ALLANGRAY

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

Allan Gray Multi-Manager Cautious Portfolio

28 February 2019

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 2019

Portfolio	% of Portfolio
Allan Gray Stable Portfolio	34.2
Coronation Inflation Plus Portfolio	34.3
Nedgroup Inv. Core Guarded Fund	29.5
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.

Total management fee at different levels of outperformance[3]

Outperformance (% p.a.)	Total fee (% p.a.)
0.0	0.62
2.5	0.86
5.0	0.92
7.5	0.98

3. The Allan Gray Stable Portfolio invests in funds managed by Orbis for its offshore exposure. Orbis charges an uncapped performance fee of which a portion is refundable. The fee at different levels of outperformance, for each portfolio against its respective benchmark, is shown to give an indication of the total management fee.

Top 10 share holdings on 31 December 2018 (updated quarterly)

Company	% of Portfolio
Naspers	2.4
Standard Bank	1.4
British American Tobacco	1.3
Sasol	1.2
Glencore	0.9
Nedbank	0.8
Remgro	0.8
Anglo American	0.7
FirstRand	0.6
Woolworths	0.6
Total (%)	**10.9**

Asset allocation on 28 February 2019

Asset Class	Total	South Africa	Foreign
Net equity	37.4	23.0	14.4
Hedged equity	2.8	0.7	2.1
Property	6.0	5.3	0.7
Commodity-linked	1.1	0.8	0.3
Bonds	33.0	28.4	4.7
Money market and bank deposits	19.6	15.3	2.3
Total (%)	**100.0**	**75.5**	**24.5**

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

Tel 0860 000 654 or +27 (0)21 415 2301 **Fax** 0860 000 655 or +27 (0)21 415 2492 **Email** info@allangray.co.za **www.allangray.co.za**

The investment approach for the Multi-Manager Cautious Portfolio

We select investment managers with a strong track record who have shown consistency in their investment approach over time. This consistency gives us confidence in the managers' ability to repeat the performance into the future. The Portfolio is built from cautious multi-asset funds, where the underlying investment managers make their own decisions on the appropriate mix of local and foreign listed shares, fixed interest securities, listed property, commodities and cash within the parameters governing retirement funds, i.e. asset allocation decisions are not made at the multi-manager level. We choose funds from managers with complementary investment styles that, when combined appropriately, should improve the Portfolio's potential to deliver real returns through different market cycles. Additional funds are selected only to the extent that the incremental diversification benefit will not compromise potential outperformance.

Fund positioning

2018 was a difficult year in investment markets generally, with most multi-asset low equity funds delivering returns below inflation. Fortunately each of the funds that form part of the Portfolio were able to preserve capital in a year when listed equities and property delivered negative returns. The biggest detractors from performance included the sell-off of locally-listed shares and property stocks in the fourth quarter and the sharp fall in foreign share prices. However, this was offset by positive returns from the income-producing assets of the respective funds.

The underlying managers have applied different strategies in navigating the current investment environment. Allan Gray Stable, for example, has reduced its exposure to hedged equities, while maintaining its exposure to both net equities (39%) and foreign ex-Africa holdings (27%). It has also increased its total bond (28%) and property (5%) exposures respectively, which was funded mainly from its local money market and bank deposits allocation. Conversely, Coronation Inflation Plus reduced its exposure to foreign assets to approximately 18%, preferring an almost 48% exposure to domestic bonds, including inflation-linked bonds.

These different strategies are expected when diversifying across multiple managers and it is these divergent views which typically reduce the Portfolio's volatility.

Commentary contributed by Shaheed Mohamed

Quarterly commentary as at 31 January 2019

Need more information?

You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**.