ALLAN GRAY

Inception date: 18 May 2004

# Allan Gray Life-Orbis Global Equity Portfolio

31 October 2023

## 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

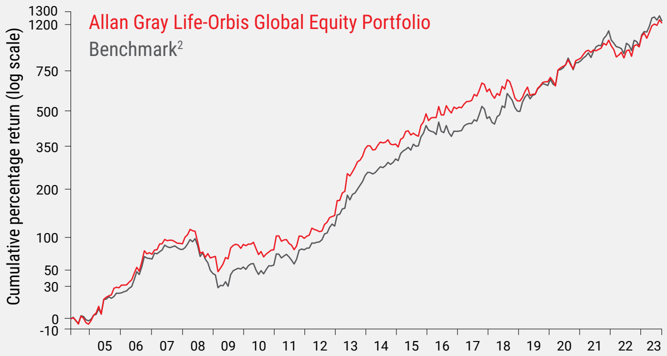
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- The Investor Class Fee is levied in the underlying Orbis Global Equity Fund.

## Portfolio information on 31 October 2023

| | |
|---|---|
| Assets under management | R184m |

## Performance net of fees

Cumulative performance since inception[1]




| % Returns[1] | Portfolio | | Benchmark[2] | |
|---|---|---|---|---|
| | ZAR | US$ | ZAR | US$ |
| Since inception | 13.6 | 7.8 | 13.8 | 8.0 |
| Latest 10 years | 11.8 | 5.1 | 14.7 | 7.7 |
| Latest 5 years | 10.6 | 5.6 | 13.7 | 8.5 |
| Latest 3 years | 11.8 | 6.9 | 13.4 | 8.4 |
| Latest 2 years | 5.8 | -4.5 | 5.6 | -4.7 |
| Latest 1 year | 14.5 | 12.6 | 13.3 | 11.4 |
| Latest 3 months | -3.9 | -8.5 | -4.7 | -9.3 |

## Asset allocation on 31 October 2023

This portfolio invests solely into the Orbis Global Equity Fund

| | Total | North America | Europe and UK | Japan | Asia ex-Japan | Other |
|---|---|---|---|---|---|---|
| Net equities | 97.3 | 50.8 | 17.3 | 14.1 | 14.2 | 1.0 |
| Net current assets | 2.7 | 0.0 | 0.0 | 0.0 | 0.0 | 2.7 |
| **Total** | **100.0** | **50.8** | **17.3** | **14.1** | **14.2** | **3.6** |
| **Currency exposure** | | | | | | |
| Fund | 100.0 | 49.7 | 21.0 | 16.9 | 7.7 | 4.7 |
| Benchmark | 100.0 | 68.1 | 17.2 | 6.7 | 4.6 | 3.3 |

1. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 October 2023.
2. FTSE World Index, including income.

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

## Top 10 share holdings on 30 September 2023 (updated quarterly)

| Company | % of portfolio |
|---|---|
| FLEETCOR Technologies | 5.8 |
| Sumitomo Mitsui Fin. | 4.8 |
| GXO Logistics | 4.3 |
| Global Payments | 4.1 |
| Interactive Brokers Group | 3.5 |
| Constellation Energy | 3.5 |
| KB Financial Group | 2.5 |
| Mitsubishi UFJ Financial Group | 2.5 |
| INPEX | 2.5 |
| BAE Systems | 2.4 |
| **Total (%)** | **35.9** |

**Issued:** 09 November 2023

## Fund manager quarterly commentary as at 30 September 2023

As renewable energy sources such as wind and solar have been more widely adopted, they have rapidly become more cost competitive, driven by "Wright's Law" effects – as cumulative production grows, industries learn and costs fall.

But renewables have a key flaw, which makes them increasingly less useful the more they are adopted in the energy system. That flaw is "intermittency" – wind turbines don't generate when there is no wind, and solar panels don't generate when there is no sun.

When renewables are first added to an electricity system, the overall intermittency effect is small, as there is a large base of other power sources that are either dispatchable such as gas and coal or continuously generating like nuclear. However, as the proportion of power provided by renewables grows over time and the proportion of dispatchable power falls, intermittency issues grow, and power prices become more volatile.

This is the core of why we are attracted to nuclear as a source of power. Nuclear power stations can generate power almost 24/7, running around 95% of the time. They don't suffer from intermittency. Yet they are also low carbon.

We initially came across Constellation Energy in early 2022. The company had just spun out of Exelon, a US utility. Constellation is the largest US producer of zero carbon electricity with 21 gigawatts (GW) of nuclear capacity – roughly enough to power about 17 million homes for a year.

What first piqued our interest was that Constellation traded at a very attractive valuation relative to its replacement cost – the cost required to replace all its existing power plants. When we initially invested in the company, its enterprise value – the value of the business excluding its debt and cash was approximately US$25bn. Given a US$5-10bn per GW cost of constructing new nuclear plants, Constellation's replacement value was around US$100-200bn. Of course, new plants last about 80 years, and Constellation's have been operating for 30 to 40 already – but even including depreciation, the company's enterprise value was a fraction of its replacement value.

Constellation also had a competitive advantage stemming from its significant scale – it has triple the nuclear capacity of the next-largest nuclear generator in the US. That allows the company to run multiple copies of the same nuclear reactor design, achieving economies of scale in maintenance. We see this in the hard numbers, where Constellation achieves more output on similar assets compared to peers and is consistently ranked as the best producer in the US on production, cost and safety.

Shortly after our initial investment, the US passed landmark climate legislation in the so called "Inflation Reduction Act". The Act included a suite of subsidies for renewable energy but also for nuclear power.

For Constellation, the subsidy regime transforms the economic and intrinsic value of the business. It will receive a fixed minimum price, which guarantees profitability. This boosts both earnings and the valuation those earnings deserve by reducing the uncertainty and risk in the earnings stream. Even more favourably, Constellation is still exposed to upside in market power prices – there is a floor price but no ceiling price. That provides an asymmetric risk profile, and this observation has been a key difference in our view on the stock compared to the market's view.

While there is some opposition to nuclear, it is often not on cost grounds but on the grounds of safety. We believe that this is a common case of the seen and unseen. A small number of nuclear accidents are highly vivid (the seen). However, they have also been exceptionally rare. We believe, in fact, that nuclear is among the safest forms of energy in the world – significantly safer than generation by coal, oil, gas or biomass. The difference is that the harms from fossil fuel generation are less vivid, as accidents tend to be smaller scale (fires) and much of the local harm (pollution) is unseen.

There is also an outstanding question on how to store nuclear waste. For now, the US government reimburses power producers for the costs of on-site storage, where nuclear waste is sealed in large metal "casks". These casks have been entirely safe to date in their operation. They are closely monitored and are designed to withstand earthquakes, floods and even projectiles.

As the largest provider of reliable zero-carbon electricity in the US, Constellation is primed to be a key beneficiary of the shift to true zero carbon energy. Though the shares have performed well since our purchase, we remain substantial shareholders.

We believe at its current valuation, Constellation trades at an undemanding price given the long-term floor on the company's profits. We also see plausible paths to higher upside. If the US rolls out either widespread carbon pricing or further nuclear subsidies, the company's enterprise value could more than double, approaching the replacement cost of the assets. In Constellation, we believe we've found a company that is playing a positive role for society – and whose shares trade at an attractive discount to intrinsic value.

We reduced the position in Samsung Electronics to reallocate capital to other higher-conviction semiconductor positions. Samsung Electronics remained a meaningful holding as at 30 September 2023. We also exited the position in Kinder Morgan to reallocate the capital to stocks we believed traded at a higher discount to intrinsic value.

Adapted from a commentary contributed by Ben Harris, Orbis Portfolio Management (Europe) LLP, London

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### FTSE Russell Index

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