Orbis Japan Equity

In April 2013, the newly appointed governor of the Bank of Japan (BoJ), Mr Haruhiko Kuroda, announced a large programme of Quantitative and Qualitative Easing, in which the Bank would buy large amounts of Japanese government bonds with newly-printed yen in an effort to get Japan out of deflation. In the years since, its purchase programme has expanded. The BoJ's pace of bond purchases is now double the pace of new bond issuance, and the Bank owns roughly a third of the Japanese government's outstanding bonds.

This January, Mr Kuroda announced that the BoJ would pull an additional stimulus lever—negative interest rates on central bank deposits. The resulting environment provides a good illustration of how Orbis responds to unusual macroeconomic events. While macroeconomic forecasting is not our strength, the BoJ's decision has had a substantial effect on the opportunity set, particularly for banks and life insurers. By looking at the direct and indirect effects of Japan's negative rates, we can better assess the impact on financials' fundamentals.

With monetary stimulus, a central bank can push more money into the economy, forcing banks to do something with it. The hope is usually that banks will lend more readily, aiding investment and consumption in the economy and spurring growth. We think the BoJ's moves are unlikely to spur much lending, because the availability of credit is not the problem—weak demand is.

Before the negative rates announcement, Japanese banks were already lending to each other for less than 0.20% p.a. and to some large companies for 0.50% p.a. Despite these rock-bottom rates, loan demand in Japan has been scarce. Japanese banks loan out just 70% of their deposits, compared to well over 100% at European banks. The country has a glut of household and corporate savings. So long as deflation persists and a shrinking population threatens domestic growth prospects, households and companies will have little incentive to borrow and increase spending and investment. With credit extremely cheap already, a move of a few basis points strikes us as unlikely to tip the scales for many potential borrowers.

While we doubt that this latest initiative will spur meaningful credit expansion, there are other plausible explanations for the BoJ's action. One is that the Bank is trying to weaken the yen. There is some precedent for this—as the European Central Bank (ECB) has adopted increasingly negative interest rates, the euro has weakened dramatically. But while the ECB's negative rates apply to banks' whole balances, the BoJ chose to apply them to just a small fraction of Japanese banks' reserves.

If the intention was to weaken the yen, it hasn't worked. For a few days after the announcement, the yen did weaken, but the market appears to be interpreting negative rates as a sign that the BoJ is running out of policy tools, and with the ECB already at more sharply negative rates and the Federal Reserve dampening expectations for further rate hikes in the US, the yen reversed course and actually ended the quarter at a stronger level than it started.

The indirect impact through yields on Japanese government bonds (JGBs) and interbank interest rates has been far more pronounced. Intermediate-term JGB yields fell into negative territory in short order following the BoJ's decision, and interbank lending rates fell below 0.10% p.a. With deposits, lending to the government, and lending to each other now looking less attractive, Japanese banks may struggle to make money in their core savings and loan activities.

The market has responded by punishing bank stocks in the wake of the negative rate announcement. The TOPIX Banks Index has been down as much as 38% year-to-date, underperforming the TOPIX by as much as 21%. This makes some sense, but the situation is very different for regional banks versus megabanks such as Sumitomo Mitsui Financial Group (SMFG), a top holding in Orbis Japan. Here, our fundamental research has led us to a view that runs against the current consensus.

Regional banks usually generate the bulk of their revenue from domestic lending and bond holdings, so if profitable lending opportunities in Japan are scarce, this is a major threat to their overall revenues and profits. Megabanks are different. Their holdings are more diversified, and many have international and brokerage arms which offer different revenue sources, such as trust income, foreign exchange transaction fees, fees on investment products, brokerage commissions, and advisory fees. At SMFG, domestic net interest income accounts for only 24% of revenue. In our view, the negative rate decision was unlikely to cut SMFG's overall earnings by more than 6%, even with conservative assumptions. This compares to a roughly 30% decline in the share price in the several days following the negative rate decision.

By mid-February, that price decline had pushed the stock's valuation to just half its tangible net asset value and less than six times earnings. We viewed this as an unusually good—and perishable—buying opportunity, and we added to the portfolio's position. In our view, the market was pricing in further (more negative) cuts to rates, despite evidence from other countries

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Orbis Japan Equity *(continued)*

that there are practical limits to how low negative rates can go. At the same time, the BoJ's decision to protect most of the banks' balances from negative rates suggests that Mr Kuroda wants to limit the direct damage to their profits.

Of course, other factors also influence banks' fundamentals. One is the middling Japanese economy—the key motivator of the BoJ's actions. If the Japanese economy weakens, borrowers (some of whom have borrowed from SMFG and its peers at very low rates) may struggle to pay back their loans, increasing banks' credit costs and hurting their balance sheets. But heading into this environment, SMFG's capital position is much stronger than it was in the previous downcycle in 2008, and with no current signs of balance sheet stress, we believe the company can maintain its dividend (current yield: 4.5% p.a.), supporting returns for shareholders even if pessimism on the industry persists.

Admittedly, SMFG offers little in the way of positive earnings momentum, but in February its valuation was as attractive as levels seen in late 2011, which proved a rewarding time to own the stock. Although the stock has recovered more than 15% from its February low, we continue to believe that SMFG offers sufficiently good long-term value to warrant a place in Orbis Japan. As a result of this position, the portfolio is overweight megabanks, though it remains underweight banks overall.

Our feelings have changed for life insurers, which represented 5% of Orbis Japan at year end. Life insurers take small monthly premiums from policyholders in exchange for big obligations that can last decades. Until those obligations come due, the companies carry them on their balance sheets, adjusting the expected value of the obligations as interest rates change. The companies also invest their premium income into portfolios of securities, mostly bonds. For some time, many Japanese life insurers have preferred to hold bonds that were shorter in duration than their liabilities, hoping that bond yields would rise and provide a more profitable place to deploy capital. That hasn't happened. Yields on 10-year JGBs are now negative, making it tough for insurers to safely and profitably invest their premium income. Worse, many policies on insurers' books were written at a time when JGB yields were much higher, effectively promising high returns to policyholders. At the same time, reduced yields and interest rates mean that the companies must use a lower discount rate when they estimate the current value of their long-term obligations. With a lower discount rate, the present value of those obligations rises, hurting their capital positions. Other than their high sensitivity to interest rate movements, life insurers also have sizable exposures to equities and foreign currency. Relative to the megabanks, we generally found life insurers' capital positions and shareholder returns to be more vulnerable to adverse market movements.

Given these challenges, we have struggled to retain conviction in life insurers' fundamentals. We had been trimming Dai-ichi Life Insurance and T&D Holdings already, and after the BoJ's announcement, we sold out completely, despite the shares falling over 30% year-to-date. For the most part, our research and contrarian philosophy have led us to a view similar to the market consensus on Japanese life insurers.

This illustrates the difference between being contrarian and blindly contrary. Being contrarian doesn't mean you drive down the wrong side of the road! When we say contrarian, we mean an independence of mind and a willingness to be guided by our research—even if our findings put us at odds with conventional wisdom. By continuing to focus on the relationship between price and value of individual securities, we believe we can continue to add value on your behalf, regardless of the market environment.

Commentary contributed by Mitsuharu Tamashiro, Orbis Portfolio Management (Europe) LLP, London

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Orbis SICAV
Japan Equity (Yen) Fund

The Fund is designed to remain fully invested in Japanese equities and seeks higher returns than the Japanese stockmarket, without greater risk of loss. It is predominantly exposed to the Japanese yen. The benchmark is the Tokyo Stock Price Index, including income, gross of withholding taxes ("TOPIX").

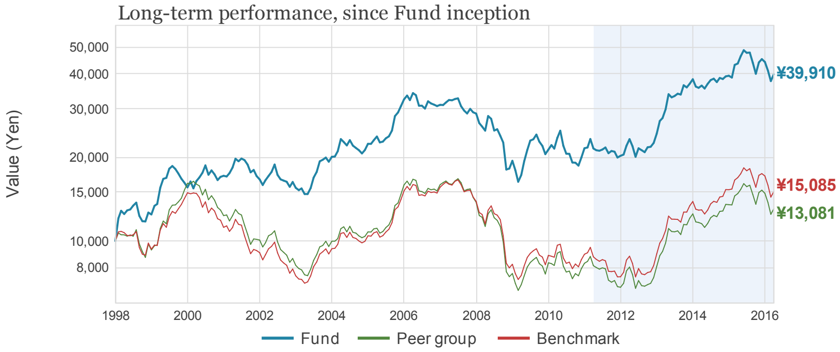
Price	¥3,991
Pricing currency	Japanese yen
Domicile	Luxembourg
Type	SICAV
Share class	Investor Share Class
Fund size	¥171 billion
Fund inception	1 January 1998
Strategy size	¥198 billion
Strategy inception	1 January 1998

Benchmark	TOPIX
Peer group	Average Japan Equity Fund Index
Minimum investment	US$50,000
Dealing	Weekly *(Thursdays)*
Entry/exit fees	None
UCITS IV compliant	Yes
ISIN	LU0160128079

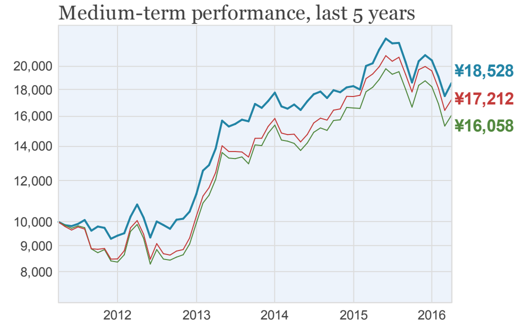
See Notices for important information about this Fact Sheet

Growth of ¥10,000 investment, dividends reinvested

Long-term performance, since Fund inception



Medium-term performance, last 5 years



Returns (%)

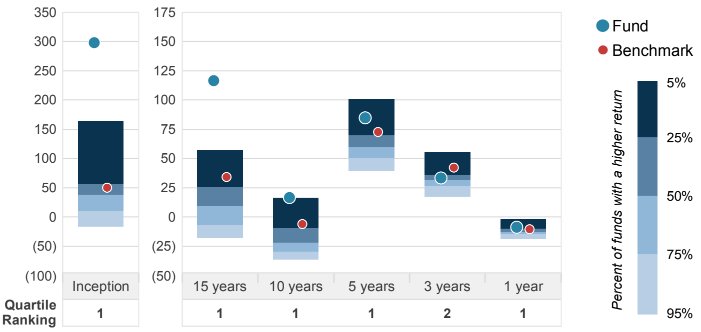
	Fund	Peer group	Benchmark
Annualised		*Net*	*Gross*
Since Fund inception	7.9	1.5	2.3
15 years	5.3	0.4	2.0
10 years	1.6	(2.4)	(0.6)
5 years	13.1	9.9	11.5
3 years	10.2	9.9	11.4
1 year	(8.4)	(11.7)	(10.8)
Not annualised			
3 months	(9.6)	(11.9)	(12.0)
1 month	5.9		4.8

	Year	%
Best performing calendar year since inception	2013	57.0
Worst performing calendar year since inception	2008	(32.4)

Risk Measures, since Fund inception

	Fund	Peer group	Benchmark
Largest drawdown (%)	52	60	56
Months to recovery	90	>105[1]	93
% recovered	100	64	100
Annualised monthly volatility (%)	18.8	18.7	18.2
Beta vs benchmark	0.9	1.0	1.0
Tracking error vs benchmark (%)	9.8	2.8	0.0

Ranking within peer group, cumulative return (%)



Top 10 Holdings (%)

	Sector	%
Daito Trust Construction	Cyclicals	6.8
Sumitomo Mitsui Fin.	Financials	6.8
Sumitomo	Consumer Non-Durables	6.6
NEXON	Information and Communications	6.6
Mitsubishi	Consumer Non-Durables	6.5
INPEX	Cyclicals	4.8
Rakuten	Consumer Non-Durables	4.6
Nissan Motor	Cyclicals	4.6
Honda Motor	Cyclicals	4.5
Nippon Television Holdings	Information and Communications	4.5
Total		**56.3**

Sector Allocation (%)

Sector	Fund	Benchmark
Consumer Non-Durables	33	24
Cyclicals	30	40
Information and Communications	14	8
Financials	12	12
Technology	9	13
Utilities	0	2
Net Current Assets	*2*	*0*
Total	**100**	**100**

Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	94
Total number of holdings	32
12 month portfolio turnover (%)	41
12 month name turnover (%)	28
Active share (%)	90

Fees & Expenses (%), for last 12 months

Management fee[2]	1.65
For 3 year performance in line with benchmark	*1.50*
For 3 year outperformance/(underperformance) vs benchmark	*0.15*
Fund expenses	0.09
Total Expense Ratio (TER)	**1.74**

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.

Notice regarding appointment of new director

Mr. E. Barclay Simmons has been appointed a director of the following companies effective 31 March 2016:

- Orbis Global Equity Fund Limited
- Orbis Institutional Funds Limited
- Orbis Japan Equity (US$) Fund Limited
- Orbis Optimal Overlay Funds Limited
- Orbis Optimal SA Fund Limited
- Orbis Optimal (US$) Fund Limited
- Selection of Orbis Funds Limited

Legal Notices

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The discussion topics for the commentaries were selected, and the commentaries were finalised and approved, by either Orbis Investment Management Limited or Orbis Investment Management (B.V.I) Limited, the Funds' Manager or Portfolio Manager, as the case may be. 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 and Orbis Investment Management (B.V.I.) Limited, the Funds' Manager or Portfolio Manager, are licensed to conduct investment business by the Bermuda Monetary Authority.

Returns are net of fees, include income and assume reinvestment of dividends. Figures quoted are for the periods indicated for a $10,000, ¥10,000 and €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.

Collective Investment Schemes (CIS) are generally medium to long-term investments. The value of an investment in the Funds may go down as well as up, and past performance is not a reliable indicator of future results. No Manager or Portfolio Manager provides any guarantee with respect to capital or the Funds' 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. Performance shown is for the Fund or share class indicated. 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 a Fund's net asset value. Any Fund may be closed to new investments at any time in order to be managed in accordance with its mandate. The Funds invest 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.

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 upon request from Allan Gray Unit Trust Management (RF) Proprietary Limited, a Member of the Association for Savings & Investments SA. 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 Funds' exposures accordingly. Totals presented in this Report may not sum due to rounding.

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 of the Fund. Short-term fixed income instruments 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. Short-term fixed income instruments are not included.

Active share is a measure of how actively managed the Orbis Equity Funds are. It is calculated by summing the absolute value of the differences of the weight of each individual stock in the specific Orbis Fund, versus the weight of each holding in the respective benchmark index, and dividing by two.

The total expense ratio has been calculated using the expenses, excluding trading costs, and average net assets for the 12 month period ending 31 March 2016.

Orbis Optimal SA Fund: 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%). 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 and cash equivalents. Fixed Income regional allocation is based on the currency denomination of the instrument.

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

Fund Minimums

Minimum investment amounts in the Orbis Funds are specified in the respective 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.

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Fees and Charges

The management fees associated with the Funds vary depending upon the share class an investor purchases. Not all share classes are offered by each Fund, and the eligibility criteria for different share classes and/or different Funds vary. Each Orbis Fund's Prospectus (available on www.orbis.com) describes the management fees, share classes and eligibility criteria of that Fund. Below are descriptions of the fees borne by the Funds and share classes specified, which are subject to the lengthier descriptions in the relevant Fund's Prospectus.

Shares of Orbis Global Equity Fund and Investor Share Classes of the Orbis SICAV Funds (Global Balanced, Asia ex-Japan Equity and Japan Equity): The Funds pay a performance-based fee. The fee is based on the net asset value of the Fund (share class, in the case of the Orbis SICAV Funds). The fee rate is calculated weekly by comparing the Fund's (share class, in the case of the Orbis SICAV Funds) 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 (a) a maximum fee of 2.5% per annum and (b) a minimum fee of 0.5% per annum. Note: During the first three years of the Global Balanced Fund's existence, (a) returns will be calculated from the launch of the class and grossed up to represent returns over three years and (b) a portion of the fee may be refunded to the Fund pursuant to predetermined conditions.

Shares of Orbis Optimal SA Fund Limited: There are two parts to the fee: (a) a base fee of 1.0% per annum, paid monthly, of the total net assets of each share class; plus (b) a performance fee of 20% of the outperformance of each class of Fund share's weekly rate of return relative to its performance fee hurdle, calculated and accrued on each dealing day and paid monthly. The performance fee incorporates a high water mark.

A schedule of fees and charges and maximum commissions is available on request from the appropriate Manager.

Sources

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TOPIX Stock Price Index, including income ("TOPIX"): Tokyo Stock Exchange. TOPIX hedged into US$ and euro are calculated by Orbis using an industry-standard methodology using the TOPIX which is in yen. No further distribution of the TOPIX data is permitted.

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