ALLANGRAY

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

Allan Gray Multi-Manager Moderate Portfolio

30 June 2021

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.[1]

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[2,3]: 0.69% p.a.

Underlying portfolio allocation on 30 June 2021

Portfolio	% of Portfolio
Allan Gray Balanced Portfolio	29.6
Coronation Global Houseview Portfolio	25.5
Ninety One Opportunity Portfolio	23.6
Prudential Balanced Portfolio	20.4
Cash	1.0
Total	**100.0**

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 30 June 2021

% Returns	Fund[4]	Benchmark
Cumulative:		
Since inception (18 January 2019)	27.8	29.0
Annualised:		
Since inception (18 January 2019)	10.5	11.0
Latest 2 years	10.3	9.8
Latest 1 year	17.5	15.4
Year-to-date (not annualised)	9.8	8.0
Risk measures (since inception)		
Maximum drawdown[5]	-22.3	-23.0
Percentage positive months[6]	75.9	75.9
Annualised monthly volatility[7]	11.3	11.0

Top 10 share holdings on 30 June 2021 (updated quarterly)

Company	% of Portfolio
Naspers[8]	5.9
British American Tobacco	3.4
Glencore	2.2
Anglo American	2.0
FirstRand	1.8
Standard Bank	1.6
Bid Corp	1.0
Sasol	1.0
BHP	0.9
Compagnie Financiere Richemont	0.9
Total (%)	**20.6**

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

Quarterly commentary as at 30 June 2021

The FTSE/JSE All Share Index (ALSI) was flat in rand terms during the second quarter of 2021 after a very strong first quarter. Financials was the best performing sector, up 7.5%, followed by industrials which returned 0.8%. Resources delivered -5.0% but is still up almost 13% since the beginning of the year. The rand strengthened by 3.3% against the US dollar, bringing the ALSI return in dollars to 3.4% for the quarter. The performance of shares within the benchmark has not been uniform. Many "SA Inc" stocks have done well, with the banking and property sectors delivering 9.6% and 12.1% respectively. Two of the largest multinationals with a listing on our local bourse – Naspers (-15%) and British American Tobacco (-1.3%) – had a poor quarter.

The MCSI All Country World Index (a proxy for global equities) delivered 7.5% in US dollars, outperforming the ALSI. Driven by the improving growth outlook, US equity markets continued to rally, with the S&P 500 delivering an 8.5% return and the technology-heavy Nasdaq-100 returning 11.4%. Western markets outperformed the Asian markets over the quarter. Chinese technology companies were weak as there are growing concerns of tighter regulations in the sector.

The FTSE/JSE All Bond Index (ALBI) posted a 6.9% return for the quarter led by the strong performance of longer-dated bonds. SA inflation-linkers delivered 3.0% over the same period, but year to date have outperformed the ALBI as investors seek protection from upward-trending inflation. Eskom's 15% tariff hike, along with a 45% increase in the US dollar oil price since the beginning of the year, will fuel inflation in South Africa over the next few months and likely lead to the South African Reserve Bank hiking interest rates.

The Portfolio returned 2.4% for the quarter and 17.5% for the year (after fees) – ahead of its benchmark over both reporting periods. For the quarter, the underlying funds with a "quality/momentum" bias have fared better than those with a "value" bias, which is the converse of the first quarter of 2021. Over the last year, there has been a 3.6% aggregate increase in total net equity exposure. However, the local net equity exposure has increased by approximately 7.1%, while foreign net equity has decreased by 3.5% as most of the underlying managers have repositioned their portfolios to take advantage of local opportunities. The strengthening rand over the last year has also diluted the returns of the foreign carve-out of the Portfolio, thus impacting its relative exposure. Of the underlying managers, Coronation's domestic equity exposure has increased by 13% over the last year – the largest increase among all the managers – while Prudential decreased theirs by 1.3%, partly due to their strategic asset allocation process.

Ninety One Opportunity continues to favour foreign equities over domestic equities and has a 22% allocation to South African bonds as a "diversifier" to its offshore holdings. During the quarter, Northam Platinum fell out of the Portfolio's top 10 shares on a look-through basis, while Richemont entered the top 10 once more. 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	1yr %[11,12]
Total expense ratio[9]	**1.09**
Fee for benchmark performance	0.66
Performance fees	0.28
Other costs excluding transaction costs	0.15
Transaction costs[10]	**0.10**
Total investment charge	**1.19**

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 30 June 2021

Asset Class	Total	South Africa	Foreign
Net equity	65.7	43.5	22.1
Hedged equity	4.0	1.0	3.0
Property	2.2	1.7	0.5
Commodity-linked	1.8	1.8	0.0
Bonds	18.7	17.4	1.3
Money market, bank deposits and currency hedge	7.7	7.0	0.7
Total (%)	**100.0**	**72.5**	**27.5**

Commentary from underlying fund managers as at 30 June 2021

Allan Gray Balanced Portfolio

The Portfolio returned 0.9% for the quarter. The local equity market traded sideways, following a very strong Q4 (10%) and Q1 (13%). Fixed income has contributed to returns, while the foreign portion of the Portfolio marginally detracted from returns, given the strength of the rand.

It may seem hard to reconcile the strength of the local currency with the very real economic problems South Africa is facing, such as low economic growth and a high debt burden. Two specific contributors to its strength have been strong SA exports and foreign capital returning to the country. Exports have been boosted by significantly higher prices across most commodities, resulting in large trade surpluses for South Africa.

A useful maxim in investing is that at a low enough price, almost any asset can be a good investment, and at a high enough price, any asset can be a poor investment. The former was true for most South African shares last year. The ALSI has now appreciated by 52% in US dollars over the last 12 months. Many domestic businesses have been very good investments over the past year, despite facing a tough economic outlook. Share prices of these businesses were depressed following the initial COVID-19 market turmoil and were in many cases discounting a worst-case scenario.

A good example would be South African banks. For most of the last year, share prices of SA banks have implied expected credit losses much worse than the 2008-2009 recession – an unlikely outcome, in our view. The SA banks index is up 48% over the last year, but still lower than before the pandemic. Banks remain a significant holding in the Portfolio. A similar example is the domestic clothing retailers, which have enjoyed an even sharper recovery. Many of these shares, such as Mr Price and Foschini, are now at higher levels than before COVID-19. The Portfolio has sold a large portion of its position in these shares.

The ALSI is now significantly higher than it was before the pandemic – 21% up from the start of 2020. Is this not a sign that it is time to reduce local equity exposure? Not necessarily – our bottom-up stockpicking is still finding many attractively priced opportunities. It is important to remember that the strength of the ALSI has largely been driven by mining companies and some large dual-listed industrials, such as Richemont. This has masked the relative weakness of other areas of the market. High commodity prices have been a significant tailwind to mining shares. The Portfolio's holding of government bonds is higher than it has been in recent years, taking advantage of the steep yield curve. However, the fixed income portion remains conservatively managed, with low duration and modest exposure to credit risk.

Coronation Global Houseview Portfolio

The Portfolio delivered a positive return over the quarter. Performance over the last 12 months has benefited from recovering markets, asset allocation decisions, and alpha in the domestic and global equity building blocks. The Portfolio has performed well against benchmarks and its peer group over all meaningful time periods.

Good returns from global markets continued with the MSCI All Country World Index returning 7.4% in US dollars for the quarter, resulting in a return over 12 months of 39.3%. Given this considerable strength, we reduced the holding in global equities to a neutral level, although we see opportunities for stockpicking.

In South Africa a more resilient domestic economy continued to exceed expectations. Reported Q1-21 GDP was up 4.6% (p/p). Constrained power and the poor state of SOEs are major headwinds to growth and fiscal sustainability. We note the positive announcements in this regard made during the quarter enabling greater private power generation and the sale of the government's majority stake in SAA. These factors are driving increased confidence in the domestic outlook. Local interest rates are expected to remain lower for longer as inflation remains relatively contained. We added to the position in South African government bonds, given this improving backdrop and the attractive real yields on offer. The buying was funded from cash, taking the Portfolio to a neutral position. Having increased exposure to South African equities during 2020, we remain overweight in the asset class, given the breadth of value on offer in resources, global stocks domestically listed and domestic shares.

The Portfolio remains overweight resource shares given their attractive valuations. Our investment case is not premised on higher commodity prices (we expect most to trend downwards), but rather on the undemanding multiples and generous free cash flow yields even after adjusting commodity prices lower. In addition, decarbonisation should support sustained demand for metals. Major diversified holdings continue to include Anglo American, Glencore and Exxaro. We have built a position in the gold equities, which offer upside and reasonably priced protection. These positions were funded from selling down platinum group metals (PGM) shares (currently underweight), which have performed strongly.

The Portfolio continues to have considerable exposure to several of the global businesses listed domestically. These are attractive for a variety of stock-specific reasons. Major holdings include Naspers (-15.1%), British American Tobacco (-1.3%), Quilter (-7.0%), Bidcorp (+8.3%), Textainer (+14.8%) and Aspen (+12.3%). Distell rose strongly during the quarter (+43.1%) on the news of a potential offer from Heineken. We have long been admirers of Distell's quality strategy of branded beverages and its long runway for growth as it expands on the African continent. As such, we believe a sizeable premium for the business can be justified. We increased the domestic banks' exposure during the quarter. Life companies continue to face headwinds, both from lower new business volumes and higher mortality risks related to COVID-19 infections.

While the past 18 months have seen a huge amount of volatility and fluctuating outlooks, our focus remains on seeking out opportunities where the longer-term prospects of assets are mispriced by the market. We continue to believe that this patience will be rewarded.

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J.P. Morgan GBI Global Index

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