QC

Quarterly Commentary
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ALLAN GRAY

Fixing the South African economy

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COMMENTS FROM THE CHIEF OPERATING OFFICER

Rob Dower

The best portfolio for most long-term investors is some kind of balanced fund, with a level of risk most appropriate for their needs and temperament.

Rightly, in the past year, there has been an increase in public pressure on fund managers like us to actively exercise clients' ownership responsibilities, holding the managers of companies to account for their ethics and their performance, rather than taking a short-term view and simply selling a share. Surprisingly, some of this pressure has come from passive managers, who are by definition long-term owners of the shares they hold, yet are seldom seen asking questions in shareholder meetings. This is an opportunity missed. Passive funds own every share in the index, and like their active counterparts, have a fiduciary interest in the success of these companies.

Whether an investment is actively or passively managed can be a distraction from whether it is well-managed. The best portfolio for most long-term investors is some kind of balanced fund, with a level of risk most appropriate for their needs and temperament. There is no generic index that provides this; someone has to decide what percentage to invest in equities, bonds, cash and property and how much to place offshore. For the equities, someone needs to pick the individual shares, or to decide which index to follow. Someone decides the cap for individual investments (for example, including Naspers at its current index weight of more than 20% is a bold bet). For the offshore portion, which offshore investments are included makes a difference – there are many credible options, including index-based ones. Even if all of these choices are made mechanically ("passively"), they are real choices and they make a big difference to the outcome for an investor. "Passive" is often used as a marketing label to signal low fees. Astute investors will look past a label to rigorously compare costs between products, and consider them relative to long-term returns and to the quality of the service they receive.

In any event, when it comes to individual stocks, the FTSE/JSE All Share Index (ALSI) is a poor starting point for a portfolio. It is better to consider each share investment on its own merits. The companies listed on the JSE have not been assembled to give investors in South Africa a good spread of the different global sectors, or even of South Africa's economy – they are a random group of large and small companies with a connection to South Africa. Worse, their weights in the index are a function of their size (a few big international companies dominate), their point in a business cycle, or short-term swings in their share price, not their long-term attractiveness to investors. As just one example, in mid-2008, Anglo American was more than 17% of the index. By early 2016 its share price had fallen by 90% from its peak. This is a sobering 9 times bigger percentage point loss to the index than Steinhoff's recent decline has caused.

Careful stock-picking is key

Rather than starting with an index, our philosophy is to invest your savings in shares that are trading for less than our estimate of their worth to a long-term investor. Sometimes this means we find value where others fear to tread. Positive sentiment drives prices up; we prefer to buy when things are on sale and we are convinced the price does not reflect the true value. During 2017, we upped our exposure to local equities, which surprised some investors at the time, given the mood of uncertainty. In his article, Duncan Artus discusses the rationale for our decisions, using the current positioning of our Balanced Fund to explain how our portfolios are positioned for multiple outcomes.

It is too early to tell, but there are signs that 2018 may be a turning point, the beginning of a new period of growth and prosperity for all South Africans. The challenge for the new ANC leadership is to give their full attention to fixing the economy – although this will require resolute and probably unpopular actions. Sandy McGregor offers some insights and suggestions in his piece.

Our stock market is concentrated with a lot of weight in a few shares, but it is also narrow, making up only 1% of the world's share investment universe. If you live here, it makes sense to diversify your savings and allow some of your money to earn returns elsewhere, not because the rest of the world is any less risky – the outcomes here are as unpredictable as they are in any other country, and our political stresses are not materially worse than those in Brazil, Turkey or Russia, for example – but because the bad things that could happen elsewhere are unlikely to be correlated with bad things happening here. In addition, investing outside South Africa gives you a much larger universe of shares to choose from.

Bearing this in mind, our offshore partner Orbis has had to do some very careful stock-picking to find compelling opportunities in an optimistic and overvalued world market – the FTSE World Index was up 24% in US$ in 2017. John Christy shares insights from the members of the Orbis investment team, who explain some of their choices.

Planning versus doing

Given the renewed sense of focus the start of the year brings, we often feel inspired to put plans in place for better diets, exercise and sometimes investing. Often weeks pass and we realise we are stuck; inertia kicks in at the very thought of planning itself. Don't worry if you get stuck at the planning stage – this is more common than you think. Wanita Isaacs explains how to overcome this and other common barriers and reminds us that plans count for naught if we don't take any action.

On the subject of taking action: In this quarter's Investing Tutorial, Carla Rossouw explains the benefits of taking advantage of the annual tax incentives the government has put in place to encourage us to save. A reminder that, if you want to, you need to take action before the end of February.

Developments at the Allan Gray Orbis Foundation

I am pleased to introduce Yogavelli Nambiar, who succeeds Anthony Farr as CEO of the Allan Gray Orbis Foundation. Anthony joined the Foundation a few months before it launched in 2005. Apart from his warm and inspiring leadership, he has been the main architect behind the Foundation's model for creating a pipeline of entrepreneurial talent in our country. This quarter's Foundation update illustrates his impact with some inspiring stories about the young entrepreneurs it has helped to develop. Anthony will be moving within the group to take responsibility for Allan & Gill Gray Philanthropies (Africa), a philanthropic arm of the Allan & Gill Gray Foundation.

Yogavelli is well-equipped to take over. She was most recently Founding Director of the Enterprise Development Academy at the Gordon Institute of Business Science (GIBS), the business school of the University of Pretoria, where she led the school's entrepreneurship efforts. Prior to that she was Country Director of the Goldman Sachs 10,000 Women initiative, leading the design and delivery of this successful international women's entrepreneurship programme in South Africa.

Thank you for trusting us with your savings, and I wish you all the best for 2018.

Kind regards

Rob Dower

FIXING THE SOUTH AFRICAN ECONOMY

Sandy McGregor

If we can make necessary changes domestically, favourable global business conditions will support a rapid economic turnaround.

Now that the ANC conference is behind us and Cyril Ramaphosa has been elected party leader, the political debate will shift from the issue of leadership to what is to be done to arrest our downward spiral into economic disaster. The economy can be fixed, but this will require resolute and unpopular actions. Sandy McGregor discusses.

For the past year, the matter of who will succeed President Jacob Zuma has been an all-consuming concern for all South Africans. There has been a struggle within the ANC between two factions. One largely comprises the beneficiaries of Zuma's particular style of patronage politics, who seek to maintain at whatever cost the status quo from which they currently benefit. The other seeks the return of a constitutional order similar to that established by Mandela and Mbeki. As this contest became more heated, the fact that South Africa is facing a serious economic crisis was largely ignored. This is the first challenge the ANC's new leadership must now face.

Is it possible to fix it?

Often we face problems that have no solutions; they simply have outcomes. However, getting South Africa's economy going again should not be one of these. History is full of stories of nations that were in a bad way and successfully made changes for the better. There are well-understood long-term challenges, such as the broken education system, which will take years to put right. However, in recent years, we have lost our way and to put the country back on the path to a better future we need positive leadership. Certain simple things have to be done so that the strengths of business and civil society can be harnessed to tackle these challenges.

A supportive global economy

For the past 18 months, we have experienced one of the strongest periods of synchronous global growth on record. With few exceptions, almost every country is enjoying improving business conditions. In Europe it looks as if eight years of stagnation are ending. The prospects for Japan seem the most favourable in decades. The slowdown in emerging markets, which commenced in 2011, has come to an end. Growth continues apace in the two economic juggernauts: China and the US. It has become a cliché to observe that only two countries of significance are not growing: South Africa and Venezuela, both of which are suffering the consequences of damaging political leadership.

South Africa has an open economy and normally responds positively to an upward surge in global growth. That it has not done so is witness to economic mismanagement and an extremely low level of business confidence. Our economic crisis is of our own making. However, this can be regarded positively: If we can make the necessary changes domestically, favourable global business conditions will support a rapid economic turnaround.

Fiscal stabilisation requires an increase in the VAT rate

The medium-term budget tabled by Finance Minister Malusi Gigaba in October 2017 presents a bleak picture of a deteriorating fiscal situation. An immediate revenue shortfall of about R50 billion is expected in the current fiscal year due to a combination of a weak economy and an erosion in the efficiency of tax collections. Matters have been aggravated by mismanagement of state-owned enterprises (SOEs), such as Eskom and SAA, which cannot remain in business without government support.

Without immediate remedial action, government debt could spiral out of control to unsustainable levels. It is very difficult to cut government spending even in the best of times as it requires strong managerial skills which the public service currently lacks. Accordingly, a rapid stabilisation of government finances will need a tax increase.

There is only one viable option given that personal tax rates have reached levels where further increases will not significantly boost revenues. An increase in the VAT rate from 14% to 16% will generate an additional amount of about R48 billion, which should be sufficient to stabilise the nation's finances. Such decisive action will improve investor confidence and promote capital inflows, which will stabilise the rand and reduce the interest rate payable on new debt. Rand stability will keep inflation in check and allow the Reserve Bank to further reduce interest rates. The shock and awe generated by such a move will send a message that government fully intends to put the nation's finances in order.

It is often argued that an increase in VAT places an increased burden on the poor, but in current circumstances, this may not be the case. Theoretically a consumer whose entire expenditure is spent on VATable goods will suffer a 2% increase in their cost of living. On the other hand, failure to stabilise the fiscus would have an adverse impact on the rand – with much greater inflationary consequences. Consumers will be better off paying more in VAT. A simultaneous 2% increase in grants would cost about R3 billion a year and would protect the poorest against the cost of a VAT increase. The benefits of an increase in VAT would far outweigh its costs.

…decisive action will improve investor confidence and promote capital inflows, which will stabilise the rand and reduce the interest rate payable on new debt.

Restoring confidence

The markets are no longer willing to finance SOEs that are mismanaged and corrupt. Those who have fiduciary responsibilities cannot fund organisations whose behaviour would in the private sector be the subject of criminal prosecution. The practice of making senior appointments from a small group of people who lack the required skills, but are politically connected, must cease.

South Africa has a private sector rich with talent. It should be possible to find competent individuals who know what needs to be done and can do the job. Installing competent management in the parastatals will help put them in a position where they can borrow on their own credit and no longer be a liability to the state.

In recent years there has also been a serious erosion of managerial competence throughout government. Many departments require a change in leadership. Addressing this issue would go a long way to restore public confidence and create a government that can deliver. The required skills exist. They can be found both in government and in the private sector. Some may have to be recruited from abroad. What is required is the recognition that these skills must be sourced from outside government, and the political world, if necessary.

With business confidence at its lowest level since the early 1990s, it is unsurprising that economic conditions are stagnant. It is the private sector that makes the investments which generate growth. Any programme to get the economy going again must therefore start with restoring both business and consumer confidence. This can be achieved by a few simple steps such as those outlined above. Given current favourable global economic conditions, improved domestic confidence could pay rapid dividends in the form of faster growth.

Will the new ANC leadership be able to make the necessary changes?

A feature of the recent ANC conference was the almost equal voting strengths of the two factions competing for control of the party. While the Ramaphosa faction had a significant lead in provincial nominations and, according to opinion polls, was favoured nationwide by a large majority of ANC supporters, the Zuma faction had control of powerful provincial political machines that were able to deliver votes within the conference itself. The outcome was a division of the top six positions equally between the two factions, although, crucially, the role of party president went to Ramaphosa, who also probably has the support of a majority of the newly elected members of the National Executive Committee (NEC).

Fixing the South African economy requires significant changes in the staffing of the top positions in government. This, in turn, probably requires the early retirement of President Zuma because many of those who must be replaced are his appointments and were given their positions because he regarded them as being loyal to himself. It is extremely unlikely that Zuma will dispose of these supporters, who have been the beneficiaries of his patronage. Accordingly, the immediate issue facing the newly elected NEC is whether it supports the early retirement or, if necessary, recall of Jacob Zuma. If it does, he can be replaced by Ramaphosa early in the new parliament.

Ramaphosa will face formidable challenges because he will have to rebuild government institutions that have been severely damaged during the Zuma years. He would probably install a new minister of finance, who hopefully will have the political support to increase the VAT rate. Any delay in making these changes would be a sign that Ramaphosa lacks the power within the party to make effective changes, and South Africa will remain trapped in economic stagnation.

Sandy joined Allan Gray as an investment analyst and economist in October 1991. Previously he was employed by Gold Fields of South Africa Limited in a variety of management positions for 22 years, where he focused on investment-related activities. He has extensive experience in analysing the political and economic environment and managing fixed interest investments. He was a director of Allan Gray Limited from 1997 to 2006.

HOW ARE OUR PORTFOLIOS POSITIONED TO PROTECT AND GROW OUR CLIENTS' CAPITAL?

Duncan Artus

We believe the biggest risk investors face is losing money by overpaying for an asset.

Regular readers of our commentaries would have noted that we have found an increasing number of attractive opportunities in local equities over the last 18 months. This should not be surprising given the pedestrian returns the local equity market delivered relative to low-risk assets such as cash from 2014 to 2016. Duncan Artus discusses how our portfolios are currently positioned and explains the rationale.

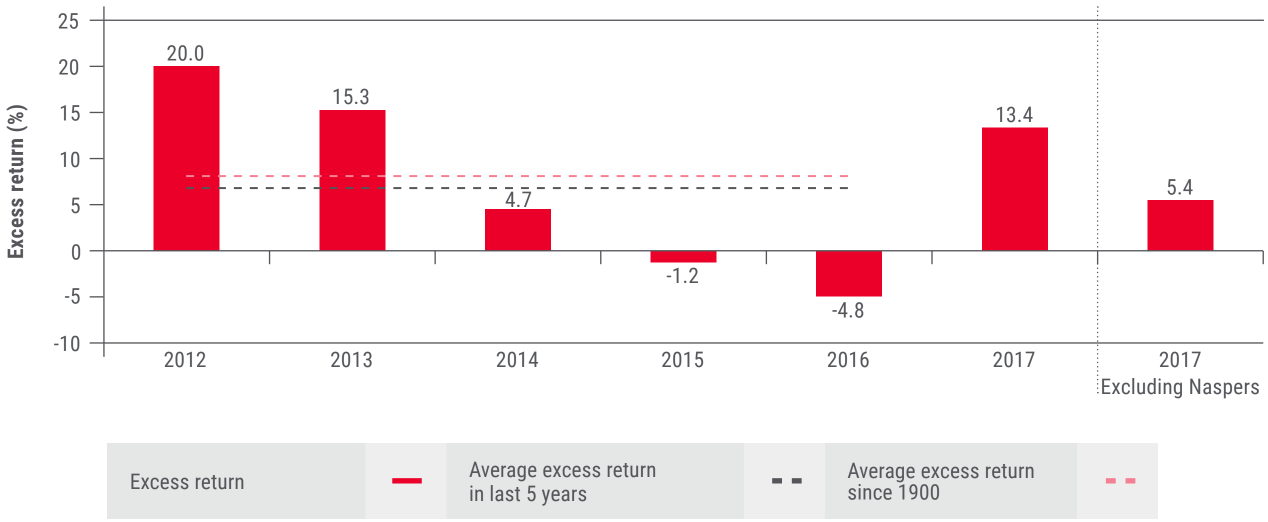
Every investment decision we make involves assessing the potential opportunity on its own merits and comparing it to other available opportunities. We also assess the risks and weigh up whether or not these are accounted for in the price. We believe the biggest risk investors face is losing money by overpaying for an asset.

Consider **Graph 1** (on page 8), which assumes each year an investor has the choice of either investing in the FTSE/JSE All Share Index (ALSI) or putting their money in the bank. The red bars represent the difference between the two returns or the "excess return" accruing to equities.

Prior to 2014, equities had been delivering a high excess return. Between 2014 and 2016, the high valuations of local equities that we had been writing about at the time moderated, as they always eventually do, via materially lower and even negative excess returns. This was despite the large positive contributions by SABMiller and Naspers over the period. In other words, the excess return for the average share was even worse than what is depicted in **Graph 1**.

With an excess return of 13.4%, on the surface 2017 appears to have been a better year for local equity investors, but this is misleading, as 8% was contributed by one share: Naspers. On the back of its investment in Chinese internet giant Tencent, which is now the 6th most valuable company in the world, Naspers returned 71% for the year. It now constitutes 20% of the ALSI. Remove Naspers from the picture, and 2017's excess returns were much lower.

Graph 1: Excess returns from shares versus cash 2012-2017



Source: Elroy Dimson, Paul Marsh & Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, and subsequent research

But what about the uncertain local context?

Given our current appetite for certain local shares, and that our asset allocation funds have had a higher average equity weighting over the last year, some clients are questioning our approach: "We understand there may be attractive opportunities in local equities, but what about the scary economic and political outlook for South Africa? Are my investments safe?"

When we make investment decisions on your behalf we think not only about growing your wealth, but also about protecting your capital. When managing portfolios it is important that we separate what we as individuals want to happen in South Africa from our thinking about the portfolio, with a realistic view of potential scenarios and how the portfolio would perform in each of them.

If we simplistically assume low- and high-road scenarios for South Africa for the immediate future, we can attempt to group together the positions in our portfolios which we believe could outperform in each scenario. We also invest in a number of businesses that have both local and offshore operations of varying relative sizes, which we could label the middle-road group.

Table 1 shows the positioning of the Allan Gray Balanced Fund and the size of each position as a percentage of the Fund. It highlights:

- The diversification across a number of different assets
- That the portfolio is not invested based on one specific scenario playing out
- That the shares, no matter what grouping they fall under, are trading below our estimates of fair value

Table 1: Allan Gray Balanced Fund positioned for multiple outcomes

High-road scenario assets	Middle-road scenario assets		Low-road scenario assets
Rand cash (11.2)	Remgro (2.8)	Sasol (6.0)	Orbis offshore funds (24.3)
Rand government and corporate bonds (9.8)	Old Mutual / Investec (5.6)	Sappi (0.4)	Naspers / Tencent (6.5)
Bank shares (5.2)	Hospital shares (2.6)	Super Group (0.7)	BAT / Reinet (4.7)
Retail and consumer shares (2.6)	Nampak (0.6)	Africa Ex-SA (2.4)	Commodity ETFs (3.6)
Construction shares (0.4)	RMI (0.9)		Precious metal miners (1.9)
Listed property (0.8)			Diversified miners (1.8)

Numbers in brackets represent percentage of Fund invested in the position.
Source: Allan Gray research

What could a high-road scenario look like?

Graph 2 shows the Brazilian experience, which some see as a potential template for SA. Brazil had been double-downgraded by rating agencies S&P and Moody's, but the resultant drop in prices turned out to be a buying opportunity. Markets have, so far, rewarded Brazil with a substantial rerating of its bonds (bottom panel), currency and equity markets despite many of its actual economic indicators not yet showing any great signs of improvement.

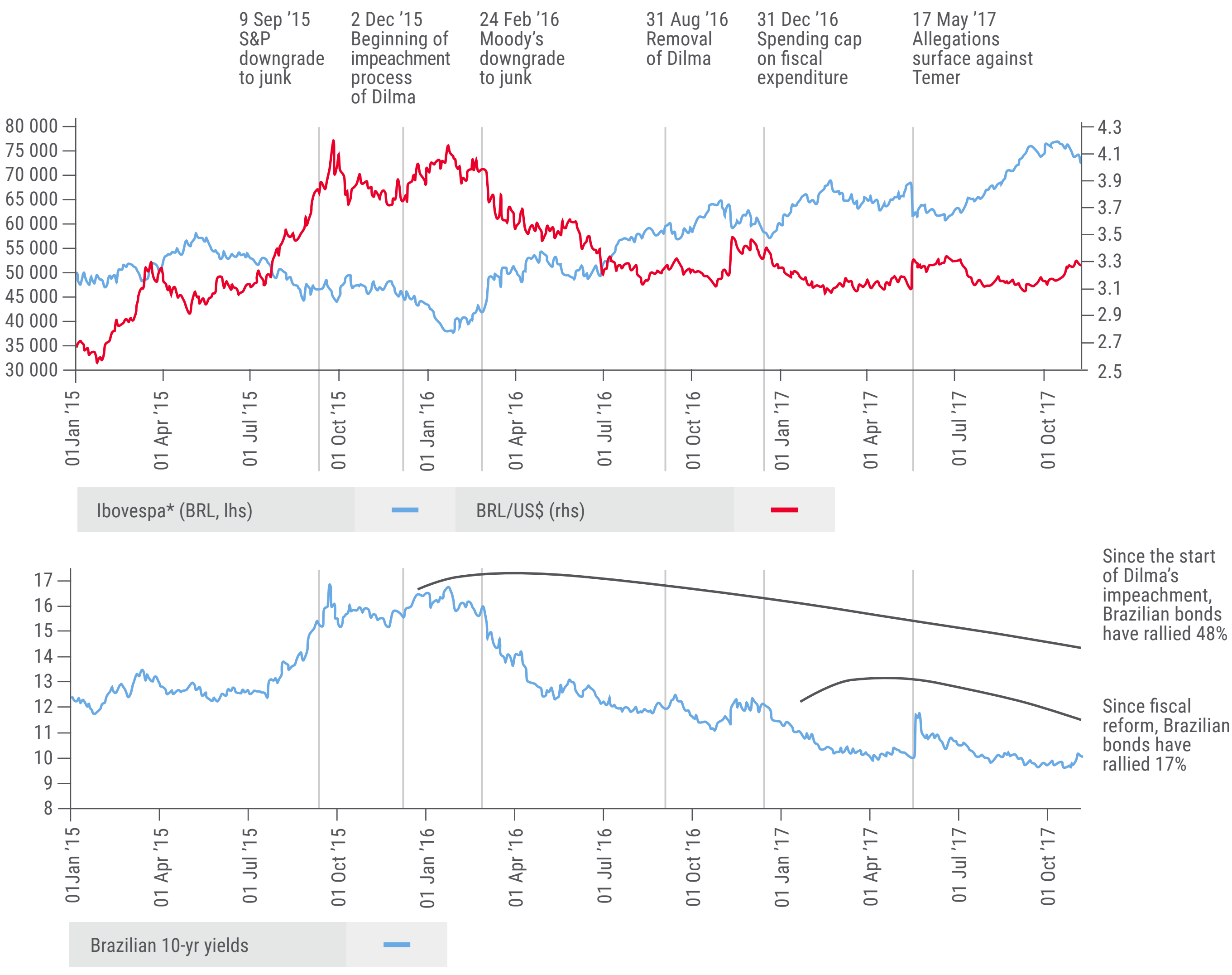
What Brazil has shown so far is intent: The president was impeached, reforms are being attempted at state-owned enterprises (mainly oil company Petrobras) and the government has introduced an expenditure ceiling. While we don't know yet whether the market has overreacted on the positive side, it does illustrate how quickly sentiment can turn. The high road can be priced in surprisingly quickly if investors are overwhelmingly positioned the other way.

What about the portfolio in the low-road scenario?

Twenty five percent of the portfolio is invested offshore in the Orbis funds, which own assets diversified across countries and sectors, many of which are not available to investors on the JSE (the global technology sector is an obvious example). **Table 2** (on page 10) shows the positioning of the offshore portion of the Allan Gray Balanced Fund by asset class and geography, while **Table 3** (on page 10) shows the offshore position by global sector.

In addition, about 18% of the Fund is currently invested in shares on the ALSI whose profits have very little exposure to the South African economy. The two largest of these are Naspers and British American Tobacco (BAT). Both these shares are currently attractive from a valuation point of view, with the added benefit of increasing the diversification of the portfolio and gaining exposure to structural growth trends. We also have positions in

Graph 2: Positive reaction to Brazilian reform



*Ibovespa Brasil Sao Paulo Stock Exchange Index
Source: RMB Morgan Stanley

precious metals (gold, palladium and platinum) via listed exchange-traded funds, platinum and gold miners, as well as exposure to global diversified miners.

The best protection against potential risks is buying cheap assets

In summary, we believe it is best to position your portfolios to weather multiple outcomes. A well-diversified portfolio has many levers to rely on in pursuit of long-term returns, as long as a fair price was paid for those assets to begin with.

Cheap assets can withstand a lot of bad news. But, as discussed, we think hard about potential tail risks when putting the portfolio together, and the world is not short of tail risks. We continue to work hard to protect and grow your capital in these unsettling times.

Table 2: Positioning of the offshore portion of the Allan Gray Balanced Fund by asset class and geography

	% of Orbis funds					
Asset allocation of Orbis funds	**Total**	**North America**	**Europe**	**Japan**	**Asia Ex-Japan**	**Other**
Net equities	58.5	13.3	14.1	8.9	17.6	4.4
Hedged equities	33.1	17.6	5.0	6.2	2.8	1.5
Fixed interest	4.0	3.8	0.1	0.0	0.1	0.0
Commodity-linked	1.2	0.0	0.0	0.0	0.0	1.2
Net current assets	3.2	0.0	0.0	0.0	0.0	3.2
Total	**100.0**	**34.7**	**19.2**	**15.2**	**20.6**	**10.4**

Source: Orbis

Table 3: Allan Gray Balanced Fund - Offshore equity exposure by sector

MSCI sector	% of gross offshore equity
Financials	17
Information technology	17
Consumer discretionary	14
Industrials	12
Healthcare	9
Energy	8
Materials	7
Consumer staples	4
Real estate	2
Utilities	2
Telecommunication services	0
Other	8
Total	**100**

Source: Orbis

Duncan joined Allan Gray in 2001 and has been managing a portion of client equity and balanced portfolios since January 2005, when he was appointed as a portfolio manager. He is a director of Allan Gray Group Proprietary Limited. Duncan completed his honours in Business Science and a postgraduate diploma in Accounting at UCT. He holds both the CFA and CMT charters.

THE GLOBAL OPPORTUNITY SET

John Christy and the Orbis investment team

...our job is to find the needles in the haystack – the asymmetric opportunities in which potential return significantly exceeds risk.

Orbis does not invest in "the market". Instead, they focus entirely on finding the most compelling individual opportunities on offer. There's no better way to understand those opportunities than to take a closer look under the hood. In this article, contributed by members of the Orbis investment team and woven together by John Christy, you can see the rationale behind a broad sample of the Orbis Global Equity Fund's current holdings. We hope you'll enjoy hearing it straight from the team and come away confident about the positioning of the Fund.

The FTSE World Index rose 24% in 2017, keeping the current bull market alive for a ninth year. While this has been glorious for global equity investors – and it is gratifying that the Orbis Global Equity Fund has performed even better – future stock market returns hardly look appealing at current valuations. However, the world looks different to a bottom-up stock-picker.

Financial services

From a global perspective, few parts of the market have offered abundant bargains in recent years. Financial services is one exception. Over the past two decades, the sector has rarely traded at this big a discount to the global index. Of course, many of these shares are cheap for good reason, so our job is to find the needles in the haystack – the asymmetric opportunities in which potential return significantly exceeds risk. We believe we have identified a handful of financial-related companies that meet that definition, and they come in different shapes and sizes.

KB Financial Group, Korea's largest bank, and American International Group, a global insurer, are both reasonable quality businesses on firmer footing than they were in the past. We expect profitability to improve at both companies over our investment horizon, which should allow them to grow their per-share book value by 10-15% p.a. Yet today, each trades for less than its book value.

Sberbank, the dominant retail bank in Russia, offers the kind of investment credentials that have become all too rare these days. How often does one find a dominant, competitively advantaged market leader with 20%+ return-on-equity trading at only seven times earnings?

What puts investors off, of course, is the unquantifiable "Russia risk". While we accept this deserves consideration and comes with some short-term volatility, we believe the current discount is too severe given our long-term investment horizon.

A less traditional financial business is PayPal, the payments technology leader. As a newer business model, it is the hardest of the group to value. The stock looks expensive at first glance because the company's profits are perennially weighed down by heavy marketing and product development expenses, but we regard these as investments that should produce benefits well beyond the short term. PayPal's true economic value creation, in our view, is considerably higher than what's captured by headline earnings in any given reporting period.

Cybersecurity

Along with greater online transaction activity, cybersecurity breaches are also becoming more common. Their cost to global economic activity is already comparable to narcotics, piracy, and car crashes. Companies have rushed to plug gaps in their security, but despite a surplus of options there is a scarcity of firms that can provide unified, high-quality expertise. We believe Symantec is an attractive exception.

Founded in 1982 by artificial intelligence researchers, Symantec grew into one of the world's largest cybersecurity firms. The company sells software to consumers under the Norton brand, and to enterprises under a variety of product lines. Despite its initial leadership in security, over the past decade, Symantec lost its focus, its product competitiveness, its growth, four CEOs, and its premium valuation. Today, at 15 times adjusted earnings, or a free cash flow yield to equity of 8%, Symantec trades at a notable discount to the US market, and at a substantial discount to its technology peers.

What do we see differently? First, we believe the new CEO, Greg Clark, has refocused the company on security by transitioning it to stickier subscription pricing and refreshing Symantec's product range, the broadest in the industry. While the path may be uneven, we believe this will translate into growth as customers consolidate vendors, selecting those that can offer a true "platform" at a competitive price. Over the long term, Symantec should benefit from the adoption of cloud computing as cybersecurity transitions away from the "firewalled fortress" model of the past to a decentralised model that requires broad, integrated coverage.

In our view, Symantec is simply not the ex-growth legacy business of a few years ago, but the stock's current valuation doesn't yet reflect what we see as the positive changes to the business.

…these shares represent some of the ideas that our investment professionals find most compelling on a bottom-up basis.

Tobacco

At the opposite end of the technology spectrum, the Fund holds shares of two UK-based tobacco companies: British American Tobacco and Imperial Brands. Tobacco shares have underperformed over the last six months, in part due to the US regulator exploring whether to reduce the nicotine in cigarettes to very low levels. That could happen – but the evidence so far suggests it would hurt smokers, who seem to respond by smoking more cigarettes to get their usual nicotine hit. We therefore expect the current regulatory stance to remain in place. If that be the case, the future for tobacco companies could look a lot like the past.

Over the long term, tobacco companies have steadily grown earnings per share by about 7% p.a., and for decades, this growth has coincided with declines in smoking rates as regulators strive to improve public health. The reason is that tobacco companies have been able to raise prices by more than enough to offset continuing declines in smoking volumes. This playbook will stop working eventually – at a certain point, price hikes will bite. But that point hasn't come yet. It is no guarantee of future success, but over time, this pattern has allowed the tobacco sector to quietly outperform world markets by roughly 6% p.a. for 50 years.

Japan

In 2017, Japan has quietly outperformed other world stock markets (in US$ terms). But all Japanese shares have not benefited equally; Japan is home to some of the widest valuation dispersions of any region. The Fund currently holds a cluster of value shares in Japan, including of trading company Mitsubishi and oil and gas producer INPEX.

Mitsubishi is a diversified industrial conglomerate dealing in everything from coking coal to salmon to convenience stores. Over its history, the company has almost always been profitable, delivering steady growth in shareholders' equity. But as businesses with similar returns on equity have risen to trade at 3, 4, or even 5 times their book value, Mitsubishi's valuation has languished at about 1.0 times – a multiple we regard as too low given the company's fundamentals and improvements in capital allocation. We are prepared to take a long-term perspective to see if the market agrees with us.

INPEX is uniquely idiosyncratic among the world's oil and gas producers. Other producers may worry about their ability to grow without spending more than their cash flow; INPEX is all but certain to grow its production rapidly over the next few years, while greatly improving its free cash generation. This is because of Ichthys, a massive liquefied natural gas project off the coast of Australia. Many years in the making, Ichthys will start producing gas (and cash) in 2018. The project will take time to ramp up, and it is an open question how management will allocate these cash flows. But despite the start-up of Ichthys, the stock's valuation has not risen over the past four years – INPEX trades at just 0.7 times the value of its tangible net assets.

China

Outside of Japan, holdings elsewhere in Asia constitute the most noticeable concentration in the Fund. Much of that exposure is to Chinese shares. But this exposure is a result of our stock selections, not a driver of them. The Fund's weight in China is almost entirely in just a handful of internet-related shares, including of NetEase and JD.com.

The Fund has held NetEase for nearly 10 years. During that time, we have always regarded the company as a first-rate online game developer. Propelled by its industry-leading research and development, NetEase has grown earnings by over 25% p.a. in the past decade.

NetEase continues to have a promising games pipeline, and it also has two attractive e-commerce businesses: Kaola and Yanxuan. Kaola offers easy access to foreign goods (Australian nappies, for example, are very popular with Chinese parents). Yanxuan provides a simple range of quality products at low prices. In addition, NetEase operates China's largest email service, with nearly a billion registered users, as well as one of China's largest online music services. With these units adding to the ongoing potential of the games franchise, we believe NetEase continues to offer above-average growth, but lingering fears of competitive pressures have left its valuation at undemanding levels.

JD.com is China's second largest e-commerce company after Alibaba. While the companies are fierce competitors, they have different strategies. Of the two, JD.com has focused more on building its own infrastructure – everything from warehouses to delivery scooters – so that it can efficiently sell goods itself. This Amazon-like model is initially more expensive than facilitating third-party sellers, but ultimately provides a better customer experience. Over the long term, we believe JD.com's future is brighter than its current valuation suggests.

The Fund's positioning

Overall, the stocks discussed account for roughly 1/4 of the Fund and less than 2% of the World Index. Individually, these shares represent some of the ideas that our investment professionals find most compelling on a bottom-up basis.

As always, our own money is invested alongside yours, and we hope you'll share our enthusiasm for the Fund's positioning.

Contributors: David Campos, Orbis Investment Management (US), LLC, San Francisco; Stanley Lu, Orbis Investment Management (Hong Kong) Limited, Hong Kong; Michael Heap, Brett Moshal and Ben Preston, Orbis Portfolio Management (Europe) LLP, London

John joined Orbis in 2010. He is a member of Orbis's team of investment counsellors with primary responsibility for institutional client and consultant communications, and in doing so, he works closely with our investment professionals. He has experience in financial journalism as a senior editor at *Forbes* and Bloomberg News. John has a Bachelor of Arts in Economics from Fordham University, an MBA from Carnegie Mellon University, and is a Chartered Financial Analyst.

THE SIMPLE ANSWERS TO INVESTING

Wanita Isaacs

...focus on the fact that the more you invest, the more freedom of choice you have in the future.

Is the very thought of planning a barrier for you when it comes to investing? Or are you guilty of overanalysing and underacting? Wanita Isaacs investigates why, in our search for answers, we refuse to accept the simple ones. She also provides some useful tips to help us overcome these common barriers.

We have written numerous articles encouraging you to put a plan in place to give yourself the best chance of achieving your financial goals. But a plan on its own is not enough, and it counts for naught if you don't take any action.

A study recently conducted by the Brazilian Financial and Capital Markets Association (ANBIMA) revealed some useful insights into differences in our approaches to planning. The study asked 450 people between the ages of 18 and 70 years, across income bands, to plot their financial lives up to that point. Their responses revealed five personas that describe how different people engage with their lives and with money over time. The study was conducted on Brazilians (are they different to the rest of us?), but it rings true; you may recognise yourself or your family and friends among the personas outlined below.

Which persona are you?

1. The Builder: This type of person grows slowly and consistently, focusing on just each next step, rather than a distant goal, with no clear long-term plan. Changes in lifestyle and financial capacity are incremental.

2. The Carefree: There is no clear or direct upward trend with regards to lifestyle or finances. Instead, this type of person tends to respond to the changing directions their life takes from time to time. They see themselves as being "open to the flow of life".

3. The Chameleon: The key feature of this persona is the ability to find solutions to any scenario they find themselves in. Financially, this type of person would somehow make things work regardless of circumstance. Unlike the Carefree type, this persona "makes do", as opposed to actively moving in any direction or building financial capacity.

4. The Dreamer: These are people who are led by their dreams, but do not use structured plans to reach them. Instead, their dreams serve as motivation for forward movement, and motivation for action.

5. The Planner: This type calculates their goals and have a clear, structured plan to reach them. Each step taken is part of an overall plan towards set goals. When things change, the plan needs to change too.

Most people in the study, even the Planners, did not see money itself as a goal but rather as an enabler. We are not motivated to reach an amount, but rather we are motivated by important events and experiences. What this means practically is that rather than trying to figure out the exact amounts we need to reach specific financial goals, it may be better to simply get started and keep going.

The simple answers are hard to hear

Planning anxiety is one of the main reasons we stall saving. Another reason is that when we look for answers, we don't like what we find. We are either overwhelmed into inaction, or we insist on shopping around until we find palatable answers to our questions.

Table 1 (on page 16), which we have published many times in various shapes and forms, serves as a useful example. It gives answers to a question we are asked time and again: "How much do I need to save by when?" The answers are provided in a simple way, but many investors find the numbers overwhelming. So, rather than get started, they ignore the problem that feels too big to solve, or they seek alternative calculators, different opinions or more tailored and complex plans.

Human behaviour often makes no rational sense. We overcomplicate things and stall, when simple, albeit less interesting answers may lead to the best outcomes. When asked why they delay saving, or saving more, many investors say they need to find time to sit down and plan properly. Yet the more complex planning seems, the more people are scared off from taking the steps needed to move their lives, and lifestyles, in the direction they want it to go in.

How to get started

We are all different, but research shows that what we have in common is that we are more likely to take action when we have a clear intention. Intent is different from a goal. It is less specific and means that, for example, you don't need to work out the rand amount needed to cover all costs for the rest of your child's school career with a budget that accounts for every cent. Rather, intent pushes you to save for an uncertain future that will have unpredictable costs – higher school fees, unexpected extracurricular activities and completely unforeseen expenses.

The further ahead you need to plan for, the more meaningless specific plans and numbers become. In a rapidly changing world it is impossible to know what your retirement in 20 or 30 years is going to be like, and the lifestyle you might need to finance. Investing, like much of life, is not an exact science. However, it does help to have a ballpark goal to aim for, like a target to keep you moving in the right direction. Its vagueness helps avoid the traps of overplanning and underacting.

> A plan on its own is not enough, and it counts for naught if you don't take any action.

How to plan for different personas and possibilities

Regardless of your age or why you are investing, when you reach the point that you want or need to use your money, the size of your nest egg determines the choices you have available to you. Rather than procrastinating by trying to find the "right" or "best" way to reach concrete goals, we should focus on the fact that the more you invest, the more freedom of choice you have in the future.

Using the example of saving for retirement, in an ideal world, if you save the "right" amount, earn a reasonable return on your investment and wait until you are 65 to start drawing an income at recommended levels, our research suggests that you could sustainably live off your savings for 30 years. But if you had saved less, you will still be better off than not having saved anything at all.

The figures in **Table 1** could be seen as targets, or benchmarks, and your plan could simply be to work towards them and perhaps beyond, knowing that the more you contribute towards your future, the more choice you have about what to do with it: when to leave your job, whether to start your business, what kind of home to live in, whether to travel, or whatever your lifestyle needs and wants may be.

Armed with the evidence that only one in five people is naturally a planner, and that converting all investors into planners is not a realistic approach, ANBIMA suggests we should all focus on investing rather than planning as our primary goal. A much simpler objective.

Table 1: The percentage of your income to invest to be able to live off your savings for 30 years by the time you reach age 65

If you start at age	You should invest*
25	17%
30	22%
35	30%
40	42%
45	59%

*Assuming you earn at least 11% return per year.
Source: Allan Gray research

Wanita was appointed as head of investor education at the start of 2013. Prior to that she was a business analyst in the product development team. She is a medical doctor and a UCT graduate and has been with Allan Gray since 2008.

HOW TO MAXIMISE TAX BENEFITS BEFORE THE END OF THE TAX YEAR

Carla Rossouw

Retirement funds and tax-free investments fulfil different objectives and it may not be an either/or decision, but rather a question of using both for different needs.

The end of February is the end of the tax year. Carla Rossouw explains why this is a good time to take maximum advantage of the incentives the government has put in place to encourage us to save.

There are certain annual tax benefits available for you through your retirement fund and tax-free investment (TFI) account. You forfeit these if you don't act each year. As we approach the end of the tax year (28 February), it is worthwhile looking at your finances. If you have cash to spare, consider taking full advantage of the tax incentives.

Every year you are able to make a pre-tax contribution to your retirement fund of up to 27.5% of the higher of your taxable income or your remuneration, capped at R350 000 per year. If you have not maximised this benefit you can make an additional contribution to your retirement annuity (RA) or pension fund in the form of a lump sum. If you are invested in your employer's retirement fund, you can make an additional voluntary contribution, or you can start an RA in your own name.

The other annual benefit the government offers is the ability to invest R33 000 per year (up to a maximum of R500 000 over your lifetime) of after-tax money in a TFI and benefit from growth free of dividends tax, income tax on interest and capital gains tax.

Retirement funds and TFIs fulfil different objectives and it may not be an either/or decision, but rather a question of using both for different needs.

Let's consider some additional detail

Contributing to your retirement fund decreases your total tax bill for the year:

Pension or provident fund members

If you are a member of a retirement fund through your employer (such as their pension or provident fund or an umbrella fund) and decide to make an additional voluntary contribution of say 5%, your take-home pay won't necessarily decrease by 5%. This is because you may get tax back from SARS as a result of increasing your retirement fund contribution. This is illustrated by the following example:

Tshepo earns an annual salary of R300 000 and contributes 7.5% (R22 500 per annum) towards his retirement annuity fund. He does not have any other taxable deductions. His taxable income after the deduction of R22 500 is R277 500. Tshepo must pay tax of R43 324.20 (as per the 2018 tax table), leaving him with a take-home amount of R234 175.80 (after tax and retirement contributions).

If Tshepo decides to increase his contribution to 15% (R45 000), his taxable income is R255 000. His annual pay-as-you-earn (PAYE) tax liability decreases to R37 474.20. Although Tshepo doubled the amount of his original contribution, he ends up with just over R16 000 less in his bank account at the end of the year (from R234 175.80 to R217 525.80). This is because the increased contribution has resulted in an annual tax saving of just under R6 000. Tshepo therefore increases his saving towards his retirement and saves on tax too.

New and existing retirement annuity fund members

Anyone can invest in a retirement annuity in their personal capacity. It is a good option to consider if you are self-employed, or you can contribute to an RA in addition to other retirement savings you may have.

If you are already a retirement annuity fund member, you can increase your monthly contribution or make a top-up investment to enjoy the maximum tax benefit. Doing this will mean that when you are assessed for the tax year, you can claim the tax deduction – your savings get a boost, and you get money back from SARS.

Let's consider Nurhaan as a second example. Like Tshepo, Nurhaan earns an annual salary of R300 000. She has contributed 15% of her annual salary to her RA this year. On learning about the benefits of maximising the tax breaks offered to retirement savers, Nurhaan decides to make an additional contribution to her RA. She has been frugal this year and decides to use the money she has saved to maximise the 27.5% tax benefit before the end of February. She contributes an additional R37 500 (which equates to 12.5% of her annual salary) on top of the R45 000 she has already contributed. Nurhaan can expect to receive R9 750 from SARS when she files her tax return.

The government encourages us to save for our future now by ensuring our take-home pay doesn't decrease in line with the amount we save for retirement. This is illustrated in **Table 1**, which calculates the monthly tax due for an individual earning R300 000 per year (R25 000 per month), at different RA contribution levels. Note that as your contribution levels go up, more money is invested in your RA and less goes to the tax man.

Tax-free investments

As discussed earlier, individuals are allowed to invest R33 000 per year up to a lifetime maximum of R500 000 in a TFI account. Like a retirement fund, you benefit from growth free of dividends tax, income tax on interest and capital gains tax – a big win if you invest for the long term.

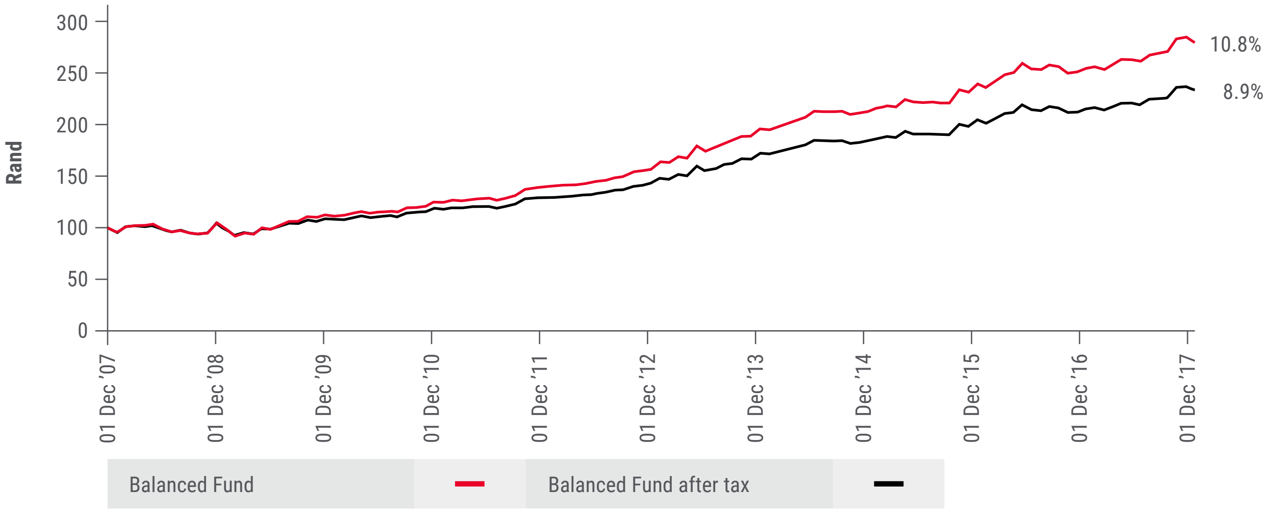
In terms of flexibility, TFIs are similar to unit trust investments, but your return potential is higher than in a basic unit trust, as you can see in **Graph 1**, which shows the impact of tax over 10 years. The red line illustrates the 10-year return of the Balanced Fund, while the black line reflects the return an investor would receive after tax – although of course this differs for everyone as it is based on your personal tax rate and circumstances. The catch is that if you exceed the maximum investment amount in a TFI, the tax penalties are high.

Table 1: Tax due at different RA contribution levels

	RA contribution		
	0%	**15%**	**27.5%**
Gross monthly salary	R25 000	R25 000	R25 000
RA contribution	R0	R3 750	R6 875
Taxable income	R25 000	R21 250	R18 125
Tax	R4 112.30	R3 122.85	R2 310.35
Salary available for spending	R20 887.70	R18 127.15	R15 814.65

Source: Allan Gray research

Graph 1: The impact of tax over 10 years



Source: Allan Gray research, based on Allan Gray Balanced Fund returns to December 2017, 2017 tax treatment with marginal tax rate of 45%. All tax exemptions utilised, all income reinvested.

If extra resources are limited, should you increase your contribution to your retirement fund or use a TFI?

The main differences between retirement funds and TFIs are:

- Retirement funds offer tax savings now, i.e. you pay less tax now because you make contributions with earnings on which you have not paid tax, but you will pay tax later. In other words, you defer paying tax. In return, there are rigid legal restrictions on withdrawing your money.
- TFIs offer less tax savings and are capped at a lower amount, but they are less restricted – they allow you to take your money out at any time.

Apart from deferring tax in a retirement fund, an additional tax saving comes from paying a lower average tax rate on the benefits withdrawn from your retirement fund at and after retirement, versus the tax saved on contributions. The first R500 000 lump sum you take at retirement is currently tax-free. (Importantly, this amount includes previous taxable lump sums, including severance benefits and pre-retirement withdrawals you may have made from any other retirement fund investment.)

When you retire, you must transfer the rest of your benefit to an income-providing product. When you pay income tax on this benefit, you are likely to be taxed at a lower rate than when you were making contributions, which is where the additional tax saving comes in.

From a retirement savings perspective, in most cases retirement funds offer the best tax deal. However, you need to be able to live with the legal restrictions on withdrawals. For long-term discretionary investments, it probably makes sense to put your first R33 000 into a TFI product. Remember, however, that you will need to be disciplined and resist the temptation of withdrawing from your TFI account in order to enjoy the long-term compounding benefits.

It is important to look at your portfolio holistically, either on your own or with the help of a good, independent financial adviser, to ensure your decisions fit in with your long-term plan.

You have until 28 February to benefit from tax savings this tax year

If you haven't contributed 27.5% of your taxable income/ remuneration to your retirement fund in this tax year, you have until the end of the tax year (28 February) to open an account or top up your investment. You also have until 28 February to open a TFI, or contribute up to R33 000 if you haven't done so already.

If you are planning to make use of these tax concessions, you will need to do so well in advance of the 28 February deadline to allow time for your investment manager to process your investment.

Carla joined Allan Gray in 2006 and is responsible for taxation across the business. She has an honours degree in Management Accounting, a higher diploma in Tax Law and a postgraduate diploma in Financial Planning.

ALLAN GRAY ORBIS FOUNDATION UPDATE

Yogavelli Nambiar

One needs only to look at the many disruptive entrepreneurs... to know that the entrepreneurial spirit is alive and well in our country.

Yogavelli Nambiar, the recently appointed Chief Executive Officer at the Allan Gray Orbis Foundation, reviews some of the achievements of Scholars, Fellows and entrepreneurs in South Africa to dispel the view that the country is "on the entrepreneurial decline".

A recent blog written by Avi Lasarow of DNAFit Life Sciences poetically begins: "Knowing the real South Africa is to know, and be familiar with, the ambitious entrepreneurial spirit that runs through its tributaries and flows like a river into the heart of a nation."

This is a beautiful and inspiring tribute to our country, which is often viewed as being "on the entrepreneurial decline" based on the results of the Global Entrepreneurship Monitor. Ranked among the lowest in the perception of business opportunities or entrepreneurial intent by young people, the 2016-17 report also found South Africa to have lower averages of ownership of early and established businesses than our counterparts in the sub-Saharan region. Yet, necessity-based entrepreneurship, not viewed to be job-creating or growth-oriented, had increased due to high unemployment levels and slow economic growth.

In contrast, the more qualitative Global Entrepreneurship Index, driven by the Global Entrepreneurship and Development Institute, placed South Africa as an entrepreneurial leader in sub-Saharan Africa, second only to Botswana.

To delve deeper into these results, the Allan Gray Orbis Foundation and the South African Breweries (SAB) Foundation commissioned research to look into the local entrepreneurship ecosystem with the intention of providing evidence that guides and supports resourcing plans and policymaking going forward.

The resultant report states that entrepreneurs in South Africa have overcome structural factors, including the country's slow GDP growth rate and the density of large firms dominating the business market, to produce some of the most successful enterprises on the continent. In addition, South Africa is on a par with other middle-income countries around the world when it comes to entrepreneurship levels, and is poised to achieve further growth in years to come.

Disruptors

One needs only to look at the many disruptive entrepreneurs, enabling large-scale change through sustainable and innovative solutions, to know that the entrepreneurial spirit is alive and well in our country. The Foundation itself was formed on the back of a strong belief in the power of such entrepreneurial leaders to change the world.

Allan Gray Fellows are making a difference in society. In 2007, Ludwick Marishane invented DryBath, a gel that does all the work of a bath without water – a significant solution for communities without water or sanitation. Four years later, he won the Global Student Entrepreneur Award and today, is the founder of Headboy Industries, an innovative product development and commercialisation company. More recently, Ludwick has been lauded by *Time* magazine as one of 30 young people who are changing the world, and by Google as one of the world's brightest young minds.

This year, some of our Fellows, armed with entrepreneurial ambition and talent, joined our Ideation, Validation and Creation (IVC) unit to build, test and progress their business ideas. Partnerships have formed between Fellows, and seven businesses have gone on to be funded and supported by our financing partner, E Squared. These include Ben Shaw's HouseME, an innovative online property rental agency, using a first-of-its-kind auction process to set pricing; Nkateko Mathebula's Kay-Tee Automotive Components, a business that provides high-quality components and meaningful aftersales service and support for medium to large local commercial automotive fleets, and AgriMASH Industries, a rural-based agribusiness that grows and supplies affordable, high-quality fresh produce, started by Thato Mahosi.

Akosua Koranteng, who started natural haircare business ANiM Naturals, completed the IVC and Accelerator programmes in 2016 and received follow-on funding from E Squared. She recently landed a national deal for distribution with Clicks, and has been joined by another Fellow, Zara Hammerschlag, to run and grow the business.

The Allan Gray Entrepreneurship Challenge

To grow the pipeline of talented individuals applying for the Fellowship, and as a direct response to a need identified by principals of our Scholarship schools, the Foundation created an online-based game which could be used by teachers to support the development of entrepreneurial mindsets at schools. Through the support of Allan Gray, this game was launched in 161 schools across the country, enabling teachers to engage learners on various elements of entrepreneurship in a competition format.

After 4 431 learners were involved on the platform, 20 were chosen for their outstanding participation and three were awarded the overall winners' prize of trips to Silicon Valley.

The Foundation continues to review and enhance the support we provide… to ensure we remain relevant and impactful to our beneficiaries and other stakeholders.

Some of the achievements of Foundation beneficiaries in 2017

As we enter into 2018, we pause to celebrate some of the achievements of the past year. We are proud to have won Best Funder in Secondary Education at the African Leaders 4 Change Awards. But we are even more proud of the many achievements of our Scholars, Candidate Fellows and Fellows. One of our Scholars received Gold in the Science Expo NMMU regional competition, and others have travelled for sport, art and engaged in exchange programmes.

Our Candidate Fellows have their own success stories, from attending the African Youth Leadership Summit in Morocco and the WFUNA International Model United Nations Conference in New York, to winning awards for innovation and sport, and performing solo at Carnegie Hall in New York. A Candidate Fellow was one of four (out of 45 applicants) selected to be part of an incubation initiative after pitching in the French South African Tech Labs Challenge at the first-ever AfricArena International

Conference in Cape Town. Others have received academic awards, with one being a Mandela Rhodes Scholarship.

Many other achievements demonstrate the Foundation's values. One of the Fellows received the Ubuntu Youth Diplomacy Award. Another "adopted" 10 youth-headed families as part of her new business's social outreach. They will be assisting the families over the next year with their nutrition and education needs, as well as exposure to internships – an amazing achievement for a young business.

The way forward

Twelve years since inception, the Foundation continues to review and enhance the support we provide to Scholars, Candidate Fellows at universities and the community of Allan Gray Fellows to ensure we remain relevant and impactful to our beneficiaries and other stakeholders.

In light of the impact of the Fourth Industrial Revolution, we aim to continuously interrogate how we future-proof our young leaders amid the fast pace of change they face to help them better understand how to engage with new markets, environments and situations. Using more technology in selection and programme activities, as well as designing customised support for women, social and green entrepreneurs are high on our agenda.

2018 holds much promise of refinement and exponential growth, and we are looking forward to the journey.

Allan Gray Orbis Foundation

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

NOTES

Allan Gray Balanced and Stable Fund asset allocation as at 31 December 2017

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign*	Total	SA	Foreign*
Net equities	62.5	47.9	14.6	36.3	26.1	10.2
Hedged equities	8.1	0.0	8.1	12.4	0.8	11.6
Property	1.4	0.8	0.6	3.0	2.4	0.6
Commodity-linked	3.9	3.6	0.3	3.1	2.7	0.4
Bonds	11.3	9.6	1.7	19.8	17.6	2.2
Money market and bank deposits	12.9	11.3	1.5	25.3	23.1	2.3
Total	**100.0**	**73.3**	**26.7**	**100.0**	**72.6**	**27.4**

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

Allan Gray Equity Fund net assets as at 31 December 2017

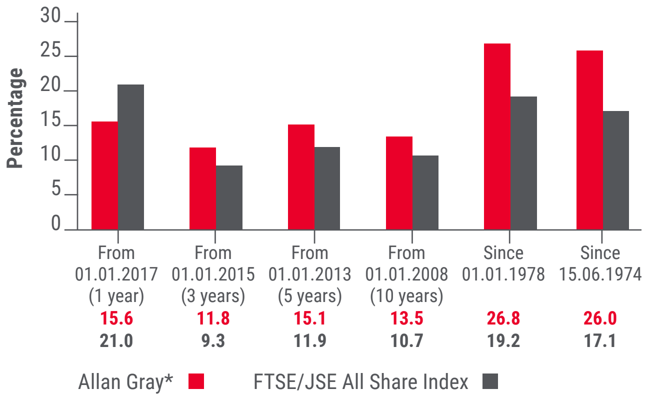
Security (Ranked by sector)	Market value (R million)	% of Fund	FTSE/JSE ALSI weight (%)
South Africa	**33 249**	**77.8**	
South African equities	**31 049**	**72.7**	
Resources	**6 599**	**15.5**	**20.7**
Sasol	3 447	8.1	
Glencore	480	1.1	
Impala Platinum	431	1.0	
Goldfields	427	1.0	
BHP Billiton	384	0.9	
Positions less than 1%[1]	1 430	3.3	
Financials	**10 698**	**25.0**	**26.2**
Old Mutual	2 636	6.2	
Standard Bank	2 445	5.7	
Investec	1 191	2.8	
Reinet	949	2.2	
Rand Merchant Investment[2]	625	1.5	
Barclays Africa	404	0.9	
MMI Holdings	356	0.8	
Nedbank	352	0.8	
Positions less than 1%[1]	1 740	4.1	
Industrials	**13 517**	**31.6**	**53.1**
Naspers[2]	3 313	7.8	
British American Tobacco	1 812	4.2	
Remgro	1 743	4.1	
Life Healthcare	866	2.0	
Netcare	738	1.7	
Woolworths	683	1.6	
KAP Industrial	596	1.4	
Super Group	526	1.2	
Nampak	365	0.9	
Tsogo Sun	320	0.7	
Positions less than 1%[1]	2 557	6.0	
Other securities	**234**	**0.5**	
Positions less than 1%[1]	234	0.5	
Commodity-linked securities	**540**	**1.3**	
Positions less than 1%[1]	540	1.3	
Money market and bank deposits	**1 661**	**3.9**	
Foreign ex-Africa	**8 723**	**20.4**	
Equity Funds	**8 452**	**19.8**	
Orbis Global Equity Fund	7 962	18.6	
Orbis SICAV Emerging Markets Equity Fund	490	1.1	
Money market and bank deposits	**271**	**0.6**	
Africa ex-SA	**740**	**1.7**	
Equity funds	**740**	**1.7**	
Allan Gray Africa ex-SA Equity Fund	740	1.7	
Totals	**42 721**	**100.0**	

[1] JSE-listed securities include equities, property and commodity-linked instruments.
[2] Including stub certificates. **Note:** There may be slight discrepancies in the totals due to rounding. For other fund-specific information, please refer to the monthly fund factsheets.

Investment track record – share returns

Allan Gray Proprietary Limited global mandate share returns vs FTSE/JSE All Share Index			
Period	Allan Gray*	FTSE/JSE All Share Index	Out-/Under-performance
1974 (from 15.06)	–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**

Returns annualised to 31.12.2017

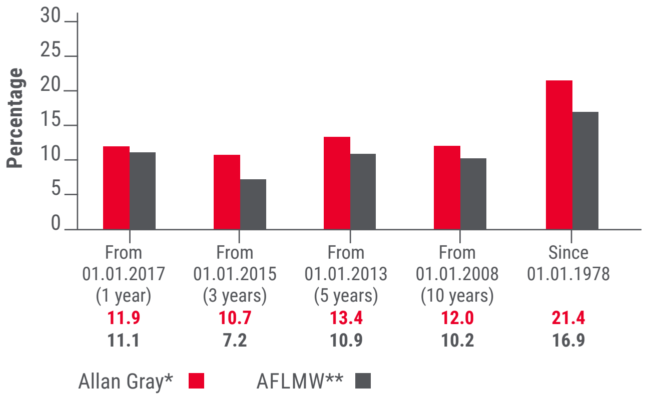


An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R230 981 209 by 31 December 2017. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R9 702 302. Returns are before fees.

Investment track record – balanced returns

Allan Gray Proprietary Limited global mandate total returns vs Alexander Forbes Global Manager Watch			
Period	Allan Gray*	AFLMW**	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**	**11.1**	**0.8**

Returns annualised to 31.12.2017



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R23 769 519 by 31 December 2017. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R5 122 261. Returns are before fees.

* Allan Gray commenced managing pension funds on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees. ** Consulting Actuaries Survey returns used up to December 1997. The return for December 2017 is an estimate. The return from 1 April 2010 is the average of the non-investable Alexander Forbes Large Manager Watch. **Note:** Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

Allan Gray South African unit trusts annualised performance (rand) in percentage per annum to 31 December 2017 (net of fees)

	Assets under management (R billion)	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[4]	Lowest annual return[4]
High net equity exposure (100%)									
Allan Gray Equity Fund (AGEF)	**42.7**	**01.10.1998**	**23.3**	**11.1**	**12.7**	**9.6**	**14.0**	**125.8**	**−20.7**
Average of South African - Equity - General category (excl. Allan Gray funds)[1]			16.5	9.7	10.0	6.2	12.8	73.0	−37.6
Allan Gray-Orbis Global Equity Feeder Fund (AGOE)	**19.4**	**01.04.2005**	**15.7**	**13.9**	**24.1**	**16.1**	**15.7**	**78.2**	**−29.7**
FTSE World Index			13.6	11.9	20.3	12.2	11.6	54.2	−32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF)	**144.3**	**01.10.1999**	**17.4**	**10.8**	**12.3**	**9.9**	**11.0**	**46.1**	**−8.3**
Average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[2]			12.8	8.9	9.7	6.6	10.5	41.9	−16.7
Allan Gray-Orbis Global Fund of Funds (AGGF)	**13.5**	**03.02.2004**	**11.4**	**12.1**	**18.3**	**12.6**	**7.0**	**55.6**	**−13.7**
60% of the FTSE World Index and 40% of the JP Morgan Global Government Bond Index			10.8	11.2	15.4	9.0	5.1	38.8	−17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF)	**46.1**	**01.07.2000**	**12.5**	**9.4**	**10.2**	**9.8**	**9.6**	**23.3**	**2.8**
Daily interest rate of FirstRand Bank Limited plus 2%			9.0	8.0	7.3	7.9	8.2	14.6	6.2
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF)	**1.4**	**01.10.2002**	**8.0**	**7.1**	**8.2**	**7.4**	**3.2**	**18.1**	**0.7**
Daily interest rate of FirstRand Bank Limited			6.5	5.9	5.2	5.7	6.0	11.9	4.1
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO)	**1.2**	**02.03.2010**	**8.9**	**–**	**11.8**	**7.4**	**−0.6**	**39.6**	**−12.4**
Average of US$ bank deposits and euro bank deposits			5.8	–	6.9	2.1	−3.8	35.6	−19.1
No equity exposure									
Allan Gray Bond Fund (AGBD)	**0.8**	**01.10.2004**	**9.1**	**9.2**	**7.3**	**8.2**	**11.6**	**18.0**	**−2.6**
JSE All Bond Index (Total return)			8.6	8.6	6.3	6.9	10.2	21.2	−5.6
Allan Gray Money Market Fund (AGMF)	**15.0**	**03.07.2001**	**8.0**	**7.3**	**6.7**	**7.4**	**8.0**	**12.8**	**5.2**
Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[3]			7.9	7.1	6.5	7.1	7.5	13.3	5.2

[1] From inception to 28 February 2015, the benchmark was the FTSE/JSE All Share Index including income (source: IRESS).
[2] From inception to 31 January 2013, the benchmark was the market value-weighted average return of the funds in both the Domestic Asset Allocation Medium Equity and Domestic Asset Allocation Variable Equity sectors of the previous ASISA Fund Classification Standard, excluding the Allan Gray Balanced Fund.
[3] From inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011, the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector excluding the Allan Gray Money Market Fund.
[4] This is the highest or lowest consecutive 12-month returns 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 2017

	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	1.10%	0.78%	0.01%	0.23%	2.12%	0.07%	2.19%
Allan Gray-Orbis Global Equity Feeder Fund	1.50%	0.30%	0.05%	0.01%	1.86%	0.14%	2.00%
Allan Gray Balanced Fund	1.08%	0.37%	0.02%	0.14%	1.61%	0.07%	1.68%
Allan Gray-Orbis Global Fund of Funds	1.39%	0.43%	0.08%	0.00%	1.90%	0.13%	2.03%
Allan Gray Stable Fund	1.06%	0.44%	0.02%	0.15%	1.67%	0.07%	1.74%
Allan Gray Optimal Fund	1.00%	0.62%	0.01%	0.23%	1.86%	0.15%	2.01%
Allan Gray-Orbis Global Optimal Fund of Funds	0.99%	0.55%	0.09%	0.00%	1.63%	0.13%	1.76%
Allan Gray Bond Fund	0.25%	0.26%	0.04%	0.08%	0.63%	0.00%	0.63%
Allan Gray Money Market Fund	0.25%	N/A	0.00%	0.04%	0.29%	0.00%	0.29%

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

Foreign domiciled funds annualised performance (rand) in percentage per annum to 31 December 2017 (net of fees)

	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[4]	Lowest annual return[4]
High net equity exposure								
Orbis Global Equity Fund[5]	**01.01.1990**	**18.8**	**13.8**	**23.7**	**16.2**	**15.8**	**87.6**	**–47.5**
FTSE World Index		11.5	11.9	20.3	12.2	11.6	54.2	–46.2
Orbis SICAV Japan Equity (Yen) Fund	**01.01.1998**	**15.4**	**14.2**	**22.2**	**19.8**	**14.6**	**94.9**	**–40.1**
Tokyo Stock Price Index		9.5	10.6	21.0	15.8	14.0	91.0	–46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[6]	**01.01.2006**	**15.6**	**12.9**	**16.4**	**10.9**	**18.9**	**58.6**	**–34.2**
MSCI Emerging Markets Index (Net) (US$)[6]		14.6	9.8	15.7	12.0	23.4	60.1	–39.7
Allan Gray Africa ex-SA Equity Fund	**01.01.2012**	**14.2**	**–**	**9.1**	**0.9**	**37.4**	**65.6**	**–24.3**
Standard Bank Africa Total Return Index		4.2	–	–0.2	–3.8	6.7	33.6	–29.4
Allan Gray Australia Equity Fund	**04.05.2006**	**15.9**	**12.0**	**17.7**	**15.5**	**15.9**	**99.5**	**–55.4**
S&P/ASX 300 Accumulation Index		12.6	9.0	12.3	9.3	8.8	55.6	–45.1
Medium net equity exposure								
Orbis SICAV Global Balanced Fund	**01.01.2013**	**18.8**	**–**	**–**	**12.5**	**6.6**	**54.4**	**–0.7**
60% MSCI World Index with net dividends reinvested and 40% JP Morgan Global Government Bond Index		15.3	–	–	8.6	4.3	40.2	–8.4
Low net equity exposure								
Allan Gray Australia Stable Fund	**01.07.2011**	**12.4**	**–**	**9.8**	**8.4**	**4.5**	**32.7**	**–6.3**
Reserve Bank of Australia cash rate		7.2	–	4.1	2.3	–1.3	28.8	–12.6
Very low net equity exposure								
Orbis Optimal SA Fund-US$ Class	**01.01.2005**	**10.4**	**9.4**	**12.7**	**8.0**	**–4.2**	**48.6**	**–15.7**
US$ Bank deposits		7.9	6.8	8.2	2.8	–9.1	57.9	–25.6
Orbis Optimal SA Fund-Euro Class	**01.01.2005**	**8.9**	**7.3**	**10.2**	**6.4**	**6.1**	**44.1**	**–19.3**
Euro Bank deposits		6.4	4.7	5.6	1.3	1.8	40.2	–20.9

South African institutional portfolios[7] annualised performance (rand) in percentage per annum to 31 December 2017

	Assets under management (R billion)[8]	Inception date	Since inception	10 years	5 years	3 years	1 year
Local portfolios[9] (before local fees)							
Domestic Equity Composite (Minimum net equity 75% - 95%)	**62.8**	**01.01.1990**	**20.4**	**12.8**	**14.0**	**10.7**	**14.5**
Domestic Equity Pooled Portfolio (Minimum net equity 95%)	**5.2**	**01.02.2001**	**21.1**	**13.1**	**14.6**	**11.0**	**14.4**
FTSE/JSE All Share Index			14.6/15.1	10.7	11.9	9.3	21.0
Domestic Balanced Composite	**36.1**	**01.01.1978**	**21.8**	**11.7**	**12.2**	**10.8**	**13.1**
Domestic Balanced Pooled Portfolio	**2.2**	**01.09.2001**	**18.0**	**11.9**	**12.2**	**10.7**	**13.0**
Mean of Alexander Forbes SA Large Manager Watch (Non-investable)[11]			17.2/14.9	10.2	9.7	7.7	12.8
Domestic Stable Composite	**4.2**	**01.12.2001**	**13.1**	**9.8**	**10.0**	**10.7**	**12.6**
Domestic Stable Pooled Portfolio	**1.2**	**01.12.2001**	**13.4**	**9.9**	**10.1**	**10.9**	**12.7**
Alexander Forbes Three-Month Deposit Index plus 2%			9.9	9.0	8.3	8.9	9.3
Global portfolios[9], limited to 25% foreign exposure (before local, but after foreign fees)							
Global Balanced Composite	**61.6**	**01.01.1978**	**21.4**	**12.0**	**13.4**	**10.7**	**11.9**
Global Balanced Pooled Portfolio	**5.0**	**01.09.2000**	**18.1**	**12.1**	**13.5**	**10.8**	**11.9**
Global Balanced (RRF) Portfolio[10]	**30.2**	**01.09.2000**	**18.1**	**12.1**	**13.3**	**10.6**	**12.1**
Mean of Alexander Forbes Global Large Manager Watch (Non-investable)[11,12]			16.9/14.0	10.2	10.9	7.2	11.1
Global Stable Composite	**7.8**	**15.07.2004**	**12.7**	**10.4**	**11.2**	**10.8**	**10.5**
Global Stable Pooled Portfolio	**6.9**	**15.07.2004**	**12.7**	**10.4**	**11.2**	**10.7**	**10.3**
Alexander Forbes Three-Month Deposit Index plus 2%			9.3	9.0	8.3	8.9	9.3
Global Absolute Composite	**12.2**	**01.03.2004**	**15.1**	**11.0**	**11.1**	**9.2**	**8.0**
Global Absolute Pooled Portfolio	**3.8**	**01.03.2004**	**15.4**	**11.3**	**11.1**	**9.2**	**8.1**
Mean of Alexander Forbes Global Large Manager Watch (Non-investable)[11]			14.6	10.2	10.9	7.2	11.1
Foreign only portfolios[9] (after fees)							
Orbis Global Equity Pooled Portfolio	**0.6**	**18.05.2004**	**15.4**	**13.9**	**23.7**	**16.1**	**15.7**
FTSE World Index			13.4	11.9	20.3	12.2	11.6
Foreign Balanced (Rands) Composite[13]	**4.8**	**23.05.1996**	**14.2**	**11.4**	**16.8**	**11.6**	**7.1**
Foreign Balanced Pooled Portfolio	**0.1**	**23.01.2002**	**8.8**	**11.4**	**16.9**	**11.9**	**6.7**
60% of the MSCI World Index[14] and 40% of the JP Morgan Global Government Bond Index			11.7/7.4	11.1	15.2	9.0	5.4

Performance as calculated by Allan Gray

4 This is the highest or lowest consecutive 12-month returns since inception. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

5 The total assets under management for the Fund are shown, which include institutional and retail clients that invest directly with Orbis.

6 Since 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.

7 The composites not listed here include: Domestic Balanced Absolute, Domestic Balanced Low Equity, Domestic Balanced Stable Namibia, Domestic Equity MSCI SA, Domestic Equity Namibia, Domestic Money Market, Domestic Optimal, Domestic Tax Paying, Global Balanced High Foreign, Global Balanced Namibia 35% High Foreign, Global Tax Paying and Non-Discretionary Foreign.

8 The assets under management for institutional portfolios not listed here amount to R81.4bn.

9 The composite assets under management figures shown include the assets invested in the pooled portfolios above where appropriate.

10 The returns prior to 1 August 2015 are those of the Allan Gray Life Global Balanced Portfolio.

11 The return for the period ending December 2017 is an estimate as the relevant survey results have not yet been released.

12 From inception to 31 December 1997, the Consulting Actuaries Survey returns were used.

13 From inception to 31 August 2001, the foreign carve-out returns of the Global Balanced Composite were used.

14 Morgan Stanley Capital International All Country World Index.

IMPORTANT INFORMATION FOR INVESTORS

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

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Understanding the funds

Investors must make sure that they understand the nature of their choice of funds and that their investment objectives are aligned with those of the fund/s they select. The Allan Gray Equity, Balanced, Stable and rand-denominated offshore funds may invest in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

A feeder fund is a unit trust that invests in another single unit trust which charges its own fees. A fund of funds is a unit trust that invests in other unit trusts, which charge their own fees. Allan Gray does not charge any additional fees in its feeder fund or fund of funds.

The Allan Gray Money Market Fund is not a bank deposit account. The Fund aims to maintain a constant price of 100 cents per unit. The total return an investor receives is made up of interest received and any gain or loss made on instruments held by the Fund. While capital losses are unlikely, they can occur if, for example, one of the issuers of an instrument defaults. In this event, investors may lose some of their capital. To maintain a constant price of 100 cents per unit, investors' unit holdings will be reduced to the extent of such losses. The yield is calculated according to the applicable ASISA Standards. Excessive withdrawals from the Fund may place it under liquidity pressure; if this happens, withdrawals may be ring-fenced and managed over a period of time.

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

The Allan Gray Retirement Annuity Fund, the Allan Gray Pension Preservation Fund and the Allan Gray Provident Preservation Fund are all administered by Allan Gray Investment Services Proprietary Limited, an authorised administrative financial services provider and approved under s13B of the Pension Funds Act as a benefits administrator. The Allan Gray Tax-Free Investment Account, Allan Gray Living Annuity and the Allan Gray Endowment are underwritten by Allan Gray Life Limited, also an authorised financial services provider and licensed under the Long-Term Insurance Act 52 of 1998. The underlying investment options of the Allan Gray individual life and retirement products are portfolios of Collective Investment Schemes in Securities (unit trusts or funds).

Tax note

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

About the paper

The Allan Gray Quarterly Commentary is printed on LumiSilk, a paper made from trees grown specifically for paper manufacturing. The paper is certified by the Forest Stewardship Council (FSC), an organisation which promotes responsible management of the world's forests.

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