

Overstone Emerging Markets Equity Fund

Patient, unconstrained, contrarian value investing

OP

Oldfield Partners

31 May 2022

Monthly fund review

Investment objective

The Fund will attempt to achieve over the long term a total return in excess of that of the MSCI Emerging Markets Index (with net dividends reinvested) through investment in a concentrated portfolio of equities of companies from emerging markets and from other markets where it can be demonstrated by the Investment Manager that the company concerned is overwhelmingly an emerging market related company. The approach is focussed on valuations and bottom-up fundamental research of individual companies.

Fund particulars

Launch date	03 November 2008
Fund size	US\$62.4m
Domicile	Ireland
Structure	QIAIF
Base currency	USD
Dealing	Daily
Min. investment	€100,000
Benchmark	MSCI Emerging Markets

“A concentrated portfolio concentrates the mind...”

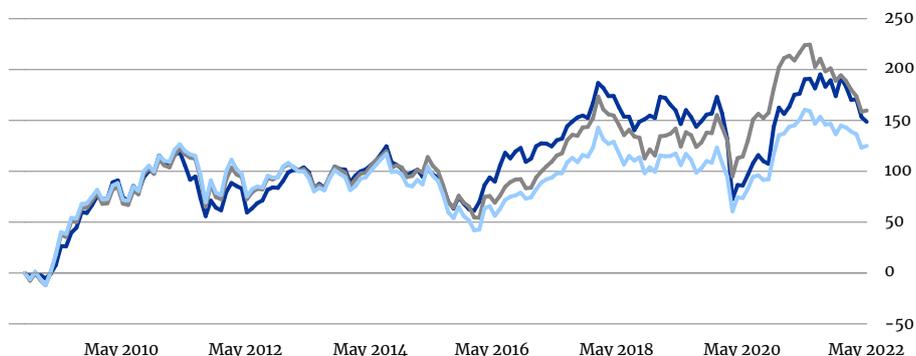
About Oldfield Partners

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 (%)



	1 month	YTD	1 year	Annualised	
				3 years	5 years
A USD	-1.8	-14.9	-14.4	+0.3	+1.5
MSCI Emerging Markets	+0.4	-11.8	-19.8	+5.0	+3.8
MSCI EM Value	+0.9	-8.1	-13.6	+3.0	+2.6

Preceding five calendar years performance	2021	2020	2019	2018	2017
A USD	+11.3	-3.8	+8.2	-5.5	+25.8
MSCI Emerging Markets	-2.5	+18.3	+18.4	-14.6	+37.3
MSCI EM Value	+4.0	+5.5	+11.9	-10.7	+28.1

Performance is calculated net of all fees and expenses and on a total return basis, inclusive of all distributions to unit holders.

MSCI EM Value index is for comparison purposes only.

Source: Oldfield Partners.

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

Fund manager commentary

Volatility is a feature of equity markets currently and we have a higher than usual cash balance to take advantage of any opportunities over the summer months. The global economy and investor sentiment are taking a series of body blows this year. The policy responses available are not well suited to dealing with supply-side issues so could look quite ham-fisted, but they may broadly achieve their goal over time. The bad news and uncertainty are being priced into equity markets with the MSCI Emerging Markets Index trading comfortably below its historic average valuations. The upside potential for the portfolio is 80% as measured by the weighted average of the company price targets.

We often find that ‘sum of the parts’ is a useful valuation tool, and it helps identify a number of interesting opportunities currently within the portfolio. Sometimes investors have good reason to overlook an asset, but at other times the asset can just be plain overlooked. We believe some of these are quite remarkable. **Embraer** (Brazilian aircraft manufacturer) has the majority stake in a New York listed company called EVE, which will produce a short-range electric flight vehicle, that equals the market capitalisation of Embraer – so the traditional regional jet, business jet, and defence businesses are for free. **Buenaventura** (Peruvian miner) owns a 20% stake in a copper mine, Cerro Verde, that now equals its entire market capitalisation – meaning its own mines come for free. **SK Square** (Korean technology holding company) holds a 20% stake in SK Hynix, a leading semiconductor manufacturer, that is worth double its current market capitalisation, and in addition it has stakes in some of Korea’s leading internet service ventures. **Indofood** (Indonesian snack foods) owns the majority of a separate listing for its consumer foods business that is valued in excess of Indofood’s entire market capitalisation – meaning its other successful businesses in flour, agriculture, and distribution are for free. There are others such as **Alibaba** (Chinese Internet services), **First Pacific** (Hong Kong listed holding company), and **Thai Beverage** (Thai alcoholic beverage producer) that trade on significant discounts to a reasonable net asset value or have significant assets that are not yet accorded value by investors.

The bottom performers by contribution for the month were Buenaventura and Telkom Indonesia. **Buenaventura** (Peruvian miner) is falling victim to the political issues facing Peru, with the President facing a series of political challenges and destabilising the economy. The administration is not mining friendly but in its challenged state has recognised the importance of this industry for the economy. Buenaventura is transitioning towards copper, from gold, as its largest metal output, and we are positive on the long-term prospects for copper. The prices for precious metals and copper have held up well year to date. **Telkom**

Commentary - continued

Indonesia (Indonesian telecom operator) is strategically well placed in mobile, broadband, and new areas like data centres. Broadband is a duopoly in Indonesia with Telkom Indonesia as the market leader and seeing strong growth. Telkom Indonesia has a strong cost control discipline, and with a rational competitive backdrop in the industry, it has a favourable pricing environment.

The top performers by contribution for the month were Petrobras and Ternium. **Petrobras** (Brazilian oil producer) has seen the government, its majority shareholder, react to higher domestic fuel prices by seeking to replace senior management at Petrobras (ironically that they recently appointed). This looks like a political 'need to be seen to be doing something', as the new management once in place continues to follow the international fuel price parity principle (as it must by law). The balance sheet has been repaired and with asset sales continuing and solid free cash flow generation from higher oil prices Petrobras is honouring its new dividend policy. **Ternium** (Latin American steel producer) is a beneficiary of a 'stronger for longer' US steel price. In addition, the Ukrainian crisis has curtailed steel exports from Russia and Ukraine to the global market. Mexico is an increasingly attractive manufacturing location boosting demand for flat steel.

Russian holdings

Please note that as of 3rd March 2022 the holding of Lukoil ADR will have a fair value price (FVP) of zero. This has been determined by our Valuation Committee. Lukoil ADR listed on the London Stock Exchange (LSE) was suspended from trading by the exchange on the morning 3rd March 2022. We will continue to monitor the situation daily and update accordingly.

Fund analysis

Top 10 holdings (%)

	Weighting	1 month total return (%)*	
		Local terms	USD
Samsung Electronics	7.8	0.0	+1.7
Thai Beverage	7.3	+2.2	+3.2
Ternium	7.3	+7.3	+7.3
SK Hynix	6.7	-3.9	-2.2
Embraer	6.4	-5.9	-5.9
Telkom Indonesia	6.4	-7.5	-7.5
Indofood	5.6	+4.5	+4.3
Petrobras	5.3	+11.7	+11.7
Lee & Man Paper	5.3	+3.9	+3.8
Alibaba	5.2	-5.6	-5.6

Total number of holdings 20

Active share (%)** 90.4

Fund characteristics

	Fund	Benchmark
Net debt to equity ratio (%)	21.0	13.0***
Price-to-book ratio	1.4	1.7
Price-to-earnings ratio	9.9	13.1
Return on equity (%)	14.0	13.1

*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 Emerging Markets index, divided by two.

***For the MSCI Emerging Markets the net debt to equity ratio excludes financials.

All data as at 31 May 2022.

Source: Oldfield Partners.

Sector breakdown (%)

Information Technology	25.7	
Materials	17.5	
Communication Services	12.9	
Consumer Staples	12.9	
Consumer Discretionary	8.8	
Industrials	6.4	
Energy	5.3	
Financials	4.8	
Cash	5.7	

Country breakdown (%)

South Korea	22.7	
China/Hong Kong	16.7	
Indonesia	11.9	
Brazil	11.7	
Thailand	7.3	
Mexico	7.3	
Peru	4.9	
Taiwan	4.7	
India	2.8	
South Africa	2.2	
Turkey	2.1	
Cash	5.7	

Share class details

Share class	AMC*	TER**	SEDOL	Bloomberg	ISIN	Price
A USD	1.25%	1.46%	B3DDVH0	OVEMKEA ID	IE00B3DDVH01	US\$216.83
I USD	0.90%	1.11%	B4NoBT0	OVEMKEI ID	IE00B4NoBT09	US\$136.68

*AMC - Annual management charge

**TER - Total expense ratio

Performance summary of all share classes

USD shares	1 month	YTD	1 year	Annualised	
				3 years	5 years
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