ALLAN GRAY

Fund managers: Allan Gray, Coronation, Nedgroup Investments, Ninety One
Inception date: 18 January 2019

Allan Gray Multi-Manager Cautious Portfolio

31 August 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).

Underlying portfolio allocation on 31 August 2021

Portfolio	% of Portfolio
Allan Gray Stable Portfolio	29.3
Coronation Inflation Plus Portfolio	24.4
Ninety One Cautious Managed Portfolio	24.7
Nedgroup Investments Core Guarded Fund	19.7
Cash	1.9
Total	**100.0**

1. Performance is net of all fees and expenses.
2. Consumer price Index, plus 3 was prorated from 18 January 2019 to 31 January 2019.
3. 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).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. 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.
6. Includes holding in stub certificates and/or Prosus NV if applicable.

Performance as at 31 August 2021

% Returns	Fund[1]	Benchmark[2]
Cumulative:		
Since inception (18 January 2019)	25.5	21.9
Annualised:		
Since inception (18 January 2019)	9.1	7.9
Latest 2 years	9.2	7.3
Latest 1 year	13.0	8.6
Year-to-date (not annualised)	9.6	6.9
Risk measures (since inception)		
Maximum drawdown[3]	-15.1	n/a
Percentage positive months[4]	77.4	93.5
Annualised monthly volatility[5]	7.3	1.4

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

Company	% of Portfolio
Naspers[6]	2.3
British American Tobacco	1.6
Anglo American	0.9
Glencore	0.9
FirstRand	0.9
Standard Bank	0.6
Nedbank	0.6
AB InBev	0.6
Sibanye-Stillwater	0.5
Growthpoint	0.5
Total (%)	**9.4**

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

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Quarterly commentary as at 30 June 2021

The FTSE/JSE All Share Index (ALSI) was flat in rand terms during the second quarter of 2021 after a very strong first quarter. Financials was the best performing sector, up 7.5%, followed by industrials, which returned 0.8%. Resources delivered -5.0% but is still up almost 13% since the beginning of the year. The rand strengthened by 3.3% against the US dollar, bringing the ALSI return in dollars to 3.4% for the quarter. The performance of shares within the benchmark has not been uniform. Many "SA Inc" stocks have done well, with the banking and property sectors delivering 9.6% and 12.1% respectively. Two of the largest multinationals with a listing on our local bourse – Naspers (-15%) and British American Tobacco (-1.3%) – had a poor quarter.

The MCSI All Country World Index (a proxy for global equities) delivered 7.5% in dollars, outperforming the ALSI. Driven by the improving growth outlook, US equity markets continued to rally with the S&P 500 delivering an 8.5% return and the technology-heavy Nasdaq-100 returning 11.4%. Western markets outperformed the Asian markets over the quarter. Chinese technology companies were weak as there are growing concerns of tighter regulations in the sector.

The FTSE/JSE All Bond Index (ALBI) posted a 6.9% return for the quarter led by the strong performance of longer-dated bonds. SA inflation-linkers delivered 3.0% over the same period, but year to date have outperformed the ALBI as investors seek protection from upward-trending inflation. Eskom's 15% tariff hike, along with a 45% increase in the US dollar oil price since the beginning of the year, will fuel inflation in South Africa over the next few months and likely lead to the South African Reserve Bank hiking interest rates.

The Allan Gray Multi-Manager investment approach is premised on investing in multi-asset funds offered by tenured fund managers in South Africa, who have delivered good outcomes for clients and who we believe have a high likelihood of continuing to deliver good outcomes for clients. We continuously monitor the underlying funds in the Portfolio, those that are on our bench-list, and the investable universe. In April 2021, the Ninety One Cautious Managed (91CM) Fund, which has been on our bench-list since inception, was added to the Portfolio. The 91CM Fund has an excellent track record and we believe that by including it in the Portfolio it will complement the existing underlying funds, as it offers a very different investment style and approach to the incumbents. The addition of the 91CM Fund should reduce overall volatility for the Portfolio, while maintaining or improving performance over the longer term.

The Portfolio returned 2.1% for the quarter and 12.5% for the year (after fees) – ahead of its CPI+3% benchmark. Total net equity exposure remains at the upper limit of 40%, which is indicative of the underlying managers' views of where future returns are likely to come from. With the inclusion of the 91CM Fund and its high offshore allocation, the Portfolio's foreign equity exposure has increased by 1.8% when compared to the previous quarter. Local bond exposure remains significant at 34% and cash at approximately 15%. During the quarter, Woolworths and Fortress have fallen out of the top 10 local equities and have been replaced by AB InBev and Growthpoint Properties.

The underlying managers continue to deploy different strategies to preserve capital over the shorter term, while aiming to outperform inflation plus 3% over the medium to long term. 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 30 June 2021	1yr %[11,12]
Total expense ratio[9]	**0.97**
Fee for benchmark performance	0.62
Performance fees	0.24
Other costs excluding transaction costs	0.11
Transaction costs[10]	**0.06**
Total investment charge	**1.03**

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 August 2021

Asset Class	Total	South Africa	Foreign
Net equity	37.3	20.1	17.2
Hedged equity	4.3	1.4	3.0
Property	3.1	2.7	0.4
Commodity-linked	1.8	1.6	0.3
Bonds	38.0	34.6	3.4
Money market and bank deposits	15.5	13.6	1.9
Total (%)	**100.0**	**73.8**	**26.2**

Commentary from underlying fund managers as at 30 June 2021

Ninety One Cautious Managed Portfolio

Performance review

The Portfolio delivered strong absolute returns over the quarter. The local bond component was the largest contributor to absolute performance as the FTSE/JSE All Bond Index outperformed local equities, despite foreigners going on a selling spree. The offshore equity component was the second largest contributor to absolute performance. Primary performance was driven by quality companies, accounting software provider Intuit, credit rating agency Moody's Corp, and software giant Microsoft. Intuit had its strongest month since November 2020, building on momentum from its solid 3Q 2021 results in May. Moody's rose for a fifth month, against a backdrop of continued optimism towards the US economy and strong debt issuance. Microsoft had another positive month, becoming the second stock valued in excess of US$2 trillion in the process. While no individual catalyst explains the performance, there was some positive news flow, including plans to expand significantly in China, and the unveiling of a new version of Windows for the first time in six years.

The local equity component also added to absolute returns. While the local bourse ended its winning streak in June, resulting in performance being flat over the quarter, financials continued to perform well. In this environment primary contributors to returns included Capitec Bank and short-term insurer, Santam. Luxury goods maker Richemont and beverage (alcohol) producer Distell Group also enhanced gains.

The commodities component, consisting of our holding in the NewGold exchange-traded fund (ETF) and 1nvest Platinum ETF, marginally detracted from returns. The small property holding in Capital & Counties and Growthpoint Properties detracted from absolute performance.

Portfolio activity

We are not short-term traders. Instead, we prefer to buy what we perceive to be high-quality companies that offer good value, and we hold these positions over the medium to long term. Over the quarter, we added to longer-duration bonds (funded from shorter-duration bonds and maturing credit exposure) and simultaneously increased exposure to global equities.

Outlook and strategy

While global equity markets have rebounded strongly since the depths of the crisis, COVID-19 continues to represent a very real threat to growth in the near term. This risk continues to be offset by ongoing stimulus from central banks, which has propped up businesses and asset values. Unfortunately, this has created additional risk for markets. If we win the war against COVID-19, and economies reopen, stimulus will be unnecessary. But the removal of stimulus has historically been disastrous for equities, as experienced in the taper tantrum of 2013 and as recently as 2018, when the Fed attempted to allow its balance sheet to shrink organically. The most desirable scenario may be a slower recovery from COVID-19 that leaves stimulus in place and supply somewhat constrained, resulting in sustained, slightly higher inflation that allows both corporates and governments to grow their way out of their debt burden before interest rates have to rise. Given the potential risk embedded in all these scenarios, we are optimistic about the prospects for your portfolio. The high-quality global equities we invest in have not been this cheap relative to the market in close to a decade and will benefit from either rising risk (given their stronger balance sheets and lower economic sensitivity) or rising inflation (given their embedded pricing power), or both. Unsurprisingly, these equities remain our preferred investment in your portfolio.

On the home front, there is cause to be less bearish. The best local opportunity remains government bonds providing real returns of more than 4% over 10 years. Local bonds also provide a natural hedge against the volatility of the rand and bring stability to the Portfolio. We appreciate that risks to the fiscus remain (especially given the upcoming wage negotiations with trade unions), and as a result, we maintain a reasonable portion of your portfolio in cash. The most important consideration is therefore balance: An appropriate balance of exposures to balance a multitude of risks and maximise the probability of generating inflation-beating returns, while targeting capital preservation. We do not have specific top-down views, but instead, continue to allocate capital based on where we see the best bottom-up opportunities.

Nedgroup Investments Core Guarded Fund

Over the quarter, global equities advanced, supported by the accelerating roll-out of COVID-19 vaccines. This performance was echoed by emerging market equities and property, which registered a strong return over the second quarter in US dollars. This was despite a sell-off in May as higher-than-expected US inflation renewed concerns over the timing of global monetary policy tightening. The rand also registered exceptional gains against the three major currencies, teetering between R13.42/$ and R14.30/$. In South Africa, listed property and bonds performed well over the quarter, delivering 11.9% and 8%, respectively. The strengthening of the rand dampened some of the gains in offshore markets.

For every R10 000 invested in the Nedgroup Investments Core Guarded Fund three years ago, you would have R12 482 at the 30th of June 2021. This is lower than the R11 704 you would have achieved had you invested your money in bank deposits (cash) over the same period. The Nedgroup Investments Core Guarded Fund has a growth target of 3% above inflation (around 8% per year) over three-year periods. The Fund has almost reached its target over the last three years. However, history demonstrates that one-third of the time, a fund such as the Nedgroup Investments Core Guarded Fund, would have underperformed its long-term growth target over any three-year period. The other two-thirds of the time, it would have achieved or exceeded its long-term target. Over the course of the quarter, the Nedgroup Investments Core Guarded Fund grew by +2.5%. Over the past year the Fund delivered a return of 12.6%, which is well ahead of its return objective. This return must, however, be seen in the context of the preceding 12-month period, which included the market reaction at the start of the COVID-19 pandemic in Q1 2020.

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