ALLANGRAY

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

Inception date: 1 August 2015

31 August 2024

Portfolio objective and benchmark

The Portfolio aims to balance capital appreciation, income generation and risk of loss in a diversified global multi asset class portfolio. The benchmark is a composite consisting of 60% of the MSCI World Index (net dividends reinvested) and 40% of the J.P. Morgan Global Government Bond Index.

Product profile

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

Investment specifics

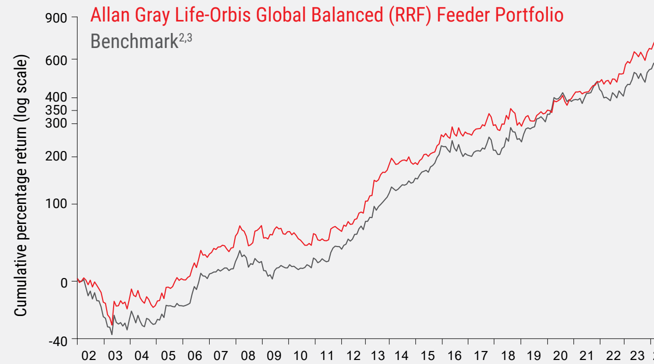
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- The Base Refundable Reserve Fee is levied in the underlying Orbis SICAV Global Balanced Fund.

MSCI data

*The blended returns are calculated by Orbis Investment Management Ltd using end-of-day index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking or otherwise utilising any MSCI Data, models, analytics or other materials or information.

Performance net of fees[1]

Cumulative performance since inception



% Returns[1,4]	Portfolio		Benchmark[2,3]	
	ZAR	US$	ZAR	US$
Since inception	9.8	7.8	8.7	6.7
Latest 10 years	11.5	5.9	11.1	5.6
Latest 5 years	14.8	11.2	10.2	6.8
Latest 3 years	17.4	9.6	9.1	1.9
Latest 2 years	20.4	18.0	14.8	12.5
Latest 1 year	14.5	22.1	9.2	16.5
Latest 3 months	1.1	7.1	0.2	6.2

Asset allocation on 31 August 2024

This portfolio invests solely into the Orbis SICAV Global Balanced Fund

	Total[6]	United States	UK	Europe ex-UK[5]	Japan	Other[5]	Emerging markets
Net equities	57.8	11.1	12.2	8.9	6.2	5.9	13.6
Hedged equities	18.9	10.6	1.2	4.1	0.7	0.9	1.3
Property	0.3	0.0	0.0	0.0	0.3	0.0	0.0
Commodity-linked	6.0	6.0	0.0	0.0	0.0	0.0	0.0
Bonds	15.2	10.8	0.5	1.4	0.0	0.0	2.5
Money market and cash	1.8	0.9	0.1	0.4	0.1	0.2	0.1
Total (%)[6]	**100.0**	**39.3**	**14.0**	**14.9**	**7.3**	**7.1**	**17.5**
Currency exposure	100.0	23.6	13.0	26.1	16.4	11.5	9.4
Benchmark	100.0	62.8	4.7	17.2	10.3	5.0	0.0

Portfolio information on 31 August 2024

Assets under management	R662m

1. The returns prior to 1 August 2015 are those of the Allan Gray Life Foreign Portfolio since its inception on 23 January 2002. This Portfolio invested in a mix of Orbis funds. The Investor Class Fee was levied in the underlying Orbis funds.
2. 60% of the MSCI World Index (net dividends reinvested) and 40% of the J.P. Morgan Global Government Bond Index*.
3. The benchmark prior to 1 August 2015 was that of the Allan Gray Life Foreign Portfolio which is 60% of the MSCI All Country World Index and 40% of the J.P. Morgan Global Government Bond Index.
4. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 31 August 2024.
5. Refers to developed markets only.
6. There may be slight discrepancies in the totals due to rounding.

Top 10 holdings on 30 June 2024 (updated quarterly)

Company	% of portfolio
SPDR Gold Trust	6.1
Samsung Electronics	4.5
Kinder Morgan	3.4
Taiwan Semiconductor Mfg.	3.4
Mitsubishi Heavy Industries	2.7
US TIPS 5 - 7 Years	2.6
Nintendo	2.4
Shell	2.1
Burford Capital	2.1
US TIPS 3 - 5 Years	1.9
Total (%)[6]	**31.2**

Issued: 10 September 2024

Fund manager quarterly commentary as at 30 June 2024

There's no business like show business – and that business is now changing. The old cash cow studios of broadcast and cable television are running dry, supplanted by streaming video, which has proven to be far less lucrative. It is unclear how or when the industry will reach its new equilibrium, and this uncertainty has roiled the share prices of companies across the broader sector.

In our view, any route to recovery for the studios will require an old partner – the cinema owners. Far more interesting to us than the studios are the exhibitors, and here, we are confident that our investment in Cinemark Holdings can recover and persist through this media upheaval.

That is not a universal view. Many continue to doubt the viability of theatrical exhibition, viewing it as another legacy business that will crumble before the rising tide of streaming platforms. But cinemas recently went through an uncommonly comprehensive test – the COVID-19 pandemic, which proved that movie theatres play an indispensable role in making money from movies.

When the pandemic shut down theatres worldwide, studios used the opportunity to experiment with alternative ways of distributing films. Most cut down the theatrical exclusivity window – the period where films can only be seen in cinemas. Some eliminated theatrical exclusivity altogether.

These tests produced undesirable outcomes. Filmmakers and actors revolted, displeased by lower pay, as their compensation usually involves a cut of the box office. Christopher Nolan was so repulsed by Warner Brothers' approach that he left to do *Oppenheimer* with Universal instead. Movies, especially those published immediately on streaming platforms, were pirated at elevated rates. Most importantly, viewership analytics showed there is no conflict between theatrical exclusivity and popularity on streaming services. In fact, the most-watched streaming movies are almost uniformly theatrical exclusives first.

The data shows that theatres make movies more popular and profitable. Forfeiting box office revenues does not produce worthwhile value in digital distribution, and it introduces a range of needless complications.

The major studios seemed to have learnt from the experiment. They are restoring their theatrical film output and committing to theatrical exclusivity to bolster earnings and retain talent. During COVID-19, Disney made the money-losing decision to divert Pixar films to early streaming debuts. This month, it released *Inside Out 2* with a 100-day exclusive theatrical window and achieved a record animation box office debut. Even Apple and Amazon came to acknowledge the benefits of a theatrical release strategy. Both companies have promised to spend US$1bn per year on theatrical exclusive movies, or roughly 10 films a year.

As the studios have returned to theatres, North American box office revenues have increased by double-digit percentages annually since 2020, but gaps in the schedule and the Hollywood strikes have limited the number of films reaching theatres. We expect the industry to reach pre-COVID-19 levels of theatrical output in the next year or so. Given the tight relationship between box office revenue and the number of films sent to theatres, that bodes well for exhibitors. If the historical relationship holds, 2025 should see the North American box office comfortably exceed US$10bn on an ongoing basis.

We believe no company is better poised to benefit from the anticipated box office recovery than Cinemark, the third-largest theatre chain in the United States and a leading chain throughout Latin America. Unlike many of its peers that prioritised debt-fuelled expansion, Cinemark's management team carefully guarded its balance sheet. Its approach to expansion was cautious; the company built most of its network in suburban locations that have less burdensome property rents. It entered COVID-19 with the lowest debt ratios and average property rents of the three national American exhibitors.

As theatrical exhibition leaves the pandemic behind, Cinemark has managed to avoid bankruptcy without resorting to dilutive share issuances. It is fully caught up on its deferred rents to theatre landlords. Moreover, Cinemark continued to invest in the upkeep and upgrade of its theatres, investing over US$80m every year. Many of its peers are not in the same position, having gone bankrupt or cut reinvestment to the bone, and will still be contending with the pandemic's aftermath years after Hollywood has reverted to normalcy.

Cinemark's choices allowed it to achieve exceptional operating metrics, even with an impaired box office. Some quarters in the last two years did have full release schedules, and those periods provide a tantalising glimpse into Cinemark's potential. In 2023, Cinemark achieved its highest third quarter revenue ever, due to its steadily growing concessions business – popcorn and drinks are the greatest profit contributors in theatrical exhibition. Cinemark invested heavily in premium amenities and better food and drink offerings through COVID-19, which allowed it to effectively capitalise on pent-up demand from consumers.

The success of this strategy is right there in the numbers. Cinemark generated US$295m in free cash flow in 2023 – comparable to pre-COVID-19 levels.

The next few years should see the consummation of Cinemark's business model. If the box office meets our expectations, we believe Cinemark can achieve record profitability. Furthermore, Cinemark should soon restore its dividend, as the recovery brings debt ratios down to the company's targeted window. Lastly, much of that debt will soon be gone. If Cinemark returns to its pre-COVID-19 capital structure, we believe the shares are worth some 50% more than their current price.

Movie theatres have survived over a century of disruptions including radio, television, broadcast, VHS, home rentals, cable, DVD and internet piracy. We believe the pandemic and streaming will join this litany of challenges overcome by theatrical exhibitors, and we believe Cinemark will lead the charge in this recovery story.

During the quarter, we increased the Portfolio's exposure to US Treasury Inflation Protected Securities (TIPS) as we believe the exposure offers low-risk, real yield and inflation protection at an attractive price. In addition, we trimmed the Portfolio's position in Micron Technology into relative share price strength to reallocate the capital to opportunities where we believed the discount to intrinsic value was wider.

Adapted from a commentary contributed by Jeffrey Miyamoto, Orbis Investment Management Limited, Bermuda

Important information for investors

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MSCI Index

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FTSE Russell Index

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