

Overstone UCITS Global Smaller Companies Fund

Patient, unconstrained, contrarian value investing

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Oldfield Partners

31 August 2020

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\$29.4m
Domicile	Ireland
Structure	UCITS
Base currency	USD
Dealing	Weekly (Wednesday)
Min. investment	US\$10,000
Benchmarks	MSCI World Small Mid Cap MSCI World

"A concentrated portfolio concentrates the mind..."

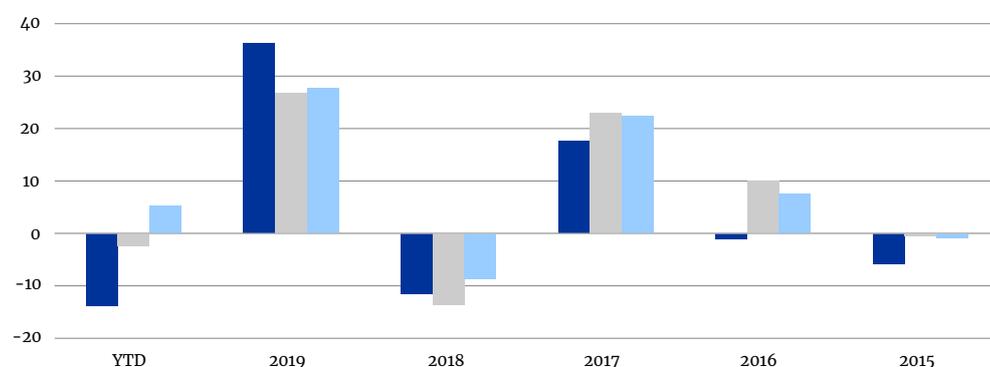
About Oldfield Partners

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 (%)



	1 month	YTD	1 year	Since 2012*	Annualised		
					3 years	5 years	Since 2012*
I USD	+14.2	-13.7	+9.1	+96.0	+3.6	+2.1	+8.1
MSCI World Small Mid Cap	+5.1	-2.4	+8.6	+127.2	+5.2	+7.7	+9.9
MSCI World	+6.7	+5.3	+16.8	+146.6	+9.8	+10.4	+11.0

Preceding five calendar years performance

	2019	2018	2017	2016	2015
I USD	+36.2	-11.5	+17.6	-1.1	-5.8
MSCI World Small Mid Cap	+26.8	-13.6	+23.0	+9.9	-0.4
MSCI World	+27.7	-8.7	+22.4	+7.5	-0.9

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

The strategy had a good month with over half the holdings producing double digit returns and only three stocks negative: Oceaneering, Stagecoach and Fairfax Financial Holdings. We have written about these three recently and there were no updates from them in the month. We sold Petroleum Geo-Services, replacing it with National Oilwell Varco, which is discussed below. Wetherspoon released a trading update and is also discussed.

Petroleum Geo-Services (PGS)

PGS will go down as one of our worst mistakes. We purchased the position in 2014 after a fall in the company's share price driven by weakness in the oil market. PGS had the youngest and most efficient ships used for acquiring seismic data for the offshore oil and gas industry. The company also had a valuable library of acquired data and was making good returns on capital. We knew the offshore industry was in for a few tough years as the emergence of shale in the United States had led to a glut of supply. We also were aware of the need to shift away from hydro-carbons towards renewables in the long run but, on balance, we felt that offshore oil and gas would be required for at least a few decades in order to meet demand and PGS would come out stronger as weaker competitors, such as CGG, would be forced to leave the industry.

The downturn in the oil and gas industry has been longer and the size of the shale opportunity in the United States has been larger than we originally expected. While CGG and Schlumberger have exited, PGS has suffered considerably with losses weakening the balance sheet. We still are confident the offshore industry will recover from here but are less confident that holders in PGS common equity have the time needed to wait for that recovery. We felt the risk reward was better in National Oilwell Varco which will also benefit from a recovery in the oil market but does not have the balance sheet risk.

Commentary - continued

National Oilwell Varco (NOV)

NOV is a global leader in the provision of equipment and components used in oil and gas drilling and production. The company's operations are tied to capex spend in the oil and gas industry which has been depressed for the past five years. NOV has a dominant position in rig technology for the offshore industry but also has a strong position in equipment for unconventional shale drilling. Its broad array of highly specialised equipment has helped protect it from one of the longest downturns in its 160-year history.

Back in 2014, NOV was generating \$4.5bn in operating profit on \$20bn of revenue using just \$8bn of tangible equity, and its market capitalisation was over \$30bn. This severe downturn has reduced revenue by two thirds with the company making a small operating profit and the market capitalisation falling to below \$5bn.

NOV has consistently generated free cash flow through the downturn and even last quarter, when the oil market was in disarray, it was able to generate over \$300m. It has a strong balance sheet with a solid order book. Standardisation of equipment across the oil and gas industry is benefitting the company because of its market leadership. When the recovery comes, NOV will be particularly well placed.

J D Wetherspoon (JDW)

JDW released a trading update during the month. More than 95% of the estate is now open and JDW has seen sales gradually improve. Like-for-like sales were down 17% over the reporting period (up to the middle of August) although this included a considerable benefit from the 'Eat Out To Help out' scheme. JDW expects a period of more subdued sales once this scheme ends.

JDW has a leading position with the UK pub sector, with a strong consumer following and a well-located, largely freehold estate. It is the low-cost, volume operator which should allow a quicker return to former profitability. Having above average size pubs with outside space helps to maintain social distancing. The company remains in a sound financial position having received a waiver of bank covenants, as well as completing a share placing and utilising the government loan scheme. JDW is trading on a historic free cash flow yield of over 10% and currently is cash flow positive.

Portfolio

We had positive results from a good number of holdings in the month which helped drive performance, but even after the moves there is still huge recovery potential. Out of 24 holdings, 17 are still lower than they were at the start of the year and the average fall for those holdings year-to-date is 39%. Although the portfolio is down 14% this year, if it reaches our target then it would be 46% higher than at the start of the year and we would hope that fair value would grow at a healthy clip from there over time. On our view of recovered earnings, it is on just nine times.

Fund analysis

Top 10 holdings (%)

	Weighting	1 month total return (%)*	
		Local terms	USD
IWG	9.0	+22.0	+24.6
Zooplus	8.9	+9.1	+10.5
J D Wetherspoon	7.6	+21.2	+23.8
Shop Apotheke	7.4	+25.5	+27.1
Dart Group	6.9	+10.4	+12.8
Frasers Group	4.8	+39.0	+42.0
Trigano	4.6	+10.0	+11.5
Britvic	4.4	+6.1	+8.4
Gaia	4.4	+27.4	+27.4
CPL Resources	4.3	+1.4	+2.7

Total number of holdings 24

Active share (%)** 99.9

Fund characteristics

	Fund	Benchmark
Price-to-earnings ratio (hist) [^]	19.5	41.5
Price-to-book ratio (hist)	1.2	1.9

[^]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 Small Mid Cap index, divided by two.

All data as at 31 August 2020.

Source: Oldfield Partners.

Sector breakdown (%)

Consumer Discretionary	37.7	
Industrials	27.6	
Other Financials	14.8	
Consumer Staples	4.4	
Health Care	3.8	
Insurance	3.6	
Real Estate	3.6	
Energy	3.5	
Cash	1.0	

Country breakdown (%)

United Kingdom	37.7	
Germany	20.2	
United States	11.5	
Canada	5.4	
Japan	5.4	
France	4.6	
Ireland	4.3	
Poland	4.0	
China/Hong Kong	3.6	
Greece	2.3	
Cash	1.0	

Share class details

Share class	AMC*	OCF**	SEDOL	Bloomberg	ISIN	Price
A USD	1.25%	1.60%	BD3H688	OVUSCAU ID	IE00BD3H6883	US\$137.07
I USD	0.65%	1.00%	BD3H6C2	OCUSCIU ID	IE00BD3H6C20	US\$207.36
I GBP Hedged	0.65%	1.05%	BD3H6D3	OVUSCIG ID	IE00BD3H6D37	£114.98

*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	+14.1	-14.1	+8.4	+49.0	-	+3.0	+1.6	+3.1	-	
I USD	+14.2	-13.7	+9.1	-	+127.1	+3.6	+2.1	-	+7.8	
MSCI World Small Mid Cap	+5.1	-2.4	+8.6	+96.1	+164.2	+5.2	+7.7	+5.3	+9.3	
MSCI World	+6.7	+5.3	+16.8	+95.8	+170.9	+9.8	+10.4	+5.3	+9.6	

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	+11.7	-14.8	-1.4	+127.3	-	+1.7	+4.4	+6.6	-	
I USD	+11.8	-14.5	-0.8	-	+171.8	+2.4	+5.0	-	+9.6	
MSCI World Small Mid Cap	+2.9	-3.2	-1.3	+199.1	+216.3	+3.9	+10.7	+8.8	+11.1	
MSCI World	+4.5	+4.4	+6.2	+198.6	+224.3	+8.5	+13.5	+8.8	+11.4	

GBP Hedged shares	Annualised									
	1 month	YTD	1 year	Since launch		3 years	5 years	Since launch		
				14/09/16	14/09/16			14/09/16	14/09/16	
I GBP Hedged	+12.5	-16.2	+1.4	+18.9		+2.5	-	+4.5		
MSCI World Small Mid Cap GBP Hdgd	+4.5	-5.0	+4.2	+30.3		+3.7	-	+6.9		
MSCI World GBP Hedged	+6.1	+2.8	+12.6	+48.6		+8.2	-	+10.5		

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 A and 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 the 14 September 2016 onwards. 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.

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