

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

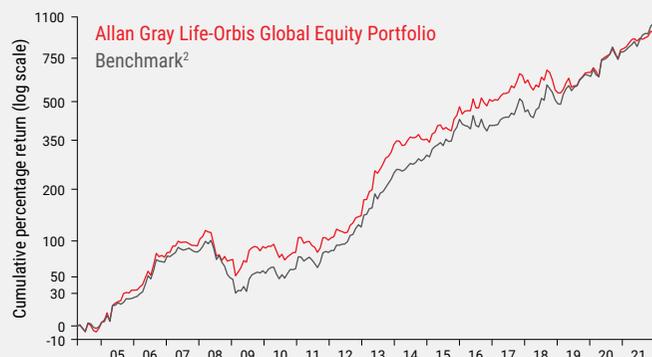
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- The Investor Class Fee is levied in the underlying Orbis Global Equity Fund.

Portfolio information on 31 May 2022

Assets under management	R230m
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Performance net of fees

Cumulative performance since inception¹



1. 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.

2. FTSE World Index, including income.

3. 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	Portfolio		Benchmark ²	
	ZAR	US\$	ZAR	US\$
Since inception	13.5	8.4	13.7	8.6
Latest 10 years	16.5	9.7	18.1	11.2
Latest 5 years	8.8	5.2	13.7	10.0
Latest 3 years	13.2	10.7	15.4	12.9
Latest 2 years	6.9	13.7	9.4	16.4
Latest 1 year	0.2	-11.9	8.0	-5.0
Latest 3 months	-2.3	-3.1	-4.6	-5.4

Top 10 share holdings on 31 March 2022 (updated quarterly)³

Company	% of Portfolio
British American Tobacco	7.8
FLEETCOR Technologies	3.6
Global Payments	3.6
UnitedHealth Group	3.4
XPO Logistics	3.4
Anthem	3.1
Newcrest Mining	3.0
Howmet Aerospace	2.9
Progressive	2.8
GXO Logistics	2.7
Total (%)	36.2

Asset allocation on 31 May 2022

	Total	North America	Europe and UK	Japan	Asia ex-Japan	Other
Net equities	97.5	46.4	22.4	9.6	13.7	5.4
Net current assets	2.5	0.0	0.0	0.0	0.0	2.5
Total	100.0	46.4	22.4	9.6	13.7	7.9

Currency exposure of the Orbis Global Equity Fund

	Fund	Index
Fund	100.0	66.5
Index	46.5	66.5
	25.6	17.6
	11.6	6.6
	8.4	5.3
	7.9	3.9

Prior to Russia's invasion of Ukraine on 24 February, the Orbis 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

Fund manager quarterly commentary as at 31 March 2022

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FTSE Russell Index

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