Allan Gray Life Domestic Stable Portfolio

31 October 2023

Portfolio objective and benchmark

This Portfolio is for risk-averse institutional investors. It aims to offer superior returns to money market investments with limited capital volatility whilst striving for capital preservation over any two-year period. In terms of Allan Gray's risk-profiled range, this portfolio has less risk of capital loss than the Balanced Portfolio. The benchmark is the Alexander Forbes 3-month Deposit Index plus 2% or CPI plus 3%.

Product profile

- Conservatively managed pooled portfolio.
- Investments selected from all local asset classes.
- We attempt to limit the risk of capital loss by holding shares with limited downside or attractive dividend yields and/or hedging stock market exposure.
- Modified duration of the fixed interest component will be conservative.

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 or fixed fee.

Compliance with Prudential Investment Guidelines

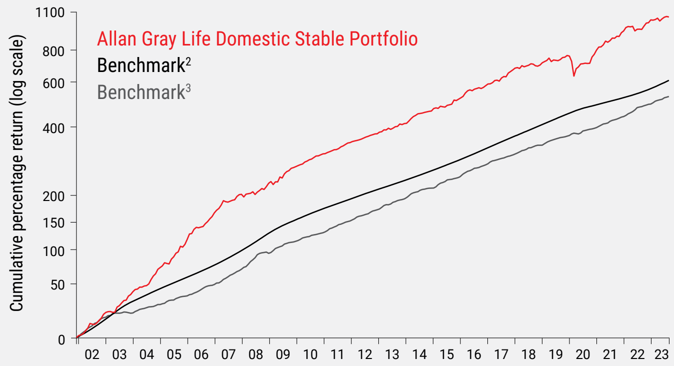
The Portfolio is managed to comply with Regulation 28 of the Pension Funds Act ("the Pension Funds Act"). Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within the prescribed regulatory time period. Allan Gray Life Limited does not monitor compliance with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28) on behalf of retirement funds invested in the pool.

Portfolio information on 31 October 2023

Assets under management	R1 457m

Performance gross of fees

Cumulative performance since inception[4]



% Returns[1]	Portfolio	Benchmark[2]	Benchmark[3]
Since inception[4]	11.7	9.3	8.7
Latest 10 years	8.4	8.1	8.3
Latest 5 years	7.7	7.6	8.0
Latest 3 years	12.4	7.1	9.1
Latest 2 years	7.6	7.9	9.6
Latest 1 year	7.1	9.5	8.6
Latest 3 months	0.2	2.5	2.2

Asset allocation on 31 October 2023

Asset class	Total
Net equities	20.7
Hedged equities	6.6
Property	1.2
Commodity-linked	2.0
Bonds	47.4
Money market and bank deposits	22.1
Total (%)	**100.0**

1. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 October 2023.
2. Alexander Forbes 3-month Deposit Index plus 2% p.a.
3. CPI plus 3% p.a. The return for October 2023 is an estimate.
4. Since alignment date (1 December 2001).

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

Top 10 share holdings on 30 September 2023 (updated quarterly)

Company	% of portfolio
British American Tobacco	3.3
AB InBev	2.3
Glencore	1.7
Woolworths	1.6
Standard Bank	1.5
Nedbank	1.4
Sasol	1.2
Remgro	1.2
MultiChoice	1.2
AngloGold Ashanti	0.9
Total (%)	**16.3**

Fund manager quarterly commentary as at 30 September 2023

Returns from most South African assets have been muted throughout 2023. Year to date, South African shares (as measured by the FTSE/JSE Capped Shareholder Weighted All Share Index) returned 0%, bonds returned 1% and cash returned 6%. Over the same period, the Portfolio delivered a return of 4%, behind the benchmark[1] return of 7%. Conservative local fixed income positioning contributed to the positive return.

Long-term South African government bonds currently offer yields in excess of 12%, which look very attractive at face value: Domestic inflation has fallen below 5%, so they offer a real (i.e. after inflation) yield of 7%. This is close to the highest it has been in the last two decades. It is likely that the South African Reserve Bank has reached the peak of the current interest rate hiking cycle or is close to reaching it. If inflation remains subdued, there is a good chance that interest rates will be cut next year, which would be good news for bondholders. We do believe South African government bonds offer decent value and have increased their weighting in the Portfolio in recent years. Bonds currently make up 46% of the Portfolio. This includes exposure to South African government bonds as well as corporates, with a conservative exposure to duration and credit risk. However, we remain mindful of the risks. The South African government continues to run a large fiscal deficit, which the South African savings pool has a limited ability to fund. As long as foreign investors remain apprehensive of South African bonds, there is a risk that local bond yields increase even more, i.e. a decline in prices.

It is useful to reiterate the Portfolio's objectives, namely, to generate returns ahead of bank deposits and inflation while maintaining a high degree of capital stability and minimising the risk of loss over any two-year period.

Long-term South African bonds may offer high yields but clearly come with risks and can be fairly volatile. Meanwhile, local cash is a good alternative, offering attractive yields in excess of 9% at much lower risk. Cash also has valuable optionality, as it can be used to take advantage of future opportunities that may arise. A similar argument can be made for inflation-linked bonds: It makes sense to sacrifice some yield for the insurance against potential high-inflation scenarios. We also prefer domestic shares over South African bonds, given the low valuations of shares. Shares also protect investors against the risk of inflation, as companies can typically pass higher prices on to their customers to some degree. The higher volatility of shares does of course need to be considered. At present, the Portfolio has a net equity weight of 21%.

Our approach remains focused on bottom-up company research to find superior investment opportunities. This includes identifying investments which offer the highest expected returns but also weighs up the associated risks and the diversification benefits of uncorrelated returns. All these factors are considered in putting together the portfolio.

During the quarter, the Portfolio added to positions in MultiChoice, AB InBev and British American Tobacco and trimmed exposure to Woolworths, the NewGold ETF and Standard Bank.

Adapted from a commentary contributed by Tim Acker

1. Alexander Forbes 3-month Deposit Index plus 2% per annum

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FTSE/JSE Capped Shareholder Weighted All Share Index

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