

Capitalising on international opportunities

Allan Gray and Orbis not only share a common founder, but also share a similar investment philosophy. We look at what a businessperson would be prepared to pay for a company, and we then contrast that to the share price. We would look to buy those shares trading at a significant discount to the business or intrinsic value and avoid those trading at a premium.

Orbis seeks to invest in companies globally that are trading at a discount to intrinsic value offering attractive upside potential which should outperform the market over the long-term at a lower risk of capital loss. Typically Orbis takes a three to five year view when investing and whilst often deemed a value manager, Orbis is instead a valuation-based manager.

Because Orbis' starting point is a clean sheet, building a portfolio based on bottom-up stock selection and the relative attractiveness of individual shares globally, the portfolios often look very different to the benchmark. For instance, Orbis likes Samsung as an investment and thinks it offers value in absolute terms and relative to its peers around the world. They therefore hold it in the portfolio irrespective of its weighting in the benchmark.

With respect to offshore equities, investors can either use the Orbis Global Equity or a regional fund such as the Orbis Japan Equity Fund. With the Orbis Global Equity Fund, an investor is effectively asking Orbis to invest in those shares that they find most attractive around the world. With respect to a regional fund such as the Orbis Japan Equity Fund, the investor is choosing the region, namely Japan and is asking Orbis to find the most attractive shares in Japan. Irrespective as to whether using the Orbis Global Equity Fund or a regional fund, the same investment philosophy is applied. Orbis seeks to invest in companies that are trading at a discount to intrinsic value, offering attractive upside potential which should outperform the market over the long-term at a lower risk of capital loss.

If you were to buy the World Index now, you would be putting 48% of your money in the US and 10% in Japan, Contrast that to 1989 when you would have been putting 30% into the US and 44% into Japan: this at a time when the US was about to experience one of its biggest bull markets and Japan was about to experience a 13-year bear market. This is why we don't like investing in the Index. Inherently, it has more of what has gone up and less of what has gone down. The Orbis Global Equity Fund's exposure is currently approximately 44% to Asia comprising 23% exposure to Japan and 21% exposure to Asia ex-Japan. Contrast this to the World Index, which has just 10% exposure to Japan and 4% exposure to Asia ex-Japan.

Many people often ask whether the Orbis Global Equity Fund is not over-exposed to Asia in general and Japan in particular. From a bottom-up stock selection basis, Orbis does not think so. True, Asia has run and Japan has picked up significantly in the past three years, but Orbis has been observing and investing in Asia for some time, and continue to be enthusiastic about it in terms of company fundamentals and valuations from a long-term perspective.

It has been the consistent application of Orbis' long-term philosophy and process of bottom up stock selection that has resulted in the Orbis Global Equity Fund returning 15.1% after fees per annum since 1990 versus the World Index of 7.5% per annum and the average global equity fund of 6.7% per annum.

Commentary by Mahesh Cooper, head of Orbis in South Africa