Inception date: 11 January 2001

Allan Gray Life Domestic Equity Portfolio

30 September 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

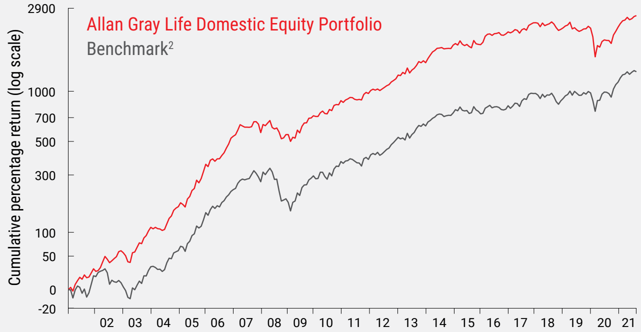
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds and medical schemes.
- Minimum investment: R20m.
- Performance based fee.

Portfolio information on 30 September 2021

Assets under management	R4 123m

Performance gross of fees

Cumulative performance since inception



% Returns[1]	Portfolio	Benchmark[2]
Since inception[3]	17.5	13.7
Latest 10 years	10.8	12.1
Latest 5 years	4.2	9.1
Latest 3 years	3.5	10.6
Latest 2 years	9.4	15.3
Latest 1 year	35.3	30.3
Latest 3 months	5.2	3.2

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. 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 N.V., if applicable.

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

Sector allocation on 30 September 2021 (updated quarterly)

	% of Portfolio	% of benchmark
Energy	0.1	1.0
Basic materials	24.5	22.8
Industrials	3.5	4.1
Consumer staples	13.9	10.9
Healthcare	3.7	3.5
Consumer discretionary	8.5	7.1
Telecommunications	1.7	7.5
Financials	30.0	26.0
Technology	9.4	12.1
Real estate	1.5	4.9
Other	0.1	0.0
Money market and bank deposits	3.0	0.0
Total (%)	**100.0**	**100.0**

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

Company	% of Portfolio
Naspers[4]	9.1
British American Tobacco	7.5
Glencore	7.3
Woolworths	4.4
Standard Bank	4.3
Sasol	3.7
Remgro	3.7
Old Mutual	3.6
FirstRand	3.2
Nedbank	3.1
Total (%)	**49.9**

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Fund manager quarterly commentary as at 30 September 2021

The Portfolio had a good quarter on a relative basis, generating a return of 5.2% compared to the benchmark's at 3.2%.

It was a quarter driven by news out of the East, as the headlines and events emanating from China had a material impact on several shares in our market.

On the regulatory front, the Chinese government has made a number of announcements related to what they term anti-competitive behaviour and social ills in the technology sector. This includes far more scrutiny on and regulation of the digital financial system and online lending; clamp downs on monopolistic behaviour such as forced exclusivity and "walled gardens[1]"; additional restrictions on how consumer data is collected and shared; and significant restrictions imposed on youth online gaming. Presumably under government pressure, many of the technology companies have committed to "common prosperity" contributions over the past year. As an example, in two separate announcements, Tencent has committed to donate a total of US$15 billion to a fund to invest in social projects over the coming years.

The news has had a material impact on the share price of Tencent and, as a result, on the share prices of Prosus and Naspers, whose single-largest investment is a 29% stake in Tencent. For the quarter, Tencent was down 21% in US dollars, while Prosus and Naspers were down 15% and 17%, respectively, in rands.

It is too soon to tell to what degree all of the regulatory changes will affect the long-term growth and earnings prospects for Tencent but, on a balance of probability, it is likely to have some sort of a negative effect. At the very least, we believe it is more likely than not that the multiple the market is willing to pay for Tencent has been permanently impaired. One could argue that, given the price declines, the negative news has already been priced in, but it is a dangerous game to try and predict future behaviour that may emanate from the Chinese Communist Party. As such, while we continue to see significant value in Naspers and Prosus at spot prices, we have an increasingly sharp focus on absolute position size within the portfolios.

The other major news item to emerge out of China was the unofficial default of Evergrande, one of the largest real estate developers in China. Heavily overindebted and faced with material cash flow issues, Evergrande has failed to make bond payments in the past few weeks. The Evergrande default has sparked renewed concerns about a property bubble in China, where the real estate sector accounts for 29% of GDP.

Why is this important to South African investors?

Two of the largest shares on our market, BHP and Anglo American, derive a substantial portion of their profits from the sale of iron ore, the vast majority of which goes into steel production in China, and therefore the property sector. We have for some time believed the iron ore price is unsustainably high, and the correction following this news has been swift. In the space of two months, the iron ore price has fallen from over US$220/t to around US$115/t today. Our preferred diversified miner has been, and remains, Glencore, which has zero exposure to iron ore production. Our preference for Glencore is partly due to its commodity mix, but primarily due to valuation, as it continues to trade at a material discount to peers.

If the events of the past quarter have taught us anything, it is that what happens in China can have a material impact on South African investors, as a number of the shares on our market are either directly or indirectly invested in the Chinese economy. That is also why we believe British American Tobacco (BTI) is an excellent holding in our portfolios. Not only is it a globally diversified business that has an excellent track record and trades on a very attractive 8% dollar dividend yield, but it has zero exposure to China. From a portfolio construction and risk diversification perspective, this makes BTI particularly attractive for us.

1. A closed ecosystem in which all the operations are controlled by the ecosystem operator.

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Past performance is not indicative of future performance.

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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