



Global Equities

18th November 2019

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Fund performance

	£		
	Overstone Global Equity Fund	MSCI World	MSCI World Value
2019 to date	+7.9%	+18.8%	+14.1%
2018	-4.0%	-3.1%	-5.3%
2017	+7.9%	+11.7%	+6.9%
2016	+44.5%	+28.3%	+34.1%
2015	-1.0%	+4.8%	+0.7%
Since inception annualised*	+8.3%	+9.5%	+8.1%

	\$		
	Overstone Global Equity Fund	MSCI World	MSCI World Value
2019 to date	+9.6%	+20.6%	+15.8%
2018	-9.5%	-8.7%	-10.8%
2017	+18.2%	+22.4%	+17.1%
2016	+21.1%	+7.5%	+12.3%
2015	-6.4%	-0.9%	-4.8%
Since inception annualised*	+5.8%	+6.9%	+5.6%

Performance shown is of the A shares, calculated on a Total Return basis net of investment management fees and expenses. Index is MSCI World (Net Dividends Reinvested) and MSCI World Value (Net Dividends Reinvested).

Source: OP, Bloomberg, Northern Trust Ireland and MSCI ©.

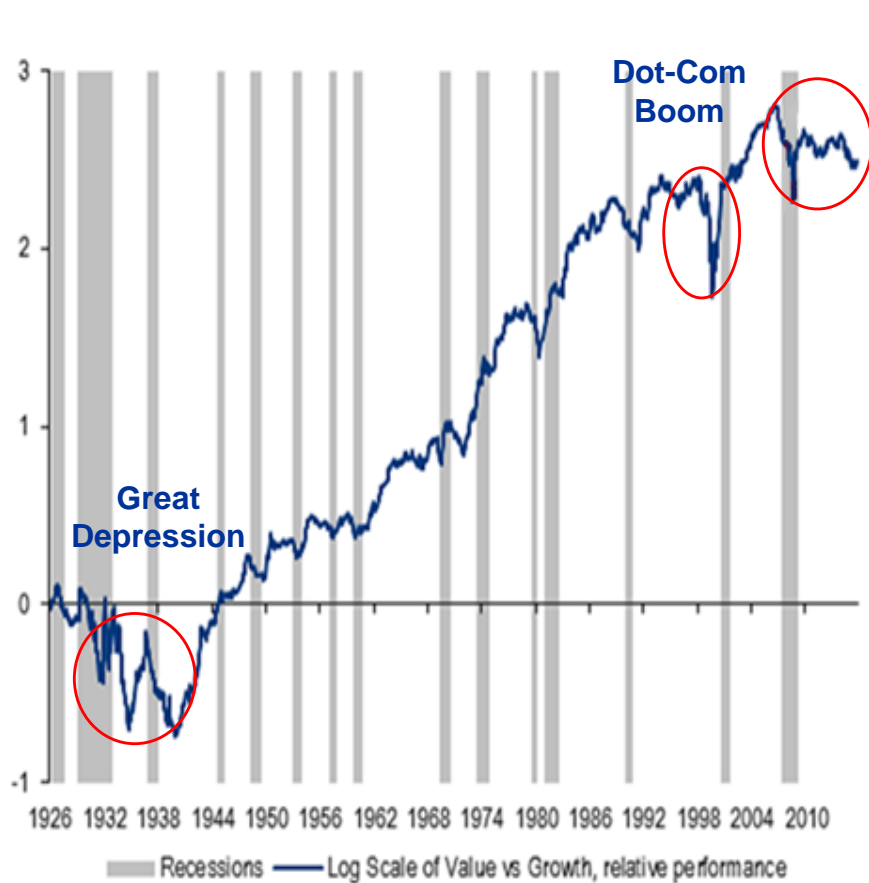
Data as at 31st October 2019.

• Inception Date is 1st June 2005.

Please refer to the Strategies section of our website (<https://www.oldfieldpartners.com>) for 5 year fund performance information covering complete 12 month periods.

Value investing – works over the long-term

US Value versus Growth since 1926



Value vs Growth since 1979



The Value opportunity is now at an extreme

Monthly data. Average returns of Fama-French Large/Small Value benchmark portfolios.

Source: BofA Merrill Lynch Global Investment Strategy 7th June 2016, Fama-French.

Source: MSCI and Bloomberg.

Date: As at 30th September 2019.

MSCI World Value Index vs MSCI World Growth Index (total return indices).

Value investing – relative valuation now at an extreme

Figure 34: Fwd P/E Spread – Value vs Market

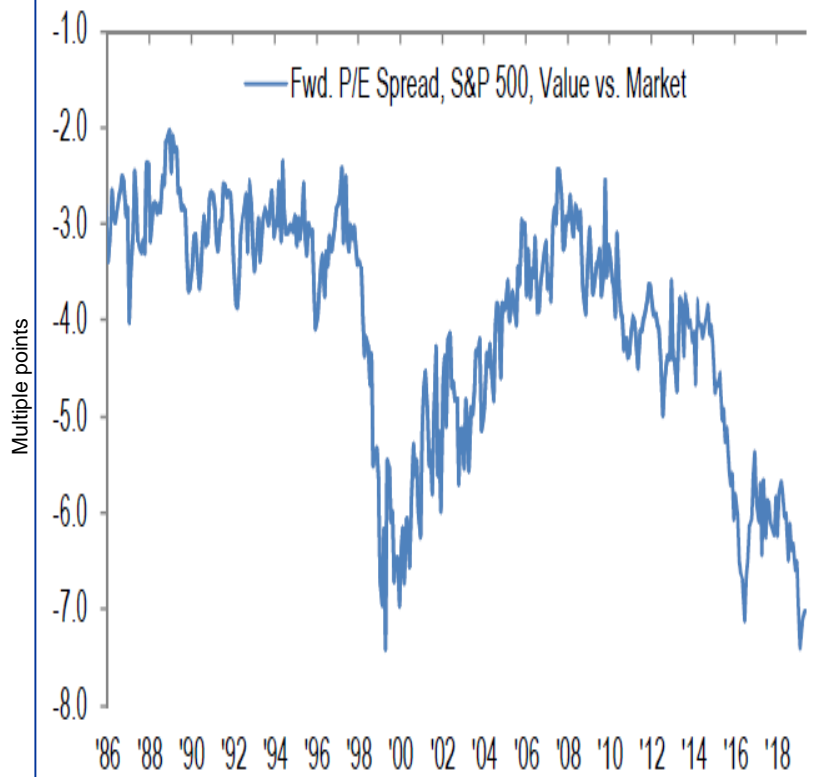
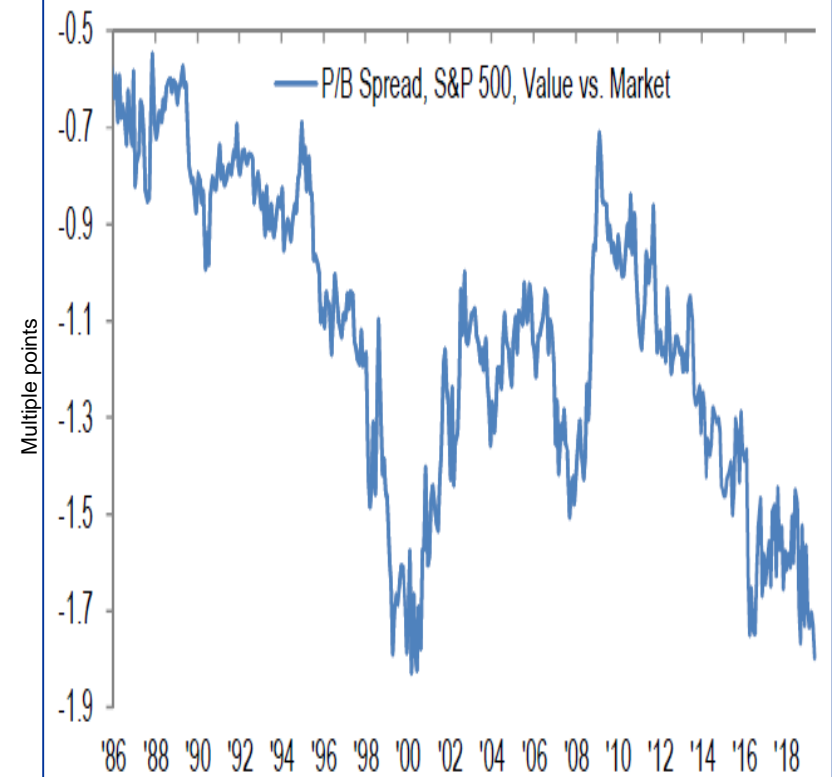


Figure 36: P/B Spread – Value vs Market

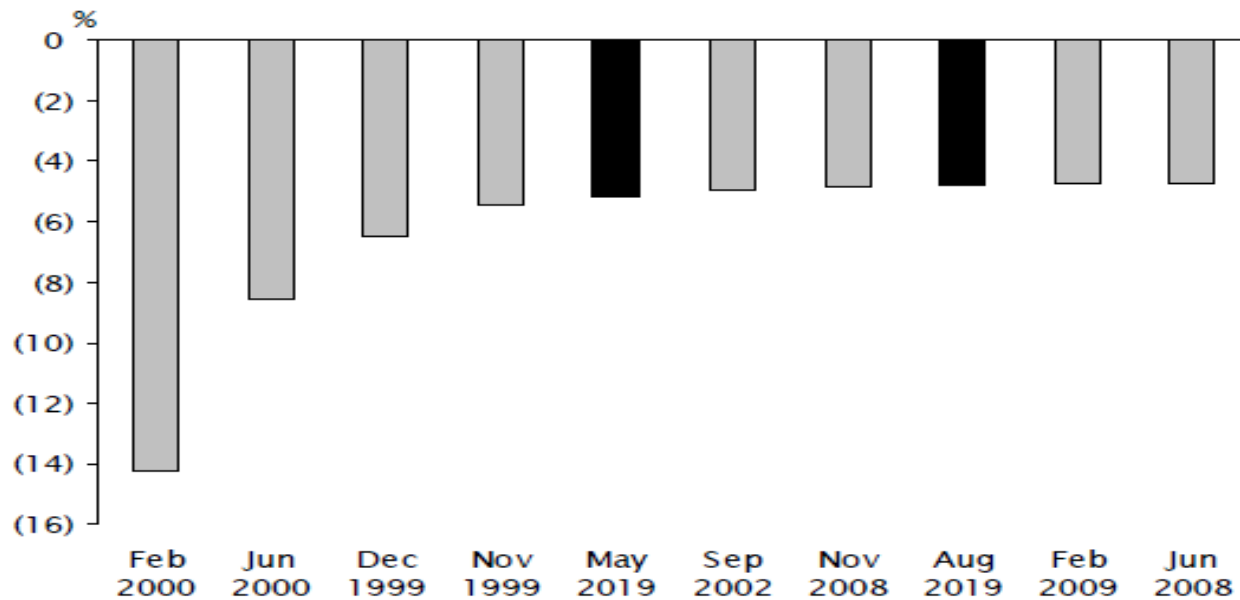


Value back to record cheapness

Source: JP Morgan Equity Research, The Value Conundrum 6th June 2019.

Value vs Growth

Ten Worst Months for Value Strategies from 1952 to Aug 2019



- May and August 2019 come after a prolonged period of underperformance

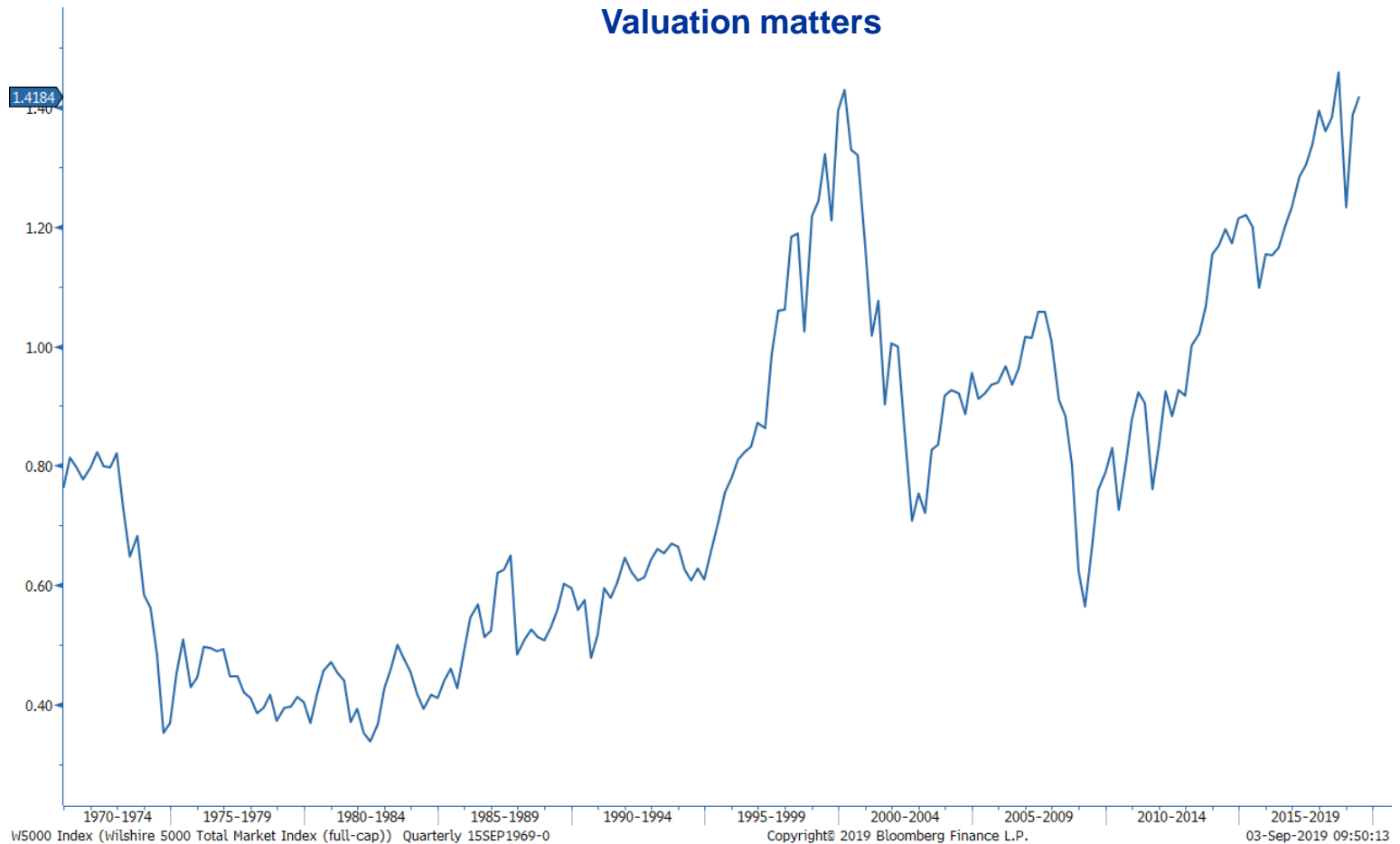
Could 2019 be the trough as in 2000?

US Outperformance of EAFE



S&P 500 vs MSCI EAFE (price indices).
Source: Bloomberg, 16th September 2019.

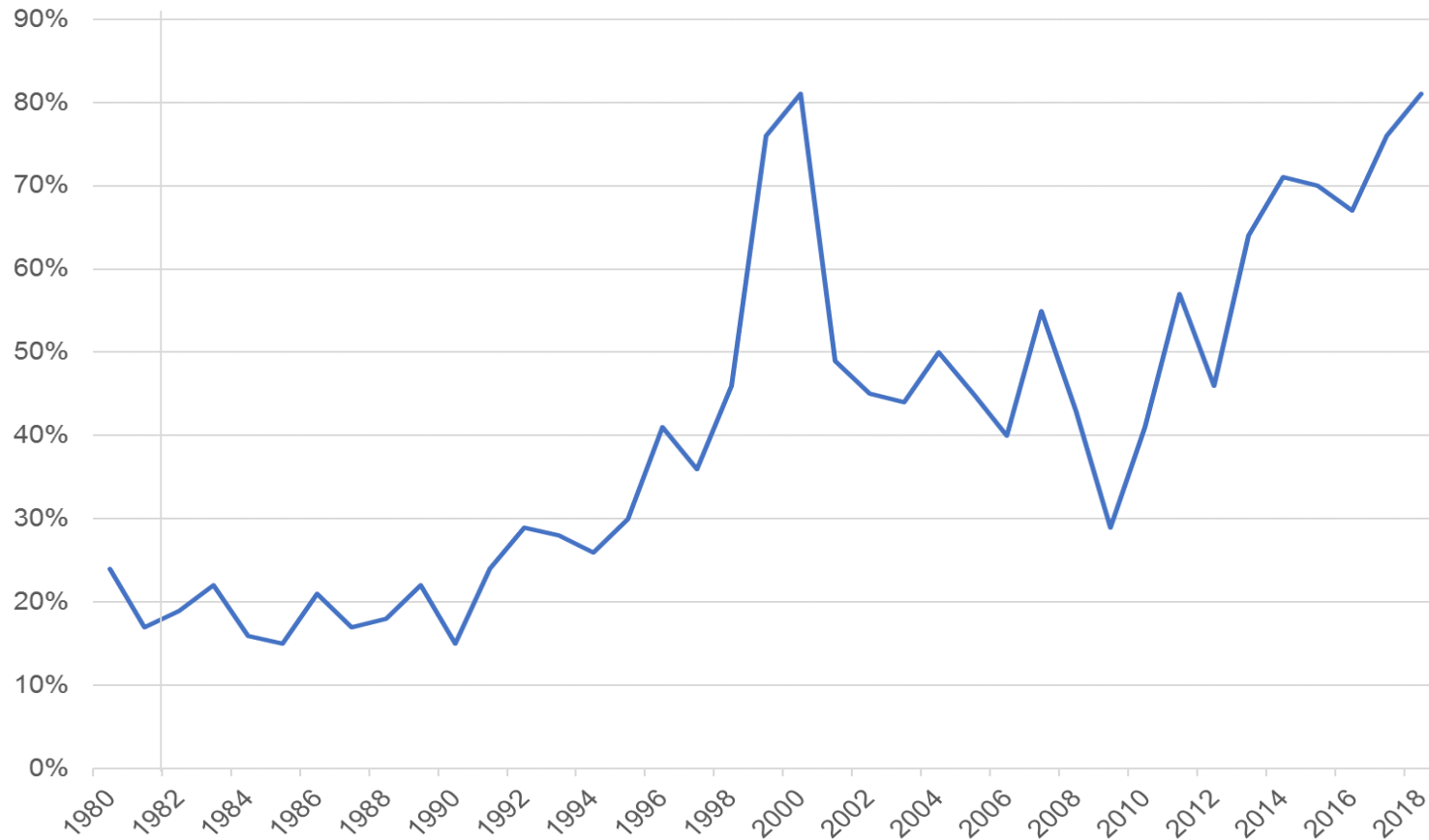
The valuation of the US – market cap to GDP



This measure of valuation now also at an extreme

Source: Bloomberg, 3rd September 2019. Wilshire 5000/ US Nominal GDP.

Percentage of unprofitable IPOs in the US



Signs of the return of 'irrational exuberance'

Source: Professor Jay Ritter, University of Florida.

OP Global strategy vs MSCI ACWI Value index Top 20

The top names in the ACWI Value index

Index Weighting (%)		P/E	P/BV	P/CF	P/Sales
OP Global Strategy		11.0	0.9	6.3	0.7
Top 20 MSCI ACWI Value		15.1	2.8	11.3	3.0
1.6	JPMORGAN CHASE	11.9	1.6	11.4	3.4
1.5	JOHNSON&JOHNSON	15.2	5.5	15.4	4.2
1.4	PROCTER & GAMBLE	25.2	5.2	19.9	4.4
1.3	EXXON MOBIL CORP	23.0	1.6	9.8	1.1
1.2	AT&T INC	10.6	1.5	5.5	1.5
1.1	WALT DISNEY CO	24.1	2.7	17.5	3.5
1.1	BANK OF AMERICA	10.6	1.1	10.5	3.1
1.1	VERIZON COMMUNIC	12.5	4.1	7.0	1.9
1.0	INTEL CORP	12.0	2.9	7.8	3.4
1.0	CHEVRON CORP	17.6	1.5	8.0	1.5
1.0	COCA-COLA CO/THE	25.7	12.5	26.7	6.2
1.0	MERCK & CO	16.8	7.6	14.4	4.6
0.9	COMCAST CORP-A	15.5	2.6	8.5	1.9
0.9	CISCO SYSTEMS	15.0	8.0	13.1	4.0
0.9	PFIZER INC	13.1	4.2	13.6	4.0
0.9	WELLS FARGO & CO	10.6	1.2	10.1	2.6
0.9	PEPSICO INC	24.7	13.5	19.8	2.9
0.7	WALMART INC	23.8	4.5	13.3	0.6
0.7	CITIGROUP INC	9.3	0.9	11.2	2.2
0.7	TOYOTA MOTOR	9.2	1.0	5.5	0.8



Would raise the overall valuation of the portfolio



Would lower the overall valuation of the portfolio

Source: MSCI and Bloomberg.

Date: As at 8th Sep 2019.

One year forward metrics used – Bloomberg consensus.

Top contributors and detractors – relative attribution

2019 to
date

Top 5 Contributors	%	Top 5 Detractors	%
Bayer	+0.7	Korea Electric Power	-2.3
Allergan	+0.6	BT	-1.9
Rio Tinto	+0.5	Viacom	-1.8
Tesco	+0.4	Japan Post Holding	-1.7
Citigroup	+0.4	Kansai Electric Power	-1.7

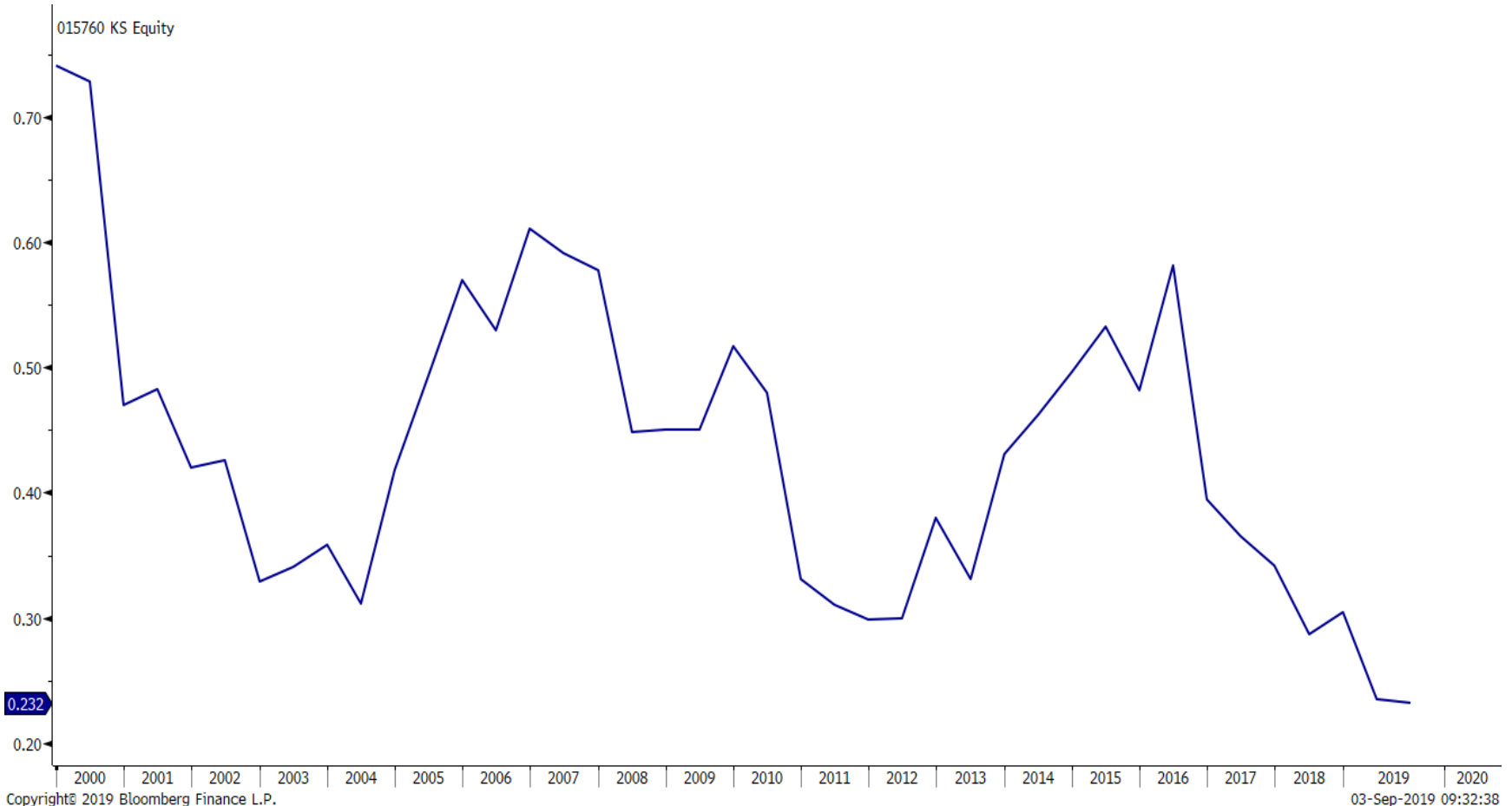
Source: OP, Bloomberg and MSCI ©.

Date: As at 31st October 2019.

% = the contribution to relative return of a representative global portfolio versus the MSCI World (Net Dividends Reinvested) Index in USD terms.

Korea Electric Power (KEPCO) - historically low valuation

Korea's monopoly electricity generation, transmission and distribution company



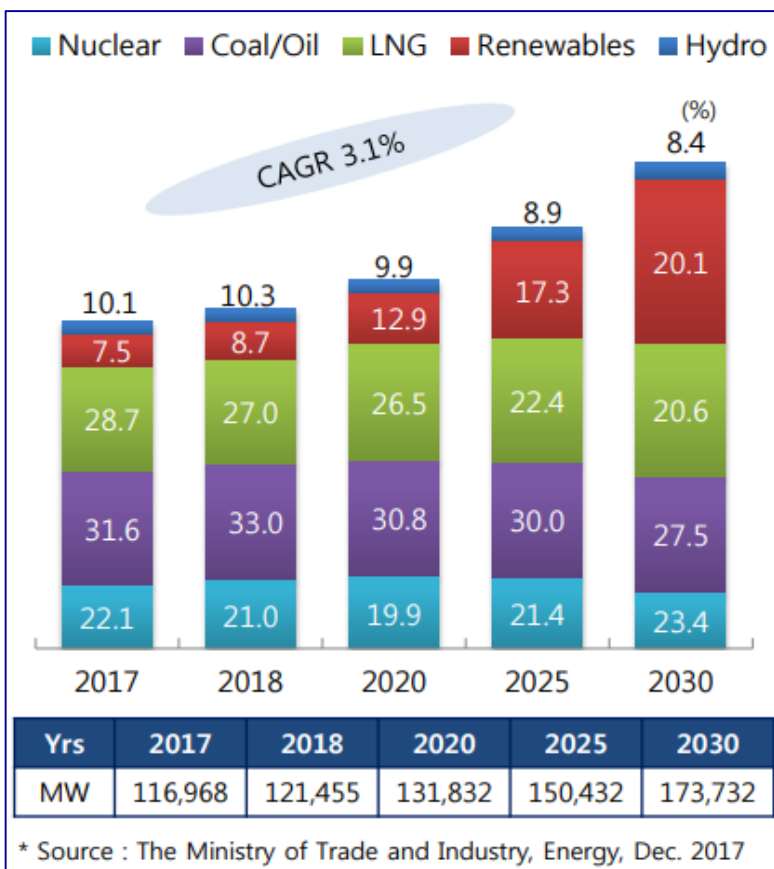
Value – one of the cheapest stocks in the world at 0.2x price to book

Source: OP, Bloomberg.
Date: As at 3rd September 2019.

Korea Electric Power (KEPCO) - historically low valuation

The long-term market dynamics for KEPCO are favourable

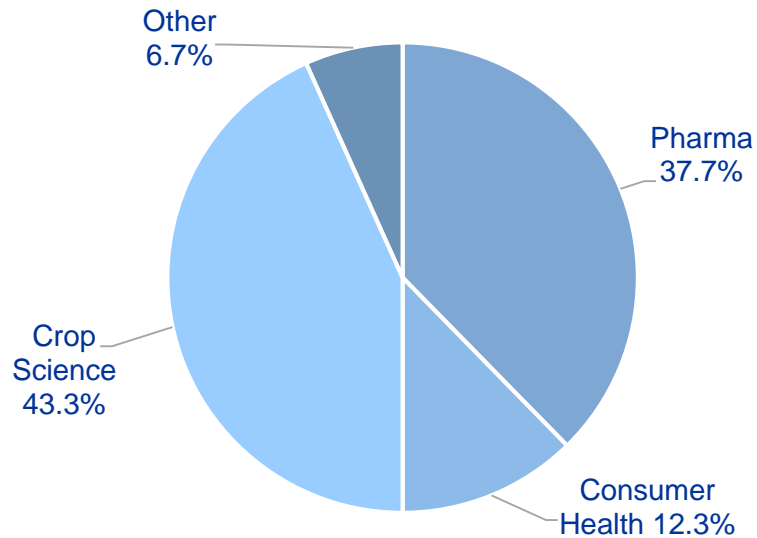
Korea's 8th Electricity Supply & demand Plan



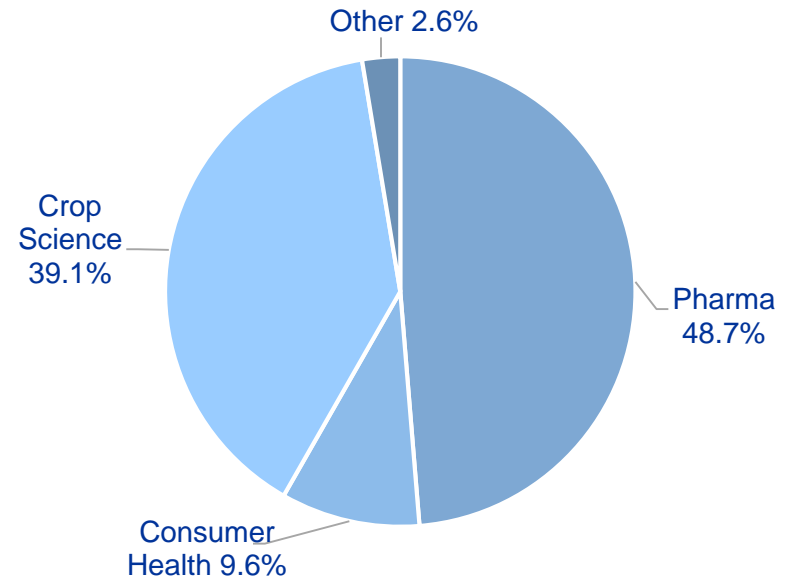
- Major investment required
 - KEPCO capex \$12-13bn p.a.
- Long-term median Return on Equity 5.0%
- Headwinds
 - Fuel costs increased by \$3.6bn in 2018
 - IPP costs increased by \$4bn in 2018
 - Mix shift away from nuclear = 'red ink'
- Returns will improve
 - Nuclear utilisation recovery
 - Ramp up of new nuclear capacity
 - Potential tariff hikes
- Intrinsic worth 0.5x Price to Book = +120% upside to FY2021

Only a strong KEPCO can deliver the long-term national plans

Revenue¹



EBITDA¹



Crop Science

- €19bn revenue
- #1 in seed and traits

Pharma

- €17bn revenue
- #1 in women's health
- #2 in cardiovascular

Consumer Health

- €5bn revenue
- Brands include Aspirin, Claritin etc

¹ 2018 pro-forma. EBITDA – Earnings before interest, tax, depreciation and amortisation.

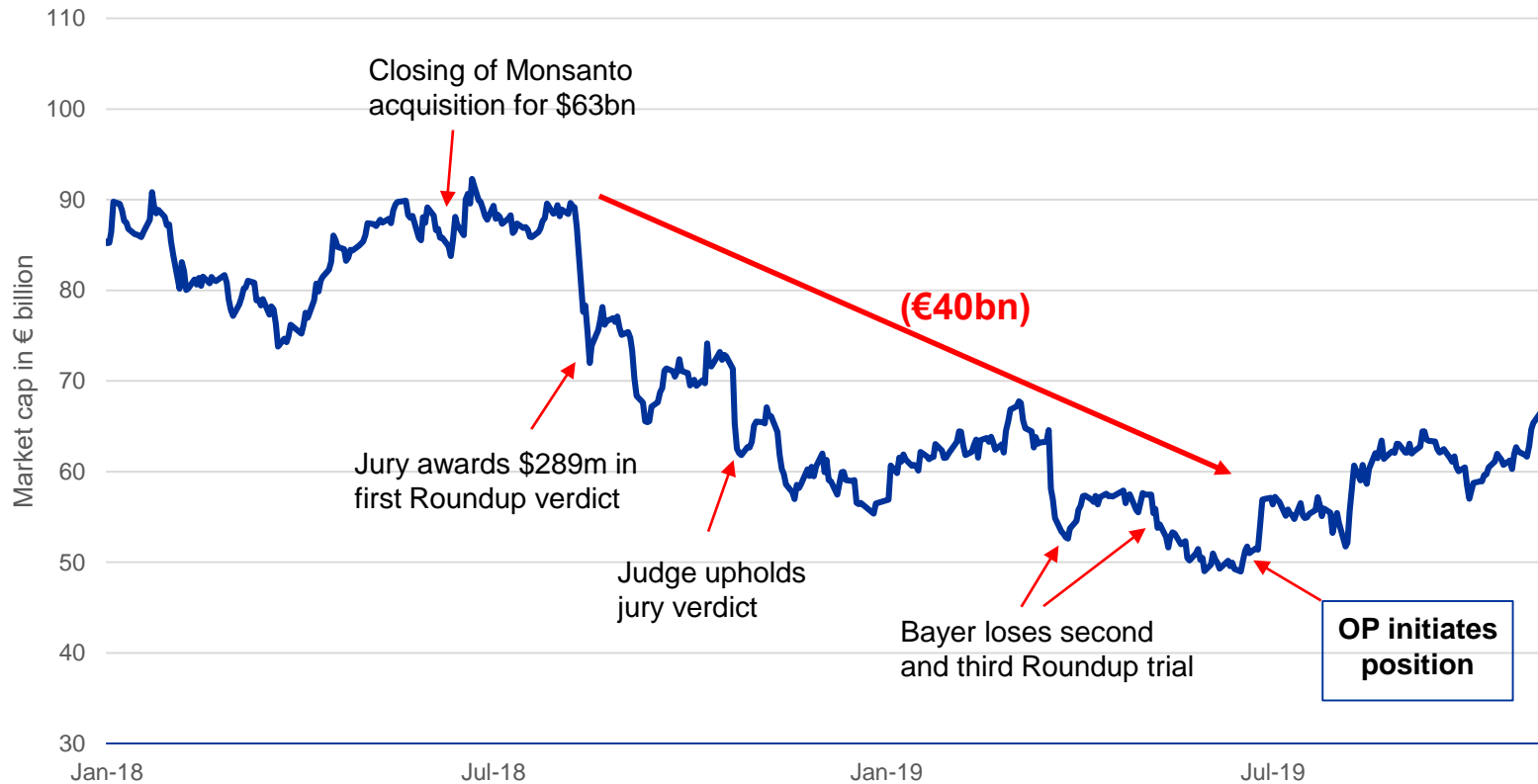
Crop science

- Concentrated industry
- Bayer leading and outspending competition on R&D
- 2% to 3% long term growth
- Highly profitable: >25% EBITDA margin



Good business, but value destructive acquisition

Sell-off in Bayer's shares



Glyphosate litigation

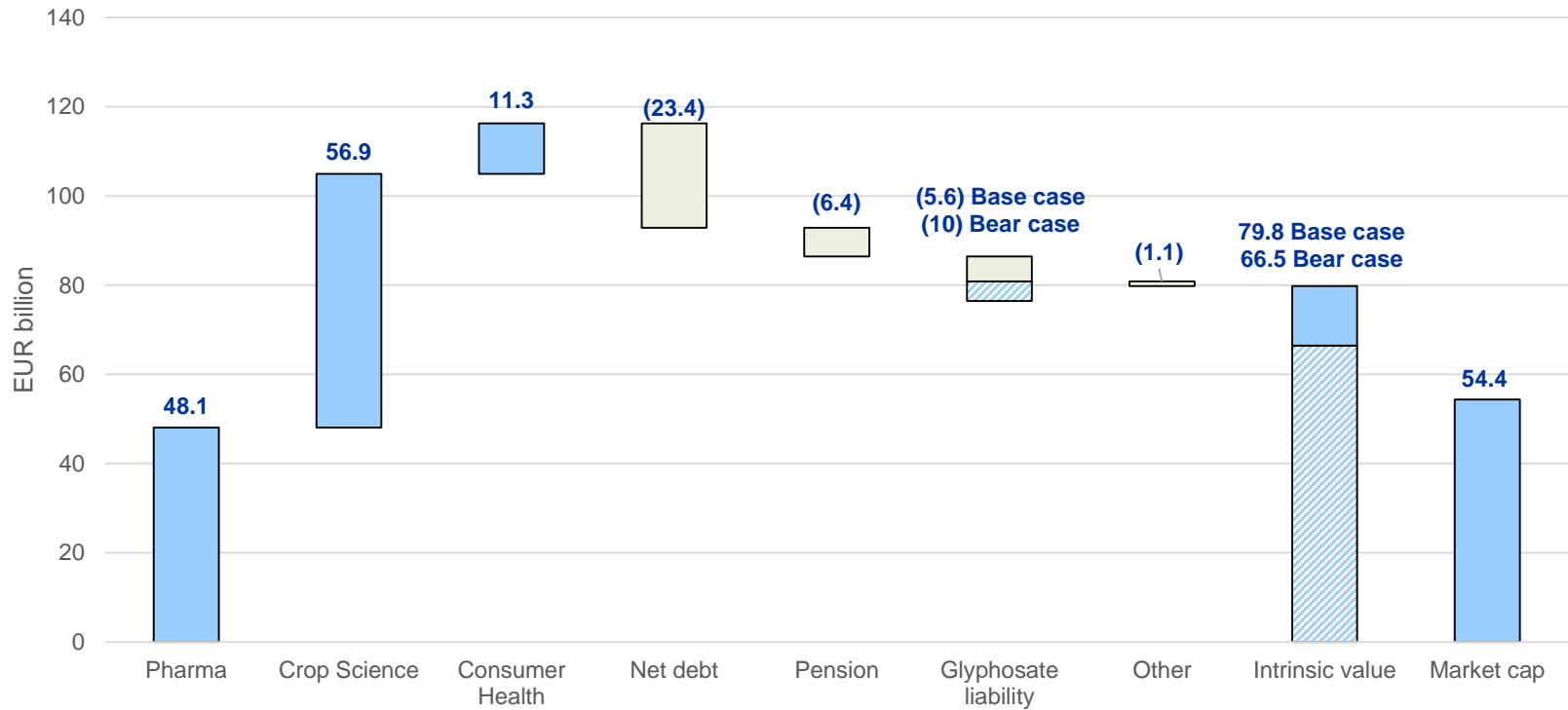
- 42,700 lawsuits as of October 2019
- Vioxx precedent: First verdict awarded \$253m to one plaintiff – settled 27,000 cases for \$5bn

Facts:

- Regulators and over 800 scientific studies confirm glyphosate's safety
- Study of 54,000 farmers over 20 years found no association between glyphosate use and cancer risk
- Indispensable tool in modern agriculture

Settlement estimated at €5-10bn
Market overreaction created entry opportunity

Bayer sum-of-the-parts valuation at purchase (€bn)



ESG – examples of activity over the last twelve months



Cyber Security - Throughout 2018, we participated in the UN PRI's collective engagement, acting as co-lead with **Tesco**.

We are taking what we have learned from this and have undertaken engagements on this with **Lloyds Bank, Kansai Electric, BT, Toyota and MUFG**.



Nomura - board independence; cross-holdings as a source of capital.

Japan Post Holdings - capital allocation: consideration of buybacks over mergers & acquisitions.



Korea Electric Power - improvements in carbon emissions disclosure.



BT & Lloyds Bank – CEO & CFO compensation structure.

RioTinto

Rio - tailings dam management following the two disasters at their Brazilian competitor, Vale.

TESCO

Tesco - Attended their first ever ESG Day to understand better their approaches to human rights in the supply chain, responsible sourcing, food waste and the challenges of improving recycling in the UK.



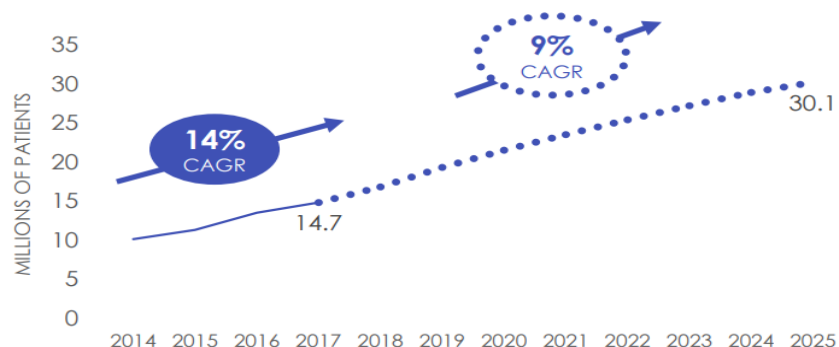
Key purchases and sales

	Purchases	Sales
Q4 2018	Siemens	Lukoil
Q1 2019	-	-
Q2 2019	Allergan, Bayer	Rio Tinto, JR East
Q3 2019	-	-

Allergan - new investment in Q2 2019

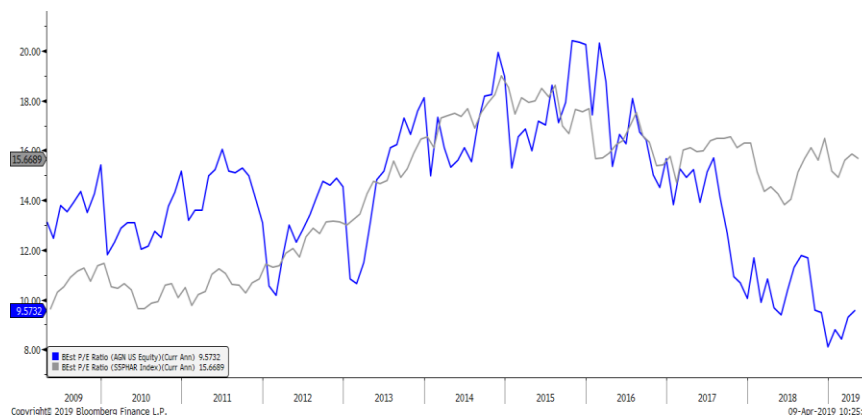
- Produces leading aesthetics and therapeutics products including Botox
- Global aesthetics market projected to grow significantly
- Diversified drug portfolio with limited patent risk and pipeline optionality
- Strong free cash flow generation
- Management under pressure to release value

Global Aesthetics Consumers



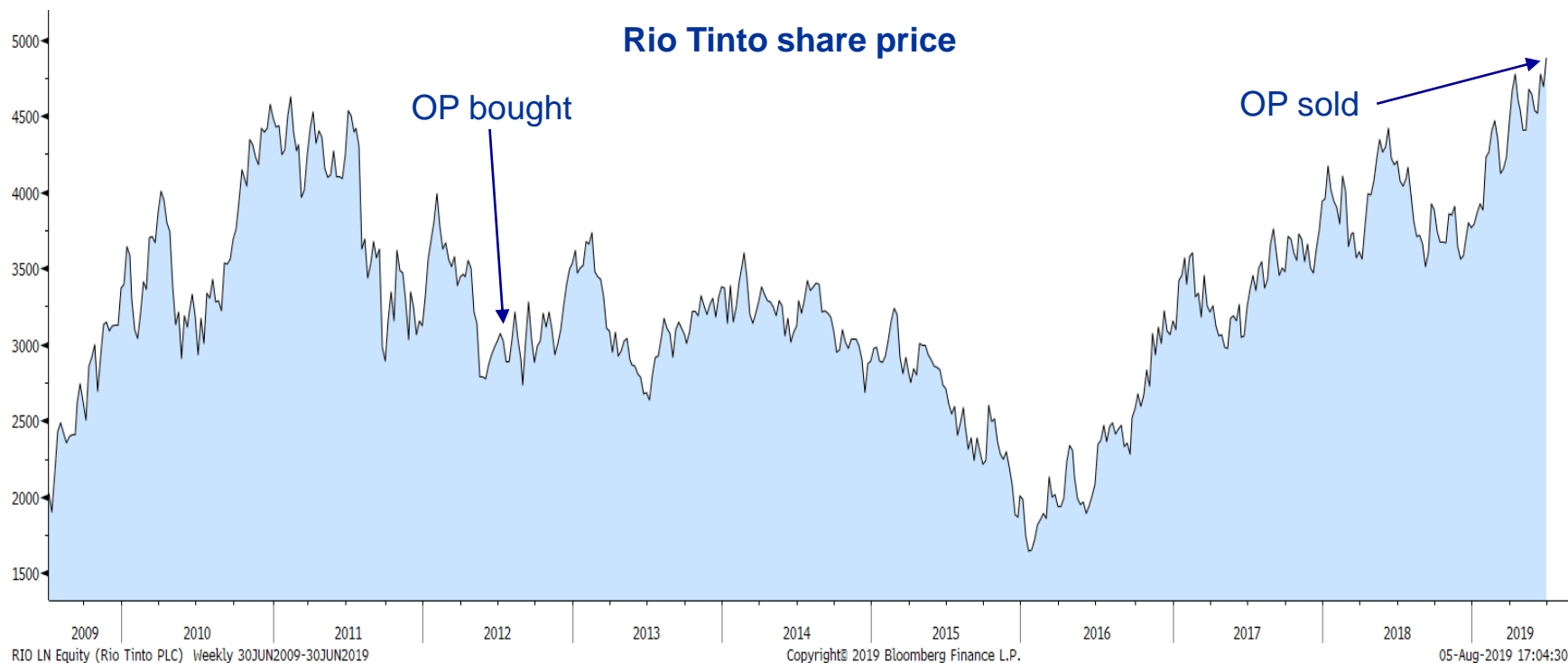
Source: Company presentation (Sept18).

Attractive Valuation versus Pharma Peers



Merger approach in June 2019 valuing it at a 45% premium

Rio Tinto – investment fully realised in Q2 2019



- Lowest cost operator, best balance sheet
- Cash flow generation, high returns on invested capital
- Sold at Intrinsic Value. +80% total return vs. +102% MSCI World (USD terms). Bought too early. (5.2% average weighting)

Quality cyclical where ROIC recovered to historic highs

JR East – investment fully realised in Q2 2019

JR East share price

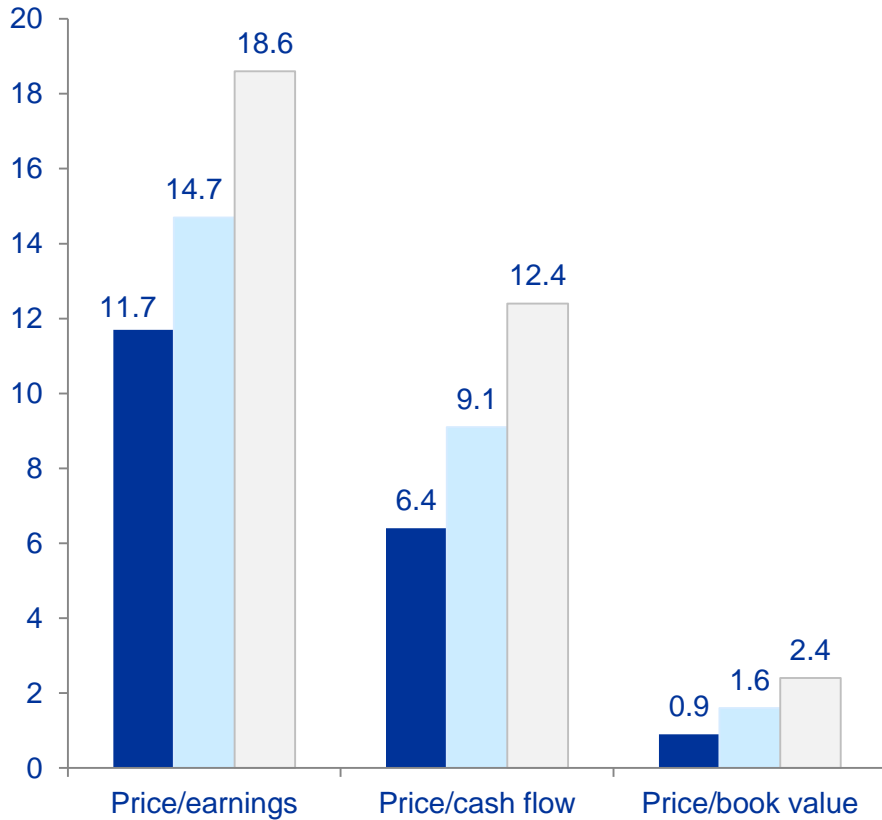


- Defensive cash flows, hidden asset value, low absolute valuation.
- Hurdle rates of return lowered which led us to question longer-term ROIC. Sold to fund Bayer.
- +43% total return vs. +79% MSCI World (USD terms) (4.8% average weighting).

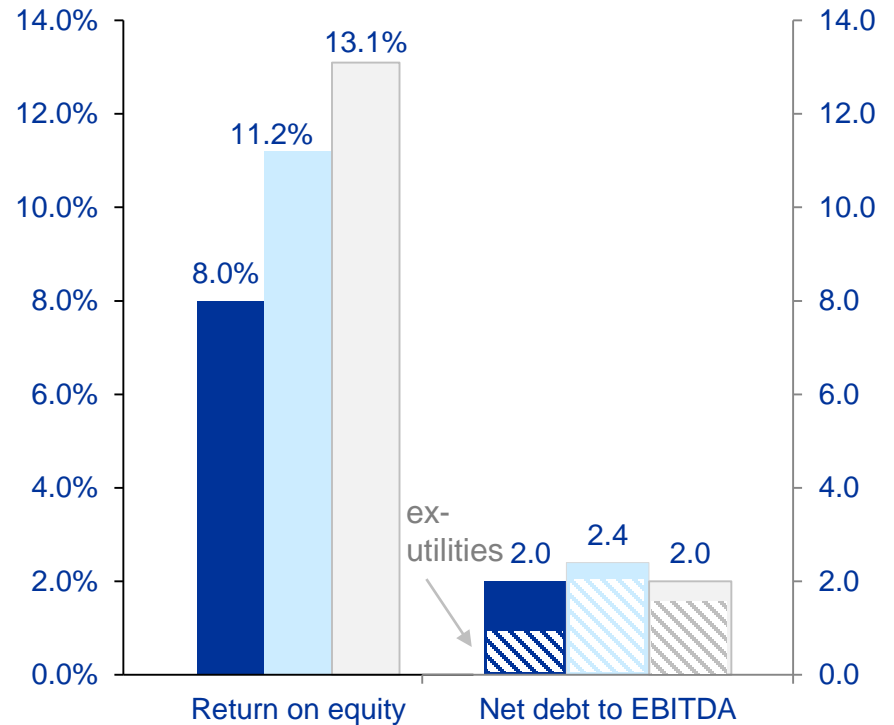
Defensive with hidden asset value but ROIC outlook deteriorated

Global Equity Strategy - portfolio characteristics

Valuation



Fundamentals



■ OP ■ MSCI World Value ■ MSCI World

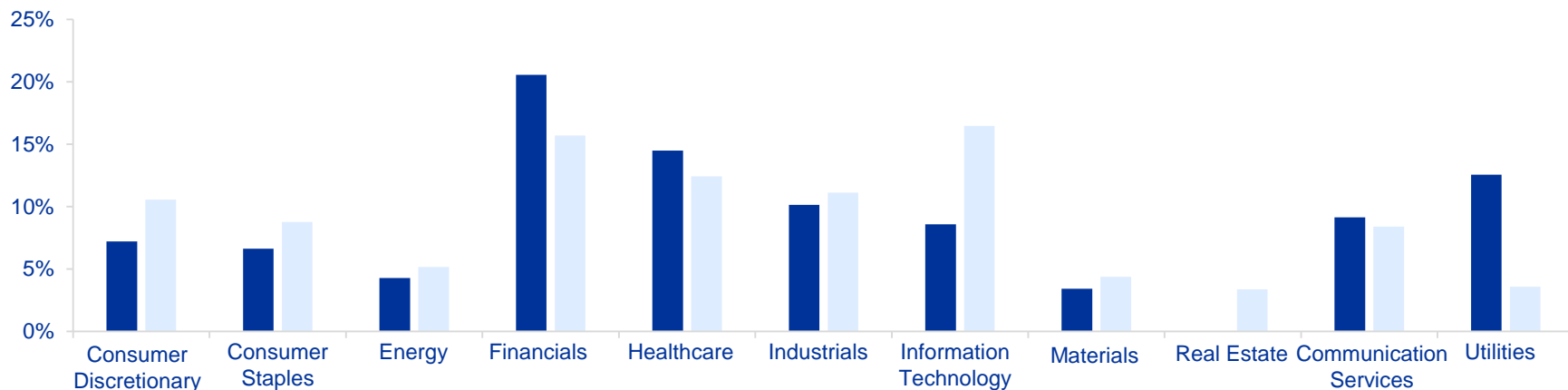
Source: OP, Bloomberg.

Date: As at 30th September 2019.

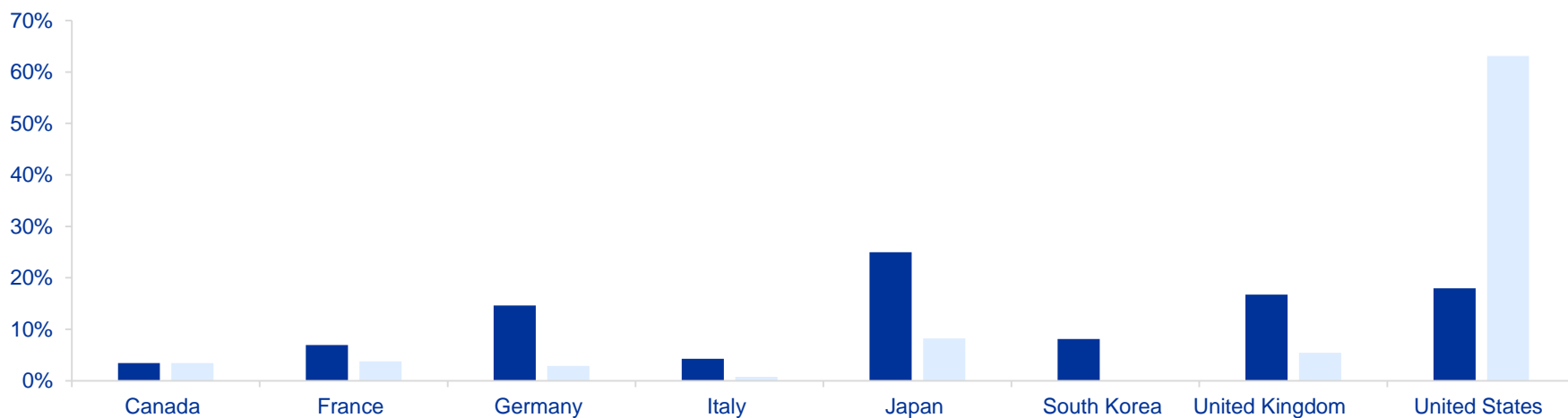
Representative global portfolio used. Based on MSCI method. Net debt/EBITDA excludes financials and includes only industrial net debt where applicable. The ex-utilities net debt/EBITDA values are as follows: OP: 1.0x, MSCI World Value: 2.2x and MSCI World: 1.8x.

Global Equity Strategy - portfolio structure

Sector weights



Country weights



Source: OP, Bloomberg.
Date: 30th September 2019.

■ Global Equity Strategy ■ MSCI World Index

Japan – a Value call

OP holdings in Japan

FY 2020 est	Sector	Div Yield %	Payout ratio %	Share Buyback Yield %	P/E Fwd*	P/B Fwd*	Underappreciated value as % market cap**
MHI	Industrial	3.4	45	0	13.5	1.0	33% listed equities 43% legal claim against Hitachi ? MRJ programme
Toyota	Auto	3.1	29	2.6	9.5	1.1	c.60% equities and other investments
MUFG	Bank	4.3	36	2.1	8.4	0.4	25% Morgan Stanley stake 45% Unrealised capital gains
Nomura	Broker	3.1	29	8.3	9.2	0.6	29% stakes in listed NRI and NRE
Japan Post	Post office	5.1	49	0	9.7	0.3	121% listed subsidiaries and real estate
Kansai Electric	Utility	3.9	30	0	7.5	0.7	22% listed equities ? Grid network

Date: as at 6th November 2019.

Source: OP Research and Bloomberg.

*Bloomberg consensus estimate for March 2020.

**Market values where available. Bloomberg and OP estimates.

Global Equity Strategy – holdings and valuation methodologies

Company Name		Share Price	Primary valuation method	Implied Price	Upside / Downside	Total return (2 years)	Resp.
SANOFI	6.9	85.06	P/E	93.80	10%	18%	SZ/RSG
TESCO PLC	6.6	241	SOTP	300	24%	32%	NW
E.ON SE	6.2	8.89	P/E	12.00	35%	46%	SZ
MITSUBISHI HEAVY INDUSTRIES	5.5	4,232	SOTP	6,600	56%	63%	AG
LLOYDS BANKING GROUP PLC	5.4	54.12	P/TBV	81.20	50%	63%	RSG/SZ
SAMSUNG ELECTRONICS CO LTD	4.8	49,050	PE + net cash per share	56,998	16%	22%	AF
BT GROUP PLC	4.8	179	SOTP + P/E	298	67%	83%	SJZ
SIEMENS AG-REG	4.6	98.28	P/E	137	39%	47%	SZ
TOYOTA MOTOR CORP	4.5	7,216	P/E + LT Investments	9,600	33%	40%	JM
MITSUBISHI UFJ FINANCIAL GRO	4.4	548	P/E + P/TBV	820	50%	59%	AG
VIACOM INC-CLASS B	4.4	24.03	SOTP	44.00	83%	90%	AG
ENI SPA	4.3	14.03	NAV & DACF multiple	17.50	25%	37%	NW
NOMURA HOLDINGS INC	4.0	458	SOTP + P/B	526	15%	20%	JM
ALLERGAN PLC	3.8	168	FCF to the firm	209	24%	28%	SZ/CO
BAYER AG-REG	3.8	64.83	SOTP	74.50	15%	24%	CO
HEWLETT PACKARD ENTERPRISE	3.8	15.17	P/E	19.50	29%	35%	NW
BARRICK GOLD CORP	3.4	22.92	P/E	25.10	10%	11%	RSG
JAPAN POST HOLDINGS CO LTD	3.4	995	SOTP	1,849	86%	96%	CO
KOREA ELECTRIC POWER CORP	3.3	25,900	P/B	58,137	124%	128%	CO
CITIGROUP INC	3.2	69.08	P/TBV + P/E	91.50	32%	38%	RSG
KANSAI ELECTRIC POWER CO INC	3.0	1,209	P/B	1,882	56%	64%	AG
GENERAL MOTORS CO	2.8	37.48	P/E	45.80	22%	30%	AG

Portfolio weighted average upside = +38%

Source: OP.

Date: As at 30th September 2019.

Representative global portfolio used.

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