

# Overstone Emerging Markets Equity Fund

Patient, unconstrained, contrarian value investing

# OP

Oldfield Partners

31 December 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\$52.1m
Domicile	Ireland
Structure	QJAIIF
Base currency	USD
Dealing	Daily
Min. investment	€100,000
Benchmark	MSCI Emerging Markets

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

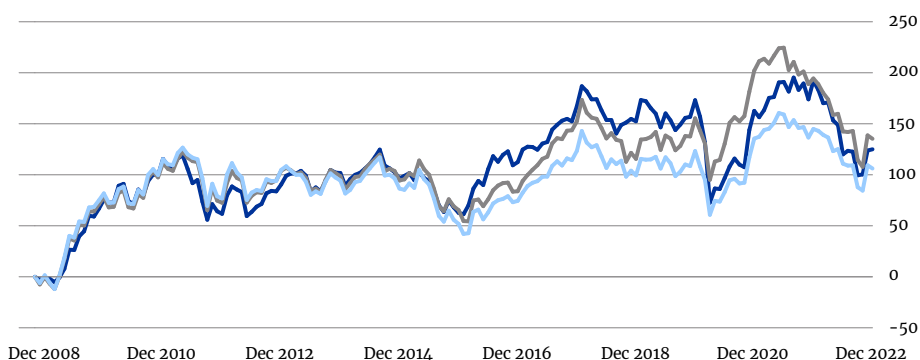
### About Oldfield Partners

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)	+0.5	-23.0	-23.0	-6.2	-3.4
■ MSCI Emerging Markets	-1.4	-20.1	-20.1	-2.7	-1.4
■ MSCI EM Value	-1.5	-15.8	-15.8	-2.6	-1.6
<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

A difficult year for emerging markets equities against a backdrop of slowing global growth, inflationary pressures leading to tighter US monetary policy, China's Covid policies, and abundant geopolitical issues. The outlook for 2023 is thankfully better, if not remarkably so, and emerging market valuations look to reflect the negatives already. The upside potential for the portfolio is around 85% as measured by the weighted average of the company price targets in the portfolio. This level of potential upside has only been on offer when times are troubled.

The bottom performers by contribution in the month were Samsung Electronics, Infosys, and Petrobras. **Samsung Electronics** (Korean consumer electronics manufacturer) is emerging from a deep semiconductor down-cycle. Customer inventories and reduced consumer spending have caused a sharp correction in semiconductor prices. This has prompted the industry players to cut capex, which should stabilise the industry this year. Global bit production in 2023 for NAND and DRAM is likely to be flat to slightly down year-on-year. An announcement by Samsung on a reduction in capex would send a strong signal to the industry. **Infosys** (Indian IT services provider) benefits from the long-term growth in IT services, as companies must have a digital strategy, but even so are not completely immune to the threat of a US recession. Infosys has been a beneficiary of US dollar strength. **Petrobras** (Brazilian oil producer) has been a strong performer in 2022 and it was able to pay significant dividends to its shareholders. The recent election of a socialist government in Brazil has unnerved investors, as Petrobras may need to increase capex and possibly see interference in the pricing mechanism for its refined fuels. We believe the Lula administration will be pragmatic in its dealing with Petrobras and any strategy changes will be implemented slowly.

The top performers by contribution in the month were Thai Beverage, Lee & Man Paper, and LG H&H. **Thai Beverage** (leading alcoholic beverage producer in Thailand) has seen demand for beer and brown spirits recover to near the pre-pandemic norm in Thailand. Thai Beverage is the dominant player in the country with around 90% market share in spirits and 40% in beer. It trades on about half the valuation of its Asian peers despite being a strong franchise with growth opportunities in the surrounding region. **Lee & Man Paper** (Chinese packaging materials) and **LG H&H** (Korean cosmetics manufacturer) are beneficiaries of the end of the strict Chinese 'Covid-Zero' policy and the promise of a rebound in Chinese consumer spending and travel in the spring of this year.

## Commentary - continued

The top performers for the fourth quarter by contribution were Embraer (Brazilian aircraft manufacturer), Turkcell (Turkish mobile telecoms), and Thai Beverage; and the bottom performers were Telkom Indonesia (Indonesian telecom provider) and Petrobras. The top performer for the year was Petrobras and the bottom was Lukoil (Russian oil).

## 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. Since this time, the Fund has been unable to buy or sell Lukoil. 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). Had we not done so, the ADRs would have expired and would be liquidated for an unknown value on 31 December 2022.

We are aware that there is liquidity in the local shares for Russian residents. However, Lukoil PJSC may not be traded by foreign investors including the Fund. In addition, sanctions prevent the transfer of sale proceeds outside Russia.

At month end the local price was RUB 4,073. If local and international sanctions were lifted and the Fund was able to access the local market and remit sale proceeds, the security would represent an 8% position in the Fund.

We continue to price the local shares with a FVP of zero and will continue to monitor the situation closely.

## Appointment of Charles Sunnucks

We are delighted to announce the appointment of Charles Sunnucks to the investment team as an Emerging Markets analyst. Charles joined OP at the start of 2023, prior to which he was involved in cross-border M&A transactions at investment bank NovitasFTCL. He previously worked at Jupiter Asset Management where he was part of a team managing the Jupiter Emerging & Frontier Income Trust.

## Fund analysis

## Top 10 holdings (%)

	Weighting	1 month total return (%)*	
		Local terms	USD
Thai Beverage	7.6	+7.9	+10.3
Embraer ADR	7.3	+2.9	+2.9
Samsung Electronics	7.2	-11.1	-6.7
Alibaba	6.4	+7.9	+8.0
Indofood	5.6	+4.2	+5.4
Ternium ADR	5.4	-3.0	-3.0
Lee & Man Paper	5.1	+14.2	+14.3
Infosys ADR	5.0	-11.8	-11.8
Buenaventura ADR	4.8	-8.7	-8.7
SK Telecom	4.8	-5.2	-0.5

Total number of holdings

22

Active share (%)\*\*

91.7

## Fund characteristics

	Fund	Benchmark
Net debt to equity ratio (%)	21.0	11.0***
Price-to-book ratio	1.6	1.6
Price-to-earnings ratio	10.3	12.2
Return on equity (%)	13.9	12.9

\*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 December 2022.

Source: Oldfield Partners.

## Sector breakdown (%)

Information Technology	23.7	
Consumer Staples	17.6	
Materials	15.3	
Communication Services	11.4	
Consumer Discretionary	10.3	
Industrials	7.3	
Energy	4.8	
Financials	4.1	
Cash	5.5	

## Country breakdown (%)

South Korea	23.5	
China/Hong Kong	17.3	
Brazil	12.0	
Indonesia	9.8	
Thailand	7.6	
Mexico	5.4	
India	5.0	
Peru	4.8	
Taiwan	4.4	
Turkey	2.4	
South Africa	2.2	
Cash	5.5	

## Share class details

Share class	AMC*	TER**	SEDOL	Bloomberg	ISIN	Price
A USD	1.25%	1.42%	B3DDVH0	OVEMKEA ID	IE00B3DDVH01	US\$196.15
I USD	0.90%	1.07%	B4N0BT0	OVEMKEI ID	IE00B4N0BT09	US\$123.91

\*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	+0.5	-23.0	-23.0	-6.2	-3.4
I USD	+0.6	-22.7	-22.7	-5.9	-3.0
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