

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.

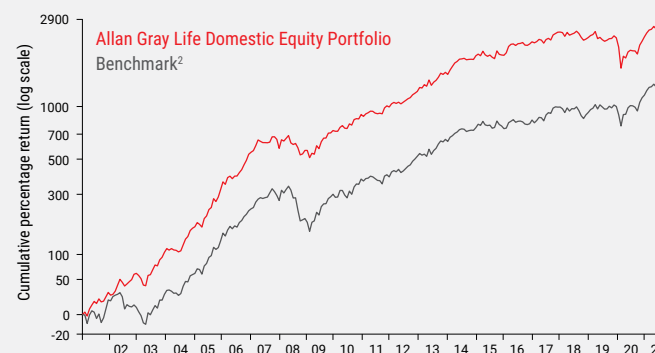
Portfolio information on 31 December 2021

Assets under management

R3 868m

Performance gross of fees

Cumulative performance since inception



% Returns ¹	Portfolio	Benchmark ²
Since inception ³	17.6	13.9
Latest 10 years	10.7	12.2
Latest 5 years	6.0	11.4
Latest 3 years	8.1	15.7
Latest 2 years	10.4	17.5
Latest 1 year	29.5	27.1
Latest 3 months	7.0	8.7

Sector allocation on 31 December 2021 (updated quarterly)

	% of Portfolio	% of benchmark
Energy	0.1	0.9
Basic materials	26.3	25.0
Industrials	4.0	4.0
Consumer staples	15.2	10.8
Healthcare	3.6	3.0
Consumer discretionary	8.6	7.6
Telecommunications	1.7	7.7
Financials	27.1	24.3
Technology	9.3	11.8
Real estate	1.6	4.8
Money market and bank deposits	2.4	0.0
Bonds	0.1	0.0
Total (%)	100.0	100.0

- Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 December 2021.
- FTSE/JSE Capped Shareholder Weighted All Share Index. The benchmark prior to 1 October 2020 is the FTSE/JSE All Share Index.
- Since alignment date (1 February 2001).
- 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 31 December 2021 (updated quarterly)

Company	% of Portfolio
Naspers ⁴	8.9
British American Tobacco	8.1
Glencore	7.5
Woolworths	4.0
Standard Bank	3.9
AB InBev	3.6
Nedbank	3.4
Remgro	3.4
Sasol	3.1
Sibanye-Stillwater	2.9
Total (%)	48.7

The Portfolio returned 7.0% for the quarter and 29.5% for the year. During the fourth quarter, the largest contributors to returns were the basic materials and consumer staples sectors. The local equity market rallied strongly into the end of 2021, but this followed a third quarter in which the market was down.

Returns from the JSE in 2021 were 29.2% as measured by the FTSE/JSE All Share Index (ALSI) and 27.1% as measured by the Capped SWIX. These numbers are reasonably high by historical standards. For context, over the last 40 years the ALSI has returned 16.3% per annum.

There is a seeming contradiction between strong equity market returns on the one hand and a weak South African economy on the other hand. How should we interpret this divergence? Firstly, it is very common for the performance of stock markets to diverge from economic performance, especially in the short term. Markets take a forward-looking view and often look through the short-term impact of issues like COVID-19. Secondly, the fortunes of many JSE-listed companies are not really linked to South African economic growth. This would include international businesses like Richemont and commodity exporters like Impala Platinum. On a rough analysis, earnings for about half the JSE are not directly linked to the South African economy.

Following this strong performance, the ALSI closed 2021 29% higher than it was at the start of 2020, i.e. before the onset of the pandemic. Does this mean that the JSE is now expensive? Not necessarily. Overall valuation levels are not high compared to history. The Capped SWIX has also returned only 7% per annum over the last five years, despite this recent strong performance.

Allan Gray's philosophy is to not take a top-down view of where markets are heading, but rather to do bottom-up research on individual companies. Our fundamental research approach currently reveals more than enough attractive opportunities, which makes us cautiously optimistic about medium-term returns. Of course, there are many risks from the global and South African macroeconomic environment, but these are balanced by the low prices at which many businesses are trading.

The South African banking sector is an example of where we are finding attractive valuations. Large banks like Standard Bank and Nedbank can be bought at around seven times 2022's earnings. This is very cheap by historical standards and compensates for issues such as increasing competition and a tough economic outlook. Current earnings are also still depressed but should recover to pre-COVID-19 levels in the next year or two. Bad debts have been lower than many investors had feared. Lower participation from foreign investors in the local market has contributed to depressed valuations of South African financial stocks.

Remgro is another example of an undervalued business. Remgro owns a portfolio of quality South African businesses, many of which are listed. These businesses themselves trade on reasonable valuations. On top of this, Remgro trades at a nearly 40% discount to its underlying portfolio – a large, and we think undeserved, discount compared to history and other holding companies globally. Management is taking several actions to unlock value within this portfolio. Examples include the recently announced transactions between beverage businesses Distell and Heineken and between fibre holding company CIVH and Vodacom, as well as the planned unbundling of some insurance assets by Rand Merchant Investment Holdings.

Fund manager quarterly commentary as at 31 December 2021

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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

The FTSE/JSE All Share Index and FTSE/JSE Capped Shareholder Weighted All Share Index are calculated by FTSE International Limited ("FTSE") in conjunction with the JSE Limited ("JSE") in accordance with standard criteria. The FTSE/JSE All Share Index and FTSE/JSE Capped Shareholder Weighted All Share Index are the proprietary information of FTSE and the JSE. All copyright subsisting in the values and constituent lists of the FTSE/JSE All Share Index and FTSE/JSE Capped Shareholder Weighted All Share Index vests in FTSE and the JSE jointly. All their rights are reserved.

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