Fund managers: Allan Gray, Coronation, Nedgroup Investments, Ninety One
Inception date: 18 January 2019

Allan Gray Multi-Manager Cautious Portfolio

31 May 2024

Portfolio description and summary of investment policy

The Portfolio invests in the cautious mandates of a minimum of three managers, all of which are managed to comply with the investment limits governing retirement funds. The Allan Gray Stable 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 provide a high degree of capital stability and to minimise the risk of loss over any two-year period, while producing long-term returns that are superior to bank deposits. The Portfolio's benchmark is the Consumer Price Index, plus 3%.

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 returns through different market cycles.

Suitable for those investors who

- Are risk-averse and require a high degree of capital stability
- Seek both above-inflation returns over the long term, and capital preservation over any two-year period
- Require some income but also some capital growth
- Wish to invest in a portfolio that complies with retirement fund investment limits
- Wish to diversify risk across multiple managers

Annual management fee

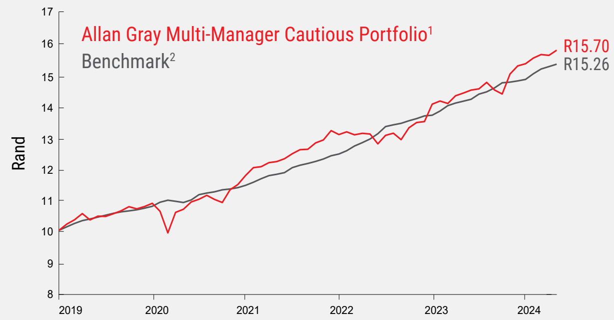
Each underlying manager charges a fee within their portfolio. Where performance fees are charged, this is based on the performance of the portfolio compared to its benchmark. The benchmarks of the underlying portfolios may differ from the benchmark of the Portfolio. Allan Gray charges a multi-management 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 May 2024

Portfolio	% of Portfolio
Allan Gray Stable Portfolio	29.2
Coronation Inflation Plus Portfolio	24.9
Ninety One Cautious Managed Portfolio	24.6
Nedgroup Investments Core Guarded Fund	19.3
Cash	1.9
Total	**100.0**

Performance net of all fees and expenses

Value of R10 invested at inception



% Returns	Portfolio[1]	Benchmark[2]
Cumulative:		
Since inception (18 January 2019)	57.0	52.6
Annualised:		
Since inception (18 January 2019)	8.8	8.2
Latest 5 years	8.7	8.0
Latest 3 years	8.8	9.0
Latest 2 years	9.7	8.8
Latest 1 year	9.4	8.3
Year-to-date (not annualised)	3.3	3.6
Risk measures (since inception)		
Maximum drawdown[3]	-15.1	-0.7
Percentage positive months[4]	75.0	96.9
Annualised monthly volatility[5]	6.2	1.4

1. Performance is net of all fees and expenses.
2. Consumer Price Index, plus 3%, and was prorated from 18 January 2019 to 31 January 2019. The calculation methodology was amended in March 2024.
3. Maximum percentage decline over any period. The maximum drawdown occurred from 20 February 2020 to 23 March 2020 and maximum benchmark drawdown occurred from 31 March 2020 to 31 May 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.

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

Quarterly commentary as at 31 March 2024

The first quarter saw a number of large global stock market indices post record highs, with Japan's Nikkei 225 index achieving an all-time high after a prolonged period of stagnation. This was attributed mainly to corporate reforms that took place in the previous year with the cheap currency attracting foreign investors on a large scale.

As noted above, major US equity indices reached new all-time highs in the first quarter of 2024. US GDP continues to grow, with an annual growth rate of 3.4% recorded for Q4 2023. This has been attributed to increases in spending (consumer spending and government spending), net exports and investments. Although inflation has eased over the past year, it has remained elevated. The Federal Reserve (the Fed) seeks to achieve maximum employment and inflation at a rate of 2% over the long term. To support its objective, at its latest meeting, the Fed decided to maintain its target range for the federal funds rate at 5.25-5.5%.

The Chinese economy expanded by an annual rate of 5.2% in Q4 2023, surpassing the annual growth target of about 5%. This was attributed to the steady recovery of industrial production, the significant improvement of services sectors and the continuous optimisation of the export structure. The economy continued to recover in the first few months of the year, with strong performances continuing to be recorded in the areas stated earlier. It should be noted that previously mentioned concerns in the real estate market persist.

Locally, the year started off with annual inflation on an upward trend in January and February 2024 from the 5.1% recorded in December 2023. It did cool off at the end of the first quarter, with recorded annual inflation for March at 5.3% according to official publication from Statistics South Africa. At the latest meeting in March, the South African Reserve Bank's (SARB's) Monetary Policy Committee again left the repo rate unchanged at 8.25%. It was noted that while inflation expectations had moderated, the projected two-year expectations are still in the top half of the target range.

The FTSE/JSE Capped Shareholder Weighted All Share Index (Capped SWIX) started the year negatively, contracting by 2.3% in rand terms for the first quarter. The financials and resources sectors contributed to the negative return as they returned -7.5% and -1.6% respectively while industrials returned 0.6% for the same period. Given the weakening of the rand over the quarter, the Capped SWIX underperformed the MSCI All Country World Index (MSCI ACWI) which returned 8.2% in US dollars.

The Portfolio return (net of fees) over the quarter was 2.4% while the benchmark return was 2.7%. Over the latest one-year period, the Portfolio outperformed the benchmark, returning 11.0% (net of fees) vs. 8.5% for the benchmark.

Relative to the previous quarter, there were no material changes to the asset allocation of the Portfolio. On a look-through basis, the top 10 local equity holdings composition saw Mondi and Glencore being replaced by Gold Fields and AngloGold Ashanti.

Commentary contributed by Tonderai Makeke

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

Company	% of Portfolio
Naspers & Prosus	1.3
British American Tobacco	1.3
AB InBev	0.8
FirstRand	0.7
Standard Bank	0.6
Nedbank	0.6
Compagnie Financiere Richemont SA	0.5
Gold Fields	0.5
AngloGold Ashanti	0.5
Woolworths	0.5
Total (%)	**7.4**

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

Asset allocation on 31 May 2024

Asset Class	Total	South Africa	Foreign
Net equities	32.9	14.3	18.6
Hedged equities	6.7	3.0	3.7
Property	1.9	1.4	0.6
Commodity-linked	1.8	1.5	0.2
Bonds	35.2	27.9	7.3
Money market, bank deposits and currency hedge	21.4	21.3	0.1
Total (%)	**100.0**	**69.4**	**30.6**

Total expense ratio (TER) and transaction costs

TER and transaction costs breakdown for the 1- and 3-year period ending 31 March 2024[8]	1yr %	3yr %
Total expense ratio[6]	**0.87**	**0.80**
Fee for benchmark performance	0.64	0.63
Performance fees	0.16	0.10
Other costs excluding transaction costs	0.07	0.07
Transaction costs[7]	**0.04**	**0.04**
Total investment charge	**0.91**	**0.84**

6. 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.
7. 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.
8. This estimate is based on information provided by the underlying managers.

Commentary from underlying fund managers as at 31 March 2024

Allan Gray Stable Portfolio

The optimism that greeted our local market in the latter part of 2023 has not extended into the current year. The FTSE/JSE Capped SWIX declined by 2.3% in the first quarter. The weak performance of our market, particularly when measured in US dollars, is in stark contrast to other global equity indices which have continued to post fresh all-time highs on the back of expected looser monetary policy and a continuing rally in AI-related stocks. A lacklustre commodity price environment, low economic growth and market participants keeping an eye on the upcoming national elections are all contributing to generally poor sentiment towards South African equities.

In comparison, global bonds have struggled to gain traction, with investors becoming increasingly cautious about the quantum of interest rate cuts anticipated over the next year. US growth prospects remain strong and global inflation remains higher than targeted levels, particularly in the more labour-intensive services economy. The FTSE World Government Bond Index returned -2.4%, while the local FTSE/JSE All Bond Index posted a 4.1% decline in US dollars (-1.8% in rands) over the quarter.

Against this challenging backdrop for risk assets, the Portfolio's return for the first quarter kept pace with that of the benchmark. The Portfolio's foreign assets were the main contributor to performance, while the hedged equity portion and bonds also added to returns.

At the end of this quarter, the Portfolio's allocation to local cash and bonds is 38.3% of assets, with the split across instruments made with the objective of generating an acceptable overall real return (i.e. after adjusting for inflation), under a variety of possible scenarios. This comprises low-risk money market instruments yielding 9%, higher nominal South African government bonds at more than 12% and inflation linkers at 4.5% to 6.0% real rates. In sum, this combination should provide a decent return without taking on excessive credit and interest rate risk, which is attractive relative to local inflation at 5.6%. In addition to local fixed income, the Portfolio holds offshore US dollar-denominated low-duration bonds at yields of 5% and higher.

A net equity weight of 25.8%, split evenly across local and foreign stocks, reflects a more cautious stance when viewed against the 40% maximum allowable allocation. We are wary of parts of the market that appear expensive (such as US mega-cap technology shares) and what that may entail for absolute equity returns if stark valuation discrepancies begin to unwind. We seek to exploit this potential opportunity with our allocation to hedged equities which should provide a return profile more akin to cash, plus the alpha generated via our bottom-up stock-picking process.

It is worth reiterating the Portfolio's dual objective of providing long-term returns ahead of cash together with offering a high degree of capital stability. Current high cash rates do present a steep performance hurdle. It is important that the appropriate balance is struck between the risk and return required in meeting and surpassing this hurdle, especially in an environment of uncertainty both locally and offshore.

Ninety One Cautious Portfolio

The portfolio delivered a positive return over the last quarter and outperformed its target of CPI + 4%.

Key positive contributors:

- Offshore equities were the main drivers of performance, with ASML, Microsoft and Visa among the top contributors.
  - European semiconductor stocks rallied as the demand for chips to power AI fuelled ASML returns.
  - Microsoft and Visa both traded favourably on the back of their recent results.
- SA cash added to returns. In an environment where inflation looks to have peaked and cash continues to provide a real return for our investors, this investment allocation has become less of a burden.
- Select locally listed counters with geographically diverse revenue drivers, such as British American Tobacco and Prosus, contributed positively to performance. SA Inc counter, Santam, further aided returns.
  - British American Tobacco rose off signs it was offloading its stake in Indian company ITC.
  - Prosus traded higher on the back of the respectable performance of its listed assets, as well as Santam, amid resilient performance in its recent FY23 results.
- Gold further enhanced performance, printing returns of just under 10% over the quarter.

Key detractors:

- Local equities detracted from returns over the period – with material detractors including FirstRand, Discovery and Mondi.
- Our fixed income exposure posted flat returns over the period. Nominal bonds were the main detractor as ILBs were flat and floating-rate notes marginally positive over the last quarter.
- Select offshore equities St James's Place, Nestlé and Verisign detracted from performance.

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