

OLDFIELD PARTNERS

OVERSTONE EMERGING MARKETS EQUITY FUND

OCTOBER 2014 NEWSLETTER 72

Fund Summary

31 st October 2014							
NAV of fund	US\$ 416.3m						
A shares unit price	US\$ 199.38						
I shares unit price	US\$ 125.95						
Performance							
	October	2014 to date	1 year	3 years annualised	5 years annualised	Since inception	Since inception annualised
A Shares*	-1.3%	+2.2%	+0.7%	+6.4%	+5.3%	+106.2%	+12.8%
Index**	+1.2%	+3.6%	+0.6%	+3.2%	+4.6%	+105.9%	+12.8%
I Shares*	-1.3%	+2.6%	+1.1%	+6.8%	+5.7%	+31.3%	+5.5%
Index**	+1.2%	+3.6%	+0.6%	+3.2%	+4.6%	+25.6%	+4.6%

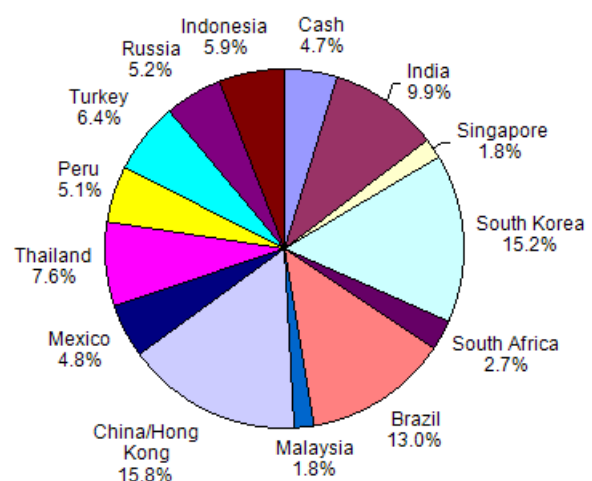
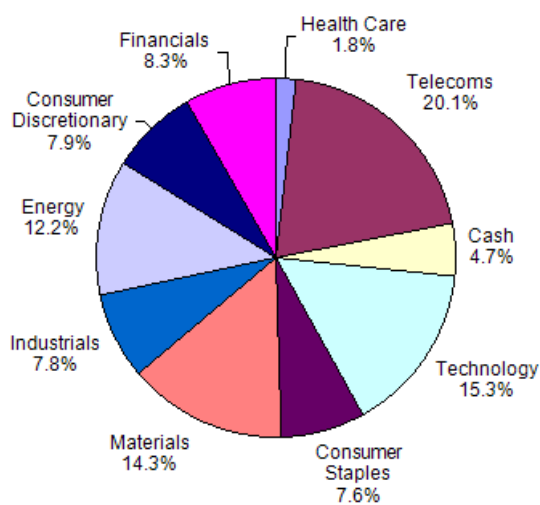
*A shares commenced on 3rd November 2008 and I shares on 1st October 2009. **MSCI Emerging Markets (Net Dividends Reinvested). Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders. Source: Oldfield Partners, MSCI ©, Bloomberg and Northern Trust Intl. Fund Administrator Services (Ireland) Ltd.

Top Five Holdings

Stock	Portfolio Weighting (%)*	Monthly Performance (local terms)**	Monthly Performance (USD terms)**
Infosys	7.9	+11.4%	+11.4%
Embraer	7.8	-1.5%	-1.5%
SK Telecom	7.8	-8.4%	-8.4%
Thai Beverage	7.6	0.0%	-0.2%
Samsung Electronics	7.4	+5.1%	+3.5%

*As at end of period. **Total Return inclusive of dividends. Source: Oldfield Partners and Bloomberg.

Sector and country breakdown as at 31st October 2014



Source: Oldfield Partners.

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Commentary

It was a difficult month for the portfolio, with our exposure to energy and materials performing poorly as commodity prices fell sharply, in particular our exposure to precious metals and oil. The portfolio trades on a historic price earnings ratio of 12.7, which is in line with the MSCI Emerging Markets Index, and comfortably below the historic average for the price earnings ratio of the index.

The worst performers during the month by contribution were Buenaventura, Petrobras, and SK Telecom. **Buenaventura** (Peruvian miner) had solid Q3 results, but the weakness in the gold price overwhelmed its stronger operational performance. The company showed a fall in cash costs for gold as key operations returned to higher quality ore grades as promised. Management maintained their year-end guidance. When we bought Buenaventura we had looked at the possibility of a sharp gold price correction, and found Buenaventura attractive, with its lower cost operations and strong balance sheet. The share price is currently below its low seen in late 2008 when the gold price was below \$800/oz. **Petrobras** (Brazilian oil & gas) has endured a rollercoaster ride with the Brazilian presidential elections and allegations of corruption from a former divisional head. The closely run presidential elections have ended with a victory for the current administration, which was taken poorly by investors. The allegations that inflated prices were used on some domestic projects to pay kickbacks to politicians are currently being investigated. Petrobras has hired two agencies, one US and one Brazilian, to investigate and one divisional head has stepped aside. After month end Petrobras was granted a fuel price increase for both diesel (+5%) and gasoline (+3%). This has brought domestic prices into parity with international prices, following the fall in global oil prices and volatility in the Brazilian currency, and is a good outcome for Petrobras. **SK Telecom** (Korean mobile telecom) saw its share price weaken as some politicians commented that the new legislation aimed to curb competition between the three mobile telecom companies was not to the benefit of the consumers, and that tariffs should be lowered to compensate. SK Telecom's Q3 results showed operational strength as ARPU looks on track to increase +5% this year on strong data usage growth driven by 4G (LTE) take up. LTE penetration is now 57%, and management see this increasing to 70% in 2015, and 80% by 2016.

The top performers during the month by contribution were Infosys, Turkcell, and Yue Yuen. **Infosys** (Indian IT services) had solid Q2 results and operationally Infosys has performed well over the last 18 months, with an 8% improvement in utilisation and a 2.5% improvement in operating margin. The new CEO, Sikka, outlined his vision for the company in a very high level overview. He sees innovation and re-skilling driving Infosys to engage in themes such as artificial intelligence and developing new products in areas like mobility and big data, whilst not losing touch with more traditional services. He believes Infosys can grow sales 15-18% per annum and maintain 25-28% margins. He plans to be able to share details with investors by April 2015. **Turkcell** (Turkish mobile telecom) had Q3 results showing growth from the core Turkish mobile telecom business, despite increased competition, and solid growth from its subsidiaries, despite its small Ukrainian operation. Smartphones in Turkey reached 37% penetration, with increasing data usage in mobile and broadband, and postpaid subscribers increased to 43% suggesting a move towards a higher quality subscriber base. **Yue Yuen** (Hong Kong footwear manufacturer) responded to positive guidance from **Nike** (US sportswear designer) for 2015, which is Yue Yuen's largest customer. During the month we visited **Shenzhou International** (Chinese textile manufacturer), which has entered the athletic footwear business this year by producing the 'flyknit' shoe for Nike. The 'flyknit' athletic shoe has been viewed as a threat to Yue Yuen's business as it is simpler to produce - as a one piece woven product - using a 3D knitting technology. Currently 'flyknit' is a very small part of Shenzhou's business (5% of sales) and it only makes the woven upper of the shoe. The threat is worth watching, especially 3D printing technology, but 'flyknit' feels like a niche product rather than a game changer.

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Fund Information as at 31 st October 2014			
Currency	USD	Investment Manager	Oldfield Partners LLP
Liquidity	Daily dealing	Administrator	Northern Trust International Fund Administration Services (Ireland) Ltd
Benchmark	MSCI Emerging Markets (Net Dividends Reinvested)	Custodian	Northern Trust Fiduciary Services (Ireland) Ltd
Management Fees	A shs = 1.25% I shs = 0.90%	Auditor	Deloitte
TER	A shs = 1.47% I shs = 1.12%	Legal Advisers	Arthur Cox
Minimum Investment	The equivalent of €100,000	Admin & Custody Fees	0.18% on the first US\$75m 0.155% on the next US\$75m 0.14% on the next US\$150m 0.11% thereafter
A shares ISIN	IE00B3DDVH01	I shares ISIN	IE00B4N0BT09
A shares sedol	B3DDVH0	I Shares sedol	B4N0BT0
A shares ticker	OVEMKEA	I shares ticker	OVEMKEI

Overstone Emerging Markets Equity Fund is a sub-fund of Overstone Fund plc, which is incorporated in Ireland and approved by the Irish Financial Services Regulatory Authority. Six other sub-funds exist under the Overstone Fund plc umbrella; Overstone Global Equity Fund was launched on 1st June 2005, Overstone European Equity Fund was launched on 3rd October 2005, Overstone Opportunity Multi Fund was launched on 1st November 2005, Overstone Global ex US Equity Fund was launched on 1st June 2006, Overstone Japanese Equity Fund was launched on 1st October 2007, Overstone Smaller Companies Fund was launched on 1st October 2007.

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