

QUARTERLY  
**REPORT**  
31 MARCH 2009



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 19 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 Responsible Entity'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<sup>TM</sup>" exists pursuant to an arrangement between ASXO and Standard & Poor's (S&P<sup>TM</sup> is a trademark of Standard & Poor's, a division of The McGraw-Hill Companies, Inc.).*

**Returns.** *Fund returns are gross of all income, net of all expenses and fees, assume reinvestment of distributions and exclude any spreads that might be 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](http://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. Any implied figures or estimations are subject to assumptions, risks and uncertainties. Actual figures may differ materially and you are cautioned not to place undue reliance on such information. 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 31 MARCH 2009**

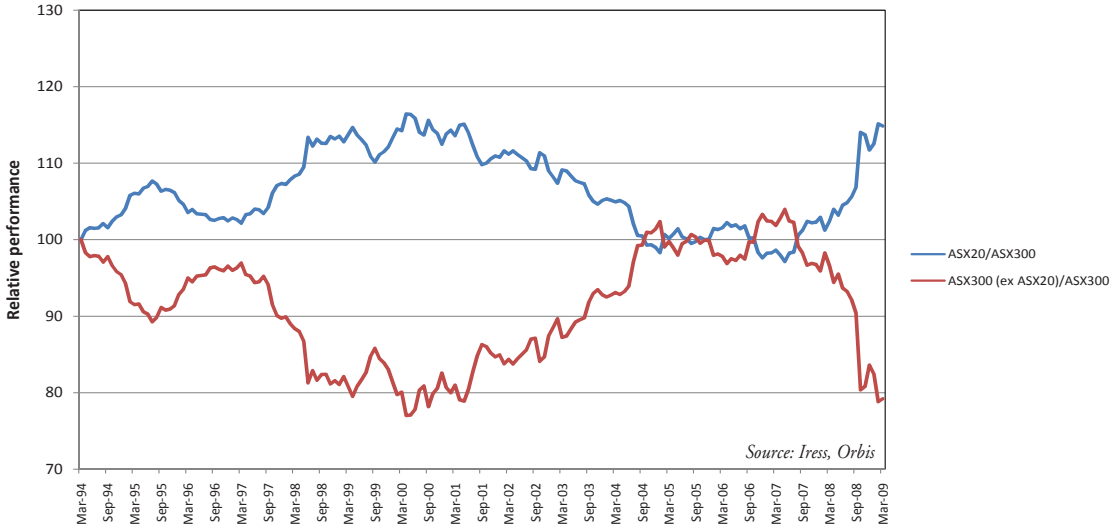
Total Rate of Return in Australian dollars	From Public Launch on 4 May 2006			From 30 Jun 2008	
	Latest 2 Years	Latest 1 Year	Latest Quarter		
	% Annualised			% Not Annualised	
<b>Orbis/SM Australia</b>	<b>(12.0)</b>	<b>(24.5)</b>	<b>(41.4)</b>	<b>(36.6)</b>	<b>(7.8)</b>
S&P/ASX 300 Accumulation Index	(8.0)	(19.3)	(29.8)	(28.6)	(1.8)
Relative Performance	(4.3)	(6.4)	(16.5)	(11.2)	(6.1)

The five months to the end of February have been the worst period in the Fund’s short history and amongst the worst periods ever for any Fund in the Orbis stable. In March, the Fund’s performance turned around dramatically, outperforming its benchmark (the S&P/ASX 300 Index) by almost 6%. This trend has continued in early April. But this has not been enough to fill the large hole created in January and February and the Fund still underperformed for the quarter.

Given the extent of the poor performance, we believe it would be helpful for you to understand what caused this underperformance and how we view the Fund’s future prospects.

We have broken the share market up into two sectors – the largest 20 shares listed on the Australian Stock Exchange and the next 280 largest shares (which together make up the benchmark). The graph below shows the performance of these two sectors relative to the ASX 300 Index over the past 15 years.

**Relative Performance vs. ASX 300**



Over the past 12 months (and especially over the past five months) those shares not in the top 20 have underperformed the ASX 300 by 20%. The largest 20 shares now dominate the market to such an extent that they account for 65% of the ASX 300.

During the last 18 months, we have seen one of the most vicious bear markets since the Great Depression. Private investors who were lulled into buying shares with debt after an extended period of high stockmarket returns, were especially hard hit. As the market fell and margin loans were called, some of these investors became forced sellers. At the same time, very few natural buyers of smaller shares have entered the market, resulting in a massive imbalance between buyers and sellers and causing share prices to collapse. This has been most evident in the smaller end of the market where there is little support from large institutions.

**ORBIS/SM AUSTRALIA EQUITY FUND AT 31 MARCH 2009**

The larger shares are mainly owned by large institutions and index funds who have experienced less selling pressure during the downturn. Furthermore, as these shares have outperformed, more money has chased these havens of perceived safety at the expense of the more volatile, smaller shares, resulting in even larger relative moves.

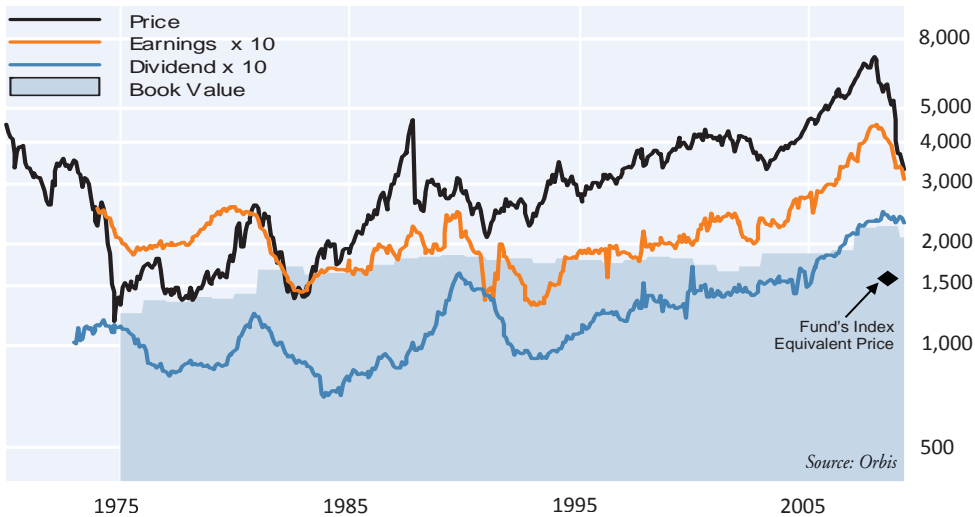
Given our contrarian and value-based philosophy at Orbis, we are seldom attracted to popular stocks and have had less than 10% of the Fund's portfolio invested in the top 20 shares. To a large extent, this accounts for the Fund's poor performance.

Whilst this explains the poor performance, we are not using this as an excuse. There was no law stopping us from investing more money in these top 20 stocks. We underestimated the extent to which the smaller and some of the more economically sensitive shares would be sold down in a crisis. Hopefully we can learn from this experience and perform better should this occur again. However, we would caution investors against setting their expectations too high in this regard – we have never committed to being good trend investors and it may just be that performance periods such as we have just experienced will happen at Orbis Australia periodically.

There is a brighter side however. We believe relative values are now very stretched and the snap back we saw in March may well continue. The gap between share valuations has been this wide only once before – around the time of the tech bubble in 2000. At that time, it was the large technology, media and telecommunication stocks such as NewsCorp that came to dominate the Index. Orbis Australia did not exist at the time but the Orbis Global Equity Fund had its worst period on record during the build-up, but its best period ever in the aftermath of the unwinding of extreme relative valuations, which more than made up for the prior underperformance.

The most consistent (if not the only) way to time stockmarkets is to buy great value and take a long-term perspective. The graph below shows the available history of the ASX 300 Index for what we think are the three most important fundamental factors that drive share prices: earnings (the profits the company generates), dividends (the income it pays to its investors) and tangible net assets (the value of the company's assets). All variables have been adjusted for inflation. Finally, we have changed the scale for earnings and dividends by a factor of 10 to make the graph more meaningful.

**Australian Market Inflation Adjusted**



Price (black line) shows the Index value over the same period (also adjusted for inflation). Great values exist when the Index value is low relative to the three fundamental variables (earnings, dividends and tangible net asset values). As you can see, the mid-seventies was a great time to buy shares because prices were very low relative to the fundamental variables. Even though there was no great growth in real earnings, shareholders experienced the double whammy of a re-rating in price and high dividends on their original investment.

The late 1960s, 1987 and 2007 were dangerous times for stockmarket investors. The black price line was well above the earnings, dividends and tangible net assets. At the same time these variables themselves were at high levels. This left investors with the double risk of declining earnings and dividends and a fall in ratings (i.e. a reduction in price relative to fundamentals).

Currently at around 3,500, the market is offering reasonable value, somewhat above the average value available to investors over the past 40 years. But it is far from being at bargain basement levels as in the mid-1970s. To get there, the market would need to fall another 40% resulting in an Index value of around 2,000.

But, the Index is skewed by the top 20 shares that have held up so much better than the rest and now make up 65% of the Index. The shares that make up the other 35% are down a lot more and may well offer great value. However, this is difficult to demonstrate as historic fundamental data for these shares is not available.

In order to try to illustrate the extent of the value we believe we have found in the market we have calculated an effective index level for the shares in the Fund. To do this, we calculated the Price/Earnings, Price/Dividends and Price/Tangible Net Asset Value ratios for the shares in the Fund using the most recent company reported earnings, dividends and net asset values and the Fund's unit price as at 31 March 2009.

The current earnings, dividends and net asset value of the Index (as they appear in the graph) were then multiplied by the relevant ratios of the Fund. This gives an effective value for the Fund using each of the Index's fundamentals. The diamond in the graph is an average of the three answers you get and it is one way of illustrating the relative value of the shares in the Fund. As can be seen, the Fund's value appears to be low, both relative to other historic low periods and relative to an Index level of 2,000 where, as we mentioned previously, we think the broader market would offer great historic value.

This calculation is merely an illustration and sceptics would be correct in pointing out that it doesn't take into account the outlook for earnings and dividends or the robustness of net assets. But, we believe that many of the shares we own actually offer great growth in earnings and dividends from current levels and that asset values are not stretched. To really appreciate this, we have to take you through some examples of the shares we are currently buying for the Fund. This will be the topic of next quarter's report.

Yours sincerely,



Simon C Marais

Sydney, Australia  
9 April 2009

# ORBIS/SM AUSTRALIA EQUITY FUND AT 31 MARCH 2009

## STATEMENT OF NET ASSETS (UNAUDITED)

Security	Market Value A\$ 000's	% of Fund
Caltex Australia	12,429	5
National Australia Bank	11,974	4
Australia and New Zealand Banking Group	11,693	4
PaperlinX	11,177	4
PMP	10,556	4
Pharmaxis	8,714	3
Australand Property Group	8,483	3
Centennial Coal	8,371	3
Challenger Financial Services Group	8,308	3
ALE Property Group	7,432	3
Air New Zealand	7,186	3
Salmat	6,762	3
Roc Oil	6,140	2
Mirvac Group	6,088	2
CSR	5,820	2
Platinum Asset Management	5,590	2
Guinness Peat Group - CDI	5,188	2
Alumina	5,048	2
Ridley	4,902	2
Macquarie CountryWide Trust	4,545	2
Macquarie Office Trust	4,133	2
Thakral	4,009	2
ING Office Fund	3,836	1
Tower	3,751	1
Austal	3,612	1
ING Industrial Fund	3,515	1
Bendigo Mining	3,468	1
Fisher & Paykel Appliances	3,385	1
Peplin - CDI, Common and Options	3,327	1
Mortgage Choice	3,305	1
nib Holdings	3,195	1
ImpediMed - Common and Warrants	3,171	1
Phosphagenics	2,954	1
Acrux	2,932	1
Positions less than 1%	40,926	15
<b>Total Equity Exposure</b>	<b>245,925</b>	<b>89</b>
<b>Stock Index Futures Bought*:</b>		
SPI 200 06/2009	23,890	8
<b>Net Current Assets</b>	<b>7,430</b>	<b>3</b>
<b>Net Assets</b>	<b>277,245</b>	<b>100</b>
<b>Net Asset Value per Unit</b>	<b>A\$ 0.6701</b>	
<b>Total Assets Under Management for the Australian equity strategy (000's)**</b>	<b>A\$ 731,254</b>	

\* 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.

\*\* Orbis Investment Management (Australia) Pty Limited also manages several segregated accounts that have the same investment goals and restrictions as the Fund.

## CHARACTERISTICS OF ORBIS/SM AUSTRALIA EQUITY FUND

<b>Investment objective</b>	The Fund seeks higher returns than the Australian stockmarket without greater risk of loss.
<b>Investments</b>	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.
<b>Structure</b>	Registered Managed Investment Scheme aimed at Australian investors.
<b>Who should invest?</b>	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.
<b>Minimum initial investment</b>	A\$50,000. Subsequent investments minimum A\$10,000.
<b>Minimum withdrawal</b>	A\$10,000. Minimum investment balance is A\$50,000.
<b>Applications/withdrawals</b>	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.
<b>Dealing deadlines</b>	<p>Written applications for Units received by the Administrator by 2:00 p.m. Australian Eastern Standard Time (the "<b>Deadline</b>") 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>
<b>Fees and expenses</b>	The Management Fees payable from the Fund have a fixed component (the " <b>Base Fee</b> ") and a performance component (the " <b>Performance Fee</b> "). 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.



ORBIS INVESTMENT MANAGEMENT (AUSTRALIA) PTY LIMITED (AFS Licence No. 298487) • LEVEL 2, CHALLIS HOUSE,  
4-10 MARTIN PLACE, SYDNEY, AUSTRALIA NSW 2000  
TELEPHONE: +61 (0)2 82248600 • E-MAIL: [clientservice@orbisfunds.com.au](mailto:clientservice@orbisfunds.com.au) • WEBSITE: [www.orbisfunds.com.au](http://www.orbisfunds.com.au)