

Our Thinking

Good behaviour is overrated

Our investment philosophy is simple: we aim to make money when underpriced assets get less cheap. Unfortunately, markets don't always work that way. Sometimes underpriced assets get cheaper, while overpriced assets get even more expensive.

Recently, we have seen more of the latter. A year ago, US stocks were about 30% more expensive than those in other markets on a price-earnings basis, and low-volatility and momentum shares traded at 30% and 60% premiums, respectively, to value shares globally. We researched multiple companies in those areas, but found few that appeared to trade at attractive valuations. Accordingly, our Global Equity Strategy was underweight momentum and low-volatility shares.

Today, US stocks remain roughly 30% richer than those elsewhere, low-volatility shares are now 60% more expensive than value stocks, and popular momentum shares trade at fully *double* the price-earnings multiple of beaten-up value stocks. As those trends have unfolded, being underweight the more expensive areas has hurt relative returns. But it doesn't for one second make us think we should sell cheap stocks that have gotten cheaper to buy expensive stocks that have gotten more expensive. Today, the Strategy's exposure to these expensive areas is even lower than it was a year ago.

It's worth spelling out why that is. The following sections provide a contrarian, fundamental perspective on two types of well-behaved shares: momentum stocks and low-volatility stocks.

Momentum shares: expectations and reality

On July 17th, something odd happened in the stockmarket. Netflix released its quarterly results, reporting that revenue had grown by a whopping 26% year-on-year. That is equivalent to doubling revenues every three years, and it puts Netflix squarely among the fastest-growing 10% of companies globally. But stranger things have happened than Netflix growing quickly. The odd thing was what happened next. Almost immediately, the company's stock fell more than 10%. Why did the market punish stellar growth?

Stock prices are driven by the relationship between expectations and reality. In the case of Netflix, investors had high expectations, and that optimism drove them to buy up the company's stock. Before its results, Netflix shares were up 38% year-to-date, and traded at over 130 times earnings. Investors weren't just looking for good growth in the present, but also for signs that growth could continue for years in the future. One of those signs flashed yellow: for the first time in eight years, Netflix lost subscribers in the US. This led investors to adjust their expectations, and they responded by punishing the stock.

At a high enough price, even a fast-growing company can be a poor investment, and the higher a company's

valuation, the greater the optimism of its shareholders. That optimism is risky. Excessive optimism makes it difficult for fundamentals to beat expectations, while allowing plenty of room for results to disappoint.

As contrarian investors, we look for exactly the opposite—companies where expectations are excessively pessimistic. Today, we see excessive pessimism in the near-record low valuations of automotive businesses BMW and Honda. Investors appear to be ignoring durable strengths for each company—BMW's premium brand, and Honda's world-leading motorcycle business.

Low-volatility shares: think like a business owner

Imagine that you and a few partners own a private business. Over the last five years, your company's sales haven't grown. In fact they've shrunk, by 2% per year, but by cutting costs (and with some help from lower taxes) you've been able to grow earnings by 3% per year. Dividends for you and your partners have risen by a higher 9% per year, but only because you're paying out more of your profits. And to support these results for the partners, you've had to continually increase your borrowing—the company's net debt has grown by 14% per year.

Looking at those five-year trends, consider how you would feel about the state of your business. Would you regard it as thriving? Or a bit stretched? Would you be willing to pay a high price to buy a bigger stake?

The numbers in the paragraph above are for the S&P 500 Low Volatility Index, and over the past five years, US low-volatility shares have enjoyed good returns and buoyant investor sentiment. A year ago, they traded at a 45% premium to stocks outside the US, and to value shares globally. Today, at 24 times earnings, they are even more expensive in relative terms.

To us, that just doesn't make sense. From a business owner's perspective, we would see little cause for excitement for a company with no sales growth, meagre earnings growth, and rapidly growing debt levels. The quality of the business may be deteriorating, and warrant a lower valuation than it did in the past. We much prefer the undemanding valuation and strong fundamental prospects of Chinese internet company NetEase. NetEase may have a more jittery share price than a stock like Procter and Gamble, but we believe it offers much more attractive return potential and carries a lower risk of being overpriced.

Lately it has been uncomfortable to own unpopular companies rather than popular and well-behaved shares. That divergence has stretched relative valuations, and today the shares in the Global Equity portfolio trade at a bigger discount to the market than they did 12 months ago. We can never know when markets will turn, but we remain confident that fundamentals will win out over the long term. In today's environment, good behaviour is overrated.

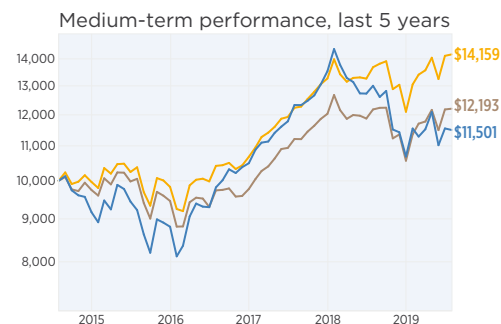
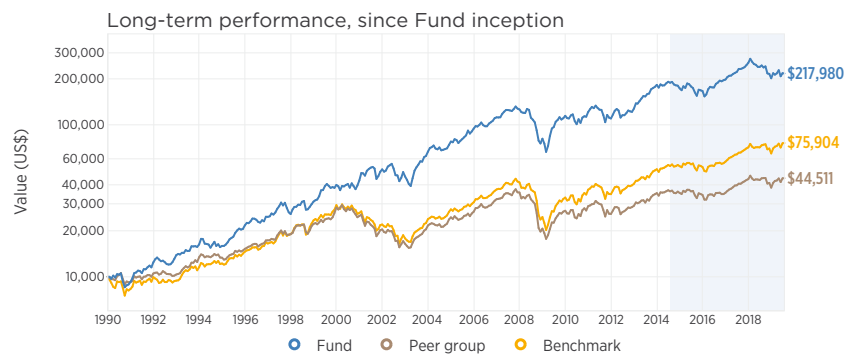
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Orbis Global Equity Fund

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"). Currency exposure is managed separately to equity exposure.

Price	US\$217.84	Benchmark	FTSE World Index
Pricing currency	US dollars	Peer group	Average Global Equity Fund Index
Domicile	Bermuda	Minimum investment	US\$50,000
Type	Open-ended mutual fund	Dealing	Weekly (Thursdays)
Fund size	US\$6.0 billion	Entry/exit fees	None
Fund inception	1 January 1990	ISIN	BMG6766G1087
Strategy size	US\$21.7 billion		
Strategy inception	1 January 1990		

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



Returns (%)

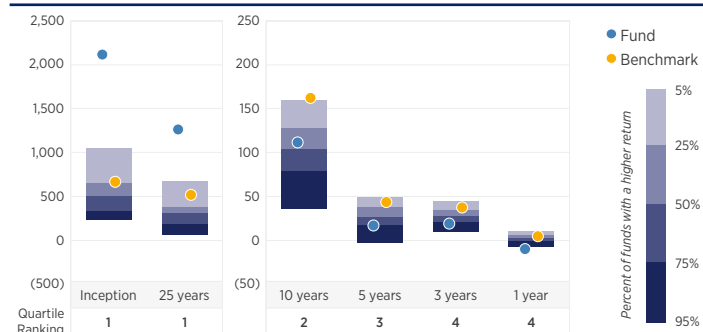
	Fund	Peer group	Benchmark
Annualised	<i>Net</i>		<i>Gross</i>
Since Fund inception	11.0	5.2	7.1
25 years	10.9	4.8	7.6
10 years	7.6	6.3	10.0
5 years	2.8	4.0	7.2
3 years	5.4	7.8	10.8
1 year	(11.4)	0.2	3.6
Not annualised			
Calendar year to date	7.6	15.4	17.1
3 months	(4.8)	0.3	0.9
1 month	(0.4)		0.4

	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	13.8	15.0
Beta vs benchmark	0.9	0.9	1.0
Tracking error vs benchmark (%)	9.0	4.4	0.0

Ranking within peer group, cumulative return (%)



Geographical & Currency Allocation (%)

Region	Equity	Currency	Benchmark
North America	33	46	62
Asia ex-Japan	22	10	5
Japan	14	8	8
Continental Europe	10	19	15
United Kingdom	8	5	5
Africa	6	6	1
Other	5	5	4
Net Current Assets	2	0	0
Total	100	100	100

Top 10 Holdings

	FTSE Sector	%
NetEase	Technology	8.2
XPO Logistics	Industrials	6.1
Naspers	Consumer Services	5.5
AbbVie	Health Care	4.4
Sberbank of Russia	Financials	3.9
British American Tobacco	Consumer Goods	3.4
Celgene	Health Care	3.3
Autohome	Technology	3.1
Facebook	Technology	2.9
Anthem	Health Care	2.8
Total		43.6

Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	75
Total number of holdings	56
12 month portfolio turnover (%)	39
12 month name turnover (%)	33
Active share (%)	91

Fees & Expenses (%), for last 12 months

Management fee ¹	1.62
For 3 year performance in line with benchmark	1.50
For 3 year outperformance/(underperformance) vs benchmark	0.12
Fund expenses	0.05
Total Expense Ratio (TER)	1.66

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

See Notices for important information about this Fact Sheet.

¹ 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.

Investment Manager	Orbis Investment Management Limited
Inception date	1 January 1990
Number of shares	27,625,983
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 and before the deduction of withholding taxes.

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. 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, Orbis actively reviews the Fund’s currency exposure. In doing so, Orbis places particular focus on managing the Fund’s exposure to those currencies considered less likely to hold their long-term value. 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 capital appreciation.

Since inception, 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)

In addition to the fees payable to its Investment Manager, 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

30 April 2019	%	31 July 2019	%
NetEase	9.5	NetEase	8.2
XPO Logistics	5.7	XPO Logistics	6.1
AbbVie	5.2	Naspers	5.5
Naspers	5.0	AbbVie	4.4
Celgene	4.5	Sberbank of Russia	3.9
Autohome	3.9	British American Tobacco	3.4
Sberbank of Russia	3.7	Celgene	3.3
Imperial Brands	3.0	Autohome	3.1
Facebook	3.0	Facebook	2.9
Vale	2.8	Anthem	2.8
Total	46.1	Total	43.6

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.

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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