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

Inception date: 1 August 2015

31 December 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

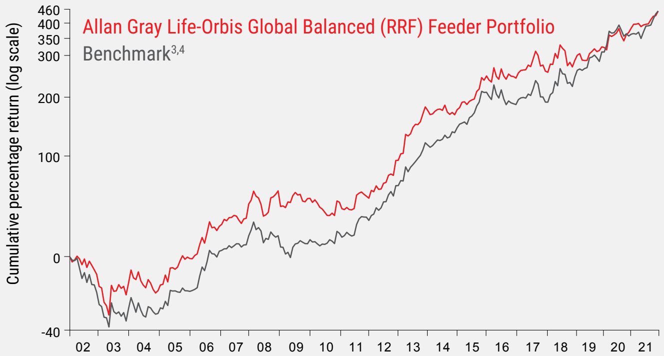
*The blended returns are calculated by Orbis Investment Management Ltd using end-of-day index level values licensed from MSCI (“MSCI Data”). For the avoidance of doubt, MSCI is not the benchmark “administrator” for, or a “contributor”, “submitter” or “supervised contributor” to, the blended returns, 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 31 December 2021

Assets under management	R600m

Performance net of fees[1]

Cumulative performance since inception



% Returns[1,2]	Portfolio		Benchmark[3,4]	
	ZAR	US$	ZAR	US$
Since inception	9.0	7.3	9.0	7.3
Latest 10 years	13.7	6.3	15.5	8.0
Latest 5 years	9.5	6.3	13.7	10.3
Latest 3 years	12.7	8.9	18.2	14.2
Latest 2 years	14.8	7.7	19.3	12.0
Latest 1 year	16.1	6.9	19.2	9.8
Latest 3 months	6.1	0.3	10.4	4.3

Asset allocation on 31 December 2021

This portfolio invests solely into the Orbis SICAV Global Balanced Fund

	Total	North America	Europe and UK	Japan	Asia ex-Japan	Other
Net equities	62.0	15.4	25.0	8.6	10.4	2.5
Hedged equities	19.8	9.9	5.6	1.3	1.5	1.5
Fixed interest	11.5	8.8	0.5	0.1	0.3	1.8
Commodity-linked	6.7	0.0	0.0	0.0	0.0	6.7
Net current assets	0.0	0.0	0.0	0.0	0.0	0.0
Total	**100.0**	**34.1**	**31.1**	**10.0**	**12.2**	**12.6**
Currency exposure						
Fund	100.0	37.2	36.1	13.4	10.3	3.1
Index	100.0	62.8	23.4	11.1	0.7	2.0

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 31 December 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.

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

Top 10 share holdings on 31 December 2021 (SA and Foreign) (updated quarterly)[5]

Company	% of Portfolio
SPDR Gold Trust	6.7
Samsung Electronics	5.9
BP	3.0
Royal Dutch Shell	2.7
Taiwan Semiconductor Mfg.	2.5
Drax Group	2.4
UnitedHealth Group	2.3
Schlumberger	2.2
ING Groep	2.0
Mitsubishi	1.9
Total (%)	**31.6**

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Fund manager quarterly commentary as at 31 December 2021

It has been quite a ride. Coming into COVID-19, the Portfolio was positioned well for continued economic activity. That, of course, is the opposite of what happened, and the Portfolio suffered along with the market in the initial crash. At that time, the best thing we could do was dedicate ourselves to taking advantage of the opportunities to upgrade the Portfolio's upside and quality so that it could outperform in the recovery.

That's what we did, and the Portfolio outperformed significantly from the March 2020 lows. By the end of May 2021, when the Delta variant was first named, the Portfolio had recovered all of its underperformance from the initial COVID-19 crash and then some.

With the emergence of new variants since then, popular trends of the past decade have re-emerged – low bond yields, a preference for virtual businesses, and a strong US dollar and stock market. Those have weighed on performance, undoing the Portfolio's outperformance in the first half of 2021.

As a competitor, I am frustrated by the performance, but as an analyst, I'm more excited about the Portfolio than I was a year ago. The businesses we invest in are performing well for us, but for many, their stock prices are not. While in other parts of the market, less profitable or outright money-losing businesses are attracting increasingly bubbly prices.

As a result, the gradient between the bubbly stocks and the other three-quarters or so of the market is the most extreme I've seen in my 35 years of professional investing. That is nirvana for a valuation-focused stockpicker. So as managers of meme-friendly funds feel emboldened to dismiss contrarians as dinosaurs and valuations as a chump's pursuit, we remain committed to and excited about our approach. The most difficult times, as a contrarian, are created when market momentum around a certain group of stocks goes far enough for long enough that we eventually rotate out of the things that have done well into opportunities that are fundamentally more attractive. This usually works well, as momentum typically has a short shelf life, but every once in a while, trends persist to the point of notable extremes. One feature of the recent market momentum regime has been the seeking out of companies that don't have to invest much in physical plant and equipment to produce earnings. An Apple or a Microsoft or a Google doesn't have to buy a lot of plant and equipment to run their business. They've been called virtual companies.

Because virtual companies have so captivated investors, it's become almost religion that you don't own the opposite – you don't own companies that have to invest a lot in capital expenditures to maintain their business. Something like a semiconductor manufacturer sits at this undesirable end of the spectrum, where each plant costs US$15-20 billion and takes five to six years to build, during which time the plant produces no revenues. Similarly, building a copper mine will cost money for years before producing any copper. Same for a polyethylene plant, or a refinery, or a cardboard factory.

These "maker" businesses are perceived as very unattractive and have been punished with very low valuations. Said another way, investors are supplying less capital to businesses that make physical things. The wonderful irony (for us anyway) is that demand for those things is exploding – including from the "virtual" businesses.

We are seeing the results. Supply chains are roiled, and many don't have enough capacity of the basic inputs that these makers make. That's been caused, in part, by years of shareholders yelling at these companies to stop investing. So we've been able to buy lots of makers, many of which provide support critical to the success of more glamorous companies, at very low prices.

The best example is also the largest equity holding in the Portfolio – Samsung Electronics, the world's largest maker of memory semiconductors. The company invests a great deal – nearly US$40 billion in the last 12 months alone. But with a long-term return on equity close to 20%, Samsung does make a lot of money on what they invest.

That is the key for us. We share others' dislike for companies that invest heavily in low-return pursuits, but for Samsung that's not the case. The latest manufacturing method employed by Samsung, called extreme ultraviolet lithography, manipulates light with a precision akin to shooting an arrow at the moon and hitting an apple off a person's head. Samsung memory enables everyone from Apple to Microsoft to offer their products. Yet, after accounting for the cash on its balance sheet, Samsung trades at just 10 times earnings. We strongly believe that Samsung's remarkable skill is worth something much closer to 20 times earnings, similar to the multiple afforded to the wider stock market today.

We think that kind of perception against makers is going to change, and not just for Samsung. The Portfolio is now dominated by companies that make things that are important to everyday life, including six of the top 10 positions.

The world is coming to realise that it needs Samsung to produce memory chips, and BP and Schlumberger to produce oil and gas. The UK needs Drax to produce electricity, and Japan needs Mitsubishi to produce and import metals, food, and energy. A third of all natural gas in the world is touched by Royal Dutch Shell, and TSMC is probably the most important company on earth, responsible for producing the brains for most of the world's computers. As that realisation continues to become clearer, we believe each of these companies should be rewarded with materially higher valuations.

Over half of the Orbis SICAV Global Balanced Fund today is invested in the equity or debt of companies that we consider "makers".

Those makers contribute to a portfolio that looks very different from the market as a whole. In aggregate, the equities in the Portfolio have lower returns on equity and revenue growth than the wider market – but the Portfolio is fully 45% cheaper than the market on a forward price-earnings basis, and on a free cash flow basis, the discount to the broader market has never been wider.

We tend to feel best about the Portfolio just when we feel worst about performance. That is a feature, not a bug, of our approach. We intend to stick with it. Being a contrarian is difficult – until it becomes wonderful.

Adapted from a commentary contributed by Alec Cutler, Orbis Investment Management Limited, Bermuda

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MSCI Index

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