

# Overstone Emerging Markets Equity Fund

Patient, unconstrained, contrarian value investing

# OP

Oldfield Partners

31 May 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\$42.0m
Domicile	Ireland
Structure	QJAIIF
Base currency	USD
Dealing	Daily
Min. investment	€100,000
Benchmark	MSCI Emerging Markets

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

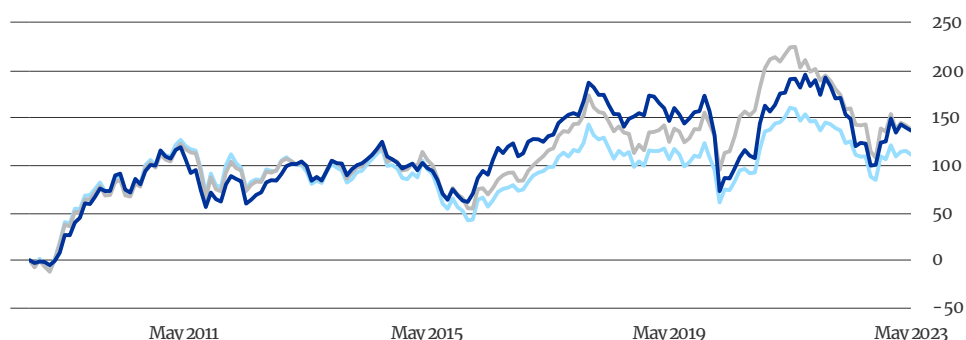
### About Oldfield Partners

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)	-1.3	+5.1	-4.9	+8.3	-2.1
■ MSCI Emerging Markets	-1.7	+1.1	-8.5	+3.5	-0.7
■ MSCI EM Value	-1.9	+2.4	-6.2	+6.7	-0.6

Preceding five calendar years performance	2022	2021	2020	2019	2018
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

An unremarkable month for emerging market equities. The benchmark index moved sideways for another month and is about where it started the year. The US debt ceiling debate kept many investors on the sidelines. The economic news from China remains downbeat with little indication of government stimulus. Korea and Taiwan have been strong performers this year with technology stocks receiving the most investor interest in the month. The Turkish election result was close but ultimately disappointing for investors. The upside potential for the portfolio is 80% as measured by the weighted average of the company price targets in the portfolio.

The bottom performers by contribution in the month were Thai Beverage, Lee & Man Paper, and Ternium. **Thai Beverage** (leading Thai alcoholic beverage producer) has a strong franchise in Thailand with around 90% market share in spirits and a duopoly position in beer. The local political situation following elections has distracted investor attention, but the company has prospered through much tougher events in the past. It trades at 12 times earnings, which is approximately half the valuation of Asian peers. **Lee & Man Paper** (Chinese packaging materials) should benefit as Chinese consumer demand recovers and inventory levels of packaging materials start to reduce. To date the post-Covid Chinese re-opening has been a flop. Industry valuations remain at trough levels and the company is well placed strategically. If, and when, the Chinese economy picks up, the demand for containerboard should increase. **Ternium** (Latin American steel producer) is benefiting from the continued high US steel price and the 'near shoring' of industries to Mexico from China. Ternium is a low-cost producer of steel, a beneficiary of Mexican economic growth, and of increased domestic market share in steel through import substitution. It trades on a price to earnings ratio of 6 and it has net cash on its balance sheet.

The top performers by contribution in the month were **Samsung Electronics**, **SK Hynix**, and **SK Square**. The Korean semiconductor stocks had a good month and year to date. All things 'AI' (Artificial intelligence) have rallied strongly, and semiconductors are an important part of the chain - including memory chips. However, not all memory chips are created equal with HBM (high bandwidth memory) being the most suited to AI and GPU (graphics processing unit) for HPC (high-performance computing) use. SK Hynix is the dominant manufacturer of high-performance chips with around 60% global market share. SK Square is a holding company in Korea that has SK Hynix as its largest holding (c.80% of net asset value) but trades on a

## Commentary - continued

remarkable discount to net asset value of around 70%. Currently AI is a small part of memory chip demand, but it is an interesting and growing area to watch. The wider memory semiconductor cycle continues to form a bottom as the inventory overhang is eroded following industry supply discipline through capex cuts earlier in the year. The semiconductor stocks have rallied ahead of a cyclical turn (likely in 3Q) and the valuation case remains attractive.

The top performers by contribution in the second quarter were Petrobras, Samsung Electronics, and Indofood; and the bottom performers by contribution in the quarter were Alibaba, Thai Beverage, and Buenaventura.

## 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. 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).

Given the current international sanctions on Russian securities and cash balances, we believe that if lifted and the Fund was able to access the local market, the holding in Lukoil PJSC (with a current FVP of zero) would represent 11% of the Fund and cash dividend of 1.3%. We continue to monitor the situation closely.

## Investment team

Abri Fourie, an analyst on the investment team with a focus on emerging markets, will be leaving OP in July 2023 to pursue other, non-investment management related interests. We are extremely grateful for Abri's contribution to the firm over the years and wish him all the very best for the future.

In the December 2022 newsletter we announced the appointment of emerging markets analyst, Charles Sunnucks, who has been working closely with Tom Taylor and Abri, and we are also pleased to announce that Anindita Nag will be joining the wider investment team with a specialism in emerging markets in June 2023.

## Fund analysis

## Top 10 holdings (%)

	Weighting	1 month total return (%)*	
		Local terms	USD
Samsung Electronics	8.7	+9.1	+10.0
Embraer ADR	8.1	-3.4	-3.4
Ternium ADR	6.5	-10.1	-10.1
SK Square	6.1	+8.5	+9.4
Thai Beverage	6.1	-11.6	-13.1
Indofood	6.1	+10.1	+7.6
Petrobras ADR	5.9	+7.7	+7.7
Alibaba	5.7	-4.6	-4.3
SK Telecom	5.3	+4.1	+4.9
ASE Technology	5.2	+10.1	+10.0

Total number of holdings **21**

Active share (%)\*\* **92.4**

## Fund characteristics

	Fund	Benchmark
Net debt to equity ratio (%)	17.0	9.0***
Price-to-book ratio	1.5	1.6
Price-to-earnings ratio	9.3	12.9
Return on equity (%)	13.6	12.1

\*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 May 2023.

Source: Oldfield Partners.

## Sector breakdown (%)

Information Technology	28.4	
Consumer Staples	15.6	
Materials	14.6	
Communication Services	12.0	
Consumer Discretionary	9.2	
Industrials	8.1	
Energy	5.9	
Financials	4.0	
Cash	2.1	

## Country breakdown (%)

South Korea	26.9	
China/Hong Kong	15.6	
Brazil	14.0	
Indonesia	10.8	
Mexico	6.5	
Thailand	6.1	
Taiwan	5.2	
India	5.1	
Peru	4.3	
Turkey	2.0	
South Africa	1.6	
Cash	2.1	

## Share class details

Share class	AMC*	TER**	SEDOL	Bloomberg	ISIN	Price
A USD	1.25%	1.55%	B3DDVH0	OVEMKEA ID	IE00B3DDVH01	US\$196.97
I USD	0.90%	1.20%	B4N0BT0	OVEMKEI ID	IE00B4N0BT09	US\$124.12

\*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	-1.3	+5.1	-4.9	+8.3	-2.1
I USD	-1.3	+5.2	-4.6	+8.7	-1.8
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### Oldfield Partners

11 Grosvenor Place  
London, SW1X 7HH  
United Kingdom

Telephone: +44 (0) 20 7259 1000

Email: [info@oldfieldpartners.com](mailto:info@oldfieldpartners.com)

[www.oldfieldpartners.com](http://www.oldfieldpartners.com)

### Dealing and administrator details

Northern Trust International Fund  
Administration Services (Ireland) Ltd.

Telephone: +353 (0) 1 434 5054

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