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COMMENTS FROM THE CHIEF OPERATING OFFICER

Mahesh Cooper



... change is ... afoot in the retirement savings arena ... but the most important takeaway is that for most members, no action is required.

Much has changed over this quarter. We have a government of national unity, and there is an air of cautious optimism prevailing. We are not the only country that has voted for change or is experiencing political change. As the global political landscape shifts, it has knock-on impacts on the economic and investment environments.

Big changes in the retirement savings space

Back home, change is also afoot in the retirement savings arena. The new so-called two-pot system has recently been signed into law and will be implemented on 1 September. Many of you are likely to have retirement investments either with Allan Gray, other providers or through your employers. There is a lot of information to take in, but the most important takeaway is that for most members, *no action is required*.

In summary, the new system aims to improve retirement outcomes by focusing on preservation, while offering a measure of flexibility by providing some access in case of severe financial stress.

What does this mean? From 1 September 2024, your contributions to your retirement funds will be split between different components: Two-thirds will go to your retirement component, which must be preserved until you retire, and one-third will go to a savings component, which will be available for withdrawal once annually. Your existing assets will go to a “vested” component, and existing fund rules will continue to apply. Your savings component will be “seeded” to give you an opening balance, using 10% of your vested component, up to a maximum of R30 000.

Please visit the “Two-pot retirement system” page on our website to familiarise yourself with the detail of the new system. You can also read Lydia Fourie’s FAQ article in this Quarterly Commentary, which covers some of the questions we have been fielding from clients to date and may help to answer some of yours. As Shaun Duddy explains in his piece, the new system should not change how you think about or invest your retirement savings, or have any bearing on your long-term retirement savings goals. It is advisable to view the components of your retirement account holistically and remain invested for the

long term to improve the likelihood of having sufficient post-retirement income.

While access to the savings component will provide welcome relief to those in desperate need, it is important to guard against using these funds unnecessarily: Depleting your savings component ultimately equates to using up one-third of your retirement investment. Not electing to withdraw, but rather choosing to stay the course for the long term will result in better retirement outcomes.

We are gearing up for the changes we need to make to our systems, documents and reporting and will be able to service anyone who needs to access a portion of their retirement savings as per the new laws. However, having the option to access a portion of your retirement funds does not mean you should. If anything, it drives home the importance of building up a separate emergency savings fund, intended to be drawn from in the case of emergencies. In the Investing Tutorial this quarter, Tebogo Marite explains how to go about setting up an emergency fund, and how this provides an important buffer against crises – and acts as insurance for your long-term investments.

Investment matters

Turning back to investment matters, despite the moves in a positive direction, South Africa still faces significant social and economic headwinds. We have deliberately constructed diversified portfolios for a wide range of outcomes and continue to use our proprietary research to identify undervalued companies that present long-term opportunities. One area of the market that has captured our attention is “SA Inc” – local domestic shares that earn a material portion of their profits in South Africa. Duncan Artus discusses why we are finding value here, while being conscious of tail risk.

On the subject of risk, but focusing offshore: We are pleased to introduce the Orbis SICAV Global Cautious Fund from our offshore partner, Orbis. We believe this low-equity, global, multi-asset fund is a useful option for more conservative investors. As Nshalati Hlungwane discusses, it can invest across markets and in a broad range of securities and is worth considering if you have a shorter investment time horizon and are concerned about volatility in global equity markets.

Cinemark, the third-largest theatre chain in the United States and a leading chain throughout Latin America, is an example of an asset held by both the Orbis SICAV Global Balanced Fund and the Orbis SICAV Global Cautious Fund. While many

continue to doubt the viability of theatrical exhibition, believing it will crumble before the rising tide of streaming platforms, the data shows that theatres make movies more popular and profitable. Jeffrey Miyamoto, from Orbis, explains why Cinemark is well positioned to benefit from an anticipated box office recovery.

We ... continue to use our proprietary research to identify undervalued companies that present long-term opportunities.

Investing sustainably

Since our inception in 1973, we have held the view that a company that does not operate in a sustainable manner cannot sustain its profitability. Sustainability is therefore a key metric when assessing the investment case of a company. Clients often ask what this means in practice. We capture our approach in our latest Stewardship Report, which contains a range of case studies to bring the theories to life. It is a detailed yet fascinating review, and I encourage you to download it from our website and read it for more insight into our environmental, social and governance efforts.

We do not just report on our efforts in the Stewardship Report, but from time to time also highlight an aspect in our Quarterly Commentary. This quarter, we shine the light on the governance and incentive structures of the companies held in our clients’ portfolios. Nicole Hamman reports on some of our learnings, using mining companies Sibanye-Stillwater and AngloGold Ashanti as examples.

I hope you enjoy this quarter’s selection of articles. You can, of course, keep up to date with our thinking by visiting the “Latest insights” section of our website.

Thank you for your ongoing trust and support.

Kind regards



Mahesh Cooper

HOW WE BALANCE THE UPSIDE-DOWNSIDE RISK IN SOUTH AFRICAN EQUITIES

Duncan Artus



We believe running a successful asset allocation fund requires a holistic view of the portfolio, which allows us to balance the opportunities and risks derived from our positioning.

We often write about large individual equity positions in our portfolios, but this quarter, Duncan Artus focuses on the opportunities and risks in "SA Inc" – the local domestic shares we own that earn a material portion of their profits in South Africa.

SA Inc shares, such as retailers, banks and property REITs, are currently top of mind for many investors. This is unsurprising – not only because the recent election caused much uncertainty, but also because their share prices are depressed when measured in US dollars and valuations are low relative to history, as shown in **Graph 1**, which reflects the forward price-to-earnings (P/E) ratio for the market.

How did we get here?

The cumulative effect of years of anaemic economic growth and poor governance of the country, combined with the recent political uncertainty, has pushed up the cost of capital, or required rate of return, via higher government long-bond yields. This has stifled investment (projects need

to have high prospective returns to be approved) and resulted in low valuations being placed on South African companies' earnings streams. This is simply the mathematics of it. This trend was recently exacerbated by investors unwilling to take on risk, waiting on the sidelines until the outcome of the election was known.

To calculate the implied, or "fair", P/E that we should pay for a business, the equation looks like this:

$$P/E = \text{Dividend payout ratio} / (\text{required rate of return} - \text{growth})$$

One can immediately see that the combination of a high cost of capital (required rate of return) and low expected growth rate results in a low P/E.

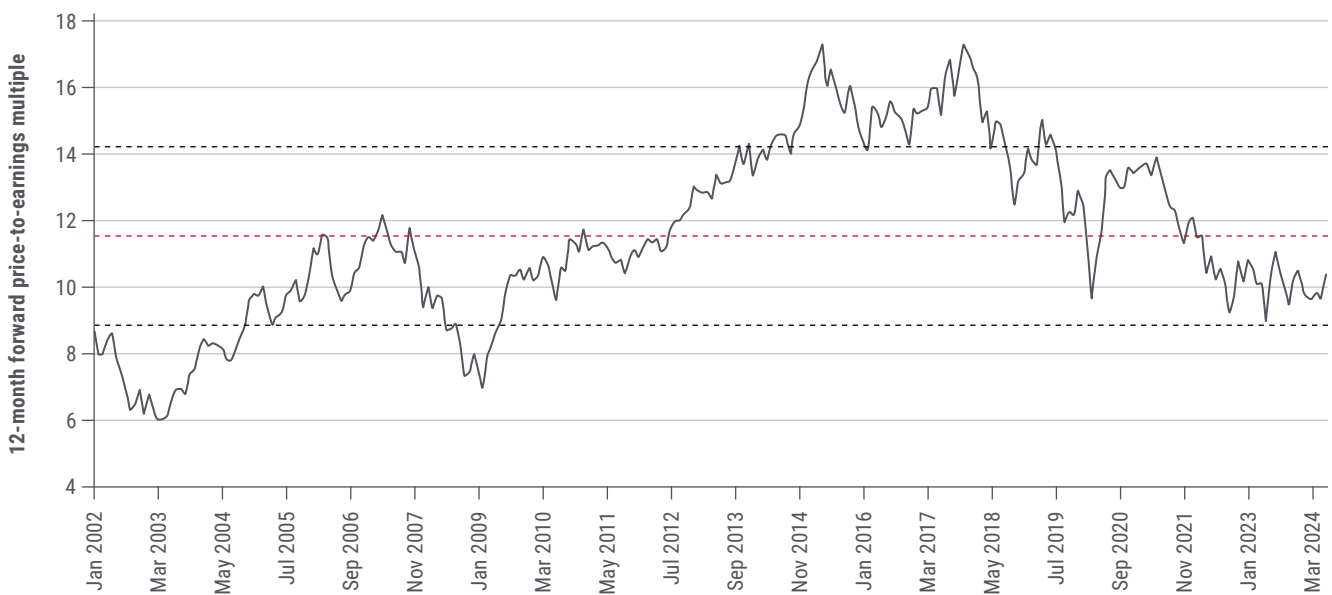
Of course, any positive (reduction) move in government bond yields or increase in growth estimates could result in an upwards rerating from these depressed valuations and price levels. Unfortunately, the opposite is also true. So, what is to be done?

We believe it is best to consider different scenarios and construct a portfolio that could benefit in those scenarios, but skewed to the ones you think have the greatest probability of occurring. We also focus on the tails, both left (negative) and right (positive), and think how various shares will behave in those scenarios. One could naturally bet on one scenario, but we don't think that is prudent.

Graph 2 shows how we think of the various scenarios facing South Africa's economy and asset prices, with the red areas being positive and the grey areas negative.

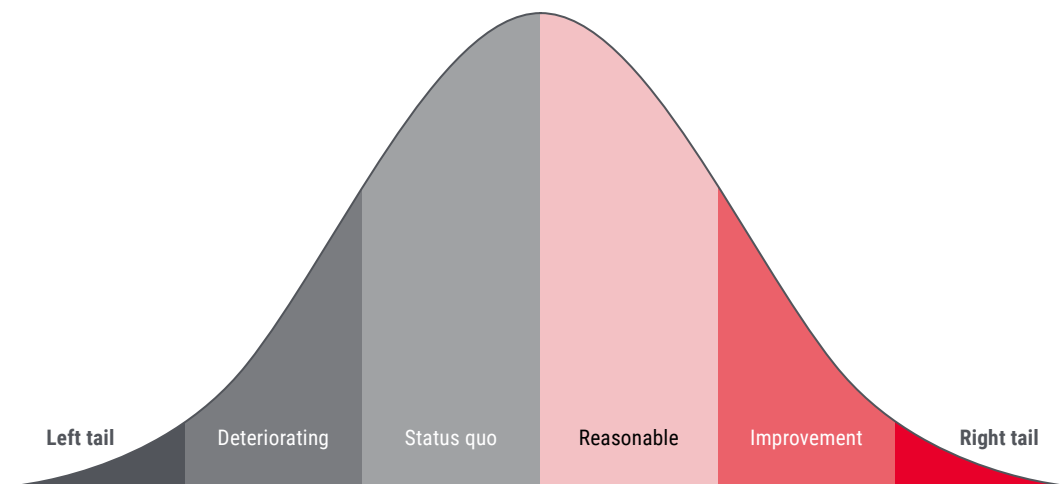
While it is still very early days in South Africa following the election, at the time of writing, we seem to have avoided, or at least reduced, the probability of the left-tail risk scenario (a sharp move to radical economic and social policies). Allan Gray has been managing funds in Africa outside South Africa for 13 years, and we have direct experience of the economic consequences of the left-tail areas on the curve, such as the currency collapses in Nigeria and Egypt and the difficulty in creating broad-based wealth. I personally also have the more pleasant experience of a right-side positive economic and investment return scenario.

Graph 1: MSCI South Africa* 12-month forward price-to-earnings multiple



*Excluding the dual-listed multinationals and mining shares.
Sources: MSCI, SBG Securities

Graph 2: Scenario modelling



Source: Allan Gray research

Many market commentators forget about the 2003 - 2011 period when South African equities delivered strong US dollar returns (despite being interrupted by the global financial crisis sell-off), as shown in **Graph 3**, and many of the SA Inc shares attracted high valuations and were emerging market investor darlings.

... we have deliberately constructed diversified portfolios for a wide range of outcomes.

Positioning our portfolios for growth

One could argue that the job of the boards and management teams of SA Inc is to protect their businesses and keep them in a competitive position to benefit from a potential right-tail scenario. This is clearly easier said than done, given the economic environment they are operating in, but it could turn out to be a valuable option. We do not believe that the earnings of most SA Inc shares are above normal; we believe that their bottom lines could benefit materially from a higher revenue growth environment and lower interest rates. There is therefore the opportunity to benefit from both an increase in earnings and the valuation multiple applied to them.

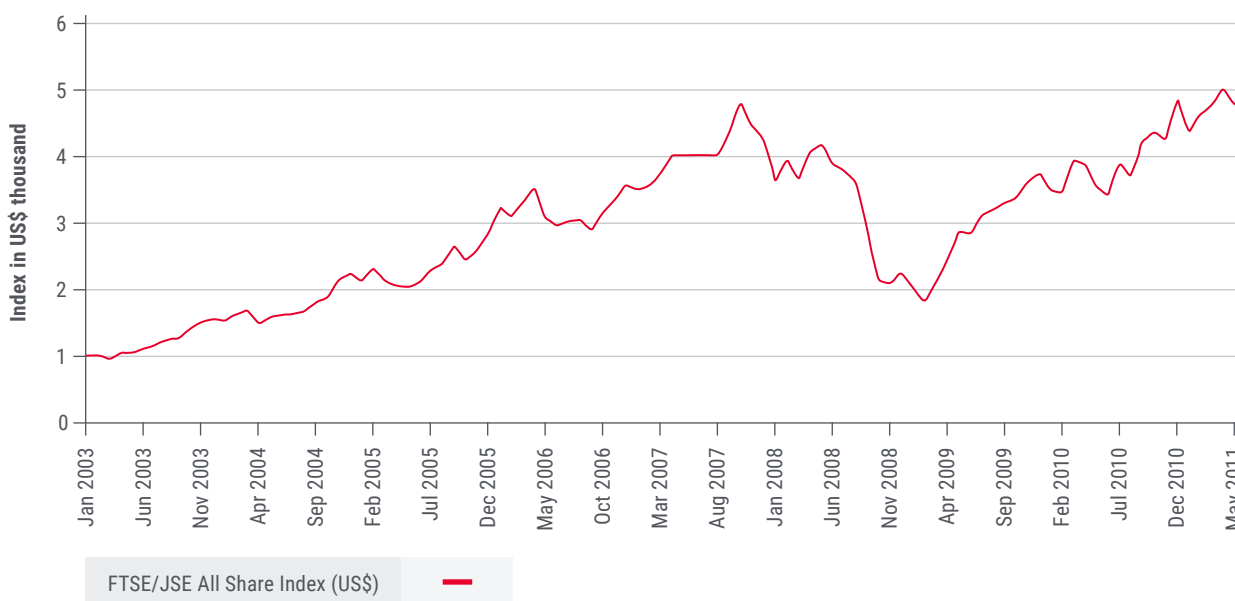
Our portfolios hold a number of these depressed SA Inc shares that have the potential to rally significantly in a right-tail scenario, as we saw when the initial discussions around forming a government of national unity were announced. Foreign investors are underweight South African markets in aggregate, so they could provide another source of buying demand. Emerging markets are depressed relative to US equities, and South Africa would benefit from any increase in sentiment towards emerging markets in general. There is also the possibility of further buyouts of South African companies by foreign suitors, as we have seen in the case of MultiChoice. The encouraging thing about the low valuations is that you don't always need the favourable scenario to occur to make reasonable returns.

Table 1 highlights selected domestic-focused shares we own. Some of these businesses are in better financial and competitive positions than others, but collectively we think they are attractively valued.

The underlying fundamentals would have to start improving to support any increase in share prices that discount a better scenario upfront, otherwise we risk a repeat of the years post the Ramaphoria rally of 2018, when South African equities performed poorly as fundamentals disappointed relative to expectations.

Of course, South Africa still faces significant social and economic headwinds, and it will be a Herculean task to

Graph 3: FTSE/JSE All Share Index US\$ returns (2003 - 2011)



Sources: IRESS, Allan Gray research

overcome these successfully, no matter who is running the country. The fiscal situation, which we have previously referred to in our commentaries, is in far worse shape than in the early 2000s. Some difficult decisions will need to be made in the future to make our finances sustainable. Unfortunately, the left-tail scenario will always be lurking in the background, like the Demogorgon monster in the Netflix hit series *Stranger Things*. We take this into account in our portfolio construction.

We remind our clients that we have deliberately constructed diversified portfolios for a wide range of outcomes.

The portfolios have 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. While there are clearly fewer levers to pull in a domestic-only portfolio, we apply the same principles.

We believe running a successful asset allocation fund requires a holistic view of the portfolio, which allows us to balance the opportunities and risks derived from our positioning.

Table 1: Allan Gray domestic share holdings

Financials	Leisure	Retailers	Food producers	Other
Standard Bank	Sun International	Woolworths	Tiger Brands	Remgro
Nedbank	Tsogo Sun	Spar	Premier	Super Group
FirstRand	Southern Sun	Mr Price	AVI	MultiChoice
Capitec	City Lodge	Pick n Pay		KAP
PSG Financial Services				
MTM Holdings				

Source: Allan Gray

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.

UNVEILING THE LAYERS OF EXECUTIVE REMUNERATION IN MINING COMPANIES

Nicole Hamman



Executives whose incentives are aligned with shareholder interests are more likely to make decisions that unlock value for shareholders ...

As active managers who seek to understand businesses, we take a keen interest in how companies are governed and the impact they have on society. Since our inception, we have held the view that a company that does not operate in a sustainable manner cannot sustain its profitability. This long-term mindset sits at the heart of our investment philosophy. An important aspect of governance is executive remuneration. It is therefore unsurprising that remuneration made up the largest category of our environmental, social and governance engagements in 2023. Nicole Hamman takes a look at some of our efforts and learnings using mining companies Sibanye-Stillwater and AngloGold Ashanti as examples, given that our efforts have yielded positive results.

The landscape of executive remuneration continues to evolve as executives are expected to deliver outcomes for a widening range of stakeholders. There are lots of differing ideas about how packages should be structured. We believe that a company's remuneration policy should aim to attract, reward and retain competent executives, while aligning the interests of executives and

shareholders. However, we realise that this is easier said than done. In this article, we explain why we focus on executive remuneration, how we evaluate schemes, and what our key learnings have been. To read about our other environmental, social and governance (ESG) efforts, and our approach to responsible investing, please see our latest Stewardship Report, available via our website.

Why we focus on executive remuneration

Executives whose incentives are aligned with shareholder interests are more likely to make decisions that unlock value for shareholders and be deterred from making decisions that destroy value. This belief, encapsulated by the late Charlie Munger's assertion that "incentives drive behaviour", is the driving force behind our continued focus on executive remuneration.

How we evaluate executive remuneration schemes

We evaluate each scheme on a case-by-case basis and take into account the special circumstances that may be

affecting a company at the time. This involves the company analyst, governance analyst and the responsible portfolio manager to ensure we capture the necessary context, breadth and depth. The framework for the range of aspects we consider in our evaluation is represented in **Figure 1**.

Our aim is to ensure that when executives earn stretch pay, it is well deserved, and shareholders also benefit.

Firstly, we establish whether there is sufficient disclosure to make an informed decision.

Secondly, we assess whether the structure achieves adequate alignment between shareholder and executives' interests. To understand this, it is worth providing an example of misalignment.

Remuneration schemes outline executive pay opportunities based on three performance scenarios: threshold, target

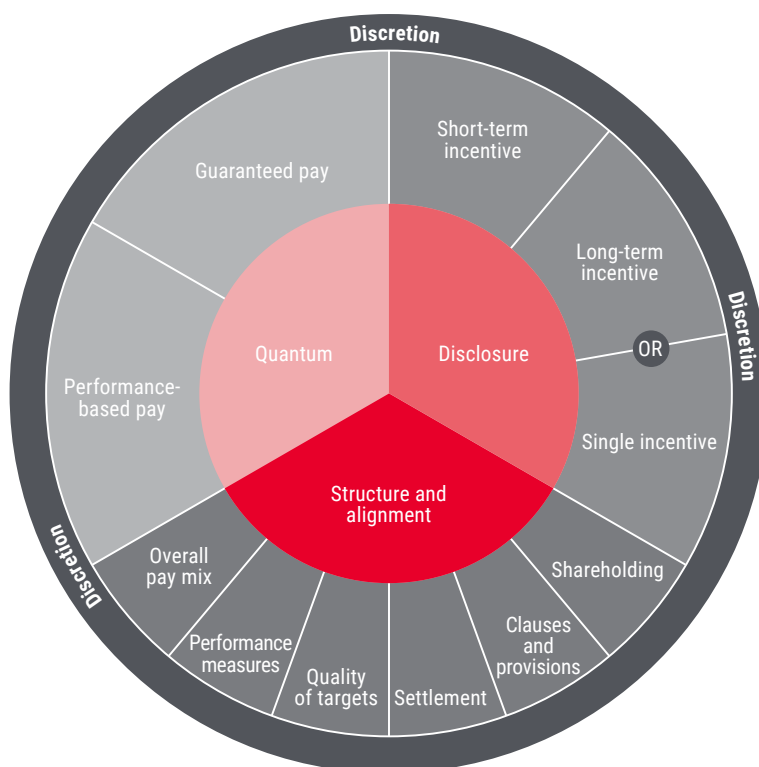
and stretch, with stretch representing stellar performance. An example of misalignment is when executive stretch pay reflects underwhelming company performance, leaving shareholders wanting. This mismatch can arise for various reasons, such as the performance metrics not being the key drivers of the business, or the financial metrics being overly adjusted, detaching them from reality. Our aim is to ensure that when executives earn stretch pay, it is well deserved, and shareholders also benefit.

Thirdly, we consider if the quantum of pay is reasonable. For example, there needs to be external parity, ensuring that stretch pay opportunities among direct peers are comparable.

Lastly, we consider the overarching use of discretion by remuneration committees which we believe must be pragmatic and only used when regarded as necessary to improve alignment. This is discussed in detail in our [2021 Stewardship Report](#), available via our website.

Following our evaluation, there will often be engagement with remuneration committees. We aim for constructive engagements where we provide meaningful suggestions for improvement. We then decide whether to support or oppose the executive remuneration resolutions on behalf of our clients. These resolutions are tabled by issuers at their

Figure 1: Remuneration framework



annual general meetings (AGMs). Supporting a resolution doesn't imply full satisfaction with the remuneration scheme, nor does opposing it mean a lack of confidence in the executive directors. When we oppose executive remuneration resolutions, we inform the company of our key concerns.

Key learnings from past activities

Below, we unpack our key learnings from the activities we have undertaken in prioritising executive remuneration analysis and related shareholder action over the last few years.

1. Identify the root cause of concern

Often, the broad area of concern is apparent, but in order to suggest meaningful improvements, the root cause needs to be identified through deeper investigation. For example, in recent years, Sibanye-Stillwater (Sibanye) attracted media attention for high executive remuneration; its long-term performance was strong, but pay outcomes were outsized relative to similar performing peers.

We benchmarked its long-term incentive structure, detailed in its policy, unpacking the different components. As shown in **Graph 1**, Sibanye's CEO's pay opportunity for stretch performance was significantly higher than that of its peers. While each company has a unique risk profile, and higher-risk operations can account for some discrepancies, we found the extent of the differential too large.

We shared our observations and benchmarking results with the remuneration committee, and were pleased to see in Sibanye's latest remuneration policy that the formula for

allocating long-term incentives was revised, resulting in a significant reduction. Graph 1 includes Sibanye's revised opportunity, which is more closely aligned with industry norms.

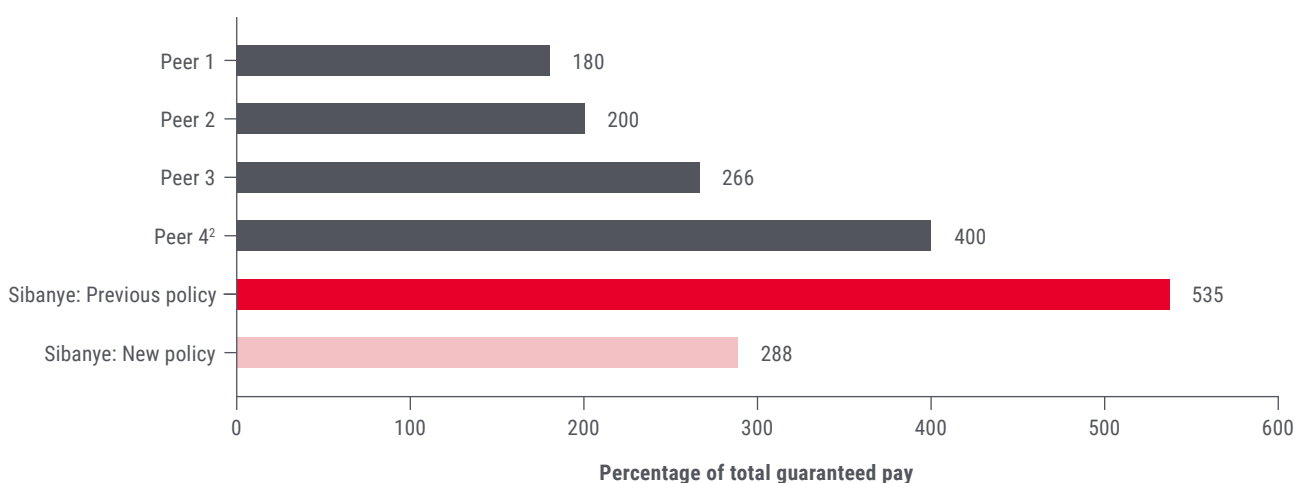
Sibanye also revised the allocation for several other roles below the CEO level, demonstrating how aligning executive remuneration with the market can have consequences for the broader pay culture. This was one of several improvements made, leading us to support Sibanye's remuneration policy at the company's 2024 AGM after years of being against it.

2. Stay the course

From 2021 to 2023, in contrarian fashion, we consistently opposed AngloGold Ashanti's remuneration policy, despite it garnering strong shareholder support, as illustrated in **Graph 2**. We understand that shareholders have differing views, which remuneration committees need to balance, and that enacting positive changes takes time.

Our concerns stemmed from the incentive structure's short-term focus. In a traditional set-up, executives' performance-based pay consists of an annual bonus based on the previous year's performance and a long-term incentive with a forward-looking three-year measurement period, i.e. one which they receive in three years' time. However, AngloGold Ashanti employed a single incentive structure, where the link between the executives' pay and forward-looking long-term performance conditions (and, in turn, our clients' investment horizon) was less direct. Under this structure, all performance-based pay is typically allocated using a backward-looking measurement period of one year.

Graph 1: Stretch pay opportunities¹ for mining CEOs



¹ Stretch pay opportunity consists of the allocation multiplied by the stretch performance vesting outcome.

² We consider the context behind the numbers. Peer 4's opportunity may seem high, but this company's CEO's total guaranteed pay is significantly lower than that of the remaining companies, therefore making the overall pay more reasonable.

Source: Allan Gray research

Although there are well-structured single incentive schemes, they are rare, and we find their structure less palatable for the mining industry. Given its cyclical nature, a short-term measurement period fails to capture through-the-cycle performance, potentially leading to binary pay outcomes. The industry also faces external pressures, such as volatile commodity prices and fluctuating exchange rates. Relative metrics, like total shareholder return (TSR), minimise the impact of external factors, but are rendered ineffective over a short period.

We stayed the course with AngloGold Ashanti, encouraging a return to separate instruments that can be appropriately calibrated to the short- and long-term drivers of the business. We were pleased to see their latest remuneration policy outline doing so, highlighting that the single incentive structure limited their ability to incentivise performance linked to their long-term strategic ambitions.¹ Given the significant improvements, we supported their remuneration policy at their 2024 AGM.

3. Navigate the nuances

The effectiveness of a remuneration policy depends on how it is implemented, which includes several nuances. Below are two examples relating to target calibration.

- Miners typically include a cost metric as a key business driver, often setting absolute targets tailored to their unique cost positioning. AngloGold Ashanti, however, proposed a relative cost metric (compared to peers) as part of its new policy. We highlighted the complexity

of this approach, as target calibration would need to account for AngloGold Ashanti's current unfavourable position on the cost curve compared to peers, as well as the ramp-up of its low-cost operation, Obuasi, in Ghana.

- Another miner included an asset disposal metric. Although reasonable in principle, the target was set as an absolute amount, resulting in capital being raised from asset disposals without due consideration of the asset value, leading to value destruction for the group overall.

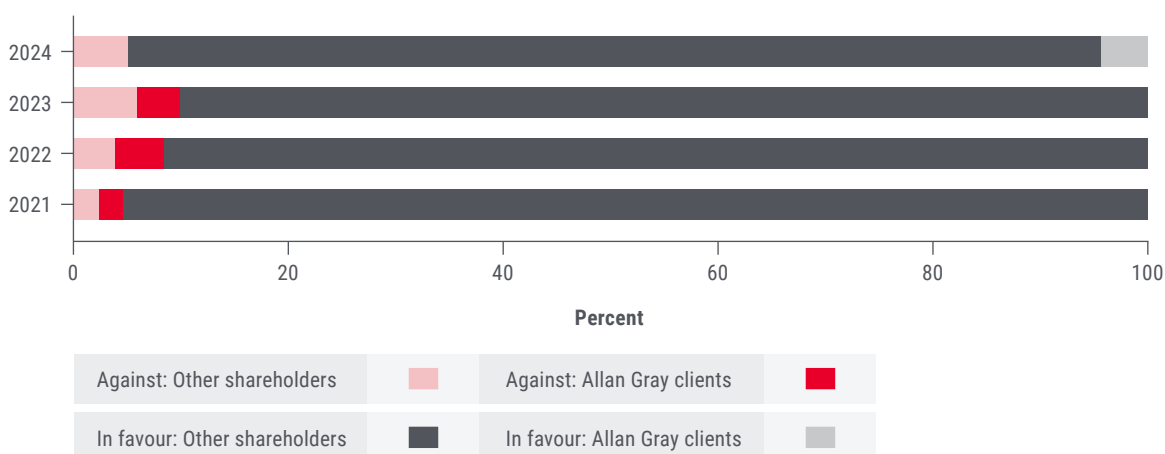
We will continue to actively engage on behalf of our clients, as we believe incentives do drive behaviour.

We also draw insights from our clients' other holdings. Booking Holdings' executive remuneration includes an absolute return gatekeeper, where the stretch pay opportunity cannot be achieved when company TSR is negative, and shareholders have effectively lost value. This feature, uncommon in South Africa, could translate well from one cyclical industry to another.

4. There will be trade-offs

Embedded within the executive remuneration of mining

Graph 2: AngloGold Ashanti AGM results – remuneration policy resolution



Sources: SENS announcements, Allan Gray voting data

¹ AngloGold Ashanti Directors' Remuneration Report 2023.

companies are ESG metrics, often including quantitative targets such as safety improvements and greenhouse gas emission reductions. While we support the inclusion of well-structured ESG metrics in remuneration when material, we also recognise that these metrics cannot fully capture the complex and dynamic interplay of environmental, social, governance and economic factors that miners must navigate. In fact, across industries, there are often inherent trade-offs both among these factors and within each of them. In our 2023 Stewardship Report, we examine how we weigh up ESG considerations at Sasol – a significant emitter with vital economic and social contributions.

5. Look out for soft cues

How companies engage with shareholders offers a rare glimpse into board dynamics and company culture. These soft cues weigh on our consideration of management and the board when making investment decisions. Do the remuneration committee members address questions, or do they defer to investor relations? Are they in agreement with our concerns, but face challenges in implementing improvements? It speaks volumes when positive strides are made, as they are often incorrectly perceived to come at a cost to management.

Our latest Stewardship Report, available via our website, also outlines our work on the Companies Amendment Bill, which was recently signed into law. We discuss the importance of preserving the frequency with which policy improvements (such as those explained in this article) can be made and maintaining the quality of directors on remuneration committees, which is crucial for continuity of positive outcomes.

Cause and effect

Part of the opacity of executive remuneration lies in the inability to accurately derive cause and effect. Put differently, it cannot definitively be said a particular performance metric leads to a particular value-accretive or value-destructive decision, especially since improvements are often made incrementally.

While unclear, our 50-year history of assessing executive remuneration schemes and management performance leads us to believe there is a strong correlation. No remuneration policy is perfect; there are flaws in the ones we support, but we believe it is important to reward a positive trajectory – and that is unique to each company. With AngloGold Ashanti, our key concerns were structure and alignment, whereas with Sibanye, they were more granular. In both cases, we moved away from our long-standing view against the scheme when significant improvements were made.

We will continue to actively engage on behalf of our clients, as we believe incentives do drive behaviour.

Nicole joined Allan Gray in 2019 and is a governance analyst in the Investment team. She holds a Bachelor of Commerce degree in Financial Accounting and a Postgraduate Diploma in Accounting, both from the University of Cape Town. Nicole is a qualified Chartered Accountant.

AN OFFSHORE SOLUTION FOR THE MORE CAUTIOUS INVESTOR: INTRODUCING ORBIS GLOBAL CAUTIOUS

Nshalati Hlungwane



Global Cautious is suitable for investors who seek US dollar returns with lower risk of capital loss and lower variability of returns than a pure equity or balanced mandate.

We are pleased to introduce the Orbis SICAV Global Cautious Fund, which, as Nshalati Hlungwane discusses, meets the needs of more conservative investors looking to balance investment returns and risk of loss while investing offshore. This low-equity, globally diversified, multi-asset class fund broadens the range of funds offered to South Africans by our offshore partner, Orbis.

Like Allan Gray, Orbis offers a focused range of funds. New funds are only introduced after careful consideration, and when we believe we can do a great job for clients and better enable them to meet their investment objectives. We have recently added the Orbis SICAV Global Cautious Fund (Global Cautious) to the Allan Gray Offshore Investment Platform.

Global Cautious is suitable for investors who seek US dollar returns with lower risk of capital loss and lower variability of returns than a pure equity or balanced mandate. It meets the needs of investors looking to invest in a diversified portfolio of securities, across asset classes and across countries.

The Fund is managed in the same way as the other Orbis multi-asset class funds, using Orbis' contrarian investment philosophy and bottom-up security selection process.

How does Global Cautious fit in with the other Orbis funds?

For many years, Orbis has served clients with a small range of funds primarily split between a global fund that buys shares of companies around the world (the Orbis Global Equity Fund (Global Equity)) and a fund that invests across asset classes with a relatively high allocation to equities (the Orbis SICAV Global Balanced Fund (Global Balanced)).

Global Equity aims to earn higher returns than world stock markets, without greater risk of loss, while Global Balanced seeks to balance investment returns and risk of loss with a diversified global portfolio of equity, fixed income and commodity-linked investments. Both these funds have performed well for investors since their respective inception dates and remain suitable for those with a high tolerance for risk.

But what about investors looking for a lower-risk option?

This is where Global Cautious comes in, completing the set. Global Cautious can invest in the same asset classes as Global Balanced, but with materially lower exposure to riskier assets and a higher allocation to fixed income instruments. Simplistically, Global Cautious can be seen as the more risk-averse “younger sibling” of Global Balanced. There are some securities in Global Balanced that will not be held in Global Cautious for risk reasons, just as there are some stocks in Global Equity that will not be held in Global Balanced. **Graph 1** shows how the risk and return profiles of these funds stack up.

How Global Cautious invests

Global Cautious was initially launched in the UK market five years ago, and draws on the philosophy, process, tools and research of Orbis’ investment, currency and quantitative analysts worldwide. The Fund has been designed to allow

for flexibility in exposure to different asset classes, as shown in **Table 1**. For instance, it can have a minimum of 10% and as much as 60% exposure to equities. Similarly, exposure to fixed income assets can be as low as 30% and as high as 90%. This helps ensure that Orbis delivers on the Fund’s objective over the long term and in different market environments. In addition to having exposure to equities and fixed income, the Fund can invest in commodity-linked instruments. It can also adjust its equity and currency exposures using hedging¹.

Like all Orbis funds, Global Cautious is built from the bottom up, with the risk and return characteristics of the various securities being compared with each other and competing for inclusion in the portfolio, as illustrated in **Graph 2**, as opposed to deciding the aggregate allocation to each asset class upfront and being forced to invest to meet that allocation. This is managed to achieve the appropriate balance of risk and reward, given the Fund’s objective.

Graph 1: Orbis funds – risk/return profiles



The positions shown are for illustrative purposes only. The years shown are the inception dates of the respective strategies.
Source: Orbis

Table 1: Asset allocation parameters and current positioning

Asset class	Minimum (%)	Maximum (%)	As at 30 June 2024 (%)
Gross equity	10	60	46
Equity hedging	0	40	18
Net equity	0	40	28
Fixed income	30	90	46
Commodity-linked	0	20	8

Source: Orbis

¹ A hedge is an investment selected to reduce the potential loss in other investments because its prices tend to move in the opposite direction.

Benchmark

The Fund's performance fee benchmark is US dollar bank deposits plus 2%, which is an absolute benchmark, meaning it cannot generate a negative return. This also means that, irrespective of the market environment, the Fund can only charge performance fees when delivering positive returns in excess of US dollar bank deposits plus 2%. For investors with a lower risk tolerance, this aligns well with the Fund's objective.

Fees*

The performance fee structure comprises a base fee of 0.60% per annum plus 25% sharing in out-/underperformance. Unlike traditional performance fee structures, a unique feature of Orbis' fee is the ability to refund investors for periods of underperformance. This means, if Orbis does well for investors, performance fees are charged but the whole amount is not immediately payable to Orbis – instead, a portion is reserved and allows Orbis to refund investors should a period of underperformance follow. Given the symmetrical nature of the fee, Orbis shares in both the upside and downside of performance and is focused on generating long-term outperformance for clients.

Performance

Although Global Cautious is lower-risk than Global Balanced, it is not risk-free, and returns have not been and will not come in a straight line. Since its inception in 2019, Global

Cautious has navigated a volatile global market environment and delivered an annualised US dollar return of 3.9%. This compares favourably with the average of other global cautious funds and a low-equity index comprising 30% global equities and 70% global bonds, both of which have returned 2.8% per annum over the same period. However, it is lower than the Fund's performance fee benchmark return of 4.5% per annum, as cash rates have increased globally over the past few years.

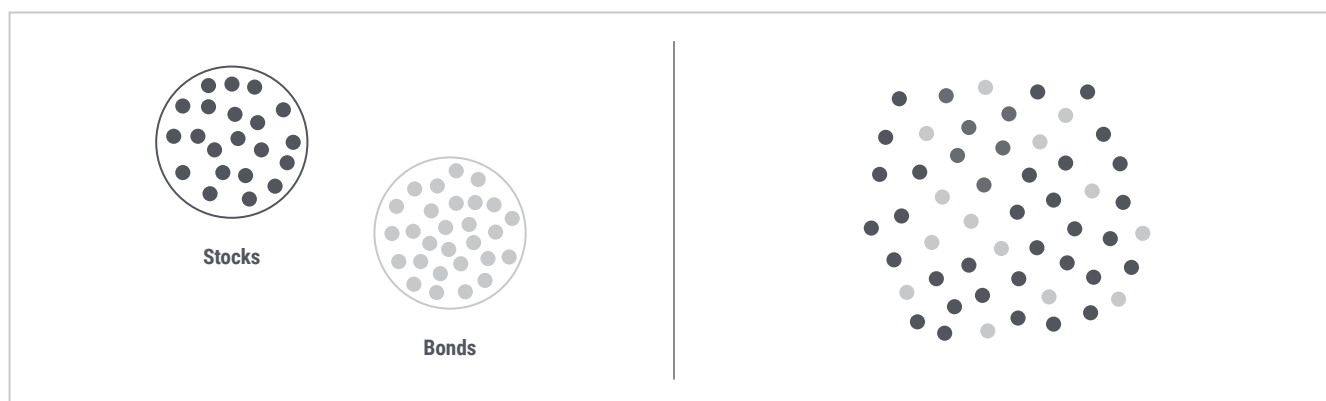
Looking ahead

As a valuation-focused stockpicker, Orbis is excited about the opportunities as there are many areas of the market that remain unpopular today, which is an ideal environment for Orbis' investment approach and philosophy. Over the long term, the mix of assets that will best fulfil the Fund's mandate is expected to evolve alongside the opportunity set.

While it is unclear what markets will do over the next 10, 20 or 50 years, with Global Cautious, Orbis continues to execute on its investment philosophy to find securities that trade at a discount to intrinsic value, and from there build a portfolio that balances capital appreciation, risk of loss and income generation for investors seeking a lower-risk fund.

For more information about the Orbis SICAV Global Cautious Fund, please see its [factsheet](#), available via our website.

Graph 2: Bottom-up investing



Source: Orbis, for illustrative purposes only

*Please note that this excludes administration fees charged on the Allan Gray Offshore Investment Platform.

Nshalati joined Allan Gray as a manager in the Retail Client Service Centre in 2016. She is currently a manager in the Institutional Clients team. Nshalati holds a Bachelor of Commerce (Honours) degree in Economics from Rhodes University and a Master of Arts degree in Development Studies from the University of Sussex. She is a CFA® charterholder.

BACK TO THE FUTURE: WHY STUDIOS ARE BETTING ON THE BOX OFFICE

Jeffrey Miyamoto



The broader sector is disdained as an outdated absurdity in the age of streaming video, but cinemas remain the best way to make money from movies. ... we believe Cinemark will lead the charge in this recovery story.

While many continue to doubt the viability of theatrical exhibition, viewing it as another legacy business that will crumble before the rising tide of streaming platforms, the data shows that theatres make movies more popular and profitable. Jeffrey Miyamoto, from our offshore partner, Orbis, explains why Cinemark, the third-largest theatre chain in the United States and a leading chain throughout Latin America, is well positioned to benefit from an anticipated box office recovery.

There's no business like show business – as the studios of Hollywood's golden era can attest. RKO Pictures, the hallowed producer of *King Kong* and *Citizen Kane*, endured a stint as a rubber company subsidiary before going defunct. 20th Century Fox was joined with newspapers and news channels before being carved out and sold to Disney. For years, Disney itself has leaned on the profits of its ESPN subsidiary. Warner Bros., having been merged with a magazine publisher, then a dial-up internet provider, then a phone company, is now part of Warner Bros. Discovery. Columbia Pictures has spent 35 years nestled within the sprawl of Sony. Universal was part of General Electric for decades before being sold to a broadband operator. Metro-Goldwyn-Mayer is now

“an Amazon company”. Paramount has spent its corporate life in and out of relationships with broadcaster CBS.

Recently, Paramount was sold again, after acrimonious negotiations that speak well to the onerous challenges now facing film studios. The old cash cows of broadcast and cable television are running dry, supplanted by streaming video, which has proven to be far less lucrative. It is unclear how or when the industry will reach its new equilibrium, and this uncertainty has roiled the share prices of companies across the broader sector.

In our view, any route to recovery for the studios will require an old partner – the cinema owners. Far more interesting to us than the studios are the exhibitors, and we are confident that our investment in Cinemark Holdings can recover and persist through this media upheaval.

That is not a universal view, however. Many continue to doubt the viability of theatrical exhibition, viewing it as another legacy business that will crumble before the rising tide of streaming platforms. But cinemas recently went through an

uncommonly comprehensive test – the COVID-19 pandemic, which proved that movie theatres play an indispensable role in making money from movies.

When the pandemic shut down theatres worldwide, studios used the opportunity to experiment with alternative ways of distributing films. Most cut down the theatrical exclusivity window – the period when films can only be seen in cinemas. Some eliminated theatrical exclusivity altogether; Warner Bros. put every one of its 2021 films onto its HBO Max streaming service on the same day as their theatrical debuts.

These tests produced undesirable outcomes. Filmmakers and actors revolted, displeased by lower pay as their compensation usually involves a cut of the box office. Christopher Nolan, a long-time Warner Bros. collaborator, was so repulsed by the studio’s emphasis on streaming that he left to work with Universal, which promised him a 100-day exclusive theatrical window for *Oppenheimer*. Movies, especially those released immediately on streaming platforms, were pirated at elevated rates. Most importantly, viewership analytics showed there is no conflict between theatrical exclusivity and popularity on streaming services. In fact, the most watched streaming movies are almost uniformly theatrical exclusives first.

The data shows that theatres make movies more popular and profitable. Forfeiting box office revenues does not produce worthwhile value in digital distribution, and it introduces a range of needless complications.

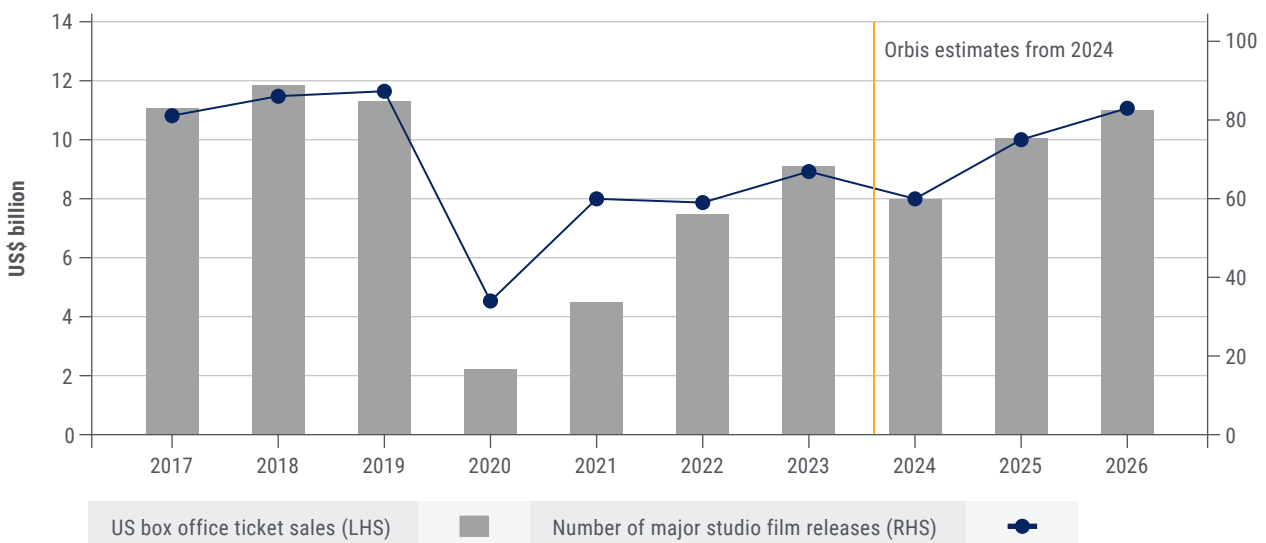
The major studios seemed to have learned from the experiment. They are restoring their theatrical film output and committing to theatrical exclusivity to bolster earnings and retain talent. During COVID-19, Disney made the money- and morale-losing decision to divert Pixar films to early streaming debuts. In June this year, it released *Inside Out 2* with a 100-day exclusive theatrical window and achieved a record animation box office debut. Even Apple and Amazon came to acknowledge the benefits of a theatrical release strategy. Both companies have promised to spend US\$1bn per year on theatrical-exclusive movies, or roughly 10 films a year.

As the studios have returned to theatres, North American box office revenues have increased by double-digit percentages annually since 2020, but gaps in the schedule and the Hollywood strikes have limited the number of films reaching theatres. We expect the industry to reach pre-COVID levels of theatrical output in the next year or so. Given the tight relationship between box office revenue and the number of films sent to theatres, that bodes well for exhibitors. If the historical relationship holds, 2025 should see the North American box office comfortably exceed US\$10bn on an ongoing basis, as shown in **Graph 1**.

We believe no company is better poised to benefit from the anticipated box office recovery than Cinemark, the third-largest theatre chain in the United States and a leading chain throughout Latin America. Unlike many of its peers that

Graph 1: As the supply of film releases recovers, so should the box office

US box office ticket sales and number of major studio film releases



Major studios include Disney, Universal, Paramount, Warner Bros., Sony Pictures and 20th Century Studios.
Sources: Company information, Orbis estimates

prioritised debt-fuelled expansion, Cinemark's management team carefully guarded its balance sheet. Its approach to expansion was cautious; the company built most of its network in suburban locations that have less burdensome property rents. It entered COVID with the lowest debt ratios and average property rents of the three national American exhibitors.

If Cinemark returns to its pre-COVID capital structure, we believe the shares will be worth some 50% more than their current price.

As theatrical exhibition leaves the pandemic behind, Cinemark has managed to avoid bankruptcy without resorting to dilutive share issuances. It is fully caught up on its deferred rents to theatre landlords. Moreover, Cinemark continued to invest in the upkeep and upgrade of its theatres, investing over US\$80m every year. Many of its peers are not in the same position, having gone bankrupt or cut reinvestment to the bone, and will still be contending with the pandemic's aftermath years after Hollywood has reverted to normalcy.

Cinemark's choices allowed it to achieve exceptional operating metrics even with an impaired box office. Some quarters in the last two years did have full release schedules, and those periods provide a tantalising glimpse into Cinemark's potential. In 2023, Cinemark achieved its highest third quarter revenue ever due to its steadily growing concessions business – popcorn and drinks are the greatest profit contributors in

theatrical exhibition. Cinemark invested heavily in premium amenities and better food and drink offerings through COVID, which allowed it to effectively capitalise on pent-up demand from consumers.

The success of this strategy is right there in the numbers. Cinemark generated US\$295m in free cash flow in 2023 – comparable to pre-COVID levels.

The next few years should see the consummation of Cinemark's business model as the industry returns to a normal film production and annual release schedule. If the box office meets our expectations, we believe Cinemark can achieve record profitability. Furthermore, Cinemark should soon restore its dividend, as the recovery brings debt ratios down to the company's targeted window. Lastly, much of that debt will soon be gone. Cinemark has paid down US\$250m of its COVID-era borrowing at this point, leaving one US\$460m convertible bond as the final remnant of emergency pandemic debt. If Cinemark returns to its pre-COVID capital structure, we believe the shares will be worth some 50% more than their current price.

Theatrical exhibition is poorly understood and easy to dismiss. The best-known businesses in the space are beset with challenges that will endure long after the box office rebounds. Cinemark has managed its debt and investments more prudently. The broader sector is disdained as an outdated absurdity in the age of streaming video, but cinemas remain the best way to make money from movies. Movie theatres have survived over a century of disruptions, including radio, television, broadcast, VHS, home rentals, cable, DVD and internet piracy. We believe the pandemic and streaming will join this litany of challenges overcome by theatrical exhibitors, and we believe Cinemark will lead the charge in this recovery story.



Jeffrey joined Orbis in 2019 and is a member of the Bermuda-based Multi-Asset Investment team. He holds a Bachelor of Arts from the University of Nevada, a Master of Public Policy from the University of Tokyo, and a Master of Business Administration and Juris Doctor from Yale University.

TWO-POT: ENABLING BETTER RETIREMENTS – FOR THOSE WHO AVOID THE RISKS

Shaun Duddy



“Just because you can, doesn’t mean you should” is arguably the best saying to apply to your savings component under the two-pot retirement system.

The two-pot retirement system, which is set to be implemented on 1 September 2024, has been designed to improve retirement outcomes for South Africans by ensuring that the majority of their future retirement fund contributions remain invested for their retirement, while allowing some access before retirement in case of emergencies. If used as intended, the new rules can assist retirement fund members in achieving higher and more sustainable incomes in retirement. However, a few missteps, some of which may seem harmless, have the potential to offset a lot of the new rules’ good intentions. Shaun Duddy discusses how the new rules aim to improve retirement outcomes and the risks that need to be avoided to achieve this.

The two-pot retirement system is set to be implemented on 1 September 2024. While we believe that the new rules are a positive step for South Africa’s retirement system, whether they actually assist retirement fund members in achieving a better retirement will still come down to individuals making good decisions and avoiding the risks that exist within the framework of the new rules. At a high level, this involves understanding:

1. Whether the new rules improve or worsen the preservation rules of your retirement fund
2. The risk of withdrawing from – and worse, depleting – your savings component before retirement
3. The risk of treating and investing your savings component like a shorter-term investment
4. The fact that the new rules alone do not ensure an appropriate and sustainable income in retirement

But first, to aid these considerations, let’s refresh the two-pot basics.

Summarising the basics

From 1 September 2024, all new retirement fund contributions will be split into two components (i.e. the two “pots”):

- **Two-thirds of every contribution you make will be allocated to a retirement component.** The assets in this component cannot be accessed before retirement and, at retirement, must be used to purchase a retirement income product, such as a living annuity or guaranteed life

annuity. This component ensures that the majority of your future retirement fund contributions remain invested until retirement to provide you with an income.

- **One-third of every contribution you make will be allocated to a savings component.** As contributions to a retirement fund, the assets in this component should also, ideally, remain invested until retirement to provide you with income. However, this component also provides the option to make one withdrawal (of R2 000 or more) per tax year before retirement if you need to. This access is designed to help you in case of emergencies when, without such access, the alternative would likely lead to worse financial outcomes (e.g. taking on high interest rate debt). You also have the option to access these assets as a cash lump sum at retirement. As is the case today, any amount taken from your retirement fund as cash is subject to tax. This is discussed in a bit more detail further on.

Your existing retirement fund assets will be allocated to a vested component, and the current (i.e. pre-two-pot) rules will continue to apply. Ten percent of the assets you hold on 31 August, up to a maximum of R30 000, will be allocated to your savings component on 1 September to provide an opening balance on day one. This is referred to as the “seeding” of the savings component and will only happen this one time, at the start of the new system. The balance of your existing assets will remain in your vested component and nothing will change for these assets.

As an example, if a retirement fund member has R200 000 in their retirement account on 31 August and is contributing R6 000 per month, the following will happen on 1 September:

- 10% of their existing assets, up to a maximum of R30 000, will be seeded to their savings component. In this case, R20 000 will be seeded (i.e. 10% of R200 000, which is less than R30 000).
- Their account will have a savings component of R20 000 and a vested component of R180 000 (i.e. the remaining balance) on day one.

From September onwards, the said retirement fund member's monthly contributions will be allocated as follows: R2 000 (i.e. one-third of R6 000) to the savings component, and R4 000 (i.e. two-thirds of R6 000) to the retirement component, which begin to build up both of these components.

All of the above will apply to each of your retirement accounts. For example, if you have a pension fund account through your employer and an Allan Gray Retirement Annuity Fund (AGRA) account in your personal capacity, the changes will apply to each. The same is true if you have three AGRA accounts: We will apply the changes to each of them individually, including the seeding of each account's savings component. The only exception is if you have a provident fund account that you have had since before 1 March 2021, and you were 55 or older on 1 March 2021. By default, the new rules will not be applied to that account (but will be applied to any other account you may have).

... any withdrawal from your savings component will be taxed at your marginal tax rate ...

The [“Two-pot retirement system” page](#) on our website provides comprehensive information about the changes, while Lydia Fourie's piece on page 26 covers the most frequently asked questions to assist you in filling in any gaps. However, understanding the “mechanics” of the changes is only step one. Below, we begin to unpack the real implications and risks of the new rules and what missteps to avoid for better retirement outcomes.

Will the two-pot retirement system improve or worsen the preservation rules of your retirement fund?

Although the two-pot retirement system's primary objective is to improve preservation, the extent to which the new rules improve or worsen preservation rules depends on the type of retirement fund in which you are investing.

Let's start with pension and provident funds, including preservation funds. If you are investing for retirement in one of these funds, the new rules will assist with improved preservation going forward. This is because, under the current rules, you are able to take up to 100% of your assets as cash from your pension or provident fund each time you change employers or leave an employer, or as a once-off withdrawal from your preservation fund. In all of these cases, your withdrawals will be net of the applicable taxes. In the worst case, if you withdraw everything and do not

invest it elsewhere, you effectively have to start all over again with fewer years to rebuild this investment before you retire.

In contrast, under the new rules, the assets in your savings component will be accessible (once per tax year, in the case of an emergency, which might be when you change employers or leave your employer) and the assets in your vested component will still be accessible (when you change employers or leave your employer), but the assets in your retirement component cannot be accessed. Automatically preserving the assets in your retirement component assists in ensuring that a minimum amount of assets remain invested until and for retirement.

In the case of new retirement fund members starting to invest on or after 1 September 2024, a minimum of two-thirds of their retirement fund assets will make it to retirement, which is a substantial improvement compared to the current rules. Over time, allowing access to the savings component should also reduce (and ultimately remove) the often-counterproductive incentive to leave one's job in order to access retirement fund assets, as well as the instinct to take all of them when doing so.

However, on the other side of the coin, we have retirement annuity funds (RAs). Here, the new rules actually run the risk of worsening preservation. Under the current rules, you cannot access any of your retirement fund assets before age 55¹, even if you change jobs or lose your job. In other words, RAs have always had 100% preservation. This will change with the introduction of the savings component under the new rules: A portion of your retirement fund assets will now be accessible. To the extent that this access is used as intended, to assist you in case of emergencies, it is a positive. However, the risk is that this access introduces a new temptation to access your retirement fund assets, potentially reducing preservation and ultimately resulting in a lower and less sustainable income in retirement.

To illustrate these scenarios, **Graph 1** looks at different outcomes for a pension or provident fund member contributing R6 000 per month over the last 20 years and investing in the Allan Gray Balanced Fund. In Scenario 1 (the light grey line), they take all of their retirement fund assets when they change employers at the end of year 5, and again at the end of year 15, which is allowable under the current rules. Scenario 2 (the dark grey line) assumes

Graph 1: Preserving vs. withdrawing different amounts from a pension or provident fund



Source: Allan Gray research

¹ This excludes allowable access related to ceasing to be a South African tax resident, leaving South Africa on the expiry of a South African visa, divorce and maintenance orders, and your assets being below a legislated amount.

that the new rules apply: One-third of each contribution (i.e. R2 000) is allocated to a savings component, two-thirds of each contribution (i.e. R4 000) is allocated to a retirement component, and only the full savings component is taken each and every year. Lastly, Scenario 3 (the red line) assumes that nothing is taken when changing employers. Relative to Scenario 1, after 20 years, the member would have 6.3 times more in Scenario 2 and 9.5 times more in Scenario 3. This illustrates the power of preservation and how the new rules can improve preservation in pension and provident funds.

Ultimately, the goal should be to keep as much as possible of your savings component invested until retirement.

Graph 2 shows the same scenarios for a member of an RA. However, for Scenario 1 (the light grey line), no assets are accessible under the current rules when changing employers, therefore Scenarios 1 and 3 (as described in Graph 1) are equal. This graph again shows the importance of preservation. However, it also shows that the ability to “only” access the savings component under the new rules, as represented in Scenario 2 (the dark grey line), is actually a negative relative to the current rules for this type of retirement fund.

The risk of withdrawing from – and worse, depleting – your savings component before retirement

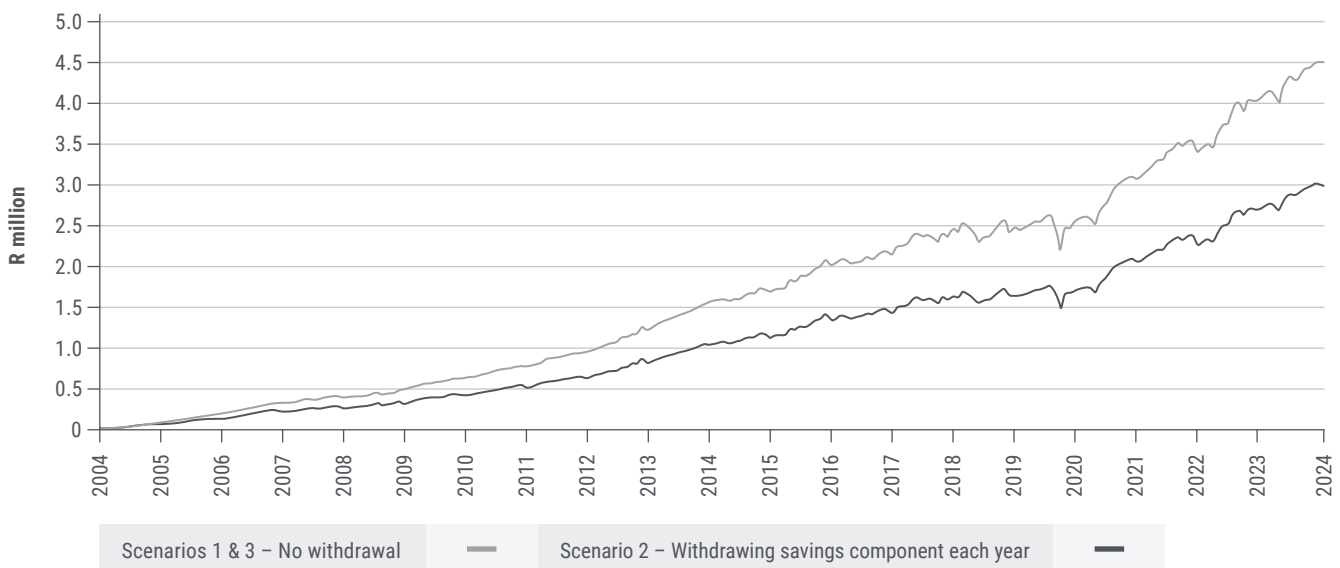
“Just because you can, doesn’t mean you should” is arguably the best saying to apply to your savings component under the two-pot retirement system. As mentioned, you will be able to make one withdrawal (of R2 000 or more) per tax year before retirement, but it is highly recommended that you do not, except when you find yourself in a real financial emergency and not withdrawing would lead to a worse financial outcome. Comparing Scenarios 2 and 3 in Graphs 1 and 2 gives a good illustration of why these withdrawals are not recommended, but the significance of this risk warrants further discussion.

The most important (and arguably most obvious) points to make are:

- a) Any assets that are withdrawn and not replaced before retirement will reduce your income in retirement.
- b) The longer you wait to replace the assets, the more you will have to invest to make up for lost time and investment returns.

New retirement fund members starting to invest on or after 1 September also need to keep in mind that if they deplete their savings component before retirement, they will not only have one-third less assets to provide an income in retirement, but also no assets that can be taken as a cash lump sum at retirement to cover bigger or once-off

Graph 2: Preserving vs. withdrawing different amounts from a retirement annuity fund



Source: Allan Gray research

expenses, e.g. settling the remainder of their bond. It is important to remember that if you elect not to withdraw, your contributions will continue to accumulate and grow, and will be available to withdraw at a later stage, if need be.

You also need to keep in mind that any withdrawal from your savings component will be taxed at your marginal tax rate, which is above your effective tax rate (i.e. the tax rate applied to your salary) and can further be reduced if you have any outstanding taxes owed to the South African Revenue Service (SARS). These taxes are also higher than those applied at retirement if you decide to take your savings component assets, or a portion thereof, as a cash lump sum at that point. This is another compelling reason not to dip in.

Ultimately, the goal should be to keep as much as possible of your savings component invested until retirement. You lose nothing by not withdrawing every year, because all of your savings component assets remain available for withdrawal in future years, and you benefit materially from avoiding the associated risks.

The risk of treating and investing your savings component like a shorter-term investment

Even if you don't withdraw from your savings component assets, you can still end up with a lot less income in retirement than you could have otherwise as a result of treating your savings component like a shorter-term investment and therefore investing it too conservatively.

You may be thinking: "I don't plan to withdraw my savings component, but just in case I do find myself in an emergency

situation, I am going to invest it in something lower-risk and safe." While this may seem reasonable and reasonably harmless, it can have a material impact on the overall growth of your retirement fund assets, and your ultimate income in retirement. A far better option for emergencies is to build up an appropriately invested emergency fund, as Tebogo Marite discusses in her piece on page 30.

To truly grow your retirement fund assets, you need investment returns that are higher than inflation – i.e. real returns. **Table 1** shows how much each additional percent of real returns can add to your assets at retirement, and therefore your income in retirement. The table assumes contributions of R6 000 per month, over different periods of time, experiencing different levels of return above inflation. Inflation is assumed at 6% per year and the investment returns are assumed to be consistent each year.

Table 1 shows the material impact on the market value at retirement for each additional percent of real returns: from a 12% increase for each additional percent over 20 years, up to a 32% increase for each additional percent over 40 years. For example, if a retirement fund member contributed R6 000 per month for 40 years (e.g. from age 25 to retirement at age 65), each additional percent of real returns would increase their assets at retirement by 30% or more. In total, if the member was able to achieve investment returns of inflation + 5% per year instead of inflationary returns, they would have 3.8 times more at retirement, which is a massive difference. The reverse, however, is also true: Each percent of real returns that you do not achieve (or give up) can materially decrease your assets at retirement.

Table 1: The impact of real returns on the market value (MV) of retirement fund assets

Return per year	Contributing for 20 years			Contributing for 30 years			Contributing for 40 years		
	MV at the end (Rm)	MV in today's terms (Rm)	Increase	MV at the end (Rm)	MV in today's terms (Rm)	Increase	MV at the end (Rm)	MV in today's terms (Rm)	Increase
Inflation	R2.7	R0.8		R5.8	R1.0		R11.4	R1.1	
Inflation + 1%	R3.0	R0.9	12%	R7.0	R1.2	20%	R14.8	R1.4	30%
Inflation + 2%	R3.4	R1.1	12%	R8.5	R1.5	20%	R19.3	R1.9	30%
Inflation + 3%	R3.8	R1.2	12%	R10.2	R1.8	21%	R25.3	R2.5	31%
Inflation + 4%	R4.3	R1.3	12%	R12.4	R2.2	21%	R33.3	R3.2	32%
Inflation + 5%	R4.9	R1.5	13%	R15.0	R2.6	22%	R44.0	R4.3	32%

Source: Allan Gray research

With that in mind, **Table 2** compares the historic real returns of lower-risk investments, specifically local cash and local bonds, with investments in a higher-risk balanced allocation that is more typically appropriate for longer-term investments, like investing for retirement. The balanced allocation consists of 65% equities (39% local plus 26% offshore), 25% bonds (15% local plus 10% offshore) and 10% cash (6% local plus 4% offshore), and is 40% offshore in total. The return data used is a combination of the DMS Global Returns Data (1900 - 2012) and Morningstar data (from 2013 onwards) and includes all years from the beginning of 1900 to the end of 2023. What is clear from

Table 2 is that investing your savings component like a shorter-term investment, in lower-risk assets, can cost you valuable real returns.

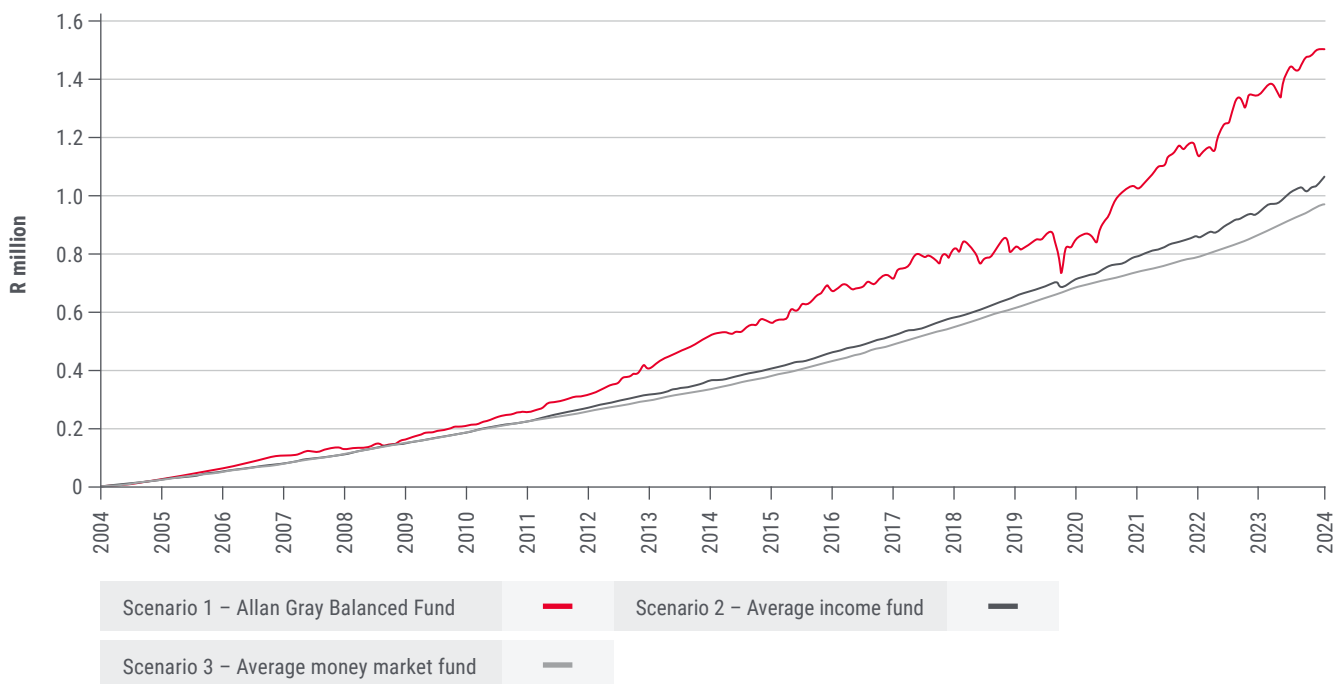
While the combination of Tables 1 and 2 clearly highlights the risk of investing your savings component like a shorter-term investment, it is also useful to show a scenario example. **Graph 3** uses our retirement fund member from earlier, contributing R6 000 per month over the last 20 years. In Scenario 1, they invest the full contribution in the Allan Gray Balanced Fund (AGBF), in Scenario 2, they invest R4 000 in the AGBF and R2 000 in the average income fund, and

Table 2: Real returns of different investments over different periods

Period	Balanced allocation	Local bonds	Local cash
Last 20 years	7.1%	3.0%	1.2%
Median across all 20-year periods*	6.6%	0.8%	0.9%
Last 30 years	7.0%	4.9%	3.1%
Median across all 30-year periods*	6.2%	1.8%	0.4%
Last 40 years	8.2%	4.7%	2.9%
Median across all 40-year periods*	6.3%	1.6%	0.1%

*All 20-, 30- and 40-year periods from the beginning of 1900 to the end of 2023.
Source: Allan Gray research

Graph 3: Investing savings component contributions in the Allan Gray Balanced Fund vs. shorter-term investments



Source: Allan Gray research

in Scenario 3, they invest R4 000 in the AGBF and R2 000 in the average money market fund. After 20 years, and assuming no withdrawals, the member would have R1.5m in their savings component in Scenario 1 (the red line). In comparison, they would have 29.8% less in their average income fund in Scenario 2 (the dark grey line), and 35.6% less in their average money market fund in Scenario 3 (the light grey line). These are material differences, which, in turn, would translate into 9.9% and 11.9% reductions in their overall retirement fund assets. This again illustrates the importance of investing for real returns. Ideally, all of your retirement fund assets should make it to retirement, making all components long-term investments, which should be invested accordingly.

The two-pot retirement system alone does not ensure an appropriate and sustainable income in retirement

As illustrated across the previous sections, while the two-pot retirement system will assist with better preservation in a lot of cases, it is still up to you to avoid the withdrawal temptation and invest appropriately for real returns. In addition, this all still needs to be combined with regular investments, at appropriate levels, over a long period of time in the build-up to your retirement. The new rules are a very positive step for the South African retirement system, but in reality, it is ultimately the combination of these behaviours, and not the new rules alone, that will lead to better retirement outcomes.

Shaun joined Allan Gray in 2010 and currently heads up the Product Development team. Previously, he fulfilled roles as a business analyst and manager in the same team. Shaun holds a Bachelor of Business Science degree in Actuarial Science from the University of Cape Town.

TWO-POT: YOUR BURNING QUESTIONS ANSWERED

Lydia Fourie



It remains important to preserve as much of your investment as possible until retirement so that you can maximise the impact of compounding ...

With the new two-pot retirement system set to be implemented on 1 September 2024, many retirement fund members are wondering what the new legislation entails and how the changes will impact them. Lydia Fourie addresses some of the frequently asked questions on this topic.

If you are feeling anxious and a bit confused about what the impending changes to the retirement system mean in reality, you are not alone. Hopefully the answers in this article will help fill in some of the gaps. You can also visit the [“Two-pot retirement system” page](#) on our website for more comprehensive information.

1. What exactly is two-pot and how are my retirement funds changing?

“Two-pot” is the name that has been given to the new retirement system that will replace the existing system on 1 September 2024. The new rules being introduced aim to preserve your investments for when you retire and allow you to access some of your funds in case of a real emergency by creating two separate pots, also known as components. From the go-live date,

1 September 2024, your retirement account will comprise the following:

- **A retirement component:** Two-thirds of your new contributions will be allocated to a retirement component, which will be preserved until you retire. At that point, you must use the accumulated funds to purchase a retirement income product, such as a [living annuity](#) or guaranteed life annuity.
- **A savings component:** One-third of your new contributions will be allocated to a savings component. You will be allowed to withdraw up to the full amount accumulated in this component (subject to tax and other implications, which are explained further on) once per tax year (1 March to end-February). Should you choose not to withdraw from your savings component in any year, the full amount in the savings component will remain available for you to withdraw in subsequent years. At retirement, you can take any remaining balance as cash or use it to purchase a retirement income product.

- **A vested component:** The existing value of your retirement account will remain invested and be allocated to a vested component, which may be split into two parts – one that houses your two-pot vested benefit¹ and one that contains your harmonisation vested benefit². (If you have a harmonisation vested benefit, see question 2 to understand how you will be impacted.) In addition, 10% of your vested component, subject to a maximum of R30 000, will be transferred from your vested component to your savings component through a process called “seeding”, explained further on.

2. Will I be impacted by the two-pot system?

If you are currently a member of the Allan Gray Retirement Annuity Fund, Pension Preservation Fund, Provident Preservation Fund, Umbrella Pension Fund, Umbrella Provident Fund, Group Retirement Annuity Fund or any other retirement fund, you will be affected by the changes in legislation – unless you have been a member of a provident fund or provident preservation fund since before 1 March 2021 and were 55 or older on that date. In that case, you will be automatically excluded from the new system, i.e. it will not have any impact on you regarding this specific investment, but you will be able to opt in to the two-pot system should you wish to do so.

3. What will happen on 1 September 2024?

From the implementation date, all affected investors will notice changes to their Allan Gray Online account and next quarterly statement.

The existing value of your retirement account will be vested

The existing value of your retirement account will be allocated to a vested component. This will reflect as two parts if you also have a harmonisation vested benefit. The vested component, plus future growth thereon, will not be impacted by two-pot. You will not be able to make further contributions to this component.

Your savings component will have an opening balance

Your savings component will be funded with an initial once-off amount transferred from your vested component. This process is called seeding. The amount to be seeded will be 10% of the market value of your account on 31 August 2024, subject to a maximum of R30 000. If you have a harmonisation vested benefit, seeding will take a few

days longer and should be completed by 5 September 2024, unless there is a transaction underway on your account, which may cause a delay.

Seeding is compulsory, but you are not required to withdraw this amount. The seeding process has no financial consequences; the only change that will impact you is if you decide to withdraw the seeded amount. If you don't withdraw it, the seeded amount will remain in your savings component and continue to benefit from investment growth.

Your contributions will be split

From 1 September, your contributions will be split, with one-third going into your savings component and two-thirds into your retirement component.

4. What if I need to access my retirement account before retirement?

While you will be able to access the savings component from 1 September 2024, this access is intended to be used during severe financial stress, when you have no other options. It is a good idea to set up a separate savings account for emergencies to prevent having to dip into an investment intended for your retirement, as Tebogo Marite explains in her piece on page 30. It remains important to preserve as much of your investment as possible until retirement so that you can maximise the impact of compounding and the resulting benefits to allow you to retire comfortably.

How much can I withdraw and how frequently?

You will be allowed to make one withdrawal of at least R2 000 from your savings component per tax year (1 March to end-February). Once you have made a withdrawal, you will not be able to withdraw again until the following tax year, unless you cease to be a member of the fund during the tax year *and* have less than R2 000 in your savings component, in which case you will be allowed to withdraw the total balance in your savings component. It remains in your long-term best interest not to make any withdrawal unless you really need to.

The tax implications

Withdrawals from your savings component before retirement will be taxed at your marginal tax rate, which is the highest rate of tax that is applicable to you, according to the personal

¹ Your two-pot vested benefit refers to any contribution made to a pension fund or retirement annuity fund until 31 August 2024, as well as contributions made to a provident fund from 1 March 2021 until 31 August 2024. These contributions will be protected from two-pot changes.

² Your harmonisation vested benefit refers to any contribution made to a provident fund or provident preservation fund before 1 March 2021. This portion of your benefit is exempt from harmonisation (legislation which came into effect on 1 March 2021) and will also be protected from two-pot changes.

income tax table. Tax will be deducted before the withdrawal is paid to you, so be prepared to receive a lower amount than you requested.

The process

From 1 September, you will be able to submit an instruction to withdraw from your savings component via your Allan Gray Online account. To process this instruction, we will need your bank details and tax reference number. We may also request documents to verify your identity and residential address if you are a member of the Allan Gray Retirement Annuity Fund, Pension Preservation Fund or Provident Preservation Fund.

Once we receive your withdrawal instruction, we will apply for a tax directive from the South African Revenue Service (SARS). The tax directive will indicate the amount of tax that we are required to withhold and pay to SARS. If you have any outstanding taxes, SARS may also include a deduction order (IT88), which we will need to apply to your withdrawal. We will then pay the after-tax amount to you. It is important to note that once we have applied for a tax directive based on your withdrawal instruction, you cannot cancel your withdrawal.

We do not currently know how long SARS will take to issue these tax directives. Once we have received the tax directive, we will process the withdrawal within six business days.

5. What will happen if I change jobs?

You will be able to withdraw from your savings component, provided you have not already made a withdrawal in the same tax year. You will not be able to withdraw from your retirement component.

The rules that currently apply when you resign will continue to apply to your vested component. For example, if you are a member of the Allan Gray Umbrella Pension Fund or Umbrella Provident Fund, you will be able to access 100% of your vested component when you resign. These withdrawals are taxed according to SARS's retirement fund withdrawal tax table, available on their [website](#).

6. How will transfers work?

If you transfer your investment to another retirement fund provider, your vested, savings and retirement components (and their rights) will remain as is.

You will also be allowed one-way transfers between components of the same retirement account as follows:

- From your vested component to your retirement component
- From your savings component to your retirement component

These one-way transfers, should you choose to do them, mean that you will effectively be giving up any access rights attached to the transferred portion – in other words, you will not be able to undo a transfer if you require access to your retirement account. There may also be tax implications.

... the objective of retirement funds remains the same: to enable you to provide adequately for your retirement and the needs of your dependants.

7. Can I access my retirement account if I leave South Africa permanently?

You will still be allowed to withdraw from your retirement account if you cease to be a South African tax resident for an uninterrupted period of at least three years, as is currently the case. However, if you have a balance in your savings component, your options are as follows:

- Submit a savings component withdrawal, which will be taxed at your marginal tax rate (and not as a retirement fund lump sum withdrawal, which could be more favourable than being taxed at your marginal tax rate as it allows for a tax-free portion).
- If you have already withdrawn from your savings component in that tax year, or you want to avoid paying tax at your marginal tax rate, you can transfer your savings component to your retirement component and then make a full withdrawal from your retirement and vested components. This withdrawal will be taxed according to SARS's retirement fund withdrawal tax table, available on their [website](#).

8. What if I die before I retire?

There will be no change to the treatment of death benefits. If you die while you are a member of one of the Allan Gray

retirement funds, the trustees of the fund will decide how to allocate your benefit between your dependants and nominees. Your beneficiaries will then be able to access the benefits across the savings component, retirement component and vested component as either a cash lump sum, or a compulsory annuity (i.e. a [living annuity](#) or guaranteed life annuity), or a combination of a cash lump sum and an annuity.

If a beneficiary decides to take a cash lump sum, the total benefit will continue to be taxed as a lump sum benefit in your hands according to SARS's retirement fund lump sum tax table, available on their [website](#).

9. Should I change how I invest?

The system is changing, but the objective of retirement funds remains the same: to enable you to provide adequately for your retirement and the needs of your dependants. You should not think differently about your retirement component or treat the savings component as a short-term savings vehicle. Just because you can access the cash, does not mean you should, as Shaun Duddy discusses in his piece on page 19.

In addition, the prescribed legal investment limits outlined in Regulation 28 of the Pension Funds Act will continue to apply on a retirement account level. If you withdraw from your savings component, you will need to ensure that your account remains compliant after the withdrawal (unless you withdraw proportionately).

10. What will happen when I retire?

At retirement, you will have different options for the components of your retirement account.

Savings component

You will be able to withdraw the full amount in your savings component. This withdrawal will be taxed according to SARS's retirement fund lump sum tax table, available on their [website](#). Alternatively, you can transfer a portion of or the entire savings component to a retirement income product, such as a [living annuity](#) or guaranteed life annuity.

This transfer would not incur any tax. The annuity income you receive is then taxed at your marginal tax rate, as per the current tax treatment.

Retirement component

You must transfer the full value of your retirement component to a retirement income product at retirement, unless the amount that would have been used to purchase a retirement income product, across all your retirement accounts in the relevant fund, is R165 000 or less.

Vested component

Your vested component will be treated the same at retirement as in the pre-two-pot regime. For the most part, this means that you will be able to withdraw up to one-third as cash, while you must use the remaining two-thirds to purchase a retirement income product. Withdrawals will also continue to be taxed according to the pre-two-pot regime – i.e. SARS's retirement fund lump sum tax table, available on their [website](#).

If you have a harmonisation vested benefit, you will be able to withdraw the full value of that portion as cash at retirement.

If you are a member of one of the Allan Gray retirement funds ... we will ... communicate with you ... to confirm how you are impacted.

Keeping up to date with developments

We encourage you to visit the ["Two-pot retirement system" page](#) on our website for up-to-date information about the new system. If you are a member of one of the Allan Gray retirement funds (listed in question 2), we will also communicate with you in advance of the go-live date to confirm how you are impacted.

Lydia is a communications manager in the Marketing team. She rejoined Allan Gray in 2019, having held roles in the Retail Client Services, Product Development, and Investor Education and Behaviour teams between 2010 and 2016. Lydia holds a Bachelor of Commerce (Honours) degree in Actuarial Science from Stellenbosch University.

THE IMPORTANCE OF AN EMERGENCY FUND IN THE TWO-POT ERA

Tebogo Marite



By ... making a concerted effort to build up emergency reserves ... you can preserve your long-term investments for their intended purpose ...

For a long time, the retirement savings industry has observed how many South Africans have struggled to balance accumulating and preserving their long-term retirement savings with the need for access to funds in difficult times. In too many cases, members of retirement funds have resorted to resigning from their jobs as a desperate measure to access their pension and provident funds; many others have opted not to preserve their retirement savings when changing jobs. The unfortunate consequence has been a burgeoning number of South Africans with insufficient retirement savings. Tebogo Marite discusses why building up an emergency fund should be prioritised even though the new two-pot retirement system allows some access to retirement savings.

The two-pot retirement system, which will go live on 1 September 2024, aims to combat both immediate and long-term hardship by allowing limited access to retirement funds, while enforcing preservation, with the aim of improving retirement outcomes. As shown in the graphic on page 32, from the implementation date, all new contributions to retirement funds will be split into

two components: One-third will be allocated to a savings component, which members can access once a year before retirement, and the remaining two-thirds will be allocated to a retirement component, which will be inaccessible before a member retires, and at retirement must be used to purchase a retirement income product. Existing retirement savings will go into a vested component and the existing rules will continue to apply. (For more detail, see Shaun Duddy's piece on page 19, which discusses how the new rules aim to improve outcomes and the risks that need to be avoided to achieve this, and Lydia Fourie's article on page 26, which addresses frequently asked questions.)

While access to the savings component will come as a welcome relief to those in dire need, as a retirement fund member, it is vital to be mindful of the unintended consequence of unnecessary early access, which can prevent you from reaching your long-term investment goals. Your retirement savings are intended for a very specific purpose: funding your income in retirement. Despite getting access to a component for emergencies, it is important to guard against thinking of your savings

component as your emergency fund. Depleting your savings component annually will result in you having one-third less on which to retire.

An emergency fund is insurance for you – and for your long-term financial goals

Deciding how to allocate your money to various goals can be complex and requires trade-offs between current and future lifestyle wants and needs. Typically, an investment plan includes different investment products to meet a range of objectives. Using the products as intended and appreciating the time frames required for success are important aspects of long-term wealth creation. A good, independent financial adviser can help you with these decisions.

Beyond membership of your employer's retirement fund, which is often not an active decision but a condition of employment, a critical starting point is to protect yourself against the risk of unknowns by building up an emergency fund.

How to set up an emergency fund

Aim to accumulate at least three times your monthly salary. This should be invested in a low-risk unit trust, such as a money market fund, which will preserve your capital over the short term and offer easy access when needed. Accumulating a healthy emergency fund may take some effort, including lifestyle adjustments, such as paying off expensive credit card debt and sticking to a monthly budget. Commit to "paying yourself first" and then set up a debit order so you don't have to battle old habits each month.

For example, if you earn R25 000 per month after tax and other deductions and want to build up three months of reserves, you will need to set aside R4 167 per month for 18 months to accumulate R75 000. By the time your emergency fund is established, you will be used to the monthly sacrifice.

Rather than reverting to your previous spending habits, redirect your monthly payments into a longer-term investment (and remember to increase your contributions in line with your salary increases to account for lifestyle inflation). This way, you continue with the new habit, which builds your investment resilience. If you do have an emergency and need to spend some of the emergency fund, you can then easily redirect your debit order until you have replenished the spend.

Ultimately, you should aim for your emergency fund to be sufficiently sized to buy you enough time to manage and recover from a crisis without the need to dip into your

long-term investments. It is not prudent to rely on long-term investments – including the soon-to-be accessible savings component of your retirement funds – as they are specifically intended to meet long-term goals and are typically invested accordingly, with relatively high equity exposure.

While equities are the best way to ensure your portfolio beats inflation over the long term, market ups and downs are to be expected. This means that equities are not well suited for short-term savings or emergency funds, because if you need cash during a market downturn, you may be forced to sell at a low, locking in losses. An appropriately invested emergency fund can help you avoid this scenario.

Blurring the lines

While the impending changes to the retirement system will be helpful to those in financial distress, they may stir up temptation to withdraw for non-emergency purposes. However, withdrawing from your savings component can cost you more than you think down the line – both in terms of losing out on growth and due to the punitive tax implications.

Example: You are about to turn 40 and decide to make a withdrawal of R30 000 from your savings component to fund your birthday party. After all, you are only going to retire at 65 and can easily replenish the amount.

Before you go ahead, you may want to consider the following:

- You may only be withdrawing R30 000 today, but assuming above-inflation returns of 5% per year, your withdrawal is just above R100 000 of your future retirement savings, in today's money terms.
- You are unlikely to receive R30 000 in your bank account. The funds will form part of your gross income for the tax year and will be taxed at your marginal tax rate, which means you will only receive the after-tax amount.
- You could be pushed into a higher tax bracket for the year of assessment.

Stick to your objectives

By setting out clear investment objectives and making a concerted effort to build up emergency reserves that are separate from your long-term investments, you can preserve your long-term investments for their intended purpose, while having enough reserves to protect you against the unpredictability of life.

The two-pot retirement system explained



Retirement account

For **existing retirement accounts**, the investment will be made up of the savings, retirement and vested components.

New retirement accounts, which start from 1 September 2024, will only have the savings and retirement components.

Contributions from **1 September 2024**

$\frac{1}{3}$

Savings component (New)



One-third of all contributions from 1 September 2024.

$\frac{2}{3}$

Retirement component (New)



Two-thirds of all contributions from 1 September 2024.

Once-off seeding of 10% (to the maximum of R30 000) of the market value of your retirement account on **31 August 2024**.

Vested component (Existing)



The value of your retirement account on 31 August 2024 (less once-off seeding). This component will be treated in the same way as it was before 1 September 2024, except that no further contributions can be allocated to it.

Source: Allan Gray

Tebogo joined Allan Gray in 2022 as a communications specialist in the Marketing team. She holds a Bachelor of Commerce (Honours) degree in Communication Management from the University of Pretoria.

Allan Gray Balanced and Stable Fund asset allocation as at 30 June 2024¹

	Balanced Fund % of portfolio			Stable Fund % of portfolio		
	Total	SA	Foreign	Total	SA	Foreign
Net equities	65.8	41.0	24.8	25.8	13.8	12.0
Hedged equities	7.9	1.7	6.2	19.4	9.1	10.4
Property	0.7	0.4	0.3	0.9	0.6	0.3
Commodity-linked	3.3	2.6	0.7	2.4	1.8	0.6
Bonds	13.9	9.0	4.9	31.8	25.1	6.7
Money market and bank deposits ²	8.5	7.9	0.6	19.6	18.2	1.4
Total	100.0	62.6	37.4³	100.0	68.6	31.4³

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

¹ Underlying holdings of foreign funds are included on a look-through basis.

² Including currency hedges.

³ The Fund can invest a maximum of 45% offshore. Market movements may periodically cause the Fund to move beyond these limits.

This must be corrected within 12 months.

Allan Gray Equity Fund net assets as at 30 June 2024

Security	Market value (R million)	% of Fund
South Africa	25 201	57.0
Equities	24 175	54.7
Resources	5 354	12.1
Glencore	1 232	2.8
Sasol	683	1.5
Gold Fields	655	1.5
AngloGold Ashanti	591	1.3
Sappi	584	1.3
Positions individually less than 1% of the Fund	1 608	3.6
Financials	7 052	16.0
Standard Bank	1 398	3.2
Nedbank	1 137	2.6
Rengro	919	2.1
FirstRand	783	1.8
Momentum Metropolitan Holdings	459	1.0
Positions individually less than 1% of the Fund	2 356	5.3
Industrials	11 769	26.6
British American Tobacco	2 042	4.6
Naspers & Prosus	1 953	4.4
AB InBev	1 813	4.1
Woolworths	1 203	2.7
Mondi	1 087	2.5
Tiger Brands	452	1.0
Positions individually less than 1% of the Fund	3 219	7.3
Commodity-linked securities	213	0.5
Positions individually less than 1% of the Fund	213	0.5
Cash	814	1.8
Foreign	19 002	43.0
Equities	1 881	4.3
Walt Disney Company	648	1.5
Booking Holdings Inc	558	1.3
Positions individually less than 1% of the Fund	676	1.5
Equity funds	16 908	38.3
Orbis Global Equity Fund	7 228	16.4
Orbis SICAV International Equity Fund	5 112	11.6
Allan Gray Frontier Markets Equity Fund	2 438	5.5
Orbis SICAV Japan Equity (Yen) Fund	1 162	2.6
Allan Gray Africa ex-SA Equity Fund	864	2.0
Orbis SICAV Emerging Markets Equity Fund	103	0.2
Bonds	20	0.0
Positions individually less than 1% of the Fund	20	0.0
Cash	193	0.4
Totals	44 203	100.0

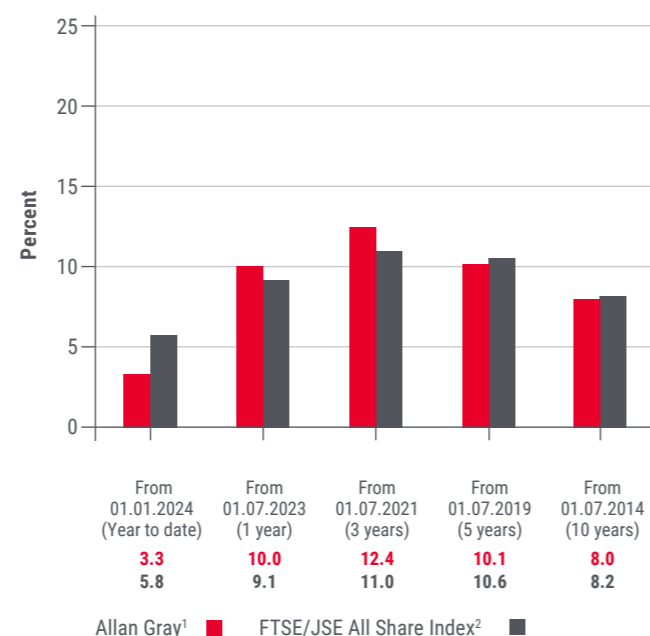
Note: There may be slight discrepancies in the totals due to rounding. For other fund-specific information, please see the monthly factsheets.

Investment track record – share returns

Allan Gray global mandate share returns vs. FTSE/JSE All Share Index before fees

Period	Allan Gray ¹	FTSE/JSE All Share Index ²	Out-/Under-performance
1974 (from 15.6)	-0.8	-0.8	0.0
1975	23.7	-18.9	42.6
1976	2.7	-10.9	13.6
1977	38.2	20.6	17.6
1978	36.9	37.2	-0.3
1979	86.9	94.4	-7.5
1980	53.7	40.9	12.8
1981	23.2	0.8	22.4
1982	34.0	38.4	-4.4
1983	41.0	14.4	26.6
1984	10.9	9.4	1.5
1985	59.2	42.0	17.2
1986	59.5	55.9	3.6
1987	9.1	-4.3	13.4
1988	36.2	14.8	21.4
1989	58.1	55.7	2.4
1990	4.5	-5.1	9.6
1991	30.0	31.1	-1.1
1992	-13.0	-2.0	-11.0
1993	57.5	54.7	2.8
1994	40.8	22.7	18.1
1995	16.2	8.8	7.4
1996	18.1	9.4	8.7
1997	-17.4	-4.5	-12.9
1998	1.5	-10.0	11.5
1999	122.4	61.4	61.0
2000	13.2	0.0	13.2
2001	38.1	29.3	8.8
2002	25.6	-8.1	33.7
2003	29.4	16.1	13.3
2004	31.8	25.4	6.4
2005	56.5	47.3	9.2
2006	49.7	41.2	8.5
2007	17.6	19.2	-1.6
2008	-13.7	-23.2	9.5
2009	27.0	32.1	-5.1
2010	20.3	19.0	1.3
2011	9.9	2.6	7.3
2012	20.6	26.7	-6.1
2013	24.3	21.4	2.9
2014	16.2	10.9	5.3
2015	7.8	5.1	2.7
2016	12.2	2.6	9.6
2017	15.6	21.0	-5.4
2018	-8.0	-8.5	0.5
2019	6.2	12.0	-5.8
2020	-3.5	7.0	-10.5
2021	28.9	29.2	-0.3
2022	13.1	3.6	9.5
2023	8.7	9.3	-0.6
2024 (to 30.06)	3.3	5.8	-2.5

Returns annualised to 30.06.2024



An investment of R10 000 made with Allan Gray on 15 June 1974 would have grown to R356.6 million by 30 June 2024. By comparison, the returns generated by the FTSE/JSE All Share Index over the same period would have grown a similar investment to R16.5 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.

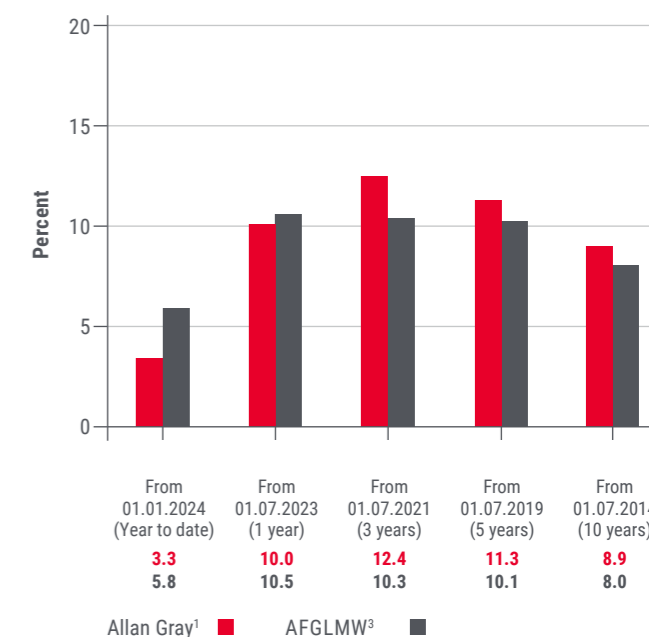
² Prior to July 1995, an internally derived JSE All Share benchmark was used. **Note:** Listed property included from 1 July 2002. Inward listed included from November 2008 to November 2011.

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 30.06)	3.3	5.8	-2.5

Returns annualised to 30.06.2024



An investment of R10 000 made with Allan Gray on 1 January 1978 would have grown to R41.1 million by 30 June 2024. The average total performance of global mandates of Large Managers over the same period would have grown a similar investment to R8.8 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 June 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 30 June 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) Average of South African - Equity - General category (excl. Allan Gray funds) ¹	44.2	01.10.1998	19.0 13.9	7.3 6.2	10.5 9.8	12.2 10.3	10.7 9.5	125.8 73.0	-24.3 -37.6
Allan Gray SA Equity Fund (AGDE) FTSE/JSE All Share Index, including income	3.7	13.03.2015	6.7 8.3	- -	9.2 10.6	11.7 11.0	10.5 9.1	57.3 54.0	-32.0 -18.4
Allan Gray-Orbis Global Equity Feeder Fund (AGOE) MSCI World Index, including income, after withholding taxes ²	30.4	01.04.2005	14.3 14.8	12.3 15.4	16.1 17.8	13.1 16.0	16.1 16.2	78.2 54.2	-29.7 -32.7
Medium net equity exposure (40% - 75%)									
Allan Gray Balanced Fund (AGBF)	188.8	01.10.1999	14.8	8.0	10.3	11.4	9.4	46.1	-14.2
Allan Gray Tax-Free Balanced Fund (AGTB) Average of South African - Multi Asset - High Equity category (excl. Allan Gray funds) ³	3.0	01.02.2016	8.3 11.4/7.5	- 7.1	10.3 9.3	11.4 9.3	9.5 9.3	31.7 41.9/30.7	-13.4 -16.7/-10.3
Allan Gray-Orbis Global Balanced Feeder Fund (AGGF)⁴ 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index ⁴	17.7	03.02.2004	11.3 11.2	11.0 11.2	14.7 11.5	16.2 10.0	11.7 7.4	55.6 38.8	-13.7 -17.0
Low net equity exposure (0% - 40%)									
Allan Gray Stable Fund (AGSF) Daily interest rate, as supplied by FirstRand Bank Limited, plus 2%	51.7	01.07.2000	11.1 8.5	7.9 7.3	8.5 6.9	9.5 7.6	8.2 9.7	23.3 14.6	-7.4 4.6
Very low net equity exposure (0% - 20%)									
Allan Gray Optimal Fund (AGOF) Daily interest rate as supplied by FirstRand Bank Limited	0.8	01.10.2002	6.7 6.0	5.2 5.2	3.3 4.8	5.6 5.4	6.9 7.5	18.1 11.9	-8.2 2.5
Allan Gray-Orbis Global Optimal Fund of Funds (AGOO) Average of US\$ bank deposits and euro bank deposits	1.1	02.03.2010	7.5 6.3	6.0 5.4	8.6 6.3	14.4 9.4	0.5 0.3	39.6 35.6	-12.4 -19.1
No equity exposure									
Allan Gray Bond Fund (AGBD) FTSE/JSE All Bond Index (total return)	8.1	01.10.2004	8.8 8.5	8.4 8.2	7.5 7.8	7.5 7.6	12.4 13.7	18.0 21.2	-2.6 -5.6
Allan Gray Money Market Fund (AGMF) Alexander Forbes Short-Term Fixed Interest (STeFI) Composite Index ⁵	29.4	01.07.2001	7.7 7.5	7.0 6.6	6.5 6.1	6.9 6.5	9.0 8.5	12.8 13.3	4.3 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 (source: Bloomberg). From 1 June 2021, the Fund's investment mandate was changed from a fund of funds structure to a feeder fund structure investing solely into the Orbis SICAV Global Balanced Fund. To reflect this, the Fund was renamed and the benchmark was changed.

⁵ From inception to 31 March 2003, the benchmark was the Alexander Forbes 3-Month Deposit Index. From 1 April 2003 to 31 October 2011, the benchmark was the Domestic Fixed Interest Money Market Collective Investment Scheme sector, excluding the Allan Gray Money Market Fund.

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 30 June 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%	0.54%	0.04%	0.18%	1.84%	0.08%	1.92%
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%	0.39%	0.03%	0.15%	1.59%	0.06%	1.65%
Allan Gray Tax-Free Balanced Fund	1.30%	N/A	0.03%	0.14%	1.47%	0.07%	1.54%
Allan Gray Stable Fund	1.01%	0.41%	0.03%	0.17%	1.62%	0.04%	1.66%
Allan Gray Optimal Fund	1.00%	0.00%	0.03%	0.15%	1.18%	0.14%	1.32%
Allan Gray Bond Fund	0.47%	0.00%	0.01%	0.07%	0.55%	0.00%	0.55%
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	1.34%	-0.24%	0.05%	0.00%	1.15%	0.10%	1.25%
Allan Gray-Orbis Global Balanced Feeder Fund	1.25%	0.74%	0.06%	0.00%	2.05%	0.08%	2.13%
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 30 June 2024 (net of fees)

	Inception date	Since inception	10 years	5 years	3 years	1 year	Highest annual return ⁶	Lowest annual return ⁶
High net equity exposure								
Orbis Global Equity Fund MSCI World Index, including income, after withholding taxes ⁷	01.01.1990	17.5 14.2	12.4 15.5	16.3 17.8	13.2 16.0	15.5 16.1	87.6 54.2	-47.5 -46.2
Orbis SICAV Japan Equity (Yen) Fund Tokyo Stock Price Index, including income, after withholding taxes	01.01.1998	14.1 9.6	11.9 11.5	13.1 11.8	12.7 10.7	9.7 8.6	94.9 91.0	-40.1 -46.4
Orbis SICAV Emerging Markets Equity Fund⁸ MSCI Emerging Markets Index, including income, after withholding taxes ⁸	01.01.2006	12.8 12.1	8.2 9.5	9.9 8.6	8.0 3.0	4.9 8.6	58.6 60.1	-34.2 -39.7
Allan Gray Africa ex-SA Equity Fund (C class) MSCI Emerging Frontier Markets Africa ex-SA Index ⁹	01.01.2012	10.9 6.9	4.4 3.3	9.4 9.7	7.8 4.6	2.4 -10.1	65.6 42.2	-24.3 -29.4
Allan Gray Australia Equity Fund S&P/ASX 300 Accumulation Index	04.05.2006	13.8 12.5	10.8 10.1	10.8 11.8	14.2 10.8	2.5 8.5	99.5 55.6	-55.4 -45.1
Allan Gray Frontier Markets Equity Fund (C class) MSCI Frontier Emerging Markets Index	03.04.2017	11.0 5.8	- -	13.2 4.3	15.9 7.8	7.0 6.9	45.2 23.2	-11.0 -12.8
Medium net equity exposure								
Orbis SICAV Global Balanced Fund 60% MSCI World Index with net dividends reinvested and 40% J.P. Morgan Global Government Bond Index	01.01.2013	14.6 13.5	11.4 11.0	15.2 11.4	16.4 9.9	11.2 7.3	54.4 40.2	-9.8 -12.1
Allan Gray Australia Balanced Fund The custom benchmark comprises the S&P/ASX 300 Accumulation Index (36%), S&P/ASX Australian Government Bond Index (24%), MSCI World Index (net dividends reinvested) expressed in AUD (24%) and J.P. Morgan Global Government Bond Index expressed in AUD (16%). All performance returns shown are net of fees and assume reinvestment of distributions.	01.03.2017	10.3 9.8	- -	12.0 9.7	12.7 8.1	6.1 5.9	29.1 25.1	-5.3 -8.3
Low net equity exposure								
Orbis SICAV Global Cautious Fund¹⁰ US\$ bank deposits + 2%	01.01.2019	8.5 9.1	- -	9.3 10.0	12.3 14.5	4.4 4.1	- -	- -
Allan Gray Australia Stable Fund Reserve Bank of Australia cash rate	01.07.2011	10.1 6.3	7.2 3.7	8.7 6.0	9.4 7.0	1.7 1.2	32.7 28.8	-8.9 -15.5
Very low net equity exposure								
Orbis Optimal SA Fund (US\$) US\$ bank deposits	01.01.2005	9.5 8.1	7.7 7.3	10.5 7.8	16.9 12.2	1.8 2.1	48.6 57.9	-15.7 -25.6
Orbis Optimal SA Fund (Euro) Euro bank deposits	01.01.2005	7.2 5.9	3.8 3.3	7.5 4.9	11.6 6.7	-1.4 -1.3	44.1 40.2	-19.3 -20.9
No equity exposure								
Allan Gray Africa Bond Fund (C class)¹¹ FTSE 3-Month US T Bill + 4% Index ¹¹	27.03.2013	13.0 8.5	12.3 8.5	10.3 11.7	11.4 16.4	14.9 5.8	31.4 36.5	-7.4 -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 Return information through to the class inception date on 29 February 2024 is based on the returns that would have resulted from an investment in the Shared Investor RRF Class (C) at Fund inception with no subsequent transactions, if this class of the Fund had existed then. Returns from that date are actual returns of this class of the Fund (Class RRF). Highest and lowest annual returns will be calculated once consecutive 12-month return data for this class of the Fund is available.

¹¹ 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

of their choice of funds and that their investment objectives are aligned with those of the fund(s) they select.

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

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

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

The Allan Gray Retirement Annuity Fund, Allan Gray Pension Preservation Fund, Allan Gray Provident Preservation Fund and Allan Gray Umbrella Retirement Fund (comprising the Allan Gray Umbrella Pension Fund and Allan Gray Umbrella Provident Fund) are all

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