ALLAN GRAY

Inception date: 18 February 2004

Allan Gray Life Global Absolute Portfolio

31 January 2025

Portfolio objective and benchmark

This Portfolio is designed for institutional investors seeking superior absolute returns (in excess of inflation) over the long term with a higher risk tolerance in the short term than the Balanced Portfolio. The benchmark is the mean performance of the large managers as surveyed by consulting actuaries.

Product profile

- Actively managed pooled portfolio.
- Investments selected from all asset classes.
- Investments may include foreign funds including, but not limited to, those managed by Orbis. Orbis is our global investment management partner which shares the same founder and investment philosophy as Allan Gray.
- Fully reflects the manager's strong investment convictions and could deviate considerably in both asset allocation and stock selection from the average retirement portfolio.

Investment specifics

- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- Performance based fee.
- The Base Refundable Fee Reserve is levied in the underlying Orbis funds.

Compliance with Prudential Investment Guidelines

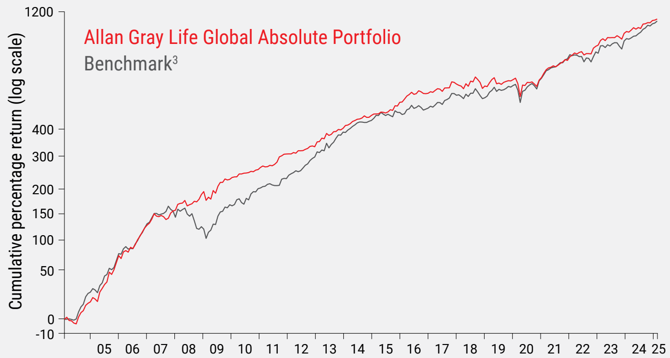
The Portfolio is managed to comply with Regulation 28 of the Pension Funds Act ("the Pension Funds Act"). Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within the prescribed regulatory time period. Allan Gray Life Limited does not monitor compliance with section 19(4) of the Pension Funds Act (item 6 of Table 1 to Regulation 28) on behalf of retirement funds invested in the pool.

Portfolio information on 31 January 2025

Assets under management	R1 957m

Performance[1]

Cumulative performance since inception[2]



% Returns[4]	Portfolio[1]	Benchmark[3]
Since inception[2]	12.8	12.7
Latest 10 years	8.3	8.5
Latest 5 years	10.5	11.2
Latest 3 years	10.7	10.2
Latest 2 years	9.4	11.0
Latest 1 year	11.7	16.5
Latest 3 months	3.2	4.2

Asset allocation on 31 January 2025[5]

Asset class	Total[7]	South Africa	Foreign
Net equities	60.7	34.7	26.0
Hedged equities	14.9	6.6	8.3
Property	1.4	0.2	1.1
Commodity-linked	4.5	4.5	0.0
Bonds	12.7	7.8	4.8
Money market and cash[6]	5.9	3.4	2.5
Total (%)[7]	**100.0**	**57.3**	**42.7**

1. Performance is gross of Allan Gray fees. Underlying Orbis fund returns are net of fees.
2. Since alignment date (1 March 2004).
3. Mean of Alexander Forbes Global Large Manager Watch. The return for January 2025 is an estimate.
4. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 January 2025.
5. Underlying holdings of foreign funds are included on a look-through basis.
6. Including currency hedges.
7. There may be slight discrepancies in the totals due to rounding.

Top 10 share holdings on 31 December 2024 (SA and Foreign) (updated quarterly)[5]

Company	% of portfolio
AB InBev	4.8
Woolworths	3.6
British American Tobacco	3.5
Standard Bank	3.5
The Walt Disney Company	3.2
Naspers & Prosus	3.0
Booking Holdings	2.1
Nedbank	2.1
MultiChoice	1.7
Tiger Brands	1.7
Total (%)[7]	**29.2**

Re-Issued: 19 February 2025

Fund manager quarterly commentary as at 31 December 2024

The Portfolio had a decent 2024 in absolute terms, but a poor one relative to peers. The Portfolio returned 10.1% in rands, well ahead of inflation of 2.9%, but behind the peer group average of 13.8%[1].

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[2].

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 British American Tobacco and Pick n Pay 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. Mean of Alexander Forbes Global Large Manager Watch. The return for December 2024 is an estimate.
2. Source: S&P Dow Jones Indices

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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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MSCI Index

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