



# ORBIS OEIC UK EQUITY FUND

**Half-Yearly Update**

**For the six months ended 31 December 2016**

## INTRODUCTION

We are pleased to present the half-yearly update for the Orbis OEIC UK Equity Fund (the “**Fund**”) for the six months ended 31 December 2016. The half-yearly update replaces the Short Reports for the Fund for this period and future periods.

## ABOUT THE ORBIS OEIC

Orbis OEIC (the “**Company**”), is a collective investment scheme authorised by the Financial Conduct Authority (the “**FCA**”) as a UCITS scheme, and was launched on 1 January 2014. Its head office is at 28 Dorset Square, London, NW1 6QG.

The Fund is available to investors resident in the UK. Each sub-fund of the Company is separately managed, charged, accounted for and assessed for tax. The assets of each sub-fund of the Company belong exclusively to that sub-fund and cannot be used to pay the debts of another sub-fund. Shareholders are not liable for the debts of the Company.

The Company is structured as an open-ended investment company, also known as an investment company with variable capital, or ICVC. FCA-authorised ICVCs are required to appoint an Authorised Corporate Director (“**ACD**”). The ACD is responsible for the day-to-day management of the ICVC. The Company has appointed Orbis Investment Management (Luxembourg) S.A. as its ACD. The ACD is a management company licensed and regulated by Luxembourg's *Commission de Surveillance du Secteur Financier* and is located at 155, rue Cents, L-1319, Luxembourg. The directors of the ACD are Alexander Cutler, James Dorr and Alireza Ziai.

## ABOUT THE UK EQUITY FUND

The Fund seeks to deliver higher long-term returns than the UK stock market, without taking on greater risk of loss. The Fund's success or failure with regard to this objective is measured by comparing its returns with those of its Benchmark, the FTSE UK All Share Index, which measures the performance of companies listed on the London Stock Exchange.

The ACD has appointed Orbis Portfolio Management (Europe) LLP (“**OPME**”) as the Fund's Portfolio Manager.<sup>1</sup>

## FIGURES USED IN THIS REPORT

Unless otherwise stated all figures used in this update are sourced from Orbis Investment Management Limited and provided as at 31 December 2016. Returns quoted are inclusive of dividends paid.

### Important Information

Past performance is not a reliable indicator of future results. Values may fall as well as rise and you may get back less than you originally invested. It is therefore important that you understand the risks involved before investing. This report does not constitute advice nor an offer to sell or a solicitation to buy shares of the Fund or other securities in the companies mentioned in it (“**relevant securities**”). It has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Entities and employees of the Orbis group of companies are not subject to restrictions on dealing in relevant securities ahead of the dissemination of this review.

<sup>1</sup> With effect from 1 January 2017, Orbis Investment Management Limited has replaced OPME as Investment Manager for the UK Equity Fund. Please refer to Subsequent Changes on page 5 for further details.

## PORTFOLIO MANAGER'S REVIEW

### Performance Summary

For the year ended 31 December 2016, the UK Equity Fund, Standard Class, returned 15.1%, while the benchmark, the FTSE UK All Share Index, returned 16.8%.<sup>2</sup> The average return of the Investment Association UK All Companies Sector (the Fund's peer group) was 10.9%.<sup>3</sup>

During the year, there was a meaningful increase in the Fund's exposures to the Basic Materials, Financials, and Oil and Gas sectors. This is reflective of our finding fewer opportunities among stable growth shares, and greater opportunities among shares of 'cyclical' companies, which are affected by economic cycles, such as miners, commodity producers and banks.

By contrast, the Fund's exposure to the Telecommunications sector fell from approximately 8% to nil, driven by our selling out of positions in Cable & Wireless and Vodafone Group. Cable & Wireless's strong outperformance after Liberty Global's bid for the company resulted in its stock price moving closer to our assessment of the true value of the underlying business. We took advantage of Vodafone's share price bump following above-expectation mid-year results to reduce the Fund's exposure and reallocate capital to preferred ideas elsewhere. The Fund's exposure to the Consumer Services sector also dropped meaningfully, as we sold out of the position in Carnival, as our conviction in its shares decreased, and we meaningfully reduced the Fund's exposure to First Group, following strong share price performance. At 31 December 2016, the largest single holding in the Fund was Royal Dutch Shell (8.3%).

### Portfolio Activity

The UK Fund's performance depends in large part on our ability to identify attractive individual stocks selections. This has arguably been more challenging than usual in recent years as many stockmarkets in the developed world have exhibited strong trending behaviour i.e. winners continuing to win. Our bottom-up research has identified a number of cyclical or 'deep value' laggards, which we consider to be priced below the true value of their businesses.

Rolls-Royce, the UK-based manufacturer of aircraft engines and power systems, and a 5% position in the Fund, is a good example of an opportunity where we believe extreme market pessimism has provided an excellent risk-reward trade-off to investors. Our long-term time horizon gives us an edge, as the risk that matters to us is not volatility or short-term disfavour, but the potential for permanent capital loss, which is often at its lowest when prices are depressed.

Rolls-Royce primarily serves clients in the civil and military aerospace, industrial, marine and nuclear markets on the basis of long-term contracts. Across the business, but particularly within the aircraft engine division, the long-term nature of its service contracts ensures steady revenues.

From 2011 to early 2014, amid a robust environment for global aircraft orders, Rolls-Royce was a stockmarket darling. Since then, however, the stock fell steadily out of favour as the company's operational performance weakened. By September 2015, when the Fund initiated a position, its shares had fallen by more than 45% from their peak.

Of course, many companies fall out of favour for good reason, but in the case of Rolls-Royce, we believed it was a temporary speed bump in what is otherwise a fundamentally strong business. For example, its core wide-body jet engine markets are a rational duopoly with nearly impenetrable barriers to entry until the mid-2020s and possibly much longer. On the operational side, we believed new leadership at the helm of the company's largest business – wide-body civil aerospace engines – could turnaround its depressed profitability.

Rolls-Royce's shares performed roughly in-line with the UK stockmarket in 2016. The market rewarded its ability to meet expectations in its mid-year results, after a series of negative surprises led many to expect more on the way. Nevertheless, the company's profitability remains depressed, and its shares continue to trade more than 40% below their historical peak.

Turnarounds can have a way of getting worse before they get better and Rolls-Royce could very well continue to be a volatile stock. However, we much prefer to invest your capital in attractively priced shares, like Rolls-Royce, rather than paying an excessively high premium for the 'safety' that other areas of the market appear to offer.

<sup>2</sup> Source: FTSE.

<sup>3</sup> Source: Morningstar. Copyright © 2017 Morningstar UK Limited. All Rights Reserved. The information relating to Morningstar contained herein: (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. Past performance is no guarantee of future results.

## FUND OVERVIEW

### Investment Objective

The Fund seeks to deliver higher long-term returns than the UK stock market, without taking on greater risk of loss. The Fund's success or failure with regard to this objective is measured by comparing its returns with those of its Benchmark, the FTSE UK All Share Index, which measures the performance of companies listed on the London Stock Exchange.

### Investment Policy

In pursuing its investment objective, the Fund will invest primarily in shares of companies with a listing and significant business presence in the United Kingdom.

While the Fund aims to be fully invested in shares of such companies, it may, to the extent permitted by the Fund's investment restrictions, also periodically hold cash and invest in other types of investments such as other transferable securities, cash, money market instruments, deposits, derivative instruments or other investment funds.

At any given time, the Portfolio Manager will invest in a limited selection of shares, with a listing and significant business presence in the United Kingdom, which it considers to be most undervalued compared to its assessment of what they are worth. As a result, the Fund's holdings will often be relatively concentrated in some industries, while at the same time having little or no exposure to others.

From time to time, the Fund may utilise exchange-traded derivatives, e.g. futures and options on broad stockmarket indices in the UK, for efficient portfolio management purposes by helping the Fund be continuously fully exposed to equities.

### Risk Profile

The fundamental risk associated with any stock portfolio is the permanent loss of capital. Stock values may fluctuate in response to the activities of an individual company or in response to general market and/or economic conditions.

The Fund's holdings usually differ meaningfully from the Benchmark and will often be relatively concentrated in some industries, while at the same time having little or no exposure to others. This means that events causing a decline in the value of holdings in industries in which the Fund is invested may have a significant effect on the Fund's value and its performance may differ significantly from the Benchmark.

Similarly the Fund holds a smaller number of different stocks than many other funds meaning that performance of a single stock within the portfolio may have a greater effect on the Fund's value.

The Fund offers no capital guarantee or protection.

More information in relation to risks in general may be found in the "Risk Factors" section of the Fund's Prospectus which can be found online at [www.orbisaccess.co.uk/reports-and-documents](http://www.orbisaccess.co.uk/reports-and-documents).

### Synthetic Risk and Reward Indicator

The Risk and Reward Indicator is a simple measure of the risk associated with investing in the Fund. The higher the rank, ranging from Category 1 to Category 7, the greater the potential reward but the greater the risk of losing money.

For periods prior to the Fund's launch where there is no performance history, the indicator is based on the Fund's Benchmark which is the FTSE UK All Share Index. Historical data, such as the data used in calculating this indicator may not be a reliable indicator of the future risk profile of the Fund.

The risk and reward category may shift over time and is not a target or a guarantee. The lowest category (i.e. Category 1) does not mean a risk-free investment.

The Fund has moved from **Category 6** to **Category 5** during the period because the Benchmark and performance data used have shown a medium to high range and frequency of price movements (volatility) of the underlying investments referenced by the Fund.

## PERFORMANCE AND CHARGES

### Single Year Performance (Standard Share Class)

12 months to 31 December	2012	2013	2014	2015	2016
Orbis OEIC UK Equity Fund	N/A	N/A	-9.1%	-3.0%	15.1%
FTSE UK All Share Index <sup>4</sup>	N/A	N/A	1.2%	1.0%	16.8%

**Past Performance is not a reliable indicator of future results.**

### STANDARD SHARE CLASS FEES (for the 12 months ending 31 December 2016)

Ongoing Charge	0%
Performance Fee	0%

Ongoing charges are based on expenses for the year ending 31 December 2016. Relevant expenses for the year did not exceed the expenses coverage cap detailed in the Fund's Prospectus and were therefore all met by Orbis Investment Management Limited.

The performance fee is 50% of the outperformance of the Fund over its Benchmark. The fee is paid out of the Standard Share Class and invested into a Reserve from which the manager draws periodically when there is sufficient value in the Reserve. The performance fee is refundable to the Fund at the same rate (50%) in the event of underperformance relative to its Benchmark in future periods when there is value in the Reserve. At the period end, the Fund was in Reserve Recovery and 17.26% of outperformance needs to be recovered before any fees will be payable again.

The performance fee is not charged for periods when the Fund is below its Reserve Recovery Mark. More detailed information may be found in the "Fees" section of the Fund's Prospectus.

## CHANGES DURING THE PERIOD

The following changes were made to the Company during the year and therefore the following changes were reflected in the Prospectus of the Orbis OEIC.

- With effect from 14 July 2016, distribution channels for the Company were broadened to allow the ACD to accept electronic renunciations from investors.
- With effect from 14 July 2016, updates to include certain regulatory changes and amendments required under UCITS V. The updates related primarily to the Depositary's functions; the Depositary's liability; the Depositary's ability to delegate; conflict of interest; and a list of the third-parties appointed by the Depositary. The Depositary's fee has also been amended as a result of the additional responsibilities under UCITS V (although this cost has been met by Orbis for all Funds during the period).
- With effect from 14 July 2016, updates to include certain regulatory changes and amendments to the tax rules.
- With effect from 12 October 2016, the Company adopted swing pricing in place of a dilution levy to counter the effects of dilution. A notice detailing the changes was sent to investors on 14 July 2016.
- With effect from 12 October 2016, the registered office address of the Company changed to 28 Dorset Square, London NW1 6QG.
- The Eligible Markets were updated as follows:

<sup>4</sup> Source: FTSE International Limited ("FTSE") © FTSE 2017. FTSE is a trade mark of the London Stock Exchange Group companies and is used by Orbis Investment Management Limited under licence. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

- American Stock Exchange (NYSE MKT LLC); Cincinnati Stock Exchange (National Stock Exchange); and NASDAQ OMX PSX were added to the approved list.
- Certain markets were removed from the approved list as a result of market consolidations and name changes.
- A review was carried out of disclosures concerning the target market of the Funds and the investor profile section of the Fund's Prospectus was updated.

## SUBSEQUENT CHANGES TO THE COMPANY

With effect from 1 January 2017, Orbis Investment Management Limited has replaced OPME as Investment Manager for the UK Equity Fund and has appointed OPME as Sub-portfolio Manager for that Fund. OPME provides investment decisions and advice primarily for currencies. OPME will be remunerated by Orbis Investment Management Limited.

For further information, the most recent Prospectus can be found online at [www.orbisaccess.co.uk/reports-and-documents](http://www.orbisaccess.co.uk/reports-and-documents).

**Our Client Support team is available to answer any questions that you may have. If you are contacting us about your account, we may ask you a few security questions first to ensure you are the true account owner. The Annual Long Report for Orbis OEIC for the period ended 31 December 2016 is available upon request. To obtain a copy, please contact our Client Support team by visiting [www.orbisaccess.co.uk/contact-us](http://www.orbisaccess.co.uk/contact-us).**