Allan Gray Stable Portfolio

28 February 2021

Portfolio description and summary of investment policy

The Portfolio invests in a mix of shares, bonds, property, commodities and cash. The Portfolio can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. The Portfolio typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investments, our offshore investment partner. The maximum net equity exposure of the Portfolio is 40%. The Portfolio's net equity exposure may be reduced from time to time using exchange-traded derivative contracts on stock market indices. The Portfolio is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only portfolio or a balanced portfolio. The Portfolio is a pooled portfolio offered by Allan Gray Life and is only available to members of 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

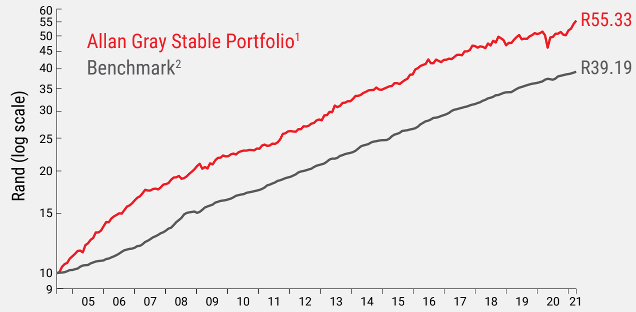
A major portion of the Portfolio is typically invested in money market instruments. We seek to deploy the Portfolio's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares, we may allocate a low weight to shares or partially hedge the Portfolio's stock market exposure in consideration of the Portfolio's capital preservation objectives. The Portfolio may also invest in bonds, property and commodities. The Portfolio's bond and money market investments are actively managed.

Portfolio history

The Portfolio is managed in the same way as the Allan Gray Life Global Stable Portfolio. When assessing the Portfolio's performance and risk measures over time, for periods before its inception (16 August 2017), the returns of the Allan Gray Life Global Stable Portfolio can be used. The combined history reflects the performance and risk of the strategy over the long term.

Performance net of all fees and expenses

Value of R10 invested at alignment



% Returns	Portfolio[1]	Benchmark[2]	CPI inflation
Cumulative:			
Since alignment (1 August 2004)	453.3	291.9	139.2
Annualised:			
Since alignment (1 August 2004)	10.8	8.6	5.4
Latest 10 years	8.8	8.2	5.1
Latest 5 years	6.3	7.4	4.5
Latest 3 years	6.1	6.8	3.9
Latest 2 years	6.7	6.6	3.8
Latest 1 year	10.6	5.5	3.2
Year-to-date (not annualised)	5.6	1.2	0.5
Risk measures (since alignment)			
Maximum drawdown[3]	-10.3	-0.9	n/a
Percentage positive months[4]	73.5	98.0	n/a
Annualised monthly volatility[5]	5.6	1.5	n/a
Highest annual return[6]	27.5	17.1	n/a
Lowest annual return[6]	-6.9	5.0	n/a

1. The returns prior to 16 August 2017 are those of the Allan Gray Life Global Stable Portfolio since its alignment on 1 August 2004. The returns are shown net of the fees that would have been incurred had the current fee applied since alignment.
2. The Portfolio's benchmark is the Consumer Price Index plus 3%, performance as calculated by Allan Gray as at 28 February 2021.
3. Maximum percentage decline over any period. The maximum drawdown occurred from January 2020 to March 2020. Drawdown is calculated on the total return of the Portfolio (i.e. including income).
4. The percentage of calendar months in which the Portfolio produced a positive monthly return since alignment.
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.
6. These are the highest or lowest consecutive 12-month returns since alignment. This is a measure of how much the Portfolio and the benchmark returns have varied per rolling 12-month period. The Portfolio's highest annual return occurred during the 12 months ended 30 April 2006 and the benchmark's occurred during the 12 months ended 31 August 2008. The Portfolio's lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark's occurred during the 12 months ended 31 May 2020.

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

Annual management fee

Allan Gray charges a fixed fee of 0.70% p.a. on the Portfolio assets excluding the portion invested in the range of Orbis funds. This fee is presently exempt from VAT.

A portion of the Portfolio may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark. Orbis pays a marketing and distribution fee to Allan Gray.

Total expense ratio (TER) and transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Portfolio over a one-year and three-year period (annualised). Since Portfolio returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns. Transaction costs are disclosed separately.

Top 10 share holdings on 31 December 2020 (SA and Foreign) (updated quarterly)[8]

Company	% of portfolio
Naspers[7]	3.6
British American Tobacco	3.4
Glencore	2.4
Sibanye Stillwater	1.4
Standard Bank	1.3
Taiwan Semiconductor Mfg.	1.3
MultiChoice	1.2
Woolworths	1.1
SPDR Gold Trust	1.1
Nedbank	1.1
Total (%)	**18.0**

7. Including stub certificates and Prosus NV.

Since inception, the Portfolio's month-end net equity exposure has varied as follows:

Minimum	(October 2020) 28.5%
Average	35.7%
Maximum	(December 2018) 40.1%

Asset allocation on 28 February 2021[8]

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	35.1	22.1	1.9	11.2
Hedged Equity	16.8	5.9	0.0	10.9
Property	2.4	2.3	0.0	0.0
Commodity-linked	3.9	2.9	0.0	1.0
Bonds	34.7	26.9	3.1	4.8
Money market and bank deposits	7.1	3.8	0.7	2.7
Total (%)	**100.0**	**63.8**	**5.6**	**30.6[9]**

8. Underlying holdings of Orbis funds are included on a look-through basis.

9. The Portfolio can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. Market movements periodically cause the Portfolio to move beyond these limits. This must be corrected within 12 months.

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

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1- and 3-year period ending 31 December 2020	1yr %	3yr %
Total expense ratio[10]	**0.74**	**0.77**
Fee for benchmark performance	0.70	0.71
Performance fees	0.00	0.01
Other costs excluding transaction costs	0.04	0.05
Transaction costs (including VAT)[11]	**0.07**	**0.08**
Total investment charge	**0.81**	**0.85**

10. 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.

11. 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.

Portfolio manager quarterly commentary as at 31 December 2020

2020 was a volatile year for markets. It is worth reviewing the objectives of the Portfolio and assessing how it has performed over this tough period.

The Portfolio aims to:

- Provide a high degree of capital stability
- Minimise the risk of loss over any two-year period
- Produce long-term returns better than bank deposits and inflation

In 2020 these objectives were only partially met. The value of capital invested in the Portfolio was much more stable than that of a typical balanced or equity fund, but likely more volatile than investors would expect and prefer. Local and global markets fell by around a third during February and March 2020 resulting in the Portfolio achieving a negative intra-month two-year rolling return for a brief period. The Portfolio's conservative liquidity position enabled it to take advantage of opportunities during this time. As at 31 December 2020, the Portfolio had returned 5.5% p.a. over the past two years and 6.6% p.a. over the past five years. This is below the benchmark and certainly lower than the level of return we aim to achieve.

Looking back over the Portfolio's history

Since inception, the Portfolio has generated returns of 5.9% p.a. after inflation, creating substantial wealth for clients, while taking relatively low risk. There have been periods of very high returns, such as 2005-2006, when the local market performed strongly, and the shares owned by the Portfolio performed even better. Mid-2014 to mid-2016 is an example of a tough period for the Portfolio, where returns from both the FTSE/JSE All Share Index and the FTSE/JSE All Bond Index were lower than cash. The Portfolio has a high degree of flexibility to invest in different asset classes, but is not completely immune to market movements. Risk is managed by an overall conservative approach, e.g. a maximum allocation of 40% to equities, a low-duration position in bonds, and maintaining a high allocation to cash and liquid instruments.

What do we expect for future returns from here?

Compared to history, the current opportunities available to the Portfolio look very attractive. Five years ago, local bonds and shares were both relatively expensive. Subsequent market returns were disappointing, and cash ended up being one of the best investments over this period, helped by high cash interest rates.

Looking forward, the picture is reversed. Cash interest rates are now low, at around 4%, similar to inflation. Holding cash is therefore unattractive, as it puts an investor at risk of losing purchasing power in inflation-adjusted terms. In contrast to five years ago, local bonds and shares are now relatively cheap. In contrast with developed markets, South African longer-dated bonds offer very high real yields. For example, a 10-year South African government bond yields 9%. The Portfolio has used some of its cash to increase the bond position. The prospect for future returns from shares also looks promising. While South Africa clearly faces numerous risks, our investment team is finding many attractively valued businesses to invest in. There is a high probability that the return from shares should also exceed cash over the next five years.

Overall, this makes us cautiously optimistic for future returns from this starting point. There are, of course, various risks to consider. A key consideration of the Portfolio is that potential returns from attractive opportunities should be balanced with protecting against the various things that could go wrong. For example, the Portfolio maintains a 30% weight in offshore assets, which protects against the risk of the rand weakening. Meanwhile, it also holds some inflation-linked bonds, which will do well if South Africa experiences high inflation.

Commentary contributed by Sean Munsie

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