ALLANGRAY

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

Allan Gray Balanced Portfolio

31 January 2025

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

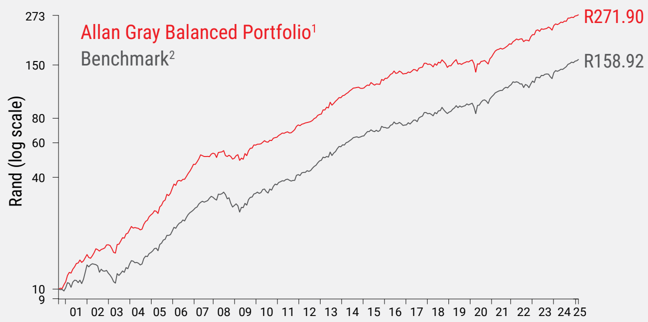
The Portfolio is managed in the same way as the Allan Gray Life Global Balanced (RRF) Portfolio. When assessing the Portfolio's performance and risk measures over time, including for periods before its inception (5 April 2017), the returns of the Allan Gray Life Global Balanced (RRF) Portfolio and the 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 31 January 2025.*
3. This is based on the latest numbers published by IRESS as at 31 December 2024.
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)	2619.0	1489.2	258.3
Annualised:			
Since alignment (1 September 2000)	14.5	12.0	5.4
Latest 10 years	9.0	9.3	4.9
Latest 5 years	11.5	11.1	4.9
Latest 3 years	10.9	9.7	5.1
Latest 2 years	10.0	11.4	4.1
Latest 1 year	12.7	15.6	3.0
Year-to-date (not annualised)	1.1	1.7	0.1
Risk measures (since alignment)			
Maximum drawdown[4]	-23.5	-24.8	n/a
Percentage positive months[5]	68.6	64.8	n/a
Annualised monthly volatility[6]	9.1	9.8	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 2024 (SA and Foreign) (updated quarterly)[8]

Company	% of portfolio
Naspers & Prosus	3.6
British American Tobacco	3.6
AB InBev	3.3
Nedbank	2.0
Woolworths	1.9
The Walt Disney Company	1.9
Standard Bank	1.8
Glencore	1.6
Remgro	1.5
Mondi	1.3
Total (%)	**22.5**

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

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

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

Asset allocation on 31 January 2025[8]

Asset class	Total	South Africa	Foreign
Net equities	61.7	35.3	26.3
Hedged equities	12.8	3.2	9.6
Property	1.5	0.2	1.3
Commodity-linked	2.5	2.5	0.0
Bonds	13.6	10.4	3.3
Money market and bank deposits[9]	8.0	5.2	2.8
Total (%)	**100.0**	**56.6**	**43.4[10]**

9. Including currency hedges.

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 2024	1yr %	3yr %
Total expense ratio[11]	0.42	0.87
Fee for benchmark performance	0.53	0.53
Performance fees	-0.16	0.30
Other costs excluding transaction costs	0.05	0.04
Transaction costs (including VAT)[12]	0.07	0.07
Total investment charge	**0.49**	**0.94**

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 2024

The Portfolio had a decent 2024 in absolute terms, but a poor one relative to its benchmark. The Portfolio returned 10.5% in rands, well ahead of inflation of 2.9%, but behind the benchmark's return of 12.7%.

Overall, South Africa was a good place to invest in 2024. The FTSE/JSE All Share Index (ALSI) generated a return of 13.4%, while the FTSE/JSE All Bond Index returned 17.2%.

Those figures look less impressive on a global basis, with the MSCI World Index generating a return of 18.7% in US dollars and 20.6% in rands. Once again, the strong performance of global markets was overwhelmingly driven by US stocks, with the S&P 500 up 24.5% in US dollars and 28.5% in rands[1].

This relative "underperformance" of the JSE masks how incredibly strong some individual names on the local bourse have been, in particular domestically focused stocks:

- The clothing retailers have seen substantial gains. Including dividends, Truworths returned 48%, Pepkor 51%, The Foschini Group 57%, and Mr Price an eye-popping 95%.
- The banks all saw double-digit returns, with the star performers being Nedbank (up 41%) and Capitec (up 58%).
- Other financial services also saw strong gains, with Momentum up 45%, Discovery up 38% and OUTsurance up 64%.
- Food producers AVI and Tiger Brands saw gains of 46% and 51%, respectively, while recently listed Premier was up over 100%.
- Even the beleaguered food retailers had a good year, with Spar up 24% and Pick n Pay up 55%. The latter was buoyed by the listing of subsidiary Boxer Retail in the final quarter.

It is the relative underperformance of many of the multinationals listed on the JSE, and the major mining companies, that has dragged down the market's overall performance.

With the benefit of hindsight, one might now say that it is clear that coming into 2024, with loadshedding still present and election uncertainty looming, sentiment on SA-focused stocks was overly negative, and any positive surprise would see a resurgence in sentiment and share prices.

With the formation of the government of national unity (GNU) and loadshedding now seemingly in the rearview mirror, that is what has transpired, but was it obvious at the start of 2024?

In our March 2024 commentary, we highlighted that 2024 had above-average political risk: In addition to the South African national elections, a record percentage of the world's population headed to the polls. We cautioned that given the heightened uncertainty, we had not bet the portfolio on one or two scenarios prevailing. Rather, we had deliberately constructed a diversified portfolio for a wide range of outcomes.

Indeed, we have seen many changes in governments across the world and many surprises. Not least in South Africa, where the market has reacted extremely positively towards the election outcome and the formation of the GNU.

In this environment, we have underperformed. We have owned, and continue to own, several domestically focused companies as noted above, that added value to our portfolio. However, given our views going into 2024 we were cautious, and did not own enough of these companies, or arguably, sold some too soon. In addition, we have also been overweight a number of the underperforming multinationals.

It is not unusual for us to underperform a rising market. As valuation-driven investors, we anchor to our estimate of fair value, preferring to own undervalued and out-of-favour stocks, selling appreciating stocks as soon as they exceed our estimate of fair value. This often means we will sell a share well before it peaks.

Market sentiment is like a pendulum – it tends to swing from bouts of excessive pessimism to excessive optimism, with the long-term real value somewhere in the middle. At the start of 2024, for many domestic businesses, it did appear that the market was being overly pessimistic, and so we owned a number of these shares. However, as we end 2024 and begin 2025, it seems to us that sentiment is beginning to price excessive optimism into the forward-looking expectations for many domestic counters, and so we continue to reduce our exposure.

South Africa continues to be plagued by many structural challenges, not least of which is widespread municipal failure, chronic underinvestment in infrastructure and pervasive unemployment. The GNU has yet to be properly tested with the difficult decisions and inevitable trade-offs that lie ahead. Our public debt continues to grow, currently debt-to-GDP sits at approximately 75%, and we continue to run a deficit, with debt service costs alone forecast to exceed 20% of government revenue in 2025. In a country with a population north of 62 million, less than 1.9 million people contribute more than 75% of personal income tax.

We are not overly negative about the long-term prospects for South Africa, but we are highlighting that domestic investments are not without risks. For many local investments, we now question whether these risks are being adequately discounted in the prices one pays.

During the quarter, we sold Absa and The Foschini Group and added to our positions in AB InBev and the gold ETF. Offshore, our sister company, Orbis, continues to find greater value outside of the US than within it. We continue to have more than 40% of the Portfolio directly offshore and, on a look-through basis, more than 50% of the Portfolio's exposure remains outside South Africa.

Commentary contributed by Rory Kutisker-Jacobson

1. Source: S&P Dow Jones Indices

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

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MSCI Index

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