Allan Gray Life Domestic Balanced Portfolio

30 September 2021

Inception date: 1 September 2001

Portfolio objective and benchmark

This Portfolio is for institutional investors with an average risk tolerance. It aims to offer long-term returns superior to the benchmark, but at lower risk of capital loss. In terms of Allan Gray's risk-profiled range, this Portfolio has a higher risk of capital loss than the Stable Portfolio, but less than the Absolute 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.
- Represents Allan Gray's 'houseview' for a domestic balanced mandate.

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

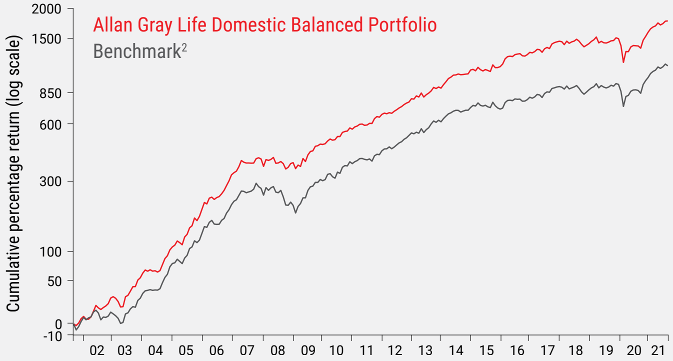
The Portfolio is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a 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 September 2021

Assets under management	R2 844m

Performance gross of fees

Cumulative performance since inception



% Returns[1]	Portfolio	Benchmark[2]
Since inception	15.5	13.1
Latest 10 years	10.3	9.6
Latest 5 years	6.5	6.6
Latest 3 years	6.7	7.4
Latest 2 years	10.7	10.7
Latest 1 year	27.1	26.7
Latest 3 months	4.0	2.5

Asset allocation on 30 September 2021

Asset class	Total
Net SA equity	67.9
Hedged SA equity	1.0
Property	1.1
Commodity-linked	2.3
Bonds	22.6
Money market and bank deposits	5.1
Total (%)	**100.0**

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

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

Top 10 share holdings on 30 September 2021 (updated quarterly)

Company	% of Portfolio
Naspers[3]	6.9
British American Tobacco	6.2
Glencore	5.9
Woolworths	3.2
Standard Bank	3.1
Sasol	2.9
Old Mutual	2.7
Remgro	2.6
Nedbank	2.5
FirstRand	2.4
Total (%)	**38.3**

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Fund manager quarterly commentary as at 30 September 2021

The Portfolio returned 4.0% for the quarter, better than the benchmark return of 2.5% for the same period.

The market tends to proceed in a random fashion over the short term, but it is possible to identify a few themes for the quarter:

1. **China**. China continues to pass and implement new regulations for technology companies. These played a role in reducing the prices of Naspers and Prosus by 17% and 15%, respectively. China is also seeking to limit steel production and there are doubts in the market about whether China will continue to build infrastructure and housing at the same pace as it has done for the past decade. This has caused the iron ore price to almost halve over the quarter, which has led to declines in the prices of Anglo American, BHP and Kumba Iron Ore (which is down 23%). Fortunately, Glencore, a large holding in the Portfolio, has no exposure to iron ore and was up 16% for the quarter. Xi Jinping's common prosperity agenda has put pressure on Richemont, because presumably a more equal society means that fewer Cartier watches will be bought by the wealthy. The Portfolio has no exposure to Richemont at the moment. To read more about China risk, please refer to the commentary for the Life Domestic Equity Portfolio.
2. **Fossil fuels.** We have been reminded that the world has not yet been able to transition to clean energy and that the demand for energy is very inelastic: Consumers will pay whatever is demanded to drive to work or heat their homes. The price of oil hit US$80 per barrel and Sasol was up 31% for the quarter. The price of metallurgical coal doubled and thermal coal was up more than 75%. We think there is potential for a further spike in the oil price because the industry has been underinvesting for nearly a decade.
3. **Platinum group metals (PGMs).** The platinum miners had a poor quarter. The prices of palladium and rhodium fell by more than 30%, which means Royal Bafokeng Platinum (RBPlat), Impala, Sibanye and Northam were some of the worst-performing shares on the market. All of them were down more than 17%. We are underweight the sector, but we still have some exposure to these shares. Despite the lower platinum and palladium prices, Sibanye, Impala and RBPlat are still trading at around five times free cash flow. It is possible that demand for PGMs will increase when the chip shortage is alleviated and car production resumes at the normal pace. But a longer-term concern, and the reason for our underweight position, is that battery-powered cars will have an increasingly negative impact on the demand for PGMs.
4. **Buyouts.** When trade buyers step forward, it can be a sign that valuations are cheap. Distell, Liberty and Imperial Logistics are all in the process of being bought. Food and beverage company AVI is under cautionary – possibly a sign that an international buyer is interested in the company.
5. **SA Inc has been a mixed bag.** Remgro was up 19% in the quarter, possibly on the hopes of more action to unlock value for shareholders. KAP Industrial was up 18% in the quarter. Financials such as Old Mutual and FirstRand were also strong. On the other hand, most retailers and many of the property companies had a poor quarter.

It seems that our patience, and our clients' patience, has been rewarded to some extent over the past few months. Many long-time underperformers held in the Portfolio are being seen in a more favourable light by other market participants. We continue to see value in the Portfolio and good opportunities for outperforming the market.

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