**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 October 2024

## Fund description and summary of investment policy

The Fund may invest in a mix of absolute return funds managed by Allan Gray's offshore investment partner, Orbis Investment Management Limited, and currently invests in the Orbis Optimal SA Fund (US dollar and euro classes). The Orbis Optimal SA Fund invests in a portfolio of global shares and uses exchange-traded derivative contracts on stock market indices to reduce net equity exposure, which typically varies between 0% and 20%. The Fund's returns, when measured in US dollars or euros, are driven mainly by Orbis' stock selection and not by the overall direction of equity markets. Returns are likely to be less volatile than those of a global equity or global balanced fund, but more volatile than those of a global fixed income fund. Although the Fund's investment universe is global, the units in the Fund are priced and traded daily in rands. Given the Fund's global investment universe, rand returns are likely to be more volatile than those of local funds with similar equity constraints.

ASISA unit trust category: Global – Multi Asset – Low Equity

## Fund objective and benchmark

The Fund aims to provide investors with long-term positive returns (when measured in US dollars or euros) from a low-risk global investment portfolio. The Fund's returns are intended to be largely independent of the major asset classes such as cash, bonds or equities. The Fund's benchmark is the simple average of the benchmarks of the underlying Orbis Optimal SA Fund classes, namely US dollar and euro bank deposits.

## How we aim to achieve the Fund's objective

The Fund invests in the Orbis Optimal SA Fund (US dollar and euro classes). The Orbis Optimal SA Fund is actively managed, invests in a global portfolio of shares and uses hedging to reduce overall exposure to global stock markets. 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. The main risk of investing in shares is that prices will decline if stock markets fall significantly. The Orbis Optimal SA Fund therefore maintains a substantial level of hedging to reduce this risk. The net equity exposure of the Fund typically varies between 0% and 20%. The Fund can therefore retain limited exposure to global stock markets, depending on Orbis' assessment of global stock market valuations. Currency exposure is actively managed, both within the underlying Orbis Optimal SA Fund and through the allocation to the US dollar and euro classes of the Orbis Optimal SA Fund. The Fund's returns are driven mainly by Orbis' ability to select shares which outperform. A portion of the returns are also derived from the low exposure to stock markets and foreign currency cash-equivalent returns earned from hedging. The Fund is therefore able to aim for positive returns (when measured in foreign currency), irrespective of the direction of global stock markets.

## Suitable for those investors who

- Seek positive long-term returns, when measured in foreign currency
- Wish to invest in international assets through a rand-denominated fund
- Have a long-term investment horizon and are comfortable with periods of underperformance which may result in capital loss
- Wish to use the Fund as a 'building block' in a diversified multi-asset class portfolio
- Understand that the Fund's returns are largely independent of cash, bonds and equities

**Fund availability:** Subject to offshore capacity constraints. Please visit our website or contact our Client Service Centre for further information about any constraints that may apply.

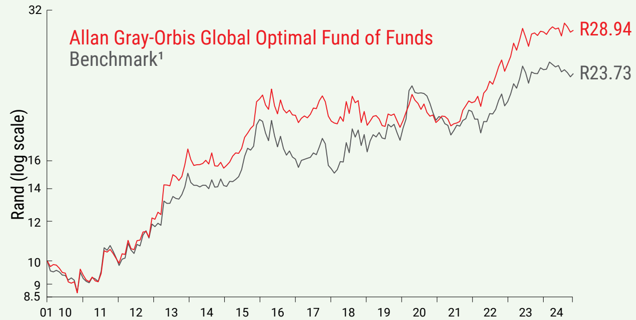
## Fund information on 31 October 2024

| | |
|---|---|
| Fund size | R1.0bn |
| Number of units | 34 302 567 |
| Price (net asset value per unit) | R28.90 |
| Class | A |

1. The simple average of the benchmarks of the underlying funds, performance as calculated by Allan Gray as at 31 October 2024.
2. This data reflects the latest available inflation numbers for South Africa and the United States of America, as published by IRESS as of 30 September 2024.
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) | 189.4 | 25.9 | 137.3 | 3.2 | 106.6 | 44.8 |
| **Annualised:** | | | | | | |
| Since inception (2 March 2010) | 7.5 | 1.6 | 6.1 | 0.2 | 5.1 | 2.6 |
| Latest 10 years | 6.4 | 1.5 | 5.4 | 0.5 | 4.9 | 2.9 |
| Latest 5 years | 8.0 | 4.7 | 4.8 | 1.6 | 4.9 | 4.2 |
| Latest 3 years | 12.3 | 6.8 | 7.2 | 1.9 | 5.6 | 4.7 |
| Latest 2 years | 7.1 | 9.2 | 4.8 | 6.9 | 4.6 | 3.0 |
| Latest 1 year | 2.4 | 8.5 | 0.1 | 6.0 | 3.8 | 2.4 |
| Year-to-date (not annualised) | 0.8 | 5.6 | -1.8 | 2.9 | 3.0 | 2.2 |
| **Risk measures (since inception)** | | | | | | |
| Maximum drawdown[3] | -18.9 | -31.3 | -26.6 | -16.1 | n/a | n/a |
| Percentage positive months[4] | 52.3 | 55.7 | 47.7 | 49.4 | n/a | n/a |
| Annualised monthly volatility[5] | 13.1 | 7.2 | 13.5 | 4.3 | 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- and five-year periods, the Fund has outperformed its benchmark. 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 2023 |
|---|---|
| **Cents per unit** | **0.3632** |

## 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 (updated quarterly)

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 September 2024 | 1yr % | 3yr % |
|---|---|---|
| **Total expense ratio** | **1.07** | **1.07** |
| Fee for benchmark performance | 0.99 | 1.00 |
| Performance fees | 0.00 | -0.01 |
| Other costs excluding transaction costs | 0.08 | 0.08 |
| VAT | 0.00 | 0.00 |
| **Transaction costs (including VAT)** | **0.10** | **0.12** |
| **Total investment charge** | **1.17** | **1.19** |

## Top 10 share holdings on 31 October 2024

| Company | % of portfolio |
|---|---|
| QXO | 4.1 |
| Corpay (was FLEETCOR) | 4.0 |
| UnitedHealth Group | 3.8 |
| RXO | 3.1 |
| Cinemark Holdings | 2.9 |
| B&M European Value Retail | 2.7 |
| London Stock Exchange Group | 2.4 |
| Motorola Solutions | 2.3 |
| Taiwan Semiconductor Mfg | 2.0 |
| GXO Logistics | 2.0 |
| **Total (%)** | **29.3** |

## Fund allocation on 31 October 2024

| Foreign absolute return funds | % |
|---|---|
| Orbis Optimal SA (US$) | 61.9 |
| Orbis Optimal SA (Euro) | 38.1 |
| **Total (%)** | **100.0** |

## Asset allocation on 31 October 2024

| | Total | United States | UK | Europe ex-UK[7] | Japan | Other[7] | Emerging markets |
|---|---|---|---|---|---|---|---|
| Net equities | 6.0 | 3.8 | 7.2 | -5.4 | 1.2 | -1.1 | 0.3 |
| Hedged equities | 81.0 | 32.2 | 8.3 | 14.4 | 15.7 | 3.7 | 6.6 |
| Property | 3.3 | 0.0 | 0.0 | 0.0 | 1.5 | 1.8 | 0.0 |
| Commodity-linked | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Money market and cash | 9.5 | 5.9 | 0.2 | -0.2 | 2.4 | 0.3 | 0.9 |
| **Total (%)** | **100.0** | **42.1** | **15.7** | **8.9** | **20.8** | **4.7** | **7.8** |
| Currency exposure | 100.0 | 55.6 | -0.4 | 37.8 | 6.1 | 0.5 | 0.3 |

7. Refers to developed markets only.

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

## Fund manager quarterly commentary as at 30 September 2024

The Optimal Strategy is designed to protect capital against absolute losses while retaining exposure to the value that we add through our stock selections. This feature may prove to be especially timely in Japan, where the broader market environment has been volatile in recent months.

In August, the Japanese stock market experienced its worst decline in almost four decades on fears about the unwinding of the dollar-yen carry trade. While the Japanese market has since recovered, it is clear to us that some fundamental shifts are underway. The Bank of Japan's (BoJ) latest rate hike was small in magnitude, but it signalled the central bank's continued intention to bring Japan's era of zero or even negative interest rates to a close.

As the BoJ embarks on a tightening cycle, the Fed appears increasingly likely to move in the opposite direction. This bodes well for the yen at the expense of the dollar – and for the Fund's currency positioning – but yen strength is normally bad news for a Japanese stock market filled with exporters.

This creates an exciting stock selection opportunity for the Fund. In Japan, we have increased our exposure to shares that are primarily exposed to the local economy – and thus better placed to weather a strengthening of the yen – while, at the same time, taking a short position in the exporter-heavy index through our hedging activities.

GMO Internet Group (GMO), one of the Fund's largest Japanese holdings, stands out as a good example. Founded in 1995 as a provider of internet access services, GMO has expanded to become a dominant player in the essential plumbing that underpins Japan's internet economy. Since its IPO in 2000, GMO has established an impressive track record in which revenue and profits have grown, on average, at more than 16% per year while maintaining an average return on equity of 20%.

While GMO is a complex business, three units are key to its long-term investment returns.

Let's start with the crown jewel, GMO Payment Gateway (GMO PG), which is Japan's leading payment service provider. This business accounts for around 40% of net profits. Backed by powerful structural tailwinds, such as the rise of e-commerce and increasing penetration of cashless transactions, GMO PG has chalked up one of the most impressive track records among Japanese listed companies, growing its revenue and profit at an average of over 25% per annum since its listing in 2005. With cashless penetration in Japan still only around 40% compared to 60% in many developed country counterparts, and e-commerce penetration in Japan standing only at 9% compared to a global average of around 20%, there is still ample room for future growth.

Originally a wholly-owned subsidiary, GMO Internet now owns 41% of separately listed GMO PG. The payments business has historically traded at lofty valuations on the back of confidence that the company can continue its remarkable growth going forward. Today, the valuation means that GMO's stake is worth ¥272bn – larger than GMO Internet's own market value of ¥266bn. An investment in GMO Internet therefore lets you access Japan's leading payment provider at a discount while paying little for the other 60% of earnings.

That brings us to the second group of key businesses, which account for 30% of earnings. These include unglamorous but essential infrastructure services including internet domains, internet service providers, website hosting, web security and e-commerce support. In all these areas, GMO is the local market leader. Electronic signatures and cybersecurity are new growth areas, as broader swathes of Japan accelerate efforts to digitalise. These businesses might not have the glamour of electronic payments but generate growing recurring revenue with relatively high switching costs, and GMO's existing customer base of 15 million enables effective cross-selling of incremental new services.

Lastly, the final 30% of GMO's earnings comes from its 66% stake in GMO Financial Holdings, Japan's leading internet-based foreign currency trading exchange. Profits here have also risen over time by mid-single digits on average, but the ride has been bumpy. In particular, a disastrous foray into securities trading in Thailand resulted in large write-offs for bad debt. The problematic Thai business is being wound down at the end of this year, but there could be some further pain to come.

Uncertainties related to its financial trading subsidiary have left GMO Internet trading at only 12 times normalised earnings. We think this is a highly attractive price for a company with strong underlying growth drivers. GMO's payments business should continue to grow profits by at least 20% per year, as it has done since 2005. Its collection of other market-leading internet infrastructure services businesses should also continue to grow nicely, at around 10% per year in aggregate. While profits may continue to be lumpy in the short run for GMO Financial Holdings, the business should continue to steadily grow. All in, we expect GMO Internet can grow its annual net profits by at least 10%.

However, we suspect earnings per share should be able to grow even faster for two reasons. First, GMO Internet has an ongoing long-term share buyback programme, through which it has committed to buy back approximately 25% of its shares outstanding over the medium to long term. Second, the current market valuation ignores the optionality of any new ventures incubated within GMO's highly entrepreneurial culture. Founder Masatoshi Kumagai's track record has not been without blemishes, but his distinctive thinking, willingness to challenge orthodoxy and long-term mindset are unusual attributes in Japan.

While GMO is just one example, we are enthusiastic about all of our stock selections in Japan, which we believe offer better value than the local market as a whole. Many of the companies we hold in Japan are also taking steps to improve capital efficiency and shareholder returns. At the same time, the Fund's hedging policy helps to protect against broader declines in the Japanese market, which should produce a differentiated stream of returns.

The Fund's overall net equity exposure rose over the quarter. Among individual positions, we initiated a position in QXO, a US-listed investment vehicle, to take advantage of an opportunity to invest behind a proven capital allocator at an early stage. We trimmed the position in British American Tobacco into share price strength.

Adapted from a commentary contributed by Alex Bowles, Orbis Portfolio Management (Europe) LLP, London

# Allan Gray-Orbis Global Optimal Fund of Funds

**31 October 2024**

## Important information for investors

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)11 301 6335 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. For more information about our annual management fees, refer to the frequently asked questions, available via the Allan Gray website.

### 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.

### FTSE Russell Index

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