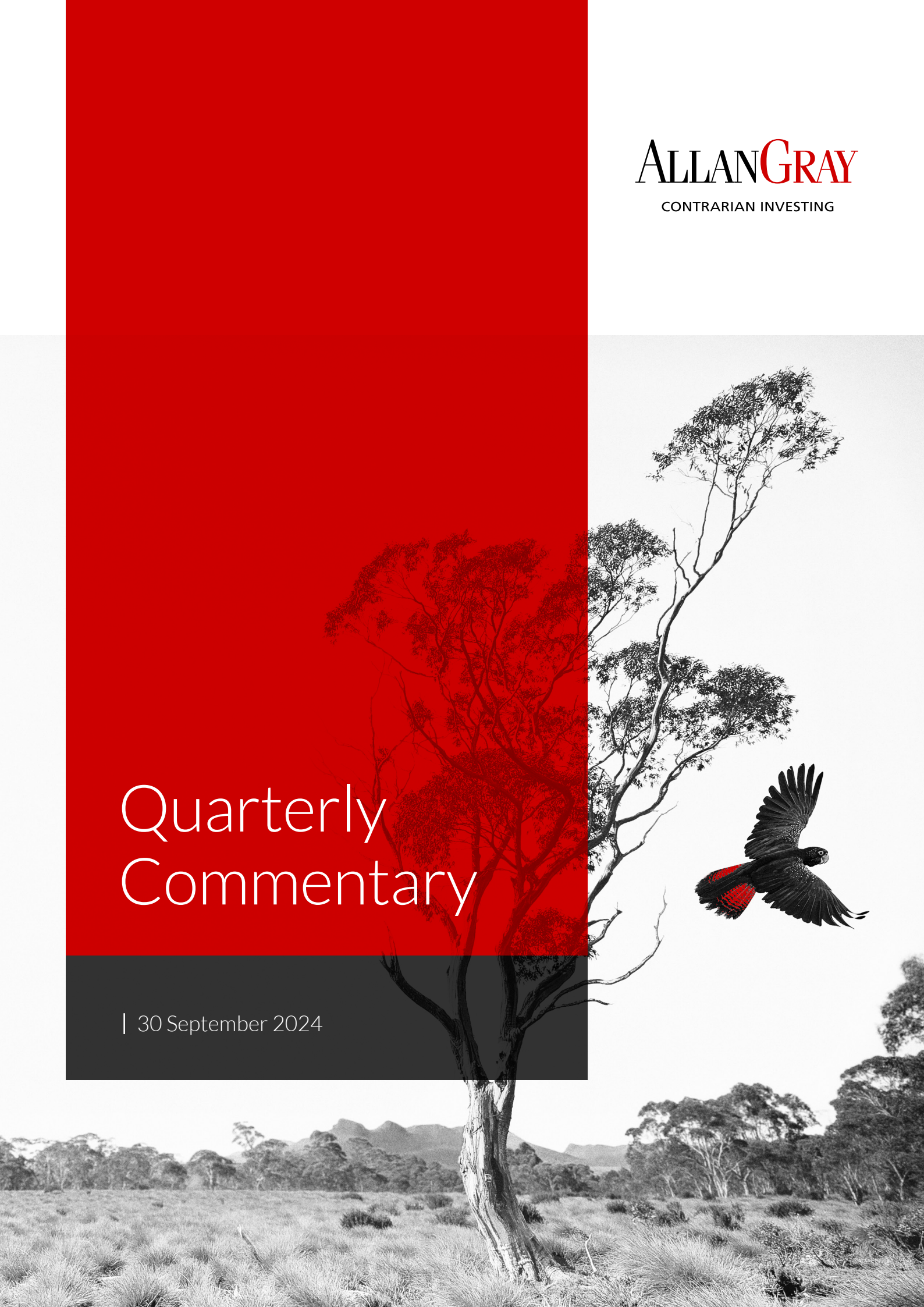


ALLAN GRAY

CONTRARIAN INVESTING

Quarterly Commentary

| 30 September 2024



Commentary

Simon Mawhinney

Managing Director and Chief Investment Officer



Although tempting, we've resisted the urge to write about Australia's banks that have been on a tear this year (and to which we are currently more underweight than we've ever been since the Allan Gray Australia Equity strategy's inception almost 20 years ago). The same is true for Australia's technology index, which has handsomely surpassed its late-2021 post-COVID-19 price peak.

At times, it feels like market participants are enjoying a white tablecloth dinner on top of an active volcano. To counter this, we have been surprised by the resilience of corporate earnings in the face of inflationary headwinds and a seemingly weak consumer. Let's hope this continues!

For this Quarterly Commentary, instead of tabling an almost-certainly incorrect economic forecast or outlook for corporate earnings, we've decided to opt for a deep dive into one of our portfolio holdings, Incitec Pivot. Writing about companies in which we invest is not only more comfortable for us (our happy place!), but it is also a topic where we feel we have about a 60% chance of being right (much better than almost certainly wrong and a surprisingly decent probability in the world of investing).

Dr Suhas Nayak, Portfolio Manager and Analyst, digs into Incitec Pivot below and explains the thinking behind our investment.



Dr Suhas Nayak

Portfolio Manager and Analyst

Incitec Pivot Limited

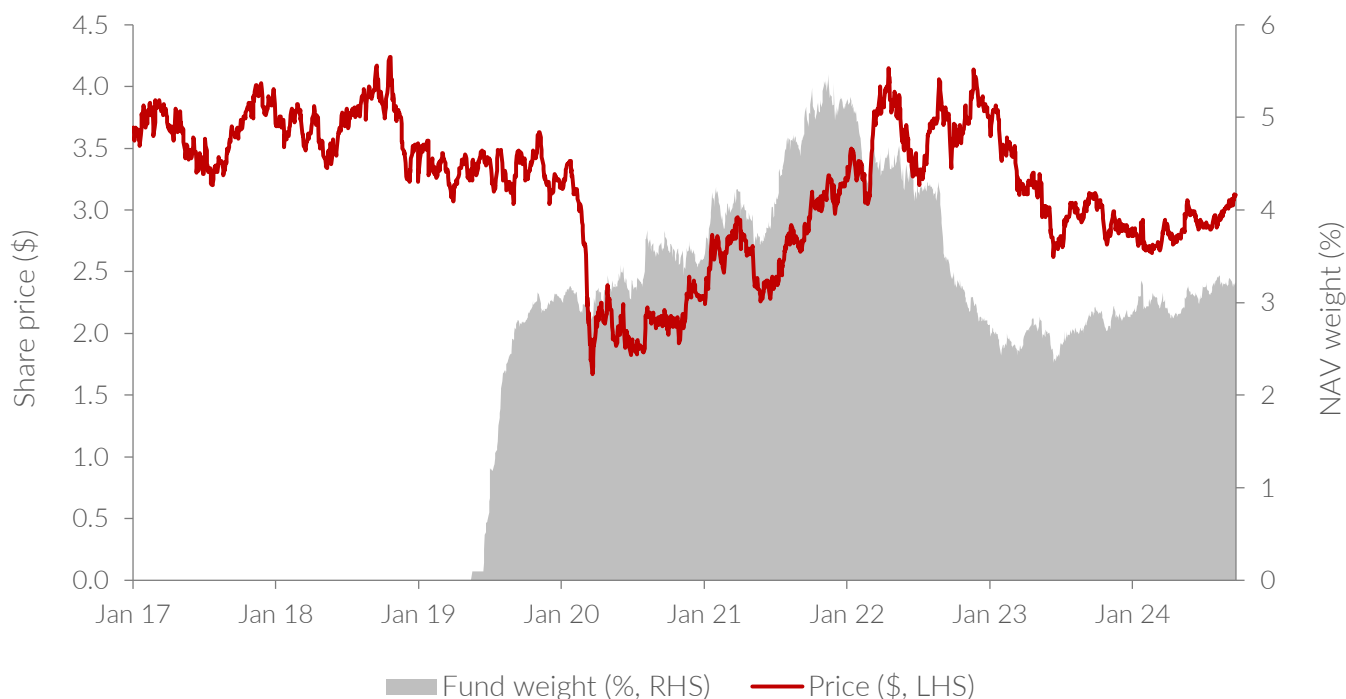
We first bought shares in Incitec Pivot, a chemical manufacturer and supplier, in 2019. At the time, the company had experienced difficulties due to low ammonia prices (a key

driver of earnings across the various Incitec businesses). Poor decisions around capital spending in the decade before had resulted in a stretched balance sheet and pennywise but pound-foolish decisions had arguably affected reliability at a number of its manufacturing plants. The weather had also disrupted output at one plant.

Since then, a deeply discounted capital raising during COVID-19 and the sale of Incitec's US ammonia plant have resulted in a deleveraged balance sheet, even after a significant capital return. While the business has changed over the years, and so too have our holdings (as shown in Graph 1), we believe there is still sufficient value in the shares to warrant a position in the Allan Gray Australia Equity strategy portfolio.

Incitec Pivot has two main businesses today. One is an Australian and North American manufacturer and supplier of explosives used by the mining and quarry industries and operating under the Dyno Nobel brand. The other is a manufacturer and supplier of fertilisers with a strong market position in Australia. What unites the two businesses is their chemistry, as the products produced by Incitec Pivot in each division have a common nitrogen basis. However, it is worth looking at each of these businesses separately.

GRAPH 1 | Incitec Pivot's share price and the Allan Gray Australia Equity Fund's holdings



Source: Allan Gray Australia, 23 September 2024. The Allan Gray Australia Equity Fund is generally representative of the Equity strategy portfolio, which includes institutional mandates that use the same strategy.

Dyno Nobel explosives

Ammonium nitrate is the raw bulk material used in Dyno Nobel's explosives. The process to make ammonium nitrate (NH_4NO_3) involves first making ammonia (NH_3) from natural gas (mainly methane or CH_4) and nitrogen (N_2) from the air, and also making nitric acid (HNO_3), which are then combined. Incitec Pivot makes ammonium nitrate in a few plants around the world:

- Moranbah is in the heart of Australia's Bowen Basin, near metallurgical coal fields. This plant cost almost A\$1 billion (b) to build in 2010-2011 and has a capacity of 330 kilotonnes (kt) per annum (p.a.).
- Cheyenne is in the US state of Wyoming and, together with a smaller plant in Louisiana, Missouri (LOMO), makes 800kt for the North American market. The LOMO plant buys its ammonia while Cheyenne is partially integrated back to gas (i.e. first manufactures its own ammonia).

To be a successful manufacturer of ammonium nitrate, a company needs a low gas price (or a low ammonia price) and assets close to end-user demand. Incitec Pivot's Moranbah plant is well-positioned relative to competitors on both fronts. This is also true at Cheyenne and LOMO, but with some risk around overall end-user demand for thermal coal.

On top of the manufacturing of bulk ammonium nitrate, Incitec Pivot has a number of other assets, from emulsion (formulations that improve the stability and in turn, safety,

therefore allowing for easier transportation of explosives) plants to mobile processing units¹, that help deliver products to customer sites.

In Australia and North America, Dyno Nobel is a top-two market player in explosives. It is also expanding cautiously in other markets, organically in South America, and through an acquisition in Europe and Africa. The company believes these geographies will provide a runway for capital-light growth in the years ahead.

Fertilisers

The fertilisers business in Australia comprises primarily the Phosphate Hill diammonium phosphate manufacturing plant (and associated mine) and a distribution business with a strong market share.

This unit has had several challenges:

- Until the last couple of years, fertiliser prices had been very weak, depressing earnings at Phosphate Hill, a largely fixed-cost facility.
- Reliability issues at Phosphate Hill have further hurt earnings.
- Gas supply has been hit by lower-than-expected reserves at the field that supplies Phosphate Hill, requiring the company to buy more expensive gas elsewhere to keep the operations running.

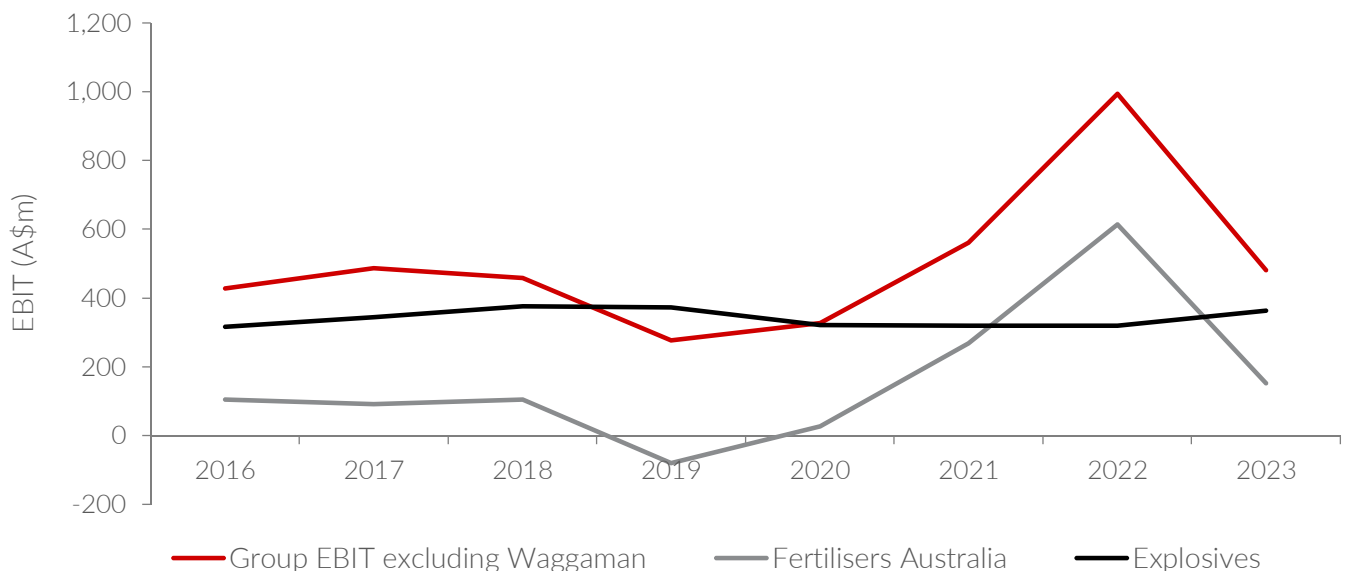
¹These units are custom-made trucks that can cost several hundred thousand dollars apiece.

Value

Incitec Pivot's current market capitalisation is \$5.8b, with a further \$300 million (m) net debt for a total enterprise value of \$6.1b. We can see from the earnings before interest and tax (EBIT) figures in Graph 2 that the two businesses have quite different characteristics:

- The explosives business has had a fairly steady earnings stream, with the dip in 2020 coming from losing an important contract and the rise more recently reflecting the partial restoration of margin as historical low-priced contracts are renegotiated. We believe there is a little more to play out here. Also, due to an arrangement to buy ammonia from the new owner of Waggaman (which Incitec Pivot recently sold), at zero cost (worth ~\$40m p.a.), as well as contributions from the recently acquired Titanobel, the explosives business (net of corporate costs) should make \$380-400m of EBIT. It is worth noting that Incitec Pivot equity-accounts after-tax profits of \$60m (earnings from associates reflected in the EBIT line on a post-tax basis), so to make this EBIT comparable to other companies would require us adding ~\$25m for a total of \$405-425m of EBIT from this business.
- The fertilisers business is very volatile and is more directly driven by the price of ammonia relative to the price of gas. The period up to 2020 reflected some very low ammonia prices globally, while 2022 saw a big increase to that underlying price. It is hard to value this business. Replacement costs for the manufacturing plant on its own could be over \$1b, but it is a very old, and relatively unreliable, plant, with a challenged gas supply, putting it in a third quartile, or even fourth quartile, position on the cost curve. It is quite likely that the lack of affordable gas into Phosphate Hill is terminal for that plant's operations, though there may still be value in the phosphate rock mining activities that accompany the operation. On the other hand, the distribution business has made ~\$50m EBIT p.a. and continues to grow.

GRAPH 2 | Incitec Pivot's segment EBIT



Source: Incitec Pivot company filings. 30 September 2024. Numbers don't add because of corporate and other eliminations.

Based on this, the market is valuing Incitec Pivot on 12.8 times to 13.4 times the earnings before interest and tax that we could reasonably expect from explosives, Australian fertiliser distribution and corporate. This is similar to the multiple Orica (a close competitor) trades on, but is below the multiple the broader market excluding banks trades at. Importantly though,

it assumes that no value is ascribed for Phosphate Hill, an asset we feel that shareholders are being paid to own, and no value for the surplus land at Gibson Island and other facilities. In its latest investor update, Incitec Pivot set even higher earnings targets for its explosives business by FY26.

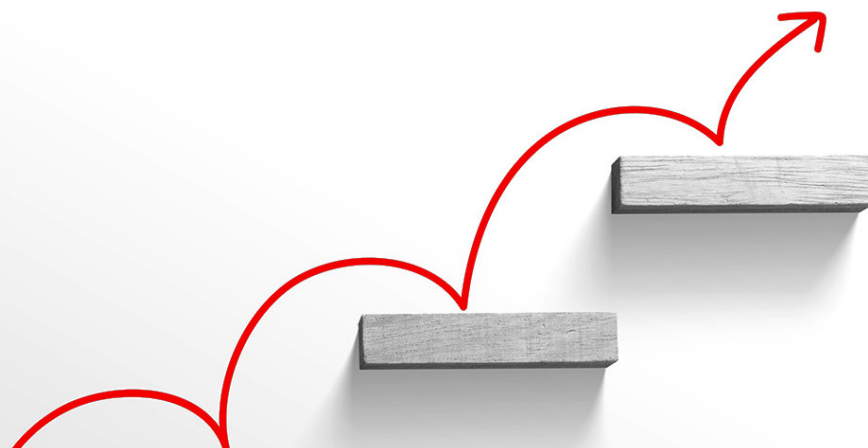
What are the risks?

While the above seems relatively attractive, there are always risks in any investment and reasons that sellers might have for offering shares at these prices.

There are shorter-term risks around Phosphate Hill's reliability and its gas supply, which could even lead to losses at that manufacturing plant. And longer term there are risks around thermal coal in North America, with 20% of Dyno Nobel's North American revenue exposed to thermal coal, the demand for which has been in long-term decline. There is a chance a more rapid decline in demand would make Dyno Nobel's plants in North America far less profitable. This is at least partly tempered by critical mineral extraction becoming an ever deeper and lower-grade phenomenon which will require increasing amounts of explosives and, importantly, higher-margin services.

It is hard to accurately predict Incitec Pivot's future but, despite some potential future issues, we see Incitec Pivot shares offering reasonable value. With new management and a refreshed capital-allocation-focused board, some of that value may actually be realised for existing shareholders. It is currently a little over 3% of the Allan Gray Australia Equity strategy portfolio and may soon go by the name Dyno Nobel once again.

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	8.4	6.9	1.5
15 years	9.3	8.1	1.2
10 years	9.3	8.9	0.4
5 years	7.3	8.3	(1.0)
3 years	10.7	8.1	2.6
1 year	19.1	21.7	(2.6)
Not Annualised %			
Latest Quarter	9.5	7.8	1.7

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	11.1	9.7	1.4
10 years	9.7	8.9	0.8
5 years	8.1	8.3	(0.2)
3 years	11.6	8.1	3.5
1 year	20.1	21.7	(1.6)
Not Annualised %			
Latest Quarter	9.7	7.8	1.9

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 30 September 2024

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Alcoa	211,278	8
Newmont	208,487	8
Woodside Energy Group	202,918	8
Ansell	198,406	7
QBE Insurance Group	144,279	5
Orora	126,384	5
ANZ Group Holdings Limited	116,385	4
Fletcher Building (New Zealand)	108,664	4
Virgin Money UK	106,665	4
Sims	98,657	4
Lendlease Group	86,238	3
Telstra Group	85,603	3
Incitec Pivot	85,130	3
Amcor	81,741	3
Downer EDI	80,161	3
Westpac Banking	59,982	2
Nufarm	56,395	2
Woolworths Group	53,985	2
Ramsay Health Care	45,058	2
G8 Education	39,992	1
Coles Group	39,250	1
South32	38,233	1
Metcash	35,090	1
Bank Of Queensland	31,159	1
SkyCity Entertainment Group (New Zealand)	31,048	1
Peet	29,999	1
Dexus	27,271	1
Service Stream	27,076	1
Positions less than 1%	182,879	7
Total Security Exposure	2,638,413	98
ASX SPI 200 TM Futures Contract (12/2024)†	35,923	1
Net Current Assets	22,093	1
Net Assets	2,696,429	100
Price per unit - Class A (cum distribution)	AUD 1.7597	
Price per unit - Class B (cum distribution)	AUD 1.7588	
Total Assets Under Management for the Australian equity strategy (AUD 000's)‡	AUD 11,650,645	

† 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	8.0	7.3	0.7
5 years	8.1	5.5	2.6
3 years	9.5	4.5	5.0
1 year	17.3	15.5	1.8
Not Annualised %			
Latest Quarter	6.5	4.7	1.8

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 30 September 2024 Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Equity		
Domestic Equity		
Woodside Energy Group	5,206	3
Ansell	5,189	3
Orora	3,230	2
QBE Insurance Group	2,960	2
ANZ Group Holdings Limited	2,516	1
Sims	2,331	1
Telstra Group	2,055	1
Domestic Equity Positions less than 1%	20,595	11
Global Equity		
Alcoa	4,752	2
Kinder Morgan	4,737	2
Newmont	4,258	2
Samsung Electronics	3,683	2
Fletcher Building (New Zealand)	3,040	2
Drax Group	3,007	2
Taiwan Semiconductor Manufacturing	2,641	1
Burford Capital	2,488	1
Siemens Energy	2,039	1
Cinemark Holdings	2,035	1
Global Equity Positions less than 1%	49,914	26
Total Equity^	126,676	65

^ The Fund holds derivative contracts which reduces the effective net equity exposure to 56%.

Balanced Fund Holdings

Security	Market Value AUD 000's	% of Fund
Fixed Income		
Domestic Fixed Income		
Australian Government Bonds	33,111	17
Global Fixed Income		
US TIPS 3 - 5 Years	6,301	3
US T - Bills < 1 Year	6,092	3
Global Fixed Income Positions less than 1 %	8,712	4
Total Fixed Income	54,215	28
Commodity Linked Investments		
SPDR Gold Trust	10,839	6
Total Commodity Linked Investments	10,839	6
Total Security Exposure	191,729	98
Cash Equivalents and Term Deposits	3,411	2
Net Current Assets	596	<1
Net Assets	195,736	100
Price per unit (cum distribution)	AUD 1.3685	

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	2.1	3.8	4.4
10 years	5.2	1.8	3.4	4.2
5 years	4.6	1.8	2.8	4.6
3 years	5.0	2.9	2.1	5.7
1 year	8.1	4.4	3.7	6.1
Not Annualised %				
Latest Quarter	2.7	1.1	1.6	0.6

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 30 September 2024 Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Alcoa	9,202	3
Woodside Energy Group	8,617	3
Newmont	8,116	2
Orora	5,004	1
Ansell	3,904	1
Fletcher Building (New Zealand)	3,570	1
Positions less than 1%	24,258	7
Total Security Exposure	62,672	18
Cash and Money Market Instruments	273,995	82
Net Current Assets	2,337	<1
Net Assets	339,003	100
Price per unit (cum distribution)	AUD 1.2063	

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



This document is produced by Allan Gray Australia Pty Limited.

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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