basis for the US technology giants' lofty valuations. Orbis, our offshore investment partner, is keen to tap into this need – but without overpaying. Alec Cutler discusses where Orbis is finding opportunity – at the right price.

At Orbis, we've written a lot in recent quarters about the large and growing market popularity and valuation gaps between companies perceived as higher quality and faster growing and those generalised as cyclicals and value. This runs the risk of giving the impression that we don't like fast growth or higher quality attributes. We love investing in companies with these attributes. We just don't like paying too much for the privilege.

There is a lot to like about the US tech giants, for instance. They are dominant businesses with deep moats, high returns on capital, piles of cash, and appealing long-term growth potential. But in all that, they are not alone. By casting a broader net, we can find similarly excellent businesses trading at much more attractive valuations.

The best example in the Orbis Global Balanced portfolio is also its biggest equity holding – Taiwan Semiconductor Manufacturing Company (TSMC). Like the US tech leaders, TSMC is a dominant business with a deep moat, high returns on capital, a pile of cash, and appealing long-term growth potential. Unlike the US goliaths, it trades just a touch above 20 times forward earnings, with a healthy dividend yield to boot.

TSMC is the world's dominant manufacturer of logic semiconductors – the brains of a computer. As a foundry, TSMC makes chips designed by others, including chip designers like Nvidia, AMD and Qualcomm, device companies like Apple, and data-crunching giants like Amazon and Google. As those businesses grow, so does their demand for chips. And not just any chips.

Understanding chip technology

In small applications like phones and high-performance applications like artificial intelligence (AI), customers need the best chips possible. In semiconductors, that means chips that are built using the leading-edge manufacturing process. Generations of chip-manufacturing technology are referred to as "nodes", measured in nanometres, referring to the lines of circuitry used to build the semiconductor. Leading-edge processes – smaller nodes – can produce chips that are faster, smaller, and more power-efficient.

Overall demand growth for chips has been robust for many years ...

Making semiconductors is like a contest to see who can draw the most lines on a sheet of paper. If I have a fat-tipped marker and you have a fine-tipped pen, you will win every time. Being on the leading edge is like having that fine-tipped pen. TSMC's is five nanometres thick – about 20 atoms. Leading-edge chip manufacturing isn't rocket science; it's harder.

A single leading-edge fabrication plant can cost US$15bn, but money alone doesn't do any good if you can't get on the order book for the key equipment. And even if you can pay for a factory and secure the equipment to put in it, it still doesn't do any good without the technical expertise to make it work. A badly run factory with the best equipment in the world will mainly produce trash in the shape of thin silicon disks.

Competitive edge

Over time, competitors have struggled to keep up with TSMC. Ten generations ago, there were 28 companies with at least one leading-edge logic factory. Today there are only three: TSMC, Samsung, and Intel – though Intel is falling behind and seems destined to become a happy customer of TSMC and Samsung. Compare this decline in competitors to the evolution of other technology businesses, like streaming video. In 2007, Netflix had the streaming video market all to itself. Today it faces eight major competitors, including Amazon and Apple. In 2006, Amazon had cloud computing all to itself. Now it too counts two of its megacap peers as competitors. Rising competitive intensity is anathema to pricing power and shareholder returns, but falling competitive intensity, as TSMC is seeing, can be incredibly rewarding for shareholders.

Despite this attractive set-up, TSMC trades at a steep discount to both Apple, its largest customer, and ASML, its key equipment supplier. Those companies trade at 30 times forward earnings – a nearly 40% premium to TSMC. Their valuations are arguably fair, but TSMC's discount seems unwarranted. The three firms have delivered similar levels of long-term growth, TSMC is as dominant in its field as Apple and ASML are in theirs, and TSMC's products are more pervasive and essential to the global economy. We believe TSMC can continue to grow its earnings around 15% per annum while maintaining its very high returns on equity.

Taking a look at Samsung

The comparison to Apple is also apt for another top holding in the Orbis Global Balanced Fund – Samsung Electronics. Best known for its phones and TVs, most of Samsung's cross-cycle profits come from semiconductors. It is the world's market share and technology leader in memory chips – the short-term (DRAM) and long-term (NAND or flash) memory of a computer. It even supplies these chips to Apple for the iPhone.

Unlike logic chips, where Nvidia and AMD differentiate themselves through their chip designs, memory is perceived as a cyclical commodity business. Until recently, it was. Essentially all the costs are fixed – those multibillion dollar factories – so producers tend to keep the factories running even if there is an oversupply of chips. Worse, the industry suffered from repeated waves of "strategic" new entrants who overbuilt capacity and crushed prices. Extraordinary profits in good years were offset by sharp losses in the down cycle.

That has changed. The memory industry has consolidated, with just three players, led by Samsung, dominating the DRAM market. Post-consolidation, each of the three has been rational about adding capacity, which should lead to structurally higher and less cyclical margins in the memory business. As the leader, Samsung is best poised to benefit.

Yet Samsung, which has generated double-digit earnings growth and a 17% return on equity over the long term, today trades in the value stock realm – 11 times earnings and 1.5 times book value, even without adjusting for the US$80bn of net cash on its balance sheet. Memory is not the crummy old commodity it used to be, and Samsung is not the crummy old memory company it's being valued as. In part, that is because Samsung's vertical and horizontal integration gives it a unique edge. Making both devices and components guarantees a supply of the best chips and displays for its device businesses, while guaranteeing an anchor customer to help maintain high capacity utilisation in its components' businesses. And as the only company globally with both a leading-edge memory business and a leading-edge logic foundry business, Samsung's overall chip production volumes are significantly higher, giving it an edge over its competitors. Costs borne and lessons learned when adopting a new generation of logic technology often spill over to benefit memory, giving Samsung a head start in the race to perfect and ramp up the next generation of memory-manufacturing technology.

Today, Samsung's foundry business is small compared to its memory unit, but this could change. As the only leading-edge competitor to TSMC in the globally important foundry industry, many customers – and even governments – have a stake in seeing Samsung succeed. Though TSMC wisely supports its customers' growth rather than using its dominance to crank up margins, customers absolutely do not want TSMC to become a monopoly. If, through internal prioritisation and customer demand, Samsung's foundry unit grows faster than the rest of the business, this could improve the company's returns on capital over the long term, while reducing its cyclicality. Higher returns and lower cyclicality are a recipe for a higher valuation.

Understanding the risks

Of course, owning TSMC and Samsung shares comes with risks. Both are susceptible to global recessions, can be hit over short periods by customer supply chain issues, and as critical suppliers to the global economy, both are subject to geopolitical risk. TSMC is noteworthy in this regard. As the name implies, the vast majority of its research and production resides in Taiwan, making it susceptible to the tail risk that increasing US-Chinese tensions lead to issues on the island. TSMC's high importance to all and its concerted and long-lived efforts to be fair to all mitigate this risk somewhat. We have further mitigated this risk by hedging the Taiwan dollar.

While TSMC and Samsung have risks to the downside, the world could also change in ways that would create further upside for both companies.

We have acknowledged one already – the growth of high-performance computing such as cloud and AI services. Four years ago, the overwhelming bulk of TSMC's revenues came from chips for smartphones, which made for fairly lumpy demand, driven by industry technology leaps like 4G and 5G. Owing to the rapid growth in semiconductor-intensive cloud computing and AI applications, chip demand from high-performance computing should grow to match that of smartphones within a few years, making the logic foundry business less dependent on the smartphone product cycle.

The second source of upside comes from 5G wireless broadband technology, which will enable the long-discussed "internet of things" to emerge in earnest. The importance of leading-edge chips is already accelerating in things that have been around a long time (servers, cars, refrigerators, watches) and services that have been around a long time (weather forecasting, healthcare, education, transportation). When wireless data connections are faster than some fibre-optic connections are today, all sorts of applications that are currently impossible will become widespread. Overall demand growth for chips has been robust for many years, and should remain so, but we believe demand from "internet of things" applications could grow even faster – perhaps at 30% per annum for logic chips, with a similar tailwind for memory.

Semiconductorification is our future, and with TSMC and Samsung, we can invest in that future without having to overpay for the privilege.

Orbis
Invest Differently

Alec joined Orbis in 2004. He is a member of the Bermuda-based Multi-Asset Investment team and responsible for the Orbis Global Balanced Strategy. Alec holds a Bachelor of Science (Honours) degree in Naval Architecture from the United States Naval Academy and a Master of Business Administration from The Wharton School of the University of Pennsylvania. He is also a CFA® charterholder.

HAS YOUR RISK PERCEPTION CHANGED AS A RESULT OF THE MARKET CRISIS?

Marise Bester

Risk perception is our momentary, emotional sense of how much danger we are facing.

Historically, deep economic shocks have prompted significant changes in investment and saving behaviour. During times of uncertainty, investors scramble to manage risk – but should your long-term approach change in response to the short-term environment? Marise Bester investigates.

Imagine you are on a road trip. You enjoy driving and exploring, and always choose the road less travelled; the twists and turns of the journey add to the experience. You take your eyes off the road for a second to change the radio station. You look back up, see a tree, and swerve to avoid a collision. Your heart is pumping. You drive very cautiously for the next few minutes, fearful, when ordinarily, you are perfectly calm and balanced. This is understandable, as your perception of risk skyrocketed in a matter of seconds.

But does your experience change your appetite for action? Will you take the highway in the future, safe in the knowledge that it will be smooth driving, or will you continue to opt for the road less travelled? It is likely that over the long term, your natural sense of adventure will prevail. In other words, although your risk perception changed in the immediate aftermath of the incident, your tolerance for risk remains the same. The same response can be seen in investor decision-making in moments of heightened risk awareness.

What is risk?

Behavioural finance guru, Carl Richards, states: "Risk is what's left over when you think you've thought of everything." Investors often think of risk as the prospect of an undesirable outcome, such as a financial loss or not meeting an investment objective. At Allan Gray, we view investment risk as the probability of permanently losing money.

Take a moment to consider the following questions: What was your response to the recent 34% drop in the FTSE/JSE All Share Index (ALSI)? Did you sell all or some of your investments? Did you do nothing? Or did you consider investing more?

Your answers to these questions provide important insight into your risk tolerance. In basic terms, your risk tolerance is the amount of risk you are willing to accept in pursuit of your investment goals. This is an innate personality trait and remains fairly constant throughout your life, almost the same as being an introvert or extrovert.

If your risk tolerance remains fairly static, why, then, do investors choose to significantly manage their risk exposure during a time of market uncertainty? The answer: Their perception of risk has changed.

Risk perception is our momentary, emotional sense of how much danger we are facing. It is not an objective assessment of risk, but incorporates the psychological aspects of the investor, and results in decisions being made based on perceived rather than actual risk.

Michael Kitces, a renowned American financial planner, said: "Risk perception changes frequently (and sometimes irrationally), depending on whether markets are up or down and what sector is hot at the moment. For example, during the technology bubble of the late 1990s, even risk-averse clients wanted to invest heavily in technology stocks. Why? Because they perceived that these stocks weren't risky at all."

Acting on fear

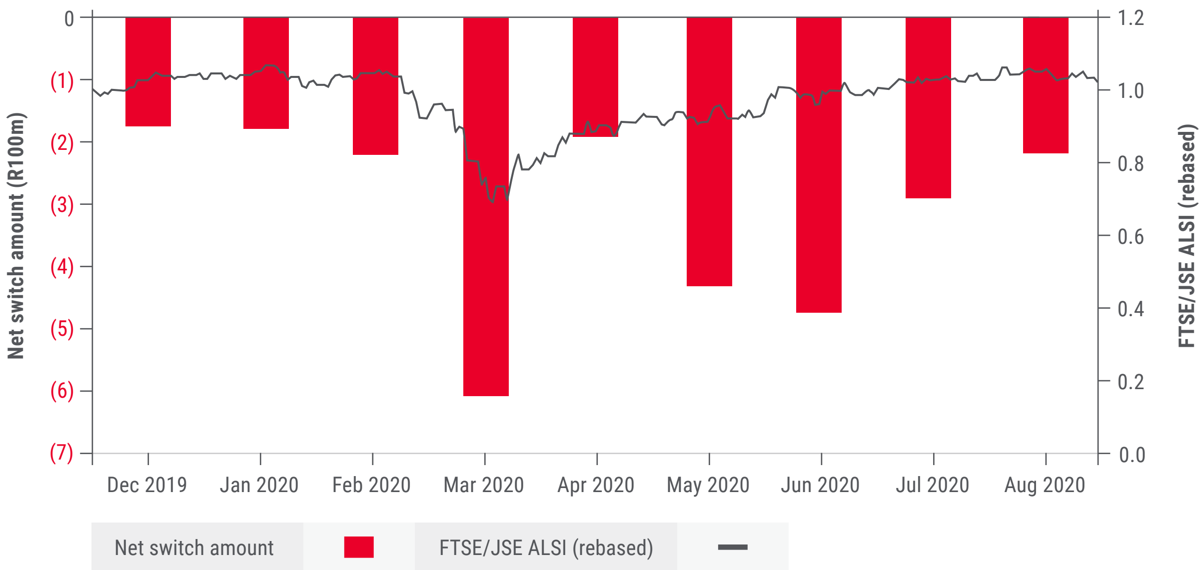
Decisions made in a moment of heightened risk perception can be detrimental to achieving your investment goals. Numerous studies have been conducted to determine the effect of a market crisis on investors' risk tolerance and risk perception.

FinaMetrica, a global company that offers risk tolerance assessments to the financial services industry, collected risk tolerance data before and after the 2007-2008 global financial crisis. The results showed that investors' risk tolerance hardly changed; what changed dramatically was investors' perception of risk. 74% of the investors surveyed viewed the market as more risky after the crisis than before.

The question is, has investors' perception of risk once again changed as a result of the current pandemic? It seems so. Global research recently conducted by UK-based asset management company Schroders shows that over a quarter of the 26 000 investors surveyed moved significant portions of their portfolios to lower-risk investments during February and March this year.

Closer to home, this behaviour holds true for investors on our local platform, as evidenced by the decrease in equity exposure during the recent market drawdown, which is a strikingly similar trend to that during the 2007-2008 global financial crisis. **Graph 1** shows the net switch amounts in or out of funds classified as high-equity exposure funds. The black line represents the ALSI, which has been rebased for illustrative purposes to the benchmark price shown at the start of the period (1 December 2019).

Graph 1: Switches out of high-equity funds on the Allan Gray Local Investment Platform (Dec 2019 – Aug 2020)



Only local fund switches and individual investor accounts are considered.
Source: Allan Gray

As seen in Graph 1, high-equity funds experienced their highest net switch outflows in March 2020, when the ALSI was at its lowest, fear was at its highest, and investors were scrambling to exit this volatile asset class. Remarkably, investors continued this behaviour from April onwards, despite the ALSI showing strong signs of recovery.

In hindsight, this behaviour seems completely irrational, yet at the time, investors acted on the heightened risk they felt they faced, perhaps expecting it to persist indefinitely.

… trying to switch in and out of the market seldom pays off …

Similarly, statistics from the Association for Savings & Investment South Africa (ASISA) for the second quarter of 2020 show an increased preference among investors for interest-bearing portfolios, such as money market funds, as well as income portfolios. The impact of perceived risk on investor behaviour is therefore strikingly evident in the COVID-19 market drawdown.

How to manage perceived risk

So how can you ensure that risk misperception does not lead to actions that could be detrimental to your investment outcome?

- **Be the driver of your investment, not a passenger**
  Spend time researching your investment and make sure you understand your options when you experience market volatility, which will inevitably come along. A study on airline pilot decision-making has shown that accidents attributable to pilot behaviour are generally due to a misdiagnosis of the risk (i.e. risk perception), rather than an overly high tolerance for risk. These accidents are prevented by improved pilot education regarding risk identification and management. The same principle applies to investment behaviour. A financial adviser can play a crucial role in providing expert insight, support and direction.

- **Assess the probability of loss realistically**
  The likelihood of losing money is one of the most important drivers of perceived risk. Overestimating the probability or the extent of investment losses during market turbulence by looking at short-term risk and return measures can lead you astray. To obtain a realistic view, put current events, and your associated discomfort, into perspective by looking at how your chosen fund(s) have responded to similar events over the long term. Remember, trying to switch in and out of the market seldom pays off, as we discussed in the article "Managing your portfolio through COVID-19" in the Insights section of our website in April 2020.

- **Accept that risk and volatility are necessary**
  To earn real returns, you need to take on some risk, which introduces volatility. **Graph 2** on page 22 shows the Allan Gray Balanced Fund range of annualised absolute returns (after fees) compared to its benchmark. Over a one-year period, there is a large variance in return, which has historically been anywhere between 46% and -14%. This can cause discomfort over the short term, like what we have recently experienced. Over a rolling three-year period, the Fund has delivered real returns 87% of the time. When we increase the rolling period to five years, this percentage increases to 98%. Therefore, the longer you remain invested, the better your chances of achieving real returns.

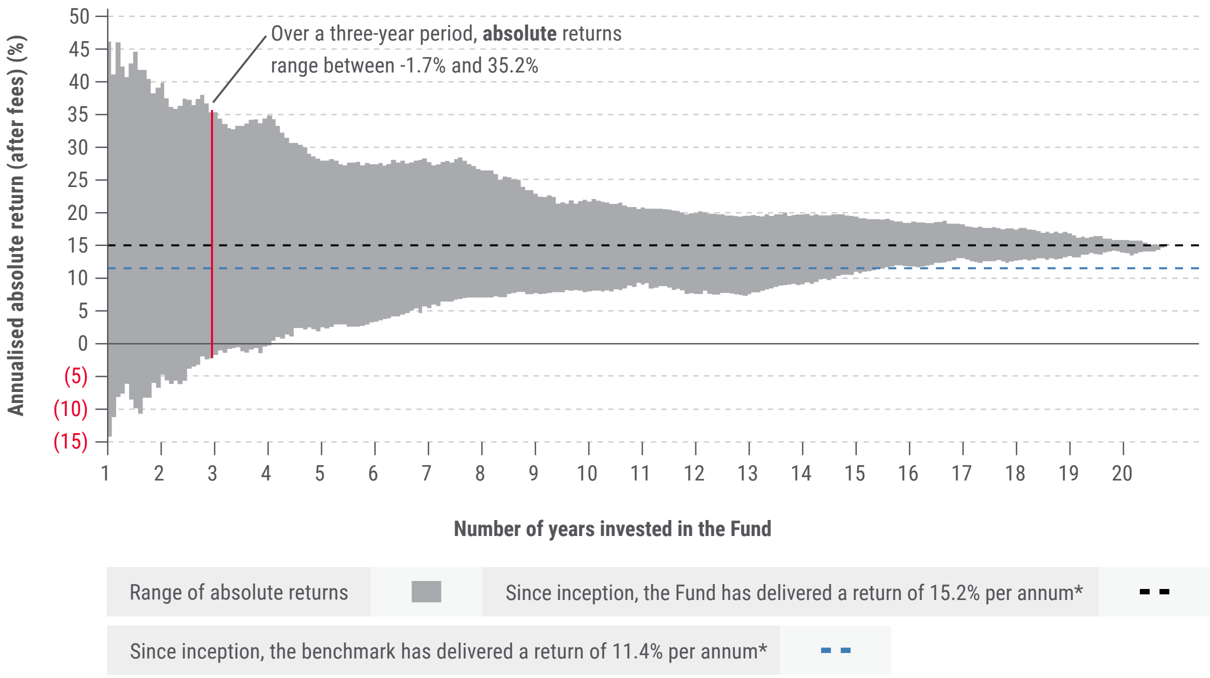
To earn real returns, you need to take on some risk …

Follow your head, not your heart

It is highly unlikely that our risk tolerance will collapse or change drastically during market volatility. Instead, the more likely Achilles heel we need to manage is our risk perception. We can positively influence our risk perception through deliberate efforts that include educating ourselves about our investment and risk management.

If you find yourself on the verge of making a panicked decision to safeguard your investment, reflect on whether your personal circumstances, investment goals or time horizon has changed. If not, the best course of action might just be to do nothing at all.

Graph 2: Allan Gray Balanced Fund – range of returns



*As at 31 August 2020.
Source: Allan Gray

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

IS YOUR TRUST IN YOUR INVESTMENT MANAGER WELL PLACED?

Nomi Bodlani and Tamryn Lamb

It has been a volatile six months in the markets, following a five-year period of disappointing equity returns. At times like these, it is understandable for investors to question both their investments and their investment manager. Nomi Bodlani and Tamryn Lamb discuss key considerations when evaluating your investment manager.

Trust implies a hoped-for outcome. When an investor entrusts an active investment manager with their hard-earned money, they are essentially expressing their confidence in the manager's ability to deliver performance relative to the objectives of their investment. Typically, these objectives will include both focusing on protecting capital and delivering returns in excess of those generated by a comparable investment alternative, i.e. the benchmark.

A common saying in the investment industry is that performance does not come in a straight line. Of course, while this may be true, it does not make it easier to bear those inevitable periods when performance disappoints – on an absolute basis or relative to other managers or benchmarks. How do you retain trust and confidence in your manager over the full life cycle of your investment?

To gain clarity, we would want our clients to consider the following two questions, which we also believe are broadly applicable to any investment manager you choose to place your trust in:

1. What are you trusting your manager to do?
2. How do you know if you can trust your manager to deliver on your expectations?

What are you trusting your manager to do?

Once you have established your personal goals and objectives, before committing to any new investment, you should ensure you are clear on what you expect from both your chosen manager and your fund. Your expectations of your fund should be directly informed by the stated objectives of the fund.

Every fund has a minimum disclosure document or fund factsheet. This document contains key information about the fund, including its mandate and objective. Typically, this objective will detail the fund's benchmark, time horizon and risk positioning. Let's take a look at the Allan Gray Balanced Fund as an example:

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

… before committing to any new investment, you should ensure you are clear on what you expect from both your chosen manager and your fund.

The following information from the Balanced Fund's objective will help you to identify what to expect:

- **Fund return expectations**
  Actively managed funds aim to deliver better returns, net of relevant fees, than their selected benchmarks. The Balanced Fund aims to perform better than the average performance of similar funds in South Africa.

  When a fund outperforms its benchmark, we call this positive difference in performance "alpha". Over the last 20 years, the average fund in the Balanced Fund's sector generated real returns of approximately 5%. The Balanced Fund generated real returns of just under 10%. Absolute and relative returns in the future may not be as good as in the past, but this is a useful starting reference point for your return expectations.

- **Risk measures**
  Return expectations are closely linked to risk considerations. You will typically need to take on more risk in pursuit of higher returns. At Allan Gray, we think the most important measure of risk is the risk of permanent capital loss.

  As a prospective investor, we therefore believe it is important to view the maximum drawdown (the maximum loss from peak to trough) a fund has experienced, or the lowest annual return. These measures should be considered alongside the time it has taken to recover. The lowest annual return of the Balanced Fund, for example, was -14% (for the 12 months ending March 2020), which compares to the market of -16% (for the 12 months ending February 2009). This drawdown has subsequently been recovered, such that the rolling one-year return at September 2020 is flat. Ideally, a fund should experience a lower average drawdown than the market and recover more quickly. The factsheet will also include measures like volatility, which is the monthly variance in return relative to the average.

- **Time horizon**
  This is the minimum amount of time that an investor should remain invested in a fund, and should be seen as a reasonable period over which to assess whether the fund has delivered on its objective. The Balanced Fund aims to deliver returns in excess of its benchmark with lower risk of loss over periods of more than three years.

  This doesn't mean that the Balanced Fund will beat its benchmark over its time horizon every single month. Many successful funds will have periods when they underperform significantly. The key is to make your assessment over sufficiently long and representative periods.

  If you consider that, over its 20-year history, despite its long-term outperformance, the Balanced Fund has beaten its benchmark (based on three-year rolling returns) only ~86% of the time, it is certain that there will be months when it doesn't beat its benchmark over a three-year period. However, when you look at the Fund's performance over a longer term, say five or 10 years, you start to see the consistency in delivering alpha. Since inception, the Balanced Fund beat its benchmark, on a five-year rolling return basis, in ~98% of months.

How do you know if you can trust your manager to deliver?

Let's say your favourite sporting team won the title in 2019. No matter how much you wish and hope they repeat this result in 2020, you have no guarantee that they will. However, there are certain inputs they can replicate which they know have been successful in the past: selection, training, nutrition, and so on. So even though they can't guarantee the result, they can be consistent in their previously successful inputs and trust that they will deliver the best possible outcome, as they have in the past.

In investments, performance is the outcome. For this reason, rather than evaluating performance on its own, there is merit in evaluating our commitment to the inputs … that produce this performance …

Likewise, we at Allan Gray lean heavily on our experience of investing on behalf of South Africans since 1974. In investments, performance is the outcome. For this reason, rather than evaluating performance on its own, there is merit in evaluating our commitment to the inputs – the "engine" – that produce this performance, specifically our philosophy, investment processes and people.

- **A philosophy is a set of beliefs and principles that guide an investor's decision-making process**
  An investment manager's philosophy guides how they think about investing and informs their approach to evaluating investment ideas.

  At Allan Gray, our approach to investing is simple: We buy shares we think are undervalued and sell them when we think they have reached their worth. We do this regardless of popular opinion as we are mindful that it is hard to outperform if you simply follow the herd.

  One of the factors you should evaluate is whether we have a track record of staying committed to our philosophy through various cycles and delivering alpha over long periods of time, notwithstanding shorter-term periods when this may not be achieved.

- **Any philosophy is only as good as its implementation through its investment process**
  Does the investment manager have a robust investment process in place that puts it in the best position to not only stick to the investment philosophy, but also replicate performance that has been delivered in the past? Is there sufficient rigour in the evaluation of investment decisions? Is the manager structured for success? These questions speak to the robust nature of the process.

  While our approach to investing may be simple, our proven ability to apply it consistently and free from short-term pressures is something we believe sets us apart.

- **Investment management is a business of people**
  Having the right people, providing them with the infrastructure to accumulate insights, and putting them in the right positions to make independently considered decisions are crucial for the effective implementation of an investment philosophy and process.

  At Allan Gray, we are on our sixth generation of senior investment professionals. Our ability to train new generations of investment decision-makers and effectively manage succession has played a significant role in our ability to replicate our performance track record.

… clients should ask whether the investment manager itself is structured to prioritise client outcomes and interests.

Another key element of trust is alignment of interests. We think clients should ask whether the investment manager itself is structured to prioritise client outcomes and interests. Investors often focus their evaluations exclusively on the investment process, but we believe a company's structure and ownership are also critical.

We all know that self-interest is an inherent survival mechanism. It is therefore important that an investment manager's organisational structure is designed to ensure real alignment between its interests and those of its clients.

At Allan Gray, the economics of the business are directly linked to client outcomes by charging performance-related fees. When fund performance is below the benchmark (underperformance), investors are charged less, and when performance is above the benchmark (outperformance), investors are charged more. In addition, we aim to remunerate senior staff in a way that encourages them to behave like owners, rather than managers. These individuals participate in the profits of the firm via long-term ownership schemes, rather than short-term bonuses. This directly links their incentives to clients' investment outcomes, and avoids short-termism in investment decisions. In short, employees and the company only do well if clients do well – which is just as it should be.

Allan Gray is also privately owned, by the philanthropic Allan & Gill Gray Foundation, and will remain so into perpetuity. This private company status is central to effective implementation of our investment philosophy as it allows the team the freedom to prioritise long-term decision-making, designed to maximise client outcomes, over delivering short-term results.

Can you trust us to deliver on our promise?

Have we retained a consistent investment philosophy and process, implemented by the right people, over the long term, to deliver a track record of outperformance? And has this been done within an organisational structure that aligns your interests with ours? Your answers to these questions should give you the confidence to evaluate whether your trust in us is indeed well placed.

From our perspective, we do not take lightly the trust you have placed in us to grow your savings. While periods of underperformance can be testing, we hope that our consistent approach and long-term track record will provide the necessary conviction and "proof" points that we can weather the short-term storms and our clients can enjoy the full benefits of what we believe our approach can deliver.

Nomi joined Allan Gray in 2015. She is currently the head of Strategic Markets and previously occupied manager roles in Retail Client Services. She holds an Engineering degree from the University of Cape Town and a Master of Philosophy in Engineering for Sustainable Development from Cambridge University.

Tamryn is head of Retail Distribution. She joined Orbis in London in 2006 as an investment analyst, covering European equities. After spending several years in both investment and client-facing roles, she joined Allan Gray in the Institutional Client Services team in 2013. Tamryn completed her Bachelor of Business Science degree at the University of Cape Town and is a qualified Chartered Accountant and a CFA® charterholder.

Allan Gray Balanced and Stable Fund asset allocation as at 30 September 2020

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign*	Total	SA	Foreign*
Net equities	65.5	45.2	20.2	31.1	17.6	13.6
Hedged equities	9.3	3.9	5.4	15.0	6.3	8.7
Property	1.0	0.9	0.1	2.1	2.0	0.0
Commodity-linked	4.3	3.4	0.9	3.4	2.3	1.1
Bonds	13.8	10.0	3.7	34.0	27.0	7.1
Money market and bank deposits	6.1	3.2	2.9	14.4	8.5	5.9
Total	**100.0**	**66.7**	**33.4**	**100.0**	**63.6**	**36.3**

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 30 September 2020

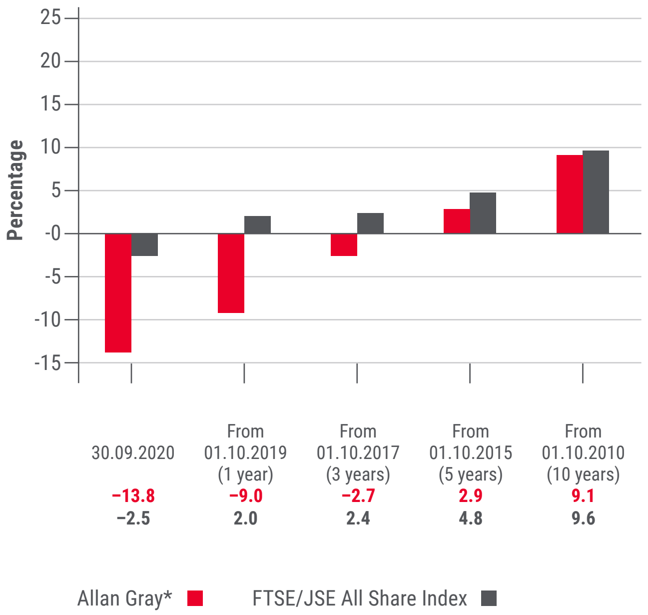
Security (Ranked by sector)	Market value (R million)	% of Fund	FTSE/JSE ALSI weight (%)
South Africa	**20 963**	**67.2**	
South African equities	**20 132**	**64.5**	
Resources	**3 990**	**12.8**	**36.4**
Glencore	975	3.1	
Sasol	528	1.7	
Sibanye-Stillwater	339	1.1	
BHP	295	0.9	
Pan African Resources	293	0.9	
Northam Platinum	280	0.9	
Sappi	222	0.7	
Impala Platinum	217	0.7	
Positions less than 1%[1]	842	2.7	
Financials	**6 760**	**21.7**	**16.9**
Standard Bank	1 089	3.5	
Reinet	823	2.6	
Remgro	717	2.3	
FirstRand	679	2.2	
Nedbank	543	1.7	
Old Mutual	505	1.6	
Rand Merchant Investment[2]	402	1.3	
Investec	331	1.1	
Capitec	322	1.0	
Ninety One	226	0.7	
Positions less than 1%[1]	1 121	3.6	
Industrials	**9 115**	**29.2**	**46.7**
Naspers[2]	3 070	9.8	
British American Tobacco	1 677	5.4	
Woolworths	785	2.5	
Life Healthcare	540	1.7	
MultiChoice	463	1.5	
Super Group	288	0.9	
KAP Industrial Holdings	253	0.8	
Positions less than 1%[1]	2 038	6.5	
Other securities	**267**	**0.9**	
Zambezi Platinum	267	0.9	
Commodity-linked securities	**304**	**1.0**	
Positions less than 1%[1]	304	1.0	
Cash	**527**	**1.7**	
Africa ex-SA	**812**	**2.6**	
Equity funds	**812**	**2.6**	
Allan Gray Africa ex-SA Equity Fund	812	2.6	
Foreign ex-Africa	**9 441**	**30.2**	
Equity funds	**9 425**	**30.2**	
Orbis Global Equity Fund	5 572	17.9	
Orbis SICAV International Equity Fund[3]	2 352	7.5	
Allan Gray Frontier Markets Equity Fund Limited[3]	1 026	3.3	
Orbis SICAV Emerging Markets Equity Fund	475	1.5	
Cash	**16**	**0.1**	
Totals	**31 215**	**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	6.2	12.0	−5.8
2020 (to 30.09)	**−13.8**	**−2.5**	**−11.3**

Returns annualised to 30.09.2020



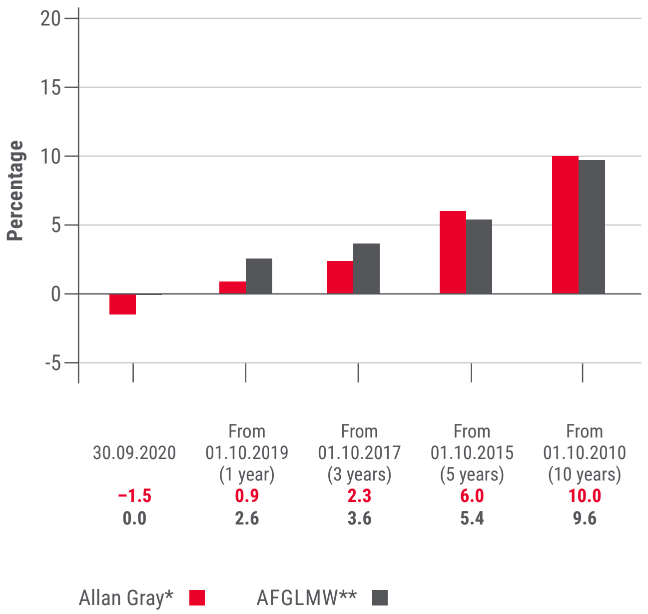
An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R194 525 795 by 30 September 2020. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R9 694 392. Returns are before fees.

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

Investment track record – balanced returns

Allan Gray Proprietary Limited global mandate total returns vs Alexander Forbes Global Large Manager Watch			
Period	**Allan Gray***	**AFGLMW****	**Out-/Under-performance**
1974	–	–	–
1975	–	–	–
1976	–	–	–
1977	–	–	–
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	−0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	−5.5
1992	1.2	7.6	−6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	−1.8	9.5	−11.3
1998	6.9	−1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	−3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	−6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	−0.6
2008	−1.1	−12.3	11.2
2009	15.6	20.3	−4.7
2010	11.7	14.5	−2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	−4.9
2013	25.0	23.3	1.7
2014	10.3	10.3	0.0
2015	12.8	6.9	5.9
2016	7.5	3.7	3.8
2017	11.9	11.5	0.4
2018	−1.4	−2.1	0.7
2019	6.5	10.9	−4.4
2020 (to 30.09)	**−1.5**	**0.0**	**−1.5**

Returns annualised to 30.09.2020



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R24 582 477 by 30 September 2020. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R5 580 771. 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 September 2020 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 30 September 2020 (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]	**31.2**	**01.10.1998**	**19.5** 13.8	**8.2** 7.6	**2.9** 1.5	**−2.0** −1.6	**−5.6** −2.1	**125.8** 73.0	**−24.3** −37.6
Allan Gray SA Equity Fund (AGDE) FTSE/JSE All Share Index including income	**2.1**	**13.03.2015**	**0.5** 3.9	**–** –	**1.4** 4.7	**−3.8** 2.4	**−9.6** 2.0	**17.2** 22.5	**−32.0** −18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) FTSE World Index	**20.8**	**01.04.2005**	**14.4** 14.6	**17.6** 19.4	**13.1** 15.2	**7.8** 15.8	**20.5** 22.5	**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]	**132.5** **1.2**	**01.10.1999** **01.02.2016**	**15.0** **4.2** 11.3/4.1	**9.0** **–** 8.1	**5.0** **–** 4.2	**1.3** **1.6** 2.4	**0.0** **0.5** 2.2	**46.1** **13.3** 41.9/13.7	**−14.2** **−13.4** −16.7/−10.3
Allan Gray-Orbis Global Fund of Funds (AGGF) 60% of the FTSE World Index and 40% of the J.P. Morgan GBI Global Bond Index	**13.2**	**03.02.2004**	**10.5** 12.1	**13.7** 16.4	**8.4** 12.6	**4.1** 14.8	**12.2** 21.5	**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%	**44.0**	**01.07.2000**	**11.2** 8.8	**7.9** 7.2	**6.2** 7.7	**3.6** 7.4	**0.7** 6.3	**23.3** 14.6	**−7.4** 6.2
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate of FirstRand Bank Limited	**1.0**	**01.10.2002**	**6.9** 6.3	**5.1** 5.0	**4.0** 5.6	**2.1** 5.3	**−7.1** 4.2	**18.1** 11.9	**−8.2** 4.1
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US$ bank deposits and euro bank deposits	**0.9**	**02.03.2010**	**6.7** 7.5	**8.1** 8.9	**1.9** 4.9	**−1.8** 8.1	**1.4** 15.3	**39.6** 35.6	**−12.4** −19.1
No equity exposure									
Allan Gray Bond Fund (AGBD) FTSE/JSE All Bond Index (Total return)	**5.0**	**01.10.2004**	**8.8** 8.4	**8.2** 7.6	**8.4** 7.6	**8.0** 7.3	**3.1** 3.6	**18.0** 21.2	**−2.6** −5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[3]	**26.8**	**03.07.2001**	**7.9** 7.8	**6.7** 6.4	**7.5** 7.1	**7.4** 6.9	**6.7** 6.2	**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 30 September 2020

	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%	0.09%	0.04%	0.12%	1.38%	0.10%	1.48%
Allan Gray SA Equity Fund	1.00%	−0.56%	0.01%	0.07%	0.52%	0.10%	0.62%
Allan Gray Balanced Fund	1.09%	0.02%	0.03%	0.11%	1.25%	0.09%	1.34%
Allan Gray Tax-Free Balanced Fund	1.36%	0.00%	0.05%	0.14%	1.55%	0.12%	1.67%
Allan Gray Stable Fund	1.08%	−0.19%	0.03%	0.08%	1.00%	0.09%	1.09%
Allan Gray Optimal Fund	1.00%	0.00%	0.02%	0.15%	1.17%	0.11%	1.28%
Allan Gray Bond Fund	0.25%	0.33%	0.01%	0.09%	0.68%	0.00%	0.68%
Allan Gray Money Market Fund	0.25%	0.00%	0.00%	0.04%	0.29%	0.00%	0.29%
Allan Gray-Orbis Global Equity Feeder Fund	1.49%	0.01%	0.05%	0.00%	1.55%	0.10%	1.65%
Allan Gray-Orbis Global Fund of Funds	1.44%	0.02%	0.06%	0.00%	1.52%	0.11%	1.63%
Allan Gray-Orbis Global Optimal Fund of Funds	0.99%	0.29%	0.07%	0.00%	1.35%	0.14%	1.49%

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 30 September 2020 (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**	**17.9** 14.0	**17.7** 19.3	**13.1** 15.1	**7.6** 15.6	**19.8** 21.5	**87.6** 54.2	**−47.5** −46.2
Orbis SICAV Japan Equity (Yen) Fund Tokyo Stock Price Index	**01.01.1998**	**14.6** 9.9	**17.8** 16.5	**12.1** 12.0	**7.9** 11.1	**11.7** 18.0	**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**	**13.8** 14.1	**12.9** 13.9	**9.2** 12.8	**5.1** 9.9	**14.6** 21.6	**58.6** 60.1	**−34.2** −39.7
Allan Gray Africa ex-SA Equity Fund (C class) Standard Bank Africa Total Return Index	**01.01.2012**	**9.5** 6.6	**–** –	**2.6** 7.5	**−0.3** 10.0	**−2.4** 15.8	**65.6** 33.6	**−24.3** −29.4
Allan Gray Australia Equity Fund S&P/ASX 300 Accumulation Index	**04.05.2006**	**13.1** 12.4	**13.6** 13.3	**12.6** 12.0	**2.2** 9.2	**−12.9** 5.3	**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** 16.4	**–** –	**8.7** 12.2	**4.1** 14.6	**11.7** 20.6	**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**	**7.9** 13.0	**–** –	**–** –	**5.1** 12.2	**5.7** 15.7	**16.2** 25.1	**−5.3** −5.8
Low net equity exposure								
Allan Gray Australia Stable Fund Reserve Bank of Australia cash rate	**01.07.2011**	**11.5** 7.8	**–** –	**9.8** 5.6	**6.1** 5.3	**13.0** 17.5	**32.7** 28.8	**−7.4** −12.6
Very low net equity exposure								
Orbis Optimal SA Fund (US$) US$ Bank deposits	**01.01.2005**	**8.8** 8.8	**9.0** 10.0	**2.6** 5.3	**−0.6** 9.2	**0.5** 11.4	**48.6** 57.9	**−15.7** −25.6
Orbis Optimal SA Fund (Euro) Euro Bank deposits	**01.01.2005**	**7.1** 7.1	**6.5** 7.5	**1.4** 4.5	**−3.2** 6.6	**5.2** 17.8	**44.1** 40.2	**−19.3** −20.9
No equity exposure								
Allan Gray Africa ex-SA Bond Fund (C class) J.P. Morgan GBI EM Global Diversified Index	**27.03.2013**	**15.1** 7.1	**–** –	**15.6** 8.8	**13.1** 7.5	**7.7** 8.4	**28.9** 24.7	**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.

Information and content

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

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Benchmarks

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

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

Tax note

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

About the paper

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