Product Assessment

Report as at 30 Sep 2024

Zenith

APPROVED

Orbis Global Real Return Fund

Rating issued on 26 Sep 2024 | APIR: ETL3967AU | mFund: ORB02

Investment objective

To balance the generation of investment returns and risk of loss using a diversified global portfolio. Additionally, to seek higher returns than CPI+4% per annum, net of fees, over the long-term.

Manager	Orbis Investment Management Limited
Distributor	Orbis Investment Advisory Pty Ltd
Sector	Multi-Asset \ Real Return
Investment Style	Active
RI Classification	Integrated
Absolute Risk	High
Relative Risk	Active - AA Unconstrained
Investment Timeframe	5-6 Years
Benchmark	Bloomberg AusBond Bank Bill Index
Min Investment Amount	$10,000
Redemption Frequency	Daily
Income Distribution	Annually
Fund Size (31 Jul 2024)	$11.30M
Management Cost	1.20% p.a. Incl. GST
Performance Fee	A 25% refundable performance fee. Orbis' performance fee is unique in that Orbis offers a refund when the Benchmark beats Orbis.
Buy / Sell Spread	0.25% / 0.25%
Inception Date	28 Feb 2017

Fund facts

- An unconstrained multi-asset strategy with a focus on downside protection
- Broad asset allocation ranges
- Value-based investment approach with the portfolio built on a security-by-security basis

Viewpoint

The Fund, managed by Orbis Investment Management Limited's (Orbis) Bermuda-based Multi-Asset team, invests across a range of Equity, Fixed Income and Commodity assets. Employing a value-based investment process, the portfolio is built on a security-by-security basis with a focus on maintaining a granular understanding of the risk/return properties of each security. The Fund has an equity bias with its investment process underpinned by Orbis' high quality bottom-up research effort. Notwithstanding the attractive features of the Fund, an increase in Zenith's conviction is contingent on increased scale and improvements in the cost structure.

The Multi-Asset team is led by Alec Cutler, Portfolio Manager who manages a team of seven investment professionals. In Zenith's opinion, Cutler is a well-credentialed portfolio manager with a strong equity orientation. In particular, his bottom-up equity selection expertise is a key driver of the underlying strategy's track record.

In August 2024, Orbis repositioned the Fund to target a real return objective of CPI+ 4% p.a. over the long-term. While historically the Fund has been managed to a Strategic Asset Allocation (SAA) based on a 60%/40% allocation to equities and bonds, the Fund has always been managed to broad asset allocation guidelines. As such, Zenith believes there will be limited impact to the day-to-day management of the Fund which we view favourably.

A key philosophical difference with Orbis' approach is building the portfolio on a security-by-security basis, with indifference to resultant asset allocations (subject to portfolio's constraints). This differs from more traditional approaches involving a top-down asset allocation from which underlying securities are then populated. Zenith notes that while there is an implicit opportunity cost in Orbis' approach (i.e. the ability to add value from top-down asset allocation), we believe this is largely offset by the security selection expertise of the firm.

In terms of equity selection, Orbis employs a focused approach with ideas generated through a variety of qualitative and quantitative tools. Analysts are afforded the discretion to use parameters they deem relevant to a particular company or situation. The output of the screen creates a short list of investment ideas for further evaluation. An important qualitative overlay is applied to the process where the analyst seeks to understand reasons why a company appears undervalued, and whether concerns are legitimate.

The Global Fixed Interest process is supported by a range of screening tools which rank the investable universe by a range of yield/spread metrics i.e. yield-to-worst, yield to maturity etc. Zenith notes that Orbis' approach to corporate credit selection is highly targeted and akin to a 'distressed credit' investing philosophy. That is, seeking to identify deeply mispriced securities with high underlying intrinsic value but with a commensurate level of default risk.

Fund analysis

Fund characteristics

Constraint	Value
Global Equities	0% to 90%
Cash and Fixed Income	0% to 70%
Commodity-linked instruments	0% to 15%
Other securities	0% to 5%
Number of Positions	60-110
Portfolio Turnover - Equities	Approximately 20% to 50%

Investment objective and philosophy

The Fund is positioned to balance the generation of investment returns and risk of loss using a diversified global portfolio. In doing so, the aim is to seek higher returns than CPI+ 4% p.a., net of fees, over the long-term.

Orbis' 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.

Orbis seeks to identify companies/securities that are misunderstood or out of favour, and trading below their long-term intrinsic value. Applying in-depth bottom-up fundamental research, Orbis assesses the perceived risk and reward relationship of each investment idea. The Fund invests in these securities (equities or debt), believing that business fundamentals will prevail over market noise over the longer-term, thus, leading the price appreciation towards the intrinsic value.

The Fund's neutral asset allocation is based on a 60%/40% allocation to Equities and Fixed Income, however, this will vary through the investment cycle subject to relative valuations across the respective asset classes, noting that the Fund is managed to broad asset allocation ranges.

Zenith highlights that a key philosophical difference with Orbis' approach, is that it builds the portfolio on a security-by-security basis, with indifference to the resultant asset allocations (subject to the portfolio's constraints). As such, the Fund's underlying exposures can vary markedly depending on the opportunity set for equities and bonds.

This differs from more traditional approaches where a top-down asset allocation and then the underlying portfolio is populated with securities. Zenith notes that while there is an implicit opportunity cost in Orbis' approach i.e. the ability to add value from top-down asset allocation, we believe this is largely offset by the security selection expertise of the firm.

In Zenith's opinion, while the asset allocation framework lacks some of the science and quantitative techniques employed across the broader peer group, the quality of Orbis' bottom-up analysis compensates for any limitations attached to its limited focus on top-down asset allocation.

Portfolio applications

The Fund is suitable for investors seeking a growth-orientated portfolio that invests across equities, sub-investment grade credit and bonds, noting it is managed to broad asset allocation ranges. The underlying investment strategy is expected to provide sound capital growth over the medium to long-term. Zenith considers an appropriate investment horizon to be five years or longer.

Zenith highlights that Orbis' stock selection philosophy of identifying securities with an acceptable 'margin of safety' or discount to fair value, should act to dampen volatility (as measured by Standard Deviation). However, there is a risk of capital volatility, particularly in stressed equity environments. This risk is magnified given the Fund's ability to predominately invest in Global Equities.

For investors subject to the constraints imposed by a traditional SAA framework, the Fund may be suitable as a satellite portfolio exposure due to potential for Orbis to adjust the Fund's asset allocation on both a frequent and material basis.

In isolation, the Fund would be considered a moderate to high-risk investment proposition and warrant an investment term of at least five years. The Fund is not considered suitable for those with near term liquidity needs.

Zenith considers the Fund to be suitable as a standalone investment, or as a complement to a broader portfolio that seeks to produce outcomes consistent with an investors risk/return preferences. The Fund is structured to pay distributions on an annual basis, and therefore may not be suitable for investors requiring more frequent income distributions.

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

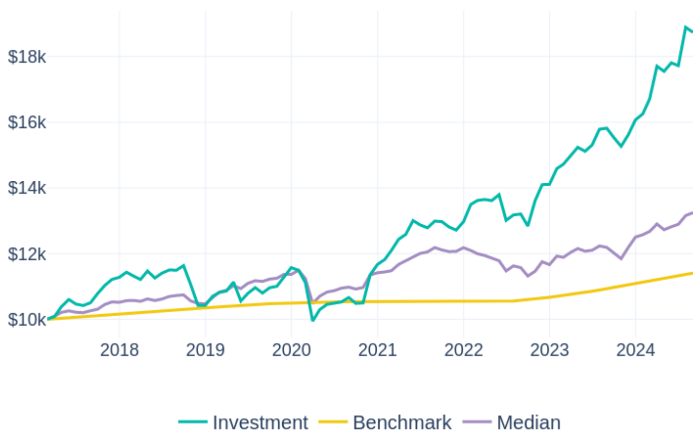
Performance as at 31 Aug 2024

Monthly performance history (%, net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	1.12%	2.81%	5.96%	-0.88%	1.47%	-0.48%	6.59%	-0.80%					16.58%	2.95%
2023	3.38%	0.93%	1.80%	1.67%	-0.80%	1.27%	3.14%	0.20%	-1.82%	-1.71%	2.27%	2.96%	13.93%	3.85%
2022	4.07%	0.89%	0.22%	-0.25%	1.33%	-5.67%	1.27%	0.21%	-2.78%	6.03%	3.58%	0.07%	8.79%	1.25%
2021	1.29%	2.33%	2.82%	1.18%	3.35%	-1.01%	-0.70%	1.61%	-0.13%	-1.26%	-0.74%	2.00%	11.13%	0.03%
2020	-0.69%	-3.27%	-10.54%	3.52%	1.55%	0.29%	0.42%	1.27%	-1.67%	0.13%	8.14%	2.80%	0.85%	0.37%

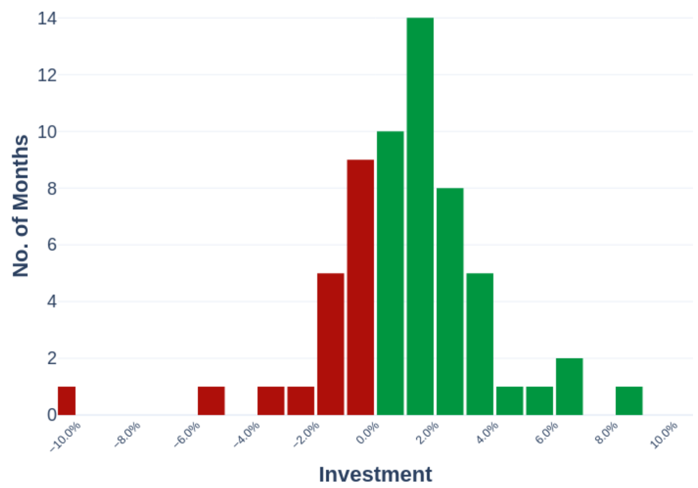
**Bloomberg AusBond Bank Bill Index*

Growth of $10,000



Risk / return

Monthly histogram



Minimum and maximum returns (% p.a.)

Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Investment	**18.46%**	**13.00%**	**11.66%**	**8.63%**	**8.73%**
Income	5.90%	4.70%	3.92%	3.02%	2.82%
Growth	12.56%	8.30%	7.73%	5.61%	5.91%
Benchmark	**4.35%**	**2.68%**	**1.74%**	**1.77%**	**1.77%**
Median	**8.67%**	**2.83%**	**3.50%**	**3.72%**	**3.82%**
Cash	**4.35%**	**2.68%**	**1.74%**	**1.77%**	**1.77%**

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	1 / 29	1 / 29	1 / 25	1 / 23
Quartile	1st	1st	1st	1st

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	9.31%	8.54%	9.65%	9.39%	9.17%
Benchmark	0.05%	0.50%	0.51%	0.44%	0.42%
Median	4.97%	4.62%	5.31%	4.73%	4.60%
Downside Deviation (% p.a.)					
Investment	2.81%	4.11%	5.95%	6.20%	6.01%
Benchmark	0.00%	0.01%	0.01%	0.01%	0.01%
Median	2.43%	2.70%	3.82%	3.32%	3.21%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	1.52	1.21	1.03	0.73	0.76
Benchmark	0.00	0.00	0.00	0.00	0.00
Median	0.87	0.03	0.33	0.41	0.45
Sortino Ratio (p.a.)					
Investment	5.03	2.51	1.67	1.11	1.16
Benchmark	NaN	0.00	0.00	0.00	0.00
Median	1.78	0.05	0.46	0.59	0.64

Zenith benchmarks funds in the 'Multi-Asset - Real Return' peer group against the Bloomberg AusBond Bank Bill Index. While this benchmark may not be consistent with the one adhered to by all rated participants, it has been adopted to provide investors with a common reference point against which similarly structured strategies may be assessed.

The following commentary is effective as at 31 August 2024.

Prior to August 2024, the Fund was managed to an objective to outperform a customised benchmark, balancing capital growth, income generation, over rolling three-year periods. The benchmark is comprised of the following: 60% MSCI World Index with net dividends reinvested, expressed in AUD, and 40% JP Morgan Global Government Bond Index, hedged into AUD. As such, historical performance of the Fund may be less relevant given the recent change to the objective.

The Fund is managed with the goal of producing a return broadly comparable to CPI plus a margin of 4% (net) p.a. when assessed on a through the cycle basis.

The Fund has outperformed its benchmark on a since inception basis and has outperformed the median manager over all periods of assessment. In addition, the Fund has featured in the upper quartiles of its peer group over all periods of assessment.

The Fund's volatility (in terms of Standard Deviation) has been higher than the median manager when assessed over a range of time frames.

Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Excess Return	14.11%	10.31%	9.91%	6.86%	6.97%
Monthly Excess (All Mkts)	58.33%	61.11%	66.67%	65.48%	65.56%
Monthly Excess (Up Mkts)	58.33%	64.71%	68.42%	66.67%	66.67%
Monthly Excess (Down Mkts)	0.00%	0.00%	33.33%	33.33%	33.33%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Downside Capture	0.00%	8862.44%	-4501.91%	-4501.91%	-4501.91%
Upside Capture	399.97%	481.94%	630.16%	465.90%	472.14%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Investment	9.29%	8.42%	9.61%	9.36%	9.13%
Median	4.96%	4.44%	5.27%	4.70%	4.57%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Investment	1.52	1.23	1.03	0.73	0.76
Median	0.87	0.03	0.33	0.41	0.45

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Beta	60.56	4.59	2.29	2.22	2.23
R-Squared	0.13	0.07	0.01	0.01	0.01
Correlation	0.36	0.27	0.12	0.10	0.10

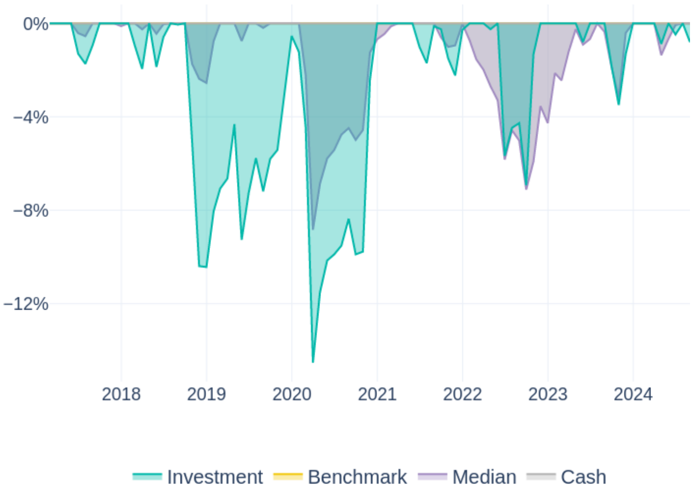
All commentary below is effective as at 31 August 2024.

Zenith seeks to identify funds that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill.

The Fund has achieved this consistency ratio in 'all' market conditions across all time periods of assessment. The Fund has also generated stronger performance in 'up' trending markets.

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 effective as at 31 August 2024.

The Fund has exhibited a more constrained drawdown profile relative to both the Zenith assigned benchmark and peer median manager.

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: Key person risk exists with Cutler, with his ongoing involvement considered critical to the Fund's future performance prospects. However, this risk is partially mitigated given Cutler's equity stake in Orbis.

Longevity risk: The Fund currently has approximately $A 11.6 million, as at 31 August 2024. To ensure the longer-term viability of the strategy, it’s imperative that Orbis diversifies its investor base, both in terms of external investment and quantum of funds under management (FUM). In the absence of a larger, more diversified investor base, Zenith believes there is a high level of longevity risk associated with the Fund.

Investment style risk: The Fund's equity exposure follows a value-based, benchmark unaware investment approach which may result in the performance of the equity exposure diverging substantially from the benchmark.

Sub-investment grade risk: By its nature and as reflected by its rating, sub-investment grade debt has a higher potential of default. Although investors have historically been compensated, in the form of excess returns, for defaults in the broader asset class, there is potential for the strategy to experience more defaults than the broader market. Additionally, defaults tend to cluster in certain years and therefore investors should expect periodic episodes of higher defaults.

Asset allocation risk: The Fund is managed to non-invasive asset allocation ranges, which permit Orbis to invest up to 90% of the portfolio in equities (on a gross basis). Therefore, there is a risk that the Fund's volatility profile is more consistent with an equity fund as opposed to a balanced fund.

Security/asset selection

The security selection process is managed by Cutler, leveraging the broader resources of the Orbis global equity team.

Equity selection

In terms of equity selection, Orbis employs a focused approach with ideas generated through a variety of qualitative and quantitative tools. The quantitative screen draws upon information from Orbis' proprietary company database which contains prices and fundamental company data for more than 6,000 companies globally. Metrics applied in the screen include:

- 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 they deem relevant to a particular company or situation. The output of the screen creates a short list of investment ideas for further evaluation. An important qualitative overlay is applied to the process where the analyst seeks to understand the reasons the company is undervalued, and whether the concerns are legitimate.

For any company that passes the initial analysis, the analyst conducts in-depth bottom-up, fundamental research to determine if there is an attractive investment opportunity. One of the key objectives of the research process is to understand the return drivers of a company, with factors such as competitive position, management quality and return on capital considered paramount. Zenith believes the research reports are of a high quality and a competitive advantage of the Fund.

Contact with company management is a key focus, particularly in the later stages of research and ongoing reviews. The aim of the research process is to produce an internally generated assessment of the company's long-term intrinsic value. This assessment is compared against current market price to determine a stock's level of attractiveness.

A key difference between the stock selection for this strategy and Orbis' global equity strategies, is the additional hurdle, defined as an increased discount to valuation, required for a stock’s inclusion in the portfolio. Furthermore, to manage the portfolio’s downside volatility, companies with lower gearing levels and less cyclical earnings streams are typically prioritised.

In certain instances where the Multi-Asset team identifies a security that is not researched by the global equity team, there is scope for the team to initiate research coverage and present a research proposal to a Policy Group Meeting (PGM) for peer review. This typically occurs where stocks exhibit a risk/return profile that is deemed too conservative for a typical Orbis global equity portfolio, but relevant for the Fund given its more conservative positioning.

For example, where a sector is deeply out-of-favour, the global equity team would tend to focus on the cheapest securities in the sector, while the Multi-Asset team can be flexible and target more conservative opportunities. In terms of ongoing coverage, if a security is added to the portfolio, Cutler can transition research responsibility to one of the global equity sector/country analysts. Alternatively, he can elect to maintain coverage within the Multi-Asset team.

In Zenith's opinion, the Multi-Asset and global equity teams work cohesively to ensure the portfolio is populated with securities that exhibit risk/return characteristics consistent with the positioning of the Fund. While Multi-Asset investors are typically 'generalists' and less inclined to invest in single stocks, Cutler's strong equity background ensures the team has the requisite skills to execute this aspect of the process.

An important component of the research process is peer review. Analysts present their investment ideas to the broader team for rigorous debate, with the team actively attempting to find flaws in every investment thesis. This peer review provides an additional layer of robustness to the investment process, as well as further insight into a stock's downside risk potential. Zenith believes the research process is sound and displays a high degree of independent thought.

The process concludes with the analyst presenting the investment idea at a PGM, which is held on an ad-hoc basis. The PGM structure provides a forum for portfolio managers to consider new ideas and challenge the underlying investment thesis supporting each recommendation. If the idea is approved, the portfolio manager will determine the appropriate position sizing.

Stocks selected for inclusion within the portfolio are often considered 'contrarian investments', with Orbis 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 equity portion of the portfolio; however, Zenith believes that the analytical depth and rigour of Orbis' process generally prevails over the long-term.

Overall, Zenith has confidence in the analytical depth and rigour of Orbis' stock selection process. In addition, we believe the research process provides analysts with considerable freedom and the robust peer review process ensures investment discipline is maintained across all investment ideas.

Government bond/credit selection

The global fixed interest component is overseen by Cutler, who is responsible for selecting government, inflation-linked and corporate securities. The process is supported by a range of screening tools which rank the investable universe by a range of yield/spread metrics i.e. yield-to-worst, yield to maturity etc. The screening process can be tailored to focus on those segments of the market that are out-of-favour.

The government bond and inflation-linked process is managed in parallel with Orbis' active currency approach, where currency analysts are responsible for assessing interest rate, inflation, sovereign and political risk. This is synthesised into a view on the attractiveness of local cash and break-even inflation rates, with a requirement that any duration risk is compensated with a commensurate pick-up in yield.

The corporate bond research effort leverages Orbis' company research capabilities, with a focus on bottom-up fundamental analysis. If a bond trades below its intrinsic value i.e. comparing the current yield to Orbis' assessment of fair value, then the security is considered for the portfolio. Where a corporate bond has a high default risk, but with tangible underlying assets, it is willing to accept an equity swap or receive assets from the business. All securities are purchased with the intention of holding to maturity /redemption.

Zenith notes that Orbis' approach to corporate credit selection is highly targeted and akin to a 'distressed credit' investing philosophy. That is, seeking to identify deeply mispriced securities with high underlying intrinsic value but with a commensurate level of default risk. While this style of approach has the potential to generate attractive risk-adjusted returns, it also introduces additional default risk and spread volatility.

In Zenith's opinion, the quality and depth of Orbis' bottom-up research supports this approach, particularly with respect to decomposing the value of a business in the case of an equity swap or asset sale.

Commodities

Orbis has the flexibility to invest up to 15% of the portfolio in commodities where the asset class is deemed to be more attractive relative to the Fixed Income and Equity sectors. The decision to invest is principally a relative value decision between investing in the physical commodity (via futures or exchange traded funds) versus an underlying stock or bond which provides a similar economic exposure i.e. a company whose primary source of revenue is mining a particular commodity (gold, silver etc.). Further, the inclusion of commodities can also be based on the diversification requirements of the portfolio, such as diversifying equity risk.

Where Orbis' bottom-up research of basic materials companies identifies a strong thematic supporting a particular commodity, it will seek to express this view by identifying high quality companies in the sector that are well managed with low costs of production. If Orbis' bottom-up research cannot identify these companies, the Multi-Asset team has the flexibility to invest directly in the commodity, thus capturing the thematic and at the same time removing the operational and execution risk of a poorly managed miner.

Zenith is supportive of Orbis's approach, noting that over the longer-term, mining companies have tended to underperform the price inflation of their respective underlying commodities. Historically, the Fund's commodity exposure has generally been limited to holding 'risk off' positions such as precious metals i.e. gold, which protect the portfolio during periods of equity market stress.

Responsible investment approach

Orbis has an established Responsible Investment Policy, last updated in June 2024, guiding its investment decisions. In addition, Orbis has been a signatory of the Principles for Responsible Investment (PRI) since 2017.

Orbis does not explicitly limit the Fund from investing in any individual company based on environmental, social and governance (ESG) issues and as such may hold exposures to those that are considered unethical (i.e. tobacco manufacturers).

However, relevant ESG factors are evaluated as part of each analyst's fundamental analysis, which are those they consider to be potentially material to their intrinsic value assessment and could impact the sustainability of profits. These are outlined in the research reports submitted on each company. The same approach is also applied to Fixed Income securities.

Orbis recently built a small team of responsible investing analysts, led by Henry Allen, to help Orbis execute on its Responsible Investing principles.

Portfolio construction

The split between equities and bonds is largely an outworking of the bottom-up opportunities identified through the security selection phase. As such, the split can vary though the cycle, based on the relative attractiveness of opportunities across each asset class. The Fund is managed to broad allocation guidelines that permits Equity exposure to range between 0% and 90% (on a gross basis) of the portfolio's net asset value (NAV), while the Fixed Income portion accounts for between 0% to 70%.

While Orbis' approach is fluid and closely aligned to valuations across Equity markets, Zenith believes the process could be enhanced with a stronger top-down component, including more granular, forward-looking asset class research (i.e. understanding the valuation of long bond yields, credit cycles).

Orbis assesses each investment idea and the perceived risk/reward relationship, seeking to identify the best ideas whilst adhering to broad risk constraints. These are derived by ranking stocks by valuation discounts, with the highest discounts considered the most attractive. The stocks selected are then assessed relative to cash on a risk/reward basis, resulting in only the best risk-adjusted ideas being selected.

Zenith notes Orbis has the flexibility to implement stock market hedges in the portfolio. When a stock is trading with a large discount to fair value and exhibits high market sensitivity, the Fund may hold a larger position in that security particularly where the market exposure can be hedged. In aggregate this can result in the Fund's equity exposure reducing by up to 20%. In terms of hedging instruments, Orbis uses plain vanilla futures contracts such as the S&P 500 and the Euro Stoxx.

In our opinion, the hedging process is intuitively appealing and akin to a 'portable alpha' strategy i.e. isolating security mispricing from market risk. While there is a degree of basis risk embedded in the approach, Orbis has a long track record in employing these types of strategies.

The Fund typically holds approximately 85-90 positions in its highest conviction ideas with average position sizes ranging from 1% to 5%. The Fund's portfolio turnover for the Equity portion is expected to be approximately 20% p.a. to 50% p.a., which is consistent with the long-term investment philosophy adhered to by the firm.

The Fund's currency position is actively managed by Cutler with input from Orbis' active currency team. In practice, the Fund's currency exposure represents an aggregate of the currency denomination of the underlying securities in the portfolio, which are then adjusted to align with Cutler's views of the most (least) attractive currencies. For example, if the underlying portfolio results in a 5% overweight to the Euro and Orbis was recommending a neutral position in this currency, an offsetting currency forward position would be implemented i.e. 5% in USD/EUR.

As detailed earlier, the Fund can invest in commodity-linked instruments (typically ETFs, exchange traded futures etc) for either hedging purposes i.e. investing in gold or if the actual commodity is assessed as more attractive relative to companies operating in the same sector.

Proprietary analytical software is used to assess the impact on weightings changes on the overall portfolio. Correlations between stocks are also analysed to gain an understanding of and manage the exposure to underlying variables, which acts to increase diversification and reduce risks.

Securities are sold when they reach the targeted intrinsic value, or when they are displaced by more attractive investment opportunities. Where a stock experiences a significant price deterioration post the initial investment, provided the investment thesis remained unchanged, Orbis would continue to purchase the stock to ensure that the position is maintained at the desired weight in the Fund.

In sum, Zenith considers the portfolio construction approach to be highly qualitative, relying on the skill and experience of the Portfolio Manager. While we believe there is scope to introduce more science and rigour to the process, we believe the quality of bottom-up research largely offsets this weakness. In our opinion, Orbis has a proven ability to identify attractive bottom-up opportunities and protect capital, which should result in competitive returns through the cycle.

Risk management

In addition to the broad risk constraints, risk management is embedded into the research process at both the security selection and portfolio construction processes.

In terms of equity selection, investment themes are identified through rigorous and detailed research. As Orbis' investment process is contrarian in nature, the assessment of the downside risks to individual stocks takes on even greater significance.

In assessing a company, one of the key objectives of the bottom-up research process is to understand why a company is out of favour with the market and if this view is justified. Zenith believes the discipline embedded in this approach ensures that downside risk is properly considered at both a security selection level and in a portfolio management context.

At the portfolio construction level, Orbis uses a proprietary risk management system to identify and monitor any unintended biases within the Fund. Zenith notes that Orbis' risk management systems is equity centric and may not fully capture the inherent risks within fixed income. Orbis is aware of the potential liquidity risks that arise from its investment process. To this end, Orbis monitors portfolio liquidity on an ongoing basis to ensure liquidity risks are managed appropriately.

Zenith is satisfied that the firm's risk management processes are applied at multiple stages of the investment process and that liquidity of holdings are adequately monitored. In addition, the flexible portfolio constraints ensure that Orbis is not restricted in their ability to deliver outperformance. However, investors should be aware there is significant reliance on management judgement and skill.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	1.26% p.a.	0.86% p.a.
Management Fees and Costs	1.20% p.a.	0.76% p.a.
Transaction Costs	0.06% p.a.	0.08% p.a.
Performance fees as at 30 Jun 2023	0.00%	0.03%
Performance fees description	A 25% refundable performance fee. Orbis' performance fee is unique in that Orbis offers a refund when the Benchmark beats Orbis.	
Management Cost	1.20% p.a.	0.74% p.a.
Buy / Sell spread	0.25% / 0.25%	0.14% / 0.14%

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 management cost is based on the average management cost of all flagship Multi-Asset - Real Return funds surveyed by Zenith.

Unique to this Fund is its performance fee structure where accrued performance fees are paid into a reserve as opposed to the full amount being paid out of the Fund to the manager. The reserve mechanism enables Orbis to effectively refund performance fees during periods of underperformance relative to the benchmark. Where this occurs, accrued performance fees held within the reserve are paid back to the Fund and reflected in the Fund's Net Asset Value such that it is captured in the unit price for investors. The calculation and accrual of performance fees takes place on a daily basis. The performance fee is payable monthly in arrears and is refundable, which acts like a high watermark.

Zenith believes the Fund's cost structure is excessive relative to the peer group.

(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

Orbis Investment Management Limited (Orbis) was originally founded by Dr Allan WB Gray in Bermuda in 1989 to provide pooled investment services to wholesale and retail investors. Orbis remains privately owned, with the Allan and Gill Gray Foundation holding a controlling interest in the firm.

The heritage of the firm links back to Allan Gray Limited (South Africa), which was originally founded in South Africa in 1973. Under the same organisation, the Orbis Group was formed in 1989 as a global fund manager, specialising in providing pooled investment services to wholesale and retail investors. As at 31 August 2024, Orbis managed approximately $US 40.4 billion, employing 432 people across 10 offices globally.

Orbis maintains close links with Allan Gray Australia (Allan Gray), a Sydney-based investment management firm established as a joint venture between Orbis and the Marais Family Trust in 2004. Allan Gray is responsible for the distribution of Orbis' investment capabilities in the Australian retail market.

As at 31 August 2024, Orbis managed approximately $A 6.9 billion in the strategy which includes $A 11.6 million in the Fund.

Zenith highlights that based on the current level of funds under management (FUM), the Fund is sub-economic for Orbis. Thus, it is imperative that the firm expands and diversifies its investor base, to include a broader mix of investors. Zenith expects this investor concentration risk to dissipate over the medium-term, highlighting Orbis' patient approach to raising capital.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Alec Cutler	Portfolio Manager	30	19	Hamilton, Bermuda
Mark Dunley-Owen	Portfolio Manager	23	14	Hamilton, Bermuda
Timo Smuts	Head of Fixed Income	8	8	Hamilton, Bermuda
Ashley Lynn	Multi-Asset Analyst	11	11	Hamilton, Bermuda

The Bermuda based investment team is led by Alec Cutler, Portfolio Manager who manages a team of eight investment professionals. Cutler joined the firm in 2004 and is the Lead Portfolio Manager for the Global Balanced Strategy. Prior to joining Orbis, Cutler was employed at Brandywine Asset Management, holding a number of senior investment management roles. In Zenith's opinion, Cutler is a well-credentialed and experienced portfolio manager with a strong equity orientation and expertise in bottom-up equity selection.

Mark Dunley-Owen, Portfolio Manager, joined in September 2020. Dunley-Owen joins the team following a 11-year tenure at Allan Gray, where he was largely responsible for managing fixed interest portfolios, having also had prior equities experience. Zenith notes that Dunley-Owen became a named Portfolio Manager on the Fund in May 2022. We view favourably the additional perspective he provides having come from a Fixed Income background, albeit note that to date his involvement has been more on the Equity side.

Cutler is further supported by Ashley Lynn in the Multi-Asset team. Lynn joined Orbis in 2013 and is responsible for investment research and the development of high-impact ideas. Lynn has a strong legal background having previously worked as an attorney at Boyden Gray & Associates and in a policy role at the Office of the Secretary of Defence. Zenith highlights that while Lynn has limited fixed income experience from prior roles, her legal background is highly complementary to the Orbis investment process. In particular, the firm focuses on companies undergoing restructures, recapitalisations, where interpreting complex legal documentation can be highly accretive.

The remainder of the team is comprised of Timo Smuts, Head of Fixed Income and Analysts, Londa Nxumalo, Junichi (Jeffrey) Miyamoto, Romari Tucker and Robyn Carroll. The Multi-Asset team is augmented by the broader resources of the Orbis global equity team, which is comprised of 53 investment professionals (as at 31 August 2024). The core of the team is the investment research team consisting of 37 analysts, who are organised along both regional and global sector lines.

While the majority of equity ideas are sourced from the Orbis global equity team, Zenith highlights that the Multi-Asset team has the remit to conduct bottom-up equity analysis, outside of the research undertaken by the broader team. This typically occurs when the assessed upside of a security is below the return expectations for the global equity portfolios or where a security introduces particular diversification benefits to the Fund.

In our opinion, we would prefer to see the portfolios investable universe limited to those securities that are recommended by the equity team i.e. via inclusion in the flagship fund or as part of each analysts' paper portfolios.

The remuneration structure involves detailed performance attribution analysis and a thorough analysis on decisions relating to investment research, portfolio construction and trade execution. Zenith notes senior executives are shareholders in the business and cannot fully divest their equity interest until 12 years after their departure of the firm. In our opinion, the current alignment structure is strong, ensuring investors' interests are prudently managed.

Overall, Zenith believes the investment team has a strong equity capability and views their ability to draw on the global equity team favourably.

About the sector

Sector characteristics

The Multi-Asset sector includes those funds that are permitted to invest across asset classes and investment strategies. Traditionally, asset class exposures have included equities, fixed interest, property, infrastructure and cash. However, in more recent times there has been an increased willingness by sector participants to incorporate alternative strategies in an effort to enhance portfolio outcomes. With further innovation also sighted in the area of active asset allocation, this has led to a more continuous flow of products that seek to cater to the needs of a growing and more diverse range of investors.

Zenith believes that Multi-Asset funds can no longer simply be deemed the domain of those seeking a low cost and diversified investment solution. Rather, these strategies are also likely to appeal amongst more sophisticated investors who are once again being drawn to the concept of active asset allocation as a core driver of portfolio outcomes. Furthermore, it is feasible that the sector will continue to gain in popularity amidst an environment of increased regulation and statutory oversight.

Zenith categorises the Fund within the 'Multi-Asset – Real Return' peer group. Members of this category target an absolute return outcome, and unlike their traditional Diversified counterparts, are not subject to a conventional strategic asset allocation (SAA) framework. Instead, portfolio positions are determined through a continuous assessment of investment markets, with portfolio managers provided ample flexibility in setting asset class exposures.

Given the wide range of funds offered in this peer group and the variable nature in which they are managed, Zenith does not measure their performance against benchmarks that have an implicit SAA setting. Instead, we measure their success against a range of absolute return benchmarks including cash (as measured by the Bloomberg AusBond Bank Bill Index) and one of Zenith’s tailored Consumer Price Index (CPI) benchmarks. Further detail on this Fund’s assigned CPI+ benchmark is provided in the 'Absolute performance' section.

Sector risks

There exist a number of risks that are generally common amongst all Multi-Asset funds. These include:

Market risk: In periods of heightened risk aversion, it is feasible that asset class correlations merge. Should this occur, the diversification benefits brought through the construction of a portfolio comprising multiple lowly correlated asset classes may be lost, potentially exposing investors to a broader deterioration in market conditions.

Currency risk: Sector participants may be permitted to gain international exposures on an unhedged basis. The decision whether or not to hedge is often deemed active in nature and can expose investors to fluctuations in cross currency rates. This may be either to the benefit or cost of Fund volatility and performance.

Emerging market risk: Many sector participants gain exposure to emerging and frontier markets which bring with them additional risks. These may include reduced liquidity, a more opaque pricing mechanism, increased sovereign risk and political tensions.

Alternatives risk: A growing number of funds have investment mandates that permit a meaningful exposure to alternative assets and strategies. Investors should be aware that the use of alternatives can bring with them additional risks.

Illiquidity risk: While most sector participants will seek to retain high levels of liquidity, it is feasible that a fund may retain exposure in assets that are deemed illiquid or subject to irregular pricing policies. It may be difficult for an investment manager to subsequently liquidate such portfolio positions without incurring meaningful transaction or other performance related costs.

Administration and operations

Responsible Entity	Equity Trustees Limited

Zenith rating

Report certification

Date of issue: 26 Sep 2024

Role	Analyst	Title
Analyst	Bonnie Corbett	Senior Investment Analyst
Sector Lead	Andrew Yap	Head of Multi Asset & Austn. Fixed Income

Association & relationship

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Rating history

As At	Rating
26 Sep 2024	Approved
28 Sep 2023	Approved
29 Sep 2022	Approved
30 Sep 2021	Approved
30 Sep 2020	Approved
01 Oct 2019	Approved

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

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