

QUARTERLY
REPORT
30 JUNE 2008



ORBIS MIS
ORBIS/SM AUSTRALIA
EQUITY

ORBIS/SM AUSTRALIA EQUITY FUND

INVESTMENT OBJECTIVE

The Investment Manager seeks long-term returns for investors that are higher than those of the S&P/ASX 300 Accumulation Index, a broad-based index compiled by Standard & Poor's representing the total returns available in the Australian stockmarket. The Investment Manager aims to achieve this without assuming any greater risk of loss than that of an investment in the securities represented on the S&P/ASX 300 Accumulation Index.

INVESTMENT APPROACH

The Fund is managed using the techniques developed at Allan Gray Limited and the Orbis Group over more than 30 years, applied to the Australian stockmarket. The basic philosophy underlying the approach is the belief that while stockmarket prices are the best indicator of value for companies over very long periods of time, substantial deviations of those prices from their true value do occur over the short-to-medium term. Most businesses (and thus their underlying value) do not change much from one week to the next. Yet their stock prices are often subject to huge moves, often for no particularly good reason. The Investment Manager focuses its efforts on calculating the real underlying value of various companies using the extensive technology developed by the Orbis Group over the past 15 years, and the insights of Orbis' global team of analysts as well as a local team of analysts. The Fund's portfolio is constructed by taking all the Investment Manager's best ideas (i.e. where the gap between assessed value and the stockmarket price is the largest) and combining them in a way that seeks to limit the exposure to any single underlying variable.

NOTICES

Buy/Sell Spread. *The Net Asset Value per Unit of a Class differs from the application or withdrawal price of the Class by the allowance for transaction costs (i.e. the Buy/Sell Spread). The Buy/Sell Spread is the Trustee's estimate of the cost of acquiring, or disposing of, interests in the Fund, and is currently set at 0.35% of the application monies received on an application, and 0.35% of the withdrawal proceeds on the amount of a withdrawal request received.*

Source. *The source for the S&P/ASX 300 Accumulation Index is Standard & Poor's. ASX 300 is the trademark of ASX Operations Pty Limited ("ASXO"); "S&P/ASX300™" exists pursuant to an arrangement between ASXO and Standard & Poor's (S&P™ is a trademark of Standard & Poor's, a division of The McGraw-Hill Companies, Inc.).*

Returns. *Fund and Benchmark returns are quoted excluding any Buy/Sell Spreads that are payable on some transactions, i.e. on a "mid-to-mid" basis.*

Other. *Equity Trustees Limited AFSL No. 240975 is the issuer of units in the Orbis/SM Australia Equity Fund (the "Fund") and Orbis Investment Management (Australia) Pty Limited AFSL No. 298487 is the Fund's investment manager. A Product Disclosure Statement for the Fund ("PDS") is available from www.orbisfunds.com.au or by contacting Orbis' Client Services Team on +61 (0)2 82248600. You should consider the PDS in deciding whether to acquire, or to continue to hold, units in the Fund. This report should not constitute an offer to sell, or a solicitation to buy, units in the Fund.*

This report provides general information only and should not be construed as financial product advice. This report is current as at its date of publication, is given in good faith and has been derived from sources believed to be reliable and accurate. It does not take into account your individual objectives, financial situation or needs. Subject to applicable law, we do not provide any warranty of accuracy or reliability in relation to information in this report or accept any liability to any person who relies on it.

Risk Warnings. *Past performance is not indicative of future performance. The Fund's unit price will fluctuate and is not guaranteed. When making an investment in the Fund, an investor's capital is at risk.*

ORBIS/SM AUSTRALIA EQUITY FUND AT 30 JUNE 2008

Total Rate of Return in Australian dollars	From Public Launch		Latest	2008	Latest
	on 4 May 2006	2 Years	1 Year	to Date	Quarter
	% Annualised			% Not Annualised	
Orbis/SM Australia*	4.0	6.6	(15.8)	(21.3)	(7.6)
S&P/ASX 300 Accumulation Index	4.5	5.6	(13.7)	(16.1)	(1.7)
Relative Performance	(0.5)	0.9	(2.4)	(6.2)	(6.0)

*Returns are based on the cum-div price of the Fund as at 30 June 2008.

It has been a poor quarter for the Fund. The Fund had a return of -7.6% vs. its benchmark returning -1.7%. The excessive leverage in the financial system and the poor accounting practices of many income funds hit many shares hard. It is particularly disappointing that we have not performed better given that we have avoided these types of shares.

We believe there are two reasons for the Fund’s underperformance. Firstly, despite the broader market being very weak this quarter, a handful of commodity shares have almost entirely offset this weakness. The five largest contributors to the benchmark return in the second quarter were BHP Billiton, Rio Tinto, Fortescue, Origin Energy and Woodside Petroleum. These stocks, all commodity producers (call them the “Big 5”), have dominated returns to a remarkable extent.

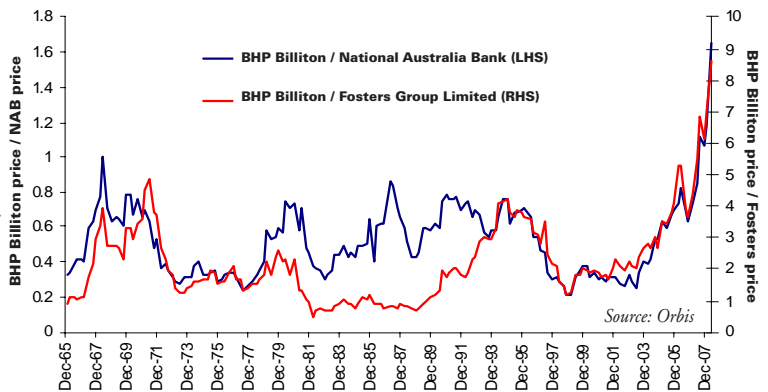
The table below breaks down the ASX 300’s return for the second quarter into that of the Big 5 and the rest of the market.

	Index weight	Average return June 08 quarter	Contribution to index return
Big 5	18.1%	25.1%	4.5%
Rest of market	81.9%	(7.6%)	(6.2%)
ASX 300	100.0%	(1.7%)	(1.7%)

Source: Orbis

The market (excluding the Big 5) has actually returned -7.6%, but the Index return was boosted by the Big 5’s stellar returns. Not unexpectedly, your Fund holds none of the five stocks in question.

Given the very long cycles that markets often experience, it helps to get a long-term perspective. Unfortunately, reliable long-term data is difficult to obtain so we will have to do the best we can. The largest financial and industrial shares that have more than 30 years of history are National Australia Bank (“NAB”) and Fosters, respectively. The graph opposite shows BHP’s share price relative to NAB and Fosters for more than 40 years.



Source: Orbis

Companies do change a lot over time, but it is remarkable how each time BHP reached a top or bottom relative to the other two companies it tends to turn around. The most recent bottom was in the late 1990s when the Asian crisis was in full swing and investors saw no future for commodities. The recent rise has been without precedent. The market believes that BHP’s fortunes, relative to the rest of the economy, will be at least twice as good as they ever have been.

RESPONSIBLE ENTITY
Equity Trustees Limited

INVESTMENT MANAGER
Orbis Investment Management (Australia) Pty Limited

CUSTODIAN AND ADMINISTRATOR
State Street Australia Limited

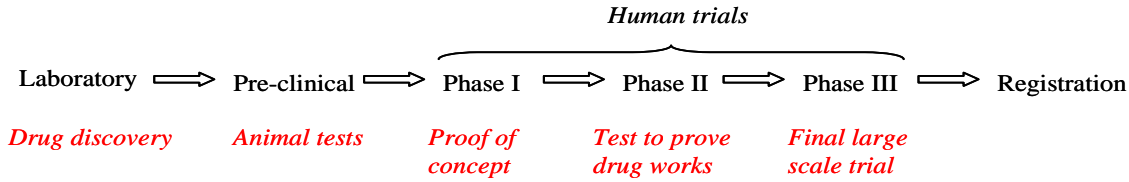
ORBIS/SM AUSTRALIA EQUITY FUND AT 30 JUNE 2008

That has never been a smart way to invest and we think this time will prove no exception. Certain metals (like zinc, lead and nickel) have fallen more than 50% from their highs in little more than a year and with no apparent warning. Among stock brokers these metals were amongst the most favoured last year. Even if prices stay high, it is likely that cost increases and government intervention (note the recent increase in taxes on coal profits in Queensland) will reduce profits. We have been wrong to sell commodity shares too quickly, but to change now could be disastrous – as it was for late investors in the tech bubble eight years ago.

The second reason for us lagging the market has been a huge amount of panic in the recent bear market. This often results in large falls for some smaller shares for no good reason other than the presence of many sellers and few buyers. Your Fund’s largest negative contributor for the quarter was Pharmaxis, which is almost 70% off its highs. Investment opportunities like Pharmaxis in market conditions such as these are why we remain confident in the Fund’s potential to outperform the stockmarket over the long term.

Pharmaxis is a late-stage drug development company. Before a company can market any new drug it must finish a series of clinical trials to prove that the drug works and that it is safe. Most serious Australian drug companies do their trials in the US and/or Europe, where the big markets are but the path to approval is tough. Thus sales of a successful drug can run into billions of dollars per annum and gross margins are often around 90%.

The diagram below shows the path to market for a typical drug. The Phase 2 trials are where drugs fail most frequently while the Phase 3 trials (which often involve hundreds of patients) are the most expensive. If the results of the Phase 3 trials are convincingly good, the registration process should just be a formality.



Pharmaxis has two important drugs. The first drug, Aridol, is a test for asthma. It has already been approved in Australia, Korea and Europe and has completed its Phase 3 trials successfully in the US. It is clearly superior to any other asthma test and has been chosen for the Beijing Olympics (asthma drugs can improve performance and hence a test is needed to preclude non-asthmatics from using the drugs).

The risk that Aridol fails to get approval is thus almost zero. The only challenge for Pharmaxis is to market the product – so far it has captured a leading market share in Australia in a little over a year. The downside is that asthma tests are not a large industry, principally because no accurate and easy tests have existed so far. Pharmaxis will have to grow the market which is likely to be a long and slow process, but once accepted, Aridol could be a good profit-earner of \$50 -100 million per annum with very little competition, even on the far horizon.

Pharmaxis’ other drug, Bronchitol, is a dry powder applied through an inhaler to the lungs. The powder ‘lubricates’ the lungs and aids the clearance of mucus build-up. In human trials, Bronchitol had great results for sufferers of Bronchiactis (a condition where the patient coughs constantly and struggles for breath) and Cystic Fibrosis (“CF”), a genetic condition where an imbalance in the lungs causes mucus build-up with a patient life expectancy of only 37 years. In fact, early results for Bronchitol had such an impact that 80% of people participating in the trials asked to remain on the drug on a compassionate basis. As further evidence of the drug’s effectiveness, Bronchitol has been given ‘fast-track’ status by

the US Federal Drug Administration (“FDA”). Very few drugs gain ‘fast-track’ status in the US and it is an indication that the FDA sees a real need for the product where there is currently no effective treatment.

Bronchitol is currently in Phase 3 trials in both Europe and the US. Pharmaxis has agreed on its trial design and outcome with the authorities. So, if it conducts the trial as promised and gets the outcome expected, the drug will be approved by both the FDA and the European Medicines Agency. Given the huge amount of data already available on Bronchitol from earlier trials, it will be a massive surprise if the results are not favourable. In Australia, all trials have been finished for Bronchiactis and the drug is ready for registration.

Assuming a selling price of \$8,000 per annum per patient, the potential revenue opportunities for the two conditions are \$560 million and \$2.4 billion, respectively. Not all these patients can afford treatment. However, Pharmaxis only needs to treat 20% of patients to generate annual revenues of \$600 million, an amount comparable to what is currently spent on drugs for CF patients alone. Margins should be at least 50%, the bulk of costs being for distribution.

We estimate that Bronchitol has the potential to earn at least \$200 million after tax in three years time. This would certainly not be unusual for a successful drug – Lipitor, the biggest selling cholesterol drug, earns many billions each year. We believe this is a conservative profit estimate – given the benefits of the treatment it is quite easy to see Bronchitol earning \$400 million per annum and this excludes the revenue potential from Bronchiactis patients in Asia.

The entire company is currently valued at \$300 million by the market. If our numbers are correct, in a few years time the company would be able to pay out its current valuation from a single year’s profits. The company has enough cash (over \$100 million as at March 2008) to finish all its clinical trials. In addition, we believe management is amongst the best in the business and has hardly put a foot wrong.

It is hard to understand why the market would yield opportunities like Pharmaxis. Perhaps we are at the end of a very large cycle. Ten years ago investors paid huge sums for technology companies with no record and little prospect of making money for many years. Commodity companies could not be given away. Then technology disappointed bitterly and commodities became the darlings of the stockmarket.

Today, the market pays billions of dollars for some mining companies with little or no production record and whose investment merits involve a series of blue-sky assumptions, some of which are bound not to hold true, yet there are few takers for companies like Pharmaxis. Such extreme conditions really create opportunities for us. We tend to be early in our purchases and it may take some time for our ideas to play out, but we are currently more excited about what we can buy for the Fund than at any time since its launch.

Yours sincerely,



Simon C Marais

Sydney, Australia
11 July 2008

ORBIS/SM AUSTRALIA EQUITY FUND AT 30 JUNE 2008

STATEMENT OF NET ASSETS (UNAUDITED)

Security	Market Value A\$ 000's	% of Fund
Australia and New Zealand Banking Group	37,194	6
National Australia Bank	35,613	6
CSR	29,992	5
Iluka Resources	28,759	4
Boral	28,318	4
PMP	28,171	4
Roc Oil	26,750	4
Centennial Coal	23,095	3
ALE Property Group	22,573	3
Riversdale Mining	21,860	3
PaperlinX	21,474	3
Centro Retail Trust	18,134	3
Ridley	16,908	3
Pharmaxis	16,646	3
Fisher & Paykel Appliances	16,298	3
Thakral	15,527	2
Acrux	14,112	2
Australian Vintage	14,005	2
Bemax Resources	12,971	2
Nuplex Industries	12,052	2
Platinum Asset Management	11,790	2
Salmat	10,403	2
Guinness Peat Group - CDI	9,634	2
ING Real Estate Entertainment Fund	9,593	2
Tower	9,320	2
Santos	8,875	1
Caltex Australia	8,542	1
Australian Education Trust	8,511	1
Air New Zealand	7,987	1
Bendigo Mining	7,843	1
Funtastic	7,656	1
AVJennings	7,581	1
Mortgage Choice	6,716	1
Positions less than 1%	66,814	10
Total Equity Exposure	621,717	95
Stock Index Futures Bought*:		
SPI 200 9/2008	23,868	3
Net Current Assets	10,754	2
Net Assets	656,339	100
Net Asset Value per Unit**	A\$ 1.1549	

* All stock index futures are fully backed by cash holdings. The Fund buys stock index futures to maintain share exposure while investing new subscriptions. As selected shares are bought for the Fund, the stock index futures are sold.

** The Net Asset Value per Unit is based on the cum-div price of the Fund as at 30 June 2008.

CHARACTERISTICS OF ORBIS/SM AUSTRALIA EQUITY FUND

Investment objective	The Fund seeks higher returns than the Australian stockmarket without greater risk of loss.
Investments	The Fund is designed to remain continuously invested in selected Australian equities. These equities are selected using extensive proprietary investment research undertaken by the Investment Manager.
Structure	Registered Managed Investment Scheme aimed at Australian investors.
Who should invest?	The Fund is designed for investors who seek income and long-term capital appreciation by investing in an actively-managed portfolio of Australian equities. This portfolio may deviate meaningfully from the performance of its benchmark in pursuit of superior returns.
Minimum initial investment	A\$50,000. Subsequent investments minimum A\$10,000.
Minimum withdrawal	A\$10,000. Minimum investment balance is A\$50,000.
Applications/withdrawals	Weekly, normally each Thursday at the Net Asset Value per Unit, after allowance for transaction costs, calculated at 4:15 p.m. Australian Eastern Standard Time on that day.
Dealing deadlines	<p>Written applications for Units received by the Administrator by 2:00 p.m. Australian Eastern Standard Time (the "Deadline") on or before the particular Dealing Day will be processed, and Units will be issued as at that Dealing Day, provided that sufficient cleared funds have also been received by the Administrator in Sydney by the Deadline. All applications are irrevocable after the Deadline.</p> <p>Withdrawal requests should be received by 2:00 p.m. Australian Eastern Standard Time on a Dealing Day for processing on that Dealing Day. A Unitholder who submits a request for a Significant Withdrawal must make that request by 2:00 p.m. on the day that is 10 Business Days before the Dealing Day. All withdrawal requests are irrevocable after the Deadline for their submission described above.</p>
Fees and expenses	The Management Fees payable from the Fund have a fixed component (the " Base Fee ") and a performance component (the " Performance Fee "). The Base Fee is 0.75% per annum of the Net Asset Value of the Fund. The Performance Fee is 20% of the extent to which the Fund outperforms its Benchmark once the Fund has reached a new High Water Mark. Other expenses such as stamp duty and GST will be deducted from the Fund as appropriate.



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