# Allan Gray Life-Orbis Global Balanced (RRF) Feeder Portfolio

**Inception date:** 1 August 2015

30 June 2021

## Portfolio objective and benchmark

The Portfolio aims to balance capital appreciation, income generation and risk of loss in a diversified global multi asset class portfolio. The benchmark is a composite consisting of 60% of the MSCI World Index (net dividends reinvested) and 40% of the J.P. Morgan GBI Global Index.

## Product profile

- This is a feeder portfolio, investing in the Orbis SICAV Global Balanced Fund which is actively managed by Orbis.

## Investment specifics

- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- The Base Refundable Reserve Fee is levied in the underlying Orbis SICAV Global Balanced Fund.

## MSCI data

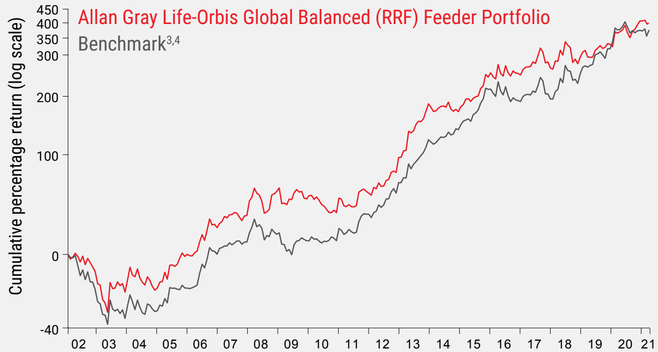
*The blended returns are calculated by Orbis Investment Management Ltd using end-of-day index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking or otherwise utilising any MSCI Data, models, analytics or other materials or information.

## Portfolio information on 30 June 2021

| | |
|---|---|
| Assets under management | R548m |

## Performance net of fees[1]

Cumulative performance since inception




| % Returns[1,2] | Portfolio | | Benchmark[3,4] | |
|---|---|---|---|---|
| | ZAR | US$ | ZAR | US$ |
| Since inception | 8.7 | 7.6 | 8.4 | 7.3 |
| Latest 10 years | 13.8 | 5.6 | 15.2 | 7.0 |
| Latest 5 years | 7.5 | 8.0 | 9.1 | 9.6 |
| Latest 3 years | 6.9 | 5.5 | 12.2 | 10.8 |
| Latest 2 years | 13.3 | 12.6 | 13.6 | 13.0 |
| Latest 1 year | 7.3 | 30.5 | 0.5 | 22.2 |
| Latest 3 months | -0.5 | 3.0 | 1.5 | 5.0 |

## Asset allocation on 30 June 2021

This portfolio invests solely into the Orbis SICAV Global Balanced Fund

| | Total | North America | Europe and UK | Japan | Asia ex-Japan | Other |
|---|---|---|---|---|---|---|
| Net equity | 62.2 | 13.1 | 24.5 | 8.4 | 14.2 | 2.0 |
| Hedged equity | 18.7 | 9.9 | 4.8 | 0.5 | 2.2 | 1.3 |
| Fixed interest | 13.4 | 11.1 | 0.4 | 0.0 | 0.2 | 1.6 |
| Commodity-linked | 5.8 | 0.0 | 0.0 | 0.0 | 0.0 | 5.8 |
| Net current assets | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 |
| **Total** | **100.0** | **34.1** | **29.7** | **8.9** | **16.6** | **10.7** |
| **Currency exposure** | | | | | | |
| Fund | 100.0 | 37.7 | 33.8 | 13.1 | 12.1 | 3.2 |
| Index | 100.0 | 61.0 | 24.5 | 11.5 | 0.8 | 2.1 |

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

1. The returns prior to 1 August 2015 are those of the Allan Gray Life Foreign Portfolio since its inception on 23 January 2002. This Portfolio invested in a mix of Orbis funds. The Investor Class Fee was levied in the underlying Orbis funds.
2. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 June 2021.
3. 60% of the MSCI World Index (net dividends reinvested) and 40% of the J.P. Morgan GBI Global Index*.
4. The benchmark prior to 1 August 2015 is that of the Allan Gray Life Foreign Portfolio which is 60% of the MSCI All Country World Index and 40% of the J.P. Morgan GBI Global Index.
5. Underlying holdings of Orbis funds are included on a look-through basis.

## Top 10 share holdings on 30 June 2021 (SA and Foreign) (updated quarterly)[5]

| Company | % of Portfolio |
|---|---|
| SPDR Gold Trust | 5.8 |
| Samsung Electronics | 5.5 |
| Taiwan Semiconductor Mfg. | 5.3 |
| AbbVie | 3.2 |
| BP | 3.2 |
| NetEase | 3.2 |
| Bayerische Motoren Werke | 2.6 |
| ING Groep | 2.6 |
| British American Tobacco | 2.4 |
| Royal Dutch Shell | 2.3 |
| **Total (%)** | **36.1** |



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## Fund manager quarterly commentary as at 30 June 2021

As contrarian, bottom-up investors, we often generate ideas by looking at companies that the market is neglecting. Since we are looking for value, you might expect us to avoid areas that are attracting a lot of hype. Often the obvious winners are expensive, but if a theme has legs, it is worth thinking through the second-order effects.

Few themes have been hotter recently than the energy transition, where electric vehicle companies with zero sales are commanding billion-dollar valuations. Amid the hype, we try to focus on how an orderly transition might impact the long-term fundamentals of companies.

The energy transition presents challenges for some companies, like oil producers. For portfolio holdings Shell and BP, however, playing a constructive role in the transition is not incompatible with generating good returns for shareholders. Both companies have set net zero emissions targets for 2050. In the interim, both have cut oil and gas investment by much more than they have increased investment in electricity and retailing, leaving far more cash available for shareholders. At current oil prices, both stocks offer free cash flow yields in the mid-teens.

On the other end of the spectrum are the obvious winners from the energy transition. While many of these shares look expensive, we do not ignore them entirely. Indeed, we own Vestas Wind Systems, the world's largest producer of onshore wind turbines.

But by and large, we have tried to avoid getting caught up in the glare of the obvious winners. Instead, we believe we have found some value below the surface of the theme. Turbine and grid equipment company Siemens Energy and power producer AES are both contributing to the transition, but in our view have been overlooked due to "dirty" parts of their business, while light-emitting diode (LED) producer Signify has suffered from simple neglect.

### Siemens Energy

Electricity generation is an especially interesting part of the energy transition, because as consumers we want to do many things that add complexity: We want to move away from carbon-based energy sources, consume more energy through the electric grid, complicate the grid by adding distributed generation such as solar panels on homes and extend the grid by moving power plants away from cities to areas where they will catch the most sun or wind.

Siemens Energy touches every piece of this chain. The business was spun out of its namesake in September 2020. Today, the most valuable part of the company is its 67% stake in Siemens Gamesa, the global leader in offshore wind turbines. Siemens Energy combines this high-growth green energy exposure with a gas turbine business, a segment that focuses on electricity transmission, and promising efforts in producing green hydrogen. Increased demand for electricity will put increased strain on grids, just as those grids are growing more complex and dispersed. As the grid changes, transmission infrastructure must improve. As the world's largest producer of transmission equipment, Siemens Energy should be a key beneficiary over the long term.

If we value the company's Gamesa stake at market prices and assume investors are valuing the other segments at a 20% discount to the relevant peers, we are getting the gas turbine business for free at today's price, alongside a free option on the company's hydrogen efforts.

### AES

The portfolio has also invested in AES, a global independent power producer. AES has gone through a decade-long transformation from coal-based power to being a global leader in renewable energy and energy storage. As a power producer, AES benefits when customers favour solar, as AES can profitably expand its generation capacity while locking in longer-term contracts. Yet despite growing more quickly than its closest peer, AES trades at a much lower valuation.

In addition to its core unit, AES owns an energy storage joint venture with Siemens called Fluence. Fluence is the world's second-largest energy storage company (after Tesla), and the largest one focused on utility-grade storage – the part of the market expected to see the highest growth. Should Fluence ever be listed separately, it would be the largest pure-play energy storage company in the world.

### Signify

Looking at studies of what solutions to emissions reduction provide the best "bang for their buck", one of the most efficient solutions is also one of the simplest – switching from fluorescent light bulbs to LEDs.

A switch to LEDs is one of the few solutions that is an economic "win" for all parties involved. Compared to traditional fluorescent bulbs, LEDs last longer and shine brighter per dollar spent on electricity, reducing the cost to consumers. You can replace light bulbs without tearing down buildings, making it one of the easier solutions for governments to support and implement. And if buildings use less energy, countries need less power-generating capacity, saving capital costs all the way down the transmission line.

Signify is the world's largest producer of LED bulbs for both residential and professional use. According to the European Commission (EC), 40% of energy is consumed in buildings and 75% of buildings are energy inefficient, so the EC is rolling out financial incentives with an aim to double the rate of building renovations over the next five years. With similar renovation plans coming out of the Biden White House, we can expect above-trend renovation growth across both continents over the coming years.

These attractive growth opportunities are not reflected in Signify's valuation. Even after a recent price recovery, its shares offer an attractive 9% 2021 free cash flow yield and the company just paid out a healthy 5% dividend.

These three names form part of a larger energy exposure that tries to take a holistic, long-term view of how the world's energy systems might evolve. Newsworthy themes can be tricky to navigate as an investor but can also lead to rewarding opportunities if you take the time to separate the facts from the froth.

Adapted from a commentary contributed by Timo Smuts, Orbis Investment Management Limited, Bermuda

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