Allan Gray Life Domestic Absolute Portfolio

30 April 2021

ALLANGRAY

Inception date: 6 July 2001

Portfolio objective and benchmark

This Portfolio is designed for institutional investors seeking superior absolute returns (in excess of inflation) over the long term with a higher risk tolerance in the short term than the Balanced Portfolio. The benchmark is the mean performance of the large managers as surveyed by consulting actuaries.

Product profile

- Actively managed pooled portfolio.
- Investments selected from all local asset classes.
- Fully reflects the manager's strong investment convictions and could deviate considerably in both asset allocation and stock selection from the average retirement portfolio.

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.

Compliance with Prudential Investment Guidelines

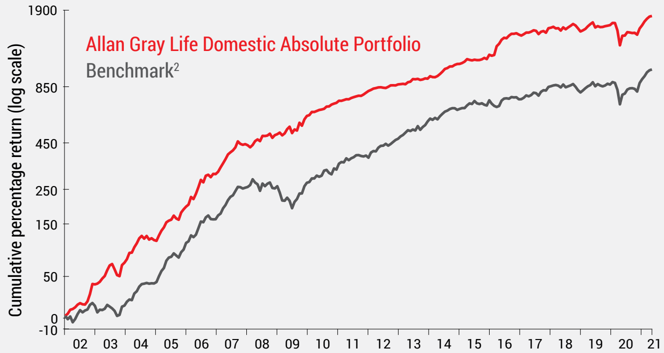
The Portfolio is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period. Allan Gray Life Limited does not monitor compliance with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28) on behalf of retirement funds invested in the pool.

Portfolio information on 30 April 2021

Assets under management	R571m

Performance gross of fees

Cumulative performance since inception



1. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 April 2021.
2. Mean of Alexander Forbes Domestic Large Manager Watch. The return for April 2021 is an estimate.
3. Includes holding in Prosus NV if applicable.

% Returns[1]	Portfolio	Benchmark[2]
Since inception	16.0	13.0
Latest 10 years	8.2	8.8
Latest 5 years	4.4	5.9
Latest 3 years	3.8	5.0
Latest 2 years	3.2	6.5
Latest 1 year	21.4	28.2
Latest 3 months	5.6	6.8

Asset allocation on 30 April 2021

Asset class	Total
Net SA equity	67.7
Hedged SA equity	4.8
Property	0.2
Commodity-linked	3.4
Bonds	15.9
Money market and bank deposits	8.1
Total (%)	**100.0**

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

Top 10 share holdings on 31 March 2021 (updated quarterly)

Company	% of Portfolio
British American Tobacco	11.0
Naspers[3]	10.4
Glencore	5.8
Woolworths	4.2
Standard Bank	3.2
MultiChoice	2.8
Sasol	2.4
Remgro	2.4
Anglo American	2.0
Nedbank	1.9
Total (%)	**46.1**

Issued: 11 May 2021

Tel 0860 000 654 or +27 (0)21 415 2301 **Fax** 0860 000 655 or +27 (0)21 415 2492 **Email** institutional@allangray.co.za **www.allangray.co.za**

Fund manager quarterly commentary as at 31 March 2021

The Portfolio returned 9% for the quarter, building on the recovery from the March 2020 lows. While pleasing, the three- and five-year numbers remain low in real terms and relative to fixed income.

Returns have been driven by strong equity markets, with the FTSE/JSE All Share Index (ALSI) and the MSCI World Index up 81% and 78% respectively from their March 2020 lows. For local equities, this return must be put in the context of a market that has traded sideways since 2014. When measured in US dollars, local equities have been outperforming global equities since the pandemic bottom, but the ALSI remains very depressed compared to the World and Emerging Market indices.

Bull markets are born out of pessimism and do not want to take investors along at the start. It is hard to imagine a more pessimistic scenario than 2020 for South Africa and, while we obviously do not know if this is the start of a bull market, we still own many cheap local shares. The net equity weighting at 69.1% reflects this belief, as well as the large rebound in prices.

The past few years have been a great time for index investors both locally and offshore, with indices driven by a small number of shares. As an active manager, we aim to beat the index, and can only do so by holding a portfolio that is different from the index. The recent increase in long bond yields and inflation expectations has caused many of the unloved and depressed shares, which do not dominate the index, to outperform quite strongly. This has helped the Portfolio.

So, how is the Portfolio positioned to outperform?

1. We are underweight iron producers (BHP and Anglo) and overweight the rest of the commodity basket via Glencore and Sasol.
2. We are overweight British American Tobacco, which has meaningfully underperformed in a strong market. As an "anti-bubble" share, it should provide protection during a correction, while paying an 8% dividend yield.
3. Naspers remains one of the largest equity positions.
4. With quantitative easing in combination with fiscal stimulus around the world, we own platinum and gold, as well as the miners including Sibanye-Stillwater, Impala Platinum and selected gold shares.
5. We retain an exposure to depressed local domestic shares, which remain well below their 2018 highs, including Woolworths, Standard Bank, FirstRand and Old Mutual.
6. On the fixed income side, we have a higher-than-normal weight to bonds given the steep yield curve.

The Portfolio seeks to own a diversified selection of undervalued assets that will produce real returns at an acceptable risk. We believe that to be the case currently.

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MSCI Index

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