QUARTERLY INVESTOR COMMENTARY
31 DECEMBER 2017

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 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 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**	**19.7**	**16.1**	**13.3**	**19.0**	**10.7**
Contrarius Global Equity	**Institutional**	**20.1**	**16.6**	**13.8**	**19.5**	**10.8**
World Index		11.9	11.6	9.3	22.4	5.5

Past performance is not a reliable indicator of future results.

The Fund's Investor Class shares returned 10.7% 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 19.0% versus 22.4% 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 overweight Consumer Discretionary, Materials, and Energy stocks. In terms of geographic exposure, the Fund continues to be overweight shares in North America and shares outside the major developed markets.

Sector Exposure 31 December 2017	Weighting (%) Fund	World Index [1]	Over/(Under) Weight
Energy	20	6	13
Materials	28	5	23
Industrials	0	12	(12)
Consumer Discretionary	38	12	26
Consumer Staples	1	9	(8)
Health Care	2	12	(10)
Financials	1	18	(17)
Real Estate	0	3	(3)
Information Technology	9	17	(8)
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 2017	Weighting (%) Fund	World Index [1]	Over/(Under) Weight
North America	83	63	20
Europe	5	24	(19)
Japan	1	9	(8)
Asia ex-Japan	0	2	(2)
Other	10	3	7
Total Shares	**99**	**100**	
Net Current Assets	1	-	
Net Assets	**100**	**100**	

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

MACY'S

Schadenfreude

Search for "Dead Malls" on your preferred online video streaming service and you will be treated to many hours of schadenfreude. This seems to back the narrative that physical retail is losing a multi-pronged battle to online retail on the one side, and "fast fashion" (e.g. Zara) on the other. It seems that more retail space was closed in 2017 than in either 2008 or 2009, the years of the financial crisis. Wal-Mart has even dropped "Stores" from its official name.

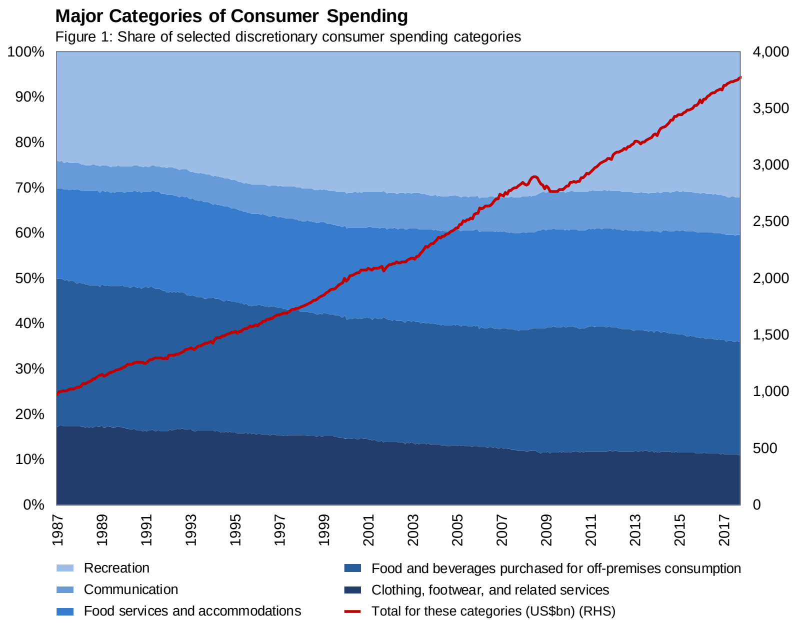
It's curious, then, that a number of industry-leading "online-only" retailers are opening physical stores. Among them are Blue Nile (jewellery, largely engagement rings), Bonobos (men's fashion), Warby Parker (eyewear), and Everlane (everyday clothing). Amazon itself spent $14 billion buying Whole Foods, an offline grocer. Average US retail rentals were up 4.8% in the 12 months to September 2017, while vacancies were stable. Westfield Corp, one of the biggest shopping centre holding companies, is under offer at close to its peak share price. Best Buy, a consumer electronics retailer, appears to be a phoenix rising from the ashes. It seems that the truth is more complex than the "retail apocalypse" narrative suggests.

Great investing opportunities often hide out in conflicting evidence. We believe that a good example is Macy's, a department store group with more than 700 locations around the US, whose share price has fallen 65% since July 2015. Nearly 20% of its shares are sold short. It is the fund's biggest position.

Why have Department Stores and Malls

Department stores are, of course, places to transact. But that is just one of a number of distinct functions: they are advertising channels for merchandisers; they are also sources of market information, helping vendors understand their customers; the large chains provide logistics, allowing brands to cover broad areas; and they are destinations for socialising, relaxation, and entertainment. One of the most important functions is as an escape from the "filter bubble" of recommendation systems, offering a pleasant (and three-dimensional) space for exploration and chance discoveries that is hard to find online. Although the efficiency of ecommerce may have impaired the 'transact' function, it has arguably made the other functions all the more valuable.

Pitching 'online' against 'offline' is therefore a false dichotomy. Consumption spending has been robust, including offline. Unfortunately for department stores, it has been concentrated in the wrong places (Figure 1).



Source: Bureau of Economic Analysis, Contrarius Research

The Future of Retail

With the unbundling of those distinct functions, retailers will likely coalesce around five types of business model: cost; speed; convenience; experience; and platform (i.e. providing the infrastructure for merchants and shoppers to interact smoothly). Department stores are competitive in the first three, but they truly excel in the latter two, with great benefits for both vendors and consumers.

For vendors, the department store platform is a laboratory, an incubator, a showroom, and a distributor. Merchandisers can experiment with new brands and concepts on a small scale, tinkering with different environments and locations to see what works. This would be out of the reach of all but the largest brand conglomerates if it meant investing in locations, people, and systems. The "store-within-a-store" is both an advertising medium and a channel for market research. Few vendors can match Macy's logistical reach and technological investment. Like other platform businesses, it turns its customers' (i.e. brand owners') fixed costs into variable ones.

For consumers, the department store is good at everything that is hard to get from a monitor and a mouse, which fit mostly into four categories:

- Human interaction: with both social companions and store staff;
- Discovery: variety, curation, and a space for exploration and serendipity;
- Value-added services: such as advice, workshops/classes, concierge services, rest places;
- Experiences: such as events, exclusives, and entertainment.

In addition, we expect technology both to alleviate frustrations with in-store shopping (e.g. equipping roving sales staff with mobile checkout devices; more granular inventory tracking and shipping; rapid delivery from the store), and to add valuable functionality (enhanced, even predictive, fitting-room service; in-store comparisons).

This may sound like rose-tinted speculation but the evolution is already underway. Best Buy rejuvenated itself with many of these ideas, including: retraining sales staff to be consultants; integrating on-line and off-line by adding in-home advice and product education; turning stores into mini distribution centres; partnering with the likes of Apple and Samsung to have stores-within-stores, which drew in customers while subsidising overheads, marketing, and training; overhauling information systems. It turned "showrooming"—scouting in physical stores before buying online—from a mortal threat into an opportunity. Although Best Buy does not pitch itself as a price leader, it matches rivals' prices to eliminate the incentive to shop around. Finally, it was better capitalised and better managed than its physical competitors (e.g. Circuit City and RadioShack), and it benefited from their failures. Best Buy now promotes the *experience* rather than the *purchase* and bills itself as "the greatest toy store for adults". The result is that a $1,000 investment in Best Buy at the end of 2012 would be worth more than $6,000 today (with dividends reinvested). Perhaps even more remarkably, Best Buy would have returned 50% even if you bought it at the 2006 peak.

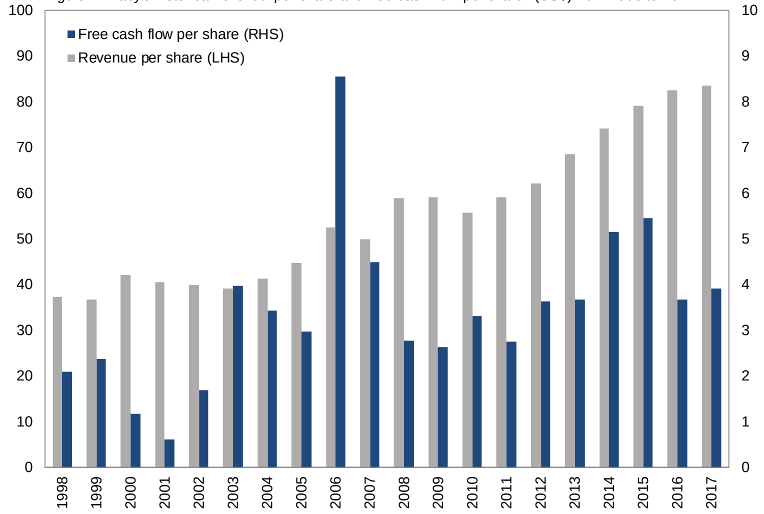
It is not alone. Westfield shopping centres are rolling out cafés and children's playgrounds, and hosting events with little direct link to shopping (like a Lady Gaga performance). Neiman Marcus, a luxury department store, is experimenting with experiential concepts at its location in Roosevelt Fields, a retail supercentre in New York. Saks Fifth Avenue is implementing similar ideas, focused on "wellness", in its famous Manhattan store.

Macy's Approach

To be sure, changing direction is hard and expensive. The myriad possibilities above are uncertain. We do not expect Macy's to attempt all of them; nor to be successful in everything it does attempt. But it does not need to be: it generates lots of cash (Figure 2) and, with the share on less than ten times free cash flow (even adjusting for property sales), expectations are clearly low. And we expect that there will be other strategies that we have not imagined that *will be* successful. Compared to Best Buy, we believe that Macy's is considerably less vulnerable to commoditisation.

Macy's Financials

Figure 2: Macy's historical revenue per share and free cash flow per share[1] (US$) from 1998 to 2017



[1] Free cash flow per share has been adjusted to exclude the effect of real estate sales.

Source: Bloomberg, Contrarius Research

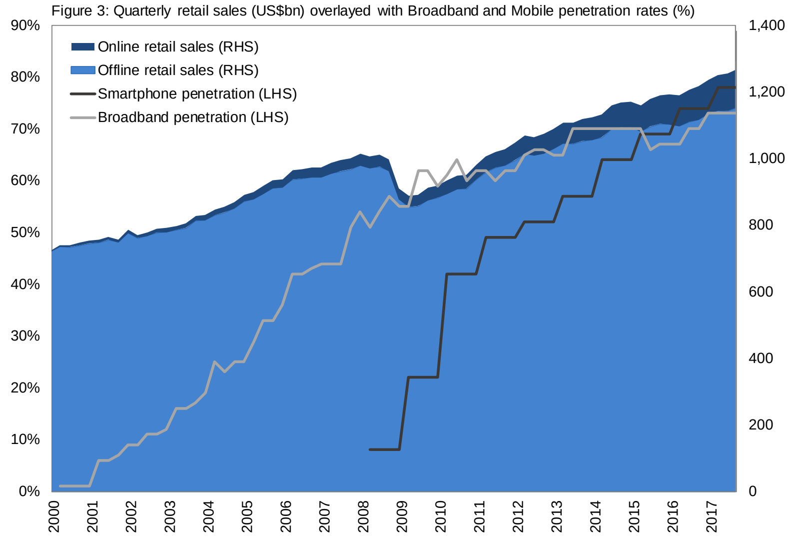
Some shifts are already evident. Stores are being switched to an "open-sell" format, which saves stockroom space and reduces retrieval time. Sales staff are being retrained as multi-brand consultants. To avoid commoditisation, Macy's is seeking brand exclusives (from early 2018 it will be the sole department store to carry DKNY women's clothing), partnering with brands to create exclusive ranges, and increasingly emphasising its own labels. Half of sales are from 10% of shoppers, so we expect it will have good returns from the new loyalty programs it is rolling out to high-value customers.

The group grew by consolidation over about 150 years. That left it with lots of space, much of which is inefficiently used. For example, there are dozens of malls with two or even three Macy's stores. Until a few years ago department stores were performing well and so there was little pressure to tackle this, but rationalising space is now a priority. It is closing underperformers, and consolidating stores with overlapping footprints. It is investing in the high-performing stores and opening new ones in high-quality areas.

Traditional retail may be through the worst. Online retailers have had the double benefit of increasing adoption of smartphones, as well as increasing usage by those who already have one; and Macy's has been on the other side of that. But adoption is reaching saturation at about 80% of US adults (Figure 3; in the sub-50 demographic it's about 90%). Usage will presumably continue to increase for some time but the "low-hanging fruit", such as commodity and rigid practical products, has already been picked. The margin-sapping inventory liquidations of struggling competitors should taper off eventually. Online retailing has been a favourite destination for venture capital and enjoyed years of excessively low capital costs. This is presumably not sustainable and we expect the playing field to level eventually. There are also indications that in-store shopping is making a comeback among younger adults, supporting our view that 'three-dimensional' is not going out of fashion.

US Retail Sales and Online Penetration

Figure 3: Quarterly retail sales (US$bn) overlayed with Broadband and Mobile penetration rates (%)



Source: U.S. Census Bureau, Bloomberg, Pew Research Center, Contrarius Research

Real Estate

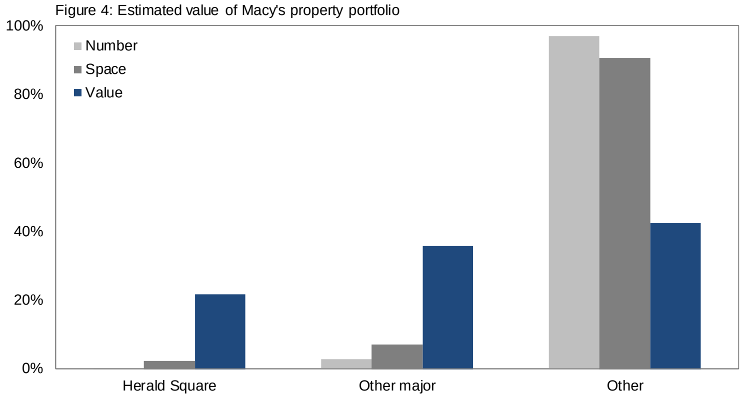
Step out of Manhattan's Penn Station onto 34th Street and you'll have the Empire State Building hulking over you to the right. To the left is the iconic Madison Square Garden. Broadway runs along the side on its way to Times Square, a few blocks away. And across the road is an ornate 11-floor monolith taking up an entire city block. That is Macy's Herald Square, more than two million square feet of fully-owned retail space in the middle of New York City. It is a unique property and so there are no good comparatives on which to benchmark its value. Taking into account a number of factors, including recent transactions in the area, we estimate it to be worth nearly $4 billion. The flagships in Brooklyn, Chicago, San Francisco, Seattle, Los Angeles, and Philadelphia account for another 6 million square feet and about $6 billion. That amounts to $10 billion and it still owns another 92 million square feet spread across a few hundred properties that we have not yet considered. In that long tail are some defunct malls, orphan land, and other low-value real estate. But there is also underutilised valuable land (like parking lots), unused land in good locations, and stores in some of the most lucrative malls in the country. We estimate that those 92 million square feet of highly varied property to be worth, in aggregate, about $9 billion, so focusing only on the flagships drastically undervalues the company (Figure 4). (Note that this does not consider a further 30 million square feet of leases, which likely have, overall, material residual value.)

Macy's has sold parcels (of both low-value and prime lots) amounting to about $750 million over the past year. It recently concluded a partnership with Brookfield Asset Management, a property developer, to redevelop about 50 of its plots. This can go in a number of directions, depending on the particular property. Where there is still retail value, malls can be maintained as they are, or refurbished with an emphasis on showrooms (there is demand from high-end brands like Apple and Tesla), boutique services (healthcare services, beauty/styling), dining, health clubs, and entertainment. Outside of retail, some large properties have been converted into hotels, residential units, or urban villages.

On average, then, we value Macy's entire portfolio at about $187 per square foot (with the non-flagship properties at about $97 per square foot). For comparison, we estimate that the effective values attributed to Westfield's properties are about $1,260 per square foot for the flagships and $315 per square foot for the regional centres.

Macy's Property Portfolio

Figure 4: Estimated value of Macy's property portfolio



Source: Macy's, Contrarius Research

Conclusion

We do not trivialise the challenges facing Macy's. They are significant. But we believe that it has the resources to continue to invest in the business, unlike many of its competitors who may exit the industry. We note that it does have $6.3 billion of debt (of which only about $1.1 billion is due in the next five years, and $2.1 billion in the following five), but it also continues to generate nearly a billion dollars of free cash flow annually, even after a series of difficult years. And it sits on a property portfolio nearly three times the size of Central Park, which we value at about $19 billion (although clearly if Macy's sold all the property its rental charges would go up and profits would go down). Considering the value of the overall business, at an enterprise value of $13.5 billion this is like a "Buy one get one free" offer. The short-sellers may need some retail therapy.

This Quarterly Investor Commentary does not constitute a recommendation to buy, sell or hold shares or other securities in the companies mentioned in it ("relevant securities"), nor does it constitute financial advice. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Entities and employees of the Contrarius Group are not subject to restrictions on dealing in relevant securities ahead of the dissemination of this Quarterly Investor Commentary.

Legal Entities. Contrarius ICAV (the "ICAV") is an umbrella type open-ended self managed Irish Collective Asset-management Vehicle with variable capital and segregated liability between sub-funds. The ICAV was originally incorporated in Jersey on 9 December 2008 (with registered number 102270) and was registered as an Irish Collective Asset-management Vehicle in Ireland by way of redomiciliation (continuation) under the Irish Collective Asset-management Act 2015 on 30 June 2016. The ICAV was authorised as a UCITS by the Central Bank pursuant to the UCITS Regulations on 30 June 2016. The initial sub-funds of the ICAV are Contrarius Global Equity Fund and Contrarius Global Absolute Fund. | Contrarius Investment Management Limited, a company incorporated in Jersey with registered number 100697, regulated by the Jersey Financial Services Commission, registration number FSB 1906. | Contrarius Investment Management (Bermuda) Limited, a company incorporated in Bermuda with registration number 45466, licensed to conduct investment business by the Bermuda Monetary Authority. | Contrarius Investment Advisory Limited, a company incorporated in England with company number 6581705, regulated by the Financial Conduct Authority, registration number 488706.

Permission to Access. There are legal requirements in various countries which may restrict the information which Contrarius can lawfully provide. Accordingly, the information contained in this Commentary may be provided for residents of certain countries only. Persons who receive the Commentary or who have access to it should inform themselves about and observe any restrictions imposed in the jurisdiction in which this Commentary is accessed. Neither Contrarius ICAV (the "Fund") nor its Shares have been registered under any United States securities legislation and, except in a transaction which does not violate such legislation or require the registration of the Fund, the Fund Shares are not being offered, directly or indirectly, in the United States of America or in any of its territories or possessions or areas subject to its jurisdiction or to citizens or persons thereof. Additionally, the Fund is not a recognised or authorised collective investment scheme for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom (the "FS Act"). Accordingly, this communication is directed only at persons in the United Kingdom permitted under the FS Act (or the orders made thereunder) to receive it. The Contrarius ICAV, comprising the Sub-Funds Contrarius Global Equity Fund and Contrarius Global Absolute Fund, has been approved in terms of section 65 of the Collective Investment Schemes Control Act, 2002 by the South African Registrar of Collective Investment Schemes. Additional regulatory disclosures are required by the South African Financial Services Board in respect of Funds which have been approved in terms of section 65 of the Collective Investment Schemes Control Act, 2002 by the South African Registrar of Collective Investment Schemes and are included below:

Performance (net, per calendar year, since inception)	Fee Class	Currency	Best Performance		Worst Performance		Inception
			Year	%	Year	%	Date
Contrarius Global Equity Fund	Investor Class	US$	2009	94.5	2015	(17.4)	01-Jan-09
	Institutional Class	US$	2009	95.1	2015	(17.0)	01-Jan-09

These are the best and worst performing calendar years each specified Fund has experienced since inception, demonstrating the variability of performance. Annual figures for all calendar years since inception are also available on www.contrarius.com. South African residents interested in receiving a Prospectus or other information on these funds should contact the authorised representative for those funds, Contrarius Investment Services (South Africa) (Pty) Ltd at clientservice@contrarius.co.za. Contrarius Investment Services (South Africa) (Pty) is a member of the Association for Savings & Investment South Africa.

Non-Solicitation. This Commentary does not constitute an offer to sell, or a solicitation to buy shares of Contrarius Funds. Subscriptions are only valid if made on the basis of the current Prospectus of a Contrarius Fund. The Prospectus in turn does not constitute an offer or solicitation in any jurisdiction in which such an offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. No person may treat the information in the Prospectus as constituting an invitation to them unless, in the relevant jurisdiction, such an invitation could be lawfully made to them without compliance with any registration or any other legal requirements. By proceeding to access the Prospectus, Key Investor Information Document, Account Opening Form and Subscription Form for the Fund, users are representing and warranting that the law of the relevant jurisdiction allows them to access such information. Prospective investors are referred in particular to the full risk warnings that are set out in the Prospectus and the notice which states that the Fund Shares are not being offered, directly or indirectly, in the United States of America or in any of its territories or possessions or areas subject to its jurisdiction or to citizens or persons thereof.

Use of Information. This communication provides general information for the benefit of the present Investors in Contrarius Global Equity Fund. It may not be complete and up to date for your purposes. It is not intended as financial advice or as an offer, solicitation or recommendation of securities or other financial products. Only investors with appropriate knowledge and experience to evaluate the applicable merits and risks should consider an investment in the instruments discussed herein. If in doubt, you should obtain independent financial advice that addresses your particular investment objectives, financial situation and needs before making investment decisions. The information and materials contained in this communication including all terms, conditions, and descriptions are subject to change.

Risk Warnings. Past performance is not indicative of future performance. The value of investments may go down as well as up and investors may not get back the amount invested. The Fund's share prices fluctuate and are not guaranteed. When making an investment in the Fund, an investor's capital is at risk. This warning is made in addition to the investment warnings and important notices set out in the Prospectus. The Fund is authorised in Ireland as a UCITS fund (please refer to the Prospectus). Notwithstanding the foregoing, the Fund is not obliged to issue Fund Shares to any person and reserves the right, in its absolute discretion, to refuse any application for Fund Shares.

Confidentiality. The recipient of the information contained in this communication undertakes not to disclose, without the prior consent of the Fund or the Investment Manager (acting on behalf of the Fund), to any person or third party any confidential information, document and/or matter relating to or concerning the Fund, its investments, any Investors, the Investment Manager & Distributor, the Administrator, the Depositary, the Investment Advisor and/or their respective activities and business, unless disclosure is required by any law or regulation or by any competent authority or body or such confidential information is in the public domain (other than by our actions).

Sources. MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, Incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

No Warranty. The information in this communication has been derived from sources believed to be accurate and reliable. Other than for information on Contrarius or its Funds, neither Contrarius, nor any other member of the Contrarius Group has independently verified any information in this communication. Furthermore, neither Contrarius nor any other member of the Contrarius Group gives any representation or warranty of reliability, completeness or accuracy of information. Information provided shall not constitute or form the basis of any contract. Contrarius expressly disclaims liability for any errors or omissions that may be contained in the Information.

General Provisions. The information provided is provided to the recipient in response to a specific and unsolicited request and is for the information purposes of the recipient only. Such information is not intended for, may not, without the express consent of Contrarius, be distributed to, and may not be relied upon by, any other person, including without limitation, any advisory or other client of the recipient. The information provided in this Commentary does not constitute and may not be construed as the provision of investment advice. Any investment or investment activity to which this communication relates is available only to such persons. Persons who are not permitted to receive this communication should not rely on it. It should be remembered that the price of Fund Shares and the income from them can go down as well as up and that investors may not receive, on redemption of their Fund Shares, the amount that they invested. Since 30 June 2016, the Contrarius Global Equity Fund has been priced daily. From inception up to 30 June 2016, this Sub-Fund was priced weekly. Performance prior to 30 June 2016 was while the Sub-Fund was a Jersey domiciled fund. Any views expressed reflect the current views of Contrarius and do not necessarily represent the view of any other members of the Contrarius Group. The views expressed may change without notice or liability.

Contact. Correspondence in relation to Contrarius Investment Management Limited's business can be addressed to 2 Bond Street, St Helier, Jersey, JE2 3NP, Channel Islands or clientservice@contrarius.com.