

# Overstone Emerging Markets Equity Fund

Patient, unconstrained, contrarian value investing

# OP

Oldfield Partners

31 August 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.

### Fund particulars

|                 |                       |
|-----------------|-----------------------|
| Launch date     | 03 November 2008      |
| Fund size       | US\$51.6m             |
| Domicile        | Ireland               |
| Structure       | QJAIIF                |
| Base currency   | USD                   |
| Dealing         | Daily                 |
| Min. investment | €100,000              |
| Benchmark       | MSCI Emerging Markets |

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

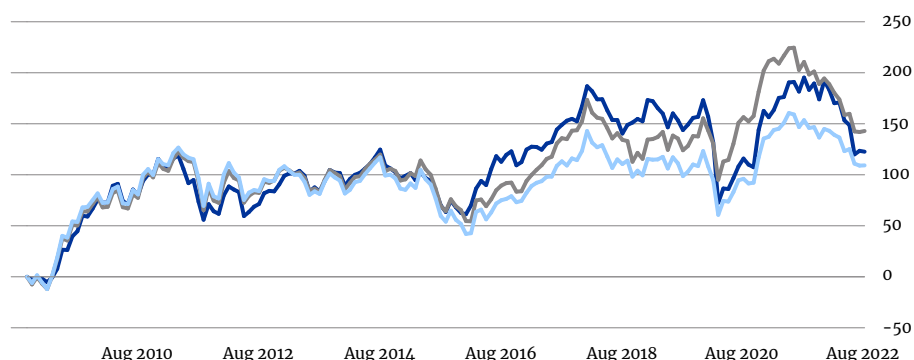
### About Oldfield Partners

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 (%)



|  | 1 month     | YTD         | 1 year      | Annualised  |             |
|--|-------------|-------------|-------------|-------------|-------------|
|  |             |             |             | 3 years     | 5 years     |
| ■ A USD  | -0.4        | -23.8       | -24.6       | -3.0        | -2.2        |
| ■ MSCI Emerging Markets                          | +0.4        | -17.5       | -21.8       | +2.7        | +0.6        |
| ■ MSCI EM Value                                  | +0.1        | -14.6       | -17.5       | +1.7        | -0.4        |
| <b>Preceding five calendar years performance</b> |             |             |             |             |             |
|  | <b>2021</b> | <b>2020</b> | <b>2019</b> | <b>2018</b> | <b>2017</b> |
| 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

Central bankers reinforced signalling towards higher for longer interest rates until inflation data significantly slows towards target ranges. The MSCI Emerging Markets index was little changed on the month. Overall valuations look attractive but the challenging backdrop for emerging markets equities remains – most notably in China despite some efforts towards economic stimulus. Our focus remains on the business prospects of portfolio holdings, balance sheet strength and holdings' equity market valuations. The upside potential for the portfolio is over 90% as measured by the weighted average of the company price targets.

The bottom performers by contribution in the month were Ternium, Samsung Electronics and SK Hynix. **Ternium** (Mexican steel producer) benefits from superior profit margins in the steel sector and Mexico being a steel net importer. Mexican flat steel prices follow that of the US which have fallen near 25% since June. Management, during the early August results call, guided for near-term margins nearer the normalised range after exceptional strength more recently. The new low-cost Pesqueria mill's ramp-up is progressing well. With this support we expect margins to improve from near-term levels under normalised prices and costs. The stock trades at a valuation comfortably below its historical average and it has net cash on its balance sheet. **Samsung Electronics** (Korean consumer electronics manufacturer) and **SK Hynix** (Korean semiconductor manufacturer) share prices reacted to existing weak memory chip demand in the smartphone and PC sectors spreading to data centre providers. The DRAM sector, dominating earnings for both businesses, is consolidated amongst three major producers. We continue to see supply discipline through capex cuts and producer inventory built buffering margins during downcycles. However, demand cyclicality will remain inherent to the sector. Current elevated customer inventory levels, post the Covid-19 build-up and the present weak macro-economic outlook, are temporary factors suppressing demand. Memory producers share prices historically bottomed months in advance of chip prices. Although we cannot predict the timing of the cycle, both stocks are trading near valuation levels historically followed by strong returns.

The top performers by contribution in the month were Embraer and Petrobras. **Embraer** (Brazilian aircraft manufacturer) reported solid margin improvement during its quarterly results. Encouragingly management is keeping financial year guidance unchanged, despite cost and supply chain challenges. Growth in order backlog continued, representing three years in revenue. We recently wrote about the remarkable attractiveness of Embraer on a sum-of-the-parts basis. Its majority stake in EVE, a US listed short-range electric flight vehicle, trades near the market capitalisation of Embraer – this offers the traditional regional

## Commentary - continued

jet, business jet, and defence businesses for free. With the Brazilian general election weeks away **Petrobras** (Brazilian oil producer) continues to be a regular reference amongst opposing candidates. The company, however, continues to follow the international fuel price parity principle as protected under company bylaws. August has seen the latest quarterly dividend announcement. The dividend policy being tied to free cash flow, supported by higher oil prices and disciplined capex, resulted in substantial pay-outs.

## 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   |
| Telkom Indonesia    | 7.3       | +5.4                      | +5.4  |
| Embraer             | 7.2       | +16.8                     | +16.8 |
| Samsung Electronics | 7.2       | -2.8                      | -5.4  |
| Thai Beverage       | 7.2       | 0.0                       | -1.0  |
| SK Hynix            | 6.2       | -2.8                      | -5.4  |
| Petrobras           | 6.1       | +13.8                     | +13.8 |
| Indofood            | 5.8       | -5.4                      | -5.3  |
| Ternium             | 5.7       | -13.0                     | -13.0 |
| Alibaba             | 5.7       | +1.3                      | +1.3  |
| SK Telecom          | 4.5       | -2.8                      | -5.4  |

Total number of holdings **21**

Active share (%)\*\* **91.7**

## Fund characteristics

|                              | Fund | Benchmark |
|------------------------------|------|-----------|
| Net debt to equity ratio (%) | 21.0 | 11.0***   |
| Price-to-book ratio          | 1.5  | 1.6       |
| Price-to-earnings ratio      | 10.0 | 12.4      |
| Return on equity (%)         | 13.9 | 13.2      |

\*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 August 2022.

Source: Oldfield Partners.

## Sector breakdown (%)

|                        |      |  |
|------------------------|------|--|
| Information Technology | 24.0 |  |
| Consumer Staples       | 15.7 |  |
| Communication Services | 14.1 |  |
| Materials              | 13.6 |  |
| Consumer Discretionary | 9.9  |  |
| Industrials            | 7.2  |  |
| Energy                 | 6.1  |  |
| Financials             | 4.8  |  |
| Cash                   | 4.6  |  |

## Country breakdown (%)

|                 |      |  |
|-----------------|------|--|
| South Korea     | 23.9 |  |
| China/Hong Kong | 16.9 |  |
| Brazil          | 13.3 |  |
| Indonesia       | 13.1 |  |
| Thailand        | 7.2  |  |
| Mexico          | 5.7  |  |
| Taiwan          | 4.1  |  |
| Peru            | 3.5  |  |
| India           | 3.1  |  |
| Turkey          | 2.3  |  |
| South Africa    | 2.2  |  |
| Cash            | 4.6  |  |

## Share class details

| Share class | AMC*  | TER** | SEDOL   | Bloomberg  | ISIN         | Price      |
|-------------|-------|-------|---------|------------|--------------|------------|
| A USD       | 1.25% | 1.40% | B3DDVH0 | OVEMKEA ID | IE00B3DDVH01 | US\$194.09 |
| I USD       | 0.90% | 1.05% | B4NoBT0 | OVEMKEI ID | IE00B4NoBT09 | US\$122.46 |

\*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                 | -0.4    | -23.8 | -24.6  | -3.0       | -2.2    |
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### Dealing and administrator details

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