ALLAN GRAY

Allan Gray Life Stable Medical Scheme Portfolio

31 August 2019

Inception date: 19 April 2004

Portfolio objective and benchmark

This Portfolio is specifically for Medical Schemes. It aims to offer superior returns to money market investments with limited capital volatility whilst striving for capital preservation over any two-year period. In terms of Allan Gray's risk-profiled range, this portfolio has less risk of capital loss than the Balanced Portfolio. The Portfolio is managed to comply with the limits of Annexure B to Regulation 30 of the Medical Schemes Act, 1998. The benchmark is the Alexander Forbes 3-month Deposit Index plus 2% or CPI plus 3%.

Product profile

- Conservatively managed pooled portfolio.
- Investments selected from all asset classes as permitted by Regulation 30.
- We attempt to limit the risk of capital loss by holding shares with limited downside or attractive dividend yields and/or hedging stock market exposure.
- Modified duration of the fixed interest component will be conservative.

Investment specifics

- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to medical schemes.
- Minimum investment: R20m.
- Performance based fee/Fixed fee.

Fund manager quarterly commentary as at 30 June 2019

Sam Hinkie, a long-time advocate of using analytics to improve the performance of American sports teams, was recently asked what he believed was the best source of asymmetric outcomes. His answer was, patience, or the ability to prioritise the long term over the short term.

Patience is a central part of Allan Gray's investment philosophy. We invest in companies that maximise long-term shareholder value and are run by management with a similar philosophy. We buy these companies when negative short-term issues push market prices below fundamental value. The patience to focus on the long term is a key source of outperformance for ourselves, as investment managers, our clients, as investors, and management, as company leaders.

An unfortunate consequence of patience is that we may be wrong in the short term. This happened recently, with the prices of many of the Portfolio's holdings falling over the last year. In some cases, we had made mistakes and have adjusted our view. In other cases, we believe the value of the businesses remains materially higher than market price, and that patient investors are being offered increasingly attractive long-term rewards. We have held or added to these positions.

Glencore is a relevant example. Many mining companies are experiencing positive tailwinds, with BHP Group, Anglo American and the gold and platinum miners among the best-performing local shares over the last year. In contrast, Glencore's share price has fallen by 25%. The Portfolio is overweight Glencore and underweight the other miners, the combination of which has been a significant detractor to short-term performance.

There is a lot to like about Glencore. Management are long-term shareholders in the business and act accordingly. A large portion of its profits comes from a marketing business that earns a high return on capital and converts most of this into cash flow. Glencore focuses on commodities that are less exposed to the Chinese credit boom, suggesting its earnings are more sustainable than those of similar companies. It operates in geographies that many view as too hard, which should allow it to earn above-average returns.

Glencore's strategy prioritises long-term value but comes with risks – some of which are dominating current headlines. The most concerning of these are regulatory investigations into Glencore's business practices in Africa, and the company's reliance on coal, an environmentally sensitive commodity. The recent prominence of these risks caused us to interrogate our investment assumptions and consider alternative perspectives that may identify possible mistakes. We concluded that Glencore's long-term value remains significantly higher than the share price. We expect management actions and cash flow generated by the business to close the gap between price and value, but this takes time. While it is painful to wait, opportunities such as these maximise returns for patient investors.

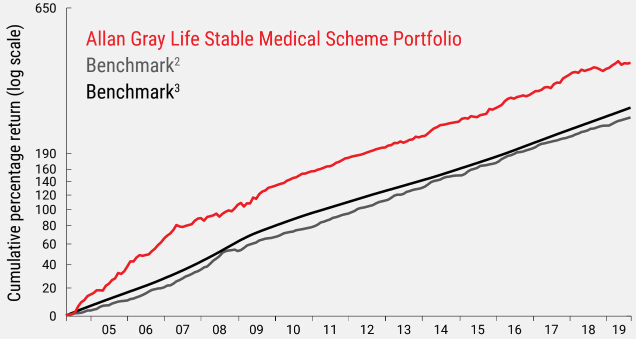
Over the quarter, fixed income duration was increased marginally at attractive yields. Gains were realised on US dollar-denominated African bonds that were bought when pricing in excessive pessimism and sold after benefiting from global yield compression.

Portfolio information on 31 August 2019

Assets under management	R2 518m

Performance gross of fees

Cumulative performance since inception[4]



% Returns[1]	Portfolio	Benchmark[2]	Benchmark[3]
Since inception[4]	11.3	8.8	9.2
Latest 10 years	8.8	8.3	8.3
Latest 5 years	8.3	8.1	8.9
Latest 3 years	7.5	7.8	9.2
Latest 2 years	6.7	7.8	9.1
Latest 1 year	3.0	7.5	9.1
Latest 3 months	1.3	1.8	2.2

Asset allocation on 31 August 2019

Asset Class	Total	SA	Africa ex-SA	Foreign ex-Africa
Net equity	28.1	28.1	0.0	0.0
Hedged equity	0.3	0.3	0.0	0.0
Property	4.9	4.9	0.0	0.0
Commodity-linked	2.1	2.1	0.0	0.0
Bonds	26.5	23.0	1.5	2.0
Money market and bank deposits	38.1	31.1	0.0	7.0
Total (%)	**100.0**	**89.5**	**1.5**	**9.0**

1. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 August 2019.
2. CPI plus 3% p.a. The return for August 2019 is an estimate.
3. Alexander Forbes 3-month Deposit Index plus 2% p.a.
4. Since alignment date (1 May 2004).

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

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