Inception date: 4 December 2002

Allan Gray Life Domestic Optimal Portfolio

30 June 2021

Portfolio objective and benchmark

This is a long-term absolute return portfolio for the institutional investor who wishes to diversify the volatility generally associated with stock and bond markets, but still wants exposure to specialist stock-picking skills and to target a positive rate of return which is higher than that of cash. The benchmark is the daily interest rate of Nedbank Limited.

Product profile

- Actively managed pooled portfolio, seeking absolute returns.
- Little correlation to stock or bond markets, with a low level of risk of capital loss.
- Investments consist of shares offering superior fundamental value, carefully managed to reduce the risk of underperforming the market, and short index derivatives to reduce stock market risk.

Investment specifics

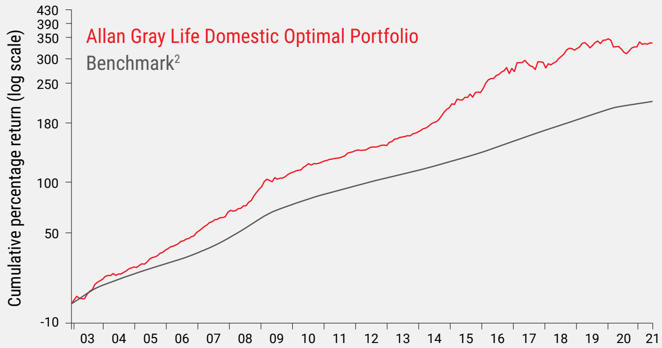
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds and medical schemes.
- Minimum investment: R20m.
- Performance based fee.

Portfolio information on 30 June 2021

Assets under management	R380m

Performance gross of fees

Cumulative performance since inception



1. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 June 2021.
2. Daily interest rate of Nedbank Limited.
3. Includes holding in Prosus NV if applicable.

% Returns[1]	Portfolio	Benchmark[2]
Since inception	8.2	6.3
Latest 10 years	6.7	5.1
Latest 5 years	3.7	5.3
Latest 3 years	3.0	4.7
Latest 2 years	1.4	4.0
Latest 1 year	3.5	2.8
Latest 3 months	0.4	0.7

Asset allocation on 30 June 2021

Asset class	Total
Net SA equity	4.8
Hedged SA equity	76.5
Property	0.7
Money market and bank deposits	18.0
Total (%)	**100.0**

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

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

Company	% of Portfolio
Naspers[3]	11.7
British American Tobacco	6.2
Sibanye-Stillwater	5.4
FirstRand	4.8
Glencore	4.7
Standard Bank	4.0
Sasol	3.6
Nedbank	2.8
Reinet	2.4
MultiChoice	2.2
Total (%)	**47.8**

Issued: 12 July 2021

Fund manager quarterly commentary as at 30 June 2021

After an exceptionally strong start to the year, gains for the FTSE/JSE All Share Index (ALSI) in the second quarter were more muted at 0.05%, taking the year-to-date return to 13.20%. While the recent period has been a welcome boost for local investors, it does not necessarily imply greater returns for the Optimal Portfolio; rather, it is the performance of the Portfolio's underlying shares relative to the stock market index, together with the level of short-term interest rates, that determines the return. The Portfolio's 0.36% return for the quarter should be seen in this context.

Looking a level below the subdued headline index performance reveals a wider disparity in returns. Shares of more locally focused businesses, including banks, insurers and retailers, were among the largest gainers for the quarter, while precious metals miners and Naspers were on the other side of the spectrum, partially reversing the trends observed in the months following last year's market sell-off. The rand also continued its rally against major currencies, providing a headwind to typical rand hedge shares. The Portfolio's overweight exposure to financials relative to the index and its underweight platinum miner position aided quarterly returns. Bank shares have benefited from a reported credit loss experience over the course of the pandemic being significantly better than the market initially feared. They remain attractively priced, particularly if any upswing in economic activity materialises.

Richemont remains one of the Portfolio's largest underweight positions and has been a material detractor from the overall return. The luxury goods sector has re-rated higher and Richemont has followed suit, reaching a record high this year. Initial suspicions that enforced lockdowns and suspension of travel would have a detrimental impact on revenue proved correct, but the strength of sales in mainland China has surprised, contributing to performance at an adjusted earnings level only modestly behind the prior year. While Richemont has an enviable portfolio of luxury brands, its ability to compound earnings over the last decade has been lacklustre. Despite this, the market values the business at over 40 times earnings, which is expensive in our view.

Among the resources counters, the Portfolio is underweight the iron ore exposed miners such as BHP and Anglo American, balanced against overweight positions in Glencore and other non-mining commodity producers, including Sasol and Sappi.

Tel 0860 000 654 or +27 (0)21 415 2301 **Fax** 0860 000 655 or +27 (0)21 415 2492 **Email** institutional@allangray.co.za **www.allangray.co.za**

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FTSE/JSE All Share Index

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Tel 0860 000 654 or +27 (0)21 415 2301 **Fax** 0860 000 655 or +27 (0)21 415 2492 **Email** institutional@allangray.co.za **www.allangray.co.za**