

ALLAN GRAY

LONG-TERM INVESTING

**Investing:
COVID-19
volatility and
uncertainty**

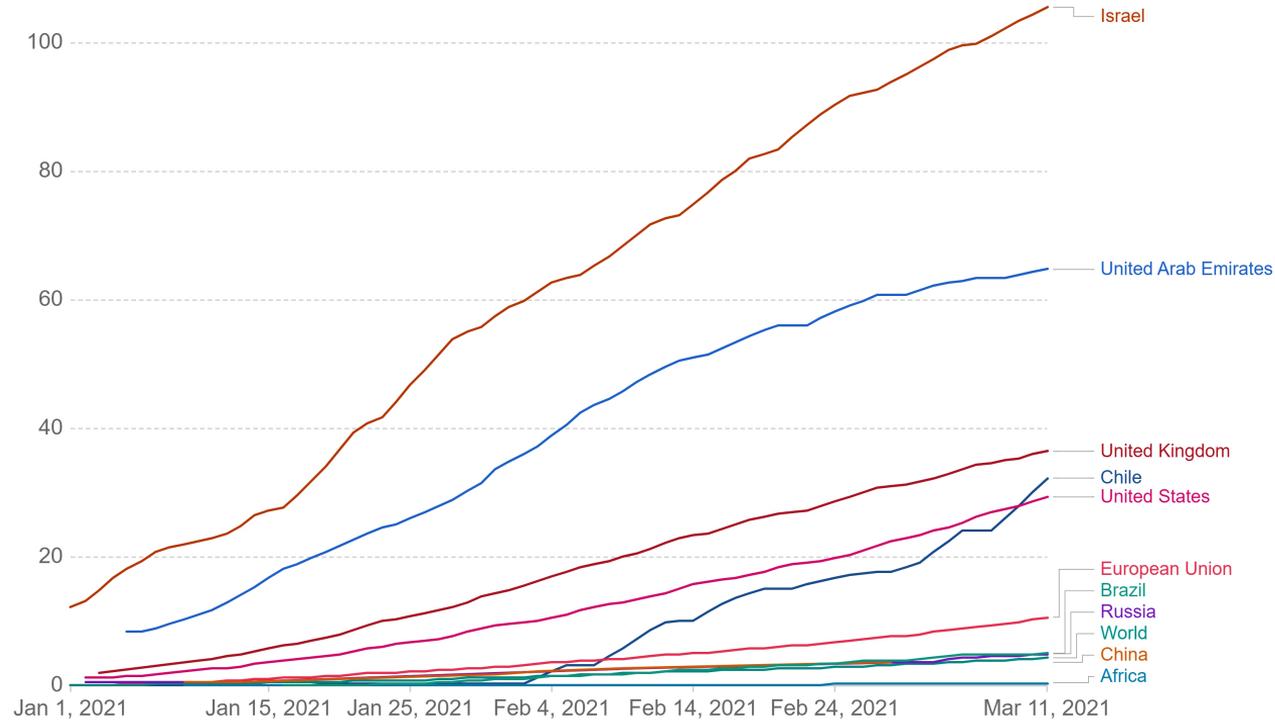
Tapologo Motshubi

25 March 2021



COVID-19 vaccinations

Cumulative COVID-19 vaccination dose administered per 100 people*



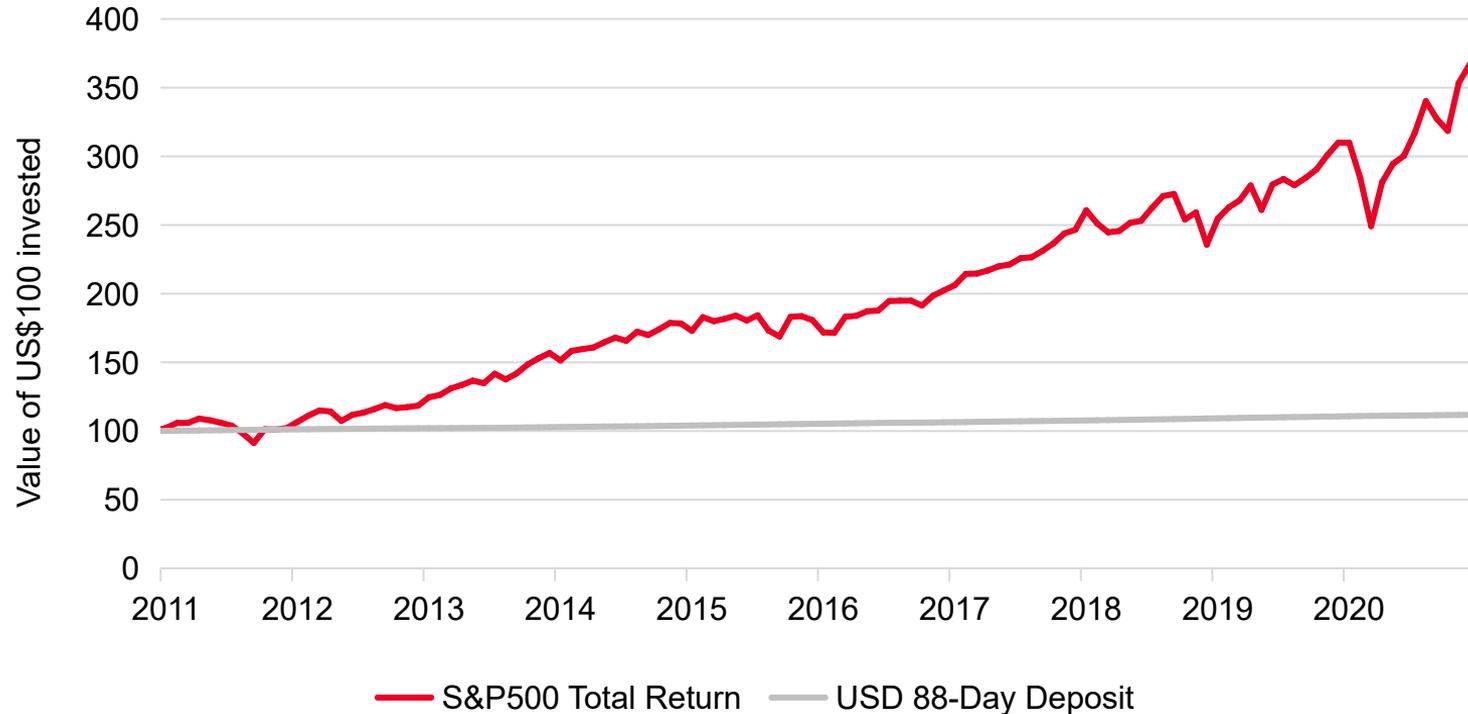
*This is counted as a single dose, and may not equal the total number of people vaccinated, depending on the specific dose regime (e.g. people receive multiple doses).

Source: Ourworldindata.org



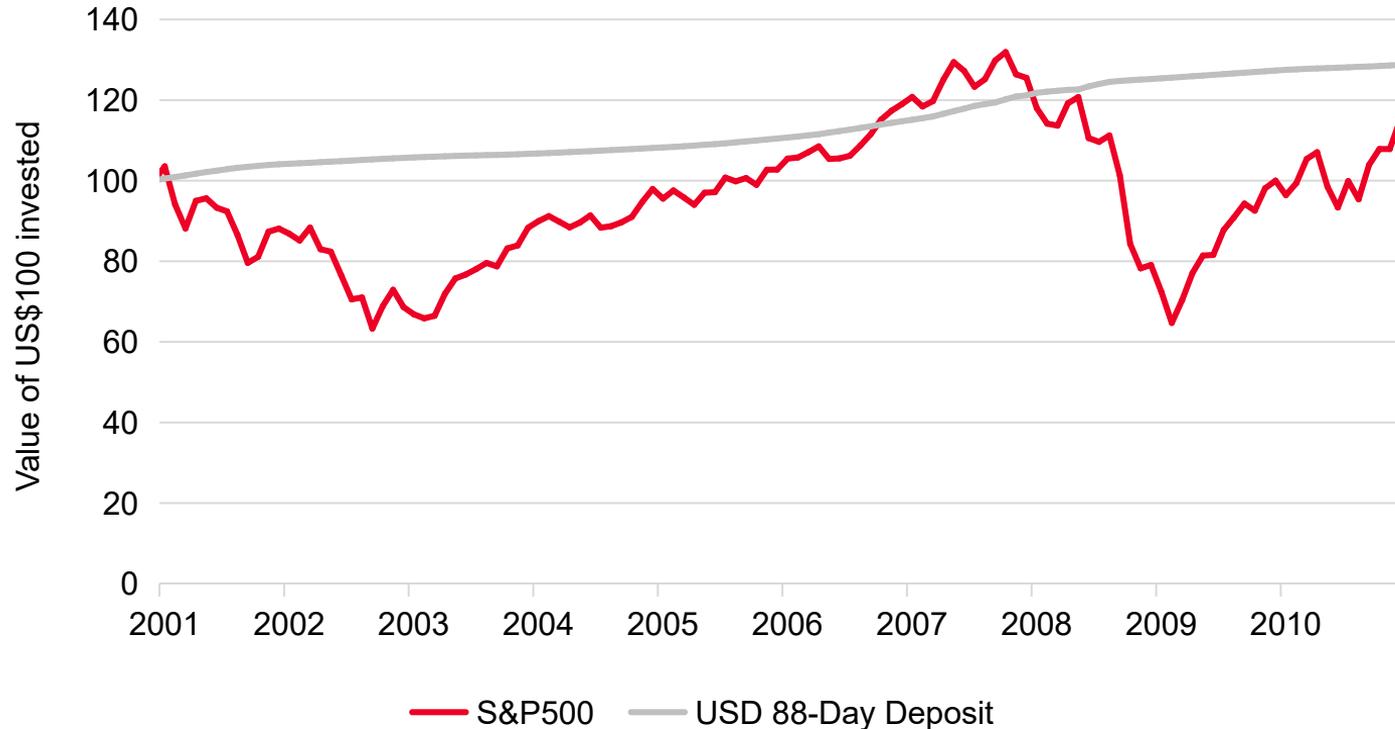
Rearview mirror investing can be dangerous

Total return in US\$ from Dec 2010 to Dec 2020

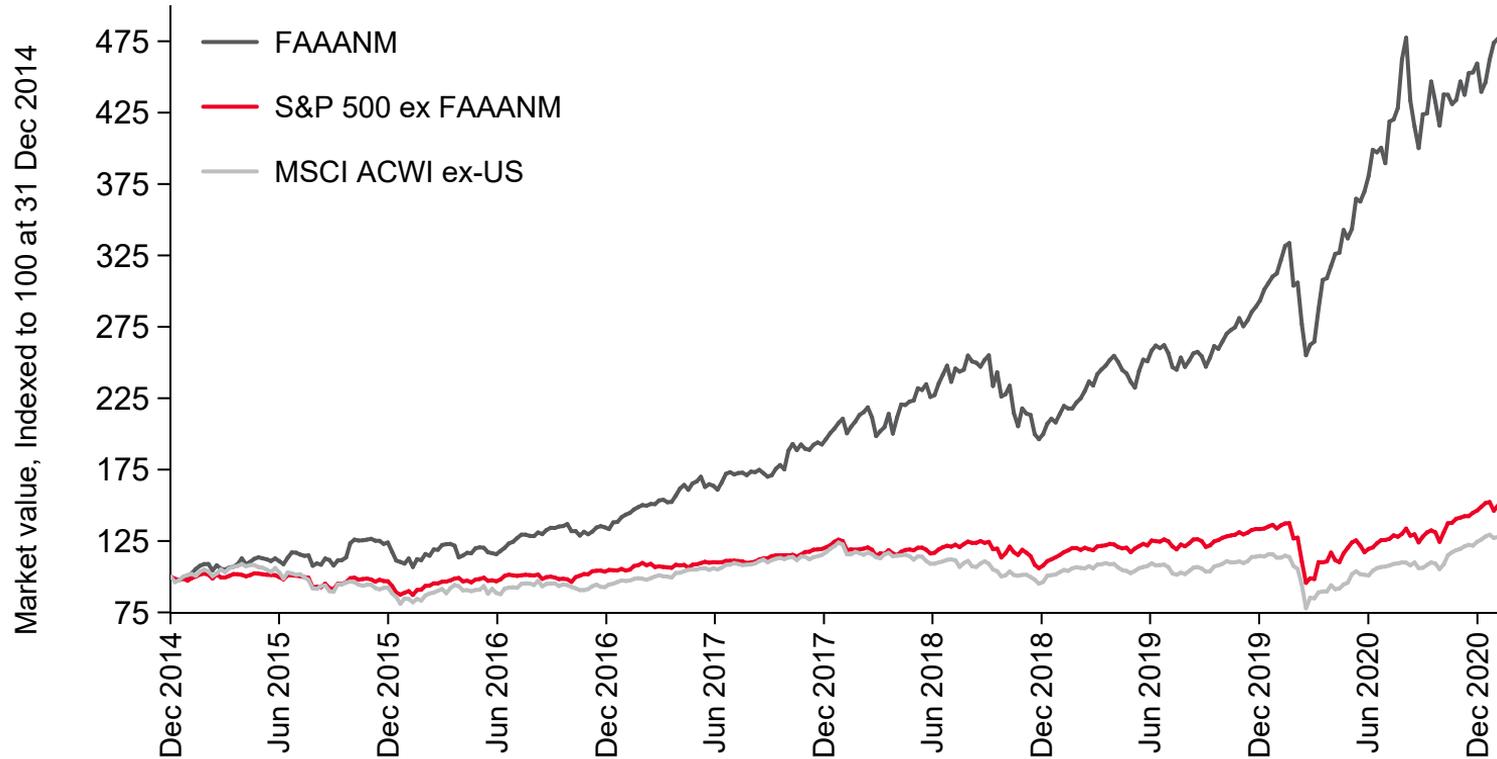


Rearview mirror investing can be dangerous

Total return in US\$ from Dec 2000 to Dec 2010

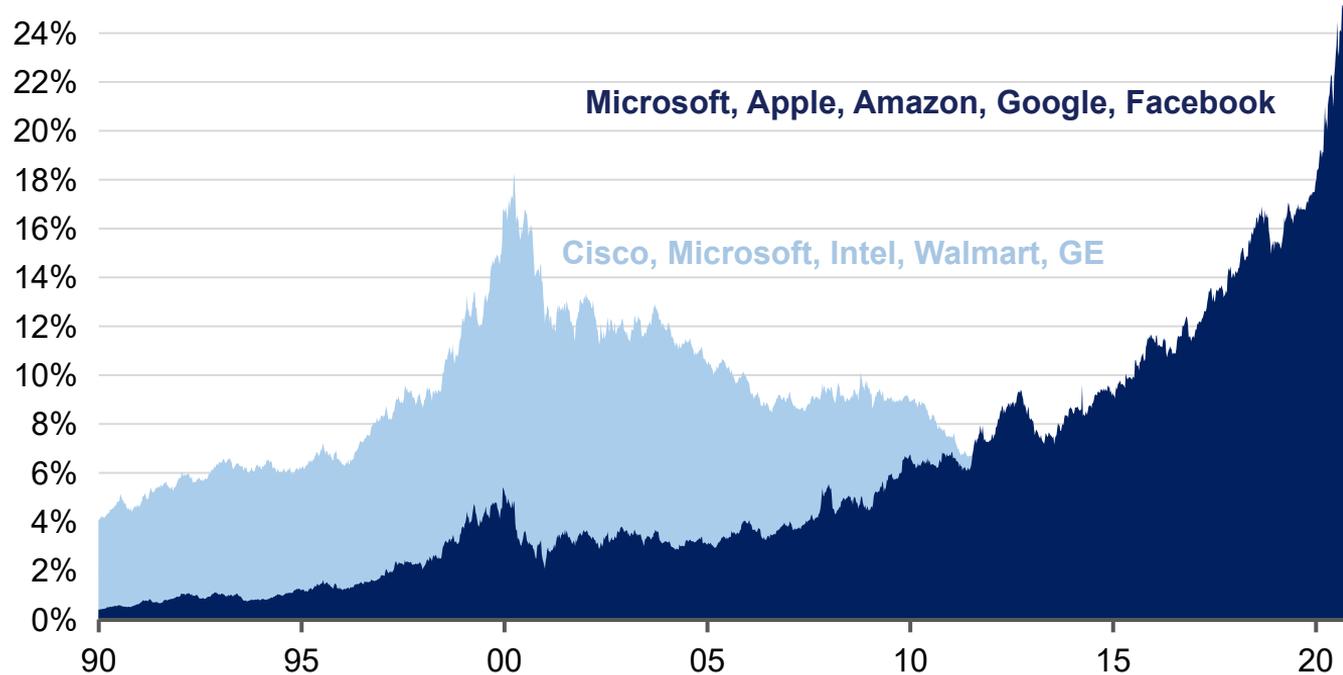


FAAANM stocks account for most of S&P outperformance

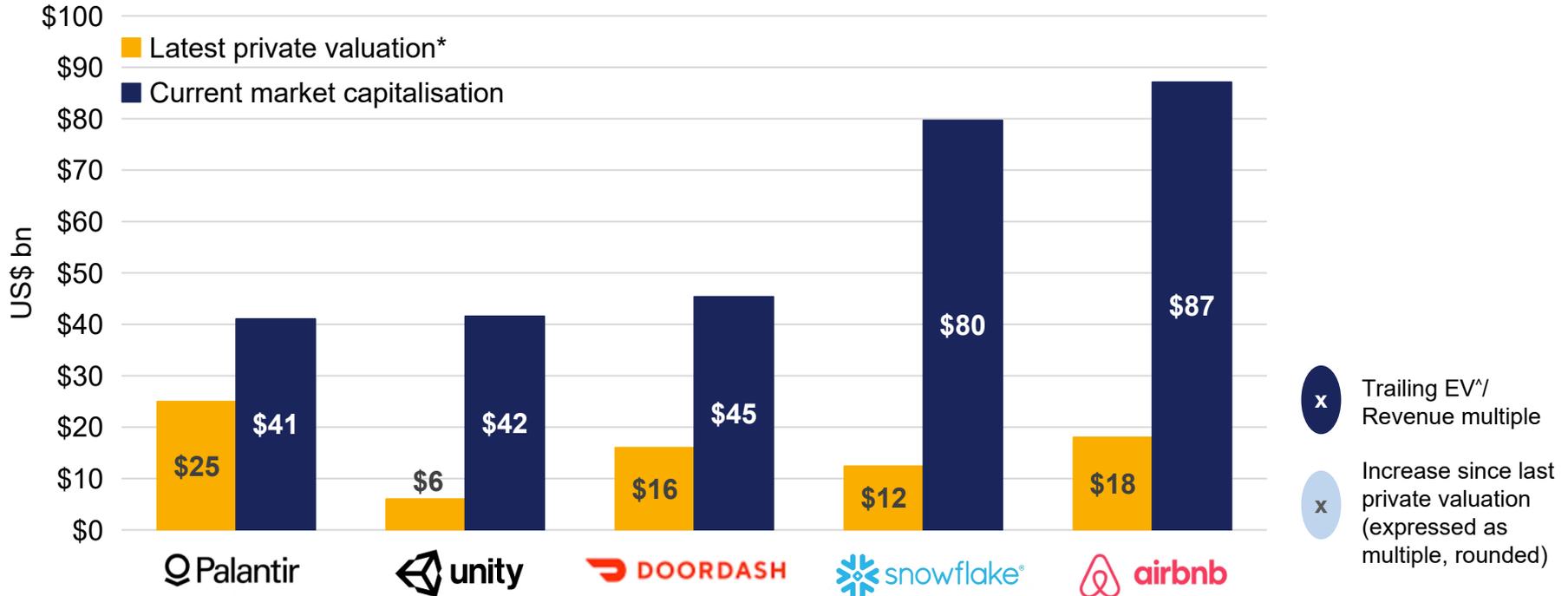


S&P 500

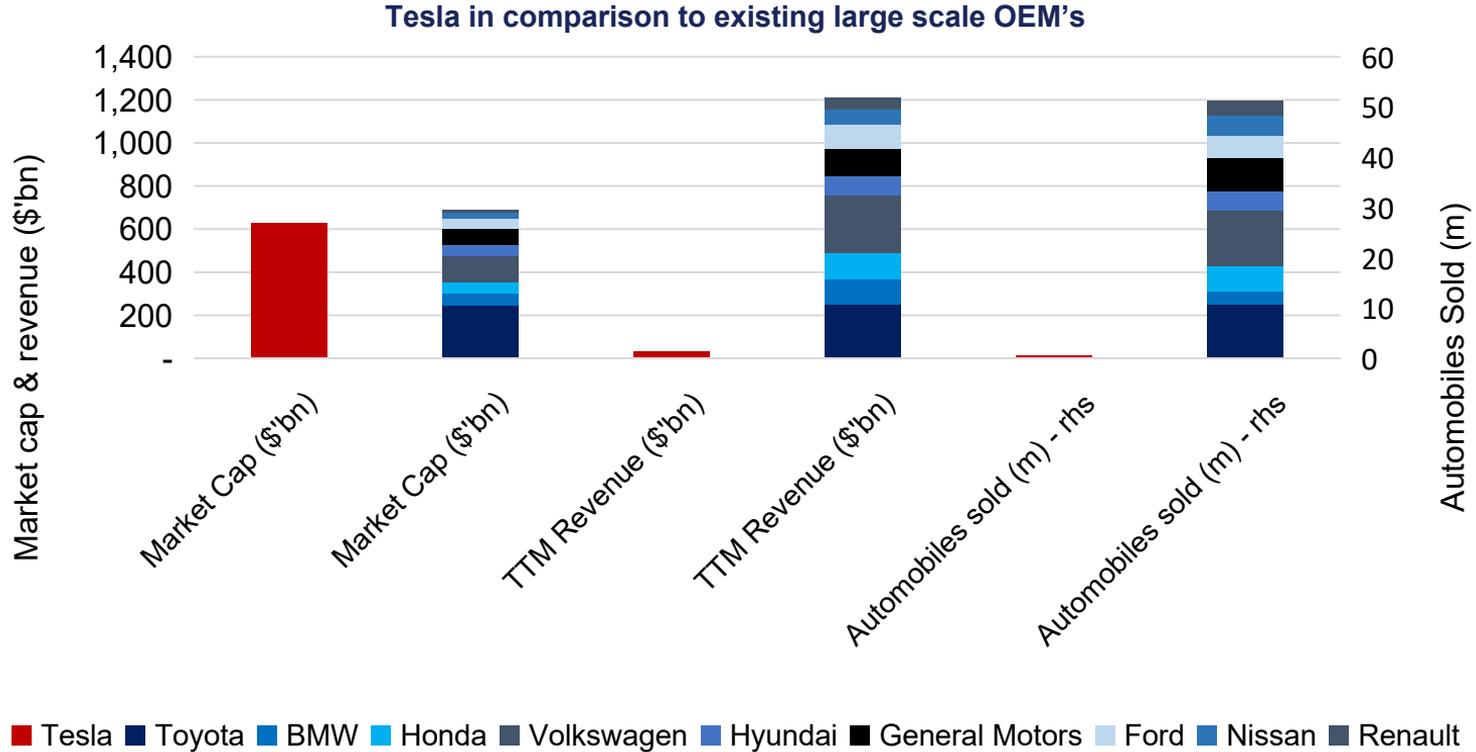
The top 5 shares dominate even more today than in 2000



Frothy US market: Major tech IPOs appear disconnected from recent private valuations



Auto sector: Massive disparity in valuations



The auto industry currently faces several challenges

(1) The cycle – auto sales have been declining due to decreased demand from China and stagnant demand in developed markets, with further declines in 2020.



(2) Electrification - traditional OEMs[^] face threat of disruption from new entrants and stricter emission standards.

(3) Peak car – structural decline in private car ownership as users switch to using ride-hailing apps and autonomous vehicles.



Honda and BMW look better placed than valuations suggest



HONDA

High quality motorcycle business:

- World's largest motorcycle manufacturer
- Consistently earns >10% operating margins
- 75%+ market share in key markets



Premium brand:

- Well-positioned to meet emissions targets through early and extensive investment in EVs[†]
- Premium brand allows it to pass on higher cost of EVs to wealthy customer base, and earn higher margins and returns on capital

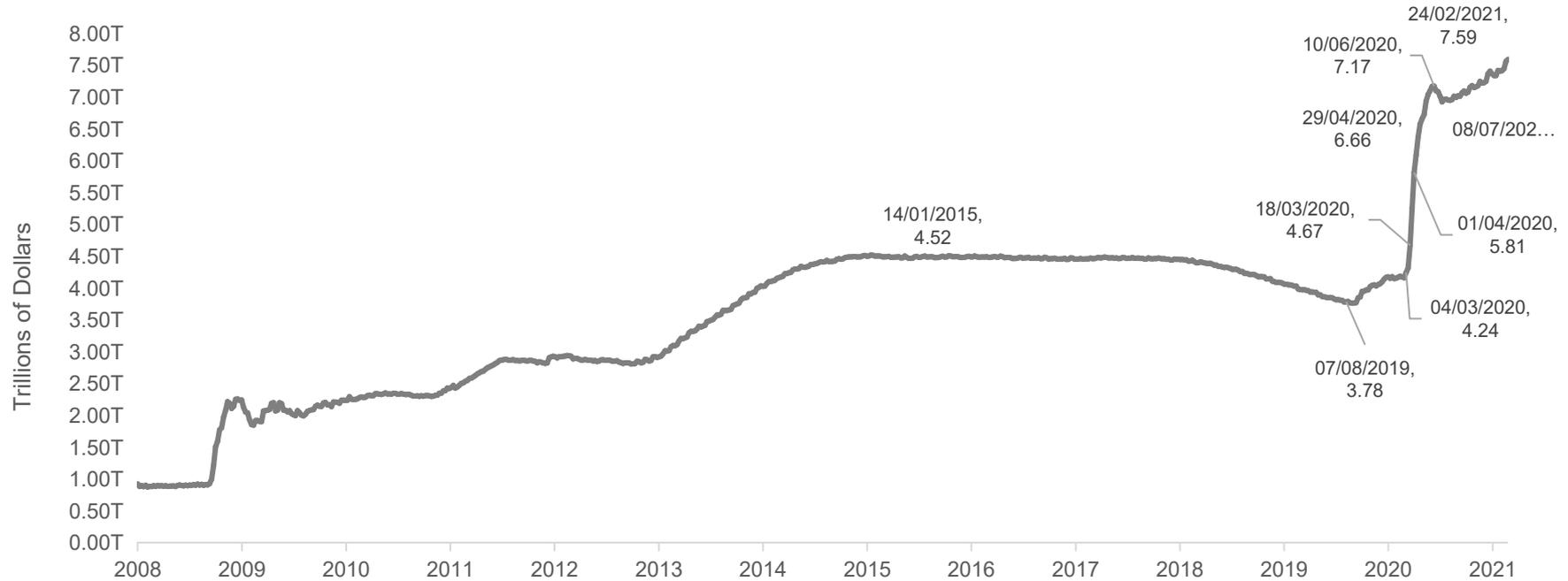
	Honda	BMW	FTSE World Index
Long-term average price to book value*	1.4x	1.8x	2.9x
Current price to book value	0.6x	0.7x	5.3x
Return on equity [^]	8%	15%	16%
Dividend yield	4.1%	4.2%	1.6%
Total return (US\$) [‡]	6.3%	9.6%	7.3%

Source: Bloomberg, FutureCar, Refinitiv, Orbis. *Long term average price to book value calculated using data as far back as information is readily available. [^]Weighted average return on equity (RoE) over the latest 10 years. Trailing 12 month price to book value and dividend yield. Weighted median values used for the FTSE World Index. [†]Electric vehicles. [‡] Total annualised return in USD from 31 December 1989 to 31 Aug 2020.



Central bank balance sheet expansion

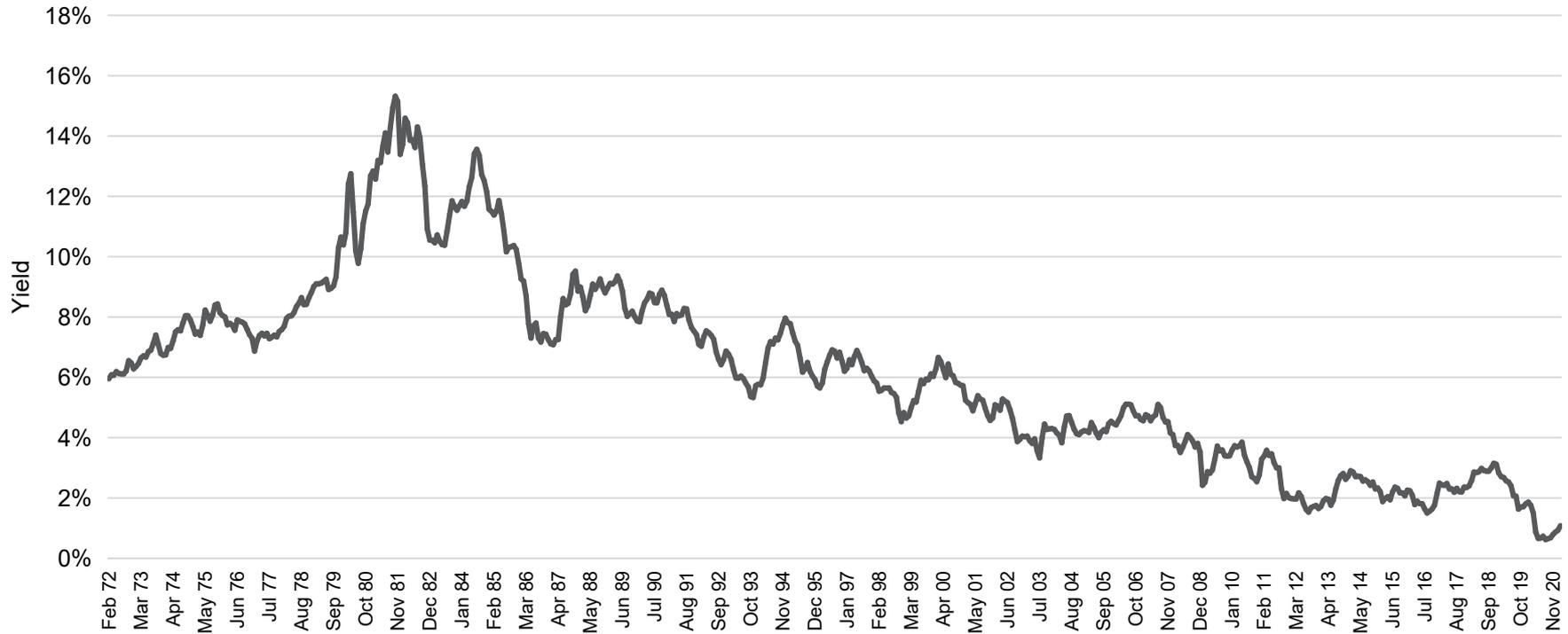
The US Federal Reserve's balance sheet





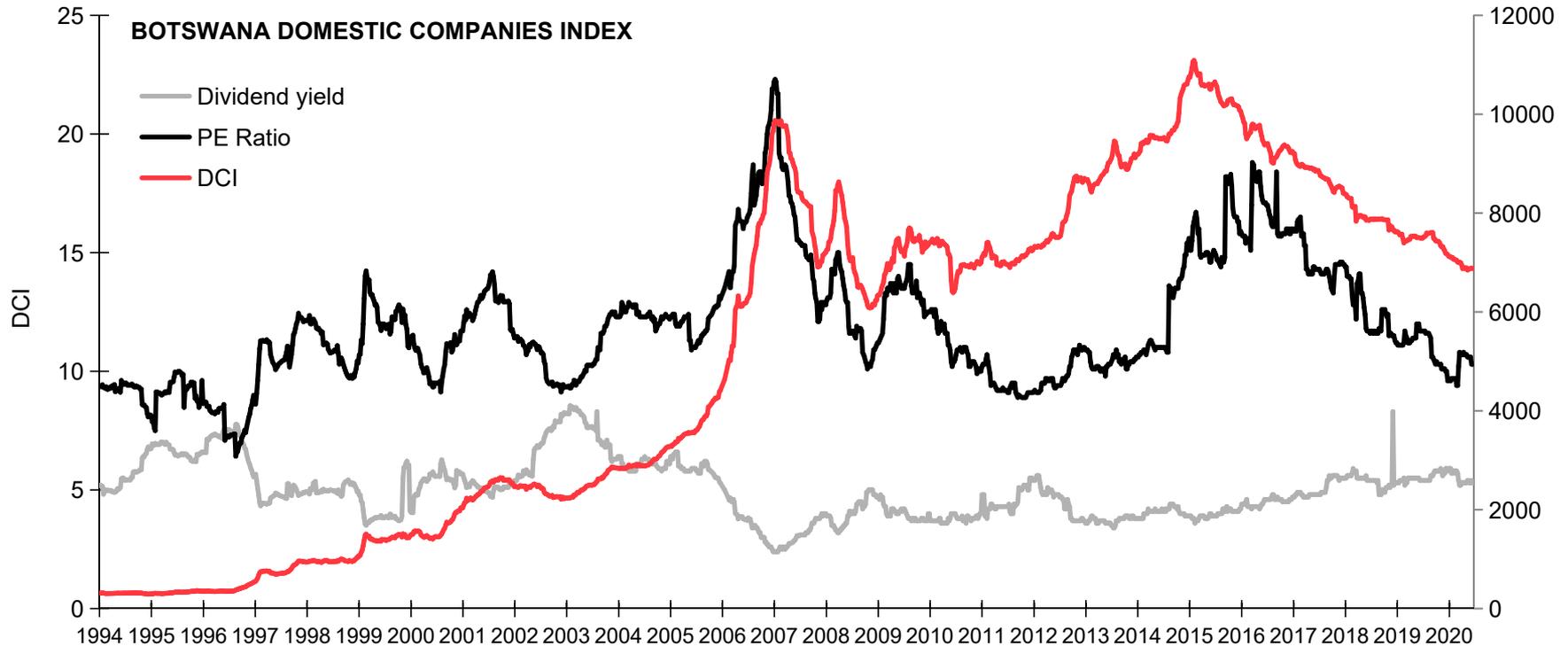
US interest rates

10-year US Treasury Bill yield

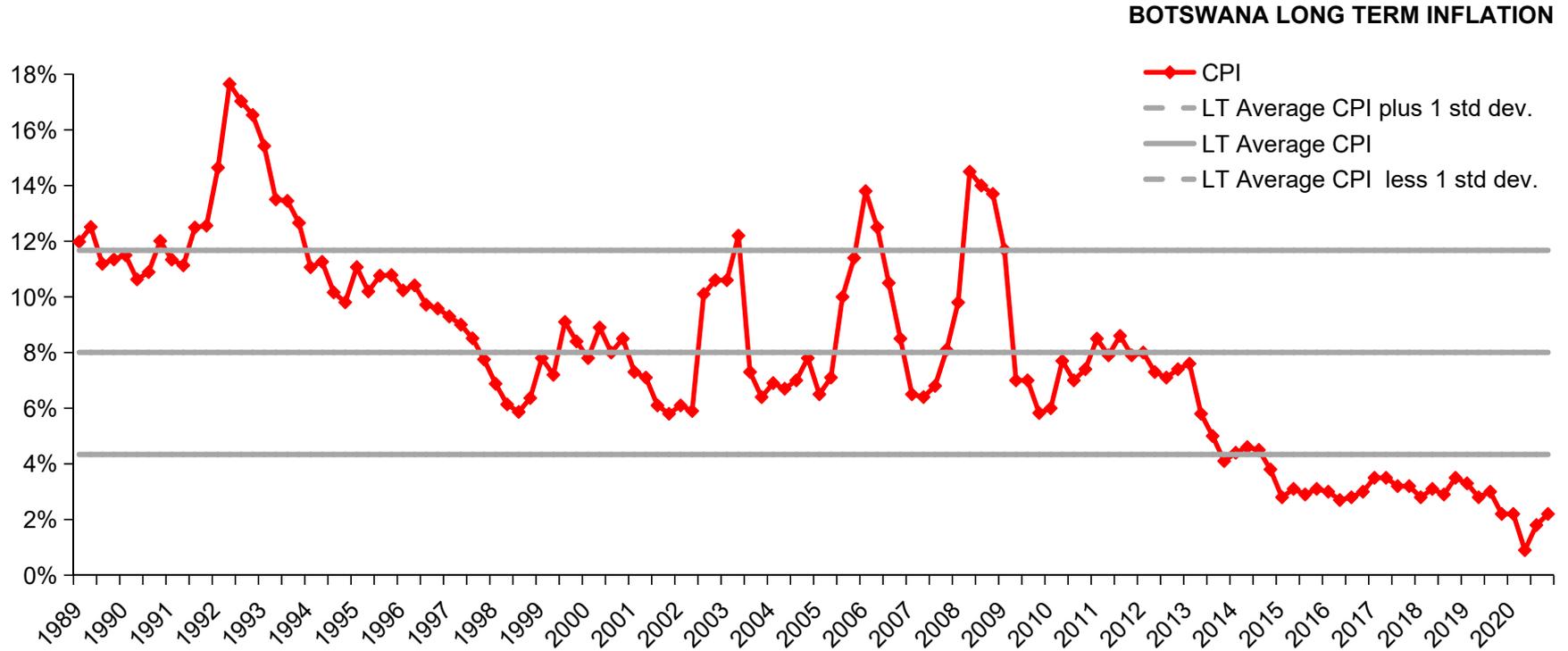


Source: Thomson Reuters, USA Federal Reserve (RKJ12032021ns)

Domestic equity



Fixed interest



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Thank You





Legal notes

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The Facilities Agent for the Funds in Botswana is Allan Gray (Botswana) (Proprietary) Limited at 2nd Floor, Building 2, Central Square, New CBD, Gaborone, where investors can obtain a prospectus and financial reports.

Performance

Performance figures are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax. Movements in exchange rates may also be the cause of the value of underlying inter national investments going up or down. Different classes of units apply to the Equity, Balanced, Stable and Optimal funds only and are subject to different fees and charges.



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