

## 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 30 June 2020

Fund size	R0.9bn
Number of units	42 006 449
Price (net asset value per unit)	R20.66
Class	A

## Minimum investment amounts

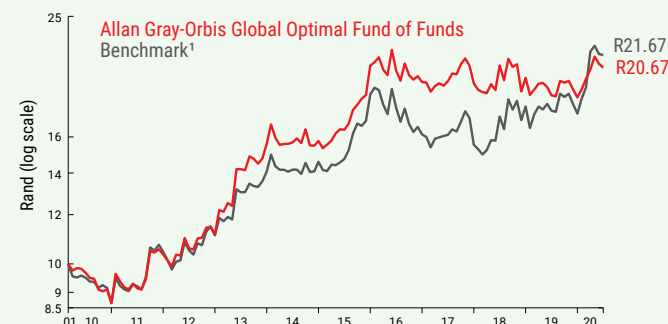
Minimum lump sum per investor account	R20 000
Additional lump sum	R500
Minimum debit order*	R500

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

- The simple average of the benchmarks of the underlying funds, performance as calculated by Allan Gray as at 30 June 2020.
- This is based on the latest available numbers published by IRESS as at 31 May 2020. Due to a delay in the release of May's CPI value, we have used April's return as an estimate for the month.
- 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).
- The percentage of calendar months in which the Fund produced a positive monthly return since inception.
- 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.
- 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 <sup>1</sup>		CPI inflation <sup>2</sup>	
Cumulative:	ZAR	US\$	ZAR	US\$	ZAR	US\$
Since inception (2 March 2010)	106.7	-8.6	116.7	-4.2	63.9	17.7
Annualised:						
Since inception (2 March 2010)	7.3	-0.8	7.8	-0.4	4.9	1.6
Latest 10 years	7.9	-0.6	8.6	0.1	4.9	1.6
Latest 5 years	4.7	-2.5	8.0	0.6	4.5	1.5
Latest 3 years	1.7	-7.5	10.3	0.4	3.7	1.6
Latest 2 years	-0.4	-11.2	12.1	-0.1	3.3	1.0
Latest 1 year	10.8	-9.9	22.9	-0.1	2.1	0.2
Year-to-date (not annualised)	11.6	-10.0	24.2	0.2	0.8	-0.8
Risk measures (since inception)						
Maximum drawdown <sup>3</sup>	-18.9	-31.3	-26.6	-15.1	n/a	n/a
Percentage positive months <sup>4</sup>	49.2	50.8	47.6	49.2	n/a	n/a
Annualised monthly volatility <sup>5</sup>	14.1	7.2	14.6	4.4	n/a	n/a
Highest annual return <sup>6</sup>	39.6	12.9	35.6	9.4	n/a	n/a
Lowest annual return <sup>6</sup>	-12.4	-15.3	-19.1	-11.6	n/a	n/a

## Meeting the Fund objective

Since inception and over the latest 10- and five-year periods, the Fund has underperformed its benchmark. 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 23% for the Orbis Optimal SA Dollar class and 27% 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 2019</b>
<b>Cents per unit</b>	<b>0.2005</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) 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.

<b>TER and Transaction costs breakdown for the 1- and 3-year period ending 30 June 2020</b>	<b>1yr %</b>	<b>3yr %</b>
<b>Total expense ratio</b>	<b>1.08</b>	<b>1.49</b>
Fee for benchmark performance	0.99	0.99
Performance fees	0.00	0.43
Other costs excluding transaction costs	0.09	0.07
VAT	0.00	0.00
<b>Transaction costs (including VAT)</b>	<b>0.14</b>	<b>0.13</b>
<b>Total investment charge</b>	<b>1.22</b>	<b>1.62</b>

## Top 10 share holdings on 30 June 2020

<b>Company</b>	<b>% of portfolio</b>
Bayerische Motoren Werke	4.8
Honda Motor	4.3
British American Tobacco	4.2
Credit Suisse	3.8
Newcrest Mining	3.4
Sumitomo	3.4
NetEase	2.9
Anthem	2.7
Rolls-Royce	2.6
Mitsubishi	2.4
<b>Total (%)</b>	<b>34.6</b>

## Asset allocation on 30 June 2020

	<b>Total</b>	<b>North America</b>	<b>Europe and UK</b>	<b>Japan</b>	<b>Asia ex-Japan</b>	<b>Other</b>
Net equity	8.0	-2.0	-0.5	7.0	0.8	2.8
Hedged equity	79.0	22.7	25.3	13.3	13.9	3.8
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	12.9	0.0	0.0	0.0	0.0	12.9
<b>Total</b>	<b>100.0</b>	<b>20.7</b>	<b>24.8</b>	<b>20.3</b>	<b>14.7</b>	<b>19.5</b>

### Currency exposure of the Orbis funds

<b>Funds</b>	<b>100.0</b>	<b>57.4</b>	<b>37.1</b>	<b>0.2</b>	<b>4.8</b>	<b>0.5</b>
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Note: There may be slight discrepancies in the totals due to rounding.

## Fund allocation on 30 June 2020

<b>Foreign absolute return funds</b>	<b>%</b>
Orbis Optimal SA (US\$)	62.7
Orbis Optimal SA (Euro)	37.3
<b>Total (%)</b>	<b>100.0</b>

Our investment philosophy is predicated on the simple idea that there can often be substantial gaps between share prices and the intrinsic value of the businesses that they represent. The more extreme the gaps, the greater the potential to add value through opportunistic security selection. The Optimal Strategy is designed to capitalise on those gaps, and for more than 30 years it has done so, delivering attractive and uncorrelated real returns over the long term while also protecting against permanent capital loss.

The past 10 years have been a different story. In our view, there are two key variables that are particularly helpful to understanding why Optimal has performed well over the long term, why it has failed to deliver in recent years, and why we are more enthusiastic about its return potential today than we have been for some time.

The first variable, is the so-called equity risk premium. It may sound technical, but it's just the difference between global stock market returns and a risk-free rate such as US dollar bank deposits. You can think about this premium as the additional compensation you receive for bearing the risk of owning stocks rather than keeping the money in the bank. By hedging against broad stock market declines, Optimal effectively eliminates the equity risk premium and the associated volatility that comes with being invested in stocks. The associated volatility can be significant at times, and of course, taking equity risk does not always deliver a premium return. Since 1990, the returns on stocks have lagged cash by more than 10 percentage points in about one out of every five calendar years.

The second key variable is alpha, or the performance of our stock selections relative to the market. As with the equity risk premium, our alpha is incredibly volatile in the short term and can often be negative, but unlike the risk premium, we don't hedge this out. This explains why Optimal failed to protect capital when markets crashed in the first quarter. But over the long term it also explains the uncorrelated nature of alpha that has made Optimal such a powerful diversification tool in a broader portfolio. In the first 20 or so years of Optimal's history, global stock markets returned just over 5% per annum and US dollar bank deposits yielded about 4%, so the equity risk premium was just 1.2%. In other words, equity investors were poorly compensated for the risk of owning stocks. But our stock selections in the Orbis Global Equity Fund outperformed global equity markets by approximately nine percentage points per annum. It was a glorious time to be invested in Optimal. The Strategy captured Orbis Global Equity's substantial alpha, sacrificed very little by hedging out the modest excess return on stocks relative to cash, and provided downside protection.

The opposite has happened over the past 10 years. The equity risk premium has ballooned above 9% amid a robust bull market and unprecedented central bank policies that have pushed interest rates close to zero or even below in

some countries. Said differently, the return per unit of equity risk has been abnormally high for too long a period – investors have been extremely well-paid for taking stock market risk. At the same time, our stock selection results have been remarkably poor. It has been a miserable time to be invested in Optimal. The Strategy gave up an equity risk premium of more than 9% per annum, but delivered no alpha to offset the pain.

All of this is a long way of saying that Optimal tends to perform poorly when equity market returns are high relative to cash and when our stock picking results are poor. That much is unsurprising given the Strategy's mandate. But what's less obvious is that those have also been some of the best moments to invest in Optimal.

It is debatable whether today's environment is a "bubble" or not, but no matter what you call it, the spread in valuations between the most and least expensive stocks in the index looks extreme to us. This is precisely the type of opportunity that Optimal is designed to exploit, and this is reflected in our stock selections. Across the portfolio, we have been able to buy shares at depressed valuations where we believe much of the downside is fully priced in yet almost none of the upside is reflected.

There are very few guarantees in investing, but there are also very few things that persist forever. In particular, a 9% equity risk premium is just over twice its long-term average. To sustain that premium for another 10 years would require global equities to more than double in absolute terms from today's levels while holding interest rates constant. Anything is possible, but betting that the next 10 years' equity risk premium will be as, if not more, rewarding than the most recent decade seems like an extremely risky assumption to us – particularly at a time when uncertainty is much higher than at any time in recent memory.

Optimal offers a solution – if our stock selections are as attractive relative to the global index as we believe, Optimal has all the ingredients in place to offer both downside protection and exposure to real returns that are uncorrelated with other asset classes. If we are able to execute and deliver alpha, the next 10 years could turn out to be a lot more rewarding for Optimal investors than the previous decade.

Adapted from commentary contributed by Graeme Forster, Orbis Investment Management Limited, Bermuda

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

**Fund manager quarterly commentary as at 30 June 2020**

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](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. 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](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) 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](http://www.allangray.co.za) or via our Client Service Centre on **0860 000 654**