

OLDFIELD PARTNERS

OVERSTONE EMERGING MARKETS EQUITY FUND

APRIL 2015 NEWSLETTER 78

Fund & Performance Summary

30 th April 2015							
NAV of fund	US\$ 405.3m						
A shares unit price	US\$ 194.00						
I shares unit price	US\$ 122.20						
Performance							
	April	2015 to date	1 year	3 years annualised	5 years annualised	Since inception	Since inception annualised
A Shares*	+4.0%	+3.0%	+0.2%	+3.4%	+1.2%	+102.4%	+11.5%
Index**	+7.7%	+10.1%	+7.8%	+3.2%	+3.0%	+114.0%	+12.4%
I Shares*	+4.0%	+3.1%	+0.6%	+3.7%	+1.5%	+29.1%	+4.7%
Index**	+7.7%	+10.1%	+7.8%	+3.2%	+3.0%	+30.5%	+4.9%

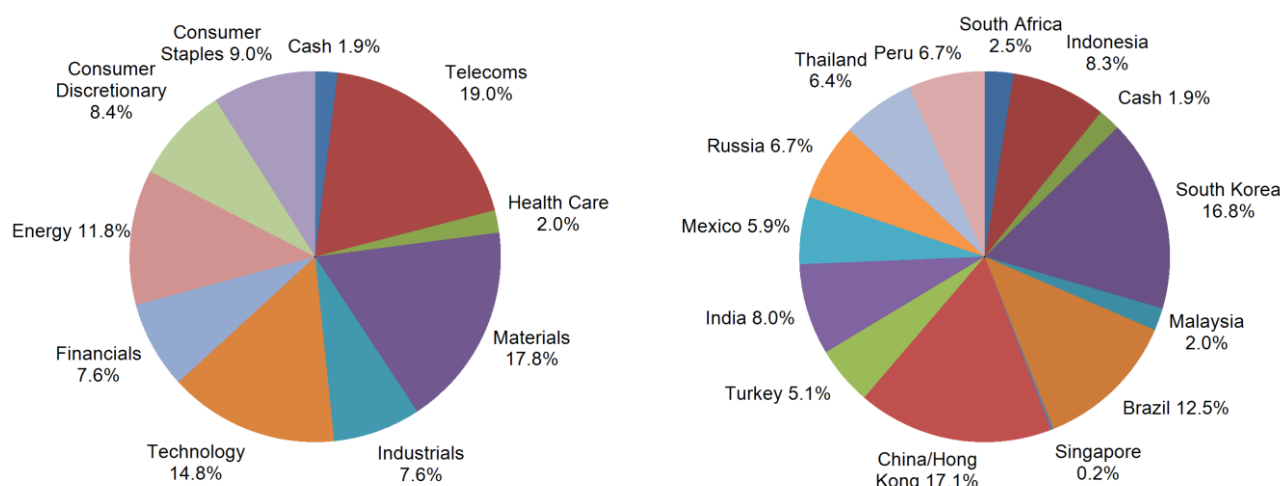
*A shares commenced on 3rd November 2008 and I shares on 1st October 2009. **MSCI Emerging Markets (Net Dividends Reinvested). Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders. Source: Oldfield Partners, MSCI ©, Bloomberg and Northern Trust Intl. Fund Administrator Services (Ireland) Ltd.

Performance of Five Largest Holdings*

Stock	Portfolio Weighting (%)*	Monthly Performance (local terms)**	Monthly Performance (USD terms)**
Samsung Electronics	8.8	-2.2%	+0.7%
SK Telecom	8.0	+11.5%	+11.5%
Embraer	7.6	+1.5%	+1.5%
Lukoil	6.7	+10.5%	+10.5%
Buenaventura	6.7	+10.4%	+10.4%

*As at end of period. **Total return inclusive of the portfolio activity. Source: Oldfield Partners and Bloomberg.

Sector and country breakdown as at 30th April 2015



Source: Oldfield Partners.

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Commentary

We had a poor month mostly due to the strong performance of Chinese equities. The MSCI China index is +26% year to date and was +16% in the month. The strength of the rally in China may be tested near term if the government feels that retail participation, especially on margin, is getting heated. The Chinese equity market has rallied to about average valuations for emerging markets, so is in line with the valuation of the MSCI Emerging Markets benchmark and thus not demanding, but this is against the market showing flat earnings growth for 2015 (significantly below the emerging markets average) and a backdrop of steadily declining economic growth for the country. We will not chase the Chinese rally, and continue to look for companies of long term interest. Our exposure to domestic China is mostly from **Lee & Man Paper** (Chinese containerboard) which we feel benefits from the growth of the Chinese consumer and internet shopping, whilst trading on a price earnings ratio of 11 and a price to book ratio of 1.2.

The worst performer during the month by contribution was **Infosys** (Indian IT services). The company released its full year results and outlined its strategic plan to 2020, which sees operating margins increasing to 30% (from 26% now) and revenues growing to \$20 billion. This would come from more automation to improve productivity and bolt-on acquisitions to position Infosys towards higher margin services. The guidance for 2016 was upbeat at 10-12% revenue growth, and the company expects margins between 24-26%. The dividend pay-out was increased from 40% to 50%. However, with net cash at 15% of its market capitalisation investors had also hoped for share buy backs and a special dividend.

The top performers during the month by contribution were SK Telecom and Ternium. **SK Telecom** (Korean mobile operator) performed strongly as the CEO pledged to buy back shares (2.7% of the total) over the next couple of years, and this increased hopes of further share buy backs and the dividend would also be increased later in the year. The stock trades on a price earnings ratio of 13. **Ternium** (Latin American steel producer) had good first quarter results highlighting the strength of Mexican steel demand. Management feel that US steel prices are approaching the bottom. Ternium continued its strong free cash flow generation. The stock trades on a price earnings ratio of 10.

Petrobras (Brazilian oil & gas) had positive news and the shares rallied 45% in the month. The company released unqualified audited full year results with write-offs for the corruption scandal and impairment of assets (only in part due to lower oil prices), and so regained access to the debt markets. This is the first major hurdle cleared in the recovery story for Petrobras. The company is prioritising balance sheet repair by selling assets, cutting capital expenditure, and maintaining parity (or better currently) for domestic fuel prices compared with international. Disappointingly, and surprisingly, the dividend for the preference shares was not paid, but we still feel these offer better long term value than the ordinaries. The recent purchase of BG Group by Royal Dutch Shell helps to highlight the attractiveness of Brazilian pre-salt assets. We increased the weighting in Petrobras during the month.

Ezra (Singapore oil services) is being sold as oil companies are likely to have subdued capital expenditure in the current oil price environment, possibly for a multi-year period, and the case for developing smaller deep water oil assets is now weaker. The oil services industry has grown with the period of buoyant oil prices and this pullback could lead to aggressive competition as contracts expire. The company took on debt to expand into this area and this has increased the investment risks.

Emerging markets have seen \$19 billion flow out of dedicated emerging market funds year to date, following two years of significant outflows in 2013 and 2014. The largest fear for investors remains the timing of a potential increase in US interest rates. The valuation of emerging market equities remains attractive, and the weighted average upside of our price targets in the portfolio is 48%.

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Fund Information as at 30 th April 2015			
Currency	USD	Investment Manager	Oldfield Partners LLP
Liquidity	Daily dealing	Administrator	Northern Trust International Fund Administration Services (Ireland) Ltd
Benchmark	MSCI Emerging Markets (Net Dividends Reinvested)	Custodian	Northern Trust Fiduciary Services (Ireland) Ltd
Management Fees	A shs = 1.25% I shs = 0.90%	Auditor	Deloitte
TER	A shs = 1.44% I shs = 1.09%	Legal Advisers	Arthur Cox
Minimum Investment	The equivalent of €100,000	Admin & Custody Fees	0.18% on the first US\$75m 0.155% on the next US\$75m 0.14% on the next US\$150m 0.11% thereafter
A shares ISIN	IE00B3DDVH01	I shares ISIN	IE00B4N0BT09
A shares sedol	B3DDVH0	I Shares sedol	B4N0BT0
A shares ticker	OVEMKEA	I shares ticker	OVEMKEI

Overstone Emerging Markets Equity Fund is a sub-fund of Overstone Fund plc, which is incorporated in Ireland and approved by the Central Bank of Ireland. Six other sub-funds exist under the Overstone Fund plc umbrella; Overstone Global Equity Fund was launched on 1st June 2005, Overstone European Equity Fund was launched on 3rd October 2005, Overstone Opportunity Multi Fund was launched on 1st November 2005, Overstone Global ex US Equity Fund was launched on 1st June 2006, Overstone Japanese Equity Fund was launched on 1st October 2007, Overstone Smaller Companies Fund was launched on 1st October 2007.

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