ALLANGRAY

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

Allan Gray Multi-Manager Cautious Portfolio

31 October 2023

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).

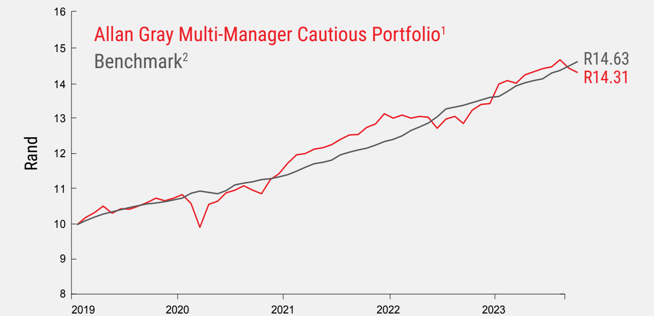
Underlying portfolio allocation on 31 October 2023

Portfolio	% of Portfolio
Allan Gray Stable Portfolio	29.6
Coronation Inflation Plus Portfolio	24.5
Ninety-One Cautious Managed Portfolio	24.7
Nedgroup Investments Core Guarded Fund	19.2
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)	43.1	46.3
Annualised:		
Since inception (18 January 2019)	7.8	8.3
Latest 3 years	9.6	9.1
Latest 2 years	5.9	9.6
Latest 1 year	8.1	8.6
Year-to-date (not annualised)	6.5	7.4
Risk measures (since inception)		
Maximum drawdown[3]	-15.1	-0.6
Percentage positive months[4]	75.0	98.2
Annualised monthly volatility[5]	6.3	1.3

Issued: 13 November 2023

Quarterly commentary as at 30 September 2023

Following a robust stock market rally in the first half of 2023 and a promising start to the third quarter, the trend took an unexpected turn with consecutive months of negative returns in the last two months. Globally, economic trends exhibited a mixture of outcomes and concerns regarding inflation still remain.

In the US, the economy remains resilient with growth being stronger than that experienced in Europe. This has mainly been supported by high levels of income growth despite the monetary policy tightening impact. Inflation increased to 3.7% in August, up from 3.2% in July. While the prospect of a recession has been kicked into the long grass, economic growth is expected to be a lot lower in 2024, with the slowing economy expected to be accompanied by a lower inflation rate in the region of 2.5%.

Growth in China has been slow with the property market under strain. It was reported that Country Garden Holdings, one of China's largest property developers, was likely going to default on an offshore bond and had thousands of stalled developments across the country. This follows another property developer, Evergrande, which also defaulted having racked up liabilities in the region of US$340bn. The Chinese government has launched a stimulus package to try and bolster demand. Overall, the extent to which the government could stimulate growth has been limited due to debt risk fear and the impact on the yuan of widening yield differentials due to the elevated global interest rate environment.

In South Africa, the August inflation rate stood at 4.8% which was a 0.3% month-on-month increase from July. Despite this increase, the inflation rate remained within the South African Reserve Bank's (SARB's) 3-6% target range. The SARB expects inflation to rise before it reverts to the midpoint of the target range in 2025. The Monetary Policy Committee (MPC) of the SARB kept the repo rate at 8.25% at their last meeting. The SARB indicated that, at the current repo rate, policy is restrictive, consistent with the inflation outlook and expectation of inflation increases.

The FTSE/JSE Capped Shareholder Weighted All Share Index ("Capped SWIX") further declined with a return of -3.8% in rand terms over the third quarter of 2023. The industrials sector continued to see a decline in returns, delivering -6.2% over the quarter, while the resources and financial sectors returned -4.4% and 2.2% respectively over the same period. As was the case during the previous quarter, the Capped SWIX dollar return trailed that of the MSCI All Country World Index (MSCI ACWI) (-3.3%) as the rand weakened by a further 0.4% this quarter.

The Portfolio returned 0% and 12.2% (net of fees) for the quarter and latest one year respectively. While the Portfolio underperformed the benchmark, which returned 2.2% over the quarter, it outperformed the benchmark over the latest one-year period with the benchmark returning 8%.

On a look-through basis, the top 10 equity holdings remained similar over the third quarter, with Mondi replacing BHP. There was a 4.5% increase in the local asset exposure, led by an increase of 6.5% in money market and bank deposit exposure, while the foreign category saw a decrease of 3.8%.

Commentary contributed by Tonderai Makeke

Issued: 13 November 2023

Top 10 share holdings on 30 September 2023 (updated quarterly)

Company	% of Portfolio
British American Tobacco	1.3
Naspers & Prosus	1.3
Standard Bank	0.8
FirstRand	0.7
AB InBev	0.7
Glencore	0.7
Nedbank	0.6
Woolworths	0.5
Compagnie Financiere Richemont SA	0.5
Mondi	0.4
Total (%)	**7.5**

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

Asset allocation on 31 October 2023

Asset Class	Total	South Africa	Foreign
Net equities	30.3	13.3	17.0
Hedged equities	6.7	2.9	3.7
Property	2.0	1.4	0.6
Commodity-linked	1.7	1.6	0.2
Bonds	40.1	33.0	7.1
Money market, bank deposits and currency hedge	19.3	18.9	0.3
Total (%)	**100.0**	**71.2**	**28.8**

Total expense ratio (TER) and transaction costs

TER and transaction costs breakdown for the 1- and 3-year period ending 30 June 2023[8,9]	1yr %	3yr %
Total expense ratio[6]	**0.80**	**0.81**
Fee for benchmark performance	0.64	0.62
Performance fees	0.09	0.11
Other costs excluding transaction costs	0.07	0.08
Transaction costs[7]	**0.04**	**0.04**
Total investment charge	**0.84**	**0.85**

6. 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.
7. 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.
8. Since inception of the Portfolio on 18 January 2019.
9. This estimate is based on information provided by the underlying managers.

Commentary from underlying fund managers as at 30 September 2023

Allan Gray Stable Portfolio

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 return of 6%. 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.

Ninety One Cautious Portfolio

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

Among the largest detractors over the quarter was the Portfolio's exposure to offshore equities. Global indices struggled in Q3 amidst stronger US growth data and a peak in interest rates.

The Portfolio's exposure to local equities was another detractor from absolute performance over the quarter. For the period, the FTSE/JSE All Share Index closed lower at -3.5%, weighed down by a resurgence in loadshedding and multiple headwinds facing consumers. Our overall exposure reduced marginally on the back of market movement and position trims as we struggle to find attractive opportunities. Our quarter-end allocation to domestic equities is just over 8%.

On a more positive note, contributing to performance over the quarter was the Portfolio's exposure to domestic cash. Cash, our default asset class, has become increasingly attractive given the Portfolio's objective of capital protection and generating inflation-beating returns. Given the increase in rates on the back of persistently high inflation and in line with global banks, cash now provides an attractive real return for investors.

The Portfolio's bond allocation also contributed to performance over the quarter. Inflation-linked bonds were the main driver of returns, followed by nominal bonds contributing at the margin. Consensus suggests that while the global economy is slowing, inflation has proved sticky and employment robust. A tension between opposing forces has created an environment where the direction of travel is less clear as markets digest when interest rates will peak.

As the global economic outlook remains under pressure, we believe it is the resilient earnings demonstrated by high-quality, global businesses that will increasingly prove critical for investors. We hold many of these types of companies and the fundamentals of these businesses remain strong.

Commentary from underlying fund managers as at 30 September 2023

We remain confident about the runway for growth and the ability of these companies to compound their cash flows. We are extremely mindful of the narrowness of the market and valuation risks within certain themes. Global equity remains our preferred asset class.

The outlook for the South African economy has not improved materially as we face headwinds on a multitude of fronts, which seesaw between globally driven events and idiosyncratic issues. We continue to struggle to find compelling locally listed equity ideas within the framework of our investment capability. The majority of our exposure is focused on businesses that generate the bulk of their earnings offshore and are not beholden to the vagaries of our economy.

Locally, the best opportunity remains domestic government bonds. South Africa's real interest rates (the interest rates after subtracting inflation) remain among the highest in the world, with a 10-year government bond equivalent yielding 11.5% (at the time of writing), well ahead of inflation, which has moderated materially and is now back within the SARB's target band. Despite building fiscal risks and the possibility of further moves up in yields, we argue the yield underpin (the highest real yield in the world) helps to mitigate these risks. These instruments offer higher risk-adjusted return potential than most South African shares.

We, therefore, maintain a balance of exposures that blends the best of growth assets with the income on offer from defensive assets, while generating inflation-beating returns over the medium to long term. After a strong start to the year and with volatility likely to tick up, we do not believe that it is appropriate to position the Portfolio for a particular outcome. As the stewards of your capital, we remain unwavering in our commitment to growing your capital in a judicious and discriminate manner.

Important information for investors

© 2023 Allan Gray Proprietary Limited

All rights reserved. The information and content may not be reproduced or distributed without the prior written consent of Allan Gray Proprietary Limited ("Allan Gray").

Information and content

The information in and content of this publication are provided by Allan Gray as general information about the company and its products and services. Allan Gray does not guarantee the suitability or potential value of any information or particular investment source. The information provided is not intended to, nor does it constitute financial, tax, legal, investment or other advice. Before making any decision or taking any action regarding your finances, you should consult a qualified financial adviser. Nothing contained in this publication constitutes a solicitation, recommendation, endorsement or offer by Allan Gray, but is merely an invitation to do business.

Allan Gray has taken and will continue to take care that all information provided, in so far as this is under its control, is true and correct. However, Allan Gray shall not be responsible for and therefore disclaims any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance upon any information provided.

Disclaimer

The Allan Gray Multi-Manager Cautious Portfolio is a pooled portfolio that is made available to the Allan Gray Umbrella Retirement Fund. This pooled portfolio is underwritten by Allan Gray Life Limited, a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017. Allan Gray Proprietary Limited (the 'Investment Manager'), an authorised financial services provider, is Allan Gray Life's appointed investment manager.

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

The FTSE/JSE All Share Index and FTSE/JSE Capped Shareholder Weighted All Share Index are calculated by FTSE International Limited ("FTSE") in conjunction with the JSE Limited ("JSE") in accordance with standard criteria. The FTSE/JSE All Share Index and FTSE/JSE Capped Shareholder Weighted All Share Index are the proprietary information of FTSE and the JSE. All copyright subsisting in the values and constituent lists of the FTSE/JSE All Share Index and FTSE/JSE Capped Shareholder Weighted All Share Index vests in FTSE and the JSE jointly. All their rights are reserved.

MSCI Index

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

FTSE Russell Index

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2023. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®" "Russell®", "FTSE Russell®", is/are a trade mark(s) of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

Need more information?

You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**