

### Portfolio description and summary of investment policy

The Portfolio invests in the Balanced mandates of a minimum of three managers, all of which are managed to comply with the investment limits governing retirement funds. The Allan Gray Balanced 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 achieve steady long-term growth of capital for investors within the constraints governing retirement funds. The Portfolio's benchmark is a composite benchmark, of which 70% is domestic and 30% is foreign.<sup>1</sup>

### 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 real returns through different market cycles.

### Suitable for those investors who

- Seek steady long-term capital growth
- Are comfortable with taking on some risk of market fluctuation and potential capital loss but typically less than that of an equity fund
- Wish to invest in a portfolio that complies with retirement fund investment limits
- Typically have an investment time horizon of at least three years
- Wish to diversify risk across multiple managers

### Annual management fee

Each underlying manager charges their own fee. Where performance fees are charged, this is based on the underlying manager's performance compared to its respective benchmark. The benchmark for each underlying manager 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) and is included in the fee quoted below.

Fee for performance equal to the benchmark<sup>2,3</sup>: 0.69% p.a.

### Underlying portfolio allocation on 31 May 2021

Portfolio	% of Portfolio
Allan Gray Balanced Portfolio	30.0
Coronation Global Houseview Portfolio	25.6
Ninety One Opportunity Portfolio	23.1
Prudential Balanced Portfolio	20.3
Cash	1.1
<b>Total</b>	<b>100.0</b>

1. 47% FTSE/JSE Capped Shareholder Weighted All Share Index, 14% FTSE/JSE All Bond Index, 9% 3-month STeFI, 18% MSCI All Country World Index and 12% J.P. Morgan GBI Global Index, all including income. Source: IRESS BFA, Bloomberg.\*
2. The investment management fees for the underlying managers and multi-management fee are currently exempt from VAT. If VAT becomes chargeable due to a change in the interpretation of the applicable regulations or new regulations being introduced, VAT will be added to all applicable fees.
3. Where applicable, each manager bases their performance fee on their respective benchmark. The indicative fee at benchmark assumes each of the underlying funds achieves its respective benchmark. It also assumes a fixed local and offshore allocation. The actual fee at benchmark may therefore differ.
4. Performance is net of all fees and expenses.
5. Maximum percentage decline over any period. The maximum drawdown occurred from 20 January 2020 to 23 March 2020 and maximum benchmark drawdown occurred from 17 February 2020 to 23 March 2020. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
6. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
7. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
8. Includes holding in stub certificates and/or Prosus NV if applicable.

\* The blended returns are calculated by Allan Gray Proprietary Limited using end of day index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking or otherwise utilising any MSCI Data, models, analytics or other materials or information.

### Performance as at 31 May 2021

% Returns	Fund <sup>4</sup>	Benchmark
<b>Cumulative:</b>		
Since inception (18 January 2019)	27.5	28.9
<b>Annualised:</b>		
Since inception (18 January 2019)	10.8	11.3
Latest 2 years	11.0	10.9
Latest 1 year	20.2	19.3
Year-to-date (not annualised)	9.5	7.9
<b>Risk measures (since inception)</b>		
Maximum drawdown <sup>5</sup>	-22.3	-23.0
Percentage positive months <sup>6</sup>	75.0	75.0
Annualised monthly volatility <sup>7</sup>	11.5	11.2

### Top 10 share holdings on 31 March 2021 (updated quarterly)

Company	% of Portfolio
Naspers <sup>8</sup>	6.1
British American Tobacco	3.6
Anglo American	2.2
Glencore	2.1
FirstRand	1.7
Standard Bank	1.5
Sasol	1.1
Bid Corp	1.0
Northam Platinum	0.9
BHP	0.9
<b>Total (%)</b>	<b>21.2</b>

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

## Quarterly commentary as at 31 March 2021

The world is starting to recover from the pandemic with stronger global economic growth expected for 2021. Vaccine roll-outs across developed countries and an increase in government spending have had a positive impact on global growth. This has been a tailwind for risky assets with the MSCI World Index and the FTSE/JSE All Share Index (ALSI) up 78% and 81% respectively from their March 2020 lows. However, virus mutations and the efficacy of vaccines, coupled with continued concerns of higher inflation and interest rates, remain a risk to markets.

The South African economy created 333 000 jobs in Q4 of 2020. The primary sectors – mining and agriculture – are thriving due to record demand and prices. Unfortunately, 1.4 million jobs are still missing since the beginning of 2020 with trade (including tourism and hospitality) and manufacturing still stuck because of the pandemic. The pace of our country's economic recovery will largely depend on the government's ability to effectively roll out vaccines and mitigate the onset of a third wave of infections.

The ALSI returned 13.1% in rand terms during the first quarter of 2021. Resources was the best performing sector for the quarter, up 18.7%, followed by industrials and financials which returned 13.0% and 3.8%, respectively. Over the same period, the rand weakened marginally, by 0.7% against the US dollar, bringing the ALSI return in dollars to 12.3%. The ALSI significantly outperformed the MSCI World Index which returned 5.3% in dollar terms for the quarter. Both global (-4.5%) and local bonds (-1.7%) fared poorly over the quarter on the back of a spike in US yields as a reflection of investors' inflation worries.

The Portfolio returned 7.2% for the quarter and 30.1% for the year (after fees) – ahead of its benchmark over both reporting periods. The underlying funds with a "value" bias have fared better than those with a "quality/momentum" bias, which is the converse when comparing returns at the same time last year. When comparing asset class exposure over the last year, the total net equity allocation in the the Portfolio has remained largely consistent at approximately 64%. However, the local net equity exposure has increased by approximately 5% while foreign net equity has reduced by approximately the same amount as the underlying managers have, in aggregate, repositioned their portfolios to take advantage of local opportunities. Allan Gray has the largest gross South African equity exposure of 53.5%, compared to Ninety-One with the lowest allocation at 28%. The latter favours offshore equities and local bonds. During the quarter, Sasol and Northam Platinum replaced Richemont and Impala Platinum in the Portfolio's top 10 shares on a look-through basis. Commentaries from two of the underlying fund managers follow, reflecting their contrasting views.

Commentary contributed by Shaheed Mohamed

## Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1-year period ending 31 March 2021	Tyr % <sup>11,12</sup>
<b>Total expense ratio<sup>9</sup></b>	<b>1.09</b>
Fee for benchmark performance	0.66
Performance fees	0.28
Other costs excluding transaction costs	0.15
<b>Transaction costs<sup>10</sup></b>	<b>0.10</b>
<b>Total investment charge</b>	<b>1.19</b>

9. 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.
10. 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.
11. Since inception of the Portfolio on 18 January 2019.
12. This estimate is based on information provided by the underlying managers.

## Asset allocation on 31 May 2021

Asset Class	Total	South Africa	Foreign
Net equity	65.3	44.3	21.0
Hedged equity	3.9	1.0	2.9
Property	2.1	1.7	0.4
Commodity-linked	2.0	2.0	0.0
Bonds	18.5	17.3	1.2
Money market, bank deposits and currency hedge	8.2	7.6	0.6
<b>Total (%)</b>	<b>100.0</b>	<b>73.9</b>	<b>26.1</b>

### Ninety-One Opportunity Portfolio

The offshore equity component of the Portfolio was the largest contributor to absolute performance. A top contributor was lithography company ASML, which benefited from continued momentum within the semiconductor industry (in March Intel announced plans to spend billions of dollars on new chip making factories which should directly benefit ASML). Other contributors to performance include Charles Schwab and Estee Lauder. The local equity component of the Portfolio also contributed positively to performance. Contributors included technology giant Naspers, diversified miner BHP, paper producer Mondi and luxury goods manufacturer Richemont.

The commodity component of the Portfolio, comprising the holding in the New Gold ETF, detracted from performance as gold prices continue to fall given the risk-on environment and rising yields. The local bond component of the Portfolio detracted from performance as the domestic bond market sold off in line with global bond markets.

We are not short-term traders. Instead, we prefer owning positions in high-quality companies that offer good value. Typically, these positions are held over long periods of time. During the period we increased inflation-linked bond exposure. With extremely low real rates on offer from cash and the expectation that these rates will remain low for some time, medium-term inflation-linked bonds offer a very attractive alternative.

### Prudential Balanced Portfolio

The largest asset class contributors to absolute performance for the quarter were the Portfolio's exposure to SA equities (by far), followed by global equities, and SA listed property to a lesser extent. Global fixed income and SA nominal bonds were the largest detractors from absolute returns. In terms of specific equity exposure, among the strongest equity contributors to absolute returns for the quarter were the Portfolio's holdings in MTN, as well as resources stocks like Implats, Amplats, Anglo American, Sasol and Exxaro. One of the very few detractors from absolute returns included MultiChoice Group.

Starting with our view on offshore asset allocation, we made some small changes to our positioning during the quarter in order to reduce some portfolio risk and still take advantage of valuation opportunities. However, we remained slightly

overweight global equities versus global bonds, global property, and cash. Within our global equity positioning, as US equities were expensive compared to other markets during the quarter, our portfolio continued to be underweight the US market in favour of selected European and emerging market equities. During the quarter we took advantage of the strong global equity market recovery and took some profit on our overweight equity position but remained slightly overweight. At the same time, we also shifted to a neutral weighting from underweight global government bonds, adding select exposure, with emerging market government bonds having been particularly attractive. We also opportunistically adjusted exposure to investment-grade corporate credit, ending the quarter underweight in this asset class. This overall positioning would benefit portfolio returns in the event of a sell-off in risk assets, as fixed interest assets would gain ground.

The Portfolio continues to be overweight SA equities. SA equity valuations (as measured by the price/book value ratio of the FTSE/JSE Capped SWIX Index) were trading at around 1.8 times at the end of March, up from around 1.6 times at the beginning of the quarter, but still attractive compared to the market's long-term price/book average of around 2.1 times. Within SA equities our stockpicking has led to above-market performance in the Portfolio for the quarter thanks to contributions from resources groups like Anglo American, Implats, Sasol and Amplats. We also continue to prefer large companies that offer sound, high-quality diversification such as Naspers, British American Tobacco, Remgro and MTN. We have also maintained our overweight in the local banking sector, with exposures to Absa, Standard Bank and Investec given the attractive valuations they offer. Banking stocks continued to recover over the quarter as the outlook for the economy and consumer financial health improved.

During the quarter we maintained our overweight in SA nominal bonds. The Portfolio continues to be tilted towards longer-dated maturities. Although bonds recorded losses over the quarter, the flattening of the yield curve favoured our positioning and helped to cushion losses. As of 31 March, 10-year government bond yields were still elevated compared to their history, offering around 9.5% versus 9.1% at the start of the quarter, and equating to an after-inflation (real) yield of around 4.5% (assuming inflation of 5.0% over the next decade). This is substantially above our long-run fair value assumption of a 2.5% real yield. We believe these yields will more than compensate investors for the risks associated with the government's precarious fiscal position and possible further credit rating downgrades.

### Commentary from underlying fund managers as at 31 March 2021

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