

Allan Gray Australia Stable Fund

Rating issued on 27 Jun 2024 | APIR: ETL0273AU | mFund: AQY02

Investment objective

To provide a long-term return that exceeds the RBA Cash Rate (after fees) with less volatility than the Australian equity market. Informally, Allan Gray seeks to outperform the RBA Cash Rate by 3% p.a. (before fees) over the longer term.

Manager	Allan Gray Australia Pty Limited
Distributor	Allan Gray Australia Pty Limited
Sector	Australian Shares \ Absolute Return
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	Quarterly
Fund Size (31 May 2024)	\$347.31M
Management Cost	0.26% p.a. Incl. GST
Performance Fee	20% of outperformance of the RBA Cash Rate (after fees), subject to the recoupment of all prior underperformance.
Buy / Sell Spread	0.10% / 0.10%
Inception Date	31 Jul 2011

Viewpoint

The Fund, managed by Sydney-based Allan Gray Australia (Allan Gray), provides investors with a conservatively managed offering that comprises a benchmark-unaware portfolio of Australian equities and a money market securities and cash component. 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 represents a relatively unique offering for investors seeking a more defensive exposure to Australian equities. 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.

The Fund is managed by Simon Mawhinney, who has over 23 years of investment experience. Zenith considers Mawhinney to be an impressive contrarian investor.

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 performance profile of the equity component of the Fund 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 Fund's starting position is to be 100% invested in money market securities and cash, with a minimum exposure of 50% applied. Allan Gray will seek to deploy capital when compelling opportunities arise within Australian equities or hybrids. As such, the Fund will typically invest in Allan Gray's best risk-adjusted ideas. Zenith takes confidence from Allan Gray's strong long-term track record.

Fund facts

- Holds between 20 and 30 positions
- Minimum money market securities and cash exposure of 50%
- Portfolio turnover expected to average between 20% p.a. and 50% p.a. over a market cycle



Fund analysis

Fund characteristics

Constraint	Value
Number of Stocks	20 to 30 (Generally)
Absolute Stock Weight	Max: 5%
Equities Exposure	Max: 50%
Money Market Securities and Cash Exposure	Min: 50%
Issued Capital of a Company (Voting Shares)	Max: 5%

Investment objective and philosophy

Allan Gray seeks to provide a long-term return that exceeds the RBA Cash Rate (after fees) with less volatility (as measured by Standard Deviation) than the Australian equity market. Informally, Allan Gray seeks to outperform the RBA Cash Rate by 3% p.a. (before fees) over the longer term.

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.

The Fund's starting position is to be 100% invested in money market securities or cash, with a minimum exposure of 50% applied. Allan Gray seeks to deploy capital when compelling opportunities arise within Australian equities or hybrids. As such, the Fund typically invests in Allan Gray's best risk-adjusted ideas.

Zenith takes confidence from Allan Gray's strong long-term track record.

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.

The Fund's starting position is to be 100% invested in money market securities and cash, with a minimum exposure of 50% applied. Allan Gray will hold 100% of the Fund in money market

securities and cash in instances where it cannot identify opportunities that meet its investment criteria. Historically, the Fund's money market securities and cash allocation has averaged between 70% and 80%.

Zenith believes the Fund's investment strategy of combining a money market securities and cash portfolio with a value-oriented Australian equities strategy provides a differentiated option for investors seeking income with some capital growth. While Allan Gray's focus on selecting stocks with an acceptable margin of safety or discount to fair value should act to dampen volatility, Zenith highlights that there is a risk of capital variability, particularly in stressed equity environments.

Given the contrarian investment process, the benchmark-unaware equities component of the Fund typically holds a portfolio of 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. Given Allan Gray's differentiated and benchmark-unaware investment approach, Zenith notes that the performance profile of the equity component of the Fund may diverge significantly from the benchmark and peers.

The Fund is expected to exhibit significantly different risk/return characteristics and less correlation to other Australian equity funds. As such, Zenith believes the Fund would blend well with style-neutral or growth-orientated large-cap Australian equity funds.

The Fund's portfolio turnover is expected to average between 20% p.a. and 50% p.a. over a market cycle, which Zenith considers to be low to moderate. Given this expected level of turnover, a sizeable proportion 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 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

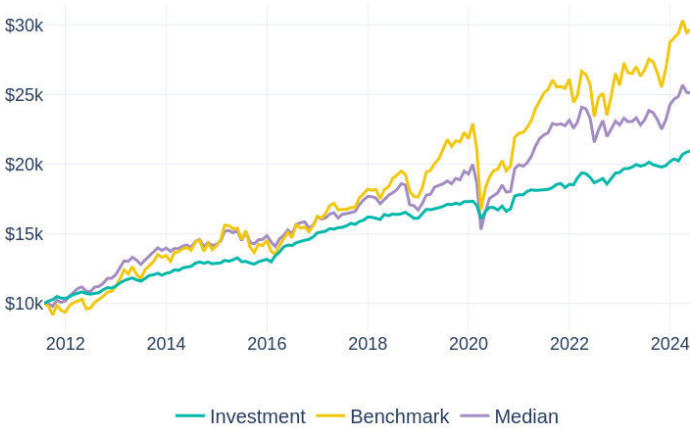
Monthly performance history (% , net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*	BM2 YTD**
2024	0.93%	-0.69%	2.31%	0.80%	0.44%								3.84%	3.21%	1.79%
2023	1.39%	0.01%	0.58%	0.92%	-0.57%	0.40%	1.03%	-0.91%	-0.42%	-0.43%	0.55%	1.45%	4.02%	12.13%	3.89%
2022	-0.18%	2.66%	1.87%	-0.23%	-1.43%	-2.02%	0.96%	0.68%	-2.10%	2.16%	2.01%	0.27%	4.60%	-1.76%	1.30%
2021	0.03%	1.34%	0.64%	-0.25%	0.10%	0.09%	0.21%	0.72%	1.25%	0.34%	-1.61%	1.32%	4.22%	17.55%	0.10%
2020	0.21%	-1.71%	-5.67%	3.11%	1.86%	-0.03%	-1.02%	1.65%	-2.22%	1.10%	5.46%	0.51%	2.86%	1.74%	0.31%

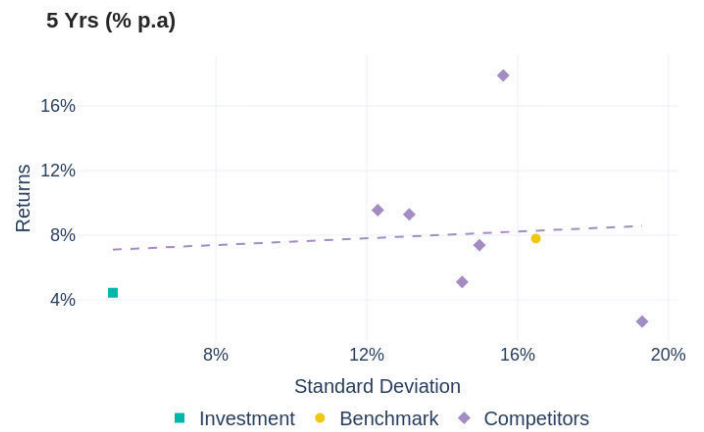
*S&P/ASX 300 (Accum)

**RBA Cash Rate

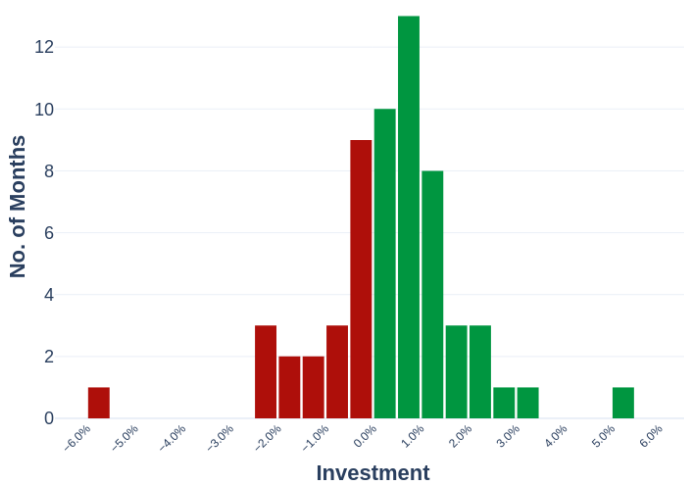
Growth of \$10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)





Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	5.56%	4.95%	4.44%	5.21%	5.94%
Income	5.72%	4.89%	4.42%	4.03%	4.22%
Growth	-0.16%	0.06%	0.02%	1.18%	1.71%
Benchmark	12.82%	6.54%	7.80%	7.79%	8.85%
Median	10.08%	4.74%	6.34%	5.88%	7.44%
Cash	4.28%	2.31%	1.59%	1.84%	2.21%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	6 / 6	3 / 6	4 / 5	3 / 3
Quartile	4th	2nd	3rd	-

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	3.14%	3.99%	5.27%	4.51%	4.31%
Benchmark	11.00%	13.52%	16.49%	14.04%	13.58%
Median	8.14%	9.20%	13.24%	11.03%	10.27%
Downside Deviation (% p.a.)					
Investment	1.29%	2.25%	3.36%	2.64%	2.43%
Benchmark	5.65%	8.75%	12.21%	9.99%	9.44%
Median	4.21%	6.33%	10.02%	8.14%	7.33%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	0.41	0.66	0.54	0.74	0.86
Benchmark	0.78	0.31	0.38	0.42	0.49
Median	0.71	0.26	0.36	0.37	0.51
Sortino Ratio (p.a.)					
Investment	0.99	1.17	0.85	1.27	1.53
Benchmark	1.51	0.48	0.51	0.60	0.70
Median	1.37	0.39	0.47	0.50	0.71

Zenith benchmarks products in the Australian Shares - Large Companies peer group against the S&P/ASX 300 Accumulation Index. While this benchmark may not be consistent with the Fund, it has been adopted to provide investors with a common reference point. Accordingly, all performance and risk measurements are calculated with Zenith's assigned index.

All commentary below is as at 31 May 2024.

Allan Gray seeks to provide a long-term return that exceeds the RBA Cash Rate with less volatility (as measured by Standard Deviation) than the Australian equity market. Informally, Allan Gray seeks to outperform the RBA Cash Rate by 3% p.a. (before fees) over the longer term.

The Fund has achieved its formal performance objective over all periods of assessment. Given the composition of the Fund, peer group analysis is less meaningful.

In addition, the Fund has met its volatility objective, exhibiting significantly less volatility than the S&P/ASX 300 Accumulation Index over the same timeframe.

Investors should be aware the Fund does not target a specific income level, with distributions made quarterly where possible.



Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	-7.26%	-1.59%	-3.36%	-2.58%	-2.91%
Monthly Excess (All Mkts)	25.00%	41.67%	33.33%	36.67%	35.71%
Monthly Excess (Up Mkts)	0.00%	9.52%	5.13%	6.49%	5.94%
Monthly Excess (Down Mkts)	75.00%	86.67%	85.71%	90.70%	92.45%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	9.32%	15.01%	20.30%	13.82%	12.02%
Upside Capture	27.95%	31.91%	30.97%	31.47%	32.52%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	9.47%	10.89%	12.39%	10.86%	10.65%
Median	3.64%	5.82%	5.22%	4.90%	5.24%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	-0.77	-0.15	-0.27	-0.24	-0.27
Median	-0.75	-0.31	-0.28	-0.39	-0.27

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	0.17	0.22	0.27	0.25	0.24
R-Squared	0.36	0.55	0.71	0.62	0.59
Correlation	0.60	0.74	0.84	0.79	0.77

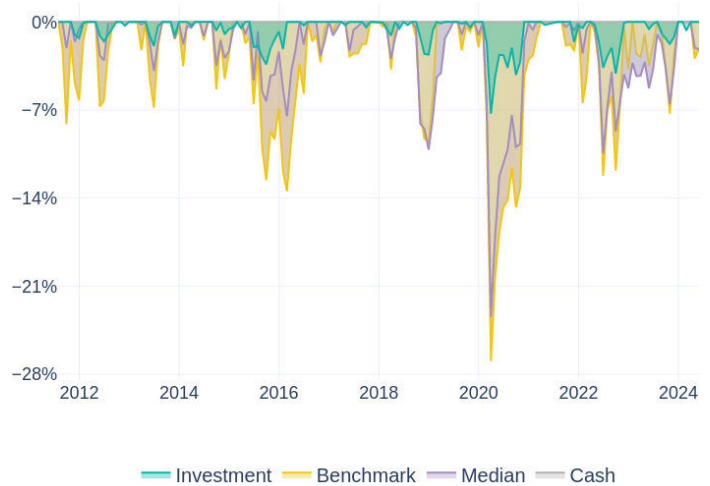
All commentary below is as at 31 May 2024.

Given the composition of the Fund, the relative performance analysis is less meaningful.

As highlighted by the Fund's beta, it has displayed low levels of sensitivity to its Zenith assigned benchmark since inception.

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 demonstrated a strong ability to protect investor capital during periods of market decline, which is expected given its high money market securities and cash 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.

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: The Fund's starting position is to be 100% invested in money market securities and cash, with a minimum exposure of 50% applied. Allan Gray will hold 100% of the Fund in money market securities and cash in instances where it cannot identify opportunities that meet its investment criteria. Historically, the Fund's money market securities and cash allocation has averaged between 70% and 80%. As a result, the performance of the Fund will deviate significantly from the benchmark and peers.

Liquidity risk: The Fund holds some stocks that display low levels of liquidity. 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. Allan Gray monitors portfolio liquidity on an ongoing basis to ensure liquidity risks are managed appropriately.

Hybrid security risk: The Fund may invest in hybrid securities. Listed hybrid securities will, at times, exhibit risk characteristics similar to that of debt securities in certain market conditions. Investors should be cognisant that hybrid securities are generally subordinated and may exhibit unfavourable terms for the investor.

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.

Allan Gray's hybrid selection approach follows a similar process to that employed to select stocks. However, given the intricate and specialised nature of hybrid securities, Zenith believes the team's hybrid research capabilities are not as strong when compared to specialists in this sector, specifically in the areas of credit assessment, liquidity analysis and relative-value calls. While Zenith would not expect such exposures to represent a meaningful component of the Fund, the mandate does permit significant allocations to hybrid securities.

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

The Fund's starting position is 100% invested in money market securities or cash, with a minimum exposure of 50% applied. Allan Gray will seek to deploy capital when compelling opportunities arise within Australian equities or hybrid securities. Zenith notes that whilst it is more cost-efficient for investors to achieve a similar money market securities and cash exposure directly, the Fund provides duration diversification benefits and leverages the asset allocation expertise of Allan Gray.

Money Market Securities and Cash

The Fund's money market securities and cash component is largely gained via term deposits of 12 months or less that are issued by large Australian banks. The Fund may also gain exposure to bonds issued by the government or related parties with the same maturity profile.

When constructing this component of the Fund, Mawhinney has the flexibility to invest across various maturities to take advantage of pricing anomalies. The intention is to generate a return that approximates the return characteristics of the RBA cash rate. Zenith considers this approach to be appropriate and consistent with the Fund's objective and team's experience in this asset class.

Equities

Outside of the money market securities and cash component, Allan Gray manages the equities portion of 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.

A key difference between the stock selection process of this strategy relative to Allan Gray's Australian Equity strategy is the increased discount to valuation required for a stock to be included in the Fund. In addition, companies with lower gearing levels and less cyclical earnings will be prioritised to manage the Fund's downside volatility.

Each investment idea is assessed based on its own merit and perceived risk and reward relationship. Stocks are purchased in the portfolio with a high margin of safety relative to the assessed intrinsic value. As a result, the equity component of the Fund is expected to exhibit a deep value bias.

In addition, Mawhinney considers correlations between stocks to manage the Fund's risk profile. Proprietary analytical software is also used to assess the impact of weight changes on the overall portfolio.

The Fund typically holds 20 to 30 positions in its highest conviction ideas with average position sizes of approximately 1%.

Securities are sold when they reach their 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, and takes a buy-and-hold approach consistent with its long-term philosophy.

When determining exit points for stocks, Allan Gray is mindful of tax considerations for investors. Where possible, the Fund may look to dilute positions first with cash inflows to minimise capital gains implications. The Fund's portfolio turnover for the equity portion is expected to average between 20% p.a. and 50% p.a. over a market cycle, which is consistent with the long-term investment philosophy adhered to by the firm.

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.

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 absolute returns. 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)	1.04% p.a.	1.17% p.a.
Management Fees and Costs	0.26% p.a.	0.83% p.a.
Transaction Costs	0.00% p.a.	0.01% p.a.
Performance fees as at 30 Jun 2023	0.78%	0.67%
Performance fees description	20% of outperformance of the RBA Cash Rate (after fees), subject to the recoupment of all prior underperformance.	
Management Cost	0.26% p.a.	0.88% p.a.
Buy / Sell spread	0.10% / 0.10%	0.22% / 0.22%

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.

Zenith believes the performance fee for the Fund is poorly structured due to the lack of an appropriate benchmark. Given the Fund will typically maintain a degree of equity exposure, an appropriate benchmark is required to ensure that any performance fees payable are justified. As it currently stands, Zenith believes that the hurdle applied to the performance fee is too low and not commensurate with the Fund's risk profile.

Overall, Zenith believes the Fund's fee structure is fair, relative to peers, given its stated objectives. In addition, we believe the fees paid over the past three years (ending 30 June 2023) are justified 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 2023, Allan Gray managed approximately \$A 347 million in the Fund.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Simon Mawhinney	Portfolio Manager	23	18	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.

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
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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



As At	Rating
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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