Fund managers: Duncan Artus, Sean Munsie, Tim Acker
(Most foreign assets are invested in Orbis funds) **Inception date:** 16 August 2017

Allan Gray Stable Portfolio

30 June 2024

Portfolio description and summary of investment policy

The Portfolio invests in a mix of shares, bonds, property, commodities and cash. The Portfolio can invest a maximum of 45% offshore. The Portfolio typically invests the bulk of its foreign allowance in a mix of funds managed by Orbis Investments, our offshore investment partner. The maximum net equity exposure of the Portfolio is 40%. The Portfolio's net equity exposure may be reduced from time to time using exchange-traded derivative contracts on stock market indices. The Portfolio is managed to comply with the investment limits governing retirement funds. Returns are likely to be less volatile than those of an equity-only portfolio or a balanced portfolio. The Portfolio is a pooled portfolio offered by Allan Gray Life and is only available to members of 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

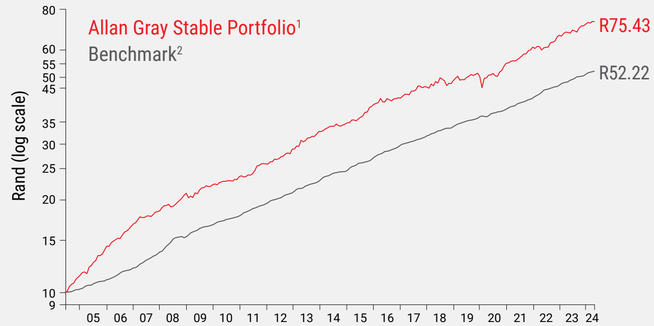
A major portion of the Portfolio is typically invested in money market instruments. We seek to deploy the Portfolio's cash by investing in shares when they can be bought at a significant discount to their intrinsic value. We thoroughly research companies to assess their intrinsic value from a long-term perspective. This long-term perspective enables us to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. If the stock market offers few attractive shares, we may allocate a low weight to shares or partially hedge the Portfolio's stock market exposure in consideration of the Portfolio's capital preservation objectives. The Portfolio may also invest in bonds, property and commodities. The Portfolio's bond and money market investments are actively managed.

Portfolio history

The Portfolio is managed in the same way as the Allan Gray Life Global Stable Portfolio. When assessing the Portfolio's performance and risk measures over time, for periods before its inception (16 August 2017), the returns of the Allan Gray Life Global Stable Portfolio can be used. The combined history reflects the performance and risk of the strategy over the long term.

Performance net of all fees and expenses

Value of R10 invested at alignment



% Returns	Portfolio[1]	Benchmark[2]	CPI inflation[3]
Cumulative:			
Since alignment (1 August 2004)	654.3	422.2	191.2
Annualised:			
Since alignment (1 August 2004)	10.7	8.6	5.5
Latest 10 years	8.1	8.1	5.0
Latest 5 years	9.0	8.0	5.0
Latest 3 years	10.3	9.0	6.0
Latest 2 years	11.2	8.3	5.7
Latest 1 year	8.5	8.2	5.2
Year-to-date (not annualised)	3.3	3.9	2.3
Risk measures (since alignment)			
Maximum drawdown[4]	-10.3	-0.9	n/a
Percentage positive months[5]	73.8	98.3	n/a
Annualised monthly volatility[6]	5.4	1.5	n/a
Highest annual return[7]	27.5	17.1	n/a
Lowest annual return[7]	-6.9	5.0	n/a

1. The returns prior to 16 August 2017 are those of the Allan Gray Life Global Stable Portfolio since its alignment on 1 August 2004. The returns are shown net of the fees that would have been incurred had the current fee applied since alignment.
2. The Portfolio's benchmark is the Consumer Price Index plus 3%, performance as calculated by Allan Gray as at 30 June 2024.
3. This is based on the latest numbers published by IRESS as at 31 May 2024.
4. Maximum percentage decline over any period. The maximum drawdown occurred from January 2020 to March 2020. Drawdown is calculated on the total return of the Portfolio (i.e. including income).
5. The percentage of calendar months in which the Portfolio produced a positive monthly return since alignment.
6. 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.
7. These are the highest or lowest consecutive 12-month returns since alignment. This is a measure of how much the Portfolio and the benchmark returns have varied per rolling 12-month period. The Portfolio's highest annual return occurred during the 12 months ended 30 April 2006 and the benchmark's occurred during the 12 months ended 31 August 2008. The Portfolio's lowest annual return occurred during the 12 months ended 31 March 2020 and the benchmark's occurred during the 12 months ended 31 May 2020.

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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

Annual management fee

Allan Gray charges a fixed fee of 0.70% p.a. on the Portfolio assets excluding the portion invested in the range of Orbis funds. This fee is presently exempt from VAT.

A portion of the Portfolio may be invested in Orbis funds. Orbis charges performance-based fees within these funds that are calculated based on each Orbis fund's performance relative to its own benchmark. Orbis pays a marketing and distribution fee to Allan Gray.

Total expense ratio (TER) and transaction costs

The annual management fees charged by both Allan Gray and Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Portfolio over a one-year and three-year period (annualised). Since Portfolio returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns. Transaction costs are disclosed separately.

Top 10 share holdings on 30 June 2024 (SA and Foreign) (updated quarterly)[8]

Company	% of portfolio
British American Tobacco	2.7
AB InBev	2.2
Woolworths	1.6
Nedbank	1.4
AngloGold Ashanti	1.2
Standard Bank	1.2
Gold Fields	1.2
Remgro	1.0
Glencore	1.0
Sappi	1.0
Total (%)	**14.4**

8. Underlying holdings of foreign funds are included on a look-through basis.

Since inception, the Portfolio's month-end net equity exposure has varied as follows:

Minimum	(September 2023) 23.7%
Average	33.1%
Maximum	(December 2018) 40.1%

Asset allocation on 30 June 2024[8]

Asset class	Total	South Africa	Foreign
Net equities	26.2	14.3	11.8
Hedged equities	21.3	8.8	12.5
Property	1.0	0.7	0.4
Commodity-linked	2.4	1.7	0.7
Bonds	32.9	25.9	7.0
Money market and bank deposits[9]	16.2	13.4	2.8
Total (%)	**100.0**	**64.7**	**35.3**[10]

9. Including currency hedges.

10. The Portfolio can invest a maximum of 45% offshore. Market movements may periodically cause the Portfolio to move beyond these limits. This must be corrected within 12 months.

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

Total expense ratio (TER) and transaction costs (updated quarterly)

TER and transaction costs breakdown for the 1- and 3-year period ending 30 June 2024	1yr %	3yr %
Total expense ratio[11]	**0.91**	**0.83**
Fee for benchmark performance	0.73	0.72
Performance fees	0.15	0.08
Other costs excluding transaction costs	0.03	0.03
Transaction costs (including VAT)[12]	**0.04**	**0.04**
Total investment charge	**0.95**	**0.87**

11. 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.

12. 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.

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Portfolio manager quarterly commentary as at 30 June 2024

In a welcome change from the recent past, returns from local risk assets took centre stage during the last quarter. This came as the uncertainty around the outcome of the national elections began to clear and a more centrist coalition government than some had initially feared emerged. The FTSE/JSE All Bond Index returned 7.5% for the quarter as yield differentials to both the US and emerging market peers (i.e. risk premiums) narrowed. The beleaguered rand strengthened more than 3% to the US dollar, and the FTSE/JSE Financials Index, which is made up mostly of banks and insurers predominantly exposed to the domestic economy, added 17.8% compared to a still-healthy 8.2% for the FTSE/JSE Capped Shareholder Weighted All Share Index as a whole.

While the political developments were well-received by markets, there remains cause to temper some of the enthusiasm shown to date. If the formation of a government proved difficult, setting of policy priorities and ongoing decision-making may prove harder still. Opposing ideologies between (and, in some cases, within) the various political parties add complexity – not to mention the destabilising impact parties who are not part of the coalition could have, should they exert their influence. Indeed, this has been the undoing of numerous coalition agreements at a municipal level in the past.

Politics aside, the structural factors that contribute to our low-growth environment, including failing state-owned enterprises, weak law enforcement, skills shortages and expanding fiscal deficits, remain. It was these factors which ultimately undid the initial bout of Ramaphoria in 2018. Fast-forward to 2024, and these aspects are now partly baked into the valuations at which local assets trade. Therefore, any improvements in this regard, off a lower base, may contribute to improved investment outcomes.

Globally, this is a bumper year for elections. Some of these election outcomes have already influenced investment markets. Examples beyond South Africa include India, Mexico, France, the European Parliament and the UK. US voters are set to head to the polls in November. The US equity market has continued to post new all-time highs during the quarter driven by the mega-cap technology shares, even as the number of counters powering the rally has thinned out further. Market breadth in the US, which now accounts for approximately 62% of global equity market capitalisation, has rarely been narrower. We, and our colleagues at our offshore partner, Orbis, remain concerned over valuation levels in certain parts of the global market and what this may mean for near-term absolute returns if large valuation discrepancies begin to unwind. An allocation to offshore hedged equities seeks to exploit such an occurrence.

The Portfolio's performance over the quarter was underwhelming. While the Portfolio benefited from its holdings in South African government and other local bonds and domestically focused businesses, its offshore assets (when measured in rands) together with certain "rand hedge" shares detracted. Over the last year, the Portfolio has returned 8.5%.

It is worth reiterating the Portfolio's dual objective of providing long-term returns ahead of cash and offering a high degree of capital stability. Current high cash rates do present a steep performance hurdle to overcome. 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.

This quarter, we added to the Portfolio's existing positions in Sasol, AB InBev and Woolworths, and we trimmed our exposure to MultiChoice and Sibanye-Stillwater.

Adapted from a commentary contributed by Sean Munsie

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