QUARTERLY INVESTOR COMMENTARY
31 MARCH 2017

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 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 MARCH 2017

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**	**20.0**	**13.6**	**8.2**	**34.8**	**6.2**
Contrarius Global Equity	**Institutional**	**20.4**	**14.1**	**8.6**	**35.1**	**6.3**
World Index		11.2	9.4	5.5	14.8	6.4

Past performance is not a reliable indicator of future results.

The Fund's Investor Class shares returned 6.2% for the quarter versus 6.4% for the benchmark MSCI World Index, including reinvested net income. 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 overweight Materials, Energy, Consumer Discretionary and Technology stocks. In terms of geographic exposure, the Fund is overweight shares in North America and continues to be overweight shares outside the major developed markets.

Sector Exposure 31 March 2017	Weighting (%) Fund	World Index [1]	Over/(Under) Weight
Energy	22	7	16
Materials	31	5	26
Industrials	0	11	(11)
Consumer Discretionary	20	12	8
Consumer Staples	2	10	(8)
Health Care	4	12	(8)
Financials	2	18	(16)
Real Estate	0	3	(3)
Information Technology	17	15	2
Telecommunication Services	0	3	(3)
Utilities	0	3	(3)
Total Shares	**98**	**100**	
Net Current Assets	2	-	
Net Assets	**100**	**100**	

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

Geographic Exposure 31 March 2017	Weighting (%) Fund	World Index [1]	Over/(Under) Weight
North America	69	63	6
Europe	7	23	(17)
Japan	1	9	(7)
Asia ex-Japan	4	2	2
Other	17	3	14
Total Shares	**98**	**100**	
Net Current Assets	2	-	
Net Assets	**100**	**100**	

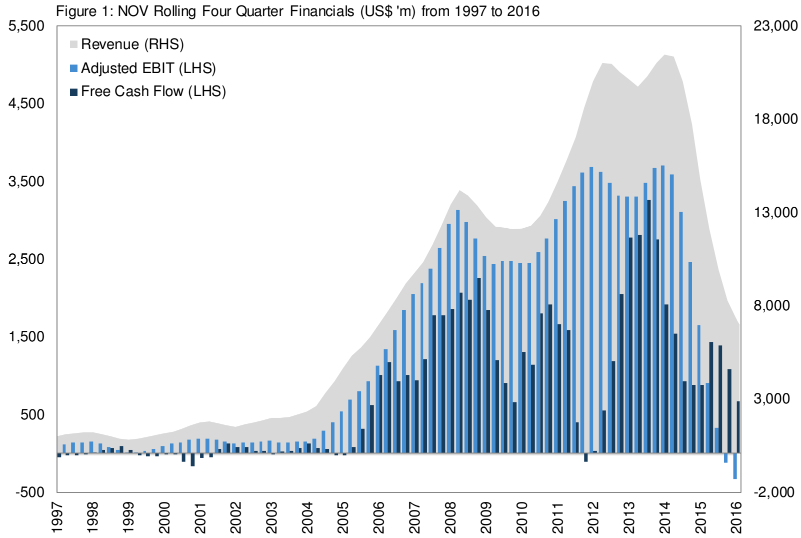
[1] *Source: MSCI (attention is drawn to MSCI disclaimer in 'Notices')*

National Oilwell Varco

For most companies, especially those exposed to heavy industry, losing 66% of revenue would probably be catastrophic. National Oilwell Varco (NOV) handled this with aplomb, continuing to generate free cash flow even as revenue fell 31% in 2015 and a further 51% in 2016. This points to a high-quality business stewarded by good management. Exxon Mobil, BP, Shell, and Total are household names. Few appreciate that the expertise needed to get oil and gas out the ground actually sits largely with a different group—the oilfield services companies—in which NOV has a key and unique role.

National Oilwell Varco

Figure 1: NOV Rolling Four Quarter Financials (US$ 'm) from 1997 to 2016



Source: Contrarius Research, Bloomberg

Oilfield Services

Until about the 1960s, the monolithic major oil producers operated the whole oil supply chain in-house. Once a conventional deposit has been developed, the marginal cost of extracting and selling the oil is low. Even today, marginal cash costs can be less than $10 a barrel. So the oil majors started outsourcing the low-margin elements (such as drilling, reservoir engineering, procurement, construction, support and maintenance) while retaining the high-margin property rights and product marketing. By the end of the 1980s, the oil majors had largely disposed of the "low-margin" and "non-core" functions, leaving them to the oilfield services specialists, who, because of technical advancements, could do them more quickly and cheaply.

Extraction has become much harder since then. New finds tend to have complex geologies: deep underwater; under tough layers of rock; trapped in rocky pores; confined to thin seams; or laden with sand. Older deposits may still have a lot of oil left but it is hard to get it out (on average, only about half of the oil in a conventional reservoir is commercially recoverable). The sustainability of the industry now rests on those services once regarded as non-core. It is the oilfield services companies that have invested in R&D, developed the technology, and built up the expertise.

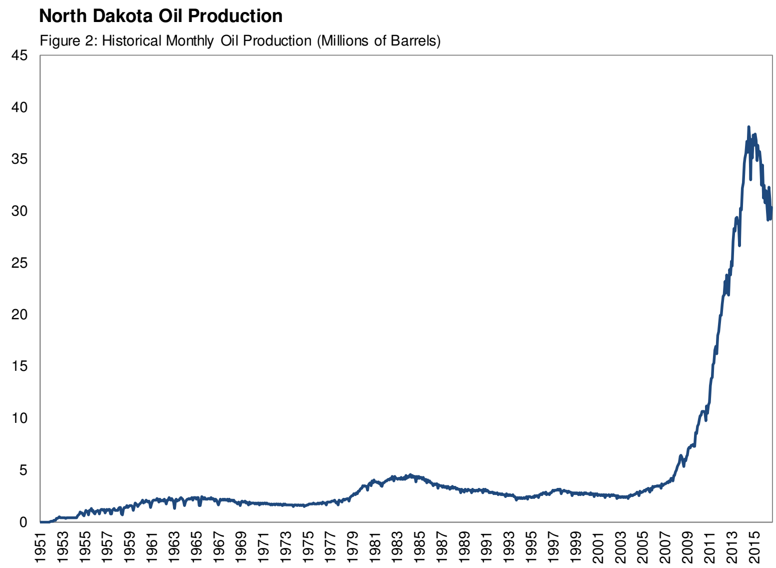
Originally, the sector comprised many small providers, each specialising in perhaps a handful of niches. These consolidated around the two big full-service providers—Schlumberger and Halliburton—and to a lesser extent Baker Hughes, Weatherford International, and National Oilwell Varco. Forty years ago the oil majors were clearly the dominant partners in the relationship. That is not so clear today.

Who Is National Oilwell Varco?

National Oilwell Varco is the biggest manufacturer of drilling machinery, pipes, and downhole drilling motors for extracting oil and gas. In 1987, its predecessor companies were niche suppliers of unintegrated components, but today it is a key provider of major integrated systems. For certain applications it has the majority of global market share.

Historically, revenue was mostly from offshore operations but the decimation of offshore and the ascent of "unconventional" onshore drilling have balanced that out. Offshore and onshore reservoirs are not themselves notably different. The difference is essentially that on land (and in shallow water) you can bolt your equipment to the ground. Stabilising a floating rig, laying infrastructure on the ocean floor, and operating heavy machinery deep under water are daunting engineering challenges. Few operators have these skills, and it has been lucrative for NOV. But the high operating costs and investment meant that, when the oil price sank, offshore spending fell furthest. The divisions most exposed to offshore suffered revenue falls of more than 70%.

Meanwhile, drilling innovations have freed up land deposits that, although discovered more than fifty years ago, were not commercially usable until 1997, when Mitchell Energy managed to extract gas profitably from the Barnett Shale in the US. (In fact, shale gas was first pulled from shallow fractures in 1821. Horizontal drilling was proven to work in 1929. Hydraulic fracturing and horizontal drilling were combined in 1947. But it would be another 50 years before it was economic on a large scale.) After taking a few more years for the technology to mature, the oil and gas gushed: North Dakota oil production surged from approximately 3 million barrels per month in 2005 to more than a 31 million in 2016.



Source: Contrarius Research, Dept. of Mineral Resources (North Dakota)

There are two defining characteristics of unconventional deposits: (1) they tend to be squeezed into narrow layers; and (2) the rock containing the reservoir is not very permeable. The first means that, after drilling down close to the seam, you have to turn the drill head sideways. The second means that, unlike with a conventional deposit, you cannot just puncture a reservoir and let the oil and gas spurt out: each well frees up only a limited amount of fluid around the shaft, so these wells have a short life. Productivity of wells that began operating in 2012 fell by about half over a year, and by roughly 75% over two years. (The profiles of 2015 and 2016 wells are similar, so far.)

All of this tears up a lot of equipment, and is technically tricky. Drilling through shale burns through far more drill bits, pipes, motors, and many other parts, so much so that layers of shale are normally considered a hazard when building a conventional well. NOV not only has the expertise, it is also one of the primary suppliers of these consumables.

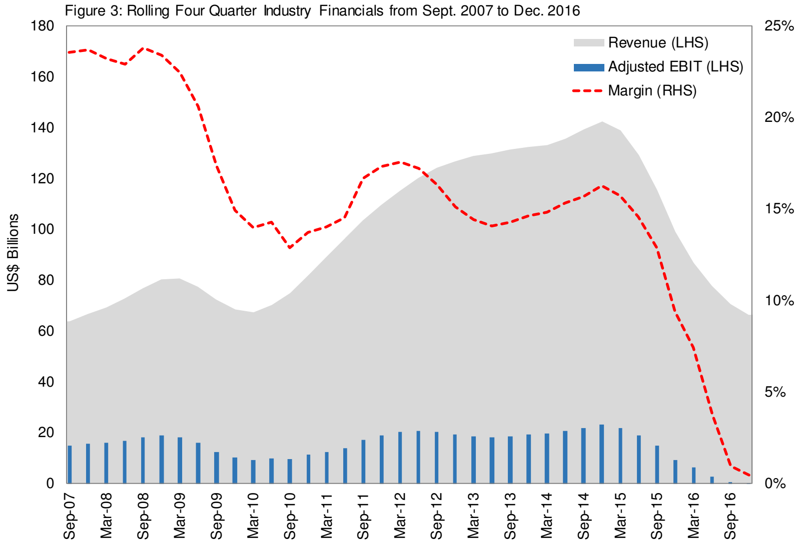
Note that a dull-sounding "pipe" is actually cutting-edge technology. These pipes have to endure huge stresses and vibration, and arc 90° to drill horizontally. They have embedded sensors feeding telemetry data back to the increasingly automated rig operating system on the surface. The inside of an oil well is not an ideal place for electronics, and failure can be costly or even catastrophic.

The Future Of National Oilwell Varco And Oilfield Services

In 2016, exploration discoveries were the lowest since 1947. May 2016 recorded the lowest ever land rig count. High oil prices had spurred niche oilfield services start-ups, but since January 2015 there have been more than 100 bankruptcies and 150,000 redundancies. The industry makes no money.

Oil Services Industry Profitability

Figure 3: Rolling Four Quarter Industry Financials from Sept. 2007 to Dec. 2016



Aggregate of Schlumberger, Halliburton, Baker Hughes, National Oilwell Varco, and Weatherford International

Source: Contrarius Research, Bloomberg

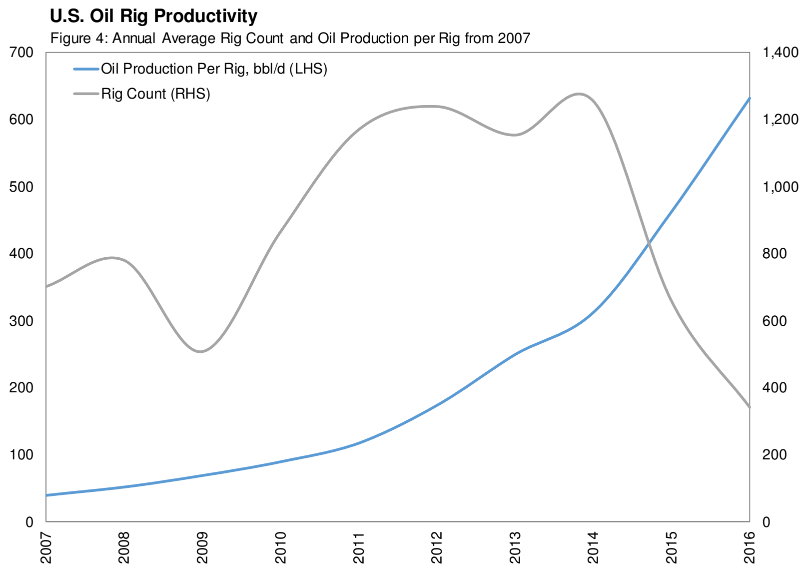
Recent additions to global reserves have been mostly from existing fields. Mature wells have lost their youthful pressure and the plentiful oil that remains has to be coaxed out with great ingenuity. The oilfield services companies are crucial to enhancing conventional recoveries, which puts higher pressures and greater loads of abrasive sand on pumps and pipes.

In the past analysts often looked at the rig count. This is misleading today because new rigs can sink multiple wells and drill longer distances, so you don't need as many. That may mean that the rig count never gets back to the 2014 peak, and NOV's rig-construction business may suffer from that (although the size and cost of each unit would presumably partially offset that). But rig construction is only one part of the group and NOV depends more on the distance and difficulty of drilling, both of which are likely to continue increasing.

When the oil price fell, customers sharply cut spending and investment: idling or shutting off rigs, consolidating inventories, and rationing spares. Rather than buying parts, they began cannibalising mothballed rigs. That approach has a limited life.

Possible overinvestment during the boom has given way to underinvestment. Without developing reserves, the global production balance would be expected to lose the equivalent of an Iraq every two years, falling 80% by 2040. The IEA estimates that, at current levels of investment, supply will fall in 2020, and by 2022 spare production capacity will be at a 14-year low.

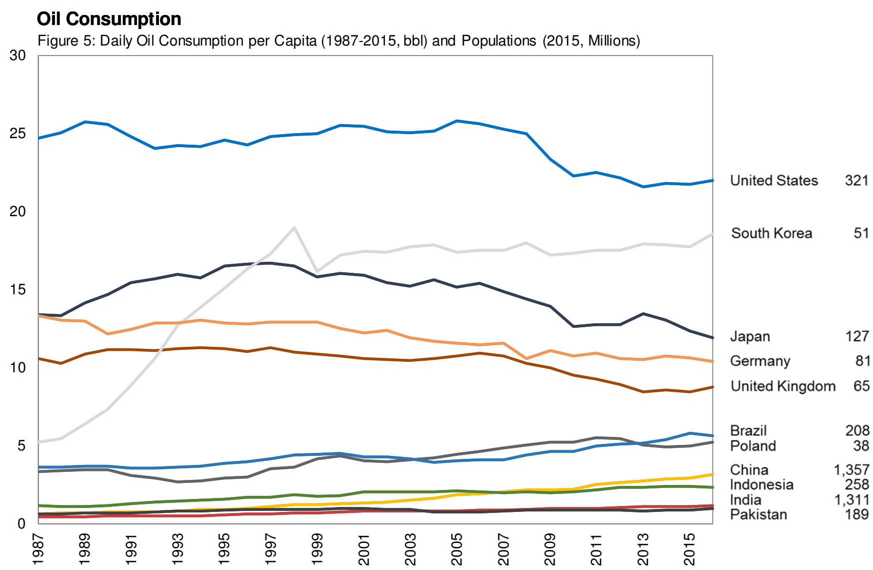
We may already be seeing shoots of renewal. In December 2016, changes in onshore rig counts, utilisation, and rig leasing day rates were all positive for the first time in two years. Rising US land activity is forcing drillers to deplete stockpiles. Even offshore is showing signs of life: projects that once broke even at $110 per barrel now need only $50. Part of that is due to deeply discounted rig leases, but much is due to efficiency. (In the good times, rig operators sometimes flew spares to the rig by helicopter rather than waiting for a boat!) Future offshore capex commitments are roughly equal to those for onshore unconventional projects.



Source: Contrarius Research, U.S. EIA

Oil's downfall has often been predicted, whether as "peak oil" or because of environmental policy. These concerns have some merit over the very long term. But we expect major global trends to work in favour of NOV for the foreseeable future. Much of the world's population has a lot of energy-intense growth ahead of it: per capita daily consumption in India is 1.2 barrels, and in China it is 3.2, compared to 8.7 in the UK, 12 in Japan, and 22 in the US. We expect global demand for land and air transport, chemicals, and electricity to continue growing for at least a generation. Renewables are certainly convenient for some applications but other applications have few known substitutes. Light land vehicles (about half of oil demand from transportation) may over time transition to electric power, but that will be harder for industrial vehicles and ships, and with today's technologies is not feasible for aviation. Also, there is no substitute for hydrocarbons as a feedstock for chemical and plastic production. While renewables are likely to continue making inroads into electricity generation, we expect baseload power to be shouldered by reliable, storable, energy-rich hydrocarbons for decades.

Despite its name, NOV is as much a gas as an oil business. By energy content, gas accounts for about 64% of the production from the major US shale deposits. While gas is increasingly recognised as the most environmentally-friendly fossil fuel, both oil and gas are cleaner than coal. The environmental priority lies with replacing coal—to some degree with oil or gas.



Source: Contrarius Research, Bloomberg, World Bank

Conclusion

NOV's shares have fallen by about half since the oil bear market began in mid-2014. That's actually relatively good, given the circumstances: we expect most shares would suffer more if nearly two thirds of revenue dried up. Presumably that is because other investors also appreciate its strengths. We believe that they nevertheless underestimate it. The changing dynamics of the oil and gas industry have put the oilfield services companies in a commanding position. The investment in NOV is not taking a view on the future of shale – despite its apparent vitality the industry lost money in 34 of the last 40 quarters. Rather, we believe that NOV in particular, because of its leading position in high-tech consumables and bespoke offshore rigs, stands to benefit from creeping demand while extraction becomes ever more difficult – onshore or offshore, conventional or unconventional. We estimate that the share sells for less than 10 times normal profits, which in our view is very attractive for a high-quality business. It may take some time for its chastened customers to spend again, especially on offshore projects, but NOV has already survived an epic revenue shock (and generated cash doing so!) and we believe it is through the worst. This is a large company, with a market capitalisation of $15 billion and just $1.8 billion of net debt (of which only $500 million is due before 2022). National Oilwell Varco – with its solid balance sheet, first-class management, bright industry prospects, and low valuation – is one of several energy shares that have floated to the surface through our bottom-up investment approach.

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Performance		Best Performance		Worst Performance		Inception
(net, per calendar year, since inception)	Currency	Year	%	Year	%	Date
Contrarius Global Equity Fund	US$	2009	94.5	2015	(17.4)	01-Jan-09

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