Allan Gray Life Domestic Absolute Portfolio

30 June 2021

ALLANGRAY

Inception date: 6 July 2001

Portfolio objective and benchmark

This Portfolio is designed for institutional investors seeking superior absolute returns (in excess of inflation) over the long term with a higher risk tolerance in the short term than the Balanced Portfolio. The benchmark is the mean performance of the large managers as surveyed by consulting actuaries.

Product profile

- Actively managed pooled portfolio.
- Investments selected from all local asset classes.
- Fully reflects the manager's strong investment convictions and could deviate considerably in both asset allocation and stock selection from the average retirement portfolio.

Investment specifics

- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds and medical schemes.
- Minimum investment: R20m.
- Performance based fee.

Compliance with Prudential Investment Guidelines

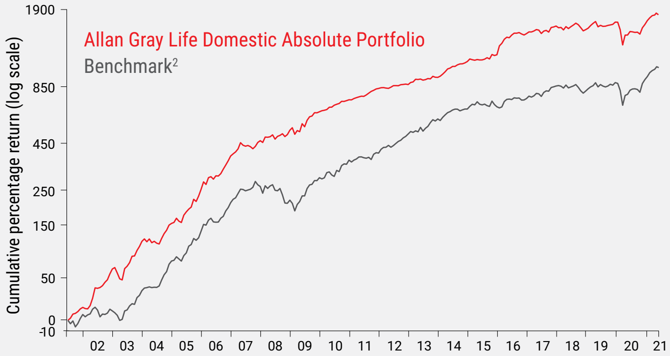
The Portfolio is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable time period. Allan Gray Life Limited does not monitor compliance with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28) on behalf of retirement funds invested in the pool.

Portfolio information on 30 June 2021

Assets under management	R571m

Performance gross of fees

Cumulative performance since inception



% Returns[1]	Portfolio	Benchmark[2]
Since inception	15.9	13.0
Latest 10 years	8.3	9.2
Latest 5 years	4.2	6.5
Latest 3 years	4.2	6.7
Latest 2 years	5.7	8.9
Latest 1 year	18.5	25.3
Latest 3 months	1.7	3.6

Asset allocation on 30 June 2021

Asset class	Total
Net SA equity	68.5
Hedged SA equity	3.6
Property	0.2
Commodity-linked	3.2
Bonds	19.0
Money market and bank deposits	5.5
Total (%)	**100.0**

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

1. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 June 2021.
2. Mean of Alexander Forbes Domestic Large Manager Watch. The return for June 2021 is an estimate.
3. Includes holding in Prosus NV if applicable.

Top 10 share holdings on 30 June 2021 (updated quarterly)

Company	% of Portfolio
British American Tobacco	10.3
Naspers[3]	8.9
Glencore	5.9
Woolworths	4.4
Standard Bank	3.1
Remgro	2.7
MultiChoice	2.5
Sasol	2.4
Nedbank	2.3
Anheuser-Busch InBev SA/NV	2.2
Total (%)	**44.6**

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Fund manager quarterly commentary as at 30 June 2021

The Portfolio returned 1.7% for the quarter. The local equity market traded sideways, following a very strong Q4 (10%) and Q1 (13%), while fixed income contributed to returns.

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 are now at higher levels than before COVID-19. The Portfolio has sold a large portion of its position in Foschini.

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 equity exposure? Not necessarily. The Portfolio has been trimming equity exposure, but 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.

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Past performance is not indicative of future performance.

FTSE/JSE All Share Index

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