Quarterly Commentary
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COMMENTS FROM THE CHIEF OPERATING OFFICER

Mahesh Cooper

The returns you ultimately enjoy in our funds are the result of our portfolio managers' decisions, as well as your ability to stay the course.

It is hard to ignore the rand and its movements relative to global currencies. Its performance seems linked to our national psyche, and it is one lens through which the world sees South Africa. While a weak rand is good for exporters and tourism, for South African investors, it means that foreign investments become more expensive. Local investors benefit from savings and investments already abroad, but the decision of when to invest additional money offshore becomes more complicated (and expensive).

Ten years ago, one US dollar cost you roughly R10; today it costs you close to R20. But we are not alone – many currencies have weakened relative to the US dollar over the last decade. For instance, 10 years ago, one US dollar bought you roughly ¥100; today it buys you ¥155.

Currency movements are notoriously difficult to forecast in the short term. There are just too many factors at play – from the mood and actions of politicians to foreign investor sentiment, and the daily noise in global markets. Global markets themselves are unpredictable, so even if we could pinpoint what our currency was going to do next, there would be no telling if the right opportunities would be available offshore at that exact point in time. Indeed, the current geopolitical situation is adding further complexity to investment decisions.

A better strategy is to figure out how much of your investment portfolio you want to place offshore, and what you are trying to achieve, and then formulate a plan to invest as regularly as possible in carefully selected assets. Arguably, it is more important to spend your time identifying which global assets you want to invest in for the long term, than trying to determine the perfect entry point. Over the long term, having exposure to currencies, industries and opportunities outside South Africa allows you to participate in a more diversified return, and reduces your risk exposure to any one particular variable.

There is an offshore flavour to this month's Quarterly Commentary, with Horacia Naidoo-McCarthy delving further into the reasons why investing consistently offshore is good for your overall investment strategy – although it is also important to confront the risks and to make sure you have a clear understanding of your chosen offshore manager's investment philosophy and approach.

Once you have decided to diversify your portfolio in this way, the next question is *how* to invest offshore. Julie Campbell tackles this topic, taking us through the options, with the emphasis on the newly launched Allan Gray Offshore Endowment.

While endowments are quite complex products to understand, they offer tax and estate-planning benefits, and may be well suited for you if your marginal tax rate is higher than 30% and you would like to invest and be paid out in foreign currency. Our offshore endowment has been designed to provide more flexibility than traditional endowment products, and offers a range of offshore funds similar to those on our offshore investment platform.

Identifying investment opportunities

Understanding your investment manager's approach, and how it is implemented, is key to knowing what to expect on your investment journey. The returns you ultimately enjoy in our funds are the result of our portfolio managers' decisions, as well as your ability to stay the course.

Since the offshore investment limits were increased in 2022, we have taken advantage of this additional flexibility by increasing our exposure to the Orbis funds and through our portfolio managers managing a portion of the offshore component directly. Our approach is focused on managing the portfolio holistically. Our investment articles this quarter showcase our offshore thinking. One example is The Walt Disney Company, a position initiated by the Allan Gray team. Duncan Artus and Siphesihle Zwane outline the investment case.

Within the Orbis Global Equity Fund, half of the portfolio is invested in US shares the Orbis investment team finds attractive. This is relatively low considering the US stock market represents about 70% of the FTSE World and MSCI World indices. The reason is simple: Orbis is finding fewer opportunities in the US market, and the shares they like are quite different from those currently in favour. Povilas Dapkevicius and Matteo Sbalzarini take us through Orbis' investment theses on two managed care organisations, namely UnitedHealth Group and Elevance Health.

Despite its flourishing market, the US government has dug itself into a debt hole, once again reflecting that market returns and economic indicators are uncorrelated. With spending being its go-to solution for most problems in the US, it is unclear how the situation will be resolved. Thalia Petousis looks at why the current trajectory of debt is unsustainable.

Getting perspective

As a local investor, you may be thinking that US debt is the least of your concerns. However, it is commonly understood that when the US sneezes, the rest of the world catches a cold; economic uncertainty in the world's biggest economy has a global knock-on impact.

Global uncertainty is simply adding to the angst as pivotal local elections approach. We have no special insight into what may transpire and continue to consider various outcomes when constructing portfolios for long-term returns. It is important to keep perspective throughout your financial journey to navigate market volatility. Drawing on history, Marise Bester explains that we cannot control or predict the external environment, but we can be mindful of our own behaviour and emotions, particularly during uncertain times.

Retirement fund system changes

I want to remind all of you who are retirement fund members that South Africa's retirement savings system is set to change on 1 September 2024. Jaya Leibowitz aims to simplify and explain the intention and mechanics of the so-called two-pot system, which essentially makes a portion of your retirement fund savings available to you before retirement.

It is critical to understand that go-live of this new system hinges on many factors, including the regulations being finalised and signed by the president, the Financial Sector Conduct Authority being able to timeously approve fund rule changes, the South African Revenue Service being able to issue tax directives for savings withdrawal benefits, and service providers' readiness.

The allowance to withdraw a limited portion of your retirement savings will undoubtedly go a long way to help those who are in dire straits, especially if other avenues of funding have been exhausted. An important first step in one's long-term investment plan should always be a cash emergency fund that is readily available. This should enable you to, where possible, preserve your retirement funds for their intended long-term purpose – to allow you to retire comfortably.

Thank you for your ongoing trust.

Kind regards

Mahesh Cooper

DISNEY: THE VALUE OF STRONG INTELLECTUAL PROPERTY IN A CHANGING WORLD

Duncan Artus and Siphesihle Zwane

Since March 2022, local unit trusts have been able to allocate up to 45% of their portfolios anywhere outside South Africa. The increase in offshore limits is a significant positive for local investors, who now have greater potential to diversify across different markets, sectors and businesses. The South African equity market is concentrated and subject to emerging market, Chinese and commodity risks. Maximising the increased flexibility effectively requires a holistic view of the portfolio, which allows one to balance the opportunities and risks derived from its positioning. We believe that we are well positioned to do this, together with our sister company, Orbis.

In line with this thinking, the Allan Gray Investment team has been running a portion of the offshore allocation from Cape Town for the past year. Orbis, with its global investment team, continues to manage the majority of the offshore assets.

Duncan Artus and Siphesihle Zwane look at the investment case for The Walt Disney Company, a position initiated by the Allan Gray team.

In a little over 100 years, The Walt Disney Company (Disney) has transformed from an animation house to a large happiness machine, with a content engine that creates characters and worlds that are monetised through film, streaming, consumer products and experiences. The business was founded in October 1923 by two brothers, Walt and Roy Disney, as a cartoon studio. Over time, the characters created in the studio were used for comics, merchandise and theme parks. This content-first operating model was famously sketched out by Walt in the 1950s, with the creative talent of studios and theatrical films at the core of the business.

It all started with a mouse

This content engine has been built out both organically – Mickey was designed by Walt and his chief animator in 1928 – and also inorganically, through some smart acquisitions over the years. Some of Disney's main intellectual property (IP) assets and their sources are listed in **Table 1**.

Throughout its long operating history, the core of what Disney is has not changed, but the environment in which

Table 1: Key Disney intellectual property assets

Year acquired	Company	Assets
From 1923	Internally developed	Mickey Mouse, Frozen, The Lion King
2006	Pixar	Toy Story, Finding Nemo, Cars
2009	Marvel	Avengers
2012	Lucasfilm	Star Wars, Indiana Jones
2019	21st Century Fox	The Simpsons, Avatar, Modern Family

Sources: Company reports, Allan Gray analysis

it operates has changed significantly – and we are certain this will continue to be the case. From its origins, Disney has had to navigate large technological advances, including the introduction of sound, then colour, in film, a move to computer-generated animation, and now a platform and distribution change from linear film and television to streaming.

Disney today

There are currently three main operating segments at Disney, with the first two closely tied to the content engine:

- **Entertainment:** This is the most popular part of Disney. It includes the loss-making but fast-growing direct-to-consumer (DTC) business (Disney+ and Hulu), the highly profitable but declining linear business (channels and networks) and the content sales and licensing business, which distributes content to third parties, including cinemas.
- **Experiences:** This is mostly the parks and experiences business and licensing and sales of consumer products. With the current losses in streaming, parks and experiences make up 54% of group operating profit, recovering well post COVID-19 shutdowns.
- **Sports:** This segment comprises ESPN and includes ESPN+ streaming. It does not benefit as much from the full content engine, but is a useful tool for streaming differentiation and bundling linear channels.

Graph 1 on page 6 shows the key earnings segments before Sports was separately disclosed. A strong parks business, investment in DTC and a slowing linear market have shifted the earnings contribution over this time.

A whole new world

Linear television was a great business, bundling content to be on-sold by the cable provider at a price greater than the sum of its parts. A shift in platform, largely driven by Netflix, has changed consumer preferences and driven cord-cutting, as the cable bundle has become relatively poorer value for money.

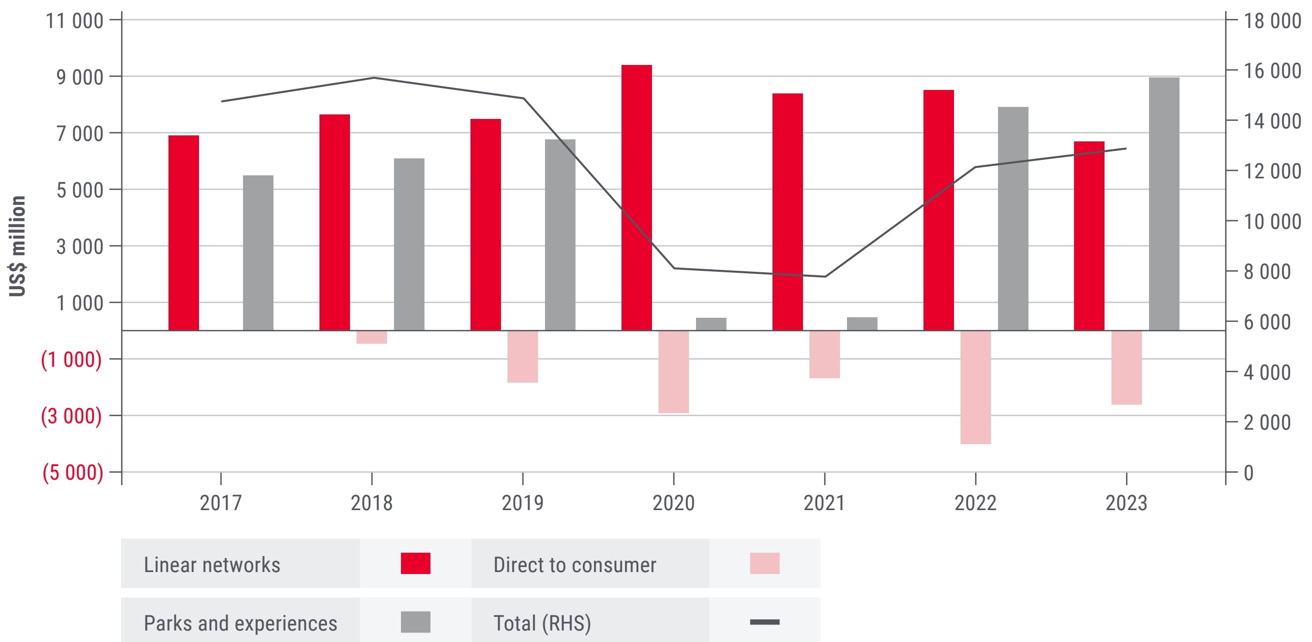
Cord-cutting has meant that content creators who distributed on linear channels have had to disrupt their own businesses or face a future in which they would be displaced by a strong competitor. **Graph 2** on page 6 shows this impact. US pay-TV households are down more than 40% over the last 10 years, while Netflix has more than doubled its subscriber base.

We believe Disney has taken the correct strategic direction by focusing more on product quality than quantity.

Disney had to adjust to this whole new world and launched Disney+ streaming in 2019, with more than 10 million subscribers on day one. In a world with no cost of money (zero interest rates), the market valued future profits similarly to current profits, generously rewarding businesses with high topline growth prospects, which were measured by subscriber growth for a streaming business. This swiftly changed as interest rates increased, with the focus quickly shifting to route to profitability, while Disney+ still made large losses.

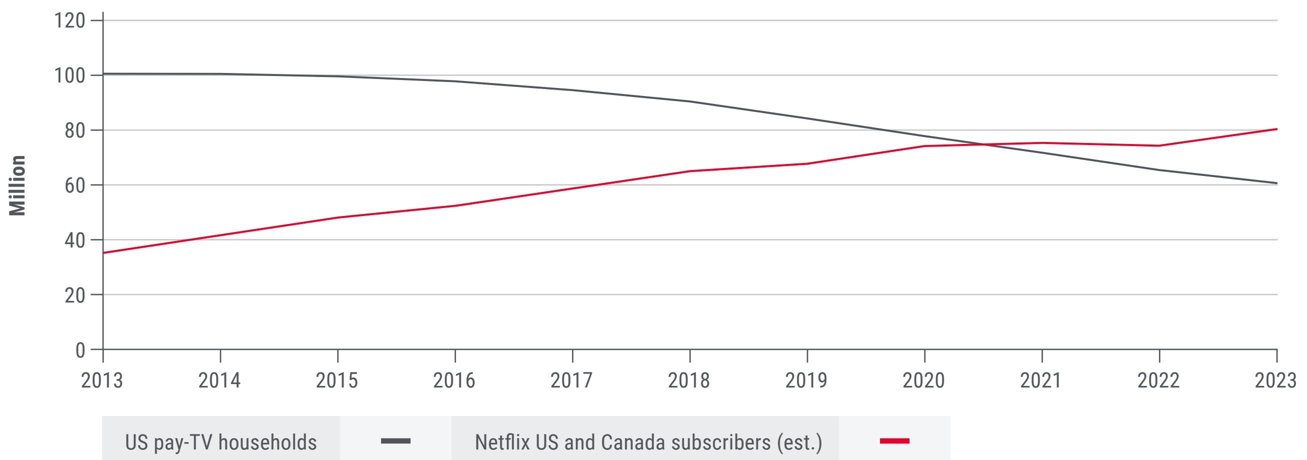
Disney, and most industry players, have started to improve profitability by cutting content, increasing prices, introducing advertising tiers, and clamping down on password sharing.

Graph 1: Disney operating income



Sources: Company reports, Allan Gray analysis

Graph 2: Media subscribers



Sources: Company reports, Allan Gray analysis

Graph 3 shows the slowdown in content cost growth across the traditional linear players' DTC platforms, with 2022 looking like the peak year for losses.

In addition to external industry disruption, Disney's content engine, which is key for the operating model, began showing signs of weakness with poor box office results for some large-budget movies. The studio seemed to have strayed from an entertainment-first focus and kept pushing sequel after sequel, driving Marvel/*Star Wars* fatigue. The strength of this unique IP is meant to differentiate the streaming offering and has been a cause for concern for investors.

> "The flower that blooms in adversity is the most rare and beautiful of all." – The emperor in *Mulan*

What is the investment case?

It is not yet clear what exactly the industry structure will end up looking like amidst all the disruption, but we believe Disney has a reasonable prospect of success, with its 100-year track

record of content creation, content library and distribution. This is valuable IP. Following, the prospects of the key businesses are discussed.

- **Legacy linear:** The linear entertainment assets, while in decline, are still very profitable, generating free cash flow and adjusting to a declining customer base. The company is open to divesting these assets at some point.

- **Content:** Superior content and franchise creation are core to the investment case. We believe Disney has taken the correct strategic direction by focusing more on product quality than quantity. This has not been the case over recent years. In addition, after a recent lean patch at the box office relative to expectations, Disney announced an "entertainment-first mentality". Disney's chief executive officer, Bob Iger, has openly spoken about a changed focus from messaging to entertaining. The business has been reorganised to restore authority and accountability across the content cycle to the creation teams, after these had been separated a few years ago. This makes sense to us.

  The potential upside can be seen from the numbers: Disney had six of the top 10 streamed movies across all platforms in the US in 2023, and the studio business was number one at the global box office in seven of the last eight years. The movie pipeline for the next few years looks solid, with titles such as *Deadpool & Wolverine*, *Inside Out 2*, *Avatar 3* and a standalone *Mandalorian* film.

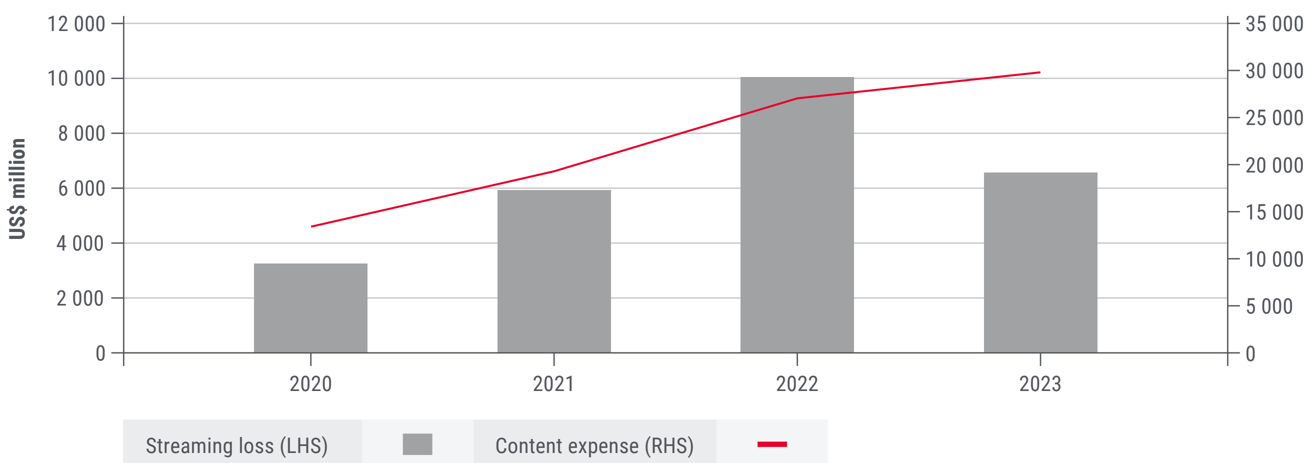
- **Streaming:** The focus of the market has been the financial trajectory of the DTC streaming business, which lost US$2.6bn in the 2023 financial year. There are signs that the financial performance has passed an inflection point as operating losses improved by US$986m when compared to 2022 and even faster in Q1 2024. Disney has now targeted profitability by the end of the 2024 financial year and a steady-state, double-digit operating margin, which compares to Netflix's 21% margin, achieved after more than 17 years of operating. This will be helped by the buyout of Hulu minorities from Comcast, allowing consolidation of spend across platforms while improving the offering.

  Disney has also de-risked its Indian business, while retaining some optionality in the potentially large market. They have formed a joint venture (JV) between struggling Disney Star (formerly known as Star India) and the TV and streaming assets of Indian conglomerate Reliance Group.

- **Sports:** ESPN is probably the strongest sports brand in the US. We believe Disney can successfully manage the process of launching ESPN Flagship, a DTC streaming service, in 2025, despite the headwinds facing linear sports broadcasting. ESPN+, the current streaming service, is growing well.

  ESPN also recently announced a JV with Fox and Warner Bros. to offer a skinny sports bundle to capture non-cable sports fans, and a sports betting JV with Penn Entertainment (formerly Penn National Gaming) called ESPN Bet. ESPN is a valuable bargaining chip to have in negotiations with other potential distributors and to combine with current packages like Disney+.

Graph 3: Traditional media direct-to-consumer earnings



Sources: Company reports, Allan Gray analysis

- **Experiences:** The experiences business continues to be the primary monetisation avenue for Disney's IP. It has produced strong returns through the cycle and provides an underpin to the value of the group. It has significant scale relative to other global leisure companies, and the parks and resorts would be difficult to replicate.

  Disney's confidence in the business was highlighted by the announcement of a US$60bn capital investment over the next 10 years into parks, resorts and cruises. **Graph 4** puts the scale of the segment into perspective, as well as its track record in terms of profitability through the cycle.

Valuation (The price of happiness?)

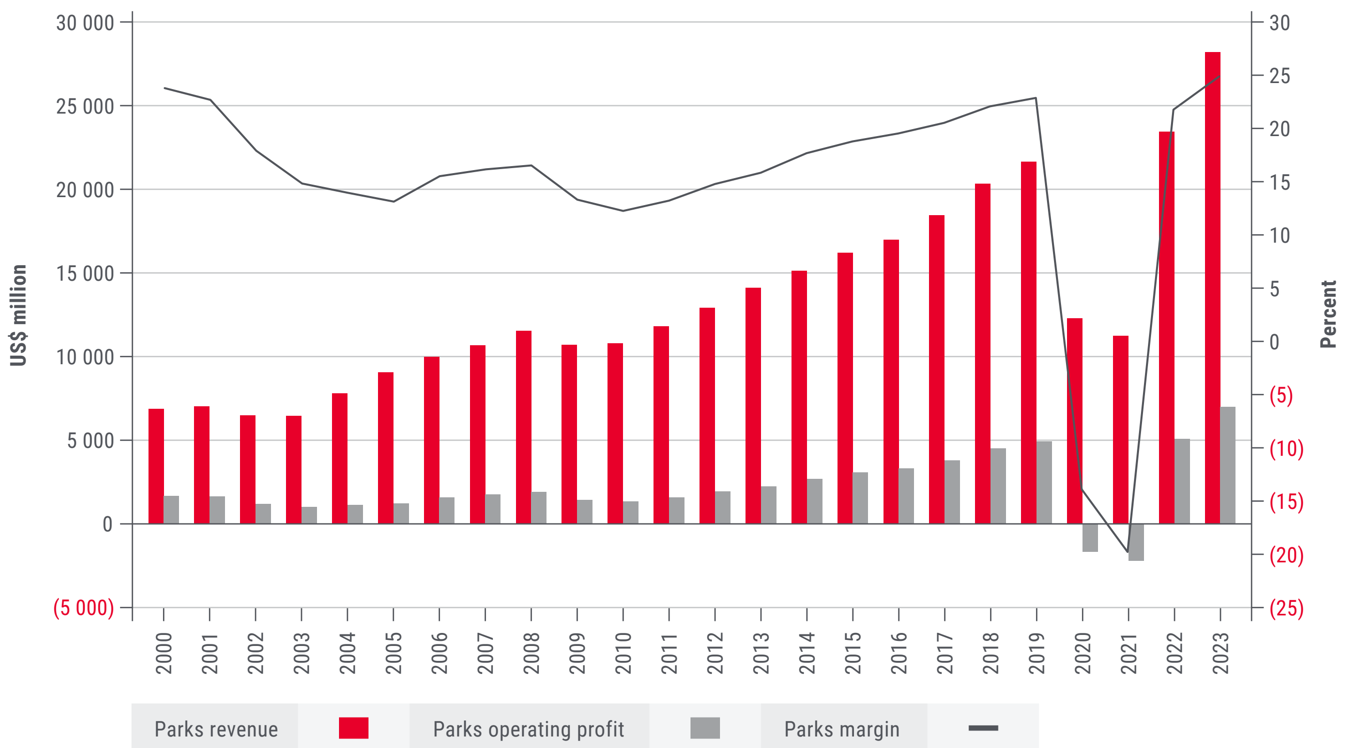
A share price that doesn't reflect the underlying value of its key parts tends to draw in investors with a wide variety of capital allocation and strategy ideas and opinions. Disney went through this in 1983, when a corporate raider tried to take over the business, and continues to face similar investor agitations 40 years later.

While these events are likely positive at focusing management's mind on shareholder value creation, it is not obvious that board seats agitated for by activist investors will lead to new ideas and insights. More important in the near term will be for Disney to make the right decision when choosing the next CEO, as Iger's contract expires in 2026. We believe the current board has the experience to manage this succession.

Disney trades on a forward price-to-earnings multiple of 25.5 times on what we believe are below-normal earnings. It has recently increased its cost-cutting target to US$7.5bn, which is 8.5% of 2023 revenue, and is forecasting more than US$8bn in free cash flow for 2024, moving towards pre-DTC investment levels, as seen in **Graph 5**. The balance sheet is in a reasonable position, with net debt to earnings before interest, taxes, depreciation and amortisation (EBITDA) of 2.4 times.

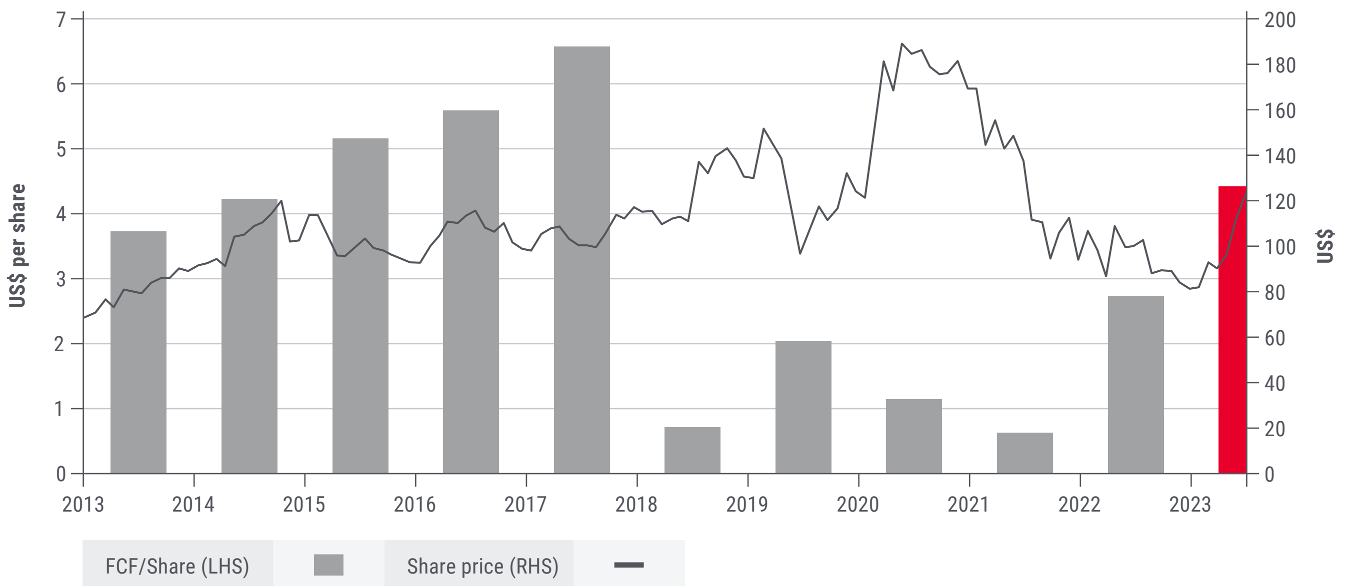
Management's confidence was highlighted by reinstating a dividend and announcing a US$3bn share buyback. While the share has performed strongly off its lows, we believe it still trades below its intrinsic value with additional upside optionality.

Graph 4: Parks and experiences earnings



Sources: Company reports, Allan Gray analysis

Graph 5: Disney's free cash flow and share price



Sources: Company reports, Allan Gray analysis, Bloomberg

Duncan was appointed chief investment officer in 2020. He joined Allan Gray in 2001 and was appointed as a portfolio manager in 2005. He manages a portion of the equity, balanced and stable portfolios. He is also a director of Allan Gray Group Proprietary Limited and Allan Gray Proprietary Limited. Duncan holds an Honours degree in Business Science and a Postgraduate Diploma in Accounting from the University of Cape Town and is a CFA® and CMT® charterholder.

Siphesihle joined Allan Gray in 2017 as an analyst in the Investment team. He was appointed as a portfolio manager in December 2023 and currently manages portions of the institutional domestic equity mandates and the SA equity portfolio. Siphesihle holds a Bachelor of Commerce degree in Economics and Finance and an Honours degree in Economics, both from the University of Cape Town.

THE TRILLION-DOLLAR ENDGAME

Thalia Petousis

... it is quite possible that a fiscal dominance episode in the US would result in a financial repression of the entire savings industry ...

The US government has dug itself into a debt hole. With spending being its go-to solution for most problems, it is unclear how the situation will be resolved. Worryingly, some of the mooted solutions are likely to negatively impact the entire savings industry. Thalia Petousis looks at why the current trajectory of debt is unsustainable.

> "Under current policy and based on this report's assumptions, [United States government debt relative to GDP] is projected to reach 566 percent by 2097. The projected continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable." – Financial Report of the United States Government, 16 February 2023

It is well understood that the United States government has a debt problem. To be a bit more exact, a US$34.5tn debt problem. If one wants to split hairs, or flatter the numbers, then the problem is only US$27.3tn when reflecting the value of US debt "held by the public" (i.e. across institutions like commercial banks, mutual funds, and the global savings industry), while the remainder is owned by the US Federal Reserve (the Fed), the country's central bank. This means that the volume of sovereign debt in issuance is equivalent to 124% of the size of the US economy, as measured by its gross domestic product (GDP), or 98% of GDP if one strips out the Fed's holdings.

None of this information is "new news", which seems to lull market participants into a sleepy sense of comfort with the status quo, despite some arguably ominous developments in the situation. The first of these is the US Office of Debt Management's deteriorating long-dated forecasts of the debt trajectory. Next is credit rating agencies' increasingly sour and more discerning assessment of the situation. The third, and arguably most interesting development, is a paper published by the St. Louis Federal Reserve[1] last year, in which they debated

[1] The Federal Reserve Bank of St. Louis is one of 12 regional Federal Reserve banks that are part of the Federal Reserve System, the central banking system of the United States. The banks are jointly responsible for implementing the monetary policy set forth by the Federal Open Market Committee.

how this debt problem will be "solved". Stated differently: What is the endgame?

The deterioration in US debt management office forecasts

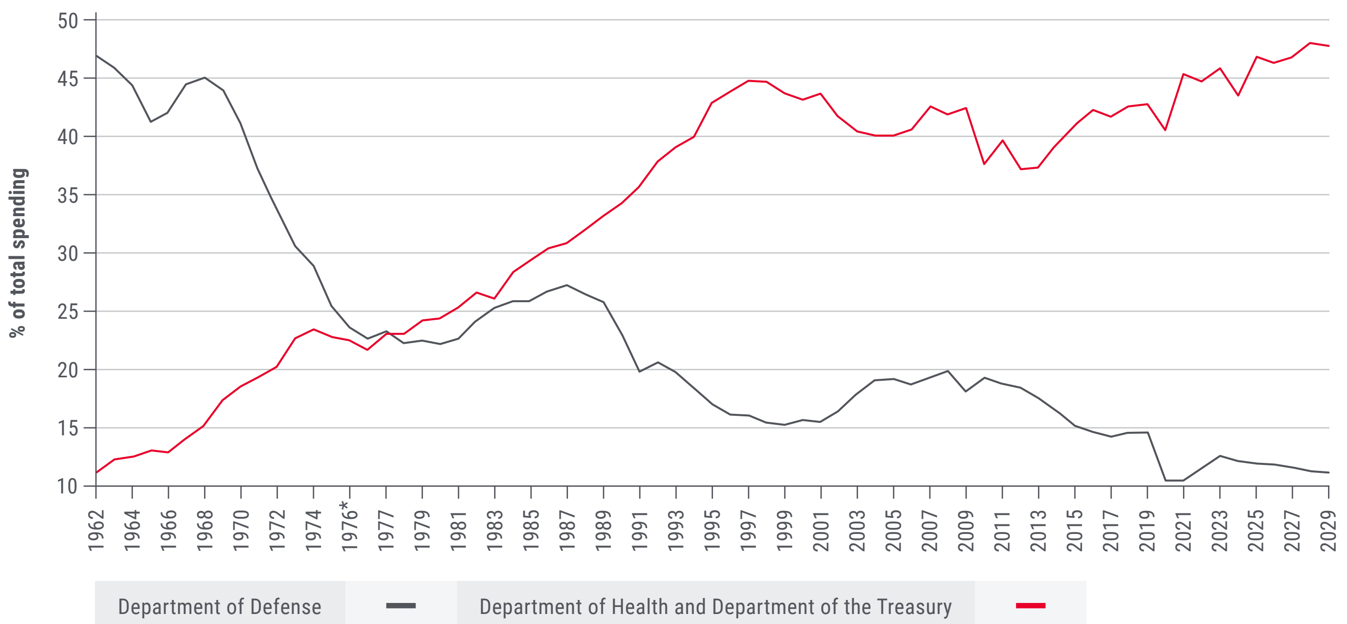
The largest ticket spending items in the US budget are healthcare, social security, defence, and interest payments, but the distribution of these expenditure items has shifted enormously over time. Since the end of World War II in 1945 and the emergence from the Cold War years in the 1990s, global spending on military defence has gradually fallen. The establishment of the North Atlantic Treaty Organization (NATO) and its key tenet that "an armed attack against one or more shall be considered an armed attack against them all" has underpinned collective security and 30 years of global peacetime. From 1962 to the present, US spending by the Department of Defense has fallen from 47% of total national spending to just 12.6% – as seen in **Graph 1**. In its place, the US has seen a phenomenal rise in healthcare spending. As large healthcare spending and unrestrained fiscal budgets have become the norm, so has larger government debt. This debt must naturally be serviced by the Department of the Treasury as it pays out interest to debtholders, also called lenders. Graph 1 reflects that the departments of Health and the Treasury now account for 46% of combined US national spending, from just 11% in 1962.

On average since 1974, US government revenue (which is predominantly taxes) has averaged 17.3% of GDP, while expenditure has averaged a greater 21% of GDP. As reflected in **Table 1** on page 12, this has led to an average deficit of 3.7% of GDP per annum, which must be funded by borrowing. On average since 1974, the quantum of US government debt held by the public has been 48% of GDP, but it has been steadily growing, to reach an expected 99% in 2024. The projections for 2024 and beyond show the enormous rise in expected "major healthcare" spending as a percentage of GDP.

Why does the US spend so much on healthcare? The Centers for Disease Control and Prevention (CDC) estimates 50% of US adults (approximately 142 million people) will be obese by 2030, compared to 42% (115 million) currently. This implies that the number of obese adults will grow at a compound annual rate of 2.5% to 2030, outstripping the rate of population growth, which is predicted to decline over the period. Additionally, an estimated 31% of US adults (85 million) are currently in the overweight category, but just shy of obese.

Obesity is naturally associated with greater risk of heart disease, stroke, diabetes, and a range of other ailments that weigh on hospital budgets and healthcare spending. Recently, much attention has also been devoted to trying

Graph 1: Percentage of US expenditure conducted by the Department of Defense vs. the departments of Health and the Treasury



*Beginning in 1976 (fiscal 1977), the budgeting year in the US changed from 1 July - 30 June to 1 October - 30 September. As a result, 1976's third quarter (1 July - 30 September) did not form part of a fiscal year, and is referred to as the "transition quarter".
Source: US budget data. Data beyond 2023 contains the projections from the US budget.

to quantify the economic cost of the US opioid epidemic, or abuse of prescription painkillers, in terms of both lost productivity and more direct healthcare and criminal justice spending. Additionally, much of the rise in expected healthcare spending to 2050 is underpinned by the ageing of the large baby boomer generation, who will be requiring elderly assistance, while productivity will simultaneously be lost within the economy.

Since 1974, an average of 12 cents on every tax dollar have gone towards servicing debt, as reflected by the interest (as a percentage of revenue) row in Table 1. As shown in the table, using a net interest rate of 3%, the Treasury projects that 33 cents on every tax dollar will go towards servicing interest on debt by 2053.

That said, there are large forecast risks underlying these assumptions. Firstly, the Congressional Budget Office assumes that military spending will decline over the forecast period, which is at odds with the increasing armed conflict we are seeing across a politically divided world. Additionally, the assumption of a 3% average interest rate on US debt might be far too conservative. If one uses a 4% rate of interest, then the US will be paying 33 cents on every tax dollar towards servicing interest within the next decade, and by 2050, that will have ballooned to 40 to 50 cents[2] on every tax dollar. This would be a higher interest service burden than what is paid by many African sovereigns (South Africa pays 21 cents at present, and Senegal pays only 9 cents). When governments reach the point of paying 50 cents of interest service on every tax dollar is typically when they begin to default on debt.

As large healthcare spending and unrestrained fiscal budgets have become the norm, so has larger government debt.

Using the assumptions of the debt management office in Table 1, US debt held by the public will reach around 200% of GDP by 2053, as seen in **Graph 2**. When many developed market sovereign debts reached north of 100% of GDP during the post-World War II era, it was only via both rapid inflation and the financial repression of savers that this could be resolved.

Table 1: Breakdown of US budget since 1974 and projections to 2053

% of US gross domestic product (GDP)	Average since 1974	2024	2025 - 2028	2029 - 2033	2034 - 2043	2044 - 2053
Total government revenues	17.3	17.5	17.9	18.1	18.3	18.8
Total government expenditure	−21.0	−23.1	−23.2	−24.6	−26.4	−28.7
Expenditure breakdown						
Social Security	−4.4	−5.2	−5.5	−5.8	−6.2	−6.4
Major healthcare	−3.4	−5.6	−5.7	−6.3	−7.4	−8.0
Other (income security, nutrition)	−3.2	−3.1	−2.9	−2.6	−2.5	−2.3
Military	−4.2	−2.9	−2.7	−3.1	−2.7	−2.6
Veterans	−3.0	−3.1	−3.1	−3.1	−3.2	−3.2
Net interest	−2.1	−3.1	−3.3	−3.7	−4.4	−6.2
Fiscal deficit (% of GDP)	**−3.7**	**−6.1**	**−5.8**	**−6.2**	**−8.1**	**−10.1**
Government debt held by the public (% of GDP)	48	99	105	115	145	194
Interest (% of revenue)	12	15	16	19	24	33
Average interest rate on debt (%)	4.4	3.1	3.1	3.2	3.0	3.2

Sources: US Central Budget Office and Office of Debt Management (2023, 2024), Allan Gray analyst calculations. Data beyond 2023 contains the projections from the US budget in 2023 and 2024.

[2] Under a 4% interest rate assumption, one can assume that US tax revenue is higher than in the 3% interest rate world, but the two line items (tax revenue and the interest bill) will not rise in tandem unless the budget is "balanced" and not in deficit – which is not the case in actuality.

Credit rating agencies acknowledge the problem

Last year, the global credit rating agency Fitch joined the ranks of other agencies who will no longer afford the US government a AAA credit rating, instead downgrading them to one below (AA). Fitch cited the looming insolvency of the US Medicare Hospital Insurance Trust Fund and US Social Security Trust Fund in the next decade as a key consideration in their decision, which represented a refreshingly prescient set of observations. They also cited the erosion of governance over the last two decades that has manifested in repeated debt limit standoffs and last-minute resolutions.

[The US] ran up government spending enormously to stimulate the economy and bail out the banking system.

The decision to downgrade the US was arguably long overdue – the AAA-rated peer group is a class of sovereigns with debt of only 39.3% of GDP on average. This is a level of debt that the US last held prior to the 2008 global financial crisis. It subsequently ran up government spending enormously to stimulate the economy and bail out the banking system.

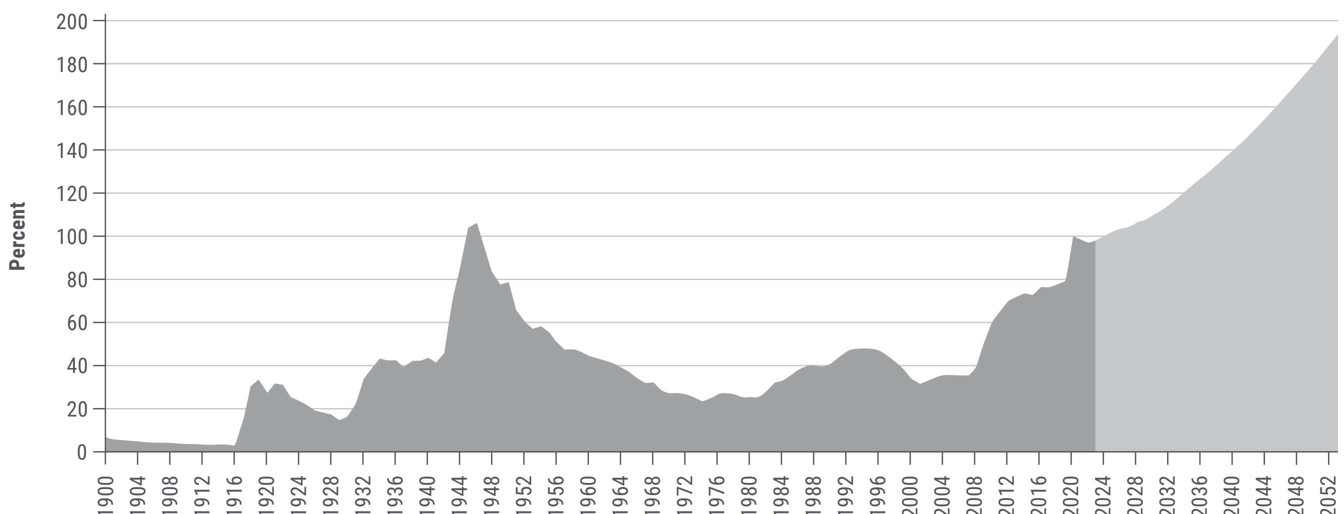
Fiscal dominance and the endgame

What, then, is the endgame, and how does the US avoid a default in the next 30 years? Will the discussed dynamics lead to the uncontrolled inflation seen following World War II, when developed market government debts surpassed the 100% of GDP threshold?

One man's financial repression is another man's prudent regulation.

Fiscal dominance refers to the possibility that the accumulation of government debt and continuing government deficits will produce increases in inflation that "dominate" central bank intentions to keep inflation low. This conundrum, as well as that of borrowing from the future, only to find that the debt is no longer realistically serviceable by that future date, was addressed by the St. Louis Federal Reserve in the aforementioned paper published last year. It argued that by the year 2050, one of the only practical solutions to the problem of fiscal dominance might be the elimination of the payment of interest on reserves. Reserves are the cash that commercial banks are required to keep at the US Federal Reserve (its central bank). The Fed pays out interest on these reserves on behalf of the US government. The above "solution" therefore implies a financial repression of the

Graph 2: Federal debt held by the public (% of GDP), 1900 to 2053



Source: US Congressional Budget Office. Data beyond 2023 is the projection of the US Office of Debt Management.

US banking industry such that the banks will no longer earn interest on cash forcibly held at the Fed:

> "If the government wishes to fund large real deficits, that will be easier to do if the government eliminates the payment of interest on reserves. This potential policy change implies a major shock to the profits of the banking system."
> – Federal Reserve Bank of St. Louis, 2 June 2023

The St. Louis Federal Reserve took this idea a step further and suggested that the amount of zero-interest reserves kept at the Fed might need to be as high as 40% of deposits. In such a world, banks would likely cease to pay interest to their end clients. As such, it is quite possible that a fiscal dominance episode in the US would result in a financial repression of the entire savings industry via high inflation and an artificially low rate of interest being maintained in an economy that does not compensate one for the erosion of wealth. In such an environment, long-duration fixed-rate bondholders could suffer enormously.

This notion was, in fact, well acknowledged by the St. Louis Federal Reserve, as seen in their honest assessment of the situation in the said paper:

> "If the bond market does not anticipate a fiscal dominance shock sufficiently far in advance (where the definition of "sufficiently far" is determined by the duration of bonds held by the public), then bond investors would be caught with losses on high-duration bonds. All of these changes imply that the effects on banks and mutual funds and pension funds and others would be potentially quite dramatic."

One man's financial repression is another man's prudent regulation. The measures discussed by the St. Louis Federal Reserve have been the only mechanism by which we have seen developed market sovereigns resolve enormous levels of debt in the past. Generally, the market tends to think of a "debt default" as an explicit announcement of non-payment followed by an explicit haircut on bondholders. A far more insidious way of extracting cash from the savings industry, which is nonetheless as damaging for the public and for savers, is the erosion of savings not only via high inflation, but via intentionally suppressing the interest rates that are paid on those savings – in this case to nil.

Thalia joined Allan Gray as a fixed interest trader in 2015. She was appointed as a portfolio manager in 2019 and currently manages the money market portfolio, the bond portfolio, as well as portions of the balanced fixed interest and the Africa fixed interest portfolios. Thalia holds a Master of Commerce degree in Mathematical Statistics from the University of Cape Town and is a CFA® charterholder.

US OPPORTUNITIES WITH A GOOD PROGNOSIS: UNITEDHEALTH AND ELEVANCE HEALTH

Povilas Dapkevicius and Matteo Sbalzarini

While the US stock market represents about 70% of the FTSE World and MSCI World indices, just half of the Orbis Global Equity Fund is invested in American shares. The reason is simple – the US market is much more expensive than its international peers in aggregate, and our offshore partner, Orbis, has found more ideas elsewhere.

But the US is also a big place, with nearly 2 000 companies valued at over US$1bn each. Many of those companies are excellent, and where Orbis can find great companies at good prices, they are delighted to own them. Two businesses that fit that description are the managed care organisations UnitedHealth Group and Elevance Health. Povilas Dapkevicius and Matteo Sbalzarini take us through their investment theses.

Managed care organisations (MCOs) serve the vast US healthcare market, which is more complex than those elsewhere. In the US, most working people get health insurance through their employer, and decades ago this was the MCOs' core business. For these plans, relationships with local hospitals matter far more than national bargaining power, so local scale is essential.

A smaller portion of working people buy insurance individually. Those who cannot afford private insurance get coverage through Medicaid, which is run by individual states with additional funding from the federal government, and most older people receive at least part of their care through the federal government's Medicare scheme. Both Medicare and Medicaid plans can be administered by the MCOs. But the MCOs are not just insurers – they increasingly own and manage physician practices, care centres, and pharmacies, making them better placed to connect the dots for patients across this complex system.

Dealing with that complexity is hard. Insurance underwriting skill is important but insufficient. A successful MCO needs good local scale to negotiate prices with care providers and good national scale to negotiate drug prices. To meaningfully improve the efficiency of the overall system, MCOs also need to be plugged into care providers to help the system shift

from fee-based care, which incentivises activity regardless of outcomes, to value-based care, which aligns costs with outcomes for patients.

UnitedHealth's Optum unit has been especially successful in integrating parts of the healthcare chain to lower costs and improve care for patients. For new entrants, the healthcare market has been a tough nut to crack: Amazon, J.P. Morgan and Berkshire Hathaway announced to great fanfare that they were entering the health insurance market in 2018, only to abandon the venture three years later.

… we remain confident that the companies can continue to deliver as they have in the past.

With this industry setup, the MCOs benefit from two long-term tailwinds: an ageing population, and increased outsourcing of Medicare and Medicaid administration. Propelled by the ageing population, US healthcare spending is growing by about 5% per annum, a little faster than the wider economy, and the MCOs are getting exposure to more of that growth as they administer more Medicare and Medicaid plans and build out their health services businesses.

This has been a winning formula historically, with UnitedHealth and Elevance growing earnings per share by 15-17% per annum over the last 10 years, as shown in **Graph 1**. Indeed, we find the two companies rather special investment opportunities when comparing their moats, growth runways, returns on capital, historical track records and management quality with how the stocks are priced by the market.

Three factors weighing on sentiment

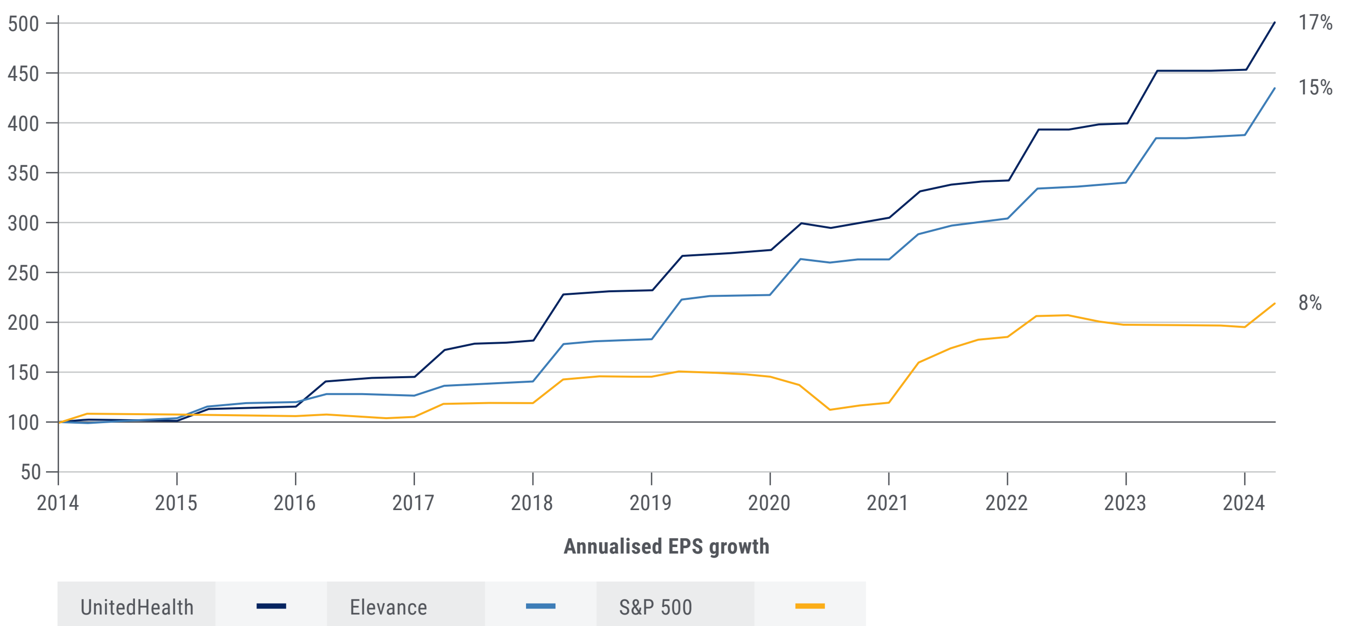
Today those prices look reasonable, due to pessimism we see as excessive. Concerns focus on three things: political risk, Medicare Advantage cost pressure and negative headlines for UnitedHealth. We will take each of these in turn.

1. Political risk

Political risk is a persistent worry for the companies. Plenty of countries have socialised healthcare, and that has often been seen as a risk for the MCOs. Leaning against that pessimism let us build our first positions in the companies when President Barack Obama was initially elected in the US, and we have held UnitedHealth and Elevance continuously since 2017.

Graph 1: UnitedHealth and Elevance have delivered above-average long-term growth

Earnings per share (EPS) for UnitedHealth, Elevance and the S&P 500, rebased, last 10 years



Source: Bloomberg, using Bloomberg consensus estimates of current-year earnings.

We continue to believe that MCO-destroying political changes are extremely unlikely. Republicans have no interest in socialising healthcare, and Democrats would need control of the presidency, House of Representatives and 60% control of the Senate to push through such a major societal change – even if they had a unified view internally on the best approach, which they do not. Neither Donald Trump nor Joe Biden is focused on healthcare in their campaigns ahead of the upcoming election.

… we believe the companies can grow earnings per share by 12-15% per annum for years to come.

2. Medicare Advantage cost pressure

While the US infamously spends more than other countries on healthcare, that is not because of the MCOs, but because healthcare professionals, drugs, medical devices and facilities cost much more. High prices for branded drugs in the US subsidise pharmaceutical research for the whole world, the average doctor in the US makes 3.7 times as much as their UK counterpart, the typical American hospital room is private rather than having multiple beds, and average wait times are far shorter in the US than in most other places. That level of care is great for patients, but it comes with costs.

The MCOs' role is to make the system more efficient – as evidenced by the government, states, and individuals increasingly choosing MCO-administered plans for Medicare and Medicaid. In 2008, a fifth of people with Medicare and Medicaid used plans administered by MCOs. Today the companies manage half of Medicare enrolment and more than half of Medicaid enrolment. The profits on these businesses are hardly rapacious, with operating margins of 2-4% for Medicaid and 3-5% for Medicare plans.

Recently, MCO-managed Medicare plans, called Medicare Advantage, have become a concern for investors. Last year, Humana, a competitor of UnitedHealth and Elevance, saw a sharp uptick in medical costs for its Medicare Advantage business. The cost increases were far in excess of how Humana had priced its policies, severely hurting its margins. Humana attributed the pressure to a resumption of procedures following a lull during the COVID-19 pandemic, warning of an ongoing hit to profits for 2024 and 2025. Investors worried that UnitedHealth and Elevance would suffer similar problems, hurting their share prices.

Having met with all three companies since Humana's announcement, we think those worries are excessive. The reality seems simpler: Humana offered lower prices than UnitedHealth and Elevance in 2023, and that now looks like an underwriting mistake. We don't expect MCOs we are holding in the portfolio to see pressure to the same extent as Humana. Further, the MCOs reprice their policies annually, and having been bitten once, Humana now plans to keep its pricing higher for the next two years. That gives UnitedHealth and Elevance scope to maintain their pricing while potentially winning market share.

3. Negative headlines for UnitedHealth

Recently, UnitedHealth has had its own problems. In February, one of its recently acquired units suffered a cyberattack, threatening patient data and necessitating a halt in billing and payment services to some care providers. The episode reveals a threat to the broader healthcare industry, as patient data is seen as highly valuable to bad actors. To its credit, UnitedHealth advanced more than US$3bn from its own balance sheet to help providers suffering through the outage, and it has since restored payment services. While the cyberattack was serious, we believe its perceived impact on UnitedHealth's intrinsic value will be short-lived.

UnitedHealth is also the subject of a US antitrust investigation. We struggle to see an argument that UnitedHealth has harmed its customers. Its Optum care provider business helps achieve better outcomes for patients at a lower cost. UnitedHealth connecting the dots from government programmes to plan administration to care providers has been a net positive for patients and for the financial soundness of the US healthcare system.

The long-term potential

Looking through each of those bear points, we remain confident that the companies can continue to deliver as they have in the past. Healthcare spending should continue to grow a little faster than the US economy, and the companies should continue to grow moderately faster than wider US healthcare spending as more people adopt MCO-administered Medicare and Medicaid plans, and as the leading companies take market share from their competitors within those plans.

Meanwhile, we see Elevance and especially UnitedHealth taking intelligent risks in building out their own care networks,

positioning them to drive better efficiency and outcomes across the system – and to be rewarded for it. Stacking those up, we believe the companies can grow earnings per share by 12-15% per annum for years to come.

In the short term, the path might look less smooth. Healthcare reform could rise to the top of the election news cycle, and weakness in Medicare Advantage plans could depress sentiment. But as long-term investors, we think those risks are reflected in the companies' prices. UnitedHealth normally trades at a similar price-to-earnings multiple to the S&P 500. It now trades at a discount. Elevance, which has somewhat lower returns on capital than UnitedHealth, trades at an unusually large discount to the US market, as shown in **Graph 2**. In both cases, that is despite long-term growth prospects that we believe are above average. At the portfolio level, the MCOs are also appealingly defensive, as their profits have little to do with the broader economic cycle.

In aggregate, the US market looks expensive, but it is home to thousands of companies, and hundreds of good ones. Some of those good companies, like UnitedHealth and Elevance, trade at reasonable valuations. This, to us, is the benefit of being a bottom-up investor. We can own the compelling shares, and we don't have to own the rest.

Graph 2: UnitedHealth and Elevance are cheaper than usual vs. the US market

Forward price-to-earnings ratio of UnitedHealth, Elevance and the S&P 500, last 10 years

Source: Bloomberg. Price-to-earnings ratio using Bloomberg consensus estimates of next fiscal year earnings.

Povilas joined Orbis in 2010. He directs client capital in the Orbis Optimal Strategy. He also co-leads the London-based Global Investment team, directing the team's research in the healthcare and information technology sectors. Povilas holds a Bachelor of Science (Honours) degree in Economics from the London School of Economics and is a CFA® charterholder.

Matteo joined Orbis in 2015 following the completion of his degree. He is a member of the London-based Global Investment team, researching shares in selected sectors. Matteo holds a Bachelor of Arts (Honours) degree in Economics from the University of Cambridge and is a CFA® charterholder.

BEYOND OUR BORDERS: A CASE FOR INVESTING OFFSHORE

Horacia Naidoo-McCarthy

Investing offshore can be richly rewarding when a considered, long-term approach is taken.

Investing offshore should always form part of your long-term diversification strategy. South Africa comprises about 0.3% of the world's market capitalisation – ignoring the other 99.7% could be detrimental over time. Horacia Naidoo-McCarthy talks us through the four key reasons to invest offshore, reminding us of the associated risks and sharing some pointers to consider when determining the optimal balance of potential offshore return at a palatable level of risk.

> "I am not the same having seen the moon shine on the other side of the world."
> – Mary Anne Radmacher, author

While home may offer great comfort and safety in the known, there are enriching experiences and learnings to be gained from venturing into the great unknown. The same can be said for investing. Many of us suffer from "home country bias", which means that we invest a disproportionate amount of our savings locally.

What do you gain from investing offshore?

Investing offshore allows you to take advantage of global opportunities to create a diversified portfolio that can protect your investment from a range of risks and deliver robust returns over time. Below we discuss some of the most compelling reasons for investing offshore.

1. Your investment risk is spread across geographies and economies

As part of your long-term investment strategy, investing offshore allows you to spread your investment risk across different economies and regions. In doing so, you improve your chances of achieving returns when one region may be underperforming, and you avoid being overexposed to a particular region or currency. As an example, while the Nasdaq fell more than 30% in 2022, Brazilian and Indian equities delivered positive returns.

2. You have access to companies and sectors not represented locally

South Africa does not have a developed technology sector, nor does it have a biotech sector or any of the number of exciting fields that have the potential for growth. Lithium is an example of an investment that is not available locally,

but is poised to play an important role in the global push to transition to clean energy, given its use in energy storage.

3. You can earn returns from different asset classes at different times

As with local investing, if you blend asset classes that typically do not move in sync (i.e. their returns are not correlated), you can potentially protect your portfolio returns, which means that if one asset class performs poorly, returns should come from other parts of the market. As an example, since 1999, South African equities and bonds have had a low correlation with their global equivalents, and an even lower correlation across asset classes. This diversification benefit has the potential to bolster the portfolio in a range of macroeconomic scenarios.

4. Your investment is protected from local currency risk

Imported costs are not an insignificant part of South African consumers' expenses, and to battle offshore inflation and currency movements, you need to protect your portfolio from local currency risk.

The rand is one of the most tradeable and volatile emerging market currencies. South African motorists are all too familiar with the pain at the pumps, as a weaker rand is one of the contributing factors to ever-increasing petrol and diesel prices. Numerous other dollar-denominated goods, which include clothing, electronics and entertainment, continue to put pressure on local consumers. As such, it is necessary to invest offshore to protect your investment from whatever the rand may do in the future.

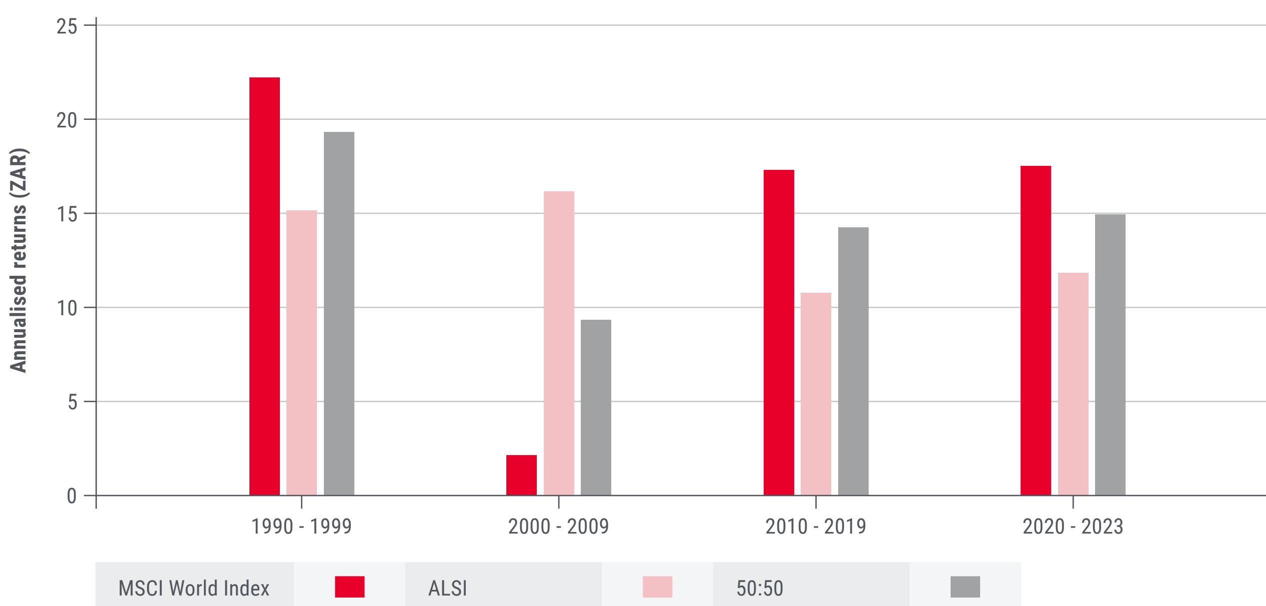
Finding the golden ratio

There is no scientific formula that gives you the perfect answer to how much to allocate to offshore investments. Regulation 28 of the Pension Funds Act provides strict investment limits for retirement funds, which are designed to protect members' retirement savings from being overly exposed to a single asset or concentrated basket of assets. This regulation suggests that 45% offshore exposure diversifies your portfolio, but still manages the risk that comes with offshore investing. After all, more offshore risk does not necessarily equate to greater returns.

Graph 1 illustrates the benefits of finding the balance between potential returns and risk by looking at the returns of global equities (MSCI World Index), local equities (FTSE/JSE All Share Index (ALSI)) and a fictitious portfolio that combines the two. As you can see from the graph, over time, a 50:50 ratio of both indices provides decent returns through the cycle. This is not to say that a 50:50 split is optimal, but it demonstrates that a diversified portfolio of assets dampens extremes and can be used as a risk control measure.

There is no one-size-fits-all answer. You need to figure out the right ratio for yourself, with the assistance of a good,

Graph 1: Return* profile for the MSCI World and FTSE/JSE All Share indices over 30 years



*Annualised total returns are in ZAR.
Source: Allan Gray research

independent financial adviser, if need be. As with other investment decisions, consider your unique investment objectives, risk appetite and lifestyle.

... it is necessary to invest offshore to protect your investment from whatever the rand may do in the future.

Key risks associated with investing offshore – and how you can think about them

Travelling to foreign lands is exciting – exotic cuisine, intriguing cultures and attractions to be marvelled at – but every seasoned traveller knows that the risks of travel need to be carefully managed too. Having a clear idea of areas to avoid, possible illness and what to do when you arrive without your luggage, for example, prevents you from being blindsided and allows you to have contingency plans should those scenarios materialise.

Similarly, while there are many good reasons to invest offshore, it is not without risk. The expansion of the opportunity set is accompanied by a risk-return trade-off, which should not be ignored when selecting unit trusts for your portfolio. Unit trusts like the Allan Gray Balanced and Stable funds weigh up these risks to optimise the risk-reward profile. While valuation (the price you pay) should be at the core of your investment decisions, it is important that you are cognisant of the different risks weighing on your investment:

1. The risk of the unknown

Investing globally means venturing into unfamiliar territories with different languages, different regulatory, financial and accounting systems and different cultures and customs. Trying to navigate this landscape with limited knowledge, flow of information and understanding may be challenging, but this should not discourage you from investing offshore. Allan Gray and Orbis conduct in-depth research and aim to better manage both known and unknown risks.

2. Political and economic risks

The fact that almost half of the world's population will be heading to the polls this year makes it particularly pertinent to assess the potential impact of a country's political climate on your investment. While investing offshore gives you access to a much wider investment opportunity set, you are inherently exposed to economies and geographies that face their own unique challenges. Although some of these will not pose obvious risks, you should be aware that changes in regulation or changes in government can have a significant impact on your investment. A relatively recent example of this was the sudden Russian invasion of Ukraine, which saw listed Russian stocks and business interests go to zero given sanctions.

However, political uncertainty and volatility are quite often temporary and can result in attractive opportunities for long-term investors like us. While investors tend to be attracted to economies that are doing well, data from long time periods suggests that strong economic growth does not necessarily mean there will be good stock market performance. Japan is a fitting example, with real GDP only growing 1.9% in 2023, in contrast to the stellar 25% return of its market, the TOPIX. As an individual investor in a global fund, understanding the rationale of portfolio managers is key when investing in riskier countries and regions.

... timing the market is difficult, and we believe a steady strategy of diversification will serve you better over the long term.

3. Currency risk

Exchange rates have a profound effect on the returns of international investments. Not only do you need to consider the company that you wish to invest in, but also the currency of the market that the company operates in, and whether the overall mix of currencies will serve as a good long-term store of purchasing power. It is important to understand the impact of currency on your investment returns. The underlying price of your investment fluctuates, but so does the value of the currency.

As South African investors, we often focus on our returns in ZAR, but currency matters. As currencies oscillate from relative strength to weakness, we often see startling swings in returns. For example, in 2015, a South African investor would have had a 34.6% rand return investing in

the MSCI World Index, while the very same investment would have lost about 0.3% in US dollars. However, in 2016, a US dollar investment would have done much better.

The historical behaviour of South Africans indicates that we tend to rush offshore as the value of the rand deteriorates in the hope that we will protect our investments. This is counter-intuitive. Buying offshore investments when the rand depreciates means we are buying expensive offshore investments with a relatively weaker currency. The more rational time to invest offshore is when the rand is stronger. This will enable you to stretch the value of each rand used to purchase offshore investments. However, timing the market is difficult, and we believe a steady strategy of diversification will serve you better over the long term.

4. Liquidity risk

Liquidity is a term used to describe how quickly an asset can be bought or sold. Portfolio managers will always consider the degree of liquidity across various markets and think carefully about pursuing investment opportunities within markets that are relatively less tradeable – i.e. where it may be difficult to sell the investment. Liquidity constraints and considerations tend to be more prevalent within emerging markets. Ideally, a portfolio should have sufficient liquidity to meet withdrawals and be in a position to take advantage of future investment opportunities.

5. Hidden costs

Investing in certain markets or countries may incur additional costs. Over and above some of the transactional costs, there may be exchange control regulations and tax implications in foreign jurisdictions.

Investing offshore is a long-term play

The above risks all need to be acknowledged and understood, but, at the end of the day, we believe that the risk that matters most is the price you pay for an investment. Partnering with an experienced investment manager allows you to outsource investment decisions to a team with a track record, which focuses on understanding the ins and outs of what each company is fundamentally worth and whether the stock warrants a position in the overall portfolio, while also considering currency with the aim of delivering a return in the best mix of currencies.

With its more than 30-year track record and global footprint, our offshore partner, Orbis, offers a range of funds (equity, multi-asset, absolute return) that meet a broad spectrum of needs and are easily accessible directly through Orbis via our offshore investment platform, or via the newly launched Allan Gray Offshore Endowment (see Julie Campbell's piece alongside). In addition, Allan Gray portfolio managers look after a portion of the global portfolio, as well as the Africa ex-SA Equity and Frontier Markets Equity funds and the Africa Bond Fund. Together with Orbis, we provide access to different economies, geographic regions and a broader selection of opportunities.

Investing offshore can be richly rewarding when a considered, long-term approach is taken. Start early, and remain patient and focused.

Horacia joined Allan Gray in 2017 and is a manager in the Institutional Clients team. She holds a Bachelor of Science (Honours) and a Master of Science in Genetics, both from the University of KwaZulu-Natal, as well as a Doctor of Philosophy in Human Genetics from the University of Cape Town.

HOW TO INVEST OFFSHORE WITH ALLAN GRAY – AND ALLOW FOR THE TRANSFER OF WEALTH

Julie Campbell

Our endowment is structured such that multiple beneficiaries can be appointed, thereby allowing for continuity across generations …

Investing offshore is an important way to diversify your portfolio, spread your risk and get access to companies and industries not available locally. Julie Campbell explores the options available to access offshore investments through Allan Gray, with a focus on the newly launched Allan Gray Offshore Endowment.

Many of you will have some offshore exposure through your investments in our core range of local unit trusts, namely our Equity, Balanced and Stable funds, which can invest up to 45% offshore, according to the foreign exchange limits prescribed by the South African Reserve Bank (SARB). There are various ways to achieve additional offshore exposure, as discussed next.

Invest and withdraw in rands

You can gain additional offshore exposure by using rands to invest in rand-denominated offshore unit trusts, such as the Allan Gray-Orbis Global Equity Feeder Fund, Global Balanced Feeder Fund and Global Optimal Fund of Funds, or other rand-denominated offshore unit trusts available via our local investment platform. Although your investment is priced in rands, your investment performance will be determined by the performance of the underlying offshore assets and the daily currency movements. You don't need to buy foreign currency or get tax clearance from the South African Revenue Service (SARS).

When you invest in a rand-denominated offshore unit trust, you are subject to our standard local investment minimums, and use your investment manager's offshore allowance instead of your own offshore allowance (see "How much can you invest offshore using your own offshore allowance?" on page 27). However, since investment managers' capacity to invest offshore is limited by the SARB, these unit trusts may close from time to time, as is the case with the Allan Gray-Orbis Global funds, which are currently closed to new discretionary investments, while investment through our life products is limited.

Invest in and receive foreign currency

If you are keen to invest in foreign currency using your own

offshore allowance, there are a few routes you can take, one of which is to invest directly with fund managers of your choice. However, many investors find this route overwhelming due to the volume of available global unit trusts and the complexity of investing in multiple jurisdictions, including strict international anti-money laundering requirements, which have been exacerbated by South Africa's greylisting. In addition, investment minimums tend to be high.

The Allan Gray Offshore Endowment is competitively and transparently priced, with no VAT payable on administration fees.

Allan Gray offers two options that simplify these complexities and may be suitable for you when using your own offshore allowance:

1. Invest via the Allan Gray Offshore Investment Platform

Investing via an offshore investment platform can help when it comes to narrowing down your options, dealing with the administration associated with offshore investing, and accessing minimums that can be lower than if you go to individual managers directly. The Allan Gray Offshore Investment Platform offers a small range of foreign currency funds, including those managed by our offshore investment partner, Orbis. We can help you convert your rands to foreign currency if you choose this route.

For more information about the characteristics and benefits of the Allan Gray Offshore Investment Platform, see our "Offshore Investment Platform" brochure, available via our website.

2. Invest via the Allan Gray Offshore Endowment

The recently launched Allan Gray Offshore Endowment, issued by the Guernsey branch of Allan Gray Life Limited, is an investment-linked long-term product that offers tax efficiency if your marginal tax rate is higher than 30%, as well as estate-planning benefits. This product has been designed to provide more flexibility than traditional endowment products and offers a range of funds similar to those on our offshore investment platform, while offering competitive pricing and familiar client service through our local team. The minimum investment amounts for our offshore endowment are higher than for our offshore platform.

Following, we outline the benefits of investing in an offshore endowment, touching on some frequently asked questions about our product, and in **Table 1** on page 26, we summarise the differences between the various options for investing offshore through Allan Gray.

What are the key benefits of investing in an endowment?

Tax efficiency

The income tax rate within an endowment is fixed at 30% for individuals. The effective tax rate for capital gains if you invest in an endowment is therefore 12% (capital gains inclusion rate of 40%, which is taxed at a fixed rate of 30%), compared to a maximum effective tax rate of 18% for a marginal taxpayer on gains in a basic unit trust investment (capital gains inclusion rate of 40%, which is taxed at 45%). The product therefore becomes tax-efficient when your marginal tax rate is higher than 30%. Different tax rates apply to companies and trusts.

We do the calculation, deduction, and payment of any tax due on your behalf, which simplifies your tax return. As you do not have to account for income or capital growth in your tax return, you will not be sent any tax certificates.

Estate-planning benefits

Estate-planning benefits allow for continuity and the transfer of wealth on your death. To understand how this works, you can familiarise yourself with the different role players you can use to structure your investment, described in **Image 1** on page 27.

No offshore will is required, and although the offshore endowment will still form part of your estate for the calculation of estate duty (subject to any applicable exemptions), if you appoint beneficiaries, there will be no executor fees as transfer or payment of proceeds to a beneficiary does not have to be facilitated by an executor. This ensures quicker payment of the proceeds, or seamless continuity of the investment. Capital gains tax is only triggered when the investment is paid out, not if the investment continues.

Protection from creditors

The total value of your investment will be protected from

creditors during your lifetime, provided the endowment is issued on your life or the life of your spouse and has been in force for at least three years. To qualify for creditor protection in the event of your death, your surviving spouse, children, stepchildren or parent must benefit from the endowment. This means that during your lifetime, the endowment cannot be attached or subject to execution under a court judgement, and when you die, the endowment benefits will not be available for debt payments.

Although the Allan Gray Offshore Endowment is issued in US dollars, reporting is available in your preferred currency.

Allan Gray Offshore Endowment: Frequently asked questions

Can I access my money?

The Allan Gray Offshore Endowment is structured as a single plan made up of multiple underlying policies, which allows for more liquidity than when investing in a single policy. This gives you some flexibility and the potential to make more than one withdrawal despite the restrictions imposed by legislation.

Is the Allan Gray Offshore Endowment expensive?

Some offshore endowments have drawn criticism for having opaque fee structures, usually consisting of multiple types of fees. The Allan Gray Offshore Endowment is competitively and transparently priced, with no VAT payable on administration fees. The annual administration fee percentage applicable to our offshore endowment is calculated monthly, using the average market value (in US dollars) for the month across all Allan Gray Local Investment Platform, Offshore Investment Platform and Offshore Endowment investments linked to your investor number.

What funds can I invest in?

Investment returns come from the underlying foreign currency funds that you choose. The Allan Gray Offshore Endowment offers a select list of foreign currency funds managed by offshore investment managers, including those managed by our offshore partner, Orbis. See our "Offshore Endowment Fund List" brochure or our website for more information about the funds that are available through Allan Gray Life Limited (Guernsey branch).

Do I need to deal with another service provider?

You will be able to engage through the usual channels. The Allan Gray Client Service Centre will be available to assist you, and most transactions can be done online. Your Allan Gray Offshore Endowment will reflect on Allan Gray Online alongside your other local and offshore platform investments. Although the Allan Gray Offshore Endowment is issued in US dollars, reporting is available in your preferred currency.

Are my investments safe?

We have appointed an independent Guernsey-based trustee to safeguard the plan assets by holding them in trust. The assets can only be used to meet obligations to investors, not to meet any other obligation of the company, for example to general creditors.

Will I invest in and have withdrawals paid out in foreign currency?

Contributions can be made in rands or foreign currency (US dollars, euros or pounds). We can facilitate rand currency conversions via our authorised dealer at a preferential spread if you use your single discretionary allowance, or have your own tax clearance to invest an amount over R1m offshore. Withdrawals can be paid out in rands, US dollars, euros or pounds.

Can my offshore endowment continue when I die?

Our endowment is structured such that multiple beneficiaries can be appointed, thereby allowing for continuity across generations, as shown in Image 1 on page 27.

Consult an independent financial adviser if you need more guidance

At Allan Gray, we don't offer financial advice. You may wish to consult an independent financial adviser, who can help you determine the appropriate level of offshore exposure to meet your long-term investment goals, and to help you select the offshore product and fund(s) that are appropriate for your needs and circumstances.

For more details about *why* you should invest offshore, see Horacia Naidoo-McCarthy's article on page 19.

Table 1: Offshore investment options available through Allan Gray

	Rand-denominated offshore unit trusts	Allan Gray Offshore Investment Platform	Allan Gray Offshore Endowment
Domicile	South Africa	South Africa	Guernsey
Investment currency	Rands	Fund currency	US dollars
Choice of unit trusts or funds	Rand-denominated offshore funds on our Local Investment Platform Fund List.	Funds on our Offshore Investment Platform Fund List.	Funds on our Offshore Endowment Fund List.
Access to your investment	You can access your money at any time.	You can access your money at any time.	Each plan consists of multiple underlying policies. During the first five years of your investment, known as the restriction period, you may only make one withdrawal per policy underlying the plan, and the amount you may withdraw is restricted. When you are not in the restriction period, you may withdraw from your investment at any time.
Minimum investment amount	A lump sum of at least R50 000, or a debit order of at least R1 000 with an initial lump sum of at least R2 500.	A lump sum of at least R50 000 or US$3 500 (or the equivalent in EUR, GBP, JPY or AUD). Debit orders are not allowed.	A lump sum of at least R400 000 or US$25 000 (or the equivalent in EUR or GBP). Debit orders are not allowed.
Maximum investment amount	There is no maximum, however, the amount you can invest may be restricted by the investment manager's offshore allowance.	Investors are allowed to take R11m offshore annually. If your money is already offshore, there are no restrictions on the amount you can invest.	Investors are allowed to take R11m offshore annually. If your money is already offshore, there are no restrictions on the amount you can invest. However, if you invest more than 120% of the higher of either of the previous two years' total investments, your restriction period will be extended by five years (if your investment is already in a restriction period) or a new one will start. You have the option to start a new plan if you do not wish to extend the restriction period.
Capital gains tax (CGT)	A capital gain or loss calculated in rands will be triggered when you sell units, i.e. you pay CGT on all gains on withdrawal, regardless of whether the gain is as a result of capital growth or rand currency movement. The effective tax rate for an individual is between 0% and 18% (i.e. the capital gains inclusion rate is 40%, which is then taxed at your marginal tax rate according to the income tax table).	A capital gain or loss calculated in fund currency and translated to rands at the spot rate will be triggered when you sell units, i.e. as an individual, you pay CGT on withdrawal, but this does not include any gain realised as a result of rand currency movement while you are invested. The effective tax rate for an individual is between 0% and 18% (i.e. the capital gains inclusion rate is 40%, which is then taxed at your marginal tax rate according to the income tax table).	A capital gain or loss calculated in US dollars will be triggered when you sell units, i.e. you pay CGT on all gains on withdrawal, regardless of whether the gain is as a result of capital growth or foreign currency movement against the US dollar. If there is a withdrawal, all accrued CGT up to the point of the withdrawal will be deducted as part of the withdrawal. If there is no withdrawal during the tax year, CGT on realised gains triggered by switches or the payment of fees will be deducted annually. Capital losses at year-end are carried forward. The effective tax rate for an individual is 12% (i.e. the capital gains inclusion rate is 40%, which is taxed at 30%).
Tax administration	You are responsible for tax reporting and payment.	You are responsible for tax reporting and payment.	Allan Gray Life Limited (Guernsey branch) takes care of the tax administration (calculation, collection and payment to SARS) on your behalf.
What happens on your death?	The investment can be dealt with by a local or foreign executor according to your local or foreign will – if a valid letter of executorship or the equivalent is provided.	The investment can be dealt with by a local or foreign executor according to your local or foreign will – if a valid letter of executorship or the equivalent is provided.	You can appoint beneficiaries to receive the money or to take ownership of the investment when you pass away. If you appoint beneficiaries, there is no need for an executor and there are no executor fees. The beneficiaries will also not need to wait for the estate to be wound up to receive the benefit.*

*See our "Offshore Endowment terms and conditions" for more detailed information.

How much can you invest offshore using your own offshore allowance?

Over the years, the SARB has relaxed exchange controls, removing constraints on individuals taking money offshore, and making it considerably easier for individuals to transfer money abroad.

A South African citizen with a valid green barcoded ID or smart identification card has an allowance of R1m annually, which can be invested offshore without tax clearance from SARS. This is called the single discretionary allowance. You can use this allowance for any legal purpose offshore, including investing. This allowance includes all foreign expenditure, such as monetary gifts, loans, foreign travel expenses, maintenance and offshore credit.

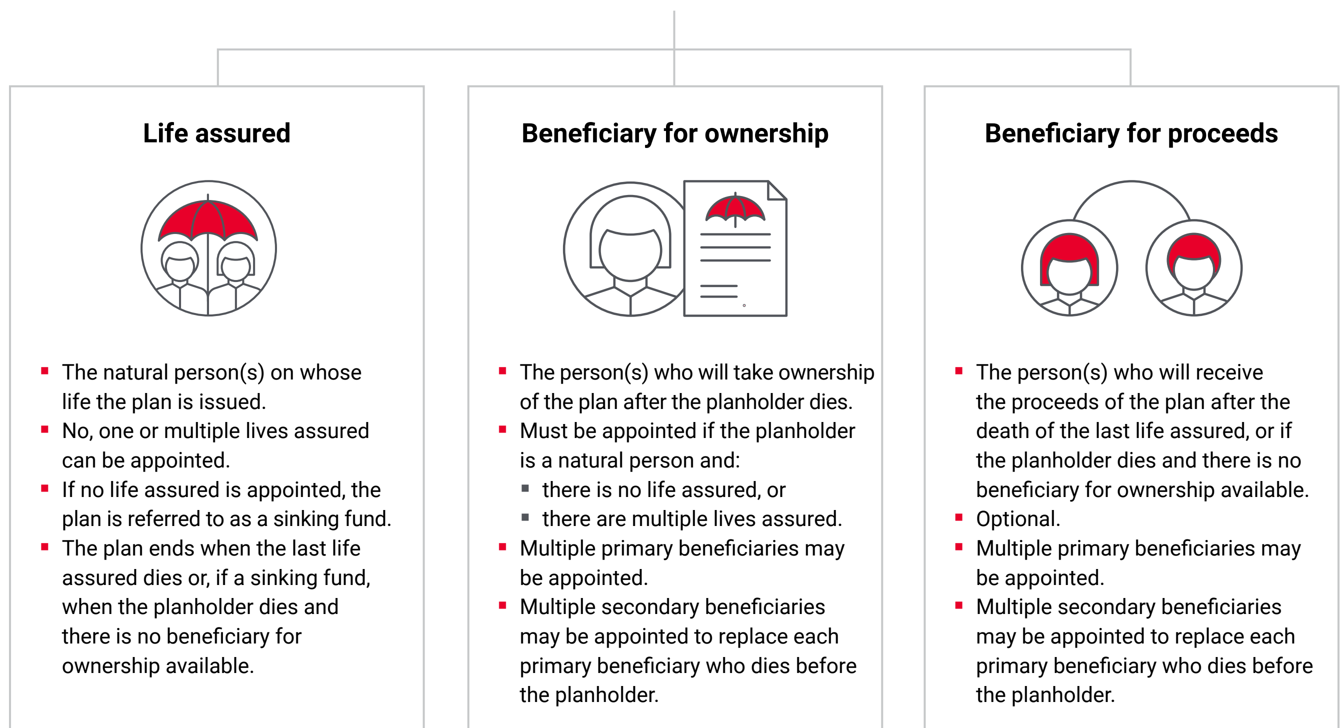
If you have more than R1m to invest, and your affairs are in order with SARS, you can apply to SARS to invest an additional R10m offshore, over and above your single discretionary allowance. SARS will require documents demonstrating the source of capital to be invested, statements of assets and liabilities and bank statements if you want to avail of this allowance.

Image 1: The Allan Gray Offshore Endowment – options for ensuring continuity of the plan

Understanding the role players

Planholder

The legal owner of the plan and all the policies underlying the plan



Julie joined Allan Gray in 1992 as a performance analyst. She is currently a senior manager in the Product Development team and a director of Allan Gray Life. Previously, she led the Fund Operations team in the Institutional business. Julie holds a Bachelor of Science (Honours) degree in Mathematical Statistics from the University of Cape Town.

THE TWO-POT SYSTEM SIMPLIFIED

Jaya Leibowitz

The two-pot system has the potential to create good outcomes for retirement fund members …

South Africa's retirement savings system is changing, with the implementation date of the new system currently set for 1 September 2024 – although go-live hinges on the regulations being finalised and signed by the president, and various players in the industry being ready. All current and future retirement fund members will be impacted by the change, so it is important to familiarise yourself with the new structure. Jaya Leibowitz aims to simplify and explain the intention and mechanics of the so-called two-pot system and quiet any confusion.

The intention of the new two-pot retirement savings system in South Africa is to promote the preservation of retirement fund investments until members retire, while also allowing them access to a portion of their accumulated savings during their working years. From the date of the implementation of this system, all contributions to provident, pension and retirement annuity funds, including the Allan Gray Retirement Annuity Fund and Allan Gray Umbrella Retirement Fund, will be split into two components: One-third of the contributions will be credited to a savings component, which members can access before retirement in the event of an emergency, and the remaining two-thirds will be credited to a retirement component, which will be inaccessible before a member retires, and at retirement must be used to purchase a pension-providing product. The features of each component are shown in **Image 1**.

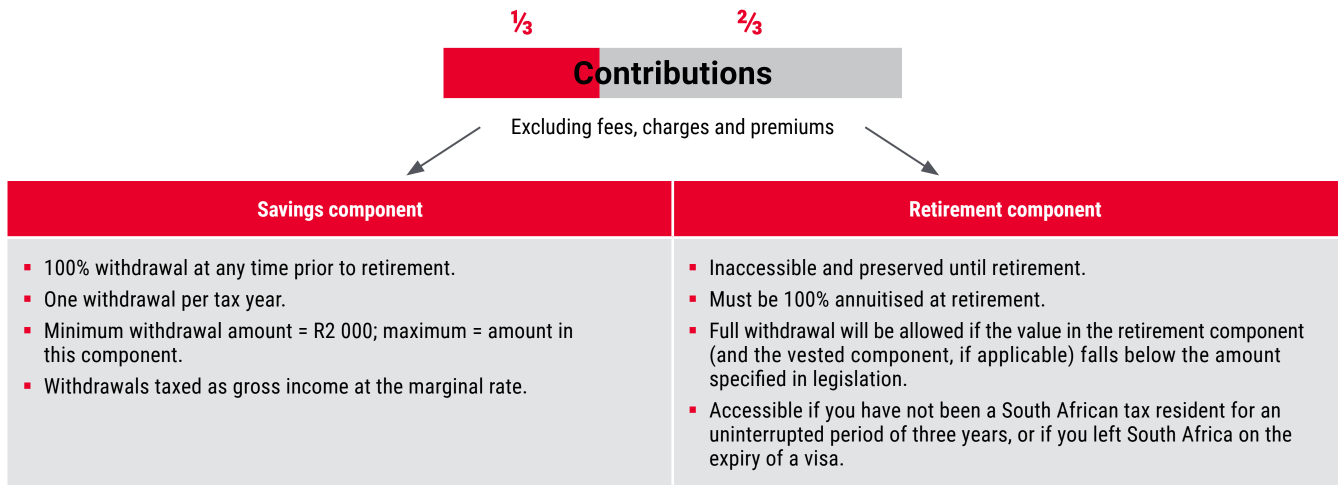
What complicates matters is that government needs to cater to the rules that are currently in place and manage the transition to a world where the entire retirement fund system works in the way described.

The transition and vested rights

Vested rights refer to the rights that you already have in relation to your retirement investments, which the new legislation protects. All your retirement investments immediately prior to the two-pot system start date will form part of your vested component, and all the rules that currently apply[1]

[1] For information about what those rules are, see the "Conditions of membership" or "Member information booklet" of your fund, available via the "Transactions, forms and documents" page of our website.

Image 1: Allocation of contributions on and after the implementation date of the two-pot system



to your retirement investments (including those relating to accessibility and tax) will continue to apply to this component.

If you are a member of a provident fund, and you were a member of that fund and were 55 or older on 1 March 2021, you will be excluded from the two-pot system, unless you decide that you want to participate. Exclusion means that nothing will change for you and all the rules currently in place for your retirement fund account will continue to apply. If you choose to participate in the two-pot system, from the month after you made your election, your contributions will be allocated to the savings and retirement components, while the value in your account immediately before your election will remain in your vested component.

Some access at implementation

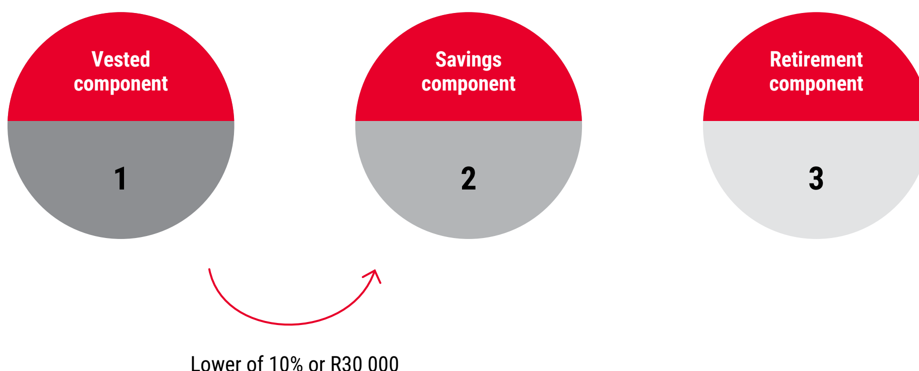
Members of retirement funds will be able to withdraw a small portion of their existing savings immediately once the two-pot system is implemented. This is commonly referred to as "seed capital" and is reflected in **Image 2**.

There are a few things about this withdrawal benefit that are important to bear in mind:

1. Value limit

The seed capital will be limited to 10% of the amount in your retirement fund account on 31 August 2024, subject to a maximum amount of R30 000. For you to have access to a withdrawal benefit of R30 000, the value of your retirement fund account on 31 August 2024[2] needs to be at least R300 000.

Image 2: Seeding the savings component



[2] Or on any other date the day before the system is implemented, if not implemented on 1 September.

Below are some examples of how much cash will be accessible depending on the value of your retirement fund account:

R30 000 in your account: R3 000 will be accessible
R150 000 in your account: R15 000 will be accessible
R900 000 in your account: R30 000 will be accessible

2. Tax

Any amount accessed in cash as a savings withdrawal benefit will be taxed at your marginal income tax rate, which will depend on your taxable income for the tax year, including the withdrawal amount. The retirement fund or its administrator will apply for a tax directive from the South African Revenue Service (SARS) and deduct the tax before paying you your benefit.

While the savings component allows you access, it is prudent to guard against thinking of it as a discretionary savings account.

3. Timing

The current version of the legislation permits retirement funds to allocate the seed capital to the savings component (to making it accessible as a withdrawal benefit) *on or after* 1 September 2024. If a retirement fund's rules have not yet been approved by the Financial Sector Conduct Authority, or the fund's systems cannot cater for the seed capital on 1 September 2024, withdrawals may be delayed.

SARS is in the process of designing its systems and processes so that it can issue directives setting out the amount of tax to be deducted from the savings withdrawal benefit. SARS will require your specific information to issue a directive. If certain information has not been provided to the retirement fund, the withdrawal will not be processed.

The good and the not-so-good

The two-pot system has the potential to create good outcomes for retirement fund members, helping those who desperately need some access, while ensuring greater levels of preservation due to the inaccessibility of the retirement component.

Having some access to your retirement investment without having to resign from employment may assist you in times of need. However, it is important to remember that the intended purpose of your retirement investment is to provide you with an income in retirement. While the savings component allows you access, it is prudent to guard against thinking of it as a discretionary savings account. Each time you access a savings withdrawal benefit, the amount available to provide you with an income in retirement will be reduced. In addition, that savings withdrawal benefit will be taxed and has the potential to push you into a higher tax bracket, depending on your income and the value of the withdrawal.

It is critical to understand that go-live of the system hinges on many factors, including the regulations being finalised and signed by the president, the Financial Sector Conduct Authority being able to timeously approve fund rule changes, SARS being able to issue tax directives for savings withdrawal benefits, and providers' readiness. Withdrawals from the savings component will not be possible without the above being in place.

For more information about the two-pot system, see "The two-pot system – what we know for now", and "The two-pot system and your savings withdrawal benefit" to learn more about the accessibility of your retirement savings, both available via the ""Latest insights" page of our website.

Jaya joined Allan Gray in 2016 and is the manager of the Retail Legal team. She holds a Bachelor of Arts and a Bachelor of Laws degree, both from the University of the Witwatersrand, as well as a Postgraduate Diploma in Financial Planning and a Master of Business Administration from the University of Stellenbosch Business School. Jaya was admitted as an attorney of the High Court in 2014.

THE POWER OF PERSPECTIVE IN AN ELECTION YEAR

Marise Bester

We stay focused … ignore the noise, fear and popular sentiment, and remain disciplined in our pursuit of higher returns with lower risk of loss.

Many local investors are understandably worried about what the future holds and how the election may affect their wealth. Keeping perspective throughout your financial journey can help you navigate market volatility. Marise Bester draws on history and behavioural principles to help us get some perspective.

Perspective is relative and shapes how we see and understand the world. The closer you are to an object, the larger it seems. In the investment context, the uncertainty about an event is greatly enhanced when you are in it, but there are ways to broaden one's perspective to get a clearer view of the picture.

Gaining perspective from history

The uncertainty about the upcoming election, the first since 1994 of which the results are unpredictable, is unsettling, but also positive, as it is a true reflection of a healthy democracy. Given the wide range of political views, it is difficult to call a positive or negative outcome. We are not in the business of predictions. However, what we can do is consider a range of market-positive and market-negative outcomes and position our portfolios for different scenarios.

We can also gain some perspective by looking at other periods of uncertainty, and resultant market and fund performance. While past performance is not necessarily indicative of future performance, historical trends can provide perspective and help us navigate turbulent times by remaining focused on the bigger picture.

Graph 1 on page 32 reveals that, over the 30-year period coinciding with South Africa's democracy, the FTSE/JSE All Share Index (ALSI) has experienced a drawdown every year, as shown by the grey bars in the graph illustrating maximum market drawdowns per calendar year. Markets are cyclical, and short-term volatility, which is an inherent feature of achieving real returns, also leads to fluctuating returns with no clear pattern, even during repeat events such as election years – marked in bold on the graph.

As the red bars show, there have been far more years with positive returns over this 30-year period. Indeed, only five calendar years in this period delivered a negative return, and none of these coincided with an election year. New York Times bestselling author Morgan Housel captures this sentiment well,

noting that the biggest economic risk is the one no one talks about, because if no one talks about it, no one is prepared for it. And if you are not prepared, the damage is amplified when it hits you.

Markets and sentiment can be temporarily affected by various external dynamics, including macroeconomic and political factors and unpredictable events. This is true of 2024. We are not in a typical election cycle; the outcome of the May election could drastically change many policies that could affect companies in different ways. But the same was true in 1994, and the ALSI achieved a return of 23% that year. Despite a number of market shocks and rebounds, if you had invested for the long run, you would have compounded your wealth by 13% per annum over the last 30 years.

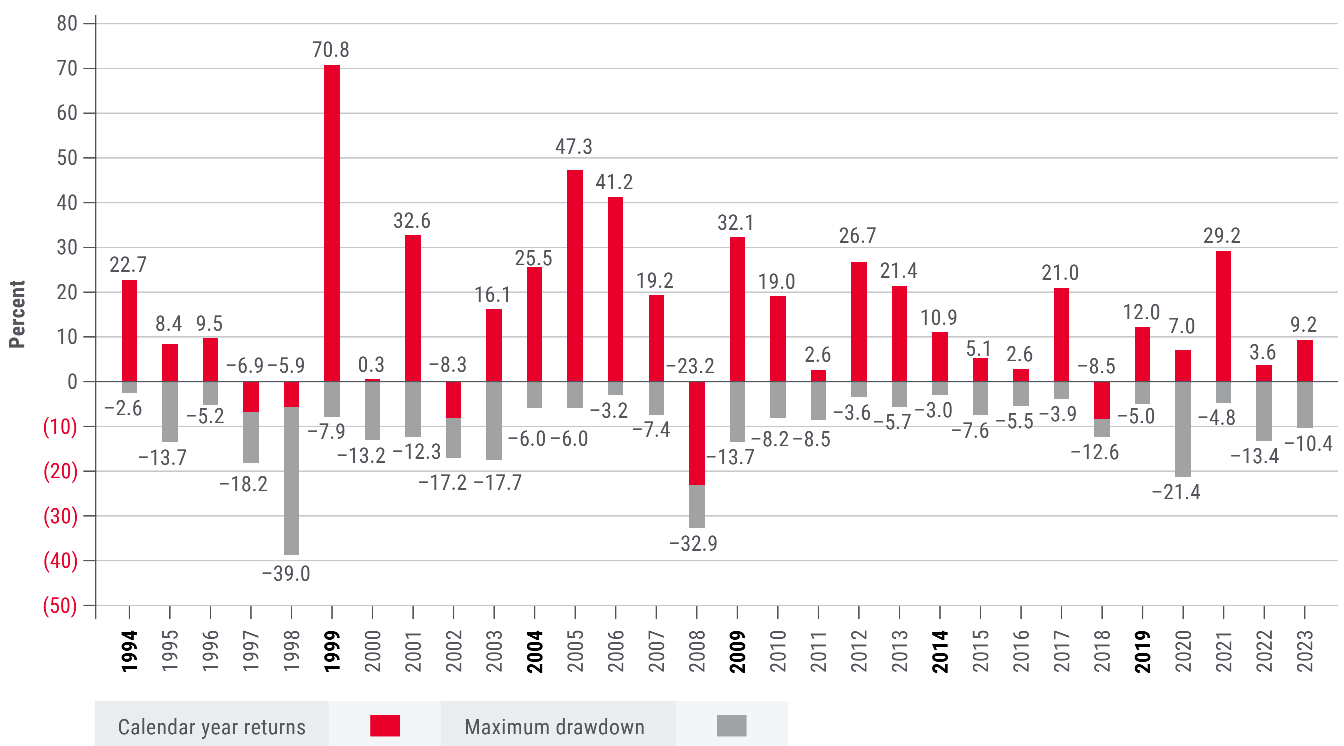
This serves as a reminder that, while short-term fluctuations are likely to occur around the election, history suggests that the long-term trajectory of the market is driven by broader economic factors and company fundamentals. History has also taught us that investors who have endured the tough periods and adopted a longer-term view at the most uncomfortable of times, tend to be rewarded for their patience. Of course, simply focusing on the long term is not without risks; sometimes long term is longer than the time we have. And the period we need to endure may see changes and reforms, and more pain, before there is recovery. It is often darkest before dawn.

Perspective leads to clarity of focus

Investors with perspective tend to focus more on what they can control than on what they cannot. As shown in Graph 1, we cannot control, or predict, when the market will move up and down, so trying to perfectly time an entry and exit from the market is a near impossible task. Similarly, we cannot control the outcome of an election or its impact on the markets or our investments. What we can control is how we react both in the run-up to and after the election – although keeping emotions in check is easier said than done. This has been illustrated over time by investors switching out of equities into cash during times of uncertainty, often locking in losses.

Knowing that emotions can get the best of us, it may make most sense to outsource asset allocation decisions to a professional investment manager by investing in a diversified, multi-asset class fund, such as the Allan Gray Balanced Fund. Our experienced investment professionals weigh up the long-term opportunities of different assets and build the portfolio for a range of possible outcomes, rather than a single forecast or expectation.

Graph 1: JSE All Share Index calendar year returns and maximum drawdowns



Source: IRESS

It is not to say that our Balanced Fund returns will not be volatile in the wake of the election, but our portfolio managers carefully consider multiple variables to give your investment the best chance of performing in multiple scenarios. The Balanced Fund has exposure to offshore assets, locally listed shares that are international businesses, attractively valued domestic businesses, high-yielding cash and bonds, as well as precious metals. The different assets held give the Balanced Fund the opportunity to earn returns from different sources, in different scenarios.

It is important that you know your risk appetite and are honest at the outset about how much volatility you will be able to tolerate.

The Balanced Fund is managed to protect your investment in down markets, while still delivering returns when markets are performing. As shown in **Graph 2**, since the Balanced Fund's inception in October 1999, it has delivered reasonable returns during positive markets (largely in line with its peer group benchmark) and experienced smaller negative returns on average when the market has fallen. The red bars reflect the average monthly performance of our Balanced Fund, and the grey bars the performance of our peer group. Consistently implementing our investment approach, which aims to limit the impact of losses while focusing on generating good long-term returns, has allowed us to translate the theoretical benefits of capital protection into reality.

Perspective shapes a resilient investment strategy

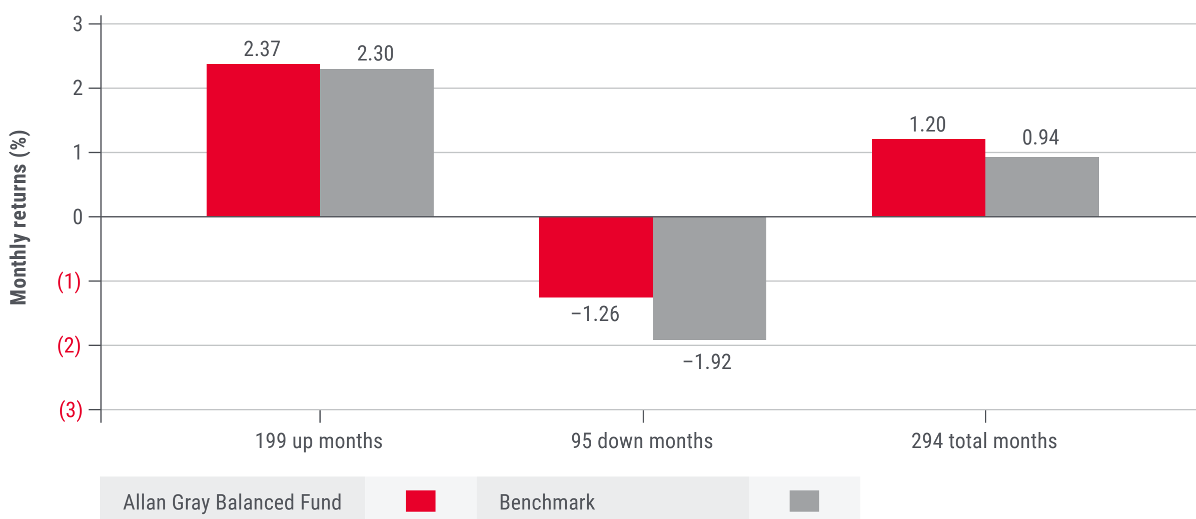
Perspective also brings a deeper understanding of challenges and their underlying causes, which can build resilience and prevent knee-jerk behaviour. Resilience is all about building capacity to withstand difficulties.

In an investment context, adopting a resilient investment strategy includes establishing your investment plan and goals, perhaps with the help of an independent financial adviser, being clear about what you expect from your chosen investment manager, and aligning your expectations with your chosen funds' stated objectives, return expectations, time horizon and risk positioning. It is important that you know your risk appetite and are honest at the outset about how much volatility you will be able to tolerate.

When selecting an investment manager, look for a track record of performance that indicates that the manager has consistently applied their philosophy and process through various cycles.

Our investment team continues to apply the same philosophy we have for the last 50 years in managing your hard-earned savings. We gradually tweak and improve our

Graph 2: Monthly returns in bull and bear markets, October 1999 to March 2024



Source: Allan Gray research. Data as at 31 March 2024.

investment process, which ultimately leads to a lasting competitive advantage. While different opportunities have presented themselves to us in each environment over the past 50 years, our approach remains the same: We stay focused, while being cognisant of the times in which we must invest, ignore the noise, fear and popular sentiment, and remain disciplined in our pursuit of higher returns with lower risk of loss.

As investors, we are best served by taking a bird's-eye view and focusing on the long-term fundamentals of investing ...

But what of 2024?

In our view, the year 2024 has above-average political risk. Although we have no unique insights and cannot predict the outcome of national elections or expected returns, we can focus on the factors that are within our control: buying out-of-favour companies at below fair value and selling them when they reach our estimate of true worth. Rather than hedging our bets on one or two scenarios prevailing, we try to understand what is discounted in current asset prices.

While many interpret this as simply buying low and selling high, there are important nuances, the most important of which is to understand whether a company is temporarily out of favour with the market or whether it is facing insurmountable challenges, such as the huge structural changes in business models brought about by a shift in the political landscape.

Benjamin Graham, often referred to as the father of value investing, shared the following words of wisdom that fit well with what we are currently experiencing: "In the short run, the market is a voting machine, but in the long run, it is a weighing machine."

As investors, we are best served by taking a bird's-eye view and focusing on the long-term fundamentals of investing rather than making investment decisions based on short-term uncertainty.

Marise joined Allan Gray in 2011 as a client service consultant in Retail Client Services and is currently a senior investment specialist in the Retail Distribution team. She holds a Bachelor of Commerce degree in Law and an Honours degree in Economics, both from Stellenbosch University, as well as a Master of Business Administration from the University of Reading's Henley Business School. Marise is also a CFP® professional.

NOTES

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

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign[2]	Total	SA	Foreign[2]
Net equities	65.9	40.2	25.7	25.3	13.2	12.1
Hedged equities	8.3	1.8	6.5	20.0	9.0	11.0
Property	0.9	0.5	0.4	1.0	0.6	0.4
Commodity-linked	3.1	2.5	0.7	2.3	1.7	0.6
Bonds	13.6	8.5	5.1	31.6	24.7	6.9
Money market and bank deposits[3]	8.1	10.6	−2.4	19.8	21.9	−2.1
Total	**100.0**	**64.0**	**36.0[4]**	**100.0**	**71.1**	**28.9[4]**

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] This includes African ex-SA assets.
[3] Including currency hedges.
[4] 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 March 2024

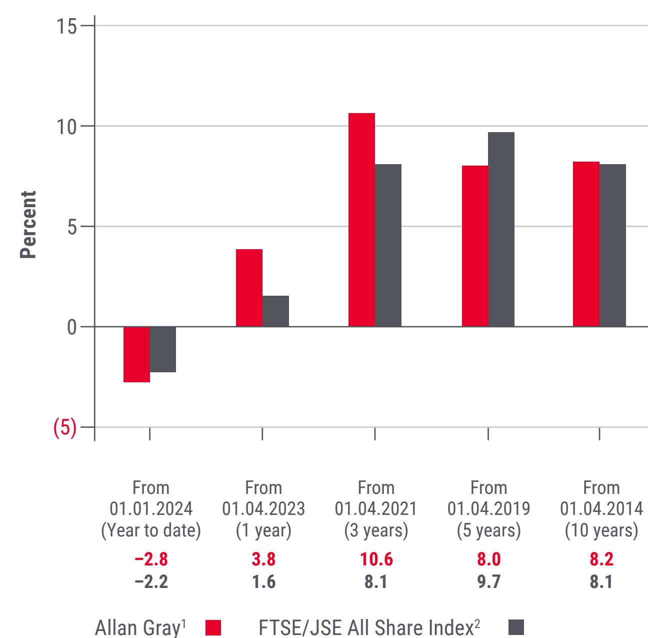
Security	Market value (R million)	% of Fund
South Africa	**24 776**	**56.0**
Equities	**23 227**	**52.5**
Resources	**5 322**	**12.0**
Glencore	1 367	3.1
Gold Fields	657	1.5
Sappi	654	1.5
Sasol	634	1.4
AngloGold Ashanti	498	1.1
Positions individually less than 1% of the Fund	1 511	3.4
Financials	**6 483**	**14.7**
Standard Bank	1 249	2.8
Nedbank	1 110	2.5
Remgro	727	1.6
FirstRand	647	1.5
Positions individually less than 1% of the Fund	2 750	6.2
Industrials	**11 422**	**25.8**
British American Tobacco	2 063	4.7
AB InBev	1 858	4.2
Naspers & Prosus	1 754	4.0
Mondi	1 078	2.4
Woolworths	1 014	2.3
MultiChoice	459	1.0
Tiger Brands	457	1.0
Positions individually less than 1% of the Fund	2 740	6.2
Commodity-linked securities	**254**	**0.6**
Positions individually less than 1% of the Fund	254	0.6
Bonds	**11**	**0.0**
Positions individually less than 1% of the Fund	11	0.0
Cash	**1 284**	**2.9**
Foreign	**19 439**	**44.0**
Equities	**1 702**	**3.8**
Walt Disney Company	783	1.8
Booking Holdings Inc	602	1.4
Positions individually less than 1% of the Fund	316	0.7
Equity funds	**17 660**	**39.9**
Orbis Global Equity Fund	7 653	17.3
Orbis SICAV International Equity Fund	5 123	11.6
Allan Gray Frontier Markets Equity Fund	2 604	5.9
Orbis SICAV Japan Equity (Yen) Fund	1 290	2.9
Allan Gray Africa ex-SA Equity Fund	886	2.0
Orbis SICAV Emerging Markets Equity Fund	104	0.2
Cash	**77**	**0.2**
Totals	**44 215**	**100.0**

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

Investment track record – share returns

Allan Gray 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	9.2	−0.6
2024 (to 31.03)	**−2.8**	**−2.2**	**−0.6**

Returns annualised to 31.03.2024



An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R335.6 million by 31 March 2024. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R15.2 million. Returns are before fees.

[1] Allan Gray commenced managing pension funds on 1 April 1977, with performance measurement starting on 1 January 1978. The returns prior to 1 January 1978 are of individuals managed by Allan Gray, and these returns exclude income. Returns are before fees.

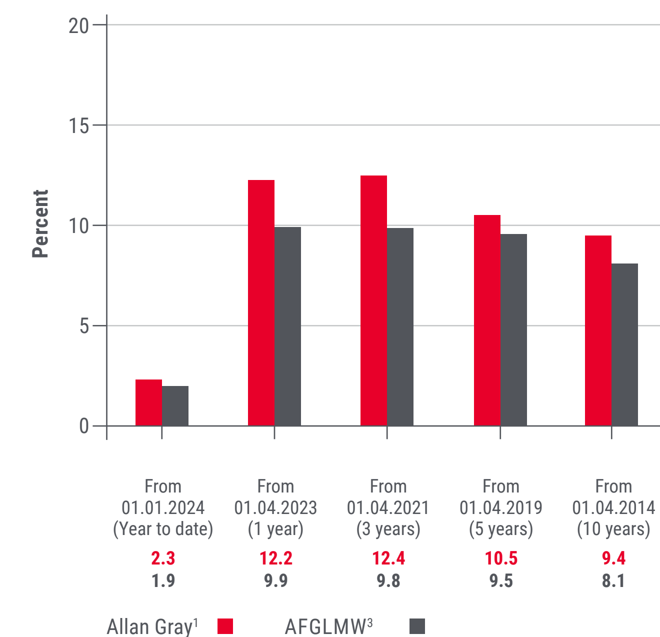
[2] Prior to July 1995, an internally derived JSE All Share benchmark was used.

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

Investment track record – balanced returns

Allan Gray global mandate total returns vs. Alexander Forbes Global Large Manager Watch before fees			
Period	Allan Gray[1]	AFGLMW[3]	Out-/Under-performance
1974	–	–	–
1975	–	–	–
1976	–	–	–
1977	–	–	–
1978	34.5	28.0	6.5
1979	40.4	35.7	4.7
1980	36.2	15.4	20.8
1981	15.7	9.5	6.2
1982	25.3	26.2	−0.9
1983	24.1	10.6	13.5
1984	9.9	6.3	3.6
1985	38.2	28.4	9.8
1986	40.3	39.9	0.4
1987	11.9	6.6	5.3
1988	22.7	19.4	3.3
1989	39.2	38.2	1.0
1990	11.6	8.0	3.6
1991	22.8	28.3	−5.5
1992	1.2	7.6	−6.4
1993	41.9	34.3	7.6
1994	27.5	18.8	8.7
1995	18.2	16.9	1.3
1996	13.5	10.3	3.2
1997	−1.8	9.5	−11.3
1998	6.9	−1.0	7.9
1999	80.0	46.8	33.1
2000	21.7	7.6	14.1
2001	44.0	23.5	20.5
2002	13.4	−3.6	17.1
2003	21.5	17.8	3.7
2004	21.8	28.1	−6.3
2005	40.0	31.9	8.1
2006	35.6	31.7	3.9
2007	14.5	15.1	−0.6
2008	−1.1	−12.3	11.2
2009	15.6	20.3	−4.7
2010	11.7	14.5	−2.8
2011	12.6	8.8	3.8
2012	15.1	20.0	−4.9
2013	25.0	23.3	1.7
2014	10.3	10.3	0.0
2015	12.8	6.9	5.9
2016	7.5	3.7	3.8
2017	11.9	11.5	0.4
2018	−1.4	−2.1	0.7
2019	6.5	10.9	−4.4
2020	5.3	6.3	−1.0
2021	20.4	21.9	−1.5
2022	9.9	1.2	8.7
2023	14.3	13.1	1.2
2024 (to 31.03)	**2.3**	**1.9**	**0.4**

Returns annualised to 31.03.2024



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R40.6 million by 31 March 2024. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R8.4 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 March 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 included from November 2008 to November 2011.

Allan Gray South African unit trusts annualised performance (rand) in percentage per annum to 31 March 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)	**44.2**	**01.10.1998**	**19.1**	**8.0**	**9.5**	**12.1**	**12.4**	**125.8**	**−24.3**
Average of South African - Equity - General category (excl. Allan Gray funds)[1]			13.8	6.2	8.3	7.8	2.8	73.0	−37.6
Allan Gray SA Equity Fund (AGDE)	**3.5**	**13.03.2015**	**6.1**	**–**	**7.1**	**9.7**	**3.7**	**57.3**	**−32.0**
FTSE/JSE All Share Index, including income			7.6	–	9.7	8.1	1.6	54.0	−18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE)	**32.0**	**01.04.2005**	**14.8**	**13.5**	**16.6**	**15.0**	**36.8**	**78.2**	**−29.7**
MSCI World Index, including income, after withholding taxes[2]			15.1	16.2	18.5	18.0	33.9	54.2	−32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF)	**186.6**	**01.10.1999**	**14.9**	**8.3**	**9.4**	**11.1**	**10.8**	**46.1**	**−14.2**
Allan Gray Tax-Free Balanced Fund (AGTB)	**2.9**	**01.02.2016**	**8.3**	**–**	**9.4**	**11.1**	**11.0**	**31.7**	**−13.4**
Average of South African - Multi Asset - High Equity category (excl. Allan Gray funds)[3]			11.3/7.3	7.3	8.7	9.1	9.6	41.9/30.7	−16.7/−10.3
Allan Gray-Orbis Global Balanced Feeder Fund (AGGF)[4]	**18.6**	**03.02.2004**	**11.5**	**11.6**	**14.4**	**16.5**	**23.8**	**55.6**	**−13.7**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index[4]			11.5	12.0	12.5	11.6	21.7	38.8	−17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF)	**52.3**	**01.07.2000**	**11.2**	**8.1**	**8.0**	**9.6**	**9.8**	**23.3**	**−7.4**
Daily interest rate of FirstRand Bank Limited plus 2%			8.5	7.3	6.8	7.1	9.6	14.6	4.6
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF)	**0.8**	**01.10.2002**	**6.8**	**5.7**	**3.0**	**6.2**	**8.1**	**18.1**	**−8.2**
Daily interest rate of FirstRand Bank Limited			6.0	5.1	4.7	5.0	7.5	11.9	2.5
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO)	**1.2**	**02.03.2010**	**8.0**	**6.6**	**8.6**	**14.7**	**11.4**	**39.6**	**−12.4**
Average of US$ bank deposits and euro bank deposits			6.6	5.7	6.7	9.5	11.5	35.6	−19.1
No equity exposure									
Allan Gray Bond Fund (AGBD)	**7.6**	**01.10.2004**	**8.6**	**8.0**	**6.8**	**7.2**	**5.0**	**18.0**	**−2.6**
FTSE/JSE All Bond Index (total return)			8.3	7.7	7.0	7.4	4.2	21.2	−5.6
Allan Gray Money Market Fund (AGMF)	**29.2**	**01.07.2001**	**7.7**	**6.9**	**6.5**	**6.5**	**8.8**	**12.8**	**4.3**
Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index[5]			7.5	6.5	6.0	6.1	8.4	13.3	3.8

[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. 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.
[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 March 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	1.08%	0.56%	0.04%	0.18%	1.86%	0.08%	1.94%
Allan Gray SA Equity Fund	1.00%	−0.29%	0.01%	0.11%	0.83%	0.10%	0.93%
Allan Gray Balanced Fund	1.02%	0.34%	0.03%	0.15%	1.54%	0.06%	1.60%
Allan Gray Tax-Free Balanced Fund	1.30%	N/A	0.04%	0.14%	1.48%	0.08%	1.56%
Allan Gray Stable Fund	1.01%	0.40%	0.03%	0.17%	1.61%	0.04%	1.65%
Allan Gray Optimal Fund	1.00%	0.00%	0.03%	0.15%	1.18%	0.13%	1.31%
Allan Gray Bond Fund	0.44%	0.00%	0.01%	0.07%	0.52%	0.00%	0.52%
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	1.38%	−0.16%	0.05%	0.00%	1.27%	0.10%	1.37%
Allan Gray-Orbis Global Balanced Feeder Fund	1.29%	0.64%	0.06%	0.00%	1.99%	0.08%	2.07%
Allan Gray-Orbis Global Optimal Fund of Funds	1.00%	−0.01%	0.08%	0.00%	1.07%	0.12%	1.19%

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 March 2024 (net of fees)

	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return[6]	Lowest annual return[6]
High net equity exposure								
Orbis Global Equity Fund	**01.01.1990**	**17.8**	**13.7**	**16.8**	**15.4**	**36.9**	**87.6**	**−47.5**
MSCI World Index, including income, after withholding taxes[7]		14.3	16.3	18.5	18.0	33.8	54.2	−46.2
Orbis SICAV Japan Equity (Yen) Fund	**01.01.1998**	**14.6**	**14.0**	**15.6**	**16.1**	**38.9**	**94.9**	**−40.1**
Tokyo Stock Price Index, including income, after withholding taxes		10.0	13.3	13.2	12.3	32.5	91.0	−46.4
Orbis SICAV Emerging Markets Equity Fund (US$)[8]	**01.01.2006**	**13.1**	**9.1**	**9.9**	**8.1**	**16.4**	**58.6**	**−34.2**
MSCI Emerging Markets Index, including income, after withholding taxes[8]		12.3	10.2	7.9	3.3	15.6	60.1	−39.7
Allan Gray Africa ex-SA Equity Fund (C class)	**01.01.2012**	**11.5**	**5.8**	**8.2**	**10.8**	**5.7**	**65.6**	**−24.3**
MSCI Emerging Frontier Markets Africa ex-SA Index[9]		7.3	4.1	10.2	8.3	−8.2	42.2	−29.4
Allan Gray Australia Equity Fund	**04.05.2006**	**14.3**	**11.7**	**11.9**	**13.7**	**14.6**	**99.5**	**−55.4**
S&P/ASX 300 Accumulation Index		12.8	10.9	13.4	12.9	19.1	55.6	−45.1
Allan Gray Frontier Markets Equity Fund (C class)	**03.04.2017**	**12.6**	**–**	**14.0**	**20.0**	**29.3**	**45.2**	**−11.0**
MSCI Frontier Emerging Markets Index		6.9	–	6.0	11.3	23.2	23.2	−12.8
Medium net equity exposure								
Orbis SICAV Global Balanced Fund	**01.01.2013**	**15.2**	**12.2**	**14.8**	**17.1**	**23.5**	**54.4**	**−9.8**
60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index		14.1	11.9	12.4	11.6	21.5	40.2	−12.1
Allan Gray Australia Balanced Fund	**01.03.2017**	**10.9**	**–**	**12.0**	**12.5**	**15.4**	**29.1**	**−5.3**
The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan Global Government Bond Index expressed in AUD (16%).		10.6	–	10.8	9.6	16.3	25.1	−8.3
Low net equity exposure								
Allan Gray Australia Stable Fund	**01.07.2011**	**10.3**	**7.8**	**8.3**	**7.8**	**8.9**	**32.7**	**−8.9**
Reserve Bank of Australia cash rate		6.5	4.1	5.4	5.4	8.4	28.8	−15.5
Very low net equity exposure								
Orbis Optimal SA Fund (US$)	**01.01.2005**	**9.8**	**8.3**	**10.2**	**17.2**	**12.8**	**48.6**	**−15.7**
US$ Bank deposits		8.4	7.8	7.9	11.8	12.8	57.9	−25.6
Orbis Optimal SA Fund (Euro)	**01.01.2005**	**7.6**	**4.5**	**7.6**	**12.3**	**10.4**	**44.1**	**−19.3**
Euro Bank deposits		6.3	3.7	5.4	7.1	10.3	40.2	−20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)[10]	**27.03.2013**	**13.5**	**13.2**	**11.1**	**13.3**	**31.3**	**31.4**	**−7.4**
FTSE 3-Month US T Bill + 4% Index[10]		8.8	9.1	12.7	16.0	17.0	36.5	−12.3

Performance as calculated by Allan Gray

[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.

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

[8] 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.

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

[10] 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.

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Investors must make sure that they understand the nature

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

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

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

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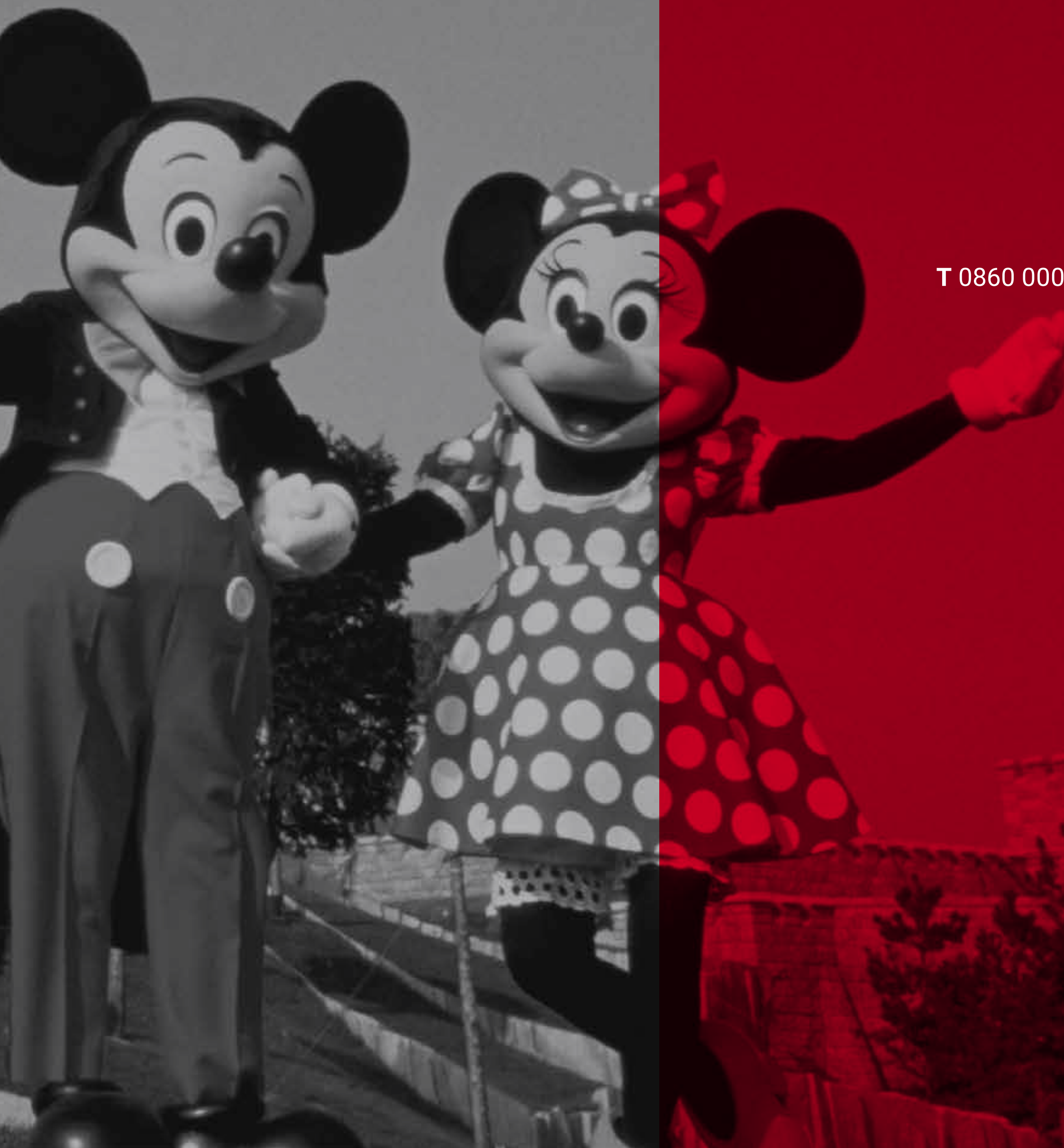

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