Oldfield Partners

Overstone Emerging Markets Equity Fund

Patient, unconstrained, contrarian value investing

Quarterly Newsletter | Q1 2025

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

Manager(s)	Charles Sunnucks
Launch date	03 November 2008
Domicile	Ireland
Structure	QIAIF
Base currency	USD
Dealing	Daily
Min. investment	€100,000
Benchmark	MSCI Emerging Markets
Fund size	US$19.9m
Strategy size	US$109.4m

"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.

All data as at 31 March 2025.
Source: Oldfield Partners.

Fund performance (USD, %)

					Annualised		
	1 month	QTD	YTD	1 year	3 years	5 years	Launch
Fund (A shares)	+0.5	+5.1	+5.1	+2.7	+2.4	+11.0	+6.7
MSCI Emerging Markets	+0.6	+2.9	+2.9	+8.1	+1.4	+7.9	+6.6
MSCI EM Value	+1.6	+4.3	+4.3	+7.6	+2.8	+9.8	+5.9

Preceding five calendar years performance	2024	2023	2022	2021	2020
Fund (A shares)	+1.5	+21.1	-23.0	+11.3	-3.8
MSCI Emerging Markets	+7.5	+9.8	-20.1	-2.5	+18.3
MSCI EM Value	+4.5	+14.2	-15.8	+4.0	+5.5

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.

Portfolio breakdown

Top 10 holdings (%)

	Weight	MTD*	QTD*
Alibaba	7.2	-1.3	+54.6
Embraer	6.2	-4.3	+25.7
Buenaventura	5.8	+25.1	+39.6
Samsung Electronics	5.8	+4.8	+9.2
Petrobras	5.3	+7.1	+9.4
SK Square	5.1	+2.4	+17.5
Thai Beverage	4.8	-0.8	-1.8
Telkom Indonesia	4.7	+1.6	-13.4
Trip.com	4.7	+12.6	-9.7
Ambev Sa	4.5	+14.3	+26.7

*Total return in USD, reflects ownership period.

Country breakdown (%)

China/Hong Kong	25.0
Brazil	19.9
South Korea	18.7
Indonesia	8.6
Mexico	7.6
Peru	5.8
Thailand	4.8
Taiwan	4.4
India	3.7
Cash	1.5

Characteristics

	Fund	Benchmark
P/E ratio (fwd)	8.0	12.5
P/B ratio (hist)	1.0	1.8
Gross div. yield (fwd)	4.6	2.7
Active share (%)**	91.7	

**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.

Sector breakdown (%)

Consumer Staples	18.6
Consumer Discretionary	15.6
Industrials	15.1
Information Technology	13.9
Materials	13.5
Communication Services	12.6
Energy	5.3
Health Care	3.9
Cash	1.5

Fund manager commentary

Emerging Markets enjoyed a modest rise in the first quarter of 2025, the MSCI EM index increasing 2.9% and the portfolio 5.1%. The new US administration may have sucked the air out of the international news cycle, but it was nonetheless an eventful three months for this often-overlooked corner of the market.

One economy in particular that drew attention during the quarter was **Indonesia**. The country is the fourth most populous nation globally, and blessed with abundant natural resources, including numerous critical minerals. The local currency – the Rupiah - however fell to the weakest level against the dollar since the Asian 1998 crisis. The central bank blamed 'external factors' but ultimately it is likely that investor fears were more focused on the new Prabowa government fiscal largesse and a relatively sluggish economy.

The portfolio currently has two holdings in Indonesia – a still structurally exciting, albeit cyclical, market. Operating in the telecom and noodles markets, we are confident that both holdings are operationally 'dull' enough to comfortably ride through any challenges. At the same time, the valuation level of these holdings is now in a position where any evidence of policy improvement would generate a substantive subsequent uplift. We believe at this point that this equation skews heavily to the upside, as the economy remains robust and Indonesian policy-making has on the whole been pragmatic, course-correcting when met with capital markets protest.

The other market not short on drama was **Korea**. As noted in our last quarterly, in December Korea experienced what can perhaps only be described as a short 6-hour insurrection by the president when he declared martial law. While the Korean peninsula has never been short of political theatrics, this has tended to focus on their Northern neighbour. Since then, an arrest warrant was issued, and the president retreated to his residence until 3,200 officers turned up to detain him. As at the time of writing, he has just been formally removed from office after court judges unanimously agreed on his impeachment. An election will now be held within the next 60 days – likely on June 3rd. Presidents can serve a single five-year term in South Korea, and recent opinion polls show the leader of the opposition Democratic Party is well ahead.

The portfolio currently has four Korean holdings, although three of these are global businesses that largely serve international markets. The Democratic Party is economically to 'the left' of the current party in power - the PPP (Peoples Power Party). On the downside, the Democratic Party has some populous policies such as a windfall tax on refiners and banks which would not go down well with the market – although the portfolio is not directly exposed to either industry. What is encouraging, is that if the Democratic Party do get voted in, the Chaebol Act will likely then be passed, at last giving some regulatory bite to the otherwise mealy-mouthed efforts of politicians to improve corporate governance. In addition, there has been severe policy blockage ever since the April 2024 legislative election, and a new administration will have a proper mandate to unclog that. We remain firmly confident in the valuation case of the portfolio's Korean holdings given these changes.

Finally, the elephant in the room – **tariffs** (already announced at the time of writing, albeit after quarter-end). We are bottom-up through-cycle investors, but ultimately also very conscious when there is a shift that potentially goes well beyond the transitory. This could be one of those moments, or not - the truth is that we are truly in uncertain territory. What was perhaps surprising, and maybe suggestive that this is more an open gambit in a longer negotiation, is just how clunky the calculation for tariffs is. Beyond the baseline 10% across all trading partners, the additional tariff is calculated simply by taking the trade surplus divided by total exports, and dividing that figure by two. So, in the case of China for instance, the trade surplus is $295bn and exports $438bn – this equals 68% which then when divided by two equals a tariff of 34%. This formula becomes even more extreme when calculated on low-cost exporters such as Vietnam and Cambodia which are shouldering a 49% and 46% tariff burden respectively, (the portfolio does not have holdings in either of these countries).

In terms of the effect of tariffs on holdings, the nature and order of impact varies greatly, but the bottom line is this: if the situation does not change then it does reduce the through cycle assumptions for a number of names, and therefore the result is a decline in the strategy's weighted target price. However, it is also the case that portfolio holdings have a healthy margin of valuation safety, we have for some time reflected geopolitical risks such as this in our determination of their value, and there is substantive upside to holdings in the event that compromise is achieved.

Performance

The key detractors and contributors were from a diverse range of sources. Asian footwear manufacturer YueYuen and Indonesian telecom service provider Telkom Indonesia detracted from performance; meanwhile Chinese online retail platform Alibaba and Brazilian aircraft manufacturer Embraer were positive contributors.

In the case of footwear manufacturer and retailer **YueYuen**, the stock sold off sharply primarily due to a deceleration in sales growth post a strong cyclical recovery in 2024, plus the pending threat of tariffs. We remain confident in the long-term outlook for the company, and the double-digit dividend yield provides robust valuation support at this level.

The share price performance of the other detractor - **Indonesian Telkom** - was also disappointing. At a company level growth has been robust, the fixed line industry further consolidated, and the firm is executing on its data centre build-out strategy. The macro backdrop referred to above however overwhelmed the progress resulting in the sell-off. This company is now trading at nearly a double-digit dividend yield, and we used the weakness to increase the position.

The key positive contributor to the portfolio's return was **Alibaba**. The company dominates China's retail landscape, and has leading fintech, cloud, logistics and media businesses. Detractors would point out that founder Jack Ma had fallen from political grace and this therefore represented a corporate risk. That concern however was largely lifted during the quarter, with public appearances from Jack Ma and Alibaba sponsoring the all-important Chinese New Year Gala. The firm also benefited from the news that Apple will partner with Alibaba to support iPhone's AI services offering in China – a strong endorsement of the firms AI capabilities in this fast-growing field.

The **Embraer** share price performance was also encouraging. This was largely supported by its rising backlog, and the real prospect of a further acceleration in orders due to negotiations in Saudi Arabia and India. The key upside has come from the continued success of its C-390, which is now really evidencing global traction, including orders across Europe, the Americas, Africa and Asia. The position weight has been trimmed back to manage single stock exposure.

Positioning

During the quarter Cemex and SK Inc were added as new positions in the portfolio. We are excited about the opportunity presented by both.

Cemex is a Mexican domiciled cement producer. It has a long history going back to 1906, but almost collapsed in 2008 after a debt-fuelled expansion phase through the 1990s and early 2000s. Cemex then became a forced seller of assets, and through the 2010s reduced leverage to a reasonable level. It was commonly referred to as an EM value stock, but given the strategy's red line around through-cycle capital loss, it was simply out of scope. This changed more recently, as the balance sheet has finally been repaired, and yet the valuation is still depressed. Currently the business is operationally diversified across the US, Mexico and Europe, but trades at around half the multiple of most global peers despite being a global business - a compelling combination in our view.

The investment in Cemex was largely funded by exiting Mexican chemical company **Orbia**. The investment case for Orbia had been that it was at a deeply depressed valuation relative to other international peers, despite having access to cheap US gas – a big advantage when compared to the production out of China which dominates global supply. The chemical space has gone into a deep funk, and indeed there is still certainly a compelling through-cycle valuation case for Orbia. Equally however, we became concerned that if a cyclical headwind was combined with US tariffs, that could become a real risk that went beyond the cyclical. While we were reluctant to exit the position, the risk-reward proposition simply was not as compelling as the one for Cemex.

SK Inc. is the other new position. This has been held in one of the other Oldfield Partners portfolios, and like Cemex has been known to us for some time. The firm is a Korean holding company, a 'Chaebol', with an esoteric collection of underlying companies. There are many variables at work at this

Commentary - continued

point, but the bottom-line is this – it trades at approximately 70% discount to its net asset value, (a relatively easy calculation as its holdings are largely listed). This is a level that is well outside of its historic average, and indeed a clear outlier when compared to the holding company discounts on other emerging market corporates with a similar structure.

Outlook

Market chaos - be it the degree of valuation dispersion across markets, political or policy uncertainty - may appear exhausting; however, these are also exciting conditions for a bottom-up value investor. We remain long-term and patient, shying away from grand predictions. What we can note however, is that we firmly believe Emerging Markets have many of the most attractive opportunities of any asset class. The holdings within the strategy are currently at a valuation level that has been historically consistent with strong positive forward returns, and we believe the portfolio therefore remains well placed for the years ahead.

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 23% of the Fund and cash dividend of 7%. We continue to monitor the situation closely.

Share class details

Share class	AMC*	TER**	SEDOL	Bloomberg	ISIN	Price
A USD	1.25%	1.60%	B3DDVH0	OVEMKEA ID	IE00B3DDVH01	US$229.61
I USD	0.90%	1.25%	B4N0BT0	OVEMKEI ID	IE00B4N0BT09	US$144.62

*AMC - Annual management charge
**TER - Total expense ratio

Performance summary of all share classes

				Annualised	
USD shares	1 month	YTD	1 year	3 years	5 years
A USD	+0.5	+5.1	+2.7	+2.4	+11.0
I USD	+0.5	+5.2	+3.1	+2.7	+11.4
MSCI Emerging Markets	+0.6	+2.9	+8.1	+1.4	+7.9
MSCI EM Value	+1.6	+4.3	+7.6	+2.8	+9.8

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.

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