

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.

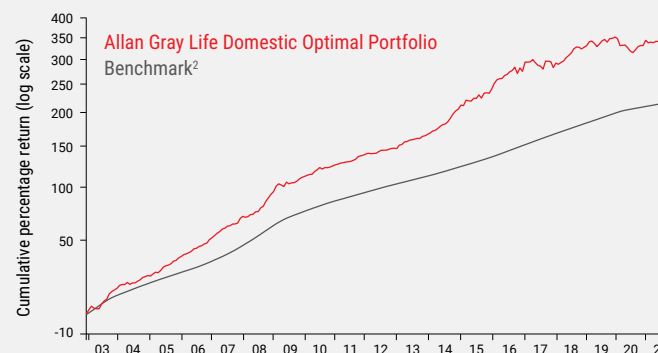
Portfolio information on 31 December 2021

Assets under management

R396m

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 31 December 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	8.3	6.2
Latest 10 years	6.8	5.0
Latest 5 years	4.0	5.0
Latest 3 years	3.1	4.2
Latest 2 years	1.8	3.2
Latest 1 year	7.7	2.8
Latest 3 months	-0.4	0.7

Asset allocation on 31 December 2021

Asset class	Total
Net SA equities	4.5
Hedged SA equities	80.3
Property	1.8
Money market and bank deposits	13.4
Total (%)	100.0

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

Company	% of Portfolio
MTN	6.7
Glencore	5.9
Naspers ³	5.8
Standard Bank	5.7
Sasol	5.6
Sibanye-Stillwater	5.0
Impala Platinum	4.3
Nedbank	4.2
AngloGold Ashanti	3.6
Anglo American Platinum	3.4
Total (%)	50.3

The Portfolio returned -0.4% in the final quarter of 2021 and 7.7% for the full year. The FTSE/JSE All Share Index performed strongly, returning 29.2% for the year and setting an all-time high in December. While the rally has been a welcome boost for local equity investors after years of lacklustre returns, it does not necessarily imply greater returns for the 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 performance. Stock selection has contributed positively to the Portfolio's return for 2021.

The rally in 2021 was more broad-based than was the case in 2020, when good gains for resource counters post the COVID-19 market correction were largely offset by weak performance from financials. In 2021, the gap in returns was substantially narrower, so while resources still performed best (+32.3%), financials were not far off (+29.6%), with industrials lagging (+26.5%). At a level down the disparities widen, for example, diversified miners significantly outperformed their precious metal peers and an exceptionally strong Richemont more than offset the struggling Naspers/Prosus within industrials. Our local banks fared better than the insurers, as they recovered off a lower base and reported credit losses over the course of the pandemic that were appreciably better than what the market initially feared.

Overweight positions in Glencore and Sasol were among the largest contributors to the Portfolio's return and both remain large holdings. The iron ore price has recovered somewhat from its November 2021 lows and still remains substantially higher than our estimated long-term level, hence our preference for Glencore's commodity mix over that of iron-ore exposed BHP and Anglo American (both material underweight positions). A key feature of the Portfolio's design is its ability to benefit from both up and down markets, for which platinum group metal (PGM) miners were a case in point during 2021. Prevailing commodity prices tend to dictate the direction in which the miners move, so when there was evidence of PGM prices potentially bottoming in September on news of the vehicle semiconductor chip shortage easing, we increased our exposure to the sector, reversing a previous large underweight position.

The strong performance of Richemont, to which the Portfolio has no exposure, continues to be a drag on the Portfolio's return. This was particularly hard felt in the last quarter of 2021 after the company reported better-than-expected results and the share price surged to a record high. While in hindsight it was a mistake not to own it, or at the least not to minimise the underweight, such a move is harder to justify at its current level, with the share trading on an elevated multiple of earnings that have been boosted by increased lockdown-induced consumer spending.

Fund manager quarterly commentary as at 31 December 2021

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FTSE/JSE All Share Index

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