# Allan Gray-Orbis Global Fund of Funds

| | |
|---|---|
| **Fund managers:** | Ian Liddle<br>(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:** Global - Multi Asset - High Equity

## 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.

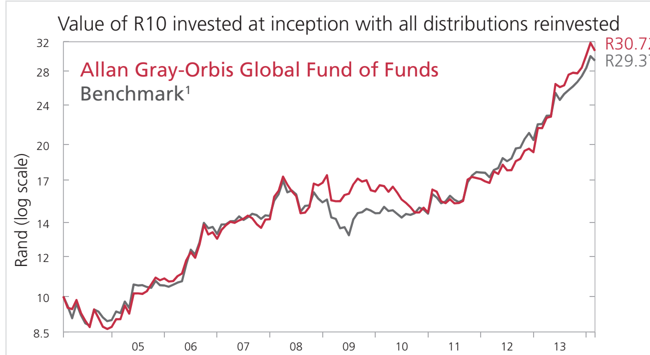
## Suitable for those investors who

- 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

## Fund information on 28 February 2014

| | |
|---|---|
| **Fund size:** | R11 710m |
| **Fund price:** | R26.01 |

## Performance net of all fees and expenses




| % Returns | Fund | | Benchmark[1] | | CPI inflation[2] | |
|---|---|---|---|---|---|---|
| | ZAR | US$ | ZAR | US$ | ZAR | US$ |
| *Unannualised:* | | | | | | |
| Since inception | 207.2 | 101.8 | 193.7 | 93.0 | 75.7 | 26.0 |
| *Annualised:* | | | | | | |
| Since inception | 11.8 | 7.2 | 11.3 | 6.7 | 5.8 | 2.3 |
| Latest 5 years | 14.7 | 13.5 | 15.4 | 14.1 | 5.4 | 2.1 |
| Latest 3 years | 23.9 | 7.3 | 23.2 | 6.7 | 5.8 | 2.0 |
| Latest 2 years | 35.3 | 12.8 | 30.6 | 8.8 | 5.6 | 1.6 |
| Latest 1 year | 42.4 | 19.4 | 33.6 | 12.0 | 5.8 | 1.6 |
| Year-to-date (unannualised) | 2.2 | 0.4 | 3.5 | 1.7 | 0.7 | 0.1 |
| **Risk measures (since inception)** | | | | | | |
| Maximum drawdown[3] | -24.0 | -34.1 | -25.1 | -37.5 | n/a | n/a |
| Percentage positive months[4] | 56.2 | 63.6 | 57.9 | 63.6 | n/a | n/a |
| Annualised monthly volatility[5] | 14.3 | 11.4 | 12.6 | 10.8 | 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 28 February 2014.
2. This is based on the latest numbers published by I-Net Bridge as at 31 January 2014.
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.

## 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.

## Annual management fee and total expense ratio (TER)

Allan Gray does not charge an annual management fee but is paid a marketing and distribution fee by Orbis.

Orbis charges annual management fees within the underlying Orbis funds. Each fund's fee rate is calculated based on the fund's performance relative to its own benchmark. For more information please refer to the respective Orbis Funds' factsheets, which can be found at www.allangray.co.za.

The annual management fees charged by Orbis are included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 12 month period.

Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 2 for further information).

| TER breakdown for the year ending 31 December 2013 | % |
|---|---|
| Fee for benchmark performance | 1.22 |
| Performance fees | 1.25 |
| Other costs including trading costs | 0.23 |
| VAT | 0.00 |
| **Total expense ratio** | **2.70** |

# Allan Gray-Orbis Global Fund of Funds

ALLANGRAY

## Fund manager quarterly commentary as at 31 December 2013

Since early 2009, global stock markets have more than doubled, and 2013 was another robust year. Valuation multiples now sit solidly above those seen in 2009, but below the highs of the mid-to-late 1990s. Similarly, corporate returns on equity are now solidly above the lows witnessed in the last few US and worldwide recessions, but below the inflated levels seen in the mid-to-late 2000s. On this basis, one could hardly argue that global equity markets are wildly cheap at this point, but there is also a case to be made that they are not wildly expensive either. Simplistically speaking, there is upside potential, but also downside risk from here.

Of course, what matters for the Orbis Funds is not the aggregate valuation of the stock market as a whole, but the stock selection opportunities within it. There is no doubt that many areas of the market currently look expensive and, as a result, will struggle to deliver satisfactory real returns over the medium term. However, while undervalued companies are less plentiful than they were a few years ago, Orbis has still been able to find pockets of value that they believe offer potential for reasonable risk-adjusted returns, especially when compared to other typical alternatives such as bonds.

Despite yields on 10-year US Treasury Bonds rising from what may prove to be a secular low of 1.4% in 2012 to 3.0% today, the bond market remains heavily distorted by the actions of the Federal Reserve and this has affected the behaviour of different types of stocks. One example is 'bond-like' equities – shares of companies with highly predictable earnings and dividend streams – which became inflated as a result of strong investor appetite for perceived stability and yield.

As a result, Orbis was finding the majority of opportunities in stocks with almost the opposite characteristics – a high degree of economic cyclicality, and in many cases, exposure to rising bond yields. Examples of these opportunities include insurers such as AIG and Aegon and managed healthcare companies such as WellPoint and Humana, which should all see the income on their investment books rise. General Motors should also benefit from rising yields, as it can apply a higher discount rate to its underfunded pension liabilities.

It is important to note that Orbis did not purchase these stocks because of any top-down view on the direction of interest rates or strength of any economic recovery. The movement of economic variables, or share prices themselves, is not a regular periodic cycle. At Orbis and Allan Gray, our key tool is independent, company-specific, fundamental valuation analysis. This is a challenging tool to use – and an imprecise one even when used well – but it is what our analysts focus on every day. The reward is that this process can often provide us with exciting opportunities to invest in companies at significant discounts to their intrinsic value.

## Top 10 share holdings on 28 February 2013

| Company | % of portfolio |
|---|---|
| NetEase | 3.1 |
| American Intl. Group | 2.9 |
| Samsung Electronics | 2.6 |
| INPEX | 2.3 |
| Motorola Solutions | 2.3 |
| Weatherford Intenational | 2.1 |
| NKSJ Holdings | 1.9 |
| Telefonaktiebolaget LM Ericsson | 1.7 |
| Apache | 1.5 |
| Liberty | 1.5 |
| **Total** | **21.9** |

## Fund allocation on 28 February 2014

| Fund | % |
|---|---|
| Orbis Global Equity | 34.3 |
| Orbis SICAV Asia Ex-Japan Equity | 2.7 |
| Orbis SICAV Japan Equity (yen) | 1.9 |
| **Foreign equity funds** | **38.9** |
| Orbis SICAV Global Balanced SA[6] | 8.2 |
| **Foreign multi asset funds** | **8.2** |
| Orbis Optimal SA (US$) | 43.9 |
| Orbis Optimal SA (euro) | 9.0 |
| **Foreign absolute returns funds** | **52.9** |
| **Total** | **100.0** |

6. This Fund is not approved for marketing in South Africa and is not available to invest in directly. Reference to this Fund is for disclosure purposes only.

## Asset allocation on 28 February 2014

| | Total | North America | Europe | Japan | Asia ex-Japan | Other |
|---|---|---|---|---|---|---|
| Net equities | 48 | 19 | 9 | 6 | 13 | 2 |
| Hedged equities | 45 | 17 | 11 | 9 | 7 | 1 |
| Cash/currency hedge | 6 | 21 | 2 | -11 | -6 | -1 |
| **Total (%)** | **100** | **58** | **22** | **4** | **14** | **2** |

## 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. | 31 Dec 2013 |
|---|---|
| Cents per unit | 0.1766 |

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

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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. All rights in the FTSE World Index vest in FTSE International Limited ("FTSE"). FTSE is a trademark of the London Stock Exchange Group of Companies. The FTSE World Index is calculated by FTSE in accordance with standard criteria and is the proprietary information of FTSE. All copyright subsisting in the FTSE World Index values and constituent lists vest in FTSE. All its rights are reserved. 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

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.