Allan Gray Life Domestic Absolute Portfolio

30 June 2025

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 Alexforbes.

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

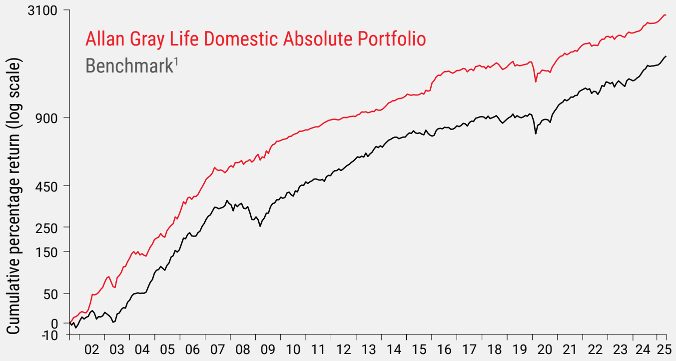
The Portfolio is managed to comply with Regulation 28 of the Pension Funds Act ("the Pension Funds Act"). Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within the prescribed regulatory 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 June 2025

Assets under management	R383m

Performance gross of fees

Cumulative performance since inception



1. Mean of Alexforbes Domestic Large Manager Watch. The return for June 2025 is an estimate.
2. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 June 2025.
3. There may be slight discrepancies in the totals due to rounding.

% Returns[2]	Portfolio	Benchmark[1]
Since inception	15.2	13.0
Latest 10 years	9.2	8.9
Latest 5 years	13.0	15.3
Latest 3 years	12.2	14.8
Latest 2 years	12.8	16.2
Latest 1 year	17.4	21.4
Latest 3 months	5.5	8.5

Top 10 share holdings on 30 June 2025 (updated quarterly)

Company	% of portfolio
AB InBev	6.8
Prosus	5.0
Standard Bank	4.9
British American Tobacco	4.9
Woolworths	3.9
AngloGold Ashanti	3.1
Remgro	2.5
Tiger Brands	2.3
Gold Fields	2.1
Nedbank	2.1
Total (%)[3]	**37.5**

Asset allocation on 30 June 2025

Asset class	Total[3]
Net equities	48.9
Hedged equities	6.8
Property	0.2
Commodity-linked	4.0
Bonds	28.2
Money market and Bank Deposits	11.9
Total (%)[3]	**100.0**

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Fund manager quarterly commentary as at 30 June 2025

For the quarter, the FTSE/JSE All Share Index (ALSI) returned 10.2%, the FTSE/JSE All Bond Index returned 5.9% and the Portfolio returned 5.5%. If that was all you knew, you might think it was a relatively benign quarter, but uneventful it was not.

The quarter began with "Liberation Day" on 2 April when President Donald Trump surprised markets with the degree and severity with which he proposed imposing import tariffs on every country that the US trades with. Even territories uninhabited by humans, such as the Heard and McDonald Islands, were threatened with tariffs. The market reaction was swift, and by 7 April, the ALSI was down 7.0% for the quarter in rands. Offshore, in US dollars, the S&P 500 was down 9.8%, while the MSCI World Index was down 9.9%.

When the US bond market began to buckle, President Trump walked back many of the proposed tariffs, either through revised agreements or 90-day pauses. Within weeks, markets had forgotten the panic of early April, continuing their upward trajectory and largely ignoring the potential future impact of elevated tariffs on global trade and gross domestic product (GDP).

The quarter ended with the already tense situation in the Middle East reaching boiling point, as both Israel and the US bombed Iran, and Iran responded with missile strikes of their own. At quarter end, the countries had entered into a fragile ceasefire agreement.

Domestically, tensions remained elevated in the government of national unity, as the Budget was revised a third time and finally passed in May, with the proposed VAT increase abandoned. Where exactly the SA government will source the funds to finance our growing budget deficit is not entirely clear.

Against this backdrop, we continue to do what we have always done: ignore short-term noise and invest in assets we believe offer a margin of safety and potential for long-term outperformance. To the extent that the short-term market volatility created opportunities over the quarter to pick up previously expensive assets on the cheap, we looked to capitalise on those.

Positioning

Three of the largest share positions in the Portfolio, namely British American Tobacco, AB InBev, and Naspers and Prosus, remain unchanged.

British American Tobacco: Continued volume declines in traditional cigarettes, slower-than-expected growth in vape products and concerns over the US regulatory environment continue to weigh on sentiment. However, we believe the market is overly focused on these elements and underappreciates British American Tobacco's resilient cashflows, attractive dividend yield and its rapidly growing Velo product (tobacco-free modern oral). The share trades at a significant discount to intrinsic value and, in our view, offers compelling long-term return prospects.

AB InBev: The world's largest brewer has performed well amid a challenging consumer environment. Despite inflationary pressure and demand challenges in key geographies, AB InBev's cost discipline, pricing power and dominant market positions support earnings growth. Investors remain sceptical due to the company's debt burden and skew to emerging markets, yet we believe the deleveraging trajectory is intact and underappreciated. The valuation remains undemanding, and we are comfortable with our continued exposure.

Naspers and Prosus: Capital allocation has long been a source of frustration for shareholders in Naspers and Prosus. In recent years, this has improved – most notably via the value unlock through their ongoing share repurchase programme which is funded by Tencent share sales. They continue to trade at a material discount to their key holding in Tencent, which we think is attractive in itself and continues to deliver solid results. However, the regulatory and geopolitical risk around Tencent is not insignificant, and for us, it therefore becomes about managing position size. We believe the current portfolio allocation is appropriate given the idiosyncratic and hard-to-quantify geopolitical risk.

Looking ahead

We do not attempt to predict short-term market moves or macroeconomic surprises. Even if we did, we don't think we'd be any good at it. Instead, we focus on identifying assets with robust fundamentals trading at attractive prices. In uncertain environments, we believe this long-term orientation, underpinned by valuation discipline and a contrarian mindset, is essential to preserving and growing our clients' wealth.

During the quarter, we added to Glencore and reduced our exposure to Gold Fields.

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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