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

ALLANGRAY

Inception date: 1 August 2015

31 January 2025

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

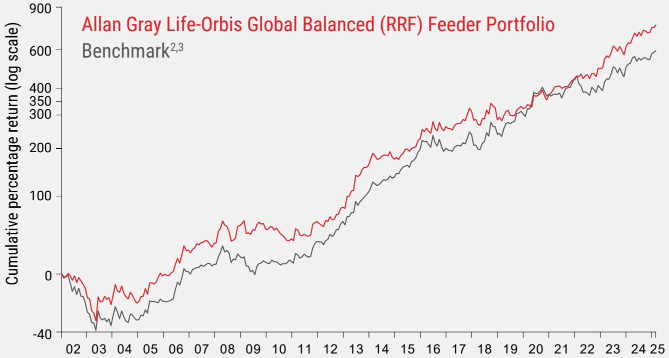
- This Portfolio is available as a linked policy issued by Allan Gray Life Limited available only to retirement funds.
- Minimum investment: R20m.
- The Base Refundable Reserve Fee is levied in the underlying Orbis SICAV Global Balanced Fund.

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	9.9	7.6	8.8	6.6
Latest 10 years	12.4	7.2	11.3	6.2
Latest 5 years	14.9	9.9	10.7	5.9
Latest 3 years	16.2	9.3	10.1	3.5
Latest 2 years	16.0	12.1	14.6	10.8
Latest 1 year	17.6	17.7	11.7	11.8
Latest 3 months	7.0	1.4	8.2	2.5

Asset allocation on 31 January 2025

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	56.9	10.8	12.2	11.5	6.2	5.4	10.9
Hedged equities	18.8	10.4	1.1	4.2	0.7	0.9	1.5
Property	0.4	0.0	0.0	0.0	0.4	0.0	0.0
Commodity-linked	5.8	5.8	0.0	0.0	0.0	0.0	0.0
Bonds	16.5	11.3	0.5	1.2	0.0	0.0	3.4
Money market and cash	1.5	0.1	0.1	0.6	0.1	0.3	0.3
Total (%)[6]	**100.0**	**38.4**	**13.9**	**17.6**	**7.3**	**6.6**	**16.2**
Currency exposure	100.0	25.7	12.9	27.8	15.5	10.6	7.5
Benchmark	100.0	64.6	4.4	16.4	9.8	4.8	0.0

Portfolio information on 31 January 2025

Assets under management	R703m

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 January 2025.
5. Refers to developed markets only.
6. There may be slight discrepancies in the totals due to rounding.

Top 10 holdings on 31 December 2024 (updated quarterly)

Company	% of portfolio
SPDR Gold Trust	5.5
Kinder Morgan	4.4
Siemens Energy	3.3
Taiwan Semiconductor Mfg.	3.3
US TIPS 1 - 3 Years	3.2
Samsung Electronics	2.8
Nintendo	2.8
US TIPS 3 - 5 Years	2.4
Cinemark Holdings	2.3
Drax Group	2.2
Total (%)[6]	**32.2**

Issued: 11 February 2025

Fund manager quarterly commentary as at 31 December 2024

2024 was a solid year for the Portfolio, but every year, one way or another, we get a lesson in humility from markets. The team uncovered some big winners over the past year, in sectors as diverse as defence contractors and cinema operators. But we did not participate in the massive returns from the world's already-biggest-and-most-loved shares, which got more expensive, as did the US dollar – a currency which the Portfolio had a lower exposure to than its benchmark. 2024 has served as a great reminder that the spread of potential investment outcomes is always wide.

If the spread of investment outcomes is wide, so too is the sweep of the pendulum in investor sentiment. First, the pendulum starts to swing, gaining force as the stories get better, the promises grander, the assumptions rosier and the profits more assured. As beliefs get more stretched, so do market prices in the affected areas. In time, cracks start to form in the appealing stories, and the grand promises and rosy assumptions collapse on collision with reality. Spurned by the first swing of the pendulum, investors push it to the other extreme, rejecting the first happy story in favour of its apparent opposite. Eventually that story cracks too, and, pulled by gravity, the pendulum ends up in the only place it ever could – with clear-eyed, pragmatic trade-offs. Prices settle at something more recognisable as fundamental value.

Recently, there has been no better example of the pendulum than the swings in market sentiment around the energy system. (It is worth saying here that while we integrate responsible investing concerns into our investment process, the Portfolio does not invest according to sustainability factors.)

As early as 2018, our research convinced us that the world needed more energy generally, and a lot more electricity specifically. But way oversimplistic approaches to environmental, social and governance concerns ruled the roost. The core belief was simple – carpet the world with wind and solar farms, and all will be wonderful. Spurred by the appealing (if unrealistic) story, renewable energy stocks flew and "old school" energy stocks sold off.

The beliefs were never going to hold up against basic science and economics. As we wrote in March, the more wind and solar you have in your energy grid, the more back-up you need to get through lulls in supply and peaks in demand.

As investors and voters alike have grown disillusioned with the exaggerated promises of wind and solar power, the pendulum has swung away from renewables and towards a new fascination with nuclear. Vestas Wind Systems, a leading wind turbine manufacturer which the Portfolio once held, has seen its share price decline by two-thirds since early 2021, while nuclear generator Constellation, which we held until recently, has seen its share price quadruple. Even the previously mothballed Three Mile Island nuclear power station is getting a comeback.

This nuclear fascination shows the appeal of the pendulum's second swing. It feels more pragmatic than the first, but again ignores many of its obstacles. We believe nuclear will be an important part of the solution – but not nearly as quickly as the market has hoped.

Finally, reality is pulling the pendulum towards a more realistic set of beliefs. Investors are coming to realise that natural gas is the most pragmatic way to increase generation capacity and complement wind and solar power. Two holdings illustrate this shift.

We added Kinder Morgan (KMI) to the Portfolio in 2021, at a time of acute anti-fossil fuel sentiment. KMI owns the largest network of natural gas pipelines in North America, moving about 40% of gas consumed in the country. Investors bought into the idea of natural gas being a dead-end energy source. Our research suggested that natural gas-fired electricity should instead be complementary to intermittent wind and solar, and in the US, plentiful gas provides a strategic advantage. Importantly for value investors, we were being paid to wait for the pendulum to swing round to our thinking – at the time of our purchase, KMI offered a near 7% dividend yield and 12% free cash flow yield. This enabled us to build KMI into the Portfolio's largest equity holding.

Siemens Energy has gone from loathed to respected. Though the company's Gamesa unit makes wind turbines, and its grid equipment business is essential to replacing ageing and failing grid infrastructure, Siemens Energy was scorned for making turbines for gas, nuclear and coal plants. Its shares languished at roughly half their book value. From their trough, Siemens Energy shares are up five-fold, and still look reasonably priced to us today. The gas business is increasingly seen as a gem, and the critical importance of its grid equipment business is starting to be appreciated.

The energy system example illustrates how the pendulum in investor sentiment works, but it is far from the only one. We continue to track investable sentiment swings around defence and infrastructure. We may yet see changes in the fevered sentiment swing towards American exceptionalism, or in the still-strong faith that central banks and low inflation will support financial assets. But markets call for humility. In advance, we can know neither the full range of outcomes nor the path markets will take. What we do know is the price we pay. On a price-to-earnings basis, the shares in the Portfolio trade at a 40% discount to world stock markets. By seeking out low expectations, we can both improve potential returns and reduce the risk of the pendulums' swings.

We initiated a position in Arch Capital Group, a Bermuda-based insurance company, and exited the Portfolio's position in Brookfield, a Canada-based investment management company.

Adapted from a commentary contributed by Alec Cutler, Orbis Investment Management Limited, Bermuda

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MSCI Index

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