Orbis Global Equity

From a top-down perspective, the prolonged outperformance of certain technology-focused companies has begun to raise eyebrows among those of us with first-hand experience of the inflation, and subsequent bursting, of the dotcom bubble. From the Nasdaq Composite's peak in March 2000, it took 15 years for its price to exceed that level again. Not only is that an object lesson in one of the dangers of a passive investing strategy, but with the index now standing some 20% higher than that previous peak, it also raises the question whether today's investors should be worried about history repeating.

The long road to recovery

Nasdaq Composite price index, 1990 to Jun 2017

To cut through the suspense, let me admit up front that I'm not going to answer that question directly: we don't find it productive to spend a lot of time analysing benchmark indices. But to leap ahead to my conclusion, what has come as a surprise—probably just as much to us as to those who are familiar with our investment approach—is the number of attractive investment opportunities we've found even among the group of strongly performing tech-focused companies. As a contrarian, it feels strange to be enthusiastic about stocks that have been rising. Then again, if being contrarian means behaving rationally even when it's uncomfortable, then buying tech shares after a Nasdaq boom that ended so badly last time may be as good an example as any.

One clear difference between today's largest tech stocks and those in the dotcom era is the price investors are willing to pay. As shown by the table below, headline valuation multiples are about a third as much today. While there's only so much comfort that can be gained by a favourable comparison with the top of a bubble, it does at least indicate the difference in sentiment between the euphoria of the late 90s and the relative caution of investors today, who have been once bitten and are now twice shy.

Technology shares then…

10 Mar 2000	Market cap (USD bn)	Price / revenue	Price / free cash flow
Microsoft	507	21	48
Cisco	452	36	122
Intel	402	14	50
Oracle	230	24	107
Sun Microsystems	165	11	70
Average	-	21	80
MSCI World Index	-	1.7	32

…and now

30 Jun 2017	Market cap (USD bn)	Price / revenue	Price / free cash flow
Apple	751	3.5	14
Alphabet (Google)	635	6.8	23
Microsoft	532	6.1	19
Amazon	463	3.2	48
Facebook	438	14	36
Average	-	6.8	28
MSCI World Index	-	1.7	20

Source: Bloomberg, Orbis. Shares shown are the top five Nasdaq constituents by market capitalisation at each date.

Not only is the sentiment different, so are the companies themselves. Typically, the class of 1999 was selling technology to corporate customers, and their fortunes were consequently at the mercy of the capital expenditure cycle, which just happened to be peaking after a long run. Today's crop of leaders are typically household names, providing consumers with products and services which in many cases have become virtually indispensable. Not only that, but many of them have carved out very dominant market shares—an unanticipated benefit of coming of age in the post-bubble technology bust: an era of capital starvation in which only the fittest were able to survive.

For a decade now, the smartphone has been affecting the way we live our daily lives. So, while the comparison with the Nasdaq of the late 90s is superficially tempting, the more appropriate comparison—when it comes to real business fundamentals—might be a very different one. Today's Amazon.com, for example, has much more in common with the Walmart of the 1990s than with the Cisco. That's a very different precedent, and one that had a very different outcome for investors.

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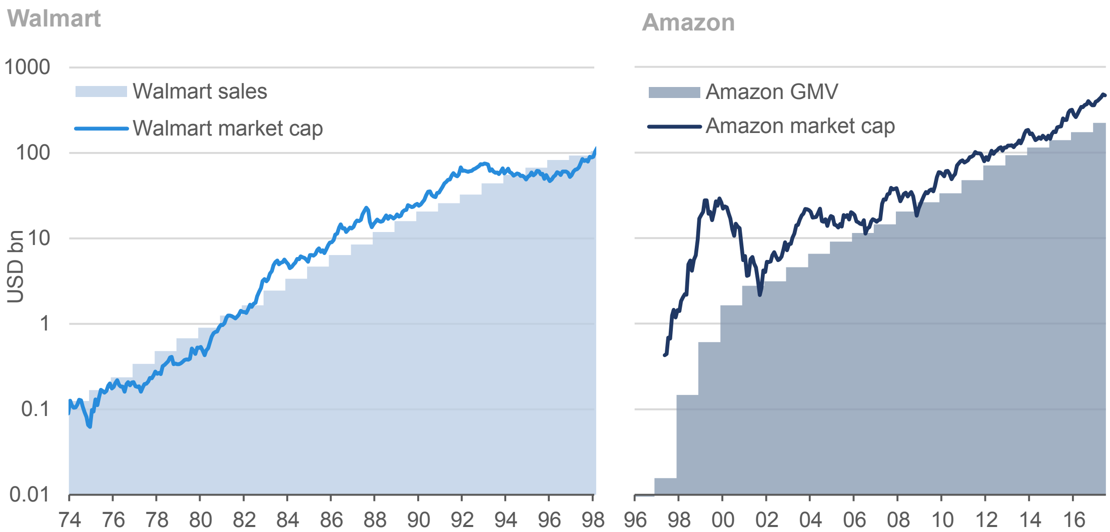
Orbis Global Equity *(continued)*

Having been researching retail companies at Orbis for almost 17 years, one of the things I've come to learn is that retail is not one of those sectors in which things typically revert to the mean. Rather, it's in a state of continuous evolution with the old being replaced by the new. Shoppers tend to gravitate towards the retailers with the most effective business models, but they do so slowly—one person at a time—so the trend can take years or even decades to unfold.

The Walmart store was the retail innovation of its time. Its stores offered an unmatched selection of goods and were just a short drive away for most Americans. On its way to becoming the dominant retail franchise, Walmart consistently exploited its cost advantages, gaining market share from weaker rivals and squeezing its suppliers relentlessly. Shareholders were richly rewarded for decades. A generation later, to quote Yogi Berra, "it's like déjà vu all over again". A new retail champion, harnessing new technology, Amazon's growth to date has traced a remarkably similar path.

The growth of retail champions



Source: Company reports, Datastream, Orbis. GMV is Gross Merchandise Value, a measure of e-commerce transaction value.

Amazon's current US market share is roughly where Walmart's was 20 years ago. But, as an investor, what's just as remarkable as the similarity in fundamentals is the similarity in share price performance. Apart from the late 90s "hump" in Amazon's share price—a manifestation of the bubble euphoria discussed earlier—investors have often been offered the opportunity to purchase Amazon shares at a price of around one times the total annual value of its customers' purchases, the so-called GMV (Gross Merchandise Value). That's equivalent to the one times revenue that Walmart typically traded at—a price which proved extraordinarily attractive for investors with the benefit of hindsight. When adjusting for the value of Amazon's cloud computing business, a multiple of one times GMV is exactly where Amazon's share price trades today.

But is it contrarian? What do we see here that others don't? Well, one common belief is that Amazon's retail business doesn't make money the way that Walmart's always did. That's a widely accepted view which turns out, on closer inspection, to be flawed because of a critical difference between the online and offline business models: the way the cost of growth is accounted for. Walmart grew its business by building new stores whereas Amazon reaches new customers via digital marketing. While both forms of spending represent investment in the future, marketing expenses are taken as a charge on the profit and loss statement, while capital expenditure only hits the cash flow statement. While Walmart had higher accounting profits, its business model was naturally more capital intensive. Accounting profits are one thing, but in terms of generating all-important cash flows, it's Amazon's business model that turns out to have been the more profitable.

That's not to argue that today's crop of market leaders will all continue to thrive. Rather, it is to observe that individual businesses should be

Comparing champions	Walmart 5y through 1996	Amazon 5y through 2016
Revenue growth (% p.a.)	**23**	**23**
All as a % of revenues:		
Cash flow from operations	3.0	9.6
Less stock-based awards	-	(1.5)
Less capex	(4.8)	(5.0)
Less acquisitions	-	(0.6)
Adjusted free cash flow	**(1.9)**	**2.4**

Source: Bloomberg, Orbis. Amazon's capex figure includes investments in its separate cloud computing business.

Orbis Global Equity *(continued)*

assessed on their own merits. While that's no easy task, it's one that plays to the strengths of Orbis' "matrix" of independent regional and global sector research teams.

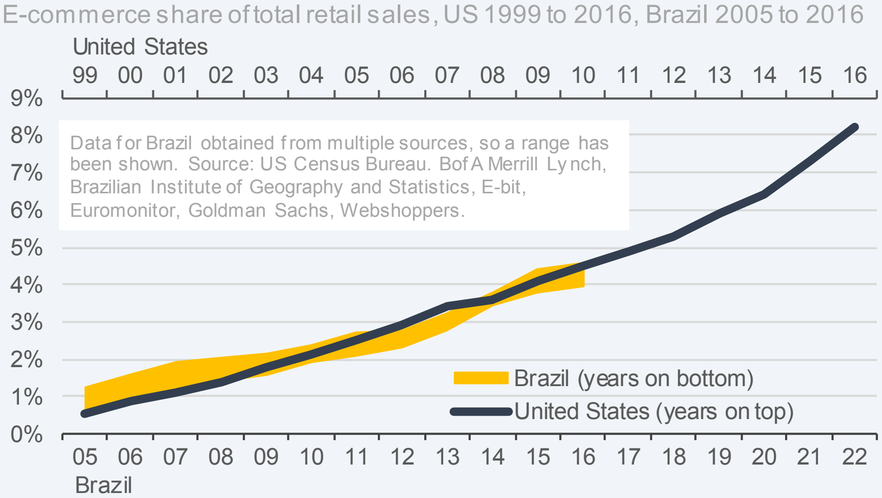
In fact, it is striking that separate work across the firm has identified several attractive opportunities along the same theme—a phenomenon that we've seen before and taken to describing as a "cluster". Indeed, all five of our equity research teams have identified at least one member of the basket of technology stocks held in Orbis Global—Amazon from the Global Sector team, Alphabet from the US, Priceline Group from Europe, NetEase from Emerging Markets, and NEXON from Japan. Each idea has been researched independently, in many cases by more than one analyst, in order to harness the benefits of our intellectual and geographic diversity, and to minimise the dangers of groupthink. That our research efforts have identified so many companies along the same common theme suggests either that we're all independently falling for the same trap, or that we're onto something. Only time will tell which, but as always you can be sure that our culture of client alignment means we are invested alongside you.

Brazil's other Amazon

There aren't many companies that can make Amazon's current growth look slow. MercadoLibre—the largest e-commerce business in Latin America, whose shares are available at less than 2x annual GMV—is one of them. That's not because it is doing anything better than its larger peer, it's just at an earlier stage of its growth. In Brazil, its largest market, smartphone penetration is still only about 30%, close to where the US was six years ago. It's probably not a coincidence that Brazil's e-commerce penetration, at only around 4% of total retail sales, is also six years behind that of the US. Given our contrarian tendencies, it won't come as any surprise that we began building our current position in 2015, when Brazil's deep economic depression had put the shares under a cloud of pessimism and uncertainty. We are mindful that Brazil's risks may persist, but we are optimistic about the long-term potential of the business.

A profitable pattern

E-commerce share of total retail sales, US 1999 to 2016, Brazil 2005 to 2016



Commentary contributed by Ben Preston, Orbis Portfolio Management (Europe) LLP, London

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

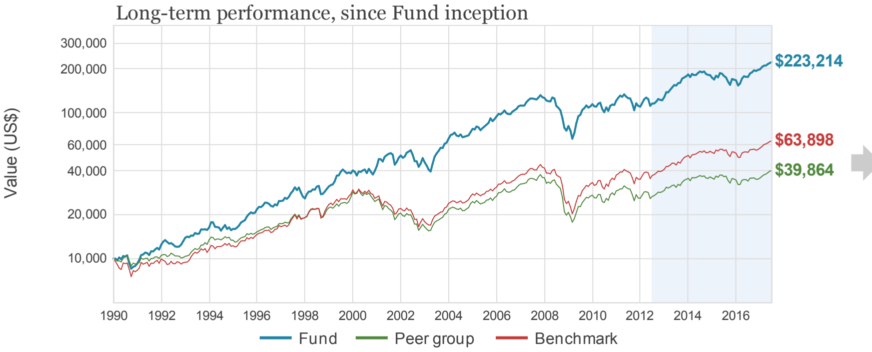
The Fund is designed to remain fully invested in global equities. It aims to earn higher returns than world stockmarkets, without greater risk of loss. The benchmark is the FTSE World Index, including income, gross of withholding taxes ("FTSE World Index"). The Fund's currency exposure is managed relative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

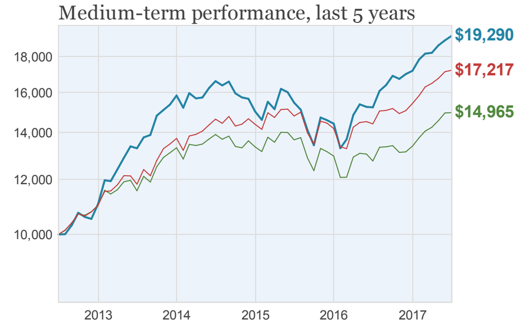
Price	US$223.07
Pricing currency	US dollars
Domicile	Bermuda
Type	Open-ended mutual fund
Fund size	US$7.3 billion
Fund inception	1 January 1990
Strategy size	US$21.6 billion
Strategy inception	1 January 1990

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, net of fees, dividends reinvested





Returns (%)

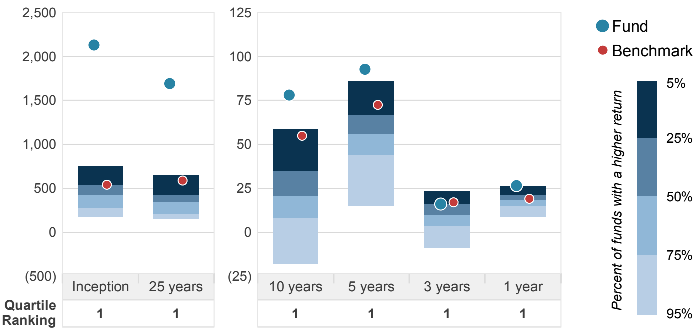
	Fund	Peer group	Benchmark
Annualised		*Net*	*Gross*
Since Fund inception	12.0	5.2	7.0
25 years	12.2	5.4	8.1
10 years	5.9	1.2	4.5
5 years	14.0	8.4	11.5
3 years	5.1	2.4	5.5
1 year	26.7	17.4	19.4
Not annualised			
Calendar year to date	12.2	11.7	11.6
3 months	5.7	5.0	4.4
1 month	1.5		0.5

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

Risk Measures, since Fund inception

	Fund	Peer group	Benchmark
Largest drawdown (%)	50	53	54
Months to recovery	42	113	66
Annualised monthly volatility (%)	16.2	13.9	15.1
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	53	58
Asia ex-Japan	20	11	6
Japan	8	8	9
United Kingdom	8	6	6
Continental Europe	8	18	16
Other	4	4	5
Net Current Assets	*2*	*0*	*0*
Total	**100**	**100**	**100**

Top 10 Holdings

	FTSE Sector	%
Charter Communications	Consumer Services	5.3
XPO Logistics	Industrials	5.0
AbbVie	Health Care	3.7
Anthem	Health Care	3.3
British American Tobacco	Consumer Goods	2.9
JD.com	Consumer Services	2.8
Apache	Oil & Gas	2.7
Amazon.com	Consumer Services	2.6
Motorola Solutions	Technology	2.4
KB Financial Group	Financials	2.3
Total		**32.8**

Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	58
Total number of holdings	91
12 month portfolio turnover (%)	69
12 month name turnover (%)	48
Active share (%)	88

Fees & Expenses (%), for last 12 months

Management fee[1]	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)	**1.71**

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

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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.

Investment Manager	Orbis Investment Management Limited
Inception date	1 January 1990
Number of shares	32,854,084
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 Investment 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 Investment 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 Investment 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 Investment 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 Investment Manager a performance-based fee. The fee is designed to align the Investment 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 Investment 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

31 March 2017	%	30 June 2017	%
Charter Communications	5.5	Charter Communications	5.3
XPO Logistics	4.0	XPO Logistics	5.0
Anthem	3.0	AbbVie	3.7
Sberbank of Russia	2.8	Anthem	3.3
Apache	2.7	British American Tobacco	2.9
Motorola Solutions	2.6	JD.com	2.8
AbbVie	2.5	Apache	2.7
Amazon.com	2.5	Amazon.com	2.6
JD.com	2.5	Motorola Solutions	2.4
British American Tobacco	2.4	KB Financial Group	2.3
Total	**30.5**	**Total**	**32.8**

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.

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 Investment 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 Investment 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 Investment 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 Investment 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 Investment 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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