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

# Allan Gray Balanced Portfolio

**30 November 2018**

## 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.

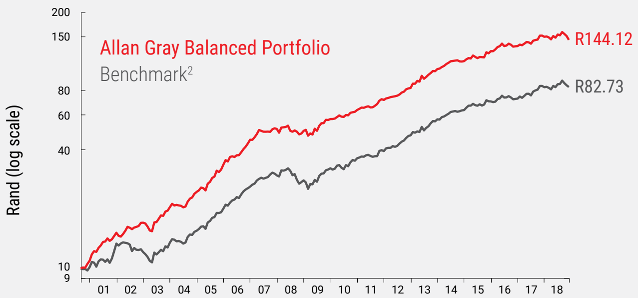
## Portfolio history

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% JSE All Bond Index, 9% 3-month STeFI, 18% MSCI All Country World Index including income and 12% JP Morgan Global Government Bond Index. From inception to 30 June 2018 the benchmark was 47% FTSE/JSE All Share Index including income, 14% JSE All Bond Index, 9% 3-month STeFI, 18% MSCI All Country World Index including income and 12% JP Morgan Global Government Bond Index. Source: IRESS, Bloomberg, performance as calculated by Allan Gray as at 30 November 2018.
3. Maximum percentage decline over any period. The maximum drawdown occurred from May 2008 to February 2009 and maximum benchmark drawdown occured from May 2008 to February 2009. 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 28 February 2009 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.

## 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) | 1341.2 | 727.3 | 171.5 |
| **Annualised:** | | | |
| Since alignment (1 September 2000) | 15.7 | 12.3 | 5.7 |
| Latest 10 years | 11.6 | 11.7 | 5.2 |
| Latest 5 years | 7.6 | 8.3 | 5.4 |
| Latest 3 years | 5.4 | 5.7 | 5.4 |
| Latest 2 years | 3.8 | 7.2 | 5.0 |
| Latest 1 year | -4.9 | -1.2 | 5.1 |
| Year-to-date (not annualised) | -3.5 | 0.2 | 5.0 |
| **Risk measures (since alignment)** | | | |
| Maximum drawdown[3] | -11.1 | -21.3 | n/a |
| Percentage positive months[4] | 68.5 | 63.9 | n/a |
| Annualised monthly volatility[5] | 9.0 | 10.0 | n/a |
| Highest annual return[6] | 49.0 | 39.3 | n/a |
| Lowest annual return[6] | -9.1 | -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.

## 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.

## Top 10 share holdings on 30 September 2018 (SA and Foreign) (updated quarterly)[8]

| Company | % of portfolio |
|---|---|
| Naspers[7] | 6.9 |
| Sasol | 5.6 |
| British American Tobacco | 4.4 |
| Old Mutual | 2.7 |
| Remgro | 2.5 |
| Standard Bank | 2.4 |
| Investec | 2.1 |
| Glencore | 2.0 |
| Life Healthcare | 1.3 |
| Woolworths | 1.3 |
| **Total (%)** | **31.2** |

7. Including stub certificates.

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

| | |
|---|---|
| Minimum | (March 2018) 60.1% |
| Average | 61.5% |
| Maximum | (November 2018) 65.2% |

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

## Asset allocation on 30 November 2018[8]

| Asset Class | Total | South Africa | Africa ex-SA | Foreign ex-Africa |
|---|---|---|---|---|
| Net equity | 65.3 | 50.2 | 1.1 | 14.1 |
| Hedged equity | 11.5 | 0.7 | 0.0 | 10.9 |
| Property | 1.9 | 1.3 | 0.0 | 0.6 |
| Commodity-linked | 3.5 | 3.4 | 0.0 | 0.1 |
| Bonds | 12.4 | 10.3 | 1.1 | 1.0 |
| Money market and bank deposits | 5.3 | 2.6 | 0.7 | 2.1 |
| **Total (%)** | **100.0** | **68.4** | **2.8** | **28.7**[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.

## Total expense ratio (TER) and Transaction costs

| TER and Transaction costs breakdown for the 1 and 3-year period ending 30 September 2018 | 1yr % | 3yr %[12] |
|---|---|---|
| **Total expense ratio**[10] | **0.23** | **0.79** |
| Fee for benchmark performance | 0.52 | 0.52 |
| Performance fees | -0.34 | 0.11 |
| Other costs excluding transaction costs | 0.05 | 0.16 |
| **Transaction costs (including VAT)**[11] | **0.13** | **0.12** |
| **Total investment charge** | **0.36** | **0.91** |

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 TER's.
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.
12. Since inception of the Portfolio on 5 April 2017.

## Portfolio manager quarterly commentary as at 30 September 2018

Emerging market equity and currency markets had a very volatile quarter. Vulnerabilities, both economic and political, are being exposed as global financial conditions tighten. The MSCI Emerging Market Index is now 22% off its peak and the FTSE/JSE All Share Index fell 6% over the quarter when measured in US dollars. This has impacted both local and offshore equities in the Portfolio.

Investors are currently focused on the risks as opposed to the upside in emerging markets – this is understandable. As contrarians, we are looking for opportunities where we believe intrinsic value has not been impaired to the same extent as the price has fallen.

Investors in emerging markets have to balance the upside of above-average long-term potential growth and lower levels of competition with the risks of less developed and market-friendly government institutions and regulators. Three shares have recently been affected by regulation, causing investors to question the value of some of their business units operating in emerging and frontier economies:

Naspers had a volatile quarter impacted by negative sentiment towards emerging markets and potential changes in regulation in China, which could affect Chinese technology company Tencent (Naspers holds 31% of the company). Tencent's gaming business, which generates a significant portion of its profit, suffered from a delay in official approval to monetise new games. The government also issued statements implying that many Chinese, in particular youths, may be spending too much time gaming. While the process still needs to be completed, and indeed may even be positive for Tencent, we believe the implied valuation for Tencent when bought through Naspers is attractive.

MTN announced claims by the Nigerian government of wrongdoing involving the repatriation of cash from Nigeria as well as underpayment of tax. While MTN denies the allegations, and the amounts appear unbelievably large (approximately US$10bn), it is difficult to fight a government (especially one short of US dollars) which ultimately controls your licence to operate in its country. The value of the Nigerian business has long been a concern of ours, but with the change in price, we are taking a closer look.

Glencore's share price has also fallen due to regulatory issues involving its copper operations in the Democratic Republic of Congo. In addition to having to negotiate with the local mining regulator, Glencore faces a potential fine from the US Department of Justice for dealing with a person on their sanctions list. Taking the above into account, we believe the share price has fallen more than the intrinsic value. We like the profile of Glencore's commodity basket and while it does operate in riskier jurisdictions, the discount relative to the other major diversified miners is large. Glencore has been one of the Portfolio's largest purchases.

Investors in emerging and frontier markets have been reminded 1) of the associated risks that come with the upside and 2) that this is particularly the case in countries with unbalanced economies (think Turkey). Dislocations will invariably present opportunities to long-term investors who are willing to do the work. It is also a timely reminder that South Africa must get its house in order to reduce our vulnerability in a world with tighter financial conditions.

**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**.