ALLANGRAY

Inception date: 1 April 2015

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

31 March 2024

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

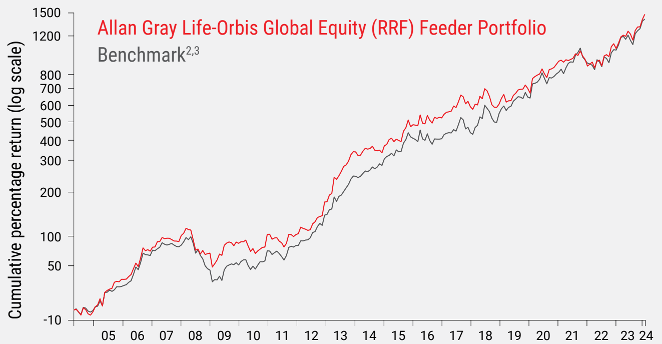
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- The Base Refundable Reserve Fee is levied in the underlying Orbis Institutional Global Equity Fund.

Portfolio information on 31 March 2024

Assets under management	R952m

Performance net of fees[1]

Cumulative performance since inception



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. The benchmark prior to 1 April 2015 was that of the Allan Gray Life-Orbis Global Equity Portfolio which was the FTSE World Index, including income.
3. MSCI World Index, with net dividends reinvested.
4. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 March 2024.

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

% Returns[1,4]	Portfolio		Benchmark[2,3]	
	ZAR	US$	ZAR	US$
Since inception	15.0	9.2	14.7	8.9
Latest 10 years	14.2	7.6	16.0	9.4
Latest 5 years	17.1	10.9	18.3	12.1
Latest 3 years	15.8	6.5	18.0	8.6
Latest 2 years	27.4	11.8	22.9	7.8
Latest 1 year	37.7	28.9	33.7	25.1
Latest 3 months	12.6	9.9	11.5	8.9

Top 10 share holdings on 31 March 2024 (updated quarterly)

Company	% of portfolio
Corpay	5.7
UnitedHealth Group	3.5
Interactive Brokers Group	3.4
Global Payments	3.4
Sumitomo Mitsui Fin.	3.3
GXO Logistics	3.1
Alphabet	3.0
British American Tobacco	2.9
BAE Systems	2.8
Shell	2.7
Total (%)	**33.7**

Asset allocation on 31 March 2024

This portfolio invests solely into the Orbis Institutional Global Equity Fund

	Total	North America	Europe and UK	Japan	Asia ex-Japan	Other
Net equities	97.2	50.4	23.0	9.1	13.6	1.1
Money market & cash	2.8	3.1	0.1	0.1	-0.6	0.0
Total (%)	**100.0**	**53.6**	**23.2**	**9.1**	**13.0**	**1.1**

Re-issued: 22 April 2024

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 Portfolio 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 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 Portfolio'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 Portfolio'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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MSCI Index

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FTSE Russell Index

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