

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's investment universe is global, 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

Fund information on 31 December 2018

Fund size	R1.1bn
Number of units	53 705 209
Price (net asset value per unit)	R19.89
Class	A

Minimum investment amounts

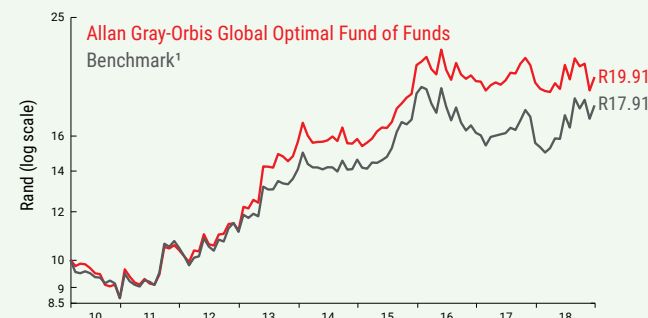
Minimum lump sum per investor account	R20 000
Additional lump sum	R500
Minimum debit order*	R500

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

1. The simple average of the benchmarks of the underlying funds, performance as calculated by Allan Gray as at 31 December 2018.
2. This is based on the latest numbers published by IRESS as at 30 November 2018.
3. Maximum percentage decline over any period. The maximum rand drawdown occurred from 18 May 2016 to 24 March 2017 and maximum benchmark drawdown occurred from 18 January 2016 to 23 February 2018. 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 May 2017 and the benchmark's occurred during the 12 months ended 28 February 2017. 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 ¹		CPI inflation ²	
	ZAR	US\$	ZAR	US\$	ZAR	US\$
Cumulative:						
Since inception (2 March 2010)	99.1	6.4	79.1	-4.3	57.0	16.4
Annualised:						
Since inception (2 March 2010)	8.1	0.7	6.8	-0.6	5.3	1.7
Latest 5 years	5.0	-1.4	4.9	-1.5	5.4	1.6
Latest 3 years	-1.5	1.2	-1.5	1.2	5.5	2.0
Latest 2 years	0.8	-1.7	5.3	2.7	4.9	2.2
Latest 1 year	2.1	-12.7	15.2	-1.5	5.2	2.2
Year-to-date (not annualised)	2.1	-12.7	15.2	-1.5	5.2	2.2
Risk measures (since inception)						
Maximum drawdown ³	-18.9	-16.5	-26.6	-15.1	n/a	n/a
Percentage positive months ⁴	49.1	51.9	47.2	50.9	n/a	n/a
Annualised monthly volatility ⁵	14.5	6.7	14.2	4.7	n/a	n/a
Highest annual return ⁶	39.6	12.9	35.6	9.4	n/a	n/a
Lowest annual return ⁶	-12.4	-12.7	-19.1	-11.6	n/a	n/a

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 12% for the Orbis Optimal SA Dollar class and 13% 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 2018
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 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 %
Total expense ratio	1.44	1.87
Fee for benchmark performance	1.00	1.00
Performance fees	0.37	0.80
Other costs excluding transaction costs	0.07	0.07
VAT	0.00	0.00
Transaction costs (including VAT)	0.13	0.13
Total investment charge	1.57	2.00

Top 10 share holdings on 31 December 2018

Company	% of portfolio
NetEase	6.1
AbbVie	4.8
Sumitomo	4.1
XPO Logistics	3.2
Mitsubishi	3.1
Credit Suisse Group	3.1
Celgene	3.1
Rolls-Royce Holdings	3.1
Sberbank of Russia	2.8
INPEX	2.5
Total (%)	35.9

Fund allocation on 31 December 2018

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

Asset allocation on 31 December 2018

	Total	North America	Europe	Japan	Asia ex-Japan	Other
Net equity	9.7	-3.5	1.8	0.3	9.2	2.0
Hedged equity	78.3	30.5	15.8	18.5	10.4	3.1
Fixed interest	0.0	0.0	0.0	0.0	0.0	0.0
Commodity-linked	0.0	0.0	0.0	0.0	0.0	0.0
Net current assets	12.0	0.0	0.0	0.0	0.0	12.0
Total	100.0	26.9	17.6	18.8	19.6	17.1

Currency exposure of the Orbis funds

Funds	Total	North America	Europe	Japan	Asia ex-Japan	Other
Funds	100.0	58.2	37.2	-0.2	4.6	0.1

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

The returns of our long-only equity funds can be broken down into three components: a risk-free rate, an equity risk premium, and the value added by our stock selections. Simplistically, the Orbis Optimal Strategy is designed to capture the risk-free rate and the value added by Orbis. Giving up the equity risk premium may seem crazy given the substantial returns delivered by this component over the last decade, but looking back a little further in time it's clear that equity risk hasn't always delivered commensurate returns. Market weakness during the second half of 2018 has been a painful reminder of this.

Periods when there are seemingly few places to hide should make the Fund extremely appealing given its idiosyncratic return stream. It is therefore both disappointing and frustrating that recent market weakness has coincided with a particularly weak period for Orbis' 'value add' or 'alpha', and the Optimal Fund as a result.

It's worth emphasising that the Fund's return is uncorrelated to equities, but as the latest period shows, it is not anti-correlated. The Fund does not necessarily zig when the market zags – it just does its own thing. The current drawdown, while far from ideal from a timing perspective or otherwise, is not unusual versus history.

Why has our recent alpha been so weak? One reason has been the nature of the equity-market selloff – a classic kneejerk 'risk off' environment in which the shares of more defensive companies have been by far the strongest outperformers. These include large pharmaceuticals such as Novartis, Roche, Abbott Laboratories, Sanofi, Pfizer and AstraZeneca along with dominant consumer staples businesses like Nestlé, Diageo, Clorox, Procter & Gamble, and Unilever.

Over the last few years, we have researched each of these businesses, but have found insufficient value to invest. Many of the traditional pharmaceutical majors have been plagued by weak research and development productivity, drug pricing pressure, patent expiration and poor capital allocation. These factors have weighed heavily on our assessment of intrinsic value. Consumer staples businesses like Nestlé tend to be higher quality, but at current valuations they are a far cry from the type of bargains that we seek to own.

Kikkoman, a Japanese soy sauce maker, is our favourite proxy for the extreme overpricing evident in the more defensive areas of the market. We need look no further for an indication as to whether prices trended toward or away from intrinsic value over the last year. At the start of 2018, Kikkoman sold at a multiple of nearly 40 times earnings, unjustifiably high for a company with modest

earnings growth. Despite this lofty valuation, the shares subsequently rose by over 30% in US dollars during the year and now trade close to a price-earnings multiple of 45.

Compare this to Taiwan Semiconductor Manufacturing Company (TSMC). TSMC has a good chance of delivering earnings per share growth about 10% per annum for the foreseeable future despite paying out enough earnings each year to realise a healthy 3.5% dividend yield. Yet TSMC delivered negative returns in 2018, presumably a function of its economic sensitivity and broader emerging market sentiment.

Though these are isolated examples, we believe the wide gap between the most overpriced and most underpriced assets has only become more pronounced during 2018. The widening of this gap has been particularly painful for investors like us who are focused on intrinsic value, but we believe this dynamic ultimately sows the seeds for excess future returns.

As uncomfortable as the Fund's recent performance has been, it reminds us of previous periods of prolonged underperformance. Then, as now, these times have produced tremendous opportunity for stockpickers who are able to remain disciplined and focused on the long term. To put some numbers on it, the trailing one-year return of the Fund has been below that of US\$ Bank Deposits for around 25% of its history. But considering the three-year cumulative returns, the strategy has delivered positive absolute returns over three years 95% of the time.

Of course, that's no guarantee of future performance, but we remain as optimistic as we have been for some time on the opportunity set and prospects for value-add going forward. As such, despite underperforming the local indices we use for hedging, we continue to have a high degree of conviction in the alpha potential of the stocks Optimal holds. And we are equally optimistic that the Fund will fulfil its role as a unique vehicle that can deliver positive and uncorrelated real returns over the long term.

The Fund's overall net equity exposure increased over the quarter, as the exposure to Asia ex-Japan equities was increased. Among individual positions, the largest addition was to Bayer, a German life science company. The largest sale was to Ship Healthcare Holdings, a Japanese medial product business.

Adapted from Orbis commentaries contributed by by Graeme Forster

For the full commentary please see 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

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.

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