

## Orbis Emerging Markets Equity

Despite outperforming modestly in the past quarter, the Orbis Emerging Markets Equity Strategy has still lagged the MSCI Emerging Markets Index by approximately 10% since early 2017. As frustrating as these periods are, we view them as an inherent characteristic of our long-term, contrarian investment approach.

We invest in a concentrated portfolio of shares that we believe to be undervalued, and do not buy the vast majority of the shares in the benchmark. This inevitably means that our funds' performance will often look different from their benchmarks. As a result, it is easy for us to look foolish, and for our clients to feel uncomfortable.

All of our strategies have experienced similar periods of underperformance in the past. Our Asia ex-Japan Strategy underperformed by more than 10% on three occasions in its 10-year history and our Global Equity Strategy has experienced eight such periods in the past 28 years. While we cannot predict when performance will turn, we can assure our clients that we will continue to learn from our mistakes and apply the same investment philosophy that has served the funds well over nearly three decades.

The recent underperformance has been driven by stock-specific issues. Three stocks—Noble Group, NetEase and Korea Electric Power (KEPCO)—have been among the biggest detractors. When a stock has underperformed, our analysts do what they always do. They focus on what they can control: comparing the share price with their updated estimate of the stock's intrinsic value, and taking action if appropriate. We have added to the holdings in NetEase and KEPCO, as we believed these shares traded at a deeper discount to intrinsic value, and we will discuss both later in this report. By contrast, we recently exited the position in Noble, having lost confidence in management's ability and intentions.

### **Noble Group: lessons learned**

Noble is now the largest detractor since the inception of the Emerging Markets Strategy. Getting an investment thesis wrong is a fact of life for us. Even when things are going well, two in every five of our picks may be losers—that is the nature of making investment decisions under uncertainty. But Noble is an outlier, and it is important for us to identify and explain the lessons we have learned.

We built a substantial position in Noble, a commodity trading company, in 2013. At the time, it had sold off by roughly half from its 2011 share price peak, and a valuation of 11 times depressed earnings reflected investor scepticism about the company's planned transition from an asset-intensive business to a more asset-light one. The sale of a controlling stake in its loss-making agribusiness at an attractive valuation reinforced our view that the strategy was appropriate.

Against a backdrop of very weak commodity markets (the S&P Commodity Index fell by 60% in 18 months from 2014-16), concerns about the company's accounting constrained its access to financing and made its debt burden unsustainable. The resulting decision to shrink the company's operations led to unexpected losses, and asset disposals took place at fire-sale prices. The ongoing debt restructuring will leave shareholders with only 20% of the company and our funds with a near-total loss of their investment in the company.

Our experience with Noble provides a potent reminder never to underestimate the risk of permanent capital loss in a "reflexive" business model. Its trading operation relied on the confidence of counterparties and banks to provide day-to-day financing. When that confidence was lost, funding dried up, sending the company into distress. Management failed to address this critical issue, and we should have downsized the position given this crucial vulnerability.

In this case, we also did not heed the simple adage that "there's never just one cockroach in the kitchen". The company's accounting policy turned out to be reflective of its culture, with misaligned employee incentives and risk management practices. We relied too much on the long-term track record of its chairman (also its founder and largest shareholder). This hindsight bias led us to underappreciate the changes that were taking place at the company, including management succession issues and culture drift.

Noble was a painful lesson. On the other hand, we believe the other big recent detractors, NetEase and KEPCO, will ultimately prove to be rewarding investments.

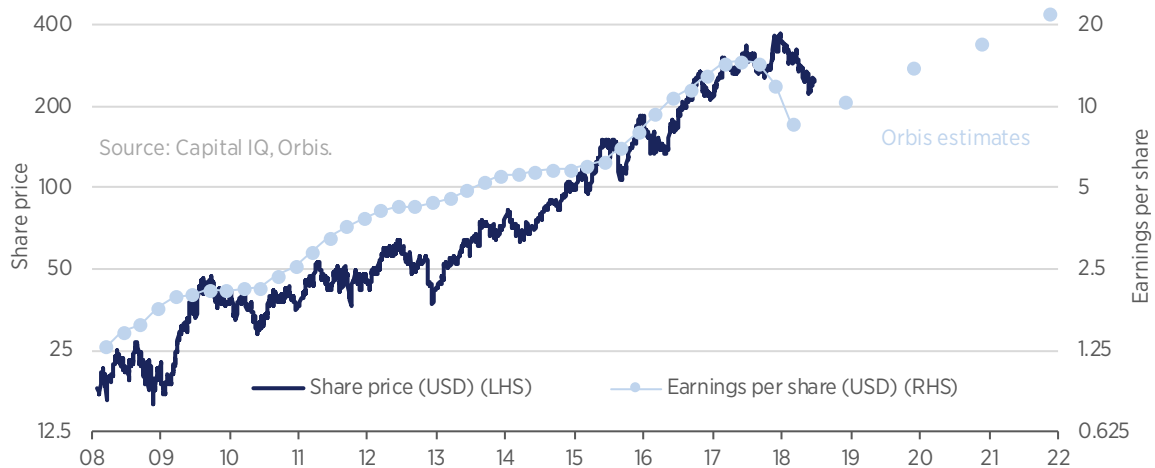
## Orbis Emerging Markets Equity (continued)

### NetEase: investing for long-term growth

NetEase, an online game and internet company, is a longstanding holding in the Orbis Funds and one of the largest contributors to relative performance since our initial purchase nearly ten years ago. As shown in the chart below, the company's share price has been highly correlated with its reported net profits, which have lately been depressed due to high levels of investment.

### NetEase: the share price closely tracks earnings

NetEase ADR price and trailing 12-month earnings per share, with estimates, 2008 to 2021



NetEase recently launched two “battle royale” games, a massively popular format where 100 players parachute into an ever-shrinking battlefield (think of the Hunger Games with guns). One of the company's titles boasts more than 50 million active players, and is the most downloaded game in 55 countries. Promoting the game has been expensive, resulting in a decline in profits that has disappointed many investors, but we think this is the right long-term move as it enables NetEase to expand its base of gamers, both across game categories and by geography. In time, we expect management's patience to benefit shareholders as marketing costs subside and profit growth resumes.

Management has also been making substantial investments in its e-commerce, music, and online education businesses, which we discussed last December. These investments should transform NetEase into a stronger internet platform with multiple diversified drivers of growth. For now, these businesses are loss-making. By focusing too much on their currently-elevated expenses, we believe investors risk ignoring their long-term value.

With a rock-solid balance sheet (net cash amounts to 15% of the company's market capitalisation), shares in NetEase trade at just 15 times the trailing earnings of its core games business, which we expect to grow at a double-digit annualised rate over our investment horizon. That assigns no value to the company's newer businesses, which have the potential to contribute meaningfully in time to its earnings and intrinsic value. We are encouraged by NetEase's recently increased share buyback programme which, at \$2 billion, is its largest ever and represents over 6% of the company at the current share price.

### KEPCO: short-term headwinds and regulatory uncertainty

KEPCO has underperformed amid the combination of ongoing regulatory uncertainty and a recent deterioration in its fundamentals. We believe the latter will turn out to be temporary. Demand from regulators for stricter maintenance checks led to lower utilisation of its cost-competitive coal and nuclear power plants. As the utilisation of these “base-load” power plants normalises, we expect KEPCO's profitability to improve.

Potentially more important from a long-term perspective is the possibility that Korea's new government will transform its energy policy. Currently KEPCO must provide (in our view, excessive) discounts to industrial users. In turn, this increases demand for electricity over other energy sources that may be better for wider society. Moreover, electricity prices don't reflect changes in volatile input prices. Introducing an input-cost-linked tariff system and reducing the current discounts to the industrial sector would enable Korea to have a much more sustainable energy consumption structure.

If this happens, the investment risk from regulatory uncertainty and volatile input prices would decline significantly. With shares in KEPCO trading at 0.3 times the value of its tangible net assets and 6 times our conservative estimate of its normalised earnings, such structural industry change isn't required for the shares to deliver favourable risk-adjusted returns.

**The importance of being patient**

NetEase and KEPCO collectively account for more than 15% of the portfolio. We hope that a deeper understanding of these positions will enable you to share some of our enthusiasm for the long-term opportunities that our analysts have identified. History has shown, and hopefully will again, that clients have been well rewarded for their patience.

Commentary contributed by Stefan Magnusson, Saurav Das, Stanley Lu and 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.*

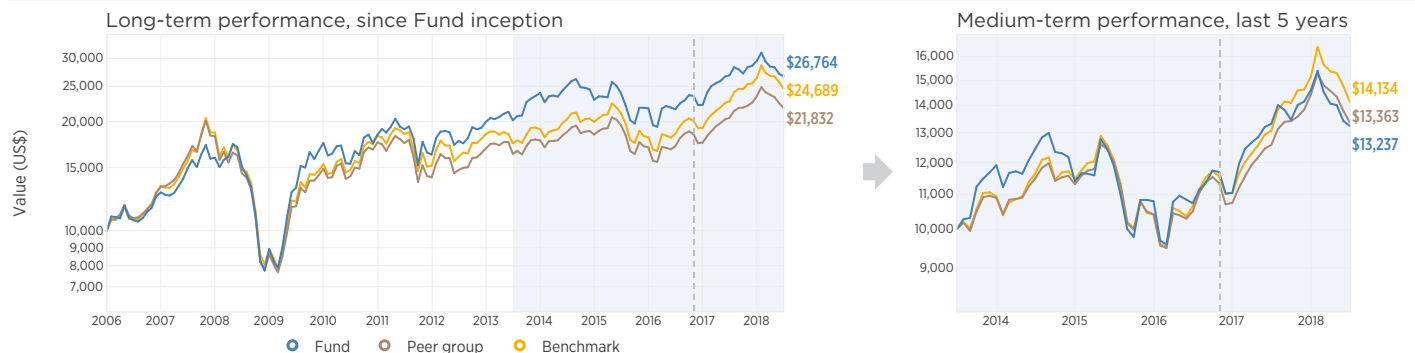
# Orbis SICAV Emerging Markets Equity Fund

The Fund seeks higher returns than the average of the equity 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 taxes ("MSCI Emerging Markets Index"). Currency exposure is managed relative to that of the MSCI Emerging Markets Index.

<b>Price</b>	US\$25.27	<b>Benchmark</b>	MSCI Emerging Markets Index
<b>Pricing currency</b>	US dollars	<b>Peer group</b>	Average Global Emerging Markets Equity Fund Index
<b>Domicile</b>	Luxembourg	<b>Minimum investment</b>	US\$50,000
<b>Type</b>	SICAV	<b>Dealing</b>	Weekly ( <i>Thursdays</i> )
<b>Share class</b>	Investor Share Class	<b>Entry/exit fees</b>	None
<b>Fund size</b>	US\$3.1 billion	<b>UCITS compliant</b>	Yes
<b>Fund inception</b>	1 January 2006	<b>ISIN</b>	LU0241795839
<b>Strategy size</b>	US\$3.1 billion		
<b>Strategy inception</b>	1 January 2016		

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



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

	Fund	Peer group	Benchmark
<b>Annualised</b>		<i>Net</i>	<i>Gross</i>
Since Fund inception	8.2	6.4	7.5
10 years	5.9	4.2	5.3
5 years	5.8	6.0	7.2
3 years	3.7	3.7	5.4
Since SICAV EM (1 Nov 2016)	7.8	10.5	13.0
1 year	(0.6)	6.3	8.2
<b>Not annualised</b>			
Calendar year to date	(9.3)	(7.3)	(6.7)
3 months	(5.9)	(8.3)	(8.0)
1 month	(1.4)		(4.2)

	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 (%)	22.2	20.4	21.1
Beta vs benchmark	1.0	1.0	1.0
Tracking error vs benchmark (%)	7.7	3.0	0.0

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

Management fee <sup>2</sup>	1.44
For 3 year performance in line with benchmark	1.50
For 3 year outperformance/(underperformance) vs benchmark	(0.06)
Fund expenses	0.11
<b>Total Expense Ratio (TER)</b>	<b>1.55</b>

## Geographical & Currency Allocation (%)

Region	Equity	Currency	Benchmark
China/Hong Kong	29	26	33
Korea	19	19	15
Africa	14	14	7
Rest of Asia	11	11	7
Europe & Middle East	11	11	8
Taiwan	8	8	12
India	2	2	9
Latin America	2	5	11
Other	3	4	0
Net Current Assets	1	0	0
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Top 10 Holdings

	MSCI Sector	%
NetEase	Information Technology	11.0
Naspers	Consumer Discretionary	10.7
Kiwoom Securities	Financials	6.3
Korea Electric Power	Utilities	5.1
Jardine Matheson Holdings	Industrials	4.9
Taiwan Semiconductor Mfg.	Information Technology	4.5
British American Tobacco	Consumer Staples	4.5
JD.com	Consumer Discretionary	3.8
Genting Berhad	Consumer Discretionary	3.7
Sohu.com	Information Technology	3.7
<b>Total</b>		<b>58.1</b>

## Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	91
Total number of holdings	34
12 month portfolio turnover (%)	53
12 month name turnover (%)	36
Active share (%)	89

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.

<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>	31,242,886
<b>Income distributions during the last 12 months</b>	None

## 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 ten-year period, 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

31 March 2018	%	30 June 2018	%
NetEase	9.8	NetEase	11.0
Naspers	8.4	Naspers	10.7
Kiwoom Securities	6.1	Kiwoom Securities	6.3
Korea Electric Power	5.4	Korea Electric Power	5.1
JD.com	5.2	Jardine Matheson Holdings	4.9
Taiwan Semiconductor Mfg.	4.6	Taiwan Semiconductor Mfg.	4.5
Jardine Matheson Holdings	4.4	British American Tobacco	4.5
British American Tobacco	4.1	JD.com	3.8
Olam International	3.7	Genting Berhad	3.7
Genting Berhad	3.5	Sohu.com	3.7
<b>Total</b>	<b>55.3</b>	<b>Total</b>	<b>58.1</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](mailto: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](mailto: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.

## 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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