ALLANGRAY

Inception date: 11 January 2001

Allan Gray Life Domestic Equity Portfolio

30 April 2024

Portfolio objective and benchmark

This Portfolio is for institutional investors requiring management of a specific equity portfolio. It aims to offer superior returns to that of the FTSE/JSE Capped Shareholder Weighted All Share Index including dividends, but with a lower risk of capital loss. The benchmark is the FTSE/JSE Capped Shareholder Weighted All Share Index including dividends.

Product profile

- Actively managed pooled portfolio.
- Represents Allan Gray's 'houseview' for a specialist equity-only mandate.
- Portfolio risk is controlled by limiting the exposure to individual counters.

Investment specifics

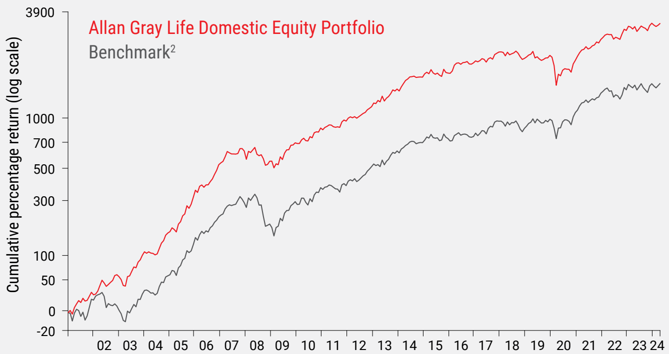
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds and medical schemes.
- Minimum investment: R20m.
- Performance based fee.

Portfolio information on 30 April 2024

Assets under management	R3 681m

Performance gross of fees

Cumulative performance since inception[1]



% Returns[3]	Portfolio	Benchmark[2]
Since inception[1]	16.7	13.1
Latest 10 years	7.4	8.0
Latest 5 years	7.3	9.3
Latest 3 years	11.4	8.2
Latest 2 years	7.3	5.1
Latest 1 year	4.3	2.4
Latest 3 months	2.3	3.5

Sector allocation on 31 March 2024 (updated quarterly)

	% of equities[4]	% of benchmark[2]
Financials	25.5	27.4
Basic materials	22.3	22.4
Consumer staples	21.2	12.3
Consumer discretionary	9.8	7.6
Technology	7.8	13.7
Industrials	7.0	3.8
Telecommunications	3.1	4.8
Healthcare	1.5	2.3
Real estate	1.1	4.7
Energy	0.6	1.0
Total (%)	**100.0**	**100.0**

1. Since alignment date (1 February 2001).
2. FTSE/JSE Capped Shareholder Weighted All Share Index. The benchmark prior to 1 October 2020 was the FTSE/JSE All Share Index.
3. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 April 2024.
4. Includes listed property.

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

Top 10 share holdings on 31 March 2024 (updated quarterly)

Company	% of portfolio
British American Tobacco	8.2
Naspers & Prosus	7.6
AB InBev	7.3
Glencore	5.1
Mondi	4.7
Standard Bank	4.6
Nedbank	3.9
Woolworths	3.8
FirstRand	3.0
Sappi	2.8
Total (%)	**50.8**

Asset allocation on 30 April 2024

Asset class	Total
Net equities	96.3
Hedged equities	-
Property	1.1
Commodity-linked	1.1
Bonds	0.1
Money market and cash	1.5
Total (%)	**100.0**

Issued: 10 May 2024

Tel 0860 000 654 or +27 (0)21 415 2301 **Email** institutional@allangray.co.za **www.allangray.co.za**

Fund manager quarterly commentary as at 31 March 2024

In 2023, the FTSE/JSE All Share Index (ALSI) returned 9.3% in rands, while the FTSE/JSE Capped SWIX All Share Index (Capped SWIX) returned 7.9%. Although positive, one could have achieved a similar return from cash while taking on considerably less risk. To make matters worse, in the first three months of the year, markets have given roughly a quarter of this back, with the ALSI down 2.2% and the Capped SWIX down 2.3%. In this environment, the Portfolio returned -2.4% for the quarter.

There have been few places to hide, with 26 out of the top 40 stocks down in nominal terms over the quarter, including dividends.

It has not just been a lost quarter or year; the JSE has been a poor place to invest for more than a decade. For a global investor, for every R100 you had to invest in the ALSI at the end of December 2010, you would have approximately R360 today, including all dividends reinvested. In US dollars, a US$100 investment would only be worth about US$126 at the end of March 2024, given that the rand has weakened from R6.62/US$ to R18.88/US$ over this time. Excluding dividends, in nominal terms, the value of that investment would be down in US dollars. In contrast, a US$100 investment in the USA's major index, the S&P 500, in December 2010 would be worth roughly US$539 at the end of March 2024 – more than four times the return experienced on the ALSI.

Looking in the rearview mirror and taking South Africa's current political and economic landscape into consideration, it is easy to be despondent about the JSE's return prospects. This crude analysis, however, is not the full picture and masks some important facts:

- The JSE has not been the only bad stock market to invest in over the past decade. Most emerging markets have fared poorly, and the JSE has performed largely in line with its peers. US$100 invested in the MSCI Emerging Markets Index would be worth approximately US$131 at the end of March 2024. Indeed, the past 13-plus years have been more a story of exceptional relative returns from US companies than anything else. The S&P 500's returns have been roughly threefold greater than those of the UK's FTSE All Share Index over this same period.
- Starting prices matter. At the end of December 2010, the ALSI was trading on 17.2 times earnings, while the S&P 500 traded on 14.7 times earnings. At the end of March 2024, the ALSI had derated to 13.1 times earnings, while the S&P 500 had rerated to 21.6 times earnings. Underlying earnings growth has been superior in the USA, but this change in sentiment has had a big impact on returns over time. The ALSI has gone from trading at a premium to trading at a material discount to the S&P 500.
- There is an increasingly large number of multinational companies that happen to be listed on the JSE but derive more than 80% of their revenue and income from markets outside South Africa. They may be listed in South Africa, but their fortunes are not tied to the domestic economy. This is the case for British American Tobacco, Naspers and Prosus, AB InBev, Glencore and Mondi, all of which are top 10 Portfolio positions.

While we cannot predict what returns one can expect over the next 13-plus years, we can focus on the factors within our control: buying out-of-favour companies at below fair value. In our opinion, the shares listed on the JSE are much cheaper today than they were a decade ago, and we can find a number of attractive opportunities. The opposite is true of many American listed companies.

By way of example, our Portfolio has two material positions in the global paper and packaging industry: Mondi and Sappi. In 2023, Mondi's earnings fell by roughly 45% as prices and volumes in corrugated packaging and uncoated fine paper came under considerable cyclical pressure. In our opinion, earnings are depressed and current industry pricing is unsustainable. In addition, Mondi has a number of organic projects under development that should see growth in volumes and an improvement in costs. Using what we believe to be conservative normal pricing assumptions, Mondi trades on less than nine times our estimate of normal earnings.

Sappi is a lower quality company than Mondi but also considerably cheaper. At the end of September 2018, the share price was R88.75. At the end of the quarter, some five and a half years later, it was 43% lower at R50.29 per share. Over this period, Sappi's earnings have been cyclical, but it has grown free cash flow and reduced net debt by roughly a third. Similar to Mondi, we think earnings are depressed at current levels and are likely to rise in the future. However, even if earnings do not recover, Sappi is cheap. It trades at less than seven times consensus earnings for 2024.

During the quarter, the Portfolio added to its positions in Prosus and South32 and reduced its holdings in AB InBev and AVI.

Commentary contributed by Rory Kutisker-Jacobson

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FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index

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MSCI Index

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FTSE Russell Index

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