QC
Quarterly Commentary
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ALLAN GRAY

Where investors fear to fish

Allan Gray
SINCE 1973

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PAYING TRIBUTE TO GILLIAN GRAY

10 June 1939 – 8 December 2024

Gillian Gray passed away at the end of last year, concluding an extraordinary life and an inspiring husband-and-wife partnership forged over six decades.

Born on June 10, 1939, in Port Elizabeth, Gill's journey began humbly but grew into a legacy of profound impact. After completing her studies, she moved to Cape Town, where she met Allan Gray, a newly qualified chartered accountant. A friendly bet set their story in motion – Allan was challenged to win Gill over for a date. And, as they say, the rest is history. They married in 1959, laying the groundwork for a lifetime of partnership, purpose and service.

Gill was more than just the anchor to Allan's public endeavours; they shared a mission to create a lasting positive impact, driven by their belief that success must be accompanied by efforts to serve the greater good. This ethos guided a lifetime of thoughtful philanthropy, beginning in the 1970s when Gill and Allan set up charitable trusts to support organisations working on social and economic needs in South Africa. Their efforts culminated in the creation of Allan & Gill Gray Foundation, which they endowed by donating their family's controlling stakes in the Allan Gray and Orbis groups. The dual-purpose structure of this Foundation ensures that the profits from these asset management businesses are devoted exclusively to philanthropy, reflecting Gill and Allan's commitment to using business success to contribute to the common good.

Following the unexpected loss of Allan, Gill stepped into a leadership role at Allan & Gill Gray Foundation with resolve. While she avoided fanfare or publicity, her influence behind the scenes was critical. She upheld a steadfast moral compass and exemplified responsibility and fairness in every aspect of her work and life, staying true to the understated approach she and Allan both embraced.

Beyond her philanthropic pursuits, Gill embraced a life of diverse interests. She was an accomplished bridge player with a profound love for the people of Africa, qualities that reflected her curiosity, focus, ambition and sense of community. Nothing was more important to her than her family, particularly her children. She was the matriarch of a family united by mutual respect, independence and shared responsibility.

This year marks the 20th anniversary of the Allan Gray Orbis Foundation, a fitting milestone and yet another example of Gill and Allan's enduring impact. By providing scholarships, bursaries, and nourishing seeds of entrepreneurship, the Allan Gray Orbis Foundation has enabled gifted students across Southern Africa, particularly those from disadvantaged backgrounds, to cultivate entrepreneurial abilities and leadership qualities.

Throughout her life, Gill's considerate gestures illustrated her character, capturing her essence in ways that will be remembered by thousands of people with a smile and sense of genuine warmth. She leaves behind a lasting influence through her family and Allan & Gill Gray Foundation, and by the example she set for all who knew her.

Craig Bodenstab is an Executive Director of Allan & Gill Gray Foundation, having spent many years in senior roles at Orbis.

COMMENTS FROM THE CHIEF OPERATING OFFICER

Mahesh Cooper

With risk remaining heightened around the world, it is easy to get distracted. I … encourage you to remain focused on your long-term investment goals.

It is with great sadness that I pay tribute to Gillian Gray, who passed away in December. I was fortunate to have spent time with Gill over the years and witness first-hand her kindness, selflessness and generosity. She operated behind the scenes, acting as a partner to Allan in all philanthropic efforts from the early days through to the development of Allan & Gill Gray Foundation. Gill quietly inspired us all to always consider the needs of those less fortunate – and to act on making a difference in people's lives. Her legacy lives on through her efforts.

Investing should not be a guessing game

I write this as we near the end of January, and there has been no shortage of news flow to rattle the markets, with all eyes closely watching newly inaugurated US President Donald Trump, particularly his focus on migration, energy and trade tariffs. But political moves are notoriously difficult to predict, and the economy and the markets do not always respond as expected. Rather than trying to play a guessing game, a better solution is to invest in a fund that is well placed to deliver returns in multiple scenarios. We believe the Allan Gray Balanced Fund is a great option for most investors.

When we launched the Balanced Fund back in October 1999, we aimed to offer retail investors a unit trust that could deliver long-term real returns – but at lower levels of risk than peers. While acknowledging that past performance does not guarantee future outcomes, we are proud of our long-term track record and our continued focus on fulfilling the Balanced Fund's goal of growing and protecting investors' capital. Nick Curtin's analysis offers some proof points.

Investment philosophy in action

Our investment team works tirelessly to invest your savings to enable you to achieve your long-term goals. This quarter's investment articles will give you a detailed idea of how we go about making investment decisions.

In his article, Jithen Pillay looks at a subset of global players in the personal luxury goods market that seem to have lost their investment shine. As you know, we are not put off by diamonds in the rough, and we are finding the investment proposition for select names in this sector very interesting at present.

In another illustration of the execution of our investment philosophy and how we think about risk and opportunity, Rory Kutisker-Jacobson discusses the long-term investment case for frontier markets. Rory explains why, over the long term, these more obscure markets present opportunities that have the potential to be extremely rewarding.

As you are aware, we share our investment philosophy with our offshore partner, Orbis. In his president's letter, Adam Karr notes that whether it's deregulation, shifting geopolitical alliances or technological leaps, moments such as where we find ourselves currently create winners and losers. Like Allan Gray, Orbis doesn't spend attention trying to predict what will happen next in the news; rather, they take the time to understand the terrain and adapt and invest wisely, guided by fundamental analysis. Adam reflects on 2024 and shares insights into Orbis' approach and processes.

… we are proud of our long-term track record and our continued focus on fulfilling the Balanced Fund's goal of growing and protecting investors' capital.

Maximise tax benefits this February

The end of the tax year is an opportune time to check in on your financial plan and maximise the tax benefits offered through retirement funds and tax-free investments. Carla Rossouw and Lee Kotze provide a reminder of these tax incentives that government has put in place to encourage investing towards long-term goals via these products. In addition, they discuss some of the factors to consider before making withdrawals.

Earn inflation-beating returns

In this quarter's Investing Tutorial, Twanji Kalula draws our attention to lifestyle creep, which, simply put, is the increase in our expenditure as we earn more money. When we think about our goal of achieving inflation-beating returns, we must make sure that we also account for lifestyle creep as it adds additional pressure to the amount we need to accumulate to cover our future expenses.

The end of the tax year is an opportune time to check in on your financial plan and maximise tax benefits …

All the best for 2025

2024 was the great election year, with more than half of the world's population voting. This year, we are warily watching the outcomes of the decisions made. To get a good sense of the current investment context, watch the latest investment update from our chief investment officer, Duncan Artus, available via our website, and remember to subscribe to the Allan Gray Podcast for investment insights.

With risk remaining heightened around the world, it is easy to get distracted. I wish you all the best for the year ahead and encourage you to remain focused on your long-term investment goals.

Kind regards

Mahesh Cooper

Mahesh Cooper

DIAMONDS IN THE ROUGH: A LOOK AT LUXURY

Jithen Pillay

Enduring traditions, a growing number of high-net-worth individuals and the emergence of the Chinese consumer have translated into robust growth in the personal luxury goods market …

The luxury industry is broad – it encompasses everything from fine food and beverages to cars, aeroplanes, boats and fine art. Ultimately, luxury is down to one's own definition; we all have different points where a "need" transitions into a "want". Jithen Pillay looks at the subset of global players in the personal luxury goods market (leather goods, jewellery, apparel, shoes, etc.), and discusses whether there is an opportunity for valuation-oriented investors given the recent sell-off.

"The best things in life are free. The second-best things are very, very expensive." – Often attributed to Coco Chanel

Since the first civilisations, humankind has used material possessions as a signalling tool. Ancient Egyptians are arguably the most famous example, with the privileged building vast monuments to symbolise their wealth and power, fabricating precious metals and stones into jewellery to canonise significant events, using perfumes to deepen spiritual connections, and filling tombs with earthly luxuries for use in the afterlife.

Five thousand years later, little has changed. Expensive items are still used as an instrument of self-expression, as a visual symbol of achievement both to the person buying them and to others, and as gifts to mark special occasions – especially romantic ones. Today, we refer to the industry catering to this as "luxury" – a word that derives from the Latin for "excess" and "offensiveness".

Enduring traditions, a growing number of high-net-worth individuals and the emergence of the Chinese consumer have translated into robust growth in the personal luxury goods market – from EUR116bn in 2000 to EUR369bn in 2023 (+5% compound annual growth rate (CAGR)), as shown in **Graph 1**.

While the demand for luxury goods has endured, the companies serving these customers are vastly different from just 30 years ago. Largely through acquisition, the branded luxury industry has consolidated, creating a few mega-owners. The five largest listed personal luxury goods companies today (by market capitalisation) are shown in **Table 1**.

These luxury companies have yielded strong returns. Since January 2001 to the peak in March 2024, the MSCI Europe Textiles, Apparel and Luxury Goods Index, which includes almost all the names mentioned in Table 1, compounded total returns at 12% per annum in euros. This growth turbocharged during the COVID-19 pandemic: In the four years from March 2020 to March 2024, the index yielded a total CAGR of 27% in euros, as reflected in **Graph 2** on page 8.

Since the March 2024 peak, however, the index is down 16% to end-December 2024. Richemont, which has a secondary listing on the JSE, is down 20% in rands since its post-pandemic peak to the same end date. Such underperformance warrants a second look at the investment case.

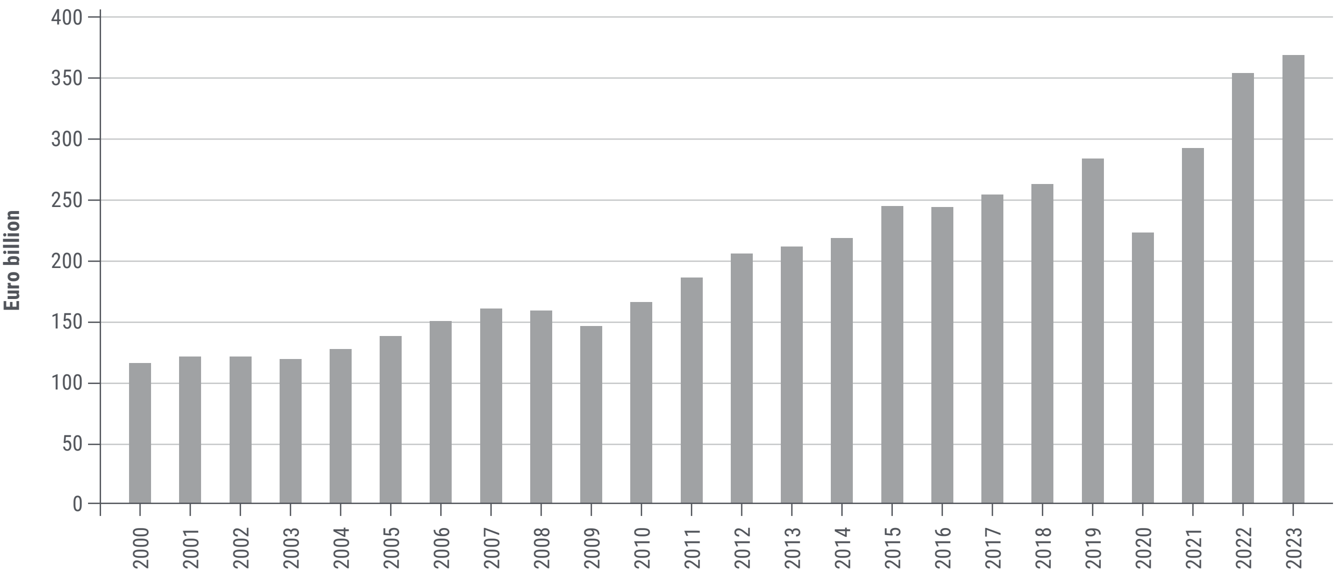
The investment case for Richemont

There are several factors that make Richemont a high-quality business and a better business than it was a decade ago. These are outlined below.

Market growth

More than 50% of Richemont's revenue comes from selling jewellery, with Cartier and Van Cleef & Arpels being its biggest brands. The total luxury jewellery market grew at 9% CAGR in euros from 2008 to 2023. Growth here should

Graph 1: Personal luxury goods spending (EUR bn)



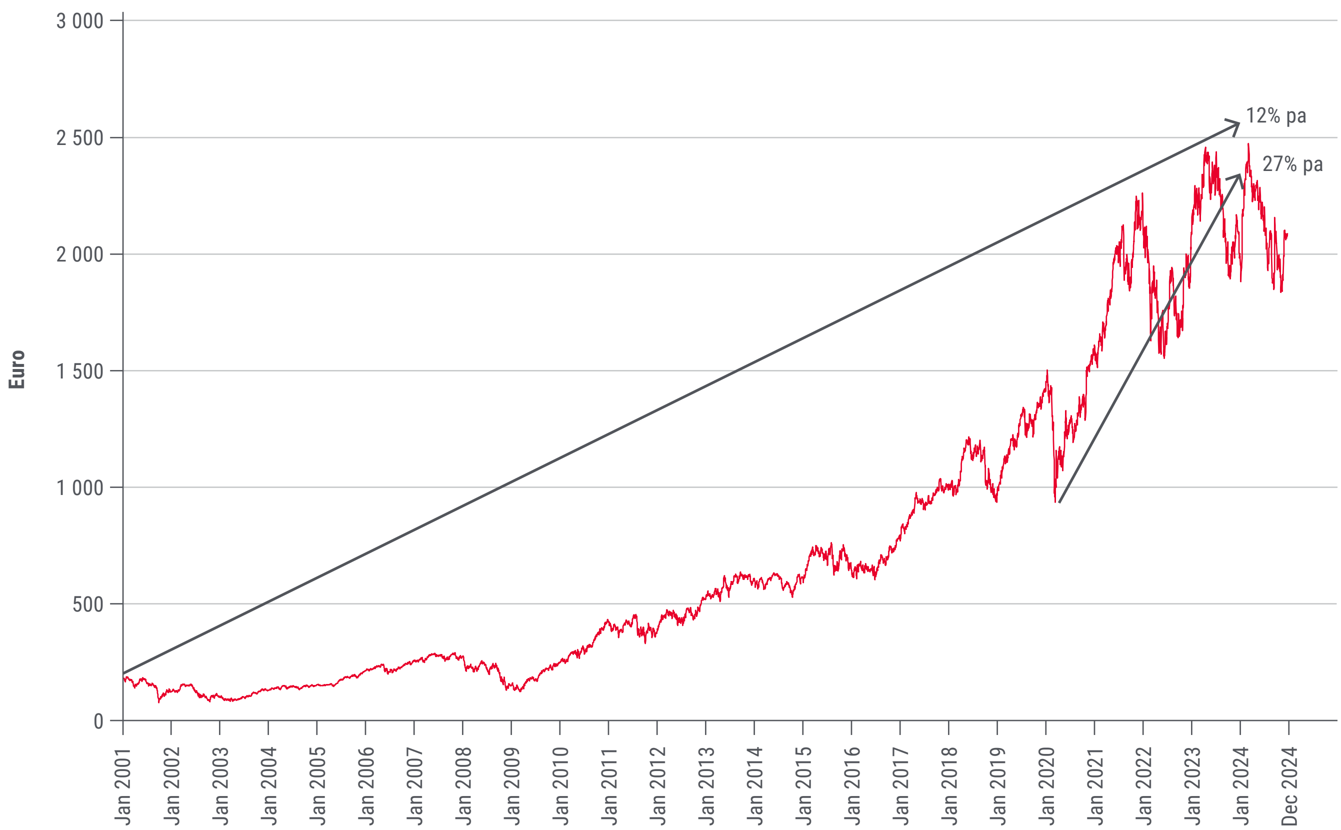
Sources: Bain-Altagamma, Allan Gray research

Table 1: Largest listed personal luxury goods companies (by market capitalisation)

	LVMH	Hermès	Richemont	Kering	Prada
Most important brand	Louis Vuitton	Hermès	Cartier	Gucci	Prada
Year most important brand was founded	1854	1837	1847	1921	1913
Other important brands	Dior, Tiffany		Van Cleef & Arpels, Vacheron Constantin	Saint Laurent, Bottega Veneta	Miu Miu
Interesting fact	As the leading consolidator, since 1999, LVMH has acquired more brands than the rest of the industry combined.	Hermès is the industry darling, with waiting lists for its most iconic bags and peer-leading margins.	Cartier is the largest jewellery brand in the Western world.	Gucci grew sales from EUR3.9bn in 2014 to EUR9.6bn in 2019 (+25% CAGR).	Miu Miu is one of the fastest-growing large luxury brands and is on track to double its 2023 sales in 2024.

Source: Allan Gray research

Graph 2: MSCI Europe Textiles, Apparel and Luxury Goods Index (total return; EUR)



Sources: LSEG, Allan Gray research

continue through the cycle, driven by a gifting underpin (the majority of jewellery purchases) and a growing trend of self-purchases by women (supported by rising labour force participation in senior roles and a move towards female self-empowerment).

Branded players should fare even better: Jewellery is the only large luxury category where unbranded fabricators still command a high market share (60-70%). Unbranded jewellery is structurally losing share to branded jewellery, which is likely to continue as customers gravitate towards globally recognised designs.

Premiumisation

The hard luxury industry, which includes high-end, durable goods like jewellery and watches, is bifurcating, with ultrapremium brands outperforming as the high-net-worth consumer proves more resilient in tougher economic conditions. Cartier and Van Cleef are best placed to take advantage of this, given their positioning at the top end of the desirability pyramid. The brands are small enough to maintain exclusivity and premium pricing, but large enough to invest more than peers in client experience and marketing.

High barriers to entry

Provenance is important in luxury. Table 1 shows that the most successful luxury brands were established more than 100 years ago. The barriers to entry are even higher in hard luxury, given greater reliance on recognisable designs rather than logo identification. Iconic jewellery lines take decades to cement themselves into the psyche of consumers and are difficult to displace thereafter. Cartier's popular Trinity ring was designed in 1924. Cartier's Love bracelet, arguably the most recognisable jewellery piece in the world, was created in 1969.

Distribution

Of Richemont's sales, 75% are made directly to the end-customer, either via its own stores or online – up from 46% in 2010. This is a function of the sales mix shifting towards jewellery (watches have a structurally higher wholesale component) and Richemont focusing its watch distribution on its most valuable third-party resellers.

The move to take greater control of the way its products are sold is a wise long-term strategy: It improves gross margins by cutting out the middleman, and in time increases operating margins by driving traffic via Richemont's already-established direct retail network. Most importantly, it gives Richemont better control of its inventory. The latter is especially relevant in weak trading, to prevent wholesalers from flooding the market with discounted stock, which ultimately damages brand reputation and long-term pricing power. This is precisely what happened to Richemont's Specialist Watchmakers division in 2017, following China's graft crackdown.

Economics

Luxury companies exhibit favourable economics. Owing to steep prices and an increasing proportion of vertical integration, margins are high. Returns are also strong despite expensive store fit-out costs, given premises that are mostly leased. Working capital cycles, however, are much longer versus those of typical apparel retail. Balance sheets are also mostly run very conservatively; Richemont has almost EUR8bn of net cash.

The recent sell-off in the luxury sector, however, is not without merit, considering the following factors:

- **Pandemic normalisation:** Excess savings built up by US consumers during the pandemic (more than US$2tn at the peak), thanks to stimulus cheques and lockdowns that limited physical experiences, saw disproportionate spending on luxury goods. The revenue Richemont earned in 2024 from its Jewellery Maisons[1] division is almost double what it was in 2021. It was inevitable that this rate of growth slowed as countries reopened.

We have greater conviction in the longer-term outlook.

- **Weaker demand from China:** Chinese consumers comprise 30% of global luxury spending, and sales growth from the cluster has turned negative as a result of a weakening consumer.

  As shown in Graph 1, luxury spend is cyclical and correlated with global macroeconomic factors. Even worse for Richemont, historically, hard luxury is more cyclical versus soft luxury (which includes fashion and accessories like leather goods and designer clothing). Richemont's first-half financial year 2025 sales in Greater China are down 27%.

- **Concern over US demand sustaining:** Americans alone contributed one-third to global luxury spending growth from 2019 to 2023. This is not surprising, given their very strong economy, low unemployment, world-beating stock market, and household wealth that grew more than 50% over that four-year period.

… we are finding the Richemont investment proposition particularly interesting at present.

  Investors are naturally nervous about whether this resilience can endure. A global recession, geopolitical conflict, stock market crash and/or anything else that diminishes the consumer "feel-good" factor will negatively impact the luxury sector's revenue and earnings. This was the case following the technology bubble bursting in the early 2000s, the global financial crisis in 2008 and the COVID-19 pandemic in 2020.

- **Price versus volume:** A classic model Cartier Love bracelet (in yellow gold) costs US$7 350 at the time of writing. If Richemont sells one of these in year 1, it must sell another to the same customer and one to a new customer in year 2 to register volume growth. This becomes increasingly difficult as each year passes, as Love bracelet penetration rises closer to its ceiling.

  Some luxury brands have responded to this reality with aggressive price increases to compensate. This is good for short-term profits, but risks alienating the customer over the long term. Richemont has been more measured with its price increases compared to peers.

A long-term proposition?

The luxury industry trades on 24 times trailing earnings; this is not overly expensive relative to its own history and relative to the through-the-cycle quality of these companies.

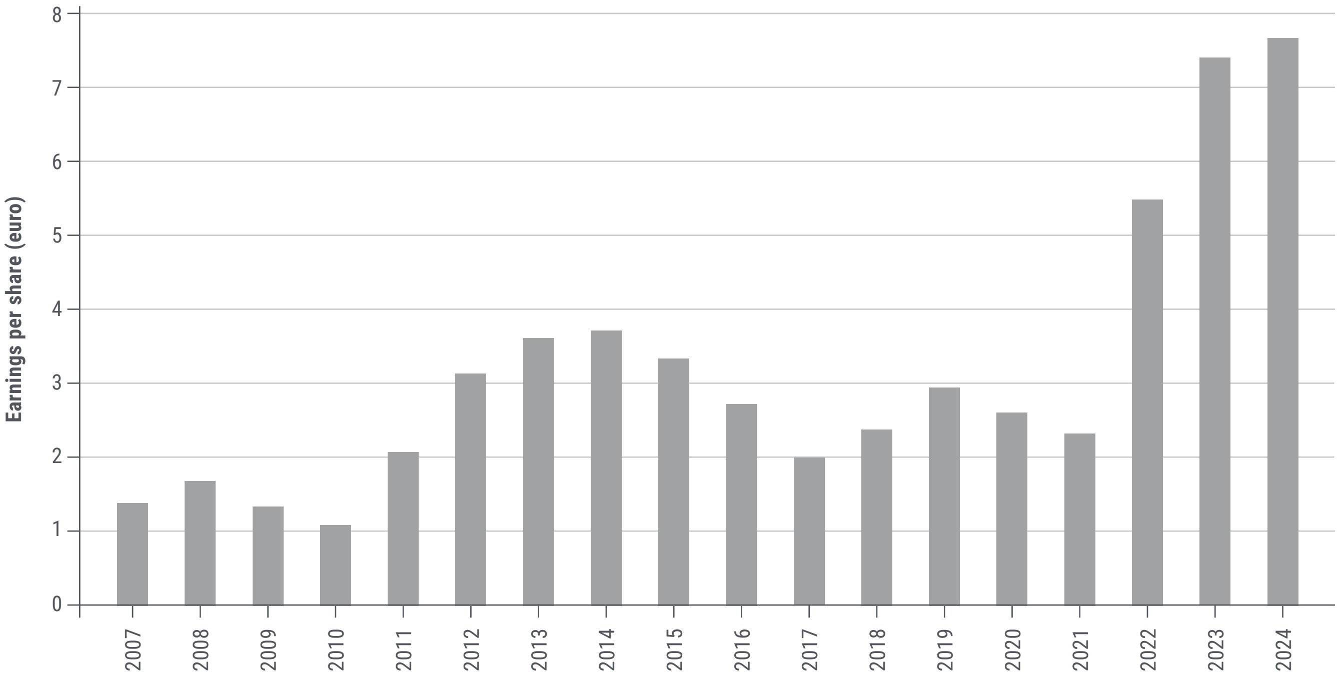
[1] "Maison" is French for "house", and it denotes an exclusive brand with a strong heritage.

Richemont trades on a similar multiple of trailing adjusted earnings. However, these earnings seem high compared to historic trends – as evident in **Graph 3** – and near-term visibility is low given the headwinds discussed.

We have greater conviction in the longer-term outlook. The last time our clients were material Richemont shareholders was as the world emerged from the global financial crisis in 2009, when sentiment was low and market participants thought conspicuous consumption was forever dead. With the benefit of hindsight, this was the right time to buy.

While cautious, we are finding the Richemont investment proposition particularly interesting at present.

Graph 3: Richemont adjusted earnings per share (EUR)



Sources: Company reports, Allan Gray research

Jithen joined Allan Gray in 2013 as a CA trainee before joining the Investment team as an analyst. He was appointed as a portfolio manager in December 2023 and currently manages portions of the equity and domestic balanced mandates. Jithen is a director of Allan Gray Proprietary Limited. He holds a Bachelor of Business Science degree in Finance and Accounting and a Postgraduate Diploma in Accounting, both from the University of Cape Town. Jithen is a qualified Chartered Accountant (SA) and a CFA® charterholder.

WHERE INVESTORS FEAR TO FISH

Rory Kutisker-Jacobson

You want to fish where there are plenty of fish, but no other fishermen. Frontier markets might just be such an opportunity.

High domestic inflation. Volatile currencies. Foreign languages. Domestic insider advantages. Different cultural, legal and governance practices. Unpredictable politics. These are just some of the risks investors must contemplate when considering an investment in frontier markets. So why bother? Rory Kutisker-Jacobson discusses the long-term investment case for these markets.

Returns over the past decade from many smaller emerging and frontier markets, including South Africa, have been poor, as shown in **Table 1** on page 12. For the 10 years to December 2024, the MSCI Frontier Emerging Markets Index (MXFEM Index), which tracks a basket of companies in many of these countries, has returned a paltry 0.5% per annum (p.a.) in US dollars. Returns from most individual countries have been similar. By way of example, the MSCI indices for Vietnam and the Philippines, which track the largest companies in these markets, have delivered returns of 0.8% and -2.0% p.a. respectively over the last decade.

The FTSE/JSE All Share Index (ALSI), converted into US dollars, delivered a slightly better 3.8% p.a. return. In contrast, the MSCI All Country World Index (MSCI ACWI) has returned 9.2% p.a. over this same period, and the darling of the last decade, the US, has done even better, with the S&P 500 returning 13.1% p.a.

After reading the above laundry list of potential risks and considering past returns, if your immediate thought is "no thank you", you are not alone. These risks may seem big, scary and unfamiliar, and the returns hardly seem salivating. All too many investors take a quick glance at frontier markets before swiftly moving along, deeming them too risky, too complex or, dare I say it, un-investable.

And therein lies the opportunity.

Balancing risk and opportunity

The reality is that every investment comes with risk. One cannot avoid risk. If you seek to avoid risk entirely and invest only in "risk-free" assets, you take on the risk that future returns may be insufficient to offset inflation or other liabilities you may need to meet over time.

Table 1: US$ index returns 10 years to end-December 2024

MXFEM Index	MSCI Vietnam	MSCI Philippines	ALSI	MSCI ACWI	S&P 500
0.5%	0.8%	−2.0%	3.8%	9.2%	13.1%

Sources: MSCI, FTSE/JSE, S&P, Allan Gray research

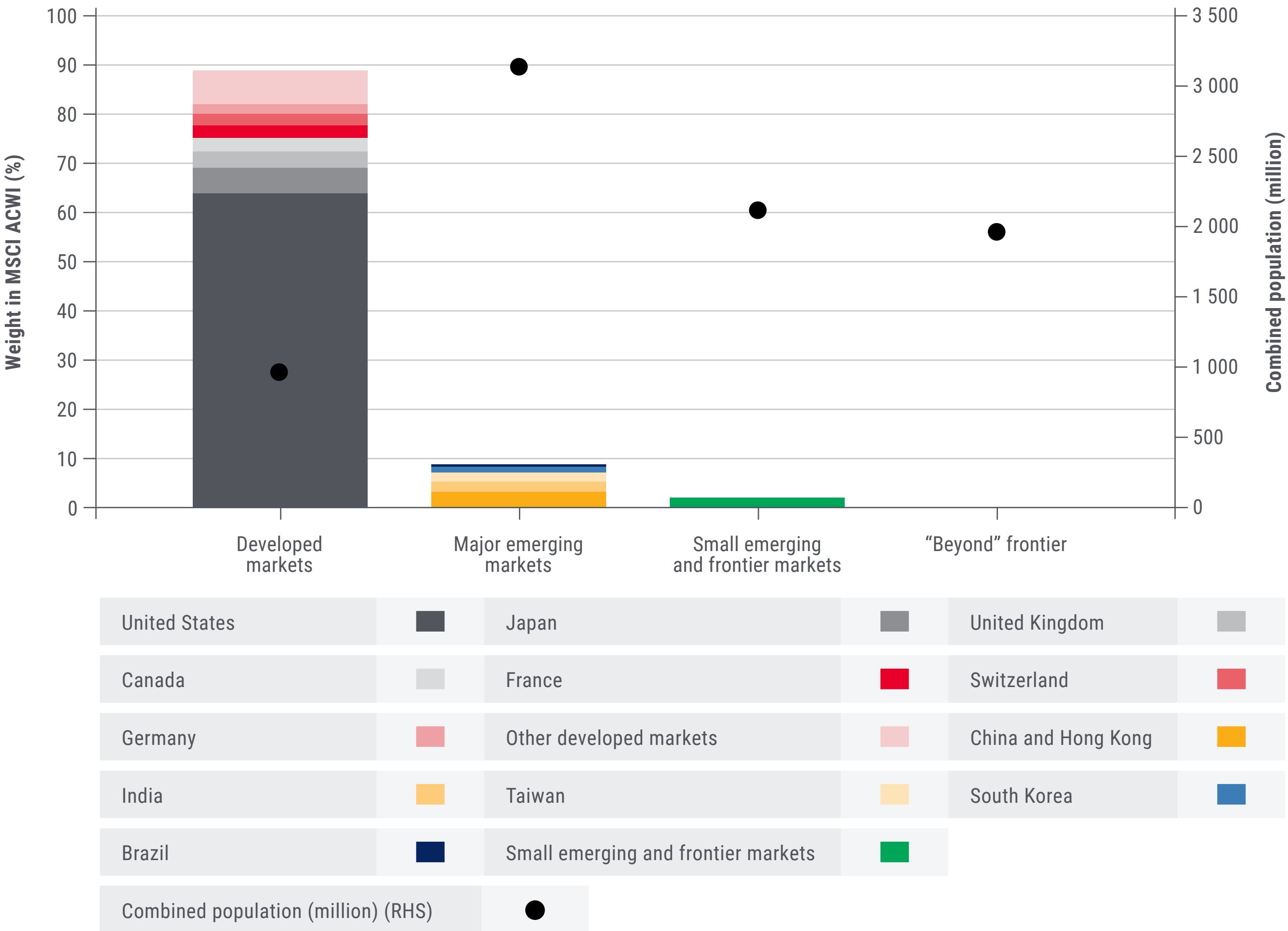
If you invest by looking in the rear-view mirror, i.e. only in the best-performing and most popular companies, you risk overpaying, with a very rosy future already discounted in today's price. There is no guarantee that the next 10 years will look like the previous 10.

While one cannot avoid risk, one can look for opportunities where the market has mispriced risk. Such situations, where the market has mispriced assets, are commonly referred to as market inefficiencies. The greater the number of market inefficiencies, the greater the opportunity for outsized returns for the active investor.

Oaktree Capital's Howard Marks famously said that market inefficiency comes from two things: ignorance and prejudice. We believe that these two things are abundant in smaller emerging and frontier markets at this point in time. Ignorance, because there are not many global investors actively looking at frontier markets, and prejudice, because past returns at an aggregate level have been poor. It is human nature to look at that with which we are unfamiliar with greater scrutiny and disdain.

Graph 1 shows the weighting given to four large buckets in the MSCI ACWI. The first bucket, which accounts for just

Graph 1: MSCI ACWI weights



Sources: MSCI, World Bank, Allan Gray research under 90% of the index's weighting, is that of developed markets. Combined, these countries have a population of just under one billion, or roughly 12% of the world's population. The US alone makes up more than 60% of the weighting in the index.

The second bucket reflects the five largest emerging markets by market capitalisation, being China, India, Brazil, South Korea and Taiwan. They contribute 9% to the weighting of the index, but roughly 38% to the world's population (3.14 billion people).

The third bucket reflects all the smaller emerging markets and frontier markets that have some weighting in the MSCI ACWI. Despite having a combined population of just over two billion people (26% of the global total), their contribution to the index is just 2%.

The final bucket reflects all the countries that are not even represented in the MSCI ACWI, with a combined population of another two billion.

... such an environment should offer greater opportunities to find mispriced assets.

Put another way, roughly 90% of the world's investors' focus is on just 12% of the world's population, while roughly 2% of their focus is on countries that account for 50% of the world's population (the last two buckets combined). Admittedly, this is a little simplistic in nature, as most of the large companies in the index are multinational companies whose product reach stretches across the world, servicing a substantial portion of the global population. However, US tech giants Apple, Nvidia, Microsoft and Amazon each have a greater weight in the index than all these smaller emerging and frontier markets combined.

This serves to highlight the disparity in focus and attention. There are hundreds, if not thousands of high-calibre, smart people analysing each of the largest companies in the world in extreme detail, with substantial resources behind them. There are far fewer eyes looking for opportunities in frontier markets, and there is far less capital.

For the active investor willing to do the work and put in the research effort, such an environment should offer greater opportunities to find mispriced assets.

Banking on returns

Let us look at the banking sector as an example.

Capitec has been one of the darlings of the JSE for much of the past decade, providing a total return in rand of 58% over the past year, 19% p.a. over the past five years and 27% p.a. over the past 10 years.

But it is not just the share price that has done well – the underlying company performance has been excellent too. Since August 2013, Capitec has grown earnings by 18.5% p.a. in rand, for cumulative growth of over 540%. In US dollars, those figures are less stellar given rand weakness, but still impressive overall. Since August 2013, in US dollars, earnings have grown a cumulative 219% (or 11.1% p.a.). This is materially better than the largest bank on the JSE, FirstRand, which has compounded earnings since June 2013[1] at 8.6% p.a. in rand, but only 1.5% p.a. when translated into US dollars. That equates to cumulative growth of just 18% in US dollars.

In the US, J.P. Morgan is the largest bank. Since June 2013[1], J.P. Morgan has grown earnings at 10.5% p.a., for cumulative growth of 200% over the period.

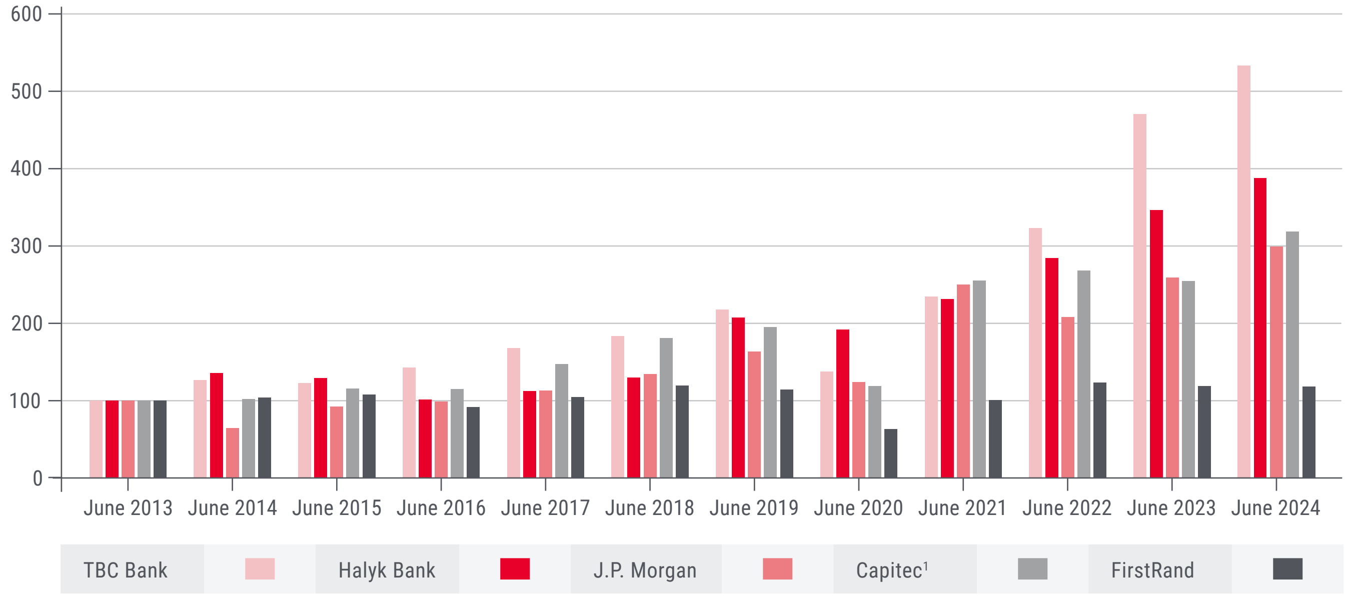
Thus, while Capitec's underlying performance has been stellar within South Africa, on a global basis, it has been good – but only marginally better than the largest US bank, once translated into US dollars.

Let's now compare that performance with two frontier banks, both of which are currently held in the Allan Gray Frontier Markets Equity Fund: Halyk Bank, the largest bank in Kazakhstan, with an estimated 32% share of the loan market, and TBC Bank, the largest bank in Georgia, with an estimated 39% share of the loan market.

Since June 2013[1], Halyk has grown earnings by 13.1% p.a. in US dollars, for cumulative growth of 289%, while TBC has been even more impressive, with annual growth of 16.5%, for cumulative growth of 435%.

[1] The companies have different annual reporting dates. For Halyk Bank, TBC Bank, J.P. Morgan and FirstRand, earnings and dividends are measured to the end of June each year, whereas for Capitec, it is to the end of August each year.

Graph 2: US$ earnings per share – indexed



[1] The companies have different annual reporting dates. For Halyk Bank, TBC Bank, J.P. Morgan and FirstRand, earnings and dividends are measured to the end of June each year, whereas for Capitec, it is to the end of August each year.
Sources: LSEG, company reports, Allan Gray research

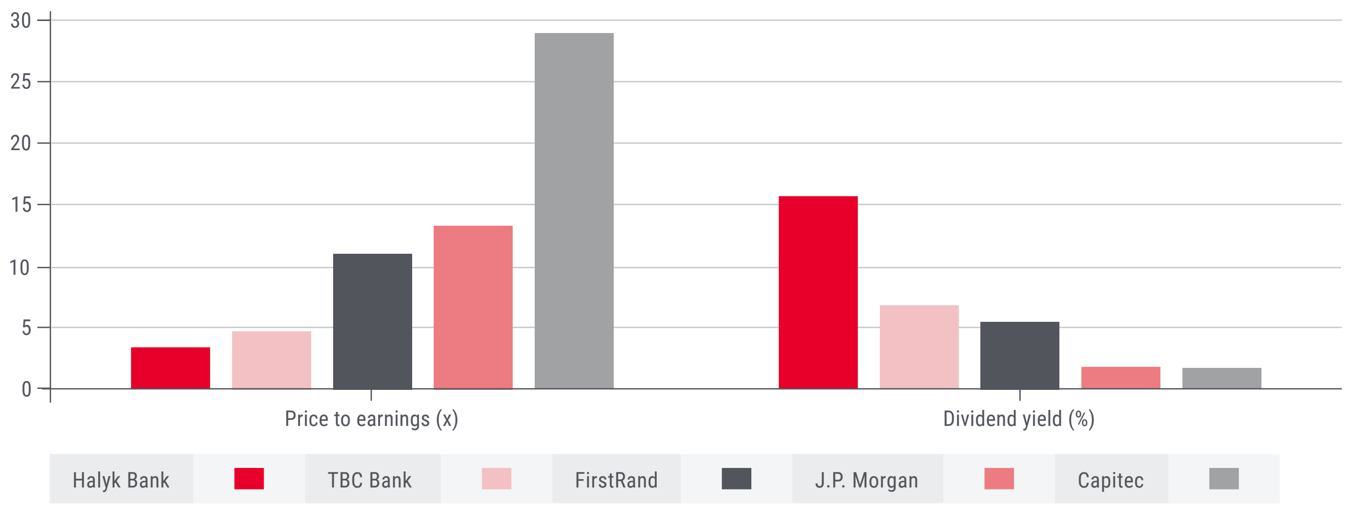
Graph 2 shows the trajectory of earnings for each of the mentioned banks in US dollars over this period, indexed to 100 at the start.

Graph 3 shows the price-to-earnings (P/E) multiple and dividend yield (DY) the market placed on each of these banks at the end of December 2024. All else being equal, a lower P/E multiple and higher DY imply a cheaper price. At less than five times earnings, both Halyk and TBC trade at a more than 50% discount to J.P. Morgan and FirstRand, and a greater than 80% discount to Capitec, despite having superior historic earnings growth.

How is this possible?

1. Markets are forward-looking, so it is possible that markets are discounting a dire future for Halyk and TBC and a particularly rosy future for Capitec, and/or:
2. Markets reflect current sentiment, i.e. ignorance or prejudice.

Graph 3: Valuations as at 31 December 2024



Sources: LSEG, company reports, Allan Gray research

On our analysis, we believe the valuation disparity is overwhelmingly caused by the latter, where excessive pessimism, uncertainty and despondency are weighing heavily on shares in the former USSR blocks. Many of the companies in these markets were already overlooked and out of favour before Russia invaded Ukraine; the war has only exacerbated that negative sentiment. Although sentiment has improved somewhat from the bottom in mid-2022, it remains depressed, with political activity continuing to have an outsized impact on sentiment in the short term, particularly in Georgia.

Looking through the geopolitical noise, however, you find two high-quality companies trading at very attractive prices. We have already highlighted the historic earnings growth of each company, but perhaps more importantly, they continue to have a long runway for growth ahead of them, with banking penetration in both markets materially lagging that of larger emerging and developed market peers.

The underlying economies have also been growing strongly. In addition to that, both banks are well capitalised, have excellent digital offerings, world-leading cost-to-income ratios, and returns on equity consistently over 20%.

The experience during the COVID-19 pandemic provides an apt example of each bank's abilities to weather hardships. Perhaps more surprising is that the banking sectors in both Kazakhstan and Georgia have been indirect beneficiaries of the war, with a large portion of regional trade being redirected through their markets, boosting banking activity and the economy.

Given that both banks continue to pay healthy dividends, grow earnings and have recently begun share buybacks, we believe the patient investor is well poised to generate good dollar returns from today's starting prices, even if their valuations stay depressed. In fact, despite their low valuations today, they both have already been good investments. You don't need a rerating for that to continue. Halyk has delivered a US dollar total return of 23% p.a. over the past five years and 19% p.a. over the past 10 years. TBC has returned 24% p.a. in US dollars over the past five years and 15% p.a. over the past eight years (TBC only listed in 2016).

Can something go wrong that would disrupt the current investment case?

Of course. It is inevitable that we will make mistakes – both at a company and country level. Indeed, we already have. This is, however, just one example of the opportunities we can find across the frontier universe. Across sectors and geographies, we can find a number of other companies that trade at substantial, unjustified discounts to their developed market peers.

We mitigate the risk of a single investment by managing position sizes, and deliberately investing across geographies and sectors, which allows us to minimise company-, sector- and country-specific risks. If we can find a number of uncorrelated opportunities that have significant upside as a result of mispriced risk, the investments that generate outsized returns should materially outweigh those that disappoint.

Graph 4 on page 16 shows the performance of the Allan Gray Frontier Markets Equity Fund since inception on 3 April 2017 to the end of December 2024. Despite what has been a difficult operating environment, we have been able to generate a healthy 7.6% p.a. return, net of all fees and expenses, versus the Fund's benchmark at 1.7%. What is perhaps most pleasing about this return is that a material portion has been driven by the underlying growth in the earnings of the companies, rather than a substantial improvement in sentiment and an associated rerating.

At a Fund level, the weighted average forward P/E multiple of companies in our portfolio is just 5.5 times. To give you a sense of how out of favour frontier markets are, the MSCI ACWI ended 2024 on 22 times historic earnings and 18 times forward earnings expectations. The S&P 500 ended 2024 on an even higher 28.6 times historic earnings.

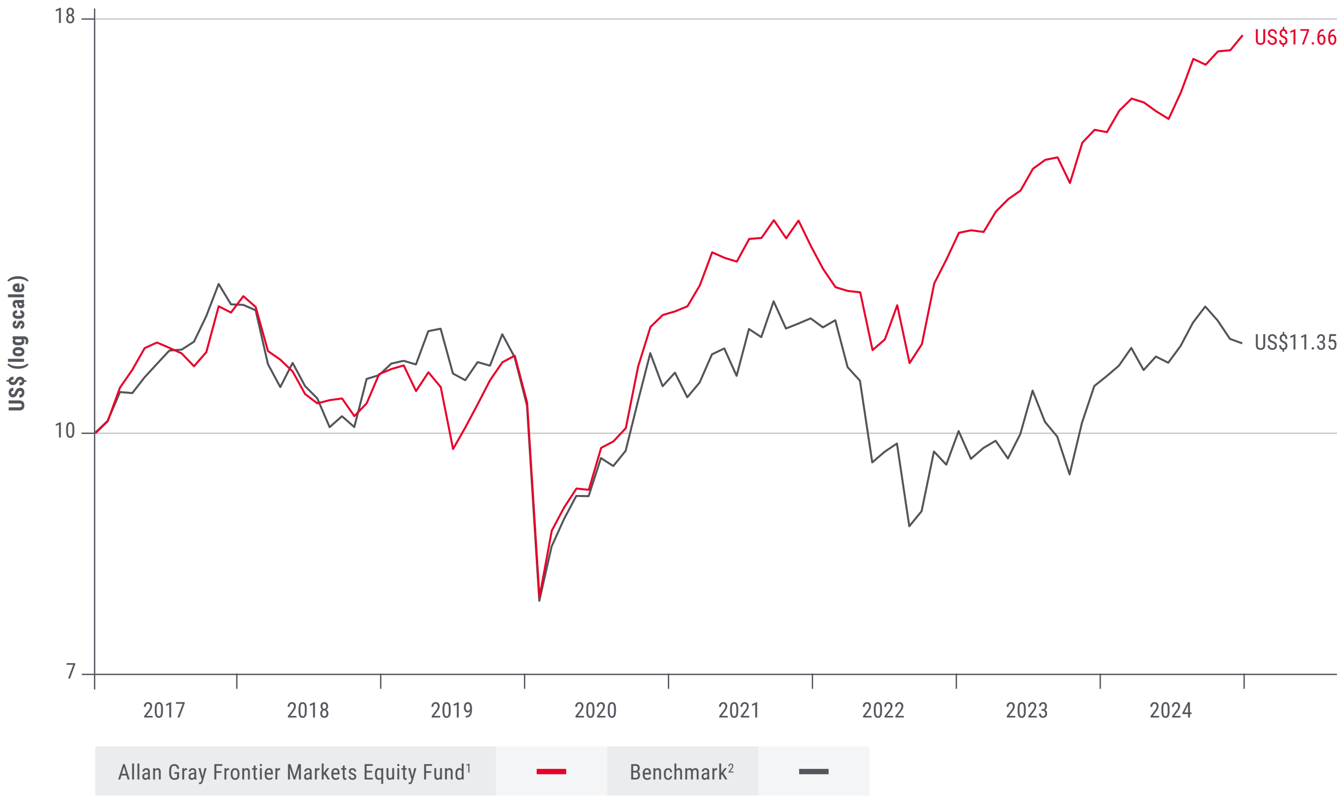
If the investable universe were an ocean, think of the United States as the most popular fishing location, renowned for big fish. For the past decade, fishermen have consistently returned home with above-average catch rates. Today, however, it is awash with competing fishermen. As a result, only the most skilled angler is able to consistently bring home an above-average catch. Most fishermen now risk returning home with a below-average catch.

In contrast, frontier markets represent remote pockets of the ocean, with volatile and unfamiliar seas, but far from devoid of marine life. Fishing here can be lonely, but it can also be extremely rewarding.

You want to fish where there are plenty of fish, but no other fishermen. Frontier markets might just be such an opportunity.

Graph 4: Performance in US$ net of all fees and expenses

Value of US$10 invested at inception with all distributions reinvested



[1] The C class version of this Fund is displayed. Prior to the inception of this class of the Fund, the performance and risk measures are calculated using the A class performance of the Fund.

[2] MSCI Frontier Emerging Markets Index (source: MSCI), performance as calculated by Allan Gray. Calculation based on the latest available data as supplied by third parties.

Source: Allan Gray Frontier Markets Equity Fund factsheet (C class)

What is the difference between developed, emerging and frontier markets?

The distinction between developed, emerging and frontier markets is primarily based on the stage of economic and market development, growth potential, liquidity, market accessibility and associated risks. It is somewhat subjective.

Developed markets are countries with high levels of income, stable economies, and well-established financial markets. Examples include the US, UK, Japan, Germany, Canada and Australia.

Emerging markets are economies that are in the process of rapid growth and industrialisation, but that have not yet reached the level of developed markets. Examples include China, India, Brazil, South Africa, Mexico, Russia and Indonesia.

Frontier markets are economies that are less developed than emerging markets. They are often smaller, less liquid, and may be at earlier stages of economic development. They are generally perceived as the highest risk. Examples include Vietnam, Georgia, Kenya, Nigeria, Bangladesh, Morocco and Pakistan.

Rory joined Allan Gray as an equity analyst in 2008. He was appointed as a portfolio manager in 2017 and manages a portion of the equity, balanced, frontier markets equity and African equity portfolios. Rory holds a Bachelor of Business Science degree in Economics and Finance from the University of Cape Town and is a CFA® charterholder.

ORBIS: PRESIDENT'S LETTER 2024

Adam R. Karr

Our purpose is clear and enduring: to deliver results that transform lives over time.

In his annual President's letter, Adam R. Karr, from our offshore partner, Orbis, pays tribute to Gillian Gray, who passed away in December 2024. He also reviews the performance of the Orbis portfolios over the past 12 months, reflects on the investment lessons from the year and discusses why adaptability is essential for future success.

It's hard to believe three years have passed since my first letter as President of Orbis. Time, like markets, compounds – often in surprising ways. This year delivered solid returns, but also a humbling reminder of the market's unpredictability. Every year teaches us lessons, and 2024 was no exception.

In times like these, *adaptability* feels more essential than ever.

Amidst the change, some things remain constant. Our purpose is clear and enduring: to deliver results that transform lives over time.

Last month, I travelled to Bermuda to honour the life of Gillian Gray, wife of our founder, Allan Gray. It was a moment to reflect on the profound role Gill and Allan played in transforming so many lives – not just through financial wealth, but through wealth of opportunity and purpose.

Their legacy serves as a powerful reminder of why we do what we do – and the responsibility we carry to make a difference.

Looking back: Performance

In 2024, our clients' capital appreciated 10.7% on a firm asset-weighted basis. On a relative basis, our Strategies underperformed their respective benchmarks by 2.2% net of fees, also on an asset-weighted basis.

One year is just a chapter. What matters most is our ability to compound results over time. Over the past three and five years, our clients' capital appreciated at annualised rates of 6.7% and 8.2% respectively on a firm asset-weighted basis. During these periods, we also achieved positive annualised net relative returns of 2.7% and 0.2%, with all strategies outperforming their peer group averages, as shown in **Table 1** on page 18.

A few key observations from the past year:

- First, two of our equity strategies delivered world-class performance: our International Strategy achieved net relative returns of 7.9%, and our Emerging Markets Strategy produced net relative returns of 3.9%. Also impressive, our Global Balanced Strategy achieved a return of 12.1% and net relative returns of 2.6%.

- Second, while our Global Equity Strategy delivered a net return of 12.5%, it lagged the MSCI All Country World Index (ACWI) by 4.2%. This result stings, and we own it. We made well-reasoned decisions that did not yield the alpha that we aim to deliver in this calendar period. The outcome was not entirely surprising, however, given our underweight to a surging US market (S&P 500 up 25%) and limited exposure to the narrow set of high-growth stocks driving much of the index's gains (NASDAQ up 30%).

These results did not come easily. Reflecting on the year, the real story lies in how we achieved them – through strong idiosyncratic stock selection, a testament to our research engine. In a year where stellar market gains were concentrated in a handful of high-growth stocks, opportunities for outperformance were scarce, as reflected in **Graph 1**. Yet, Orbis Global delivered solid absolute returns, demonstrating the power of our research-driven approach to uncover opportunities beyond the market's crowded consensus.

Periods of such narrowly concentrated outperformance – like we saw in 1998 and 1999 – often set the stage for active managers to sharply excel. However, these cycles can persist longer than expected, testing patience and conviction. I like to say, "it works because it hurts". This discomfort isn't a flaw – it is *the* source of opportunity. It is precisely this environment that creates the potential for meaningful alpha, and it is why we are excited about what lies ahead.

Looking back: Markets

Global markets delivered surprisingly strong returns in 2024, fuelled by optimism around AI, shifts in monetary policy, resilient earnings and, in some corners, the promise of Trump and DOGE.

But beneath the surface, it wasn't one market – it was two. On one side, Nvidia and a handful of tech titans dominated headlines and benchmarks. On the other, a vast "Missed Middle" of overlooked, undervalued companies played in the shadows. The spotlight on the tech stars has been so blinding, it is easy to miss the orchestra in the background.

The magnitude and duration of this dominance were extraordinary – beyond what we anticipated. It's a sobering reminder that, despite a thoughtful process and rigorous analysis, markets still surprise us.

Today's market concentration echoes past cycles like the Nifty Fifty and Dot-Com bubble, both of which ended painfully for those who failed to diversify. At the same time, we are witnessing the widest valuation gap in history between the average US-listed stock and the rest of the world. Risks – both obvious and hidden – are mounting.

Table 1: Performance of Orbis Strategies relative to peers

Net relative returns vs. respective Morningstar peer group (% annualised, US$)

	1 year	3 years	5 years
Orbis Global Equity	1.2	4.2	1.5
Orbis International Equity	8.1	10.5	5.6
Orbis Japan Equity	−5.8	4.2	1.8
Orbis Emerging Markets Equity	5.5	7.8	4.1
Orbis Global Balanced	5.4	8.6	5.5
Orbis Optimal	2.6	8.9	4.4

Sources: Morningstar, Orbis. Past performance is not a reliable indicator of future results. Net relative returns use asset-weighted actual net returns of all portfolios following the same investment objective and are calculated geometrically.

For active managers, this isn't a warning sign; it's an opportunity.

The Magnificent Seven may have carried the market on their shoulders, but even the strongest shoulders tire, and crowds eventually move on. History shows that such market dynamics often create significant dislocations – opportunities for those who think independently, uncover overlooked value, and remain disciplined in their focus on fundamentals.

This is where we can thrive.

The value of Orbis in your portfolio

Whether it's deregulation under Trump, shifting geopolitical alliances, or technological leaps, these moments don't just reshuffle the deck – they create winners and losers. Trump's agenda is clear – he seems set to redefine LFG as "*Less Federal Government*", signalling potential waves of deregulation and a tilt toward nationalism and mercantilism. It is less clear what it means for markets.

Our job isn't to predict every twist perfectly – it's to understand the terrain, adapt, and invest wisely.

Investor portfolios today are more concentrated than ever, especially in US stocks. Many investors – intentionally or not – are making an outsized bet on continued US dominance, a narrative that's reflected in high valuations. Trump wants the US to win, but will US stocks continue to deliver stellar double-digit returns when much of their future success may already be priced in?

The good news: perfect predictions are not required.

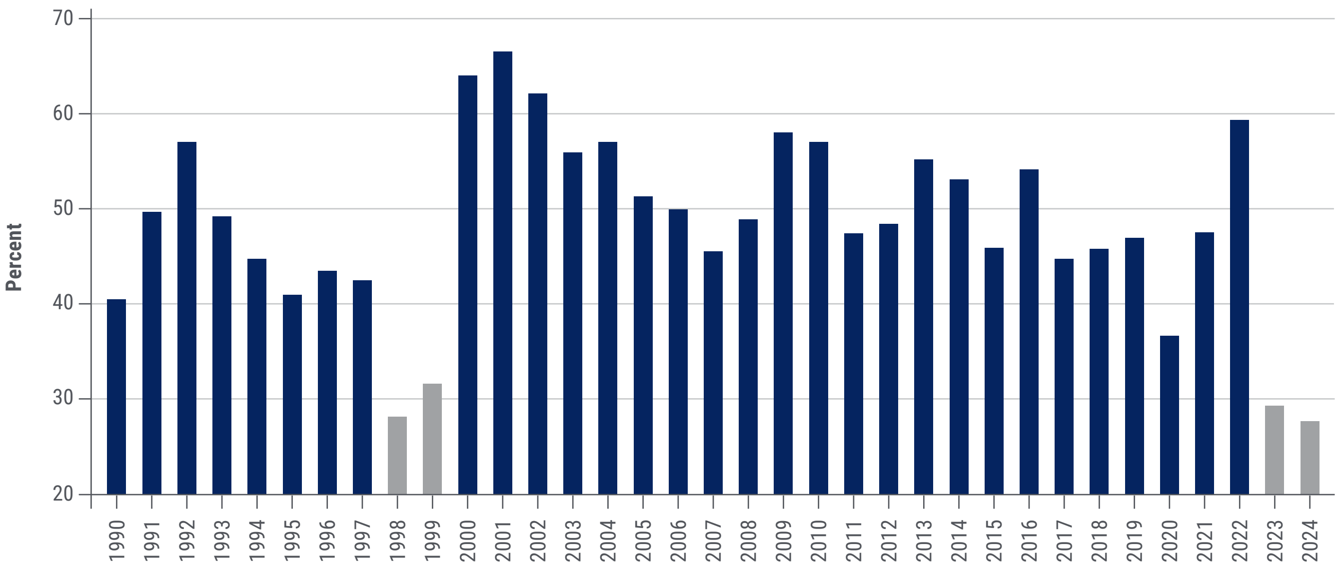
> ... we balance across the global opportunity set, guided by fundamentals.

In a storm, safety often lies in the overlooked lifeboat, not the crowded ship. At Orbis, we don't overcommit to any single geography or narrative. Instead, we balance across the global opportunity set, guided by fundamentals. This deliberate approach is because the market has a way of reminding us to stay humble, especially at extremes.

We construct our portfolios by focusing on the most significant discounts to intrinsic value. This approach often leads to a portfolio that looks markedly different. As shown in **Image 1** on page 20, we share only one top 10 holding – Alphabet – with the benchmark and have little overlap with our peers. This isn't for the sake

Graph 1: Fewer companies are outperforming in the US

% of stocks in the S&P 500 outperforming the index since 1990 by year



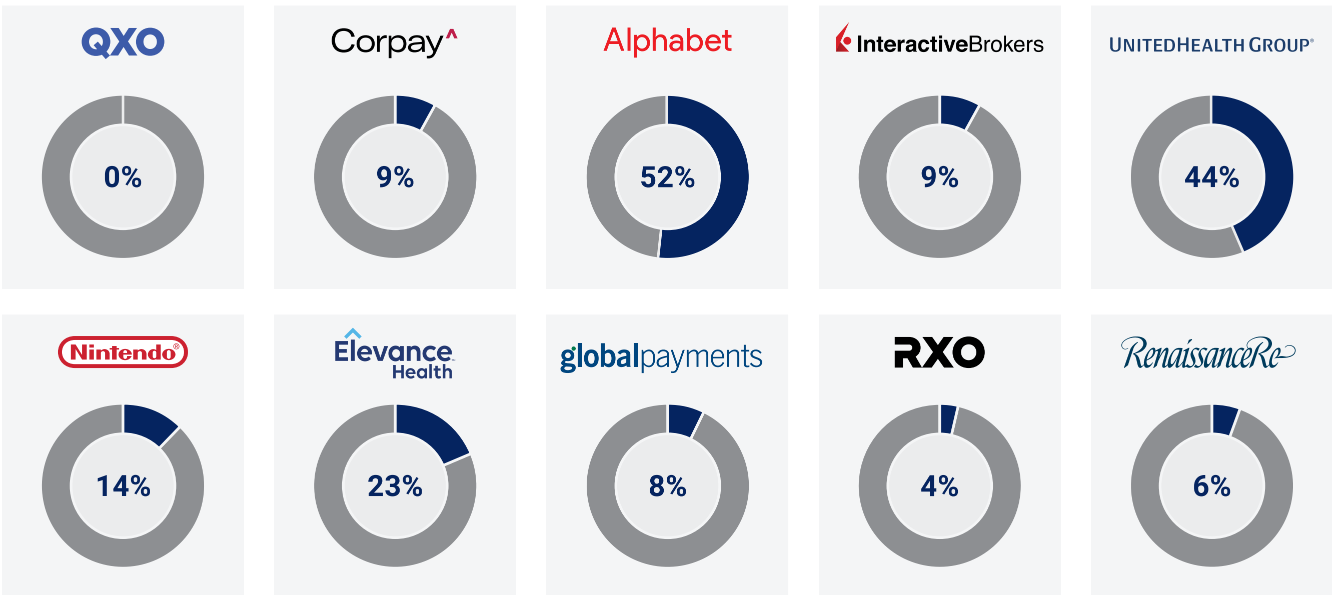
Note: The grey bars indicate periods of narrowly concentrated outperformance.
Sources: Bank of America Global Research, S&P Capital IQ, Orbis. Data for 2024 has been extended to the full calendar year period from the original source.

Image 1: Orbis Global Equity Strategy looks different than the index …

Top 10 shares of the MSCI ACWI vs. Orbis Global Equity and their P/E ratios

… and different compared to peers

Top 10 shares in the Orbis Global Equity Strategy and the proportion of peers that own them



P/E = Price/Earnings. Peers = eVestment "Global All Cap Core Equity" universe.
Sources: Company information, MSCI, LSEG I/B/E/S Estimates, eVestment, Orbis. Data is for a representative account of the Orbis Global Equity Strategy and MSCI All Country World Index as at 31 December 2024. eVestment peer ownership data as at 30 September 2024. The price/earnings metric is for the next fiscal year, and in each case calculated first at the stock level, and then aggregated using a weighted median for the top 10 positions. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning. QXO has been excluded from this calculation in the absence of meaningful data. eVestment and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable; however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Not for general distribution.

of being different, rather a commitment to our philosophy and the pursuit of compelling risk-adjusted returns.

In a world increasingly defined by stark extremes – growth vs. value, US vs. the rest of the world, risk vs. safety – we aim to provide a balanced alternative. That is part of the value Orbis brings to your portfolio – we are not just another voice in the crowd.

… we sweat the details – because building something lasting requires patience and precision.

Patience and adaptability: Lessons from Japan

In 2024, I visited Japan for the first time, and it left a profound impression. Japan exemplifies an extraordinary dedication to quality and craftsmanship, where even the smallest details are obsessed over – often when no one's watching.

On a recent episode of The Knowledge Project Podcast, I shared how my grandfather instilled in me a similar mindset through his tireless work ethic and commitment to excellence. His devotion to craftsmanship came to mind as I reflected on Japan's ***shinise*** – businesses that have endured for generations. Remarkably, over 50 000 companies have thrived for more than a century. The oldest, Kongo Gumi, dates back to 578 AD, when it was entrusted with building Japan's first Buddhist temple.

That's long-term thinking!

Yet, what struck me most was their deep appreciation for the present. Japanese culture balances the long game with an appreciation for the present moment – captured beautifully in the expression ***Ichigo Ichie*** (*one time, one meeting*). Japan's shinise businesses offer a powerful metaphor for our approach – balancing long-term resilience with short-term adaptability.

At Orbis, we view long-term thinking and short-term action not as trade-offs, but as complementary forces. Our founder personified this mindset, and it remains today. We hold stocks for years but scrutinise our decisions daily. We act with conviction and velocity when opportunities arise, and we sweat the details – because building something lasting requires patience and precision.

The challenge is recognising when to hold firm and when to adapt. Elite rowers understand this intuitively: grip too tight, and you'll flip the boat; grip too loose, and you'll lose control. Success isn't about strength – it's about knowing when to adapt at the right moment.

At Orbis, adaptability is a priority for us.

Three years in: Behind the scenes with process and people

As I reflect on my third year as President, it feels like an appropriate moment to pause, take stock, and share our progress. This period has been defined by focused effort, deliberate change and steady progress – that is an ongoing commitment to strengthen our foundations.

At Orbis, our flywheel is not just a metaphor; it's an engine that builds momentum through small, consistent inputs compounding over time. Our flywheel is powered by the independent-minded people we empower, the disciplined and objective processes we employ, and the culture of alignment we foster across everything we do. These elements don't stand alone – they work together, reinforcing one another in a self-sustaining manner.

In this section, I want to take you behind the scenes to show how our investment process has evolved and how our people remain the driving force behind everything we do.

Our investment process

While performance charts capture the "bottom line", they rarely tell the full story. Behind every number lies years of focused investment and effort.

Over the past three years, we've made several targeted enhancements to our process:

- **Portfolio construction:** Simplified our Global Strategy's structure to empower our key decision-makers.
- **Global research team:** Reorganised to deepen sector expertise and generate more specialised insights.
- **Decision analytics:** Embedded advanced analytics tools to identify and mitigate behavioural biases.

- **Quant and data insights:** Appointed Gideon Smith as Head of Quant to integrate data-driven insights more effectively.

- **Responsible investing:** Raised the bar with enhanced tools, processes, and transparency to ensure responsible investing remains central to our approach.

These changes aren't flashy, but they are impactful, and they have strengthened our flywheel.

A clear illustration of this can be seen in how the stocks in the Orbis Global portfolio perform compared to those in both its benchmark and the pool of "Orbis Buys" generated by our research engine. The equal-weighted data shown in **Graph 2** tells a compelling story: Our analysts' recommendations consistently outperform the benchmark stocks, and our decision-makers in the Global Strategy added further value through thoughtful selection.

It is exactly what we aim for and reflects a rigorous process executed with discipline.

Our people: The engine behind the results

While investment performance often takes centre stage, our people bring it to life. At the heart of everything is our people. This year, a new generation of leaders stepped up – many of them unsung heroes – thinking independently, embracing responsibility and delivering results. From processing thousands of investment recommendations to our client team building deeper, more meaningful partnerships, every corner of Orbis is alive with purpose and progress.

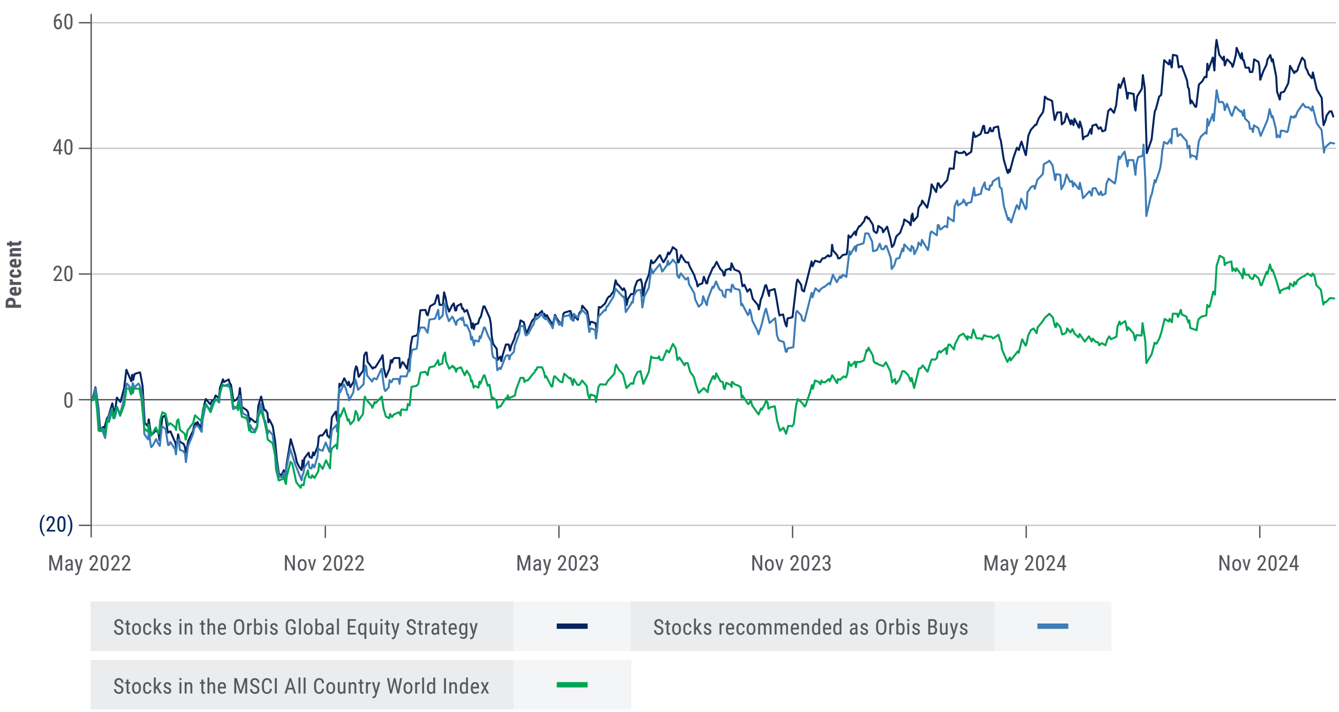
Under Darren Johnston's leadership, the past three years have seen meaningful enhancements:

- **Key appointments:** Welcomed Daniel Belshaw as our first Chief Technology Officer and appointed Jason Ciccolallo as Global Head of Clients, enhancing our focus on technology and client engagement.

- **Operational improvements:** Conducted a comprehensive review of our capabilities, reaffirmed our strengths and highlighted key areas for ongoing improvement.

Graph 2: The value generation of our investment process

Cumulative equal-weighted absolute returns since May 2022 (%, US$)



Source: Orbis analysis. The data represents the *equal-weighted performance* of stocks included in Orbis Global, Orbis Buys, and the World Index since the Global portfolio construction changes in May 2022. On average, stocks recommended by our analysts (Orbis Buys) outperformed those in the World Index, while stocks held in Orbis Global outperformed both Orbis Buys and the World Index. These statistics are derived from an internal database as at 31 December 2024 and are subject to revision due to updates in methodology or data adjustments. The data presented does not represent the *actual performance* of Orbis Global, the MSCI All Country World Index, or Orbis Buys.

- **Simplification:** Continued to streamline our operational and regulatory footprint and remove unnecessary complexity to sharpen our agility.

We have also prioritised telling our story more effectively. A standout example is our video [Unsung Heroes of the Energy System](), which recently earned a Citywire award for best storytelling in any medium. It's a great example of how we aim to bring clarity and transparency to the decisions we make on your behalf.

These initiatives reflect our ongoing commitment to serving clients better every year.

Gratitude and momentum

Looking back on 2024, Darren and I are filled with gratitude: for our talented colleagues, for the trust you place in us, and for the opportunity to build something enduring. I'm also grateful for the moments of challenge and growth this year brought me personally.

The work isn't finished, it never is. But the momentum is real, and I'm excited about what's ahead.

Conclusion

As always, I want to close by reaffirming my commitment to you:

Our firm's success begins and ends with delivering best-in-class investment performance. As it was on day one, I am certain that what we aspire to achieve will not be easy. But how we show up is in our control and we are determined to deliver. Here is my commitment to you: relentless focus; transparent and direct engagement; entrusting others; a culture of inclusion; the courage to be different; an appetite for feedback; and a willingness to change what isn't working. You can expect me to do my part and to ensure that others do theirs. And we will keep showing up every day for you.

We have much work ahead, and this is just the beginning.

Orbis
Invest Differently

Adam joined Orbis in 2002 and is Orbis' President and head of the Investment teams. He directs client capital in the Orbis Global Equity Strategy and has overall accountability for the Strategy. He is a director of Orbis Holdings Limited and Orbis Allan Gray Limited. Adam holds a Bachelor of Arts degree in Economics from Northwestern University and a Master of Business Administration from Harvard University. He is also a trustee at Northwestern University and the founder and chair of SEO Scholars San Francisco.

IN SAFE HANDS WITH THE ALLAN GRAY BALANCED FUND

Nick Curtin

Allan Gray's ability to deliver on a globally integrated, diversified investment strategy has never been stronger than it is today.

The Allan Gray Balanced Fund launched in October of 1999 with a unit price of R10, offering retail investors access to a diversified, multi-asset class, long-term growth strategy. The Balanced Fund was designed to provide investors with equity-like long-term real returns, but at lower levels of risk. Looking back over the Fund's 25-year history, Nick Curtin discusses why it continues to be the ideal choice for retirement fund members looking for a unit trust that complies with the retirement fund investment limits, as well as for any investor seeking a stand-alone long-term diversified growth portfolio.

While some investors prefer to use a "building-block approach" when constructing their portfolios, making asset allocation decisions independently, we have always believed that using a holistically managed global balanced fund is a more effective way for most investors to manage their long-term investments. By "effective" we refer to the complex interplay between risk and return in portfolio construction – a skill set that we have been refining for the last 51 years across several generations of Allan Gray leadership. The Allan Gray investment philosophy is anchored in the understanding and management of risk. This guides our integrated global multi-asset class capability, supported by a client-centred organisational design.

The Allan Gray Balanced Fund (the Fund) has created significant value for investors since its inception in October 1999, delivering an annualised return of 14.8% versus a peer group average of 11.4%. While the difference of 3.4% might not seem like a lot, its impact on rand outcomes is massive when compounded over a 25-year period. As shown in **Graph 1**, a lump sum investment of R1 000 in 1999, with subsequent income distributions reinvested, would have grown to R32 561 by November 2024. This is more than double the R15 306 that its peer group (the market value-weighted average return of funds in the South African – Multi Asset – High Equity category excluding Allan Gray) would have achieved.

With an average inflation rate of 5.5% over this period, the inflation-beating real return earned by investors from balanced funds in general, and the Allan Gray Balanced Fund in particular, has been significant. It is no surprise, then, that the sector has grown as it has, given that investors have generally been very well served by these strategies. We believe that alternative approaches to client investment solutions (e.g. using specialist asset class building blocks) will find it difficult to compete with well-managed balanced funds over the full investment cycle.

The competitor landscape

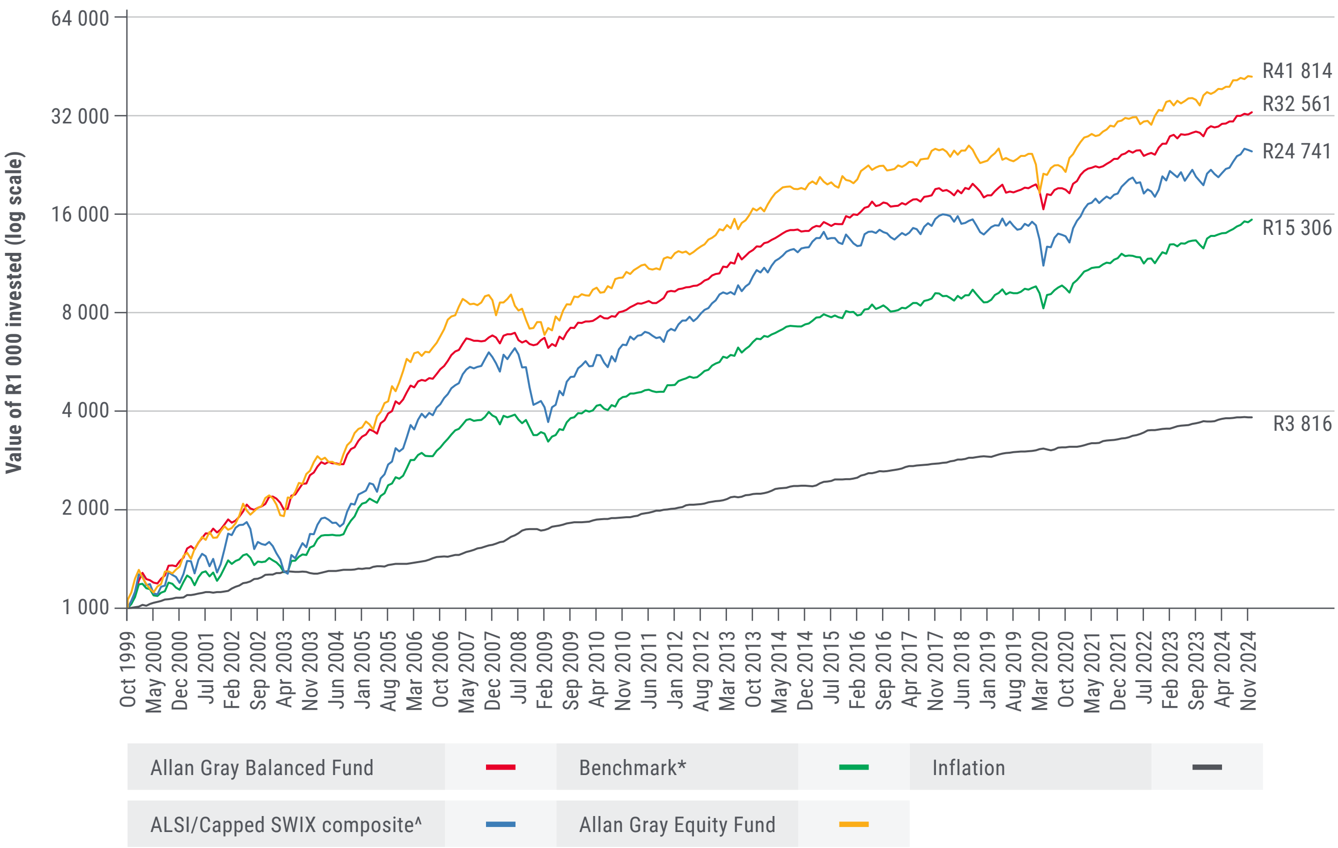
Interestingly, while the unit trust industry had already grown substantially to 260 funds managing R117bn in total by 1999, in hindsight, the industry was still in its infancy. By September 2024, there were 1 856 funds (including 449 funds of funds) managing a total of R3 795bn. The Allan Gray Balanced Fund is one of 269 funds that sit in the South African – Multi Asset – High Equity category. (This reduces to 135 funds when we remove the various funds of funds and multimanager offerings from the data.)

While there is a clear proliferation of funds in the category today, there are not many that have what we would consider to be a *meaningful* track record. Key criteria here include:

- The number and variety of market environments and investment cycles navigated
- The degree to which succession across generations has been achieved, mitigating key person risk concerns
- The number of different business cycles that have been endured and the impact this may have had on organisational stability (the savings industry is notoriously unforgiving when shorter-term investment performance is poor)

While we fully support intense competition in any marketplace and are encouraged by (and encouraging of) the growing number of options available to investors and advisers, we also believe that longevity offers a competitive advantage, provided the organisation is appropriately designed to capture it. In reality, despite the large number of balanced fund offerings, we believe that the tried-and-tested skill set

Graph 1: Value of R1 000 invested in Allan Gray Balanced at inception in October 1999



*The market value-weighted average return of funds in the South African – Multi Asset – High Equity category (excluding Allan Gray funds).
Source: Morningstar, performance as calculated by Allan Gray as at 31 December 2024. From inception to 31 January 2013, the benchmark 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.
^FTSE/JSE All Share Index has been used from 01 October 1999 to 30 April 2011. FTSE/JSE Capped SWIX has been used from 01 May 2011 to date.

required to effectively manage a balanced strategy is much scarcer than it might at first appear, as is evident in **Graph 2**, which shows a stark difference between funds with a 20-year track record (the dark grey bar) and the rest of the industry.

While simply having a long track record doesn't necessarily make the offering superior, it is nonetheless interesting to note how sharply the number tails off beyond the 5-year track record mark. To the extent that an organisation has remained largely the same, the ability to interrogate performance through several cycles and market environments should provide investors with some additional comfort.

Importantly, while newer start-ups might have some "blank canvas" advantage, we have not been standing still. Allan Gray's ability to deliver on a globally integrated, diversified investment strategy has never been stronger than it is today. Over five decades of experience through several generations of portfolio managers from Allan Gray and our offshore partner, Orbis, has fortified our global balanced competitive edge. A case in point is the recent investment process enhancements following the increased foreign assets allowance (to 45%), whereby the Allan Gray portfolio managers in Cape Town are directly managing a portion of the foreign assets to better complement the Orbis (foreign) and Allan Gray (South African) holdings.

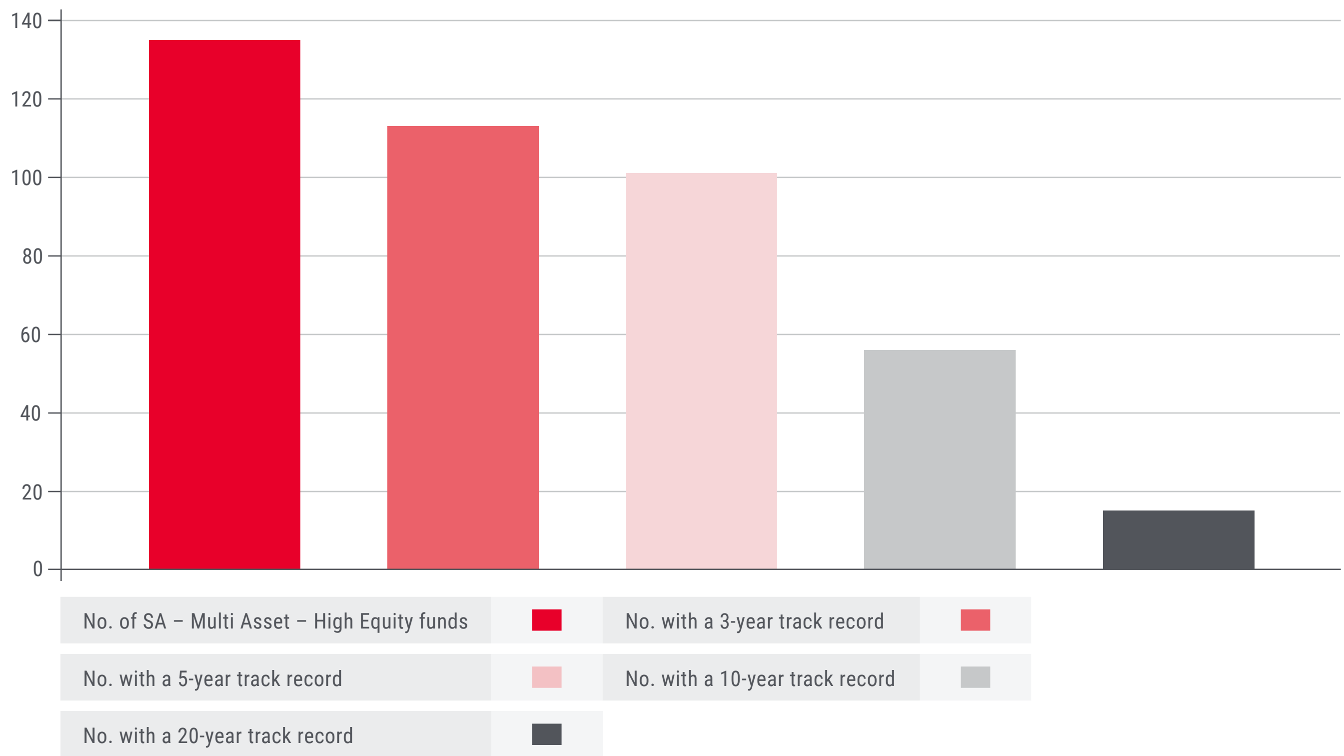
Notwithstanding the smaller cohort with a track record going as far back as October 1999 (12 funds), Allan Gray has continued to deliver strong relative performance even as this peer group has grown to 135 funds as at December 2024, as shown in **Graph 3**. We intend for this to continue.

The shaded area in Graph 3 shows Allan Gray's rolling 5-year annualised performance relative to the average of all the other single-manager funds in the category from October 1999. Wherever the shaded area is above the horizontal axis (0% line), it means that Allan Gray has outperformed over five years to that point in time.

There are generally two key observations from any analysis of Allan Gray's long-term track record:

1. While the Fund experienced very strong relative performance in its early years, bolstering its long-term track record, it is evident that over most rolling 5-year

Graph 2: Number of single-manager balanced funds by length of track record as at 31 December 2024



Source: Allan Gray research

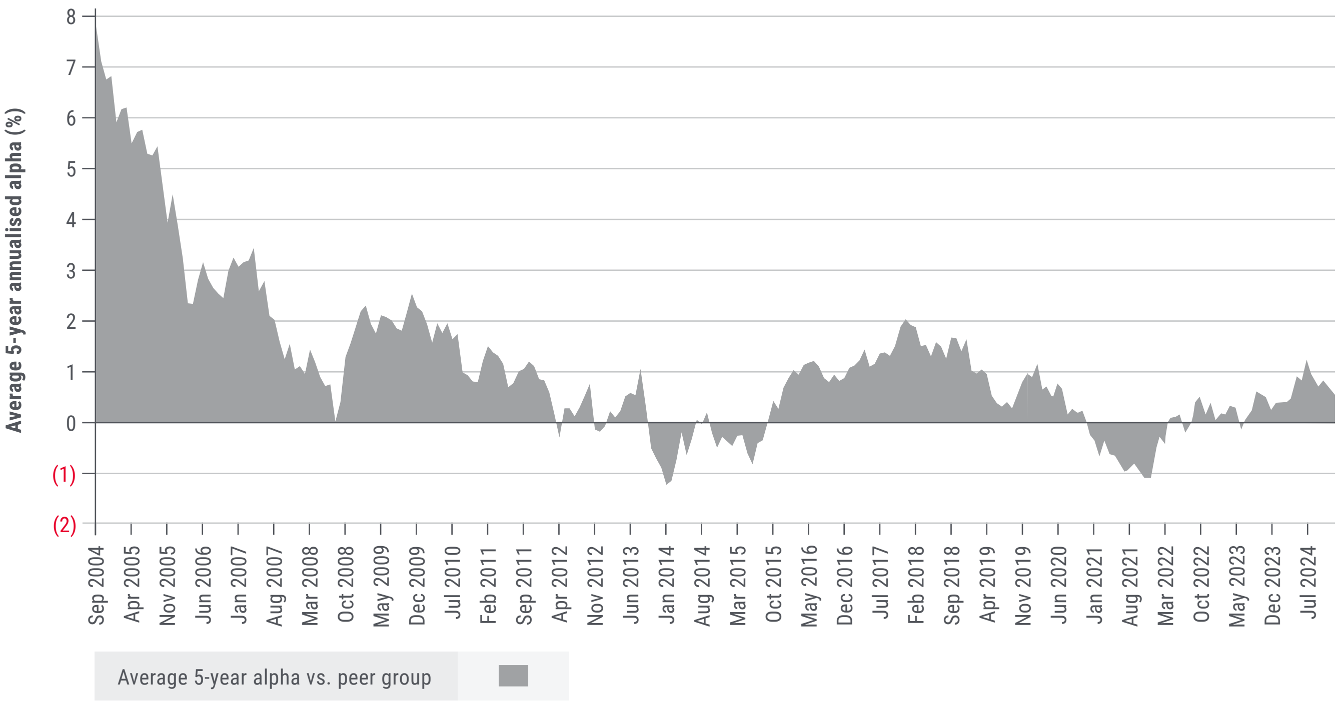
periods, its relative performance has been consistently better on average (there is a far greater shaded area above the 0% line than below). **Table 1** provides a summary of this metric over rolling 3-, 5- and 10-year measurement periods.

In simple terms, an investor looking at the 5-year return at the end of every month from September 2004 (first 5-year period since inception in October 1999) to December 2024 would have seen outperformance of the peers 81.6% of the time. Rolling 3-year periods are slightly lower at 75.4%, and rolling 10-year periods slightly higher at 90.2% of the time. We think this is a compelling success rate.

While periods of underperformance do happen, they are relatively infrequent over the longer time periods that really matter. This is partly why we so often remind investors of the importance of staying invested through short-term market cycles.

2. When we break this analysis down further, Allan Gray tends to outperform and underperform different managers at various points in time. This supports the assertion that we tend to be an excellent stand-alone option for investors, as well as a great diversifier for those who use multiple managers (we are contrarian and often positioned differently). We explore this further in the following section.

Graph 3: Allan Gray Balanced rolling 5-year performance relative to the average of all the single-manager funds in the category since 1999



Sources: Allan Gray research, Morningstar data

Table 1: Proportion of time Allan Gray Balanced has out- and underperformed the peer group over various rolling periods since inception in October 1999

	% of periods outperformed	% of periods underperformed
Rolling 3-year periods	75.4%	24.6%
Rolling 5-year periods	81.6%	18.4%
Rolling 10-year periods	90.2%	9.8%

Source: Allan Gray research

Why Allan Gray Balanced should be in everyone's manager mix

Allan Gray tends to outperform the pack during weaker market periods (down months) when risk is biting, and generally performs in line with peers when markets are strong (up months). The compounding effect of losing less than others during down markets is extremely powerful over time, as seen in **Graph 4**. The total months' view reveals that we perform in line with the FTSE/JSE All Share Index (ALSI) over time, despite taking on much less risk, which has not been the case for the peer group average.

This pattern is often misconstrued by some to mean that we simply run a lower-risk portfolio than others and therefore hold up better during market downturns. If this were the case, we would expect to see lower-than-average volatility (as a proxy for risk) over time, but also lower-than-average returns. However, this is not the case. In fact, the portfolios we construct have been (on average) more efficient in terms of the interplay between risk and return over time. Put differently, we typically have delivered more return per unit of risk (when defined as volatility) taken than most others.

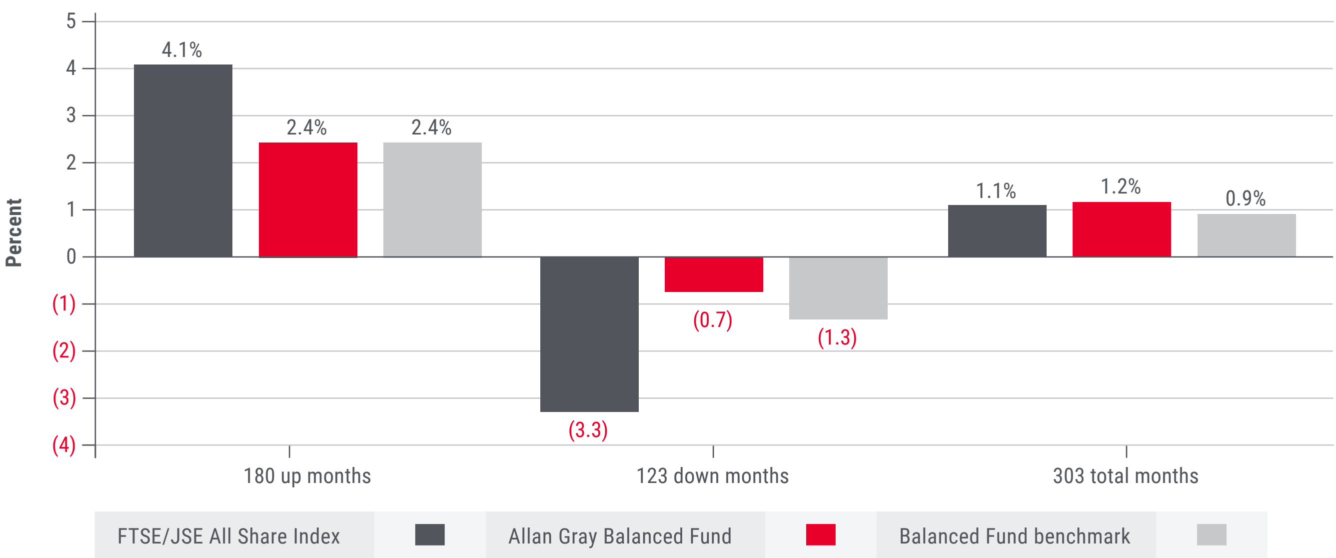
Our investment philosophy of only investing in assets where there is a significant margin of safety built into the valuation – i.e. a significant gap between the share price and what we believe the share is worth – and our obsession with trying to avoid the risk of permanent capital loss entirely mean that there is a built-in risk-management anchor to everything we do. It is endemic to how we think about investing. Therefore, while we don't really think about risk as volatility (but the industry does), the performance pattern outcome, whereby we typically deliver higher-than-average returns, at lower-than-average risk, is entirely intuitive to us.

Chart 1 introduces this conceptual interplay between risk/volatility and return. The centre point represents the average risk/return plot of the peer group. Ideally, as an asset manager, we want to be positioned above the horizontal axis (higher-than-average returns) and to the left of the vertical axis (lower-than-average risk/volatility). Therefore, the top left quadrant (dark grey) is the sweet spot, showing higher-than-average returns with less-than-average risk. The bottom right quadrant (red) is not a good area to be in, indicating lower returns and higher risk. The bottom left and top right quadrants (neutral) have either lower risk or higher returns, but not both.

Graph 5 shows the actual Allan Gray Balanced Fund risk/return plots *relative* to the peer group average (the centre point, where the two axes intercept) for various rolling periods (shifted monthly) from inception in October 1999 to December 2024. The graph shows this as the percentage of time for each measurement period that the Fund fell into each of the four quadrants over its 25-year history.

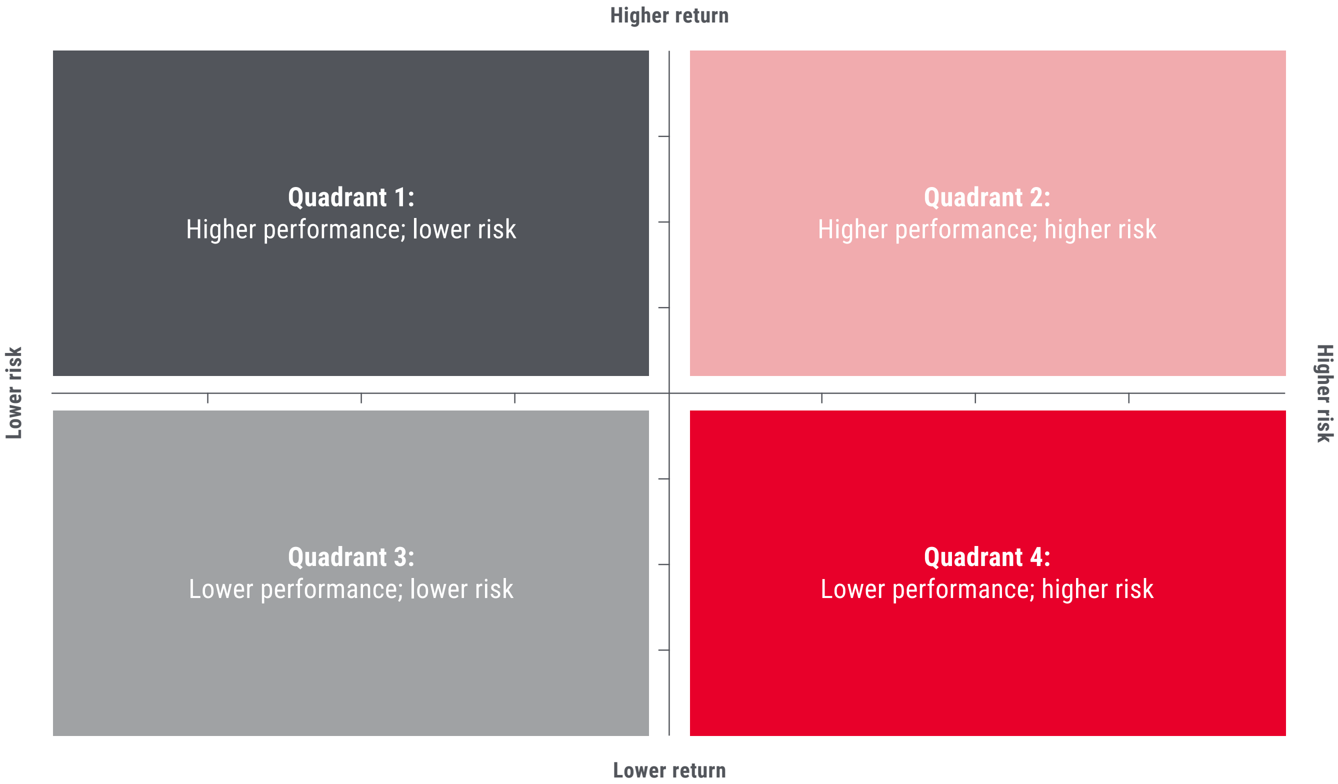
Some key observations stand out in this graph.
When measured over rolling 3-, 5- and 10-year periods, Allan Gray:

Graph 4: Allan Gray Balanced monthly performance in up and down equity markets

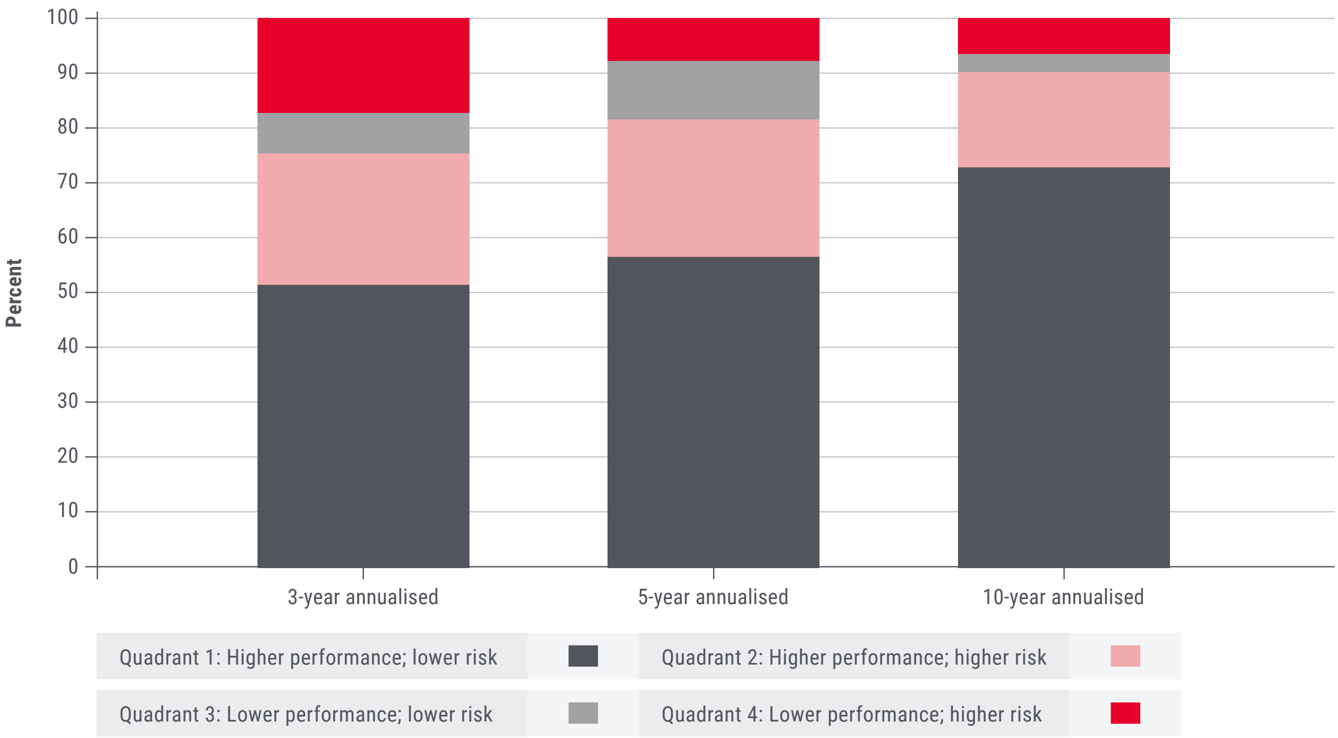


Source: Allan Gray research

Chart 1: The risk/return scatterplot explained



Graph 5: Allan Gray Balanced risk/return relative to peer group* – various rolling periods



*The peer group used differs from the Fund's historical benchmark to exclude Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors that were included in ASISA's Fund Classification Standard prior to January 2013. To improve the integrity of the comparisons, the peer group in this analysis is defined as the funds in the ASISA South African – Multi Asset – High Equity category (excluding Allan Gray funds, funds of funds, and multimanagers), as sourced from Morningstar, with market value-weighted average return and volatility of funds calculated by Allan Gray as at 31 December 2024.
Sources: Allan Gray research, Morningstar data

- Plots in quadrant 1 (higher average returns and lower average risk – the “sweet spot”) between 51.5% and 72.8% of the time

- Plots in quadrants 1 or 2 (higher-than-average returns) between 75.4% and 90.2% of the time

- Plots in quadrant 4 (lower returns and higher risk) only between 6.5% and 17.2% of the time

The outcomes improve as the time horizon lengthens from 3-year measurement periods to 10-year measurement periods, reinforcing the importance of staying invested through the short-term cycles.

Balancing risk and return into the future

The Allan Gray Balanced Fund has served investors very well over the last two and a half decades – and we will work tirelessly to continue to do so. Despite the proliferation of offerings in this category over the last decade, we believe that there are very few managers in the sector with the requisite breadth of skills and depth of experience required to manage this strategy successfully into the future.

The growing complexities of combining local and foreign assets, given the nuances of the South African share market, also lead us to believe that a holistic, combined global balanced approach is likely to generate superior risk-adjusted outcomes for South African investors over time, compared to the alternative specialist building-block approach.

Allan Gray’s organisational stability, scale, proven intergenerational succession, tenure through many market cycles and an integrated global capability with Orbis demonstrate a distinct competitive advantage in delivering risk-adjusted returns to investors on a stand-alone basis. Given our performance signature of typically outperforming peers during periods when markets (and other managers) are struggling, it is clear that the Allan Gray Balanced Fund should also be a core component of any multimanaged solution due to its powerful diversification benefits.

Nick is joint head of the Institutional Clients team. He joined Allan Gray in 2023 as a senior manager in the Institutional Clients team. Nick holds a Bachelor of Arts degree in Economics and International Politics from the University of South Africa as well as a Postgraduate Diploma in Financial Planning from the University of the Free State. He is a CFA® charterholder and a CFP® professional.

HOW TO MAXIMISE TAX BENEFITS IN A TWO-POT ERA

Carla Rossouw and Lee Kotze

The two-pot retirement system, which was implemented in September 2024, gives retirement fund members the ability to withdraw from the savings component of their retirement funds once per tax year. If you took advantage of this, it is important to work towards restoring your position. The end of the tax year in February provides an opportune time to do so. Carla Rossouw and Lee Kotze provide a brief reminder of the annual tax incentives that government has put in place to encourage investing towards long-term goals via retirement funds and tax-free investments and unpack some of the factors to consider when withdrawing from these products.

Your view of and behaviour related to your retirement investments may have changed following the introduction of the two-pot retirement system last year. As a reminder, most retirement fund members now have some access to their investments (through their savings component), intended to be used in case of financial distress when one would be worse off not withdrawing. (Visit the two-pot retirement system info hub on our website for a reminder of the details.)

If you have made a withdrawal from the savings component of your retirement fund in the 2024/2025 tax year, it is a good idea to consider replenishing this amount before the end of the tax year in February to restore your position, taking comfort in the fact that you can access the savings component once per tax year, if need be. 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.

You can also consider contributing to a tax-free investment (TFI) to save for a specific goal or to supplement your retirement investment.

Before we delve into the factors that may affect your decision-making, it is worth reiterating exactly why retirement funds and TFIs are beneficial from a tax perspective.

Recapping the tax benefits of retirement funds and TFIs

Every year, you can make a pre-tax contribution to your retirement fund of up to 27.5% of your taxable income, capped at R350 000 per tax year. You forfeit this benefit if you do not make use of it each tax year. If you have not yet maximised your contributions for the current tax year, you can make an additional contribution, either in the form of a lump sum contribution to your retirement annuity (RA) or, if you are invested in your employer's retirement fund, an additional voluntary contribution. You can also start an RA in your own name.

The other annual tax benefit the government offers is the ability to invest R36 000 per tax year (up to a maximum contribution of R500 000 over your lifetime) of after-tax money in a TFI.

Both retirement funds and TFIs benefit from growth free of any tax (including dividends tax, income tax on interest, and capital gains tax) while you are invested – a big win if you invest for the long term.

While both retirement funds and TFIs offer tax benefits, they each have unique features and restrictions. We have written about these extensively in previous years, and encourage you to read our previous tax pieces, available via the "Latest insights" section of our website, to remind yourself of the details. **Graphic 1** provides a summary of the tax features and flexibility RAs and TFIs offer.

Graphic 1: Weighing up tax features and flexibility in RAs and TFIs

Tax (most to least beneficial) | **Flexibility (least to most beneficial)**

Allan Gray Retirement Annuity

- No tax on interest, dividends or capital gains
- Contributions are tax-deductible[1]
- Savings component withdrawals before retirement are taxed at your marginal (highest) tax rate
- Withdrawals at retirement are taxed according to the retirement fund lump sum tax table

- Unit trust selection must comply with investment limits for retirement funds
- Access before retirement is restricted, but one withdrawal per tax year from savings component is allowed
- Access at retirement varies:
  - Generally[2], one-third of vested component can be taken as cash
  - Remaining balance of savings component can be taken as cash
  - Retirement component must be used to purchase a living or guaranteed annuity

Allan Gray Tax-Free Investment

- No tax on interest, dividends or capital gains
- Contributions are not tax-deductible
- Withdrawals are not taxed
- 40% tax penalty if you contribute more than the limits[3]

- Unit trust selection: fixed fees only
- Limited[3] contributions allowed
- Can withdraw as you wish, but the true benefit is felt if you invest for the long term
- Estate planning: appoint beneficiaries (no executor fees)
- Creditor protection after three years (with requirements)

1. This deduction is limited to 27.5% of your taxable income, capped at R350 000 per tax year.
2. If you have a harmonisation vested benefit, you will be able to take 100% of this benefit as cash. Visit the two-pot retirement system info hub on our website to learn more about the rules that apply to the different retirement account components.
3. Contributions are currently limited to R36 000 per tax year and R500 000 over your lifetime.

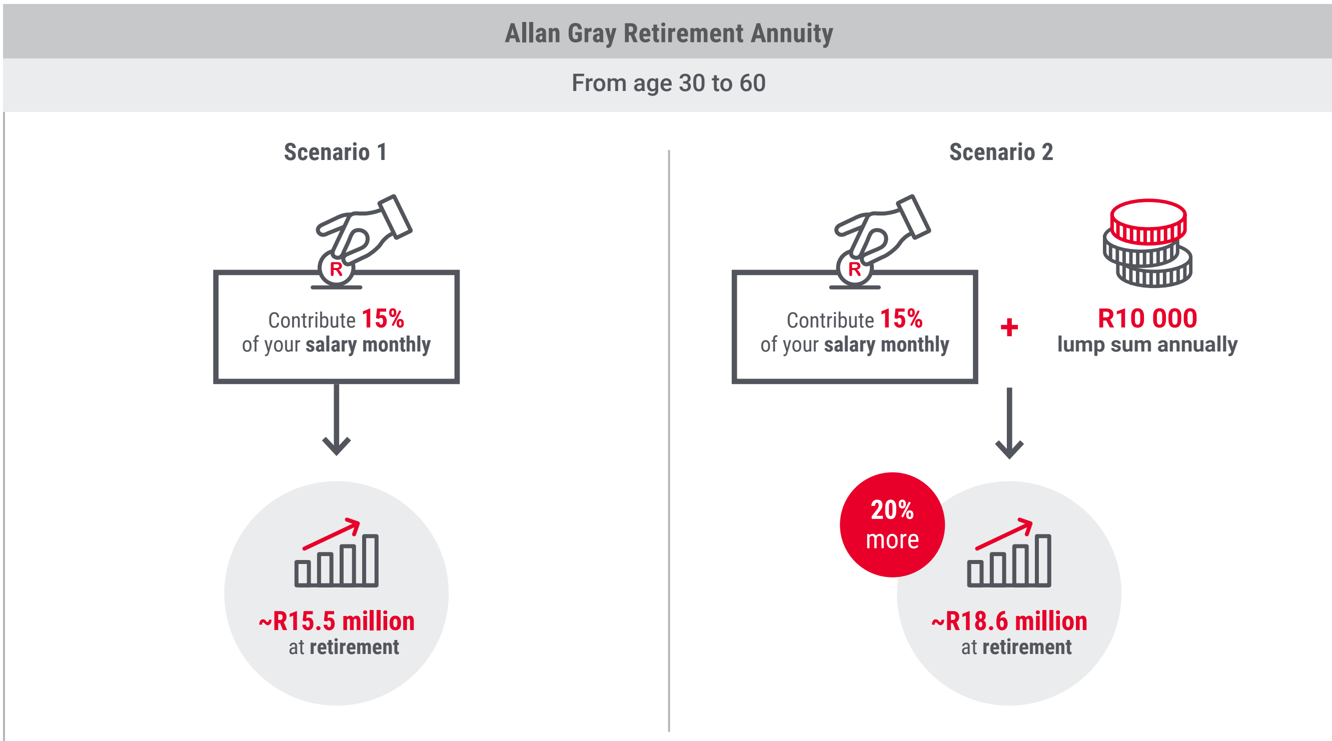
Source: Allan Gray

Graphic 2 illustrates the benefits of contributing to an RA and a TFI. For the RA, Scenario 1 shows what you can achieve by consistently investing for retirement over your working lifetime. Scenario 2 illustrates that, even if you are already contributing to an RA, you can benefit significantly by topping up your investment before the end of each tax year. The TFI example illustrates the benefits of maximising your TFI contributions each year until you reach the lifetime contribution limit, and then remaining invested until retirement.

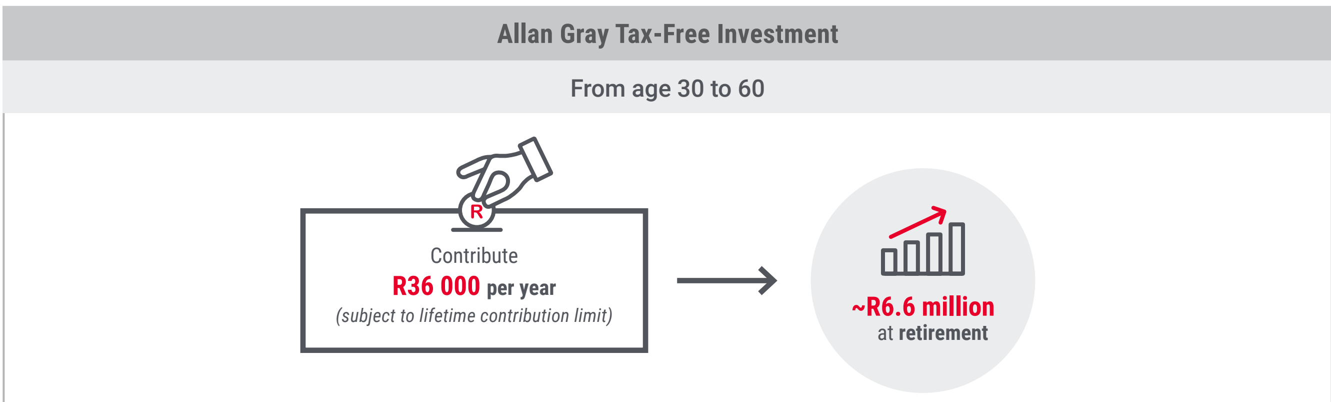
Factors to consider if you need to withdraw

It is always a good idea to maximise tax benefits on offer – but even more so in a two-pot world, if you have withdrawn from your retirement fund along the way and want to restore your position and/or supplement your investments.

Graphic 2: Impact at retirement of contributing to an RA and TFI over time



Note: This calculation assumes a starting annual income of R350 000, an investment return of 10% per year, inflation of 6% per year, and ongoing net platform administration fees of 0.23% per year.



Note: This calculation assumes annual contributions equal to the contribution limit of R36 000 from age 30 until the R500 000 lifetime contribution limit is reached, no pre-retirement withdrawals, an investment return of 10% per year, inflation of 6% per year, and ongoing net platform administration fees of 0.23% per year.

Source: Allan Gray

It is important to familiarise yourself with the details around withdrawals so that you have the full picture and can understand what is needed to replenish your investments in the future.

Retirement fund withdrawals

In our Q3 2024 Allan Gray Quarterly Commentary article "What you need to know about two-pot withdrawals and tax", we discussed some of the practical considerations before submitting a savings component withdrawal instruction for your retirement investment. Below, we highlight some of the important details.

- **You pay tax on savings component withdrawals**
  Savings component withdrawals are taxed at your marginal tax rate. The tax due on your withdrawal will be withheld and paid over to the South African Revenue Service (SARS) and you will receive the after-tax amount. Any outstanding taxes that you owe SARS may also be deducted from your withdrawal prior to the benefit being paid to you. This means you may receive less than the amount that you withdraw. For example, if you need R20 000 because of an unforeseen financial emergency and your marginal tax rate is 36%, you will need to withdraw R31 250, since R11 250 will be withheld as tax and paid to SARS (assuming you have no outstanding amounts owed to SARS).

- **Withdrawing before retirement reduces the amount available as cash at retirement**
  A further important consideration is that the balance in your savings component is *generally* all you will be able to withdraw as cash at retirement. (Your retirement fund investments made before two-pot are treated differently.) You cannot access any portion of your retirement component as cash – the full amount of the retirement component must be used to purchase a retirement income product, such as a living annuity or a guaranteed annuity.

  If you think you will need access to cash from your retirement fund at retirement, for example to pay off your home loan, you will need to ensure you have the required amount available in your savings component. This is why replenishing withdrawals could be a good option, but note the next point.

- **Replacement contributions are split between components**
  If you want to replace the amount withdrawn in the future, it is important to be aware of how these future contributions will be treated. Continuing with the previous example, if you make an additional contribution of R31 250 to replace the amount you withdrew, two-thirds of that additional contribution will be allocated to your retirement component and one-third to your savings component. This means that only R10 416 will be invested in the savings component, compared to the R31 250 you withdrew. This may have significant implications for you if you need access to cash at retirement.

  To reinstate the total value of your savings component, you will need to contribute R93 750, one-third of which (i.e. R31 250) will be allocated to your savings component. You also lose out on any investment growth between the date of withdrawal and the date you replace the amount withdrawn.

  If you have already contributed your maximum tax-free amount, you will get the tax benefit from your additional contribution at a later stage. Your extra, after-tax (non-deductible) contributions (excess contributions) can benefit you throughout your lifetime: They can be carried over and deducted in the next year, and they continue to be carried over until they are fully utilised – so the benefit is never lost, as discussed in our Q4 2023 Allan Gray Quarterly Commentary.

TFI withdrawals

- **TFI withdrawals are not restricted**
  There are no restrictions on TFI withdrawals, and withdrawals from TFIs are not taxed. This means that you can withdraw whenever you want to and the amount you withdraw will be the amount you receive. It is therefore tax-efficient to withdraw from your TFI, but there are implications – discussed in the next point.

- **Withdrawals cannot be replaced**
  TFIs have a lifetime contribution limit of R500 000. The amount you have contributed is not reduced by withdrawals you make and these cannot be replaced. For example, if you have contributed R200 000 to your TFI to date, you have R300 000 left to contribute before you exceed the lifetime contribution limit. (You pay a SARS penalty of 40% on any contribution above the annual and lifetime limits.) If you decide to withdraw R20 000 from your TFI, you will still only be able to contribute an additional R300 000 over the remainder of your lifetime.

As mentioned earlier, you do not pay tax on interest, dividends or capital gains while invested in a TFI; you therefore benefit from tax-free growth. If you typically use the interest and capital gains tax exemptions each year, this tax-free growth is a very valuable benefit, which increases in value the longer you remain invested, and you will be foregoing this benefit on any amount withdrawn from your TFI.

Weigh up your options and seek professional advice

If you face circumstances where you need to withdraw from either your retirement fund or TFI, it makes sense to bear tax efficiency in mind. However, depending on your personal situation, there may be additional important factors to consider, including your remaining investment time horizon, and whether you have previously withdrawn from your retirement fund. Financial advice may help you to make an informed decision.

If you are planning to make use of the tax concessions for the 2024/2025 tax year by starting a new RA or TFI, or by making an additional contribution to an existing account, please ensure we receive your instruction, supporting documents and payment well in advance of the deadlines shown in **Table 1**.

Table 1: Instruction cut-off dates for the different payment methods

<table>
<tr><th rowspan="2">Payment method</th><th colspan="2">Cut-off dates</th><th rowspan="2">Instruction submission</th></tr>
<tr><th>Allan Gray Tax-Free Investment</th><th>Allan Gray Retirement Annuity Fund</th></tr>
<tr><td>Electronic collection</td><td>27 February 2025</td><td rowspan="2">27 February 2025*</td><td rowspan="2">Use your secure Allan Gray Online account to submit these contribution instructions.</td></tr>
<tr><td>Electronic funds transfer</td><td>Electronic collection only</td></tr>
<tr><td>Withdrawal from AGUT account</td><td colspan="2">26 February 2025</td><td rowspan="2">Use our “Interproduct withdrawal” form, which streamlines the process of submitting these types of instructions.</td></tr>
<tr><td>Withdrawal from AGLP account</td><td colspan="2">25 February 2025</td></tr>
</table>

*As banks have different processing timelines, EFTs may need to be made earlier than this date to ensure the money reflects in the RA bank account by 28 February 2025.
Note: Additional documents may be required for contributions from third-party bank accounts, which could lead to delays in processing instructions.

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.

Lee joined Allan Gray in 2012 as a CA trainee and is currently a senior manager in the Product Development team. He holds a Bachelor of Business Science degree in Accounting and Finance and a Postgraduate Diploma in Accounting, both from the University of Cape Town. Lee is a qualified Chartered Accountant (SA).

HOW TO KEEP THE LID ON LIFESTYLE CREEP

Twanji Kalula

A well-considered financial plan … can go a long way in keeping lifestyle creep at bay.

In recent years, central banks have grappled with curtailing inflation and easing interest rates at a reasonable pace. At the same time, consumers have been feeling the impact of the rising cost of living. As investors, we may not be able to control whether rates go up or down, or how rapidly consumer inflation rises and falls, but we can improve our long-term financial prospects by carefully controlling our lifestyle creep. Twanji Kalula explains.

Headlines around the world have been proclaiming that many are in the grip of a cost-of-living crisis. Global energy shortages have led to surging electricity prices, and geopolitical shifts have impacted supply chains, increasing the cost of many day-to-day items. We do not need headlines or the inflation numbers to confirm that life is costing us more – we feel the effects of inflation as we buy our groceries and pay our bills.

But the effects of inflation – the increase in price of goods and services over time – reach much further than living expenses. Inflation erodes the value of our money over time and should therefore be a critical consideration for the long-term investor, particularly when it comes to saving for retirement. At a minimum, we should aim to generate returns that keep up with inflation to protect the buying power of our accumulated savings; over longer periods of time, we should target returns that outpace inflation to help us realise our goals.

Inflation, however, is just one of the factors that affect our overall financial outcomes. Lifestyle creep is another. Simply put, lifestyle creep is the increase in our expenditure as we earn more money. Unfortunately, it tends to work against us, but on the upside, in contrast to inflation, it is largely within our control.

Lifestyle creep is insidious

Lifestyle creep tends to move slowly; it is often the product of numerous small adjustments to our spending over time, but it can also occur rapidly as a result of a significant life change (e.g. having a baby) or a large purchase (e.g. buying a home). These adjustments can increase our monthly expenses substantially as they are generally not once-off and are absorbed into our base costs.

While a degree of lifestyle creep is expected as we earn more, additional cash flow is often channelled entirely into funding new expenses, with little consideration for long-term investment goals. As products and services that may have been considered aspirational or out of reach become increasingly affordable, they may begin to feel like necessities – fuelling lifestyle creep. This impacts the amount we have available for saving and investing and therefore erodes our ability to build wealth.

... we should aim to build a nest egg that is large enough to replace 60-70% of our income in retirement.

Rampant lifestyle creep can derail retirement plans

One of the problems with lifestyle creep is that we often fail to account for it when we project how much money we will need to retire comfortably. We can unwittingly end up spending more on lifestyle-related expenses during the accumulation phase of our lives at the expense of saving enough to fund our expenses in retirement. Adding further complexity, lifestyle creep may also drive up the amount of money we will ultimately need to ensure a comfortable retirement – depending on what we envision for this phase of our lives.

When deciding how much to save for retirement as a percentage of regular income, it is important to take personal circumstances into account. We need to consider our age at the time we start saving (i.e. the amount of time we have to save) and the amount of money we will need to have accumulated by the time we retire. The longer we wait to start saving adequately, the more we will need to save.

As a rule of thumb, we should aim to build a nest egg that is large enough to replace 60-70% of our income in retirement. This will ensure that we will be able to sustain a comfortable retirement, bearing in mind that the nature of our expenses is likely to change as we get older. However, too often, we only calculate this amount when we first start investing. If we fail to revisit this calculation over time and do not account for the effects of lifestyle creep, we are likely to end up not having enough.

Managing lifestyle creep improves long-term financial outcomes

An unwieldy lifestyle creep can result in our expenses outpacing our income. At first we may find ourselves living from payday to payday, but left unabated, many of us then fall into a debt spiral to sustain our ongoing lifestyle costs. The compounded cost of expensive debt further fuels lifestyle creep and is one of the reasons many investors never meet their long-term financial goals.

Luckily, there are a number of things we can do to help keep the lid on lifestyle creep:

Manage overheads

Good financial planning should balance present needs with future wants. By tracking expenditure, interrogating expenses on a monthly basis and comparing costs from month to month, we can monitor how significantly our expenses are escalating. Armed with this information, we can make better spending decisions.

Resist the urge to splurge when times are good

We are inclined to spend more when money seems more freely available. For example, when interest rates are low and home loan repayments therefore lower, we have a little more wiggle room to spend more exuberantly. During these periods, our lifestyle creep rate can skyrocket. By keeping a handle on our costs during good times, we can move through more challenging times – like when interest rates and home loan repayments are higher – with greater ease and avoid feeling as though we are constantly moving between periods of feast and periods of famine.

Consider using a windfall to improve your financial position by saving and investing ...

Use windfalls wisely

Additional sums of money have the power to help us accelerate the pace at which we achieve our financial goals. That said, windfalls can trigger lifestyle creep when they are used to make purchases that increase our base costs. For example, getting a new car when receiving a bonus may seem like a once-off expense, but a new car may significantly increase ongoing fuel, maintenance and insurance costs.

Consider using a windfall to improve your financial position by saving and investing: Build an emergency fund, make an additional contribution to a retirement product, such as a retirement annuity, or contribute to a tax-free investment.

Revisit retirement savings targets

As part of our ongoing financial planning, we should regularly recalculate how much we need to save for retirement. This exercise ensures that we remain on track to draw a retirement income that can support a comfortable lifestyle.

Increase savings rates

Reframing the way we see increases in our income can meaningfully impact our investment outcome. Income increases can be used to keep pace with inflation *and* increase investment contributions.

Invest in a fund that beats inflation

Retirement investments need to target and keep pace with inflation. Investors should select a fund that has a proven track record, takes on sufficient risk to generate above-inflation returns, and manages this risk appropriately across a range of asset classes and regions. For most investors, the Allan Gray Balanced Fund fulfils these requirements. To understand how our Balanced Fund achieves these objectives, see Nick Curtin's article on page 24.

Keep track to keep on track

A well-considered financial plan, which is revisited regularly to account for changes in personal circumstances, provides an invaluable road map as we work towards achieving our long-term investment goals. It also provides a disciplined spending system that can aid in purchasing decisions, and can go a long way in keeping lifestyle creep at bay.

Twanji joined Allan Gray in 2019 and is a communications manager. He holds a Bachelor of Arts (Honours) degree in Media Theory and Practice from the University of Cape Town and a Master of Science degree in Corporate Communication and Public Affairs from Robert Gordon University.

NOTES

Allan Gray Balanced and Stable Fund asset allocation as at 31 December 2024[1]

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign	Total	SA	Foreign
Net equities	63.4	37.4	26.0	26.0	13.2	12.7
Hedged equities	9.0	2.9	6.1	19.3	9.1	10.2
Property	0.9	0.3	0.6	0.8	0.3	0.5
Commodity-linked	3.1	2.4	0.6	2.1	1.6	0.6
Bonds	16.3	11.2	5.0	35.1	27.6	7.5
Money market and cash[2]	7.3	9.1	−1.8	16.7	19.5	−2.7
Total	**100.0**	**63.3**	**36.7[3]**	**100.0**	**71.3**	**28.7[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 31 December 2024

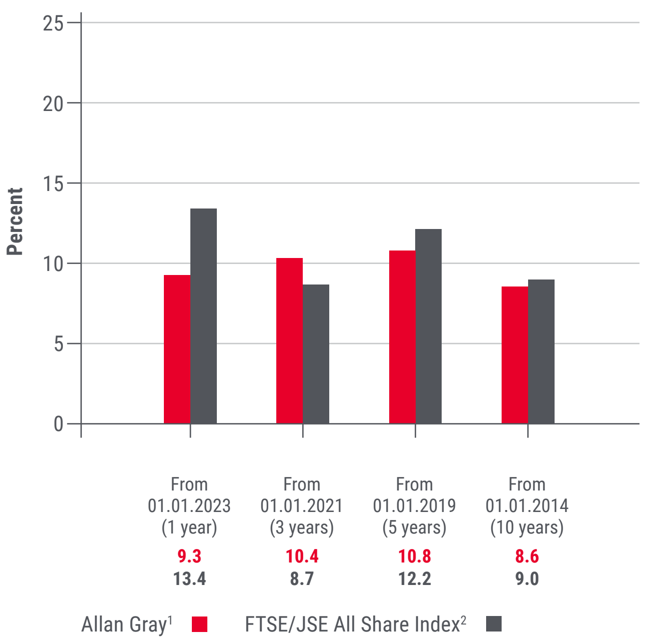
Security	Market value (R million)	% of Fund
South Africa	**26 168**	**56.3**
Equities	**24 415**	**52.6**
Resources	**5 229**	**11.3**
Glencore	938	2.0
Gold Fields	616	1.3
Sappi	615	1.3
AngloGold Ashanti	575	1.2
Sasol	472	1.0
Positions individually less than 1% of the Fund	2 014	4.3
Financials	**6 383**	**13.7**
Standard Bank	1 333	2.9
Nedbank	1 106	2.4
Remgro	1 040	2.2
FirstRand	619	1.3
Momentum	478	1.0
Positions individually less than 1% of the Fund	1 806	3.9
Industrials	**12 803**	**27.6**
Naspers & Prosus	2 316	5.0
British American Tobacco	2 155	4.6
AB InBev	1 856	4.0
Woolworths	1 200	2.6
Mondi	940	2.0
Tiger Brands	567	1.2
Positions individually less than 1% of the Fund	3 769	8.1
Commodity-linked securities	**184**	**0.4**
Positions individually less than 1% of the Fund	184	0.4
Cash	**1 156**	**2.5**
Currency hedges	**414**	**0.9**
Foreign	**20 285**	**43.7**
Equities	**2 876**	**6.2**
Walt Disney Company	1 204	2.6
Booking Holdings Inc	798	1.7
Positions individually less than 1% of the Fund	875	1.9
Equity funds	**17 700**	**38.1**
Orbis Global Equity Fund	7 398	15.9
Orbis SICAV International Equity Fund	5 318	11.4
Allan Gray Frontier Markets Equity Fund	2 825	6.1
Orbis SICAV Japan Equity (Yen) Fund	1 272	2.7
Allan Gray Africa ex-SA Equity Fund	775	1.7
Orbis SICAV Emerging Markets Equity Fund	112	0.2
Bonds	**18**	**0.0**
Positions individually less than 1% of the Fund	18	0.0
Cash	**104**	**0.2**
Currency-linked futures	**−414**	**−0.9**
Totals	**46 454**	**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	**9.3**	**13.4**	**−4.1**

Returns annualised to 31.12.2024



An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R377.1 million by 31 December 2024. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R17.6 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.

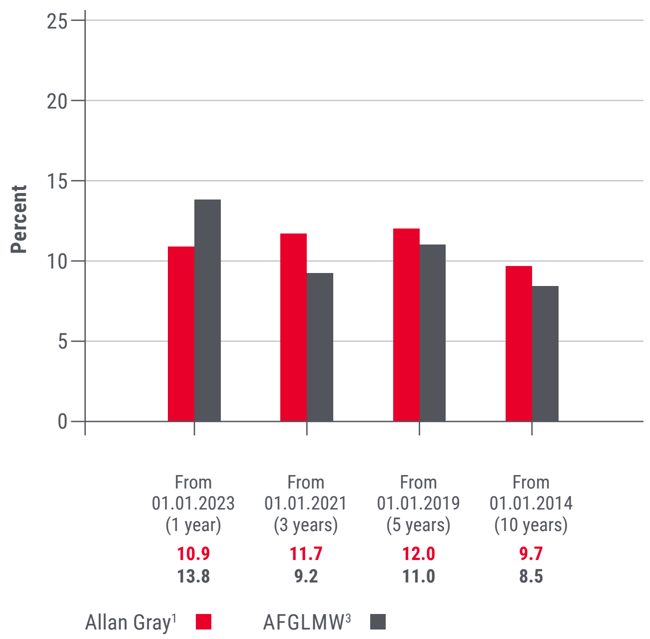
[2] Prior to July 1995, an internally derived JSE All Share benchmark was used.

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	**10.9**	**13.8**	**−2.9**

Returns annualised to 31.12.2024



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R44.1 million by 31 December 2024. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R9.4 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 December 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 31 December 2024 (net of fees)

	Assets under management (R billion)	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[6]	Lowest annual return[6]
High net equity exposure (Up to 100%)									
Allan Gray Equity Fund (AGEF) Market value-weighted average of South African - Equity - General category (excl. Allan Gray funds)[1]	**46.5**	**01.10.1998**	**18.9** 14.1	**8.2** 7.3	**11.4** 11.6	**11.0** 9.4	**11.5** 16.6	**125.8** 73.0	**−24.3** −37.6
Allan Gray SA Equity Fund (AGDE) FTSE/JSE All Share Index, including income	**3.9**	**13.03.2015**	**7.0** 8.6	**–** –	**10.2** 12.2	**9.6** 8.7	**10.0** 13.4	**57.3** 54.0	**−32.0** −18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) MSCI World Index, including income, after withholding taxes[2]	**31.7**	**01.04.2005**	**14.3** 14.9	**13.1** 15.7	**14.9** 18.0	**12.0** 12.7	**13.5** 20.6	**78.2** 54.2	**−29.7** −32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF) **Allan Gray Tax-Free Balanced Fund (AGTB)** Market value-weighted average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[3]	**199.9** **3.4**	**01.10.1999** **01.02.2016**	**14.8** **8.6** 11.4/7.9	**8.7** **–** 7.6	**10.9** **10.9** 10.2	**10.5** **10.7** 8.5	**10.4** **10.3** 12.8	**46.1** **31.7** 41.9/ 30.7	**−14.2** **−13.4** −16.7/−10.3
Allan Gray-Orbis Global Balanced Feeder Fund (AGGF)[4] 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index[4]	**18.4**	**03.02.2004**	**11.3** 11.3	**11.6** 11.3	**14.9** 11.9	**15.1** 7.1	**13.6** 11.1	**55.6** 38.8	**−13.7** −17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF) Daily interest rate, as supplied by FirstRand Bank, plus 2%	**53.5**	**01.07.2000**	**11.2** 8.5	**8.5** 7.5	**9.2** 7.0	**9.3** 8.4	**10.4** 9.6	**23.3** 14.6	**−7.4** 4.6
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate as supplied by FirstRand Bank	**0.8**	**01.10.2002**	**6.8** 6.1	**5.0** 5.3	**3.6** 4.9	**5.8** 6.2	**8.4** 7.4	**18.1** 11.9	**−8.2** 2.5
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) The simple average of the benchmarks of the underlying funds	**1.0**	**02.03.2010**	**7.7** 6.3	**6.6** 5.5	**10.1** 7.4	**13.0** 7.7	**4.1** 3.1	**39.6** 35.6	**−12.4** −19.1
No to very low net equity exposure (0% - 10%)									
Allan Gray Income Fund (AGIN) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index	**1.0**	**01.05.2024**	**9.0** 5.6	**–** –	**–** –	**–** –	**–** –	**–** –	**–** –
No equity exposure									
Allan Gray Bond Fund (AGBD) FTSE/JSE All Bond Index (total return)	**8.7**	**01.10.2004**	**9.1** 8.9	**8.8** 8.6	**8.7** 9.6	**9.5** 10.2	**15.8** 17.2	**22.0** 26.1	**−2.6** −5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) 3-month Index[5]	**28.5**	**01.07.2001**	**7.7** 7.5	**7.1** 6.7	**6.6** 6.2	**7.7** 7.2	**9.0** 8.4	**12.8** 13.3	**4.3** 3.8
Allan Gray Interest Fund (AGIF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index	**1.1**	**01.05.2024**	**7.3** 5.6	**–** –	**–** –	**–** –	**–** –	**–** –	**–** –

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

Allan Gray total expense ratios and transaction costs for the 3-year period ending 31 December 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	1.06%	0.48%	0.04%	0.16%	1.74%	0.08%	1.82%
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%	0.47%	0.04%	0.15%	1.68%	0.06%	1.74%
Allan Gray Tax-Free Balanced Fund	1.31%	N/A	0.04%	0.14%	1.49%	0.07%	1.56%
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%	0.02%	0.15%	1.17%	0.12%	1.29%
Allan Gray Bond Fund	0.50%	N/A	0.01%	0.08%	0.59%	0.00%	0.59%
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	1.28%	-0.09%	0.05%	0.00%	1.24%	0.10%	1.34%
Allan Gray-Orbis Global Balanced Feeder Fund	1.19%	0.84%	0.06%	0.00%	2.09%	0.07%	2.16%
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 31 December 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 MSCI World Index, including income, after withholding taxes[1]	**01.01.1990**	**17.4** 14.3	**13.3** 15.7	**15.3** 18.0	**12.5** 12.7	**14.4** 20.6	**87.6** 54.2	**−47.5** −46.2
Orbis SICAV Japan Equity (Yen) Fund Tokyo Stock Price Index, including income, after withholding taxes	**01.01.1998**	**14.0** 9.6	**12.9** 11.8	**11.6** 10.8	**11.6** 8.9	**4.7** 10.2	**94.9** 91.0	**−40.1** −46.4
Orbis SICAV Emerging Markets Equity Fund[2] MSCI Emerging Markets Index, including income, after withholding taxes[2]	**01.01.2006**	**13.0** 12.0	**9.2** 9.0	**11.0** 7.9	**10.6** 3.7	**13.3** 9.2	**58.6** 60.1	**−34.2** −39.7
Allan Gray Africa ex-SA Equity Fund (C class) MSCI Emerging Frontier Markets Africa ex-SA Index[3]	**01.01.2012**	**11.1** 7.8	**6.1** 6.2	**12.4** 11.6	**5.0** 4.3	**1.4** 0.3	**65.6** 42.2	**−24.3** −29.4
Allan Gray Australia Equity Fund S&P/ASX 300 Accumulation Index	**04.05.2006**	**13.5** 12.2	**11.3** 10.8	**10.4** 11.8	**9.4** 7.5	**3.9** 3.4	**99.5** 55.6	**−55.4** −45.1
Allan Gray Frontier Markets Equity Fund (C class) MSCI Frontier Emerging Markets Index	**03.04.2017**	**12.4** 6.3	**–** –	**16.5** 5.7	**15.4** 4.8	**16.3** 8.0	**45.2** 23.2	**−11.0** −12.8
Medium net equity exposure								
Orbis SICAV Global Balanced Fund 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index	**01.01.2013**	**14.7** 13.6	**12.0** 11.3	**15.3** 11.9	**15.3** 7.1	**14.1** 11.1	**54.4** 40.2	**−9.8** −12.1
Allan Gray Australia Balanced Fund The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan Global Government Bond Index expressed in AUD (16%). All performance returns shown are net of fees and assume reinvestment of distributions.	**01.03.2017**	**10.0** 9.7	**–** –	**11.6** 9.8	**9.9** 5.3	**6.4** 4.5	**29.1** 25.1	**−5.3** −8.3
Low net equity exposure								
Orbis SICAV Global Cautious Fund[4] US$ bank deposits + 2%	**01.01.2019**	**8.7** 9.5	**–** –	**10.0** 11.1	**10.4** 12.5	**6.9** 9.3	**26.6** 34.6	**−8.0** −20.4
Allan Gray Australia Stable Fund Reserve Bank of Australia cash rate	**01.07.2011**	**9.6** 5.9	**7.4** 3.9	**8.1** 5.6	**5.4** 3.6	**−1.1** −3.0	**32.7** 28.8	**−8.9** −15.5
Very low net equity exposure								
Orbis Optimal SA Fund (US$) US$ bank deposits	**01.01.2005**	**9.6** 8.2	**8.1** 7.1	**12.0** 8.9	**15.3** 10.1	**7.6** 7.2	**48.6** 57.9	**−15.7** −25.6
Orbis Optimal SA Fund (Euro) Euro bank deposits	**01.01.2005**	**7.3** 6.0	**4.9** 3.8	**8.8** 5.7	**10.5** 5.3	**0.4** −0.7	**44.1** 40.2	**−19.3** −20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)[5] FTSE 3-Month US T Bill + 4% Index[5]	**27.03.2013**	**13.1** 8.9	**12.4** 9.7	**11.6** 12.6	**11.0** 14.3	**13.2** 11.2	**31.4** 36.5	**−7.4** −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).
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.

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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.

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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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