Allan Gray Multi-Manager Cautious Portfolio

28 February 2021

Portfolio description and summary of investment policy

The Portfolio invests in the cautious mandates of a minimum of three managers, all of which are managed to comply with the investment limits governing retirement funds. The Allan Gray Stable Portfolio has a target allocation of 35% (excluding cash) in the Multi-Manager Portfolio. This allocation can change as a result of performance within pre-defined parameters. The Portfolio is a pooled portfolio offered by Allan Gray Life and is only available to members of the Allan Gray Umbrella Pension Fund and the Allan Gray Umbrella Provident Fund (collectively known as the Allan Gray Umbrella Retirement Fund).

Portfolio objective and benchmark

The Portfolio aims to provide a high degree of capital stability and to minimise the risk of loss over any two-year period, while producing long-term returns that are superior to bank deposits. The Portfolio's benchmark is the Consumer Price Index, plus 3%.

How we aim to achieve the Portfolio's objective

We have selected managers with a strong track record who have consistently executed on their investment approach over time. These managers have complementary investment styles which, when combined appropriately, should improve the Portfolio's potential to deliver returns through different market cycles.

Suitable for those investors who

- Are risk-averse and require a high degree of capital stability
- Seek both above-inflation returns over the long term, and capital preservation over any two-year period
- Require some income but also some capital growth
- Wish to invest in a portfolio that complies with retirement fund investment limits
- Wish to diversify risk across multiple managers

Annual management fee

Each underlying manager charges a fee within their portfolio. Where performance fees are charged, this is based on the performance of the portfolio compared to its benchmark. The benchmarks of the underlying portfolios may differ from the benchmark of the Portfolio. Allan Gray charges a multi-management fee based on the net asset value of the Portfolio, excluding the portion invested in Allan Gray portfolios. This fee is 0.20% p.a. (which equates to approximately 0.13% p.a. on the entire Portfolio) and is included in the fee below.

Fee for performance equal to the benchmark[1,2]: 0.62% p.a.

Underlying portfolio allocation on 28 February 2021

Portfolio	% of Portfolio
Allan Gray Stable Portfolio	34.5
Coronation Inflation Plus Portfolio	34.3
Nedgroup Investments Core Guarded Fund	29.2
Cash	2.0
Total	**100.0**

1. Where applicable, each manager bases their performance fee on their respective benchmark.
2. The investment management fees for the underlying managers (except for the Nedgroup Inv. Core Guarded Fund) and multi-management fee are currently exempt from VAT. If VAT becomes chargeable due to a change in the interpretation of the applicable regulations or new regulations being introduced, VAT will be added to all applicable fees.
3. Performance is net of all fees and expenses.
4. Consumer price Index, plus 3 was prorated from 18 January 2019 to 31 January 2019.
5. Maximum percentage decline over any period. The maximum drawdown occurred from 20 February 2020 to 23 March 2020. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
6. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
7. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
8. Including stub certificates and Prosus NV.

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

Performance as at 28 February 2021

% Returns	Fund[3]	Benchmark[4]
Cumulative:		
Since inception (18 January 2019)	19.8	15.2
Annualised:		
Since inception (18 January 2019)	8.9	7.2
Latest 2 years	8.4	6.6
Latest 1 year	13.0	5.5
Year-to-date (not annualised)	4.7	1.2
Risk measures (since inception)		
Maximum drawdown[5]	-15.1	n/a
Percentage positive months[6]	72.0	n/a
Annualised monthly volatility[7]	8.1	n/a

Top 10 share holdings on 31 December 2020 (updated quarterly)

Company	% of Portfolio
Naspers[8]	3.1
British American Tobacco	1.7
Anglo American	1.2
FirstRand	1.0
Standard Bank	0.9
Glencore	0.9
Fortress Income Fund (A)	0.7
Sibanye	0.7
Nedbank	0.6
Woolworths	0.6
Total (%)	**11.3**

Quarterly commentary as at 31 December 2020

The second wave of the COVID-19 pandemic has interrupted the global recovery following the severe economic contraction experienced during the second quarter of 2020. While in many regions the second wave has had a more adverse health impact than was initially experienced, its economic consequences have been less severe because governments now better understand the collateral damage they caused when they attempted to control the pandemic by shutting down large parts of the economy. The focus is now on promoting prudent social behaviour. While in coming months the second wave should run its course as did the initial outbreak, a crucial difference this time round will be the roll-out of vaccination programmes, which hopefully will bring the pandemic to an end. Over the next six months, vaccinations should create a herd immunity, which will end the spread of the virus in the major economies of the northern hemisphere. Unfortunately, this will not be the case in most developing countries, including South Africa, which will take much longer to roll out vaccination programmes.

During 2020, China was unique in that it alone ended the year with economic activity at a higher level than where it was 12 months previously. However, the prospects for a strong period of global growth once the pandemic ends are more favourable. The combination of increased fiscal deficits and surplus savings accumulated over the past year will promote increased spending. Extremely low interest rates and massive money creation by central banks are sustaining asset prices and have triggered a global property boom. While emerging markets will face severe public heath challenges, their economies will likely be buoyed by strong exports to the developed world. While the pandemic continues to decimate certain parts of the South African economy, such as tourism, there are other sectors that are doing very well, notably mining and agriculture. Record commodity prices have boosted the value of South Africa's exports which, when expressed in US dollars, are now back at the all-time highs experienced early in 2012. The large trade surplus has been an important cause of a strong recovery in the rand exchange rate. The combination of currency strength and stable wages is keeping inflation close to the bottom of the 3% to 6% target range. However, the major challenge facing South Africa remains how to fund a fiscal deficit which in the forthcoming fiscal year will be about 10% of GDP.

In Q4 2020, the FTSE/JSE All Share Index (ALSI) returned 9.8%. Financials was the best performing sector for the quarter, up 19.5%, followed by resources and industrials which returned 8.3% and 7.4%, respectively. Over the same period, the rand strengthened by 12.1% against the US dollar, bringing the ALSI return in dollars to 24.9%. The ALSI outperformed the FTSE World Index, which was up by 14.8% in dollars for the quarter. The ALSI returned 7.0% in 2020. Financials was the worst performing sector for the year, declining by 19.7%, while resources and industrials were up 21.2% and 12.0%, respectively. The rand weakened by 4.6% against the dollar over the course of the year, implying an ALSI dollar return of 2.3%, which was below the FTSE World Index's dollar return of 16.3%.

The Portfolio returned 4.3% for the quarter and 6.5% over the 2020 calendar year, outperforming inflation of 2.9%. The Portfolio has managed to outperform its benchmark of CPI+3% since inception. The Portfolio's holdings (on a look-through basis) in local and global equities, and local bonds contributed to returns over the quarter. Its largest shareholding, Naspers, also contributed to positive performance. During the quarter, Allan Gray increased its exposure to local equities, primarily at the expense of local money market assets. Coronation, however, increased its local money market exposure, as well as local and offshore equities, by down-weighting local bonds. The largest aggregate asset class exposure across the Portfolio remains local bonds, however, at 31%. But differences in investment styles is evidenced by Nedgroup Investment's allocation of 23% to local bonds versus Coronation's of 43%.

Commentary contributed by Nazia Kahlon

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1-year period ending 31 December 2020	1yr %[11,12]
Total expense ratio[9]	**0.95**
Fee for benchmark performance	0.61
Performance fees	0.24
Other costs excluding transaction costs	0.10
Transaction costs[10]	**0.07**
Total investment charge	**1.02**

9. 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.
10. 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.
11. Since inception of the Portfolio on 18 January 2019.
12. This estimate is based on information provided by the underlying managers.

Asset allocation on 28 February 2021

Asset Class	Total	South Africa	Foreign
Net equity	38.7	23.0	15.7
Hedged equity	6.4	2.7	3.8
Property	3.0	2.7	0.4
Commodity-linked	2.0	1.6	0.4
Bonds	34.8	30.0	4.9
Money market and bank deposits	15.0	11.3	3.7
Total (%)	**100.0**	**71.2**	**28.8**

Commentary from underlying fund managers as at 31 December 2020

Allan Gray Stable Portfolio

2020 was a volatile year for markets. It is worth reviewing the objectives of the Portfolio and assessing how it has performed over this tough period.

The Portfolio aims to:

- Provide a high degree of capital stability
- Minimise the risk of loss over any two-year period
- Produce long-term returns better than bank deposits and inflation

In 2020 these objectives were only partially met. The value of capital invested in the Portfolio was much more stable than that of a typical balanced or equity fund, but likely more volatile than investors would expect and prefer. Local and global markets fell by around a third during February and March 2020 resulting in the Portfolio achieving a negative intra-month two-year rolling return for a brief period. The Portfolio's conservative liquidity position enabled it to take advantage of opportunities during this time. As at 31 December 2020, the Portfolio had returned 5.5% p.a. over the past two years and 6.6% p.a. over the past five years. This is below the benchmark and certainly lower than the level of return we aim to achieve.

Looking back over the Portfolio's history

Since inception, the Portfolio has generated returns of 5.9% p.a. after inflation, creating substantial wealth for clients, while taking relatively low risk. There have been periods of very high returns, such as 2005-2006, when the local market performed strongly, and the shares owned by the Portfolio performed even better. Mid-2014 to mid-2016 is an example of a tough period for the Portfolio, where returns from both the ALSI and the FTSE/JSE All Bond Index were lower than cash. The Portfolio has a high degree of flexibility to invest in different asset classes but is not completely immune to market movements. Risk is managed by an overall conservative approach, e.g. a maximum allocation of 40% to equities, a low-duration position in bonds, and maintaining a high allocation to cash and liquid instruments.

What do we expect for future returns from here?

Compared to history, the current opportunities available to the Portfolio look very attractive. Five years ago, local bonds and shares were both relatively expensive. Subsequent market returns were disappointing, and cash ended up being one of the best investments over this period, helped by high cash interest rates.

Looking forward, the picture is reversed. Cash interest rates are now low, at around 4%, similar to inflation. Holding cash is therefore unattractive, as it puts an investor at risk of losing purchasing power in inflation-adjusted terms. In contrast to five years ago, local bonds and shares are now relatively cheap. In contrast with developed markets, South African longer-dated bonds offer very high real yields. For example, a 10-year South African government bond yields 9%. The Portfolio has used some of its cash to increase the bond position. The prospect for future returns from shares also looks promising. While South Africa clearly faces numerous risks, our investment team is finding many attractively valued businesses to invest in. There is a high probability that the return from shares should also exceed cash over the next five years.

Overall, this makes us cautiously optimistic for future returns from this starting point. There are, of course, various risks to consider. A key consideration of the Portfolio is that potential returns from attractive opportunities should be balanced with protecting against the various things that could go wrong. For example, the Portfolio maintains a 30% weight in offshore assets, which protects against the risk of the rand weakening. Meanwhile, it also holds some inflation-linked bonds, which will do well if South Africa experiences high inflation.

Nedgroup Investments Core Guarded Fund

Countries across the globe tried to stem the 'second wave' of coronavirus outbreak with stricter lockdown measures. Despite the new outbreak global market rallied strongly with both the S&P 500 and MSCI World indices reached all-time highs. Vaccine approvals and roll-outs drove expectations of reopening economies and improved activity in 2021. Emerging markets assets and FX benefited from a weaker US dollar and increased trade activity, while more risk taking favoured cyclical exposure and small cap stocks. Further monetary and fiscal support from major economies solidified the year-end rally.

The SA markets ended the quarter on a strong note, lifted by improved sentiment for risk assets as vaccines became available and a weaker US dollar provided a tailwind for emerging market currencies. Over the fourth quarter, the rand appreciated by 6.7% against the US dollar. The Fund grew by 4.4% over the quarter and by 7.2% over the past year.

Over the fourth quarter, the Fund's strategic asset allocation was also reviewed which resulted in an increase in its offshore allocation from 20% to 25% during the middle of December.

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