Allan Gray Life Domestic Optimal Portfolio

30 September 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

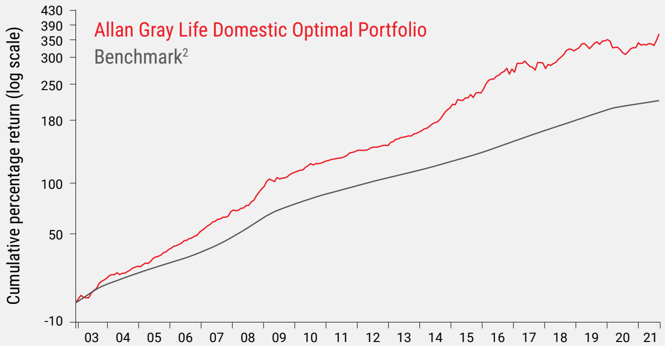
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds and medical schemes.
- Minimum investment: R20m.
- Performance based fee.

Portfolio information on 30 September 2021

Assets under management	R402m

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 September 2021.
2. Daily interest rate of Nedbank Limited.
3. Includes holding in stub certificates or Prosus N.V., if applicable.

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

% Returns[1]	Portfolio	Benchmark[2]
Since inception	8.4	6.3
Latest 10 years	7.0	5.1
Latest 5 years	4.4	5.1
Latest 3 years	3.2	4.4
Latest 2 years	2.3	3.6
Latest 1 year	10.7	2.8
Latest 3 months	5.8	0.7

Asset allocation on 30 September 2021

Asset class	Total
Net SA equity	6.5
Hedged SA equity	77.6
Property	0.7
Money market and bank deposits	15.2
Total (%)	**100.0**

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

Company	% of Portfolio
Naspers[3]	7.7
Sasol	6.1
MTN	6.0
Standard Bank	5.7
Glencore	5.1
Sibanye-Stillwater	4.1
FirstRand	3.8
British American Tobacco	3.7
Nedbank	3.1
Rand Merchant Investment[3]	2.4
Total (%)	**47.6**

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Fund manager quarterly commentary as at 30 September 2021

The Portfolio returned 5.8% in the third quarter of 2021, taking the year-to-date return to 8.2% and helping to recover some of the underperformance of the prior two years. After an especially strong start to 2021, the FTSE/JSE All Share Index has treaded water for the last two quarters, in line with global stock markets, as investors digest the once-off post-lockdown economic boost, flare ups of the Delta variant and the prospect of normalising monetary policy. In addition, the risks posed by China – which include its slowing economy and a raft of tough new government regulations – have had an outsized impact on companies listed on our local market. Against this backdrop, the Portfolio's underlying shares have performed well relative to the stock market index.

Two of the Portfolio's largest overweight positions, Glencore and Sasol, have been among the main contributors to returns during the quarter. We have been cautious on iron ore for some time, to the detriment of the Portfolio's performance, balancing a significant underweight in iron ore-exposed miners BHP and Anglo American against base-metals heavy Glencore. Although the iron ore price has almost halved since June, it is still higher than our fair long-term level and our preference remains for Glencore and, to a lesser extent, South32's commodity baskets over peers.

As the world's largest producer of thermal coal for export, Glencore is also benefiting from the surge in energy prices globally, as a recovery in demand meets relatively stagnant supply. There is a possibility that this will continue as we head into the Northern Hemisphere winter, with suppliers either unwilling or unable to fulfil demand. While this period of elevated prices may have one-off implications for Glencore in terms of shareholder returns, it has made a more permanent impact on Sasol, allowing the company to repair its previously precarious debt position leading to a rerating in the share price. With a lower debt burden and capital expenditure profile, going forward Sasol is better positioned to generate cash flow sustainably and resume dividends, even at lower oil prices.

The Portfolio had reduced its exposure to Naspers and Prosus earlier in the year, lessening the impact of the Chinese authorities' crackdown on technology and gaming firms on its performance. The Portfolio has also benefited from the government's increased focus on inequality and warnings against excessive displays of wealth, as these factors relate to our large underweight exposure to Richemont. It is too early to assess what the impact on Richemont sales may be, if any, but given the price-to-earnings multiple on which the company trades, there is little room to disappoint.

In addition, the continued recovery of certain locally exposed industrial and financial counters from depressed levels has aided returns. Where these shares have reached our assessment of fair value, we have looked to recycle capital into new undervalued positions.

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FTSE/JSE All Share Index

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