Allan Gray Multi-Manager Cautious Portfolio

31 March 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 31 March 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 31 March 2021

% Returns	Fund[3]	Benchmark[4]
Cumulative:		
Since inception (18 January 2019)	20.1	16.7
Annualised:		
Since inception (18 January 2019)	8.7	7.3
Latest 2 years	7.8	6.7
Latest 1 year	21.1	6.2
Year-to-date (not annualised)	5.0	2.4
Risk measures (since inception)		
Maximum drawdown[5]	-15.1	n/a
Percentage positive months[6]	73.1	n/a
Annualised monthly volatility[7]	7.9	n/a

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

Company	% of Portfolio
Naspers[8]	3.3
British American Tobacco	1.7
Anglo American	1.3
Glencore	1.0
FirstRand	1.0
Standard Bank	0.8
Sibanye	0.7
Woolworths	0.7
Nedbank	0.6
Fortress Income Fund (A)	0.6
Total (%)	**11.8**

Quarterly commentary as at 31 March 2021

The world is starting to recover from the pandemic with stronger global economic growth expected for 2021. Vaccine roll-outs across developed countries and an increase in government spending have had a positive impact on global growth. This has been a tailwind for risky assets with the MSCI World Index and the FTSE/JSE All Share Index (ALSI) up 78% and 81% respectively from their March 2020 lows. However, virus mutations and the efficacy of vaccines, coupled with continued concerns of higher inflation and interest rates, remain a risk to markets.

The South African economy created 333 000 jobs in Q4 of 2020. The primary sectors – mining and agriculture – are thriving due to record demand and prices. Unfortunately, 1.4 million jobs are still missing since the beginning of 2020 with trade (including tourism and hospitality) and manufacturing still stuck because of the pandemic. The pace of our country's economic recovery will largely depend on the government's ability to effectively roll out vaccines and mitigate the onset of a third wave of infections.

The ALSI returned 13.1% in rand terms during the first quarter of 2021. Resources was the best performing sector for the quarter, up 18.7%, followed by industrials and financials which returned 13.0% and 3.8%, respectively. Over the same period, the rand weakened marginally, by 0.7% against the US dollar, bringing the ALSI return in dollars to 12.3%. The ALSI significantly outperformed the MSCI World Index, which returned 5.3% in dollar terms for the quarter. Both global (-4.5%) and local bonds (-1.7%) fared poorly over the quarter on the back of a spike in US yields as a reflection of investors' inflation worries.

Benefiting from the risky assets rebound, the Portfolio returned 5% for the quarter and 21.1% for the year (after fees) – significantly ahead of its CPI+3% benchmark over both reporting periods. Local shares contributed most to returns while bonds detracted slightly. Net equity exposure remains close to the upper limit of 40% which is indicative of the underlying managers' views of where future returns are likely to come from. Gross equity exposure is split roughly 60:40 in favour of South African shares relative to foreign (including Africa ex-SA) shares. The Allan Gray Stable Portfolio has the largest active allocation outside of South Africa at approximately 37%. This can be contrasted to both the Coronation Inflation Plus Portfolio and Nedgroup Investments Core Guarded Fund at 25%. Local bond exposure remains significant at 30% albeit 5% less than the corresponding time last year.

Though equity exposure is at the upper limit, the managers have taken active steps to protect and preserve capital over the shorter term in line with their mandates. Allan Gray, including Orbis, for example has hedged a significant portion of its equity exposure by utilising index futures and forward contracts. Coronation has bought local and global equity puts while the Nedgroup Investments Core Guarded Fund continues to hold approximately 30% in cash, in line with its static allocation. During the quarter, there were no changes to the Portfolio's top 10 shares on a look-through basis. Commentaries from two of the underlying fund managers follow, reflecting their views.

Commentary contributed by Shaheed Mohamed

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 31 March 2021

Asset Class	Total	South Africa	Foreign
Net equity	38.4	22.8	15.6
Hedged equity	6.8	2.8	3.9
Property	3.0	2.6	0.4
Commodity-linked	2.0	1.6	0.3
Bonds	34.4	29.6	4.8
Money market and bank deposits	15.5	12.1	3.4
Total (%)	**100.0**	**71.6**	**28.4**

Commentary from underlying fund managers as at 31 March 2021

Allan Gray Stable Portfolio

The Portfolio recovered some of its 2020 underperformance in the first quarter, returning 6.4% p.a. as measured over the last two years. The announcement of effective vaccines last November, together with a well-received Democratic win in the US elections, has allowed financial markets to look through the current uncertainty to a more normalised post-COVID-19 world, with the expectation of an economic upswing, as growth and inflation accelerate from a recessionary base, also known as the "reflation trade".

Reflation is typically seen as positive for more cyclical assets, commodities, and emerging markets in general as investors reallocate from "safer" asset classes to those offering higher prospective returns. This has allowed many global equity indices to reach new highs this quarter, including our local market. There is reason to retain some caution given 1) the positive sentiment could be derailed by, for example, stuttering vaccine roll-outs or economic data not confirming expectations; or 2) the unprecedented monetary and fiscal stimulus embarked upon in 2020, mainly in developed markets, creating pockets of exuberance, the unwind of which could have a wider impact on financial markets. As always, we prefer to try and look through the shorter-term volatility and concentrate on the intrinsic value of each asset, based on fundamentals.

The Portfolio has benefited in recent quarters from a higher net equity weight of 34.9% (viewed against the 40% maximum). Approximately two-thirds of this exposure is to locally listed shares. Positions that have contributed to returns on an absolute and relative basis over the last year include Glencore, Sibanye-Stillwater and Cashbuild, all of which remain material holdings in the Portfolio. While these shares traded at very depressed levels a year ago, the reasons for their subsequent advances are varied. Demand for the base metals that Glencore produces is often viewed as a leading indicator of economic growth given their input into industrial and consumer products, with prices for many of these metals now at multi-year highs. Similarly, Sibanye-Stillwater has benefited from exposure to higher platinum group metal prices, particularly palladium and rhodium, where supply deficits are expected to remain over the medium term. Lastly, Cashbuild has seen demand for its home-improvement products as people spend more time at home during lockdowns.

Disappointingly, British American Tobacco (BTI) has detracted from performance recently. In our opinion, the current valuation is undemanding for a company that continues to grow its US dollar earnings in real terms while paying a healthy dividend. BTI, together with the Portfolio's other more defensive shares and its exposure to precious metals, provides a counter to the reflation trade, should some of the risks mentioned above materialise.

Within fixed income, the Portfolio retains its preference for local bonds over cash given the steep yield curve and the low real return that holding cash currently offers. The Portfolio's bond holdings provide a real yield well ahead of what cash currently provides with an inflation outlook that is relatively muted. While the market welcomed the commitments made to fiscal discipline in the February Budget, execution risk remains high. Portfolio duration has increased marginally but remains below that of the FTSE/JSE All Bond Index. In the offshore portion, we continue to prefer hedged equities over global sovereign bonds which, despite the recent sell-off, in our view still offer poor value.

Coronation Inflation Plus Portfolio

Risk assets have had a significant rebound, off a very low base this time last year, and have been the main contributor to the Strategy's performance. We used the COVID-19 sell-off to judiciously step up our risk asset exposure within the Strategy, starting with global and emerging market equities and followed by South African (SA) equities. There are still many uncertainties and risks as to how the world will emerge from this COVID-19 crisis. However, large amounts of stimulus, relatively low interest rates and lifting of lockdowns will all lead to a positive backdrop of increased economic activity. With this in mind, we still see attractive investment opportunities in equity markets, with our bottom-up valuations indicating healthy inflation-beating potential returns over the next three years.

The Strategy benefited from its position in the diversified miners, Anglo American and BHP Billiton. Resource shares remain a meaningful part of our equity exposure despite their outperformance. Our investment thesis is unchanged, namely undemanding valuations, solid free cash flow (FCF) and tight markets. Joe Biden's presidency should strengthen the US's commitment to transitioning away from fossil fuels. Battery metals have an important role to play in decarbonising the world's energy mix. We expect copper and cobalt to be particularly tight as this shift accelerates. The platinum group metals holdings in the Strategy (Northam Platinum +22.8% for Q1-21, Impala Platinum +40.7% for Q1-21) performed well. Metal prices remain high given growing demand, supply disruptions and a decade of underinvestment.

Our domestic holdings are centred around the food retailers (Shoprite and Spar), banks (predominantly FirstRand, Nedbank and Standard Bank) and the life insurers (Sanlam). SA's banks have navigated the crisis well. Books appear well provided as borrowers resume debt repayments and low interest rates improve affordability. Despite sector earnings roughly halving over 2020, Standard Bank and FirstRand returned to paying dividends.

Our overall risk asset exposure is prudently balanced, with an almost 45% exposure to SA fixed income instruments. The Budget presented by National Treasury in February was broadly better than expected, with higher tax receipts and conservative expenditure allocation. Government still has a high and increasing debt burden, and a combination of growth initiatives and continued fiscal constraint will be necessary to keep this in check. Many investors are sceptical, and hence our far-dated domestic bond yields continue to trade at a premium to other emerging markets. We have exposure to these attractive yielding SA government bonds but are also managing risk by spreading exposure across corporate and inflation-linked bonds.

While the overall Strategy returns over the past 12 months have been pleasing, we would not expect a repeat of this strong performance. The past year has demonstrated the value that can be added by employing active asset and instrument selection to take advantage of investment opportunities. We think our current asset selection can still deliver on the CPI + 3% mandate over the medium term, with a sensible mix of growth and income assets to meet both the return and capital protection mandate of the Strategy.

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