

## 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	R20 000
Additional lump sum	R500
Minimum debit order*	R500

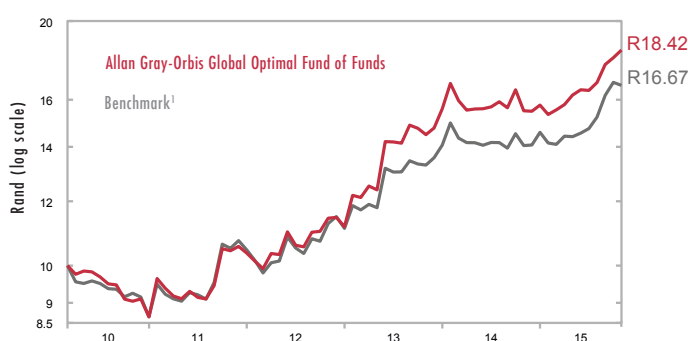
\*Only available to investors with a South African bank account.

### Fund information on 31 October 2015

Fund size	R1.4bn
Number of units	73 930 901
Price (net asset value per unit)	R18.40
Class	A

### 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	84.2	2.3	66.7	-7.4	33.4	9.3
Annualised:						
Since inception	11.4	0.5	9.4	-1.4	5.3	1.6
Latest 5 years	15.3	0.5	12.5	-1.9	5.5	1.7
Latest 3 years	17.2	0.3	14.0	-2.4	5.5	0.9
Latest 2 years	12.7	-4.2	12.0	-4.8	5.3	0.8
Latest 1 year	18.8	-5.7	18.6	-5.9	4.6	0.0
Year-to-date (unannualised)	16.9	-2.3	14.2	-4.5	4.6	0.5
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>	50.0	48.5	45.6	48.5	n/a	n/a
Annualised monthly volatility <sup>5</sup>	13.4	6.7	12.4	5.2	n/a	n/a
Highest annual return <sup>6</sup>	39.6	12.9	26.6	9.4	n/a	n/a
Lowest annual return <sup>6</sup>	-8.4	-11.8	-7.8	-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 31 October 2015.

2. This is based on the latest numbers published by INET BFA as at 30 September 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. 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 January 2015 and the benchmark's occurred during the 12 months ended 28 February 2011. 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 7% 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.	<b>31 Dec 2014</b>
<b>Cents per unit</b>	<b>0.0000</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)

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).

<b>TER breakdown for the year ending 30 September 2015</b>	<b>%</b>
Fee for benchmark performance	1.00
Performance fees	-0.02
Other costs including trading costs	0.21
VAT	0.00
<b>Total expense ratio</b>	<b>1.19</b>

### Top 10 share holdings on 31 October 2015

<b>Company</b>	<b>% of portfolio</b>
NetEase	4.4
QUALCOMM	3.5
Cable & Wireless Comm.	3.4
Mitsubishi	2.8
Sumitomo Mitsui Fin.	2.4
Sumitomo	2.1
Motorola Solutions	2.0
Apache	1.9
Charter Communications	1.6
PayPal Holdings	1.6
<b>Total (%)</b>	<b>25.8</b>

### Fund allocation on 31 October 2015

<b>Foreign absolute return funds</b>	<b>%</b>
Orbis Optimal SA (US\$)	63.1
Orbis Optimal SA (Euro)	36.9
<b>Total (%)</b>	<b>100.0</b>

### Asset allocation on 31 October 2015

	<b>Total</b>	<b>North America</b>	<b>Europe</b>	<b>Japan</b>	<b>Asia ex-Japan</b>	<b>Other</b>
Net equities	10	-6	3	0	12	0
Hedged equities	80	34	16	24	6	1
Cash/currency hedge	10	30	19	-24	-15	0
<b>Total (%)</b>	<b>100</b>	<b>58</b>	<b>38</b>	<b>0</b>	<b>3</b>	<b>0</b>

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

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## Fund manager quarterly commentary as at 30 September 2015

The sharp and broad-based absolute decline in global equity markets in August served as a sobering reminder that asset prices are generally elevated. While the Fund return is not primarily driven by the direction of asset prices over the long term, but by the relative performance of Orbis' bottom-up stock selections, it has nevertheless been negative in absolute dollar terms for the quarter.

While this is understandably frustrating for clients, it is important to remember that the Orbis Optimal SA funds do not seek to eliminate short-term volatility. While we can never precisely time a return to positive performance, we can point to attractive investment opportunities that we believe will drive an eventual recovery.

Qualcomm – one of the Fund's top 10 holdings – stands out as an example. While it is not a household name, you have very likely contributed to the company's success if you own a mobile phone, as Qualcomm receives a patent royalty of between 3% and 5% of the sales price of nearly all 3G and 4G mobile phones sold globally. As phone sales have increased, so have Qualcomm's revenues – to the tune of a high-teens annual growth rate. While its future growth rate may be less robust, Qualcomm should manage to grow revenues by more than 10% per annum as smartphones become increasingly ubiquitous.

Of course, Qualcomm is just one example, but Orbis believes it is representative of the type of opportunities it has found. Qualcomm's profit margins are not any higher than normal, and its cash pile amounts to more than 25% of its market value. Its US peers, however, tend to have elevated profit margins and net debt on their balance sheets. Despite its attractive fundamentals and financial strength, Qualcomm's shares trade well below the S&P 500's weighted median multiple price-to-earnings valuation.

By contrast, Orbis has generally been wary of shares that trade on lofty multiples, have cyclically high operating margins, or are overly reliant on cheap and abundant capital – and many shares today exhibit more than one of these characteristics.

In particular, shares of food companies stand out as steady businesses with little vulnerability to macroeconomic weakness. Many of these shares have performed well in recent years, as the market has fancied quality and stable businesses. However, those traits have come at a steep price. For example, General Mills and Kellogg both trade at 19 times forward earnings.

While these are indeed high-quality businesses, Orbis would prefer to own a company like Qualcomm. Historically, it has delivered revenue growth at twice the pace of General Mills and Kellogg, and its earnings have grown more than three times as fast. Even if Qualcomm's growth slows in the coming years, Orbis expects it will continue to meaningfully outpace that of a typical food company over the long term. More recently, however, this positioning has looked foolish as Qualcomm shares have lost nearly 30% year-to-date and the cereal companies have both delivered modest gains amidst a 6% decline in US shares.

At times like these, when asset prices broadly appear high, it is critical to adhere to our shared investment philosophy. If we can continue to make disciplined bottom-up decisions over time, we believe that we will not only protect your capital but also deliver superior long-term returns.

Orbis typically retains modest long exposure to the stock markets it considers to be the most attractive based on its bottom-up research, and likewise, uses hedging to eliminate exposure to those stock markets where it believes assets are overvalued. The Fund's equity exposure to Asia ex-Japan has increased, as Orbis' bottom-up investment process has identified attractive individual investment opportunities in the region. There have been no material changes to the Fund's currency exposures, and the exposures to key Asian currencies, most notably the Chinese RMB, remain largely hedged.

*Adapted from Orbis commentary contributed by Matthew Spencer*

*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 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. 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 total expense ratio (TER) is the percentage of the Fund's average assets under management that has been used to pay the Fund's actual 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, Securities Transfer Tax [STT], STRATE and FSB Investor Protection Levy), VAT and other expenses. Since Fund returns are quoted after the deduction of these expenses, the TER should not be deducted 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.

### 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.