QUARTERLY INVESTOR COMMENTARY
30 JUNE 2017

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 30 JUNE 2017

Total Rate of Return in US Dollars	Class	Since Inception on 1 Jan 2009	Latest 5 Years	Latest 3 Years	Latest 1 Year	2017 Year-to-date	Latest Quarter
		% Annualised			% Not Annualised		
Contrarius Global Equity	**Investor**	**18.1**	**13.3**	**3.9**	**12.6**	**(3.1)**	**(8.8)**
Contrarius Global Equity	**Institutional**	**18.5**	**13.7**	**4.3**	**12.9**	**(2.9)**	**(8.7)**
World Index		11.3	11.4	5.2	18.2	10.7	4.0

Past performance is not a reliable indicator of future results.

The Fund's Investor Class shares returned (8.8%) for the quarter versus 4.0% 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, and Consumer Discretionary 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 30 June 2017	Weighting (%) Fund	World Index [1]	Over/(Under) Weight
Energy	25	6	19
Materials	32	5	27
Industrials	0	12	(12)
Consumer Discretionary	20	12	8
Consumer Staples	0	10	(9)
Health Care	6	13	(7)
Financials	2	18	(16)
Real Estate	0	3	(3)
Information Technology	14	16	(1)
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 30 June 2017	Weighting (%) Fund	World Index [1]	Over/(Under) Weight
North America	76	63	13
Europe	5	24	(19)
Japan	1	9	(8)
Asia ex-Japan	3	2	1
Other	15	3	12
Total Shares	**99**	**100**	
Net Current Assets	1	-	
Net Assets	**100**	**100**	

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

Transocean

The oil industry has been depressed since prices peaked in 2012 at about $120/barrel, and then fell more than 75%. Sentiment is most morose in the more complex, expensive, capital-intensive segments, such as deep-water rig leasing. With producers having little incentive to invest, rig utilisation rates plummeted. The industry had committed to new capacity in the good times and the new rigs, since they take a few years to build, began hitting an already oversupplied market. Oil from tight shale (i.e. hydraulic fracturing, or "fracking") is inundating the global market. As if supply troubles were not enough, demand is also causing alarm. Consumption is falling in mature economies. For 30 years "peak oil" has referred to supply—these days it refers to demand. To top it all off, most people who have heard of Transocean, the subject of this Commentary, know it as the owner of the Deepwater Horizon rig, which lost control of a well in the Gulf of Mexico in 2010, causing one of the industry's biggest ever accidents, eventually costing Transocean $1.6 billion.

Overwhelmingly one-directional expectations sometimes prompt us to examine alternative viewpoints. Consider the following conventional wisdom:

1. Supply: The world is awash with oil. Oil from fracking is cheap and plentiful, wrecking traditional supply dynamics. There is no room for more expensive suppliers.
2. Demand: Economies are becoming more efficient, with electric vehicles being the classic example. Investment in new energy production will go to solar and wind, which are close to being cost-competitive. Demand for oil will fall.
3. Deep-water: This is a relic of low-supply, high-demand times. The glut of new rigs, with lifetimes measured in decades, will ensure that deep-water profits remain elusive.

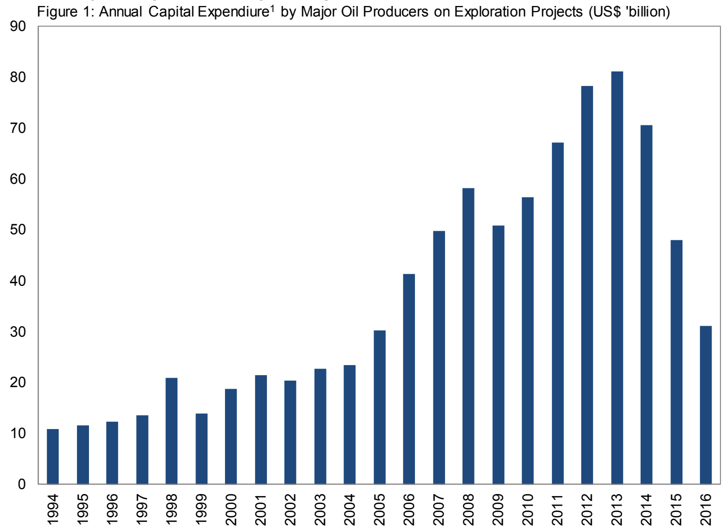
Oil Supply

As we noted last quarter, the current rate of reserve depletion amounts to an Iraq roughly every two years and, in the absence of renewed investment, reserves would fall about 80% by 2040.

Yet, investment is significantly short of maintenance levels in regions accounting for more than half of supply (everywhere other than the Middle East, Russia, and North America onshore). Cuts to spending on exploration and production (E&P) are the biggest and longest in 50 years, discoveries fell to record lows in 2016, and sanctioned conventional projects are at 70-year lows.

Oil Majors Exploration Capital Expenditure

Figure 1: Annual Capital Expendiure[1] by Major Oil Producers on Exploration Projects (US$ 'billion)



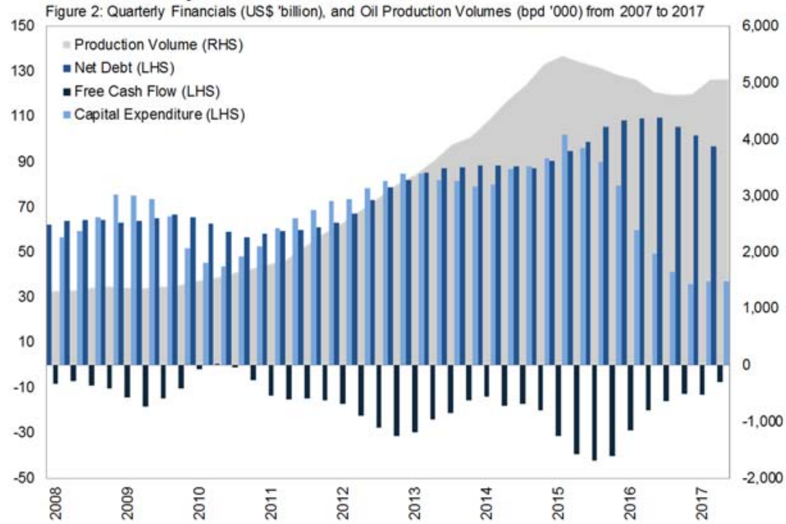
[1] Inflation-adjusted capital expenditure

Source: Bloomberg, Contrarius Research

Could fracking fill the gap? Despite its extraordinary ascent from 0.3 million barrels per day (mbpd) in 2000 to 5.5 mbpd today, the fracking industry is not yet profitable and survives on cash infusions. Recent financials are flattered by slashing capex 65% and unsustainably deep discounts on service costs, which we expect to recoil (as discussed last quarter). Also, "oil" is not one thing: it is made up of many different types of molecules with different uses: from 'light' liquids with short carbon chains, to 'heavy' liquids with long chains. Fracking yields mainly gases (typically only 1 to 5 carbon atoms in the chain) and ultra-light liquids, which are good if you want natural gas or petrol, but they are unsuitable for planes, ships, heavy-duty vehicles, diesel engines, oil-fired heating, lubricants, and many non-combustion oil products. Finally, fracked wells have short lifecycles, losing about 75% of throughput after two years. (Traditional reservoirs, onshore or offshore, decline gradually over many years.) Investors may be losing their patience (BHP recently expressed misgivings about its shale investments) and volumes would likely evaporate rapidly if they do.

Financials of Major Unconventional Oil Producers

Figure 2: Quarterly Financials (US$ 'billion), and Oil Production Volumes (bpd '000) from 2007 to 2017



Note: Financial figures are rolling four-quarter aggregates

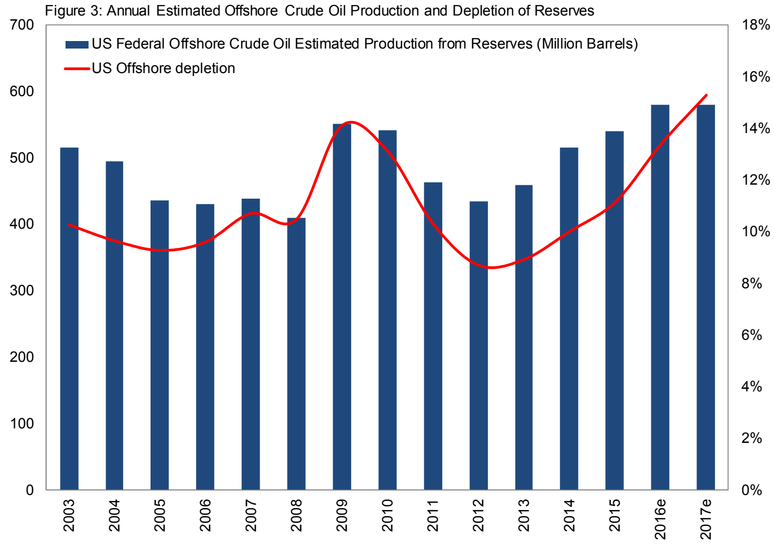
Source: Bloomberg, EIA, Contrarius Research

Big traditional suppliers are strained. The IMF estimates that Saudi Arabia needs $83/barrel to balance its budget. Russia has been in recession, and if oil prices average $40/barrel its GDP is expected to fall a further 5% in 2017. Iran and Iraq are politically and economically troubled, and Qatar has recently been blockaded. Venezuela has collapsed and Brazil is in turmoil.

Absent investment, output is sustained by driving wells harder. This may work for a while. But well designs assume ongoing investment that allows output to fall off gradually, optimising overall extraction. Driving production without the ongoing investment makes depletion rates spiral and impairs wells' long-term health. The market may be interpreting the stable, even rising, volumes produced over the last few years as a surprising sign of production resilience, but we believe that the depletion curves suggest otherwise.

Depletion of US Offshore Reserves

Figure 3: Annual Estimated Offshore Crude Oil Production and Depletion of Reserves

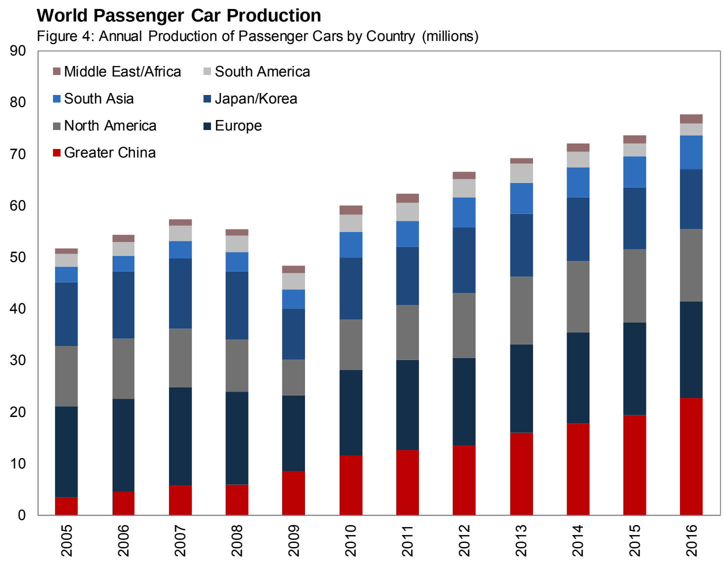


Source: EIA, Contrarius Research

In summary, we believe that the supply picture is more nuanced than it is made out to be.

Oil Demand

Per-capita oil consumption peaked more than 30 years ago in the US, France, Germany, and the UK. But it is still growing from a low base in much of the world, including in China and India (4.2% and 4.7% per annum, respectively, in the last three years). By 2040, global population is expected to grow 23%, and GDP is expected to double, as is the number of active cars. We do not expect oil demand to fall under these circumstances (the International Energy Agency expects it to rise 22%).



Source: European Automobile Manufacturers Association, Contrarius Research

"Light-duty vehicles" account for about 30% of oil demand. This is split roughly 12% for cars and motorcycles, and 18% for light trucks (everything from light SUVs to Hummers, vans, and lorries). This is where electric vehicles (EVs) are likely to make the most impact. The other 70% goes into heavy industrial vehicles, planes, ships, heating, and non-combustibles, where there are few substitutes.

The Paris climate agreement targets imply that 30% of light vehicles should be electric by 2040. Since light-duty vehicles use about 30% of oil, we might assume that this eliminates 9% of demand. But this is surely too pessimistic: EVs will probably be concentrated among fuel-efficient vehicles like small passenger cars, rather than heavy burners; and long-range multinational targets often proven unrealistic. EVs are currently subsidised in many countries, and this will be tough to maintain over the long term (Danish sales fell 61% in the first quarter of 2017 after the government announced a phasing out of subsidies). Currently, about 0.2% of light-duty vehicles are electric. Scaling that up to 30% will uncover difficulties that are hidden at small scale. For example, batteries already use 35% of lithium, so even if they triple in efficiency the world will need about 35x as much lithium, or growth of about 17% per year (at today's efficiency it would be 28% per year). Electricity grids will need to be re-engineered: although the forecast increase in overall US electricity demand is only about 8%, changes in geographic and temporal usage patterns will be challenging.

Then there's the question of how to generate and transport electricity. Solar and wind are becoming cost-competitive with fossil fuels, but only where and when the weather is amenable. Having generation far from consumption creates stability problems in alternating current systems (generation is typically spread out over large grids). There is little appetite for nuclear; hydroelectric is highly localised and has a big environmental impact; geothermal is showing potential but it is still speculative. If coal is to be phased out then the most likely substitutes are gas and oil.

Finally, diesel is falling out of favour because it is more polluting than petrol. The EU seems to be intent on eliminating diesel light vehicles. In joules/kilometre, it is about 20% more efficient, so replacing diesel with petrol should increase oil demand. The effect from light vehicles will be small since, despite their popularity in Europe, diesel cars are uncommon elsewhere. But if the pressure spreads to industrial vehicles, the impact could be sizeable.

To be clear, we are optimistic on EVs and a few of the Fund's holdings should benefit from their rise. Also, we expect efficiency in general to continue improving, and that demand patterns may shift (for example, because of autonomous vehicles, on-demand taxis, and ride pooling). But we believe that because of the convenience and energy-density of oil, and the enormous scale of these changes, the effects are likely to play out over decades and to put pressure on oil supply in the meantime.

Deepwater

Shallow-water and midwater rigs can be anchored in various ways: either on a rigid tower (jackups), or secured to the seabed with cables. Transocean's rigs, however, can operate in up to 3.7 km of water, and drill 12 km into the seabed. These are among the world's biggest machines, and they are expensive to run: three years ago the breakeven price for many deepwater wells was more than $90 per barrel.

Remarkably, operators have been able to cut costs in half. The main cost-saving devices have been:

- Adding the high-efficiency new rigs to the fleet, and removing the least efficient ones;
- Standardisation of equipment: as proven by low-cost airlines, this means holding less inventory, quicker repairs, fewer but more experienced staff, and buying power;
- Standardisation and simplification of well designs: previously, wells were designed from scratch for each deposit. But by using simple standard designs, operators can reduce time and risk;
- Minimising specifications: when profits are ample there is a tendency to over-spec projects;
- Economise procurement: as we noted in the last Commentary, procurement could be very wasteful;
- Being more selective about which wells to drill;
- Focusing on time management: most rig costs are time-based so anything that can save time is valuable. Examples not already mentioned include: better project planning to parallelise processes as much as possible; and pre-empting repairs and maintenance. For a sense of scale, it is notable that the average time taken to take a rig offline has been cut 75%.

The major operators and service companies are reporting breakeven prices of $40-50 per barrel, which is competitive with other extraction methods.

We expect the number of active floating rigs to have halved by the end of the year. Most of the offline rigs are "stacked". This means they are available to return to the market (as opposed to being scrapped), which many investors believe is ominous for lease rates. But this is misleading. You can't just turn a rig off and on again. It needs ongoing upkeep—the less you maintain it, and the longer you park it, the more it costs to start up again. For financially stressed operators that is an unenviable trade-off, and they are likely to prioritise their short-term survival. Many rigs are old and cannot compete with newer fleets. Finally, since contracts frequently run for years, customers presumably value financial stability, which marginalises the rigs of more precarious operators. Many supposedly "stacked" rigs are probably *de facto* retired.

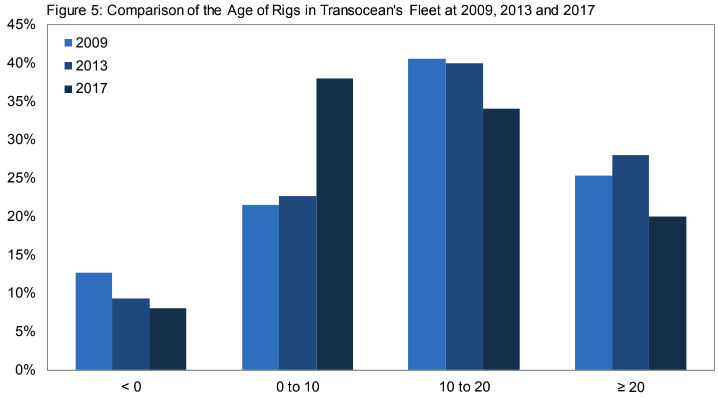
We expect deepwater E&P spending to return, eventually. Dry land has been intensively scoured and most major discoveries of the last 20 years have been in deep water.

Transocean

Transocean has the largest combined fleet of ultra-deepwater and harsh-environment floating rigs. Over the past few years, it has focused on deepwater operations and recently disposed of its remaining jackups (shallow-water). Sizeable long-term contracts have given it the flexibility to revitalise its aging fleet over the last few years (it has about $11 billion of customer commitments, and it would be owed substantial penalties it these were cancelled).

Transocean Fleet Profile

Figure 5: Comparison of the Age of Rigs in Transocean's Fleet at 2009, 2013 and 2017



Source: Transocean, Contrarius Research

The company has bought back or refinanced much of its debt, so that the repayment schedule now spans many years. It has liquidity of about $4.9 billion (a $3.0 billion credit line and $1.9 billion in cash, after recently committing $1.2 billion to buying back debt) and net debt is down to $4.9 billion from $9.5 billion in 2011. Transocean continues to generate free cash flow despite losing nearly two-thirds of its revenue. The rig leasing industry has started to rationalise. Ensco is buying Atwood Oceanics. Transocean has noted that there may be distressed, but attractive, assets on the market. As one of the most financially robust operators, it is in a strong position to benefit from this. If E&P investment returns, there will not be many providers able to respond.

CONCLUSION

We do not believe that the conventional wisdom is entirely wrong. Rather, we believe that it cherry-picks a narrow range of potential outcomes in a complex system. Investors are worried that things could still get worse and that there is little sign of E&P spending returning in the next year. This may be true but we would rather be early than miss a great long-term investment opportunity. Transocean may not get back to its 2008 highs, but expectations are so low that – at a fifth of tangible NAV – Transocean could double from here and still be on less than half of replacement cost! In our view, the investment case rests on two questions: (1) does deepwater production have a future; (2) if so, will Transocean benefit from that. We believe that the answer to both is 'yes'.

Transocean

Figure 6: Transocean Share Price and Tangible Net Asset Value Per Share (US$)

Source: Bloomberg, Contrarius Research

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(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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