

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

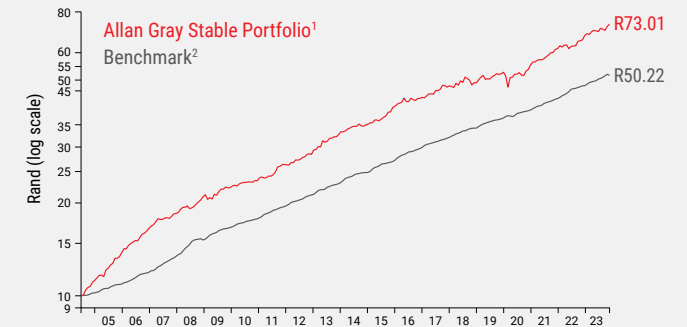
A major portion of the Portfolio is typically invested in money market instruments. We seek to deploy the Portfolio's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term 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 December 2023.
- This is based on the latest numbers published by IRESS as at 30 November 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 ¹	Benchmark ²	CPI inflation ³
Cumulative:			
Since alignment (1 August 2004)	630.1	402.2	184.6
Annualised:			
Since alignment (1 August 2004)	10.8	8.6	5.5
Latest 10 years	8.4	8.3	5.2
Latest 5 years	8.9	8.0	5.0
Latest 3 years	11.7	9.0	6.1
Latest 2 years	9.7	9.1	6.5
Latest 1 year	12.1	8.0	5.5
Year-to-date (not annualised)	12.1	8.0	5.5
Risk measures (since alignment)			
Maximum drawdown ⁴	-10.3	-0.9	n/a
Percentage positive months ⁵	73.9	98.3	n/a
Annualised monthly volatility ⁶	5.4	1.5	n/a
Highest annual return ⁷	27.5	17.1	n/a
Lowest annual return ⁷	-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 31 December 2023 (SA and Foreign) (updated quarterly)⁸

Company	% of portfolio
British American Tobacco	2.5
AB InBev	2.3
Woolworths	1.3
Nedbank	1.3
Standard Bank	1.3
Remgro	1.2
Marriott International	1.1
Glencore	1.1
Gold Fields	0.9
MultiChoice	0.9
Total (%)	14.0

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	33.6%
Maximum	(December 2018) 40.1%

Asset allocation on 31 December 2023⁸

Asset class	Total	South Africa	Foreign
Net equities	25.1	13.6	11.5
Hedged equities	22.2	9.2	13.0
Property	1.1	0.9	0.2
Commodity-linked	2.3	1.8	0.5
Bonds	32.3	23.9	8.3
Money market and bank deposits ⁹	17.0	14.4	2.7
Total (%)	100.0	63.7	36.3¹⁰

9. Including currency hedges.

10. 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 31 December 2023	1yr %	3yr %
Total expense ratio¹¹	0.72	0.80
Fee for benchmark performance	0.73	0.72
Performance fees	-0.04	0.05
Other costs excluding transaction costs	0.03	0.03
Transaction costs (including VAT)¹²	0.04	0.05
Total investment charge	0.76	0.85

11. 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.

12. 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.

The Portfolio aims to deliver real absolute returns at low risk of capital loss through the cycle. The prospective returns available at any point in time in the cycle are to a large degree dependent on starting valuations. Given the Portfolio's significant exposure to fixed income instruments, the real returns offered by cash and low-duration bonds are an important determinant in delivering on its objective. The additional exposure to equities, capped at a maximum of 40% of the Portfolio, provides the opportunity to increase the overall return above that offered by fixed income.

Theoretically, the Portfolio's outlook is positive when real short-term interest rates are high, combined with cheap equities, and vice versa. In the second scenario, where we want to avoid overvalued equities by holding more cash, it is difficult to achieve the benchmark until equities are attractive enough to be upweighted. The Portfolio can invest up to 45% of its assets offshore. While we are unlikely to be at or close to this maximum, outside of extremes, the offshore exposure adds diversification. In our view, this offsets the potential increase in the short-term volatility of rand returns and protects against the risk of a substantially weaker currency.

Local fixed income is offering attractive real yields. We can construct a fixed income allocation for the Portfolio that not only has an attractive yield but also a low modified duration, which is a measure of risk to changes in interest rates. The Portfolio's local fixed income has a yield of 8.8% with a modified duration of 2.3. We have invested almost a third of our money market exposure into five-year fixed deposits yielding 10%. Offshore fixed income is attractive with hard currency US dollar short-term rates paying 5% and higher. This includes floating-rate debt in high-quality US financial institutions. While we might be close to the peak of the

rate cycle, with the result that some of the high yields roll off over time, the yields remain attractive. We think there is a reasonable chance that rates stay higher than the market is currently discounting.

The Portfolio's net equity weighting of 25% is below the maximum of 40%. This reflects our efforts to balance the attractiveness of low-duration fixed income and the risks we see in equity markets. Many South African equities remain attractively valued, and this is similar globally – outside of the mega-cap US shares. One way to take advantage of this is to own the equities we think are attractive and then hedge out the overall equity market risk by selling index futures. When considering equities for the Portfolio, we think about how they would react in scenarios that may be negative for local fixed income. Gold mining shares such as Gold Fields, AngloGold and Barrick, are examples. In addition, we own high-quality global businesses, such as AB InBev and Marriott International.

While high real short-term rates offer an attractive opportunity locally, they are also a tough benchmark to outperform while simultaneously limiting risk of capital loss. We think carefully about constructing the Portfolio and believe the current combination of assets increases the probability that the Portfolio will achieve and hopefully outperform its benchmark over the medium term.

Over the quarter, the Portfolio purchased shorter duration treasury bills and AB InBev and reduced its weightings in shorter-dated bank paper and Glencore.

Adapted from a commentary contributed by Duncan Artus

**Portfolio manager
quarterly commentary
as at 31 December 2023**

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The underlying investment options of the Allan Gray Umbrella Retirement Fund are portfolios of collective investment schemes in securities (unit trusts or funds) and life-pooled investments. The Allan Gray Stable 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 Ltd, a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017. Allan Gray (Pty) Ltd is Allan Gray Life Ltd's appointed investment manager.

Past performance is not indicative of future performance.

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