

### 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 45% offshore. 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

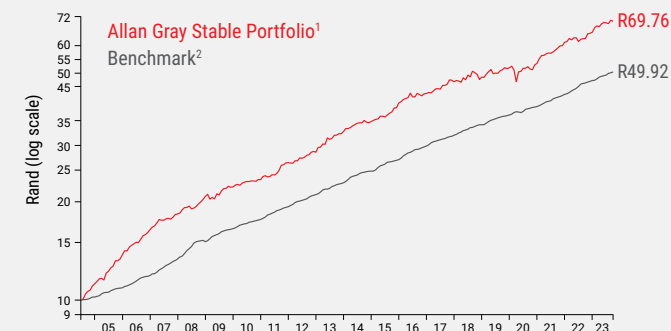
A major portion of the Portfolio is typically invested in money market instruments. We seek to deploy the Portfolio's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term 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



- 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.
- The Portfolio's benchmark is the Consumer Price Index plus 3%, performance as calculated by Allan Gray as at 31 October 2023.
- This is based on the latest numbers published by IRESS as at 30 September 2023.
- 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).
- The percentage of calendar months in which the Portfolio produced a positive monthly return since alignment.
- 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.
- 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.

% Returns	Portfolio <sup>1</sup>	Benchmark <sup>2</sup>	CPI inflation <sup>3</sup>
<b>Cumulative:</b>			
Since alignment (1 August 2004)	597.6	399.2	182.3
<b>Annualised:</b>			
Since alignment (1 August 2004)	10.6	8.7	5.6
Latest 10 years	8.1	8.3	5.1
Latest 5 years	7.6	8.0	5.0
Latest 3 years	11.7	9.1	6.0
Latest 2 years	8.5	9.6	6.4
Latest 1 year	8.3	8.6	5.4
Year-to-date (not annualised)	7.1	7.4	4.7
<b>Risk measures (since alignment)</b>			
Maximum drawdown <sup>4</sup>	-10.3	-0.9	n/a
Percentage positive months <sup>5</sup>	73.7	98.3	n/a
Annualised monthly volatility <sup>6</sup>	5.4	1.5	n/a
Highest annual return <sup>7</sup>	27.5	17.1	n/a
Lowest annual return <sup>7</sup>	-6.9	5.0	n/a

### 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 30 September 2023 (SA and Foreign) (updated quarterly)<sup>8</sup>

Company	% of portfolio
British American Tobacco	2.7
AB InBev	1.9
Woolworths	1.4
Glencore	1.4
Nedbank	1.3
Standard Bank	1.3
Remgro	1.2
Marriott International	1.0
Sasol	0.9
Sappi	0.8
<b>Total (%)</b>	<b>13.9</b>

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

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

Minimum	(September 2023) 23.7%
Average	34.0%
Maximum	(December 2018) 40.1%

### Asset allocation on 31 October 2023<sup>9</sup>

Asset class	Total	South Africa	Foreign <sup>9</sup>
Net equities	24.6	13.9	10.7
Hedged equities	21.3	8.6	12.6
Property	1.1	0.9	0.3
Commodity-linked	2.3	1.8	0.6
Bonds	32.1	24.1	8.0
Money market and bank deposits <sup>10</sup>	18.6	15.0	3.6
<b>Total (%)</b>	<b>100.0</b>	<b>64.3</b>	<b>35.7<sup>11</sup></b>

9. Includes Africa ex-SA exposure following the consolidation of the foreign ex-Africa and Africa ex-SA allowances into a single foreign limit of 45%.

10. Including currency hedges.

11. The Portfolio can invest a maximum of 45% offshore. Market movements may 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.

### Total expense ratio (TER) and transaction costs (updated quarterly)

TER and transaction costs breakdown for the 1- and 3-year period ending 30 September 2023	1yr %	3yr %
<b>Total expense ratio<sup>12</sup></b>	<b>0.97</b>	<b>0.81</b>
Fee for benchmark performance	0.73	0.72
Performance fees	0.21	0.06
Other costs excluding transaction costs	0.03	0.03
<b>Transaction costs (including VAT)<sup>13</sup></b>	<b>0.04</b>	<b>0.05</b>
<b>Total investment charge</b>	<b>1.01</b>	<b>0.86</b>

12. 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.

13. 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.

Returns from most South African assets have been muted throughout 2023. Year to date, South African shares (as measured by the FTSE/JSE Capped Shareholder Weighted All Share Index) returned 0%, bonds returned 1% and cash returned 6%. Over the same period, the Portfolio delivered a return of 8%, ahead of its benchmark's<sup>1</sup> return of 6%. Performance was helped by its conservative local fixed income positioning and the foreign allocation, which benefited from a weaker rand.

Long-term South African government bonds currently offer yields in excess of 12%, which look very attractive at face value: Domestic inflation has fallen below 5%, so they offer a real (i.e. after inflation) yield of 7%. This is close to the highest it has been in the last two decades. It is likely that the South African Reserve Bank has reached the peak of the current interest rate hiking cycle or is close to reaching it. If inflation remains subdued, there is a good chance that interest rates will be cut next year, which would be good news for bondholders. We do believe South African government bonds offer decent value and have increased their weighting in the Portfolio in recent years. But despite these bullish arguments, South African bonds make up just 23% of the Portfolio. This includes the exposure to South African government bonds as well as corporates, with a conservative exposure to duration and credit risk. The South African government continues to run a large fiscal deficit, which the South African savings pool has a limited ability to fund. As long as foreign investors remain apprehensive of South African bonds, there is a risk that local bond yields increase even more, i.e. a decline in prices.

It is useful to reiterate the Portfolio's objectives, namely, to generate returns ahead of bank deposits and inflation while maintaining a high degree of capital stability and minimising the risk of loss over any two-year period. Long-term South African bonds may offer high yields but clearly come with risks and can be fairly volatile. Meanwhile, local cash is a good alternative, offering attractive yields in excess of 9% at much lower risk. Cash also has valuable optionality, as it can be used to take advantage of future opportunities that may arise.

A similar argument can be made for inflation-linked bonds: It makes sense to sacrifice some yield for the insurance against potential high-inflation scenarios. We also prefer domestic shares over South African bonds, given the low valuations of shares. Shares also protect investors against the risk of inflation, as companies can typically pass higher prices on to their customers to some degree. The higher volatility of shares does of course need to be considered. At present, the Portfolio has a net equity weight of 24%.

The Portfolio has a foreign exposure of 35% – below the 45% foreign capacity limit. One reason for not utilising the full foreign capacity is that local opportunities are more attractive at present. It is also worth remembering that a significant portion of "local" shares are in fact businesses with earnings outside of South Africa, so the underlying foreign exposure is higher than it appears. We also need to be mindful of additional volatility as a result of increasing the foreign exposure, given the Portfolio's objective of offering investment stability and capital preservation in rand terms. Currently, the majority of the Portfolio's offshore allocation is invested in low-risk instruments such as cash or cash-like securities and hedged equities.

Our approach remains focused on bottom-up company research to find superior investment opportunities. This includes identifying investments which offer the highest expected returns but also weighs up the associated risks and the diversification benefits of uncorrelated returns. All these factors are considered in putting together the portfolio.

During the quarter, the Portfolio added to positions in AB InBev, MultiChoice and Premier and trimmed exposure to the NewGold ETF, Standard Bank and Sasol.

**Adapted from a commentary contributed by Tim Acker**

**Portfolio manager  
quarterly commentary  
as at 30 September 2023**

1. Consumer Price Index plus 3% per annum

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Past performance is not indicative of future performance.

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