

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 2021

Fund size	R0.7bn
Number of units	38 729 241
Price (net asset value per unit)	R18.62
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 31 May 2021.
- This is based on the latest available numbers published by IRESS as at 30 April 2021.
- 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 ¹		CPI inflation ²	
Cumulative:	ZAR	US\$	ZAR	US\$	ZAR	US\$
Since inception (2 March 2010)	86.4	4.2	78.8	-0.1	72.1	22.8
Annualised:						
Since inception (2 March 2010)	5.7	0.4	5.3	0.0	5.0	1.9
Latest 10 years	7.2	0.0	6.8	-0.4	5.0	1.8
Latest 5 years	-3.3	-0.6	-1.3	1.4	4.3	2.2
Latest 3 years	-0.7	-3.5	4.2	1.3	3.9	2.2
Latest 2 years	-1.6	1.5	-0.6	2.6	3.7	2.2
Latest 1 year	-11.1	13.2	-17.8	4.7	4.4	4.2
Year-to-date (not annualised)	-1.5	5.1	-6.6	-0.3	2.6	2.3
Risk measures (since inception)						
Maximum drawdown ³	-18.9	-31.3	-26.6	-15.1	n/a	n/a
Percentage positive months ⁴	48.1	52.6	45.2	49.6	n/a	n/a
Annualised monthly volatility ⁵	13.7	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

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 respective Orbis Funds' factsheets, 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 31 March 2021	1yr %	3yr %
Total expense ratio	1.09	1.07
Fee for benchmark performance	1.00	1.00
Performance fees	0.00	-0.01
Other costs excluding transaction costs	0.09	0.08
VAT	0.00	0.00
Transaction costs (including VAT)	0.15	0.13
Total investment charge	1.24	1.20

Top 10 share holdings on 31 May 2021

Company	% of portfolio
British American Tobacco	4.5
UnitedHealth Group	3.4
Mitsubishi	3.0
NetEase	2.9
Korea Investment Holdings	2.6
Woodside Petroleum	2.6
Newcrest Mining	2.5
XPO Logistics	2.4
Alcoa	2.4
Taiwan Semiconductor Mfg.	2.3
Total (%)	28.6

Asset allocation on 31 May 2021

	Total	North America	Europe and UK	Japan	Asia ex-Japan	Other
Net equity	4.2	-0.7	2.0	-0.1	2.4	0.5
Hedged equity	87.1	24.4	23.5	18.2	16.0	4.9
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	8.8	0.0	0.0	0.0	0.0	8.8
Total	100.0	23.7	25.5	18.2	18.5	14.2

Currency exposure of the Orbis funds

Funds	100.0	56.4	36.3	0.0	6.9	0.4

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

Fund allocation on 31 May 2021

Foreign absolute return funds	%
Orbis Optimal SA (US\$)	63.2
Orbis Optimal SA (Euro)	36.8
Total (%)	100.0

Since hitting bottom in March 2009, global equities have returned 15% per annum. At the same time, risk-free rates have been abnormally low – close to zero – which implies an equity risk premium that is about triple its long-term average of 4-5%. It would be an understatement to say that investors have been well-rewarded for owning equities.

We are not in the business of making forecasts, but it is hardly a stretch to say that a double-digit equity risk premium is unsustainably high and a risk-free rate of close to zero is unsustainably low – to say nothing of the absurdity of negative rates in some markets. Fortunately, as bottom-up stockpickers, we have the luxury of being extremely selective. The gap between the most expensive and cheapest stocks remains historically wide despite some recent positive signs that things may be beginning to normalise. Put another way, we continue to find substantially undervalued assets in what is an expensive market overall.

UK-based Lloyds Banking Group, a relatively recent purchase, provides an illustrative example of the type of bargain that is still on offer. Trading at a 30% discount to the carrying value of its tangible assets, Lloyds is cheaper than it has been in close to a decade. As with other banks in the UK, Lloyds has been negatively impacted by the COVID-19 pandemic and the economic impact of prolonged lockdowns. Its net interest income margins have been squeezed as interest rates have been slashed, non-interest income has fallen as economic activity remains subdued and expected impairments have increased in the aftermath of the crisis.

But taking a longer-term view, there is a lot to like about Lloyds. It has one of the highest-quality credit books in the industry, with more than 80% of its loans and advances secured by assets to which the bank has claim in the event of a default. The bank has also been conservative in meeting required standards for capital adequacy and management's cost discipline has been impressive. A consistent focus on profitability rather than market share growth has enabled Lloyds to maintain a strong balance sheet and deliver return on equity well above its peer group average since 2014.

We believe that Lloyds offers a compelling risk-reward proposition. Its shares are currently trading at an 8% yield on the cancelled 2019 dividend, which we expect to be reinstated over the medium term. With interest rates near 0%, an 8% and growing yield looks attractive to us. Most importantly, we don't need to make heroic assumptions. Non-interest fee income should recover as life returns to normal and impairments should also subside once employment picks up. We simply need the patience to allow the current recession to run its course and conviction that Lloyds will continue to manage costs in a disciplined manner.

In the US, XPO Logistics stands out as another compelling example. A transportation and logistics company with operations in the US and Europe, XPO has been one of Orbis Optimal's largest holdings for many years. Despite the tremendous success that the company has achieved under the leadership of its entrepreneurial founder and CEO Bradley Jacobs, we have continued to view XPO shares as significantly undervalued.

It was therefore welcome news at the end of 2020 when XPO announced its intent to spin off its contract logistics business into an independent public company called GXO Logistics, and to seek investment grade credit ratings at both companies. As a simpler, pure-play transportation business, we believe XPO should be valued closer to its listed peers. Even if we assume a somewhat lower valuation and that XPO keeps all of the company's current debt, this would ascribe no value to the GXO spin-off, which means we would essentially get it for free.

We believe the implementation of this spin-off plan and subsequent deleveraging, in conjunction with steady execution and an attractive long-term earnings growth trajectory, creates a compelling long-term risk-adjusted return profile for our holding today in XPO. It can take time for spin-offs to ultimately influence a company's valuation, but they can be an effective way to unlock hidden or underappreciated value.

We are excited about the stock selection opportunities such as Lloyds and XPO that we have identified on your behalf, and we continue to have a high degree of conviction in Orbis Optimal's ability to protect capital and deliver attractive long-term returns. In the Orbis Global Equity commentary this quarter, we discuss how large exogenous shocks can change the market environment in unexpected but enduring ways and the pandemic certainly qualifies as a major shock. While there are no guarantees in investing, the prospect of longstanding headwinds potentially turning into tailwinds only gives us more reason to be enthusiastic.

The Orbis Optimal SA Fund's overall net equity exposure decreased over the quarter. Among individual positions, the largest addition was to UnitedHealth Group. The largest reduction was to Credit Suisse Group.

Adapted from a commentary contributed by Neha Aggarwal, Orbis Portfolio Management (Europe) LLP, London, Matthew Adams, Orbis Investment Management (U.S.), L.P., San Francisco and John Christy, Orbis Investments (Canada) Limited, Vancouver

Fund manager quarterly commentary as at 31 March 2021

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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Allan Gray is an authorised financial services provider.

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.

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**