Product Assessment

Report as at 10 Oct 2024

RECOMMENDED

Orbis Emerging Markets Equity Fund

Rating issued on 10 Oct 2024 | APIR: ETL9166AU

Investment objective

To achieve higher returns than the average of the emerging markets' equity markets, without greater risk of loss. However, Orbis' internal outperformance objective is 5% p.a. of the MSCI Emerging Markets Index $A (before fees) over the longer term.

Manager	Orbis Investment Management Limited
Distributor	Orbis Investment Management Limited
Sector	International Shares \ Emerging Markets
Investment Style	Value
RI Classification	Integrated
Absolute Risk	Very High
Relative Risk	Active - Benchmark Unaware
Investment Timeframe	7+ Years
Benchmark	MSCI Emerging Markets $A
Min Investment Amount	$10,000
Redemption Frequency	Daily
Income Distribution	Annually
Fund Size (31 Aug 2024)	$17.10M
Management Cost	1.20% p.a. Incl. GST
Performance Fee	25% of the Fund's outperformance (after fees) over the MSCI Emerging Markets Index $A is paid into a reserve. Underperformance refunds are issued at the same rate.
Buy / Sell Spread	0.35% / 0.35%
Inception Date	01 Jan 2016

Fund facts

- Expected to hold 25 to 40 stocks
- Exhibits a mid-cap bias
- Portfolio turnover is expected to average 60% p.a. over a market cycle

Viewpoint

The Fund, managed by Orbis Investment Management (Orbis), offers investors a contrarian-styled, benchmark-unaware emerging markets equities exposure. Zenith believes that the Fund is a highly differentiated and attractive offering, with a longstanding investment process managed by high-quality investment personnel.

Orbis was founded by Dr Allan WB Gray in Bermuda in 1989 as a global fund manager to provide pooled investment services to wholesale and retail investors. Orbis remains privately owned, with the Allan and Gill Gray Foundation owning the majority of the firm.

Orbis' Emerging Markets Equity team of six, based in Hong Kong, is led by Stefan Magnusson. Zenith believes Magnusson is a highly capable investor with the requisite experience and expertise to successfully manage the Fund.

The Fund is managed through a dual portfolio manager approach, with Stanley Lu managing a sub-portfolio focused on China and Taiwan. Magnusson manages the balance, ensuring the overall portfolio remains within mandate parameters. Magnusson and Lu are supported by four analysts structured along both regional and generalist lines. Furthermore, the team can draw upon the broader insights of Orbis' research platform, which comprises 51 investment professionals. Zenith believes the investment team is well-resourced and experienced.

Orbis' contrarian investment philosophy centres on the belief that equity markets are often inefficient or irrational. As a result, a company's share price may deviate substantially from its intrinsic value over the short to medium term. Orbis seeks to identify companies that are misunderstood or out of favour and trading significantly below their long-term intrinsic value.

Applying in-depth fundamental research, Orbis assesses the perceived risk and reward relationship of each investment idea. Zenith has a high degree of confidence in the analytical depth and rigour of Orbis' stock selection process. In addition, we believe the research process provides analysts with considerable freedom and the robust peer review stage ensures investment discipline is maintained across all investment ideas.

Orbis seeks to construct a portfolio that contains the highest conviction stock ideas of the team and reflects broader market and portfolio level considerations. Overall, Zenith believes Orbis' portfolio construction process captures the investment team's best stock ideas.

Zenith notes that Orbis has consistently applied its investment approach since 2006, generating a strong performance track record. However, Orbis launched the strategy with an Asia ex-Japan universe. In November 2016, the strategy was broadened to include all Emerging Markets companies.

Fund analysis

Fund characteristics

Constraint	Value
Number of Stocks	25 to 45
Absolute Stock Weight	Max: 10%
Cash Exposure	Max: 10%

Investment objective and philosophy

The Fund's investment objective is to achieve higher returns than the average of the emerging markets equity markets, without greater risk of loss. However, Orbis' internal outperformance objective is 5**%** p.a. over the MSCI Emerging Markets Index $A (before fees) over the longer term.

Orbis seeks to identify companies that are misunderstood or out of favour and are trading significantly below their long-term intrinsic value. Applying in-depth fundamental research, Orbis assesses the perceived risk and reward relationship of each investment idea.

Orbis' contrarian investment philosophy centres on the belief that equity markets are often inefficient or irrational. Investors may be motivated by greed and fear, succumbing to herd instincts, often overlooking a company's fundamental worth. As a result, a company's share price may deviate substantially from its intrinsic value over the short to medium term.

Orbis invests in these companies, believing that business fundamentals will prevail over market noise in the longer term, which leads to share prices appreciating towards intrinsic value.

Zenith notes that Orbis has consistently applied its investment approach since 2006, generating a strong performance track record. However, Orbis launched the strategy with an Asia ex-Japan universe. In November 2016, the strategy was broadened to include all Emerging Markets companies.

Portfolio applications

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer term with some income. However, this higher growth is also often associated with higher volatility, particularly with international equities when currency movements are considered. International equities provide investors with a broad exposure to industries and countries. With this broad universe, it is expected that managers can deliver superior returns to more conservative asset classes. Therefore, we recommend investors adopt a longer time frame when investing in international equities. It is also recommended that investments in international equities are blended with domestic equities and other asset classes to improve portfolio diversification.

Zenith believes that an investment in emerging market equities provides an ideal complement to an investor's broader international equities exposure. Zenith believes the Fund is best used as a satellite holding in a diversified international equities portfolio for investors seeking greater exposure to emerging markets. Given the highly volatile nature of emerging market equities, the primary reason for allocating to the Fund should be to enhance portfolio returns rather than to reduce portfolio volatility. In addition, Zenith notes that returns from emerging market equities have, at points in the market cycle, been highly correlated with Australian equities.

Given the contrarian investment process, the Fund will hold a benchmark-unaware portfolio of companies that are typically experiencing a period of distress or are unpopular with investors. Additionally, the Fund will typically maintain a tilt towards companies with smaller market capitalisations. As such, Zenith expects the Fund's performance and volatility profile to differ materially from that of the benchmark and peers over the short term. Given the Fund's characteristics, Zenith believes it may be more suited to investors with a higher risk tolerance, that is, those who can withstand periods of high volatility for the potential of higher returns.

Zenith believes that the Fund is best used as a complementary exposure to a diversified international equity allocation rather than a standalone exposure. The Fund could be blended with style-neutral or growth-orientated international equities products to achieve a more diversified exposure to the sector, depending on the investor's risk tolerance. Given the risks inherent in global equities and this strategy, investors are encouraged to adopt a long-term investment time horizon of at least seven years.

The Fund's portfolio turnover is expected to average approximately 60% p.a. over a market cycle, which Zenith considers to be moderate. Orbis has indicated that approximately 67% of the expected turnover is attributed to resizing existing positions and approximately 33% is due to complete sales and new additions. Given this expected level of turnover, the Fund's returns are expected to be delivered via both capital appreciation in the unit price and the realisation of capital gains in income distributions. In addition, realised capital gains are likely to be eligible for the capital gains tax discount. As such, holding all else equal, this could be beneficial for investors on higher marginal tax rates, although the Fund may also be appealing to investors who are nil/low tax rate payers or high marginal tax rate payers who invest through tax-effective vehicles such as a superannuation fund.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Integrated
Has Responsible Investment Policy	Yes
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

Absolute performance

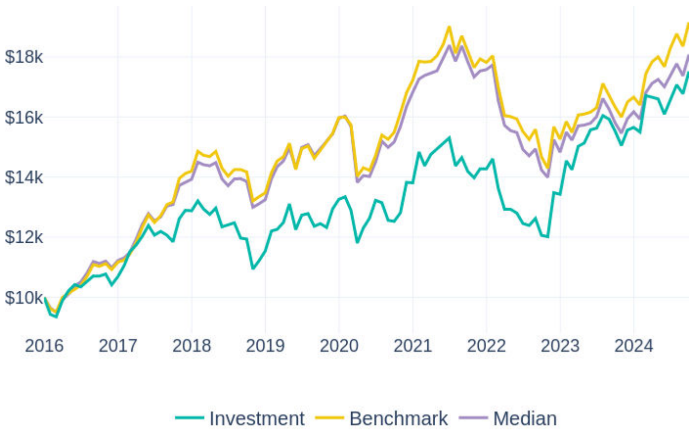
Performance as at 30 Sep 2024

Monthly performance history (%, net of fees)

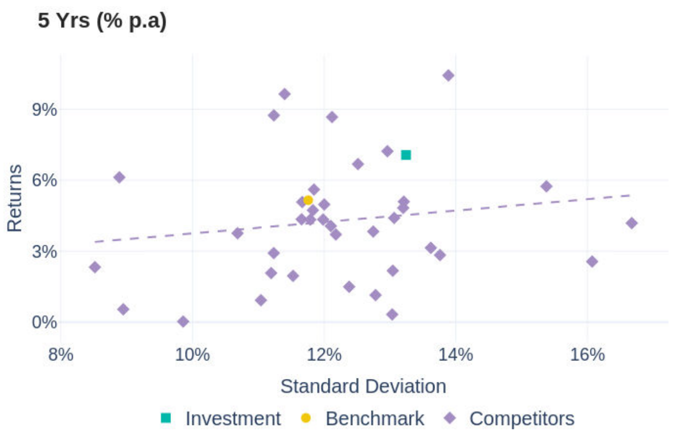
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	-0.99%	7.83%	-0.33%	-0.34%	-3.06%	3.17%	2.82%	-1.74%	4.44%				11.91%	14.94%
2023	8.30%	-2.03%	5.45%	0.74%	2.90%	0.35%	2.68%	-0.76%	-2.50%	-3.09%	3.44%	0.57%	16.58%	9.15%
2022	2.36%	-6.75%	-5.08%	-0.01%	-0.99%	-2.69%	-0.53%	1.89%	-4.44%	-0.40%	12.19%	-0.39%	-5.92%	-14.33%
2021	7.44%	-3.11%	2.65%	1.21%	1.27%	1.17%	-6.08%	1.91%	-3.17%	-1.44%	2.14%	-0.04%	3.35%	3.44%
2020	0.63%	-3.38%	-8.45%	4.25%	2.66%	4.69%	-0.59%	-4.45%	-0.27%	2.28%	7.89%	-0.10%	4.15%	7.77%

**MSCI Emerging Markets $A*

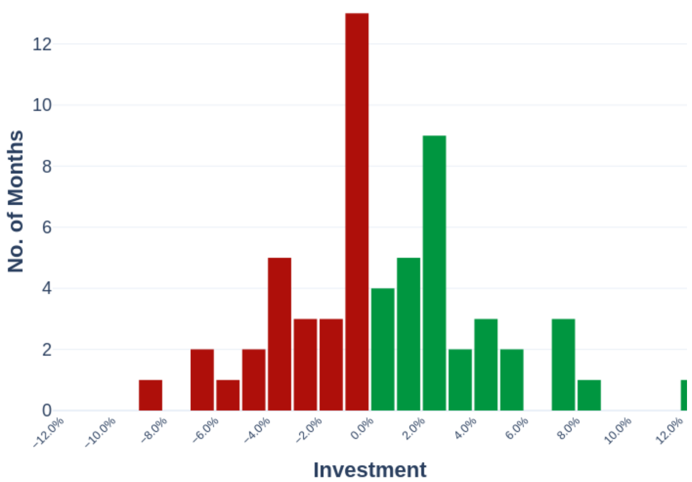
Growth of $10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)

Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Investment	12.82%	7.29%	7.07%	5.74%	6.62%
Benchmark	17.27%	1.76%	5.15%	5.49%	7.71%
Median	14.39%	0.46%	3.88%	4.72%	7.00%
Cash	4.37%	2.80%	1.80%	1.80%	1.83%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	20 / 36	4 / 33	5 / 29	16 / 21
Quartile	3rd	1st	1st	3rd

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	10.99%	13.02%	13.24%	13.07%	12.42%
Benchmark	9.33%	11.71%	11.76%	11.49%	10.88%
Median	8.43%	10.95%	11.28%	10.89%	10.36%
Downside Deviation (% p.a.)					
Investment	4.81%	6.73%	7.70%	8.16%	7.72%
Benchmark	3.83%	7.35%	7.94%	7.75%	7.12%
Median	3.75%	7.21%	8.00%	7.58%	6.96%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	0.77	0.34	0.40	0.30	0.39
Benchmark	1.38	-0.09	0.29	0.32	0.54
Median	1.19	-0.21	0.18	0.27	0.50
Sortino Ratio (p.a.)					
Investment	1.75	0.67	0.68	0.48	0.62
Benchmark	3.36	-0.14	0.42	0.48	0.83
Median	2.67	-0.32	0.26	0.39	0.74

For consistency purposes, Zenith benchmarks all funds categorised within our International Shares - Emerging Markets sub-asset class against the MSCI Emerging Markets Index $A. Accordingly, all performance and risk measurements are calculated with the Zenith-assigned index.

All commentary below is as at 31 August 2024.

The Fund's investment objective is to achieve higher returns than the average of the emerging markets’ equity markets, without greater risk of loss. However, Orbis' internal outperformance objective is 5**%** p.a. of the MSCI Emerging Markets Index $A (before fees) over the longer term.

The Fund has outperformed the benchmark and median manager over the most recent three and five-year periods. However, the Fund has underperformed the benchmark since inception.

The Fund's volatility, as measured by Standard Deviation, has been higher than the benchmark since inception. Zenith believe this is an expected outcome given Orbis' contrarian investment approach.

The Fund's Sharpe ratio has been less than that of the benchmark since inception, which indicates that investors have been insufficiently compensated for its risk.

Investors should be aware that Orbis does not target a specific level of income for the Fund, with distributions made annually where possible. Zenith would prefer a more frequent distribution profile to alleviate potential issues involved with large distributions at 30 June.

Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Excess Return	-4.45%	5.53%	1.91%	0.26%	-1.09%
Monthly Excess (All Mkts)	50.00%	63.89%	55.00%	51.19%	48.57%
Monthly Excess (Up Mkts)	50.00%	61.11%	54.29%	52.94%	49.25%
Monthly Excess (Down Mkts)	50.00%	66.67%	56.00%	48.48%	47.37%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Downside Capture	116.96%	81.39%	93.64%	99.28%	102.71%
Upside Capture	89.06%	114.08%	104.93%	100.80%	96.28%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Investment	3.62%	4.81%	6.76%	6.38%	6.29%
Median	1.63%	2.10%	2.13%	1.98%	1.90%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Investment	-1.23	1.15	0.28	0.04	-0.17
Median	-1.77	-0.62	-0.60	-0.39	-0.37

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	7 Yrs	Inception
Beta	1.12	1.03	0.97	0.99	0.98
R-Squared	0.90	0.86	0.74	0.76	0.74
Correlation	0.95	0.93	0.86	0.87	0.86

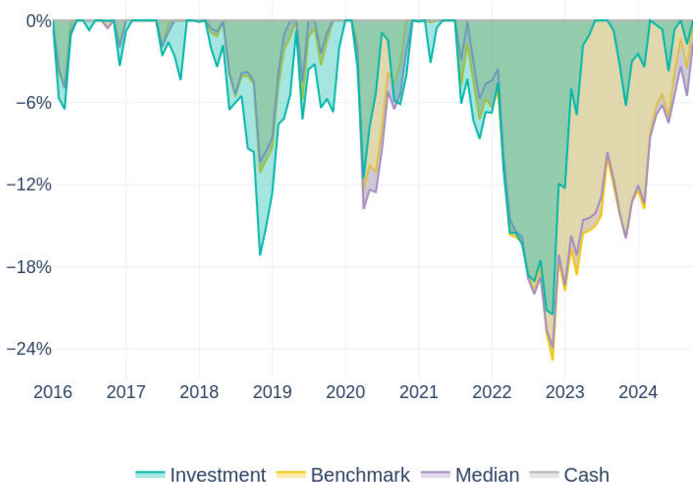
All commentary below is as at 31 August 2024.

Zenith seeks to identify strategies that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. In addition, we view a strategy's ability to produce stronger upside capture ratios relative to downside capture ratios as an attractive feature. Disappointingly, Orbis has failed to achieved both of these outcomes since the Fund's inception.

Given Orbis' contrarian investment process, the Fund's Tracking Error has remained relatively high over all assessed periods.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



All commentary below is as at 31 August 2024.

Given Orbis' benchmark-unaware investment approach, the magnitude of the Fund's drawdowns are expected to differ from that of the benchmark. Since inception, the Fund's drawdown profile has been mixed relative to the benchmark.

Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks:

Key person risk: As with most fund managers, Orbis is subject to a level of key person risk. Zenith believes there is a high degree of key person risk for the Fund, with Stefan Magnusson integral to the investment strategy. As such, his departure would trigger an immediate reassessment of our rating on the Fund. However, Zenith believes Magnusson is well incentivised to remain with the firm over the medium term.

Relative performance risk: Orbis constructs the Fund through a benchmark-unaware investment approach, which may result in performance diverging substantially from the benchmark and peers.

Longevity risk: Funds that fail to grow funds under management (FUM) to a scalable level could be wound up and terminated by the manager or Responsible Entity. The risks associated with a fund wind-up are principally that of timing, performance slippage and forcing a crystallisation of tax consequences to investors, which may be to their detriment.

As at 31 August 2024, FUM in the Fund was $A 17 million. While the Fund is currently unprofitable in its own right, Zenith considers Orbis to be financially stable and in a position to support the operation of the Fund in the short to medium term. Notwithstanding this, we will continue to monitor the level of FUM in the Fund.

Capacity risk: Excessive levels of FUM can inhibit a manager's ability to trade portfolio positions effectively and therefore limit outperformance potential. Orbis has set an indicative capacity target of $US 10 billion for the strategy. As at 31 August 2024, Orbis managed approximately $US 2.2 billion in the strategy and $US 40.4 billion firmwide.

Overall, Zenith does not believe the Fund is currently impacted by capacity limitations. Notwithstanding this, Zenith will continue to monitor the underlying strategy's liquidity and returns closely to ensure that increasing levels of FUM do not begin to negatively impact performance.

Frontier markets risk: The strategy can hold frontier market companies. Although frontier market equities can enhance returns, additional risks are involved. Whilst the Fund has no formal limit to frontier market equities, Zenith notes the exposure to these markets has historically been immaterial.

Security/asset selection

Orbis' stock selection process follows a flexible yet disciplined framework. The Fund's investment universe consists of all listed stocks in emerging markets.

Ideas are initially generated through the use of a quantitative screen, which draws upon information from Orbis' proprietary database containing price and fundamental company data for over 10,000 companies within emerging and frontier markets. Analysts are afforded the discretion to use parameters deemed relevant to a particular company or situation. Analysts also conduct a preliminary qualitative screen of the universe.

A shortlist of stocks is populated from the output of the screens. Initial qualitative analysis is conducted, with analysts seeking to understand the reasons behind the company's undervaluation and whether these concerns are legitimate and sustainable. Analysts review key fundamental and valuation metrics whilst identifying the most critical aspects of a prospective investment thesis.

For any company that passes the initial analysis, analysts conduct in-depth, fundamental research. As part of this, Orbis will closely examine two or three factors deemed critical to a company's intrinsic value and whether a margin of safety exists. The aim of the research process is to produce an internal target price that reflects the company's long-term intrinsic value. Target prices are compared against current market prices to determine a stock's level of attractiveness.

Contact with company management is a key focus, particularly in the later stages of research and in ongoing reviews. Analysts may also meet with competitors, customers, suppliers and other relevant parties as required. Upon the completion of an analyst's research effort, a detailed report is produced and shared with the broader research team.

An important component of the research process is peer review. When an analyst believes an investment idea is worthy of portfolio inclusion, a Policy Group Meeting (PGM) will be convened. The PGM is a forum for investment ideas to be subjected to rigorous peer review, with the team actively attempting to find flaws in every investment thesis.

The exact composition of each PGM differs depending on the idea being presented. However, it will always consist of the analyst who is recommending the stock and a panel of additional investment professionals who bring relevant experience and insights to the discussion. For example, a regional analyst can leverage the insights of a global sector analyst covering the same stock. In addition, members of the quantitative research team may present their insights on particular stocks. Zenith believes the peer review that takes place within each PGM provides an additional layer of robustness to the overall investment process, as well as providing further insight into a stock's downside risk.

After an investment idea has passed the PGM review, analysts are able to recommend the stock for purchase in the Fund. This is expressed through individual paper portfolios, where positions are weighted according to an analyst's conviction level. Whilst all analysts are expected to contribute ideas to the Fund, the portfolio managers are ultimately responsible for constructing their individual sub-portfolios.

Overall, Zenith has a high degree of confidence in the analytical depth and rigour of Orbis' stock selection process. In addition, we believe the research process provides analysts with considerable freedom and the robust peer review stage ensures investment discipline is maintained across all investment ideas.

Responsible investment approach

Orbis has an established Responsible Investment Policy, last updated in 2024, that guides its investment decisions.

Environmental, social and governance (ESG) factors are evaluated as part of the team's fundamental analysis process, with any concerns discussed in the research report on each company. Specifically, Orbis will not invest in companies where ESG concerns could impact the sustainability of company profits.

Zenith believes that this qualitative analysis of a company's operations is crucial on a forward basis, given that a company's performance with regards to ESG considerations is increasingly being reflected in its share price. Overall, Zenith is comfortable with Orbis' approach to ESG.

Portfolio construction

Orbis manages the Fund without reference to the index and aims to hold the highest conviction ideas identified by the investment team, subject to a number of broad risk constraints. Each investment idea is assessed based on its own merit and perceived risk/reward relationship. The Fund is expected to exhibit a value and mid-cap bias.

The Fund is managed through a dual portfolio manager approach, with Magnusson ultimately responsible for the Fund. The portfolio managers seek to construct a portfolio that contains the highest conviction stock ideas of the team and reflects broader market and portfolio level considerations, which include:

- Level of conviction
- Liquidity
- Portfolio diversification requirements

The Fund is expected to hold approximately 25 to 40 stocks. Zenith notes that one of the key drawbacks of a dual portfolio manager structure is the potential for immaterial holdings to be present in the Fund.

The strategy is permitted to hold up to 10% in cash and cash equivalents, averaging below 1% over the past three years. Zenith views Orbis' low cash holding positively, believing actively-managed funds should be fully invested and that allocations to cash should be maintained at a minimum.

Circumstances where a position would typically be removed from the portfolio include:

- Price target has been met
- A more attractive investment opportunity has been identified

The Fund's portfolio turnover is expected to average approximately 60% p.a. over a market cycle, which Zenith considers to be moderate.

Overall, Zenith believes Orbis' portfolio construction process captures the investment team's best stock ideas.

Risk management

Risk management is incorporated throughout the Fund's security selection and portfolio construction processes.

At the security selection stage, investment ideas are identified through rigorous and detailed research. As Orbis' investment process is contrarian in nature, the assessment of the downside risks to individual stocks takes on greater significance. One of the key aspects that analysts cover in their research is to gain an understanding of the reasons why companies become out of favour with the market and whether that belief is justified. Zenith believes Orbis' research is high quality, allowing for an understanding of all aspects of a company, particularly downside risk.

At the portfolio construction level, Orbis uses a proprietary risk management system to identify and monitor any unintended biases. In addition, Orbis is aware of the potential liquidity risks that arise from its investment process. Orbis monitors portfolio liquidity on an ongoing basis to ensure liquidity risks are managed appropriately.

Zenith is satisfied that the Fund's risk management processes are embedded throughout the entire investment process and that liquidity of holdings is adequately monitored. In addition, the flexible portfolio constraints ensure that Orbis is not restricted in its ability to deliver outperformance. However, investors should be aware there is significant reliance on management judgement and skill.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	Not disclosed	1.10% p.a.
Management Fees and Costs	Not disclosed	1.01% p.a.
Transaction Costs	Not disclosed	0.06% p.a.
Performance fees	Not disclosed	0.04%
Performance fees description	25% of the Fund's outperformance (after fees) over the MSCI Emerging Markets Index $A is paid into a reserve. Underperformance refunds are issued at the same rate.	
Management Cost	1.20% p.a.	0.99% p.a.
Buy / Sell spread	0.35% / 0.35%	0.25% / 0.26%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average management cost (in the table below) is based on the average management cost of all flagship International Shares - Emerging Markets funds surveyed by Zenith.

For any fund that charges a performance fee, Zenith would prefer an additional excess return hurdle (i.e. a target return greater than the index return plus the management cost) and considers this best practice.

Zenith believes the Fund's performance fee structure is unique, where accrued performance fees are paid into a reserve as opposed to the full amount being paid out of the Fund to the manager. The reserve mechanism enables Orbis to effectively refund performance fees during periods of underperformance relative to the benchmark. Where this occurs, accrued performance fees held within the reserve are paid back to the Fund and reflected in the Fund's Net Asset Value such that it is captured in the unit price for investors. The calculation and accrual of performance fees takes place on a daily basis.

Should the balance in the reserve reach zero, due to prolonged underperformance for example, Orbis will be unable to implement a refund. However, Orbis will continue to track the Fund's returns whereby no performance fees will be charged until all prior underperformance has been recouped.

The reserve is invested in the Fund and will fluctuate in value in accordance with its performance. A portion of the reserve is paid out to Orbis on a monthly basis where the balance is positive and is subject to the lesser of:

- One-third (per year) of the value of the reserve
- Cap of 2.5% (per year) of the Fund's Net Asset Value

Given the imposition of a performance fee, we believe the presence of the highly unique reserve and refund mechanism promotes strong alignment of interests with investors and incentivises Orbis to outperform. In addition, we believe the annual cap on the performance fees payable to Orbis is attractive.

Overall, Zenith believes the Fund's fee structure is expensive, relative to peers, given its stated objectives. However, there is insufficient performance data at this stage to conduct meaningful analysis on whether the fees paid are justified.

The fees mentioned above are reflective of the flagship version only. Fees may differ when the product is accessed through an alternate investment vehicle such as a platform.

About the fund manager

Organisation

Orbis Investment Management Limited (Orbis) was originally founded by Dr Allan WB Gray in Bermuda in 1989 to provide pooled investment services to wholesale and retail investors. Orbis remains privately owned, with the Allan and Gill Gray Foundation holding a controlling interest in the firm.

The heritage of the firm links back to Allan Gray Limited (South Africa), which was originally founded in South Africa in 1973. Under the same organisation, the Orbis Group was formed in 1989 as a global fund manager, specialising in providing pooled investment services to wholesale and retail investors. As at 31 August 2024, Orbis managed approximately $US 40.4 billion, employing 432 people across 10 offices globally.

Orbis maintains close links with Allan Gray Australia (Allan Gray), a Sydney-based investment management firm established as a joint venture between Orbis and the Marais Family Trust in 2004. Allan Gray is responsible for the distribution of Orbis' investment capabilities in the Australian retail market.

As at 31 August 2024, Orbis managed $US 2.2 billion in this strategy and $A 17 million in the Fund's retail class.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Stefan Magnusson	Lead Portfolio Manager	23	20	Hong Kong
Stanley Lu	Portfolio Manager	15	15	Hong Kong

Orbis' investment team is led by Adam Karr, who assumed this responsibility from William Gray in January 2022. Zenith believes Karr has the requisite skills and experience to lead the team. In addition, Gray remains involved in the business as Chair of Orbis Holdings Limited Board. The investment team comprises 57 investment professionals spread across London, Bermuda, San Francisco, and Hong Kong.

Orbis' Emerging Markets Equity team of six, based in Hong Kong, is led by Stefan Magnusson. Prior to joining Orbis in 2003, Magnusson specialised in mergers and acquisitions at Morgan Stanley and Goldman Sachs. Having initially held analytical responsibilities at Orbis, Magnusson was promoted to portfolio manager for the Emerging Markets strategy in 2009, alongside Gray. In 2012, Gray relinquished these responsibilities. Zenith believes Magnusson is a highly capable investor with the requisite experience and expertise to successfully manage the Fund.

Magnusson is responsible for the selection and monitoring of portfolio managers, as well as overseeing the Fund's capital allocated across each sub-portfolio. Orbis seeks to construct a portfolio that contains the highest conviction stock ideas of the team and reflects broader market and portfolio level considerations.

The Fund is managed through a dual portfolio manager approach, with Stanley Lu managing a 10% sub-portfolio limited to China and Taiwan. Magnusson manages the balance, ensuring the overall portfolio remains within mandate parameters. Zenith notes the multi-portfolio manager approach is consistent with other strategies within Orbis.

Lu joined Orbis in 2009 and was promoted to portfolio manager in 2024. Whilst Zenith believes Lu is a capable investor, we will look to build further conviction in his portfolio management capabilities. Additionally, Zenith draws confidence from Magnusson's oversight, which ensures strict adherence to Orbis' investment process.

Magnusson and Lu are supported by four analysts structured along both regional and generalist lines. Furthermore, the team can draw upon the broader insights of Orbis' research platform which comprises 51 investment professionals. In addition, the investment research team is supported by five quantitative analysts and eight equity traders.

In order to promote analyst accountability and conviction, each analyst is required to make stock recommendations for their respective area of coverage via a paper portfolio that simulates investment decisions. Zenith believes the paper portfolios develop analysts' investment management skillsets.

Team stability amongst senior staff has historically been a key strength for Orbis, with many investment professionals having long tenures at the firm. Orbis typically moves on from junior analysts who do not meet expectations or are deemed not suited to its investment approach. Accordingly, most of the turnover within the broader investment team has occurred amongst the junior analysts.

Each analyst's contribution to the Fund's performance is subject to detailed quantitative analysis, which has a significant impact on the analyst's remuneration. Whilst analysts are assessed on a number of factors, the key measure is the performance of their individual paper portfolios compared to the relevant benchmarks. Zenith believes Orbis' remuneration arrangements are well structured and appropriately align the interests of the investment team with those of investors in the Fund.

Overall, Zenith believes the investment team is well-resourced and of a high calibre.

About the sector

Sector characteristics

International equities offer Australian investors the ability to access a broader opportunity set, with the potential to invest in segments underrepresented in the Australian equity market. Emerging markets is a sub-asset class within the international equities sector. Given international and emerging markets are not perfectly correlated with the Australian equity market, funds that invest internationally can provide diversification benefits to a portfolio.

The Zenith 'International Shares - Emerging Markets' sector consists of long-only products primarily investing in emerging market equities. The sector incorporates both benchmark-aware and benchmark-unaware strategies that focus on stocks across the market capitalisation spectrum. Given the relative market inefficiencies existing in emerging market equities, Zenith expects rated long-only products to outperform the passive index over the long term.

Zenith benchmarks all funds in this sector against the MSCI Emerging Markets Index (Index), which corresponds with the benchmark employed by most funds in this sector. The Index is market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the highest weightings.

The Index consists of approximately 1,300 securities listed in 24 emerging markets (Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Kuwait, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates). As at 30 September 2024, China, India and Taiwan represented a significant portion of the MSCI Emerging Markets Index, with each country accounting for approximately 28%, 20% and 18% respectively. In addition, the top 10 stocks represented approximately 26% of the Index.

Sector risks

Products within the 'International Shares - Emerging Markets' sector are exposed to the following broad risks:

Market and economic risk: A sustained downturn across emerging equity markets is a risk to the absolute performance of products in the sector. This risk is particularly pertinent within emerging markets, which have historically been highly volatile. Additionally, changes in economic, social, technological or political conditions, as well as market sentiment, could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to a fund's prescribed investment timeframe.

Australian dollar (AUD) currency risk: The AUD has historically experienced declines during weaker market environments, and appreciation in market upturns. For funds that maintain an unhedged currency exposure, an appreciating AUD is likely to have a negative impact on a fund’s total return. Conversely, an unhedged fund is likely to benefit relative to hedged global equities funds in periods where the AUD depreciates. Zenith believes that the currency impact on performance will be minimal over the long term and therefore does not advocate retail investors making active currency decisions based on near-term currency predictions. For investors who are concerned about the short-term risks associated with taking fully unhedged or hedged currency positions, Zenith suggests blending hedged and unhedged global equity exposures to reduce short-term volatility.

Specific security risk: This is the risk associated with an individual security. The price of common shares in a company may be affected by unexpected changes in company operations, such as changes in management or the loss of a significant customer.

Liquidity risk: This is the risk that a security or asset cannot be traded promptly, due to insufficient trading volumes in equity markets. When trading volumes are low, buyers/sellers can significantly impact the price of a security when entering or exiting a position.

Style bias risk: International equity managers employ different investment styles such as Growth, Value or Neutral (a combination of Value and Growth). Each style is conducive to certain market conditions. This risk can be significantly reduced by investors adhering to a fund’s prescribed investment timeframe.

Capacity risk: High levels of funds under management (FUM) can present additional challenges to an equity manager. High FUM has the potential to restrict a manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (more common in smaller companies).

Regulatory Risk: All investments carry the risk of being affected by changes to government policies, regulations and laws. Security prices in which funds may have exposure are also subject to certain risks arising from government intervention across emerging equity markets. Such regulation or intervention could adversely affect fund performance.

Zenith rating

Report certification

Date of issue: 10 Oct 2024

Role	Analyst	Title
Analyst	Stephen Colwell	Senior Investment Analyst
Sector Lead	Tom Goodrich	Senior Investment Analyst

Association & relationship

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Rating history

As At	Rating
10 Oct 2024	Recommended
17 Sep 2024	Not Rated - Screened Out

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

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