

Asia presents interesting investment opportunities, but for the average investor, researching these opportunities would be a massive undertaking fraught with unknowns. One way interested investors can access Asia is through funds that invest specifically in the region, for example, the Orbis SICAV Asia ex-Japan Equity Fund (USD), available via the Allan Gray offshore platform.

The Asia-ex Japan Equity Fund is designed to remain fully invested in Asian equities outside Japan and seeks to earn higher returns than the average of the Asia ex-Japan equity markets, without greater risk of loss. Investors looking for an actively managed portfolio of Asian (ex-Japan) equities may wish to consider adding this fund to their portfolio.

Like all Allan Gray and Orbis funds, the portfolio is the result of our bottom-up approach to researching and selecting stocks.

Understanding geographic exposure

While the positioning of the Asia-ex Japan Equity Fund is the outcome of many decisions on individual stocks, it is not unusual for areas of concentrated exposure to emerge. The two largest regional exposures in the Fund's benchmark are to Korea and Greater China, which together make up 73% of the MSCI Asia ex-Japan Index. Currently, the Orbis Asia ex-Japan Fund's exposure to these two regions is slightly overweight at 77%, however, the underlying exposure is very different. This is shown in **Table 1**, which outlines the geographic exposure for both the Fund and its benchmark.

Table 1 | Geographical deployment (February 2014)

Country	Fund's % exposure to		% of MSCI Asia ex-Japan Index
	Equities	Currencies	
Korea	40	20	20
China	30	26	25
Hong Kong	6	6	13
Taiwan	1	1	15
Greater China	37	33	53
Singapore	9	9	7
India	6	6	8
Malaysia	5	5	5
US	0	26	0
Indonesia	0	0	3
Other	1	1	4
Net current assets	2	0	0
Total	100	100	100

Source: Orbis

Orbis' bottom-up analysis has uncovered a number of attractively-valued equities in Korea, which is the Fund's largest overweight exposure relative to the benchmark (40% vs 20%). Importantly, the allocation of capital to Korea is not the result of a macroeconomic view on the country; rather, it is driven by the individual opportunities Orbis has found in the region. Korea has become the cheapest major market in Asia as investors have been scared by the political landscape on the peninsula and the lacklustre domestic economy. Orbis believes the market is overly pessimistic about these concerns and, as a result, has found several Korean shares trading at what they consider to be attractive valuations.

The Fund's currency exposure is managed separately to its equity exposure (also shown in Table 1). It is interesting to note that Orbis' enthusiasm for Korea does not extend to the won. At current exchange rates, Orbis believes there is a risk that the won may turn out to be a relatively poor store of purchasing power. As a result, and despite the bullish outlook on the Korean

equities, the Fund has reduced its weighting towards the won to match that of the benchmark.

The Fund is slightly overweight Chinese equities (30% vs 25% in the benchmark), but it is significantly underweight the other regions in the Greater China area, namely Hong Kong and Taiwan. This exposure is based on the opportunities in each of those regions and it is interesting to note that the exposure to China fell from 42% at December 2012 to 30% at December 2013. Meanwhile, the Fund's exposure to Taiwan has more than halved over the past 12 months, from 4% to 2%, and is at its lowest level since inception. At its peak in June 2008, the Fund had almost one-third of the portfolio in Taiwanese stocks.

Equity holdings

As is typical of Allan Gray and Orbis' investment philosophy, the Fund maintains a high level of concentration in the stocks that Orbis equity analysts believe hold the greatest value. Today, the top 10 holdings account for more than half of the Fund.

Four of the top 10 holdings are companies listed in South Korea, together accounting for approximately 25% of the Fund exposure. These include Samsung Electronics, Korea Electric Power, KB Financial Group and Lotte Shopping.

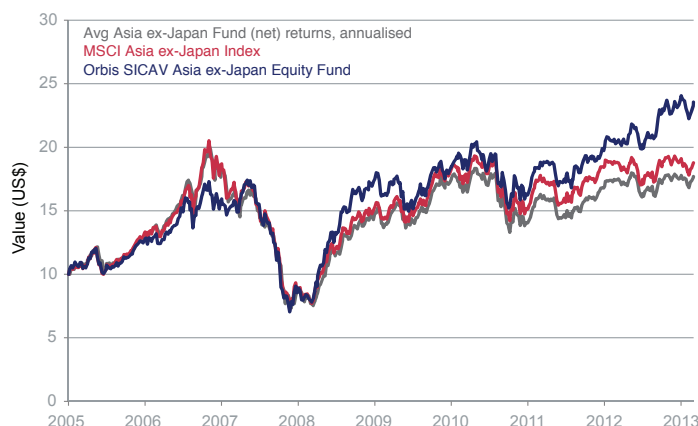
While the Fund is driven entirely from the bottom up, it is useful to consider some of the broader areas that Orbis has not found attractive. For example, there is a notable underweight in Chinese and Hong Kong financials (16% of the benchmark). In addition, and similar to other Orbis Funds, the Fund has a low exposure to the energy, materials and industrials sectors (which together comprise over 20% of the benchmark).

Performance

Since its inception in 2006, the Fund has returned just over 13% per annum, outperforming the benchmark by 4.8% on an annualised basis. The past calendar year has seen unusually strong performance for the Fund relative to its benchmark and the average Asia ex-Japan Fund, as shown in **Graph 1**. This outperformance was primarily derived from Orbis' stock selections.

We can never be sure when, or if, the market will recognise the value that we see in our stock selections, but we do know that we will continue to apply our fundamental, long-term, and contrarian philosophy to invest clients' capital in the best opportunities we can find. Whether markets are expensive or cheap, Orbis and Allan Gray believe this approach offers the potential for superior long-term returns and a reduced risk of loss.

Graph 1 | Performance since inception*



* Value of US\$10 invested at inception
Source: Orbis

By Seema Dala, Head of Orbis Client Servicing in South Africa

The Orbis SICAV Asia Ex-Japan Equity Fund (USD) is regulated in Bermuda by the Bermudan Monetary Authority. Returns are net of fees, include income and assume reinvestment of dividends. While we have endeavoured to ensure the accuracy of the information herein, such information is not guaranteed as to accuracy or completeness. Collective Investment Schemes (CIS) are generally medium to long-term investments. The value of participatory interests may go down as well as up and past performance is not a reliable indicator of future results. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. CIS are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from Allan Gray Unit Trust Management (RF) Proprietary Limited, a member of the Association for Savings & Investments SA and supervised by the Financial Services Board in South Africa. Commission and incentives may be paid by investors to third parties and if so, would be included in the overall costs. The Fund is priced weekly. Figures quoted are for the periods indicated for a \$10 investment, using NAV-NAV prices, with income distributions reinvested. Performance is quoted in US dollar currency terms. A prospectus is available on request from Allan Gray Unit Trust Management (RF) Proprietary Limited. Certain capitalised terms are defined in the Prospectus. Allan Gray Investment Services Proprietary Limited is an authorised financial services provider.