

## Fund description and summary of investment policy

The Fund invests in a mix of equity, absolute return and multi-asset class 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, absolute return and multi-asset class 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 31 August 2017

Fund size	R13.4bn
Number of units	355 978 435
Price (net asset value per unit)	R37.60
Class	A

## Minimum investment amounts

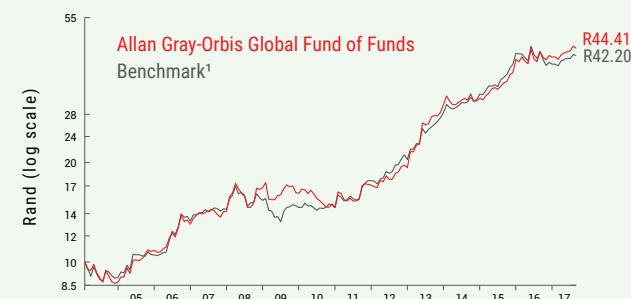
Minimum lump sum per investor account	R20 000
Additional lump sum	R500
Minimum debit order*	R500

\*Only available to investors with a South African bank account.

- 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 August 2017.
- This is based on the latest numbers published by INET BFA as at 31 July 2017.
- 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).
- The percentage of calendar months in which the Fund produced a positive monthly return since inception.
- 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.
- These are the highest or lowest consecutive 12-month returns since inception. This is a measure of how much the Fund and the benchmark returns have varied per rolling 12-month period. The Fund's highest annual return occurred during the 12 months ended 31 December 2013 and the benchmark's occurred during the 12 months ended 31 December 2013. The Fund's lowest annual return occurred during the 12 months ended 31 October 2010 and the benchmark's occurred during the 12 months ended 30 June 2009. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

## Performance net of all fees and expenses

Value of R10 invested at inception with all distributions reinvested



% Returns	Fund		Benchmark <sup>1</sup>		CPI inflation <sup>2</sup>	
	ZAR	US\$	ZAR	US\$	ZAR	US\$
<b>Cumulative:</b>						
Since inception (3 February 2004)	344.1	139.9	322.0	128.0	113.2	31.0
<b>Annualised:</b>						
Since inception (3 February 2004)	11.6	6.7	11.2	6.3	5.8	2.0
Latest 10 years	12.0	5.6	11.2	4.8	6.0	1.6
Latest 5 years	19.1	9.3	16.5	6.9	5.7	1.3
Latest 3 years	12.8	5.4	11.3	4.0	5.2	0.9
Latest 2 years	12.8	14.2	7.9	9.2	5.3	1.3
Latest 1 year	2.4	15.3	-2.6	9.7	4.6	1.7
Year-to-date (not annualised)	6.4	11.9	6.2	11.7	3.2	0.5
<b>Risk measures (since inception)</b>						
Maximum drawdown <sup>3</sup>	-24.0	-34.1	-25.1	-37.5	n/a	n/a
Percentage positive months <sup>4</sup>	58.3	60.7	57.1	63.2	n/a	n/a
Annualised monthly volatility <sup>5</sup>	13.7	10.7	12.2	9.8	n/a	n/a
Highest annual return <sup>6</sup>	55.6	40.1	38.8	37.6	n/a	n/a
Lowest annual return <sup>6</sup>	-13.7	-27.3	-17.0	-31.7	n/a	n/a

## Meeting the Fund objective

Since inception and over the latest 10 and five-year periods, the Fund has outperformed the benchmark and its returns have exceeded CPI inflation by a significant margin. The Fund experiences periods of underperformance in pursuit of its objective of creating long-term wealth for investors, without taking on greater risk of loss than similar funds in the Global – Multi Asset – High Equity sector.

## 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 2016</b>
<b>Cents per unit</b>	<b>0.1949</b>

## Annual management fee

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](http://www.allangray.co.za)

## Total expense ratio (TER) and Transaction costs

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 3-year period (annualised). Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns (refer to page 4 for further information). Transaction costs are disclosed separately.

<b>TER and Transaction costs breakdown for the 3-year period ending 30 June 2017</b>	<b>%</b>
<b>Total expense ratio</b>	<b>1.86</b>
Fee for benchmark performance	1.36
Performance fees	0.42
Other costs excluding transaction costs	0.08
VAT	0.00
<b>Transaction costs (including VAT)</b>	<b>0.15</b>
<b>Total investment charge</b>	<b>2.01</b>

## Top 10 holdings on 31 August 2017

<b>Company</b>	<b>% of portfolio</b>
AbbVie	3.6
XPO Logistics	2.8
JD.com	2.3
Motorola Solutions	2.3
BP	2.2
Royal Dutch Shell	2.2
SPDR Gold Trust	2.0
KB Financial Group	1.8
Anthem	1.7
Amazon.com	1.7
<b>Total (%)</b>	<b>22.5</b>

## Fund allocation on 31 August 2017

<b>Funds</b>	<b>%</b>
<b>Foreign multi asset funds</b>	<b>74.1</b>
Orbis SICAV Global Balanced Fund	74.1
<b>Foreign equity funds</b>	<b>14.1</b>
Orbis Global Equity Fund	10.7
Orbis SICAV Emerging Markets Equity Fund	3.3
<b>Foreign absolute return funds</b>	<b>11.8</b>
Orbis Optimal SA Fund (US\$)	6.6
Orbis Optimal SA Fund (Euro)	5.2
<b>Total (%)</b>	<b>100.0</b>

## Asset allocation on 31 August 2017

	<b>Total</b>	<b>North America</b>	<b>Europe</b>	<b>Japan</b>	<b>Asia ex-Japan</b>	<b>Other</b>
Net equity	65.1	22.1	18.8	6.4	15.2	2.6
Hedged equity	23.3	14.2	3.2	3.0	1.8	1.2
Fixed interest	7.8	6.9	0.5	0.1	0.2	0.1
Commodity-linked	2.0	0.0	0.0	0.0	0.0	2.0
Net current assets	1.8	0.0	0.0	0.0	0.0	1.8
<b>Total</b>	<b>100.0</b>	<b>43.2</b>	<b>22.5</b>	<b>9.5</b>	<b>17.2</b>	<b>7.7</b>

### Currency exposure of the Orbis Funds

<b>Funds</b>	<b>100.0</b>	<b>46.0</b>	<b>34.6</b>	<b>10.1</b>	<b>7.2</b>	<b>2.1</b>
Index	100.0	54.2	29.0	13.3	1.1	2.4

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

For something as important and ubiquitous as oil, there sure is a lot of confusion about what its price should be. Predictions range from 'Tesla will make oil obsolete' to 'Underinvestment will send oil back to US\$100 per barrel'. While we can see legitimate arguments for less extreme bullish and bearish outcomes, we find it tough to call the direction of the oil price.

However, we believe we can make a decent call on the other half of the profit equation – production costs. Indeed, the more we examine costs, the more it appears that investors' focus on the oil price is blinding them to how dramatically some companies are driving down costs. This lays open the possibility that, even if oil price bears are right, some oil companies could still do well.

We believe integrated energy company BP fits this bill. This is not because it has been a great company historically. In fact, its historical mediocrity is part of the appeal. The oil majors, with few exceptions, have never been highly efficient. They have had their hands in everything – exploring for crude in far-flung places, operating fleets of tankers, building city-sized refineries and running gas stations. As the biggest players in each segment, they have not had to push their businesses very hard. They grew complacent.

BP's complacency ended with its 2010 Gulf of Mexico disaster. Then-CEO Tony Hayward disastrously downplayed the incident and he was replaced with Bob Dudley. Dudley recognised that 'sometimes it takes a near-death experience to radically change a company', and he immediately set out to recreate BP. In a quirk of timing, this gave BP a head start on the rest of the industry. Four years before the oil price collapse, BP was forced to treat every decision as if the company's life depended on it. The total cash outlay from the disaster exceeded US\$60 billion, but the company survived through US\$45 billion of divestments, shrewder investments and an intense focus on improvements in operational efficiency.

That truly one-off expense has passed, but BP's survival instincts remain. Dudley has driven a lean manufacturing ethos into the production side of the business, with a focus on deploying 'big win' big data as well as practical 'no brainer' technologies. Big data and predictive analytics are being used for things like taking project screening times from months to minutes. On the more mundane end, 3D printers have been deployed to offshore rigs so they can print replacement parts instead of having to locate a part, ship it and fly it to the rig on a helicopter. BP now includes leading non-energy companies as operating performance comparisons. These efforts are starting to bear fruit in everything from well decline rates to production costs to expected growth rates. BP has reduced its oil

price break-even from US\$80 in 2014 to US\$60 in 2016, with the prospect of this dropping to US\$40 in 2018 as a cohort of recently developed basins start producing crude.

Upstream efficiency is not the only thing supporting BP's potential profitability. The company also has huge downstream energy businesses, including transport, refining, chemicals and retail gas stations. Many of these activities actually see profits improve when the price of oil drops – in refining and chemicals, for instance, the price of crude oil is an input cost.

If BP's operational performance is anywhere close to their guidance, and energy prices hover at recent levels, the company should generate US\$10 billion in free cash flow next year, with more growth from there. Importantly, this comfortably exceeds what BP is expected to pay out in dividends, settling any questions about them having to cut their distributions to shareholders. Quelling those concerns should force the market to reassess the massive spread between BP's dividend yield and those of other stable yield investments. If the current 7% dividend yield fell to the 4 to 5% level of today's global telephone utilities, this would make for some terrific share price performance. (Put differently, BP's price-to-dividend ratio would rise from 15 to >20, suggesting >30% upside.) In the meantime, with equity valuations and bond yields where they are, clipping a 7% coupon seems a good use of our clients' capital.

Of course, should oil and gas prices move markedly higher, BP will do better than the discussion above implies. But it will not do nearly as well as pure exploration and production companies and feast-or-famine drillers. The fundamentals of those companies are more tightly linked to a bet on the oil price. With BP and fellow integrators Shell and Woodside Petroleum, we are not making a bold oil price call. We are investing in fundamentally stable companies when they are temporarily thought to be risky.

Over the last quarter, there have been no material changes to the Fund's allocation of capital to the Orbis funds, nor to its equity, currency and wider stockmarket exposures to different regions. With regards to individual holdings, KB Financial Group, Korea's largest retail bank, entered the top-ten holdings, replacing Aetna, a US health insurance company. This change was driven by price movements, with KB's shares performing robustly as the bank's credit costs have declined while its revenue structure has notably improved.

**Adapted from Orbis commentaries contributed by Alec Cutler**

**For the full commentary please see [www.orbisfunds.com](http://www.orbisfunds.com)**

**Fund manager quarterly  
commentary as at  
30 June 2017**

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.

## Management Company

Allan Gray Unit Trust Management (RF) Proprietary Limited (the 'Management Company') is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002, in terms of which it operates 11 unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board ('FSB'). The Management Company is incorporated under the laws of South Africa and 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. Allan Gray Proprietary Limited (the 'Investment Manager'), an authorised financial services provider, is the appointed Investment Manager of the Management Company and is a member of the Association for Savings & Investment South Africa (ASISA). The trustee/custodian of the Allan Gray Unit Trust Scheme is Rand Merchant Bank, a division of FirstRand Bank Limited. The trustee/custodian can be contacted at RMB Custody and Trustee Services: Tel: +27 (0)87 736 1732 or [www.rmb.co.za](http://www.rmb.co.za)

## Performance

Collective Investment Schemes in Securities (unit trusts or funds) 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 future performance. Movements in exchange rates may also cause the value of underlying international investments to go up or down. The Management Company does not provide any guarantee regarding the capital or the performance of the Fund. Performance figures are provided by the Investment Manager and are for lump sum investments with income distributions reinvested. Where annualised performance is mentioned, this refers to the average return per year over the period. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

## Fund mandate

The Fund may be closed to new investments at any time in order to be managed according to its mandate. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The Fund may borrow up to 10% of its market value to bridge insufficient liquidity.

## Unit price

Unit trust prices are calculated on a net asset value basis, which is the total market value of all assets in the Fund including any income accruals and less any permissible deductions from the Fund 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 Management Company by 14:00 each business day to receive that day's price. Unit trust prices are available daily on [www.allangray.co.za](http://www.allangray.co.za)

## Fees

Permissible deductions may include management fees, brokerage, Securities Transfer Tax (STT), auditor's fees, bank charges and trustee fees. A schedule of fees, charges and maximum commissions is available on request from Allan Gray.

## Total expense ratio (TER) and Transaction costs

The total expense ratio (TER) is the annualised percentage of the Fund's average assets under management that has been used to pay the Fund's actual expenses over the past three years. The TER includes the annual management fees that have been charged (both the fee at benchmark and any performance component charged), VAT and other expenses like audit and trustee fees. Transaction costs (including brokerage, Securities Transfer Tax [STT], STRATE and FSB Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are a necessary cost in administering the Fund and impact Fund returns. They should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. Since Fund returns are quoted after the deduction of these expenses, the TER and Transaction costs should not be deducted again from published returns. As unit trust expenses vary, the current TER cannot be used as an indication of future TERs. 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. The TER and other funds' TERs should then be used to evaluate whether the Fund performance offers value for money. The sum of the TER and Transaction costs is shown as the Total investment charge.

## FTSE World Index

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## Fund of funds

A fund of funds is a unit trust that invests in other unit trusts, which charge their own fees. Allan Gray does not charge any additional fees in its funds of funds.

## Foreign exposure

The Fund invests in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

## 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](http://www.allangray.co.za) or via our Client Service Centre on **0860 000 654**.