CONTRARIUS

QUARTERLY INVESTOR COMMENTARY
31 DECEMBER 2015

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 2015

Total Rate of Return in US Dollars	Class	Since Inception on 1 Jan 2009	Latest 5 Years	Latest 3 Years	Latest 1 Year	Latest Quarter
			% Annualised		*% Not Annualised*	
Contrarius Global Equity	**Investor**	**16.2**	**4.9**	**6.2**	**(17.4)**	**3.1**
Contrarius Global Equity	**Institutional**	**16.6**	**5.4**	**6.6**	**(17.0)**	**3.3**
World Index		11.1	7.6	9.6	(0.9)	5.5

Past performance is not a reliable indicator of future results.

The Fund's Investor Class shares returned 3.1% for the quarter versus 5.5% for the benchmark MSCI World Index, including reinvested net income. For the year the Fund's Investor Class shares returned (17.4)% versus (0.9)% 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 latest year, we believe, is an example of such times. Over the last several months a number of the Fund's holdings fell further out of favour with investors, despite our belief that these holdings offer excellent value to the long-term investor and at a time when overall equity market valuations appear unattractive.

The Fund remains overweight Materials, Technology and Consumer Discretionary stocks. In terms of geographic exposure, the Fund continues to be significantly underweight European equities and overweight shares outside the major developed markets.

Sector Exposure 31 December 2015	Weighting (%) Fund	World Index [1]	Over/(Under) Weight
Energy	7	7	1
Materials	30	4	25
Industrials	0	11	(10)
Consumer Discretionary	20	13	7
Consumer Staples	3	10	(7)
Health Care	3	13	(10)
Financials	7	21	(14)
Information Technology	29	14	15
Telecommunication Services	0	3	(3)
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 2015	Weighting (%) Fund	World Index [1]	Over/(Under) Weight
North America	58	62	(4)
Europe	5	25	(20)
Japan	6	9	(3)
Asia ex-Japan	14	2	12
Other	16	3	13
Total Shares	**99**	**100**	
Net Current Assets	1	-	
Net Assets	**100**	**100**	

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

FRANKLIN RESOURCES

Franklin Resources, despite its name, is not a resources company but rather a very large fund manager with $764bn assets under management (AUM). It offers mainly mutual funds to retail and institutional investors under well-known brands such as Franklin and Templeton. Around 40% of AUM is in equity funds (about a third of that is US), 40% is in fixed income funds, and the remainder in balanced or cash management funds.

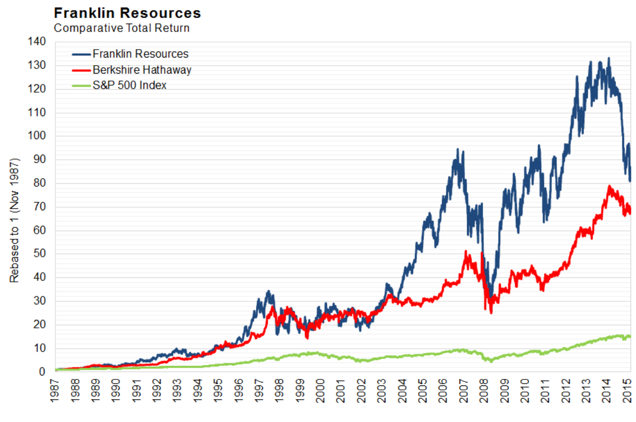
The company was founded in 1947 by Rupert H. Johnson Sr. The Johnson family built up the business using a combination of organic growth and acquisitions (including the 1992 acquisition of Templeton, founded by Sir John Templeton). The Johnson family is still entrenched, with various family members in management and director positions. The family collectively holds about 38% of shares. The current CEO, Gregory Johnson, took over from his father in 2005.

The company's AUM is well diversified across asset classes and investment geographies. The two largest funds are the Franklin Income Fund ($79bn) and the Templeton Global Bond Fund ($58bn).

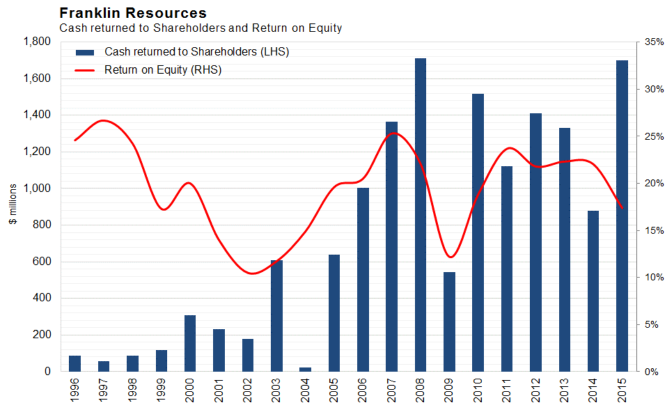
There are a number of remarkable things about Franklin Resources. We'll look at a few below.

Historic Performance

Berkshire Hathaway and Warren Buffett have become household names, even outside of investment circles. Franklin Resources and the Johnson family rarely make it into dinner table conversation. Yet since 1987 (the earliest our data provider gives us Berkshire Hathaway prices) their performance has been uncannily similar. An investment over that 28-year period would have returned 86 times your money in Franklin Resources, 68 times in Berkshire Hathaway, and 15 times in the broader market (as measured by the S&P 500 Index). The business has a high return on equity, needs little reinvestment, has delivered strong free cash flow, and has returned vast value to shareholders through dividends and buying back shares (second graph below). These are signs of a high-quality business with good management.



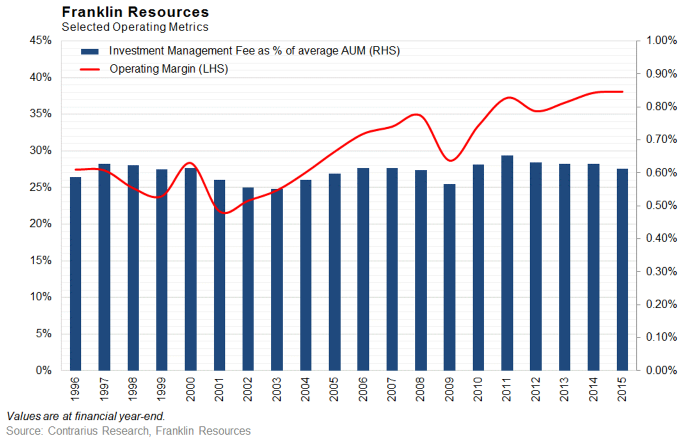
Source: Contrarius Research, Bloomberg

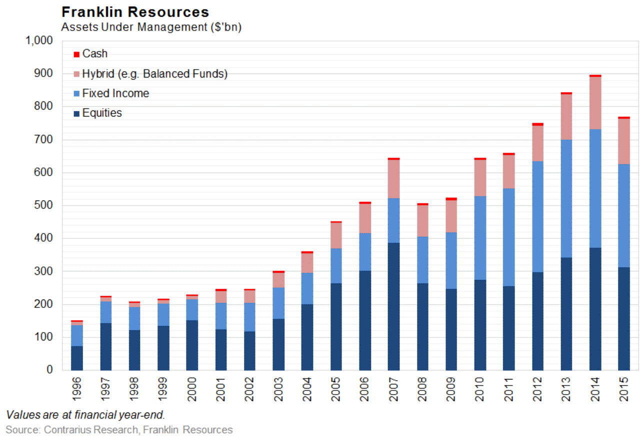


'Cash returned to Shareholders' consists of dividends and net share buy backs. Values are at financial year-end.
Source: Contrarius Research, Franklin Resources

Operating Discipline

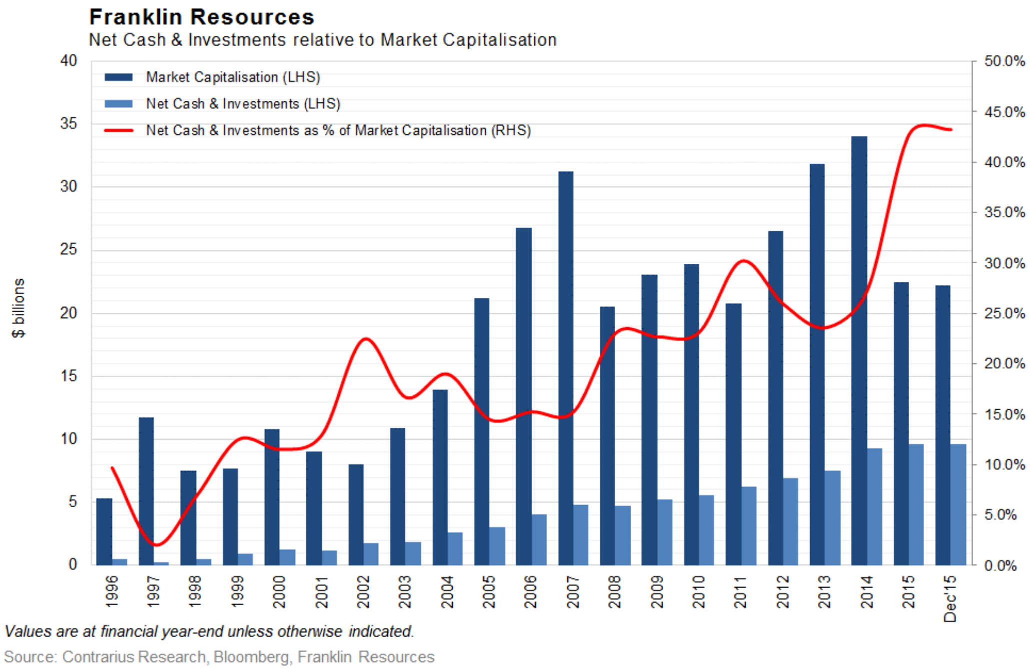
The business generates revenue primarily from investment management fees, mostly based on assets under management. Many asset managers are tempted to chase assets by lowering their management fees but Franklin Resources has maintained stable investment management fees over the past 20 years. Good management of costs has resulted in a gradually increasing operating profit margin percentage over this period from the high 20s to the high 30s.





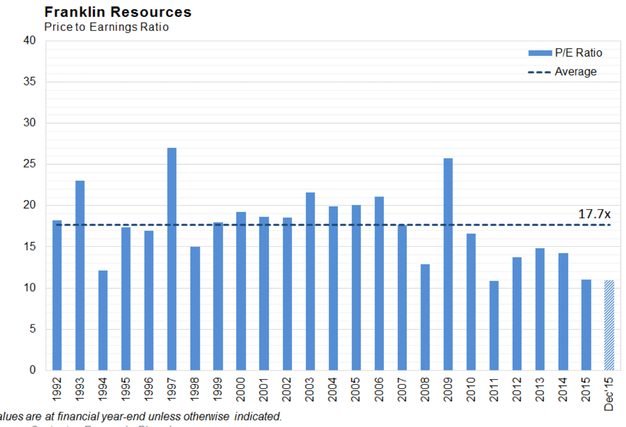
Balance Sheet

Franklin Resources has amassed a prodigious cash pile. We estimate that it has net cash and investments of $9.6bn—a good 43% of the total market capitalisation (see graph below). The company seeds new funds with its own capital and this investment is generally tied up while the fund is building a track record in order to be marketable in future. Historically, seed capital has made up a big chunk of the net cash and investments, but this is not presently the case. At the moment, over $8bn is cash (although most of this is based overseas and would likely suffer additional taxes if repatriated). This should provide a substantial cushion for the stock, allowing the company to return cash even in tough times and perhaps opportunistically make acquisitions or buy back shares.

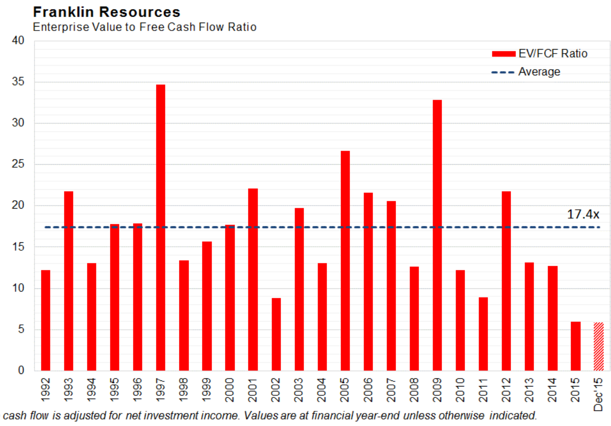


Valuation

In 2015 the share price slid 34%. The share has historically traded at about 17.7x annual profits, showing that the market has, over the long term, recognised the quality of this business, as we would expect. But today it trades at 10.9x annual profits. This does not take into account the net cash and investments: stripping these out, the effective multiple is about 6x.

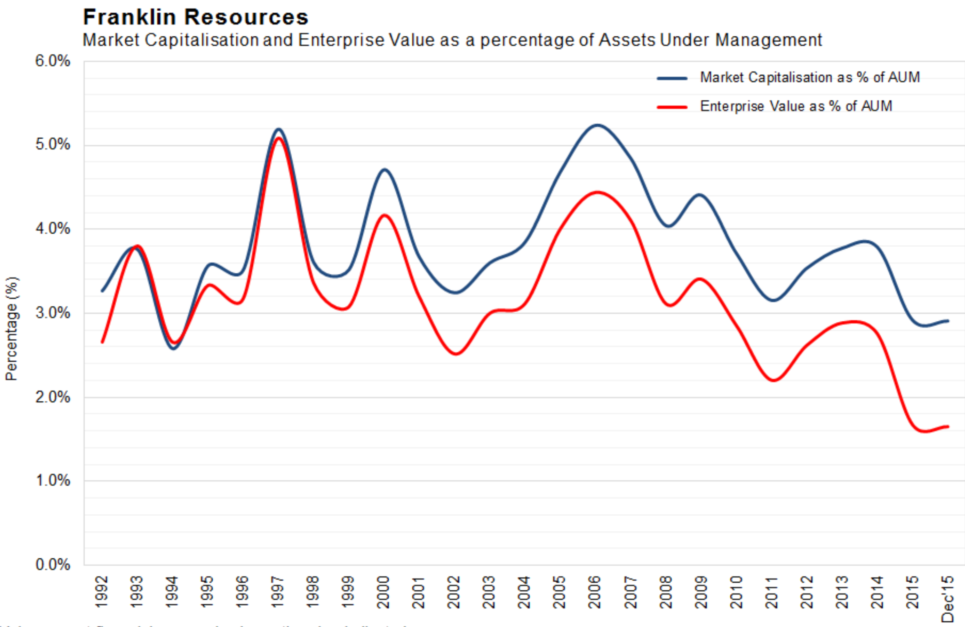


Values are at financial year-end unless otherwise indicated.
Source: Contrarius Research, Bloomberg



Free cash flow is adjusted for net investment income. Values are at financial year-end unless otherwise indicated.
Source: Contrarius Research, Bloomberg, Franklin Resources

Another way to look at valuation is to compare the market capitalisation to AUM. This is relevant because most asset managers' revenue is based directly on AUM and in the case of Franklin Resources the relationship is particularly stable, as discussed earlier. Historically the shares have traded at about 3.8% of AUM but today they trade at 2.9%. Once again, this does not account for the net cash and investments: after stripping these out, Franklin Resources trades at 1.7% of AUM compared to the historic average of 3.2%.



Values are at financial year-end unless otherwise indicated.
Source: Contrarius Research, Bloomberg, Franklin Resources

The reason for the price decline appears to be recent investment performance and the resulting impact on AUM (despite good long-term performance in both their biggest bond fund and equity fund). A number of the large funds have meaningful exposure to oil-related stocks that have followed the oil price lower over the last 18 months. Some bond funds are exposed to emerging markets, which have also been weak. As a result of market returns and outflows (i.e. investors pulling money from Franklin Resources' funds), AUM has dropped 13% over the last year. Investors may be expecting falling revenue and earnings, which may have led the stock lower.

We believe that the market is overreacting. Franklin Resources (like almost every asset manager with a long history) has experienced this sort of thing before, for example in 1999/2000 and 2008/2009. In both instances, AUM and earnings subsequently recovered and the share outperformed the market meaningfully over the following five years. Given the company's history of creating shareholder value, we see this as a very attractive entry point into a high quality business. The low earnings multiple and considerable balance sheet provide a pleasing margin of safety.

Franklin Resources					
Financial Year ended September		**1999**	**2000**	**2008**	**2009**
Annual net new flows as percentage of start AUM	%	(8.5)	(5.1)	(1.4)	(1.1)
Subsequent 5-year annualised growth rates					
AUM	%	10.7	14.5	10.7	11.4
Earnings	%	10.4	13.5	6.2	21.6
Share price relative to the MSCI World Index	%	14.3	14.6	7.5	2.0

Share price and MSCI World Index returns include the reinvestment of dividends

CONCLUSION

Some of the companies covered in our previous reports have had colourful narratives and exciting charts. For example, the investment case for Youku Tudou (the subject of the Q2 2015 report, and which recently was the subject of a buy-out offer by Alibaba) can be illustrated with impressive graphs of media consumption and mobile data usage. These captivating stories are easy to write about. Franklin Resources may seem bland by comparison. It does not have wildly exponential growth prospects. It is simply a high-quality business, with a straightforward business model, an extraordinary history, good management, a strong balance sheet, and a very attractive price.

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