

Orbis Investments:

Is Value Investing Dead?

Simon Skinner, 5 October 2020

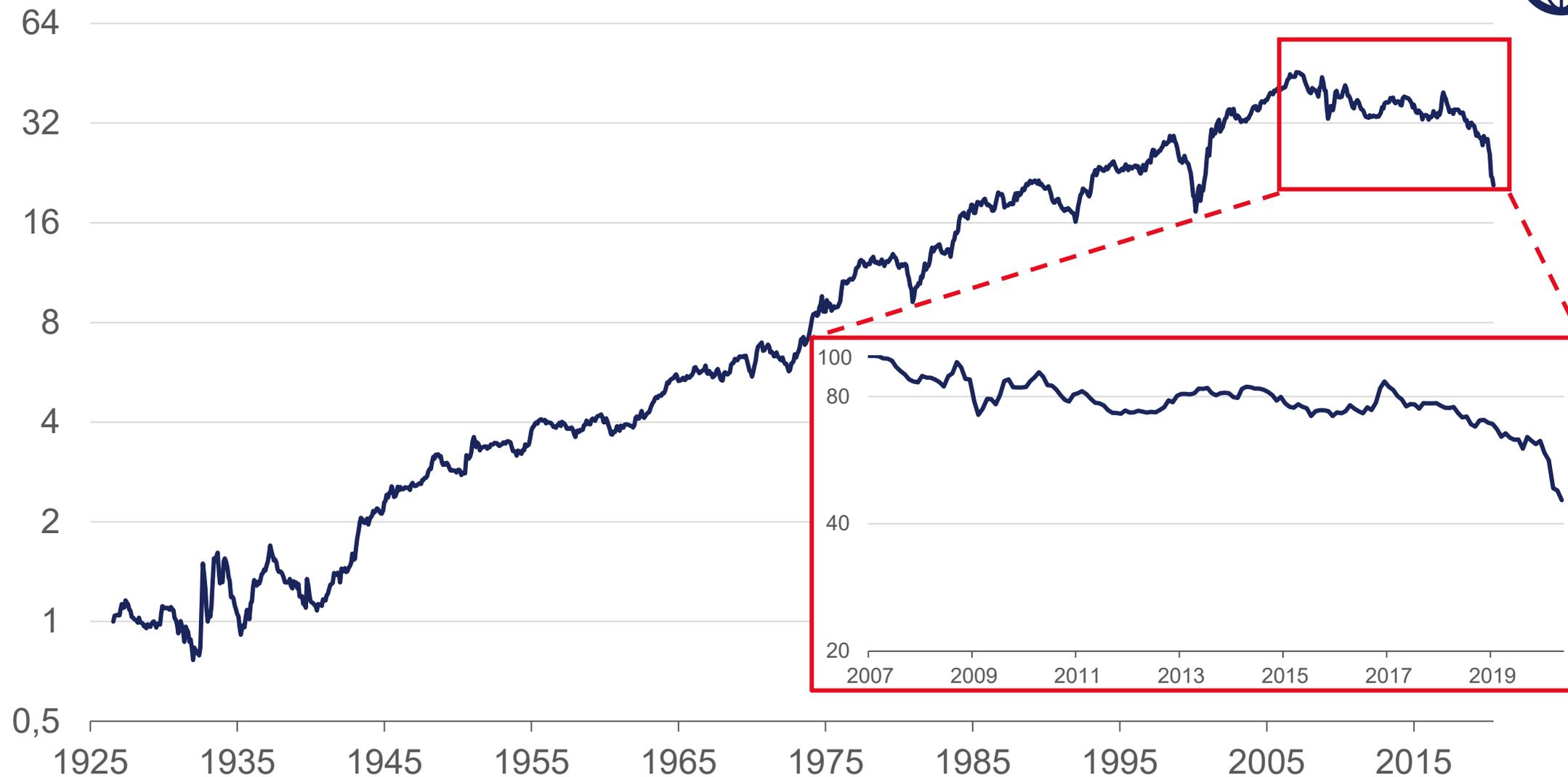




In this session I will:

- Contrast the long-term and short-term returns of a value-focused investment strategy
- Address key arguments as to why value investing may no longer be a valid approach
- Show how top-down and bottom-up perspectives on the question “is value investing dead?” offer similar conclusions

Relative return of US value vs growth (or cheap vs expensive...)

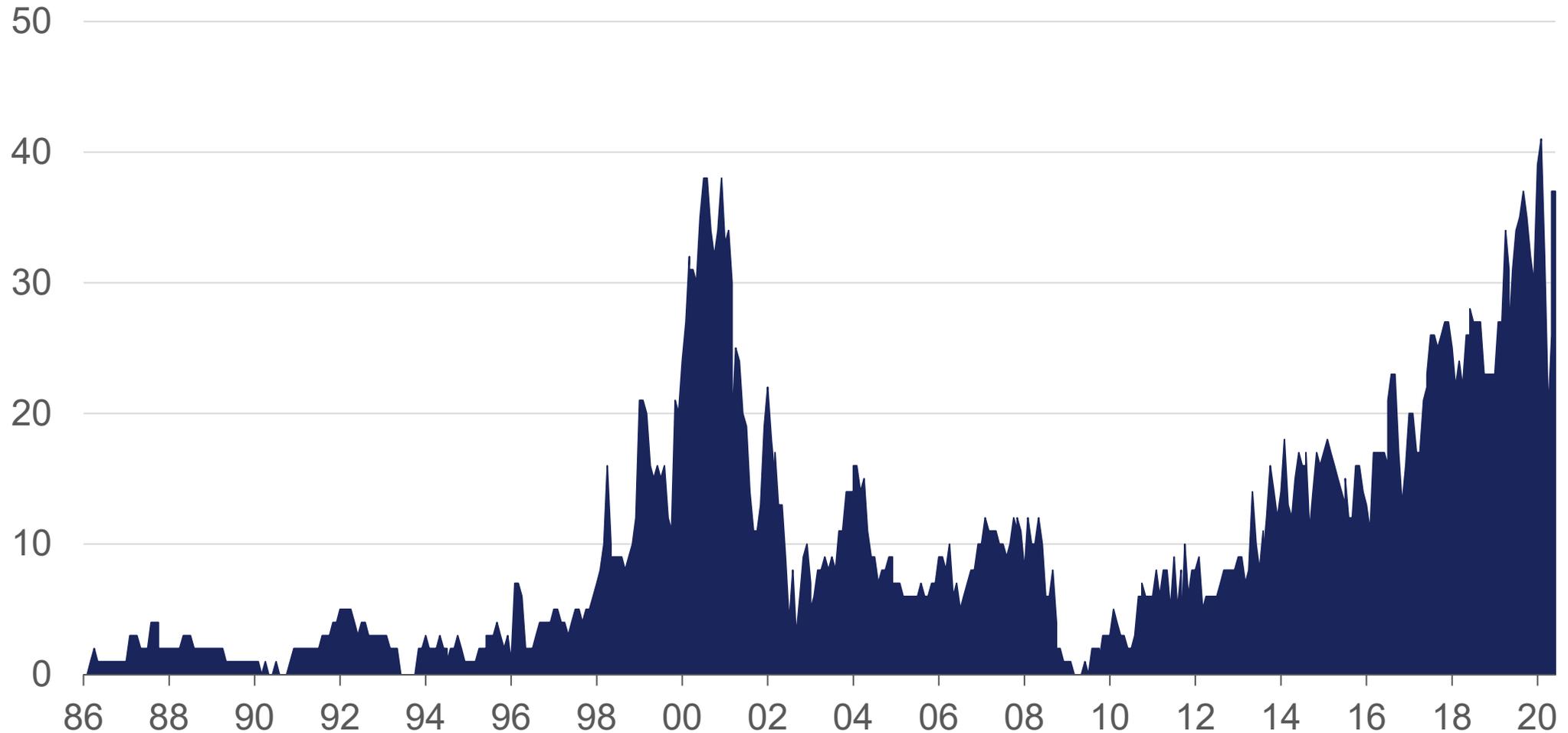


31 May 2020 | Source: Kenneth French, Centre for Research in Security Prices, Orbis. Relative return series calculated from the monthly return of US high book-to-price portfolio less the return of US low-book-to-price portfolio, large- and small- cap shares, rebased to 1 at Jul 1926. Relative return series in call-out box rebased to 100 on 1 January 2007.

It's not just about FAANGs



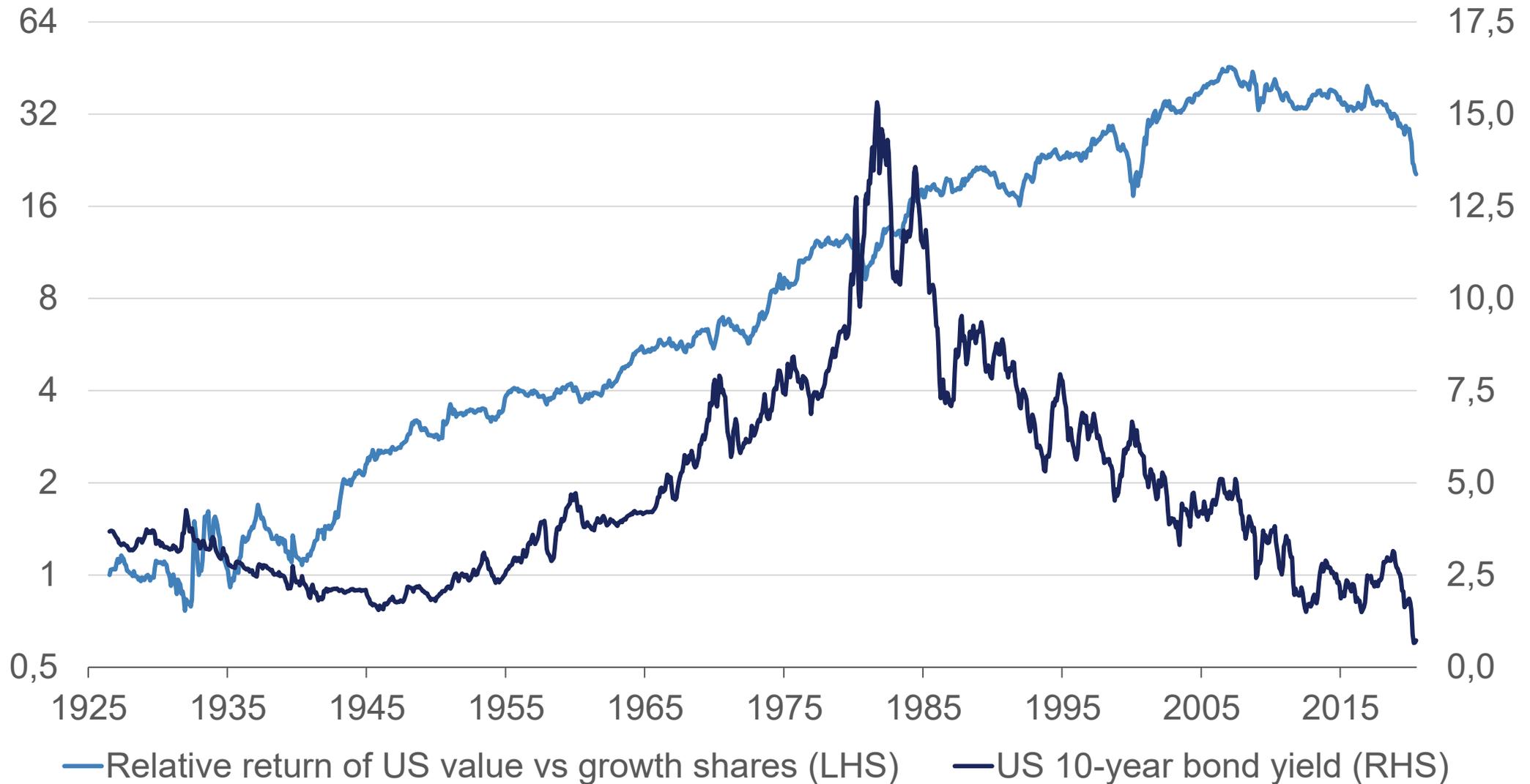
Number of stocks in the S&P 500 index trading at >10x revenue



Nestlé vs BMW — “growth” expensive in Europe too



Growth stocks are worth more with lower discount rates?



30 Jun 2020 | Source: European Central Bank, Kenneth French, Centre for Research in Security Prices, Orbis. Relative return series for US value vs growth shares is calculated from the monthly return of US high book-to-price portfolio less the return of US low-book-to-price portfolio, large- and small- cap shares, rebased to 1 at Jul 1926.

Big tech



Streaming



Online Advertising



Electric Cars



Cloud Computing



Big tech — competition is coming



Streaming



Online Advertising



Electric Cars



Cloud Computing



The importance of investor psychology



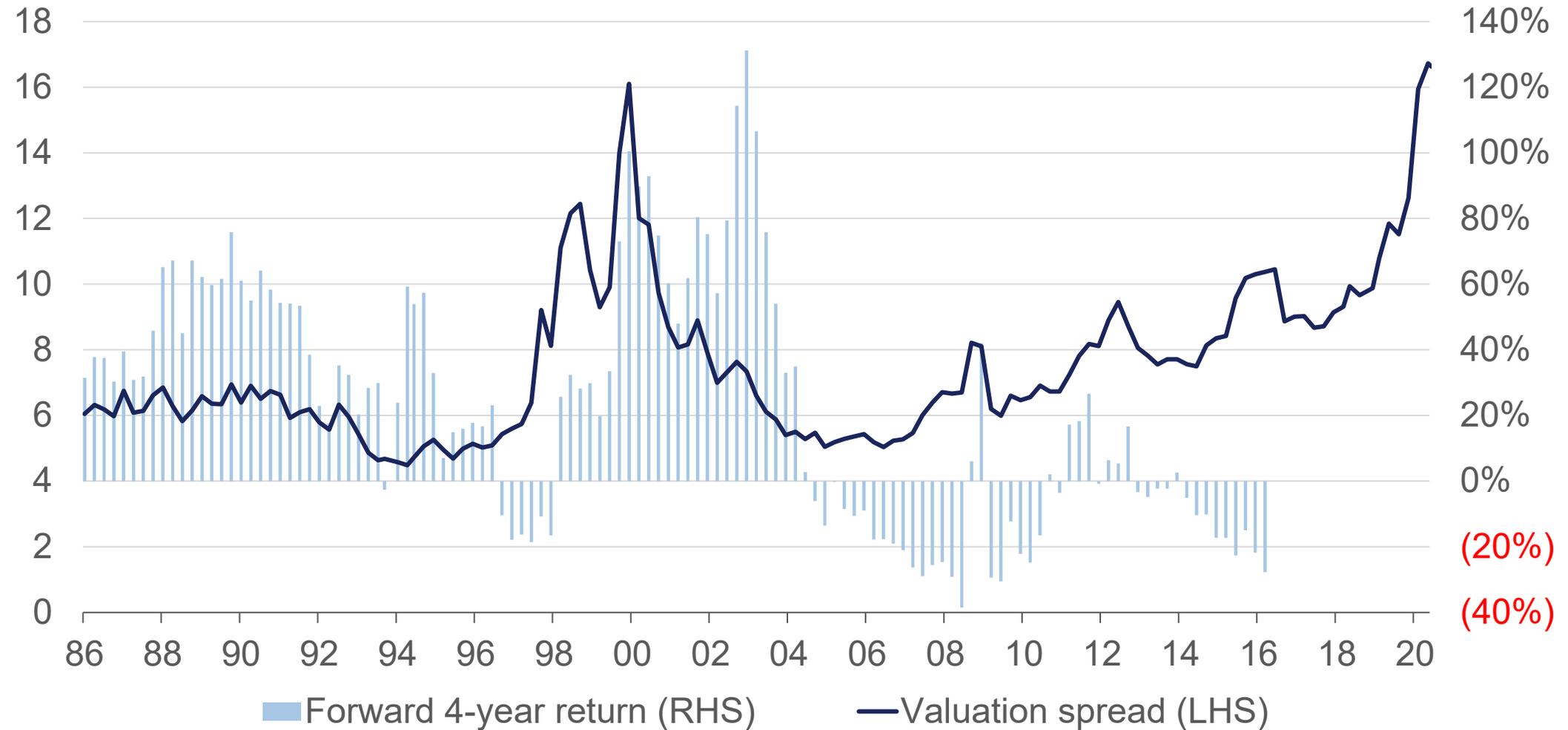
Relative return of equal-weighted basket of the stocks below vs MSCI World Index for 10 years to Dec 2016



Valuation spreads are extremely wide



Valuation spread and forward 4-year return of value vs. growth shares in the FTSE World Index

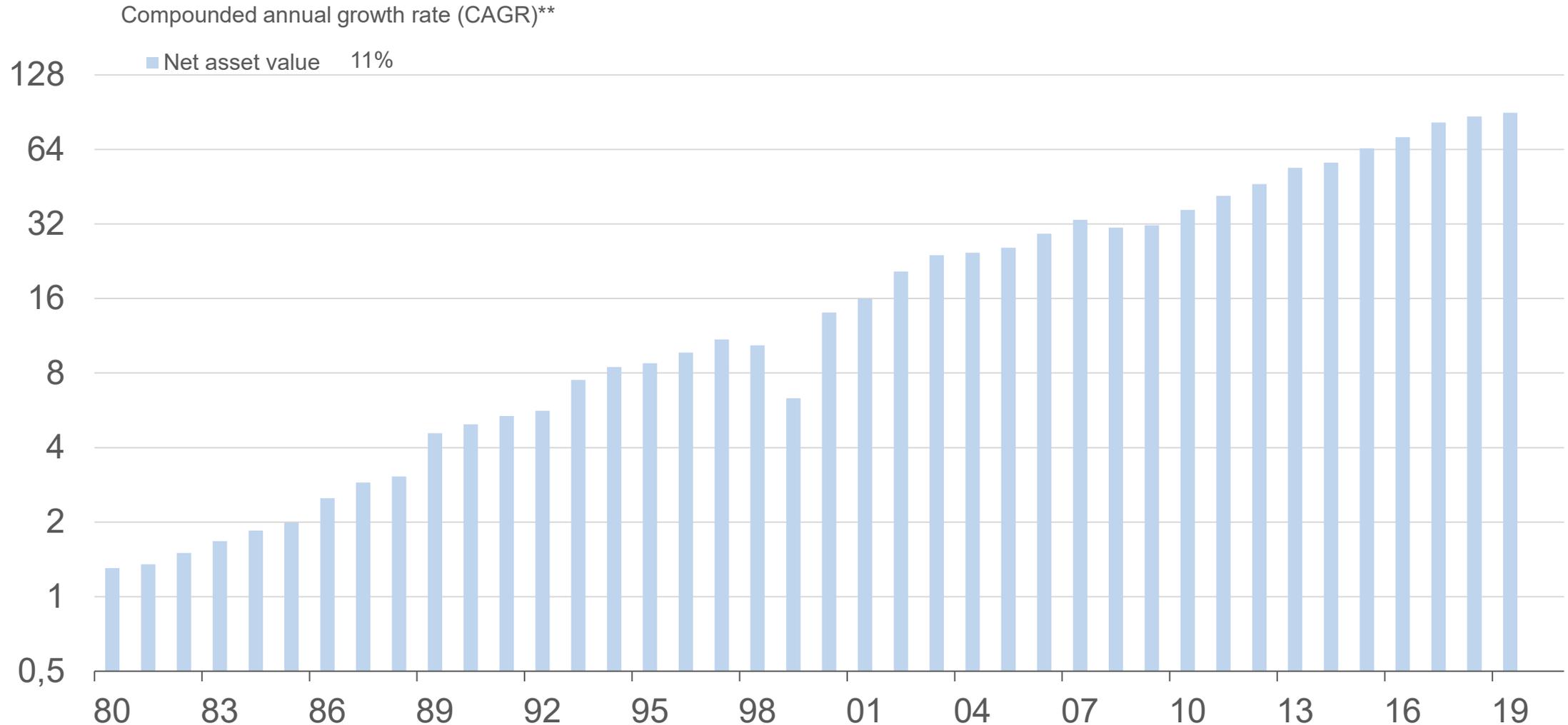


31 Aug 2020 | Source: Refinitiv, FTSE, Orbis. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning. Value/(growth) shares are defined as the top quintile of the cheapest/(most expensive) stocks on a price-to-book basis. The blue line shows the ratio of the median price-to-book ratio of the most expensive quintile of shares in the FTSE World Index divided by the median price-to-book ratio of the cheapest quintile. Relative performance calculated as the median return of the value quintile minus the median return of the growth quintiles.

BMW – an above average company



Net asset value per share, EUR

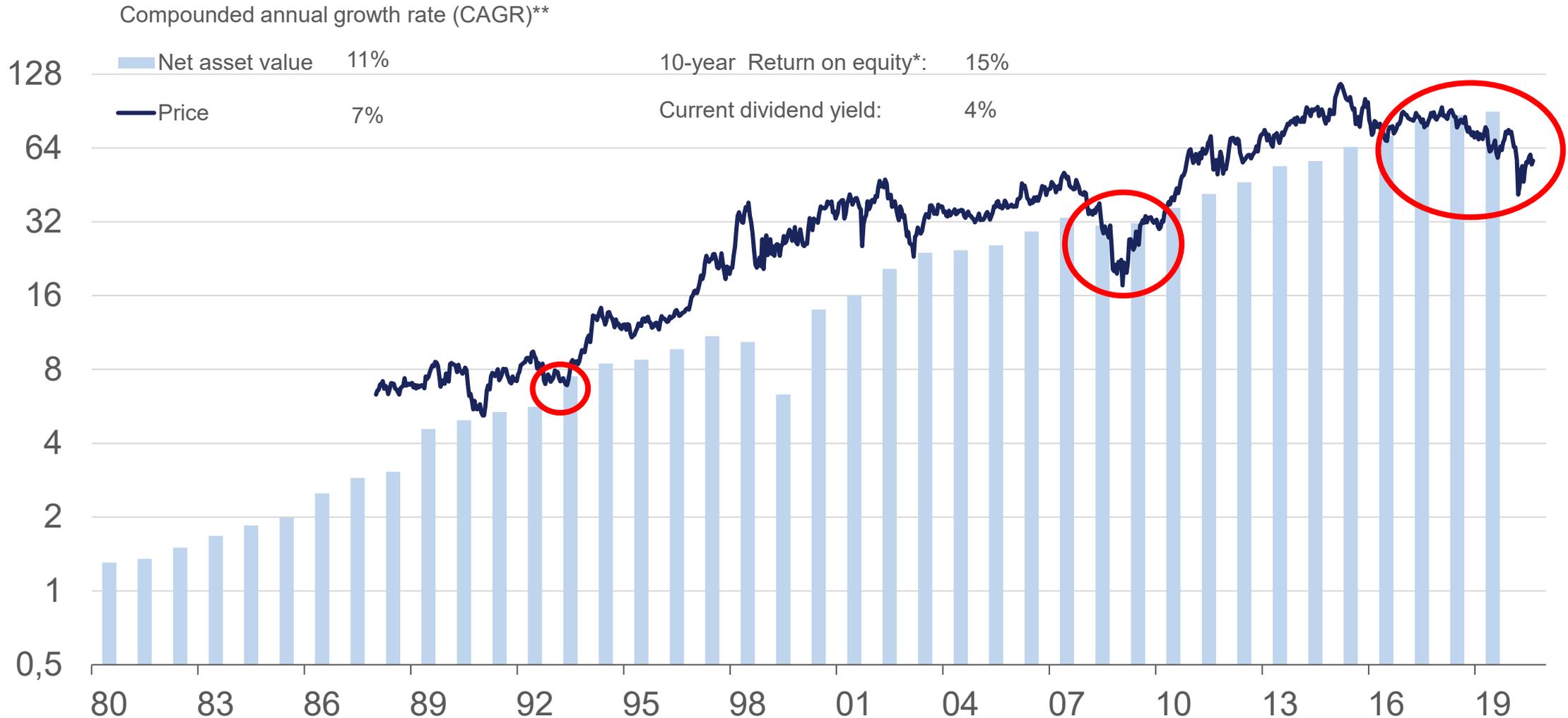


31 Aug 2020 | Source: Refinitiv, Reuters, Worldscope, Orbis. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning.
*Compounded annual growth rate calculated for the period 31 December 1980 to 31 December 2019.

BMW – an above average company at an extremely low price



Net asset value and price per share, EUR



31 Aug 2020 | Source: Refinitiv, Reuters, Worldscope, Orbis. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning. Valuation multiples calculated using share price as at 31 August 2020 and trailing annual fiscal year fundamentals. *Weighted average return on equity (RoE) over the latest 10 years. **Compounded annual growth rate calculated for the period 31 December 1980 to 31 December 2019. Price CAGR for the period 8 January 1988 to 31 August 2020. Fortnightly share price from 8 January 1988 to 31 August 2020.

Orbis Global Equity: more biased to “value” stocks than for 15 years



30 Jun 2020 | Source: Worldscope, MSCI, FTSE. Data is for the Orbis Global Equity Fund. Statistics are compiled from an internal research database and are subject to subsequent revision due to changes in methodology or data cleaning. The Orbis Global Equity Fund's inception date is 1 January 1990. Fundamental style analysis uses observable stock characteristics to measure the net bias (overweight or underweight relative to the FTSE World Index) to the style. Value is defined as the average of normalised earnings yield (average 7-year net margin x revenue/price), free cash flow (FCF) yield (FCF/price), and net asset value (NAV)/price.

A highly contrarian opportunity



- There seem to be strong behavioral reasons why the value/growth valuation spread has become so wide
- Great reversion opportunities are often found when most people believe “this time is different”
- Current explanations as to why value strategies will never work again do not appear to hold up to scrutiny
- Our bottom up stock research is identifying opportunities which are consistent with the aggregate valuation picture



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Orbis Investment Management Limited has a representative office in the Republic of South Africa for the purposes of marketing and distributing its funds. The representative office is Allan Gray Unit Trust Management (RF) Proprietary Limited which is registered as a management company under the Collective Investment Schemes Control Act 45 of 2002 and is supervised by the Financial Sector Conduct Authority.

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Certain Orbis funds are eligible for public promotion in South Africa. Collective Investment Schemes (CIS) are generally medium to long-term investments. The value of an investment in any Fund may go down as well as up, and past performance is not a reliable indicator of future results. The Funds' managers provide no guarantee with respect to capital or any Fund's returns.

CIS are traded at ruling prices and can engage in borrowing and scrip lending. Performance is calculated for the Fund specified. Commission and incentives may be paid by investors to third parties, and if so, would be included in the overall costs. Individual investors' performance may differ as a result of investment date, reinvestment date, and dividend withholding tax, as well as a levy that may apply in the case of transactions representing more than 5% of a Fund's net asset value. Any Fund may be closed to new investments at any time in order to be managed in accordance with its mandate. The Funds invest in foreign securities. Depending on their markets, trading in those securities may carry risks relating to, among others, macroeconomic and political circumstances, constraints on liquidity or the repatriation of funds, foreign exchange rate fluctuations, taxation and trade settlement.

Prices

Share prices are calculated on a net asset value basis by share class.

Orbis Funds trade weekly on a Thursday and unit prices as well as a schedule of fees, charges and maximum commissions can be obtained free of charge by contacting Allan Gray Unit Trust Management (RF) Proprietary Limited or from www.allangray.co.za.

Performance

Performance figures are for lump sum investments with income distributions reinvested. Where annualised performance is mentioned, this refers to the average return per year over the period.

Returns

Net returns for Orbis Funds are calculated gross of all income, net of fees and expenses, and assume reinvestment of dividends. Gross returns are calculated gross of all income, net of all expenses, and assume reinvestment of dividends. Returns in currencies other than the Fund's base currency have been calculated using exchange rates used to value the Orbis Funds.

Country and Currency Classifications

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Sources

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