Orbis Optimal

Nothing tests our clients’ patience quite like the Optimal Strategy. While it has delivered equity-like performance since its inception, and has done so with substantially less risk than global stockmarkets, its returns over shorter periods can be extremely frustrating at times. Optimal’s 9% decline in the first quarter was less painful than the market’s 22% decline, but disappointing nonetheless given its ultimate aim of delivering positive absolute returns.

At the end of last year we noted that Optimal’s “downside protection may seem like a useless feature during bull markets, but it is one that should more than earn its keep when the next bear market arrives.” We continue to believe this is true despite the poor showing thus far.

While Optimal hedges the vast majority of this exposure by shorting index futures, it is not completely “market neutral”. Its market exposure sat at 15% on the eve of the market’s sharp decline from its peak in mid-February. We believed this was appropriate, in part because selected markets (notably Japan and Europe) looked very attractive on an absolute basis. With the benefit of perfect hindsight we should have hedged more of this exposure.

The main driver of Optimal’s performance in the first quarter was poor stockpicking alpha. You are likely all too familiar with our narrative about how expensive “low volatility” or “stable” shares have become in recent years, especially the purveyors of consumer staples such as Coca-Cola, Nestlé and Kikkoman. While we have found—and continue to find—considerably more value amongst more cyclical businesses such as BMW, Rolls-Royce Holdings and Arconic, it was the worst possible place to be on the eve of a global economic lockdown.

As painful as this has been, the gap between the cheapest and most expensive stocks is now more extreme than it has ever been since Optimal launched in 1990. This can be seen in the chart below.

**Today’s market looks familiar...**

Spread of expected return between the top and bottom half of shares in the FTSE World Index by expected return, and forward 1-year relative return of bottom vs. top half of shares

![Chart showing the spread of expected return and forward 1-year relative return between the top and bottom half of shares.](chart.png)

We find this incredibly exciting. Historically, extreme dislocations like this have been the source of alpha generation—the lifeblood of Optimal’s returns. While we can’t predict how it will play out in the current crisis, we know that valuation gaps of this magnitude cannot persist forever. We have no delusions about the gravity of the pandemic and the severity of the economic impact, but we are also seeing classic signs of panic and forced selling. Every crisis is different, but the common theme is that time horizons shorten dramatically and create enormous opportunity for those who can stay disciplined and maintain a long-term perspective.

A few examples of our stock selections make this point even more tangible. BMW is a premium brand that needs no introduction. It was deeply out of favour before the market’s recent decline and was trading at about the same valuation as it did during the depths of the global financial crisis. After a further 30-40% decline since then, it now trades at less than 4 times our conservative assessment of “normal” earnings and a 40% discount to the book value of its tangible assets.

1 This is the asset-weighted net-of-fee return of all share classes in the Strategy. This return may differ from the return of any individual share class.
Of course it’s a terrible time to be selling luxury cars. But even in an extreme stress test, in which we assume a total shutdown of all of BMW’s plants and zero auto sales for more than a year, our research suggests that BMW has enough cash to squeak through. That scenario seems unlikely, as some BMW dealers in China are already reporting that sales have recovered to near-normal levels. And there are positives even in that dire and unlikely sequence of events, as BMW should fare better than most of its less conservatively capitalised peers. Anything that hurts BMW is likely to be considerably more painful for its competitors.

Another example is Rolls-Royce, known for its high-quality duopoly aircraft engine business. Given its exposure to global air travel—essentially the epicentre of the current slowdown—it faces severe short-term pressure. Still, it passes our stress testing and we assess the probability of permanent capital impairment from current price levels to be very low. Its $8 billion market capitalisation is underpinned by its smaller defence business.

We therefore get the substantially more valuable core engine operation, with its highly predictable long-term cash flow profile, along with a number of other smaller but cash generative units for free. We have no idea if and when air travel will normalise but even if it takes longer than expected, we believe the long-term downside risk is limited. If there is a pleasant surprise and travel resumes sooner than expected, the price we are paying today is exceptional.

The same is true for Arconic, another aerospace industry supplier. It has not only suffered from fears about the sharp decline in air travel but also from forced selling on the part of event-driven funds ahead of the April spin-off of one of its business units. The remaining entity, which will be known as Howmet, is the leading supplier of jet engine airfoils and other technologically challenging aerospace components. This is an exceptional business that enjoys a durable competitive advantage, high margins, high returns on capital and attractive long-term growth prospects—yet its implied valuation is well below 10 times our estimate of normal earnings. In the short term the stock may get cheaper still. What matters more to us is whether the company can successfully weather a sharp and protracted downturn. We think its diversified revenue base, significant cash generation and abundant liquidity make it well equipped to do so, based on stress tests using very harsh assumptions. As a result, we have been leaning into the weakness and adding to the position.

These are just a few examples, but as our founder Allan Gray was fond of saying, there are few things as perishable as a good investment idea. With volatility running high, new opportunities seem to constantly emerge—and disappear—throughout the day. These are the times when having a broad team of analysts conducting in-depth research can really pay off. Last year our team of more than 40 analysts looked at over 400 ideas. Many looked attractive on a fundamental basis, but they were not trading at attractive prices. With a lot of the heavy lifting already done, we are now in an excellent position to pounce when the opportunity is right.

We recognise that the returns generated in Optimal have been disappointing for some time and we feel your frustration as co-investors. As painful as it may be, we believe it has set the stage for ripe alpha opportunities in the years to come. Historically these have been fantastic moments to be invested in Optimal, although it never feels that way at the time. The onus is now squarely on us to capitalise on the extreme mispricings that have emerged. Benjamin Graham once wrote that “investing isn’t about beating others at their game. It’s about controlling yourself at your own game.” Our game is long-term thinking and a relentless focus on intrinsic value. You can be confident that we remain disciplined.

Commentary contributed by Matthew Spencer, Orbis Investment Management Limited, Bermuda
Orbis Optimal SA Fund - Euro Standard Class

The Fund seeks capital appreciation in euro on a low risk global portfolio. It invests principally in a focused portfolio of selected global equities believed to offer superior relative value and employs stockmarket hedging to reduce risk of loss.

Price €11.47
Pricing currency Euro
Domicile Bermuda
Type Open-ended mutual fund
Class size €224 million
Fund inception 1 January 2005
Strategy size €2.0 billion
Strategy inception 1 January 1990

Comparators
- Euro Bank Deposits
- Average Global Equity Fund Index
- Average Euro Bond Fund Index

Minimum investment US$50,000
Dealing Weekly (Thursdays)
Entry/exit fees None
ISIN BMG6768M1111

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

Returns (%)

<table>
<thead>
<tr>
<th></th>
<th>Fund</th>
<th>Euro Bank Deposits</th>
<th>Avg Global Equity Fund</th>
<th>Avg Euro Bond Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualised Net</td>
<td>0.9</td>
<td>1.0</td>
<td>5.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Since Fund inception</td>
<td>0.8</td>
<td>1.0</td>
<td>4.9</td>
<td>2.3</td>
</tr>
<tr>
<td>10 years</td>
<td>(1.1 )</td>
<td>0.0</td>
<td>6.2</td>
<td>2.1</td>
</tr>
<tr>
<td>5 years</td>
<td>(3.5)</td>
<td>(0.4)</td>
<td>0.6</td>
<td>(0.3)</td>
</tr>
<tr>
<td>3 years</td>
<td>(8.8)</td>
<td>(0.4)</td>
<td>(1.4)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>1 year</td>
<td>(14.3)</td>
<td>(0.5)</td>
<td>(10.9)</td>
<td>(2.2)</td>
</tr>
<tr>
<td>Not annualised 3 months</td>
<td>(11.4)</td>
<td>(0.1)</td>
<td>(19.9)</td>
<td>(4.6)</td>
</tr>
<tr>
<td>1 month</td>
<td>(8.5)</td>
<td>0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Best performing calendar year since Fund inception</td>
<td>2013</td>
<td>11.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Worst performing calendar year since Fund inception</td>
<td>2018</td>
<td>(12.6)</td>
<td></td>
<td></td>
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</tbody>
</table>

Risk Measures, since Fund inception

<table>
<thead>
<tr>
<th></th>
<th>Fund</th>
<th>Euro Bank Deposits</th>
<th>Avg Global Equity Fund</th>
<th>Avg Euro Bond Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historic maximum drawdown (%)</td>
<td>27</td>
<td>2</td>
<td>46</td>
<td>6</td>
</tr>
<tr>
<td>Months to recovery</td>
<td>&gt;251</td>
<td>&gt;61</td>
<td>72</td>
<td>&gt;71</td>
</tr>
<tr>
<td>% recovered</td>
<td>0</td>
<td>0</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Annualised monthly volatility (%)</td>
<td>5.5</td>
<td>0.5</td>
<td>12.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Correlation vs FTSE World Index</td>
<td>0.3</td>
<td>(0.2)</td>
<td>1.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Correlation vs Orbis Global Equity Fund relative return</td>
<td>0.8</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Currency Allocation (%)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td>94</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

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 Number of months since the start of the drawdown. This drawdown is not yet recovered.
2 Includes equity positions held indirectly.

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- www.allangray.co.za

Orbis Investment Management Limited (licensed to conduct investment business by the Bermuda Monetary Authority)
Orbis Optimal SA Fund

This Fact Sheet is a Minimum Disclosure Document and a monthly General Investor Report as required by the South African Financial Sector Conduct Authority.

The Fund is designed for investors seeking capital appreciation on a low risk global investment portfolio. The Fund’s returns are intended to be largely independent of the returns of major asset classes such as cash, equities and bonds. The Fund’s US$ Share Classes aim to outperform US$ Bank Deposits (compound total returns on one month US$ deposits, currently based on the Bloomberg US$ LIBOR rate), while its Euro Share Classes aim to outperform Euro Bank Deposits (compound total returns on one month Euro Deposits, currently based on the Bloomberg EURIBOR rate).

How We Aim to Achieve the Fund’s Objective/Adherence to Objective

The Fund is actively managed and augments a focused portfolio of selected global equities with hedging of the risk of monetary loss arising from a decline in stockmarkets. It invests in shares considered to offer superior fundamental value. The lower the price of a share as compared to its assessed intrinsic value, the more attractive Orbis considers the equity’s fundamental value. Orbis believes that over the long term, equity invested based on this approach offers superior returns and reduces the risk of loss. Orbis believes the main risk of investing in its selected equities is that their prices will decline if relevant stockmarkets fall significantly. To reduce this risk, the Fund maintains a substantial core level of hedging. When Orbis’ research suggests that stockmarkets are overvalued and vulnerable, the Manager increases the hedging above this core level. Similarly, when Orbis’ research suggests that stockmarkets represent good value, the Manager lowers the hedging below the core level. The Manager’s actions in this regard are limited and the Fund therefore always maintains a significant level of hedging to protect investors from unexpected stockmarket declines. The result is that the Fund’s returns are driven mainly by the Manager’s ability to select equities that outperform their respective stockmarket indices and not by the overall direction of equity markets. The Fund is therefore able to aim for absolute (or positive) returns.

Since inception, both the US$ and Euro Standard Classes (net of fees) have underperformed their benchmarks.

Risk/Reward Profile

• The Fund is designed for investors seeking capital appreciation on a low risk global investment portfolio.
• Investments in the Fund may suffer capital loss.
• Investors should understand that the Manager generally assesses an equity investment’s attractiveness using a three-to-five year time horizon.

Management Fee

The Fund’s share classes bear different management fees. The fees are designed to align the Investment Manager’s interests with those of investors in the Fund.

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 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 investments. However, the Manager has agreed that in the current calendar year, except for specified exclusions, operating expenses attributable to each share class will be capped at 0.15% per annum. The cap will be automatically extended for further successive one year periods unless terminated by the 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 fees described above under “Management Fee,” the cost of buying and selling investments, interest and brokerages 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 subscription or redemption fee of 0.50% of the net asset value of the Fund’s 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.

Changes in the Fund’s Top 10 Holdings

<table>
<thead>
<tr>
<th>31 December 2019 %</th>
<th>31 March 2020 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sumitomo</td>
<td>4.9</td>
</tr>
<tr>
<td>British American Tobacco</td>
<td>4.1</td>
</tr>
<tr>
<td>Credit Suisse Group</td>
<td>4.1</td>
</tr>
<tr>
<td>Mitsubishi</td>
<td>3.9</td>
</tr>
<tr>
<td>Honda Motor</td>
<td>3.9</td>
</tr>
<tr>
<td>NetEase</td>
<td>3.4</td>
</tr>
<tr>
<td>XPO Logistics</td>
<td>3.1</td>
</tr>
<tr>
<td>Bayerische Motoren Werke</td>
<td>3.0</td>
</tr>
<tr>
<td>Alcoa</td>
<td>2.6</td>
</tr>
<tr>
<td>Newcrest Mining</td>
<td>2.6</td>
</tr>
<tr>
<td>Total</td>
<td>35.7</td>
</tr>
</tbody>
</table>
Orbis Optimal SA 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 Manager can be contacted at +1 441 296 3000 or clientservice@orbis.com. The Fund’s Custodian is Citibank N.A., New York Offices, 388 Greenwich Street, New York, New York 10013, U.S.A. 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) each Thursday (or, if a Thursday is not a business day, the preceding business day); (ii) on the last calendar day of each month (or, if that is not a weekday, the preceding weekday) and/or (iii) any other days in addition to (or substitution for) any of the days described in (i) or (ii), as determined by the Manager without notice.

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 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. The Manager provides no guarantee with respect to capital or the Fund’s returns. CIS are traded at ruling prices and can engage in borrowing and scrip lending. Commission and incentives may be paid by investors to third parties and, if so, would be included in the overall costs. Individual investors’ performance may differ as a result of investment date, investment date and dividend withholding tax, as well as a levy that may apply in the case of transactions representing more than 5% of the Fund’s net asset value. The Fund may be closed to new investments at any time in order to be managed in accordance with its mandate. The Fund invests in foreign securities. Depending on their markets, trading in those securities may carry risks relating to, among others, macroeconomic and political circumstances, constraints on liquidity or the repatriation of funds, foreign exchange rate fluctuations, taxation and trade settlement.

The discussion topics for the commentaries were selected, and the commentaries were finalised and approved, by Orbis Investment Management Limited, the Fund’s Manager. Information in this Report is based on sources believed to be accurate and reliable and provided “as is” and in good faith. The Orbis Group does not make any representation or warranty as to accuracy, reliability, timeliness or completeness of the information in this Report. The Orbis Group disclaims all liability (whether arising in contract, tort, negligence or otherwise) for any error, omission, loss or damage (whether direct, indirect, consequential or otherwise) in connection with the information in this Report.

Fund Minimum
Minimum investment amounts in the Fund are specified in the Fund’s Prospectus, provided that a new investor in the Orbis Funds must open an investment account with Orbis, which may be subject to minimum investment restrictions, country restrictions and/or other terms and conditions. For more information on opening an investment account, please visit www.orbis.com.

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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.

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Sources
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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.
Average Fund and Peer Group Data Changes

Morningstar is discontinuing its Global Investment Fund Sectors (GIFS) on 17 April 2020, but will continue to offer Morningstar Categories, which are aligned with GIFS. Prior to March 2020, Orbis reports used GIFS for Average Fund and Peer Group information. For reports dated 31 March 2020 or later we have replaced GIFS with Morningstar Categories, with the update applying retrospectively for all periods. For further information, please see the FAQ from Morningstar here: Morningstar Release.

Notes to Help You Understand This Report

Certain capitalised terms are defined in the Glossary section of the Orbis Funds’ respective Prospectuses, copies of which are available upon request from Allan Gray Unit Trust Management (RF) Proprietary Limited, a Member of the Association for Savings & Investments SA. 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 Funds' exposures accordingly. Totals presented in this Report may not sum due to rounding.

Risk measures are ex-post and calculated on a monthly return series. Months to recovery measures the number of months from the preceding peak in performance to recovery of that level of performance.

12 month portfolio turnover for the Orbis Equity and Multi-Asset Class Funds is calculated as the lesser of total security purchases or sales in the Fund over the period, divided by the average net asset value (NAV) of the Fund. Short-term fixed income instruments are not included.

12 month name turnover for the Orbis Equity and Multi-Asset Class Funds is calculated as the number of positions held by the Fund at the start of the period but no longer held at the end of the period, divided by the total number of positions held by the Fund at the start of the period. Short-term fixed income instruments are not included.

Active share is a measure of the extent to which the holdings of the Orbis Equity and Multi-Asset Class Funds differ from their respective benchmark’s holdings. It is calculated by summing the absolute value of the differences of the weight of each individual security in the specific Orbis Fund, versus the weight of each holding in the respective benchmark index, and dividing by two. For the Multi-Asset Class Funds, three calculations of active share are disclosed. The Portfolio active share incorporates the equity, fixed income, commodity-linked and other securities (as applicable) held by the Orbis Fund and compares those to the holdings of the composite benchmark. The Equity and Fixed Income active shares are calculated as if the equity and fixed income portions of the Orbis Funds are independent funds; each of those two sets of holdings is separately compared to the fully-weighted holdings in the appropriate component of the composite benchmark. Although the Multi-Asset Class Funds hedge stock and bond market exposure, the active share calculations are “gross” and not adjusted to reflect the hedging in place at any point in time.

The total expense ratio has been calculated using the expenses, excluding trading costs, and average net assets for the 12 month period ending 31 March 2020.