Orbis Global Equity

Our focus is on delivering value through idiosyncratic, bottom-up stock selection. This has not been a popular approach in recent years, however, and there have been stiff headwinds for value-oriented stockpickers. As we have written in previous commentaries, we are confident that “this too shall pass” and Orbis Global’s results in 2016 have been encouraging.

Contrarian investments often get worse before they reward, and there are few better examples in the current portfolio than Qualcomm. Previously one of Global’s largest detractors in 2015, it was one of the largest contributors in 2016, adding roughly 1% to gross relative performance. Qualcomm also provides a timely example of how we can earn our keep over the full course of an investment, not only by taking a long-term perspective, but also by capitalising on periods of unwarranted underperformance to buy more.

Qualcomm is a research and development (R&D) company that commercialises wireless communications technology based on 3G, 4G and soon 5G standards. The company spends over $5 billion a year and four times more on this particular area than its closest peers. It has been a key beneficiary of the near insatiable demand for more data at higher speeds on mobile devices. Qualcomm monetises its R&D in two ways. First, it licenses its intellectual property—primarily to mobile phone manufacturers—collecting a nearly 3% royalty on the value of every smartphone they sell globally. Second, it develops its own semiconductor chips that power smartphone and internet of things devices, making use of its proprietary technology and know-how to outclass peers that merely license their technology.

This is a very good business. Qualcomm’s licensing agreements are long-term and effectively represent a high-margin “toll” on the value of the global handset industry. Their chipset business utilises an asset-light model whereby all manufacturing is outsourced, allowing Qualcomm to focus on R&D while avoiding the massive capital expenditure that is part and parcel of semiconductor manufacturing.

These attractive characteristics have been obscured recently by concerns about Qualcomm’s chipset market share, its licensing prospects in China and Korea, and its recently announced acquisition of NXP Semiconductors. While these concerns are not unfounded, we believe they are short-sighted, and much of the opportunity in Qualcomm requires looking further into the future than many market participants are willing or able to endure.

We first built a position in Qualcomm in late 2014 and early 2015 as the stock price plunged from $80 to below $70. The company had lost important chipset market share in Samsung’s flagship Galaxy S6 smartphone. Previously, Qualcomm had supplied nearly all the business, but this generation lost the entirety of the Samsung contract, a dramatic reversal that sparked panic amongst investors. Had Qualcomm lost its edge?

Our research suggested the answer was “No!”. We identified a confluence of temporary factors that disturbed the design of this particular chip (the Snapdragon 810), and believed Qualcomm was unlikely to repeat its mistakes in coming generations. Taking a longer-term perspective allowed us to lean against the consensus view that Qualcomm was no longer a technology leader. But—as is so often the case in contrarian investing—the situation got much worse, causing the stock to be one of Global’s biggest detractors in 2015.

The loss of market share at Samsung, however short-lived, caused operating margins in the chipset business to collapse to a low of just 5% from about 20% only a year earlier. Additionally, new challenges in the licensing business had appeared. Chinese handset makers stopped paying Qualcomm royalties in the wake of a deal struck with Chinese regulators in early 2015. Adding fuel to the fire, Korean regulators sent Qualcomm a report alleging licensing abuses, raising fears that royalties from Samsung could be disrupted as well, bringing the total “at risk” royalty pool to nearly half the global opportunity.

Qualcomm’s share price was under tremendous stress at this time, collapsing to a low at $42. At the time, a large and prominent activist shareholder had capitulated and sold their entire Qualcomm stake. We were getting grilled aggressively by some clients, and looked stupid. It can be an incredibly difficult decision to add fresh capital to an investment that has suffered a meaningful breakdown and is being publicly scorned. Indeed, while gut-wrenching, these are also the moments that can create the most rewarding investments and when, historically, we have been able to add the most value for clients. We retested our research, embraced the pain, and made Qualcomm one of the largest positions in Orbis Global, reaching about 5% of Orbis Global in early 2016. While the royalty picture looked murky, the discount to our assessment of intrinsic value was simply too extreme—and the risk-reward proposition too attractive to not act. Qualcomm was trading at a ripe free cash flow (FCF) yield of nearly 15% after accounting for their exceedingly conservative net cash position, which represented about 25% of its market capitalisation.

Orbis Global Equity *(continued)*

What gave us so much confidence? We did exhaustive primary research on Qualcomm's product position with Samsung, another long-time Orbis holding, as well as the royalty landscape in China. We felt we could be wrong on the short-term timing, but our long-term view was that the Chinese handset manufacturers ultimately had no option but to sign licenses and pay royalties, just like everyone else. Almost all of the Chinese firms have international ambitions, and this gives Qualcomm crucial leverage to enforce its intellectual property rights.

Our differentiated view was rewarded throughout 2016 as Qualcomm announced a series of new licensing deals. We estimate Qualcomm will collect royalties from about 80% of total sales from China in fiscal 2017, up from just 45% in fiscal 2016. Qualcomm also won back market share in Samsung's flagship Galaxy S7, negating the bear case that its technology is no longer leading edge and, importantly, helping operating margins rebound notably to about 17% only a year after bottoming near 5%.

With Qualcomm shares up approximately 50% from their February trough, it would be logical to ask "What now?". While the market's view is now closer to ours on some of the key issues, we continue to believe the long-term investment opportunity is highly attractive and it remains a significant position in Orbis Global. We hold this view in large part thanks to Qualcomm's recently-announced acquisition of NXP, a Dutch semiconductor company. Like Qualcomm, NXP is a global technology leader in its field, the internet of things, with specific applications in automotive, near-field communications (NFC), microcontrollers and radio-frequency components.

The deal is strategically and financially compelling, in our view, and has significantly expanded Qualcomm's long-term intrinsic value. Strategically, the company adds growth businesses in automotive and NFC as global smartphone growth matures, increasing Qualcomm's distribution channels and growth profile while simultaneously diversifying it away from volatility in the core semiconductor franchise. Importantly, Qualcomm's chips are unique because they integrate many technologies into one chip, a more cost effective and power efficient solution, and many of NXP's speciality components are good candidates for future integration, which will leverage Qualcomm's vast R&D prowess.

Financially, the deal is extremely attractive. NXP will cost a total of $47 billion including assumed debt, but Qualcomm had nearly $20 billion in net cash on its balance sheet at the time of the deal. This capital was essentially unproductive, earning meagre returns. Now Qualcomm is putting it to work by acquiring a growing earnings stream. All told, we estimate earnings in excess of $7 per share by fiscal 2019. The company expects meaningful cost synergies to be realised by then, but we believe revenue synergies could be even larger over the long term. The combined entity will be more stable and higher growth than Qualcomm is currently, and we expect the company's price-to-earnings multiple to expand over time, perhaps considerably.

As we look forward, we are much more excited about Qualcomm's long-term prospects than the consensus view. News of an $850 million fine (at current exchange rates) from Korean regulators last week has sparked fresh concerns about the company's licensing model. While it is too soon to tell how this will play out, we would note that Qualcomm will challenge this decision in court and has withstood similar Korean and Chinese actions in the past.

The market also fears Qualcomm's position will weaken in the transition to 5G technology. From our contrarian vantage point, our research suggests their position will be equally strong or even stronger in 5G compared to 4G. This bodes well for royalty rates, chipset pricing power and market share. We expect the transition to 5G and the need to offload to Wi-Fi to begin accelerating in the next two-to-three years as phone carriers struggle to deliver more and more data constrained by expensive spectrum and over-stressed mobile networks.

Despite Qualcomm's recovery this year, we expect the shares to trade closer to $100 over the next three years versus the current share price of $65. This assumes a price-earnings multiple of 15 and earnings per share in excess of $7 by fiscal 2019. Additionally, Qualcomm currently offers a dividend yield in excess of 3% and is extremely cash generative. We expect it to reduce its debt load from NXP quickly, with the balance in value accruing to stockholders.

Importantly, Qualcomm is by no means an isolated example. We have found a handful of stocks in the US that offer high FCF yields at a time when the market is trading near a historically low FCF yield. These include high-quality businesses that are growing, like AbbVie, XPO Logistics and Aetna. And that's why we are still excited about the portfolio's positioning amid an otherwise challenging backdrop of high valuations across many developed markets.

As with Qualcomm, we expect it will continue to be difficult to hold these contrarian positions—and harder still to add to them during periods of underperformance. We will inevitably look foolish at times, and at other times we will simply be

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Orbis Global Equity *(continued)*

wrong. But if we remain disciplined and continually retest our thinking with rigorous research, we will develop the courage to capitalise on such opportunities when others are unwilling or unable. Embracing discomfort is a big part of our edge as investors, and it gives us confidence that our approach will deliver value more often than not over the long term. As we say around the office: "It works because it hurts!"

Commentary contributed by Adam R Karr and Eric Marais, Orbis Investment Management U.S., (LLC), San Francisco

This report does not constitute a recommendation to buy, sell or hold any interests, shares or other securities in the companies mentioned in it nor does it constitute financial advice.

Orbis Global Equity Fund

The Fund is designed to remain fully invested in global equities. It aims to earn higher returns than world stockmarkets, without greater risk of loss. The benchmark is the FTSE World Index, including income, gross of withholding taxes ("FTSE World Index"). The Fund's currency exposure is managed relative to that of the FTSE World Index.

Price	US$198.78
Pricing currency	US dollars
Domicile	Bermuda
Type	Open-ended mutual fund
Fund size	US$7.5 billion
Fund inception	1 January 1990
Strategy size	US$19.0 billion
Strategy inception	1 January 1990

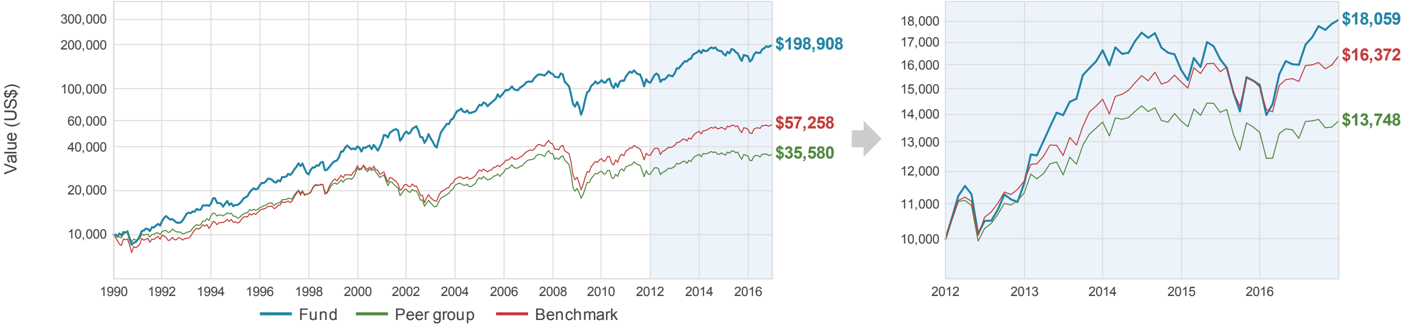
Benchmark	FTSE World Index
Peer group	Average Global Equity Fund Index
Minimum investment	US$50,000
Dealing	Weekly *(Thursdays)*
Entry/exit fees	None
ISIN	BMG6766G1087

See Notices for important information about this Fact Sheet

Growth of US$10,000 investment, dividends reinvested

Long-term performance, since Fund inception

Medium-term performance, last 5 years



Returns (%)

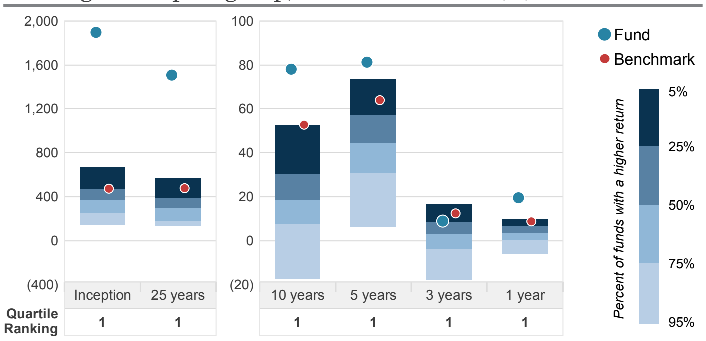
	Fund	Peer group	Benchmark
Annualised		*Net*	*Gross*
Since Fund inception	11.7	4.8	6.7
25 years	11.7	5.0	7.3
10 years	5.9	0.9	4.3
5 years	12.5	6.6	10.4
3 years	2.8	0.1	3.9
1 year	19.1	3.0	8.6
Not annualised			
3 months	1.7	(0.5)	1.7
1 month	1.1		2.4

	Year	%
Best performing calendar year since inception	2003	45.7
Worst performing calendar year since inception	2008	(35.9)

Risk Measures, since Fund inception

	Fund	Peer group	Benchmark
Largest drawdown (%)	50	53	54
Months to recovery	42	>110[1]	66
% recovered	100	90	100
Annualised monthly volatility (%)	16.4	14.0	15.2
Beta vs benchmark	0.9	0.9	1.0
Tracking error vs benchmark (%)	9.1	4.5	0.0

Ranking within peer group, cumulative return (%)



Geographical & Currency Allocation (%)

Region	Equity	Currency	Benchmark
North America	51	52	59
Asia ex-Japan	17	6	5
Continental Europe	10	21	16
Japan	8	9	9
United Kingdom	8	6	7
Other	5	5	5
Net Current Assets	*1*	*0*	*0*
Total	**100**	**100**	**100**

Top 10 Holdings

	FTSE Sector	%
Charter Communications	Consumer Services	5.5
QUALCOMM	Technology	4.7
Sberbank	Financials	4.1
XPO Logistics	Industrials	3.9
Apache	Oil & Gas	3.7
Motorola Solutions	Technology	3.1
Berkshire Hathaway	Financials	2.7
NetEase	Technology	2.2
Anthem	Health Care	2.0
JD.com	Consumer Services	1.9
Total		**33.8**

Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	57
Total number of holdings	115
12 month portfolio turnover (%)	45
12 month name turnover (%)	33
Active share (%)	90

Fees & Expenses (%), for last 12 months

Management fee[2]	1.67
For 3 year performance in line with benchmark	*1.50*
For 3 year outperformance/(underperformance) vs benchmark	*0.17*
Fund expenses	0.05
Total Expense Ratio (TER)	**1.72**

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.

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

[2] 1.5% per annum ± up to 1%, based on 3 year rolling outperformance/(underperformance) vs benchmark.

Orbis Global Equity Fund

This Fact Sheet is a Minimum Disclosure Document and a monthly General Investor Report as required by the South African Financial Services Board.

Manager	Orbis Investment Management Limited
Inception date	1 January 1990
Number of shares	37,925,523
Income distributions during the last 12 months	None

Fund Objective and Benchmark

The Fund is designed for investors who have made the "asset allocation" decision to invest a predetermined amount in global equities. It seeks higher returns than the average of the world's equity markets, without greater risk of loss. The Fund aims for higher returns than a designated equity performance benchmark, namely the FTSE World Index, including income.

How We Aim to Achieve the Fund's Objective/Adherence to Objective

The Fund is actively managed and seeks to remain fully invested in and exposed to global stockmarkets. It invests in equities considered to offer superior fundamental value. These equities are selected using extensive proprietary investment research undertaken by the Manager and its investment advisors. Orbis devotes a substantial proportion of its business efforts to detailed "bottom up" investment research conducted with a long-term perspective, believing that such research makes superior long-term performance attainable. The lower the price of a share as compared to its assessed intrinsic value, the more attractive Orbis considers the equity's fundamental value. The Manager believes that over the long term, equity investing based on this approach offers superior returns and reduces the risk of loss.

Exchange rate fluctuations significantly influence global investment returns. For this reason, part of Orbis' research effort is devoted to forecasting currency trends. Taking into account these expected trends, the Manager actively reviews the Fund's currency exposure. Those currencies held but considered vulnerable may be sold in favour of those considered more attractive, generally using forward contracts. The Fund's currency deployment therefore frequently differs significantly from the geographic deployment of its selected equities.

The Fund does not seek to mirror its benchmark but may instead deviate meaningfully from it in pursuit of superior long-term returns.

Since inception and over the latest 10 and five-year periods, the Fund has outperformed its benchmark net of fees. The Fund will experience periods of underperformance in pursuit of its objective of creating long-term wealth for investors.

Risk/Reward Profile

- The Fund is designed for investors who have made the "asset allocation" decision to invest a predetermined amount in global equities.
- Investments in the Fund may suffer capital loss.
- Investors should understand that the Manager generally assesses an equity investment's attractiveness using a three-to-five year time horizon.

Management Fee

As is described in more detail in the Fund's Prospectus, the Fund pays the Manager a performance-based fee. The fee is designed to align the Manager's interests with those of investors in the Fund.

The fee is based on the net asset value of the Fund. The fee rate is calculated weekly by comparing the Fund's performance over three years against its benchmark. For each percentage point of three year performance above or below that benchmark's performance, 0.04 percentage points are added to or subtracted from 1.5%, subject to the following limits:

- Maximum fee: 2.5% per annum
- Minimum fee: 0.5% per annum

Fees, Expenses and Total Expense Ratio (TER)

The Fund bears operating costs, including the costs of maintaining its stock exchange listing, Bermuda government fees, legal and auditing fees, reporting expenses, the cost of preparing its Prospectus and communication costs. Finally, the Fund incurs costs when buying or selling underlying investments.

Where an investor subscribes or redeems an amount representing 5% or more of the net asset value of the Fund, the Manager may cause the Fund to levy a fee of 0.40% of the net asset value of the Fund's shares being acquired or redeemed.

The annual management fees charged are included in the TER. The TER is a measure of the actual expenses incurred by the Fund over a 12 month period, excluding trading costs. Since Fund returns are quoted after deduction of these expenses, the TER should not be deducted from the published returns. Expenses may vary, so the current TER is not a reliable indicator of future TERs.

Changes in the Fund's Top 10 Holdings (%)

30 September 2016	%	31 December 2016	%
Charter Communications	5.1	Charter Communications	5.5
QUALCOMM	5.1	QUALCOMM	4.7
NetEase	4.5	Sberbank	4.1
Apache	4.0	XPO Logistics	3.9
Sberbank	3.3	Apache	3.7
XPO Logistics	3.3	Motorola Solutions	3.1
Motorola Solutions	3.1	Berkshire Hathaway	2.7
PayPal Holdings	2.9	NetEase	2.2
JD.com	2.3	Anthem	2.0
KB Financial Group	2.2	JD.com	1.9
Total	**35.8**	**Total**	**33.8**

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.

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Orbis Global Equity Fund

Additional Information

South African residents should contact Allan Gray Unit Trust Management (RF) Proprietary Limited at 0860 000 654 (toll free from within South Africa) or offshore_direct@allangray.co.za to receive, free of charge, additional information about a proposed investment (including Prospectus, application forms, annual reports and a schedule of fees, charges and maximum commissions). The Manager can be contacted at +1 441 296 3000 or clientservice@orbis.com. The Fund's Custodian is Citibank N.A., New York Offices, 388 Greenwich Street, New York, New York 10013, U.S.A. All information provided herein is subject to the more detailed information provided in the Fund's Prospectus.

Share Price and Transaction Cut Off Times

Share prices are calculated on a net asset value basis, normally as of 5:30 pm (Bermuda time) (i) each Thursday (or, if a Thursday is not a business day, the preceding business day), (ii) on the last calendar day of each month (or, if that is not a weekday, the preceding weekday) and/or (iii) any other days in addition to (or substitution for) any of the days described in (i) or (ii), as determined by the Manager without notice.

Subscriptions are only valid if made on the basis of the Fund's current Prospectus. To be processed on a given dealing day: subscription requests into an Orbis Fund that is not an Orbis SICAV Fund must be submitted by 5:00 pm on that dealing day; subscription requests into an Orbis Fund that is an Orbis SICAV Fund must be submitted by 5:30 pm; redemption requests from an Orbis Fund that is not an Orbis SICAV Fund must be submitted by 12 noon; redemption requests from an Orbis Fund that is an Orbis SICAV Fund must be submitted by 5:30 pm; requests to switch from an Orbis Fund that is not an Orbis SICAV Fund to a different Orbis Fund that is also not an Orbis SICAV Fund must be submitted by 12 noon; requests to switch from an Orbis SICAV Fund into a different Orbis Fund that is not an Orbis SICAV Fund must be submitted by 5:00 pm; requests to switch from an Orbis Fund that is not an Orbis SICAV Fund to a different Orbis Fund that is an Orbis SICAV Fund must be submitted by 12 noon; and requests to switch from an Orbis Fund that is an Orbis SICAV Fund to a different Orbis Fund that is also an Orbis SICAV Fund must be submitted by 5:30 pm. All times given are Bermuda time, and all requests must be properly completed and accompanied by any required funds and/or information.

Share prices, updated weekly, are available

- from the Allan Gray Unit Trust Management (RF) Proprietary Limited's website at www.allangray.co.za,
- from the Orbis website at www.orbis.com,
- by e-mail, by registering with Orbis for this service at the Orbis website at www.orbis.com, and
- from Bloomberg.

Legal Notices

Returns are net of fees, include income and assume reinvestment of dividends. Figures quoted are for the periods indicated for a $10,000 investment (lump sum, for illustrative purposes only). Annualised returns show the average amount earned on an investment in the Fund/share class each year over the given time period. 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.

Collective Investment Schemes (CIS) are generally medium to long-term investments. The value of an investment in the Fund may go down as well as up, and past performance is not a reliable indicator of future results. The Manager provides no guarantee with respect to capital or the Fund's returns. CIS are traded at ruling prices and can engage in borrowing and scrip lending. Commission and incentives may be paid by investors to third parties and, if so, would be included in the overall costs. Individual investors' performance may differ as a result of investment date, reinvestment date and dividend withholding tax, as well as a levy that may apply in the case of transactions representing more than 5% of the Fund's net asset value. The Fund may be closed to new investments at any time in order to be managed in accordance with its mandate. The Fund invests in foreign securities. Depending on their markets, trading in those securities may carry risks relating to, among others, macroeconomic and political circumstances, constraints on liquidity or the repatriation of funds, foreign exchange rate fluctuations, taxation and trade settlement.

The discussion topics for the commentaries were selected, and the commentaries were finalised and approved, by Orbis Investment Management Limited, the Fund's Manager. Information in this Report is based on sources believed to be accurate and reliable and provided "as is" and in good faith. The Orbis Group does not make any representation or warranty as to accuracy, reliability, timeliness or completeness of the information in this Report. The Orbis Group disclaims all liability (whether arising in contract, tort, negligence or otherwise) for any error, omission, loss or damage (whether direct, indirect, consequential or otherwise) in connection with the information in this Report.

Orbis Investment Management Limited, the Fund's Manager, is licensed to conduct investment business by the Bermuda Monetary Authority.

Fund Information

The country and currency classification for equity securities follows that of third party benchmark providers for comparability purposes. 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 Fund's exposures accordingly.

Fund Minimum

Minimum investment amounts in the Fund are specified in the Fund's Prospectus, provided that a new investor in the Orbis Funds must open an investment account with Orbis, which may be subject to minimum investment restrictions, country restrictions and/or other terms and conditions. For more information on opening an Orbis investment account, please visit www.orbis.com.

Clients investing via Allan Gray, which includes the Allan Gray Investment Platform, an Allan Gray investment pool or otherwise through Allan Gray Nominees, remain subject to the investment minimums specified by the applicable terms and conditions.

Sources

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