Orbis Japan Equity

Not since October 1987 in the aftermath of the Black Monday stockmarket crash had Japanese stocks seen a worse day. Worse than any during the 2008 global financial crisis, and worse even than any following the Fukushima tsunami and nuclear accident in 2011 when more than 18,000 people lost their lives and 150,000 were evacuated from their homes.

For sheer market panic, every event in the last 35 years was eclipsed on the 5th of August 2024, when the Japanese market plunged over 12% in a single day. The culprits? The Bank of Japan (BoJ) raising interest rates to a lofty 0.25%, and some weak jobs data in the US.

That day now feels like a distant memory, and the market would appear to agree, with the Topix having recovered. It's clear, then, that the market drop was not driven by fundamentals. So what happened?

The market was slammed by the partial unwinding of an almighty carry trade. For years, borrowing in yen to buy assets in other currencies had been lucrative. While interest rates rose elsewhere, they stayed at rock-bottom levels in Japan, making it cheap to borrow and sell yen to buy currencies with higher local interest rates. All that yen selling drove the currency to epic lows, and yen weakness made the carry trade both more comfortable and more profitable.

The carry trade was blown apart by the rate increase in Japan and the prospect of rate cuts in the US. A narrower spread between American and Japanese interest rates boosted the yen, and a strengthening yen kills the carry trade. As traders rushed to buy back yen to cover their losses, the currency strengthened versus the dollar by 7% over 5 days, its most rapid gain since the financial crisis. Yen strength is normally bad news for a Japanese stockmarket filled with exporters. Some investors were spooked, others were forced to exit leveraged positions, and the market sold off in dramatic fashion.

While we watched the episode unfold with keen interest, we don't spend our time trying to predict the day-to-day movements in the market. But amid the volatility, there are some clear signs that fundamental shifts are underway in Japan.

The BoJ's rate hike was small, but it signalled the bank's intent to end Japan's era of zero or even negative interest rates. It's easy to understand their rationale. Rates follow inflation, and for decades, inflation in Japan had been non-existent. This now looks to be changing—price increases are running above 2% per annum and Japan's unions recently secured their largest wage increase for members in over 30 years in the annual 'Shunto' negotiations.

As such, rates in Japan are now at their highest level since 2008. And while Japan is at the start of its rate hiking journey, the US and Europe are eyeing the path back down rate mountain.

That has been helpful for the yen, which has strengthened somewhat in recent months. We believe it is still much too cheap and unlikely to stay so for the long run. On a purchasing power parity basis—using the price of a similar basket of goods to compare the relative strength of currencies—the yen trades at around a 40% discount to the US dollar. Against a broader basket of global currencies, the yen is near its weakest inflation-adjusted level in over 60 years.

A weak currency benefits Japan's numerous exporters, as foreign earnings are worth more in yen. In recent years, it's therefore little surprise that domestic shares have lagged high-earning exporters. In our view, however, domestic earnings are much higher quality than those of exporters whose profits have been inflated enormously by the currency.

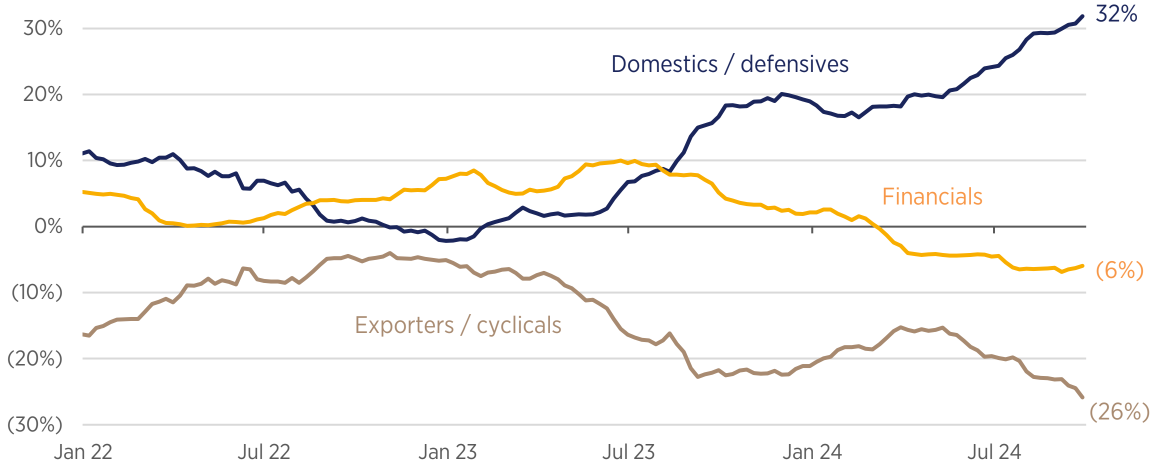
Should the yen continue to strengthen as we expect, the massive tailwind that exporters have enjoyed from the weak currency will turn to a headwind and domestic shares should outperform, as they have done in more recent weeks. Helpfully, many of them also have more appealing valuations.

We are not macro investors, and we do not build the portfolio from the top down. But we are mindful of the macro, and when things are as extreme as the yen has been recently, we are attentive to the risks of a reversal. It should therefore come as no surprise to longstanding investors that we have increased our exposure to Japan's domestically-oriented companies, which are far better placed to weather a strengthening of the yen. Examples include drugstores, staffing and recruitment companies, real estate and construction firms, and GMO Internet Group, a recent addition to Orbis Japan's top holdings.

Orbis Japan Equity *(continued)*

Domestically-oriented shares in Japan look increasingly attractive

Orbis Japan's net exposures vs the TOPIX



Source: LSEG Datastream, Orbis. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning. "Domestics/defensives", "Exporters/cyclicals", and "Financials" include constituents of 11, 18, and 4 sectors within the TOPIX, respectively, that display those characteristics. Weights shown are for a representative account of the Orbis Japan Equity Strategy.

As well as the Japanese drugstores we have discussed previously, we are finding attractive shares in Japan's staffing and recruitment companies—the likes of Persol Holdings, Meitec Group Holdings and Technopro Holdings. Japan's unemployment rate has been below 3.5% for much of the past decade and has even dipped as low as 2.2%. In a country where the population size is shrinking, this means an increasingly tight labour market where companies are more willing to pay up to keep employees. Our staffing and recruitment companies look well placed to help alleviate some of this tightness and should benefit in an environment where wages are increasing.

We also see attractive opportunities in Japan's real estate and construction sector, with companies like Daiwa House Industry and Haseko temporarily falling out-of-favour due to short-term cost pressures that belie their strong competitive positions. Similarly, property developer Mitsubishi Estate trades at a rock-bottom valuation despite its portfolio of high-end office buildings in central Tokyo.

Japan's internet and media sectors are another area where we've found compelling domestically-oriented opportunities such as Nippon Television Holdings, CyberAgent, and GMO Internet.

GMO Internet was founded in its current guise in 1995 as a provider of internet access services by Masatoshi Kumagai—who continues to lead the company today. Under the mission of 'Internet for Everyone', GMO has expanded to become a dominant player in the essential plumbing that underpins Japan's internet economy. Since its IPO in 2000, GMO has established an impressive track record in which revenue and profits have grown, on average, at more than 16% per year while maintaining an average return on equity of 20%.

While GMO is a complex business—there are over 100 group subsidiaries—we believe long-term investment returns will be determined by three key businesses. First, GMO Payment Gateway, its electronic payments business. Second, a collection of internet infrastructure services businesses. And third, GMO Financial Holdings, which provides a foreign currency trading platform to service Japan's vast number of retail FX traders.

Let's start with the crown jewel, GMO Payment Gateway (GMO PG), which is Japan's leading payment service provider. This business accounts for around 40% of net profits. Backed by powerful structural tailwinds, such as the rise of e-commerce and increasing penetration of cashless transactions, GMO PG has chalked up one of the most impressive track records among Japanese listed companies, growing its revenue and profit at an average of over 25% per annum since its listing in 2005. With cashless penetration in Japan still only around 40% compared to 60% in many developed country counterparts (and the government targeting over 80% in the longer-term), and e-commerce penetration in Japan standing only at 9% compared to a global average of around 20%, there's still ample room for future growth.

Orbis Japan Equity *(continued)*

As the payment provider with the largest scale, GMO PG has been a continual market share gainer. Japan's payments industry is extremely complex—there are a staggering 30 payment methods, going well beyond simple credit cards—which has been a deterrent for international peers. Management's execution has been outstanding under founder Issei Ainoura who continues to identify exciting new business opportunities beyond the company's past focus on e-commerce, most notably offline payments and business-to-business payments, both of which are huge markets with untapped potential.

Originally a wholly-owned subsidiary, GMO Internet now owns 41% of separately listed GMO PG. The payments business has historically traded at lofty valuations on the back of confidence that the company can continue its remarkable growth going forward. Today, the valuation means that the value of GMO's stake is worth ¥272bn —larger than GMO Internet's own market value of ¥266bn. An investment in GMO Internet therefore lets you access Japan's leading payment provider at a discount while paying little for the other 60% of earnings.

That brings us to the second group of key businesses, which account for 30% of earnings. These include unglamorous but essential infrastructure services including internet domains, internet service providers, website hosting, web security and e-commerce support. GMO is the local market leader in all these areas, which come with recurring revenue that can grow at high single-digit annual rates. Electronic signatures and cybersecurity are new growth areas, as broader swathes of Japan accelerate efforts to digitalise. These businesses might not have the glamour of electronic payments but generate growing recurring revenue with relatively high switching costs, and GMO's existing customer base of 15 million enables effective cross-selling of incremental new services.

Lastly, the final 30% of GMO's earnings comes from its 66% stake in GMO Financial Holdings, Japan's leading internet-based foreign currency trading exchange. Profits here too have risen over time by mid-single digits on average, but the ride has been bumpy. In particular, a disastrous foray into securities trading in Thailand resulted in large write-offs for bad debt. The problematic Thai business is being wound down at the end of this year, but there could be some further pain to come.

Uncertainties related to its financial trading subsidiary have left GMO Internet trading at only 12 times normalised earnings. We think this is a highly attractive price to pay for a company with strong underlying growth drivers. GMO's payments business should continue to grow profits by at least 20% per year, as it has done since 2005. Its collection of other market-leading internet infrastructure services businesses should also continue to grow nicely, at around 10% per year in aggregate. While profits may continue to be lumpy in the short run for GMO Financial Holdings, the business should continue to steadily grow. All in, we expect GMO Internet can grow its annual net profits by at least 10%.

But we suspect earnings per share should be able to grow even faster for two reasons. First, GMO Internet has an ongoing long-term share buyback program in which it has committed to buy back a further ~25% of its shares outstanding over the medium to long term. Second, the current market valuation ignores the optionality from any new ventures incubated within GMO's highly entrepreneurial culture. Founder Kumagai's track record has not been without blemishes, but his distinctive thinking, willingness to challenge orthodoxy and long-term mindset are unusual attributes in Japan.

Across the drugstores, staffing companies, land developers, media companies, and GMO Internet, we believe our domestically-oriented shares are both attractively priced and risk-reducing in the event of a strengthening yen. While we cannot predict where the market or currency will go over the short term, the yen offers compelling value, and corporate Japan offers compelling signs of operational improvement. Putting that together we believe the portfolio is well positioned for whatever the market throws at us.

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

Orbis Japan Equity (US$) Fund

Investor Share Class

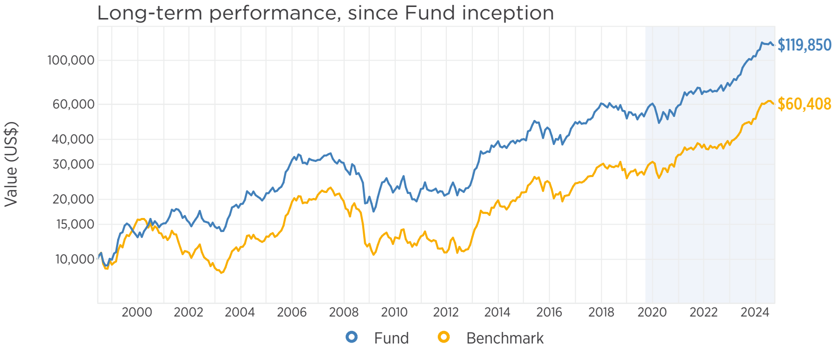
The Fund, which invests substantially all of its assets into the Orbis SICAV Japan Equity (Yen) Fund, is designed to be exposed to all of the risks and rewards of selected Japanese equities and seeks higher returns than the Japanese stockmarket, without greater risk of loss. Currency exposure is predominantly hedged into US dollars. The fund benchmark ("Benchmark") is the Tokyo Stock Price Index, including income, gross of withholding taxes ("TOPIX"), hedged into US dollars.

Price	US$119.85
Pricing currency	US dollars
Domicile	Bermuda
Type	Open-ended mutual fund
Fund size	US$164 million
Fund inception	12 June 1998
Minimum investment	US$50,000

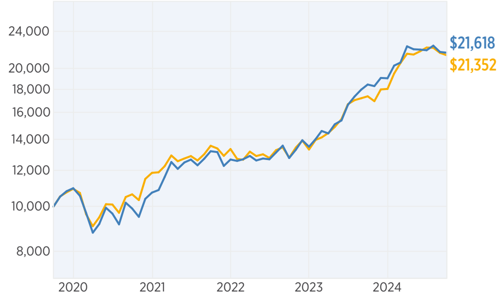
Strategy size	US$3.5 billion
Strategy inception	1 January 1998
Benchmark	TOPIX, hedged into US dollars
Dealing	Weekly *(Thursdays)*
Entry/exit fees	None
ISIN	BMG676751016

Growth of US$10,000 investment, net of fees, dividends reinvested

Long-term performance, since Fund inception



Medium-term performance, last 5 years



Returns (%)

	Fund	Benchmark
Annualised	*Net*	*Gross*
Since Fund inception	9.9	7.1
25 years	8.9	6.1
10 years	11.7	11.4
5 years	16.7	16.4
3 years	17.9	16.3
1 year	17.3	22.9
Not annualised		
Calendar year to date	13.7	18.4
3 months	(1.2)	(3.7)
1 month	(0.4)	(1.1)

Risk Measures, since Fund inception

	Fund	Benchmark
Historic maximum drawdown (%)	49	54
Months to recovery	70	92
Annualised monthly volatility (%)	17.4	17.0
Beta vs Benchmark	0.9	1.0
Tracking error vs Benchmark (%)	8.6	0.0

Portfolio Concentration & Characteristics[1]

% of NAV in top 25 holdings	84
Total number of holdings	43
12 month portfolio turnover (%)	52
12 month name turnover (%)	18
Active share (%)	92

Sector Allocation[1] (%)

Sector	Fund	Benchmark
Consumer Non-Durables	45	25
Cyclicals	34	34
Financials	7	12
Technology	6	20
Information and Communications	6	8
Utilities	0	1
Net Current Assets	*3*	*0*
Total	**100**	**100**

Top 10 Holdings[1]

	Sector	%
Asahi Group Holdings	Consumer Non-Durables	9.7
Sundrug	Consumer Non-Durables	5.8
Sugi Holdings	Consumer Non-Durables	5.4
TSURUHA Holdings	Consumer Non-Durables	5.4
Daiwa House Industry	Cyclicals	5.1
Kubota	Cyclicals	4.9
Mitsubishi Estate	Cyclicals	4.7
GMO Internet Group	Information and Communications	4.2
Koito Manufacturing	Technology	3.4
HASEKO	Cyclicals	3.2
Total		**51.7**

Fees & Expenses (%), for last 12 months

Management fee[2]	2.36
For 3 year performance in line with the performance fee benchmark	*1.50*
For 3 year out/(under)performance vs performance fee benchmark	*0.86*
Fund expenses	0.11
Total Expense Ratio (TER)	**2.47**

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] Information is for the Orbis SICAV Japan Equity Fund, in which the Fund aims to be 100% invested.

[2] 1.5% per annum ± up to 1%, based on the Orbis SICAV Japan Equity (Yen) Fund's 3 year rolling outperformance/(underperformance) vs its performance fee benchmark.

Legal Notices

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This is a marketing communication for the purposes of the Bermuda Monetary Authority's investment business rules and ESMA guidelines on marketing materials. You should consider the relevant offering documents including the Fund Prospectus and Key Information document (for a SICAV Fund) before making any final investment decisions. These offering documents are available in English on our website (www.orbis.com).

Investors in a SICAV Fund can obtain a summary of their investor rights in English on our website (www.orbis.com).

When investing in the Orbis Funds an investor acquires shares within the Fund and not in the underlying assets held within the Fund.

Fees charged reduce the potential growth of your investment. Please refer to the relevant Fund's Prospectus for detailed information on the fees and expenses attributable to the Fund and for information on date of payment of the performance fee as applicable.

The return of your investment may change as a result of currency fluctuations if the return is calculated in a currency different from the currency shown in this Report.

Notice to Persons in the European Economic Area (EEA) and the United Kingdom (UK)

Each sub-fund of Orbis SICAV, a UCITS compliant Luxembourg fund, included in this Report is admitted for public marketing in Ireland, Luxembourg, the Netherlands, Norway, Sweden and the United Kingdom. The Orbis Funds that are not Orbis SICAV Funds are alternative investment funds that are neither admitted for public marketing anywhere in the EEA nor marketed in the EEA for purposes of the Alternative Investment Fund Managers Directive. As a result, persons located in any EEA member state will only be permitted to subscribe for shares in the Orbis Funds that are admitted for public marketing in that member state or, with respect to any other Orbis Fund, under certain circumstances as determined by, and in compliance with, applicable law and persons located in the United Kingdom will only be permitted to subscribe for shares in Orbis Funds that are admitted for public marketing in the UK or as otherwise permitted under the laws of the UK.

Orbis Funds that are within the scope of the EU Directive on Administrative Cooperation (Directive 2014/107/EU) are required to report (i) certain payments made to investors that are tax-resident in an EU Member State and (ii) the annual balance of the Orbis accounts held by those investors. Under applicable automatic exchange of information provisions, this information may also be forwarded to the tax authorities in the EU Member State in which the investor is tax-resident.

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 on our website (www.orbis.com). Returns are net of fees, include income and assume reinvestment of dividends/distributions. Annualised returns show the average amount earned on an investment in the Fund/share class each year over the given time period. The country and currency classification for securities follows that of third-party providers for comparability purposes. Emerging Markets follows MSCI classification when available and includes Frontier Markets. Emerging Markets currency exposure is based on currency denomination. 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. Cash, cash equivalents and short-term government securities 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.

Active share is a measure of the extent to which the holdings of the Orbis Equity and Balanced 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 Balanced 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 Balanced 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.

Benchmark related information is as at the date of production based on data provided by the official benchmark and/or third party data providers. There may be timing differences between the date at which data is captured and reported.

The total expense ratio has been calculated using the expenses, excluding trading costs, and average net assets for the 12 month period ending 30 September 2024.

Orbis Multi-Asset Class Funds: Net Equity is Gross Equity minus stockmarket hedging. Fixed Income refers to fixed income instruments issued by corporate bodies, governments and other entities, such as bonds, money market instruments and cash. Net Fixed Income is Gross Fixed Income minus bond market hedging. Except where otherwise noted, government fixed income securities are aggregated by time to maturity and issuer. TIPS are not aggregated with ordinary treasuries. Duration is calculated using the modified duration of the fixed income instruments in the portfolio, or the effective duration in the case of fixed income instruments with embedded options and real effective duration in the case of inflation-linked bonds. Yield to Maturity ("YTM") for the Fund and the JP Morgan Global Government Bond Index is the average of the portfolio's fixed income instruments' YTMs, weighted by their net asset value. Real YTM is used for inflation-linked bonds. The calculations are gross and exclude non-performing fixed income instruments.

Orbis SICAV Funds: The Fund expenses exclude portfolio transaction costs. The performance related management fee becomes payable to Orbis on each Dealing Day as defined in the Funds' Prospectus.

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.

Fund Information

Orbis SICAV Global Balanced Fund: The benchmark is a composite index consisting of the MSCI World Index with net dividends reinvested (60%) and the JP Morgan Global Government Bond Index (40%).

Prior to 1 November 2016 the Orbis SICAV Emerging Markets Equity Fund was named the Orbis SICAV Asia ex-Japan Equity Fund, its Benchmark was the MSCI All Country Asia ex-Japan (Net) (US$) Index, and its peer group was the Average Asia ex-Japan Equity Fund Index.

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

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.

Fund Minimums

Minimum investment amounts in the Orbis Funds are specified in the respective Fund's Prospectus. New investors in the Orbis Funds must open an investment account with Orbis, which is subject to a US$100,000 minimum investment, country restrictions and/or other terms and conditions. For more information on opening an Orbis investment account, please visit www.orbis.com.

Sources

TOPIX: JPX Market Innovation & Research, Inc. 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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