ALLANGRAY

Fund managers: Allan Gray, Coronation, M&G, Ninety One
Inception date: 18 January 2019

Allan Gray Multi-Manager Moderate Portfolio

31 July 2022

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).

Underlying portfolio allocation on 31 July 2022

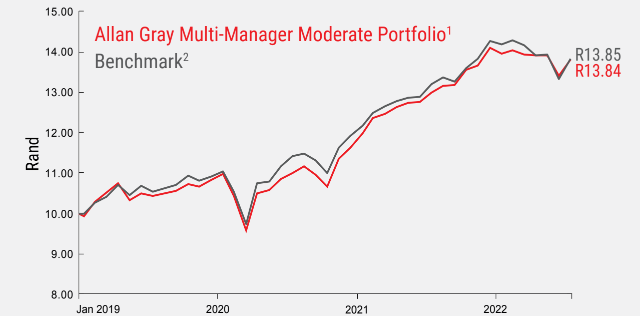
Portfolio	% of Portfolio
Allan Gray Balanced Portfolio	30.4
Coronation Global Houseview Portfolio	24.0
M&G Balanced Portfolio	24.6
Ninety One Opportunity Portfolio	20.0
Cash	1.1
Total	**100.0**

1. Performance is net of all fees and expenses.
2. 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.*
3. 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 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.

* 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 net of all fees and expenses

Value of R10 invested at inception



% Returns	Portfolio[1]	Benchmark[2]
Cumulative:		
Since inception (18 January 2019)	38.4	38.5
Annualised:		
Since inception (18 January 2019)	9.6	9.7
Latest 3 years	9.8	9.5
Latest 2 years	12.1	10.1
Latest 1 year	6.3	4.8
Year-to-date (not annualised)	-2.0	-3.1
Risk measures (since inception)		
Maximum drawdown[3]	-22.3	-23.0
Percentage positive months[4]	73.8	71.4
Annualised monthly volatility[5]	10.0	10.0

Issued: 11 August 2022

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 that has become very volatile. The rapid economic expansion following the ending of lockdown restrictions imposed during the height of the pandemic has come to an end. Business activity is slowing as high energy and food prices crowd out other expenditures, and higher interest rates adversely impact 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 sell-off 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 -3.8% for the quarter and 5.0% for the year (after fees), ahead of its composite 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 Balanced Portfolio delivered a 9.4% return compared to Coronation Global Houseview Portfolio, which delivered 1.4%. 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 2.3% increase in the Portfolio's offshore allocation for the quarter which was due to both market movements and active allocations by some of the underlying managers.

As discussed in our commentary last quarter, National Treasury announced an increase to the investment limits local investors are permitted to invest outside of South Africa. On the back of this announcement, and the likelihood of the underlying managers allocating more to offshore assets through the cycle, the Portfolio's composite benchmark will be amended on 1 August 2022 to reflect a higher weighting offshore. Overall, the benchmark will increase its offshore allocation from 30% to 40%.

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]	5.9
British American Tobacco	3.6
Glencore	2.4
Standard Bank	2.1
Sasol	1.9
FirstRand	1.3
Remgro	1.2
Mondi	1.2
AB InBev	1.0
Nedbank	1.0
Total (%)	**21.5**

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	67.1	43.1	24.1
Hedged equities	4.8	1.5	3.4
Property	2.1	1.6	0.4
Commodity-linked	1.7	1.7	0.0
Bonds	17.7	16.4	1.3
Money market, bank deposits and currency hedge	6.6	6.3	0.2
Total (%)	**100.0**	**70.6**	**29.4**

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]	**0.72**	**0.91**
Fee for benchmark performance	0.65	0.66
Performance fees	-0.05	0.12
Other costs excluding transaction costs	0.12	0.13
Transaction costs[8]	**0.10**	**0.10**
Total investment charge	**0.82**	**1.01**

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.

Tel 0860 000 654 or +27 (0)21 415 2301 **Fax** 0860 000 655 or +27 (0)21 415 2492 **Email** info@allangray.co.za **www.allangray.co.za**

Commentary from underlying fund managers as at 30 June 2022

Allan Gray Balanced Portfolio

The second quarter of 2022 will not easily be forgotten by many investors owing to significant drawdowns in both equities and fixed income and the strength of the US dollar. Interest rates on both the short and long end of the interest rate curve had sharp upward moves across many developed world markets. This resulted in capital losses for what global investors typically consider "safe" assets, in particular, long-dated developed world sovereign bonds. As most clients are aware, we have been bearish on these assets for several years. A meaningful portion of our offshore exposure was rather invested in hedged equities, which hedge out underlying equity risk by selling index futures. Given the market sell-off, this protected part of the Portfolio and added returns as our underlying holdings outperformed the overall market.

The rise in interest rates and the rapid pace thereof also led to the significant decline in long-duration equities, as represented mainly by technology, e-commerce and what we would call "disruptor" stocks. The large declines in the disruptor stocks should not come as a huge surprise when one considers the valuations on which they were trading, often with very little history of generating actual earnings. What took many investors by surprise was the decline in the mega-cap technology shares, which have been leading the market and generating most of the returns for several years. Our colleagues at Orbis have written about the large disparity in valuations on many occasions.

Fortunately, the Portfolio was relatively well positioned for the above, given our overweight positions in energy and selected shares that stand to benefit from the forecast energy transition, and our significant underweight exposure to the mega-cap technology shares. While we are bottom-up investors, we still want to be on the right end of long-term trends. We continue to believe that the future will be characterised by higher realised inflation, higher interest rates and an increasingly geopolitically divided world relative to the recent past. These trends provided performance tailwinds given our relative positioning this year, but it is of some short-term concern that being long commodities and energy has become a more consensus view. Indeed, we have seen a correction in the last two weeks of the quarter: Commodity and energy stocks have come under pressure as the market worries about the potential demand destruction brought about by slower global growth in response to higher interest rates and quantitative tightening.

During the quarter, we added to the Portfolio's positions in BHP and Sibanye-Stillwater and reduced our holdings in Glencore and British American Tobacco.

Coronation Global Houseview

The Strategy lagged the benchmark slightly over the quarter. This was due to the underperformance of our global allocation, which was mitigated to a large extent by alpha generated in our local bond and stock selection. The Strategy has performed well against its benchmark and peer group over all meaningful time periods. The first half of the year saw broad weakness across asset classes. Markets faced numerous headwinds, including surging inflation, rising rates, the war between Russia and Ukraine and slowing growth in China. These factors combined to increase the risk of a global recession.

The Strategy continues to hold a number of global businesses listed in South Africa that we believe offer considerable value. Examples include British American Tobacco, Bidcorp, Quilter and Richemont. The Richemont position has been built over the last few quarters as luxury companies have derated. Richemont has a portfolio of desirable luxury brands across the jewellery and watch sector, with branded jewellery expected to continue growing strongly as it takes market share.

Domestic stocks continue to offer attractive stock-picking opportunities with their low starting expectations and undemanding valuations. Our emphasis within the portfolio has been on finding businesses that can prosper even in a low-growth economy. Year-to-date trading by the banks (+7%) has shown an ongoing recovery with advances growth across the corporate and retail sectors and low to mid-cycle credit losses thus far. The rate hiking cycle will deliver endowment benefits for the banks. While resource holdings were reduced during recent strength, the Portfolio continues to hold positions in diversified miners such as Glencore and Anglo American. Both offer attractive free cash flow streams even at more normal commodity prices. The Portfolio has moderate property exposure, preferring to use its risk budget in equities and bonds.

As always, our commitment to long-term investing and a disciplined valuation-based approach remains the bedrock of our investment process. While headwinds exist in both global markets and the domestic economy, we believe growth assets are well priced for the risks and offer attractive returns off these low starting prices.

Tel 0860 000 654 or +27 (0)21 415 2301 **Fax** 0860 000 655 or +27 (0)21 415 2492 **Email** info@allangray.co.za **www.allangray.co.za**

Important information for investors

© 2022 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 Moderate 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 authorise financial services provider, is Allan Gray Life's appointed investment manager.

J.P. Morgan GBI Global Index

Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The Index may not be copied, used, or distributed without J.P. Morgan's prior written approval. Copyright 2022, J.P. Morgan Chase & Co. All rights 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/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index

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

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**