

### 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 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. 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

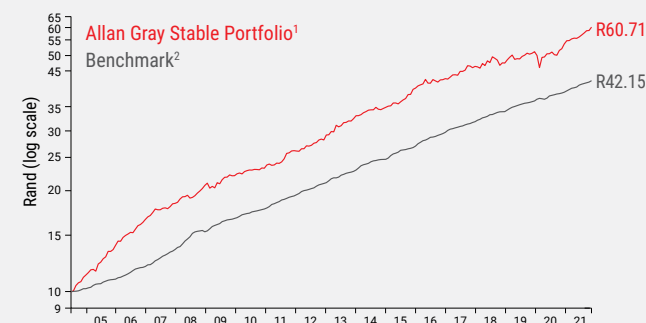
A major portion of the Portfolio is typically invested in money market instruments. We seek to deploy the Portfolio's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term 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 31 December 2021.
3. This is based on the latest numbers published by IRESS as at 30 November 2021.
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 <sup>1</sup>	Benchmark <sup>2</sup>	CPI inflation <sup>3</sup>
<b>Cumulative:</b>			
Since alignment (1 August 2004)	507.1	321.5	151.0
<b>Annualised:</b>			
Since alignment (1 August 2004)	10.9	8.6	5.4
Latest 10 years	8.8	8.2	5.0
Latest 5 years	7.4	7.5	4.4
Latest 3 years	8.5	7.3	4.1
Latest 2 years	9.3	7.4	4.3
Latest 1 year	15.8	8.8	5.5
Year-to-date (not annualised)	15.8	8.8	5.5
<b>Risk measures (since alignment)</b>			
Maximum drawdown <sup>4</sup>	-10.3	-0.9	n/a
Percentage positive months <sup>5</sup>	74.3	97.6	n/a
Annualised monthly volatility <sup>6</sup>	5.5	1.5	n/a
Highest annual return <sup>7</sup>	27.5	17.1	n/a
Lowest annual return <sup>7</sup>	-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 2021 (SA and Foreign) (updated quarterly)<sup>9</sup>**

Company	% of portfolio
British American Tobacco	2.7
Glencore	2.4
Naspers <sup>8</sup>	2.3
Nedbank	1.4
Standard Bank	1.4
Sibanye-Stillwater	1.3
AngloGold Ashanti	1.3
Sasol	1.2
Woolworths	1.2
Remgro	1.1
<b>Total (%)</b>	<b>16.4</b>

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

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

Minimum	(October 2020) 28.5%
Average	35.8%
Maximum	(December 2018) 40.1%

**Asset allocation on 31 December 2021<sup>9</sup>**

Asset Class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equities	36.7	26.4	1.7	8.6
Hedged equities	12.2	2.9	0.0	9.3
Property	1.4	1.1	0.0	0.3
Commodity-linked	3.2	2.3	0.0	0.8
Bonds	38.1	31.1	3.0	4.0
Money market and bank deposits	8.5	4.1	0.5	3.9
<b>Total (%)</b>	<b>100.0</b>	<b>67.9</b>	<b>5.2</b>	<b>26.9<sup>10</sup></b>

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

10. The Portfolio can invest a maximum of 30% offshore, with an additional 10% allowed for investments in Africa outside of South Africa. 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 December 2021	1yr %	3yr %
<b>Total expense ratio<sup>11</sup></b>	<b>0.74</b>	<b>0.74</b>
Fee for benchmark performance	0.71	0.70
Performance fees	0.00	0.00
Other costs excluding transaction costs	0.03	0.04
<b>Transaction costs (including VAT)<sup>12</sup></b>	<b>0.06</b>	<b>0.07</b>
<b>Total investment charge</b>	<b>0.80</b>	<b>0.81</b>

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.

The Portfolio returned 4.2% in the last quarter of 2021, taking the annual return to 16.4%. Over longer periods, such as the last three and five years, the Portfolio has generated 9.0% and 8.3% per annum respectively, ahead of its cash plus 2% benchmark and above inflation, in line with the Portfolio's objective. While the Portfolio is managed in a cautious manner, with a large portion of assets invested in cash and bonds, some allocation to equities (subject to the 40% limit) is required to generate a sustained real return ahead of the benchmark. Our view on the attractiveness of equities, based on our bottom-up research process, together with the potential returns available in competing asset classes, informs the overall level of equity allocation.

Going into 2021, we believed the opportunities available to the Portfolio were attractive, with both local shares and bonds offering good value. In comparison, holding cash at rates similar to that of prevailing inflation looked unattractive, putting an investor at risk of losing purchasing power in inflation-adjusted terms. The high weighting to local equities and bonds, relative to the Portfolio's history, has served it well in 2021. The FTSE/JSE All Share Index returned 29.2% for the year with a new all-time high being set in December. The FTSE/JSE All Bond Index returned 8.4%, outperforming cash by 5.9%.

Importantly, we do not buy the index, but rather invest in assets that 1) trade below our assessment of intrinsic value; 2) attempt to balance potential reward with the risk taken on; and 3) position the Portfolio to perform adequately in a variety of scenarios. This process has added value over the last year, with both equity and bond selection contributing positively to the Portfolio's return.

Within our equity positions, Glencore, Aspen Pharmacare and Pepkor were among the largest contributors to performance. We have written about Glencore in past commentaries, highlighting our preference for its commodity mix over that of

its diversified mining peers, which remains the case. Both Aspen and Pepkor staged strong recoveries during 2021 from overly depressed levels. When these shares, among others, have gone ahead of our fair value estimates, we trimmed our holdings and reinvested the proceeds in more attractive opportunities. Disappointingly, two of the larger Portfolio positions, Sibanye-Stillwater and British American Tobacco, detracted from returns. At current prices, both offer high potential future returns and, in the case of Sibanye-Stillwater, we have added to the Portfolio's holding.

In local fixed income, the Portfolio benefited from its exposure to inflation-linked bonds and longer-dated nominal bonds. Inflation linkers have outperformed nominal bonds by a wide margin in 2021 as inflation increased off a low base. While the longer-dated implied break-even inflation rates are now ahead of the Reserve Bank's target range, these instruments should remain in favour, as long as concerns about global inflation abound. Fiscal spending pressures have unfortunately extinguished the bulk of the commodity-driven tax revenue tailwind, negating any material change in sentiment towards South African government bonds. However, current yields do compensate investors for bearing this risk, with the Portfolio continuing to prefer bonds over cash.

Our offshore investment partner, Orbis, had a mixed year with its large underweight to the US technology sector weighing on relative performance. We share their concerns over absolute valuation levels in the US where the longer duration technology companies, which have increasingly driven index performance, are materially exposed to changes in the interest rate environment. The collection of shares that Orbis is invested in looks very different from the headline stock indices. Rand weakness in the latter part of 2021 was a tailwind for Portfolio performance.

## Portfolio manager quarterly commentary as at 31 December 2021

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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

The FTSE/JSE All Share Index and FTSE/JSE All Bond Index are calculated by FTSE International Limited ("FTSE") in conjunction with the JSE Limited ("JSE") in accordance with standard criteria. The FTSE/JSE All Share Index and FTSE/JSE All Bond Index are the proprietary information of FTSE and the JSE. All copyright subsisting in the values and constituent lists of the FTSE/JSE All Share Index and FTSE/JSE All Bond Index vests in FTSE and the JSE jointly. All their rights are reserved.

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