Oldfield Partners

Global Equities Investment Update

18th November 2019

Oldfield Partners (OP): *Andrew Goodwin = AG, Christoph Ohm = CO, Richard Garstang = RG, Nigel Waller = NW and Sam Ziff = SZ*

NW: Welcome everybody and thank you very much for coming to our Global Investor update on the Global Equity strategy. I'm Nigel Waller, and I am CIO and co-manager. This is Andrew Goodwin, my co-manager of the Global Equity strategy. We have in amongst you most of the team in fact, and we will try and get them involved as much as possible as we go through Q&A. Christoph Ohm is going to take part in the presentation, taking you through our newest purchase.

We're going to take about 40 minutes in terms of the presentation, then we'll have Q&A, then once we've done that at about 5 o'clock we'll stop for a cup of tea.

I would say the last update we did for you was the 1st of April 2019, so this will be mainly focused on what we've done since then, but obviously we will talk to what's happened more broadly for the year.

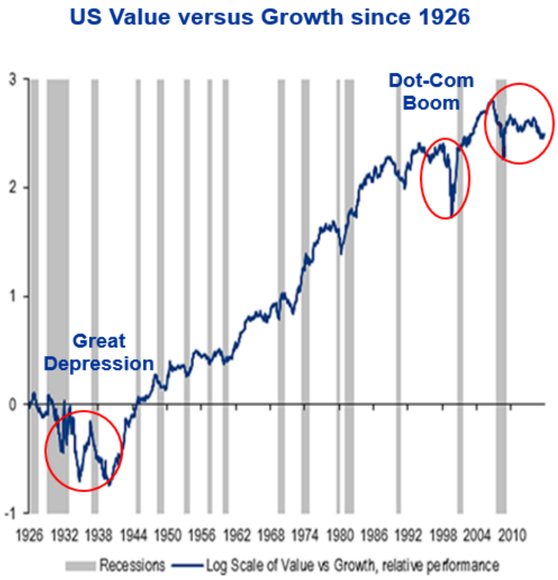
So, performance 2019 as you can see from the top line has been an incredibly difficult year for us as contrarian Value managers. For those that can't read it, in sterling we're up 8% year to-date to the end of October against MSCI World up 18.8%, and the MSCI World Value for reference for those that want it, 14.1% in sterling terms. We have sterling on the left and dollar performance on the right for those of you who think in dollars.

	£			$		
	Overstone Global Equity Fund	MSCI World	MSCI World Value	Overstone Global Equity Fund	MSCI World	MSCI World Value
2019 to date	+7.9%	+18.8%	+14.1%	+9.6%	+20.6%	+15.8%
2018	-4.0%	-3.1%	-5.3%	-9.5%	-8.7%	-10.8%
2017	+7.9%	+11.7%	+6.9%	+18.2%	+22.4%	+17.1%
2016	+44.5%	+28.3%	+34.1%	+21.1%	+7.5%	+12.3%
2015	-1.0%	+4.8%	+0.7%	-6.4%	-0.9%	-4.8%
Since inception annualised*	+8.3%	+9.5%	+8.1%	+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.

So, yes, a very difficult year. The year started badly and just got worse is the way to put it, but luckily and thankfully from the middle of August things have definitely changed, and we have seen a marked change in market tone since the 21st of August, Value is coming back and it's echoes of what we saw, or faint echoes maybe of what we saw in the fourth quarter last year, and also in 2016 when we had the only year in the last eleven when Value has outperformed Growth for an entire calendar year.

Since the middle of August, we have regained about 500 basis points of performance relative to the benchmark, so things were very difficult before that, but definitely on the right path now so we're very pleased about that. It has been a year of extremes, and we want to give you evidence and thoughts on that over the next few slides.



Monthly data. Average returns of Fama-French Large/Small Value benchmark portfolios. Source: BofA Merrill Lynch Global Investment Strategy 7th June 2016, Fama-French.

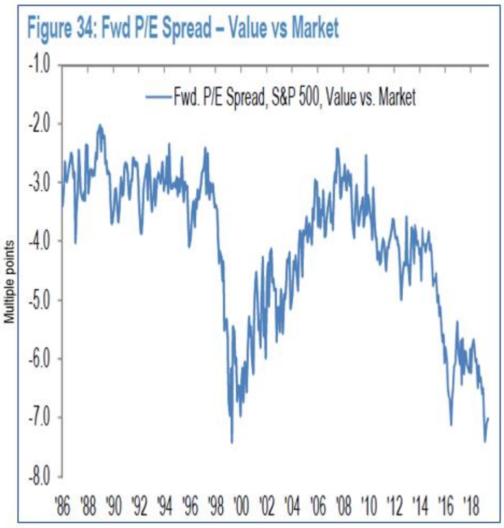
So, this chart you will all have seen many times if you've been to this presentation, certainly over the last few years. On the left hand side, you see the result of a study, by Fama & French, using US equities, looking at Value versus Growth in terms of styles. What that shows you is over the only history we have for US equities, that Value clearly outperforms Growth over that period, more than 2% per annum is the compound annual rate over that entire time, but the red circles show you that it is not plain sailing and that there are from time to time very difficult periods, and we are in now the longest period for Value underperforming Growth in that entire period, now longer slightly than in the 1930s.

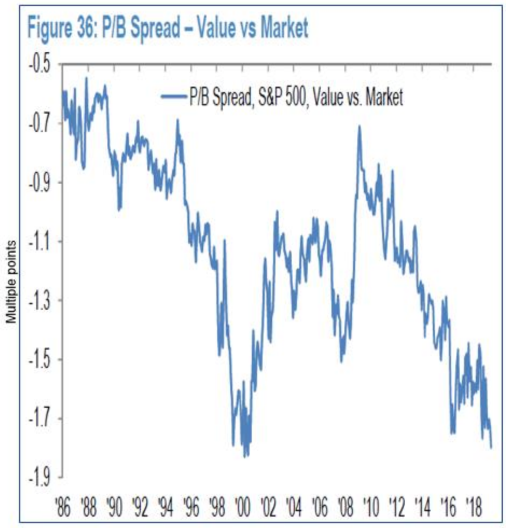
So that's the context. We firmly believe that this is the right way to manage money, but it has been a very, very difficult period. The graph on your right gives you a view of more recent history so it's slightly clearer to see, but as you can see from the peak in 2007 to where we are today on the far right you can see it's been a very difficult time for Value investors.

This next chart shows the valuation of the Value side of the market in the S&P 500 versus the entire market.

Source: MSCI and Bloomberg. Date: As at 30th September 2019. MSCI World Value Index vs MSCI World Growth Index (total return indices).

So, two charts, the one on the left-hand side is the price to earnings multiple of Value versus the market, and on the right-hand side price to book of the Value area of the S&P 500 relative to the market.

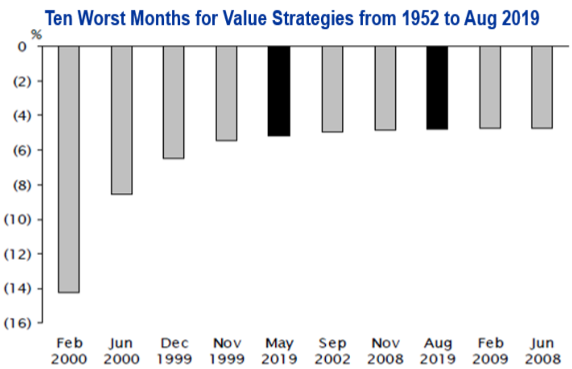




Source: JP Morgan Equity Research, The Value Conundrum 6th June 2019.

You can see in the bottom right hand corner of both charts that we are back at record lows over the 30 years that we have in these charts of the valuation discrepancy between the Value portion of the market and the wider S&P 500. We are clearly at an extreme level of relative market valuation for Value, and that goes to explain quite how, and the steepness of that line on the right-hand side you can see why 2019 has proved so painful for us as Value managers.

This is also an interesting chart. This is from Empirical Research. They've looked at US equities since 1952 and this shows you the 10 worst months of relative performance for Value equities in the US. We're using the US constantly because there is a longer data set there and it's also the most extreme market too. You can see another reason that this year has been so difficult, those two black bars, May and August 2019, are two of the worst months since 1952 for Value and they have occurred this year. So again, a very, very difficult time for Value as an approach. Andrew….



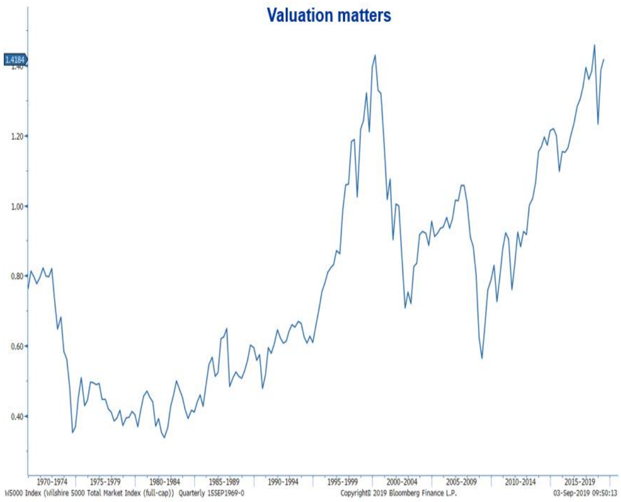
Source: Empirical Research Partners Analysis. Large cap stocks Top quintile Date: As at September 9th, 2019.

AG: Thank you Nigel. This chart shows the relative performance of the US as measured by the S&P 500 versus the rest of the World ex. US and Canada. What you can clearly see is post the Great Financial Crisis the last decade has really all been about the US.

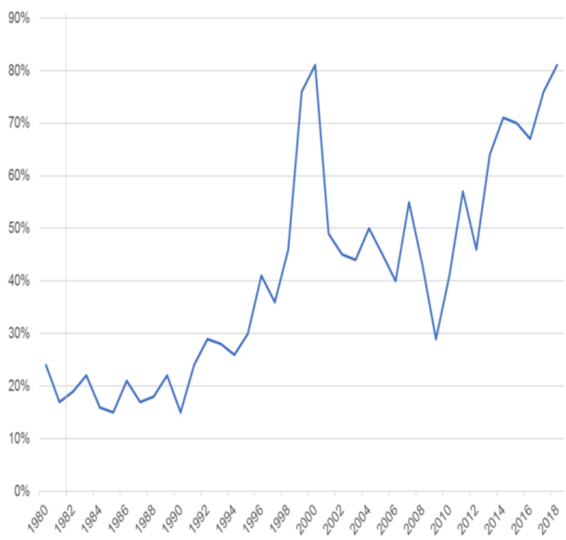
S&P 500 vs MSCI EAFE (price indices).
Source: Bloomberg,16thSeptember2019.

Historically geographies have been quite highly correlated in global markets, but that hasn't been the case since 2008. When we were back in 2009, we had quite a full weighting in the US, we owned companies like J&J, Microsoft, etc. We are completely driven by the valuation and the Value we can find, if we can't find an opportunity in a country then we won't go there, and over time we have reduced our weighting to the US given the outperformance.

Now turning to valuation, this chart shows the US economy as measured by nominal GDP, and the Value of that economy with the Wilshire 5000 index. This in effect is a valuation of the US market, and you can see we're right back to where we were in the '99/2000 level, and this is just a guide again to highlight the valuation of the US and why we are struggling to find Value opportunities there.



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



Source: Professor Jay Ritter, University of Florida.

In terms of sentiment, what this chart on the left shows is the number of unprofitable IPOs that are now coming to market in the US. You don't need to be eagle eyed here to spot that we're right back at what was termed the TMT bubble era where people were clearly saying there was a mania. Well we're seeing symptoms of that again in the capital markets, particularly in the US, and when something like WeWork can go from being valued at US$47 billion to within a matter of months being valued at US$8 billion it tells us something about the sentiment and what's happening in capital markets.

Now this chart is very important. We're Value investors. What this shows is the top 20 constituents of the MSCI ACWI Value index. First of all, you will notice if you go down that basically all the names are US until you get to Toyota here at number 20!

The next thing you should notice is that there are around 11 of these stocks that have a forward P/E greater than 15 times. There are actually six that have a P/E over 20 times, in fact Procter & Gamble is the third largest holding in the Value benchmark on a P/E over 25 times. This highlights the US phenomenon that we've seen, and how this benchmark is created from the top down. They fill the US bucket with the cheapest half of that market which means they have to include stocks that we wouldn't really consider Value stocks.

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.

In fact, you can see here that the forward PE on our portfolio is 11 times versus 15 times for the MSCI ACWI Value index. The green boxes represent stocks that, superficially at least, might be helpful for us from a valuation perspective, they would reduce the valuation metrics for our portfolio, but everything else in red would deteriorate the valuation of our portfolio.

The ones in green, you will see here Citi and Toyota we actually own in the portfolio, and then some of these, for example AT&T we actually hold a similar stock e.g. BT where we think it is significantly a better Value opportunity, and also some of the US banks where again we think there are better Value opportunities elsewhere.

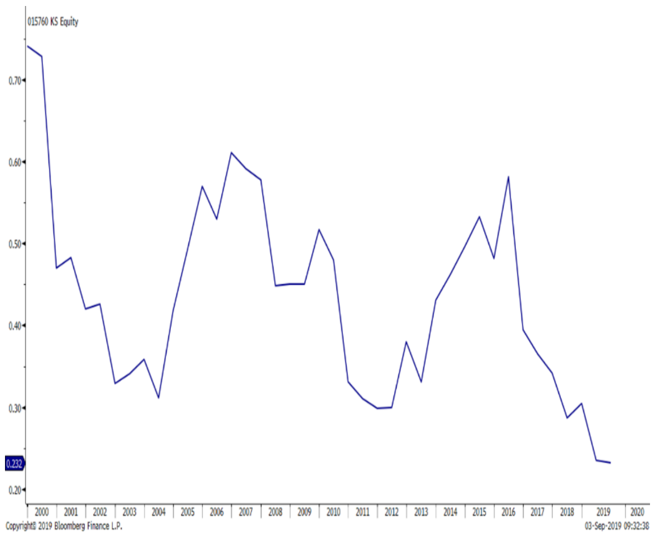
NW: Thanks Andrew. Okay, so let's have a look at the stocks. We've spent time talking about top down macro, that's not really our thing, but it helps to explain the backdrop and the environment we've been investing in. Here are the list of the top five contributors and top five detractors from relative performance so far this year by name.

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.

On the left-hand side that list is led by Bayer and Allergan, both new purchases, and we'll talk about both. In terms of detractors the worst performer this year so far has been Korea Electric Power. For those that came in April, when we talked about the fourth quarter of last year, in fact Kansai and Korea Electric Power, both KEPCOs in their respective markets rather confusingly, they are in the bottom five detractors, they were the top two performers in the fourth quarter last year, so they do have their moments in the sun, and we'll talk about Korea Electric Power, but obviously when we come to Q&A we're very happy to come back to the slide and talk about any of the stocks that you see in front of you.

Let me start though with addressing KEPCO. KEPCO is a stock that we bought in 2017, at what was close to historic lows in terms of its valuation on a book value basis. We could see that it had been earning perhaps above its historic norms, but we felt that the valuation had come down to reflect the fact that looking forward the earnings power of the business would be less than it had been over the recent two or three years, we felt that was already priced in.

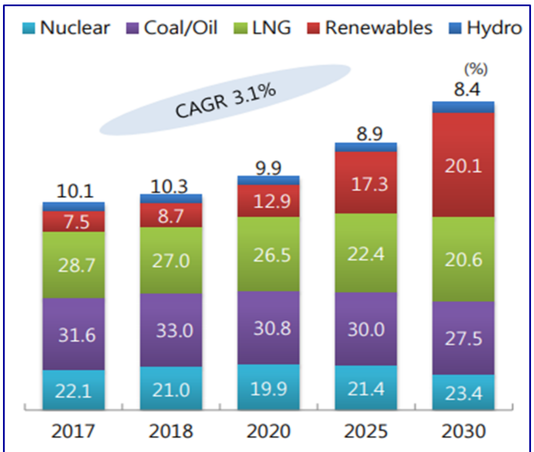


Source: OP, Bloomberg. Date: As at 3rd September 2019.

We felt that for the incoming government at the time, part of its policy was to improve the carbon footprint of the electricity generation which is dominated by coal in Korea. They were also anti-nuclear, so wanted to reduce the exposure to nuclear and they wanted to reduce exposure to coal, increase renewables, and we felt that the only way they were going to do this was to increase tariffs on electricity, and that would ensure that the long term ROE of this business which is probably average just over 5% was something that we felt could be maintained going forward.

Unfortunately, we were wrong. The politicians were duly elected and then went ahead with, shall we say, a slight abuse of minority shareholders. The government owns 51% of this company and they have gone ahead and reduced exposure to nuclear through a very painstaking and difficult monitoring programme, therefore reducing the utilisation of the nuclear fleet. They've also been taking out cheaper coal power, particularly during the summer when the environment is obviously most damaged by that output, and that has caused red ink for the last year and probably again this year, although it does look to us like it will return to profit next year. So that is why we have moved to new lowest valuation of all time and make it also the cheapest stock in the world on a price to book basis at zero point two of book value.

KEPCO is a business which is really setting itself up for continued growth. This is the output from the eighth electric supply and demand plan that was established in 2017 by the Ministry of Trade and Industry in Korea, and what you can see is that they are gearing themselves for a 3% compound annual growth rate in electricity supply and demand, and you can see the components that they foresee taking part in that. So very substantial CapEx every year between 12 and 13 billion US dollars, this is not a small undertaking, so you do need a strong business in order to do this.



Yrs	2017	2018	2020	2025	2030
MW	116,968	121,455	131,832	150,432	173,732

* Source : The Ministry of Trade and Industry, Energy, Dec. 2017

It is pretty much the monopoly in Korea with total, 100% ownership of all the T&D assets, transmission and distribution assets in Korea, and about 85% of power production, so it is essential to the future of this plan. And the government is shall we say stressing the balance sheet and driving up gearing which is why the stock has underperformed for now, but we know from history that they give up, that they recognise that there are limits to how far they can push this, and then they will put it through a tariff increase, but they're just delaying that.

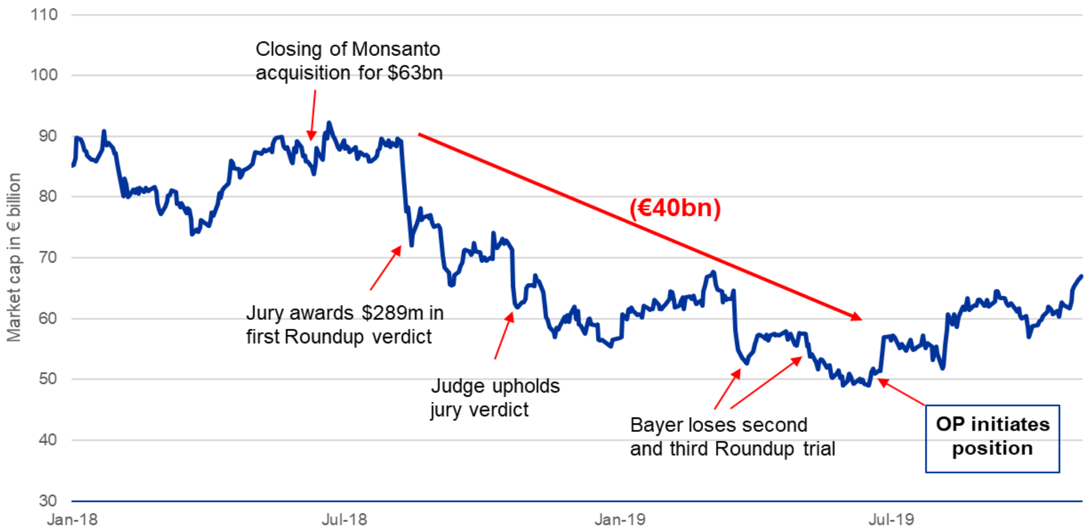
So, we are happy that this will happen, and as you can see a return to anything like half of book value gives us substantial upside of 120%, so we're sticking with KEPCO. Christoph can you talk about Bayer?

CO: Sure. So, Bayer is a major German pharma company and became global number one in crop science after buying Monsanto for $63 billion last year. Today the business derives around 40% of profit from the crop business and 50% from pharma.

Now, jumping into the crop business. Crops is a concentrated industry with four global players, Bayer is number one. Based on the analysis that we have done at Oldfield Partners we believe the industry and Bayer can grow at 2-3% per year and profit margins in the mid-20s are sustainable for Bayer.

But we also came to the conclusion that the $63 billion that Bayer paid for the Monsanto business, 14 times EV/EBITDA, was too much. During our due diligence we talked to Monsanto's competitors and looked at the single crops that they are serving and the supply and demand balances, we benchmarked their products with the competition, and taking all these things together we came to the conclusion that the acquired Monsanto business is really not worth more than 10 times EBITDA or about $42 billion including synergies. That was a key consideration in our valuation analysis, and we will get to that in a minute.

We bought Bayer in June and the opportunity came about because Monsanto lost some court cases related to its Roundup weed killer. To give you some more background, the



Source: Bloomberg, OP Research. Date: As at 6th November 2019.

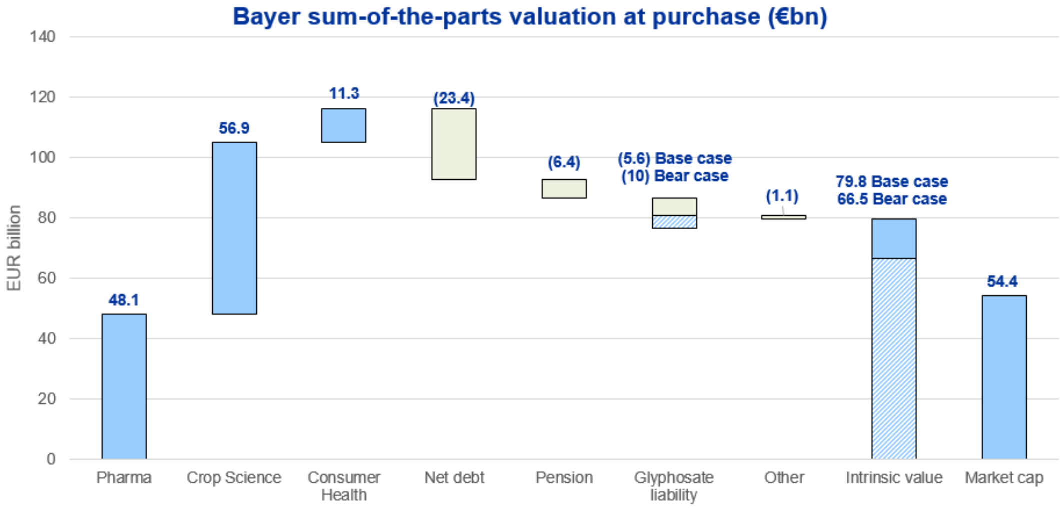
acquisition of Monsanto closed in June last year, and a couple of months later in August a jury in San Francisco awarded $289 million to a school groundskeeper in California who used Monsanto's product, twice got soaked in it and later developed Non-Hodgkin's lymphoma. Over the following months, Monsanto lost two other trials and that took the total drop in market cap to €40 billion before we first bought a position in the stock.

We have done our own independent analysis of the litigation and came to the conclusion that €40 billion is excessive and we believe a €5-10 billion settlement is more reasonable. As part of that due diligence we first considered precedent court cases. One I would like to point out is Vioxx. Vioxx was a painkiller developed by Merck, but it was also found to cause heart attacks and strokes. We at Oldfield Partners were invested in Merck back in 2005 when a jury in Texas awarded $250 million to a plaintiff in a first verdict, and like Bayer today the share price tanked on the back of that verdict, but ultimately Merck ended up settling 27,000 cases for under $5 billion, so about $180,000 per claimant. Another case I would like to point out is Xarelto. Xarelto is one of Bayer's key drugs, it is a blood thinner, and plaintiffs alleged that it could lead to uncontrolled bleeding events and even death. Just earlier this year Bayer settled 25,000 cases related to Xarelto for under $800 million. The takeaway for us was that these court cases do tend to settle for much less than the €40 billion we see implied in Bayer's share price today.

In addition to the precedent court cases, we considered the evidence. Regulators around the world consider Monsanto's glyphosate product safe, and over 800 global studies confirm its safety. There is one study I would like to point out in particular, and that is the Agricultural Health Study in the US which is an independent study where scientists followed 54,000 farmers for a period of 20 years and they could not find an association between glyphosate use and cancer risk. This year the EPA in the US even came out and issued a statement saying that Monsanto would not be allowed to put a warning label on their glyphosate products because the products are safe and hence consumers would be misled.

As the final piece of our due diligence, we considered legal opinions as well to understand Bayer's settlement strategy. Putting all these pieces together one may conclude that Bayer have a very strong case and should not settle this at all. However, we also recognise that pressure from the media and pressure from shareholders is very strong, and management will be inclined to settle this case, but we do think it will be in the €5-10 billion range that we have established.

That is our sum-of-the-parts valuation as at the time we bought the stock in June.



Source: Bloomberg, OP Research. Date: As at 20th June 2019.

As you can see, we considered two cases, a base case and a bear case. In the base case we assumed a €5 billion settlement of the glyphosate litigation. In the bear case we assumed a €10 billion settlement, and in the bear case we also assumed lower growth rates, lower profit margins, lower valuation multiples. With these two cases we got to an equity value of €80 billion in the base case for Bayer and €66 billion in the bear case. Now at the time we bought the stock the market cap was only at €54 billion, so we did not see any downside in our bear case and 50% upside to the base case. Based on that favourable trade off the purchase decision was made.

NW: Christoph, thank you very much. Now there is a slide on ESG given that we've just covered what some people would consider two ESG horrors. This is the point to talk about how we view ESG, and how we integrate it into our investment process, because both KEPCO and Bayer are often seen by ESG first investors as those that are doing bad and therefore not available for investment.

We are of course Value-first investors, but we think it essential to consider ESG risks when we're analysing our companies, as Christoph has just talked about in the case of assessing Bayer. We are very much aware that by taking on these companies that may be under a cloud, may not be producing the best ESG scores, they can be improved and that can yield a valuation improvement in a stock. That is something that we do through engagement with the company with a goal to really improve or lower the ESG risk in that name and therefore improve the valuation of that company.

On this slide we have a selection of the engagements that we've done over the last 12 months. You can see starting at the top with cyber security was a global initiative run by the UNPRI, and where we ended up taking co-lead on the engagement with Tesco around their cyber security preparedness.

This is clearly a very touchy subject with pretty much all corporates, particularly those like Tesco that own a bank, but it's something that we felt we wanted to see an improved disclosure in the case of Tesco where their preparedness was good and certainly had been improved by their mistakes that they had suffered in prior years. We've taken what we have learnt from that engagement and really gone to task on some of our other holdings as you can see here, Lloyds, Kansai, BT, Toyota and MUFG, names that we felt were weakest in their responses, and we have taken best practice from Tesco and the PRI collaborative engagement.

Source: OP.

So we're trying to improve the governance and the other issues with these companies. You can see from the slide the issues: CEO compensation, carbon emissions at KEPCO and their lack of disclosure, which is frankly awful, capital allocation decisions, a wide range of items that we have engaged on in the year.

Most recently we joined up with Climate Action 100+ and IIGCC on climate change, because it struck us that the Climate Action 100+ group is there to engage with the 161 most polluting industrials in the world that together account for 80% of the world's industrial CO_2 emissions. We may be a value-first manager but that doesn't preclude us from playing our part in driving the companies in which we invest on your behalf to prepare for, and achieve, net zero carbon emissions by 2050 to align themselves with the Paris-agreement goal of net warming of only +1.5 degrees.

All of that and our engagement is very much embedded within what we do, but we certainly don't exclude those companies that need a bit of improvement on the ESG front, we think that is part of releasing value.

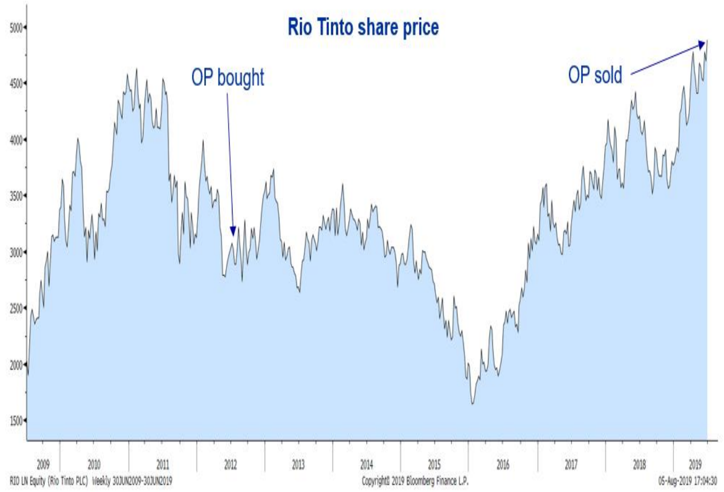
AG: This slide shows the dealing activity on the strategy over the period. As you will see we are typically low turnover, around 20%, maybe 25% per annum, that's certainly been the case this year, and we'll just go into a couple of the names in more detail.

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

Source: OP. Representative global portfolio used.

So, we’ve talked to Bayer. Allergan, which was a purchase in the second quarter, I won’t spend much time on this, just to say it was trading on a single digit price to earnings ratio, we were seeing double digit free cashflow yields, and we felt it had a really strong franchise and growth potential, in particular from Botox which was used in aesthetics and increasingly for medical uses. Shortly after purchase this received an approach from AbbVie which was at a 45% premium, and that deal looks set to close in the first quarter of next year. So, it was a good investment, great IRR, but we will have to find a new name shortly to replace it.

NW: I will cover the two sales that helped fund our purchases of Allergan and Bayer this year. Rio Tinto which we held, as you can see, since 2012. With hindsight we bought this too early, but it was a very, very strong performer in absolute terms, delivering an 80% total return over the period of holding, and as we know the market has been incredibly strong too, up 100% during the period, so we didn’t add relative value through this purchase, but it was very much a high quality stock with a fantastic asset base, great cash generation and high returns on invested capital. Our opportunity came really with the decline in the iron ore price after the bursting of the bubble in China and concern really around their capital allocation under the previous management teams, and we felt that that would be improved.

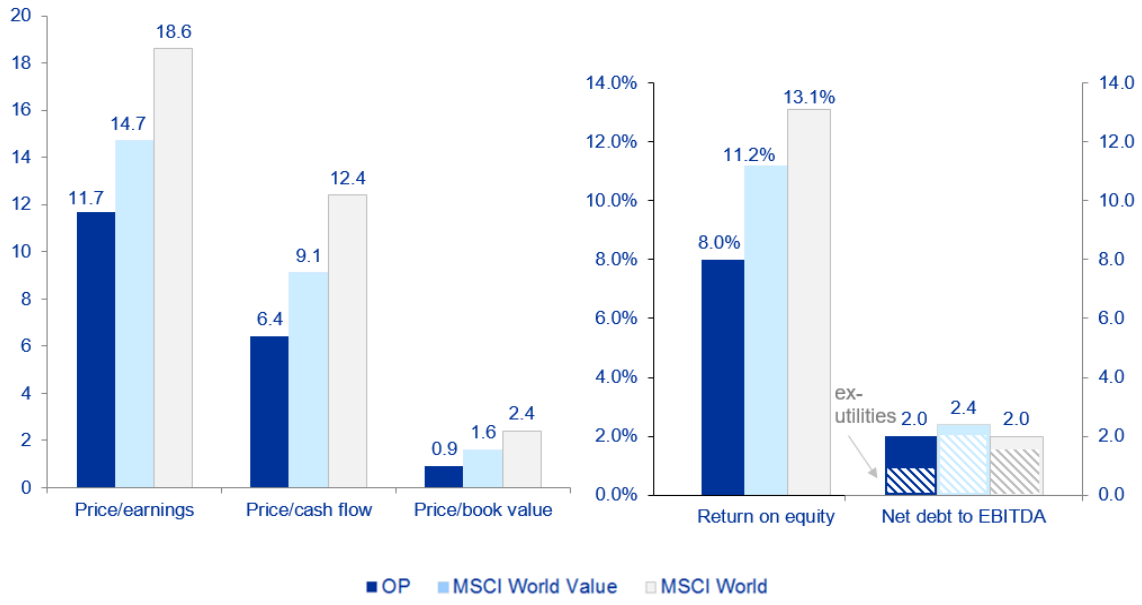


Source: OP Research, Bloomberg.

In the case of JR East, this is the Japanese rail company, highly defensive cashflows, definitely hidden asset value, certainly in its property business, and a low absolute valuation, that’s what drove us into the stock originally. Again a 40% total return over the period, but the market outpaced it overall.

The reason that we sold it was because in our engagements with the company what became clear was that they were softening on their internal hurdle rates for investment and that worried us greatly. There was talk of tomato farms in far flung places in the country to perhaps drive traffic to their railway, which was a worrying signal to us, and we had another opportunity in Bayer as we have already discussed.

AG: We often show this chart which is the valuation characteristics of the strategy. You will note the dark blue line in terms of valuation. A significant discount, as hopefully we’ve outlined, to the Value benchmark. This is using historic PEs at this point here, and certainly relative to our benchmark which is the MSCI World. We’re trading at around half the valuation levels. This is absolutely critical for what we do. We believe the starting point of a low valuation not only drives capital growth but protects the capital and that’s essential for us.

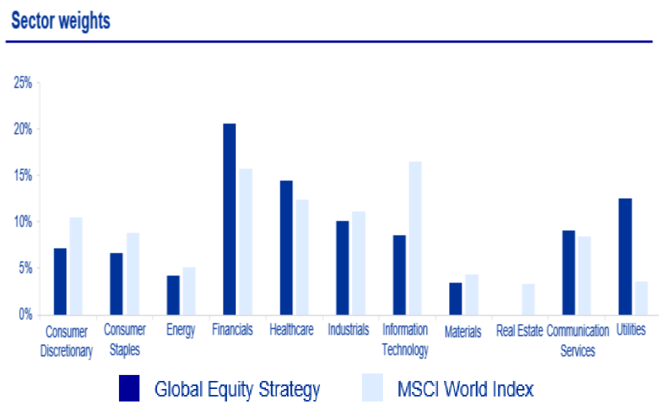


Source: OP, Bloomberg. Date: As at 30th September 2019. Representative global portfolio used. Based on MSCI method. Net debt/EBITDA excludes financials and includes only industrial net debt where applicable. The ex-utilities net debt/EBITDA values are as follows: OP: 1.0x, MSCI World Value: 2.2x and MSCI World: 1.8x.

Some of the headline metrics. There is some give up in the fund in terms of the current return on equity, and that's because we do have a number of names that are in recovery and are showing improvements.

Again, a key risk metric for us, and a key measure that we watch, is the leverage of our underlying holdings. We don't like combining lots of operational leverage and financial leverage. You may see great upside, but if you're slightly wrong on those fundamentals that's where you can hit serious value traps, so we control that at the stock level and also at the portfolio level.

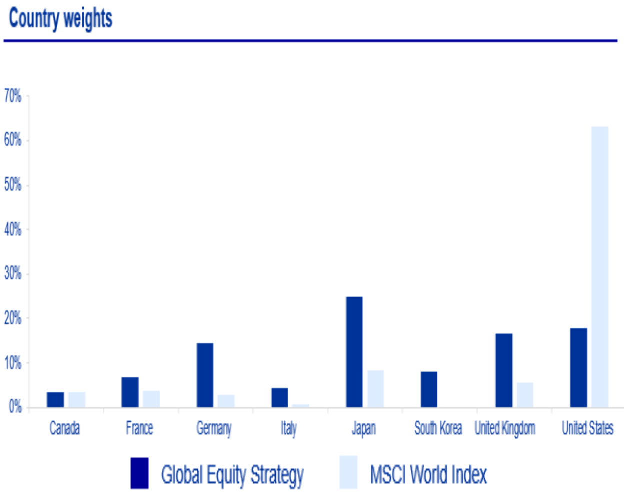
Turning to the sector weights, again to emphasise that this really is an outcome of our bottom up stock selection, we're all as investment professionals scouring the globe looking for stock specific investment opportunities, if we can't find an opportunity then we'll step away, we're benchmark agnostic, we're not driven by the benchmark weights.



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

In terms of sector weights, there isn't huge disparity here, but where we can't find Value we will be zero weighted, so healthcare is a good example where we were zero weighted at one point two to three years ago, we actually now have three healthcare names in the portfolio.

Where it's more stark clearly is on the country weights, and hopefully some of the slides I was showing earlier explain that if we can't find Value opportunities we won't be there. Clearly a big area is the United States which now is dominating benchmarks, whether



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

it's a Value benchmark which again is top down, it has about 60% weight into the US, but we are struggling to find Value opportunities there.

Where we have found opportunities though is Japan and the United Kingdom, and just to highlight, I would like to focus on Japan as a market where we really feel that investors are not only absent but just missing a great opportunity where real change is occurring.

This shows all of the holdings we have in the portfolio that are in Japan.

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.

Firstly, to focus on the return that you're getting as a shareholder. You are getting a 2% dividend yield on the S&P 500 right now, all of these companies are delivering well in excess of that, and some on quite low pay-out ratios, and one thing again we're seeing across the board in Japan is an improvement in the pay-out ratios.

We're also seeing increased share buy backs, and that's driving the ultimate return. I will mention Nomura in a moment, but again the thing to highlight is the starting valuations for these companies. Most of them are on single digit P/Es, you saw the benchmark PE of 18 times, and most of them are on significant discounts on a price to book basis, so there's value in this market.

We highlight here what we call 'under-appreciated Value', this is how we look at stocks. One of our favourite ways of looking for Value opportunities is the sum of the parts methodology, and this is where you can really dissect these companies and find assets, many of which are listed equities, that again the market is just ignoring, these are real assets on the balance sheet and can drive shareholder Value creation.

The most recent example we have in the portfolio is Nomura. In June they announced that they were going to sell a third of their stake in Nomura Research Institute, a management consultancy business, they held a 28% stake in, this is separately listed, and was trading on a PE of 23 times, it made absolute sense to us , and you will notice from the ESG slide it was something we were engaging with management on, encouraging them to do this.

So they announced a sale of a third of that stake, they announced they would then do a share buy-back which would be completed by March 2000. We estimate that this means that they're in the market, buying back about 10% of daily volume every day between now and the end of March, and that gives us a return of well over 8% just in the return of capital, and that's only a third of the stake in Nomura Research Institute. They also have a real estate business as well.

Since they announced the share buy-back in June of this year, the share price is up over 50%, and this just shows you the Value that there is in Japan, and we absolutely look for this when we're looking for opportunities there.

NW: Okay, so here we have the entire portfolio on one page, and we're happy to answer questions on any of it. I will just highlight a couple of points first. The first is this unlabelled column is the weighting in the portfolio, so you can see that from seven per cent down to three. We have 22 stocks in the portfolio so it's fair to say that the starting weight of any standard opportunity that we would come across is between four and five per cent.

Company Name		Share Price	Primaryvaluation 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

Source: OP. Date: As at 30th September 2019. Representative global portfolio used.

What you can see down the centre is the primary valuation method, SOTP being sum of the parts, others price to earnings ratio, price to cashflow, etc., so what you can see here are various valuation methods, that's the primary method of looking at the stock.

One aspect of everything that we do is that a stock may look cheap on one or two particular measures but how does it look on all appropriate measures, and we call that triangulation. It's very, very important to us that even if it may look cheap on a price to book basis, we need to know how it looks on earnings, on enterprise value-based metrics, that can tell you a lot about the companies.

As Andrew talked about, leverage is important for us to incorporate into our valuation work which is why we use both price and enterprise value-based measures. We list here a primary valuation method and it varies really depending on the sector and the country of the stock that we're analysing.

The valuation targets give us an implied price and therefore an upside or downside, and the total return column just adds in two years of dividends as well.

On the far right hand side you can see the initials of different members of the team with primary responsibility for monitoring those particular companies.

Overall you can see 38% weighted average upside in the portfolio today, and that is set against a long-term average of barely 30%. The minimum for any new investment is 25% over two years in terms of upside.

That brings the formal presentation to a close, we're very happy to take questions.

Q: *For those of us who are not good at mental arithmetic with small font - on your 38% upside to the portfolio, is a large part of that coming from Japan then from what you've said?*

NW: I can't do the arithmetic that fast in my head, but clearly looking at the upsides that we have on some of the Japanese stocks they definitely play a key part of that 38% upside, but not disproportionately actually looking down the list.

Q: *Could you say a word about Tesco and BT?*

NW: I will take Tesco and then I might hand off BT to someone else. BT obviously very topical given what happened last week.

In terms of Tesco, we've been very, very happy with the performance of Tesco so far this year, a top five or six performer I think in terms of absolute return. We still have about 25% upside to fair value which we think is just shy of about £3 a share.

We are disappointed to see the departure of Dave Lewis, the Chief Executive. I don't actually blame him for leaving, I think some of us would probably have left, had we achieved what he appears to have achieved over the time that he's been there - we would probably be tempted to take our reputation and leave that intact, and leave the cut and thrust of day to day grocery competition to someone else.

They have hired a replacement from the US with a private equity background, currently working in Alliance Boots is where he's COO at the moment, Mr. Murphy, so that is the future, but they laid out an excellent summary of the opportunities they face both in terms of efficiencies and growth at their capital markets day in June where they basically covered a range of areas across the business where they could either take out costs or whether they could improve the performance of the business or whether there was growth, and I think that reassures us that there is a runway of sustainable growth from Tesco, but it is undoubtedly a very competitive sector, but very defensive.

On BT, Sam, do you want to talk about BT?

SZ: So, I'll break it down into two parts, the first being BT before last week's announcement and then BT after last week's announcement from the Labour party.

So our view of BT was based on a relatively simple approach which was there's effectively an operating side to BT where they sell services to the likes of us and businesses around the world, and then there's the network which is Openreach, and we valued the operating business which included EE the mobile operator at 10 times free cashflow, and we think this still remains a sound approach, and we valued Openreach at a small premium to its asset base, and when you added that all up and took off the debt that the business had as well as the pension deficit we had substantial upside, I think that's the number that you can see on the chart there which is around £3 a share, as well as a very useful dividend which may be at risk.

So the big question in our mind when we invested was around how Openreach would upgrade its network in the coming years as it had to roll out fibre to the home, but we felt that BT was very well positioned to do that, best positioned to do that given its existing size and scale and so forth.

When we invested, the Labour party's stated view was this was not to be nationalised, didn't need to be nationalised, and clearly that's now changed.

I wouldn't want to make any profound statements at this point about what they can actually do in terms of nationalisation, there's been some numbers that have been floated around which actually are not that dissimilar to numbers that we've used, so I've read around the £15 billion mark as one suggestion, but it's actually quite hard to work through the announcement because I'm not sure that the Labour party themselves have worked through it all, so until we have more clarity it's hard to reach hard conclusions about what it would mean.

I mean the stock itself on the day didn't move very much for what that's worth, so that's the position on BT today.

Q: Can you help me through the valuation thinking, because you highlight a price to book discount, but then I equally look at the ROE which is in single digits and arguably below the cost of capital and destroying value…….

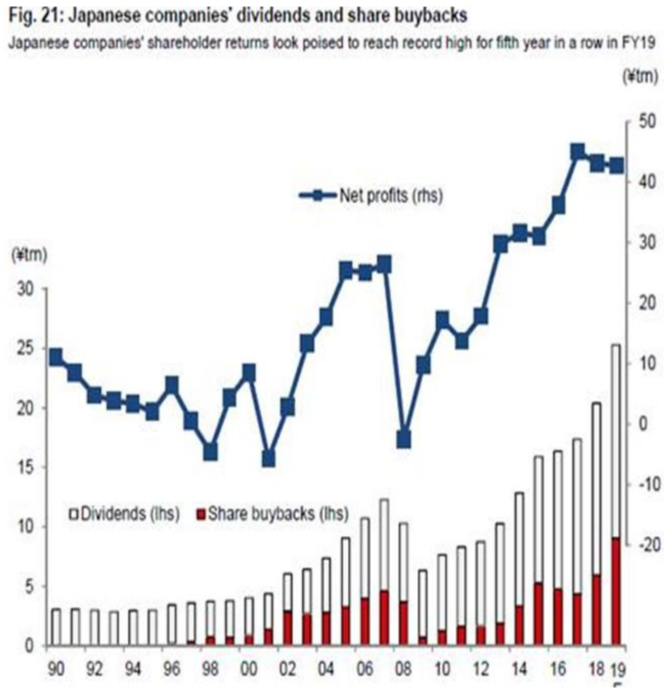
NW: You're talking about for KEPCO here?

Q: Oh no, just generally for the portfolio. I'm trying to get my head around this. So is the challenge and the catalyst required to realise that value any less than it would be for a Growth company to grow its earnings commensurate with a high PE, so is there really value there that's providing a safer portfolio given the need for a catalyst to realise that, because I would argue as it is with ROEs at seven/eight, destroying value compared to costs of capital, the discount is merited?

AG: One of the key reasons is the Japanese holdings, they are on low single digits in a number of cases in terms of return on equity. What's less often said though about that is actually one of the reasons for this is what we were showing for the Japanese holdings, it's the listed equities on which they're earning low returns and it's the net cash on the balance sheet which is clearly earning zero, so all that is currently depressing the return on equity.

As they start to realise some of these assets, that is freeing up and improving the returns, so there are a number of cases where we have recovery situations, but also it's the asset rich balance sheets if you like which, again if you do a straight analysis yes it's low returns but for us these are ultimately great value drivers.

And there's a chart we have, which shows the level of share buy backs in Japan, and you can see something clearly is going on here, not only are we seeing this net profit so to your point the return on equity, so the net profits clearly now has broken higher than we've seen previously in Japan. This is also showing you the dividends and the share buy backs, and then this is the estimated for this year the level of buybacks, and so again record levels.



Source: Nomura.

So, this is happening in Japan, and we think that absolutely will then improve future returns, and that's what it's all about, the potential.

NW: In a few cases when we buy a stock we do identify a catalyst that can take place, but that's actually relatively rare. Our view is that if it is as cheap as we think it is, then history tells us that normally a catalyst will come along, but the key to it is that expectations are low, people have generally given up, and that is a good starting point.

Over the very long term that mixture of low expectation and low valuation is a powerful combination, and that over the long term it has produced significant outperformance over Growth, but clearly we have been through in recent years a boon for a very relatively small number of now profitable firms, but there are others out there that, to Andrew's chart, still aren't producing any profit.

We could have a separate session on recent quotes from these companies, our favourite quotes of the moment. WeWork has lots of them, but the other "profitability isn't one of our key metrics", which is another sign of the times.

One final point is that the concentrated nature of our portfolio means that one or two companies can heavily skew our portfolio-level statistics.

Q: *What sort of things are you looking for in the market that will push it from Growth back into Value, because I mean this could go on for another two or three years. The metrics are all very encouraging but actually if you look at the bond market, we've still got masses of negative yield, I mean all the FAANGs and the bond proxy stocks the money's still pouring into them, what's actually going to shift the market back into Value?*

NW: The quippish answer is I wish I knew, and obviously we don't, but there are several issues at play. Interest rates, which you were alluding to, is one of those, and certainly we think that will have a bearing. If you look back a year ago where interest rates were, the yields in the US were running through 3%, you saw that rise in the discount rate impacted quite significantly in the growth end of the market.

But there are all sorts of other issues around competition. There's an example here of Netflix being a disruptor and the business cycle playing out.

And as you will know, for those who have read your Economist over the weekend, there is a tidal wave of free money which has been thrown at this and generating competition for all sorts of firms, some of which we invest in, others we are staying well clear of.

Netflix is a good example where it itself is not generating much profit and still burning cash very heavily at this point. It may well be the number one standout winner in the long term, but it has to go through intense competition and a transition first, and that free capital is certainly making competition much harder now, but it's also low on returns and it will have a natural cycle, it will bring down returns.

We have another chart showing CapEx to sales among the FAANGs and that's gone from very low single digits, 20 years ago now, to mid-teens. This is not the capital-light business that people would have you believe.

Through a mixture of competition, the natural capital cycle and interest rates, we think that we're coming to an end and, I think to your point, really I can't point to a necessary catalyst that it is changing this week or next week, all I can point out is the extremes of the Growth phenomenon and momentum factors that you've seen this year, and the underperformance of two of the worst months in more than nearly 70 years have occurred this year. That shows you we are at an absolute extreme in terms of the performance of Value versus Growth.

AG: Just to add that our job really is to stick to that Value discipline, because there are all these pressures that as an investor mean that ultimately, you're pressured to drift. If you're about the business of gathering assets and you see investment as a business, then maybe you do drift, and we've seen that amongst some competitors - they find ways of changing what they do to accommodate the pressure from the underperformance of Value. We absolutely have to stick to that discipline. As we saw in 2000, when that turns Value will come back in spades. When you see the Value index itself having PEs of over 20 for six constituents, over a quarter of its top 20, PEs over 20 times which we wouldn't consider Value, we have to stick to that discipline ultimately because we know that will deliver.

Q: *I couldn't tell from the earlier chart, but does this valuation come back typically and only in times when the market is in serious decline?*

NW: The answer to that is no, and just more recently if you look at 2016 that was a very positive year for equities generally, and yet, that was the best year we have seen in a long time. It was a positive year for equities, and we outperformed very significantly in that market, so no is the answer.

Q: *Following on from that, your potential upside to intrinsic value of 38% I thought was quite interesting, but I was surprised that you said that the long term average has only been about 30, so I would've expected perhaps a bigger upside, so maybe you could talk to that, and also how that particularly looked in the beginning and end of 2016, I'm just curious, I don't know?*

NW: In February 2016 we had just shy of 70% upside in the portfolio, we had 64% upside in March 2009 to give you context to history, and I think that plays to the valuation of all markets at the time, but the minimum upside we require is 25% and some stocks are on their way towards target at any one time. This "free capital" that has been alluded to has bid-up the valuation of all asset markets, which is also a factor.

AG: We're trying to build in a margin of safety, not only in our forecasts but also in the valuation multiples that we've adopted, so what we haven't done over time as markets have ratcheted up, we've very loathe to increase our valuation multiples ever higher in a buoyant stock market.

Q: *I have a question about the Japanese slide. On the right hand side you were showing I think investments that these companies had, and Japan Post, for example, you said something like 121% of, I wasn't quite sure what it meant, it sounded as though the investments on the balance sheet were more than the market capitalisation of the company?*

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
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Nomura	Broker	3.1	29	8.3	9.2	0.6	29% stakes in listed NRI and NRE
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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.

AG: Well, spot on. Basically, you buy Japan Post Holdings which is a holding company, they own 89% in JPI, Japan Post Insurance, that's a separately listed entity, they also own 89% of Japan Post Bank which is the largest bank in the world by deposits. So, we've got market values for those, they're separately listed.

What we've also included is they have, and we think this is incredibly conservative, they have a five billion dollar rental property portfolio which they have again a market value separately derived, so we've taken those, we've not added any value for the actual post office business itself, and then all of the potential other property assets that they have. There's absolutely, as you've identified, an arbitrage opportunity with what we can see as separately listed market values today.

Q: Unless of course the post office is severely loss making… and the liabilities…..

AG: Absolutely.

It's a terrible business, post office. You've got a fixed cost network, you've got declining volumes through mail, but in Japan the parcels are making up for that, and they've actually turned it into a very profitable business. This again is a sign of things changing in Japan. There have been no price increases on parcels for about 30 years, but now they have introduced on their packaging side price increases for the first time of about 8%, and similarly this business has a real value, and it's now generating significant profits.

NW: Any more questions?

Q: Is Lloyds the cheapest UK bank?

NW: Right now, I would say RBS is probably still cheaper on a book basis but, Richard Garstang or, Sam?

SZ: It depends how you're measuring it. If you're using price to book, I think Metro probably is the cheapest but that is a small company. On an earnings basis, off the top of my head, yes, maybe Clydesdale Bank might be cheaper, but I haven't looked at it in a long time.

Q: I suppose my question is why do we own Lloyds?

SZ: So why do we own Lloyds over the likes of RBS? There's a number of reasons. One is that banking is a commodity business so they're price takers fundamentally, and Lloyds is the lowest cost operator in that commodity business which is an important part of the process for us. We also think they're the most risk averse in terms of lending practices and those two things tend to go hand in hand in the banking market, so if you've got a low cost operation you don't have to lend as aggressively to achieve the necessary returns, and Lloyds is able to achieve those returns by taking less risks than some of the other banks in the UK.

Q: I suppose while we're on banks, I look at Citi at $70 or whatever it is, and you've got 30 something per cent upside, and it hasn't really played this here, it doesn't really seem to have done very much, and 30% upside doesn't seem very much for what has been a very painful decade.

NW: My numbers are different from yours; I think it's up about 40% this year.

Remember at the end of last year it had a dreadful three months. Richard Garstang, did you want to say anything?

RG: Yes, it has been strong this year after the poor end to last year. And the fundamentals are playing out and it is moving forward. Citi has a target return on tangible equity of 13.5% in 2020 and it is getting there. Management is looking to grow certain parts of the business while continuing to take out costs. Citi is returning all of its income via buybacks and dividends, so you are getting over 10% of the market cap back to you. And it's still managing to grow at a couple of per cent a year.

It's trading at about one times tangible book for that 12% to 14% ROTE range, so it still looks relatively attractive. And hence the 20% to 30% upside.

It's not as attractive as earlier this year when it was obviously a much lower price, and the upside then would've been a lot higher.

NW: Okay, well if there are no more questions we can break for a cup of tea, thank you very much for coming today.