Allan Gray Life Global Absolute Portfolio

30 June 2022

Inception date: 18 February 2004

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

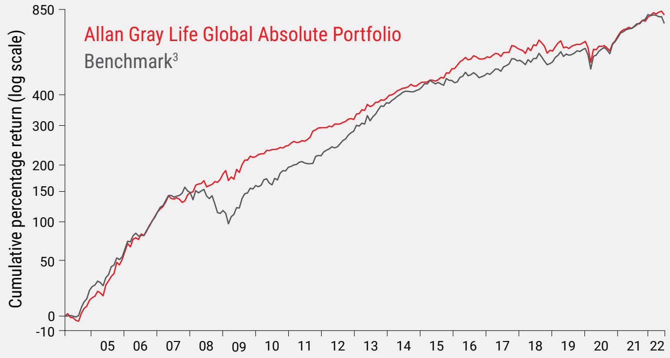
The Portfolio is managed to comply with Regulation 28 of the Pension Funds Act. Exposures in excess of the limits will be corrected immediately, except where due to a change in the fair value or characteristic of an asset, e.g. market value fluctuations, in which case they will be corrected within a reasonable 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 30 June 2022

Assets under management	R2 206m

Performance[1]

Cumulative performance since inception[4]



% Returns[2]	Portfolio	Benchmark[3]
Since inception[4]	12.9	12.5
Latest 10 years	8.4	9.5
Latest 5 years	6.3	7.3
Latest 3 years	8.2	7.8
Latest 2 years	12.2	10.8
Latest 1 year	10.5	3.8
Latest 3 months	-0.8	-5.9

Asset allocation on 30 June 2022

Asset class	Total	South Africa	Africa ex-SA	Foreign ex-Africa
Net equities	66.0	51.8	3.0	11.2
Hedged equities	15.9	7.5	0.0	8.4
Property	0.3	0.3	0.0	0.0
Commodity-linked	3.7	3.7	0.0	0.0
Bonds	7.1	6.6	0.0	0.5
Money market and bank deposits	7.1	4.2	0.2[5]	2.8
Total (%)	**100.0**	**73.9**	**3.1**	**22.9**

1. Performance gross of local fees, net of foreign fees.
2. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 June 2022.
3. Mean of Alexander Forbes Global Large Manager Watch. The return for June 2022 is an estimate.
4. Since alignment date (1 March 2004).
5. Including currency hedges.
6. Underlying holdings of Orbis funds are included on a look-through basis.
7. Includes holding in Prosus N.V., if applicable.

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

Top 10 share holdings on 30 June 2022 (SA and Foreign) (updated quarterly)[6]

Company	% of Portfolio
British American Tobacco	7.4
Glencore	5.7
Naspers[7]	5.6
Sasol	3.5
Woolworths	3.1
AB InBev	3.0
Standard Bank	2.7
Remgro	2.3
Nedbank	2.0
Pick 'n Pay	1.7
Total (%)	**37.0**

Issued: 11 July 2022

Fund manager quarterly commentary as at 30 June 2022

The second quarter of 2022 will not easily be forgotten by many investors owing to significant drawdowns in both equities and fixed income and the strength of the US dollar. Interest rates on both the short and long end of the interest rate curve had sharp upward moves across many developed world markets. This resulted in capital losses for what global investors typically consider "safe" assets, in particular, long-dated developed world sovereign bonds. As most clients are aware, we have been bearish on these assets for several years. A meaningful portion of our offshore exposure was rather invested in hedged equities, which hedge out underlying equity risk by selling index futures. Given the market sell-off, this protected part of the Portfolio and added returns as our underlying holdings outperformed the overall market.

The rise in interest rates and the rapid pace thereof also led to the significant decline in long-duration equities, as represented mainly by technology, e-commerce and what we would call "disruptor" stocks. The large declines in the disruptor stocks should not come as a huge surprise when one considers the valuations on which they were trading, often with very little history of generating actual earnings. What took many investors by surprise was the decline in the mega-cap technology shares, which have been leading the market and generating most of the returns for several years. Our colleagues at Orbis have written about the large disparity in valuations on many occasions.

Fortunately, the Portfolio was relatively well positioned for the above, given our overweight positions in energy and selected shares that stand to benefit from the forecast energy transition, and our significant underweight exposure to the mega-cap technology shares. Many defensive shares have held up well relative to the market, in particular British American Tobacco, given its low valuation. Locally, we are still finding it tough to identify obvious shares to sell. This gives us reasonable confidence in the prices we are paying relative to the value we are receiving, despite the well-known South Africa-specific risks.

While we are bottom-up investors, we still want to be on the right end of long-term trends. We continue to believe that the future will be characterised by higher realised inflation, higher interest rates and an increasingly geopolitically divided world relative to the recent past. These trends provided performance tailwinds given our relative positioning this year, but it is of some short-term concern that being long commodities and energy has become a more consensus view. Indeed, we have seen a correction in the last two weeks of the quarter: Commodity and energy stocks have come under pressure as the market worries about the potential demand destruction brought about by slower global growth in response to higher interest rates and quantitative tightening.

With the current high levels of cost inflation, there is potential for a significant squeeze on the profit margins of many businesses that won't be able to pass price increases on to their customers. We are actively thinking about what opportunities may arise when profits invariably come under pressure.

During the quarter, we added to the Portfolio's position in BHP and reduced our holdings in Glencore and British American Tobacco.

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Past performance is not indicative of future performance.

Important information for investors

Need more information?
You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**

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