Allan Gray Stable Portfolio

31 March 2021

Portfolio description and summary of investment policy

The Portfolio invests in a mix of shares, bonds, property, commodities and cash. The Portfolio can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. The Portfolio typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investments, our offshore investment partner. The maximum net equity exposure of the Portfolio is 40%. The Portfolio's net equity exposure may be reduced from time to time using exchange-traded derivative contracts on stock market indices. The Portfolio is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only portfolio or a balanced portfolio. The Portfolio is a pooled portfolio offered by Allan Gray Life and is only available to members of 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

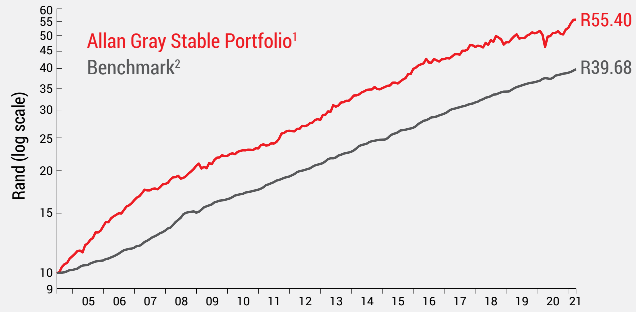
A major portion of the Portfolio is typically invested in money market instruments. We seek to deploy the Portfolio's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares, we may allocate a low weight to shares or partially hedge the Portfolio's stock market exposure in consideration of the Portfolio's capital preservation objectives. The Portfolio may also invest in bonds, property and commodities. The Portfolio's bond and money market investments are actively managed.

Portfolio history

The Portfolio is managed in the same way as the Allan Gray Life Global Stable Portfolio. When assessing the Portfolio's performance and risk measures over time, for periods before its inception (16 August 2017), the returns of the Allan Gray Life Global Stable Portfolio can be used. The combined history reflects the performance and risk of the strategy over the long term.

Performance net of all fees and expenses

Value of R10 invested at alignment



% Returns	Portfolio[1]	Benchmark[2]	CPI inflation
Cumulative:			
Since alignment (1 August 2004)	454.0	296.8	140.9
Annualised:			
Since alignment (1 August 2004)	10.8	8.6	5.4
Latest 10 years	8.9	8.1	5.1
Latest 5 years	6.2	7.5	4.4
Latest 3 years	6.5	7.0	3.9
Latest 2 years	5.8	6.7	3.7
Latest 1 year	20.3	6.2	2.9
Year-to-date (not annualised)	5.7	2.4	1.2
Risk measures (since alignment)			
Maximum drawdown[3]	-10.3	-0.9	n/a
Percentage positive months[4]	73.6	98.0	n/a
Annualised monthly volatility[5]	5.5	1.5	n/a
Highest annual return[6]	27.5	17.1	n/a
Lowest annual return[6]	-6.9	5.0	n/a

1. The returns prior to 16 August 2017 are those of the Allan Gray Life Global Stable Portfolio since its alignment on 1 August 2004. The returns are shown net of the fees that would have been incurred had the current fee applied since alignment.
2. The Portfolio's benchmark is the Consumer Price Index plus 3%, performance as calculated by Allan Gray as at 31 March 2021.
3. Maximum percentage decline over any period. The maximum drawdown occurred from January 2020 to March 2020. Drawdown is calculated on the total return of the Portfolio (i.e. including income).
4. The percentage of calendar months in which the Portfolio produced a positive monthly return since alignment.
5. The standard deviation of the Portfolio's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since alignment. This is a measure of how much the Portfolio and the benchmark returns have varied per rolling 12-month period. The Portfolio's highest annual return occurred during the 12 months ended 30 April 2006 and the benchmark's occurred during the 12 months ended 31 August 2008. The Portfolio's lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark's occurred during the 12 months ended 31 May 2020.

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

Annual management fee

Allan Gray charges a fixed fee of 0.70% p.a. on the Portfolio assets excluding the portion invested in the range of Orbis funds. This fee is presently exempt from VAT.

A portion of the Portfolio may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark. Orbis pays a marketing and distribution fee to Allan Gray.

Total expense ratio (TER) and transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Portfolio over a one-year and three-year period (annualised). Since Portfolio returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns. Transaction costs are disclosed separately.

Top 10 share holdings on 31 March 2021 (SA and Foreign) (updated quarterly)[8]

Company	% of portfolio
British American Tobacco	3.6
Naspers	3.6
Glencore	2.7
Sibanye Stillwater	1.5
Woolworths	1.3
Taiwan Semiconductor Mfg.	1.2
Standard Bank	1.2
Nedbank	1.1
MultiChoice	1.0
SPDR Gold Trust	1.0
Total (%)	**18.3**

Asset allocation on 31 March 2021[8]

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	34.9	21.9	2.0	11.1
Hedged equity	17.7	6.3	0.0	11.4
Property	2.4	2.3	0.0	0.1
Commodity-linked	3.9	2.9	0.0	1.0
Bonds	34.3	26.6	2.9	4.8
Money market and bank deposits	6.7	3.5	0.7	2.5
Total (%)	**100.0**	**63.6**	**5.6**	**30.9**[9]

8. Underlying holdings of Orbis funds are included on a look-through basis.

9. The Portfolio can invest a maximum of 30% offshore. with an additional 10% allowed for investments in Africa outside of South Africa. Market movements periodically cause the Portfolio to move beyond these limits. This must be corrected within 12 months.

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

Since inception, the Portfolio's month-end net equity exposure has varied as follows:

Minimum	(October 2020) 28.5%
Average	35.7%
Maximum	(December 2018) 40.1%

Total expense ratio (TER) and Transaction costs

TER and Transaction costs breakdown for the 1- and 3-year period ending 31 March 2021	1yr %	3yr %
Total expense ratio[10]	**0.75**	**0.74**
Fee for benchmark performance	0.71	0.70
Performance fees	0.00	0.00
Other costs excluding transaction costs	0.04	0.04
Transaction costs (including VAT)[11]	**0.06**	**0.07**
Total investment charge	**0.81**	**0.81**

10. 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.

11. 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.

Portfolio manager quarterly commentary as at 31 March 2021

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.

Commentary contributed by Sean Munsie

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FTSE/JSE All Bond Index

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