QUARTERLY INVESTOR COMMENTARY
30 JUNE 2019

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 ("MSCI World Index", "Benchmark"). 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 2019

Total Rate of Return in US Dollars	Class [1]	Since Inception on 1 Jan 2009	Latest 10 Years	Latest 5 Years	Latest 3 Years	Latest 1 Year	2019 Year-to-date	Latest Quarter
		% Annualised				*% Not Annualised*		
Contrarius Global Equity	**Investor**	**14.6**	**11.9**	**2.7**	**4.7**	**(27.6)**	**3.0**	**(11.8)**
MSCI World Index		10.8	10.7	6.6	11.8	6.3	17.0	4.0
Average Global Equity Fund		8.6	7.9	4.2	9.6	2.7	15.2	3.4

Past performance is not a reliable indicator of future results. The Fund's share prices fluctuate and are not guaranteed. Returns may decrease and increase as a result of currency fluctuations. When making an investment in the Fund, an investor's capital is at risk.

[1] *Performance of other fee classes are available on our website.*

The Fund's Investor Class shares returned (11.8)% 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 latest year, we believe, is an example of such times. Over the last several months a number of the Fund's Energy and Consumer Discretionary holdings fell further out of favour with investors, despite our belief that these holdings offer excellent value to the long-term investor.

The Fund is overweight Consumer Discretionary, Energy, Materials, and Communication Services stocks. In terms of geographic exposure, the Fund continues to be overweight shares in North America.

Sector Exposure 30 June 2019	Weighting (%) Fund	MSCI World Index [1]	Over/(Under) Weight
Communication Services	20	8	12
Consumer Discretionary	30	10	20
Consumer Staples	3	9	(6)
Energy	22	6	17
Financials	0	16	(15)
Health Care	0	13	(13)
Industrials	0	11	(11)
Information Technology	2	16	(14)
Materials	20	5	15
Real Estate	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 30 June 2019	Weighting (%) Fund	MSCI World Index [1]	Over/(Under) Weight
North America	82	66	16
Europe	11	21	(10)
Japan	0	8	(8)
Asia ex-Japan	3	2	1
Other	2	3	(0)
Total Shares	**98**	**100**	
Net Current Assets	2	-	
Net Assets	**100**	**100**	

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

FREEPORT-MCMORAN

Freeport McMoRan mines supply 8.4% of the world's primary copper. That accounts for about three quarters of its revenue, the rest being gold, molybdenum, and cobalt. The share has underperformed the MSCI World Index by 90% since it peaked in early 2011. To a large extent it has itself to blame: Freeport took on debt of $16 billion to buy oil assets at the peak of the cycle (since written down and disposed). But it is also a victim of global economics, global politics, local politics, and predicted operational upheaval. Investors' scepticism may be understandable, but it's worth taking a closer look.

Copper: Seeing Red

Copper is a uniquely useful material. As a room-temperature electrical conductor, only silver does better: by 6%, at *90x* the cost. Copper is ductile, malleable, highly thermally conductive, a natural antimicrobial (copper furnishings are the only solid surfaces registered with the US's Environmental Protection Agency as public health products), and alloys easily with other metals. It was first smelted around 3500 BC, and alloyed with tin to form bronze, ushering in the Bronze Age. Bronze, being harder and more corrosion resistant, made it feasible for the first time to forge tools (copper is too soft, and steel hadn't been invented). This big benefit over stone effectively brought the Stone Ages to an end. For the next five thousand years or so, copper's antimicrobial nature was important in pipes, storage vessels, and boat hulls and parts. Its corrosion resistance and hardness when alloyed was key in construction materials, tools, weapons, and anything exposed to water or humidity. Its thermal conductivity was well suited to cooking equipment and, when the Industrial Revolution eventually happened, heat exchangers.

But that already impressive lineup began taking a backseat in the 1800s. The earliest known investigation of electricity is from Thales, an Ancient Greek, who noticed that if you rub amber with silk, it attracts feathers. In the 1600s, William Gilbert referred to this effect as "electricus" from the Greek word for "amber" (ἤλεκτρον, pronounced *elektron*). A series of discoveries in the 1700s and 1800s led to the battery (Volta, 1800), the rotary motor (Jedlik, 1827), the telegraph (Wheatstone and Cooke, 1837), the generator (Edison, 1870s), the telephone (Bell, controversially, 1876), electric light (Swan, 1878), AC motors (Tesla, 1880s), the production/detection of electromagnetic waves (Hertz, 1886), and solar power (Einstein, 1905).

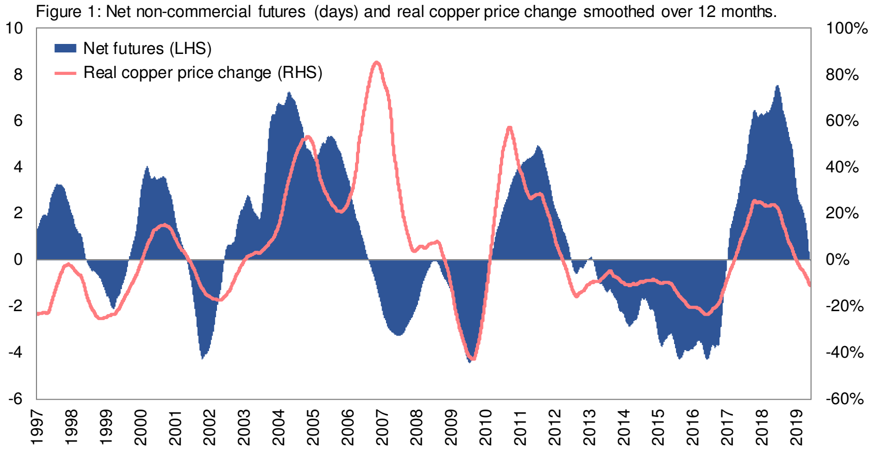
Today, 75% of copper is used to conduct electricity, mainly in power grids and construction. There are still two long-term trends in electrification that we expect will call for a lot of copper: the replacement of combustion engines with electrical ones; and the generation, storage, and distribution of the power to the grid.

Current Scepticism

In 2000, China consumed about 12% of the world's refined copper. Today it consumes roughly half. As with other commodities, China was a key cause of rising volumes and prices since 2000—and is also a key cause of the current pessimism. The price peaked in early 2011 when Chinese GDP growth was 10%. Chinese growth was most recently reported as 6.4% and there are concerns that overbuilding has created a glut that will take time to work off. The threat of a trade war between the US and China adds to uncertainty about future copper demand. The price has fallen more than 40%, and the sharp change of sentiment is evident in the balance of non-commercial futures positions.

Financial Traders' Net Positions vs Real Price Change

Figure 1: Net non-commercial futures (days) and real copper price change smoothed over 12 months.



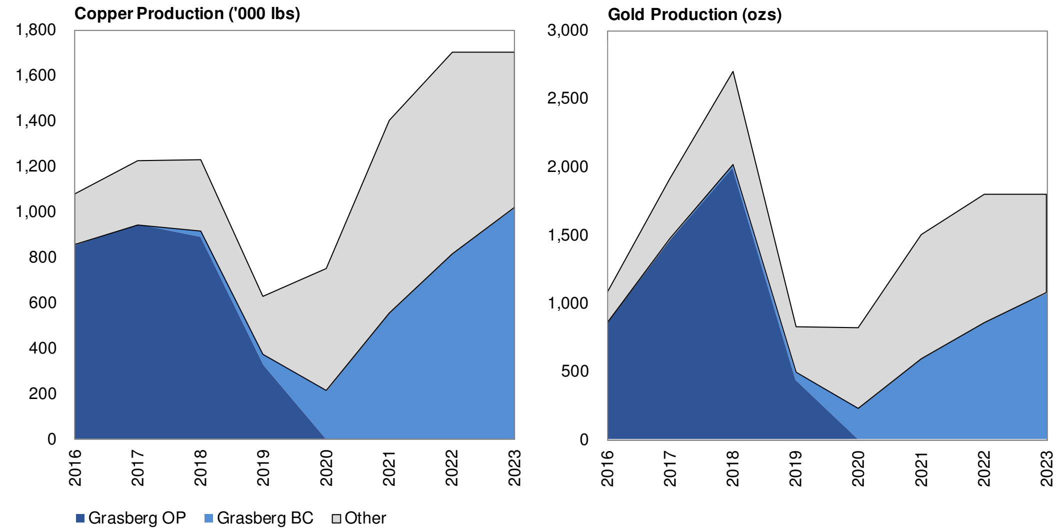
Sources: Bloomberg, Contrarius Research

Freeport also has its own difficulties. The Grasberg mine in Indonesia – its most prized asset – has been the focus of both political and operational challenges. The holding structure is complicated but, in summary, it was operated by a joint venture with Rio Tinto, with the Indonesian government having a 9% stake. A few years ago, the government demanded a majority stake, and the difficulty finding common ground caused considerable disruption. In late 2018 Rio Tinto sold its entire interest, which, together with a small share from Freeport, got the government to 51%. As part of the agreement, the government and Freeport signed new operating agreements clarifying Freeport's financial interests until the 2040s.

At the same time, the mine itself is in transition. The main Grasberg block has reached the end of its open-pit life and mining is about to move underground. This is going to mean a 2-3 year transition during which production from that block will fall 80% before ramping all the way back up again. This potentially unnerving gap is longer than most investors' investment horizons.

Estimated Indonesia Production

Figure 2: Production outlook for Freeport McMoRan Indonesia Mines, highlighting transition of Grasberg production from open pit (OP) to Block Cave (BC).



Sources: Freeport McMoRan, Contrarius Research

Generating Demand

It is hard to see how any country can skimp on copper for long. A more lethargic (but still growing) China will still need more, even if the rate of change is smaller. And China aside, there are 4.7 billion people in developing nations that are hungry for electrification. The developed world has an installed copper base of about 61 kg/person compared to 16-18 kg in the rest of the world.

Moreover, we expect the long-term move to electric vehicles and renewable power to make even developed countries more dependent on copper. This manifests in a few ways: replacement of combustion engines with electric motors; generating power; storing energy; and distributing power.

- **Electric vehicles (EVs)**: Compared to combustion-driven cars, the average electric passenger car needs an extra 60 kg of copper. For commercial vehicles the difference is much bigger. Although projections of vehicle numbers vary significantly (Bloomberg New Energy Finance expects 500 million passenger EVs on the roads in 2040, and OPEC expects 320 million), we will likely need a lot more copper.

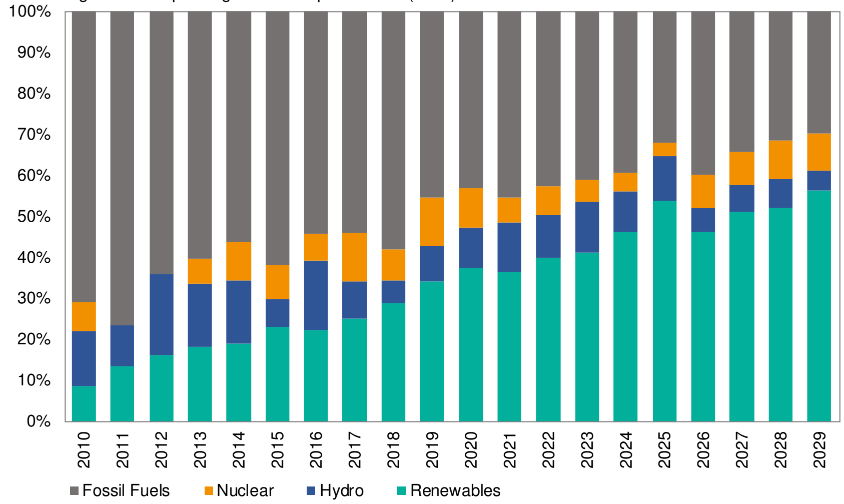
- **Generation**: Portions of existing generating capacity are slowly being switched to renewables. On top of that, switching heavy power users from fossil fuels to electricity will need more capacity. Renewables tend to be much more copper intensive, largely because the fuel is inherently distributed. Instead of having a handful of huge generators in one place, there are many smaller ones over a wide area, which means a lot more wiring. Conventional baseload generation uses about 1 ton of copper per megawatt; the low end for photovoltaic and onshore wind installations is about 3 tons, and offshore wind needs up to 10.

- **Storage**: In a conventional power plant the turbine power can be adjusted up or down as needed. With solar and wind generation the fuel is not under human control. For renewables to be deployed at scale, the misalignment between power consumption and availability of fuel will probably need to be buffered with storage. Chemical batteries are not suitable at that scale and the most likely options tend to involve pushing things uphill, such as pumped hydroelectric, or other large mechanical contraptions. These need powerful electric motors.

- **Distribution**: Existing grids have evolved to meet existing generation and consumption patterns. Generation and transmission layout has to be carefully managed to keep the grid stable. Changes at the point of generation (i.e. renewables) and consumption (e.g. electric vehicles) are both likely to have an impact. We expect that existing grids will need substantial investment to cater to the new patterns.

Focus on Renewables in New Power Generation

Figure 3: New power generation input sources (watts)



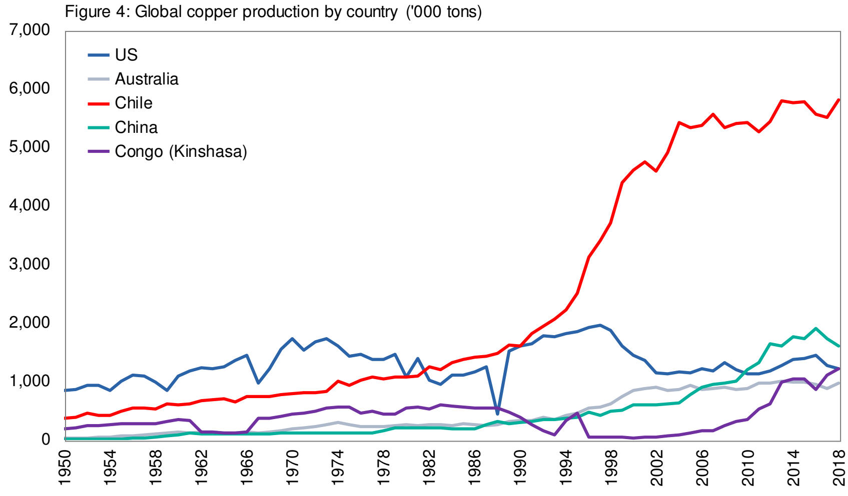
Sources: International Energy Agency, Bloomberg, Contrarius Research

A Shocking Supply Situation

The supply picture changed considerably in the 1970s-1980s when new technologies lowered the cost of processing porphyritic rock (crystals embedded in an igneous mass). That freed up very large deposits, especially in South America.

Emergence of Chile as a Global Mining Powerhouse

Figure 4: Global copper production by country ('000 tons)

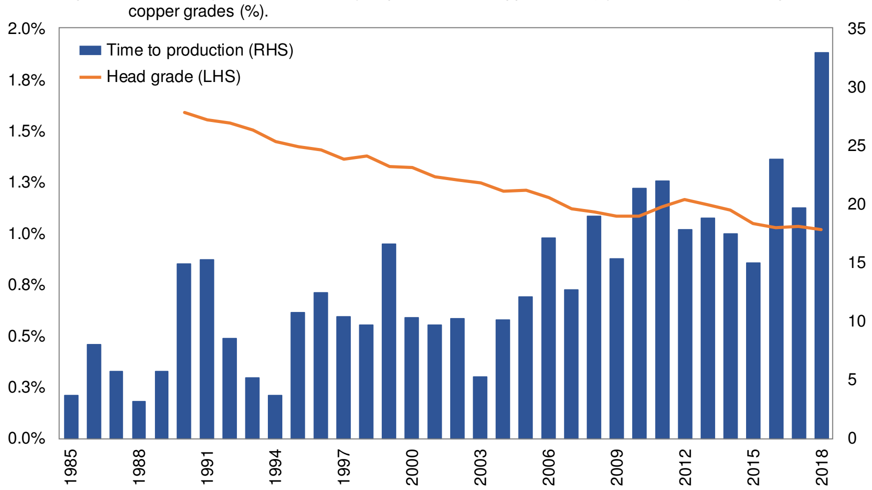


Sources: U.S. Geological Survey, University of Wisconsin, Contrarius Research

Those, however, are mostly used up and miners must increasingly go after low-grade, small, and costly deposits. Supply pressures are stacking up. Grades are in secular decline, and major new developments rare. Environmental and water regulations are tighter. Together, those have pushed up the lag from discovery to first production. Codelco, the Chilean national copper miner (accounting for 8% of global production; Chile as a whole is 27%), has warned the government that it needs considerable investment to modernize its sites, some of which are among the biggest in the world and more than a century old. The Zambian government may be expropriating Vedanta's local operation following an altercation; and it has also clashed with other copper producers, such as Glencore and First Quantum. Production is shifting to less hospitable places, like the DRC – but Glencore is planning to cut production from its Mutanda site in the DRC, and ERG Resources temporarily shut one of its DRC mines.

Growing Lead Times for New Copper Discoveries

Figure 5: Number of years from discovery to production at copper mines (by start date), and average copper grades (%).



Sources: Brook Hunt, Western Copper & Gold, Contrarius Research

Investors may be expecting China and India to solve the supply challenges: it is widely reported that China produced 8,800 kilotons (kt) of copper in 2018 and India produced 925 kt, out of a global total of 21,000 kt, with their outputs expected to grow at 3.1% and 7.3% per annum, respectively, for the next decade. But this is *refinery* output, not mine production, which in 2018 was 1,600 kt for China and 40 kt for India. In other words, for every kilogram of mine output, China *imports* more than 4 kg and India 22 kg of copper inputs (primarily concentrate). Since 2013, India's mine output has grown 2.1% per year and China's has not grown at all; while in the next decade their demand is expected to grow about 3% and 10% per annum, respectively.

Recovery rates for recycling tend to be high, so this is potentially a major source of supply. But about 75% of copper is used in infrastructure and construction, which have multi-decade lives, so demand growth in that window must be met by the mines.

There are not many potential substitutes to dampen price rises, but there is one. An aluminium wire with the same dimensions is only 61% as conductive, but the raw material is about a third of the price. Aluminium has drawbacks, though: it tends to form an insulating patina at electrical junctions, which can impair the conductivity, and may cause overheating. When heated, it expands more than copper; and it can deform under loads. All three of these effects can impair the integrity of electrical connections, with potential safety and reliability implications.

Is The Copper Price About to Forge Ahead?

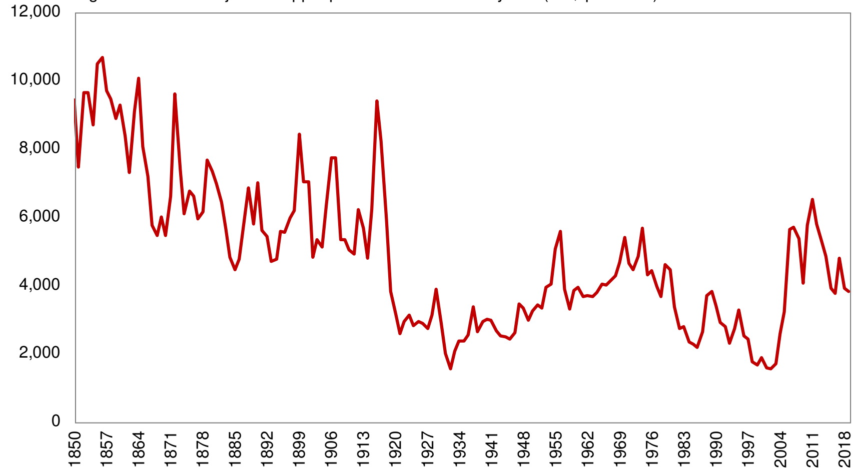
Whether or not the price looks low depends on your time window: compared to the last 20 years it looks highish; compared to the last 170 years it looks low. It is reasonable to question the predictive value of events from before Alfred Nobel invented dynamite, Lincoln was inaugurated, and Florence Nightingale invented the circular histogram: since then the copper price has been tugged this way and that by price controls, monopolization of supply (also by Standard Oil), market manipulation (it has been the subject of a few cornering attempts), and major wars. Indeed, the benefit of looking at a 170-year chart is to show that things that have seemed normal for decades may very well change, for the reasons outlined above.

Projections for net surpluses/deficits until 2021 vary (by about ±0.5% of consumption). After that, a significant and growing deficit looks likely.

We don't know what the price will be a decade from now, but it seems to us that the forces working in favour of producers are more potent than those working against them.

Real Copper Price

Figure 6: Inflation adjusted copper price over the last 170 years (US$ per tonne)



Sources: Bloomberg, U.S. Geological Survey, Contrarius Research

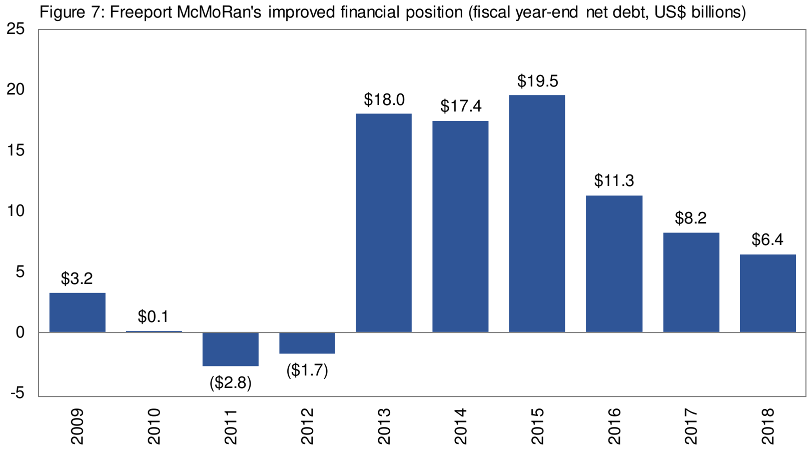
Freeport Showing its Mettle

Freeport's assets have low costs and long lives. Grasberg is one of the world's single largest deposit of both copper and gold: in addition to 560 kt of copper per year, it also yields 1.7 million ounces of gold on average (it produced 2.7 million ounces in 2018, but that was unusual). Although Indonesia gets most of the attention, most of Freeport's value is actually in other, more mature, regions. Other than Grasberg, Freeport produces 1,000 kt of copper and 36 kt of molybdenum (forecast 2021 output), almost all from North and South America.

It seems to us that all of the main investor concerns are either behind it or under control. The conflict with the Indonesian government appears to be resolved. Freeport has been planning (and investing in) converting Grasberg to an underground mine for 15 years, and the (enormous) project is materially on track with expectations set five years ago (it is about a year behind that schedule, but production prospects are now higher). The disastrous oil investment that left Freeport with $20 billion of net debt (it paid out a further $2.6 billion on dividends and buying back shares in the same year) is also in the past and in the price: net debt is down to about $7 billion, spread out over a number of years (it also has inventories of $4.5 billion, at cost).

Significant Deleveraging since 2015

Figure 7: Freeport McMoRan's improved financial position (fiscal year-end net debt, US$ billions)



Net debt equals gross debt less consolidated cash and cash equivalents.

Sources: FactSet, Contrarius Research

According to our estimates, the Indonesian government paid less than half-price for its recent Grasberg stake. After adding up Freeport's extensive other assets, we believe that ordinary long-term investors can get an even better deal on the whole company.

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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	2018	(19.4)	01-Jan-09
	Institutional Class	US$	2009	95.1	2018	(19.1)	01-Jan-09

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