Allan Gray

Fund managers: Allan Gray, Coronation, M&G, Ninety One
Inception date: 18 January 2019

Allan Gray Multi-Manager Moderate Portfolio

29 February 2024

Portfolio description and summary of investment policy

The Portfolio invests in the Balanced mandates of a minimum of three managers, all of which are managed to comply with the investment limits governing retirement funds. The Allan Gray Balanced Portfolio has a target allocation of 30% (excluding cash) in the Multi-Manager Portfolio. This allocation can change as a result of performance within pre-defined parameters. The Portfolio is a pooled portfolio offered by Allan Gray Life and is only available to members of the Allan Gray Umbrella Pension Fund and the Allan Gray Umbrella Provident Fund (collectively known as the Allan Gray Umbrella Retirement Fund).

Portfolio objective and benchmark

The Portfolio aims to achieve steady long-term growth of capital for investors within the constraints governing retirement funds. The Portfolio's benchmark is a composite benchmark, of which 60% is domestic and 40% is foreign.[2]

How we aim to achieve the Portfolio's objective

We have selected managers with a strong track record who have consistently executed on their investment approach over time. These managers have complementary investment styles which, when combined appropriately, should improve the Portfolio's potential to deliver real returns through different market cycles.

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 time horizon of at least three years
- Wish to diversify risk across multiple managers

Annual management fee

Each underlying manager charges their own fee. Where performance fees are charged, this is based on the underlying manager's performance compared to its respective benchmark. The benchmark for each underlying manager may differ from the benchmark of the Portfolio.

Allan Gray charges a multi-management fee based on the net asset value of the Portfolio, excluding the portion invested in Allan Gray portfolios. This fee is 0.20% p.a. (which equates to approximately 0.14% p.a. on the entire Portfolio).

Underlying portfolio allocation on 29 February 2024

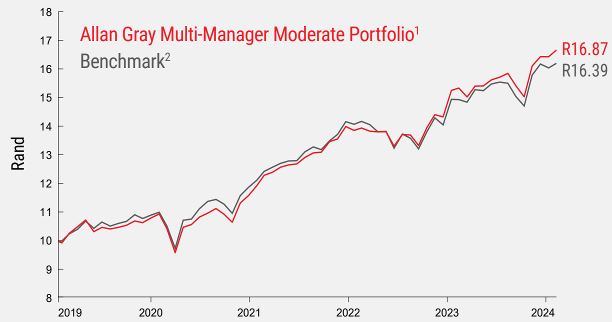
Portfolio	% of Portfolio
Allan Gray Balanced Portfolio	29.3
Coronation Global Houseview Portfolio	24.9
M&G Balanced Portfolio	19.0
Ninety One Opportunity Portfolio	25.8
Cash	1.0
Total	**100.0**

1. Performance is net of all fees and expenses.
2. 41% FTSE/JSE Capped Shareholder Weighted All Share Index, 10% FTSE/JSE All Bond Index, 9% 3-month STeFI, 24% MSCI All Country World Index and 16% J.P. Morgan Global Government Bond Index, all including income. From inception to 31 July 2022 the benchmark was 47% FTSE/JSE Capped Shareholder Weighted All Share Index, 14% FTSE/JSE All Bond Index, 9% 3-month STeFI, 18% MSCI All Country World Index and 12% J.P. Morgan Global Government Bond Index, all including income. Source: IRESS BFA, Bloomberg.*
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 January 2020 to 23 March 2020 and maximum benchmark drawdown occurred from 17 February 2020 to 23 March 2020. Drawdown is calculated on the total return of the Portfolio/benchmark (i.e. including income).
4. The percentage of calendar months in which the Portfolio produced a positive monthly return since inception.
5. 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.

* 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 utilising any MSCI Data, models, analytics or other materials or information.

Performance net of all fees and expenses

Value of R10 invested at inception



% Returns	Portfolio[1]	Benchmark[2]
Cumulative:		
Since inception (18 January 2019)	68.7	63.9
Annualised:		
Since inception (18 January 2019)	10.8	10.1
Latest 5 years	10.4	9.8
Latest 3 years	10.9	9.4
Latest 2 years	9.5	7.0
Latest 1 year	8.8	8.6
Year-to-date (not annualised)	1.4	0.2
Risk measures (since inception)		
Maximum drawdown[3]	-22.3	-23.0
Percentage positive months[4]	70.5	63.9
Annualised monthly volatility[5]	9.9	10.0

Quarterly commentary as at 31 December 2023

Inflation continues to decline globally. There is a high expectation of interest rate cuts in 2024 and this was seen as the reason for the market rally towards the end of 2023.

The growth in the US economy in 2023 contradicted the recession expectations at the beginning of the year. The growth in GDP of 5.2% experienced in Q3 2023 was the fastest expansion in approximately two years. It was cited that consumer spending, declining inflation (down to 3.1% in November from 3.7% in September), as well as increased employment numbers were the major supporters of this growth. The Federal Reserve (the Fed) kept the interest rate unchanged for a third consecutive meeting, keeping the federal funds rate target range at 5.25-5.5%. Given the improved inflation numbers, it is anticipated that this will provide an opportunity for rate cuts in 2024.

In China, growth prospects remain muted with the property market crisis, local government debt fears and global geopolitical tensions mentioned in our previous commentary being the contributors. The manufacturing Purchasing Managers' Index (PMI) fell to below 50 in November, indicating further contraction of the sector. It is expected that further government support will be required to turn around growth fortunes.

Annual inflation in South Africa was 5.1% at the end of December. This was a decrease from November year-on-year inflation of 5.5% and it represented an approximate reduction of 2% when compared to the December 2022 figure. The South African Reserve Bank's (SARB's) Monetary Policy Committee left the repo rate unchanged at 8.25% at their meeting in November 2023. They maintained that at this rate, policy remains restrictive, consistent with elevated inflation expectations. Economic growth is expected to be slow due to energy supply issues and logistical constraints, which impact the ports. The FTSE/JSE Capped Shareholder Weighted All Share Index ("Capped SWIX") recovered in Q4, returning 8.2% in rand terms for Q4. The financials sector contributed 11.8% while industrials and resources contributed 5.9% and 3% over the same period respectively. While the Capped SWIX returned 7.9% over the year, this translated to -1.1% in US dollar terms because of the weakness of the rand. This was a significant underperformance relative to the MSCI All Country World Index (MSCI ACWI).

The Portfolio returned 6.7% and 14.9%, after fees, for Q4 and the year respectively. The benchmark returned 7.7% and 15.4% respectively over the same periods. Despite the short-term underperformance, the Portfolio has generated superior returns to the benchmark over long periods.

Over the quarter, there was a slight shift towards the equity asset class versus other asset classes with this shift more pronounced for foreign relative to local equities. BHP replaced Sasol to complete the top 10 local equity holdings on a look-through basis for the quarter.

Commentary contributed by Tonderai Makeke

Top 10 share holdings on 31 December 2023 (updated quarterly)

Company	% of Portfolio
Naspers & Prosus	4.2
British American Tobacco	2.4
Standard Bank	2.1
Mondi	2.0
Compagnie Financiere Richemont SA	1.6
AB InBev	1.6
FirstRand	1.4
Glencore	1.3
Remgro	1.3
BHP	1.1
Total (%)	**19.0**

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

Asset allocation on 29 February 2024

Asset Class	Total	South Africa	Foreign
Net equities	66.9	34.5	32.4
Hedged equities	4.1	1.0	3.1
Property	2.1	1.4	0.7
Commodity-linked	1.4	1.4	0.0
Bonds	17.1	12.5	4.7
Money market, bank deposits and currency hedge	8.4	8.1	0.3
Total (%)	**100.0**	**58.8**	**41.2**

Total expense ratio (TER) and transaction costs

TER and transaction costs breakdown for the 1- and 3-year period ending 31 December 2023[8]	1yr %	3yr %
Total expense ratio[6]	**0.88**	**0.93**
Fee for benchmark performance	0.67	0.66
Performance fees	0.06	0.13
Other costs excluding transaction costs	0.15	0.14
Transaction costs[7]	**0.08**	**0.09**
Total investment charge	**0.96**	**1.02**

6. 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.
7. 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.
8. This estimate is based on information provided by the underlying managers.

Commentary from underlying fund managers as at 31 December 2023

Allan Gray Balanced Portfolio

2023 was another year full of surprising and unpredictable events. Most notably, in our opinion, global markets continue to be dominated by the announcements and actions of central banks, and expectations around those actions, rather than fundamentals. In 2022, as global inflation spiked and central banks responded by hiking interest rates, we saw a considerable sell-off in speculative, long-duration and leveraged assets, as the era of "easy money" appeared to be over. As inflation tapered during 2023, and central banks have begun to signal an end to rate hiking and possible rate cuts, many of these assets have rebounded sharply:

- After selling off in 2022, global equity markets rebounded and were once again dominated by large-cap US technology stocks. For the year ending 31 December 2023, the MSCI World Index was up 24%, the S&P 500 up 26% and the Nasdaq up 45% – in US dollars. The largest US stocks (Apple, Alphabet, Meta, Microsoft, Tesla, Nvidia and Amazon) have come to be known as the "magnificent seven", and in 2023, magnificent they were. The "worst" performing of the group was Apple, up 49%, while the best, Nvidia, buoyed by the excitement around artificial intelligence and the related demand for their chips, was up over 200%. In absolute terms, the market value of Nvidia increased by over US$800bn.
- Cryptocurrencies have also seen a resurgence. After being down over 64% in 2022, Bitcoin bounced more than 160% to end the year at US$42 085. Remarkably, that is still below where it began in 2022. This mathematical fact highlights how important avoiding large losses is to successful long-term investing. If you buy something that subsequently halves in value, you need it to increase by 100% to get your money back. In this case, Bitcoin speculators who bought on 31 December 2021 need to see a price recovery of 178% from 31 December 2022 to get their money back in nominal terms.
- One asset class that hasn't seen as strong a recovery is the bond market. At the end of 2020, at the peak of the "easy money" era, there were roughly US$18tn of negative-yielding bonds, i.e. there was US$18tn of debt where lenders were paying borrowers to borrow from them! As interest rates began increasing in 2021 and increased further through 2022, bondholders began to suffer. The J.P. Morgan Global Government Bond Index fell by 6.5% in 2021 and a further 17.2% in 2022. It failed to meaningfully recover in 2023, returning 4.0%. Those who held long-duration "safe-haven" developed market bonds fared much worse. In 2022, investors in US and UK 30-year bonds lost a third and half of their investments, respectively – only to see further declines in prices during 2023, with a marginal recovery by year end.

Domestically, the economic environment remains challenging, dominated by poor sentiment and record levels of loadshedding. It is not surprising that we have not seen the same resurgence in asset prices:

- In rands, the FTSE/JSE Capped SWIX All Share Index generated a return of 7.9% in 2023, which equates to a decline of 1.1% in US dollars, given persistent rand weakness. Within that though, there has been a large divergence in individual sector and stock performance. For example, within the precious metals sector, Harmony Gold returned 105%, while Impala Platinum fell by 55%, including dividends.
- The FTSE/JSE All Bond Index fared slightly better, returning 9.7% in rands and 0.6% in US dollars. Somewhat surprisingly, given the economic landscape, growing government debt and fiscal deficits, the yield on 10-year government bonds strengthened marginally from 11.1% at the start of 2023 to 10.9% at the end of the year.

In this environment, the Portfolio returned 4.9% for Q4 and 13.8% for 2023. This compares with benchmark returns of 7.1% for Q4 and 13.5% for the year. Over three years, the Portfolio has delivered an annualised return of 14.7%, compared with 11.9% for the benchmark and inflation of 6.1%.

As we look to 2024 and beyond, what should we expect of inflation and how it might impact central banks' behaviour, interest rates and market returns? In short: We don't know. Our only expectation is that events are likely to surprise us, and surprise us in how the market reacts. We navigate this uncertainty by being patient and disciplined, and striving to buy only those assets where the risk-to-reward opportunity is skewed heavily in our favour, with a large margin of safety and the knowledge that we won't always get it right.

During the quarter, the Portfolio bought South32 and AB InBev and sold Glencore and Standard Bank.

Coronation Houseview Portfolio

The Portfolio had a good 2023, delivering double-digit returns ahead of the benchmark for the 12-month period. Both asset allocation and security selection contributed to that performance. The Portfolio has also performed well over more meaningful periods of time.

The financial sector returned 12% for the quarter (+21% over 12 months). The Portfolio held a sizeable position in the SA banks during 2023 given their low ratings, high dividend yields, and the prospect of strong revenue growth supported by interest rate rises.

Commentary from underlying fund managers as at 31 December 2023

This enabled our holdings to deliver earnings growth despite higher credit losses. Credit losses are expected to subside as the rate cycle turns. Given the attractive valuation of banks, we believe they continue to merit a place in the Portfolio.

The resource sector returned 3% for the quarter to end the year at -12%. The Portfolio holds an underweight position in resources, given early profit-taking across most of the sector (diversified miners, PGM miners and gold shares). The long-term PGM outlook is bleak as electric vehicle adoption accelerates and local producers battle rising production costs. The underweight position in PGMs has benefited the Strategy, which continues to have no exposure to pure-play PGM producers. Gold prices rose (+13%) during the year, supported by central bank buying and heightened geopolitical uncertainty. The gold equities are discounting gold prices close to spot. Consequently, we do not believe they offer a sufficient margin of safety.

The Industrials Index rose 6% for the quarter (+17% for the year). The Portfolio's core holdings include many of the global stocks listed in SA: Naspers, Richemont, Aspen, Bidcorp, British American Tobacco and Anheuser-Busch InBev. The Portfolio has been a long-term shareholder of Textainer, indirectly through a holding in Trencor (of which Textainer was the major asset) and directly (post the 2020 unbundling). Coronation actively engaged with Trencor management over many years to achieve the Textainer unbundling. It was pleasing to see recognition of the value that had been trapped in the Trencor structure with the private equity offer for Textainer at a meaningful premium during Q4 of 2023. The Portfolio exited its position on the back of this.

Given the market strength in 2023 (and a particularly strong fourth quarter), market indices offer less upside. However, stockpicking opportunities abound. We believe that a carefully selected Portfolio of global equity and global credit holdings offers attractive risk-return benefits. These offshore holdings are supplemented by a basket of cheaply priced local assets. We believe that the Portfolio should continue to deliver attractive returns over the medium to longer term.

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J.P. Morgan Global Government Bond Index

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MSCI Index

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