

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 75%. 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. 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 create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the benchmark without assuming any more risk. The Portfolio’s benchmark is a composite benchmark that comprises indices that reflect the Portfolio’s mandate.

How we aim to achieve the Portfolio’s objective

We seek to buy shares at a 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 increase the Portfolio’s weighting to alternative assets such as bonds, property, commodities and cash, or we may partially hedge the Portfolio’s stock market exposure. By varying the Portfolio’s exposure to these different asset classes over time, we seek to enhance the Portfolio’s long-term returns and to manage its risk. The Portfolio’s bond and money market investments are actively managed.

Portfolio history

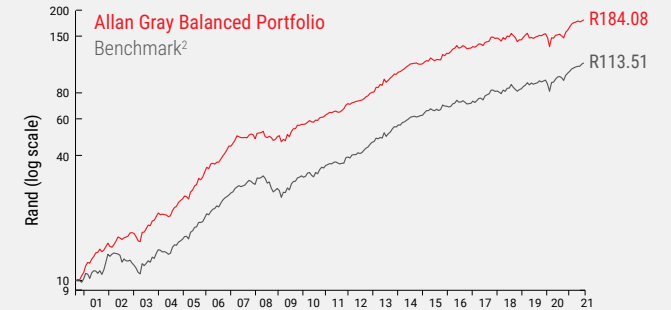
The Portfolio is managed in the same way as the Allan Gray Life Global Balanced (RRF) Portfolio. When assessing the Portfolio’s performance and risk measures over time, including for periods before its inception (5 April 2017), the returns of the Allan Gray Life Global Balanced (RRF) Portfolio and the Allan Gray Life Global Balanced Portfolio can be used. When this data is combined, investors can get a view of the performance and risk measures of the strategy over the long term.

1. The returns prior to 5 April 2017 are those of the Allan Gray Life Global Balanced (RRF) Portfolio since its inception on 1 August 2015. The returns prior to 1 August 2015 are those of the Allan Gray Life Global Balanced Portfolio since its alignment on 1 September 2000. The returns shown are net of the fees that would have been incurred had the current fee been applied since alignment.
2. 47% FTSE/JSE Capped Shareholder Weighted All Share Index including income, 14% FTSE/JSE All Bond Index, 9% 3-month STeFI, 18% MSCI All Country World Index including income and 12% J.P. Morgan GBI Global Index. From inception to 30 June 2018 the benchmark was 50% FTSE/JSE All Share Index, 15% FTSE/JSE All Bond Index, 10% Alexander Forbes 3-month Deposit Index, 15% MSCI All Country World Index and 10% J.P. Morgan GBI Global Index. Source: IRESS, Bloomberg, performance as calculated by Allan Gray as at 31 August 2021.*
3. Maximum percentage decline over any period. The maximum drawdown occurred from 17 January 2020 to 23 March 2020 and maximum benchmark drawdown occurred from 19 May 2008 to 20 November 2008. 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.
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 30 April 2006. 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 30 April 2003. All rolling 12-month figures for the Portfolio and the benchmark are available from our Client Service Centre on request.

* 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 utilizing any MSCI Data, models, analytics or other materials or information.

Performance net of all fees and expenses

Value of R10 invested at alignment



% Returns	Portfolio ¹	Benchmark ²	CPI inflation
Cumulative:			
Since alignment (1 September 2000)	1740.8	1035.1	202.2
Annualised:			
Since alignment (1 September 2000)	14.9	12.3	5.4
Latest 10 years	10.7	11.9	5.0
Latest 5 years	5.9	8.8	4.3
Latest 3 years	5.2	8.4	3.9
Latest 2 years	10.2	12.1	3.9
Latest 1 year	17.5	16.4	4.6
Year-to-date (not annualised)	12.4	12.1	4.0
Risk measures (since alignment)			
Maximum drawdown ³	-23.5	-24.8	n/a
Percentage positive months ⁴	68.7	65.9	n/a
Annualised monthly volatility ⁵	9.4	10.0	n/a
Highest annual return ⁶	49.0	39.3	n/a
Lowest annual return ⁶	-12.2	-20.3	n/a

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 horizon of at least three years

Annual management fee

Allan Gray charges a fee based on the net asset value of the Portfolio excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Portfolio's total performance for the day, to that of the benchmark. This fee is presently exempt from VAT.

Fee for performance equal to the Portfolio's benchmark: 0.50% p.a.

For each percentage of daily performance above or below the benchmark we add or deduct 0.2%, subject to the following limits:

Maximum fee: 2.00% p.a. excl. VAT

Minimum fee: 0.50% p.a. excl. VAT

To the extent that the fee calculated exceeds the maximum fee or falls short of the minimum fee, the monetary excess or shortfall will be carried forward to the next day. Any excess or shortfall carried forward from previous day(s) will be added or subtracted to determine the fee payable.

A portion of the Portfolio may be invested in Orbis funds which are levied performance-based fees by Orbis. 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 30 June 2021 (SA and Foreign) (updated quarterly)⁸

Company	% of portfolio
Naspers ⁷	7.1
British American Tobacco	7.0
Glencore	4.4
Woolworths	2.6
Sibanye-Stillwater	2.1
Standard Bank	2.0
Remgro	1.9
Sasol	1.9
Old Mutual	1.9
Nedbank	1.8
Total (%)	32.7

7. Includes holding in Prosus NV if applicable.

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

Minimum	(February 2020) 59.8%
Average	63.2%
Maximum	(July 2021) 67.9%

Asset allocation on 31 August 2021⁸

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	67.8	52.1	1.5	14.2
Hedged equity	11.6	1.7	0.0	9.9
Property	1.0	0.9	0.0	0.1
Commodity-linked	2.3	2.3	0.0	0.1
Bonds	11.9	9.6	1.4	0.9
Money market and bank deposits	5.5	3.2	0.4	1.9
Total (%)	100.0	69.7	3.4	26.9⁹

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 30 June 2021	1yr %	3yr %
Total expense ratio¹⁰	0.57	0.40
Fee for benchmark performance	0.53	0.53
Performance fees	0.00	-0.17
Other costs excluding transaction costs	0.04	0.04
Transaction costs (including VAT)¹¹	0.10	0.10
Total investment charge	0.67	0.50

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.

The Portfolio returned 1% 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.

Despite the recent sell-off, rand strength has surprised many people. Compared to the US dollar, the local currency has strengthened 3% since the start of 2021 and 25% since its weakest point in 2020. These moves are partly due to dollar weakness, but the rand has also been one of the best-performing emerging market currencies over the past year. 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. Foreign capital has gradually been returning to the local market as SA shares and bonds were simply too cheap last year.

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 FTSE/JSE All Share Index (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.

Commentary contributed by Tim Acker.

Portfolio manager quarterly commentary as at 30 June 2021

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This pooled portfolio is underwritten by Allan Gray Life Ltd, a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017. Allan Gray (Pty) Ltd is Allan Gray Life Ltd's appointed investment manager.

Past performance is not indicative of future performance.

J.P. Morgan GBI Global Index

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MSCI Index

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