



Overstone Emerging Markets Equity Fund

January 2016 Newsletter 87

Oldfield Partners

Fund & Performance Summary

| 29 th January 2016 | | | | | | | | |
|-------------------------------|-------------|--------------|--------|--------|--------------------|--------------------|-----------------|----------------------------|
| NAV of fund | US\$ 162.9m | | | | | | | |
| A shares unit price | US\$ 152.05 | | | | | | | |
| I shares unit price | US\$ 95.63 | | | | | | | |
| Performance | | | | | | | | |
| | January | 2016 to date | 2015 | 1 year | 3 years annualised | 5 years annualised | Since inception | Since inception annualised |
| A Shares* | -0.8% | -0.8% | -17.2% | -18.9% | -6.8% | -5.1% | +61.3% | +6.8% |
| Index** | -6.5% | -6.5% | -14.9% | -20.9% | -9.2% | -5.6% | +54.6% | +6.2% |
| I Shares* | -0.8% | -0.8% | -16.9% | -18.6% | -6.4% | -4.7% | +3.2% | +0.5% |
| Index** | -6.5% | -6.5% | -14.9% | -20.9% | -9.2% | -5.6% | -5.7% | -0.9% |

*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) ^{**} |
|---------------------|--------------------------------------|---|---|
| Embraer | 8.5 | -2.6% | -2.6% |
| Samsung Electronics | 8.1 | -8.7% | -11.5% |
| SK Telecom | 7.6 | -2.2% | -2.2% |
| Telkom Indonesia | 7.5 | +10.4% | +10.4% |
| Thai Beverage | 6.9 | -1.4% | -1.9% |

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

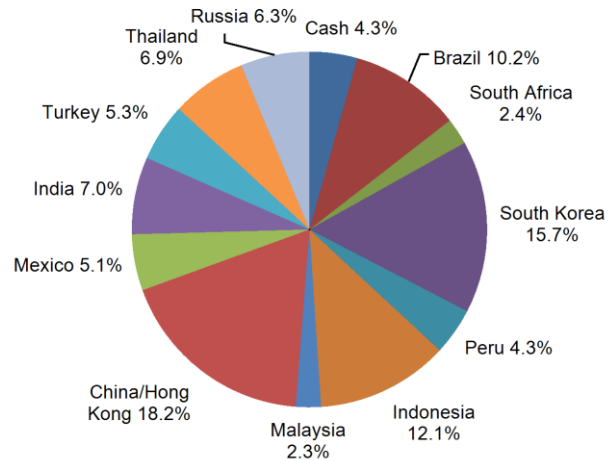
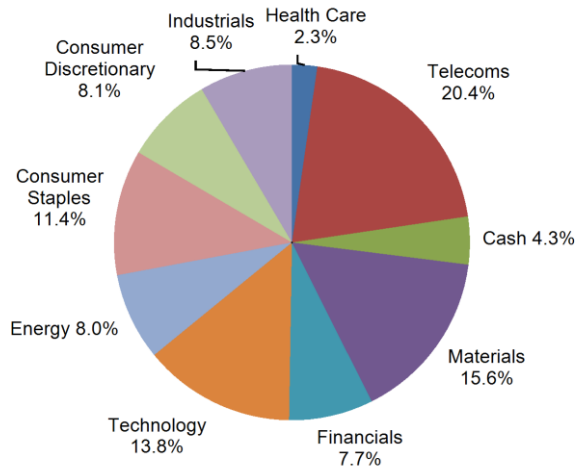
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Sector and country breakdown as at 29th January 2016



Source: Oldfield Partners.

Commentary

The MSCI Emerging Markets Index had a terrible start to 2016, and the negative sentiment towards the emerging market asset class has clearly yet to change. Against this difficult backdrop the portfolio performed well; and continues with its bias towards higher quality cyclicals, supported by decent balance sheets and/or good assets. The portfolio has less exposure to stable earning stocks, but within this, the telecom stocks are the most notable.

Despite the difficult global macro-economic backdrop we still feel it is possible to do well in selected cyclical stocks that can benefit from positive industry trends or developments, whilst having some downside protection from a decent balance sheet or solid asset base, and low valuations. These are some examples from the portfolio. **Embraer** (Brazilian regional jet manufacturer) has a strong balance sheet, a healthy three year order book, the ongoing replacement cycle in the US, benefits from the weak local currency, and has the right product at the right time, whilst its main competitor (in a near duopoly niche market) is in need of a government bailout. It trades on a price earnings ratio of 12.5 and price to book ratio of 1.4. **Lee & Man Paper** (Chinese containerboard manufacturer) has benefited from the government forcing excess capacity from the smaller scale competitors to withdraw from the industry over the last few years, and it is an indirect means to gain exposure to Chinese consumer growth, and especially retail internet sales growth. It trades on a price earnings ratio of 11 and price to book ratio of 1.2. **Ternium** (Mexican steel producer) may be in a tough global steel market due to China exporting its huge excess capacity, but Ternium benefits from the renaissance of the Mexican manufacturing industry returning from a less competitive China, following years of double digit Chinese wage increases, and particularly of the auto manufacturers that demand its high quality flat steel. It trades on a price earnings ratio of 7 and price to book ratio of 0.5.

Among the poor performers during the month by contribution were Samsung Electronics, Petrobras, and Top Glove. **Samsung Electronics** (South Korean consumer electronics) had lacklustre fourth quarter results. The continued focus on shareholder returns, both dividends and share buy-backs, remains a positive, as does the low valuation. **Petrobras** (Brazilian oil & gas) remains in a distressed position having been impacted by the oil price fall, the corruption scandal, and the weaker local currency. The

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stock price will remain volatile, but in time could perform well if the three aforementioned factors reverse. **Top Glove** (Malaysian rubber gloves) was a star performer last year as the local currency weakened and the company sells its products priced in US dollars into the stable end markets of medical care and food preparation. In the month the local currency strengthened adding a headwind.

The top performers during the month by contribution were Indofood, Telkom Indonesia, and Infosys. Indonesian equities performed well in the sell-off, which benefited both **Indofood** (Indonesian snack foods producer) and **Telkom Indonesia** (leading telecom provider in Indonesia). **Infosys** (Indian IT services) had impressive third quarter results, highlighting a strong deal pipeline, and management were able to raise full year guidance (which should comfort investor concerns over recent pricing pressure and heated competition).

The valuation of emerging market equities continues to be attractive when judged against its longer term valuation history, but there are few positive catalysts at this point to lift sentiment. Valuation alone suggests a decent entry point and this could be enough following years of significant outflows from the asset class. The upside potential from the weighted average of our price targets in the portfolio is 76%.

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| Fund Information as at 29 th January 2016 | | | |
|--|--|---------------------------------|--|
| 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 = 1.53% I shs = 1.18% | 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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