

Overstone Emerging Markets Equity Fund

Patient, unconstrained, contrarian value investing

OP

Oldfield Partners

30 June 2020

Monthly fund review

Investment objective

The Fund will attempt to achieve over the long term a total return in excess of that of the MSCI Emerging Markets Index (with net dividends reinvested) through investment in a concentrated portfolio of equities of companies from emerging markets and from other markets where it can be demonstrated by the Investment Manager that the company concerned is overwhelmingly an emerging market related company. The approach is focussed on valuations and bottom-up fundamental research of individual companies.

Fund particulars

Launch date	03 November 2008
Fund size	US\$122.1m
Domicile	Ireland
Structure	QIAIF
Base currency	USD
Dealing	Daily
Min. investment	€100,000
Benchmark	MSCI Emerging Markets

“A concentrated portfolio concentrates the mind...”

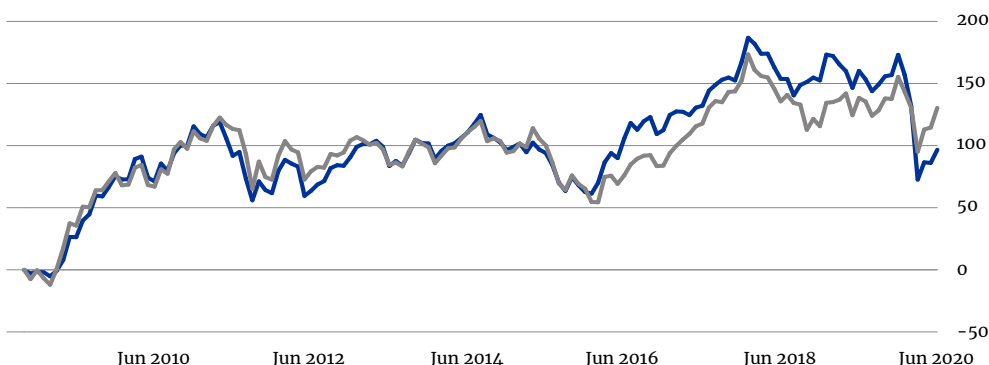
About Oldfield Partners

Oldfield Partners LLP is an owner-managed boutique fund management firm which manages equity portfolios for a global client base that includes endowments funds, pension funds, charities, family offices and individuals.

Oldfield Partners began operations in March, 2005 and is majority owned by the executive partners.

We are value investors with a distinctive approach: a limited number of holdings, long-only, no leverage, diversified, index-agnostic and suspicious of short-termism.

Fund performance (%)



	1 month	YTD	1 year	Launch	Annualised		
					3 years	5 years	Launch
■ A USD	+5.7	-28.0	-24.4	+96.7	-5.4	+0.3	+6.0
■ MSCI Emerging Markets	+7.4	-9.8	-3.4	+130.3	+1.9	+2.9	+7.4
Preceding five calendar years performance			2019	2018	2017	2016	2015
A USD			+8.2	-5.5	+25.8	+30.6	-17.2
MSCI Emerging Markets			+18.4	-14.6	+37.3	+11.2	-14.9

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.

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 a guide to future performance.

Fund manager commentary

The progression of the virus and its impact on economic life around the world continues to merit a mixture of stable earning holdings and cyclical holdings. There is much to be hopeful for as lockdowns are lifted but also uncertainty as to a second wave and strength of the economic rebound. We continue to favour holdings that can ‘tough it out’ – having characteristics such as a strong balance sheet, solid proven franchises, producing assets low down on the global cost curve, or access to government assistance. We believe all our holdings are survivors. Value investing has had a difficult time this year, circumstances have favoured growth stocks, which does create opportunity for a patient value investor, and we have not seen such upside potential for the portfolio since early 2009.

The bottom performers by contribution for the month were Ternium, Lee & Man Paper, and Lukoil. **Ternium** (Latin American steel producer) ended the first quarter of 2020 with a strong cash position and little debt refinancing needs through 2021. Management is effectively reducing working capital and is delaying some elements of capital expenditure. We expect positive free cash flow during 2020 and 2021. The timing of a volume recovery in its key US and Mexican markets remains uncertain, but Ternium is well positioned to benefit in a recovery and supply chains are re-starting. The stock trades on a price to book ratio of 0.4. The share price of **Lee & Man Paper** (Chinese containerboard manufacturer) closed flat for the month, lagging a strong market performance. We wrote last month US/China tensions can be a negative, affecting import prices of recycled cardboard. These tensions increased as China introduced stricter laws in suppressing Hong Kong protests. More positively, we have seen some small price hikes by the larger containerboard producers. The stock trades on a price-earnings ratio of six and a price to book ratio of 0.8. **Lukoil** (Russian oil producer) released first quarter results in the month and adjusted down capex guidance for the year. We continue to expect positive free cash flow as Lukoil usually benefits from Ruble weakness and more favourable Russian oil taxes during low oil prices. This supports an expected 8% dividend yield for 2020 under its policy of distributing 100% of free cash flow. Management is focusing on liquidity near term, against an already solid balance sheet, deemphasising buybacks and indicating it would not borrow to support dividends.

The top performers by contribution for the month were Buenaventura, Indofood, and Samsung Electronics. **Buenaventura's** (Peruvian gold miner) debottlenecking program and shutdown of operations are a (now well known) near-term negative compared to the gold price rise. The benefit is improved costs upon completion. Management planned for a full restart of operations by end June, after the strict Covid-19 related shutdown in Peru since mid-March. Volumes will further improve as debottlenecking matures. It extended near-term debt maturities and could reduce capex through postponing some growth projects. Debt repayments through 2022 are manageable. The stock trades on a price to book ratio of 0.8. The share price of **Indofood** (Indonesian snack food producer) recovered after a weak performance in May when it moved forward with its acquisition of an international noodle business we wrote about last month. The increased debt, should the acquisition be successful, is manageable given the stability of its highly profitable domestic noodle business. The stock trades on a price-

Commentary - continued

earnings multiple of 12. **Samsung Electronics** (South Korean electronics producer) benefitted from signs of recovery in smartphone volumes, both as a phone producer and as supplier of leading-edge memory and displays to the sector. A memory competitor – one of the three main producers in this consolidated sector – reported strong quarterly results and optimistic guidance. Demand from data centres remains a strong positive. Supply discipline remains in the all-important memory sector with all three key players focused on profitability. The stock trades on a price to book ratio of 1.4.

The top performers by contribution for the quarter were Petrobras, SK Telecom, and Lukoil, and the bottom performers were Embraer and Lee & Man Paper. **Embraer** (Brazilian aircraft manufacturer) is our worst performer this year as Boeing walked away from the deal to buy the majority of Embraer's regional jet business and the global aviation industry saw a demand collapse from Covid-19. We believe regional jet demand in the US will benefit from a recovery in domestic flying (before international flight demand) and its business jet division is seeing renewed interest to 'cocoon' executives. Embraer has no near-term liquidity demands, sufficient cash on hand, and the Brazilian government is keen to protect it – meaning it should survive even a prolonged multi-year aviation slump. The stock trades on a price to book ratio of 0.3.

Capacity and flows

AUM of the strategy is now below our US\$1bn capacity so we are accepting capital from investors, with priority given to existing investors and those on the waitlist, and then from new relationships. Our client base has always been a competitive advantage for us, and this has been underlined in the recent months as we have received net inflows. If you are interested in the strategy, please contact us.

Jamie Carter is leaving the firm to take up a position at Longview Partners. Jamie was one of the founding partners of the firm with Richard Oldfield and Nigel Waller in 2005, and has been chief executive since 2013.

Jamie has played a key role in the development of the firm over the last 15 years, and all his partners are grateful to him. He goes with our best wishes.

The board has asked Nigel Waller to become chief executive. He will delegate a great deal of the running of the firm and client relations to his colleagues on the management committee Chris Driver, John McEwing and Ed Troughton and to Dave Gallagher in the US. This will allow Nigel to remain firmly focused on his role managing the global and EAFE strategies with Andrew Goodwin and as chief investment officer. The investment team is not impacted by Jamie's departure.

Fund analysis

Top 10 holdings (%)	Weighting	1 month total return (%)*	
		Local terms	USD
Samsung Electronics	9.4	+4.1	+7.2
SK Telecom	8.5	+0.4	+0.4
Thai Beverage	7.8	+7.1	+8.5
Lukoil	7.7	0.0	0.0
Buenaventura	7.4	+16.4	+16.4
Infosys	7.1	+7.5	+7.5
Telkom Indonesia	6.9	+2.5	+2.5
Petrobras	6.7	+5.7	+5.7
Indofood	6.6	+13.4	+15.3
Ternium	5.3	-4.7	-4.7

Total number of holdings 16

Active share (%)** 94.6

Fund characteristics

	Fund	Benchmark
Net debt to equity ratio (%)	25.0	9.0***
Price-to-book ratio	1.5	1.6
Price-to-earnings ratio	10.4	16.0
Return on equity (%)	11.6	10.2

*Inclusive of portfolio activity.

**Active share is calculated using the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the MSCI Emerging Markets index, divided by two.

***For the MSCI Emerging Markets the net debt to equity ratio excludes financials.

All data as at 30 June 2020.

Source: Oldfield Partners.

Sector breakdown (%)

Communication Services	20.2	
Materials	17.8	
Information Technology	16.5	
Consumer Staples	14.4	
Energy	14.4	
Consumer Discretionary	4.3	
Industrials	3.9	
Financials	3.9	
Cash	4.7	

Country breakdown (%)

South Korea	17.9	
Indonesia	13.5	
China/Hong Kong	10.8	
Brazil	10.6	
Thailand	7.8	
Russia	7.7	
Peru	7.4	
India	7.1	
Mexico	5.3	
Turkey	4.8	
South Africa	2.4	
Cash	4.7	

Share class details

Share class	AMC*	TER**	SEDOL	Bloomberg	ISIN	Price
A USD	1.25%	1.55%	B3DDVH0	OVEMKEA ID	IE00B3DDVH01	US\$176.78
I USD	0.90%	1.20%	B4NoBT0	OVEMKEI ID	IE00B4NoBT09	US\$111.41
A USD Hedged	1.25%	1.60%	BZBVR05	OVEMAUH ID	IE00BZBVR050	US\$89.49
A GBP Hedged	1.25%	1.60%	BD3WG94	OVEMAGH ID	IE00BD3WG942	£83.62

*AMC - Annual management charge

**TER - Total expense ratio

Performance summary of all share classes

USD shares	Annualised									
	1 month	YTD	1 year	Since launch		3 years	5 years	Since launch		
				03/11/08	01/10/09			03/11/08	01/10/09	
A USD	+5.7	-28.0	-24.4	+96.7	-	-5.4	+0.3	+6.0	-	
I USD	+5.7	-27.9	-24.1	-	+27.7	-5.0	+0.6	-	+2.3	
MSCI Emerging Markets	+7.4	-9.8	-3.4	+130.3	+40.5	+1.9	+2.9	+7.4	+3.2	

USD Hedged shares	Annualised									
	1 month	YTD	1 year	Since launch		3 years	5 years	Since launch		
				31/10/16				31/10/16		
A USD Hedged	+4.9	-22.4	-19.1	-6.7		-3.1	-	-1.9		

GBP Hedged shares	Annualised									
	1 month	YTD	1 year	Since launch		3 years	5 years	Since launch		
				31/10/16				31/10/16		
A GBP Hedged	+4.9	-22.9	-20.7	-12.8		-4.9	-	-3.7		

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.

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