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Oldfield Partners

Global Equities Investor Day

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RO: Welcome to this session. We will follow the usual format which lots of you are very familiar with. We will aim for this part of the proceeds to an hour, 40 minutes in which you can interrupt with any questions, but we'll leave 20 minutes or so for questions. Then we'll break for tea and if you want to go, go, but if a hardcore want to remain then we are always here without limit like a German AGM – we'll only go home when the last questioner is ready to go home.

I will open with some general comments and then I will hand over to Nigel and Andrew who will talk more specifically about the portfolio and what we've been doing, as will become increasingly appropriate. Most of you know that from the beginning of January Andrew and Nigel will be running the global portfolios as I go part time and so their words of wisdom on individual stocks will become, as I say, increasingly what you want.

This has been so far quite a good year, 2016 to date up 35.7% in sterling terms, even in real money up 12.6%. We've included what may seem to you a rather bizarre date, the 11th February. The reason that we do that is of course that it's a very flattering figure but we did at the time and not merely in retrospect believe that the 11th February might be *the* pivotal point. That was the point at which the Investors Intelligence Survey of Advisory Sentiment which we've followed religiously for the last 30 years or so appeared to be at an extreme, an extreme of bearishness which is a bullish indicator. That was the point at which everybody was worried about recession in the States - it had become a completely binary market in which if there weren't a recession then there were too many companies which looked exceedingly undervalued and we did not think there would be. And above all it was the point at which we got to a record level of upside in our portfolio. As you know we work on valuations for every stock in the portfolio. The valuations are a combination of multiples- price earnings ratio, price cash flow ratio, discount to assets and a variable in the form of the earnings or the cash flow or the assets. We tend not to revisit the multiple -it's very tempting when things are going well to come back to a multiple and say we think this is not worth the 12 times earnings which we thought originally, but 14 times. But if you do that there's a kind of double whammy in it and so we tend to stick with the multiple which we have fixed at the outset, but the variable of course does vary and in a perfect world earnings would be going up by 10% a year, stock prices would be going up by 10% a year and we would never sell anything. Life isn't like that, and so we reach the upside that is suggested by our target valuation, and we tend to move quite abruptly.

In mid-February the average upside in the portfolio got to I think just over 80% very briefly and we had been, increasingly, vehemently positive since October of last year when we saw the upside in the portfolio matching the upside of

March 2009 which of course was a pivotal moment. We looked back to March 2009 and we saw that over the ensuing two years, in general terms everything went up a lot, and the valuations which we had in March 2009 were more or less on the button for 16 out of 20 stocks, and that was very reassuring. So when we saw this colossal upside building towards the peak in mid-February we were very optimistic. We do feel that the worm has turned and we are quite likely to be at the beginning of quite a long phase of good performance.

Nathan Meyer Rothschild said in 1810 'buy on the sound of cannons and sell on the sound of trumpets'. In February there was certainly a loud sound of cannons. It is not so true now but there still is an enormous amount of cash around. There's a lot of gloom about, there are also of course lots of risks which account for the gloom but the corollary of the gloom and the cash is this, the most important chart for a value investor to keep under his or her pillow. This shows the ten year annualised return by starting Graham & Dodd price earnings, in other words today's prices divided by the average of the last ten years' earnings. The message of this chart is just overwhelmingly simple, but it's one which we all tend to forget. When price earnings are low, as shown in the X axis, returns are high over the next ten years, so with Graham & Dodd price earnings of 5 to 10, the average return over the next ten years is 11% per annum; with a price earnings of between 25 and 30 the average return over the next years is 3% per annum. The emotion at the moment and the gloom of times at which there are very low price earnings and the enthusiasm of times at which there are very high price earnings makes us easily forget the simplicity of this message that the chief determinant of returns over the next ten years is simply the starting point in terms of valuations.

Now at the moment the US has a Shiller price earnings or Graham & Dodd price earnings which is right over here and we are not at all positive about the opportunities that we can find in the States. We find some but we don't find very many. The European average Shiller price earnings is about 13 or 14 times and so that implies good returns over the next ten years. In spite of all the difficulties which we see at the moment which of course explain the very low valuations, it's only in difficult circumstances that one gets low multiples, but it is low multiples which are the chief driver of future returns. And another way of putting it is the way that Jeremy Grantham put it. He wrote in March 2009 an article entitled *Reinvesting when terrified*. It seems obvious but of course at the time it isn't obvious because terror keeps one away from the action one should be taking.

As I said we are somewhere away from the noise of the cannons of February in that there has been quite a sharp rise, but none the less there are two major dislocations in the world, it seems to us. One is this, and we've shown this chart in different forms before: over the very long term value - that's to say investing in companies which as on that earlier chart, have low valuations - value tends to outperform growth. But there are long periods in which it doesn't work. What this chart shows is that the period we've had since 2006 is about the longest in recorded history. The degree of outperformance of growth over value in the last seven or eight years is as great as it was at the end of the 90s during the tech boom when everything tech-related went to an extraordinary valuation and a whole lot of excellent companies which were not tech related went to extremely moderate valuations. So we've got as great a polarisation between value and growth as we had at the end of 1999. That is one major dislocation. We've seen now, this year, a little blip up and history suggests that these things do go in phases. Of course had we been clever enough to know all along, we might have done things a little differently but not necessarily, because if you do try to change your style in order to moderate the difficult times of underperformance I think that you lose your compass and if you lose your compass then the chances of good long term performance are greatly reduced.

That's one major dislocation which we are in a good position to take advantage of and the other is the outperformance of the US. The US has been a wonderful place, it's got a very resilient economy, the price of energy is low, policy action after the financial crash wonderful things about the States and there is a natural entrepreneurialism greater there than anywhere else. But, is it not very fully reflected in performance and in valuations? We've seen valuations. The US has outperformed the rest of the world to a greater extent than ever in recorded history. Most of my investing life the world has been getting smaller and there had become a sort of single investment market dominated by one large market, the US. In the last few years the divergences have been getting much wider and so I think the polarisation in markets is now much more geographical than it was in 1998/1999 when it was sectoral. Now there is this huge geographical divide between the US which is a very expensive place in market terms and Europe and Japan which have plenty of problems to explain their cheapness but are overwhelmingly cheap. And so we feel that the opportunities are pretty good, I wouldn't say they're as good as they've ever been, they're not as good as they were at the end of last year, but they're pretty good. The upside in our portfolios is still around 40% which is well above average over the last 20 years.

If we look back over the 20 years, and it will be exactly 20 years at the end of December in which I've managed portfolios in this strategy, we've had times like the last few years before, 1998 and 1999; in 1998 we underperformed by 10%, in 1999 we underperformed by 10%, the first quarter of 2000 the market was flat and we were down 8%. So we're used to those sorts of periods. It has happened before and it's then been followed by not one year but many years was quicker in the States than anywhere else so there are all sorts of

of something quite different. So I am very optimistic that this year will not be a loner, that it will be followed as last time by seven years of feast, there were seven consecutive years of outperformance. We've had a relative famine, we're in for some relative feast.

Finally, one of the reasons that we may get this change is exhibited on this chart and I'll ask Nigel to talk about it.

NW: Thank you. So I'll just echo a couple of things that Richard just said, very excited about the outlook for the portfolio, the investment winds do appear to have changed direction and as Richard said we still see 40% upside on average in the portfolio and that's after what is pretty strong performance since 11th February this year. So we are excited about the future. So why have the investment winds changed direction is the question. Well I suppose the first answer is just the extreme value that Richard talked about in February when our portfolio upside reached a remarkable value of 80% briefly - a level we'd never seen before. But another reason might be this chart that shows you the cumulative three year total return of MSCI World Value and MSCI World Growth since the first fed fund rise in each of the last six interest rate cycles. So what this shows you in blue is that the MSCI World Value Index outperforms Growth during periods of rising interest rates. This is empirical fact. So that's very encouraging given that 11 months ago we started the latest interest rate cycle with a first rise from the Federal Reserve. This is something that could be very supportive for our portfolio. You can see that 11 months in, in previous cycles we have seen small outperformance of value versus growth and that's exactly what's happened this time, with value outperforming growth by about 3% in the last 11 months, so we're on track. This is despite the fact that one might consider it to be different this time because interest rates are coming from a very different base and the pace will probably be different. But so far the markets are doing what they've done previously which is interesting.

Let's have a look at the portfolio characteristics. Let's start with the values on the left, entitled 'Valuation'. The dark blue is the portfolio and what this shows is that the price earnings ratio of the portfolio is 12, price cash flow is 5 and the price book is 1. As you can see relative to the other bars that makes the portfolio look quite cheap. Note that we've got two sets of index bars which is different from normal. Normally we just show you the light grey bar which is MSCI World, where we are at half the valuation of MSCI World. This time we've added the MSCI World Value index to this chart and you can see that the portfolio's valued to the big discount to that too.

On the right hand side are a couple of very important columns for us, the first is return on equity of the portfolio. We generally in buying a portfolio which is cheaper than the index accept that the return on equity of the portfolio will tend to be below that of the index and it is, but you're paying about half of what you're paying for the MSCI World. Arguably the most important columns I think are on the far right hand side and that's the net debt to equity. We ensure that the financial leverage of the portfolio is always lower than that of the benchmarks. That's very, very important. It is a control of risk for us. Generally speaking, leverage is not going to make a bad investment good but it could absolutely make a good investment bad. The portfolio is a collection of essentially sound companies at big discounts to their historic average valuations and low in absolute valuation. We are taking a contrarian stance and are big believers in the concept of 'reversion to the mean'. However one thing you need if you're going to wait for the value to be realised is the financial strength to see you through until the fundamentals improve or until the market begins to discount such an improvement. This is why we don't generally like to combine operational and financial leverage in the same company. We do it from time to time but we always make sure that the portfolio is always much less levered than the index.

Let's turn over to the next page to look at the contributors and detractors for the portfolio year to date. Richard and I are going to talk about three of the top five contributors and Andrew pulled the short straw and is going to talk about the worst performer which is Mitsubishi UFJ, the Japanese bank, and he's also going to talk about BBVA, the Spanish bank and our most recent purchase.

AG: So year to date 2016, financials across the board, as some of you will know, have been very weak and Mitsubishi UFJ, the largest bank in Japan, has been no exception and as Nigel said it's actually been our worst performer in the fund year to date, incidentally having been one of our best in 2015. Now we're eight years on from the financial crash and yet investors you can see this in this chart continue to fret around the current strength of bank balance sheets and also importantly the ability of banks to generate capital organically. That continues to be questioned and again in 2016 these fears intensified around litigation, around investment banking incomes and importantly around the move to negative interest rates. Now this is particularly of importance in Japan where the cost of deposits was set around 20 basis points and so the Japanese banks have very little room to pass on negative interest rates to their customer base and reprice deposits. But what we felt was that the share price reaction to this move was massively overdone. When we analysed the impact of the move to negative interest rates we felt that it knocked around 10% off the net income for Mitsubishi and this was confirmed by the bank. The share price actually fell by over 40% and this reflected fears in the marketplace that we would go ever deeper into negative interest rates in Japan. We bought more at that point and subsequently the Bank of Japan has stepped away from moves to go deeper into negative interest rates and the shares have recovered but only partially the losses that they'd endured.

We remain very excited by the opportunity here. When we spoke to the Japanese banks, one of the things that they said is that they can't pass on these negative interest rates because their IT systems were never designed to cope with negative numbers. Obviously they can re-programme and rewrite these programmes but it shows just how extraordinary and unprecedented this move has been in Japan. We still think there's a lot of opportunity in Mitsubishi, for us one of the reasons we like it so much is it has a very strong balance sheet and doesn't have some of the legacy issues that still hamper banks particularly in Europe today. When you look at Mitsubishi on a price to assets or a price to book basis it trades at broadly similar levels to the Royal Bank of Scotland here in the UK which actually does have legacy issues, it's having to resize legacy businesses, faces significant litigation and continues to have to de-leverage. These aren't problems that beset

Mitsubishi, in fact it has an excess of deposits with which it's trying to grow its loan book and in fact it has one of the strongest balance sheets, Mitsubishi over the last three years has bought back around 400 billion yen in shares, around 5% of its equity, it's one of the few banks in the world today that is buying back stock. Mitsubishi also owns 23% of Morgan Stanley. That stake today is worth $14 billion and that's around another 20% of the market cap of Mitsubishi alone. And yet Mitsubishi trades at less than half book value. That compares to the European sector average of 0.75 times and that's for a return profile that's broadly similar even in this depressed interest rate environment. So we continue to be very excited about the upside we see here in Mitsubishi.

As Nigel mentioned turning to another bank, as disciplined value investors, whenever we see capital flight, whenever we see fear, whenever we see other investors stampeding for the exit, what we often find is that this unearths some great value opportunities and we think we alighted on one this summer as we saw a wholesale sell off in the European banks. BBVA is a bank we've long admired from afar, but it's also traded at a significant premium to the sector. Even in 2009 in the crash it traded at a premium and then in the subsequent Spanish recession it was still trading at a premium to the sector – that is until this summer. One of the reasons why it's traded at such a premium is that it's seen as one of the best banks in Europe. Consistently management have been in the top three in terms of cost control and they've demonstrated a superior return profile amongst their peer group. In 2015 we have seen a real turn in the Spanish economy, you've seen private equity doing real estate deals, we've seen a peaking of non-performing loans which is in stark contrast of places like Italy and it had felt to some extent that we'd missed the opportunity here, but then again when you have that wholesale sell off, what actually happened in absolute terms on valuation, it fell below the level it had traded at in the height of the financial crisis in March 2009 and that relative premium to the rest of the banks was eroded, and this presented us with a great buying opportunity. But as Nigel and Richard have said to some extent this has been buying on the sound of cannons.

Let me just explain here in terms of our waterfall chart for BBVA and the build-up of the sum of the parts valuation, this is just one of the ways in which we've looked at BBVA and seen a value opportunity here. In fact it is one of our favourite ways of looking at investments because very often you can find listed comparables for the constituent parts of a company and that allows you to build up the sum of the parts and see if there is a valuation discount in the price today or in other words a margin of safety. What we'd like to highlight here is just the terrific margin of safety that was present when we looked to buy BBVA. So in the summer the market cap, this bar on the right, fell to 31 billion euros and that was the value of the entire group. Now we value Mexico on the left hand side at 31 billion euros, which means we get everything else for free in BBVA when we bought this stake.

BBVA has the number one bank, it owns 100% of the number one bank in Mexico. We've used a valuation comparable of the number three and number four banks in Mexico and we think that's conservative because we think that BBVA actually has the best bank in Mexico and should trade at a premium to these. So again we're building in a margin of safety in the valuation of Mexico. Mexico is a great franchise, it is delivering double digit loan growth and has a high return on equity. But clearly the cannon is Mr Trump and the risk is that if Mr Trump is elected as a US president and builds his physical and metaphorical wall what impact that will have on the Mexican economy. But this will show that even if we're wrong by 50% in our valuation of Mexico, well then we have the value of its franchise in Spain. We value them here at 17 billion euros. BBVA is now the leading bank in Spain, it acquired a Catalonia Bank in 2014 and here we're seeing real economic recovery and more recently political recovery in Spain. Again we're being conservative, to get to this valuation we are using a return on assets which is roughly half what this Spanish bank has achieved historically. And it's certainly on a recovery track now in Spain and so those returns should track higher. But again even if we're wrong in the valuation of Spain then we can turn to the valuation that it has in its South American operations, there it's got leading banks in Chile, Peru etc. and we value those at 9 billion euros. Again if we're wrong here we've got value in the United States, where it has a leading bank in the Sun Belt States around Texas. So at every stage we've got this margin of safety in the valuation leading to the upside in the share price. BBVA last month was our best performing share, it was up 24% in local currency terms but we still think there's a significant discount between price in the market today and valuation upside.

Now I'll hand over to Nigel to talk about another investment we made as other investors were fleeing.

NW: Hewlett Packard, some of you have been following us for a long time so you will have heard us talk about Hewlett Packard quite often. The reason we want to talk about it is because it's a very good example of what we do and how one needs to adapt as time passes in an investment. So Hewlett Packard has been one of the biggest contributors to performance this year. The old Hewlett Packard Company is now two companies. On the right hand side of the chart we show the two new companies, Hewlett Packard Enterprise is one half of the original business, it's everything that isn't PCs and printers while the PC and printer business is now named HP Inc. Now together they contributed to 2.4% of performance putting it just behind Barrick, so it's been a very significant performer. Hewlett Packard Enterprise is up 50% this year, HP Inc is up 30%. So good solid performers, but we still see potential for both companies. We use a sum of the parts approach to Hewlett Packard Enterprise and we think there's another 30% upside. In the case of HP Inc we think there's probably more like 20% upside but a nice 4 ½% yield while we wait, so that's also attractive.

I want to talk about Hewlett Packard because it's a good example of a stock where we had three bites of the cherry. That's a phrase that we use to explain that we limit ourselves to three purchases of the same stock over time. It's a soft rule we use, in an attempt to avoid the concept of the 'value trap', the occupational hazard of the value investor. When a stock falls on bad news and we are convinced that there's still a big gap between price and value we can buy more, but we can only do that twice, we can only have three bites of the cherry. After that time if we still like the company we can hold on to it, really almost with limitless patience, but what we can't do is add further.

We bought our first shares in the Hewlett-Packard Company in August 2011. Sadly about three weeks before they made the disastrous acquisition of Autonomy, for those who don't remember they spent $10 billion buying Autonomy here in the UK, we felt that they had wasted half of that, $5 billion, but the value of HP fell by $20 billion on the day the deal was announced. We felt this was an over-reaction so we bought more. It wasn't though until 14 months after our original investment that we bought our third bite of the cherry after the Analyst Day in October 2012. We had suffered much bad news during that time but we had done quite a bit of work on the cash flow of the company. We bought in October 2012 because at the time when there was not a single supportive voice out there in the market, all the sell side were negative, the press was negative, famously Lex were writing a column saying that this was a yesterday's company, "it's finished", it was marking out the end of its days. This, by the way, was a company that had $120 billion in revenue, the second largest IT company on the planet, and so we felt that approaching 25% free cash flow yield, the stock price had fallen so far that its tiny dividend was now producing a yield of 4 ½%, six times covered by cash flow, so this to us just made no sense which is why we bought our final slug.

What's happened since has been a massive restructuring of the company with Meg Whitman, CEO of the Hewlett-Packard Company, who is now CEO of Hewlett Packard Enterprise and Chairwoman of HP Inc. The stock price responded as the cash flow we felt would show through did so. Today we have a combined market value of US$61 billion for these two businesses. When we bought our last slug of HP it was valued at less than $27 billion.

What's fascinating about this, and is the other reason I wanted to discuss Hewlett Packard, is that this is a classic issue of market sentiment turning around. At the bottom of the chart you can see that when company was valued at $27 billion, it had gross sales of $124 billion, and on the right hand side you can see the combined sales today are actually 20% smaller now at $101 billion. The combined market cap has gone up more than 2 ½ times but the sales have gone down 20%, and profits are lower too. Profit margins are higher than they were but this just shows you the power of sentiment and why it's a key element we look for when considering potential investments. Poor sentiment suggests low expectation. Relatively few people invest this way which is why we recognise that most people we meet think we're mad to do what we're doing and own what we do.

To finish-up on Hewlett Packard, the reason we splintered the pie chart for Hewlett Packard Enterprise is that it has announced that it is going to split itself into three parts, the dark blue area is the services business which is going to combine with Computer Sciences in the US, Hewlett Packard Enterprise is going to take 50% of the combined business, it also takes some cash. The orange segment is Hewlett Packard Enterprise's software business which they will spin-off and merge with Micro Focus here in the UK, again for 50% of the combined company and $4.5 billion in cash valuing software business well above what we had and certainly above the market. So Hewlett Packard is a very good example of what we do but it underlines that you need to be patient if you're to achieve those returns and stick to your knitting and valuation discipline as Richard said earlier.

The next one which I won't spend long on is Samsung Electronics. That has been in the portfolio since September 2011, one month less than Hewlett Packard. We paid ₩753,000 a share and it is up 125% since then, so it has been a fantastic investment. The returns have been bolstered by a change in attitude towards the distribution of earnings and excess capital through dividends and buy-backs. The business we also value on a sum of the parts basis. I'll just briefly mention the two largest parts: Semiconductors, that's a very interesting business, they are number one in all-things memory, volatile and non-volatile, DRAM and NAND memory. The computer memory industry has had a long, long history of massive value destruction, but what has happened over the last ten years has been huge consolidation in the industry. Samsung's dominant position offers it huge market power and an ability to invest at a level that has allowed it to stay ahead of the pack and force the industry to consolidate below it in an attempt to eke out a positive return. Samsung now generates a healthy positive return on investment throughout the semiconductor cycle in a more concentrated industry. Despite this we've valued is at a 25% discount to the broader semiconductor industry which is we think very conservative at 5 times EBITDA.

The other big bit is the mobile handset business which we've also valued conservatively at 5 times EBITDA which is a 20% discount to Apple.

We've only included half the net cash pile to allow for the huge capital investment required to stay ahead in the semiconductor industry, with the company very insistent that it wants to be able to invest continuously in its semiconductor business without any concern about what is happening externally in terms of the finance environment. Adding all this together gives us a fair value which is offering a 40% upside from today, so we are still very keen on Samsung Electronics.

RO: I will just talk briefly about Lukoil which has been one of the best performers this year. This is of course a Russian company, and it comes with Russian risk and that is something that we take into account very carefully. It does win what may not be the most difficult beauty contest in the world: it has the best corporate governance of any Russian company. It has a very independent set of directors, it's got foreigners on the board who have included the former vice chairman of Chevron, the former chairman of ENI, and also Mark Mobius who used to run one of the Templeton funds. It has GAAP accounting, the shares are quoted on the London Stock Exchange. So as I say, in a beauty contest which is not the most testing of all, it comes top. The management is entirely aligned with the shareholders. This is not a state-owned company. We're cautious of companies like Gazprom where the state is an enormous holder and where in Gazprom's case the company is little more than an organ of the state.

This is a company which is independent of the government, has always been on friendly terms but we have to allow for the risk that those friendly terms don't last because this is Russia. But the valuation is as you see here extraordinarily low, the enterprise value, market cap plus debt relative to their reserves is miles lower than for other international oil companies. So you could double the share price of Lukoil and it would still be at a significant discount to the other international majors. Production has been stabilising, Siberia has been coming down but in other places such as the Caspian Sea they've been raising their production through discoveries. So that's all by way of individual stocks.

The last page we will show you is the portfolio and I think we won't say any more about this other than that it still reflects some of the themes that have been true for the last several years. For every individual company there is a different rationale and we won't belabour this now but open it to questions.

Question: Where does Lukoil position itself on the cost curve?

RO: Their lifting costs are right at the bottom of the cost curve. The lifting costs of Russian companies are extremely low. Their tax rate raises the after tax cost of production. This is an industry which is very heavily taxed. Lukoil has an average tax rate of about 78% of pre-tax profits which sounds outlandish, it doesn't win the world record, the company with the highest rate of tax in the world is probably Statoil, well into the 80s and even Exxon has an effective tax rate of about 62% but in sheer production costs it is right at the bottom.

Question: Any thoughts about UK banks, are the good ones not cheap enough and the bad ones too bad?

NW: Yes, we've looked at both Lloyds and RBS in quite a lot of detail. We favour Lloyds over RBS at this point, it is much, much less complicated. UK banks overall obviously as you alluded to are disliked by many people so they tick that box as far as we're concerned. The valuation is low, you're paying basically a small discount to book at the moment for Lloyds which is a fantastic franchise. So we're still considering that one. RBS we've spent time on but we've put it on our pending list, because there are still a lot of - Andrew alluded to it earlier on - we've got a very, very chunky fine coming yet from the DOJ for the RMBS, or mortgage-backed securities, which RBS sold in the US and probably shouldn't have done. That's got to go through and there's more restructuring as Andrew said with regard to winding down the wholesale bank and some of the Irish businesses too. So we've still got those issues running through the business and so therefore it makes it much less clean than Lloyds. But Lloyds looks a pretty clean business, PPI is obviously still running through but the valuation looks very attractive.

Question: Has there been much turnover in this big rise, have some things got nearer to their price targets and have you been very active?

RO: We haven't. Our turnover rate this year is probably well below average. Average turnover rate over many years is about 25-30%. I think we're below 25%, more like high teens at the moment. And of course some things have got to their targets but we were such a long way from the target valuations back at the beginning of the year that there is still quite a way to go for most that we own.

Question: Do you think that the fairly swift move into hybrid and electric cars will actually favour these very large companies that you invest in and make it more difficult for the smaller competitors?

RO: We are very wary of disruption in the auto business and it comes from various sources. It comes from electric vehicles, from car sharing, and from autonomous cars. On the whole the traditional manufacturers are as well placed as any to benefit from these changes and it will be a benefit because one of the big impetuses to the new wave of car sales over the next ten years is the increased automation and increasingly autonomous nature of them and also the environmental considerations which push towards electric. And just to back up on that for a second. Some people are worried that we're at the top of the cycle in terms of auto sales. Past patterns are that you have a rapid recovery, we've had that rapid recovery in the States, we've had a less rapid recovery in Europe, although even in Europe I think we've now had 32 consecutive months of an increase in car sales. We've had a very rapid recovery in the UK. But the past pattern is that you would then plateau for some years and that makes perfect sense today because even after this huge increase in sales in the States from an average annual rate of less than 10 million in 2009 to 16 ½ - 17 million, the average age of the American car is about 11 ½ years . Cars are made to last longer than they used to be so maybe the average age will not return to the level that used to be regarded as standard which is about 7 years. But we would think that it ought to return to say 9 years. So sales were very depressed but the other factor is this increase in technological innovation which will propel people whose cars don't do all the right things, that don't do automatic breaking and don't even at the simplest level make beeping noises when you're backing into a wall, or automatic parking, it will force us all as consumers into the more advanced cars. So that is a plus for the industry as a whole. And in electric cars General Motors, Toyota and the other manufacturers are just as well equipped to benefit as the upstarts.

The one danger which is very unpredictable is car sharing. Some people argue that car sharing will reduce the number of cars on the road really radically. Maybe, but I think you could say if people really wanted genuine sharing by which I don't just mean sharing a car with other people at different times but sharing with people at the same time, if they wanted to share their car with other passengers at the same time why would they not already have done it. People do like to drive their car and their tolerance for large traffic jams is almost limitless, and so if people have not in the past wanted to share their cars with other passengers what is it that's going to make them want to share with other passengers in the future? There's also the problem of the point of the day at which people need the second car which sits idle for 90% of the time, the point of the day is the same for everybody, it's the going to work time, or it's the dropping off children at school time. And so that limits the ability for what I call genuine sharing of passengers with other passengers. So it's not for sure that car sharing will reduce the number of cars on the road and it's possible that it would have the reverse effect, the initial impact of car sharing and also of autonomous cars driving in nice convoys, is that it reduces congestion and the effect of reducing congestion is to draw more cars on the road because people like driving. So it could actually increase the number of cars on the road. Andrew?

AG: Obviously this is something we do constantly discuss as a team and just to point out when you look at something like a General Motors and compare it to the disrupters, for example a Tesla, General Motors in the market is trading on a price earnings less than 5 times now, has around $10 billion of cash and produces 9 million vehicles every year. Tesla, which is the new entrant here, is losing about $500 million a quarter yet the market value that's been ascribed to that at one point was hitting $40 billion, General Motors' market cap is $50 billion with $10 billion of cash. Actually what I would point to is that within General Motors there is a Tesla, they've developed their Bolt car which will now come a year ahead of the mass market for Tesla, it's already shown that it can do go over the magic mark which is this 200 miles and so they have a Tesla within them and yet the business as a whole has been valued at 5 times and as Richard was saying about the age of the fleet etc., the legacy car production still has a huge amount of value. Actually what I think you will see is driver augmentation, you know, the driver assist, the assisted breaking, and that will become an incredibly important part but all of the incumbent auto manufacturers are adopting that technology and that will drive replacements sales. So there's a lot of value still in the incumbents and that's where we favour.

Question: Could you say something on currencies because that's probably quite important.

NW: We are not natural currency experts and, generally speaking, have shied away from hedging. For the portfolio as a whole, we're investing mostly in multi-national companies, which are very diverse and offer a natural hedge. The only hedging we have done is quite recent. We've hedged a third of the exposure in Japan because of our large exposure, some of which is domestically-focussed and thus having little or no natural hedge from overseas operations.

Question: What is Uniper, is it on the way in or way out, what is it?

RO: It’s on the way out.

AG: It’s actually a spin-off from E.ON, the legacy assets from E.ON. E.ON’s trying to restructure to create a good business and a bad business in effect which is the conventional energy business, and that’s Uniper.

Question: I am just noting how upbeat the tone was - is that because of interest rates or do you think there’s something else that’s going on?

RO: There were three things. One, we had colossal upside in the portfolio, I mean an all-time record and we do believe in that discipline because it’s kept us honest in the past when of course, when you have huge upside it’s when markets are very gloomy, so it kept us straight in March 2009 for example when a lot of people were very, very gloomy. And secondly, fundamentally we didn’t feel there was going to be a recession in the States, we didn’t feel that low interest rates, good retail sales, unemployment coming down, all these things just did not seem to be the ingredients of a recession. That seemed to be really the sort of decisive things the market, if there weren’t a recession, were pricing companies far too low.

So how upbeat are we? We’re not quite as upbeat as we were in February when the upside of the portfolio averaged at one point just over 80% which is an all-time record. But now it is just short of 40% and that is very high, we look for 25% upside before we will buy anything over a plausible two or three years. There will always be some things in the portfolio which are close to their valuation targets. We don’t like to sell them until we get to the valuation target so there will be some at 10% or 15% and that means the average upside over the very long term one would expect to be not more than 25%. So for it to be 40% now is pretty good by past standards and that is the standard by which we sort of measure our upbeatness. We’re pretty upbeat.

Question: Do you plug bond yields into that at all?

RO: No, we don’t. They’re historical multiples. And this isn’t a sort of top down analysis, so the Fed multiple for the equity market uses bond yields and therefore for the last umpteen years really has been very positive. We haven’t got a top down model at all. This is simply based on the upside of the individual companies, based on historical valuations. And in the case of Japan on some historic valuations because we discount the average of the last 40 years which has been very high, price to book, we expect Japan to be like other markets.

Question: So then the premise, in a way, is that if the US were to stall a bit then everybody else catches up and that’s where the 40% will be made?

RO: If we knew that the US was going to go down we couldn’t be very optimistic about European or Japanese markets, but in the medium to long term, valuations will out. Europe and Japan are what attract us.

Question: And did you also deal with the election at that point? Do you have any views on that?

RO: JP Morgan asked for his view on markets, and he said that they would fluctuate. I think that's what we think may happen as a result of the election. I would guess that if Clinton wins the market will go up for a while then it will go down and if Trump wins it will go down for a while then it will go up.

Question: Any value left in gold stocks? You mentioned Barrick had a good year. A lot of people are worrying about inflation.

RG: Yes, we do still see value in gold stocks. We think that, on balance, the gold price will likely be higher than lower in the future given the extraordinary actions taken by central banks around the world. We believe that the chance of some sort of global dislocation remains reasonably high, and gold could be helpful in such an environment. In addition, the supply of gold is starting to fall, which should be supportive for the gold price. The gold miners themselves have been more disciplined with the use of capital and cost control.

Question: Having been particularly bad.

RG: Indeed. But the most interesting time to own these stocks is as discipline returns. Barrick Gold had a disastrous acquisition a number of years ago – Equinox – which stressed the balance sheet, just as commodity prices turned down. Since then it has been working hard to recover. It has taken out significant costs – the cash cost of production is now around $550 per ounce and the all in sustaining cost is around $750 per ounce having been over $1000 just a couple of years ago. The lower cost structure has helped support earnings and cash flow even with the lower gold price. John Thornton came in as Chairman a few years ago and has shaken things up. The company has sold non-core assets, with the proceeds being used to pay down debt. Operating costs and capex have come down. Free cash flow is up. And he has put in place a minimum 15% return on capital hurdle for any new projects, also benchmarked against dividends and buybacks. So discipline is returning.

Question: Are you going to double again if the gold price goes up again?

RG: It depends how much gold goes up! We see almost 100% upside if the gold price reaches $1600 per ounce. But it is clearly leveraged to the gold price. If the gold price were to fall, we wouldn't expect Barrick to do very well.

Question: What are the things that you worry about, other than the usual stuff?

RO: We worry stock by stock rather than macro, we don't worry too much macro. Of course that sometimes is where we've come unstuck, but we're very sceptical about our own ability and other people's ability to forecast so we worry company by company. If we're really worried we don't hold it.

AG: It's stock specific, things like the court case for Kansai Electric Power that's going to happen in the next two or three months and that's is key to Kansai's investment thesis. So as Richard said it's very stock specific.

Question: A few years ago you were worrying about Hewlett Packard, you worried about Tesco, so are you finding enough opportunities? Are there interesting things that are too scary for you but might be nice if the worries went away?

NW: Well RBS, UK banks in fact, look interesting to us.

AG: If you look at MSCI World Value, financials are now a quarter of that, so whenever anyone says it's uninvestable that's exactly where you should be looking to invest because it shows you where the herd is to some extent.

Question: And I guess people who are very keen on the sector are pointing out that the Central Bank has worked out the fact that they were killing banks with negative interest rates, Deutsche was really on the ropes, and so it could be that actually that itself was a catalyst, or that sort of thinking was a catalyst for a more friendly policy which will finally allow the banks to generate organic capital.

AG: I think in Japan that was particularly the case, and you saw the share price reaction of a fall of around 40%. And he has stepped away from that now, he talks about trying to steepen the yield curve which is hugely positive for the banks rather than just ploughing more into negative interest rates because they can't pass that on and that would really start to hamper the P&L. And if this policy starts to work and we are starting to see this in terms of a steepening of the yield curves, then banks are where you want to be.

Question: I think I'm right in saying that Citi went up thirtyfold in the 1990s with a sort of 200-300 basis point 2-10 slope. That would be useful.

RO: But that could be true not only at the level of monetary policy in a sort of micro way but also in terms of governments' policies as well as Central Banks with the emphasis on infrastructural spending and expanding fiscal spending. This is now becoming conventional wisdom, whether it's Clinton or it's Trump we'll see massive spending on infrastructure. We have Trudeau in Canada, we have Mrs May also talking more about infrastructural spending. So it looks as if we may have turned a corner.

Question: If you forget the distinction between a government and central bank which is a pretty spurious one anyway, it would turn up massive buyers of bonds, massive sales of bonds which presumably wouldn't be very good for interest rates.

Question: Can I ask you on US tech names, many of them look expensive at the moment. I was wondering in your opinion are we in a 1997 situation where companies look expensive but they can get more expensive because of the growth, or do you think that high interest rates for example could cause a derating of discount names, or this theme which has been one of the drivers of underperformance of value and outperformance of growth?

NW: Obviously we're not growth investors so we could spend a long time talking you through the growth prospects for these companies but in terms of the valuations of course they've been underwritten by the collapse in interest rates, and of course the tech sector too. When you look at the availability of free finance effectively and the distorting effect it's having on not just valuations but business models, when capital is free and you can just invest it forever, this seems to be the process at the moment, then you end up with some very, very strange things going on in terms of the tech sector, and that flows all the way up and it's a mindset of investors in that area, and it's very vulnerable to interest rates rising obviously.

Question: Do you look back and say that Amazon was a value opportunity in retrospect, was it misunderstood at its current price?

NW: Well we misunderstood it but it's just not what we do.

RO: It's hard to say that it was ever really in our territory. That kind of land grabbing operation that would allow you to profit in 20-30 years' time is very, very unlikely to be for us.

HF: We do look at all these companies.

AG: And that's the great thing when you do the sum of the parts because very often you're looking at the value today, you don't have to believe in what will happen in 10 years' time, and that's where we're comfortable, that's where we think actually your risks are on your side and the upside potential the best.

Question: Yeah, I think people do see Amazon as a value situation and there are people who do see the sort of margin of error that you have today as something that accrues over time, and it's probably true that it's up to Jeff over whether he chooses to generate cash flow, he could turn that into strong position free cash flow.

RO: If that's it, we should stop. So thank you very much for staying and thank you for coming.