

### 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's investment universe is global, 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 December 2018

Fund size	R12.6bn
Number of units	339 738 119
Price (net asset value per unit)	R37.09
Class	A

### Minimum investment amounts

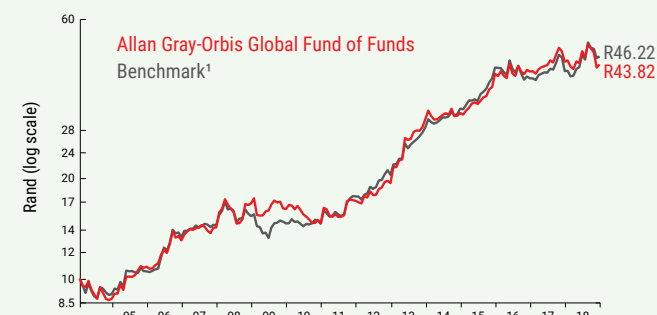
Minimum lump sum per investor account	R20 000
Additional lump sum	R500
Minimum debit order*	R500

\*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 December 2018.
- This is based on the latest numbers published by IRESS as at 30 November 2018.
- 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 October 2010 and the benchmark's lowest annual return 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)	338.2	114.2	362.2	125.9	126.4	35.7
<b>Annualised:</b>						
Since inception (3 February 2004)	10.4	5.2	10.8	5.6	5.7	2.1
Latest 10 years	10.1	5.5	11.6	6.9	5.2	1.7
Latest 5 years	7.8	1.2	10.3	3.6	5.4	1.6
Latest 3 years	2.2	5.0	2.6	5.4	5.5	2.0
Latest 2 years	2.5	0.0	7.8	5.2	4.9	2.2
Latest 1 year	-1.9	-16.1	10.6	-5.4	5.2	2.2
Year-to-date (not annualised)	-1.9	-16.1	10.6	-5.4	5.2	2.2
<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>	57.0	59.8	57.0	62.0	n/a	n/a
Annualised monthly volatility <sup>5</sup>	14.2	10.6	12.9	9.6	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 underperformed its benchmark. The Fund has provided returns in excess of CPI inflation for all three periods. 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 2018</b>
<b>Cents per unit</b>	<b>0.3169</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 one and three-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.

TER and Transaction costs breakdown for the 1 and 3-year period ending 31 December 2018	1yr %	3yr %
<b>Total expense ratio</b>	<b>2.02</b>	<b>2.05</b>
Fee for benchmark performance	1.44	1.42
Performance fees	0.56	0.56
Other costs excluding transaction costs	0.02	0.07
VAT	0.00	0.00
<b>Transaction costs (including VAT)</b>	<b>0.12</b>	<b>0.12</b>
<b>Total investment charge</b>	<b>2.14</b>	<b>2.17</b>

### Top 10 holdings on 31 December 2018

Company	% of portfolio
AbbVie	5.1
NetEase	4.7
Taiwan Semiconductor Mfg.	3.7
SPDR Gold Trust	3.4
Bristol-Myers Squibb	3.3
BP	3.3
Treasury Note Sep 2019	2.8
Celgene	2.7
Royal Dutch Shell	2.7
XPO Logistics	2.5
<b>Total (%)</b>	<b>34.2</b>

### Fund allocation on 31 December 2018

Funds	%
<b>Foreign multi-asset funds</b>	<b>74.6</b>
Orbis SICAV Global Balanced Fund	74.6
<b>Foreign equity funds</b>	<b>13.6</b>
Orbis Global Equity Fund	10.5
Orbis SICAV Emerging Markets Equity Fund	3.2
<b>Foreign absolute return funds</b>	<b>11.8</b>
Orbis Optimal SA Fund (US\$)	6.7
Orbis Optimal SA Fund (Euro)	5.0
<b>Total (%)</b>	<b>100.0</b>

### Asset allocation on 31 December 2018

	Total	North America	Europe	Japan	Asia ex-Japan	Other
Net equity	56.4	12.3	17.2	6.7	15.2	5.1
Hedged equity	23.8	13.4	4.4	2.4	2.6	1.0
Fixed interest	14.6	14.3	0.2	0.0	0.1	0.0
Commodity-linked	3.4	0.0	0.0	0.0	0.0	3.4
Net current assets	1.8	0.0	0.0	0.0	0.0	1.8
<b>Total</b>	<b>100.0</b>	<b>39.9</b>	<b>21.7</b>	<b>9.1</b>	<b>17.9</b>	<b>11.3</b>

#### Currency exposure of the Orbis Funds

Funds	100.0	48.4	30.5	9.1	7.8	4.2
Index	100.0	56.3	27.3	13.0	1.1	2.3

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

2018 was a disappointing year, particularly as the Orbis SICAV Global Balanced Fund underperformed in a down market. To understand the year as we do, it's important to revisit some of the changes we discussed early last year.

It may feel like a lifetime ago, but the beginning of 2018 was a time of enthusiasm in the investing world. By February, valuations were telling us that investors were insufficiently fearful, so we took the opportunity to reduce our positions in financials and some industrial cyclicals.

This rotation reduced the Fund's net stock market exposure from 67% at the beginning of last year to 56% at the end of March. Through much of the year, we continued this shift, and from January, our exposure to shares in cyclical sectors decreased by as much as 19 percentage points before buying our most beaten up stocks at the end of the year. From a risk management perspective, this rotation was sensible, which makes it all the more frustrating that the Fund has underperformed as the market has fallen. The reason is simple: our favoured securities have simply not performed as we hoped.

With the capital from the cyclicals we sold, we bought or added to positions in underappreciated defensive shares, selected corporate bonds, gold, and short-term US Treasuries. Of these, only the short-term Treasuries have performed well this year. Indeed, cash was the only major asset class to deliver a positive return in 2018. Even 'safe haven' gold declined, and our selected corporate bonds are also down, though we remain confident that their issuers' cash flows and assets can cover what they owe us.

But the biggest driver of the poor return, by far, was the performance of our underappreciated defensive equities, including Pacific Gas & Electric (PG&E) and our long-term holdings in diversified oil majors BP and Royal Dutch Shell.

PG&E was the standout disaster investment, leading to a permanent loss of roughly 2% of the portfolio's value and single-handedly accounting for a fifth of the underperformance.

We built the position in PG&E when it traded at a more than 30% discount to its utility peers due to concerns around the 2017 California wildfires. We believed the market was pricing in too high a chance of a worst-case scenario. In November, less than three months on from newly legislated protections for PG&E, that worst-case scenario came when the 'once in a century' Camp Fire broke out in California. The resulting potential liability could overwhelm PG&E's financial capacity and it may now make sense for the company to voluntarily file for bankruptcy. This possibility led us to significantly reduce our assessment of the company's intrinsic value, as well as its position in the Orbis Global Balanced Fund.

Even leaving PG&E aside, the dramatic underperformance of our fundamentally stable businesses has been the biggest disappointment of the year. In our view, our contrarian defensives offer better fundamental prospects, more sustainable dividend payouts, and lower valuations than the "approved" defensives in the market – yet ours have lagged. This sometimes happens with our approach. When markets are scary, investors don't buy contrarian names, they buy things that make them feel comfortable in the moment – regardless of the relationship between price and intrinsic value. This leaves us frustrated about performance, but no less enthusiastic about the prospects for the opportunities we like. Shell is an excellent example here, as is fellow integrated major BP. In our opinion, the valuations on these shares look increasingly attractive.

The shares are down because the oil price is down, though for reasons that should prove short-lived. We have no idea where volatile spot oil prices will go, but longer-term prices have barely budged over the past four years, three-year Brent oil futures have consistently been between US\$55 and US\$65 a barrel. At those levels, both Shell and BP can do very well for their shareholders.

While the companies' share price performance could continue to belie their relatively stable fundamentals, what matters to a business owner is free cash flow, and we believe BP and Shell can each grow theirs over the next four years. In the meantime, each company offers a dividend yield of 6%, which is higher than their historical averages and roughly quadruple the yield on long-term global government bonds.

As we look around the portfolio, we see a familiar pattern – companies we regard as having above-average fundamentals, trading at a discount to the wider market. At times over the past year, shares like Taiwan Semiconductor Manufacturing Company, AbbVie, and NetEase have been painful to own. But we are delighted to own them today.

Over the past quarter, the biggest addition was Bristol-Myers Squibb, a pharmaceutical company, whilst the largest sales were of Apache, an exploration and production company, and aerospace parts maker Arconic. The Fund's exposure to the US stock market declined slightly, roughly offset by an increase in its exposure to shares in Asia ex-Japan. During the quarter, the underweight to the US dollar also narrowed slightly.

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

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

**Fund manager quarterly commentary as at 31 December 2018**

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 Sector Conduct Authority ('FSCA'). 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

### 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 one and three-year periods. 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 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**.