



Oldfield Partners

### Fund & Performance Summary

30 <sup>th</sup> June 2016							
NAV of fund	US\$ 217.4m						
A shares unit price	US\$ 193.74						
I shares unit price	US\$ 122.03						
Performance							
	June	2016 to date	1 year	3 years annualised	5 years annualised	Since inception	Since inception annualised
A Shares*	+8.2%	+26.4%	+6.0%	+3.8%	+1.4%	+105.6%	+9.9%
Index**	+4.0%	+6.4%	-12.1%	-1.6%	-3.8%	+76.0%	+7.6%
I Shares*	+8.3%	+26.6%	+6.4%	+4.2%	+1.7%	+31.6%	+4.2%
Index**	+4.0%	+6.4%	-12.1%	-1.6%	-3.8%	+7.3%	+1.1%

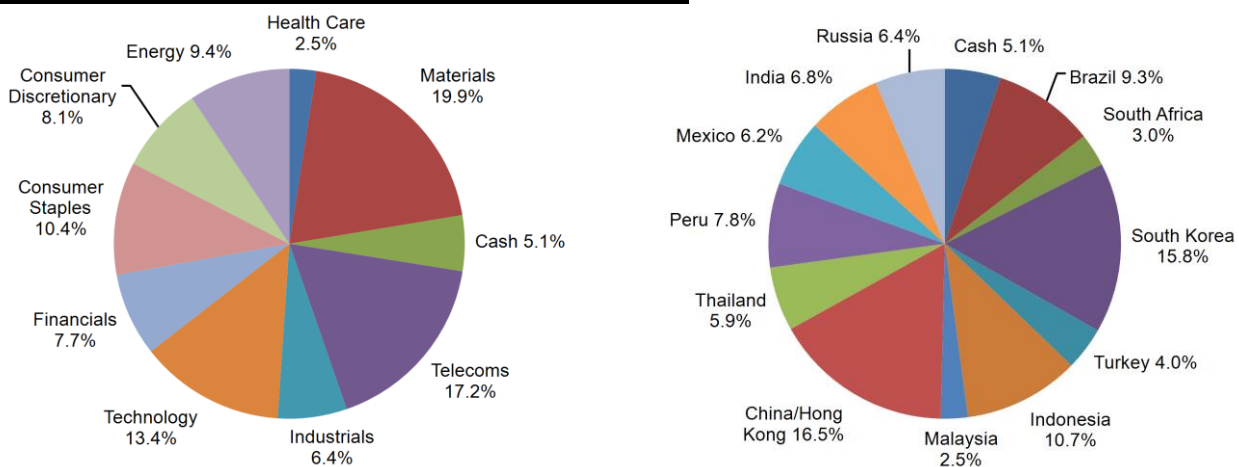
\*A shares commenced on 3rd November 2008 and I shares on 1st October 2009. \*\*MSCI Emerging Markets (Net Dividends Reinvested). Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders. Source: Oldfield Partners, MSCI ©, Bloomberg 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	8.7	+10.3%	+13.8%
Buenaventura	7.8	+24.9%	+24.9%
SK Telecom	7.1	+0.4%	+0.4%
Lukoil	6.4	+9.2%	+9.2%
Embraer	6.4	+4.4%	+4.4%

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

### Sector and country breakdown as at 30<sup>th</sup> June 2016



Source: Oldfield Partners.

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## Commentary

The portfolio performed strongly in the month, and all but three stocks (**Top Glove**, **Embraer**, and **SK Telecom**) have outperformed the index year to date, with **Buenaventura** (Peruvian miner) being the strongest performer. The 'Brexit' crisis had little impact on the portfolio, which outperformed both on the crisis days and the subsequent rebound.

We are always on the lookout for broken business models and industry change, and how that may impact the portfolio. Some might say that the rise in automation is the end of the emerging market outsourcing model or that events such as 'Brexit' will roll back the globalisation trend. We see some of our stocks impacted by such disruption in coming years, and must consider the implications. The stocks we see being most directly impacted are Yue Yuen, Infosys, and our oil stocks. **Yue Yuen** (Hong Kong listed athletic shoe manufacturer) recently saw both its largest customers, Nike and Adidas, set up automated production facilities in the US and Germany to make very high end shoes. Robots making shoes is a clear threat. However, in the end Nike and Adidas are brands, and are unlikely to want to take on the mass manufacturing end of the business. Even if robots become cheaper than the lowest cost people anywhere in emerging markets then it is likely that Yue Yuen will invest in robots, but still be the largest supplier to the big brands. Maybe one day we will all be 3D printing our footwear at home, but that seems a very long way off. **Infosys** (Indian IT services) was an early beneficiary of the outsourcing model, which has faded over time as the western IT services companies also invested in Indian locations to benefit from the high skill and lower cost wages. The new threat is automation. It is unclear at this point if automation is a threat or an opportunity for Indian IT services, as it will reduce pricing and substantially reduce headcount (and Infosys alone has 190,000 employees), but it is difficult to know if the company or the customer will take the benefit in a competitive industry. Infosys is a strong franchise, has moved into higher end consulting services early, and we feel it is riding the wave of change well to date. **Lukoil** (Russian oil producer) and **Petrobras** (Brazilian oil producer) face a longer term threat from the rise of the electric vehicle. Oil is primarily a transportation fuel. Electric vehicles are superior to the combustion engine in every way except range, and this disadvantage is fast being overcome as battery technology advances. For urban only use electric vehicles would already seem to be the sensible option with minimal additional infrastructure needed - every car parking space to have a charging point.

Not all change is threatening or bad news. Our consumer electronics, media, and telecom stocks have always faced continuous change from new technology. Many primary and manufacturing companies will reduce costs. The increase in wages in China over several years has pushed manufacturing back to places such as Mexico, which it had left a couple of decades prior. **Ternium** (Latin American steel producer) is benefitting from the substantial increase in automotive and appliance production in Mexico, which needs the high quality flat steel produced by Ternium. Change will bring winners and losers.

The laggards during the month by contribution were **Infosys** (Indian IT services) and **Top Glove** (Malaysian latex glove manufacturer). The top performers during the month by contribution were **Buenaventura** (Peruvian miner) and **Samsung Electronics** (Korean consumer electronics). In the second quarter the top performers were **Buenaventura** and **Thai Beverage**; and the bottom performers were **Embraer** and **Turkcell**.

**Eros International** (Indian Bollywood film producer) had solid year end results in the month and importantly was free cash flow positive as promised by the management team. The share price has responded strongly reaching levels last seen before the 'Eros Now' takeover rumours and the subsequent damaging short seller note. We remain buyers.

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The valuation of emerging markets remains attractive with the index trading on a price to book ratio of 1.45, well below the historic longer term average, and the upside to the weighted average price targets of the portfolio is 40%. The portfolio has a cyclical skew favouring companies with strong balance sheets and good assets, and despite the low portfolio turnover (about 2%) year to date we see little need to make substantial changes to the portfolio at this time.

### **Irish Stock Exchange delisting**

Each sub-fund of the Overstone Fund plc umbrella is currently listed on the Irish Stock Exchange. No transactions on the Exchange have taken place, and the listing does not appear to serve a purpose for investors or for the company itself. We are recommending to the board that the Fund be delisted, effective at the start of July. Delisting has no impact on the way the Fund is managed or valued. Unit prices will still be published widely (though no longer on the ISE website). Listing fees and broker sponsorship costs will be avoided. If you have any questions or concerns about this, please contact us.

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# Overstone Emerging Markets Equity Fund

## June 2016 Newsletter 92

Oldfield Partners

Fund Information as at 30 <sup>th</sup> June 2016			
<b>Currency</b>	USD	<b>Investment Manager</b>	Oldfield Partners LLP
<b>Liquidity</b>	Daily dealing	<b>Administrator</b>	Northern Trust International Fund Administration Services (Ireland) Ltd
<b>Benchmark</b>	MSCI Emerging Markets (Net Dividends Reinvested)	<b>Custodian</b>	Northern Trust Fiduciary Services (Ireland) Ltd
<b>Management Fees</b>	A shs = 1.25% I shs = 0.90%	<b>Auditor</b>	Deloitte
<b>TER</b>	A shs = 1.48% I shs = 1.13%	<b>Legal Advisers</b>	Arthur Cox
<b>Minimum Investment</b>	The equivalent of €100,000	<b>Admin &amp; Custody Fees</b>	0.18% on the first US\$75m 0.155% on the next US\$75m 0.14% on the next US\$150m 0.11% thereafter
<b>A shares ISIN</b>	IE00B3DDVH01	<b>I shares ISIN</b>	IE00B4N0BT09
<b>A shares sedol</b>	B3DDVH0	<b>I Shares sedol</b>	B4N0BT0
<b>A shares ticker</b>	OVEMKEA	<b>I shares ticker</b>	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 1<sup>st</sup> June 2005, Overstone European Equity Fund was launched on 3<sup>rd</sup> October 2005, Overstone Opportunity Multi Fund was launched on 1<sup>st</sup> November 2005, Overstone Global ex US Equity Fund was launched on 1<sup>st</sup> June 2006, Overstone Japanese Equity Fund was launched on 1<sup>st</sup> October 2007, Overstone Smaller Companies Fund was launched on 1<sup>st</sup> October 2007.

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