Product Assessment

Report as at 03 Jul 2024

HIGHLY RECOMMENDED

Allan Gray Australia Equity Fund

Rating issued on 27 Jun 2024 | APIR: ETL0060AU | mFund: AQY01

Investment objective

To outperform the S&P/ASX 300 Accumulation Index (after fees) over the longer term. Informally, Allan Gray seeks to outperform the benchmark by 4% p.a. (before fees) over the same period.

Manager	Allan Gray Australia Pty Limited
Distributor	Allan Gray Australia Pty Limited
Sector	Australian Shares \ Large Companies
Investment Style	Value
RI Classification	Integrated
Absolute Risk	High
Relative Risk	Active - Benchmark Unaware
Investment Timeframe	7+ Years
Benchmark	S&P/ASX 300 (Accum)
Min Investment Amount	$10,000
Redemption Frequency	Daily
Income Distribution	Annually
Fund Size (31 May 2024)	$2.57B
Management Cost	0.77% p.a. Incl. GST
Performance Fee	20.5% of outperformance of the S&P/ASX 300 Accumulation Index (after fees), after recouping prior underperformance
Buy / Sell Spread	0.20% / 0.20%
Inception Date	04 May 2006

Fund facts

- Holds 40 to 60 positions
- Maximum of 10% in unlisted positions
- Portfolio turnover expected to average between 20% p.a. and 40% p.a. over a market cycle

Viewpoint

The Fund, managed by Sydney-based Allan Gray Australia (Allan Gray), offers investors a benchmark-unaware Australian equities exposure. Allan Gray seeks to identify companies that are misunderstood by the market or out of favour, trading significantly below their intrinsic value. Zenith believes the Fund provides investors with a differentiated exposure. In addition, we have high regard for the team's broad skillsets, derived from both investment and non-investment backgrounds, believing they give rise to unique perspectives.

Allan Gray, formerly Orbis Investment Management Australia, was established in 2004. Allan Gray is a joint venture between Orbis Holdings Limited, the Marais family trust and senior staff members.

Portfolio management responsibility for the Fund is split between Simon Mawhinney and Suhas Nayak, who manage 65% and 35% sleeves, respectively. Prior to February 2022, Mawhinney and Nayak managed 80% and 20%, respectively. Zenith considers Mawhinney to be an impressive contrarian investor. In addition, we are comfortable with Nayak's increased allocation, noting our stronger conviction in his portfolio management abilities in recent years.

The investment team of nine is led by Mawhinney. Consistent with its contrarian philosophy and independent thought process, Allan Gray seeks to employ people from contrasting backgrounds, believing this provides a higher degree of diversity in thought and unique investment ideas. Zenith believes the cognitive and cultural diversity within the team allows for broader perspectives, which is complementary to Allan Gray's contrarian investment approach.

Allan Gray's investment philosophy centres on the belief that equity markets are not always efficient or rational. Investors may be motivated by greed and fear, succumbing to herd instincts, often overlooking a company's fundamental worth. Given Allan Gray's differentiated and benchmark-unaware investment approach, Zenith notes that the Fund's performance profile may diverge significantly from that of the benchmark and peers.

Applying in-depth fundamental research, Allan Gray assesses the perceived risk and reward relationship of each investment idea. Zenith believes Allan Gray's investment process is sound and stock ideas are subject to a high degree of robust peer review, ensuring investment theses are well-considered and thoroughly researched.

The portfolio managers aim to hold only the best investment opportunities identified by the analysts, subject to a number of broad risk constraints. Typically, the most attractive ideas are trading at the greatest discounts to their intrinsic value. As a result, Zenith notes that the Fund is expected to exhibit a deep value, mid and small-cap bias.

Zenith believes that the multi-portfolio management structure can lead to portfolio inefficiencies, such as a long tail of smaller positions. However, we acknowledge that this issue has been partially mitigated with the recent application of more balanced portfolio allocations.

Fund analysis

Fund characteristics

Constraint	Value
Number of Stocks	40 to 60 (Typically)
Active Stock Weight	Max: 10%
Unlisted Securities	Max: 10%
Cash	Max: 10%
Issued Capital of a Company (Voting Shares)	Max: 10%

Investment objective and philosophy

Allan Gray seeks to outperform the S&P/ASX 300 Accumulation Index (after fees) over the longer term. Informally, Allan Gray seeks to outperform the benchmark by 4% p.a. (before fees) over the same period.

Allan Gray's contrarian investment philosophy centres on the belief that equity markets are not always efficient or rational. Investors may be motivated by greed and fear, succumbing to herd instincts, often overlooking a company's fundamental worth. As a result, a company's share price may deviate substantially from its intrinsic value over the short to medium term.

Allan Gray seeks to identify companies that are misunderstood by the market or out of favour, trading significantly below their intrinsic value. Applying in-depth fundamental research, Allan Gray believes that business fundamentals will prevail over the longer term and share prices will appreciate towards their intrinsic value.

Given Allan Gray's differentiated and benchmark-unaware investment approach, Zenith notes that the Fund's performance profile may diverge significantly from the benchmark and peers.

Portfolio applications

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer term with some income. However, this higher growth is also often associated with higher volatility. Therefore, it is recommended that investors adopt a longer timeframe when investing in equities.

Investors should also be cognisant of the fact that the Australian equity market is relatively concentrated, with the Materials and Financials sectors dominating the market. The market also only represents approximately 2% of global equity markets (in terms of market capitalisation). Therefore, to mitigate this concentration risk, it is highly recommended that investors diversify their investments across asset classes, both domestically and globally.

Given Allan Gray's contrarian investment process, the Fund will typically hold companies that are going through a period of distress or are deeply unpopular with investors. The Fund will also typically maintain a tilt towards mid and small-cap companies. As such, Zenith expects the Fund's performance to differ materially from the benchmark and exhibit a higher level of volatility. Therefore, Zenith believes the Fund may be more suited to investors with a higher risk tolerance. That is, those who can withstand periods of high volatility in return for the potential of higher growth.

Zenith does not recommend the use of this Fund as an investor's standalone exposure to Australian equities. Zenith believes that the Fund is best used as a complementary exposure to a diversified Australian equity allocation. The Fund can be blended with style-neutral or growth-orientated Australian equities products to achieve a more diversified exposure to the sector.

The Fund's portfolio turnover is expected to average between 20% p.a. and 40% p.a. over a market cycle, which Zenith considers to be low. Allan Gray has indicated that approximately 25% of the expected turnover is attributed to resizing existing positions and approximately 75% is due to complete sales and new additions. Given this expected level of turnover, the majority of the Fund's returns are expected to be delivered via capital appreciation in the unit price, rather than through the realisation of capital gains in income distributions. In addition, realised capital gains are highly likely to be eligible for the capital gains tax discount. As such, holding all else equal, the Fund may be more appealing to investors who are high marginal tax rate payers as it will result in superior after-tax return outcomes.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

Absolute performance

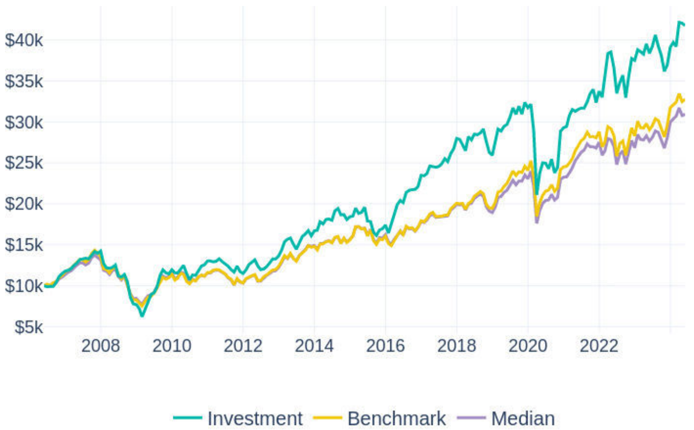
Performance as at 31 May 2024

Monthly performance history (%, net of fees)

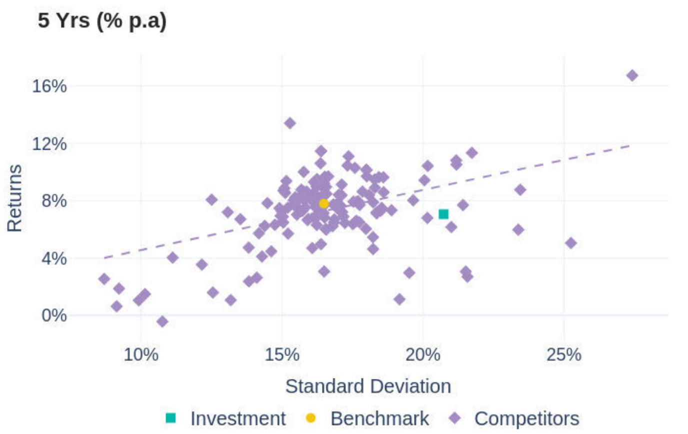
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	1.55%	-1.27%	7.51%	-0.23%	-0.68%								6.80%	3.21%
2023	3.42%	-0.56%	-0.81%	3.30%	-2.93%	2.18%	3.58%	-3.46%	-2.80%	-5.08%	2.10%	5.87%	4.23%	12.13%
2022	-2.17%	8.70%	6.89%	0.47%	-4.95%	-8.58%	3.85%	2.63%	-7.66%	7.98%	6.03%	-0.57%	11.18%	-1.76%
2021	0.54%	4.42%	2.50%	-0.70%	0.76%	0.49%	-0.02%	2.42%	3.08%	1.56%	-4.73%	4.28%	15.22%	17.55%
2020	1.33%	-10.17%	-26.95%	12.41%	5.40%	-0.15%	-2.67%	4.79%	-6.58%	2.80%	18.02%	1.48%	-7.71%	1.74%

**S&P/ASX 300 (Accum)*

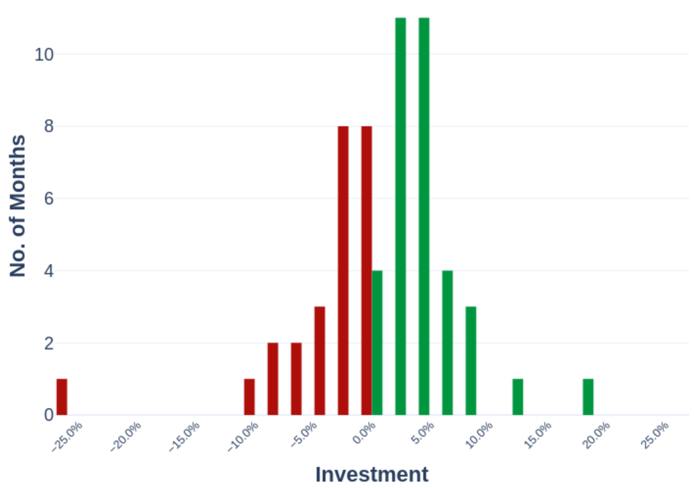
Growth of $10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)

Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	**8.84%**	**9.82%**	**7.06%**	**8.70%**	**8.27%**
Income	9.18%	7.21%	7.36%	6.44%	5.50%
Growth	-0.34%	2.61%	-0.30%	2.26%	2.76%
Benchmark	**12.82%**	**6.54%**	**7.80%**	**7.79%**	**6.81%**
Median	**11.81%**	**6.19%**	**7.38%**	**7.15%**	**6.47%**
Cash	**4.28%**	**2.31%**	**1.59%**	**1.84%**	**3.18%**

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	111 / 155	8 / 149	103 / 143	10 / 74
Quartile	3rd	1st	3rd	1st

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	12.48%	14.53%	20.73%	17.03%	17.57%
Benchmark	11.00%	13.52%	16.49%	14.04%	14.22%
Median	10.66%	12.56%	15.83%	13.48%	13.56%
Downside Deviation (% p.a.)					
Investment	6.91%	8.98%	15.11%	11.89%	12.18%
Benchmark	5.65%	8.75%	12.21%	9.99%	10.16%
Median	5.69%	8.22%	11.82%	9.67%	9.64%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	0.36	0.52	0.26	0.40	0.29
Benchmark	0.78	0.31	0.38	0.42	0.26
Median	0.71	0.31	0.37	0.39	0.24
Sortino Ratio (p.a.)					
Investment	0.66	0.84	0.36	0.58	0.42
Benchmark	1.51	0.48	0.51	0.60	0.36
Median	1.32	0.47	0.49	0.55	0.34

All commentary below is as at 31 May 2024.

Allan Gray seeks to outperform the S&P/ASX 300 Accumulation Index (after fees) over the longer term. Informally, Allan Gray seeks to outperform the benchmark by 4% p.a. (before fees) over the same period.

Whilst the Fund has been unable to achieve its informal objective over the long term, it has outperformed the benchmark since inception. Zenith notes that given Allan Gray's deep value contrarian investment process, the Fund's performance will deviate materially from the benchmark over the medium term.

The Fund's volatility, as measured by Standard Deviation, has been significantly higher than the benchmark since inception. Zenith notes that this is consistent with Allan Gray's investment process, which is tilted towards distressed, mid and small-cap stocks.

The Fund's Sharpe Ratio has been higher than the benchmark since inception, which indicates that investors have been sufficiently compensated for its risk.

Investors should be aware that Allan Gray does not target a specific level of income, with distributions made annually where possible. Zenith would prefer a more frequent distribution profile to alleviate potential issues involved with large distributions at 30 June.

Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	-3.98%	3.28%	-0.73%	0.91%	1.45%
Monthly Excess (All Mkts)	50.00%	50.00%	51.67%	50.83%	51.39%
Monthly Excess (Up Mkts)	50.00%	47.62%	56.41%	48.05%	49.26%
Monthly Excess (Down Mkts)	50.00%	53.33%	42.86%	55.81%	55.00%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	111.97%	88.45%	112.30%	94.69%	95.53%
Upside Capture	89.63%	105.29%	106.20%	100.18%	102.74%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	7.22%	8.28%	9.05%	8.30%	9.03%
Median	0.71%	1.36%	1.31%	1.20%	1.32%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	-0.55	0.40	-0.08	0.11	0.16
Median	-1.42	-0.26	-0.32	-0.54	-0.26

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	0.93	0.89	1.14	1.06	1.06
R-Squared	0.67	0.69	0.82	0.77	0.74
Correlation	0.82	0.83	0.91	0.87	0.86

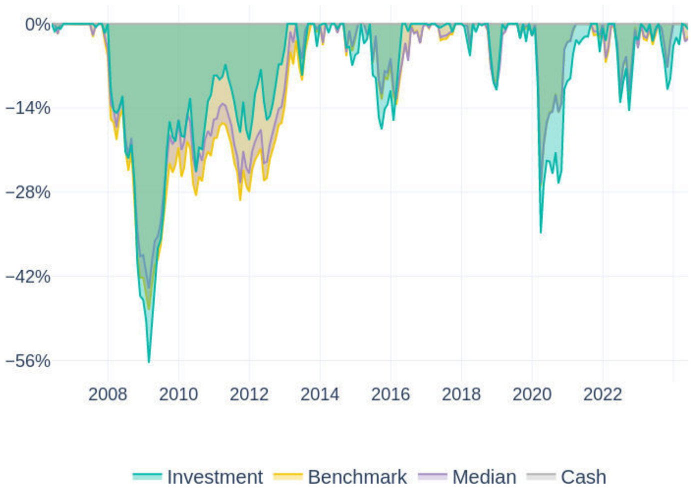
All commentary below is as at 31 May 2024.

Zenith seeks to identify strategies that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. In addition, we view a strategy's ability to produce stronger upside capture ratios relative to downside capture ratios as an attractive feature. The Fund has achieved both these outcomes since its inception.

The Fund has demonstrated a greater degree of outperformance consistency during declining markets, which is expected given Allan Gray's contrarian investment process.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



All commentary below is as at 31 May 2024.

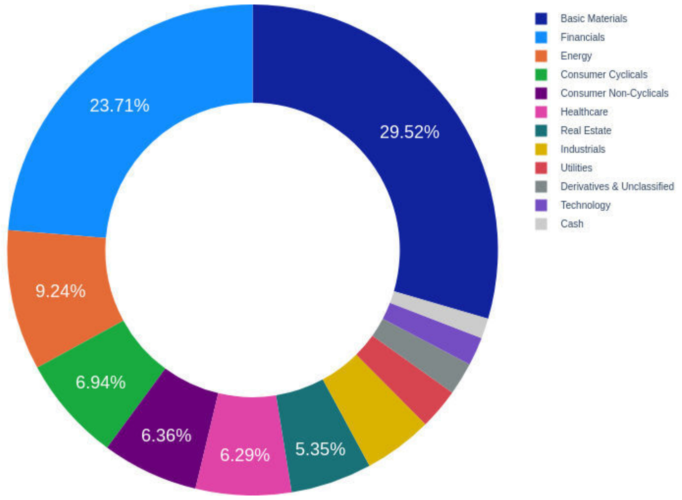
The Fund has typically experienced drawdowns larger than the benchmark. Zenith notes that this is consistent with Fund's increased exposure to smaller and distressed companies, which tend to be susceptible to greater volatility in market downturns.

Product Exposures

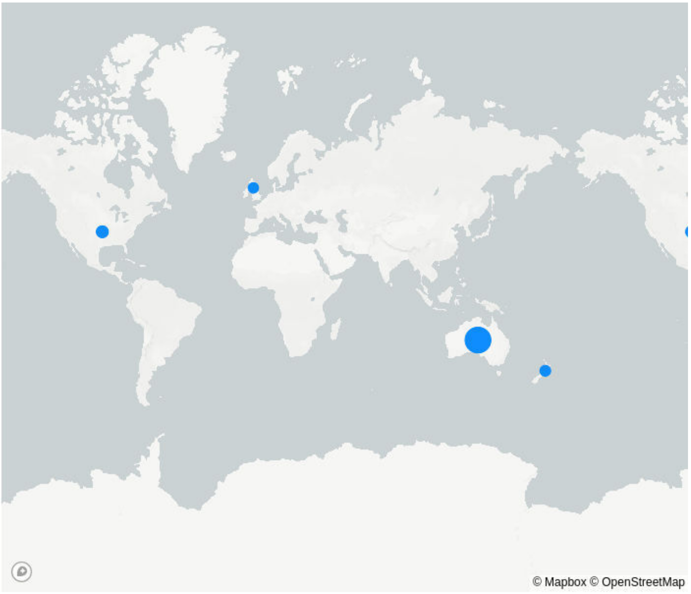
Holdings as at 31 Mar 2024

Stock	Weight	Country	Sector	Active Exposure
Alumina	7.41%	Australia	Basic Materials	7.27%
Woodside Energy Group Ltd	7.39%	Australia	Energy	5.00%
NEWMONT CORPORATION	7.30%	USA	Basic Materials	6.91%
QBE Insurance Group	6.51%	Australia	Financials	5.39%
Australia and New Zealand Banking Group	5.42%	Australia	Financials	1.77%
Ansell	5.34%	Australia	Healthcare	5.21%
VIRGIN MONEY UK CDI	4.88%	UK	Financials	4.68%
Westpac Banking Corporation	4.10%	Australia	Financials	0.32%
FLETCHER BUILDING LTD.	3.63%	New Zealand	Consumer Cyclicals	3.59%
Sims Metal Management	3.50%	Australia	Basic Materials	3.41%
Total	55.48%			

Equity sector exposure



Equity country exposure



Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Key person risk: Zenith believes there is a high degree of key person risk, with Simon Mawhinney integral to the success of the Fund and business. As such, his departure would trigger an immediate review of our rating on the Fund. However, Zenith believes Mawhinney's ownership stake in Allan Gray mitigates the risk of his departure over the medium term. In addition, we believe the appointment of Suhas Nayak as co-portfolio manager in October 2016, further mitigates this risk.

Capacity risk: Excessive levels of funds under management (FUM) can inhibit a manager's ability to execute trades efficiently and therefore limit outperformance potential. Allan Gray estimates its Australian equities capacity to be $A 14 billion to $A 18 billion. However, Allan Gray has soft closed its Australian equities capabilities to institutional investors at a level that is significantly below this limit. Zenith has a favourable view of Allan Gray's prudent management of capacity.

As at 31 May 2024, Allan Gray managed approximately $A 11 billion in Australian equities. Overall, Zenith does not believe the Fund is currently impacted by capacity limitations. Notwithstanding this, we will continue to monitor the Fund's performance for any signs of impediments.

Relative return risk: Allan Gray adopts a contrarian and benchmark-unaware investment approach. As such, investors need to be aware that the Fund's returns and volatility are expected to materially deviate from the benchmark and peers. Furthermore, the lack of formal sector constraints may lead to significant biases towards certain sectors.

Liquidity risk: The Fund holds some stocks that display low levels of liquidity. Whilst Allan Gray monitors portfolio liquidity on an ongoing basis to ensure liquidity risks are managed appropriately, Zenith believes illiquid stocks may cause issues should the Fund have to meet sizable redemptions as the stocks may have to be sold at significant discounts to market prices.

Security/asset selection

The Fund may invest in all securities listed on the ASX. In addition, stocks that are expected to list within 12 months may also be considered. Allan Gray covers approximately 80% of the investment universe, as measured by market capitalisation.

Ideas are initially generated through the use of a quantitative screen, drawing upon information from Allan Gray's proprietary company database that contains price and fundamental company data for more than 9,000 companies globally. For the Fund, the screen is applied to Australian-listed companies with key metrics including:

- Long-term return on equity
- Long-term total net asset value (TNAV) growth
- Long-term revenue and earnings growth
- Debt/TNAV
- Cash/TNAV

Analysts are afforded the discretion to use parameters deemed relevant to each company. The output of the screen creates a shortlist of prospective investment ideas for further evaluation. Preliminary qualitative analysis is conducted on the prospective stocks, with analysts seeking to understand the reasons driving undervaluation and whether these concerns are valid.

For any company that passes the preliminary assessment, the analyst conducts in-depth fundamental research to determine if it presents an attractive investment opportunity. One of the key objectives of the research process is to thoroughly understand the underlying drivers of the company, with factors such as competitive position, view on management and return on capital considered paramount. Zenith has viewed research reports that are produced from this stage of the process and believes they are of high quality and capture differentiated insights.

Contact with company management is a key focus, particularly in the later stages of research and in ongoing reviews. The research process culminates in an internally generated assessment of a company's intrinsic value. Valuations are compared against current market prices to determine a stock's level of attractiveness.

An important component of the research process is peer review, where analysts present their investment ideas to the broader team for rigorous debate. Zenith believes this peer review provides an additional layer of robustness to the investment process, as well as providing further insight into a stock's downside risk. Zenith believes the research process is sound and displays a high degree of independent thought.

To ensure fresh perspectives on stocks and eliminate duplication of research, the team has a system that involves each analyst claiming two stocks of interest. These stocks will remain exclusively with the analyst until the analyst ceases research or the stocks have been included in the Fund. Once a stock is included in the Fund, it is exclusively covered by the analyst who championed it. Allan Gray targets one idea a month from the team, ensuring investment theses are thoroughly analysed and considered. Zenith believes this system provides strong incentives for analysts to perform detailed company analysis and generate independent ideas.

Stocks selected for inclusion within the portfolio are often considered contrarian investments, with Allan Gray generally preferring companies that are out of favour with brokers and the general industry. This contrarian approach can lead to short-term volatility for the portfolio and periods of underperformance. However, Zenith is confident in the analytical depth and rigour of Allan Gray's process and the requirement for investing only when there is a deep discount to intrinsic value.

Overall, Zenith believes Allan Gray's process is flexible and nimble, allowing analysts considerable freedom in selecting and analysing stocks. Furthermore, the robust peer review process ensures a disciplined approach is applied to all investment ideas.

Responsible investment approach

Allan Gray has an established Responsible Investment Policy, last updated in 2023, that guides its investment decisions.

While the Fund has no specific environmental, social or governance (ESG) exclusions, Allan Gray takes an active approach to ESG issues. ESG is evaluated as part of the team's fundamental analysis process and, where appropriate, the investment team will engage with company management where they believe ESG issues are being insufficiently addressed. Where ESG issues are deemed significant, they can preclude a company as a potential investment. In April 2022, Allan Gray appointed Stephanie Derrington as a dedicated ESG resource. Derrington's role involves thematic research, working alongside the investment team to assess ESG issues and company engagement. Zenith believes that this qualitative analysis of a company's operations is crucial on a forward basis, given that a company's performance with regard to ESG considerations is increasingly being reflected in the company's share price. Overall, Zenith is comfortable with Allan Gray's approach to ESG.

Portfolio construction

Since May 2017, portfolio management responsibility for the Fund is split between Simon Mawhinney and Suhas Nayak. Mawhinney manages 65% of the portfolio, with Nayak responsible for 35%.

Over the past ten years, the Fund has been managed under several different structures:

- October 2014 to July 2015: Mawhinney was the sole portfolio manager for the Fund.
- July 2015 to October 2016: Dan Abehouse was given portfolio management responsibilities, receiving 20% of the Fund, with Mawhinney managing the remaining 80%.
- October 2016 to May 2017: Mawhinney managed 72.5% of the Fund with Abehouse and Nayak each managing 13.75%.
- May 2017 to February 2022: Mawhinney managed 80% of the Fund, with Nayak responsible for 20%.
- February 2022: Mawhinney managed 65% of the Fund, with Nayak responsible for 35%.

Zenith notes that while portfolio management responsibility is split, Mawhinney retains ultimate decision-making authority. That is, he retains the right to veto Nayak's investment decisions should he believe it necessary. Although Allan Gray does not believe this will be a regular occurrence, Zenith gains comfort from the level of oversight provided by Mawhinney.

Although Zenith views the multi-portfolio manager structure as an effective way to mitigate key person risk, we believe it may give rise to potential portfolio construction inefficiencies. For example, for a position in Nayak's portion of the Fund to be considered primary (greater than 1% of the Fund), he would need to hold it at a weight of at least 3%, which affects the construction of his portfolio. In addition, when Mawhinney decides to sell a stock held in common, Nayak may be forced to sell it even though he believes in its merits, whilst not having the required conviction to hold it at a higher weight. Zenith understands that these situations are expected to be infrequent and that this issue has been partially mitigated with the recent application of more balanced portfolio allocations.

Allan Gray manages the portfolio with no regard for benchmark composition and aims to hold only the best investment opportunities identified by the analysts, subject to a number of broad risk constraints. Each investment idea is assessed based on its own merit and perceived risk/reward relationship. Typically, the most attractive ideas are those that are trading at the greatest discounts to their intrinsic value. As a result, the Fund is expected to exhibit a deep value, mid and small-cap bias.

In addition, correlations between stocks are considered to manage the Fund's exposure to underlying variables, which acts to increase diversification and reduce risks. Proprietary analytical software is also used to assess the impact of weightings changes on the overall portfolio.

The Fund typically holds 30 to 50 primary positions (positions greater than 1%) and a group of smaller positions. The group of smaller positions arise due to Allan Gray's passive transaction approach. That is, Allan Gray does not aggressively trade in and out of positions, reducing market impact. While Zenith believes a passive transaction approach is prudent, we believe holding a group of smaller positions may not be optimal for some investors.

The Fund is typically fully invested and maintains at least a 90% exposure to Australian equities. Cash allocations are a result of available investment opportunities, and not an asset allocation decision. Cash holdings have historically averaged 5% and are generally equitised with futures contracts. Zenith believes actively managed funds should be fully invested and that cash allocations should be maintained at a minimum.

Securities are sold when they reach targeted intrinsic value, or when they are displaced by more attractive investment opportunities. Allan Gray's research incorporates valuations over a four-year or longer investment timeframe, adopting a buy-and-hold approach consistent with their long-term philosophy.

The Fund's portfolio turnover is expected to average between 20% p.a. and 40% p.a over a market cycle.

Generally, Zenith prefers to see a more structured framework applied to portfolio construction. However, given Allan Gray's contrarian and unique investment approach, limited constraints on the portfolio are intuitive. In addition, Zenith takes confidence from Allan Gray's long-term track record.

Risk management

Risk management is embedded into Allan Gray's research process during the security selection and portfolio construction processes.

During the security selection process, investment themes are identified through rigorous and detailed research. As Allan Gray's investment process is contrarian in nature, the assessment of the downside risks to individual stocks takes on even greater significance. One of the key aspects of Allan Gray's research is gaining an understanding of why companies are out of favour and whether the issues are valid. Zenith believes the team's research is of high quality, providing a firm understanding of all aspects, particularly downside risk.

At the portfolio construction level, Allan Gray uses a proprietary risk management system to identify and monitor any unintended biases within the Fund. In addition, Allan Gray is aware of the potential liquidity risks that arise from its investment process.

Zenith is satisfied that the Fund's risk management processes are embedded throughout the entire investment process and that liquidity of holdings is adequately monitored. In addition, the flexible portfolio constraints ensure that Allan Gray is not restricted in their ability to deliver outperformance. However, investors should be aware there is significant reliance on the judgment and skill of the portfolio managers.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	0.77% p.a.	0.76% p.a.
Management Fees and Costs	0.77% p.a.	0.67% p.a.
Transaction Costs	0.00% p.a.	0.03% p.a.
Performance fees as at 30 Jun 2023	0.00%	0.08%
Performance fees description	20.5% of outperformance of the S&P/ASX 300 Accumulation Index (after fees), after recouping prior underperformance	
Management Cost	0.77% p.a.	0.68% p.a.
Buy / Sell spread	0.20% / 0.20%	0.20% / 0.20%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average is based on the average management cost of all flagship Australian Shares – Large Companies products surveyed by Zenith.

The performance fee is accrued daily and paid monthly.

In addition, for any fund that charges a performance fee, Zenith would prefer to see in place an additional excess return hurdle (i.e. a target return above the index greater than the management cost) and considers this best practice.

Overall, Zenith believes the Fund's fee structure is expensive, relative to peers, given its stated objectives. However, we believe the fees paid over the past three years (ending 30 June 2023) are attractive given the Fund's risk-adjusted performance over the same period.

The fees mentioned above are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform.

About the fund manager

Organisation

Allan Gray Australia (Allan Gray) was established in 2004 as a joint venture between Orbis Holdings Australia (Orbis) and the Simon Marais' family trust. Allan Gray is majority-owned by Orbis, which has a controlling interest, with Allan Gray's employees owning the remaining 17% of equity. As at 31 May 2024, Allan Gray managed approximately $A 11 billion.

The heritage of the firm links back to Allan Gray Limited (South Africa), which was founded in South Africa in 1973. As at 31 May 2024, Allan Gray Limited (South Africa) managed approximately $US 34 billion.

Under the same umbrella, the Orbis Group was formed in 1989 as a global fund manager, specialising in investment services to wholesale and retail investors. As at 31 May 2024, Orbis Group managed approximately $US 39 billion.

Allan Gray maintains close operating links with both Allan Gray Limited and the Orbis Group, outsourcing functions such as trade execution to the group's principal operating company, which is based in Bermuda.

Zenith is supportive of the business structure of the organisation. In addition, we view the outsourcing of non-investment functions positively, allowing investment personnel to focus purely on investment management.

As at 31 May 2024, Allan Gray managed approximately $A 11 billion in the strategy, including approximately $A 3 billion in the Fund.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Simon Mawhinney	Portfolio Manager	23	18	Sydney, Australia
Suhas Nayak	Portfolio Manager	12	12	Sydney, Australia

The investment team of nine is led by Simon Mawhinney, who joined Allan Gray in 2006 from Alliance Bernstein. His prior experience includes time spent with the Equity Markets Group at Macquarie Bank and Deloitte & Touche. Zenith considers Mawhinney to be an impressive contrarian investor and believes he is a highly capable leader of the investment team.

In addition to Mawhinney, Suhus Nayak has portfolio management responsibilities for the Fund. Nayak was appointed a portfolio manager in October 2016, with his allocation growing to 35% over time. Prior to February 2022, Nayak managed a 20% allocation of the Fund. Zenith is comfortable with Nayak's increased allocation, noting our stronger conviction in his portfolio management abilities in recent years.

Consistent with its contrarian philosophy and independent thought process, Allan Gray seeks to employ people from contrasting backgrounds, believing this provides a higher degree of diversity in thought and unique investment ideas. The diverse team includes individuals from academic, consulting, private equity, engineering and physics backgrounds, as well as more traditional investment professionals. Zenith believes the cognitive and cultural diversity within the team allows for broader perspectives of investment ideas, which is paramount to the contrarian investment approach.

Analysts are given the freedom and flexibility to cover any stocks in any sector, rather than dividing research responsibilities along traditional sector lines. Despite this, the analysts tend to gravitate towards specific areas that draw upon their previous experience and expertise, however, there are structures in place to ensure that duplication of research does not occur. Zenith believes the generalist research structure allows for greater cross-pollination of ideas and career development for analysts.

Remuneration is predominantly performance-based. Detailed performance attribution analysis is undertaken and decisions in investment research, portfolio construction and trade execution are thoroughly analysed. Senior executives are shareholders in the business, which further aligns their interests with those of the investors. Zenith believes the current alignment structure is strong, ensuring investors' interests are prudently managed.

Additionally, Allan Gray has a policy that prevents portfolio managers from investing directly in Australian companies. Zenith believes this strengthens the alignment of interest of investment staff and investors.

Allan Gray typically removes analysts who do not meet expectations or are deemed to not be suited to its investment approach. As such, the investment team is expected to include one or two more analysts in excess of immediate requirements.

Overall, Zenith believes the investment team is of a high calibre. While the team's structure is somewhat different to other fund managers, we believe the team is highly diverse, of high quality and well led by Mawhinney.

About the sector

Sector characteristics

The Zenith 'Australian Shares – Large Companies' sector consists of long-only strategies investing in the Australian equities asset class. The sector incorporates both benchmark-aware and benchmark-unaware strategies that focus predominantly on stocks with large market capitalisations. Additionally, the sector is one of the most competitive in the investment landscape, based on the number of managers and strategies available to investors. Zenith expects rated long-only products to outperform the passive index (after fees) over the long term.

Zenith benchmarks all funds in this sector against the S&P/ASX 300 Accumulation Index. However, many managers in this sector benchmark themselves against the S&P/ASX 200 Accumulation Index. Both indices are market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the highest weightings within the index. Over the longer term, Zenith believes there will be minimal difference between the return profiles of these indices.

The Australian equities asset class, as represented by the S&P/ASX 300 Index, is highly concentrated and narrow. Zenith considers a company to be a large-cap company if it falls within the S&P/ASX 50 Index, with stocks falling within the S&P/ASX 51 to 100 considered mid-cap companies. Furthermore, Zenith considers stocks that fall within the S&P/ASX 101 to 300 to be small-cap companies.

As at 31 May 2024, the Financials and Materials sectors combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for approximately 30% and Materials approximately 23%. In addition, the top 10 stocks represented approximately 46% of the Index and the top 20 stocks represented approximately 60%.

Sector risks

Funds within the 'Australian Shares – Large Companies' sector are exposed to the following broad risks:

Market and economic risk: A sustained downturn across the Australian equity market is a risk to the absolute performance of funds in the sub-asset class. Additionally, changes in economic, social, technological or political conditions, as well as market sentiment, could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to a fund's prescribed investment timeframe.

Specific security risk: This is the risk associated with an individual security. The price of common shares in a company may be affected by unexpected changes in company operations such as changes in management or the loss of a significant customer.

Liquidity risk: This is the risk that a security or asset cannot be traded promptly, due to insufficient trading volumes in the Australian equity market. When trading volumes are low, buyers/sellers can significantly impact the price of a security when entering or exiting a position.

Style bias risk: Australian equity managers employ different investment styles such as Growth, Value or Neutral (a combination of Value and Growth). Each style is conducive to certain market conditions. This risk can be significantly reduced by investors adhering to a fund's prescribed investment timeframe.

Capacity risk: High levels of funds under management (FUM) can present additional challenges to an Australian equity manager. High FUM has the potential to restrict a manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

Regulatory Risk: All investments carry the risk of being affected by changes to government policies, regulations and laws. Security prices in which funds may have exposure are also subject to certain risks arising from government intervention in the Australian equity market. Such regulation or intervention could adversely affect fund performance.

Administration and operations

Responsible Entity	Equity Trustees Limited

Zenith rating

Report certification

Date of issue: 27 Jun 2024

Role	Analyst	Title
Analyst	Jock Allen	Senior Investment Analyst
Sector Lead	Quan Nguyen	Head of Equities
Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

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Rating history

As At	Rating
27 Jun 2024	Highly Recommended
29 Jun 2023	Highly Recommended
30 Jun 2022	Highly Recommended
24 Jun 2021	Highly Recommended
18 Jun 2020	Highly Recommended
20 Jun 2019	Highly Recommended

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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Full details regarding the methodology, ratings definitions and regulatory compliance are available at Fund Research Regulatory Guidelines.

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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

Zenith has charged Allan Gray Australia Pty Limited a fee to produce this report.