

Portfolio objective and benchmark

This Portfolio is designed for institutional investors seeking superior absolute returns (in excess of inflation) over the long term with a higher risk tolerance in the short term than the Balanced Portfolio. The benchmark is the mean performance of the large managers as surveyed by consulting actuaries.

Product profile

- Actively managed pooled portfolio.
- Investments selected from all asset classes.
- Investments may include foreign funds including, but not limited to, those managed by Orbis. Orbis is our global investment management partner which shares the same founder and investment philosophy as Allan Gray.
- Fully reflects the manager’s strong investment convictions and could deviate considerably in both asset allocation and stock selection from the average retirement portfolio.

Investment specifics

- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- Performance based fee.
- The Base Refundable Fee Reserve is levied in the underlying Orbis funds.

Compliance with Prudential Investment Guidelines

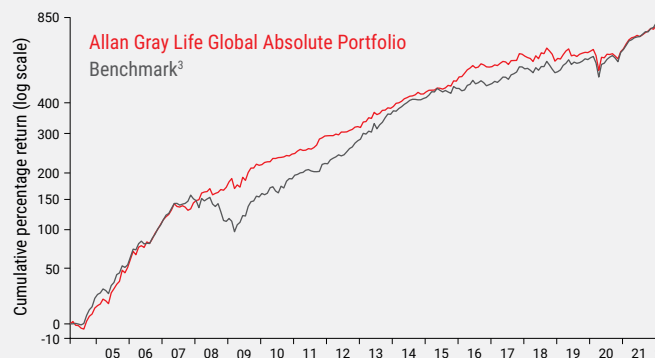
The Portfolio is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable 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 May 2022

Assets under management	R2 273m
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Performance¹

Cumulative performance since inception⁴



% Returns ²	Portfolio	Benchmark ³
Since inception ⁴	13.1	12.9
Latest 10 years	8.7	10.2
Latest 5 years	6.5	8.1
Latest 3 years	9.4	10.3
Latest 2 years	15.3	15.3
Latest 1 year	12.6	9.5
Latest 3 months	1.1	-1.3

Asset allocation on 31 May 2022

Asset class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equities	65.8	52.0	2.9	10.9
Hedged equities	16.2	7.9	0.0	8.3
Property	0.1	0.1	0.0	0.0
Commodity-linked	3.5	3.5	0.0	0.0
Bonds	7.3	6.8	0.0	0.5
Money market and bank deposits	7.1	4.7	0.1 ⁵	2.3
Total (%)	100.0	75.0	3.1	22.0

- Performance gross of local fees, net of foreign fees.
- Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 May 2022.
- Mean of Alexander Forbes Global Large Manager Watch. The return for May 2022 is an estimate.
- Since alignment date (1 March 2004).
- Including currency hedges.
- Underlying holdings of Orbis funds are included on a look-through basis.
- 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 March 2022 (SA and Foreign) (updated quarterly)⁶

Company	% of Portfolio
British American Tobacco	7.8
Glencore	6.6
Naspers ⁷	4.3
Sasol	3.3
Standard Bank	3.1
Woolworths	3.1
Remgro	2.7
AB InBev	2.4
Nedbank	2.3
MultiChoice	1.9
Total (%)	37.5

For the quarter, the Portfolio returned 2.4%. This is relatively muted in absolute terms but better than the benchmark, which delivered negative 0.8%¹ for the quarter. Notably, the foreign portion of the Portfolio returned negative 5.6% in rands, compared with a 60/40 benchmark return of negative 13.4%.

We have previously spoken about our significant underweight in US equities and our preference for depressed European, UK and emerging market equities in the offshore component. We have also had no exposure to developed world, long-dated sovereign bonds, believing investors were taking on return-free risk by buying at generationally low interest rates. From early 2018 until the end of 2021, this positioning caused significant underperformance in the offshore component of our Portfolio, as US equities continued to outperform and yields on long-dated government bonds continued to compress, inflating bond prices.

However, with high commodity prices, inflation consistently above 5% in the US since June 2021 (7.9% as at the end of February 2022) and an overheating US economy, these trends have begun to reverse in 2022. In March, the Federal Reserve approved its first interest rate increase in more than three years and signalled its intention to keep hiking rates throughout 2022 and possibly into 2023. Year to date, the yield on 10-year government bonds in the US has increased from 1.5% to 2.3%, causing those same bonds to generate a negative return of 7.2% in US dollars. Higher interest rates have also meant higher discount rates, with a number of highly priced companies falling significantly and the S&P 500 down 4.6% in US dollars, year to date.

At this stage, we do not know whether global inflation will prove to be transitory or more persistent in nature. We do know that developed market government debt is at record levels and that the real yield on long-dated government bonds continues to be negative in many countries. We also know that the average earnings multiple one is paying for US equities remains high relative to history. As a result, we are of the view that we are at the early stages of this trend reversal and continue to see substantial upside in our offshore investments relative to overall global asset prices.

In contrast to global bond markets, the 10-year government bond in South Africa is providing real returns, with a benchmark rate now in the ballpark of 10% (real rate above 4%). The risks in South Africa are well known, but one is arguably being compensated for these higher risks at today's prices.

Following the Budget speech, the offshore investment limits for portfolios that comply with Regulation 28 of the Pension Funds Act, were increased to 45%. We continue to see significant value in our preferred JSE-listed equities, a number of which are global companies that happen to be listed in South Africa, and have not immediately reweighted our asset allocation positions as a result.

One such example is Glencore. Glencore produces and sells over 120 million tonnes of coal each year. Coal is arguably the dirtiest of fossil fuels, and we need to make a global effort to materially reduce our reliance on it over the next 30 to 40 years if we are to achieve our ambition of keeping climate change to a minimum. Glencore is not blind to this reality and has committed to responsibly winding down their mines over time and reinvesting the proceeds in more sustainable and greener metals. However, as it currently stands, many countries – emerging markets in particular – are reliant on coal for their primary energy needs. South Africa is no exception, with approximately 85% of our electricity continuing to be generated from coal.

Over the past few years, there has been huge pressure on companies to close and reduce investment into fossil fuel operations, coal in particular. In theory, this should drive a positive outcome from a climate change perspective.

Unfortunately, as a global society, we have been poor in terms of the speed and scale at which we have made greener alternatives a viable reality. As consumers are reluctant to reduce their overall energy needs, demand has remained sticky. With demand remaining elevated and supply under pressure, the coal price has rallied materially over the past 18 months. This has been exacerbated in the short term by COVID-19 supply disruptions and the events unfolding in Ukraine, with the related sanctions on Russian oil and gas.

It is important to note that a high coal price is favourable for Glencore's income statement in the short term, but it is also useful in the war against carbon emissions. That is because high prices reduce consumer demand and increase the incentive to produce and bring alternatives to market. There is a reasonable chance that the high prices we are seeing in fossil fuels today will ultimately accelerate their replacement by greener alternatives.

As a result, when valuing Glencore, we do not bake today's high coal prices into our valuation, and we place the coal business on a below-average multiple. However, what we believe the market fails to appreciate is just how important Glencore is to the energy transition. Glencore is one of the world's largest producers of zinc, cobalt, nickel and copper. The world will need to more than double its annual consumption of these four commodities as we scale up investments in electric vehicles, large-scale commercial batteries, wind and solar farms, and greater redundancy in electrical grids. At spot, the Glencore share price is discounting not only materially lower coal prices, but materially lower prices for these other commodities too. We like that risk-reward trade-off.

Fund manager quarterly commentary as at 31 March 2022

¹ The return for March 2022 is an estimate.

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