

## ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS

**Fund managers:** Ian Liddle. (The underlying Orbis funds are managed by Orbis.) **Inception date:** 2 March 2010

### Fund description and summary of investment policy

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:** Global - Multi Asset - Low Equity

### 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

### Minimum investment amounts

Minimum lump sum per investor account	<b>R20 000</b>
Additional lump sum	<b>R500</b>
Minimum debit order*	<b>R500</b>

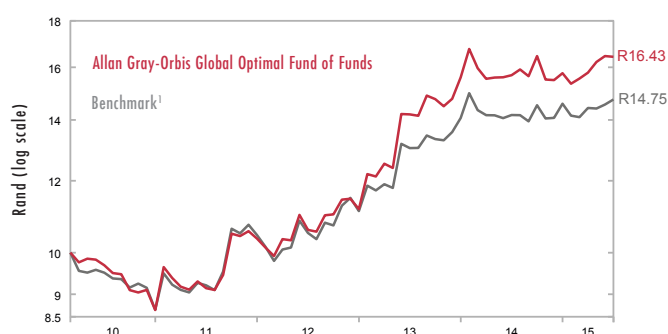
\*Only available to investors with a South African bank account.

### Fund information on 30 June 2015

Fund size	<b>R1.0bn</b>
Number of units	<b>63 436 276</b>
Price (net asset value per unit)	<b>R16.41</b>
Class	<b>A</b>

### 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>	
Unannualised:	ZAR	US\$	ZAR	US\$	ZAR	US\$
Since inception	64.3	3.8	47.5	-6.8	31.5	9.1
Annualised:						
Since inception	9.8	0.7	7.6	-1.3	5.4	1.7
Latest 5 years	11.2	1.4	9.2	-0.5	5.4	1.8
Latest 3 years	15.8	1.6	11.9	-1.8	5.6	1.2
Latest 2 years	7.6	-2.4	6.4	-3.4	5.6	1.1
Latest 1 year	4.8	-8.6	4.0	-9.2	4.6	0.0
Year-to-date (unannualised)	4.2	-0.9	1.1	-3.8	3.1	0.3
Risk measures (since inception)						
Maximum drawdown <sup>3</sup>	-15.9	-14.1	-13.6	-14.8	n/a	n/a
Percentage positive months <sup>4</sup>	46.9	50.0	43.8	50.0	n/a	n/a
Annualised monthly volatility <sup>5</sup>	13.7	6.7	12.4	5.3	n/a	n/a
Highest annual return <sup>6</sup>	39.6	12.9	26.6	2.3	n/a	n/a
Lowest annual return <sup>6</sup>	-8.4	-11.8	-5.5	-11.6	n/a	n/a

1. The simple average of the benchmarks of the underlying funds, performance as calculated by Allan Gray as at 30 June 2015.

2. This is based on the latest numbers published by INET BFA as at 31 May 2015.

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.

6. This is the highest or lowest consecutive 12-month returns the Fund has experienced since inception, along with the benchmark performance for the corresponding period. This is a measure of how much the Fund's returns have varied per rolling 12-month period. The highest annual rand return occurred from 1 January 2013 to 31 December 2013 and the lowest annual rand return occurred from 1 February 2014 to 31 January 2015. All rolling 12-month figures for the Fund and the benchmark are available from our Client Service Centre on request.

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### Meeting the Fund objective

Since inception and over the latest five-year period, the Fund has outperformed its benchmark, although it should be noted that the returns on dollar and euro cash have been low over this period. There has been some volatility in the Fund's returns. The underlying funds' maximum drawdowns to date, in their reporting currencies, are 10% for the Orbis Optimal SA Dollar class and 6% for the Orbis Optimal SA Euro class.

### 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 2014
Cents per unit	0.0000

### 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)

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 4 for further information).

TER breakdown for the year ending 30 June 2015	%
Fee for benchmark performance	1.00
Performance fees	0.01
Other costs including trading costs	0.23
VAT	0.00
<b>Total expense ratio</b>	<b>1.24</b>

### Top 10 share holdings on 30 June 2015

Company	% of portfolio
NetEase	4.2
Sumitomo Mitsui Fin.	3.2
Mitsubishi	2.9
Cable & Wireless Comm.	2.8
Motorola Solutions	2.4
eBay	2.4
Dai-ichi	2.0
Apache	1.9
Sumitomo	1.9
SoftBank	1.7
<b>Total (%)</b>	<b>25.4</b>

### Fund allocation on 30 June 2015

Funds	%
Orbis Optimal SA (US\$)	63.0
Orbis Optimal SA (Euro)	37.0
<b>Total (%)</b>	<b>100.0</b>

### Asset allocation on 30 June 2015

	Total	North America	Europe	Japan	Asia ex-Japan	Other
Net Equities	6	-4	3	0	7	0
Hedged Equities	83	31	15	26	10	1
Fixed interest	11	30	21	-26	-14	0
<b>Total (%)</b>	<b>100</b>	<b>58</b>	<b>38</b>	<b>0</b>	<b>3</b>	<b>1</b>

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

**Fund manager quarterly commentary as at 30 June 2015**

The 'growth' and 'value' buckets into which managers often get categorised have never made much sense to us at Orbis and Allan Gray. Simplistic criteria, such as low price-to-book ratio, mean very little in isolation, as both low and high growth companies have the potential to be mis-priced.

Orbis has historically found attractive investment opportunities across the growth and value spectrum, as it believes that a good investment is simply one that is priced for significantly less than its long-term fundamentals deserve. Thus, a critical step in determining if a stock is mis-priced is appreciating the expectations built into its price.

In order to earn their keep, growth stocks – on the basis of high price-to-book valuations – must maintain their track records of superior net asset growth and profitability. So, while they indeed offer better fundamentals, it is often not enough to live up to the expectations built into their starting valuations.

While it is great to purchase an exciting company in a growing industry, they are harder to come by at a reasonable price. Conversely, value shares tend to be boring, ignored, unloved or even troubled businesses. These seemingly unappealing traits attract fewer enthusiastic buyers and create greater potential for mis-pricing. For this reason, the Orbis Funds have historically exhibited a tangible skew toward 'value' areas of the market.

Taking advantage of those opportunities, however, requires patience. In the most recent cycle, Orbis has observed an abnormally prolonged period of underperformance for the value category, which has created a stiff performance headwind.

So, why has value done so poorly in recent years? Orbis believes the main reason for the underperformance of the category has been falling sovereign bond yields, resulting from quantitative easing policies across developed countries.

Companies are often priced by taking the present value of the future earnings and discounting by the risk-free rate – or yield – on a sovereign bond. Thus, when the discount rate is lower, investors will pay more for a company's earnings, disproportionately benefiting high-earning growth stocks.

Quantitative easing has therefore served as a meaningful tailwind to growth stocks and headwind to value stocks. If you believe bond yields will stop falling, as Orbis does, then you might expect the headwind for value shares to ease.

At the same time, Orbis has managed to identify companies in growing industries that have been left out of the 'growth' performance run – and remain available at attractive prices. In the US, where corporate profitability is well above historical levels, Orbis has focused on identifying shares where profit margins are not high relative to history and that also offer above average growth potential. Examples include US telecommunications company Motorola Solutions, technology giant Microsoft and semiconductor company Qualcomm. With strong balance sheets and the ability to generate above-average earnings growth, these companies deserve premium valuations, yet their shares trade at discounts to the wider US market on a normalised earnings basis.

Orbis has seen cycles like this before, when macroeconomic factors cast a larger-than-normal shadow on the pricing of assets. While these periods can be frustrating, they can also create the type of mispricings that are the lifeblood of the Orbis Optimal Funds.

Over the last quarter, Orbis has increased its hedging in North America and, as a result, the portfolio's stock market exposure to North America has declined. There have been no material changes to the portfolio's currency exposures. Samsung Electronics has declined on the back of weak share price performance. Meanwhile, the portfolio's position size in Apache, a US oil exploration and production company, has increased. Orbis believes Apache's recent underperformance, amidst a low oil price, has presented the opportunity to purchase shares at a meaningful discount to long-term intrinsic value.

*Adapted from Orbis commentary contributed by Graeme Forster*

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

## ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS

### Notes for consideration

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 10 unit trust portfolios under the Allan Gray Unit Trust Scheme, and is supervised by the Financial Services Board (FSB). The Management Company is a member of the Association for Savings & Investment SA (ASISA) and is incorporated under the laws of South Africa. The Management 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. Allan Gray Proprietary Limited (the 'Investment Manager'), an authorised financial services provider, is the appointed Investment Manager of the Management Company. 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. 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)

The 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 FSB Investor Protection Levy), VAT and other expenses. Since unit trust expenses vary, the current TER cannot be used as an indication of future TERs. The Fund's 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.

### 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.