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Quarterly Commentary
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ALLAN GRAY

EXPANDING OUR RANGE WITH THE ALLAN GRAY INTEREST AND INCOME FUNDS
PAGE 04

CONSUMER STAPLES: SHOULD THEY BE PORTFOLIO STAPLES?
PAGE 12

Putting heads in beds: Checking in on the hospitality sector

PAGE 08

TRUSTLESS, RUSTLESS, SHINY AND TINY: THE INVESTMENT CASE FOR GOLD
PAGE 17

TAKING STOCK OF TWO-POT: A TRUSTEE'S PERSPECTIVE
PAGE 20

WHAT YOU NEED TO KNOW ABOUT TWO-POT WITHDRAWALS AND TAX
PAGE 24

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CONTENTS

COMMENTS FROM THE CHIEF OPERATING OFFICER
Mahesh Cooper — 2

EXPANDING OUR RANGE WITH
THE ALLAN GRAY INTEREST AND INCOME FUNDS
Vuyo Mroxiso — 4

PUTTING HEADS IN BEDS:
CHECKING IN ON THE HOSPITALITY SECTOR
Varshan Maharaj — 8

CONSUMER STAPLES:
SHOULD THEY BE PORTFOLIO STAPLES?
Kamal Govan — 12

TRUSTLESS, RUSTLESS, SHINY AND TINY:
THE INVESTMENT CASE FOR GOLD
Alec Cutler — 17

TAKING STOCK OF TWO-POT:
A TRUSTEE'S PERSPECTIVE
Richard Carter — 20

WHAT YOU NEED TO KNOW ABOUT
TWO-POT WITHDRAWALS AND TAX
Carla Rossouw — 24

ALLAN GRAY BALANCED, STABLE AND
EQUITY FUND PORTFOLIOS — 28

INVESTMENT TRACK RECORD — 30

PERFORMANCE AND TOTAL EXPENSE RATIOS
AND TRANSACTION COSTS — 32

IMPORTANT INFORMATION FOR INVESTORS — 38

COMMENTS FROM THE CHIEF OPERATING OFFICER

Mahesh Cooper

… we will continue to follow our tried-and-tested investment philosophy to find the best long-term investment opportunities for you, our clients.

As I write this, we are around 140 days into the government of national unity (GNU), we have had an extended period of no loadshedding, and a 25-basis-point interest rate cut indicates a turn in the rate-hiking cycle. Sentiment is distinctly more optimistic than it has been for a while – if cautiously so. The markets, the rand and consumer behaviour are reflecting this shift in mood and, for the first time in years, it seems that business and government are committed to working together to maintain the positive trajectory.

But it is not time to be complacent. With growth barely moving the needle and unemployment out of control, we have lots of rebuilding to do. There is a long, hard road ahead. We need a strong focus on the things that matter, as well as rebuilding credibility as an investment destination with foreign investors.

What does this mean for your investments?

Local stocks that are influenced by the South African economy have rallied of late, suggesting investors should now be approaching them with care, as portfolio manager Jithen Pillay explains in our latest Allan Gray Equity Fund commentary. He notes that good equity returns tend to follow periods when expectations are low and outcomes are better than anticipated. Expectations are currently elevated versus recent history, which warrants caution.

Our portfolio managers aim to generate absolute returns while minimising the risk of capital loss through careful stock selection. Our local equity exposure is generally favouring rand-hedged local shares, particularly those with relatively defensive economics, such as British American Tobacco and Anheuser-Busch InBev. Our Equity Fund also has a healthy allocation to precious metal miners, which tend to outperform in times of global uncertainty. Our local stock exposure is skewed to those companies with self-help levers to grow their earnings, even if the South African economy is weaker than we would have hoped.

Our selection of investment articles this quarter illustrates some of these points. I would also highly recommend listening to our latest podcast, which expands on the local theme, focusing on the retail sector. You can access

The Allan Gray Podcast via our website or your favourite podcasting platform.

The investment case for hospitality and consumer stocks

In our quest to invest in undervalued businesses for our clients, we have been attracted to companies in the hospitality sector and in consumer staples. Varshan Maharaj delves into some of the opportunities in the hospitality sector, looking at both the different business models and locations. The appetite for travel and experiences has picked up since COVID-19 and it is fascinating to see how this is playing out from an investment perspective.

Moving from luxuries to necessities, Kamal Govan investigates whether there is any potential to awaken investor interest in the generally sleepy consumer staples sector. It is amazing how brands that have dominated markets for generations are often not valued by investors. It is, of course, all about the price you pay: Good businesses (and brands) don't automatically make good investments, but sometimes contrarian investors find opportunities while others are distracted by the darlings of the day.

All that glitters

I noted earlier that precious metal miners tend to have their moment in the spotlight in times of uncertainty. Given the ongoing global volatility, it should not be surprising that gold-related securities are among the top holdings of the multi-asset class portfolios of our offshore partner, Orbis. Alec Cutler elaborates on how Orbis thinks about an asset that he characterises as "trustless, rustless, shiny and tiny".

Expanding our fund range

At Allan Gray, we aim to keep our fund range focused. We only introduce new offerings after very careful consideration, and when we believe we can do well for our clients and that the additions will better help them meet their goals and objectives.

I am pleased to let you know that we have recently introduced the Allan Gray Interest Fund and the Allan Gray Income Fund. The addition of these funds broadens our range, providing you with a more comprehensive selection of lower-risk investment options. Vuyo Mroxiso describes the new funds, how they fit into our range and how they may meet your needs.

Two-pot: Taking stock

Our previous Quarterly Commentary was released a few weeks before the two-pot retirement system went live. Two months in and, according to various reports in the media, more than one million members have withdrawn more than R21bn. This includes just over 11 000 of our clients.

In his capacity as a trustee of our retirement funds, Richard Carter discusses some of the concerns that the trustees have been grappling with in the background and touches on some of their ongoing challenges.

While the two-pot system allows you to withdraw from your savings component once per tax year (subject to certain requirements), we continue to caution that this option should only be used for genuine emergencies. To help understand the complexities and trade-offs of the two-pot system, we launched a two-pot information hub on our website, which brings together all the articles we have written on the subject, including FAQs, to make it easier to understand and navigate.

As a reminder, your withdrawals are subject to tax at your marginal (highest) tax rate. It remains very important for you as a member to understand the tax implications of your withdrawal requests and to ensure you disclose your correct income to the South African Revenue Service so that you are taxed correctly. In this quarter's Investing Tutorial, Carla Rossouw homes in on the tax implications of your two-pot withdrawals and your obligations as a member.

Looking forward

It is about 60 days until the end of the year, and the Christmas decorations are already decking the malls. In the absence of a crystal ball, I can't predict with any accuracy where the rand or markets will be when 2024 closes out. I can't foresee what policies may have been enacted by our newly formed GNU. I have no idea how many more two-pot withdrawal applications will be approved. What I can say with certainty, however, is that we will continue to follow our tried-and-tested investment philosophy to find the best long-term investment opportunities for you, our clients.

Thank you for your ongoing support.

Kind regards

Mahesh Cooper

EXPANDING OUR RANGE WITH THE ALLAN GRAY INTEREST AND INCOME FUNDS

Vuyo Mroxiso

We believe our two new funds have an essential role to play in an investor's toolkit …

We have recently introduced two new funds to our offering – the Allan Gray Interest Fund and Allan Gray Income Fund. The addition of these funds broadens our range, providing you with a more comprehensive selection of lower-risk investment options. Vuyo Mroxiso describes the new funds, how they fit into our range and how they may meet your needs.

At Allan Gray, we aim to keep our fund range focused. We only introduce new offerings after careful consideration, and when we believe the additions will better help you meet your goals and objectives. We believe our two new funds have an essential role to play in an investor's toolkit and are good options for risk-averse investors to consider. They are explained in more detail below.

Introducing the Allan Gray Interest Fund

What is the goal of our Interest Fund?

We have added the Allan Gray Interest Fund (Interest Fund) to our core fund range. This fund's goal is to generate higher returns than bank deposits and traditional money market funds while maintaining capital stability and low volatility.

The Interest Fund's benchmark is the Alexander Forbes Short-term Fixed Interest (STeFI) Composite Index. The Interest Fund's returns are likely to be less volatile than those of traditional income and bond funds, but more volatile than those of money market funds.

Who is the Interest Fund suitable for?

Our Interest Fund is suitable for you if:

- You are risk-averse and want to protect your capital
- You require monthly income distributions
- You want to invest for only six months to one year

What do we invest in to achieve the Interest Fund's goal?

To achieve the Interest Fund's goal, we invest in a mix of South African interest-bearing securities issued by the government, parastatals, corporates and banks. We take a cautious approach to credit risk (the risk that a borrower will fail to meet its repayment obligations), liquidity risk (the risk that an asset cannot be bought or sold quickly enough) and duration risk (the risk that changes in interest rates will either increase or decrease the market value of

a debt instrument). We choose assets for the Interest Fund based on our analysis of and outlook on interest rates, inflation and the resulting South African Reserve Bank (SARB) policy response.

What is the management fee of the Interest Fund?

The Interest Fund charges a fixed management fee of 0.65% per year. This includes our administration fees, which are currently set at 0.20% per year (excluding VAT).

Introducing the Allan Gray Income Fund

What is the goal of our Income Fund?

We have added the Allan Gray Income Fund (Income Fund) to our selection of specialist funds. This fund's goal is to generate income and produce higher returns than traditional money market funds while preserving capital and minimising the risk of loss over any one- to two-year period. The Income Fund's benchmark is the Alexander Forbes Short-term Fixed Interest (STeFI) Composite Index. The Income Fund's returns are likely to be less volatile than those of a traditional bond fund.

Who is the Income Fund suitable for?

Our Income Fund is suitable for you if:

- You are risk-averse and want to protect your capital
- You want a unit trust that provides you with an income
- You are investing for at least one to two years

What do we invest in to achieve the Income Fund's goal?

To achieve the Income Fund's goal, we primarily invest in South African interest-bearing securities, with the portfolio having limited exposure to offshore interest-bearing securities. We take a conservative approach to credit risk, liquidity risk and duration risk, and avoid excessively structured and opaque instruments.

While the Income Fund can have limited exposure to equities and property, we expect this to occur infrequently and to typically coincide with unusual or extreme points in the valuation cycle. We choose assets for the Income Fund based on our analysis of and outlook on interest rates, inflation and the resulting SARB policy response.

What is the management fee of the Income Fund?

The Income Fund charges a fixed management fee of 0.75% per year. This includes our administration fees, which are currently set at 0.20% per year (excluding VAT).

Other potential uses of the new funds

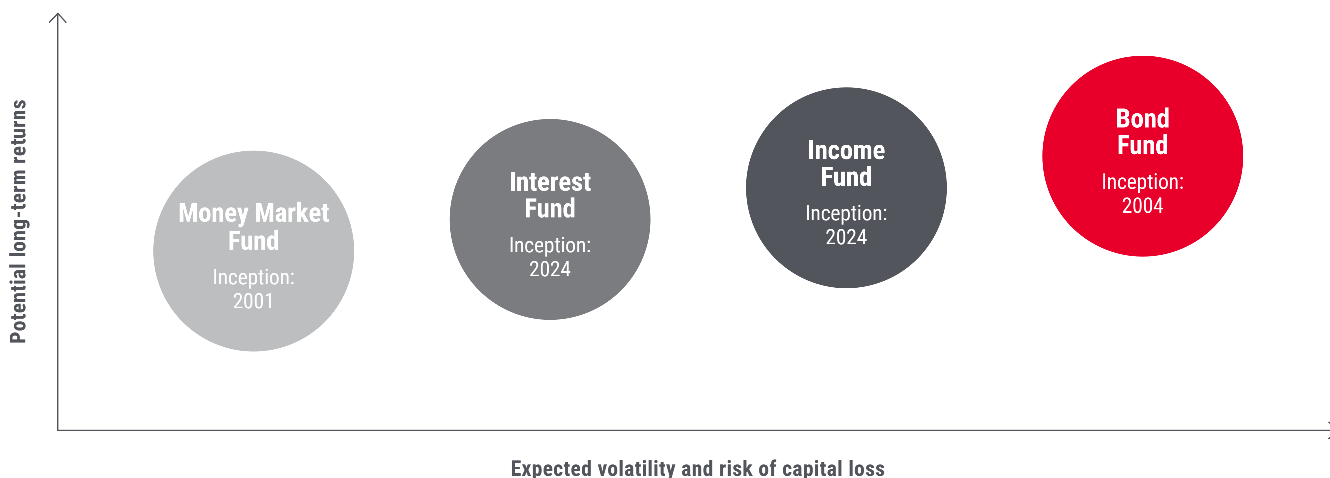
Some investors choose to adopt a "bucketing" approach in managing their retirement assets, i.e. they use different portions of their portfolios to fulfil different objectives. If you are seeking income-generating funds for the short- to medium-term liquidity component of your retirement income portfolio, these new funds may be useful to you. They could also be considered for other short-term needs, such as an emergency fund.

As always, it is advisable to assess whether the funds will meet your needs with the help of an independent financial adviser.

Where do the new funds fit into our range?

Graph 1 shows where these funds fit into our fixed income offering. The Allan Gray Money Market Fund

Graph 1: Our fixed income offering on the risk-return spectrum



This graph is for illustrative purposes only.
Source: Allan Gray research

(Money Market Fund) is our lowest-risk fund, providing exposure to short-dated and highly liquid instruments.

We expect the Interest Fund to generate returns that are higher than those of our Money Market Fund, and only slightly more volatile. This is because our Interest Fund typically does not take on materially greater credit risk than our Money Market Fund, but rather lends to similar or the same entities for slightly longer periods (i.e. it has less restrictive maturity and duration limits) in pursuit of enhanced returns. For clients with an investment horizon of up to one year, we therefore believe the Interest Fund is a better alternative than traditional money market funds.

While the Interest Fund has a more flexible mandate than the Money Market Fund, the Income Fund, in turn, has more flexibility than the Interest Fund: The Income Fund has no prescribed maturity or duration limits and can invest in offshore interest-bearing securities when these assets offer a more appropriate balance of risk and reward.

We manage the Income Fund with a relatively lower risk appetite than traditional bond funds. As such, we typically expect the Income Fund to sit higher up on the risk-return spectrum than the Interest Fund, but lower than the Bond Fund.

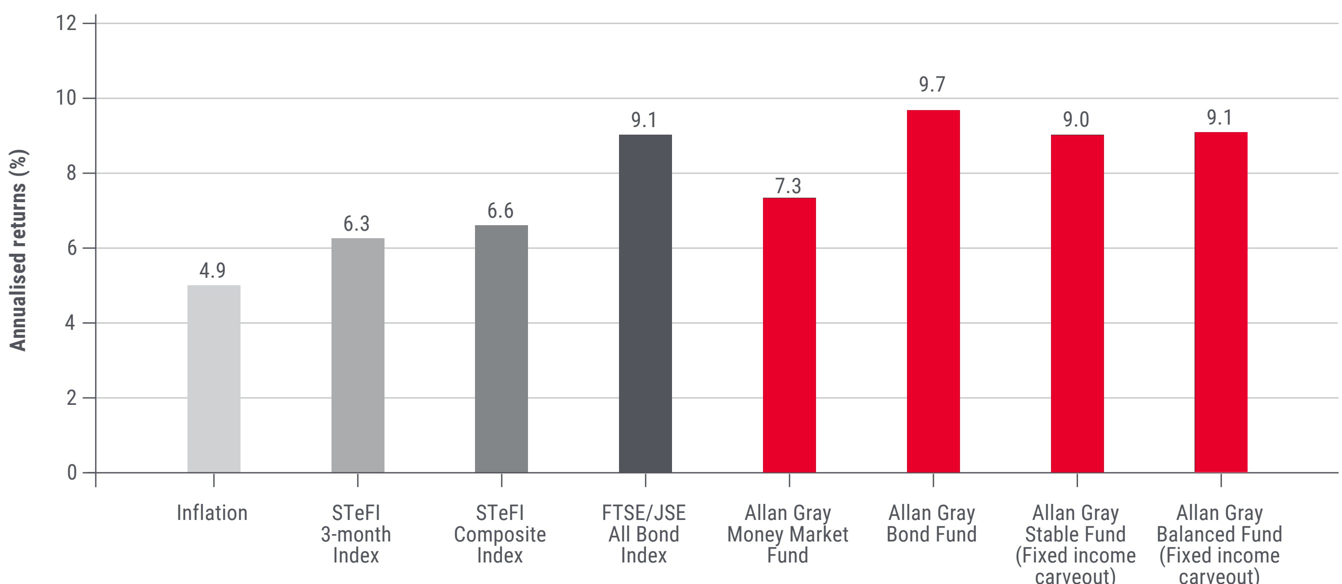
Our investment approach and track record

We have a 46-year history of managing fixed income mandates and currently manage over R147bn in fixed income assets across our retail and institutional portfolios, running multiple specialist fixed income strategies.
The Interest and Income funds have slotted seamlessly into our well-established investment process, which leverages the skills and experience of our entire Investment team. We believe that viewing markets holistically provides valuable insights across asset classes and gives us a strategic analytical advantage in this space.

While past performance is not a guarantee of future performance, we believe we are well positioned to deliver long-term returns without taking undue risks.

The Interest and Income funds were first seeded on 1 May 2024, therefore their track records are not yet available. However, as illustrated by **Graph 2**, over the last 10 years, our Money Market Fund, Bond Fund, and the portion of our Stable and Balanced funds that is invested in fixed income

Graph 2: Fixed income track record for the 10 years ending 30 September 2024



All performance figures are shown gross of fees.
Sources: Allan Gray research, IRESS data

(the fixed income carveouts) have delivered real returns for clients – well in excess of inflation and the STeFI Composite Index returns. While past performance is not a guarantee of future performance, we believe we are well positioned to deliver long-term returns without taking undue risks.

How are the funds positioned given the uncertain environment?

As with all Allan Gray funds, the positioning of the Interest and Income funds is mainly driven by our bottom-up approach – i.e. we assess each asset based on its specific characteristics – drawing on our fundamental research process and capital allocation capabilities.

The Interest and Income funds were seeded at a time of heightened political uncertainty and increased market volatility. In early June 2024, the local debt markets witnessed a sell-off after the African National Congress lost its outright majority for the first time since 1994. During this period, there were good opportunities for the Interest and Income funds to lock in five-year fixed-rate cash exposures at a 10% yield, as well as for the Income Fund to invest in structured fixed-rate instruments yielding 12%.

Mid-June marked a pivotal moment for the country as the newly established government of national unity convened for its inaugural parliamentary session and Cyril Ramaphosa was re-elected as president. The rand, the FTSE/JSE All Share Index and the bond market all experienced substantial gains, signalling investor confidence in the potential for economic reforms and stability.

During its September Monetary Policy Committee (MPC) meeting, the SARB kicked off its rate-cutting cycle, with MPC members agreeing a less restrictive stance to be consistent with sustainably lower inflation over the medium term and lowering the repo rate by 25 basis points to 8.00%. However, the SARB outlined a case for caution, citing risks to inflation via a potentially adverse external environment, including the potential for offshore trade tariffs, renewed supply chain disruptions, geopolitical tensions, and elevated policy uncertainty globally.

While the future remains uncertain, we aim to construct portfolios that can perform well across a range of possible scenarios. We believe the portfolios currently hold assets that can provide above-cash returns and protect income in a high-inflation environment, particularly if interest rates remain higher than the prevailing inflation rate, as has been the case in South Africa over long periods.

Over the long term, the mix of assets that will best fulfil each fund’s mandate is expected to evolve alongside available opportunities. What will remain constant, however, is our focus on finding securities that offer an attractive real yield, issued by creditworthy entities with a low risk of default, and from there building fixed income portfolios that balance capital protection, risk of loss and income generation.

Vuyo is a manager in the Product Development team. She rejoined Allan Gray in 2022, having held roles in the Institutional Operations and Investment teams between 2018 and 2021. Vuyo holds a Bachelor of Accounting degree from Stellenbosch University, an Honours in Accounting from Nelson Mandela University and a Master of Philosophy in Development Finance, also from Stellenbosch University. She is a qualified Chartered Accountant.

PUTTING HEADS IN BEDS: CHECKING IN ON THE HOSPITALITY SECTOR

Varshan Maharaj

The key determinants of investment success are the price one pays and the value you get from earnings growth, and the hospitality sector currently offers attractive opportunities at both ends of the spectrum …

It has been said that travel is the only thing that one buys that makes you richer. Consumers seem to agree with this sentiment, evidenced by an increasing shift in spending from owning things to a focus on experiences, of which travel has been a large component. This increase in travel has led to compelling investment opportunities in the sector. Varshan Maharaj delves into some of these.

In our quest to invest in undervalued businesses where we see long-term value for our clients, we have been attracted to the hospitality sector, where there are various opportunities worth exploring, varying by business model – choosing between hotel owners, brand owners, and online travel agents, and by location – owning businesses in South Africa or other regions. We have found businesses trading at attractive levels compared to our assessment of intrinsic value, with exciting options among the following:

- Hotel owners listed in South Africa (Southern Sun and City Lodge)
- Brand owners (Marriott and Hilton) and online travel agents (Booking.com) listed in the United States

These businesses have different investment cases, which are discussed below.

South African hotel owners

Southern Sun and City Lodge own and manage hotels, the majority being in South Africa. Hotel profit is driven by the number of rooms, occupancy of these rooms, and average room rates (ARRs). Furthermore, ARRs move together with occupancies, leading to large swings in earnings over the hotel cycle.

Hotels were placed under severe strain when they were forced to close during the COVID-19 lockdowns, which was followed by a period of operating with varying levels of restrictions, which have since been removed. These disruptions led to collapses in their share prices, creating buying opportunities. While earnings have recovered somewhat, they still remain below normal.

Supply-demand yo-yo

Despite consistent new supply, demand growth exceeded supply growth for most of the 1994 - 2008 period, with

occupancies averaging 70%. The global financial crisis of 2008 constrained demand, but supply growth continued up to the 2010 FIFA World Cup. Occupancies fell from 74% in 2007 to 58% in 2010. Demand subsequently grew ahead of supply, leading to rising occupancies, which ranged between 61% and 65% from 2012 to 2019. Occupancies collapsed during COVID and have not fully recovered, as shown in **Graph 1**.

Southern Sun's ARR for FY2024 was R1 388. Using the average exchange rate of FY2024, this translates to US$74. Hotels in comparable nations enjoy higher ARRs of US$120 to US$150. South Africa's lower ARRs are due to relative oversupply. Profits are expected to grow as occupancies and ARRs move towards and beyond normal levels from the depressed levels attained during COVID.

Consider enterprise value per room

An alternative valuation measure that is useful in this sector is enterprise value (EV) per room. Using the closing share price as at 30 September 2024, Southern Sun trades at an EV per room of R913 000. Compared to a replacement value of over R2m per room, it offers considerable value to shareholders. Given that Southern Sun has only been separately listed on the Johannesburg Stock Exchange since 2019, investors may get a better indication of where hotel valuations sit relative to history by inspecting similar metrics for City Lodge, which has been listed for a longer period – see **Graph 2** on page 10.

City Lodge's EV per room is low versus its history (and even cheaper if one were to adjust historic numbers for inflation), and versus our estimate of intrinsic value per share.

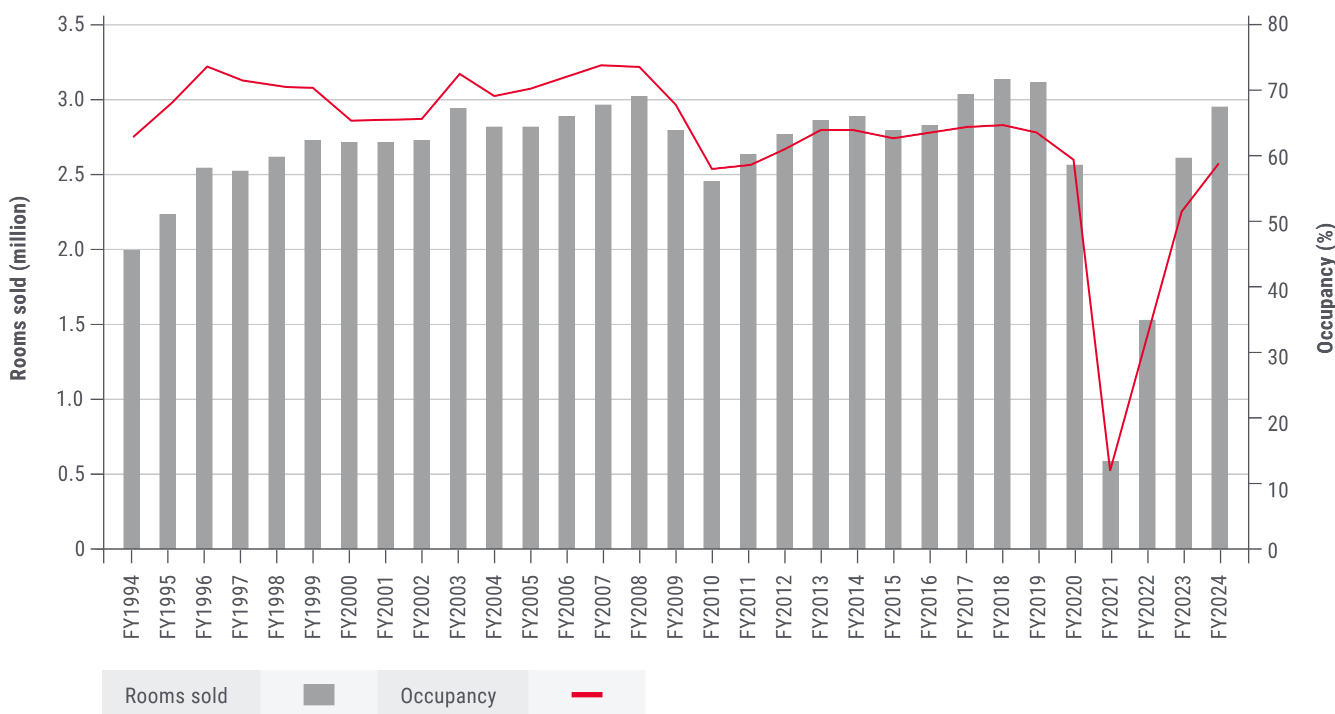
We also see upside optionality to both businesses via:

- **Share buybacks while they are trading below fair value:** Southern Sun did this particularly well, repurchasing 145 million shares in recent years at an average price of R4.57 per share.

- **Crown jewels:** Iconic hotels, such as the Beverly Hills in Umhlanga and The Westin Cape Town, are worth very high multiples of free cash flow, which are underappreciated in share prices – evidenced by the sale of Southern Sun's Maia Resort.

- **Operating leverage:** Hotels have high fixed costs, so as occupancies and ARRs increase, profits increase in a non-linear fashion. For example, if occupancies were to increase by 10% and ARRs by R50, Southern Sun's estimated profit could increase by about 50% from the FY2024 level.

Graph 1: South Africa system-wide portfolio – rooms sold since 1994



Sources: Southern Sun, Allan Gray analyst estimates

Not without risks

With every investment, there are risks. Increasing occupancy rates and ARRs relies on economic growth, which may take a few years to materialise. Hotels are cyclical, but our assessment is that there are still some good years ahead.

American hotel brand owners

Marriott and Hilton have transformed their businesses over decades to become asset-light companies. This is different from listed South African hotel groups, which own the hotels. Around 99% of their hotels are owned by third parties, with Marriott and Hilton selling their brands, systems, and hotel management expertise to these hotel owners in exchange for a fee linked to the revenue and profits of the hotels.

Both groups own many brands, which cover most segments of the market. They also have large and popular loyalty programmes, which drive direct bookings and improve margins.

Understanding the business model

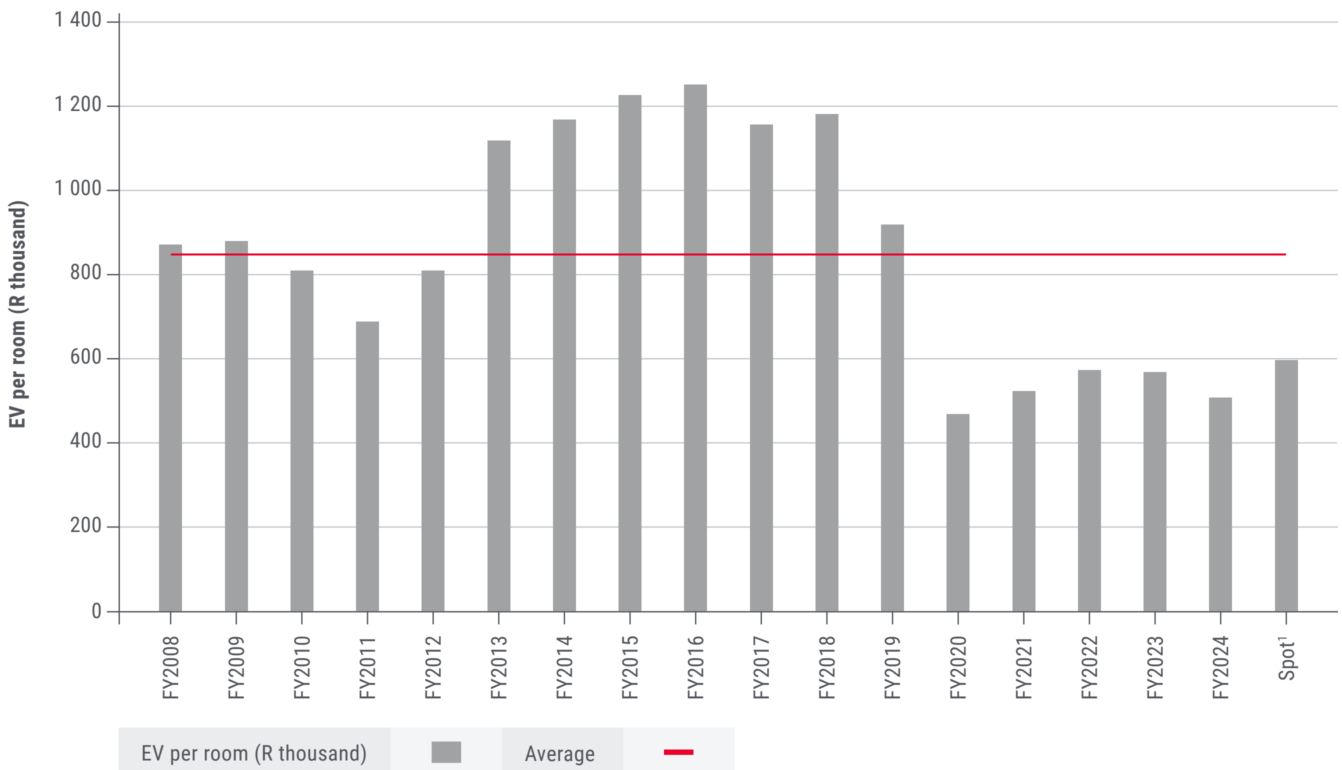
This business model depends on maintaining guest preference for their brands, and offering hotel owners a higher return on their hotels when being part of their respective ecosystems than they would be able to achieve as independent hotel owners. This is achieved via scale and intellectual property advantages in distribution and pricing.

These businesses trade on high multiples, which are justified by their high barriers to entry, good profitability, cash generation, scalable business model, and long runway to grow earnings per share (EPS) at 10% or more per year in US dollars. Their EPS growth algorithm may be summarised as mid-single-digit growth in hotel rooms, plus low-single-digit growth in revenue per available room, plus upside from growing incentive management fees and reducing shares in issue via buybacks. They have successfully applied this strategy for decades and are likely to continue to do so for the foreseeable future.

Their strategy is to maximise their number of rooms, funded using other people's money, which makes earnings less cyclical than those of the hotel industry as a whole. The business model responds favourably to higher inflation, as revenues rise while hotel owners fund rising capital expenditure.

Platform businesses of all kinds, where growth can be plugged into an existing system with little to no incremental

Graph 2: City Lodge – adjusted enterprise value (EV) per room



[1] Spot calculation uses the closing share price of City Lodge as at 30 September 2024.
Sources: Bloomberg, Allan Gray analyst estimates

cost, trade on high multiples. The guest side and hotel owner side of the industry are very fragmented, and chains like Marriott and Hilton provide a valuable service by connecting both groups. They do an excellent job of keeping guests and hotel owners in their systems, as they have earned their trust and give them what they want (low prices and consistent experience for guests, with higher returns for hotel owners).

The skills to build and operate a hotel are different from the skills needed to distribute that capacity to guests. Hotel brand owners invest billions of dollars in distribution and loyalty systems, which are effective in reaching guests. Independent hotel owners cannot afford to do this themselves.

Marriott and Hilton regularly win awards for being among the best franchises to buy, suggesting that they offer hotel owners good relative returns, and their large and growing room pipelines are evidence of a preference for their brands. Being part of such an ecosystem can benefit hotel owners by securing additional bookings, access to superior administration systems, and lower procurement and online travel agent costs. Relative to other leading hotel chains, Marriott and Hilton hotels have significantly higher average occupancy rates and significantly higher ARRs.

Online travel agents

Booking.com is the world's largest online travel agent (OTA) by revenue, offers 29 million accommodation room listings, and is dominant in Europe. It has a large competitive moat and benefits from monopoly-type network effects, as hotels are attracted to the OTA with the most customers, who, in turn, are attracted to the OTA with the most hotels. Their points of difference include wide choice, good user experience, and low prices. Booking.com captures a larger share of their customers' travel spend by cross-selling flights, tours, dining and other experiences.

A challenge for OTAs creating loyalty programmes is providing a consistent stay experience. Booking.com has done well in this regard, with its Genius loyalty programme driving about 75% of its bookings.

Given the size of the global market, hotel chains and large OTAs can continue to grow, consolidating the pool of independent hotel owners, for many years to come.

Attractive investment opportunities

The asset-light model of the brand owners is superior to the capital-intensive model of owning hotels. The key determinants of investment success are the price one pays and the value you get from earnings growth, and the hospitality sector currently offers attractive opportunities at both ends of the spectrum, with South African hotel owners trading at less than half of their replacement cost, and the American brand owners and OTAs trading at reasonable multiples, while rapidly growing earnings.

Varshan joined Allan Gray in 2014 as an equity analyst. He was appointed as a portfolio manager in 2020 and manages a portion of the frontier markets equity portfolio. Varshan holds a Bachelor of Business Science degree from the University of Cape Town. He is a qualified Chartered Accountant and a CFA® charterholder.

CONSUMER STAPLES: SHOULD THEY BE PORTFOLIO STAPLES?

Kamal Govan

… we believe that our selection of consumer staple stocks provides us with a good combination of downside protection and sufficient self-help levers to improve their respective expected returns.

Everyone is familiar with consumer staples – e.g. groceries, beverages, home and personal care items – and many have a strong affinity for the underlying brands, with some brands having dominated their markets for generations (around half the world's population use Unilever's products daily). However, the consumer staples sector is often considered to be one of the sleepiest in the stock market. Kamal Govan investigates whether there is any opportunity to awaken investor interest.

As the adage goes, a good business is not necessarily a good investment. The global consumer staples sector has underperformed the market, represented by the MSCI World Index, over 10 years, as shown in **Graph 1**. In fact, the performance of many consumer staple stocks has been disappointing over most time periods since the turn of the millennium (see **Table 1**). Are these companies fundamentally broken, or are there opportunities for contrarian investors?

Characteristics of consumer staple businesses

Investors typically seek out consumer staple stocks because they are considered to be defensive. Some of the important characteristics that underpin this belief are:

- **Demand stability:** Consumers buy staple products in good times and in bad, meaning that these businesses are less exposed to cyclical changes in demand. This demand inelasticity usually also applies when prices rise in a predictable way. Stable volumes and pricing translate into steady topline growth.
- **Brand equity:** Consumer staple businesses are not only home to many of the global megabrands, but also many much-loved local brands. Most consumers have some affinity for these brands, and purchasing decisions for these products are made almost subconsciously. Healthy brands create high barriers to switching.
- **Pricing power:** Strong brands and customer loyalty create pricing power. Good consumer staple businesses nurture their brands by consistently reinvesting in them. This drives sustainable profitability as healthy brands

are more robust against changing economic and/or industry conditions.

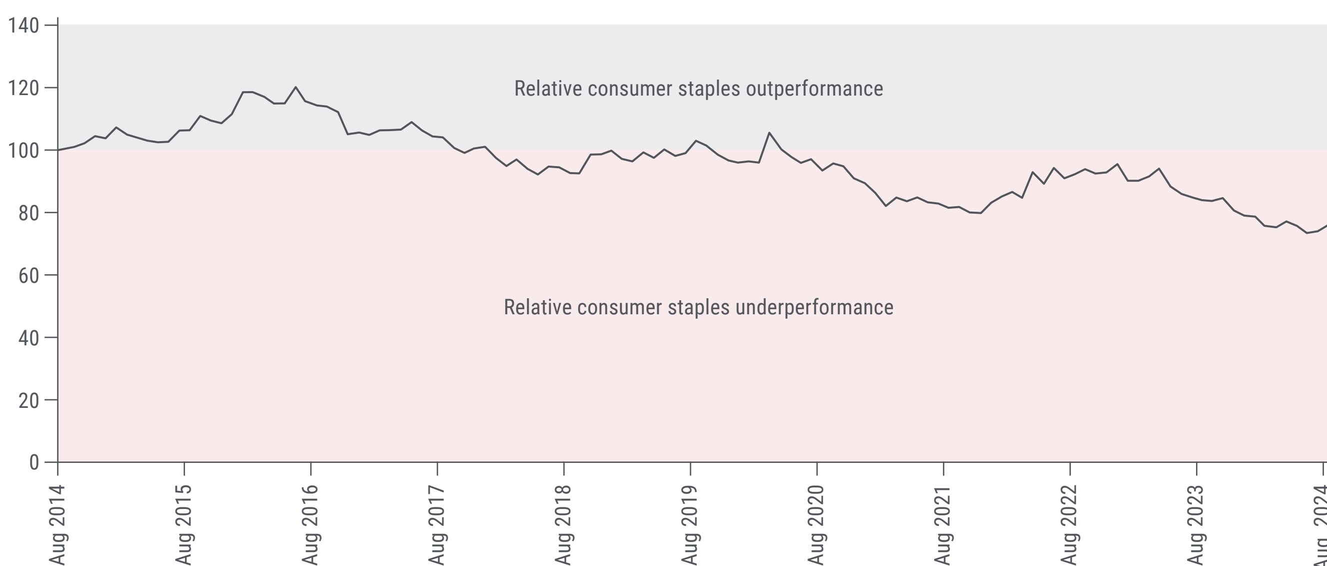
- **Scale:** These businesses have mastered the art of managing large and complex manufacturing and distribution networks across the globe. Scale creates significant bargaining power with their suppliers, enabling them to manage product costs effectively and dominate shelf space in our favourite retail outlets.

Relative to the average business, defensive businesses have more consistent earnings streams, which enable them to consistently reward shareholders with dividends. Not only that, but defensive businesses can also support higher debt loads through business cycles. This creates significant option value during difficult economic times.

Of course, all industries face risks and, for consumer staples, some of the noteworthy risks include:

- **Absolute price levels:** It is important to distinguish between inflation (i.e. the percentage change in price level) and affordability (i.e. the absolute price level). Balancing pricing power and affordability is especially important for those with outsized exposure to mass-market/commodity brands.
- **Emerging competition:** The fight for consumer attention and share of basket has intensified with the pervasiveness of technology. Private-label brands and smaller, local brands can reach consumers faster and more affordably than in the print-and-television-only era. Dynamic competitive environments may be good for

Graph 1: MSCI World Consumer Staples Index relative to MSCI World Index (US$ total return)



Sources: LSEG Datastream, data to 30 September 2024, Allan Gray analysis

Table 1: US$ total return of select indices and consumer staple stocks (%)

	MSCI World Index	MSCI World Consumer Staples Index	AB InBev	Diageo	Coca-Cola	Unilever	Nestlé	British American Tobacco	Walmart	Tiger Brands
Since 2000	6	8	–	9	7	9	10	14	7	7
10 years	10	7	−4	4	9	8	7	2	14	−3
5 years	13	7	−8	−2	9	5	2	8	16	4
3 years	13	7	−8	−2	9	5	2	8	16	4
1 year	30	19	11	−10	32	34	−2	27	47	71

For periods longer than one year, the figures are annualised.
Sources: LSEG Datastream, data to 30 September 2024, Allan Gray analysis

consumers, but brands must have their fingers on the pulse to remain dominant.

- **Changing habits:** Consumption habits are changing, and this also impacts how brands should be engaging with consumers. Weight-loss drugs, for example, are becoming increasingly popular and are likely to impact products like packaged foods and sugary drinks.

- **Complexity:** Any business that has exposure to various categories, geographies, currencies and regulations is difficult to manage. A strong culture and attitude towards governance are important considerations.

Stable volumes and pricing translate into steady topline growth.

Shelter from the storm

Consumer staples have historically provided investors with shelter during economic storms. **Graph 2**, a historical expansion of Graph 1, displays the significant and often-rapid outperformance of consumer staples during periods of significant economic stress.

A deeper look at the period around the dotcom crash provides an example of how these stocks perform under economic stress (see **Graph 3**). Consumer staples and other defensive sectors, such as utilities, telecoms, healthcare and technology, underperformed in the build-up to the dotcom peak on 27 March 2000, however, these same sectors witnessed massive outperformance when the bubble burst.

Another consideration when investing in consumer staple stocks is where we are in the interest rate cycle. The sector is often seen as a stock market proxy for bonds due to the high, stable dividend yields of the underlying companies. In times of high interest rates, investors can substitute consumer staple stocks for fixed income investments. Conversely, in times of low interest rates, more value is attached to their dividend yields. It is perhaps fair to say that the current direction of travel for interest rates is lower.

Not all consumer staple businesses are created equal

Having made some arguments for owning consumer staples, the next question is why we own the ones we do. Long-time readers will appreciate that we do not select stocks based on overarching macroeconomic views. We are fundamental, bottom-up investors; we invest in companies we believe are undervalued and sell them when they reach our estimate of their true worth. Having said that, there are

Graph 2: MSCI World Consumer Staples Index relative to MSCI World Index (US$ total return)

Sources: LSEG Datastream, data to 30 September 2024, Allan Gray analysis

certain commonalities that we can draw from the consumer staples exposure in our portfolio. Broadly speaking:

- Stock prices are discounting low expectations relative to what we think is realistically achievable for each business.
- Each business has certain self-help measures that can improve our expected outcomes.
- Some balance sheets are geared, but none keeps us up at night.
- None of these businesses is overly reliant on China.

Selected investment case snippets

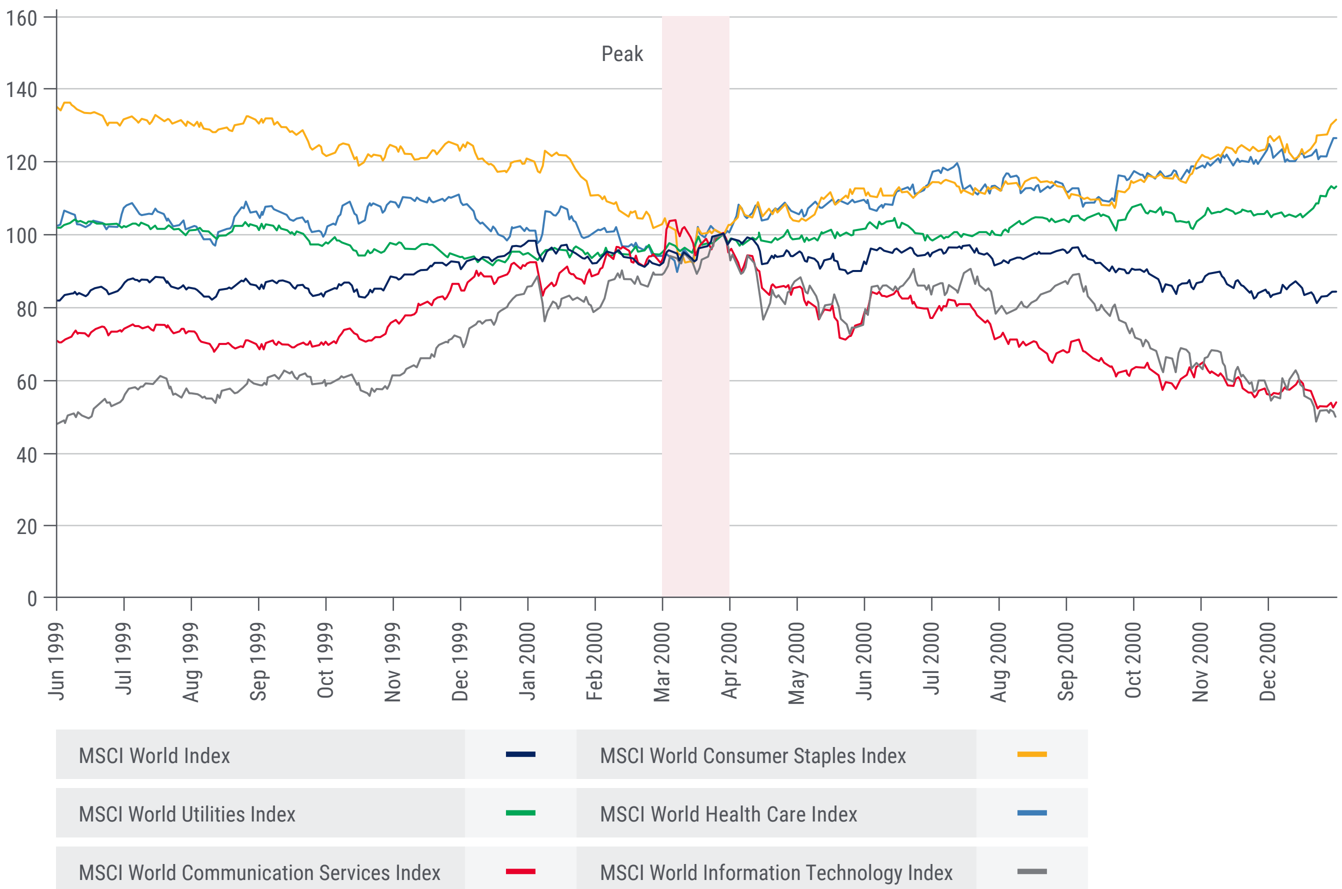
The Allan Gray Balanced Fund has about 14% exposure[1] to consumer staples when factoring in both domestic and offshore stocks. British American Tobacco and Anheuser-Busch InBev (AB InBev) together make up just over 8% of this, while the remainder is diversified both locally (e.g. Tiger Brands, AVI Limited, Premier Group) and offshore (e.g. Asahi Group, Unilever, Diageo). Below, we highlight some of the aspects that add to their investment cases.

Consumer staples have historically provided investors with shelter during economic storms.

- **British American Tobacco:** This company has an attractive starting valuation that sufficiently discounts slowing tobacco use without necessarily factoring in the potential of its next-generation products business.

Graph 3: MSCI World Index and sector-specific indices – divergence from March 2000 peak

MSCI World Index and index divergence around March 2000 dotcom bubble peak. 100 = Tech bubble peak on 27 March 2000



Sources: LSEG Datastream, Deutsche Bank, Allan Gray analysis

[1] As at 30 September 2024.

There is potential for additional shareholder returns as debt reduces and more of its stake in Indian conglomerate ITC Limited is monetised.

- **AB InBev:** Margins are below our assessment of normal as 1) its higher-margin premium beer brands should grow faster than its core brands, 2) commodity/input cost pressures are moderating, and 3) the currency headwinds from emerging markets are easing. The business converts a high proportion of its earnings into free cash flow, and with debt more under control, shareholders should stand to gain from higher cash returns.

- **Asahi:** Trading at a discount to the market and its own history, Asahi is well positioned to benefit from premiumisation of beer throughout their markets in the EU and Oceania. The prospect of increased returns to shareholders from dividends and share buybacks is a material possibility.

- **Unilever:** Unilever implemented a clear strategic pivot to focus on their 30 “power brands” while increasing investment behind them, actively disposing of non-core brands/businesses, and simplified its organisational structure to speed up decision-making. Margins are expanding faster than anticipated and cash is being returned to shareholders from both dividends and a share-buyback programme.

- **Tiger Brands:** There is material upside if the turnaround strategy in the grains business proves successful, and there are early signs of improved execution. The company should benefit if South African economic growth accelerates.

In summary, we believe that our selection of consumer staple stocks provides us with a good combination of downside protection and sufficient self-help levers to improve their respective expected returns.

Kamal joined Allan Gray as an equity analyst in 2016 after working as a management consultant. He was appointed as a portfolio manager in 2020 and manages a portion of the African equity portfolio. Kamal holds a Bachelor of Accounting Science degree and a Higher Diploma in Accountancy, both from the University of the Witwatersrand. He is a qualified Chartered Accountant and a CFA® charterholder.

TRUSTLESS, RUSTLESS, SHINY AND TINY: THE INVESTMENT CASE FOR GOLD

Alec Cutler

Gold may just prove to shine brightest when the outlook appears to be dimmest elsewhere.

Gold-related securities are among the top holdings of our offshore partner Orbis' multi-asset strategies. Alec Cutler elaborates on the two ways Orbis, as a bottom-up investor, thinks about an asset that produces no cash flows: from a supply-demand standpoint, and versus currencies. Both are informed by gold's key characteristics: it is trustless, rustless, shiny and tiny.

We like to view gold from a supply-demand standpoint, as we do for the price of any asset. Here, gold has two qualities that make it different from copper, iron ore and lithium. The first is that it is rustless. It doesn't degrade over time, so all of the world's gold is still in existence and theoretically available for sale. This means supply and demand are not purely a matter of mines versus consumers. Second, gold is shiny. Its primary function is not as an input to other products, but as jewellery, or a store of value. To those folks like Warren Buffett who call it a valueless pet rock, you have to ask how much they'd pay for a Rolex watch, or a Birkin bag, or to a younger crowd, a rare digital outfit on Fortnite. The value of anything is whatever someone else is willing to pay for it. In this regard, gold has been viewed for millennia as the best store of value available to most people. Being rustless and shiny makes gold a really nice pet rock to have around your finger or hidden away for a rainy day.

On the supply side, gold is tiny – that is, it is rare to find in the ground, and getting rarer. The supply of new gold has been slowly dropping over recent decades. Unlike something like lithium, humans have been scouring for gold for centuries, and the most bountiful deposits have been exhausted. Aggregate mine quality has been dropping for a very long time. This translates into higher and higher mining costs, especially with lower ore grade being met by higher labour and energy costs, plus increasing environmental expenses. Miners require a higher price to justify their higher costs.

On the demand side of the equation, while jewellery demand has been fairly constant, gold has long been the first stop in the wealth-accumulation process for much of the world. As the emerging world has been growing a middle class, demand for gold has accelerated in recent years. That has been boosted by gold's fourth quality: it is trustless.

Gold is not anyone else's liability, and that becomes more valuable as trust becomes more scarce. Coincident with the acceleration of populism and a re-bifurcation of the world into East versus West, both nations and individuals feel less trusting. On top of that, the US has weaponised the dollar system against its adversaries, cutting them off from SWIFT payments and freezing their central bank reserves. Unsurprisingly, central banks of adversaries and non-adversaries alike are buying gold, and we expect that to continue. Gold's trustless quality is becoming more valuable as trust in the US dollar system wanes.

So, from a strictly supply-demand standpoint, the minimum price hurdle has been steadily increasing with lower mine quality and rising costs, and new demand is outstripping new supply and the urge to sell by current holders. So long as mining costs don't fall and the drivers of mass demand remain, the price of gold should remain well underpinned.

Not quite a currency, but there are parallels

The other standpoint is to view gold versus currencies. Many scoff at this perspective, but being trustless, rustless, shiny and tiny makes gold very currency-like. Its validity as such has been proven over a long time, with its first official use by the Egyptians in 1500 BC. Further, it is the only currency-like asset that has not been devalued through governmental mismanagement.

It is important to remember that the number of dollars, pounds, euros or rands you see in an account is only worth what others are willing to give you in exchange. Unlike gold, where the supply is essentially fixed, all paper currencies suffer the same frailty – politicians or their appointees control the printing press, and their desire is generally to get re-elected and their time horizon only extends through their tenure. This makes them inclined to print, spend and give away as much as they are able to get away with. Recently, that has been a lot!

> … we currently view holding a decent amount of gold exposure as prudent.

On the US government's own forecasts (using assumptions we consider rosy), Federal debt to gross domestic product is set to rise from today's 100% to 120% and beyond. Essentially, all of the increase is in mandatory programmes like pensions and healthcare. With more debt and ongoing deficits, interest expense creeps up. This year, the US will spend more on interest servicing its debt than it spends on its entire military. Higher interest expense makes deficits worse, necessitating further debt issuance to plug the hole. With more debt comes higher interest expenses, worse deficits, and yet more debt – it can become a spiral.

> We … move the elements that make up the portfolio's gold exposure around over time.

While every day, the camel appears to be fine under the weight of the straw on its back, the risk that the camel's back breaks certainly exists, with very significant implications for markets and accumulated wealth. In this light, we currently view holding a decent amount of gold exposure as prudent.

Securing a piece of the golden pie

The next question is how to get that exposure. We do move the elements that make up the portfolio's gold exposure around over time. The two investable elements are the commodity itself (through exchange-traded vehicles) and gold-related equities.

Recently, we've shifted some commodity exposure into the miners after they massively lagged the rising gold price, owing principally to their exposure to labour and fuel costs that inflated faster than the price of gold. This set up the very unusual condition whereby the gold miners' profits dropped despite the price of gold hitting new records. After taking another deep dive into mining economics and interrogating management teams, we've developed increased conviction that the miners now have their costs under control, and should costs merely revert to historic increases, with the price of gold where it is, the likes of Newmont and Barrick Gold stand to produce prodigious amounts of cash flow.

At the time of our big shift into miners in February, this market pessimism translated into double-digit prospective free cash flow yields. Miners have appreciated nicely since, but if gold, copper and oil prices simply stay where they are, Barrick currently trades at a 7.5% free cash flow yield. That's a better

yield than the average global stock, for a stock that is much less correlated with the rest! Those sorts of valuations look compelling to us, and are why we have exposure to the miners as well as the metal.

To sell or to hold?

The remaining question is what would make us sellers, and here, gold is not so different from the other holdings in our multi-asset portfolios. Every security is in a continuous competition for capital.

In our view, the most likely cause for us to sell gold will be to free up capital for better opportunities – if equities decline and gold holds up better, for instance, fulfilling its traditional diversifying role. A swing in the pendulum towards increased fiscal responsibility or reduced geopolitical conflict would also swing our views, and could make big swathes of the equity and fixed income universe more compelling on a fundamental view. While we hope for that improvement, it looks unlikely to us today. Gold may just prove to shine brightest when the outlook appears to be dimmest elsewhere.

Alec joined Orbis in 2004. He is a member of the Bermuda-based Multi-Asset Investment team and is 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.

TAKING STOCK OF TWO-POT: A TRUSTEE'S PERSPECTIVE

Richard Carter

Reviewing the Allan Gray business's operational performance since 1 September, the two-pot implementation has gone smoothly.

All South African retirement funds have been impacted by the recent introduction of the two-pot retirement system. While implementing this has taken the focus of government, regulators and industry representatives for some time, you may be wondering who is thinking about the long-term implications for individuals.

As an Allan Gray retirement fund member, there are various mechanisms in place to protect you. The trustees of your retirement fund play an important role in ensuring that your fund is well governed and that your interests are protected. They also work with the investment, operational and client-servicing teams to deliver great outcomes for you.

In his capacity as a trustee of the Allan Gray retirement funds, Richard Carter takes stock of Allan Gray's two-pot implementation and discusses some of the questions and issues trustees are considering in their bid to make sure members get the best results. Richard has been a trustee since May 2011 and is a member of the Allan Gray Retirement Annuity Fund and the Allan Gray Umbrella Pension Fund.

Allan Gray, as your retirement funds' administrator, has written at length about the new two-pot retirement system, with most of the information accessible in the two-pot retirement system info hub on the website. As a reminder, going forward, contributions to your retirement fund, and growth thereon, will be divided into two components. The larger, two-thirds portion, is designed to provide you with an income in retirement, while one-third is designed to provide cash at retirement, or before retirement in cases of financial distress, when you have no other option. Importantly, your existing retirement investment at 31 August is now housed in a "vested" component, less a small portion (10% of your retirement investment, to a maximum of R30 000), which was used to "seed" your savings component to get the system going and give you an opening balance to withdraw in case of emergencies.

Notwithstanding the significant amount of work Allan Gray undertook to adapt systems and processes ahead of go-live, as trustees, we were nervous. It was very difficult to predict the extent of the demand for withdrawals in the first few days, and whether the systems and teams would cope.

While we were assured that Allan Gray itself was well prepared, we had no clear view of other providers and industry players critical to the smooth running of the process end to end, including the South African Revenue Service (SARS). Any upheaval in the industry would have a knock-on impact and affect members' overall experience.

Over and above the practicalities around withdrawals, we were concerned and continue to worry about members taking out money that they don't desperately need, undermining their long-term retirement savings goals. Looking forward, we wonder if people will keep taking whatever they can out of their savings component, and, if they do, if they plan to make up for these withdrawals with higher contribution rates.

We have many unanswered questions. Only time will reveal the answers.

Performance review

Reviewing the Allan Gray business's operational performance since 1 September, the two-pot implementation has gone smoothly. The system itself and the various administrative teams have coped with the significant volume of calls, emails and transactions. Withdrawals have been actioned efficiently and online transactions have been mostly seamless.

In the first six weeks after the implementation of the two-pot system, just over 5% of Allan Gray retirement fund members requested a withdrawal – although this varied greatly by fund. The amounts requested totalled 1.6% of the assets in the five retirement funds. While this is a significant proportion of members and a meaningful amount of money, it appears to be lower than what we believe the average experience of pension funds in the market has been.

Looking at the largest fund, the Allan Gray Retirement Annuity, where no early access to funds was possible before the two-pot implementation, we are reasonably pleased that only 5% of members have accessed their funds, as this is lower than what we feared the number would be.

From a tax perspective, the average tax rate applied to these withdrawals was just over 25%. Of more concern were the penalties levied, with several members receiving no net withdrawal at all as the entire amount was taken by SARS to settle outstanding penalties. For more insight into two-pot withdrawals and tax, see Carla Rossouw's piece on page 24.

Looking ahead

Helping members understand how to get the best outcomes is one aspect of the role of the trustees, as explained in the text box on page 23. While the implementation of two-pot was a once-off event, understanding the long-term implications is an ongoing activity. There have been three recurring themes in the questions coming through so far:

1. Should two-pot affect one's investment strategy? Should members be more or less conservative in the investment portfolios they choose?

These questions are coming up in the context of whether one should invest one's savings component more conservatively to create a safety net in case a withdrawal is needed. This overlaps with a common question about whether to take advantage of "life-staging" offered by some retirement funds.

Life-staging is a popular approach, whereby members reduce risk in their portfolios as they approach retirement – typically by switching from portfolios with higher equity allocations to more cautious portfolios. This is to protect against big drawdowns in the final years before retirement. This conservatism is amplified by a focus on the cash lump sum available at retirement – members de-risk to have more certainty about this cash lump sum.

There is no such thing as a free lunch in investing. In de-risking for potential pre-retirement withdrawals or to protect the cash amount at retirement, a reduction in risk may also mean a reduction in expected return. Over time, this can have a real cost in terms of lower income in retirement.

In a two-pot world, if members withdraw their full savings component ahead of retirement and need to use the remaining assets to buy a retirement income product, does this make life-staging less appropriate? Perhaps these members should remain more focused on long-term growth, while still protecting their capital, to give themselves an opportunity to build a long-term, sustainable income.

2. What should members do about their vested portion?

For many members, especially those who have been saving diligently for several years, keeping a lid on the vested component is even more important than not dipping into the savings component. As a reminder, the vested component is treated in the same way as the whole account was treated before 1 September 2024, except that no further contributions can be allocated to it.

As an example, for a 55-year-old who has been saving in a retirement fund since they were 25 and intends to retire

at 65, the vested component plus growth thereon could be expected to make up as much as 90% of the amount available at retirement. If this describes you, the most important thing you can do is to make sure that your vested component remains invested appropriately and resist the urge to take this money out (if your fund's pre-1 September 2024 rules allow a once-off withdrawal).

3. Should members use their savings component as an emergency fund?

Common advice is to set up an emergency fund equivalent to three to six months of your salary to cope with unexpected expenditure or reduction in income. This could be invested in a low-risk unit trust, such as a money market or interest fund, which will preserve your capital over the short term and offer easy access when needed. An emergency fund should be prioritised ahead of other discretionary investments to avoid you having to rely on long-term investments for short-term needs (and potentially having to withdraw at inopportune moments).

Some members and their advisers have asked if it could make sense to use the savings component of their retirement fund for emergency fund purposes. The answer is, this could make sense – if you are willing to direct emergency fund contributions into your retirement fund, over and above what you are currently contributing to your retirement fund.

... increasing your contributions could be a responsible way to make the new two-pot system work for you.

For example, if you were previously saving 12% of your salary for retirement, and that was enough, dipping into the one-third of your contributions that now go into a savings component for emergencies will leave you with a shortfall: To the extent that you use this one-third for emergencies, you will be eating into your retirement savings, and all else being equal, you will not have enough at retirement.

However, using the example above, if you want your retirement vehicle to double as an emergency fund, you could increase your pre-tax contribution to 18%. If you don't need it for emergencies, or even if you use some of it, but not the full amount, it could enhance your retirement investment. Even if you end up needing all of it for a rainy day, you would not worsen your retirement outcome.

As trustees, our focus is on making sure that the Allan Gray retirement funds continue to do a great job for members in an ever-changing environment.

It is worth considering, though, that your retirement fund is managed according to specific investment limits as prescribed by regulations and may be subject to restrictions by your fund's administrator (such as investment restrictions or withdrawal timelines); this would not apply to a separate emergency investment account.

But what about the tax? If you consider that you receive a tax break at your marginal tax rate when you invest the money, then when you take it out, you will pay tax at your marginal rate (your highest tax bracket). Provided your tax rate has not changed significantly between when you contributed and when you withdraw, you could still be better off than using after-tax money to build your emergency fund and paying tax on the investment return as you go.

It is important to check if you are currently contributing less than the allowed maximum to your retirement funds, in which case increasing your contributions could be a responsible way to make the new two-pot system work for you.

A member-focused approach

As trustees, our focus is on making sure that the Allan Gray retirement funds continue to do a great job for members in an ever-changing environment. While the new two-pot system is one of the biggest changes we have dealt with in my time as a trustee, I don't think it will be the last. Whatever changes come along, the trustees will continue to oversee the funds with your best interests at heart.

What is the role of a retirement fund's trustees?

As a retirement fund member, there are various mechanisms in place to protect you, including legislation, governance standards and regulatory bodies. The trustees of your retirement fund play an important role in ensuring that your fund is well governed and that your best interests are protected.

In South Africa, the role of the trustees of a retirement fund is defined and primarily regulated by the Pension Funds Act (the Act) and King IV Report on Corporate Governance for South Africa 2016 (King IV). The Act provides the legal framework, while King IV offers broader governance principles to guide trustees in their duties.

Trustees must meet fit and proper requirements set by the Financial Sector Conduct Authority. This includes having the necessary skills, knowledge and experience to effectively manage a retirement fund. Trustees are required to behave with integrity, accountability and transparency, and to act in the best interests of the fund members and beneficiaries.

The role of the trustees typically includes:

1. **Fiduciary duties:** Trustees are legally obligated to act in the best interests of fund members, prioritising their needs and ensuring prudent management of the fund's assets.

2. **Investment oversight:** Overseeing the investment of the fund's assets, ensuring that the investments are made in a manner consistent with the fund's investment policy statement and that they are appropriate given the fund's liabilities and objectives.

3. **Monitoring and control:** Monitoring the performance of the fund's investments and various service providers (e.g. administrators and asset managers) and ensuring that adequate controls are in place to manage risk.

4. **Member communication:** Maintaining transparency and accountability by ensuring that members receive clear and accurate information about their benefits, the fund's performance and financial status, and any changes that may affect their retirement savings.

5. **Decision-making:** Making decisions about various aspects of fund management, including benefits, contributions, and the appointment of service providers.

6. **Strategic direction:** Providing strategic direction and oversight for the fund, ensuring that it aligns with the long-term interests of the members and adheres to the principles of good governance.

7. **Risk management:** Identifying, assessing and mitigating risks that could affect the fund's performance and solvency.

8. **Conflict resolution:** Ensuring the maintenance of formal processes for handling grievances and addressing and resolving any issues or conflicts that may arise, such as disputes over benefits or mismanagement concerns.

Richard joined Allan Gray in 2007. He is head of Assurance and is responsible for Compliance, Risk, Internal Audit and Group Legal. He is also a director of Allan Gray Life and Allan Gray Investment Services and a trustee of the Allan Gray retirement funds. He was previously jointly responsible for the Retail business, heading up Product Development. Richard holds a Bachelor of Business Science degree in Actuarial Science from the University of Cape Town and is a qualified actuary.

WHAT YOU NEED TO KNOW ABOUT TWO-POT WITHDRAWALS AND TAX

Carla Rossouw

… the value of your withdrawal could push you into a higher marginal tax bracket …

The highly anticipated two-pot retirement system came into effect on 1 September 2024. There has been significant activity across the retirement fund industry since then, both in terms of member engagement and withdrawal applications. Many members are still grappling with the decision of whether to access a portion of their retirement investment prior to retirement, and have questions about the rules and requirements. Carla Rossouw homes in on the tax implications and other important considerations.

Given the recent changes to the retirement funding system – which we discuss in depth in the two-pot retirement system info hub on our website – you may have an available value in your savings component that you are allowed to access. However, before you submit a withdrawal instruction, consider the key points discussed in this article.

As a reminder, from 1 September 2024, your retirement fund contributions are split into a savings component (one-third) and a retirement component (two-thirds). All contributions made before 1 September plus growth thereon, less the seeding amount, are housed in a vested component. (Seeding was the once-off "funding" of your savings component – 10% of your accumulated retirement investment as at 31 August 2024, subject to a maximum of R30 000.)

1. You need to be registered with SARS. If you are not sure, you can check.

To withdraw from your savings component, you must be registered for tax with the South African Revenue Service (SARS). You can confirm whether you are registered via SARS's digital and mobile channels – the SARS Online Query System (SOQS), SARS MobiApp and SARS eFiling.

If you are not registered for tax, you can register via eFiling on SARS's website or on the SARS MobiApp.

2. You can withdraw the available amount in your savings component once per tax year – but this doesn't mean you should. What is not withdrawn will be available in subsequent years.

There has been some confusion about how much you can

withdraw from your savings component. The minimum withdrawal amount is R2 000, and you may withdraw up to the full value of your savings component if you need to, subject to one withdrawal per tax year for each of your retirement fund accounts. Withdrawals are *not* capped at R30 000; this was simply the maximum amount used as the opening balance of your savings component (seeding).

Your savings component will continue to grow over time as one-third of your contributions are added to it, and you earn investment returns on these contributions. If you choose not to withdraw in a particular tax year, you do not lose access to this money; the value in your savings component remains available for future withdrawals. However, the fact that you *can* access your savings component once per tax year does not mean you *should*. Withdrawing should not be viewed as an annual event that *must* happen.

If you do decide to make a withdrawal, you should be prepared to receive less than the amount you request, since these withdrawals are taxed and potentially subject to outstanding taxes.

3. You will pay tax on your savings withdrawal benefit. You should check how much before you action a withdrawal as tax directives cannot be reversed.

Your savings component withdrawal benefit is considered part of your taxable income for that tax year and is taxed according to your marginal tax rate, as determined by the personal income tax table. The higher your income, the higher your marginal tax rate, which means that the value of your withdrawal could push you into a higher marginal tax bracket, resulting in a higher tax bill in that tax year.

When you submit a withdrawal instruction, your retirement fund administrator must apply for a tax directive from SARS. They will provide SARS with the amount you would like to withdraw, plus your estimated annual taxable income – although SARS may use other information they have on record to calculate the tax you owe. The tax directive received from SARS will indicate the amount of tax your fund administrator must withhold, which could include other debt you have with SARS. The after-tax amount will be paid to you.

Once SARS has issued a tax directive, your withdrawal instruction cannot be cancelled; in other words, if you are unhappy with the after-tax amount you are due to receive, you cannot change your mind. We therefore strongly encourage you to use the SARS Two-Pot Retirement System Calculator to get an estimate of the tax that will be deducted from your withdrawal.

If you are uncertain about your tax compliance status, you can obtain a Statement of Account (SOA) from SARS via your eFiling profile. No debt deduction will be made from your savings component withdrawal if you have a payment arrangement with SARS, unless your payments are in arrears.

You will need to settle any under- or overdeduction of tax from a savings component withdrawal on assessment during the annual tax-filing season.

> We … strongly encourage you to use the SARS Two-Pot Retirement System Calculator to get an estimate of the tax that will be deducted from your withdrawal.

4. You will be taxed at your marginal tax rate – but why?

There has been no change to the tax treatment of retirement fund contributions under the two-pot system: Contributions are still tax-deductible (i.e. they reduce the amount of income on which tax is paid) up to 27.5% of the greater of a member's annual taxable income or remuneration, subject to a maximum of R350 000 per tax year. In addition, all growth while invested in the retirement fund is tax-free.

The reason for this favourable tax treatment is to incentivise us to invest for our retirement. If a retirement fund member withdraws from their savings component before retirement, they are reducing their retirement provisions and, in principle, should not benefit from the tax deduction.

Savings component withdrawals are therefore taxed at your marginal tax rate so that if you contribute to and withdraw from your retirement fund in the same tax year, you will be in a tax-neutral position, i.e. the same tax position as if you had never contributed the amount withdrawn.

5. Your pre-retirement savings component withdrawals do not reduce your tax-free withdrawal allowance at retirement.

Savings component withdrawals are not classified as retirement fund lump sum withdrawals for tax purposes. This means that they will not contribute to the lump sum withdrawal amounts you have taken either before or at retirement and will therefore not reduce the current R550 000 tax-free withdrawal amount available at retirement.

6. You pay less tax on savings component withdrawals at retirement.

If you choose not to withdraw from your savings component before retirement, the balance in this component can be withdrawn as cash at retirement or used to purchase a retirement income product. In addition, you may withdraw from your savings component at retirement even if you have already withdrawn during that tax year.

Any cash withdrawn at retirement will be taxed as a lump sum benefit according to the retirement fund lump sum tax table. These tax rates are generally lower than the marginal tax rates applied to withdrawals before retirement.

7. Withdrawing now could set you back significantly at retirement.

Although it is tempting to dip into the cookie jar, you should only make use of the allowable access if you have no other option and if not withdrawing would leave you worse off. Remember that any asset that is withdrawn and not replaced before retirement will reduce your income in retirement. Additionally, the longer you wait to replace the assets, the more you will have to invest to make up for lost time and investment returns.

... you may wish to consult an independent financial adviser before submitting your withdrawal instruction.

Given the immediate tax consequences and long-term impact of early withdrawals, you may wish to consult an independent financial adviser before submitting your withdrawal instruction.

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

NOTES

Allan Gray Balanced and Stable Fund asset allocation as at 30 September 2024[1]

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign	Total	SA	Foreign
Net equities	64.4	39.8	24.6	26.0	13.4	12.6
Hedged equities	9.0	3.0	6.0	19.5	9.6	10.0
Property	0.6	0.3	0.4	0.8	0.5	0.4
Commodity-linked	3.1	2.4	0.7	2.3	1.7	0.6
Bonds	15.7	11.3	4.4	34.0	27.6	6.4
Money market and bank deposits[2]	7.2	6.5	0.6	17.3	16.2	1.2
Total	**100.0**	**63.3**	**36.7[3]**	**100.0**	**68.9**	**31.1[3]**

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

[1] Underlying holdings of foreign funds are included on a look-through basis.
[2] Including currency hedges.
[3] The Fund can invest a maximum of 45% offshore. Market movements may periodically cause the Fund to move beyond these limits. This must be corrected within 12 months.

Allan Gray Equity Fund net assets as at 30 September 2024

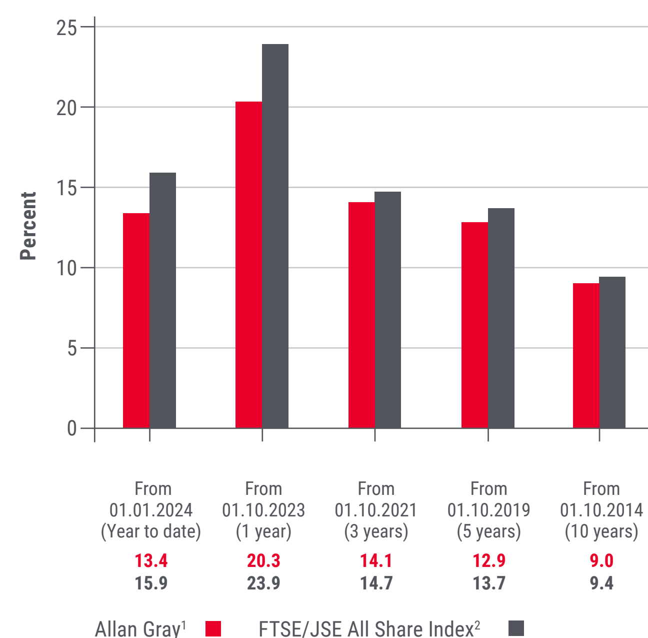
Security	Market value (R million)	% of Fund
South Africa	**26 679**	**57.4**
Equities	**25 440**	**54.8**
Resources	**5 627**	**12.1**
Glencore	1 111	2.4
Gold Fields	670	1.4
Sasol	647	1.4
Sappi	591	1.3
AngloGold Ashanti	590	1.3
Positions individually less than 1% of the Fund	2 017	4.3
Financials	**6 944**	**14.9**
Standard Bank	1 473	3.2
Nedbank	1 179	2.5
Remgro	1 058	2.3
FirstRand	622	1.3
Momentum	517	1.1
Positions individually less than 1% of the Fund	2 096	4.5
Industrials	**12 869**	**27.7**
Naspers & Prosus	2 310	5.0
British American Tobacco	2 155	4.6
AB InBev	2 028	4.4
Woolworths	1 294	2.8
Mondi	1 014	2.2
Tiger Brands	503	1.1
Positions individually less than 1% of the Fund	3 565	7.7
Commodity-linked securities	**182**	**0.4**
Positions individually less than 1% of the Fund	182	0.4
Cash	**1 057**	**2.3**
Foreign	**19 770**	**42.6**
Equities	**2 625**	**5.7**
Walt Disney Company	983	2.1
Booking Holdings Inc	766	1.6
Positions individually less than 1% of the Fund	876	1.9
Equity funds	**17 036**	**36.7**
Orbis Global Equity Fund	7 095	15.3
Orbis SICAV International Equity Fund	5 202	11.2
Allan Gray Frontier Markets Equity Fund	2 494	5.4
Orbis SICAV Japan Equity (Yen) Fund	1 259	2.7
Allan Gray Africa ex-SA Equity Fund	880	1.9
Orbis SICAV Emerging Markets Equity Fund	107	0.2
Bonds	**15**	**0.0**
Positions individually less than 1% of the Fund	15	0.0
Cash	**95**	**0.2**
Totals	**46 449**	**100.0**

Note: There may be slight discrepancies in the totals due to rounding. For other fund-specific information, please see the monthly factsheets.

Investment track record – share returns

Allan Gray global mandate share returns vs. FTSE/JSE All Share Index before fees			
Period	Allan Gray[1]	FTSE/JSE All Share Index[2]	Out-/Under-performance
1974 (from 15.6)	−0.8	−0.8	0.0
1975	23.7	−18.9	42.6
1976	2.7	−10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	−0.3
1979	86.9	94.4	−7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	−4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	−4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	−5.1	9.6
1991	30.0	31.1	−1.1
1992	−13.0	−2.0	−11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	−17.4	−4.5	−12.9
1998	1.5	−10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	−8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	−1.6
2008	−13.7	−23.2	9.5
2009	27.0	32.1	−5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.3
2012	20.6	26.7	−6.1
2013	24.3	21.4	2.9
2014	16.2	10.9	5.3
2015	7.8	5.1	2.7
2016	12.2	2.6	9.6
2017	15.6	21.0	−5.4
2018	−8.0	−8.5	0.5
2019	6.2	12.0	−5.8
2020	−3.5	7.0	−10.5
2021	28.9	29.2	−0.3
2022	13.1	3.6	9.5
2023	8.7	9.3	−0.6
2024 (to 30.09)	**13.4**	**15.9**	**−2.5**

Returns annualised to 30.09.2024



An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R391.4 million by 30 September 2024. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R18.0 million. Returns are before fees.

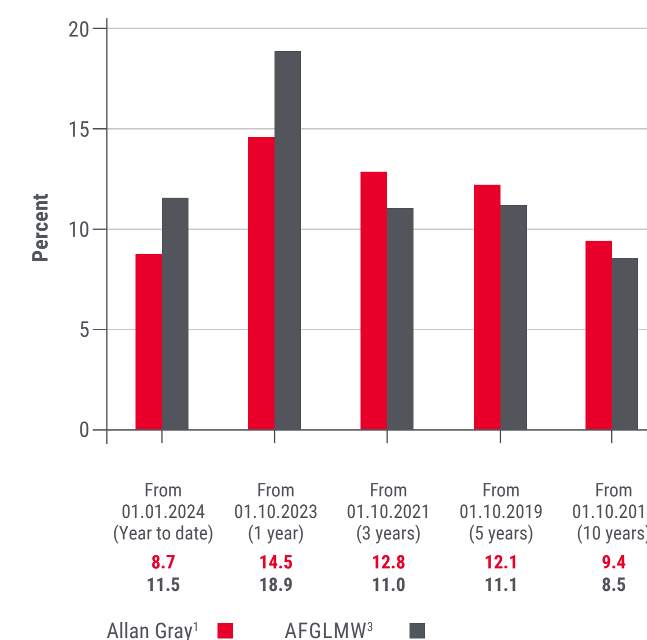
[1] Allan Gray commenced managing pension funds on 1 April 1977, with performance measurement starting on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.
[2] Prior to July 1995, an internally derived JSE All Share benchmark was used.

Note: Listed property included from 1 July 2002. Inward listed securities included from November 2008 to November 2011.

Investment track record – balanced returns

Allan Gray global mandate total returns vs. Alexander Forbes Global Large Manager Watch before fees			
Period	Allan Gray[1]	AFGLMW[3]	Out-/Under-performance
1974	–	–	–
1975	–	–	–
1976	–	–	–
1977	–	–	–
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	−0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	−5.5
1992	1.2	7.6	−6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	−1.8	9.5	−11.3
1998	6.9	−1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	−3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	−6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	−0.6
2008	−1.1	−12.3	11.2
2009	15.6	20.3	−4.7
2010	11.7	14.5	−2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	−4.9
2013	25.0	23.3	1.7
2014	10.3	10.3	0.0
2015	12.8	6.9	5.9
2016	7.5	3.7	3.8
2017	11.9	11.5	0.4
2018	−1.4	−2.1	0.7
2019	6.5	10.9	−4.4
2020	5.3	6.3	−1.0
2021	20.4	21.9	−1.5
2022	9.9	1.2	8.7
2023	14.3	13.1	1.2
2024 (to 30.09)	**8.7**	**11.5**	**−2.8**

Returns annualised to 30.09.2024



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R43.2 million by 30 September 2024. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R9.2 million. Returns are before fees.

[1] Allan Gray commenced managing pension funds on 1 April 1977, with performance measurement starting 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.
[3] Consulting Actuaries Survey returns used up to December 1997. The return for September 2024 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 securities included from November 2008 to November 2011.

Allan Gray South African unit trusts annualised performance (rand) in percentage per annum to 30 September 2024 (net of fees)

	Assets under management (R billion)	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[7]	Lowest annual return[7]
High net equity exposure (Up to 100%)									
Allan Gray Equity Fund (AGEF)	**46.4**	**01.10.1998**	**19.1**	**8.1**	**12.1**	**12.8**	**16.8**	**125.8**	**−24.3**
Market value-weighted average of South African - Equity - General category (excl. Allan Gray funds)[1]			14.2	7.3	12.5	12.2	22.4	73.0	−37.6
Allan Gray SA Equity Fund (AGDE)	**4.1**	**13.03.2015**	**7.6**	**–**	**12.1**	**13.4**	**20.5**	**57.3**	**−32.0**
FTSE/JSE All Share Index, including income			9.1	–	13.7	14.7	23.9	54.0	−18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE)	**31.0**	**01.04.2005**	**14.3**	**12.4**	**15.1**	**13.1**	**18.1**	**78.2**	**−29.7**
MSCI World Index, including income, after withholding taxes[2]			14.6	15.0	16.2	14.1	21.1	54.2	−32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF)	**198.4**	**01.10.1999**	**14.9**	**8.5**	**11.2**	**11.9**	**14.2**	**46.1**	**−14.2**
Allan Gray Tax-Free Balanced Fund (AGTB)	**3.3**	**01.02.2016**	**8.7**	**–**	**11.3**	**12.1**	**14.3**	**31.7**	**−13.4**
Market value-weighted average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[3]			11.5/7.9	7.7	10.4	10.3	17.9	41.9/30.7	−16.7/−10.3
Allan Gray-Orbis Global Balanced Feeder Fund (AGGF)[4]	**17.8**	**03.02.2004**	**11.2**	**10.8**	**13.8**	**15.3**	**15.3**	**55.6**	**−13.7**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index[4]			11.1	10.9	9.9	8.3	12.7	38.8	−17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF)	**53.1**	**01.07.2000**	**11.2**	**8.2**	**9.0**	**9.8**	**11.6**	**23.3**	**−7.4**
Daily interest rate, as supplied by FirstRand Bank, plus 2%			8.5	7.4	7.0	8.0	9.7	14.6	4.6
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF)	**0.8**	**01.10.2002**	**6.7**	**5.1**	**2.9**	**4.4**	**4.4**	**18.1**	**−8.2**
Daily interest rate as supplied by FirstRand Bank			6.1	5.3	4.9	5.9	7.5	11.9	2.5
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO)	**1.0**	**02.03.2010**	**7.5**	**5.7**	**8.0**	**12.7**	**0.3**	**39.6**	**−12.4**
The simple average of the benchmarks of the underlying funds			6.0	4.9	4.7	6.9	−1.6	35.6	−19.1
No to very low net equity exposure (0% - 10%)									
Allan Gray Income Fund (AGIN)[5]	**0.6**	**01.05.2024**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index			–	–	–	–	–	–	–
No equity exposure									
Allan Gray Bond Fund (AGBD)	**8.7**	**01.10.2004**	**9.1**	**9.1**	**8.9**	**10.2**	**22.0**	**22.0**	**−2.6**
FTSE/JSE All Bond Index (total return)			9.0	9.1	9.8	11.1	26.1	26.1	−5.6
Allan Gray Money Market Fund (AGMF)	**28.6**	**01.07.2001**	**7.7**	**7.0**	**6.6**	**7.3**	**9.1**	**12.8**	**4.3**
Alexander Forbes Short-Term Fixed Interest (STeFI) 3-month Index[6]			7.5	6.6	6.1	6.9	8.5	13.3	3.8
Allan Gray Interest Fund (AGIF)[5]	**0.8**	**01.05.2024**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index			–	–	–	–	–	–	–

[1] From inception to 28 February 2015, the benchmark was the FTSE/JSE All Share Index, including income (source: IRESS).
[2] From inception to 15 May 2023, the benchmark was the FTSE World Index, including income.
[3] 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 (source: Morningstar).
[4] From inception to 31 May 2021, this Fund was called the Allan Gray-Orbis Global Fund of Funds and its benchmark was 60% of the FTSE World Index and 40% of the J.P. Morgan Global Government Bond Index (source: Bloomberg). From 1 June 2021, the Fund's investment mandate was changed from a fund of funds structure to a feeder fund structure investing solely into the Orbis SICAV Global Balanced Fund. To reflect this, the Fund was renamed and the benchmark was changed.
[5] These funds were launched on 1 May 2024. We will report their performance information from 31 October 2024.
[6] From inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011, the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector, excluding the Allan Gray Money Market Fund. From 1 November 2011 to 19 August 2024, the benchmark was the Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index.
[7] 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 2024

	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	1.07%	0.45%	0.04%	0.16%	1.72%	0.08%	1.80%
Allan Gray SA Equity Fund	1.00%	−0.23%	0.01%	0.12%	0.90%	0.10%	1.00%
Allan Gray Balanced Fund	1.02%	0.45%	0.03%	0.15%	1.65%	0.06%	1.71%
Allan Gray Tax-Free Balanced Fund	1.30%	N/A	0.03%	0.14%	1.47%	0.07%	1.54%
Allan Gray Stable Fund	1.01%	0.43%	0.03%	0.17%	1.64%	0.04%	1.68%
Allan Gray Optimal Fund	1.00%	0.00%	0.03%	0.15%	1.18%	0.13%	1.31%
Allan Gray Bond Fund	0.49%	0.00%	0.01%	0.07%	0.57%	0.00%	0.57%
Allan Gray Income Fund[1]	0.75%	N/A	0.01%	0.11%	0.87%	0.00%	0.87%
Allan Gray Interest Fund[1]	0.65%	N/A	0.01%	0.10%	0.76%	0.00%	0.76%
Allan Gray Money Market Fund	0.25%	N/A	0.00%	0.04%	0.29%	0.00%	0.29%
Allan Gray-Orbis Global Equity Feeder Fund	1.31%	−0.11%	0.05%	0.00%	1.25%	0.10%	1.35%
Allan Gray-Orbis Global Balanced Feeder Fund	1.22%	0.97%	0.06%	0.00%	2.25%	0.07%	2.32%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	−0.01%	0.08%	0.00%	1.07%	0.12%	1.19%

[1] Since this unit trust has not yet been in existence for three years, the TER and transaction costs are based on actual data, where available, and best estimates.

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

Foreign domiciled funds annualised performance (rand) in percentage per annum to 30 September 2024 (net of fees)

	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[6]	Lowest annual return[6]
High net equity exposure								
Orbis Global Equity Fund	**01.01.1990**	**17.5**	**12.6**	**15.5**	**13.9**	**19.3**	**87.6**	**−47.5**
MSCI World Index, including income, after withholding taxes[1]		14.1	15.1	16.1	14.2	21.1	54.2	−46.2
Orbis SICAV Japan Equity (Yen) Fund	**01.01.1998**	**14.1**	**12.2**	**11.5**	**10.6**	**9.0**	**94.9**	**−40.1**
Tokyo Stock Price Index, including income, after withholding taxes		9.6	11.2	9.7	7.5	10.8	91.0	−46.4
Orbis SICAV Emerging Markets Equity Fund[2]	**01.01.2006**	**12.9**	**8.0**	**10.3**	**11.1**	**12.6**	**58.6**	**−34.2**
MSCI Emerging Markets Index, including income, after withholding taxes[2]		12.1	9.2	8.4	5.0	15.3	60.1	−39.7
Allan Gray Africa ex-SA Equity Fund (C class)	**01.01.2012**	**10.7**	**3.6**	**10.0**	**5.1**	**1.6**	**65.6**	**−24.3**
MSCI Emerging Frontier Markets Africa ex-SA Index[3]		7.4	3.7	10.3	5.6	−1.3	42.2	−29.4
Allan Gray Australia Equity Fund	**04.05.2006**	**14.1**	**11.4**	**10.7**	**14.3**	**17.0**	**99.5**	**−55.4**
S&P/ASX 300 Accumulation Index		12.6	11.0	11.7	11.6	19.6	55.6	−45.1
Allan Gray Frontier Markets Equity Fund (C class)	**03.04.2017**	**10.9**	**–**	**13.8**	**13.6**	**4.3**	**45.2**	**−11.0**
MSCI Frontier Emerging Markets Index		5.9	–	4.8	6.2	10.0	23.2	−12.8
Medium net equity exposure								
Orbis SICAV Global Balanced Fund	**01.01.2013**	**14.5**	**11.2**	**14.3**	**15.8**	**16.2**	**54.4**	**−9.8**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index		13.2	10.8	9.8	8.3	12.7	40.2	−12.1
Allan Gray Australia Balanced Fund	**01.03.2017**	**10.6**	**–**	**11.5**	**13.0**	**15.2**	**29.1**	**−5.3**
The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan Global Government Bond Index expressed in AUD (16%). All performance returns shown are net of fees and assume reinvestment of distributions.		9.9	–	8.8	7.9	13.5	25.1	−8.3
Low net equity exposure								
Orbis SICAV Global Cautious Fund[4]	**01.01.2019**	**8.2**	**–**	**8.2**	**10.9**	**6.3**	**–**	**–**
US$ bank deposits + 2%		7.9	–	7.4	10.8	−1.4	–	–
Allan Gray Australia Stable Fund	**01.07.2011**	**10.0**	**7.2**	**7.9**	**8.4**	**6.2**	**32.7**	**−8.9**
Reserve Bank of Australia cash rate		6.1	3.8	5.0	6.2	2.6	28.8	−15.5
Very low net equity exposure								
Orbis Optimal SA Fund (US$)	**01.01.2005**	**9.3**	**6.9**	**9.1**	**14.4**	**−1.1**	**48.6**	**−15.7**
US$ bank deposits		7.8	6.3	5.3	8.6	−3.4	57.9	−25.6
Orbis Optimal SA Fund (Euro)	**01.01.2005**	**7.3**	**4.1**	**7.7**	**11.2**	**2.0**	**44.1**	**−19.3**
Euro bank deposits		5.8	3.4	4.1	5.5	0.2	40.2	−20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)[5]	**27.03.2013**	**12.7**	**11.4**	**8.4**	**9.9**	**16.0**	**31.4**	**−7.4**
FTSE 3-Month US T Bill + 4% Index[5]		7.9	8.1	9.6	12.6	0.2	36.5	−12.3

Performance as calculated by Allan Gray

[1] From inception to 15 May 2023, the benchmark was the FTSE World Index, including income.

[2] 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.

[3] From inception to 31 October 2023, the benchmark was the Standard Bank Africa Total Return Index.

[4] Return information through to the class inception date on 29 February 2024 is based on the returns that would have resulted from an investment in the Shared Investor RRF Class (C) at Fund inception with no subsequent transactions, if this class of the Fund had existed then. Returns from that date are actual returns of this class of the Fund (Class RRFC). Highest and lowest annual returns will be calculated once consecutive 12-month return data for this class of the Fund is available.

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

[6] 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.

IMPORTANT INFORMATION FOR INVESTORS

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Allan Gray Unit Trust Management (RF) (Pty) Ltd (the "Management Company") is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Sector Conduct Authority (FSCA). Allan Gray (Pty) Ltd (the "Investment Manager"), an authorised financial services provider, is the appointed investment manager of the Management Company and is a member of the Association for Savings & Investment South Africa (ASISA). Collective investment schemes in securities (unit trusts or funds) are generally medium- to long-term investments. Except for the Allan Gray Money Market Fund, where the Investment Manager aims to maintain a constant unit price, the value of units may go down as well as up. 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 funds. Funds may be closed to new investments at any time in order to be managed according to their mandates. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending.

Performance

Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Where annualised performance is mentioned, this refers to the average return per year over the period. Actual investor performance may differ as a result of the investment date, the date of reinvestment and applicable taxes. Movements in exchange rates may also cause the value of underlying international investments to go up or down. Certain unit trusts have more than one class of units and these are subject to different fees and charges. Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the fund, including any income accruals and less any permissible deductions from the fund, divided by the number of units in issue. Forward pricing is used and fund valuations take place at approximately 16:00 each business day. Purchase and redemption requests must be received by the Management Company by 11:00 each business day for the Allan Gray Money Market Fund, and by 14:00 each business day for any other Allan Gray unit trust to receive that day's price. Unit trust prices are available daily on www.allangray.co.za. Permissible deductions may include management fees, brokerage, securities transfer tax, auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray. For more information about our annual management fees, see the frequently asked questions, available on our website.

Benchmarks

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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.

A feeder fund is a unit trust that invests in another single unit trust, which charges its own fees. A fund of funds is a unit trust that invests in other unit trusts, which charge their own fees. Allan Gray does not charge any additional fees in its feeder funds or 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 applicable ASISA standards. Excessive withdrawals from the Fund may place it under liquidity pressure; if this happens, withdrawals may be ring-fenced and managed over a period of time.

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

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

Tax note

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

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