# Allan Gray Life-Orbis Global Equity Portfolio

30 September 2021

ALLANGRAY

**Inception date:** 18 May 2004

## 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

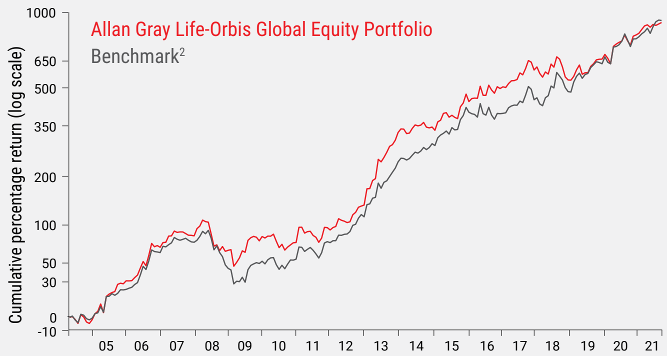
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- The Investor Class Fee is levied in the underlying Orbis Global Equity Fund.

## Portfolio information on 30 September 2021

| | |
|---|---|
| Assets under management | R345m |

## Performance net of fees

Cumulative performance since inception[1]




| % Returns[1] | Portfolio | | Benchmark[2] | |
|---|---|---|---|---|
| | ZAR | US$ | ZAR | US$ |
| Since inception | 14.3 | 9.2 | 14.4 | 9.3 |
| Latest 10 years | 18.5 | 11.3 | 20.1 | 12.8 |
| Latest 5 years | 11.2 | 9.2 | 16.1 | 14.0 |
| Latest 3 years | 10.1 | 7.8 | 15.7 | 13.3 |
| Latest 2 years | 17.6 | 18.0 | 19.0 | 19.5 |
| Latest 1 year | 15.5 | 28.0 | 16.7 | 29.3 |
| Latest 3 months | 1.5 | -3.7 | 5.0 | -0.4 |

## Asset allocation on 30 September 2021

| | Total | North America | Europe and UK | Japan | Asia ex-Japan | Other |
|---|---|---|---|---|---|---|
| Net equity | 98.9 | 39.1 | 29.4 | 11.2 | 13.8 | 5.5 |
| Net current assets | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 |
| **Total** | **100.0** | **39.1** | **29.4** | **11.2** | **13.8** | **6.6** |
| **Currency exposure of the Orbis Global Equity Fund** | | | | | | |
| Fund | 100.0 | 46.4 | 29.4 | 11.5 | 7.3 | 5.4 |
| Index | 100.0 | 65.5 | 18.3 | 7.5 | 5.3 | 3.5 |

1. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 September 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 N.V., if applicable.

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

## Top 10 share holdings on 30 September 2021 (updated quarterly)[3]

| Company | % of Portfolio |
|---|---|
| British American Tobacco | 5.8 |
| NetEase | 3.9 |
| XPO Logistics | 3.4 |
| Naspers[4] | 3.3 |
| GXO Logistics | 3.3 |
| ING Groep | 2.9 |
| Comcast | 2.8 |
| Howmet Aerospace | 2.6 |
| Sberbank of Russia | 2.5 |
| Anthem | 2.5 |
| **Total (%)** | **33.0** |

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## Fund manager quarterly commentary as at 30 September 2021

The past quarter has been painful. After an encouraging start to the year, we gave all the outperformance back and more, with exposure to selected Chinese technology shares and the broad underperformance of value-oriented shares globally driving the majority of underperformance. While we try not to dwell on quarterly results, the past few years have also been disappointing. As co-investors in the Orbis funds, we share the frustration that some of you may be feeling.

As painful as they may be, times like these are an inevitable consequence of our bottom-up approach. Labels such as "value" and "growth" are often used to bucket groups of stocks together according to shared quantitative characteristics or "factors". But we focus on the risk/reward proposition of each individual investment opportunity, and for better or worse, clients should expect this approach to produce an idiosyncratic pattern of relative returns that is uniquely our own.

The past few years have been a reminder of what those difficult times can look like up close. It helps to break it down into three distinct periods.

1 January 2020 – 30 September 2020

Heading into 2020, the market was characterised by massive dislocations between the valuations of shares belonging to the value and growth factor buckets. But there's a big difference between picking a few attractive stocks that happen to fall into a particular bucket and buying the entire bucket itself. We do the former, not the latter. For example, we owned shares such as BMW and Honda which were trading at or below their book value.

But we believed that our selections from the value bucket were significantly more attractive and resilient than the rest of their peers. As the pandemic unfolded, the broader value bucket was hit particularly hard. We felt our share of the pain as well, but during the first nine months of 2020, the Orbis Global Equity Fund (the Fund) held up much better than the value factor – and many other value investors – thanks to our holdings elsewhere in the portfolio, notably in the US and China.

1 October 2020 – 31 May 2021

As a group, value shares came roaring back from last October through May of this year – driven largely by vaccine news and the prospect of the world returning to "normal" sooner than expected. Many of our stock selections benefited from that tailwind, but actually did a bit better than exposure to any particular factor would suggest.

1 June 2021 – 30 September 2021

In recent months it has cut the other way, driven in part by a few stocks in China.

Leaving political risk aside, the Chinese equities that we own in the portfolio look extremely compelling and are trading well below our assessment of their intrinsic value.

But we don't have the luxury of investing in a vacuum. Indeed, escalating geopolitical and regulatory risks were our primary motivation for reducing the Fund's aggregate exposure to China in the second half of last year – trimming it from 20% at 30 June 2020 to 15% at 31 December 2020. With the benefit of hindsight, we should have trimmed more.

As tempting as it may be to take a more aggressive stance in China at today's valuations, we are increasingly mindful of the risks. At 9% of the portfolio at 30 September, which includes Naspers, we believe our position sizing in China is appropriate in light of the risks. We remain enthusiastic about our selected holdings in the area, the largest of which is NetEase. As painful as these developments have been, it is worth remembering that leaning into political risk has also worked in our favour. As we discussed in last September's commentary on the eve of the 2020 US presidential election, our holdings in managed care organisations (MCOs) such as UnitedHealth Group and Anthem are uniquely sensitive to political risk.

We first bought into the MCOs in 2008 amid fears about "Obamacare" and were presented with another opportunity when Bernie Sanders proposed "Medicare for All" in the 2020 presidential campaign. The doomsday scenario is always the same – that the MCOs will be put out of business by a nationalised healthcare model – but the pandemic also brought fresh fears of a surge in COVID-19-related claims.

Since President Biden took office, he has not made any notable moves in healthcare. We continue to believe that the services of UnitedHealth and Anthem will be in even greater demand in the future as the US tries to provide better healthcare to an ageing and growing population at a manageable cost. We fully expect their share prices to remain volatile, but we continue to believe that they offer compelling long-term value.

Importantly, UnitedHealth and Anthem have nothing to fear from Chinese regulators, just as NetEase will never need to care about US healthcare policy. From a fundamental perspective, these businesses are completely uncorrelated. When we assemble a whole portfolio of opportunities like this, we end up with a collection that is truly differentiated. Historically, our analysis shows that less than half of the Fund's long-term relative performance can be attributable to its factor exposures. Trying to mimic the factor exposures of the Fund would have beaten the World Index – an impressive feat – but you would have been unable to replicate the performance of the Fund over its history.

Only time will tell if our current selections can repeat this performance in the future. We are optimistic. When compared to the averages of their World Index peers, the companies held in the Fund are growing faster and yet trade at significantly lower valuations. To us, that's pretty exciting – especially at a time when one can easily pay more than 50 times revenue for an unproven software business or US$1 million for a digital picture of a rock.

Adapted from a commentary contributed by John Christy, Orbis Investments (Canada) Limited, Vancouver Orbis Portfolio Management (Europe) LLP, London

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### FTSE Russell Index

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