ALLAN GRAY
CONTRARIAN INVESTING

QUARTERLY COMMENTARY

31 MARCH 2023

COMMENTARY

SIMON MAWHINNEY, CFA

Managing Director & Chief Investment Officer

It is common for the Allan Gray Australia Equity portfolio's investee companies to be out of favour. This is often an important prerequisite for us to be able to buy companies at prices lower than our assessment of their intrinsic value.

Companies fall out of favour for many reasons. Sometimes it is the result of a deep and protracted cyclical downturn where investors struggle to see a catalyst for change. An example of this might be energy companies in 2019.

In other cases, it might be due to known structural challenges that make predicting the future particularly challenging (e.g. free-to-air broadcasters today) or, increasingly the case in recent years, the result of perceived environmental, social and governance (ESG) indiscretions. But sometimes companies fall out of favour due to company-specific missteps that destroy shareholder value. Downer EDI Limited fits into this last category.

About Downer EDI Limited

Downer builds, operates and maintains infrastructure and industrial assets in Australia and New Zealand. Despite only listing in Australia in 1998, Downer has a rich corporate history dating back to the 1800s. Prior to and after its listing, Downer has been a very acquisitive company, favouring inorganic expansion via 'bolt-ons' over the slower but less risky organic growth alternatives. In 1998 it acquired Technic, a leading roads contractor.

In 2001, it merged with Evans Deakin Industries, a rail business, to become Downer EDI. It expanded its roads business in 2006 with the acquisition of Emoleum, a road-surfacing company. In 2014, Tenix, a leader in the electricity, gas and water sectors, joined the fold. And in 2017, it merged with Spotless, an ASX-listed facilities and asset management business.

While not an exhaustive list of acquisitions, these form the foundation of Downer's operations. Today the company divides its business into three operating segments:

1. The transport segment includes the group's road services, transport infrastructure and rail businesses. Services include routine road maintenance services, the manufacture and supply of bitumen-based and asphalt products, the design and manufacture of rail systems, and rail fleet operation and maintenance.
2. The utilities segment includes the group's power, gas, water and telecommunications businesses. Services include operating and maintaining power and gas network assets, providing water solutions for municipal and industrial water users, and operations and maintenance works across fibre and copper networks.
3. The facilities segment provides outsourced facility services to customers across defence, education, government, healthcare, resources and hospitality sectors.

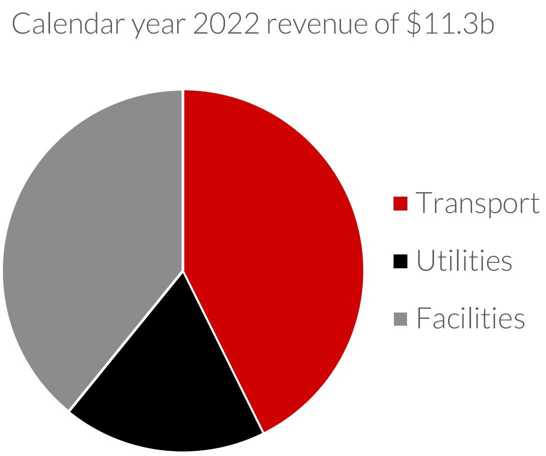
How Downer makes money

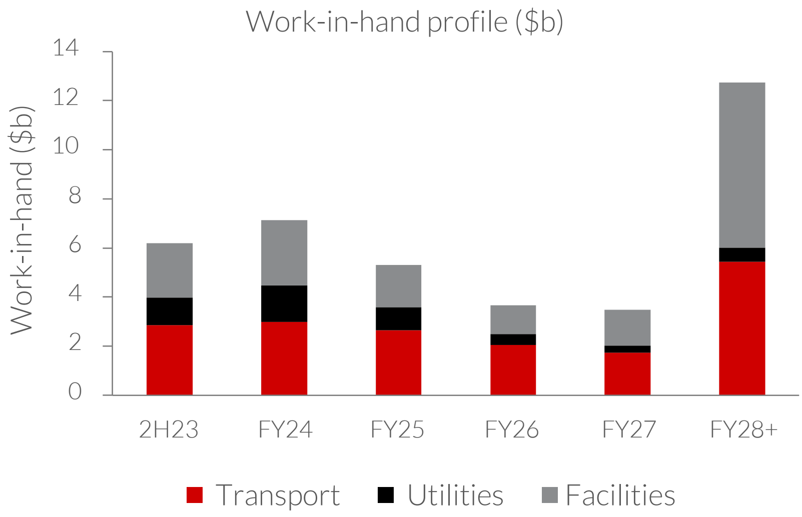
Downer mainly services existing or operating assets, with construction of new assets accounting for a relatively small part of the business. Much of its work is performed directly or indirectly for governments.

Annual revenues are approximately A$12b and given the asset-light/people-heavy nature of its work, it measures its financial outcomes in terms of margins (specifically EBITA or earnings before interest, tax and amortisation of intangibles) achieved. It targets a 4.5% EBITA margin.

Graph 1 shows a split of Downer's revenue between the three segments. Contracts range in length from less than a year to over a decade. As at December 2022, Downer had A$39b of contracted work-in-hand, which is expected to underwrite half of its revenue in the coming years (consistent with prior years).

GRAPH 1 | Downer's revenue split (2022) and work-in-hand profile (December 2022)





Source: Allan Gray, Downer (2022 financial year and 2023 half year reporting).

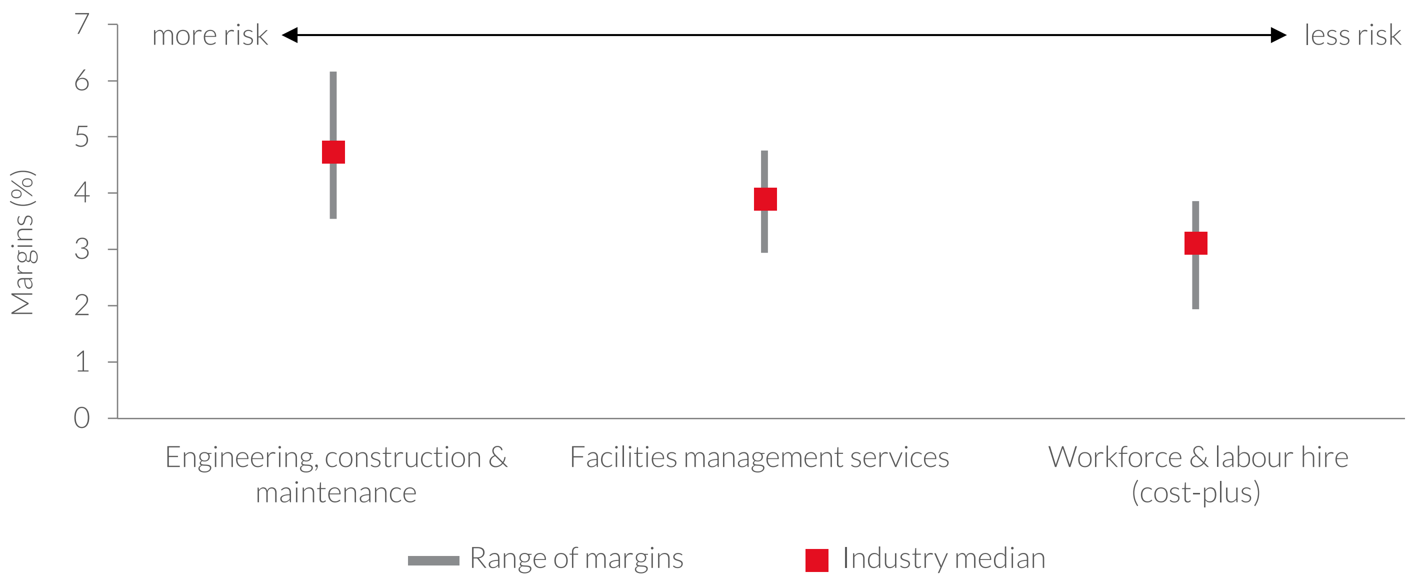
Major costs to service these contracts include employees and subcontractors (70%) and raw materials and consumables (15%). The bulk of Downer's facilities management and operation and maintenance work should have relatively predictable cash flows, with mechanisms in place that attempt to protect Downer from costs changing over time. Some contracts are more risky, due to the nature of the work (e.g. construction) or where protection mechanisms are limited or poor. Other contracts can be viewed as safer (e.g. cost-plus contracts).

The key to Downer's profitability is pricing and structuring contracts such that they cover future costs and deliver a reasonable level of profitability. In this regard, it has mostly failed, but we'll get to that shortly.

Downer operates in a competitive landscape

Unfortunately for Downer, a lot of its work is essentially 'labour for hire' and there is often little to differentiate competitors. This is reflected in relatively low margins across the industry. Graph 2 shows the typical operating margin in industries across a risk spectrum similar to those in which Downer operates. Margins tend to be higher for more complicated work (until things go wrong), and is typically lower where contracts are low risk (e.g. cost-plus). Most of Downer's work sits somewhere between these two bookends.

GRAPH 2 | Typical industry operating margins



Source: Allan Gray, S&P Capital IQ.

Two Australian companies most comparable to Downer are Ventia and Service Stream. Both are listed companies and operate with margins in the low 3% to low 5% range. Targeted operating margins of 4.5% seem reasonable when one considers:

- the performance of these companies,
- the slight differences in the mix of their business and, in Downer's case,
- Downer's somewhat higher capital intensity (mainly from the transport business that operates a reasonably significant fleet of plant and equipment).

An endless saga of missteps

A lot has gone wrong for Downer. Much of this is its own doing but a little, if we're generous, is not. Downer's woes relate to capital allocation, management actions in the face of an extremely competitive landscape and alleged corrupt practices by employees.

Over many years, Downer has made a series of strategic acquisitions and divestments. Acquisitions appear to have targeted recurring earnings streams for which Downer has paid handsomely, only to find that the earnings streams have been far less recurring than the revenue streams. Divestments have been concentrated in ESG-undesirable businesses or low-margin businesses with little regard for the sales price achieved. In almost all cases optics have won, leaving shareholders short-changed. Two acquisitions and one divestment stand out from a capital (mis)allocation perspective: the acquisitions of the Spotless Group in 2017, Tenix in 2014, and the divestment of its mining services businesses in 2020 and 2021.

Downer's March 2017 $1.15 per share offer for all of the shares of Spotless valued the business at A$2.1b, including its eye-wateringly high level of debt of $800m. At the time, Spotless guidance implied EBITA of $160-175m in 2017 and $165-190m in FY18. At face value, the price tag might have seemed reasonable, but Spotless appeared to be over-earning, and was being held together by the smell of an oily rag. Today, more than five years later, the facilities segment of Downer (of which Spotless is a part) makes approximately $185m of EBITA before an allocation of corporate costs (roughly 0.8% of revenues) or roughly $150m net of this. In short, Spotless has likely gone backwards and has certainly contributed far less to Downer than shareholders would have expected given the price tag.

Tenix, acquired for $300m in 2014, was a similarly bad transaction in hindsight, but luckily much smaller. Today it makes up a meaningful portion of Downer's utilities segment, which reported losses in aggregate in its recent half-year report before the allocation of corporate overheads.

Downer's exit from its mining services business happened in piecemeal fashion across its 2020 and 2021 financial years. In total, sales proceeds of approximately $500m were received for its blasting services, tyre management, underground mining and open-cut mining businesses. These businesses had depressed operating earnings of $80m in 2020 and 2019, and peak earnings of $130m in 2015 and 2016. Relative to even their depressed earnings, the sale proceeds for Downer's mining services businesses were extraordinarily low. Downer's self-inflicted destruction of shareholder value seemed to know no end!

Combined with this woeful allocation of shareholder capital has been Downer's aggressive bidding for new works which has resulted in sub-optimal margins or excessive risks being assumed by the company. This has been an unwelcome feature over the last several years which has cost shareholders over $600m in lost profits which includes:

- problematic contracts and business exits ($370m),
- restructuring costs ($130m),
- legal and remediation costs ($85m), and
- the most recent dubious accounting (aka possible fraud?) that has set shareholders back a further $50m.

Recently, various ex-employees of Downer have been implicated in corrupt practices in an ongoing Independent Commission Against Corruption (ICAC) investigation. They are alleged to have received kickbacks whilst subcontracting work on projects for Transport for NSW while employed by Downer. If found to be true, this suggests a serious deficiency in both controls and corporate culture.

Downer's ability to continue to disappoint the market has been staggering. Recent company disclosures identify rain and labour shortages as reasons for contract underperformance and it is here that it might be worth giving the company the benefit of the doubt. However, when contracts bake in wafer-thin margins, the company needs to contract out risks like these!

It sounds awful, so why own it at all?

Like all of these questions, the short answer is 'price'. Despite Downer's rap-sheet of missteps and own-goals being nothing short of spectacular, it performs essential works that society needs. Under the right leadership Downer should be able to generate modest profits with little risk. There's no reason that Downer can't earn its operating margin target of 4.5% on its $12b in revenue. At this level of profitability, Downer would trade at half the multiple of after-tax earnings that the broader share market does.

And there is reason for optimism here. Shareholder frustration has led to significant change to its management ranks and board composition. This is likely a first but large step towards an institutionalised culture of accountability that should greatly reduce the risks of entering loss-making contracts in future. The company is in the process of simplifying its business and reducing its exposure to risky contract work. Over the coming three or so years, the new management team should be able to replace the company's work-in-hand contracts with new and renewed contracted work that considers the risks that ensue and the returns on offer.

Like all investments, there are risks that can't be ignored

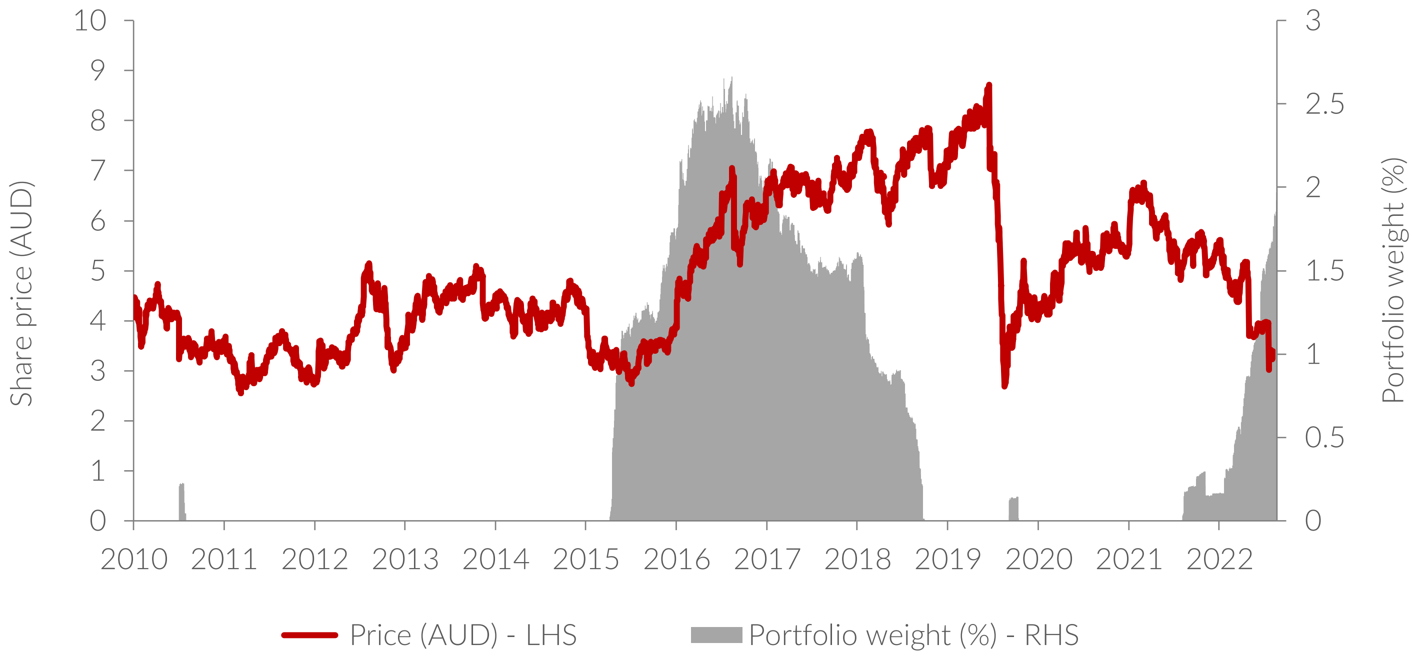
But we feel that most of them are adequately priced in. A bad outcome would be a management team that reacquaints itself with the hamster wheel of old. Operating margins would continue to be less than 3% (December 2022 half year margins were 2.3%) and profits would be approximately half the targeted levels. But even this scary outcome sees investors paying little more than the broader market average, so while a risk, it is not the kind that would see investors lose their shirts.

By far the biggest risk to investor capital is Downer continuing to misallocate it through expensive acquisitions or cheap asset disposals. These risks present with all companies, not just Downer. In Downer's case, we hope the bloodletting at senior management and board levels gives them some pause here. If nothing else, its balance sheet should assist. Downer has approximately $1b in debt and a shareholder base that is ill-inclined to give them any more money for strategic missteps (acquisitions). From here, we believe there is little choice for Downer than to focus on its existing businesses and reduce its gearing the old-fashioned way.

While we acknowledge the risks that come with the Equity portfolio's investment in Downer, we believe it is priced accordingly and potentially offers the kind of asymmetric upside skew which we expect from the portfolio's investments. At the time of writing, Downer is around 2% of the Equity portfolio's assets, as shown in Graph 3.

Acknowledgements: Contribution from Analyst Tim Hillier

GRAPH 3 | Downer's share price and its weight in the Allan Gray Australia Equity Fund



Source: FactSet, Allan Gray, 24 March 2023. The Allan Gray Australia Equity Fund is representative of the Equity portfolio, which includes institutional mandates that use the same strategy.

FUND COMMENTARY
QUARTER IN REVIEW

by JULIAN MORRISON, CFA

Investment Specialist

Allan Gray Australia Equity Fund

The Australian share market rose during the March quarter, albeit with some fluctuation, with the S&P/ASX 300 Accumulation Index finishing up 3.3%. Strong gains in January gave way to a weaker finish, as the index fell in both February and March. The Allan Gray Australia Equity Fund (Class A) was up 2.0% this quarter, underperforming the benchmark. It is worth noting that most of the underperformance came in the rising market of January. The Fund actually outperformed the benchmark from the end of January to the end of March, as shown in Graph 1.

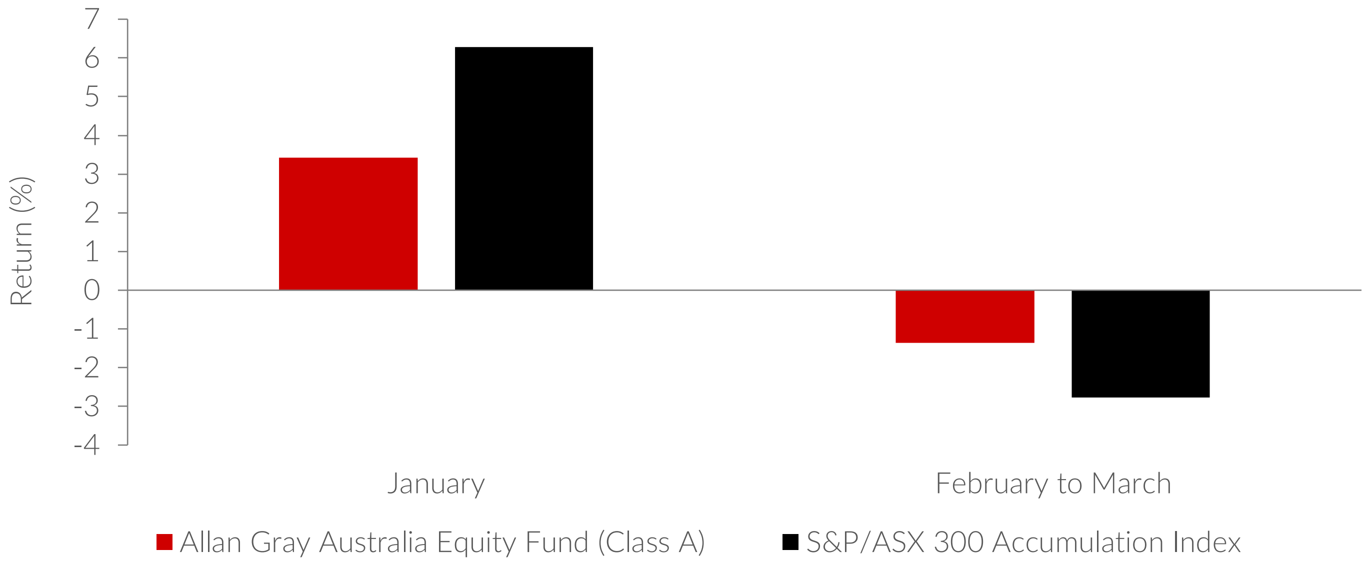
Financials stocks were overall neutral for relative returns for the Fund for the quarter. Financials was the market's weakest performing sector, so the Fund's underweight position was beneficial. Looking at individual stocks, Virgin Money UK was the largest detractor for the Fund for the quarter. This came during a period of negative news and sentiment toward specific overseas financial companies.

Virgin Money trades at around 33% of net tangible assets, despite making high single digit returns on tangible equity. It is also well-capitalised. We believe Virgin is priced more moderately compared to other Australian-listed banks. We maintain the position and added to it on recent weakness.

Other Financials holdings include AMP, Westpac and ANZ, which were detractors for the quarter, and QBE which was a strong positive contributor for the quarter. The Fund added a new insurance company holding during the quarter in Insurance Australia Group (IAG). Potential risks for IAG include reliance on reinsurers, possible claims growth and cyclicality of commercial business. We believe the price reflects investor uncertainty, allowing investment at a reasonable valuation.

Lastly in Financials, Challenger was a detractor for the quarter. However, it has been a strong positive contributor to relative performance over the last one, three and five years, and as such we had significantly reduced the position on share price strength over that time, in late-2022 and early-2023. Consequently, the residual position is a relatively smaller weight in the Fund today.

GRAPH 1 | Equity Fund performance versus S&P/ASX 300 Accumulation Index benchmark



Source: Allan Gray, Bloomberg, 31 March 2023.

The Fund's exposures in the Materials sector included both the second largest individual detractor for the quarter (Alumina) and the two largest positive contributors (Newcrest Mining and Sims). Notwithstanding some underperformance, the position in Alumina remains around 8% of the Fund which we believe is appropriate. The outperformance from Newcrest and Sims was quite significant and we have sold some of those holdings into that strength, though both remain substantial positions in the Fund. Also within Materials, Nufarm, Incitec Pivot and Fletcher Building all underperformed and we added to those positions on weakness (for a detailed recap on Fletcher Building, please see our September 2022 Quarterly Commentary). Taking all of these into account, our Materials positions contributed positively to relative performance for the quarter.

During the quarter the Fund added further to Ansell, which manufactures medical- and industrial-use gloves. While the stock underperformed during the quarter, our investment thesis remained largely unchanged, so the weaker share price presented an opportunity to increase this holding.

Other positions increased this quarter included Lendlease and Downer EDI. Lendlease is a globally integrated real estate business, while Downer builds, operates and maintains infrastructure and industrial assets in Australia and New Zealand. A summary of our investment thesis for Downer EDI is provided in the earlier section of this Q1 2023 Quarterly Commentary.

While it feels like the market has become more cautious in general recently, the broad share market (S&P/ASX 300 Price Index) is only around 6% below its all-time high. Moreover, even including that 6% drawdown, the broad market total return has been about 9% per annum over the last seven years and a heady 17% per annum over the last three years.

With this in mind, we believe investors should be wary of assuming broad market returns will be that 'easy' going forwards. Rather, paying attention to individual company fundamentals, and the price one pays for those, may well prove critical in the years ahead. Certainly, we will continue to apply such a focus in managing the Allan Gray Australia Funds, with the aim of growing our clients' capital over the long term.

Allan Gray Australia Balanced Fund

The Allan Gray Australia Balanced Fund returned 3.3% for the quarter, underperforming its composite benchmark that was up 5.5%.

Stock selection in Australian shares detracted slightly from relative performance for the quarter, while selection within global shares added slightly. The largest individual detractors included Alumina where we have maintained our existing position, and Virgin Money UK where we added on weakness. Newcrest Mining and Sims were the largest positive contributors, and we reduced both on strength. As at quarter end, the Fund remained overweight global shares and underweight Australian shares.

The Fund had about 65% in shares at quarter end. This is after accounting for about 7% of the global share exposure being reduced through the use of exchange-traded derivatives, which allows for some protection in those periods where market indices fall. During the March quarter, this hedging position detracted from relative returns as global share markets rose.

At quarter end, the Fund also held around 23% in fixed income securities. While these holdings contributed positively to absolute returns for the quarter, they detracted from returns relative to the benchmark. This was due to the Fund's fixed income allocation remaining significantly shorter in duration than the benchmark – at three years versus around seven years for the benchmark.

This means that the fixed income portion of the Fund remains more defensively positioned than the benchmark (in terms of both relative and absolute returns), in the event interest rates rise. However, when interest rates fall (bond yields fell during the quarter), our shorter duration holdings rise less than the longer duration benchmark holdings. We are comfortable with this positioning and prefer to be more defensively positioned against negative absolute returns.

The roughly 5% exposure to gold through an exchange-traded fund contributed positively for the quarter.

As with the Equity Fund, we believe potential portfolio value relative to the market is significant and we continue to manage for risk with a long-term, valuation-driven perspective.

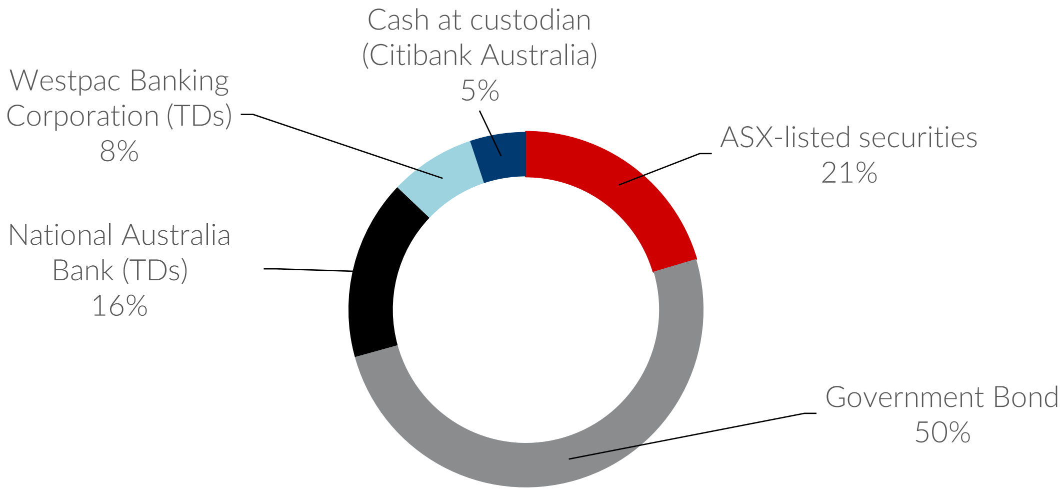
Allan Gray Australia Stable Fund

The Allan Gray Australia Stable Fund returned 2.0% for the quarter, outperforming its cash rate benchmark – which returned 0.8% for the quarter.

The Stable Fund delivered a positive return each month of the quarter, including February when the broad Australian S&P/ASX 300 Accumulation Index fell 2.6%. This has further added to the Fund's asymmetric return profile since inception (greater participation in equity market upside than downside, on average).

The Fund decreased equity exposure meaningfully during the quarter, from 27% of the Fund down to about 20% of the Fund at quarter end. Accordingly, the weight of the Fund allocated to cash and equivalents increased by about 7% during the quarter. This is held in cash, term deposits and government fixed interest securities with less than one year to maturity. Term deposits are currently held with NAB and Westpac, and the government bond is very short duration with maturity in April 2023. You can see the Fund's asset allocation in Graph 2.

GRAPH 2 | Stable Fund asset allocation



Source: Allan Gray, 31 March 2023.

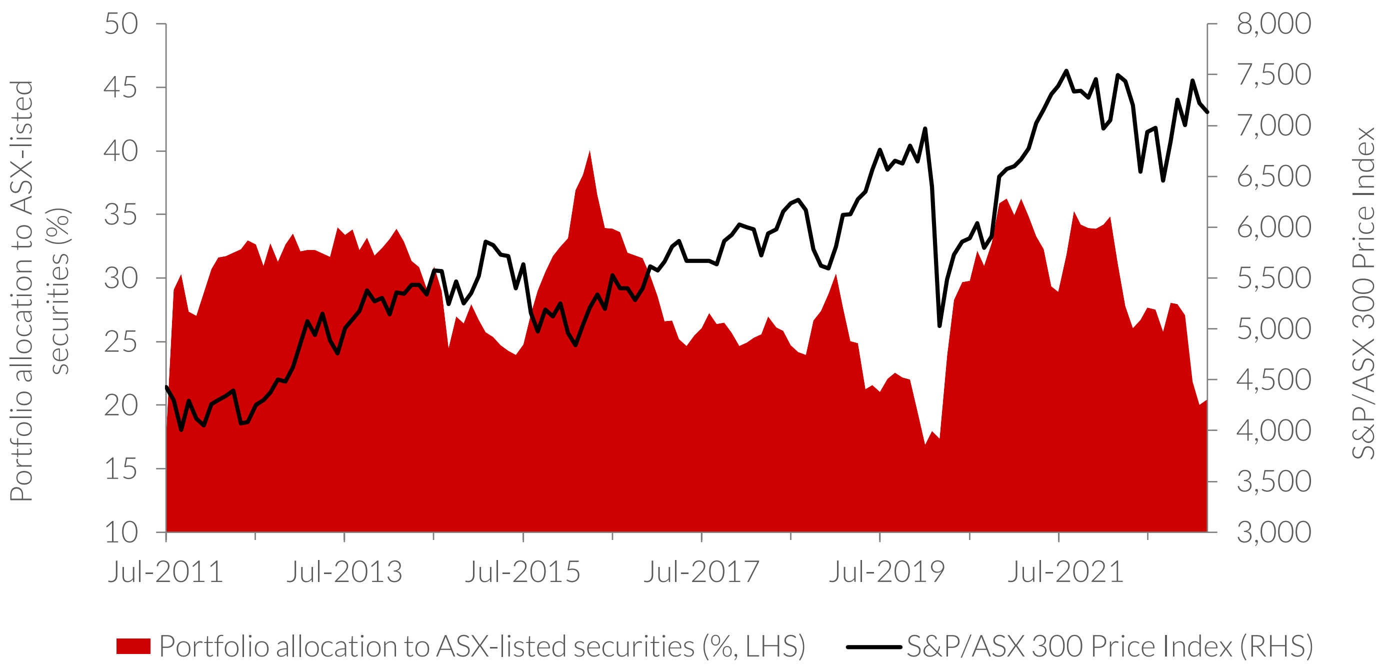
The allocation to ASX-listed securities versus cash and equivalents can vary over time, according to our assessed opportunity. Graph 3 shows our allocation to ASX-listed securities over time. Generally, when the market is high we find less value, so the opportunity set is narrower, and vice versa. We highlight this by overlaying the market (S&P/ASX 300 Price Index) on the graph.

The Stable Fund aims to add value from both our disciplined share selection, and from the decision on how much to allocate to securities versus cash. This provides the Stable Fund with great flexibility to manage risk throughout the market cycle while still seeking to add long-term returns above cash.

We believe the current environment provides a great opportunity for the Stable Fund to demonstrate its intended benefits. It offers a moderate risk/return profile, with the potential to outperform cash with less risk than full exposure to the Australian share market, while having the advantage of simplicity and ease of understanding.

We continue to manage exposures to what we believe is a prudent level, and to hold allocations to what we see as the most attractively-valued shares identified by our research.

GRAPH 3 | Stable Fund listed security weighting – allocation rises where we see value in listed securities



Source: Allan Gray, Bloomberg, 31 March 2023.

EQUITY FUND PERFORMANCE

Allan Gray Australia Equity Fund — Class A units

	Allan Gray Australia Equity Fund	S&P/ASX 300 Accumulation Index	Relative Performance
ANNUALISED (%)			
Since Public Launch on 4 May 2006	8.0	6.3	1.7
15 Years	7.9	6.4	1.5
10 Years	9.3	8.1	1.2
5 Years	7.6	8.6	(1.0)
3 Years	21.9	16.6	5.3
1 Year	(0.2)	(0.6)	0.4
NOT ANNUALISED (%)			
Latest Quarter	2.0	3.3	(1.3)

Allan Gray Australia Equity Fund — Class B units

	Allan Gray Australia Equity Fund	S&P/ASX 300 Accumulation Index	Relative Performance
ANNUALISED (%)			
Since Class Launch on 26 October 2012	10.9	9.1	1.8
10 Years	9.6	8.1	1.5
5 Years	8.4	8.6	(0.2)
3 Years	22.9	16.6	6.3
1 Year	0.5	(0.6)	1.1
NOT ANNUALISED (%)			
Latest Quarter	2.2	3.3	(1.1)

Highest and lowest annual return since launch

Allan Gray Australia Equity Fund - Class A units	Return %	Calendar year
Highest	55.1	2009
Lowest	(45.9)	2008

Allan Gray Australia Equity Fund - Class B units	Return %	Calendar year
Highest	33.4	2016
Lowest	(7.0)	2018

Past performance is not a reliable indicator of future performance. Returns shown are net of fees and assume reinvestment of distributions. Returns are annualised for periods of one year and over. Annualised returns show the average amount earned on an investment in the relevant Class each year over the given time period. Actual investor performance may differ as a result of the investment date, the date of reinvestment of income distributions, and withholding tax applied to income distributions.

The highest and lowest returns earned during any calendar year since the launch of each Class are shown to demonstrate the variability of returns. The complete return history for each Class can be obtained by contacting our Client Services team.

EQUITY FUND HOLDINGS

(CLASS A AND CLASS B)

Fund holdings as at 31 March 2023

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Newcrest Mining	259,669	11
Alumina	199,665	8
Woodside Energy Group	191,626	8
QBE Insurance Group	186,678	8
Ansell	137,343	6
ANZ Group Holdings Limited	120,971	5
Sims	110,749	5
Westpac Banking	87,516	4
Fletcher Building	82,948	3
Virgin Money UK	77,939	3
Lendlease Group	71,237	3
Origin Energy	68,219	3
Incitec Pivot	63,843	3
Nufarm	62,068	3
Metcash	58,563	2
Downer EDI	54,539	2
Santos	52,808	2
Insurance Australia Group	49,595	2
AMP	46,112	2
Worley	41,749	2
G8 Education	38,104	2
Skycity Entertainment Group	36,310	1
Peet	27,607	1
Positions less than 1%	193,984	9
Total Security Exposure	2,319,841	96
ASX SPI 200 ™ Futures Contract (06/2023)†	70,652	3
Net Current Assets	36,759	2
Net Assets	2,427,252	100
Price per unit - Class A (cum distribution)	AUD 1.7391	
Price per unit - Class B (cum distribution)	AUD 1.7424	
Total Assets Under Management for the Australian equity strategy (AUD 000's)‡	AUD 9,475,176	

† Futures contracts are fully backed by cash holdings.
‡ Allan Gray Australia Pty Ltd also manages segregated accounts that have substantially the same investment goals and restrictions as the Fund.

BALANCED FUND PERFORMANCE

Allan Gray Australia Balanced Fund

	Allan Gray Australia Balanced Fund	Custom Benchmark*	Relative Performance
ANNUALISED (%)			
Since Public Launch on 1 March 2017	7.2	6.6	0.6
5 Years	6.3	6.5	(0.2)
3 Years	13.6	6.8	6.8
1 Year	3.6	1.4	2.2
NOT ANNUALISED (%)			
Latest Quarter	3.3	5.5	(2.2)

Highest and lowest annual return since public launch

Allan Gray Australia Balanced Fund	Return %	Calendar year
Highest	13.9	2019
Lowest	(4.1)	2018

** The Custom Benchmark for the Fund comprises 36% S&P/ASX 300 Accumulation Index; 24% S&P/ASX Australian Government Bond Index; 24% MSCI World Index (net dividends reinvested) expressed in AUD; and 16% JPMorgan Global Government Bond Index expressed in AUD.*

Past performance is not a reliable indicator of future performance. Returns shown are net of fees and assume reinvestment of distributions. Returns are annualised for periods of one year and over. Annualised returns show the average amount earned on an investment in the relevant Fund each year over the given time period. Actual investor performance may differ as a result of the investment date, the date of reinvestment of income distributions, and withholding tax applied to income distributions.

The highest and lowest returns earned during any calendar year since the public launch of each Fund are shown to demonstrate the variability of returns. The complete return history for each Fund can be obtained by contacting our Client Services team.

BALANCED FUND HOLDINGS

Fund holdings as at 31 March 2023

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Equity		
Domestic Equity		
Newcrest Mining	5,680	4
Alumina	4,674	3
Woodside Energy Group	4,142	3
QBE Insurance Group	3,658	2
Sims	3,067	2
Ansell	3,019	2
ANZ Group Holdings Limited	2,557	2
Westpac Banking	1,874	1
Origin Energy	1,581	1
Domestic Equity Positions less than 1%	16,277	11
Global Equity		
Kinder Morgan	4,266	3
Samsung Electronics	3,455	2
Bayer	2,209	1
Fletcher Building	2,069	1
Drax Group	2,035	1
Taiwan Semiconductor Manufacturing	1,851	1
Burford Capital	1,783	1
Barrick Gold	1,655	1
Virgin Money UK	1,630	1
Global Equity Positions less than 1 %	42,769	28
Total Equity^	110,252	72

^ The Fund holds derivative contracts which reduces the effective net equity exposure to 65%.

BALANCED FUND HOLDINGS

Security	Market Value AUD 000's	% of Fund
Fixed Income		
Domestic Fixed Income		
Australian Government Bonds	23,173	15
Global Fixed Income		
US TIPS 3 - 5 Years	4,743	3
US TIPS 1 - 3 Years	1,663	1
Global Fixed Income Positions less than 1 %	4,690	3
Total Fixed Income	34,270	22
Commodity Linked Investments		
SPDR Gold Trust	7,370	5
Total Commodity Linked Investments	7,370	5
Total Security Exposure	151,892	99
Cash Equivalents and Term Deposits	522	<1
Net Current Assets	855	<1
Net Assets	153,269	100
Price per unit (cum distribution)	AUD 1.2746	

STABLE FUND PERFORMANCE

Allan Gray Australia Stable Fund

	Allan Gray Australia Stable Fund	RBA Cash	Relative Performance	Distribution
ANNUALISED (%)				
Since Public Launch on 1 July 2011	5.9	1.9	4.0	4.1
10 Years	5.4	1.5	3.9	4.1
5 Years	4.3	1.0	3.3	4.1
3 Years	7.2	0.8	6.4	4.5
1 Year	2.2	2.1	0.1	7.2
NOT ANNUALISED (%)				
Latest Quarter	2.0	0.8	1.2	0.9

Highest and lowest annual return since public launch

Allan Gray Australia Stable Fund	Return %	Calendar year
Highest	14.4	2016
Lowest	(0.5)	2018

Past performance is not a reliable indicator of future performance. Returns shown are net of fees and assume reinvestment of distributions. Returns are annualised for periods of one year and over. Annualised returns show the average amount earned on an investment in the relevant Fund each year over the given time period. Actual investor performance may differ as a result of the investment date, the date of reinvestment of income distributions, and withholding tax applied to income distributions.

The highest and lowest returns earned during any calendar year since the public launch of each Fund are shown to demonstrate the variability of returns. The complete return history for each Fund can be obtained by contacting our Client Services team.

STABLE FUND
HOLDINGS

Fund holdings as at 31 March 2023

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Newcrest Mining	17,745	5
Alumina	15,771	4
Woodside Energy Group	9,552	3
Ansell	3,922	1
Positions less than 1%	24,622	7
Total Security Exposure	71,612	20
Cash and Money Market Instruments	273,364	78
Net Current Assets	5,616	2
Net Assets	350,593	100
Price per unit (cum distribution)	AUD 1.2244	

INFORMATION ABOUT THE FUNDS

	Allan Gray Australia Equity Fund	Allan Gray Australia Balanced Fund	Allan Gray Australia Stable Fund
Investment objective	The Fund seeks long-term returns that are higher than the S&P/ ASX 300 Accumulation Index (Benchmark).	To seek long-term returns that are higher than the Custom Benchmark. In doing so, the Fund aims to balance capital growth, income generation and risk of loss using a diversified portfolio.	The Fund aims to provide a long-term return that exceeds the Reserve Bank of Australia cash rate (Benchmark), with less volatility than the Australia sharemarket.
Who should invest?	Investors looking for contrarian investment style exposure to the Australian sharemarket and who are able to take a long-term view and endure performance fluctuations.	Investors with an investment horizon of at least three years who want to easily diversify their portfolio within a single fund and are looking for less ups and downs than investing solely in shares. The Fund invests in shares, fixed income, cash and commodity investments sourced locally and globally.	Investors with a two-year or longer investment horizon who are looking to potentially outperform cash over the long term with less risk than investing in the sharemarket alone. The Fund holds at least 50% in cash and money market instruments. When the opportunity arises, the remainder is invested in selected ASX securities.
Dealing	Daily (cut-off at 2pm Sydney time. A different cut-off applies if investing via mFund, where applicable).		
Buy/sell spread	+0.2%/-0.2%	+0.2%/-0.2%	+0.1%/-0.1%
Fees and expenses (excluding GST)	**Class A** Management fee comprises: • Fixed (Base) fee – 0.75% per annum of the Fund's NAV. • Performance fee – 20% of the Class' outperformance, net of the base fee, in comparison to the Benchmark. A performance fee is only payable where the Class' outperformance exceeds the high watermark, which represents the highest level of outperformance, net of base fees, since the Class' inception.	Management fee comprises: • Fixed (Base) fee – 0.75% per annum of the Fund's NAV. • Performance fee – 20% of the Fund's outperformance, net of the base fee, in comparison to the custom Benchmark. A performance fee is only payable where the Fund's outperformance exceeds the high watermark, which represents the highest level of outperformance, net of base fees, since the Fund's inception.	Management fee comprises: • Fixed (Base) fee – 0.25% per annum of the Fund's NAV. • Performance fee – 20% of the Fund's outperformance, net of the base fee, in comparison to the Benchmark. A performance fee is only payable where the Fund's outperformance exceeds the high watermark, which represents the highest level of outperformance, net of base fees, since the Fund's inception.
	Class B Management fee comprises: • Fixed (Base) fee – Nil. • Performance fee – 35% of the Class' outperformance in comparison to the Benchmark. A performance fee is only payable where the Class' outperformance exceeds the high watermark, which represents the highest level of outperformance, since the Class' inception.		
Minimum initial investment	AUD 10,000/AUD 500 per month on a regular savings plan.		
Additional investment	AUD 1,000/AUD 500 per month on a regular savings plan.		
Redemption	No minimum applies for ad hoc redemptions. A minimum of AUD 500 per month applies on a regular redemption plan. Investors must maintain a minimum account balance of AUD 10,000.		

NOTICES

Sources

The source for the S&P/ASX 300 Accumulation Index and the S&P/ASX Australian Government Bond Index is Standard & Poor's. "S&P" is a trademark of S&P Global, Inc.; "ASX" and "ASX 300" are trademarks of ASX Operations Pty Limited ("ASXO"); and "S&P/ASX300" exists pursuant to an arrangement between ASXO and Standard & Poor's.

The source for the MSCI World Index is MSCI Inc. "MSCI" is a trademark of MSCI Inc.

The source for the JP Morgan Global Government Bond Index is J.P. Morgan Securities LLC. "JP Morgan" is a trademark of JPMorgan Chase & Co.

The third party information providers do not guarantee the accuracy, adequacy or completeness of this information, and no further distribution or dissemination of the index data is permitted without express written consent of the providers. None of those parties shall have any liability for any damages (whether direct or otherwise).

Returns

Fund returns are gross of all income, net of all expenses and fees, assume reinvestment of distributions and exclude any applicable spreads.

Risk Warnings

Managed investment schemes are generally medium to long-term investments. Past performance is not indicative of future performance. Each Fund's unit price will fluctuate and the Fund's performance is not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment in a Fund, an investor's capital is at risk. Subject to the disclosure documents, managed investment schemes are traded at prevailing prices and can engage in borrowing and securities lending.

US and European Persons

The Funds do not accept US persons as investors and are not marketed in the European Economic Area (EEA). Investors resident in the EEA can only invest in the Fund under certain circumstances as determined by, and in compliance with, applicable law.

Fees

The base fee and the performance fee (if applicable) are calculated and accrued daily, and paid monthly. A schedule of fees and charges is available in the relevant Fund's disclosure documents.

Other

Equity Trustees Limited, AFSL No. 240975 is the issuer of units in the Allan Gray Australia Equity Fund, the Allan Gray Australia Balanced Fund and the Allan Gray Australia Stable Fund and has full responsibility for each Fund. Equity Trustees Limited is a subsidiary of EQT Holdings Limited, a publicly listed company on the Australian Stock Exchange (ASX:EQT). Allan Gray Australia Pty Limited, AFSL No. 298487 is the Funds' investment manager. Each Fund's Product Disclosure Statement and Information Booklet (together, PDS) are available from www.allangray.com.au or by contacting Client Services on 1300 604 604 (within Australia) or +61 2 8224 8604 (outside Australia). You should consider the relevant Fund's PDS in deciding whether to acquire, or continue to hold, units in the fund. Target Market Determinations (TMDs) for the Allan Gray products can be found at allangray.com.au/PDS-TMD-documents. Each TMD sets out who an investment in the relevant Allan Gray product might be appropriate for and the circumstances that trigger a review of the TMD.

This report provides general information or advice and is not an offer to sell, or a solicitation to buy, units in the relevant Fund. Where the report provides commentary on a particular security, it is done to demonstrate the reasons why we have or have not dealt in the particular security for a Fund. It is not intended to be, nor should be construed as, financial product advice. This report is current as at its date of publication, is given in good faith and has been derived from sources believed to be reliable and accurate. It does not take into account your objectives, financial situation or needs. Any implied figures or estimates are subject to assumptions, risks and uncertainties. Actual figures may differ materially and you are cautioned not to place undue reliance on such information. Subject to applicable law, neither Allan Gray, Equity Trustees Limited nor any of its related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accept any liability to any person who relies on it. Fees are exclusive of GST. Totals presented in this document may not sum due to rounding.

CONTRARIAN INVESTING

INVESTMENT MANAGER

Allan Gray Australia Pty Ltd
ABN 48 112 316 168, AFSL No. 298487

Level 2, Challis House, 4 Martin Place
Sydney NSW 2000, Australia
Tel +61 2 8224 8604
www.allangray.com.au

RESPONSIBLE ENTITY AND ISSUER

Equity Trustees Ltd
ABN 46 004 031 298, AFSL No. 240975

Level 1, 575 Bourke Street
Melbourne VIC 3000, Australia
GPO Box 2307, Melbourne VIC 3001, Australia
Tel +61 3 8623 5000
www.eqt.com.au