



**QUARTERLY INVESTOR COMMENTARY**  
**30 SEPTEMBER 2010**

**CONTRARIUS GLOBAL EQUITY FUND**

## CONTRARIUS GLOBAL EQUITY FUND

The Fund aims to earn a higher Total Rate of Return than the average of the world's equity markets, as represented by the MSCI World Index, including income ("World Index"). It aims to achieve this without greater risk of loss, over the long term. The Fund is an actively managed fund, and as such does not in any way seek to replicate its benchmark index, but may instead differ materially from the performance benchmark in order to achieve its objective.

### CONTRARIUS GLOBAL EQUITY FUND AT 30 SEPTEMBER 2010

Total Rate of Return in US dollars	Class	Since Inception on 1 Jan 2009	Since Inception on 1 Jan 2009	Latest 1 Year	2010 YTD	Latest Quarter
		— % Annualised —			— % Not Annualised —	
Contrarius Global Equity	Investor	48.8	100.4	8.4	3.0	8.5
Contrarius Global Equity	Institutional	49.4	101.7	8.9	3.4	8.7
World Index		17.9	33.3	6.8	2.6	13.8

The Fund returned 8.5% for the quarter versus 13.8% for the benchmark MSCI World Index, including income. Year-to-date the Fund has returned 3.0% versus 2.6% of the benchmark. Investors are reminded that given the long-term, contrarian, valuation based investment philosophy there will be times when the Fund will materially underperform its benchmark in the short-term in order to achieve its objective of long-term outperformance.

The Fund remains overweight in Consumer Discretionary, Consumer Staples and Information Technology stocks. The weighting in Consumer Discretionary and Consumer Staples stocks increased over the quarter as specific opportunities were identified. Price declines in certain Consumer Discretionary stocks that were previously held by the Fund enabled the Fund to increase its exposure to these shares. The Fund remains extremely underweight in Financial shares. The Fund remains very overweight North American equities and very underweight European equities. It perhaps bears repeating that the sector and geographic exposures are a result of bottom-up stock picking.

Sector	Weighting (%)		Over/(Under) Weight
	Fund	World Index <sup>1</sup>	
Energy	1	10	(9)
Materials	6	8	(2)
Industrials	0	11	(11)
Consumer Discretionary	37	10	27
Consumer Staples	24	10	14
Health Care	7	10	(3)
Financials	1	21	(20)
Information Technology	20	12	8
Telecommunication Services	0	4	(4)
Utilities	0	4	(4)
<b>Total Shares</b>	<b>96</b>	<b>100</b>	
Net Current Assets	4	-	
<b>Total</b>	<b>100</b>	<b>100</b>	

1. Source: MSCI (attention is drawn to MSCI disclaimer in 'Notices')

Geographic	Weighting (%)		Over/(Under) Weight
	Fund	World Index <sup>1</sup>	
North America	74	54	21
Europe	8	30	(22)
Japan	7	10	(3)
Other	6	7	0
<b>Total Shares</b>	<b>96</b>	<b>100</b>	
Net Current Assets	4	-	
<b>Net Assets</b>	<b>100</b>	<b>100</b>	

1. Source: MSCI (attention is drawn to MSCI disclaimer in 'Notices')

## US FOOD RETAILERS

Our bottom-up fundamental research has resulted in us increasingly finding value in selected food retailers. At the end of the quarter 16.1% of the Fund was invested in US Food Retailers, specifically Kroger, Safeway, SUPERVALU and Winn-Dixie. Their combined revenue represents approximately 28% of total US food sales.

Kroger, Safeway and SUPERVALU are three of the four current constituents of the S&P Food Retail Index (the fourth being Whole Foods Market).

We believe a number of factors currently make US food retailers particularly attractive:

- Profit margins are below their historical averages,
- Valuation multiples appear undemanding,
- Cash flows remain strong despite a harsh consumer environment and extreme competition,
- Long-term prospects appear favourable.

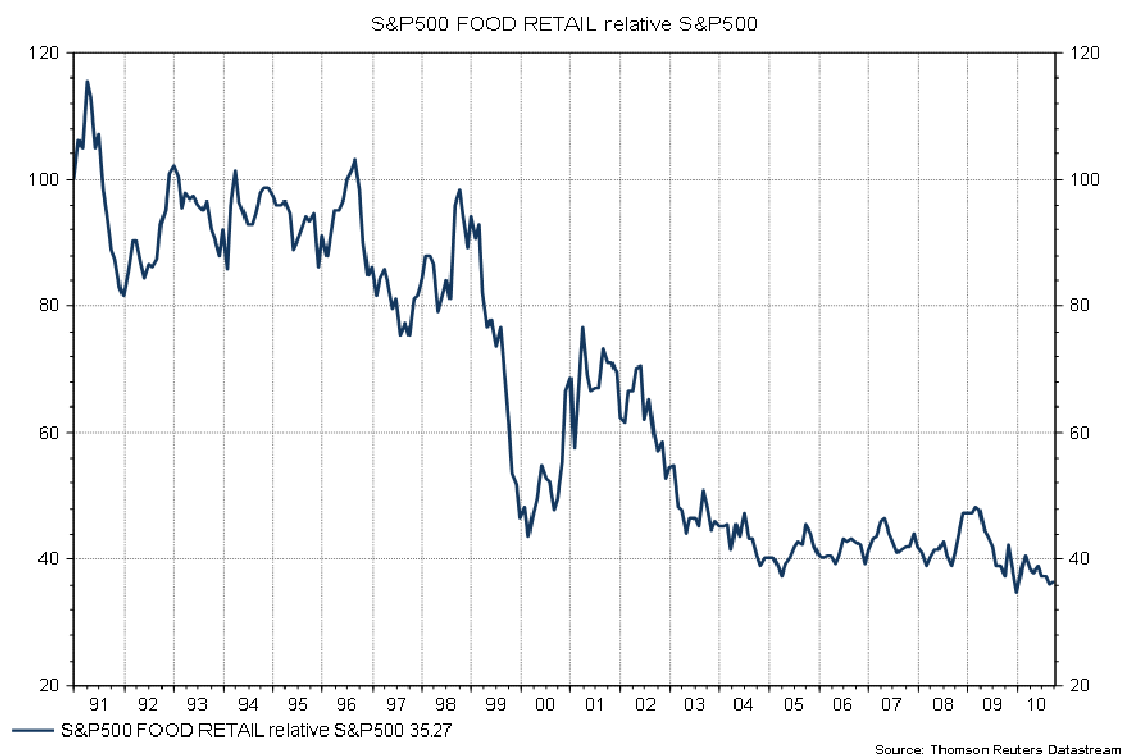
Sales (US\$'bn)	1992	1998	2010
Kroger   Safeway   SUPERVALU <sup>1</sup>	47.9	75.6	158.2
Total market <sup>2</sup>	371.5	417.4	583.1
% of total	12.9%	18.1%	27.1%

1. Years used for companies refer to financial years which may vary from company to company

2. Data for 2010 is based on rolling 12 months to July 2010

Source: US Census Bureau, Bloomberg and Contrarius Research

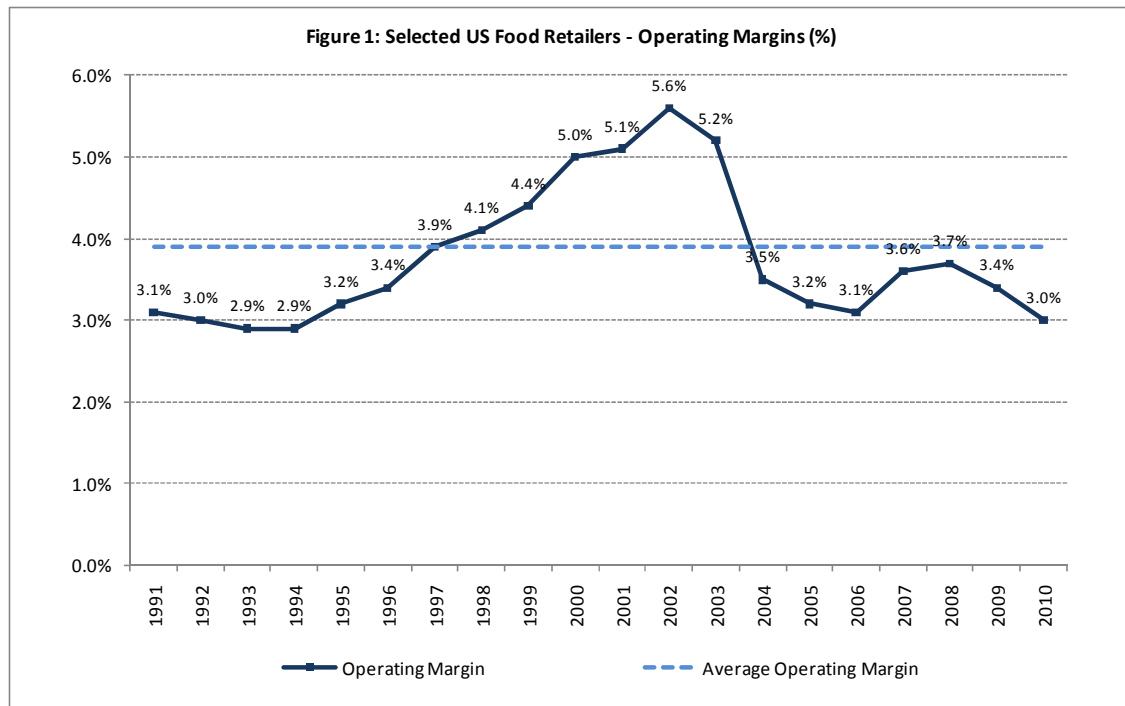
Looking at the long-term relative chart below, one may find it hard to believe that food retailers are typically regarded as defensive investments.



The S&P500 is at the same level as in mid-1998 while food retailers have underperformed the broad index by 65% from that point. Over this period industry revenues have grown approximately 40% and the implied market value per unit sales has therefore dropped dramatically. Using the combined enterprise value of Kroger, Safeway and SUPERVALU as a proxy, the implied value per dollar of food sales has fallen from 85 cents to 28 cents.

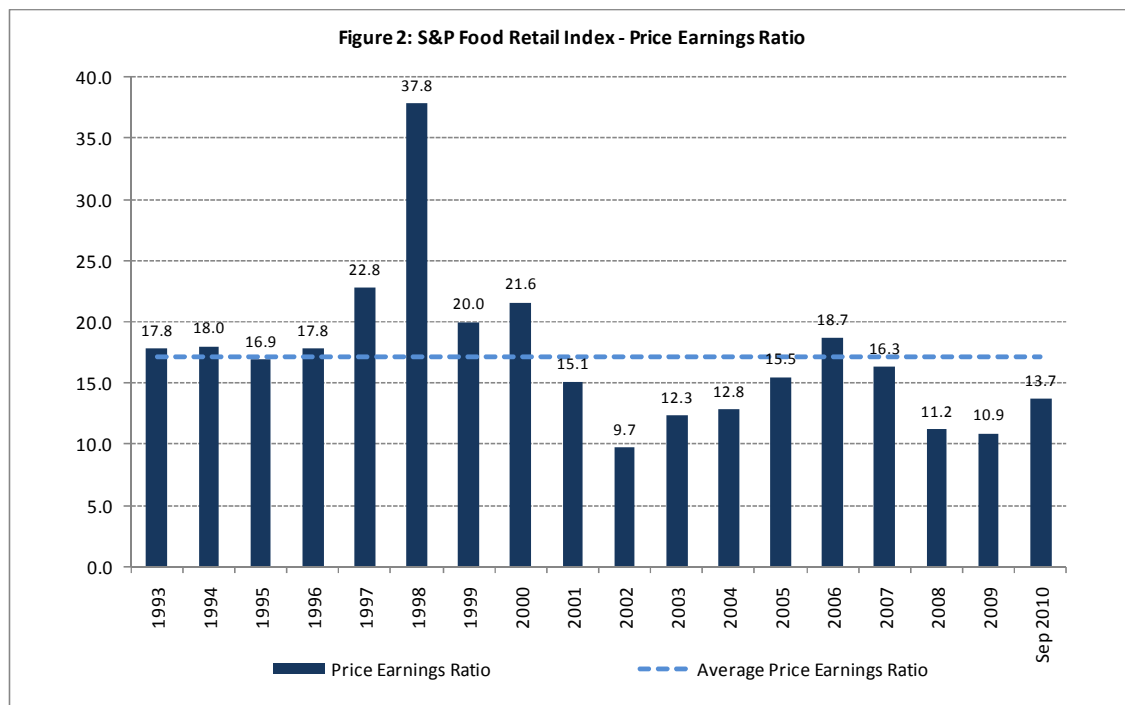
Why has this occurred? Operating margins have fallen to a level well below long-term averages (Figure 1); and the rating on those earnings has fallen substantially (Figure 2).

Because they make up a large portion of the industry, Kroger, Safeway and SUPERVALU can be used as a proxy for the industry's profitability. As shown in Figure 1, which is the aggregate operating margin of the three, profitability is now close to the low end of previous cycles, having come off an extreme high in 2001.



Source: Bloomberg and Contrarius Research

It is evident from Figure 2 that expectations in 1998 were unrealistically high and that they are now nearly at historical lows (on depressed earnings). In 1998 investors were willing to pay well above average multiples on above average earnings. Today they are valuing the sector on below average multiples on below average earnings. We believe that this creates substantial opportunities for long-term, contrarian, bottom-up stock-pickers like ourselves.



Source: Bloomberg and Contrarius Research

## CONCLUSION

Economic uncertainty is currently high. The scale of intervention in financial markets is unprecedented and the eventual outcome of these actions is unclear. It is therefore fortunate to be able to find companies that we believe offer both a level of defensiveness and high expected long-term returns.

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