ALLAN GRAY

Inception date: 18 May 2004

Allan Gray Life-Orbis Global Equity Portfolio

30 April 2021

Portfolio objective and benchmark

The objective of the Portfolio is to outperform the FTSE World Index at no greater-than-average risk of loss in its sector. The benchmark is the FTSE World Index, including income.

Product profile

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

Investment specifics

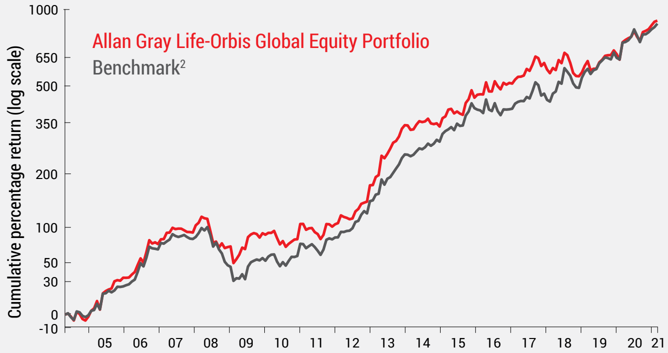
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- The Investor Class Fee is levied in the underlying Orbis Global Equity Fund.

Portfolio information on 30 April 2021

Assets under management	R373m

Performance net of fees

Cumulative performance since inception[1]



% Returns[1]	Portfolio		Benchmark[2]	
	ZAR	US$	ZAR	US$
Since inception	14.5	9.5	14.4	9.4
Latest 10 years	17.7	8.7	19.0	10.0
Latest 5 years	12.3	11.8	15.0	14.5
Latest 3 years	13.2	7.6	20.0	14.2
Latest 2 years	17.1	16.4	19.3	18.6
Latest 1 year	18.5	50.0	16.0	46.9
Latest 3 months	6.9	10.8	7.0	10.8

Asset allocation on 30 April 2021

	Total	North America	Europe and UK	Japan	Asia ex-Japan	Other
Net equity	97.9	32.3	30.0	8.9	17.3	9.3
Net current assets	2.1	0.0	0.0	0.0	0.0	2.1
Total	**100.0**	**32.3**	**30.0**	**8.9**	**17.3**	**11.4**
Currency exposure of the Orbis Global Equity Fund						
Fund	100.0	41.8	30.5	9.2	9.2	9.3
Index	100.0	64.7	18.5	7.3	5.9	3.7

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

1. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 April 2021.
2. FTSE World Index, including income.
3. Underlying holdings of Orbis funds are included on a look-through basis.
4. Includes holding in Prosus NV if applicable.

Top 10 share holdings on 31 March 2021 (updated quarterly)[3]

Company	% of Portfolio
British American Tobacco	7.5
Naspers[4]	6.9
NetEase	6.2
XPO Logistics	5.7
Bayerische Motoren Werke	3.8
Anthem	3.2
Comcast	3.2
Howmet Aerospace	3.1
Taiwan Semiconductor Mfg.	2.8
Newcrest Mining	2.7
Total (%)	**45.0**

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Fund manager quarterly commentary as at 31 March 2021

With just 30% of assets invested in US shares versus 66% for the MSCI World Index, the Orbis Global Equity Fund's current underweight to the US market is the largest in its history. As always, our portfolio positioning is driven by bottom-up decisions about individual businesses. But those decisions don't take place in a vacuum. They are influenced by the hand we are dealt by the market, and we naturally gravitate to areas where the attractive opportunities appear most abundant.

In recent years, the stockpicking environment in the US has been characterised by rising aggregate valuations, surging liquidity, dwindling concern for risk and increasing speculation. Yet despite stiff valuation headwinds at the broader market level, some of our highest-conviction ideas have come from the US market, where we continue to own a number of businesses that we believe offer attractive long-term risk-adjusted returns. In particular, we have uncovered shares of businesses that are cyclical, but also competitively advantaged.

XPO, a transportation and logistics company with operations in the US and Europe, is one example. It has been one of the largest holdings in the Fund for many years. The business is run by Bradley Jacobs, who has a strong track record of strategic vision, capital allocation acumen and operational skill. The most tangible evidence is XPO's outperformance of 14% per annum versus the S&P 500 since Jacobs took the helm in 2011.

Despite these results, we believe XPO continues to be undervalued, in part due to its complexity. It was therefore welcome news at the end of 2020 when XPO announced its intent to spin off its contract logistics business into an independent public company called GXO Logistics, and to seek investment grade credit ratings at both companies. As a simpler, pure-play transportation business, we believe XPO should be valued closer to its listed peers. Even if we assume a somewhat lower valuation, and that XPO keeps all of the company's current debt, this would ascribe no value to the GXO spin-off, which means we would essentially get it for free.

We believe the implementation of this spin-off plan and subsequent deleveraging, in conjunction with steady execution and an attractive long-term earnings growth trajectory, creates a compelling long-term risk-adjusted return profile for our holding today in XPO. It can take time for spin-offs to ultimately influence a company's valuation, but they can be an effective way to unlock hidden or underappreciated value.

While our conviction in XPO is driven by our bottom-up research, we also see reason for optimism about the relative return potential of XPO, and our other cyclical shares, when we consider the broader market and economic context. Large exogenous shocks have a way of changing the prevailing regime in unexpected but enduring ways, and the COVID-19 pandemic was nothing if not a shock to the global economy.

The market regime of the last decade in the US was a near-perfect confluence of conditions for the shares of the defensive growth businesses that we have largely avoided in recent years. Below-trend economic growth in the aftermath of the global financial crisis created an earnings headwind for economically sensitive businesses that made the relative earnings growth of many disruptive growth businesses look unusually attractive by comparison; with real growth scarce, investors were willing to pay a large premium for it. At the same time, inflation remained subdued. Finally, with low growth, low inflation and aggressive central bank intervention, long-term interest rates were depressed to historically low levels, disproportionately benefiting long-duration assets, such as the shares of richly-priced growth companies.

As this regime became entrenched, relative valuations for such businesses, which started low, were steadily amplified by the circularity of the capital cycle. Growth managers outperformed, attracting new assets, spurring further buying of the same growth shares, pushing such shares ever higher, while the reverse happened to value managers and their shares.

Yet developments since the pandemic offer the tantalising possibility that this regime may be changing.

Consider, for example, that the pandemic unleashed the most extreme increase in US government spending since World War II, US$6 trillion of stimulus, with more likely on the way given the prevailing political environment in Washington DC. The magnitude of this fiscal response is difficult to overstate and may well produce a period of unusually high economic growth in the coming years. Even without these extraordinary measures, the "real" economy stands to benefit from accelerating vaccine deployment and the end of lockdowns, combined with enormous pent-up demand and the highest individual savings rate in decades.

Additionally, the combination of surging demand, limited supply of both labour and goods (already a theme across US companies), ongoing de-globalisation and exceptionally loose monetary policy, potentially set the conditions for much higher rates of inflation and interest rates. Such a development would be a significant headwind to richly-priced growth shares.

While none of this is guaranteed to happen – and this is by no means a "forecast" on our part – it aligns well with developments in recent months. And by owning individually attractive companies like XPO, we don't need to bet on a regime change to find favourable risk-adjusted returns. A clear lesson from history is that big shifts can unfold dramatically, and it is critical to avoid areas of the market that look most overvalued. At this stage of the cycle, we believe it is less about trying to find the next Amazon, and more about trying to avoid being left holding the next Pets.com. US stocks may currently represent a relatively small portion of the Orbis Global Equity Fund, a far cry from their weight in the World Index. But, in our view, the handful of ideas that make up our allocation to the US are among our highest-conviction holdings anywhere in the world.

Adapted from a commentary contributed by Matthew Adams and Eric Marais, Orbis Investment Management (U.S.), L.P., San Francisco

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FTSE Russell Index

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MSCI Index

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