ALLAN GRAY

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

Allan Gray Multi-Manager Moderate Portfolio

28 February 2021

Portfolio description and summary of investment policy

The Portfolio invests in the Balanced mandates of a minimum of three managers, all of which are managed to comply with the investment limits governing retirement funds. The Allan Gray Balanced Portfolio has a target allocation of 30% (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 achieve steady long-term growth of capital for investors within the constraints governing retirement funds. The Portfolio's benchmark is a composite benchmark, of which 70% is domestic and 30% is foreign.[1]

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 real returns through different market cycles.

Suitable for those investors who

- Seek steady long-term capital growth
- Are comfortable with taking on some risk of market fluctuation and potential capital loss but typically less than that of an equity fund
- Wish to invest in a portfolio that complies with retirement fund investment limits
- Typically have an investment time horizon of at least three years
- Wish to diversify risk across multiple managers

Annual management fee

Each underlying manager charges their own fee. Where performance fees are charged, this is based on the underlying manager's performance compared to its respective benchmark. The benchmark for each underlying manager 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 0.14% p.a. on the entire Portfolio) and is included in the fee quoted below.

Fee for performance equal to the benchmark[2,3]: 0.69% p.a.

Underlying portfolio allocation on 28 February 2021

Portfolio	% of Portfolio
Allan Gray Balanced Portfolio	29.9
Coronation Global Houseview Portfolio	25.7
Ninety One Opportunity Portfolio	23.2
Prudential Balanced Portfolio	20.3
Cash	0.9
Total	**100.0**

1. 47% FTSE/JSE Capped Shareholder Weighted All Share Index, 14% FTSE/JSE All Bond Index, 9% 3-month STeFI, 18% MSCI All Country World Index and 12% J.P. Morgan GBI Global Index, all including income. Source: IRESS BFA, Bloomberg.*
2. The investment management fees for the underlying managers 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. Where applicable, each manager bases their performance fee on their respective benchmark. The indicative fee at benchmark assumes each of the underlying funds achieves its respective benchmark. It also assumes a fixed local and offshore allocation. The actual fee at benchmark may therefore differ.
4. Performance is net of all fees and expenses.
5. Maximum percentage decline over any period. The maximum drawdown occurred from 20 January 2020 to 23 March 2020 and maximum benchmark drawdown occurred from 17 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.

* The blended returns are calculated by Allan Gray Proprietary Limited using end of day index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking or otherwise utilising any MSCI Data, models, analytics or other materials or information.

Performance as at 28 February 2021

% Returns	Fund[4]	Benchmark
Cumulative:		
Since inception (18 January 2019)	23.7	25.2
Annualised:		
Since inception (18 January 2019)	10.6	11.2
Latest 2 years	9.6	10.3
Latest 1 year	18.3	18.6
Year-to-date (not annualised)	6.3	4.8
Risk measures (since inception)		
Maximum drawdown[5]	-22.3	-23.0
Percentage positive months[6]	72.0	72.0
Annualised monthly volatility[7]	12.2	11.8

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

Company	% of Portfolio
Naspers[8]	6.2
British American Tobacco	3.6
Anglo American	2.1
FirstRand	1.9
Standard Bank	1.7
Glencore	1.7
BHP	1.0
Bid Corp	1.0
Compagnie Financiere Richemont	0.9
Impala	0.9
Total (%)	**21.2**

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

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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 6.1% for the quarter and 7.4% over the 2020 calendar year, outperforming inflation. Contributions to returns over the quarter can be attributed to the Portfolio's holdings (on a look-through basis) in global equities, local equities, local bonds and commodities. Its largest shareholding, Naspers, also contributed to positive performance. At the end of the quarter, the Portfolio's regional exposure was approximately 72% in local assets and 28% offshore. When analysing the underlying managers' portfolio activity, Allan Gray, Coronation and Ninety One have all upweighted local equities versus the previous quarter, while Prudential's asset allocation remained largely static. In aggregate, the local equity allocation in the Portfolio has increased by 3.5% while the local bond exposure has declined by 1%. Allan Gray remains underweight local bonds (9.7%) relative to the other three managers' average holding of approximately 20%.

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]	1.10
Fee for benchmark performance	0.66
Performance fees	0.30
Other costs excluding transaction costs	0.14
Transaction costs[10]	0.11
Total investment charge	**1.21**

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	64.8	42.2	22.6
Hedged equity	4.1	1.4	2.7
Property	2.0	1.5	0.5
Commodity-linked	2.4	2.4	0.0
Bonds	18.8	17.5	1.3
Money market, bank deposits and currency hedge	7.9	7.5	0.4
Total (%)	**100.0**	**72.5**	**27.5**

Commentary from underlying fund managers as at 31 December 2020

Allan Gray Balanced Portfolio

Domestic equities had a strong fourth quarter, despite rand strength, translating into the Portfolio returning 6.7% in rands and 21% in dollars for the period.

Naspers, the largest position in the Portfolio, consolidated its strong performance year to date, as regulators in China announced investigations into certain perceived monopolistic practices in the Chinese internet and ecommerce market. Countering this was the continued strength in the iron price which, in our view, is trading at elevated levels. This has benefited BHP and Anglo American. We continue to prefer Glencore, which we believe will gain from commodity prices – other than iron ore – strengthening.

Low short-term interest rates continue to make it unrewarding to hold significant amounts of cash and, with the steep yield curve, we have allocated more of the fixed income to bonds with longer duration. This comes with greater risk. While attractive for investors, our high real government bond yields result in a very high cost of capital for local corporates in an economy with no growth. This needs to change if we are going to see a sustained increase in the value of local domestic companies in the Portfolio.

As an example of the opportunities we are finding, the Portfolio owns several holding companies that are trading at historically large discounts to their underlying investments. These include Naspers, Remgro, Reinet, RMI and PSG. We provided more detail on this opportunity in our Q4 Quarterly Commentary, which is published on our website.

The offshore portion of the Portfolio had a strong quarter in US dollar terms, benefiting from the beginning of a rotation into value shares from the large growth shares that have dominated the index. We continue to believe that global sovereign bonds are overvalued and prefer exposure to gold and hedged equities. The unprecedented fiscal and monetary response to COVID-19 has propped up spending in many large developed economies, making it hard to judge the true level of economic activity underpinning companies' bottom lines. At some stage, the bill will come due, which may result in inflation and/or large losses in the bond market.

While risk levels remain high, and experts seemingly continue to disagree on the best way forward in combating the virus, the Portfolio owns a selection of attractive domestic shares, many of which remain depressed when measured in dollars. Cheap multinationals, such as British American Tobacco and Naspers, alongside the offshore holdings, provide diversification from South Africa-specific risk.

Coronation Global Houseview Portfolio

The Portfolio had a strong quarter to close out the year and delivered a very credible real return for the calendar year 2020, benefiting from both value-adding asset allocation decisions and strong alpha in the domestic equity building block. The Portfolio has performed well against its peer groups and benchmarks over all meaningful time periods.

The average domestic share has collapsed and trades at roughly half its peak. This is reflected in the performance of domestically concentrated sectors with a decline in the financials and property indices for the year (Financials -19.7%, SA listed property -34.5%), even after a Q4-20 bounce. In the Portfolio, we meaningfully increased our exposure to SA equities after the sell-off, given the breadth and attractiveness of the value on offer. The rand hedge stocks remain attractive for a variety of stock-specific reasons. Major holdings include Naspers (+32%), British American Tobacco (-1.5%), Quilter (9.1%), Bidcorp (-19%), Textainer (104.9%) and Aspen (+5.2%).

Despite slashing our expectations for domestic shares, their meaningful underperformance during the year means that many of these names now look undervalued, with investor concerns reflected in single-digit PEs. Over the last few quarters, we increased our weighting in the banks (predominantly FirstRand), life insurers (Momentum Metropolitan Holdings and Sanlam) and several others. Results from domestic businesses have exceeded our expectations thus far, with more top line resilience and better cost control than we had anticipated. We remain concerned about headwinds into 2021 as a weak macroeconomic environment persists and cost-cutting efforts result in another round of retrenchments, which will further erode consumer confidence and spending power. The Portfolio remains underweight domestic businesses. Despite the selloff in property shares, we have not built up the position, given concerns over the long-term outlook for rentals and weak balance sheets.

Notwithstanding the outperformance by the resource shares, they remain a meaningful part of equity exposure, given undemanding valuations and solid free cash flow (FCF). The diversified miners are benefiting from tight markets, given the resilience of Chinese demand and a limited supply response due to disciplined capital expenditure over the last few years. The Portfolio continues to hold a sizeable position in Anglo American, which, despite its performance (+25.9% for the year, +19.1% for Q4-20), still trades on an attractive PE rating at less than 10x one year forward. The Portfolio also holds a position in Glencore (+8.0% for the year, +33.3% for Q4-20) with its attractive commodity basket that should benefit meaningfully from decarbonisation. The platinum group metals holdings in the Portfolio (Northam +69.5% for the year and +23.1% for Q4-20, Impala Platinum +47.7% for the year and +38.8% for Q4-20) performed very well. They are expected to deliver material returns to shareholders as earnings growth is underpinned by tight markets on the back of mounting emissions regulations and a decade of underinvestment by the sector.

With the strong movement in the gold price, our underweight position in the gold equities hurt performance, given the leveraged nature of earnings for their high-cost, short-life assets. We used the sell-off in Q4-20 to start buying AngloGold Ashanti. Throughout the volatility experienced during 2020, we retained our commitment to investing for the long term. We have used the uncertainty created by the pandemic to build a robust portfolio of assets where we believe the market is mispricing the long-term fundamentals. We believe that this will continue to deliver compelling returns for clients in the coming years.

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J.P. Morgan GBI Global Index

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