Fund managers: Duncan Artus, Jacques Plaut, Rory Kutisker-Jacobson, Tim Acker
(Most foreign assets are invested in Orbis funds) **Inception date:** 5 April 2017

Allan Gray Balanced Portfolio

31 May 2022

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 75%. 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. 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 create long-term wealth for investors within the constraints governing retirement funds. It aims to outperform the benchmark without assuming any more risk. The Portfolio's benchmark is a composite benchmark that comprises indices that reflect the Portfolio's mandate.

How we aim to achieve the Portfolio's objective

We seek to buy shares at a 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 increase the Portfolio's weighting to alternative assets such as bonds, property, commodities and cash, or we may partially hedge the Portfolio's stock market exposure. By varying the Portfolio's exposure to these different asset classes over time, we seek to enhance the Portfolio's long-term returns and to manage its risk. The Portfolio's bond and money market investments are actively managed.

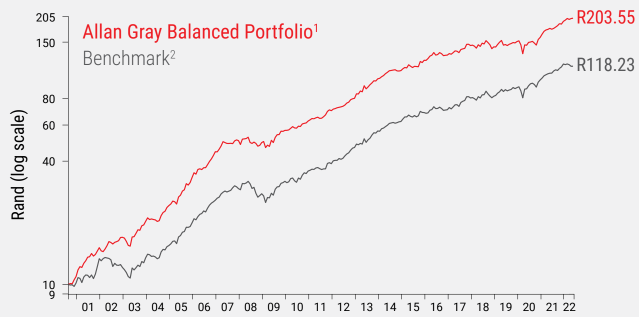
Portfolio history

The Portfolio is managed in the same way as the Allan Gray Life Global Balanced (RRF) Portfolio. When assessing the Portfolio's performance and risk measures over time, including for periods before its inception (5 April 2017), the returns of the Allan Gray Life Global Balanced (RRF) Portfolio and the Allan Gray Life Global Balanced Portfolio can be used. When this data is combined, investors can get a view of the performance and risk measures of the strategy over the long term.

*The blended returns are calculated by Allan Gray Proprietary Limited using end of day index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking or otherwise utilizing any MSCI Data, models, analytics or other materials or information.

Performance net of all fees and expenses

Value of R10 invested at alignment



% Returns	Portfolio[1]	Benchmark[2]	CPI inflation[3]
Cumulative:			
Since alignment (1 September 2000)	1935.5	1082.3	216.0
Annualised:			
Since alignment (1 September 2000)	14.9	12.0	5.5
Latest 10 years	10.6	11.1	5.0
Latest 5 years	7.8	9.1	4.4
Latest 3 years	10.7	10.0	4.4
Latest 2 years	16.5	13.6	5.2
Latest 1 year	12.2	8.3	5.9
Year-to-date (not annualised)	3.7	-2.4	3.0
Risk measures (since alignment)			
Maximum drawdown[4]	-23.5	-24.8	n/a
Percentage positive months[5]	69.0	65.5	n/a
Annualised monthly volatility[6]	9.3	9.9	n/a
Highest annual return[7]	49.0	39.3	n/a
Lowest annual return[7]	-12.2	-20.3	n/a

1. The returns prior to 5 April 2017 are those of the Allan Gray Life Global Balanced (RRF) Portfolio since its inception on 1 August 2015. The returns prior to 1 August 2015 are those of the Allan Gray Life Global Balanced Portfolio since its alignment on 1 September 2000. The returns shown are net of the fees that would have been incurred had the current fee been applied since alignment.
2. 47% FTSE/JSE Capped Shareholder Weighted All Share Index including income, 14% FTSE/JSE All Bond Index, 9% 3-month STeFI, 18% MSCI All Country World Index including income and 12% J.P. Morgan GBI Global Index. From inception to 30 June 2018 the benchmark was 50% FTSE/JSE All Share Index, 15% FTSE/JSE All Bond Index, 10% Alexander Forbes 3-month Deposit Index, 15% MSCI All Country World Index and 10% J.P. Morgan GBI Global Index. Source: IRESS, Bloomberg, performance as calculated by Allan Gray as at 31 May 2022.*
3. This is based on the latest numbers published by IRESS as at 30 April 2022.
4. Maximum percentage decline over any period. The maximum drawdown occurred from 17 January 2020 to 23 March 2020 and maximum benchmark drawdown occured from 19 May 2008 to 20 November 2008. Drawdown is calculated on the total return of the Portfolio/benchmark (i.e. including income).
5. The percentage of calendar months in which the Portfolio produced a positive monthly return since inception.
6. 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.
7. 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 30 April 2006. 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 30 April 2003. All rolling 12-month figures for the Portfolio and the benchmark are available from our Client Service Centre on request.

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Suitable for those investors who

- Seek steady long-term capital growth
- Are comfortable with taking on some risk of market fluctuation and potential capital loss but typically less than that of an equity fund
- Wish to invest in a portfolio that complies with retirement fund investment limits
- Typically have an investment horizon of at least three years

Annual management fee

Allan Gray charges a fee based on the net asset value of the Portfolio excluding the portion invested in Orbis funds. The fee rate is calculated daily by comparing the Portfolio's total performance for the day, to that of the benchmark. This fee is presently exempt from VAT.

Fee for performance equal to the Portfolio's benchmark: 0.50% p.a.

For each percentage of daily performance above or below the benchmark we add or deduct 0.2%, subject to the following limits:

Maximum fee: 2.00% p.a. excl. VAT
Minimum fee: 0.50% p.a. excl. VAT

To the extent that the fee calculated exceeds the maximum fee or falls short of the minimum fee, the monetary excess or shortfall will be carried forward to the next day. Any excess or shortfall carried forward from previous day(s) will be added or subtracted to determine the fee payable.

A portion of the Portfolio may be invested in Orbis funds which are levied performance-based fees by Orbis. 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 2022 (SA and Foreign) (updated quarterly)[9]

Company	% of portfolio
British American Tobacco	6.5
Glencore	5.5
Naspers[8]	4.2
Nedbank	2.8
Woolworths	2.7
Sasol	2.6
Remgro	2.4
Sibanye-Stillwater	2.2
AB InBev	2.1
Standard Bank	1.8
Total (%)	**32.9**

8. Includes holding in Prosus N.V., if applicable.

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

Minimum	(February 2020) 59.8%
Average	63.7%
Maximum	(July 2021) 67.9%

Asset allocation on 31 May 2022[9]

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equities	66.6	51.6	1.7	13.3
Hedged equities	13.8	3.5	0.0	10.3
Property	1.0	0.9	0.0	0.0
Commodity-linked	2.3	2.3	0.0	0.0
Bonds	11.0	8.9	1.2	0.9
Money market and bank deposits	5.3	2.4	0.1	2.8
Total (%)	**100.0**	**69.7**	**3.0**	**27.4**[10]

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

10. The Portfolio can invest a maximum of 45% offshore. 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.

Total expense ratio (TER) and transaction costs

TER and transaction costs breakdown for the 1- and 3-year period ending 31 March 2022	1yr %	3yr %
Total expense ratio[11]	**0.55**	**0.57**
Fee for benchmark performance	0.52	0.53
Performance fees	0.00	0.00
Other costs excluding transaction costs	0.03	0.04
Transaction costs (including VAT)[12]	**0.07**	**0.09**
Total investment charge	**0.62**	**0.66**

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.

Portfolio manager quarterly commentary as at 31 March 2022

For the quarter, the Portfolio returned 2.3%. This is relatively muted in absolute terms but better than the benchmark, which delivered negative 0.8%[1] for the quarter. Notably, the foreign portion of the Portfolio returned negative 5.6% in rands, compared with a 60/40 benchmark return of negative 13.4%.

We have previously spoken about our significant underweight in US equities and our preference for depressed European, UK and emerging market equities in the offshore component. We have also had no exposure to developed world, long-dated sovereign bonds, believing investors were taking on return-free risk by buying at generationally low interest rates. From early 2018 until the end of 2021, this positioning caused significant underperformance in the offshore component of our Portfolio, as US equities continued to outperform and yields on long-dated government bonds continued to compress, inflating bond prices.

However, with high commodity prices, inflation consistently above 5% in the US since June 2021 (7.9% as at the end of February 2022) and an overheating US economy, these trends have begun to reverse in 2022. In March, the Federal Reserve approved its first interest rate increase in more than three years and signalled its intention to keep hiking rates throughout 2022 and possibly into 2023. Year to date, the yield on 10-year government bonds in the US has increased from 1.5% to 2.3%, causing those same bonds to generate a negative return of 7.2% in US dollars. Higher interest rates have also meant higher discount rates, with a number of highly priced companies falling significantly and the S&P 500 down 4.6% in US dollars, year to date.

At this stage, we do not know whether global inflation will prove to be transitory or more persistent in nature. We do know that developed market government debt is at record levels and that the real yield on long-dated government bonds continues to be negative in many countries. We also know that the average earnings multiple one is paying for US equities remains high relative to history. As a result, we are of the view that we are at the early stages of this trend reversal and continue to see substantial upside in our offshore investments relative to overall global asset prices.

In contrast to global bond markets, the 10-year government bond in South Africa is providing real returns, with a benchmark rate now in the ballpark of 10% (real rate above 4%). The risks in South Africa are well known, but one is arguably being compensated for these higher risks at today's prices.

Following the Budget speech, the offshore investment limits for portfolios that comply with Regulation 28 of the Pension Funds Act, were increased to 45%. We continue to see significant value in our preferred JSE-listed equities, a number of which are global companies that happen to be listed in South Africa, and have not immediately reweighted our asset allocation positions as a result.

One such example is Glencore. Glencore produces and sells over 120 million tonnes of coal each year. Coal is arguably the dirtiest of fossil fuels, and we need to make a global effort to materially reduce our reliance on it over the next 30 to 40 years if we are to achieve our ambition of keeping climate change to a minimum. Glencore is not blind to this reality and has committed to responsibly winding down their mines over time and reinvesting the proceeds in more sustainable and greener metals. However, as it currently stands, many countries – emerging markets in particular – are reliant on coal for their primary energy needs. South Africa is no exception, with approximately 85% of our electricity continuing to be generated from coal.

Over the past few years, there has been huge pressure on companies to close and reduce investment into fossil fuel operations, coal in particular. In theory, this should drive a positive outcome from a climate change perspective.

Unfortunately, as a global society, we have been poor in terms of the speed and scale at which we have made greener alternatives a viable reality. As consumers are reluctant to reduce their overall energy needs, demand has remained sticky. With demand remaining elevated and supply under pressure, the coal price has rallied materially over the past 18 months. This has been exacerbated in the short term by COVID-19 supply disruptions and the events unfolding in Ukraine, with the related sanctions on Russian oil and gas.

It is important to note that a high coal price is favourable for Glencore's income statement in the short term, but it is also useful in the war against carbon emissions. That is because high prices reduce consumer demand and increase the incentive to produce and bring alternatives to market. There is a reasonable chance that the high prices we are seeing in fossil fuels today will ultimately accelerate their replacement by greener alternatives.

As a result, when valuing Glencore, we do not bake today's high coal prices into our valuation, and we place the coal business on a below-average multiple. However, what we believe the market fails to appreciate is just how important Glencore is to the energy transition. Glencore is one of the world's largest producers of zinc, cobalt, nickel and copper. The world will need to more than double its annual consumption of these four commodities as we scale up investments in electric vehicles, large-scale commercial batteries, wind and solar farms, and greater redundancy in electrical grids. At spot, the Glencore share price is discounting not only materially lower coal prices, but materially lower prices for these other commodities too. We like that risk-reward trade-off.

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J.P. Morgan GBI Global Index

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FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index and FTSE/JSE All Bond Index

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