

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 2019

Portfolio	% of Portfolio
Allan Gray Balanced Portfolio	29.6
Coronation Global Houseview Portfolio	24.8
Investec Opportunity Portfolio	24.8
Prudential Balanced Portfolio	19.8
Cash	1.0
Total	100.0

1. 47% FTSE/JSE Capped Shareholder Weighted All Share Index, 14% JSE All Bond Index, 9% 3-month STeFI, 18% MSCI All Country World Index and 12% JP Morgan Global Government Bond 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.

Total management fee at different levels of outperformance⁴

Outperformance (% p.a.)	Total fee (% p.a.)
0.0	0.69
2.5	1.01
5.0	1.30
7.5	1.47

4. The Allan Gray Balanced Portfolio invests in funds managed by Orbis for its offshore exposure. Orbis charges a refundable performance fee which is uncapped. 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.

Disclaimer

The Allan Gray Multi-Manager Moderate Portfolio is a pooled portfolio that is made available to the Allan Gray Umbrella Retirement Fund. This pooled portfolio is underwritten by Allan Gray Life Limited, an authorised financial services provider and a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017. Allan Gray Proprietary Limited (the 'Investment Manager'), an authorised financial services provider, is Allan Gray Life's appointed investment manager.

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

Company	% of Portfolio
Naspers	4.8
British American Tobacco	3.8
Sasol	3.3
Standard Bank	2.5
Anglo American	1.7
Compagnie Financiere Richemont	1.4
Nedbank	1.2
MTN	1.2
Remgro	1.1
Assore	1.0
Total (%)	22.0

Asset allocation on 28 February 2019

Asset Class	Total	South Africa	Foreign
Net equity	66.4	42.2	24.2
Hedged equity	3.7	0.7	3.0
Property	4.5	3.8	0.7
Commodity-linked	2.0	2.0	0.0
Bonds	17.1	16.0	1.1
Money market, bank deposits and currency hedge	6.4	5.1	1.3 ⁵
Total (%)	100.0	69.7	30.3

5. A foreign currency hedge results in the allocation being negative.

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

The investment approach for the Multi-Manager Moderate 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 multi-asset balanced portfolios, 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, i.e. asset allocation decisions are not made at the multi-manager level. We choose portfolios 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 portfolios are selected only to the extent that the incremental diversification benefit will not compromise potential outperformance.

Portfolio positioning

2018 was a difficult year in investment markets generally, with the average balanced portfolio delivering negative returns. The biggest detractors from performance included the sell-off of locally-listed shares and property stocks in the fourth quarter, and a sharp fall in foreign share prices. This was partially offset by positive returns from the income-producing assets of the underlying portfolios. The sell-off, coupled with subdued returns over the last few years, has presented opportunities for the underlying managers of the Portfolio to buy undervalued assets and position their portfolios for potential future returns.

Noticeably, not all of the managers are following the same strategy in navigating the current investment environment. Allan Gray Balanced, for example, currently favours local equities, having increased its exposure to 50%, while Investec Opportunity kept its 30% exposure to local shares, preferring to allocate capital to local bonds (24%) while maintaining the maximum of 30% allowed in offshore shares. This is expected when diversifying across multiple managers and it is these divergent views which typically reduce the Portfolio's volatility.

On a money-weighted basis, four of the top five of the locally listed companies that the Portfolio is exposed to are hedged against the rand either because

- 1) Profits are being generated predominantly outside of South Africa, or
- 2) The companies are commodity companies which are priced in US dollars.

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**.