Allan Gray-Orbis Global Optimal Fund of Funds

ALLANGRAY

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

31 July 2021

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 July 2021

Fund size	R0.7bn
Number of units	36 957 942
Price (net asset value per unit)	R18.87
Class	A

Minimum investment amounts*

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

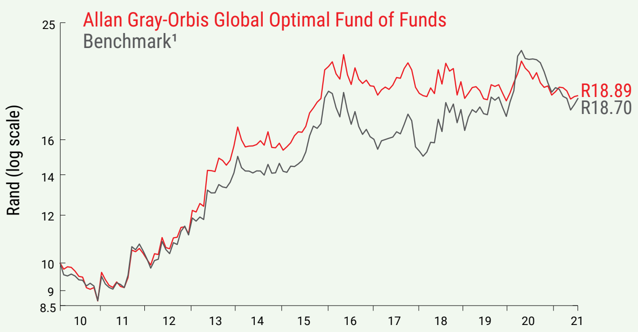
*Minimums for investors aged 18 or older will be increasing to R50 000 for an initial lump sum and to R1 000 for an additional lump sum and debit order, effective from 14:00 on Friday, 27 August 2021.

**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 July 2021.
2. This is based on the latest available numbers published by IRESS as at 30 June 2021.
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)	88.9	-0.5	87.0	-1.5	72.6	24.7
Annualised:						
Since inception (2 March 2010)	5.7	-0.1	5.6	-0.2	4.9	2.0
Latest 10 years	7.6	-0.5	7.5	-0.6	5.0	1.9
Latest 5 years	-0.8	-1.7	2.0	1.1	4.2	2.4
Latest 3 years	-1.4	-4.7	4.3	0.8	3.8	2.6
Latest 2 years	0.8	-0.5	3.2	1.9	3.5	3.0
Latest 1 year	-6.1	9.2	-13.8	0.2	4.9	5.3
Year-to-date (not annualised)	-0.2	0.4	-2.2	-1.6	2.9	3.9
Risk measures (since inception)						
Maximum drawdown[3]	-18.9	-31.3	-26.6	-15.1	n/a	n/a
Percentage positive months[4]	48.9	51.8	46.0	48.9	n/a	n/a
Annualised monthly volatility[5]	13.6	7.4	14.3	4.4	n/a	n/a
Highest annual return[6]	39.6	14.4	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 and over the latest 10-year period, the Fund has outperformed its benchmark. Over the latest five-year period 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 28% 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 2020
Cents per unit	**0.4566**

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 Orbis Optimal SA Fund factsheets and prospectus, which can be found at www.orbis.com.

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 30 June 2021	1yr %	3yr %
Total expense ratio	**1.08**	**1.07**
Fee for benchmark performance	1.00	1.00
Performance fees	-0.01	-0.01
Other costs excluding transaction costs	0.09	0.08
VAT	0.00	0.00
Transaction costs (including VAT)	**0.14**	**0.13**
Total investment charge	**1.22**	**1.20**

Top 10 share holdings on 31 July 2021

Company	% of portfolio
British American Tobacco	4.2
Mitsubishi	3.0
UnitedHealth Group	3.0
NetEase	2.5
Alcoa	2.4
Woodside Petroleum	2.4
Taiwan Semiconductor Mfg.	2.3
Korea Investment Holdings	2.2
XPO Logistics	2.1
Honda Motor	2.1
Total (%)	**26.2**

Fund allocation on 31 July 2021

Foreign absolute return funds	%
Orbis Optimal SA (US$)	63.8
Orbis Optimal SA (Euro)	36.2
Total (%)	**100.0**

Asset allocation on 31 July 2021

	Total	North America	Europe and UK	Japan	Asia ex-Japan	Other
Net equity	3.8	-0.4	2.2	0.2	1.4	0.4
Hedged equity	79.7	22.8	20.3	17.9	14.5	4.3
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	16.5	0.0	0.0	0.0	0.0	16.5
Total	**100.0**	**22.4**	**22.5**	**18.1**	**15.9**	**21.2**
Currency exposure of the Orbis funds						
Funds	100.0	57.5	36.0	0.3	6.0	0.2

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

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Fund manager quarterly commentary as at 30 June 2021

At this time last year, we met with a number of clients who were understandably frustrated with the Orbis Optimal SA Fund's performance. We shared this frustration ourselves, but also noted that valuation dislocations in the wake of the COVID-19 outbreak had become historically extreme and Optimal was well placed to take advantage.

Since 30 June 2020, the Orbis Optimal SA Fund (US$) returned 10% after fees versus 2% for the average US dollar bond fund and 0.2% on US dollar bank deposits. While this pales in comparison to the 36% return of the average global equity fund over that time period, it has come with considerably less risk than an unhedged equity portfolio. This is hardly a cause for celebration – Optimal's longer-term results remain below the standard we set for ourselves – but it does give us confidence that the Fund remains as relevant as ever and is doing what it was designed to do.

One of Optimal's key design features is its ability to harness our stock selection capabilities, especially when the opportunity set is most extreme.

In recent years, dislocations within stock markets have been unusually large. In late 2019, fundamentally cheap shares had never been cheaper compared to fundamentally rich ones. Then, in 2020, the gap got even more extreme.

On the one hand, large dislocations like the one we saw last year are exciting for bottom-up stockpickers. They suggest the presence of mispricings that can be exploited by taking a contrarian view supported by in-depth fundamental research. But on the other hand, dislocations can be frustrating because extremes are often characterised by widespread irrational behaviour and can therefore persist for a painfully long time before they unwind.

To bring this to life with an illustration, we can look at BMW, which has been a key holding in the Fund for five years. It is a stock that has performed well over the past 12 months, but not before an uncomfortable period of underperformance and a great deal of uncertainty during the pandemic.

Back in late 2019, BMW was deeply out of favour for two primary reasons. The first was the automobile sales cycle, which was weak at the time, and the second was the broader threat of disruption posed by the industry's looming transition to electric vehicles (EVs).

We disagreed with the market's view on both counts. As with all cycles, we believed auto sales would inevitably improve – although we couldn't predict the timing – and that BMW would also successfully navigate the transition to EVs. If anything, we believed BMW had a distinct advantage over other incumbent auto makers given its premium brand and early efforts to prepare for the transition. Most importantly, we were excited about BMW because its valuation was the cheapest it had been since the global financial crisis a decade earlier and it was hard to imagine the stock getting much cheaper.

Instead, as the global economy began to shut down, we found ourselves running an analysis that we would have never contemplated just a few months earlier – how long could BMW survive without selling any cars? Having built conviction that BMW could survive a total shutdown of its plants and more than a year without sales, we used the market panic to increase our position when it was trading at a stunning three and a half times our estimate of "normal" earnings and a 45% discount to tangible book value.

Since then, it has become clear that the market's view was far too pessimistic. While the pandemic and the related lockdowns were clearly disruptive, they never affected car sales as much as was feared. In fact, by the fourth quarter of 2020, BMW reported remarkably normal-looking results. Over the past 12 months, BMW has returned 66% (in US dollar), comfortably outperforming the FTSE World Index's 40% return over the same period.

As encouraging as it has been to see this part of our thesis come to fruition, fears about EVs still weigh on the stock. Many investors continue to believe that early innovators like Tesla have an insurmountable lead over incumbent automakers and will disrupt the industry in the same way Apple did with smartphones or Amazon did with bookstores.

While these challenges are real, BMW has already invested heavily to develop a range of highly competitive EVs that will come to market from later this year. Whereas other incumbents have simply bolted new EV initiatives onto their existing business, BMW has spent more than five years integrating EV technology throughout its entire design and production processes. If consumer demand for EVs begins to inflect, we believe BMW is well positioned to not only capture the growth opportunity but also see its margins expand back to their historical range of 8-10% since the major costs in the transition have already been incurred in recent years.

At current prices, BMW is trading at seven times normalised earnings and 1.1 times tangible book value. While no longer the screaming bargain that it was at this time last year, we consider this attractive on a relative and absolute basis for a business that should continue to compound intrinsic value at above-market rates over the long term.

While our focus in this commentary has been on BMW, a similar story can be told about other holdings in Optimal that have been highlighted in our commentaries over the past year, such as XPO Logistics, Lloyds Banking Group, the Japanese trading companies and US health insurers. The same cannot be said for broad stock market indices, which continue to be flattered by an abnormally wide equity risk premium and unusually low risk-free rates. It is a setup that we continue to find particularly compelling and well suited to Optimal's strengths.

The Orbis Optimal SA Fund's overall net equity exposure was largely unchanged over the quarter. Among individual positions, the largest addition was to a Chinese internet company. The largest reduction was to BMW.

Adapted from a commentary contributed by John Christy, Orbis Investments (Canada) Limited, Vancouver, and Michael Heap, Orbis Portfolio Management (Europe) LLP, London.

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.

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Management Company

Allan Gray Unit Trust Management (RF) (Pty) Ltd (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 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 (Pty) Ltd (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. Actual investor performance may differ as a result of the investment date, the date of reinvestment and dividend withholding tax.

Fund mandate

Funds may be closed to new investments at any time in order to be managed according to their mandates. Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. The funds may borrow up to 10% of their 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, 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, Share Transactions Totally Electronic (STRATE) and FSCA Investor Protection Levy and VAT thereon) are shown separately. Transaction costs are necessary costs 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

This fund invests in foreign funds managed by Orbis Investment Management Limited, our offshore investment partner.

FTSE Russell Index

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2021. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®", "Russell®", "FTSE Russell®", is/are a trade mark(s) of the relevant LSE Group companies and is/are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.

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