ORBIS ACCESS

ORBIS ACCESS FEE EXPLAINED

Investment fund fees can be confusing. This video aims to make our fee easy to understand.

Over 95% of investment funds charge a flat fee[1] – so you pay no matter how your fund performs. We don't do it that way. This video explains how we do do it.

There are four main things you need to know:

One: **Our fee is performance based only**.
A fee is only charged when the fund beats the benchmark (we'll explain benchmarks fully in a minute, but basically a benchmark is an index of relevant shares we can compare our fund's performance against).

Two: We go halves.
Our fee is half of any market beating returns we produce. So if we beat the benchmark by £4, we charge £2.

Three: We offer a refund.
If we don't beat the benchmark, we refund half the difference. So if the fund makes £4 less than the benchmark, a £2 refund is due.

Four: No barriers.
There are no entry or exit fees.

Basically, we believe you should only pay management fees when your investment outperforms the benchmark as a result of our stock-picking efforts. This 'pay for performance' principle is simple, but the details of how it works need some explaining. In order to properly understand it, first you need to know a bit about investing in general.

WHAT'S A 'BENCHMARK'?

A benchmark is a yardstick used by fund managers to evaluate the performance of their funds.

Typically, it's a group of shares in companies in the same industry or geographic region. For instance, the FTSE Euro Top 100 Index is used as benchmark to track the performance of the biggest companies in Europe. It's basically a tool to show how well a fund is doing compared to that market.

Each of the funds you can invest in with us has a relevant benchmark. For example, our Global Equity fund uses the MSCI World Index as its benchmark. This tracks over 1,500 stocks listed on stock exchanges worldwide and is one of the most commonly used benchmarks for global funds.

That's benchmarks. But there's one more thing before we can get into the details of our fee...

ACTIVE FUNDS VS. PASSIVE FUNDS

A passive fund sets out to track a given index like the FTSE 100. There's no 'manual' stock picking, the fund just tracks the market's movements. It's the investing equivalent of following the crowd.

An active fund tries to 'beat' its market benchmark. Active fund managers carefully analyse the prospects of companies, trying to find shares that they think are going to do better than the benchmark. Because of the time and skill it takes to find and research the potentially fruitful companies, fees are typically higher than passive funds.

So, passive funds follow their benchmarks, whereas active ones seek to beat theirs. Although it's important to remember, there is absolutely no guarantee this will happen.

Orbis is an active fund manager. We painstakingly research the market, going over companies with a fine tooth comb, looking to find opportunities.
It's hard to beat the benchmark consistently.

In fact, fewer than four in ten active funds have beaten their benchmark over the last five years[2].

And yet almost all Active Fund managers charge management fees no matter how they perform.

But we don't take a percentage of your whole investment as a fee. We take half of any outperformance above the benchmark. If we don't beat the benchmark, you don't pay us a fee.

Let's look at the ins-and-outs of our fee in more detail.

EXACTLY HOW OUR FEE WORKS

Every day, we compare each of our fund's performance against its benchmark.

If the fund performs better than its benchmark, we take half of that outperformance. If it underperforms the benchmark, a refund of half of that underperformance is paid back to the fund.

Let's take three very different days in the market as examples. Each day we'll start with £100 in the fund:

Day one: Your £100 investment grows to £104. Meanwhile, the benchmark grows too, but only to £102. That means we beat the benchmark by £2, and take half as a fee: £1. Leaving your investment at £103.

Day two: Just as there are good days in the market, there are bad ones too. Unfortunately this is one of them, this time your £100 investment drops to £98. However, the benchmark has dropped even further, to £96. In other words, even though you've lost money, you haven't lost as much as the benchmark. We've still beaten the benchmark by £2 so the fee still applies, and your investment would be worth £97. So, it's important to be aware that you could be charged a fee during a period when you've lost money.

Day three: Today we haven't beaten the benchmark. When that happens you don't pay a fee – and – we actually refund half of the underperformance from 'The Reserve'.

Imagine the benchmark grew by £4, but your £100 investment only grew to £102. We're £2 behind the benchmark, half of that underperformance is £1, so your investment is worth £103 for the day.

Our way of refunding underperformance is unique. Let's look at it in more detail.

'THE RESERVE'

So as we know, half of any outperformance on your investment over the benchmark is taken as a fee. But equally, half of any underperformance in relation to the benchmark is repaid in the form of a refund.

Remember, fees and refunds aren't taken or given directly to you. They're added or subtracted to or from the value of the fund.

But how exactly does this refund mechanism work?

Normally the fee goes from your fund to the fund manager. But with us the fee flows into a pot in the middle.

We call this pot 'The Reserve'.

Some of the fee money in The Reserve goes to us – a maximum of one third of it every year – but most of it stays in there, to potentially be used as refunds in the future.

The amount of money in The Reserve fluctuates depending on performance. For instance, if we've been doing really well, more money will flow into The Reserve.

If we haven't been doing so well, there will be less money in The Reserve and it might even run empty.

If this happens, we don't start charging fees again until previous underperformance has been recovered.

SO THAT'S US.

It's up to you to decide which type of fee provides the best value for money. You may prefer the certainty of a fixed fee, no matter how your fund performs. But that's not us.

With us you'll pay a variable fee, based on performance vs. the benchmark. With us you may pay more than you would have with a comparable fixed fee fund. Especially when we really outperform.

But we've calculated that for our fees to exceed those of the average active fund, our performance has to be in the top third[3].

To put it another way, you only pay an above average fee when your fund is doing much better than the benchmark and when you are enjoying above average returns.

And remember. You pay us nothing at all if your fund doesn't outperform the market.

So, that's our fee, explained.

SOURCES

[1] Fewer than 100 out of a total of about 2,500 UK funds have a performance fee. Source: "Fund charges and costs", IMA website, retrieved August 2014

[2] IMA UK All Companies, Active Funds: Annualised Relative Performance (vs. declared performance benchmark) over 5 years. Data source: Lipper for IM, Q4 2012

[3] Internal analysis of IMA Global equity, UK All Companies and 40-85% Mixed Asset funds from 2009 to 2014. Data source: Lipper for IM, Q2 2014