ALLANGRAY

Inception date: 11 January 2001

Allan Gray Life Domestic Equity Portfolio

30 April 2021

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

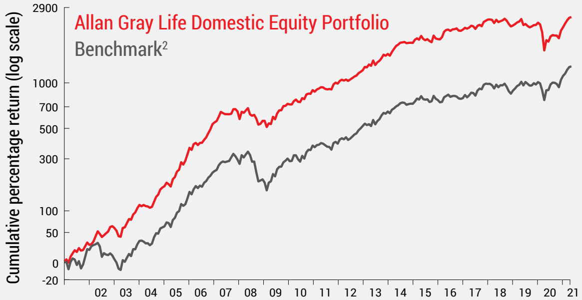
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds and medical schemes.
- Minimum investment: R20m.
- Performance based fee.

Portfolio information on 30 April 2021

Assets under management	R4 053m

Performance gross of fees

Cumulative performance since inception



% Returns[1]	Portfolio	Benchmark[2]
Since inception[3]	17.6	13.8
Latest 10 years	9.9	10.8
Latest 5 years	3.5	8.2
Latest 3 years	1.2	8.5
Latest 2 years	1.3	10.8
Latest 1 year	36.3	37.7
Latest 3 months	9.0	10.1

Sector allocation on 31 March 2021 (updated quarterly)

	% of Portfolio	% of benchmark
Energy	0.0	1.1
Basic materials	26.6	28.6
Industrials	3.4	3.8
Consumer goods	13.2	10.9
Healthcare	3.5	2.5
Consumer services	9.0	6.5
Telecommunications	1.8	5.9
Financials	27.3	23.2
Technology	12.1	13.0
Commodity-linked	0.3	0.0
Other	0.1	0.0
Money market and bank deposits	1.0	0.0
Real estate	1.6	4.5
Total (%)	**100.0**	**100.0**

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

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. FTSE/JSE Capped Shareholder Weighted All Share Index. The benchmark prior to 1 October 2020 is the FTSE/JSE All Share Index.
3. Since alignment date (1 February 2001).
4. Includes holding in Prosus NV if applicable.

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

Company	% of Portfolio
Naspers[4]	12.1
British American Tobacco	7.9
Glencore	6.3
Woolworths	4.5
Standard Bank	3.3
Reinet	3.2
FirstRand	3.2
Sibanye Stillwater	3.2
Old Mutual	3.0
Remgro	2.9
Total (%)	**49.8**

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Fund manager quarterly commentary as at 31 March 2021

In his 1986 letter to shareholders, Warren Buffett famously spoke of being fearful when others are greedy, and greedy when others are fearful. These words are as true today as they were then, and for the same reason: human emotion. Much like a contagious disease, greed and fear can rapidly spread through the investment community, coming to dominate our decisions irrespective of the underlying value on offer. The last year provides an apt example.

Just over a year ago today, at midnight on 26 March 2020, South Africa went under our first COVID-19-related lockdown. At that point in time, no one had a clear idea of how long the virus would be with us, nor of the social, human, and economic impact. Fear and uncertainty were heightened, and this reflected in our equity market. The FTSE/JSE All Share Index (ALSI) began 2020 offering what appeared to be attractive valuations, and yet by the end of March 2020, it had declined a further 21.4% as fear spread.

In many respects, we are no closer today to knowing when life will return to normal (if ever), but sentiment in markets has changed materially. Those who stayed invested, or were fortunate enough to have capital to deploy and be greedy, have been healthily rewarded. From the end of March 2020 to today, the ALSI has returned 54% including dividends reinvested. In US dollars those returns are even greater, at over 80%, as the rand has strengthened from R17.86/US$ to below R15/US$ over this same period.

Since the end of March 2020, the Portfolio has delivered similar absolute returns, delivering a return of 54.8% over the past year. Cumulatively, since the end of December 2019, the ALSI has delivered a return of 21.1%, while the Portfolio has delivered a relatively disappointing return of 6.9% in comparison.

It is hard to believe that the market in South Africa is up over 15 months given all that has transpired. Perhaps, therefore, it is harder still to believe that we continue to see significant value in a number of local equities and are excited about the prospects for future returns within the Portfolio.

The obvious question, then, is why?

The absolute performance of the ALSI over the last 15 months masks the individual performance of a number of shares, which have fared far worse than the market overall. There has been substantial disparity in the returns experienced in certain sectors and within individual shares. Platinum group metal companies have continued to rally materially, while four of the largest shares on our market – Naspers, BHP, Anglo and Richemont – are all up over 32% over the last 15 months. In contrast, a number of the domestic focused businesses, such as the banks and insurers, remain materially below their December 2019 share prices. Perhaps more perplexing, a company like British American Tobacco (BTI), which came into 2020 trading on an undemanding earnings multiple of 10 times and actually grew earnings and paid down debt during the pandemic, has seen its share price decline. BTI has delivered a positive return of 3.4% over these 15 months, but that is the result of the very healthy dividend it paid and continues to pay.

We are not blind to the risks in SA and the high likelihood of a slow, uncertain and drawn-out economic recovery. We are also not blind to the risks of traditional cigarette volumes globally continuing to decline. However, we do see substantial value in many of the sectors that remain depressed, and believe that the current disparity in markets is creating an opportunity for bottom-up stockpickers like ourselves to generate outsized returns.

As always, it is a question of price: How much am I paying? How large is my margin of safety? And to what degree am I being compensated for the downside risks?

There are some buckets of the market which seem priced for perfection, while other buckets seem priced as if the current depressed environment they are experiencing will only continue to deteriorate. Then there are buckets where the company earnings have proven remarkably resilient, yet the share prices remain depressed, often because they are in industries which are unsexy or that sector is currently out of favour. It is in these latter two buckets that we prefer to do our fishing.

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

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Important information for investors

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You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**

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