ORBIS ABSOLUTE RETURN FUNDS

31 MARCH 2000

# Quarterly

REPORTS

## ORBIS OPTIMAL

*US$ Fund / Euro Fund*

## ORBIS LEVERAGED

*US$ Fund / Euro Fund*

# NOTICES

***UK 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 1998. The Directors have applied for and expect to obtain such certification for fiscal 1999 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 1999 or for future accounting periods.*

***Other.*** *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.*

*Members and other authorised persons who wish to receive the Orbis Absolute Return Funds Quarterly Reports by e-mail are asked to kindly send a request to g.gardner@orbisfunds.com*

# 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 based on detailed proprietary research which emphasises relative 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.

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

| Total Rate of Return | From Inception on 1 Jan 1990 | Latest 5 Years | Latest 3 Years | Latest 1 Year | Quarter |
|---|---|---|---|---|---|
| | | % Annualised | | | % Not Annualised |
| **In the benchmark currencies:*** | | | | | |
| **Orbis Optimal (US$)** | **10.0** | **6.4** | **2.4** | **(4.2)** | **(0.7)** |
| **In US dollars:** | | | | | |
| Orbis Optimal (US$) | 9.8 | 2.9 | 0.9 | (4.2) | (0.7) |
| Bank Deposits | 5.8 | 1.4 | 3.4 | 5.6 | 1.5 |
| Average Global Equity Fund | 10.3 | 16.0 | 17.4 | 30.8 | 4.6 |

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

Orbis favours equities which are priced below our assessment of their intrinsic value and are likely to rise to close that gap. As shown opposite, these represent 97% of the Fund's assets. The stockmarket index instruments used for the Fund's portfolio hedging have by contrast become increasingly influenced by glamour shares, which have soared in price. The Fund has underperformed because the returns on its long equity positions have lagged the returns of the stockmarket indices that the Fund hedges. This has resulted in the Fund losing 0.7% in the latest quarter and 4.2% in the latest year. This is not only much less than the corresponding 1.5% and 5.6% returns on Bank Deposits, but falls massively short of the 4.6% and 30.8% returns on the Average Global Equity Fund. In view of this disappointing performance, the Manager decided, effective 17 March 2000, to waive the 0.5% pa fee payable by the Fund until its share price regains its prior peak of $30.87.

Recently, a significant part of the Fund's portfolio hedging has been implemented using put options. These have the advantage of protecting the Fund against large stockmarket declines while capping the cost if markets continue to appreciate. At quarter-end, the Fund's put options provided an additional 24% of hedging on a face value basis over and above the Portfolio Hedging shown in the Analysis of Stockmarket Exposure which includes put option exposure on a delta adjusted basis only.

In the last global bull market ending in 1990, Japanese equities, which used to represent 42% of the World Index, were the rage. Their subsequent sustained underperformance is illustrated by Japanese equities representing only 13% of the World Index at present. The glamorous technology, media and telecommunications shares, which have driven the present speculative bubble, now comprise 37% of the World Index. We expect a similarly momentous decline.

The dramatic 32% collapse of the technology-laden NASDAQ-100 after quarter-end is imparting realism into stockmarkets. At the time of writing, more realistically valued stocks, including the Fund's equities, have held their prices well even as glamour stocks have plummeted and dragged global stockmarket indices lower. The unusual divergence between prices of value and glamour shares, which has hurt the Fund so much recently, is at last starting to move in its favour. The Fund is extremely well positioned to thrive should glamour stocks continue their decline. The Fund's advance of 5.4% despite a 5.2% fall in the World Index subsequent to quarter-end is evidence of that.

Investors who disagree with our analysis of the investment scene should not hold shares in the Fund. Readers who agree may rest assured that we at Orbis are doing everything that we can think of to capitalise on what we believe is a remarkable investment opportunity to buy sound shares at fair prices and hedge the stockmarket risk through sales of overvalued and vulnerable stockmarket indices.

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

## STATEMENT OF NET ASSETS *(UNAUDITED)*

| Security | Market Value US$ 000's | % of Fund |
|---|---|---|
| **Orbis Global Equity Fund** | 274,334 | 68 |
| **Orbis Japan Equity (US$) Fund** | 94,093 | 24 |
| **Orbis Africa Equity (Rand) Fund** | 20,181 | 5 |
| **Total Equity Exposure** | 388,608 | 97 |
| **Portfolio Hedging:** | | |
| **Stock Index Futures Sold:** | | |
| Japan: TOPIX TSE 6/2000 | (77,968) | (27) |
| Nikkei 225 CME 6/2000 | (31,503) | |
| US: S&P 500 CME 6/2000 | (79,315) | (22) |
| NASDAQ 100 CME 6/2000 | (7,599) | |
| South Africa: JSE All Share Top 40 SAFEX 6/2000 | (20,487) | (5) |
| UK: FTSE 100 LIFFE 6/2000 | (15,019) | (4) |
| Sweden: OMX OMLX 4/2000 | (9,306) | (2) |
| Germany: DAX Eurex 6/2000 | (7,994) | (2) |
| Switzerland: SMI Eurex 6/2000 | (5,243) | (1) |
| Contract Value | 250,905 | 63 |
| Net Balances at Brokers | 9,022 | 2 |
| Balance Committed to Above Positions | 5,493 | 2 |
| **Put Options:** | | |
| US: S&P 500 CBOE, Strike 1400, 9/2000 | 1,886 | - |
| S&P 500 CBOE, Strike 1375, 6/2000 | 794 | - |
| Total Option Premium | 2,680 | - |
| Net Current Assets | 4,098 | 1 |
| **Net Assets** | **400,879** | **100** |
| **Net Asset Value per Share** | 15,319,745 shares issued | **US$ 26.17** |

## ANALYSIS OF STOCKMARKET EXPOSURE

| Region | Equity Exposure | Portfolio Hedging | Accounting Exposure | Beta Adjusted Exposure* |
|---|---|---|---|---|
| | % | % | % | % |
| Japan | 44 | (27) | 17 | 3 |
| US | 29 | (29) | - | (8) |
| Europe | 16 | (9) | 7 | 3 |
| South Africa | 8 | (5) | 3 | 2 |
| **Total** | **97** | **(70)**** | **27** | **-** |

** 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 24% hedging.*

## CURRENCY DEPLOYMENT

| | % of Fund |
|---|---|
| US dollar | 95 |
| Canadian dollar | 5 |
| **Net Assets** | **100** |

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

| **Total Rate of Return in euro:** | **From Inception on 30 Jun 1998** | **Latest 1 Year** | **Latest Quarter** |
|---|---|---|---|
| | *% Annualised* | | *% Not Annualised* |
| **Orbis Optimal (Euro)** | **(0.3)** | **(7.3)** | **(1.6)** |
| *% change in the US dollar value of the euro* | *(7.5)* | *(11.3)* | *(5.0)* |

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 9.8% pa for the over ten-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$) because the policy of these Funds is to avoid net short currency positions. For example, page 3 shows that at the quarter-end the Currency Deployment of Orbis Optimal (US$) comprised 95% US dollars and 5% Canadian dollars. If Orbis Optimal (Euro) had simply hedged 100% of net assets from US dollars into euro as usual, it would have included minus 5% 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 quarter-end is shown opposite. The Statement of Net Assets shows that 100% 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 both of these Orbis Optimal Funds as "Absolute Return Funds".*

*Finally, the Analysis of Stockmarket Exposure opposite looks through the investment in Orbis Optimal (US$) at the quarter-end to present Orbis Optimal (Euro)'s indirect exposure to stockmarkets. A comparison between this table and the corresponding one for Orbis Optimal (US$) on page 3 confirms that, aside from currency exposure, the investment exposure of the two Funds was identical. For example, at the quarter-end both Funds had virtually no Beta Adjusted Exposure to stockmarkets.*

# ORBIS OPTIMAL (EURO) FUND AT 31 MARCH 2000

## STATEMENT OF NET ASSETS *(UNAUDITED)*

| Security | Market Value € 000's | % of Fund |
|---|---|---|
| **Orbis Optimal (US$) Fund** | 7,113 | 100 |
| Net Current Liabilities *(Mainly the result of currency hedging)* | (25) | - |
| **Net Assets** | **7,088** | **100** |
| **Net Asset Value per Share** | 712,553 shares issued | **€ 9.95** |

## ANALYSIS OF STOCKMARKET EXPOSURE

| Region | Equity Exposure | Portfolio Hedging | Accounting Exposure | Beta Adjusted Exposure* |
|---|---|---|---|---|
| | % | % | % | % |
| Japan | 44 | (27) | 17 | 3 |
| US | 29 | (29) | - | (8) |
| Europe | 16 | (9) | 7 | 3 |
| South Africa | 8 | (5) | 3 | 2 |
| **Total** | **97** | **(70)**** | **27** | **-** |

** 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 24% hedging.*

## CURRENCY DEPLOYMENT

| | % of Fund |
|---|---|
| **Euro** | **100** |

## ORBIS LEVERAGED (US$) FUND AT 31 MARCH 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 Leveraged (US$)** | **8.7** | **2.6** | **(11.1)** | **(15.3)** | **(2.7)** |
| **In US dollars:** | | | | | |
| Orbis Leveraged (US$) | 8.5 | (0.8) | (12.4) | (15.3) | (2.7) |
| Bank Deposits | 5.8 | 1.4 | 3.4 | 5.6 | 1.5 |
| Average Global Equity Fund | 10.3 | 16.0 | 17.4 | 30.8 | 4.6 |

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

The first quarter of 2000 marked a continuation of the global bull market and the outperformance of the much-hyped technology, media and telecommunications (TMT) sectors. According to Merrill Lynch data, TMT sectors world-wide rose by 4.1% while global stockmarkets ex-TMT fell 1.8% in the latest quarter. With the Fund remaining invested in equities selected for their attractive fundamental value and hedged by selling stockmarket indices (32% of which comprise TMT shares) short, last quarter's 2.7% loss was disappointing but not surprising.

The stockmarket action subsequent to quarter-end suggests that the euphoria that has supported TMT shares is waning. Portfolios have been bloated with TMT holdings because of unprecedented public participation and a strong following by managers seeking to protect their short-term performance records. Slowing upward momentum during the quarter turned into accelerating price declines after the end of the quarter. With many leading TMT shares having fallen 32% from their highs, speculators must now be questioning their ability to sell their shares at higher prices. Given that TMT speculation was responsible for almost all of the Fund's recent decline, we would be disappointed if the Fund did not appreciate strongly in the face of that bubble's deflation. The Fund's 10.2% rise since quarter-end is an encouraging start in that regard.

No matter how irrational the TMT bubble is, it has been extremely painful for value-based investors. Value-oriented managers have been losing investor confidence because of their recent significant underperformance. For example, the share price of Warren Buffet's company, Berkshire Hathaway, fell 49% from its high. Of course, the pain can be more acute for those seeking absolute returns by buying equities which are priced below intrinsic value and selling those which are priced above. In their case, the speculative frenzy causes not just underperformance but the loss of capital. Orbis Optimal (US$), and therefore Orbis Leveraged (US$), are no exception. These Funds' declines to quarter-end have been shocking. In light of this, the Manager has waived, effective 17 March 2000, its 0.5% pa fee from Orbis Optimal (US$) until that Fund's share price regains its prior peak.

We recognise that the Fund's investment philosophy and results have caused Members great anxiety. By maintaining our stance, we are opening ourselves to the criticisms of being stubborn and incapable of appreciating the dynamics of a new era. Only time will tell, but we are convinced that the future will prove that we are instead displaying the courage of our convictions under conditions of extreme stress and hence greatest opportunity. The majority of the financial assets of the senior executives of Orbis are invested in the Orbis Funds. Nothing would bring us greater satisfaction than to reward our clients for their continuing support and patience during these most trying times.

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

## STATEMENT OF NET ASSETS *(UNAUDITED)*

| Security | Market Value US$ 000's | % of Fund |
|---|---|---|
| **Orbis Optimal (US$) Fund** | 341,797 | 188 |
| **Incremental Equity Position:** | | |
| First Russian Frontiers Trust | 8,172 | 5 |
| **Put Option to Manage Stockmarket Exposure:** | | |
| US: S&P 500 CBOE, Strike 1375, 6/2000 | 363 | - |
| **Investments** | 350,332 | 193 |
| **Loans** | (169,000) | (93) |
| Net Current Assets | 759 | - |
| **Net Assets** | **182,091** | **100** |
| **Net Asset Value per Share** | 7,862,639 shares issued | **US$ 23.16** |

## ANALYSIS OF STOCKMARKET EXPOSURE

| Region | Equity Exposure | Stockmarket Positions | Accounting Exposure | Beta Adjusted Exposure* |
|---|---|---|---|---|
| | % | % | % | % |
| Japan | 83 | (51) | 32 | 5 |
| US | 54 | (57) | (3) | (18) |
| Europe | 30 | (17) | 13 | 6 |
| South Africa | 15 | (9) | 6 | 4 |
| Russia | 5 | - | 5 | 3 |
| **Total** | **187** | **(134)**** | **53** | **-** |

** 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 58% short exposure.*

## CURRENCY DEPLOYMENT

| | % of Fund |
|---|---|
| US dollar | 85 |
| Canadian dollar | 10 |
| Russian rouble | 5 |
| **Net Assets** | **100** |

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

| **Total Rate of Return in euro:** | **From Inception on 30 Jun 1998** | **Latest 1 Year** | **Latest Quarter** |
|---|---|---|---|
| | *% Annualised* | | *% Not Annualised* |
| **Orbis Leveraged (Euro)** | **(12.2)** | **(18.1)** | **(3.6)** |
| *% change in the US dollar value of the euro* | *(7.5)* | *(11.3)* | *(5.0)* |

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 8.5% pa for the over ten-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 quarter-end is shown opposite. The Statement of Net Assets shows that 100% 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 both of these Orbis Leveraged Funds as "Absolute Return Funds".*

*The Analysis of Stockmarket Exposure opposite looks through the investment in Orbis Leveraged (US$) at the quarter-end to present Orbis Leveraged (Euro)'s indirect exposure to stockmarkets. A comparison between this table and the corresponding one for Orbis Leveraged (US$) on page 7 confirms that, aside from currency exposure, the investment exposure of the two Funds was identical. For example at the quarter-end, both Funds had virtually no 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$) is on page 7. A comparison of the two shows that at the quarter-end Orbis Leveraged (Euro) had modified the currency exposure it derived from Orbis Leveraged (US$) by selling dollars and buying euro amounting to 100% of net assets.*

# ORBIS LEVERAGED (EURO) FUND AT 31 MARCH 2000

## Statement of Net Assets *(Unaudited)*

| Security | | Market Value € 000's | % of Fund |
|---|---|---|---|
| **Orbis Leveraged (US$) Fund** | | 71,894 | 100 |
| Net Current Liabilities *(Mainly the result of currency hedging)* | | (255) | - |
| **Net Assets** | | **71,639** | **100** |
| **Net Asset Value per Share** | | 8,998,798 shares issued | **€ 7.96** |

## Analysis of Stockmarket Exposure

| Region | Equity Exposure | Stockmarket Positions | Accounting Exposure | Beta Adjusted Exposure* |
|---|---|---|---|---|
| | % | % | % | % |
| Japan | 83 | (51) | 32 | 5 |
| US | 54 | (57) | (3) | (18) |
| Europe | 30 | (17) | 13 | 6 |
| South Africa | 15 | (9) | 6 | 4 |
| Russia | 5 | - | 5 | 3 |
| **Total** | **187** | **(134)**** | **53** | **-** |

** 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 58% short exposure.*

## Currency Deployment

| | % of Fund |
|---|---|
| Euro | 100 |
| US dollar | (15) |
| Canadian dollar | 10 |
| Russian rouble | 5 |
| **Net Assets** | **100** |

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