ORBIS ABSOLUTE RETURN FUNDS

31 DECEMBER 2000

# Annual

REPORTS

## ORBIS OPTIMAL

*US$ Fund / Euro Fund*

## ORBIS LEVERAGED

*US$ Fund / Euro Fund*

# THE FAMILY OF ORBIS FUNDS

## Absolute Return Funds

- These Funds seek absolute *(ie positive)* returns regardless of stockmarket trends
- They invest directly or indirectly in the most appropriate mix of Orbis Equity Funds
- They manage risk of loss with stockmarket hedging
- They are able to have no net exposure to stockmarket trends
- They are differentiated from each other by their risk levels and their base currencies

### Orbis Optimal (US$) Fund

This Fund seeks capital appreciation in its base currency, the US dollar, while offering a low risk global portfolio. The Fund invests in selected Orbis Equity Funds. The risk of loss of the Fund is managed with stockmarket hedging.

### Orbis Optimal (Euro) Fund

This Fund seeks capital appreciation in euro on a low risk global portfolio. The Fund supplements its sole investment, the Orbis Optimal (US$) Fund, with currency hedging enabling the Fund to be managed in its base currency, the euro.

### Orbis Leveraged (US$) Fund

This Fund seeks capital appreciation in US dollars on a leveraged global portfolio. The Fund invests up to 200% of its net assets, primarily in the Orbis Optimal (US$) Fund. The stockmarket and currency exposures of the Fund are actively managed.

### Orbis Leveraged (Euro) Fund

This Fund seeks capital appreciation in euro on a leveraged global portfolio. The Fund supplements its sole investment, the Orbis Leveraged (US$) Fund, with currency hedging enabling the Fund to be managed in its base currency, the euro.

## Equity Funds

- Each Fund remains fully invested in equities selected from a specified geographic region
- Each is actively managed to outperform a "Benchmark" index of the stockmarkets in its region
- The equities are selected using detailed proprietary research which emphasises fundamental value
- A Fund's portfolio may be focused and, unlike an index fund, notably different from its Benchmark
- However, the resulting risk of underperforming the Benchmark is regularly monitored

### Orbis Global Equity Fund

This Fund invests globally and seeks to earn higher returns than world stockmarkets. The Fund's Benchmark is the FTSE World Index, including income. The Fund's currency exposure is managed relative to that of the World Index.

### Orbis Africa Equity (Rand) Fund

This Fund invests in African, usually South African, equities. The Fund's Benchmark is the Johannesburg Stock Exchange/Actuaries All Share Index, including income. The Fund does not hedge currencies, and thus is exposed to the rand.

### Orbis Japan Equity (Yen) Fund

This Fund invests in Japanese equities. The Fund's Benchmark is the Japanese stockmarket, measured by the Tokyo Stock Price Index, including income ("TOPIX"). The Fund does not hedge currencies, and therefore is exposed to the Japanese yen.

### Orbis Japan Equity (US$) Fund

This Fund invests in the Orbis Japan Equity (Yen) Fund. The Fund hedges most or all of its currency exposure into US dollars. The Fund's Benchmark is the Japanese stockmarket, measured by the TOPIX hedged into US dollars, including income.

## PRESIDENT'S LETTER TO MEMBERS

Orbis Optimal and Orbis Leveraged responded positively in the last nine months of 2000 to what we at Orbis consider a return to more rational global stockmarkets. For the year, the Orbis Optimal (US$) Fund earned 32.6%, the Orbis Leveraged (US$) Fund rose 71.3%, US$ Bank Deposits earned 6.6% and the Average Global Equity Fund declined 10.9%. The Euro Funds performed largely as expected given the returns of their (US$) Fund counterparts. Orbis Optimal (US$) Fund's latest three and five year returns of 15.5% pa and 10.0% pa, respectively, are now satisfactory. While the Orbis Leveraged (US$) Fund has earned 18.0% pa over the past three years, its 9.0% pa return over the latest five years is still disappointing. Since their inception eleven years ago, the annualised return of the Orbis Optimal (US$) Fund has been 12.2% and the Orbis Leveraged (US$) Fund 13.8%, both in excess of the 5.8% on Bank Deposits and 8.0% for the Average Global Equity Fund.

The Orbis Optimal and Leveraged Funds can be categorised as "alternative investments" because their investment approach leads to returns with normally little correlation with any of the traditional asset classes of cash, equities, debt and commodities. A concern of investing in products with returns that are driven by the manager's decisions rather than the price movements of an asset class is that in many cases they have no history of how they behave in the face of severe adversity. It is the nature of markets to sooner or later subject every successful investment approach to intense stress. The Funds' performance in the extreme market conditions of a year ago reinforces our conviction in the soundness of the Funds' investment approach.

The heart of the Funds' investment approach is to convert the superior investment performance in the Orbis Equity Funds *relative* to their respective benchmarks into *absolute* or positive returns by hedging the stockmarket exposure inherent in the Orbis Equity Funds usually by selling stockmarket index futures. The period leading up to March 2000 subjected this approach to extreme stress as a speculative bubble enveloped global stockmarkets causing the value shares typically favoured by the Orbis Equity Funds to underperform by historic proportions. The performance of the Orbis Optimal and Leveraged Funds was very severely depressed by this extraordinary market behaviour but, as it has corrected, the Funds recovered, preserving their long-term records as detailed above. With their goals of uncorrelated absolute returns, the Funds' attractiveness is likely to become more apparent if, as we expect, the current weakness in global stockmarkets persists.

In 2000, the fees for both the Orbis Optimal and Leveraged (US$) Funds had been waived until the share prices of those Funds regained their prior peaks of $30.87 and $35.03, respectively. These conditions were met late last year. We have used this opportunity to reinforce our commitment to add value on behalf of members by replacing the 0.5% pa fixed fee on the Orbis Optimal (US$) Fund with a performance-based fee that is capped at 0.5% pa. Under the new fee structure, the Fund pays up to a 0.5% pa fee only while both its (1) trailing one year return after fees exceeds that of Bank Deposits by at least 5 percentage points and (2) share price is greater than its high of more than 12 months earlier. Orbis Leveraged (US$) Fund's direct management fee has been eliminated.

Our heavy investment in research and risk management, the lessons learnt and improved techniques adopted over the eleven years we have managed the Funds, and the precarious state of global stockmarkets lead us to be optimistic about the future returns and risk of these Funds.

Yours sincerely,

William Gray

William B Gray

Hamilton, Bermuda
19 January 2001

## ORBIS OPTIMAL (US$) FUND AT 31 DECEMBER 2000

| Total Rate of Return | From Inception on 1 Jan 1990 | Latest 5 Years | 3 Years | 1 Year | Quarter |
|---|---|---|---|---|---|
| | | % Annualised | | | % Not Annualised |
| In the benchmark currencies:* | | | | | |
| Orbis Optimal (US$) | 12.2 | 10.0 | 15.5 | 32.6 | 15.8 |
| In US dollars: | | | | | |
| Orbis Optimal (US$) | 12.0 | 7.5 | 15.0 | 32.6 | 15.8 |
| Bank Deposits* | 5.8 | 2.6 | 5.2 | 6.6 | 1.7 |
| Average Global Equity Fund | 8.0 | 9.6 | 9.0 | (10.9) | (6.5) |

** 100% US dollars since 30 June 1998, previously 40% dollars, 40% ecu and 20% yen.*

The Fund's favourable performance in 2000 has raised its medium-term returns to acceptable levels. The Fund's cumulative returns since inception have been, and continue to be, satisfactory.

Superior stock selection in the Orbis Equity Funds, in which the Orbis Optimal (US$) Fund is invested, was the basis for its exceptional performance in 2000. The relative performance of the Fund's indirectly held equities versus their regional stockmarket indices was 21% in the US, 36% in Japan and 27% in Europe. The unusually high relative returns earned by the Orbis Equity Funds, together with the 6.1% cash return inherent in the stock index futures sold by the Fund, accounted for 30 percentage points of its 32.6% return in 2000. The Annual Reports of the Orbis Equity Funds discuss this performance in detail and why we remain optimistic about their prospects.

As shown opposite, the Fund's Equity Exposure to the US was 41% at 31 December 2000. The timely increase from 31% at 30 June 2000 meant that the Fund benefited significantly from the recent substantial outperformance of Orbis' US equities against the S&P 500. Simultaneously, the Fund's indirect investment in Japanese equities declined from 43% at 30 June 2000 to 24% at year-end. The Fund therefore was heavily invested in Japanese equities in the first half of 2000 when these shares had excellent relative performance, and substantially less so in the second half of the year when their relative performance was comparatively poorer. This significant shift in the geographic deployment of your Fund's equity exposure was accomplished partly by raising the Fund's investment in Orbis Global Equity to 71% from 65% in July while reducing the Fund's investment in the Orbis Japan and Africa Equity Funds to 16% and 3%, respectively, and partly by Orbis Global Equity itself raising its exposure to US equities and selling Japanese equities.

Over the past eleven years, we have benefited a great deal from our experience in managing the Fund and have considerably refined our investment approach. Beginning in 1998, the Fund ceased to hedge against the constituents of the World Index by hedging only against those stockmarkets to which the Fund is exposed through its equity investments. Launching the Orbis Japan and Orbis Africa Equity Funds permitted the Orbis Optimal (US$) Fund to raise its exposure to these regions independently of Orbis Global by investing in these new Funds and capitalising on the superior relative return we expected, and realised, in Japan and Africa. Taking account of the low correlation and beta of Orbis' traditional equity funds in determining the appropriate level of stockmarket hedging in the Fund is making a major contribution to its efficient management.

# ORBIS OPTIMAL (US$) FUND AT 31 DECEMBER 2000

## STATEMENT OF NET ASSETS

| Number Held | Security | Market Value US$ 000's | % of Fund |
|---|---|---|---|
| 12,003,385 | Orbis Global Equity Fund | 516,986 | 71 |
| 7,854,500 | Orbis Japan Equity (US$) Fund | 118,603 | 16 |
| 1,463,289 | Orbis Africa Equity (Rand) Fund | 24,182 | 3 |
| | Total Equity Exposure | 659,771 | 90 |
| | Portfolio Hedging: | | |
| | Stock Index Futures Sold: | | |
| (871) | US: S&P 500 CME 3/2001 | (289,608) | (42) |
| (76) | NASDAQ 100 CME 3/2001 | (18,088) | |
| (597) | Japan: Nikkei 225 CME 3/2001 | (40,954) | (14) |
| (281) | TOPIX TSE 3/2001 | (31,518) | |
| (249) | Nikkei 225 OSE 3/2001 | (29,965) | |
| (762) | UK: FTSE 100 LIFFE 3/2001 | (70,526) | (10) |
| (3,770) | South Africa: JSE All Share Top 40 SAFEX 3/2001 | (40,111) | (5) |
| (44) | Germany: DAX Eurex 3/2001 | (6,736) | (1) |
| (53) | France: CAC 40 MATIF 1/2001 | (2,963) | - |
| | Contract Value | 546,517 | 74 |
| | Net Balances at Brokers | 21,887 | 3 |
| | Balance Committed to Above Positions | 37,935 | 5 |
| | Put Options: | | |
| 440 | US: S&P 500 CBOE, Strike 1500, 3/2001 | 7,425 | 1 |
| | Option Premium | 7,425 | 1 |
| | Net Current Assets | 29,482 | 4 |
| | Net Assets (Cost US$ 554,149) | 734,613 | 100 |

Net Asset Value per Share — 21,016,603 shares issued — US$ 34.95
(At 31 December 1999: 16,381,557 shares issued; US$ 26.35)

## ANALYSIS OF STOCKMARKET EXPOSURE

| Region | Equity Exposure | Portfolio Hedging | Accounting Exposure | Beta Adjusted Exposure* |
|---|---|---|---|---|
| | % | % | % | % |
| US | 41 | (49) | (8) | (17) |
| Japan | 24 | (14) | 10 | 1 |
| Europe | 18 | (11) | 7 | 1 |
| Emerging Markets | 7 | (5) | 2 | - |
| Total | 90 | (79)** | 11 | (15) |

** This is Equity Exposure, multiplied by a Beta determined using Blume's technique, minus Portfolio Hedging.*
*** Put option exposure is on a delta adjusted basis; face value basis provides an additional 1% hedging.*

## CURRENCY DEPLOYMENT

| | % of Fund |
|---|---|
| US dollar | 74 |
| Euro | 25 |
| Russian rouble | 1 |
| Net Assets | 100 |

See accompanying notes

## ORBIS OPTIMAL (EURO) FUND AT 31 DECEMBER 2000

| Total Rate of Return in euro: | From Inception on 30 Jun 1998 | Latest 1 Year | Latest Quarter |
|---|---|---|---|
| | % Annualised | | % Not Annualised |
| Orbis Optimal (Euro) | 10.8 | 27.9 | 12.8 |
| *% change in the US dollar value of the euro* | *(5.8)* | *(6.4)* | *6.7* |

In effect, apart from its currency exposure, Orbis Optimal (Euro) is the same investment as Orbis Optimal (US$). Given this, we refer regular readers to the Orbis Optimal (US$) Fund report on page 2. First time readers may find it informative to also read the text below in italics.

*This Fund seeks capital appreciation in euro on a low risk global portfolio. It invests in the Orbis Optimal (US$) Fund and hedges most or all of its currency exposure from US dollars into euro. The result is that this Fund may be expected to earn returns in euro which usually approximate those on Orbis Optimal (US$) in dollars, adjusted by the short-term interest rate differential between the euro and the dollar. Page 2 shows the returns on Orbis Optimal (US$) in dollars for various periods, including 12.2% pa for the eleven-year period since that Fund's inception on 1 January 1990.*

*The returns of Orbis Optimal (Euro) may also differ from those of Orbis Optimal (US$) because the policy of these Funds is to avoid net short currency positions. For example, page 3 shows that at the year-end the Currency Deployment of Orbis Optimal (US$) comprised 74% US dollars, 25% euro and 1% Russian rouble. If Orbis Optimal (Euro) had simply hedged 100% of net assets into euro as usual, it would have included minus 24% exposure to the US dollar. Instead, as the Currency Deployment opposite shows, this Fund's hedging into euro was adjusted in order to avoid a negative dollar position.*

*Your choice between this Fund and Orbis Optimal (US$) should be dictated by the base currency in which you wish us to manage your investment. The above table shows the fluctuations in the exchange rate between the euro and the dollar for various periods (the ecu was used prior to 1 January 1999). The table highlights that these exchange rate fluctuations can be substantial and that it is therefore important to select an investment managed in the base currency best suited to your needs.*

*The Fund's deployment at the year-end is shown opposite. The Statement of Net Assets shows that 99% of Orbis Optimal (Euro) was invested in Orbis Optimal (US$). Details of the portfolio of Orbis Optimal (US$) are in turn disclosed on page 3.*

*Note that Orbis Optimal (US$), and therefore Orbis Optimal (Euro), can include sufficient stockmarket hedging to materially reduce or even eliminate all stockmarket exposure, and thus can target positive returns regardless of the current trend in stockmarkets (or any other asset class). This is why we refer to the Orbis Optimal Funds as "Absolute Return Funds".*

*Finally, the Analysis of Stockmarket Exposure opposite looks through the investment in Orbis Optimal (US$) at the year-end to present Orbis Optimal (Euro)'s indirect exposure to stockmarkets. A comparison between this table and the corresponding one for Orbis Optimal (US$) on page 3 confirms that, aside from currency exposure, the investment exposure of the two Funds was virtually identical. For example, at the year-end both Funds had a total of negative 15% Beta Adjusted Exposure to stockmarkets.*

# ORBIS OPTIMAL (EURO) FUND AT 31 DECEMBER 2000

## Statement of Net Assets

| Shares Held | Security | Market Value € 000's | % of Fund |
|---|---|---|---|
| 314,801 | Orbis Optimal (US$) Fund | 11,678 | 99 |
| | Net Current Assets *(mainly the result of currency hedging)* | 154 | 1 |
| | Net Assets (Cost € 8,522) | 11,832 | 100 |
| | Net Asset Value per Share | 915,374 shares issued | € 12.93 |
| | (At 31 December 1999: 708,769 shares issued; € 10.11) | | |

## Analysis of Stockmarket Exposure

| Region | Equity Exposure | Portfolio Hedging | Accounting Exposure | Beta Adjusted Exposure* |
|---|---|---|---|---|
| | % | % | % | % |
| US | 40 | (48) | (8) | (17) |
| Japan | 23 | (14) | 9 | 1 |
| Europe | 18 | (11) | 7 | 1 |
| Emerging Markets | 7 | (5) | 2 | - |
| Total | 88 | (78)** | 10 | (15) |

** This is Equity Exposure, multiplied by a Beta determined using Blume's technique, minus Portfolio Hedging.*
*** Put option exposure is on a delta adjusted basis; face value basis provides an additional 1% hedging.*

## Currency Deployment

| | % of Fund |
|---|---|
| Euro | 99 |
| Russian rouble | 1 |
| Net Assets | 100 |

See accompanying notes

## ORBIS LEVERAGED (US$) FUND AT 31 DECEMBER 2000

| Total Rate of Return | From Inception on 1 Jan 1990 | Latest 5 Years % Annualised | 3 Years | 1 Year | Quarter % Not Annualised |
|---|---|---|---|---|---|
| In the benchmark currencies:* | | | | | |
| Orbis Leveraged (US$) | 13.8 | 9.0 | 18.0 | 71.3 | 41.2 |
| In US dollars: | | | | | |
| Orbis Leveraged (US$) | 13.6 | 6.5 | 17.5 | 71.3 | 41.2 |
| Bank Deposits* | 5.8 | 2.6 | 5.2 | 6.6 | 1.7 |
| Average Global Equity Fund | 8.0 | 9.6 | 9.0 | (10.9) | (6.5) |

** 100% US dollars since 30 June 1998, previously 40% dollars, 40% ecu and 20% yen.*

The Fund's unprecedented 71.3% return for 2000 was due to each and every fund in the Orbis family of funds achieving good performance in their assigned roles. The Orbis Global, Japan (Yen) and Africa Equity Funds earned 20.5%, 46.8% and 6.2%, respectively, relative to their equity benchmarks. The Orbis Optimal (US$) Fund added value through managing stockmarket exposure and a timely increase in its investment in Orbis Global at the expense of the Orbis Japan (US$) Fund in the second half of the year. Your Fund added considerable value by maintaining a high level of gearing and through its currency deployment, particularly in the latest quarter when the euro strengthened and the yen weakened. The Fund's resulting performance in 2000 should be regarded as exceptional. Nevertheless, we are encouraged that Orbis' three-tiered structure of funds, enhanced by continuous improvements over their eleven-year history, has stood up to the test of time.

During the year, the Fund invested an average of 190% of net assets in the Orbis Optimal (US$) Fund whose 32.6% return in 2000 was extraordinary. After borrowing costs, this investment contributed 61 percentage points of the Fund's 71.3% return for 2000. As detailed on page 2, 30 percentage points of the Orbis Optimal (US$) Fund's 32.6% return resulted from the value created mainly by the underlying Orbis Equity Funds outperforming their respective benchmarks. Both the fact that Orbis' equity selection has been a consistent strength and that the Fund's outsized returns in 2000 were largely overcoming the depressed returns of the two prior years reinforce our enthusiasm about the prospects of the Fund's core investment in the Orbis Optimal (US$) Fund.

Incremental currency positions in the Fund contributed 6 percentage points to its returns in the latest quarter and 5 percentage points for the year. The Fund has re-denominated about half of its borrowings in our least favoured major currency, the Japanese yen. This allows the Fund to take advantage of the low short-term rate of 0.4% pa currently available to borrowers in Japan. Furthermore, we think yen weakness would suit Japan's purposes as it attempts to extricate itself from an insipid economy and deflation. This incremental short position in the Fund has been profitable, particularly in the quarter ended 31 December 2000. This yen position continues at the date of writing. An incremental long euro position was established at favourable levels in July and November and the Fund benefited from subsequent euro strength. The overall euro position of the Fund shown under Currency Deployment opposite has been reduced from 74% to 32% at the time of writing.

Only 3 percentage points of the Fund's returns in 2000 came from the Fund's supplemental direct investments, typically consisting of stock index futures and put options. We will continue to manage these positions with an eye for profit but an emphasis on low tolerance for loss.

# ORBIS LEVERAGED (US$) FUND AT 31 DECEMBER 2000

## Statement of Net Assets

| Number Held | Security | Market Value US$ 000's | % of Fund |
|---|---|---|---|
| 19,500,725 | Orbis Optimal (US$) Fund | 681,550 | 187 |
| | Position to Manage Stockmarket Exposure: | | |
| | Stock Index Futures Sold: | | |
| (186) | US: S&P 500 CME, 3/2001 | (61,845) | (17) |
| | Contract Value | 61,849 | 17 |
| | Net Balances at Brokers | 3,484 | 1 |
| | Balance Committed to Above Position | 3,488 | 1 |
| | Investments | 685,038 | 188 |
| | Loans | (325,000) | (89) |
| | Net Current Assets | 4,538 | 1 |
| | Net Assets (Cost US$ 194,941) | 364,576 | 100 |
| | Net Asset Value per Share | 8,940,792 shares issued | US$ 40.78 |

(At 31 December 1999: 8,044,973 shares issued; US$ 23.80)

## Analysis of Stockmarket Exposure

| Region | Equity Exposure | Stockmarket Positions | Accounting Exposure | Beta Adjusted Exposure* |
|---|---|---|---|---|
| | % | % | % | % |
| US | 76 | (108) | (32) | (49) |
| Japan | 44 | (26) | 18 | 2 |
| Europe | 34 | (20) | 14 | 1 |
| Emerging Markets | 13 | (10) | 3 | - |
| Total | 167 | (164)** | 3 | (46) |

** This is Equity Exposure, multiplied by a Beta determined using Blume's technique, minus Stockmarket Positions.*
*** Put option exposure is on a delta adjusted basis; face value basis provides an additional 2% hedging.*

## Currency Deployment

| | % of Fund |
|---|---|
| US dollar | 75 |
| Euro | 74 |
| Japanese yen | (50) |
| Russian rouble | 1 |
| Net Assets | 100 |

See accompanying notes

## ORBIS LEVERAGED (EURO) FUND AT 31 DECEMBER 2000

| Total Rate of Return in euro: | From Inception on 30 Jun 1998 | Latest 1 Year | Latest Quarter |
|---|---|---|---|
| | % Annualised | | % Not Annualised |
| Orbis Leveraged (Euro) | 13.4 | 65.7 | 39.4 |
| *% change in the US dollar value of the euro* | *(5.8)* | *(6.4)* | *6.7* |

In effect, apart from its currency exposure, Orbis Leveraged (Euro) is the same investment as Orbis Leveraged (US$). Given this, we refer regular readers to the Orbis Leveraged (US$) Fund report on page 6. First time readers may find it informative to also read the text below in italics.

*This Fund seeks capital appreciation in euro on a leveraged global portfolio. It invests in the Orbis Leveraged (US$) Fund and hedges most or all of its currency exposure from US dollars into euro. The result is that this Fund may be expected to earn returns in euro which approximate those on Orbis Leveraged (US$) in dollars, adjusted by the short-term interest rate differential between the euro and the dollar. Page 6 shows the returns on Orbis Leveraged (US$) in dollars for various periods, including 13.8% pa for the eleven-year period since that Fund's inception on 1 January 1990.*

*Your choice between this Fund and Orbis Leveraged (US$) should be dictated by the base currency in which you wish us to manage your investment. The above table shows the fluctuations in the exchange rate between the euro and the dollar for various periods (the ecu was used prior to 1 January 1999). The table highlights that these exchange rate fluctuations can be substantial and that it is therefore important to select an investment managed in the base currency best suited to your needs.*

*The Fund's deployment at the year-end is shown opposite. The Statement of Net Assets shows that 98% of Orbis Leveraged (Euro) was invested in Orbis Leveraged (US$). Details of the portfolio of Orbis Leveraged (US$) are in turn disclosed on page 7.*

*Note that Orbis Leveraged (US$), and therefore Orbis Leveraged (Euro), can include sufficient stockmarket hedging to materially reduce or even eliminate all stockmarket exposure, and thus can target positive returns regardless of the current trend in stockmarkets (or any other asset class). This is why we refer to the Orbis Leveraged Funds as "Absolute Return Funds".*

*The Analysis of Stockmarket Exposure opposite looks through the investment in Orbis Leveraged (US$) at the year-end to present Orbis Leveraged (Euro)'s indirect exposure to stockmarkets. A comparison between this table and the corresponding one for Orbis Leveraged (US$) on page 7 confirms that, aside from currency exposure, the investment exposure of the two Funds was virtually identical. For example at the year-end, both Funds had a total of negative 46% Beta Adjusted Exposure to stockmarkets.*

*Finally, this Fund's Currency Deployment is shown at the foot of the opposite page, while that for Orbis Leveraged (US$) is on page 7. A comparison of the two shows that at the year-end Orbis Leveraged (Euro) had modified the currency exposure it derived from Orbis Leveraged (US$) by selling dollars and buying euro amounting to 100% of net assets.*

# ORBIS LEVERAGED (EURO) FUND AT 31 DECEMBER 2000

## Statement of Net Assets

| Shares Held | Security | Market Value € 000's | % of Fund |
|---|---|---|---|
| 6,061,393 | Orbis Leveraged (US$) Fund | 262,375 | 98 |
| | Net Current Assets *(mainly the result of currency hedging)* | 5,282 | 2 |
| | Net Assets (Cost € 185,120) | 267,657 | 100 |
| | Net Asset Value per Share | 19,546,763 shares issued | € 13.69 |
| | (At 31 December 1999: 7,881,523 shares issued; € 8.26) | | |

## Analysis of Stockmarket Exposure

| Region | Equity Exposure | Stockmarket Positions | Accounting Exposure | Beta Adjusted Exposure* |
|---|---|---|---|---|
| | % | % | % | % |
| US | 75 | (106) | (31) | (49) |
| Japan | 43 | (25) | 18 | 2 |
| Europe | 33 | (20) | 13 | 1 |
| Emerging Markets | 13 | (10) | 3 | - |
| Total | 164 | (161)** | 3 | (46) |

** This is Equity Exposure, multiplied by a Beta determined using Blume's technique, minus Stockmarket Positions.*
*** Put option exposure is on a delta adjusted basis; face value basis provides an additional 2% hedging.*

## Currency Deployment

| | % of Fund |
|---|---|
| Euro | 174 |
| Japanese yen | (49) |
| US dollar | (26) |
| Russian rouble | 1 |
| Net Assets | 100 |

See accompanying notes

## STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (MILLIONS)

| | Orbis Optimal | | | | Orbis Leveraged | | | |
|---|---|---|---|---|---|---|---|---|
| | (US$) | | (Euro) | | (US$) | | (Euro) | |
| Reporting Currency: | US$ | | € | | US$ | | € | |
| For the Years Ended 31 December: | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Investment Income: | 1 | 1 | - | - | - | - | - | - |
| Dividends | - | 1 | - | - | - | - | - | - |
| Interest | 1 | - | - | - | - | - | - | - |
| Expenses: | (1) | (3) | - | - | (17) | (14) | - | - |
| Manager's Fees | - | 3 | - | - | - | - | - | - |
| Interest and Other Borrowing Costs | 1 | - | - | - | 17 | 13 | - | - |
| Custodian Fees and Other | - | - | - | - | - | 1 | - | - |
| Net Investment Income | - | (2) | - | - | (17) | (14) | - | - |
| Net Gain (Loss) from | | | | | | | | |
| Investments and Currencies | 149 | 19 | 2.2 | - | 161 | 7 | 87 | (15) |
| Realised | 113 | 21 | (0.3) | (1.0) | 42 | 15 | (5) | (8) |
| Unrealised | 36 | (2) | 2.5 | 1.0 | 119 | (8) | 92 | (7) |
| Net Increase (Decrease) in Net | | | | | | | | |
| Assets Resulting from Operations | 149 | 17 | 2.2 | - | 144 | (7) | 87 | (15) |
| Members' Activity During the Year: | | | | | | | | |
| Subscriptions: | | | | | | | | |
| Orbis Funds | 324 | 61 | - | - | 116 | 71 | - | - |
| Other Members | 1 | 2 | 0.8 | 0.2 | 17 | 8 | 49 | 13 |
| Switches Between Funds | - | 10 | 2.6 | 1.6 | 2 | - | 72 | 56 |
| Redemptions: | | | | | | | | |
| Orbis Funds | (130) | (119) | - | - | (16) | (8) | - | - |
| Other Members | (38) | (15) | (1.0) | - | (44) | (20) | (3) | (3) |
| Switches Between Funds | (3) | (1) | - | (0.1) | (46) | (74) | (2) | - |
| Increase (Decrease) in Net Assets | 303 | (45) | 4.6 | 1.7 | 173 | (30) | 203 | 51 |
| Net Assets at Beginning of Year | 432 | 477 | 7.2 | 5.5 | 192 | 222 | 65 | 14 |
| Net Assets at End of Year | 735 | 432 | 11.8 | 7.2 | 365 | 192 | 268 | 65 |

## NOTES TO THE AUDITED FINANCIAL STATEMENTS AT 31 DECEMBER 2000 AND 1999

### Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada and Bermuda. The Funds' significant accounting policies are as follows:

Investments. Investments are recorded as of the trade date and are stated at their fair market values. Investments in Orbis Funds are valued at Net Asset Value, while other marketable securities, including futures and options, are valued at the last reported sale price. The amounts realised may differ from these valuations due to variations in pricing, exchange rates, trading volumes and regulations.

Foreign Currency Translation. Assets, liabilities and forward currency contracts denominated in foreign currencies are translated into the Reporting Currency shown above using exchange rates prevailing at the year-end. Income and expenses in foreign currencies are translated into the Reporting Currency at the exchange rates prevailing at the dates of the transactions.

Income and Expenses. The accrual basis is used to recognise income and expenses. Dividends are accrued on the ex-dividend date, net of withholding taxes. Realised gains and losses on investments are based on average cost. The Funds' operating expenses are included in Custodian Fees and Other.

## Taxes

There are no Bermuda income, profit, capital, capital gains, estate or inheritance taxes payable by the Funds or their Members in respect of shares in the Funds. The Bermuda Government has undertaken that in the event that any such taxes are levied in the future, the Funds and their shares will be exempt from such taxes until 28 March 2016.

## Share Capital

Each Fund's authorised share capital comprises 100 million Fund shares (1999 - 100 million) and 12,000 issued Founders' shares (1999 - 12,000), all with a US$1 par value. Fund shares participate pro rata in their Fund's net assets and dividends, are redeemable, and are non-voting. Founders' shares do not participate in their Fund's portfolio, are redeemable at par value only after all Fund shares have been redeemed, and carry the right to vote. If a Fund is wound up or dissolved, the Founders' shares will participate only to the extent of their par value.

## Material Contracts

At year-end the following Funds had forward currency contracts having net contract values and net market values as set out below. The net unrealised gain/(loss) is included in net current assets. To limit its risk to the amount of any net unrealised gain, each Fund has entered into an agreement whereby all its currency transactions are settled "delivery versus payment" and can be netted.

| | Contract Value | Market Value | Unrealised Gain (Loss) |
|---|---|---|---|
| Orbis Optimal (US$) | US$ (145,471,164) | US$ (150,440,101) | US$ (4,968,937) |
| Orbis Optimal (Euro) | € (8,780,000) | € (8,613,011) | € 166,989 |
| Orbis Leveraged (US$) | US$ (86,472,154) | US$ (84,162,743) | US$ 2,309,411 |
| Orbis Leveraged (Euro) | € (269,930,000) | € (265,480,749) | € 4,449,251 |

## Commitments

Orbis Leveraged (US$) has a 3 year multi-currency line of credit secured by a mortgage on its assets. At 31 December 2000, US$325 million (1999 - US$172 million) of the available facility, currently US$400 million (1999 - US$275 million) was drawn in US dollars and interest, charged at LIBOR plus 0.85%, totalled 7.5% pa. The Fund pays a commitment fee of 0.15% pa on undrawn balances.

The margin balances supporting Orbis Optimal (US$)'s Portfolio Hedging may be funded partly by a margin facility which is secured by, and may not exceed, a maximum of 10% of Orbis Optimal (US$)'s net asset value. At year-end, the margin facility was not utilised and no assets were pledged.

## Related Party Transactions

Orbis Investment Management Limited has been contractually appointed as "Manager" of the Funds. Effective 21 December 2000, Orbis Optimal (US$) pays the Manager a performance-based fee of up to 0.5% pa of weekly net assets whenever that Fund's price exceeds its trailing one year maximum and its trailing one year return exceeds that of Bank Deposits plus 5%. Orbis Optimal (Euro), Orbis Leveraged (US$) and Orbis Leveraged (Euro) do not directly pay a fee to the Manager. To the extent that they directly or indirectly invest in other Orbis funds, these Funds indirectly bear the management fees paid by such other funds. Each Orbis Equity Fund directly or indirectly pays a performance-based fee. From 17 March 2000 and 1 January 1999 respectively, the Manager waived its former fee of 0.5% pa from Orbis Optimal (US$) and Orbis Leveraged (US$).

Related party holdings at year-end were 29,934 shares in Orbis Optimal (US$) (1999 - 16,871) 473,058 shares in Orbis Optimal (Euro) (1999 - 532,732), 418,604 shares in Orbis Leveraged (US$) (1999 - 1,811,725) and 14,714,321 shares in Orbis Leveraged (Euro) (1999 - 5,532,603).

# AUDITORS' REPORT

To the Members of
Orbis Optimal (US$) Fund Limited,
Orbis Optimal (Euro) Fund Limited,
Orbis Leveraged (US$) Fund Limited, and
Orbis Leveraged (Euro) Fund Limited (the "Funds"):

We have audited the Statements of Net Assets of the Funds (companies incorporated with limited liability in Bermuda) on pages 3, 5, 7 and 9 as at 31 December 2000. We have audited the related Statements of Operations and Changes in Net Assets on page 10 for each of the two years in the period then ended. These financial statements are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada and Bermuda. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of all securities and cash owned as at 31 December 2000, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial positions of the Funds as at 31 December 2000 and the results of their operations and the changes in their net assets for each of the two years in the period then ended in accordance with accounting principles generally accepted in Canada and Bermuda.

Arthur Andersen

Hamilton, Bermuda
19 January 2001

# NOTICES

## Annual General Meetings

Notice is hereby given that the Annual General Meetings of Orbis Optimal (US$) Fund Limited, Orbis Optimal (Euro) Fund Limited, Orbis Leveraged (US$) Fund Limited and Orbis Leveraged (Euro) Fund Limited (the "Orbis Funds") will be held at the offices of Orbis Investment Management Limited, 34 Bermudiana Road, Hamilton, Bermuda on 19 April 2001 at 10:00 am. Members are invited to attend and address these meetings. The Agendas comprise the following:

- Review of Minutes of the Annual General Meetings of Members of the Orbis Funds held on 20 April 2000
- Review of audited financial statements in the 2000 Annual Reports
- Proposed re-appointment of the present Directors as shown in the Manager's Reports
- Approval of proposed Directors' fees for the year to 31 December 2001 to each of Messrs Collis and Thomson of US$7,500 for each of Orbis Optimal (US$) and Orbis Leveraged (US$), and US$1,000 for each of Orbis Optimal (Euro) and Orbis Leveraged (Euro)
- Proposed re-appointment of Arthur Andersen as Auditors for the year to 31 December 2001

By Order of the Boards, James J Dorr, Secretary

## United Kingdom Distributor Status

The Board of Inland Revenue has certified each of the Orbis Funds as a distributing fund for the purposes of Chapter V of Part XVII of the United Kingdom Income and Corporation Taxes Act 1988 from the Fund's inception until 31 December 1999. The Directors intend to apply for such certification for fiscal 2000 for all of the Orbis Funds. Certification is granted retrospectively, therefore there can be no assurance that the Orbis Funds will be certified as distributing funds for fiscal 2000 or for future accounting periods.

*This Report does not constitute an offer to sell, or a solicitation to buy, shares of Orbis Funds. Subscriptions are only valid if made on the basis of the current prospectus of an Orbis Fund. Certain capitalised terms are defined in the Glossary section of the Orbis Funds General Information document, copies of which are available upon request from the Manager. Past performance is not necessarily indicative of future performance.*

*We invite you to visit our website, orbisfunds.com, where we have recently introduced a new service. You may now register on-line to automatically receive regular reports on our funds by e-mail. We hope that it enables you to keep in better touch with us and your investments.*

ORBIS INVESTMENT MANAGEMENT LIMITED • LPG BUILDING, 34 BERMUDIANA ROAD, HAMILTON HM 11, BERMUDA
TELEPHONE: +1 (441) 296 3000 • FACSIMILE: +1 (441) 296 3001 • E-MAIL: info@orbisfunds.com • WEB SITE: www.orbisfunds.com