

# What matters most



# Learning objectives

1. **Understand** the relationship between starting valuations and future investment returns.
2. **Articulate** why the current market environment is likely to lead to disappointing outcomes for passive investors, especially those searching for true diversification.
3. **Understand** why blending an uncorrelated manager with a clients existing portfolio can improve overall performance.

# 2024 wasn't short of excitement...



...and 2025 hasn't been short of excitement either

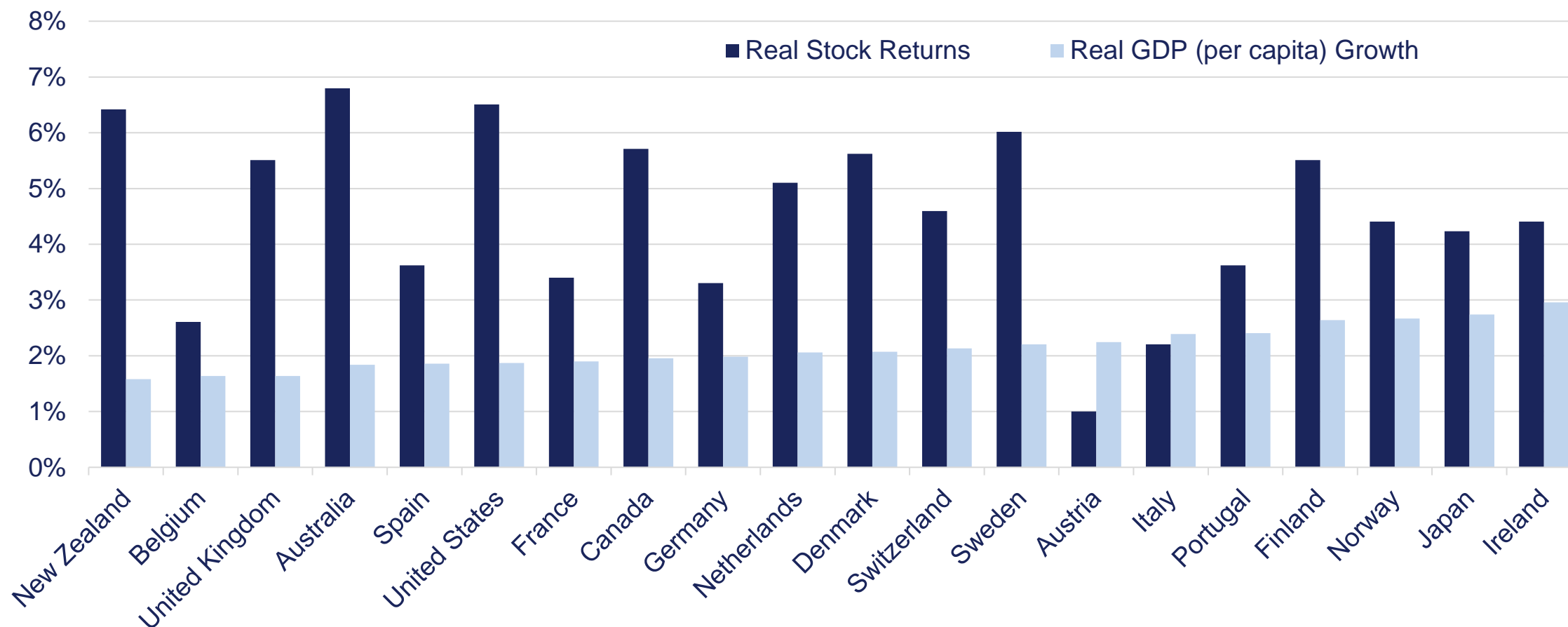


Sources: Financial Times, The Guardian, The Evening Standard, BBC News

# Reality: GDP Growth Does Not Drive Equity Returns in DMs



Annualised real stock returns and real per capita GDP growth (1900–2019)



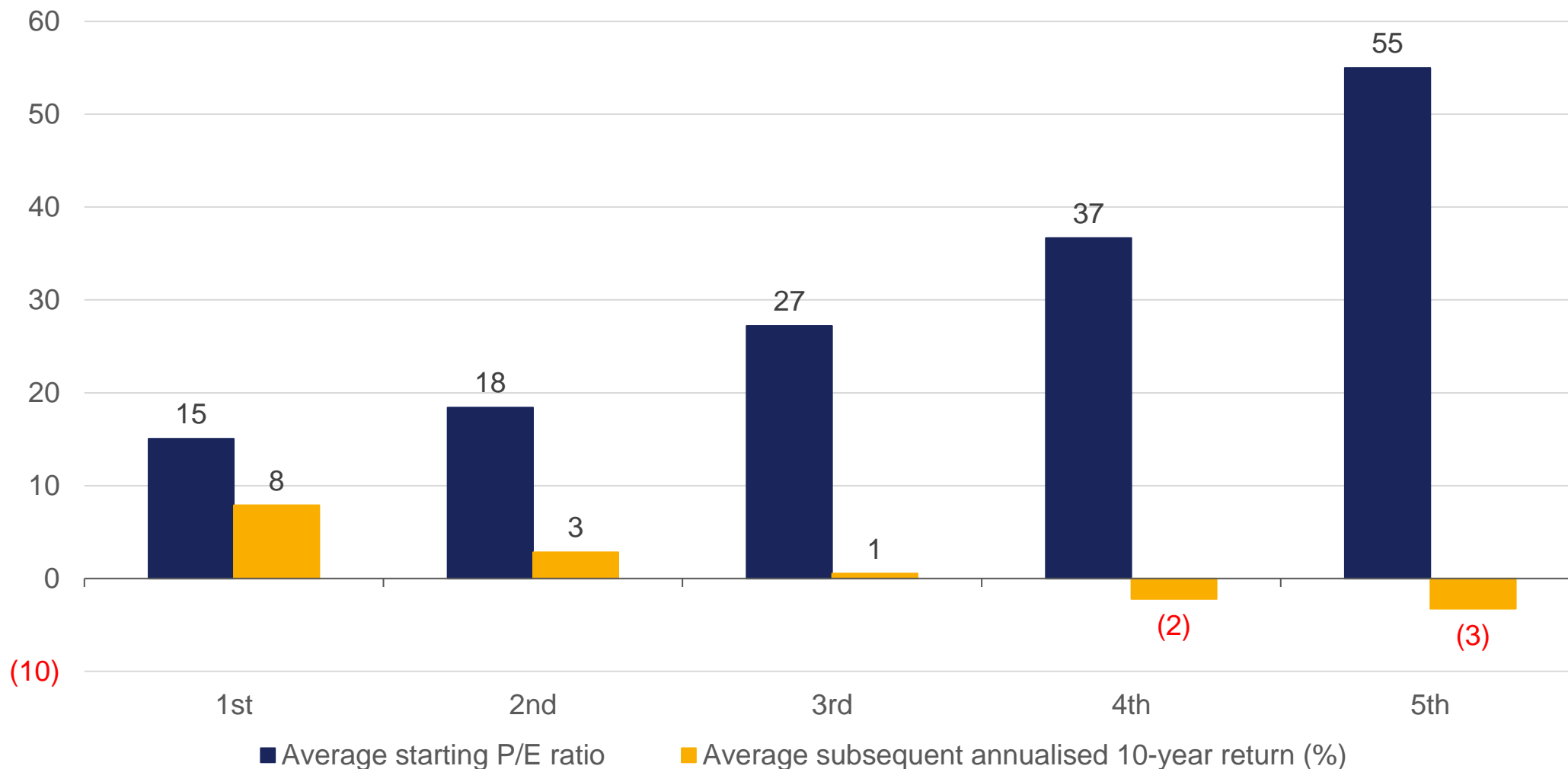
**Source:** "What Matters More for Emerging Markets Investors: Economic Growth or EPS Growth?" (May, 2022) by Jason Hsu, Jay Ritter, Phillip Wool, and Harry Zhao. The chart represents the geometric average annual per capita GDP growth and stock returns for each respective country from 1900 to 2019. Data on real per capita GDP for 1900 to 2011 comes from Maddison Project's cgdppc series, and for 2012 to 2019, from the IMF and the Population Reference Bureau. Stock returns are from Dimson, Marsh, and Staunton (2020), expressed in local currency terms. DM = Developed Markets.

.....SO WHAT REALLY MATTERS?

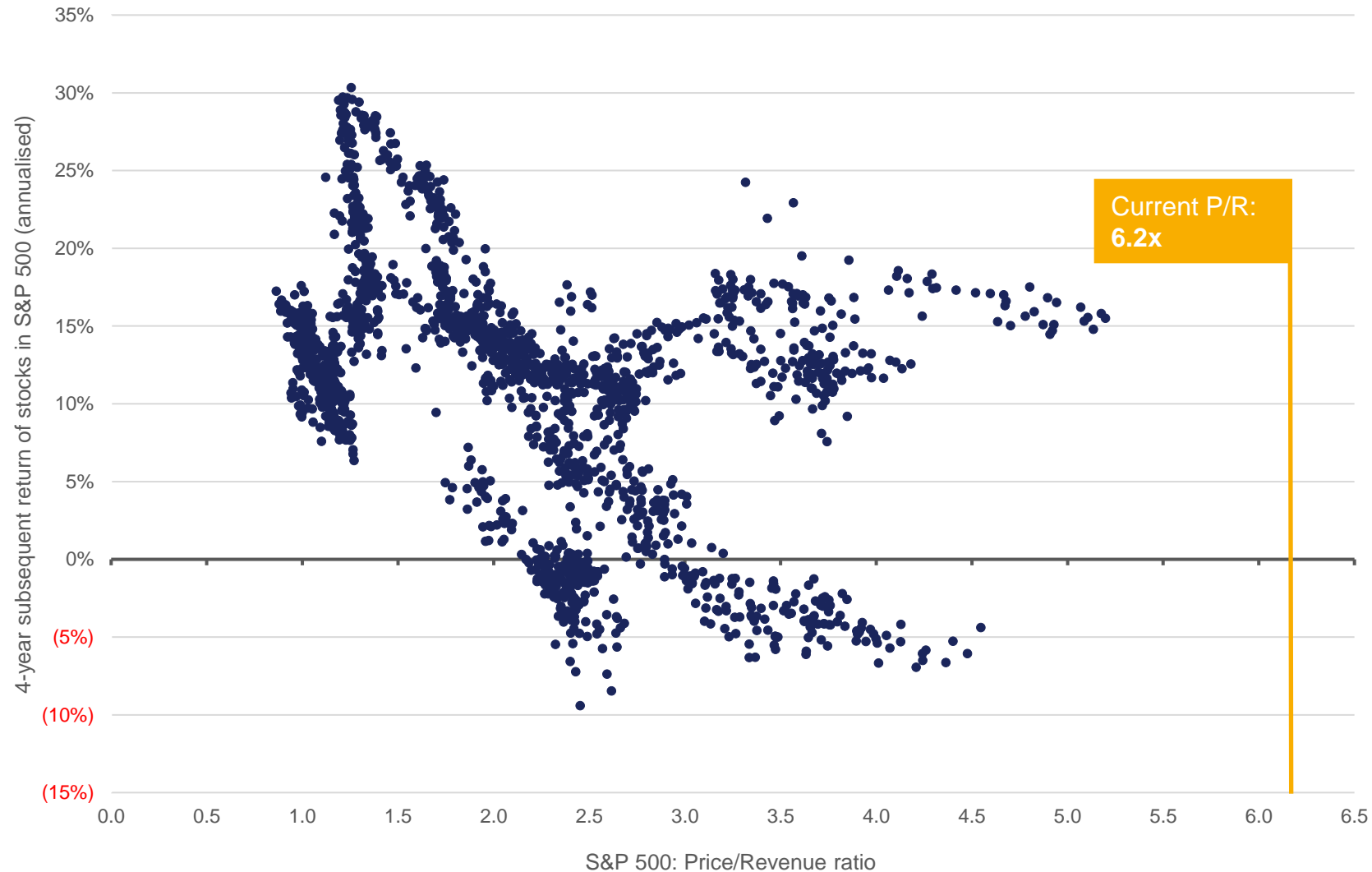
# High starting valuations tend to produce low subsequent returns



Topix 500 index average starting P/E ratio, by quintile, and average subsequent 10-year annualised returns, 1990-2024



# US shares: outlook for real returns





**.....SO WHAT REALLY MATTERS?**

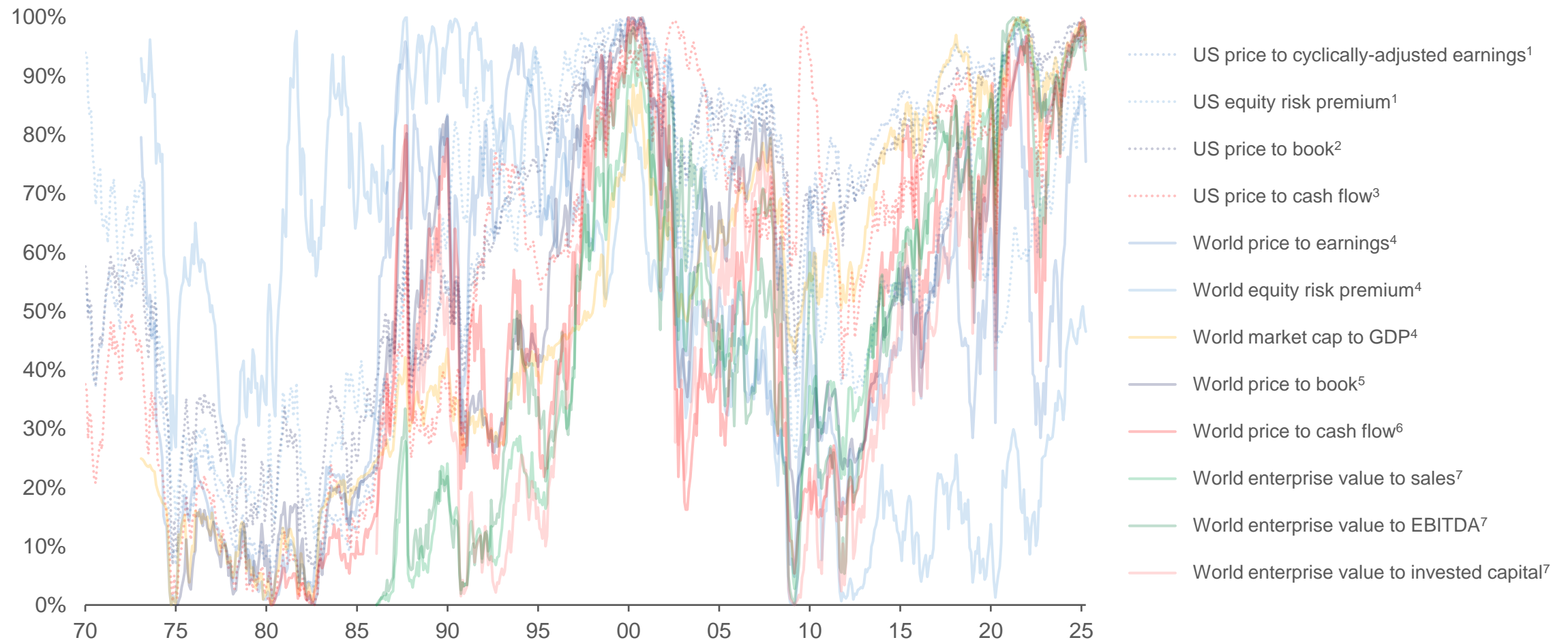


.....SO WHAT REALLY MATTERS?  
**STARTING VALUATIONS**

# Broad stockmarkets have rarely been more expensive



Stockmarket valuation percentile for 12 long-term measures, plotted from 1970

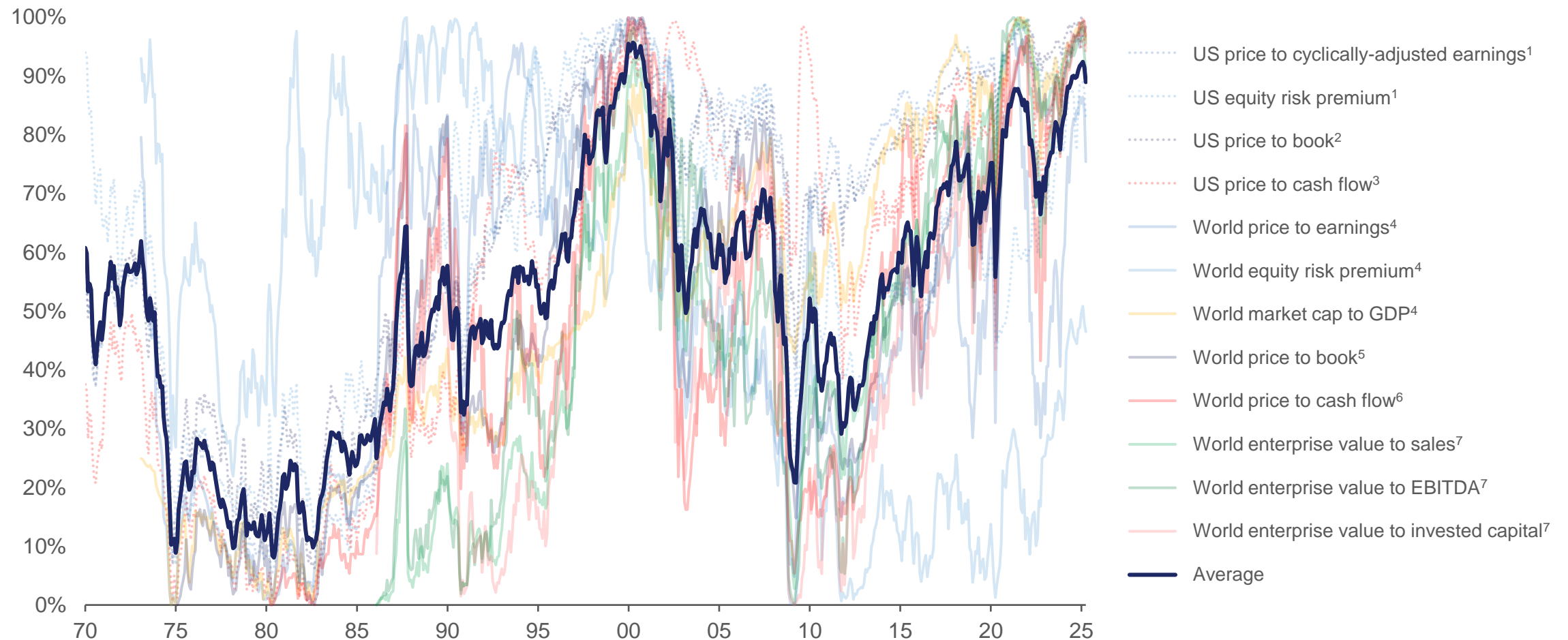


**31 Mar 2025** | Source: Robert Shiller, Kenneth French, World Bank, International Monetary Fund, LSEG Datastream, LSEG Worldscope Fundamentals, Orbis. Percentiles calculated over the full history for each measure. US measures included with dotted lines when they significantly extend the history. Cyclically-adjusted price-earnings ratio uses the average of ten years of inflation-adjusted earnings. US equity risk premium is the cyclically-adjusted earnings to price of equities minus the yield on a 10-year US Treasury note. World equity risk premium is the trailing earnings to price of developed stockmarkets minus a blend of 10-year bond yields for the US (50%), Europe (35%), and Japan (15%). World market cap to GDP calculated using the market capitalisation of developed stockmarkets and the gross domestic product in current USD of high-income countries. Enterprise value measures for developed market non-financial companies. EBITDA is earnings before interest, tax, depreciation, and amortisation. <sup>1</sup> from 1900. <sup>2</sup> from 1926. <sup>3</sup> from 1951. <sup>4</sup> from 1973. <sup>5</sup> from 1975. <sup>6</sup> from 1980. <sup>7</sup> from 1986.

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Stockmarket valuation percentile for 12 long-term measures, plotted from 1970



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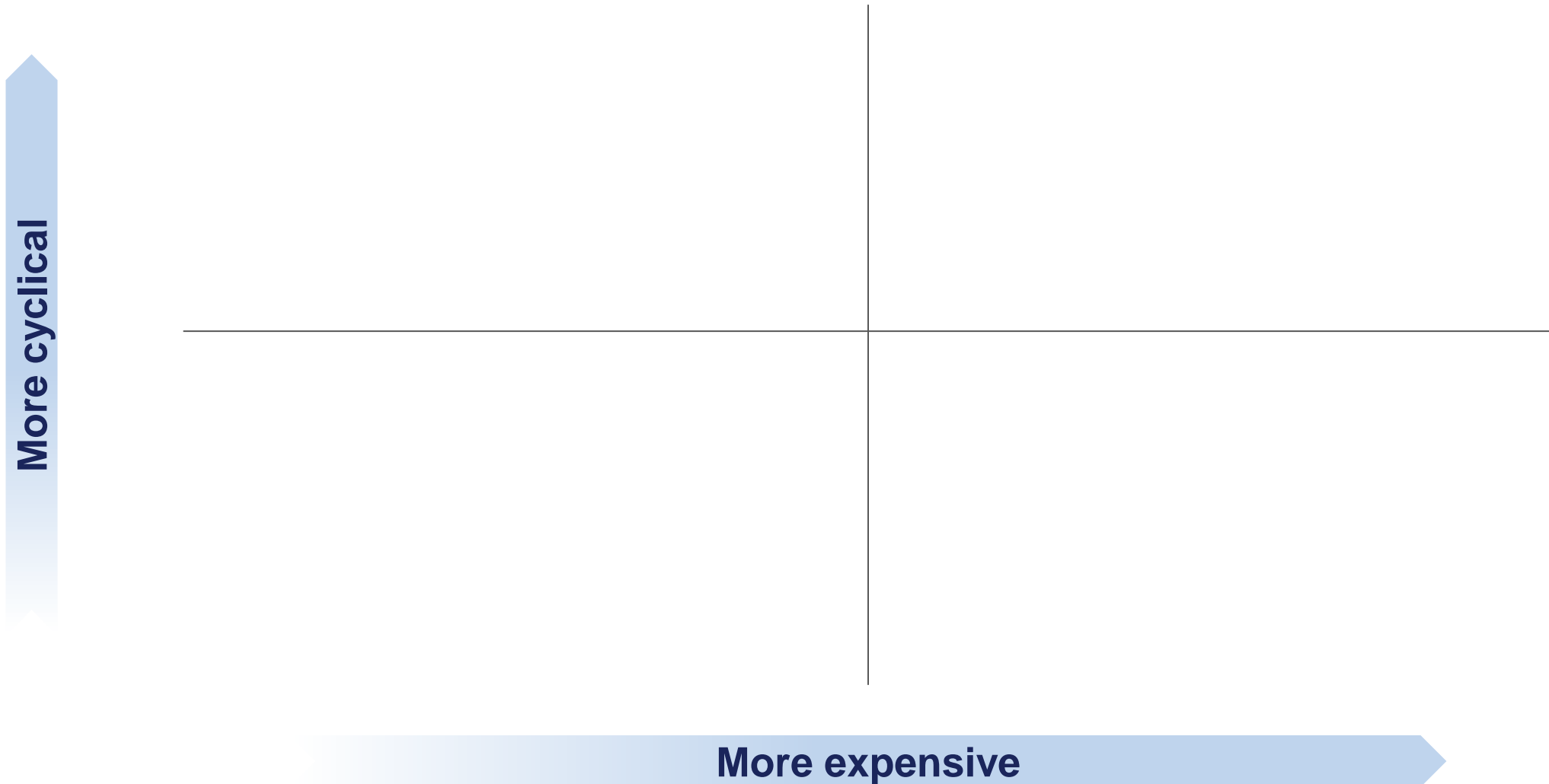
# Broad stockmarkets have rarely been more expensive



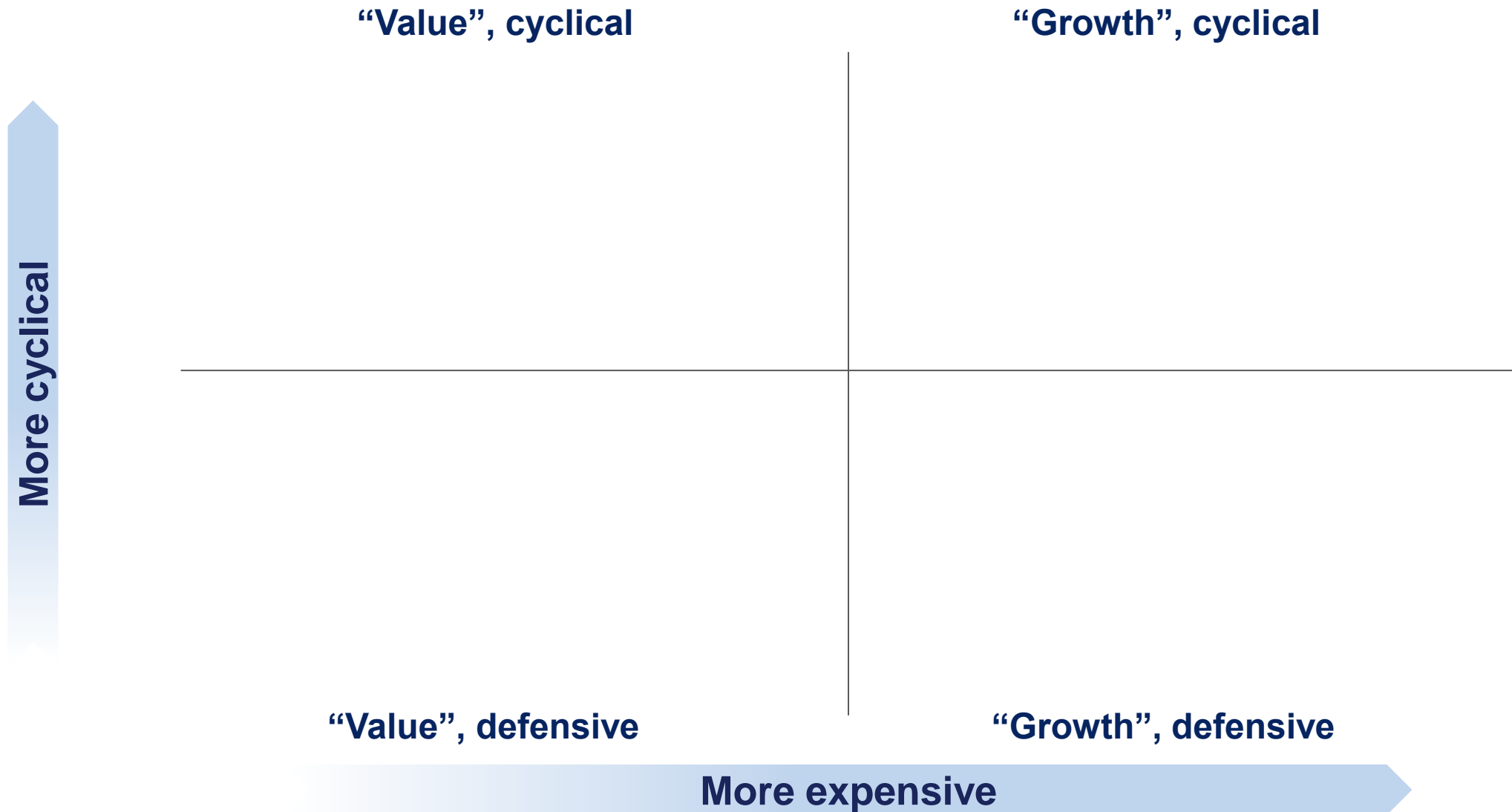
Stockmarket valuation percentile for 12 long-term measures, plotted from 1970



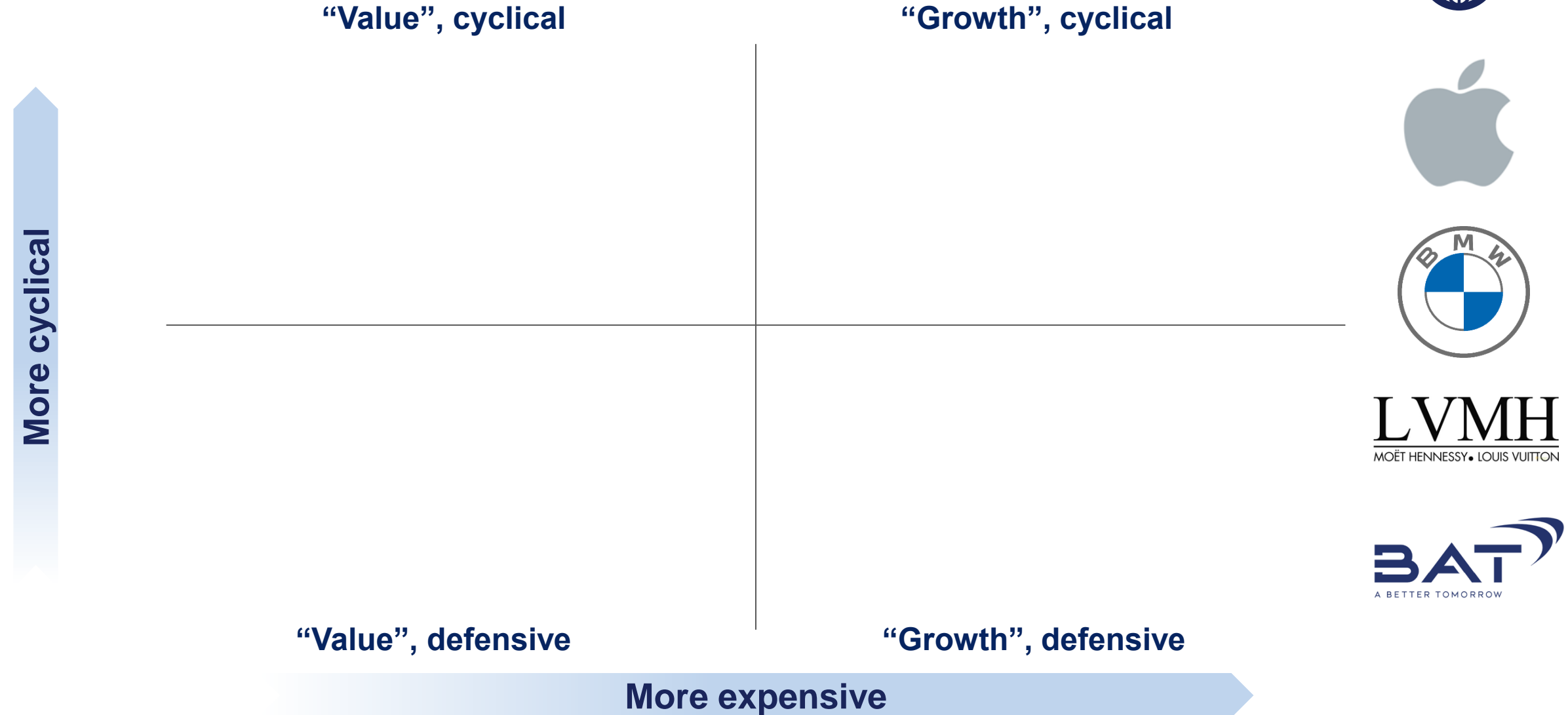
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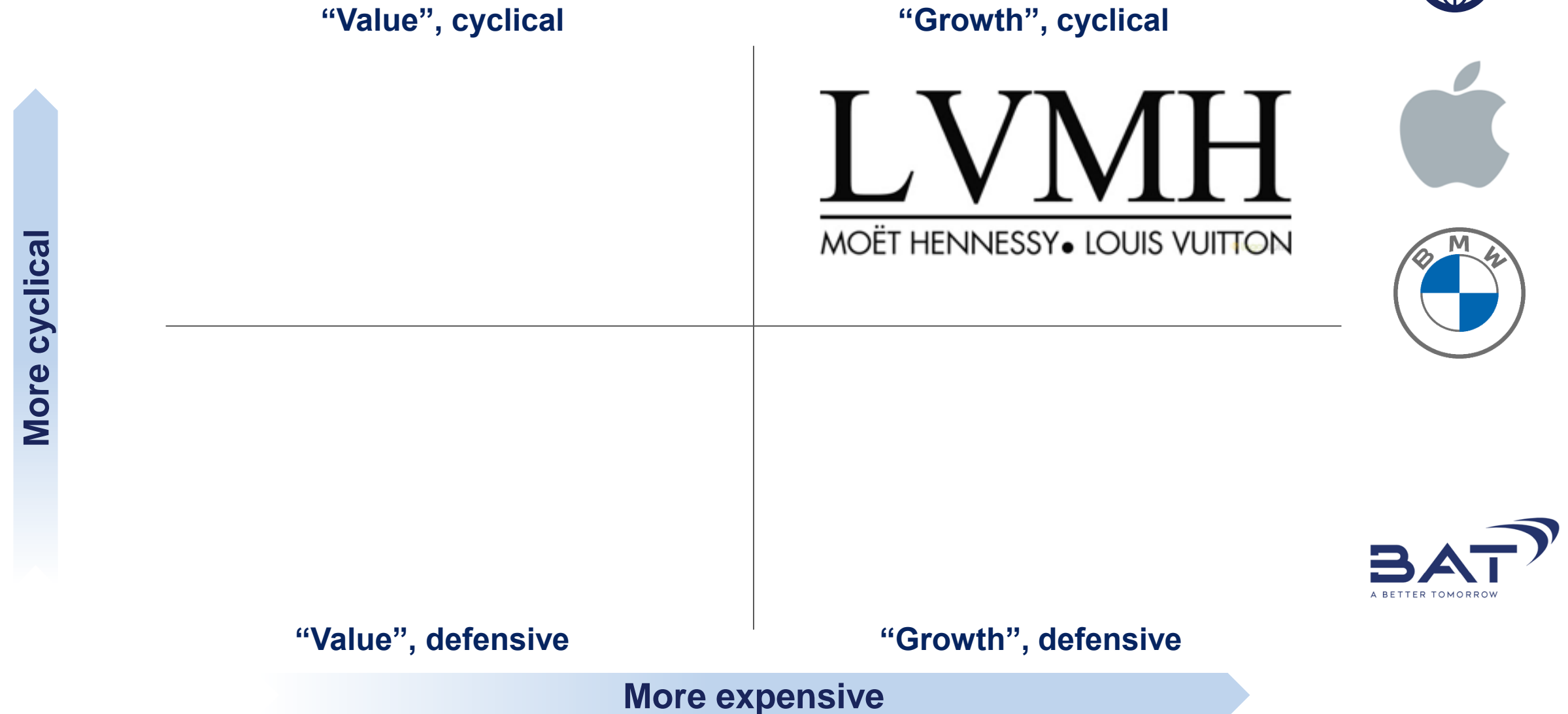
# FTSE World Index - Quadrants



# Quadrant examples



# Quadrant examples



# Quadrant examples



More cyclical

“Value”, cyclical

“Growth”, cyclical

LVMH  
MOËT HENNESSY • LOUIS VUITTON

BAT  
A BETTER TOMORROW

“Value”, defensive

“Growth”, defensive

More expensive

# Quadrant examples



More cyclical

“Value”, cyclical



“Growth”, cyclical



“Value”, defensive



“Growth”, defensive

More expensive

# Quadrant examples



More cyclical

“Value”, cyclical



“Growth”, cyclical



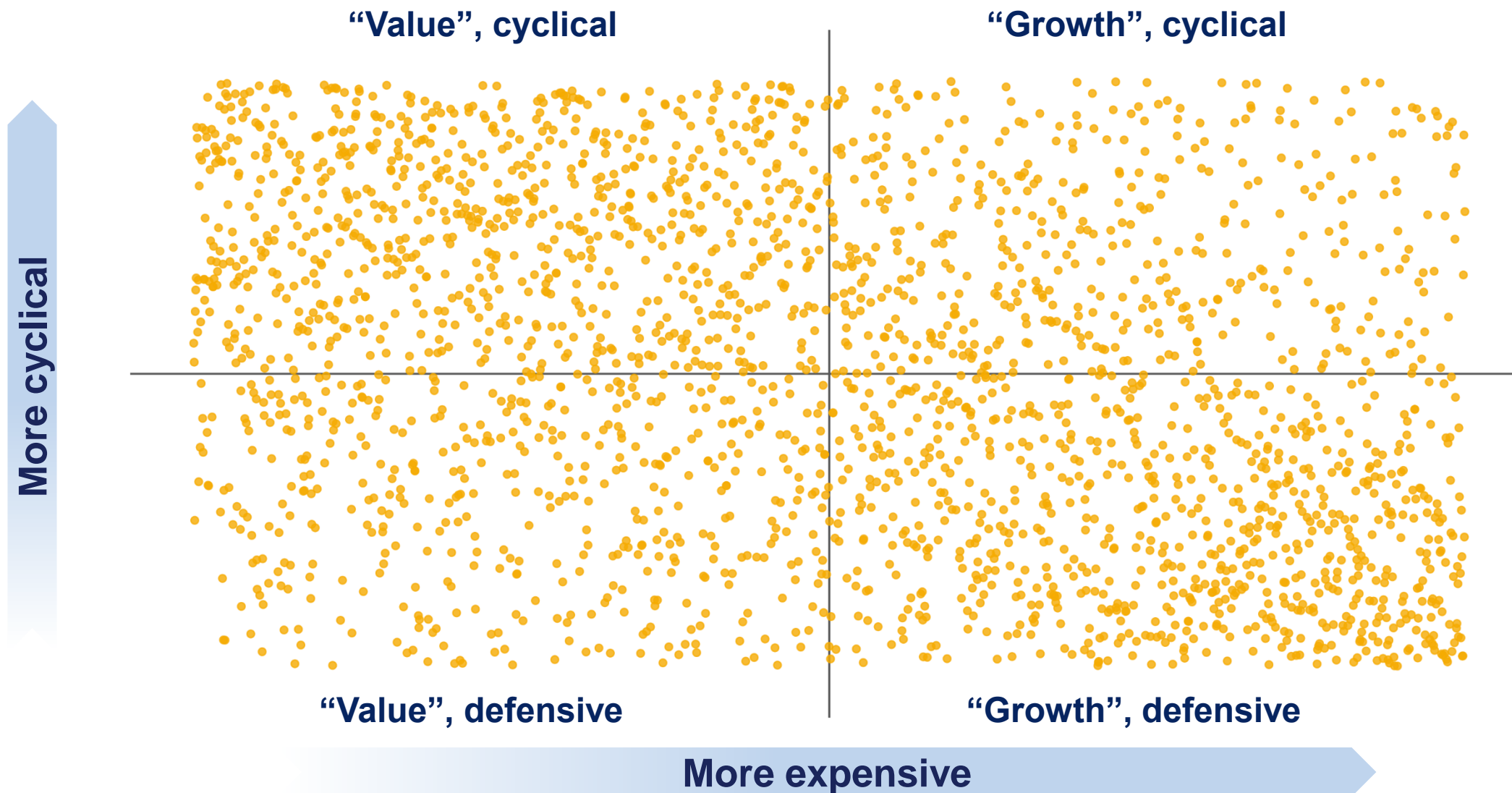
“Value”, defensive

“Growth”, defensive

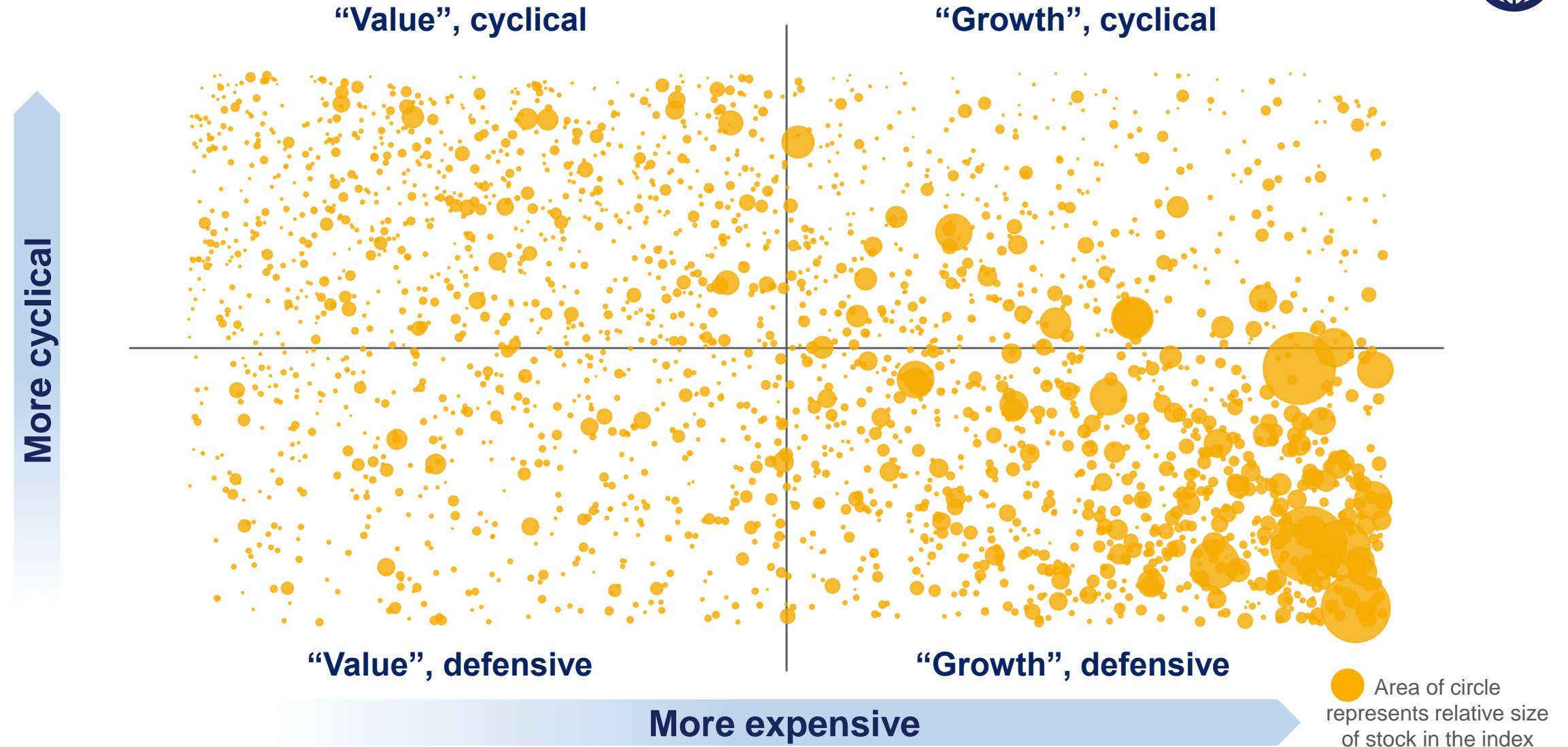


More expensive

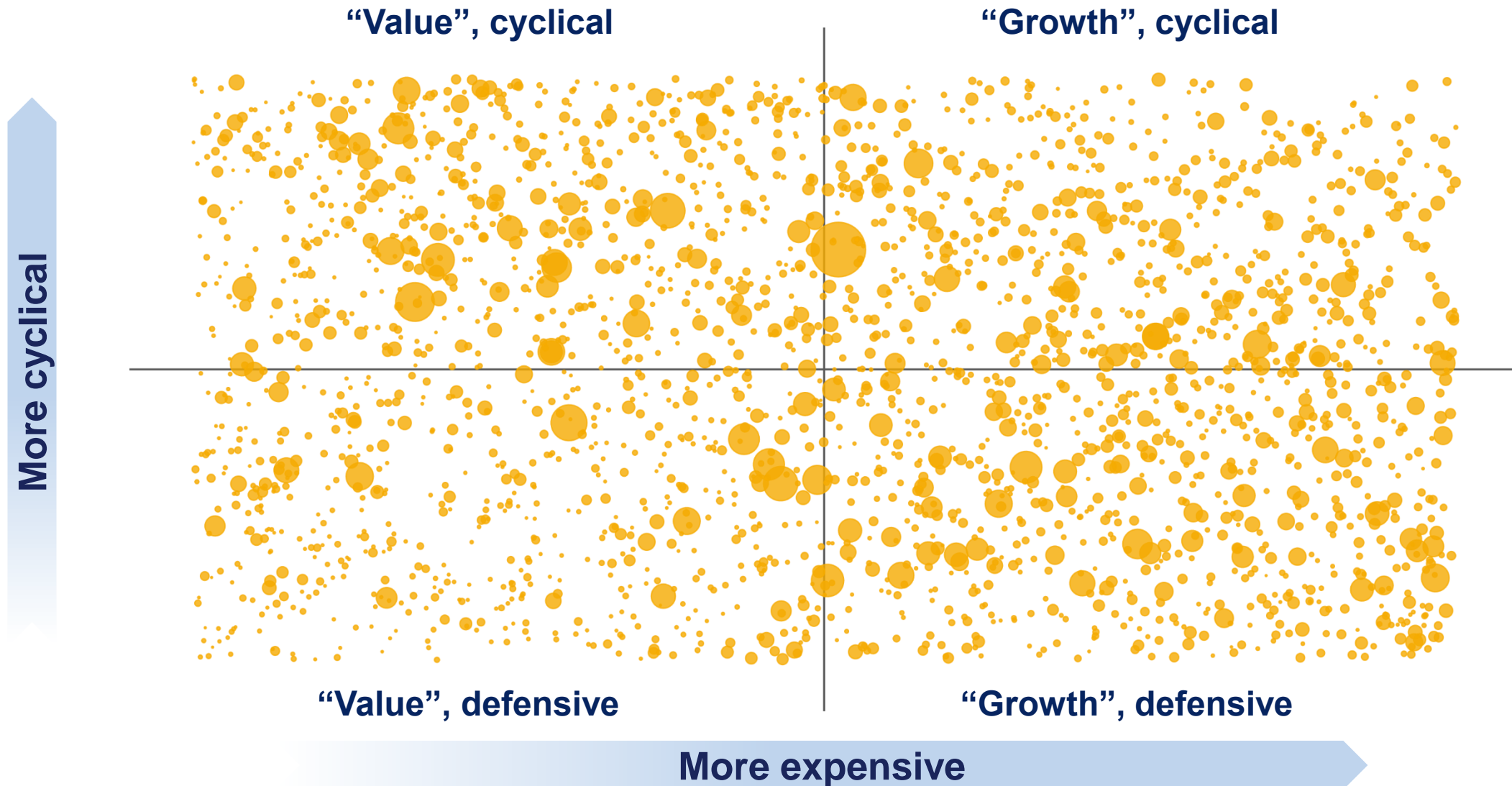
# Under the microscope: FTSE World Index in March 2025



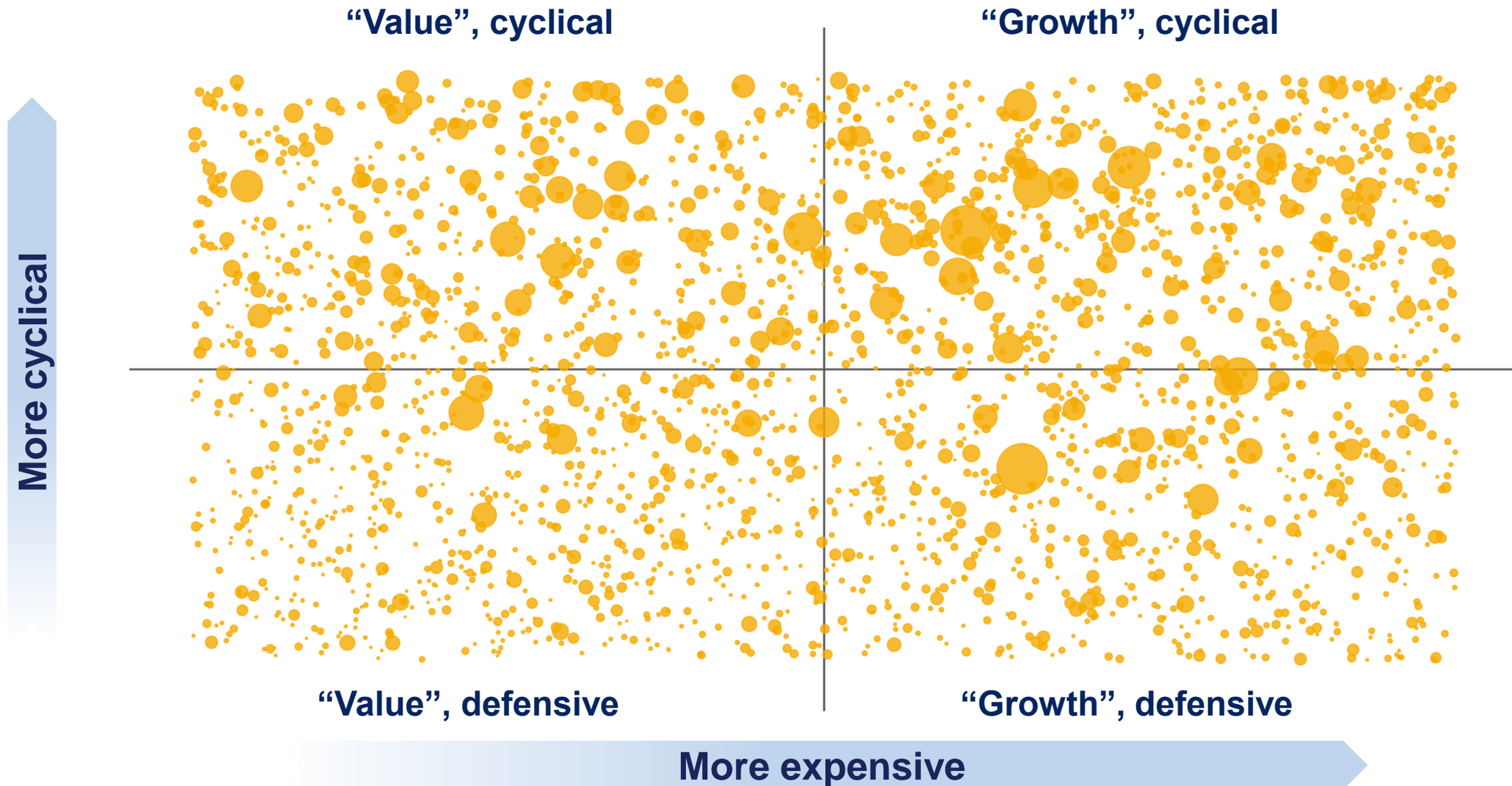
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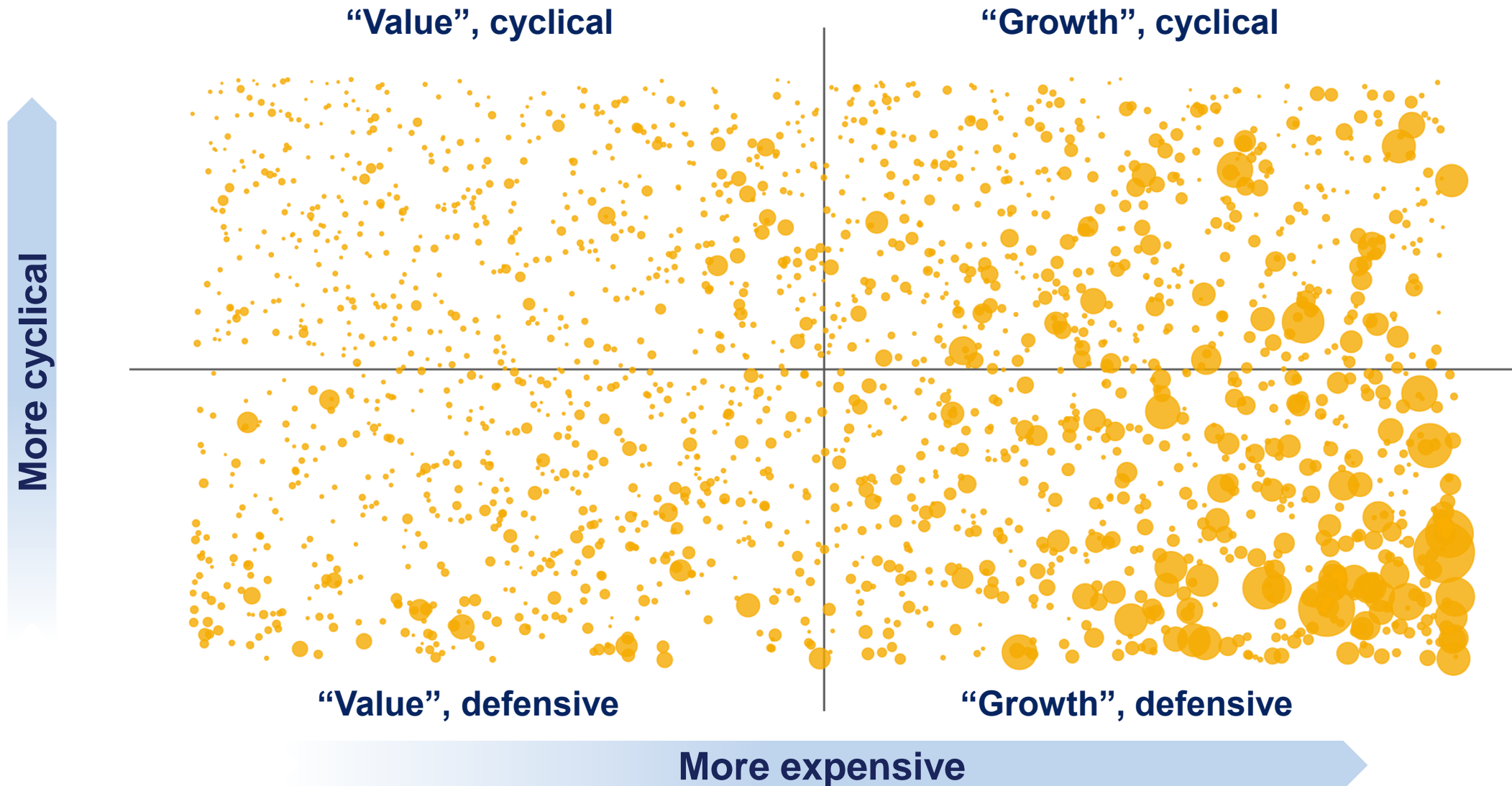
# Under the microscope: FTSE World Index in March 2015



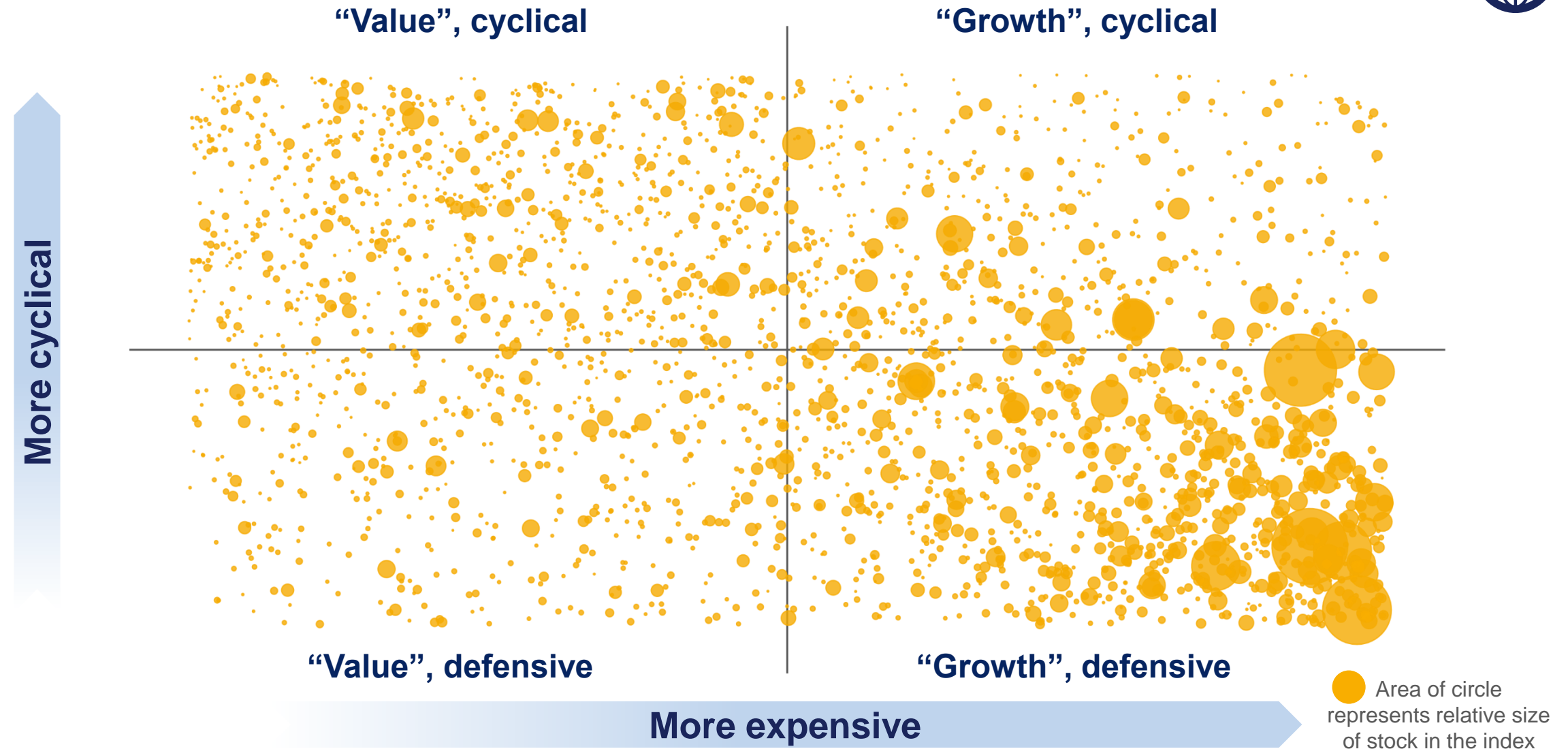
# Under the microscope: FTSE World Index in March 2005



# Under the microscope: FTSE World Index in Dec 1999



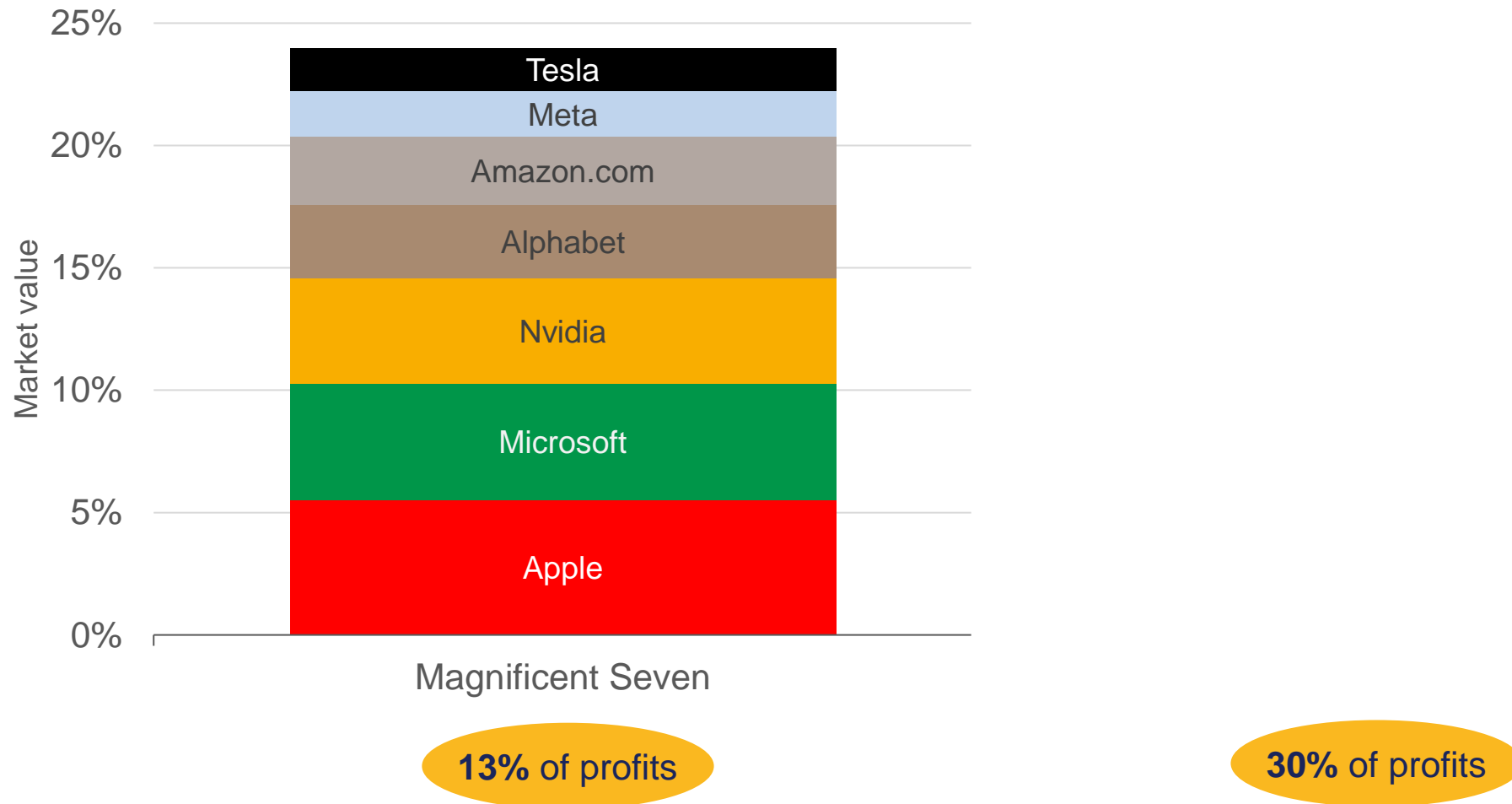
# Under the microscope: FTSE World Index in March 2025



# Magnificent 7' versus the 'Mundane 7': similar market value, a third of the profits



Contribution to market value and profit\* of MSCI World Index



# Why is this important?

1. Passive funds might not work as effectively as they should
2. A concentrated market often means there are bargains to be found in less popular areas

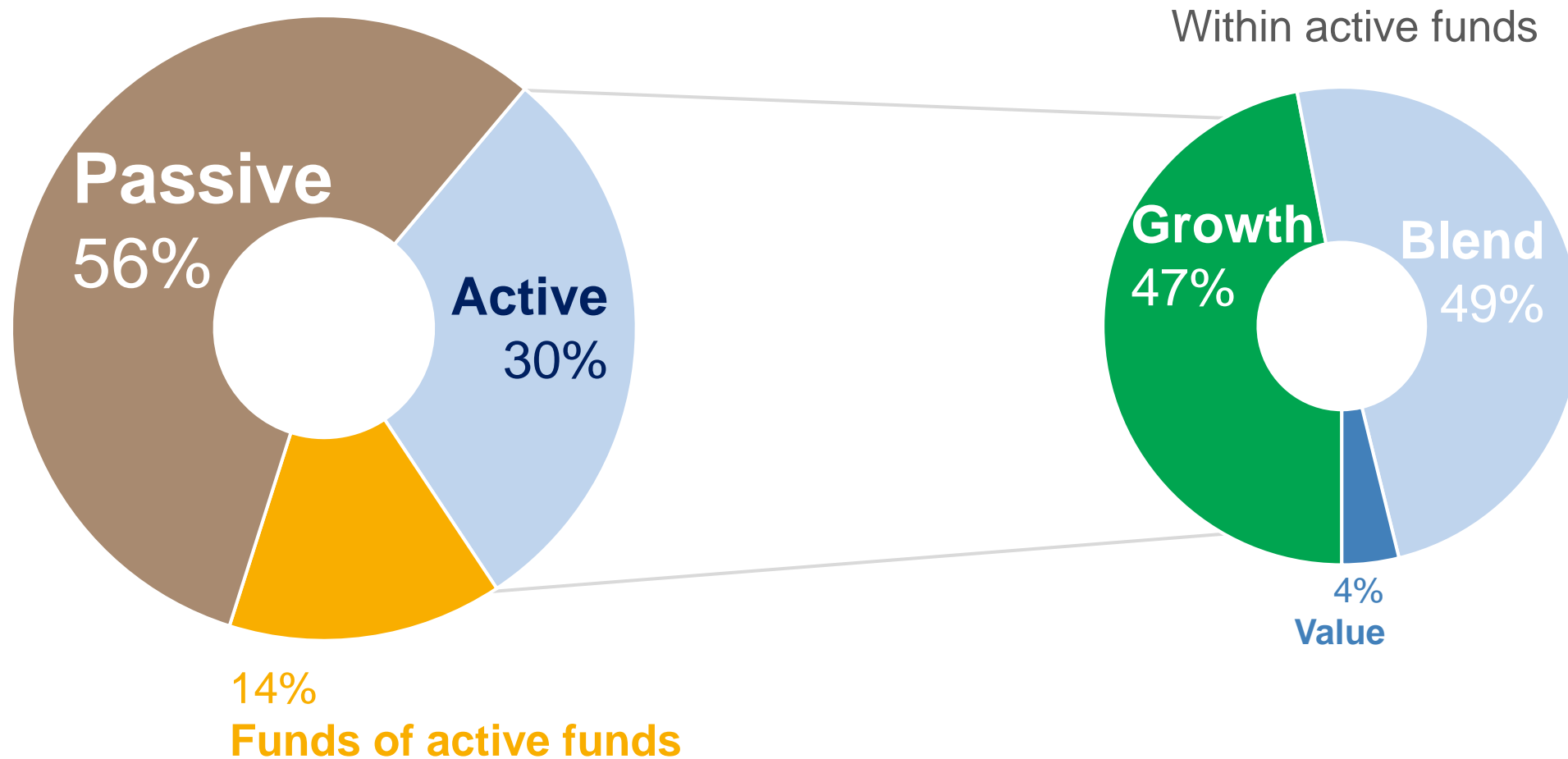
# Why is this important?

1. Passive funds might not work as effectively as they should
2. A concentrated market often means there are bargains to be found in less popular parts of the market

# Investors are concentrated in passive and growth funds



Assets in the Investment Association Mixed Investment 40-85% category



# Diversified in Name Only



Correlation between the ten largest funds in the IA Mixed 40-85% sector  
Using monthly GBP net returns, last three years

	Fund A	Fund B	Fund C	Fund D	Fund E	Fund F	Fund G	Fund H	Fund I	Fund J
Fund A										
Fund B	0.99									
Fund C	0.97	0.98								
Fund D	0.87	0.87	0.89							
Fund E	0.90	0.91	0.93	0.90						
Fund F	0.87	0.88	0.88	0.93	0.95					
Fund G	0.94	0.96	0.97	0.90	0.95	0.92				
Fund H	0.88	0.89	0.90	0.94	0.92	0.96	0.92			
Fund I	0.95	0.96	0.95	0.90	0.94	0.93	0.96	0.94		
Fund J	0.87	0.89	0.92	0.84	0.89	0.88	0.96	0.90	0.91	

Past performance is not a reliable indicator of future results.

2022

# FINANCIAL TIMES

## Stock and bond markets shed more than \$30tn in 'brutal' 2022

Central banks' inflation battle and war in Ukraine trigger big swings



Stocks from Wall Street to Shanghai and Frankfurt all notched sizeable losses © Bloomberg

**Tommy Stubbington** and **Adam Samson** in London and **Kate Duguid** in New York

DECEMBER 30 2022

Source: Financial Times

# Diversified in Name Only



Correlation between the ten largest funds in the IA Mixed 40-85% sector  
Using monthly GBP net returns, last three years

	Fund A	Fund B	Fund C	Fund D	Fund E	Fund F	Fund G	Fund H	Fund I	2022 returns
Fund A										-11.2%
Fund B	0.99									-8.8%
Fund C	0.97	0.98								-9.4%
Fund D	0.87	0.87	0.89							-24.3%
Fund E	0.90	0.91	0.93	0.90						-4.2%
Fund F	0.87	0.88	0.88	0.93	0.95					-17.0%
Fund G	0.94	0.96	0.97	0.90	0.95	0.92				-7.5%
Fund H	0.88	0.89	0.90	0.94	0.92	0.96	0.92			-20.5%
Fund I	0.95	0.96	0.95	0.90	0.94	0.93	0.96	0.94		-15.1%
Fund J	0.87	0.89	0.92	0.84	0.89	0.88	0.96	0.90	0.91	-3.3%

Past performance is not a reliable indicator of future results.

# Why is this important?

1. Passive might not work as you think in such a concentrated market.
2. A concentrated market often means there are bargains to be found in less popular parts of the market

# Active managers do not have to own every stock in the index



**Number of stocks** in the World Index\* with high quantitative expected returns



# Key Sectors & Geographies



	Financials	Communication Services	Industrials	Health Care	Energy	Materials	Utilities	Real Estate	Consumer Staples	Consumer Discretionary	Information Technology
Emerging Markets	5.8%	3.8%	3.1%	0.0%	0.0%	0.6%	(0.1%)	(0.1%)	0.3%	(0.0%)	2.4%
Japan	(0.8%)	3.3%	(1.3%)	(0.4%)	(0.0%)	(0.2%)	(0.1%)	(0.1%)	0.4%	(1.0%)	(0.7%)
UK	0.7%	(0.1%)	3.5%	(0.4%)	1.4%	(0.2%)	(0.2%)	(0.0%)	1.7%	2.1%	(0.0%)
Other	(2.1%)	(0.2%)	(0.6%)	(0.2%)	0.3%	(0.1%)	(0.1%)	(0.2%)	(0.1%)	(0.2%)	(0.4%)
Europe	1.1%	(0.4%)	1.8%	(0.4%)	(0.3%)	0.4%	(0.4%)	(0.1%)	(0.9%)	(1.3%)	(1.1%)
US	5.4%	(1.9%)	1.5%	2.0%	(0.1%)	(0.2%)	(0.4%)	(1.6%)	(4.0%)	(8.3%)	(12.5%)



**31 Dec 2024** | Source: MSCI, Orbis. Percentage underweights and overweights for the Orbis Global Equity Strategy vs MSCI World Index by sector and geography. The country and currency classification for securities follows that of third-party providers for comparability purposes. Emerging Markets follows MSCI classification when available and includes Frontier Markets. Emerging Markets currency exposure is based on currency denomination. Based on a number of factors including the location of the underlying business, Orbis may consider a security's classification to be different and manage the Funds' exposures accordingly.





# Which looks more attractive?



		
	Company 1	Company 2
Earnings Yield	3%	24%

# How does Apple beat KB Financial?

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**Earnings  
Yield**

**3%**



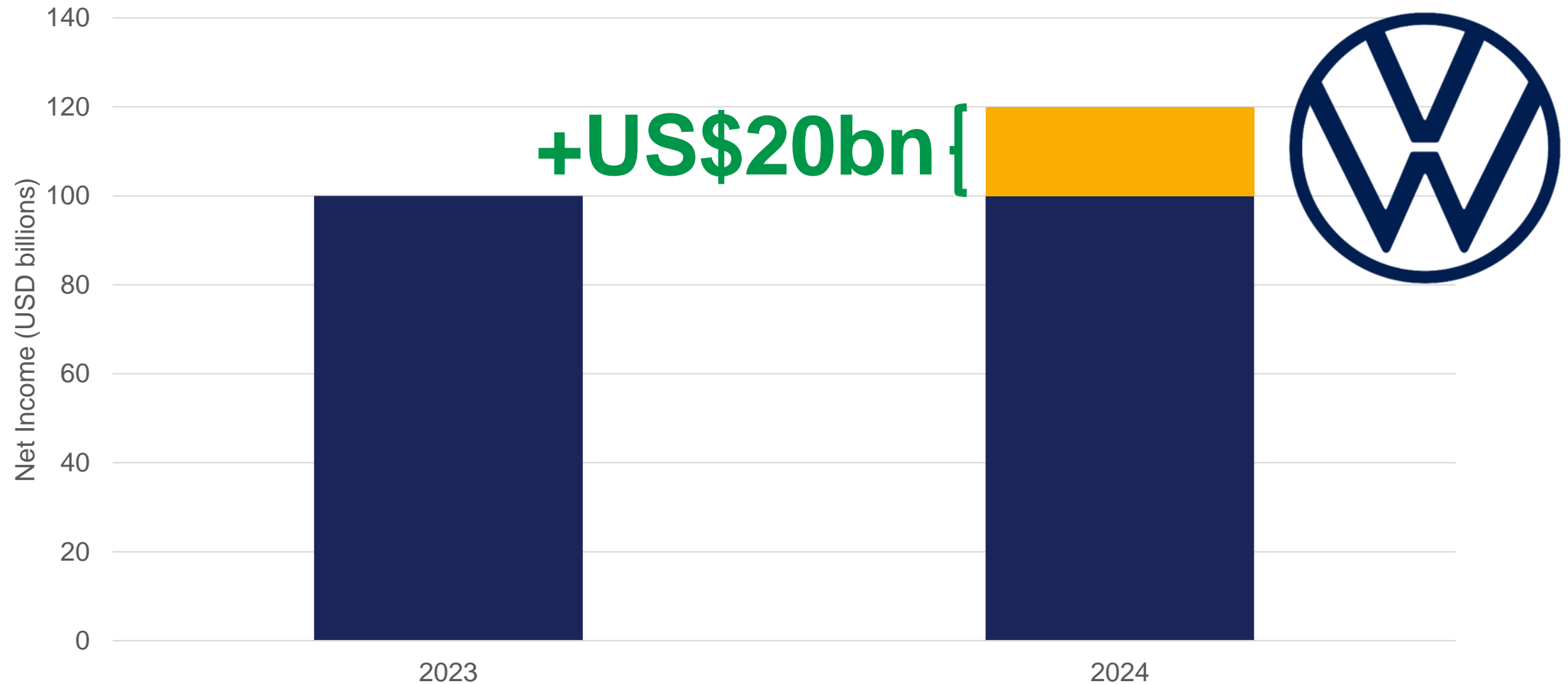
**KB**

**24%**

# How does Apple beat KB Financial?



Apple net income, assuming 20% growth per annum

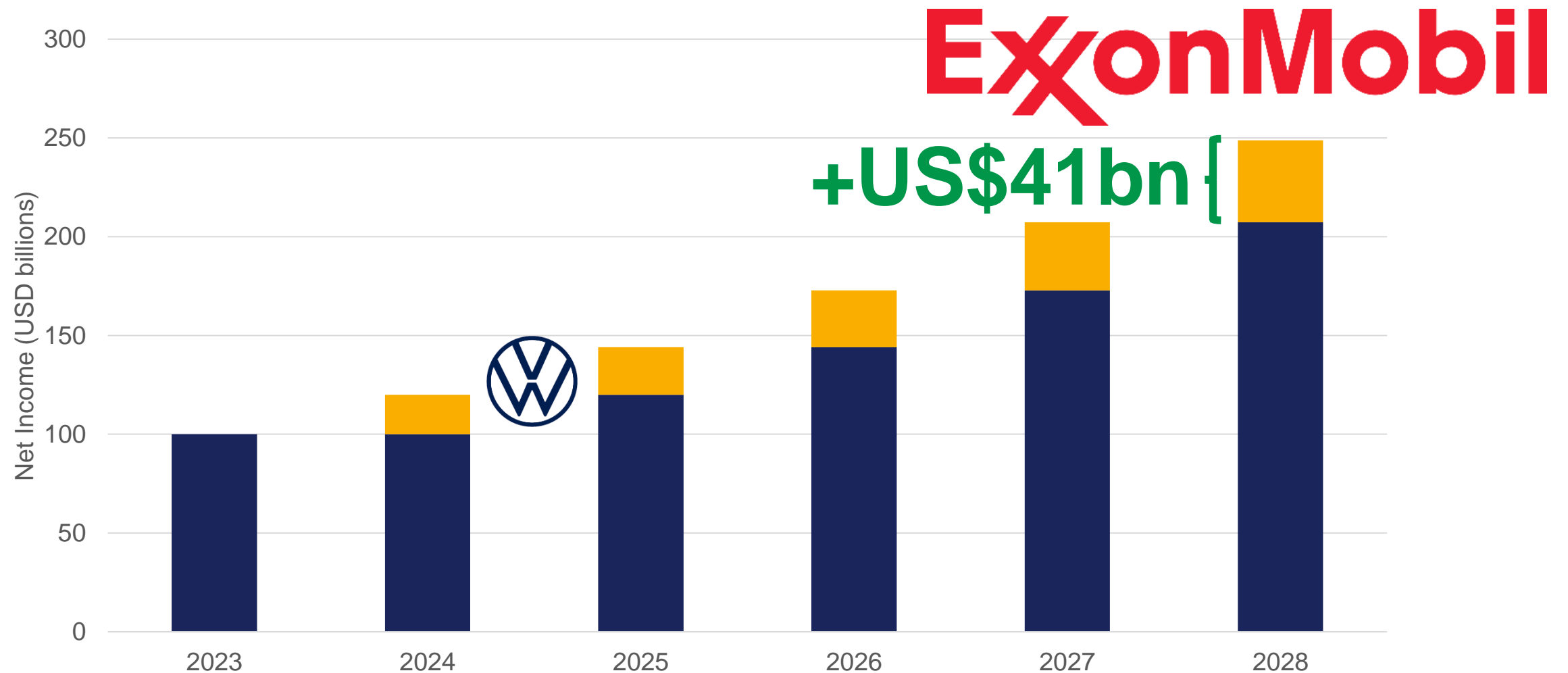


31 Dec 2023 | Source: Orbis, CapIQ, company information. Net income assuming US\$100 billion in 2023, and 20% growth per annum thereafter. Logo depicts company's approximate net income as at 31 Dec 2023. For illustrative purposes only.

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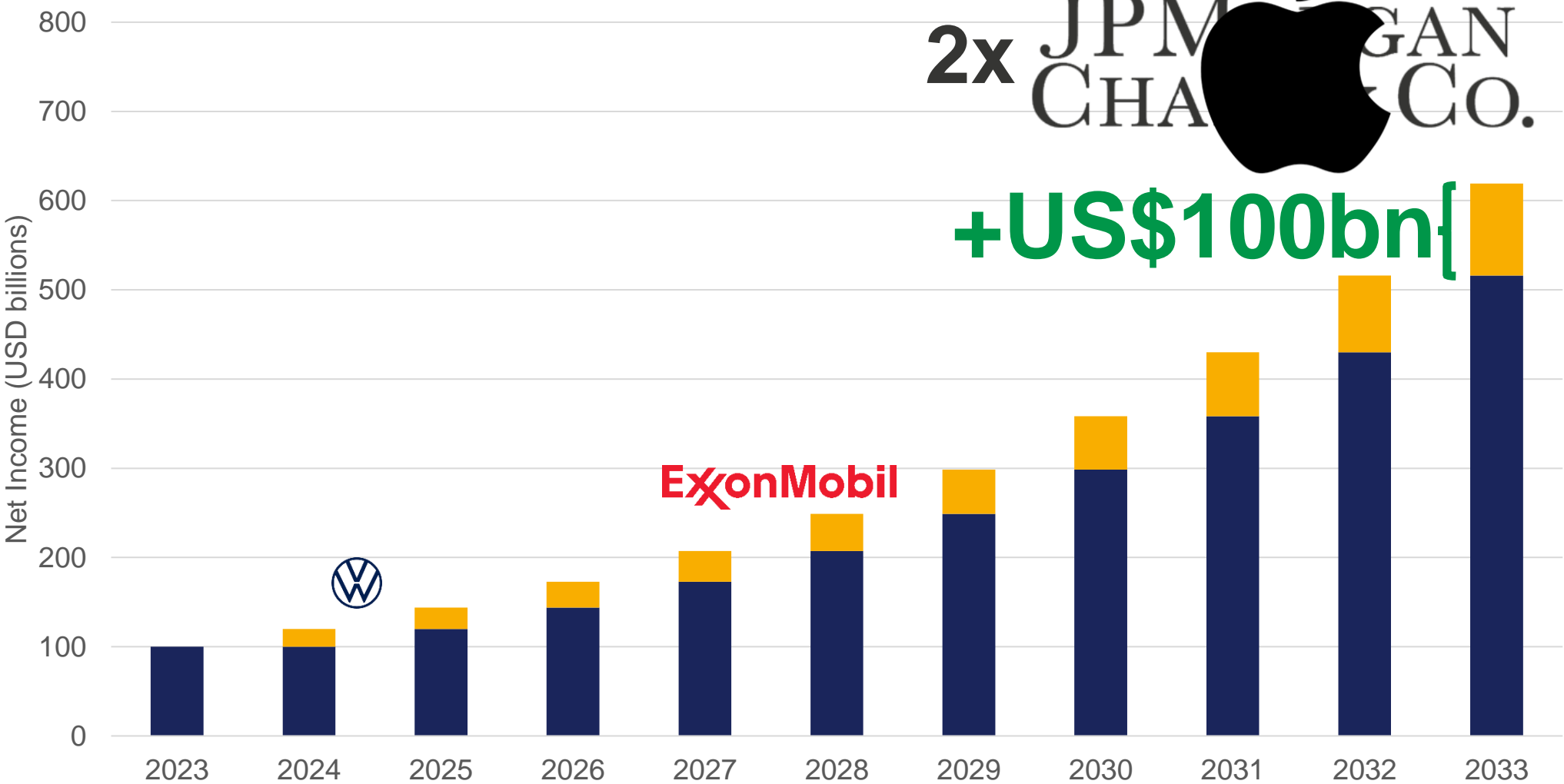


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# Big tech

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Streaming



Online  
Advertising



Electric  
Cars



Cloud  
Computing



# Big tech — competition is coming

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Streaming



Online  
Advertising



Electric  
Cars



Cloud  
Computing



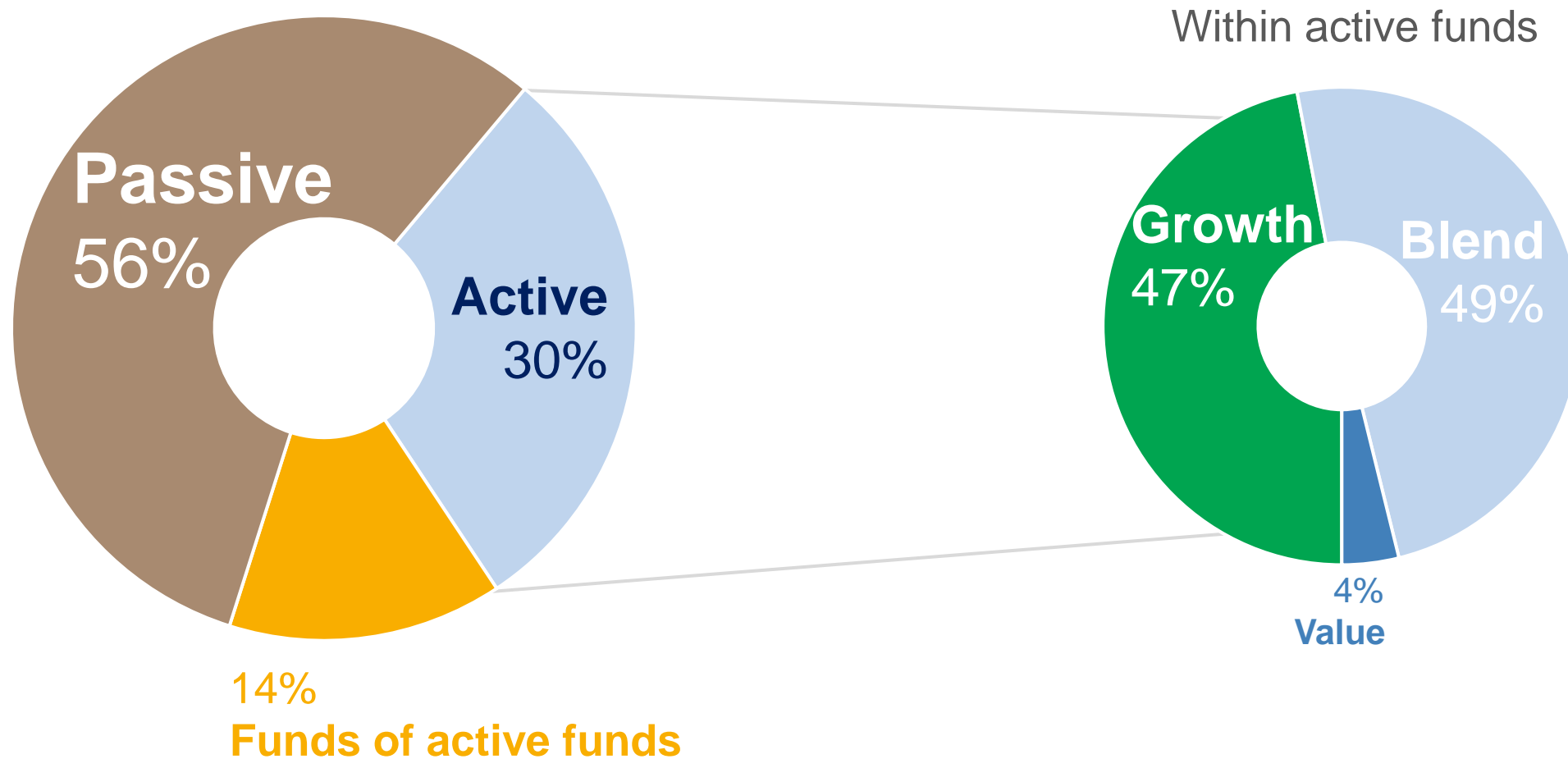




# Investors are concentrated in passive and growth funds



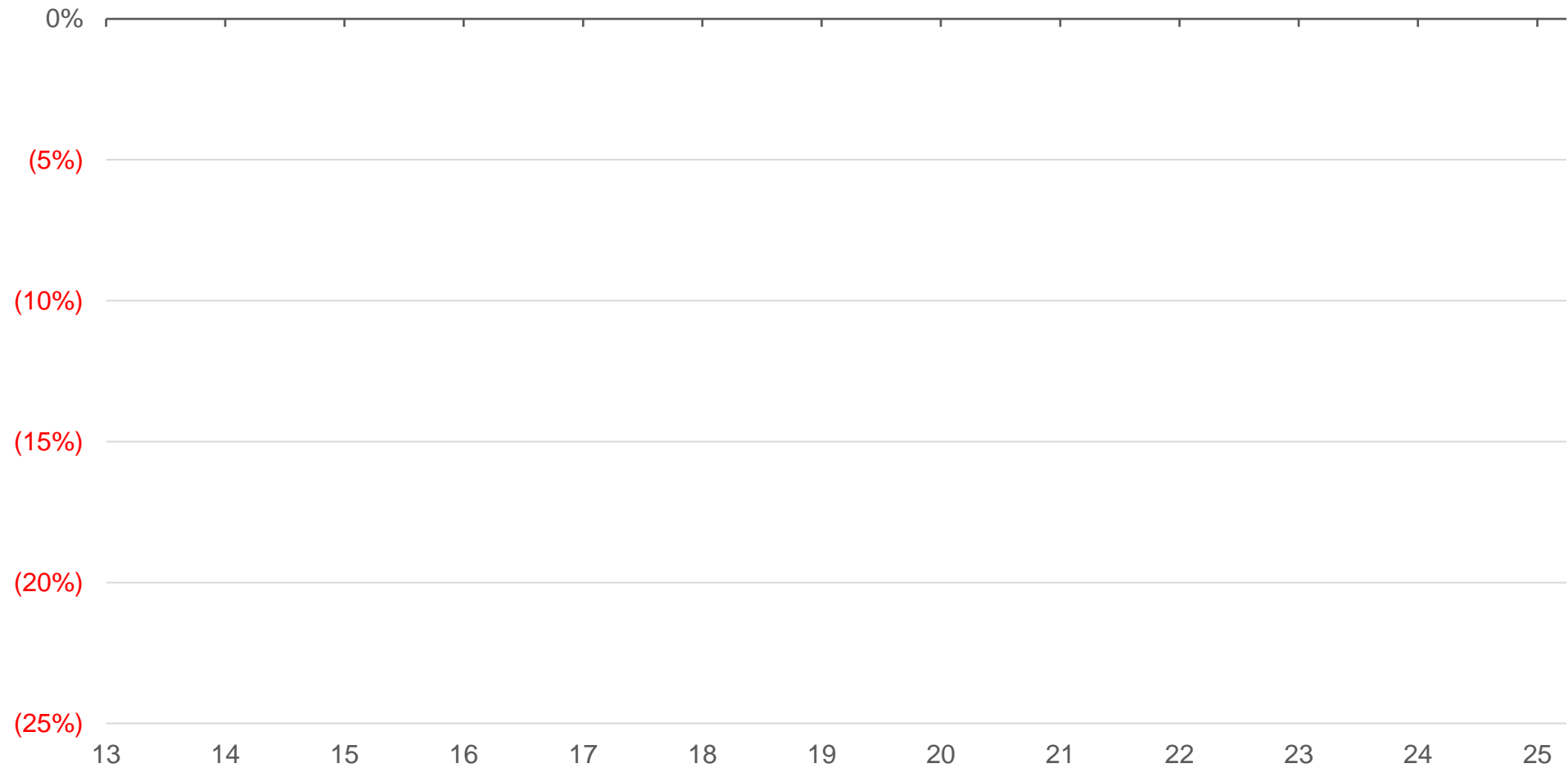
Assets in the Investment Association Mixed Investment 40-85% category



# Blending good active managers with different styles can reduce risk



Drawdowns (from peak, using monthly total returns in GBP)



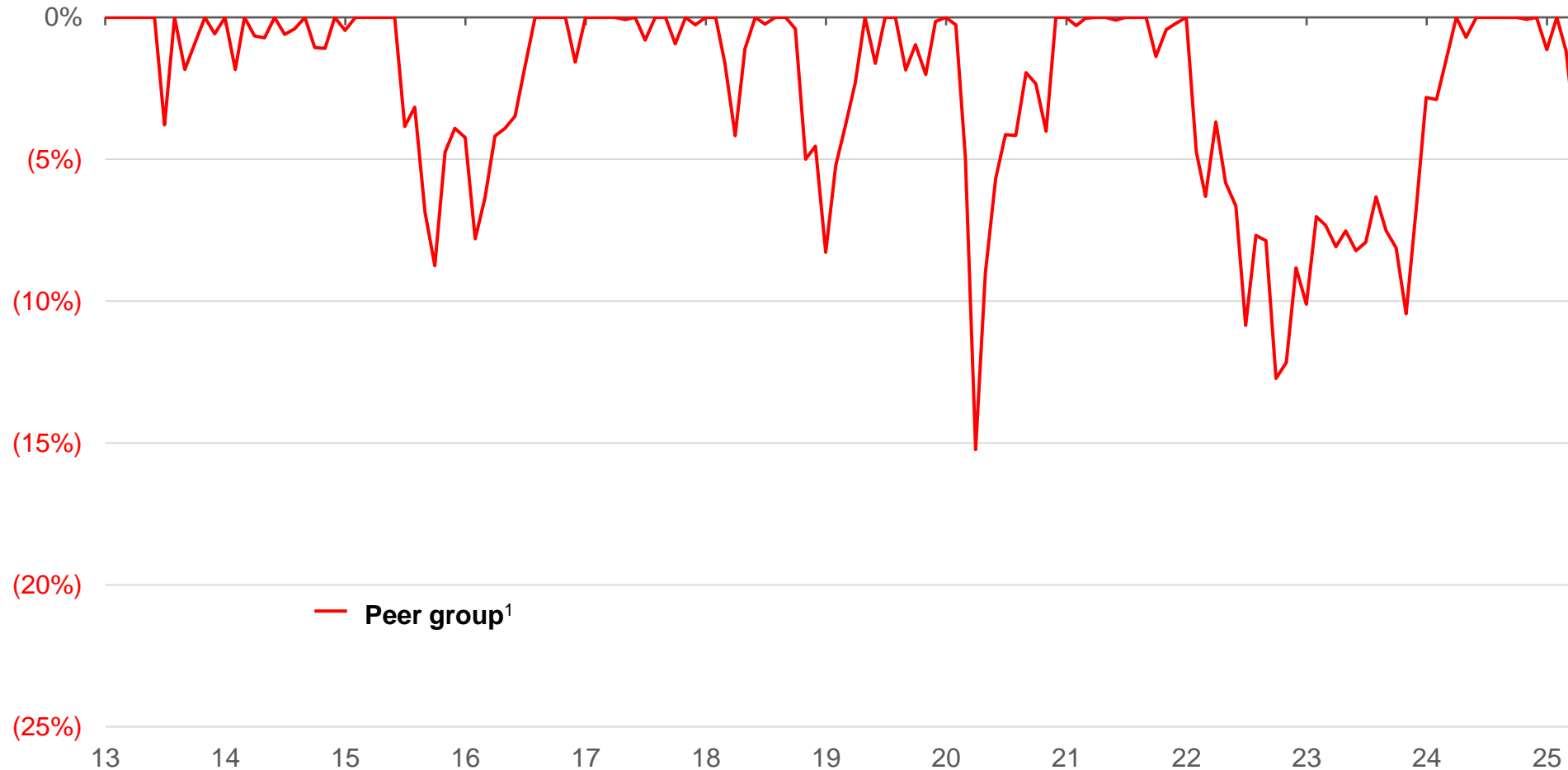
Past performance is not a reliable indicator of future results.

**31 Mar 2025** | Source: LSEG Datastream, Orbis. Please refer to the notices page explaining how returns are calculated, as well as the composition of the peer group. Blends assume monthly rebalancing. <sup>1</sup>Investment Association Mixed Assets 40-85% Sector, net of fees. <sup>2</sup>The largest passive fund in the peer group, net of fees. <sup>3</sup>The largest active fund in the peer group, net of fees. This fund has a growth equity style. <sup>4</sup>The Orbis Global Balanced Strategy, net of Standard Class fees. The Orbis OEIC Global Balanced Fund available in the UK was launched on 1 January 2014. The value of your investment with Orbis may fluctuate and returns are not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment with Orbis, an investor's capital is at risk. Please refer to the respective prospectus or offering document for full information on the risks associated with investing.

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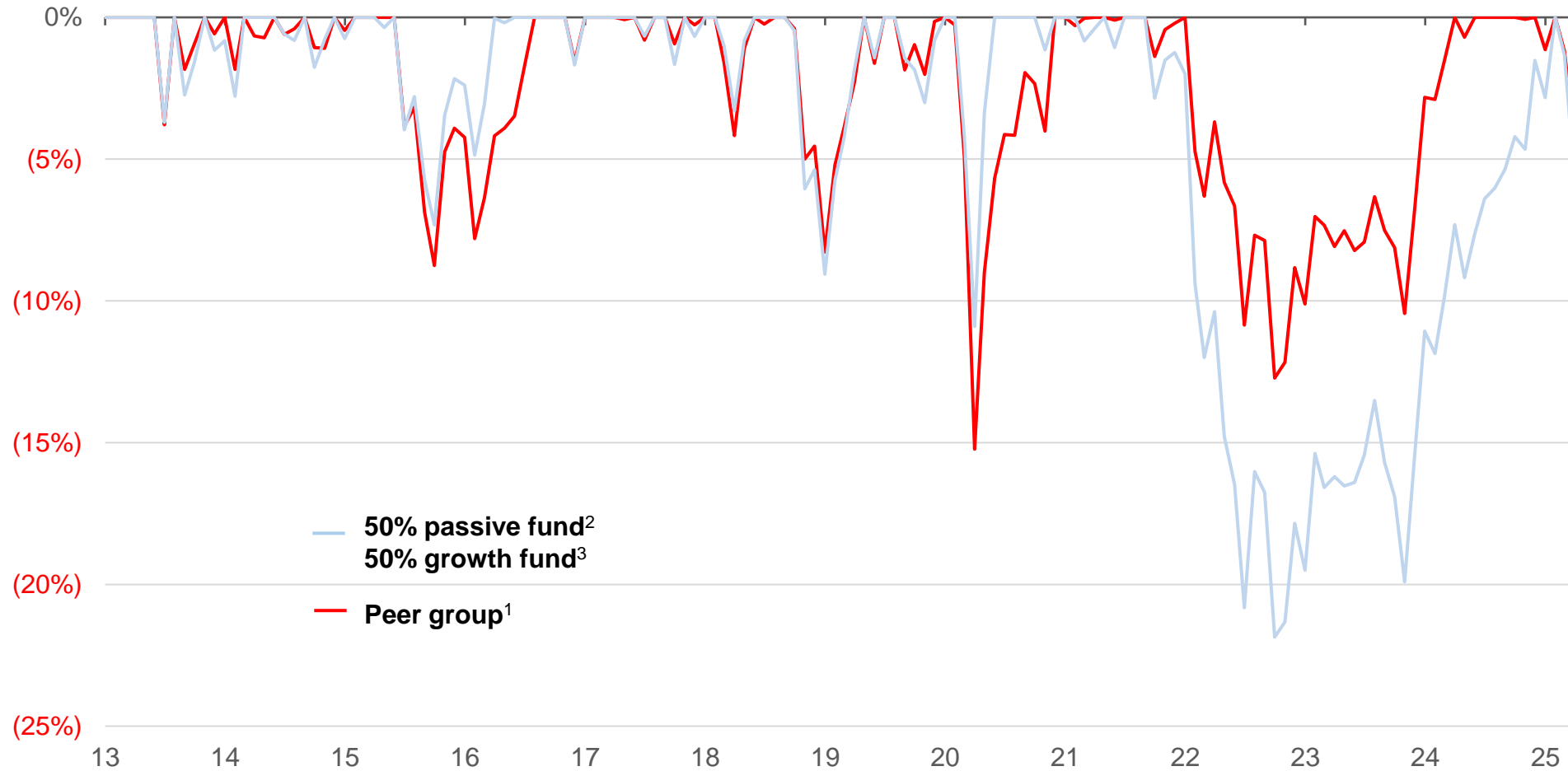
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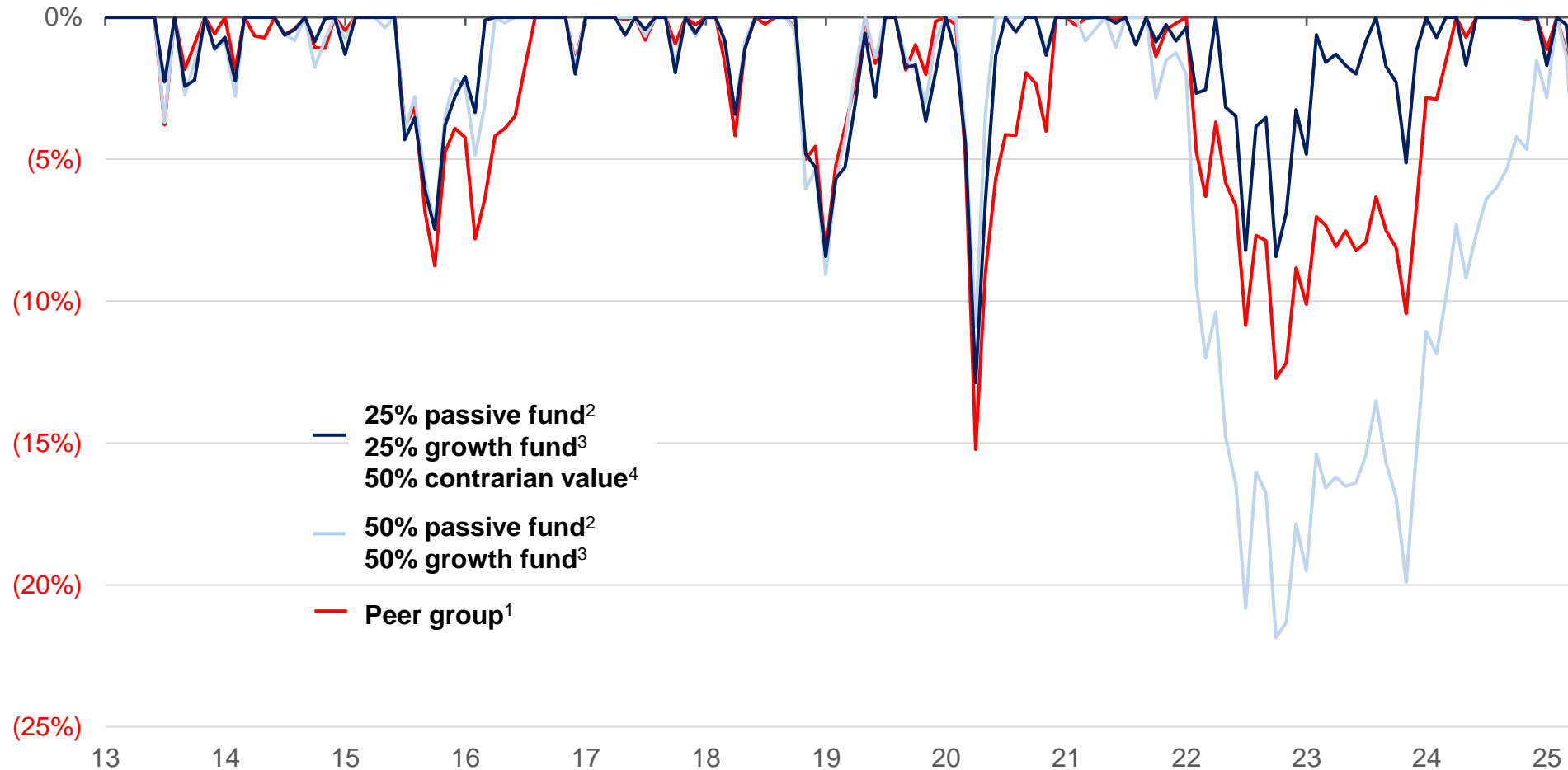
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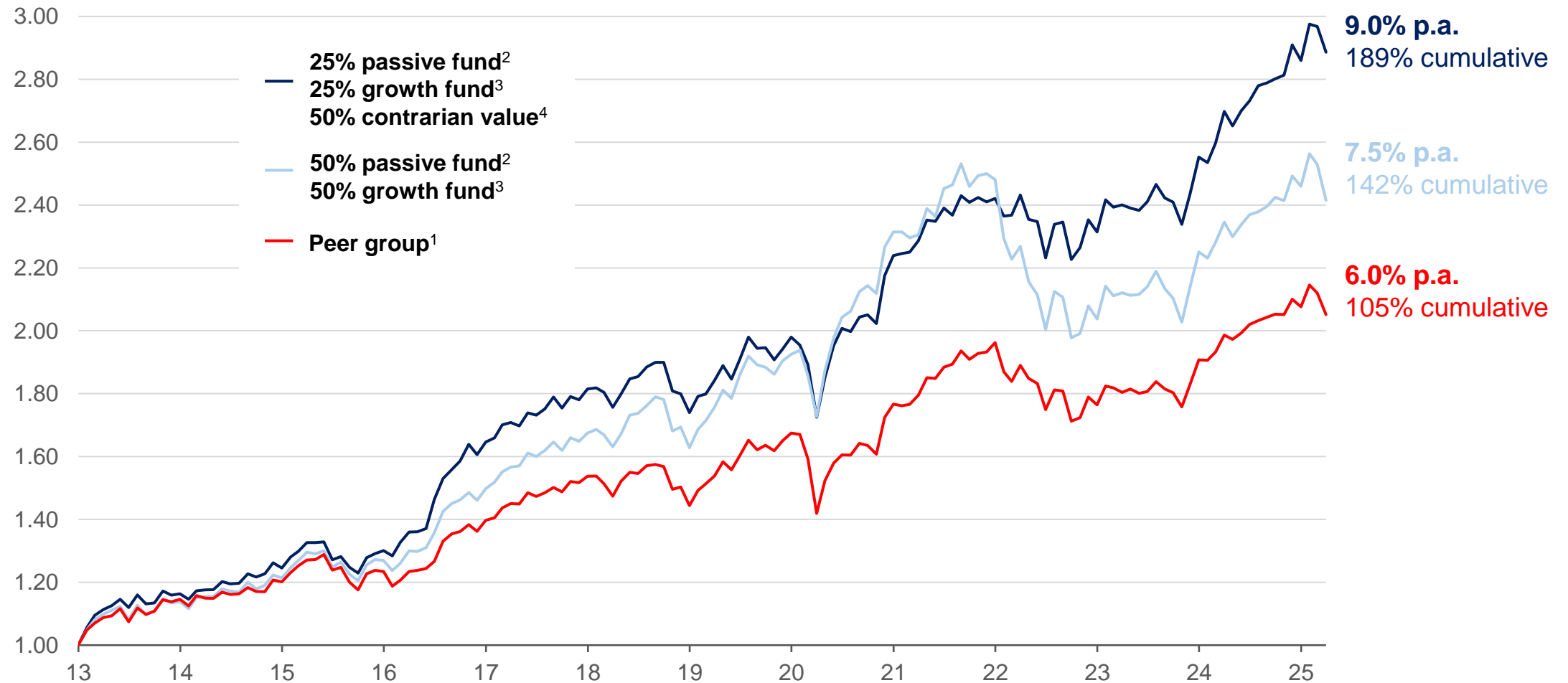
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Total returns (in GBP, rebased to 1.0 at 1 Jan 2013)



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# Learning outcomes

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2. **Articulate** why the current market environment is likely to lead to disappointing outcomes for passive investors, especially those searching for true diversification.
3. **Understand** why blending an uncorrelated manager with a clients existing portfolio can improve overall performance.

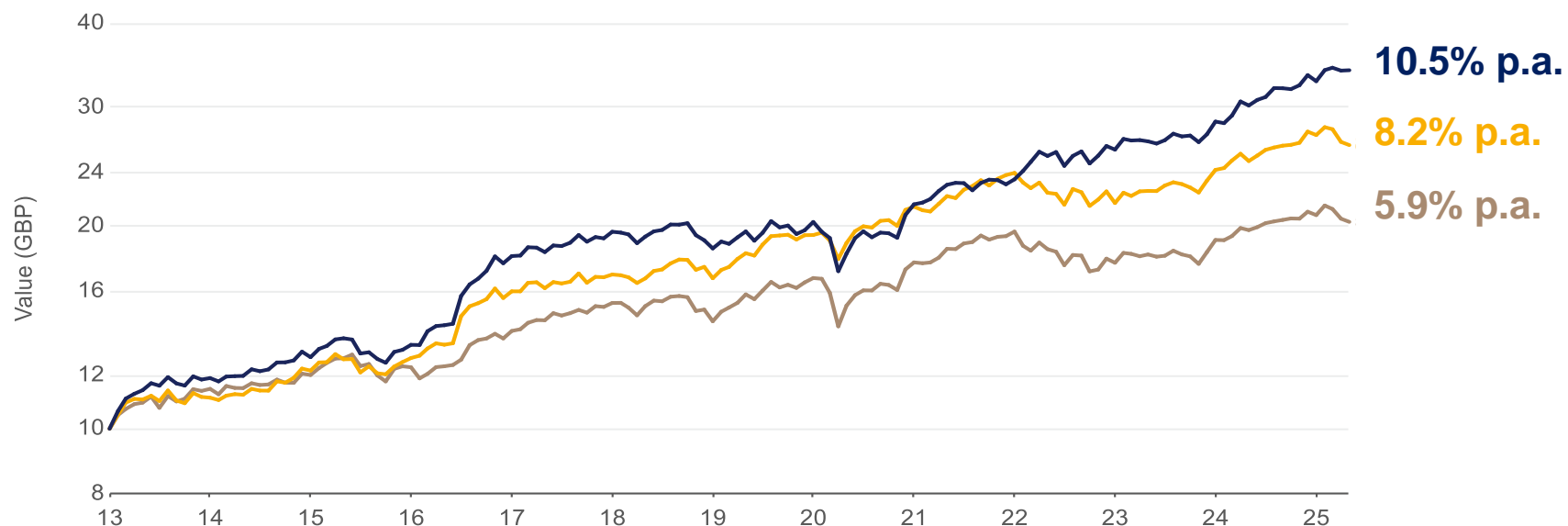


**Invest Differently**



- Founded in **1989**
- **Active** global investors
- **9** offices around the world
- **42** Investment analysts
- **£31.1** billion AUM

# Global Balanced Strategy: long-term returns (in GBP)



Returns (% annualised, GBP)	Since Inc. (1 Jan 2013)	10 Years	5 Years	3 Years	1 Year
○ Orbis Global Balanced Strategy, net Standard Class Fee	10.5	9.6	13.4	10.3	12.8
○ Peer group, net: IA* Mixed Investments 40-85%	5.9	4.8	5.9	3.2	2.9
○ Benchmark: 60/40 Index^	8.2	7.6	6.9	5.6	5.6
<b>Orbis Net Relative Return† vs 60/40</b>	<b>2.1</b>	<b>1.9</b>	<b>6.0</b>	<b>4.4</b>	<b>6.8</b>

Past performance is not a reliable indicator of future results.

**30 Apr 2025** | The Orbis OEIC Global Balanced Fund available in the UK was launched on 1 January 2014. The value of your investment with Orbis may fluctuate and returns are not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment with Orbis, an investor's capital is at risk. Please refer to the respective prospectus or offering document for full information on the risks associated with investing. Please refer to the notices page explaining how returns are calculated, as well as the composition of the peer group. \*IA stands for Investment Association. ^The 60/40 Index is a composite index consisting of the MSCI World Index, net of withholding tax (60%) and the JP Morgan Global Government Bond Index (hedged into GBP from 1 January 2018, and expressed in GBP prior to 1 January 2018) (40%). †Relative return is calculated geometrically.

# Orbis OEIC Global Balanced as a diversifier



Using monthly GBP net returns, last three years

	Fund A	Fund B	Fund C	Fund D	Fund E	Fund F	Fund G	Fund H	Fund I	Fund J	2022 returns
Fund A											-11.2%
Fund B	0.99										-8.8%
Fund C	0.97	0.98									-9.4%
Fund D	0.87	0.87	0.89								-24.3%
Fund E	0.90	0.91	0.93	0.90							-4.2%
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Fund H	0.88	0.89	0.90	0.94	0.92	0.96	0.92				-20.5%
Fund I	0.95	0.96	0.95	0.90	0.94	0.93	0.96	0.94			-15.1%
Fund J	0.87	0.89	0.92	0.84	0.89	0.88	0.96	0.90	0.91		-3.3%
Orbis*	0.75	0.77	0.74	0.55	0.64	0.53	0.75	0.58	0.72	0.74	12.3%

Past performance is not a reliable indicator of future results.

31 Dec 2024 | Source: FE analytics, LSEG Data & Analytics, Orbis. Funds in the Investment Association Mixed Investment 40-85% Shares sector. Correlation of each fund vs each other fund, using three years of monthly net returns in GBP. Net returns for Orbis OEIC Global Balanced are for the Standard Class. Orbis Fund share prices fluctuate and are not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment in the Funds, an investor's capital is at risk. \*Fund returns represent the Orbis OEIC Global Balanced fund.

# Global Balanced Fund



## Annual returns to 30 April (% in GBP)

	2021	2022	2023	2024	2025
Orbis OEIC Global Balanced Fund, gross	27.3	12.0	7.8	15.0	18.7
Orbis OEIC Global Balanced Fund, net Standard Class Fee	27.3	12.0	6.0	13.3	13.4
60/40 Index*	17.4	1.2	0.6	10.8	5.6
Peer group, net†	21.4	(0.1)	(1.8)	8.7	2.9

## Ranking vs peer group†

1 year period:	2/221	1st Quartile
3 year period:	2/199	1st Quartile
5 year period:	1/174	1st Quartile
10 year period:	2/110	1st Quartile

## Risk and fund ratings



Past performance is not a reliable indicator of future results.

**30 Apr 2025 |** The value of your investment with Orbis may fluctuate and returns are not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment with Orbis, an investor's capital is at risk. Please refer to the respective prospectus or offering document for full information on the risks associated with investing. Please refer to the notices page explaining how returns are calculated. Gross returns are calculated net of expenses but before the deduction of management fees. Net returns are calculated net of all fees and expenses. \*The Fund's benchmark is the 60/40 Index which is a composite index consisting of the MSCI World Index, net of withholding tax (60%) and the JP Morgan Global Government Bond Index (hedged into GBP from 1 January 2018, and expressed in GBP prior to 1 January 2018) (40%). †Peer group: Investment Association Mixed Investments 40 – 85% Shares. Ranking versus peer group source data: FE Trustnet.

# Global Cautious Fund



## Annual returns to 30 April (% in GBP)

	2021	2022	2023	2024	2025
Orbis OEIC Global Cautious Fund, gross	12.0	10.7	4.1	8.5	12.7
Orbis OEIC Global Cautious Fund, net Standard Class Fee	12.0	10.3	2.1	7.1	9.9
30/70 Index*	7.0	(2.7)	(1.3)	5.0	5.8
Peer group, net†	16.0	(2.2)	(2.6)	6.4	4.0

## Ranking vs peer group†

1 year period:	4/185	1st Quartile
3 year period:	3/166	1st Quartile
5 year period:	3/146	1st Quartile

## Risk and fund ratings



Past performance is not a reliable indicator of future results.

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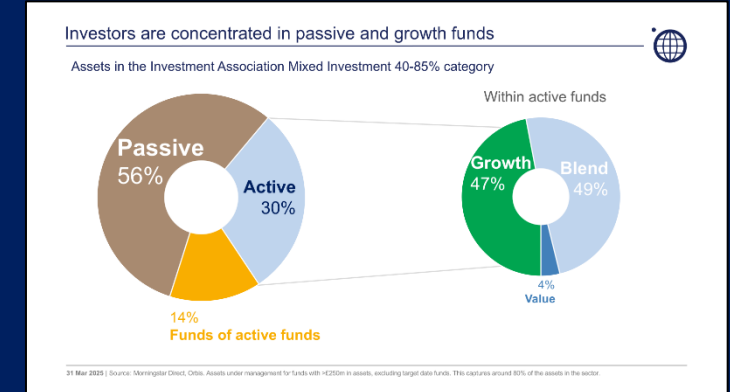
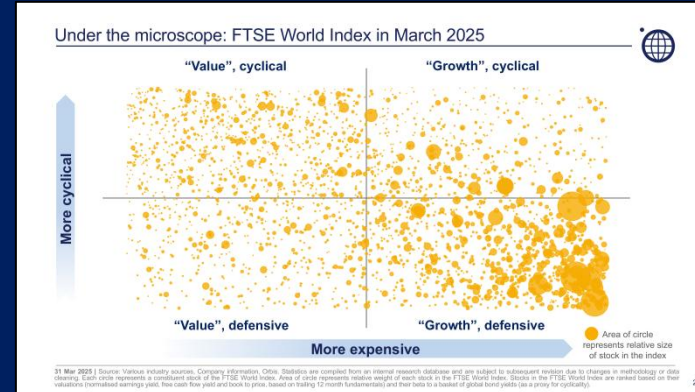
# Summary & Learning Outcomes



1.

2.

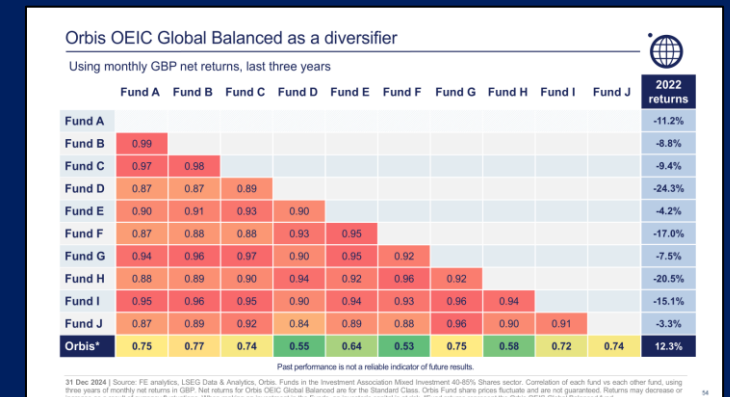
3.



Don't overpay for assets

Use the skew

Check correlations



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## Returns

Net returns for Orbis Funds are calculated gross of all income, net of fees and expenses, and assume reinvestment of dividends. Where Average Fund Data is presented the latest Morningstar data available has been used. Strategy net returns are based on the fee structure for the Orbis OEIC Standard Share Class applied to the asset-weighted gross returns (before fees) of all Orbis Funds following the same objectives.

## Strategy Returns

Strategy gross returns are our reasonable estimate of the asset-weighted actual gross returns of all Orbis portfolios following the same investment objective. Strategy net returns are calculated by applying the specified fee structure to the Strategy gross returns and do not represent actual net returns experienced by investors in the relevant Funds.

## Benchmark Information

The benchmark for the Orbis OEIC Global Equity Fund is the MSCI World Index with net dividends reinvested. On 1 January 2018 the Orbis OEIC Global Balanced Fund changed its benchmark to a composite index consisting of the MSCI World Index with net dividends reinvested (60%) and the JP Morgan Global Government Bond Index hedged to Sterling (40%). Data for the period before 1 January 2018 relates to the old benchmark, a composite index consisting of the MSCI World Index with net dividends reinvested (60%) and the JP Morgan Global Government Bond Index (40%).

## Sources

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