

**Transforming our business**

2020



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## Foreword by the chief operating officer

South Africa has emerged from a broken past, but in many respects the remnants of apartheid are still apparent. Wealth, education and opportunities continue to be demarcated on racial lines and progress in changing these and creating greater equality remains slow.

Without change there is a risk that the injustices of the past perpetuate, albeit in a different form, making it difficult for South Africa to move forward and prosper. Allan Gray and the Gray family aim to play an active role in redressing issues of the past and creating a future for South Africa.

Transformation within our organisation is a priority. We strive for a company where every person has an equal opportunity to succeed and where diversity is represented across all levels. Our commitment is documented and guided by our Transformation Commitment and Transformation Plan, through which we hold ourselves to account.

Our Broad-Based Black Economic Empowerment (B-BBEE) scorecard offers an objective and standardised way to measure transformation, but it is not the driving force behind our activities. In fact, many of our social initiatives, which are described in detail in this report, fall outside of the ambit of the scorecard. The driving force behind transformation is the belief that it is the right thing to do, not only for the present, but for the future.

This report offers a full perspective on how the business addresses transformation and the contribution we are making towards upliftment of our employees, their families, the communities in which we operate and the economy more broadly.

Kind regards



Rob Formby  
Chief operating officer

### Important notes

Throughout this report, Black means qualifying African, Coloured, and Indian citizens of South Africa as defined under the Amended Codes of Good Practice on Broad-Based Black Economic Empowerment.

There are two reporting periods used within the report - the financial year end period (29 February 2020) and the latest available period (30 June 2020). These dates are indicated in each section.

## Social initiatives

Allan Gray aims to play an active role in addressing the past and transforming our country for the future. We do this through a number of social initiatives, setting an example in how we operate as a business and servicing a diverse range of clients. This report outlines what we do and what has been achieved to date.

Making a positive contribution for the common good is important to Allan Gray, and much of the business is structured around the foundations and trusts developed by Mr Allan Gray to ensure that profits are devoted to philanthropy.

### Foundations and trusts

Allan and Gill Gray launched the Allan and Gill Gray Charitable Trust in 1979. At the heart of this was the intention to make a meaningful impact on employees, their families and their communities. This was not seen as giving back, but rather a symbiotic relationship between shareholders, clients, employees and society at large. As a group, Allan Gray identifies with the central tenet of the various philanthropic pursuits undertaken – which include fostering entrepreneurs, who will create jobs and contribute to addressing high unemployment and poverty.

There are numerous initiatives across the Allan Gray Orbis group, some of which are described below:

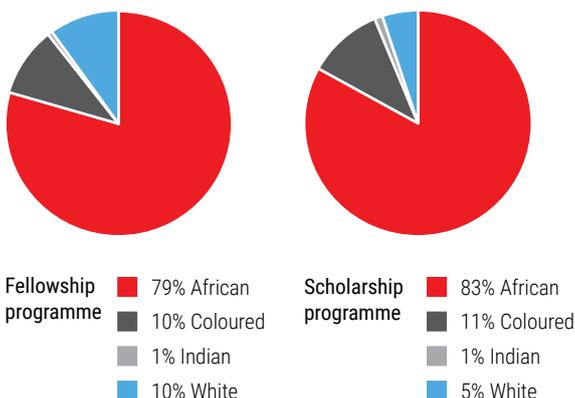
#### Allan Gray Orbis Foundation

The Allan Gray Orbis Foundation (the Foundation) was established in 2005 as part of Mr Gray's vision of making a sustainable, long-term contribution to Southern Africa by nurturing the emerging entrepreneurial potential from the region. His own entrepreneurial journey fostered his view that entrepreneurs can make a wide-reaching and significant economic and social impact. The Foundation now operates in South Africa, Namibia, Botswana and Eswatini.

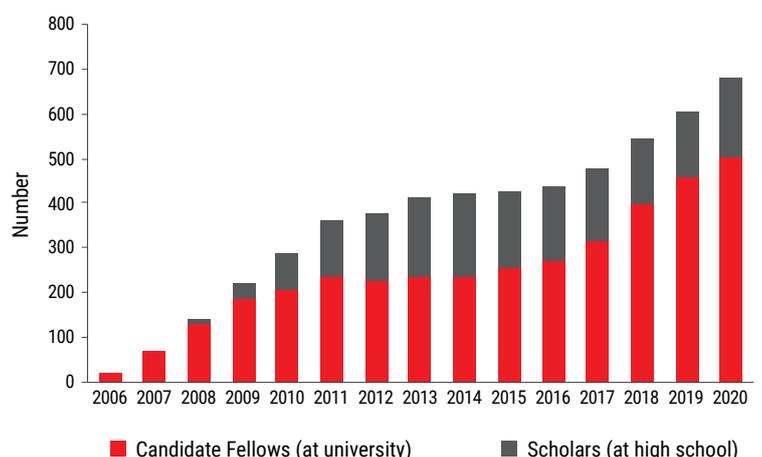
The Foundation is funded by a donation of 5% of taxable profits from Allan Gray. As profits may fluctuate, to ensure continuity and support, the commitment is reinforced by an endowment trust capitalised with over R1 billion, which was donated by Mr Gray. The Foundation provides successful candidates (Allan Gray Fellows) full scholarships, including tuition and residence fees, to attend university to pursue a degree in business or any other relevant field. There is a focus on developing entrepreneurial skills and once graduated, the Allan Gray Fellows are encouraged to become entrepreneurs. In addition, some are also afforded the opportunity to pursue a postgraduate degree at a local university or top-rated international institution, frequently after acquiring relevant working experience. Learners identified at an earlier age (Scholars) are also funded to increase the pool of students eligible to become Fellows.

The latest available demographics of the South African students (i.e. excluding individuals in Botswana, Namibia and Eswatini) are shown in **Graph 1**. Meanwhile, **Graph 2** shows that the total number of individuals supported at high school and university has grown steadily over time.

**Graph 1: Current demographics**



**Graph 2: Number of individuals supported by the Foundation\***



\*As at 30 June 2020

### Allan Gray Orbis Foundation Endowment

The Allan Gray Orbis Foundation Endowment came about as a result of a donation by Mr Gray. The Endowment's original purpose was to provide financial support to the Allan Gray Orbis Foundation, if required. However, as the Foundation's financial position became more secure, it evolved its reach into key areas of education and employment. Within each focus area the key programmes are shown below:

- Education
  - Jakes Gerwel Fellowship: An independent and aspirational initiative committed to creating a pipeline of future, high-impact teachers
  - Funda Wande: A world-class multimedia course to train foundation phase (Gr R-3) teachers on how to teach reading
- Employment
  - 10KJ: A partnership with 10 public benefit organisations that provide support for work seekers with the intention of creating 10 000 jobs

### E Squared

E Squared (together with sister trusts, the Allan Gray Orbis Foundation and Allan Gray Orbis Foundation Endowment) aims to foster "entrepreneurship for the common good", with a focus on creating successful entrepreneurs who in turn create employment opportunities.

E Squared was established in 2007, when it purchased shares in Allan Gray through a loan guaranteed by the Allan Gray business. E Squared is a 17.8% owner of Allan Gray.

The long-term objective of E Squared is to extend subsidised financing to predominantly Black entrepreneurs. These entrepreneurs are either graduates of the Allan Gray Fellowship Programme or social entrepreneurs, who are sought out by E Squared for their leadership and creative initiative.

### Allan Gray Staff Scheme

The Allan Gray Staff Scheme was established in 2009 to facilitate empowerment within the organisation, to increase Black ownership (see page 8), and to incentivise all employees to contribute to and share in the growth and profitability of the business. A 14% equity stake was reserved for current and future staff, of which 70% is earmarked for current and future Black staff. The scheme is an important aspect of Allan Gray's efforts to contribute meaningfully to transformation within our own employee base.

### Allan & Gill Gray Foundation

The Allan & Gill Gray Foundation, which is a continuation of the philanthropic pursuits of the Gray family, was established in 2015. A controlling interest in Allan Gray is held by the Allan & Gill Gray Foundation, which has no owners in the traditional sense and is instead designed to exist in perpetuity and to serve two equally important purposes: (1) to promote the commercial success, continuity and independence of the Allan Gray and Orbis groups, and (2) to ensure that the distributable profits the Allan & Gill Gray Foundation receives from these firms are ultimately devoted exclusively to philanthropy.

Importantly, the Allan & Gill Gray Foundation does not directly manage Allan Gray, but rather vests control of the firm in Orbis Allan Gray Limited, a holding company whose board consists of a majority of present executives and includes non-executive directors. With perpetual ownership in strong hands, the management of Allan Gray can focus entirely on adding value for clients for generations to come.

The Allan & Gill Gray Foundation's philanthropy is practised by Allan & Gill Gray Philanthropies, which pursues projects aimed at promoting public benefit or social improvement. One of the more recent projects encourages staff to vote for funding themes to benefit charitable organisations in regions where they work and live.

While there are numerous projects underway, it is still quite early on in the process. Given the successes of the various other philanthropic pursuits the Allan Gray and Orbis businesses participate in, the impact of the philanthropies is expected to be meaningful.

### Other corporate social initiatives

In addition, staff are encouraged to bring initiatives they are close to into the business, following which we match any benefit that is supported internally. A list of the initiatives we have supported is available on request.

## Implementing transformation

The Social and Ethics Committee (SEC) of Allan Gray is the board committee tasked with addressing social responsibility within the business, as well as ethical application within the workplace. The committee is accountable to the board as well as to shareholders.

Transformation is ultimately the responsibility of the board and its appointed agents. As a significant social and ethical issue, it falls within the mandate of the SEC. To effect its mandate, the SEC relies on stakeholders within the organisation, including:

- The chief operating officer
- People operations
- The Allan Gray Employment Equity Consultative Forum
- Individuals who manage the B-BBEE scorecard
- Business unit heads

The roles these stakeholders play are described in detail below.

### The chief operating officer

As the primary agent appointed by the board, the chief operating officer (COO) carries overall responsibility for implementing the transformation mandate set by the board.

The COO led the adoption of the Allan Gray Transformation Commitment, as well as our Transformation Plan that runs as a contract, and includes practical steps to achieve this commitment. Our Transformation Commitment includes:

- Transformation as a business and ethical imperative
- Inclusive culture and environment
- Promotions and hiring based on potential
- Accountability
- Enabling empowerment

Our Transformation Plan is aligned to our Transformation Commitment with explicit focus on:

- Measuring and managing progress
- Recruitment and promotion
- Employee development
- Performance management
- Succession planning
- Awareness and transparency

Each of these focus areas aims to achieve a better transformed organisation.

### People operations

People operations deals with all aspects related to people. People operations is committed to addressing the findings related to employment equity in the annual Allan Gray Employee Engagement Survey, including engagement by gender and diversity. The focus is on the responses to the following five statements:

- Leaders embrace and promote diversity and transformation
- The organisation embraces diversity as a sourcing and acquisition strategy
- The organisation develops a diverse pipeline for leadership positions
- In my department, people are treated fairly regardless of background, such as gender, race, education, religion, etc.
- In the organisation, people are treated fairly regardless of background, such as gender, race, education, religion, etc.

People operations is satisfied that the outcomes of these surveys are moving in the right direction. Where there are challenges to continued progress, people operations seeks to better understand the underlying causes and report back to the COO and SEC.

### The Allan Gray Employment Equity Consultative Forum

The Allan Gray Employment Equity Consultative Forum (EECF) is tasked with monitoring and furthering employment equity initiatives within the organisation, as required by legislation. The EECF reports to the SEC on a regular basis and the forum is supported by the COO.

### Individuals who manage the B-BBEE scorecard

Individuals within the business are tasked with producing the B-BBEE scorecard each year. This responsibility includes recommending remedial action in areas of weakness in the scorecard to the SEC and COO.

Allan Gray is a Level 2 contributor and remains committed to continuously improving its contributor status. The transformation impact report for the financial year ending 29 February 2020 is on page 8 of this report.

### Business unit heads

All business unit heads have transformation as a measurement category on their scorecard for performance evaluation. This process builds accountability and ensures that the Transformation Commitment flows from the top to the bottom of the organisation.

## Transforming our client base

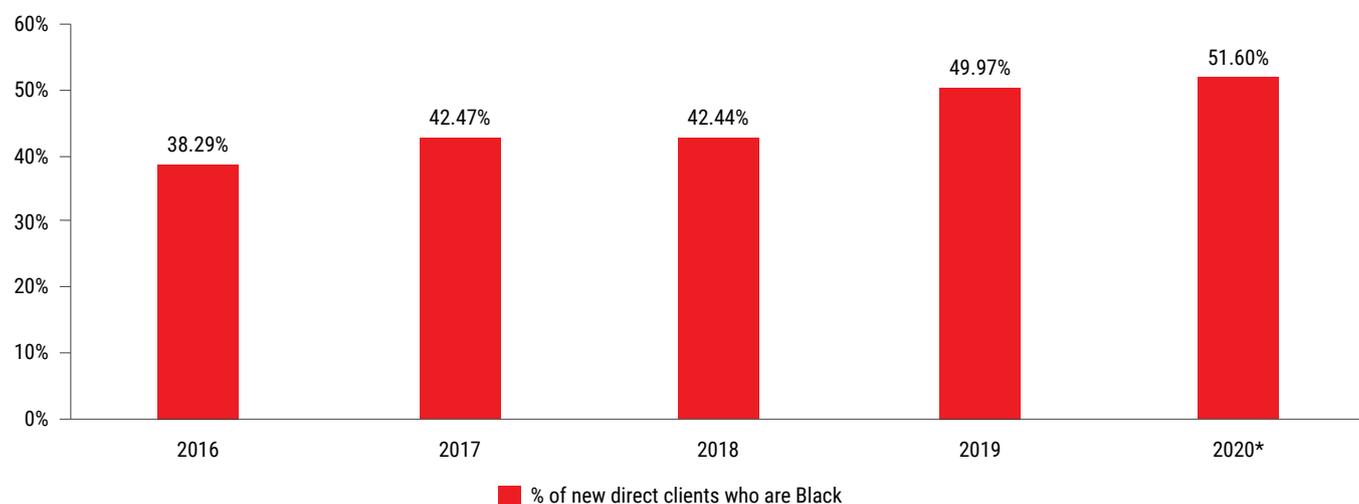
Our Strategic Markets team promotes access to financial services and education around investment products and the benefits of investing to Black South Africans. This team supports our business imperative of transforming our retail client base to better represent the demographics of the country, within our target market. The team also supports Black independent financial advisers who are trying to build sustainable investment practices. Our approach aims to build advocacy and deepen relationships to allow us to better understand and serve this market. Engagements over time are shown in Table 1.

Table 1: Strategic Markets team – engagements over time

Number of people seen by the Strategic Markets team	2015	2016	2017	2018	2019	2020*
Number of people	5 913	6 050	6 942	6 177	7 328	1 229
Number of presentations	130	145	180	168	205	43

These efforts have had a noticeable impact on the proportion of new direct clients that are from this demographic. As shown in Graph 3, we have managed to grow the number of direct Black clients to 51.6% (as at June 2020) up from 38.3% in 2016.

Graph 3: Black client base growing

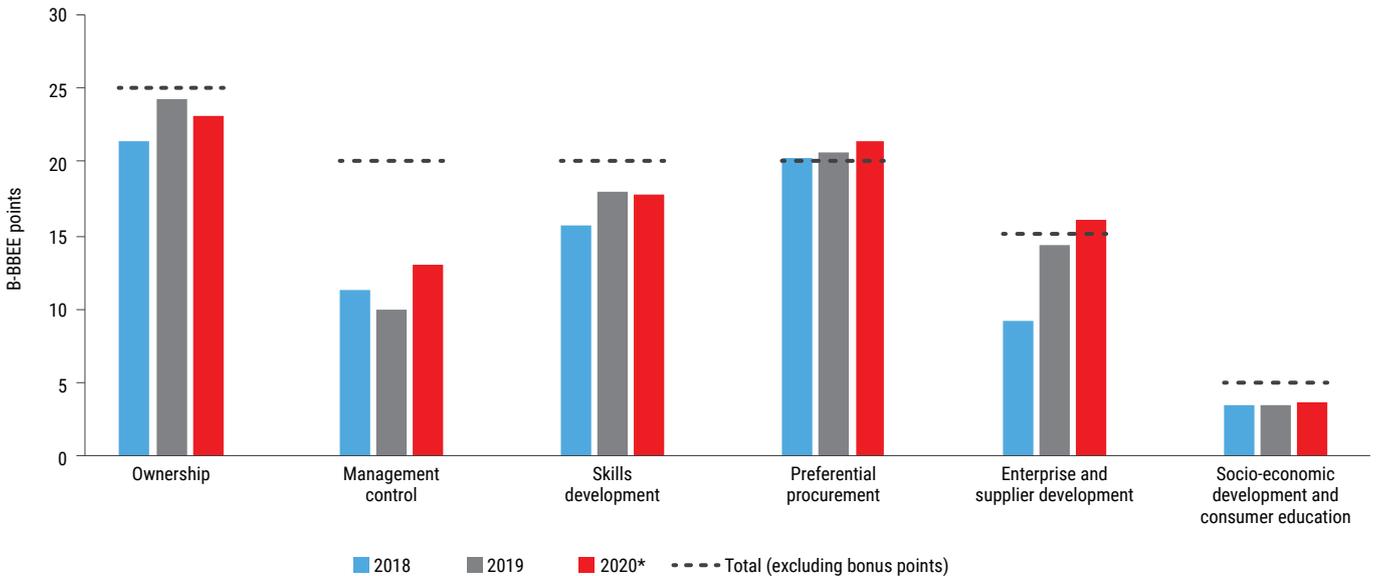


\*As at June 2020

**Transformation impact report**

Allan Gray is measured against the Amended Financial Services Sector Code ("Amended FSC"), which reflects the B-BBEE principles that are agreed upon by stakeholders as they pertain to the financial sector. As reflected in **Graph 4**, since the initial measurement under the Amended FSC, Allan Gray has improved across all elements of the scorecard. While it is pleasing to have improved, further progress is required.

**Graph 4: Improvement across various areas of the B-BBEE scorecard**



\*As at 29 February 2020

From a Black ownership perspective, Allan Gray’s measures for the period are shown in **Table 2**.

**Table 2: Black ownership measures**

	Flow-through	Modified flow-through
Voting rights of Black people	24.84%	31.80%
Voting rights of Black women	10.04%	N/A
Economic interest of Black people	20.42%	24.90%
Economic interest of Black women	7.40%	N/A

In each section below, we have highlighted some key drivers of the outcomes:

**Equity ownership**

**Allan Gray Staff Share Scheme**

The Allan Gray Staff Share Scheme (the Scheme) was implemented in 2009 with a clear aim of promoting economic inclusion of Black employees. As discussed on page 5, the Scheme reserves 14% of shares, of which 70% is earmarked for current and future Black staff.

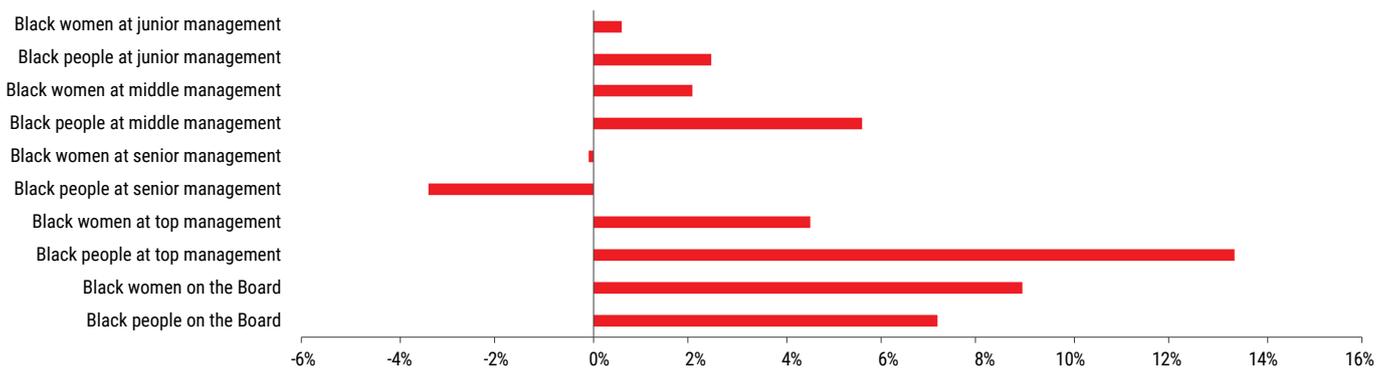
**E Squared**

Over 85% of E Squared’s beneficiaries over the recent financial year were Black people.

**Management control**

Management control measures the effective control of entities by Black people at board and top management level, as well as representation of staff at senior, middle and junior management level, as well as disabled staff. While we have seen some improvements, as shown in **Graph 5**, more improvements are necessary, especially at the senior and executive levels.

**Graph 5: Percentage point changes in management control from 2018 – 2020**



As discussed on page 6, the COO has launched a Transformation Plan to address the challenges in this space. Allan Gray also offers a graduate analyst programme, which aims for 70% Black participation, with the intention of placing the individuals in various business units within Allan Gray that have previously struggled to attract and retain Black candidates.

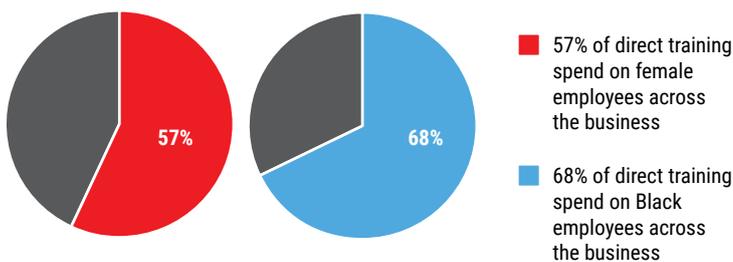
**The investment team**

As an asset manager, transformation within our investment team is a critical component of overall transformation. The investment team has shown both intention and progress regarding transformation. The full team is now 46% Black, of which 73% of the analysts are Black and 23% of the portfolio managers are Black. This is an improvement from 15% of the full team, 30% of the analysts and 0% of the portfolio managers being Black five years ago. In terms of gender, 33% of the total investment team are female vs 14% five years ago. Meanwhile, 23% of portfolio managers are female vs 0% five years ago and 45% of analysts are female versus 25% five years ago. We still have room to progress further and will continue to work to see this progress.

**Skills development**

Skills development measures an entity’s expenditure on development of Black people. The majority of our skills development expenditure on employees is on Black people and females, as shown in **Graph 6**.

**Graph 6: Direct training spend on Black employees and females (%)\***



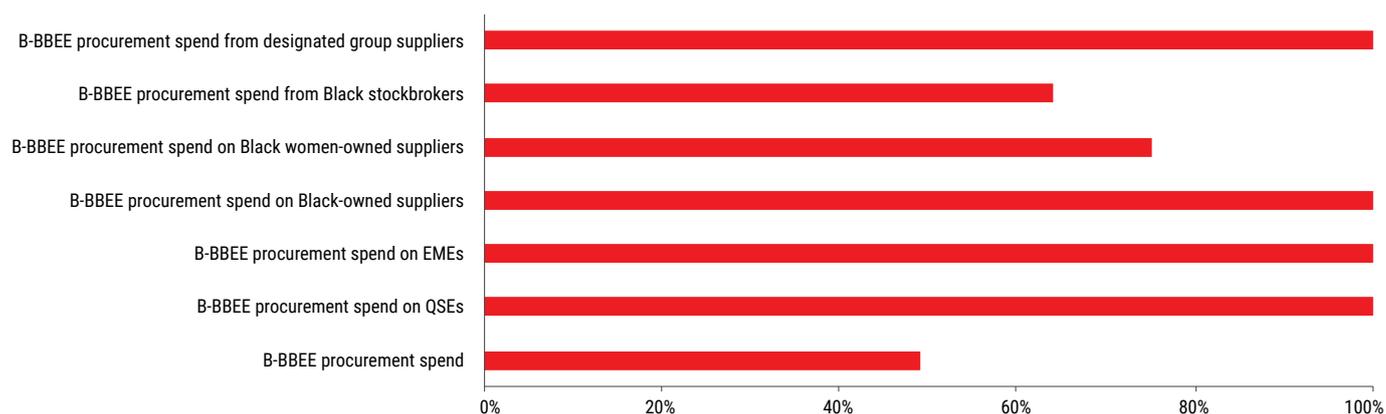
\*As at 29 February 2020

Additionally, 75% of learnerships, apprenticeships and internships over the period were undertaken by Black people.

## Preferential procurement

Procurement measures the effective spread of an entity's spend and whether it is directed towards small- and medium-sized enterprises, Black-owned and Black women-owned businesses. Graph 7 shows the percentage achieved relative to the B-BBEE targets within Preferential Procurement.

Graph 7: Percentage achieved relative to the B-BBEE targets within Preferential Procurement\*



\*As at 29 February 2020

As an example of improvements made over recent years, towards the end of 2017, we reviewed and made changes to our brokerage allocation, which resulted in higher allocations being made to Black stockbrokers than was historically the case. We are targeting a minimum of 25% of our overall local brokerage towards Black people (51% ownership) and Black women (30% ownership) going forward. We have surpassed the minimum internal targets since the implementation thereof. Our minimum target of 25% is notably above the B-BBEE scorecard compliance target of 5% for Black stockbrokers. The criteria for inclusion of Black stockbrokers focus on Black ownership and Black women ownership, as well as no cost impact on our client. We believe the additional brokerage spent through the selected small Black stockbrokers allows them to achieve the necessary scale to compete.

## Enterprise and supplier development

Enterprise and supplier development (ESD) measures an enterprise's effort at developing small and medium Black companies that are both in and outside of the company's supply chain.

We have underwritten enterprise development for many years, through our involvement with E Squared, as discussed on page 5.

We are committed to the growth and development of the financial services industry in South Africa. We are actively involved with the Association for Savings and Investment South Africa (ASISA) and engage with the government and the regulator through ASISA. We have representation on ASISA's board and support their growth and development programmes.

We support the ASISA Enterprise and Supplier Development Programme and are also a key sponsor of their IFA Internship Programme. We have contributed to the IFA Internship Programme since its inception in 2016. This programme aims to provide business development support to select independent financial advisers (IFAs) and equip them with practical management toolkits, skills and knowledge to grow their businesses, and therefore bolster the industry's distribution capability. Furthermore, the programme provides high potential, early career Black individuals with the opportunity to participate in an internship with a selected top performing IFA in a structured programme.

During 2018, in partnership predominantly with a small Black-owned entity, we established an equity venture which seeks to provide private equity and venture capital management services. Since inception of this joint venture, it has provided financial support (either via equity or debt) to financial services, healthcare and technology companies.

## Socio-economic development and consumer education

The socio-economic development and sector-specific contributions measure the extent to which entities carry out initiatives that contribute towards socio-economic development or sector-specific initiatives that promote access to the economy for Black people. For asset management, the sector-specific initiatives cover consumer education, which we report on here.

The Allan Gray Orbis Foundation is the strongest contributor to the socio-economic development element. Please refer to page 4 for additional details around the impact that the Foundation is making.

Allan Gray has committed to paying the school fees for children of all employees who earn below a certain threshold. To 29 February 2020:

- More than 10% of the staff base was granted educational funding for their children
- More than R4 million of educational spend was disbursed over the financial year
- Over 70% of recipients were female beneficiaries

We are committed to improving financial literacy in the country and have a team dedicated to promoting access to financial services and investment education. Their efforts include informal presentations and information sessions for small groups of young professionals and other interested parties. Consumer education is an element where the organisation is building up spend. We aim to educate potential direct Black clients on the merits of investing over the long term (seeing over 7 000 individuals in 2019 – see Transforming our client base on page 7). We also aim to assist Black financial advisers in building sustainable investment practices. This is in addition to regular consumer education slots on various radio stations.

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