Allan Gray Multi-Manager Moderate Portfolio

31 January 2025

Portfolio description and summary of investment policy

The Portfolio invests in the Balanced mandates of a minimum of three managers, all of which are managed to comply with the investment limits governing retirement funds. The Allan Gray Balanced Portfolio has a target allocation of 30% (excluding cash) in the Multi-Manager Portfolio. This allocation can change as a result of performance within pre-defined parameters. The Portfolio is a pooled portfolio offered by Allan Gray Life and is only available to members of the Allan Gray Umbrella Pension Fund and the Allan Gray Umbrella Provident Fund (collectively known as the Allan Gray Umbrella Retirement Fund).

Portfolio objective and benchmark

The Portfolio aims to achieve steady long-term growth of capital for investors within the constraints governing retirement funds. The Portfolio's benchmark is a composite benchmark, of which 60% is domestic and 40% is foreign.[2]

How we aim to achieve the Portfolio's objective

We have selected managers with a strong track record who have consistently executed on their investment approach over time. These managers have complementary investment styles which, when combined appropriately, should improve the Portfolio's potential to deliver real returns through different market cycles.

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 time horizon of at least three years
- Wish to diversify risk across multiple managers

Annual management fee

Each underlying manager charges their own fee. Where performance fees are charged, this is based on the underlying manager's performance compared to its respective benchmark. The benchmark for each underlying manager may differ from the benchmark of the Portfolio.

Allan Gray charges a multi-management fee based on the net asset value of the Portfolio, excluding the portion invested in Allan Gray portfolios. This fee is 0.20% p.a. (which equates to approximately 0.14% p.a. on the entire Portfolio).

Underlying portfolio allocation on 31 January 2025

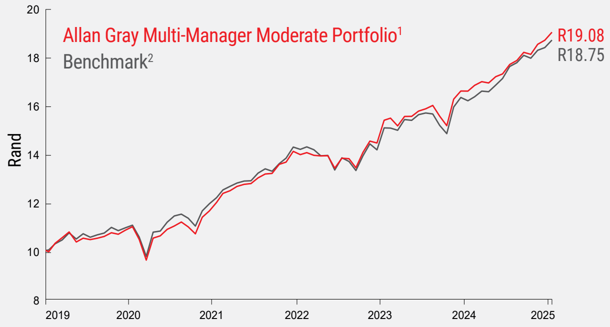
Portfolio	% of Portfolio
Allan Gray Balanced Portfolio	28.9
Coronation Global Houseview Portfolio	25.6
M&G Balanced Portfolio	19.5
Ninety One Opportunity Portfolio	25.1
Cash	1.0
Total	**100.0**

1. Performance is net of all fees and expenses.
2. 41% FTSE/JSE Capped Shareholder Weighted All Share Index, 10% FTSE/JSE All Bond Index, 9% 3-month STeFI, 24% MSCI All Country World Index and 16% J.P. Morgan Global Government Bond Index, all including income. From inception to 31 July 2022 the benchmark was 47% FTSE/JSE Capped Shareholder Weighted All Share Index, 14% FTSE/JSE All Bond Index, 9% 3-month STeFI, 18% MSCI All Country World Index and 12% J.P. Morgan Global Government Bond Index, all including income. Source: IRESS BFA, Bloomberg.*
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 January 2020 to 23 March 2020 and maximum benchmark drawdown occurred from 17 February 2020 to 23 March 2020. Drawdown is calculated on the total return of the Portfolio/benchmark (i.e. including income).
4. The percentage of calendar months in which the Portfolio produced a positive monthly return since inception.
5. 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.

* 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 utilising any MSCI Data, models, analytics or other materials or information.

Performance net of all fees and expenses

Value of R10 invested at inception



% Returns	Portfolio[1]	Benchmark[2]
Cumulative:		
Since inception (18 January 2019)	90.8	87.5
Annualised:		
Since inception (18 January 2019)	11.3	11.0
Latest 5 years	11.7	11.1
Latest 3 years	10.9	9.7
Latest 2 years	11.2	11.4
Latest 1 year	14.7	15.6
Year-to-date (not annualised)	1.8	1.7
Risk measures (since inception)		
Maximum drawdown[3]	-22.3	-23.0
Percentage positive months[4]	72.2	66.7
Annualised monthly volatility[5]	9.2	9.3

Quarterly commentary as at 31 December 2024

The annual inflation rate at the end of November 2024 was 2.9%, an increase of 0.1% from October 2024 but still below the South African Reserve Bank's (SARB's) target range. Following on from the previous rate cut, the SARB cut the repo rate by 25 basis points to end the year with a repo rate of 7.75%. The SARB highlighted that while inflation had slowed and allowed some room for major central banks to cut rates further, new inflation pressures and heightened uncertainty diminished policy space.

Turning to the markets, the FTSE/JSE Capped Shareholder Weighted All Share Index (Capped SWIX) ended the year at 13%. The financials and industrials sectors returned 22% and 18% respectively over the same period, while the resources sector detracted, returning -9% for the same one-year period ending 31 December 2024. The MSCI All Country World Index (MSCI ACWI) returned 17% in US dollar terms for the same period. This, coupled with the rand weakening by approximately 3% against the US dollar, saw the MSCI ACWI outperform the Capped SWIX in rand terms.

Performance eased in Q4 relative to Q3 with the Portfolio returning 2.8% (after fees) and its benchmark returning 1.8%. Over the one-year period ending 31 December 2024, the Portfolio was on par with its benchmark, both returning 12.7%. While the Portfolio had a double-digit return over the year, it lagged some of the local indices as highlighted above. It is important to remember that 2024 was marked with above-average political risk given the major elections that took place, including the elections in South Africa. The underlying managers would have been cautious and positioned their portfolios to cater for multiple scenarios playing out post elections. The commentary below from two of the underlying investment managers outline in detail how this played out.

Over the quarter, there was an increase in foreign allocation with foreign equities benefiting the most, while local equities decreased by the same margin. There were no changes to the composition of the top 10 local equities on a look-through basis, however the overall allocation decreased, as noted above.

Commentary contributed by Tonderai Makeke

Top 10 share holdings on 31 December 2024 (updated quarterly)

Company	% of Portfolio
Naspers & Prosus	4.9
British American Tobacco	2.1
Standard Bank	1.8
FirstRand	1.5
Richemont	1.3
Remgro	1.3
AB InBev	1.2
Mondi	1.1
Capitec Bank	1.0
Bid Corporation	0.9
Total (%)	**17.3**

Note: There may be slight discrepancies in the totals due to rounding.

Asset allocation on 31 January 2025

Asset class	Total	South Africa	Foreign
Net equities	66.1	35.1	31.0
Hedged equities	3.7	0.9	2.8
Property	2.9	2.2	0.8
Commodity-linked	1.5	1.5	0.0
Bonds	16.6	12.5	4.2
Money market, bank deposits and currency hedge	8.7	8.0	0.7
Other[6]	0.4	0.4	0.0
Total (%)	**100.0**	**60.6**	**39.4**

6. Hedge fund.

Total expense ratio (TER) and transaction costs

TER and transaction costs breakdown for the 1- and 3-year period ending 30 September 2024[9]	1yr %	3yr %
Total expense ratio[7]	**0.76**	**0.91**
Fee for benchmark performance	0.67	0.66
Performance fees	-0.05	0.11
Other costs excluding transaction costs	0.14	0.14
Transaction costs[8]	**0.10**	**0.09**
Total investment charge	**0.86**	**1.00**

7. 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.
8. 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.
9. This estimate is based on information provided by the underlying managers.

Commentary from underlying fund managers as at 31 December 2024

Allan Gray Balanced Portfolio

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*.

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 Group 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.

Reflecting on 2024, sentiment on SA-focused stocks was overly negative given loadshedding and election uncertainty. However, with the formation of the government of national unity (GNU) and an end to loadshedding, we have seen a resurgence in sentiment and share prices.

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.

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.

Coronation Global Houseview Portfolio

The Strategy had a good year, returning 17.7% (4.1% in Q4). It benefited from its high allocation to equities (both global and local), which have delivered strong returns over the past 12 months. The Strategy has performed well over meaningful periods in absolute terms and relative to the peer group.

The Strategy's preferred domestic asset remains local equities, which have delivered pleasing returns over the past year (Capped SWIX +13% over one year). Holdings include global stocks listed on the JSE and selected resources, as well as domestic stocks.

*Source: S&P Dow Jones Indices

Commentary from underlying fund managers as at 31 December 2024

Performance at a sector level reflects the strong performance of domestic shares, with the heavily domestic FTSE/JSE Financials Index up 22% for the year (-1% for the quarter) and the FTSE/JSE Africa All Share Industrials Index up 18% for the year (flat for the quarter). The Strategy benefited from a significant underweight in resources. The FTSE/JSE SA Resources Index lagged meaningfully, declining by 9% for the year (-9% in Q4).

The Strategy holds an underweight position in the resources sector, given reasonably full valuations. China's shift to less infrastructure-heavy growth remains a headwind to demand, contributing to a weaker outlook for many commodities. The Strategy has built a small position in the PGM miners where a slower transition to electric vehicles will sustain demand for longer, whilst underinvestment in mines contributes to declining supply. This should result in a tight market for several years, bringing considerable cash flows to those miners who are sufficiently well positioned to benefit.

The Strategy's overweight position in property has contributed to performance over the year. We are not constructive on the sector in aggregate, given the challenges it faces. These include shifting nodal patterns, poor local government delivery and above-inflationary cost pressures. A key Strategy holding like Attacq has benefited from these trends as its flagship Waterfall Estate property provides high-quality and reliable infrastructure and services to its tenants.

The Strategy continues to have a meaningful allocation offshore. This broad basket of global equities and credits offers compelling risk-adjusted returns. These offshore holdings are supplemented by domestic assets, predominantly SA equities, which remain our favoured local asset class. The attractive upside to fair value evident in our basket of equities reflects the exciting stock-picking opportunities we see across the SA market and globally. We believe the high offshore exposure, combined with a high equity allocation, serves the Strategy well to deliver its medium-term return expectations.

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J.P. Morgan Global Government Bond Index

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MSCI Index

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FTSE/JSE All Share Index, FTSE/JSE Capped Shareholder Weighted All Share Index, FTSE/JSE All Bond Index, FTSE/JSE Financials Index, FTSE/JSE Africa All Share Industrials Index and FTSE/JSE SA Resources Index

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