



# ORBIS OEIC

# GLOBAL BALANCED 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 Global Balanced 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 GLOBAL BALANCED FUND

The Fund seeks to balance income generation, capital growth, and risk of loss using a diversified global portfolio. The Fund’s success or failure with regard to this objective is measured by comparing its returns with those of its Benchmark, 60% MSCI World Index and 40% JP Morgan Global Government Bond Index. This Benchmark combines indices which measure the performance of some of the largest companies listed on world stock exchanges and bonds issued by governments around the world.

The ACD has appointed Orbis Investment Management Limited as the Fund’s Portfolio Manager.

## 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 or companies are not subject to restrictions on dealing in relevant securities ahead of the dissemination of this review.

## PORTFOLIO MANAGER'S REVIEW

### Performance Summary

The Global Balanced Fund, Standard Share Class, returned 36.9%, while the benchmark, comprised of 60% MSCI World Index and 40% JP Morgan Global Government Bond Index, returned 25.6%.<sup>1</sup> The average return of the Investment Association Mixed Investments 40-85% Shares Sector (the Fund's peer group) was 13.2%.<sup>2</sup>

The Fund's outperformance was primarily driven by our equity selections, with approximately 75% of capital invested in 'winners', as the vast majority of the largest positions outperformed. The Fund's investments in selected gold mining companies – Barrick Gold, Newcrest Mining and Newmont Mining – contributed meaningfully to performance, as a result of rising gold prices and improving business fundamentals. After the strong performance of these shares, we considered their stock price to be closer to the true value of the underlying businesses and sold out of Newmont Mining and trimmed the Fund's exposures to Barrick Gold and Newcrest Mining. A number of the Fund's holdings in energy companies, including Peabody Energy, Royal Dutch Shell, and BP also contributed meaningfully to relative returns, as they benefitted from the rebound in oil prices in the first half of the year. By contrast, JD.com, China's second-largest e-commerce player, was a leading detractor from the Fund's performance as growth in the value of the merchandise sold on its site slowed down for reasons we believe to be temporary.

### Portfolio Activity

At 31 December 2016, 84.2% of the Fund was invested in equities and 15.4% in fixed income and cash. After adjusting for stockmarket hedging, the net equity exposure was 66.3%. The bulk of fixed income investments were in corporate bonds, compared to the benchmark's 40% weight in government issues. With many government bond yields at or below zero, we continue to believe a large weight in them is not the best way to deliver on the Fund's mandate. Instead, we believe that a combination of equities, stockmarket hedging, and corporate bonds offers a better balance of risk and return. As we base our investment decisions on our assessment of the fundamental value of the stocks we invest in, we don't try to meet specified 'bond' and 'equity' quotas. Rather, we consider what each individual equity or bond will contribute to the risk-reward profile of the Fund. The effort to balance capital appreciation and income generation with the risk of loss naturally promotes securities that offer attractive yields. But yield alone is not a sufficient reason to purchase a security. Rather, two considerations trump all others: whether a security offers a discount to its intrinsic value, and whether holding it will improve the portfolio's overall balance of risk and return.

Finding many of the types of shares that would be regarded by the market as lower risk (such as shares that deliver high yields) to be overvalued on the basis of our fundamental approach and therefore rather risky from a valuation standpoint, we sold many of the portfolio's stable yielding holdings in early 2016, hunting for discounts in other areas. Often, the best way to protect against downside is to buy what's already down and inexpensive. Indeed, the portfolio's shift towards value reflects our belief that market prices do not reflect fundamental valuations. The long-term numbers support our thinking: in the US and globally, 'value shares' – that is shares that appear attractive based on a valuation of the business – have lagged their 'growth' counterparts – that is shares that appear attractive based on cash flows and the revenues generated by the business – since the end of 2006, which is the longest period value shares have ever gone without notching a new peak in relative performance. The portfolio's 'value tilt' has been driven by increased bank, energy, and health insurer holdings, as well as one-off 'deep value' opportunities. Wells Fargo is a recent example. Wells Fargo is one of the premier US lenders, and it has historically commanded a premium valuation compared to its banking peers. It is unusual for that premium to evaporate – yet it has this year. Wells was caught in a fake accounts scandal, which was sucked into the vortex of an especially partisan US election cycle, leaving the company stuck in congressional hearings and on the front page of newspapers for weeks. Investors responded to the negative press, pushing the shares down 14% from the beginning of September to early October. We believed the fake account issues to be old news – and likely short-lived in intensity – and initiated a position. Its share price has risen since then, but not to the point of our estimate of the business's intrinsic value, and it remains a 2.4% position in the Fund.

### Outlook

While only time will tell whether the shift towards more classic value shares was the right move in the near or medium term, we are confident that following our fundamental philosophy in a disciplined manner will bear fruit over the long run.

<sup>1</sup> Source: MSCI / JP Morgan.

<sup>2</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 balance income generation, capital growth, and risk of loss using a diversified global portfolio. The Fund's success or failure with regard to this objective is measured by comparing its returns with those of its Benchmark, 60% MSCI World Index and 40% JP Morgan Global Government Bond Index. This Benchmark combines indices which measure the performance of some of the largest companies listed on world stock exchanges and bonds issued by governments around the world.

### Investment Policy

In pursuing its investment objective, the Fund will invest primarily in shares of publicly listed companies and fixed income instruments. These may be located anywhere in the world, in any industry and issued by governments, corporate entities, partnerships, business trusts or other issuers.

While the Fund aims to be fully invested in selected shares of such companies and fixed income instruments, it may, to the extent permitted by the Fund's investment restrictions, also invest indirectly in commodities such as metals through commodity-linked instruments as defined below. The Fund may also invest in other types of investments such as securities, cash, money market instruments, deposits, derivative instruments or other investment funds.

The Portfolio Manager targets the portfolio to hold:

- 40 – 85% global equities
- < 50% fixed income instruments, cash and cash equivalents, and
- 0 – 10% commodity-linked instruments.

For these purposes, fixed income instruments include debt securities with fixed and floating rates and money market instruments, and commodity-linked instruments are instruments and securities where an investor's return and the issuer's payment obligations are contingent on, or highly sensitive to, changes in the value of physical commodities (such as metals, energy and agricultural products), including, without limitation:

- (a) exchange-traded funds that hold physical commodities or that enable investors to gain exposure to commodity indices; and
- (b) futures, forwards, options or swaps on a commodities index (but not on a single commodity);

but exclude exchange-traded funds that hold transferable securities, single name securities of companies that are exposed to the physical commodities sector, or futures, forwards, options or swaps on a financial index that is not linked to physical commodities.

However, the composition of the portfolio may from time to time move outside these targets in pursuit of the Fund's investment objectives.

At any given time, the Portfolio Manager will invest in a limited selection of shares and fixed income instruments, from around the world that 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 geographic regions or industries, while at the same time having little or no exposure to others.

From time to time, the Fund uses derivatives such as futures and options on broad stock market indices in the regions in which the Fund is invested for efficient portfolio management purposes including with the intention of reducing the risk of loss associated with the Fund's equity investments as a result of a significant decline in the stock markets. This risk reduction may not be achieved.

Similarly, the Portfolio Manager actively manages the Fund's currency exposure, which can also differ greatly from the currency exposures of its Benchmark and therefore may significantly influence returns. The Fund will not enter into derivatives transactions for the purpose of causing net negative currency exposures. Net negative currency exposures

which arise as a result of the Fund's regular portfolio management activities are eliminated taking due account of the interests of Shareholders.

### Risk Profile

Investing in stocks may offer a higher rate of return than investing in short-term and longer-term debt securities. However, the risks, including the risk of loss, associated with investments in stocks may also be higher.

The Fund does not aim to generate a significant level of income and does not target a specific yield and may not therefore be appropriate for investors seeking a regular income stream from their investment.

The Fund's currency exposure is actively managed. As a result, the Fund's currency exposures can differ greatly from those of the Benchmark which may significantly influence returns.

The Fund's holdings usually differ meaningfully from the Benchmark and will often be relatively concentrated in some geographic regions or 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.

The Fund's derivative use may add to the Fund's returns during periods of stockmarket declines and detract from them during periods when stockmarket returns exceed those on cash. Use of derivatives generally may result in the Fund being leveraged and can result in increased volatility in the net asset value of the Fund.

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. 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 is in **Category 4** because the Benchmark and performance data used have shown a medium 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 ended 31 December	2012	2013	2014	2015	2016
Orbis OEIC Global Balanced Fund	N/A	N/A	4.8%	4.2%	36.9%
60% MSCI World Index and 40% JP Morgan Global Government Bond Index <sup>3</sup>	N/A	N/A	9.7%	4.4%	25.6%

**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	3.68%

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, 2.7% of the value of the Fund's Standard Share Class was held in the Fee Reserve and was therefore available to be used as refunds for future underperformance.

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.

<sup>3</sup> Source: MSCI World Index data source is MSCI Inc. "MSCI" is a trademark of MSCI Inc. and is used by Orbis Investment Management Limited under licence. The JP Morgan Global Government Bond Index data source is J.P. Morgan Securities LLC. "JP Morgan" is a trademark of JPMorgan Chase & Co. and is used by Orbis Investment Management Limited with permission. The composite index (1) may not be redistributed or used as a component of a financial product or index; (2) does not constitute investment advice; and (3) is provided on an "as is" basis with each of its users assuming the risk of his/her use. MSCI, JP Morgan and their related parties expressly disclaim all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. None of those parties shall have any liability for any damages (whether direct or otherwise).

- 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:
  - 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 Prospectus was updated.

The Fund's 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).