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

28 February 2023

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

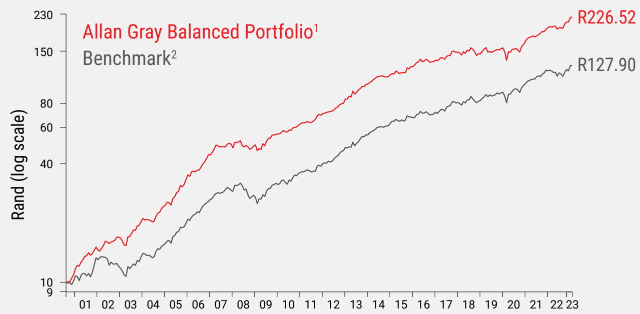
The Portfolio is managed in the same way as the Allan Gray Life Global Balanced (RRF) Portfolio. When assessing the Portfolio's performance and risk measures over time, including for periods before its inception (5 April 2017), the returns of the Allan Gray Life Global Balanced (RRF) Portfolio and the 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.

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. 41% FTSE/JSE Capped Shareholder Weighted All Share Index including income, 10% FTSE/JSE All Bond Index, 9% 3-month STeFI, 24% MSCI All Country World Index including income and 16% J.P. Morgan GBI Global Index. From 01 July 2018 to 31 July 2022 the benchmark was 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 28 February 2023.*
3. This is based on the latest numbers published by IRESS as at 31 January 2023.
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.

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)	2165.2	1179.0	230.6
Annualised:			
Since alignment (1 September 2000)	14.9	12.0	5.5
Latest 10 years	10.1	10.2	5.2
Latest 5 years	8.8	9.3	4.9
Latest 3 years	14.6	12.7	5.2
Latest 2 years	13.6	9.8	6.3
Latest 1 year	11.6	5.5	6.9
Year-to-date (not annualised)	6.0	6.4	0.3
Risk measures (since alignment)			
Maximum drawdown[4]	-23.5	-24.8	n/a
Percentage positive months[5]	68.9	64.8	n/a
Annualised monthly volatility[6]	9.3	10.0	n/a
Highest annual return[7]	49.0	39.3	n/a
Lowest annual return[7]	-12.2	-20.3	n/a

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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 December 2022 (SA and Foreign) (updated quarterly)[9]

Company	% of portfolio
British American Tobacco	6.0
Glencore	4.7
Naspers[8]	4.0
Woolworths	2.9
AB InBev	2.9
Nedbank	2.5
Sasol	2.0
Sibanye-Stillwater	2.0
Mondi Plc	1.8
Remgro	1.7
Total (%)	**30.5**

8. Includes holding in Prosus N.V.

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

Minimum	(February 2020) 59.8%
Average	63.8%
Maximum	(July 2021) 67.9%

Asset allocation on 28 February 2023[9]

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equities	63.8	46.1	1.7	15.9
Hedged equities	16.0	5.0	0.0	10.9
Property	1.0	1.0	0.0	0.0
Commodity-linked	2.5	2.5	0.0	0.0
Bonds	10.0	7.9	1.1	1.0
Money market and bank deposits	6.8	3.5	0.1	3.2
Total (%)	**100.0**	**65.9**	**3.0**	**31.1**[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 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 2022	1yr %	3yr %
Total expense ratio[11]	**1.63**	**0.90**
Fee for benchmark performance	0.53	0.53
Performance fees	1.06	0.33
Other costs excluding transaction costs	0.04	0.04
Transaction costs (including VAT)[12]	**0.08**	**0.09**
Total investment charge	**1.71**	**0.99**

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 December 2022

The Portfolio returned 7.8% for the fourth quarter and 8.8% for the 2022 calendar year. This compares with the benchmark returns of 6.5% for the quarter and – 0.8% for the year. We are pleased with the strong recovery in relative performance and have now meaningfully outperformed the benchmark over one and three years.

It is common for pundits to make economic forecasts as a year draws to a close, for the next 12 months and beyond. At Allan Gray, we shy away from this practice, because we feel there are too many unknowns. We could certainly make some educated guesses but that is what they would ultimately be: guesses. The economy is a complex system, and there are a multitude of interrelated factors that need to be considered.

Even if we did know one or more of these factors with certainty, we are not sure it would help with predicting market outcomes. By way of example, in 2020, when the world was under lockdown in response to the COVID-19 pandemic, the US economy shrank by 3.5% in real terms and the S&P 500 delivered a return of 18.4% in US dollars.

Contrast that with 2022. At the end of the third quarter, the US economy was growing at 3.2% and continued to have a tight labour market with unemployment below 4%. Yet the S&P 500 fell 18.1%.

Historically, across markets, there is very little correlation between economic outcomes and market returns. This is because markets are forward looking, and investor sentiment plays a huge role in driving investment returns, particularly in the short term. It is not enough to know what the economy will do. You also need to know what expectations are already priced in.

How do we get around this uncertainty? We look at the current environment and the prices on offer today. We consider the risks and range of possible outcomes, acknowledging full well that there are risks and outcomes we cannot reasonably foresee. Most importantly, we focus on the price we pay: Is the price we are paying today discounting a favourable or unfavourable future? Are the potential risks on the horizon already priced in, or could a bout of turbulence materially disrupt the investment case for the asset?

A quick glance at some of the risks we are concerned about and how we are positioning the Portfolio highlights our philosophy in practice:

- Inflation: We do not know if high inflation will prove to be persistent or transitory over the coming years. As a result, we are largely avoiding assets where a positive outcome of inflation falling rapidly is already priced in.

  Therefore, we continue to avoid developed market nominal government bonds, many of which still trade at real negative yields despite the sell-off in 2022. Our preference for corporate debt and South African government bonds remains. In South Africa, long-term economic risks persist, but one is at least being compensated with a high nominal and real yield (10.8% and 3.4% at year end on the 10-year bond). In addition, we own a number of companies that trade at undemanding multiples, healthy dividend yields and historically have had strong pricing power. If inflation proves to be persistent, these companies will be able to protect their earnings in real terms. Examples in our top 10 include British American Tobacco and AB InBev.

- Energy: Globally, we have some ambitious and admirable targets to wean ourselves completely off fossil fuels over the coming decades with the risks from climate change increasing the urgency to transition. Unfortunately, as we have acutely learnt in Europe over the past 12 months, going cold turkey isn't an option, as we haven't invested enough in renewable and cleaner alternatives to displace our existing base of fossil fuel infrastructure. We believe a number of old-economy energy companies have a role to play in the energy transition, yet they continue to be shunned by the wider investment community. Glencore is particularly interesting in this regard in that it produces over 100 million tonnes of coal each year but is also one of the largest producers globally of cobalt, zinc, nickel and copper. These commodities are integral to the renewable energy transition. When you buy Glencore today, you are paying an extremely low price for the coal-producing assets, and very little upside is priced into the company's suite of commodities integral to a cleaner future. Offshore, we are finding value in energy and energy infrastructure-related companies like Schlumberger and Kinder Morgan, which trade at very undemanding multiples.

In summary, we do not know what the future holds, and we manage the risks accordingly. By being patient and disciplined, we strive to buy only those assets where the risk-to-reward opportunity is skewed heavily in our favour and there is a large margin of safety. We won't always get it right but focusing on the price we pay is the best way to protect and grow capital over the long term.

We purchased Nedbank and Mondi over the quarter, and sold British American Tobacco and Glencore.

Commentary contributed by Rory Kutisker-Jacobson

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J.P. Morgan GBI Global Index

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