



**QUARTERLY INVESTOR COMMENTARY
31 DECEMBER 2013**

CONTRARIUS GLOBAL EQUITY FUND

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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 the reinvestment of dividends net of withholding tax ("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 31 DECEMBER 2013

Total Rate of Return in US Dollars	Class	Since Inception	Latest	Latest	Latest	Latest
		on 1 Jan 2009	5 Years	3 Years	1 Year	Quarter
			% Annualised		% Not Annualised	
Contrarius Global Equity	Investor	29.1	29.1	16.9	50.5	12.6
Contrarius Global Equity	Institutional	29.6	29.6	17.4	50.7	12.7
World Index		15.0	15.0	11.5	26.7	8.0

The Fund's Investor Class shares returned 12.6% for the quarter versus 8.0% for the benchmark MSCI World Index, including reinvested net income. For the year the Fund's Investor Class shares returned 50.5% versus 26.7% for its benchmark index. As we have highlighted previously, our investment philosophy is not benchmark cognisant and our portfolios would normally vary materially from the benchmark World Index. The Fund's returns are therefore likely to deviate from those 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 significantly overweight Technology (particularly US Technology) and Consumer Discretionary stocks. In terms of geographic exposure, the Fund continues to be significantly underweight European equities and overweight Japanese equities.

Sector Exposure 31 December 2013	Weighting (%)		Over/(Under) Weight
	Fund	World Index ¹	
Energy	0	9	(9)
Materials	1	6	(5)
Industrials	0	12	(11)
Consumer Discretionary	38	12	26
Consumer Staples	11	10	1
Health Care	0	11	(11)
Financials	13	21	(8)
Information Technology	35	12	23
Telecommunication Services	0	4	(4)
Utilities	0	3	(3)
Total Shares	99	100	
Net Current Assets	1	-	
Net Assets	100	100	

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

Geographic Exposure 31 December 2013	Weighting (%)		Over/(Under) Weight
	Fund	World Index ¹	
North America	69	58	10
Europe	3	28	(25)
Japan	20	9	11
Other	7	5	2
Total Shares	99	100	
Net Current Assets	1	-	
Net Assets	100	100	

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

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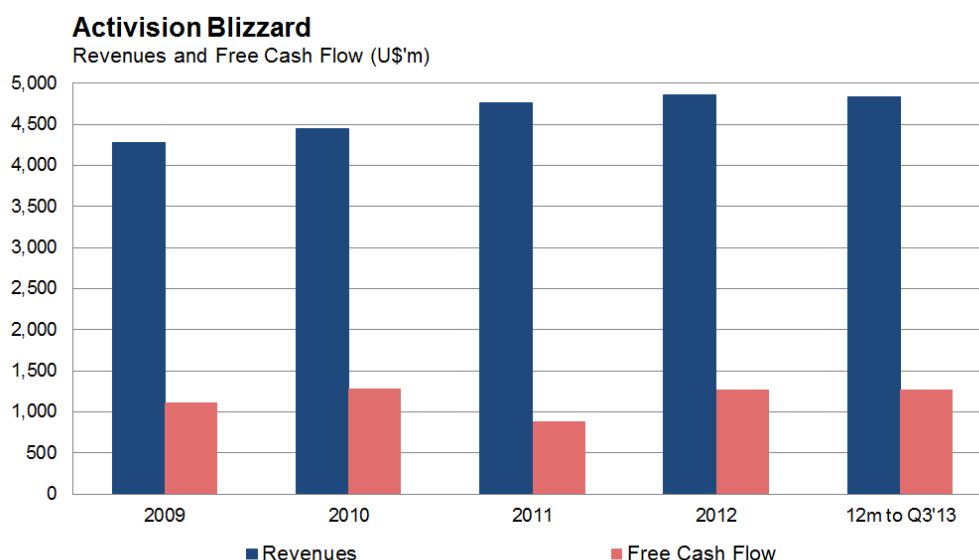
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ACTIVISION BLIZZARD

Activision Blizzard is one of the largest video game makers in the world with revenues of almost \$5bn, annual free cash flow in excess of \$1bn, and a stable of billion-dollar franchises that have people queuing in the streets on release day. Each annual edition of 'Call of Duty' regularly generates over \$1bn in sales, its 'Skylanders' series collected over \$1.5bn in revenue during its first two years on store shelves, and the 7.6m 'World of Warcraft' players each pay regular monthly subscriptions to continue playing in the virtual world. A distinction is often drawn between casual gamers (looking for a quick-fix of fun) and core gamers (looking for an immersive experience), and Activision Blizzard tends towards the latter, an area of video gaming that is probably less exposed to competition from smartphones and tablets.

Buying video games is certainly a discretionary purchase, and in the tough times that followed the financial crisis, total US video game sales declined. Against this backdrop, Activision Blizzard's performance has been all the more impressive, producing growing revenues and cash flows.



Source: Activision Blizzard, Contrarius Research

The share price in recent years does not seem to have reflected this good performance or the various other positive developments which we see within the gaming industry that support both Activision Blizzard's long-term revenue growth and margin expansion potential:

Gaming population

Video games are not only for teenagers. People who played video games in their youth may continue to do so into their 30s and 40s when they are likely to have higher disposable income. According to an NPD Group survey, the average age of the 'core gamer' group was 30. While this survey only covers US gamers, it should be noted that Activision Blizzard has a global audience (48% of revenues outside of the US). The population of 'core gamers' in the US that play console or PC games for more than five hours per week is around 37.5m, 12% of the entire US population.

Accessibility

The widespread use of broadband has made possible the digital distribution of video games directly to customers, meaning lower delivery costs and easier access to games. Moreover, this change has supported new forms of revenue, such as monthly subscriptions and sales of additional content for games already in play. Activision Blizzard has capitalised on these new revenue streams, and runs one of the most profitable subscription gaming services ('World of Warcraft'), and provides paid-for additional content for many of its major games (the extra content sales of 'Call of Duty' in 2013 would have been a top selling game as a stand-alone offering). Over a third of Activision Blizzard's revenue now comes from digital channels.

Console upgrades

Microsoft and Sony recently released the next generation of the popular Xbox and PlayStation consoles, respectively. Gamers had to wait over six years for this. The overhaul was substantial resulting in machines with faster processors, larger hard-drives, more internet connectivity options, better graphics, as well as motion detection capabilities. All of these complement Activision Blizzard's games. Some of Activision Blizzard's games that were traditionally PC-only games now have a new audience on these upgraded consoles.

Online payment culture

Online multiplayer games are becoming increasingly difficult for users to pirate, as access to the game server may often require verification. Piracy techniques will certainly evolve over time, but a bigger factor is perhaps the emergence of an online payment culture. As making online payments becomes more convenient and more accepted (and piracy more difficult), we believe that gamers will increasingly opt to purchase the original game. This may prove to be a substantial change for the industry.

Significant stock purchase transactions

One way that a company can add value for its shareholders is to buy a quality asset at a good price. In July 2013, we believe that Activision Blizzard did just that. Management was able to enter into a transaction whereby the company bought back approximately 38% of its stock for \$13.60 per share, a 10% discount to the share price at the time and well below our estimate of intrinsic value. The transaction was with Vivendi, a French media conglomerate, which no longer controls Activision Blizzard as a result. The buyback was financed with a combination of cash and new debt issued at relatively low rates (eight year debt at 5.625% and ten year debt at 6.125%, for example).

In a separate transaction, also at \$13.60 per share, an investment group bought a leveraged 24.9% stake in Activision Blizzard from Vivendi. Amongst others, Activision Blizzard's CEO and its co-chairman, as a part of this investment group, are buying a substantial stake in the company with their own money. This is an indication of their belief in the long term prospects of the company and provides a strong incentive for them to continue to add value for all shareholders. Another member of the investment group is Tencent, a major Chinese internet company, which has partnered with Activision Blizzard to offer games tailored for the Chinese audience.

Conclusion

Video games appear to be garnering wide appeal as an entertainment option. Recently, Take-Two Interactive's 'Grand Theft Auto V' generated \$800m in first day sales. According to the Wall Street Journal, the World Championships of the 'League of Legends' was streamed live online in October to 32 million viewers through various streaming services, more than the series finales of television shows 'Breaking Bad', '24', and 'The Sopranos' put together. The revenue generated by Activision Blizzard's 'Call of Duty' games even rivals major film franchises.

Video Games versus Films

Comparing the revenues of the 'Call of Duty' franchise to recent major film franchises (US\$m) *

Call of Duty	Gross revenues	Batman	Global gross	James Bond	Global gross	Star Wars	Global gross	Iron Man	Global gross
Black Ops II	> 1,000	The Dark Knight Rises	1,084	Skyfall	1,109	III: Revenge of the Sith	849	Iron Man 3	1,215
Modern Warfare 3	> 1,000	The Dark Knight	1,005	Quantum of Solace	586	II: Attack of the Clones	649	Iron Man 2	624
Black Ops	> 1,000	Batman Begins	374	Casino Royale	599	I: A Phantom Menace	1,027	Iron Man	585
	> 3,000		2,463		2,294		2,525		2,425

* Comparing the revenues of the most recent Call of Duty games for which data is available with the total global box office receipts of the most recent films in each of the respective film franchises

'Global gross' refers to global box office receipts which are shared between the production studio and the cinemas. Also films have subsequent windows through which to make revenues, including pay-tv, video on demand, DVD sales, etc.

Source: Activision Blizzard, Box Office Mojo

With its solid track record and good long-term growth prospects, we have found Activision Blizzard to be an attractive investment opportunity for some time. We believe it is a high quality business trading well below our assessment of its underlying intrinsic value. The recent transactions have further enhanced our view on its attractiveness and at 9.7x free cash flow Activision Blizzard is a meaningful holding in the Fund.

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