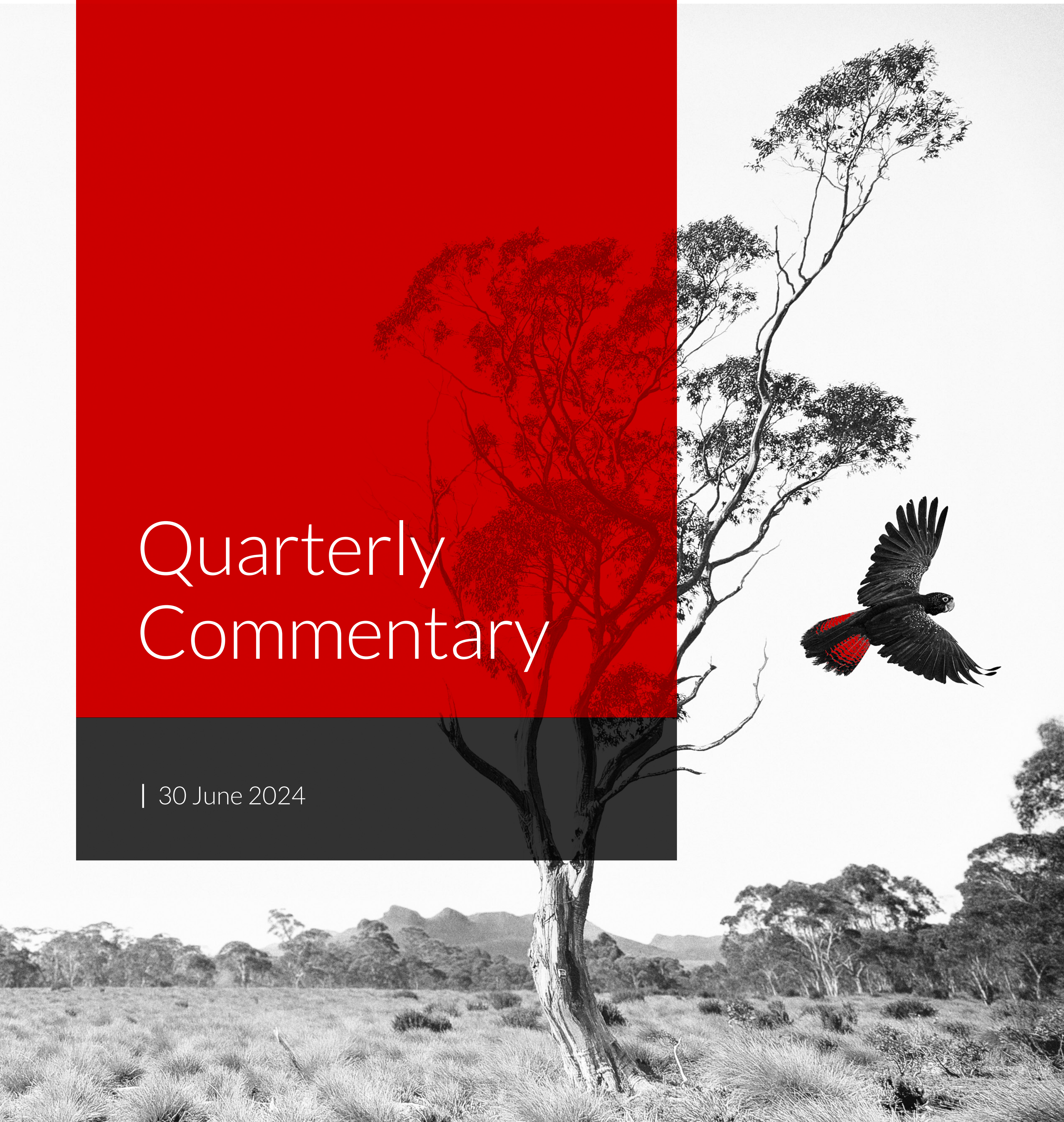
ALLAN GRAY
CONTRARIAN INVESTING

Quarterly Commentary

| 30 June 2024



Commentary

Simon Mawhinney
Managing Director and Chief Investment Officer

As contrarian investors, we tend to shy away from popular and exciting stocks. By investing in companies that are out of favour, and therefore showing potential for better than average returns, we are often attracted to companies that might be described as downright boring.

There are not many industries more boring than packaging and the subject for this Quarterly Commentary is Orora Limited, a manufacturer and distributor in this industry. Orora has fallen out of favour with the market, but, as is often the case with out-of-favour companies, we believe the market has overreacted and there are reasons to be optimistic.

Our Analyst, Sudhir Kissun, explains Orora's business below and outlines the reasons for our investment.

Sudhir Kissun
Analyst

Orora Limited – boring is beautiful

Orora was formed in 2013 after its demerger from global packaging giant Amcor. Orora reports three segments, as follows:

1. Australasia – a manufacturer of aluminium cans and glass bottles. Its asset base comprises six manufacturing plants producing aluminium cans across major urban centres (the first of which was commissioned in 1974) and three glass furnaces, built between 2002 and 2010 and all located at Gawler in the heart of the Barossa Valley wine region. The Australasian businesses have a long history of market leadership, organic volume growth and solid financial performance.
2. North America – a business that distributes mainly paper-based packaging and designs point-of-sale displays.
3. Saverglass – a manufacturer of high-end decorated bottles for premium spirits and wine that Orora acquired in December 2023. Saverglass established its first furnace in France in 1969 and added two more furnaces over time, as well as furnaces in the United Arab Emirates, Mexico, and Belgium.

Figure 1 shows Orora's main product categories within its three business segments.

Saverglass has given the market some indigestion

The long-term track record of acquisition activity is unequivocal – more often than not, acquisitions tend to destroy value for the shareholders of the acquiring company and large acquisitions have a worse track record than small, bolt-on acquisitions. When a private equity firm is a seller, buyers need to be particularly wary, as private equity firms are notorious for dressing up the businesses they are selling to make them look better than they are.

With this knowledge, it's easy to see why the investment community took a particularly dim view of Orora's acquisition of Saverglass. First, Orora acquired Saverglass from a private equity firm. Second, this was a huge acquisition for Orora and its size alone has completely changed what shareholders thought they owned before the acquisition. The acquisition price of $2.2 billion represented a whopping 60% of Orora's pre-deal enterprise value. Market participants are also worried about Saverglass's exposure to France, a challenging labour market in which Orora has precisely zero experience.

FIGURE 1 | Orora's business segments and products

Australasia (manufacturing)	North America (distribution)	Saverglass (manufacturing)
		
• Aluminium cans (Australia, New Zealand) • Glass bottles (Australia)	• Design and distribution of paper-based packaging and point-of-sale displays (USA, Canada, Mexico)	• High-end decorated glass bottles (France, Belgium, UAE, Mexico)

Source: Orora, Allan Gray, 24 June 2024.

Saverglass's operating environment also gives cause for concern. The two years leading up to the company's acquisition were characterised by exuberant consumer spending in the premium spirits and wines categories globally, which lulled the distributors and retailers into overstocking these products. It is therefore likely that Orora bought Saverglass at the peak of its earnings cycle. This fear was confirmed in April 2024 when Orora downgraded its earnings guidance, with the bulk of the downgrade relating to Saverglass. The downgrade was triggered by the realisation that distributors and retailers were holding far more inventory than Saverglass expected, and the destocking process was likely to persist for a while.

The destocking trend is not unique to Orora. Many consumer-facing companies globally have been grappling with this challenge. The Allan Gray Australia Equity strategy holds other companies, such as Ansell and Amcor, whose share prices have been punished (unfairly, in our view) due to uncertainties about destocking, which we believe to be a cyclical impost rather than a structural one.

Added to this operating leverage is a fair chunk of financial leverage that Orora has introduced into the business, with $0.9 billion of the $2.2 billion acquisition price being funded with debt.

There are also concerns over future capital requirements. Glassmaking is an energy-intensive process, and most of that energy is currently sourced from natural gas. Over time, this sector will need to decarbonise and that will require investment which might not yield an adequate return.

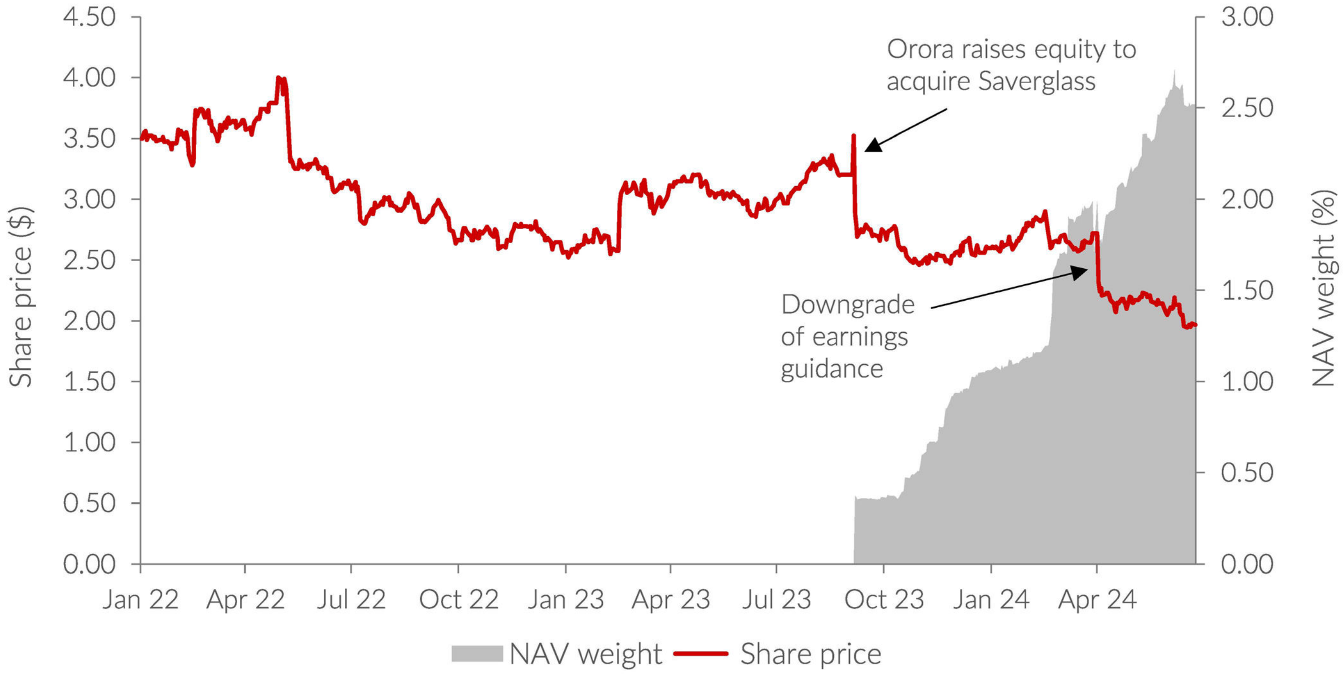
As if all this wasn't enough, there is also the looming prospect of China imposing tariffs on imports of European brandy. While this would only impact 3% of Saverglass's volumes, the market is worried that the tariffs could extend to other products in future.

We share these concerns, but much of the bad news is already in the share price

While it can be tempting to focus on the negatives as a justifiable reason to avoid investing in a company, we believe it's important to weigh these negatives against the price we pay for the stock. Our decision to invest (or not) isn't predicated on how bad the news is but on how much is already encapsulated in the market's expectations and, therefore, reflected in the share price.

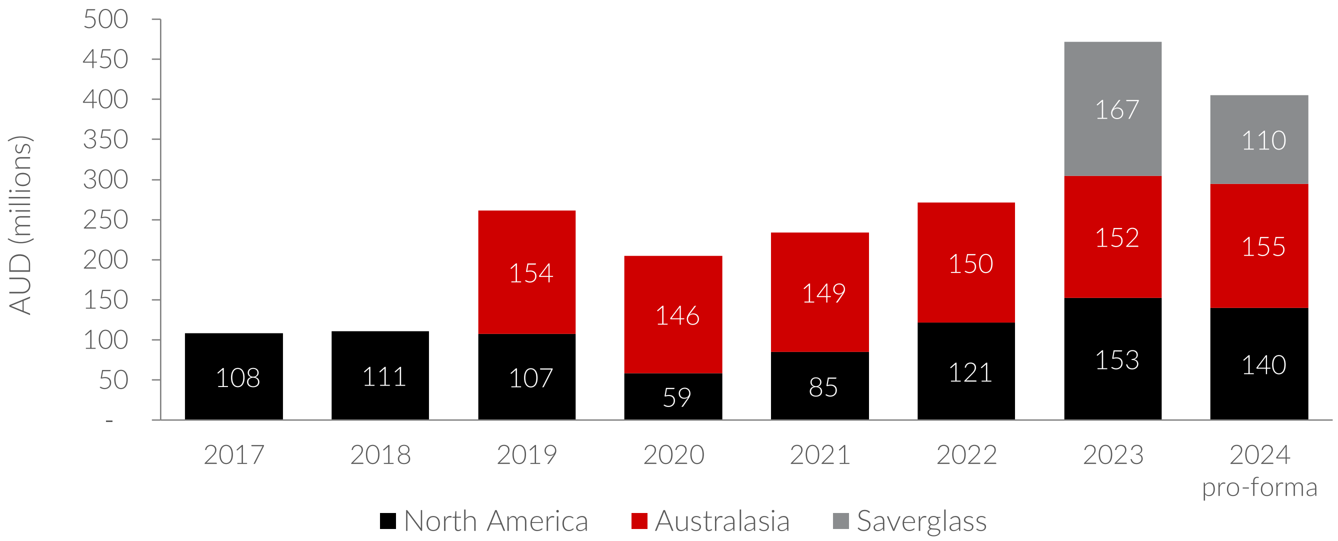
Graph 1 shows Orora's share price and the Allan Gray Australia Equity Fund's holding in the company. Today, Orora's share price is 43% below the price it traded at before the Saverglass acquisition and 27% below the price at which it raised equity to pay for Saverglass. To us, it is clear that at least some of the negatives we've detailed above are already captured in the share price.

GRAPH 1 | Orora's share price and the Allan Gray Australia Equity Fund's holding



Source: FactSet, Allan Gray, as at 24 June 2024. The Allan Gray Australia Equity Fund is generally representative of the Equity Strategy portfolio, which includes institutional mandates that use the same strategy.

GRAPH 2 | Orora's historical and guided EBIT by segment



Source: Orora, Allan Gray estimates, based on Orora's most recent guidance from April 2024.
Note: Saverglass EBIT for FY24 is the annualisation of management's guidance for the last five months of FY24; Australasia EBIT before FY19 is not comparable because it includes the EBIT from its now disposed Fibre business, so we have omitted it.

The multiple we pay looks attractive

Graph 2 shows Orora's historical earnings before interest and taxes (EBIT) by business segment and our pro-forma estimates for the 2024 financial year (FY24) based on Orora's management's guidance.

We estimate pro-forma EBIT of $405 million for FY24. After servicing its net debt of $1.7 billion and paying its taxes, Orora's post-tax earnings should be approximately $200 million. With a current market capitalisation of $2.6 billion, Orora trades at approximately 13 times these earnings, meaningfully lower than the market's price to earnings ratio of 17 times. We expect Orora's organic earnings growth to be in line with the average earnings growth of the market and think it should trade at a similar multiple to the market.

In a downside scenario, if Saverglass earnings were assumed to be zero, then Orora would be trading at 22 times current earnings, which is not an outlandish multiple for what would be quite a pessimistic outcome. For these reasons, despite the abovementioned uncertainties, we believe we are buying Orora with a reasonable margin of safety.

There are other reasons to be optimistic

There are two reasons why our pro-forma earnings above might be too low. Firstly, we believe it's reasonable to expect the ongoing destocking of spirits and wine to abate at some point in the near future. This should enable Saverglass to return to growth in volumes and earnings. With Saverglass operating at 75% of practical capacity, there is room to grow volumes significantly without investing further. This should result in significant operating leverage.

Secondly, Orora has invested heavily in new aluminium cans capacity which is underwritten by firm offtake from key customers. This will require a little over $100 million of incremental capital to reach completion within the next year and is likely to progressively ramp up to an incremental EBIT contribution of $30 million per annum by FY28.

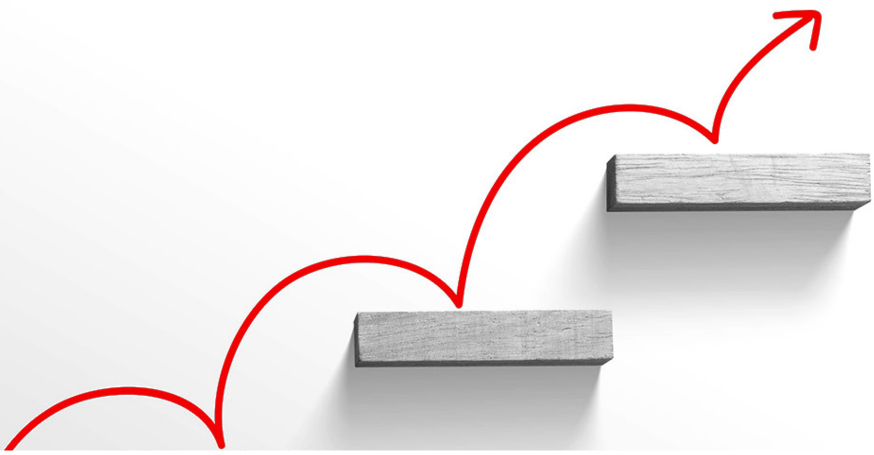
Another reason we are optimistic is that we believe that Orora is being valued at a significant discount to the replacement cost of its fixed assets. If we assume that the asset-light North American business should be valued using Orora's current depressed earnings multiple, then the implied value for the rest of the business is a 20% discount to the replacement cost of its fixed assets. This strikes us as rather pessimistic.

We believe the upside in Orora outweighs the downside

Investing always carries uncertainty; inherent in every investment are many possible future outcomes, some favourable, others not. Investing should therefore involve assessing the probabilities and allocating capital to investment opportunities in which the probability and magnitude of the favourable outcomes outweigh those of the unfavourable outcomes. Orora comes with its fair share of undesirable attributes. But at the price we pay today, we can buy Orora at 11 times our estimate of normal post-tax earnings.

With low expectations priced in, it looks to us like the upside outweighs the downside at this point.

Equity Fund Performance



Allan Gray Australia Equity Fund – Class A units

	Allan Gray Australia Equity Fund	S&P/ASX 300 Accumulation Index	Relative Performance
Annualised %			
Since Public launch on 4 May 2006	7.9	6.6	1.3
15 years	10.6	9.0	1.6
10 years	8.7	8.0	0.7
5 years	6.3	7.2	(0.9)
3 years	9.4	6.1	3.3
1 year	5.7	11.9	(6.2)
Not Annualised %			
Latest Quarter	(1.6)	(1.2)	(0.4)

Allan Gray Australia Equity Fund – Class B units

	Allan Gray Australia Equity Fund	S&P/ASX 300 Accumulation Index	Relative Performance
Annualised %			
Since Class Launch on 26 October 2012	10.5	9.2	1.3
10 years	9.0	8.0	1.0
5 years	7.1	7.2	(0.1)
3 years	10.2	6.1	4.1
1 year	6.5	11.9	(5.4)
Not Annualised %			
Latest Quarter	(1.4)	(1.2)	(0.2)

Highest and lowest annual return since launch

Allan Gray Australia Equity Fund – Class A units	Return %	Calendar year
Highest	55.1	2009
Lowest	(45.9)	2008

Allan Gray Australia Equity Fund – Class B units	Return %	Calendar year
Highest	33.4	2016
Lowest	(7.0)	2018

Past performance is not indicative of future performance. Returns shown are net of fees and assume reinvestment of distributions. Returns are annualised for periods of one year and over. Annualised returns show the average amount earned on an investment in the relevant Class each year over the given time period. Actual investor performance may differ as a result of the investment date, the date of reinvestment of income distributions, and withholding tax applied to income distributions.

The highest and lowest returns earned during any calendar year since the launch of each Class are shown to demonstrate the variability of returns. The complete return history for each Class can be obtained by contacting our Client Services team.

Equity Fund Holdings

(Class A and Class B)

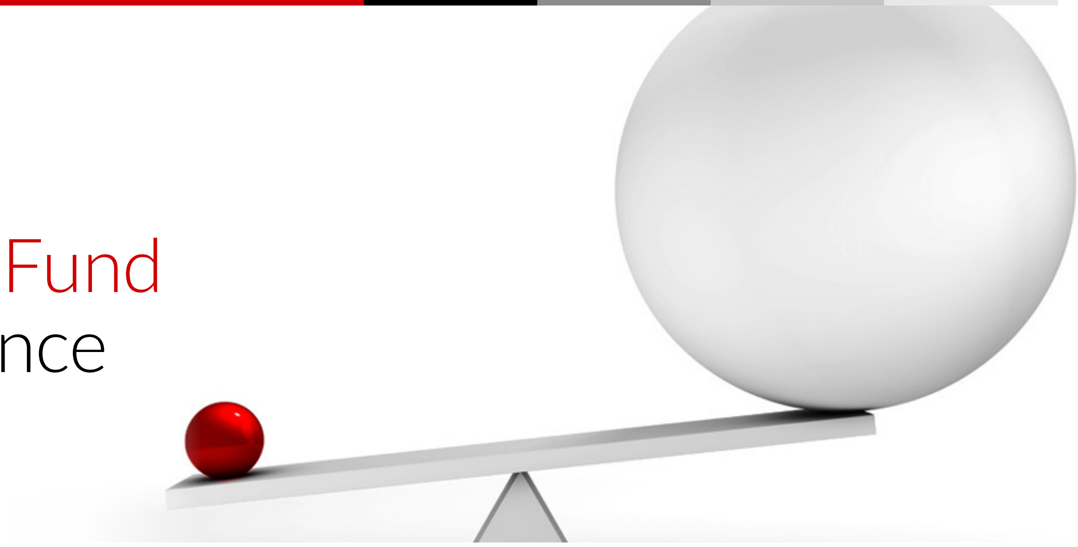
Fund holdings as at 30 June 2024

Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Alumina	208,939	8
Newmont	204,847	8
Woodside Energy Group	199,242	8
Ansell	166,416	7
QBE Insurance Group	128,248	5
ANZ Group Holdings Limited	127,766	5
Virgin Money UK	122,390	5
Sims	78,035	3
Incitec Pivot	77,624	3
Westpac Banking	76,056	3
Telstra Group	68,868	3
Fletcher Building (New Zealand)	68,107	3
Downer EDI	67,953	3
Amcor	66,770	3
Lendlease Group	65,711	3
Orora	64,115	3
Nufarm	59,735	2
Woolworths Group	49,875	2
Origin Energy	47,793	2
Santos	44,827	2
Coles Group	44,056	2
Metcash	37,424	1
G8 Education	34,685	1
SkyCity Entertainment Group (New Zealand)	30,190	1
Bank Of Queensland	29,293	1
Peet	28,248	1
Charter Hall Group	28,200	1
South32	28,058	1
Positions less than 1%	159,044	6
Total Security Exposure	**2,412,517**	**95**
Net Current Assets	135,238	5
Net Assets	**2,547,755**	**100**
Price per unit - Class A (cum distribution)	AUD 1.7252	
Price per unit - Class B (cum distribution)	AUD 1.7336	
Total Assets Under Management for the Australian equity strategy (AUD 000's)‡	AUD 10,762,926	

‡ Allan Gray Australia Pty Ltd also manages segregated accounts that have substantially the same investment goals and restrictions as the Fund.

Balanced Fund
Performance



Allan Gray Australia Balanced Fund

	Allan Gray Australia Balanced Fund	Custom Benchmark*	Relative Performance
Annualised %			
Since Public Launch on 1 March 2017	7.4	6.9	0.5
5 years	7.4	5.2	2.2
3 years	8.0	3.6	4.4
1 year	9.5	9.3	0.2
Not Annualised %			
Latest Quarter	(0.4)	(1.4)	1.0

Highest and lowest annual return since public launch

Allan Gray Australia Balanced Fund	Return %	Calendar year
Highest	13.9	2019
Lowest	(4.1)	2018

* The Custom Benchmark for the Fund comprises 36% S&P/ASX 300 Accumulation Index; 24% S&P/ASX Australian Government Bond Index; 24% MSCI World Index (net dividends reinvested) expressed in AUD; and 16% JPMorgan Global Government Bond Index expressed in AUD.

Past performance is not indicative of future performance. Returns shown are net of fees and assume reinvestment of distributions. Returns are annualised for periods of one year and over. Annualised returns show the average amount earned on an investment in the relevant Fund each year over the given time period. Actual investor performance may differ as a result of the investment date, the date of reinvestment of income distributions, and withholding tax applied to income distributions.

The highest and lowest returns earned during any calendar year since the public launch of each Fund are shown to demonstrate the variability of returns. The complete return history for each Fund can be obtained by contacting our Client Services team.

Balanced Fund Holdings

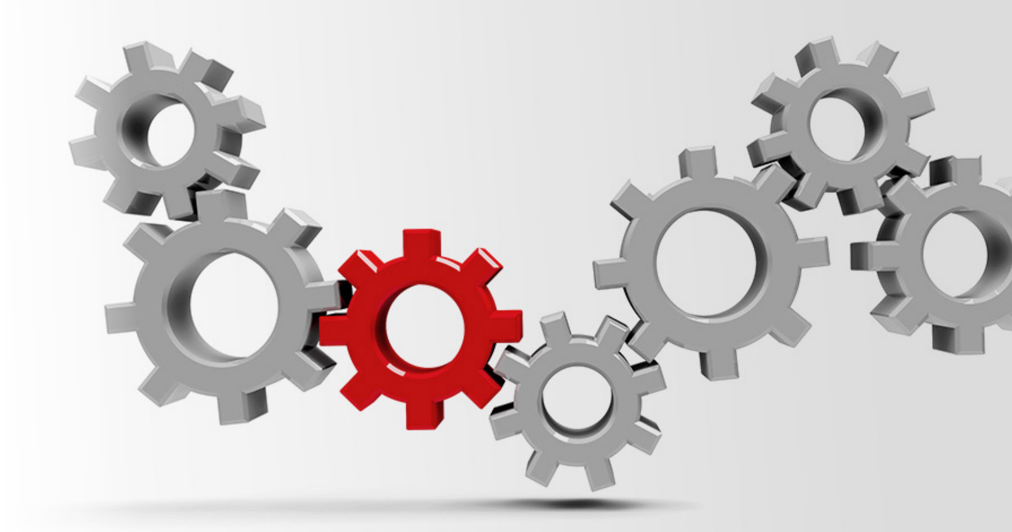
Fund holdings as at 30 June 2024
Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Equity		
Domestic Equity		
Alumina	5,053	3
Woodside Energy Group	4,895	3
Ansell	4,349	2
ANZ Group Holdings Limited	2,447	1
QBE Insurance Group	2,384	1
Sims	1,896	1
Domestic Equity Positions less than 1%	21,645	12
Global Equity		
Samsung Electronics	4,571	3
Newmont	4,554	3
Kinder Morgan	4,356	2
Taiwan Semiconductor Manufacturing	2,789	2
Mitsubishi Heavy Industries	2,624	1
Burford Capital	2,416	1
Virgin Money UK	2,313	1
Drax Group	2,251	1
Fletcher Building (New Zealand)	1,832	1
Global Equity Positions less than 1%	44,364	25
Total Equity^	**114,739**	**64**

^ The Fund holds derivative contracts which reduces the effective net equity exposure to 55%.

Balanced Fund Holdings

Security	Market Value AUD 000's	% of Fund
Fixed Income		
Domestic Fixed Income		
Australian Government Bonds	32,778	18
Global Fixed Income		
US TIPS 3 - 5 Years	4,251	2
US T - Bills < 1 Year	3,171	2
US TIPS 5 - 7 Years	2,088	1
Global Fixed Income Positions less than 1 %	**8,799**	**5**
Total Fixed Income	**51,087**	**28**
Commodity Linked Investments		
SPDR Gold Trust	9,549	5
Total Commodity Linked Investments	**9,549**	**5**
Total Security Exposure	**175,375**	**97**
Cash Equivalents and Term Deposits	4,421	2
Net Current Assets	305	<1
Net Assets	**180,101**	**100**
Price per unit (cum distribution)	AUD 1.3405	



Stable Fund
Performance

Allan Gray Australia Stable Fund

	Allan Gray Australia Stable Fund	RBA Cash	Relative Performance	Distribution
Annualised %				
Since Public Launch on 1 July 2011	5.8	2.1	3.7	4.4
10 years	5.1	1.7	3.4	4.2
5 years	4.3	1.7	2.6	4.5
3 years	4.8	2.5	2.3	5.5
1 year	4.9	4.4	0.5	5.7
Not Annualised %				
Latest Quarter	1.1	1.1	0.0	3.2

Highest and lowest annual return since public launch

Allan Gray Australia Stable Fund	Return %	Calendar year
Highest	14.4	2016
Lowest	(0.5)	2018

Past performance is not indicative of future performance. Returns shown are net of fees and assume reinvestment of distributions. Returns are annualised for periods of one year and over. Annualised returns show the average amount earned on an investment in the relevant Fund each year over the given time period. Actual investor performance may differ as a result of the investment date, the date of reinvestment of income distributions, and withholding tax applied to income distributions.

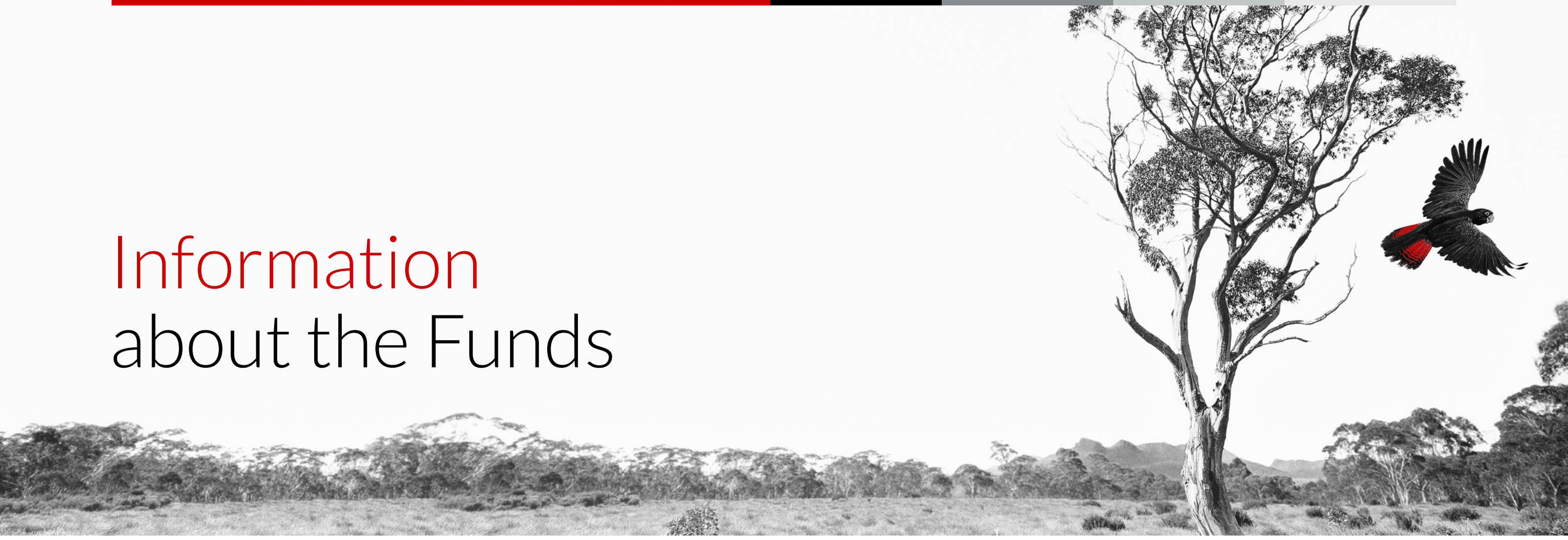
The highest and lowest returns earned during any calendar year since the public launch of each Fund are shown to demonstrate the variability of returns. The complete return history for each Fund can be obtained by contacting our Client Services team.

Stable Fund Holdings

Fund holdings as at 30 June 2024
Statement of net assets (unaudited)

Security	Market Value AUD 000's	% of Fund
Alumina	10,036	3
Newmont	9,354	3
Woodside Energy Group	9,208	3
Ansell	3,982	1
Positions less than 1%	27,974	8
Total Security Exposure	**60,554**	**18**
Cash and Money Market Instruments	282,638	82
Net Current Assets	2,290	<1
Net Assets	**345,482**	**100**
Price per unit (cum distribution)	AUD 1.2132	

Information about the Funds



	Allan Gray Australia Equity Fund	Allan Gray Australia Balanced Fund	Allan Gray Australia Stable Fund
Investment objective	The Fund seeks long-term returns that are higher than the S&P/ASX 300 Accumulation Index.	The Fund seeks long-term returns that are higher than the Custom Benchmark. In doing so, the Fund aims to balance capital growth, income generation and risk of loss using a diversified portfolio.	The Fund aims to provide a long-term return that exceeds the Reserve Bank of Australia cash rate, with less volatility than the Australian sharemarket.
Who should consider investing?	Investors looking for contrarian investment style exposure to the Australian sharemarket and who are able to take a long-term view and endure performance fluctuations.	Investors with an investment horizon of at least three years who want to easily diversify their portfolio within a single fund and are looking for less ups and downs than investing solely in shares. The Fund invests in shares, fixed income, cash and commodity investments sourced locally and globally.	Investors with a two-year or longer investment horizon who are looking to potentially outperform cash over the long term with less risk than investing in the sharemarket alone. The Fund holds at least 50% in cash and money market instruments. When the opportunity arises, the remainder is invested in selected ASX securities.
Dealing	Daily (cut-off at 2pm Sydney time. A different cut-off applies if investing via mFund, where applicable).		
Buy/sell spread	+0.2%/-0.2%	+0.2%/-0.2%	+0.1%/-0.1%
Fees and expenses	**Class A** • Management fees and costs – 0.77% per annum of the Fund's NAV. • Performance fee – 20.5% of the Class' outperformance, net of the base fee, in comparison to the Benchmark. A performance fee is only payable where the Class' outperformance exceeds the high-water mark, which represents the highest level of outperformance, net of base fees, since the Class' inception.	• Management fees and costs – 0.76% per annum of the Fund's NAV. • Performance fee – 20.3% of the Fund's outperformance, net of the base fee, in comparison to the Custom Benchmark. A performance fee is only payable where the Fund's outperformance exceeds the high-water mark, which represents the highest level of outperformance, net of base fees, since the Fund's inception. Other fees and costs may apply, see Product Disclosure Statement for more information.	• Management fees and costs – 0.26% per annum of the Fund's NAV. • Performance fee – 20.5% of the Fund's outperformance, net of the base fee, in comparison to the Benchmark. A performance fee is only payable where the Fund's outperformance exceeds the high-water mark, which represents the highest level of outperformance, net of base fees, since the Fund's inception. Other fees and costs may apply, see Product Disclosure Statement for more information.

Fees and expenses (continued)	**Class B** • Management fees and costs – Nil. • Performance fee – 35.88% of the Class' outperformance in comparison to the Benchmark. A performance fee is only payable where the Class' outperformance exceeds the high-water mark, which represents the highest level of outperformance, since the Class' inception. Other fees and costs may apply, see Product Disclosure Statement for more information.		
Minimum initial investment	AUD 10,000/AUD 500 per month on a regular savings plan.		
Minimum additional investment	AUD 1,000/AUD 500 per month on a regular savings plan.		
Minimum redemption	No minimum applies for ad hoc redemptions. A minimum of AUD 500 per month applies on a regular redemption plan. Investors must maintain a minimum account balance of AUD 10,000.		

Notices

Sources

The source for the S&P/ASX 300 Accumulation Index and the S&P/ASX Australian Government Bond Index is Standard & Poor's. "S&P" is a trademark of S&P Global, Inc.; "ASX" and "ASX 300" are trademarks of ASX Operations Pty Limited ("ASXO"); and "S&P/ASX300" exists pursuant to an arrangement between ASXO and Standard & Poor's.

The source for the MSCI World Index is MSCI Inc. "MSCI" is a trademark of MSCI Inc.

The source for the JP Morgan Global Government Bond Index is J.P. Morgan Securities LLC. "JP Morgan" is a trademark of JPMorgan Chase & Co.

The third party information providers do not guarantee the accuracy, adequacy or completeness of this information, and no further distribution or dissemination of the index data is permitted without express written consent of the providers. None of those parties shall have any liability for any damages (whether direct or otherwise).

Returns

Fund returns are gross of all income, net of all expenses and fees, assume reinvestment of distributions and exclude any applicable spreads.

Risk Warnings

Managed investment schemes are generally medium to long- term investments. Past performance is not indicative of future performance. Each Fund's unit price will fluctuate and the Fund's performance is not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment in a Fund, an investor's capital is at risk. Subject to the disclosure documents, managed investment schemes are traded at prevailing prices and can engage in borrowing and securities lending.

US and European Persons

The Funds do not accept US persons as investors and are not marketed in the European Economic Area (EEA). Investors resident in the EEA can only invest in the Fund under certain circumstances as determined by, and in compliance with, applicable law.

Fees

The base fee and the performance fee (if applicable) are calculated and accrued daily, and paid monthly. A schedule of fees and charges is available in the relevant Fund's disclosure documents.

Other

Equity Trustees Limited, AFSL No. 240975 is the issuer of units in the Allan Gray Australia Equity Fund, the Allan Gray Australia Balanced Fund and the Allan Gray Australia Stable Fund and has full responsibility for each Fund. Equity Trustees Limited is a subsidiary of EQT Holdings Limited, a publicly listed company on the Australian Stock Exchange (ASX:EQT). Allan Gray Australia Pty Limited, AFSL No. 298487 is the Funds' investment manager. Each Fund's Product Disclosure Statement and Information Booklet (together, PDS) are available from www.allangray.com.au or by contacting Client Services on 1300 604 604 (within Australia) or +61 2 8224 8604 (outside Australia). You should consider the relevant Fund's PDS in deciding whether to acquire, or continue to hold, units in the fund. Target Market Determinations (TMDs) for the Allan Gray products can be found at allangray.com.au/PDS-TMD-documents. Each TMD sets out who an investment in the relevant Allan Gray product might be appropriate for and the circumstances that trigger a review of the TMD.

This report provides general information or advice and is not an offer to sell, or a solicitation to buy, units in the relevant Fund. Where the report provides commentary on a particular security, it is done to demonstrate the reasons why we have or have not dealt in the particular security for a Fund. It is not intended to be, nor should be construed as, financial product advice. This report is current as at its date of publication, is given in good faith and has been derived from sources believed to be reliable and accurate. It does not take into account your objectives, financial situation or needs. Any implied figures or estimates are subject to assumptions, risks and uncertainties. Actual figures may differ materially and you are cautioned not to place undue reliance on such information. Subject to applicable law, neither Allan Gray, Equity Trustees Limited nor any of its related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accept any liability to any person who relies on it. Fees are exclusive of GST. Totals presented in this document may not sum due to rounding.

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CONTRARIAN INVESTING

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