

# Allan Gray-Orbis Global Fund of Funds

ALLAN GRAY

**Fund managers:** Ian Liddle  
(The underlying Orbis funds are managed by Orbis)

**Inception date:** 3 February 2004

**Class:** A

## Fund description

The Fund invests in a mix of equity and absolute return funds managed by Allan Gray's offshore investment partner, Orbis Investment Management Limited. The typical net equity exposure of the Fund is between 40% and 75%. The Orbis Optimal SA funds included in the Fund use exchange-traded derivative contracts on stock market indices to reduce net equity exposure. In these funds, the market exposure of equity portfolios is effectively replaced with cash-like exposure, plus or minus Orbis' skills in delivering returns above or below the market. Returns are likely to be less volatile than those of an international equity-only fund. Although the Fund is fully invested outside South Africa, the units in the Fund are priced and traded daily in rands.

**ASISA unit trust category:** Foreign - Asset Allocation - Flexible

## Fund objective and benchmark

The Fund aims to create long-term wealth for investors without exceeding a maximum net equity exposure limit of 75%. It aims to outperform the average return of funds subject to similar constraints without taking on more than their average risk. The Fund's benchmark is a portfolio made up 60% by the FTSE World Index, including income, and 40% the JP Morgan Global Government Bond index.

## How we aim to achieve the Fund's objective

The Fund invests in equity and absolute return funds managed by our offshore investment partner, Orbis Investment Management Limited. Within all of the underlying funds, Orbis uses in-house research to identify companies around the world whose shares can be purchased for less than Orbis' assessment of their long-term intrinsic value. This long-term perspective enables them to buy shares which are shunned by the stock market because of their unexciting or poor short-term prospects, but which are relatively attractively priced if one looks to the long term. This is the same approach as that used by Allan Gray to invest in South African equities, except that Orbis is able to choose from many more shares, listed internationally.

Depending on our assessment of the potential returns on global stock markets relative to their risk of capital loss, we actively manage the Fund's net exposure to equities by varying its exposure to the underlying Orbis funds. By varying the Fund's overall exposure to equities and also its geographic exposure, through selecting between the Orbis regional equity funds, we seek to enhance the Fund's long-term returns and to manage its risk. The Fund's currency exposure is actively managed both within the underlying Orbis funds and through our selection of Orbis funds.

## Suitable for those investors who

- Seek long-term capital growth from a diversified international equity portfolio without being fully exposed to stock market risk
- Wish to invest in international assets without having to personally expatriate rands
- Are comfortable with taking on some risk of market and currency fluctuation and potential capital loss, but typically less than that of an equity fund
- Typically have an investment horizon of more than five years
- Wish to use the Fund as a foreign medium equity 'building block' in a diversified multi-asset class portfolio

## Minimum investment amounts

**Minimum lump sum per investor account:** R20 000

**Additional lump sum:** R500

**Minimum debit order\*:** R500

\*Only available to South African residents.

## Fund information on 31 December 2012

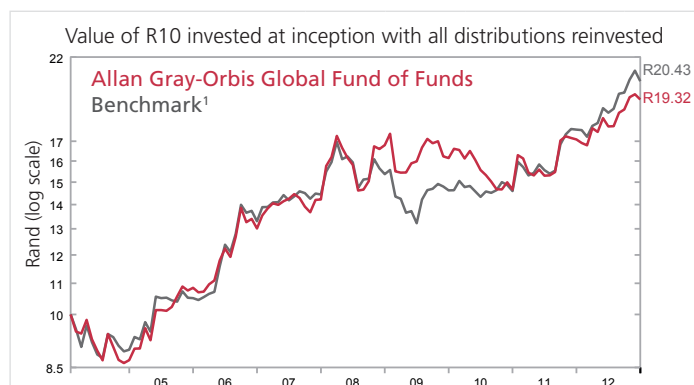
**Fund size:** R7 060m

**Fund price:** R16.37

## Income distributions for the last 12 months

|                                                                                                                                                     |                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| To the extent that income earned in the form of dividends and interest exceeds expenses in the Fund, the Fund will distribute any surplus annually. | <b>31 Dec 2012</b> |
| Cents per unit                                                                                                                                      | 0.0511             |

## Performance net of all fees and expenses



| % Returns                                  | Fund  |       | Benchmark <sup>1</sup> |       | CPI inflation <sup>2</sup> |      |
|--------------------------------------------|-------|-------|------------------------|-------|----------------------------|------|
|                                            | ZAR   | US\$  | ZAR                    | US\$  | ZAR                        | US\$ |
| <i>Unannualised:</i>                       |       |       |                        |       |                            |      |
| Since inception                            | 93.2  | 59.9  | 104.3                  | 69.1  | 65.2                       | 24.0 |
| <i>Annualised:</i>                         |       |       |                        |       |                            |      |
| Since inception                            | 7.7   | 5.5   | 8.3                    | 6.1   | 5.9                        | 2.5  |
| Latest 5 years                             | 6.3   | 1.7   | 7.2                    | 2.6   | 6.3                        | 1.8  |
| Latest 3 years                             | 6.2   | 1.3   | 11.8                   | 6.7   | 5.1                        | 2.1  |
| Latest 2 years                             | 14.8  | 1.6   | 18.3                   | 4.7   | 5.8                        | 2.6  |
| Latest 1 year                              | 13.0  | 7.8   | 16.0                   | 10.7  | 5.6                        | 1.8  |
| Year-to-date (unannualised)                | 13.0  | 7.8   | 16.0                   | 10.7  | 5.4                        | 1.8  |
| <b>Risk measures (since inception)</b>     |       |       |                        |       |                            |      |
| Maximum drawdown <sup>3</sup>              | -24.2 | -34.2 | -25.1                  | -37.5 | n/a                        | n/a  |
| Percentage positive months <sup>4</sup>    | 54.2  | 61.7  | 54.2                   | 63.6  | n/a                        | n/a  |
| Annualised monthly volatility <sup>5</sup> | 13.4  | 11.9  | 12.4                   | 11.2  | n/a                        | n/a  |

1. 60% of the FTSE World Index including income and 40% of the JP Morgan Global Government Bond Index (Source: Bloomberg), performance as calculated by Allan Gray as at 31 December 2012.
2. This is based on the latest numbers published by I-Net Bridge as at 30 November 2012.
3. Maximum percentage decline over any period. The maximum rand drawdown occurred from 23 October 2008 to 14 October 2010 and maximum benchmark drawdown occurred from 23 October 2008 to 30 June 2009. Drawdown is calculated on the total return of the Fund/benchmark (i.e. including income).
4. The percentage of calendar months in which the Fund produced a positive monthly return since inception.
5. The standard deviation of the Fund's monthly return. This is a measure of how much an investment's return varies from its average over time.

## Total expense ratio (TER)

The TER for the year ending 30 September 2012 is 1.58% and included in this is a performance fee of 0.14% and trading costs of 0.15%. The annual management fee rate charged by Orbis in the underlying funds for the three months ending 31 December 2012 was 1.18% (annualised). These figures are inclusive of VAT, where applicable. Fund returns are quoted after deduction of costs incurred within the Fund so the TER should not be deducted from Fund returns (refer to page 2 for further information).

## Annual management fee

Allan Gray is paid a marketing and distribution fee by Orbis and charges no further fees. The underlying Orbis funds have their own fee structures, these can be found at [www.orbis.com](http://www.orbis.com).

## Fund manager quarterly commentary as at 31 December 2012

To realise long-term investment opportunities, Orbis and Allan Gray often lean against prevailing sentiment. This can result in short-term pain, and of late, this has been the case for the Orbis Equity Funds which your Fund holds. But our shared contrarian approach is readily apparent by taking a closer look at some of the key holdings in those portfolios.

In the technology sector, shares of networking equipment and semiconductor manufacturers have performed poorly, but Orbis has high conviction in its selections in these areas. In semiconductors, Orbis believes that the memory industry is seeing a wave of consolidation that will benefit the surviving players. Micron Technology, the largest holding in Orbis Global, is playing a large role in that consolidation through its planned acquisition of bankrupt competitor Elpida. Orbis expects the Elpida deal to boost Micron's tangible net asset value (TNAV) by 15-30% – no small matter for a stock that trades at 0.9 times TNAV. Micron should also benefit from a cyclical recovery driven by rational capital spending throughout the industry. In networking equipment, Ericsson – also a major position in Orbis Global – has been the biggest winner to date in contracts for the next generation of mobile technology (so-called LTE), though at the expense of margins. But having secured a dominant market share, Ericsson is now in a position to reap higher margins. In the meantime, the company offers a near 4% dividend yield.

Far from their mid-2000s highs, financials may now seem a prime hunting ground for contrarian investors. Orbis Global has major positions in Barclays and in three insurers. Prior to the global financial crisis, Barclays was trading at three to four times TNAV, had thin capital and liquidity, and a less solid loan book. Today, the bank is much stronger, yet one can buy Barclays at a 30% discount to TNAV. Like Barclays, all three of Orbis Global's insurance holdings have strong capital positions, yet all can be bought at significant discounts to estimated TNAV.

While it took a housing crisis for sentiment to sour on financials, sentiment on Japan seems perennially pessimistic. Still, some companies offer both attractive fundamentals and an appealing valuation. Two examples in the Orbis Japan Equity Fund are Toyota Motor and Toyota Industries (TI). Toyota Motor is set to reclaim its position as the world's top automaker by sales, but it trades at just 13 times Orbis' estimate of this fiscal year's earnings. The cash held by Toyota's core auto unit plus the company's investment holdings account for over half of its market capitalisation. TI, Toyota's forefather, holds a 6% stake in the automaker that at current market prices is worth TI's entire market capitalisation. In addition, TI is a global leader in its own right in forklift trucks and car air-conditioning compressors.

The holdings discussed above are an eclectic collection, reflecting the

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The availability of the Fund is subject to offshore capacity constraints. Please contact our Client Service Centre for further information about any constraints that may apply.

### Disclaimer

A fund of funds unit trust may only invest in other unit trusts, which levy their own charges, that could result in a higher fee structure for these portfolios. The Fund may be closed to new investments at any time in order to be managed in accordance with its mandate. Permissible deductions may include management fees, brokerage, STT, auditor's fees, bank charges and trustee fees. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. Allan Gray Unit Trust Management (RF) Proprietary Limited ("the Company") is a member of the Association for Savings & Investment SA (ASISA). Allan Gray Proprietary Limited, an authorised financial services provider, is the appointed investment manager of the Company. The Company is incorporated and registered under the laws of South Africa and is supervised by the Financial Services Board. The Company has been approved by the Regulatory Authority of Botswana to market its unit trusts in Botswana, however it is not supervised or licensed in Botswana.

### Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the portfolio including any income accruals and less any permissible deductions from the portfolio divided by the number of units in issue. Forward pricing is used and Fund valuations take place at approximately 16:00 each business day. Purchase and redemption requests must be received by the manager by 14:00 each business day to receive that day's price. Fluctuations and movements in exchange rates may also cause the value of underlying international investments to go up or down.

### Fees

A schedule of fees, charges and maximum commissions is available on request from the manager. Commission and incentives may be paid and if so, would be included in the overall costs.

### TER

\*TERs are shown for class A units only

The Total Expense Ratio (TER) is the percentage of the fund's average assets under management that has been used to pay the fund's operating expenses over the past year. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), trading costs (including brokerage, STT, STRATE and insider trading levy), VAT and other expenses. Since unit trust expenses vary, the current TER cannot be used as an indication of future TERs. All Allan Gray performance figures are quoted after the deduction of costs incurred within the Fund so the TER is not a new cost. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. Instead, when investing, the investment objective of the Fund should be aligned with the investor's objective and compared against the performance of the Fund. TERs should then be used to evaluate whether the Fund performance offers value for money.

### Performance

Collective Investment Schemes in Securities (unit trusts) are generally medium- to long-term investments. The value of units may go down as well as up and past performance is not necessarily a guide to the future. Performance figures are from Allan Gray Proprietary Limited and are for lump sum investments with income distributions reinvested.

opportunities the market presents. Though some of these holdings have yet to deliver pleasing returns, Orbis remains excited and optimistic about your Fund's underlying equity portfolios.

## Top 10 share holdings on 31 December 2012

| Company                         | % of portfolio |
|---------------------------------|----------------|
| Micron Technology               | 3.3            |
| INPEX                           | 3.3            |
| NetEase                         | 3.0            |
| Telefonaktiebolaget LM Ericsson | 2.9            |
| NKSJ                            | 2.9            |
| WellPoint                       | 2.8            |
| American Intl. Group            | 2.7            |
| Weatherford International       | 2.6            |
| Barclays                        | 2.4            |
| Baidu                           | 2.3            |
| <b>Total</b>                    | <b>28.2</b>    |

## Fund allocation on 31 December 2012

|                                      | %            |
|--------------------------------------|--------------|
| Orbis Global Equity                  | 34.7         |
| Orbis Japan Equity (US\$)            | 5.7          |
| Orbis Japan Equity (yen)             | 2.0          |
| <b>Foreign equity funds</b>          | <b>42.4</b>  |
| Orbis Optimal SA (US\$)              | 46.9         |
| Orbis Optimal SA (euro)              | 10.7         |
| <b>Foreign absolute return funds</b> | <b>57.6</b>  |
| <b>Total</b>                         | <b>100.0</b> |

## Geographical exposure of funds on 31 December 2012

| Region        | Net equity exposure (%) | Hedged equity exposure (%) | Fund currency exposure (%) |
|---------------|-------------------------|----------------------------|----------------------------|
| North America | 15                      | 17                         | 61                         |
| Europe        | 9                       | 11                         | 20                         |
| Japan         | 15                      | 10                         | 2                          |
| Asia ex-Japan | 8                       | 8                          | 17                         |
| Other         | 1                       | 1                          | 1                          |
| <b>Total</b>  | <b>48</b>               | <b>46</b>                  | <b>100</b>                 |

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