

Orbis International Equity

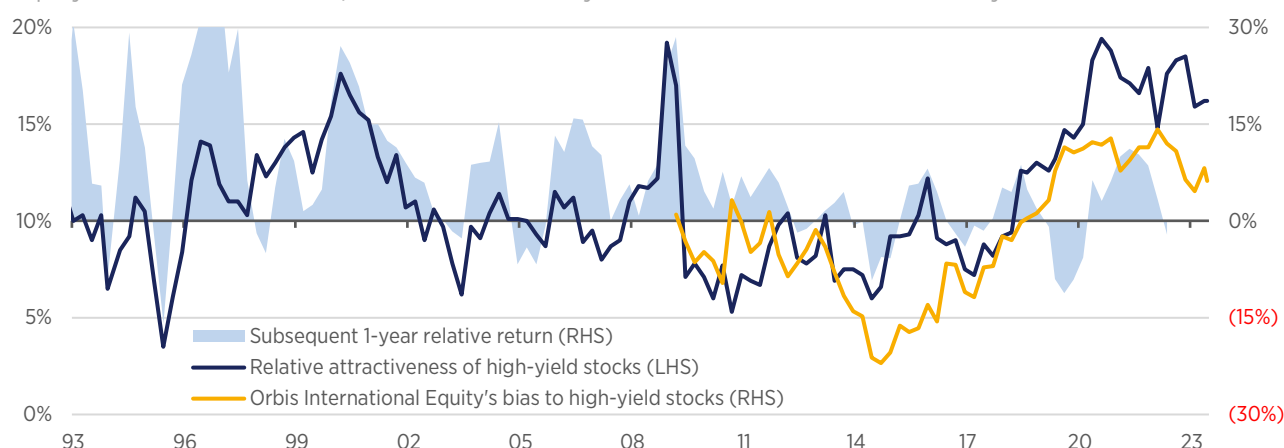
Investment returns can be roughly broken down into the sum of two components: growth and yield. When a business generates cash flow, it can be reinvested to produce future growth, paid out to shareholders, used to pay down debt, or some combination of the three. The growth component can be extremely valuable if management allocates capital judiciously on behalf of shareholders. The downside is that future growth is inherently unpredictable and therefore difficult to value. The yield component—hard cash in hand today—is more predictable and easier to measure relative to the price you pay for it (e.g. dividend or free cash flow yield). The disadvantage with yield is that shareholders need to be able to reinvest the cash wisely.

In “normal” market environments, our International Equity Strategy tends to find mispriced investments across the spectrum—from businesses that reinvest close to 100% of their cash flow in an effort to grow, to those that have lower growth opportunities and therefore release more profit. Yet the current environment is somewhat unusual in that the portfolio has become skewed far more toward companies in the latter camp—those with high yields on excess cash, or more simply higher dividend yields.

The chart below provides some historical perspective. The dark blue line measures the general attractiveness of high-yield stocks as a group relative to those with low yields. The orange line tracks the International Equity Strategy’s bias toward stocks that offer high dividend yields. It is not a coincidence that the two lines move largely in tandem. When the dark blue line is high—as it is today—high-yield stocks are generally cheaper; and as shown by the rising orange line, we tend to find more opportunities amongst them. The opposite has also held true on other occasions.

High yield stocks look cheap

Relative attractiveness of stocks in the high-yield half of the FTSE World Index ex-US, Orbis International Equity’s bias to those stocks, and their forward 1-year relative return versus the low-yield half of the Index



We do not control the investment environment; we are price takers. We seek to own mispriced equities, and we are not dogmatic in our search for them. Terms like “growth”, “value”, or “quality” are all just different fundamental characteristics that can be more or less attractive at a given price. Our current positioning in “high-yield” equities, just happens to be where we are finding the most value today. That said, we do find this type of environment to be both fruitful for stock selection and perhaps even comforting in the sense that it comes with a relatively high degree of certainty—to the extent such a thing exists in investing.

Firstly, if a company is able to pay a high dividend that is well-covered by its free cash flow generation and able to keep pace with inflation over the long term, the investor doesn’t need to do much forecasting in order to earn an attractive return. Shares that offer well-covered 5-7% real dividend yields are not typically common, but we have found more than a few of them in today’s environment. To put this in perspective, international equities have returned just over 6% per annum since 1990—a return stream that has been accompanied by considerably greater risk and uncertainty.

Secondly, there has historically been a strong tailwind behind shares of businesses with above average dividend yields. If you invested \$100 in an equal-weighted basket of international stocks in 1990, you’d have about \$700 today. But if you only invested in the half of shares with the highest dividend yields, you’d have about \$1,800! *A bird in the hand has been somewhat better than two in the bush*, and this has been especially true following periods in which “yield” was on sale, as is the case today.

Orbis International Equity (*continued*)

Yield is abundant across the portfolio, but a few of our emerging market (EM) equities are worthy of discussion. Somewhat akin to the “AI” moniker today, “BRIC” economies (Brazil, Russia, India, China) were the darlings of the 2000s. The narrative turned out to be absolutely correct—economic growth rates were indeed impressive—but the rampant influx of capital from growth-hungry investors pushed BRIC valuations to extremes and set the stage for disappointing longer-term returns. Exciting narratives and satisfying investment results tend not to be happy bedfellows. Growth is fabulous only if you pay the right price for it.

Fast forward to today, and we would argue that the longer-term growth story in much of the developing world has not meaningfully changed. Countries like Indonesia have growing populations, growing productivity, and plenty of room for further development over the next few decades. Yet investor sentiment and capital flows have changed substantially. EM equities are now characterised by depressed valuation multiples and little interest from the large pools of global investment capital.

Investor apathy has a profound impact not only on the valuation multiples applied to EM equities, but also on the fundamentals of the businesses themselves. As we have noted in previous commentaries, markets are “reflexive” in this regard. When valuations are low, it can be a signal to management teams that it’s time to pay ample excess cash back to shareholders rather than reinvest aggressively in future growth. In EMs, one can find a constructive blend of low valuations, high cash yields, and modest amounts of capital investing behind potentially solid and enduring growth opportunities. This is often a great setup for robust future investment returns.

A good illustration is Jardine Matheson (JM), a Hong Kong-based industrial conglomerate with holdings across Asia in property, autos, retail, finance, construction, restaurants, transport, hotels, and industrial equipment. Given JM’s footprint in the region, the business carries substantial and diversified exposure to the continued growth and development of emerging Asia.

Like many Asian businesses, the company has struggled to grow over the last decade in part due to the hangover after the 2000s boom. Yet given the quality of its underlying assets, JM has still managed to grow dividends per share at a mid-single digit rate. We believe this growth rate should at least be maintained, but most likely move higher going forward, given prudent capital allocation and continued recovery in some of its underlying markets. In addition to this growth, investors are paid a 4% dividend yield, and the shares trade at an approximately 40% discount to the underlying market value of its assets. The result is a solid and reasonably predictable base case return with lots of upside optionality.

In addition, we consider many of JM’s underlying listed assets to also be significantly mispriced. Astra International (Astra), an Indonesian “sub-conglomerate” in which JM owns a large stake, is a good example. Astra has been operating in Indonesia for more than 60 years and is focused mainly on autos and heavy equipment today. We expect mid-single digit dividend growth through the cycle, driven by cyclical and structural trends. This, coupled with Astra’s normalised dividend yield of around 6%, is a compelling proposition for long-term investors. We expect capital discipline to continue to improve from here, as evidenced by its recent payout increase that brought its current dividend yield close to 10%.

In Korea, Samsung Fire & Marine Insurance (SF&M) provides another example of the value on offer in these markets. The company is Korea’s leading auto, property and casualty, and health insurer, but it owns a stake in Samsung Electronics that accounts for a large part of its market value. To put this in perspective, this valuation implies that its core insurance business is worth roughly the same as its #2 competitor, DB Insurance (DB), despite SF&M’s superior profitability, higher underwriting quality, and more conservative accounting practices. Furthermore, SF&M’s dividend has grown fourfold over the last decade, and now yields around 6%. Like most insurers globally, SF&M is starting to benefit from both a “harder” market (i.e. the ability to charge higher premiums) and from higher reinvestment income as bond yields rise.

Besides generous dividend yields, a common theme uniting the examples discussed above—and elsewhere in the portfolio—might simply be that these companies are heavily out of favour. You’re unlikely to hear much about Indonesian motorcycle distributors or Korean insurance policies at a cocktail party. For value-oriented investors, that’s usually an exciting setup.

Commentary contributed by Graeme Forster, Orbis Investment Management Limited, Bermuda

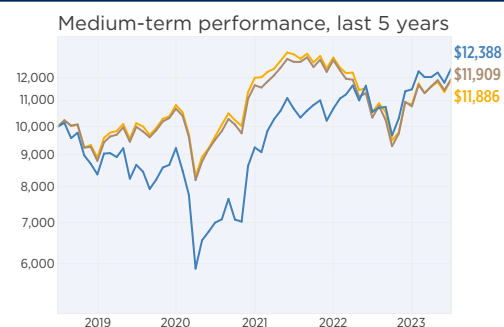
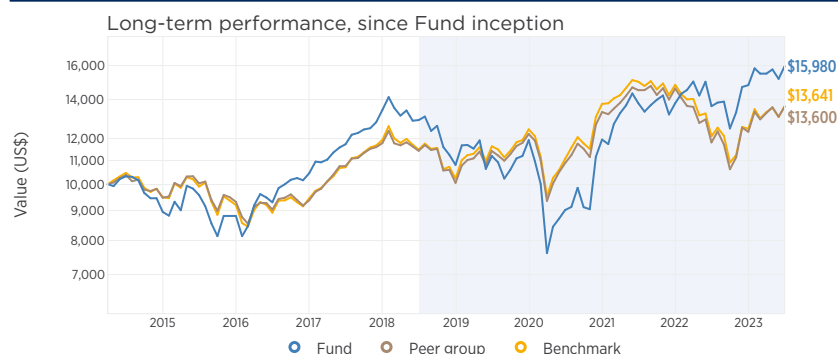
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Orbis SICAV International Equity Fund

Investor Share Class

The Fund is actively managed and designed to be exposed to all of the risks and rewards of a portfolio of selected non-US equities. It aims for higher returns than a designated benchmark ("Benchmark"), namely the MSCI All Country World Index ex-USA, including income and net of withholding taxes ("MSCI ACWI ex-USA Index"). Currency exposure is managed relative to that of the MSCI ACWI ex-USA Index.

Growth of US\$10,000 investment, net of fees, dividends reinvested



On 1 June 2017, the Benchmark for the Orbis SICAV International Equity Fund changed from the MSCI World ex-USA Index to the MSCI All Country World Index ex-USA, both including income and net of withholding taxes. Data above and Returns for the period before 1 June 2017 relate to the MSCI World ex-USA Index.

Returns (%)

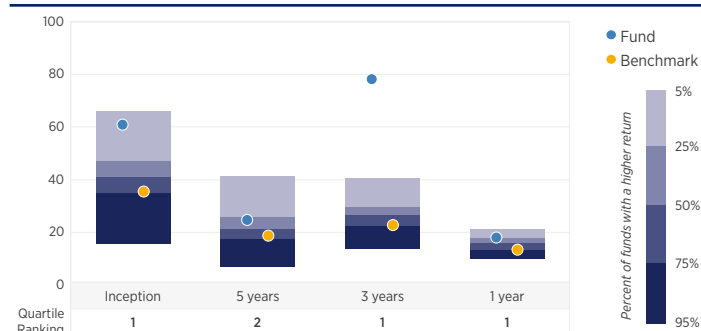
	Fund	Peer group	Benchmark
Annualised			
Since Fund inception	5.2	3.4	3.4
5 years	4.4	3.6	3.5
3 years	21.0	7.7	7.2
1 year	17.2	15.2	12.7
Not annualised			
Calendar year to date	7.8	10.4	9.5
3 months	3.0	2.5	2.4
1 month	5.2		4.5

Annual returns to 30 Jun	2019	2020	2021	2022	2023
	(13.3)	(19.3)	52.7	(1.2)	17.2

Risk Measures, since Fund inception

	Fund	Peer group	Benchmark
Historic maximum drawdown (%)	46	28	28
Months to recovery	40	>22 ¹	>25 ¹
% recovered	100	72	65
Annualised monthly volatility (%)	19.6	14.8	15.0
Beta vs Benchmark	1.2	1.0	1.0
Tracking error vs Benchmark (%)	9.2	2.4	0.0

Ranking within peer group, cumulative return (%)



Price	US\$15.98	Benchmark	MSCI ACWI ex-USA Index
Pricing currency	US dollars	Peer group	Average International Equity Fund Index
Domicile	Luxembourg	Minimum investment	US\$50,000
Type	SICAV	Dealing	Weekly (Thursdays)
Fund size	US\$2.2 billion	Entry/exit fees	None
Fund inception	1 April 2014	UCITS compliant	Yes
Strategy size	US\$3.4 billion	ISIN	LU1056236232
Strategy inception	1 January 2009		

Geographical & Currency Allocation (%)

Region	Equity	Currency	Benchmark
Developed Markets	71	78	72
Continental Europe	21	22	33
Japan	18	30	14
United Kingdom	14	11	10
United States	8	2	0
Other	10	12	15
Emerging Markets	27	22	28
Net Current Assets	2	0	0
Total	100	100	100

Top 10 Holdings

	MSCI Sector	%
British American Tobacco	Consumer Staples	4.3
Bayerische Motoren Werke	Consumer Discretionary	3.9
Bank of Ireland	Financials	3.3
Borr Drilling	Energy	3.1
Golar LNG	Energy	3.1
Sumitomo Mitsui Fin.	Financials	3.1
AIB Group	Financials	2.9
Rolls-Royce Holdings	Industrials	2.8
Hanwha Aerospace	Industrials	2.7
Mitsubishi Heavy Industries	Industrials	2.6
Total		31.8

Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	64
Total number of holdings	66
12 month portfolio turnover (%)	57
12 month name turnover (%)	41
Active share (%)	92

Fees & Expenses (%), for last 12 months

Fund expenses	0.12
Total management fee ²	2.48
Total Expense Ratio (TER)	2.60

Past performance is not a reliable indicator of future results. Orbis Fund share prices fluctuate and are not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment in the Funds, an investor's capital is at risk. See Notices for important information about this Fact Sheet.

¹ Number of months since the start of the drawdown. This drawdown is not yet recovered.

² Total management fee consists of 1.5% per annum ± up to 1%, based on 3 year rolling outperformance/(underperformance) vs Benchmark.



Orbis SICAV Semi-Annual Report

For SICAV funds, this report contains only some of the information included in the semi-annual report of the Orbis SICAV (the “Company”) as at 30 June 2023. The semi-annual report will be available upon request and free of charge at the registered office of the Company within two months following 30 June.

Legal Notices

Past performance is not a reliable indicator of future results. Fund share prices fluctuate and are not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment in the Funds, an investor’s capital is at risk. This Report does not constitute advice nor a recommendation to buy, sell or hold, nor an offer to sell or a solicitation to buy interests or shares in the Orbis Funds or other securities in the companies mentioned in it. Subscriptions are only valid if made on the basis of the current Prospectus of an Orbis Fund. Please refer to the respective Fund’s Prospectus for full information on the risks associated with investing.

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This is a marketing communication for the purposes of the Bermuda Monetary Authority’s investment business rules and ESMA guidelines on marketing materials. You should consider the relevant offering documents including the Fund Prospectus and Key Information document (for a SICAV Fund) before making any final investment decisions. These offering documents are available in English on our website (www.orbis.com).

Investors in a SICAV Fund can obtain a summary of their investor rights in English on our website (www.orbis.com).

When investing in the Orbis Funds an investor acquires shares within the Fund and not in the underlying assets held within the Fund.

Fees charged reduce the potential growth of your investment. Please refer to the relevant Fund’s Prospectus for detailed information on the fees and expenses attributable to the Fund and for information on date of payment of the performance fee as applicable.

The return of your investment may change as a result of currency fluctuations if the return is calculated in a currency different from the currency shown in this Report.

Notice to Persons in the European Economic Area (EEA)

Each sub-fund of Orbis SICAV, a UCITS compliant Luxembourg fund, described in this Report is admitted for public marketing in Ireland, Luxembourg, the Netherlands, Norway, Sweden and the United Kingdom. The Orbis Funds that are not Orbis SICAV Funds are alternative investment funds that are neither admitted for public marketing anywhere in the EEA nor marketed in the EEA for purposes of the Alternative Investment Fund Managers Directive. As a result, persons located in any EEA member state will only be permitted to subscribe for shares in the Orbis Funds that are admitted for public marketing in that member state or under certain circumstances as determined by, and in compliance with, applicable law.

Orbis may decide to terminate the arrangements made for marketing the shares of the Orbis SICAV in the EU Member States where the Orbis SICAV is admitted for marketing under Directive 2009/65/EC (UCITS Directive).

Notes to Help You Understand This Report

Certain capitalised terms are defined in the Glossary section of the Orbis Funds’ respective Prospectuses, copies of which are available on our website (www.orbis.com). Returns are net of fees, include income and assume reinvestment of dividends/distributions. Annualised returns show the average amount earned on an investment in the Fund/share class each year over the given time period. The country and currency classification for securities follows that of third-party providers for comparability purposes. Emerging Markets follows MSCI classification when available and includes Frontier Markets. Emerging Markets currency exposure is based on currency denomination. Based on a number of factors including the location of the underlying business, Orbis may consider a security’s classification to be different and manage the Funds’ exposures accordingly. Totals presented in this Report may not sum due to rounding.

Risk measures are ex-post and calculated on a monthly return series. Months to recovery measures the number of months from the preceding peak in performance to recovery of that level of performance.

12 month portfolio turnover for the Orbis Equity and Multi-Asset Class Funds is calculated as the lesser of total security purchases or sales in the Fund over the period, divided by the average net asset value (NAV) of the Fund. Short-term fixed income instruments and net current assets are not included.

12 month name turnover for the Orbis Equity and Multi-Asset Class Funds is calculated as the number of positions held by the Fund at the start of the period but no longer held at the end of the period, divided by the total number of positions held by the Fund at the start of the period. Net current assets are not included.

Active share is a measure of the extent to which the holdings of the Orbis Equity and Multi-Asset Class Funds differ from their respective benchmark’s holdings. It is calculated by summing the absolute value of the differences of the weight of each individual security in the specific Orbis Fund, versus the weight of each holding in the respective benchmark index, and dividing by two. For the Multi-Asset Class Funds, three calculations of active share are disclosed. The Portfolio active share incorporates the equity, fixed income, commodity-linked and other securities (as applicable) held by the Orbis Fund and compares those to the holdings of the composite benchmark. The Equity and Fixed Income active shares are calculated as if the equity and fixed income portions of the Orbis Funds are independent funds; each of those two sets of holdings is separately compared to the fully-weighted holdings in the appropriate component of the composite benchmark. Although the Multi-Asset Class Funds hedge stock and bond market exposure, the active share calculations are “gross” and not adjusted to reflect the hedging in place at any point in time.

Benchmark related information is as at the date of production based on data provided by the official benchmark and/or third party data providers. There may be timing differences between the date at which data is captured and reported.

The total expense ratio has been calculated using the expenses, excluding trading costs, and average net assets for the 12 month period ending 30 June 2023.



Orbis Multi-Asset Class Funds: Net Equity is Gross Equity minus stockmarket hedging. Fixed Income refers to fixed income instruments issued by corporate bodies, governments and other entities, such as bonds, money market instruments and cash. Fixed Income regional allocation is based on the currency denomination of the instrument. Net Fixed Income is Gross Fixed Income minus bond market hedging. Except where otherwise noted, government fixed income securities are aggregated by time to maturity and issuer. TIPS are not aggregated with ordinary treasuries. Duration is calculated using the modified duration of the fixed income instruments in the portfolio, or the effective duration in the case of fixed income instruments with embedded options and real effective duration in the case of inflation-linked bonds. Yield to Maturity ("YTM") for the Fund and the JP Morgan Global Government Bond Index is the average of the portfolio's fixed income instruments' YTM, weighted by their net asset value. Real YTM is used for inflation-linked bonds. The calculations are gross and exclude non-performing fixed income instruments.

Orbis SICAV Funds: The Fund expenses exclude portfolio transaction costs. The performance related management fee becomes payable to Orbis on each Dealing Day as defined in the Funds' Prospectus.

Orbis Optimal Funds: Total Rate of Return for Bank Deposits is the compound total return for one-month interbank deposits in the specified currency. Beta Adjusted Exposure is calculated as Equity Exposure multiplied by a Beta determined using Blume's technique, minus Portfolio Hedging.

Fund Information

Orbis SICAV Global Balanced Fund: The benchmark is a composite index consisting of the MSCI World Index with net dividends reinvested (60%) and the JP Morgan Global Government Bond Index (40%).

Prior to 1 November 2016 the Orbis SICAV Emerging Markets Equity Fund was named the Orbis SICAV Asia ex-Japan Equity Fund, its Benchmark was the MSCI All Country Asia ex-Japan (Net) (US\$) Index, and its peer group was the Average Asia ex-Japan Equity Fund Index.

Prior to 29 November 2002 the Investor Share Class of the Orbis SICAV Japan Equity (Yen) Fund was a British Virgin Islands investment company, Orbis Japan Equity (Yen) Fund Limited.

Prior to 1 July 1998 Orbis Optimal (US\$) was managed with a currency benchmark of 40% US dollars, 40% European currency units and 20% Japanese yen. On 1 July 1998 this was changed to 100% US dollars and the euro denominated Fund was launched.

Fund Minimums

Minimum investment amounts in the Orbis Funds are specified in the respective Fund's Prospectus. New investors in the Orbis Funds must open an investment account with Orbis, which is subject to a US\$100,000 minimum investment, country restrictions and/or other terms and conditions. For more information on opening an Orbis investment account, please visit www.orbis.com.

Sources

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