

## Orbis Optimal

ChatGPT and generative artificial intelligence (AI) have taken the world by storm. Nvidia's blowout guidance in its most recent quarterly earnings report shows just how briskly this new technology is being adopted. Wall Street had previously been forecasting about \$7bn for Nvidia's fiscal second quarter revenue guidance, but the company now says it will be closer to \$11bn. This is remarkable given that Nvidia is hardly under-followed. It simply crushed even the most wildly optimistic estimates, and the stock jumped more than 25% on the news.

At Orbis we have researched Nvidia on multiple occasions over the past 15 years. As much as we have admired the company's technological prowess and its impressive financial performance, we have never been able to get comfortable with its valuation. As contrarian investors, there will be times when we miss out on stocks like Nvidia, but we believe it is critical to stay focused on valuation.

Importantly, one can still participate in exciting growth opportunities while remaining disciplined. One of the Optimal Strategy's largest holdings is Taiwan Semiconductor Manufacturing Company (TSMC). It is a company that Orbis has followed even longer than Nvidia and has owned in several Orbis Funds over the years. We have long admired TSMC's technological leadership, its relentless focus on execution, and its customer-centric culture based on mutually beneficial long-term client relationships.

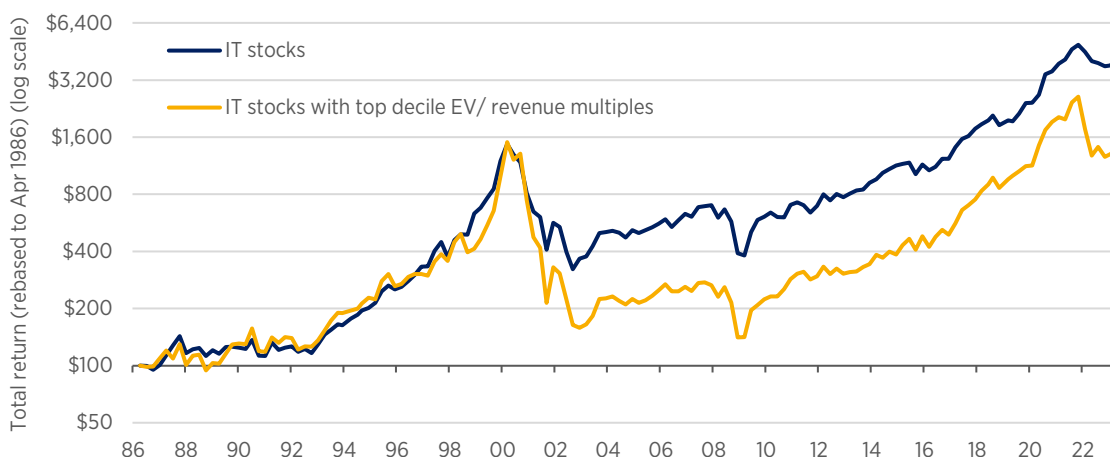
Nvidia is one of those customers. TSMC is the sole foundry that makes two of the key Nvidia chips that appear uniquely well suited for training and running large language models like ChatGPT. In semiconductor jargon, Nvidia is a "fabless" semiconductor company, meaning that they design chips but do not make them. TSMC, on the other hand, focuses on manufacturing—a business that requires leading-edge expertise and enormous amounts of capital. As such, the barriers to entry are high and only becoming more formidable over time with each new generation of chip technology.

When Nvidia is winning, TSMC is quietly benefiting as well. In addition, TSMC will likely be the manufacturing partner of choice for other fabless companies who are designing chips for AI workloads. We believe this makes TSMC an excellent way to participate in the AI boom without having to guess which chip designer will be the ultimate winner. Perhaps most importantly, we don't need to pay a steep valuation for TSMC. Its shares can be purchased for less than 20 times earnings, a lower valuation than the typical global stock, despite TSMC's superior fundamentals.

Compare this to Nvidia, which trades at a dizzying 23 times consensus revenue forecasts for the fiscal year ending January 2024. This implies what we believe are overly aggressive assumptions about future growth and sets a high bar that very few companies have historically been able to clear. As shown in the chart below, paying too much for technology stocks has generally been a recipe for underperformance.

### The price you pay matters

Total return in USD of Information Technology (IT) stocks in the FTSE World Index and of the subset of those stocks that trade at top decile enterprise value (EV) to revenue valuations



Source: Worldscope, Refinitiv, Orbis. Performance is calculated first at the stock price level and then aggregated using a weighted mean for IT stocks and mean for the top decile stocks. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning.

## Orbis Optimal (*continued*)

Only time will tell whether TSMC or Nvidia will deliver better shareholder returns, but in the absence of perfect foresight, we believe the better investment decision today from a risk/reward perspective is overwhelmingly in favour of TSMC. It's entirely possible that Nvidia may exceed expectations as it has in the past, but its current valuation leaves little room for disappointment.

Of course, an investment in TSMC comes with persistent risk of tensions between Taiwan and China in the best of times and the far more extreme tail risk of a potential invasion of Taiwan. Trying to handicap the latter makes predicting the future of AI look relatively simple. But we don't think this is a reason to avoid TSMC. In fact, we believe the Optimal Strategy is an ideal vehicle to own the stock because it has enabled us to take an offsetting short position in the Taiwan stockmarket index. It is also worth pointing out that Nvidia is almost entirely reliant on TSMC to manufacture its chips and hence its business would also be adversely affected in the case of a China-Taiwan conflict—something that is not fully contemplated in its 23 times revenue multiple.

Optimal also has broader semiconductor exposure beyond TSMC. The Strategy owns memory chip makers Samsung Electronics and Micron Technology. The rise of generative AI is good news for the memory industry as it emerges from one of its deepest cyclical downturns. The pandemic era boom in demand for all sorts of computing devices has since turned into a painful bust. At a time when memory chip makers are cutting back on capacity, a surge in AI-driven demand should support strong memory prices and industry profitability.

To put things into perspective, a laptop usually comes with 8 – 16 GB of Dynamic Random Access Memory (DRAM). A typical AI server, on the other hand, has 8 H100 Nvidia chips that each use a whopping 80 GB of High Bandwidth Memory (HBM) and 2 Central Processing Unit (CPU) chips that use 1-2 TB of DDR5 DRAM. The memory industry was already on track to recover strongly in 2024, and this new demand vector from generative AI will be an additional tailwind.

We also own Intel, where the investment thesis is more idiosyncratic. While the company stands to benefit from AI server demand, Intel is ultimately a turnaround story. The company is trying to restore its technological position at the leading edge of semiconductor manufacturing and catch up with TSMC and Samsung Electronics. It has a long way to go—and there is no guarantee of success—but we think the investment case is intriguing. At the current share price, the stock is trading close to book value, which mostly consists of fab equipment that has high resale value at a time when the US is keen to build domestic capacity. In other words, you could theoretically shut down the company and still get your money back by selling off the equipment. The implication is that markets are giving Intel's turnaround very little—if any—chance of success. We think this is far too pessimistic. Intel stands a decent chance of closing the technological gap with TSMC and Samsung Electronics, which will restore the competitiveness of its CPU design business and create opportunities to compete effectively in the foundry business. Intel will also have an important strategic role to play as an alternative chip supplier for as long as China-Taiwan tensions remain a concern.

The sudden emergence of generative AI has been a reminder of the complexities inherent in technology investing. Predicting the future is never easy, but it is even more difficult when technology is rapidly evolving. And the usual emotional cycles of greed and fear—which ultimately drive valuations—are even more extreme as investors try to pick the next big winners and avoid the next dinosaurs. In this context, it has been exciting to find selected opportunities that can outperform broader equity markets under a range of scenarios, and that don't require heroic assumptions about the future.

Commentary contributed by Povilas Dapkevicius and Matteo Sbalzarini, Orbis Portfolio Management Europe (LLP), London

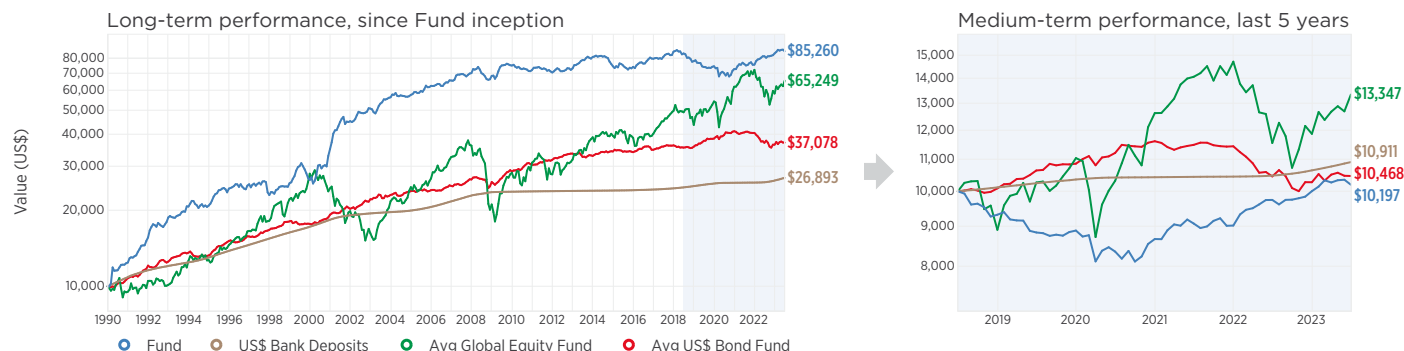
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## Orbis Optimal (US\$) Fund

The Fund seeks capital appreciation in US dollars on a low risk global portfolio. It invests in Orbis' preferred mix of equities principally via investment in Orbis' equity strategies. The risk of loss is managed with stockmarket and currency hedging. The Fund's currency benchmark is 100% US dollars.

<b>Price</b>	US\$85.26	<b>Comparators</b>	US\$ Bank Deposits
<b>Pricing currency</b>	US dollars		Average Global Equity Fund Index
<b>Domicile</b>	Bermuda		Average US\$ Bond Fund Index
<b>Type</b>	Open-ended mutual fund	<b>Minimum investment</b>	US\$50,000
<b>Fund size</b>	US\$1,928 million	<b>Dealing</b>	Weekly (Thursdays)
<b>Fund inception</b>	1 January 1990	<b>Entry/exit fees</b>	None
<b>Strategy size</b>	US\$3.2 billion	<b>ISIN</b>	BMG6766M1055
<b>Strategy inception</b>	1 January 1990		

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



### Returns (%)

	Fund	US\$ Bank Deposits	Avg Global Equity Fund	Avg US\$ Bond Fund
<b>Annualised</b>	<i>Net</i>		<i>Net</i>	
Since Fund inception	6.6	3.0	5.8	4.0
30 years	5.1	2.7	6.1	3.5
10 years	0.8	1.2	6.9	1.3
5 years	0.4	1.8	5.9	0.9
3 years	6.9	1.5	9.0	(2.3)
1 year	4.6	4.1	15.5	0.1
<b>Not annualised</b>				
Calendar year to date	1.9	2.5	12.4	1.9
3 months	(0.7)	1.3	5.2	(0.4)
1 month	(1.5)	0.4		

### Stockmarket Exposure (%)

Region	Equity Exposure	Portfolio Hedging	Accounting Exposure	Beta Adjusted Exposure
<b>Developed Markets</b>	<b>74</b>	<b>(75)</b>	<b>(1)</b>	<b>(4)</b>
United States	29	(34)	(5)	(4)
Japan	20	(17)	3	1
United Kingdom	12	(5)	7	6
Continental Europe	9	(16)	(6)	(7)
Other	4	(3)	0	0
<b>Emerging Markets</b>	<b>15</b>	<b>(7)</b>	<b>8</b>	<b>5</b>
<b>Total</b>	<b>89</b>	<b>(82)</b>	<b>7</b>	<b>1</b>

### Risk Measures, since Fund inception

	Fund	US\$ Bank Deposits	Avg Global Equity Fund	Avg US\$ Bond Fund
Historic maximum drawdown (%)	21	0	52	14
Months to recovery	60	n/a	73	>30 <sup>1</sup>
% recovered	100	n/a	100	29
Annualised monthly volatility (%)	7.6	0.7	14.5	3.6
Correlation vs FTSE World Index	0.1	0.0	1.0	0.3
Correlation vs Orbis Global Equity Fund relative return	0.8	0.1	(0.1)	0.0

### Currency Allocation (%)

US dollar	87
Japanese yen	10
Other	3
<b>Total</b>	<b>100</b>

### Top 10 Holdings, looking through to the underlying securities

	FTSE Sector	%
FLEETCOR Technologies	Industrials	3.0
Bayerische Motoren Werke	Consumer Discretionary	2.9
British American Tobacco	Consumer Staples	2.7
GXO Logistics	Industrials	2.5
Shell	Energy	2.5
Taiwan Semiconductor Mfg.	Technology	2.5
Borr Drilling	Energy	2.1
Motorola Solutions	Telecommunications	2.0
INPEX	Energy	1.8
RXO	Industrials	1.5
<b>Total</b>		<b>23.4</b>

### Fees & Expenses (%), for last 12 months

Management fees (from the underlying funds) <sup>2</sup>	1.73
For performance in line with the performance fee benchmark	1.20
For out/(under)performance vs performance fee benchmark	0.53
Performance fee (for the Orbis Optimal (US\$) Fund) <sup>3</sup>	0.01
Fund expenses	0.08
<b>Total Expense Ratio (TER)</b>	<b>1.82</b>

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.

<sup>1</sup> Number of months since the start of the drawdown. This drawdown is not yet recovered.

<sup>2</sup> The Fund indirectly bears the fees of the funds in which its assets are ultimately invested.

<sup>3</sup> The Fund pays a performance-based fee of up to 0.5% per annum of the Fund's weekly net assets whenever the Fund's share price is greater than its high of more than one year earlier and the Fund's trailing one-year return exceeds that of Bank Deposits plus 5 percentage points.



## 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](http://www.orbis.com)).

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

### Sources

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