ALLANGRAY

Inception date: 1 August 2015

Allan Gray Life Global Balanced (RRF) Portfolio

31 October 2023

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

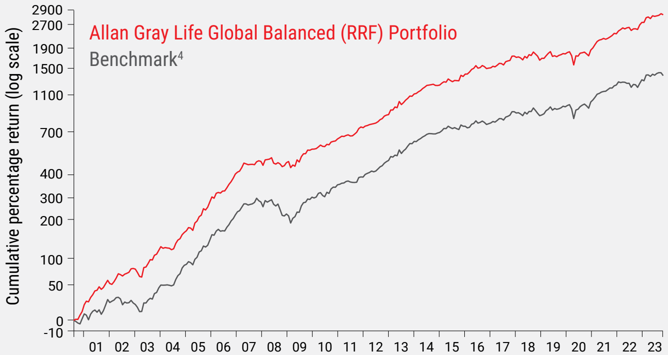
The Portfolio is managed to comply with Regulation 28 of the Pension Funds Act ("the Pension Funds Act"). Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will 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	R27 803m

Performance[1,2]

Cumulative performance since inception



% Returns[2,3]	Portfolio[1]	Benchmark[4]
Since inception	15.4	12.2
Latest 10 years	9.0	7.5
Latest 5 years	9.0	8.2
Latest 3 years	15.3	11.9
Latest 2 years	9.4	4.7
Latest 1 year	9.0	6.7
Latest 3 months	-1.8	-5.1

Asset allocation on 31 October 2023[5]

Asset class	Total	South Africa	Foreign[7]
Net equities	63.0	39.5	23.5
Hedged equities	14.1	3.1	11.0
Property	0.8	0.5	0.3
Commodity-linked	2.7	2.7	0.0
Bonds	11.7	8.4	3.3
Money market and bank deposits[6]	7.7	4.6	3.2
Total (%)	**100.0**	**58.7**	**41.2**

1. Performance is gross of Allan Gray fees. Underlying Orbis fund returns are net of fees.
2. 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.
3. 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.
4. Mean of Alexander Forbes Global Large Manager Watch. The return for October 2023 is an estimate.
5. Underlying holdings of foreign funds are included on a look-through basis.
6. Including currency hedges.
7. Includes Africa ex-SA exposure following the consolidation of the foreign ex-Africa and Africa ex-SA allowances into a single foreign limit of 45%.

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

Top 10 share holdings on 30 September 2023 (SA and Foreign) (updated quarterly)[5]

Company	% of portfolio
British American Tobacco	4.6
AB InBev	3.4
Glencore	3.0
Naspers & Prosus	2.6
Mondi	2.1
Standard Bank	2.0
Woolworths	2.0
Sasol	1.9
Nedbank	1.9
Remgro	1.6
Total (%)	**25.1**

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Tel 0860 000 654 or +27 (0)21 415 2301 **Fax** 0860 000 655 or +27 (0)21 415 2492 **Email** institutional@allangray.co.za **www.allangray.co.za**

Fund manager quarterly commentary as at 30 September 2023

The local market continued to drift sideways in the third quarter of 2023. Year to date, the FTSE/JSE Capped Shareholder Weighted All Share Index (Capped SWIX) has delivered a return of 0%, and the FTSE/JSE All Bond Index delivered a return of 1%. The Portfolio's performance of 9% was ahead of these numbers, helped by local stock selection and offshore exposure.

It is well known that South African businesses face a myriad of challenges, notably loadshedding and a weak consumer environment. Reading the daily newspaper headlines paints a grim picture. Despite this, market returns over the past three years have been reasonably healthy, e.g. 14% for the Capped SWIX. This illustrates the benefit of starting at a low valuation during the COVID-19 slump of 2020.

Valuations for many South African shares remain at very cheap levels versus history, suggesting a reasonable prospect of good returns going forward – even in an unfavourable economic climate. This can be seen when looking at the market from a top-down view, e.g. the FTSE/JSE All Share Index's price-to-earnings multiple of only 10x compared to a 20-year average of 16x. Our bottom-up fundamental research on local shares also confirms that many are trading on low valuations compared to history and to our estimate of their intrinsic value.

Long-term South African government bonds offer yields in excess of 12%, which appear very attractive at face value. Locally, inflation has fallen below 5%, so these bonds 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 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. But despite these bullish arguments, South African government bonds make up only 4% of the Portfolio – a significantly smaller position than many of our peers. The South African government continues to run a large fiscal deficit which the local savings pool has limited ability to fund. As long as foreign investors remain apprehensive of South African bonds, there is a risk that bond yields increase even more, i.e. a decline in prices.

Meanwhile, local cash is also offering attractive yields in excess of 9% at much lower risk than long bonds. Cash also has valuable optionality, as it can be used to take advantage of future opportunities that may arise. We also prefer South African 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.

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 as well as the diversification benefits of uncorrelated returns. All these factors are considered when building the Portfolio.

An important decision at present is whether to prefer "SA Inc" shares (i.e. companies that primarily operate in the local economy) or "rand hedge" shares (i.e. companies that operate offshore and benefit from a weaker rand). The very low valuations of SA Inc shares offer more potential upside if the economy recovers, but these are also the businesses facing the brunt of the challenges of operating in South Africa. At present, we are finding attractive opportunities in both categories, so there is no need to choose only one or the other. This diversification also means that performance of the Portfolio does not rely on a specific macroeconomic scenario playing out.

The Portfolio increased its foreign exposure to 41% during the quarter – still below the 45% foreign capacity limit. The majority of the foreign portion of the Portfolio continues to be allocated to various Orbis funds. In addition to this, the Portfolio has the flexibility to directly hold foreign shares, which is useful from a portfolio management point of view. One reason for not using the full foreign capacity is that local opportunities are more attractive at present. It is also worth remembering that a significant portion of "local" shares are in fact businesses with earnings outside of South Africa, so the underlying foreign exposure is higher than it appears.

During the quarter, the Portfolio added to positions in MultiChoice, South32, and Mr Price and trimmed Woolworths, Glencore and Prosus NV.

Adapted from a commentary contributed by Tim Acker

Tel 0860 000 654 or +27 (0)21 415 2301 **Fax** 0860 000 655 or +27 (0)21 415 2492 **Email** institutional@allangray.co.za **www.allangray.co.za**

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Past performance is not indicative of future performance.

FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index

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