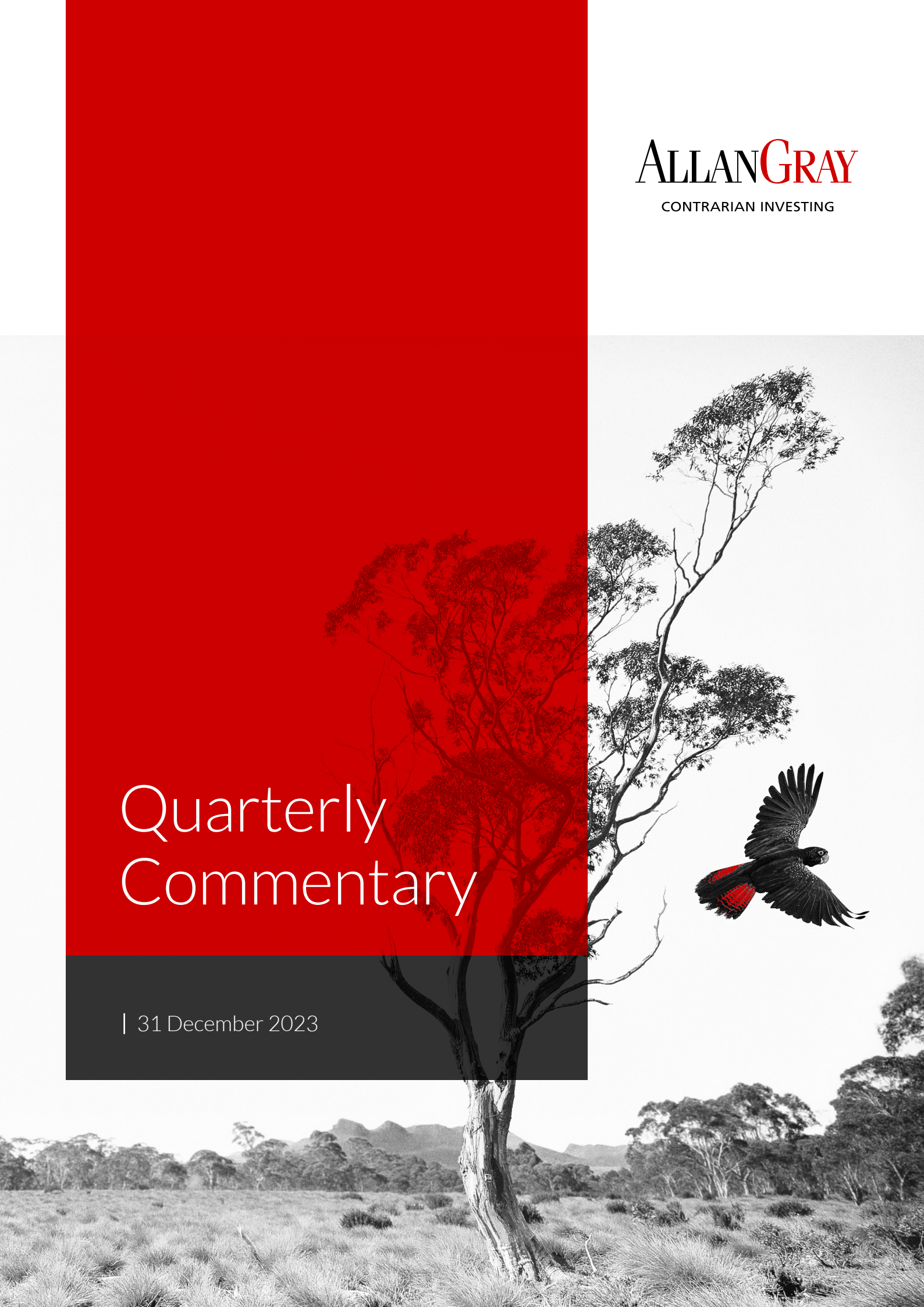


ALLAN GRAY

CONTRARIAN INVESTING

Quarterly Commentary

| 31 December 2023



Commentary

Simon Mawhinney

Managing Director and Chief Investment Officer



It has been a disappointing year for the relative performance of the Allan Gray Australia Equity strategy. It is tempting to point to stock-specific reasons for this underperformance, but our largest detractor from performance (Alumina) was mostly offset by our largest contributor (Newcrest Mining / Newmont).

Our underperformance this year is not because of the performance of our outliers. It is instead due to significant trending or momentum in areas of the market in which we are underrepresented.

We've been here before

We first wrote about being on the wrong side of momentum and trending share markets in our September 2015 Quarterly Commentary and then again in December 2021.

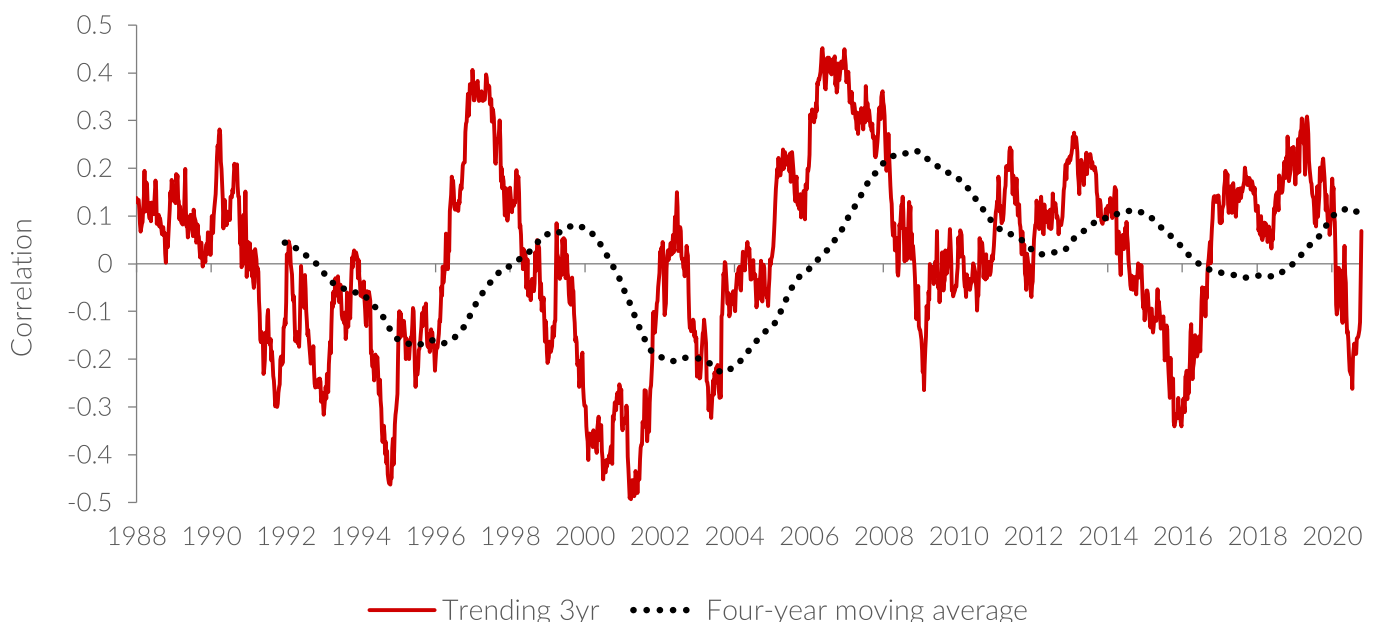
In the lead-up to late-2015, companies with defensive earnings characteristics were all the rage. Market participants bought

these companies aggressively and sold cyclically-exposed companies to fund these acquisitions, which led to significant relative price dislocations. By late-2021, it was all about sexy disruptors and high-quality companies, with the boring old-world companies being used as the funding vehicles. Investing against these trends later proved very rewarding for investors. Today, size and liquidity appear to be major beneficiaries of the market's trending, with large, liquid companies leading the field funded by the sale of smaller, less-liquid companies.

Graph 1 shows the degree to which shares have trended over time. It enables us to see how historical periods of extreme trending preceded the Dotcom bubble bursting, the onset of the Global Financial Crisis, and the extreme dislocations we saw in the aftermath of COVID-19 (e.g. the meme stock bubble).

All of these trends reversed. Today's levels are not as high as these previous extremes, but they are much higher than normal.

GRAPH 1 | Share prices are trending – winners keep on winning



Source: Orbis, 20 November 2020.

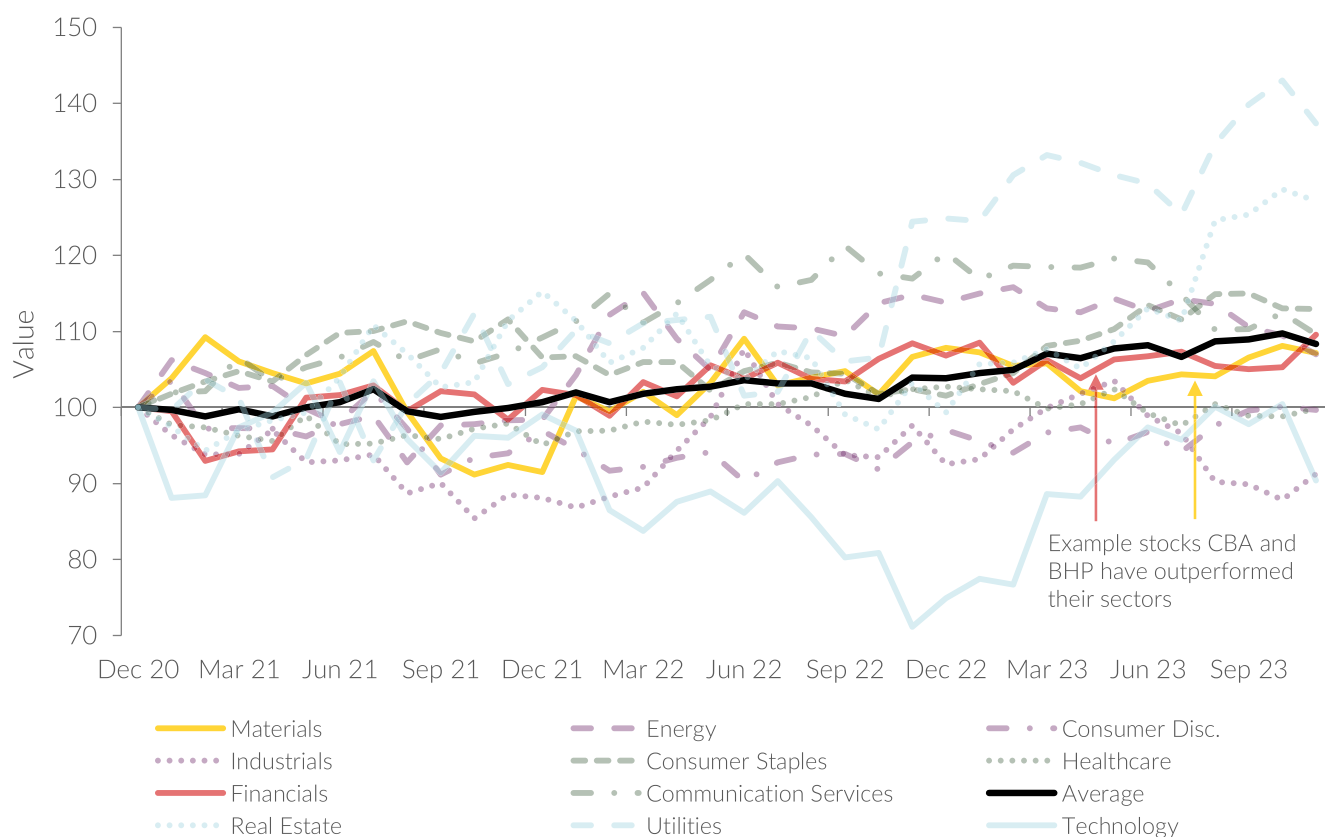
The graph plots the correlation between the total return of the winners over the past three years and the winners over the next three years. At each point on the graph, index constituents are ranked from the best performer to the worst performer in the FTSE All-World Australia Index over the prior three years. A similar rank is assigned to companies based on their actual returns in the next three years and the correlation of the ranks are determined. The higher the correlation, the greater the trending or momentum in the market.

In other words, a high correlation suggests that the winners of the past three years go on to be the winners of the next three years. The simple way to explain the graph is to say that when the line is high, the preceding three-year share price winners continue to be the next three-year share price winners. When the line is below zero, previous winners are recent losers.

Big has been beautiful

It is 'size' that has trended most strongly. In almost all sectors across the Australian market it is the largest company in that sector that has performed the best, as illustrated in Graph 2. It shows, for each sector, the price performance of the largest sector constituent relative to that sector as a whole. For example, the red line in the chart shows Commonwealth Bank of Australia's (CBA) price performance relative to the Financials sector. Not only has CBA outperformed its sector by about 10%, it constitutes 30% of the sector itself. The same is true for BHP Billiton (BHP) (with a 7% outperformance and a whopping 45% sector weight), Woolworths (13% outperformance and a huge 47% sector weight) and Goodman Group (27% outperformance and 31% sector weight). Using a simple average of the 11 sectors, the largest stock has outperformed the overall sector by over 8% (weighed down heavily by Xero in the Technology sector and Transurban in the Industrials sector).

GRAPH 2 | Performance of the largest company in a sector relative to the sector itself



Source: Factset, three years to 30 November 2023.

The extent of the outperformance is significantly more extreme than this 8% simple average might suggest. This is probably best illustrated by BHP and CBA.

These are the two largest companies in the Equity strategy's benchmark (11% and 8% respectively) and unsurprisingly therefore, the largest constituents in their respective sectors.

BHP has outperformed its materials sector by 7% over the past three years. Assuming a constant BHP sector weight (an unrealistic assumption, but not outrageous for this exercise) similar to its current 45%, means that the rest of the sector's constituents (55% of the sector weight) must have underperformed BHP by the same amount that BHP outperformed the sector (the sector performs in line with itself). The rest of the materials sector constituents therefore fell 5.7% in aggregate ($7\% \times 45\% / 55\%$), so BHP has

outperformed the rest of its sector by close to 13%. The same rough maths is true for CBA which has outperformed its sub-index by 10% over the past three years. At approximately 30% of its index, the rest of the constituents have returned -4%, underperforming CBA by 14%. It has been very costly to not own these two companies.

We have written in the past that we happen to be underweight large caps. In fact, our portfolio has a significant skew away from these stocks, as Table 1 shows.

TABLE 1 | The Equity strategy is underweight large caps

| Sub index | Company size | % S&P/ASX 300 | % Equity strategy | Overweight (↑) and underweight (↓) |
|--------------------------|--------------|---------------|-------------------|------------------------------------|
| S&P/ASX 20 | Large | 61% | 28% | ↓ |
| S&P/ASX 50 | | 78% | 44% | ↓ |
| S&P/ASX Mid Cap 50 | | 12% | 25% | ↑ |
| S&P/ASX 100 | Small | 89% | 68% | ↓ |
| S&P/ASX Small Ordinaries | | 11% | 23% | ↑ |
| S&P/ASX 300 | | 100% | 91% | |
| ex-S&P/ASX 300 and other | | | 9% | |

Source: Allan Gray, 30 November 2023.

What does this mean for our portfolio?

This is not the first time we have been battered by strongly trending markets and as bottom-up investors we don't try to forecast trends anyway. Even today, it is unclear what has given rise to this trend. Perhaps it is the higher liquidity that the largest companies offer relative to their smaller counterparts, something thematic or exchange-traded funds might value greatly. Or it may be the perception that, as we navigate

potential economic storm clouds on the horizon, the largest companies will be the safest.

The good news though is that trends like this are not based on fundamentals and can't last forever. At some stage the pendulum will swing back to an equilibrium. To get to that equilibrium, the largest companies will have to underperform and, in the process, our performance should improve as price does matter, and will always matter, over the long term.

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 | 7.8 | 6.5 | 1.3 |
| 15 years | 11.4 | 9.4 | 2.0 |
| 10 years | 8.9 | 7.9 | 1.0 |
| 5 years | 8.6 | 10.3 | (1.7) |
| 3 years | 10.1 | 9.0 | 1.1 |
| 1 year | 4.2 | 12.1 | (7.9) |
| Not Annualised % | | | |
| Latest Quarter | 2.6 | 8.4 | (5.8) |

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 | 10.4 | 9.2 | 1.2 |
| 10 years | 9.1 | 7.9 | 1.2 |
| 5 years | 9.4 | 10.3 | (0.9) |
| 3 years | 10.9 | 9.0 | 1.9 |
| 1 year | 5.0 | 12.1 | (7.1) |
| Not Annualised % | | | |
| Latest Quarter | 2.8 | 8.4 | (5.6) |

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 indicative 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 December 2023

Statement of net assets (unaudited)

| Security | Market Value AUD 000's | % of Fund |
|---|------------------------|------------|
| Newmont | 192,657 | 8 |
| Woodside Energy Group | 164,276 | 7 |
| QBE Insurance Group | 147,896 | 6 |
| Ansell | 140,308 | 6 |
| ANZ Group Holdings Limited | 130,882 | 5 |
| Alumina | 122,137 | 5 |
| Westpac Banking | 113,962 | 5 |
| Sims | 102,789 | 4 |
| Fletcher Building (New Zealand) | 100,278 | 4 |
| Virgin Money UK | 95,167 | 4 |
| Lendlease Group | 79,840 | 3 |
| Origin Energy | 71,526 | 3 |
| Downer EDI | 71,103 | 3 |
| Incitec Pivot | 70,572 | 3 |
| Nufarm | 65,718 | 3 |
| Santos | 59,655 | 2 |
| Metcash | 56,203 | 2 |
| Insurance Australia Group | 46,008 | 2 |
| Amcor | 42,844 | 2 |
| Coles Group | 41,909 | 2 |
| Charter Hall Group | 40,563 | 2 |
| SkyCity Entertainment Group (New Zealand) | 38,482 | 2 |
| G8 Education | 36,572 | 1 |
| Peet | 29,532 | 1 |
| Csl | 27,236 | 1 |
| Orora | 26,066 | 1 |
| Bank Of Queensland | 25,049 | 1 |
| Service Stream | 24,798 | 1 |
| Positions less than 1% | 168,316 | 7 |
| Total Security Exposure | 2,332,347 | 95 |
| ASX SPI 200 TM Futures Contract (03/2024)* | 106,569 | 4 |
| Net Current Assets | 17,860 | 1 |
| Net Assets | 2,456,776 | 100 |
| Price per unit - Class A (cum distribution) | AUD 1.6272 | |
| Price per unit - Class B (cum distribution) | AUD 1.6289 | |
| Total Assets Under Management for the Australian equity strategy (AUD 000's)‡ | AUD 10,167,615 | |

† 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 | 6.9 | 6.8 | 0.1 |
| 5 years | 7.6 | 7.1 | 0.5 |
| 3 years | 8.3 | 4.7 | 3.6 |
| 1 year | 6.7 | 11.6 | (4.9) |
| Not Annualised % | | | |
| Latest Quarter | 3.0 | 5.8 | (2.8) |

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 indicative 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 December 2023 Statement of net assets (unaudited)

| Security | Market Value AUD 000's | % of Fund |
|--|------------------------|-----------|
| Equity | | |
| Domestic Equity | | |
| Woodside Energy Group | 3,393 | 2 |
| Ansell | 3,160 | 2 |
| Alumina | 2,930 | 2 |
| ANZ Group Holdings Limited | 2,616 | 2 |
| QBE Insurance Group | 2,593 | 2 |
| Sims | 2,435 | 2 |
| Westpac Banking | 2,343 | 1 |
| Domestic Equity Positions less than 1% | 19,154 | 12 |
| Global Equity | | |
| Newmont | 4,294 | 3 |
| Samsung Electronics | 4,126 | 3 |
| Kinder Morgan | 3,889 | 2 |
| Fletcher Building (New Zealand) | 2,666 | 2 |
| Burford Capital | 2,656 | 2 |
| Taiwan Semiconductor Manufacturing | 2,286 | 1 |
| Drax Group | 1,992 | 1 |
| Virgin Money UK | 1,762 | 1 |
| Global Equity Positions less than 1% | 39,778 | 25 |
| Total Equity^ | 102,073 | 64 |

^ The Fund holds derivative contracts which reduces the effective net equity exposure to 55%.

Balanced Fund Holdings

| Security | Market Value AUD 000's | % of Fund |
|---|------------------------|------------|
| Fixed Income | | |
| Domestic Fixed Income | | |
| Australian Government Bonds | 27,594 | 17 |
| Global Fixed Income | | |
| US TIPS 3 - 5 Years | 4,088 | 3 |
| US TIPS 1 - 3 Years | 2,067 | 1 |
| US TIPS 5 - 7 Years | 1,872 | 1 |
| Global Fixed Income Positions less than 1 % | 7,898 | 5 |
| Total Fixed Income | 43,519 | 27 |
| Commodity Linked Investments | | |
| SPDR Gold Trust | 7,779 | 5 |
| Total Commodity Linked Investments | 7,779 | 5 |
| Total Security Exposure | 153,371 | 97 |
| Cash Equivalents and Term Deposits | 4,835 | 3 |
| Net Current Assets | 181 | <1 |
| Net Assets | 158,388 | 100 |
| Price per unit (cum distribution) | AUD 1.2545 | |

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 | 5.7 | 2.0 | 3.7 | 4.2 |
| 10 years | 5.2 | 1.6 | 3.6 | 4.0 |
| 5 years | 4.6 | 1.4 | 3.2 | 4.3 |
| 3 years | 4.3 | 1.8 | 2.5 | 4.5 |
| 1 year | 4.0 | 4.0 | 0.0 | 5.5 |
| Not Annualised % | | | | |
| Latest Quarter | 1.6 | 1.1 | 0.5 | 1.0 |

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 indicative 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 December 2023 Statement of net assets (unaudited)

| Security | Market Value AUD 000's | % of Fund |
|-----------------------------------|------------------------|------------|
| Newmont | 9,724 | 3 |
| Alumina | 9,486 | 3 |
| Woodside Energy Group | 7,699 | 2 |
| Ansell | 3,649 | 1 |
| Positions less than 1% | 34,827 | 10 |
| Total Security Exposure | 65,384 | 18 |
| Cash and Money Market Instruments | 290,152 | 82 |
| Net Current Assets | 2,510 | <1 |
| Net Assets | 358,046 | 100 |
| Price per unit (cum distribution) | AUD 1.1944 | |

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. | The Fund seeks 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, with less volatility than the Australian sharemarket. |
| Who should consider investing? | 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 | Class A <ul style="list-style-type: none"> Management fees and costs – 0.77% per annum of the Fund's NAV. Performance fee – 20.5% 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-water mark, which represents the highest level of outperformance, net of base fees, since the Class' inception. | <ul style="list-style-type: none"> Management fees and costs – 0.76% per annum of the Fund's NAV. Performance fee – 20.3% 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-water mark, which represents the highest level of outperformance, net of base fees, since the Fund's inception. <p>Other fees and costs may apply, see Product Disclosure Statement for more information.</p> | <ul style="list-style-type: none"> Management fees and costs – 0.26% per annum of the Fund's NAV. Performance fee – 20.5% 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-water mark, which represents the highest level of outperformance, net of base fees, since the Fund's inception. <p>Other fees and costs may apply, see Product Disclosure Statement for more information.</p> |

| | | | |
|--------------------------------------|--|--|--|
| Fees and expenses (continued) | <p>Class B</p> <ul style="list-style-type: none"> • Management fees and costs – Nil. • Performance fee – 35.88% of the Class' outperformance in comparison to the Benchmark. A performance fee is only payable where the Class' outperformance exceeds the high-water mark, which represents the highest level of outperformance, since the Class' inception. <p>Other fees and costs may apply, see Product Disclosure Statement for more information.</p> | | |
| Minimum initial investment | AUD 10,000/AUD 500 per month on a regular savings plan. | | |
| Minimum additional investment | AUD 1,000/AUD 500 per month on a regular savings plan. | | |
| Minimum 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.

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CONTRARIAN INVESTING

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