Allan Gray Balanced Portfolio

Fund managers: Andrew Lapping, Duncan Artus, Jacques Plaut, Ruan Stander
(Most foreign assets are invested in Orbis funds) Inception date: 5 April 2017

Performance net of all fees and expenses

<table>
<thead>
<tr>
<th>% Returns</th>
<th>Portfolio¹</th>
<th>Benchmark²</th>
<th>CPI inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Since alignment (1 September 2000)</td>
<td>1454.5</td>
<td>869.2</td>
<td>185.1</td>
</tr>
<tr>
<td>Annualised:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Since alignment (1 September 2000)</td>
<td>14.8</td>
<td>12.1</td>
<td>5.4</td>
</tr>
<tr>
<td>Latest 10 years</td>
<td>10.0</td>
<td>11.3</td>
<td>5.0</td>
</tr>
<tr>
<td>Latest 5 years</td>
<td>5.7</td>
<td>7.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Latest 3 years</td>
<td>2.9</td>
<td>7.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Latest 2 years</td>
<td>1.1</td>
<td>6.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Latest 1 year</td>
<td>4.1</td>
<td>8.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Year-to-date (not annualised)</td>
<td>-0.5</td>
<td>4.5</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Risk measures (since alignment)

| Maximum drawdown¹ | -23.5 | -24.8 | n/a |
| Percentage positive months² | 68.2 | 64.9 | n/a |
| Annualised monthly volatility² | 9.5 | 10.1 | n/a |
| Highest annual return³ | 49.0 | 39.3 | n/a |
| Lowest annual return³ | -12.2 | -20.3 | n/a |

**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 2020. 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: IRES55, Bloomberg, performance as calculated by Allan Gray as at 31 July 2020.

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’s 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 2015 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.
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.

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.
Financial assets rallied strongly during the quarter. The FTSE/JSE All Share Index (ALSI) is up over 40% after bottoming in late March, while the MSCI World Index is up 38%. While this may seem confusing given the poor economic backdrop, it highlights that equity markets were oversold, and that central bank liquidity can overwhelm fundamentals in the short term. For example, the US Federal Reserve has committed to buying at least US$120 billion of debt per month and keeping interest rates at zero for the foreseeable future. To put this number into context, you could buy 100% of Richemont and British American Tobacco (BAT) every month with the money. For the moment, the market is not focusing on the consequences of this money creation. This will change.

The Portfolio has a higher weighting to South African equities than many of its peers: Many funds hold a full weighting in offshore equities, most of the multinationals which happen to be listed in South Africa, alongside a large position in South African long-dated government bonds. This has been the correct strategy.

While attuned to the risks, we continue to find value in selected equities. The Portfolio has a 43% local net equity weighting. Naspers, BAT, Reinet and Glencore, which have little exposure to the fragile South African economy, represent 42% of the Portfolio’s South African equities. Naspers and BAT have been strong performers, but we have not been sellers. Glencore has substantially lagged its mining peers BHP Billiton and Anglo American. This is because it has no exposure to the strong iron ore price, and it is dealing with the overhang created by several regulatory investigations. We continue to believe Glencore offers great value.

The remainder of the local equity exposure includes depressed and unloved domestic-facing businesses, including financials, retailers, and hospitality shares. The risks to the South African economy are real, and the near-term outlook for earnings is bleak, but these factors are well known and reflected in low share prices. Many of these shares are down over 60% when measured in US dollars. While hard to imagine now, in a more normalised economy, several of these shares have significant upside potential and it is difficult to pick the bottom. Many local fund managers are underweight these shares.

The Portfolio purchased long-dated South African bonds during the sell-off earlier in the year. The bonds have since rallied and the yield on the 10-year bond is now 9% after yielding over 12% in March. While the yield after inflation remains attractive, we manage the position size given the poor fiscal situation in which South Africa finds itself. We are also aware that owning these bonds is a consensus view. Unfortunately, with the yield on short-dated cash around 4%, the steep yield curve is a dilemma facing risk-averse investors who want real returns outside of equities.

When considering the Portfolio, we believe the most relative upside exists in the offshore portion managed by our colleagues at Orbis. Positioning offshore is extreme, with most funds concentrated in technology stocks, such as the so-called “FANGAMs” (Facebook, Amazon, Netflix, Google (Alphabet), Apple and Microsoft), as well as pharmaceutical and consumer staple companies. Any flows into the oversold more cyclical shares could result in large outperformance relative to the benchmark.

We aim to own a diversified portfolio of undervalued assets. We have spent a lot of time thinking about risk and how best to balance local opportunities against the Portfolio’s effective offshore exposure. From current price levels we would be disappointed if future real returns are not closer to their historical average than the disappointing returns of the past few years.
Allan Gray Balanced Portfolio

31 July 2020

Fund managers: Andrew Lapping, Duncan Artus, Jacques Plaut, Ruan Stander

(Most foreign assets are invested in Orbis funds) Inception date: 5 April 2017

Disclaimer

The Allan Gray Balanced 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, an authorised financial services provider and 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 authorised financial services provider, is Allan Gray Life’s appointed investment manager.

J.P. Morgan GBI Global Index

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MSCI Index

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FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index

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

Important information for investors

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.

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