ALLAN GRAY

Inception date: 18 May 2004

Allan Gray Life-Orbis Global Equity Portfolio

30 June 2024

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

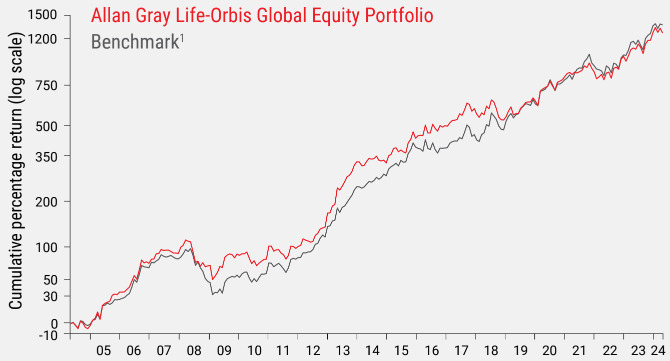
- This is a feeder portfolio, investing in the Orbis Global Equity Fund which is actively managed by Orbis.

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.

Performance net of fees

Cumulative performance since inception



% Returns[2]	Portfolio ZAR	Portfolio US$	Benchmark[1] ZAR	Benchmark[1] US$
Since inception	14.2	8.7	14.6	9.1
Latest 10 years	12.2	6.3	15.4	9.4
Latest 5 years	15.9	10.1	17.9	12.0
Latest 3 years	12.7	3.8	16.0	6.9
Latest 2 years	23.8	17.3	26.2	19.6
Latest 1 year	14.6	18.7	16.3	20.4
Latest 3 months	-5.0	-1.3	-1.1	2.8

Asset allocation on 30 June 2024

This portfolio invests solely into the Orbis Global Equity Fund

	Total[4]	United States	UK	Europe ex-UK[3]	Japan	Other[3]	Emerging markets
Net equities	96.5	48.6	15.3	8.1	6.2	2.8	15.5
Property	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market and cash	3.5	3.0	0.2	0.1	0.0	0.0	0.2
Total (%)[4]	**100.0**	**51.6**	**15.4**	**8.1**	**6.3**	**2.8**	15.7
Currency exposure	100.0	48.6	10.4	12.5	13.7	8.0	6.8
Benchmark	100.0	67.1	3.8	12.0	6.3	5.5	5.3

Portfolio information on 30 June 2024

Assets under management	R176m

1. FTSE World Index, including income.
2. Investment returns are annualised (unless stated otherwise), except for periods less than one year. Performance as calculated by Allan Gray as at 30 June 2024.
3. Refers to developed markets only.
4. There may be slight discrepancies in the totals due to rounding.

Top 10 share holdings on 30 June 2024 (updated quarterly)

Company	% of portfolio
UnitedHealth Group	5.0
Corpay (was FLEETCOR)	4.8
Interactive Brokers Group	3.9
Alphabet	3.5
Shell	3.1
GXO Logistics	3.1
British American Tobacco	3.1
Global Payments	2.8
BAE Systems	2.6
KB Financial Group	2.6
Total (%)[4]	**34.6**

Issued: 10 July 2024

Fund manager quarterly commentary as at 30 June 2024

Recent market returns have been narrow, propelled by the magnificent seven technology shares in the US – Microsoft, Apple, Alphabet, Nvidia, Amazon, Meta and Tesla. For the most part, we haven't owned them. But in the middle of the Portfolio's top 10 holdings, one of the seven does stick out: Alphabet.

The Portfolio first owned Alphabet (then called Google) in late 2008 and has held it cumulatively for over a decade on and off since. We have also held Microsoft, Apple, Amazon and Meta before. But while several of the seven are now regarded as unassailably successful, sentiment has been less rosy for Alphabet. For us, that is part of the appeal.

The key fear on Alphabet is that Microsoft and its partner Open AI have eaten Google's lunch on artificial intelligence (AI), which will become the key capability for all technology businesses including internet search.

In November 2022, Open AI launched ChatGPT, and in February 2023, Microsoft announced it would incorporate ChatGPT into its Bing search engine. The next day, Google previewed its own AI bot, called Bard, which flopped spectacularly.

That paints a scary picture, but it is easy to overstate Google's challenges.

Most importantly, chat apps do not produce better results for all searches. We see this in the numbers, where both ChatGPT and Bing have lower weekly retention rates than Google Search. While ChatGPT's app and website have raced ahead of other AI competitors, they have added just 20 million daily users over the past year, bringing the total to 50 million. That sounds big, but Google has 800 million daily users on its mobile app and 1.6 billion on its Chrome web browser. Comparing search against search, you have to squint to see Bing's inroads. On mobile, Bing has less than one daily user for every thousand Google users, and on desktop, Bing's share of daily searches is just 4% – up a grand total of 0.4 percentage points from the pre-ChatGPT days.

In its latest earnings report, Google laid some of these demons to rest, materially increasing our conviction in its fundamentals. After embedding AI into its own "search generative experience", Google's search engagement is up (because users are getting better answers), its search profit margins are up (because advertisers are following users), and its cost to serve AI queries is down (by 80% since their initial introduction). We took this as encouraging evidence that Google is not just surviving in an AI world but thriving. The market agreed, sending the shares up roughly 15% since that earnings report.

That does not mean Google can coast. In a few areas, it clearly needs to improve, including in its AI products. The company has already fixed the most glaring problems with Gemini (the new Bard), explaining that the model was improperly calibrated. That may be true, but it is hard to dismiss the idea that Gemini's output has been skewed by the political priorities of Google's outspoken staff.

Still, we believe Google will continue to improve. Proficiency in AI boils down to engineering talent, access to cutting-edge computer chips and large data sets on which to train the AI models. Google has all three.

From a valuation perspective, we look at the math the following way. Alphabet earned US$74bn last year, but that is weighed down by severance expenses and losses in the "other bets" segment focused on nascent opportunities. Excluding those losses, we see the company trading at 22 times trailing core earnings, to say nothing of the US$79bn of net cash on its balance sheet. That valuation is only a hair above the multiple of the broader S&P 500, and in relative terms, it is unusually low for Alphabet. In our view, Alphabet deserves more of the premium it usually has. This is a business with returns on equity and net profit margins of over 20%, both well above the market average, with above-average growth prospects to boot. If the valuation stays where it is and the company can grow at even 10% per annum, growth and free cash flow alone should drive a near-15% per annum, long-term return.

That growth potential is supported by Alphabet's commanding positions in several big businesses. Its core search business is unique, and its YouTube unit is unique in the West. Alongside OpenAI, Alphabet is one of two leaders in AI services; alongside Nvidia, it is one of two in AI accelerator chips; alongside Apple, Android is one of two mobile operating systems; and behind Amazon and Microsoft, Google is one of three hyperscale cloud services operators. Each of these businesses is valuable and has extraordinary potential – but that is often lost as investors focus excessively on threats to the search business.

The company does have its risks, however. AI could prove more disruptive than we expect. Advertising spending is cyclical, so if the US economy slows or crashes, Alphabet won't be immune. But weighing up the risks against the price and the quality of the business, Alphabet looks reasonable to us, and it also brings diversification to the Portfolio, as its share price behaves differently to many of our other holdings.

Alphabet's more magnificently valued brethren would also bring that diversification, but while we appreciate the fundamental quality of the others, we see less to like in their share prices. Microsoft, for example, has similar growth potential and returns on equity to US payments and fuel card business Corpay (formerly Fleetcor), yet trades at double the valuation. To sustain the 15% per annum growth rate markets expect on its US$86bn profit base, Microsoft must add roughly another Coca-Cola worth of profits every year. On its US$100bn profit base, Apple must add the equivalent of a Wells Fargo in profits this year to sustain its growth, and the climb gets harder from there.

Perhaps Microsoft and Apple can achieve those feats. They are great companies. But we would prefer to invest where expectations are lower: in shares like Corpay, US managed care organisations, quality industrial companies, banks in Korea and Europe – or even Alphabet.

Over the quarter, we increased the Portfolio's position in UnitedHealth Group, a US-based diversified healthcare company, into relative share price weakness. We also reinitiated a position in Rolls-Royce Holdings, a UK-based manufacturer of aircraft engines and power systems, as we believed it is likely to benefit from several structural tailwinds. In addition, we exited the Portfolio's position in Intel on reduced conviction.

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

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.

FTSE Russell Index

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2024. 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.

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.

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**