Allan Gray-Orbis Global Optimal Fund of Funds

ALLAN GRAY

Fund managers: Ian Liddle (The underlying Orbis funds are managed by Orbis)
Inception date: 1 March 2010
Class: A

Fund description

The Fund invests in a mix of 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 0% and 20%. 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 a foreign equity or balanced fund. Although the Fund is fully invested outside South Africa, the units in the Fund are priced and traded daily in rands. When considered in rands, returns of this foreign fund are likely to be more volatile than domestic funds with similar equity constraints.

ASISA unit trust category: Foreign - Asset Allocation - Flexible

Fund objective and benchmark

The Fund aims to provide a high degree of capital stability (when measured in the foreign currency denominations of the underlying Orbis Funds), while producing long-term returns that are superior to foreign currency bank deposits. The Fund's benchmark is the simple average of the benchmarks of the underlying Orbis funds.

How we aim to achieve the Fund's objective

The Fund invests only in the Optimal SA absolute return funds managed by our offshore investment partner, Orbis Investment Management Limited. Within the Optimal 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.

The Orbis Optimal SA funds reduce most of their stock market risk by the use of exchange-traded derivative futures contracts. The Orbis Optimal SA funds will typically retain a small portion of their exposure to equity markets, but the level of exposure may be varied depending on Orbis' assessment of the potential returns on global stock markets relative to their risk of capital loss. The underlying funds' returns are therefore derived partly from their relatively low exposure to stock markets, partly from Orbis' selected share returns relative to those markets, and partly from foreign currency cash-equivalent returns. 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 steady absolute returns ahead of those of cash measured in global currencies
- Wish to invest in international assets without having to personally expatriate rands
- Are comfortable with taking on the risk of currency fluctuation, but prefer little exposure to stock market risk
- Wish to use the Fund as a foreign absolute return 'building block' in a diversified multi-asset class portfolio

Fund information on 31 May 2012

Fund size: R731m
Fund price: R11.00

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 2011
Cents per unit	0.2553

Performance net of all fees and expenses

% Returns	Fund		Benchmark[1]		CPI inflation[2]	
	ZAR	US$	ZAR	US$	ZAR	US$
Unannualised:						
Since inception	10.0	-1.3	8.5	-2.7	11.7	5.4
Annualised:						
Since inception	4.3	-0.6	3.7	-1.1	5.2	2.5
Latest 2 years	5.8	0.3	6.4	0.9	5.2	2.7
Latest 1 year	18.4	-5.5	17.1	-6.5	6.1	2.3
Year-to-date (unannualised)	6.2	0.5	3.7	-1.9	2.7	0.9
Risk measures (Since inception)						
Maximum drawdown[3]	-15.9	-8.1	-13.6	-8.2	n/a	n/a
Percentage positive months[4]	33.3	51.9	37.0	51.9	n/a	n/a
Annualised monthly volatility[5]	13.9	7.4	13.8	6.8	n/a	n/a

1. The simple average of the benchmarks of the underlying funds, performance as calculated by Allan Gray as at 31 May 2012.
2. This is based on the latest numbers published by I-Net Bridge as at 30 April 2012.
3. Maximum percentage decline over any period. The maximum rand drawdown occurred from 21 May 2010 to 29 December 2010 and maximum benchmark drawdown occurred from 21 May 2010 to 29 December 2010. 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 31 March 2012 is 1.21% and included in this is a performance fee of 0% and trading costs of 0.16%. The annual management fee rate charged by Orbis in the underlying funds for the three months ending 31 May 2012 was 0.99% (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).

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

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.

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Fund manager quarterly commentary as at 31 March 2012

The current global economic backdrop is highly uncertain, and one can make a convincing argument for either inflation or deflation in the years to come. In such an environment, we believe the Optimal strategy is a relevant investment alternative to traditional asset classes.

At its core, Optimal is a 'cash plus alpha' vehicle. The cash component results from the instruments used to hedge the portfolio and is effectively the same as the prevailing interest rate on bank deposits. Alpha refers to outperformance and the alpha component in this case is driven by the performance of Orbis' stock selections relative to local benchmarks.

Recently, returns from both the cash and alpha components have been poor. The Return on cash is now as low as it has been in your Fund's history. US dollar Bank Deposits have averaged 2.5% per year since your Fund's inception, but were a scant 0.2% in 2011.

While the bank deposit rate is beyond our control, Orbis does have control over stock selection. Since the end of June 2009, Optimal's alpha component has dragged on returns. Though Orbis has conviction in your Fund's holdings, the returns of these investments are subject to the vagaries of the stock market. It can take months or years for the market to realise a company's true value, so as we mentioned in our March GrayIssue*, investment returns do not come in a straight line. Periods of underperformance can be uncomfortably long, but it is often during these periods that Orbis and Allan Gray have best been able to identify shares trading at a significant discount to our assessment of intrinsic value. This allows us to build large contrarian positions, and can set the stage for future outperformance.

There is another factor outside of our control that is relevant for many investors. As a result of the significant drop in bond yields in recent years, Optimal has faced an unflattering comparison to bonds. Though we do not consider bonds to be the 'benchmark' for Optimal, we recognise that many of our investors use the Fund as a substitute for bonds in their portfolios. Over the past five years, holders of the underlying Optimal funds have missed out on the Average US$ Bond Fund's strong 4.4% per year return.

That rally has left 10-year US Treasury bonds with a yield just above 2% per year, a level that strikes us as expensive. Valuation always matters, and paying a high price for bonds can be just as risky as paying a high price for equities. Though it can be tempting to predict macroeconomic trends and their impact on share prices, we believe the more enduring approach is to retain our focus on finding undervalued companies. If we are successful, we believe Optimal can continue to serve its intended purpose as a transparent, all-weather alternative to major asset classes.

*Our monthly one-page newsletter which you can access via the 'Latest news' tab on www.allangray.co.za

Top 10 share holdings on 31 May 2012

Company	% of portfolio
NetEase.com	2.8
Wellpoint	2.6
INPEX	2.6
Rakuten	2.4
Micron Technology	2.2
Telefonaktiebolaget LM Ericsson	2.2
Walgreen	2.1
NKSJ	2.0
Cisco	1.8
Google	1.8
Total	**22.5**

Fund allocation on 31 May 2012

	%
Orbis Optimal SA (US$)	70.8
Orbis Optimal SA (euro)	29.2
Foreign absolute return funds	**100.0**

Geographical exposure of funds on 31 May 2012

Region	Net equity exposure (%)	Hedged equity exposure (%)	Fund currency exposure (%)
North America	1	33	60
Europe	6	15	26
Japan	7	11	0
Asia ex-Japan	1	10	11
Other	0	1	3
Total	**15**	**70**	**100**

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. 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.