

Orbis Japan Equity

In our hunt for misunderstood companies, we often start with the numbers. Consider the contrast below.

Looking for misunderstood companies? Start with the numbers

	Average return on tangible book value	Price / tangible book value	Price / trailing earnings	Current margin/ average margin	Dividend yield
TOPIX	8%	1.7x	15x	1.4	1.9%
Iida Group Holdings	15%	1.2x	8x	1.0	3.1%

Source: Datastream, Nikkei Yuho, Orbis. TOPIX: weighted median values shown for each metric to represent the “typical” stock in the Japanese market.

Iida Group Holdings has historically generated better returns on equity than the average Japanese company, and its current margins are at historically normal levels rather than elevated. Yet the stock trades at 1.2 times its tangible book value, against 1.7 times for the TOPIX, at 8 times earnings against 15 times, and with a higher dividend yield. Why is it so cheap?

This is where our research process starts. If the future looks anything like the past, Iida should prove to be a much more rewarding investment than the typical stock in the market, so the stock’s valuation must reflect pessimism about its future prospects. Is that pessimism justified?

Here we turn to in-depth fundamental analysis. Iida, a top holding in Orbis Japan, is a manufacturer of built-for-sale detached houses. In the market’s view, the stock’s future prospects are obviously poor: everyone knows Japan’s population is declining, and as the population declines, demand for housing will too, pressuring profits for homebuilders.

We disagree with this assessment of the company, but not because we disagree with that birds-eye view of Japan. Housing demand may well fall—for the market as a whole. But parts of the market appear much more resilient, the built-for-sale segment in particular. Iida has been gaining market share within that segment, so while the overall pie may shrink, we think Iida can take a growing share of a defensible slice.

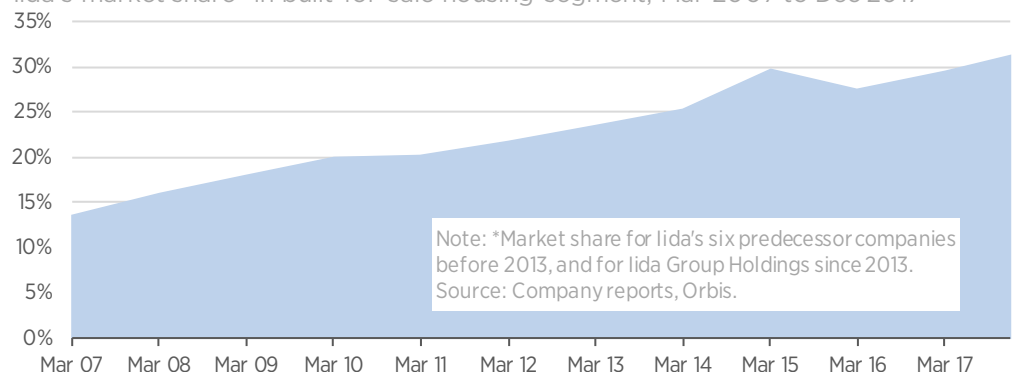
Built-for-sale houses are attractive for builders and buyers because they offer excellent value for money. These homes are built from a narrow set of standardised components, and with fewer components, builders save by buying in bulk, and can pass these savings onto customers. Economies of scale only increase the savings.

Iida is uniquely positioned to press the advantages of this business model. The company was formed in 2013 in a merger between six leading homebuilders. Each had the same business model and a shared heritage tracing back to Iida’s founder. On their own, the six companies were gaining market share, and as a group they grew shareholders’ equity 14% per annum between 2006 and 2013. But as each company grew, so did the price competition between them. Recognising the futility of competing, the companies’ leaders got together in 2013 and merged to form Iida Group Holdings.

To this day, the leaders of the “Iida cubs” remain the largest shareholders in Iida’s stock, with more than 50% of the company’s shares held by executives or the founding family. We view this positively—each executive delivered good results when the companies were independent, and together the group are savvy and shareholder-friendly capital allocators.

Iida has steadily gained market share

Iida’s market share* in built-for-sale housing segment, Mar 2007 to Dec 2017



Orbis Japan Equity (continued)

While each business continues to execute on the same business model, they have benefitted from sharing data, pooling their purchases, and avoiding excessive competition. This has improved lida's profitability, keeping its costs low even as the company gains market share.

As lida has continued to gain market share, its economies of scale have grown stronger, allowing the company to increase operational efficiency and negotiate better prices from suppliers. On the customer-facing side, lida manages the construction itself, ensuring cost and quality control rather than relying on outside contractors who may run up costs. And on the production side, lida's scale has made it worthwhile to invest in a timber factory, First Wood, to further lower costs. The result is that lida offers good-quality houses at very competitive prices. A typical lida home might cost \$270,000, including the cost of land, in commuter towns around big cities—a very attractive proposition for lida's customers.

The company can grow by simply continuing to execute on this approach, but we also see three ways for the company to enhance its growth potential: regional expansion, increased renovation work, and custom-built houses.

Historically, lida has focused on Tokyo, Osaka, and Nagoya, with little business in smaller cities. Yet regional cities offer good potential for building detached houses, as well as weaker competition from subscale local firms. The company recently began expanding into regional areas, and we believe this can support growth over the next three to five years.

lida also has untapped potential to grow its renovation business. In Japan, property buyers have typically demolished and rebuilt houses rather than maintaining them. Over time, however, the quality of homes has improved, making renovation an attractive alternative to rebuilding. Until recently, lida hadn't done much renovation, but with its leading market share, the company has a sizeable stock of houses which will eventually need renovation, and with its project management expertise, the company is well placed to meet this need.

That is not the only expansion we expect for lida. While the company has prospered in its built-for-sale niche (14% of housing starts), the custom-built house market is a far bigger prize, representing 44% of Japan's housing starts. The customer relationships are different, but we believe several of lida's strengths are transferable. Crucially, most "custom" houses are not dreamed up from scratch by an architect. A custom-built home will use standardised components too—just a wider range of them. In lida's case, many of the "custom" parts can be shared with the company's built-for-sale homes, so lida's procurement advantages should help to reduce costs for custom-built homes as well. Today the company has just 1% of the custom-built market. If it's able to gain market share, this could support meaningful long-term growth.

In lida, we see a business with better-than-average fundamentals, and when we examine those fundamentals, we believe the company's strength is sustainable. Yet its stock is available at a fraction of the broader market's valuation. Why is it so cheap? In our view, it shouldn't be.

Commentary contributed by Mitsuharu Tamashiro, Orbis Investments K.K., Tokyo

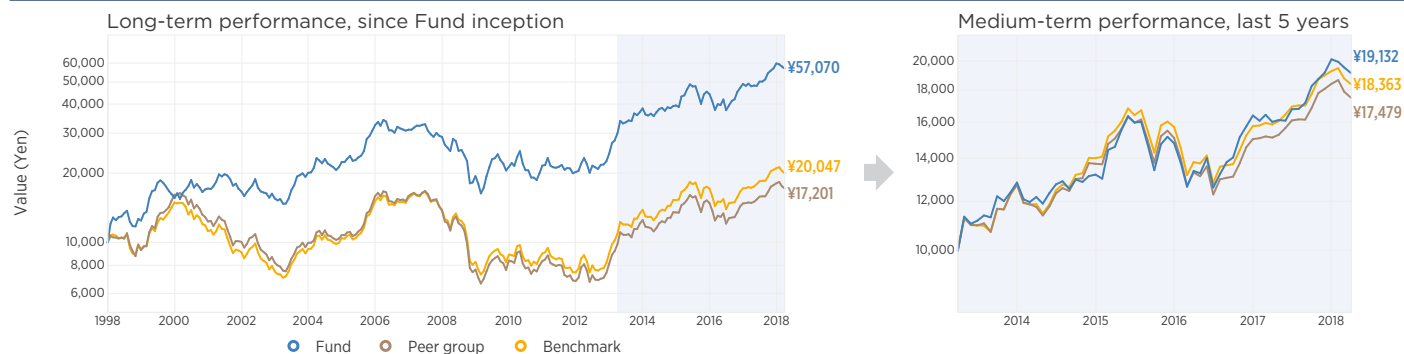
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Orbis SICAV Japan Equity (Yen) Fund

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

Price	¥5,707	Benchmark	TOPIX
Pricing currency	Japanese yen	Peer group	Average Japan Equity Fund Index
Domicile	Luxembourg	Minimum investment	US\$50,000
Type	SICAV	Dealing	Weekly (Thursdays)
Share class	Investor Share Class	Entry/exit fees	None
Fund size	¥194 billion	UCITS compliant	Yes
Fund inception	1 January 1998	ISIN	LU0160128079
Strategy size	¥205 billion		
Strategy inception	1 January 1998		

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



Returns (%)

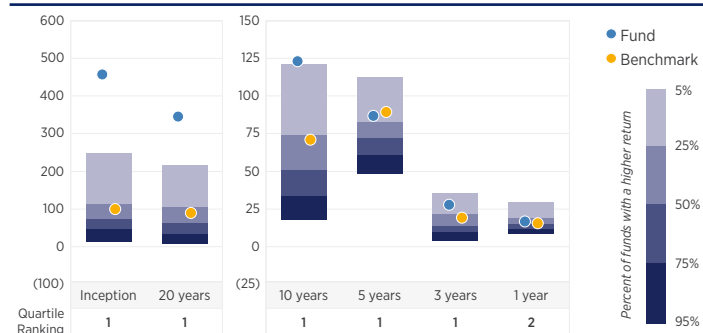
	Fund	Peer group	Benchmark
Annualised			
	Net		Gross
Since Fund inception	9.0	2.7	3.5
20 years	7.9	2.5	3.2
10 years	8.6	4.3	5.7
5 years	13.9	11.8	12.9
3 years	9.4	5.1	5.8
1 year	19.6	15.7	15.9
Not annualised			
3 months	(4.9)	(4.9)	(4.7)
1 month	(2.0)		(2.0)

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

Risk Measures, since Fund inception

	Fund	Peer group	Benchmark
Largest drawdown (%)	52	60	56
Months to recovery	90	124	93
Annualised monthly volatility (%)	18.3	18.2	17.7
Beta vs benchmark	0.9	1.0	1.0
Tracking error vs benchmark (%)	9.5	2.7	0.0

Ranking within peer group, cumulative return (%)



Sector Allocation (%)

Sector	Fund	Benchmark
Cyclicals	43	41
Consumer Non-Durables	35	23
Financials	11	11
Information and Communications	10	7
Technology	0	16
Utilities	0	2
Net Current Assets	2	0
Total	100	100

Top 10 Holdings

	Sector	%
Mitsubishi	Consumer Non-Durables	9.7
Daito Trust Construction	Cyclicals	6.9
INPEX	Cyclicals	6.9
Iida Group Holdings	Cyclicals	6.0
Sumitomo	Consumer Non-Durables	5.1
Honda Motor	Cyclicals	4.9
Sumitomo Mitsui Fin.	Financials	4.8
Mitsubishi UFJ Financial Group	Financials	4.7
Mitsui & Co	Consumer Non-Durables	4.3
Ship Healthcare Holdings	Consumer Non-Durables	4.0
Total		57.3

Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	97
Total number of holdings	27
12 month portfolio turnover (%)	42
12 month name turnover (%)	32
Active share (%)	89

Fees & Expenses (%), for last 12 months

Management fee ¹	1.99
For 3 year performance in line with benchmark	1.50
For 3 year outperformance/(underperformance) vs benchmark	0.49
Fund expenses	0.10
Total Expense Ratio (TER)	2.09

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 Investment Management (B.V.I.) Limited (licensed to conduct investment business by the Bermuda Monetary Authority)

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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.

Manager	Orbis Investment Management (Luxembourg) S.A.		
Investment Manager	Orbis Investment Management (B.V.I.) Limited		
Inception date	1 January 1998		
Number of shares (Investor Share Class)	Yen Class:	19,493,065	Euro Class: 2,173,160
Income distributions during the last 12 months	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 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.

All share classes invest in a portfolio of Japanese equities selected by the Investment 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 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 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, 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. However, the Manager and the Investment 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 Investment 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 Investment 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 Investment 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 2017	%	31 March 2018	%
Mitsubishi	10.1	Mitsubishi	9.7
Daito Trust Construction	7.8	Daito Trust Construction	6.9
Honda Motor	6.8	INPEX	6.9
INPEX	6.3	Iida Group Holdings	6.0
NEXON	5.2	Sumitomo	5.1
Iida Group Holdings	5.1	Honda Motor	4.9
Nissan Motor	4.9	Sumitomo Mitsui Fin.	4.8
Sumitomo	4.9	Mitsubishi UFJ Financial Group	4.7
Mitsubishi UFJ Financial Group	4.8	Mitsui & Co	4.3
Sumitomo Mitsui Fin.	4.7	Ship Healthcare Holdings	4.0
Total	60.5	Total	57.3

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.

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Orbis SICAV Japan Equity Fund

Migration of Orbis Investment Management (B.V.I.) Limited to Guernsey

Effective on or about 1 May 2018, Orbis Investment Management (B.V.I.) Limited (the "Company"), the Investment Manager of the Orbis SICAV Japan Equity Fund and the Orbis Japan Equity (US\$) Fund Limited, will be redomiciled from the British Virgin Islands to Guernsey. From the time of the redomicile, the Company's name will change to *Orbis Investment Management (Guernsey) Limited*.

The Company will cease to be registered as a British Virgin Islands company and will be registered and continue operations as a Guernsey company. At the same time, the Company will cease to be regulated by the British Virgin Islands Financial Services Commission and commence being regulated by the Guernsey Financial Services Commission. The Company also will continue to be licensed and regulated by the Bermuda Monetary Authority.

From the date of redomicile, the Company's registered address in Guernsey will be: Orbis Investment Management (Guernsey) Limited, 1st Floor, Tudor House, Le Bordaige, St Peter Port, Guernsey GY1 1DB.

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 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 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 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.

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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 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.

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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.

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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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.

Fees and Charges

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

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

Sources

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

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