

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 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

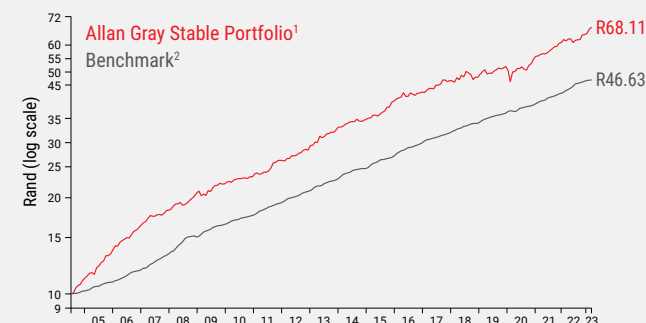
A major portion of the Portfolio is typically invested in money market instruments. We seek to deploy the Portfolio's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term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



1. 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.
2. The Portfolio's benchmark is the Consumer Price Index plus 3%, 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 January 2020 to March 2020. Drawdown is calculated on the total return of the Portfolio (i.e. including income).
5. The percentage of calendar months in which the Portfolio produced a positive monthly return since alignment.
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 31 August 2008. 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 31 May 2020.

% Returns	Portfolio ¹	Benchmark ²	CPI inflation ³
Cumulative:			
Since alignment (1 August 2004)	581.1	366.3	170.5
Annualised:			
Since alignment (1 August 2004)	10.9	8.6	5.5
Latest 10 years	8.9	8.2	5.2
Latest 5 years	8.0	7.7	4.9
Latest 3 years	10.8	7.9	5.2
Latest 2 years	11.0	8.9	6.3
Latest 1 year	9.2	9.1	6.9
Year-to-date (not annualised)	4.6	0.3	0.3
Risk measures (since alignment)			
Maximum drawdown ⁴	-10.3	-0.9	n/a
Percentage positive months ⁵	75.0	98.2	n/a
Annualised monthly volatility ⁶	5.4	1.5	n/a
Highest annual return ⁷	27.5	17.1	n/a
Lowest annual return ⁷	-6.9	5.0	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 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)⁸

Company	% of portfolio
British American Tobacco	3.0
Glencore	2.7
AB InBev	1.5
Nedbank	1.5
Standard Bank	1.4
Woolworths	1.2
Sasol	1.2
AngloGold Ashanti	1.1
Prosus N.V.	1.1
Remgro	1.1
Total (%)	15.9

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

Minimum	(February 2023) 24.9%
Average	35.0%
Maximum	(December 2018) 40.1%

Asset allocation on 28 February 2023⁸

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equities	24.9	15.0	1.2	8.8
Hedged equities	22.5	11.5	0.0	11.0
Property	1.1	0.9	0.0	0.2
Commodity-linked	3.0	2.4	0.0	0.6
Bonds	33.5	24.8	2.9	5.8
Money market and bank deposits	14.9	11.4	0.2	3.3
Total (%)	100.0	66.0	4.3	29.7⁹

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

9. 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 ratio¹⁰	0.96	0.81
Fee for benchmark performance	0.72	0.71
Performance fees	0.21	0.06
Other costs excluding transaction costs	0.03	0.04
Transaction costs (including VAT)¹¹	0.04	0.06
Total investment charge	1.00	0.87

10. 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.

11. 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.

Global markets saw a sharp reversal in 2022 and South African markets were not unscathed. It is worth assessing how the Portfolio has performed against its objectives during this volatile period.

The Portfolio aims to:

- Provide a high degree of capital stability
- Minimise the risk of loss over any two-year period
- Produce long-term returns better than bank deposits and inflation

These objectives have been met throughout the past two years and the Portfolio has delivered an annualised return of 11.5%, comfortably ahead of cash returns of 3.4% and inflation of 6.5%¹. Capital invested in the Portfolio provided stable returns without major drawdowns, despite the volatility in both equity and bond markets. Over the past 12 months, the Portfolio produced a return of 7.3%, slightly ahead of inflation of 7.1%².

During 2022, global equities and global bonds declined by 18.1% and 17.2%, respectively, in US dollars, reversing the returns of previous years. The recent period of volatility has been a good illustration of the benefits of a diversified asset allocation in achieving the Portfolio's objectives. It can be tempting to hold only cash during periods of uncertainty, but the returns from this are often unsatisfactory over longer timeframes. Over the past two years, cash returns have lagged inflation by a meaningful margin. The addition of some equities at attractive valuations has enhanced returns of the Portfolio without adding undue risk.

Inflation can be an underappreciated risk for conservative investors. Equities tend to be a good hedge against inflation, as businesses typically have some ability to pass on higher prices. The Portfolio also has an allocation to foreign assets, which provides some protection against our local currency. This is a useful feature in the Portfolio, as a weakening of the rand often corresponds to falling prices for South African bonds. Combining different asset classes can reduce volatility, as declines in one area are partially offset by gains in others.

What do we expect for future returns?

The last five years have not provided a particularly favourable environment for the Portfolio. Returns from most South African asset classes have been muted over this period with limited opportunities for returns meaningfully ahead of inflation. Over this period, annualised returns were 8.0% for South African shares, 7.8% for South African bonds and 4.3% for local cash, compared to inflation of 4.9%³. Looking forward, the outlook seems much more positive. For example, the current yield on the FTSE/JSE All Bond Index is 11.0% and South African cash rates are at 6.9% – in both cases much higher than the trailing returns. Similarly, the valuations for South African equities are relatively low compared to history, which would suggest higher returns from this starting point. While there are certainly many challenges facing the South African economy and various risks in the market, the available investment opportunities are attractive.

The Portfolio will strive to take advantage of attractive valuations in various asset classes, without taking on undue risks. The asset allocation remains conservative. Net equity exposure is at 26% compared to a maximum allowable limit of 40%. The domestic fixed income allocation has a relatively low exposure to interest rate risk, with a modified duration of only 3.4.

Over the quarter, we added to the Portfolio's positions in AB InBev and DRD Gold, and trimmed its positions in Glencore and Life Healthcare.

Commentary contributed by Tim Acker

Portfolio manager quarterly commentary as at 31 December 2022

1. Inflation for December 2022 is an estimate.

2. Inflation for December 2022 is an estimate.

3. Inflation for December 2022 is an estimate.

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The underlying investment options of the Allan Gray Umbrella Retirement Fund are portfolios of collective investment schemes in securities (unit trusts or funds) and life-pooled investments. 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 Ltd, a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017. Allan Gray (Pty) Ltd is Allan Gray Life Ltd's appointed investment manager.

Past performance is not indicative of future performance.

FTSE/JSE All Share Index and FTSE/JSE All Bond Index

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