

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

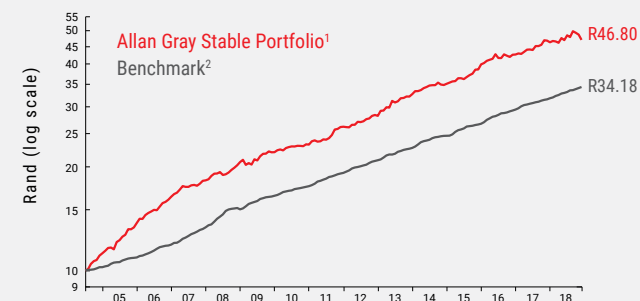
A major portion of the Portfolio is typically invested in money market instruments. We seek to deploy the Portfolio's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term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



- 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 30 November 2018.
- Maximum percentage decline over any period. The maximum drawdown occurred from August 2018 to November 2018. 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 August 2008. The Portfolio's lowest annual return occurred during the 12 months ended November 2018 and the benchmark's occurred during the 12 months ended June 2005.

% Returns	Portfolio ¹	Benchmark ²	CPI inflation
Cumulative:			
Since alignment (1 August 2004)	368.0	241.8	122.4
Annualised:			
Since alignment (1 August 2004)	11.3	8.9	5.7
Latest 10 years	8.8	8.5	5.2
Latest 5 years	7.9	8.6	5.4
Latest 3 years	6.8	8.7	5.4
Latest 2 years	5.1	8.2	5.0
Latest 1 year	0.5	8.6	5.1
Year-to-date (not annualised)	1.6	7.8	5.0
Risk measures (since alignment)			
Maximum drawdown ³	-5.6	n/a	n/a
Percentage positive months ⁴	74.0	98.8	n/a
Annualised monthly volatility ⁵	4.8	1.5	n/a
Highest annual return ⁶	27.5	17.1	n/a
Lowest annual return ⁶	0.5	5.6	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 TER is a measure of the actual expenses incurred by the Portfolio over a one-year and three-year period (annualised). The TER and transaction costs cannot currently be determined accurately because of the short history of the Portfolio.

Disclaimer

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 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.

Top 10 share holdings on 30 September 2018 (SA and Foreign) (updated quarterly)⁷

Company	% of portfolio
Naspers	2.8
Sasol	2.4
Glencore	2.1
British American Tobacco	1.6
Old Mutual	1.5
Investec	1.3
Rengro	1.2
Standard Bank	1.2
Woolworths	0.9
Fortress Income Fund	0.9
Total (%)	16.1

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	(March 2018) 33.6%
Average	37.3%
Maximum	(September 2018) 40.0%

Asset allocation on 30 November 2018⁷

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equity	38.8	26.7	1.0	11.1
Hedged equity	6.9	-	0.0	6.9
Property	4.7	4.3	0.0	0.4
Commodity-linked	2.1	1.3	0.0	0.8
Bonds	28.0	18.9	3.7	5.4
Money market and bank deposits	19.4	16.0	1.4	2.0
Total (%)	100.0	67.3	6.1	26.6⁸

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

8. 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.

Over recent time periods, the Portfolio has delivered returns in line with its dual objectives of capital stability and outperforming bank deposits. On a relative basis, it has outperformed higher-risk asset classes such as bonds and equities. This relative outperformance is unusual given the lower-risk nature of the Portfolio, and we do not expect it to hold true over long time periods.

The selection of shares within the Portfolio has materially outperformed the FTSE/JSE All Share Index, largely due to the shares that it has avoided. The Portfolio had little or no exposure to shares which have experienced material price declines, such as Steinhoff, MTN, Aspen and Resilient.

Avoiding such shares has partly been due to luck. Mistakes are inevitable in investing and there are sure to be future commentaries where we apologise to clients for disappointing investments.

However, avoiding such shares is also partly due to our investment process based on bottom-up, fundamental research. A common characteristic of many companies that the Portfolio has not invested in, is a lack of cashflow. Some of these companies have overly complex financial accounting that makes it difficult to determine the true cashflow, while others trade at prices that we believe are not justified by their cashflow.

Instead, the Portfolio favours investing in companies that are priced at reasonable multiples of sustainable cashflow. This ranges from companies with stable cashflow generation (such as British American Tobacco) to fast-growing companies that are able to reinvest their cashflow at high returns (such as Chinese technology company Tencent, the main contributor to Naspers' valuation). Our focus on cashflow does not guarantee success, but it significantly improves the odds of the Portfolio meeting its objectives.

Fund manager quarterly commentary as at 30 September 2018

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**.