

Orbis Japan Equity

Inpex, Japan’s largest oil and gas producer, will be a familiar name to long-time investors in the Strategy. Orbis Japan has held the stock since 2010, and we discussed it most recently in mid 2017. Our thesis has always focused on a project off the coast of Western Australia called Ichthys.

Ichthys is one of the world’s largest and most complex liquefied natural gas (LNG) projects. The infrastructure comprises an offshore processing facility, a giant floating production and storage vessel, a 900km undersea pipeline, and two plants for chilling and compressing the gas into a liquid so it can be transported by ships. Ichthys is expected to produce gas for 40 years. The project is expected to be transformational for Inpex’s production and earnings for years to come, with 8.9 million tonnes of LNG produced per year for Inpex and its project partners. To put this in perspective, that’s over 10% of all the LNG Japan imported in 2017.

When we first bought Inpex in 2010, the project was years away—longer than most investors’ horizons. With our longer-term perspective, we believed we could benefit as other investors eventually came to see the project’s value. But the stock was cheap for a reason. There were fears over potential cost overruns given some of the financial disasters at other “megaprojects”, and concerns about the potential impact of North American shale gas on LNG prices. The project was delayed and costs have overrun. Due in part to these project concerns, the stock has detracted significantly over our holding period, and the 2014-2016 commodity price collapse didn’t help—oil prices went from a peak of over \$100/bbl to below \$30/bbl at the bottom.

After years of construction, Ichthys produced its first shipment last October. Given that the project is now online and we continue to hold the stock, how has our thesis evolved?

Though gas has started to flow at Ichthys, the market remains doubtful—now of what the company will do with the cash the project generates. After deducting anticipated debt repayments and maintenance spending, we estimate the stock offers a high-single digit free cash flow yield with oil at \$60/bbl. While the company has other investments lined up and will continue to grow its production volume, we also expect Inpex to improve its returns to shareholders. Furthermore, the Ichthys project itself is set up to allow for attractive expansion possibilities. The undersea pipeline and the company’s plot of land are both big enough to accommodate double the current number of liquefaction plants.

With the project on track but expectations still subdued, we continue to think Inpex offers reasonable value. In late 2017, we found an attractive opportunity to increase our exposure to Inpex, through Japan Petroleum Exploration (Japex).

The similarities between their names is no coincidence. Inpex traces its roots to a 1960s investment from Japex, a then fully government-owned entity looking to expand operations overseas. Inpex predominantly focused on international operations, with Japex focusing on local Japanese resources. The geographical split has blurred over time as both companies source energy for one of the world’s largest energy importing countries. Both corporations listed in the early 2000s, but maintained some of the previous ownership structure. Here, Japex’s stake in Inpex is of particular interest.

Japex owns just over 7% of Inpex, which is significant when you consider that Japex’s market value is currently just 9% of its peer. Over the last few years we have seen its Inpex stake account for an increasingly large proportion of its market value. At times during 2018, the Inpex stake was worth 100% of Japex, effectively assigning no value to Japex’s own projects.

The implicit value placed on Japex’s operations has shrunk due to a litany of problems over the past few years which have hurt its earnings.

The market is putting almost no value on Japex’s projects

Value of Japex’s holding in Inpex as a percentage of Japex’s market value



Orbis Japan Equity (*continued*)

Simplistically, we can think of Japex’s operations as five key units: two of these are profitable, while three are currently lossmaking.

The two profitable operations are its domestic production assets and a project in Russia. Although Japan suffers from scant indigenous oil & gas reserves, it does have *some* and these are produced profitably by Japex. The company also owns an indirect 4.6% stake in Russia’s huge Sakhalin I oil & gas project, which is highly profitable even at an oil price of \$60/bbl. These two “good” units currently generate about ¥25bn in annual pre-tax profits for Japex. That’s about a fifth of the company’s total market value.

But the market is focused on the three problematic projects, which are currently losing ¥15bn per year.

The biggest headache, accounting for around 40% of these losses, has been the company’s oil sands project in Canada, which was brought online in mid-2017. While the production ramp-up has been smooth, it has unfortunately coincided with a tough time for Canadian oil producers, as there has simply not been enough pipeline and train capacity for regional producers to sell their crude to the US. In mid-November the situation became so extreme that Canadian oil (WCS) was selling near \$10/bbl, a staggering \$40/bbl discount to the price across the border (WTI), dragging down Japex’s earnings. As additional pipeline capacity comes online, profitability should recover. A decision by Alberta to impose production cuts has helped, and the gap between Canadian and US pricing has narrowed. Infrastructure problems have also hurt Japex’s shale gas business nearby in British Columbia. Gas in the region has effectively been stranded, leading to poor pricing and losses for Japex. The third lossmaking unit is in Japan, where the company completed construction of a new LNG receiving terminal in Fukushima, close to the site of an under-construction gas power plant that will provide power to the region. LNG terminals have high fixed costs, and Japex is currently bearing a heavy burden as utilisation gradually ramps up over the next 3 years.

The under-appreciation of these assets allows us to access the Inpex stake at an additional discount. The table shows valuation multiples for Inpex and Japex based on our projections for next year. Even though the Ichthys project won’t be fully ramped up and we expect Japex’s problematic projects to remain loss-making for another year, the valuations are very reasonable. To add to this, Japex’s earnings don’t fully capture the economic reality of its shareholding in Inpex.

Japex looks even more attractive on a “look-through” basis

Current valuations with 1-year forward estimates

	TOPIX	Inpex	Japex	Adjusted Japex*
Price / earnings	13	13	11	8
Price / tangible book value	1.4	0.5	0.3	0.2

Source: Datastream, Orbis. *Adjusted Japex replaces dividend income and market value of its 7% Inpex stake with the “look-through” earnings and tangible book value of this stake.

Under conventional accounting standards, Japex only reports the dividends it receives from Inpex. If we adjust Japex’s financials on a “look-through basis” to include the pro-rata share of Inpex’s earnings, the stock’s valuation looks even more attractive. We estimate Japex is trading at less than five times its 2023 “look-through” earnings, reflecting that the Ichthys project will have ramped up and the losses from Japex’s problematic projects have largely contracted by then.

One way in which the value of the Inpex stake can be realised—which is remarkably ignored by some analysts—is if the cross-shareholding were to unwind. Japex could obviously sell its Inpex stake and absorb the associated tax impact. A more remote option (that we believe would have benefits for both our Japex and Inpex holdings) is if the latter were to acquire its one-time parent Japex at a premium to the current price. This would in effect allow Inpex to buy-back shares at a discount to its current share price, which we already consider undervalued, and would likely be able to do this without the same tax bill. Whilst this is not our base case it does provide additional upside potential.

For now, we believe the setup of a significant Inpex stake trading below our assessment of intrinsic value, accompanied by pessimism on Japex’s own projects, has provided an attractive opportunity to buy a discounted stock at an even greater discount.

Commentary contributed by Alex Bowles, Orbis Portfolio Management (Europe) LLP, London

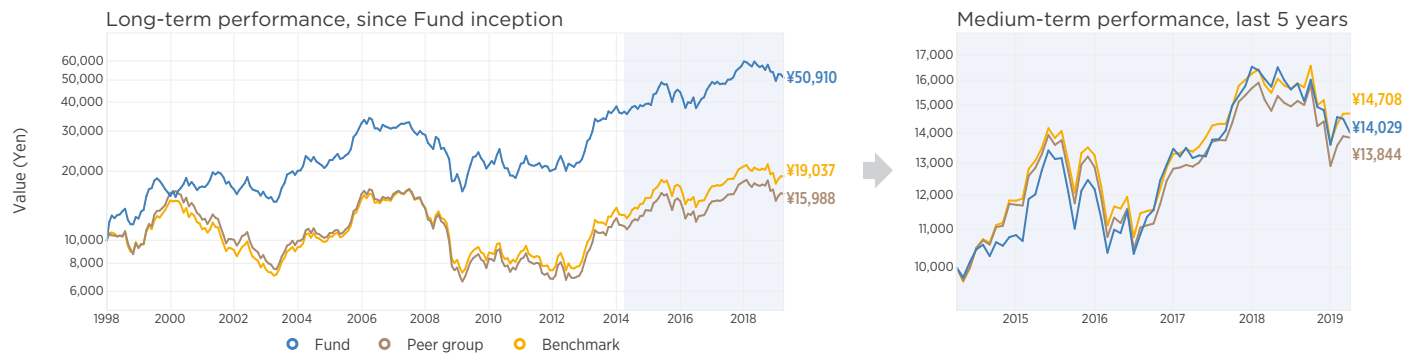
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Orbis SICAV Japan Equity (Yen) Fund

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	¥5,091	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	¥144 billion	UCITS compliant	Yes
Fund inception	1 January 1998	ISIN	LU0160128079
Strategy size	¥177 billion		
Strategy inception	1 January 1998		

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



Returns (%)

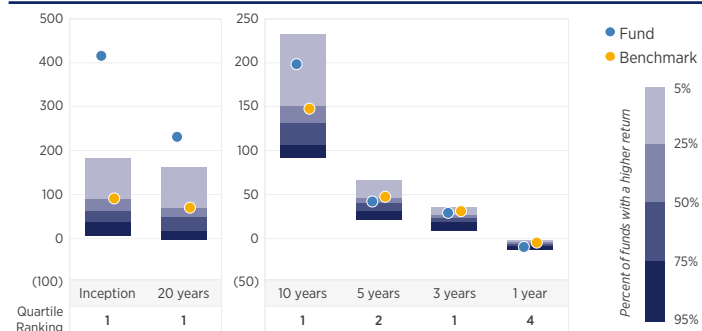
	Fund	Peer group	Benchmark
Annualised		<i>Net</i>	<i>Gross</i>
Since Fund inception	8.0	2.2	3.1
20 years	6.1	1.8	2.8
10 years	11.4	8.7	9.7
5 years	7.0	6.7	8.0
3 years	8.5	6.9	8.1
1 year	(10.8)	(6.5)	(5.0)
Not annualised			
3 months	3.2	7.4	7.7
1 month	(3.3)		0.1

	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	18.1	17.6
Beta vs benchmark	0.9	1.0	1.0
Tracking error vs benchmark (%)	9.5	2.6	0.0

Ranking within peer group, cumulative return (%)



Sector Allocation (%)

Sector	Fund	Benchmark
Cyclicals	45	39
Consumer Non-Durables	34	25
Information and Communications	14	8
Financials	5	10
Technology	0	15
Utilities	0	2
Net Current Assets	2	0
Total	100	100

Top 10 Holdings

Company	Sector	%
Sumitomo	Consumer Non-Durables	9.4
NEXON	Information and Communications	7.9
TSURUHA Holdings	Consumer Non-Durables	6.1
Mitsubishi	Consumer Non-Durables	5.8
Sumitomo Mitsui Fin.	Financials	5.2
Iida Group Holdings	Cyclicals	4.8
Mitsui & Co	Consumer Non-Durables	4.6
Daito Trust Construction	Cyclicals	4.4
NGK Insulators	Cyclicals	4.1
INPEX	Cyclicals	4.0
Total		56.3

Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	97
Total number of holdings	26
12 month portfolio turnover (%)	48
12 month name turnover (%)	22
Active share (%)	92

Fees & Expenses (%), for last 12 months

Management fee ¹	2.10
For 3 year performance in line with benchmark	1.50
For 3 year outperformance/(underperformance) vs benchmark	0.60
Fund expenses	0.09
Total Expense Ratio (TER)	2.20

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 (Guernsey) Limited (licensed to conduct investment business by the Bermuda Monetary Authority and the Guernsey Financial Services Commission)

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 (Guernsey) Limited		
Inception date	1 January 1998		
Number of shares (Investor Share Class)	Yen Class:	16,062,318	Euro Class: 1,426,201
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 measured in Japanese yen (including income and before deduction of withholding taxes) (the "TOPIX Yen") is the Yen Class' benchmark, while the TOPIX Yen hedged into euro (the "TOPIX Euro") is the benchmark of the Euro Class.

The Fund does not seek to mirror the TOPIX Yen/TOPIX Euro and may deviate meaningfully from them in pursuit of superior long-term capital appreciation.

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.

Since inception and over the latest ten-year period, 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 Yen class' performance over three years against the TOPIX Yen. For each percentage point of three year performance above or below that 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 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 2018	%	31 March 2019	%
Sumitomo	9.7	Sumitomo	9.4
NEXON	6.8	NEXON	7.9
KDDI	6.5	TSURUHA Holdings	6.1
Mitsubishi	5.6	Mitsubishi	5.8
Iida Group Holdings	5.5	Sumitomo Mitsui Fin.	5.2
Mitsui & Co	5.0	Iida Group Holdings	4.8
Sumitomo Mitsui Fin.	4.8	Mitsui & Co	4.6
TSURUHA Holdings	4.5	Daito Trust Construction	4.4
Daito Trust Construction	4.3	NGK Insulators	4.1
NGK Insulators	4.1	INPEX	4.0
Total	56.6	Total	56.3

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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 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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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.

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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Fund Minimums

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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.

Fund Information

Orbis SICAV Funds: The ongoing charges include a fixed annual 1.5% management fee and other Fund expenses but exclude performance fees and portfolio transaction costs. The total management fee consists of the fixed management fee and the variable performance fee.

Orbis Optimal Funds: Total Rate of Return for Bank Deposits is the compound total return for one-month interbank deposits in the specified currency. Beta Adjusted Exposure is calculated as Equity Exposure multiplied by a Beta determined using Blume's technique, minus Portfolio Hedging.

Prior to 1 July 1998 Orbis Optimal (US\$) was managed with a currency benchmark of 40% US dollars, 40% European currency units and 20% Japanese yen. On 1 July 1998 this was changed to 100% US dollars and the euro denominated Fund was launched.

Sources

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