

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 Investor Class 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.

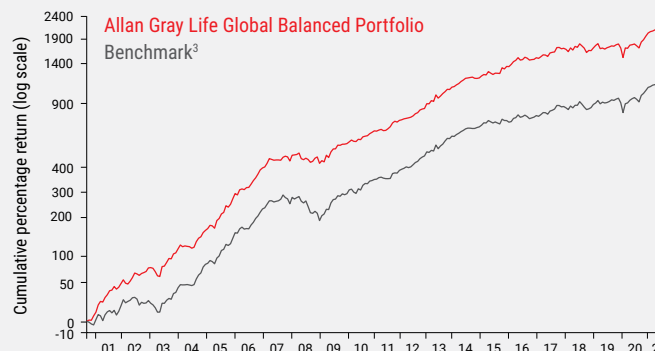
Portfolio information on 31 December 2021

Assets under management

R2 321m

Performance¹

Cumulative performance since inception⁴



- 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 December 2021.
- Mean of Alexander Forbes Global Large Manager Watch. The return for December 2021 is an estimate.
- Since alignment date (1 September 2000).
- 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.

% Returns ²	Portfolio	Benchmark ³
Since inception ⁴	16.0	13.0
Latest 10 years	11.2	11.0
Latest 5 years	8.2	9.4
Latest 3 years	10.5	12.8
Latest 2 years	12.7	13.8
Latest 1 year	20.5	21.8
Latest 3 months	5.1	6.9

Asset allocation on 31 December 2021

Asset class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equities	67.2	51.5	1.7	14.0
Hedged equities	11.7	2.6	0.0	9.1
Property	0.9	0.9	0.0	0.1
Commodity-linked	2.4	2.4	0.0	0.1
Bonds	11.6	9.5	1.2	0.9
Money market and bank deposits	6.2	3.4	0.3 ⁵	2.5
Total (%)	100.0	70.2	3.2	26.6

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

Company	% of Portfolio
British American Tobacco	6.5
Naspers ⁷	5.6
Glencore	4.8
Woolworths	2.4
Nedbank	2.2
Sasol	2.1
AB InBev	2.1
Remgro	2.1
Standard Bank	2.1
Sibanye-Stillwater	1.9
Total (%)	31.7

The Portfolio returned 5.1% for the quarter and 20.5% for the 2021 calendar year. While absolute returns have been strong in real terms, we are not where we want to be versus the best of our peers over the recent past.

We remain significantly underweight US equities, which make up over 60% of the MSCI World Index. Instead, we find depressed European, UK, and emerging market equities more attractive. Although this has hurt relative returns in the short term, we find the valuation disparity compelling. We continue to own no long-dated developed world sovereign bonds and rather have a position in gold. The Portfolio has been increasingly tilted towards managing the risks that may arise from higher realised global inflation and interest rates.

As noted in previous factsheets, we have been finding value in both local equities and bonds. This has been reflected in an equity weighting that is greater than usual, as well as a high allocation to local bonds. The major risk we see is the overvaluation of the US market and how local assets would perform in a scenario where that overvaluation suddenly corrected.

Nonetheless we remain optimistic about the long-term value inherent in our chosen equity positions. Sometimes it takes patience for that value to be realised. For example, Rand Merchant Insurance (RMI), which traded at a deep discount to its underlying holdings, announced the unbundling of its shares

in Discovery and Momentum, and sold its holding in UK insurer Hastings, resulting in a large rerating of the share. This is not just a positive for RMI, but also for its largest shareholder, Remgro, which itself trades at a large discount to its underlying investments. Indeed, the discount climbed as high as 38% during 2021. Remgro owns an attractive portfolio of assets and the actions of management over the last period have highlighted its value. In addition to RMI, Remgro is the largest shareholder in Distell, which is in the process of being bought by Heineken, and its fibre operations (Dark Fibre and Vumatel) housed in CIVH merged with those of Vodacom at an attractive valuation. We continue to find Remgro attractive.

More broadly, we continue to be underweight iron ore and Glencore is still our preferred commodity exposure. We continue to own Sasol and have increased our exposure to gold shares such as AngloGold and Gold Fields. Given the increased risks in China from the policies announced by the government, coupled with the very high exposure of South African equities both directly and indirectly to China, we have been focused on reducing this risk to the Portfolio. The positions in British American Tobacco and AB InBev should be considered within this context.

We remain as focused on thinking about and managing risk in the Portfolio as we are on generating real long-term returns.

Fund manager quarterly commentary as at 31 December 2021

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MSCI Index

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