

# Overstone Emerging Markets Equity Fund

Patient, unconstrained, contrarian value investing

# OP

Oldfield Partners

31 July 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\$44.3m             |
| Domicile        | Ireland               |
| Structure       | QJAIIF                |
| Base currency   | USD                   |
| Dealing         | Daily                 |
| Min. investment | €100,000              |
| Benchmark       | MSCI Emerging Markets |

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

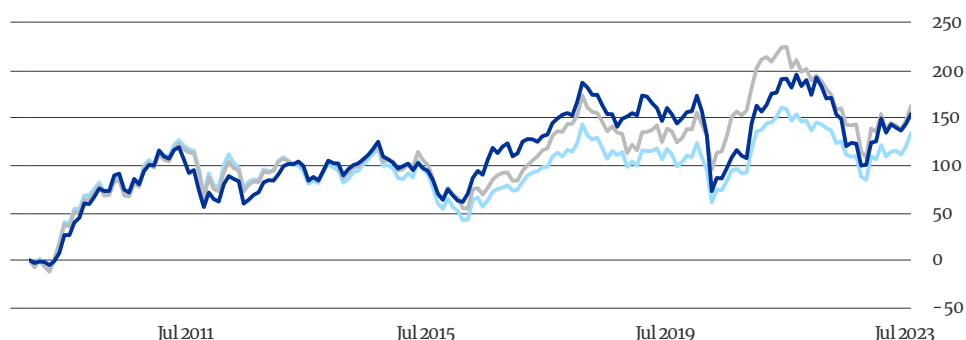
### About Oldfield Partners

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)                                | +4.3        | +12.8       | +13.6       | +6.8        | 0.0         |
| ■ MSCI Emerging Markets                          | +6.2        | +11.4       | +8.4        | +1.5        | +1.7        |
| ■ MSCI EM Value                                  | +6.5        | +13.5       | +12.0       | +6.3        | +1.7        |
| <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

Emerging market equities have the interesting global backdrop of a US economy needing to be cooled to contain inflation expectations and a Chinese economy needing to be kick-started to boost consumer expectations, address property issues and rising youth unemployment. The US economy has hopes of a soft landing and the Chinese economy has hopes for an effective stimulus policy. This leaves emerging markets sitting pretty for now, and on valuations below longer-term historic averages. While much of North America and Europe continue to grapple with inflation, this has already largely been tamed across much of EM. Indeed, quite remarkably, government bonds in markets such as China, Vietnam and Malaysia now have lower yields than equivalent bonds in the US or UK. This broadly affords emerging economies far greater policy flexibility. The upside potential for the portfolio is 75% as measured by the weighted average of the company price targets in the portfolio.

The bottom performers by contribution in the month were Telkom Indonesia and LG H&H. **Telkom Indonesia** (leading Indonesian telecom operator) will benefit from fixed-mobile convergence (called Telkom One) by merging its market leading networks in both areas, unlocking value in its infrastructure assets, and growing in data centres. Mobile competition remains rational with Telkom ceding some market share as it focuses on the fixed-mobile opportunity. It trades on 13 times earnings and a dividend yield of 5% - an attractive level compared to both peers and its history. **LG H&H** (Korean cosmetics manufacturer) has yet to see a sustained bounce back in demand from Chinese consumers after Covid. High-end cosmetics demand and travel to Korea being the biggest concerns. Local Chinese cosmetics brands have done best at capturing consumer attention since Covid. Management have initiated a brand refresh for their core premium cosmetic product 'History of Whoo' and announced a channel restructuring to reduce reliance on duty-free sales. The current valuation of 15 times forward earnings is significantly below its own 20-30 times historic trading range, and around half the current 30 times average for its global peers.

The top performers by contribution in the month were Alibaba, Ternium, and Petrobras. **Alibaba** (Chinese e-commerce) along with other Chinese internet stocks, reacted positively to the increased possibility of stimulus in the Chinese economy and the improved relationships with the Chinese government. Ant Group, the payments business which Alibaba has a 33% investment in, announced it had completed its regulatory overhaul and launched a buyback valuing the business at \$78.5bn. **Ternium** (Latin American steel producer)

**Commentary – continued**

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 7, a dividend yield of 6%, and it has a strong balance sheet. **Petrobras** (Brazilian oil producer) was a strong performer last year as it was able to pay significant dividends to its shareholders. This looks set to continue for 2023 despite a new dividend policy introduced by the new management team in late-July. The election of a socialist government in Brazil has unnerved investors, but we believe from experience that the Lula administration will be pragmatic in its dealing with Petrobras and any strategy changes will be implemented slowly. It trades on a price to earnings ratio of 4 and a forecast dividend yield of over 15%.

The fund initiated a position in Autohome and Orbia Advance during the month. This was part funded from the exit of **JSE** (South African stock exchange) and **Turkcell** (Turkish mobile telecom operator) that are facing a heightened level of political and country risk in their respective markets. **Autohome** (the leading online auto platform in China) generated strong growth over time, benefitting from the shift online in automotive media spend, and the network effect that comes with the market dominance of a platform business model. As the market matures, the company is no longer a high-growth business, it does however remain highly profitable and very cash flow generative. The valuation is compelling with net cash equivalent to almost 90% of the market cap and at 12 times 2023 earnings, despite earnings being in a cyclically low period – that is half the multiple that it traded at throughout much of the late 2010’s. **Orbia** (Mexican PVC producer) is a manufacturer of pipes and cables, and is active across the PVC supply-chain, including the mining rights to the world’s largest fluorine mine located in Mexico. The long-term case for structural growth in demand remains, with supply very tight and new investment in the space more limited than in past cycles. Near-term, there may be some pressure from a normalisation in the PVC price following the Covid period. Orbia continues to move up the value chain towards specialty products. It trades on a price to earnings ratio of 10 with a dividend yield of 5.5% providing valuation support.

**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 10% of the Fund and cash dividend of 1.7%. We continue to monitor the situation closely.

## Fund analysis

| Top 10 holdings (%) | Weighting | 1 month total return (%)* |       |
|---------------------|-----------|---------------------------|-------|
|                     |           | Local terms               | USD   |
| Samsung Electronics | 8.2       | -3.0                      | +0.2  |
| Embraer ADR         | 7.9       | +1.1                      | +1.1  |
| Petrobras ADR       | 6.9       | +6.3                      | +6.3  |
| Alibaba             | 6.6       | +20.1                     | +20.6 |
| Ternium ADR         | 6.5       | +12.6                     | +12.6 |
| Thai Beverage       | 6.2       | +4.3                      | +6.2  |
| Indofood            | 5.7       | +2.5                      | +2.2  |
| SK Square           | 5.7       | +0.3                      | +3.6  |
| Infosys ADR         | 4.9       | +3.4                      | +3.4  |
| ASE Technology      | 4.8       | +1.8                      | +0.9  |

Total number of holdings **21**

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

### Fund characteristics

|                              | Fund | Benchmark |
|------------------------------|------|-----------|
| Net debt to equity ratio (%) | 15.3 | 11.1***   |
| Price-to-book ratio          | 1.4  | 1.7       |
| Price-to-earnings ratio      | 9.8  | 14.1      |
| Return on equity (%)         | 12.9 | 11.9      |

\*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 July 2023.

Source: Oldfield Partners.

### Sector breakdown (%)

|                        |      |  |
|------------------------|------|--|
| Information Technology | 21.4 |  |
| Materials              | 17.2 |  |
| Consumer Staples       | 16.9 |  |
| Industrials            | 13.5 |  |
| Communication Services | 11.4 |  |
| Consumer Discretionary | 10.1 |  |
| Energy                 | 6.9  |  |
| Financials             | 0.6  |  |
| Cash                   | 1.9  |  |

### Country breakdown (%)

|                 |      |  |
|-----------------|------|--|
| South Korea     | 24.8 |  |
| China/Hong Kong | 18.7 |  |
| Brazil          | 14.8 |  |
| Indonesia       | 9.7  |  |
| Mexico          | 9.0  |  |
| Thailand        | 6.2  |  |
| India           | 4.9  |  |
| Taiwan          | 4.8  |  |
| Peru            | 4.5  |  |
| South Africa    | 0.6  |  |
| Cash            | 1.9  |  |

## Share class details

| Share class | AMC*  | TER** | SEDOL   | Bloomberg  | ISIN         | Price      |
|-------------|-------|-------|---------|------------|--------------|------------|
| A USD       | 1.25% | 1.60% | B3DDVH0 | OVEMKEA ID | IE00B3DDVH01 | US\$211.52 |
| I USD       | 0.90% | 1.25% | B4N0BT0 | OVEMKEI ID | IE00B4N0BT09 | US\$133.37 |

\*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                 | +4.3    | +12.8 | +13.6  | +6.8       | 0.0     |
| I USD                 | +4.3    | +13.1 | +14.0  | +7.2       | +0.4    |
| MSCI Emerging Markets | +6.2    | +11.4 | +8.4   | +1.5       | +1.7    |
| MSCI EM Value         | +6.5    | +13.5 | +12.0  | +6.3       | +1.7    |

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