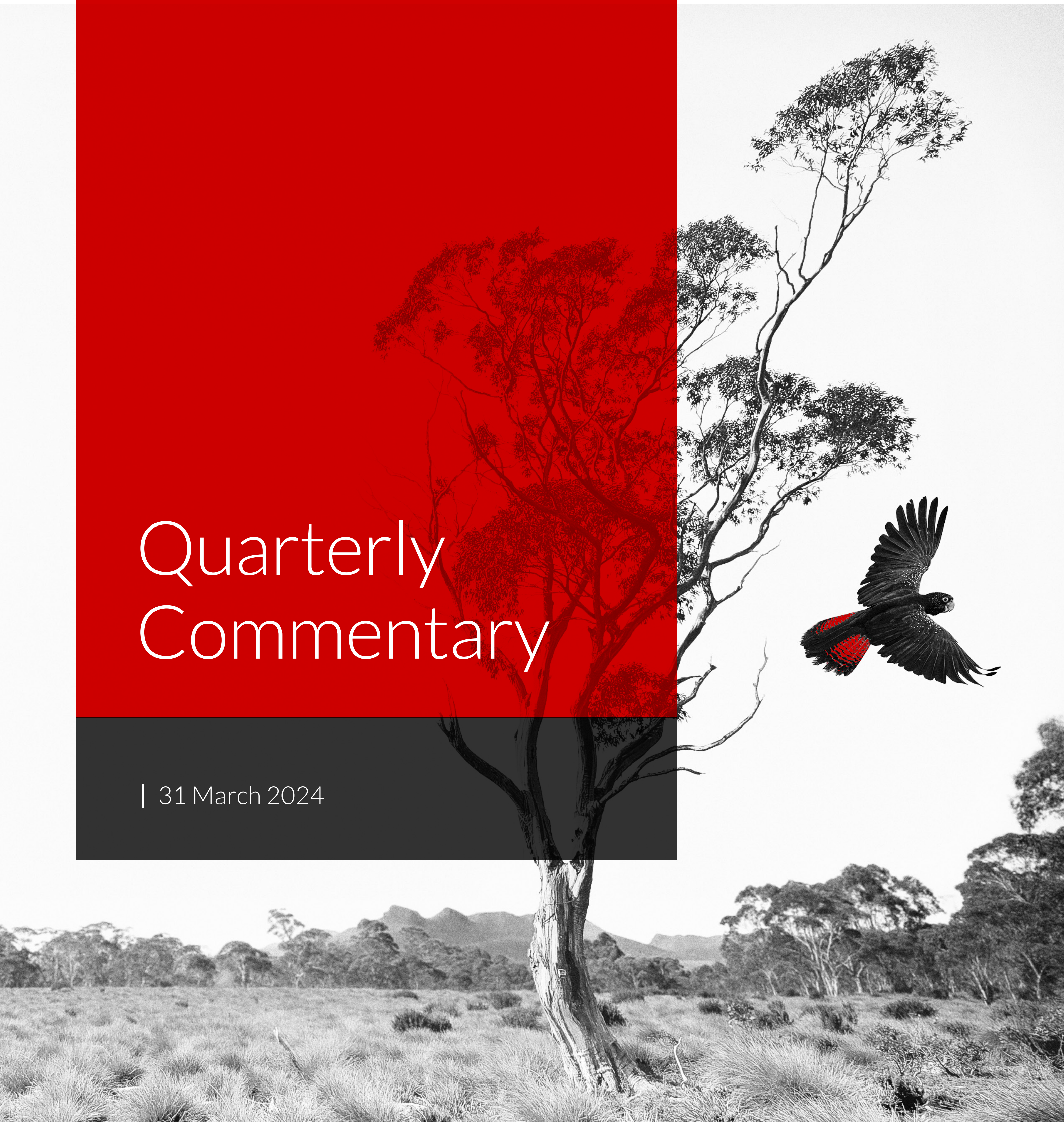
ALLAN GRAY
CONTRARIAN INVESTING

Quarterly Commentary

| 31 March 2024



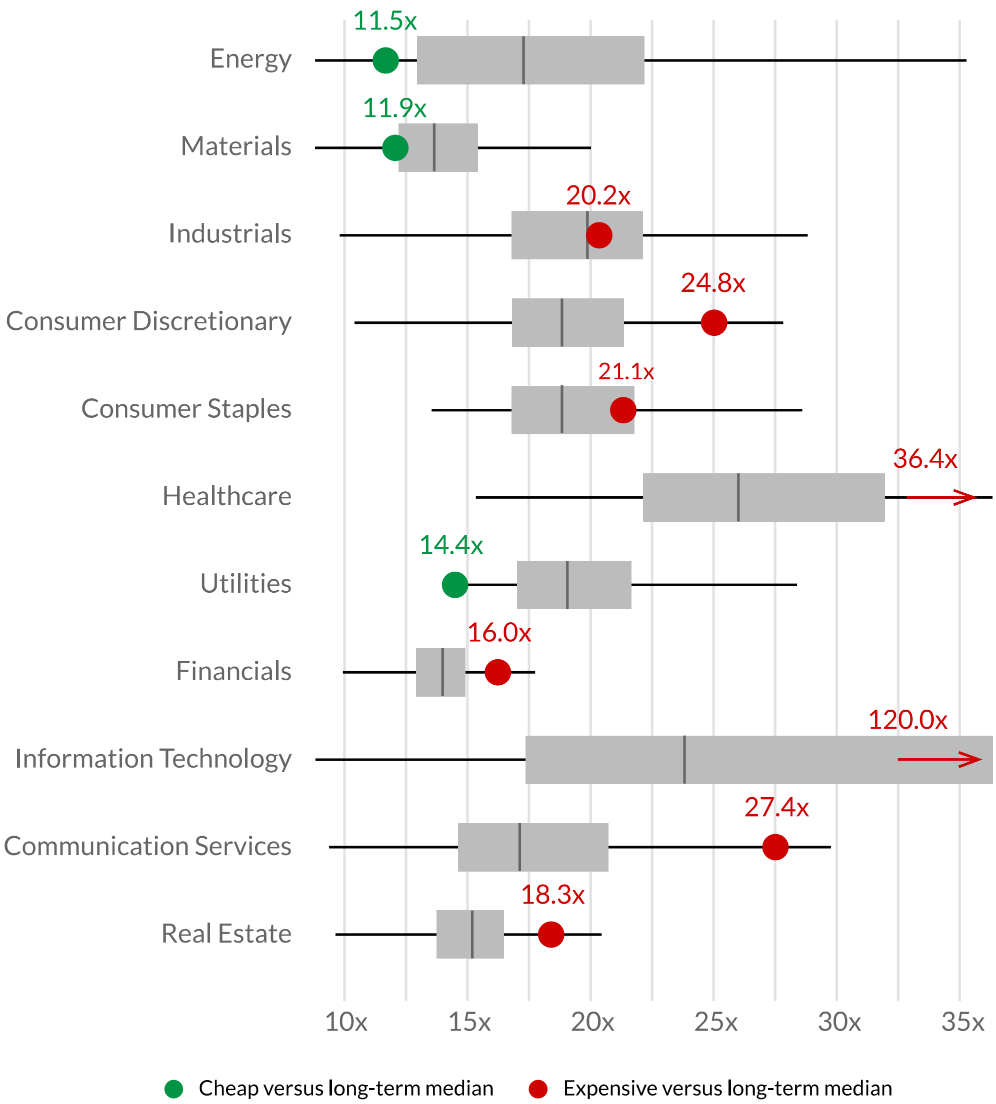
Commentary

Simon Mawhinney
Managing Director and Chief Investment Officer

In last quarter's commentary we spoke about the strong price trends we've seen in the largest shares of each sector. Very little has changed since then, although trending in some sectors has become less extreme (e.g. Consumer Staples) and in others more extreme (e.g. Real Estate).

This Quarterly Commentary is split into three sections. The first section provides a high-level overview of sector valuations relative to history. The second discusses whether fundamentals have contributed to the strong trending in large caps that we wrote about last quarter. The third section outlines what we've been doing in the Allan Gray Australia Equity strategy.

GRAPH 1 | Today's sector valuations versus history



Source: LSEG, Orbis, 15 March 2024.

1. Sector valuations today relative to history

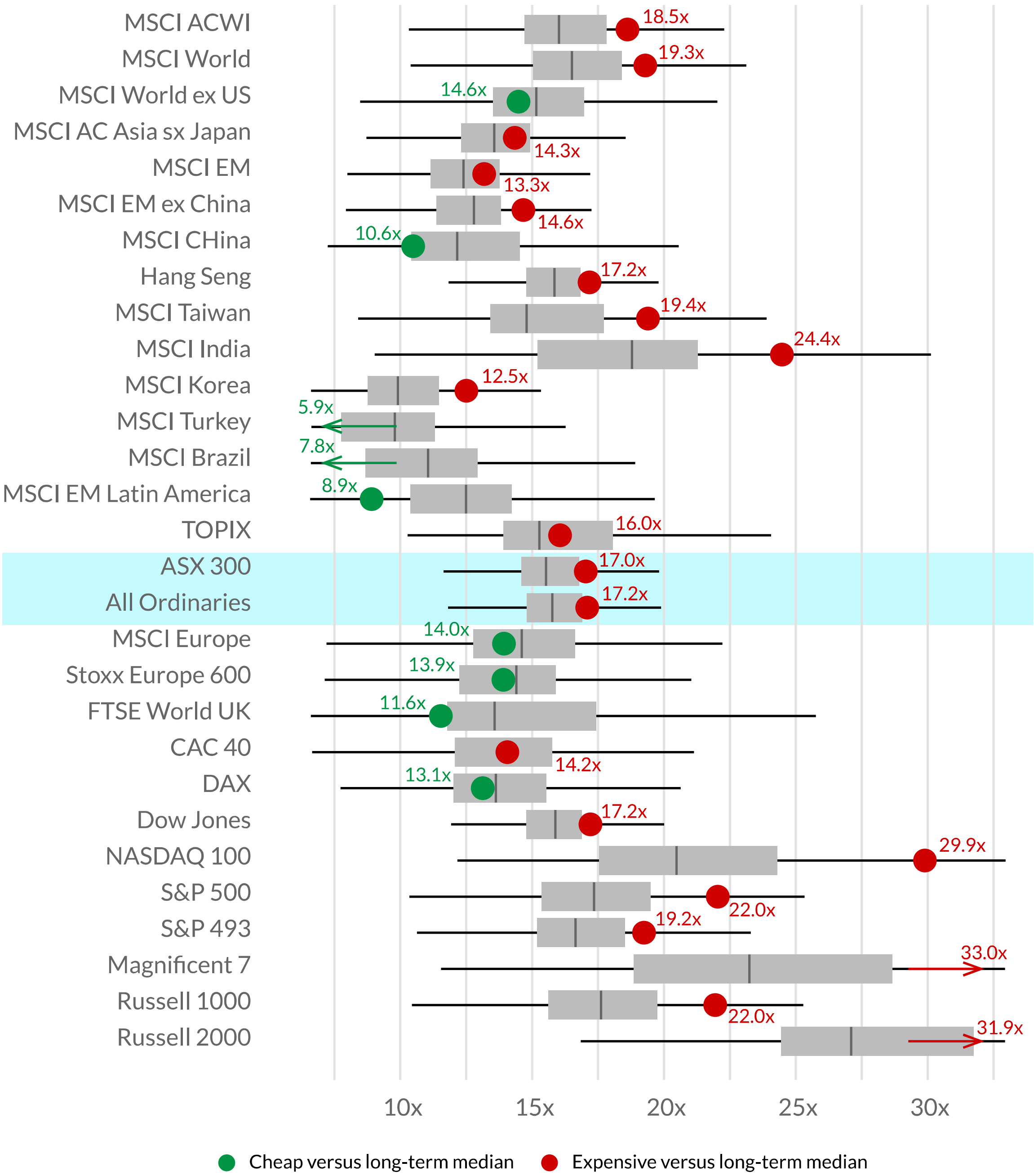
Graph 1 uses weekly weighted-average sector valuations since 2000. Valuations represent next year's forecast price to earnings ratios (or forward P/E multiples). It is a box and whisker plot, where the 'box' reflects the historical interquartile range (25th percentile to median and median to 75th percentile) of these weekly valuations (forward P/E multiples). The 'whiskers' (the horizontal lines on either side of the box) show the bottom 25% and the top 25% of valuations since 2000. The green and red dots show today's valuation, with red being expensive versus the long-term median valuation and green being cheap.

By way of example, if we focus on the Real Estate box and whisker from Graph 1, the median weekly forward P/E ratio since 2000 is about 15 times (the vertical line inside the box). Valuations have traded in a tight band, as depicted by the small size of the box and the length of the whiskers. The sector currently trades for 18.3 times next year's earnings (the dot) which is above (more 'expensive' than) the median valuation, hence the red colour of the dot.

A few key takeaways from Graph 1 are worth noting:

- Only Energy, Materials and Utilities trade below their historical valuations;
- Consumer Discretionary and Communication Services trade at elevated levels relative to history (the current valuation is well into the upper whisker of the historical range); and
- Healthcare and Information Technology are trading at extreme levels relative to history.

GRAPH 2 | Not many cheap sharemarkets



Source: LSEG, Orbis, 15 March 2024.

The multiple of a company's earnings is important, but so too is the level of those earnings relative to future sustainable levels and the growth rates of those earnings. For example, it could be argued that a large part of the Materials sector's earnings are inflated by high iron ore prices (embedded into consensus earnings forecasts for next year) and so its depressed multiple might in fact be deceiving. A similar outcome may be true for Utilities, where the two largest constituents are currently experiencing earnings tailwinds from inflated electricity prices. And, the high multiples we see in some sectors may well be justified by their earnings growth trajectories.

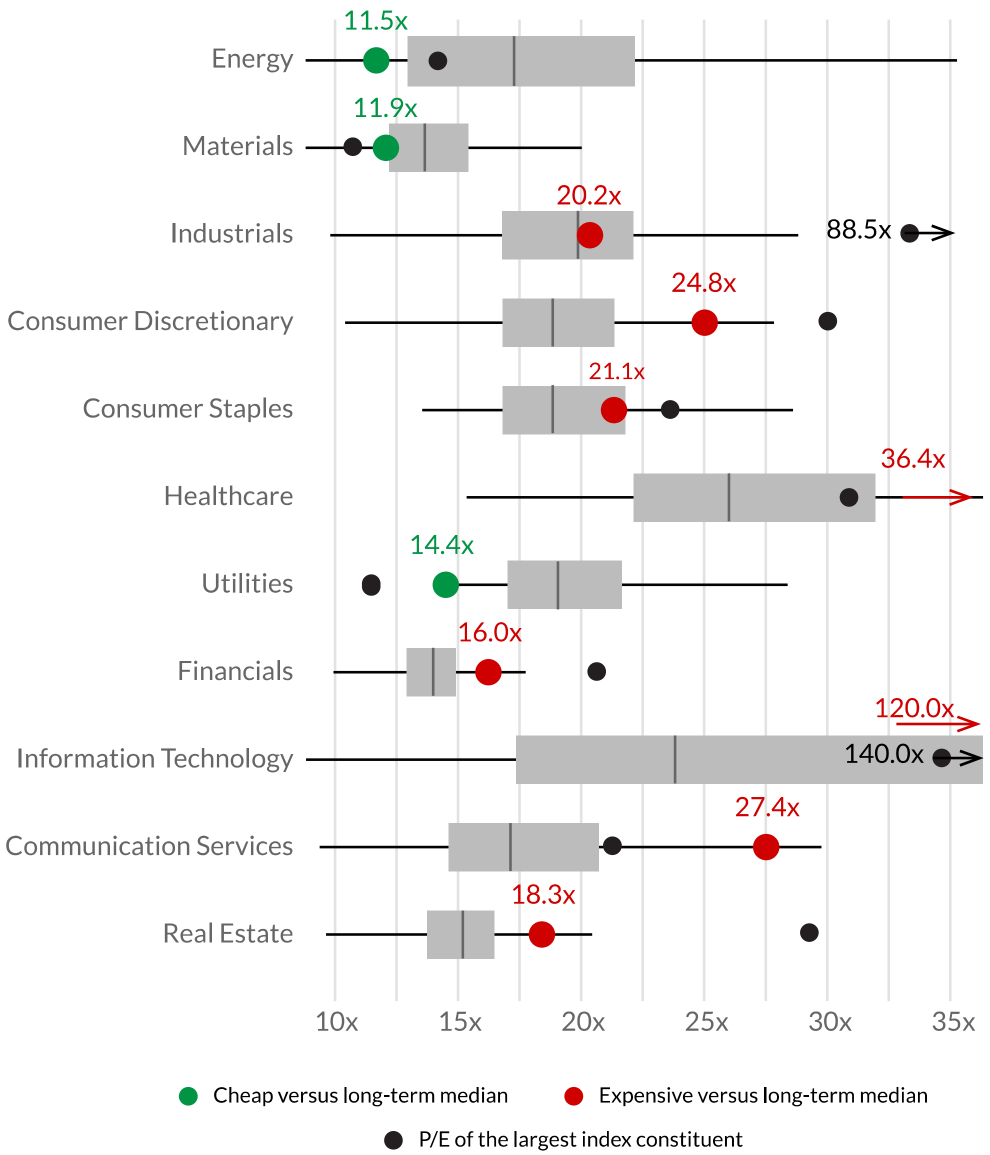
Graph 2 depicts similar valuations for a number of sharemarkets, including the S&P/ASX 300 Index. Based on historical valuations (forward earnings multiples), the S&P/ASX 300 Index looks a little expensive relative to its history but not as expensive as the likes of the NASDAQ 100 or MSCI India.

2. Do fundamentals explain the relative performance of the large caps?

Large cap outperformance cannot be explained by their fundamental earnings profiles. To attempt to illustrate this, we have reproduced Graph 1 with an additional black dot in Graph 3. This shows the one-year forward P/E multiple of the largest index constituent (the same companies we graphed in our Q4 2023 Quarterly Commentary).

For seven of the eleven sectors, the largest constituent is meaningfully more expensive than the median (note that for Industrials, the largest constituent is Transurban, a toll-road owner whose earnings might not be a fair representation of value, as its cashflows exceed earnings during the life of any single concession; the second largest constituent, Brambles, is in line with the median).

GRAPH 3 | Forward P/E multiple of the largest company in each sector



Source: Orbis, LSEG, FactSet, 15 March 2024.

The four instances where the largest capped stock has a lower valuation than its sector average each have their own nuances:

1. In Materials, BHP is the largest constituent and there are two good reasons why its multiple is lower than the sector median. First, earnings for all iron ore miners are forecast to fall in future years and BHP is no different (still BHP, the largest iron ore miner, still trades at meaningfully higher multiples than other close peers, such as Rio Tinto and Fortescue). Second, the sector median skews upwards due to the depressed earnings factored into forecasts for the lithium, gold and base metal miners.

2. For Healthcare, the largest constituent, CSL, is a noticeable exception. Today's sector valuation is skewed upwards by Pro Medicus and PolyNovo on 130 times and 386 times earnings respectively. If one of these companies were removed, the Healthcare sector would not be an exception, i.e. CSL would be more expensive than the average healthcare company.

3. The Utilities sector is dominated by Origin (50% of the sector), whose earnings are inflated. What's more, there are only three constituents in the index (AGL Energy and APA Group being the other two), so the analysis on a small data set is less meaningful.

4. For Communication Services, the largest constituent (Telstra) is unlike any of the other sector heavyweights, which include a handful of very high-multiple growth stocks like CAR Group, Seek, REA Group and Domain.

We mentioned earlier that a focus on P/E ratios alone is flawed and it is important to also assess the growth trajectory of earnings in this valuation metric. We have not detailed our findings here (perhaps a topic for a future quarterly commentary), but it is clear that earnings growth does justify somewhat higher valuations (P/E multiples) in some sectors than in others (e.g. Technology versus Materials). However, within a given sector, our research suggests that the earnings growth of the largest company is not meaningfully different to the earnings growth of the sector as a whole and is often lower.

It appears that the underlying fundamentals don't explain why the largest capped shares have significantly outperformed the smaller capped shares. They, for the most part, trade on higher multiples of earnings and their earnings growth does not appear to justify their elevated multiples.

3. How we've positioned the Equity strategy

The Equity strategy continues to skew away from the largest capped stocks. The Energy sector is one exception where our largest sector overweight is also the largest constituent of the sector, namely Woodside. In this instance, we think the longevity of Woodside's earnings (from its oil and gas reserves) justifies the premium to the sector multiple whose reserve lives are, on average, far shorter.

In most other cases, we see merit in owning companies other than the largest sector constituents, or not having exposure to the sector at all. We are heavily skewed towards Energy and Materials, the two sectors that screen the cheapest relative to their history. While these sectors are exposed to a precariously positioned economic cycle, they are priced well below their historical medians with uncertain economic headwinds at least partly (we think more than fully) factored into the price.

We have no, or very low, exposure to the sectors which screen 'expensive' relative to their own history, in particular, Healthcare (we hold Ansell which is a constituent of Healthcare, but we view this as a constituent of Industrials), Information Technology and Consumer Discretionary.

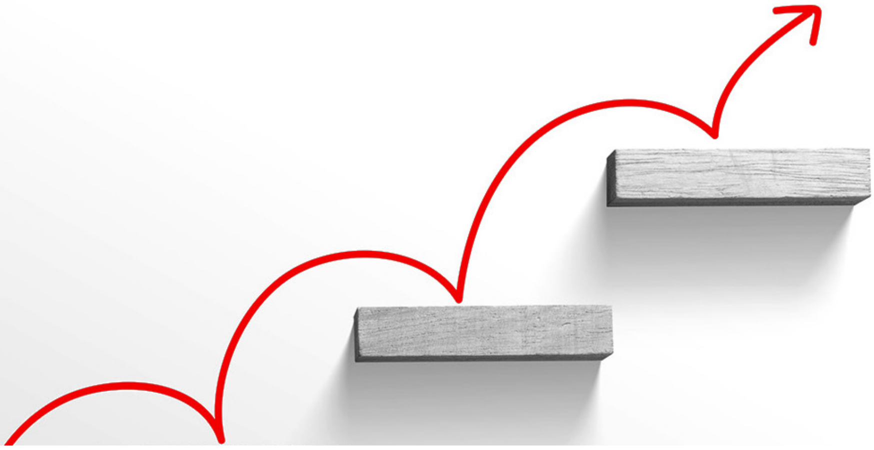
At the time of writing, based on consensus forecasts our portfolio trades at 12.9 times next year's earnings, a significant discount to the broader sharemarket, as shown in Table 1. And what's more, those earnings are not growing meaningfully slower than the broader sharemarket.

TABLE 1 | The Equity strategy trades at a significant discount to the sharemarket

	2023 (A)	2024 (F)	2025 (F)	Price-to-book value
Equity strategy P/E multiple	15.7x	15.1x	12.9x	1.2x
S&P/ASX 300 Index P/E multiple	17.3x	17.0x	16.4x	2.2x

Source: FactSet, Allan Gray, 21 March 2024. (A) = Actual; (F) = Forecast.

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	8.2	6.8	1.4
15 years	12.6	9.9	2.7
10 years	9.1	8.3	0.8
5 years	7.8	9.2	(1.4)
3 years	10.2	9.4	0.8
1 year	10.1	14.4	(4.3)
Not Annualised %			
Latest Quarter	7.8	5.4	2.4

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	9.5	1.4
10 years	9.5	8.3	1.2
5 years	8.7	9.2	(0.5)
3 years	11.0	9.4	1.6
1 year	11.0	14.4	(3.4)
Not Annualised %			
Latest Quarter	8.0	5.4	2.6

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)

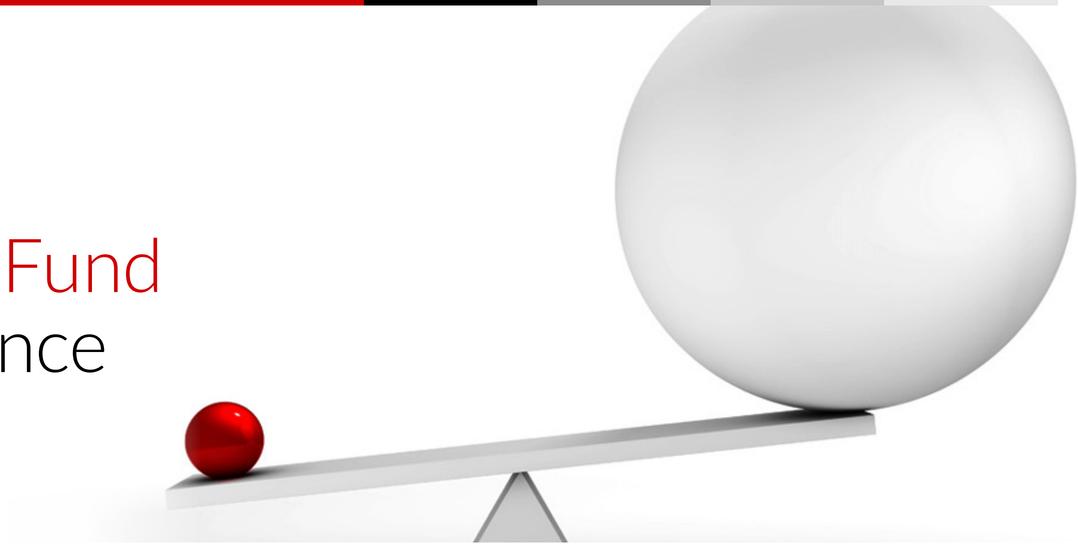
Fund holdings as at 31 March 2024

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Alumina	191,640	7
Woodside Energy Group	191,349	7
Newmont	188,911	7
QBE Insurance Group	168,581	7
ANZ Group Holdings Limited	140,261	5
Ansell	138,222	5
Virgin Money UK	126,173	5
Westpac Banking	106,185	4
Fletcher Building (New Zealand)	93,926	4
Sims	90,465	3
Incitec Pivot	76,342	3
Downer EDI	74,690	3
Lendlease Group	70,190	3
Origin Energy	69,752	3
Nufarm	68,814	3
Amcor	59,463	2
Metcash	57,333	2
Orora	51,448	2
Santos	47,876	2
Coles Group	44,924	2
SkyCity Entertainment Group (New Zealand)	42,180	2
Insurance Australia Group	37,434	1
G8 Education	36,382	1
Charter Hall Group	34,683	1
Bank Of Queensland	29,481	1
Peet	28,132	1
Service Stream	27,620	1
Telstra Group	26,113	1
South32	25,922	1
Positions less than 1%	153,635	6
Total Security Exposure	**2,498,127**	**97**
ASX SPI 200 ™ Futures Contract (06/2024)†	55,458	2
Net Current Assets	34,089	1
Net Assets	**2,587,673**	**100**
Price per unit - Class A (cum distribution)	AUD 1.7538	
Price per unit - Class B (cum distribution)	AUD 1.759	
Total Assets Under Management for the Australian equity strategy (AUD 000's)‡	AUD 11,129,260	

† 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	7.7	7.4	0.3
5 years	7.9	6.7	1.2
3 years	9.0	6.2	2.8
1 year	10.9	11.8	(0.9)
Not Annualised %			
Latest Quarter	7.3	5.7	1.6

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 March 2024
Statement of net assets (unaudited)

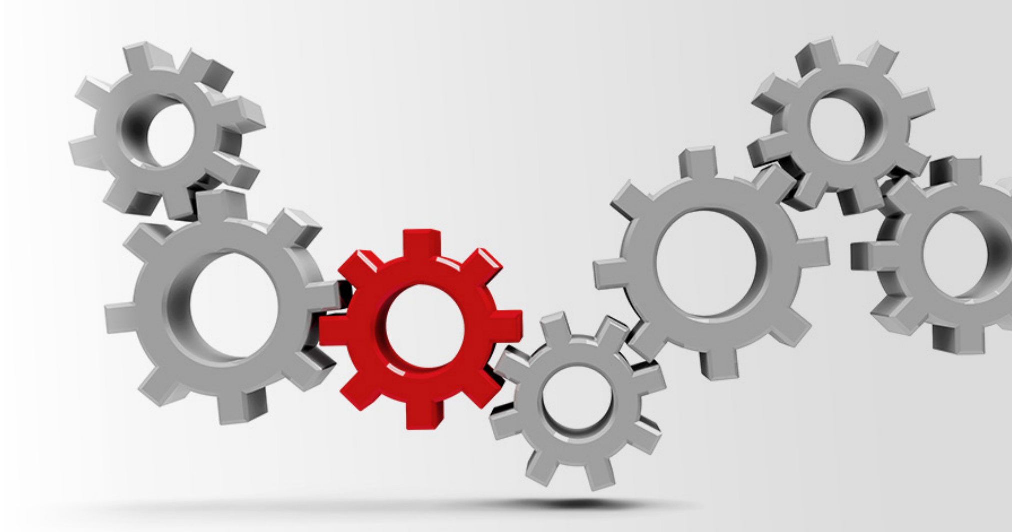
Security	Market Value AUD 000's	% of Fund
Equity		
Domestic Equity		
Alumina	4,598	3
Woodside Energy Group	4,562	3
Ansell	3,213	2
QBE Insurance Group	3,043	2
ANZ Group Holdings Limited	2,546	1
Sims	2,186	1
Domestic Equity Positions less than 1%	20,736	12
Global Equity		
Samsung Electronics	4,661	3
Kinder Morgan	4,228	2
Newmont	4,078	2
Burford Capital	3,009	2
Mitsubishi Heavy Industries	2,528	1
Fletcher Building (New Zealand)	2,473	1
Taiwan Semiconductor Manufacturing	2,368	1
Drax Group	2,343	1
Virgin Money UK	2,336	1
Global Equity Positions less than 1%	47,886	27
Total Equity^	**116,793**	**66**

^ The Fund holds derivative contracts which reduces the effective net equity exposure to 57%.

Balanced Fund Holdings

Security	Market Value AUD 000's	% of Fund
Fixed Income		
Domestic Fixed Income		
Australian Government Bonds	31,471	18
Global Fixed Income		
US TIPS 3 - 5 Years	4,292	2
US TIPS 5 - 7 Years	2,111	1
Global Fixed Income Positions less than 1 %	10,640	6
Total Fixed Income	**48,514**	**28**
Commodity Linked Investments		
SPDR Gold Trust	9,215	5
Total Commodity Linked Investments	**9,215**	**5**
Total Security Exposure	**174,522**	**99**
Cash Equivalents and Term Deposits	1,086	<1
Net Current Assets	744	<1
Net Assets	**176,353**	**100**
Price per unit (cum distribution)	AUD 1.3463	

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	5.8	2.1	3.7	4.2
10 years	5.3	1.7	3.6	4.0
5 years	4.3	1.5	2.8	4.4
3 years	4.5	2.1	2.4	4.9
1 year	4.6	4.2	0.4	5.7
Not Annualised %				
Latest Quarter	2.6	1.1	1.5	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.

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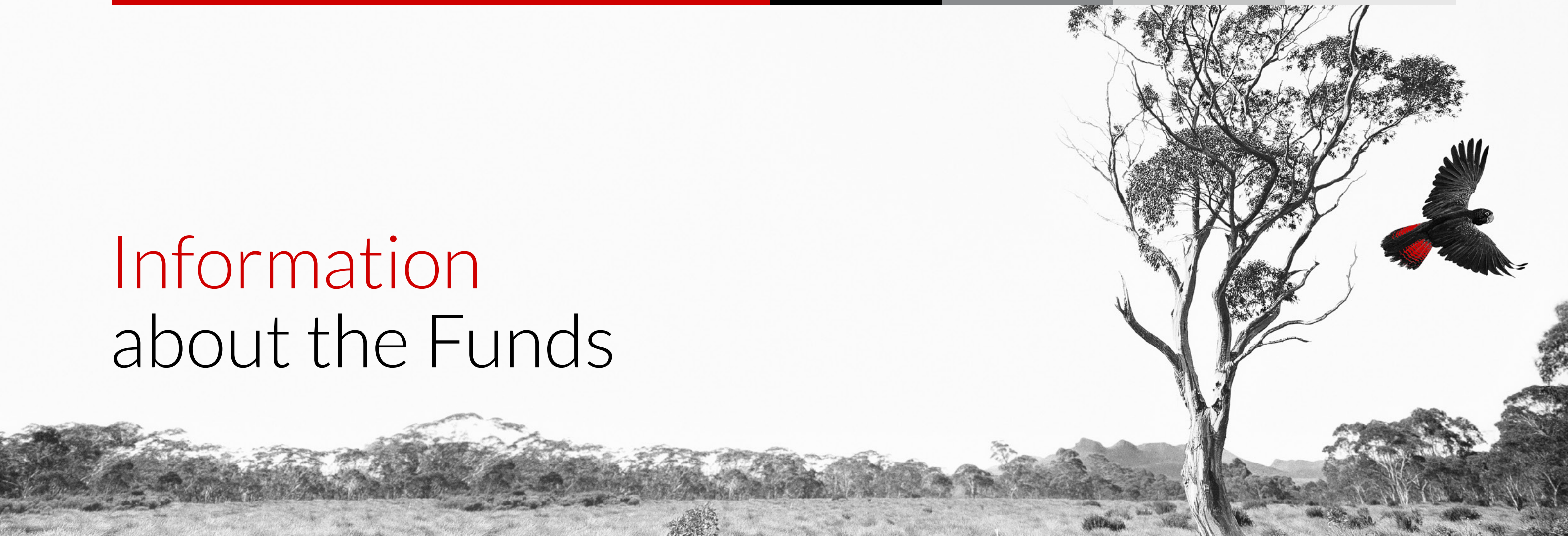
Stable Fund Holdings

Fund holdings as at 31 March 2024
Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Alumina	14,884	4
Newmont	9,112	3
Woodside Energy Group	7,714	2
Ansell	3,722	1
Positions less than 1%	27,178	8
Total Security Exposure	**62,612**	**18**
Cash and Money Market Instruments	287,702	82
Net Current Assets	2,628	<1
Net Assets	**352,942**	**100**
Price per unit (cum distribution)	AUD 1.2126	



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** • 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.	• 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. Other fees and costs may apply, see Product Disclosure Statement for more information.	• 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. Other fees and costs may apply, see Product Disclosure Statement for more information.

Fees and expenses (continued)	**Class B** • 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. Other fees and costs may apply, see Product Disclosure Statement for more information.		
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.

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