ALLAN GRAY

Inception date: 1 April 2015

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

30 June 2021

Portfolio objective and benchmark

The objective of the Portfolio is to outperform the MSCI World Index at no greater-than-average risk of loss in its sector. The benchmark is the MSCI World Index, with net dividends reinvested.

Product profile

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

Investment specifics

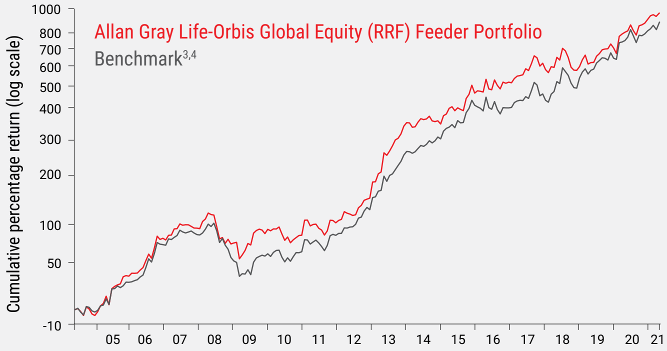
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- The Base Refundable Reserve Fee is levied in the underlying Orbis Institutional Global Equity Fund.

Portfolio information on 30 June 2021

Assets under management	R540m

Performance net of fees[1]

Cumulative performance since inception



% Returns[1,2]	Portfolio		Benchmark[3,4]	
	ZAR	US$	ZAR	US$
Since inception	14.7	9.8	14.2	9.3
Latest 10 years	18.5	10.0	19.0	10.5
Latest 5 years	12.6	13.2	14.2	14.8
Latest 3 years	12.1	10.6	16.5	15.0
Latest 2 years	21.2	20.4	20.3	19.6
Latest 1 year	15.5	40.5	14.3	39.0
Latest 3 months	1.3	4.8	4.1	7.7

Asset allocation on 30 June 2021

	Total	North America	Europe and UK	Japan	Asia ex-Japan	Other
Net equity	99.3	35.0	28.8	9.8	17.4	8.3
Net current assets	0.7	0.0	0.0	0.0	0.0	0.7
Total (%)	**100.0**	**35.0**	**28.8**	**9.8**	**17.4**	**9.0**
Currency exposure of the Orbis Institutional Global Equity Fund						
Fund	100.0	42.6	29.8	9.9	9.3	8.4
Index	100.0	70.7	18.9	6.8	1.3	2.4

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

1. The returns prior to 1 April 2015 are those of the Allan Gray Life-Orbis Global Equity Portfolio since its inception on 18 May 2004. The Investor Class Fee was levied in the underlying Orbis Global Equity Fund.
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. MSCI World Index, with net dividends reinvested.
4. The benchmark prior to 1 April 2015 is that of the Allan Gray Life-Orbis Global Equity Portfolio which is the FTSE World Index, including income.
5. Underlying holdings of Orbis funds are included on a look-through basis.
6. Includes holding in Prosus NV if applicable.

Top 10 share holdings on 30 June 2021 (updated quarterly)[5]

Company	% of Portfolio
British American Tobacco	7.1
NetEase	6.3
Naspers[6]	5.8
XPO Logistics	5.6
Comcast	3.3
Taiwan Semiconductor Mfg.	3.0
Anthem	2.9
Bayerische Motoren Werke	2.7
Howmet Aerospace	2.7
ING Groep	2.5
Total (%)	**41.8**

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Fund manager quarterly commentary as at 30 June 2021

Last quarter, we discussed the Orbis Institutional Global Equity Fund's substantial underweight to the US. While the US is home to some of our highest-conviction ideas, just one-third of the Fund is invested in the US, which accounts for two-thirds of the MSCI World Index. To be so heavily underweight the US, we must be heavily overweight somewhere else, and roughly a quarter of the portfolio today is invested in emerging market (EM) shares. True to our bottom-up approach, almost all of that EM exposure comes from just eight positions.

One of the largest of those positions is in South Africa-listed Naspers. Naspers is an especially vivid illustration of our global research capability, as both our EM and Europe analyst teams have independently found it attractive. Here, stockpickers from those teams provide their perspectives on the stock.

The view from our EM team

We have known Naspers well for a very long time and owned the share on and off since 1998. Our initial research predated the US$34m investment in Tencent that would come to define Naspers' value.

Years of research have given us a deep appreciation for the strength of Tencent. The business can be thought of in four main parts: social media, online games, payments and stakes in other firms.

"Social media" is too small a term to describe WeChat, Tencent's messaging-based super app that is indispensable to daily life in China. WeChat is not like WhatsApp; it is like WhatsApp, Facebook, Apple News, PayPal, Spotify, Uber, Deliveroo and the App Store all rolled into one. Tencent is also the largest online game operator in China and in payments, Tencent's WeChat Pay operates in a duopoly with Alibaba's Ant Financial. On top of its operating units, Tencent also holds an enviable portfolio of stakes in Chinese internet businesses and global gaming businesses.

None of these businesses is without risk. China's regulators have recently clamped down on fintech companies and the government is casting a more sceptical eye over potentially anticompetitive practices from dominant tech platforms and closed ecosystems such as Tencent's could be prised open, with wide-ranging implications. Game regulators have halted approvals in the past and could do so again. And, finally, China-US tensions could paint a target on Tencent's back.

Yet we must weigh those risks in the context of Tencent's cash generation, growth potential and valuation. The company generated US$16 billion of free cash flow last year and should be able to grow that number at a near-20% annual rate. Stripping out the value of its stakes in other firms, that leaves Tencent trading at 33 times free cash flow – not optically cheap, but not unreasonable given the fundamentals.

And Tencent is not the only great company in the Naspers stable. Naspers also offers exposure to a range of interesting EM tech businesses such as Delivery Hero, Mail.ru, takealot.com and PayU, to name just a few.

Through Naspers, we can gain exposure to Tencent and these other emerging markets technology businesses at a 50% discount. This looks attractive, even when applying an appropriate holding company haircut.

The view from our Europe team

In the Europe team, our work on Naspers started more than a year ago when Naspers created and listed Prosus in Amsterdam to hold its stakes in Tencent and other international internet companies. Researching Tencent, Prosus and Naspers has been fascinating, both in qualitative terms and at the holding company level, in terms of price paid relative to value received. Starting with Tencent's operating businesses, the discounts stack up as we move through the holding companies.

One level up is Prosus, a holding company which holds a 29% stake in Tencent as well as a cash pile and a range of international internet companies. In addition to those mentioned above, Prosus holds a range of leading online classified businesses in verticals such as real estate and autos. Here, our research on European peers shows that leading classified players often earn operating margins of 60% or higher. If we roll these assets in together with the Tencent stake, Prosus appears to trade at roughly a 40% discount to the value of its underlying parts.

Another level up is Naspers, which owns 73% of Prosus. Naspers trades at a roughly 20% discount to its Prosus stake and at a roughly 50% discount to its net asset value. By the time we've worked our way up the capital structure via Prosus to Naspers, we appear to be paying less than 20 times core earnings for Tencent. But this discount comes with significant risks and complexity.

Recently, Naspers announced a voluntary exchange where Prosus will offer to buy Naspers shares from existing shareholders in exchange for shares of Prosus. The transaction is meant to narrow the discount, but it is complex and will result in a large cross-shareholding, neither of which are typically rewarded by the market. We are assessing the deal, and we and our counterparts at Allan Gray have engaged with the company to understand their reasoning and express our views. This share exchange is not likely to be the end destination for Naspers. Looking ahead, we favour actions that simplify Naspers' structure to unlock the value of its underlying assets.

While the transaction is a reminder that the Naspers discount has strings attached, we ultimately come back to valuation, and the discount remains appealingly large. Once one strips out the various investments at each level, the multiple paid for core Tencent's free cash flow at the Naspers level is very probably below the global market average. That feels like compelling value indeed.

Adapted from a commentary contributed by Stefan Magnusson, Orbis Investment Management (Hong Kong) Limited, Hong Kong, and Edward Blain, Orbis Portfolio Management (Europe) LLP, London

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MSCI Index

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