

## Our Thinking

The US is expensive, and emerging markets (EMs) are cheap. We've observed that before. But price alone isn't what matters. What matters is the relationship between what you're paying and what you're getting, and the US and EMs represent different baskets of businesses. The caricature is that the US is dominated by high-growth, high-return tech firms, while EMs are dominated by lumbering, low-return state enterprises. If one market is full of great companies and the other is full of junk, the former should command a richer price.

So what if we focus on just the tech firms? Or just the quality companies? Looking at trailing price-earnings multiples for MSCI Information Technology and Quality indices, the pattern is the same. The US is more expensive than EMs, and that valuation gap has been widening. As recently as 2016, tech and quality shares traded at similar valuations in both markets. Three years on, it's a different story. Today, EM quality shares trade at a 30% discount to their US peers, and for tech shares, the discount is 50%!

Given this valuation gap, it's no surprise that our bottom-up research has uncovered a higher number of attractive shares in emerging markets. And as that valuation gap has widened, we have added to the Orbis Funds' positions in our favoured EM shares.

In May, that positioning was painful for performance, due primarily to trade tensions between the US and China. If that sounds familiar, it's because we discussed similar risks last August. Then, we pointed out that the major EM holdings in the Funds, like NetEase, had limited fundamental exposure to a trade war. That view hasn't changed, but the headlines have.

In August, the US had tariffs on \$50bn of Chinese imports, and China had retaliated, with both countries threatening further levies. In September, the US imposed 10% tariffs on an additional \$200bn of Chinese imports, and China retaliated once more. In December, however, things seemed to thaw. The countries made progress on trade talks, and by April they seemed on the cusp of a deal.

Then, in early May, the US said it would raise tariffs from 10% to 25% on \$200bn of Chinese imports. Talks collapsed, and the countries spent the month exchanging barbs. Raising the stakes further, the US put Huawei, a Chinese network equipment and smartphone maker, on a blacklist that restricts the company's purchases of supplies or technology from the US. Following the announcement, Google announced it would stop updating Android for Huawei's phones, and other organisations similarly retreated from working with the company.

The market has responded to these headlines by punishing Chinese shares. In dollar terms, Chinese

shares accessible to international investors fell 14% in May, against a 6% drop for world markets. But as we wrote in August, not all Chinese businesses are equally vulnerable to a trade war.

Consider NetEase and Tencent. (Tencent is also relevant for Naspers, which has a large stake in the Chinese firm.) In May, NetEase shares fell 13%, and those of Tencent fell 16%.

From a business owner's perspective, that price reaction seems odd, because NetEase and Tencent are internet companies focused squarely on domestic customers. China makes up 97% of revenue for Tencent, and the overwhelming majority for NetEase. With their domestic focus, neither company should have direct exposure to tariffs.

We also think they are unlikely to be targeted by the US as Huawei was. Unlike Huawei, Tencent and NetEase don't export goods, they don't have complex international supply chains for manufacturing, and they don't really compete in the US.

The major trade-related exposure NetEase and Tencent do have is to the Chinese currency. Should it weaken, their Chinese profits would become less valuable to international investors like the Orbis Funds. To reduce this risk, we have hedged most of the Chinese currency exposure in Orbis Global, and all of it in Orbis Global Balanced.

While we believe the trade war should have little impact on the fundamentals of NetEase and Tencent, it could have a more direct effect on Taiwan Semiconductor Manufacturing (TSMC), which also lagged in May. TSMC makes computer chips for Huawei, and these account for about 10% of TSMC's sales. Having considered the US rules, TSMC has decided that it can continue to supply Huawei, but continued pressure could still hurt, so we need to consider the potential effects.

Here, we can take some comfort from TSMC's dominant industry position. It supplies Huawei, but it also supplies almost all of Huawei's competitors. Should Huawei lose market share, those other TSMC customers would likely gain, making up some of the lost orders. In an extreme (and, we think, unlikely) case where chip orders for Huawei smartphones go to zero, we estimate the net impact on TSMC would be a mid-single-digit percentage of revenue—negative, but manageable.

In NetEase, Tencent, and TSMC, we see highly profitable businesses with above-average growth prospects, yet in our view their valuations do not reflect their fundamental strength. We don't know when the market will focus on these companies' fundamentals again, but in the meantime, we will take advantage and wait.

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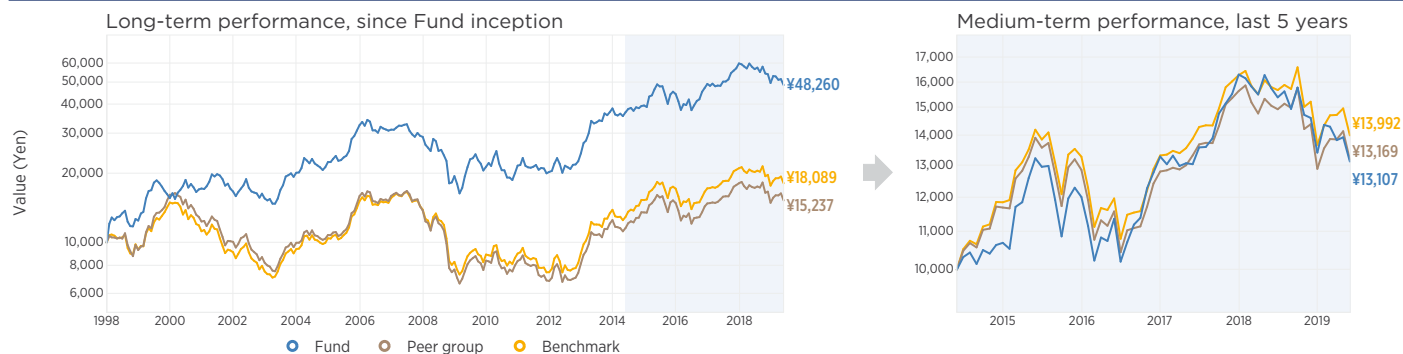
*This report does not constitute a recommendation to buy, sell or hold any interests, shares or other securities in the companies mentioned in it nor does it constitute financial advice.*

# 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>	¥4,826	<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>	¥132 billion	<b>UCITS compliant</b>	Yes
<b>Fund inception</b>	1 January 1998	<b>ISIN</b>	LU0160128079
<b>Strategy size</b>	¥192 billion		
<b>Strategy inception</b>	1 January 1998		

## 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	7.6	2.0	2.8
20 years	5.4	1.4	2.4
10 years	8.5	6.6	7.6
5 years	5.6	5.7	6.9
3 years	4.9	4.4	5.4
1 year	(16.7)	(12.6)	(11.4)
<b>Not annualised</b>			
Calendar year to date	(2.2)	2.3	2.4
3 months	(8.3)	(5.0)	(4.9)
1 month	(5.9)		(6.5)
		<b>Year</b>	<b>%</b>
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	42	39
Consumer Non-Durables	39	25
Information and Communications	12	9
Financials	5	10
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>

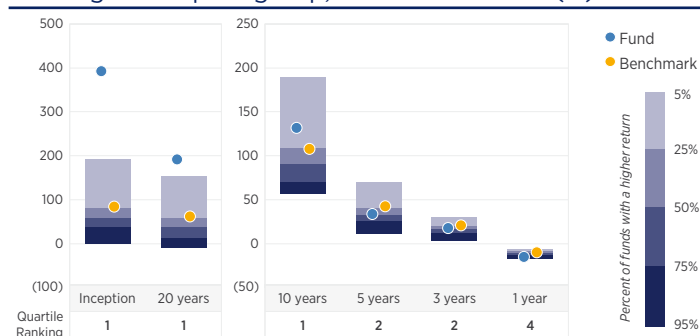
## Risk Measures, since Fund inception

	Fund	Peer group	Benchmark
Largest drawdown (%)	52	60	56
Months to recovery	90	124	93
Annualised monthly volatility (%)	18.2	18.1	17.6
Beta vs benchmark	0.9	1.0	1.0
Tracking error vs benchmark (%)	9.4	2.6	0.0

## Top 10 Holdings

	Sector	%
Sumitomo	Consumer Non-Durables	10.0
NEXON	Information and Communications	6.8
TSURUHA Holdings	Consumer Non-Durables	6.4
Mitsubishi	Consumer Non-Durables	5.8
Sumitomo Mitsui Fin.	Financials	5.5
Mitsui & Co	Consumer Non-Durables	4.8
Cosmos Pharmaceuticals	Consumer Non-Durables	4.8
Iida Group Holdings	Cyclicals	4.4
NGK Insulators	Cyclicals	4.0
Daito Trust Construction	Cyclicals	3.9
<b>Total</b>		<b>56.4</b>

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



## Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	97
Total number of holdings	27
12 month portfolio turnover (%)	42
12 month name turnover (%)	28
Active share (%)	92

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

Management fee <sup>1</sup>	2.04
For 3 year performance in line with benchmark	1.50
For 3 year outperformance/(underperformance) vs benchmark	0.54
Fund expenses	0.09
<b>Total Expense Ratio (TER)</b>	<b>2.13</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.

## See Notices for important information about this Fact Sheet.

<sup>1</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>Investment Manager</b>	Orbis Investment Management (Guernsey) Limited		
<b>Inception date</b>	1 January 1998		
<b>Number of shares (Investor Share Class)</b>	<b>Yen Class:</b>	15,836,413	<b>Euro Class:</b> 1,356,229
<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 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

28 February 2019	%	31 May 2019	%
Sumitomo	9.5	Sumitomo	10.0
NEXON	7.9	NEXON	6.8
TSURUHA Holdings	6.1	TSURUHA Holdings	6.4
Mitsubishi	5.6	Mitsubishi	5.8
Iida Group Holdings	5.0	Sumitomo Mitsui Fin.	5.5
Sumitomo Mitsui Fin.	4.9	Mitsui & Co	4.8
KDDI	4.7	Cosmos Pharmaceuticals	4.8
Mitsui & Co	4.4	Iida Group Holdings	4.4
NGK Insulators	4.4	NGK Insulators	4.0
Daito Trust Construction	4.1	Daito Trust Construction	3.9
<b>Total</b>	<b>56.8</b>	<b>Total</b>	<b>56.4</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 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

## 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 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](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 Investment 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 (Guernsey) 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 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](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.

Average Fund data source and peer group ranking data source: © 2019 Morningstar. All Rights Reserved. Such information (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. The latest average fund indices provided by Morningstar are for 23 May 2019. To allow comparison of returns to a common date we have extended the average equity and multi-asset class fund indices to reflect the subsequent movement of the applicable benchmark indices. Average fund returns are not shown for periods of a month or less as high price volatility and late fund reporting regularly cause them to be significantly restated by Morningstar.