ALLANGRAY

Inception date: 4 December 2002

Allan Gray Life Domestic Optimal Portfolio

31 May 2022

Portfolio objective and benchmark

This is a long-term absolute return portfolio for the institutional investor who wishes to diversify the volatility generally associated with stock and bond markets, but still wants exposure to specialist stock-picking skills and to target a positive rate of return which is higher than that of cash. The benchmark is the daily interest rate of Nedbank Limited.

Product profile

- Actively managed pooled portfolio, seeking absolute returns.
- Little correlation to stock or bond markets, with a low level of risk of capital loss.
- Investments consist of shares offering superior fundamental value, carefully managed to reduce the risk of underperforming the market, and short index derivatives to reduce stock market risk.

Investment specifics

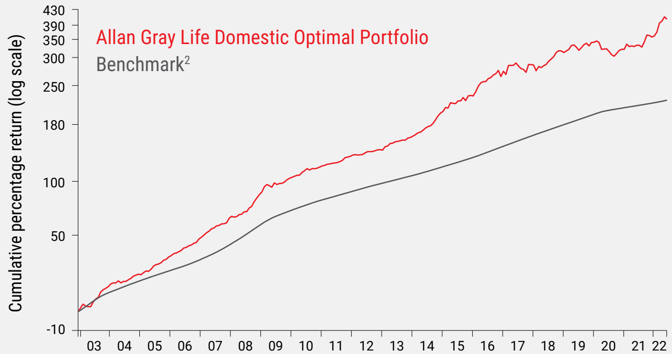
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds and medical schemes.
- Minimum investment: R20m.
- Performance based fee.

Portfolio information on 31 May 2022

Assets under management	R428m

Performance gross of fees

Cumulative performance since inception



% Returns[1]	Portfolio	Benchmark[2]
Since inception	8.6	6.2
Latest 10 years	7.7	5.0
Latest 5 years	4.9	4.7
Latest 3 years	5.3	3.8
Latest 2 years	8.5	2.9
Latest 1 year	15.4	3.1
Latest 3 months	2.1	0.9

Asset allocation on 31 May 2022

Asset class	Total
Net SA equities	5.7
Hedged SA equities	73.4
Property	1.5
Money market and bank deposits	19.4
Total (%)	**100.0**

1. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 May 2022.
2. Daily interest rate of Nedbank Limited.

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

Top 10 share holdings on 31 March 2022 (updated quarterly)

Company	% of Portfolio
Glencore	6.3
Sasol	6.1
Standard Bank	5.8
Nedbank	5.0
Sibanye-Stillwater	4.8
Gold Fields	4.2
MTN	4.2
AngloGold Ashanti	4.0
Impala Platinum	3.9
British American Tobacco	2.9
Total (%)	**47.2**

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Fund manager quarterly commentary as at 31 March 2022

The Portfolio has had a decent start to the year, returning 8.5% for the quarter, outperforming its cash benchmark by 7.7%. After a strong prior year, the FTSE/JSE All Share Index has begun 2022 in a more muted fashion, with a 3.8% return year to date. As a reminder though, it is the selection of individual shares, rather than the overall level of the market, that drives the Portfolio's performance. This stock selection process contributed to the Portfolio's return during the quarter.

Russia's invasion of Ukraine continues to overshadow all else. Many of the market themes that served the Portfolio well in 2021 carried over to this year and, if anything, were exacerbated by the outbreak of the conflict in late February. Firstly, the Portfolio has been overweight resources, particularly oil (via Sasol), coal (via Glencore) and platinum group metal (PGM) miners. Russia is a key producer of these commodities. Supply uncertainty, either from sanctions (or the threat thereof) or rising resource nationalism, has pushed most commodity prices materially higher. While this is clearly beneficial in the near term for producers, we are cognisant of the potential impacts arising from possible demand destruction and any general slowdown in economic activity that may follow. As share prices rallied, we trimmed some cyclical resources exposure (mainly PGM miners) in favour of more defensive rand hedges.

Secondly, the Portfolio has meaningful exposure to domestically focused companies. Many of these companies' business activities and share prices have continued on the post-COVID-19 recovery path from overly depressed levels. For example, local banks recently reported results that came in well above expectations. The promise of rising rates, in response to increased inflation, and the view that the worst impacts of the pandemic have now passed, serve as additional tailwinds. Select local shares, particularly those favoured by foreign investors, are also benefiting to some degree from the fallout from the Western sanctions placed on Russia.

Historically, Russian stocks carried a material weight in emerging market indices, implying foreign investment flows are now likely to be directed towards more palatable markets, such as our own. In our view, this is supported by relative valuation levels, where the ALSI screens attractively versus both developed and emerging market peers.

Lastly, the low weighting to Naspers/Prosus that the Portfolio has maintained for some time was a significant contributor to performance this quarter. Multiple factors have weighed on the share, some perhaps more temporary than others. The Chinese regulatory overhang and its accompanying impact on the technology sector has not fully dissipated, made evident in Tencent's weak recent results. At the same time, global technology stocks have come under pressure, with valuation multiples compressing considerably, particularly for companies that remain loss-making. This has, in turn, impacted the market valuation of the Naspers "rump" assets. And then to compound matters, with specific reference to Tencent, the US and Europe's response to Russia's actions has brought scenarios that were previously viewed as tail risks for investors in Chinese assets increasingly into focus.

The volatility we have witnessed over the quarter, while unsettling, does create opportunities for potential outperformance. One such example is Mondi which, owing to its Russian paper and packaging business, has come under substantial pressure and now trades below our assessment of its intrinsic value, even if no value is attributed to its Russian assets.

During the quarter, the Portfolio sold Naspers/Prosus, PGM miners and MTN. Alongside Mondi, we initiated new positions in AB InBev and Pick n Pay and added to our holdings in select gold miners.

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FTSE/JSE All Share Index

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