AllanGray

Fund manager: Duncan Artus (The underlying Orbis funds are managed by Orbis).
Inception date: 2 March 2010

Allan Gray-Orbis Global Optimal Fund of Funds

31 May 2019

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 May 2019

Fund size	R993m
Number of units	51 678 720
Price (net asset value per unit)	R19.23
Class	A

Minimum investment amounts

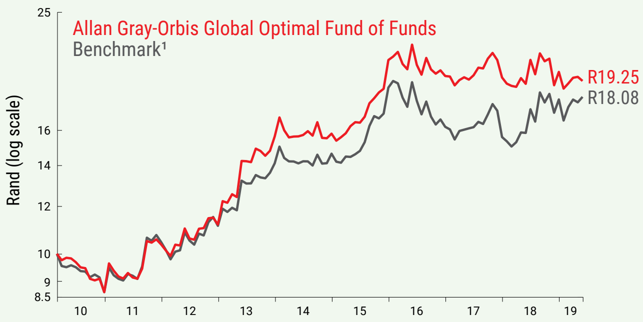
Minimum lump sum per investor account	R20 000
Additional lump sum	R500
Minimum debit order*	R500

*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 May 2019.
2. This is based on the latest numbers published by IRESS as at 30 April 2019.
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]	
Cumulative:	ZAR	US$	ZAR	US$	ZAR	US$
Since inception (2 March 2010)	92.5	1.0	80.8	-5.1	60.0	17.3
Annualised:						
Since inception (2 March 2010)	7.3	0.1	6.6	-0.6	5.3	1.8
Latest 5 years	4.3	-2.3	5.1	-1.6	5.0	1.5
Latest 3 years	-4.5	-2.2	-1.8	0.6	4.7	2.2
Latest 2 years	-0.2	-5.4	6.1	0.6	4.4	2.2
Latest 1 year	1.1	-12.8	14.6	-1.1	4.4	2.0
Year-to-date (not annualised)	-3.4	-5.1	1.0	-0.8	1.9	0.9
Risk measures (since inception)						
Maximum drawdown[3]	-18.9	-19.7	-26.6	-15.1	n/a	n/a
Percentage positive months[4]	49.5	51.4	47.7	50.5	n/a	n/a
Annualised monthly volatility[5]	14.4	6.8	14.3	4.6	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	-15.3	-19.1	-11.6	n/a	n/a

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Meeting the Fund objective

Since inception, 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. Over the latest five-year period, the Fund has underperformed its benchmark. There has been some volatility in the Fund's returns. The underlying funds' maximum drawdowns to date, in their reporting currencies, are 15% for the Orbis Optimal SA Dollar class and 17% 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 March 2019	1yr %	3yr %
Total expense ratio	**1.06**	**1.83**
Fee for benchmark performance	1.00	1.00
Performance fees	-0.01	0.76
Other costs excluding transaction costs	0.07	0.07
VAT	0.00	0.00
Transaction costs (including VAT)	**0.12**	**0.13**
Total investment charge	**1.18**	**1.96**

Top 10 share holdings on 31 May 2019

Company	% of portfolio
NetEase	5.9
Sumitomo	4.8
AbbVie	4.1
Sberbank of Russia	4.0
Credit Suisse Group	3.8
Mitsubishi	3.5
XPO Logistics	3.4
Rolls-Royce Holdings	2.8
Celgene	2.6
Newcrest Mining	2.4
Total (%)	**37.4**

Fund allocation on 31 May 2019

Foreign absolute return funds	%
Orbis Optimal SA (US$)	62.0
Orbis Optimal SA (Euro)	38.0
Total (%)	**100.0**

Asset allocation on 31 May 2019

	Total	North America	Europe	Japan	Asia ex-Japan	Other
Net equity	12.8	-3.1	2.3	-0.6	11.6	2.5
Hedged equity	76.7	28.5	17.8	18.6	8.4	3.5
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	10.5	0.0	0.0	0.0	0.0	10.5
Total	**100.0**	**25.5**	**20.1**	**18.1**	**20.0**	**16.4**
Currency exposure of the Orbis funds						
Funds	100.0	56.0	39.1	0.1	4.5	0.2

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

Fund manager quarterly commentary as at 31 March 2019

In previous Optimal commentaries, we have discussed the phenomenon of herding in which a small proportion of stocks are bid up by enthusiastic return-seekers. Recently it has been driven by an insatiable appetite for stable businesses such as those in consumer staples.

When investors crave certainty at any price, it is precisely the more volatile shares that present the best value. Autohome, one of Optimal's largest stock exposures, is a good illustration of the type of opportunity that can be found in the current environment if one is willing to go against the crowd.

Autohome is an online platform for car buyers in China. The company has relationships both with car makers, who buy its advertising services, and with the tens of thousands of dealerships across China, who pay subscriptions to Autohome and receive sales leads in return. But since the car companies subsidise many of the dealer subscriptions, we can focus on that group to keep it simple.

When viewed that way, the company has about 100 paying customers, generates US$1 billion in revenue, and generates about 10 million successful leads per year. That makes the arithmetic of its business model nice and easy: car companies essentially pay Autohome US$100 per successful lead. If you assume that the average car price is about US$20,000 and variable costs are about 75% of that, the manufacturer's marginal profit for each car sold is about US$5,000. In that context, Autohome's fee of US$100 per successful sales lead provides strikingly good value – an indication that, despite years of impressive growth, Autohome is still not making the most of its unique position as the toll bridge between sellers and buyers. Why only US$100? Why not US$500 or even US$1,000?

We believe the company has huge scope to extract far more value. We estimate that the automakers' collective profits of more than US$20 billion in China give plenty of opportunity for Autohome to claim a bigger share of the pie. To put some basic maths around that, even a 10 times improvement in Autohome's profit would still equate to only 1% of industry sales (or less, if the car market grows).

Hold on, if Autohome is that powerful, why isn't that already happening? Because you have to boil the frog slowly. Putting through a 10 times price hike would alienate customers and force them onto a competitor platform instead. The game is to establish dominance first, develop the product with additional bells and whistles, and then extract the value when advertisers have no viable alternative.

After a difficult 2018, many Chinese car dealerships have closed. This has reduced Autohome's number of paying customers, which has been seen as a negative for the stock. In our view, the number of dealerships is irrelevant over the long term. As long as the customer base remains sufficiently fragmented, Autohome should be indifferent to whether it makes a lower average selling price (ASP) from a large number of dealers, or a high ASP from a smaller number of dealers. It's the unit economics that count. Current trends validate this point: dealership numbers are down, but Autohome has been more than making up for the difference through price (especially impressive when one considers that overall sales are weak).

At 30 times trailing earnings, Autohome isn't an obvious bargain. But as with other online advertisers, some adjustments are necessary to get the true picture of the economics of the business. The most notable is with regard to research and development (R&D) costs, which are expensed in the accounts as they are incurred. But spending money on developing new products helps to deepen Autohome's competitive moat and enhance the value of its services, so it is more like investing in an asset (with a perpetual life) than incurring an expense. If we treat these as forms of investment rather than short-term expenses, Autohome has a true operating profit margin of 55%, much higher than the 40% that's reported. Importantly, that true profit margin has been expanding nicely in recent years, validating the quality of the business.

At current stock market valuations, Autohome is valued at an enterprise value of approximately ten times revenue, versus the automakers which trade only in line with their revenue. We believe this differential is fair, given Autohome's higher margin (by a factor of about 5-10 times), its faster growth rate, its relative lack of investment need (apart from R&D), and its lack of reliance on product cycles.

Of course, the future is unknowable, and Autohome's continued success is far from certain. To assess the downside risk, we note that the company has US$1.5 billion of net cash and is forecast to earn another US$1.3 billion in free cash flows over the course of 2019 and 2020. That sums to US$2.8 billion of hard value. Even if things subsequently go terribly wrong for Autohome and its enterprise value slumps to just two times revenue, that would still imply US$5 billion of total value, capping the downside at 50-60%.

On the flip side, if Autohome can continue to generate the powerful combination of cash flow and growth that we expect over our investment horizon, the upside could be enormous. To put it in perspective, if the company can maintain a growth rate of over 25% - a rapid but not impossible pace - revenue would double in three years and quadruple in six. Over those six years, the company would have generated approximately US$4-5 billion in free cash and grown its revenue to US$5 billion, making it worth about five times its current price, if things go well. It's that asymmetric divergence between what we see as considerable upside and the relatively limited downside that appeals to us.

With the Chinese auto market experiencing such tough times, the one thing that can be guaranteed is that Autohome will provide a bumpy ride. But without that near-term uncertainty, we wouldn't have had an opportunity to build a position in such a promising long-term franchise at such attractive prices.

The Fund's overall net equity exposure increased slightly over the quarter as the portfolio hedging in Asia ex-Japan was decreased. Among individual positions, the largest addition was to oil and gas services company Schlumberger. The largest sale was Bristol-Myers Squibb, a pharmaceutical company.

Adapted from an Orbis commentary by Ben Preston, Orbis Portfolio Management (Europe) LLP, London

For the full commentary please see www.orbis.com

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 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 ('TIC').

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.**