



Oldfield Partners

Overstone Emerging Markets Equity Fund

2022 Investment Manager's Report

The Overstone Emerging Markets Equity Fund (A shares) returned -23.0% in US dollar terms (total return inclusive of dividends and net of all fees) in 2022 compared to a fall of -20.9% in the MSCI Emerging Markets Index (index used for illustrative purposes only). I shares returned -22.7%.

A difficult year for emerging markets equities against a backdrop of slowing global growth, inflationary pressures leading to tighter US monetary policy, China's Covid policies, and abundant geopolitical issues. The outlook for 2023 is thankfully better, if not remarkably so, and emerging market valuations look to reflect the negatives already allowing a cautiously optimistic outlook.

The top performers by contribution for 2022 were Petrobras and Turkcell. Petrobras (Brazilian oil producer) was the best performing stock in 2022 despite the outcome of the Brazilian election. The dividend policy being tied to free cash flow, supported by higher oil prices and disciplined capex, resulted in substantial pay-outs. The company is operating well, has competitive low-cost assets, and continues to follow the international fuel price parity principle for its domestic fuels. Investors must wait to see if the new government will be making any substantial changes. Turkcell (Turkish mobile telecom provider) has been able to negotiate the difficult economic conditions in Turkey well in respect to the extremely high level of inflation. The company can price for inflation and has been successful at passing on inflationary pressures this year. It has a successful hedging strategy and continues to employ lessons learnt from previous troubled economic times. Next year Turkey will have elections that will be a key test for the current administration and its economic policies.

The bottom performers by contribution during the year were Lukoil, SK Hynix, and Embraer. Lukoil (Russian oil & gas producer) continues to be held at a 'nil price' following the Russian invasion of Ukraine and the suspension of the London listed GDR. The holding was converted to local shares but remain unable to be traded by foreigners (classified as hostile countries) at this time. SK Hynix (Korean semiconductor manufacturer) is in the midst of a severe memory semiconductor downcycle. This stems from excess customer inventory built following pandemic shortages, and particularly weak demand from customers selling products into consumer related end markets. It is a consolidated industry, and two of the main players in the DRAM sector have cut capital expenditure by 30% and 50%, and there are hopes that the industry leader, Samsung Electronics, might follow. Sector supply discipline should precipitate supply-demand recovery, possibly in DRAM by the second half of next year. Structural demand trends continue to be strong as memory content growth per device compliments new demand sources such as artificial intelligence (AI). The current valuation has historically provided an attractive entry point. Embraer (Brazilian aircraft manufacturer) has successfully added to its substantial regional jet order book into the New Year. Total order backlog amount has returned to the highest level since before Covid, boding well for the medium-term outlook. Embraer is in an enviable position being the sole remaining provider of regional jets into the key US market. Its electric flight vehicle, called EVE, continues to do well, and its market capitalisation almost equals that of Embraer (its majority owner). As this business develops and reaches certification, we hope to be able to assign more value to it.

LG H&H (Korean cosmetics manufacturer) was a new holding for the portfolio and is a beneficiary of the end of the strict Chinese 'Covid-Zero' policy and the promise of a rebound

in Chinese consumer spending and travel in the spring of this year. Chinese savings rates have been elevated by years of Covid restrictions and a return to travel would boost the Korean duty-free channel.

Portfolio turnover for the year remained low, as in prior reporting years, and at the year-end the portfolio had 20 stocks. The weighted average of the price targets in the portfolio at year-end showed over 85% upside potential. We continue to be selective in picking stocks on a bottom-up basis for a concentrated portfolio that we believe should offer attractive upside potential for the patient investor.

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April 2023

The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not necessarily a guide to future performance

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