Allan Gray Life Domestic Equity Portfolio

31 August 2024

Inception date: 11 January 2001

Portfolio objective and benchmark

This Portfolio is for institutional investors requiring management of a specific equity portfolio. It aims to offer superior returns to that of the FTSE/JSE Capped Shareholder Weighted All Share Index including dividends, but with a lower risk of capital loss. The benchmark is the FTSE/JSE Capped Shareholder Weighted All Share Index including dividends.

Product profile

- Actively managed pooled portfolio.
- Represents Allan Gray's 'houseview' for a specialist equity-only mandate.
- Portfolio risk is controlled by limiting the exposure to individual counters.

Investment specifics

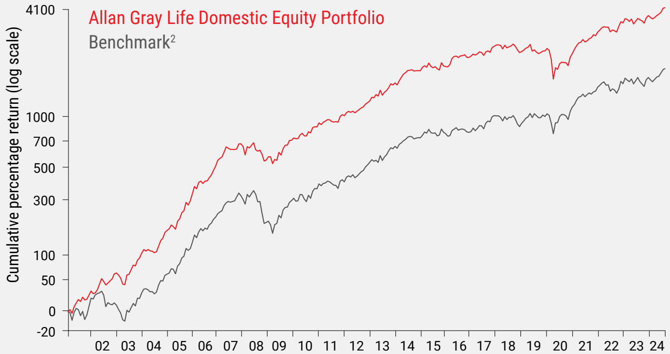
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds and medical schemes.
- Minimum investment: R20m.
- Performance based fee.

Portfolio information on 31 August 2024

Assets under management	R3 908m

Performance gross of fees

Cumulative performance since inception[1]



% Returns[3]	Portfolio	Benchmark[2]
Since inception[1]	17.0	13.4
Latest 10 years	7.8	8.6
Latest 5 years	11.8	12.7
Latest 3 years	13.4	10.4
Latest 2 years	15.1	13.9
Latest 1 year	16.0	17.0
Latest 3 months	8.3	9.8

Sector allocation on 30 June 2024 (updated quarterly)

	% of equities[4]	% of benchmark[2]
Financials	27.8	30.4
Basic materials	21.9	22.1
Consumer staples	20.4	12.0
Consumer discretionary	9.9	7.9
Technology	8.1	11.4
Industrials	7.1	4.0
Telecommunications	2.1	4.3
Healthcare	1.1	4.6
Real estate	0.9	2.2
Energy	0.6	1.0
Total (%)[5]	**100.0**	**100.0**

1. Since alignment date (1 February 2001).
2. FTSE/JSE Capped Shareholder Weighted All Share Index. The benchmark prior to 1 October 2020 was the FTSE/JSE All Share Index.
3. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 August 2024.
4. Includes listed property.
5. There may be slight discrepancies in the totals due to rounding.

Top 10 share holdings on 30 June 2024 (updated quarterly)

Company	% of portfolio
Naspers & Prosus	7.9
British American Tobacco	7.5
AB InBev	6.9
Standard Bank	5.4
Glencore	4.8
Mondi	4.8
Nedbank	4.1
Woolworths	4.1
FirstRand	3.6
Remgro	2.7
Total (%)[5]	**51.6**

Asset allocation on 31 August 2024

Asset class	Total[5]
Net equities	97.4
Hedged equities	-
Property	1.0
Commodity-linked	0.7
Bonds	-
Money market and cash	0.9
Total (%)[5]	**100.0**

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Tel 0860 000 654 or +27 (0)21 415 2301 **Email** institutional@allangray.co.za **www.allangray.co.za**

Fund manager quarterly commentary as at 30 June 2024

Global markets continued to defy macroeconomic warning signs in 2024, with the S&P 500 up 15% year to date, following a 26% run in 2023, and finishing the quarter close to an all-time high. Returns were driven by a few large stocks: just under one-third of the S&P 500's 2024 performance was contributed by Nvidia alone and two-thirds contributed by the magnificent seven stocks. Artificial intelligence mania and a renewed belief in sustainably lower US inflation and interest rates (without necessitating a recession) drove the optimism.

We remain cautious of the consensus view: In the US, financial conditions are easier today than when the Federal Reserve first started raising interest rates in March 2022. Unemployment remains very low, contributing to still-strong growth in wages. There are also spending drivers that we believe could contribute to structurally higher developed market inflation going forward: the fragmentation of supply chains as countries prioritise security of supply over the cost of production, increased defence spending – given heightened geopolitical tensions – and the mandate to transition away from old-world energy to renewables. There are already smoke signals that a return to 2% US inflation may not be as smooth as hoped, given that US services inflation continues to run greater than 5%. As such, we subscribe to the view of higher developed market inflation for longer. Provided central banks stick to their nerve, this will necessitate higher interest rates for longer. Despite the heightened risk this poses to company earnings, the S&P 500 equity risk premium (the additional return the stock market provides above the risk-free rate) is at a 20-year low. Put differently, investors are not being sufficiently compensated to assume the risks discussed above.

Closer to home, South Africa concluded national government elections in late May, with a historic fall in support for the ruling African National Congress. While local assets initially reacted negatively to the uncertainty this posed, the market subsequently cheered at the announcement of a government of national unity (GNU) anchored by the centrist parties. The broader FTSE/JSE All Share Index returned 8% for the quarter, led by outperformance from stocks facing the local economy: banks rallied 20%, insurers 18%, retailers 13% and healthcare stocks 12%. By the end of the quarter, the rand also strengthened 4% versus the US dollar from its post-election trough in early June.

As a nation, we should be proud that the incumbent government has thus far transitioned power peacefully, in line with the will of the people. The GNU outcome also removes some of the extreme left-tail negative risk that hovered over South African assets prior to the election and increases the chance of a right-tail positive scenario for the country. However, we are wary of local stock prices running ahead of their fundamentals on hope alone. There are many ideological differences that the GNU needs to work through, and coalition experience at local government level shows outcomes are rarely smooth. South Africa faces significant economic headwinds that need to reverse course for local companies to grow their earnings in real terms (which they have struggled to do over the last decade). Some of these headwinds are out of our control, even with the best-intentioned political dispensation (e.g. our dependence on the Chinese economy).

2024 is a year of heightened risk, where stock returns under different scenarios could be bifurcated. As such, we have positioned the Portfolio to limit downside risk rather than swinging for the fences by taking strong positions at extremes. The Portfolio is tilted towards favouring companies that have real pricing power, relatively defensive demand and a healthy proportion of fixed-rate debt (British American Tobacco and AB InBev are good examples here). In addition, we prefer companies with self-help levers to improve their economics rather than being fully reliant on a stronger local economy. Woolworths and Remgro are relevant examples in this category.

During the quarter, the Portfolio added to its positions in AB InBev and Standard Bank and reduced its holdings in MultiChoice and Sibanye-Stillwater.

Commentary contributed by Jithen Pillay

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

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