

# Overstone Emerging Markets Equity Fund

Patient, unconstrained, contrarian value investing

# OP

Oldfield Partners

31 August 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\$43.3m
Domicile	Ireland
Structure	QJAIIF
Base currency	USD
Dealing	Daily
Min. investment	€100,000
Benchmark	MSCI Emerging Markets

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

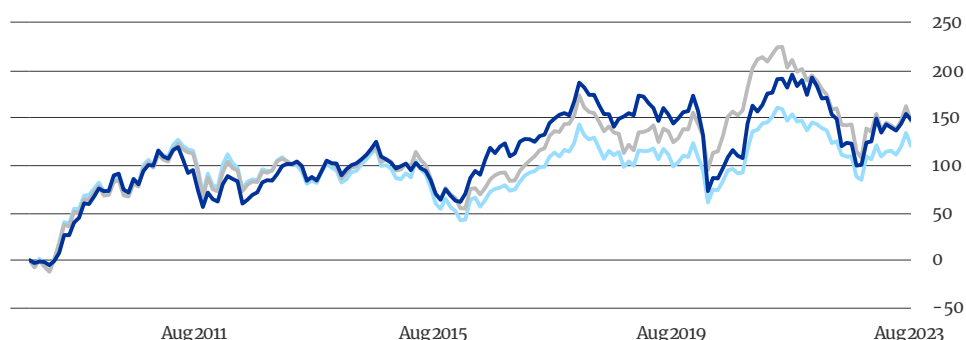
### About Oldfield Partners

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)	-2.4	+10.2	+11.4	+4.7	+0.6
■ MSCI Emerging Markets	-6.2	+4.6	+1.3	-1.4	+1.0
■ MSCI EM Value	-5.9	+6.8	+5.2	+3.9	+0.9

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

The bottom performers by contribution in the month were Samsung Electronics, Alibaba, and Lee & Man Paper. **Samsung Electronics** (Korean consumer electronics) moves closer to the inflection point for the semiconductor upcycle. To some extent investors have anticipated the improvement, but the low valuation level suggests that there remains a wait-and-see approach by the broader market looking beyond the current inventory cycle. Samsung Electronics is to become a meaningful supplier of HBM chips for AI and HPC use into next year – an area in which it has lagged its main competitor SK Hynix. The firm now trades on a price to book ratio of 1.2, that is below its long-term average historic valuation.

The weak share price performance for **Alibaba** (Chinese e-commerce) and **Lee & Man Paper** (Chinese packaging) was primarily due to ongoing weakness across the Chinese economy. While expectations for any proper recovery are now clearly muted, a rate cut and signalling from the government all point towards an active effort by policy makers to stimulate activity. Alibaba is extremely lowly valued at just 10 times net profits. Adjusting this for the year-end net cash of US\$48bn (market capitalisation is US\$235bn), the valuation drops to just eight times net profits. Lee & Man Paper trades on a price to book ratio of 0.4 and at a low to its historic valuation range.

The top performers by contribution in the month were Buenaventura, First Pacific, and Infosys. **Buenaventura** (Peruvian miner) is benefiting from improved investor sentiment due to the receipt of environmental permits for two of its mines (Uchucchacua and Yumpag) to re-start operations that had been suspended since 2021. The current share price reflects the market value of its stake in the Cerro Verde copper mine only, so any good news on its own direct mines should lift the share price. **First Pacific** (Hong Kong listed holding company) had good results in the month highlighting the strength of its core holdings in Indofood, Metro Pacific, and PLDT. The tender offer for Metro Pacific is a further boost and shows that management are keen to improve shareholder returns. First Pacific trades on a 55% discount to its net asset value (NAV) despite most of its holdings being solid listed companies in Indonesia and the Philippines.

The top performers this year so far have been in Latin America – Petrobras, Embraer, and Ternium; and the bottom performers focused on China – LG H&H and Lee & Man Paper. That does leave our Chinese holdings with sizeable upside potential to their price targets in the instance that stimulus efforts feed through into the real economy. As reported last month we have added **Autohome** (the leading online auto platform in

## Commentary - continued

China) on a compelling valuation with net cash equivalent to almost 90% of the market capitalisation and at 12 times 2023 earnings.

The upside potential for the portfolio is almost 80% as measured by the weighted average of the company price targets in the portfolio.

**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 1.7%. On 22nd August 2023 a Reuters article suggested that Lukoil was planning to repurchase 25% of its shares from foreign shareholders. The repurchase price would be at least a 50% discount from the quoted price. We continue to monitor the situation closely.

## Fund analysis

**Top 10 holdings (%)**

	Weighting	1 month total return (%)*	
		Local terms	USD
Embraer ADR	8.1	0.0	0.0
Samsung Electronics	7.7	-4.1	-7.7
Petrobras ADR	7.0	+1.0	+1.0
Ternium ADR	6.3	-6.4	-6.4
Alibaba	6.2	-7.5	-8.0
Thai Beverage	5.9	-5.8	-7.4
SK Square	5.7	+1.6	-2.2
Indofood	5.6	-3.1	-4.0
Infosys ADR	5.3	+4.3	+4.3
Buenaventura ADR	5.0	+10.6	+10.6

Total number of holdings 21

Active share (%)\*\* 90.8

**Fund characteristics**

	Fund	Benchmark
Net debt to equity ratio (%)	13.7	-5.1***
Price-to-book ratio	1.2	1.6
Price-to-earnings ratio	8.4	14.2
Return on equity (%)	11.1	11.3

\*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 2023.

Source: Oldfield Partners.

**Sector breakdown (%)**

Information Technology	21.4	
Consumer Staples	17.1	
Materials	17.0	
Industrials	13.7	
Communication Services	11.3	
Consumer Discretionary	9.6	
Energy	7.0	
Cash	2.8	

**Country breakdown (%)**

South Korea	24.6	
China/Hong Kong	18.0	
Brazil	15.0	
Indonesia	9.6	
Mexico	8.8	
Thailand	5.9	
India	5.3	
Peru	5.0	
Taiwan	5.0	
Cash	2.8	

## Share class details

Share class	AMC*	TER**	SEDOL	Bloomberg	ISIN	Price
A USD	1.25%	1.60%	B3DDVH0	OVEMKEA ID	IE00B3DDVH01	US\$206.54
I USD	0.90%	1.25%	B4N0BT0	OVEMKEI ID	IE00B4N0BT09	US\$130.26

\*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
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I USD	-2.3	+10.4	+11.7	+5.1	+1.0
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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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