

**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

**Fund information on 31 January 2018**

Fund size	R1.2bn
Number of units	60 963 605
Price (net asset value per unit)	R19.03
Class	A

**Minimum investment amounts**

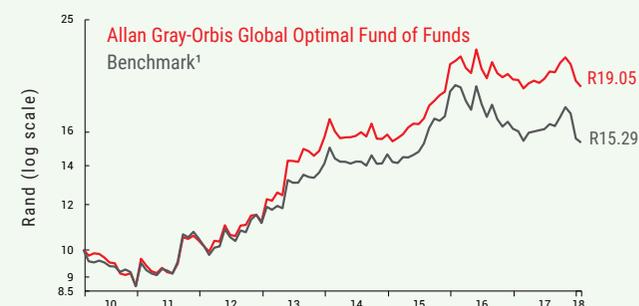
Minimum lump sum per investor account	R20 000
Additional lump sum	R500
Minimum debit order*	R500

\*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 January 2018.
2. This is based on the latest numbers published by IRESS as at 31 December 2017.
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 24 March 2017. 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 <sup>1</sup>		CPI inflation <sup>2</sup>	
	ZAR	US\$	ZAR	US\$	ZAR	US\$
<b>Cumulative:</b>						
Since inception (2 March 2010)	90.5	23.4	52.9	-1.0	50.0	14.1
<b>Annualised:</b>						
Since inception (2 March 2010)	8.5	2.7	5.5	-0.1	5.3	1.7
Latest 5 years	9.3	3.3	5.2	-0.6	5.5	1.4
Latest 3 years	7.5	6.8	2.6	1.9	5.6	1.6
Latest 2 years	-5.0	10.5	-10.7	3.8	5.7	2.1
Latest 1 year	-2.7	9.9	-4.4	8.0	4.7	2.1
Year-to-date (not annualised)	-2.3	1.3	-1.6	2.1	0.5	0.1
<b>Risk measures (since inception)</b>						
Maximum drawdown <sup>3</sup>	-18.9	-14.1	-26.0	-15.1	n/a	n/a
Percentage positive months <sup>4</sup>	49.5	53.7	46.3	51.6	n/a	n/a
Annualised monthly volatility <sup>5</sup>	13.9	6.6	13.5	4.9	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	-11.8	-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 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.	<b>31 Dec 2017</b>
<b>Cents per unit</b>	<b>0.0000</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.

TER and Transaction costs breakdown for the 1 and 3-year period ending 31 December 2017	1yr %	3yr %
<b>Total expense ratio</b>	<b>2.05</b>	<b>1.63</b>
Fee for benchmark performance	0.99	0.99
Performance fees	0.98	0.55
Other costs excluding transaction costs	0.08	0.09
VAT	0.00	0.00
<b>Transaction costs (including VAT)</b>	<b>0.12</b>	<b>0.13</b>
<b>Total investment charge</b>	<b>2.17</b>	<b>1.76</b>

**Top 10 share holdings on 31 January 2018**

Company	% of portfolio
XPO Logistics	4.7
Mitsubishi	3.3
JD.com	3.2
Sumitomo	2.8
Rolls-Royce Holdings	2.7
AbbVie	2.7
Wells Fargo & Company	2.5
KB Financial Group	2.4
Honda Motor	2.4
Sumitomo Mitsui Fin.	2.4
<b>Total (%)</b>	<b>29.1</b>

**Fund allocation on 31 January 2018**

Foreign absolute return funds	%
Orbis Optimal SA (US\$)	66.8
Orbis Optimal SA (Euro)	33.2
<b>Total (%)</b>	<b>100.0</b>

**Asset allocation on 31 January 2018**

	Total	North America	Europe	Japan	Asia ex-Japan	Other
Net equity	6.2	-7.6	1.3	2.5	7.5	2.5
Hedged equity	83.4	38.6	13.6	19.4	8.2	3.6
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	10.4	0.0	0.0	0.0	0.0	10.4
<b>Total</b>	<b>100.0</b>	<b>31.0</b>	<b>15.0</b>	<b>21.9</b>	<b>15.7</b>	<b>16.4</b>

**Currency exposure of the Orbis funds**

Funds	Total	North America	Europe	Japan	Asia ex-Japan	Other
Funds	100.0	60.0	34.8	-0.3	3.5	2.1

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

The Optimal funds are designed to seek exposure to Orbis' stockpicking capabilities, while also seeking to substantially reduce the stock market exposure inherent in these investments. Orbis achieves this by investing in their favourite stocks from around the world and then selling a basket of stock index futures to offset stock market risk. The net result is that performance is predominantly driven by the relative returns of Orbis' stock selections (termed 'alpha') rather than the direction of the stock market (termed 'beta').

It is important to recognise that, while a hedged strategy comes with less stock market risk than equities alone, it also sacrifices the returns that come from market movements. When stock markets rise strongly, as they have this year and for most of the last decade, the Optimal funds experience little direct benefit.

Orbis has no insight into the direction of the overall market in the next few years, but they can say that persistent price rises have pushed up earnings multiples and squeezed down dividend yields, and that this places a dent in the market's long-term return potential.

While the potential return for taking on 'beta', or stockmarket risk, has fallen, Orbis continues to observe a constructive 'alpha' environment. As discussed last quarter, the gap in attractiveness between what Orbis considers the most underpriced and most overpriced shares is above normal.

It's interesting to compare these observations with the trend towards passive investment. One of the biggest mistakes an investor can make is overpaying for an asset. While passive index-linked investment vehicles have many advantages, their main drawback is that stock-weightings are systematically skewed towards overpriced assets and away from bargains. This matters little when mispricings are modest, but when stock-level inefficiencies become more pronounced, it starts to matter a whole lot.

Orbis' President William Gray likes to say 'markets tend to cause the greatest pain to the greatest number of people', and under this principle it's perhaps unsurprising to observe heightened stock-level inefficiencies and a stampede towards passives occurring simultaneously. The flow into passives and out of actives has led to crowding into 'beta' at the expense of 'alpha'. A rich market that contains above-normal stock-level mispricings increases the relative attractiveness of market-neutral alpha-harvest strategies such as Optimal.

The positioning of the Optimal funds hasn't changed substantially over the last year. Approximately 1/6th of the funds are currently invested in bank shares. At their core, banks make money by harvesting credit and term risk premia. The latter has been eroded by the actions of central banks, as discussed last quarter,

which along with increased regulatory costs have substantially pressured profitability. Headwinds tend not to last forever, yet financial sector-level earnings multiples are comfortably below normal on a relative basis. This looks especially incongruous given reduced leverage across the space.

There are very few banks capable of earning mid-teen returns on equity in the current environment. One exception is Credit Suisse, a position Orbis established over the last quarter and the second-largest private banking franchise in the world behind UBS. A historical obsession with investment banking growth and other non-core activities have diluted what is a highly profitable and growing core wealth management business.

Under new management, Credit Suisse has begun to reconfigure the group, significantly increasing the weight of the private bank and moderating the risk of value destruction by non-core segments. While not without execution risk, Orbis believes that there is a walkable path to a mid-teen return on equity over the long term, and at just over 1.0 times net asset value, Orbis isn't paying much for this potential.

Orbis has identified a number of opportunities, such as Credit Suisse, which offer good value in absolute terms, but which are especially attractive versus an inflated market. Hedging within the Optimal funds allows Orbis to eliminate the 'beta' and isolate the 'alpha', or relative value, contained in these shares. Overall, and as stated above, while the absolute return potential of markets as a whole appears uninspiring, Orbis believes that there are substantial pockets of opportunity available for active investors to pursue – an excellent environment for the Optimal funds.

The final quarter of 2017 hasn't brought much in the way of change to the Fund, which remains broadly skewed towards shorter-dated assets and away from the shares of highly stable and predictable businesses. Orbis continues to find concentrations of value in a number of areas including financials and resource businesses. While this somewhat 'cyclical' positioning may feel uncomfortable at what many would consider to be a late stage in the business cycle, Orbis is influenced not by cycle timing but by the price paid versus what it believes to be the intrinsic value of individual businesses. There have been no material changes to the portfolio's currency exposures and changes to the top 10 holdings were minimal.

**Adapted from Orbis commentaries contributed by by Graeme Forster**

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

**Fund manager quarterly commentary as at 31 December 2017**

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 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](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 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.

## 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**.