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# Quarterly Commentary

## Orbis International Equity

31 DECEMBER 2025

It has been another positive year for the Orbis International Equity Strategy, though the nature of our performance has shifted somewhat versus the post-pandemic period. As we have shared in previous commentaries, the market rupture in the run-up to and during COVID-19 created a dislocation that was historic in proportion. Resultant extreme mispricings sowed the seeds for our strong returns since that time as valuation anomalies inevitably closed.

By early 2025 we started describing the environment as “back to normal”, with the portfolio naturally shifting to a more typical collection of idiosyncratic bottom-up investments. It is rewarding therefore to see an eclectic mix of holdings contributing to performance in 2025. Drivers of return include superb management execution at the early-stage neocloud business Nebius, continued gradual value realisation in our Irish bank positions, and tangible signs of fundamental and governance improvement in some of our deeply out-of-favour Asian consumer companies like Prudential and Jardine Matheson.

Value creation derives from in-depth, bottom-up work performed by our investment teams in their various niches. Significant investment has gone into ensuring that we are equipped with all the necessary tools and support we need to excel on behalf of our clients. Our goal is for each of our

analysts to find one or two differentiated and substantially undervalued investment ideas per year, a challenging task in a competitive world, but one they continue to execute with excellence.

Looking at the broader investment environment, high and rising levels of global government debt, driven by persistent fiscal deficits, make real assets such as equities an essential component of any portfolio. And equities outside of the US continue to trade at attractive relative and absolute levels, with accompanying high dispersion. It is also worth noting that while a handful of mega-cap US shares continue to drive the headline US market indices higher, the average US share underperformed the average non-US share this year. Beneath the surface, we may be witnessing the early stages of a reversal of a trend that has been in place for a long time and has led to the current wide valuation spread between the US and the rest of the world.

Indeed, we have previously discussed some of the underlying trends that underpinned the prolonged period of US outperformance and how those dynamics may now be reversing. We are reminded of the David Foster Wallace parable from his commencement speech, “This Is Water,” which describes how an environment can become so familiar as to become virtually invisible. An older fish asks two younger fish, “How’s the water?” and one of the young fish asks the other, “What the hell is water?”

In the context of the market, the “water” has been the long-standing, self-reinforcing cycle where mercantilist policies, cheap currencies, and export-led growth by countries like China, Korea, Japan and Germany sent vast surpluses of dollars back into US assets. This pushed up US asset prices

and suppressed US interest rates, which, in turn, fuelled further consumption of imported goods, creating a powerful, self-reinforcing flow of capital. This dynamic, which has been the default setting for almost 25 years, has had a profound impact on asset pricing, cost of capital, and currency, ultimately creating a concentration in US assets. This concentration can be dangerous, particularly if the tides are turning.

Moving to the portfolio, we remain excited by the valuations we see, with biotech having been an especially fruitful hunting ground of late. This is a rare occurrence for us, with the sector typically a victim of the casino effect (structural overvaluation of assets with wide outcome distributions). However, the epic bust following the COVID boom—driven by the receding pandemic, rising interest rates, geopolitical noise around drug pricing, and more recently the draw of growth/innovation capital towards artificial intelligence—has created an opportunity. We can now pick up innovative businesses, run by incredibly talented scientists, that trade at less than the present value of their currently marketed drugs.

Genmab, our largest position, is a prime example. Investors often flee when a patent cliff for a flagship product like Genmab's Darzalex (late 2020s/early 2030s) looms, fixating on the certain loss of legacy revenue while completely discounting what might replace it. Meanwhile, a slate of late-stage assets and growing partnered drugs are only beginning to contribute revenue well into the 2030s. The company's R&D machine, still run by scientist-founder Dr. Jan van de Winkel, fosters disciplined capital allocation and scientific excellence, and its recent acquisition of ProfoundBio slots antibody-drug-conjugate technology neatly into its core expertise. Yet, the market treats Genmab as a single-product

story, which allowed us to acquire the stock at a price lower than the cash flows from its commercialised drugs alone, essentially getting a world-class discovery platform (which has yielded eight approved medicines thus far) for free.

Similarly, Icon, a top holding that performs drug trials for the pharma and biotech ecosystem, has been tarred with the same brush as the rest of the sector. The shares halved, falling to a low of around 10 times our estimate of normal earnings—a bargain for a good business with secular growth underpinnings. While we do not know the timing of the recovery from the temporary drop in R&D spending that led to short-term negative operating leverage, we are confident that the industry growth trends will resume, driven by the ongoing need for innovative healthcare as the wealthy baby boomer generation enters their twilight years.

We also remain enthused by the opportunity in the entertainment space, with Canada's IMAX being a key holding. The recent bidding war for Warner Bros Discovery between Paramount and Netflix highlights the immense value placed on scarce content and platforms for developing future high-value Intellectual Property (IP). It has been clear to us for some time that the theatrical window is key to maximising the value of this IP, as content gains a powerful halo effect and associated marketing from a theatre run, while also being highly cash-flow generative in and of itself. The fact that two of the largest bidders for a storied asset are falling over themselves to argue who will be better for theatrical production underscores the continued trend we've seen since the dark days of COVID when cinemas were prematurely declared dead.

Furthermore, IMAX itself has emerged as a keystone asset. Its

scarce supply of exceptional technology, both in production and high-quality screens, is now booking into 2029, with some of the best filmmakers struggling to secure a slot. The brand is truly global and ubiquitous, perhaps worth the \$2 billion market cap alone, and is now tapping into the burgeoning demand for local language content. It is worth noting that the largest box office of 2025 was not a Hollywood production but a Chinese movie called Ne Zha 2, achieving \$2.1 billion in worldwide revenue, eclipsing Hollywood's best effort, Disney's Zootopia 2, which brought in a still highly respectable \$1.4 billion.

In summary, while the macro "water" potentially shifts, our approach remains constant: doing the deep bottom-up work to find businesses priced for significantly less than they are worth. Whether in Danish biotech or global entertainment, we remain excited by the opportunities this changing environment is presenting.

**Commentary contributed by Graeme Forster, Orbis Investment Management Limited, Bermuda**

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