

# Overstone Emerging Markets Equity Fund

Patient, unconstrained, contrarian value investing

# OP

Oldfield Partners

31 January 2023

## 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.

### Fund particulars

Launch date	03 November 2008
Fund size	US\$56.2m
Domicile	Ireland
Structure	QJAIIF
Base currency	USD
Dealing	Daily
Min. investment	€100,000
Benchmark	MSCI Emerging Markets

*"A concentrated portfolio concentrates the mind..."*

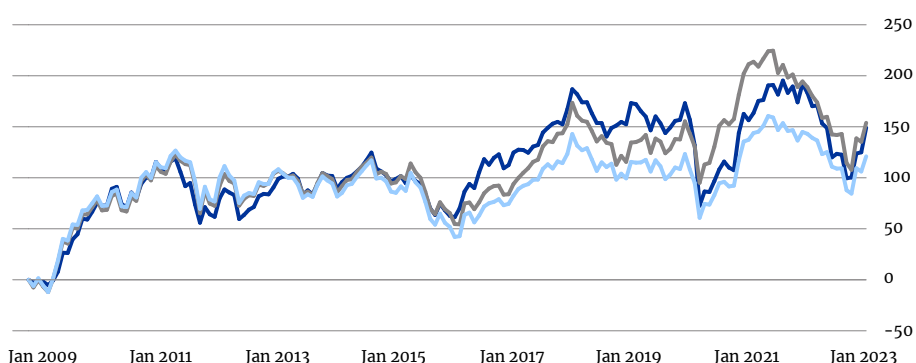
### About Oldfield Partners

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 (USD, %)



	1 month	YTD	1 year	Annualised	
				3 years	5 years
■ Fund (A shares)	+10.7	+10.7	-12.1	-1.0	-2.8
■ MSCI Emerging Markets	+7.9	+7.9	-12.1	+1.4	-1.5
■ MSCI EM Value	+7.2	+7.2	-9.1	+2.0	-1.9
<b>Preceding five calendar years performance</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Fund (A shares)	-23.0	+11.3	-3.8	+8.2	-5.5
MSCI Emerging Markets	-20.1	-2.5	+18.3	+18.4	-14.6
MSCI EM Value	-15.8	+4.0	+5.5	+11.9	-10.7

Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders.

MSCI EM Value index is for comparison purposes only.

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

Equity markets rallied in January on improved investor sentiment following the end of the 'Covid-Zero' policy in China leading to stronger economic growth and some evidence that global inflationary pressures were subsiding allowing a favourable adjustment to the trajectory of US monetary policy. The US dollar continued to weaken. The Chinese equity market was particularly strong and, in general, the more defensive sectors lagged in the month. The upside potential for the portfolio is around 75% as measured by the weighted average of the company price targets in the portfolio. This level of potential upside has only been on offer when times are troubled.

The bottom performers by contribution in the month were Lee & Man Paper and SK Telecom. **Lee & Man Paper** (Chinese packaging materials) will benefit from the Chinese consumer demand recovery as inventory levels of packaging materials are reduced. The sector has had a tough time through the strict 'Covid-Zero' period and with input prices being strong thereafter, which has reduced valuations to trough levels. We believe this is early days for the recovery of this sector in China. **SK Telecom** (Korean mobile telecoms provider) remains in a solid position in Korea as 5G penetration steadily increases (+50% at year-end), regulatory policy is supportive, and capital expenditure is restrained. Management is focussing on the most profitable 5G customers rather than just headline market share. The dividend yield at around 7% is dependable.

The top performers by contribution in the month were Ternium, Alibaba, and Embraer. **Ternium** (Latin American steel producer) is well placed to benefit from the recovery in Mexican demand, as 'near shoring' boosts Mexican manufacturing. The strength of the US economy remains a question mark. Ternium is a low-cost producer in Mexico, which remains a net importer of steel, allowing ample growth potential for the company. **Alibaba** (Chinese e-commerce provider) was a strong performer following the end of the 'Covid-Zero' policy in China. Sentiment towards China had soured last year on fears over Taiwan, regulatory uncertainty, and the strict anti-Covid stance by the government. Alibaba is a prime beneficiary of the unleashing of the Chinese consumer given its 50% market share for the e-commerce market. **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

## Commentary - continued

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.

## Russian holdings

Please note that on 3rd March 2022 the Fund's investment in Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading. Since this time, the Fund has been unable to buy or sell Lukoil. Our Valuation Committee considered it was in the Fund's best interests that the holding of Lukoil ADR be fair value priced (FVP) at zero. In June 2022, we elected for the holding to be converted into local shares (Lukoil PJSC). Had we not done so, the ADRs would have expired and would be liquidated for an unknown value on 31 December 2022.

We are aware that there is liquidity in the local shares for Russian residents. However, Lukoil PJSC may not be traded by foreign investors including the Fund. In addition, sanctions prevent the transfer of sale proceeds outside Russia.

At month end the local price was RUB 3,959. If local and international sanctions were lifted and the Fund was able to access the local market and remit sale proceeds, the security would represent a 7% position in the Fund.

We continue to price the local shares with a FVP of zero and will continue to monitor the situation closely.

## Fund analysis

## Top 10 holdings (%)

	Weighting	1 month total return (%)*	
		Local terms	USD
Embraer ADR	7.7	+17.9	+17.9
Samsung Electronics	7.4	+10.3	+12.4
Alibaba	7.3	+24.8	+24.2
Thai Beverage	7.3	+2.2	+4.1
Ternium ADR	6.5	+32.0	+32.0
Indofood	5.3	0.0	+3.2
SK Telecom	5.0	-1.8	0.0
Petrobras ADR	4.9	+11.4	+11.4
Infosys ADR	4.8	+4.4	+4.4
SK Square	4.8	+8.0	+10.1

Total number of holdings

21

Active share (%)\*\*

92.1

## Fund characteristics

	Fund	Benchmark
Net debt to equity ratio (%)	19.0	8.0***
Price-to-book ratio	1.7	1.7
Price-to-earnings ratio	11.3	12.8
Return on equity (%)	14.3	12.9

\*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 31 January 2023.

Source: Oldfield Partners.

## Sector breakdown (%)

Information Technology	24.2	
Consumer Staples	16.9	
Materials	15.9	
Consumer Discretionary	11.7	
Communication Services	11.4	
Industrials	7.7	
Energy	4.9	
Financials	4.2	
Cash	3.1	

## Country breakdown (%)

South Korea	24.2	
China/Hong Kong	18.5	
Brazil	12.6	
Indonesia	9.6	
Thailand	7.3	
Mexico	6.5	
India	4.8	
Peru	4.7	
Taiwan	4.4	
Turkey	2.2	
South Africa	2.1	
Cash	3.1	

## Share class details

Share class	AMC*	TER**	SEDOL	Bloomberg	ISIN	Price
A USD	1.25%	1.42%	B3DDVH0	OVEMKEA ID	IE00B3DDVH01	US\$207.52
I USD	0.90%	1.07%	B4N0BT0	OVEMKEI ID	IE00B4N0BT09	US\$130.62

\*AMC - Annual management charge

\*\*TER - Total expense ratio

## Performance summary of all share classes

USD shares	1 month	YTD	1 year	Annualised	
				3 years	5 years
A USD	+10.7	+10.7	-12.1	-1.0	-2.8
I USD	+10.7	+10.7	-11.7	-0.7	-2.4
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MSCI EM Value	+7.2	+7.2	-9.1	+2.0	-1.9

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