Sell Orbis Global Equity Fund, Buy VVLU, Langdon & PGF

As inflation shows signs of declining and interest rates are anticipated to be cut in developed economies, we continue to prioritise the evaluation of portfolio positions to ensure they are delivering strong risk-adjusted returns.

Along with monitoring economic indicators, we are also committed to diversifying portfolios to safeguard against potential market pullbacks.

For context, the **Orbis Global Equity Fund** has been a long-standing active global equity position in portfolios. The fund is known for its contrarian philosophy that dictates its fundamental, bottom-up stock selection, focusing on uncovering value in overlooked or out-of-favour companies.

While **Orbis** has delivered strong returns over its lifetime, performance in recent years has been disappointing, leading to reassessing this allocation.

Orbis has struggled to generate returns, underperforming many of its value-oriented peers. While periods of underperformance are not uncommon in active management, especially for contrarian strategies, what is more concerning is **Orbis**' response to these challenges.

Orbis' underperformance becomes increasingly concerning when juxtaposed against other value managers who have shown greater adaptability in navigating recent market turbulence. While many of their peers have successfully balanced adherence to value principles with adaptation to structural market changes, **Orbis** has failed to provide a compelling rationale for their fund's approach to evolving market conditions.

The fund's high active share and concentrated portfolio, while potentially beneficial in theory, have led to a relatively high degree of volatility and tracking error without commensurate returns. This high-risk approach would be more defensible if not for **Orbis**' inability to provide a compelling justification for its underperformance and the fees that it charges investors.

Therefore, we believe that reallocating the capital currently invested in the **Orbis** Global Equity Fund to other opportunities with more promising risk-return profiles is in the best interest of clients.

<u>As such, we recommend selling the Orbis Global Equity Fund (ETL0463AU/ORB01).</u>

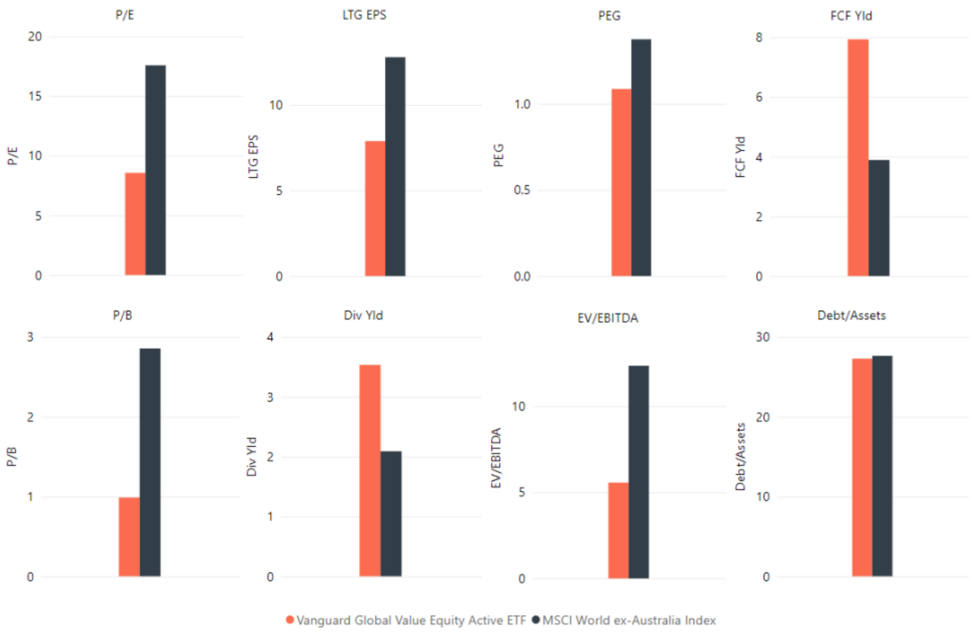
For context, the **Vanguard Global Value Equity Active ETF (VVLU)** is designed to provide investors with targeted exposure to global large, mid, and small-cap equities that demonstrate strong value characteristics. By focusing on companies with lower valuations and aims to capture the value premium over the long term.

Launched by **Vanguard** in 2018, **VVLU** employs a systematic, rules-based approach that selects stocks based on their value scores. This methodology results in a well-diversified portfolio that spans multiple sectors, with a tilt towards companies that are potentially undervalued relative to their intrinsic worth.

Unlike actively managed funds that rely on discretionary decision-making and in-depth fundamental analysis, **VVLU** follows a passive investment strategy aligned with an index. This offers low-cost, broad-market exposure while still targeting specific investment factors.

The fund uses a quantitative model to select stocks exhibiting value characteristics from a broad universe of developed markets globally, including large, mid, and small-cap stocks.

Compared to a broad market index, **VVLU** demonstrates significantly lower valuation metrics across several key measures. The fund's price-to-earnings, price-to-book, and enterprise value-to-EBITDA ratios are all notably lower than those of the broader market, clearly illustrating **VVLU's** tilt towards value stocks. Moreover, **VVLU** offers a higher dividend yield compared to the broader market, potentially providing an estimated 4% p.a. quarterly income stream for investors. Whilst the fund's earnings growth is lower than that of the broader market, it has a lower price-to-earnings-growth (PEG) ratio, suggesting that it may offer better value relative to its growth prospects.



Holding just over 750 stocks, it provides broad exposure to the value factor while maintaining diversification.

Wealth Management & Protection
Level 17, HWT Tower,
40 City Road
Southbank VIC 3006

T. 1800 064 959
F. 1800 265 374
E. clientservices@primefinancial.com.au
W: www.primefinancial.com.au

Primestock Securities ltd
ACN 089 676 068
AFSL 239180

The quantitative nature of **VVLU's** strategy reduces the reliance on individual manager decisions, potentially mitigating the risk of prolonged underperformance due to adherence to outdated investment theses. While still active, **VVLU's** more diversified approach should lead to a lower downside relative to the benchmark.

For further information on the fund, please refer to the Fund's Product Disclosure Statement (PDS) linked here.

As such, we recommend buying Vanguard Global Value Equity Active ETF (VVLU).

By way of introduction, the **Langdon Global Small Companies Fund** is a concentrated, high-conviction portfolio of 25-40 companies who seeks to invest in high-quality cash-generative smaller companies in developed countries across the world with talented and long-term-oriented teams that are fundamentally undervalued.

For over a decade, global small-caps have been underappreciated relative to their large-cap counterparts. This trend has been especially exacerbated over the last 2 years as investors have preferred the stability of established companies with strong balance sheets during the heightened volatility caused by central banks contracting their balance sheets and draining liquidity from the system.

While the fear of an imminent recession that dominated market sentiment a year ago has largely subsided, some economic uncertainties persist. These lingering concerns might cause some investors to hesitate before allocating to small caps. However, we see two mitigating factors that strongly support the case for this asset class: Firstly, although valuations have improved over the past year, smaller companies are still trading at a significant discount to larger companies by historical standards, suggesting that cautious economic outlooks are still somewhat priced in.

Over this same period, the earnings of these small-cap companies haven't declined at the same rate, and as a result, valuations have become cheap relative to the other asset classes and small caps' own history.

As such, we now see small caps offering a strong risk-adjusted return with only minimal extra volatility (risk), compared to the rest of the economy and other asset classes.

For further information on the fund, please refer to the Fund's Product Disclosure Statement (PDS) linked here.

Given this, we recommend purchasing the Langdon Global Small Companies Fund (WHT7072AU).

Wealth Management & Protection
Level 17, HWT Tower,
40 City Road
Southbank VIC 3006

T. 1800 064 959
F. 1800 265 374
E. clientservices@primefinancial.com.au
W: www.primefinancial.com.au

Primestock Securities ltd
ACN 089 676 068
AFSL 239180

For context, the **PM Capital Global Opportunities Fund** is a concentrated long-short portfolio that holds primarily undervalued international (including Australian) equities, based on fundamental, bottom-up research. The Fund tends to hold 25-45 stocks at any one time and has a broad investment universe, within which the management team is not benchmark aware of exposures against industry sectors, geographic regions, or market capitalisations.

Notably, the investment structure for **PGF** is a Listed Investment company (LIC), meaning that the underlying portfolio returns generated are exposed to additional volatility from share price movements and can trade at premiums or discounts to the fund's Net Tangible Assets (NTA). However, this investment structure provides the advantage of prompt liquidity, with the ability to receive proceeds on a T+2 basis.

PGF has a broad investment universe, allowing the team to include or exclude particular industry sectors, geographic regions, or market capitalisations as the primary factors in their investment decisions.

Despite not adhering to a benchmark, contrasting **PGF** to traditional indexes highlights consistently strong outperformance across all time periods, with the fund having delivered a 5-year annualised return of 22% compared to 11.2% of the MSCI World Net Total Return Index (AUD) as of 31 July 2024.

Furthermore, when examining the fund's attributes compared to traditional market indexes, **PGF** exhibits lower price-to-earnings (P/E) and price-to-earnings (P/E) ratios alongside a higher dividend yield and free cash flow yield. Forecasts also project a higher net expected long-term growth rate (LTG EPS) for the fund than the market average.

Additionally, **PGF** has provided guidance to the market of its intention to deliver a 10-cent fully franked dividend in the 2025 financial year, equating to a 4.5% dividend yield fully franked, paid half yearly.

For further information on the fund, please refer to the Fund's Prospectus linked here.

As such, we believe purchasing PM Capital's Global Opportunities Fund presents a unique blend of capital growth and income for investment portfolios.

Please note, that to achieve the best execution prices for your portfolio, the purchase of **PGF** may be delayed to achieve favourable terms of execution (lower price).