Allan Gray Balanced Portfolio

Fund managers: Duncan Artus, Jacques Plaut, Ruan Stander, Rory Kutisker-Jacobson, Tim Acker

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

1. The returns prior to 5 April 2017 are those of the Allan Gray Umbrella Retirement Fund (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 StFeI, 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 30 November 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. Percentage of 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.

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.

Performance net of all fees and expenses

Value of R10 invested at alignment

<table>
<thead>
<tr>
<th></th>
<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>
<td></td>
</tr>
<tr>
<td>Since alignment (1 September 2000)</td>
<td>1499.4</td>
<td>886.9</td>
<td>190.6</td>
<td></td>
</tr>
<tr>
<td>Annualised:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Since alignment (1 September 2000)</td>
<td>14.7</td>
<td>12.0</td>
<td>5.4</td>
<td></td>
</tr>
<tr>
<td>Latest 10 years</td>
<td>9.9</td>
<td>10.9</td>
<td>5.1</td>
<td></td>
</tr>
<tr>
<td>Latest 5 years</td>
<td>5.4</td>
<td>7.1</td>
<td>4.6</td>
<td></td>
</tr>
<tr>
<td>Latest 3 years</td>
<td>1.8</td>
<td>5.6</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>Latest 2 years</td>
<td>5.3</td>
<td>9.2</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Latest 1 year</td>
<td>3.9</td>
<td>7.6</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>Year-to-date (not annualised)</td>
<td>2.4</td>
<td>6.4</td>
<td>3.2</td>
<td></td>
</tr>
</tbody>
</table>

| Risk measures (since alignment) | | | |
| Maximum drawdown3 | -23.5 | -24.8 | n/a |
| Percentage positive months4 | 67.9 | 64.6 | n/a |
| Annualised monthly volatility5 | 9.5 | 10.2 | n/a |
| Highest annual return6 | 49.0 | 39.3 | n/a |
| Lowest annual return6 | -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.

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Minimum fee:

- 0.10% p.a. excl. VAT
- 0.15% including VAT
- Performance fees
- 0.00
- Other costs excluding transaction costs
- 0.04

Transaction costs (including VAT)

- 0.09
- 0.06

Total investment charge

- 0.67
- 0.55

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.

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

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.
Journalists love to throw around the term “failed state”. But many readers, including myself, don’t have a clear notion of what this means. There is no exam for states. Nor any graduation, for that matter. We are often tempted to simplify life by thinking in terms of dichotomies: “failed states” and “successful states”, for example. But things are rarely that simple. In reality, all countries have varying degrees of problems.

South Africa has its share. Some of our problems seem insurmountable. Many are getting worse. Does this mean investors should avoid South African equities?

First of all, no one knows for sure how things will turn out in South Africa. We have had bleak times in the past. It is possible that higher gold and platinum prices provide a helpful boost to our public finances, or that lower interest rates lead to some investment and GDP growth. If this happens, sentiment can change very rapidly. Investors are fickle: For the moment they are focused on our high debt burden (and have forgotten about the even higher debt burdens of developed countries); tomorrow, they may focus on something else, like demographics.

Secondly, not all stocks on our market will be affected if the South African economy continues to deteriorate. Some stocks, like Sasol and Sappi, will benefit from a weaker rand. By my estimate, only 40% of the FTSE/JSE Capped SWIX Index is “SA Inc”.

Thirdly, not even all SA Inc stocks will do badly if the economy continues to deteriorate. Some high-quality consumer stocks, like Capitec, Cashbuild, and Italtile, may well continue to grow earnings and take market share from competitors.

Lastly, many SA Inc shares are currently pricing in a very bad outcome. Nedbank, for example, is trading on 3.8 times 2019 earnings. Earnings may never recover to the level of 2019. But if they get back to half of these levels, one is only paying 7.6 times earnings for the share. To further illustrate this point, the Allan Gray Africa ex-SA Bond Fund has returned 11.3% per year for five years, in US dollars. This despite being invested in what some would call “failed states” like Nigeria and Zambia. Or perhaps the Fund had such a great return precisely because it was invested in these countries, where few other investors were willing to venture…

Having said all this, we are not at this stage going all-in on SA Inc. It is part of our job to manage risk by limiting exposure to single-factor risks. For every R100 in the Portfolio, R46 is invested in South African equities, and only about R20 in SA Inc equities. We have been adding to SA Inc exposure, and we think this portion of the Portfolio will give very attractive returns in most scenarios. But not in all scenarios.

Commentary contributed by Jacques Plaut
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J.P. Morgan GBI Global Index
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FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index
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