Overstone Global Equity CCF

Patient, unconstrained, contrarian value investing

Oldfield Partners

31 August 2020

Monthly fund review

Investment objective

The fund seeks to achieve over the long term a total return in excess of that of the MSCI World Index (with net dividends reinvested) through investment in a concentrated portfolio of equity securities of large companies whose average market capitalisation is likely to be more than US$20 billion, selected from all the major markets and to a lesser extent from some emerging markets worldwide. The approach is classic contrarian value, based on bottom-up fundamental research of individual companies.

Fund particulars

Launch date	21 March 2012
Fund size	US$83.8m
Domicile	Ireland
Structure	CCF
Base currency	USD
Dealing	Daily
Min. investment	US$15,000,000
Benchmark	MSCI World

"A concentrated portfolio concentrates the mind..."

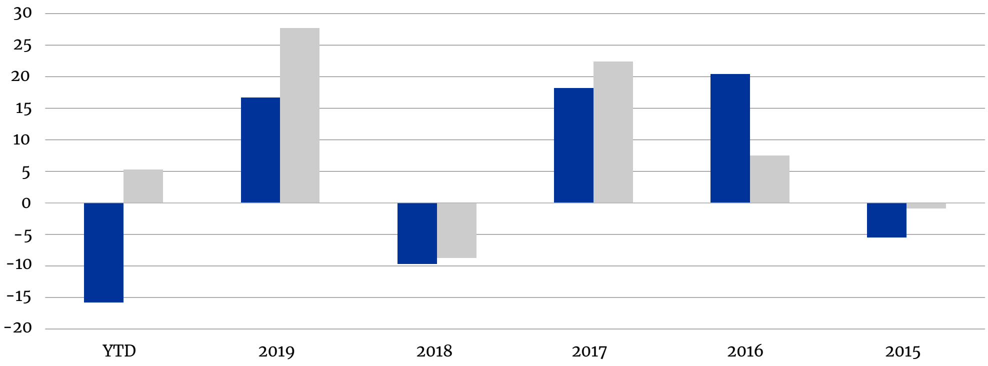
About Oldfield Partners

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 (%)



	1 month	YTD	1 year	Launch	Annualised 3 years	5 years	Launch
A1 USD	+5.5	-15.8	-2.3	+40.9	-1.1	+4.0	+4.1
MSCI World	+6.7	+5.3	+16.8	+120.5	+9.8	+10.4	+9.8

Preceding five calendar years performance	2019	2018	2017	2016	2015
A1 USD	+16.7	-9.7	+18.2	+20.4	-5.5
MSCI World	+27.7	-8.7	+22.4	+7.5	-0.9

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

August provided healthy absolute returns for investors but the portfolio lagged the MSCI World index which continues to be driven by the mega cap growth stocks in the US. This has been true every month of 2020 so far. August's gain of +7% in the S&P500 was its best August performance since 1984 and saw the index fully erase its losses from the pandemic lows of March. The NASDAQ now trades on 30 times forward earnings compared with 32 times at the peak in 2000. While the NASDAQ's valuation looks expensive in the context of its own history, it actually looks cheap relative to US treasury bonds using a basic yield gap analysis. The huge liquidity injection by central banks is driving markets higher helped by the ever-increasing influence of passive funds. Such funds favour the larger constituents of the index being tracked. Amazon, Netflix, Microsoft and others maybe having a 'good' pandemic but sustainability of their current valuations is questionable. Analysis of the MSCI World index shows this impact almost perfectly with the largest companies performing best due to their size as money floods into passive funds:

Decile	Median Mkt Cap (US$bn)	Median P/E	Total Return YTD (Local Ccy)
1	119	26	8%
2	47	22	3%
3	30	21	5%
4	23	21	-2%
5	16	23	1%
6	13	21	-3%
7	10	21	-6%
8	8	18	-9%
9	6	15	-17%
10	4	14	-21%

Figure 1: MSCI World as at 31st August 2020

Commentary - continued

The stocks with the biggest negative impact on the portfolio's relative performance were, in order of impact, Samsung Electronics (-7%, total return in local currency), Sanofi (-4%), E.ON, Nokia (both unchanged) and Hewlett Packard Enterprise (-2%).

Samsung has several attractive attributes: it is the lowest-cost operator in its core business of computer memory, it generates good returns on capital over the cycle, is committed to returning 50% of free cash flow to shareholders, and it has a strong balance sheet (net cash of $80bn, equal to 30% of the current market capitalisation and providing significant support for the investment required to maintain its market leading positions). Samsung's main business lines are semi-conductor memory, mobile phones and visual displays. It is particularly strong in memory, an area that should benefit from the structural tailwinds of datacentre growth as well as next generation technologies such as artificial intelligence. Moreover, there has been considerable consolidation in the memory industry. This consolidation has made the industry more rational by limiting the build-out of new capacity which should support pricing and profits over the long-run. Samsung is trading on 10x historic price to earnings (excluding cash) and those earnings have grown at 10% a year over the last ten years.

The largest positive contributors to performance were, in order of impact, General Motors (+19%), Toyota (+13%), Mitsubishi UFJ (+13%), easyJet (+28%) and Siemens (+8%).

Shares of General Motors benefitted from market speculation that they may spin-out part of its electric and autonomous vehicle technology and assets allowing the market to give it some Tesla-like glow and provide a business unit with its own stock to attract and retain the talent required to compete against Tesla and new automotive technology companies. GM's electric vehicle assets include its battery joint-venture with LG Chemical in Korea called Ultium Cells that aims to provide enough batteries for up to half a million cars a year from a factory being built in Ohio, not dissimilar in size to the first phase of Tesla's Gigafactory in Nevada. Morgan Stanley has valued the EV and Ultium business units at $28 a share for GM and another $2 a share for its autonomous vehicle unit, Cruise – together equalling the month end closing price of GM stock. These valuations imply that we get the 'old' GM business with sales of £137bn for free today. While anything seems possible in the current euphoric environment we remain of the view that GM's fair value on a two year view is closer to $38 a share offering more than 25% upside.

easyJet's share price was buoyed by better-than-expected cash burn reported at its August 4th investor update. We invested in April after it passed our stress test assumption of twelve months of no flying. This assumed a modest rights issue as well as the tapping of Government support without further borrowing against its fleet. Four months on, easyJet's current liquidity is sufficient for twelve months of operating at the average levels of cash burn seen in the second calendar quarter, or nine months of no flying, with another six months of no flying coverable by borrowing against its fleet. The shares are likely to remain volatile as news on UK travel restrictions change with the rise and fall in new COVID cases across Europe, but its long-term potential remains significant as weaker players cut capacity further. We see fair value at £14.50 a share, some 130% upside from the current price.

The upside on the portfolio remains an historically attractive 50%. The portfolio is trading at 12.9 times historic earnings and 0.9 times book compared with 24.7 times and 2.7 times for the MSCI World Index.

Fund analysis

Top 10 holdings (%)

		1 month total return (%)*	
	Weighting	Local terms	USD
Siemens	6.1	+8.1	+9.6
E.ON	6.1	+0.2	+1.5
Tesco	6.0	+0.8	+2.9
Sanofi	5.5	-4.1	-2.9
Nokia	5.3	+0.3	+1.6
Samsung Electronics	5.3	-7.0	-6.5
Barrick Gold	5.1	+0.5	+3.4
BT	4.7	+6.4	+8.7
Bayer	4.5	+0.2	+1.5
Toyota	4.5	+12.1	+12.1

Total number of holdings **26**

Active share (%)** **97.4**

Fund characteristics

	Fund	Benchmark
Price-to-earnings ratio (hist)^	12.9	24.7
Price-to-book ratio (hist)	0.9	2.7

^Given uncertainty about forward looking estimates, we are providing historic numbers, adjusted for exceptional items (portfolio only).
*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 index, divided by two.
All data as at 31 August 2020.
Source: Oldfield Partners.

Sector breakdown (%)

Financials	18.7
Information Technology	13.5
Industrials	13.2
Utilities	11.9
Health Care	10.0
Energy	7.4
Consumer Discretionary	6.9
Consumer Staples	6.0
Materials	5.1
Communication Services	4.7
Cash	2.5

Country breakdown (%)

Japan	20.3
Germany	16.7
United Kingdom	15.6
United States	14.9
South Korea	8.3
Italy	5.9
France	5.5
Finland	5.3
Canada	5.1
Cash	2.5

Share class details

Share class	AMC*	TER**	SEDOL	Bloomberg	ISIN	Launch date	Price
A1 USD	0.90%	1.25%	B6T2CL3	OVRGEA1 ID	IE00B6T2CL30	21/03/2012	US$122.38

*AMC - Annual management charge
**TER - Total expense ratio

Oldfield Partners

11 Grosvenor Place
London, SW1X 7HH
United Kingdom

Telephone: +44 (0) 20 7259 1000
Email: info@oldfieldpartners.com
www.oldfieldpartners.com

Dealing and administrator details

Northern Trust International Fund
Administration Services (Ireland) Ltd.

Telephone: +353 (0) 1 434 5054