

# Overstone Emerging Markets Equity Fund

Patient, unconstrained, contrarian value investing

# OP

Oldfield Partners

31 July 2022

## 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\$56.1m             |
| Domicile        | Ireland               |
| Structure       | QJAIF                 |
| Base currency   | USD                   |
| Dealing         | Daily                 |
| Min. investment | €100,000              |
| Benchmark       | MSCI Emerging Markets |

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

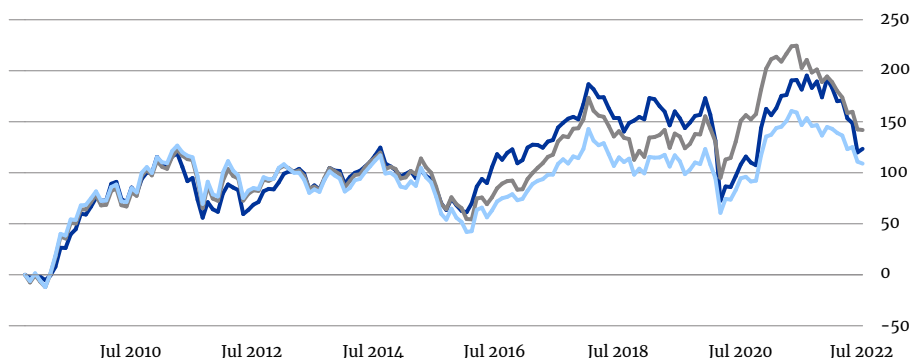
### About Oldfield Partners

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 | Annualised |         |
|-------------------------|---------|-------|--------|------------|---------|
|                         |         |       |        | 3 years    | 5 years |
| ■ A USD                 | +1.6    | -23.5 | -20.6  | -4.1       | -1.8    |
| ■ MSCI Emerging Markets | -0.2    | -17.8 | -20.1  | +0.9       | +1.0    |
| ■ MSCI EM Value         | -0.9    | -14.7 | -15.3  | -0.4       | 0.0     |

| Preceding five calendar years performance | 2021  | 2020  | 2019  | 2018  | 2017  |
|---|-------|-------|-------|-------|-------|
| A USD                                     | +11.3 | -3.8  | +8.2  | -5.5  | +25.8 |
| MSCI Emerging Markets                     | -2.5  | +18.3 | +18.4 | -14.6 | +37.3 |
| MSCI EM Value                             | +4.0  | +5.5  | +11.9 | -10.7 | +28.1 |

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

The backdrop for emerging markets equities is not a happy one: tightening US monetary policy, Chinese economic disruption, global inflationary pressures, and multiple geo-political issues. Recessionary pressures are building in key regions of the global economy. But this is not 'new' news, so much of the 'known' bad news is being reflected in equity valuations. The upside potential for the portfolio is over 90% as measured by the weighted average of the company price targets. We have not seen this level of upside potential on offer since the 'Great Financial Crisis' of 2008/9.

The bottom performers by contribution for the month were Alibaba, Buenaventura, and Lee & Man Paper. **Alibaba** (Chinese e-commerce) continues to be dominated by short term news flow rather than the longer-term fundamental strength of the core business. Headlines during the month included concerns about more Chinese lockdowns; Jack Ma announcing that he will be giving up control of Ant Group (Alibaba's fintech arm); and Alibaba joining the list of Chinese companies that maybe delisted from the US stock exchange. We believe the lockdowns will impact short term performance but will ultimately pass; Ant is a small part of our valuation; and we hold the Hong Kong listing of Alibaba. **Buenaventura** (Peruvian miner) is reflecting the volatile political background in Peru and worries about its impact on the mining industry. Buenaventura has sold its stake in the aging Yanacocha gold mine (for \$300 million upfront) to its joint venture partner which will strengthen its balance sheet and assist in its own mine development programme. Buenaventura owns a 20% stake in a copper mine, Cerro Verde, that exceeds its entire market capitalisation. **Lee & Man Paper** (Chinese packaging materials) has been impacted by the 'lock-downs' across China and weak consumer sentiment. About 70% of the end demand for containerboard is to the Chinese consumer, which is currently depressed, but we believe is a long-term growth opportunity. Cost pressure is evident in energy and domestic recycled paper, which will significantly squeeze the smaller companies in the industry.

The top performers by contribution for the month were Petrobras, Samsung Electronics, and SK Hynix. **Petrobras** (Brazilian oil producer) is benefiting from the higher oil price, whilst negotiating its political fallout heading into the Brazilian elections in October. The summer has seen the government, its majority shareholder, react to higher domestic fuel prices by seeking to replace senior management at Petrobras (ironically that they recently appointed). This looks like a political 'need to be seen to be doing something', as the new management once in place continued to follow the international fuel price parity principle (as it must by law). The balance sheet has been repaired and with asset sales continuing and solid free cash flow

## Commentary - continued

generation from higher oil prices Petrobras is honouring its new dividend policy with record pay-outs. Korean memory semiconductor stocks (**Samsung Electronics** and **SK Hynix**) have been weak as the consumer electronics sales outlook globally has fallen considerably. The industry has moved from supply-led cycles to demand-led cycles allowing the key players more influence in inventory management. The current semiconductor cycle looks to be a shallow one and remaining at high levels of profitability (a far cry from the historic cycles for this sector), whilst valuations are already nearing historic lows.

## Russian holdings

Please note that as of 3rd March 2022 the holding of Lukoil ADR will have a fair value price (FVP) of zero. This has been determined by our Valuation Committee. Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading by the exchange on the morning 3rd March 2022. We will continue to monitor the situation daily and update accordingly.

## Fund analysis

## Top 10 holdings (%)

|                     | Weighting | 1 month total return (%)* |       |
|---------------------|-----------|---------------------------|-------|
|                     |           | Local terms               | USD   |
| Samsung Electronics | 7.5       | +8.2                      | +6.7  |
| Thai Beverage       | 7.1       | 0.0                       | +0.5  |
| Telkom Indonesia    | 6.8       | +5.0                      | +5.0  |
| Ternium             | 6.5       | -1.8                      | -1.8  |
| SK Hynix            | 6.4       | +7.8                      | +6.3  |
| Indofood            | 6.2       | -3.5                      | -3.1  |
| Petrobras           | 6.1       | +22.7                     | +22.7 |
| Embraer             | 6.1       | +3.9                      | +3.9  |
| Alibaba             | 5.5       | -16.8                     | -16.8 |
| SK Telecom          | 4.6       | +4.3                      | +2.9  |

Total number of holdings **21**

Active share (%)\*\* **91.0**

## Fund characteristics

|                              | Fund | Benchmark |
|------------------------------|------|-----------|
| Net debt to equity ratio (%) | 20.0 | 10.0***   |
| Price-to-book ratio          | 1.5  | 1.6       |
| Price-to-earnings ratio      | 9.8  | 12.5      |
| Return on equity (%)         | 14.6 | 13.1      |

\*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 July 2022.

Source: Oldfield Partners.

## Sector breakdown (%)

|                        |      |  |
|------------------------|------|--|
| Information Technology | 24.9 |  |
| Consumer Staples       | 16.3 |  |
| Materials              | 14.5 |  |
| Communication Services | 13.3 |  |
| Consumer Discretionary | 9.2  |  |
| Energy                 | 6.1  |  |
| Industrials            | 6.1  |  |
| Financials             | 4.9  |  |
| Cash                   | 4.9  |  |

## Country breakdown (%)

|                 |      |  |
|-----------------|------|--|
| South Korea     | 25.1 |  |
| China/Hong Kong | 16.4 |  |
| Indonesia       | 13.0 |  |
| Brazil          | 12.2 |  |
| Thailand        | 7.1  |  |
| Mexico          | 6.5  |  |
| Taiwan          | 4.2  |  |
| Peru            | 3.5  |  |
| India           | 3.2  |  |
| South Africa    | 2.2  |  |
| Turkey          | 1.8  |  |
| Cash            | 4.9  |  |

## Share class details

| Share class | AMC*  | TER** | SEDOL   | Bloomberg  | ISIN         | Price      |
|-------------|-------|-------|---------|------------|--------------|------------|
| A USD       | 1.25% | 1.40% | B3DDVH0 | OVEMKEA ID | IE00B3DDVH01 | US\$195.07 |
| I USD       | 0.90% | 1.05% | B4NoBT0 | OVEMKEI ID | IE00B4NoBT09 | US\$123.04 |

\*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                 | +1.6    | -23.5 | -20.6  | -4.1       | -1.8    |
| I USD                 | +1.6    | -23.4 | -20.4  | -3.8       | -1.4    |
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