CONTRARIUS

QUARTERLY INVESTOR COMMENTARY
31 DECEMBER 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 31 DECEMBER 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	Latest Quarter
		% Annualised				% Not Annualised	
Contrarius Global Equity	**Investor**	**13.9**	**7.9**	**3.9**	**(0.4)**	**3.0**	**12.5**
MSCI World Index		11.2	9.5	8.7	12.6	27.7	8.6
Average Global Equity Fund		8.9	6.7	6.5	10.3	23.9	8.5

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 12.5% for the quarter versus 8.6% for the benchmark MSCI World Index, including reinvested net income. For the year the Fund's Investor Class shares returned 3.0% versus 27.7% 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. As discussed in more detail below, over the last eighteen months a number of the Fund's Consumer Discretionary and Energy holdings fell 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, and Materials stocks. In terms of geographic exposure, the Fund continues to be overweight shares in North America.

Sector Exposure 31 December 2019	Weighting (%) Fund	MSCI World Index [1]	Over/(Under) Weight
Communication Services	9	8	1
Consumer Discretionary	40	10	29
Consumer Staples	3	8	(5)
Energy	27	5	22
Financials	1	16	(15)
Health Care	0	13	(13)
Industrials	0	11	(11)
Information Technology	3	17	(15)
Materials	15	4	11
Real Estate	1	3	(2)
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 2019	Weighting (%) Fund	MSCI World Index [1]	Over/(Under) Weight
North America	84	67	18
Europe	12	21	(9)
Japan	0	8	(8)
Asia ex-Japan	2	2	1
Other	0	3	(2)
Total Shares	**99**	**100**	
Net Current Assets	1	-	
Net Assets	**100**	**100**	

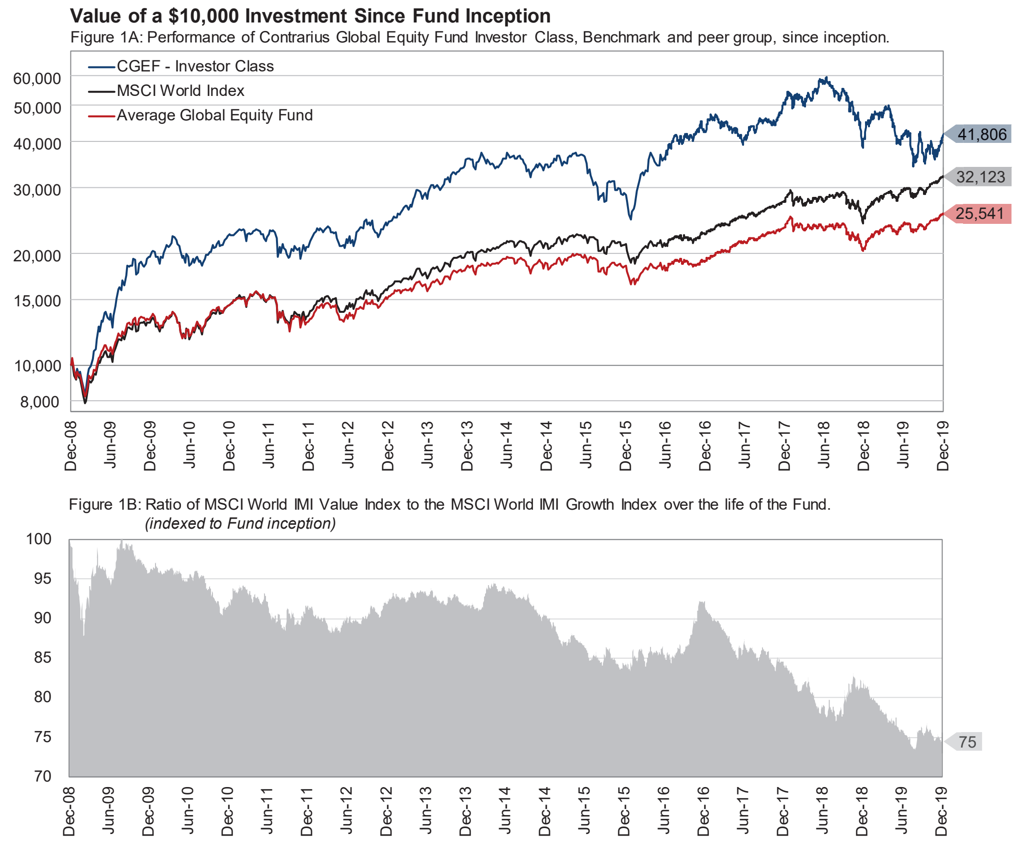
[1] *Source: MSCI (attention is drawn to MSCI disclaimer in 'Notices')*

A Year of Two Markets

This has been a difficult year. The benchmark MSCI World Index returned 27.7% while the Fund's Investor Class shares returned 3.0%. The relative underperformance was largely due to the Fund's holdings in oil drillers and retailers. Of the top four underperformers for the year, one is Macy's (a department store retailer) and three are energy-related. All four continue to be material positions in the Fund. Encouragingly, they all contributed positively in this quarter. Also, Bed Bath & Beyond, which at the time of the last commentary was the Fund's third biggest underperformer since inception, returned 64% during the quarter, making it the best holding of the year.

In the Q3 commentary we looked at some aspects of disparity in the market. In particular:

- As measured by the S&P 500 Growth and Value indexes, "growth" shares had significantly outperformed "value" shares over the life of the Fund. Although, as we noted, we describe our investment philosophy as "contrarian" rather than "value investing" because of how the term "value" is typically interpreted, there does tend to be some overlap between the two, especially when disparity is extreme (as we believe it is currently);
- In terms of their weight in the S&P 500, technology shares had gone from being about par with energy shares at the Fund's inception, to about 6x energy shares today (roughly the same as the peak of the tech bubble).



Value of a $10,000 Investment Since Fund Inception

Figure 1A: Performance of Contrarius Global Equity Fund Investor Class, Benchmark and peer group, since inception.

Figure 1B: Ratio of MSCI World IMI Value Index to the MSCI World IMI Growth Index over the life of the Fund. *(indexed to Fund inception)*

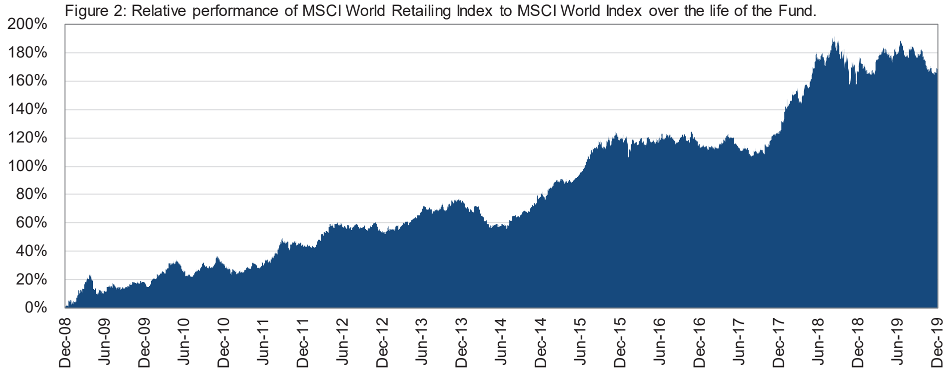
Sources: FactSet, Morningstar, MSCI, Standard & Poor's, Contrarius Research

These are largely unchanged over the quarter and we encourage interested readers to refer back to those charts and the related commentary. We also considered disparity within sectors, which is not as easy to illustrate with index charts. Last quarter we did this with the energy shares by looking at drillers vs everything else.

At first glance, "retailing" does not appear to be a great place to look for under-appreciated shares. Over the last 5 years, the MSCI World Retailing Index has outperformed the broad index by 49%. Over the life of the Fund it has done 168% better!

Retailing Index Outperformed Broader Index

Figure 2: Relative performance of MSCI World Retailing Index to MSCI World Index over the life of the Fund.



Sources: FactSet, Contrarius Research

Yet retail shares make up 39% of the Fund, compared to 5% of the MSCI World Index. Our retail holdings, though, have little in common with the index. The MSCI World Retailing Index lumps Amazon (38% of the index) and Booking Holdings (owner of the Booking.com travel site) with Dollar General (a hyper-discounter), AutoZone (car parts), Tractor Supply Co. (farm products), Marks & Spencer, and Gap. The index has also become much more concentrated: the five biggest constituents make up 63% compared to 39% at the Fund's inception. In Q1 2012, we found a similar environment in the consumer discretionary sector: at the time the Fund was considerably overweight consumer discretionary shares (29% vs 11% in the index), but because of the contrasting valuations within the sector, our holdings had negligible overlap with the index.

You can get a sense of the tilt towards high-priced companies by looking at how the constituents have changed over the past 5 years. On average, additions to the index were priced much more richly than deletions: by 9x and 3x, using EV/S and P/FCF, respectively.

Figure 3: Shares added to, and dropped from, the MSCI World Retailing Index since 2014

Additions	EV	EV/S	P/FCF	Deletions	EV	EV/S	P/FCF
Prosus NV	116,091	6.2	35.4	Qurate Retail Inc	10,636	0.8	4.2
eBay Inc	32,907	3.0	9.8	L Brands Inc	10,248	0.8	6.2
MercadoLibre Inc	26,116	12.7	101.9	Macy's Inc	9,634	0.4	7.9
Burlington Stores Inc	15,952	2.3	36.5	AutoNation Inc	6,563	0.3	12.9
Delivery Hero SE	14,012	14.7	(47.8)	Dick's Sporting Goods Inc	4,981	0.6	39.3
Zalando SE	11,886	1.7	129.6	Frasers Group PLC	3,523	0.7	11.5
Ocado Group PLC	11,824	5.4	(155.1)	Foot Locker Inc	3,455	0.4	6.8
JD Sports Fashion PLC	10,755	1.5	18.0	Takashimaya Co Ltd	3,232	0.4	(6.7)
Dufry AG	8,657	1.0	3.6	Bed Bath & Beyond Inc	2,778	0.2	9.1
Wayfair Inc	8,550	1.0	(18.2)	Dixons Carphone PLC	2,499	0.2	9.2
Ryohin Keikaku Co Ltd	6,245	1.6	245.0	Signet Jewelers Ltd	2,376	0.4	3.1
ZOZO Inc	5,969	5.4	44.9	Urban Outfitters Inc	2,300	0.6	26.7
Grubhub Inc	4,514	3.6	37.8	Sanrio Co Ltd	1,527	2.9	72.6
				GameStop Corp	529	0.1	(1.7)
Weighted average		**3.4**	**31.9**	**Weighted average**		**0.4**	**10.4**

Blue shading indicates current holdings >1% of Fund. Abercrombie & Fitch Co. was dropped from the index in 2012.

EV: Enterprise Value in US Dollars; EV/S: Ratio of EV to sales; P/FCF: Ratio of price to free cash flow. Debt adjusted to remove operating leases, which were added after a recent accounting change. Prosus numbers adjusted to proportionately consolidate Tencent.

Sources: FactSet, Bloomberg, Contrarius Research

Of the 39% of the Fund in retailers, only 0.7 percentage points is common with the retailing index (and 0.1 of the MSCI World Index). Macy's, Bed Bath & Beyond, Abercrombie & Fitch, and L Brands (24% of the Fund, in aggregate) have all been dropped from the index since the Fund's inception. For these holdings, the weighted average EV/S is 0.4, and P/FCF is 8.0 (on very depressed free cash flow), a fraction of the index's valuation in both cases. You might argue that some of these businesses are distressed, and so EV/S is too optimistic. That is reasonable, but on the other hand some have valuable assets that are not included in EV, so EV/S is too pessimistic in those cases. One of the most egregious examples is Macy's.

Macy's

We discussed Macy's in Q4 2017. Since then the share price has gone from $25, to $41, to $17. And the enterprise value has fallen 28% from $13.4 billion to $9.6 billion. Of the $3.8 billion drop in EV, $1.4 billion is from paying off debt and the rest is market movements.

Macy's fully owns 72 million ft² of store and store-related space, with the ground lease (owning the building but not the land) on a further 22 million ft². The most valuable of these are more than 100 years old and in the middle of cities that have grown around them. Balance sheets are not designed to reflect that. Itemising some of the property:

- Herald Square: 2.2 million ft² (fully owned) in the middle of Manhattan; estimated market value: $3.5 billion;
- State Street (Chicago), Brooklyn, Seattle, Mall at Millenia (Orlando), Mall at Rockingham Park (New Hampshire), South Coast Plaza (California), Pheasant Lane Mall (New Hampshire), Aventura Mall (Miami): 4.6 million ft² (owned and ground leased); estimated market value: $4.6 billion.

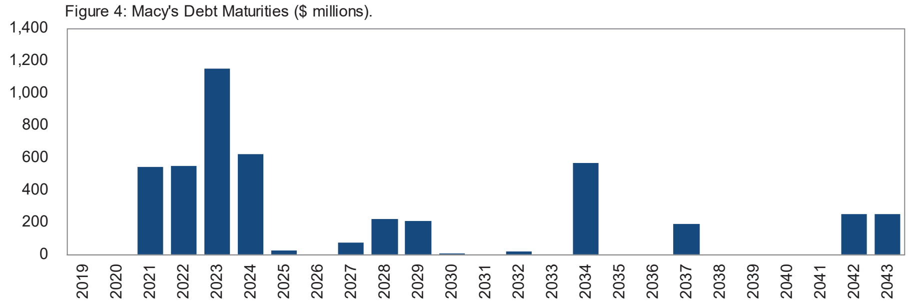
Those alone account for 85% of the entire enterprise value. That leaves a further:

- 66 million ft² of fully owned space;
- 17 million ft² of owned logistics sites to serve both stores and online sales;
- 20 million ft² of ground leases; and
- A retail business with $25 billion in annual sales.

Altogether, we estimate that Macy's is worth more than 4x the current market value. We find that "margin of safety" satisfactory! It is especially comforting since it generates annual free cash flow of about $700 million and has a fairly conservative debt profile.

Macy's Benefits From a Fairly Conservative Debt Profile

Figure 4: Macy's Debt Maturities ($ millions).

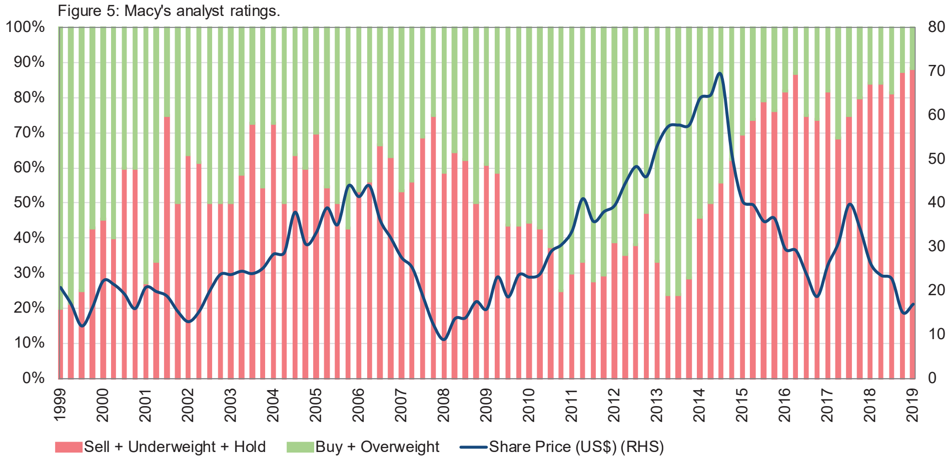


Sources: FactSet, Contrarius Research

Because of the ecommerce onslaught led by Amazon, Macy's same-store sales have fallen consistently since 2015, except for the period from January 2018 to July 2019. Despite the share having underperformed by 80% since the 2015 high, analyst recommendations are at record lows.

Sentiment Has Turned Increasingly Sour on Shares of Macy's

Figure 5: Macy's analyst ratings.



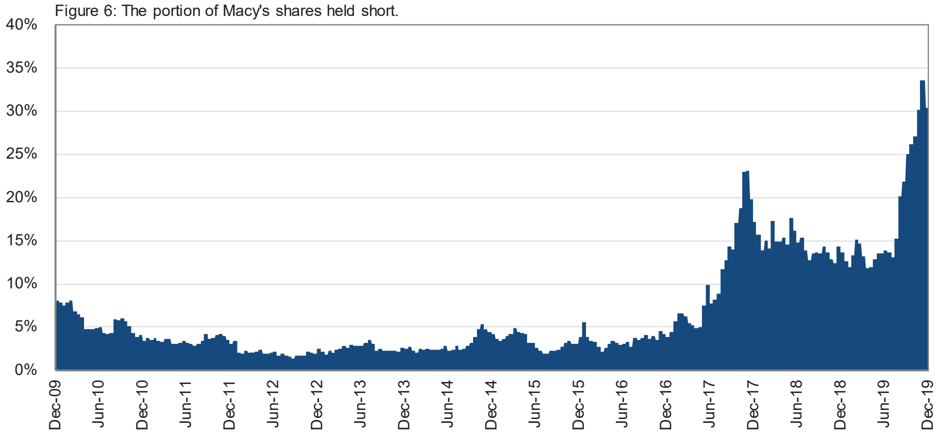
Sources: FactSet, Contrarius Research

But Macy's is not giving up and withering away. In the Q4 2017 commentary we discussed the many functions that malls serve and how Macy's is pivoting to take advantage of its immense property portfolio. Since that report, it has invested $2 billion in the business; completed the revamp of 150 (out of 636) stores that account for half of its offline sales; and streamlined elements of its logistics for more responsive deliveries. This modernisation is a costly and ongoing exercise, but in these last two years Macy's has recorded $50 billion of sales, generated operating profit of $2.9 billion, free cash flow of $1.7 billion (excluding working capital movements), sold property of more than $700 million, and paid dividends of more than $900 million (the current market capitalisation is $5.3 billion).

Short interest, which went up a lot in 2017, has recently shot to 30%. Shorting Macy's means swimming against an 8.9% dividend yield. This becomes tiring if sustained for long. If the operations show any sign of improving (for example, a *reduction in the rate* of attrition of same-store-sales), it will take some daring to hang onto a short position.

Macy's Short Interest

Figure 6: The portion of Macy's shares held short.



Sources: FactSet, Contrarius Research

One of the great advantages of long-only investing is that time tends to be on your side (by contrast, marketable portfolios with debt or short positions can be permanently wiped out by temporary adverse conditions, even if they are eventually proved right). And shares that meander around at very low valuations tend to attract activist investors who want to get the value out, which we are already seeing at both Bed Bath & Beyond and Valaris (one of the Fund's large energy positions). Three private equity firms have reconstituted the Bed Bath & Beyond board and management team. A hedge fund (the biggest shareholder) is pressing Valaris to focus more on unlocking value for shareholders. Bed Bath & Beyond and Valaris are up 134% and 86%, respectively, from their recent lows (but still 79% and 98% off their all-time highs).

Conclusion

Although the underperformance of the last 18 months is frustrating, we continue to believe that the market's pessimism towards certain shares is extremely overdone, and that we can buy these shares at bargain-basement prices—which is not true for the market as a whole.

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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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