

Overstone UCITS Global Smaller Companies Fund

Patient, unconstrained, contrarian value investing

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Oldfield Partners

31 March 2021

Monthly fund review

Investment objective

The objective of the Fund is to attempt to achieve over the long term a total return in excess of that of the MSCI World Small and Mid Cap Index (with net dividends reinvested). The Fund seeks to achieve its objective through investment in a concentrated portfolio of equity and equity-related securities of primarily small and medium-sized companies, selected from all the major markets and to a lesser extent from emerging markets worldwide. The approach is focussed on valuations and bottom-up fundamental research of individual companies.

Fund particulars

Launch date 01 October 2007

Fund size US\$43.0m

Domicile Ireland

Structure UCITS

Base currency USD

Dealing Daily

Min. investment US\$10,000

Benchmarks MSCI World
Small Mid Cap
MSCI World

“A concentrated portfolio concentrates the mind...”

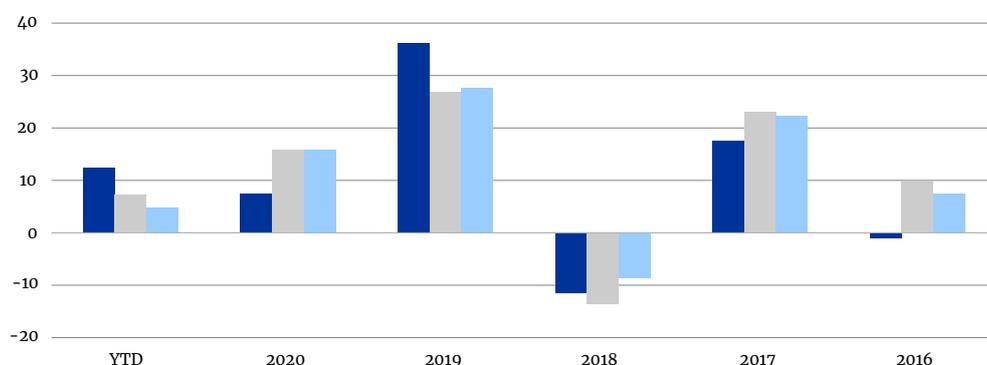
About Oldfield Partners

Oldfield Partners LLP is an owner-managed boutique fund management firm which manages equity portfolios for a global client base that includes endowments funds, pension funds, charities, family offices and individuals.

Oldfield Partners began operations in March, 2005 and is majority owned by the executive partners.

We are value investors with a distinctive approach: a limited number of holdings, long-only, no leverage, diversified, index-agnostic and suspicious of short-termism.

Fund performance (%)



	Annualised						
	1 month	YTD	1 year	Since 2012*	3 years	5 years	Since 2012*
■ I USD	+1.6	+12.5	+102.6	+174.8	+12.4	+11.0	+11.5
■ MSCI World Small Mid Cap	+2.2	+7.3	+72.6	+189.2	+11.1	+12.8	+12.2
■ MSCI World	+3.3	+4.9	+54.0	+184.7	+12.8	+13.3	+12.0

Preceding five calendar years performance		2020	2019	2018	2017	2016
I USD		+7.5	+36.2	-11.5	+17.6	-1.1
MSCI World Small Mid Cap		+15.8	+26.8	-13.6	+23.0	+9.9
MSCI World		+15.9	+27.7	-8.7	+22.4	+7.5

The I USD shares launched on 01 October 2009. The Overstone Smaller Companies Fund merged into the Overstone UCITS Global Smaller Companies Fund on close of business 13 September 2016. The performance shown for the I shares is that of the Overstone Smaller Companies Fund, a sub-fund of Overstone Fund plc, from inception up to 13 September 2016 and of the Overstone UCITS Global Smaller Companies Fund from 14 September 2016 onwards. *Since 2012 performance reflects the period from when Harry Fraser became portfolio manager of the Global Smaller Companies strategy, on 01 January 2012. Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders. MSCI World index is for comparison purposes only.

Source: Oldfield Partners.

The value of all investments and the income from them can go down as well as up; this may be due, in part, to exchange rate fluctuations. Past performance is not a guide to future performance.

Fund manager commentary

In March, we tendered our remaining Participation units to Draegerwerk and invested the proceeds back into the company's Preferred shares ('Prefs'). We had also initiated a small position in Cerved, an Italian credit information company, but an offer was made for the company before we had purchased a full position, so we have subsequently sold. The worst performer in the month was Jet2 following increased uncertainty around international travel this summer, while the largest contributor to performance was Zooplus, the European petfood and accessory retailer, after announcing its annual results. Management also revealed their medium-term guidance which forecast sales to double over the next four years.

Draegerwerk

In March last year, management took advantage of the company's improved financial position and announced the forced purchase of the Participation units, which we held. The Participation units had the right to ten times the dividends of the Prefs and could only be forced to sell for ten times the average six month share price of the Prefs. Since the share price of the Prefs had gone up suddenly in March, the company was able to purchase the Participation units at just six times the share price at that time, while still offering a premium of over 100% to the Participation unit holders.

Draegerwerk, the family controlled medical and safety equipment company, had a record year in 2020. This was hardly surprising given it is a global leader in ventilators and safety masks. The company saw sales increase by 23% to €3.4bn generating net profit and free cash flow of over €340m.

We do not expect this year to be as profitable as last year. However, the pandemic has shown governments how important it is to be prepared with safety equipment, so demand may be elevated for a while yet. Regardless, Draegerwerk is lowly valued. The company has grown sales in all but two of the last twenty years.

Commentary - continued

In 2019, a more normal year, the company delivered sales of €2.8bn and a profit of €117m. Today the market cap is just €1.3bn – eleven times 2019 profits and just four times last year's profits.

Management has increased research and development spend by 25% since 2019 and have stated that the rest of the free cash flow generated over the next few years will go towards paying back the debt associated with the Participation unit purchase. Following that, the company will have a relatively clean capital structure and we would expect it to start paying out sizable dividends.

The portfolio

It has been an extraordinary year: in March 2020, the fund was down 40% but has since doubled, more than recovering those losses. On the way down this volatility created an opportunity for us to add to positions at very low prices and more recently we have been able to take advantage of the sharp recovery by reducing or selling positions entirely. Trading has been unusually high with four companies sold (including our Participation units in Draegerwerk) and five new positions.

The portfolio is trading on 1.5x book value, 13x our estimation of 2022 earnings (a year we consider 'normal') and the average upside to our target prices remains high at just under 40%.

Fund analysis

Top 10 holdings (%)

	Weighting	1 month total return (%)*	
		Local terms	USD
Zooplus	9.4	+21.0	+17.7
J D Wetherspoon	9.1	+9.9	+8.7
IWG	8.2	-5.4	-6.4
Jet2	8.1	-12.8	-13.7
Fairfax	4.9	+5.8	+7.0
Trigano	4.4	+2.5	-0.3
Allegiant Travel	4.4	-3.2	-3.2
NOV Inc	4.2	-9.6	-9.6
First Pacific	4.1	+0.8	+0.6
Frasers Group	4.0	-1.8	-2.8

Total number of holdings **24**

Active share (%)** **99.9**

Fund characteristics

	Fund	Benchmark
Price-to-earnings ratio (fwd)	19.8	21.9
Price-to-book ratio (hist)	1.5	2.2

*Inclusive of portfolio activity.

**Active share is calculated using the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the MSCI World Small Mid Cap index, divided by two.

All data as at 31 March 2021.

Source: Oldfield Partners.

Sector breakdown (%)

Consumer Discretionary	34.3	
Industrials	25.3	
Other Financials	17.7	
Energy	7.2	
Insurance	4.9	
Health Care	3.4	
Consumer Staples	3.2	
Real Estate	3.1	
Cash	1.0	

Country breakdown (%)

United Kingdom	38.1	
Germany	16.2	
United States	15.6	
Canada	6.5	
Japan	6.0	
France	4.4	
China/Hong Kong	4.1	
Poland	3.6	
Greece	2.9	
Italy	1.5	
Cash	1.0	

Share class details

Share class	AMC*	OCF**	SEDOL	Bloomberg	ISIN	Price
A USD	1.00%	1.35%	BD3H688	OVUSCAU ID	IE00BD3H6883	US\$191.59
I USD	0.65%	1.00%	BD3H6C2	OCUSCIU ID	IE00BD3H6C20	US\$290.07
I GBP Hedged	0.65%	1.02%	BD3H6D3	OVUSCIG ID	IE00BD3H6D37	£159.76

*AMC - Annual management charge

**OCF - Ongoing charge figure

Performance summary of all share classes

Performance in USD terms

	Annualised									
	1 month	YTD	1 year	Since launch		3 years	5 years	Since launch		
				01/10/07	01/10/09			01/10/07	01/10/09	
A USD	+1.6	+12.4	+101.5	+108.3	-	+11.7	+10.4	+5.6	-	
I USD	+1.6	+12.5	+102.6	-	+218.3	+12.4	+11.0	-	+10.6	
MSCI World Small Mid Cap	+2.2	+7.3	+72.6	+149.5	+236.3	+11.1	+12.8	+7.0	+11.1	
MSCI World	+3.3	+4.9	+54.0	+126.0	+212.7	+12.8	+13.3	+6.2	+10.4	

Performance in GBP terms

	Annualised									
	1 month	YTD	1 year	Since launch		3 years	5 years	Since launch		
				01/10/07	01/10/09			01/10/07	01/10/09	
A USD	+2.7	+11.2	+81.0	+208.0	-	+12.3	+11.3	+8.7	-	
I USD	+2.7	+11.3	+82.0	-	+269.5	+13.0	+11.9	-	+12.0	
MSCI World Small Mid Cap	+3.3	+6.2	+55.0	+269.0	+290.3	+11.7	+13.8	+10.1	+12.6	
MSCI World	+4.4	+3.8	+38.4	+234.2	+263.0	+13.4	+14.3	+9.3	+11.9	

GBP Hedged shares	Annualised									
	1 month	YTD	1 year	Since launch		3 years	5 years	Since launch		
				14/09/16				14/09/16		
I GBP Hedged	+3.3	+13.7	+87.8	+65.5		+12.3	-	+11.7		
MSCI World Small Mid Cap GBP Hdgd	+3.3	+8.8	+66.3	+65.6		+10.2	-	+11.7		
MSCI World GBP Hedged	+4.2	+6.1	+49.4	+71.3		+11.8	-	+12.6		

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Source: Oldfield Partners.

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