



## Orbis Japan Equity

We like good businesses, and we like buying them when their strength isn't reflected in their prices. Sometimes good businesses are in obvious places—a pharmaceutical company with a string of successful discoveries, a consumer products firm with beloved brands, or a software company like Facebook which benefits from network effects. In Japan, good companies in domestically-oriented sectors are currently commanding high valuations—pharmaceutical stocks trade for 25 times earnings, for example. With quality domestic shares looking expensive, we have found better opportunities among quality companies in cyclical sectors.

Consider NGK Spark Plug and NGK Insulators. The former makes spark plugs and emissions sensors, and the latter makes parts for car exhausts. Once the same company, they have been independent since 1936. Both companies have been consistently profitable, with their core units earning >10% operating margins even through the global financial crisis. Yet auto parts are hardly a high-flying part of the market, and with electric vehicles becoming viable, auto parts for internal combustion engines are less sexy still.

This seems reflected in market sentiment. It is not very green to power cars by blowing up fossil fuels, so environmentally conscious consumers and regulators may push to adopt electric vehicles. A world where all cars are electric has no need for spark plugs or exhaust filters—a clear threat to NGK Spark Plug and NGK Insulators. While electric vehicles pose a risk, it's not certain that they will come to dominate the road. Even if they do, this could take decades, and there are other paths towards cleaner cars, including hybrids, that are more favourable for NGK Spark Plug and NGK Insulators. We believe the companies' prospects are well above average compared to the wider Japanese stockmarket.

### NGK Spark Plug

We were drawn to NGK Spark Plug because we believed it was very cheap. As the yen strengthened in the first half of 2016, sentiment soured on cyclicals. Although NGK Spark Plug's operating performance was solid, its valuation fell to 1.0 times book value, a level not seen since early 2013.

That attracted our interest, because the core auto parts business appeared very strong. NGK Spark Plug commands a 40% and growing share of the global spark plug market—triple the share of Bosch, its nearest competitor, which is allocating its research and development spending to other products.

Spark plugs are an attractive business. 75% of sales are replacements, and this aftermarket demand provides relatively resilient earnings. The number of gasoline-powered cars on the road is steadily growing, and is far more stable than the number of new cars sold each year. NGK Spark Plug also has good pricing power. If a spark plug is broken, the engine won't function properly, yet the cost of a spark plug (typically around US\$5-10) is very modest. Given this, customers are generally happy to pay for a reliable product.

Attractive industry characteristics often attract competition, so a key question with NGK Spark Plug is whether it can maintain its leading market position. We believe the answer is yes.

In a gasoline engine, the spark plug ignites the mixture of fuel and air in the cylinder. Creating a spark requires a metal electrode, but the key part is the electrical insulator that surrounds the electrode. This ceramic component is tricky to produce.

Ceramics are made by heating material then allowing it to cool. As the material changes temperature, its properties change. It is a fickle process, and one that is difficult to complete at a large scale. In a spark plug, ceramic insulators are exposed to thousands of explosions per minute, and auto manufacturers are pushing for thinner, lighter, and longer spark plugs as engines become more compact. These requirements make it even more difficult to produce good ceramic insulators. NGK Spark Plug has this ceramic production expertise, which is hard to replicate and should help sustain the company's competitive position.

That whole market could be weakened by electric vehicles, but even if that happens, it could take decades. In the meantime, emerging markets are still in the early stages of car adoption, and the cars available now are conventional. This should lead to increasing numbers of gasoline-powered cars on the road, supporting long-term replacement demand for NGK Spark Plug.

Electric vehicles aside, NGK Spark Plug is a beneficiary of tighter emission standards. Its other core business is building air sensors for car exhaust systems. These sensors detect whether an engine is operating efficiently and cleanly, and as



## Orbis Japan Equity *(continued)*

with spark plugs, ceramic expertise is crucial to their production. As regulators push for cleaner cars, automakers have an incentive to install more sophisticated sensors, particularly for hybrids.

With NGK Spark Plug's technological edge, leading and growing market share, stable demand from aftermarket sales, growth from car adoption in emerging markets, and favourable exposure to tighter emission standards, we believe its fundamental prospects will remain strong. The stock's valuation has risen substantially since our initial purchase, narrowing the discount to intrinsic value. Today, NGK Spark Plug trades at 14 times our estimate of this year's earnings—not obviously cheap, but for an above-average business, we believe this represents reasonable long-term value.

### **NGK Insulators**

Our thesis on NGK Insulators has some similarities with our work on NGK Spark Plug. NGK Insulators sold off in 2016 following poor short-term trading in its electronics and batteries segments that pushed its valuation well below its long-term average. The company's president is determined to cut costs in these non-core units, which should aid overall profitability, letting the strength of the core auto parts business shine through.

We believe that auto parts business is high quality. NGK Insulators makes nitrogen oxide sensors similar to those made by NGK Spark Plug, plus two other key auto parts: honeycombs used in catalytic converters and diesel particulate filters (DPFs). Each of these businesses is dominated by two or three companies globally, and NGK Insulators has a number one or two global market share for each product. Competitors are rational, and the industry is protected against new entrants by the need for expertise in ceramic production, large initial capital expenditures, and long lead times for orders with automakers. Again, it's helpful to understand the products.

In a gasoline- or diesel-powered vehicle, a catalytic converter sits between the engine and the exhaust pipe and converts the toxic gases from the engine into less noxious forms. This is done by exposing the gases to a catalyst chemical. To convert the gases efficiently, it's important to maximise the surface area for the catalyst. This is the job of the honeycomb—a ceramic structure with thousands of tiny passages for air to flow through. Honeycomb walls are less than one-tenth of a millimetre thick, yet they must endure the high temperatures and constant flow of the exhaust gas. Making them is difficult, and NGK Insulators and Corning dominate the honeycomb market.

DPFs trap soot from diesel engines, which are dirtier than gasoline ones. While most passenger cars use gasoline, most commercial vehicles—lorries, trucks, and bulldozers—use diesel. In many countries, emissions from commercial vehicles have been unregulated or lightly regulated for many years. As those (mainly emerging) markets grow increasingly concerned about pollution, demand for filters should grow.

We believe the favourable characteristics of the honeycomb market will persist, though compared to spark plugs, it is more sensitive to sales of new conventionally-powered vehicles. For this reason, NGK Insulators' honeycomb business would be hit sharply by a rapid rise in electric vehicle sales. But electric motors aren't viable for fifty ton trucks, so the DPF business in commercial vehicles should be resilient to this, and as with NGK Spark Plug, NGK Insulators is a beneficiary of wider measures to cut emissions.

In particular, the company should benefit as increased regulation in developed markets should spur demand for a new product—gasoline particulate filters. To date, gasoline cars haven't needed filters, but some innovations used to make gasoline engines more fuel-efficient also make their exhaust gas look like that of a diesel London cab. This comes at a time when governments are growing increasingly sensitive to emissions. The result is likely to be a completely new product market for NGK Insulators, and a very big one. Because gasoline-powered cars greatly outnumber diesels, sales of gasoline particulate filters could become even larger than sales for passenger vehicle DPFs.

With a strong market position and long-term tailwinds from tighter emission standards and increasing use of gasoline particulate filters, we believe NGK Insulators' growth potential is significantly better than that of the wider market. Given those prospects and our investment horizon, we believe its current price represents an attractive discount to intrinsic value.

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

*This report does not constitute a recommendation to buy, sell or hold any interests, shares or other securities in the companies mentioned in it nor does it constitute financial advice.*



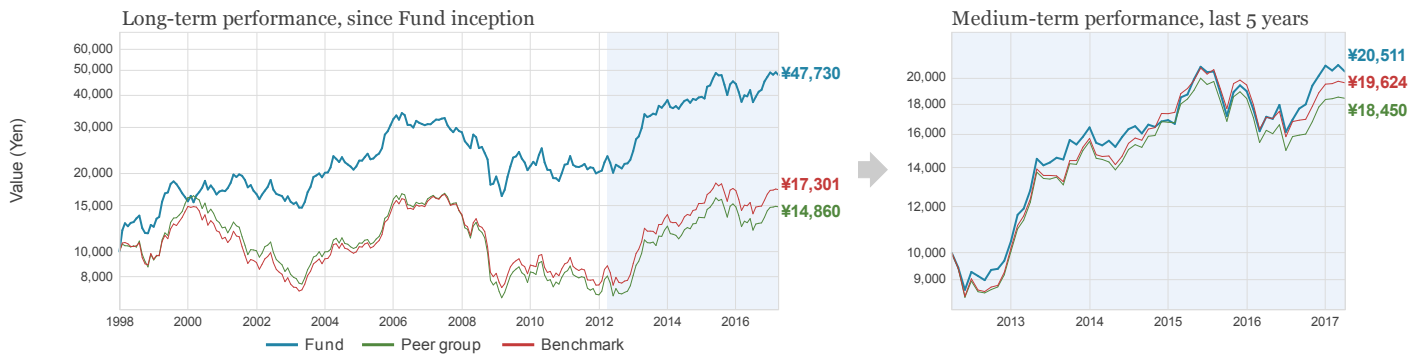
# Orbis SICAV Japan Equity (Yen) Fund

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").

<b>Price</b>	¥4,773	<b>Benchmark</b>	TOPIX
<b>Pricing currency</b>	Japanese yen	<b>Peer group</b>	Average Japan Equity Fund Index
<b>Domicile</b>	Luxembourg	<b>Minimum investment</b>	US\$50,000
<b>Type</b>	SICAV	<b>Dealing</b>	Weekly (Thursdays)
<b>Share class</b>	Investor Share Class	<b>Entry/exit fees</b>	None
<b>Fund size</b>	¥190 billion	<b>UCITS IV compliant</b>	Yes
<b>Fund inception</b>	1 January 1998	<b>ISIN</b>	LU0160128079
<b>Strategy size</b>	¥218 billion		
<b>Strategy inception</b>	1 January 1998		

See Notices for important information about this Fact Sheet

## Growth of ¥10,000 investment, net of fees, dividends reinvested



## Returns (%)

	Fund	Peer group	Benchmark
<b>Annualised</b>			
	<i>Net</i>		<i>Gross</i>
Since Fund inception	8.5	2.1	2.9
15 years	7.1	2.4	4.2
10 years	4.0	(0.8)	0.8
5 years	15.5	13.0	14.4
3 years	9.6	8.8	10.2
1 year	19.6	13.5	14.7
<b>Not annualised</b>			
3 months	(2.3)	0.5	0.6
1 month	(2.6)		(0.6)

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

## Sector Allocation (%)

Sector	Fund	Benchmark
Cyclicals	49	40
Consumer Non-Durables	25	22
Information and Communications	15	8
Financials	10	13
Technology	0	15
Utilities	0	2
<i>Net Current Assets</i>	<i>1</i>	<i>0</i>
<b>Total</b>	<b>100</b>	<b>100</b>

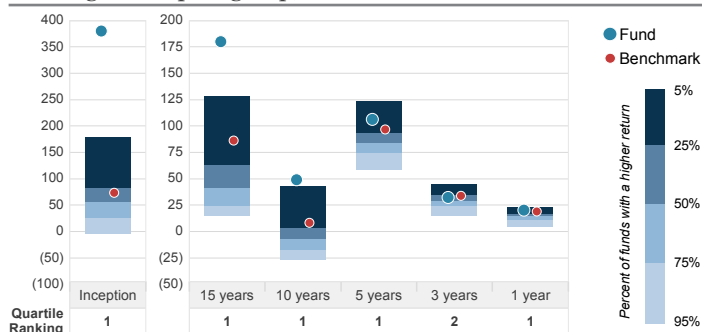
## Top 10 Holdings

Company	Sector	%
Daito Trust Construction	Cyclicals	8.3
Mitsubishi	Consumer Non-Durables	8.3
NEXON	Information and Communications	8.3
Nissan Motor	Cyclicals	8.0
Honda Motor	Cyclicals	6.8
INPEX	Cyclicals	4.9
Sumitomo Mitsui Fin.	Financials	4.9
Sumitomo	Consumer Non-Durables	4.9
Nippon Television Holdings	Information and Communications	4.6
Ship Healthcare Holdings	Consumer Non-Durables	4.1
<b>Total</b>		<b>63.1</b>

## Risk Measures, since Fund inception

	Fund	Peer group	Benchmark
Largest drawdown (%)	52	60	56
Months to recovery	90	>117 <sup>1</sup>	93
% recovered	100	81	100
Annualised monthly volatility (%)	18.7	18.5	18.0
Beta vs benchmark	0.9	1.0	1.0
Tracking error vs benchmark (%)	9.7	2.7	0.0

## Ranking within peer group, cumulative return (%)



## Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	97
Total number of holdings	28
12 month portfolio turnover (%)	56
12 month name turnover (%)	41
Active share (%)	87

## Fees & Expenses (%), for last 12 months

Management fee <sup>2</sup>	1.76
For 3 year performance in line with benchmark	1.50
For 3 year outperformance/(underperformance) vs benchmark	0.26
Fund expenses	0.09
<b>Total Expense Ratio (TER)</b>	<b>1.85</b>

**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> Number of months since the start of the drawdown. This drawdown is not yet recovered.

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



# Orbis SICAV Japan 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>Portfolio Manager</b>	Orbis Investment Management (B.V.I.) Limited		
<b>Inception date</b>	1 January 1998		
<b>Number of shares (Investor Share Class)</b>	<b>Yen Class:</b>	19,680,000	<b>Euro Class:</b> 6,537,904
<b>Income distributions during the last 12 months</b>	None		

## Fund Objective and Benchmarks

The Yen Classes of the Fund seek higher returns in yen than the Japanese stockmarket, without greater risk of loss. The Euro Class of the Fund seeks higher returns than the Japanese stockmarket hedged into euro, without greater risk of loss. The TOPIX (gross) (the "TOPIX Yen") is the Yen Class' benchmark, while the TOPIX (gross) hedged in euro (the "TOPIX Euro") is the benchmark of the Euro Class.

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

The Fund is actively managed and is designed to remain continuously fully invested in, and exposed to all the risks and rewards of, selected Japanese equities. The Fund identifies as Japanese equities those equities of companies which are domiciled in Japan, whose securities trade on a Japanese stockmarket or whose business is primarily located in or linked to Japan. These equities are selected using extensive proprietary investment research undertaken by the Portfolio 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 Portfolio Manager believes that over the long term, equity investing based on this approach offers superior returns and reduces the risk of loss.

All share classes invest in a portfolio of Japanese equities selected by the Portfolio Manager. However, while the currency exposure of the Yen Classes remains as fully exposed to the yen as practicable, the Euro Class is hedged into, and therefore largely exposed to, the euro. The Euro Class is designed for investors who measure their returns in euro and who wish to be invested in Japanese equities without being exposed to fluctuations in the yen-euro exchange rate.

The Fund does not seek to mirror the TOPIX Yen/TOPIX Euro 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, both the Yen and Euro Classes have outperformed their respective benchmarks 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 fully invested in, and exposed to, Japanese equities at all times.
- Investments in the Fund may suffer capital loss.
- Investors should understand that the Portfolio 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 Portfolio Manager's interests with those of

investors in the Fund. With respect to the Fund's Investor Share Classes, 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 TOPIX Yen or TOPIX Euro, as applicable. 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, Portfolio 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. However, the Manager and the Portfolio Manager have agreed that in the current calendar year, except for specified exclusions, operating expenses attributable to the Fund's Investor Share Classes will be capped at 0.20%. Please refer to the Fund's Prospectus for a description of the fee cap applicable to its other share classes. Each cap will be automatically extended for further successive one year periods unless terminated by the Manager or the Portfolio Manager at least three months prior to the end of the then current term. The operating expenses that are capped are all expenses, excluding the Manager's and Portfolio Managers' fees described above under "Management Fee," the cost of buying and selling assets, interest and brokerage charges.

Where an investor subscribes or redeems an amount representing 5% or more of the net asset value of the Fund, the Portfolio Manager may cause the Fund to levy a fee of 0.25% 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 December 2016	%	31 March 2017	%
Mitsubishi	8.2	Daito Trust Construction	8.3
NEXON	7.6	Mitsubishi	8.3
Nissan Motor	7.4	NEXON	8.3
Daito Trust Construction	6.9	Nissan Motor	8.0
Honda Motor	5.7	Honda Motor	6.8
Nippon Television Holdings	5.0	INPEX	4.9
Sumitomo	4.7	Sumitomo Mitsui Fin.	4.9
Sumitomo Mitsui Fin.	4.7	Sumitomo	4.9
INPEX	4.5	Nippon Television Holdings	4.6
Toyota Motor	4.3	Ship Healthcare Holdings	4.1
<b>Total</b>	<b>59.0</b>	<b>Total</b>	<b>63.1</b>

**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 SICAV Japan 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 Portfolio 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 Classes, 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 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 or €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 Portfolio Manager provides any guarantee with respect to capital or the Fund's returns. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. 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 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 (B.V.I.) Limited, the Fund's Portfolio 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 (B.V.I.) Limited, the Fund's Portfolio Manager, is licensed to conduct investment business by the Bermuda Monetary Authority.

## Fund Information

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

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

TOPIX Stock Price Index, including income ("TOPIX"): Tokyo Stock Exchange. TOPIX hedged into euro is 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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