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

Inception date: 1 April 2015

31 May 2022

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

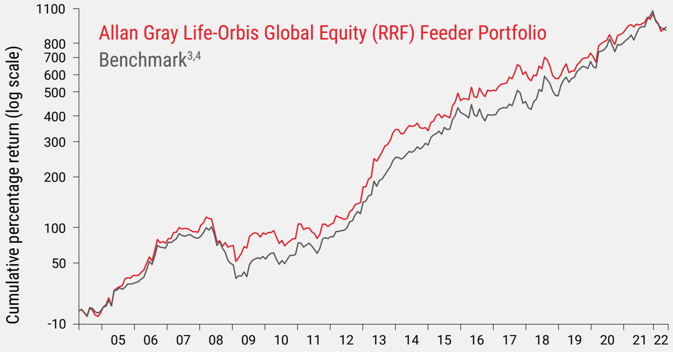
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- The Base Refundable Reserve Fee is levied in the underlying Orbis Institutional Global Equity Fund.

Portfolio information on 31 May 2022

Assets under management	R569m

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. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 May 2022.
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.

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

% Returns[1,2]	Portfolio		Benchmark[3,4]	
	ZAR	US$	ZAR	US$
Since inception	13.7	8.6	13.6	8.4
Latest 10 years	16.9	10.1	17.8	10.9
Latest 5 years	9.8	6.1	13.5	9.7
Latest 3 years	13.3	10.8	15.1	12.6
Latest 2 years	7.0	13.8	8.8	15.7
Latest 1 year	0.1	-11.9	8.1	-4.8
Latest 3 months	-2.6	-3.5	-4.9	-5.7

Top 10 share holdings on 31 March 2022 (updated quarterly)[5]

Company	% of Portfolio
British American Tobacco	7.8
FLEETCOR Technologies	3.6
Global Payments	3.6
XPO Logistics	3.5
UnitedHealth Group	3.3
Newcrest Mining	3.0
Anthem	3.0
Howmet Aerospace	2.9
Progressive	2.9
GXO Logistics	2.9
Total (%)	**36.4**

Asset allocation on 31 May 2022

	Total	North America	Europe and UK	Japan	Asia ex-Japan	Other
Net equities	97.8	46.8	22.6	9.7	13.3	5.4
Net current assets	2.2	0.0	0.0	0.0	0.0	2.2
Total (%)	**100.0**	**46.8**	**22.6**	**9.7**	**13.3**	**7.6**
Currency exposure of the Orbis Institutional Global Equity Fund						
Fund	100.0	47.3	25.1	11.8	8.2	7.6
Index	100.0	72.0	18.1	6.2	1.2	2.5

Issued: 9 June 2022

Fund manager quarterly commentary as at 31 March 2022

Prior to Russia's invasion of Ukraine on 24 February, the Orbis Institutional Global Equity Fund ("the Fund"), in which the Portfolio invests, had less than a 2% position in Russia. We were concerned for some time about increasing tensions between the two countries and trimmed our overall exposure to Russia in recent months. With the benefit of hindsight, we should have eliminated the position much sooner. At present, we have little confidence in our ability to recover value from these positions and wrote them down to zero in early March. Our thoughts remain with those in harm's way, and we hope for a prompt and peaceful resolution.

While investors seem to be focused on understanding the immediate impact on markets, we think this misses a much bigger point. While Russian energy exports may come under pressure from explicit sanctions or implicit boycotts, the real question is what happens if there is a more sustained disruption in Russian energy production itself. For example, a ban on the sale of equipment to Russia for oil and gas extraction could impair long-term production capacity. The old adage that "the best cure for high prices is high prices", remains true – other suppliers will happily step in to fill the gap. But so far that supply response has been limited for a variety of reasons, and supply was already very tight prior to the invasion. In fact, it is precisely because fossil fuels have been so deeply out of favour for so long that the supply crunch exists in the first place. In our view, many investors are only beginning to grasp these longer-term implications.

Nor are energy prices the only concern. Other key commodities are in short supply and will almost certainly affect the pricing of many other products. The US Federal Reserve is clinging to the view that inflation will be "transitory", but this does not inspire confidence. In fact, the Fed's limited response thus far probably raises the odds that inflation will persist.

For investors, the resurgence of inflation is a potential game-changer. The market environment in recent years has been characterised by a TINA mentality – There Is No Alternative – in which investors have had little choice but to chase increasingly frothy equity returns rather than sit in cash earning nothing or the "return-free risk" offered by many government bonds.

At Orbis, we don't get along very well with TINA. As value-oriented investors, we struggle to keep pace when equity markets become increasingly expensive, as has been the case in recent years. We prefer TASHA – There Are Some Healthy Alternatives – and that's exactly the mindset that we bring to the opportunity set today.

Commodity producers are one such alternative. Teck Resources, a Canadian mining company, offers a 25% free cash flow yield at current commodity prices. In other words, if you bought the company outright, you could get all of your money back after just four years if today's commodity prices were to persist. Even if they don't, Teck still looks reasonably attractive under more conservative long-term assumptions.

Brazil's Vale is another good example. Vale is one of four iron ore majors globally and is also the world's largest producer of nickel, a critical component for electric vehicle batteries. It has net cash on its balance sheet and trades at just six times our estimate of this year's earnings. At current production levels and iron ore prices of US$150 per tonne, Vale generates a free cash flow yield of about 25%, but even at US$80 per tonne it would still deliver about 8-10% free cash flow yield. That tells us that the stock is fairly valued with ore at US$80 and a steal if current prices persist. Of course, the current levels may be unsustainably high, but high commodity prices provide a reassuring margin of safety. The longer high prices persist, the more cash will flow back to the owners of the business, which in turn provides fundamental support for the share price.

If we are correct that the stockpicking environment is changing, then banks may offer yet another healthy alternative. Interest rates have recently been the lowest in 5 000 years of knowable history and it would be unreasonable to assume that this will persist indefinitely – particularly in light of the sharp uptick in inflation. For banks, rising interest rates should be a positive, as they will be able to take advantage of the difference between the rate that banks pay to customers on their savings, and the rate they can earn through investing those savings.

KB Financial Group, one of the leading lenders in South Korea, is growing at a steady pace, and is paying about a 5% dividend yield – which should rise over time. Despite this, KB currently trades at a 50% discount to its book value. Valuation figures like these might normally be signs of distress or weak fundamentals for a bank, but KB has an impressive track record of profitability and a strong balance sheet.

In our view, there are still plenty of healthy alternatives to choose from in the current environment, particularly as growth rates fade and valuation multiples are squeezed by rising interest rates. While the likes of Teck, Vale and KB are just a few examples, they are representative of the types of new opportunities that we have been focusing on of late.

While the Fund's performance in the first quarter was similar to that of its benchmark, we got there very differently. It has been frustrating that our exposure to Russia and China has hurt performance, but being underweight the most expensive parts of the market in favour of our selection of healthy alternatives has been a tailwind – one we believe has far more room to run.

We trimmed the position in Taiwan Semiconductor Manufacturing Company in light of rising geopolitical risks and exited the position in Meta Platforms (formerly Facebook) due to concerns about increasing competitive pressures.

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

Tel 0860 000 654 or +27 (0)21 415 2301 **Fax** 0860 000 655 or +27 (0)21 415 2492 **Email** institutional@allangray.co.za **www.allangray.co.za**

Information and content

The information in and content of this publication/presentation are provided by Allan Gray as general information about the company and its products and services. Allan Gray does not guarantee the suitability or potential value of any information or particular investment source. The information provided is not intended to, nor does it constitute financial, tax, legal, investment or other advice. Before making any decision or taking any action regarding your finances, you should consult a qualified financial adviser. Nothing contained in this publication/presentation constitutes a solicitation, recommendation, endorsement or offer by Allan Gray; it is merely an invitation to do business.

Allan Gray has taken and will continue to take care that all information provided, in so far as this is under its control, is true and correct. However, Allan Gray shall not be responsible for and therefore disclaims any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance on any information provided.

Allan Gray Life Ltd is a registered insurer licensed to provide life insurance products as defined in the Insurance Act 18 of 2017.

Past performance is not indicative of future performance.

MSCI Index

Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indexes or any securities or financial products. This report is not approved, endorsed, reviewed or produced by MSCI. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

FTSE Russell Index

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2022. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®" "Russell®", "FTSE Russell®", is/are a trade mark(s) of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

Important information for investors

Need more information?
You can obtain additional information about your proposed investment from Allan Gray free of charge either via our website **www.allangray.co.za** or via our Client Service Centre on **0860 000 654**