

Portfolio objective and benchmark

This Portfolio is for institutional investors with an average risk tolerance. It aims to offer long-term returns superior to the benchmark, but at lower risk of capital loss. In terms of Allan Gray's risk-profiled range, this Portfolio has a higher risk of capital loss than the Stable Portfolio, but less than the Absolute 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.
- Represents Allan Gray's 'houseview' for a global balanced mandate.

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 Reserve Fee is levied on the 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.

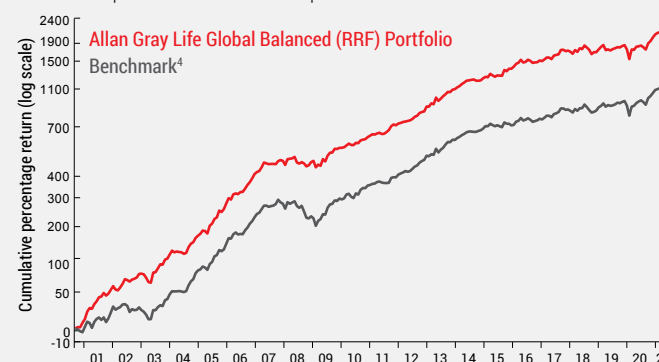
Portfolio information on 30 April 2021

Assets under management

R34 255m

Performance^{1,2}

Cumulative performance since inception



- Performance gross of local fees, net of foreign fees.
- The returns prior to 1 August 2015 are those of the Allan Gray Life Global Balanced Portfolio since its inception on 31 August 2000. The Investor Class Fee was levied in the underlying Orbis funds.
- Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 April 2021.
- Mean of Alexander Forbes Global Large Manager Watch. The return for April 2021 is an estimate.
- Including currency hedges.
- Underlying holdings of Orbis funds are included on a look-through basis.
- Includes holding in Prosus NV if applicable.

% Returns ^{2,3}	Portfolio	Benchmark ⁴
Since inception	16.0	12.8
Latest 10 years	11.1	10.2
Latest 5 years	6.5	7.0
Latest 3 years	6.4	7.4
Latest 2 years	6.8	8.2
Latest 1 year	19.6	21.1
Latest 3 months	5.7	5.2

Asset allocation on 30 April 2021

Asset class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	66.2	50.2	1.3	14.7
Hedged equity	13.0	3.1	0.0	9.9
Property	1.2	1.1	0.0	0.1
Commodity-linked	2.8	2.7	0.0	0.1
Bonds	11.5	9.3	1.4	0.9
Money market and bank deposits	5.4	2.9	0.4 ⁵	2.0
Total (%)	100.0	69.2	3.2	27.7

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

Top 10 share holdings on 31 March 2021 (SA and Foreign) (updated quarterly)⁶

Company	% of Portfolio
Naspers ⁷	8.1
British American Tobacco	7.0
Glencore	4.3
Woolworths	2.6
Sibanye Stillwater	2.0
FirstRand	1.9
Old Mutual	1.8
Sasol	1.8
Remgro	1.8
Standard Bank	1.7
Total (%)	33.1

The Portfolio returned 9% for the quarter, building on the recovery from the March 2020 lows. While pleasing, the three- and five-year numbers remain low in real terms and relative to fixed income.

Returns have been driven by strong equity markets, with the FTSE/JSE All Share Index (ALSI) and the MSCI World Index up 81% and 78% respectively from their March 2020 lows. For local equities, this return must be put in the context of a market that has traded sideways since 2014. When measured in US dollars, local equities have been outperforming global equities since the pandemic bottom, but the ALSI remains very depressed compared to the World and Emerging Market indices.

Bull markets are born out of pessimism and do not want to take investors along at the start. It is hard to imagine a more pessimistic scenario than 2020 for South Africa and, while we obviously do not know if this is the start of a bull market, we still own many cheap local shares. The net equity weighting at 65.6% reflects this belief, as well as the large rebound in prices.

The past few years have been a great time for index investors both locally and offshore, with indices driven by a small number of shares. As an active manager, we aim to beat the index, and can only do so by holding a portfolio that is different from the index. The recent increase in long bond yields and inflation expectations has caused many of the unloved and depressed shares, which do not dominate the index, to outperform quite strongly. This has helped the Portfolio.

So, how is the Portfolio positioned to outperform?

1. The Portfolio is underweight US equities and overweight the rest of the world, including emerging markets.
2. We have a greater exposure to value shares, implying an underweight in US technology/e-commerce/disruptor companies.
3. Unlike many peers, the Portfolio's 28% offshore exposure is not 100% invested in equities. We prefer to own more South African listed equities over fixed income to comply with Regulation 28 limits.
4. On the fixed income side, we have very little exposure to sovereign bonds offshore, and a higher weight to local bonds given the steep yield curve.
5. We are underweight iron producers (BHP and Anglo) and overweight the rest of the commodity basket via Glencore and Sasol.
6. We are overweight British American Tobacco, which has meaningfully underperformed in a strong market. As an "anti-bubble" share, it should provide protection during a correction, while paying an 8% dividend yield.
7. Naspers remains the largest equity position.
8. With quantitative easing in combination with fiscal stimulus around the world, we own platinum and gold, as well as the miners including Sibanye-Stillwater, Impala Platinum, and selected gold shares.
9. We retain an exposure to depressed local domestic shares, which remain well below their 2018 highs, including Woolworths, Standard Bank, FirstRand and Old Mutual.

The Portfolio seeks to own a diversified selection of undervalued assets that will produce real returns at an acceptable risk. We believe that to be the case currently.

Fund manager quarterly commentary as at 31 March 2021

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MSCI Index

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FTSE/JSE All Share Index

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