

## Orbis Emerging Markets Equity

In March 2023, we discussed how our bottom-up research process had only uncovered a few attractive opportunities in China. Whilst valuations have since declined, we remain selective and continue to own just a handful of Chinese companies.

But there has been one notable addition to the portfolio. In May 2023, Orbis Emerging Markets (EM) Equity re-established a position in Tencent Holdings, the Chinese internet juggernaut. Regular readers will know that we have followed Tencent closely since 2008, during the initial work on the Chinese online game industry that led to our longstanding investment in NetEase. We have looked at Tencent repeatedly over that time, joined by our colleagues in the other Orbis investment teams, and we often discuss Naspers (whose key asset is a stake in Tencent) with our sister company Allan Gray in South Africa. With Tencent's shares down over 20% over the past year, we thought it would be worthwhile to share our perspective on the company.

Founded in 1998, Tencent is China's leading internet platform, with over a billion users. Those users spend an average of two and a half hours per day, or about a third of their total internet time, on Tencent's apps. Chief among those are two messenger-based super apps, WeChat (1.3 billion users) and QQ (0.6 billion users), which together reach nearly every internet user in China. Alongside WeChat and QQ, Tencent has built a broad ecosystem of online games, digital content, payments and cloud services. Several of these adjacent businesses are also industry leaders. In games, Tencent is China's largest video games publisher and operator, and its reach extends globally both through self-developed games and stakes in game studios like Supercell (developer of Clash of Clans) and Riot (developer of League of Legends). In payments, Tencent dominates the industry in a duopoly with Ant Group, an Alibaba affiliate.

Tencent's moat in social networks is formidable and one which we think has stood the test of time. It all began with the concept of network effects—a product gets more valuable as more users join the network. Over time, WeChat and QQ became China's primary way of communicating online for a wide range of purposes. More importantly, both apps have evolved from instant messengers into all-in-one super-apps that integrate messaging, social media, mobile payments, e-commerce, local services, mini-games, search, and many other functions. The two apps are so deeply entrenched that it is almost impossible to do anything in China without them. That has attracted competitors, but while other internet giants such as Alibaba and ByteDance have tried to launch their own social networks, all have so far fallen short.

More recently, the explosive growth of short-videos apps, such as Douyin (known internationally as TikTok) and Kuaishou have taken away both user time and advertising budgets from Tencent's news and entertainment apps, such as games and long-format video. Despite this, WeChat remains resilient with a growing user base and a consistent share of the time spent on the app.

As a result of this strong moat, Tencent's financial performance has been phenomenal. Over the last decade, the company's revenue and operating profits in its core operating businesses have grown by over 25% p.a., and it has generated over \$110 billion in free cash flow over that period. Moreover, its management team has an excellent track record in capital allocation. Over the years, they have shrewdly invested the cash generated from its core businesses into promising game studios and early-stage internet companies such as Pinduoduo, Meituan, JD, Epic and Riot Games. And since 2022, Tencent has returned around \$48 billion in capital to shareholders through the distribution of shares in its investee companies, share repurchases, and cash dividends. Furthermore, it has committed to return a further \$17 billion in capital to shareholders in 2024. This is equivalent to over 70% of its 2023 free cash flow and around 5% of its current market capitalisation.

However, since late 2020 the company has faced challenges on multiple fronts: China's regulatory clampdown on its internet giants, a shift towards less predictable oversight, a local economy struggling through a bursting property bubble, rising geopolitical tensions, and maturing online traffic. In our view, Tencent's management has navigated this uncharted territory much more smoothly than most of their competitors. And they haven't taken their eye off the ball internally. They have streamlined their operations, and sharpened their focus on future growth drivers. As a result, the company managed to grow its revenue and core operating profits at 8% p.a. over three extremely challenging years between 2021 and 2023.

With a portfolio of businesses at different stages of maturity, we expect Tencent to grow its underlying profits at 10% p.a. over the next 3 to 5 years, handsomely surpassing China's economic growth rate. We anticipate that this growth will come from three areas.

Firstly, WeChat's traffic is significantly under monetised. For example, even though around 20% of Chinese internet users' time is spent on the app, it only has an 8% market share of online advertising. And now that short video, mini-programs, and search within WeChat have reached a critical scale, these features should be

## Orbis Emerging Markets Equity *(continued)*

able to support enough ads to drive meaningful revenue growth, without compromising the experience for users. Furthermore, its advertising business will be the first and major beneficiary of Tencent’s AI capabilities, which should meaningfully improve its targeting accuracy and conversion rates.

Secondly, Tencent’s fintech business is expected to deliver double-digit growth, driven by growing commercial payment volumes, and an increase in value-added services, such as consumer loans facilitation, online insurance, and wealth management product distribution services.

Finally, Tencent’s online games segment has grown at a mere 2% p.a. over the last two years, primarily due to a lack of big hits from its new game releases and sporadic game license approvals. We think its online games business is likely to gain some momentum from 2024, given the imminent launch of several big budget games which the company has been heavily investing in.

Despite improving financial results, many investors remain bearish on Tencent, primarily due to geopolitical, regulatory, and macroeconomic concerns. Yet we must weigh these risks in the context of Tencent’s moat, management quality, cash generation, growth potential, and current valuation. The company currently has around \$134 billion in net financial assets, comprised of cash and cash equivalents and its stakes in companies such as those mentioned earlier. Tencent generated around \$23bn in free cash flow last year and we believe it should be able to grow that number at around 10% p.a. Stripping out the value of its investments, shares in Tencent trade at just 12 times free cash flow—an attractive valuation in our view.

Orbis EM Equity also has a longstanding position in Naspers, whose key asset (via subsidiary Prosus) is a stake in Tencent, which accounts for around 75% of its net asset value. Although Naspers has come a long way in simplifying its convoluted corporate structure, its shares still trade at an attractive 40% discount to the value of its parts. To close this discount, both Naspers and Prosus have embarked on open share repurchase programmes, funded by trimming their stakes in assets such as Tencent. In short, Naspers provides a cheaper way to access Tencent, upside from value-accretive buybacks, and reduced risk from US-China tensions.

### Our shares trade at a discount to emerging markets

Metrics for Greater China shares, Orbis EM Equity, and the MSCI EM Index

	Price / earnings (forward)	Dividend yield	Return on equity (10-year avg)
MSCI EM Index	13	2.8%	14%
Greater China shares in Orbis EM Equity	13	3.5%	17%
Orbis EM Equity	10	4.2%	14%

Source: Worldscope, Orbis. Data is based on a representative account for the Orbis EM Equity Strategy. In each case, numbers are calculated first at the stock level and then aggregated using a weighted average. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning. Greater China includes China, Taiwan and Hong Kong.

As shown in the table, the Greater China shares held by Orbis EM Equity trade at similar earnings multiples and higher dividend yields compared to a typical EM stock, despite having a much higher return on equity. In addition, many of our portfolio companies have launched opportune share buyback programmes in recent years—further increasing returns to shareholders. Tencent and Naspers together account for around 5% of Orbis EM Equity, and are good examples of our selective approach to stockpicking in Greater China. We continue to believe that owning a handful of companies in the region will deliver superior risk-adjusted returns for our clients over the long term.

Commentary contributed by Stanley Lu and Yang Zeng, Orbis Investment Management (Hong Kong) Limited, Hong Kong

*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 Emerging Markets Equity Fund

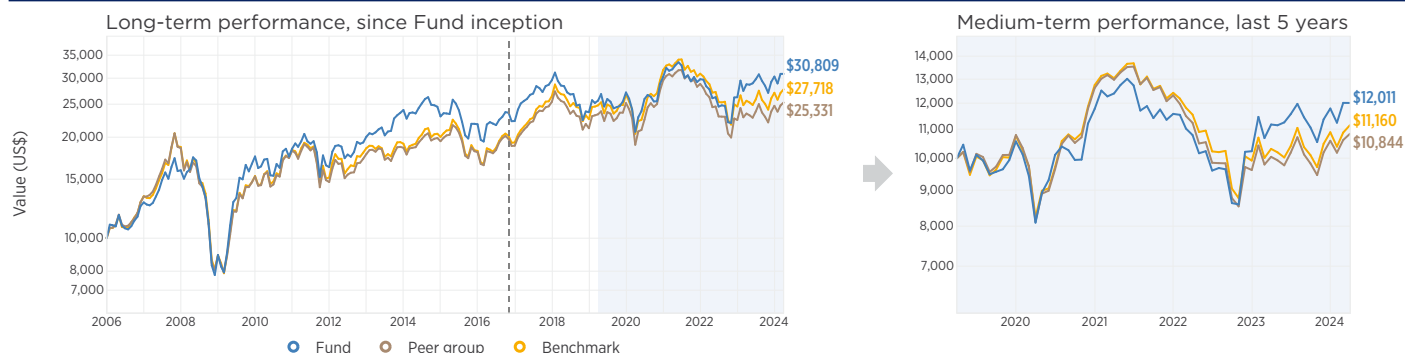
## Investor Share Class

The Fund is actively managed and seeks higher returns than the average of the equity markets of the world's emerging market countries, without greater risk of loss. The performance fee benchmark ("Benchmark") is the MSCI Emerging Markets Index, including income, net of withholding taxes ("MSCI Emerging Markets Index"). Currency exposure is managed relative to that of the MSCI Emerging Markets Index.

<b>Price</b>	US\$29.09	<b>Benchmark</b>	MSCI Emerging Markets Index
<b>Pricing currency</b>	US dollars	<b>Peer group</b>	Average Global Emerging Markets Equity Fund Index
<b>Domicile</b>	Luxembourg	<b>Dealing</b>	Weekly (Thursdays)
<b>Type</b>	SICAV	<b>Entry/exit fees</b>	None
<b>Fund size</b>	US\$2.1 billion	<b>UCITS compliant</b>	Yes
<b>Fund inception</b>	1 January 2006	<b>ISIN</b>	LU0241795839
<b>Strategy size</b>	US\$2.2 billion		
<b>Strategy inception</b>	1 January 2016		
<b>Minimum investment</b>	US\$50,000		

On 1 November 2016, the Fund broadened its investment strategy from Asia ex-Japan equities to Emerging Market equities and changed its name from Orbis SICAV Asia ex-Japan Equity Fund to Orbis SICAV Emerging Markets Equity Fund. Performance prior to the change in strategy was achieved in circumstances that no longer apply. Please refer to the Fund's prospectus for further details.

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



## Returns<sup>1</sup> (%)

	Fund	Peer group	Benchmark		
<b>Annualised</b>		<i>Net</i>	<i>Gross</i>		
Since Fund inception	6.4	5.2	5.7		
15 years	8.5	7.3	7.8		
10 years	2.7	3.1	3.9		
5 years	3.7	1.6	2.2		
3 years	(1.0)	(5.8)	(5.0)		
1 year	7.4	7.9	8.2		
<b>Not annualised</b>					
3 months	1.9	2.3	2.4		
1 month	0.0		2.5		
<b>Annual returns to 31 Mar</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
	(19.2)	53.3	(12.9)	3.6	7.4

## Risk Measures,<sup>1</sup> since Fund inception

	Fund	Peer group	Benchmark
Historic maximum drawdown (%)	55	61	62
Months to recovery	20	82	81
Annualised monthly volatility (%)	21.5	20.0	20.4
Beta vs Benchmark	1.0	1.0	1.0
Tracking error vs Benchmark (%)	7.4	2.2	0.0

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

Fund expenses	0.13
Total management fee <sup>2</sup>	2.20
<b>Total Expense Ratio (TER)</b>	<b>2.33</b>

## Geographical & Currency Allocation (%)

Region	Equity	Currency	Benchmark
Korea	30	31	13
China/Hong Kong	27	27	25
Rest of Asia	14	14	5
Taiwan	10	10	18
Europe and Middle East	8	8	10
Africa	5	5	3
Latin America	2	2	9
India	1	1	18
Other	0	2	0
<i>Net Current Assets</i>	<i>3</i>	<i>0</i>	<i>0</i>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Top 10 Holdings

	MSCI Sector	%
Jardine Matheson Holdings	Industrials	9.1
Taiwan Semiconductor Mfg.	Information Technology	7.9
Kiwoom Securities	Financials	7.9
NetEase	Communication Services	7.4
Samsung Electronics	Information Technology	5.5
Gedeon Richter	Health Care	5.3
Astra International	Industrials	4.9
Hyundai Elevator	Industrials	3.9
Korea Investment Holdings	Financials	3.8
Naspers	Consumer Discretionary	3.3
<b>Total</b>		<b>58.9</b>

## Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	90
Total number of holdings	36
12 month portfolio turnover (%)	46
12 month name turnover (%)	18
Active share (%)	82

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> Orbis SICAV Asia ex-Japan Equity Fund and its corresponding Benchmark and peer group data used for the period before 1 November 2016.

<sup>2</sup> Total management fee consists of 1.5% per annum ± up to 1%, based on 3 year rolling outperformance/(underperformance) vs Benchmark.



## Investor Notification regarding Change in Secretary and Director

*Orbis Global Equity Limited, Orbis Japan Equity (US\$) Fund Limited, Orbis Optimal (US\$) Fund Limited, Orbis Optimal SA Fund Limited, Orbis Optimal Overlay Funds Limited, Orbis Institutional Funds Limited and Selection of Orbis Funds (together, the "Orbis Funds").*

Effective 30 January 2024, James Dorr resigned as a Director of Orbis Institutional Funds Limited and as Secretary of each of the Orbis Funds. Samantha Scott has been appointed as Secretary of each of the Orbis Funds.

## Legal Notices

**Past performance is not a reliable indicator of future results. 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.** 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. Subscriptions are only valid if made on the basis of the current Prospectus of an Orbis Fund. Please refer to the respective Fund's Prospectus for full information on the risks associated with investing.

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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](http://www.orbis.com)).

Investors in a SICAV Fund can obtain a summary of their investor rights in English on our website ([www.orbis.com](http://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](http://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 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.





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 31 March 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' YTM, 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](http://www.orbis.com).

### Sources

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