Allan Gray

Fund managers: Allan Gray, Coronation, Nedgroup Investments, Ninety One
Inception date: 18 January 2019

Allan Gray Multi-Manager Cautious Portfolio

31 July 2022

Portfolio description and summary of investment policy

The Portfolio invests in the cautious mandates of a minimum of three managers, all of which are managed to comply with the investment limits governing retirement funds. The Allan Gray Stable Portfolio has a target allocation of 30% (excluding cash) in the Multi-Manager Portfolio. This allocation can change as a result of performance within pre-defined parameters.
The Portfolio is a pooled portfolio offered by Allan Gray Life and is only available to members of the Allan Gray Umbrella Pension Fund and the Allan Gray Umbrella Provident Fund (collectively known as the Allan Gray Umbrella Retirement Fund).

Portfolio objective and benchmark

The Portfolio aims to provide a high degree of capital stability and to minimise the risk of loss over any two-year period, while producing long-term returns that are superior to bank deposits. The Portfolio's benchmark is the Consumer Price Index, plus 3%.

How we aim to achieve the Portfolio's objective

We have selected managers with a strong track record who have consistently executed on their investment approach over time. These managers have complementary investment styles which, when combined appropriately, should improve the Portfolio's potential to deliver returns through different market cycles.

Suitable for those investors who

- Are risk-averse and require a high degree of capital stability
- Seek both above-inflation returns over the long term, and capital preservation over any two-year period
- Require some income but also some capital growth
- Wish to invest in a portfolio that complies with retirement fund investment limits
- Wish to diversify risk across multiple managers

Annual management fee

Each underlying manager charges a fee within their portfolio. Where performance fees are charged, this is based on the performance of the portfolio compared to its benchmark. The benchmarks of the underlying portfolios may differ from the benchmark of the Portfolio. Allan Gray charges a multi-management fee based on the net asset value of the Portfolio, excluding the portion invested in Allan Gray portfolios. This fee is 0.20% p.a. (which equates to approximately 0.14% p.a. on the entire Portfolio).

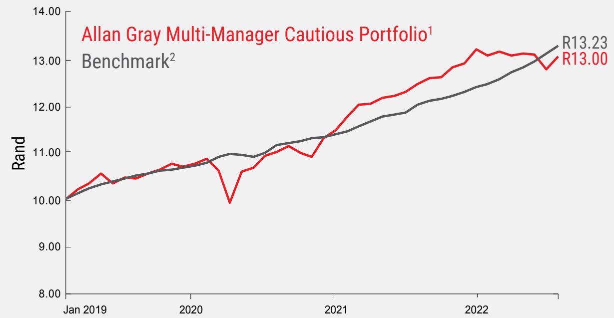
Underlying portfolio allocation on 31 July 2022

Portfolio	% of Portfolio
Allan Gray Stable Portfolio	30.0
Coronation Inflation Plus Portfolio	24.2
Ninety-One Cautious Managed Portfolio	24.2
Nedgroup Investments Core Guarded Fund	19.5
Cash	2.0
Total	**100.0**

1. Performance is net of all fees and expenses.
2. Consumer Price Index, plus 3% was prorated from 18 January 2019 to 31 January 2019.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 February 2020 to 23 March 2020. Drawdown is calculated on the total return of the Portfolio/benchmark (i.e. including income).
4. The percentage of calendar months in which the Portfolio produced a positive monthly return since inception.
5. The standard deviation of the Portfolio's monthly return. This is a measure of how much an investment's return varies from its average over time.

Performance net of all fees and expenses

Value of R10 invested at inception



% Returns	Portfolio[1]	Benchmark[2]
Cumulative:		
Since inception (18 January 2019)	30.0	32.3
Annualised:		
Since inception (18 January 2019)	7.7	8.4
Latest 3 years	7.6	8.1
Latest 2 years	8.8	9.0
Latest 1 year	4.7	10.4
Year-to-date (not annualised)	-1.1	7.0
Risk measures (since inception)		
Maximum drawdown[3]	-15.1	-0.6
Percentage positive months[4]	73.8	95.2
Annualised monthly volatility[5]	6.7	1.3

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Quarterly commentary as at 30 June 2022

Investor concerns over a slowdown in global growth and the likelihood of a recession escalated during the second quarter of 2022 on the back of monetary policy tightening, the ongoing Russia-Ukraine War, and strict COVID-19 lockdowns in China. In June, annual consumer inflation rocketed to 9.1% in the US and 8.6% in the Euro area – levels last seen decades ago. While initially inflationary pressures could be attributed to supply chain disruptions, inflation has now become widespread. The war in Ukraine has simply aggravated an already-deteriorating situation. Central banks have been taken by surprise and are rapidly raising interest rates in the hope that this will restore stability to a financial system which has become very volatile. The rapid economic expansion following the ending of restrictions imposed during the height of the pandemic has come to an end. Business activity is slowing as high prices of energy and food crowd out other expenditures and higher interest rates impact adversely on property markets.

In South Africa, expectations that buoyant exports and a current account surplus would promote more widespread growth have proved disappointing. Among the causes of this unhappy situation are service delivery failures by Eskom, Transnet and local governments. KwaZulu-Natal has in successive years endured serious civil unrest and major flooding, which have severely damaged its economy. It is concerning that our economy has failed to gain traction when the external environment has been favourable, particularly as we now seem to be entering a period of slower global growth.

With US interest rates rising faster than those of other countries, the dollar has been very strong – causing capital outflows from emerging markets. Accordingly, the rand exchange rate and South African bond prices have been weak. Local consumer price inflation reached 7.4% in June – the highest in 13 years, and the South African Reserve Bank's Monetary Policy Committee (MPC) responded by increasing its repo rate by half a percentage point to 4.75% on 19 May, with further hikes likely to come at the next MPC meeting.

The FTSE/JSE Capped Shareholder Weighted All Share Index (Capped SWIX) declined sharply during the second quarter (-10.6%), reversing first-quarter gains to deliver -4.6% year to date. Resources led the rout for the second quarter, returning -20.7%, followed by Financials and Industrials at -15.8% and -3.0%, respectively. The rand weakened by 12.2% against the US dollar, which brought the Capped SWIX's quarterly return in dollars to -20.3%. Despite the concurrent drawdown in global markets, the MSCI All Countries World Index outperformed the FTSE/JSE All Share Index for the quarter, with a return of -15.5% in dollar terms. Local and global bonds outperformed equities over the quarter, although still delivering negative returns. Given the broad-based selloff across most asset classes during the quarter, the only asset classes that contributed positively to performance were South African cash and foreign cash.

The Portfolio returned -2.2% for the quarter and 3.8% for the year (after fees) lagging its CPI plus 3% benchmark over both reporting periods. There was a wide disparity in returns over the last year when measuring the performance of the underlying managers. The Allan Gray Stable Portfolio delivered 7.2% compared to the Coronation Inflation Plus Portfolio, which delivered 1.5%. However, the inverse was true when measuring one-year performance the same time last year where Coronation contributed the most to the overall Portfolio's returns, reflecting the benefits of investing in a multi-manager portfolio. On a look-through basis, there has been a 2.7% decrease in the Portfolio's net equity allocation for the quarter, which was due to both market movements and active allocations by some of the underlying managers. The Portfolio's money market and cash allocation increased by 2.6% from the previous quarter end.

Please find commentaries from two of the underlying portfolio managers reflecting their differing views.

Commentary contributed by Shaheed Mohamed

Top 10 share holdings on 30 June 2022 (updated quarterly)

Company	% of Portfolio
Naspers[6]	1.9
British American Tobacco	1.7
Glencore	1.0
Nedbank	0.8
Sasol	0.8
Standard Bank	0.8
FirstRand	0.8
AB InBev	0.6
Anglo American	0.5
Anglogold Ashanti	0.5
Total (%)	**9.3**

6. Includes holding in stub certificates or Prosus N.V., if applicable.

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

Asset allocation on 31 July 2022

Asset Class	Total	South Africa	Foreign
Net equities	34.9	18.4	16.4
Hedged equities	5.3	1.9	3.4
Property	2.4	1.8	0.5
Commodity-linked	1.8	1.7	0.2
Bonds	37.8	33.3	4.5
Money market, bank deposits and currency hedge	17.9	16.6	1.3
Total (%)	**100.0**	**73.7**	**26.3**

Total expense ratio (TER) and transaction costs

TER and transaction costs breakdown for the 1- and 3-year period ending 31 March 2022[9,10]	1yr %	3yr %
Total expense ratio[7]	0.78	0.82
Fee for benchmark performance	0.62	0.60
Performance fees	0.09	0.14
Other costs excluding transaction costs	0.07	0.08
Transaction costs[8]	0.04	0.05
Total investment charge	**0.82**	**0.87**

7. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TERs.
8. Transaction costs are a necessary cost in administering the Portfolio and impacts Portfolio returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER.
9. Since inception of the Portfolio on 18 January 2019.
10. This estimate is based on information provided by the underlying managers.

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Commentary from underlying fund managers as at 30 June 2022

Ninety One Cautious Managed

Performance Review

For the quarter, the Portfolio delivered a negative absolute return.

On an asset-class basis, cash (local and offshore) was the largest positive contribution to returns, followed by ILBs and floating-rate notes (FRNs). These asset classes have benefited from an environment of rising inflation and interest rates. However, these returns were not large enough to offset the negative contributions from the Portfolio's offshore equity component, South African government nominal bonds and local equities.

At an individual stock level, the key positive contributors to absolute performance were British American Tobacco and Philip Morris International, as investors sought stability. Prosus also contributed strongly, rallying at the end of the quarter as the company's management announced an ongoing share buy-back programme to narrow the discount to net asset value. The key negative contributors were ASML and Booking.com as sentiment towards global technology companies continued to sour, while in the local equity component, Santam was a laggard.

Portfolio Activity

We are not short-term traders. Instead, we prefer to buy what we perceive to be high-quality companies that offer good value, and we aim to hold these positions over the medium to long term. Over the quarter, we reduced the Portfolio's overall exposure to global equities and redeployed the proceeds into US dollar cash. Locally, we added to our holdings in the I2029 ILB, as well as Santam and Standard Bank credit.

Nedgroup Investments Core Guarded Fund

The market continued to be extremely volatile in the second quarter. The concerns in the market are around whether we are going into a recession or not and that is greatly dependent on whether the Fed moves interest rates too high, stymies growth too quickly and causes the economy to go into recession. The Fed has been hawkish in its commentary throughout the quarter with the all-items Consumer Price Index having increased to 9.1% for the 12 months ending June, making it the largest 12-month increase since the period ending November 1981.

It is still important to focus on the long term and not be overly destructed by short-term volatility but yet be mindful that there are shifts happening in the overall landscape. The Nedgroup Investments Core Guarded Fund declined by -2.7% over the quarter.

The Nedgroup Investment Core Guarded Fund has a growth target of 3% above inflation (around 8% per year) over three-year periods. The Fund has almost reached its target over the last three years. However, history demonstrates that one-third of the time, a fund such as the Nedgroup Investments Core Guarded Fund would have underperformed its long-term growth target over any three-year period. The other two-thirds of the time, it would have achieved or exceeded its long-term target.

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