Allan Gray Life Global 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 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.
- 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 portfolio will be conservative.

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 or fixed fee.

Compliance with Prudential Investment Guidelines

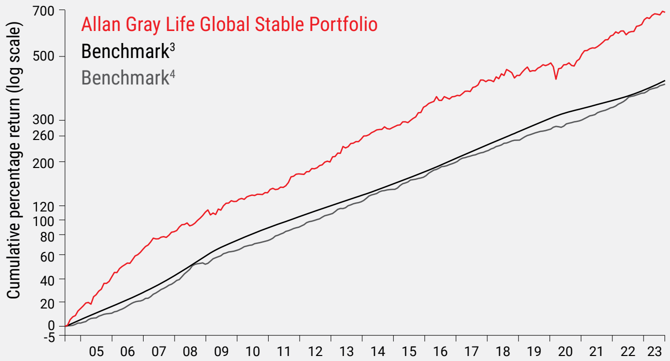
The Portfolio is managed to comply with Regulation 28 of the Pension Funds Act ("the Pension Funds Act"). Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will 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	R4 442m

Performance[1]

Cumulative performance since inception[5]



% Returns[2]	Portfolio[1]	Benchmark[3]	Benchmark[4]
Since inception[5]	11.3	8.8	8.7
Latest 10 years	8.8	8.1	8.3
Latest 5 years	8.1	7.6	8.0
Latest 3 years	12.3	7.1	9.1
Latest 2 years	9.1	7.9	9.6
Latest 1 year	8.8	9.5	8.6
Latest 3 months	0.9	2.5	2.2

Asset allocation on 31 October 2023[6]

Asset class	Total	South Africa	Foreign[8]
Net equities	24.5	13.9	10.7
Hedged equities	21.2	8.6	12.6
Property	1.1	0.9	0.3
Commodity-linked	2.3	1.8	0.6
Bonds	32.1	24.1	8.0
Money market and bank deposits[7]	18.7	15.0	3.6
Total (%)	**100.0**	**64.3**	**35.7**

1. Performance is gross of Allan Gray fees. Underlying Orbis fund returns are net of fees.
2. 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.
3. Alexander Forbes 3-month Deposit Index plus 2%.
4. CPI plus 3%. The return for October 2023 is an estimate.
5. Since alignment date (1 August 2004).
6. Underlying holdings of foreign funds are included on a look-through basis.
7. Including currency hedges.
8. 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)[6]

Company	% of portfolio
British American Tobacco	2.7
AB InBev	1.9
Woolworths	1.4
Glencore	1.4
Nedbank	1.3
Standard Bank	1.3
Remgro	1.2
Marriott International	1.0
Sasol	0.9
Sappi	0.8
Total (%)	**13.9**

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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 8%, ahead of its benchmark's[1] return of 7%. Performance was helped by its conservative local fixed income positioning and the foreign allocation, which benefited from a weaker rand.

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. But despite these bullish arguments, South African bonds make up just 23% of the Portfolio. This includes the exposure to South African government bonds as well as corporates, with a conservative exposure to duration and credit risk. 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 24%.

The Portfolio has a foreign exposure of 35% – below the 45% foreign capacity limit. One reason for not utilising 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. We also need to be mindful of additional volatility as a result of increasing the foreign exposure, given the Portfolio's objective of offering investment stability and capital preservation in rand terms. Currently, the majority of the Portfolio's offshore allocation is invested in low-risk instruments such as cash or cash-like securities and hedged equities.

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 AB InBev, MultiChoice and Premier and trimmed exposure to the NewGold ETF, Standard Bank and Sasol.

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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