ALLAN GRAY

**Fund managers:** This Fund invests solely into the Orbis Global Equity Fund, managed by Orbis Investment Management Limited **Inception date:** 1 April 2005

# Allan Gray-Orbis Global Equity Feeder Fund

31 March 2024

## Fund description and summary of investment policy

The Fund is a feeder fund and invests only in the Orbis Global Equity Fund, managed by Allan Gray's offshore investment partner, Orbis Investment Management Limited. The Orbis Global Equity Fund is designed to be exposed to all of the risks and rewards of selected global shares. Returns are likely to be volatile, especially over short- and medium-term periods. Although the Fund's investment universe is global, the units in the Fund are priced and traded daily in rands.

ASISA unit trust category: Global – Equity – General

## Fund objective and benchmark

The Fund aims to outperform global stock markets over the long term, without taking on greater risk. Its benchmark is the MSCI World Index, including income, after withholding taxes.

## How we aim to achieve the Fund's objective

The Fund invests only in the Orbis Global Equity Fund. The Orbis Global Equity Fund is designed to be exposed to all of the risks and rewards of selected global shares. Orbis uses in-house research to identify companies around the world whose shares can be purchased for less than Orbis' assessment of their long-term intrinsic value. This long-term perspective enables Orbis to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. This is the same approach as that used by Allan Gray to invest in South African equities, except that Orbis is able to choose from many more shares, listed internationally.

## Suitable for those investors who

- Seek exposure to diversified international equities to provide long-term capital growth
- Wish to invest in international assets without having to personally expatriate rands
- Are comfortable with global stock market and currency fluctuation and risk of capital loss
- Typically have an investment horizon of more than five years
- Wish to use the Fund as a global equity 'building block' in a diversified multi-asset class portfolio

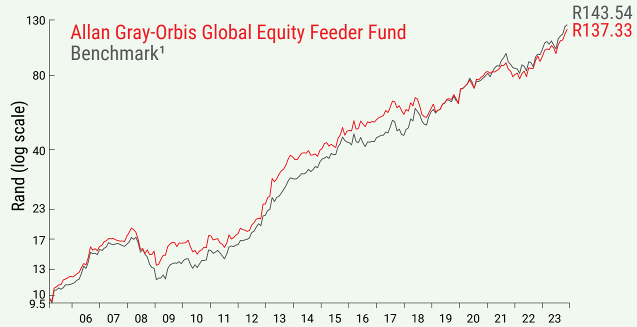
Note: The availability of the Fund is subject to offshore capacity constraints. Please contact our Client Service Centre for further information about any constraints that may apply.

## Fund information on 31 March 2024

| | |
|---|---|
| Fund size | R32.0bn |
| Number of units | 234 183 620 |
| Price (net asset value per unit) | R136.63 |
| Class | A |

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested




| % Returns | Fund | | Benchmark[1] | | CPI inflation[2] | |
|---|---|---|---|---|---|---|
| **Cumulative:** | ZAR | US$ | ZAR | US$ | ZAR | US$ |
| Since inception (1 April 2005) | 1273.3 | 350.7 | 1335.4 | 371.1 | 180.5 | 61.1 |
| **Annualised:** | | | | | | |
| Since inception (1 April 2005) | 14.8 | 8.3 | 15.1 | 8.6 | 5.6 | 2.6 |
| Latest 10 years | 13.5 | 7.1 | 16.2 | 9.6 | 5.1 | 2.8 |
| Latest 5 years | 16.6 | 10.5 | 18.5 | 12.3 | 5.1 | 4.2 |
| Latest 3 years | 15.0 | 5.8 | 18.0 | 8.6 | 6.1 | 5.7 |
| Latest 2 years | 26.0 | 10.5 | 23.2 | 8.1 | 6.3 | 4.6 |
| Latest 1 year | 36.8 | 27.9 | 33.9 | 25.1 | 5.6 | 3.2 |
| Year-to-date (not annualised) | 11.9 | 9.3 | 11.5 | 8.9 | 1.1 | 1.0 |
| **Risk measures (since inception)** | | | | | | |
| Maximum drawdown[3] | -34.1 | -52.8 | -38.0 | -57.6 | n/a | n/a |
| Percentage positive months[4] | 63.6 | 58.8 | 61.4 | 63.6 | n/a | n/a |
| Annualised monthly volatility[5] | 15.2 | 17.2 | 14.3 | 16.0 | n/a | n/a |
| Highest annual return[6] | 78.2 | 64.1 | 54.2 | 58.4 | n/a | n/a |
| Lowest annual return[6] | -29.7 | -44.8 | -32.7 | -47.3 | n/a | n/a |

1. MSCI World Index, including income, after withholding taxes (source: Bloomberg), performance as calculated by Allan Gray as at 31 March 2024. From inception to 15 May 2023, the benchmark was the FTSE World Index, including income.
2. This data reflects the latest available inflation numbers for South Africa and the United States of America, as published by IRESS as of 29 February 2024.
3. Maximum percentage decline over any period. The maximum rand drawdown occurred from 6 June 2008 to 10 March 2009 and maximum benchmark drawdown occurred from 5 June 2008 to 6 March 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.
6. These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 December 2013 and the benchmark's occurred during the 12 months ended 31 December 2013. The Fund's lowest annual return occurred during the 12 months ended 31 March 2009 and the benchmark's occurred during the 12 months ended 31 March 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Meeting the Fund objective

Since inception and over the latest 10- and five-year periods, the Fund has underperformed its benchmark. The Fund has provided returns in excess of CPI inflation for all three periods. The Fund experiences periods of underperformance in pursuit of its objective of creating long-term wealth for investors, without taking on greater risk of loss than the global stock market. The maximum drawdown and lowest annual return numbers, in the 'Performance net of all fees and expenses' table, show that the Fund has successfully reduced downside risk in periods of negative market returns.

## Income distributions for the last 12 months

| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus annually. | 31 Dec 2023 |
|---|---|
| **Cents per unit** | **1.3302** |

## Annual management fee

Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis.

Orbis charges an annual management fee within the underlying Orbis Global Equity Fund. The fee rate is calculated based on the Orbis fund's performance relative to its benchmark. For more information please refer to the Orbis Global Equity Fund factsheet and prospectus, which can be found at www.orbis.com.

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

The annual management fee charged by Orbis is included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a one and three-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

| TER and transaction costs breakdown for the 1- and 3-year period ending 31 March 2024 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **1.70** | **1.27** |
| Fee for benchmark performance | 1.15 | 1.38 |
| Performance fees | 0.49 | -0.16 |
| Other costs excluding transaction costs | 0.06 | 0.05 |
| VAT | 0.00 | 0.00 |
| **Transaction costs (including VAT)** | **0.10** | **0.10** |
| **Total investment charge** | **1.80** | **1.37** |

## Top 10 share holdings on 31 March 2024

| Company | % of portfolio |
|---|---|
| Corpay | 5.5 |
| UnitedHealth Group | 3.6 |
| Interactive Brokers Group | 3.5 |
| Global Payments | 3.3 |
| GXO Logistics | 3.2 |
| Sumitomo Mitsui Fin. | 3.1 |
| Alphabet | 3.1 |
| British American Tobacco | 2.9 |
| Shell | 2.8 |
| BAE Systems | 2.8 |
| **Total (%)** | **33.7** |

## Asset allocation on 31 March 2024

**This fund invests solely into the Orbis Global Equity Fund**

| | Total | North America | Europe and UK | Japan | Asia ex-Japan | Other |
|---|---|---|---|---|---|---|
| Net equities | 97.6 | 50.7 | 22.9 | 8.7 | 14.1 | 1.2 |
| Hedged equities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Property | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commodity-linked | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Money market and cash | 2.4 | 2.5 | 0.4 | 0.1 | -0.6 | 0.0 |
| **Total (%)** | **100.0** | **53.2** | **23.3** | **8.8** | **13.5** | **1.2** |
| **Currency exposure** | | | | | | |
| Fund | 100.0 | 50.6 | 23.6 | 15.0 | 5.8 | 4.9 |
| Benchmark | 100.0 | 74.0 | 17.0 | 6.1 | 0.8 | 2.1 |

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

## Fund manager quarterly commentary as at 31 March 2024

While the US stock market represents about 70% of the FTSE World and MSCI World indices, just half of the Fund is invested in American shares. But the US is also a big place with many excellent companies and, where we can find great companies at good prices, we are delighted to own them. Two businesses that fit that description are the managed care organisations (MCOs) UnitedHealth Group and Elevance Health.

MCOs serve the vast US healthcare market, which is relatively more complex than many healthcare markets elsewhere. In the US, most working people get health insurance through their employer or through the government-funded Medicaid (need-based) or Medicare (age-based) schemes. Both Medicare and Medicaid plans can be administered by the MCOs. But the MCOs are not just insurers, they increasingly own and manage physician practices, care centres and pharmacies, making them better placed to connect the dots for patients across this complex system.

For new entrants, that complexity has made the healthcare market a tough nut to crack: Amazon, JP Morgan and Berkshire Hathaway announced to great fanfare that they were entering the health insurance market in 2018, only to abandon the venture three years later.

With this industry setup, the MCOs benefit from two long-term tailwinds: an ageing population and increased outsourcing of Medicare and Medicaid administration. This has been a winning formula historically, with UnitedHealth and Elevance growing earnings per share by 15-17% per annum over the last 10 years. Indeed, we find the two companies rather special investment opportunities when comparing their moats, growth runways, returns on capital, historical track records and management quality with how the stocks are priced by the market.

Today, those prices look reasonable due to pessimism we see as excessive. Market concerns focus on two main things: political risk and cost pressure from Medicare Advantage plans.

Political risk is a persistent worry for the companies. Plenty of countries have socialised healthcare, and the possibility of the US moving in the same direction has often been seen as a risk for the MCOs. Leaning against that pessimism enabled us to build our first positions in the companies when President Obama was initially elected. We continue to believe that MCO-destroying political changes are extremely unlikely. Republicans have no interest in socialising healthcare, and Democrats would need control of the presidency, House of Representatives and 60% control of the Senate to push through such a major societal change – even if they had a unified view internally on the best approach, which they do not. Neither Donald Trump nor Joe Biden is focused on healthcare in their campaigns ahead of the upcoming election.

Moreover, while the US infamously spends more than other countries on healthcare, that is not because of the MCOs, but because healthcare professionals, drugs, medical devices and facilities cost much more. That level of care is great for patients, but it comes with costs.

The MCOs' role is to make the system more efficient – as evidenced by the government, states and individuals increasingly choosing MCO-administered plans for Medicare and Medicaid. In 2008, a fifth of people with Medicare and Medicaid used plans administered by MCOs. Today, the companies manage half of Medicare enrolment and more than half of Medicaid enrolment.

Cost pressures on MCO-managed Medicare plans, called Medicare Advantage, have become a concern for investors. Last year, Humana, a competitor of UnitedHealth and Elevance, saw a sharp uptick in medical costs for its Medicare Advantage business. The cost increases were far in excess of how Humana had priced its policies, severely hurting its margins. Investors worried that UnitedHealth and Elevance would suffer similar problems, hurting the companies' share prices.

We think those worries are excessive. Humana offered lower prices than UnitedHealth and Elevance in 2023, and that now looks like an underwriting mistake. We don't expect the MCOs we are holding in the portfolio to see pressure to the same extent as Humana. Further, the MCOs reprice their policies annually, so if any weakness does materialise, it should prove short-lived.

We remain confident that the companies can continue to deliver as they have in the past. Healthcare spending should continue to grow a little faster than the US economy, and the companies should continue to grow moderately faster than wider US healthcare spending as more people adopt MCO-administered Medicare and Medicaid plans. Meanwhile, we see Elevance and especially UnitedHealth taking intelligent risks in building out their own care networks, positioning them to drive better efficiency and outcomes across the system – and to be rewarded for it. Stacking those up, we believe the companies can grow earnings per share by 12-15% per annum for years to come.

In the short term, the path might look less smooth. Healthcare reform could rise to the top of the election news cycle, and weakness in Medicare Advantage plans could depress sentiment. But as long-term investors, we think those risks are reflected in the companies' prices. UnitedHealth normally trades at a similar price-to-earnings multiple to the S&P 500. It now trades at a discount. Elevance, which has somewhat lower returns on capital than UnitedHealth, trades at an unusually large discount to the US market. In both cases, that is despite long-term growth prospects that we believe are above average.

We trimmed the Fund's positions in Constellation Energy, a nuclear power producer, and Japanese banks Sumitomo Mitsui Financial Group and Mitsubishi UFJ Financial Group into relative share price strength. We added to the Fund's position in Google's parent company, Alphabet, and established new positions in Samsung Electronics and Diageo, a leading spirits manufacturer.

Adapted from a commentary contributed by Povilas Dapkevicius and Matteo Sbalzarini, Orbis Portfolio Management (Europe) LLP, London

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Allan Gray Unit Trust Management (RF) (Pty) Ltd (the "Management Company") is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Sector Conduct Authority (FSCA). The Management Company is incorporated under the laws of South Africa and has been approved by the regulatory authority of Botswana to market its unit trusts in Botswana, however, it is not supervised or licensed in Botswana. Allan Gray (Pty) Ltd (the "Investment Manager"), an authorised financial services provider, is the appointed investment manager of the Management Company and is a member of the Association for Savings & Investment South Africa (ASISA). The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)11 301 6335 or www.rmb.co.za.

### Performance

Collective investment schemes in securities (unit trusts or funds) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to future performance. Movements in exchange rates may also cause the value of underlying international investments to go up or down. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

### Fund mandate

Funds may be closed to new investments at any time in order to be managed according to their mandates. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The funds may borrow up to 10% of their market value to bridge insufficient liquidity.

### Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund, including any income accruals and less any permissible deductions from the Fund, divided by the number of units in issue. Forward pricing is used and fund valuations take place at approximately 16:00 each business day. Purchase and redemption requests must be received by the Management Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on www.allangray.co.za.

### Fees

Permissible deductions may include management fees, brokerage, securities transfer tax, auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray. For more information about our annual management fees, refer to the frequently asked questions, available via the Allan Gray website.

### Total expense ratio (TER) and transaction costs

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past one- and three-year periods. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), VAT and other expenses like audit and trustee fees. Transaction costs (including brokerage, securities transfer tax, Share Transactions Totally Electronic (STRATE) and FSCA Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are necessary costs in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time, including market returns, the type of financial product, the investment decisions of the investment manager, and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and transaction costs should not be deducted again from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and transaction costs is shown as the total investment charge (TIC).

### Feeder fund

A feeder fund is a unit trust that invests in another single unit trust, which charges its own fees. Allan Gray does not charge any additional fees in its feeder funds.

### FTSE Russell Index

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