Orbis Global Equity

In most areas of human endeavour, the value of better performance increases linearly within a narrow range as one goes from average to exceptional. In a few disciplines, however, value can increase exponentially and by an extraordinary magnitude, usually where individual performance can be leveraged across a vast market or large organisation. As Bill Gates famously noted, “A great lathe operator commands several times the wages of an average lathe operator, but a great writer of software code is worth 10,000 times the price of an average software writer.” Other pursuits where this dynamic exists include media, professional sports, and, indeed, investing.

In our experience, however, there are few areas where this phenomenon is more pronounced than with corporate CEOs. The difference in long-term shareholder value creation between an average or even top quartile CEO and a top 1% CEO can defy the imagination. Few examples provide a more vivid illustration than Howmet Aerospace, which we owned in the Orbis Global Equity Strategy almost continuously from 2013 until this most recent quarter.

We first invested in Alcoa, as Howmet was then known, with a belief that the business was substantially undervalued. While most investors were focused on its legacy aluminium operations, we believed the real crown jewel—its mission-critical aerospace parts business—was both underappreciated and underperforming its potential. Unfortunately, for the first five years of our investment, the market’s pessimistic view prevailed. The company languished and badly underperformed the market, suffering from lack of price and cost discipline, terrible capital allocation, poor investor communication, corporate governance challenges, and a revolving door of CEOs. Finally, in early 2019, following a failed attempt to sell the company, Howmet installed John Plant, the recently named board chair, as CEO.

John came to Howmet following a distinguished tenure running the auto supplier TRW. Upon taking the helm at Howmet, John moved with breakneck speed, spinning off and selling non-core businesses, instilling commercial discipline across the organisation to ensure the company was fairly compensated for the value it delivered to customers, simplifying the organisational structure and eliminating layers of management, removing structural costs, driving operational focus, and reinvesting in those areas where the company was most competitively advantaged.

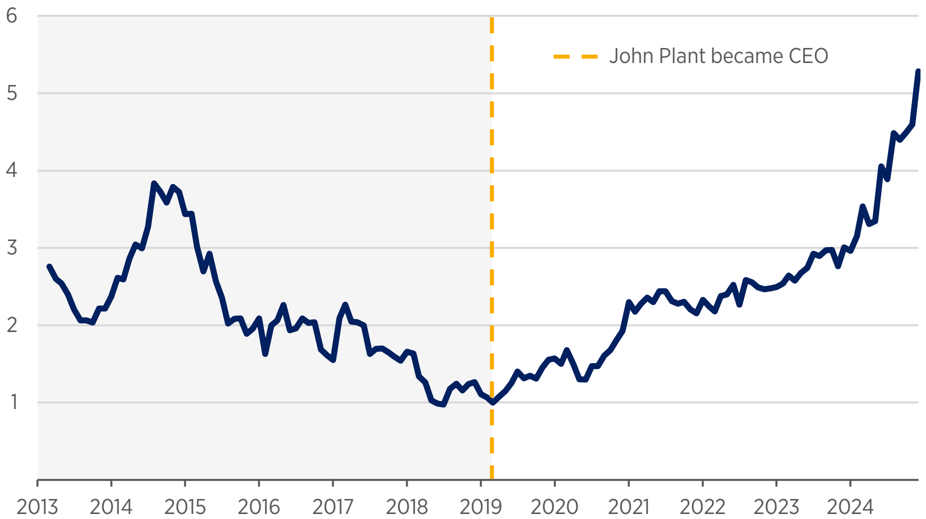
Now, nearly six years later, the results have been extraordinary. Howmet shares have outperformed their aerospace peers and the US market by a wide margin—and John’s transformation of the company will rightly go down in the annals of corporate history as one of the greatest industrial turnarounds of the last several decades.

What is most notable about this example, however, and why it is such a striking illustration of the power of a top 1% CEO, is that John achieved these results during a period of unprecedented challenges in the commercial aerospace market and with the same assets as his predecessors—he simply was much more effective.

To be sure, CEO talent is a necessary ingredient for such extraordinary achievement, but it is usually not sufficient. CEOs also need the right motivation. Ideally, the largest dose of such motivation is intrinsic—the person simply loves to play the game and is inspired by the challenge—but financial incentives matter a lot, and often more than we want to admit. As Charlie Munger observed, “I think I’ve been in the top 5% of my age cohort all my life in understanding the power of incentives, and all my life I’ve underestimated it. And never a year passes but I get some surprise that pushes my limit a little farther.”

John Plant’s transformation of Howmet Aerospace

Relative return of Howmet Aerospace vs its sector, before and after new CEO



Source: LSEG Datastream, Orbis. Relative return series represents monthly total price returns in US dollars of Howmet Aerospace relative to the FTSE World Aerospace & Defense Sector Index. The series is rebased to 1 when John Plant became CEO of Howmet Aerospace in March 2019. Note that Howmet Aerospace was part of Arconic Inc., which separated into two independent companies, Howmet Aerospace and Arconic Corporation, on 1 April 2020.

Orbis Global Equity *(continued)*

Unfortunately, and although well-intentioned, most corporate boards fail to put in place incentives that animate the intensity and entrepreneurial spirit needed to drive extraordinary shareholder outcomes. With little skin in the game and heavily influenced by proxy advisors and passive investors who are indifferent to the relative performance of companies, too many corporate boards appear to be primarily focused on minimising their own career risk rather than maximising returns for shareholders. This usually means sticking closely to consultant-defined "best practice" and ensuring that CEO payouts don't deviate too far from the norm, especially to the upside.

This has important consequences.

First, although the typical executive compensation scheme is intended to align CEO interests with those of shareholders and to "penalise" underperformance, the reality is that we often see narrow differences between the rewards for average and extraordinary performance. Facing a situation with limited upside opportunity, the rational strategy for value-maximising CEOs is to focus on avoiding risks that could cause them to lose their jobs and their multi-million-dollar annuity payments. This is hardly a recipe for greatness.

Second, and perhaps more importantly, such schemes are unlikely to attract top 1% CEOs in the first place. Great CEOs, like great investors, are hungry to eat their own cooking and will seek opportunities that allow them to participate meaningfully in the value they create. At Howmet, John opted to receive only a modest salary with no traditional incentive compensation in exchange for a large grant of restricted stock that would only vest if Howmet achieved ambitious stock price targets over the long-term. Knowing John, we are doubtful he would have taken on the role for a more traditional incentive package.

Today, John's ownership stake in Howmet is worth approximately $400 million. For shareholders, this should be a cause for celebration—indeed, we have been delighted with the difference Howmet's performance has made for our clients. But it is exactly the sort of outcome that many corporate boards seek to avoid because of the ire it can draw from proxy advisors and passive investors who are often more focused on the absolute dollar value of management compensation than value-for-money.

Ultimately, this speaks to a deeper truth that is at the root of the issues outlined above. By their nature, most public companies suffer from a significant and difficult to resolve principal-agent problem between shareholders and the executives hired to run the company, which is exacerbated by the lack of alignment from the boards who are entrusted to manage the problem in the first place.

Our preference, therefore, is to avoid the problem altogether by investing alongside principals like John. Our experience has been that a top 1% talent with a meaningful ownership interest in the business is an extraordinarily powerful force for long-term shareholder value creation. Of course, these opportunities are rare—and even less likely to be undiscovered by other investors—so we have to make the most of them when they come along. Fortunately, the vast US market provides a fertile hunting ground, and we are pleased that a substantial portion of the Orbis Global Equity Strategy's US holdings today fall into this bucket.

Last quarter, we wrote in detail about Brad Jacobs and our investment in QXO. In our view, Brad is the quintessential top 1% owner-entrepreneur, and our investments in his companies today (QXO, RXO, GXO, and XPO) represent about 15% of the portfolio. Other US companies that we believe fall into this category include Interactive Brokers (Thomas Peterffy and Milan Galik; 4% of the Strategy), Motorola Solutions (Greg Brown; 1% of the Strategy), and Corpay (Ron Clarke; 6% of the Strategy). Collectively, these stocks represent more than a quarter of the portfolio today and about half of the Strategy's US exposure.

Of these positions, Corpay is worth revisiting. We last discussed the company in our September 2022 commentary when it was known as Fleetcor, and it has since become the Strategy's second-largest holding. Chairman and CEO Ron Clarke, who built the company over the last 20+ years, owns about 5% of the shares, and we have high conviction that he is very much a top 1% CEO.

Put simply, Corpay helps other companies manage their expenses and pay their vendors. The company today operates three major lines of business: Vehicle Payments, which facilitates payment for fuel, tolls, and parking, Corporate Payments, which enables accounts payable automation and cross border payments, and Lodging Payments, which helps businesses manage travel accommodation for customers and employees.

Orbis Global Equity *(continued)*

While these lines of business may appear disconnected on the surface, the critical common foundation for each business is a powerful two-sided network of merchants and business customers that creates a significant competitive moat and enables Corpay to offer compelling value to customers while also earning attractive economics.

These attractive unit economics are another important similarity across Corpay's different businesses. In financial terms, Corpay spends about 50 cents in sales and marketing to acquire a dollar of recurring revenue that sticks around for 10 to 12 years and drops through to operating income with around 60-70% incremental margin. This basic formula has been remarkably consistent over the long term, even as the underlying mix of revenue has evolved away from the company's roots in fuel cards.

With great visibility into these attractive and consistent unit economics, Ron seeks to manage the company to produce a steady growth algorithm of approximately 10% revenue growth and low teens EBITDA (earnings before interest, taxes, depreciation, and amortisation) growth. Moreover, very high returns on organic reinvestment have allowed Corpay to grow at an attractive rate while simultaneously generating substantial free cash flow, which Ron has astutely reinvested into high-return acquisitions, further enhancing value for shareholders.

Long-term results under Ron's leadership have been stunning, with 10%+ revenue growth, 50%+ EBITDA margins, 30% returns on equity, and 20% earnings per share growth. These metrics put Corpay in a rarified group—only a small handful of well-loved, celebrated businesses like Microsoft, Nvidia, and Visa have achieved similar results over the last decade.

Despite these impressive attributes and track record of shareholder value creation, Corpay shares have lagged in recent years due to a confluence of short-term headwinds and investor fears about potential disruption in the company's fuel card business. Since 2021, shares have derated from about 22x forward earnings to about 15x, while the S&P 500's multiple has risen to 28x forward earnings. Meanwhile, the likes of Microsoft, Nvidia, and Visa currently trade at 31x, 31x, and 27x forward earnings, respectively.

We believe this creates an unusually attractive opportunity. Indeed, not only do we expect recent headwinds to abate, but we see potential for revenue growth to accelerate above 10% over the next three to five years. For example, we believe Corporate Payments has a durable growth rate of 15-20%, and will soon represent more than 35% of revenue, compared to about 20% of revenue in 2019. At the same time Corpay's Fleet business—which has grown more slowly—will fall to just over 30% of revenue compared to nearly half in 2019.

The net effect of this evolving mix should be a higher blended organic growth rate, even without any improvement in the Fleet business. Additionally, as with all great entrepreneurs, Ron is not simply drifting along with the tide but is instead continuously exploring new potential avenues of value creation. We see several such initiatives that have the potential to accelerate growth beyond the positive mix benefit.

It's not often that we can find a business with Corpay's superior fundamentals trading at a meaningful discount to the US market. It is even more unusual to find one that is also run by a top 1% owner-CEO like Ron Clarke.

Compare this to the situation that passive investors face today when allocating capital to the US market, where a small handful of widely appreciated winners have driven performance and pushed the market's valuation to an elevated level. While it's possible that the momentum continues, we believe the risk-reward proposition is unappealing. We are fortunate that we can play a very different game and invest instead in a much smaller set of companies where the opportunity is underappreciated and the odds appear stacked in our favour.

Commentary contributed by Matt Adams, Orbis Investment Management (U.S.), L.P., San Francisco

Orbis Global Equity Fund

Investor Share Class

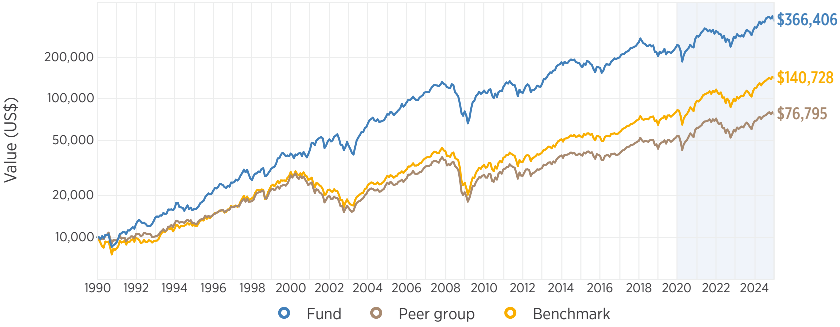
The Fund is designed to be exposed to all of the risks and rewards of selected global equities. It aims to earn higher returns than world stockmarkets, without greater risk of loss. The performance fee benchmark ("Benchmark") of the Class is the FTSE World Index, including income, gross of withholding taxes ("FTSE World Index"). Currency exposure is managed separately to equity exposure.

Price	US$366.17
Pricing currency	US dollars
Domicile	Bermuda
Type	Open-ended mutual fund
Fund size	US$5.8 billion
Fund inception	1 January 1990
Strategy size	US$22.2 billion
Strategy inception	1 January 1990

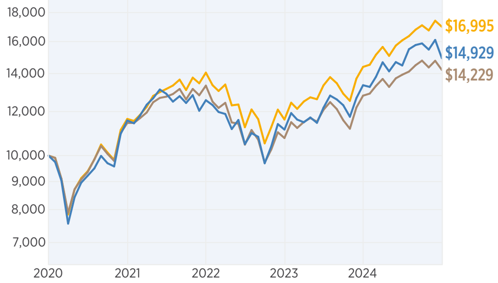
Benchmark	FTSE World Index
Peer group	Average Global Equity Fund Index
Minimum investment	US$50,000
Dealing	Weekly *(Thursdays)*
Entry/exit fees	None
ISIN	BMG6766G1087

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	Peer group	Benchmark
Annualised		*Net*	*Gross*
Since Fund inception	10.8	6.0	7.8
30 years	11.0	6.2	8.5
10 years	7.7	6.9	10.2
5 years	8.3	7.3	11.2
3 years	5.9	2.2	6.5
1 year	11.7	11.1	18.0
Not annualised			
3 months	(5.9)	(3.8)	(0.6)
1 month	(7.3)		(2.5)

Geographical & Currency Allocation (%)

Region	Equity	Currency	Benchmark
Developed Markets	**84**	**93**	**95**
United States	55	54	69
United Kingdom	11	6	4
Continental Europe	10	10	11
Japan	5	15	6
Other	4	9	5
Emerging Markets	**15**	**7**	**5**
Net Current Assets	*1*	*0*	*0*
Total	**100**	**100**	**100**

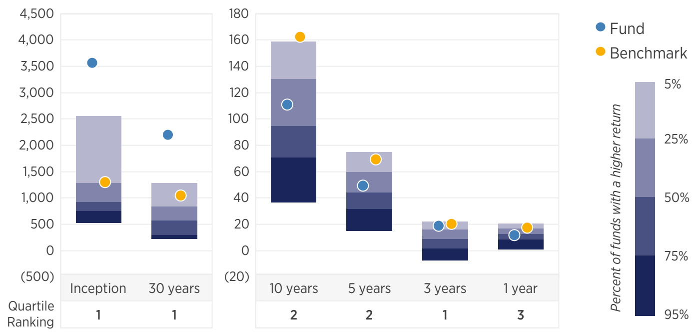
Top 10 Holdings

	FTSE Sector	%
QXO	Technology	7.4
Corpay (was FLEETCOR)	Industrials	5.8
Alphabet	Technology	4.5
Interactive Brokers Group	Financials	4.4
UnitedHealth Group	Health Care	4.1
Nintendo	Consumer Discretionary	3.8
Elevance Health	Health Care	3.4
Global Payments	Industrials	3.0
RXO	Industrials	2.9
RenaissanceRe Holdings	Financials	2.6
Total		**41.7**

Risk Measures, since Fund inception

	Fund	Peer group	Benchmark
Historic maximum drawdown (%)	50	52	54
Months to recovery	42	73	66
Annualised monthly volatility (%)	16.6	14.4	15.3
Beta vs Benchmark	0.9	0.9	1.0
Tracking error vs Benchmark (%)	8.7	4.0	0.0

Ranking within peer group, cumulative return (%)



Portfolio Concentration & Characteristics

% of NAV in top 25 holdings	70
Total number of holdings	67
12 month portfolio turnover (%)	57
12 month name turnover (%)	34
Active share (%)	93

Fees & Expenses (%), for last 12 months

Management fee[1]	1.48
For 3 year performance in line with Benchmark	*1.50*
For 3 year outperformance/(underperformance) vs Benchmark	*(0.02)*
Fund expenses	0.04
Total Expense Ratio (TER)	**1.52**

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] 1.5% per annum ± up to 1%, based on 3 year rolling outperformance/(underperformance) vs Benchmark.

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).

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 31 December 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

 The latest average fund indices provided by Morningstar are for 24 December 2024. To allow comparison of returns to a common date we have extended the average equity and multi-asset class fund indices to reflect the subsequent movement of the applicable benchmark indices. For the purposes of extending the Average Global Equity Fund Index as a comparator of the Orbis Optimal Funds, the FTSE World Index has been used. Average fund returns are not shown for periods of a month or less as high price volatility and late fund reporting regularly cause them to be significantly restated by Morningstar.