# ALLAN GRAY-ORBIS GLOBAL OPTIMAL FUND OF FUNDS

**Fund managers:** Duncan Artus. (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 |

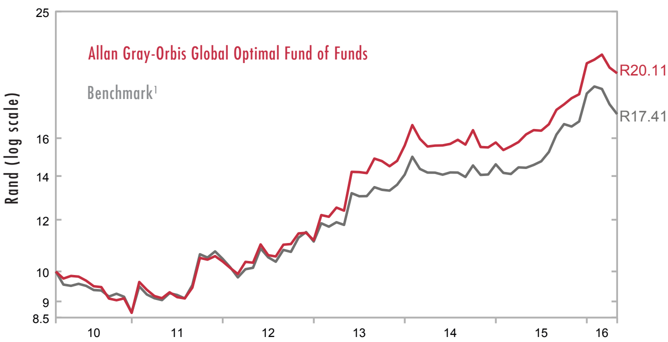
*Only available to investors with a South African bank account.

## Fund information on 30 April 2016

| | |
|---|---|
| Fund size | R1.4bn |
| Number of units | 69 250 509 |
| Price (net asset value per unit) | R20.09 |
| Class | A |

## Performance net of all fees and expenses

**Value of R10 invested at inception with all distributions reinvested**




| % Returns | Fund | | Benchmark[1] | | CPI inflation[2] | |
|---|---|---|---|---|---|---|
| **Cumulative:** | ZAR | US$ | ZAR | US$ | ZAR | US$ |
| Since inception | 101.1 | 9.0 | 74.1 | -5.6 | 38.2 | 9.5 |
| **Annualised:** | | | | | | |
| Since inception | 12.0 | 1.4 | 9.4 | -0.9 | 5.5 | 1.5 |
| Latest 5 years | 17.2 | 0.5 | 14.0 | -2.2 | 5.7 | 1.3 |
| Latest 3 years | 17.5 | 1.0 | 13.9 | -2.1 | 5.5 | 0.8 |
| Latest 2 years | 13.6 | -2.1 | 10.9 | -4.4 | 5.2 | 0.4 |
| Latest 1 year | 24.0 | 4.2 | 20.8 | 1.5 | 6.3 | 0.9 |
| Year-to-date (not annualised) | -3.4 | 6.4 | -7.0 | 2.4 | 2.9 | -0.1 |
| **Risk measures (since inception)** | | | | | | |
| Maximum drawdown[3] | -15.9 | -14.1 | -13.6 | -14.8 | n/a | n/a |
| Percentage positive months[4] | 51.4 | 50.0 | 45.9 | 50.0 | n/a | n/a |
| Annualised monthly volatility[5] | 13.8 | 6.8 | 12.9 | 5.2 | n/a | n/a |
| Highest annual return[6] | 39.6 | 12.9 | 35.6 | 9.4 | n/a | n/a |
| Lowest annual return[6] | -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 30 April 2016.
2. This is based on the latest numbers published by INET BFA as at 31 March 2016.
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 January 2016. 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. | 31 Dec 2015 |
|---|---|
| **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

## 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.

| TER and Transaction costs breakdown for the 3-year period ending 31 March 2016 | % |
|---|---|
| **Total expense ratio** | **1.75** |
| Fee for benchmark performance | 1.00 |
| Performance fees | 0.68 |
| Other costs excluding transaction costs | 0.07 |
| VAT | 0.00 |
| **Transaction costs (including VAT)** | **0.16** |
| **Total investment charge** | **1.91** |

## Top 10 share holdings on 30 April 2016

| Company | % of portfolio |
|---|---|
| Cable & Wireless Comm. | 4.0 |
| NetEase | 4.0 |
| QUALCOMM | 2.5 |
| Mitsubishi | 2.3 |
| Sumitomo | 2.2 |
| Barrick Gold | 2.2 |
| Apache | 2.1 |
| Sumitomo Mitsui Fin. | 2.1 |
| XPO Logistics | 2.0 |
| JD.com | 1.7 |
| **Total (%)** | **25.1** |

## Fund allocation on 30 April 2016

| Foreign absolute return funds | % |
|---|---|
| Orbis Optimal SA (US$) | 61.6 |
| Orbis Optimal SA (Euro) | 38.4 |
| **Total (%)** | **100.0** |

## Asset allocation on 30 April 2016

| | Total | North America | Europe | Japan | Asia ex-Japan | Other |
|---|---|---|---|---|---|---|
| Net equities | 6 | -6 | 1 | 0 | 11 | 0 |
| Hedged equities | 83 | 31 | 20 | 22 | 7 | 2 |
| Cash/currency hedge | 11 | 30 | 19 | -22 | -14 | -1 |
| **Total (%)** | **100** | **55** | **40** | **0** | **4** | **1** |

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

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## Fund manager quarterly commentary as at 31 March 2016

It stands to reason that owning equities should be rewarding over the long term. Companies should be willing to pay handsomely to access capital that enables them to fund projects with longer time horizons and more uncertain payoff profiles, and investors should require ample compensation for holding an asset that is more than capable of producing losses at the most inconvenient times. So it is understandable that, on average, equities have delivered approximately four percentage points per annum more than cash-like instruments. But 'on average' means very little when the range of what can happen is so wide. Indeed, the additional risk equity investors accept by foregoing assets with more certain payoff profiles (e.g. cash) can lead to substantial losses.

Through its stock market hedging, Optimal attempts to either partially or fully eliminate the risk of owning equities as an asset class, while still benefiting from the relative returns of Orbis' stock selections. But there is no free lunch; minimising stock market exposure reduces the risk of permanent capital loss, but it also sacrifices potential return.

Comparing Optimal's returns to those of the Orbis Global Equity Fund makes this clear. When the market is up, Optimal typically lags Global because Optimal gives up the positive market return. But Optimal also 'gives up' the market return in down markets, and in these environments Optimal can outpace Orbis Global. This is exactly what has happened over the past 12 months.

In this way, Optimal provides a tool for clients to gain exposure to an idiosyncratic risk (Orbis' stock selection capability) without adding to correlated risks that they are likely to be carrying elsewhere through Orbis Global Equity or other investments. It can be considered as a diversifying component of a broader investment strategy.

That said, Optimal becomes more attractive in its own right when the following conditions are satisfied: (i) the market's overall risk seems higher than its reward potential and (ii) the opportunities for stock selection versus the wider market are higher than average. Orbis believes both conditions are in place today.

On the first condition, equity valuations and corporate profits are both well above average versus very long-term norms, and it seems unlikely such high levels can be permanently sustained. In addition, extraordinary measures by central banks have pushed the economy into uncharted territory, so it is entirely plausible that the risks of extreme outcomes are more meaningful than is normally the case. One could therefore characterise the current investment environment as one that offers below-average reward for taking above-average risk.

On the second condition, Orbis has observed a high degree of trending—outperforming shares continuing to surge while underperforming ones experience further declines—over an abnormally prolonged period. Orbis believes this has led to valuation dislocations that are more pronounced than normal, which makes for attractive long-term opportunities for fundamental, bottom-up stock pickers.

Of late, Orbis has found ever-increasing discounts to its assessment of intrinsic value in more cyclical or 'deep value' laggards such as Rolls-Royce, US manufacturer Alcoa, Japanese trading company Mitsubishi, US semiconductor company QUALCOMM, Korea's KB Financial and US oil & gas exploration company Apache. While the market's recent trending could persist—and cause greater pain as Orbis leans against them—the greater the dislocation between price and value, the greater the opportunity for the positive relative returns that are the lifeblood of Optimal.

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. In the last quarter, the Fund's net stock market exposure to Japan went from being neutral to negative, as Orbis believes Japanese companies are fully valued. By contrast, the Fund continues to retain a net long exposure to selected Asian stock markets, which it believes are broadly undervalued. There have been no material changes to the portfolio's currency exposures or to its key individual positions, with the top-10 holdings largely unchanged.

*Adapted from Orbis commentary contributed by Graeme Forster*
*For the full commentary please see www.orbis.com*

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# 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

### 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

### 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.

### 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.

### 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 or via our Client Service Centre on 0860 000 654.