

# Orbis Emerging Markets Equity

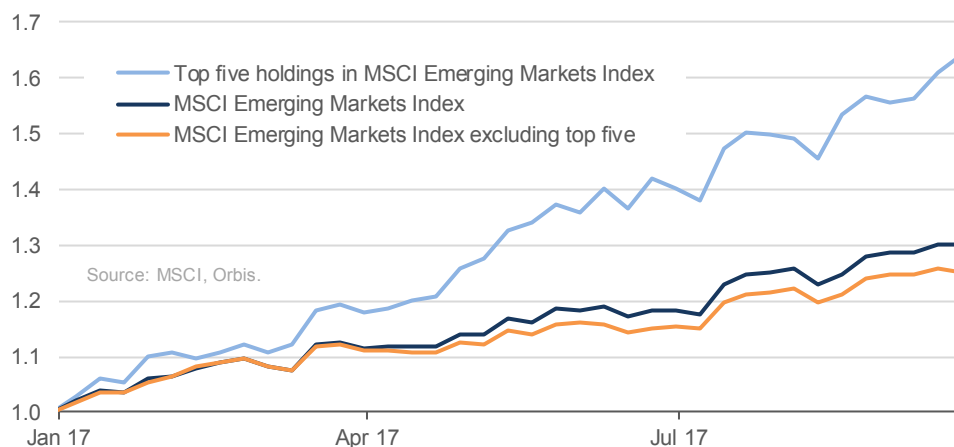
We launched our Emerging Markets Equity Strategy in 2016 because we believed emerging market (EM) equities offered excellent long-term investment opportunities that we were well positioned to pursue. For a few weeks, our timing looked foolish as EM stocks sold off, but they have rallied since early 2016, and are up a cumulative 42% since the start of that year. Most of that good performance has come in 2017, and so far this year, your Strategy has lagged. At such times, it's helpful to consider how we invest, and the recent market environment.

We build the portfolio by comparing the attractiveness of individual ideas. Our favourite ideas have the highest weights, and if we aren't confident that a stock trades at a discount to its intrinsic value, we don't buy it at all. This competition for capital has little to do with a stock's weight in the benchmark, which naturally increases if the stock outperforms. Attractively priced shares could be small index constituents, or they might be big in the benchmark. In building the portfolio, benchmark weights don't really matter to us. But they do matter when calculating relative returns. Since the portfolio can differ substantially from its benchmark, so too can its performance, especially in the short term.

"Mega-cap" outperformance has been a notable feature of EM stockmarkets so far this year. The MSCI EM Index comprises over 800 stocks, but its five largest constituents—currently Tencent, Samsung Electronics, Alibaba, Taiwan Semiconductor Manufacturing Corporation (TSMC), and Naspers—make up nearly 20% of the total capitalisation. These five companies' shares have performed particularly well, as shown in the chart below. It has been difficult to generate outperformance without being overweight these stocks: in the first nine months of this year less than 40% of all EM shares outperformed, the lowest proportion in any calendar year since 2005.

## Mega caps have trounced other emerging market shares

USD total returns of the MSCI Emerging Markets Index, its top five constituents by weight, and the rest of the Index, Jan 2017 to Sep 2017



The surge in mega-cap shares may well have resulted from large inflows into EMs from global investors seeking higher returns by buying the largest and most liquid EM shares. So far this year, tens of billions of dollars have flowed into EM equities. These trends could persist, but rather than try to predict the magnitude and direction of EM flows, we prefer instead to focus on our core skill: assessing the relationship between the share price and fundamentals of individual businesses.

This approach resulted in the Strategy holding four of the five mega-cap shares at the start of the year: Tencent, Samsung Electronics, Naspers, and TSMC. When we stacked them up against other opportunities, they were attractive enough to earn a place in the portfolio, but they were not the very best ideas we could find. As a result, they collectively accounted for less than 10% of the Strategy. While many of the mega-cap shares have subsequently increased their intrinsic value, we continue to believe that other EM shares—which have lagged the mega-caps—continue to look more attractive from a long-term perspective.

A similar story has played out in individual countries, particularly Korea. Samsung Electronics is the goliath of the Korean stockmarket, accounting for over a fifth of the local market index. The Korean stockmarket has performed well this year, and its 20% absolute return has been largely driven by a more than 40% return for Samsung. The Strategy owned



## Orbis Emerging Markets Equity (*continued*)

Samsung's shares until the end of Q1 2017, when it exited the position. Samsung remains held in other Orbis Strategies which have different mandates and opportunity sets.

We think it is imperative that a stock's long-term return potential is the key factor that determines its weighting in our Funds' portfolios. By contrast, passive funds—which aim to be invested in the benchmark and have attracted five times more capital than active funds in EMs this year—are insensitive to the price they pay for shares and, by their very nature, support outperformers. We make them compete for capital on the same terms as every other share. As Samsung delivered strong performance, we reallocated capital to other attractive EM shares.

We have found greater value in shares like Kiwoom Securities, a leading Korean online brokerage company and a 4% position in the Strategy. Throughout its history, Kiwoom has grown its intrinsic value faster than the market by dominating online brokerage—where it claims 25% market share—and proactively seizing new business opportunities in mutual savings banking and asset management. Over the past decade its return on equity has averaged 15% per annum and we believe it can sustain this performance over our long-term investment horizon, yet its market value is a modest 1.1 times the value of its net assets. Kiwoom faces significant risks—including that of a conflict with North Korea—but we believe the balance of risk and potential long-term rewards is favourable.

Taking a fine-tooth comb to the market also gives us the opportunity to avoid low-quality companies—particularly relevant in the EM universe, where corporate governance and transparency standards diverge meaningfully. Kiwoom's management team retains a meaningful ownership stake, which we view positively because we look to align ourselves with high-quality management teams that have "skin in the game". Yet this has the effect of lowering the company's "investible" market capitalisation, and with it the stock's weighting in the benchmark.

Our conviction that our bottom-up, fundamental stock-picking approach is well suited to capitalising on investment opportunities in EMs is even stronger today than when we launched the EM Equity Strategy. A selective approach allows us to invest in a collection of businesses that must each stand up to careful scrutiny to earn their place in the portfolio—a competition for capital that we believe bodes well for long-term returns.

Commentary contributed by Woojin Choi, Orbis Investment Management (Hong Kong) Limited, Hong Kong

*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 SICAV Emerging Markets Equity Fund

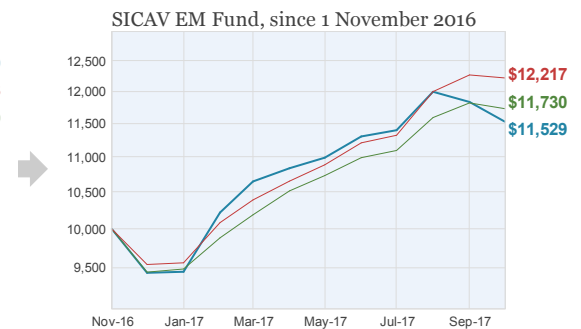
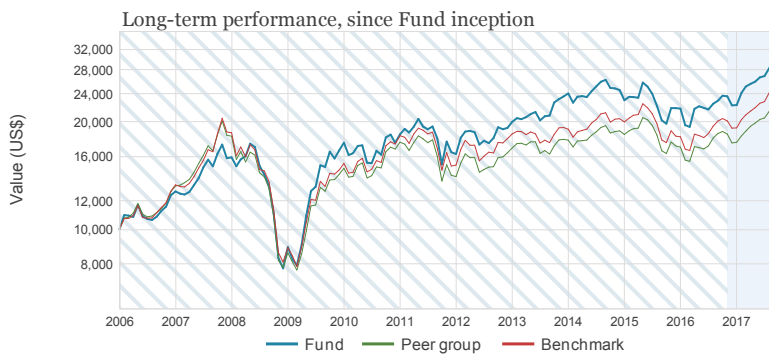
The Fund seeks higher returns than the average of the equity stock markets of the world's emerging market countries, without greater risk of loss. The benchmark is the MSCI Emerging Markets Index, including income, net of withholding tax ("MSCI Emerging Markets Index"). Currency exposure is managed relative to that of the MSCI Emerging Markets Index.

Price	US\$25.71
Pricing currency	US dollars
Domicile	Luxembourg
Type	SICAV
Share class	Investor Share Class
Fund size	US\$3.3 billion
Fund inception	1 January 2006
Strategy size	US\$3.3 billion
Strategy inception	1 January 2016

Benchmark	MSCI Emerging Markets Index
Peer group	Average Global Emerging Markets Equity Fund Index
Minimum investment	US\$50,000
Dealing	Weekly (Thursdays)
Entry/exit fees	None
UCITS IV compliant	Yes
ISIN	LU0241795839

On 1 November 2016, the Fund broadened its investment strategy from Asia ex-Japan equities to Emerging Market equities. To reflect this, the Fund changed its name from the Orbis SICAV Asia ex-Japan Equity Fund to the Orbis SICAV Emerging Markets Equity Fund, its benchmark from the MSCI All Country Asia ex Japan (Net) (US\$) Index to the MSCI Emerging Markets Index and its peer group from the Average Asia ex-Japan Equity Fund Index to the Average Global Emerging Markets Equity Fund Index. Data for the period before 1 November 2016 relates to the Fund, and applicable benchmark and peer group, prior to the change in strategy. Please refer to the prospectus for further details.

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



The striped area in the graph above relates to the performance of the Fund, and applicable benchmark and peer group, prior to the broadening of the Fund's investment strategy from Asia ex-Japan equities to Emerging Market equities on 1 November 2016.

## Returns<sup>1</sup> (%)

	Fund	Peer group	Benchmark
<b>Annualised</b>		Net	Gross
Since Fund inception	8.9	6.8	8.0
10 years	5.3	1.7	2.9
5 years	7.1	6.4	7.0
3 years	3.0	5.2	7.2
1 year	14.8	15.3	20.3
<b>Not annualised</b>			
Since SICAV EM (1 Nov 2016)	15.3	17.3	22.2
Calendar year to date	22.0	23.7	27.8
3 months	1.1	5.7	7.9
1 month	(2.6)		(0.4)

	Year	%
Best performing calendar year since Fund inception	2009	96.4
Worst performing calendar year since Fund inception	2008	(44.0)

## Risk Measures<sup>1</sup>, since Fund inception

	Fund	Peer group	Benchmark
Largest drawdown (%)	55	62	62
Months to recovery	20	90	81
Annualised monthly volatility (%)	22.7	20.8	21.5
Beta vs benchmark	1.0	1.0	1.0
Tracking error vs benchmark (%)	7.8	2.8	0.0

## Fees & Expenses<sup>1</sup> (%), for last 12 months

Management fee <sup>2</sup>	1.53
For 3 year performance in line with benchmark	1.50
For 3 year outperformance/(underperformance) vs benchmark	0.03
Fund expenses	0.12
<b>Total Expense Ratio (TER)</b>	<b>1.64</b>

## Geographical & Currency Allocation (%)

Region	Equity	Currency	Benchmark
China/Hong Kong	36	33	30
Korea	23	23	15
Rest of Asia	9	9	8
Europe & Middle East	8	8	8
Taiwan	6	6	12
Africa	6	6	6
India	5	5	8
Latin America	2	6	13
Other	4	4	0
Net Current Assets	2	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Top 10 Holdings

	MSCI Sector	%
Baidu	Information Technology	7.3
NetEase	Information Technology	7.1
Korea Electric Power	Utilities	5.3
Sohu.com	Information Technology	4.2
KB Financial Group	Financials	4.0
Lotte Shopping	Consumer Discretionary	3.8
Kiwoom Securities	Financials	3.7
Jardine Matheson Holdings	Industrials	3.7
Newcrest Mining	Materials	3.6
Genting Berhad	Consumer Discretionary	3.2
<b>Total</b>		<b>46.0</b>

## Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	82
Total number of holdings	46
12 month portfolio turnover (%) <sup>1</sup>	55
12 month name turnover (%) <sup>1</sup>	33
Active share (%)	85

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.

<sup>1</sup> Orbis SICAV Asia ex-Japan Equity Fund and its corresponding benchmark and peer group data used for the period prior to 1 November 2016.

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



# Orbis SICAV Emerging Markets 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.

<b>Manager</b>	Orbis Investment Management (Luxembourg) S.A.
<b>Investment Manager</b>	Orbis Investment Management Limited
<b>Inception date</b>	1 January 2006
<b>Number of shares (Investor Share Class)</b>	33,953,574
<b>Income distributions during the last 12 months</b>	None

*On 1 November 2016, the Fund broadened its investment strategy from Asia ex-Japan equities to Emerging Market equities. To reflect this, the Fund changed its name from the Orbis SICAV Asia ex-Japan Equity Fund to the Orbis SICAV Emerging Markets Equity Fund and its benchmark from the MSCI All Country Asia ex Japan (Net) (US\$) Index to the MSCI Emerging Markets Index.*

## Fund Objective and Benchmark

The Fund seeks higher returns than the average of the equity stock markets of the world's emerging market countries, without greater risk of loss. The MSCI Emerging Markets Index, including income net of withholding tax, is the Fund's benchmark (the "MSCI Emerging Markets Index"). This index also includes exposure to the currencies associated with its constituent stockmarkets. The mix of currencies in the MSCI Emerging Markets Index is the Fund's "currency benchmark". The currency benchmark represents the mix of currencies in which the Fund would invest if the Investment Manager were impartial between all currencies. In practice, the Fund's currency exposure is managed relative to the currency benchmark.

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

The Fund is actively managed and is designed to remain continuously invested in, and exposed to all the risks and rewards of, selected Emerging Market equities. The Fund expects to be not less than 90% invested in Emerging Market equity and equity-linked investments. The Fund identifies Emerging Market equity and equity-linked investments as those investments that are issued by a corporate body or other entity domiciled or primarily located in a country represented in the MSCI Emerging Markets Index or the MSCI Frontier Markets Index (together, "Emerging Markets"), traded or listed on an exchange in an Emerging Market or issued by a corporate body or other entity whose business is significantly linked to Emerging Markets. 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 and may therefore use forward currency contracts to provide protection against exchange risks in the context of the management of its assets and liabilities.

The Fund does not seek to mirror the MSCI Emerging Markets Index and may deviate meaningfully from it in pursuit of superior long-term capital appreciation.

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 aimed at investors who are seeking a portfolio the objective of which is to be invested in, and exposed to, Emerging Market securities.
- 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's various share classes bear different management fees. The fees are designed to align the Manager's and Investment Manager's interests with those of investors in the Fund. With respect to the Fund's Investor Share Class, the fee is structured as follows: a fee is charged based on the net asset value of the class. The fee rate is calculated weekly by comparing the class' performance over three years against the MSCI All Country Asia ex Japan (Net) (US\$) Index prior to 1 November 2016 and against the MSCI Emerging Markets Index thereafter. For each percentage point of three year performance above or below that benchmark's performance, 0.04 percentage points are added to or deducted from 1.5%, subject to the following limits:

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

For a description of the management fee borne by the Fund's other share classes, please refer to the Fund's Prospectus.

## Fees, Expenses and Total Expense Ratio (TER)

The relevant class within the Fund bears all expenses payable by such class, which shall include but not be limited to fees payable to its Manager, Investment Manager and additional service providers, fees and expenses involved in registering and maintaining governmental registrations, taxes, duties and all other operating expenses, including the cost of buying and selling assets.

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 0.75% of the net asset value of the Fund 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 class 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 June 2017	%	30 September 2017	%
NetEase	7.0	Baidu	7.3
Baidu	6.5	NetEase	7.1
Korea Electric Power	6.1	Korea Electric Power	5.3
Kiwoom Securities	4.9	Sohu.com	4.2
Lotte Shopping	4.8	KB Financial Group	4.0
Sohu.com	4.6	Lotte Shopping	3.8
KB Financial Group	4.5	Kiwoom Securities	3.7
JD.com	3.5	Jardine Matheson Holdings	3.7
Tencent Holdings	3.4	Newcrest Mining	3.6
Jardine Matheson Holdings	3.3	Genting Berhad	3.2
<b>Total</b>	<b>48.5</b>	<b>Total</b>	<b>46.0</b>

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# Orbis SICAV Emerging Markets 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 Depository is Citibank Europe plc, Luxembourg Branch, 31 Z.A. Bourmicht, L-8070 Bertrange, Luxembourg. 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 by share class, normally as of 5:30 pm (Bermuda time) (i) in the case of the Investor Share class, each Thursday (or, if a Thursday is not a business day, the preceding business day), (ii) in the case of the Refundable Reserve Fee Share Classes, the first Thursday of each calendar month and any other Thursday on which an investor transacts in such class (or, if a Thursday is not a business day, the preceding business day), (iii) on the last calendar day of each month (or, if that is not a weekday, the preceding weekday) and/or (iv) any other days in addition to (or substitution for) any of the days described in (i), (ii) or (iii), 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](http://www.allangray.co.za),
- from the Orbis website at [www.orbis.com](http://www.orbis.com),
- by e-mail, by registering with Orbis for this service at the Orbis website at [www.orbis.com](http://www.orbis.com), and
- from Bloomberg.

## Legal Notices

Returns are net of Investor Share Class 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. Neither the Manager nor the Investment Manager provides any 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](http://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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